Sector report

GCC Fuel Retail Sector

Adnoc Distribution	BUY
12M Price Target (SAR)	4.73
CMP (AED)	4.00
Potential upside	18.1%
Market cap (AED mn)	50,500
P/B (FY23e)	13.65
P/E (FY23e)	19.73
Dividend Yield (FY23e)	4.60%
ROE (FY23e)	66.70%

Aldrees Petroleum	HOLD
12M Price Target (SAR)	118.93
CMP (SAR)	129.40
Potential upside	-8.1%
Market cap (SAR mn)	9,375
P/B (FY23e)	5.66
P/E (FY23e)	29.67
Dividend Yield (FY23e)	2.20%
ROE (FY23e)	18.80%

Qatar Fuel	BUY
12M Price Target (SAR)	19.19
CMP (SAR)	16.70
Potential upside	14.9%
Market cap (SAR mn)	16,236
P/B (FY23e)	1.73
P/E (FY23e)	15.15
Dividend Yield (FY23e)	5.90%
ROE (FY23e)	11.30%

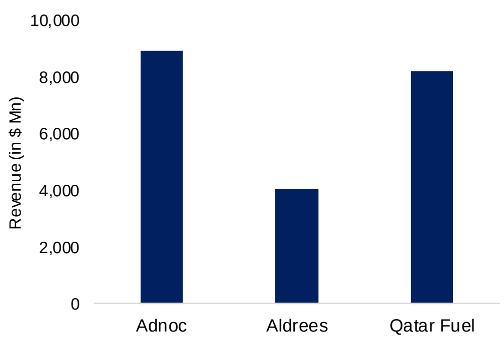
The GCC fuel retailing companies are in a sweet spot considering that business activities have reverted to normalcy, tourism has rebounded, road and air traffic are exceeding previous highs. We are optimistic on this sector as we believe the fiscally surplus economies are waking up to major project outlays; the ripple effect of which should trickle down to the population with more jobs being created leading to further improvements in the already high standards of living. We expect the enhanced income in the hands of a young demography will trickle down into higher consumption levels. The anticipated economic expansion also paves way for influx of foreigners as expatriate employees and tourists. The rising population is a major positive for the sector. Further, the climatic conditions, high quality road infrastructure, poor public transport system and cheap fuel form the basic premise that private vehicle usage will continue to be the major medium of transport. This auger well for the fuel retailing sector in the region. The industry experiences high levels of free cash generation, low leverage levels, limited competition, minimal supply side issues, commodity nature of business, all these factors pave way for high operating leverage for fuel retailers. Most of the companies in this sector have high dividend pay-out making them attractive to consider from both income and growth perspective. We initiate coverage on three companies from the GCC – Adnoc Distribution, Aldrees and Qatar Fuel. Each of these company's despite being in the same industry differ significantly in the way they operate. They contrast in various ways including growth prospects, leadership position, product composition and future outlook. We have highlighted the various granular changes between these companies and valued them based on both DCF and peer valuation methods.

Adnoc Distribution: Adnoc is the leading fuel retailer in the UAE with over 507 stations spread across all the emirates. The company has ventured outside the borders into Saudi and more recently into Egypt managing another 307 sites. This inorganic expansion will lead to the much needed top line growth for the company. Adnoc has efficiently made use of its forecourts to develop the "Oasis" brand of stores along with various other spaces being leased out to well-known brands. This provides additional income along with increasing footfalls into the stations. We are positive on the company based on its attempts to modernize and grow its revenue across the borders. We initiate coverage on Adnoc with a BUY rating and a target price of AED 4.87 per share.

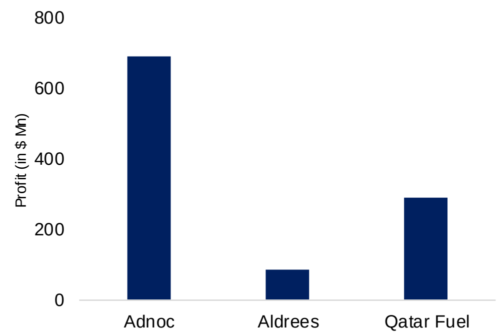
Aldrees Petroleum: Aldrees is the largest institutional player in the highly unorganized fuel retailing sector of Saudi. The company manages 762 stations within the country and has about 7.62% market share. Saudi is the largest country in terms of population and GDP making it the most attractive market for the fuel retailers. We are positive on the leadership position and aggressive site additions embarked upon by the company. Considering the 70% rise during this year we believe the positives have been discounted hence we rate the stock a HOLD with a target price of SAR 118.93 per share.

Qatar Fuel: Qatar Fuel (Woqod) is the sole supplier of fuel to Qatar and enjoys monopoly status across all types of fuel. The company is distinct from others based on the high contribution from Jet fuel to its overall volumes. While we expect the market to saturate post FIFA, we are positive on Woqod based on its solid fundamentals and scope to provide high dividends going forward. We provide a BUY rating based on the fundamental strength of the company with target price of QAR 19.19 per share.

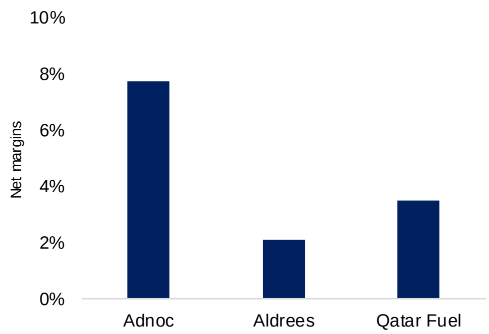
Adnoc is the biggest player in terms of revenue...



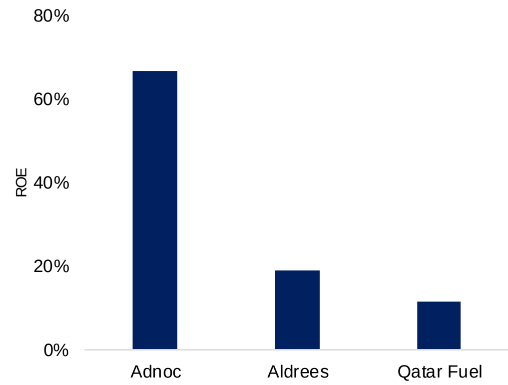
...as well as profits



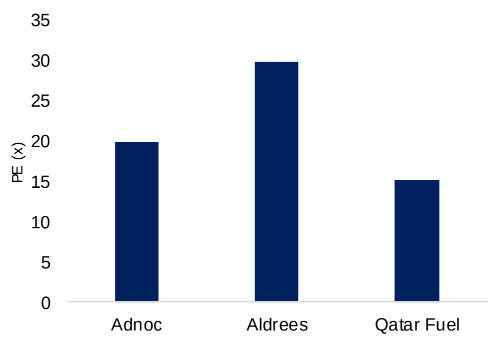
Adnoc operates on premium margins



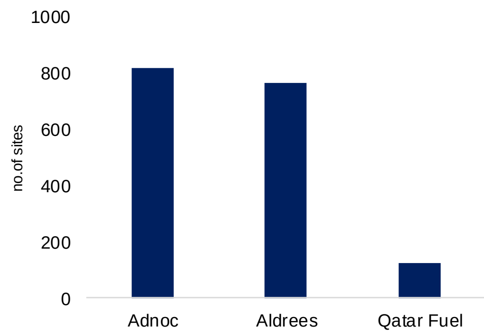
ROE highest for Adnoc



Aldrees is over valued currently



Adnoc and Aldrees have grown rapidly



Peer comparison of Fuel retailers

Company	Country	Market Cap (in USD)	Revenue T12M (in USD)	EBITDA T12M (in USD)	Net profit T12M (in USD)	ROE	P/E (TTM)	EV / EBITDA
International companies								
MARATHON PETROLEUM	United States	50.2	174.3	26.84	16.40	64.5	3.8	2.9
PHILLIPS 66	United States	46.3	168.2	16.03	12.40	47.6	4.4	4.5
VALERO ENERGY CORP	United States	41.0	174.3	20.88	13.69	62.5	3.2	2.3
NESTE OYJ	Finland	30.6	26.5	2.71	1.56	20.4	18.2	9.4
ORLEN SA	Poland	19.6	75.8	12.83	8.69	39.0	1.6	1.3
INDIAN OIL CORP LTD	India	16.6	104.8	4.72	1.22	7.2	13.6	7.2
KAZMUNAYGAZ NATIONAL	Kazakhstan	13.6	17.8	3.10	2.53	12.2	5.2	5.3
SK INNOVATION CO LTD	South Korea	11.9	61.9	3.51	0.54	3.3	22.2	8.1
ENEOS HOLDINGS INC	Japan	10.8	110.9	4.15	1.18	5.0	11.3	8.4
BHARAT PETROLEUM	India	10.0	58.9	1.36	0.27	4.0	37.9	13.3
Regional companies								
ADNOC DISTRIBUTION	UAE	13.6	9.1	1.01	0.71	66.7	19.7	16.2
QATAR FUEL QSC	Qatar	4.5	8.4	0.24	0.28	12.0	15.8	11.7
ALDREES PETROLEUM	Saudi Arabia	2.5	3.5	0.22	0.07	23.5	37.6	15.8
SHELL OMAN MARKETING	Oman	0.3	1.3	0.04	0.01	10.3	18.5	8.2
AL MAHA PETROLEUM	Oman	0.2	1.3	0.03	0.02	16.1	11.4	7.4
OMAN OIL MARKETING	Oman	0.2	2.2	0.06	0.02	9.0	9.5	4.5

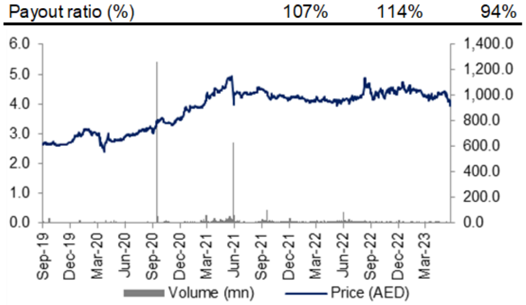
COMPANIES SECTION

INVESTMENT RESEARCH | UAE

Fuel Retail

BUY : 12M TP @ 4.725

Valuation Summary (TTM)			
Price (AED)			4.000
PER TTM (x)			19.2
P/Book (x)			18.6
P/Sales (x)			1.5
EV/Sales (x)			1.7
EV/EBITDA (x)			16.2
Dividend Yield (%)			5.1
Free Float (%)			21%
Shares O/S (mn)			12,500
YTD Return (%)			-9%
Beta			0.7
(mn)		**AED**	**USD**
Market Cap		50,000	13,500
Total Assets		55,560	15,127
Price performance (%)	**1M**	**3M**	**12M**
ADNOC Dist	1%	-8%	-4%
Industry Index	2%	0%	4%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (AED)	28,186	31,765	38,235
Avg Daily Volume (,000)	7,721	7,644	8,976
52 week	**High**	**Low**	**CTL***
Price (AED)	4.88	3.84	4.4
* CTL is % change in CMP to 52wk low			
Major shareholders			
Emirate of Abu Dhabi			77%
BlackRock Inc			1.0%
Vanguard Group Inc/T			0.8%
Others			21.2%
Other details			
Exchange			Abu Dhabi
Sector			Retail
Index weight (%)			1.7%
Key ratios	**2020**	**2021**	**2022**
EPS (AED)	0.19	0.18	0.22
BVPS (AED)	0.27	0.26	0.28
DPS (AED)	0.21	0.21	0.21
Payout ratio (%)	107%	114%	94%



Adnoc Distribution – Inorganic route to growth

Adnoc distribution (Adnoc) is the leading fuel retailer in UAE with 507 domestic stations, and 67 in Saudi. The company recently entered in Egypt with the acquisition of 50% stake in Total Energies Marketing, which added another 240 sites to the portfolio. We are positive on the fuel retailing business based on the increase in volume that will take place in an economic upcycle along with aggressive addition of stations. The company works on a fixed margin model as per the agreement with its parent Adnoc, hence realizations are steady with negligible impact from oil price volatility. Non-fuel retail business is getting a makeover with over 190 convenience stores being refurbished into a modern family friendly environment. Additional offerings that cater to customer needs and enticing them into the forecourt are being introduced. The company is investing into technology to enhance customer experience and to bring operational efficiencies. With limited variability in terms of the cost structure, we believe margins will hold steady and the growth in topline will translate into increase in profits going forward. We estimate revenue to grow at CAGR 12.3% (2022-27e) while the net profit will increase by CAGR 11.6% (2022-27e). We believe the stock price is yet to appreciate to the potential offered by the company in terms of growth and dividend yield. We arrive at a blended target price of AED 4.725 per share which provides an upside of 18.1% from current levels. Based on the recent acquisition and organic growth prospects we recommend to BUY the stock.

Road traffic reverts to pre-covid, augur well volume growth: UAE was one of the first countries to open post the pandemic. The head start has re-vitalized the economy faster than most other countries. Economic activity has achieved normalcy and the population flow into the country has reverted on account of opening up of the tourism industry. Road traffic has improved and fuel retailers such as Adnoc have been the biggest beneficiaries of this upcycle. During the 1Q23 the company recorded its highest ever quarter sale of fuel at 2.36bn liters indicating the change in trend.

Egypt acquisition opens new opportunity: Adnoc acquired 50% in Total Energies Marketing in Egypt for a consideration of AED 672mn. The deal was completed during the 1Q23 and will enhance the international portfolio for Adnoc, providing access to one of the most lucrative and populous markets in the region. The company has been a market leader domestically with over 500 stations across UAE. Since the domestic market has achieved maturity, moving beyond the borders is the only natural way for growth. It had successfully ventured into Saudi in 2018 and currently has 67 stations under operations. We believe this acquisition would be a catalyst for growth and will warrant a re-rating of the company.

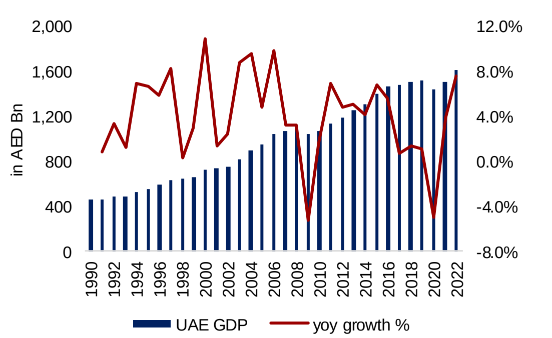
Valuation: We expect volume growth to be driven by additional stations and organically from heightened road traffic. This will translate into increase in revenue and we expect the same to grow by CAGR 12.3% (2022-27e). With very minimal variability in operating expenses the margins are expected to remain steady. Adnoc has a regular stream of cash flow and a clear dividend policy of minimum 75% payout. We arrive at a blended target price of AED 4.725 which is higher by 18.1% from the current price. We initiate coverage on the stock with a BUY rating.

