

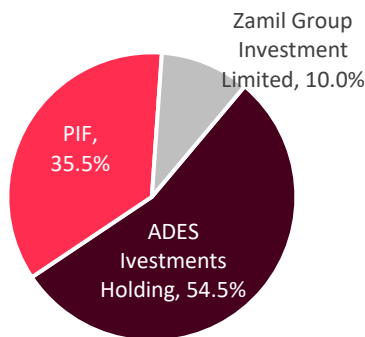
ADES Holding Company

Target Price: SAR 16.7/share
Upside vs. IPO: 23.8%

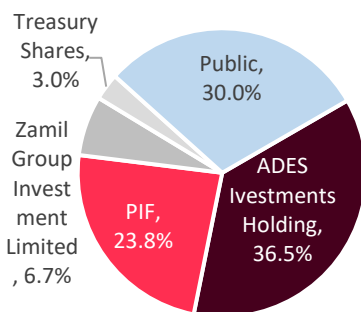
Recommendation	Buy
IPO Price Per Share (SAR)	13.5
Size of Offer (SAR mn)	4,573
Shares Outstanding (mn)	858.1
Shares on Offer (mn)	338.7
P/E'23e (x)	38.7
P/E'24e (x)	18.8
EV/EBITDA'23e (x)	12.6
EV/EBITDA'24e (x)	8.9

Major Shareholders (%)

Before IPO:



Post IPO:



Source: ADES Prospectus, Yaqaen Capital

We initiate coverage on ADES Holding Company and assign a 'BUY' rating with a target price of SAR 16.7/sh., offering an upside of 23.8% against its IPO price of SAR 13.5 per share.

Surging oil prices and exploration activities fuel drilling service providers' prospects

ADES Holding stands out as a prominent global player in the oil and gas drilling services industry, accounting for ~9% of the total global jack-up offshore drilling fleets. As of Dec'22, the company's fleet comprised of 85 units, including 46 offshore jack-up rigs, 36 onshore land rigs, 2 jack-up barges, and 1 mobile offshore production unit (MOPU). With the rise in global oil and gas consumption, a production deficit of 46 Mmboepd is projected, requiring significant capital investment over the next 8 years. This, along with Bloomberg's oil price estimates of USD 83.6 per barrel in 2023 and USD 84.2 per barrel for Brent crude in 2024, creates a favorable market condition for the offshore oil and gas drilling services companies like ADES Holding.

Strong order backlog and new rig deployments set to propel revenue growth

Between FY20 and FY22, ADES achieved a solid revenue CAGR of 21% supported by ~29% CAGR in fleet size and ~80% CAGR in its order book. In FY22, 20 out of 49 offshore rigs and 17 out of 36 onshore rigs were underutilized while 11 of its onshore rigs were non-operational. With likely better utilization rates, the deployment of new rigs, and near-term realization of revenue from its robust order book, we forecast ADES' revenue to sustain a solid CAGR of ~16% between FY22 and FY30e.

Margins improvement likely on better utilization rates

In FY22, the company reported gross margins of 36.1%, a dip of 140 bps against the levels of 2020. Going forward, we expect the gross margins to improve to 39-40% over the next 5 years, driven by the improved utilization of its fleet. This, in tandem with better day rates on the back of increased exploration activity in the MENA region, is expected to drive the company's bottom-line at a CAGR of 20% between FY22-30e.

Leverage levels expected to stabilize at 1.2x by FY30e

As of Dec'22, the company's Deb-to-Equity ratio exceeded 4.5x, mainly due to an aggressive expansion of its rig fleet. However, with the company's strategic plan to allocate 80-90% of IPO proceeds towards debt reduction, we expect this ratio to decrease significantly to 2.0x by the end of FY23e. Subsequently, it is projected to continue its downward trajectory, settling at a more sustainable level of 1.2x by FY30e. With a likely improvement in financial position and expected higher cash flow, the company is expected to start paying dividends at 60% payout rate from FY24e onwards.

