

Stock Analysis

Saudi Arabia / Machinery / SASE:9528

Should You Be Impressed By Gas Arabian Services Company's (TADAWUL:9528) ROE?



Simply Wall St

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One of the best investments we can make is in our own knowledge and skill set. With that in mind, this article will work through how we can use Return On Equity (ROE) to better understand a business. By way of learning-by-doing, we'll look at ROE to gain a better understanding of Gas Arabian Services Company (TADAWUL:9528).

ROE or return on equity is a useful tool to assess how effectively a company can generate returns on the investment it received from its shareholders. In other words, it is a profitability ratio which measures the rate of return on the capital provided by the company's shareholders.

[Check out our latest analysis for Gas Arabian Services](#)

How Is ROE Calculated?

ROE can be calculated by using the formula:

Return on Equity = Net Profit (from continuing operations) ÷ Shareholders' Equity

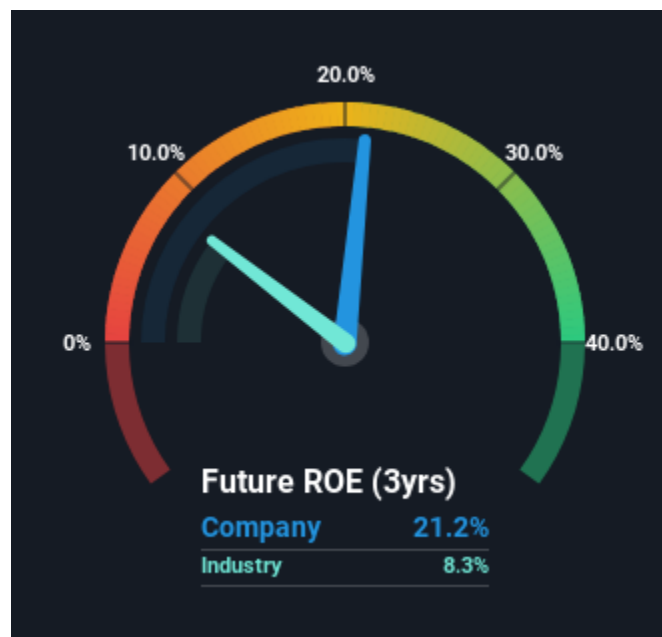
So, based on the above formula, the ROE for Gas Arabian Services is:

21% = 67م.س ÷ 317م.س (Based on the trailing twelve months to December 2022).

The 'return' is the yearly profit. One way to conceptualize this is that for each SAR1 of shareholders' capital it has, the company made SAR0.21 in profit.

Does Gas Arabian Services Have A Good ROE?

By comparing a company's ROE with its industry average, we can get a quick measure of how good it is. However, this method is only useful as a rough check, because companies do differ quite a bit within the same industry classification. Pleasingly, Gas Arabian Services has a superior ROE than the average (8.3%) in the [Machinery industry](#).



SASE:9528 Return on Equity August 1st 2023

That is a good sign. However, bear in mind that a high ROE doesn't necessarily indicate efficient profit generation. Aside from changes in net income, a high ROE can also be the outcome of high debt relative to equity, which indicates risk. To know the 2 risks we have identified for Gas Arabian Services visit our [risks dashboard for free](#).

How Does Debt Impact Return On Equity?

Virtually all companies need money to invest in the business, to grow profits. The cash for investment can come from prior year profits (retained earnings), issuing new shares, or borrowing. In the first two cases, the ROE will capture this use of capital to grow. In the latter case, the use of debt will improve the returns, but will not change the equity. In this manner the use of debt will boost ROE, even though the core economics of the business stay the same.

Combining Gas Arabian Services' Debt And Its 21% Return On Equity

Shareholders will be pleased to learn that Gas Arabian Services has not one iota of net debt! Its solid ROE indicates a good business, especially when you consider it is not using leverage. At the end of the day, when a company has zero debt, it is in a better position to take future growth opportunities.

Summary

Return on equity is useful for comparing the quality of different businesses. Companies that can achieve high returns on equity without too much debt are generally of good quality. If two companies have the same ROE, then I would generally prefer the one with less debt.

Having said that, while ROE is a useful indicator of business quality, you'll have to look at a whole range of factors to determine the right price to buy a stock. The rate at which profits are likely to grow, relative to the expectations of profit growth reflected in the current price, must be considered, too. So I think it may be worth checking this [free this detailed graph of past earnings, revenue and cash flow](#).

But note: Gas Arabian Services may not be the best stock to buy. So take a peek at this [free list of interesting companies with high ROE and low debt](#).

Valuation is complex, but we're helping make it simple.

Find out whether Gas Arabian Services is potentially over or undervalued by checking out our comprehensive analysis, which includes fair value estimates, risks and warnings, dividends, insider transactions and financial health.

[View the Free Analysis](#)

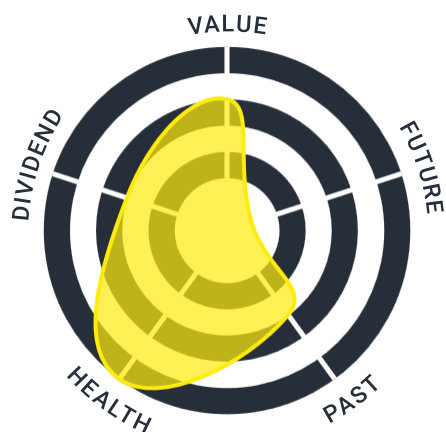
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About SASE:9528

Gas Arabian Services

Gas Arabian Services Company provides products and services for automation, instrumentation, field services, mechanical, and piping and static fields in the Kingdom of Saudi Arabia.



Flawless balance sheet and good value.

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Mediterranean and Gulf Cooperative Insurance and Reinsurance (TADAWUL:8030) shareholders are up 18% this past week, but still in the red over the last three years



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