Road traffic reverting to pre covid augurs well for the large players

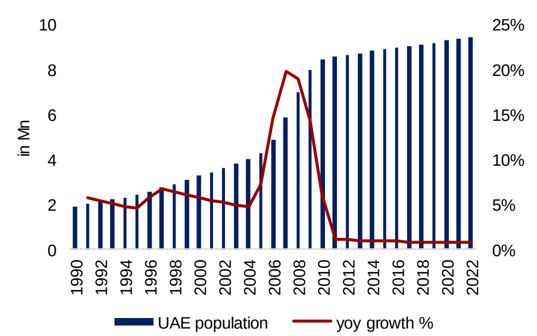
Adnoc Distribution (Adnoc) is the largest fuel retailer in UAE. Adnoc is favorably anchored in the UAE, which is the most vibrant market in the region with impetus from both business and tourism. UAE has been one of the fastest growing countries in the world. It has witnessed stupendous growth over the last couple of decades in terms of population, road network and vehicular traffic. The population of UAE has grown by 5.4% (2.8x) since 2000 leading to multifold increase in road traffic. However, UAE is yet to witness significant improvement in public transport and this has favored the growth in private vehicular road traffic. An estimated 10,000 kms of road has been laid in the last 15 years. The low cost of fuel, hot climate, weak last mile connectivity of public transport will keep cars as the preferred mode of travel in the years to come. This will ensure demand for fuel and large retailers like Adnoc Distribution (Adnoc) will be the biggest beneficiaries.

Adnoc operates in the most vibrant market in the middle east

GDP of UAE rises to the highest level in 2022



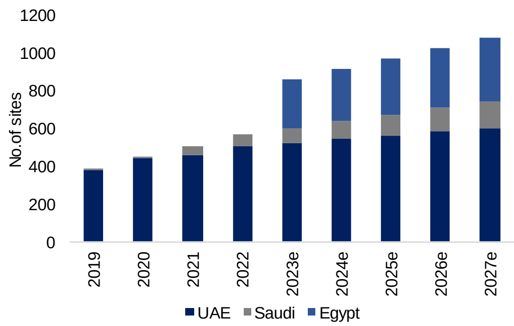
Growth in population augurs well for Adnoc



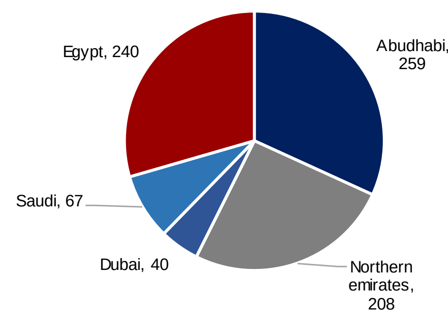
* Source: Bloomberg ®, US research

The company operates 814 stations across UAE, Saudi and Egypt. Retail contributed to nearly 67% of the fuel volume in 2022, while commercial volumes were split between corporate and aviation fuel. The company has expanded its operations outside the borders of UAE into Saudi and more recently into Egypt.

Site additions propped up by Egypt acquisition



Geographic site location - Saudi and Egypt set to grow



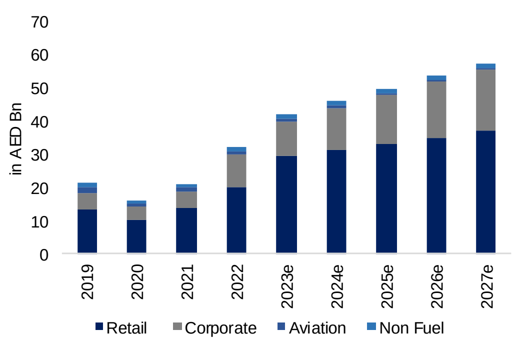
* Source: Company reports, US research

Parent company supplies fuel at fixed margins

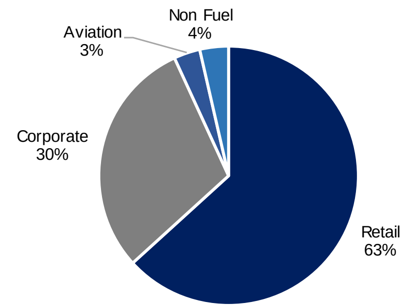
The main fuel products consist of three grades of gasoline (91,95 and 98 octane), diesel, CNG, LPG and lubricants. These products are supplied by the parent company Adnoc under a fuel supply agreement which offers stable unit fuel margins. The agreement guarantees supply of diesel and gasoline at a price which would be the mean of the Platt's average plus a fixed premium. This agreement was extended recently in Dec 2022 for another five-year period. The support from the parent provides an intrinsic competitive advantage and higher margins for the company compared to peers.

Lubricants are marketed under the Voyager brand across 25 countries. In order to cater to the increasing vehicles fitted with natural gas run engines, the company has also been offering CNG recently. Additionally, the company has started marketing LPG cylinders for cooking purposes to both the retail and commercial segments.

Revenue growth triggered by acquisition



Retail is the major contributor to revenue

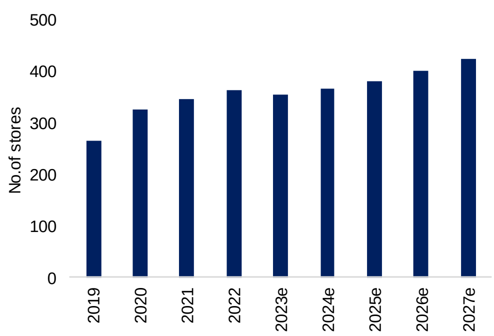


* Source: Company reports, US research

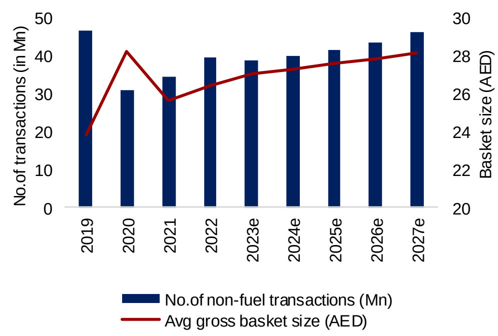
Revamping the Non fuel segment

Non-fuel Revenue (NFR) contributed to 3.6% of the total revenue of the company in 2022. While the dependence on fuel revenue is high and major driver for revenue growth, the NFR segment serves a very critical part in bringing customers into the forecourt. Adnoc has always considered this segment as high priority and invested in improving the services. Maximizing the forecourt, developing franchising offers for the dealer network, building one's own convenience brand and providing the most appropriate product for the customer is a challenging exercise in a competitive market such as UAE.

Convenience store additions enhances NFR



Improving customer experience at stores fruitful



* Source: Company reports, US research

Convenience stores provide customer experience and higher footfalls

The company manages 362 convenience stores under the brand name “Oasis”, across the country offering customers a modern family-friendly shopping experience. It embarked upon a revitalization program wherein 193 stores were refurbished over 2020-22 creating a new look, provided enhanced category management, introduced fresh food and premium coffee brands and various other high margin products. The convenience stores are being converted into experience stores with significant efforts on re-branding. It has also introduced an online delivery service with more than 3000 products available on its platform. It plans to expand this multichannel approach in an attempt to garner customer loyalty. Additionally, Adnoc has also improved its car service offerings such as lube changing, vehicle inspection, vehicle service with latest equipment. It has introduced new pricing and product strategies and run extensive marketing campaigns to entice customers.

Loyalty cards, prepaid vouchers, B2B fuel cards are also provided to customers in order to improve the convenience of transaction and build a brand of choice. The fuel stations have adequate space to lease and the occupancy rates for the same are high. The company follows a revenue sharing model in this business to maximize profitability. All these measures are leading to increase in average size of the basket as well as rise in the number of transactions. We expect this emphasis on NFR to continue and compliment the core fuel retail business.

Egypt acquisition will add to top and bottom line

Egypt acquisition will bolster top line growth and provide entry into the most lucrative market in the region…

In February 2023, Adnoc acquired 50% stake in Total Energies’ fuel retail business in Egypt for AED 708mn ($192mn). Total Energies Egypt has 7% market share, operates 240 fuel outlets and more than 100 convenience stores. It is also involved in the business of wholesale fuel, aviation fuel and lubricants. This deal provides the company entry into another lucrative market and the most populous one in the region.

We believe this is an important milestone for Adnoc as it continues to move outside its borders in search of growth. In 2018, it entered Saudi where it currently operates 67 sites as of 1Q23. While the regulatory comfort and margins available in UAE cannot be replicated elsewhere, the international expansion will certainly provide adequate impetus to the top line volume growth. Despite higher operating expenses outside UAE, the Total Energies' deal is expected to increase EBITDA of the consolidated entity by 6% in 2023. The increase in volumes will also translate into better bottom line growth as margins are not expected to change significantly.

Adnoc hopes to replicate its success in UAE across Egypt as well

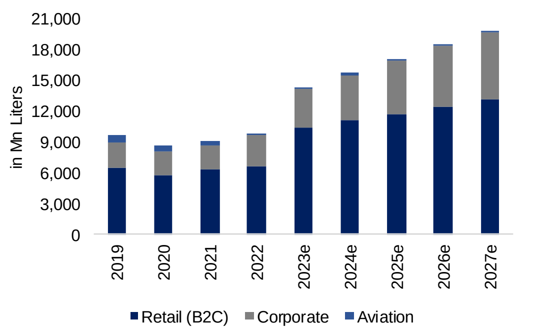
Adnoc plans to introduce its famous Oasis stores to Egypt and roll-out digitally enabled service stations. The company expects to renovate a number of important services stations in its portfolio and add new sites. Brand building, engaging with customers and providing them with the latest facilities will be the primary focus in Egypt. Adnoc already has several tech based smart infrastructure that makes fueling an enjoyable experience, such as seamless fueling, hyper personalized rewards, contactless retailing which is already implemented in many of its sites in UAE. We expect the same to be replicated in Egypt going forward

Topline growth driven by additional sites and acquisition, operating costs to remain stable

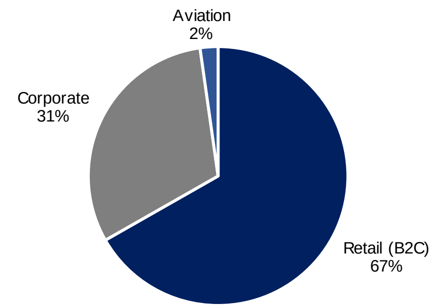
Continuous addition of sites expected in the international segment

Adnoc Distribution has been operating with near monopoly status in Abu Dhabi and Sharjah. It has also installed 40 sites in the highly competitive emirate of Dubai, thereby covering the entire country. Together the company operates 507 sites domestically as of 1Q23. The company has rapidly expanded to 67 sites in Saudi over the last 4 years out of which 26 were added 2022. Along with the recently added Egypt operations (240 sites), the total number of stations under Adnoc would be 814. It has guided an additional 25-35 sites to be added across its domestic and international portfolio by the end of 2023 taking the total number of sites to about 839-849 by end of 2023. Considering the expansion and prevailing economic buoyancy, we believe the company has significant scope for volume growth.

Fuel volume expected to increase with site addtions



Retail fuel volume contributed to 67% in 2022

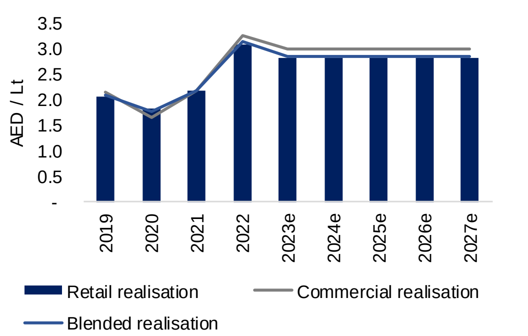


* Source: Company reports, US research

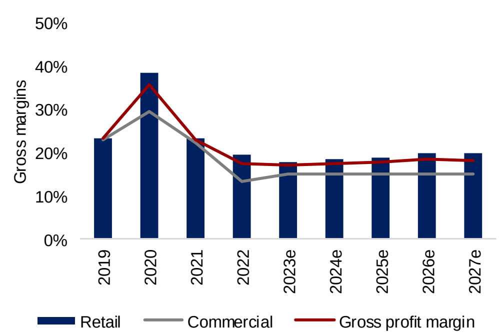
Organic and inorganic growth will lead to volume increases

The company recorded its highest ever quarterly fuel volumes at 2.65bn liters in 1Q23, indicating the improvement in offtake. Retail fuel volumes were higher by 5.5% YoY and commercial increased by 12.9% YoY during the 1Q23. Fuel retailing is a fixed margin business and volume growth will lead to a similar growth in revenue. We expect fuel volume to increase by 10.3% CAGR (2022-27e) and revenue at 12.3% CAGR (2022-27e). Further, the extension of 5-year supply contract with Adnoc ensures steady fuel supply and limited exposure to oil price volatility.

Commercial fuel has marginally higher realisation



Gross margins across segments to hold steady



* Source: Company reports, US research

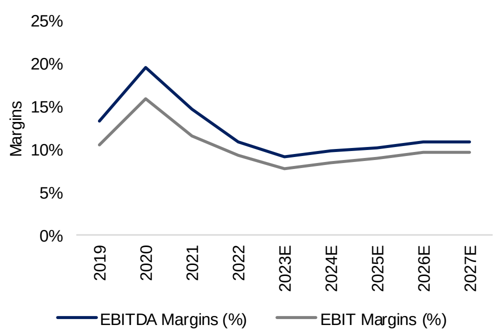
NFR to remain in the range of 3.5-4% of revenue

The convenience store conversion rate reached 24% in 1Q23 compared to 22% in the same period last year. The average basket size has increased by 5.2% and the number of transaction has grown by 11% YoY in 1Q23. We forecast revenue from NFR segment to grow by CAGR 4.9% over 2022-27e, contributing to an average of 3.5-4%% of the total revenue.

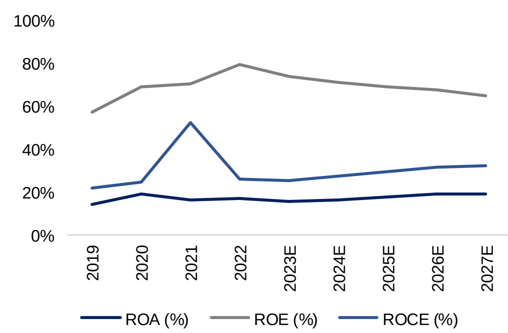
Operating cost to increase on renovation and site addition

Refurbishing the stores and additional sites have cost 240bps in terms of operating margins in 2022 from 11.6% to 9.3% and we expect another 150bps decline in 2023, post which operating margins are expected to gradually rise to 10% levels by 2027e. Adnoc is implementing several initiatives backed by technology to improve its operating efficiencies. It has rationalized its employee count, streamlining marketing expenses, improving back office processes, reviewing warehousing costs and utilities etc. Adnoc expects to save about AED 91mn in 2023 through these initiatives.

