

Target Price: SAR18/share
Current Price: SAR15.3/share
Upside: 17.6% (+Div. Yield: 2.8%)
Rating: Overweight

Gas Arabian Services Company (GAS)

Robust backlog with sizeable execution in 2025-26

- Strong backlog with bulk of it expected to be recognized in 2025-26e, providing strong topline visibility; margins likely to improve further on favorable project execution cycle and better cost efficiencies.
- Raise our earnings forecasts by 42% for 2025e and 39% for 2026e to reflect the strong backlog, faster execution rate and the margin expansion.
- Post revision in our estimates, we raise our TP to SAR18/sh (SAR12/sh earlier) using P/E valuation (19x on 2025e EPS) and maintain our Overweight rating on the stock.

Backlog to remain strong, with half of it likely to be executed in 2025... Gas Arabian's backlog has grown substantially during 9M24, rising from SAR731mn in 2023 to ~SAR 1,766mn, primarily driven by SAR1,363mn worth new contract awards in the technical services segment (including two contracts worth SAR761mn with Aramco), followed by trading (SAR418mn) and manufacturing (SAR23mn) segments. Further, ~90% of orders in the trading segment are typically recurring, and hence we expect the company to add new orders worth ~SAR570-600mn for this segment in 2025-26e (in line with historical avg). Moreover, we expect new project awards for the technical service segment to normalize at SAR520-550mn (SAR1,363mn in 9M24, SAR399mn in 2023) in 2025-26e. This, coupled with stable manufacturing segment activities, would result in SAR1.1-1.2bn in new orders in 2025-26e (vs. SAR1bn in 2023 and SAR1.8bn in 9M24). Accordingly, the total backlog is expected to remain firm at ~SAR1.6bn in 2025-26e (SAR1.7bn in 9M24), supported by i) long-term contracts with major players, and ii) expansion of product and service offerings. We also see a possibility of winning new contracts on a potential category upgrade with Aramco—from Category 2 (capped at SAR600mn per contract) to Category 1 (no capping on contract size).

...providing strong revenue visibility: The current robust backlog is expected to be executed over the next 2-3 years, with ~49% of total backlog likely to be executed in 2025, followed by 23% and 12% in 2026-27e, providing strong top-line visibility. Additionally, the company is also expected to recognize a small portion of revenue from new contract awards during 2025-26e. Considering the contract tenure and backlog realization phases, we expect a record top-line of SAR1.2bn (+16% y/y; 15-20% guidance) in 2025e, which would remain broadly stable thereafter.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	496	722	1,030	1,193	1,221
Revenue growth	28%	45%	43%	16%	2%
Gross Profit	115	135	202	247	262
Gross Profit margin	23.2%	18.7%	19.7%	20.7%	21.4%
Op. income + JV income	74	83	110	138	153
Net profit	67	81	109	135	150
Net profit margin	13.6%	11.3%	10.6%	11.3%	12.2%
EPS (SAR)	0.43	0.52	0.69	0.85	0.95
DPS (SAR)	0.23	0.30	0.35	0.43	0.47
P/E	35.9x	29.7x	22.1x	17.9x	16.2x

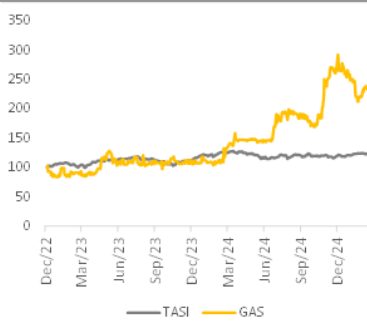
Source: Company data, GiB Capital

Stock data

Nomu ticker	9528
Mcap (SARmn)	2,421
Trd. Val (3m) (SARmn)	0.9
Free float	40.0%
QFI holding	3.7%

