

Neutral

Price Target (SAR): 20.00

Current (5th August 2024): 19.10
Upside/Downside: 4.5% above current

Valuation Multiples	23	24E	25E
P/E (x)	48.8	27.0	22.1
P/B (x)	3.8	3.4	3.2

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	-3.5%	-3.8%	-20.4%
Relative to TASI	-2.2%	3.2%	-16.5%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	4,332	5,959	6,515
Revenue Growth	75.6%	37.6%	9.3%
Gross Profit	1,711	2,303	2,505
Gross margin	39.5%	38.6%	38.5%
EBITDA #	2,115	2,934	3,187
EBITDA margin	48.8%	49.2%	48.9%
EBITDA (mgt. def.)	2,139	3,081	3,342
Net profit	452	809	986
Net profit (Post-minority)	442	799	976
Net margin	10.2%	13.4%	15.0%
EPS	0.4	0.7	0.9
P/E (Current)	48.8x	27.0x	22.1x
P/E (Target)	51.0x	28.2x	23.1x
ROE	11.1%	13.3%	14.9%

Source: Company data, Al Rajhi Capital; # EBITDA based on our calculation including the impact of non-cash payments

ADES Holding Co.

Solid Q2 numbers, neutral due to uncertain economic environment

ADES reported solid Q22024 topline growth of 49% y-o-y, 3% ahead of our expectations supported by deployment of land rigs in Algeria and Kuwait, that helped to offset the impact from cancellation of offshore rigs. Despite some impact on gross margins, strong control on opex helped the profitability and led to a beat of almost 9% on net income. The company also announced its first dividends for H1 2024 of SAR 0.21/share, implying annualized yield of about 2.2%. Despite Aramco's decision to suspend offshore rigs (22 in total, 5 for ADES), the company has again reiterated its EBITDA guidance for the year 2024. The key reason has been the quick redeployment of 3 rigs out of the 5 suspended and that too at a higher day rate. As per our calculation, the redeployed rigs have been contracted at an average day rate of around \$98k/d which is higher than the existing day rate. Moreover, the rig deployment in Thailand entails lower costs, implying accretive EBITDA margins for the new contracts. Thus, the company is confident that the gap between the suspension period and the start of the new contracts can be filled. Moreover, the company's revenues for H22024 were buoyed by the full impact of the three land rigs deployed in Algeria in Q2 2024. Thus, we see no major risks to 2024 EBITDA guidance. However, given the suspension of the rigs, we trim our EBITDA for 2024 slightly and consider only limited benefits of rate cut in 2024, thereby resulting in our net profit estimate for 2024 reducing to SAR799mn from SAR960mn before. On the other hand, we raise our 2025 estimates slightly to account for expansion in Kuwait (6 onshore contracts, 2 newbuilds and 4 renewals) and the full impact of the deployment of the 3 offshore rigs. At the same time, the expected materialization of campaigns for the remaining 2 suspended rigs could act as a further catalyst for higher revenues in FY25.

ADES' leadership position in the offshore market, global presence and active management was reflected in the quick redeployment of the suspended rigs. In addition to this, its solid backlog of SAR28.05bn provides revenue visibility. Thus, for these reasons, the stock commands premium over its peer, Arabian Drilling. At the same time, the tight jack-up market is also supporting the sentiments. However, the current valuations are more than pricing in all the positives and not considering the possibility of incremental rig suspension, which cannot be ruled out completely given the current uncertain global economic environment. Last week, Aramco suspended two additional offshore rigs, taking the total suspended rigs to 24 but ADES confirmed on its earnings conference call that they have not received any further suspension notice and reposed confidence in its upcoming renewal for 1 rig with Aramco in Q32024. As we adjust our net profit estimates for this year, we trim our target price to SAR 20.0/share from SAR22.0/sh before but maintain our neutral recommendation on the stock.

Figure 1 Earnings Summary Q2 2024

(SAR mn)	Q2 2024	Q1 2024	Q2 2023	ARC est.	Cons Est.	q-o-q	y-o-y	vs ARC	vs Cons
Revenue	1,525	1,532	1,026	1,487	1,488	-0.4%	48.7%	2.6%	2.5%
Gross Profit	574	603	409	583	NA	-4.8%	40.2%	-1.5%	NM
G. margin	37.6%	39.3%	39.9%	39.2%	NA				
EBITDA	754	753	498	734	NA	0.1%	51.4%	2.7%	NM
EBITDA Margin	49.4%	49.1%	48.5%	49.4%	NA				
Net Profit post minority	202	197	104	186	196	2.4%	94.6%	8.9%	3.1%
Net Margin	13.2%	12.9%	10.1%	12.5%	13.2%				

Source: Company data, Al Rajhi Capital

Valuations: We value the company based on a blend of relative valuation methodologies (P/E and EV/EBITDA). Using the P/E approach with a target multiple of 26x on an average of 2024-2025e EPS, we arrive at a fair value price of SAR20/sh. We assign a high P/E multiple to the company on the back of high double-digit growth expectations in the bottom-line over the coming years. Moreover, the company's strong global footprint and the tight jack-up market also justifies premium over its peer, Arabian Drilling. The EV/EBITDA approach also implies a fair value of SAR20/sh based on a 10.5x multiple on the average of 2024-2025e EBITDA. Thus, we revise our TP for the company from the earlier TP of SAR22.0/sh to SAR20.0/sh maintaining a "Neutral" rating implying an upside of 4.5% at the current price.

Figure 2 Valuation Summary

Valuation Methodology	Relative Valuation P/E
Average 2024-2025e EPS	0.79
Target P/E Multiple	26.0x
Target Price per share (SAR)	20.4

Valuation Methodology	Relative Valuation EV/EBITDA
Average 2024-2025e EBITDA*	3,060
Target EV/EBITDA multiple	10.5x
EV	32,132
Less: Net Debt#	10,152
Equity Value	21,981
Target Price per share (SAR)	19.5

Valuation Summary	Weights (%)	Target Price (SAR/sh)
P/E based fair value	50	20.4
EV/EBITDA based fair value	50	19.5
Target Price per share (SAR)		20
<i>Upside/ (Downside)</i>		<i>4.5%</i>

Source: Al Rajhi Capital; * EBITDA used for valuation includes impact of non-cash payments; # Net debt is based on Q12024

Risks: The key downside risks to our valuation assumptions are delayed execution of backlog hampering revenue visibility, lower rig utilisation rates, high leverage levels and further rig downsizing by Aramco.

Financials

Figure 3 Income Statement

(SAR mn)	2023	2024E	2025E
Revenue	4,332	5,959	6,515
Cost of revenues	(2,621)	(3,656)	(4,009)
Gross profit	1,711	2,303	2,505
General and administrative expenses	(370)	(438)	(552)
End of service employment benefits	(43)	(48)	(56)
Finance costs	(711)	(763)	(621)
Finance income	0	23	24
Other expenses	(42)	(40)	(46)
IPO expense	(16)	0	0
Zakat and income tax	(77)	(128)	(169)
Profit for the period	452	809	986
Non-controlling interests	(10)	(10)	(10)
Profit for the period (Post-minority)	442	799	976
EBITDA*	2,115	2,934	3,187
EBITDA management definition	2,139	3,081	3,342

Source: Al Rajhi Capital estimates; * EBITDA as per our calculation including non-cash expense

Figure 5 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash form operating activities	2,321	3,010	3,087
Cash from investing activities	(3,736)	(804)	(2,015)
Cash from financing activities	1,886	(2,020)	(861)
Net change in cash and cash equivalents	432	42	23
Cash and cash equivalents, end of the period	432	474	498

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

KPIs	2023	2024E	2025E
Gross margin (%)	39.5%	38.6%	38.5%
EBITDA margin (%)*	48.8%	49.2%	48.9%
Net margin (%)	10.2%	13.4%	15.0%
ROA (%)	6.7%	9.0%	8.9%
ROE (%)	11.1%	13.3%	14.9%
D/E (x)	1.9x	1.6x	1.5x
Net debt/EBITDA (x)	3.4x	3.0x	2.9x
Current ratio (x)	0.7x	0.8x	0.8x

Source: Al Rajhi Capital estimates * EBITDA margin based on our calculation including non-cash payments

Figure 4 Balance sheet

(SAR mn)	2023	2024E	2025E
Assets			
Cash and cash equivalents	432	474	498
Inventories	332	351	384
Trade and other receivables	845	849	982
Contract assets	389	417	489
Prepayments and other receivables	352	417	489
Due from related parties	5	5	5
Total Current Assets	2,356	2,513	2,846
Property, plant and equipment	16,150	15,732	16,343
Right-of-use assets	644	649	665
Derivative instruments	52	52	52
Prepayments and other receivables	221	221	221
Total Non-current assets	17,067	16,655	17,281
Total Assets	19,422	19,168	20,127

Liabilities			
Trade and other payables	1,639	1,803	1,977
Current portion of long-term borrowings	1,180	1,061	1,090
Provisions	10	10	10
Provision for zakat and income tax	30	30	30
Deferred revenue	288	288	288
Total Current liabilities	3,147	3,192	3,396
Long-term borrowings	9,170	8,245	8,471
Lease liabilities	487	492	504
Provisions (EBP)	199	231	269
Deferred revenue	580	580	580
Deferred tax	61	61	61
Other payables	1	21	47
Total Non-current liabilities	10,498	9,630	9,932

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	2,041	2,431
Proposed Dividends	0	240	293
Total Equity	5,748	6,307	6,751
Non-controlling interests	29	39	49
Total Liabilities & Equity	19,422	19,168	20,127

Source: Al Rajhi Capital estimates

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