Equity Research report
SASCO AB Equity
17 May 2023

Target Price: SAR51/share
Current Price: SAR42.75/share
Upside: ~19% (+Div. Yield: 2.5%)
Rating: Overweight

Saudi Automotive Services Company (SASCO)

Defensive & healthy growth with rich FCF yields

Stock data	
TASI ticker	4050
Mcap (SARmn)	2,565
Trd. Val (3m) (SARmn)	13.6
Free float	82.2%
QFI holding	9.1%
TASI FF weight	0.12%

Source: Bloomberg

Prices indexed to 100

Source: Bloomberg

- SASCO is one of the beneficiaries of a shift from unorganized to organized fuel retailing business underway in KSA. Macro/sector drivers include a jump in KSA travel and tourism, regulatory fuel margin increase while company-specific drivers are network expansion, value unlocking of its assets, and cost efficiencies post-NAFT acquisition.
- The stock is up 31% (YTD) but is yet to catch up with its peer Aldrees which is up 51%. EV/station is at SAR12mn (Aldrees at 16). Free Cash Flow yield is rich at 14% in '24e.
- We initiate on SASCO with a TP of SAR51/sh. (avg. of DCF/PE) and an OW rating.

Steady growth: The fuel station business in KSA is undergoing consolidation and being a qualified fuel station operator, SASCO is likely to gain further market share from the unorganized sector with regulatory support. With an est. increase of 40 stations/ann. (~8% of current) in coming years, organic defensive throughput growth of 2-3%, and an improvement in operating costs/synergies from its NAFT acquisition, we could see high sustained profit growth (19% CAGR over 2023-25e) for SASCO. Given lower fuel operator margins compared to regional peers, we believe that there is a scope for improvement going forward. Non-fuel segments (~7% of rev.) are also growing well and are likely to start contributing more to profits in the coming years. Further, there is scope for monetization of multiple assets.

Sector tailwinds/Valuations: There is an unprecedented focus on tourism in KSA with multiple social events, ease of restrictions, etc., which will benefit SASCO, given its diversified presence across KSA including in Pilgrim areas. P/E looks high superficially (2Y avg 36x) because of the unique capital structure (huge lease liabilities in the business model), low WACC (high D/A and low beta, given defensiveness), and large investments and high-profit growth. The company benefits from a negative cash conversion cycle too as per our estimates.

Risks: Aggressive expansion by competition/new entrants, any detrimental regulatory change (e.g. increased capex requirements), higher Saudization targets, a downward revision of fuel gross margin, lower synergies from the NAFT acquisition, one-off costs such as goodwill write-off and related profit volatility, and shift to EV are key downside risks to our investment view.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e	2026e
Revenue	7,852	9,194	10,068	10,973	11,732
Revenue growth	*93%*	*17%*	*10%*	*9%*	*7%*
Gross profit	272	340	385	422	450
Gross profit margin	*3%*	*4%*	*4%*	*4%*	*4%*
EBITDA	370	566	606	645	678
Operating Profit	91	217	251	275	294
Net profit attrib. to eq. holders	90	71	100	121	140
Net profit margin	*1%*	*1%*	*1.0%*	*1.1%*	*1.2%*
EPS (SAR)	1.5	1.2	1.7	2.0	2.3
DPS (SAR)	1.0	1.0	1.2	1.5	1.7

Source: Company data, GIB Capital

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Investment case

SASCO is one of the leading fuel retailers in KSA with a market share of over 4.9% in the Kingdom's fuel station industry as of 2022. The company has managed to gradually expand its network of stations both organically and inorganically from 232 at 2020-end to 515 at 2022-end (post-acquisition of NAFT's 226 stations). Further, the company plans to add 100 new stations in 2 years, aiming to achieve a network of 615 stations, implying a growth of 20%. We estimate a lower number of 35 stations per annum. Given that the opportunities are huge, it is likely to see high single-digit growth in stations thereafter as well.

The fuel stations industry in KSA is undergoing consolidation driven by Government efforts that seek to standardize all stations in the Kingdom according to global standards and improve the overall consumer experience. SASCO, one among the ~20, has been recognized by the Government to run fuel stations in the country, and all the company's stations are eligible for a higher margin (already in place) on fuel sales. This way the highly fragmented nature of the industry augurs well for SASCO as it is in negotiations with landlords of ~50 stations from the unorganized sector to be merged with the company to help in faster growth.

Apart from its presence inside cities, the SASCO brand is known for its presence across highways. This is beneficial as the Kingdom has been focussing on the tourism industry in a significant manner. 2022 saw 93.5mn visitors as compared to 65.3mn visitors in 2019 (2020/21 were COVID-impacted years). Tourism numbers show that there are more local visitors (86% of total visits) than international; both of which boost fuel sales for SASCO. KSA targets to have 330mn airline travelers by 2030 as compared to 88mn in 2022. The number of Umrah visitors is targeted to reach 30mn by 2030 (15mn by 2025) as compared to 7mn+ in 2022, all of which works in favour of SASCO.

While previously, there were some talks around the Energy Ministry to possibly increase gross margin further, we do not factor any such in our model, and thus would be an upside to our base case. An incremental halala can add SAR45mn in profits (based on 4.5bn litres x 1 halala) highlighting the thin margins the company operates in. Compared to UAE fuel operators who earn a margin of 40fils/litre, Saudi fuel operators receive 15 halala/litre for gasoline and 5 halala/litre for diesel and thus we believe there is room for an increase.

In April 2022, the company acquired an 80% stake in NAFT Services (top 5 in terms of market share) for SAR1.1bn. Being large, the NAFT acquisition is a milestone in SASCO's bid to strengthen its market positioning through network expansion and gaining higher market share. The company expects synergies worth SAR15-20mn from the acquisition and aims for consolidated SAR120mn net profit in the near to medium term. This is an industry with extremely thin margins (net margin of around 1%) thus any small efficiency gains with increasing scale would help profits to grow in a significant manner. More importantly, 2023 costs would reduce significantly on a y/y basis as 2022 had high acquisition-related costs (SAR80mn in G&A).

SASCO also conducted the sale and leaseback of 9 stations to Al Jazira Capital for SAR382mn with the bulk of one-off gain in the first year already recognized and remaining one-off gains to be recognized over the next 9 years (contractual period of 10 years). Any further sale and leaseback would be beneficial to the bottom line and lower debt. At the end of 3Q22, 60 out of the around 500 were owned while others were rented for SASCO. The ratio is much lower for

Aldrees with only 19 owned and 740 rented. This implies the possibility of more value unlocking by more sale and lease back. This also explains that despite having a much lower number of stations, the balance sheet size for SASCO is only slightly smaller than Aldrees at the end of 2022. EV/gas station is SAR12mn for SASCO vs SAR16mn for Aldrees (2022). We believe the company also has additional options of unlocking its stations via a REIT structure and also selling other investments that are not profitable currently, helping with cashflows and lowering debt.

Despite having only a small contribution (3% of revenues in 2022), Palm stores (convenience stores) present within the premises of petrol stations turned profitable in 2022 and are expected to improve profitability in 2023. The company plans to add 40 more stores this year. The new regulation allows the petrol stations to even have a restaurant etc. as compared to strict restrictions previously. This helps as SASCO provides pilgrims' services through its rest houses and fuel stations located at Saudi border checkpoints and through the network of SASCO sites that covers all highways, particularly those linking the two holy cities of Mecca and Medina. Another smaller segment (transportation), the Ostool fleet segment, which provides transportation services, increased its fleet size to 209 tankers and 212 trailers by the end of 2022, compared to 172 tankers and 160 trailers at the end of 2021. The transportation business is high-margin with a 23% gross margin in 2022.

Throughput per station for SASCO is on track to reach pre-COVID levels. However, SASCO's throughput continues to be lower than Aldrees, with the gap getting wider. This might be due to a large number of SASCO stations outside the cities with lower traffic. As the management moves its focus from acquisition to operational efficiencies, one could expect throughput to increase.