Source: Bloomberg

Prices indexed to 100



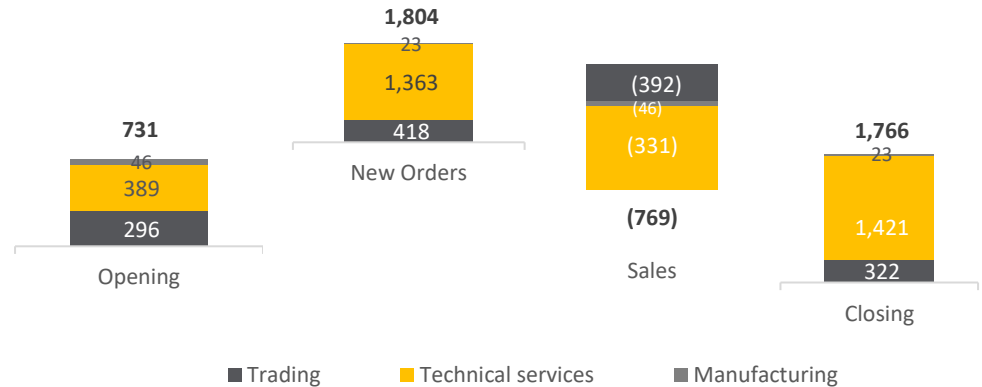
Source: Bloomberg

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Figure 2: Order backlog evolution 2023-9M24 (SARmn)



Source: Company data, GIB Capital

Healthy double-digit earnings growth on likely margin expansion and better operating leverage:

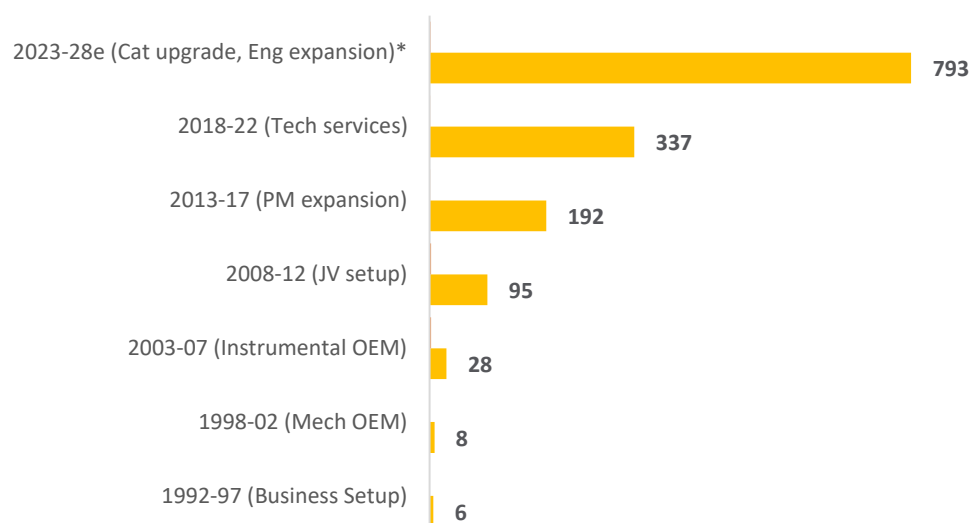
Although Gas Arabian's gross profit margin has declined in recent years, falling from 23.2% in 2022 to 18.7% in 2023 due to changes in the product/service/backlog mix and the expansion of product offerings, it has partially rebounded in 9M24, reaching 19.8% (9M23: 19.3%). This improvement was mainly driven by margin expansion in the trading segment, which increased from 21.1% in 9M23 to 24.7% in 9M24, supported by new business from the chemical sector and an overall learning curve. We note that margin volatility across segments from quarter to quarter is normal, as it depends on various factors such as project type and execution phase.

Considering the current backlog and the startup of a larger project in the technical services segment (currently in the procurement phase), we expect the company's overall gross margin to improve to 20.7% in 2025e, which is expected to improve further to 21.4% (guidance: 20-21% over the medium term) by 2026e. Accordingly, we expect the net profit margin to remain robust at 11.3% in 2025e (in line with the company guidance), which may improve to 12.2% by 2026e, supported by 1) shifting of some activities from a subcontracting model to in-house, 2) improved contributions from JVs, and 3) better operating leverage. This will ensure strong double-digit earnings growth in the coming years.

Well-defined strategy for future growth:

Gas Arabian's future growth is anchored on two key pillars: 1) Strong Revenue Visibility in Trading: ~90% of the company's trading orders are recurring, supported by long-term agreements with partners and customers, and 2) Internal Investment Cycle: Since inception, Gas Arabian has followed a structured five-year investment cycle, with each phase focusing on a distinct growth strategy (Figure: 3). The company has launched its 7th Internal Investment Cycle (2023-28e), targeting: i) a new warehouse for strategic stocking, ii) upgrading from Category 2 to Category 1, allowing it to secure Aramco contracts without contract size restrictions, iii) expanding its existing manufacturing facility or acquiring a new one, iv) exploring potential new joint ventures for further growth, resulting into the record expected earnings during the current investment cycle as per our estimates.

