GiB CAPITAL جي آي بي كابيتال

Target Price: SAR22.0/share
Current Price: SAR20.50/share
Upside: +7% (+Div. Yield: 2.5%)
Rating: Neutral

ADES Holding Company (ADES)

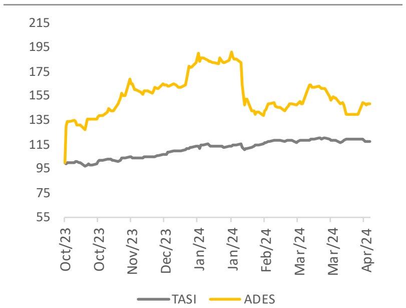
5 rigs suspension; Backlog/2024e guidance remain intact

- ADES has received a suspension notice for 5 jack-up rigs (out of 33) from Aramco; of which two will be deployed in Thailand and Qatar, implying a risk of 3 jack up rigs.
- Well-positioned to deploy the remaining rigs outside KSA with better day rates, despite a likely pressure on global day rates. Medium-term earnings growth still remains robust.
- Post rolling forward our valuation to 2024, we revise our TP to SAR22/sh. using DCF and EV/EBITDA (11x '24 EBITDA) methodologies, implying a Neutral rating on the stock.

Stock data	
TASI Ticker	2382
Mkt cap (SARmn)	23,146
Trd. Val 3m (SARmn)	195.9
Free float	30.0%
QFI holding	4.0%
TASI FF weight	0.30%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

ADES agreed to suspend 5 jack-ups in KSA; although backlog/guidance remains unchanged: Early this month, ADES has mutually agreed with Aramco to temporarily suspend 5 jack-up rigs (all owned; 1 standard and 4 premium jack ups) out of 33 offshore KSA rigs for a maximum period of 12 months. Further, there is a possibility of resuming the operations post the suspension period (unlikely in our view, but Aramco has agreed to automatically add the suspended period to the contract tenure – favorable term unlike for other players as per their announcements), indicating an intact backlog. Despite the suspension, the company has reiterated its 2024e EBITDA guidance of SAR2.89-3.04bn (35-42% y/y; GIBCe: SAR2.91bn).

Near-term headwinds… Post cancelling the earlier plan of raising MSC from 12mmb/d to 13mmb/d, Aramco has so far suspended total 19 jack ups (Figure 2; 22% of its jack up fleet) across the seven contractors, with ADES losing just 15% of its deployed Aramco rigs (5 out of 33; despite having 38% current market share), much lower impact compared to its most peers (except Valaris 11% or 1 out of 9 rigs), 33% ADC (3 out of 9), 44% Shelf Drilling (4 out of 9), 50% COSL (4 out of 8), 33% Borr Drilling (1 out of 3) and 33% Egyptian Drilling (1 out of 3). While there could be a further possibility of a couple of more suspension, we believe that it could be for Saipem (likely 2-3 rigs out of 6) as it is yet to get the notice (as per our understanding).

Nonetheless, ADES plans to deploy a jack up rig in Thailand (recently won contract) and another in Qatar (received a letter of award), implying a risk of only 3 jack-up rigs. While there could a near-term weakness due to suspension of these rigs, we believe that ADES would be able to deploy these rigs (assuming 2 in 4Q24 and 1 in 2025) outside KSA, given its exposure to 9 geographies and being a prequalified driller in 20 countries. Accordingly, we expect the effective rigs to rise from 58 in 2023 to 73 by 2024e (76 earlier) and further to 78 (79 earlier) by 2025e.

Figure 1: Key financial metrics

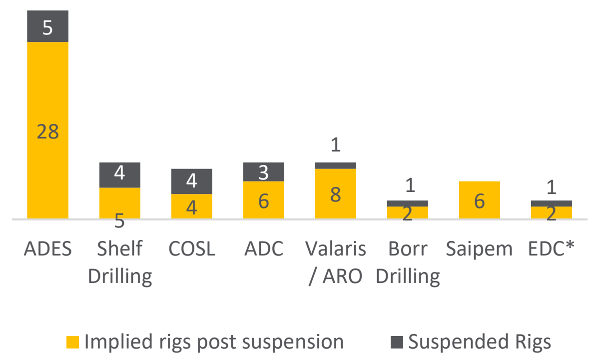
SARmn	2022a	2023a	2024e	2025e
Revenue	2,467	4,332	5,952	6,491
Revenue growth	*63%*	*76%*	*37%*	*9%*
Gross Profit	891	1,711	2,263	2,458
Gross Profit margin	*36%*	*40%*	*38%*	*38%*
EBITDA	1,049	2,139	2,912	3,133
Op. income	645	1,341	1,735	1,882
Net profit*	390	442	818	966
Net profit margin	*16%*	*10%*	*14%*	*15%*
EPS (SAR)	0.3	0.4	0.7	0.9
DPS (SAR)	0.0	0.0	0.2	0.5
P/E	59.3x	52.4x	28.3x	24.0x

