



This Report was Prepared by:

**Sarah BinMansour**

+966530530454

[LinkedIn](#)

**Sita ALDamer**

+966500755422

[LinkedIn](#)

**Amani ALDamegh**

+966555219191

[LinkedIn](#)

**Renad Saeed AlShehri**

+966563878583

[LinkedIn](#)

**Alaa Bin Bdyea**

+966557453090

[LinkedIn](#)

Faculty Advisor:

**Muhannad AlAmeel**



# CFA Institute

---

## CFA Institute Research Challenge

Hosted by:

CFA Society Saudi Arabia

Runner Up - Team 10 - King Saud University

---

The CFA Institute Research Challenge is a global competition that tests the equity research and valuation, investment report writing, and presentation skills of university students. The following report was prepared in compliance with the Official Rules of the CFA Institute Research Challenge, is submitted by a team of university students as part of this annual educational initiative, and should not be considered a professional report.

### **Disclosures:**

#### **Ownership and material conflicts of interest:**

The author(s), or a member of their household, of this report does not hold a financial interest in the securities of this company. The author(s), or a member of their household, of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.

#### **Receipt of compensation:**

Compensation of the author(s) of this report is not based on investment banking revenue.

Position as an officer or director:

The author(s), or a member of their household, does not serve as an officer, director, or advisory board member of the subject company.

#### **Market making:**

The author(s) does not act as a market maker in the subject company's securities.

#### **Disclaimer:**

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with CFA Society Saudi Arabia, CFA Institute, or the CFA Institute Research Challenge with regard to this company's stock.

## BRIEF

ADES is a key player in the drilling industry, making significant strides across the MENA region. With a modern fleet and a strong commitment to sustainability, ADES is shaping the future of energy extraction. We believe in ADES's growth potential, as its true north extends far beyond its current value.

## INVESTMENT SUMMARY

We issue a **BUY** recommendation for ADES with a one-year target price of SAR 21.10, offering a **18% upside** to its January 27, 2025 SAR 17.90 closing price. Our analysis utilizes a Discounted Cash Flow Model and is confirmed by our Sensitivity Analysis, Monte Carlo, and Relative Valuation Model. Our buy recommendation is predicated on our three thesis points: (1) A local champion with global ambitions. (2) Resilience through oil price cycles. (3) A robust backlog fuels steady cash flows.

### 1. A Local Champion with Global Ambitions

ADES began their journey in the Gulf of Suez, Egypt, and swiftly expanded into Saudi Arabia and the MENA region. In FY23, they strengthened their global presence by entering high-potential regions such as Southeast Asia and recently expanding into West Africa. While ADES currently relies on Aramco for a significant portion of its revenue, we expect this dependency to decrease from 66% in FY24 to 51% by FY29 (**Figure 3**). When ADES faced rig suspensions from Aramco in FY24, their remarkable agility in relocating their suspended rigs to other markets has proven effectiveness in securing contracts, often at higher day rates, thereby mitigating potential revenue declines (**Figure 25, 26**). This adaptability is especially remarkable when contrasted with historical suspensions in FY20, which led to significant revenue reductions. Currently, ADES occupies an 11% share in the offshore jack-up market (**Figure 17**), with 14 pre-qualifications already achieved; we conclude that ADES is well-positioned to capitalize on rising jack-up demand in an undersupplied market, transforming any potential risks into opportunities and growing in emerging markets, paving the way for global success.

### 2. Resilience Through Oil Price Cycles

ADES showcases impressive resilience amid the volatile cycles of the oil and gas industry, primarily due to its lean cost structure and strategic focus on robust sub-segments of the drilling sector. This efficient model has enabled ADES to achieve a consistent level of profitability, even during challenging market conditions. Since FY14, the Group has sustained a steady EBITDA margin, averaging 45.1% from FY21 to FY23. Looking ahead, we expect the EBITDA margin to average 50% from FY24 to FY29 (**Figure 32**). ADES has established a lean and efficient cost structure that maximizes the utilization of its acquired rigs while keeping operating costs low. The company has consistently demonstrated resilience, achieving an impressive 98% effective utilization rate in FY24 (**Figure 27, 28**). This strong performance highlights ADES's ability to handle the challenges of fluctuating oil prices, showcasing its strength and adaptability in a volatile market. This strategic positioning fosters diverse revenue streams with long-term contracts, it reduces dependency on oil prices.

### 3. A Robust Backlog Fuels Steady Cash Flows

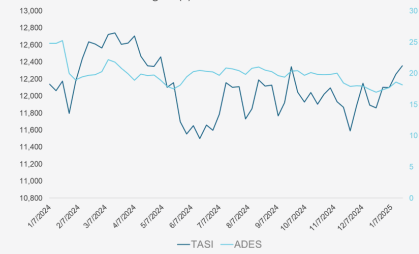
ADES's impressive backlog of SAR 27.79 billion, primarily from reputable clients such as Aramco and Kuwait Oil Company, as 88.4% of this backlog is sourced from GCC countries (**Figure 4**). To maintain its robust backlog, ADES has thoughtfully optimized its rig fleet, ensuring it is well-equipped to handle the revenue burn rate through contract renewals and new awards. Notably, in FY22, to secure a significant portion of Aramco's mega project, ADES made a substantial investment to secure long-term contracts, committing SAR 6.7 billion to acquire 19 offshore rigs, in FY23 14 out of the 19 rigs were deployed, with all 19 rigs deployed in the first quarter of FY24. This deployment upscaled their free cash flow from negative in FY22 to positive in FY24, as we anticipate that this deployment will continue to fuel free cash flow over the next six years, enhancing their financial position and further reinforcing their backlog.

Figure (1): Market Value

Recommendation	BUY
Date	27.01.2025
Current Share Price	SAR 17.90
12 Month Target Price	SAR 21.10
Upside Potential	18%
Industry	Oil & Gas
Sector	Energy
Ticker	2382
Exchange	Tadawul
Shares Outstanding (m)	1,129
Market Cap (SARm)	SAR 19,672
52-Week High	SAR 25.35
52-Week Low	SAR 16.85
Beta	1.06
Annual Dividend	SAR 0.216

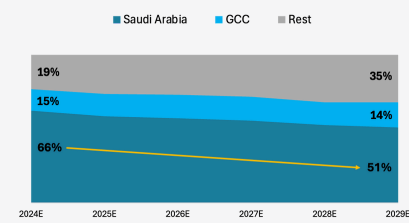
Source: Tadawul, Team Assessment

Figure (2) Stock Performance



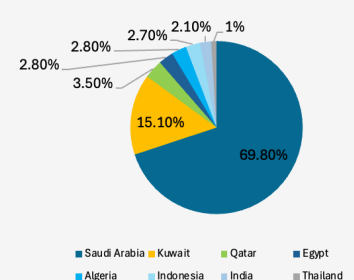
Source: Tadawul, Team Assessment

Figure (3): Forecasted Revenue Contribution



Source: Team Assessment

Figure (4): Backlog by Geography at 9M in FY24



Source: Company Data

BUSINESS DESCRIPTION

Company Overview:

Starting from the operation of a single rig in Egypt in 2002, ADES has grown to become a leading provider of oil and gas drilling and production services across MENA region. Renowned for its efficient and cost-effective operations, offering both offshore and onshore contract drilling services, supported by a robust fleet of 89 rigs —comprised of 51 offshore and 38 onshore— with more than 8000 skilled workers. Beyond drilling, ADES offers comprehensive workover services, including maintenance, repairs, catering and accommodations, and enhancement of oil well production, ensuring seamless operations for all clients.

Business Segments:

ADES drilling services specializes in offshore and onshore operations in ultra-shallow and shallow water non-harsh environments, effectively addressing the specific demands and geographical characteristics of its targeted regions (Appendix 1). Following significant fleet expansions in FY22, particularly in jack-up rigs, ADES's offshore fleet—which includes 48 jack-up rigs, two jack-up barges, and one MOPU—has become a key driver of backlog growth. This expansion has been strengthened by securing long-term contracts for the new fleet additions with Saudi Aramco, resulting in a substantial increase in backlog from SAR 6.75 billion in FY21 to SAR 27.39 billion in FY22. Notably, approximately 80% of ADES's current backlog consists of offshore contracts (Figure 5). As a result, the revenue breakdown between the two business segments has evolved significantly, with offshore revenue increasing to account for 79% in FY24, up from 49% in FY20 (Figure 6). This shift highlights ADES's strategic emphasis on offshore operations, reflecting favorable market conditions with increased oil and gas discoveries that distinguish this segment’s profitability from onshore drilling services.

Unique Geographical Reach:

Expanding its operational footprint from MENA into key Southeast Asian markets such as Indonesia, Thailand, and Malaysia, as well as recently entering West Africa with operations in Nigeria starting in Q2 of FY25, ADES now operates across 11 markets (Appendix 2). This expansion not only broadens its geographical reach but also uniquely position ADES with an advantage over local players by diversifying its client portfolio and providing the flexibility to deploy rigs across a wider range of markets, unlocking new revenue avenues (Figure 7).

Evolving Growth Strategy:

Over the past two decades, ADES's growth perspective has evolved significantly, starting in FY15 with a focus on scaling up operations in the MENA region. By FY18, the company shifted its attention to acquiring a higher market share in the GCC, reflecting a strategic ambition to strengthen its competitive position. As of FY23, ADES's strategy is now concentrated on positioning itself as a global leader by exploring attractive new markets and enhancing its presence in existing markets, showcasing its commitment to growth and international expansion desire (Figure 3).

INDUSTRY OVERVIEW

Oil and Gas Industry Snapshot

In a landscape shaped by unpredictability in a multi-dimensional environment that frames the oil and gas industries, including OPEC+ supply controls, variable demand, increasing geopolitical tensions, weak conditions in the wider economy, and a continued spotlight on energy transition, it is undeniable how oil and gas industries have been a double-edged sword in today's world. With the global movement toward a greener and more sustainable environment, one cannot deny the highly dependent daily needs of the oil and gas derivatives. The upstream segment forms the backbone of the oil and gas industry worldwide because this is where the energy value chain originates (Appendix 4).

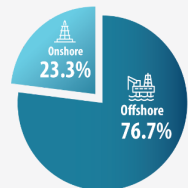
OPEC: The Court of Oil and Gas Markets

In FY23-24, OPEC continued to play an instrumental role in stabilizing the global oil market through strategic changes in production and coordination with its OPEC+ partners. During FY23, OPEC maintained a steady role in global oil supplies, utilizing output adjustments to address market volatility caused by geopolitical uncertainties and fluctuating demand. By December FY24, OPEC’s crude oil production averaged approximately 40.65 mb/d, reflecting slight reductions aligned with ongoing production agreements. To manage excess supply and support prices, OPEC+ implemented significant production cuts, which were gradually eased by major producers like Saudi Arabia as market conditions improved. These efforts effectively stabilized prices, with Brent crude averaging USD 79.86/b in FY24, compared to USD 82.95/b in FY23 (Figure 8).

Nations Demand and Production Levels

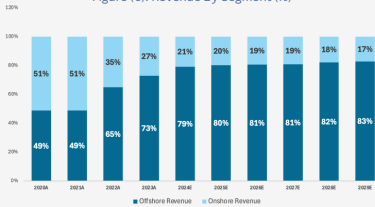
Global production of oil and gas surged during FY23-24, significantly impacting global price trends. Oil supply rose from 101.5 mb/d in FY23 to 102.9 mb/d in FY24, driven by OPEC+ and the U.S. Slower demand growth contributed to a slight dip in Brent crude prices, averaging USD 81/b in FY24 compared to USD 82.95/b in FY23, with December prices at USD 79.86 and this demand growth is expected to continue slightly decline for the upcoming two years (Figure 9). Similarly, natural gas demand reached a record of 4,200 bcm in FY24, fueled by industrial and residential needs, particularly in Asia.

Figure (5): Backlog by Segment at 9M in FY24



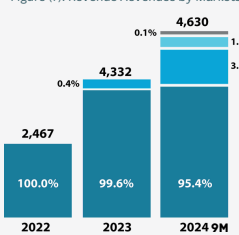
Source: Company Data

Figure (6): Revenue By Segment (%)



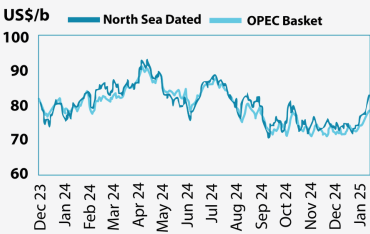
Source: Company Data, Team Assessment

Figure (7): Revenue Avenues by Markets



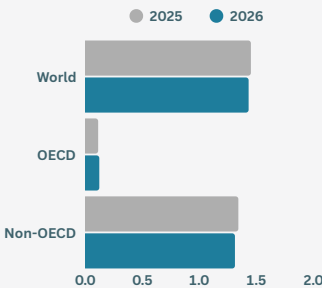
Source: Company Data

Figure (8): Crude Oil Price Movements



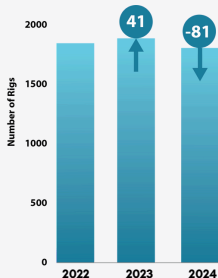
Source: OPEC, Team Assessment

Figure (9): Oil and Gas Demand



Source: OPEC, Team Assessment

Figure (10): World Rig Count



Source: OPEC, Team Assessment



While tight LNG supply through FY23 eased as new projects came online in late FY24, softening gas prices, volatility remained, especially in Asia and Europe, due to geopolitical tensions and supply chain adjustments. This period highlighted the delicate balance between production growth and price stability in global energy markets.

### MENA Region

The MENA region experienced significant growth in energy demand, with natural gas emerging as the leading fuel in power generation, comprising over 55% of the region's primary energy consumption. GCC countries spearheaded this demand, contributing 55.8% of the total regional energy consumption. This surge in demand was driven by factors such as rapid urbanization, expanding industrial activity, and increasing electricity needs. On the other hand, oil production in the MENA region remained stable, playing a key role in OPEC's output, which reached 40.65 million barrels per day (mb/d) by December FY24. The region's oil supply demonstrated resilience, as national oil companies prioritized the development of domestic resources to maintain energy security. On the demand side, the MENA region is projected to experience a deceleration in primary energy demand growth, averaging less than 1% annually from FY19 to FY50, representing a notable slowdown compared to over 4% annual growth in previous decades.

### Upstream Outlook

The upstream industry, a cornerstone of global energy production, has shown both resilience and volatility in recent years. Global rig counts rose from 1,846 in FY22 but declined to 1,806 in FY24 (Figure 10), due to changing market dynamics and regional factors, including varying investment levels across key regions such as the Middle East, North America, and Asia (Figure 11).

