

Abraj Energy Services

21 March 2024

Rising rig count may signal swift dividend progression

Recommendation: **STRONG BUY**

Target Price (OMR): **0.388**

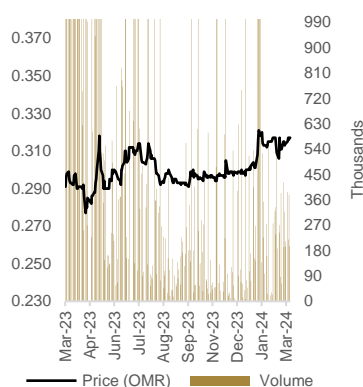
Upside / (Downside): **23.2%**

Key statistics

Industry	Energy Equipment and Services
Market cap (OMR m)	245
Exchange/code	MSM/ ABRJ
Bloomberg code	ABRJ OM Equity
Equity capital (OMR m)	145
YTD change	6.0%
52-week H/L (OMR)	0.28/0.33
Free float	29.4%
Avg. daily volume (3m)	305,802

Source: FactSet

Share price and volume chart



Source: FactSet

We maintain our positive stance on Abraj Energy Services (ABRJ) with a STRONG BUY rating and a target price of OMR 0.388, representing a 23.2% upside on the current market price (CMP) of OMR 0.315.

Revenue largely in line: Abraj reported a revenue of OMR 144mn in 2023, up 5.3% YoY, largely in line with our expectations, led by a 3.4% YoY growth in drilling and workover service revenue and a 21.7% increase in well service revenue. However, the company achieved this with 25 drilling rigs and 5 workover rigs, compared to our estimated 27 drilling rigs and 5 workover rigs. This was on the back of achieving a 100% utilisation rate for drilling rigs through the year, surpassing the estimated 96%, with workover rigs also meeting the anticipated 100% utilisation. The rig count came in lower than expected since the rig deployment in Kuwait did not materialize in 2023 but is on track to be deployed in 2024E. Measured by the number of operational rigs, the company sustained around 29% market share in Oman as of 2023.

Margins impacted due to CAT IV maintenance: During 1H23 the company conducted major maintenance activity (CAT IV) for 6 rigs, which was initiated in end of 2022 and lasted till June 2023. The total impact on the revenue side due to this in 1H23 was around OMR 3mn. On the cost side due to this activity, there was a write off of about OMR 210,000 in 1H23, apart from this maintenance expense amounting to OMR 2.1mn was capitalized. This had an impact on the margins resulting in gross and adjusted EBITDA margins of 37.8% and 33.0%, compared to 40.2% and 35.6% in 2022, respectively. This resulted in a miss versus our expectations at the margin level. The general capex for this type of maintenance per rig has now been guided to be around OMR 385,000 (~USD 800,000-1mn). While the gross profit and adjusted EBITDA saw a decline of 0.9% and 2.5% YoY respectively in 2023, the net profit remained largely stable due to impairment reversal on fixed assets and slightly lower net finance cost led by lower debt.

Valuation: We have arrived at a TP of OMR 0.388 based on DCF and Relative valuation methods, implying an upside of 23.2% on the current market price (CMP) and a 2024E dividend yield of 6.7% on CMP. We believe the company has several opportunities to deploy more rigs in Oman and other markets which should drive value for the stock.

Actual vs Estimates (2023)

Income statement (OMR 000)	Estimate	Actual	Δ
Drilling and workover revenue	128,316	126,811	-1.2%
Well services revenue	17,079	17,535	2.7%
Total revenue	145,395	144,346	-0.7%
Gross profit	60,274	54,577	-9.5%
Gross Margin (%)	41.5%	37.8%	-365bps
Adjusted EBITDA*	53,124	47,573	-10.4%
Adjusted EBITDA Margin (%)	36.5%	33.0%	-358bps
Net Profit	17,745	16,561	-6.7%
Net Profit Margin (%)	12.2%	11.5%	-73bps
Balance Sheet (OMR 000)	Estimate	Actual	Δ
Total debt	121,267	91,069	-24.9%
Plant and property	207,140	191,405	-7.6%
Capex	46,691	15,009	-67.9%
Total rig count	27	25	-7.4%

