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National Energy Services Reunited Corp. (NESR)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the NESR's Fourth Quarter 2024 Financial Results Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Blake Gendron, Vice President of Investor Relations. Thank you. You may begin.

Blake Gendron

Vice President-Investor Relations & NEDA Segment, National Energy Services Reunited Corp.

Thank you, Melissa. Hello and welcome to NESR's fourth quarter 2024 earnings call. With me today are Sherif Foda, Chairman and Chief Executive Officer of NESR; Stefan Angeli, Chief Financial Officer. On today's call, we will comment on our fourth quarter results and overall performance. After our prepared remarks, we will open up the call to questions.

Before we begin, I'd like to remind our participants that some of the statements we'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest earnings release filed earlier today and other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details on reconciliation to the most directly comparable GAAP financial measures can be found in our press release, which is on our website. Finally, feel free to contact us after the call with any additional questions you may have. Our Investor Relations contact information is available on our website.

Now I'll hand the call over to Sherif.

Sherif Foda

Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

Thanks, Blake. Ladies and gentlemen, good morning, and thank you for participating in this conference call. I'm extremely proud of another stellar year that the team delivered in 2024. In the fourth quarter, we once again reached new highs for revenue, EBITDA and EPS. With the robust cash flow generation, we've entered 2025 in a position of notable balance sheet strength, and we've never been better positioned to size the many opportunities that remain in front of us.

First, let me reflect briefly on what we were able to achieve over the past year. 2024 was an exceptional year for the company, marked by many key milestones, especially our Nasdaq Relisting this past October. This was a fantastic event where we had our management team traveling to New York and celebrate with our investor at the impressive Nasdaq Center at Times Square. Thank you to all our investors and analysts that attended the event.

Operationally, 2024 was a continuation of our unique growth story as we secured new contracts, enhance our core business, and pushed into new technology frontier with our ROYA direction drilling platform and NEDA decarbonization portfolio. We expanded and deepened our anchor country footprint on many fronts with multiple growth drivers within each country contributing to our near doubling of the overall market growth in 2024.

Today our large core countries expand into Saudi, Oman, Kuwait, UAE, Iraq, Algeria and Egypt. We have achieved record revenue and growth in each this year. We are positive about the prospect and opportunities into all of them for 2025 and we maintain optimistic about adding more countries to that league in the near future. Best example is Libya with its recent development. We continue to address all profitable growth opportunities in all of the countries where we operate. And we are nimble and agile to act quickly when needed.

I will go into more detail in the outlook, but let me first summarize some highlights of 2024 at the country level. In Saudi Arabia, which was our fastest growing country by both percentage and in absolute dollar term. NESR gained market share, outperformed in several product line and started some key investment for the future of our infrastructure. In Oman, where we have the highest market share as a percentage.

We maintained our solid execution and gained several service quality in HSE and leadership awards and began to introduce our ROYA direction drilling platform in our recently awarded conference. We see a lot of runways in this country despite the stable outlook, we can still outpace the competition by adding new services and gaining share. In Kuwait, I'm very proud of our achievement to-date. You recall we entered this from nothing six years ago. And today it's our third biggest country with the highest growth potential in percentage with the obvious rig growth tailwinds.

In UAE, Algeria and Iraq, we maintained our steady performance and delivery on our contracts and closed the year near all-time high across both oil and gas business. The rest of our countries remain solid and saw a good margin improvement through the year. Across our entire MENA footprint, we exited the year almost uniformly at record best revenue, strong margin and cash flow generation. In addition to the natural seasonality of the region, our fourth quarter result is a testament to both continuous improvement across the organization and also the deployment of new innovation that helps us unlock greater efficiency and revenue quality. Stefan will discuss this in great details.

Moving to the outlook, I want to comment on both the market outlook for the region and also for our company. Overall, we see sustained and broad activity growth in most of our core countries, combined with secular growth development projects that are moving ahead regardless of global commodity prices and also frontier opportunities in decarbonization and water. While growth in the region is expected to moderate in 2025 compared to recent years, the fact that the rig count in our four largest countries, which comprised over 75% of NESR's revenue are at or near historical all-time highs.

The total rig count of the MENA region today is far higher than it has been at any time in history. Higher for the first time than the rig count in North America. And this importantly is at a time when the oilfield service industry is at its most disciplined with respect to CapEx and capacity expansion.

With this in mind, let me take a moment to illustrate our outlook in some of our key countries, starting with our largest country and one that remains the most heavily debated by the market.

In Saudi, the highly pragmatic decision about a year ago to rationalize oil capacity from prior plans was well-documented in the industry. And activity on the oil side has largely stabilized now. In gas the ambitious publicly expressed target of reaching 50% gas power generation and 50% renewables by 2030 continues to fuel what was always understood to be a fantastic growth story for domestic gas consumption in the Kingdom.