Free Cash flows are strong and much higher than the profit because of interest costs due to high debt (mainly lease liabilities), depreciation costs, and negative working capital. For example, while the net profit was SAR98mn (net profit attributable to equity holders was SAR90mn), the free cash flow was 329mn in 2022 (SAR567mn excluding lease payments). Early payment of loans by SAR300mn will reduce some burden of cash financing expenses. The bank debt (Murabaha and short/long term loans) at the end of 2022 was SAR1.6bn (D/A of 27%) and will reduce to SAR1bn by 2025 end (D/A of 16%). The lease part of the financing has low-interest rates as per our understanding.

At an 85% dividend payout, the dividend yield would be around 2.5% in 2023e and 3.3% in 2024e. In the last three years, the average dividend payout has been around 72%.

Overall, the favourable economic environment, improving sector dynamics, the declining unemployment rate in KSA, an increase in the female share of employment and the company management's focus on leveraging the industry consolidation phase should allow SASCO to witness improved financial performance in the long term.

Figure 2: Key performance indicators for SASCO

KPIs	2022	2023E	2024E	2025E	2026E	2027E
91 sales growth	64.0%	16.7%	9.5%	9.0%	6.9%	6.7%
95 sales growth	216.8%	16.7%	9.5%	9.0%	6.9%	6.7%
Diesel sales growth	63.9%	21.8%	9.5%	9.0%	6.9%	6.7%
Locations growth	72.2%	6.2%	7.3%	6.8%	4.8%	4.6%
Net income to equity holders	90	71	100	121	140	158
Net margin	1.1%	0.8%	1.0%	1.1%	1.2%	1.3%
FCF (SARmn)	329	15	352	360	379	395
FCF yield	12.8%	0.6%	13.7%	14.0%	14.8%	15.4%

Source: Company, GIB Capital

Assumptions, valuation, and risks

Revenue:
The fuel prices in KSA are regulated and revised monthly by Saudi Aramco. The current petrol prices are at capped levels set by the regulations, while diesel prices increased at the beginning of 2023 and have remained constant after that. Fuel revenue is the most significant contributor (~ 93%) to the company's total revenue. The fuel revenue for SASCO is calculated as a product of volumes sold for 91 petrol, 95 petrol, and diesel and their respective per litre prices. We forecast the growth in fuel revenue based on projected expansion in the number of fuel stations and volume sold per location. The company targets to have ~600 stations by the end of 2023. However, on a conservative basis, we expect the total fuel stations to reach 547 by the end of 2023 and 587 by 2024. For the remaining forecast period, we assume a moderate increase in the number of stations through organic growth. Conservatively we assume a 2% improvement in throughput.

In 2022-27, we expect fuel revenue to witness a CAGR of 10%. Apart from the fuel revenue, the revenues from other businesses like Palm and Ostool are expected to witness similar healthy growth, and hence SASCO's revenue in the period of 2022-27 is forecasted at a CAGR of 10%.

Margins: The gross margin for fuel retailers recognized by the government is fixed at SAR0.15 per litre for both 91 and 95 variants of petrol and at SAR0.05 per litre for diesel. All the SASCO stations benefitted from the higher margin (relative to the unorganized sector). Overall margins are low and hence SASCO's gross margin has historically remained at low single-digit levels, and we expect it to remain at around 3.7% in the forecast period. The selling, general, administrative, and other expenses are very small compared to the fuel cost, and hence average net margin is at ~1.2% in the projections.

Capex: The number of fuel stations for SASCO jumped to 515 at the end of FY22 following the acquisition of 226 stations from NAFT. The company plans to expand its station's network organically and inorganically by leveraging on the ongoing industry consolidation and targeting the stations from the unorganized sector. SASCO had partly financed the NAFT acquisition through the sale and leaseback of its ten stations. The company has indicated going for the sale and leaseback of more of its stations, which would lead to higher right-of-use assets. We estimate SAR43mn for capex in 2023.

Valuation: Most of SASCO's revenues come from fuel retail sales, and the pricing regulated by the Government decreases the volatility in these sales. The nature of the company's business is defensive and justifies a low beta. Despite this, conservatively we assume a cost of equity of 11% for our DCF valuation.

For PE valuation, we use a 26x multiple (2-year average: 37x) on SAR1.7 EPS (2024e) and arrive at a PE-based target of SAR45/share. There are multiple reasons why this is higher than what is usually considered the average for the market:

- Low WACC with high debt (including leases)
- Defensive nature of business
- There are some investments worth SAR498mn (as of 2022) on the balance sheet for SASCO which may not be fully captured with only multiples.

- Last but not least, if the execution is good, we expect strong growth in profits for the next 3 years.

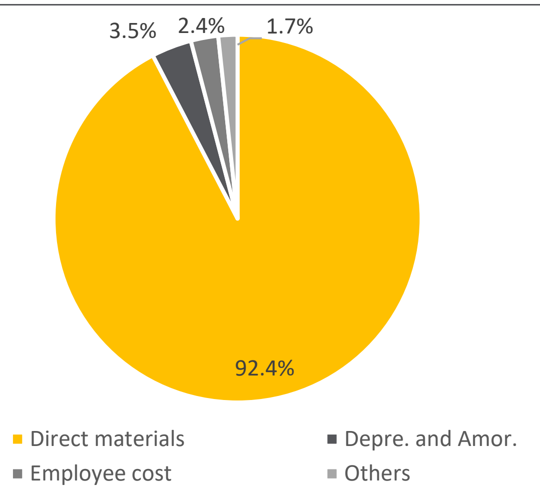
Based on our estimates, the acquisition on implied P/E for NAFT was above 30x. Currently Aldrees, its closes peer trades at a forward PE of 29x and trailing 34x.

As for DCF, based on a terminal growth of 2% and a WACC of 7.8% with a target capital structure of 50% debt to asset, we arrive at a target price of SAR57/share. We use an average of PE and DCF-based valuations, giving us a combined target price of SAR51/share and initiate on the company with an Overweight rating.

While we do not use this, in terms of EV/EBITDA, SASCO is reasonably positioned at 16x vs larger regional peers such as: Aldrees at 15x and ADNOC Distribution at 17x and Qatar Fuels 12x (Please see figure 8 for details).

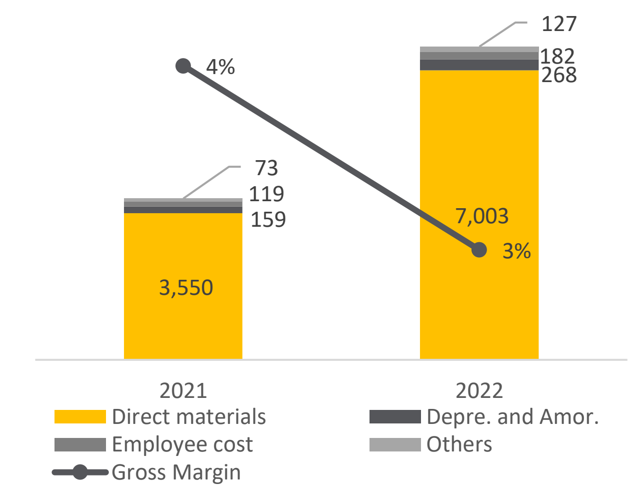
Risks: Aggressive expansion by competition/new entrants, any detrimental regulatory change (e.g. increased capex requirements), higher Saudization targets, a downward revision of fuel gross margin, lower synergies from NAFT acquisition, one-off costs such as goodwill write-off and related profit volatility and shift to EV are key downside risks to our investment view.

Figure 3: Cost of revenues (COR) break up -2022



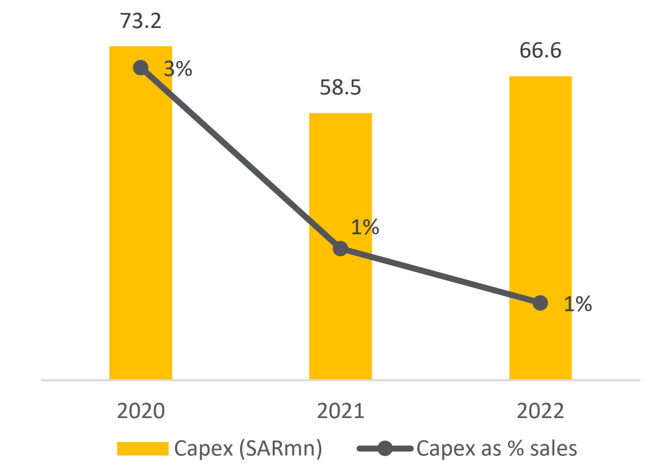
Source: Company data, GIB Capital

Figure 4: Gross margin development & COR (SARmn)



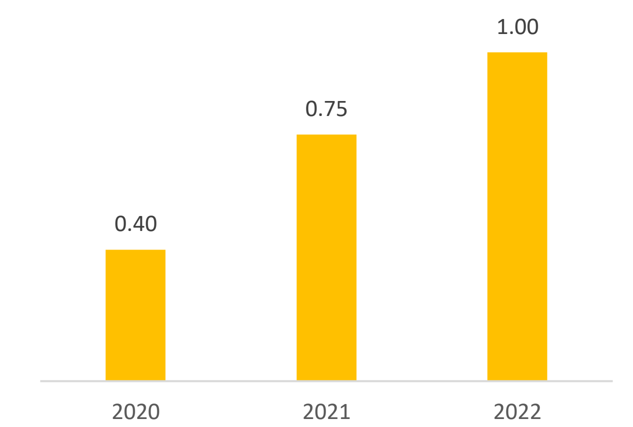
Source: Company data, GIB Capital

Figure 5: Capex and Capex as % of sales



Source: Company data, GIB Capital

Figure 6: DPS trend (SAR)



Source: Company data, GIB Capital

Figure 7: DCF Valuations

SAR mn	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	217	251	275	294	317	335	350	373
Taxes	*(11)*	*(9)*	*(12)*	*(13)*	*(15)*	*(16)*	*(17)*	*(19)*
EBIT minus taxes	**207**	**241**	**264**	**281**	**302**	**319**	**333**	**355**
(+) Depreciation & amortization	338	346	358	370	378	387	393	396
(+/-) Change in working capital	(281)	38	29	24	25	21	18	18
(-) Capex	(43)	(56)	(57)	(44)	(46)	(39)	(32)	(33)
(-) Lease payment	(205)	(216)	(233)	(252)	(265)	(279)	(290)	(299)
Free Cash Flow to Firm	**15**	**352**	**360**	**379**	**395**	**408**	**421**	**438**
Terminal value								**7,761**

PV of FCF (explicit period)	2,102
PV terminal	4,603
EV	**6,705**
(-) Debt, incl. lease liabilities	(3,857)
(+) Cash	162
(-) Minority	(167)
(-) Pension/other liabilities	(42)
(+) Investments	498
Equity value	**3,299**
Number of Shares	60
Equity value per share	55
Target price (one year forward)	**57**
Cost of Equity	11.0%
Cost of debt	4.5%
Target D/A	50.0%
WACC	7.8%

Source: Company, GIB Capital

Figure 8: Peer comparison

	Mkt Cap (USDmn)	P/E Ratio (TTM)	Est P/E Curr Yr	P/E - FY2	EV/T12 M EBITDA	Est. EV/ EBITDA - 1FY	Est. EV/EBITDA - 2FY	Dividend Yield - FY1	P/B
Abu Dhabi National Oil Co for	14161	20	20	18	17	17	15	5.1	19.3
Aldrees Petroleum and Transport	2240	34	28	24	15	13	11	2.2	7.6
TotalEnergies Marketing Maroc	1105	12	16	12	N.A.	8	7	4.2	4.3
Shell Oman Marketing Co SAOG	231	17	N.A.	N.A.	8	N.A.	N.A.	N.A.	1.7
Al Maha Petroleum Products Mar	185	10	N.A.	N.A.	7	N.A.	N.A.	N.A.	1.7
Qatar Fuel QSC	4561	16	15	15	12	12	11	5.4	2.0
Median	**1672**	**16**	**18**	**17**	**12**	**12**	**11**	**4.6**	**3.1**
Saudi Automotive Services Co	**684**	**27**	**36**	**26**	**16**	**10.5**	**9.8**	**2.3**	**3.0**

Source: Bloomberg, GIB Capital. As of 16 May 23

Figure 9: Relative valuations and Average valuations

P/E based valuation	
P/E	26
EPS 2024	1.7
1yr fwd PE-based price	**45**

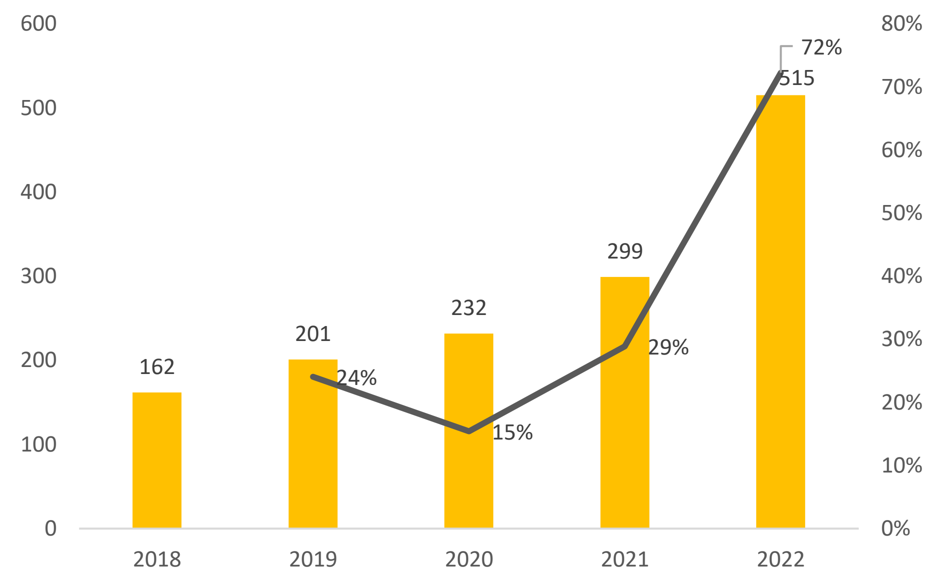
Valuation	
PE price	45
DCF price	57
Average target price (SAR)	**51**

Source: GIB Capital

Company Profile

SASCO was founded in 1982 and is primarily involved in establishing and operating fuel stations located within cities and on highways of KSA. Post the acquisition of 80% of NAFT Services, having a network of 226 service stations, SASCO ended the year with 515 operational stations, compared to 260 at the end of 2021.

Figure 10: Number of stations

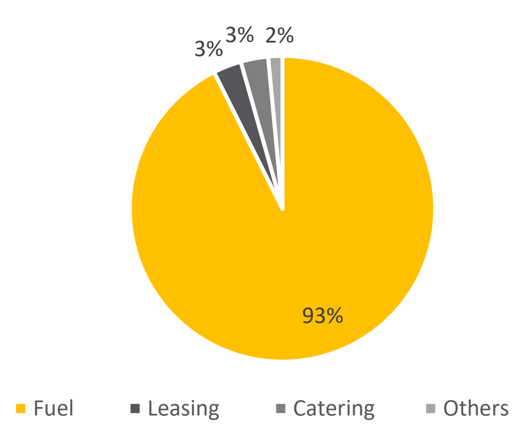


Source: Company

The company, along with its subsidiaries, also operates convenience stores, provides motels and accommodation services, transports fuel, water, sewerage, and goods, provides services such as customs transit books and international driving permits, real estate management of owned and leased properties and provides contracting services including building, construction, maintenance, and operations of commercial and residential properties.