Source: Company data, Ahli Bank

Note: *Adjusted for other income, other expenses, ECL on trade receivables and impairment loss on fixed assets

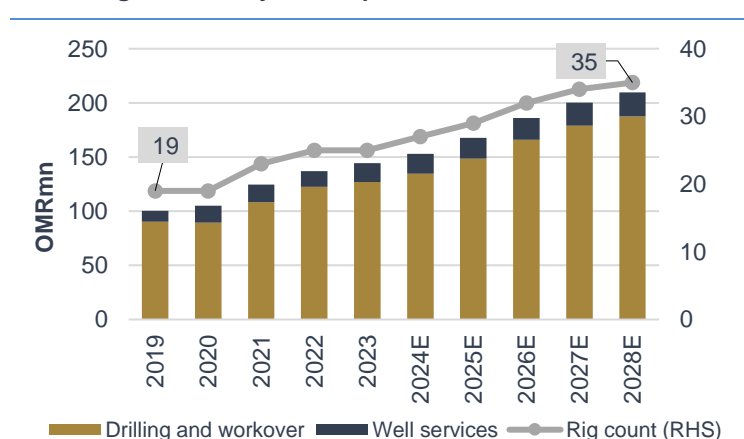
Fleet expansion on track

The company has indicated that it has entered the Kuwait market and been awarded contracts to deploy 3 drilling rigs in the country. Abraj is expected to deploy at least two rigs in Kuwait in 2024E. Apart from this the company has also been contracted to drill exploration wells for Total Energies within Block 12 concession area in Oman. The drilling will commence in 2024 for this contract and it can lead to deployment of more rigs based on the results. The company is also on track to complete its prequalification for all GCC markets. Overall, we expect Abraj to expand its fleet to 35 drilling rigs by 2028E, with workover rigs remaining at 5. The company has consistently maintained utilization levels close to 100% and we expect the trend to continue.

In terms of Well Services, the company holds more than 20% market share in Oman. It was able to improve its asset utilization levels in this segment by 25% in 2023. Abraj has also successfully qualified by Kuwait Oil Company for conventional cementing services.

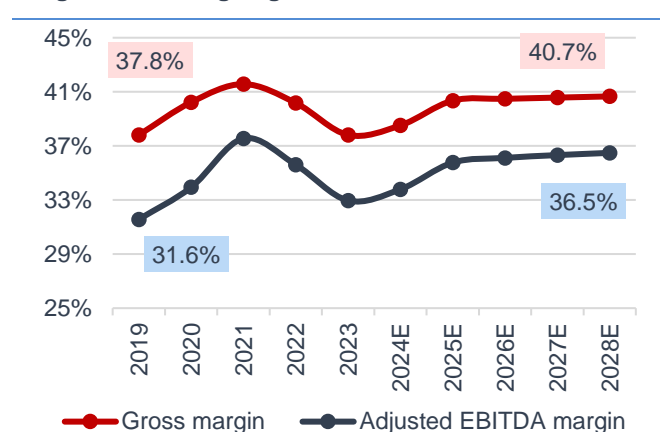
Overall, we estimate a revenue CAGR of 7.8% between 2023-28E, led by an 8.1% CAGR in drilling and workover services revenue and a 5.0% CAGR in well services revenue. We conservatively expect the gross and EBITDA margins to see a slight improvement to reach 40.7% and 36.5% respectively, by 2028E. The net margin is expected to reach 15.2% by 2028E on the back of decline in debt level.