Operating and EBITDA margins to improve in tandem



Return ratios will remain at the current levels



* Source: Company reports, US research

Capex to be funded by internal accruals

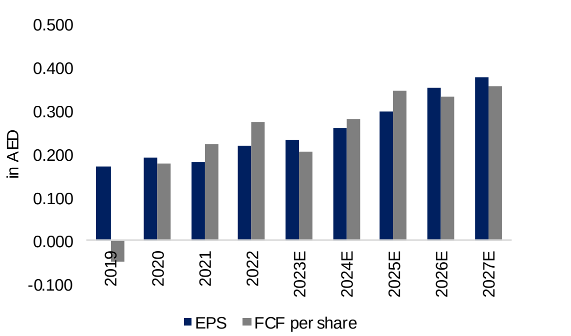
Adnoc has a revolving line of credit of AED 5.4 bn with a tenure of 5 years which is used for working capital requirements, payment of fuel charges. The effective interest rate on this facility is at 3.9% as of 2022. Considering the high cash level of AED 2.6 bn we do not expect any increase in the level of borrowings unless a significant acquisition opportunity arises. As per the latest management guidance on capex, the company envisages about AED 1bn over the next couple of years which will include its international and domestic expansion plans on both the fuel and non-fuel segments. The company will be able to generate adequate cash to fund these expansion plans without requirement to raise funds.

The upcoming new tax regime of 9% from June 2023 will have additional impact on the net profits. Post tax net profit is expected to grow at a CAGR 11.6% over 2022-27e and reach AED 4.8bn by 2027e from the current AED 2.7bn.

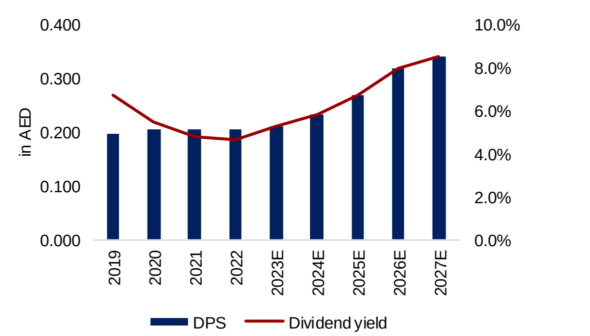
Stable dividend policy introduced in 2022 provides visibility on payout

The company follows a semi-annual dividend policy. Over the last three years the dividend per share (DPS) stood at AED 0.2057 and providing a yield of 5-6%. Recently, the board brought clarity into the dividend policy and committed to provide at least 75% of the distributable profits as dividends from 2024 onwards. While historically the payout stood in the range of 90-95%, the new policy provides a floor and improves the visibility for the shareholders. We believe the company has adequate cash reserves and stable operations to maintain an average payout of 90% and we incorporate the same in our forecasts.

High cash generation and increase in EPS expected



Dividend payout and yield to increase



* Source: Company reports, US research

Valuation

DCF target price of AED 4.783/share

We have estimated the fair price of Adnoc distribution using a blended approach of DCF and peer valuation. In our DCF method we have forecasted through 2023-2027e. We considered the cost of equity of 9.47% derived from risk free rate of 5.0%, Equity Risk Premium of 8%, and beta of 0.559. We arrive at a WACC of 8.58% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of Adnoc provides an intrinsic value of AED 4.783 per share.

Blended price target of AED 4.725/share

While there are several players globally operating in the fuel retail business, there are few standalone players like Adnoc. However, the GCC region has a few listed players with which we compare Adnoc and assign a target PE valuation of 20x to arrive at a fair price of AED 4.667 per share. On a blended basis (50% DCF and 50% PE) we arrive at a target price of AED 4.725 per share which provide an upside of 18.1% from current levels. Based on our target price and the potential for consistent dividend payout we recommend to BUY the stock at the current level.

DCF Method (in AED Bn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	**2,954**	**3,546**	**4,017**	**4,693**	**5,021**
Add: Depreciation & amortization	562	605	637	652	688
Less: Change in working capital	-239	-43	-46	-1,153	-1,245
Less: Capex	-1,000	-950	-650	-500	-500
Free Cash Flow to Firm	**2,276**	**3,158**	**3,958**	**3,692**	**3,964**
PV of Free Cash Flows	2,192	2,800	3,232	2,777	2,982
PV of Terminal Value					49,210
Enterprise Value					63,194
Less: Net debt					3,410
Less: Minorities & Pension liabilities					0
Equity value					59,783
No of shares					12,500
Fair value per share (AED)					4.783

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.559
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	9.5%
Terminal growth rate (g)	2.0%
Pretax Cost of Debt	5.5%
Effective tax rate	9.0%
After tax cost of debt	5.0%
Target Debt/Equity	20.0%
WACC	8.6%

Peer valuation	
PE (TTM)	17.1
Target PE	20.0
Fair value (AED)	4.667
CMP	4.000
Upside	**16.7%**

Blended Target price	Wtg	Target price	Wtd value
DCF	0.50	4.783	2.391
PE	0.50	4.667	2.333
Target price (AED)			4.725
CMP (AED)			4.000
Potential upside			**18.1%**

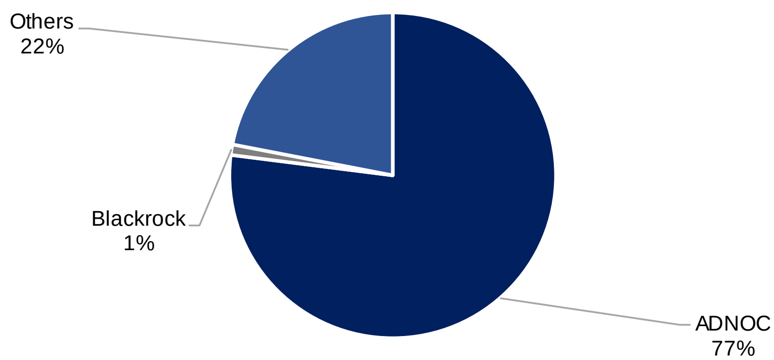
Key risks:

1. Sharp slowdown in the economy
2. Changes in regulations
3. Significant shift to public transport
4. High cost of fuel rendering private vehicle usage unviable
5. Decline in tourism activities
6. Dependency on parent for fuel based on 5-year contract

Company Profile

Adnoc was established in 1973 as a UAE government-owned company specialized in the marketing and distribution of petroleum products. ADNOC Distribution is now one of the region's largest companies. It is UAE's leading operator of retail fuel service stations and have near monopoly status in Abu Dhabi and Sharjah. The company operates network of 507 retail service stations and 362 convenience stores across UAE. It also provides bunkering services at Sheik Zayed Port and aviation fuel services at most of the country's airports and sells its own brand of lubricants throughout the Gulf region. It is also active in the retail sales of liquefied petroleum gas (LPG) and compressed natural gas (CNG). Beyond UAE, the company operates 67 retail fuel stations in Saudi Arabia, with a strong intention to expand internationally. The company has entered another new territory through an agreement with Total Energies to acquire a 50% equity stake in Total Energies Marketing Egypt. It has two reporting segments namely, Retail and Commercial contributing 67% and 33% respectively to the revenues. Abu Dhabi National Oil Company is the parent company and owns 77% stake in ADNOC Distribution.

Shareholding pattern of ADNOC Distribution



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	H.E. Dr. Sultan Ahmed Al Jaber	Chairman	Independent
2	Khaled Salmeen	Board Member	Independent
3	H.E. Ahmed Jasim Al Zaabi	Board Member	Independent
4	Ahmed Tamim Al Kuttab	Board Member	Independent
5	Mariam Saeed Ghobash	Board Member	Independent
6	H.E. Mohamed Hassan Alsuwaidi	Board Member	Independent
7	Abdulaziz Abdulla Alhajri	Board Member	Independent
8	Fatema Mohamed Abdulla Alshaibeh Alnuaimi	Board Member	Independent

Source: www.adx.ae, US Research

Income Statement (in AED Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	21,337	16,132	20,921	32,111	41,922	45,904	49,702	53,810	57,436
Direct costs	-16,359	-10,349	-16,107	-26,443	-34,719	-37,882	-40,868	-43,916	-46,897
Gross profit	**4,978**	**5,783**	**4,814**	**5,668**	**7,203**	**8,022**	**8,833**	**9,894**	**10,539**
SG&A	-2,807	-3,069	-2,422	-2,762	-3,907	-4,075	-4,369	-4,686	-4,971
Other operating expenses	-66	-267	-30	-36	-35	-35	-35	-35	-35
Other income	156	114	72	103	-15	-15	-15	-15	-15
Operating profit	**2,260**	**2,560**	**2,434**	**2,973**	**3,246**	**3,897**	**4,414**	**5,158**	**5,518**
EBITDA	**2,837**	**3,153**	**3,071**	**3,517**	**3,808**	**4,502**	**5,051**	**5,810**	**6,206**
Interest income	121	48	8	55	50	50	50	50	50
Finance costs	-228	-212	-185	-280	-379	-371	-363	-356	-350
Profit before tax	**2,154**	**2,396**	**2,257**	**2,749**	**2,917**	**3,576**	**4,101**	**4,852**	**5,218**
Tax expense	-	-	-	-	-	322	369	437	470
Net profit	**2,154**	**2,396**	**2,257**	**2,749**	**2,917**	**3,254**	**3,732**	**4,415**	**4,748**

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property, plant and equipment	5,481	5,568	5,574	6,385	6,912	7,356	7,476	7,428	7,362
Right-of-use assets	153	547	953	1,373	1,534	1,686	1,829	1,975	2,103
Goodwill and intangible assets	-	-	-	1	697	697	697	697	697
Other non-current assets	122	81	41	61	70	70	70	70	70
Total non-current assets	**5,756**	**6,196**	**6,568**	**7,820**	**9,213**	**9,808**	**10,072**	**10,170**	**10,231**
Inventory	915	671	1,046	1,286	1,736	1,894	2,043	2,196	2,345
Trade and other current receivables	3,609	2,748	3,909	4,165	5,450	5,967	6,461	8,071	9,764
Term deposits	2,130	644	130	130	-	-	-	-	-
Cash and bank balances	2,600	2,145	2,126	2,617	2,077	2,082	2,616	2,491	2,040
Total current assets	9,254	6,209	7,211	8,198	9,263	9,943	11,121	12,758	14,149
TOTAL ASSETS	**15,010**	**12,404**	**13,779**	**16,018**	**18,476**	**19,752**	**21,193**	**22,928**	**24,380**
Share capital	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Reserves	385	349	434	500	500	500	500	500	500
Retained earnings	2,364	2,129	1,768	1,945	2,290	2,919	3,723	4,779	5,554
Total equity	3,749	3,477	3,202	3,445	3,790	4,419	5,223	6,279	7,054
Non-controlling interests	-	-	-	-	137	160	189	228	256
Net equity	**3,749**	**3,477**	**3,202**	**3,445**	**3,928**	**4,580**	**5,412**	**6,507**	**7,310**
Lease liabilities	149	447	787	1,185	1,608	2,051	2,511	2,989	3,487
Borrowings	5,490	5,495	-	5,482	5,487	4,987	4,487	3,987	3,487
Other non current liabilities	81	200	129	135	130	130	130	130	130
Prov for employees' end of service benefit	206	199	193	194	200	200	200	200	200
Total non-current liabilities	**5,926**	**6,341**	**1,109**	**6,996**	**7,426**	**7,368**	**7,328**	**7,306**	**7,304**
Lease liabilities	5	28	89	130	179	228	279	332	387
Trade and other payables	5,292	2,475	3,802	5,448	6,944	7,576	8,174	8,783	9,379
Borrowings	-	-	5,500	-	-	-	-	-	-
Other currrent liabilities	39	83	78	-	-	-	-	-	-
Total current liabilities	**5,335**	**2,586**	**9,468**	**5,578**	**7,122**	**7,804**	**8,453**	**9,115**	**9,767**
Total liabilities	**11,261**	**8,927**	**10,577**	**12,574**	**14,548**	**15,172**	**15,781**	**16,422**	**17,071**
TOTAL EQUITY AND LIABILITIES	**15,010**	**12,404**	**13,779**	**16,018**	**18,476**	**19,752**	**21,193**	**22,928**	**24,380**

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	1,729	1,694	2,878	4,507	3,569	4,458	5,005	4,656	4,961
Investing cash flow	-2,341	555	-96	-1,062	-1,000	-950	-650	-500	-500
Financing cash flow	-2,131	-2,704	-2,801	-2,954	-2,666	-3,225	-3,529	-3,959	-4,573
Change in cash	-2,743	-455	-20	492	-540	5	535	-125	-451
Beginning cash	5,343	2,600	2,145	2,126	2,617	2,077	2,082	2,616	2,491
Ending cash	**2,600**	**2,145**	**2,126**	**2,617**	**2,077**	**2,082**	**2,616**	**2,491**	**2,040**