Figure 3: Gas Arabian's net profit per cycle (SARmn)



Source: Company data, GIB Capital, *GIBC estimate

Revision in the estimates: Based on 9M24 results that demonstrate faster execution, a strong backlog with bulk execution expected in 2025 and likely margin expansion due to a favorable project cycle, we have raised our revenue estimates by 20% for 2025e and 9% for 2026e. Consequently, this has led to a 42% upward revision in earnings for 2025 and 39% for 2026e, driven by higher topline growth and improved margin outlook compared to our previous estimates (Figure: 4).

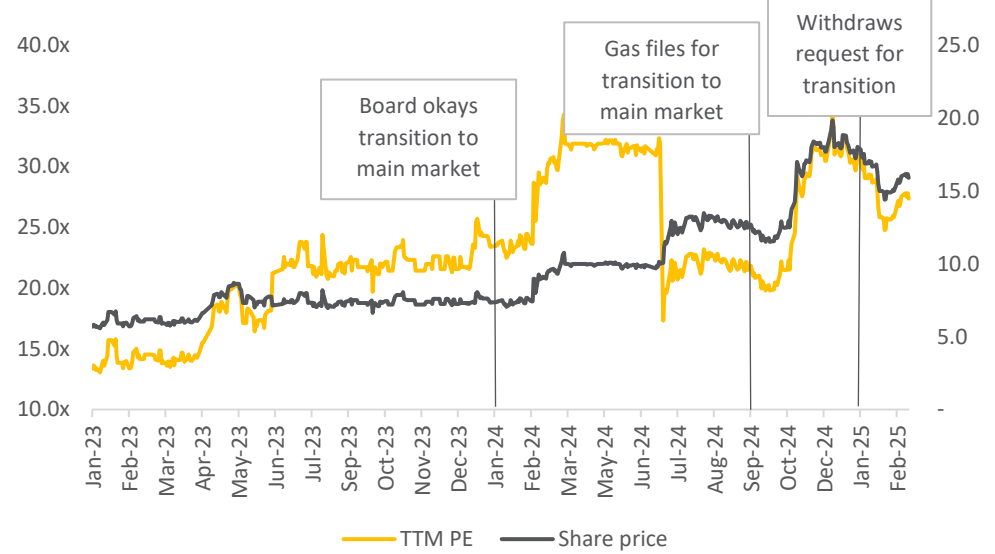
Figure 4: Revision in estimates

SARmn	2025e			2026e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	1,193	994	20%	1,221	1,119	9%
Gross profit	247	194	27%	262	224	17%
GPM %	20.7%	19.6%		21.4%	20.0%	
Operating Profit	108	71	52%	121	83	45%
Op. profit + JV income	138	101	37%	153	114	34%
Net profit	135	95	42%	150	107	39%
NPM %	11.3%	9.6%		12.2%	9.6%	

Source: GIB Capital

A potential re-rating of multiples; an upside risk to our valuation: In January 2025, Gas withdrew its application due to pending additional liquidity requirements, resulting in a correction in share price (Figure: 5). We do not view this as a major concern, given its strong backlogs and healthy earnings growth. Going forward, the company is committed to taking the required measures to meet the liquidity requirements and it may reapply for the transition in the near future. A potential Tadawul nod for the transition will positively impact the share price due to anticipated higher liquidity and improved price discovery, resulting in potential expansion of valuation multiples, and thereby acting as an upside risk to our valuation.

Figure 5: Gas Arabian: Share price and PE movement over the process of main market transition

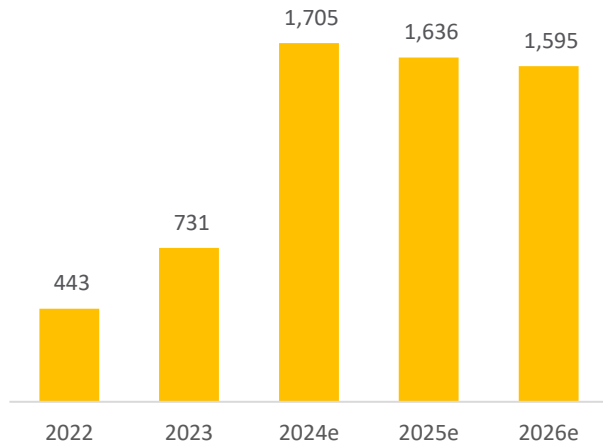


Source: Company data, GIB Capital

Valuation and risks: We value the company using P/E valuation (19x on 2025e EPS of SAR0.85) and arrive at 1Y Fwd TP of SAR18/share (SAR12/sh earlier). Key downside risks include a slowdown in Aramco's expansion, an increase in competition, trading illiquidity, lower-than-expected shutdowns in the petrochemical sector, execution risks, etc.

