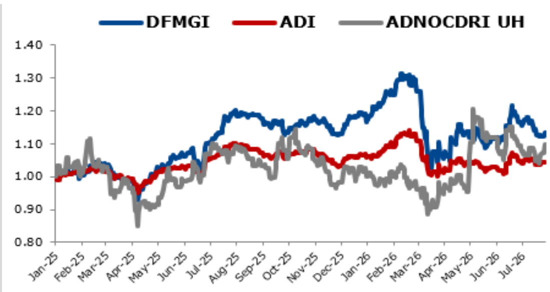
ADNOC Drilling (ADNOCDRI)

Regional rigs and IDS gains supports earnings

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

- Fleet expanded 21% YOY to 171 rigs, driven by the SLDC and MBPS acquisitions, strengthening ADNOC Drilling's regional footprint.
- Integrated Drilling Services (IDS) rigs increased from 58 to 61 in 2Q26, supporting higher operational efficiency and long-term Oilfield Services earnings growth.
- Deployed the first AI-enabled island rig and commenced the first organic rig operations in Oman, accelerating regional expansion and cross-border synergies.
- Approved a 2Q26 dividend of USD 262.5 Mn (6.0 fils per share), bringing total dividend for 1H26 to USD 525 Mn.



Stock Information	
Market Cap (AED, mm)	93,120.00
Shares Outstanding(mm)	16,000.00
52 Week High	6.67
52 Week Low	4.51
3M Avg. daily value (AED)	73,164,200

2Q26 Result Review (USD, Mn)	
Total Assets	8,602
Total Liabilities	4,315
Total Equity	4,287
EBITDA	557
Net Profit	357

Financial Ratios	
Dividend Yield (12m)	4.12
Dividend Pay-out (%)	64.44
Price-Earnings Ratio(x)	17.26
Price-to-Book Ratio (x)	5.99
Book Value (AED)	0.26
Return-on Equity (%)	35.90

Stock Performance	
5 Days	1.75%
1 Months	1.57%
3 Months	2.83%
6 Months	9.19%
1 Year	-0.08%
Month to Date (MTD%)	1.57%
Quarter to Date (QTD%)	1.57%
Year to Date (YTD%)	8.99%

2Q26 Net Profit in line with our estimate

ADNOC Drilling Co. PJSC (ADNOCDRILL/the Company) net profit attributable to equity shareholders increased 1.7% YOY to USD 357 Mn in 2Q26, in line with our estimate of USD 347 Mn. The growth in net profit was driven by revenue growth, supported by contributions from the recently acquired regional operations and the expansion of the offshore fleet, more than absorbed higher direct costs, lifting gross profit and expanding gross margin. This was partially offset by a lower contribution from joint ventures, higher G&A expenses, finance costs and corporate tax, and the first-time recognition of non-controlling interests following the consolidation of SLDC and MBPS.

