Arabian Drilling Co.

Energy
ARABIAND AB: Saudi Arabia
7 March 2023

US$3.204bn	30%	US$39.10mn
Market Cap	Free Float	Avg. Daily Volume

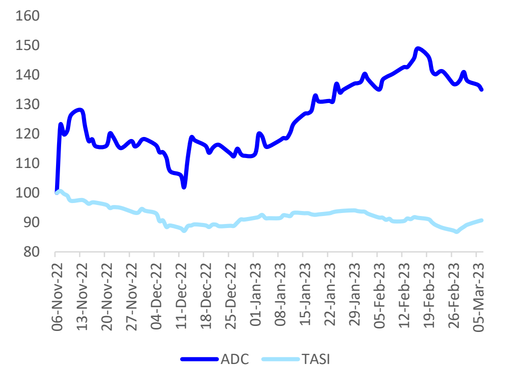
Target price	152.00	+13% above current
Current price	135.00	as at 06/03/2023

Existing rating

Underweight	Neutral	**Overweight**

Research Department
Mazen AlSudairi, CFA
Tel +966 11 836 5468, mazen.alsudairi@alrajhi-capital.sa

Performance (Rebased to 100)



Financials

(SARmn)	2022E	2023E	2024E
Revenue	2,671	3,349	3,712
Y-o-Y	21.4%	25.4%	10.8%
Gross profit	775	999	1,152
Gross margin	29.0%	29.8%	31.0%
Net profit	574	711	846
Y-o-Y	109.8%	23.9%	18.9%
Net margin	21.5%	21.2%	22.8%
EPS (SAR)	6.4	8.0	9.5
DPS (SAR)	-	-	4.8
Payout ratio	0.0%	0.0%	50.0%
P/E (Curr)	20.9x	16.9x	14.2x
P/E (Target)	23.6x	19.0x	16.0x

Source: Company data, Al Rajhi Capital.

Arabian Drilling Co.

Initiate with a TP of SAR152.0/sh.

We initiate coverage on Arabian Drilling Co. (ADC) with an "Overweight" rating and TP of SAR152.0/sh., implying an upside of ~13%. ADC is one of the largest drilling operators in MENA and a leader in KSA in terms of the total fleet (as of 2021). We believe that the company is well placed to benefit from the rising demand for onshore and offshore rigs in the region, mainly due to i) its strong market positioning, ii) the additional contract wins, iii) extension/renewals of contracts on excellent REI score, and iv) improving day rates. Accordingly, we expect the company's top-line and bottom line to grow at a CAGR of 10% and 16%, respectively over 2022e-27e.

Favourable market dynamics: Saudi Arabia is the lowest-cost oil-producing country with intensive resources, resulting in relatively higher production levels and utilization rates that are less affected by fluctuations in the oil price compared to other geographies with higher production costs. Given the firm oil prices amid healthy oil market dynamics, the Kingdom plans to raise its spending by 14% CAGR over 2021-25e (Figure 5). The Kingdom targets to lift its MSC to 13mmbbl/d by 2027e and increase gas production by 50% by 2030e, signalling strong demand for onshore (+14% CAGR over 2021-25e; Figure 7) and offshore (+12% CAGR; Figure 9) rigs in the Kingdom in the coming years.

Strong market positioning and fleet expansion to drive future growth: To tap a significant growth potential in the domestic market, the company plans to expand its rigs portfolio by 5-10 onshore rigs and 5 offshore rigs over 2021-26e, which would help the company in strengthening its market position (19% onshore market share and 12% offshore; Figure 11-12) further. In addition, the company also aims to establish its operations outside KSA, mainly in Kuwait, Bahrain, and Oman. ADC has already submitted the tender proposals in Kuwait and Bahrain and expects to add around 10 onshore rigs in 2023. Overall, the company's fleet is expected to rise from 45 rigs in 2021 to 68 rigs (Figure 13) by 2027e. This, along with improving day rates (mainly offshore; Figure 15-16), will drive the top-line growth going forward.

Robust margins to continue: We expect the margins to remain strong (above the 9M22 levels), aided by a higher no. of active rigs, increased contribution from high-margin offshore rigs, improvement in days rates backed by high rig efficiency scores (93% as of Q2 2022; Figure 20) and better cost efficiencies. Accordingly, we expect EBITDA to remain in the range of 47-50% over 2022e-27e (41% in 2021; Figure 19).

Leverage position to increase, although still remain at the healthy level: We expect the leverage position to increase mainly due to the aggressive capex plan (Figure 22) with the net debt to EBITDA ratio expected to reach 1.9x by 2023e (1.3x as of 9M 2022). Nonetheless, we expect it to improve once the deployment of the additional rigs starts generating cash flows (0.6x net debt to EBITDA by 2027e). Further, we also expect the company to start distributing 50% of profits as a dividend from 2024, implying a healthy dividend yield of 3.5% for 2024e (Figure 24-25).

Valuation and risks: We value ADC based on the equal weightage of DCF (SAR160/sh; cost of equity: 9.8%; WACC: 7.2-9.8% during the forecasted periods), P/E method (SAR152/sh; using a multiple of 19x on 2023e EPS) and EV/EBITDA method (SAR144/sh; using a multiple of 10x on 2023e EBITDA). Our weighted avg. TP stands at SAR152/sh. implying an "Overweight" rating. The key upside risks include above-expected economic growth, higher-than-expected utilization rates/day rates, and above-expected dividends. The key downside risks include below-expected economic growth rates, lower utilization than expected, and lower REI score.

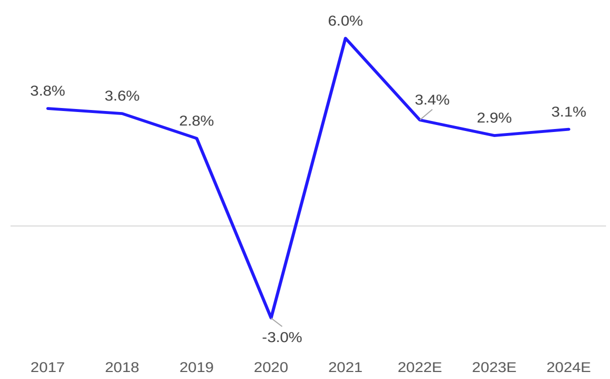
Table of Contents

Sector outlook

Healthy global economic growth to ensure a steady crude oil demand

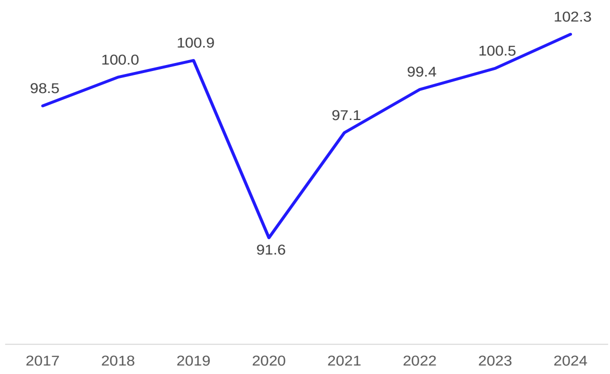
Global real GDP is estimated to grow by 2.9% in 2023e and 3.1% in 2024e, driven by growth in non-OECD countries. Accordingly, we believe that healthy economic growth, along with the reopening of the Chinese economy will continue to support the demand for oil and gas (+1.1mmb/d rise for 2023e and 1.8mmb/d for 2024e; source: EIA), thereby encouraging the E&P producers to increase spending to meet the incremental demand. Consequently, the demand for oil field services and equipment is likely to steadily improve going forward.