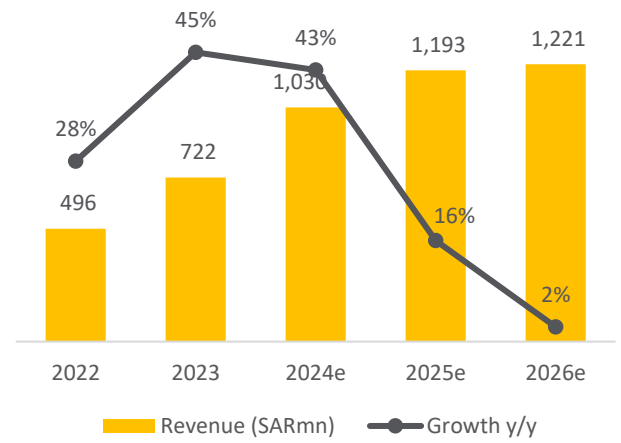
Financial analysis in charts

Figure 6: Backlog (SARmn)



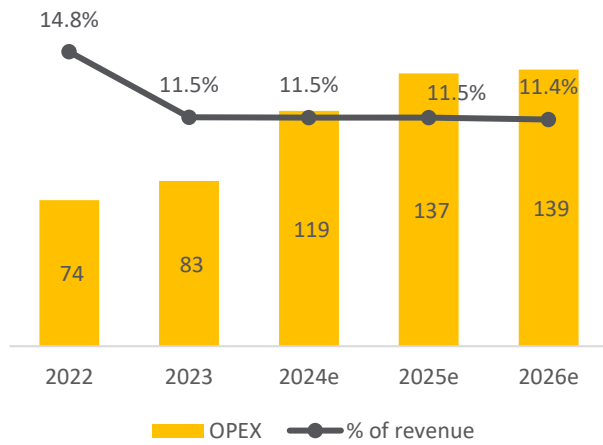
Source: Company data, GIB Capital

Figure 7: Revenue (SARmn)



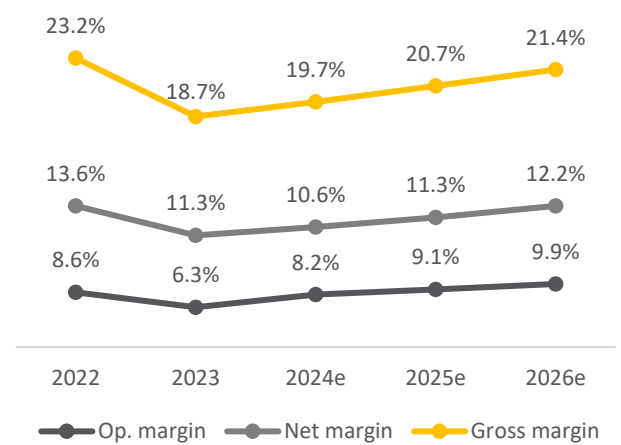
Source: Company data, GIB Capital

Figure 8: OPEX (SARmn)



