ADES Holding Co.

Energy
ADES AB: Saudi Arabia
1 November 2023

US$5.59bn	100.00%	US$92.20mn
Market Cap.	Free Float	Avg. Daily Value traded

Research Department
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Neutral

Price Target (SAR): 18.2

Current: 18.56
Upside/Downside: 1.9% below current

Valuation Multiples	22	23E	24E
P/E (x)	53.7	54.5	24.7
P/B (x)	9.5	3.6	3.3

Major Shareholders	% Ownership
ADES Inv. Holdings Ltd.	36.50
Public Investment Fund	21.00
Al Zamil Group	6.00

Price Performance	YTD	1M
Absolute	37.5%	37.5%
Relative to TASI	35.5%	40.8%

Earnings

(SARmn)	2022	2023E	2024E
Revenue	2,467	4,573	6,238
Revenue Growth	62.9%	85.4%	36.4%
Gross Profit	891	1,776	2,320
Gross margin	36.1%	38.8%	37.2%
Gross Profit (Ex. Dep)	1,286	2,547	3,514
Gross margin (Ex. Dep)	52.1%	55.7%	56.3%
EBITDA	1,049	2,136	3,020
EBITDA Margin	42.5%	46.7%	48.4%
Net profit	398	391	856
Net profit (Post-minority)*	390	384	849
Net margin	15.8%	8.4%	13.6%
EPS	0.3	0.3	0.8
P/E (Current)	53.7x	54.5x	24.7x
P/E (Target)	52.6x	53.5x	24.2x
ROE*	11.6%	9.6%	13.9%

Source: Company data, Al Rajhi Capital;
Note: EBITDA as per management definition. *2022 net income includes bargain purchase gains of SAR422mn

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ADES Holding Co.

Initiating Coverage with a Target Price of SAR18.2/sh

On the back of sharp expansion in the last couple of years, ADES Holding Company (ADES) has created an unmatched scale and footprint with 85 rigs and presence across the MENA region. It has a market leadership position in the offshore jack up rig segment with 49 rigs (46 jack ups out of 49, in 2021 total offshore rigs were only 20). Within its fleet, it has 31 premium jack ups, which is 10% of the global jack-up capacity. Given the tightness in the jack up rig market that is pushing the day rates much higher than the recent years, ADES' strategy of expanding in the offshore jack up fleet market can prove very timely. The company has already secured one of the largest order backlogs in the industry with a weighted average tenure of 6 years, providing strong revenue visibility over the medium term. In a cyclical industry, such a level of revenue visibility is encouraging and very few operators provide the same. We estimate revenue to more than double by the end of 2024 from 2022 level and EBITDA to almost triple. In terms of risks, leverage is on the higher side. However, the metrics will notably improve to 2.8x in 2024 and furthermore to 2.6x in 2026e. Our detailed investment rationale and valuations are as follows.

Low acquisition cost of rigs aided by strong in-house engineering team: ADES' in-house re-engineering team, which is fully integrated across different maintenance stages, provides an edge over the others as the extensive know-how of the team helps the company to shortlist available rigs in the market and estimate the required capital for refurbishment. Given that the new builds can take 2-3 years' time and the operators favour drillers that can meet the commitment of providing rigs in a relatively shorter period time, having an in-house re-engineering team can help in identifying and sourcing the rigs in a shorter span of time. The benefits are reflected in the low acquisition cost of the rigs (USD 62 mn for premium jack-ups, versus industry average of USD 125 mn) as well as in the recently announced Aramco award, where the company won a lion share (16 out of 40 rigs awarded in 2022, through direct tenders).

Fit for purpose fleet and presence in resilient and high growth markets: ADES has created an unmatched scale and footprint with 85 rigs and presence across the MENA region. It has a market leadership position in the offshore jack-up segment with 49 rigs (all shallow water), which is 10% of the global offshore fleet and way ahead of the second largest player that has 32 rigs (ADNOC drilling). The bulk of the incremental production in the GCC over the medium term (2022-2023e) is expected to come from shallow water, thus ADES' dominant share in the offshore rig market, mainly shallow water, positions it well to capture the expected drilling capex in the medium-term.

Tight supply dynamics in the jack up market to support day rates: The lack of investments in the offshore rig newbuilds post the downturn in 2014/2015, stringent requirement from the shipyards for the newbuilds (70% down payment required versus minimal during the pre-2014 boom) and the recent surge in demand for the jack up rigs, especially from the Middle East, have pushed marketed utilization levels over 90% globally. As per Westwood Global Energy Group, the marketable utilization level in the MENA region and KSA are expected to notably improve from 82% and 97% in 2022 and will achieve 97% and 102% by 2024, respectively. This level of tightness should continue to push the day rates higher. As per its estimates, the day rates are expected to reach USD106k in MENA and USD128k in KSA (only premium) from USD 77k and USD86k in 2022, an increase of 38% and 49%, respectively.

Strong revenue visibility, onshore to provide next leg of growth in backlog: ADES' fit for purpose fleet and the ability to bid at competitive rates have aided the company to earn robust order backlog of SAR 27.6 bn as of H1 2023. Moreover, the company's order backlog includes a mega project to deploy 19 rigs for Aramco (16 won through direct tenders), majority of which have already been delivered as of 3Q2023 and the rest will be deployed by the end of 4Q2023. The contract has an average tenure of 7 years. In terms of book to bill (revenue visibility), this implies 11x on 2022 revenues and 6x on 2023E revenues, providing a very strong revenue visibility over the medium term. In the onshore fleet, the company currently has 36 rigs of which 8 rigs are idle (post the recently awarded 4 contracts in Algeria). The company is actively participating in tenders to deploy its idle rigs with focus on GCC and North African markets. Post 2024, we believe the onshore rig market can provide another leg of growth in the order backlog.

Leverage elevated currently, but to decline rapidly: In terms of leverage, currently the metrics are elevated owing to the recent expansions which were primarily debt-financed. However, we estimate leverage levels to normalise to 2.8x in 2024e and to 2.6x in 2026e, which is in line with the company's targeted leverage level of 2.5x-3.0x. The debt is secured by the robust backlog, which has substantial share of Aramco. Further, the company has also hedged 60-70% of its debt, which has an all-in cost of 6.2% and the company will be prioritizing repaying the unhedged part of the loans.

Valuations: We value the company based on the relative valuation methodology using the EV/EBITDA approach given the high capex nature of the business. Using a target EV/EBITDA multiple of 11.0x based on 2024e EBITDA, we arrive at a target price of SAR18.2/sh implying a "Neutral rating" on the stock. At the current price there is a 1.9% downside for the stock. Additionally, we observe that ADES could possibly get included in the February 2024 MSCI Quarterly Review (when the minimum length of trading requirements is fulfilled) as at the current price levels, the stock adequately meets the market capitalisation requirement. Given the probable MSCI inclusion the stock may witness potential inflows and hence the high liquidity might act as a support for the share price.

Key risks: In terms of risks, two major risks are high leverage and the requirement to hire crew for its mega contract with Aramco. Leverage: Although, bulk of the loans are hedged, the incremental capex requirement will be funded through new loans, that are exposed to the prevailing interest rates. Crew costs: Another near-term risk is retaining crew without significant cost escalation given the wage inflation in the drilling market. Delay in Execution of Order Backlog: Weak execution or delay in rig deployment may hinder revenue visibility for the business. Please refer to the key risks section for more details.

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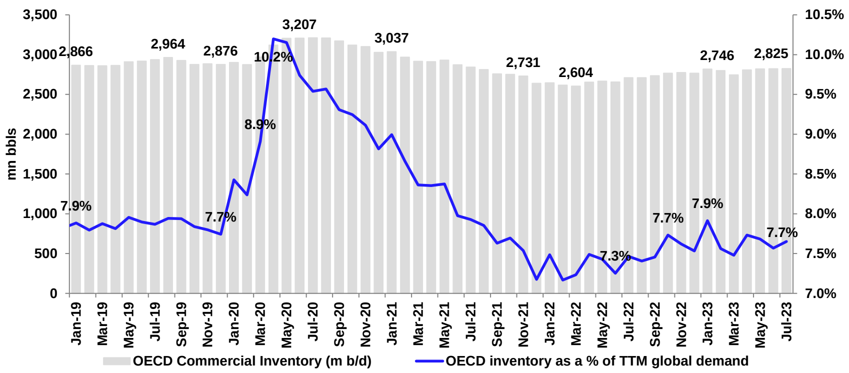
Industry Overview

Near Term View: Oil prices to remain stable, Saudi Arabia to play an active role in stabilizing the market

OECD inventories have primarily remained stable supported by OPEC+ decision to cut output by 2mmbpd from November'22. The inventories have been steady around January 2022 levels (shown in Fig.1 below) despite concerns over economic growth. With regard to maintaining the sanity in oil market amid global recession fears, a second round of surprise production cut announcements came in from OPEC+ in April 2023. Additionally, Saudi Arabia pledged an additional output reduction of 1mmbpd for the month of July 2023 and OPEC extended the cut into 2024. OPEC+ decision to cut output from November'22 and the subsequent production cut announcement in April'23 by 1.66mmbpd from May'23 onwards besides the EU's sanction on seaborne Russian crude (starting from 5th Dec) may fully offset the incremental supply from the US and concerns over rising exports from Russia. The supply from the US is expected to increase, however, the cash breakeven oil price level for shale is also rising simultaneously (US$51/bbl in Q1 2023 from US$48/bbl in Q3 2022) mainly driven by increased capex.

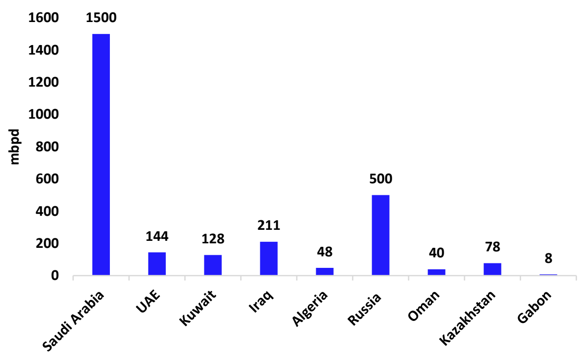
Our in-house research view is that oil prices will remain stable with limited downside risk, supported by OPEC+'s active role. However, other OPEC+ producer's discipline in obliging by the production cut will be a key parameter to provide thrust to oil prices by way of supply rationalization. Despite high level of exports by Russia, we maintain our view that prices will be resilient led by OPEC's decision to curb production.

Figure 1 **OECD Inventory as a % of TTM Global Demand**



Source: EIA, Al Rajhi Capital

Figure 2 **OPEC+ Alliance scheduled voluntary production cut (May'23-end of 2024)**



Source: Reuters, Al Rajhi Capital

Figure 3 **Cash required per barrel for major US shale oil producers (US$/bbl)- for FCF less interest and tax expenses to be NIL**

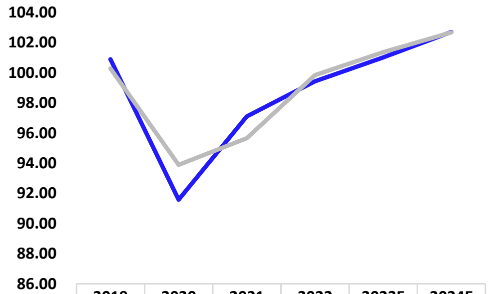
	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Weight*
Diamondback Energy	32	42	47	51	54	54	39	44	52	22%
Pioneer natural Resources	34	47	48	64	45	45	50	53	52	31%
Chord Energy^	13	51	45	25	154	32	30	40	47	8%
EOG Resources	31	42	37	39	27	90	55	55	50	39%
Weighted average**	**32**	**44**	**43**	**50**	**44**	**66**	**48**	**51**	**51**	

Source: Company Data, Bloomberg, Al Rajhi Capital, *Weights are based on production. ** Calculated based on weighted average production of major shale producers under our sample. ^ New entity formed in Q2 2022 post-merger between Oasis Petroleum Inc. and Whiting Petroleum Corp.

Long term prospects strong, years of under-investment to support capex

According to Westwood Global Energy Group, the inevitable natural decline in oil production is bound to impact supply, faster in non GCC markets than in the GCC region. Oil and Gas consumption is set to rise at a steady pace underpinned by global infrastructure growth, urbanization, air traffic uptick and overall economic growth. ADES, being one of the leading market players in drilling, is well poised to benefit from exposure to markets which have an abundant supply of oil reserves at economically viable lifting costs.

Figure 4 **Global Petroleum and Other Liquids Demand and Supply (mmbpd)**

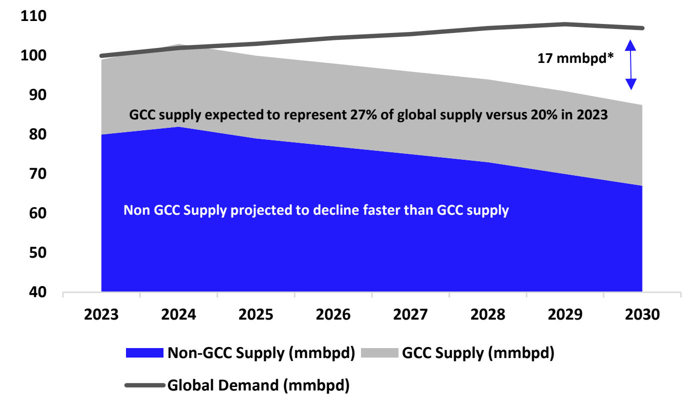


	2019	2020	2021	2022	2023E	2024E
Total world consumption	100.89	91.58	97.11	99.43	101.02	102.72
Total world production	100.30	93.90	95.66	99.85	101.37	102.68

Total world consumption Total world production

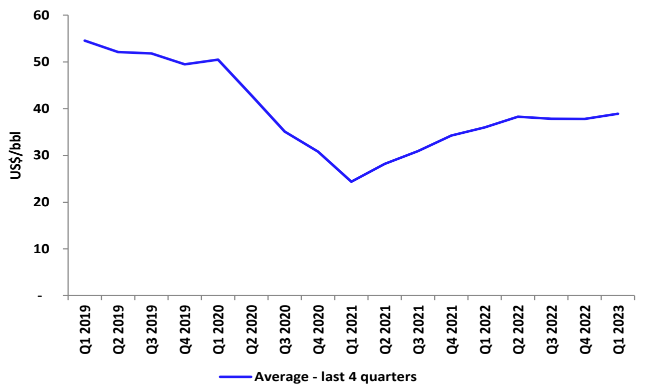
Source: EIA, Al Rajhi Capital

Figure 5 **Oil Demand and Supply Dynamics**



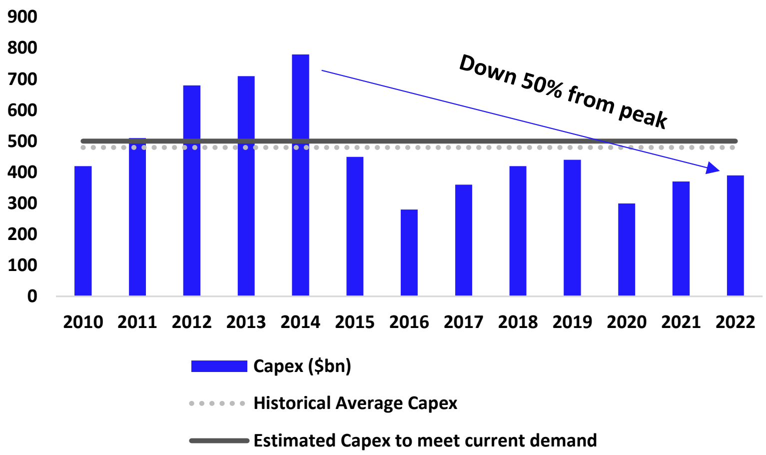
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital, * Incremental supply required by 2030

Figure 6 **Average Breakeven Prices of US Shale Producers**



Source: Company data, Bloomberg, Al Rajhi Capital Weighted average required cash per barrel based on production of major US shale producers to start generating positive free cash flow

Figure 7 **Current Oil and Gas Capex insufficient to meet demand**



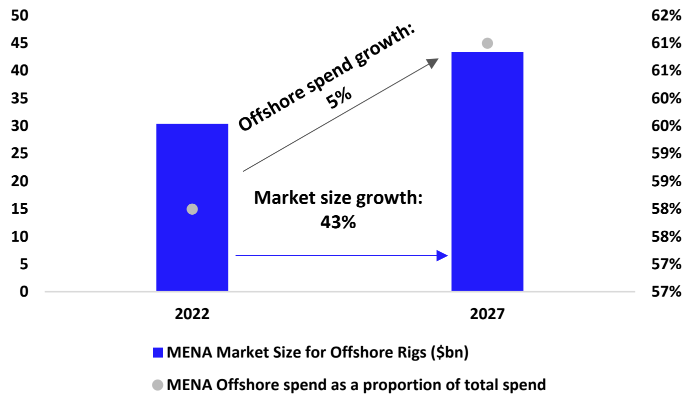
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

GCC will be driving the capex led by Aramco

As per Westwood Global Energy Group, the market size for oilfield services is expected to register a double-digit growth across geographies but for Western Europe, which is projected to witness a decline of 6%. The MENA region's demand for OFS is expected to have second largest jump in demand after Latin America driven by the offshore segment. Unit economics in the MENA region look favourable given the demand-supply outlook, increase in utilization levels and day rates.

