ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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ADES Holding Company

Pre-IPO Report

Market Leading Position and Efficient Operating Model Reflect The Positive Potentials

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Company Overview

ADES Holding company is a joint stock company incorporated in KSA. The company's primary business is managing its subsidiaries, investing subsidiary funds, owning the properties and movables required to conduct its business, offering loans, guarantees, and financing to subsidiaries, and owning and leasing industrial property rights to subsidiaries and third parties. The company and its subsidiaries (collectively, the "Group") are a leading provider of oil and gas drilling and production services in the MENA region. The group focuses on adding value for its clients by utilizing its low-cost business strategy to offer reasonable rates for services. The group is currently operating in six markets: KSA, Kuwait, Egypt, Algeria, Tunisia, and Qatar, and will start operations in India in FY23, where it already has contracts awarded. The group is the national drilling leader in KSA and is one of the largest offshore jack-up drilling rig operators globally. The group's portfolio of services primarily includes onshore and offshore contract drilling and workover services, which include maintenance, repairs and enhancement of oil well production. The group has a combined fleet of 85 rigs spread across six countries (including two rigs that will be operating in India), of which a total of 36 are onshore drilling rigs, 46 jack-up offshore drilling rigs (of which four are leased), two jack-up barges, and one mobile offshore production unit ("MOPU"). The group reported a workforce of 5,275 employees as of 31 December 2022.

Source: IPO Prospectus

Valuation Summary

We value the company based on 100% weight to EV/EBITDA valuation (12.5x applied to FY24 estimates). The valuation implies an equity value of SAR 18.0bn thus resulting in a fair value of **SAR 16.0/share**, an upside potential of **18.4%** from the IPO offer price of SAR 13.5/share. We forecast ADES' EBITDA to reach SAR 2.1bn in FY24E i.e. 15% growth over FY23E and 104% growth over FY22. The EBITDA growth is justified by a strong backlog and expected improvement in utilization of fleet. Our 12.5x multiple is based on premium over historical average multiple for the peers due to the company's comparative operational cost and healthy growth prospects of ADES. We also assume a total debt repayment of SAR 3.3bn as the company plans to use a major part of IPO proceeds for deleveraging.

All figures in SAR mn, unless specified	
EV/EBITDA	**12.5x**
EBITDA (FY24E)	2,143
Implicit Enterprise Value	26,789
Cash	652
Debt	9,392
Relative value	**18,049**
Number of Shares (mn)	1,129
Final Relative value (SAR/share)	**16.0**
IPO offer price	13.5
Upside/ (Downside)	**18.4%**

Business activities

The group's main business activities are as follows-

1. Offshore services: The group's offshore services consist of drilling and workover services and MOPU production services, along with accommodation, catering and barge-based project services. Offshore drilling is a mechanical process where a well is drilled at sea through underlying bedrock to explore for and subsequently extract oil or natural gas. The barge-based project services include outsourcing various operating services for clients, such as maintenance and repair services. As compared to onshore drilling, offshore drilling typically involves exploration, development and production phases, and the group is involved in the drilling phase.

Offshore fleet: The group is the largest offshore driller in KSA and globally has the largest offshore jack-up fleet. It has 49 offshore units which includes 46 jack-up rigs (four of which are leased), two jack-up barges and one MOPU. All 49 offshore units are either in operation, under contract, involved in a tender procedure, or in the latter stages of contract execution.

Offshore Drilling and Workover: The group now uses its fleet of "legacy" jack-up rigs and premium jack ups to provide offshore drilling and workover services in KSA and in Egypt. The group has contracts to begin operations in India in FY23 and also provides offshore drilling and workover services in Qatar.

2. MOPU services: The group owns Admarine I, a MOPU that is currently not under contract, but involved in a tender procedure. The MOPU is a modified jack-up rig that was converted to a mobile offshore platform and is equipped with production and process facilities, including a production separator, desalter, heater treater, water treatment unit, chemical injection package and gas generators, and which serves as a storage unit.

3. Jack-up Barge and Project Services: As part of its offshore offerings, the group owns two offshore jack-up barges, Admarine II, which is currently leased to GPC in the Gulf of Suez area, and Admarine 12, which was operating under contract with Amal Petroleum Company ("AMAPETCO") in Egypt as of 31 December 2022. Offshore jack-up barges are used for a wide range of marine tasks and can be equipped with heavy lifting cranes and a firefighting system and be used for pipe laying or can serve as offshore accommodation. The group currently uses these jack-up barges to provide offshore support services to GPC and AMAPETCO, including barge services, materials, accommodation, equipment, and construction related support to well intervention and other projects.

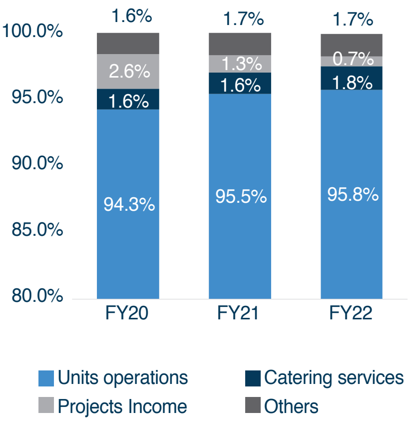
4. Onshore services: The group's onshore services mainly include drilling and workover services. Onshore drilling is a mechanical process where a well is drilled on the land through underlying bedrock to explore for and subsequently extract oil or natural gas. The onshore drilling process typically involves exploration, development and production phases, and the group is involved in the drilling phase. Workover jobs include the maintenance, repair, and/or any enhancement of a well's production.

Onshore fleet: The group has an onshore fleet of 36 rigs, of which 11 are not under contract. The group has expanded its onshore fleet through acquisitions of both legacy and new-build rigs. Recently the group has been awarded six new contracts with Kuwait Oil Company for six onshore rigs, four of which are already owned by the group and located in Kuwait and two will be newly built rigs. For the newly built rigs, the group has signed an agreement of acquisition with the manufacturer and is expecting the rigs to be delivered and deployed during this year.

5. Other services: Additionally, the group offers its customers catering services, well platform installation, maintenance, and repair services, and manpower, which together accounted for 3.5% of the group's revenue from customer contracts in FY22. In accordance with the terms of its client contracts, the group offers catering and accommodation for a specific number of personnel on board its units and receives additional payment for providing these services to additional personnel. The group also makes extra money by renting out its equipment to customers.