Figure 1 Global real GDP growth forecasts



Source: IMF, Al Rajhi Capital

Figure 2 Global petroleum and other liquids consumption (mmb/d)

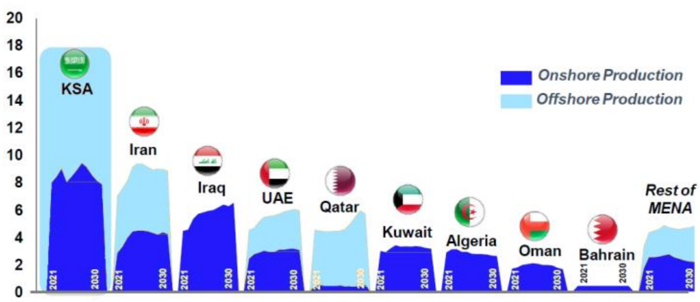


Source: EIA, Al Rajhi Capital

Middle East region led by Saudi Arabia continues to fuel this demand growth

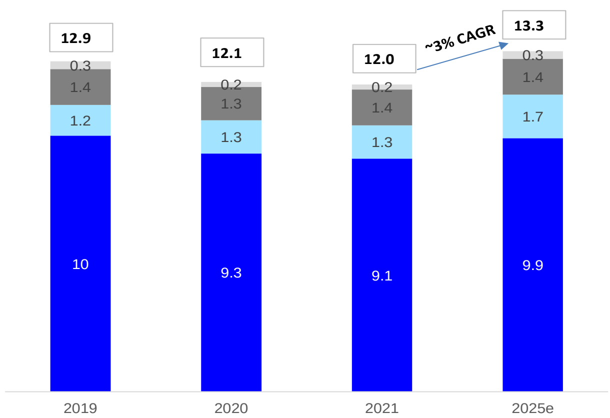
Historically, the middle east region plays a crucial role in the global oil & gas market, with Saudi Arabia accounting for ~8% of the global hydrocarbon production. Further, the low regional production costs (US$10-12/bbl breakeven level for onshore and US$12-17/bbl for offshore) provide resilience against the volatility in the commodity prices and ensure steady production growth. In addition, most of the countries (mainly Saudi Arabia) in the region are expanding their existing fields and developing new projects to meet the expected incremental oil demand. For example, Saudi Aramco is planning to expand its MSC to 13mmboe/d by 2027 and gas production by 50% by 2030. Accordingly, Saudi Arabia's hydrocarbon production is expected to grow at a CAGR of 3% to 13.3mmboe/d (~67% onshore and 33% offshore) over 2021-25e.

Figure 3 MENA onshore and offshore hydrocarbon production 2021-30 (mmboe/d)



Source: Rystad market report, Al Rajhi Capital

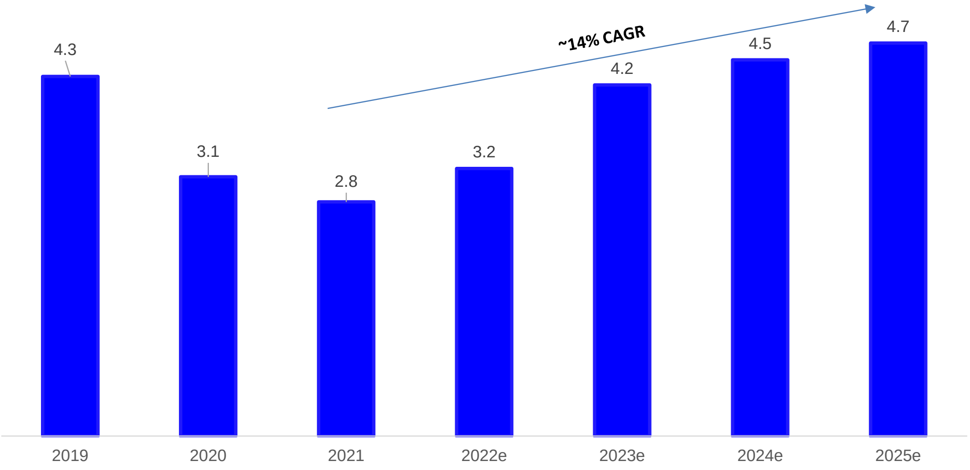
Figure 4 Saudi production by hydrocarbon type (mmboe/d)



Source: Rystad market report, Al Rajhi Capital

To meet its ambitious production target, Saudi Arabia is expected to increase the overall spending for onshore and offshore water drilling contractors, which is expected to rise at a CAGR of 14% (outperforming the MENA market, which is expected to grow at a CAGR of 5%) to US$4.7bn over 2021-25e.

Figure 5 E&P drilling contractor expenditure in Saudi Arabia (US$ bn)



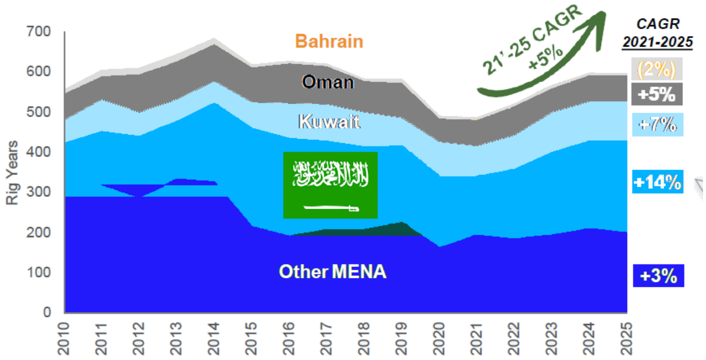
Source: Rystad market report, Al Rajhi Capital

Improving market dynamics to drive the demand for onshore and offshore rigs

Healthy oil prices amid steadily improving demand, coupled with increased spending on the E&P activities in the MENA region (led by Saudi Arabia), are expected to boost the demand for both onshore and offshore rigs in the coming years.

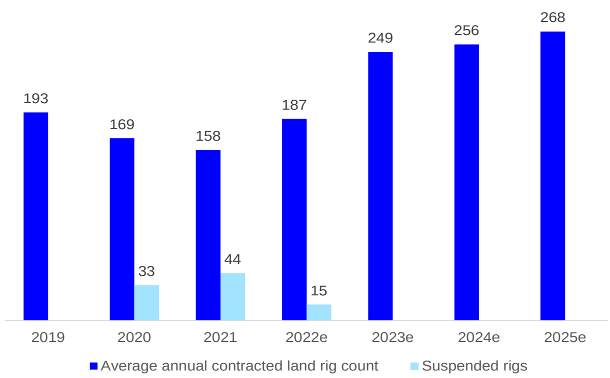
Onshore: Accordingly to the Rystad market report, the land rig demand in the MENA region is expected to grow at a CAGR of +5% over 2021-25e, primarily driven by Saudi Arabia (a key market for Arabian Drilling Co.; +14% CAGR), followed by Kuwait (+7% CAGR) and Oman (+5% CAGR). We believe that rising drilling activities for the unconventional gas in the Jafurah field in the Kingdom would be the key driver for future growth, adding ~66 new rigs by 2025e with the utilization likely to reach the full capacity from 2023e.