### Jack-ups: The Life Vest of the Offshore Market

The global jack-ups rig market is driven by the seemingly unrelenting forces of tight supply, rising utilization, and fluctuating day rates. In FY24, the market experienced fluctuations, with active rigs peaking at 409 in January and dropping to 385 by December, influenced by regional factors such as Saudi Aramco's suspensions. These shifts are reflective of broader market dynamics, where utilization rose from 86% in FY21 to a peak of 94% in FY23, driven by strong global demand. However, projections for FY25 indicate a decline to 89% due to supply chain disruptions and market corrections, adding further complexity to the supply-demand equation (Figure 12). Tight supply remains a defining challenge in the market, with limited newbuild orders and rig deliveries unable to offset the attrition of aging units (Figure 13). This persistent imbalance has steadily pushed day rates higher, with leading-edge rates climbing from below USD 100K in FY21 to over USD 150K by FY24. Despite these pressures, the jack-up market remains a cornerstone of global energy production, demonstrating its ability to adapt to fluctuations and regional shifts while addressing the challenges of a volatile and evolving industry.

### Ground Power: Land Drilling Rig Market

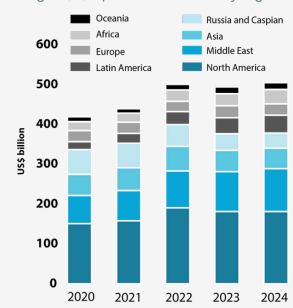
The onshore drilling market is at a critical point with fractured regional supply and demand conditions. While regions like the Middle East have utilization rates above 70% due to strong demand for rigs, regions such as North America and APAC face considerable oversupply issues, with North America alone witnessing oversupply reach as high as 1,000 rigs (Figure 14). These imbalances are directly shaping day rates; with the Middle East witnessing strong demand and efficient rig utilization, average rates are premium, above USD 35K per day, whereas oversupplied markets such as North America are averaging around USD 25K per day, impacted by competition and underutilization (Figure 15).

## COMPETITIVE POSITIONING:

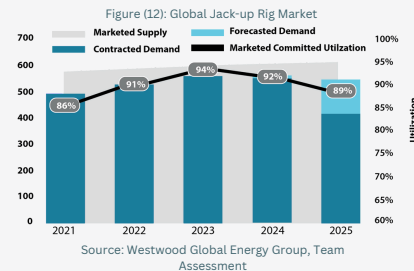
### MENA playground:

The MENA market comprises of 103 jack-ups, with ADNOC Drilling and ADES accounting for 36% and 10% of the regional fleet respectively. Notably, there has been no newbuild jack-ups, aside from the recent newbuild by ARO Drilling, with MENA players favoring secondhand acquisitions. Since FY18, jack-up acquisitions in the secondhand market have surged as buyers secured assets for long-term opportunities, especially in the MENA region. While ADES is the second largest player, and Arabian drilling holding the third, with a fleet size of 89 and 49 rigs respectively. Both these players command a market share of 19% for ADES and 11% for Arabian Drilling, Although Arabian drilling is the oldest player in Saudi Arabia, ADES has scaled-up its operations and surpassed Arabian drilling in FY22, in terms of both revenues and fleet size. Having a higher skew to offshore rigs, makes ADES a more premium player and thus makes it better than Arabian Drilling in terms of margin profile. ADES had presented a solid track record during the past years, as it has extended its operations substantially. Becoming the leader in the jack-up market as of FY23 in MENA and exceeding its rivalries; ADNOC, Shelf Drilling, ARO Drilling and Arabian Drilling (Figure 16). It is anticipated that ADES would gain the benefits of its predominance in the jack-up offshore drilling market as the company's offshore contracts account for 80% of existing backlog. Strong backlog provides revenue and cash flow visibility, ADES's total backlog stood at SAR 27.79 bn as of third quarter of FY24, up from SAR 27.54 bn in FY23. This translates to total backlog additions of SAR 4.9bn in third quarter of FY24, reflecting the impact of renewals at higher daily rates as well as new awards.

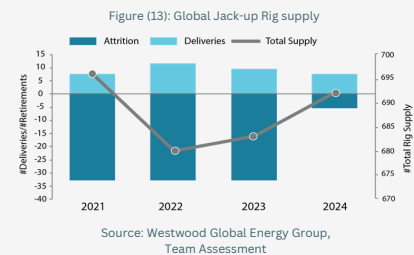
Figure (11): Upstream Investment by Region



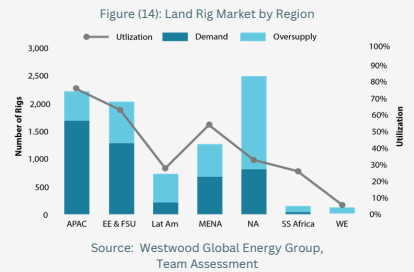
Source: Westwood Global Energy Group, Team Assessment



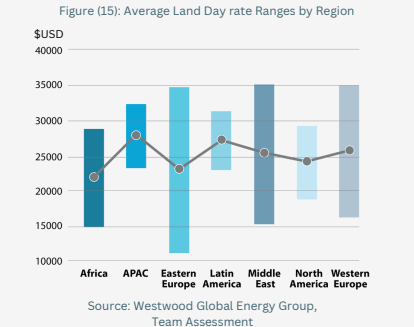
Source: Westwood Global Energy Group, Team Assessment



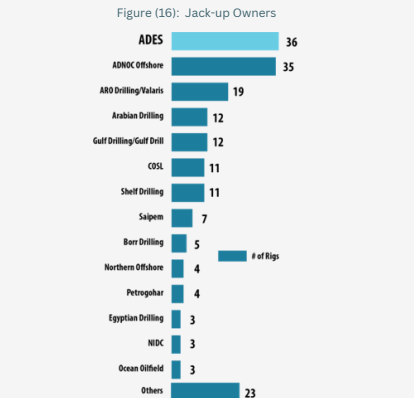
Source: Westwood Global Energy Group, Team Assessment



Source: Westwood Global Energy Group, Team Assessment



Source: Westwood Global Energy Group, Team Assessment



Source: Westwood Riglogix, Team Assessment

Beyond MENA:

As the utilization rate in Southeast Asia reaches 99.8% for jack-ups, ADES has an excellent opportunity to leverage its reputation and fleet size for commercial gain, actively participating in tenders and securing contracts for the upcoming years. Rig demand is projected to exceed total regional supply by FY25, with a contracted utilization rate of 103% driven by contract backlogs and tender requirements, translating to a demand for around 38 rigs. Furthermore, from FY24 to FY28, rig demand is expected to increase by 16%, placing ADES to capitalize on emerging opportunities in the Southeast Asian market and beyond. ADES is strategically positioning itself in the global oil and gas sector, currently holding an 11% market share with its jack-up rigs and aiming to increase it to 15% (Figure 17). In the past 18 months, the company has deployed 24 rigs globally, showcasing its operational capabilities. ADES has recently expanded its operations into West Africa, a promising market that is also being actively pursued by competitors like Shelf Drilling and Borr Drilling. The region boasts a total fleet of 36 rigs, with 28 currently under contract and 5 newly deployed rigs introduced in late FY24 by Shelf, Borr, and other operators. West Africa stands out as an attractive region.

Competitive Advantage:

Barrier Breakers

ADES has broken the barrier by avoiding the high costs and the long delivery time of new build jack-up rigs, which typically ranges from USD 250 to 300 million and often requires substantial upfront down payments with delivery timelines of two to three years (Figure 34). By acquiring secondhand jack-up rigs for approximately USD 95 million, ADES effectively reduces costs, eliminates the need for down payments, and enables immediate deployment, thereby enhancing operational efficiency. Committed to local sourcing, ADES meets the requirement of a 50% Saudization rate to contract with Aramco, achieving an impressive 74% saudization rate. This commitment not only ensures compliance with stringent regulations but also strengthens community ties. Currently pre-qualified in 14 markets, ADES operates in 11, demonstrating remarkable resilience in a challenging supply chain landscape. After facing five rig suspensions from Aramco in April FY24, which can result in significant revenue loss as suspended rigs remain inactive for 12 months, ADES promptly recovered by securing contracts for all of these rigs within nine months in different markets (Figure 47). These new contracts come with higher day rates and span diverse markets beyond Saudi Arabia. In contrast to competitors like Arabian Drilling, which heavily rely on Aramco for contracts, ADES thrives with its varied portfolio, positioning itself with a strong competitive advantage (Figure 18).

Securing Success

ADES consistently secures multiple tenders in the oil and gas sector by offering competitive offshore day rates, averaging a 40% discount as of FY23, alongside a strong commitment to employing local talent (Figure 19). This approach not only enhances ADES’s operational efficiency but also fosters community engagement and support. By prioritizing local expertise, ADES ensures that its teams are well-versed in the unique challenges of each market. The company’s dedication to safety is complemented by operational excellence, as evidenced by its impressive Rig Efficiency Index (REI) score of 90 out of 100, awarded by Saudi Aramco (Figure 20). Such recognition highlights ADES’s commitment to maintaining high safety standards while optimizing performance. In addition to these strengths, ADES boasts an impressive utilization rate of 97.7% onshore and 98.2% offshore, this high utilization rate is further complemented by the company’s commitment to in-house maintenance, which reduces operational costs and ensures competitive pricing (Figure 27, 28). By maintaining high standards of service and reliability, ADES reinforces its reputation as a leader in the industry, dedicated to delivering exceptional value to its clients while actively contributing to the communities in which it operates.

ADES’s True North

Ensuring workplace safety relies on two crucial factors: highly trained personnel and well-maintained equipment, with daily checkups essential at all levels. ADES exemplifies this commitment through robust Health, Safety, and Environment (HSE) protocols, achieving an impressive Total Recordable Injury Rate (TRIR) of just 0.07 per 200K working hours, significantly lower than the IADC average of 0.44 as of December 2024 (Figure 21). This demonstrates a significant downward trend in safety incidents. This exemplary safety record reflects ADES’s dedication to continuous monitoring, regular training, and proactive hazard identification, creating a culture of safety that protects its workforce and sets a high standard within the industry.

Advanced Technology

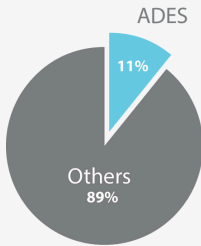
MOPU Services

Mobile Offshore Production Unit (MOPU) engineering brings a creative edge to offshore projects, suitable for both oil and gas production. These flexible units can be easily relocated, saving costs when fields decline. They enable faster production, allowing for quicker income generation.

RIGEYE

ADES' advanced technology enhances staff safety and environmental protection. It educates employees on best practices and promotes a culture of continuous improvement. Management sees RIGEYE as a preventive tool with real-time hazard recognition, helmet camera and CCTV integration, and alarms based on event severity and learned cases.

Figure (17): Jack-up Global Market Share



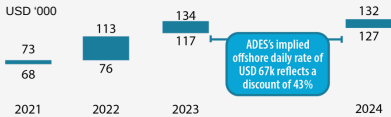
Source: Westwood Global Energy Group, Company Data

Figure (18): Barriers To Entry



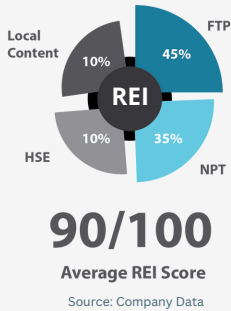
Source: Company Data

Figure (19): Global Jack-up Day Rate vs ADES's



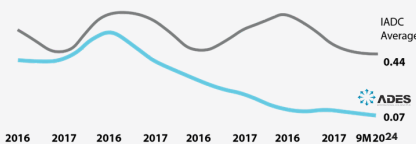
Source: Westwood Global Energy Group, Company Data

Figure (20): REI Index



Source: Company Data

Figure (21): Total Recordable Injury Rate (TRIR)



Source: Company Data

# FINANCIAL ANALYSIS

## ADES's Blueprint for Revenue Generation

ADES is focused on maximizing its acquired assets by targeting accretive tenders. With an eye for strategic partnerships, the company aims to enhance cash flow and grow its backlog for the future. Forecasting the revenues over a six-year period on a quarterly basis to reflect the outstanding backlog of SAR 27.79 bn individually for each market, we estimate a CAGR of 8% (**Figure 22**), as ADES's revenue is driven by its two main segments: Offshore and onshore drilling services, another driver is the market dynamics in which these rigs operate, characterized by varying demand and diverse growth potential, ADES is purposefully entering new markets due to several appealing factors. The primary attraction is the high demand, which leads to elevated day rates. Offshore and onshore revenues vary by country, with markets such as Saudi Arabia, Kuwait, and Qatar offering higher day rates compared to other countries due to the strong demand and abundant opportunities for strategic partnerships with contractors. Conversely, ADES is exiting less attractive markets to optimize its fleet and focus on areas with higher returns. For instance, Tunisia has been identified as an unattractive market due to its low demand and lower day rates, prompting ADES to cease operations there by FY25 (**Figure 25, 26**). As of the end of FY24, ADES's fleet comprised of 51 offshore rigs and 38 onshore rigs with 85% of the rigs operating (**Figure 23**), with 87% of ADES's revenue derived from oil drilling, and 13% from gas drilling, we anticipate that this distribution will remain consistent through FY29 (**Figure 24**) We project fleet expansion to 59 offshore rigs and 41 onshore rigs by FY29 with 98% of the rigs operating (**Appendix 18**), aligning with ADES's expansion plans to diversify their revenue, rather than heavily depending on Saudi Aramco; by acquiring rigs in growth countries such as Qatar, India, Indonesia, Thailand, Malaysia, and Nigeria. As the dependency on Saudi Arabia will decrease from 66% in FY23 to 51% in FY29 (**Figure 4**).

### Future Ready Fleet:

Our revenue projections factor in the number of operating rigs derived from ADES's utilization schedule which outlines the number of operating rigs each quarter in the upcoming years, supplemented by our market expectations for each segment and country. The optional contract extension period of one to three years has been considered, as historically, contractors have often utilized these extensions. As for expiring contracts that free up rigs, we assume a renewal rate based on demand and solid partnerships with contractors. Given that ADES aims to grow its market share beyond MENA, we anticipate organic fleet additions of one to three rigs in each of the growth countries, assuming 10 offshore additions and 3 onshore additions up to FY29. Furthermore, ADES holds 14 pre-qualifications, which supports our forecast of organic growth reflected in fleet additions in new regions such as Southeast Asia and West Africa starting in the second quarter of FY25 as they recently expanded to their eleventh country in Nigeria. Importantly, new acquisitions would be deployed and considered active after any necessary refurbishments, this aligns with ADES's disciplined and non-speculative approach to acquiring assets, primarily utilizing a "buy to contract" method, where a contract is secured before finalizing the acquisition, or a "contract acquisition" method, where an asset with an ongoing contract is acquired and can be novated to ADES (**Appendix 7**).