NESR remains heavily focused on unconventional gas development in close collaboration with our esteemed customer and the fruits of this partnership spanned many aspect of the value chain including efficient completion delivery, innovation around consumables and even circular water technologies. In February, NESR announced the ground-breaking of a new operational facility in King Salman Energy Park known as SPARK, which deepens NESR commitment to continuous improvement in the Kingdom, specifically around its operation on unconventional gas, building the latest frac operation reliability and failure prediction center in the middle of the Jafurah field.

UAE is also asserting strong leadership on unconventional gas development as announced. And they continue with that program to ensure oil capacity of 5 million barrels. There will be potential add to their gas program by the international partner in future. And we are currently engaged at multiple levels in addition to our core business in the country. Stepping back for a moment, the MENA natural gas team extend beyond the leadership of Saudi and UAE.

We believe that the region is in the early stage of a broader gas expansion journey for which different countries are approaching this team from different angles and at varying degrees of urgency and speed. It has become consensus that the global artificial intelligence arms race is materializing, for which vast increases in power supply will be needed to keep up with demand above and beyond the general energy demand growth that is expected. And that gas will fill much of this incremental demand.

What is perhaps underappreciated is that the MENA region can play a central role in the advent of AI that the centers and high performance computing, underpinned by high quality natural gas and the cheapest renewable resource globally. We believe that this natural gas theme only adds to the stability and visibility of continued activity growth in MENA for the foreseeable future.

Kuwait is arguably the brightest spot in the region when it comes to rapid growth, and the recent success of the country in adding rigs is a testament to the vision and commitment of its leadership. The desire to reach 4 million barrels per day capacity and the latest discovery of offshore deposit translate to growth projection for several years to come. This month we signed an MOU with the visionary leadership of KOC to form the first Ahmadi Innovation Valley, AIV. That will feature very few selected service companies to address specific operator challenges and a jointly research and technology excellence and in future would add others to the value chain in one park.

Elsewhere, Oman and Iraq remain largely stable in terms of activity. And for NESR it will be areas of focus for new technology deployment, including ROYA where we have our newly awarded direction drilling contracts in Oman. North Africa is another notable bright spot teeming with ambition, and especially Libya is exhibiting a remarkable step change in activity and innovation. Over the recent weeks and months, we've spent a lot of time in the country, meeting with customers and industry leaders as the country has resumed activity and is calling upon the service sector to partner in many exciting projects.

Libya has already added more than 40 rigs on plan to advance oil production from 1.4 million barrels currently to 1.6 million barrels over the medium term, with aspiration of 2 million barrels per day in the future. Our thesis of maintaining a calibrated presence in Libya since the start of the company is playing out. And NESR stands ready to drive growth in the country across a diverse portfolio. Moving to the technology highlights in the fourth quarter, beginning with a key pilot milestone for our ROYA direction drilling platform.

As previously announced, we successfully executed the flagship single run wellbore delivery in Kuwait with our RoyaSteer, rotary steerable and RoyaStream, measurement while drilling tool hitting all of our internal performance benchmarks. Combined with earlier success with our RoyaSeek, logging-while drilling tool we are confident in the commercialization path of ROYA this year. Our plan is to continue with the deliberate, extensive testing in different formation and drilling environment, while executing on our contracts in the three countries.

Turning to NEDA, we are very encouraged by the innovation and prospect before us and believe that 2025 will be a pivotal year for NEDA expansion and growth. In the fourth quarter, we successfully delivered over 2,000 metric ton of CO_2 for CCS reservoir injection pilot in Indonesia. The country remains highly active across traditional oil and gas, geothermal and also carbon capture and sequestration and we are excited for the future there.

We also continue to develop our holistic circular, mineral and water process in the GCC for which we uniquely have access to potentially valuable brine and are among the few companies actually generating positive results in the field, not just the lab. The water solution that we've adopted from outside of the oil and gas industry represent the portfolio approach that we are taking to produce water.

And our fourth quarter investment in Salttech formalized our strategy around zero liquid discharge to reuse as much of our industry water as possible. However, this produced water evolution doesn't stop just at liquid. Increasingly, the industry is discussing the potential of mineral extraction from produced water and the recently announced transition mineral joint venture between our largest customer and the largest metal and mining company in the MENA region is evidence of this massive potential.

Given our promising work in mineral extraction over the past several years, NESR is strategically positioned to contribute to cross-sector collaboration and we anticipate updating the market throughout the year on our work in this arena. Just as we take an open technology platform approach to our core service business, we see our NEDA portfolio and access to brine in the field as a platform to plug in additional mineral recovery solution, including the area of direct lithium extraction.

I'm thrilled with the potential and opportunities in front of us in 2025 and beyond following another remarkable year in 2024. Expectation may be lower for our industry and sector, but we still see NESR as extremely well positioned within this macro framework and believe that the MENA market could surprise to the upside. More exciting announcement to come.

