

**Target Price: SAR9.8/share**  
Current Price: SAR7.2/share  
Upside: 36% (+Div. Yield: 3.8%)  
**Rating: Overweight**

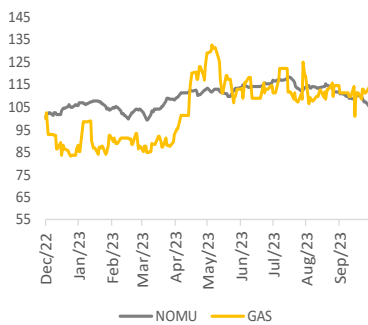
## Gas Arabian Services Company (GAS)

### Growing order book; Maintain Overweight

Stock data	
NOMU Ticker	9528
Mkt cap (SARmn)	1,138
Trd. Val 3m (SARmn)	0.2
Free float	9.0%
QFI holding	0.0%
NOMU FF weight	5.12%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Secured ~SAR585mn worth of new contracts in 1H23, higher than the contract addition of SAR474mn in 2022; Order backlog expanded to SAR677mn in 1H23.
- Near-term margins to remain below the historical levels due to a change in mix and new product launches.
- Post robust 1H23, we revise our TP to SAR9.8/sh. using PE valuation (18x on 2024 EPS), implying 36% upside.

**Strong order books to provide revenue visibility:** The company won SAR585mn worth of new contracts during 1H23, taking the order backlog to SAR677mn (SAR443mn in 2022; Figure 2) with an execution period of ~1.5-2 years, providing strong revenue visibility. Given its strong track record of consistent order inflows and successful execution, we revise our 2023e/24e top-line estimates upwards to reflect the additional contract wins. We note that the company plans to start delivering skids to Saudi Aramco in 4Q23/1Q24.

**Margins to remain under pressure till 1H24:** Despite robust top-line growth, the company may witness pressure on gross margins in the near term as the newly launched products may keep the trading segment's margin below the historical level (20-23%) till 1H24 before start improving gradually thereafter. While we expect the technical services margin to recover in 2H23, it would likely remain weak at around 23% (vs. 27% in 2022) for 2023-24e due to a change in mix. Accordingly, we lower our gross margin estimates, in line with the current levels. Overall, we expect a healthy earnings growth of ~11% CAGR over 2022-25e.

**Recap of 1H23 results:** 1H23 revenue grew by ~86% y/y, mainly due to a significant jump in the trading segment's revenues (+133% y/y; 73% of total). The trading segment benefited from the higher than usual shutdowns at end of 2022 which spilled over to 1H23, leading to a robust growth. The technical services segment grew 17%, while the manufacturing segment increased by 80%. However, the gross margin contracted by 3.6pps y/y to 15%, due to weak margins across the segments (Trading: -5.8pps; Technical Service: -3.2pps), mainly due to a change in mix. Income from associates and JV rose 24% y/y. Overall, net income nearly doubled in 1H.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e
Revenue	386	496	661	721
Revenue growth	20%	28%	33%	9%
Gross Profit	105	117	125	142
Gross Profit margin	27%	24%	19%	20%
Op. income	37	43	43	51
Op. income + JV income	59	74	81	91
Net profit	60	67	77	86
Net profit margin	16%	14%	12%	12%
EPS (SAR)	0.38	0.43	0.49	0.54
DPS (SAR)	0.20	0.23	0.25	0.27
P/E	18.9x	16.9x	14.8x	13.2x

Source: Company, GIB Capital

**Abdulaziz Alawwad**

+966-11-834 8486

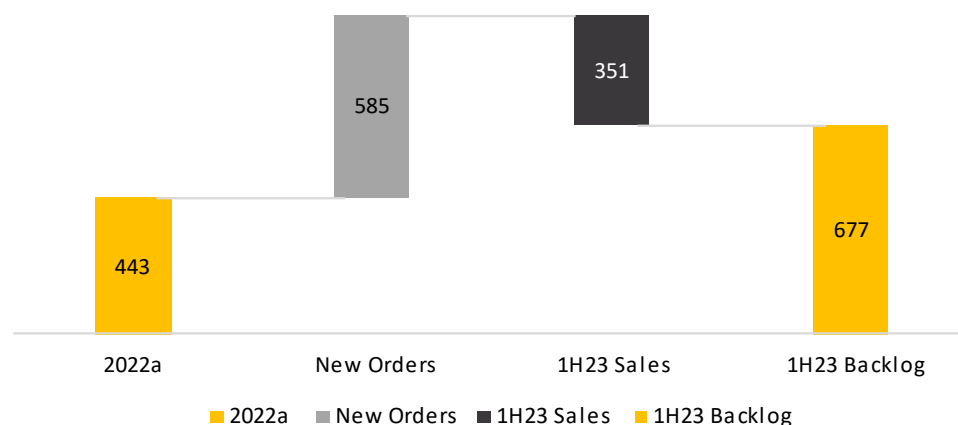
[Abdulaziz.alawwad@gibcapital.com](mailto:Abdulaziz.alawwad@gibcapital.com)

**Kunal Doshi**

+966-11-834 8372

[Kunal.doshi@gibcapital.com](mailto:Kunal.doshi@gibcapital.com)

Figure 2: Order backlog evolution (SARmn) - 1H23



Source: Company data

Figure 3: Major contract wins in 1H23

Company	Announcement date	Contract value (SARmn)	Tenure (months)
JGC Arabia	January 10 <sup>th</sup>	139.5	24
Nesma and Partners	February 8 <sup>th</sup>	20	12
APPC	March 3 <sup>rd</sup>	50.98	14
Maaden	June 25 <sup>th</sup>	38.6	21

Source: Company, GIB Capital

**Valuation and risks:** We value the company using PE valuation (18x on 2024 EPS of SAR0.54) and arrive at TP of SAR9.8/share. Key downside risks include a slowdown of Aramco's expansion, an increase in competition, trading illiquidity, lower than expected shutdowns in the petrochemical sector, execution risks etc.

## Disclaimer

This research report has been prepared by GIB Capital, Riyadh, Saudi Arabia. It has been prepared for the general use of GIB Capital's clients and may not be altered, redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of GIB Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by GIB Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. GIB Capital makes no representations or warranties (express or implied) regarding the data and information provided and GIB Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. GIB Capital or its officers (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. GIB Capital may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. GIB Capital and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. Where the report contains or refers to a recommendation about a specific security or securities service, please note that it may not be suitable for all recipients. Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations. The subjectivity in future expectations is complex and may miss actual or reported numbers.

This research document and any recommendations contained are subject to change without prior notice. GIB Capital assumes no responsibility to update the information in this research document. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law, or which would subject GIB Capital to any registration or licensing requirement within such jurisdiction

The principal activities of GIB Capital are Dealing, Custody, Managing, Arranging and Advising pursuant to the Capital Market Authority ("CMA") License No. 07078-37.

We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/- 10%, we have a Neutral rating.

### Contact us for queries:

Sell Side Research Department,  
GIB Capital,  
B1, Granada Business & Residential Park,  
Eastern Ring Road, PO Box 89589, Riyadh 11692  
[www.gibcapital.com](http://www.gibcapital.com)