P&L Highlights

ADNOCDRILL's revenue increased 2.9% YOY to USD 1,232 Mn in 2Q26, primarily driven by the consolidation of the SLDC and MBPS acquisitions, which added 30 regional land rigs across Oman, Kuwait, Saudi Arabia and Bahrain. Growth was further supported by two jack-up rigs that commenced operations at the end of 2Q25 and the early deployment of an AI-enabled island rig. This was partially offset by the planned repurposing of selected onshore rigs and lower unconventional activity following the accelerated execution during 2025, which contributed USD 75 Mn to 2Q26 revenue. Onshore revenue increased 8.1% YOY to USD 554 Mn in 2Q26 on the consolidation of SLDC and MBPS along with higher fuel escalation. However, Onshore EBITDA declined 7.3% YOY to USD 241 Mn in 2Q26 with margin contracting to 43.5% in 2Q26 from 50.7% in 2Q25, as a 22.3% YOY rise in operating expenses on higher fuel costs and the consolidated regional operations outpaced revenue growth. Offshore (Jack-up & Island) revenue increased 5.9% YOY to USD 358 Mn in 2Q26 and EBITDA rose 3.4% YOY to USD 241 Mn in 2Q26, though margin eased to 67.4% in 2Q26 from 69.0% in 2Q25 on the phasing of maintenance costs. OFS revenue declined from USD 347 Mn in in 2Q25 to USD 320 Mn in 2Q26 on the expected lower phasing of unconventional activity, partially offset by higher Integrated Drilling Services activity as IDS rigs increased from 58 to 61 in 2Q26. OFS EBITDA nonetheless rose 44.2% YOY to USD 75 Mn with margin expanding to 23.5% in 2Q26, as the lower-margin unconventional revenue drove a 17.2% YOY reduction in operating expenses alongside a favorable activity mix. Direct costs grew 2.4% YOY to USD 770 Mn in 2Q26, lifting gross profit 3.9% YOY to USD 461 Mn with gross margin up 35 bps YOY to 37.5%, while G&A expenses rose 6.8% YOY to USD 48 Mn in 2Q26. Consequently, EBITDA increased 2.2% YOY to USD 557 Mn, though EBITDA margin fell 31 bps YOY to 45.3% in 2Q26, as margin expansion in OFS was more than offset by contraction in Onshore on higher fuel escalation revenue and the consolidated regional operations, which carry lower margins than the domestic business. The Company's net finance costs increased 8.4% YOY to USD 29 Mn in 2Q26. The share of results of joint ventures declined from USD 11 Mn in 2Q25 to USD 6 Mn in 2Q26, reflecting a lower contribution from Enersol and Turnwell. Other income increased from USD 1 Mn in 2Q25 to USD 2 Mn in 2Q26, while tax charges rose marginally from USD 34 Mn in 2Q25 to USD 35 Mn in 2Q26, with the effective rate unchanged under the Abu Dhabi fiscal arrangement at 9%. Non-controlling interests were recognised at USD 2 Mn in 2Q26 against nil in 2Q25.

Balance Sheet Highlights

ADNOCDRILL's cash and cash equivalents rose from USD 331 Mn in 1Q26 to USD 355 Mn in 2Q26. Net debt increased from USD 1.7 Bn in 1Q26 to USD 2.2 Bn in 2Q26, primarily reflecting a partial drawdown of USD 443 Mn under the revolving credit facility to fund the MBPS consolidation and dividend distributions during the quarter. Net debt to LTM EBITDA increased from 0.8x in 1Q26 to 1.0x in 2Q26, remaining well below the Company's target of below 2.0x, while liquidity headroom including unutilised term and revolving facilities stood at c. USD 1.14 Bn as of 30 June 2026. ADNOCDRILL's cash flow from operations declined from USD 439 Mn in 1Q26 to USD 403 Mn in 2Q26, primarily reflecting working capital outflows during the quarter. Total Capex (excluding capex accruals) increased from USD 91 Mn in 1Q26 to USD 99 Mn in 2Q26.