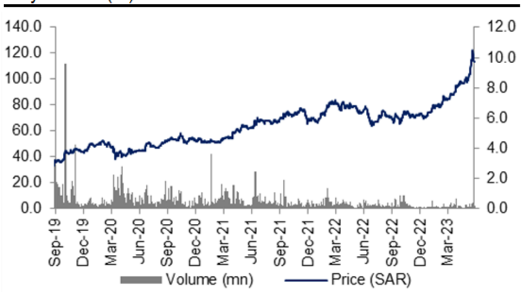
Ratio Analysis	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share									
EPS (AED)	0.172	0.192	0.181	0.220	0.233	0.260	0.299	0.353	0.380
BVPS (AED)	0.300	0.278	0.256	0.276	0.303	0.354	0.418	0.502	0.564
DPS (AED)	0.198	0.206	0.206	0.206	0.210	0.234	0.269	0.318	0.342
FCF per share (AED)	-0.049	0.180	0.223	0.276	0.205	0.281	0.348	0.333	0.357
Valuation									
Market Cap (AED Mn)	37,000	46,875	53,375	55,125	50,000	50,000	50,000	50,000	50,000
EV (AED Mn)	40,044	50,699	57,625	59,304	55,197	55,184	54,660	54,817	55,321
EBITDA	2,837	3,153	3,071	3,517	3,808	4,502	5,051	5,810	6,206
P/E (x)	17.2	19.6	23.6	20.1	17.1	15.4	13.4	11.3	10.5
EV/EBITDA (x)	14.1	16.1	18.8	16.9	14.5	12.3	10.8	9.4	8.9
Price/Book (x)	9.9	13.5	16.7	16.0	13.2	11.3	9.6	8.0	7.1
Dividend Yield (%)	6.7%	5.5%	4.8%	4.7%	5.2%	5.9%	6.7%	7.9%	8.5%
Price to sales (x)	1.7	2.9	2.6	1.7	1.2	1.1	1.0	0.9	0.9
EV to sales (x)	1.9	3.1	2.8	1.8	1.3	1.2	1.1	1.0	1.0
Liqiudity									
Cash Ratio (x)	0.49	0.83	0.22	0.47	0.29	0.27	0.31	0.27	0.21
Current Ratio (x)	1.73	2.40	0.76	1.47	1.30	1.27	1.32	1.40	1.45
Quick Ratio (x)	1.56	2.14	0.65	1.24	1.06	1.03	1.07	1.16	1.21
Returns Ratio									
ROA (%)	14.3%	19.3%	16.4%	17.2%	15.8%	16.5%	17.6%	19.3%	19.5%
ROE (%)	57.4%	68.9%	70.5%	79.8%	74.3%	71.1%	69.0%	67.9%	65.0%
ROCE (%)	22.3%	24.4%	52.4%	26.3%	25.7%	27.2%	29.3%	32.0%	32.5%
Cash Cycle									
Receivables turnover (x)	5.9	5.9	5.4	7.7	7.7	7.7	7.7	6.7	5.9
Inventory turnover (x)	17.9	15.4	15.4	20.6	20.0	20.0	20.0	20.0	20.0
Accounts Payable turnover (x)	3.1	4.2	4.2	4.9	5.0	5.0	5.0	5.0	5.0
Receivables days	61.7	62.2	68.2	47.3	47.5	47.5	47.5	54.8	62.1
Inventory days	20.4	23.7	23.7	17.8	18.3	18.3	18.3	18.3	18.3
Payable Days	118.1	87.3	86.1	75.2	73.0	73.0	73.0	73.0	73.0
Cash Cycle	76.7	48.8	41.7	45.6	43.8	43.8	43.8	36.5	29.2
Profitability Ratio									
Net Margins (%)	10.1%	14.9%	10.8%	8.6%	7.0%	7.1%	7.5%	8.2%	8.3%
EBITDA Margins (%)	13.3%	19.5%	14.7%	11.0%	9.1%	9.8%	10.2%	10.8%	10.8%
PBT Margins (%)	10.1%	14.9%	10.8%	8.6%	7.0%	7.8%	8.3%	9.0%	9.1%
EBIT Margins (%)	10.6%	15.9%	11.6%	9.3%	7.7%	8.5%	8.9%	9.6%	9.6%
Leverage									
Total Debt (AED Mn)	5,644	5,970	6,376	6,796	7,274	7,266	7,277	7,308	7,361
Net Debt (AED Mn)	3,044	3,824	4,250	4,179	5,197	5,184	4,660	4,817	5,321
Debt/Total Assets (x)	0.4	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Debt/Equity (x)	1.5	1.7	2.0	2.0	1.9	1.6	1.3	1.1	1.0

Fuel Retail

Aldrees Petroleum – Rapid growth factored in

HOLD: 12M TP @ 118.932

Valuation Summary (TTM)			
Price (SAR)			129.400
PER TTM (x)			37.6
P/Book (x)			7.9
P/Sales (x)			0.7
EV/Sales (x)			0.8
EV/EBITDA (x)			13.7
Dividend Yield (%)			1.6
Free Float (%)			93%
Shares O/S (mn)			75
YTD Return (%)			68%
Beta			0.8
(mn)		**SAR**	**USD**
Market Cap		9,375	2,499
Total Assets		12,889	3,435
Price performance (%)	**1M**	**3M**	**12M**
Aldrees	-1%	28%	86%
Industry Index	2%	7%	5%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	25,703	23,586	17,475
Avg Daily Volume (,000)	204	202	168
52 week	**High**	**Low**	**CTL***
Price (SAR)	134.20	65.70	90.3
* CTL is % change in CMP to 52wk low			
Major shareholders			
Al Drees Hamad Bin M			4%
Vanguard Group Inc/T			1.6%
BlackRock Inc			1.3%
Others			93.3%
Other details			
Exchange			Saudi Arabia
Sector			Oil&Gas
Index weight (%)			0.4%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	1.62	2.36	3.22
BVPS (SAR)	11.90	13.27	14.79
DPS (SAR)	1.20	1.50	2.00
Payout ratio (%)	74%	64%	62%



Fuel retailing is an unorganized sector in Saudi dominated by individuals. Aldrees is the largest single entity that has a market share of 7.62%. The company has over six decades of operations in the petroleum and transportation business. Under the petroleum segment it manages 762 fuel stations across the country and expects to add another 250 by 2025. The transportation sector has marquee clients from important sectors. We are positive on the company since both these segments are highly correlated to the economic growth and business activity. We expect the mega projects to bring more labor and expats into the country, while significant strides in tourism will also keep up the buoyancy. As a result, road traffic will remain high and fuel retailers will witness higher throughput going forward. We expect Aldrees to be the fastest growing company in this sector and witness growth in revenue of CAGR 17.1% over 2022-27e. With EBITDA margins holding steady at 6.3% and no surprises on the expenses, the profit will increase by CAGR 20% in 2022-27e. We value the company on a blended basis comparing the peer group and using DCF to arrive at a fair value of SAR 118.910 per share. We are optimistic on the company considering the aggressive expansion, stable business model and profitability. However, the stock price has appreciated by 70% on a YTD basis discounting all the positives. Further our blended target price provides a downside of 8.1% from the current price and the stock currently trade at a high 2023PE of 29.6x, hence we initiate coverage with a HOLD rating on the stock.

Favorable demographics: Saudi is the most populous country in the GCC with a young and vibrant demography. The country has a population of 36mn people including expats. Recovery of business environment and measurable improvement in tourism has resulted in the increase in buoyancy of the economy. Economic growth has resulted in further influx of expats and requirement of a wider road network to connect various parts of the country. Further, lack of adequate public transport, huge land area, cheap fuel cost make travel by road a preferred choice as in most middle east countries. This position is unlikely to change in the near future and fuel retailers such as Aldrees will be the biggest beneficiaries of the growth.

Aggressive expansion: The company has been adding new sites on an aggressive scale since 2018 fully focused on capturing market share within KSA. The number of fuel stations have almost doubled from 2018 levels and it is on the way to reach 1000 by 2025 from the current 762. Additionally, the transport division is also increasing its fleet size to cater to the increasing needs of its clients. Total trucks and trailers stood at 4148 at 1Q23. The growth of this segment is directly linked with the GDP growth and we are optimistic that the company is currently in a position to cater to the increasing demand for logistics. We believe both segments are on an aggressive path of growth and perfectly placed to capture the upcoming opportunities in this economic upcycle.

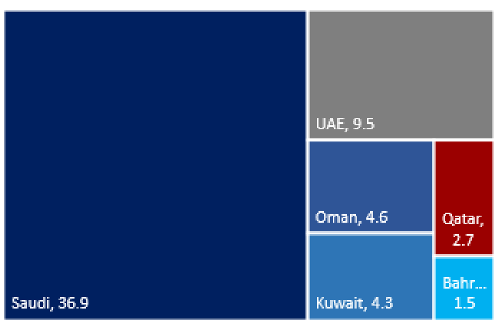
Valuation: We are optimistic on the organic growth prospects of the company with continuous site additions and increase in fleet size. We believe Aldrees is the best play in the sector with its leadership position in the prime Saudi market. The expansion strategy is coming at the right time and will aid volume growth. Considering the long association with marquee clients the transportation business will also get a much required fillip. We have arrived at a blended target price of SAR 118.932 which is lower than the current price by 8.1%. We initiate coverage on the stock with a HOLD rating.

Saudi is the most populous country in the region and is on a growth path

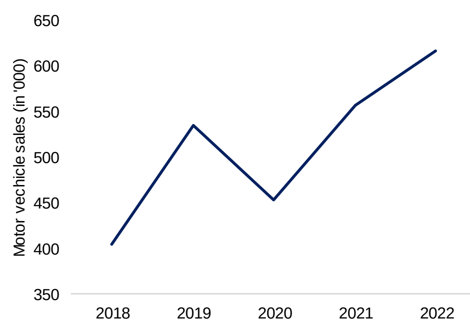
Favorable demographics and high market share auger well in a market upcycle

Saudi Arabia is the most populous nation in the GCC with 32.2mn people living in the country. 42% of the population are expats while the remaining are Saudis. The country also boasts of a very young population with a median age of 29 and 63% being below the age of 30 years. Saudi has witnessed rapid transformation under the new leadership over the past decade. The changes are visible both socially and economically. Apart from religious tourism, the country has been enticing leisure tourists through its "Visit Saudi" campaign and there has been a significant influx in the number of people who enter the country. Economically rapid strides are being taken to diversify beyond the oil and related industries. Mega projects to the tune of $715bn are in different stages of implementation.

Saudi has the largest population in the GCC (36.9mn)



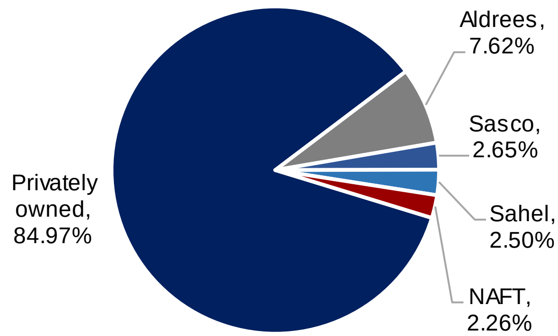
Motor vehicle sales has increased by 52% in last 4yrs



* Source: www.ceicdata.com, https://data.worldbank.org, US research

The attractive demographics, GDP growth, increased visit of tourists and business travelers generate high demand for the transportation sector. Cheap cost of fuel, wide road network and affordability has made travel by road the preferred choice. Fuel retailers thrive on this buoyant trend. The current economic upcycle is particularly positive for large organized players like Aldrees.

Aldrees is the largest fuel retailer in the organised space

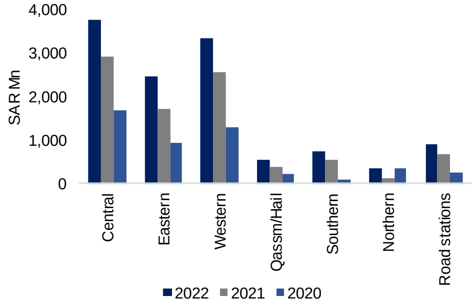


* Source: Company reports, US research

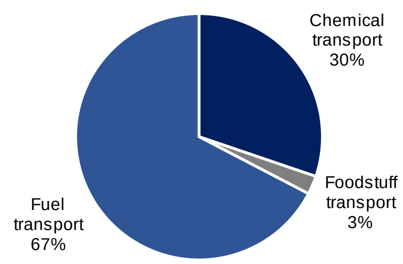
Aldrees operates in two primary segments – Fuel marketing and transportation of essentials

Aldrees is a six-decade old company that has established itself across the country. The company has two major revenue streams – Petroleum and Transportation services. The petroleum division is engaged in both wholesale and retail trading of fuel, oil and lubricants through 762 fuel stations across the length and breadth of the country. It is pertinent to note that unlike other countries, fuel retailing in Saudi is highly unorganized with 85% of the stations owned by individuals. There are about 10,000 fuel stations in Saudi out of which Aldrees has 7.62% market share.

Central/Eastern/Western are the major revenue markets



Fuel and chemicals contribute to 97% for the transport segment



* Source: Company Reports, US research

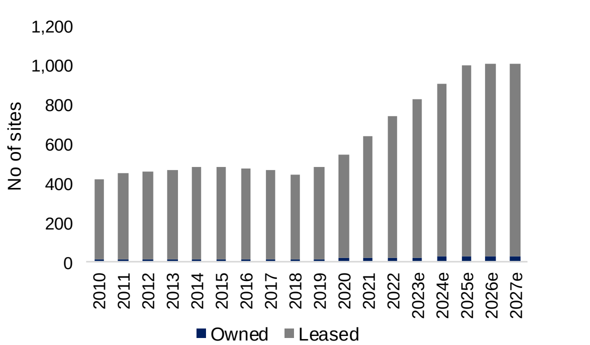
The transport service segment has a fleet of over 4100 trucks and trailers providing logistics support to chemical, food and oil & gas industries. The long-standing association with large players in the petrochemical, oil sectors play an important role in this segment. In 2015, the company tied up with Bertschi AG a Swiss multinational company and leader in chemical transport through road, train and sea routes. The JV has enhanced the capabilities of the company and provided a fillip to the transportation division.

Aggressive expansion to continue till 2025

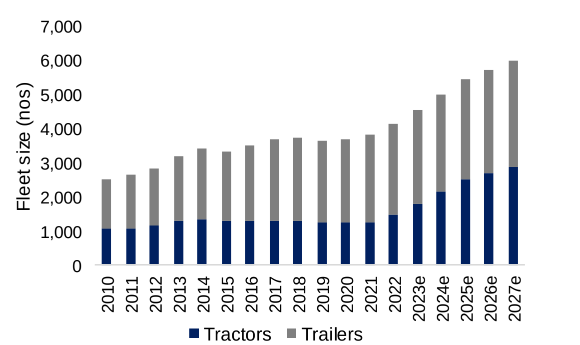
The addition of sites to take the total fuel stations to 1000 by 2025…

Aldrees embarked upon an aggressive plan in 2018 to double its then existing fuel stations (445) to reach 1000 by 2025. As of 2023, the company is in line with its strategy and has managed to add over 300 sites to reach 762 fuel stations at the end of 1Q23. We expect another 50-60 to be added in 2023 and we believe the company should be in a position to reach its target comfortably by 2025. Nearly 97% of the stations are leased and not owned by the company, this we believe reduces the capital investment significantly. The cost of leasing is much lower than purchasing a station, moreover it also offers flexibility and easy exit option in the event of low volume offtake. The leases are a mix of both short and long term contracts and with this strategy the management has been able to generate higher profitability compared to peers. High quality fuel retailers like Aldrees enjoy higher per unit margins compared to other unorganized players in Saudi. This additional margin is an incentive for capturing market share and justifies the expansion.

Significant site additions since 2018 onwards



Fleet size improves as economy reverts to normalcy



* Source: Company Reports, US research

Fixed margin business and volume growth will lead to bottom line growth

Considering that Aramco sells fuel to Aldrees at a fixed rate and this is passed on with a markup to the customer, revenue growth has been in line with the addition of sites. Revenue from petroleum services has grown by 2.4x during 2018-22 from SAR 4.9 bn to SAR 12bn (no.of sites during the period increased from 445 to 740). Along with the addition of sites, Aldrees has also refurbished and modernized most of its existing stations thereby improving the footfall into its stations. The normalcy in the economy, re-opening up of schools, industries and tourism will trigger higher offtake per station and absorb the additional capacities.

