Equity Research report
SACO AB Equity
19 December 2023

Target Price: SAR54/share
Current Price: SAR59.4/share
Upside: -9% (+Div. Yield: 1.8%)
Rating: Neutral

Saudi Automotive Services Company (SASCO)

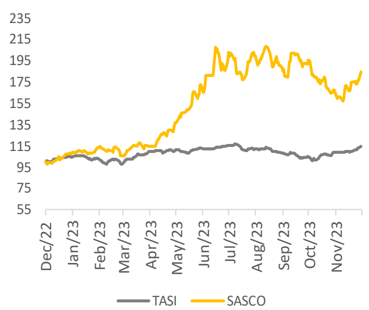
Revise TP to SAR54/share with a Neutral rating

- Network expansion to continue, likely adding 40 new stations in 2024, which would ensure healthy top-line growth (+18% y/y).
- Gross margin to recover from the 3Q level, aided by the ramping up of the recently added new stations and better operating efficiencies.
- We raise our TP to SAR54/sh. (SAR51/sh.), solely based on the DCF valuation, but revise our rating to Neutral on the stock. The stock has gained ~39% since our initiation, implying that most of the positive fundamentals are already priced in.

Stock data	
TASI ticker	4050
Mcap (SARmn)	3,564
Avg. Trd. Val (3m) (SARmn)	22.2
Free float	82.2%
QFI holding	6.8%
TASI FF weight	0.15%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Expansions & Outlook: In 3Q23, the company added 19 new fuel stations, taking the total number of fuel stations to 536 by the end of 3Q23. Going forward, we expect the company to continue expanding its reach and expect 11 new stations in 4Q23. For 2024, on a conservative basis, we expect the total number of fuel stations to reach 587 stations (unchanged), slightly lower than the management guidance of 600. We note that the rate of expansion can be further accelerated through franchise agreements. However, average volume per station may decline by ~8% y/y in 2023, due to ramping up phase. Nonetheless, we expect it to mostly stabilize next year. Further, the company is expanding the Palm business (became profitable last year), with opening of 13 new branches in 3Q23 (+14% y/y; 105 total). Moreover, we expect gross margin to recover to 3.4% in 4Q23e and further to 3.6% in 2024e, as the newly renovated stations are now operational. Overall, we expect revenue and net profit to grow by CAGR 10% in 2022-27e, with the average gross margin to be maintained at ~3.6% for the same period.

Recap of 3Q23 results: SASCO's top-line and bottom-line came in at SAR2,322mn (+3.9% q/q; vs. SAR2,458mn expected) and SAR13mn (+0.1% q/q; vs. SAR14mn expected). With the opening of 19 new stations, fuel volume rose by ~13% q/q, recovering from the 3% decline witnessed in 2Q23, largely due to the renovation of some stations. However, gross and operating margins narrowed down by 50bps and 30bps, respectively, mainly due to increased cost of sales (+4.4% q/q; outpacing the top-line growth). Nonetheless, increased investment income, and lower provision for credit losses/financial charges/zakat helped the company to offset the decline in operating profits (-10% q/q), thereby posting a flat net profit in 3Q.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	7,852	9,286	10,052	10,865
Revenue growth	*93%*	*18%*	*8%*	*8%*
Gross profit	272	311	366	397
Gross profit margin	*3.5%*	*3.3%*	*3.6%*	*3.7%*
EBITDA	370	529	571	607
Operating Profit	91	200	234	254
Net profit attrib. to eq. holders	90	57	87	106
y/y growth	*76%*	*-36%*	*51%*	*22%*
Net profit margin	*1.1%*	*0.6%*	*0.9%*	*1.0%*
EPS (SAR)	1.5	1.0	1.4	1.8
DPS (SAR)	1.0	1.0	1.1	1.3
P/E	39.7x	62.0x	41.0x	33.7x

Source: Company data, GIB Capital

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Valuation and Risks: Based on the DCF valuation (7.8% WACC; unchanged), we derive the target price of SAR54/share (SAR51 earlier), implying a Neutral rating on the stock. The key downside risks include 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, one-off costs such as goodwill write-off and related profit volatility and shift to EV.

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

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