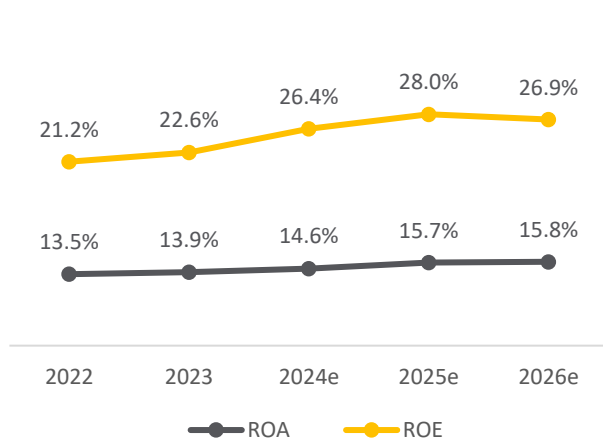
Source: Company data, GIB Capital

Figure 9: Margin trend



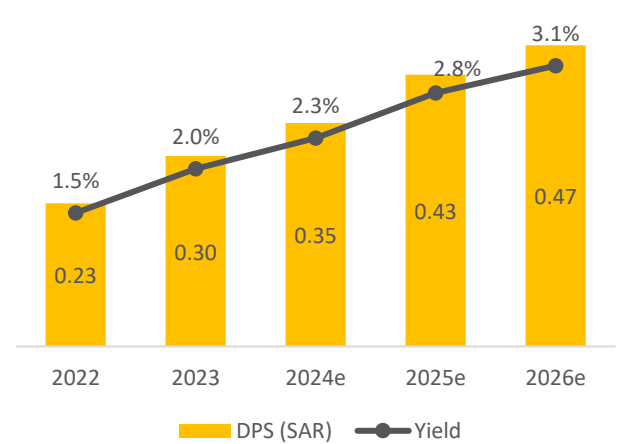
Source: Company data, GIB Capital

Figure 10: Profitability



Source: Company data, GIB Capital

Figure 11: Dividend



Source: Company data, GIB Capital

Financials

Figure 12: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e
Revenue	496	722	1,030	1,193	1,221
revenue y/y	28%	45%	43%	16%	2%
COGS	381	587	827	946	959
Gross Profit	115	135	202	247	262
Gross Profit margin	23%	19%	20%	21%	21%
Selling, General & Admin expense	74	83	119	137	139
ECL (provision)/reversal	1	(6)	1	(1)	(1)
Operating profit	43	45	85	108	121
Operating margin	9%	6%	8%	9%	10%
Other income	2	7	8	9	9
Finance costs	(2)	(2)	(1)	(1)	(1)
Income from Associates & JVs	31	38	25	30	32
PBT	74	88	117	146	162
Zakat/tax	6	7	8	11	12
Net income	67	81	109	135	150
Net margin	13.6%	11.3%	10.6%	11.3%	12.2%
y/y	12%	21%	34%	23%	11%
EPS	0.4	0.5	0.7	0.9	0.9
DPS	0.2	0.3	0.4	0.4	0.5
Payout	53%	58%	51%	50%	50%
EBITDA	47	52	94	119	134
EBITDA + Income from JVs	79	89	119	149	166
Net debt (w/o lease liabilities)	-68	-91	-134	-171	-218

Balance Sheet	2022a	2023a	2024e	2025e	2026e
Inventories	27	62	45	52	53
Receivable and unbilled revenue	175	187	268	294	301
Prepaid Expenses and Other	69	52	73	83	84
Investments at FVTPL	11	0	0	0	0
Cash and Equivalents	68	91	134	171	218
Total Current Assets	350	391	520	600	655
Property Plant & Equipment - Net	57	85	112	131	148
Right of use assets	1	4	4	4	4
Intangible assets	0	0	0	0	0
Investments with associates	91	106	115	125	136
Total Non-Current Assets	150	195	231	260	289
Total Assets	499	586	750	860	944
Current Liabilities	147	184	294	336	346
Non-current Liabilities	35	42	42	42	42
Equity	317	361	415	482	557
Total Equity and Liabilities	499	586	750	860	944

Cashflow	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	66	60	118	115	131
Cashflow from Investing	20	4	-20	-10	-9
Cashflow from Financing	-42	-40	-55	-67	-75
Total Cashflows	44	23	43	37	47

Source: Company, GIB Capital

Figure 13: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e
Profitability ratios					
RoA	13%	14%	15%	16%	16%
RoE	21%	23%	26%	28%	27%
Sales/Assets	99%	123%	137%	139%	129%
Net margin	13.6%	11.3%	10.6%	11.3%	12.2%
Liquidity ratios					
Curr. Assets/ Current Lia.	2.4	2.1	1.8	1.8	1.9
Receivable Days	129	94	95	90	90
Inventory Days	26	38	20	20	20
Payable days	80	60	60	62	64
Cash conversion cycle	75	73	55	48	46
Debt ratios					
Net Debt/EBITDA	-1.4x	-1.8x	-1.4x	-1.4x	-1.6x
Debt/Asset	0%	1%	0%	0%	0%
Valuation ratios					
P/E	35.9x	29.7x	22.1x	17.9x	16.2x
P/B	7.6x	6.7x	5.8x	5.0x	4.3x
EV/EBITDA	49.8x	45.4x	25.0x	19.7x	17.5x
(FCF + income from JV) yield	3.7%	2.2%	4.1%	4.4%	5.1%
Dividend yield	1.5%	2.0%	2.3%	2.8%	3.1%

Source: Company, GIB Capital

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