Transportation segment has also witnessed growth in the last five years

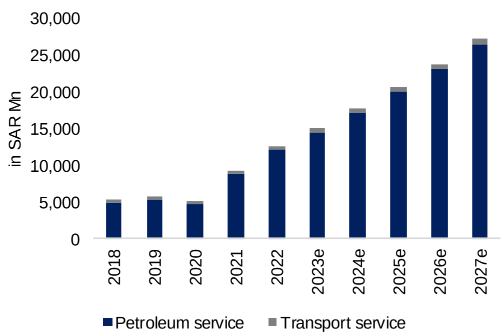
The transportation segment has also grown organically with legacy clients such as Aramco and Sabic outsourcing most of their requirements. The fleet size has increased from 3720 trucks and trailers in 2018 to 4148 in 2022. We expect this segment to experience high growth as it is directly related to the primary sectors of the Saudi economy such as petrochemical and food. The increase in production of both sectors and long lasting relationship built over decades will auger well for the transportation business.

Aldrees will witness the highest growth in revenue amongst peers, while other operating parameters to remain stable

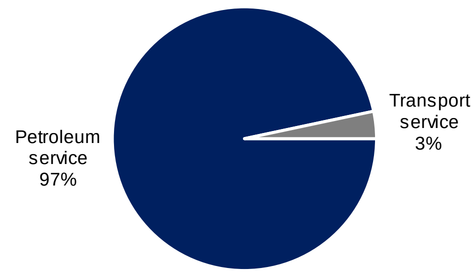
Both revenue segments to witness growth, margins to remain in line with historical levels, net profit to grow…

The continuous addition of sites will result in increase in volume and translate into higher revenues. We forecast an increase in throughput per station and addition in number of stations to lead to a revenue growth of CAGR 17% during 2022-27e. The rising fleet size and demand for transportation of various products will increase the contribution from this segment and we expect revenue for the transportation business to grow by CAGR 12.9% (2022-27e). On a consolidated basis the revenue for the company is expected to increase by 17% CAGR (2022-27e).

Petroleum service drives top line



Transport segment compliments the fuel business

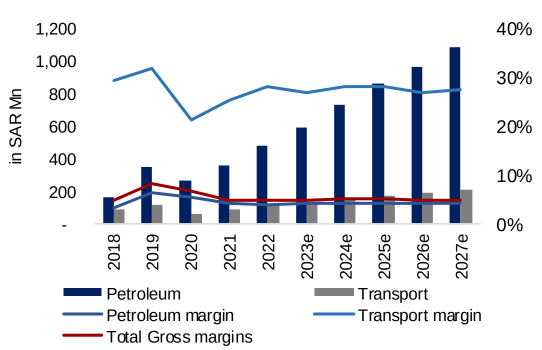


* Source: Company Reports, US research

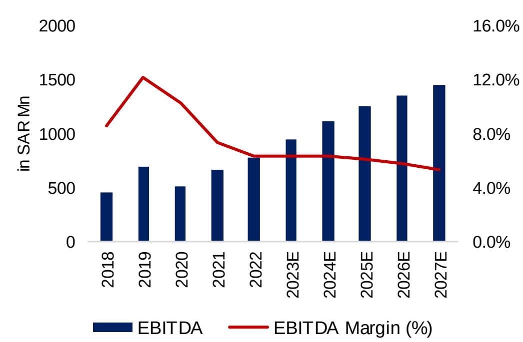
Transport segment has high margins and contributes to 19.6% of gross profit…

The transportation segment though smaller in revenue has a high contribution of 19.6% in the gross profit. This is due to the higher gross margin of 28% that it entails compared to 4.8% for the petroleum segment. Similarly, Aldrees has an aggregate operating margin of 3.1% with the transportation segment having higher operating margin of 12.9% contributes to 15% of the operating profit. The core petroleum business had a low but steady operating margin of 2.6% in 2022 and contribute to 85% of the operating profit. We expect the margins to remain at similar levels going forward. EBITDA for the consolidated entity stood at SAR 777mn at a margin of 6.3% in 2022. We expect 13.4% growth in EBITDA over 2022-27e.

Gross margin for transport high but contribution low



EBITDA to increase, margins to remain steady



* Source: Company Reports, US research

Stable operating model provides adequate cushion to valuation

Aldrees has a high cash generating business model and the cash conversion cycle is very low at 28-30days. Saudi Aramco has had a long standing relationship with Aldrees and provides a 30-35 days' payables period. The inventory days are low in the range of 4-5days only due to the quick offtake from sites. Receivables mostly related to commercial and transport business stand at 12-14days. As a result, the company has a very low requirement for working capital and generates enough cash for all its future site additions.

Majority of the fuel stations are on a lease model instead of ownership, hence capex low

The core business of Aldrees is not asset heavy and fuel stations are built on a lease model. Capex has been primarily into trucks and trailers which contribute to most of the fixed assets of the company. The carrying value of these assets stood at SAR 409mn post depreciation. The cost of improvement of its fuel stations is high for the company and stood at SAR 663mn. Overall the fixed asset portfolio was at 1,558mn for 2022.

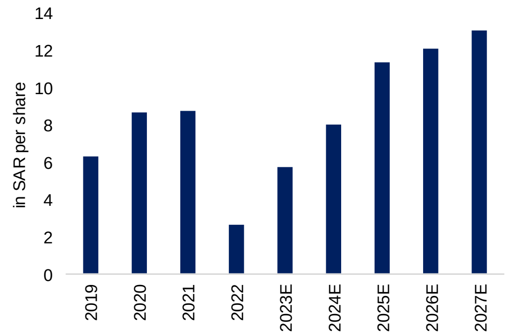
As of 2022, the total value of the leased stations stood at SAR 3.4bn which was 54% of the total assets of the company. The interest expense on these leasing liabilities stood steady in the range of 3.5-3.7% in the last five years and we expect the same range going forward.

Surplus funds invested in sukuks

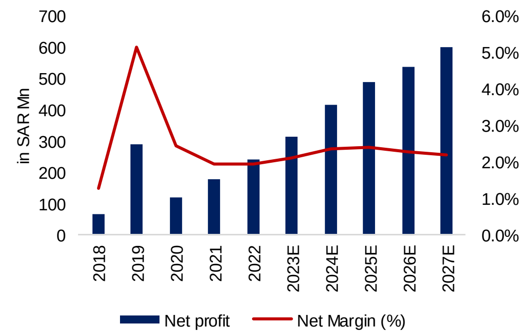
In order to enhance its transportation expertise, the company created a 50-50 JV with a global leader Bertschi AG, a Swiss company. Aldrees Bertschi has carrying value off SAR 15.6mn in the books of Aldrees. The JV is a profit making venture with the gain of SAR 1.47mn recorded in 2022. Aldrees has also invested its surplus funds as sukuk investments of Riyadh (SAR 100mn) and Al Rajhi Bank (SAR 45mn) worth SAR 145mn. These sukuks carry fixed interest returns of 5.25% and 5.5% annually. In 2022, the earnings from these sukuk investments was SAR 7.8mn. The company hopes to increase the investment portfolio to SAR 200mn by end of 2023.

The company has not raised any funds through equity or debt for its expansion. The regular increase in share capital has been due to the bonus issue of shares paid to investors other than the cash dividend payouts. Aldrees is a near zero debt company and has only short term working capital loans.

Free cash flow to revert to past average levels



Net profit to rise on the back of steady margins

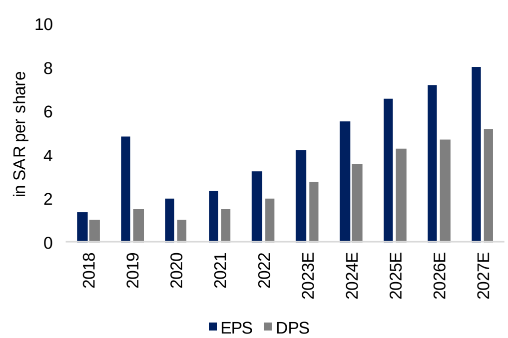


* Source: Company Reports, US research

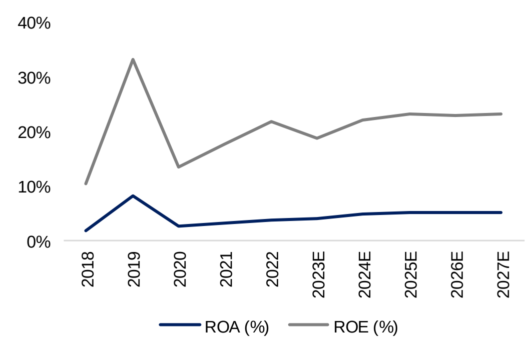
Net profit to grow on stable margins

We expect consolidated net margin to remain in the range of the previous year's 1.5-2%. The profit after tax is expected to increase by a CAGR 20% over 2022-27e on the back of volume growth. The company has been consistently paying dividends at a rate of SAR 1.5-2.0 which has been in the payout ratio of 65-70%. We expect a similar level until it completes the expansion plan.

Dividend payout expected at 65%



Higher profits will keep return ratios elevated



* Source: Company Reports, US research

Valuation

DCF target price of SAR 132.5251/share

We have valued Aldrees based on the DCF method. In our DCF method we have forecasted through 2023-2027e. We considered the cost of equity of 10.6% derived from risk free rate of 5.0%, Equity Risk Premium of 8%, and beta of 0.698. We arrive at a WACC of 9.3% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of Aldrees provides an intrinsic value of SAR 132.525 per share

Blended price target of SAR 118.932/share

We also value Aldrees based on a peer valuation basis. We believe the superior growth offered by the company warrants a higher multiple hence we assign a target PE of 25x. We arrive at SAR 105.339 per share as the fair value using this method. We have provided a weight of 50% each to both methods to get a blended target price of SAR 118.932/share which is lower than the current price by 8.1%. The stock price has appreciated by over 70% since the start of this year and discounted most of the positives. While we continue to remain optimistic on the company, considering the steep rally in the stock price and our blended fair value estimate we initiate coverage on the stock with a HOLD rating.

DCF Method (in SAR Mn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	**455**	**570**	**661**	**724**	**802**
Add: Depreciation & amortization	473	522	566	608	628
Less: Change in working capital	-116	-215	-147	-202	-280
Less: Capex	-400	-300	-250	-250	-200
Free Cash Flow to Firm	**411**	**578**	**831**	**880**	**950**
PV of Free Cash Flows	395	508	667	647	698
PV of Terminal Value					10,458
Enterprise Value					13,373
Less: Net debt					3,322
Less: Minorities & Pension liabilities					111
Equity value					9,939
No of shares					75
Fair value per share (SAR)					132.525

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.698
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	10.6%
Terminal growth rate (g)	2.0%
Pretax Cost of Debt	6.5%
Effective tax rate	3.0%
After tax cost of debt	6.3%
Target Debt/Equity	30.0%
WACC	9.3%

Peer valuation	
PE (TTM)	30.7
Target PE	25.0
Fair value (SAR)	105.339
CMP	129.400
Upside	**-18.6%**

Blended Target price	Wtg	Target price	Wtd value
DCF	0.50	132.525	66.262
PE	0.50	105.339	52.670
Target price (SAR)			118.932
CMP (SAR)			129.400
Potential upside			**-8.1%**

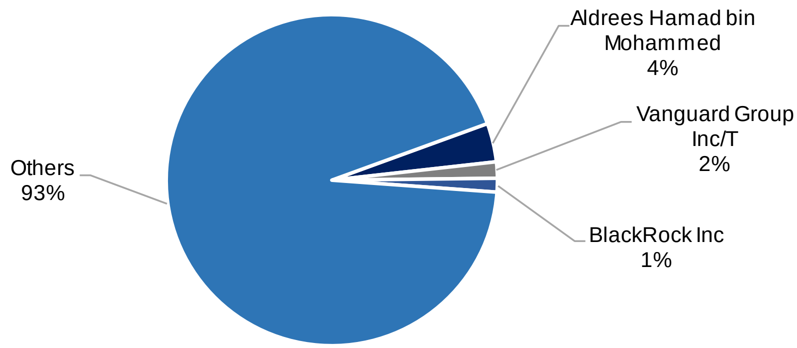
Key risks:

1. Decline in oil prices
2. Changes in regulations and pricing mechanism for fuel
3. Significant improvements public transport
4. Loss of marquee clients in the transportation business

Company Profile

Aldrees was established as a family owned business in 1957 to sell oil related products. Later in 1963 the company established its first fuel station at Al Rail in Riyadh. Gradual additions over the period took the total number of fuel stations to 119 by 2006 when it came for the IPO. Since its listing the company has added 6x to is fuel stations to a current number of 762. It is currently the foremost player in the organized fuel retailing sector in Saudi. Additionally, to service large clients such as Aramco, Sabic and others, the company started its transportation business. It manages over 4148 trucks and trailers to transport essential commodities relating to chemical and oil & gas across the borders into the middle east and Africa regions. Aldrees enjoys a free float of 97% and the company continues to managed by the Aldrees family despite their low ownership of 4%.