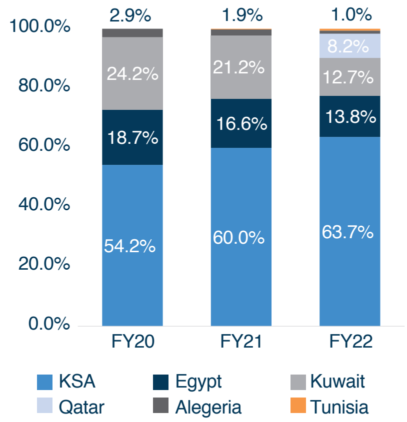
Segmental analysis

Figure 1: Revenue from customer contracts by type of revenue stream (as % of revenue)



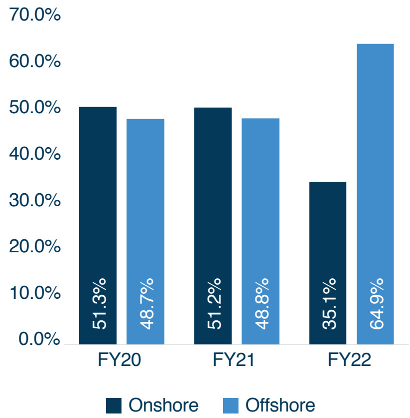
Source: IPO Prospectus, Aljazira Capital Research

Figure 2: Revenues from customer contracts by region (as % of revenue)



Source: IPO Prospectus, Aljazira Capital Research

Figure 3: Revenue from customer contracts by operating segment (as % of revenue)



Source: IPO Prospectus, Aljazira Capital Research

The main contributor to the group's revenue is **units' operations** contributing an average of 95% to the group's total revenue for the historical period between FY20-22. Units operations revenue mainly include (1) revenue from offshore and onshore drilling related to oil and gas in the Middle East and Africa, (2) revenue from transportation of onshore drilling rigs from one location to various specified locations within the same area as specified by the clients, (3) standby revenue: It is generated when the drilling rig is on site and ready to drill, but the customer has not yet decided to start drilling, (4) rigs maintenance and preparation revenue.

Catering service revenue relates to catering services provided to customer representatives on drilling rigs, including food and other items. It is worth noting that this service is provided by the group to its clients based on pre-agreed unit prices. This segment represents 1.6%-1.8% of total revenues during the period FY20-FY22.

The **projects income** is mainly related to servicing the extraction and production of residual oil and gas through the use of an additional equipment based on client requirements. Maintenance and repair services are also provided in addition to services related to outsourcing. This segment represented 2.6% of total revenues in FY20 and its contribution has reduced to 0.7% of revenues in FY22.

Others revenue mostly pertains to the customer of the group in Kuwait and entails the site preparation service for exploration in the onshore operating segment, from the building of bases and roadways through the cleaning of the exploration site before starting excavation work. This segment represents 1-6%-1.7% of total revenues during the historical period FY20-FY22.

In terms of revenue contribution from region, KSA is the biggest contributor to the revenue from customer contracts contributing around 63.7% of revenues in FY22 followed by Egypt (13.8%), Kuwait (12.7%) and Qatar (8.2%). In terms of operating segment, the contribution of onshore segment to revenues from customer contracts has declined from 51.3% in FY20 to 35.1% in FY22 while offshore segment contribution has increased from 48.7% to 64.9% during the same period.

Ownership (pre and post IPO)

	Pre-Offering		Post-Offering	
Shareholder	**No. of Shares**	**Shareholding %**	**No. of Shares**	**Shareholding%**
ADES Investments Holding Ltd.	467,657,690	54.5%	412,277,174	36.5%
PIF	304,621,070	35.5%	268,547,522	23.8%
Zamil Investment	85,808,750	10.0%	75,647,188	6.7%
Treasury shares*	-		33,871,875	3.0%
Public	-		338,718,754	30.0%
Total	**858,087,510**	**100%**	**1,129,062,513**	**100%**

Source: IPO Prospectus; Note- * The Company's extraordinary general assembly has approved the issuance of treasury shares to be utilized within the long-term incentives scheme framework for the employee's benefit

IPO Offering Summary

ADES Holding is floating 338.7mn shares, representing 30% of the company's share capital post offering, with a fully paid nominal value of SAR 1 per share. The IPO is divided into two tranches: one for institutional investors and the other for retail investors. A total of 338.7mn shares (100%) were offered to institutional investors, subject to a scale-back to 90% (304.8mn shares). The retail offering, open for subscriptions from since September 26-28, accounts for up to 10% (33.9mn shares) of the offer size. The book building process ran from September 10-14. The company has set the final price of its IPO at SAR 13.5 per share and institutional offering was 62.7x covered.

