FAB أبوظبي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 2Q25

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Drilling (ADNOCDRI)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.83	AED 6.50	+11.5%	ACCUMULATE

2Q25 Net Profit in line with our estimate

- Net revenue grew strongly 27.9% YOY to USD 1,197 Mn in 2Q25, driven by growth across Onshore and Oilfield services (OFS) owing to the expansion of the operations.
- Onshore Segment revenue grew 16.2% YOY to USD 513 Mn in 2Q25, primarily due to new rigs starting operations and USD 49 Mn contribution from unconventional activity related to land drilling.
- Revenue from the Offshore Jack-up & Island remained flat at USD 338 Mn in 2Q25, as the impact of higher major maintenance activity offset the benefits from one rig conversion from Onshore to Offshore and limited contributions from two jack-up rigs that began operations near the end of 2Q25.
- OFS segmental revenue grew significantly from USD 157 Mn in 2Q24 to USD 346 Mn in 2Q25, primarily driven by USD 143 Mn revenue from the unconventional business alongside increased IDS activity and expanded delivery of discrete services.
- Gross profit grew 12.1% YOY to USD 444 Mn in 2Q25, while gross profit margin fell 523 bps YOY to 37.1% in 2Q25.
- EBITDA grew strongly 15.5% YOY to USD 545 Mn in 2Q25, owing to robust revenue growth partially offset by a rise in direct costs. EBITDA margin fell 490 bps YOY to 45.6% in 2Q25.
- Onshore segment EBITDA rose 23.0% YOY to USD 260 Mn in 2Q25, due to higher revenue and the realization of cost optimization initiatives.
- Offshore Jack-up & Island segment's EBITDA rose from USD 223 Mn in 2Q24 to USD 233 Mn in 2Q25, supported by lower operating expenses owing to cost optimization initiatives.
- OFS segment EBITDA grew from USD 37 Mn in 2Q24 to USD 52 Mn in 2Q25, driven by higher operational activity, increased contributions from the Enersol and Turnwell joint ventures, and stronger revenue from the unconventional business.
- Net profit grew 19.0% YOY to USD 351 Mn in 2Q25, owing to strong revenue growth and lower finance costs, partially offset by higher direct costs, G&A expenses and tax charges.
- The board of directors approved a cash dividend of c. 5 fils per share amounting to USD 217 Mn for 2Q25, payable to shareholders on record as of August 8, 2025.

Earnings Call Summary

- ADNOCDRILL's total rig count reached 149 during 2Q25, comprising 102 land rigs and 47 offshore rigs. This figure includes the rigs acquired under the SLB partnership, which will be fully consolidated upon completion of the transaction.
- The Company secured over USD 4.8 Bn in new contracts during 2Q25.
- The Company made significant progress in its unconventional operations, with 58 out of 144 planned wells already drilled.
- ADNOCDRILL's capex for 2Q25 amounted to USD 244 Mn, in line with the Company's initiatives for fleet expansion, digital transformation, and equipment upgrades.
- The Company expects to generate between USD 1.4-1.6 Bn in free cash flow for 2025, or at least USD 1 Bn after deducting M&A investments.
- The Company's 2025 revenue guidance has been revised upward to USD 4.65-4.8 Bn compared to the previous range, with OFS revenue now projected at USD 1.2-1.3 Bn, driven by growth in IDS, discrete services, and unconventional programs.
- The Board retains the discretion to distribute dividends above the announced USD 867 Mn, under its progressive dividend policy.