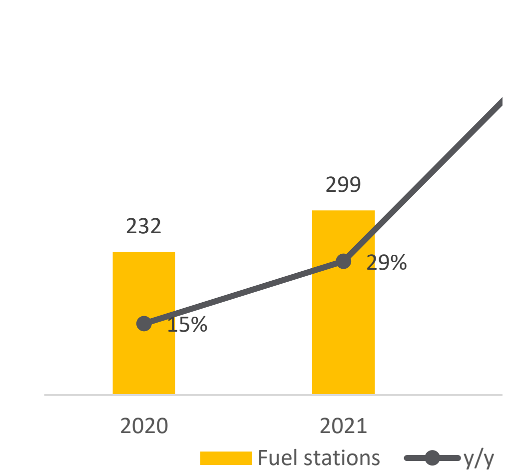
The company derives the majority of its revenue from the fuel business (93%), followed by leasing (3%), catering (3%) and others (2%).

Figure 11: Revenue break-up



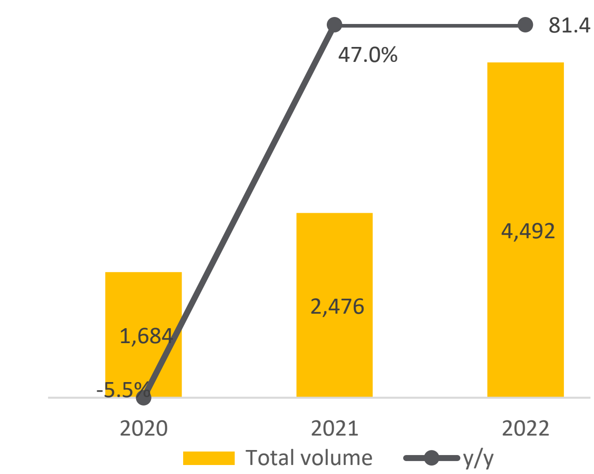
Source: Company data

Figure 12: Fuel stations trend



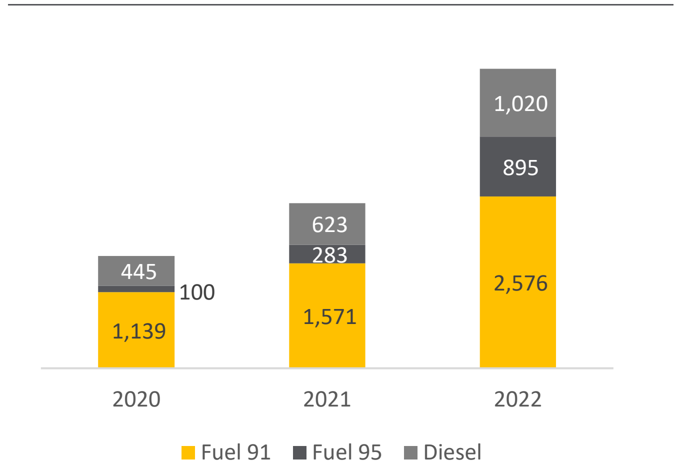
Source: Company data, GIB Capital

Figure 13: Volume trend – SASCO and NAFT (in litres mn)



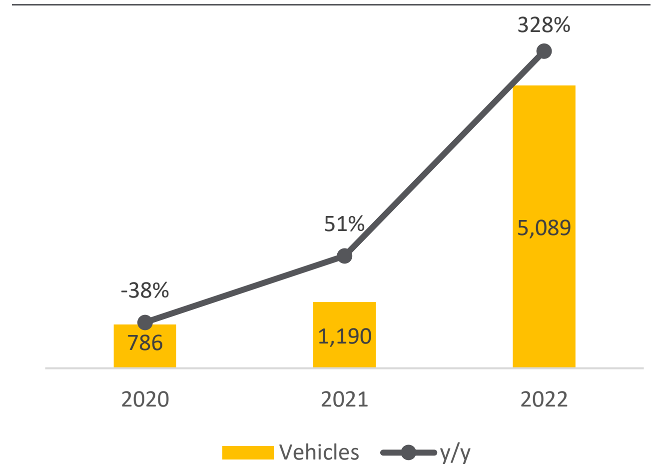
Source: Company data, GIB Capital

Figure 14: Volume breakdown (in litres mn)



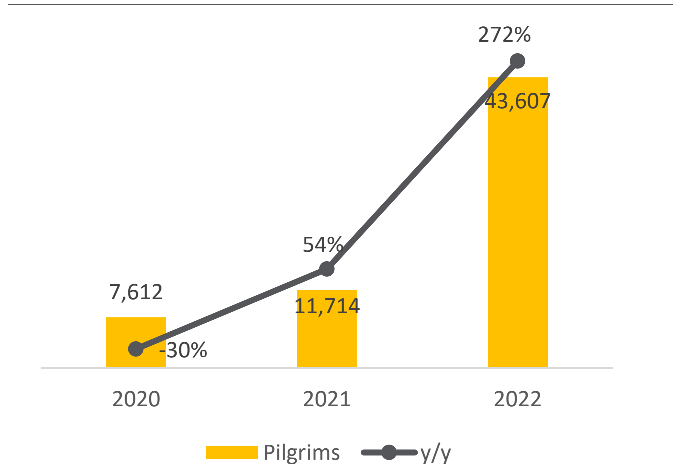
Source: Company data, GIB Capital

Figure 15: Number of vehicles



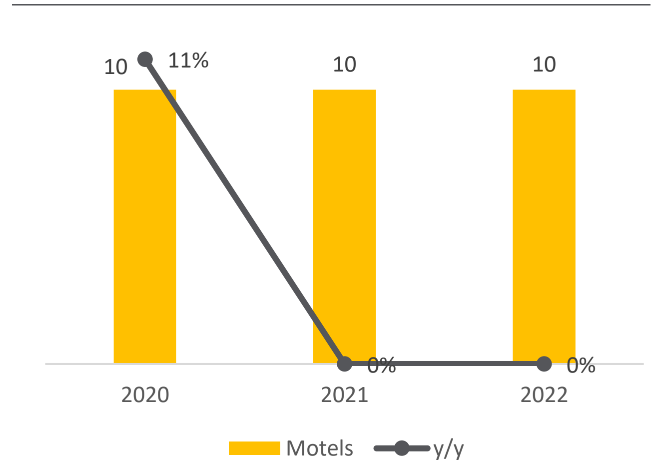
Source: Company data, GIB Capital

Figure 16: Number of pilgrims



Source: Company data, GIB Capital

Figure 17: Number of motels

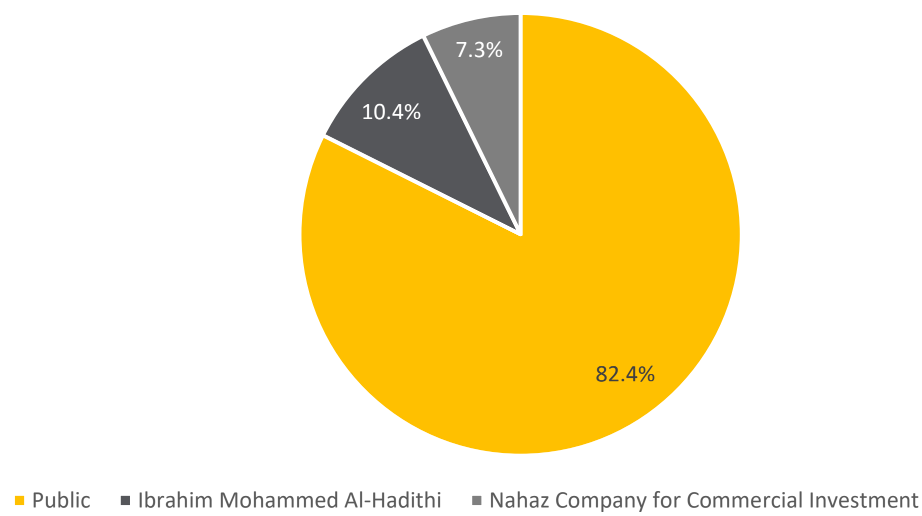


Source: Company data, GIB Capital

Ownership

The majority of SASCO's outstanding shares are available to the public. Significant shareholders of the company include Ibrahim Mohammed Al-Hadithi (Chairman of the company's Board of Directors) and Nahaz Company for Commercial Investment. QFI holding for the company is 8.9% currently.