Figure 6 Onshore rig demand to grow in MENA…



Source: Rystad market report, Al Rajhi Capital

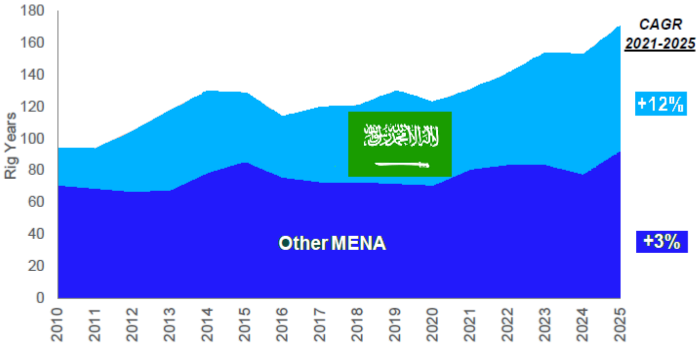
Figure 7 … driven by Saudi Arabia



Source: Rystad market report, Al Rajhi Capital

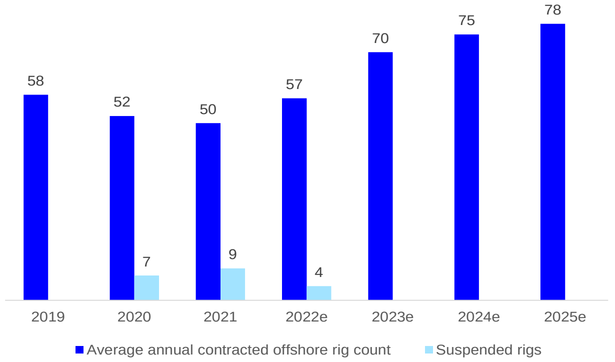
Offshore: In an effort to increase production across key offshore fields, including Safaniya, Saudi Aramco has released tenders for additional incremental jack-up rigs. The company has also granted numerous contracts for self-elevating offshore drilling rigs, resulting in a projected rise in the average number of contracted drilling rigs in the coming years. Accordingly, the demand for offshore (Jack-up) rigs is expected to increase by 19 new rigs (+12% CAGR) to reach 78 rigs by 2025e. On the other hand, the offshore rig demand in MENA is likely to rise at a relatively slower pace of 3% during the same period.

Figure 8 Offshore (Jack-up) rig demand outlook in MENA …



Source: Rystad market report, Al Rajhi Capital

Figure 9 Saudi Arabia to witness a robust growth



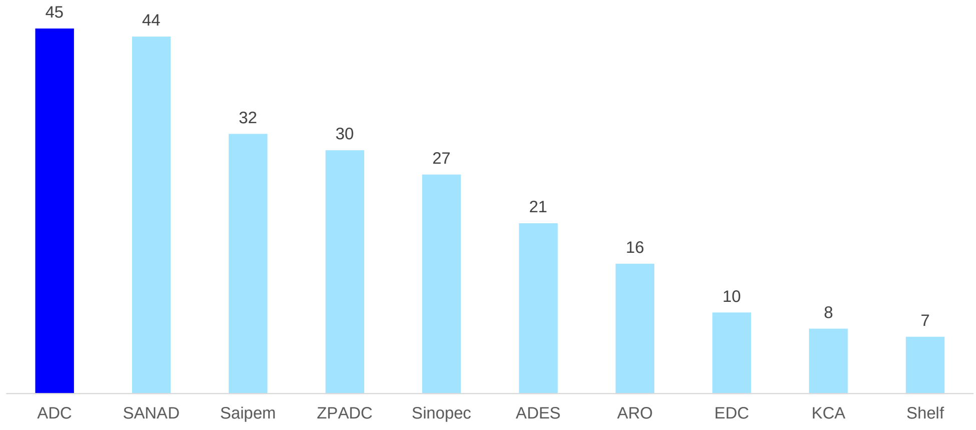
Source: Rystad market report, Al Rajhi Capital

Key investment rationale and catalysts

The largest player in the domestic market with robust market shares

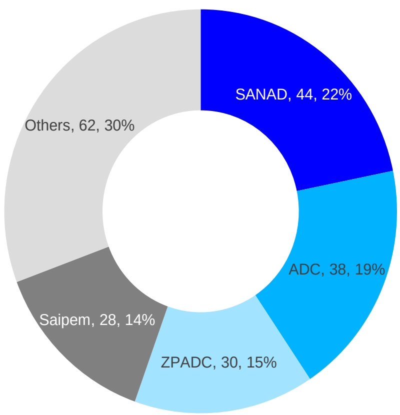
Arabian Drilling Co. (ADC) is the largest drilling rig contractor in Saudi Arabia with a total fleet size of 45 rigs and a total market share of ~17% (in terms of total fleet) as of 2021. ADC was ranked 2nd in the KSA onshore drilling market with 38 land rigs (19% market share) and 3rd in terms of offshore rigs (12% market share) as of 2021. We also note that the company is backed by experienced shareholders, TAQA (35.7% stake; a regional leader in the oil field and equipment market) and Schlumberger (34.3%; a global leader in oil field services). This provides a unique business proposition (in terms of market depth and technological expertise) and thereby providing a competitive advantage to the company.

Figure 10 Top ten land drilling and offshore contractors in KSA, 2021



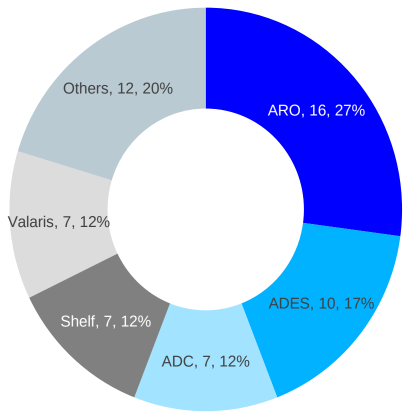
Source: Rystad Energy, Al Rajhi Capital

Figure 11 Onshore rigs market share in KSA, 2021



Source: Rystad market report, Al Rajhi Capital

Figure 12 Offshore rigs market share in KSA, 2021



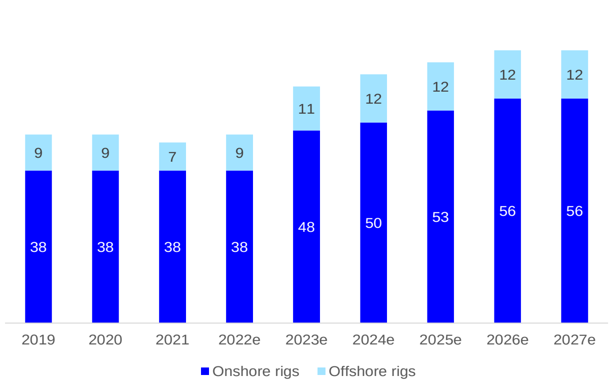
Source: Rystad market report, Al Rajhi Capital

Strong fleet expansion plans to strengthen its market positions

With its market-leading position and high-quality fleet portfolio (55% of onshore are less than 10 years and 75% of them have high-quality specifications with 2,000HP or more.), we believe that the company is well placed to benefit from the upward E&P capex trend in the Kingdom. Accordingly, ADC plans to add 5-10 onshore rigs over 2024e-26e, taking its total onshore rig count to 56. Further, due to the favorable market conditions in the offshore market, particularly driven by recent tenders from Saudi Aramco, ADC is planning to expand its offshore fleet from 7 in 2021 to 12 (2 offshore rigs via BBC agreements were already added last quarter; 1 offshore rig was recently added in Jan 2023 while 2 more are being acquired and likely to start contributing in H1 2023) by 2024e.