Shareholding pattern of Aldrees



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Hamad Mohammed Aldrees	Chairman	Non executive
2	Engr. Abdulmohsen M. Aldrees	Deputy Chairman	Non executive
3	Eid Falih Al-Shamri	Board Member	Non executive
4	Shahil Abdulaziz Ahmed Al-Shuhail	Board Member	Independent
5	Engr. Abdulilah Saad Aldrees	Board Member	Executive
6	Adel Faris Al-Otaibi	Board Member	Independent
7	Salman Mohammed Suleiman Al-Suhaibani	Board Member	Independent

Source: www.saudiexchange.sa, Bloomberg ®, US Research

Income Statement (in SAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	5,681	4,974	9,110	12,356	14,976	17,652	20,631	23,707	27,236
Direct costs	-5,220	-4,648	-8,658	-11,762	-14,252	-16,764	-19,598	-22,554	-25,939
Gross profit	**462**	**326**	**451**	**595**	**724**	**889**	**1,034**	**1,153**	**1,296**
Selling and marketing	-5	-3	-5	-7	-7	-9	-10	-12	-14
General and Admin	-143	-134	-163	-224	-257	-302	-353	-406	-467
Other income	84	19	1	8	9	10	11	11	11
Total Expenses	-64	-119	-167	-224	-255	-301	-352	-407	-470
Operating profit	**397**	**207**	**285**	**371**	**469**	**588**	**681**	**746**	**827**
EBITDA	**693**	**508**	**666**	**777**	**942**	**1,110**	**1,248**	**1,354**	**1,454**
Finance costs	-74	-84	-106	-124	-146	-162	-178	-194	-210
Prov for contingent liab	-17	-	-	-	-	-	-	-	-
P&L from investments at FV	1	-1	-	2	2	2	2	2	2
Share of profit in JV	1	5	4	1	1	1	1	1	1
Profit before tax	**308**	**126**	**183**	**249**	**326**	**429**	**506**	**556**	**620**
Tax expense	-16	-5	-6	-8	-10	-13	-15	-17	-19
Net profit/(loss) for the period	**292**	**121**	**177**	**242**	**316**	**416**	**491**	**539**	**601**

Balance Sheet (in SAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property, plant and equipment	1,090	1,177	1,297	1,559	1,799	1,922	1,982	2,028	2,013
Right-of-use assets	1,743	2,541	3,027	3,422	3,859	4,264	4,638	4,984	5,321
Deferred cost	12	12	18	18	18	18	18	18	18
Investment in JV	6	10	14	16	16	16	16	16	16
Investment amortised at cost	-	-	-	145	165	185	200	200	200
Total non-current assets	**2,851**	**3,740**	**4,357**	**5,159**	**5,857**	**6,405**	**6,853**	**7,245**	**7,567**
Inventory	72	68	112	144	171	335	392	677	778
Trade and other current receivables	390	375	334	410	749	883	1,032	1,185	1,634
Other assets	174	203	359	455	584	653	763	877	1,008
Cash and bank balances	98	77	274	148	303	254	354	456	587
Total current assets	**735**	**723**	**1,079**	**1,156**	**1,807**	**2,125**	**2,541**	**3,195**	**4,007**
TOTAL ASSETS	**3,585**	**4,463**	**5,435**	**6,316**	**7,664**	**8,529**	**9,394**	**10,441**	**11,575**
Share capital	600	600	750	750	750	750	750	750	750
Statutory reserve	66	78	95	120	500	500	500	500	500
Retained earnings	209	215	150	240	406	617	837	1,057	1,308
Net equity	**875**	**892**	**995**	**1,109**	**1,679**	**1,893**	**2,117**	**2,340**	**2,594**
Lease liabilities	1,424	2,171	2,598	2,906	3,306	3,706	4,106	4,506	4,906
Borrowings	60	76	49	10	10	10	10	10	10
Prov employees' end of service benefit	66	74	91	111	128	151	176	203	233
Total non-current liabilities	**1,550**	**2,322**	**2,738**	**3,028**	**3,444**	**3,867**	**4,292**	**4,719**	**5,150**
Provision for Zakat	13	8	10	12	15	19	23	25	28
Lease liabilities	219	281	332	313	331	371	411	451	491
Accrued expenses	294	321	409	435	570	671	784	902	1,038
Trade and other payables	228	507	918	1,177	1,425	1,509	1,568	1,804	2,075
Borrowings	406	131	33	241	200	200	200	200	200
Total current liabilities	**1,160**	**1,248**	**1,702**	**2,179**	**2,541**	**2,769**	**2,985**	**3,382**	**3,831**
Total liabilities	**2,710**	**3,570**	**4,440**	**5,206**	**5,985**	**6,636**	**7,278**	**8,101**	**8,981**
TOTAL EQUITY AND LIABILITIES	**3,585**	**4,463**	**5,435**	**6,316**	**7,664**	**8,529**	**9,394**	**10,441**	**11,575**

Cash Flow (in SAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	526	711	899	717	828	899	1,104	1,156	1,178
Investing cash flow	-149	-192	-242	-518	-400	-300	-250	-250	-200
Financing cash flow	-324	-540	-460	-325	-608	-645	-711	-759	-790
Change in cash	52	-21	197	-126	155	-50	101	102	131
Beginning cash	46	98	77	274	148	303	254	354	456
Ending cash	**98**	**77**	**274**	**148**	**303**	**254**	**354**	**456**	**587**

Ratio Analysis	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share									
EPS (SAR)	4.9	2.0	2.4	3.2	4.2	5.5	6.5	7.2	8.0
BVPS (SAR)	14.6	14.9	13.3	14.8	22.1	24.9	27.8	30.8	34.1
DPS (SAR)	1.5	1.0	1.5	2.0	2.7	3.6	4.3	4.7	5.2
FCF per share (SAR)	6.3	8.6	8.8	2.7	5.7	8.0	11.4	12.1	13.0
Valuation									
Market Cap (SAR Mn)	3,000	3,114	5,010	5,580	9,705	9,705	9,705	9,705	9,705
EV (SAR Mn)	5,011	5,696	7,748	8,902	13,248	13,738	14,077	14,415	14,724
EBITDA (SAR Mn)	693	508	666	777	942	1,110	1,248	1,354	1,454
P/E (x)	10.3	25.7	28.3	23.1	30.7	23.3	19.8	18.0	16.1
EV/EBITDA (x)	7.2	11.2	11.6	11.5	14.1	12.4	11.3	10.6	10.1
Price/Book (x)	3.4	3.5	5.0	5.0	5.9	5.2	4.6	4.2	3.8
Dividend Yield (%)	3.0%	1.9%	2.2%	2.7%	2.1%	2.8%	3.3%	3.6%	4.0%
Price to sales (x)	0.5	0.6	0.5	0.5	0.6	0.5	0.5	0.4	0.4
EV to sales (x)	0.9	1.1	0.9	0.7	0.9	0.8	0.7	0.6	0.5
Liqiudity									
Cash Ratio (x)	0.08	0.06	0.16	0.07	0.12	0.09	0.12	0.13	0.15
Current Ratio (x)	0.63	0.58	0.63	0.53	0.71	0.77	0.85	0.94	1.05
Quick Ratio (x)	0.57	0.52	0.57	0.46	0.64	0.65	0.72	0.74	0.84
Returns Ratio									
ROA (%)	8.1%	2.7%	3.3%	3.8%	4.1%	4.9%	5.2%	5.2%	5.2%
ROE (%)	33.4%	13.6%	17.8%	21.8%	18.8%	22.0%	23.2%	23.0%	23.2%
ROCE (%)	12.0%	3.8%	4.7%	5.8%	6.2%	7.2%	7.7%	7.6%	7.8%
Cash Cycle									
Receivables turnover (x)	14.5	13.2	27.1	30.0	20.0	20.0	20.0	20.0	16.7
Inventory turnover (x)	72.2	68.6	77.0	81.9	83.3	50.0	50.0	33.3	33.3
Accounts Payable turnover (x)	22.9	9.2	9.4	10.0	10.0	11.1	12.5	12.5	12.5
Receivables days	25.3	27.7	13.5	12.2	18.3	18.3	18.3	18.3	21.9
Inventory days	5.1	5.3	4.7	4.5	4.4	7.3	7.3	11.0	11.0
Payable Days	16.0	39.8	38.7	36.5	36.5	32.9	29.2	29.2	29.2
Cash Cycle	14.4	-6.9	-20.5	-19.9	-13.9	-7.3	-3.7	-	3.6
Profitability Ratio									
Net Margins (%)	5.1%	2.4%	1.9%	2.0%	2.1%	2.4%	2.4%	2.3%	2.2%
EBITDA Margins (%)	12.2%	10.2%	7.3%	6.3%	6.3%	6.3%	6.0%	5.7%	5.3%
PBT Margins (%)	5.4%	2.5%	2.0%	2.0%	2.2%	2.4%	2.5%	2.3%	2.3%
EBIT Margins (%)	7.0%	4.2%	3.1%	3.0%	3.1%	3.3%	3.3%	3.1%	3.0%
Leverage									
Total Debt (SAR Mn)	2,109	2,659	3,012	3,470	3,847	4,287	4,727	5,167	5,607
Net Debt (SAR Mn)	2,011	2,582	2,738	3,322	3,543	4,033	4,372	4,710	5,019
Debt/Total Assets (x)	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Debt/Equity (x)	2.4	3.0	3.0	3.1	2.3	2.3	2.2	2.2	2.2

INVESTMENT RESEARCH | Qatar

Fuel Retail

Qatar Fuel – Dividend play

Qatar Fuel (Woqod) enjoys monopoly status in fuel retailing across Qatar. This government run entity has 126 fuel stations across the country supplying to both retail and commercial segments. Unlike its peers in the region, Jet fuel contributes to 48% of the fuel volume for the company and has higher realizations. As there is virtually no competition, the company has very little marketing expenditure and operating costs are offset by the gains made from investments in fixed deposits and rental income. The market in Qatar is saturated and high levels of growth are not expected. The company has modest plans of expansion and we believe the throughput per station will remain around the current levels. Our expectation of revenue growth for the forecast period from 2022-27e is CAGR of 2.4%. We do not expect any additional costs or margin volatility, capex will be limited and cash generation will continue to remain high. This provides significant scope for dividend payouts. We expect the payout ratio to increase to 90% providing a dividend yield of 6%. Considering the stable prospects of the company, we arrive a blended valuation of QAR 19.185 per share. This along with the dividend yield provide an upside of 20.9% from the current market price. Based on the upside potential we give a BUY rating to the stock.

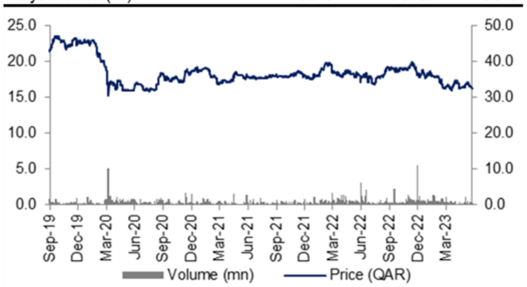
Monopoly status: Qatar has an affluent population with high per capita ownership of private vehicles. Increasing business prospects and tourism are bringing expats into the country further increasing the population and related traffic. Woqod enjoys complete monopoly in Qatar making it the only beneficiary of any increase in the demand in fuel from road and air traffic. While we expect the buoyancy in the economy to continue triggered by the positive impact of the natural gas expansion projects, the demand for fuel may plateau post FIFA and until further catalysts appear. Woqod is looking at newer areas for income such as EV charging, expansion of convenience stores, service stations and new lease agreements with restaurants. The optimal use of forecourts will also benefit the company in terms of non-fuel revenue.

Zero debt and high cash: Woqod is a zero debt company with high cash generating business model. The company does not have an aggressive site addition plan like its regional peers, hence the cash is most likely to be returned to the shareholders. The cash position along with the investment book which contain market related securities and fixed deposits contribute to 37% of the assets. This provides adequate cushion for the valuations of the company.

Valuation: We are positive on the company based on its fundamental strength and consider it for the stable and high dividend opportunity it provides. We do not envisage competition to disrupt the market scenario. Volume growth is likely to remain at current levels and scope for increase only from the Jet fuel segment. Woqod warrants a singularity premium being the only such company in Qatar and direct beneficiary of any increase in economic activity. We have arrived at a blended target price of QAR 19.185 per share which is higher by 14.9% from the current price. Along with the potential dividend yield we expect an upside of 20.9% and initiate coverage on the stock with a BUY rating.

BUY: 12M TP @ 19.185

Valuation Summary (TTM)			
Price (QAR)			16.700
PER TTM (x)			15.8
P/Book (x)			1.9
P/Sales (x)			0.5
EV/Sales (x)			0.4
EV/EBITDA (x)			11.9
Dividend Yield (%)			5.5
Free Float (%)			59%
Shares O/S (mn)			994
YTD Return (%)			-9%
Beta			0.5
(mn)		**QAR**	**USD**
Market Cap		16,236	4,454
Total Assets		10,375	2,858
Price performance (%)	**1M**	**3M**	**12M**
Qatar Fuel QSC	2%	0%	-3%
Industry Index	-1%	1%	-14%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (QAR)	11,031	9,897	12,158
Avg Daily Volume (,000)	696	603	720
52 week	**High**	**Low**	**CTL***
Price (QAR)	20.08	15.86	3.0
* CTL is % change in CMP to 52wk low			
Major shareholders			
QatarEnergy			20%
General Retirement a			15.4%
GENERAL MILIT RETIR			5.1%
Others			59.5%
Other details			
Exchange			Qatar
Sector			Oil&Gas
Index weight (%)			5.3%
Key ratios	**2020**	**2021**	**2022**
EPS (QAR)	0.71	0.98	1.08
BVPS (QAR)	8.48	9.09	9.25
DPS (QAR)	0.46	0.76	0.90
Payout ratio (%)	65%	78%	83%

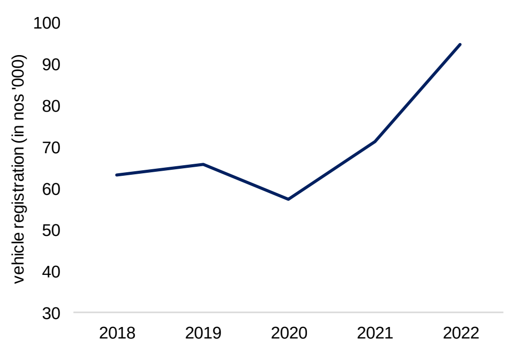


Woqod is the only fuel retailer in Qatar

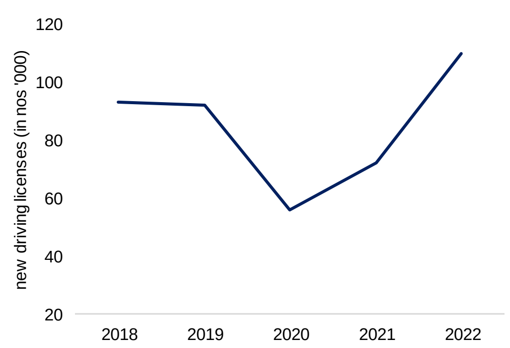
Monopoly status in a plateauing market

Qatar Fuel (Woqod) is the sole distributor of commercial and retail fuel in Qatar. It is also the only company that operates in the natural and liquefied gas segment and provides jet fuel related services in the country. This gives Woqod complete monopoly over the fuel retailing sector. The company has established itself in terms of wide geographical coverage and product portfolio. Currently there are 126 Woqod fuel stations in Qatar with an annual sales volume of over 10bn liters of fuel across various segments – Diesel, gasoline and Jet fuel.

New vehicle registration has reached new peaks



New driving licenses rises to highest level in 2022



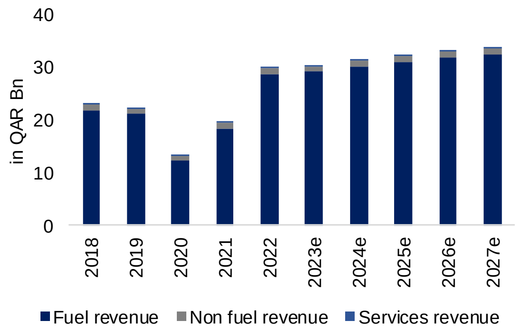
* Source: www.data.gov.qa, US research

Qatar despite being a small country boasts of the world's highest GDP per capita. The nation is rich in natural gas and has grown in leaps since commercial production began in early 2000s. The population of Qatar has grown by CAGR 7.2% between 2000-22 which is a growth of 4.5 times. However, the demography is largely dominated by expats whose influx began with the rapid growth of the country. Off late, Qatar has been aggressively boosting its image as an international destination for business and entertainment giving tough competition to neighbor Dubai. The recently concluded FIFA World Cup was one such event that brought in over 3.4mn people into the country (more than its current population). The high affordability of the population and adequate road infrastructure along with heightened economic activity provides the required demand for retail and commercial fuel. Woqod has been successful in tapping into this opportunity and scaling up its network in line with the demand.