Key Indicators

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	1,695	1,514	2,467	4,427	6,008	6,493
Net income (SAR mn)	74	108	390	394	812	962
Gross margin	37.5%	35.6%	36.1%	39.1%	38.1%	38.5%
Operating margin	27.1%	25.2%	26.2%	29.6%	29.5%	30.1%
Net profit margin	4.3%	7.1%	15.8%	8.9%	13.5%	14.8%
Debt-Equity Ratio (x)	0.9x	2.2x	4.9x	2.0x	1.8x	1.8x
Net Debt/EBITDA (x)	1.9x	5.9x	10.2x	5.2x	3.6x	3.5x

Source: ADES Prospectus, Yaqaen Capital



Valuation Summary

We arrived at the target price on the stock using a blend of DCF and relative valuation. For DCF, we have used an 8-year explicit forecast period (2023-30), terminal growth rate of 2%, and weighted average cost of capital (WACC) of 8.3%. For relative valuation, we have used an average of 1 year forward EV/EBITDA multiple of the company's peers to arrive at the fair value estimate. We assigned equal weightings to fair values derived using DCF and relative valuations, to arrive at a target price of SAR 16.7.

DCF Method	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030
No. of days	102	468	833	1,198	1,563	1,929	2,294	2,659
Time Remaining (Years)	0.28	1.28	2.28	3.28	4.28	5.28	6.28	7.28
Operating profit Before Interest and Tax	1,312	1,771	1,952	2,068	2,204	2,351	2,512	2,679
growth(%)		35.0%	10.2%	5.9%	6.6%	6.7%	6.8%	6.7%
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Post-tax operating profit (NOPAT)	1,115	1,505	1,659	1,757	1,874	1,999	2,135	2,277
Add: Depreciation & amortization	759	1,127	1,220	1,283	1,333	1,381	1,423	1,467
Less: Change in working capital	(858)	(379)	28	(14)	(46)	(116)	(117)	(120)
Less: Capex	(3,542)	(721)	(2,270)	(2,947)	(2,992)	(768)	(806)	(846)
Free Cash Flow to Firm	(2,526)	1,532	637	80	169	2,495	2,635	2,780
Discount factor	0.98	0.90	0.83	0.77	0.71	0.66	0.61	0.56
PV of Free Cash Flows	(2,471)	1,384	531	61	120	1,641	1,601	1,560
Sum of present values of FCFs								4,427

Free cash flow (t+1)	2,835
Terminal value	45,319
Present value of terminal value	25,428

EV	29,855
Less:	
Debt including lease (2023e)	(11,367)
Minority Interest (2023e)	(44)
Employee Retirement Benefits (2023e)	-
Add:	
Cash and Bank Balances (2023e)	557
Equity Investment (2023e)	6
Equity value	19,007
Number of share outstanding	1,129
Fair value per share (SAR)	16.8
IPO offering price (SAR)	13.5

Inputs	
Valuation Date	9/20/2023
Risk free rate (Rf)	4.6%
Adjusted Beta	1.2
Market Risk Premium (Rm-Rf)	7.0%
Cost of Equity (Ke)	12.7%
Terminal or perpetual growth rate (g)	2.0%
Pre-tax Cost of Debt	7.0%
Effective Tax rate	15.0%
After-tax Cost of Debt (including lease)	6.0%
D/D+E (including lease)	66.1%
WACC	8.3%

Comparable Companies	Country	Bloomberg Ticker	Market Cap (SAR bn)	EV/EBITDA 1 yr. Fwd
ADNOC DRILLING CO PJSC		ADNOCRI UH Equity	64	11.0x
CHINA OILFIELD SERVICES-H		2883 HK Equity	34	7.7x
NOBLE CORP PLC		NE US Equity	28	7.0x
WEATHERFORD INTERNATIONAL PL		WFRD US Equity	26	6.7x
SEATRUM LTD		STM SP Equity	26	19.5x
TRANSOCEAN LTD		RIG US Equity	24	9.7x
VALARIS LTD		VAL US Equity	21	10.1x
ARABIAN DRILLING CO		ARABIAND AB Equity	16	9.8x
Average Market Multiples				10.2x
Median Market Multiples				9.8x