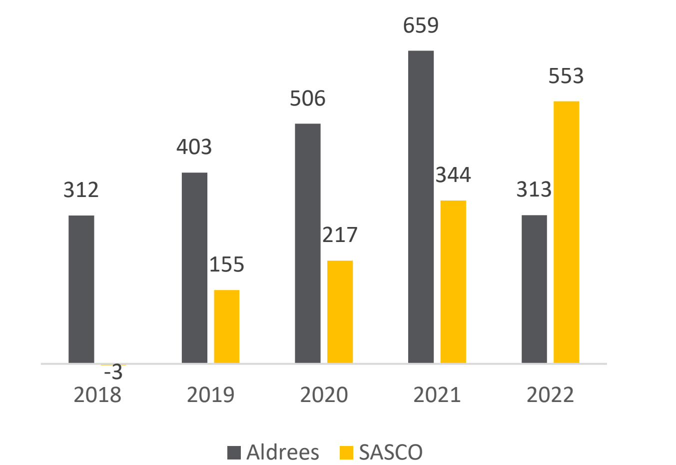
Figure 18: Current ownership



Source: Bloomberg

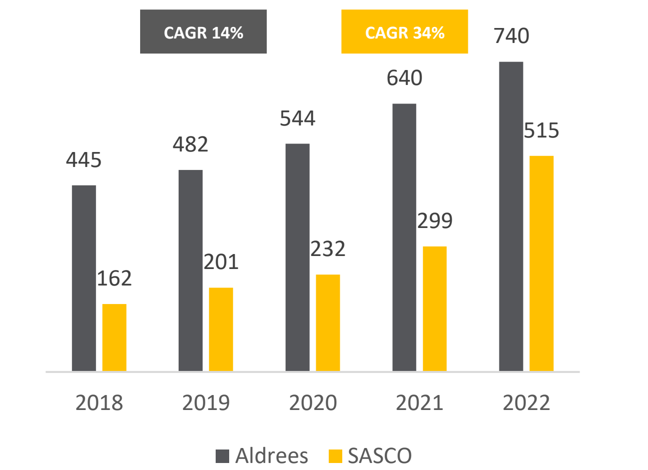
Comparison of SASCO with Aldrees

Figure 19: Free cash flow (SARmn): SASCO's FCF has been growing and generating ~14% yield in 2022 (4% for Aldrees in 2022), which could support the new expansion plan and higher dividends



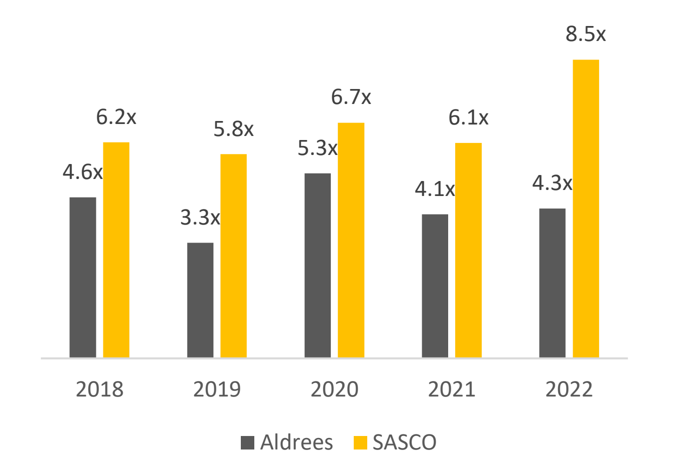
Source: Aldrees

Figure 20: Gas station growth: Aldrees is targeting to add 100 new stations every year to reach 1,000 stations by 2025. SASCO's expansion plan is to add 100 new stations in 2023-24.



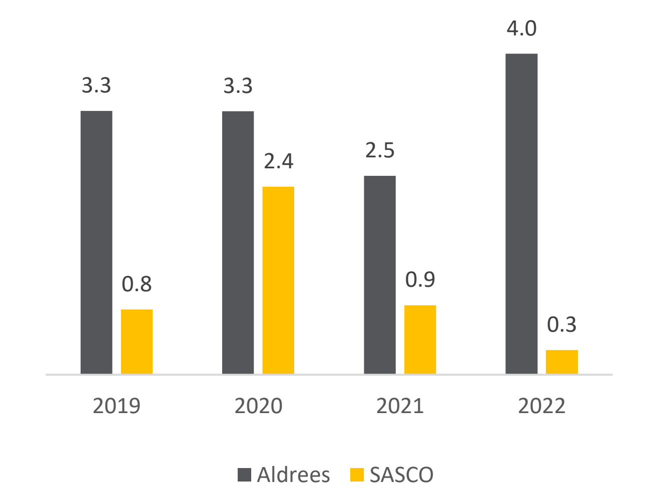
Source: Aldrees

Figure 21: Net debt/EBITDA: Historically SASCO maintained a high net debt / EBITDA ratio The increase in 2022 is due to the acquisition of NAFT through financing.



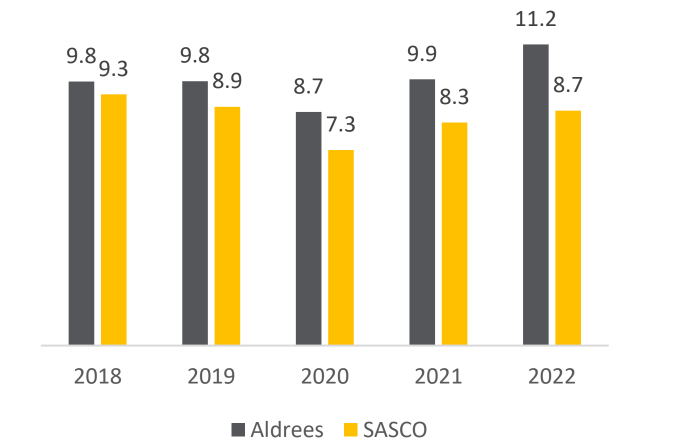
Source: Company data, GIB Capital

Figure 22: Capex per station (SARmn): SASCO's Capex per station is considerably lower than Aldrees.



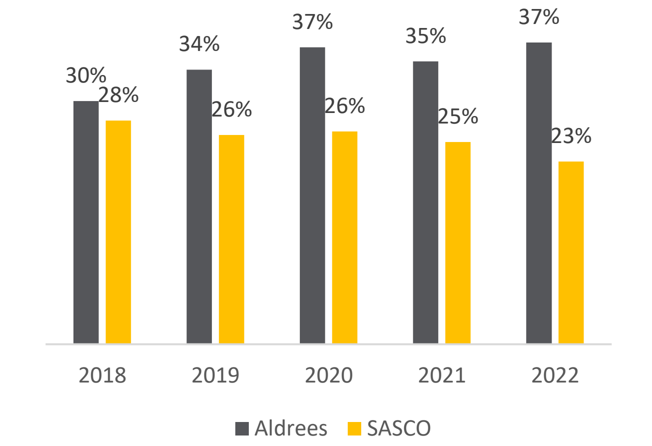
Source: Company data, GIB Capital

Figure 23: Throughput per station (in mn litres) for SASCO is on track to reach pre-COVID levels, SASCO's throughput continues to be lower than Aldrees. This might be due to a large number of SASCO stations outside the cities with lower traffic.