Source: IPO Prospectus

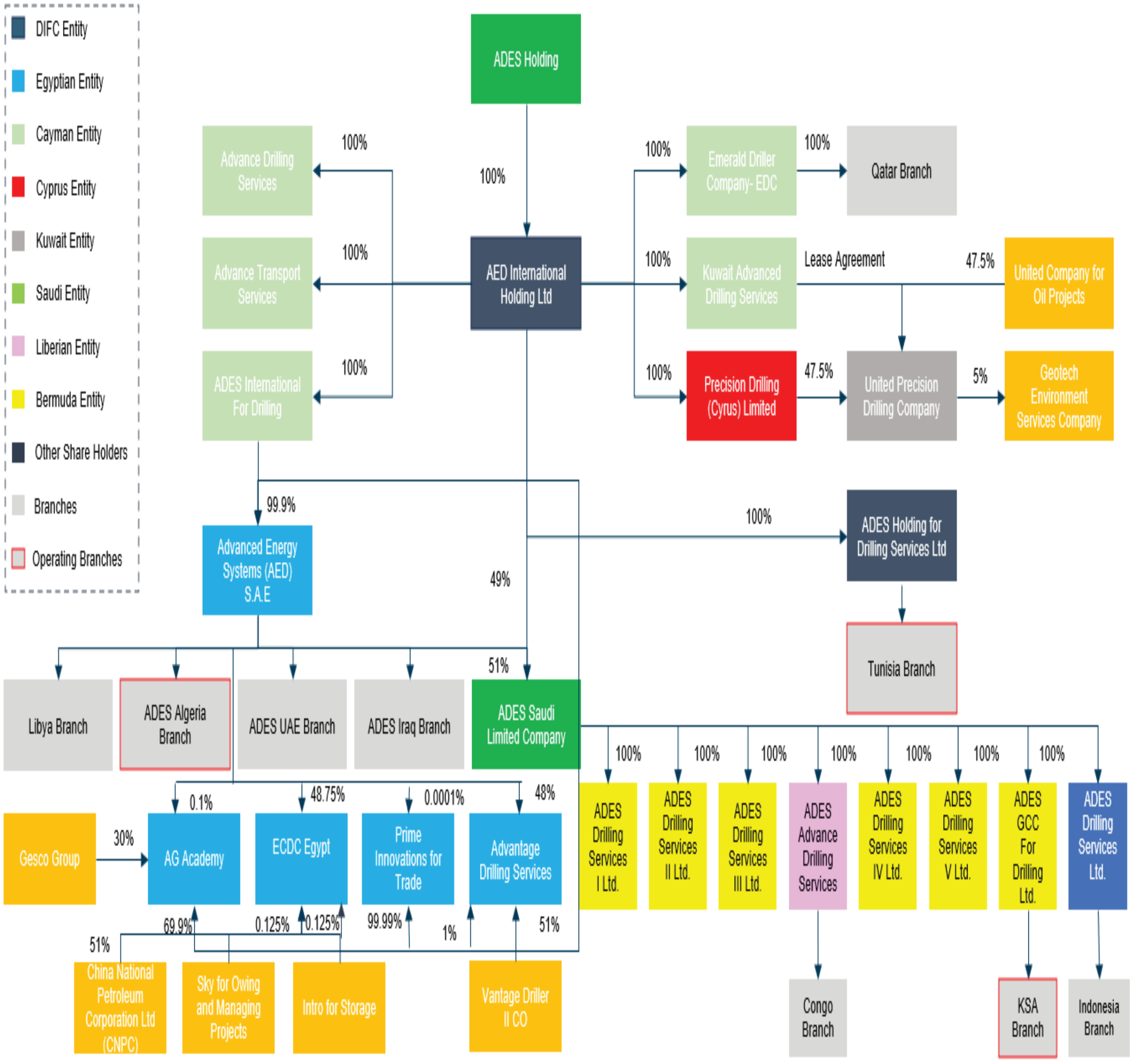
Group structure

The group operates through its subsidiaries and branches incorporated in different jurisdictions including: (i) KSA; (ii) Kuwait; (iii) UAE; (iv) Egypt; (v) Cayman Islands; (vi) Bermuda; (vii) Cyprus, and (viii) Liberia. The company wholly owns ADES International Holding Ltd, a limited private holding company established at Dubai International Financial Centre, which directly and indirectly owns all of the group's subsidiaries.

ADES International had previously been listed on the London Stock Exchange from 2017 until its de-listing on May 21, 2021, when Innovative Energy Holding Ltd., a DIFC company jointly owned by ADES Investments Holding Ltd. owning 54.5%, PIF owning 35.5%, and Zamil Investment owning 10%, purchased the entire share capital of the company.

For the management of the group to be closer to the important stakeholders, including the group's customers, ADES International was transferred to the company. The company will continue to supervise, manage, and support the operations of the group through the company's Board of Directors and Executive Management team in the KSA.

Fig 4: The group structure



Source: Company Prospectus, Aljazira Capital Research

Key Strategies

- **Focus on a lean cost structure:**
  - The group intends to maintain its low operating costs and regulated capital expenditure as part of its lean cost structure.
  - The company wants to continue relying on its in-house refurbishment and maintenance team to complete numerous tasks rather than contracting third-party service providers to maximize its operating cost reduction initiatives. As a result, the group will be able to cut maintenance expenses over the long term and cut down on rig downtime.
  - The group has been able to maintain a competitive operational cost profile by hiring local crew members and paying them in local currencies. Moreover, to continue to have an adequate supply of qualified personnel to support achieving its growth goals, the group will continue to hire local talent from a variety of nations.
- **Open to organic as well as inorganic growth opportunities:**
  - To produce cash flows and expand its backlog, the group plans to participate in accretive tenders, generate significant returns from its acquired assets, and sign strategic collaborations.
  - The group seeks to use its extensive fleet of premium jack-up rigs to win tenders and further grow its market share in the markets in which it operates due to the rising demand for and scarcity of premium jack-up rigs in the market.
  - The group is keeping track of the rigs' progress to ensure a smooth integration and optimal usage of these recently purchased rigs to further support its growth strategy and returns.
- **Optimize the fleet by maintaining balance between onshore and offshore services as market dynamics:**
  - In the past, the group's fleet initially consisted primarily of offshore rigs, but after the acquisition of 31 onshore rigs in FY18 and FY19, the fleet now consists primarily of onshore vessels. With the latest purchases in FY21 and FY22, the group's fleet later returned to being primarily offshore. For FY22, the group's offshore, onshore, and other services accounted for 64%, 35%, and 1%, respectively, of its revenue from contracts with customers.
  - The group plans to continuously evaluate the range of services it provides to optimize the balance between its onshore and offshore services to meet client expectations, seize market opportunities, and boost rig utilization rates and revenue generated from its rigs.
- **Explore opportunities to acquire assets in both new and existing markets:**
  - The group's main goal is to increase both its domestic and global market share. The group expects to keep looking for opportunities to buy onshore and offshore assets in existing and new markets over the long term.
  - To be ready to act fast when an opportunity with an appealing price arises, the group continues to pursue pre-qualification status in certain regions where it has seen potential for asset acquisitions. The group sees numerous potentials for expansion in new markets within and outside the MENA region.
- **Maintain prudent approach to liquidity and growth funding:**
  - The group seeks to handle debt and liquidity with caution. The group has a policy to maintain a backlog to net debt ratio of at least 2.0x and the group target net leverage of 2.5x to 3.0x. As on December 31, 2022, the group had a backlog to net debt ratio of 2.6x. Based on the adjusted EBITDA as defined in the financing agreements, the company's leverage ratio, net of cash and cash equivalents, was equal to 3.5x to 4.0x as of December 2022.
  - The group continuously examines its debt profile, and continue to strategically utilize a variety of funding sources, as evidenced by its capital structure, combined with its cash flow from operations, to finance the expansion of its business. The group may also engage in equity financing as needed.

Strengths and Competitive Advantages

- **Operating in markets with high barriers to entry**
  - The group benefits from high entry barriers in the markets in which it operates, including high capital expenditures to purchase new assets, a demanding pre-qualification procedure, local content requirements, restrictions on the rig supply chain, protracted lead times for new rig construction, and demanding technical rig specifications.
  - The group has an advantage over its competitors as the group operates one of the largest fleets of premium rigs globally, around 31 premium rigs, which represent an ~10% market share of premium jack-up rig supply.
  - It's capacity to deliver a significant portion of services using local labor in each market has made it one of the leading drillers in terms of local content and has become a crucial differentiator for contracts awarded by NOCs across the markets in which the group operates.
- **A business model designed and well-equipped to withstand market volatility**
  - ADES has a history of successful growth throughout cyclical market conditions in the oil and gas industry thanks to its business model, which is primarily focused on resilient sub-segments of the drilling industry and is based on a lean cost structure.
  - The group focuses on the largest and most resilient drilling markets in the MENA region, particularly KSA, Kuwait, and Qatar. The group operates predominantly in low-cost production areas that are controlled by NOCs.
  - A high-skill, low-cost local labor, an internal maintenance and technical team, and a lean organizational structure all contribute to the group's low-cost structure. By maximizing the use and efficiency of acquired rigs, the group can reduce operating costs through the use of a lean cost structure.
  - Most of the refurbishment and maintenance jobs are managed by the group's highly skilled internal refurbishment and maintenance staff without the need to engage third-party service providers. As a result, the group can monitor costs precisely and steer clear of extra expenses related to turnkey renovation and maintenance projects.
- **Good relationships with the largest of the international energy suppliers**
  - The group has a customer-centric, agile approach that emphasizes providing specialized solutions while quickly and continuously adjusting to its clients' needs. The largest global NOCs, who are concentrated on achieving long-term goals and less sensitive to short-term energy price cycles, make up the majority of the group's clientele. The Group's key clients are Saudi Aramco, Kuwait Oil Company and North Oil Company in Qatar, which in total represent over 95% of the group's total backlog as at 31 December 2022.
  - Most importantly, ADES is concentrating on achieving Saudi Aramco's objective and is evolving into a crucial service provider for Saudi Aramco.
  - The group has also matched its resources and asset base to Saudi Aramco's needs and specifications, which puts it in a good position to benefit from the company's growth plans.
- **Long-standing contracts and solid backlog provide cash flows visibility**
  - The group's estimated total backlog as of 31 December 2022 was SAR 27.4bn (equivalent to USD 7.3bn) vs SAR 6.7bn (equivalent to USD 1.8bn) as of 31 December 2021 and SAR 3.5bn (equivalent to USD 0.9bn) as of 31 December 2020.
  - In addition, 97% of the group's backlog was contracted with reputable clients including Saudi Aramco, KOC, and North Oil Company, which strengthens the possibility that the group will eventually be able to complete its backlog in future.
  - ADES has a strong backlog with a 2.6x backlog to net debt ratio as of 31 December 2022 mainly due to its long-standing contracts and solid customer relationships, which also allow it to generate predictable cash flows.
  - Due to a combination of high demand and limited supply, the market for jack-up rigs has tightened significantly. In addition, there are currently a limited number of rigs and operators qualified to compete for the tenders in the markets where the group operates. The group is thus well positioned with the right asset base and operational capabilities to take advantage of this market opportunity.