Revenue growth led by fleet expansion



Source: Company data, Ahli Bank

Margins to revive going ahead

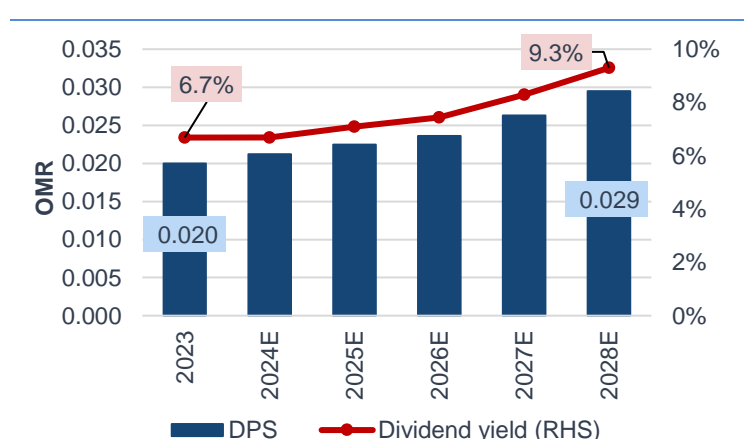


Source: Company data, Ahli Bank

Dividend policy expected to remain attractive

The company's dividend policy states that it will maintain an 85% payout ratio or ensure a 6% YoY growth on previous year dividends, whichever is higher, for the dividend payment in 2024E and 2025E. Post this we expect the company to maintain an attractive dividend payout of around 80%.

Dividend to remain consistent



Source: Company data, Ahli Bank

Valuation

We use a blend of DCF (60% weight), EV/EBITDA (20% weight) and P/E (20% weight) valuation methods to arrive at a target price of OMR 0.388, which indicates an upside potential of 23.2% from the current share price of OMR 0.315.

Valuation method (OMR)	Weights	Fair value
DCF Valuation	60%	0.395
EV/EBITDA relative valuation	20%	0.414
P/E relative valuation	20%	0.341
Target Price (OMR)		0.388
Current price (OMR)		0.315
% upside (downside)		23.2%

Source: Company data, Ahli Bank

DCF valuation:

Our DCF model yields a target price of OMR 0.395 per share. Key model assumptions are as follows:

- **Terminal value:** We assume a conservative terminal growth of 2.0%.
- **Cost of equity:** We assume a cost of equity of 12.5% (risk-free rate: 5.0%, risk premium: 7.5% and beta: 1.0x)
- **Weighted-average cost of capital (WACC):** We assume a long-term cost of debt of 6.5%. The WACC came in at 9.4% since the target debt is 45%.

DCF (OMR '000s)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT*(1-t)	24,858	30,786	34,682	38,322	41,592	42,893	44,220
Add: depreciation & amortization	22,415	23,784	26,423	27,642	27,605	27,605	27,605
Less: capex	(37,396)	(40,014)	(54,692)	(41,169)	(28,185)	(32,096)	(32,738)
Working capital change	(4,030)	(4,244)	(5,172)	(3,950)	(2,679)	(2,732)	(2,787)
FCF to the firm	5,847	10,312	1,241	20,844	38,333	35,670	36,301
TV based on Gordon Growth method							502,994
Present value	5,733	9,246	1,018	15,627	26,278	22,359	309,113

Source: Company data, Ahli Bank

DCF output	(OMR '000s)
DCF firm value	389,374
Add: Cash and investments	8,071
Less: Debt and other financial liabilities	-91,069
Add: Investment in associates	-
Less: Minority interest and pension liabilities	2,218
DCF equity value	304,158
Number of diluted shares (mn)	770,200
DCF value per share (OMR)	0.395
Current price (OMR)	0.315
Upside/downside potential	25.4%

Composition of DCF value	
2022-30	26%
Terminal value	74%

Source: Company data, Ahli Bank

DCF assumptions	
Terminal growth rate	2.0%
WACC	9.4%
Risk-free rate of return	5.0%
Long-term cost of debt	6.5%
Equity risk premium	7.5%
Beta	1.0x
Tax rate	15.0%
Target debt to total capital	45.0%
Target equity to total capital	55.0%
Cost of equity	12.5%