But for now I'll conclude and hand over the call to Stefan to discuss our financial in great details.

Stefan Angeli

Chief Financial Officer, National Energy Services Reunited Corp.

Thank you, Sherif. Good morning to our audience in the US and good afternoon, good evening to our audience in the Middle East, North Africa, Asia and/or Europe. I'm very pleased to give an update on our strong financial performance for the fourth quarter of 2024 and for the full year 2024. In summary, despite the ongoing macro volatility worldwide and geopolitical uncertainty in the Middle East, NESR achieved stellar results for the fourth quarter of 2024 and for the full year of 2024.

First, let's cover revenue. Our overall fourth quarter revenue was a record $343.7 million, which was up 2.2% sequentially and up 11.8% year-over-year, outpacing the broader market. Revenue for the full year 2024 was $1.3 billion exactly, up 13.6% year-over-year with exceptionally strong activity in the Gulf countries.

Now turning to adjusted EBITDA. Adjusted EBITDA for the fourth quarter of 2024 was also a record $87.3 million with near record margins of 25.4%, up a 157 basis points on a sequential quarter basis. Full year adjusted EBITDA was $310.1 million, up 18.2% year-over-year with full year margins up 93 basis points to 23.8%.

Interest expense for Q4 2024 was $9.9 million and full year interest was $39.9 million. Full year 2024 effective tax rate was 20.1%, which included a tax release of $3.8 million. Normalizing for this adjustment implies a full year 24 ETR of around 24.1%.

Turning to EPS. Earnings per share as adjusted for charges and credits was $0.30 for the fourth quarter of 2024 and $1.4 for the full year 2024, which was up 96% year-over-year. The charges and credits impacting adjusted EBITDA and adjusted EPS were made up primarily of two items in Q4 2024 as follows: cost of remediation of control material weaknesses, which should moderate dramatically after the conclusion of the 2024 audit this month and an impairment of a small investment.

Now turning to our cash flow and liquidity, which I'm very proud to discuss as a point of significant emphasis over the past several years. Our cash flow from operations during the fourth quarter of 2024 was very strong as we generated $46.3 million. For the full year 2024 period, we generated $229.3 million. We had significant customer collections in Q4 2024, which drove our DSO at year end to a company best.

Free cash flow for the full year 2024 was $124 million, a conversion rate on adjusted EBITDA of 40.1%, which was underpinned by strong working capital execution in 2024 on top of strong execution in 2023 despite the significant top line growth in both years. The free cash flow was used – was principally used to pay down bank debt.

As a result of strong operating results and good cash flow conversion, our net debt to adjusted EBITDA remains below our goal of 1 times for the second consecutive quarter and we ended the year at a ratio of 0.89 times. For comparison purposes, we were at 2.8 times at the end of 2022 and 1.5 times at the end of 2023. Our gross debt at year end 2024 was $383 million, which represents a reduction of $153 million over the last two years. And our net debt was $275 million.

Working capital levels remained relatively flat throughout the year, despite significant top line growth. Working capital efficiency is greatly improved due to the process and system enhancements, resulting in the DSO decrease of 22 days over the last 24 months and the declining inventory levels of 12% over the same period.

CapEx for the full year 2024 was $105 million, which was slightly below budget due to delivery timing on certain pieces of equipment, which will now come in H1 2025. All of the above contributed to a significant improvement in the financial return profile of the company during 2024.

On a trailing 12 months basis, our return on capital employed or ROCE reached 11.6% in Q4 2024, a company best and concurrent with our robust growth investment strategy. Now on to housekeeping topics.

We spent the better part of the last two-plus years reshaping our back office and the company overall with new and updated processes, procedures and controls as well as implementing the latest software updates to our EPR system. We are very confident that we have demonstrated significant progress on the remediation of our internal control material weaknesses during 2024. And we'll give a detailed update in our 2024 Form 20-F when it's filed at the end of March.

In summary, operational execution across our key countries remained strong during the fourth quarter of 2024, while our updated processes and procedures and controls have transformed the back office and contributed greatly to our working capital efficiency. These drivers combined to generate record results for full year 2024 period with strong revenue growth, strong adjusted EBITDA and healthy cash flow conversion, the latter of which has been used to pay down debt and strengthen the balance sheet overall.

Looking ahead on capital allocation, there are several discrete growth opportunities not currently included in our budget that could require an investment decision around mid-year. It is also worth noting that our expanding base of activity and push into larger tender opportunities does require additional liquidity in the form of bid bonds and performance guarantees, which we view as favorable competitive barrier in the MENA region.

However, the strength of our balance sheet gives us flexibility of our growth plans and should market conditions change drastically from our current outlook, we certainly could evaluate other capital allocation alternatives, including returns. Anyway, we'll update further on this topic as the year progresses.

