

ADNOC Drilling (ADNOCDRIL)

Robust order backlog and ongoing rig fleet expansion continued to drive profitability

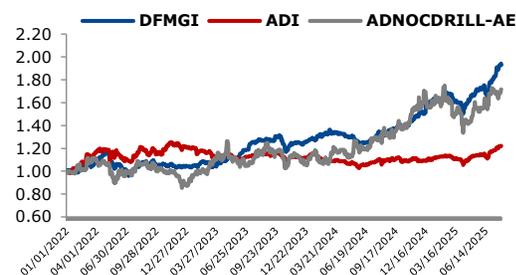
Current Price
AED 5.84

Target Price
AED 6.50

Upside/Downside (%)
+11.3%

Rating
ACCUMULATE

- Revenue grew 27.9% YOY to USD 1,197 Mn in 2Q25, driven by strong growth across the Onshore and the OFS segment.
- The Company's Unconventional operations generated USD 192 Mn in revenue during 2Q25.
- Revised revenue guidance to USD 4.65-4.80 Bn compared to the previous range, with OFS segment revenue now projected at USD 1.20-1.30 Bn during 2Q25.
- Net profit guidance has also been upgraded to USD 1.375-1.45 Bn compared to USD 1.35-1.45 Bn for 2025.
- In line with its dividend policy, the Company's Board approved a dividend of USD 217 Mn for 2Q25.



2Q25 Net Profit in line with our estimate

ADNOC Drilling Co. PJSC (ADNOCDRILL/the Company) Net profit grew 19.0% YOY to USD 351 Mn in 2Q25, in line with our estimate of USD 344 Mn. The increase in net profit is mainly attributable to strong growth in revenue owing to the expansion of operations and lower finance costs, partially offset by higher direct costs, higher G&A expenses and tax charges.

P&L Highlights

ADNOC Drilling's 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 compared to 2Q24, 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. Direct cost grew 39.6% YOY to USD 753 Mn in 2Q25. Thus, the Company's 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. G&A expenses grew 8.3% YOY to USD 45 Mn in 2Q25. Thus, EBITDA rose 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

Stock Information

Market Cap (AED, mm)	93,280.00
Paid Up Capital (mm)	15,996.02
52 Week High	6.01
52 Week Low	4.21
3M Avg. daily value (AED)	9,674,880

2Q25 Result Review (USD, Mn)

Total Assets	7,918
Total Liabilities	4,025
Total Equity	3,892
EBITDA	545
Net Profit	351

Financial Ratios

Dividend Yield (12m)	3.1
Dividend Pay-out (%)	60.45
Price-Earnings Ratio(x)	17.81
Price-to-Book Ratio (x)	6.09
Book Value (AED)	0.87
Return-on Equity (%)	36.85

Stock Performance

5 Days	1.92%
1 Months	2.28%
3 Months	18.98%
6 Months	9.38%
1 Year	34.33%
Month to Date (MTD%)	2.28%
Quarter to Date (QTD%)	2.28%
Year to Date (YTD%)	9.38%

initiatives. The 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 unconventional business. The Company's net finance costs declined 19.4% YOY to USD 27 Mn in 2Q25. The share of results of a JV increased significantly from USD 1 Mn in 2Q24 to USD 11 Mn in 2Q25, driven by higher profit contributions from the joint ventures. Other income declined from USD 1 Mn in 2Q24 to USD 0.9 Mn in 2Q25. Tax charges grew from USD 29 Mn in 2Q24 to USD 34 Mn in 2Q25.

Balance Sheet Highlights

ADNOC DRILL cash and cash equivalents grew from USD 259 Mn in 1Q25 to USD 330 Mn in 2Q25. Net debt declined from USD 2.1 Bn in 1Q25 to USD 2.0 Bn in 2Q25. Net debt to LTM EBITDA ratio decreased from 1.0x in 1Q25 to 0.9x in 2Q25. ADNOC Drilling's cash flow from operations improved from USD 518 Mn in 2Q24 to USD 649 Mn in 2Q25, mainly due to higher profitability and cash generated from working capital during 2Q25. The Company's net working capital remained stable at USD 335 Mn in 2Q25, compared to 1Q25. Capex grew from USD 91 Mn in 1Q25 to USD 244 Mn in 2Q25.