ROCE vs WACC	2022E
ROCE	10.0%
WACC	9.4%
Spread	0.7%

Sensitivity analysis – DCF

		WACC					
Terminal Growth		8.4%	8.9%	9.4%	9.9%	10.4%	10.9%
	2.50%	526	471	425	384	349	318
	2.25%	505	453	409	371	338	308
	2.00%	485	437	395	359	327	299
	1.75%	466	421	382	348	318	291
	1.50%	449	407	370	337	308	283

Relative valuation

We also employed a relative-valuation approach to determine the target price. We applied a target EV/EBITDA multiple of 6.7x on 2025E adjusted EBITDA to arrive at a target price of 0.414, which implies an upside of 31.4% while we apply a P/E multiple of 11.6x on 2025E earnings, which yielded a target price of OMR 0.341 per share, implying a 8.4% upside. The peer set consists of GCC and global comparables.

Relative valuation based on EV/EBITDA		OMR 000
Target Multiple		6.7x
Expected EBITDA in FY25		60,003
Enterprise Value		404,020
Add: Cash & Investments		8,071
Less: Debt and other financial liabilities		91,069
Add: Investment in associates		-
Less: Minority interest		2,218
Equity Value		318,804
Target price		0.414
CMP		0.315
Upside		31.4%

Source: Company data, Ahli Bank

Relative valuation based on P/E		OMR 000
Target multiple P/E multiple		11.6x
Expected FY2025		22,705
Equity Value		262,996
Target price		0.341
CMP		0.315
Upside		8.4%

Source: Company data, Ahli Bank

Peer comparison

Company	Mkt cap	P/E			EV/EBITDA		
	(OMR mn)	2023	2024E	2025E	2023	2024E	2025E
Abraj Energy	245	13.9x	12.3x	10.8x	6.6x	6.4x	6.0x
Halliburton Company	12,681	11.5x	10.7x	9.3x	7.7x	7.3x	6.6x
ADNOC Drilling Company PJSC	6,304	15.9x	15.6x	13.8x	12.3x	10.7x	9.7x
Valaris Ltd.	1,938	5.9x	16.0x	7.1x	40.2x	10.9x	5.7x
Arabian Drilling Co.	1,627	28.7x	20.0x	15.8x	12.4x	9.6x	8.3x
Helmerich & Payne, Inc.	1,552	10.2x	11.4x	10.6x	4.9x	5.0x	4.7x
Velesto Energy Bhd.	189	19.2x	15.2x	12.9x	5.8x	5.8x	5.4x
Average		15.2x	14.8x	11.6x	13.9x	8.2x	6.7x
Median		13.7x	15.4x	11.8x	10.0x	8.5x	6.2x

Source: Company data, Ahli Bank

Financials

Profit and loss (OMR '000)	2023	2024E	2025E	2026E	2027E	2028E
Revenue	144,346	152,885	167,769	186,153	200,248	209,777
Revenue growth	5%	6%	10%	11%	8%	5%
Cost of sales	(89,769)	(94,002)	(100,076)	(110,798)	(119,005)	(124,479)
Gross profit	54,577	58,883	67,693	75,356	81,243	85,298
General and administrative expenses	(7,004)	(7,223)	(7,690)	(8,130)	(8,517)	(8,761)
Adjusted EBITDA	47,573	51,660	60,003	67,226	72,726	76,537
Adjustments	171	(1,529)	(1,678)	(1,862)	(2,002)	(2,098)
EBITDA	47,744	50,131	58,325	65,364	70,724	74,439
Depreciation and amortisation	(22,067)	(22,415)	(23,784)	(26,423)	(27,642)	(27,605)
EBIT	25,677	27,716	34,541	38,941	43,082	46,833
Net finance income/(expense)	(6,181)	(6,500)	(7,830)	(9,181)	(9,694)	(9,437)
Earnings before taxes	19,496	21,215	26,711	29,761	33,388	37,396
Taxes	(2,935)	(3,182)	(4,007)	(4,464)	(5,008)	(5,609)
Net income	16,561	18,033	22,705	25,297	28,379	31,787
Average number of shares	770,200	770,200	770,200	770,200	770,200	770,200
EPS	0.022	0.023	0.029	0.033	0.037	0.041