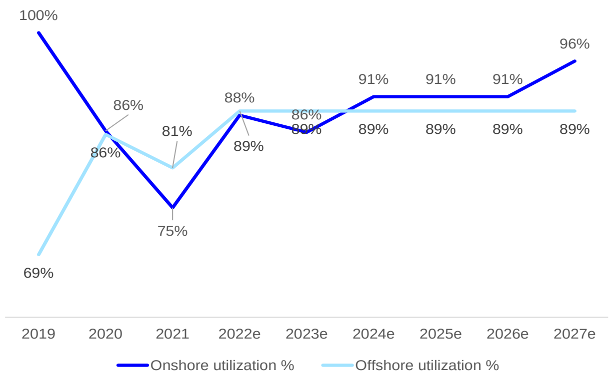
Moreover, the company aims to diversify its business operation by entering into other regional markets like Kuwait, Bahrain, and Oman. In 2021, the company has already fulfilled pre-qualification requirements and subsequently submitted tender proposals in Bahrain and Kuwait. In 2023, ADC expects to add around 10 onshore rigs outside KSA.

Figure 13 Fleet expansion



Source: Company data, Al Rajhi Capital

Figure 14 Utilization rate to remain strong



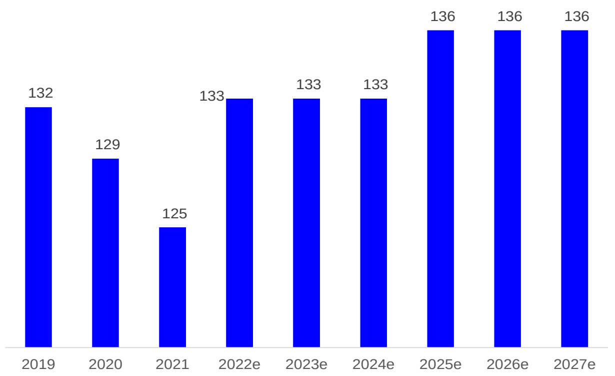
Source: Company data, Al Rajhi Capital

Overall, we expect the company's total fleet count (onshore and offshore) to increase at a CAGR of ~7% to reach 68 rigs by 2027e from 45 in 2021. This, along with the strong utilization, will help the company in strengthening its market position further.

Day rates continue to improve steadily

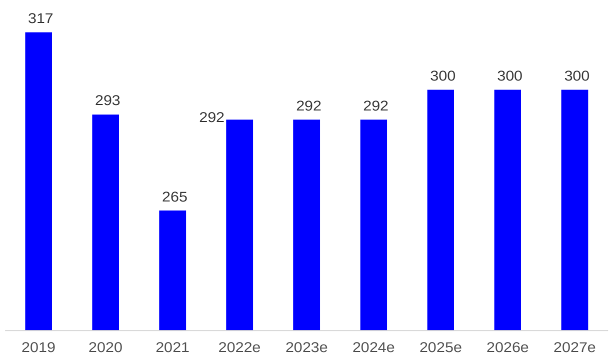
During the COVID period (2020-21), the company witnessed a steep decline, both in onshore and offshore day rates, mainly due to the discount offered to its customers. However, since then, the day rates have started improving, mainly for offshore rigs, driven by an improvement in demand amid a recovery in drilling activities. Further, we note that the fluctuation in oil prices generally won't impact the day rates in the region due to long-term secured contracts. Accordingly, we expect the company to revise its pricing at each renewal (generally every 3-5 years) in the coming period with the average onshore and offshore day rates improving to SAR136k and SAR300k by 2026e.

Figure 15 Onshore rigs day rates (SAR '000)



Source: Company data, Al Rajhi Capital

Figure 16 Offshore rigs day rates (SAR '000)

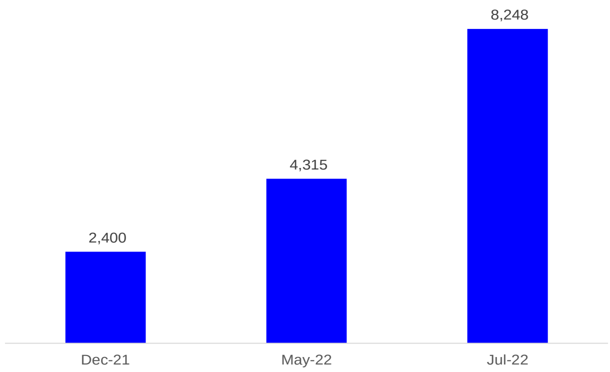


Source: Company data, Al Rajhi Capital

Strong back-log ensures the revenue visibility

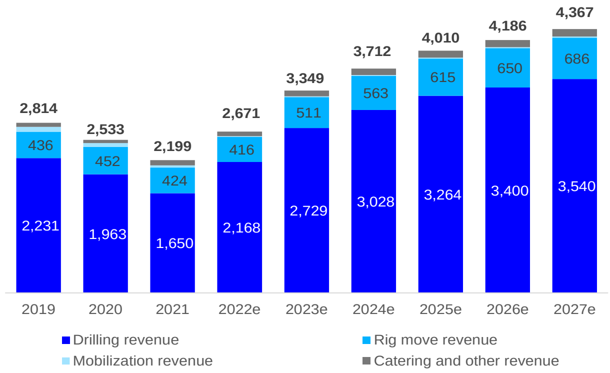
ADC has witnessed a significant improvement in its backlog, which has increased from SAR2.4bn in Dec-21 to SAR8.2bn (almost 4 times 2021 revenues) as of July 2022, likely driven by new contract wins and extensions for rigs. Out of the total order backlog, Saudi Aramco accounted for ~67% of the total. Going forward, the order backlog is expected to increase further, aided by the deployment of the additional rigs and regional expansion. Hence, the robust backlog provides strong revenue visibility. Accordingly, we estimate ADC's top line to grow at a CAGR of 10% over 2022e-27e with drilling revenues continue accounting for more than 80% of total revenues. We expect rig move revenue to increase notably, in line with the land drilling activities.

