

Aldrees Petroleum and Transport Services

Aldrees' earnings normalize from a high base in Q4 2019.

Aldrees reported good results during Q4 2020 as revenues and earnings expanded by 15.1% and 6.9% Q-o-Q, respectively. The results, however, are uncomparable to Q4 2019 due to retrospective adjustment of the impact of petrol margins during that quarter, making it an exceptionally high base. The lockdown measures during H1 2020 and 45% drop in Aldrees' transport segment's profits during the year partially offset the positive impact of petrol profit margins hike. During 2021, the impact should be more pronounced on Aldrees' earnings as petrol quantities rise and transport segment starts to recover. We maintain our Overweight recommendation for Aldrees with a 52-weeks target price of 73.5/share.

Aldrees' total revenues fell by 5.4% Y-o-Y during Q4 2020 on the back of lower gas prices and slow recovery in the transport segment. However, petrol total quantity sold increased by 9% thanks to the company's aggressive expansion during the year. The transport segment (5% of total revenues), on the other hand, is still struggling with recovery as it continued to report 21.8% Y-o-Y drop in revenues during Q4 2020.

For the full year, revenues fell by 12.4% Y-o-Y (-11.8% in petrol segment & -17.9% in transport segment) during 2020 impacted by the lockdown measures during H1 2020, lower gas prices, and slower economic activity hitting the transport segment.

Gross profit dropped by 59.7% Y-o-Y during Q4 2020 due to the exceptionally high base in Q4 2019, where the company applied the new petrol profit margins retrospectively in Q4 2019, locking in non-recurring income during the quarter. Gross profit, however, expanded by 20.3% Q-o-Q during Q4 2020 thanks to higher sales quantities.

Petrol profit margins recorded 5.6% during 2020 vs 6.5% in 2019 but remained higher than 2018 levels of 3.4%. The drop during 2020 can be mainly attributed to the lockdown measures during H1 2020. Petrol profit margin recovered to 6.0% during Q4 2020.

On the other hand, transport gross margin lost 600bps Y-o-Y during Q4 2020 and 1,000bps (10%) for the full year 2020 impacted by the drop in revenues and the segment's high fixed cost base.

Net income fell by 82.7% Y-o-Y and increased by 6.9% Q-o-Q. For the full year 2020, core earnings (excluding non-recurring income in 2019A) fell by 45.8% due to the impact of lockdown on H1 results and persistently lower profits from the transport segment throughout the year.

Based on 2020 annual results, Aldrees announced a dividend distribution of SAR1/share, representing 50% payout ratio. The board of directors recommended 25% capital increase through distribution of bonus shares. Upon approval of the recommendation, this will dilute our target price for Aldrees in our next update.

Aldrees accelerated its aggressive expansion in the petrol segment during 2020 by adding 62 stations to its network during the year bringing the total to 544 stations vs 482 stations a year ago. We expect continued recovery and growth in the company's petrol segment during 2021 supported by its aggressive expansion plan and traffic recovery. We see downside risks from intensified competition as the Saudi market becomes attractive for expansion for the large regional players and slow recovery in the transport segment on the back of economic slowdown.

24 Jan 2021

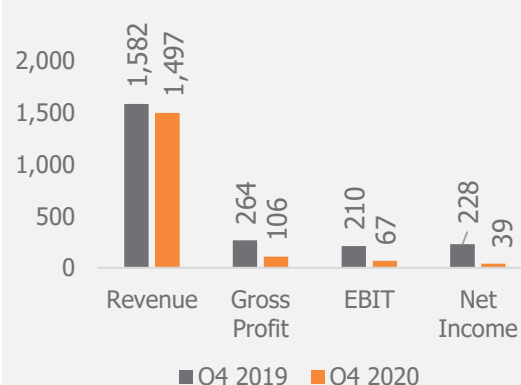
Recommendation **Overweight**

Previous Recommendation	Overweight
Current Price (21-01-2021)	SAR66.2
Target Price (52 Weeks)	SAR73.5
Upside/ (Downside)	11.0%
Shariah Compliance	Pass