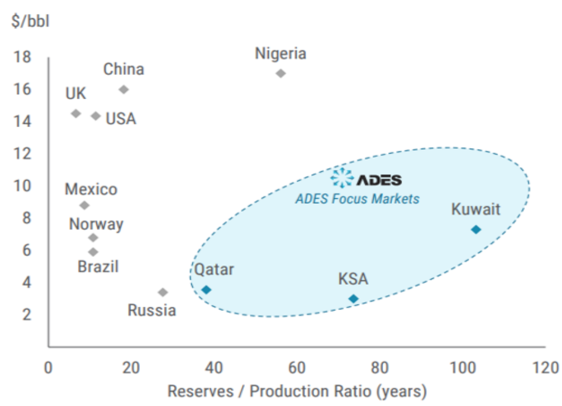
Saudi Arabia's E&P expenditure outlay is in line with the Kingdom's drive to boost its production capacity by 1mmbpd to 13mmbpd by 2027. Besides, KSA's lifting costs at ~$3bbl is the lowest in the world, thereby hedging against fluctuation in oil prices. Several offshore development projects are expected to come onstream by 2027 in order to generate incremental capacities. All encompassing, Saudi Arabia is predominantly well positioned to be a driving force in the MENA region with high rig utilisation levels and comfortably high day rates compared to the industry on the whole.

Figure 8 **MENA Market Size and Offshore Spends Outlook**



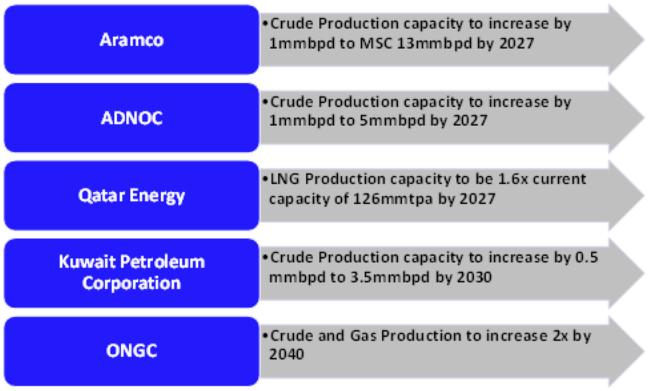
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 9 **Lifting Cost per barrel ($/bbl) vs Reserves/Production Ratio (years) by Region**



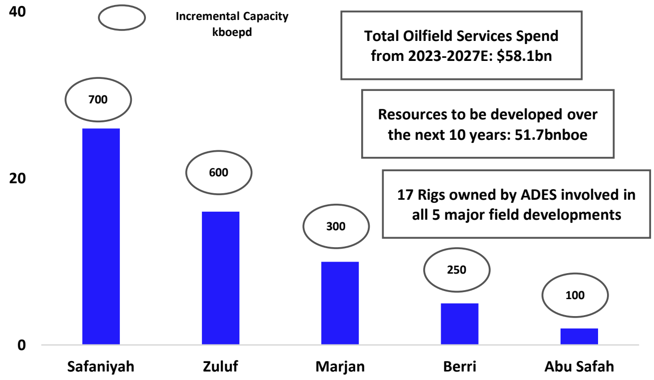
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 10 **National Oil Companies to push Capex**



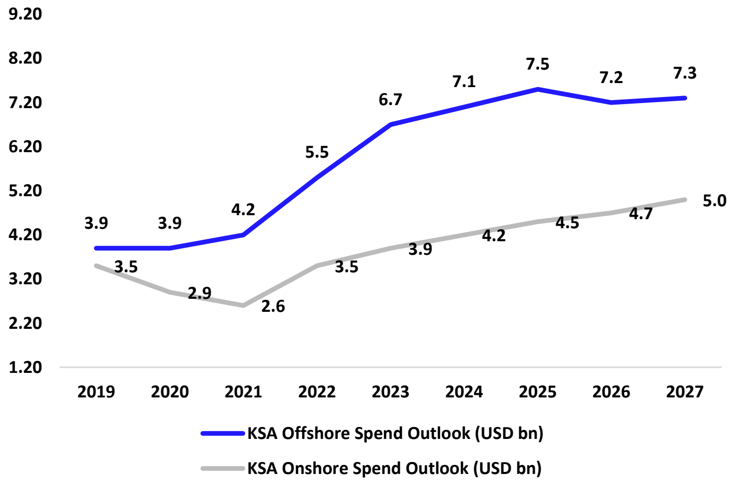
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 11 **KSA Offshore Projects Estimated Capex**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 12 **KSA E&P Spend Outlook**

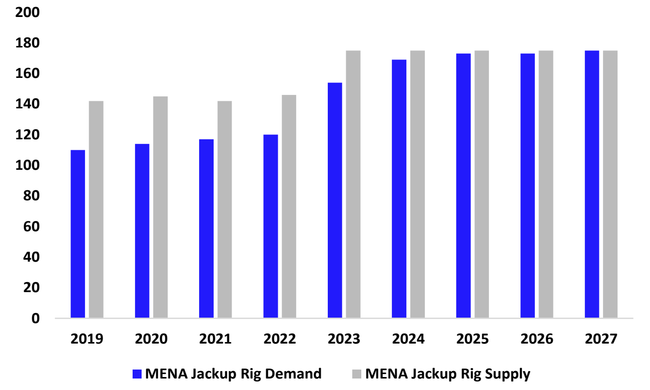


Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Tightness in MENA Jack-up market, KSA to witness sharp growth in day rates

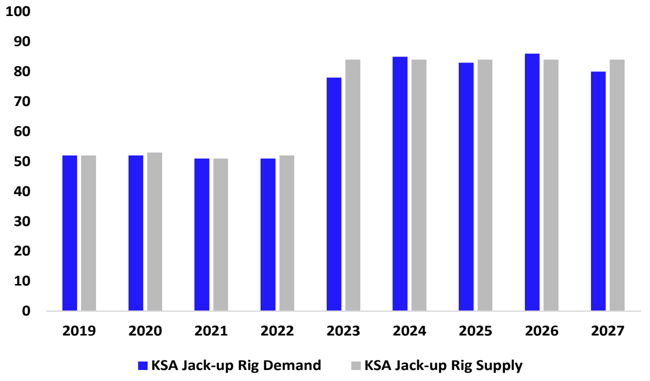
As per Westwood Global Energy Group, lack of investments in the offshore rigs and the recently announced large tenders in the GCC market, the demand and supply dynamics in the jack up market are favorable for the drillers. The utilization levels are well above 90% in the KSA and in MENA it is expected to rise sharply over 90% in 2023/2024. Thus, the agency expects the day rates to notably improve going forward. As per its estimates, the day rates are expected to reach USD106k in MENA and USD128k in KSA (only premium) from USD 77k and USD86k in 2022, an increase of 38% and 49%, respectively.

Figure 13 **MENA Jack-up Rigs Demand and Supply**



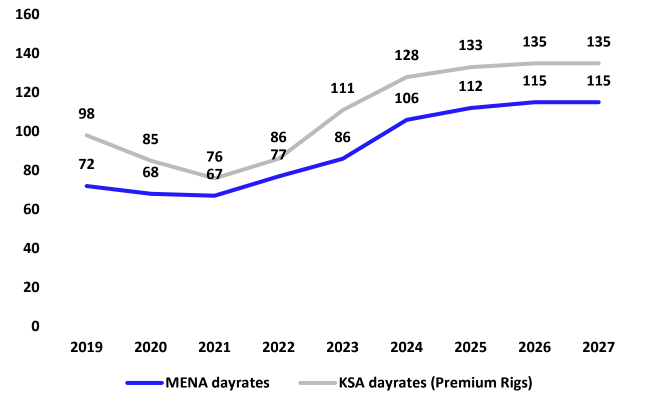
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 14 **KSA Jack-up Rigs Demand & Supply**



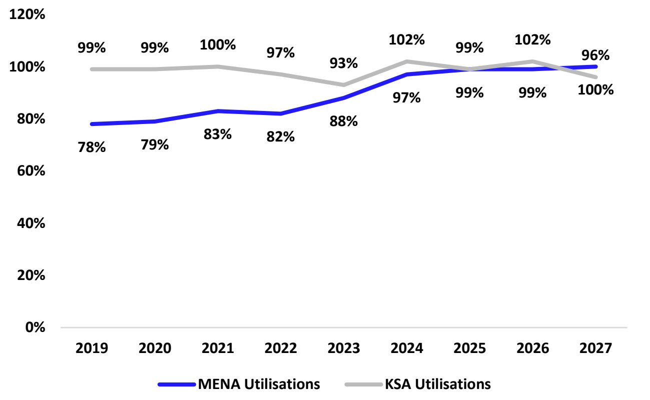
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 15 **Industry Dayrates ($k/d) MENA versus KSA**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 16 **Marketable Utilization Levels (%)**

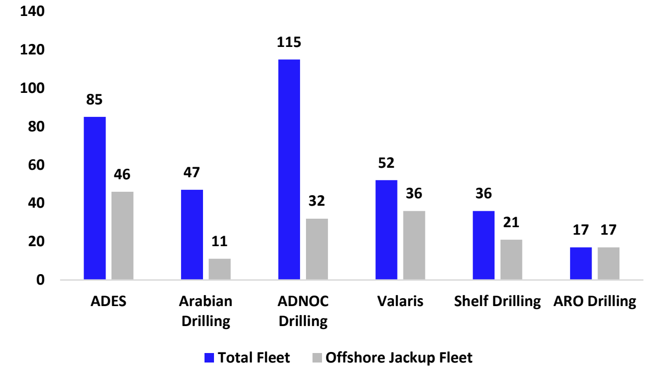


Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Competitive Landscape

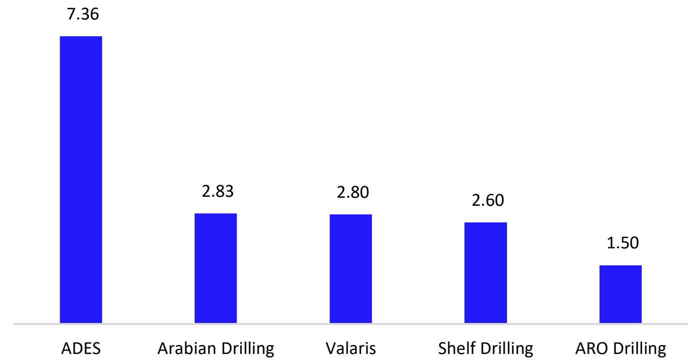
ADES is leading its peers in terms of fleet size, second only to ADNOC, but has the largest offshore jack up fleet. Moreover, in terms of backlog, it has the largest backlog versus its peers (ADNOC backlog not available). However, this could be due to longer contract tenure, for example: Arabian Drilling contracts are average 3-4 years, whereas ADES's backlog is 6-7 years. On the positive side, longer tenure provides revenue visibility, whereas, on the negative side, the company can get locked in at a certain rate and in an uptrend the company might not benefit from the rising day rates fully. Additionally, superior backlog in comparison to its peers shall provide the opportunity for substantial top line growth for ADES. About 81% of the backlog corresponds to KSA and remaining majority is constituted by other GCC. With Saudi Aramco chartering majority of jack up rigs from ADES, average day rates are expected to remain resilient.

Figure 17 **Global Leaders Fleet**



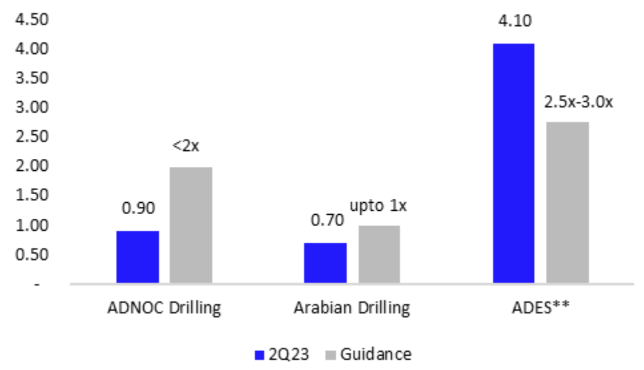
Source: ADES Presentation, Al Rajhi Capital

Figure 18 **Latest Contract Backlog (USD bn)***



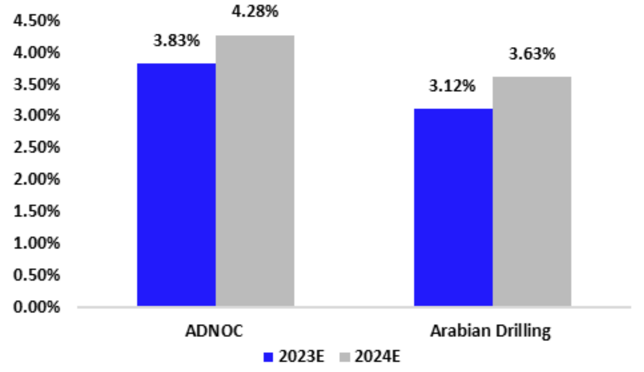
Source: Al Rajhi Capital, *As of 2Q23 for ADES, Arabian Drilling and Shelf Drilling; As of August 2023, for Valaris and ARO Drilling. For Arabian Drilling, the recent order of USD 0.8 bn and SAR 3 bn contract is included.

Figure 19 **Peer Analysis based on FY2022 Leverage**



Source: Bloomberg, Al Rajhi Capital, *As of FY2023e for ADES considering IPO proceeds

Figure 20 **Dividend Yield**



Source: Bloomberg, Al Rajhi Capital

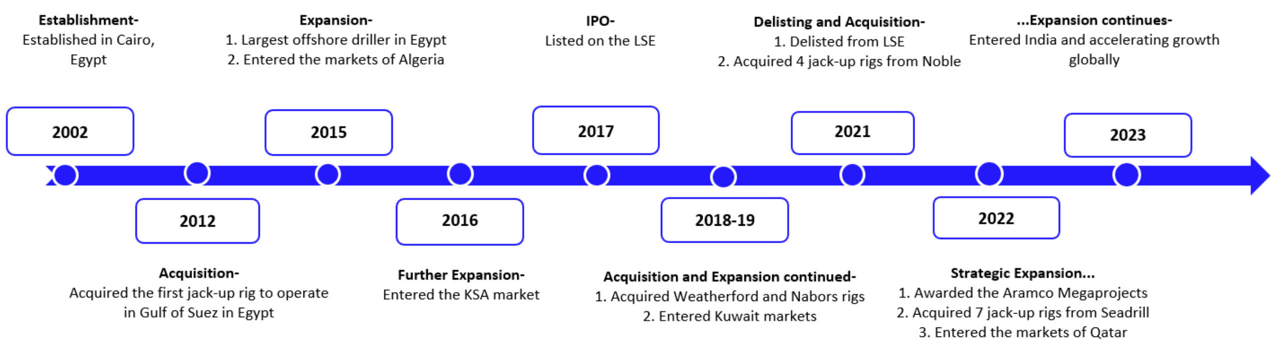
Company Overview

ADES, a leading oil and gas drilling and production services provider was established in 2002 in Egypt. Active acquisition strategy and organic growth have been the driving factors in underpinning offshore penetration. The company has expanded its geographical footprint significantly across Egypt to GCC and recently India. Charting its growth path, the company has significantly expanded its market share with Aramco (36%) in the offshore rigs segment, post bagging one of the largest-ever offshore drilling tenders comprising of 19 rigs with a backlog worth $3bn. ADES has a well-trained in-house engineering team with a well carved niche in the KSA market owing to its high-profile client base. New rig deployment at a lean cost structure shall pave way for harnessing growth.

Shareholding-

ADES Investments commanded the largest shareholding in the Group pre-IPO constituting about 54.5% (post-IPO 36.50%). Furthermore, PIF and Zamil Group stand to be the strategic shareholders in the Group. The strong shareholding structure backed by Government's leading investment arm reflects that the company is well positioned.