Figure 17 Strong order backlog (SARmn)



Source: Company data, Al Rajhi Capital

Figure 18 Drilling revenues to drive the overall top-line

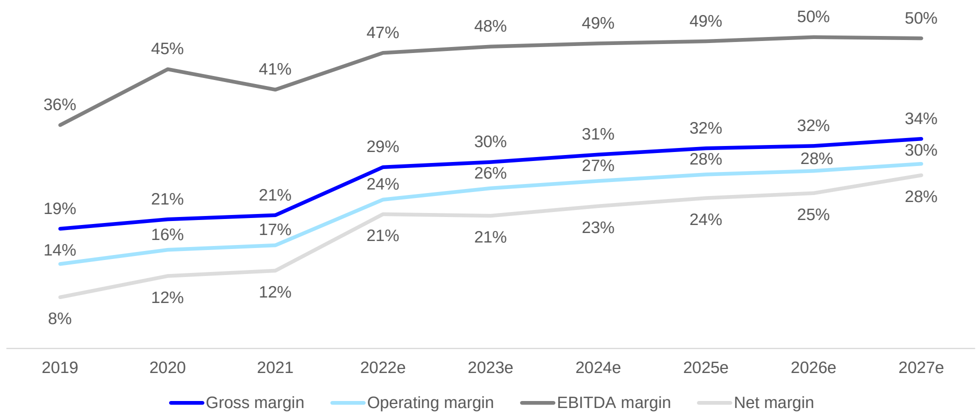


Source: Company data, Al Rajhi Capital

Margins to improve steadily, backed by robust REI scores

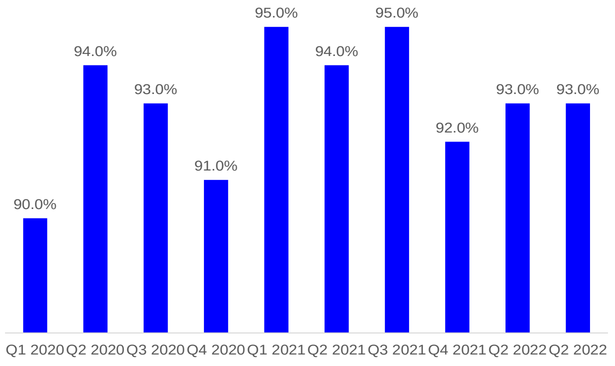
After remaining under pressure during the COVID period, the company's margins have started improving with EBITDA and net margin rising from 36% and 8% in 2019 to 43% and 22%, respectively as of 9M22. Going forward, we expect the margins to continue improve, mainly due to i) deployment of the additional rigs, ii) higher utilization rate, iii) improvement in day rates, mainly for offshore rigs, and iv) increased contribution from the high-margin offshore segment. Further, the company's strong track record of maintaining high rig efficiency index score (a key measure for Aramco for the contract renewal; Figure 20) underpinned by lower non-productive time (NPT) of the fleet (Figure 21) will enable the company to secure the long-term contracts with high day rates with Aramco, driving the margins higher.

Figure 19 Margins to remain strong



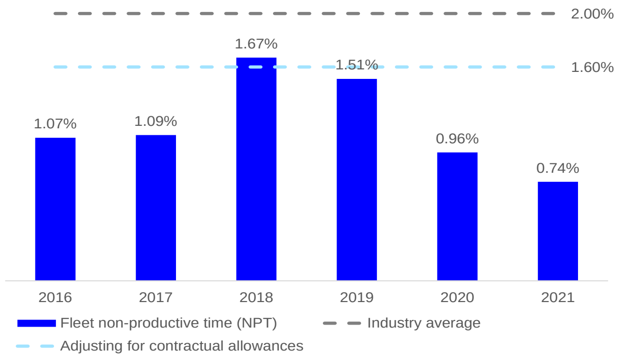
Source: Company data, Al Rajhi Capital

Figure 20 ADC rig efficiency index (REI) score



Source: Company data, Al Rajhi Capital. Q1 2022 score was not published

Figure 21 Lowest NPT in the past 7 years



Source: Company data, Al Rajhi Capital

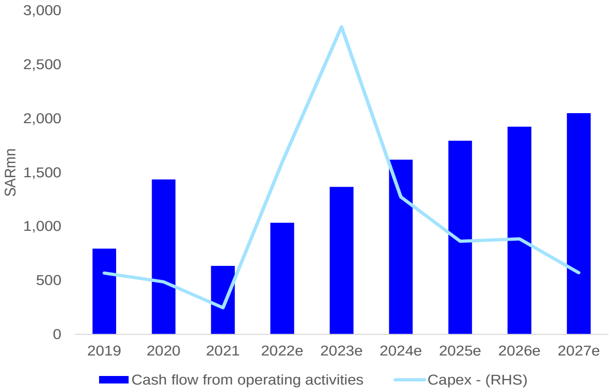
Leverage position to increase to fund the growth capex

The company plans to increase spending on acquiring new rigs both for the domestic and regional markets (~10 onshore rigs from the regional expansion and ~5-10 onshore rigs as well as 5 offshore rigs in KSA), resulting in a higher capex over the near to medium term.

Based on our assumptions of US$30mn cost per onshore rig and US$150 cost per offshore rig, we expect ADC to spend over SAR2bn growth capex in 2023e and around SAR1.5bn growth capex over 2024e-26e, which would be mostly financed through debt (SAR2bn Sukuk already raised in Feb 2022) and internal accruals. In addition, we expect the company continues spending the maintenance capex mostly in line with the historical trend (2019-21 period).

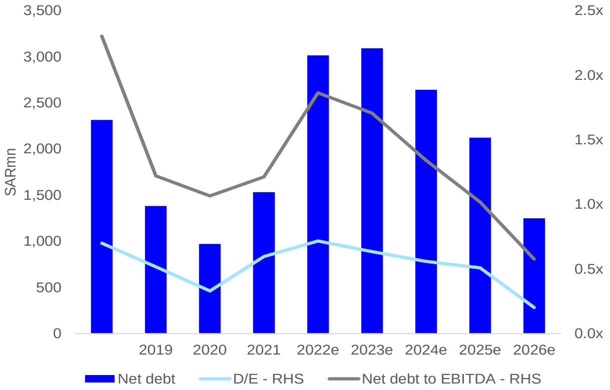
Accordingly, we expect the company's leverage position to increase in the near to medium term with the net debt to EBITDA ratio expected to reach 1.9x by 2023e (1.3x as of 9M 2022) before improving to 0.6x by 2027e. Nonetheless, the company's current leverage position would still be at a healthy level, in-line with its peer's average of 1.9x currently.

Figure 22 Capex to increase on the likely regional expansion …



Source: Company data, Al Rajhi Capital

Figure 23 … which may lead to a rise in the leverage position

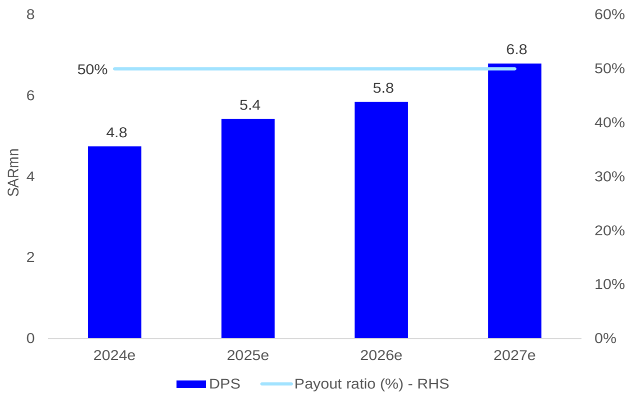


Source: Company data, Al Rajhi Capital

Dividends unlikely in 2023e on aggressive capex plan; may resume from 2024e

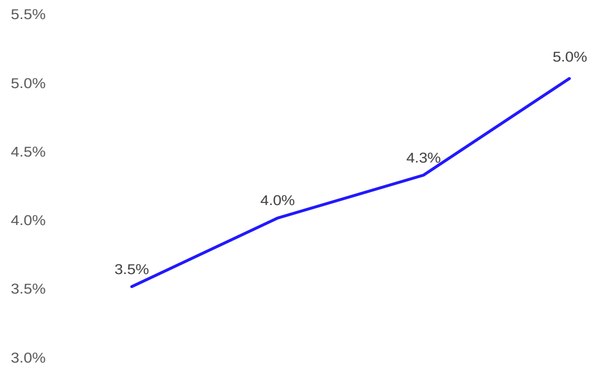
Given the aggressive capex plan, we don't expect the company to distribute any dividends for 2023e. However, once the deployment of the additional rigs starts generating revenues and capex program mostly normalizes from 2024 onwards, we expect ADC to distribute ~50% of earnings as a dividend (SAR4.8 DPS) for 2024e, implying a healthy dividend yield of 3.5%.

Figure 24 Stable dividend payout from 2024



Source: Company data, Al Rajhi Capital

Figure 25 Healthy dividend yield (%)



Source: Company data, Al Rajhi Capital

Figure 26 Financial summary and KPIs

	2021A	2022E	2023E	2024E
Income statement (SARmn)				
Gross revenue	2,199	2,671	3,349	3,712
Gross profit	469	775	999	1,152
EBITDA	911	1,264	1,619	1,812
Operating profit	363	636	859	996
Net income	274	574	711	846
Revenues breakdown (%)				
Drilling revenue	75.0%	81.2%	81.5%	81.6%
Rig move revenue	19.3%	15.6%	15.3%	15.2%
Mobilization revenue	1.7%	0.4%	0.4%	0.4%
Catering and other revenue	4.0%	2.8%	2.9%	2.9%
Balance sheet (SARmn)				
Cash	412	1,313	909	650
Other current assets	864	1,035	1,292	1,427
Fixed tangible assets	5,261	6,234	8,326	8,784
Intangible assets	6	1	0	0
Other non-current assets	2	9	9	9
Total assets	**6,544**	**8,592**	**10,537**	**10,869**
Trade payables	457	500	620	676
Total debt	1,383	2,845	3,926	3,743
Other liabilities	513	482	514	550
Shareholders' equity	4,192	4,766	5,477	5,900
Liabilities & Equity	**6,544**	**8,592**	**10,537**	**10,869**
Cash flow (SARmn)				
Operating activities	635	1,035	1,367	1,619
Investing activities	(228)	(1,596)	(2,851)	(1,274)
Financing activities	(635)	1,462	1,081	(605)
Change in cash	**(228)**	**901**	**(403)**	**(260)**

	2021A	2022E	2023E	2024E
Per share data (SAR)				
Adjusted EPS	3.07	6.45	7.99	9.50
BVPS	47.10	53.55	61.54	66.29
DPS	0.00	0.00	0.00	4.75
FCF	4.57	(5.66)	(15.66)	4.84
Operational data				
Onshore rigs	38.0	38.0	48.0	50.0
Offshore rigs	7.0	9.0	11.0	12.0
Total rigs	**45.0**	**47.0**	**59.0**	**62.0**
Onshore active rigs	31.0	33.6	41.3	45.5
Offshore active rigs	6.0	8.0	9.8	10.7
Total active rigs	**37.0**	**41.6**	**51.1**	**56.2**
Onshore day rates (SAR '000)	125.0	132.5	132.5	132.5
Offshore day rates (SAR '000)	265.0	291.5	291.5	291.5
KPIs				
Gross margin (%)	21.3%	29.0%	29.8%	31.0%
EBITDA margin (%)	41.4%	47.3%	48.3%	48.8%
Operating margin (%)	16.5%	23.8%	25.6%	26.8%
Net margin (%)	12.4%	21.5%	21.2%	22.8%
ROA (%)	4.2%	6.7%	6.7%	7.8%
ROE (%)	6.5%	12.0%	13.0%	14.3%
D/E (x)	0.3x	0.6x	0.7x	0.6x
Net debt/EBITDA (x)	1.1x	1.2x	1.9x	1.7x
Valuation metrics*				
P/E (x)	43.9x	20.9x	16.9x	14.2x
P/BV (x)	2.9x	2.5x	2.2x	2.0x
EV/EBITDA (x)	19.3x	13.9x	10.8x	9.7x
EV/sales (x)	8.0x	6.6x	5.2x	4.7x

Source: Company data, Al Rajhi Capital

Valuations and risks

Healthy oil price, coupled with steadily improving oil demand, and increased spending on exploration and production activities in the MENA region (particularly led by Saudi Arabia), is anticipated to drive the demand for both onshore and offshore rigs in the coming years. We believe that ADC's leadership position in the domestic market, unique value propositions (backed by the rich experience of its main shareholders), fleet expansion plan, and robust REI score will help it to further strengthen its market shares. Further, its secured long-term contracts with Aramco and other customers (Stumberger and KJO), and healthy order backlog provides strong revenue visibility in the coming years. However, given the aggressive capex plan, we expect the company to resume paying dividends (~50% payout) from 2024.

DCF-based valuation (equal weightage): Based on 2% terminal growth and a WACC range of 7.2% to 9.8% during the forecasted periods, we arrive at a TP of SAR160/sh.

Figure 27 DCF valuation summary

(SAR mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Pre-tax operating profit	**859**	**996**	**1,116**	**1,190**	**1,290**	**1,336**	**1,348**	**1,362**
Tax rate	(24)	(29)	(33)	(36)	(41)	(43)	(44)	(45)
Post-tax operating profit	**834**	**967**	**1,083**	**1,154**	**1,249**	**1,293**	**1,304**	**1,317**
Add: Depreciation & amortisation	760	816	855	896	878	904	878	850
Change in working capital	(137)	(79)	(66)	(56)	(87)	(64)	(67)	(67)
Less: Capex	(2,851)	(1,274)	(863)	(886)	(572)	(584)	(584)	(584)
Free Cash Flow to Firm	**(1,393)**	**430**	**1,010**	**1,108**	**1,468**	**1,548**	**1,531**	**1,516**
Discount factor	0.95	0.88	0.81	0.75	0.67	0.60	0.54	0.48
PV of Free Cash Flows	**(1,317)**	**378**	**822**	**835**	**979**	**932**	**826**	**729**
Sum of present values of FCFs	4,185							
Present value of terminal value	13,364							
Enterprise value	**17,548**							
Add:								
Value of associates and non-core assets*	0							
Less:								
Employee benefit obligations*	(313)							
Net debt*	(3,016)							
Minorities*	0							
Equity value	**14,219**							
Number of shares ('mn)	89							
Fair value per share (SAR)	**160**							

Source: Company data, Al Rajhi Capital. * Considered the 2023e values to factor in increased capex and resultant higher leverage levels

P/E-based valuation (equal weightage): Based on the 19x target multiple and our 2023e EPS, we arrive at a TP of SAR152/sh.