- **Successful acquisition history, acquisitions are disciplined and aimed at generating value-accretive growth**
  - The group has a proven track record of completing value-enhancing acquisitions for both premium and low-cost legacy assets in good condition, as well as for premium assets, and a proven track record of successfully integrating these purchases.
  - The group has historically purchased its assets at prices that are much lower than the industry average and build cost, which supports the group's capacity to submit competitive bids for contracts.
  - The group also has a proven track record of quickly and successfully acquiring, commissioning, and integrating the rigs it purchases.
  - Along with its acquisitive growth, ADES has also grown organically due to its lean cost structure and strong client relationships.
- **Strong HSE regulations with extraordinary track record**
  - When conducting business, the group aims to adhere to strict HSE standards and procedures. The foundation of the group's corporate values is a strong HSE culture, and every operational offshore rig in its fleet is either IACS certified or is in the process of being recertified.
  - The group is also working on new technologies to boost safety records, like the "Rig Eye," an on-site camera-based artificial intelligence system that aims to boost operational effectiveness and prevent accidents on the rigs.
  - The group is dedicated to minimizing the impact of its operations on the environment through technological and engineering advancements. ADES is among the first drillers to start a project with the goal of reducing engine emissions by 6% by FY30 and is testing new ways in an attempt to reduce emissions to meet the requirements of clients. The group aims to reach net zero emissions by FY50.
- **Support from a strong management team and strategic shareholders**
  - The senior management team of the group possesses extensive industry knowledge, a thorough awareness of the dynamics and inefficiencies of the business, and good relationships with all industry stakeholders.
  - The group's capacity to adopt best practices from other industries and create novel solutions to handle difficult customer needs is made possible by the management's diversified professional backgrounds.
  - ADES also has the support of long-term stockholders who offer the group special access to markets and strategic knowledge.

Competitive Landscape

The group faces competition from several domestic and foreign drilling contractors in its target offshore markets, which include the GCC, Egypt, and India. The group has the largest jackup fleet among these target markets, comprising 21% of the 220 operating rigs and 27% of the anticipated total outstanding contracted backlog days. The group's fleet of 46 jackups is 44% larger than that of ADNOC Drilling, its next-largest rival. The group's dominant position is even more pronounced when only premium rigs (jackups supplied after 2005) are taken into consideration. These rigs make up 22% of the total fleet, which is 41% more than the next-largest premium jackup rival, ADNOC Drilling.

Fig 5: Commercial Landscape & Benchmarking of Jackup Managers Across Target Geographies

Rig Manager	Global Jackup Fleet	Target Geographies			
		# Jackups	Average Age	Market share	# Premium Jacups
ADES	**46**	**46**	**22**	**27%**	**31**
ADNOC Drilling	32	32	18	10%	22
Shelf Drilling	36	21	37	13%	3
ARO Drilling	17	17	15	10%	13
Arabian Drilling	11	11	13	6%	9
China Oilfield Services	50	9	8	6%	9
Gulf Drilling Interna-tional	7	7	16	3%	6
ONGC	6	6	38	1%	-
Egyptian Drilling	6	6	22	1%	4
Saipem	7	6	13	3%	5
Jindal Drilling	5	5	19	8%	4
Valaris	29	5	22	0%	2
Borr Drilling	25	5	4	2%	5
GulfDrill	7	5	7	1%	5
Others	209	39	27	9%	20
Total (Average)	**493**	**220**	**21**	**100%**	**138**

Source: Company Prospectus, Aljazira Capital Research

* Includes rigs currently under construction and/or undergoing modification but earmarked for target geographies.

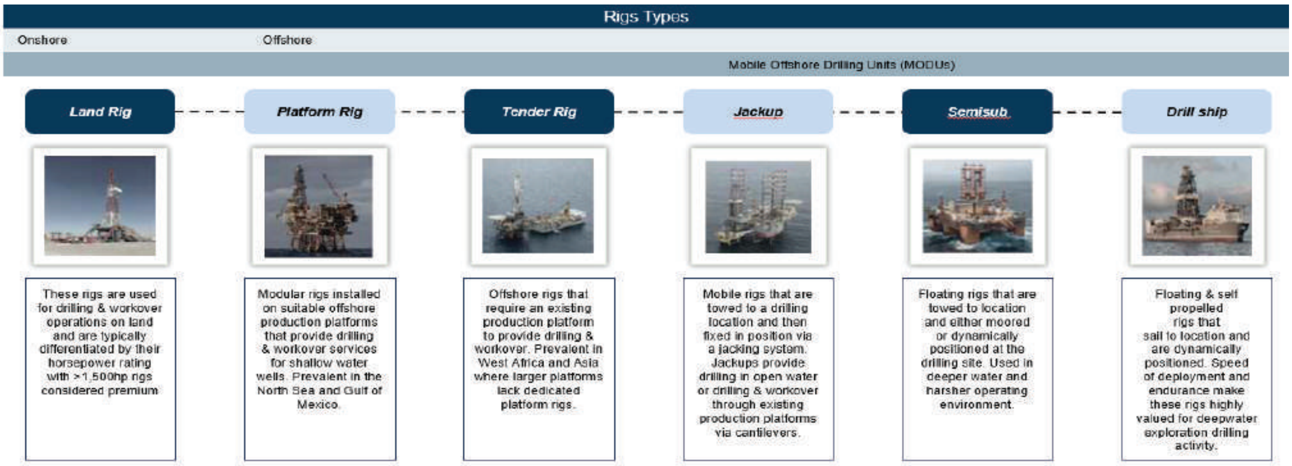
** Market share is based on each manager's share of outstanding backlog days.

Oil and Gas Drilling Rig Industry

Types of Drilling Rigs:

A variety of different rigs are used to support the drilling & workover of exploration, appraisal, development, and production wells for oil & gas. The type of rig used is typically decided based on the operating environment such as onshore, shallow water, harsh water and remote deepwater regions. The table below outlines the principal types of rigs found in the current oil & gas industry along with some key operating parameters as well as the group's current fleet size.

Figure 6: Comparison of Rig Types



Global Fleet Size - Active & Stacked (December 2022)					
8,740	283	26	493	95	97
Water Depth Range (ft)					
N/A	N/A	N/A	500	12,000	12,000
Average Day rates (December 2022					
USD 35,000	USD 37,200	USD 58,000	USD 82,000	USD 262,000	USD 278,000
Global Utilization (December 2022)					
55%	73%	58%	81%	73%	80%
ADES Fleet Size (December 2022)					
36	--	--	46*	--	--

Source: Company Prospectus, Aljazira Capital Research

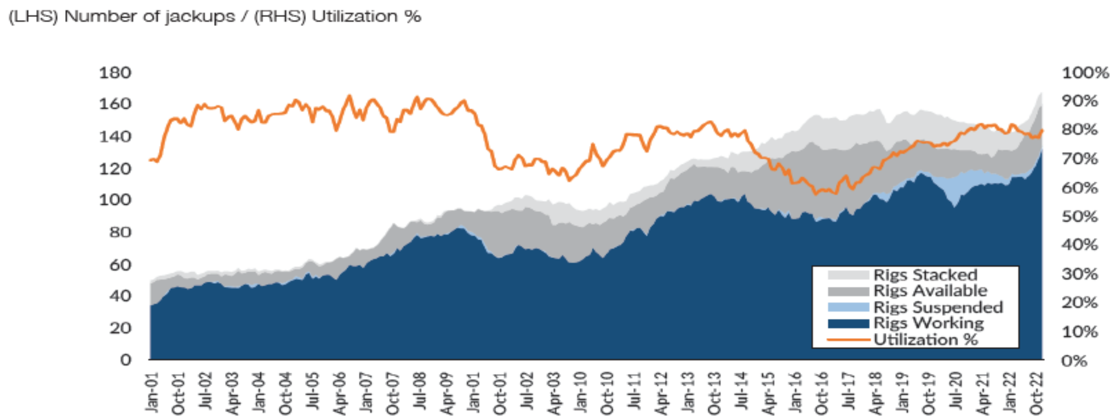
Figure 7: Locations of the group's Rig Fleet (Target Markets). as of 1 February 2023 (locations refer to country of current contract)

Source: Company Prospectus, Aljazira Capital Research

Offshore Drilling – MENA Jackup Recent Trends and Supply & Demand Outlook

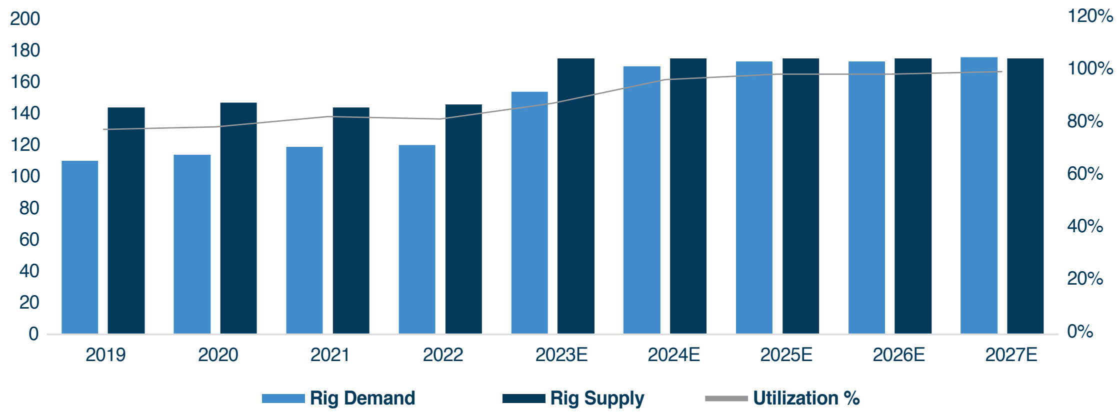
The contracted number of jackups across the MENA region averaged 120 rigs in FY22 and peaked at 128 in December. The number of contracted jackups in the MENA region is anticipated to rise by 46% over the following five years, reaching 176 rigs by FY27. A large portion of this rise is attributed to contracts that have been won, with backlog alone predicted to fuel a 15% increase in contracted rigs in FY23. As E&Ps and rig managers race to get the averages ready for next campaigns, the number of jackup rigs is anticipated to rise from 146 in FY22 to 175 in FY23, an increase of 20% Y/Y. Utilization in the MENA region was 82% on an average in FY22 and is predicted to reach 88% in FY23. Based on current supply visibility, utilization will approach 97% in FY24, necessitating a large increase in the number of rigs to meet demand.

Figure 8: Review of MENA Jackup Activity



Source: Company Prospectus, Aljazira Capital Research

Figure 9: MENA Jackup Supply and Demand Outlook 2012-2027, (LHS) Number of jackups / (RHS) Utilization %



Source: Company Prospectus, Aljazira Capital Research, Note- Rig demand and supply numbers and utilization (%) assumed due to unavailability of data in the prospectus

Figure 10: Utilization rates (2019-2027)

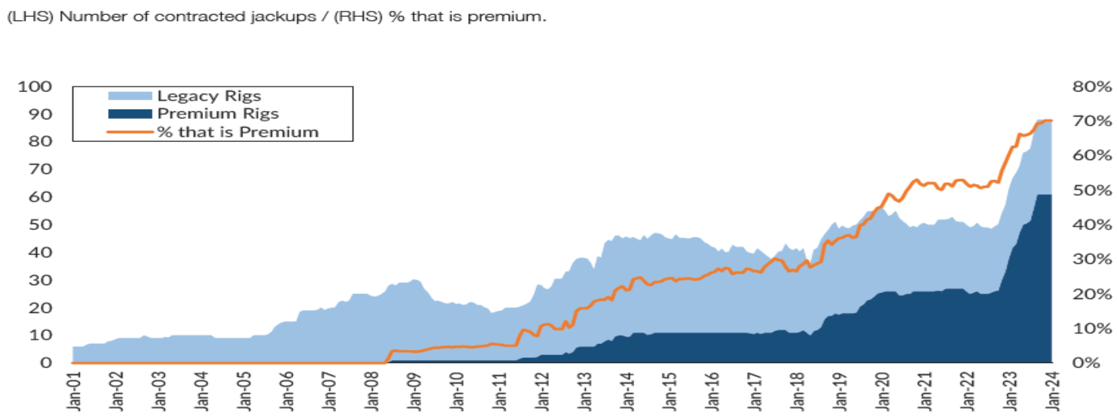
	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
MENA- Onshore	55%	45%	45%	54%	60%	62%	64%	64%	66%
MENA - Offshore	78%	79%	83%	82%	88%	97%	99%	99%	100%
Egypt - Offshore	86%	88%	91%	88%	71%	79%	86%	86%	86%

