

ADNOC Drilling (ADNOC DRI)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.70	AED 7.00	+23%	BUY

3Q26 Net Profit in line with our estimate

- Revenue declined 1.0% YOY to USD 1,247 Mn in 3Q26, primarily due to the anticipated lower phasing of unconventional activity, which contributed USD 67 Mn to 3Q26 revenue against USD 158 Mn in 3Q25, along with the repurposing of certain land rigs and two jack-up rigs. This was partially offset by the consolidation of SLDC and MBPS, the integration of two AI-enabled island rigs and higher fuel escalation.
- Onshore segment revenue increased 8.8% YOY to USD 557 Mn in 3Q26, primarily driven by the consolidation of SLDC and MBPS, along with higher fuel escalation. The growth was partially offset by the repurposing of certain onshore rigs and lower unconventional activity.
- Revenue from the Offshore Jack-up & Island segment increased 1.9% YOY to USD 372 Mn in 3Q26, supported by the full-quarter contribution of the AI-enabled island rig added in June 2026, partially offset by the repurposing of two jack-up rigs and the reclassification of one rig from Offshore to Onshore.
- Oilfield Services (OFS) segment revenue declined 17.0% YOY to USD 318 Mn in 3Q26, primarily reflecting the anticipated lower phasing of unconventional activity and the OFS activity mix, partially offset by higher Integrated Drilling Services (IDS) activity, as the number of IDS rigs increased from 59 in 3Q25 to 62 in 3Q26.
- Gross profit increased 6.8% YOY to USD 465 Mn in 3Q26, while gross profit margin expanded 271 bps YOY to 37.2%.
- EBITDA increased 3.4% YOY to USD 579 Mn in 3Q26, while EBITDA margin expanded 198 bps YOY to 46.4%, supported by a positive activity mix, a higher contribution from joint ventures and realised efficiencies.
- Onshore segment EBITDA increased 2.0% YOY to USD 259 Mn in 3Q26, while EBITDA margin contracted 3.1 ppts YOY to 46.5%, as higher operating expenses from fuel costs and the consolidated regional operations outpaced revenue growth.
- Offshore Jack-up & Island segment EBITDA increased 3.3% YOY to USD 247 Mn in 3Q26, with margin improving 0.9 ppts YOY to 66.4%, supported by the full-quarter contribution of the island rig added in June 2026, while operating expenses declined 1% YOY on cost optimisation initiatives.
- OFS segment EBITDA increased 9.0% YOY to USD 73 Mn in 3Q26, with margin expanding 5.5 ppts YOY to 23.0%, as lower unconventional activity, which carries relatively lower margins, drove a 21.0% YOY reduction in operating expenses against a 17.0% YOY decline in revenue, alongside a higher-margin activity mix and a higher contribution from the Enersol and Turnwell joint ventures.
- Net profit attributable to equity shareholders declined 0.8% YOY to USD 365 Mn in 3Q26, as higher gross profit and a higher contribution from joint ventures were more than offset by lower other income, higher depreciation and amortisation, G&A expenses, net finance costs, tax charges and non-controlling interests. Net profit margin was broadly stable at 29.3% in 3Q26 compared to 29.2% in 3Q25.

Earnings Call Summary

- ADNOC DRILL delivered 99% domestic rig availability in 9M26, with 222 wells drilled in 3Q26 (177 onshore, 45 offshore) and 617 in 9M26 compared to 590 in 9M25. Non-productive time was 61% below target in 9M26, and TRIR was 0.4 against a target of 0.6. IDS drilling efficiency improved 23% in 3Q26 compared to the 2025 benchmark, driving cumulative client savings of USD 164 Mn in 9M26.
- One repurposed land rig commenced operations in Oman during 3Q26, marking the Company's first organic rig deployment outside the UAE, enabled through the MBPS platform.
- The onshore fleet stood at 123 rigs at 3Q26 (93 in Abu Dhabi and 30 regional), including one rig reclassified from Offshore, with 177 wells drilled in the quarter at 99% domestic availability. The

Company's key operating countries have increased to four (UAE, Oman, Kuwait and Bahrain) from one at IPO, while MBPS also has operations in Saudi Arabia.

