

ARABIAN DRILLING

COMPANY UPDATE



Q2 23 – COMPANY UPDATE

Jafurah, offshore and more!

We maintain our Neutral rating on Arabian Drilling with a revised PT of SAR155.6. The outlook for the drilling sector is positive in Saudi driven by the development of Jafurah field and Saudi Aramco's plans to increase oil production capacity. We expect earnings to grow by 14.5% in 2023f to SAR638mn driven by 1) additional offshore rig and 2) regional expansions. The stock is trading at 2023f EV/EBITDA of 11.6x, higher than the global peer average of 8.6x which we believe is justified.

- Jafurah, the next leg of growth**

The Jafurah field is the largest non-associated unconventional gas fields in Saudi with an estimated gas reserve of 200tcf. The development of the field started in 2021 by Saudi Aramco with production planned in 2024f to reach 200 mmcf/d by 2025f and increase substantially to 2.0bnmcf/d by 2030f. We believe the development of the field would be a key rig demand driver in Saudi, adding 70-100 rigs with drilling activities expected to start in 2024f. Initially, we expect Arabian Drilling to have 12 rigs in the project over the next 5 years (2-3 additional rigs annually), in line with its market share of c17%. Moreover, we expect dayrates and margins to be similar to the current onshore rigs. Given that the field is the first unconventional project in Saudi, rig operators may face technical and operational challenges which might impact the cost structure.

- Another offshore rig**

Arabian Drilling signed a contract for another offshore jack-up rig with Saudi Aramco. The duration of the contract is five years, with an approximate value of SAR650mn which we believe translates into a day rate of more than US\$100,000. The rig will become operational in Q3 23, and we believe most of the related capex has already been incurred in Q4 22. The addition will take the company's total fleet to 57 rigs by the end of 2023f, of which 45 will be onshore (79% of total) and 12 will be offshore (26%). Given the lack of Jack-up rigs in the global market, we expect 1) limited additions of offshore rigs in Saudi and 2) high day rate level to be sustained in the medium-long term.

- Net income to reach SAR638mn in 2023f**

We expect revenue to grow by 29.4% yoy in 2023f to SAR3.5bn and to record a 3-year CAGR of 20.6% to reach SAR4.7bn by 2025f. Increased rig count from 45 in 2021 to 68 by 2025f (Jafurah, off-shore, regional rigs) and favourable dayrates (mainly for off-shore) are expected to drive growth. In addition, offshore segment's increasing contribution and cost-saving initiatives should translate into robust EBITDA margins of over 40%, higher than its global peers. Accordingly, we expect earnings to record a strong increase of 14.5% in 2023f to SAR638mn. Over 2022-2025f, we expect earnings to record a robust growth of 16.9% to reach SAR891mn by 2025f.

- Remain Neutral with a PT of SAR155.6**

We maintain our Neutral Rating on Arabian Drilling with a revised PT of SAR155.6. We revised our PT higher following to the additional off-shore rig, the addition of Jafurah rigs and the persistent off-shore dayrates. Although the outlook is positive, we believe the current price is reflecting all the positives. The key catalysts are 1) Jafurah field development and 2) regional expansions. The stock is trading at 2023f EV/EBITDA of 11.6x, higher than the global peer average of 8.6x which we believe is justified.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	CAGR
Revenues	2,704	3,499	4,393	4,743	20.6%
Gross Income	801	1,019	1,293	1,371	19.6%
Gross Margin (%)	29.6%	29.1%	29.4%	28.9%	
Operating Income	619	846	1,115	1,186	24.2%
Operating Margin (%)	22.9%	24.2%	25.4%	25.0%	
Net income	558	638	828	891	16.9%
Net margin (%)	20.6%	18.2%	18.8%	18.8%	
EPS (SAR)	6.27	7.17	9.30	10.01	16.9%

Source: The company, SNB Capital Research

NEUTRAL

Price target (SAR)	155.6
Current price (SAR)	148.4
Upside (%)	4.8

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	23.7	20.7	16.0
P/B (x)	2.4	2.3	2.2
EV/EBITDA (x)	13.9	11.6	9.4
Div Yield (%)	0.2	3.9	5.0

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
TAQA	35.7%
Services Schlumberger	34.3%
Foreign ownership	4.6%

Source: Saudi Exchange, SNB Capital. As of 9 Apr 2023.

