Entity Rating Report

Rawabi Holding Company

(Closed Joint Stock Company)

July 2024

Classification: Restricted

RELATED CRITERIA AND METHODOLOGY

Rating Methodology for Corporate (v.2. 2019) can be found on the website:
www.tassnief.com

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- This rating has not been amended following disclosure to the rated entity or its related party(ies). The rating scale can be found in the link above. The rated entity has not conducted any rating activity with regards to its rating. No part of the rating activities was outsourced.

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Rawabi Holding Company

Entity and Sukuk Rating Report Contents

Rating Summary

1.1 TASSNIEF Opinion:

Rawabi Holding Company – Entity Rating	
Domicile	*Saudi Arabia*
Long-Term Rating	*A-*
Outlook	*Stable*
Short-Term Rating	*T-3*
Sukuk Rating	*A-*
Rating Watch	*No*
Action Type	*Maintained*
Laat Rating Action	*July 2023*
Nature of Relationship	*Solicited*

Tassnief has maintained long-term entity and Sukuk rating of **Rawabi Holding Company** at **A- (Single A Minus)** and short-term entity rating of **T-3** of. The outlook on the rating is "**Stable**".

1.2 TASSNIEF Rating Rationale:

Strong market position and systemic importance of the oil and gas sector in the kingdom are key rating drivers

The assigned ratings incorporate Rawabi Holding Company's ('Rawabi Holding' or 'the Company') leading market position in key operating segments (marine vessels, drilling fluids, mud engineering, safety services, water proofing and dredging). The Company is amongst the top 3 players globally in the terms of vessels owned and enjoys a 65% market share in this segment with Saudi Aramco. The Company also has market leadership position in various sub-segments of its oil field business including drilling fluids, mud engineering and safety services. Ratings also incorporate the Company being part of the oil and gas ecosystem in KSA which has systemic importance given the contribution of the sector to KSA's revenues and exports.

Diversified operations and broad-based growth across key operating segments

Rawabi Holding is a diversified conglomerate through its wholly owned subsidiaries, consolidated and controlled joint ventures and affiliate investments, mainly focused on oil and gas services. The Company's operations are segregated into 5 segments including oil field services, marine, contracting, industrial & manufacturing and investments. The Company has a sizeable investment portfolio amounting to SAR 3.5billion (at market value) primarily comprising blue chip counterparties. The investment portfolio has been built using a long-term investment philosophy and provides a stable and recurring dividend income. Besides the listed equity portfolio, the Company also has a 17.47% shareholding in the largest contracting company (Nesma & Partners) in KSA.

Figure: Revenue by Operating Segments (SAR Mil)

	2021	%	2022	%	2023	%	1Q2024	%
Rawabi Energy	1,327	57%	1,904	60%	2,606	54%	972	58%
Rawabi Contracting	781	33%	1,008	32%	1,847	39%	554	33%
Rawabi Industries	208	9%	250	8%	297	6%	102	6%
Others	24	1%	8	0%	39	1%	35	2%
Rawabi Total	**2,341**	**100%**	**3,170**	**100%**	**4,789**	**100%**	**1,628**	**100%**

During 2023 and 1Q2024, revenues increased by 51% and 59%, respectively. Strong double-digit growth was witnessed across key operating segments on the back of favorable industry dynamics and the Company aggressive expansion strategy undertaken in the preceding years. Business risk profile draws comfort from the Company's established commercial partnership with Saudi Aramco, the presence of long-term service contracts and the Company being part of the operating expenditure of Saudi Aramco which supports business stability. Moreover, healthy order backlog of SAR 20.7billion supports medium-term revenue visibility. Growth momentum is expected to continue in 2024 with revenues expected to increase by 46% in 2024. For 2025, revenue growth would be supported by deployment of additional vessels (revenue from 46 new vessels is expected as compared to the current 105 vessels).