- Net profit guidance has been upgraded to USD 1.375-1.45 Bn compared to USD 1.35-1.45 Bn for 2025.
- The Company expects revenue, EBITDA, and net profit for 3Q25 to remain broadly in line with 2Q25 levels, as the anticipated decline in unconventional revenue is likely to be offset by the full-quarter contribution from newly added offshore jackups.
- ADNOCDRILL's unconventional revenue for 2026 is projected at USD 0.6 Bn, in line with 2025 levels.
- The Company's current fleet size of 149 rigs already surpassed the interim 2026 target of 148 rigs, positioning the Company to exceed its goal of 151 rigs by 2027.
- The Company intends to pursue M&A activity deliberately and strategically, with a particular focus on opportunities within the GCC region.
- The strong upside in the OFS segment revenue was primarily due to the new contract wins during 2Q25.
- The Company's USD 5 Bn revenue guidance for 2026 factors in USD 100 Mn from the SLB acquisition, accounting for an 80%-year contribution, instead of the full USD 125 Mn, as the deal will not be effective for the entire year.

ADNOC Drilling – P&L

USD Mn	**2Q24**	**1Q25**	**2Q25A**	**2Q25F**	**VAR**	**YOY Ch**	**QOQ Ch**
Revenue	935	1,170	1,197	1,176	1.8%	27.9%	2.3%
Direct Cost	-539	-723	-753	-727	3.5%	39.6%	4.1%
Gross Profit	**396**	**447**	**444**	**448**	**-0.9%**	**12.1%**	**-0.6%**
G&A Expenses	-41	-49	-45	-47	-5.3%	8.3%	-8.8%
EBITDA	**472**	**533**	**545**	**535**	**1.8%**	**15.5%**	**2.3%**
EBIT	**355**	**398**	**400**	**401**	**-0.4%**	**12.6%**	**0.4%**
Share of results of a joint venture	1	3	11	3	NM	NM	NM
Other Income	1	2	1	2	-46.4%	-5.0%	-54.0%
Finance Costs	-33	-29	-27	-28	-5.9%	-19.4%	-8.6%
Profit before tax	**324**	**374**	**385**	**378**	**1.9%**	**18.8%**	**3.0%**
Corporate tax	-29	-33	-34	-34	-0.5%	16.9%	3.3%
Net Profit	**295**	**341**	**351**	**344**	**2.2%**	**19.0%**	**2.9%**

FABS estimate & Co Data

Revised Guidance

(USD, Billion)	FY 2025 Previous Guidance	FY 2025 New Guidance
Revenue	**4.60 – 4.80**	**4.65 - 4.80**
Onshore Revenue	1.95 – 2.10	1.95 - 2.10
Offshore Revenue (Jack-up & Island)[1]	1.35 – 1.45	1.35 - 1.45
Oilfield Services Revenue	1.10 – 1.25	**1.20 - 1.30**
EBITDA	**2.15 – 2.30**	**2.15 - 2.30**
EBITDA Margin	*46% – 48%*	*46% - 48%*
Net Profit	**1.35 – 1.45**	**1.375 - 1.45**
Net Profit Margin	*28% – 30%*	*29% - 31%*
CapEx (excluding M&A)[2]	**0.35 – 0.55**	**0.35 - 0.55**
FCF (excluding M&A)[3]	**1.30 – 1.60**	**1.40 - 1.60**
Leverage Target	**< 2.0x**	**< 2.0x**
Dividend floor (+10% vs 2024)	**0.87**	**0.87**

Medium-Term Guidance

- FY 2026 revenue expected at ~$5 billion
- Around 50% conventional EBITDA margin (conventional drilling margins exceeding 50% and OFS margin in a range of 22-26% medium-term)
- Conservative long-term leverage target of up to 2.0x Net Debt / EBITDA
- Net working capital as percentage of revenue target of around 12%
- Maintenance CapEx of $200 - $250 million per annum (excluding organic and inorganic growth CapEx)
- 151+ by 2028

1) Starting from the first quarter of 2025, the Company has simplified its reporting structure by reducing the number of segments from four to three. The results of Offshore Jack-Up and Offshore Island will be combined under a new segment called Offshore.

2) Maintenance CapEx + CapEx for island rigs. It does not consider cash outflows associated with M&A.

3) Free Cash Flow calculated as EBITDA – CapEx – D Working Capital – taxes. It does not consider cash outflows associated with M&A.

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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