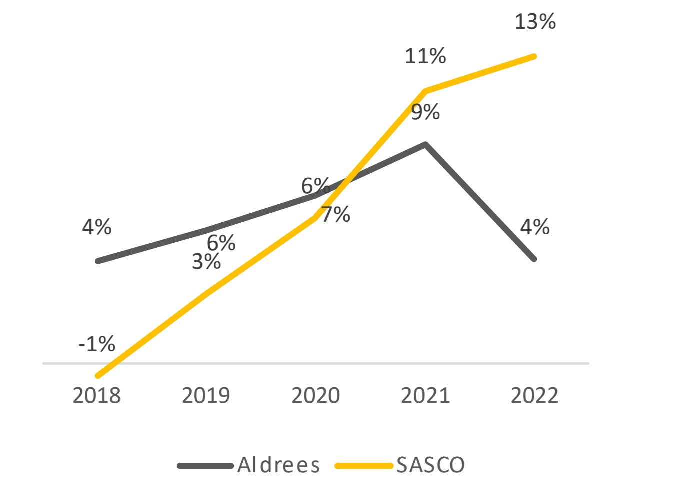
Source: Company data, GIB Capital

Figure 24: Diesel % of total fuel sold.
Diesel has a higher profit margin of ~10% (6.9% for 91 gasoline and 6.4% for 95 gasoline). Aldrees has a higher mix of diesel which might be why Aldrees has a higher profit margin.



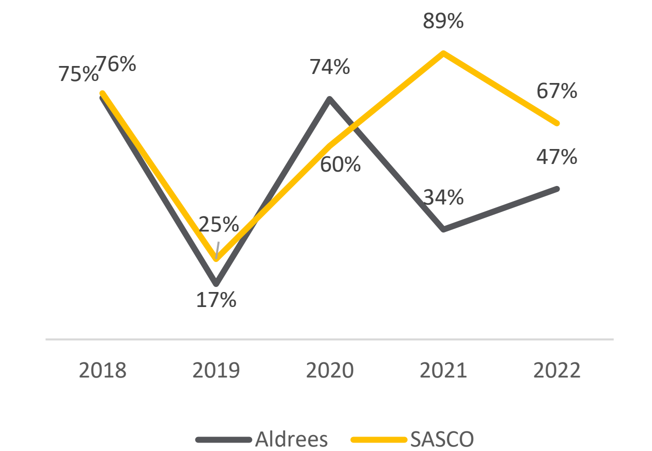
Source: Company data, GIB Capital

Figure 25: SASCO has an impressive FCF yield compared to Aldrees, SASCO's board approved an early repayment of SAR300mn loans in March 2022, which could lead to a higher payout.



Source: Company data, GIB Capital

Figure 26:Payout ratio. SASCO's FCF can support sustaining and possibly higher payout. We expect SASCO to pay 75% in the medium term.



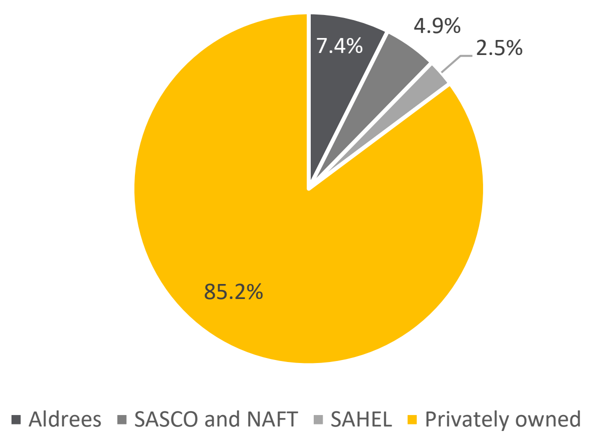
Source: Company data, GIB Capital

Market dynamics

Fragmented market with scope for consolidation:

The KSA fuel station market has historically been very fragmented, with the domination of unorganized players. Organized players like SASCO, NAFT, and Aldrees struggled with limited growth potential due to the low margin and market share. As per Mordor Intelligence, the KSA fuel station market is expected to witness demand growth at a CAGR of 3.5% during 2023-28. There is an estimated 10,000 Service Stations in KSA. As per Aldrees before the NAFT acquisition, Aldrees had the greatest number of Service Stations (7.40%) followed by SASCO (2.65%) then SAHEL – The New Tas'helat at (2.50%) and NAFT (2.26%) while 85.19% is privately owned (small players).

Figure 27: Fuel stations market share 4Q22



Source: Aldrees, GIB Capital

Consolidation is driven by regulatory requirements:

The Ministry of Municipal, Rural Affairs and Housing sought standardization of fuel stations across the Kingdom, which enhances the customer experience in line with global standards. Some of these standards prescribed by the Ministry included:

- Providing two toilets – one for men and one for women with a source of drinking water and two prayer rooms for men and women each
- General hygiene on all stations, securing containers to collect waste, and strictly following safety and fire prevention norms
- Providing suitable shelves for the display of goods and preventing them from being placed on a floor and on top of the accounting table
- Width of corridors and paths between shelves should be more than 70cm
- All products must be labelled
- Floors must be non-slippery

Due to the thin-margin nature of the fuel stations business, the cost involved in complying with the latest government norms is huge for unorganized players. The strict standardization drive initiated by the government forced many unorganized players either to leave the industry or merge operations with an organized player. The government shortlisted 20 organized players to run fuel stations in the country. Regulatory compliance is driving consolidation in the KSA fuel stations industry and gradually allowing organized players to gain higher market share.

The increasing fuel station industry attractiveness led to **Saudi Aramco** joining hands with the French multinational oil and gas major, Total, to form a joint venture and enter the fuel retailing business in 2019. The two companies acquired Tas'helat Marketing Company and Sahel Transport Company, under which they received a network of 270 service stations and a fuel tanker fleet.

SASCO plans to add 100 new stations in 2 years, aiming to achieve a network of 615 stations.

Aldrees plans to aggressively expand its network to 1,000 stations by 2025 from 740 stations at the end of FY22.

ENOC plans to increase its network to 124 stations by 2030 (from a low number as of last available data).

Oman Oil Marketing Company currently runs 16 stations in KSA, with ten more in different construction phases that are likely to be completed by the end of 2023 and aims to build a network of 50 stations by 2026.

Margin increase for fuel companies:

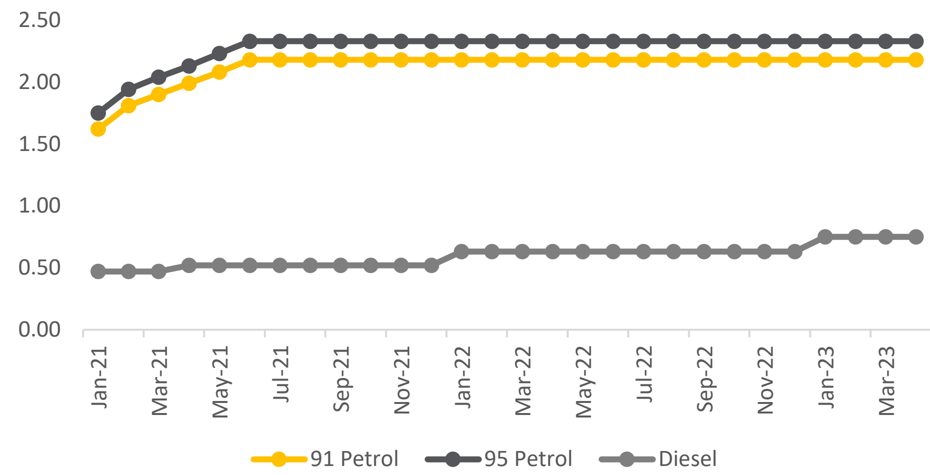
The fuel stations industry further became more attractive for organized businesses as the government-recognized players were allowed to have higher gross margins from the petrol and diesel sales. The gross margin for petrol (both 91 and 95) was raised to SAR0.15/litre and for diesel to SAR0.05/litre against the historical gross margin of SAR0.09/litre for all fuel types. The gross margin revision was done in October 2019 but implemented retrospectively from August 2018, leading to a margin refund of SAR287mn and SAR112mn to Aldrees and SASCO, respectively, from Saudi Aramco. Moreover, since 2020, Saudi Aramco has been reviewing fuel prices monthly. The government has placed a cap on petrol prices at SAR2.18/litre for 91 petrol and at SAR2.33/litre for 95 petrol to help contain the rising cost of living.