Figure 21 **ADES Timeline**



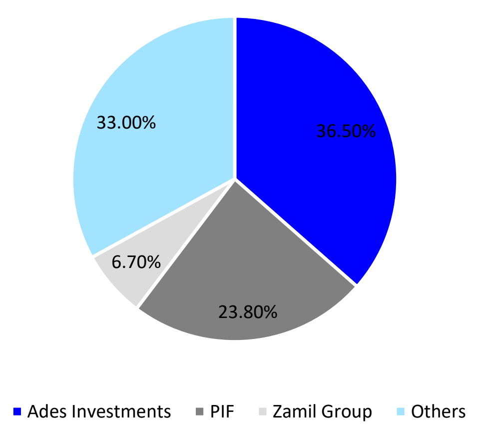
Source: Company Data, Al Rajhi Capital

Figure 22 **Current Board of Directors**

Team	Designation	Past Stint	Age
Ayman Mamdouh Mohamed Fathi Abbas	Chairman	Compass Capital for Financial Investments SAE	48
Mohamed Farouk Mohamed Abdul Majeed Abdul Khaleq	Vice Chairman	Invensys Operation Management	54
Meteb Mohamed Saad Al Shathri	Director	Raidah Investment Company, Saudi Aramco	37
Fadi Adel Mohamed Al Saeed	Director	Lazard Asset Management, ING Investment Management	42
Hatem Ahmed Al Sayed Suleiman	Director	Eckstein, ADES International, Schlumberger	65
Abdulrahman Khalid Abdullah Al Zamil	Director	National Energy Company (Taqa), Zamil Group Holding Company, HSBC Middle East	37

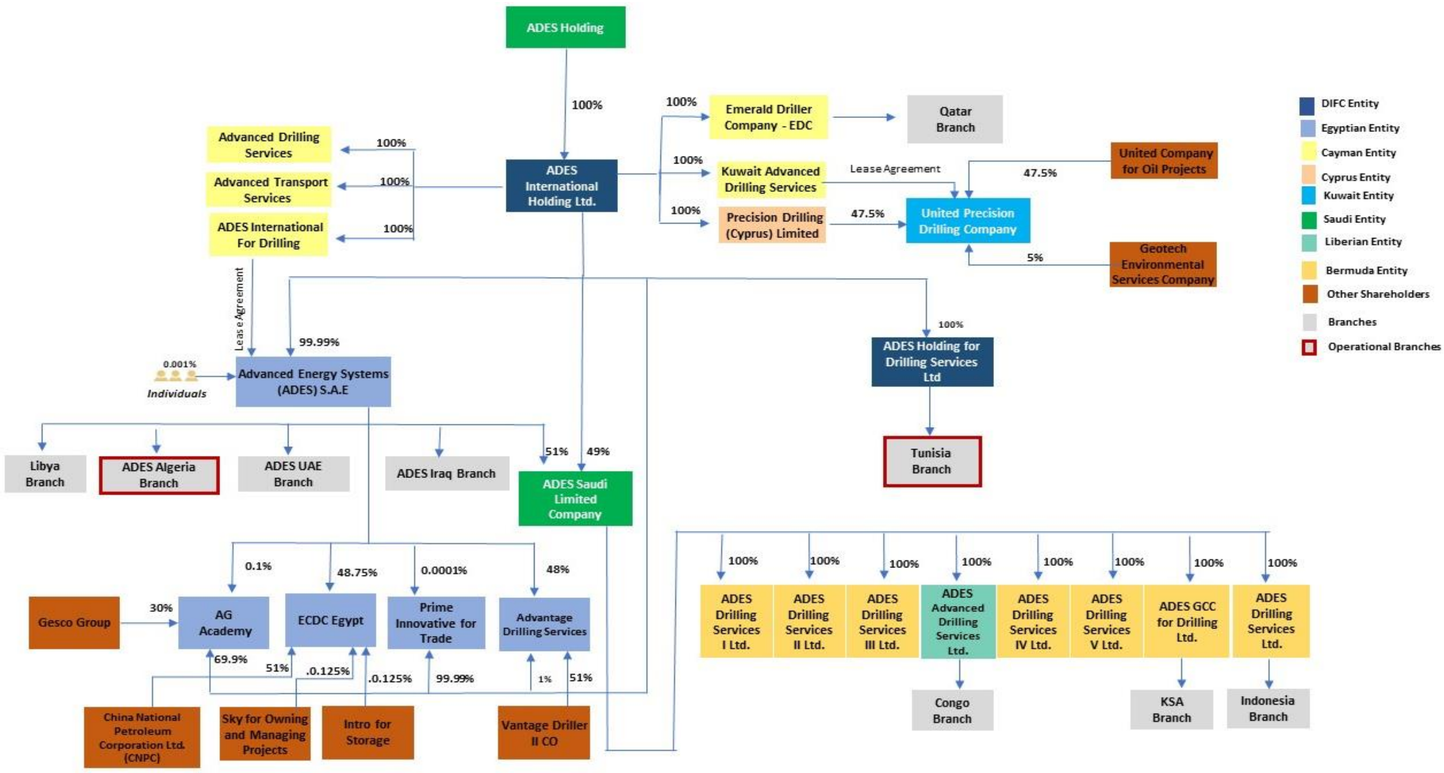
Source: Company Data, Al Rajhi Capital

Figure 23 **Post-IPO Shareholding**



Source: Company Data, Al Rajhi Capital

Figure 24 **Corporate Structure**

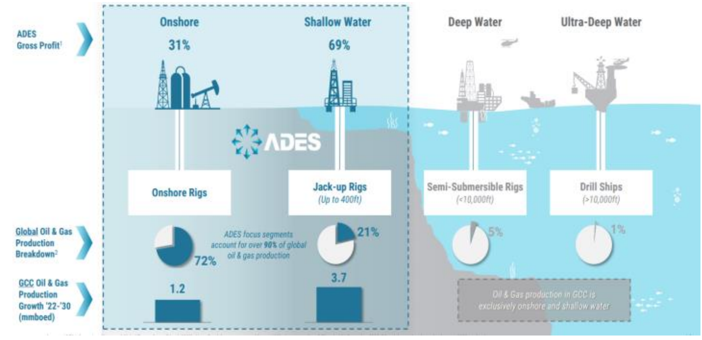


Source: Company Data, Al Rajhi Capital

Business Model

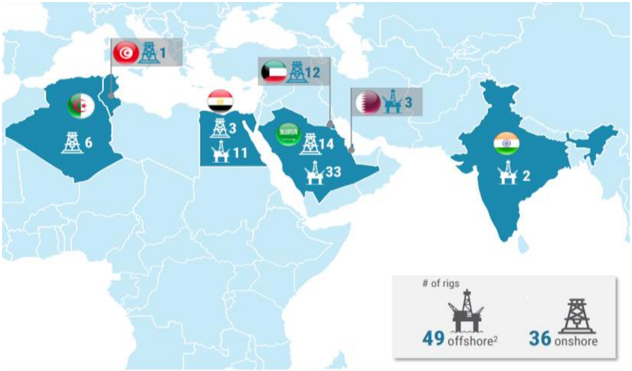
ADES is the market leader in offshore drilling in its areas of operations. With a strong client base spanning 7 countries, it has a fleet of 85 rigs (49 offshore and 36 onshore). Driving success in the KSA Markets, ADES's operations are aligned in the non-Harsh environment, implying presence in the onshore and shallow waters space. We note that about 93% of the GCC oil and gas production is carried out in onshore and shallow waters space, referred to as the non-Harsh environment, thereby requiring less demanding drilling vessels. The Deep waters and Ultra-deep waters contribute to a mere 6% of the production.

Figure 25 **Striking Presence in Non-harsh Environments**



Source: ADES Presentation, Al Rajhi Capital

Figure 26 **Geographical Diversification**

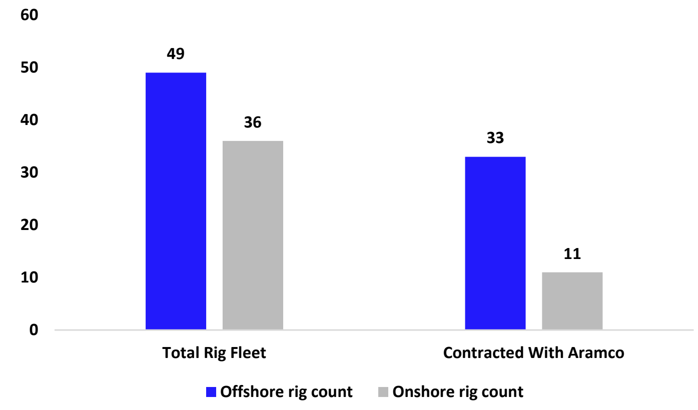


Source: ADES Presentation, Al Rajhi Capital

ADES Fleet Breakdown

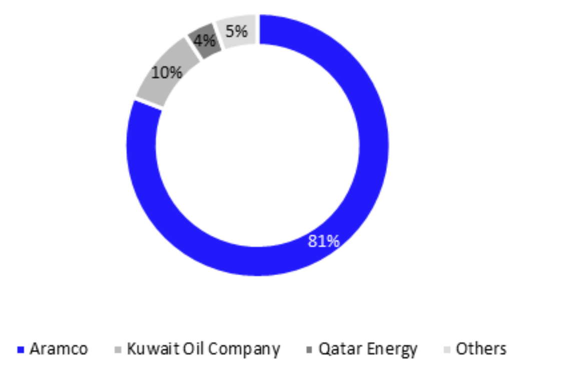
Of the total rig fleet of 85, about ~67% of offshore rigs and ~31% of onshore rigs are contracted with Aramco, implying a strong market share with Aramco (~33% in Jack-up rigs segment). Furthermore, as of H1 2023, ADES has a solid backlog of SAR27.6bn, 81% of which is contracted with Saudi Aramco, providing ensuring strong margin visibility at the back of favourable day rates.

Figure 27 **Rigs Contracted with Aramco**



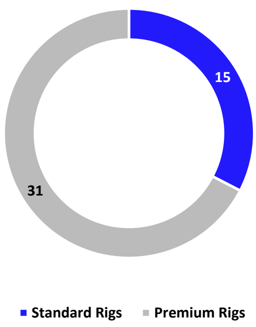
Source: ADES Presentation, Al Rajhi Capital

Figure 28 **Backlog Bifurcation by Customer as of 1H2023**



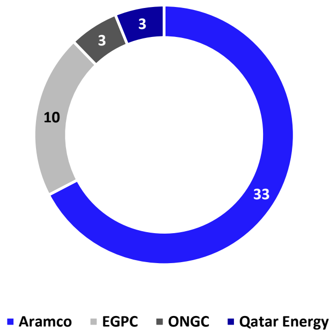
Source: ADES Presentation, Al Rajhi Capital

Figure 29 **Offshore Rigs Spec**



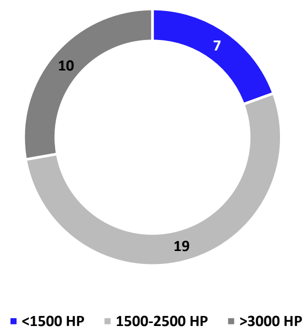
Source: ADES Presentation, Al Rajhi Capital

Figure 30 **Offshore Rigs Contract by Customer**



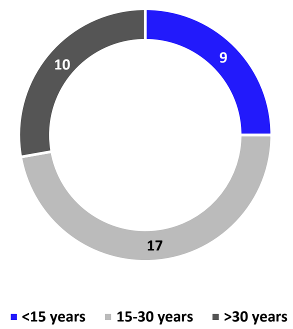
Source: ADES Presentation, Al Rajhi Capital

Figure 31 **Onshore Rigs Spec**



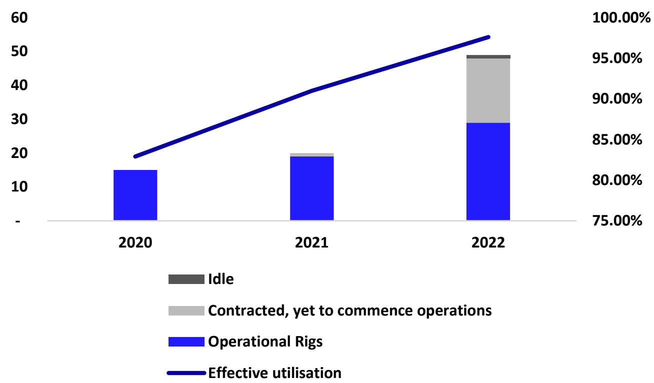
Source: ADES Presentation, Al Rajhi Capital

Figure 32 **Offshore Rigs Breakdown by Age**



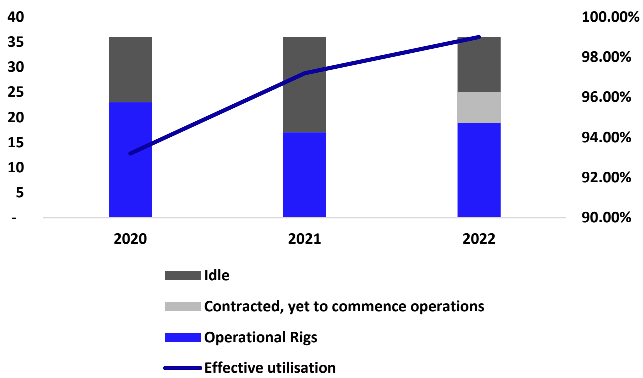
Source: ADES Presentation, Al Rajhi Capital

Figure 33 **ADES Offshore Rig Categorization**



Source: ADES Presentation, Al Rajhi Capital

Figure 34 **ADES Onshore Rig Categorization**

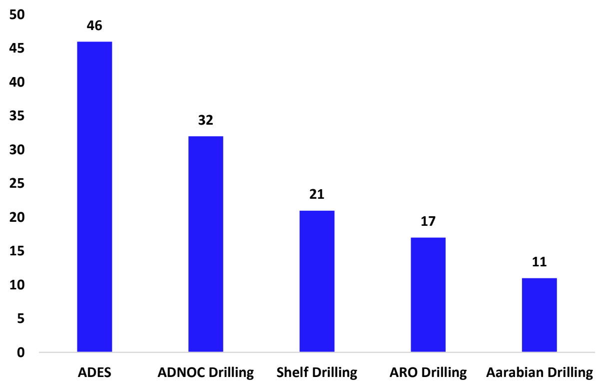


Source: ADES Presentation, Al Rajhi Capital

Offshore Rigs

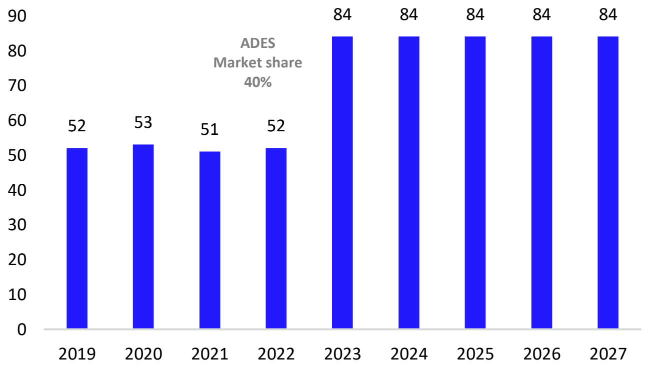
Offshore rigs cater to drilling below the seabed in shallow and deep waters. The average global offshore rig count was mostly correlated with Brent oil prices until 2022. However, of-late the growth in number of rigs have been deviated from trend in oil prices. The uptrend in number of offshore rigs is suggestive of steam in offshore drilling activity. Furthermore, the demand for Jackup rigs in KSA is also expected to go up steeply in 2023 primarily as a result of Aramco's effort to increase its oil production capacity by 1mmbpd to 13mmbpd by 2027 with most of the increase coming in from key offshore fields. We note that ADES commands a market share of about 40% in KSA's Jackup rigs fleet (33 rigs in the KSA out of its 46 rigs, total 84 rigs in the KSA market, source: ADES presentation) making it the largest Jackup rig operators in the Kingdom as a result of several mergers and acquisitions besides organic growth over 2020-2023 (added 34 new rigs between 2020-2023). Besides the E&P expenditure for KSA Offshore rigs are also expected to swell up steeply until 2025 at a CAGR of 5.8% between 2022-2027. In the global premium jack-up rigs market, ADES has a market share of 1/10th (31 rigs out of overall global premium jack-up fleet of 305).

Figure 35 **Offshore Rig Market Positioning**



Source: ADES Presentation, Al Rajhi Capital

Figure 36 **Saudi Arabia Jack-up Rig Fleet**

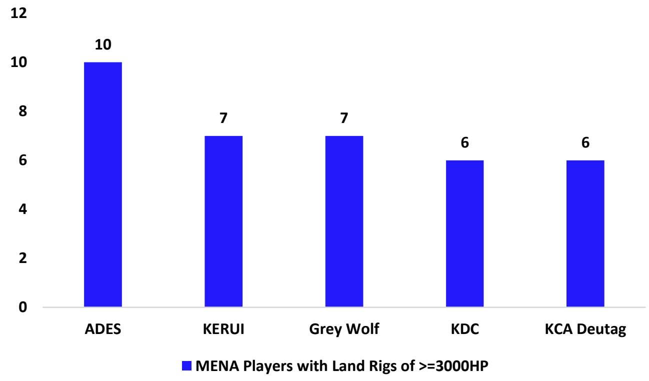


Source: ADES Presentation, Al Rajhi Capital

Onshore Rigs

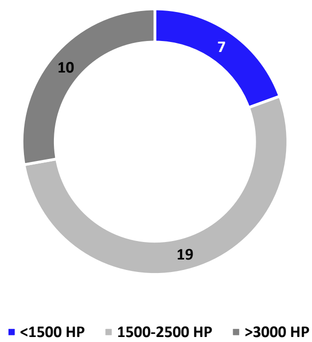
Onshore drilling takes place on the seabed and rigs here are classified based on their Horsepower. The demand supply parameters for onshore rigs indicate a healthy outlook for the onshore rigs market. In addition to this the E&P spend outlook for onshore rigs in KSA also looks well poised with onshore Rig E&P expenditure projected to grow at 5-year CAGR of 7.4% between 2022-2027. ADES is the top market player in the MENA region based on the fleet breakdown by greater than 3000 HP (10 rigs > 3000 HP) followed by KERUI.

Figure 37 **Onshore Rig Market Positioning**



Source: ADES Presentation, Al Rajhi Capital

Figure 38 **Onshore Rigs Specs (by HP)**

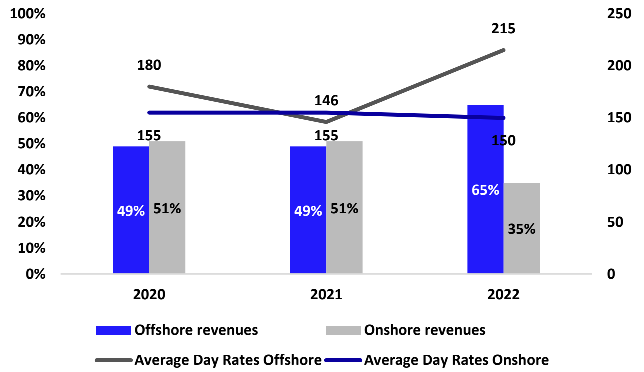


Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

ADES Revenue Composition

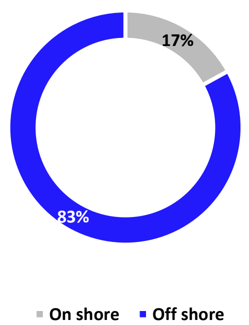
Offshore revenues for ADES registered a steep jump in 2022 over 2021 owing to recent acquisitions of 10 offshore rigs. Besides the acquisition of 4 rigs from Noble in 2021, the full impact of which came in 2022 lead to lucrative day rates for the offshore segment. On the other hand, 2 new rigs were added in the onshore segment with day rates primarily remaining stable. Going forward the revenue visibility shall be underpinned by the strong order backlog of about SAR 27.6 bn as of H1 2023 with a mix of 83%/17% from the offshore segment and onshore segment, respectively.