Despite exposure to cyclical sectors, industry dynamics are favorable and will support growth over the medium term

Marine (Offshore Services): For the marine segment, favorable industry dynamics are evident from tight vessel supply market *(shrinking and aging fleet with no significant new additions)*, high utilization levels *(Capacity utilization levels have increased from around 70% to 85% in the ongoing year)*, increasing day rates *(average AHTS* *day-rates have increased by 69% and PSV rates have increased by 56% over the last 12 months)* and low quantum of new builds entering the market *(the number of newbuilds entering service has declined from an average of 256 per year during 2012-2014 to just 33 per year during 2019-2021. Moreover, global shipyard capacity has declined by 65% since its peak in 2008, with only 22 vessels added to the orderbook since 2020)*. Given the favorable market conditions and Rawabi's young *(fleet age is the lowest amongst peers at around 6 years which reduces redeployment risk)* & growing fleet *(46 new vessels to be contracted)*, revenue profile from the segment is poised to grow.

Oilfield services (OFS): The near-term disruption in the OFS market demand growth is anticipated due to the suspension of the Safaniya and Manifa offshore oilfields. However, the overall demand dynamics remain favorable due to the continuation of major projects like Marjan, Berri, and Zuluf. Additionally, Tassneif expects that long-duration offshore projects from NOCs and the international upcycle will continue, significantly contributing to the growth dynamics of the OFS market in Saudi Arabia and the broader GCC region.

Contracting: The contracting segment has witnessed healthy growth during 2023 due to aggressive pace of work on ongoing giga projects related to vision 2030. Tassnief has also witnessed strong increase in order backlog ranging from 20%-50% for large contractors which is expected to facilitate growth in revenues. The next leg of growth is expected to emanate from mega sporting events that are expected to take place in the country over the next decade. Rawabi has positioned itself within the specializing contracting segment and depicted 80% growth in topline in 2023 (revenues of SAR 1.8billion) with focus on strategic fast track projects with top-tier clients; scope of work is focused on marine dredging and waterproofing. For 2024, revenues from the segment are projected at SAR 2.2billion.

Despite Saudi Aramco's suspension of the 1 mbpd capacity expansion project, sustained sizeable capex by Aramco will continue to favor Rawabi's business outlook over the rating horizon

During January 2024, Aramco announced the suspension of its 1 mbpd sustainable capacity expansion project. Subsequently, a number of rigs have been suspended by Aramco. According to S&P Global research, rig suspension has led to the demobilization of 15 OSVs (excluding several utility vessels), with the anticipation of a total of 40 OSV demobilizations by the end of 2024. The broader market impact on utilization and day rates will be more evident over time. However, Tassnief expects a limited impact on Rawabi's business profile for the following reasons

- Majority of Rawabi's revenue is derived from Saudi Aramco's OPEX spending.
- Demand across segments continues to remain strong to date.
- Capex is only undertaken once the Company secures a long-term contract.
- Revision in Saudi Aramco's gas production growth target to 60% by 2030 (up from the previous target of 50%) is expected to create additional demand for vessels, supporting future offshore gas field expansion.
- Tight vessel supply market has led to firming valuations over the past years. For example, the valuation of 5-year AHTS vessels has increased by 30% to 50%, and PSV valuations have risen by 30% to 37%. According to 'VesselsValue', the gap between the newbuild and resale value of large PSVs (5,200 DWT, China) narrowed to 13% in April 2024 compared to a year ago. Additionally, the resale value of these vessels has increased by more than 30% over the past year. Therefore, in the event of a lack of redeployment opportunities, Rawabi has the potential to sell the vessels at a sizeable valuation gain.

- The Company's value-added services and efficient & sustainability friendly vessels result in sizeable fuel savings for Aramco which will provide a competitive edge over other players and reduce non-renewal risk.
- Given the high demand for vessels, these can be deployed in other regions also.

Improving core profitability driven by growing revenues and healthy margins despite sizeable increase in finance cost

Despite sizeable increase in finance cost, improving core business and earning profile is evident from strong growth in cash flow generation to SAR 780million (2022: SAR 248million) in 2023 on the back of robust revenue growth and enhanced margins. Overall, net profit has been reported higher than FFO due to non-cash unrealized gain on investment portfolio. Growth momentum in cash flow generation is expected to continue due to healthy order backlog with FFO generation expected at SAR 935m for the full year 2024. Recently, Rawabi Butec's claim of SAR 55m for excess work done from a client has been approved, which will positively impact the profitability profile during the ongoing year.