The outlook for the Middle East and North Africa region remains favorable. Upstream spending remains durable. And NESR continues to be focused on its stated goals of delivering profitable revenue growth, execution, efficiency, technology expansion, debt reduction and working capital efficiency to drive future financial performance.

On behalf of management, I'd like to thank our entire workforce for their outstanding efforts in delivering these results together with our directors, shareholders and banking consortium for their continued support. The future for NESR continues to look good.

Now I'll turn the call back to Sherif.

Sherif Foda

Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

Thanks, Stefan. Let me conclude by reiterating the key takeaways from the fourth quarter and outlook. First, while the market came into the year with extremely low expectation for the sector and while the commodity backdrop remains uncertain, we believe that MENA upstream activity will remain a relative bright spot for growth.

The gas development theme is central to this view. Although competitive, contracts in our business bring multi-year visibility to the company and overall profitability remain healthy as the sector remain disciplined. We expect 2025 to follow the same seasonal pattern as it did in 2024, with the first quarter's lowest impacted by fewer operating days and the full month of Ramadan in March, followed by a sequential activity build through the year. Overall, our 2025 growth outlook for NESR relative to the market remains unchanged.

Second, within the solid MENA backdrop, NESR is extremely well-positioned to outperform due to, one, favorable project exposure, particularly related to the broad-based gas development theme. Two, our strategic positioning in areas such as Kuwait and Libya, which are expected to lead the growth on a percentage basis. Third, our frontier technology growth leg remains on track with pilot success in ROYA, now duplicated in several countries.

And our unique NEDA positioning and investment in produced water mirroring the announcement and commitment recently made by our largest customer and across industry partners. Whereas ROYA is expected to be a more linear driver of growth from here. NEDA and our water business represent massive potential that is being defined in real-time, but nevertheless remains the long-term strategy with the expected catalyst this year.

I would like to close by thanking all of our employees, their families for an extremely strong close of 2024. And thank our partners and dear customer for their continued support and belief in NESR.

With that, I'll pass over the call to the operator for any questions. Melissa?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of David Anderson with Barclays. Please proceed with your question.

J. David Anderson
Analyst, Barclays Capital, Inc. Q

Great. Thank you. Good morning, Sherif. How are you?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp. A

Good morning, sir.

J. David Anderson
Analyst, Barclays Capital, Inc. Q

I want to ask you about your outlook in a couple of different ways. Maybe first, can we just [ph] start – you see it all the region – kind of (00:31:41) spending patterns over the region, kind of how you see that playing out during the year. It appears maybe with one exception from most of the GCCs continues to ramp-up, almost sort of aside from the oil price. Meanwhile, OPEC bringing back barrels to the market, could there be a further reduction? In Saudi, if oil prices languish, how are you sort of thinking about those missing pieces during the year? And overall, would you expect growth – overall spending growth in the Middle East at mid-single digits? Is that kind of where you're [ph] heading (00:32:14)?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp. A

Yeah, I agree. So just to answer your question, so yeah, the Middle East, I would say moderate growth in 2025 compared to 2024. So I would say a single digit growth and obviously it depends if you break it into the countries.

So Saudi will be a drop in the non-unconventional and increase in unconventional. Kuwait, no difference in growth. So it will be double-digit growth year-over-year. And you have Oman, Iraq is kind of stable. UAE will grow in – again in unconventional, I think the announcement was very clear by ADNOC on the unconventional, which is the 144 wells and the spend of $1.7 billion. This is going ahead. And obviously their capacity, so they will continue to grow as well.

And then you have – if you turn to North Africa, then obviously you have the massive Libya growth, which is again, it's not in double digit. It's an exponential, right? It depends all, there will be question on the budget and how the budget is released and the funding is transferred from Central Bank to the operator companies for them to be able to execute. However, already – as I said, the rig count is already added by 40 rigs, which is basically more than tripled the rig count, right. So if I look overall then you look at the region overall then you were talking about, as you said, a lower single digit, right? And that's why we always say, at least we're going to double that in – as we've been doing and we're going to do the same thing in 2025.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

[ph] So that was my – next part of my question (00:34:00) was kind of just focusing on NESR and your position particularly in Saudi [indiscernible] (00:34:06) if you could talk about how the mix is changed? So if we think about kind of what's all the news has come out of last 12 months and is out of the Kingdom, we've seen a reduction in the offshore? We've seen some reduction in the un – and the kind of conventional spending, but Jafurah different story altogether, can you talk about how within NESR, how that's sort of changed your mix? And kind of what's going on there? And how Jafurah is progressing and kind of your exposure and how you're thinking about that the next couple of years?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yes, sure. So if you look at the offshore, I think the offshore, as I keep saying, it was very well documented going from the 13 million capacity to the 12 billion capacity. They release [ph] the additional (00:34:48) rig that they got. So Saudi was at all-time high on the jack-ups, almost 90 or 91 and now they are back to the 58, 59 jack-ups, right. And that's basically the stability of that from here. And the oil they released as well land rigs based on not needing the additional barrels. And now it's stable already, right. So between both, I think from the oil side is stability.