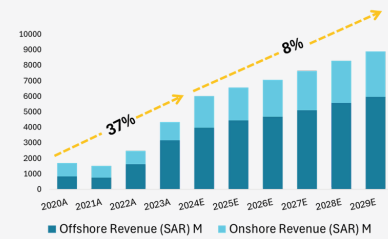
### Days Well Spent: Valuable Day Rates Meet High Utilization

ADES stands out by winning tenders through aggressively discounted day rates that are 40% below the industry average (**Figure 19**). This strategic pricing not only enhances its competitive edge but also enables the company to secure a substantial number of tenders from various contractors. We expect that the day rates discount will remain consistent in the forecasted years, influenced the increasing demand across markets, as offshore day rates in Saudi Arabia represent the highest day rates with a CAGR of 8% from FY24 to FY29 (**Figure 25, 26**). Currently, the market for jack-up rigs has tightened considerably, driven by rising demand and limited rig supply, resulting in utilization rates that exceed 95% globally. ADES is capitalizing on this trend, boasting impressive utilization rates of 98% for both offshore and onshore operations, and given the constrained supply of jack-up rigs, we project that offshore utilization will reach 100% by FY28, while onshore utilization is expected to sustain at 98% (**Figure 27, 28**).

### Cost Efficiency Drives Margin Enhancements:

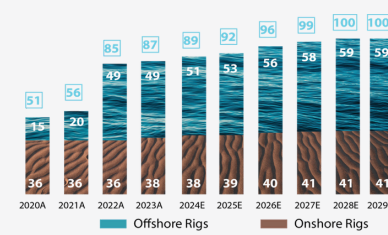
The rig operating staff costs represents the majority of the total costs of revenue at 45% (**Figure 29**), the labor costs across the targeted regions influences ADES margins heavily, with emerging market such as Egypt, India, and Southeast Asia offering labor with lower pay. We anticipate the workers average monthly salaries to grow at a 6% CAGR from SAR 12,500 per worker in FY23; a slightly lower rate than the last four years historical average due to the company's strategic utilization of the local workforce and salary payments on local currencies (**Figure 30**). Even with the costs associated with entering new markets—such as rig movements across regions, crew change expenses, and training programs for local workers in emerging markets—we expect that ADES will offset these costs through newly secured contracts, capturing high day rates globally spicifcally in the offshore segment. Despite day rate discounts and rising manpower cost, ADES has successfully sustained a solid EBITDA margin over the past years by maintaining a lean cost structure and efficient operations with the utilization of in-house refurbishment and maintenance activities that ensure limited rig downtime. As a result, with the company reaching the economies of scale we expect the EBITDA margin to reach 51% in FY29 (**Figure 32**), exceeding the peers average (**Figure 31**).

Figure (22): Revenue Projections



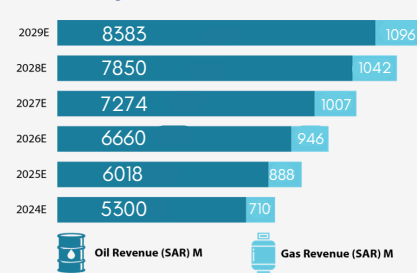
Source: Company Data, Team Assessment

Figure (23): ADES's Total Fleet



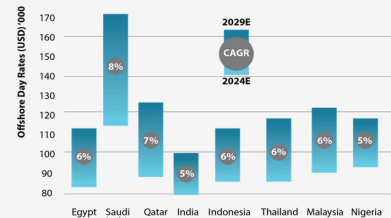
Source: Company Data, Team Assessment

Figure (24): Oil vs Gas Revenue Contribution



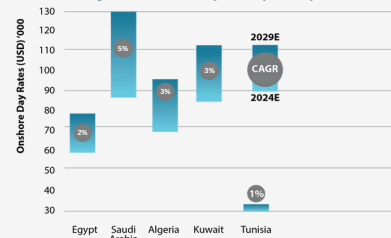
Source: Team Assessment

Figure (25): Offshore Jack-up Day Rates by Country



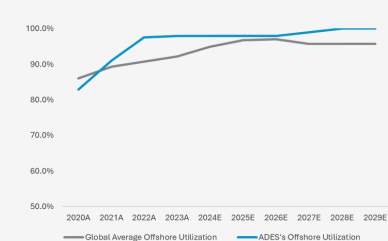
Source: Westwood Global Energy Group, Company Data, Team Assessment

Figure (26): Onshore Day Rates by Country



Source: Westwood Global Energy Group, Company Data, Team Assessment

Figure (27): ADES's Offshore Utilization vs Global Average Offshore Utilization



Source: Westwood Global Energy Group, Company Data, Team Assessment

### The High-Margin Segment:

ADES's cost efficiency has allowed for ADES to profit from the all-time high offshore day rates for jack-up rigs, with offshore gross margins scaling despite the requirements for larger crew sizes and higher operational costs associated with challenging environmental conditions. The company was able to enhance offshore margins by 9% during the period from FY20 to FY23, reaching an impressive 62% in FY23. In contrast, onshore gross margins have remained stable around 45%, showing no significant enhancements due to limited profitability dictated by stable onshore day rates. This disparity highlights the potential for further growth in the offshore segment driven by market conditions, while the onshore segment continues to face challenges in improving margins (Figure 33).

### Hunting For Attractive Acquisition In The Secondhand Market:

To achieve a 15% ROI on new jack-up rigs, offshore day rates must be significantly high, between USD 200K and USD 230K over a 25-year rig lifespan. This has prompted a shift toward secondhand acquisitions, as the capital requirements and delivery times for new builds are substantial. ADES has strategically acquired attractively priced jack-up rigs, highlighted by its purchase of 24 new premium rigs in FY22 at an average CAPEX of USD 62M per rig—50% lower than the industry average of USD 125M. However, post-COVID-19, acquisition costs have surged, with ADES's recent acquisition from Vantage Drilling in FY24 nearing the industry average at USD 95M (Figure 34). Looking forward, fleet additions are expected to come from the secondhand market, with jack-up acquisition costs projected to rise at a CAGR of 8% from FY25 to FY29 due to tightening supply pushing acquisition prices to exceed the current industry average to reach USD 135M by FY29. In contrast, onshore rig acquisition costs remain stable between USD 30M to USD 35M, with an expected modest growth rate of 3% CAGR. ADES continues to invest in refurbishing rigs purchased in FY22 as these rigs are phased into operational contracts from FY23 through FY24. However, future acquisitions are projected to be ready for immediate deployment, eliminating the need for further upgrades. To ensure operational efficiency and longevity beyond the average rig life time of 27 years, ADES incurs an annual recurring maintenance CAPEX of around SAR 6 million per offshore rig and SAR 4 million per onshore rig for the operating rigs (Figure 35), representing 5-7% of total revenue from FY24 to FY29 (Figure 36).

### Expansion Is The Priority, Debt Ceiling Connected To Backlog Growth:

ADES is prioritizing fleet expansion while strategically managing substantial CAPEX through borrowing. By the end of FY23, net debt was reduced to SAR 9.2 billion from SAR 10.4 billion, mainly by the proceeds from the IPO. ADES's management is focused on deleveraging the balance sheet, in light of rising interest rate risks, with only 50% of its loans hedged as of September FY24. Total debt levels are projected to decline to SAR 6.6 billion by FY29, accompanied by a significant SAR 3.2 billion debt repayments due during that period (Figure 38). This strategic repayment plan is expected to position ADES with a healthy Net Debt/EBITDA ratio of 1.13x by FY29, well below the target range of 2.5x-3.0x (Figure 37). While ADES maintains a commitment to a 60% dividend payout, this may necessitate additional borrowing for acquisitions to sustain shareholders returns. Given the high leverage, any new borrowing from FY24 to FY29 will likely be sourced from local banks, in contrast to the SAR 11 billion secured from syndicated banks in FY24. To manage debt, and ensure liquidity, ADES aims for a Backlog/Net Debt ratio of 2.0x. This strategy allows for flexibility in financing growth through debt while maintaining a healthy capital structure. The company aligns debt maturities with contract terms, ensuring it meets its repayment obligations effectively.

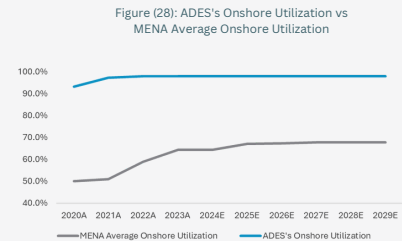
## VALUATION

We issue a **BUY** Recommendation for ADES with a one year target price of SAR 21.10, indicating a 18% Upside potential from its closing price of SAR 17.90 on January 27th, 2025. Our valuation methodology incorporates a weighting of 80% on our Discounted Cash Flow (DCF) model, and a 20% weight on our Relative Valuation, which includes: EV/EBITDA and Price/Operating Cashflow multiples. To analyze the impact of our DCF valuation inputs on the targeted price, we performed sensitivity analysis (Appendix 14) and a Monte Carlo simulation (Figure 41). Additionally, we constructed two scenarios for the main revenue drivers, reflecting both bullish and bearish cases for the DCF valuation (Figure 39).

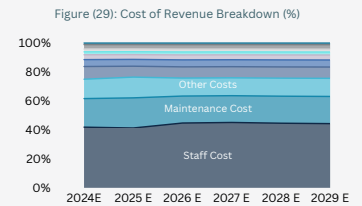
### Discounted Cash Flow:

The DCF valuation adopts the Free Cash Flow to the Firm (FCFF) methodology to determine the intrinsic value of ADES, incorporating an explicit forecast period of six years, from FY24 to FY29. This approach captures expected future cash flows generated by the company's operations and is essential for accurately assessing the company's long-term value reflecting market factors and industry trends. (Appendix 12).

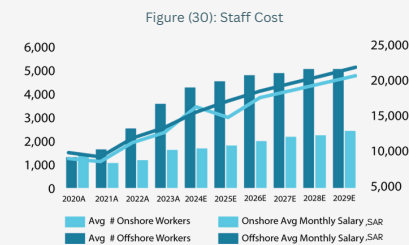
**WACC:** We estimate a WACC of 9.04% for ADES (Figure 40). The cost of equity is calculated by using the CAPM, reflecting the risk-free rate, a re-levered industry beta, and an equity risk premium, adjusted with a weighted average country risk premium based on countries' estimated revenue contribution in FY23. This accounts for high-risk markets like Egypt, in addition to the general market premium. ADES's cost of debt is estimated based on a peer credit rating of BBB, which reflects a substantial upgrade from its FY21 rating of B+ with ADES enhanced credit profile. The credit spread is added to a six-month SAIBOR rate as we anticipate all new raised commercial loans are from local banks (Appendix 13).



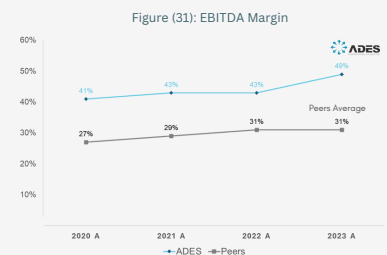
Source: Westwood Global Energy Group, Company Data, Team Assessment



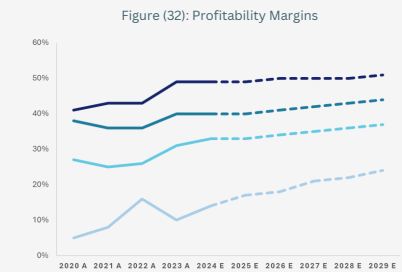
Source: Company Data, Team Assessment



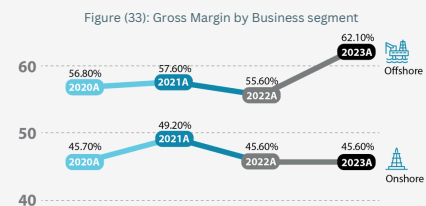
Sources: Company Data, Team Assessment



Sources: Company Data, Team Assessment



Source: Company Data, Team Assessment



Source: Company Data, Team Assessment







# INVESTMENT RISK

## Operational Risk

### ORI: Dependence on Key Clients (High Impact | High Probability)

ADES relies heavily on Saudi Aramco, which accounts for over 80% of its backlog. This dependence significantly increases the company's exposure to risks such as changes in client priorities, contract suspensions, or non-renewals. For instance, Aramco's suspension of certain drilling activities in FY20 had a substantial impact on ADES's financial performance. Furthermore, relying on Aramco as a primary client limits ADES's ability to diversify its risk across other markets. (Figure 45)

**Impact:** Any reduction in contract volumes with Aramco could have a material impact on revenue and weaken ADES's negotiating power with other clients.

**Mitigation:** Diversify the client base by expanding into high-growth regions such as Southeast Asia, and securing long-term contracts with Aramco to ensure financial stability while maintaining flexibility to adapt to market changes, explore opportunities to broaden service offerings to attract a wider range of potential clients

### OR2: Fleet Modernization and Maintenance (Moderate Impact | Moderate Probability)

ADES operates an aging fleet that requires frequent maintenance. This could lead to higher operating costs, reduced efficiency, and potential difficulties in meeting client demands for modern, environmentally compliant rigs.

**Impact:** Equipment breakdowns could lead to operational delays, lower utilization rates, and possible cancellations or suspension of contracts.

**Mitigation:** Increase investment in fleet modernization through acquiring new rigs or upgrading existing ones, implement proactive maintenance programs to reduce downtime and operational inefficiencies.

### OR3: Operational Delays and Logistical Challenges (High Impact | Moderate Probability)

ADES's rapid expansion, including onboarding multiple new contracts, places pressure on its ability to recruit skilled labor, deploy rigs efficiently, and manage supply chain operations effectively. These challenges create risks of delays, cost overruns, and disruptions in project timelines, particularly when logistical and operational bottlenecks arise.

**Impact:** Delays in rig deployment, supply chain disruptions, or logistical inefficiencies could result in increased operating costs and financial penalties, Reduced client satisfaction due to missed timelines could jeopardize future contract renewals and long-term profitability.

**Mitigation:** Enhance project management systems to improve efficiency and minimize delays, Leverage advanced technologies to optimize logistical planning and streamline operations, build strong partnerships with local suppliers and ensure robust contingency plans to mitigate supply chain risks., Hire and train specialized teams to address the growing demands of new contracts and improve execution capabilities.

### OR4: Environmental and Safety Risks (Impact High, Moderate Probability )

ADES operates in environmentally sensitive areas, exposing it to risks such as oil spills and workplace accidents. Such incidents could lead to significant financial liabilities and reputational damage.

**Impact:** Environmental incidents could result in operational suspensions, fines, and damage to ADES's reputation.

**Mitigation:** Investing in robust safety protocols and advanced environmental monitoring systems, conducting regular training for employees to ensure compliance with environmental and safety standards

## Market Risk

### MRI: Fluctuations in Oil and Gas Production Levels (High Impact, High Probability)

Global oil and gas production volatility significantly affects ADES's operations and revenues. Clients frequently adjust their exploration and production budgets based on market conditions, leading to fluctuating demand for drilling services. For instance, OPEC-imposed production cuts have historically reduced ADES's rig utilization and operational activity. Day rates for rigs are also heavily market-dependent, creating substantial swings in profitability. (Figure 46,47)

**Impact:** Lower rig utilization during periods of reduced oil and gas demand results in revenue decline, fluctuating day rates lead to significant variability in profit margins.

**Mitigation:** Focus on securing long-term contracts to stabilize revenues, enhance operational flexibility to adapt to changing market conditions.