Figure 28: Fuel prices in April 2023

	Petrol 91	Petrol 95	Diesel
Margin	15 halala/litre	15 halala/litre	5 halala/litre
Price	SAR2.18/litre	SAR2.33/litre	SAR0.75/litre

Source: Saudi Aramco

Figure 29: Fuel prices in KSA (SAR per litre)

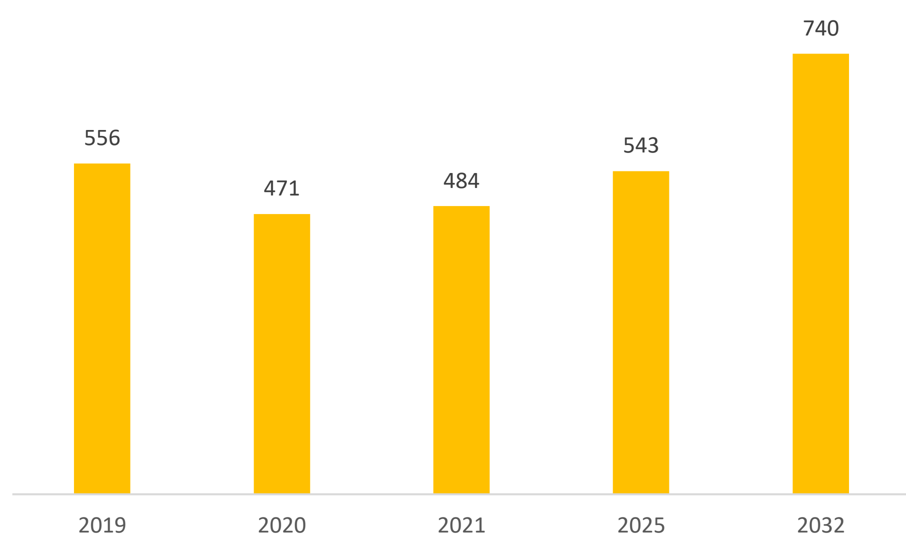


Source: Aldrees, Saudi Aramco, GIB Capital

Increase in vehicle sales volume to aid the growth of fuel stations:

Due to a two-time increase in VAT in 2018 and 2020 and the economic downturn brought on by low oil prices and COVID-19, the KSA automotive market had muted sales volume in the passenger vehicles (PV) segment in most of the years during 2016–20.

Figure 30: Projected passenger vehicles sales volume (in '000 units)

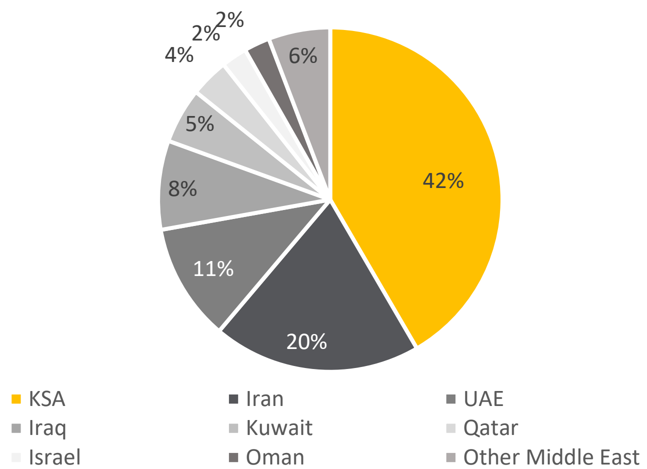


Source: National Industrial Development Center, GIB Capital

High fuel consumption to support further additions of fuel stations

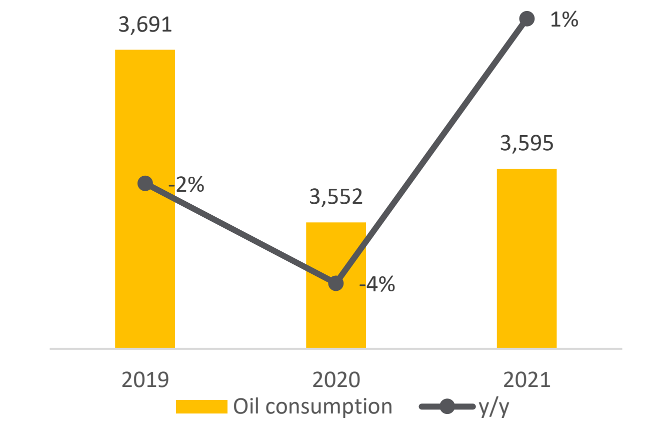
With a population of 36mn in 2022, the KSA consumed 3.6mn barrels per day (mmbpd) of oil or ~4.0% of the world's total oil consumption of 94.1 mmbpd. The country's transportation, industrial and construction sectors are responsible for high oil consumption. The high fuel usage will likely drive the need to set up additional fuel stations in the country.

Figure 31: Middle East - Oil consumption share (2021)



Source: bp Statistical Review 2022, GIB Capital

Figure 32: KSA oil consumption in thousands of barrels per day

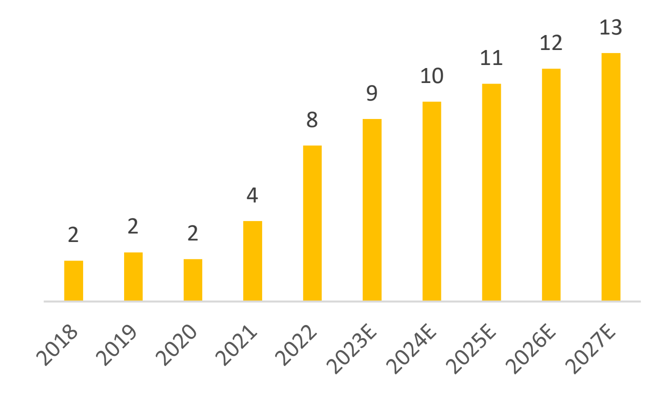


Source: bp Statistical Review 2022, GIB Capital

Some of the other factors that support industry demand include rising population, urbanization, and industrialization. The Kingdom's rural areas have underdeveloped fuel stations network due to the low demand.

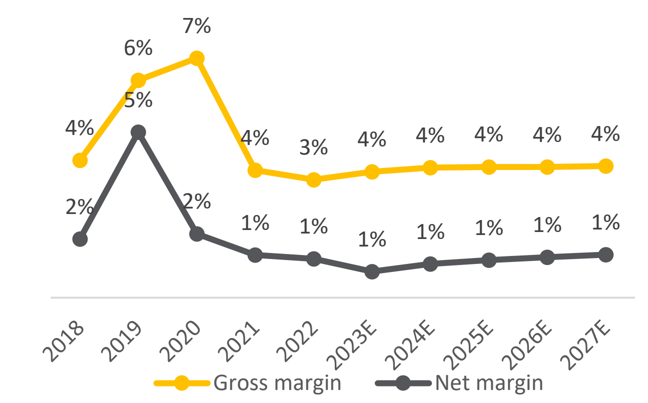
Financial analysis in charts

Figure 33: Annual revenues (SARbn)