Target Price and Rating

We maintain our ACCUMULATE rating on ADNOC DRILL with a target price of AED 6.50. The Company delivered robust profitability growth in 2Q25, supported by continued rig fleet expansion, solid performance in the Oilfield Services (OFS) segment, and increased activity in unconventional drilling operations. As of June 2025, the Company operated a total fleet of 149 rigs, comprising 102 land rigs and 47 offshore rigs. This figure includes rigs from the SLB acquisition, which will be fully consolidated following the completion of the transaction. Excluding the eight rigs involved in the SLB transaction, the Company maintained a 96% fleet availability rate in 2Q25. ADNOC DRILL also secured six additional island rigs that will be added incrementally bringing the total to 151+ by 2028. The Company's Unconventional operations generated USD 192 Mn in revenue during 2Q25. Additionally, ADNOC DRILL expects Phase 1 of the unconventional project to contribute USD 0.6 Bn in revenue for 2025. During 2Q25, the Company secured over USD 4.8 Bn in new contracts, which significantly strengthened the Company's long-term revenue visibility. The Company's JV Enersol continued to advance its acquisition strategy, having deployed c.USD 800 Mn to date across various transactions. These investments have supported the adoption of advanced technologies, data analytics, and AI-driven tools across its operations. ADNOC DRILL also maintains a robust and active M&A pipeline, with several opportunities currently under assessment. The Company remains focused on pursuing value-accretive, strategic expansions primarily within the GCC region aligned with ADNOC's core competencies and regional strengths. The Company recently revised its guidance, driven by strong performance across the OFS segments and the addition of new contract awards. Revenue for 2025 is projected to be revised upward to USD 4.65-4.80 Bn compared to the previous range, with OFS segment revenue now projected at USD 1.20-1.30 Bn, driven by growth in IDS, discrete services, and unconventional programs. Improved drilling efficiency, including a 22% boost in Integrated Drilling Services (IDS) performance, is expected to support margin expansion. Additionally, EBITDA is expected between USD 2.15-2.30 Bn, with margins of 46-48% for 2025. Net profit guidance has been upgraded to USD 1.375-1.45 Bn compared to USD 1.35-1.45 Bn for 2025. ADNOC DRILL's capex excluding M&A is projected at USD 350-550 Mn for 2025, for rig maintenance and investments in new island rigs. Moreover, in line with its dividend policy, the Company's Board approved a 2Q25 dividend of USD 217 Mn, payable to shareholders on record as of August 8, 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. Thus, considering all the above-mentioned factors, we maintain our ACCUMULATE rating on the stock.

ADNOC Drilling- Relative Valuation

(at CMP in USD)	2021	2022	2023	2024	2025F
PE	42.1	31.7	24.6	19.5	17.7
PB	9.1	8.7	7.8	6.7	5.7
EV/EBITDA	25.3	21.6	18.2	13.6	12.5
BVPS (AED)	0.641	0.672	0.749	0.874	1.014
EPS (AED)	0.139	0.184	0.237	0.299	0.330
DPS (AED)	0.157	0.157	0.164	0.181	0.199
Dividend yield	2.7%	2.7%	2.8%	3.1%	3.4%

FABS Estimates & Co Data
ADNOC Drilling – P&L

USD Mn	2Q24	1Q25	2Q25A	2Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	935	1,170	1,197	1,176	1.8%	27.9%	2.3%	4,034	4,776	18.4%
Direct Cost	-539	-723	-753	-727	3.5%	39.6%	4.1%	-2,337	-2,929	25.3%
Gross Profit	396	447	444	448	-0.9%	12.1%	-0.6%	1,697	1,848	8.9%
G&A expenses	-41	-49	-45	-47	-5.3%	8.3%	-8.8%	-155	-186	19.9%
EBITDA	472	533	545	535	1.8%	15.5%	2.3%	2,015	2,195	8.9%
EBIT	355	398	400	401	-0.4%	12.6%	0.4%	1,541	1,661	7.8%
Share of results of a JV	1	3	11	3	NM	NM	NM	8	28	NM
Other Income- Net	1	2	1	2	-46.4%	-5.0%	-54.0%	6	7	12.2%
Finance Costs- Net	-33	-29	-27	-28	-5.9%	-19.4%	-8.6%	-124	-115	-7.7%
Profit before tax	324	374	385	378	1.9%	18.8%	3.0%	1,432	1,582	10.5%
Corporate tax	-29	-33	-34	-34	-0.5%	16.9%	3.3%	-129	-142	10.8%
Profit for the period	295	341	351	344	2.2%	19.0%	2.9%	1,304	1,439	10.4%

FABS estimate & Co Data
ADNOC Drilling - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	42.3%	38.2%	37.1%	-523	-108	42.1%	38.7%	-338
EBITDA	50.5%	45.5%	45.6%	-490	2	49.9%	46.0%	-399
Net Profit	31.5%	29.1%	29.3%	-221	18	32.3%	30.1%	-218

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value ADNOC Drilling. We have assigned 80% weight to DCF and 20% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	6.72	80.0%	5.37
Relative Valuation (RV):			
EV/EBITDA	4.21	10.0%	0.42
P/E	7.06	10.0%	0.71
Weighted Average Valuation (AED)			6.50
Current market price (AED)			5.84
Upside/Downside (%)			+11.3%

1) DCF Method:

ADNOC DRILL is valued using free cash flow to the firm. We have discounted the cash flow using a weighted average cost of capital of 8.4%. It is arrived at after using the cost of equity of 8.8% and the after-tax cost of debt of 4.6%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 1.0, and an equity risk premium of 3.9%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	6,655
Terminal value (USD, Mn)	24,582
FV to Common shareholders (USD, Mn)	31,237
No. of share (Mn)	16,000
Current Market Price (AED)	5.84
Fair Value per share (AED)	6.72

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,519	1,668	1,831	1,936	2,051
D&A	526	509	494	479	464
(-) Capex	-1,000	-375	-355	-325	-295
Change in working capital	-139	-80	-63	-17	-34
Free Cash Flow to Firm (FCFF)	906	1,722	1,907	2,073	2,185
Discounting Factor	0.98	0.89	0.82	0.76	0.70
Discounted FCFF	445¹	1,536	1,570	1,574	1,530

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used regional and global peers to value ADNOC DRILL, which is valued using the EV/EBITDA and PE multiple. We have applied a premium to peer valuation since the majority of the Company's revenue is earned on a contract basis from the ADNOC Group. In addition, ADNOC Group also plans to accelerate its production capacity from four million barrels per day to five million barrels of oil per day, which is leading ADNOC Drilling to invest in rigs to boost capacity and provide service to the parent. It is valued at a 2025 EV/EBITDA and PE multiple of 9.3x and 21.4x, respectively, compared to the peer multiple of 6.2x and 14.2x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Halliburton	19,678	6.6	6.6	10.8	10.6
Schlumberger (Us)	53,158	7.6	7.1	12.3	11.6
Baker Hughes Company	45,104	10.4	9.6	19.0	17.1
Petrovietnam Drilling & Well Service Corporation	449	6.3	5.0	17.1	11.6
Borr Drilling Limited	575	5.3	6.2	11.8	NA
ADES Holding Co	3,754	7.8	7.4	16.2	13.9
China Oilfield Services	7,496	5.3	5.0	7.8	7.1
Weatherford International	4,227	4.9	4.8	11.1	10.1
Seadrill Limited	1,902	6.0	5.4	30.8	9.6
Arabian Drilling Co	1,840	6.5	6.1	19.6	15.2
Odfjell Drilling Ltd	1,770	5.5	4.6	10.8	7.0
Noble Corp PLC	4,503	5.6	5.4	19.1	16.9
Average		6.5x	6.1x	15.5x	11.9x
Median		6.2x	5.8x	14.2x	11.6x
Max		6.8x	6.7x	19.0x	14.5x
Min		5.5x	5.0x	11.0x	9.9x

Source: FAB Securities