Figure 39 **Revenue Mix & Average Daily Revenue (SAR'000)**



Source: ADES Presentation, Al Rajhi Capital

Figure 40 **Backlog Bifurcation by Segment (as of 1H2023)**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Acquisitions remain integral to growth strategy

ADES has successfully capitalized on inorganic acquisitions in order to expand its fleet, largely offshore and to expand its geographical niche. The company added 34 new rigs by way of acquisition between 2020 and 2022, enabling a solid backlog evolution from SAR1.9bn in 2016 to SAR27.4bn in 2022. The acquisitions added to ADES's exposure in the offshore markets which command higher day rates and hence higher margins leading to value accretion. It has successfully been able to tap the market potential from inorganic growth strategy.

Figure 41 **Acquisitions Key to Expansion**

Year	Seller	No. of Rigs Acquired	Type of Rigs	Strategic Rationale
2016	Hercules	3	Jack-up rigs	Entered the KSA offshore market
2018	Nabors	3	Jack-up rigs	Consolidated market share with Aramco
2018-19	Weatherford	31	Onshore rigs	Entered onshore gas market and Kuwait
2021	Noble	4	Jack-up rigs	Access to KSA offshore gas drilling market
May-22	Vantage	3	Jack-up rigs	Entered Qatar
Oct-22	Seadrill	7	Jack-up rigs	Deliver on the Aramco Mega Project

Source: ADES Presentation, Al Rajhi Capital

Investment Rationale

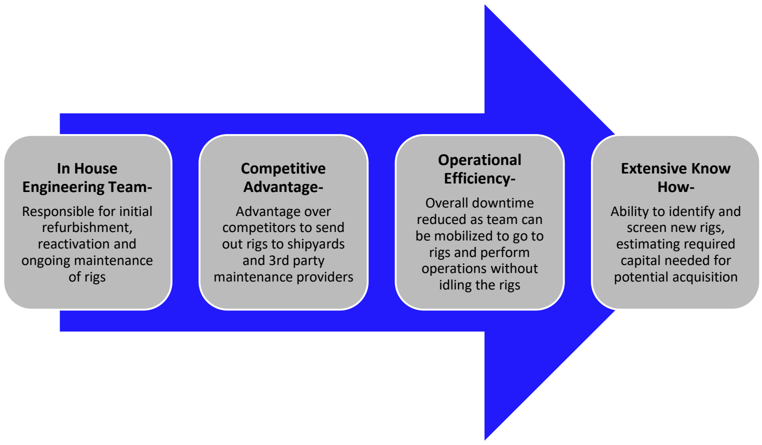
- **Unique business model supported by in-house engineering team and focus on digitization**

ADES has a very strong in-house re-engineering team that is fully integrated across different maintenance stages. The capabilities include initial reactivation to ongoing maintenance of the rigs. The re-engineering team provides a unique advantage over its peers as the company does not to need to rely on shipyards or third-party maintenance providers. The extensive know-how of the in-house re-engineering team helps the company to shortlist available rigs in the market and estimate the required capital for refurbishment. Given that the new builds can take 2-3 years' time and the operators favor drillers that can meet the commitment of providing rigs in a relatively shorter period time, having an in-house re-engineering team provides a unique edge over the peers. The benefits are reflected in the low acquisition cost of the rigs as well as ADES recent win of the Aramco award. ADES' average rig acquisition cost of USD 62 mn (premium jack-ups), half of that of the industry average which is USD 125 mn (pre-upgradation cost). Further, its in-house capabilities played a key role in winning one of the largest jack-up rig awards. ADES was awarded 16 rigs out of the 40 jack-up rigs orders placed by Aramco last year. About 12 rigs are under refurbishment for this project and expected to be delivered in H2 2023. Moreover, having an in-house team can notably reduce the O&M costs. The team can visit the rigs and perform the maintenance operations without idling the rig, this is reflected in the low idle time for its rigs (non-productive time: 1.2% in 2022, 0.8% in 2021).

In addition to this, the company focusses on maintaining a lean cost structure through digitization, having overhead cost centre in a low-cost country, maintaining a higher mix of local workforce, etc. It has a fully centralized and integrated monitoring system, that enables real-time monitoring and provides key data across functions. The monitoring system provides a complete package that includes a wide range of data pertaining to all the group functions including financials, operations, safety, supply chain related data as well commercial dashboard that shows fleet and backlog related data. The support system is fully automated requiring minimal human intervention that can help in boosting operational and financial efficiency for both the company as well as its clients. Further, the company has a shared service Centre in Cairo and for the rig crews it depends on local workforce to keep a lid on the costs (57% workforce is local). Moreover, the company is now investing in a cutting-edge safety technology, RIGEYE, that has predictive analytics capabilities. It is a 24/7 surveillance system focused on safety of the crew as well as the equipment. As per the management, the system is completely in-house developed and has been deployed in 7 rigs so far and has plans to deploy in 44 rigs in KSA by the end of the year. Although, it is in nascent stage, as per the management the technology has already shown signs of success and has so far avoided 3 risk incidents. In our view, this should a provide a notable edge to the company as it can offer a complete package to the clients, that comprise of high-tech capabilities at a low cost supported by its in-house re-engineering team and a lean cost structure.

On the back of lean cost structure model and low acquisition cost of rigs, ADES has an edge in terms of winning contracts as the company can afford to bid at competitive day rates. In 2022, ADES' average offshore day rates were USD 62k versus USD 80k for the KSA market. Despite this, the company earned a healthy EBITDA margin of 42.5% in 2022. Its strong order backlog of SAR 27.6 bn, as of first half of 2023, and the healthy margins highlight the benefits and success of this business model.

Figure 42 **In-House Engineering and Reactivation Strategy**

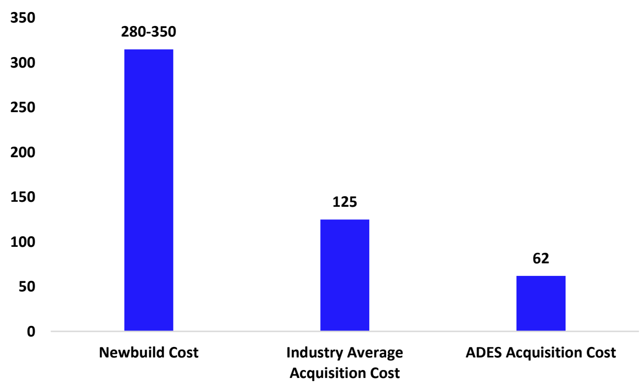


Source: ADES Presentation, Al Rajhi Capital

Figure 43 **Engineering Division Breakdown**

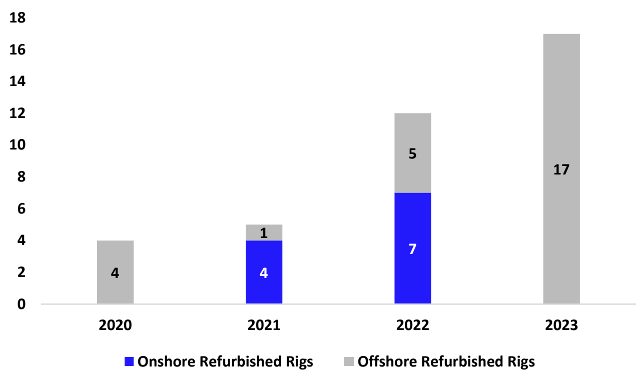
Source: ADES Presentation, Al Rajhi Capital

Figure 44 **Industry versus ADES Acquisition Cost ($mn)**



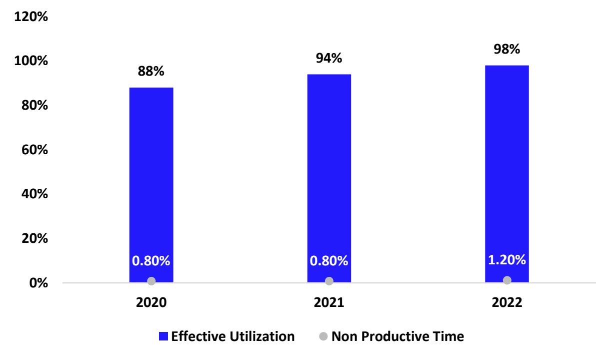
Source: ADES Presentation, Al Rajhi Capital Note: Average ADES acquisition cost of premium jack-up rigs, excluding schedule G capex (to upgrade rigs to Aramco standards) and any other required refurbishment

Figure 45 **Refurbished Rigs**



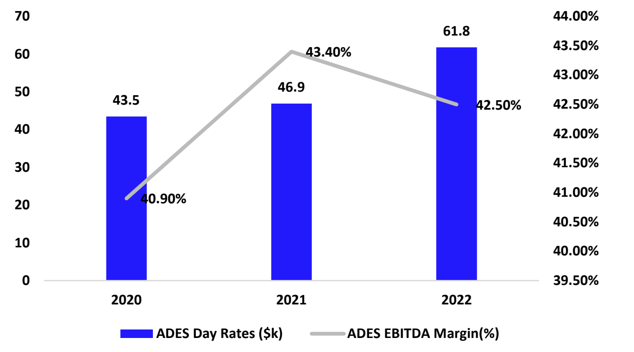
Source: ADES Presentation, Al Rajhi Capital

Figure 46 **ADES Fleet Efficiency**



Source: ADES Presentation, Al Rajhi Capital

Figure 47 **ADES Key Performance Metrics**



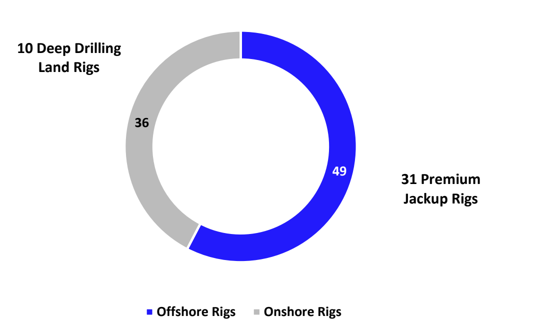
Source: ADES Presentation, Al Rajhi Capital

- **Fit for purpose fleet and presence in resilient and high growth markets**

  ADES has created an unmatched scale and footprint with 85 rigs and presence across the MENA region, with KSA, Egypt and Kuwait accounting for bulk of the rigs (76 rigs out of 85). It has a market leadership position in the offshore segment with 49 rigs, that includes 46 jack ups, way ahead of the second largest player that has 32 rigs (Adnoc drilling). Adnoc Drilling is largely focused on a single market, UAE, while ADES has a presence spread across 7 countries (includes onshore) with a dominant share in the attractive KSA market. Moreover, it has the largest fleet of premium offshore rigs, 31 out of its 49 rigs, which is 10% of the global premium jack-ups. Further, out of its 15 standard rigs, 8 are shallow water rigs. It maintains a notable share of ultra-shallow fleet, about 6 ultra-shallow water rigs are contracted with Aramco. Further, in the onshore segment, it has a large share of high specs rigs and is the market leader in > 3000 hp category, 10 rigs out of its 36 rigs are of >3000 HP. It has also a strong fleet of 19 rigs in the medium-power drilling capacity (1500-2500 HP). In the onshore rig market, its high spec rigs provide an edge in participating in tenders across the MENA region, that also includes the Kuwaiti deep drilling market.

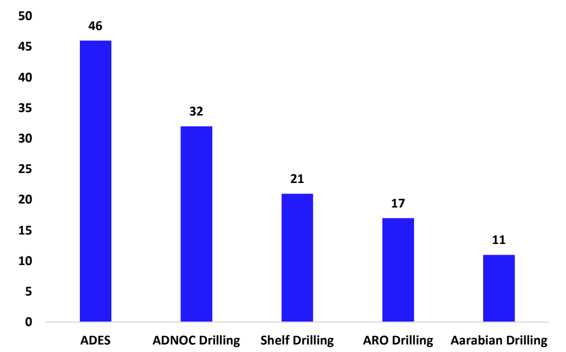
  About 93% of the oil & gas production in the GCC market comes from non-harsh environments, onshore (72%) and shallow water (21%), while deep water and ultra-deep-water accounts for just 6%, thus ADES has the right assets to cement its leadership position in the GCC market. Moreover, the bulk of the incremental production in the medium term (2022-2023e) is expected to come from shallow water (3.7m boe/d versus 1.2m boe/d production growth from onshore). ADES' dominant share in the offshore rig market, mainly shallow water, positions it well to capture the expected drilling capex in the medium term.

Figure 48 **ADES Fleet Breakdown**



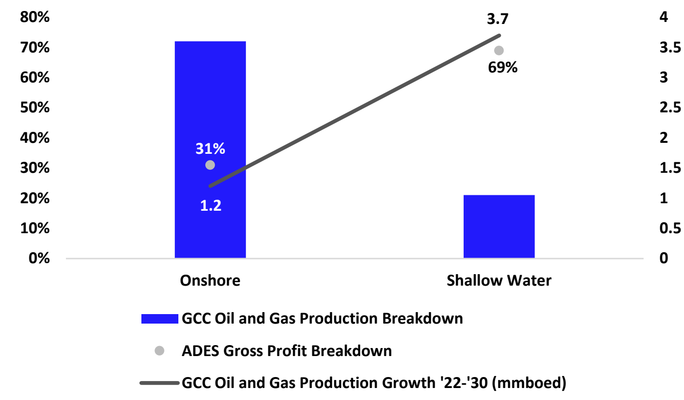
Source: ADES Presentation, Al Rajhi Capital Note: Offshore includes 2 jack-up barges and 1 Mobile Offshore Production Unit (MOPU).

Figure 49 **ADES Jack-up Rig Market Positioning**



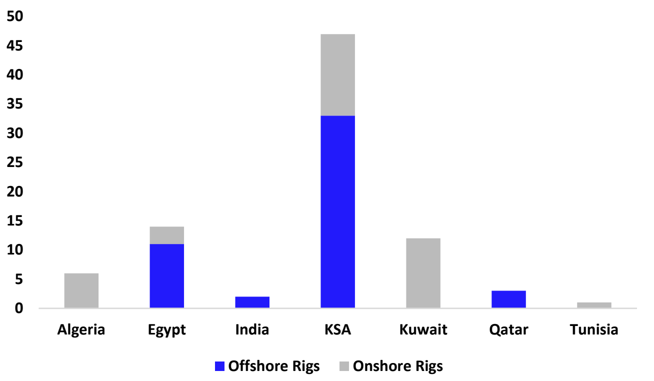
Source: ADES Presentation, Al Rajhi Capital

Figure 50 **Onshore and Shallow Water Dynamics**



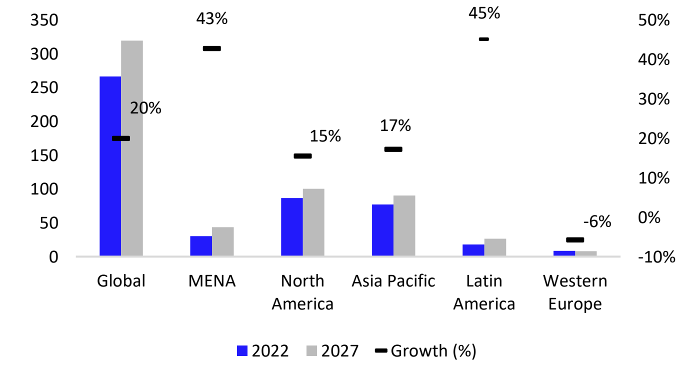
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 51 **ADES Fleet Breakdown by Country (2022A)**



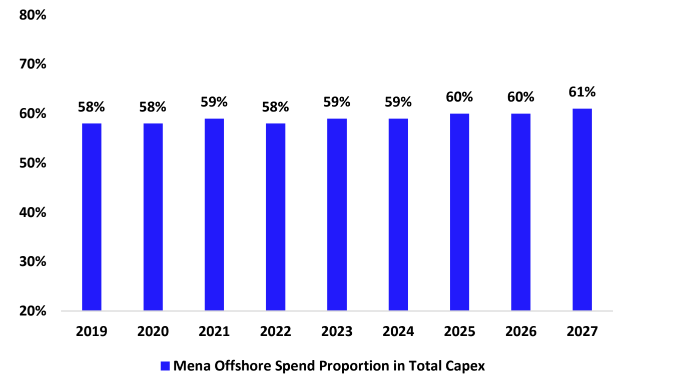
Source: ADES Presentation, Al Rajhi Capital

Figure 52 **Markert Size for Offshore Rigs ($bn)**



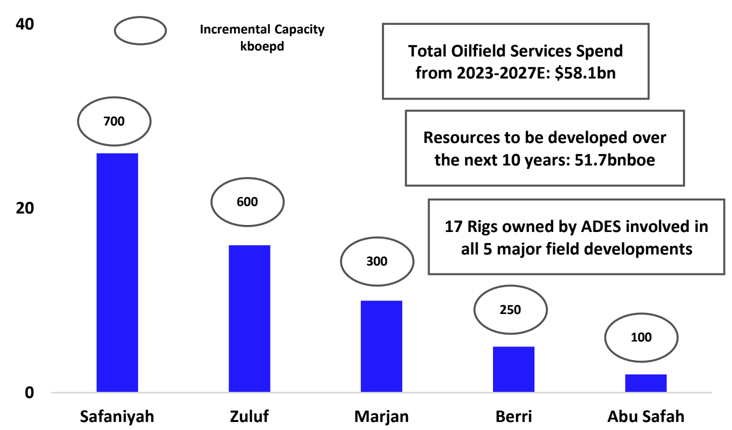
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 53 **MENA Offshore Spend Proportion in Total Capex**



Source: ADES Presentation, Al Rajhi Capital

Figure 54 **Saudi Arabia Oilfield-Wise Estimated Offshore Capex ($bn)**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

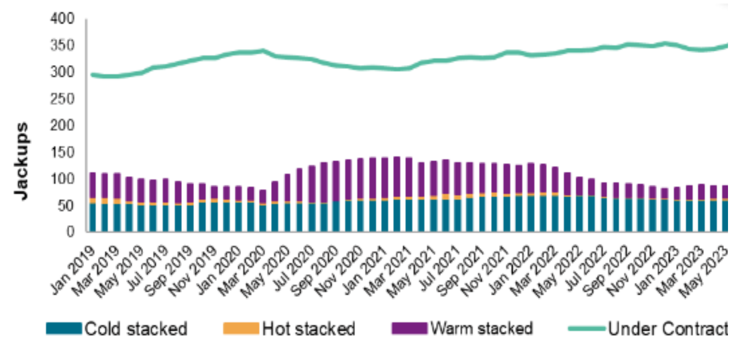
- **Tight supply dynamics in the jack-up market to support day rates**

The lack of investments in the offshore rig newbuilds post the downturn in 2024/2015, stringent requirement from the shipyards for the newbuilds (70% down payment required versus minimal during the pre-2014 boom) and the recent surge in demand for the jack up rigs, especially from the Middle East, have pushed marketed utilization levels over 90% globally. The utilization level is expected to go up further as the drillers prepare to deploy rigs for the orders received in the last two years. In 2022, Aramco placed one of the largest offshore drilling tenders with a requirement of 40 jack-up rigs, of which 16 would be met by ADES. The strong demand is reflected in the sharp jump in the total contracted jack up rigs worldwide, from 294 in January 2019 to 354 units in May 2023 (as per S&P Global).