### MR2: Intense Market Competition (High Impact | Moderate Probability)

The drilling services market is highly competitive, with numerous local and international players vying for a limited number of contracts. This intense competition exerts downward pressure on pricing and requires continuous operational efficiency to retain clients. ADES faces the risk of losing market share to companies that provide more efficient or competitively priced services.

**Impact:** Margin compression due to pricing pressure, Potential loss of contracts to competitors with more cost-effective operations or superior service offerings.

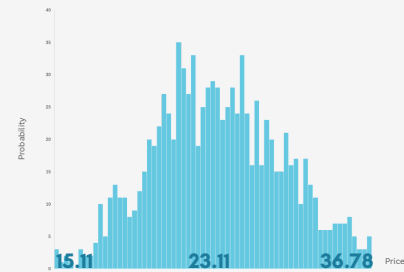
**Mitigation:** Strengthen the company's reputation for reliability and operational excellence to enhance client loyalty, implement competitive pricing strategies and continuously optimize operational efficiency to maintain a cost advantage, reduce costs while ensuring healthy margins to withstand pricing pressures from competitors.

Figure (40): WACC Inputs

Input	Rate	Source
Risk Free Rate	4.68%	10 Year SA government sukuk excluding default spread
Beta	0.94	Re-levered industry beta
Implied equity risk premium	6.54%	MRP + CRP (weighted average based on revenue per country)
Cost of Equity	10.85%	CAPM
Cost of Debt	6.59%	SAIBOR + Credit Spread based on peers
Tax Rate	15%	Effective tax
WACC	9.04%	

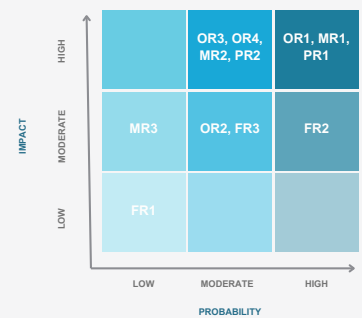
Source: Company Data, Team Assessment, Damodaran

Figure (41): Monte Carlo Stimulation



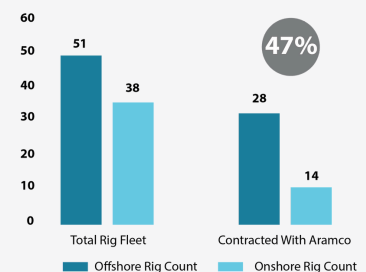
Source: Company Data, Team Assessment

Figure (44): Risk Matrix



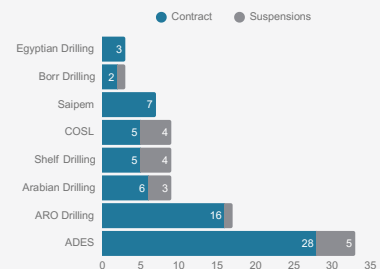
Sources: Company Data, Team Assessment

Figure (45): ADES Contracted Rigs with Aramco



Source: Company Data, Team Assessment

Figure (46): Aramco Rig Suspensions FY24



Source: Westwood Global Energy Group, Team Assessment

MR3: Transition to Renewable Energy (Moderate Impact | Low Probability)

The global shift toward renewable energy introduces potential challenges for ADES’s core oil and gas services. Governments and corporations are placing greater emphasis on sustainability initiatives, which could encourage clients to explore renewable energy options. However industry projections indicate that oil and gas will still contribute approximately 50% of the global energy mix by FY50, suggesting a continued strong demand for drilling services. ( Figure 48)

**Impact:** Moderate risk of losing market share to renewable energy as clients diversify their energy portfolios, The overall demand for oil and gas services is expected to remain robust in the long term, but clients may prioritize energy diversification, potentially reducing new drilling opportunities in certain regions.

**Mitigation:** Monitor global energy trends and adapt offerings to align with evolving client preferences, Explore opportunities to diversify into clean energy solutions that complement core oil and gas operations, Emphasize the company’s role in supporting efficient and environmentally responsible oil and gas operations to maintain competitiveness in a shifting energy landscape.

Political Risk

PR1: Geopolitical Instability ( High Impact, High probability)

ADES operates in regions like Algeria, Tunisia, and the Middle East, which are prone to geopolitical and economic instability. Conflicts in areas like Yemen exemplify how regional tensions can delay projects, disrupt resource availability, and pose risks to personnel and assets. Additionally, ADES’s heavy reliance on the Saudi market further exposes it to unforeseen political or economic changes.

**Impact:** Challenges in rig transportation and movement and increased operational costs due to instability, Potential loss of business or revenue if geopolitical risks escalate in key regions.

**Mitigation:** Develop proactive contingency plans to ensure operational continuity during geopolitical crises, strengthen relationships with local partners to better navigate regional challenges.

PR2: Regulatory and Compliance Challenges (High Impact, Moderate Probability)

Operating in multiple countries exposes ADES to diverse and evolving regulatory environments. For instance, Saudi Arabia’s Saudization policies require companies to hire a higher percentage of Saudi nationals, and stricter environmental regulations demand compliance investments to avoid fines or restrictions. Failure to comply with these regulations can harm ADES’s reputation and lead to operational disruptions.

**Impact:** Increased costs due to local regulations and environmental standards, Financial and reputational damage from non-compliance with local laws.

**Mitigation:** Maintain robust compliance systems to ensure adherence to local regulations, monitor regulatory changes and proactively manage compliance efforts to avoid fines and restrictions.

Financial Risk

FR1: Currency Exchange Volatility ( Low Impact, Low probability)

While the majority of ADES’s contracts are denominated in USD, significantly reducing exposure to currency exchange risks, a small portion of contracts, such as those in Kuwait, are denominated in Kuwaiti Dinar. These contracts pose minimal exposure to currency fluctuations but are not material to ADES’s overall financial performance.

**Impact:** Currency fluctuations have negligible impact on revenues due to the strength and stability of the USD, the limited size of non-USD contracts ensures low overall exposure.

**Mitigation:** Continuing to denominate the majority of contracts in USD, Minimal monitoring of Kuwaiti Dinar fluctuations with negligible operational or financial implications

FR2: Rising Cost Pressures (Moderate Impact | High Probability)

ADES faces increasing costs for labor, materials, and equipment, particularly in high-inflation markets. Additionally, the company’s exposure to variable interest rate debt, such as SAIBOR-linked borrowings, heightens financial risks during periods of rising interest rates.

**Impact:** Higher operating costs reduce profit margins, challenging the company’s ability to sustain profitability, Increased interest expenses during rate hikes negatively affect financial performance.

**Mitigation:** Adopt effective cost management strategies and enhance operational efficiency to control rising costs, Hedge debt to reduce exposure to interest rate fluctuations, a strategy successfully implemented by the company following its IPO, Refinance existing debt with fixed-rate options when possible to mitigate the impact of rising variable rates.

FR3: Taxation Risks (Moderate Impact, Moderate Probability)

Operating across jurisdictions with differing tax regimes introduces complexities in financial planning. Variations in tax systems and the introduction of levies such as carbon taxes can increase the financial burden and reduce profitability.

**Impact:** Higher tax liabilities and potential inefficiencies in financial operations, Reduced net earnings due to additional levies or changes in tax regimes.

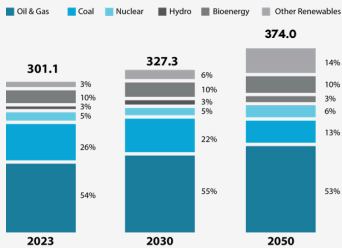
**Mitigation:** Optimize tax planning strategies to minimize liabilities while ensuring compliance with local and international tax regulations, regularly review tax structures across jurisdictions to adapt to changes and maintain efficiency.

Figure (47): ADES's Current Suspended Rig Status



Source: Company Data, Team Assessment

Figure (48): Projected Global Energy Mix



Source: Westwood Global Energy Group, Company Data, Team Assessment

Figure (49): Summary of Key Risks and Mitigation Measures

Risk	Mitigation
OR1 Dependence on key clients	Diversify client bas, expand into high-growth regions, secure long-term contracts
OR2 Fleet modernization and maintenance	Invest in fleet upgrades, implement proactive maintenance programs.
OR3 Operational delays and logistical challenges	Enhance project management, leverage advanced technology, and train teams.
OR4 Environmental and safety risks	Invest in safety protocols, advanced environmental monitoring, and employee training.
MR1 Fluctuations in oil and gas production levels	Secure long-term contracts, increase operational flexibility.
MR2 Intense market competition	Strengthen reputation, implement competitive pricing, optimize operations.
MR3 Transition to renewable energy	Diversify into clean energy, align offerings with client preferences
PR1 Geopolitical instability	Develop contingency plans, strengthen local partnerships.
PR2 Regulatory and compliance challenges	Maintain compliance systems, monitor and adapt to regulatory changes.
FR1 Currency exchange volatility	Denominate contracts in USD, monitor minor non-USD exposures.
FR2 Rising cost pressures	Adopt cost management strategies, hedge debt, refinance with fixed rate options.
FR3 Taxation risks	Optimize tax strategies, ensure compliance across jurisdictions.

Source: Company Data, Team Assessment

# ENVIROMENTAL, SOCIAL, AND GOVERNANCE

The butterfly effect illustrates how even the smallest decisions made today can lead to significant and far-reaching changes in the future. This concept highlights the critical importance of ESG performance, especially in the energy sector, where investments in areas like QHSSE (Quality, Health, Safety, Security, and Environment), and Carbon footprint may not offer immediate financial returns but hold invaluable long-term benefits for sustainability and resilience. Investors are leaning toward green investments to tackle future challenges and align with evolving market trends. In this context, ADES’s unwavering commitment to ESG principles establishes it as a forward-thinking leader in a rapidly transforming industry. Notably, ADES achieved a performance score of 58, further solidifying its position as a responsible and progressive organization (Appendix 21).

## Environmental: We Only Have One Earth

### Reducing GHG Emissions: Cleaner Skies Ahead

In line with the Net Zero Emissions (NZE) by 2050 scenario, ADES has taken significant steps to reduce its carbon footprint. Initiatives such as engine optimization for efficient load management and piloting hybrid energy solutions have resulted in a 19% reduction in GHG emissions intensity between 2022 and 2023 (Figure 50). ADES’s target of a 6% total emissions reduction by 2030 underscores its commitment to SDG 13: Climate Action and highlights its proactive approach to tackling global climate challenges.

### Recycling and Water Conservation

ADES complements its emissions reduction strategy with robust water and waste management practices. Recycling programs, including reconditioning 10% of engine components, promote circular resource use and waste minimization, where 0.5% of the total waste was recycled (Figure 51). Water conservation initiatives, such as smart-saving devices and solar-powered systems, enhance resource efficiency. These efforts align with SDGs 6 and 12, showcasing ADES’s dedication to responsible consumption and resource preservation.

## Social: Empowering People and Communities

### Building a Diverse and Empowered Workforce

With a localization rate of 60% and an increase in female representation by 15.7% in 2023 which represent an increase of 66% compared to 2021 (Figure 52), ADES underscores its commitment to diversity, inclusion, and national development goals like Saudi Vision 2030. Talent development initiatives, including internships and leadership training programs, ensure a resilient and future-ready workforce .

### Strengthening Communities

ADES’s commitment to local procurement bolsters regional economies, with 41% of its suppliers in Saudi Arabia (Figure 53). From 2022 to 2023, the number of suppliers increased from 1,822 to 2,324, highlighting ADES’s dedication to fostering partnerships and supporting local businesses . In 2023, the company allocated 0.40% of its revenue, equivalent to 4.62 SAR Billion, to community investments, enhancing education, healthcare, and employment opportunities. These efforts align with SDG 8: Decent Work and Economic Growth and SDG 10: Reduced Inequalities, showcasing ADES’s commitment to equitable and sustainable development.

## Health and Safety: A Culture of Excellence

Safety is central to ADES’s operations, driven by a commitment to ensuring a secure workplace for all. In 2023, ADES’s safety performance far exceeds the industry benchmarks across all key safety indicators (LTIR, LTFR, RIFR, and TRIR) (Figure 54). This demonstrates the effectiveness of its safety programs, such as RIGEYE smart technology for real-time monitoring and the Family Safe campaign for extending safety practices to employees' families. These measures align with SDG 3: Good Health and Well-being, highlighting ADES’s dedication to protecting its workforce and achieving safety excellence.

## Governance: Building a Foundation of Integrity and Transparency

### Strong Governance Framework and Management Board Oversight

ADES Holding is committed to effective governance through a framework centered on transparency, accountability, and ethical practices. The Board of Directors plays a pivotal role in providing strategic oversight, supported by specialized committees such as the Audit Committee and the Nomination & Remuneration Committee. These committees oversee financial reporting, risk management, and alignment with ESG priorities to ensure rigorous governance standards.

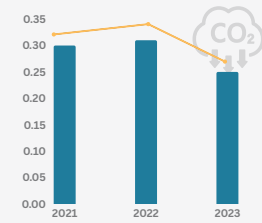
### Board Composition and Diversity

The Board comprises a mix of executive and non-executive members (Figure 55), with a strong focus on enhancing diversity and independence to strengthen decision-making and corporate oversight. As shown in (Appendix 18), the Board’s composition reflects a commitment to balanced representation and expertise across key areas.

### Ownership and Leadership

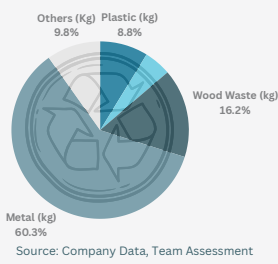
ADES benefits from the strategic backing of major stakeholders, including ADES Investments Holding, the Public Investment Fund (PIF), and Zamil Group Investment. This robust ownership structure, illustrated in (Figure 56), provides strong strategic guidance, bolsters operational resilience, and aligns governance priorities with the company’s long-term objectives.