Capital expenditure to peak in 2024 and then normalize in the medium term

Rawabi has a capital-intensive business model for its marine business where sizeable asset base needs to be built for generating long-term revenues. The Company has undertaken sizeable debt funded capital expenditure over the last few years given expected business opportunities. During 2023, total capital expenditure amounted to SAR 2.7billion in 2023 as compared to SAR 2.6billion in 2022. Going forward, capital expenditure for 2024 is expected to remain elevated as payments are undertaken for the additional vessels inducted in the portfolio. Subsequently, given that the Company plans to consolidate its vessel portfolio around 200 vessels, capital expenditure is expected to decline from 2025 onwards but is expected to remain around the SAR 1billion given the sizeable maintenance capital expenditure that is to be incurred on the Company's vessel portfolio.

Expansive financial policy, low debt servicing cushion and weak coverages are rating constraints

Aggressive debt funded capital expenditure has resulted in low debt servicing cushion and weak coverages. These factors are partially mitigated by secured and guaranteed long-term revenue, which helps balance the moderate business risk and expansive financial risk profile. The Company's financial metrics are also impacted given that debt must be undertaken upfront for expansion in the marine segment while translation of the capex into revenue is with a time lag which impacts debt serving cushion and coverages. Comfort is also drawn from sizeable liquid assets on the balance sheet and availability from unutilized running finance lines.

In absolute terms, debt levels have witnessed a significant increase over the last few years. The Company's expansive financial policies to capitalize on business opportunities have resulted in elevated leverage indicators although leverage indicators have now stabilized. Despite debt levels having doubled over the last 27 months, the leverage ratio has remained largely stable due to growth in equity base through a combination of retained earnings and increase in revaluation reserves

Sound governance framework

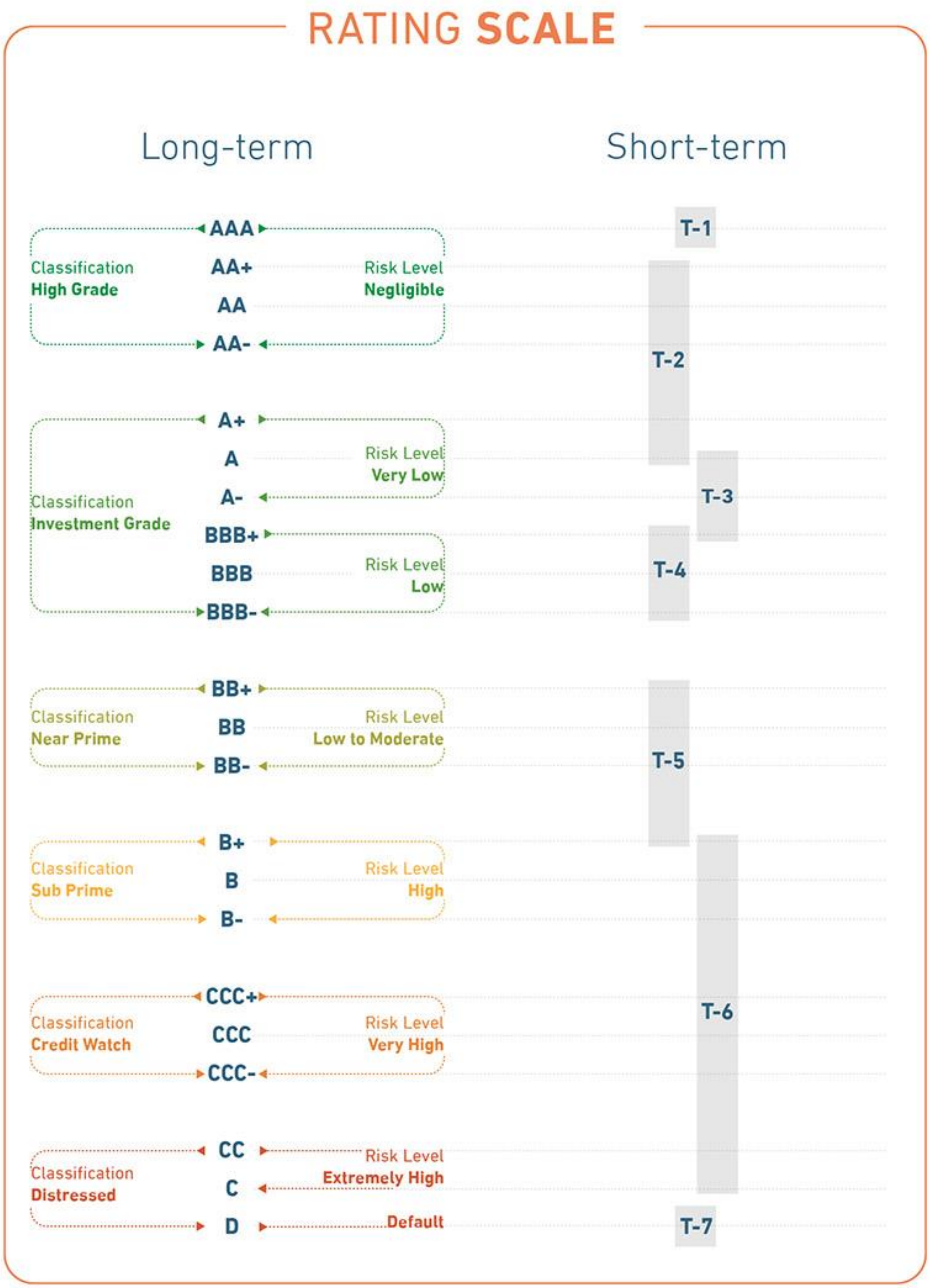
Ratings also account for sound corporate governance framework in line with those of listed & established Tadawul players despite the Company being a Closed Joint Stock Company. Governance framework draws comfort from board composition being in line with best practices, effective board oversight, formalized succession planning framework, independence of ownership and management (shareholders cannot be CEO), structured decision-making process and sound internal control framework. Transparency and disclosures are satisfactory and provide important information for the stakeholders. Tassnief believes that the Company's focus on localization (local manufacturing), Saudization, ESG and training and strengthening resource capacity in a specialized industry will be a competitive advantage. On the ESG front, the Company has taken a number of initiatives including

