

Target Price: SAR160/share
Current Price: SAR149/share
Upside: ~7.4% (+~2% Div. Yield)
Rating: Neutral

Arabian Drilling Co.

Raise target price to SAR160/share

- We raise contracted offshore rig count by 1 to 12 (from our prior estimate of 11 at the end of 2023e) as well as our average estimate of day rates.
- Post the stellar run-up, the stock remains positioned to be likely included into MSCI/FTSE EM indices which could fuel further rally.
- We raise our target price to SAR160/share on higher rig count and likely better than expected margins. 3Q22 results were also above our estimates.

New contract: After the ~49% rally from the IPO price in line with our prior target price (SAR144/share), we raise our target price to SAR160/share. This is post factoring in the new contract worth atleast SAR650mn won in Jan 2023 which was not previously factored in our estimates. This amounts to atleast 6% of 2021 revenues on an annual basis (though it is likely that the day rates are significantly higher). Though the contract was signed in 1Q23, the company will commence operations from 3Q23. As per the contract the company will supply an offshore jack up unit with full crew to perform offshore drilling services in KSA.

Rig count and pricing: This new contract increases the offshore rig count to 12 at the end of 2023e from 11 previously. Our estimate for onshore rig count remains at 38 (including two rigs that would need upgrades) for the end of the year. While in general, day rates for contractual offshore rigs has increased by more than 30-40%, we believe it would take 2 years for the pricing to fully reflect in the financials because of contractual periods of older rigs. In 2023, 8 rigs come for renewal (6 Land + 2 Offshore, of which 1 is the Multi-Purpose Service Vessel, which is a jackup rig without the drilling package). In 2024, 4 rigs are rolling off contract (2 Land + 2 Offshore). Thus we estimate pricing to improve gradually in 2023/24.

Val/Risks: We value the company based on an equal mix of PE (18x 2024 EPS of SAR8.3) and DCF (SAR170/sh) methods to arrive at a SAR160/share target price. Global economic slowdown/recession caused by geopolitical issues/high-interest rate environment, short-term stagnation in oil demand due to production cut measures adopted by OPEC+, oversupply in rig market leading to fall in day rates, high dependency on Saudi Aramco, environmental concerns and change in the energy mix are key risks to our investment view.

Figure 1: Key financial metrics

SARmn	2021a	2022e	2023e	2024e
Revenue	2,199	2,698	3,292	3,536
Revenue growth	-13%	23%	22%	7%
Gross Profit	469	778	1,058	1,167
Gross Profit margin	21%	29%	32%	33%
EBITDA	905	1,118	1,570	1,695
Op. income	363	638	897	994
Net profit	274	555	660	743
Net profit margin	12%	21%	20%	21%
EPS (SAR)	3.1	6.2	7.4	8.3
P/E	48.5x	23.9x	20.1x	17.9x

Source: Company data, GIB Capital

Stock data	
TASI Ticker	2381
Mkt cap (SARmn)	13,083
Trd. Val 3m (SARmn)	47.6
Free float	30.0%
QFI holding	4.1%
TASI FF weight	0.21%

Source: Bloomberg

Valuation (SAR/share)	
DCF (50% weight) rounded	170.0
P/E (50% weight) rounded	150.0
Target Price (rounded)	160.0

Source: GIB Capital analysis

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Summarized Financial statements

Figure 2

Income statement	2021a	2022e	2023e	2024e
Revenue	2,199	2,698	3,292	3,536
revenue y/y	-13%	23%	22%	7%
COGS	1,730	1,920	2,234	2,369
Gross Profit	469	778	1,058	1,167
Gross Profit margin	21%	29%	32%	33%
G&A	105	132	161	173
Operating profit	363	638	897	994
Operating margin	17%	24%	27%	28%
Finance costs	38	102	140	140
Net income	274	555	660	743
Net margin	12%	21%	20%	21%
y/y	-7%	103%	19%	12%
EPS	3.1	6.2	7.4	8.3
DPS	0.3	0.0	3.0	6.7
Payout	10%	0%	40%	80%
EBITDA	905	1,118	1,570	1,695
Net debt	969	260	1,220	1,171

Balance Sheet	2021a	2022e	2023e	2024e
Inventories	143	191	222	235
Trade Receivables	696	703	858	922
Other Current Assets	17	17	17	17
Cash and Equivalents	412	3,240	2,280	2,329
Total Current Assets	1,268	4,151	3,376	3,503
Intangible Assets	6	3	3	3
Property, Plant & Equipment	5,259	5,955	7,205	7,261
Total Non-Current Assets	5,269	5,968	7,218	7,274
Total Assets	6,544	10,128	10,603	10,786
Current Liabilities	1,033	1,022	1,366	1,400
Non-current Liabilities	1,320	3,491	3,491	3,491
Equity	4,192	5,614	5,746	5,895
Total Equity and Liabilities	6,544	10,128	10,603	10,786
BVPS	52.4	70.2	71.8	73.7

Cashflow	2021a	2022e	2023e	2024e
Cashflow from Operations	635	1,013	1,227	1,401
Cashflow from Investing	-228	-1,174	-1,923	-757
Cashflow from Financing	-635	2,989	-264	-594
Total Cashflows	-228	2,828	-960	50

Source: Company, GIB Capital

Summarized key ratios

Figure 3: Key ratios

Key ratios	2021a	2022e	2023e	2024e
Profitability ratios				
RoA	4%	5%	6%	7%
RoE	7%	10%	11%	13%
Sales/Assets	34%	27%	31%	33%
Net margin	12.4%	20.6%	20.1%	21.0%
EBITDA margin	41.4%	41.5%	47.7%	47.9%
Liquidity ratios				
Current Assets/ Current Liabilities	1.2	4.1	2.5	2.5
Debt to Total Equity	33%	62%	61%	59%
Receivable Days	116	95	95	95
Inventory Days	30	36	36	36
Payable days	96	93	93	93
Debt ratios				
Net Debt/EBITDA	1.1	0.2	0.8	0.7
Debt/Assets	0.2	0.3	0.3	0.3
Valuation ratios				
P/E	48.5	23.9	20.1	17.9
P/B	2.8	2.1	2.1	2.0
EV/EBITDA	15.2	12.3	8.8	8.1
FCF yield	2.7%	-1.0%	-3.9%	5.2%
Div Yield	0.2%	0.0%	2.0%	4.5%

Source: Company, GIB Capital

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