Ades Holding Co.

Investment Update

Ready to drill through challenging conditions backed by strong market positioning, redeployment success and planned expansion; maintain "Overweight" with a lower TP

Despite a subdued near-term outlook for the oil and gas sector and drilling segment affected by Aramco suspensions, ADES is poised for continued expansion, underpinned by its strong market positioning, successful redeployment of all six suspended rigs, and track record of resilient performance. Structural tightness in the jack-up rig market, driven by decades-long supply reductions and limited new builds, is expected to sustain high utilization levels (~90%), benefiting ADES's fleet of 33 premium rigs. Revenue is projected to grow at a 6.1% CAGR from FY24 to FY29E, supported by multiple upcoming contracts in Kuwait, Algeria, Nigeria, and Thailand, alongside an ongoing fleet expansion which projected to reach 58 offshore and 38 onshore rigs by FY29E. Gross margin is expected to gradually rise from 38.1% in FY24 to 39.1% in FY29E, while EBITDA margin is forecasted to expand from 49.0% to 53.5% over the same period. Net margin is set to improve from 12.9% to 18.7%, driving net income CAGR of 14.3%, from SAR 802mn in FY24 to SAR 1,563mn in FY29E. A planned SAR 5.5bn CAPEX program will temporarily elevate leverage, peaking at 2.1x in FY26E, but strong cash flows and a SAR 28.3bn backlog ensure financial flexibility, with leverage expected to ease to 1.6x by FY29E. ADES's superior margins, operational resilience, diversified geographic presence, and robust growth pipeline justify a premium valuation (10–11x FY25E EV/EBITDA) over peers trading at ~8.5x, offering meaningful upside from current levels. Although we revise our estimates downward with the backdrop of overall market dynamics, we see the market reaction of 22% decline in the share price over the past six months as unwarranted. We maintain our "Overweight" recommendation on ADES with a lower TP of SAR 20.9/share (from SAR 24.3 earlier).

Robust net profit growth in Q4-24 driven by strong topline and one-off reversals: ADES' net income increased 27.0% Y/Y to SAR 212mn in Q4-24, in line with AJC's estimate of SAR 205mn. Net income growth was driven by robust top-line performance as well as reversals of certain expenses and provisions (share-based payment, other expenses and other taxes), despite the contraction of gross margin. Revenue increased 23.3% Y/Y to SAR 1,569mn, in line with our estimate of SAR 1,563mn. The increase was primarily driven by healthy growth in the offshore segment, while the onshore segment recorded a decline. The offshore segment revenue benefited from contributions from two premium contracted offshore jack-ups acquired from Vantage Drilling Ltd. (Vantage) in Malaysia and Indonesia coupled with ramp up of operations of redeployed suspended rigs. Onshore revenue declined on account of lower number of active rigs as some of the rigs were inactive as they started preparations for upcoming contract in Kuwait which is slated to start in Q2 and Q3-25. GP margin contracted ~438bps Y/Y to 36.1% in Q4-24, below AJC estimate of 38.7% and 39.1% in Q3-24. Gross profit rose 10.0% Y/Y to SAR 567mn, below our estimate of SAR 604mn. Operating profit rose 7.1% Y/Y to SAR 456mn in Q4-24. Operating margin declined ~439bps Y/Y to 29.0%, below AJC estimate of 32.1%, as G&A expense of SAR 111mn (+23.6% Y/Y) was higher than our expectation of SAR 103mn.

ADES is likely to continue to expand its presence despite subdued near-term outlook for oil and gas market: The near-term outlook for the oil and gas sector remains pressured by weaker oil prices, stemming from persistent demand concerns amid global economic challenges and increased supply. In the drilling segment, Aramco's suspension of several offshore rigs has increased the supply of offshore rigs in the market, adding near term pressure. However, ADES has demonstrated its strong market positioning by successfully redeploying all six of its previously suspended rigs. Despite such suspensions, tightness in the jack-up rig market is expected to persist, supported by structural factors: (a) a significant decline in jack-up rig supply over the past decade with limited new builds in the pipeline, (b) the scrapping of approximately 160 rigs through 2023, and (c) an estimated 69 rigs still identified as potential candidates for scrapping. These dynamics are expected to support healthy utilization levels of around 90% in the jack-up market. With a fleet of 33 premium jack-up rigs, ADES is well-positioned to capitalize on this environment and further consolidate its market share.