Relative Valuation	
EBITDA 2024e (SARmn)	2,898
Target EV/EBITDA multiple for 2023E (x)	10.2x
Implied EV (SAR mn)	29,579
Less:	
Debt	(11,367)
Minority Interest	(44)
Employee Retirement Benefits	0
Add:	
Cash and Bank Balances	557
Equity Investment	6
Equity value	18,731
Number of share outstanding	1,129
Fair value per share (SAR)	16.6
Upside/Downside	22.9%
IPO offering price (SAR)	13.5

Valuation Method	Fair Value per share (SAR)	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	16.8	50.0%	8.4	24.7%
Relative Valuation - P/E	16.6	50.0%	8.3	22.9%
Fair Value (SAR)			16.7	
CMP (SAR)			13.5	
Upside/(Downside)			23.8%	

Source: ADES Prospectus, Bloomberg, Yaqaen Capital



Key Charts

Fig. 1: Impact of natural production decline on 2030 oil & gas demand outlook

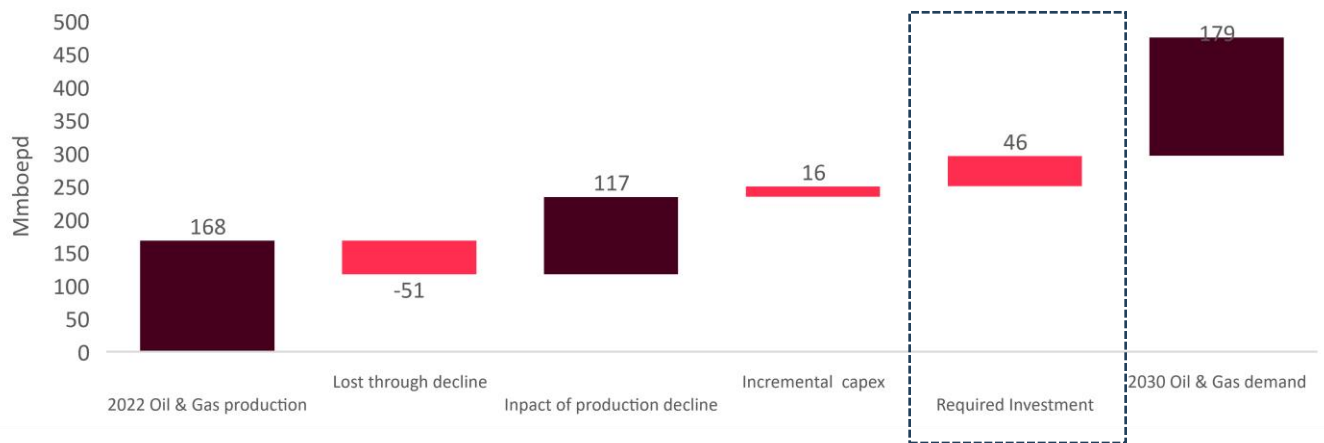


Fig. 2: ADES is a Market leader in Jack-up rigs across target market geographies

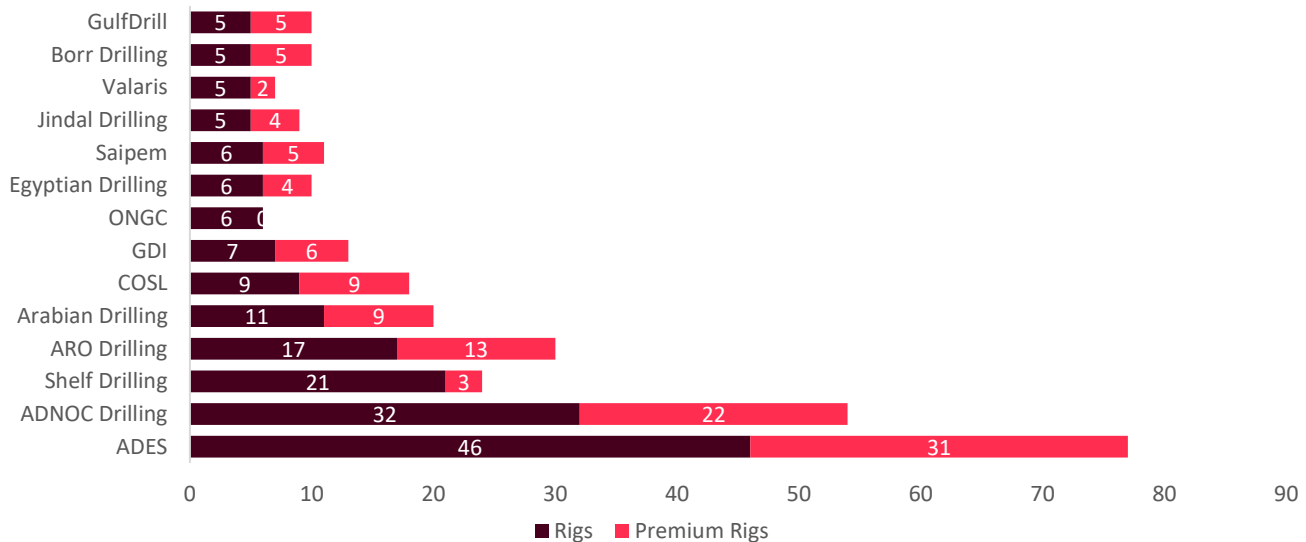


Fig. 3: Industry-wide Utilization forecasts for MENA region

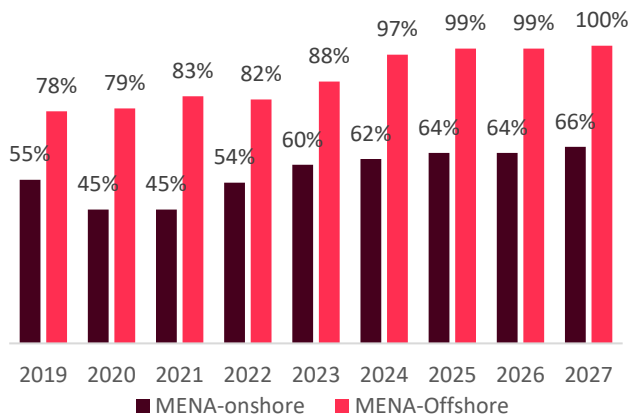
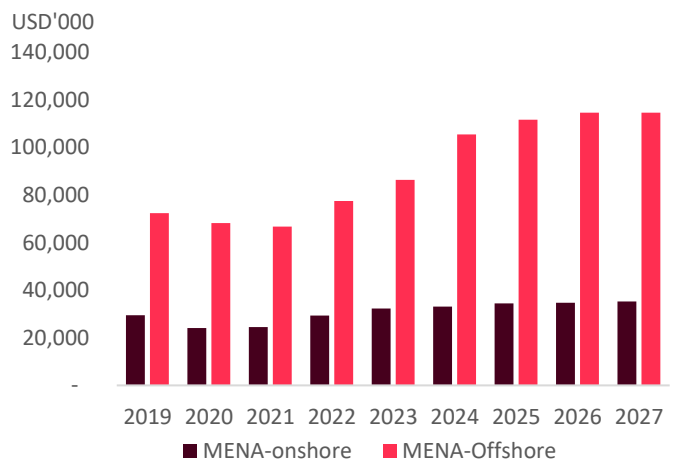