Source: Company Prospectus, Aljazira Capital Research

Offshore Drilling – Saudi Arabia Jackup Recent Trends and Supply & Demand Outlook

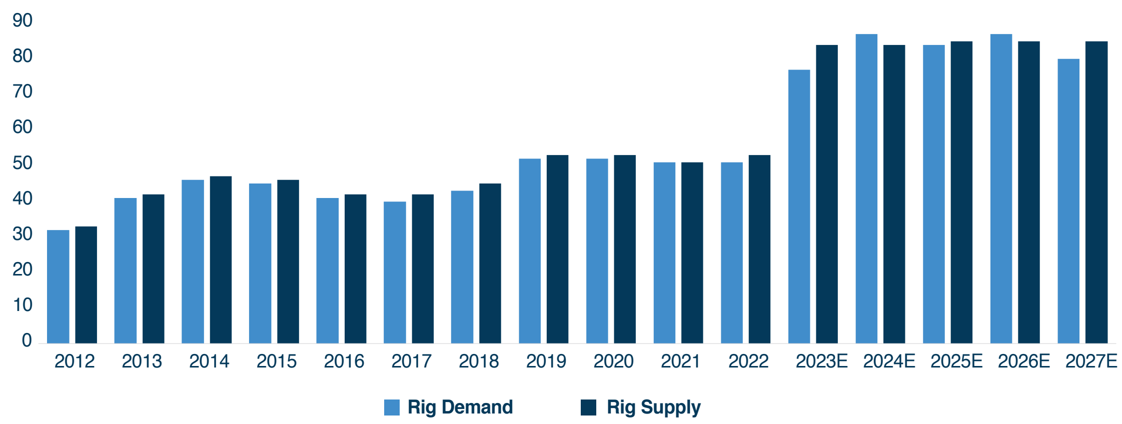
Based on the number of rigs currently under contract, KSA is the largest jackup market in the world, making up 17% of the total. Although 6-7 contracted rigs were halted during the peak of the epidemic, over the previous few years, the number of rigs has remained largely consistent, averaging 50 rigs throughout the years of 2018 to 2022 with only a slight decline to 49 rigs during the COVID-19 era. However, the number of contracted rigs started to rise substantially toward the end of FY22, reaching 57 by December, pushed by Saudi Aramco's declared development goals. Saudi Aramco is focusing a lot more emphasis on acquiring "premium" rigs—defined as those rigs produced after 2005—in addition to substantially rising rig needs. Premium rigs made over 35% of Saudi Aramco's contracted fleet from 2016 to 2020. Based on awarded contracts, this share is anticipated to rise to 66% in FY23 as new tenders start to prioritize these assets.

Figure 11: Saudi Arabia contracted Jackups by Type



Source: Company Prospectus, Aljazira Capital Research

Figure 12: Saudi Arabia Jackup Supply and Demand 2012-2027 (Number of Jackups)



Source: Company Prospectus, Aljazira Capital Research, Note- Rig demand and supply numbers assumed due to unavailability of data in the prospectus

Figure 13: Utilization rates (2019-2027)

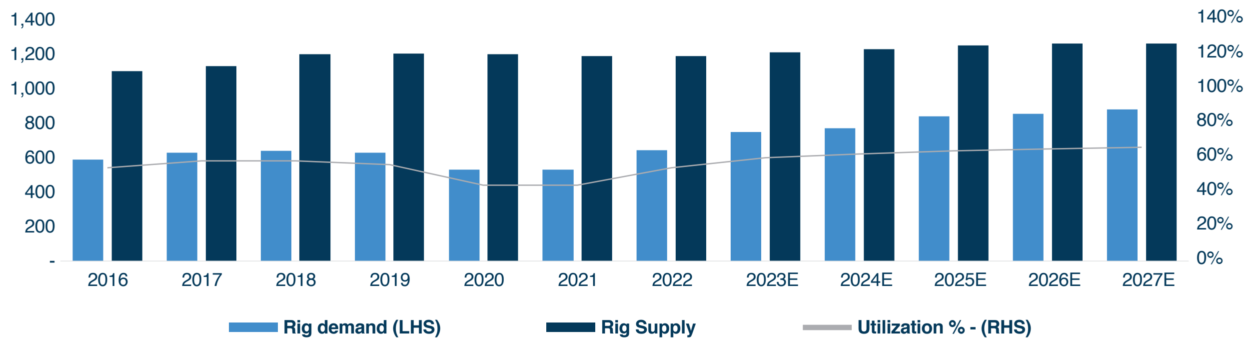
	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
KSA- Onshore	75%	58%	67%	86%	90%	93%	100%	101%	102%
KSA - Offshore	99%	99%	99%	95%	93%	93%	91%	94%	88%

Source: Company Prospectus, Aljazira Capital Research

Onshore Drilling – MENA Supply & Demand Outlook

Onshore rig demand in the MENA region was projected to reach 642 units in FY22, up 21% Y/Y as the market rebounds from the COVID-19 pandemic's effects. With 1,179 rigs currently expected to be in the area, this indicates a 54% utilization. Saudi Arabia is the largest market overall at a country level, expected to account for 27% of demand in FY22. Oman (15%), Kuwait (14%), Algeria (9%), and Egypt (8%) are further significant markets. Going forward, MENA onshore rig demand is expected to rise by 32% over the next five years to reach 878 units by FY27. The GCC states of Saudi Arabia, Kuwait, Iraq, and the UAE will be the greatest drivers of growth, with the first two countries accounting for 55% of the additional rig requirements between 2022 and 2027, even though growth is predicted for other country markets. The MENA region is anticipated to have an increase in utilization from 54% in FY22 to 66% by FY27 due to rising demand.

Figure 14: MENA Onshore Rig Supply and Demand Outlook



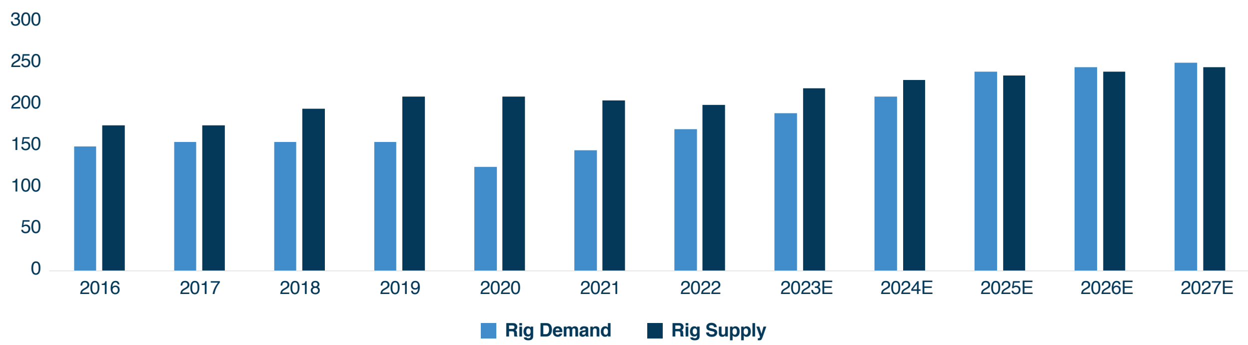
Source: Company Prospectus, Aljazira Capital Research, Note- Rig demand and supply numbers and utilization rate are assumed due to unavailability of data in the prospectus

Onshore Drilling – Saudi Arabia Supply & Demand Outlook

Saudi Arabia is regarded as a premium rig market distinguished by difficult and expensive wells. The expected demand for onshore rigs in FY22 was 171 units, resulting in a utilization rate of 86%. The demand for onshore rigs in Saudi Arabia is predicted to increase significantly in the coming years, reaching 251 rigs by FY27, a 47% increase from FY22. Onshore rig growth will mostly be fueled by the development of the massive Jafurah unconventional gas field, while offshore rig growth will primarily be fueled by the increase in Saudi Aramco's maximum sustainable capacity (MSC) of oil production to 13 mmbpd.