Figure 28 Relative valuation summary

P/E valuation method		EV/EBITDA valuation method	
Target P/E multiple	19.0x	Target EV/EBITDA multiple	10.0x
2023E EPS	8.0	2023E EBITDA (SARmn)	1,619
Fair price (SAR)	**152**	**Fair price (SAR)**	**144**

Source: Company data, Al Rajhi Capital

EV/EBITDA-based valuation (equal weightage): Based on the 10x target multiple and our 2023e EBITDA, we arrive at a TP of SAR144/sh.

Blended valuation. Our blended valuation, based on a DCF valuation, PE, and EV/EBITDA methods, gives a weighted average TP of SAR152.0 per, implying a ~13% upside potential from the current market price. Hence, we initiate our coverage on Arabian Drilling with an Overweight rating.

Figure 29 Blended valuation summary

Valuation methodology	Fair value (SAR)	Weightage	Weighted value per share (SAR)
DCF	160	33%	53
P/E	152	33%	51
EV/EBITDA	144	33%	48
Weighted value per share (SAR)			**152**
Current price (As of 6 March 2023)			135
Upside (%)			**12.6%**

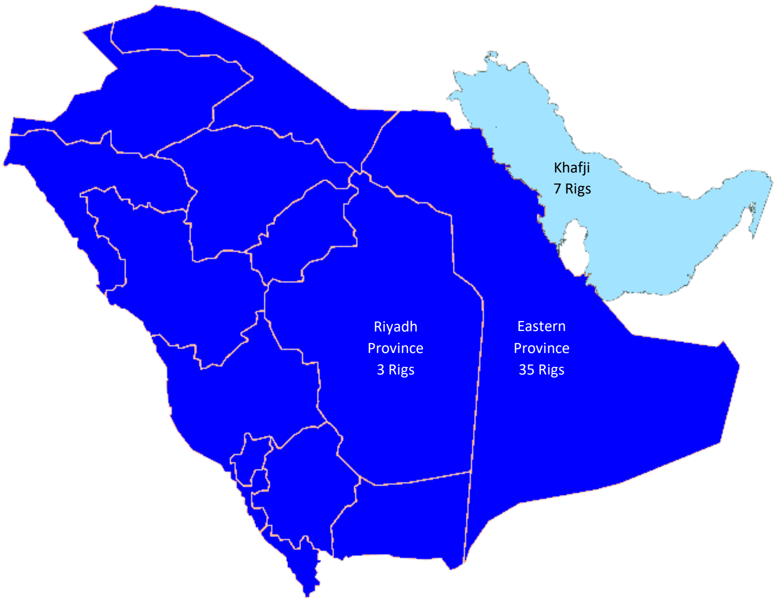
Source: Company data, Al Rajhi Capital

The key upside risks include higher-expected economic growth, better-than-expected utilization rates/day rates, and above-expected dividends. **The key downside risks** include lower-than-expected economic growth rates, slower-than-expected deployment of the additional rigs, and weaker-than-expected REI scores.

Company Overview

Established in 1964, Arabian Drilling Company (ADC), with over six decades of rich experience, is the largest drilling contractor in Saudi Arabia and one of the leading drilling service solution providers in the region with the total with a total of 45 rigs operating (as of 2021; 35 rigs in 2017) in the Kingdom and the Saudi Arabia-Kuwait Neutral Zone. The company is actively This fleet consisted of 38 onshore rigs (19% market share) and 7 offshore rigs (including one multi-purpose service vessel; 12% market share) and did not include one offshore rig that was held for sale.

Figure 30 Geographic locations of ADC's rigs (as of 2021)

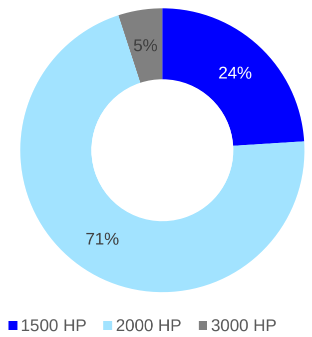


Source: Company data, Al Rajhi Capital

The company mainly provides drilling services (82.3% of total revenues as of Q3 2022), rig move services (15.3%), rig mobilization services (0.2%), and catering services (2.2%). It operates through two main business segments, namely Onshore (~69% of total revenues as of Q3 2022) and Offshore (~31%).

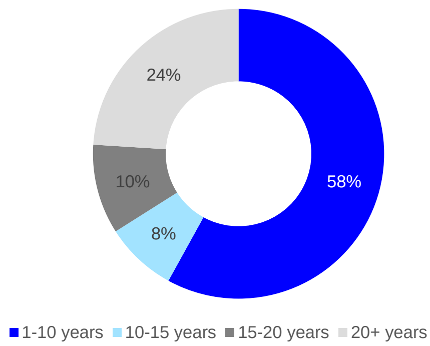
Onshore segment: The onshore segment provides drilling and related services through stationary land rigs to explore and extract oil or natural gas on land in the Kingdom. The company's fleet is comprised of more than 55% of rigs that are less than 10 years old, demonstrating a relatively new and up-to-date fleet. Additionally, approximately 75% of the Group's rigs feature high specifications, with 2,000HP or more, indicating that the company's equipment is well-suited to handle complex drilling operations.

Figure 31 Onshore fleet breakdown by specs (as of 2021)



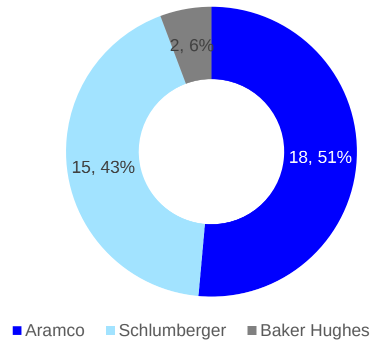
Source: Company data, Al Rajhi Capital

Figure 32 Onshore fleet breakdown by age (as of 2021)



Source: Company data, Al Rajhi Capital

Figure 33 Onshore fleet contracted by customers (as of July 2022)

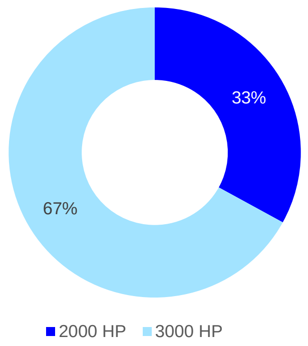


Source: Company data, Al Rajhi Capital

Offshore segment:

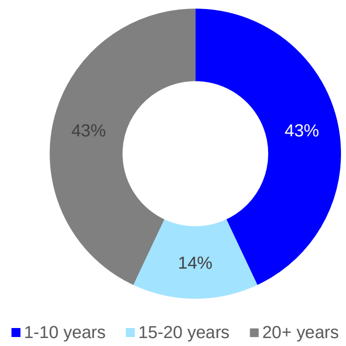
The offshore segment offers drilling and related services through offshore rigs, including ultra-heavy-duty jack-up rigs equipped with high-specification equipment capable of drilling in water depths up to 375 feet (115 meters). The Group operates primarily on the shores off the Eastern coast of the Kingdom and the Neutral Zone under this segment.