Source: Company data, Ahli Bank

Profit and loss (common size)	2023	2024E	2025E	2026E	2027E	2028E
Revenue	100%	100%	100%	100%	100%	100%
Cost of sales	62%	61%	60%	60%	59%	59%
Gross profit	38%	39%	40%	40%	41%	41%
General and administrative expenses	5%	5%	5%	4%	4%	4%
Adjusted EBITDA	33%	34%	36%	36%	36%	36%
Adjustments	0%	1%	1%	1%	1%	1%
EBITDA	33%	33%	35%	35%	35%	35%
Depreciation and amortisation	15%	15%	14%	14%	14%	13%
EBIT	18%	18%	21%	21%	21%	22%
Net finance income/(expense)	4%	4%	5%	5%	5%	5%
Earnings before taxes	14%	14%	16%	16%	17%	18%
Taxes	2.0%	2.1%	2.4%	2.4%	2.5%	2.7%
Net income	11%	12%	14%	14%	14%	15%

Source: Company data, Ahli Bank

Balance sheet (OMR '000)	2023	2024E	2025E	2026E	2027E	2028E
Net property, plant and equipment	191,405	207,599	224,706	253,608	267,593	268,503
ROU	5,502	4,268	3,375	2,730	2,263	1,926
Capital work in progress	-	-	-	-	-	-
Other assets	5,297	5,318	5,333	5,345	5,355	5,361
Non-current assets	202,204	217,185	233,415	261,684	275,211	275,790
Cash and cash equivalents	8,051	10,639	13,383	11,956	10,331	11,355
Accounts receivable	42,385	47,275	51,878	57,562	61,921	64,867
Inventories	23,786	25,997	27,677	30,642	32,912	34,426
Bank term deposits	20	20	20	20	20	20
Advances and prepayments	25	25	25	25	25	25
Current assets	74,267	83,957	92,983	100,206	105,209	110,693
TOTAL ASSETS	276,471	301,142	326,397	361,889	380,420	386,484
SHAREHOLDERS' EQUITY	145,778	147,483	152,880	160,013	168,155	177,238
Long-term debt obligations	72,060	88,868	103,924	124,945	131,460	127,403
Lease liabilities	3,565	3,565	3,565	3,565	3,565	3,565
Others	7,719	7,719	7,719	7,719	7,719	7,719
Non-current liabilities	83,344	100,152	115,208	136,229	142,744	138,687
Trade and other payable	28,469	31,541	33,579	37,056	39,735	41,516
Current debt	13,232	16,318	19,083	22,943	24,139	23,394
Others	5,648	5,648	5,648	5,648	5,648	5,648
Current liabilities	47,349	53,507	58,310	65,647	69,522	70,559
TOTAL LIABILITIES AND EQUITY	276,471	301,142	326,397	361,889	380,420	386,484
Balance sheet (common size)	2023	2024E	2025E	2026E	2027E	2028E
Net property, plant and equipment	69%	69%	68%	70%	70%	69%
ROU	2%	1%	1%	1%	1%	0%
Capital work in progress	0%	0%	0%	0%	0%	0%
Other assets	2%	2%	2%	1%	1%	1%
Non-current assets	73%	72%	71%	72%	72%	71%
Cash and cash equivalents	3%	4%	5%	4%	3%	3%
Accounts receivable	15%	16%	16%	16%	16%	17%
Inventories	9%	8%	8%	8%	9%	9%
Bank term deposits	0%	0%	0%	0%	0%	0%
Advances and prepayments	0%	0%	0%	0%	0%	0%
Current assets	27%	28%	29%	28%	28%	29%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS' EQUITY	53%	49%	47%	44%	44%	46%
Long-term debt obligations	26%	29%	32%	34%	34%	33%
Lease liabilities	1%	1%	1%	1%	1%	1%
Others	3%	3%	2%	2%	2%	2%
Non-current liabilities	30%	33%	35%	37%	37%	36%
Trade and other payable	10%	10%	10%	10%	10%	11%
Current debt	5%	5%	6%	6%	6%	6%
Others	2%	2%	2%	2%	1%	1%
Current liabilities	17%	17%	18%	18%	18%	18%
TOTAL LIABILITIES AND EQUITY	100%	100%	100%	100%	100%	100%