Target Price and Rating

We maintain our BUY rating on ADNOCDRILL with a target price of AED 7.00. The revenue increased 2.9% YOY to USD 1,232 Mn in 2Q26, primarily driven by the consolidation of SLDC (70% stake) and MBPS (80% stake), adding 30 regional land rigs across Oman, Kuwait, Saudi Arabia and Bahrain. Growth was also supported by additional offshore rigs, partially offset by lower unconventional activity and the repurposing of certain onshore rigs. Fleet expanded to 171 rigs with 141 rigs in Abu Dhabi and 30 regional rigs, representing 21% YOY growth. IDS rigs increased from 58 to 61 in 2Q26, with OFS services provided across 114 rigs, improving operational efficiency and increasing customer penetration. One AI-enabled walking island rig (AD-300) was delivered nearly three months ahead of schedule, accelerating offshore automation and enabling earlier revenue generation. Following the quarter-end, ADNOC Drilling commenced operations of one repurposed land rig in Oman, marking its first organic rig deployment in the Sultanate. Enabled through the MBPS platform, the deployment demonstrates early cross-border synergies, expands the Company's client base, and strengthens its regional expansion strategy. Total assets increased 8.6% YOY to USD 8,601 Mn in 2Q26. This growth was mainly driven by consolidation of SLDC and MBPS acquisitions, cash contributions to Enersol JV, and increased working capital to support higher business activity and regional expansion. Enersol (51% stake) continues expanding AI and energy technology capabilities through acquisitions. On the other hand, Turnwell (55% stake) supports ADNOC's unconventional drilling business. Both JVs contributed to Oilfield Services earnings during the quarter, though the combined contribution declined YOY. The Company continued to expand its domestic drilling fleet in line with ADNOC's objective of increasing oil production capacity to 5 million barrels per day by 2027. The Abu Dhabi fleet reached 141 rigs during the quarter, with five additional AI-enabled island rigs scheduled for deployment through 2027. The company expects to deploy approx. 70 Integrated Drilling Services (IDS) rigs by the end of 2026, further strengthening its operational scale and enhancing the long-term earnings visibility of its Oilfield Services business. Over the medium term, the company aims to maintain EBITDA margins of approx. 50% for its domestic conventional drilling business and 23-26% for its conventional Oilfield Services segment, while keeping annual maintenance capital expenditure at up to USD 0.3 Bn. The Company approved a 2Q26 dividend of USD 262.5 Mn (c. 6.0 fils/share), payable in August 2026. Together with the 1Q26 dividend, total approved dividends for 2026 amount to USD 525 Mn, representing half of the annual USD 1.05 Bn dividend floor. The company reaffirmed its progressive dividend policy, with a minimum 5% annual increase through at least 2030, while retaining the flexibility to pay additional discretionary dividends supported by excess free cash flow. For 9M26, the company guided revenue of c. USD 3.71 Bn, EBITDA of c. USD 1.64 Bn and net income of c. USD 1.07 Bn, implying a sequentially stronger 3Q26. For 2026, ADNOC Drilling expects revenue of c. USD 5 Bn, comprising USD 2 Bn from the Onshore segment, USD 1.5 Bn from the Offshore (Jack-up & Island) segment, and USD 1.5 Bn from the Oilfield Services segment. The company has guided EBITDA of USD 2.2-2.3 Bn, with an EBITDA margin of 44-45%. Net profit is expected to be in the range of USD 1.45-1.50 Bn, translating to a net profit margin of 29-30%. Additionally, the company expects cash capital expenditure (excluding M&A) of USD 0.6-0.8 Bn, free cash flow (excluding M&A) of USD 1.2-1.3 Bn, and aims to maintain a leverage ratio below 2.0x. Guidance excludes any contribution from regional M&A, unconventional Phase 2 pending FID expected in 4Q26, and the redeployment of the remaining repurposed rigs. Thus, considering all the above-mentioned factors, we maintain BUY rating on the stock.

ADNOC Drilling - Relative valuation

(at CMP)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026F**
PE	41.48	31.24	24.26	19.22	17.26	16.68
PB	8.96	8.55	7.67	6.57	6.11	5.50
EV/EBITDA	24.93	21.29	18.00	13.41	12.32	12.19
BVPS (AED)	0.642	0.673	0.749	0.875	0.941	1.045
EPS (AED)	0.139	0.184	0.237	0.299	0.333	0.345
DPS (AED)	0.157	0.157	0.165	0.181	0.230	0.241
Dividend yield	2.7%	2.7%	2.8%	3.1%	4.0%	4.1%