- First to bring the diesel-electric engines in marine vessels to Saudi Aramco
- Drill-cutting technology installed on Rawabi 1 which cleans the drilling mud from chemicals before it can be disposed to the sea.
- Smart-Vessel Concept introduced, which provides live reading and AI based analysis of the vessel fuel consumption and performance, emission, and all engine reading. This is besides other initiatives for fuel savings including voyage management.

1.3 Rating Triggers

Key rating trigger involves translation of enhanced business profile into improvement in financial indicators through increasing debt servicing cushion & coverages and a shift towards a more conservative financial policy.

TASSNIEF's Long-term & Short-term Rating Scale



Long-Term Rating Scale	Definitions
AAA	**Extremely Robust**; Tassnief considers the rated issuer or issuance hold the **highest creditworthiness**, thus **negligible credit risk**
AA+ AA AA-	**Very Robust**; Tassnief considers the rated issuer or issuance hold **very high creditworthiness**, thus **minimal credit risk**. Risk profile may vary slightly with changes in economic / sector conditions
A+ A A-	**Robust**; Tassnief considers the rated issuer or issuance hold **high creditworthiness**, thus **very low credit risk**. Risk profile may vary with changes in economic / sector conditions
BBB+ BBB BBB-	**Moderate**; Tassnief considers the rated issuer or issuance hold **adequate creditworthiness**, thus **low credit risk**. Risk profile may exhibit moderately high variation with changes in economic / sector conditions
BB+ BB BB-	Tassnief considers the rated issuer or issuance hold **low to moderate credit risk**. Risk profile may exhibit wide variation with changes in economic / sector conditions.
B+ B B-	Tassnief considers the rated issuer or issuance hold **very low creditworthiness**, thus **high credit risk**
CCC+ CCC CCC-	Tassnief considers the rated issuer or issuance hold **extremely low creditworthiness**, thus **very high credit risk**
CC C	**Highly speculative credit profile**, and the default is imminent
D	Tassnief considers the rated issuer or issuance have **defaulted or may default soon.**

****End of Report****