Figure 34 Offshore fleet breakdown by specs (as of 2021)



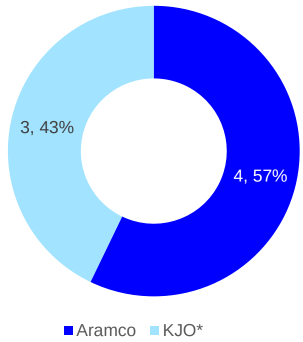
Source: Company data, Al Rajhi Capital

Figure 35 Offshore fleet breakdown by age (as of 2021)



Source: Company data, Al Rajhi Capital

Figure 36 Offshore fleet contracted by customers (as of July 2022)

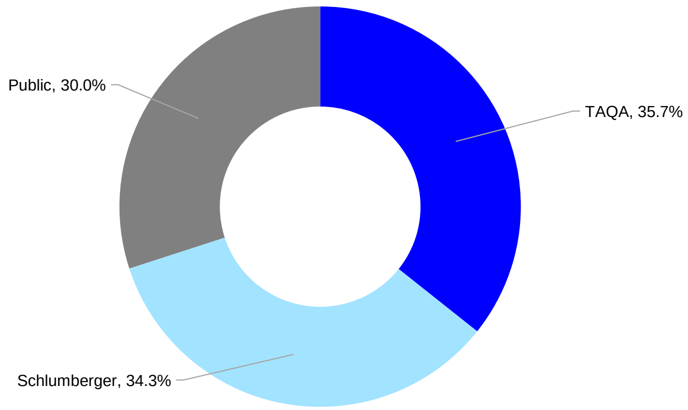


Source: Company data, Al Rajhi Capital. Al-Khafji Joint Operations

Shareholding structure

The company (30% free float) is backed by experienced shareholders, the Industrialization & Energy Services Company (TAQA; 35.7% stake), and Schlumberger (34.3%).

Figure 37 Shareholding Structure (%)



Source: Company data, Al Rajhi Capital

Detailed Financials

Figure 38 Income statement

(SAR mn)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	**2,199**	**2,671**	**3,349**	**3,712**	**4,010**	**4,186**	**4,367**
Cost of revenues	(1,730)	(1,895)	(2,350)	(2,561)	(2,725)	(2,829)	(2,902)
Gross profit	**469**	**775**	**999**	**1,152**	**1,285**	**1,357**	**1,465**
(Provision for) / reversal of impairment on financia	0	(15)	0	0	0	0	0
General and administrative expenses	(105)	(128)	(144)	(160)	(172)	(172)	(179)
Other operating income	(0)	5	3	4	4	4	4
Operating profit	**363**	**636**	**859**	**996**	**1,116**	**1,190**	**1,290**
Finance costs	(38)	(99)	(136)	(130)	(124)	(123)	(53)
Finance income	1	19	13	9	6	9	14
Profit before zakat and income tax	**327**	**556**	**735**	**874**	**999**	**1,076**	**1,251**
Zakat and income tax	(53)	18	(24)	(29)	(33)	(36)	(41)
Profit for the period	**274**	**574**	**711**	**846**	**966**	**1,041**	**1,210**
Adjusted EPS	3.07	6.45	7.99	9.50	10.85	11.69	13.60
Weighted average number of shares	89	89	89	89	89	89	89
DPS		0.00	0.00	4.75	5.43	5.85	6.80
Payout (%)		0%	0%	50%	50%	50%	50%

Source: Company data, Al Rajhi Capital

Figure 39 Balance sheet

(SAR mn)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and cash equivalents	412	1,313	909	650	919	1,392	264
Inventories	143	157	195	212	226	234	240
Trade and other receivables	710	862	1,082	1,199	1,295	1,352	1,436
Advance income tax	0	0	0	0	0	0	0
Mobilization cost	3	4	4	4	4	4	4
Derivative financial instrument	0	1	1	1	1	1	1
Assets held for sale	8	12	12	12	12	12	12
Total current Assets	**1,275**	**2,348**	**2,202**	**2,076**	**2,455**	**2,994**	**1,956**
Property, plant and equipment	5,259	6,225	8,299	8,762	8,773	8,765	8,461
Intangible assets	6	1	0	0	0	0	0
Right-of-use assets	2	9	27	22	18	16	14
Mobilization cost	2	9	9	9	9	9	9
Fair value of cash flow hedge	0	0	0	0	0	0	0
Total non-current assets	**5,269**	**6,245**	**8,336**	**8,793**	**8,800**	**8,790**	**8,484**
Total assets	**6,544**	**8,592**	**10,537**	**10,869**	**11,255**	**11,784**	**10,440**
Liabilities							
Trade and other payables	457	500	620	676	719	729	732
Current portion of long-term borrowings	545	438	177	177	44	2,000	0
Current portion of lease liabilities	2	2	8	6	5	4	4
Mobilization of revenues	8	5	5	5	5	5	5
Provision for zakat and income tax	20	41	41	41	41	41	41
Total current liabilities	**1,033**	**987**	**851**	**905**	**815**	**2,780**	**782**
Long-term borrowings	836	2,398	3,721	3,544	3,500	1,500	1,500
Lease liabilities	0	7	21	16	14	12	11
Employee benefit obligations	251	280	313	349	389	434	485
Mobilization revenue	6	12	12	12	12	12	12
Deferred tax liabilities	207	143	143	143	143	143	143
Trade payable	15	0	0	0	0	0	0
Derivative financial instrument	4	0	0	0	0	0	0
Total non-current liabilities	**1,320**	**2,839**	**4,209**	**4,064**	**4,058**	**2,101**	**2,150**
Shareholders' equity							
Share capital	23	890	890	890	890	890	890
Additional paid-in capital	97	0	0	0	0	0	0
Statutory reserve	19	240	240	240	240	240	240
Cash flow hedge reserve	(4)	1	1	1	1	1	1
Retained earnings	4,057	3,635	4,346	4,769	5,252	5,772	6,377
Total equity	**4,192**	**4,766**	**5,477**	**5,900**	**6,382**	**6,903**	**7,508**
Total liabilities	**6,544**	**8,592**	**10,537**	**10,869**	**11,255**	**11,784**	**10,440**

Source: Company data, Al Rajhi Capital

Figure 40 Cash Flow

(SAR mn)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Operating activities	635	1,035	1,367	1,619	1,795	1,926	2,051
Investing activities	(228)	(1,596)	(2,851)	(1,274)	(863)	(886)	(572)
Financing activities	(635)	1,462	1,081	(605)	(663)	(567)	(2,607)
Change in cash	**(228)**	**901**	**(403)**	**(260)**	**269**	**473**	**(1,127)**

Source: Company data, Al Rajhi Capital

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Contact us

Mazen AlSudairi, CFA
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com
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