FABS Estimates & Co Data

ADNOC Drilling – P&L

USD Mn	**2Q25**	**1Q26**	**2Q26**	**2Q26F**	**Var.**	**YOY Ch**	**QOQ Ch**	**2025**	**2026F**	**Change**
Revenue	1,197	1,228	1,232	1,229	0.3%	2.9%	0.3%	4,903	5,051	3.0%
Direct Cost	-753	-796	-770	-780	-1.3%	2.4%	-3.2%	-3,106	-3,203	3.1%
Gross Profit	**444**	**432**	**461**	**448**	**2.9%**	**3.9%**	**6.9%**	**1,797**	**1,847**	**2.8%**
G&A expenses	-45	-43	-48	-47	1.9%	6.8%	11.2%	-167	-157	-6.4%
EBITDA	**545**	**526**	**557**	**527**	**5.8%**	**2.2%**	**5.9%**	**2,198**	**2,212**	**0.6%**
EBIT	**400**	**389**	**414**	**402**	**3.1%**	**3.6%**	**6.4%**	**1,630**	**1,691**	**3.7%**
Share of results of a JV	11	10	6	9	-28.0%	-41.1%	-35.2%	29	32	10.0%
Other Income- Net	1	2	2	2	-11.0%	NM	34.9%	27	15	-43.9%
Finance Costs- Net	-27	-19	-29	-24	22.2%	8.4%	50.9%	-98	-91	-7.4%
Profit before tax	**385**	**381**	**394**	**389**	**1.1%**	**2.3%**	**3.2%**	**1,588**	**1,647**	**3.7%**
Corporate tax	-34	-35	-35	-36	-3.3%	2.4%	-0.5%	-139	-148	6.6%
Non-controlling Interest	0	2	2	6	-71.5%	NM	NM	NM	7	NM
Profit for the period	**351**	**345**	**357**	**347**	**2.9%**	**1.7%**	**3.5%**	**1,449**	**1,491**	**2.9%**

FABS estimate & Co Data

ADNOC Drilling - Margins

	2Q25	**1Q26**	**2Q26**	**YOY Ch**	**QOQ Ch**	**2025**	**2026F**	**Change**
Gross Profit	37.1%	35.2%	37.5%	35	229	36.7%	36.6%	-7
EBITDA	45.6%	42.9%	45.3%	-31	239	44.8%	43.8%	-103
Net Profit	29.3%	28.1%	29.0%	-34	90	29.5%	29.5%	-2

FABS estimate & Co Data

Key Developments:

- **05 May 2025:** ADNOCDRILL has been awarded a USD 806 Mn long-term contract by ADNOC Offshore for three new AI-enabled island rigs for the Zakum project, reinforcing its fleet expansion toward more than 151 rigs by 2028 and strengthening its leadership in advanced, efficient, and sustainable offshore drilling.
- **27 May 2025:** ADNOCDRILL secured a USD 1.15 Bn, 15-year contract from ADNOC Offshore for two advanced AI-enabled jack-up rigs, further strengthening its offshore fleet and ensuring long-term earnings visibility through 2040. This brings the Company's total contract awards to USD 3.6 Bn in just over a month.
- **29 May 2025:** ADNOCDRILL acquired a 70.0% stake in SLB's land rig business in Oman and Kuwait for USD 112 Mn, including a USD 21 Mn earn-out. The deal involves eight operational rigs under contract with national oil companies and is subject to regulatory approvals by 1Q26.
- **30 June 2025:** ADNOCDRILL announced the award of a contract worth up to USD 800 Mn from ADNOC Onshore for integrated hydraulic fracturing services across conventional and tight reservoirs. The five-year agreement, scheduled to begin in 3Q25, represents another key milestone in ADNOCDRILL's transformation into a fully integrated, technology-driven energy services provider.
- **11 September 2025:** Abu Dhabi National Oil Company (ADNOC) transferred its equity holdings in ADNOC Drilling, ADNOC Distribution, ADNOC Gas, and ADNOC Logistics & Services to its wholly owned subsidiary, XRG P.J.S.C., through an off-market transaction. The transfer of ADNOC Drilling shares will follow pending regulatory approvals. ADNOC will maintain full ownership of all listed entities through XRG, with no impact on their operations, leadership, or dividend policies.
- **16 October 2025:** The Company signed a USD 500 Mn Term Loan Facility and a USD 1.5 Bn Revolving Credit Facility. The term loan will refinance the existing facility maturing in October 2025, while the revolving facility is expected to support growth initiatives and working capital needs.
- **04 November 2025:** The Company announced the acquisition of an 80% stake in MB Petroleum Services (MBPS) for USD 163 Mn, funded through existing debt. The transaction adds 21 rigs across Oman, Bahrain and Kuwait. MBPS reported USD 187 Mn in revenue and USD 56 Mn in EBITDA in 2024. Subject to regulatory approvals, the deal is expected to close in 1H26, with full consolidation upon completion.
- **1 January 2026:** ADNOC Drilling completed the acquisition of a 70% stake in SLDC Holdings RSC LTD, a joint venture with SLB covering its land drilling rigs business in Kuwait and Oman, through its wholly owned subsidiary ADH RSC LTD.
- **04 January 2026:** ADNOC Drilling completed the acquisition of a 70% stake in SLDC Holdings RSC LTD, a joint venture with SLB covering its land drilling rigs business in Kuwait and Oman, through its wholly owned subsidiary ADH RSC LTD.
- **04 May 2026:** ADNOCDRILL completed the acquisition of an 80% stake in MB Petroleum Services (MBPS), expanding its regional footprint across the GCC, increasing its fleet to 170 rigs, and strengthening long-term revenue visibility through additional contract wins in Oman and Kuwait.
- **25 June 2026:** ADNOCDRILL delivered its first AI-enabled walking island rig (AD-300) nearly three months ahead of schedule under a USD 1.54 Bn contract, featuring advanced automation, AI, and hybrid power technology to enhance operational efficiency, safety, and well delivery.

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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	7.03	80.0%	5.62
Relative Valuation (RV):			
EV/EBITDA	5.06	10.0%	0.51
P/E	8.73	10.0%	0.87
Weighted Average Valuation (AED)			**7.00**
Current market price (AED)			5.82
Upside/Downside (%)			+20%

1) DCF Method:

ADNOCDRILL is valued using free cash flow to the firm. We have discounted the cash flow using a weighted average cost of capital of 8.5% It is arrived at after using the cost of equity of 8.9% and the after-tax cost of debt of 4.2%. The cost of equity is calculated using a 10-year government bond yield of 4.9%, a beta of 1.0, and an equity risk premium of 4.2%. 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)	7,055
Terminal value (USD, Mn)	25,803
FV to Common shareholders (USD, Mn)	**32,858**
No. of shares (Mn)	16,000
Current Market Price (AED)	5.82
Fair Value per share (AED)	**7.03**

DCF Method

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	1,543	1,691	1,896	2,064	2,269
D&A	506	523	512	500	487
(-) Capex	-863	-400	-400	-350	-350
Change in working capital	1	-41	-46	-20	-57
Free Cash Flow to Firm (FCFF)	**1,186**	**1,772**	**1,961**	**2,194**	**2,349**
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Discounted FCFF	**573**	**1,578**	**1,609**	**1,659**	**1,637**

Source: FAB Securities

2) Relative Valuation:

We have used regional and global peers to value ADNOCDRILL, using the EV/EBITDA and PE multiples. 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 2026 EV/EBITDA and PE multiple of 11.0x and 25.4x, respectively, compared to the peer multiple of 7.8x and 18.1x

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2025F	2026F
Halliburton	25,985	7.9	6.9	13.3	10.7
Schlumberger (Us)	72,657	10.1	8.7	19.5	15.0
Baker Hughes Company	58,290	11.0	9.1	22.2	18.4
Petrovietnam Drilling & Well Service Corporation	666	6.3	5.6	15.8	12.1
Borr Drilling Limited	1,185	7.8	6.1	NM	12.2
ADES Holding Co	4,932	8.0	7.2	18.1	13.8
China Oilfield Services	7,216	4.3	4.1	6.7	6.1
Weatherford International	5,900	6.5	5.6	14.8	10.9
Seadrill Limited	2,585	7.1	5.0	78.0	12.3
Arabian Drilling Co	1,947	7.9	6.1	68.6	16.9
Odfjell Drilling Ltd	2,251	5.9	5.6	9.8	8.5
Noble Corp PLC	6,547	8.9	6.5	72.5	18.6
Average		**7.6x**	**6.4x**	**30.8x**	**13.0x**
Median		**7.8x**	**6.1x**	**18.1x**	**12.2x**
Max		**8.2x**	**7.0x**	**45.4x**	**15.5x**
Min		**6.4x**	**5.6x**	**14.0x**	**10.9x**

Source: FAB Securities

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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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