Fig. 4: Industry-wide Day rate forecasts for MENA region



Source: Westwood Global Energy, ADES Prospectus, Yaqeen Capital

Fig. 5: Strong order backlog

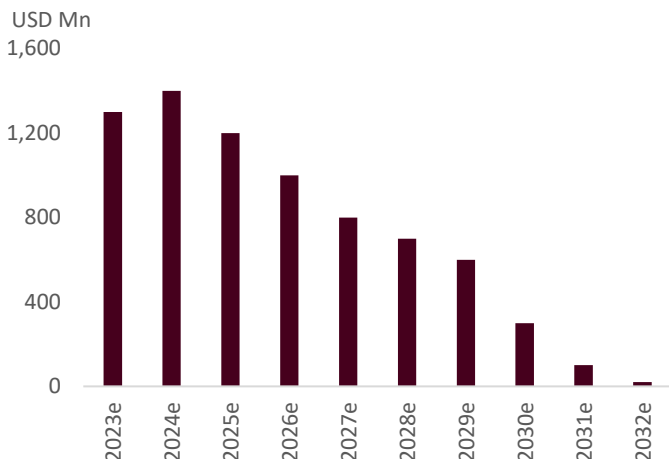


Fig. 6: provides revenue visibility

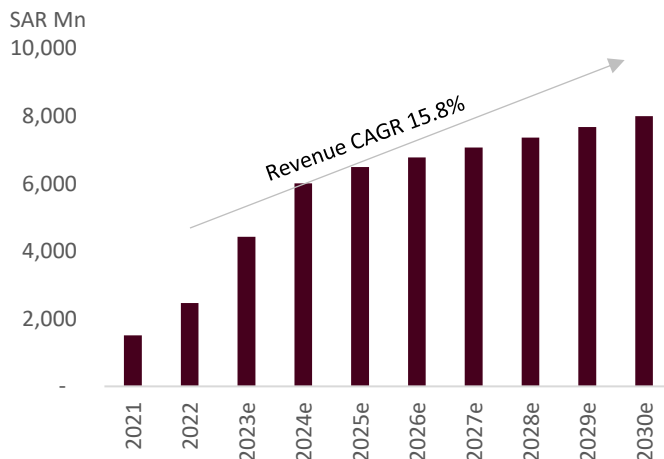