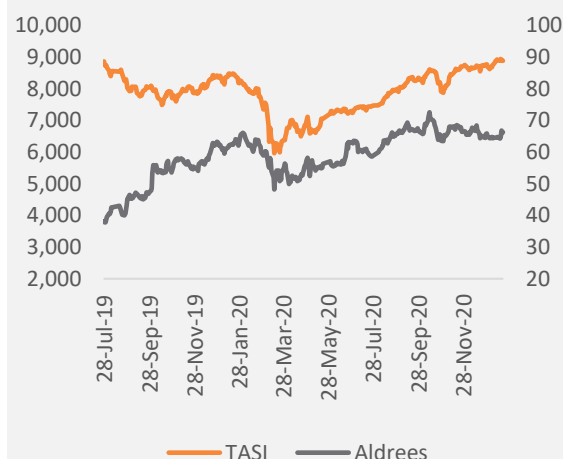
Key Financial Ratios

Ratio	Q4 2020	Q3 2020	Q4 2019
Revenue Growth	15.1%	80.8%	7.4%
Gross Margin	7.1%	6.8%	16.7%
EBIT Margin	4.5%	4.8%	13.3%
Net Margin	2.6%	2.8%	14.4%

Key Financial Results (Q4 2020)



Share Price Performance



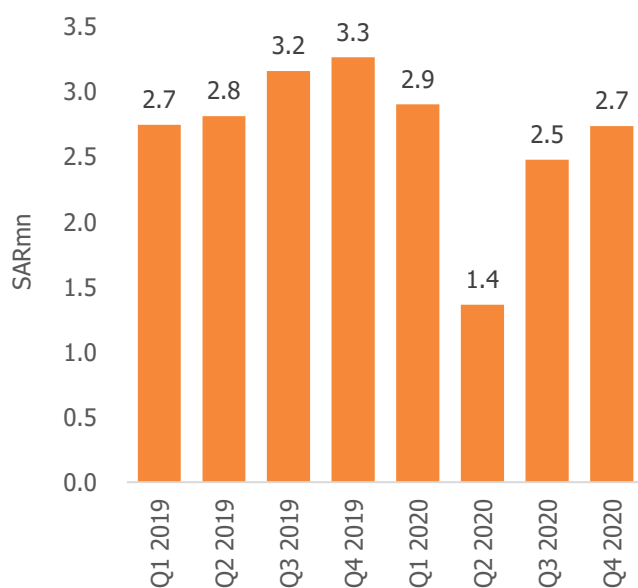
Company Analysis

Segments Performance

Annual Results	Petrol Segment			Transport Segment			Total		
	FY2019	FY2020	%	FY2019	FY2020	%	FY2019	FY2020	%
Revenue	5,403	4,768	-11.8%	359	295	-17.9%	5,681	4,974	-12.4%
Gross Profit	347	263	-24.3%	114	63	-45.1%	462	326	-29.4%
GP Margin	6.5%	5.6%	-	34.5%	23.7%	-	8.1%	6.5%	-
EBIT Margin	4.7%	3.7%	-	16.3%	4.4%	-	3.8%	5.5%	-
Net Margin	4.5%	2.3%	-	14.1%	3.5%	-	5.1%	2.4%	-

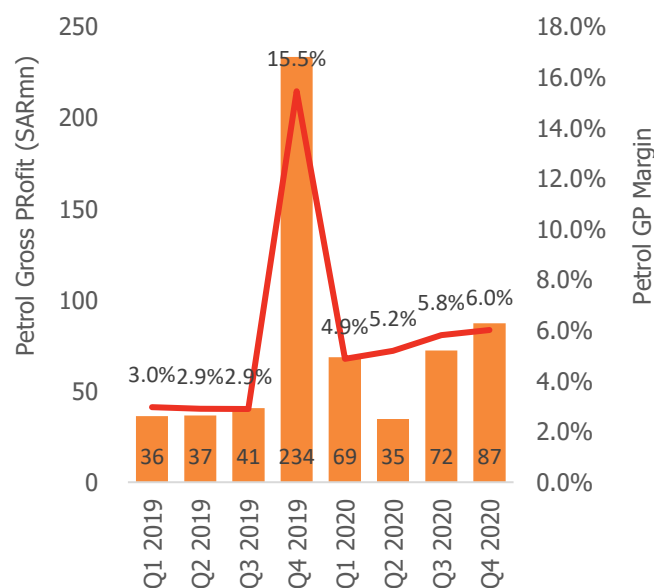
Source: Company data, Itqan Capital research
*all values in SARmn

Average Revenue per Station



Source: Company data, Itqan Capital research

Petrol Segment Profit Margins



Source: Company data, Itqan Capital research

*Q4 2019 included the retrospective adjustment for the impact of new profit margins on the full year of 2019.

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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