Figure (50): GHG Emissions Intensity (tCO2e/Man-hour Worked)



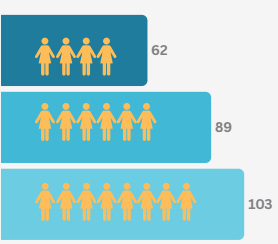
Source: Company Data, Team Assessment

Figure (51): Recycling Breakdown



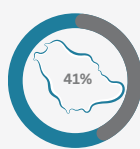
Source: Company Data, Team Assessment

Figure (52): ADES Female Workforce Trend



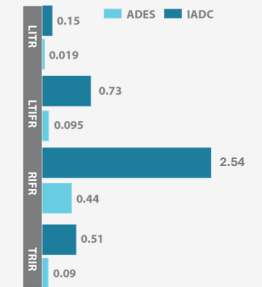
Source: Company Data, Team Assessment

Figure (53): Local Suppliers In Saudi Arabia



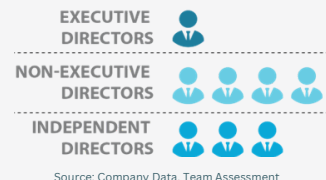
Source: Company Data, Team Assessment

Figure (54): ADES Health and Safety Performance



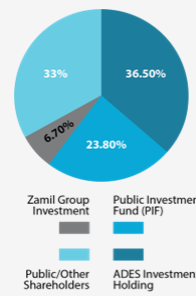
Source: Company Data, Team Assessment

Figure (55): Board Diversity



Source: Company Data, Team Assessment

Figure (56): Shareholder Ownership



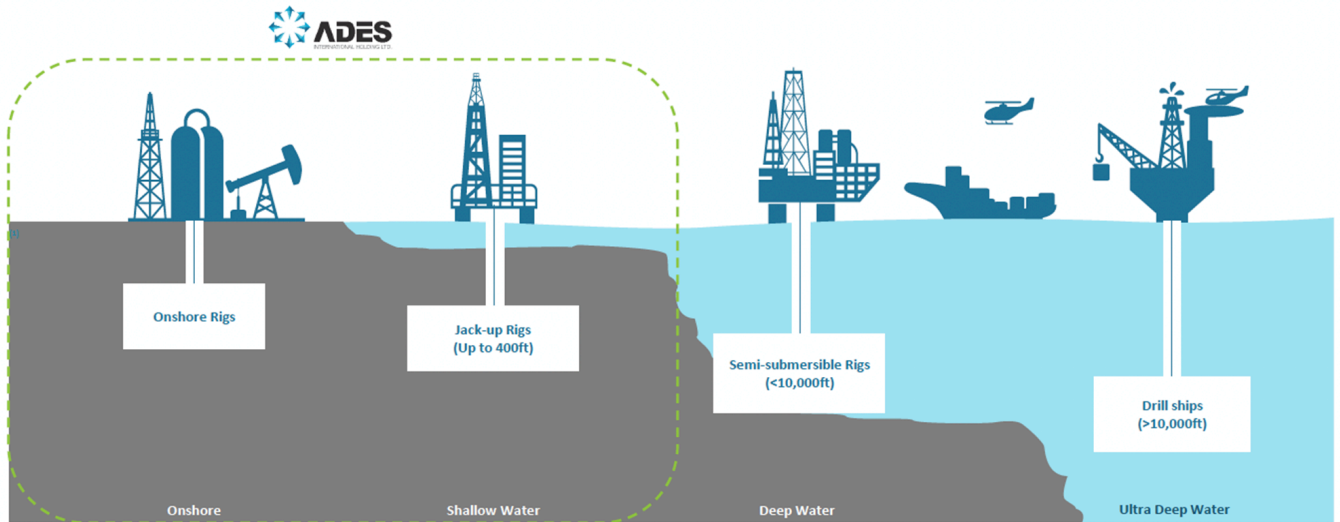
Source: Company Data, Team Assessment



# APPENDIX MAP

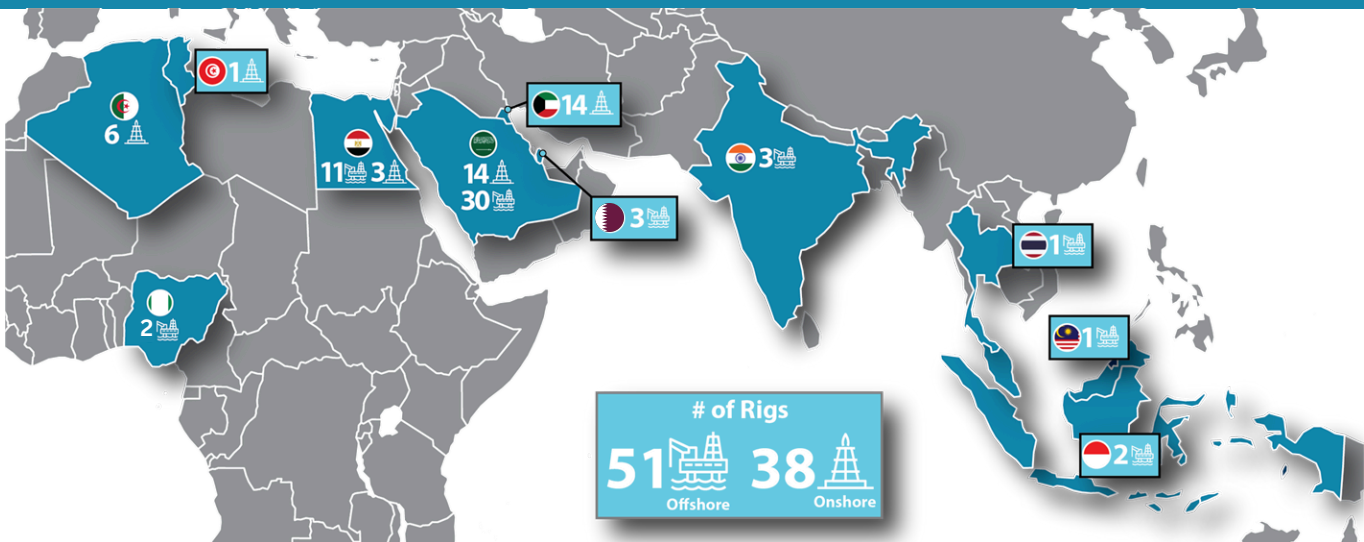
- |                                  |                          |                                      |
|----------------------------------|--------------------------|--------------------------------------|
| 1. Types of Rigs                 | 8. Income Statement      | 15. Capital Expenditures Projections |
| 2. Geographic footprint          | 9. Balance Sheet         | 16. Peer Comparison                  |
| 3. Ades's Timeline               | 10. Cash Flow Statement  | 17. Relative Valuation               |
| 4. The Oil and Gas Value Chain   | 11. Key Financials       | 18. Rigs Status                      |
| 5. Porter's Five Forces Analysis | 12. DCF Valuation        | 19. Board Members                    |
| 6. SWOT Analysis                 | 13. WACC                 | 20. ESG Scoring                      |
| 7. Revenue Projections           | 14. Sensitivity Analysis |                                      |

## 1. Types of Rigs



**ADES Rig Fleet include only Onshore Rigs and Jack-up Offshore Rigs**

## 2. Geographic footprint



**ADES has a Global Scale Operations with 89 Rigs in 11 Countries**

3. Ades Timeline

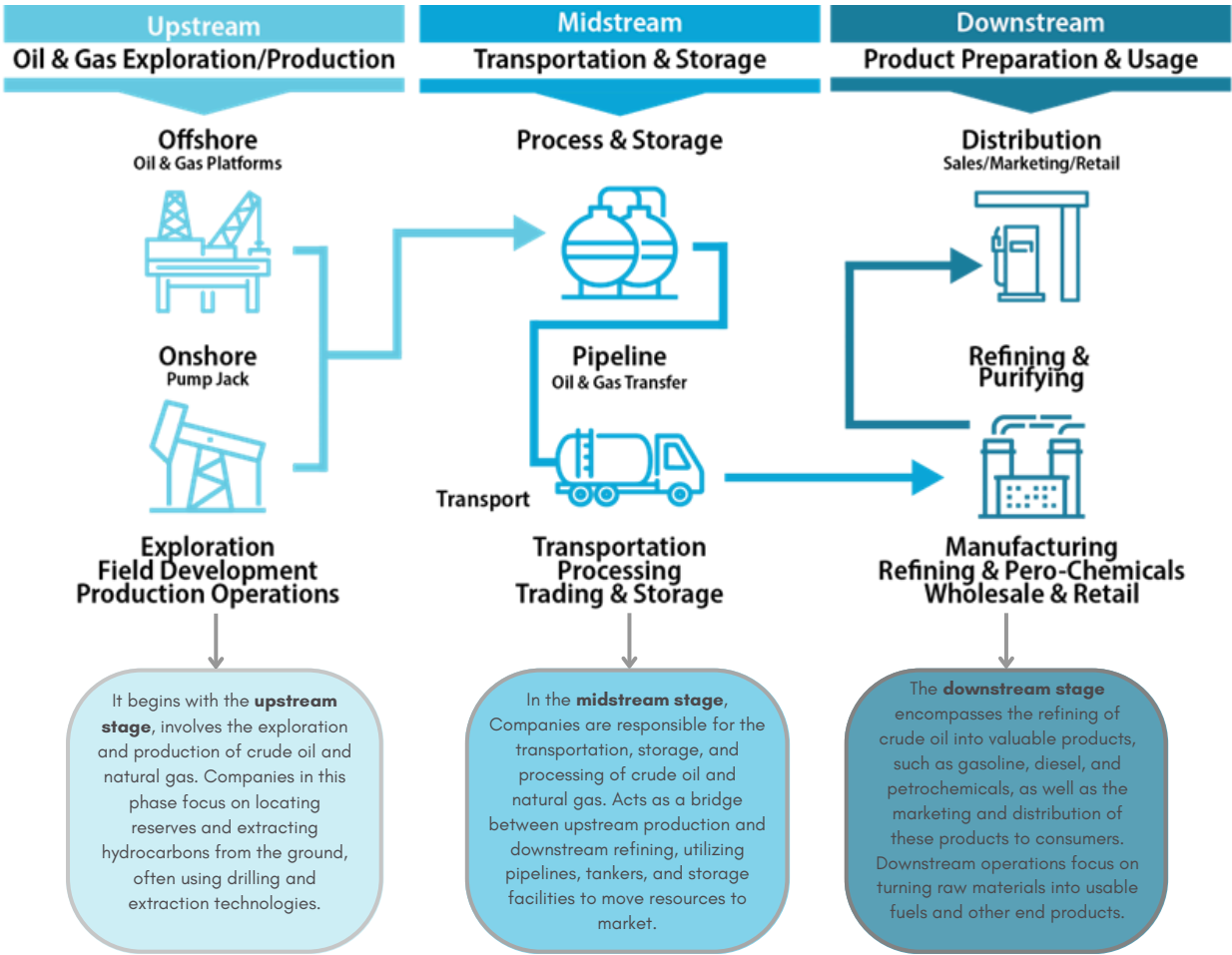
ADES started its operation with one rig in Egypt in 2002, and today has grown to become a global leader in oil and gas drilling.

2002	2017-2019	2021	2023	2024
<b>FOUNDING OF ADES</b> ADES was established as a local drilling company in North Africa	<b>2017 INITIAL PUBLIC OFFERING ON THE LONDON STOCK EXCHANGE</b> ADES raised capital to fuel its growth and began expanding internationally	<b>STRATEGIC INVESTMENT BY PIF &amp; ZAMIL GROUP</b> Received investment from public investment funds (PIF) and Zamil group enabling further expansion	<b>IPO ON THE SAUDI STOCK EXCHANGE (TADAWUL)</b> Listed 30% of its shares, raising SAR 4.6 billion (\$1.2 billion)	<b>GLOBAL EXPANSION</b> Indonesia and Thailand, with operations starting in 2024
	<b>MAJOR ACQUISITIONS</b> Acquired 37 drilling rigs, significantly increasing its fleet and market presence	<b>RELOCATION OF HEADQUARTERS TO SAUDI ARABIA</b> Moves its headquarters to Al-Khobar to align with Saudi vision 2030 and enhance local collaboration	<b>SUSTAINABILITY AND SAUDIZATION MILESTONES</b> Achieved a Saudization rate of 74% and strengthened practice	

Source: Company Data

4. The Oil and Gas Value Chain

The oil and gas value chain is an integrated process that transforms hydrocarbon resources into usable energy products.



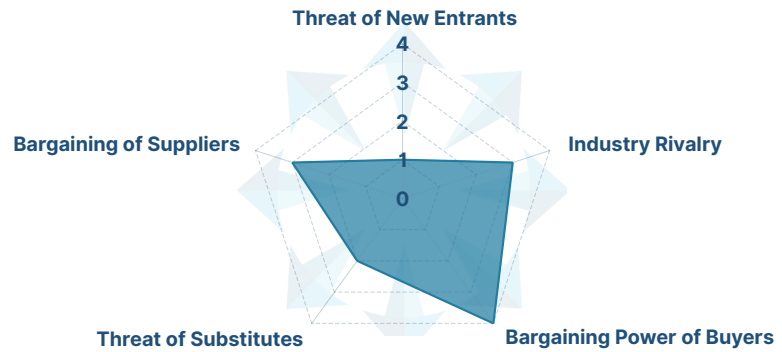
Source: Company Data, Team Assessment



## 5. Porter's Five Forces Analysis

### 1. Threat of New Entrants (1)

- **High Barriers to Entry:** Significant capital investment is required for purchasing and maintaining rigs. ADES operates in markets with high barriers to entry, supported by prequalification status with more than 30 existing and potential clients.
- **Regulatory Complexity:** Operating in oil and gas requires adherence to strict environmental and safety regulations, which pose challenges for new entrants.
- **Technology Requirements:** Advanced technological capabilities (e.g., MOPU services, jack-up rigs) give established players like ADES a competitive advantage.



### 2. Bargaining Power of Suppliers (3)

- **Specialized Equipment Providers:** Suppliers of drilling equipment and rigs hold moderate power due to the specialized nature of their products. However, ADES mitigates this by owning a large fleet of rigs, reducing dependency on external suppliers.
- **Technological Inputs:** Dependence on high-spec technology for offshore drilling adds complexity, giving niche suppliers moderate leverage.

### 4. Threat of Substitutes (2)

- **Limited Alternatives:** There are no direct substitutes for offshore and onshore drilling services in oil and gas exploration. Renewable energy sources are an indirect substitute, but the transition is gradual and unlikely to impact demand significantly in the short term.

### 3. Bargaining Power of Buyers (4)

- **Concentration of Buyers:** Major clients like Saudi Aramco, Kuwait Oil Company, and North Oil Company account for over 95% of ADES's backlog. National oil companies (NOCs) and international oil companies (IOCs) hold significant bargaining power due to their scale.
- **Demand for High Standards:** Buyers demand high operational efficiency, safety standards, and cutting-edge technology, increasing their influence.

### 5. Industry Rivalry (3)

- **Highly Competitive Market:** Key competitors include Valaris, Transocean, and ADNOC Drilling, which operate globally with advanced rigs and technology. ADES's large fleet, diversified geographic presence, and innovative offerings (e.g., MOPU services) give it a competitive edge.
- **Utilization Rates:** ADES maintains high utilization rates (over 90%), indicating strong operational efficiency and market demand.

Source: Company Data, Team Assessment

## 6. SWOT Analysis

### Strengths

- Market leadership in onshore and offshore drilling services in the MENA region.
- Strategic partnerships with major oil companies, including Saudi Aramco.
- Operational efficiency and a strong safety record.
- Stable revenue streams from long-term contracts.
- Diverse service portfolio, including Mobile Offshore Production Units (MOPUs).

### Weaknesses

- High dependence on the Saudi market (66% of revenue).
- High operating costs due to managing a large fleet.
- Limited geographic diversification, with operations heavily concentrated in the MENA region.

### Opportunities

- Geographic expansion into new markets such as Southeast Asia and Latin America.
- Growing global demand for conventional and sustainable energy, especially in Asia.
- Investments in smart drilling technologies and digital analytics.
- Opportunities to expand revenue base through Saudi Vision 2030 projects.