STOCK DETAILS

Since IPO H/L (SAR)	153/102
Market cap (\$mn)	3,522
Shares outstanding (mn)	89
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	5.2	25.1	NA
Rel. to market	0.4	22.0	NA

Avg daily turnover (mn)	SR	US\$
3m	36.1	9.6
Since IPO	78.0	20.8

Reuters code	2381.SE
Bloomberg code	ARABIAND AB
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Key risks

- Lower than expected growth of the O&G exploration given the current global macro environment and recently announced OPEC+ oil production cuts.
- Delay in rig deployment plans for the regional expansions.
- Delay in Jafurah field development.

Valuation

We are Neutral on Arabian Drilling with a PT of SAR155.6. To determine our PT, we have assigned 80% weight to the DCF valuation and 20% weight to the relative EV/ EBITDA valuation. We forecast the terminal value using an EV/EBITDA multiple of 8.5x.

Exhibit 1: Valuation summary

				PT	Weights
Risk free	US 10-year	3.4%	DCF	155.9	80%
Adj. Beta	weekly	0.80	EV/EBITDA	154.3	20%
Cost of equity		9.2%			
EV/EBITDA exit		8.5	Price Target (SAR)	155.6	

Source: SNB Capital Research estimates

Change in estimates

We have increased our 2023f-24f net income estimates by an average of c6% as we incorporate the additional off-shore rig and the impact of Jafurah.

Exhibit 2: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2022f	New 2022f	% Chg	Old 2023f	New 2023f	% Chg
Revenue	3,659	3,499	(4.4)	4,251	4,393	3.3
EBIT	875	846	(3.3)	1,085	1,115	2.8
Net income	605	638	5.5	774	828	7.0
Price target	SAR			120.0	155.6	29.6

Source: SNB Capital Research estimates

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Financials

Exhibit 3: Income statement

In SAR mn, unless otherwise stated

	2022	2023f	2024f	2025f
Revenue	2,704	3,499	4,393	4,743
Growth (%)	22.9	29.4	25.5	8.0
Cost of Revenue	(1,902)	(2,480)	(3,100)	(3,372)
Gross Profit	801	1,019	1,293	1,371
Growth (%)	70.9	27.1	27.0	6.0
Margin (%)	29.6	29.1	29.4	28.9
General & Admin exp.	(180)	(173)	(178)	(185)
Other operating exp.	(3)	0	0	0
EBITDA	1,144	1,474	1,820	1,956
Growth (%)	25.6	28.8	23.5	7.5
Margin (%)	42.3	42.1	41.4	41.2
D&A	(525)	(628)	(705)	(770)
EBIT	619	846	1,115	1,186
Growth (%)	70.4	36.6	31.8	6.4
Margin (%)	22.9	24.2	25.4	25.0
Finance costs	(94)	(145)	(198)	(197)
Other income, net	28	28	28	28
PBT	552	729	945	1,018
Zakat	5	(91)	(117)	(126)
Net income	558	638	828	891
Growth (%)	104	14.5	29.7	7.6
Net margin (%)	20.6	18.2	18.8	18.8
Reported EPS (SAR)	6.27	7.17	9.30	10.01
DPS (SAR)	0.24	5.74	7.44	8.01