*Source: Company, GIB Capital. * Attributable to equity shareholders.*

Kunal Doshi
+966-11-834 8372
Kunal.doshi@gibcapital.com

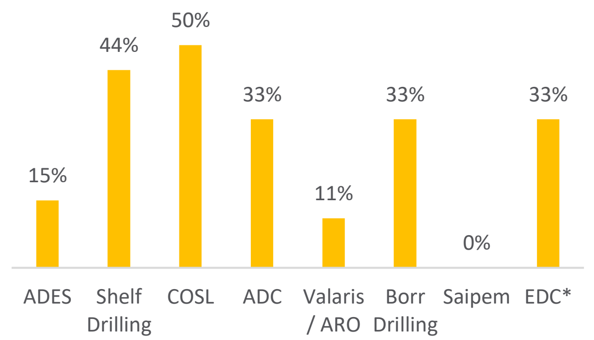
Abdulaziz Alawwad
+966-11-834 8486
Abdulaziz.alawwad@gibcapital.com

Figure 2: Suspended jack up rigs by Aramco so far



*Source: Company data, GIB Capital. * Egyptian Drilling*

Figure 3: Suspended rigs as a % of total deployed Aramco rigs



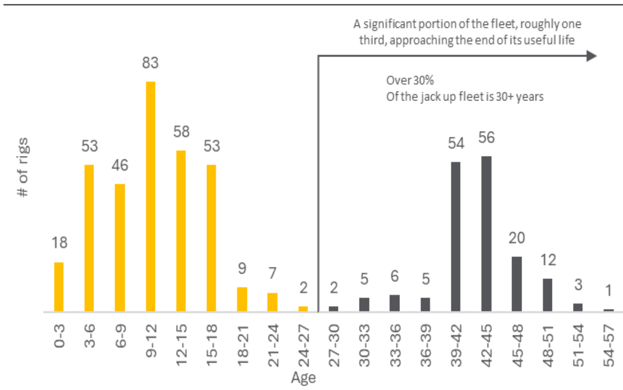
*Source: Company data, GIB Capital. * Egyptian Drilling*

… but an opportunity to deploy these suspended rigs at much higher day rates: Post-suspension of these 19 rigs, the availability of jack-up rigs is set to increase, easing the tightness in the jack-up market. However, the robust jack-up rigs utilization (reached 2014 levels; Figure 4), coupled with the aging of assets (more than 1/3rd of the fleets reaches near retirement age; Figure 5), healthy demand outside KSA (new tenders in Kuwait, SEA, and India), and limited new build rigs additions may keep the market mostly tight over the medium term, thereby limiting the pressure on day rates to some extent.

Figure 4: Modern jack-up utilization (%)

Source: Petrodata, Borr Drilling, GIB Capital

Figure 5: Overview of rigs age



Source: Petrodata, Borr Drilling, GIB Capital

Accordingly, we expect the global offshore day rates to lower, mainly in the Middle East, SEA, and India in the coming period. However, considering the avg. offshore day rates of ADES (US$67k in 2023 and ~US$80k for Aramco rigs as per our calculations), we see a good opportunity to deploy the remaining suspension rigs at a higher day rate, even if there would be a correction in the prevailing global offshore day rate (US$130-150k). Notably, ADES has secured all the recent contracts at higher day rates of US$102k-117k (Figure 6) and is expected to begin the operation by 2H24, ensuring a positive impact on profitability once the suspension rigs find the new work.

Figure 6: Recent new contract awards/renewals

Client	Rig name	Type	Country	Contract period	Value (SARmn)	Implied day rates (US$/d)	Operations
PDSI	Emerald Driller	Jack-up	Indonesia	3Y + 2Y extension	803	117,333	2H24
Sonatrach	ADES 810, ADES 815	Onshore	Algeria	5 years	295	21,553	2H24
GPC	Admarine III and Admarine VI, Admarine V	Jack-up	Egypt	2 years*	450	65,753	Ongoing (Extension)
PTTEP	NA	Jack-up	Thailand	18M + 9M extension	354	114,947	2H24
TotalEnergies Co.	NA	Jack-up	Qatar	1Y + 18M extension	350	102,283	2H24

*Source: Company data, GIB Capital. * Admarine III and Admarine VI contracts are extended for two years, while Admarine V contract is extended for one year.*

Revision in estimates: Post factoring the suspension, as well as the revised day rates and new contract wins, we cut our top-line and bottom-line estimates by 2-4% for 2024-25e, assuming slightly lower gross margins than expected earlier.

Figure 7: Change in estimates

SARmn	2024e			2025e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	5,952	6,187	-4%	6,491	6,725	-3%
Gross profit	2,263	2,305	-2%	2,458	2,521	-2%
GPM %	38%	37%		38%	37%	
EBITDA	2,912	2,965	-2%	3,133	3,251	-4%
EBITDA margin %	49%	48%		48%	48%	
Net profit	818	846	-3%	966	997	-3%
NPM %	14%	14%		15%	15%	

Source: GIB Capital

Valuation and risks. Despite a slight downward revision in our estimates, we revise our TP upwards to SAR22/sh. (SAR20.5/sh. earlier), due to rolling forward our valuation to 2024. Our valuation is based on a blended valuation using DCF (8.7%; unchanged) and EV/EBITDA (11x on 2024e EBITDA; assuming a premium over ADC due to ADES's offshore exposure across 9 geographies with better margins).

Global economic slowdown/recession caused by geopolitical issues/high-interest rate environment, lower E&P spending, delay in execution, demand fluctuations due to production cut measures adopted by OPEC+, oversupply in rig market leading to fall in day rates, high dependency on Saudi Aramco, and environmental concerns are key risks to our investment view.

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Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com