The high cost for building new jack ups (USD 280-350 mn for premium jack ups), long time frame (2-3 years required to build) and the stringent requirements from the shipyards, such as 70% down payment, could weigh on the supply of newbuild in the near term. As per S&P Global, the stacked units in the last two years have declined from 111 units in Jan 2019 to 86 units in May 2023, and the dip is more prominent in the warm stacked units from 73 units in Dec. 2020 to just 23 currently. Given that cold stacked units could take time for refurbishment and reactivation and warm stacked units are just 23, the near-term supply dynamics appear tight.

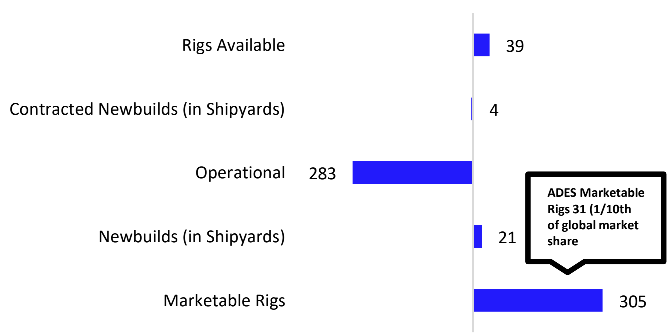
Similar confirmation is provided by Westwood Global Energy Group, that says the utilization level is 90% and only 39 premium jack up rigs are available. ADES with its fleet of 31 premium jack up rigs control 1/10th of the total 305 marketable premium rigs worldwide. Thus, it is well positioned to benefit from the tight supply dynamics, that should bode well for the day rates. As per Westwood Global Energy Group, the marketable utilization level in the MENA region and KSA are expected to notable improve from 82% and 97% in 2022 and will achieve 97% and 102% by 2024, respectively. This level of tightness should push the day rates notably. As per its estimates, the day rates are expected to reach USD106k in MENA and USD128k in KSA (only premium) from USD 77k and USD86k in 2022, an increase of 38% and 49%, respectively.

Figure 55 **Tightness in the market indicated by decline in stacked jack-ups**



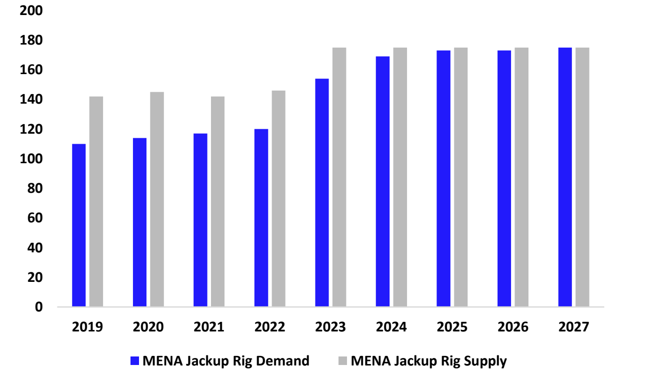
Source: S&P Global Commodity Insights, Al Rajhi Capital

Figure 56 **Premium Jackup Rig Supply as of December'22**



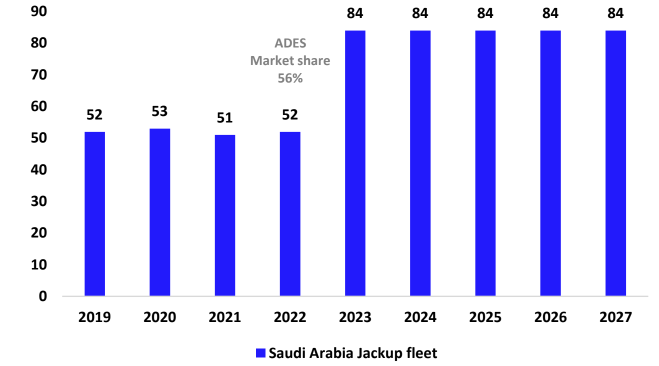
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 57 **MENA Jackup Rig Demand & Supply Outlook**



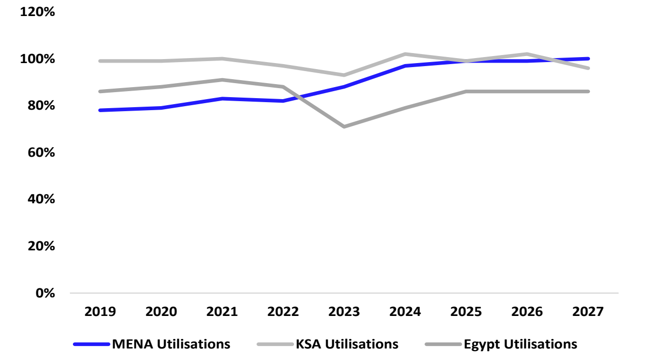
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 58 **Saudi Arabia Jackup Fleet Outlook**



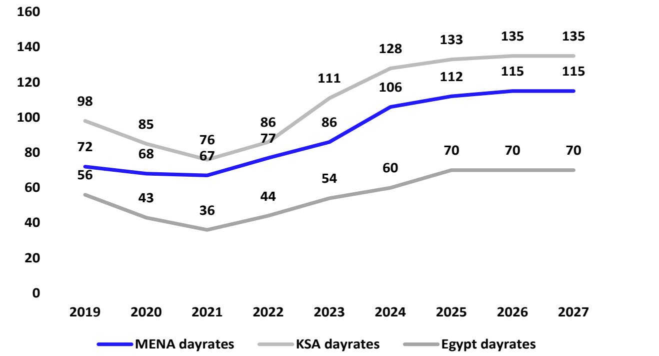
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 59 **Marketable Utilizations (%)**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 60 **Day Rates ($k/d)**



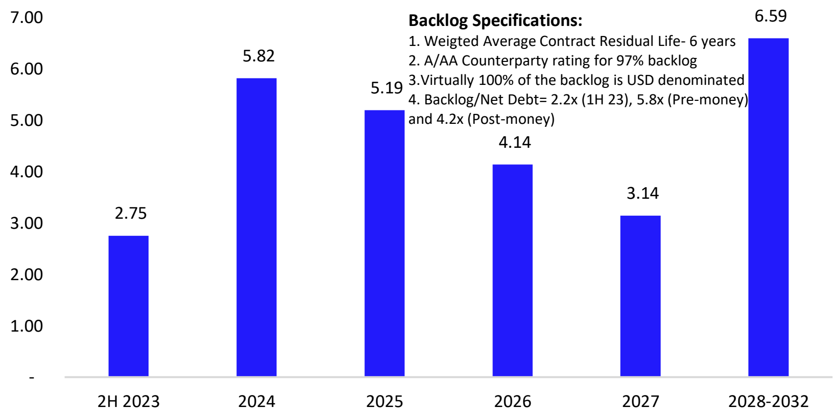
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

- **Strong revenue visibility, onshore to provide next leg of growth in backlog**

ADES' fit for purpose fleet and the ability to bid at competitive rates have aided the company to earn robust order backlog of SAR 27.6 bn (as of end of H1 2023). The attributes of the order backlog, that includes 100% USD denominated revenues, average tenure of 6 years, A/AA credit rating for 97% of the counterparty, etc. are reassuring in terms of providing revenue visibility. The mix of order backlog is 82% offshore, 18% onshore and 83% of total exposure is to Aramco. In terms of book to bill (revenue visibility), this implies 11x on 2022 revenues and 6x on 2023E revenues, providing a very strong revenue visibility over the medium term.

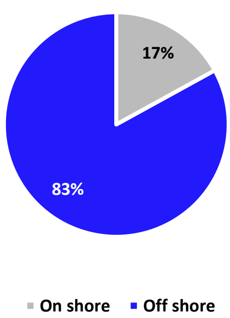
Moreover, the company's order backlog includes one of the largest ever offshore drilling contracts, a mega project to deploy 19 rigs for Aramco by the end of Q3 2023 with an average tenure of 7 rigs. The company has already deployed 7 rigs and the remaining 12 rigs are expected to be deployed in H2 2023. The company has a dedicated task force for this particular project led by the CEO himself and has already secured manpower and have procurement & logistics agreements in place. The delivery and execution of this project is very important as the company would be meeting the commitment of delivering such a large order within a span of just 1 year. Moreover, this would indicate the capabilities of the company and allow it to win such scale of orders in the future.

Figure 61 **Backlog Revenue (SAR bn) as of 1H2023**



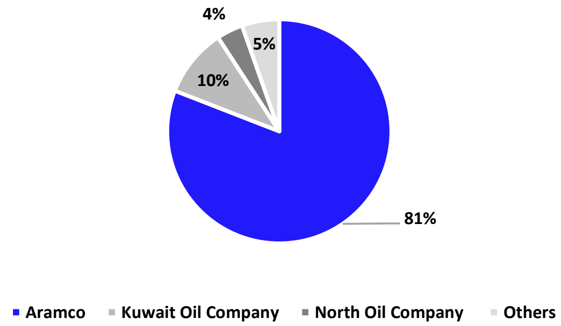
Source: ADES Presentation, Al Rajhi Capital

Figure 62 **Backlog Bifurcation by Segment (as of 1H23)**



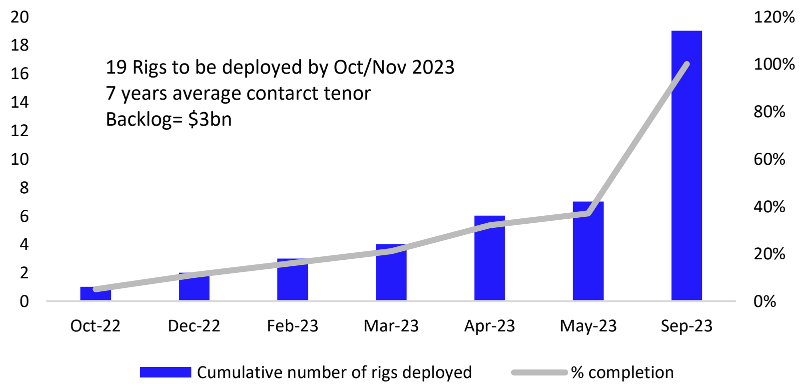
Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 63 **Backlog Bifurcation by Customer (as of 1H23)**



Source: ADES Presentation, Westwood Global Energy Group, Al Rajhi Capital

Figure 64 **ADES-Aramco Megaproject Deployment Timeline**



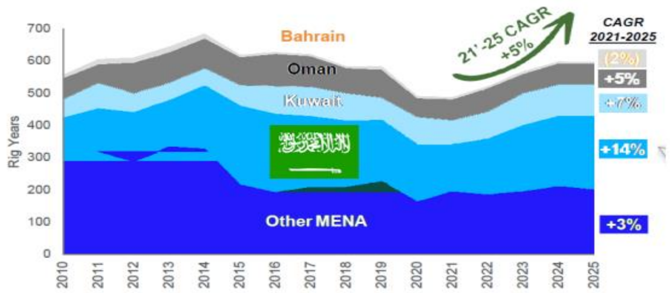
Source: ADES Presentation, Al Rajhi Capital

…Onshore segment can provide the next leg of growth in order backlog…

According to the Rystad market report, the land rig demand in the MENA region is expected to grow at a CAGR of +5% over 2021-25e, primarily driven by Saudi Arabia (+14% CAGR) and Kuwait (+7% CAGR). In the KSA, the Jafurah field, an unconventional gas field, is expected to be the key driver of the growth. As per ADES, the near-term opportunity identified is for 96 rigs, of which 54 rigs is from just two countries, KSA (20 rigs) and Kuwait (34 rigs). The company already has strong presence in these two countries, currently out of its 36 rigs, 11 onshore rigs are deployed with Aramco and 10 with Kuwait Oil Corporation.

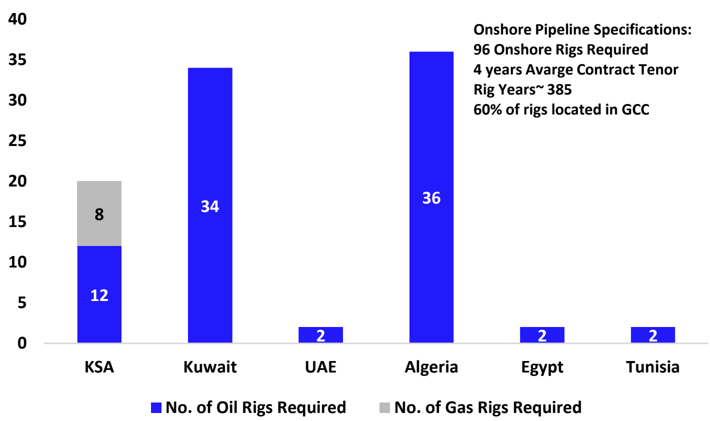
In the onshore fleet, the company currently has 36 rigs of which 11 rigs were idle till H1 2023. The company in its H1 2023 update disclosed that it has won a contract for deploying 4 rigs in Algeria with 2 rigs effectively deployed in 2024 and 2 in 2025. Moreover, the company plans to expand its onshore fleet by adding 2 rigs in H2 2023 (contracted for its 5-year contract with KOC) and another 7-9 rigs during 2025-2027, of which over 5-7 rigs are expected to be added for the KSA market. Thus, in total the company could have 15-17 rigs (includes 8 idle rigs currently and new 7-9 rigs that will be acquired in case of demand) that can be deployed to capture the growing market. Currently, the order backlog is heavily skewed towards the offshore segment (83% is offshore, 17% is onshore) and most of its offshore fleet is already contracted, thus limited scope for growth in the backlog. However, ADES established position and presence in high growth markets (Aramco and KOC) should bode well to capture the growth opportunity in the onshore market. The company is actively participating in tenders to deploy its idle rigs with focus on GCC and North African markets. In our view, the onshore segment could become a key catalyst for the growth in the company's order backlog.

Figure 65 **Onshore Rig Demand to grow in MENA**



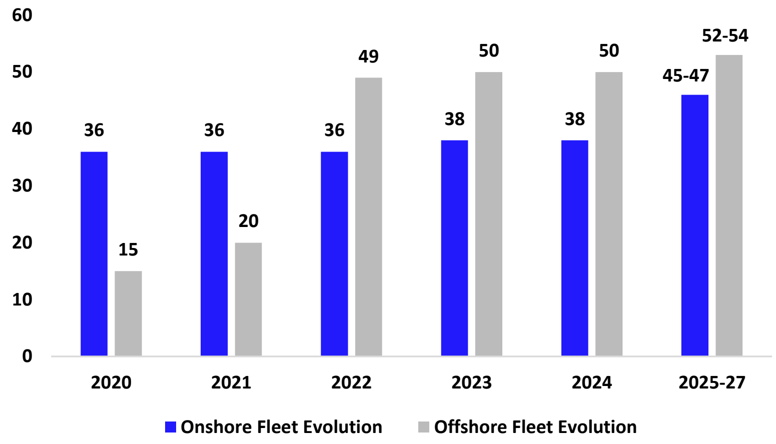
Source: Rystad Market Report, Al Rajhi Capital

Figure 66 **Onshore: Near Term Opportunity Pipeline**



Source: ADES Presentation, Al Rajhi Capital

Figure 67 **ADES Organic Growth Outlook (ex-Algerian order of 4 rigs)**



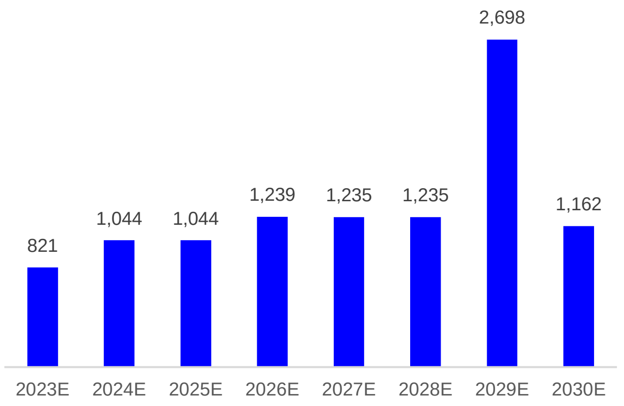
Source: ADES Presentation, Al Rajhi Capital

- **Leverage elevated currently, but to decline rapidly**

Over the last two years, primarily in 2022, ADES took a strategic decision to acquire rigs in the offshore market as the supply/demand dynamics turn favorable for the drillers. To fund the acquisition of the rigs, the company resorted to long term debt financing with no major debt repayment in the next five years or so. The company has secured a strong order backlog to cover the contractual repayments and has access to liquidity to cover unforeseen cash requirements (SAR 4.1 bn of undrawn credit facilities). Further, the company has also hedged 60-70% of its debt, that has an all-in cost of 6.2% fixed over the tenure of the loan, includes 4.15% (SAIBOR capped) plus 0.56 bps of hedging cost and 1.5% is margin. Given that SAIBOR is around 5.95%, the decision to hedge has worked favorably so far. The company wants to reduce its exposure to unhedged loans. As the cash flows of the company improves and the company optimizes its capital structure through raising funds through IPO, the unhedged loans are expected to go down. Post the IPO proceeds, we estimate the portion of hedged loans as a % of total loans by the end of 2023 will increase to 74% from 62% at the end of 2022.

