



US\$6.67bn Market Cap. 33.00% Free Float US\$51.49mn Avg. Daily Value traded

Research Department
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Neutral

Price Target (SAR): 22.00

Current (13th March 2024): 22.16
Upside/Downside: 0.7% below current

Valuation Multiples	23	24E	25E
P/E (x)	56.6	26.1	23.5
P/B (x)	4.4	3.9	3.7

Major Shareholders % Ownership

ADES Investment Holdings Ltd.	36.50
Public Investment Fund	23.80
Al Zamil Group for Inv. Ltd. Co.	6.70

Price Performance	YTD	3M	1M
Absolute	-8.4%	-1.0%	13.9%
Relative to TASI	-14.0%	-11.9%	12.0%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	4,332	6,194	6,339
Revenue Growth	75.6%	43.0%	2.3%
Gross Profit	1,711	2,409	2,412
Gross margin	39.5%	38.9%	38.0%
Gross Profit (Ex. Dep)	2,496	3,625	3,684
Gross margin (Ex. Dep)	57.6%	58.5%	58.1%
EBITDA	2,139	3,155	3,228
EBITDA Margin	49.4%	50.9%	50.9%
Net profit	452	970	1,073
Net profit (Post-minority)	442	960	1,063
Net margin	10.2%	15.5%	16.8%
EPS	0.4	0.9	0.9
P/E (Current)	56.6x	26.1x	23.5x
P/E (Target)	56.2x	25.9x	23.4x
ROE	11.1%	15.8%	16.0%

Source: Company data, Al Rajhi Capital

ADES Holding Co.

Strong execution driving performance, TP raised to SAR22.0/sh

ADES Holding Co. reported a strong set of numbers for Q42023, aided by the favorable market dynamics in the offshore segment and the company's expansion strategies. Q42023 revenues came it at SAR1,272mn surging by 18% q-o-q underpinned by the operational impact of 14 (out of 19) offshore rigs deployed for the Aramco megaproject besides additional rigs deployed in Kuwait, Algeria and India. Currently the company has successfully deployed all 19 rigs as part of the Aramco contract. The company has successfully reduced its leverage with the IPO proceeds as outlined and the leverage profile is slated to improve notably over the coming years. ADES, being a leading player in the jack-up rig market, is well positioned to benefit further from the supply gap and rising daily rates in the jackup market.

Meanwhile, we think that the pipeline of ADES's existing and future rigs in KSA will possibly continue as an outcome of Aramco's oil capacity being maintained at 12mmbpd instead of the earlier targeted 13mmbpd. This is because we expect Aramco's strong capex outflow to sustain over the coming years given the company's ambitious endeavors for natural gas extraction and the development of Jafurah oil field besides maintaining a healthy oil recovery rate. Furthermore, we believe ADES's solid execution capabilities to hold up its gross margins averaging around 38% in the medium term. Additionally, in our view net margins for FY24 shall be marginally higher than the company's guidance of 13-14%. Moreover, the expected ramp up in fleet, specifically onshore fleet driven by the contracts in Algeria and Kuwait shall facilitate added rig deployment. On the other hand, the offshore segment shall continue to see consistent growth beyond successful fleet delivery for the Aramco megaproject owing to the solid contract backlog in India and Indonesia besides opportunities in other South-Asian markets. The operational impact of the 5 rigs deployed for the Aramco megaproject shall also be reflected in FY24. We expect the company to close FY24 with a timeweighted active rig fleet of 76 rigs (28 being onshore and 48 being offshore). Overall, the company's robust backlog in the offshore segment (81.2%), lower financing burden on the back of reduced debt (leading to net margin expansion), expectation for higher day rates with sustaining utilization rates and dominant market positioning act as key pivot points for our continued positive stance on the Group. Therefore, post updating FY23 financials, we increase our target for the company from the earlier TP of SAR18.2/sh to SAR22.0/sh implying a "Neutral" rating.

Q4 2023 Results: Q4 2023 revenues for ADES was reported at SAR1,272mn registering a ~60% y-o-y increase on the back of the company's aggressive expansion in the offshore segment. The revenue growth was broad based across all geographies with KSA being the major contributor (~66%) to FY23 revenues. Consequently, the gross profits increased substantially (+83.4% y-o-y) reporting a gross margin of 40.5% backed by higher effective daily rates and utilisations. Overall, the net profit in Q42023 was aided by the jump in revenues. However, net profit when compared with the adjusted bottom line for Q4 2022 exhibits a remarkable increase supported by robust drilling activity.



