

ADES Holding Co. (ADES)

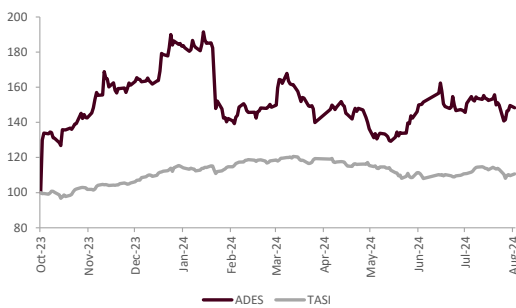
Recommendation

Hold

Current Market Price (SAR)	20.02
52wk High / Low (SAR)	26.1/14.8
Mkt. Cap. (USD/SAR Mn)	6,168/23,146
Shares Outstanding (mn)	1,129.1
Free Float (%)	63%
30d Average Vol. (000)	3,552.5
20d Avg Daily Turnover (SAR'000)	68,894
Dividend Yield '24e (%)	4.6%
P/E'24e (x)	25.0
EV/EBITDA'24e (x)	10.3

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Revenue	2,467	4,332	5,777	6,279
Gross profit	891	1,711	2,223	2,474
Gross margin (%)	36%	40%	38%	39%
EBIT	645	1341	1781	2002
EBIT margin (%)	26%	31%	31%	32%
EBITDA	1,049	2,139	3,001	3,312
EBITDA margin (%)	43%	49%	52%	53%
Net Income	398	453	790	971
Net margin (%)	16%	10%	14%	15%
EPS (SAR)	0.35	0.59	1.03	1.26
RoE (%)	18%	8%	13%	15%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

ADES Investments Holding	36.5%
PIF	23.8%
Zamil Group Investment Limited	6.7%

Source: Bloomberg, Yaqeen Capital

Profits jumped on higher revenues

- In 2Q2024, ADES's net income soared by 90.1% YoY (+0.6% QoQ) to SAR 202mn, driven by higher revenues and a reduced interest expense to revenue ratio. However, increased depreciation expenses due to the deployment of rigs in Saudi Arabia, Kuwait, Algeria, and India partially offset these gains. The improved EBITDA margin (+0.3ppts) and lower interest expense further contributed to the growth, resulting in a net margin improvement of 2.9ppts YoY (+0.1ppts QoQ) to 13.3%.
- Revenues surged by 48.7% YoY to SAR 1,525mn in 2Q2024, largely due to increased contributions from Saudi Arabia, which saw 19 rigs from the Aramco mega project in operation, compared to just seven in 2Q2023. India, Kuwait, and Algeria also contributed to the revenue growth with new and additional rigs. On a QoQ basis, revenue dipped slightly by 0.4% due to the impact of suspended rigs in April/May 2024 and lower utilization in Egypt and Tunisia.
- Gross profit rose by 40.2% YoY to SAR 574mn but declined by 4.8% QoQ due to lower revenues and higher costs. The gross margin dropped by 2.3ppts YoY (-1.7ppts QoQ) to 37.6%.
- Operating profit increased by 48.2% YoY to SAR 472mn, though it fell 4.5% QoQ, with the operating margin slightly down by 0.1ppts YoY (-1.3ppts QoQ) to 30.9%.
- For 1H2024, net income climbed by 105.9% YoY to SAR 403mn, driven by higher revenues and improved EBITDA profitability, despite higher depreciation expenses. Net profit margin improved by 3.3ppts to 13.2%.
- In 1H2024, revenues grew by 54.3% YoY to SAR 3,057mn, supported by strong contributions from Saudi Arabia, India, Kuwait, and Algeria.

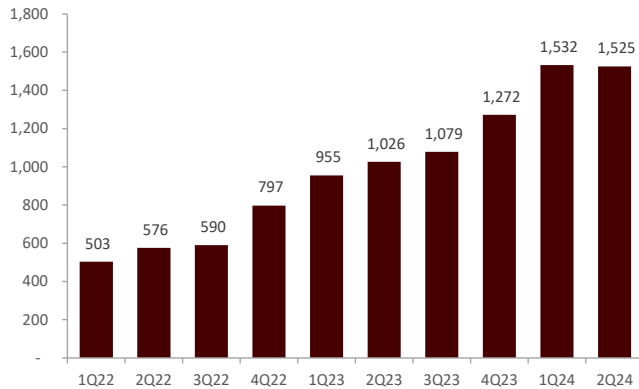
Outlook & Valuation: The company is well positioned to take advantage of the anticipated increase in oil and gas exploration activities, benefiting from more rig deployments and higher day rates in the medium to long term. With strong demand projections and a robust backlog of orders, we expect the company's revenues to grow. As the offshore segment's contribution expands, profitability is expected to increase due to improved margins in the coming years. The stock is currently trading at EV/EBITDA of 10.3x (based on FY2024e EBITDA). We hold an optimistic view on ADES' long-term growth prospects and based on our equal weighted valuation using DCF and EV/EBITDA methodologies, we arrive at a fair value of SAR 21.8/share (9.0% upside from current level). Consequently, we have a Hold rating on the stock.

Financial Summary

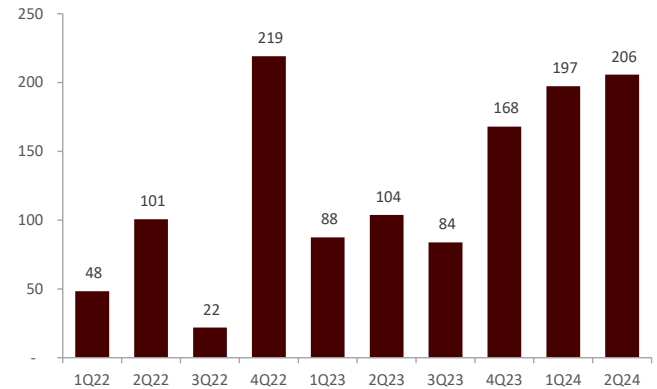
SAR (mn)	2Q2024	2Q2023	YoY	1Q2024	QoQ
Revenue	1,525	1,026	49%	1,272	20%
Gross profit	574	409	40%	515	11%
Gross margin (%)	38%	40%		41%	
EBIT	472	319	48%	425	11%
EBIT margin (%)	31%	31%		33%	
Net income	202	106	90%	170	19%
Net margin (%)	13%	10%		13%	
EPS (SAR)	0.19	0.12	55%	0.22	-16%

Source: Company Reports, Yaqeen Capital

Revenue (SAR mn) Trend



Net Profit (SAR mn) Trend



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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