### Threats

- Oil price volatility significantly impacts revenue.
- Intensifying global competition as new players enter the market.
- Geopolitical risks in unstable regions where the company operates.
- Stricter environmental regulations leading to higher compliance costs.

Source: Company Data, Team Assessment

## 7. Revenue Projections

### Offshore Segment

		Offshore Revenue Projections					
		2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
Expansions	Egypt	Active Oil Rigs	11	11	11	11	11
		Day Rates (SAR)'000	185	191	198	205	216
		Revenue (SAR) M	699	742	768	795	857
	Saudi Arabia	Active Oil Rigs	28	28	28	28	28
		Active Gas Rigs	1	1	1	1	1
		Day Rates (SAR)'000	255	271	287	305	330
	Qatar	Revenue (SAR) M	2761	2790	2935	3145	3438
		Active Gas Rigs	3	4	4	4	4
		Day Rates (SAR)'000	195	201	207	214	225
	India	Revenue (SAR) M	205	283	292	305	324
		Active Oil Rigs	3	3	3	3	3
		Day Rates (SAR)'000	177	182	188	193	197
Other New Markets	Indonesia	Revenue (SAR) M	187	193	199	207	219
		Active Oil Rigs	2	2	2	2	2
		Day Rates (SAR)'000	191	200	209	219	223
	Thailand	Revenue (SAR) M	68	141	148	156	168
		Active Oil Rigs	2	2	2	2	2
		Day Rates (SAR)'000	191	200	209	219	224
	Malaysia	Revenue (SAR) M	34	71	18	156	161
		Active Oil Rigs	1	2	2	2	2
		Day Rates (SAR)'000	204	215	225	237	242
	Nigeria	Revenue (SAR) M	18	151	159	169	174
		Active Oil Rigs		1	1	1	1
		Day Rates (SAR)'000		214	224	234	238
Expansions	Southeast Asia	Revenue (SAR) M		57	79	83	86
		Active Oil Rigs					
		Day Rates (SAR)'000					
	West Africa	Revenue (SAR) M					
		Active Oil Rigs					
		Day Rates (SAR)'000					
	Other New Markets	Revenue (SAR) M					
		Active Oil Rigs					
		Day Rates (SAR)'000					
	Total Offshore Revenue (SAR) M		4758	5539	6128	6694	7316

### Onshore Segment

		Onshore Revenue Projections					
		2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
Expansions	Egypt	Active Oil Rigs	1	1	1	1	1
		Day Rates (SAR)'000	130	135	140	145	153
		Revenue (SAR) M	57	48	49	50	54
	Saudi Arabia	Active Oil Rigs	7	7	6	6	5
		Active Gas Rigs	7	7	7	7	7
		Day Rates (SAR)'000	195	206	219	232	251
	Kuwait	Revenue (SAR) M	973	1033	1096	1081	1081
		Active Oil Rigs	10	10	11	12	12
		Day Rates (SAR)'000	190	200	211	223	227
	Algeria	Revenue (SAR) M	667	705	819	943	962
		Active Oil Rigs	4	6	7	7	8
		Day Rates (SAR)'000	155	162	169	176	180
Expansions	Tunisia	Revenue (SAR) M	314	343	417	435	507
		Active Oil Rigs	1				
		Day Rates (SAR)'000	69				
	Southeast Asia	Revenue (SAR) M	18				
		Active Oil Rigs					
		Day Rates (SAR)'000					
	West Africa	Revenue (SAR) M					
		Active Oil Rigs					
		Day Rates (SAR)'000					
	Total Onshore Revenue (SAR) M		1253	1368	1478	1588	1577

Days	360	360	360	360	360	360
Offshore Utilization (%)	98%	98%	98%	99%	100%	100%
Onshore Utilization (%)	98%	98%	98%	98%	98%	98%

In projecting revenue, we considered all the countries where ADES provides drilling services, as well as anticipated market expansions in the upcoming years factoring market demand differences, economic outlook, and reflecting the management's strategy. Our revenue projections were developed on a quarterly basis to accurately reflect the number of active rigs based on their contract timeline from ADES's current backlog, rigs utilization rates are based on operating segment, and day rates are different due to the different demand prospects in each market.

Source: Company Data, Team Assessment

## 8. Income Statement

Income Statement (SARm)	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
<b>Total Revenue</b>	1,695	1,514	2,467	4,332	6,012	6,907	7,606	8,282	8,893	9,490
Cost of Revenue (excluding D&A)	(829)	(707)	(1,181)	(1,836)	(2,581)	(2,958)	(3,268)	(3,588)	(3,815)	(4,033)
<b>Gross Profit</b>	<b>866</b>	<b>808</b>	<b>1,286</b>	<b>2,496</b>	<b>3,430</b>	<b>3,949</b>	<b>4,338</b>	<b>4,694</b>	<b>5,078</b>	<b>5,456</b>
General and Administrative Expenses (excluding D&A)	(172)	(150)	(237)	(357)	(465)	(535)	(577)	(595)	(630)	(663)
<b>EBITDA</b>	<b>694</b>	<b>657</b>	<b>1,049</b>	<b>2,139</b>	<b>2,965</b>	<b>3,415</b>	<b>3,761</b>	<b>4,099</b>	<b>4,447</b>	<b>4,793</b>
Depreciation and Amortization	(235)	(276)	(403)	(797)	(1,018)	(1,058)	(1,140)	(1,158)	(1,224)	(1,270)
<b>EBIT</b>	<b>459</b>	<b>382</b>	<b>645</b>	<b>1,341</b>	<b>1,947</b>	<b>2,357</b>	<b>2,621</b>	<b>2,941</b>	<b>3,223</b>	<b>3,523</b>
End of Service Employment Benefits	(20)	(17)	(18)	(43)	(47)	(52)	(57)	(63)	(69)	(76)
Bargain Purchase Gain		491	422							
Finance Cost	(245)	(305)	(303)	(711)	(768)	(687)	(693)	(600)	(652)	(555)
Provision for Impairment	(35)	(382)	(278)	(5)						
Share-based payments expense	(14)	(0)			(122)	(129)	(134)	(138)	(142)	(147)
Other Expenses	(26)	(11)	(15)	(23)	(24)	(25)	(27)	(28)	(29)	(31)
Net Others	(3)	(9)	15	(30)						
<b>Profit Before Tax</b>	<b>116</b>	<b>149</b>	<b>468</b>	<b>529</b>	<b>986</b>	<b>1,463</b>	<b>1,710</b>	<b>2,112</b>	<b>2,331</b>	<b>2,714</b>
Income Tax Expense	(34)	(35)	(71)	(77)	(148)	(220)	(256)	(317)	(350)	(407)
<b>Net Profit</b>	<b>83</b>	<b>114</b>	<b>398</b>	<b>452</b>	<b>838</b>	<b>1,244</b>	<b>1,453</b>	<b>1,795</b>	<b>1,981</b>	<b>2,307</b>

Source: Company Data, Team Assessment

## 9. Balance Sheet

Balance Sheet (SARm)	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
<b>ASSETS</b>										
Property and Equipment	3,795	5,358	12,188	16,150	17,134	17,557	18,438	18,945	18,909	18,405
Intangible Assets	1	1	1	0	0	0	1	1	1	1
Righ of Use Assets	73	64	391	644	566	487	403	382	359	333
Investment in an Associate and a Joint Venture	12	7	6	-	-	-	-	-	-	-
Trade Receivables	215	106	-	-	-	-	-	-	-	-
Prepayments and Other Receivables	6	2	320	221	286	328	361	394	423	451
Derivative Instruments	-	-	26	52	52	52	52	52	52	52
Deferred Tax	3	3	-	-	-	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>4,105</b>	<b>5,541</b>	<b>12,932</b>	<b>17,067</b>	<b>18,038</b>	<b>18,424</b>	<b>19,255</b>	<b>19,773</b>	<b>19,743</b>	<b>19,241</b>
Bank Balances and Cash	234	233	191	432	671	1,330	1,810	2,125	2,544	1,184
Inventories	179	148	184	332	363	416	460	505	537	567
Trade Receivables	262	262	235	845	694	797	898	978	1,075	1,160
Contract Assets	124	172	256	389	541	621	684	828	889	949
Prepayments and Other Receivables	272	301	644	352	510	586	646	703	755	806
Due from Related Parties	14	34	10	5	5	5	5	5	5	5
Derivative Instruments	-	-	50	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>1,084</b>	<b>1,151</b>	<b>1,569</b>	<b>2,356</b>	<b>2,784</b>	<b>3,756</b>	<b>4,503</b>	<b>5,144</b>	<b>5,805</b>	<b>4,672</b>
<b>Total Assets</b>	<b>5,190</b>	<b>6,692</b>	<b>14,501</b>	<b>19,422</b>	<b>20,822</b>	<b>22,180</b>	<b>23,758</b>	<b>24,917</b>	<b>25,547</b>	<b>23,912</b>
<b>EQUITY</b>										
Share Capital	-	-	1	1,129	1,129	1,129	1,129	1,129	1,129	1,129
Share Premium	-	-	-	2,890	2,890	2,890	2,890	2,890	2,890	2,890
Treasury Shares	-	-	-	(34)	(34)	(34)	(34)	(34)	(34)	(34)
Capital Contribution	741	857	857	-	-	-	-	-	-	-
Legal Reserve	24	24	0	-	-	-	-	-	-	-
Cash Flow Hedge Reserve	(26)	(13)	62	41	41	41	41	41	41	41
Retained Earnings	928	1,025	1,302	1,722	2,229	3,041	3,958	4,461	5,547	7,221
Equity Attributable to Equity Holders of the Parent	<b>1,667</b>	<b>1,894</b>	<b>2,222</b>	<b>5,748</b>	<b>6,256</b>	<b>7,067</b>	<b>7,984</b>	<b>8,488</b>	<b>9,574</b>	<b>11,248</b>
Non-controlling Interests	35	30	36	29	29	29	29	29	29	29
<b>Total Equity</b>	<b>1,702</b>	<b>1,923</b>	<b>2,258</b>	<b>5,777</b>	<b>6,284</b>	<b>7,096</b>	<b>8,013</b>	<b>8,516</b>	<b>9,603</b>	<b>11,277</b>
<b>LIABILITIES</b>										
Interest-bearing Loans and Borrowings	1145	3638	9575	9170	9540	9171	9100	9567	6655	3506
Bonds Payable	1183	-	-	-	-	-	-	-	-	-
Lease Liabilities	52	38	270	487	405	355	309	278	250	233
Provisions	62	83	118	199	236	275	318	357	399	445
Derivative Financial Instruments	23	6	-	-	-	-	-	-	-	-
Deferred Revenue	65	27	70	580	735	1022	1303	1027	1248	1921
Deferred Tax	-	-	44	61	61	61	61	61	61	61
Other Payables	-	-	5	1	1	1	1	1	1	1
<b>Total Non-current Liabilities</b>	<b>2,531</b>	<b>3,792</b>	<b>10,082</b>	<b>10,498</b>	<b>10,977</b>	<b>10,886</b>	<b>11,093</b>	<b>11,290</b>	<b>8,615</b>	<b>6,168</b>
Trade and Other Payables	560	497	1054	1483	1,743	1,989	2,198	2,411	2,564	2,699
Deferred Revenue	-	-	-	288	340	390	430	468	502	536
Lease Liabilities	16	18	107	156	150	132	115	103	93	87
Income Tax Payable	36	31	10	30	30	30	30	30	30	30
Interest-bearing Loans and Borrowings	321	401	972	1180	1287	1646	1870	2088	4131	3105
Provisions	2	21	15	10	10	10	10	10	10	10
Due to Related Parties	0	1	2	-	-	-	-	-	-	-
Derivative Financial Instruments	21	7	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>956</b>	<b>977</b>	<b>2,160</b>	<b>3,147</b>	<b>3,561</b>	<b>4,198</b>	<b>4,653</b>	<b>5,111</b>	<b>7,330</b>	<b>6,468</b>
<b>Total Liabilities</b>	<b>3,487</b>	<b>4,769</b>	<b>12,243</b>	<b>13,646</b>	<b>14,538</b>	<b>15,084</b>	<b>15,745</b>	<b>16,401</b>	<b>15,945</b>	<b>12,636</b>
<b>Total Equity and Liabilities</b>	<b>5,190</b>	<b>6,692</b>	<b>14,501</b>	<b>19,422</b>	<b>20,822</b>	<b>22,180</b>	<b>23,758</b>	<b>24,917</b>	<b>25,547</b>	<b>23,912</b>

Source: Company Data, Team Assessment

## 10. Cash Flow Statement

Cash Flow (SARm)	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
Profit Before Tax	116	149	468	529	986	1,463	1,710	2,112	2,331	2,714
Adjustments:										
Depreciation and Amortization	235	276	403	797	1,018	1,058	1,140	1,158	1,224	1,270
End of Service Employment Benefits	20	17	18	43	47	52	57	63	69	76
Finance Cost	245	305	303	711	768	687	693	600	652	555
Bargain Purchase Gain		(491)	(422)							
<b>Cash Flow Before Working Capital Change</b>	<b>670</b>	<b>645</b>	<b>1,032</b>	<b>2,104</b>	<b>2,819</b>	<b>3,260</b>	<b>3,600</b>	<b>3,932</b>	<b>4,275</b>	<b>4,616</b>
Change in Working Capital	10	(277)	200	217	123	(16)	(19)	(75)	(54)	(57)
<b>Cash Flow from Operations</b>	<b>679</b>	<b>368</b>	<b>1,233</b>	<b>2,321</b>	<b>2,942</b>	<b>3,244</b>	<b>3,581</b>	<b>3,857</b>	<b>4,221</b>	<b>4,559</b>
Income Tax Paid	(36)	(39)	(47)	(27)	(148)	(220)	(256)	(317)	(350)	(407)
Provisions Paid	(23)	(12)	(40)	(11)	(11)	(12)	(14)	(24)	(27)	(30)
<b>Net Cash from Operations</b>	<b>620</b>	<b>317</b>	<b>1,146</b>	<b>2,283</b>	<b>2,783</b>	<b>3,012</b>	<b>3,310</b>	<b>3,517</b>	<b>3,845</b>	<b>4,121</b>
<b>Cash Flow from Investment:</b>										
Purchase of Intangible Assets	(0)	(0)	(0)		(0)	(0)	(0)	(0)	(0)	(0)
Purchase of Property and Equipment	(441)	(355)	(3,923)	(4,048)	(1,864)	(1,331)	(1,859)	(1,559)	(1,074)	(643)
Other Investments	3	(1,109)	(2,515)	312						
<b>Net Cash from Investment</b>	<b>(438)</b>	<b>(1,464)</b>	<b>(6,438)</b>	<b>(3,736)</b>	<b>(1,864)</b>	<b>(1,331)</b>	<b>(1,860)</b>	<b>(1,559)</b>	<b>(1,074)</b>	<b>(644)</b>
<b>Cash Flow from Financing:</b>										
Proceeds from loans	253	4,336	6,567	3,352	1,200	1,260	1,777	1,507	1,055	655
Repayment of loans and borrowings	(320)	(1,775)	(899)	(3,555)	(1,052)	(1,234)	(1,580)	(1,795)	(2,007)	(3,970)
Payment of lease liabilities	(21)	(22)	(38)	(164)	(325)	(301)	(295)	(278)	(211)	(137)
Dividend payments	(9)	(9)	(7)	(7)	(503)	(746)	(872)	(1,077)	(1,189)	(1,384)
Other Finances	(299)	(1,385)	(373)	2,260						
<b>Net Cash from Finance</b>	<b>(397)</b>	<b>1,145</b>	<b>5,250</b>	<b>1,886</b>	<b>(680)</b>	<b>(1,022)</b>	<b>(970)</b>	<b>(1,643)</b>	<b>(2,352)</b>	<b>(4,837)</b>
BOP Cash	449	234	233	432	432	671	1,330	1,810	2,125	2,544
Net Change	(214)	(1)	(42)		239	658	480	314	419	(1,359)
<b>EOP Cash</b>	<b>234</b>	<b>233</b>	<b>191</b>	<b>432</b>	<b>671</b>	<b>1,330</b>	<b>1,810</b>	<b>2,125</b>	<b>2,544</b>	<b>1,184</b>