Now on the gas, the normal gas [ph] there was some decline (00:35:18). And then obviously the unconventional program is increasing because they are going from 8,000 stages all the way to their goal of almost 25,000 stages a year, right. So that growth is going to continue. And the plan is on the same path. Now, our exposure as we are obviously involved from the beginning of the Jafurah in the unconvention, we continue to be part of that.

There is a huge potential. Obviously, this is going to be tendered right as the usual Saudi Aramco. So they already did that on the direction drilling and was awarded for all the rigs that they have and now they are going to do the same thing for the completion and there will always be multi awards. So that will be known sometimes in the second half of the year or maybe the end of the first half. So definitely our position will depend on the result of that. But so far we are – we look quite positive about it.

Now, if you look overall of Saudi and the OPEC, again, I mean, I think the OPEC, the way people always understand it or misunderstand it is the announcement is basically saying, I am going to be able and I have the agility and ability to add oil if, when and when needed, right? So, there is no constraint. They start from as they mentioned in April, but it's not like they are going to go, let's go and flood the market and get an oil price of $50. It's not going to happen, right.

I mean, all these countries need oil price at a minimum, a minimum above $60. And they are not going in my personal opinion allow the oil price to go below that. So which means that they just want to give themselves the opportunity if geopolitics or – and a country is out of production they will be able to make up that difference, which means that they prevent the oil price basically to go back to $100 to $120 and meaning that they have that capacity.

And everybody knows the country that holds that is Saudi Arabia really, right. So they have that 3 million barrel and they will be able to replace any oil that gets out of the market. So – and I think that's where the strength of Saudi compared to everybody else. In addition to that and that's what people again in North America sometimes they underappreciate this is convention or unconventional, right. So today, let's say, they need to produce 12 billion barrel consistently, they can. And they have that agility and ability to add rigs in case oil price goes, let's say, to $90, $100. And they need to sustain that for a long time that they can add those land rigs at a very fast time.

And obviously, this would be, again, very positive to us, right. So it's activity, which mean an increase in activity. But we are not obviously betting on that at all. What we are just saying that Saudi has that ability to go up and down. They have the capacity and the announcement of OPEC, in my opinion, is not to flood the market and lower the oil price on the contrary, is just to say, we are ready to replace any oil that gets out of the market.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Very helpful, Sherif. Thank you. If I could just squeeze one more in here. I was just wondering if you could talk about your capital allocation program here a little bit from a bigger picture. It sounded like your – there is potentially still some M&A out there. Are you more likely to spend capital internally on building out technologies or product lines? Or are you thinking more about your footprint? How are you thinking about NESR over the next few years in terms of strategically where you want to go?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Yeah, so as Stefan explained, we – obviously, we need to spend our capital – our CapEx obviously for the growth as we – as a company, we continue to grow it, so we spend our maintenance CapEx plus our growth CapEx, which could be quite significant, which is good because that means that we're going to grow even faster. And we continue to look at our platform of technology. So we are not looking at the big M&A in geographical because we are now in all the countries. We are very pleased and happy to be solid in our [ph] core countries and (00:39:56) outside.

And we surely want to enhance our drilling platform ROYA and our NEDA decarbonization. So from that technology aspect, we maintain that agility. And we obviously looking at some very, very unique and innovative solution, especially our advanced piloting of mineral recovery and direct lithium extraction. Today, if one of these projects becomes really economical and successful, it's massive, right. So we need to have that ability to acquire some of the technology partners that we are teaming with or just add to some of these projects in a bigger way.

So I think that's where we are going to see over the next couple of months how we are progressing with that. On the same time – on the direction drilling, we are obviously spending on extensive testing. And we want to add as well some very key features that I mean some of it is very unique to some of what we call like VC type of investment and some of those very innovative we might add them to our portfolio. Now if I look at that and how we produce our cash flow, we are going to obviously in the second half of the year, relook at the entire cash flow that we produce, the M&A portfolio, the platform. And then we determine should we start to do a program like share buyback or dividend or something like that. We will definitely look at that towards the second half of this year.

J. David Anderson
Analyst, Barclays Capital, Inc.

Q

Thank you very much for taking all my questions, Sherif.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thank you, sir.

Operator: Thank you. Our next question comes from the line of Arun Jayaram with JPMorgan. Please proceed with your question.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Yeah, good morning, gentlemen. I wanted to see if you could elaborate a little bit on the margin performance in the fourth quarter and thoughts on potential margin progression in 2025? I understand there's typically some seasonal factors in 1Q, which you cited, but just wanted to see if you could address kind of your confidence that these types of margins could be sustainable and as you think about the 2025?

Stefan Angeli
Chief Financial Officer, National Energy Services Reunited Corp.

A

Hey, Arun, it's Stefan. We had very good margin performance in Q4. Service quality and operational execution was very, very good, right. And when you have very good execution and service quality, it improves the margins, right. In 2025, we expect that the margins will track 2024, right and be very similar to 2024. As Sherif said, we think we'll have a high single digit growth rate in 2025, right. But there will be more competition in 2025 and so we expect the margins to track 2024 quite consistently.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

That's helpful. And just maybe my follow-up, Sherif, because I wonder if you could elaborate on commercially what's going on for NESR in Kuwait, you highlighted how you'd been selected amongst a small number of operators. Just wondering if you could highlight some of the work you're doing for KOC and perhaps you highlighted an offshore discovery, which kind of wanted to see if you can may elaborate on their plans to develop that?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Sure. So Kuwait, as I said, is the very bright spot. Obviously, they – you started kind of later than the growth that happened in the other countries. And now you see Kuwait it's above – it's 200 rigs, people don't even know that, right. So very, very, very strong activity, rigs are drilling, they have – they formulated their vision, which is 4 million barrel capacity from the current 2.5 million, 2.6 million, which means there is a lot of adds, right. So that's – and people again that North Kuwait, Burgan, which was the second – it's the second largest field in the world is obviously maturing but is producing a lot. And then now they have a lot of other projects around.

They have achieved an offshore discovery, which is very, very strong. I mean, Kuwait has always been since 1938, a land business. And now they just found two – the first two wells, I would say from an explorationist that means it's a huge success. It's 100% success. So they drilled two wells, the two wells of discovery. And one is estimated to be around 3 billion of deposit. And the second one is 1 billion of deposit. One is shallower or closer to the land than the other. And now they are on well, number three. The plan is six wells. This was always at the program they have been, six wells and then they're going to go to depending on obviously, the delineation. And how to – they're going to see how this development would be.

And for people, again, to appreciate in the Middle East or the NOC, they look at this as a very long-term view. They don't look at this as short term. So the plan would be, can I produce, 100,000 barrels, 200,000 barrels consistently from that how many jack-ups I need? What's the platform? And obviously, it's going to be a big tender at that time. And obviously they are going to formulate. Is it – I mean, today that contract is run as kind of an integrated contract. So now I think it's going to definitely move to a rig contractor alone and service company as they do in most of the offshore, but – because it was new, so KOC wanted to have that in a concentrated basis.

For us, at NESR, as I said, we started this – I mean, in Kuwait when we did – we formed the company [ph] and we refused (00:46:21) them, they have no presence in Kuwait. And today, as I said, it's our third largest country. And we have a lot of contracts now and we make sure that it is what I call the anchor country, which means that I want to have at least 10 to 12 product lines. And we are heavily tendering in 2025. I think almost all the contracts will be tendered. So we need to – we secured already couple and we need to add more. So our plan is to add more contracts to that and make it, I think will have the power to be the second largest country in our portfolio. I think it's going to be bigger than Oman.

So and that's where we want to make sure that we have a very good setup and good infrastructure. And part of that, as we do in all the countries, we develop technology with our customer and then we are part of that ecosystem, as part of the plan of KOC, of KPC, of the vision of [indiscernible] (00:47:26), adding people, et cetera. So KOC chose five companies to form this what they call the AIV or Ahmadi Innovation Valley, but similar to the Dhahran Techno Valley in Saudi. So they are going to – they assigned a big space in Ahmadi. And [ph] 250,000 meter (00:47:51) and then they are going to put company. So we were one of the five chosen from all the company in the industry.

And we are going to build what we called an innovation center. We will have technology partners, we'll have some research projects, jointly done with them and we will look at the challenges that they have, and that's how we were selected. They showed us the challenge they have on the future and we told them what are the answer product and they liked what we have. So we are part of that. What will this bring you obviously as some people say, okay, what it mean? It means some of it will be direct awarded contracts. Some of it would be obviously, again, joint research with the client, which makes you part of that ecosystem embedded in the country, DNA. And I think that's how you grow in that business, right. So we're very excited. We have a fantastic relationship with their leadership and we are looking forward to really make that a huge country for us.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great. Thanks, gents.

Operator: Thank you. Our next question comes from line of Jeff Robertson with Water Tower Research. Please proceed with your question.

Jeff Robertson
Analyst, Water Tower Research LLC

Q

Thanks. Good morning. Sherif as the emphasis on unconventional resources grows will that have any material impact on product mix and the margins for NESR?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Well, I mean, today we have the unconvention in our mix, obviously, and this will continue. It's basically like the United States, is the big frac business. So the difference would be as the activity grow and efficiency improve you continue to kind of try to maintain – what I call try to maintain the margins while the cost is increasing, but the efficiency try to offset that increases. So in the future, that's what we are planning to do. Same way more efficiency, more technology.

Today, Saudi Arabia, Jafurah is state-of-the-art and a lot of people as well question would Saudi be able to have efficiency of the Permian? Yes, they do. Right? So Saudi Arabia is at that level pumping at 20 hours a day to 23 hours a day, multi-stage, dual frac, et cetera. So all the latest is there and obviously the efficiency keep improving. So today in some cases, we do 18 stage a day, 19 stage a day, some other technology we are bringing we have partners with US and that's basically how you maintain that improvement in efficiency and trying to get the reduction in cost to be able to maintain economical for that cost curve, right.

In addition to that in the same field, we are trying some new stuff on – along with our customer on the water, right, which I think I'm still such a big believer that the industry should do a better job in reusing its resources. So that's how you recycle the water, try to get the minerals out. If you get some products of that as well, you sell it so that improve your margin and as well contribute to the climate. And I think if we do that, we would be able to maintain and even improve the margins in the future because we are adding new business to that platform.

Jeff Robertson
Analyst, Water Tower Research LLC

Q

Secondly, on the ROYA platform, what's the pathway to continue to test that and ultimately be able to use that technology in new contracts?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

So the ROYA steerable business is a very, I would say, extensive testing if you do it in a very reliable way. So today, our ROYA platform, which is the RSS rotary steerable, MWD, LWD is what I call a success technological. So the technology works. We proved it. We proved it in the US, 70,000 feet drilled. Now what you're doing is you go through a very deliberate, extensive testing that is very rigid.

And every time you pass a stage, you go and you'll test everything. So, for example, our auditors today, we are – after the wells and after the drilling that we did, we bring back those tools and we test. We do it like destructive testing, check everything, make sure that we believe and we know how the toll is ruggedized, how it will be able to drill in different formations than we send it and do another test or another jobs.

All these jobs, obviously, once we know drilling exactly like the competition or like the market, we charge for it already, right. So as I said, we have this good outcome that we have contracts already. So we are delivering on those contracts. So I would say by H2, by the second half of this year, we'll be able to determine now everything is commercial and they are reliable. We'll obviously always have some teething issue, but the tool is reliable enough to be a market standard to call it a commercial tool.

Jeff Robertson
Analyst, Water Tower Research LLC

Q

Thank you for taking my questions.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thank you, sir.

Operator: Thank you. Our next question comes from the line of Arvind Sanger with Geosphere Capital. Please proceed with your question.

Arvind S. Sanger
Analyst, GeoSphere Capital Management LLC

Q

Thank you. Good morning, Sherif. Question on the valuation gap between where NESR is valued and similarly positioned serving the same markets in Middle East and maybe a little bit of North Africa that are listed in the Middle East are valued. I mean, it's a valuation gap that you can drive a truck through. So any thoughts on how you might be able to close that gap?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Well, very good question, Arvind. I mean, I wish I understand the market. Our growth story is obviously very unique and we continue to do the same. I think maybe it's a bit underappreciated. If I call on the Middle East, obviously, if that's your question on the companies that are listed in the Middle East, obviously they are well positioned like ADNOC drilling, ADC, ADES. These are the three, I would say the companies listed there. And definitely it's something we are looking at extensively. We looked at it in the past.

There is, for people to, again, appreciate there is no fungibility between the exchange – any exchange actually in the Middle East and any exchange in the US or in Europe. So what you have to do is you have to [ph] EDRs, if you do a (00:55:12) listing or at a certain point of time, if you can say, as you said or as you are asking that this allocation totally, definitely, you look at new ideas, right.

Should you list there and [ph] should you do (00:55:27) something different? But so far, we are on the course to see, I think we – people – I think maybe you need to appreciate us more in – on the Nasdaq or in the US. And we something that we're going to monitor while we are keeping the dialogue with our friends and folks in the Middle East listing agencies.

Arvind S. Sanger
Analyst, GeoSphere Capital Management LLC

Q

Understood. And one last question. The warrants I didn't see anything in the press release. Are those expiring this summer?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

No. We extended the warrants until June 2026. It's not in the press release, but it would be in the Form 20-F. So it is a public that we extended them to June of 2026.

Arvind S. Sanger
Analyst, GeoSphere Capital Management LLC

Q

Okay. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from line of John Ajay with Occam Crest Management. Please proceed with your question.