Existing capacity is anticipated to be severely strained by the growing demand for rigs, hence additional rigs are anticipated to go online to serve upcoming drilling campaigns. One of the most important new construction projects is SANAD's (a joint venture between Saudi Aramco and Nabors) proposal to construct 50 top-of-the-line onshore rigs, with five deliveries planned annually over the following ten years. The first of these rigs will be delivered in FY22 and will be manufactured domestically to meet Saudi Aramco's IKTVA goals. Considering this, we anticipate utilization to average approximately 100% from FY25 to FY27 and reach 93% by FY24.

Figure 15: Saudi Arabia Onshore Rig Supply and Demand Outlook

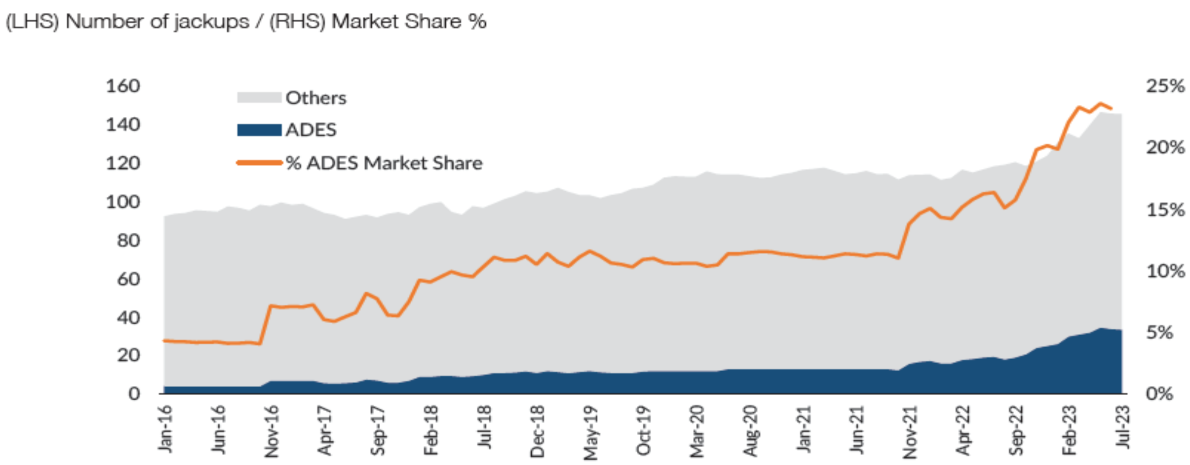


Source: Company Prospectus, Aljazira Capital Research, Note- Rig demand and supply numbers and utilization rate are assumed due to unavailability of data in the prospectus

Review of Recent Group Performance

The group's drilling fleet has grown dramatically over the last seven years, from 14 rigs in FY16 to 85 rigs by the end of August 2023. After the group won a sizable portion of Saudi Aramco's recent mega-tender for the years 2021–2022, expansion has more recently been concentrated on the Saudi Arabian jackup market. The group's market share of contracted jackups across its current target markets has increased due to this rapid expansion, rising from 5% in FY16 to a projected 23% in FY23 (once existing contracts with Saudi Aramco have started).

Figure 16: ADES Market Share of Contracted Jackups Across Target Markets

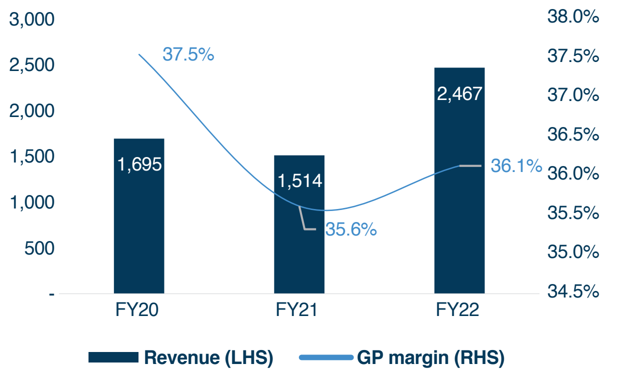


Source: Company Prospectus, Aljazira Capital Research

Financial Highlights

- Revenue from contracts with customers declined 10.7% Y/Y in FY21 due to the decline in units' operations during the COVID-19 pandemic period. The decline was partially mitigated by the revenue generated from the acquisition of 4 rigs from Noble Company in November 2021.
- Revenue increased by 62.9%, Y/Y in FY22 due to the increase in revenue from units' operations led by the overall increase in the group's offshore and onshore operating segments.
- GP margin contracted by 1.9 percentage points in FY21 due to higher depreciation and amortization due to an increase in number of drilling rigs in KSA (4 offshore drilling rigs acquired from Noble in FY21). GP Margin increased by 0.5 percentage points in FY22 due to an i) increase in profit margin in Egypt, and ii) impact of the acquisition of 4 drilling rigs in KSA, which were defined by high profitability.

Figure 17: Revenue (SAR mn) and GP margin (%) trend



Source: Prospectus

The group demonstrates a strong backlog thus providing visibility over the long-term growth potential

The group projects the value of backlog for each rig based on the total amount payable to the group over the course of an existing contract's remaining term plus any optional client extension provided for in such contract, assuming the contracted rig will operate (and thus receive an operating day rate) for all calendar days throughout the remaining term and the optional extension period (without using any present value discounts). This computation takes the client's choice to renew the current contract at the current day rate and in accordance with the agreed-upon conditions for the payment currency into account. The backlog also includes any lump sum payments required under the contract for mobilization and demobilization. Backlog includes amounts remaining on contracts novated to the group from certain rigs' previous owners. The group's demonstrates robust contracts underpinned by solid backlog. Th estimated total backlog as of 31 December 2022 was SAR 27.4bn (USD 7.3bn) vs SAR 6.7bn (USD 1.8bn) as at 31 December 2021 and SAR 3.5bn (USD 0.9bn) as at 31 December 2020.