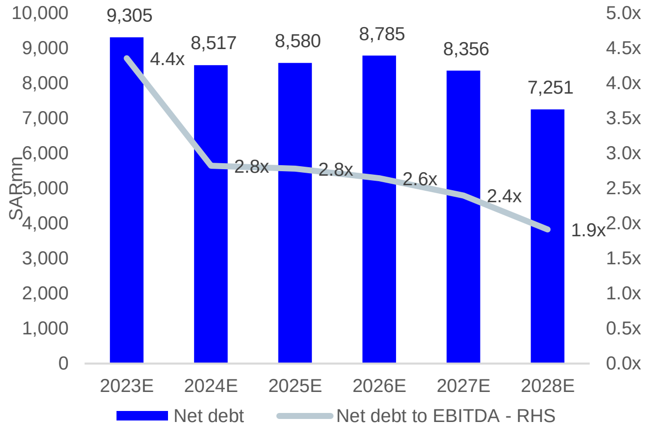
In terms of leverage, currently the metrics are elevated owing to recent expansions being financed by debt. However, beyond 2023, the leverage metrics will improve notably to 2.8x in 2024e and 2025e and to 2.6x in 2026e.

Figure 68 **Current Debt Maturity Schedule (SARmn)***



Source: ADES Presentation, Al Rajhi Capital, * as per 2022 presentation

Figure 69 **Net Debt/EBITDA to see improvement**



Source: ADES Presentation, Al Rajhi Capital

Valuation and Key Risks

We value the company using the relative valuation EV/EBITDA approach. Given the high capex intensity of the business and different capital structure, we believe EV/EBITDA is a better methodology than P/E, as it captures the impact of leverage, different depreciation policies, mix of lease assets as well as conditions of the rigs. Given the company's strong positioning in the offshore market, we expect ADES to trade at a premium to its peers like Arabian Drilling. We believe the stock should command an EV/EBITDA multiple of 11.0x based on its 2024e EBITDA. The company's long-standing relationship with Aramco underpins its capability to win a dominant share in any subsequent tenders floated by Aramco specific to the Jackup market and the Jafurah unconventional gas field. Hence, the company is expected to trade at premium multiples. The EV/EBITDA approach results in a target price of SAR18.2/sh implying a downside of 1.9% from the current price. Hence, we initiate coverage on ADES with a "Neutral rating" on the stock.

Figure 70 **Valuation**

Valuation Methodology	Relative Valuation EV/EBITDA
2024e EBITDA	3,020
Target EV/EBITDA multiple	**11.0x**
EV	33,220
Discounted EV	29,851
Less:Net Debt*	**9305**
Equity Value	**20545**
Target Price per share	**18.2**
Upside/ (Downside)	*-1.9%*

Source: Al Rajhi Capital; * Net Debt: Proforma assuming repayment

Key Riks: In terms of risks, the major risks are high leverage, crew retention costs and delay in order execution. Although, bulk of the loans are hedged, the incremental capex requirement will be funded through new loans, that are exposed to the prevailing interest rates. Thus, if rates do not decline as much as we anticipate (assumed blended interest rate to decline 150 bps y-o-y in 2025E and 100 bps y-o-y in 2026E), then the growth in net income will be lower than our current CAGR estimate of 15% during 2024-2028. Another near-term risk is retaining crew without significantly escalating the costs. Given the challenges around wage inflation being on an upward trend both in KSA and other markets, staff costs will be a key monitorable going forward. Besides, any delay in order execution for the current backlog will disrupt revenue visibility thereby impacting the bottom line and overall growth trajectory of the business.

Financial Assumptions

Revenue, fleet and day rates:

ADES' total revenues have grown by 1.5 times since the level of 2020, from SAR 1.7 bn to SAR 2.5 bn in 2022 primarily driven by the offshore business, that in turn was supported by acquisitions and new contracts as well as sharp improvement in the day rates. As of 2022, offshore revenues contributed 65% of the total revenues versus 49% contribution in 2020. The company's fleet mix has notably changed from onshore heavy to offshore. Going forward, the offshore segment is expected to be the key growth driver and we estimate by 2024, the mix will further increase to 77% of the total revenues. We have detailed our assumptions for each business segment below.

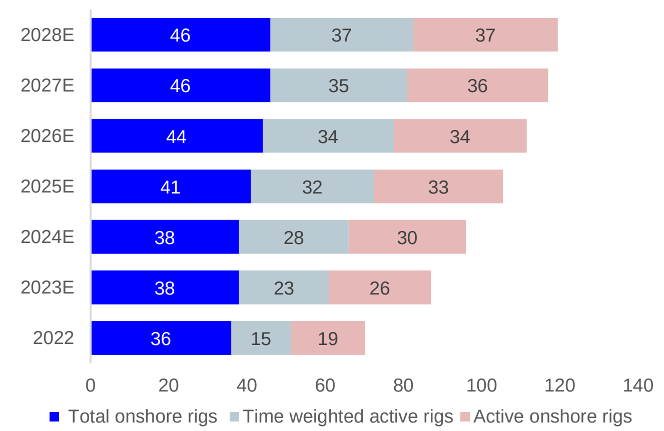
Offshore: On the back of strong order backlog (SAR 27.6 bn as of H1 2023), that includes the Aramco megaproject of delivery 19 rigs in 2023. The total active offshore rigs are expected to increase from 29 rigs at the end of 2022 to 48 rigs at the end of 2023. However, as bulk of the delivery will be in H2 2023, the time weighted rigs will be around 36 rigs versus 21.5 rigs in 2022. In 2024, the entire 48 rigs will be operational throughout the year. In the medium term, the company targets to add 10-12 rigs, that includes both organic (2-4 rigs) and inorganic. However, we prefer to be conservative and are considering only the 2-4 rigs additions for our projections, thus we estimate total active rigs by the end of 2027 to be 52 rigs.

We expect the utilization rate to stay elevated between 96%-97% during 2023-2028 given that the company's in-house reengineering team, that can visit the rigs in case of any repairs, should result in lesser downtime. On day rates, given the tightness in the demand/supply dynamics, we consider the lower end of the guidance range (SAR 270-275k/day) for 2023 and midpoint of the guidance range for 2024 (SAR 278-283k/day). Based on our channel checks, the day rates are on the conservative side, implying the company has won contracts at competitive day rates, thus possibility of renewal is high. Beyond 2024, we expect the blended average day rate (both standard and premium rigs) to further increase by 5% to SAR 296k/day. The company has guided that starting 2025, the day rates for premium jackups will be 30-35% higher than the current day rates. The reason for just 5% increase in the blended day rate is that out of 49 rigs, the company has 31 premium rigs and of which 19 rigs are contracted with Aramco for about 7 years on firm contractual basis, thus these 19 rigs wont' benefit from the higher day rates expected in 2025 and only 12 rigs, that are premium would benefit from the higher day rates. And in terms of renewals, only 8 rigs will be available for renewal in 2025. As the mix of rigs contracted at higher rates increase beyond 2025, we estimate the blended average day rate to continue to increase every year and stabilize at SAR 318k/day in 2028.

Based on these assumptions, we expect offshore revenues to more than double in 2023 from 2022 level and reach SAR 3.4 bn and increase further 40% y-o-y in 2024. Starting 2025, we estimate 5% revenue CAGR till 2028, mainly driven by pricing.

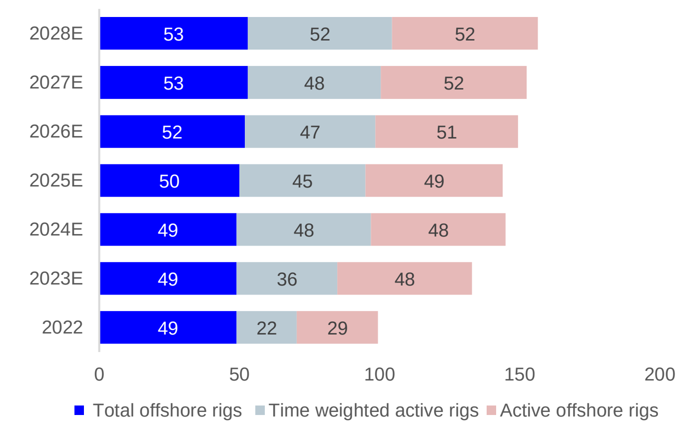
Onshore: Onshore revenues are expected to grow at a relatively lesser pace in 2023e, but improve in 2024e and 2025e as the company has recently won a contract to deploy 4 rigs in Algeria from its idle fleet. The revenues in 2023 and 2024 are expected to grow by 41% y-o-y and 26% y-o-y, respectively, aided by about 8 more active rigs (time weighted) in 2023 and 13 more active rigs in 2024 versus 2022 level. In the medium term, that is beyond 2024, the company plans to grow its onshore fleet notably and targets to add 7-9 rigs during 2025 and 2027. The company is strong relationship with Aramco in the offshore business should help to boost its market share in KSA's onshore market, which is currently on the lower side. We have considered the impact of growth in onshore fleet during 2025-2027, however, on the day rates we have kept it flat beyond 2024 due to presence of stronger players such as Arabian Drilling in the onshore market. Based on these assumptions, beyond 2024, we estimate onshore revenues to grow at a CAGR of 7% during 2024-2028, mainly driven by the growth in the fleet size.

Figure 71 **Onshore Fleet**



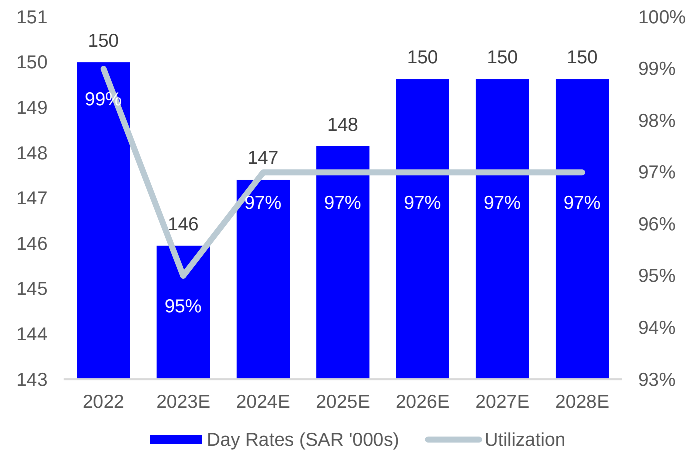
Source: ADES Presentation, Al Rajhi Capital

Figure 72 **Offshore Fleet**



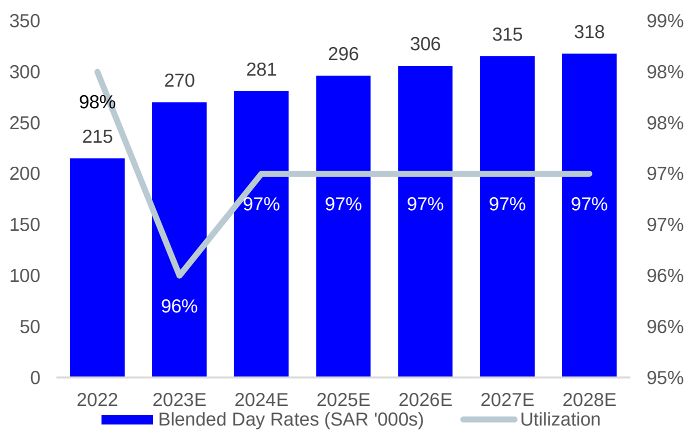
Source: ADES Presentation, Al Rajhi Capital

Figure 73 **Onshore Day Rates and Utilization**



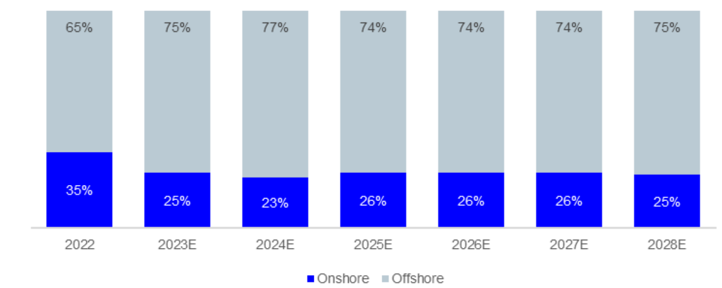
Source: ADES Presentation, Al Rajhi Capital

Figure 74 **Offshore Day Rates and Utilization**



Source: ADES Presentation, Al Rajhi Capital

Figure 75 **Revenue Mix**



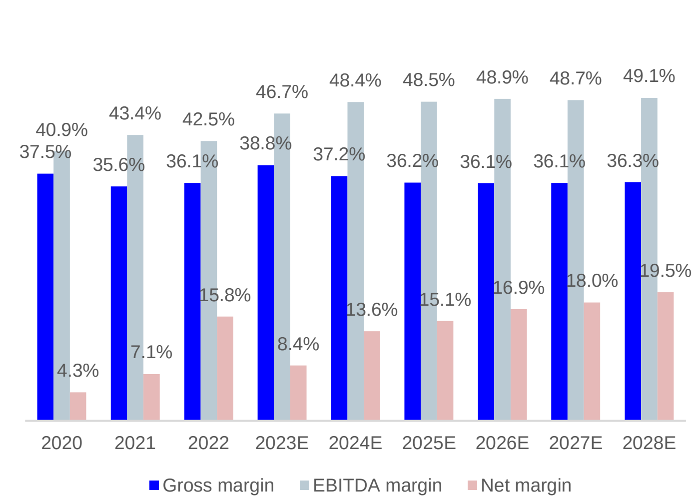
Source: ADES Presentation, Al Rajhi Capital; ARC estimates

Margin Assumptions:

Within the offshore segment, gross margins (ex-depreciation) are expected to improve, led by cost control measures and better day rates, to 59.0% in 2023 from 57.6% in 2022 (estimated), before rising to 59.5% in 2024 (guidance: 0.5% improvement on 59% in 2023) and stabilizing at that level. In the onshore business, gross margins (ex-depreciation) are expected to stay flattish at 46% in the medium term. Post considering the impact of depreciation (total depreciation including in the G&A) which is expected to be around 17.2% as of sales in 2023e and sharply rising to 19.6% in 2024, total gross margins (company level) are expected to be 38.8% in 2023e and 37.2% in 2024 versus 36.4% during 2020-2022. The improvement in the gross margins versus its recent history is mainly due to the change in mix (higher offshore versus onshore). On the other hand, the decline in gross margins in 2024 versus 2023 is due to the full year impact of higher depreciation expense caused by a rise in offshore fleet contribution (active time weighted offshore rigs to be 48 rigs versus 36 rigs in 2023).

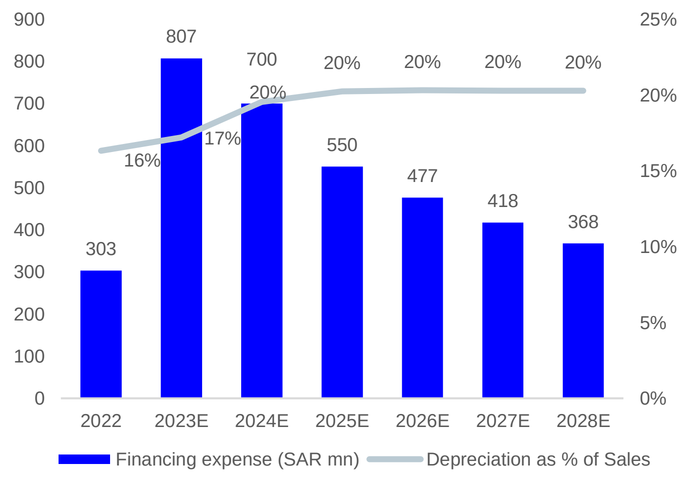
The EBITDA margins (as per management definition, that excludes provisions and other end of service benefits) are also expected to improve notably from average 42.3% during 2020-2022 to 46.7% in 2023 and 48.4% in 2024, while averaging at 48.8% during 2025-2028. In our view, this improvement is mainly due to higher gross margins for the offshore business as well as the benefits of operating leverage and lean operating cost structure. As the leverage is expected to decline notably from the current levels, net profit margin is expected to notably improve from the estimated levels of 8.4% in 2023 to 13.6% in 2024 and 19.5% by 2028. Based on the sharp improvement in the net profit margins, the bottom-line CAGR growth on the base of 2024 till 2028 is almost 15.4% compared to 5.5% revenue CAGR, 4.8% gross profit CAGR and 5.8% EBITDA CAGR during the same period.