Figure 1 Earnings Summary Q4 2023

(SAR mn)	Q4 2023	Q3 2023	Q4 2022	ARC est.	Cons Est.	q-o-q	y-o-y	vs ARC	vs Cons
Revenue	1,272	1,079	797	1,297	1,333	18.0%	59.5%	-1.9%	-4.5%
Gross Profit	515	415	281	499	NA	24.2%	83.4%	3.2%	NM
G. margin	40.5%	38.5%	35.2%	38.5%	NA				
EBITDA	675	526	348	647	NA	28.2%	94.1%	4.2%	NM
EBITDA Margin	53.0%	48.8%	43.6%	49.9%	NA				
Net Profit before minority*	177	87	52	148	127	102.2%	NM	19.4%	39.0%
Net Margin	13.9%	8.1%	6.5%	11.4%	9.5%				

Source: Company data, Al Rajhi Capital; * Net profit for Q4 2022 has been adjusted for one-off acquisition gains, Net profit for Q4 2023 includes one-off IPO expenses worth SAR166mn

Valuations: We value the company based on a blend of DCF and relative valuation methodology (EV/EBITDA). The DCF approach, based on a 2.5% terminal growth rate and 9.60% WACC implies a target price of SAR21/.5sh. Using the EV/EBITDA approach with a target multiple of 12x on the 2024e EBITDA, we arrive at a target price of SAR22/sh. We assign a premium multiple to ADES as compared to Arabian Drilling given its strong positioning in the offshore market. Assigning a weight of 40% to the DCF approach and 60% to the EV/EBITDA approach, we arrive at a TP of SAR22/sh. Thus, we revise our TP for the company from the earlier TP of SAR18.2/sh to SAR22/sh maintaining a "Neutral" rating implying a downside of 0.7% at the current price.

Risks: The key downside risks to our valuation assumptions are delayed execution of backlog hampering revenue visibility, lower rig utilisation rates, higher crew costs for additional rigs deployed, and higher than expected leverage levels.

Financials

Figure 2 Income Statement

(SAR mn)	2023	2024E	2025E
Revenue	4,332	6,194	6,339
Cost of revenues	(2,621)	(3,785)	(3,927)
Gross profit	1,711	2,409	2,412
Gross profit (Ex. Depreciation)	2,496	3,625	3,684
General and administrative expenses	(370)	(527)	(516)
End of service employment benefits	(43)	(62)	(76)
Finance costs	(711)	(718)	(562)
Finance income	0	27	28
Provision for impairment of investment and dividen	(5)	0	0
Loss on disposal of assets	(1)	0	0
Other taxes	(22)	(22)	(22)
Other expenses	(13)	(25)	(25)
IPO expense	(16)	0	0
Profit before zakat and income tax	529	1,082	1,237
Zakat and income tax	(77)	(112)	(165)
Profit for the period	452	970	1,073
Non-controlling interests	(10)	(10)	(10)
Profit for the period (Post-minority)	442	960	1,063

Source: Al Rajhi Capital estimates

Figure 4 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash form operating activities	2,321	3,166	3,106
Cash from investing activities	(3,736)	(809)	(1,599)
Cash from financing activities	1,886	(2,015)	(1,475)
Net change in cash and cash equivalents	432	214	(154)
Cash and cash equivalents, end of the period	432	646	492

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

KPIs	2023	2024E	2025E
Gross margin (%)	39.5%	38.9%	38.0%
EBITDA margin (%) (management deifinition)	49.4%	50.9%	50.9%
Net margin (%)	10.2%	15.5%	16.8%
ROA (%)	6.7%	9.4%	9.3%
ROE (%)	11.1%	15.8%	16.0%
D/E (x)	1.9x	1.5x	1.4x
Net debt/EBITDA (x)	3.3x	2.9x	2.8x
Current ratio (x)	0.7x	0.8x	0.8x

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

(SAR mn)	2023	2024E	2025E
Assets			
Cash and cash equivalents	432	646	492
Inventories	332	363	377
Trade and other receivables	845	883	955
Contract assets	389	434	475
Prepayments and other receivables	352	434	475
Derivative financial instrument	0	0	0
Due from related parties	5	5	5
Total Current Assets	2,356	2,764	2,780
Property, plant and equipment	16,150	15,675	15,929
Right-of-use assets	644	654	667
Investment in an associate and a joint venture	0	0	0
Derivative instruments	52	52	52
Prepayments and other receivables	221	221	221
Total Non-current assets	17,067	16,603	16,869
Total Assets	19,422	19,366	19,649
Liabilities			
Trade and other payables	1,639	1,867	1,937
Current portion of long-term borrowings	1,180	1,061	1,022
Current portion of lease liabilities	0	0	0
Provisions	10	10	10
Provision for zakat and income tax	30	30	30
Due to related parties	0	0	0
Deferred revenue	288	288	288
Total Current liabilities	3,147	3,256	3,287
Long-term borrowings	9,170	8,245	7,940
Lease liabilities	487	495	505
Provisions (EBP)	199	245	300
Deferred revenue	580	580	580
Deferred tax	61	61	61
Other payables	1	26	51
Total Non-current liabilities	10,498	9,651	9,437
Shareholders' equity			
Share capital & Additional paid-in capital	4,019	4,019	4,019
Cash flow hedge reserve	41	41	41
Treasury shares	(34)	(34)	(34)
Retained earnings	1,722	2,106	2,531
Proposed Dividends	0	288	319
Total Equity	5,748	6,420	6,876
Non-controlling interests	29	39	49
Total Liabilities & Equity	19,422	19,366	19,649

Source: Al Rajhi Capital estimates

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