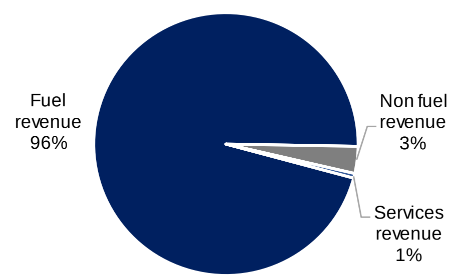
Ancillary services make the fuel stations one stop destination for all car needs

Woqod also provide ancillary services that complement the core operations of fuel supply. It is engaged in delivering bitumen for road construction, marketing of branded lubricants for both industrial and automotive purpose, convenience stores (Sidra) and also a complete auto care facility (Fahes) through its service stations located within its sites. These additional products and services offered by the company make Woqod sites a one stop destination for all car users. Additionally, the Sidra stores also satisfy the basic shopping needs of the customers and support the non-fuel revenue.

Post FIFA revenue growth to remain muted



Non fuel revenue around 4% of total

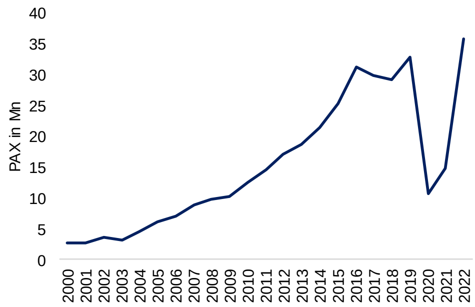


* Source: Company reports, US research

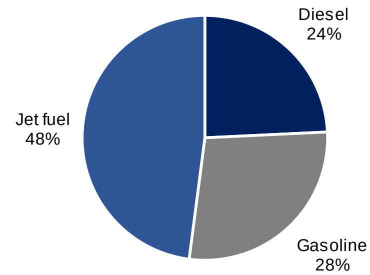
Jet fuel comprises nearly half the volumes and has higher realizations

Unlike its peers, jet fuel forms an important segment for Woqod. In 2022, 47% of the total fuel volume sold was related to jet fuel. This segment carries higher realization compared to the retail and commercial operations hence is significant for growth of the company. The easing of travel restriction has provided fillip to air traffic and demand has reverted to normalcy. In order to meet further demand, the company is expanding its jet fuel storage facility which would be completed this year. Considering the expected improvement in air traffic and the status as the sole fuel provider, we expect this segment to witness volume growth of 2.4% CAGR (2022-27e).

Air traffic has exceeded pre covid numbers



High contribution from Jet fuel offers diversification

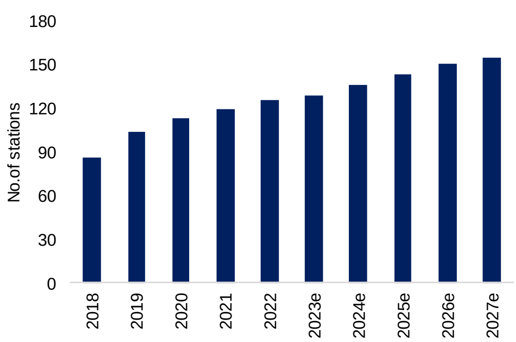


* Source: data.worldbank.org, Company reports, US research

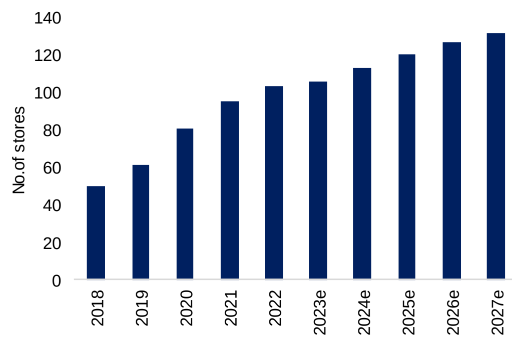
Post FIFA retail volume demand likely to flatten and Woqod not looking to expand aggressively

Woqod having covered most of the country over the last two decades does not plan to expand aggressively unlike some of its peers in the neighboring countries. Site additions have been careful and based on the increase in retail demand and throughput per station. It hopes to take the total number of stations to 155 by 2027 from the current 126. The rising risk of replacement of ICE engines with EVs, lower demand post FIFA and maturity of the market make aggressive expansion unviable. The company also operates 16 mobile stations which provide a cost effective and flexible option to supply when demand increases. Attempts have been made to move outside Qatar to enhance volume growth, recently it entered Oman by providing marine bunkering services. The revenue from overseas operations is however negligible as of 2022.

Addition of fuel stations to be gradual



Sidra stores to fill most fuel stations



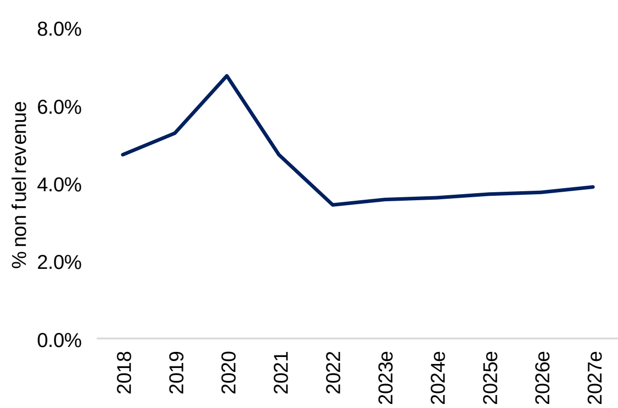
* Source: Company reports, US research

Non fuel revenue will provide stable addition to top line and add to profits

Business model similar to peers with NFR contribution about 4%

Woqod has utilized its forecourts in the same way as its peers by providing convenience stores, car service sites and leasing to restaurants. The 98 Sidra stores provide an assortment of products that suit the customer requirement and entice them to shop along with filling fuel. Customer loyalty programs, discounts, autonomous stores, mobile applications are some of the initiatives by the company to optimize store revenue and profitability. Fahes service stations have come up at 73 sites and provide state of the art car repair services. Staff privilege programs have been conducted to attract corporate customers. The auto care segment witnessed a growth of 165% in 2022 albeit from a small base. Many of the Woqod sites are at prime locations making it attractive for restaurants, coffee shops, laundry and other related business. The company received rental income of QAR 146mn by leasing part of its forecourts. At the end of 2022, 577 shops where available for lease out of which 533 were occupied.

Non fuel revenue to remain around 4%



* Source: Company reports, US research

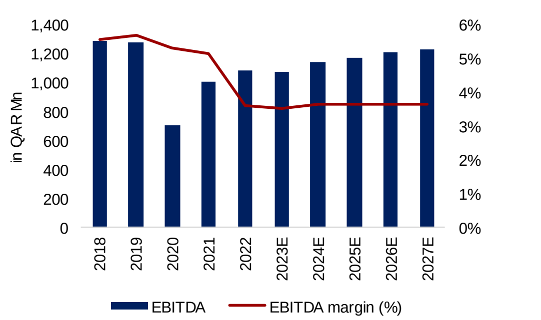
The non-fuel segment witnessed a growth of 10.7% in 2022. We believe the company would focus on further exploring new opportunities such as transforming itself into a supplier of LPG, providing EV charging points, enhancing the customer experience at its Sidra stores and Fahes service stations. We expect the non-fuel revenue to play an important role in enticing customers albeit its small contribution to the financials. We estimate the non-fuel revenue to grow at the rate of 5% CAGR (2022-27e)

Zero debt, cash rich company with limited capex and scope for high dividend payout

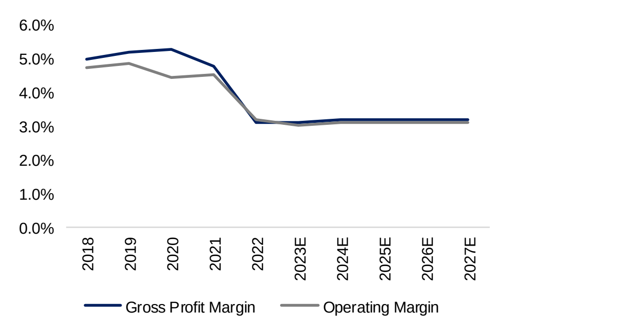
Revenue growth expected in low single digits at 2.4%

Limited scope for expansion within the country and stable throughput per station will keep revenues from both fuel and non-fuel flat for Woqod. Post the spike witnessed during FIFA, retail fuel volumes are declining and returning to normalcy. The company has guided lower bulk volumes during 2023 and later in 2024 demand growth in the segment is expected from the north field expansion. Jet fuel segment will be the only silver lining and trigger growth in volumes going forward. The company expects demand from tourist and business travelers to increase. The fuel farm for jet fuel has been built to cater to this increased demand. Overall we are conservative in our revenue growth estimates and expect low single digit growth for the company over the next five years at CAGR 2.4%.

EBITDA to grow, margins to remain steady



Gross and operating margins to hold at current levels

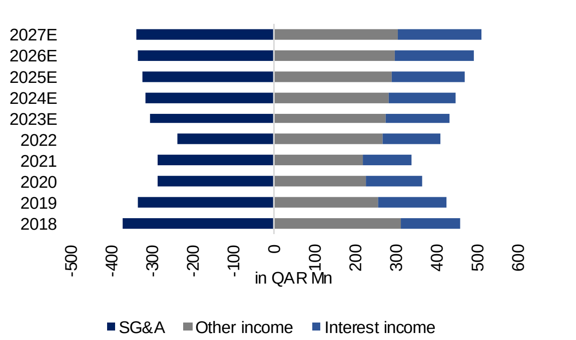


* Source: Company reports, US research

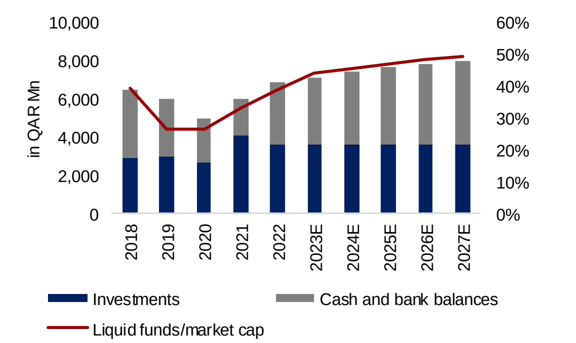
Margins to remain steady with very limited cost items

We do not anticipate any major changes in the cost structure for the company. The fixed markup margins are likely to stay and since the company does not have any competition nor expecting any in future, the need for marketing expenses is minimal. The average cost for distribution and other admin expenses have been maintained in a very low range between 1-1.5%. Woqod received rental income from the leased out properties at its site which is recorded as other income. Other income also includes dividends from its subsidiaries and other miscellaneous incomes. Further, the company receives additional income from its investment of surplus cash in various Islamic and conventional deposits. These deposits have yielded about +4-6% in the past. The finance income along with other income is more than the general and admin expenses incurred by the company, thereby netting off the operational costs.

Operating costs set off against other income



Liquid assets nearly 40% of the the market cap



* Source: Company reports, US research

Debt free and zero tax status provides cushion to the narrow margins

Woqod is a debt free company and does not pay taxes, operating and net margins remain similar except for the additional finance income. We expect capex of about QAR 400mn in 2023, which will reduce to the range of QAR 200mn in the following years as site additions will be slower. We do not expect any major changes in the working capital, receivable or payable metrics as the business model is robust and tied up with the government. It is pertinent to note that the company carries QAR 3.87bn as payables which is about 75% of the total liabilities. However, these payables are towards Qatar Energy which is the sole supplier of fuel to Woqod and bound by a contractual agreement. The payable days are about 60 days while receivable days are much shorter at 27-30days. As inventory days are also short the cash cycle remains negative 25 days.

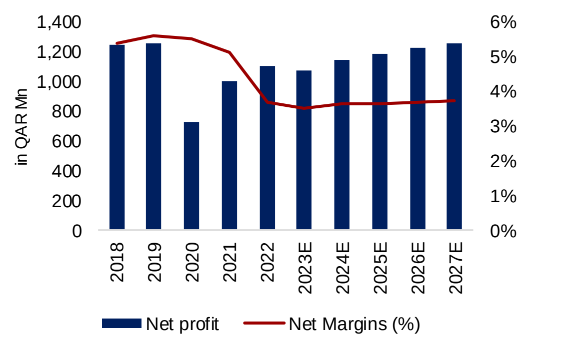
Surplus cash is parked in fixed deposits which along with cash form liquid funds in the balance sheet

The surplus cash generated is parked in liquid investments, the carrying value of which was QAR 3.6bn as of 1Q23. These investments included fixed deposits of QAR 2.1bn, investment in shares of listed securities in Qatar Stock Exchange of QAR 1.4bn. The cash in bank along with investment book totaled to QAR 6bn as of 1Q23 which is about 37% of the market cap of the company. This provides a comfortable cushion to the valuations.

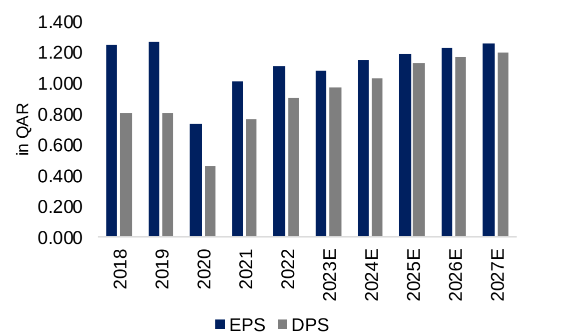
Dividend yield to be at 6-7% going forward

We do not expect any fund raise via debt or equity as the balance sheet carries cash of QAR 2.3n as of 1Q23. We expect dividend payout ratio to increase from 80% to 90% going forward. Recently the board recommended QAR 0.900 as the dividend based on 2022 financials. This was the highest dividend per share for the company in its history. At current price the dividend yield stood at 6% and we expect the company to remain a dividend play going forward as well. The surplus cash can also be used for buy backs in addition to dividend payouts.