Source: Company data; Ahli Bank

Cash flow (OMR'000)	2023	2024E	2025E	2026E	2027E	2028E
Profit for the period before income tax	19,496	21,215	26,711	29,761	33,388	37,396
Depreciation and amortization	22,067	22,415	23,784	26,423	27,642	27,605
Changes in working capital	(4,465)	(4,030)	(4,244)	(5,172)	(3,950)	(2,679)
Trade and other receivables	(6,582)	(4,890)	(4,603)	(5,685)	(4,359)	(2,947)
Inventories	(4,716)	(2,211)	(1,680)	(2,965)	(2,270)	(1,514)
Trade and others payables	5,030	3,072	2,038	3,478	2,678	1,782
Advances and prepayment	1,803	-	-	-	-	-
Others	(4,528)	3,318	3,823	4,717	4,686	3,828
Cash flow from operating activities	32,570	42,919	50,074	55,728	61,765	66,151
Capex	(18,076)	(37,396)	(40,014)	(54,692)	(41,169)	(28,185)
Other's	17,994	421	266	335	299	259
Cash flow from investing activities	(82)	(36,975)	(39,748)	(54,357)	(40,870)	(27,926)
Increase/decrease in debt position	183,447	46,525	54,451	73,811	66,640	55,781
Finance costs	-	(6,574)	(7,749)	(9,169)	(9,647)	(9,349)
others	(15,404)	(16,328)	(17,308)	(18,164)	(20,237)	(22,704)
Cash flow from financing activities	(28,537)	(3,355)	(7,583)	(2,798)	(22,520)	(37,201)
Cash & Cash Equivalents at beginning of period	4,120	8,071	10,659	13,403	11,976	10,351
Increase/decrease in liquid assets	3,951	2,588	2,743	(1,427)	(1,625)	1,024
Cash & Cash Equivalents at end of period	8,071	10,659	13,403	11,976	10,351	11,375

Source: Company data; Ahli Bank

Revenue by segment (OMR '000)	2023	2024E	2025E	2026E	2027E	2028E
Drilling services (implied)	117,326	124,774	138,764	156,182	169,262	177,725
Workover services (implied)	9,485	9,699	9,673	9,673	9,673	9,673
Well services and others	17,535	18,412	19,332	20,299	21,314	22,380
Net revenue	144,346	152,885	167,769	186,153	200,248	209,777

Source: Company data; Ahli Bank

Ratios	2023	2024E	2025E	2026E	2027E	2028E
EPS	0.022	0.023	0.029	0.033	0.037	0.041
DPS	0.021	0.022	0.024	0.026	0.029	0.000
ROE	11.4%	12.2%	14.9%	15.8%	16.9%	17.9%
Dividend yield	6.7%	6.7%	7.1%	7.4%	8.3%	9.3%
Debt/equity	0.6x	0.8x	0.8x	1.0x	1.0x	0.9x
Net debt/EBITDA	1.7x	1.9x	1.9x	2.1x	2.1x	1.9x

Source: Company data, Ahli Bank

Definition of Ahli Bank's Ratings

Ahli Bank's rating system indicates the expected performance of the stock within the next 12-month period. The target price mentioned in the report is the analyst's assessment of the stock's current intrinsic fair value based on an appropriate valuation methodology, including but not limited to relative multiple, GGM and residual income methods.

Rating	Expected return
Strong Buy	> 20%
Buy	10% to 20%
Hold	-5% to 10%
Sell	-20% to -5%
Strong Sell	< -20%

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