Fig. 7: Margins likely to sustain grow

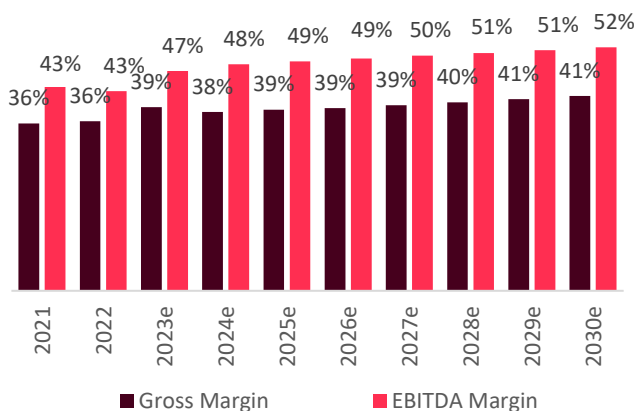


Fig. 8: ROA, ROE, Asset Turnover

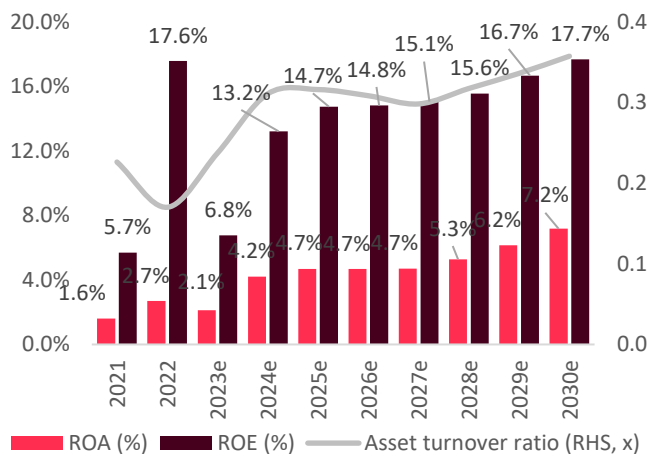


Fig. 9: Leverage ratio to reduce over a period

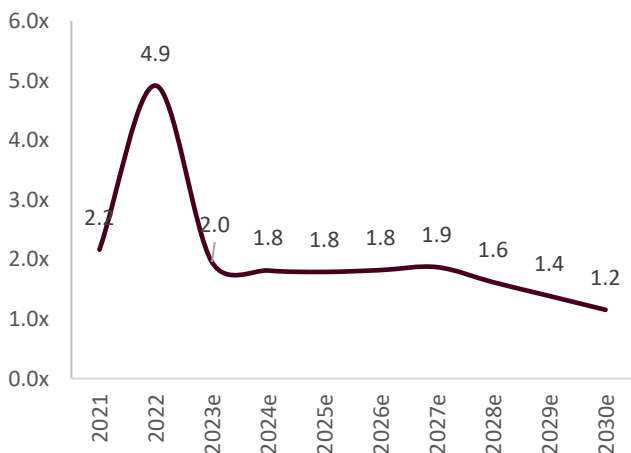
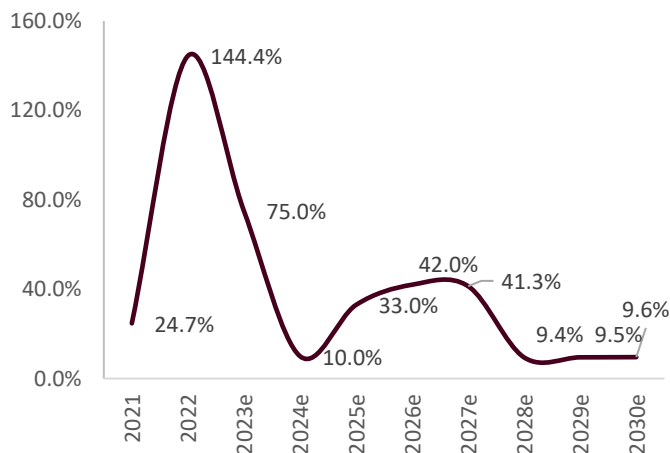


