

**Target Price: SAR95/share**  
Current Price: SAR75/share  
Upside: 26% (+Div. Yield: 2.6%)  
**Rating: Overweight**

## Gas Arabian Services Company (GAS)

### Solid 2022 Performance; Maintain Overweight

Stock data	
NOMU Ticker	9528
Mkt cap (SARmn)	1,296
Trd. Val 3m (SARmn)	0.2
Free float	9.0%
QFI holding	0.0%
NOMU FF weight	7.05%

Source: Bloomberg

- 2022 revenues and profit came slightly above our estimates supported by trading segment benefiting from multiple shutdown activities in the petrochemical sector.
- Healthy growing backlog of SAR850mn to be executed within 1-2 years gives revenue visibility. Rising contribution from the manufacturing segment is positive (4.1% in 2H22 vs. 1.6% in 1H22).
- Post 2022 results the stock had rallied around 40% closer to our target price but has since then declined on likely profit booking. Our revised target price using PE valuation is SAR95/share implying further 26% upside.

**Beneficiary of Petchem/energy activities in KSA:** GAS continues to be an indirect beneficiary of Aramco's contracts and Petchem activities in KSA. Recently, JGC Arabia awarded GAS a contract worth SAR140mn for 2 years. JGC was in turn awarded 2 EPC contracts estimated to be worth USD2bn for Aramco's Zuluf oil and gas field. Overall, we estimate Aramco's contribution to be 20-25% of revenues. GAS also was awarded two contracts from Advanced Petrochemical and Nesma worth SAR51mn and SAR20mn respectively, overall helping reach a backlog of SAR850mn backlog which ensures healthy double digit topline growth for 1-2 years.

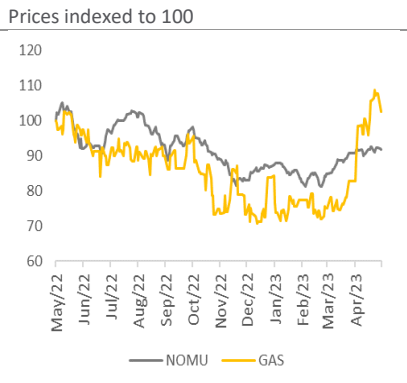
**Results and Outlook:** In 2022, revenue grew by 28% led by a strong 42% growth in the trading segment y/y in 2H22. We expect some spillover of contracts in 2023 as well. Gross margins have declined in line with our estimates from 27% in 2021 to 23.7% in 2022, due to change in product mix. We forecast gross margins to remain at current levels for 2023-24. Revenue from Joint ventures has grown by 42% in 2022. We conservatively expect its growth to slow down with only 10% growth in 2023-24. Overall, we expect a healthy net profit growth of 13.4% in 2023.

**Valuation and risks:** We continue valuing the company using PE valuation (18x on 2024 EPS of SAR5.3) and arrive at TP of SAR95/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.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e
Revenue	386	496	559	627
Revenue growth	20%	28%	13%	12%
Gross Profit	105	117	134	148
Gross Profit margin	27%	24%	24%	24%
Op. income	37	43	48	53
Op. income + JV income	59	74	81	90
Net profit	60	67	74	83
Net profit margin	16%	14%	13%	13%
EPS (SAR)	3.8	4.3	4.7	5.3
DPS (SAR)	1.9	2.0	2.2	2.5
P/E	19.2x	17.1x	15.5x	13.9x

Source: Company, GIB Capital



Source: Bloomberg

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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.

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