Figure 76 **Margin Profile**



Source: ADES Presentation, Al Rajhi Capital

Figure 77 **Depreciation as a % of Sales & Financing Expense**



Source: ADES Presentation, Al Rajhi Capital

Key Financials

Figure 78 Income Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	**2,467**	**4,573**	**6,238**	**6,364**	**6,798**	**7,148**	**7,724**
Cost of revenues	(1,576)	(2,797)	(3,918)	(4,062)	(4,345)	(4,566)	(4,924)
Gross profit	**891**	**1,776**	**2,320**	**2,302**	**2,453**	**2,582**	**2,800**
Gross profit (Ex. Depreciation)	**1,286**	**2,547**	**3,514**	**3,564**	**3,805**	**4,003**	**4,335**
General and administrative expenses	(246)	(427)	(520)	(506)	(510)	(549)	(577)
End of service employment benefits	(18)	(25)	(24)	(23)	(23)	(22)	(21)
Other provisions	(14)	0	0	0	0	0	0
Finance costs	(303)	(807)	(700)	(550)	(477)	(418)	(368)
Finance income	19	25	36	34	22	19	28
Other expenses	(15)	(18)	(44)	(64)	(68)	(71)	(77)
Others	153	0	0	0	0	0	0
Profit before zakat and income tax	**468**	**524**	**1,068**	**1,194**	**1,397**	**1,542**	**1,785**
Zakat and income tax	(71)	(133)	(212)	(223)	(238)	(250)	(270)
Profit for the period	**398**	**391**	**856**	**971**	**1,159**	**1,291**	**1,515**
Non-controlling interests	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Profit for the period (Post-minority)	**390**	**384**	**849**	**964**	**1,152**	**1,284**	**1,508**
Dividends			509	578	691	770	905
Dividend payout*			60%	60%	60%	60%	60%
EBITDA**	**1,015**	**2,111**	**2,996**	**3,062**	**3,302**	**3,462**	**3,769**
EBITDA - Management Definition	**1,049**	**2,136**	**3,020**	**3,085**	**3,324**	**3,484**	**3,791**

Source: Company Data, Al Rajhi Capital

Figure 79 Cash Flow Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA - Management Definition	1,032	2,136	3,020	3,085	3,324	3,484	3,791
Net changes in working capital (Including Mobilization)	*200*	*1,311*	*(388)*	*(366)*	*(364)*	*(354)*	*(377)*
Zakat and income tax paid	(47)	(133)	(212)	(223)	(238)	(250)	(270)
Employee's benefit obligation paid	(40)	(29)	(28)	(27)	(26)	(25)	(24)
Operating activities	**1,146**	**3,286**	**2,392**	**2,470**	**2,696**	**2,854**	**3,118**
Maintenance & SPS capex	(157)	(550)	(685)	(550)	(477)	(544)	(737)
Growth Capex	(3,766)	(3,393)		(923)	(1,335)	(753)	
Acquisitions	(2,515)						
Investing activities	**(6,438)**	**(3,943)**	**(685)**	**(1,473)**	**(1,812)**	**(1,297)**	**(737)**
Proceeds from long-term borrowings	6,567	3,000	500	1,000	1,400	1,000	500
Proceeds from issuance of new shares		3,201					
Repayment of long-term borrowings	(899)	(4,184)	(1,044)	(1,044)	(1,239)	(1,235)	(1,235)
Payment of lease liabilities	(38)	(112)	(110)	(117)	(124)	(130)	(133)
Finance cost paid	(373)	(807)	(700)	(550)	(477)	(418)	(368)
Finance income received		25	36	34	22	19	28
Dividends paid	(7)		(255)	(544)	(635)	(731)	(838)
Financing activities	**5,250**	**1,123**	**(1,572)**	**(1,221)**	**(1,053)**	**(1,494)**	**(2,045)**
Change in cash	(42)	466	135	(224)	(168)	64	337
Cash and cash equivalents, beginning of the period	233	191	657	792	567	399	463
Cash and cash equivalents, end of the period	**191**	**657**	**792**	**567**	**399**	**463**	**800**

Source: Company Data, Al Rajhi Capital

Figure 80 Key Ratios

	2022	2023E	2024E	2025E	2026E	2027E	2028E
ROA (%)*	4.2%	6.9%	9.0%	8.9%	9.4%	9.8%	10.7%
ROE (%)*	11.6%	9.6%	13.9%	14.6%	16.3%	16.9%	18.3%
D/E (x)	4.9x	1.7x	1.5x	1.3x	1.3x	1.1x	0.9x
Net debt/EBITDA (x)	10.2x	4.4x	2.8x	2.8x	2.6x	2.4x	1.9x
Current ratio (x)	0.8x	1.2x	1.3x	1.4x	1.4x	1.5x	1.7x
Asset turnover ratio (x)	0.2x	0.3x	0.3x	0.3x	0.3x	0.3x	0.4x
Days sales outstanding	35	55	52	56	59	59	59
Days Sales Inventory	43	54	55	56	56	56	57
Days payable outstanding	227	164	170	166	163	155	150
Maintenance capex as % of sales (%)	6%	12%	11%	9%	7%	8%	10%

Source: Company Data, Al Rajhi Capital, Note: ROA is Operating profit divided by total assets. Operating profit and Net profit numbers for 2022 are adjusted for one-off items.

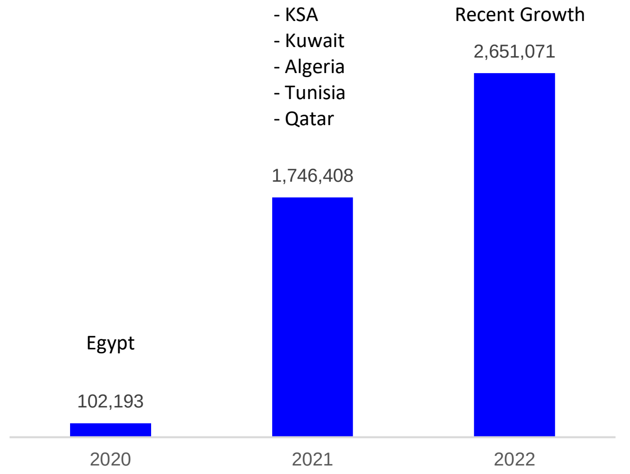
Figure 81 Balance Sheet

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E	2028E
Assets							
Cash and cash equivalents	191	657	792	567	399	463	800
Inventories	184	414	590	623	667	701	769
Trade and other receivables	235	689	889	976	1,099	1,146	1,238
Contract assets	256	457	593	700	782	858	927
Prepayments and other receivables	766	732	998	1,018	1,088	1,144	1,236
Derivative financial instrument	50	50	50	50	50	50	50
Due from related parties	10	10	10	10	10	10	10
Total Current Assets	**1,691**	**3,008**	**3,921**	**3,945**	**4,094**	**4,370**	**5,029**
Property, plant and equipment	12,066	15,334	14,909	15,211	15,766	15,741	15,043
Right-of-use assets	391	599	489	372	247	118	85
Investment in an associate and a joint venture	6	6	6	6	6	6	6
Derivative instruments	26	26	26	26	26	26	26
Prepayments and other receivables	320	320	320	320	320	320	320
Total Non-current assets	**12,810**	**16,286**	**15,751**	**15,935**	**16,366**	**16,211**	**15,481**
Total Assets	**14,501**	**19,294**	**19,672**	**19,880**	**20,459**	**20,582**	**20,510**
Liabilities							
Trade and other payables	979	1,257	1,825	1,847	1,940	1,939	2,024
Current portion of long-term borrowings	972	843	794	790	804	783	717
Current portion of lease liabilities	107	169	138	105	70	33	24
Provisions	15	15	15	15	15	15	15
Provision for zakat and income tax	10	10	10	10	10	10	10
Due to related parties	2	2	2	2	2	2	2
Deferred revenue	76	179	140	140	140	140	140
Total Current liabilities	**2,160**	**2,475**	**2,924**	**2,910**	**2,982**	**2,923**	**2,932**
Long-term borrowings	9,575	8,521	8,026	7,986	8,132	7,918	7,250
Lease liabilities	270	430	351	267	177	84	61
Provisions	118	114	111	107	104	101	98
Deferred revenue	70	1,851	1,711	1,571	1,431	1,291	1,151
Deferred tax	44	44	44	44	44	44	44
Other payables	5	9	52	116	184	255	333
Total Non-current liabilities	**10,082**	**10,969**	**10,295**	**10,091**	**10,073**	**9,695**	**8,936**
Shareholders' equity							
Share capital & Additional paid-in capital	858	4,059	4,059	4,059	4,059	4,059	4,059
Cash flow hedge reserve	62	62	62	62	62	62	62
Retained earnings	1,302	1,686	2,026	2,412	2,872	3,386	3,989
Proposed Dividends	0	0	255	289	346	385	452
Total Equity	**2,222**	**5,807**	**6,401**	**6,821**	**7,339**	**7,892**	**8,562**
Non-controlling interests	36	44	51	58	65	72	79
Total Liabilities & Equity	**14,501**	**19,294**	**19,672**	**19,880**	**20,459**	**20,582**	**20,510**

Source: Company Data, Al Rajhi Capital

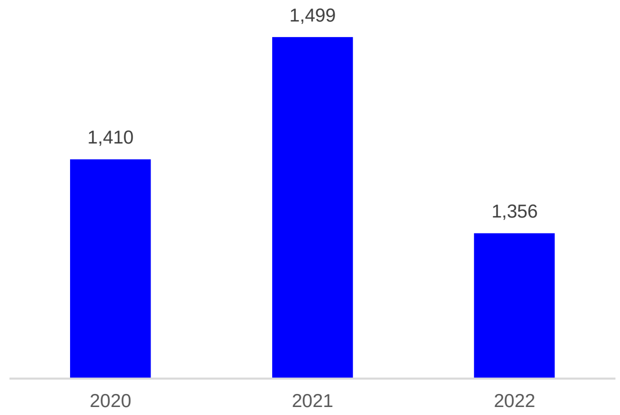
ESG Overview

Figure 82 **CO2 Scope 1 (Tons)**



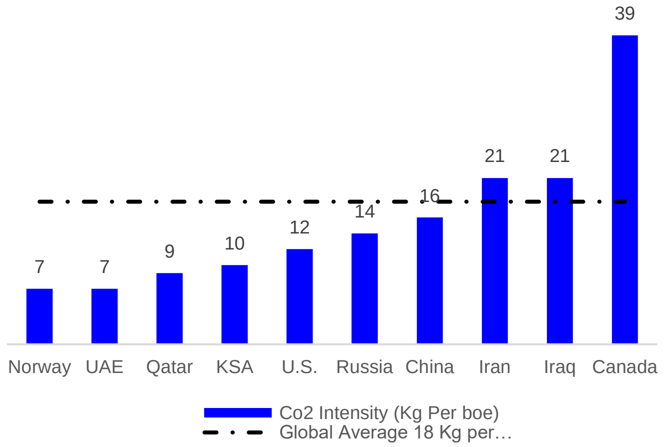
Source: ADES Presentation, Al Rajhi Capital

Figure 83 **CO2 Scope 2 (Tons)**



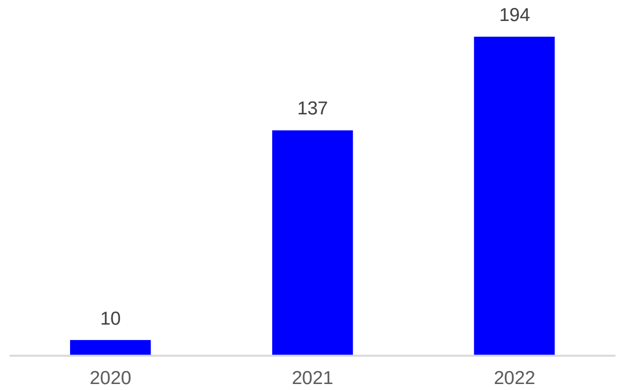
Source: ADES Presentation, Al Rajhi Capital

Figure 84 **Co2 Intensity**



Source: ADES Presentation, Al Rajhi Capital

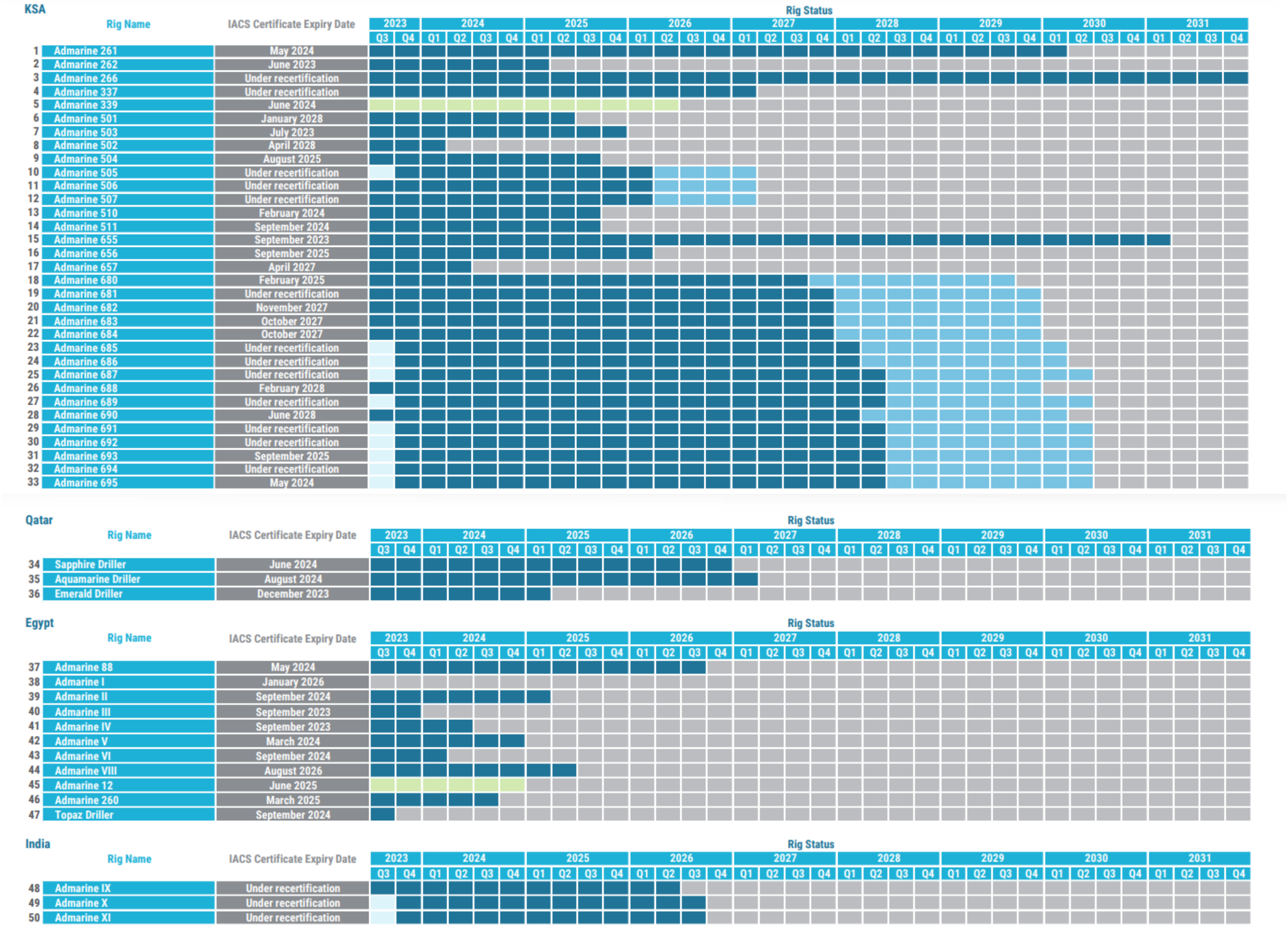
Figure 85 **Total Scope 1+2 CO2 Emission (metric tons CO2e/Operating Day)**