Source: Company Data, Team Assessment

## 11. Key Financials

ADES Key Financials	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
<b>Profitability Ratios:</b>										
Gross Profit Margin (%)	38%	36%	36%	40%	40%	42%	42%	43%	44%	44%
EBITDA Margin (%)	41%	43%	43%	49%	49%	49%	49%	49%	50%	51%
EBIT Margin (%)	27%	25%	26%	31%	32%	34%	34%	36%	36%	37%
Net Profit Margin (%)	5%	8%	16%	10%	14%	18%	19%	22%	22%	24%
EPS (SAR)	0.1	0.1	0.4	0.4	0.8	1.1	1.3	1.6	1.8	2.1
ROE (%)	5%	6%	19%	11%	14%	19%	20%	22%	22%	23%
ROA (%)	2%	2%	4%	3%	4%	6%	6%	7%	8%	9%
ROIC (%)	9%	6%	4%	7%	9%	10%	11%	12%	13%	14%
<b>Operating Efficiency:</b>										
Total Asset Turnover	0.33x	0.25x	0.23x	0.26x	0.30x	0.32x	0.33x	0.34x	0.35x	0.38x
DPO	140	150	155	182	169	168	168	167	167	166
DSO	56	63	37	45	42	42	43	43	44	45
DIO	79	84	51	51	51	51	51	51	51	51
CCC	(5)	(2)	(67)	(86)	(75)	(74)	(73)	(72)	(71)	(70)
<b>Solvency Ratios:</b>										
Net Debt/EBITDA	1.77	5.79	9.88	4.64	3.43	2.78	2.44	2.33	1.85	1.13
Total Debt / Equity	0.86	2.10	4.67	1.79	1.74	1.58	1.45	1.38	1.15	0.63
Interest Coverage	5.81	4.62	2.63	2.01	2.76	3.72	4.07	5.35	5.39	7.11
<b>Liquidity Ratios:</b>										
Current Ratio	1.13	1.18	0.73	0.75	0.78	0.89	0.97	1.01	0.79	0.72
Quick Ratio	1.59	1.95	1.26	1.14	1.16	1.40	1.54	1.61	1.72	1.27

Source: Company Data, Team Assessment

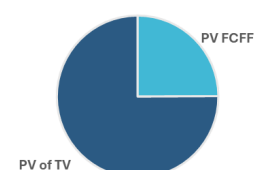
## 12.DCF Valuation

Discounted Cash Flow (SARm)	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
EBIT	459	382	645	1,341	1,947	2,357	2,621	2,941	3,223	3,523
Tax	(34)	(35)	(71)	(77)	(292)	(353)	(393)	(441)	(484)	(528)
<b>NOPAT</b>	<b>425</b>	<b>347</b>	<b>575</b>	<b>1,264</b>	<b>1,655</b>	<b>2,003</b>	<b>2,228</b>	<b>2,500</b>	<b>2,740</b>	<b>2,994</b>
Depreciation and Amortization	216	260	370	666	1,018	1,058	1,140	1,158	1,224	1,270
Change in Net Working Capital	10	(277)	200	217	123	(16)	(19)	(75)	(54)	(57)
CAPEX	(330)	(1,938)	(7,199)	(4,628)	(1,864)	(1,331)	(1,859)	(1,559)	(1,074)	(643)
<b>Free Cash Flows to Firm</b>	<b>321</b>	<b>(1,607)</b>	<b>(6,054)</b>	<b>(2,482)</b>	<b>932</b>	<b>1,714</b>	<b>1,489</b>	<b>2,023</b>	<b>2,836</b>	<b>3,564</b>
PV FCFF					855	1,441	1,149	1,431	1,840	2,121

Target Share Price	
Cumulative PV of FCF, SARm	8,836
PV of Terminal Value, SARm	26,648
<b>Enterprise Value, SARm</b>	<b>35,484</b>
Total Debt, SARm	10,350
Leases, SARm	644
Minority Interest, SARm	29
Cash, SARm	432
<b>Equity Value, SARm</b>	<b>24,895</b>
Shares Outstanding in M	1,099
<b>Share Price</b>	<b>22.65</b>

Terminal Value Using Terminal Growth	
Terminal Cash Flow, SARm	3,600
WACC	9.0%
Terminal Growth Rate	1.0%
<b>Terminal Value, SARm</b>	<b>44,786</b>

Enterprise Value **SAR 35.5bn**



Source: Company Data, Team Assessment

## 13.WACC Computation

WACC Inputs		
<b>Capital Structure</b>		
Market Capitalization, SARm	19,672	66%
Debt, SARm	10,350	34%
<b>Total</b>	<b>30,022</b>	<b>100%</b>
Risk Free Rate (1)	4.68%	
Levered Beta (2)	0.94	
Implied Equity Risk Premium (3)	6.54%	
<b>Cost of Equity</b>	<b>10.85%</b>	
Pre-tax Cost of Debt	6.59%	
Effective Tax Rate	15%	
<b>After Tax Cost of Debt</b>	<b>5.60%</b>	
<b>WACC</b>	<b>9.04%</b>	

Cost of Equity Inputs		
<b>Risk Free Rate (1)</b>		
Saudi Arabia 10Y Sukuk	5.27%	
Default Spread	0.59%	
<b>Risk Free Rate</b>	<b>4.68%</b>	
<b>Levered Beta (2)</b>		
Unlevered Industry Beta	0.73	
ADES Debt/Equity	34%	
<b>Levered Beta</b>	<b>0.94</b>	
<b>Implied Equity Risk Premium (3)</b>		
<b>Market Risk Premium</b>	<b>MRP</b>	
Market Premium	4.33%	
<b>Country Risk Premium</b>	<b>Revenue FY24 (%)</b>	<b>CRP</b>
Saudi Arabia	62%	0.80%
Egypt	13%	10.01%
Kuwait	11%	0.94%
Qatar	3%	0.66%
India	3%	2.93%
Algeria	5%	4.02%
Others	2%	0.80%
Weighted Average CRP		2.21%
<b>Implied ERP</b>		<b>6.54%</b>

Cost of Debt Inputs			
ADES Estimated Credit Rating	BBB		
SAIBOR Rate	5.39%		
Credit Spread	1.20%		
<b>Pre-tax Cost of Debt</b>	<b>6.59%</b>		
Credit Rating of Comparables			
Company	Rating	ICR	Net Debt / EBITDA
ADNOC	AA	11.3	1.0
Weatherford	BB-	5.9	0.6
Patterson-UTI Energy	BBB-	2.0	0.9
China Oilfield	A	6.6	0.6
Noble	BB-	10.4	0.3
Borr	B	1.8	3.9
Valaris	B+	4.3	1.5
Shelf	B	1.2	4.5
Nabors	B-	1.2	2.4
Presision Drilling	BB-	2.9	1.6
<b>ADES</b>	<b>2.5</b>	<b>3.5</b>	

### Capital Structure:

- Current capital structure was selected as management does not have a targeted Debt/Equity ratio, as well as that ADES current structure align with the industry's.

### Cost of Equity:

- Calculated utilizing CAPM model.

### Cost of Debt:

- Calculated based on ADES estimated credit rating.
- Effective Tax Rate of 15% based on operating countries.

### Risk Free Rate:

- YTM on a ten-year Saudi Government Sukuk.
- Saudi Arabia country default premium was excluded.

### Beta:

- Oil and gas production and exploration Industry Beta based on a global set of 147 peer.
- Relevered at ADES current capital structure.

### Equity Risk Premium:

- Market Risk Premium.
- Weighted Average Country Risk Premium based on FY23 geographic revenue break down.

### ADES Credit Rating:

- Estimated based on FY24 set of peers rating by Fitch.
- Upgraded from FY21 latest rating, as ADES risk profile has enhanced.

### Credit Spread:

- Based on large non-financial service companies rating of BBB with interest coverage of 2.50-2.99.

### SAIBOR Rate:

- The current six-month interest on commercial loans from Saudi local banks.

Source: Company Data, Team Assessment, Damodaran

## 14.Sensitivity Analysis

### WACC and Terminal Growth rate

		WACC				
		8.0%	8.5%	9.0%	9.5%	10.0%
Terminal Growth	-0.5%	22.47	20.39	18.54	16.87	15.37
	0.0%	24.07	21.79	19.76	17.95	16.32
	0.5%	25.89	23.35	21.12	19.14	17.37
	1.0%	27.97	25.13	22.65	20.47	18.54
	1.5%	30.36	27.16	24.39	21.97	19.84
	2.0%	33.15	29.50	26.37	23.67	21.30

We conducted a sensitivity analysis to the DCF base case target price of 22.65 focusing on the terminal value inputs that heavily effect the target price. As the company enter markets with higher equity risk premium such as West African markets, we anticipate higher WACC. The terminal growth rate for oil and gas industry is sensitive to the demand and availability of a limited energy sources, as economic factors and energy consumption trends might effect terminal growth rates, the abandonment of oil and gas as a primary source might result in a declining growth in the industry.

### Capital Expenditures Assumptions

		Offshore Jack-up Cost (USDm)				
		75	85	95	105	115
Onshore Cost (USDm)	10	23.25	23.03	22.81	22.58	22.36
	20	23.17	22.95	22.73	22.51	22.28
	30	23.10	22.87	22.65	22.43	22.21
	40	23.02	22.80	22.57	22.35	22.13
	50	22.94	22.72	22.50	22.28	22.05
		Offshore Maintenance (SARm)				
		4	5	6	7	8
Onshore Maintenance (SARm)	2	24.95	24.26	23.56	22.87	22.17
	3	24.50	23.80	23.11	22.41	21.72
	4	24.04	23.35	22.65	21.96	21.26
	5	23.59	22.89	22.20	21.50	20.80
	6	23.13	22.44	21.74	21.04	20.35

To assess rigs acquisitions costs and annual maintenance effects on the DCF base case target price of 22.65 we conducted a sensitivity analysis to ADES's average rig acquisition costs and maintenance cost per rig for both offshore jack-up rigs and onshore rigs.

### Staff Costs Assumptions

		Offshore Staff Salary Growth (%)				
		8%	7%	6%	5%	4%
Crew Size per Offshore Rig	93	21.19	21.58	21.96	22.33	22.69
	90	21.56	21.94	22.31	22.67	23.01
	87	21.92	22.29	22.65	23.00	23.33
	85	22.17	22.53	22.88	23.22	23.55
	82	22.54	22.88	23.22	23.55	23.86
		Onshore Staff Salary Growth (%)				
		8%	7%	6%	5%	4%
Crew Size per Onshore Rig	67	22.05	22.20	22.35	22.49	22.63
	65	22.18	22.33	22.47	22.61	22.74
	62	22.37	22.51	22.65	22.78	22.91
	59	22.57	22.70	22.83	22.95	23.07
	56	22.76	22.88	23.01	23.13	23.24

To assess ADES's cost structure specifically the largest direct cost effects on the DCF base case target price of 22.65 we conducted a sensitivity analysis to each business segment cost for staff salary CAGR and average crew size per operating rig. Target price is more sensitive to offshore segment due to the larger fleet and cost associated in compared to onshore segment.

Source: Company Data, Team Assessment



# 15.Capital Expenditures Projections

## CAPEX Breakdown

Capital Expenditures (SAR in Millions)	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E
<b>Growth CapEx:</b>						
CapEx per Additional Offshore Rig (USD m)	95	102	110	118	127	136
% Change in Rig CapEx		8%	8%	8%	8%	8%
CapEx per Additional Onshore Rig (USD m)	30	31	32	33	34	35
% Change in Rig CapEx		3%	3%	3%	3%	3%
<b>Fleet Additions:</b>						
Offshore Rigs	2	2	3	2	1	0
Onshore Rigs	0	1	1	1	0	0
<b>Total</b>	<b>713</b>	<b>882</b>	<b>1,354</b>	<b>1,008</b>	<b>476</b>	<b>-</b>
<b>Refurbishment CapEx:</b>						
Refurbishment of FY22	749					
<b>Total</b>	<b>749</b>					
<b>Maintenance CapEx:</b>						
Annual CapEx per Offshore Rig (SARm)	6.0	6.3	6.6	6.9	7.3	7.7
Annual CapEx per Onshore Rig (SARm)	4.0	4.2	4.4	4.6	4.9	5.1
% Change in Rig CapEx		5%	5%	5%	5%	5%
<b>Active Rigs:</b>						
Offshore	49	52	55	56	58	58
Onshore	27	29	32	35	36	39
<b>Total</b>	<b>402</b>	<b>449</b>	<b>505</b>	<b>551</b>	<b>598</b>	<b>643</b>
Maintenance CapEx % of Revenue	6.69%	6.51%	6.64%	6.65%	6.72%	6.78%

### 1. Growth CAPEX:

- Represent rigs acquisition costs, with offshore rigs costing USD 95M and onshore rigs USD 30M.
- Offshore cost expected to increase at an 8% CAGR effected by secondhand market tight supply.
- Onshore cost expected to increase at a lower rate of 3% CAGR, with more supply in market.

### 2. Refurbishment CAPEX:

- Represent ongoing rig upgrading to preivises acquisitions before deployment to the market.

### 3. Maintenance CAPEX:

- Annual cost for maintaining operating rigs in the fleet.
- Offshore rigs cost SAR 6M, and onshore rigs cost SAR 4M.
- Expected to increase at an 5% CAGR.