Fig. 10: Capex as % of revenue



Source: Westwood Global Energy, ADES Prospectus, Yaqeen Capital

Summary Financials

In SAR mn, except stated otherwise											
	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Income Statement											
Net sales/Revenues	1,695	1,514	2,467	4,427	6,008	6,493	6,776	7,069	7,370	7,681	8,001
Cost of sales	(1,059)	(975)	(1,576)	(2,697)	(3,721)	(3,990)	(4,141)	(4,279)	(4,416)	(4,548)	(4,683)
Gross profit	637	539	891	1,730	2,287	2,502	2,635	2,790	2,955	3,133	3,318
General and administrative expenses	(178)	(158)	(246)	(419)	(516)	(550)	(568)	(586)	(603)	(621)	(639)
Operating profit	459	382	645	1,312	1,771	1,952	2,068	2,204	2,351	2,512	2,679
Other revenues	(98)	73	126	(40)	(20)	(14)	(23)	(49)	(56)	(63)	(61)
Finance cost	(245)	(305)	(303)	(799)	(776)	(782)	(811)	(820)	(825)	(760)	(691)
Profit before zakat and income tax	116	149	468	473	975	1,155	1,234	1,335	1,470	1,688	1,927
Zakat	(34)	(35)	(71)	(71)	(146)	(173)	(185)	(200)	(221)	(253)	(289)
Profit for the period	74	108	390	394	812	962	1,028	1,112	1,225	1,406	1,605
EPS	0.1	0.1	0.3	0.3	0.7	0.9	0.9	1.0	1.1	1.2	1.4
DPS	0.0	0.0	0.0	0.0	0.4	0.5	0.5	0.6	0.7	0.7	0.9
Balance Sheet											
Cash and cash equivalents	234	233	191	557	692	617	322	279	220	278	237
Trade receivables, net	262	262	235	380	745	985	984	1,047	1,112	1,179	1,248
Inventories	179	148	184	222	316	370	390	404	417	430	443
Right of use leased assets	73	64	391	545	578	609	614	579	539	496	447
Property, plant and equipment, net	3,795	5,358	12,188	14,818	14,379	15,398	17,058	18,752	18,179	17,606	17,032
Total assets	4,105	5,541	12,932	15,926	15,590	16,559	18,246	19,928	19,340	18,748	18,152
Long term loans	1,145	3,638	9,575	9,856	9,642	10,128	11,004	12,118	11,167	10,244	9,146
Lease Liabilities	52	38	270	366	367	375	361	328	305	289	280
Trade payables	576	516	1,161	1,169	1,639	1,891	1,925	1,975	2,026	2,079	2,133
Total liabilities	3,487	4,769	12,243	12,790	13,123	13,931	14,927	16,190	15,190	14,232	13,092
Share capital	-	-	1	4,059	4,059	4,059	4,059	4,059	4,059	4,059	4,059
Retained earnings	928	1,025	1,278	1,672	1,997	2,382	2,793	3,238	3,728	4,290	4,932
Equity Attributable to Shareholders	1,667	1,894	2,222	5,817	6,142	6,527	6,938	7,382	7,872	8,435	9,077
Cash Flow Statement											
Net cash generated from operating activities	620	317	1,146	1,064	2,352	3,008	3,134	3,255	3,349	3,508	3,681
Net cash generated from investing activities	(438)	(1,464)	(6,438)	(3,320)	(601)	(2,140)	(2,846)	(2,921)	(695)	(729)	(766)
Net cash (used in) provided by financing activities	(397)	1,145	5,250	2,623	(1,617)	(943)	(584)	(377)	(2,713)	(2,720)	(2,956)
Cash and cash equivalents at the end of the period	234	233	191	557	692	617	322	279	220	278	237
Ratios											
Gross margin (%)	37.5%	35.6%	36.1%	39.1%	38.1%	38.5%	38.9%	39.5%	40.1%	40.8%	41.5%
EBITDA margin (%)	40.9%	43.4%	42.5%	46.8%	48.2%	48.9%	49.4%	50.0%	50.6%	51.2%	51.8%
Operating margin (%)	27.1%	25.2%	26.2%	29.6%	29.5%	30.1%	30.5%	31.2%	31.9%	32.7%	33.5%
Net margin (%)	4.3%	7.1%	15.8%	8.9%	13.5%	14.8%	15.2%	15.7%	16.6%	18.3%	20.1%
ROA	1.4%	1.6%	2.7%	2.1%	4.2%	4.7%	4.7%	4.7%	5.3%	6.2%	7.2%
ROE	4.4%	5.7%	17.6%	6.8%	13.2%	14.7%	14.8%	15.1%	15.6%	16.7%	17.7%
Current Ratio (x)	1.1	1.2	0.7	1.2	1.4	1.3	1.2	1.2	1.2	1.3	1.3
Capex/Sales	19.5%	24.7%	144.4%	75.0%	10.0%	33.0%	42.0%	41.3%	9.4%	9.5%	9.6%
Debt-Equity Ratio (x)	0.9	2.2	4.9	2.0	1.8	1.8	1.8	1.9	1.6	1.4	1.2
BVPS	1.5	1.7	2.0	5.2	5.4	5.8	6.1	6.5	7.0	7.5	8.0
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	3.2%	3.8%	4.0%	4.4%	4.8%	5.5%	6.3%
P/E (x)	207.2	141.4	39.0	38.7	18.8	15.8	14.8	13.7	12.4	10.8	9.5
P/BV (x)	9.1	8.0	6.9	2.6	2.5	2.3	2.2	2.1	1.9	1.8	1.7
EV/EBITDA (x)	25.5	29.1	24.8	12.6	8.9	8.3	8.2	8.1	7.4	6.8	6.1

Source: ADES Prospectus, Bloomberg, Yaqeen Capital



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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