Source: ADES Presentation, Al Rajhi Capital

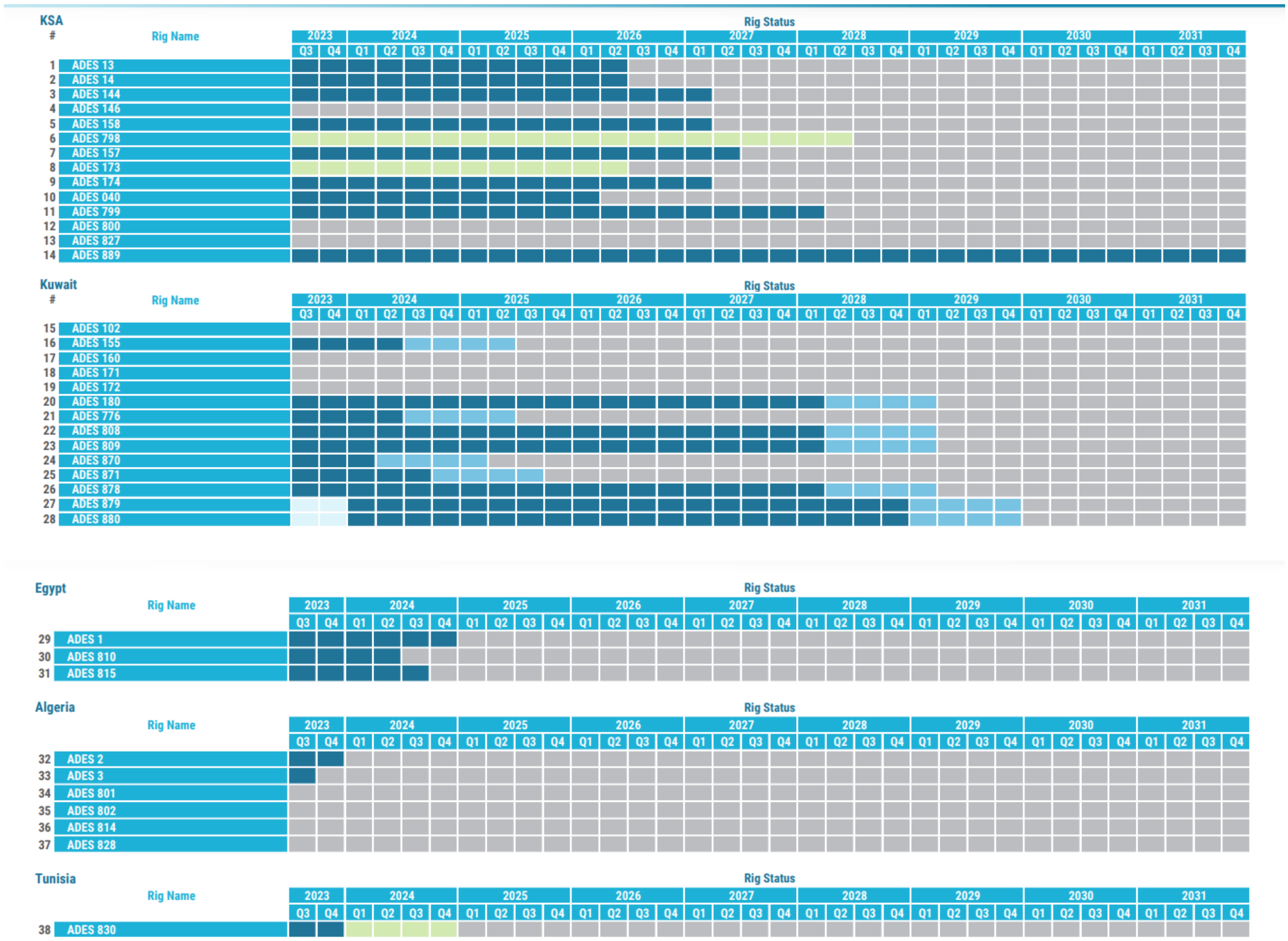
Appendix

Figure 86 **Offshore Fleet Status**



Source: Company Data, Al Rajhi Capital; Data as of 30th June 2023

Figure 87 **Onshore Fleet Status**



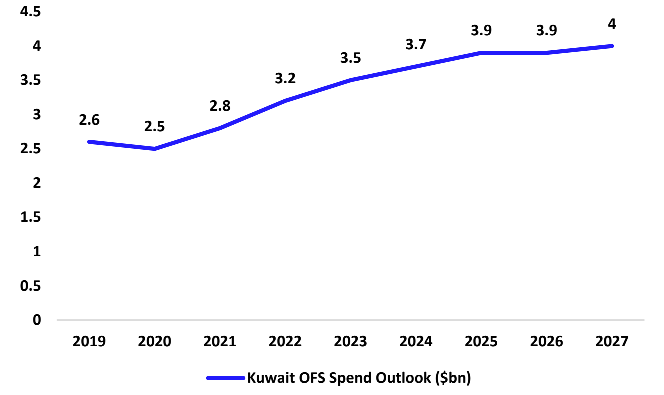
Source: Company Data, Al Rajhi Capital; Data as of 30th June 2023

Figure 88 **Specification of ADES's Offshore Fleet Status**

#	Rig	Type	Country (location)	Year of Manufacture Re-Build)	Year Refurbished	Max. working water depth (ft)	Max. drilling depth (ft)	No. of crew members	IACS Certificate Expiry Date
1	Admarine 12	Jack-up barge	Egypt	1966G	2020G	150	N/A[3]	20	Jun-25G
2	Admarine III	Jack-up rig	Egypt	1974G	2018G	250	20,000	91	Sep-23G
3	Admarine 88	Jack-up rig	Egypt	1974G	2019G	350	25,000	83	May-24G
4	Admarine 656	Jack-up rig	KSA	1974G	2020G	250	20,000	85	Sep-25G
5	Admarine IV	Jack-up rig	Egypt	1976G	2019G	307	20,000	105	Sep-23G
6	Admarine VI	Jack-up rig	Egypt	1976G	2017G	250	20,000	90	Sep-24G
7	Admarine 266	Jack-up rig	KSA	1978G	2017G	250	20,000	87	Under recertification
8	Admarine 260	Jack-up rig	Egypt	1979G	2020G	250	20,000	92	Mar-25G
9	Admarine 261	Jack-up rig	KSA	1979G	2017G	250	20,000	89	May-24G
10	Admarine 655	Jack-up rig	KSA	1979G	2018G	160	15,000	87	Sep-23G
11	Admarine 657	Jack-up rig	KSA	1980G	2022G	250	20,000	94	Apr-27G
12	Admarine V	Jack-up rig	Egypt	1981G	2019G	250	20,000	83	Mar-24G
13	Admarine VIII	Jack-up rig	Egypt	1981G	2022G	300	25,000	91	Aug-26G
14	Admarine IX	Jack-up rig	India[4]	1981G	Under Refurbishment	300	25,000	Hiring in process	Under recertification
15	Admarine I[1]	MOPU	Egypt	1982G	2021G	150	N/A[2]	Tendering phase	Jan-26G
16	Admarine 262	Jack-up rig	KSA	1982G	2018G	250	20,000	90	Under recertification
17	Admarine X	Jack-up rig	India[4]	1982G	Under Refurbishment	345	25,000	Hiring in process	Under recertification
18	Admarine II	Jack-up barge	Egypt	1983G	2019G	150	N/A[3]	36	Sep-24G
19	Admarine 691	Jack-up rig	KSA	2008G	Under Refurbishment	375	30,000	Hiring in process	Under recertification
20	Admarine 505	Jack-up rig	KSA	2008G	Under Refurbishment	375	30,000	Hiring in process	Under recertification
21	Admarine 507	Jack-up rig	KSA	2008G	Under Refurbishment	400	30,000	Hiring in process	Under recertification
22	Admarine 504	Jack-up rig	KSA	2010G	2020G	400	30,000	86	Aug-25G
23	Admarine 506	Jack-up rig	KSA	2010G	Under Refurbishment	375	30,000	Hiring in process	Under recertification
24	Admarine 690	Jack-up rig	KSA	2012G	Under Refurbishment	400	30,000	Hiring in process	Jun-28G
25	Admarine 692	Jack-up rig	KSA	2012G	Under Refurbishment	400	30,000	Hiring in process	Under recertification
26	Admarine 681	Jack-up rig	KSA	2013G	Under Refurbishment	400	30,000	Hiring in process	Under recertification
27	Admarine 682	Jack-up rig	KSA	2013G	Under Refurbishment	400	30,000	Hiring in process	Nov-27G
28	Admarine 503	Jack-up rig	KSA	2013G	2019G	400	30,000	84	Jul-23G
29	Admarine 501	Jack-up rig	KSA	2013G	2023G	400	30,000	78	Jan-28G
30	Admarine 502	Jack-up rig	KSA	2013G	2018G	400	30,000	88	Apr-28G
31	Admarine 695	Jack-up rig	KSA	2014G	Under Refurbishment	400	30,000	Hiring in process	May-24G
32	Admarine 685	Jack-up rig	KSA	2015G	Under Refurbishment	400	30,000	Hiring in process	Under recertification
33	Admarine 686	Jack-up rig	KSA	2015G	Under Refurbishment	400	30,000	Hiring in process	Under recertification
34	Admarine 683	Jack-up rig	KSA	2017G	2022G	400	30,000	87	Oct-27G
35	Admarine 684	Jack-up rig	KSA	2017G	2022G	400	30,000	84	Oct-27G
36	Admarine 688	Jack-up rig	KSA	2006G	Under Refurbishment	375	30,000	Hiring in process	Feb-28G
37	Admarine 693	Jack-up rig	KSA	2006G	Under Refurbishment	350	35,000	Hiring in process	Sep-25G
38	Admarine 337	Jack-up rig	KSA	2007G	2018G	400	30,000	93	Under recertification
39	Admarine 687	Jack-up rig	KSA	2007G	Under Refurbishment	375	30,000	Hiring in process	Under recertification
40	Admarine 689	Jack-up rig	KSA	2007G	Under Refurbishment	350	35,000	Hiring in process	Under recertification
41	Emerald Driller	Jack-up rig	Qatar	2008G	2018G	375	30,000	30	Dec-23G
42	Admarine 694	Jack-up rig	KSA	2008G	Under Refurbishment	350	35,000	Hiring in process	Under recertification
43	Sapphire Driller	Jack-up rig	Qatar	2009G	2019G	375	30,000	31	Jun-24G
44	Aquamarine Driller	Jack-up rig	Qatar	2009G	2019G	375	30,000	29	Aug-24G
45	Admarine 339	Jack-up rig	KSA	2009G	2019G	400	30,000	78	Jun-24G
46	Admarine 511	Jack-up rig	KSA	2014G/2019G	2019G	375	30,000	85	Sep-24G
47	Admarine 680	Jack-up rig	KSA	2015G	2022G	400	30,000	80	Feb-25G
48	Admarine 510	Jack-up rig	KSA	2015G/2018G	2019G	375	30,000	87	Feb-24G

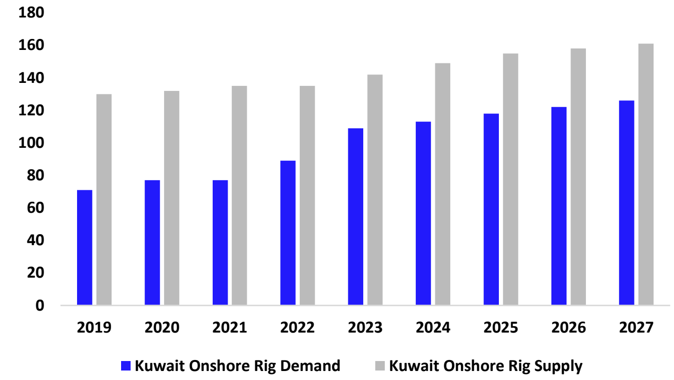
Source: Company Data, Al Rajhi Capital; Data as of 30th June 2023

Figure 89 **Kuwait Onshore Spend Outlook ($bn)**



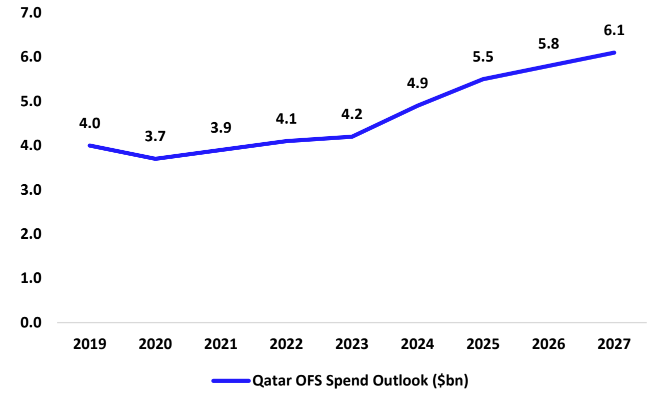
Source: ADES Presentation, Al Rajhi Capital

Figure 90 **Kuwait Onshore Rig Demand-Supply**



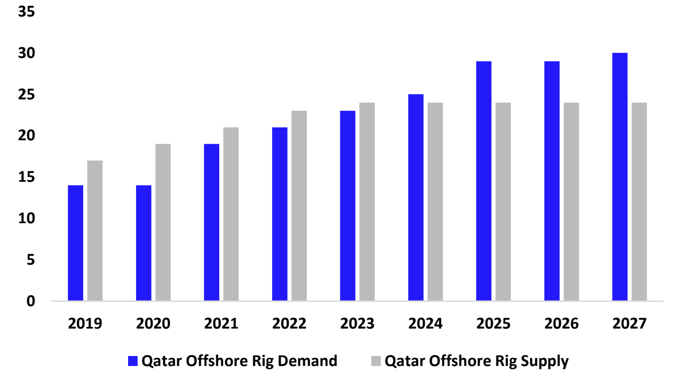
Source: ADES Presentation, Al Rajhi Capital

Figure 91 **Qatar Offshore Spend Outlook ($bn)**



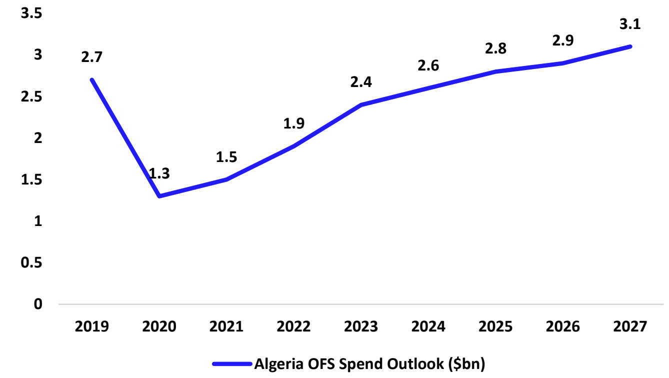
Source: ADES Presentation, Al Rajhi Capital

Figure 92 **Qatar Offshore Rig Demand-Supply**



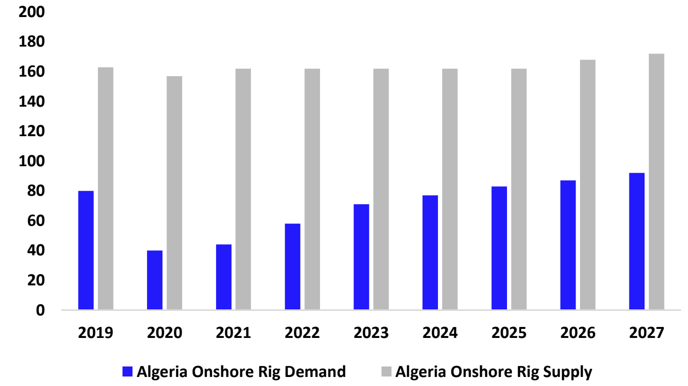
Source: ADES Presentation, Al Rajhi Capital

Figure 93 **Algeria Onshore Spend Outlook ($bn)**



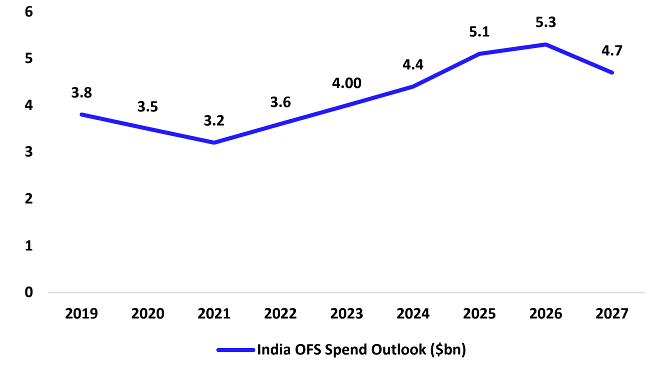
Source: ADES Presentation, Al Rajhi Capital

Figure 94 **Algeria Onshore Rig Demand-Supply**



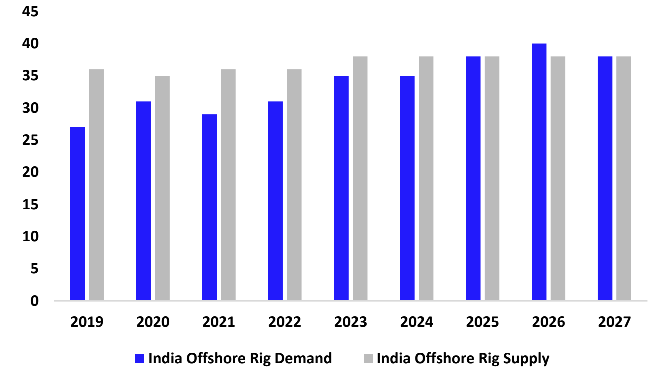
Source: ADES Presentation, Al Rajhi Capital

Figure 95 **India Offshore Spend Outlook ($bn)**



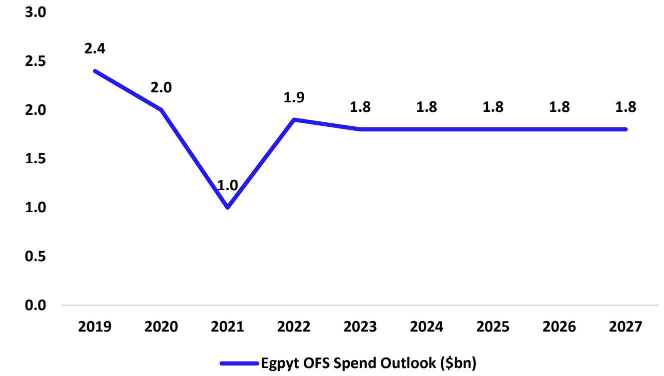
Source: ADES Presentation, Al Rajhi Capital

Figure 96 **India Offshore Rig Demand-Supply**



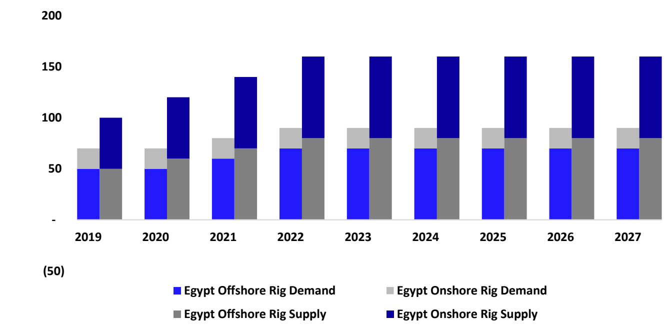
Source: ADES Presentation, Al Rajhi Capital

Figure 97 **Egypt OFS Spend Outlook ($bn)**



Source: ADES Presentation, Al Rajhi Capital

Figure 98 **Egypt Rig Demand-Supply**



Source: ADES Presentation, Al Rajhi Capital

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