Source: Company Data, Team Assessment

## 16.Peer Comparison

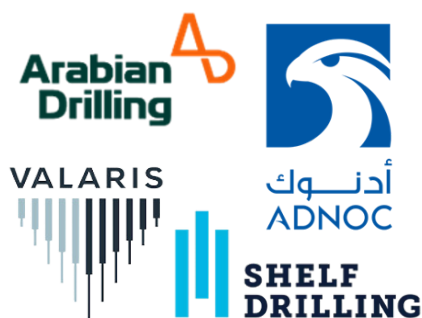
Period End Date	2020 A	2021 A	2022 A	2023 A	4-Yr Avg
<b>Net Profit Margin (%)</b>					
ADES	4.3%	7.1%	15.8%	10.2%	9.4%
Arabian Drilling Co.	11.6%	12.4%	20.6%	17.4%	15.5%
ADNOC	27.1%	26.6%	30.0%	33.8%	29.4%
Valaris	NA	NA	11.0%	48.5%	29.8%
Shelf	-47.0%	-14.9%	-4.2%	-0.9%	-16.7%
<b>Peer Average</b>	<b>-1.0%</b>	<b>7.8%</b>	<b>14.6%</b>	<b>21.8%</b>	<b>10.8%</b>
<b>Gross Profit Margin (%)</b>					
ADES	37.6%	35.6%	36.1%	39.5%	37.2%
Arabian Drilling Co.	20.7%	21.6%	29.6%	28.1%	25.0%
ADNOC	38.4%	39.0%	35.3%	39.5%	38.0%
Valaris	-3.0%	13.4%	13.7%	13.5%	9.4%
Shelf	33.6%	31.1%	34.1%	34.8%	33.4%
<b>Peer Average</b>	<b>25.4%</b>	<b>28.1%</b>	<b>29.8%</b>	<b>31.1%</b>	<b>28.6%</b>
<b>ROE (%)</b>					
ADES	4.9%	6.3%	19.0%	11.3%	10.4%
Arabian Drilling Co.	7.8%	6.8%	11.4%	10.5%	9.1%
ADNOC	17.2%	20.0%	28.0%	33.3%	24.6%
Valaris	-71.0%	-164.8%	15.3%	52.6%	-42.0%
Shelf	-64.6%	-31.3%	-9.2%	-4.8%	-27.5%
<b>Peer Average</b>	<b>-21.2%</b>	<b>-32.6%</b>	<b>12.9%</b>	<b>20.6%</b>	<b>-5.1%</b>
<b>ROA (%)</b>					
ADES	4.5%	1.0%	2.0%	4.6%	3.0%
Arabian Drilling Co.	4.1%	4.1%	6.9%	6.0%	5.3%
ADNOC	10.4%	11.4%	15.1%	16.9%	13.5%
Valaris	-2.8%	-1.1%	1.5%	0.7%	-0.4%
Shelf	3.2%	2.1%	4.4%	5.6%	3.8%
<b>Peer Average</b>	<b>3.9%</b>	<b>3.5%</b>	<b>6.0%</b>	<b>6.8%</b>	<b>5.0%</b>



Period End Date	2020 A	2021 A	2022 A	2023 A	4-Yr Avg
<b>Total Asset Turnover (x)</b>					
ADES	0.32x	0.26x	0.23x	0.26x	0.27x
Arabian Drilling Co.	0.35x	0.33x	0.34x	0.34x	0.34x
ADNOC	0.38x	0.43x	0.50x	0.50x	0.45x
Valaris	0.10x	0.16x	0.59x	0.50x	0.34x
Shelf	0.36x	0.34x	0.37x	0.43x	0.38x
<b>Peer Average</b>	<b>0.30x</b>	<b>0.30x</b>	<b>0.41x</b>	<b>0.41x</b>	<b>0.35x</b>
<b>Current Ratio (x)</b>					
ADES	1.13x	1.18x	0.73x	0.75x	0.95x
Arabian Drilling Co.	1.17x	1.23x	3.52x	2.57x	2.12x
ADNOC	3.55x	2.53x	0.63x	1.49x	2.05x
Valaris	0.15x	2.86x	2.67x	1.71x	1.85x
Shelf	2.28x	2.75x	1.96x	1.34x	2.08x
<b>Peer Average</b>	<b>1.66x</b>	<b>2.11x</b>	<b>1.90x</b>	<b>1.57x</b>	<b>1.81x</b>
<b>EBITDA Margin (%)</b>					
ADES	35.3%	23.6%	28.6%	44.3%	32.9%
Arabian Drilling Co.	44.5%	41.3%	42.0%	40.8%	42.1%
ADNOC	45.2%	44.7%	45.5%	47.6%	45.7%
Valaris	-8.3%	7.3%	9.7%	8.0%	4.1%
Shelf	26.2%	22.4%	26.8%	29.1%	26.1%
<b>Peer Average</b>	<b>28.6%</b>	<b>27.9%</b>	<b>30.5%</b>	<b>33.9%</b>	<b>30.2%</b>
<b>EBIT Margin (%)</b>					
ADES	22.6%	6.5%	13.6%	28.9%	17.9%
Arabian Drilling Co.	15.8%	16.5%	22.9%	23.1%	19.6%
ADNOC	28.2%	27.4%	30.9%	35.4%	30.5%
Valaris	-46.7%	-11.0%	4.0%	2.3%	-12.9%
Shelf	14.2%	9.9%	18.8%	21.2%	16.0%
<b>Peer Average</b>	<b>6.8%</b>	<b>9.8%</b>	<b>18.0%</b>	<b>22.2%</b>	<b>14.2%</b>

Source: Company Data, S&P Capital IQ, Team Assessment

The Ideal set of peers; as they are closest to ADES's fleet size and operate in a similar geographical footprint:



## 17. Relative Valuation

Due to significant differences in profitability from ADES's two drilling segments: offshore and onshore drilling, we identified two peer groups for each business segment, selecting peers with similar geographic footprint and fleet size of twenty rigs at least. A weight of 80% was assigned to the offshore segment, while 20% for the onshore based on FY24 estimated revenue contribution for each segment.

This arrived at a target price of SAR 14.90, using an average of EV/EBITDA and Price/Operating Cashflow multiples. As EV/EBITDA naturalized the capital structure differences between peers and accounting differences of D&A. While, Price-to-operating cash flow is preferred because it emphasizes actual cash generation, offering a clearer view of a company's operational efficiency. Unlike earnings, which can be affected by accounting practices, operating cash flow reflects the true cash available for operations and investments, making it a more stable and reliable valuation metric.

Relative Valuation	EV/EBITDA	P/OCF
ADES Multiples FY24	11x	11x
Metric FY24, SARm	2,965	2,016
EV, SARm	24,143	
Market Cap, SARm	14,228	18,520
Shares Outstanding, m	1,099	
<b>Implied Share Price, SAR</b>	<b>12.95</b>	<b>16.85</b>

Target Price 14.90 SAR

### Offshore Peers



### Onshore Peers



Offshore Peers	Market Cap, SARm	EV, SARm	EV/EBITDA			P/CFO		
			FY22	FY23	FY24	FY22	FY23	FY24
Borr	3,200	10,892	17x	10x	6x	17x	N/A	11x
Valaris	12,243	14,879	46x	39x	8x	48x	19x	9x
Shelf Drilling	758	5,357	6x	5x	4x	15x	4x	7x
Arabian Drilling	10,659	13,100	10x	13x	9x	9x	13x	6x
ADNOC	79,584	89,534	12x	12x	12x	9x	12x	13x
Nabors	5,822	13,736	6x	4x	4x	5x	3x	3x
Average			16x	14x	7x	17x	10x	8x
Median			11x	11x	7x	12x	12x	8x
Weighted Average					9x			10x

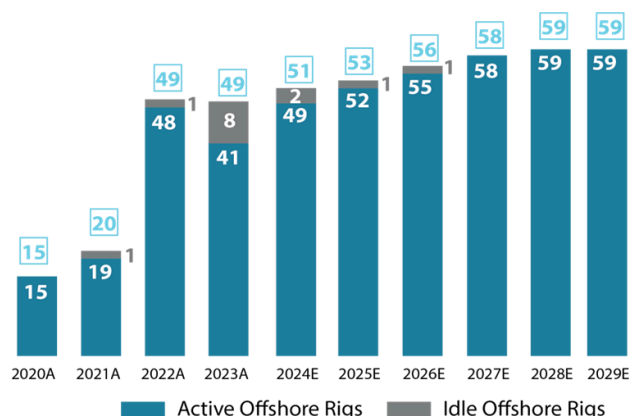
Onshore Peers	Market Cap, SARm	EV, SARm	EV/EBITDA			P/CFO		
			FY22	FY23	FY24	FY22	FY23	FY24
Ensign	1,414	4,084	5x	3x	3x	2x	1x	1x
Presision Drilling	3,277	5,204	8x	3x	4x	6x	2x	2x
Helmerich & Payne	9,884	14,652	9x	5x	5x	16x	5x	4x
Abraj	2,078	2,984	N/A	6x	6x	N/A	9x	6x
Arabian Drilling Company	10,659	13,100	10x	13x	9x	9x	13x	6x
ADNOC	79,584	89,534	12x	12x	12x	9x	12x	13x
Nabors	5,822	13,736	6x	4x	4x	5x	3x	3x
Average			8x	7x	6x	8x	6x	5x
Median			8x	5x	5x	7x	5x	4x
Weighted Average					7x			6x

\*Operating Cashflow excluding Interest expense

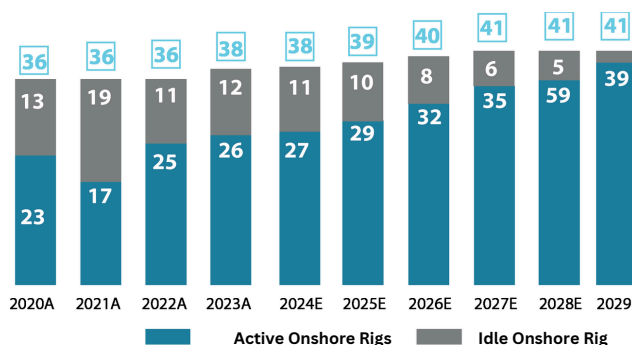
Source: Company Data, S&P Capital IQ, Team Assessment

## 18. Rig Status

### Offshore Rigs



### Onshore Rigs



During Idle periods, the rigs could be:

- **Warm Stacked:** Rigs are kept operational and ready for deployment at their current location with a small crew to maintain equipment.
- **Cold Stacked:** Rigs are non-operational, stored in a designated area, requiring minimal security personnel and incurring preparation costs for reactivation.

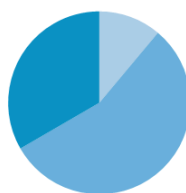
Source: Company Data, Team Assessment

## 19.Board Members

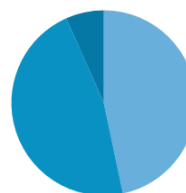


## Peers Board Composition

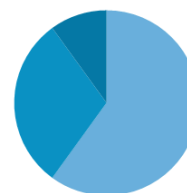
Ades Board Composition



ADNOC Board Composition



Arabian Drilling Board Composition



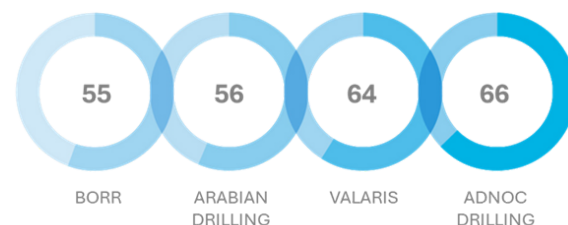
Executive Directors  
Non-Executive Directors  
Independent Directors  
Female in Board

Source: Company Data, Team Assessment

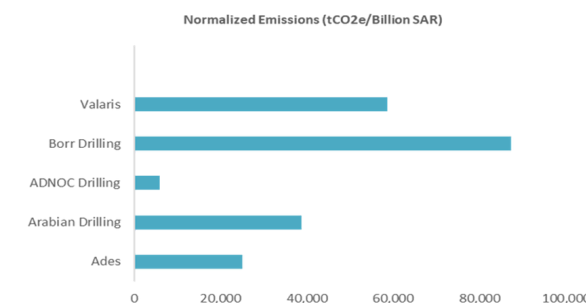
## 20.ESG Scoring

Criteria	Score
<b>GHG Emissions Management</b>	
Scope 1 Emissions	9
Emissions intensity	11
Emissions reporting	4
<b>Energy Efficiency</b>	
Battery Energy Storage Systems (BESS)	4
Energy Consumption	2
Water Consumption	4
<b>Spill &amp; Waste Management</b>	
Spills	15
Waste Recycling	3
<b>Climate Strategy &amp; Innovation</b>	
Alignment with UN SDGs and Saudi Vision 2030	2
Biodiversity Restoration	2
RIGEYE	2
<b>Total Environmental Score</b>	56
<b>Health, Safety, and Security</b>	
Recordable Injury Frequency Rate (RIFR)	12
Lost Time Injury Rate (LTIR)	13.1
Lost Time Injury Frequency Rate (LTIFR)	9
Total Recordable Incident Rate (TRIR)	8
<b>Workforce</b>	
Localization	6
Female Workforce	1
Talent Acquisition and Retention	0.75
Training (Hours per Employee)	4
<b>Community</b>	
IKTVA	7
Community Investments	10
<b>Total Social Score</b>	65
<b>Board Independence</b>	
Non-executive members	10
Independent Members	6
CEO-Chair Separation	2
<b>Board Diversity &amp; Inclusion</b>	
female board members	0
diversity policy	0
<b>Transparency &amp; Disclosure</b>	
reporting of financial and non-financial information.	7
Adherence to Capital Market Authority regulations.	5
Shareholder Rights	3
<b>Audit &amp; Risk Management</b>	
audit committee	2.5
internal control policies	4
External auditor independence	5
<b>Ethics &amp; Conflict of Interest</b>	
Whistleblowing mechanism.	9
<b>Total Governance Score</b>	53
<b>Ades's ESG</b>	58

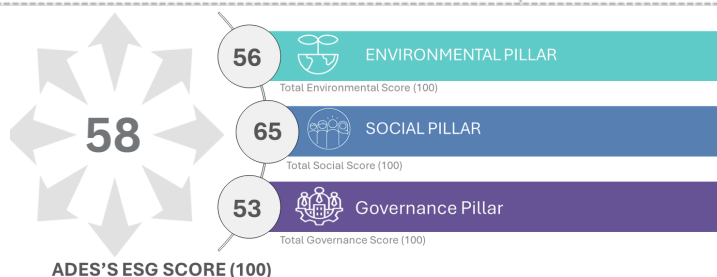
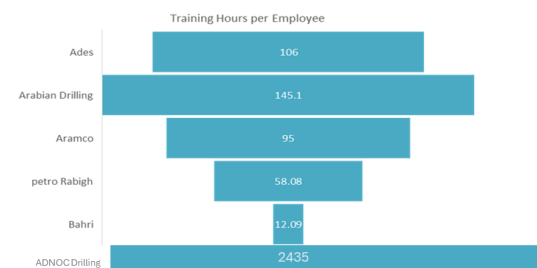
## Peers ESG Score Composition



### Environmental



### Social



Source: Company Data, Team Assessment