Source: Company reports, SNB Capital Research estimates

Exhibit 4: Balance Sheet

In SAR mn, unless otherwise stated

	2022	2023f	2024f	2025f
Cash & Cash equivalents	832	1,063	779	618
Trade receivables	825	953	1,136	1,177
Inventories	173	229	267	271
Mobilization cost	7	57	57	57
Others	1,013	978	578	178
Total current assets	2,849	3,280	2,817	2,301
Property and equipment	6,491	7,616	8,402	9,169
Right to Use asset	199	158	117	76
Mobilization costs	15	193	136	79
Total non-current assets	6,705	7,967	8,655	9,323
Total assets	9,554	11,247	11,472	11,624
Short term debt & lease	110	763	767	762
Trade payables.	585	710	845	944
Mobilization revenue	60	88	88	88
Other current liabilities	54	20	21	22
Total current liabilities	809	1,581	1,722	1,817
Long-term debt & lease	2,617	3,075	3,069	3,023
Mobilization revenue	116	440	352	264
Other liabilities	422	433	444	456
Total non-current liab.	3,155	3,948	3,865	3,743
Total liabilities	3,964	5,529	5,587	5,559
Share capital	890	890	890	890
RE & Reserves	4,700	4,829	4,996	5,175
Total stockholders' equity	5,590	5,719	5,886	6,065
Total liabilities & equity	9,554	11,247	11,472	11,624

Source: Company reports, SNB Capital Research estimates

Exhibit 5: Cash flow statement

In SAR mn, unless otherwise stated

	2022	2023f	2024f	2025f
Cash flow from operations	1,242	1,320	1,432	1,701
Profit before zakat	558	729	945	1,018
D&A	525	628	705	770
Amt. Mobilization cost	5	57	57	57
Amt. Mobilization revenue	(15)	(88)	(88)	(88)
Mobilization cost	(22)	(286)	0	0
Mobilization revenue	176	440	0	0
Change in working capital	(73)	(64)	(93)	46
Others	88	(97)	(94)	(101)
Cash flow from investing	(2,724)	(1,713)	(1,050)	(1,095)
Capital expenditure	(1,749)	(1,713)	(1,450)	(1,495)
Others	(975)	0	400	400
Cash flow from financing	1,903	624	(667)	(767)
Dividends	(22)	(511)	(662)	(713)
Net proceeds from debt	1,123	1,162	23	(27)
Payment of lease liabilities	(10)	(27)	(27)	(27)
Net change in cash	420	231	(284)	(161)
Cash at start of the year	412	832	1,063	779
Cash at end of the year	832	1,063	779	618

Source: Company reports, SNB Capital Research estimates

Exhibit 6: Key Ratios

In SAR mn, unless otherwise stated

	2022	2023f	2024f	2025f
Per Share Ratios				
EPS	6.3	7.2	9.3	10.0
DPS	0.2	5.7	7.4	8.0
FCF per share	(6.0)	(3.5)	0.9	3.4
BVPS	107	126	129	131
Profitability ratios (x)				
Gross margin (%)	29.6	29.1	29.4	28.9
Operating margin (%)	22.9	24.2	25.4	25.0
EBITDA margin (%)	42.3	42.1	41.4	41.2
Net margin (%)	20.6	18.2	18.8	18.8
Return ratios				
ROE (%)	10.0	11.2	14.1	14.7
ROA (%)	5.8	5.7	7.2	7.7
Payout Ratio (%)	3.9	80.0	80.0	80.0
Liquidity & solvency				
Current ratio	3.5	2.1	1.6	1.3
Quick ratio	3.3	1.9	1.5	1.1
Operating ratios (days)				
Inventories	30	30	29	29
Accounts receivables	103	93	87	89
Accounts payables	100	95	92	97
Operating cycle	133	122	116	118
Cash Cycle	33	27	24	21
Valuation ratios (x)				
P/E	23.7	20.7	16.0	14.8
P/BV	2.4	2.3	2.2	2.2
P/FCF	NM	NM	160	43.4
EV/Sales	5.9	4.9	3.9	3.6
EV/EBITDA	13.9	11.6	9.4	8.7
Div. yield (%)	0.2	3.9	5.0	5.4
Key parameters				
Total number of rigs	44	57	62	68
Active rigs	41	55	60	66

Source: Company reports, SNB Capital Research estimates

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