Recommendation	Overweight
Target Price (SAR)	20.9
Upside / (Downside)*	35.4%

Source: Tadawul *prices as of 24th of April 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenue	4,332	6,199	6,517	7,310
Growth %	75.6%	43.1%	5.1%	12.2%
Gross Profit	1,711	2,359	2,531	2,847
EBITDA	2,139	3,037	3,302	3,720
Net Income	452	816	899	1,185
Growth %	13.7%	80.5%	10.1%	31.9%
EPS	0.40	0.72	0.80	1.05
DPS	0.00	0.44	0.50	0.70

Source: Company reports, Aljazira Capital

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	39.5%	38.1%	38.8%	38.9%
EBITDA Margin	49.4%	49.0%	50.7%	50.9%
Net Margin	10.2%	12.9%	13.6%	16.0%
ROE	7.7%	12.4%	13.8%	17.2%
ROA	2.3%	3.7%	3.9%	4.8%
P/E	High	24.4	19.7	14.9
P/B	4.7	3.0	2.7	2.6
EV/EBITDA (x)	17.5	10.3	9.2	8.3
Dividend Yield	0.0%	2.5%	3.2%	4.5%

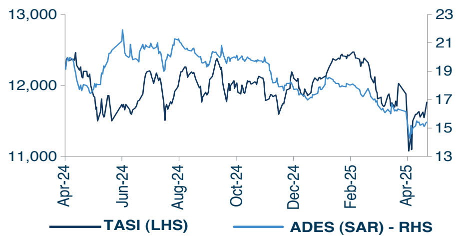
Dividend Yield

Key Market Data

Market Cap (SAR bn)	17.4
YTD%	-11.2%
52 weeks (High)/(Low)	21.98/13.80
Share Outstanding (bn)	1,129.1

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

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Upcoming multiple new contracts coupled with medium term expansion plans to enable continued revenue growth, FY24-29E CAGR estimated at 6.1%: ADES has seen its revenue growing exponentially in the past three years, increasing more than 4.0x to SAR 6.2bn in FY24 from SAR 1.5bn in FY21. The historic growth was driven by aggressive expansion of fleet (particularly in offshore segment). Although revenue growth is likely to moderate in future from the increased base, we see a healthy growth trajectory supported by upcoming multiple new contracts in both offshore and onshore segment such as six onshore rigs contract in Kuwait, three onshore rigs contract in Algeria, an offshore contract for two rigs in Nigeria and one offshore rig in Thailand. All these contracts are expected to commence during Q2-Q3 this year. Thus, we expect active offshore/onshore rigs to increase to 50/32 by the end of FY25E after dipping to 45/23 in Q1-25. Moreover, ADES' medium term expansion plan encompasses the addition of 7-9 offshore rigs and 10 onshore rigs. Until now, the company has added only 2 offshore and 4 onshore. Hence, the fleet is expected to expand further. We forecast the number of active offshore/onshore rigs to reach 58/38 by FY29E. This ongoing expansion is likely to result in 6.1% revenue CAGR during FY24-29E.

EBITDA and net margin are expected to improve steadily, although higher depreciation will limit the expansion of the gross profit margin: The gross margin of the company is expected to increase gradually from 38.1% in FY24 to 39.1% in FY29E; rising depreciation amid planned future expansion is expected to restrict gross margin expansion. However, the positive impact of topline growth along with improvement operational efficiencies with the scale are likely to be more evident in EBITDA margin which is projected to widen from 49.0% in FY24 to 53.5% in FY29E. The net margin is expected to expand from 12.9% in FY24 to 18.7% in FY29E, supported by the EBITDA margin growth and anticipated reductions in finance costs following expected interest rate cuts. Consequently, net income is forecasted to grow at a CAGR of 14.3%, rising from SAR 802mn in FY24 to SAR 1,563mn in FY29E.

Balance sheet strength allows further leveraging for medium term CAPEX; leverage to ease in the long term: ADES is planning a medium-term capacity expansion that will require an estimated investment of around SAR 5.5bn. This is likely to be funded primarily through new debt. However, given the company's strong and growing operating cash flows underpinned by a robust order backlog of SAR 28.3bn, it is well-positioned to manage and service this additional leverage. Over the long run, capital expenditure is expected to moderate after FY26E. As a result, the company's leverage ratio (debt to equity), which is projected to peak at 2.1x in FY26E, is anticipated to gradually decline to 1.6x by FY29E.

Deserves to trade at premium to peers justified by unique value proposition: We believe ADES's strategic positioning in resilient markets (83% of FY24 revenue from low-cost oil producing GCC region less impacted by oil price volatility) along with expansion into 12 countries that helped quick redeployment of all the suspended rigs gives the company an edge over peers. It is the least affected by Aramco suspension among the companies which faced suspension. ADES's EBITDA margin of 49% (FY24) is significantly higher than an average of 27% for peers. Moreover, the company's future growth trajectory (EBITDA FY24-29E CAGR of 8% supported by SAR 28.3bn backlog, track record of client stickiness and capacity expansion plan) seems to be largely unaffected by near-term challenges in the market. Thus, we believe ADES deserves to trade at EV/EBITDA FY25E multiple in the range of 10-11x (premium to peer average of ~8.5x), as against current multiple of 9.2x post ~22% decline in the share price in the last six months. This implies significant upside potential in the stock despite downward revision to our estimates with the backdrop of overall market dynamics.

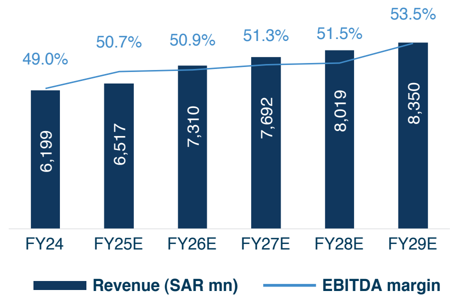
Investment thesis and valuation: ADES is well-positioned for sustained growth even amid near-term challenges in the oil and gas sector and rig suspensions by Aramco, supported by strong market positioning, full redeployment of suspended rigs, and tight jack-up supply dynamics. With revenue and net income expected to grow at 6.1% and 14.3% CAGRs respectively through FY29E, driven by new contracts and fleet expansion, margins are also set to improve meaningfully. A SAR 5.5bn CAPEX plan will temporarily increase leverage, but strong cash flows and a SAR 28.3bn backlog ensure financial flexibility. Given its superior margins, resilient operations, and undervalued stock post a 22% decline in six months, ADES deserves a premium valuation. We valued ADES with 50% weightage to DCF (WACC=7.7%, terminal growth rate=2.0%) and 50% weight to FY25E EV/EBITDA (10.5x) to arrive at a TP of **SAR 20.9/share**, implying 35.4% upside. Hence, we maintain our "**Overweight**" rating on the stock.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	21.4	50%	10.7
EV/EBITDA	20.4	50%	10.2
Blended TP			**20.9**
Up/Downside (%)			**35.4%**

Source: AlJazira Capital research

Revenue (SAR mn) and EBITDA margin



Source: Company reports, Aljazira Capital Research

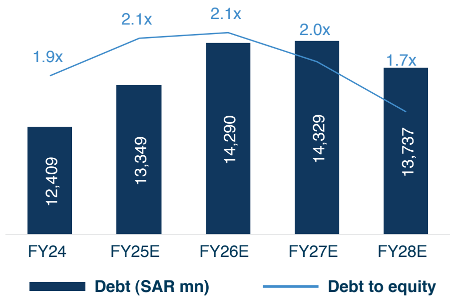
Active rigs and day rates

Operating metrics

	FY24	FY25	FY26	FY27	FY28	FY29
Active rigs	71	82	86	89	92	96
Onshore	23	32	33	35	36	38
Offshore	48	50	53	54	56	58

Source: Company reports, Aljazira Capital

Total debt and leverage



Source: Company reports, Aljazira Capital Research

Key Financial Data

Amount in USD mn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenues	**1,514**	**2,467**	**4,332**	**6,199**	**6,517**	**7,310**	**7,692**	**8,019**	**8,350**
Y/Y	**-10.7%**	**62.9%**	**75.6%**	**43.1%**	**5.1%**	**12.2%**	**5.2%**	**4.3%**	**4.1%**
Cost of revenue	(975)	(1,576)	(2,621)	(3,840)	(3,986)	(4,463)	(4,686)	(4,880)	(5,085)
Gross profit	**539**	**891**	**1,711**	**2,359**	**2,531**	**2,847**	**3,006**	**3,139**	**3,265**
Gross margin	**35.6%**	**36.1%**	**39.5%**	**38.1%**	**38.8%**	**38.9%**	**39.1%**	**39.1%**	**39.1%**
General & administration expense	(158)	(246)	(370)	(424)	(443)	(489)	(507)	(521)	(534)
EBITDA	657	1,049	2,139	3,037	3,302	3,720	3,949	4,133	4,467
Y/Y	**-3.3%**	**59.5%**	**104.0%**	**42.0%**	**8.7%**	**12.6%**	**6.2%**	**4.6%**	**8.1%**
EBITDA margin	**43.4%**	**42.5%**	**49.4%**	**49.0%**	**50.7%**	**50.9%**	**51.3%**	**51.5%**	**53.5%**
Operating profit	**(20)**	**334**	**1,285**	**1,804**	**1,903**	**2,167**	**2,301**	**2,414**	**2,516**
Y/Y	**NM**	**NM**	**284.3%**	**40.4%**	**5.5%**	**13.9%**	**6.2%**	**4.9%**	**4.2%**
Operating margin	**-1.3%**	**13.6%**	**29.7%**	**29.1%**	**29.2%**	**29.6%**	**29.9%**	**30.1%**	**30.1%**
Financial charges	(305)	(303)	(711)	(804)	(826)	(749)	(704)	(655)	(627)
Income before zakat	**149**	**468**	**529**	**971**	**1,070**	**1,411**	**1,590**	**1,751**	**1,881**
Zakat	(35)	(71)	(77)	(155)	(171)	(226)	(254)	(280)	(301)
Net income	**108**	**390**	**442**	**802**	**884**	**1,171**	**1,320**	**1,455**	**1,563**
Y/Y	**46.5%**	**262.2%**	**13.2%**	**81.5%**	**10.2%**	**32.3%**	**12.8%**	**10.2%**	**7.4%**
Net margin	**7.1%**	**15.8%**	**10.2%**	**12.9%**	**13.6%**	**16.0%**	**17.2%**	**18.1%**	**18.7%**
EPS (SAR)	**0.1**	**0.3**	**0.4**	**0.71**	**0.78**	**1.04**	**1.17**	**1.29**	**1.4**
DPS (SAR)	**-**	**-**	**-**	**0.44**	**0.50**	**0.70**	**0.75**	**0.75**	**1.0**
Balance sheet									
Assets									
Cash & equivalent	233	191	432	744	223	759	910	730	625
Other current assets	918	1,500	1,924	2,516	2,689	3,085	3,319	3,575	3,837
Total current assets	**1,151**	**1,691**	**2,356**	**3,260**	**2,912**	**3,844**	**4,229**	**4,305**	**4,462**
Property plant & equipment	5,358	12,066	16,150	17,568	19,279	19,750	19,897	19,867	19,573
Right of use assets	64	391	644	494	387	301	219	152	102
Total assets	**6,692**	**14,501**	**19,422**	**21,628**	**22,891**	**24,235**	**24,690**	**24,688**	**24,512**
Liabilities & owners' equity									
Trade payables	497	1,085	1,639	1,270	1,812	1,937	1,961	2,005	2,046
Other current liabilities	480	1,075	1,508	1,780	1,904	1,932	1,857	1,504	1,525
Total current liabilities	**977**	**2,161**	**3,147**	**3,051**	**3,716**	**3,869**	**3,819**	**3,509**	**3,571**
Lease liabilities – non-current	38	270	487	352	248	175	125	92	70
Long term loans	3,638	9,575	9,170	10,725	11,644	12,629	12,793	12,587	11,986
Total non-current liabilities	**3,792**	**10,082**	**10,498**	**12,040**	**12,708**	**13,528**	**13,572**	**13,280**	**12,621**
Share capital	**-**	**1**	**1,129**	**1,129**	**1,129**	**1,129**	**1,129**	**1,129**	**1,129**
Reserves	1,894	2,221	4,619	5,364	5,293	5,663	6,126	6,725	7,146
Total owners' equity	**1,894**	**2,222**	**5,748**	**6,493**	**6,422**	**6,792**	**7,255**	**7,854**	**8,275**
Non-controling interests	**30**	**36**	**29**	**45**	**45**	**45**	**45**	**45**	**45**
Total equity & liabilities	**6,692**	**14,501**	**19,422**	**21,629**	**22,891**	**24,235**	**24,691**	**24,688**	**24,512**
Cashflow statement									
Operating activities	317	1,146	2,283	2,998	2,979	3,032	3,334	3,490	3,656
Investing activities	(1,464)	(6,438)	(3,736)	(3,185)	(2,917)	(1,846)	(1,616)	(1,519)	(1,341)
Financing activities	1,145	5,250	1,886	498	(582)	(650)	(1,567)	(2,151)	(2,420)
Change in cash	(1)	(42)	432	311	(521)	536	151	(180)	(105)
Ending cash balance	**233**	**191**	**432**	**743**	**223**	**759**	**910**	**730**	**625**
Liquidity ratios									
Current ratio (x)	1.2	0.8	0.7	1.1	0.8	1.0	1.1	1.2	1.2
Quick ratio (x)	1.0	0.7	0.6	0.9	0.7	0.9	1.0	1.1	1.1
Profitability ratios									
Gross profit margin	35.6%	36.1%	39.5%	38.1%	38.8%	38.9%	39.1%	39.1%	39.1%
Operating margin	-1.3%	13.6%	29.7%	29.1%	29.2%	29.6%	29.9%	30.1%	30.1%
EBITDA margin	43.4%	42.5%	49.4%	49.0%	50.7%	50.9%	51.3%	51.5%	53.5%
Net profit margin	7.1%	15.8%	10.2%	12.9%	13.6%	16.0%	17.2%	18.1%	18.7%
Return on assets	1.6%	2.7%	2.3%	3.7%	3.9%	4.8%	5.3%	5.9%	6.4%
Return on equity	5.7%	17.6%	7.7%	12.4%	13.8%	17.2%	18.2%	18.5%	18.9%
Leverage ratio									
Net Debt / equity (x)	2.04	4.78	1.81	1.80	2.04	1.99	1.85	1.66	1.51
Market/valuation ratios									
EV/sales (x)	NM	NM	4.9	5.0	4.7	4.2	4.0	3.8	3.6
EV/EBITDA (x)	NM	NM	17.5	10.3	9.2	8.3	7.8	7.4	6.7
Market-Cap	NM	NM	27,098	19,601	17,410	17,410	17,410	17,410	17,410
Market price	NM	NM	24.00	17.36	15.42	15.42	15.42	15.42	15.42
P/E ratio (x)	NM	NM	61.3	24.4	19.7	14.9	13.2	12.0	11.1
P/BV ratio (x)	NM	NM	4.7	3.0	2.7	2.6	2.4	2.2	2.1
DY (%)	NM	NM	0.0%	2.5%	3.2%	4.5%	4.9%	4.9%	6.5%

Source: Company reports, Aljazira Capital Research, * market price as of April 24, 2025

الجزيرة كابيتال
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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer