FAB أبوظبي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 2Q26

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Drilling (ADNOCDRI)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.82	AED 7.00	+20%	BUY

2Q26 Net Profit in line with our estimate

- Revenue grew 2.9% YOY to USD 1,232 Mn in 2Q26, driven by the consolidation of SLDC and MBPS, the contribution of two jack-ups that commenced operations at the end of 2Q25, the partial contribution of the AI-enabled island rig delivered in June 2026, and higher fuel escalation, partially offset by the repurposing of certain onshore rigs and the lower phasing of unconventional activity, which contributed USD 75 Mn to 2Q26 revenue.
- Onshore Segment revenue increased 8.1% YOY to USD 554 Mn in 2Q26, primarily driven by the consolidation of SLDC and MBPS, along with higher fuel escalation. The growth was partially offset by the anticipated impact of the repurposing of certain onshore rigs.
- Revenue from the Offshore Jack-up & Island segment increased 5.9% YOY to USD 358 Mn in 2Q26, supported by the contribution of two jack-up rigs that commenced operations at the end of 2Q25, along with the partial contribution from the additional AI-enabled island that began operations in June 2026.
- Oil Field Services (OFS) segment revenue declined 8.0% YOY to USD 320 Mn in 2Q26, primarily reflecting the anticipated lower phasing of unconventional activity, partially offset by higher Integrated Drilling Services (IDS) activity as the number of IDS rigs increased from 58 to 61.
- Gross profit increased 3.9% YOY to USD 461 Mn in 2Q26, while gross profit margin expanded 35 bps YOY to 37.5% in 2Q26.
- EBITDA increased 2.2% YOY to USD 557 Mn in 2Q26, while EBITDA margin narrowed 31 bps YOY to 45.3%, as growth was driven by margin-dilutive channels, namely the consolidation of the regional land rig platforms and higher fuel escalation revenue, alongside the anticipated lower phasing of unconventional activity.
- Onshore segment EBITDA decreased 7.3% YOY to USD 241 Mn in 2Q26, similarly, EBITDA margin contracted 700 bps YOY to 44%.
- Offshore Jack-up & Island segment's EBITDA increased 3.4% YOY to USD 241 Mn in 2Q26, supported by the contribution of two jack-ups that commenced operations at the end of 2Q25 and the partial contribution of the additional AI-enabled island rig that joined the fleet in June 2026.
- OFS segment EBITDA increased 44.2% YOY to USD 75 Mn in 2Q26, with margin expanding 800 bps YOY to 23%, as the anticipated lower phasing of unconventional activity, which carries relatively lower margins, drove a 17.2% YOY reduction in operating expenses against 7.8% YOY decline in revenue, supported by higher IDS activity as the IDS rig count increased from 58 to 61 in 2Q26.
- Net profit attributable to equity shareholders increased 1.7% YOY to USD 357 Mn in 2Q26, driven by revenue growth from Onshore and Offshore segments partially offset by a decline in the contribution from joint ventures, an increase in depreciation and amortization, higher net finance costs and tax charges, and the first-time recognition of non-controlling interests following the consolidation of SLDC and MBPS. Net profit margin was broadly stable at 29.0% in 2Q26 compared to 29.3% in 2Q25.

Earnings Call Summary

- ADNOCDRILL's delivered 99% rig availability in 1H26 with 394 wells drilled and non-productive time reduced 61% versus target, while integrated drilling efficiency improved 30% YOY against the 2025 benchmark, driving cumulative client savings of USD 110 Mn in 1H26.
- After quarter end, one repurposed land rig commenced operations in Oman, marking the Company's first organic rig deployment outside the UAE, enabled through the MBPS platform. Company

characterized the deployment as purely incremental with no additional capex, as the rig was already carried at book value and had generated no revenue or earnings in 1Q26 or 2Q26.

- Onshore fleet stood at 122 rigs at 2Q26 (92 in Abu Dhabi and 30 across the GCC), delivering 159 wells in the quarter and 319 in 1H26 at 99% rig availability.
- Offshore fleet reached 49 rigs (36 jack-ups, 13 island rigs), drilling 44 wells in the quarter and 75 in 1H26, with the first AI-enabled walking island rig AD-300 delivered in June 2026, nearly three months ahead of schedule. A further island rig is expected to commence operations around mid-3Q26, while two jack-ups are being repurposed, partly offsetting the additions.
- IDS rig count increased to 61 from 58 YOY, with OFS services extended to 114 rigs of the owned fleet, and the segment targeting 70 IDS rigs by year-end 2026.
- Sequential 3Q26 growth is underpinned by three drivers which are one additional month of consolidated MBPS revenue, incremental island rig activity comprising a full-quarter contribution from the June delivery plus the start-up of a further rig, and early MBPS cross-border synergies in Oman where one land rig is already supporting PDO.
- The Company reaffirmed FY26 guidance but guided to the low end of the published ranges, citing revenue of USD 5.0 Bn, EBITDA of around USD 2.2 Bn against a range of USD 2.2–2.3 Bn, net profit of around USD 1.45 Bn against a range of USD 1.45–1.50 Bn, and free cash flow (ex-M&A) of USD 1.2–1.3 Bn.
- Preliminary 2027 guidance of low-to-mid single digit revenue growth with EBITDA margins broadly in line with 2026, sourced entirely from contracted growth. Full guidance is to be provided no later than 3Q26 results.
- Company clarified that onshore fuel is procured by the Company and supplied to rigs for on-rig power generation, appearing in both revenue and cost with only a small markup, so higher fuel prices are broadly immaterial to absolute profitability while diluting the reported margin percentage. Offshore fuel is procured directly by the client and appears in neither line.
- Unconventional contributed USD 75 Mn to 2Q26 revenue, split USD 60 Mn in OFS and USD 15 Mn in Onshore, with 81% of Phase 1 wells drilled and 53% fractured as of end-2Q26. Lower 2026 phasing is expected to be largely offset by additional OFS services, with the two together contributing c. USD 0.5 Bn and supporting reaffirmed OFS revenue guidance of USD 1.5 Bn.
- Unconventional Phase 2 FID is now expected in 4Q26, with Company indicating revenue could begin in 2027 without waiting on new rig deliveries, as Phase 2 is not wholly reliant on incremental rigs and existing capacity can be reallocated alongside fracturing of the built well inventory.
- Cash capex is now expected at the low end of the USD 0.6–0.8 Bn range, closer to USD 600 Mn, with 1H26 spend of only USD 190 Mn reflecting back-ended rig delivery milestones and OFS equipment for the IDS ramp. The 2026 split comprises c. USD 200 Mn on island rigs, c. USD 250 Mn on maintenance across rigs and OFS, and c. USD 150 Mn of growth capex predominantly in OFS.
- Inventories rose 51% YOY to USD 343 Mn to protect supply chain continuity amid the regional situation. Company stated inventory has already peaked with no further negative free cash flow impact expected, and that the eventual unwind will deliver a one-off positive, though timing remains contingent on normalization of the maritime operating environment.
- With net debt of USD 2.2 Bn at 1.0x LTM EBITDA, below the 2.0x target, the Company retains flexibility to fund M&A while the Board retains discretion to approve dividends above the progressive floor.
- The Company approved a 2Q26 dividend of USD 262.5 Mn (c. AED 964 Mn), equivalent to AED 6.0 fils per share, payable in August 2026 to shareholders. This brings the cumulative dividends declared for 2026 to USD 525 Mn, representing 50% of the Company's USD 1.05 Bn annual dividend floor, which is set to increase by a minimum of 5% annually through at least 2030.
- The island rigs cost c. USD 70 Mn each and generates c. USD 20–25 Mn of annual revenue, implying c. USD 70K per day, while jack-ups run at a blended implied revenue of c. USD 95–100K per day.
- The domestic fleet is expected to rise from c. 140 to c. 145 rigs on island rig additions, with the regional fleet growing from 30 to c. 35, taking the total to c. 180 rigs by end-2027.
- Only the Oman deployment among the repurposed rigs is contracted; the remainder may be redeployed domestically, marketed regionally, or sold, with resolution potentially extending into 2027. None are included in 2026 or 2027 guidance, so any outcome represents upside.

- The Company confirmed it remains subject to the Abu Dhabi fiscal arrangement at a 9% tax rate rather than the UAE federal income tax regime.

ADNOC Drilling – P&L

USD Mn	2Q25	1Q26	2Q26	2Q26F	Var.	YOY Ch	QOQ Ch
Revenue	1,197	1,228	1,232	1,229	0.3%	2.9%	0.3%
Direct Cost	-753	-796	-770	-780	-1.3%	2.4%	-3.2%
Gross Profit	**444**	**432**	**461**	**448**	**2.9%**	**3.9%**	**6.9%**
G&A Expenses	-45	-43	-48	-47	1.9%	6.8%	11.2%
EBITDA	**545**	**526**	**557**	**527**	**5.8%**	**2.2%**	**5.9%**
EBIT	**400**	**389**	**414**	**402**	**3.1%**	**3.6%**	**6.4%**
Share of results of a joint venture	11	10	6	9	-28.0%	-41.1%	-35.2%
Other Income	1	2	2	2	-11.0%	NM	34.9%
Finance Costs	-27	-19	-29	-24	22.2%	8.4%	50.9%
Profit before tax	**385**	**381**	**394**	**389**	**1.1%**	**2.3%**	**3.2%**
Corporate tax	-34	-35	-35	-36	-3.3%	2.4%	-0.5%
Non-controlling interest	0	2	2	6	-71.5%	NM	NM
Net Profit	**351**	**345**	**357**	**347**	**2.9%**	**1.7%**	**3.5%**

FABS estimate & Co Data

Management Guidance 2026:

(USD, Billion)	FY25 Actual	FY26 Guidance
Revenue	**4.9**	**~5**
Onshore Revenue	2.0	~2
Offshore Revenue (Jack-up & Island)	1.4	~1.5
Oilfield Services Revenue	1.5	~1.5
EBITDA	**2.2**	**2.2 - 2.3**
EBITDA Margin	*45%*	*44% - 45%*
Net Profit	**1.4**	**1.45 - 1.50**
Net Profit Margin	*30%*	*29% - 30%*
Cash CapEx (excluding M&A)	**0.8**	**0.6 - 0.8**
FCF (excluding M&A)	**1.5**	**1.2 - 1.3**
Leverage Target	**< 2.0x**	**< 2.0x**
Dividend Floor	**1.0**	**1.05** *(+5% YoY)*

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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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