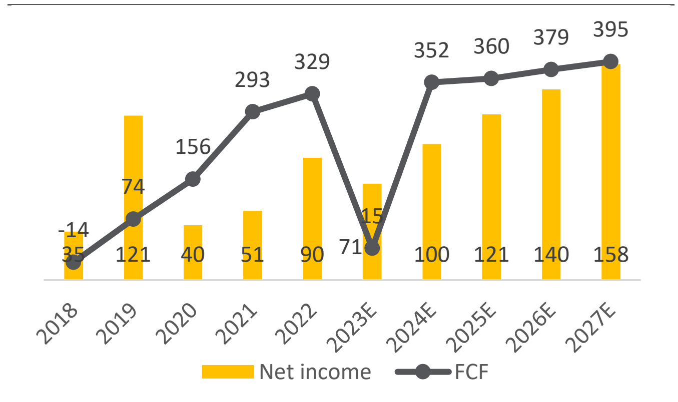
Source: Company data, GIB Capital

Figure 34: Annual gross and net margin



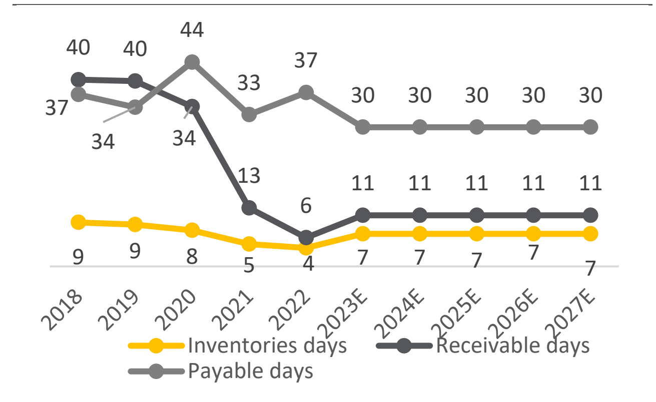
Source: Company data, GIB Capital

Figure 35: Net income and FCF trend (SARmn)



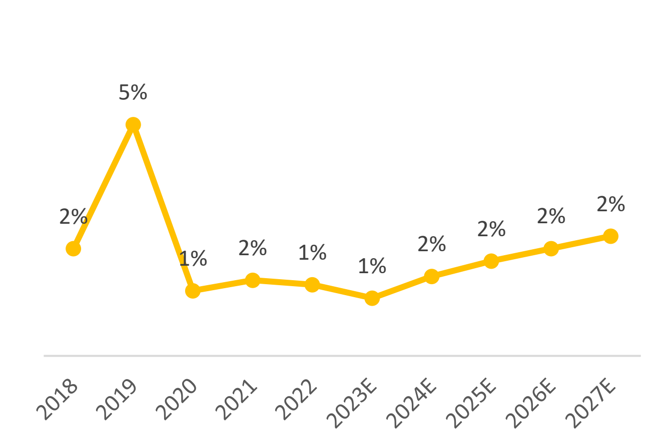
Source: Company data, GIB Capital

Figure 36: Inventory, receivables, and payable days



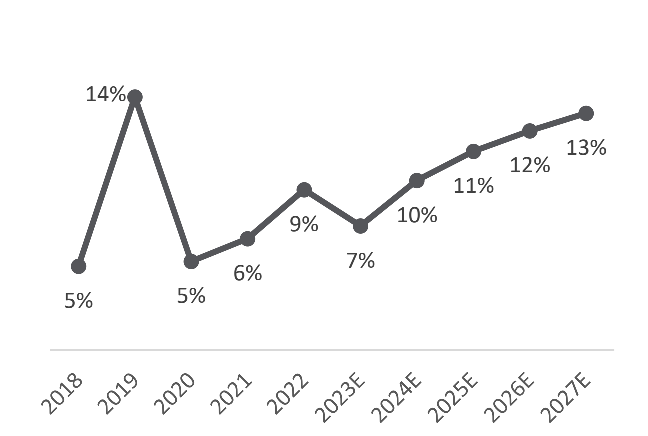
Source: Company data, GIB Capital

Figure 37: Return on assets



Source: Company data, GIB Capital

Figure 38: Return on equity



Source: Company data, GIB Capital

Financials

Figure 39: Summarized basic financial statements (SARmn)

Income statement	2022a	2023e	2024e	2025e	2026e
Revenue	**7,852**	**9,194**	**10,068**	**10,973**	**11,732**
revenue y/y	*19%*	*40%*	*12%*	*10%*	*9%*
COGS	-7,580	-8,854	-9,683	-10,552	-11,282
Gross Profit	**272**	**340**	**385**	**422**	**450**
Gross Profit margin	*3%*	*4%*	*4%*	*4%*	*4%*
Selling and distribution expenses	-4	-5	-6	-6	-7
General and administrative expenses	-177	-117	-128	-140	-150
Operating profit	**91**	**217**	**251**	**275**	**294**
Operating margin	*1%*	*2%*	*2%*	*3%*	*3%*
Finance costs	-115	-161	-151	-151	-148
PBT	**106**	**88**	**118**	**144**	**166**
Zakat/tax	-9	-11	-9	-12	-13
Net income attributable to equity holders	**90**	**71**	**100**	**121**	**140**
Net margin	*1.1%*	*0.8%*	*1.0%*	*1.1%*	*1.2%*
y/y	*92%*	*-21%*	*41%*	*22%*	*15%*
EPS	**1.5**	**1.2**	**1.7**	**2.0**	**2.3**
DPS	1.0	1.0	1.2	1.5	1.7
Payout	67%	85%	75%	75%	75%
EBITDA	**370**	**566**	**606**	**645**	**678**
Net debt (w/o lease liabilities)	1,006	1,180	1,035	898	752
Net debt (w/ lease liabilities)	3,373	3,695	3,734	3,780	3,772

Balance Sheet	2022a	2023e	2024e	2025e	2026e
Inventories	83	170	186	202	216
Trade receivables	133	277	292	318	340
Cash and cash equivalents	637	162	158	145	141
Total Current Assets	**950**	**707**	**733**	**763**	**795**
Property, plant and equipment	1,741	1,660	1,598	1,542	1,476
Right of use asset	2,221	2,359	2,531	2,703	2,833
Total Non-Current Assets	**5,162**	**5,219**	**5,329**	**5,445**	**5,509**
Total Assets	**6,112**	**5,926**	**6,062**	**6,208**	**6,304**
Current Liabilities	1,399	1,365	1,452	1,544	1,618
Non-current Liabilities	3,716	3,548	3,562	3,576	3,549
Equity	997	1,014	1,047	1,089	1,136
Total Equity and Liabilities	**6,112**	**5,926**	**6,062**	**6,208**	**6,304**
BVPS	16.6	16.9	17.5	18.1	18.9

Cashflow	2022a	2023e	2024e	2025e	2026e
Cashflow from Operations	619	294	643	669	694
Cashflow from Investing	-1,235	-43	-56	-57	-44
Cashflow from Financing	1,078	-726	-592	-624	-655
Total Cashflows	**463**	**-475**	**-5**	**-12**	**-5**

Source: Company, GIB Capital

Figure 40: Key ratios

Key ratios	2022a	2023e	2024e	2025e	2026e
Profitability ratios					
RoA	1%	1%	2%	2%	2%
RoE	9%	7%	10%	11%	12%
Net margin	1.1%	0.8%	1.0%	1.1%	1.2%
Liquidity ratios					
Current Assets/ Current Liabilities	0.7	0.5	0.5	0.5	0.5
Debt to Total Equity (w/ IFRS liab.)	4.0	3.8	3.7	3.6	3.4
Receivable Days	6	11	11	11	11
Inventory Days	4	7	7	7	7
Payable days	37	30	30	30	30
Cash conversion cycle	-27	-12	-12	-12	-12
Debt ratios					
Net Debt/EBITDA	2.7	2.1	1.7	1.4	1.1
Debt/Assets	0.7	0.7	0.6	0.6	0.6
Net Debt/Equity	1.0	1.2	1.0	0.8	0.7
Valuation ratios					
P/E	28.6	36.3	25.7	21.1	18.4
P/B	2.6	2.5	2.4	2.4	2.3
EV/EBITDA	16.1	10.5	9.8	9.2	8.8
FCF Yield	12.8%	0.6%	13.7%	14.0%	15%
Dividend Yield	2.3%	2.3%	2.9%	3.6%	4.1%

Source: Company, GIB Capital

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