



Robust revenue growth and expansion of margins support a 134% Y/Y surge in earnings, despite a spike in non-operating expenses

ADES Holding Company's (ADES) net income surged 134.0% Y/Y to SAR 196mn in Q3-24 in line with AJC and market estimates of SAR 190mn and SAR 199mn, respectively. The net income growth was driven by a strong topline as well as GP and operating margins expansion. The better than expected GP and operating margins were offset higher non-operating expenses. Revenue jumped 45.8% Y/Y to SAR 1,573mn in line with our estimate of SAR 1,499mn. The revenue growth was attributable to contribution from newly deployed rigs in Saudi Arabia, India, Indonesia and Thailand; increased offshore daily rates in Saudi Arabia and Egypt; and higher number of active onshore rigs in Kuwait and Algeria. The total number of active rigs increased to 89 in Q3-24 from 85 in Q3-23. GP margin expanded ~70bps Y/Y to 39.1%, above our estimate of 37.5%. We maintain our TP of SAR 24.3/share and "Overweight" recommendation on ADES.

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- Revenue increased 45.8% Y/Y to SAR 1,573mn in line with our estimate of SAR 1,499mn. The revenue growth was attributable to contribution from newly deployed rigs in Saudi Arabia, India, Indonesia and Thailand; increased offshore daily rates in Saudi Arabia and Egypt; and higher number of active onshore rigs in Kuwait and Algeria. The total number of active rigs increased to 89 in Q3-24 from 85 in Q3-23. Moreover, the company deployed three out of five suspended offshore jack-ups to new contracts in Qatar, Thailand and Egypt.
- GP margin expanded ~70bps Y/Y to 39.1% in Q3-24, exceeding AJC estimate of 37.5% and 37.6% in Q2-24. The increased contribution of offshore supported the margin expansion. Gross profit rose 48.4% Y/Y to SAR 616mn, above our estimate of SAR 563mn.
- Operating profit increased 57.6% Y/Y to SAR 513mn in Q3-24, as the positive effect of GP margin expansion was further aided by relatively steady growth in OPEX (+14.7% Y/Y). Operating margin widened ~250 to 32.6%, above AJC estimate of 30.7%.

AJC view and valuation: ADES posted a strong set of results in Q3-24. The increase in active rigs, deployments for new contracts and higher daily rates (particularly in the offshore segment) are helping healthy topline growth of the company. Additionally, the company's margins were impressive during the quarter. The company has deployed three out of five suspended rigs to new contracts and the remaining two are also expected to be contracted by the year end. Moreover, the company is committed to further expanding its fleet in the medium term, which is evident from recent acquisition of jack-ups in Southeast Asia. Thus, expansion of fleet, lucrative daily rates and increasing offshore contribution are expected to bode well for ADES' earnings growth. ADES currently trades at an EV/EBITDA ratio of 10.1x and P/E of 22.2x based on our FY25E estimates. FY25E dividend yield is estimated at 2.5%. We maintain our TP of SAR 24.3/share and "Overweight" recommendation.

Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,079	1,525	1,573	45.8%	3.1%	4.9%
Gross Profit	415	574	616	48.4%	7.2%	9.3%
Gross Margin	38.5%	37.6%	39.1%	-	-	-
EBITDA	526	754	797	51.5%	5.8%	6.0%
EBIT	325	472	513	57.6%	8.7%	11.5%
Net Profit	84	198	196	134.0%	-1.1%	3.1%
EPS	0.07	0.18	0.17	-	-	-

Source: Company Reports, Aljazira Capital Research *NM: Not meaningful

Recommendation Overweight

Target Price (SAR) 24.3

Upside / (Downside)* 22.9%

Source: Tadawul *prices as of 5th of November 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	2,467	4,332	6,144	6,735
Growth %	62.9%	75.6%	41.8%	9.6%
Gross Profit	891	1,711	2,372	2,626
EBITDA	1,049	2,139	3,062	3,348
Net Income	390	442	824	1,007
Growth %	262%	13.2%	86.4%	22.2%
EPS	0.35	0.39	0.73	0.89
DPS	0.00	0.00	0.40	0.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	36.1%	39.5%	38.6%	39.0%
EBITDA Margin	42.5%	49.4%	49.8%	49.7%
Net Margin	15.8%	10.2%	13.4%	15.0%
ROE	17.6%	7.7%	13.5%	15.4%
ROA	2.7%	2.3%	4.0%	4.7%
P/E	High	High	27.1	22.2
P/B	NM	4.7	3.7	3.4
EV/EBITDA (x)	NM	17.5	10.9	10.1
Dividend Yield	NM	0.0%	2.0%	2.5%

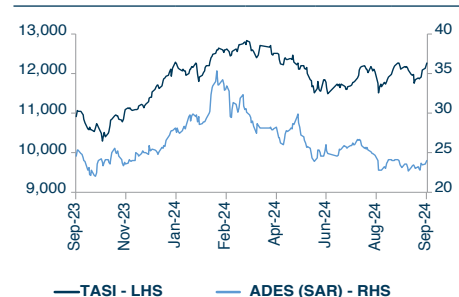
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	22.3
YTD%	-17.6%
52 week (High)/(Low)	26.10/17.20
Share Outstanding (mn)	1,129.1

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital Research

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RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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