Net profit to grow in low single digits



Dividend payout expected at 90-95%



* Source: Company reports, US research

Valuation

DCF target price of AED 19.004/share

We have considered the monopoly status of the company as a major positive. Despite flattening revenues, the company is cash rich and offers a good play on dividend payouts. We value the company based on the Discounted Cash Flow (DCF) method. In our DCF method we have forecasted through 2023-2027e. We considered the cost of equity of 10.3% derived from risk free rate of 5.0%, Equity Risk Premium of 8%, and beta of 0.661. We arrive at a WACC of 10.3% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of Woqod provides an intrinsic value of QAR 19.004 per share

Blended price target of AED 19.185/share

On a peer valuation basis, we consider PE as an appropriate multiple to value the company. The average PE of the companies in this sector across the GCC is 18x and we have considered the same for Woqod. This provides us with a fair value of QAR 19.366 per share. Both methods when considered with equal weight give us a blended fair value of QAR 19.185 per share. The blended fair value is 14.9% higher than the current market price. This along with the expectation of stable dividend yield in excess of

6% provide a total return of 20.9%. Based on our positive outlook and blended fair value we initiate coverage on Woqod with a BUY rating.

DCF Method (in QAR mn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	**914**	**974**	**1,002**	**1,030**	**1,048**
Add: Depreciation & amortization	243	250	258	266	274
Less: Change in working capital	246	69	70	66	33
Less: Capex	-400	-200	-200	-200	-200
Free Cash Flow to Firm	**1,003**	**1,093**	**1,130**	**1,162**	**1,155**
PV of Free Cash Flows	959	947	888	828	823
PV of Terminal Value					10,951
Enterprise Value					15,396
Less: Net debt					(3,499)
Less: Minorities & Pension liabilities					0
Equity value					18,895
No of shares					994
Fair value per share (QAR)					19.004

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.661
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	10.3%
Terminal growth rate (g)	2.0%
Pretax Cost of Debt	0.0%
Effective tax rate	0.0%
After tax cost of debt	0.0%
Target Debt/Equity	0.0%
WACC	10.3%

Peer valuation	
PE (TTM)	15.5
Target PE	18.0
Fair value (QAR)	19.366
CMP	16.700
Upside	**16.0%**

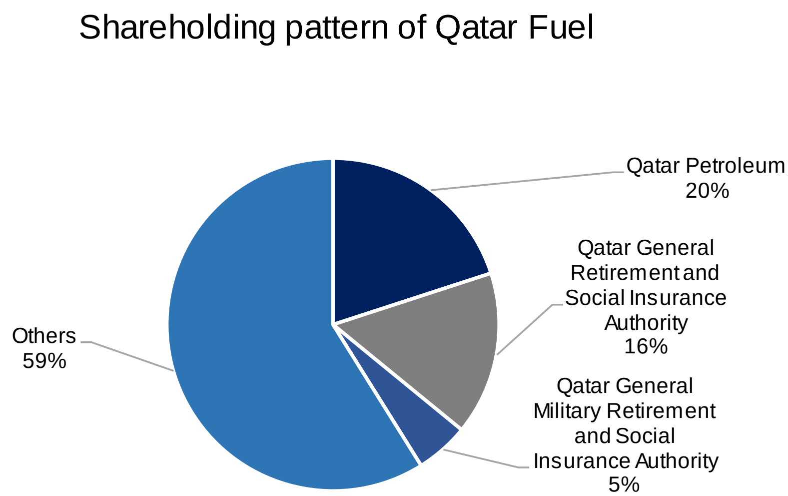
Blended Target price	Wtg	Target price	Wtd value
DCF	0.50	19.004	9.502
PE	0.50	19.366	9.683
Target price			19.185
CMP			16.700
Potential upside			**14.9%**

Key risks:

1. Sharp slowdown in the economy
2. Changes in regulations
3. Significant shift to public transport
4. High cost of fuel rendering private vehicle usage unviable
5. Decline in tourism activities
6. High dependency on government
7. Entry of new players in the business and loss of monopoly status

Company Profile

Qatar Fuel also known as Woqod is the only fuel retailer in Qatar. The company was established in 2002 as a government entity. It took over the assets of National Oil Distribution company in 2004 (NODCO) and opened its first fuel station in 2006. The company currently deals in all forms of fuel, catering to both retail and commercial customers in Qatar. The major products include Diesel, gasoline and Jet fuel. The supply to retail takes place through 126 fuel stations (including 16 mobile stations) located across the country. The company also operates 98 convenience stores under the brand name Sidra and 73 car service stations under Fahes. Nearly 47% of the fuel volumes come from jet fuel which also has higher realizations. Other than fuel the company also markets its lubricants brand in the local and internationally, it delivers bitumen for road construction and fuel bunkering for the marine segment.



BOARD OF DIRECTORS

S.NO	NAME	POSITION
1	Mr. Ahmad Saif A Al-Sulaiti	Chairman
2	Mr. AbdulAziz Al-Muftah	Vice-Chairman
3	Mr. Saad Rashid Al-Muhannadi	Managing Director
4	Sheikh Saoud Khalid Hamd A Al-Thani	Member
5	Mr. Mohd A Aziz S R Al-Saad	Member
6	Mr. A-Rahman Saad Z Al-Shathri	Member
7	Mr. Nasser Sultan N Al-Hemaidi	Member
8	Mr. Faisal A-Wahid A Al-Hamadi	Member
9	SH. Ali Bin Hamad Bin Abdul Rahman Al Thani	Member

Source: www.qe.com.qa, US Research

Income Statement (in QAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	22,446	13,245	19,531	29,935	30,379	31,403	32,380	33,311	33,780
Direct costs	-21,281	-12,549	-18,597	-29,005	-29,438	-30,399	-31,344	-32,245	-32,699
Gross profit	**1,165**	**697**	**935**	**930**	**942**	**1,005**	**1,036**	**1,066**	**1,081**
SG&A	-334	-287	-284	-235	-304	-314	-324	-333	-338
Other operating expenses	-	-49	12	-4	-	-	-	-	-
Other income	258	228	221	269	276	283	290	297	304
Total expenses	-76	-108	-52	30	-28	-31	-34	-36	-33
Operating profit	**1,089**	**588**	**883**	**960**	**914**	**974**	**1,002**	**1,030**	**1,048**
EBITDA	**1,278**	**707**	**1,006**	**1,082**	**1,076**	**1,143**	**1,178**	**1,211**	**1,235**
Interest income	169	139	120	141	156	167	181	195	207
Finance costs	-	-	-	-	-	-	-	-	-
Profit before tax	1,258	728	1,002	1,101	1,070	1,141	1,183	1,225	1,255
Tax expense	-	-	-	-	-	-	-	-	-
Net profit for the period	**1,258**	**728**	**1,002**	**1,101**	**1,070**	**1,141**	**1,183**	**1,225**	**1,255**

Balance Sheet (in QAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property, plant and equipment	3,081	3,175	3,149	3,306	3,503	3,493	3,476	3,453	3,422
Right-of-use assets	124	154	147	107	101	116	129	142	154
Goodwill and intangible assets	133	135	135	140	140	140	140	140	140
Investment properties	886	906	900	895	895	895	895	895	895
Investments	3,022	2,712	4,106	3,641	3,641	3,641	3,641	3,641	3,641
Total non-current assets	**7,246**	**7,082**	**8,438**	**8,089**	**8,281**	**8,285**	**8,282**	**8,271**	**8,252**
Trade and other current receivables	1,807	2,060	2,356	2,217	2,127	2,198	2,267	2,332	2,365
Inventory	427	315	448	705	707	730	752	774	785
Prepayments and other receivables	159	127	158	135	152	157	162	167	169
Cash and bank balances	3,014	2,251	1,908	3,265	3,499	3,757	4,002	4,195	4,351
Total current assets	5,407	4,753	4,870	6,321	6,484	6,842	7,183	7,467	7,670
TOTAL ASSETS	**12,653**	**11,835**	**13,308**	**14,410**	**14,765**	**15,127**	**15,465**	**15,738**	**15,922**
Share capital	994	994	994	994	994	994	994	994	994
Reserves	1,098	1,169	1,244	913	906	906	906	906	906
Retained earnings	6,402	6,268	6,801	7,290	7,465	7,643	7,800	7,900	7,991
Total equity	8,495	8,431	9,039	9,197	9,366	9,544	9,700	9,801	9,892
Non-controlling interests	207	156	138	115	143	145	148	149	151
Net equity	**8,702**	**8,587**	**9,177**	**9,313**	**9,508**	**9,689**	**9,848**	**9,950**	**10,043**
Lease liabilities	105	119	110	82	77	89	99	109	118
Borrowings	-	-	-	-	-	-	-	-	-
Due to related parties	81	-	-	-	-	-	-	-	-
Provision for decommissioning	22	23	25	26	25	25	25	25	25
Provemployees' end of service benefit	89	90	98	114	122	126	130	133	135
Total non-current liabilities	**298**	**232**	**232**	**222**	**224**	**239**	**253**	**267**	**278**
Lease liabilities	20	37	41	29	28	32	35	39	42
Trade and other payables	3,633	2,979	3,857	4,847	5,004	5,168	5,328	5,482	5,559
Borrowings	-	-	-	-	-	-	-	-	-
Total current liabilities	3,653	3,016	3,898	4,876	5,032	5,199	5,364	5,521	5,601
Total liabilities	**3,951**	**3,248**	**4,131**	**5,098**	**5,256**	**5,439**	**5,617**	**5,788**	**5,879**
TOTAL EQUITY AND LIABILITIES	**12,653**	**11,835**	**13,308**	**14,410**	**14,765**	**15,127**	**15,465**	**15,738**	**15,922**

Cash Flow (in QAR Mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	753	-129	1,456	1,999	1,411	1,297	1,334	1,366	1,357
Investing cash flow	-407	-56	-1,080	683	-400	-200	-200	-200	-200
Financing cash flow	-897	-917	-552	-853	-895	-963	-1,026	-1,124	-1,164
Change in cash	-551	-362	-343	1,357	234	258	245	192	157
Beginning cash	3,164	2,613	2,251	1,908	3,265	3,499	3,757	4,002	4,195
Ending cash	**2,613**	**2,251**	**1,908**	**3,265**	**3,499**	**3,757**	**4,002**	**4,195**	**4,351**

Ratio Analysis	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share									
EPS (QAR)	1.266	0.732	1.008	1.108	1.076	1.147	1.190	1.232	1.262
BVPS (QAR)	8.544	8.480	9.091	9.251	9.420	9.599	9.756	9.858	9.949
DPS (QAR)	0.800	0.460	0.760	0.900	0.968	1.032	1.130	1.170	1.199
FCF per share (QAR)	0.348	-0.186	0.379	2.698	1.017	1.103	1.140	1.173	1.163
Valuation									
Market Cap (QAR Mn)	22,868	18,573	18,175	17,847	16,604	16,604	16,604	16,604	16,604
EV (QAR Mn)	19,980	16,477	16,418	14,693	13,210	12,967	12,736	12,557	12,413
EBITDA	1,278	707	1,006	1,082	1,076	1,143	1,178	1,211	1,235
P/E (x)	18.2	25.5	18.1	16.2	15.5	14.6	14.0	13.6	13.2
EV/EBITDA (x)	15.6	23.3	16.3	13.6	12.3	11.3	10.8	10.4	10.0
Price/Book (x)	2.7	2.2	2.0	1.9	1.8	1.7	1.7	1.7	1.7
Dividend Yield (%)	3.5%	2.5%	4.2%	5.0%	5.8%	6.2%	6.8%	7.0%	7.2%
Price to sales (x)	1.0	1.4	0.9	0.6	0.5	0.5	0.5	0.5	0.5
EV to sales (x)	0.9	1.2	0.8	0.5	0.4	0.4	0.4	0.4	0.4
Liqiudity									
Cash Ratio (x)	0.82	0.75	0.49	0.67	0.70	0.72	0.75	0.76	0.78
Current Ratio (x)	1.48	1.58	1.25	1.30	1.29	1.32	1.34	1.35	1.37
Quick Ratio (x)	1.36	1.47	1.13	1.15	1.15	1.18	1.20	1.21	1.23
Returns Ratio									
ROA (%)	9.9%	6.1%	7.5%	7.6%	7.2%	7.5%	7.6%	7.8%	7.9%
ROE (%)	14.5%	8.5%	10.9%	11.8%	11.3%	11.8%	12.0%	12.3%	12.5%
ROCE (%)	14.0%	8.2%	10.7%	11.6%	11.0%	11.5%	11.7%	12.0%	12.2%
Cash Cycle									
Receivables turnover (x)	12.4	6.4	8.3	13.5	14.3	14.3	14.3	14.3	14.3
Inventory turnover (x)	49.9	39.8	41.5	41.1	41.7	41.7	41.7	41.7	41.7
Accounts Payable turnover (x)	5.9	4.2	4.8	6.0	5.9	5.9	5.9	5.9	5.9
Receivables days	29.4	56.8	44.0	27.0	25.6	25.6	25.6	25.6	25.6
Inventory days	7.3	9.2	8.8	8.9	8.8	8.8	8.8	8.8	8.8
Payable Days	62.3	86.7	75.7	61.0	62.1	62.1	62.1	62.1	62.1
Cash Cycle	-25.6	-20.7	-22.9	-25.1	-27.7	-27.7	-27.7	-27.7	-27.7
Profitability Ratio									
Net Margins (%)	5.6%	5.5%	5.1%	3.7%	3.5%	3.6%	3.7%	3.7%	3.7%
EBITDA Margins (%)	5.7%	5.3%	5.1%	3.6%	3.5%	3.6%	3.6%	3.6%	3.7%
PBT Margins (%)	5.6%	5.5%	5.1%	3.7%	3.5%	3.6%	3.7%	3.7%	3.7%
EBIT Margins (%)	4.9%	4.4%	4.5%	3.2%	3.0%	3.1%	3.1%	3.1%	3.1%
Leverage									
Total Debt (QAR Mn)	126	155	151	111	105	120	134	148	160
Net Debt (QAR Mn)	-2,888	-2,095	-1,757	-3,154	-3,394	-3,637	-3,868	-4,047	-4,191
Debt/Total Assets (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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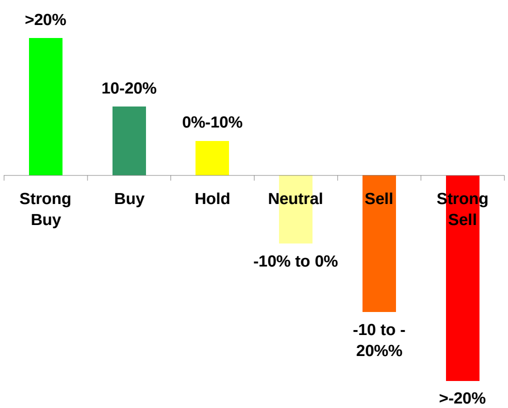
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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