John N. Ajay
Analyst, Occam Crest Management LP

Q

Yes, hi. I'd like to see if you can quantify a base case for overall weighted average market growth for 2025 and the base case for NESR growth? But more importantly, I'd like to understand your level of visibility and confidence in delivering that level of base case NESR growth? And what are some of the key assumptions that could swing it one way or the other on oil prices or geopolitical developments? And as far as oil prices go my understanding is and I'd like to see if this is correct, is that 80% of your business is not oil price sensitive, but I'd like to understand what would be an adverse oil price scenario that might cause overall market growth or your growth to be a little lower? And how much – what is that sensitivity?

And then I'd like to understand kind of you talked about there being some exciting growth opportunities and you want to see how some things play out on deploying capital in those organic opportunities. I'd like to understand on top of this base case, how significant could some of these opportunities be in terms of layering significant revenue on top of this base case?

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thanks, Ajay. Obviously a lot of assumption here. So let me try to answer all your questions. So the MENA region growth 2025 over 2024 would be anywhere depending on who you talk to, depending on the assumption that you have, rigs are coming on time, some of the project gets delayed, et cetera. We are talking about 3% to 4% and I would say minimum we're going to do is 8% to 10%, right.

So that's the growth profile we see ourselves versus the other. Why? Because we have that luxury of being small. So if you are small and you have contracted. You have the visibility of those contracts, you add new contracts to it and then you make the math, you're going to make it, right? So if you are 10% of the market being – growing it's not that hard versus if you are 50% of the market it's going to be very difficult because you'll have to follow the market.

The best example of that, as I keep saying, is our position in Oman. So in Oman we are very big in terms of percentage. We are, I would say, the third largest service company. And we grow with the market. We don't outpace the market. When we'll outpace the market, we outpace market, if we win a new service line that we don't have, which is today, we are tendering couple of contracts that we don't have. If we win them, we will outgrow the market even in Oman, right.

Now on your assumption of the oil price, I would say that's my personal view that the oil price will maintain in that range, $60 to $70, which means that this is basically all the assumption and all the budget of all our customer and all the countries where we operate, right. Remember the country's main source of revenue in the Middle East is oil and gas. So they plan their budget based on that. So I don't think that they will let the oil price go to as people think below $50 or whatever, right?

And let's say, it does happen, right? And just I think that's your second question. If that happens, yes, definitely, they are going to curtail production. They are going to shut down some business, some added projects that they not – they don't need now because they can produce. And because if it goes below $50 that means that there is massive surplus in the market and demand is not coming back. And China is not recovering, which means that oil price – so they will ask oil price reduction and they will curtail some of their business. Would it mean that will affect? For sure, it will affect our business and affect everybody, right.

So – but again, if you look at MENA overall, that's the whole theory of the business, it never had that kind of downturn that you have in North America, which is like a meltdown, doesn't have that, right. So you're going to get a reduction will be flat instead of growing. Our margin drops 200 basis points, 300 basis points, right. Now on the sensitivity – on the gas, we are obviously – the Middle East now is – our revenue, I would say almost 50/50.

So the gas program is going to continue regardless of the oil price because that's an internal consumption. It is not for LNG, it's not for export. It is for internal consumption and all of them have that kind of objective of having their internal consumption is made out of gas and renewable and they want to stop burning liquid and especially in the summer months where the air condition is really heavily used and they use a lot of it. And I tried to mention as well that they are going very, very heavy on data centers and AI.

If you – I was just in CERAWeek, met with the leadership of UAE and Saudi and they put this in their presentation, a massive, massive growth in gas. They're talking about 70% more, which means that's a lot of projects and a lot of gas to be burned obviously to make that leadership that they want to have on AI. I think I answered all your question. Oh, you had one on the capital. I mean, there is so many opportunities that we are working on.

I would say, we would know sometime by the second half how much of all these projects turning out. And then obviously, we finish our tendering process as well. So we know how much CapEx, how many new contracts we get. I mean, we just tendered several contracts in several countries. I think we are going to get the positive indication on a couple of them, which is new to us and definitely we are going to deploy, which is new, something good for the growth.

Now, as I said, the second half, once we evaluate all these projects and we look at our cash flow, definitely Stefan is going to look into details as well with the refinance and everything. And we'll see should we start to do a capital return program as share buyback or dividend or whatever. We definitely going to announce and seek obviously board approval and all these things and announce at some time in second half.

John N. Ajay
Analyst, Occam Crest Management LP

Q

Great. Well, thanks for the update. Really appreciate it.

Sherif Foda
Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

A

Thank you, sir.

Operator: Thank you. That concludes our question-and-answer session. I'll turn the floor back to Mr. Foda for any final comments.

Sherif Foda

Chairman & Chief Executive Officer, National Energy Services Reunited Corp.

Thank you very much. We really appreciate your time and appreciate your belief. And again, I'd like to thank you all for your support and belief in the journey.

Thank you very much. Very excited for 2025. Thank you.

Operator: Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.