Figure 18: Composition of the Group's Estimated Backlog by Region as of 31 December 2022

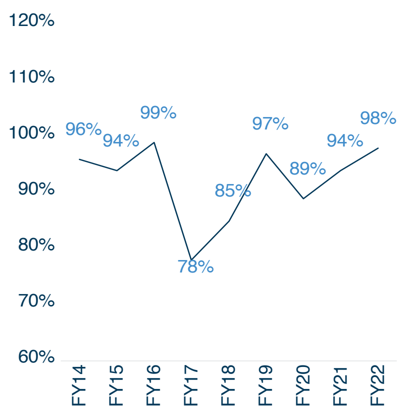
USD '000,000	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
KSA	1,021	1,100	1,030	822	652	576	574	212	50	7	**6,044**
Kuwait	142	171	134	95	97	96	45	-	-	-	**780**
Egypt	57	24	13	11	-	-	-	-	-	-	**105**
Qatar	74	75	76	69	9	-	-	-	-	-	**302**
Tunisia	5	-	-	-	-	-	-	-	-	-	**5**
India	14	17	17	5	-		-				**52**
Algeria	13	-	-	-	-	-	-	-	-	-	**13**
Total	**1,325**	**1,388**	**1,269**	**1,002**	**758**	**671**	**619**	**212**	**50**	**7**	**7,300**

Source: Company Prospectus, Aljazira Capital Research

Strong key performance Indicators indicates the company's sound position

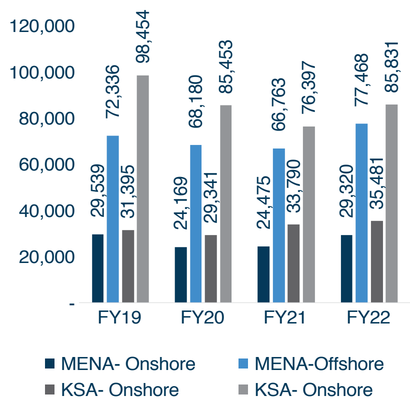
The group has demonstrated its capacity for continuous performance by maintaining an actual utilization rate of 89%, 94%, and 98% in FY20, FY21, FY22, respectively. Additionally, from 2014 and 2019, the group maintained actual utilization rates of 96%, 94%, 99%, 78%, 85%, and 97%. Additionally, despite severe fluctuation in oil and gas prices since 2014, the group has kept its EBITDA margin stable. From SAR 1,695mn in FY20 and SAR 1,514mn in FY21 to SAR 2,467mn in FY22, the group's revenue from contracts with clients has increased. Additionally, for the benefit of both the group and its customers, the group can provide exceptionally competitive day rates to its clients that are calibrated to protect the group from downturns and maintain sustainability across cycles. Because NOCs make up the majority of the G=Group's clientele, it is primarily focused on long-term contracts while also maintaining a high level of financial flexibility and liquidity access thanks to the approximately USD 430mn (or SAR 1,612.5mn) in working capital existing facilities and revolving existing credit facilities that are currently available. Moreover, the group has a negative cash conversion cycle, which is a desirable situation for the company.

Figure 19: Effective Utilization rates



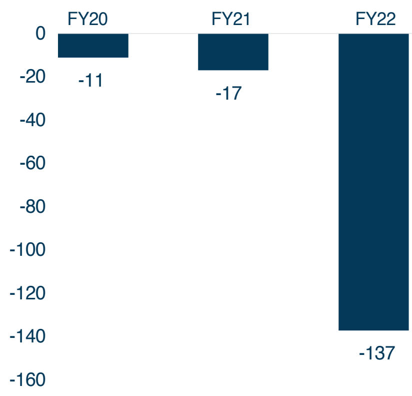
Source: IPO Prospectus, Aljazira Capital Research

Figure 20: Dayrate (In USD 000s)



Source: IPO Prospectus, Aljazira Capital Research

Figure 21: Cash conversion cycle (days)



Source: IPO Prospectus, Aljazira Capital Research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	H1-23
Income statement				
Revenues	1,695	1,514	2,467	1,981
Y/Y		***-10.7%***	***62.9%***	***83.5%***
Cost	-1,059	-975	-1,576	-1,200
Gross profit	**637**	**539**	**891**	**781**
General and administrative expenses	-178	-158	-246	-190
Operating Income	**459**	**382**	**645**	**591**
Y/Y		***-16.8%***	***69.1%***	***98.2%***
Financing Expense (net)	-242	-305	-284	-321
Others	-101	72	107	-32
Income before zakat	**116**	**149**	**468**	**237**
Zakat	-34	-35	-71	-42
Net income attributed to equity shareholders	**74**	**108**	**390**	**191**
Y/Y		**46.5%**	**262.2%**	**28.3%**
EPS (SAR)	-	-	***0.47***	***0.37***
Balance sheet				
Assets				
Cash & equivalent	234	233	191	652
Other current assets	850	918	1,500	2,111
Total current assets	1,084	1,151	1,691	2,764
Property plant & equipment	3,795	5,358	12,066	14,217
Other non-current assets	311	183	744	567
Total non-current assets	4,105	5,541	12,810	14,784
Total assets	**5,190**	**6,692**	**14,501**	**17,548**
Liabilities & owners' equity				
Interest bearing loans and borrowings	321	401	972	1,496
Total current liabilities	956	977	2,160	3,009
Interest bearing loans & borrowings & lease liabilities	2,380	3,676	9,846	11,459
Total other non-current liabilities	151	116	237	576
Total non-current liabilities	2,531	3,792	10,082	12,035
Share capital	-	-	1	858
Capital contribution	741	857	857	-
Legal reserve	24	24	-	-
Cash flow reserve	-26	-13	62	102
Retained earnings	928	1,025	1,302	1,503
Total owners' equity	1,667	1,894	2,222	2,463
Non-controlling interests	35	30	36	41
Total equity & liabilities	**5,190**	**6,692**	**14,501**	**17,548**
Cashflow statement				
Operating activities	620	317	1,146	910
Investing activities	-438	-1,464	-6,438	-2,142
Financing activities	-397	1,145	5,250	1,693
Change in cash	-214	-1	-42	462
Ending cash balance	**234**	**233**	**191**	**652**
Key fundamental ratios				
Liquidity ratios				
Current ratio (x)	1.1	1.2	0.7	0.9
Quick ratio (x)	0.9	0.9	0.7	0.7
Profitability ratios				
Gross profit margin	37.5%	35.6%	36.1%	39.4%
Operating margin	27.1%	25.2%	26.2%	29.8%
EBITDA margin	40.9%	43.4%	42.5%	47.0%
Net profit margin	4.3%	7.1%	15.8%	9.7%
Return on assets	1.6%	1.7%	2.7%	1.1%
Return on equity	4.9%	6.0%	17.6%	7.8%
Leverage ratio				
Debt / equity (x)	0.9	2.1	4.7	5.3
Key performance Indicators				
DIO	144	154	91	-
DSO	103	102	45	-
DPO	258	273	273	-
Cash conversion cycle	(11)	(17)	(137)	-

Source: Company Prospectus, Aljazira Capital Research, Note- The earnings per share for FY21 and FY20 is not calculated considering shares only issued in FY22 by the company, FY22 Balance Sheet numbers are restated numbers as provided in prospectus

الجزيرة كابيتال
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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer