

Esnad reports

# Gas Stations Investments

A snapshot report on how gas stations investment evolved in the KSA

February 2023



# What's happening?

Investment pool pertaining to gas stations in the KSA has witnessed notable revolution both in standards regulating the business and quality of competition. Many international and regional brands got involved in the past few years. Margins generated from selling fuel are little, so what motivates investors' appetite? This report briefly highlights this investment's major drivers.

# Transformation motives: More flexibility

The Ministry of Municipal and Rural Affairs and Housing has pushed the gas station sector forward in its latest update of "Service Centers" requirements. Stimulated by new regulations, gas stations in the KSA leaped in number, quality, and competition.

Major updates

	Then	Now
Categories	Category A: accessed by a regional road Category B: accessed by a regional road Category C: in city Category D: in city	Category A: outskirts Category B: 2 pumps / 500 m² Category C: Integrated Service Centers Category D: mobile service centers
Size	Category A: Minimum 100K sqm Category B: Minimum 6K sqm Category C: Minimum 3K sqm Class D: Minimum 2K sqm	Revoked
Building coverage ratio	10 %	Outskirts: 40 % In city: 30 %
Distance to nearest gas station	2 km - 20 km Depends on category and road type (connectivity, width, and directions)	No minimum requirement

# Regulatory implications, qualified operators

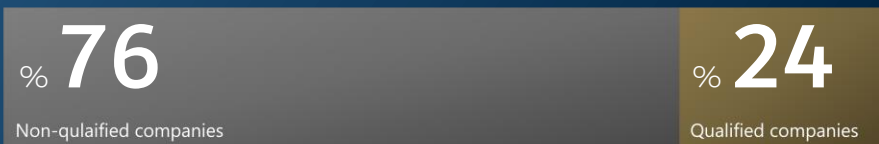
Recently enacted regulations aiming at bettering conditions of gas stations offers greater margin of 15 Halalas as compared to previous 9 Halalas. Compliance to regulations leads to higher turnover.

## Qualified companies

**36** companies with **2379** gas stations nationwide

## Sector qualification rate

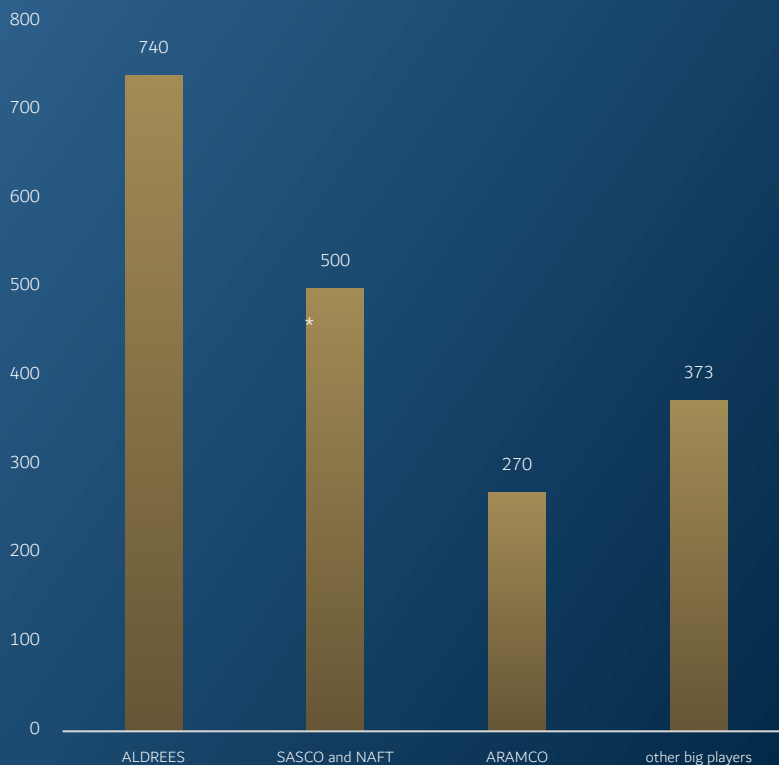
qualified operators' locations vs. non-qualified operators' locations.



Gas stations market operates over 10,000 sites nationwide, according to the General Authority for Competition. Qualified operators run 2,379 locations, that is almost only a quarter of the market. Upcoming competition is expected to up qualified sites in the near future.

# Key Players

gas stations operated by major names



ALDREES acquires the largest market share with its 740 locations, followed by SASCO. It is noteworthy that SASCO has sealed a deal in 2022 made it a major shareholder of 80% of NAFT Company. ARAMCO, on the other hand, acquired a network of 270 locations on which upgrade is intended. Other major brand names operate around 373 sites.

\* Preliminary Financial Results Report September 30, 2022 - SASCO

# Effectiveness of gas station investment

Recent updates of the gas stations market led to increased competition, and major players continue to plan to expand their network and market share. Ongoing expansion started to burden their balance sheet due to increasing costs of capital investment. Therefore, many were overwhelmed to shift strategy.

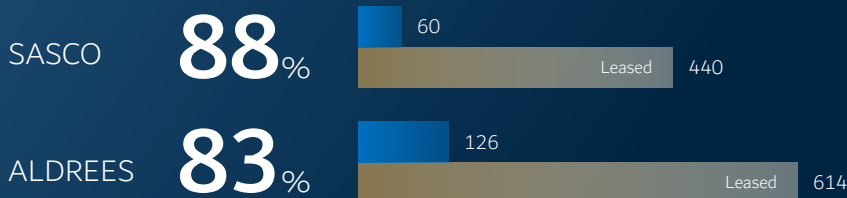
## 1. Owned land

Although land property appreciates in value over time, it limits options of growth horizontally. This is mainly to the high cost of land which yields lower returns on investment.

## 2. Leased land

Ground lease has become the strategy for many to expand further. The lower the cost of investment, the higher returns. Cash that once was locked up as an asset of land is freed allowing for faster expansion.

Number of leased location



# Acquisition; The most effective way to enter and expand

Recently, the market has witnessed initiation of Saudi Aramco's operations of gas stations in the Kingdom of Saudi Arabia, in addition to ADNOC Distribution -the largest in the UAE. This paves the way for fierce competition to take over gas station locations in bulk, rather than development of one-by-one.

Both companies chose acquisition on existing gas stations as strategy of entry.

Efficiency of acquisition on existing locations can provides:

- Quick expansion targets achieved
- Unique sites with existing track record
- Retention of previous customers of the acquired company



## 270 Additional Stations

Through the acquisition of Sahel



## 35 Additional Stations

Through an acquisition of 3 Saudi companies' stations

# Investment indicators

The following is the investment dynamics of a *hypothetical* gas station project located in the center of Riyadh with a location that is easily accessible. It gives a snapshot on yields of the two options of the investor: land-owned or land-leased. What would the investment returns if the land is purchased? Oppositely, what leasing the land would offer?

## Income generators

Fuel

Kiosk

Car service

Grocery

F&B

ATM

## Indicators

	Owned land	Leased land
Yield	8%	31%
	Owned land	Leased land
Capital returns	Growth in land value	N/A
	Fuel	Other Services
Income	33%	67%

Indicators of this *hypothetical* project reveal a greater margin for when land is leased for gas stations. This may answer the beginning question of what motivates investors' appetite in light of lower profit margins of fuel. In addition to lower investment cost of leased-land gas station, over two-thirds of income is generated by other components of the gas station.

Performance varies based on a wide range of factors. This includes, but not limited to, location, accessibility, size, and services.



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