- The offshore fleet stood at 49 rigs (36 jack-ups and 13 island rigs), drilling 45 wells in 3Q26. The second AI-enabled island rig joined the fleet during 3Q26 and is expected to contribute a full quarter in 4Q26, while two jack-ups were repurposed during the quarter.
- IDS rig count increased to 62 in 3Q26 from 59 in 3Q25, with at least one discrete service delivered to an additional 53 rigs, taking OFS coverage to 115 rigs. The Company expects IDS and OFS services to continue ramping up proportionately as new rigs join the fleet.
- The Company confirmed and sharpened its FY2026 guidance, expecting revenue of c. USD 5.0 Bn, including more than USD 2.1 Bn from Onshore, more than USD 1.4 Bn from Offshore and more than USD 1.4 Bn from Oilfield Services. EBITDA is expected at c. USD 2.2 Bn, with a margin of c. 44%, while net profit is expected at c. USD 1.45 Bn, with a margin of c. 29%.
- The Company also expects cash capex of c. USD 0.6 Bn, free cash flow (excluding M&A) of between USD 1.2 Bn and USD 1.3 Bn, and total dividends of USD 1.225 Bn. Net profit guidance was sharpened to c. USD 1.45 Bn, the lower end of the USD 1.45–1.50 Bn range provided at 2Q26, as the lower end reflects contracted activity, with Phase 1 of the unconventional programme largely complete and Phase 2 expected to contribute more meaningfully in 2027.
- The Company indicated implied 4Q26 revenue of USD 1.24–1.25 Bn and net profit of c. USD 365–370 Mn.
- Incremental transportation and inventory costs linked to the regional situation are partly passed through under cost-plus contracts, but OFS contracts are not fully cost-plus. Any further client reimbursement would represent upside.
- 2027 guidance points to low-to-mid single-digit revenue growth, with EBITDA margin broadly in line with 2026 guidance, depending on the activity mix between drilling and OFS and between domestic and regional work. Net profit is expected to remain broadly stable, as higher depreciation and financing costs offset operational growth.
- Total capex is expected to rise to c. USD 800 Mn in 2027 (maintenance up to USD 0.3 Bn, growth c. USD 0.5 Bn), from c. USD 600 Mn in 2026, and may remain elevated for a couple of years as investment shifts towards OFS and engineering. All capex is tied to specific awards, so it could be lower if tenders do not materialise.
- The Company indicated that over the long term, rig capex is expected to normalise to c. USD 100 Mn or less, with c. USD 300 Mn of maintenance and c. USD 400 Mn a year for OFS and engineering, supporting double-digit growth in those segments.
- The Company clarified that onshore fuel is procured by the Company and recharged to the client with a small margin, inflating both revenue and opex, with a relatively small net impact on profitability. Offshore fuel is procured directly by the client and appears in neither revenue nor costs.
- Unconventional contributed USD 67 Mn to 3Q26 revenue (USD 62 Mn in OFS and USD 5 Mn in Onshore), against USD 158 Mn in 3Q25 and USD 75 Mn in 2Q26. Under the USD 1.7 Bn Turnwell Phase 1 contract, 84% of wells had been drilled and 54% fractured by the end of 3Q26.
- The Company launched its Drill-to-Operate strategy, built on three growth engines. Drilling is the resilient cash foundation, with a 100% UAE market share, targeting a long-term UAE and regional fleet of c. 200 rigs, excluding any potential sale of repurposed rigs. Existing OFS services have a c. USD 3 Bn addressable UAE market, with a target share of 60%+ from c. 50%. New services (artificial lift, completions and tubular running services, OCTG, wellheads and Christmas trees, early production facilities and DBO, and tie-ins) have a USD 4–5 Bn addressable market, with a target share of c. 25%+.
- Under Drill-to-Operate, the Company will remain a service provider and will not become a field operator.
- About 10 tenders have already been bid under the new strategy. The 2027 contribution is expected to be small, with the real ramp-up in 2028, following major ADNOC tenders expected to be awarded in 2027. Early production facilities and tie-ins are the largest and fastest opportunity, as ADNOC ramps up capacity and connects a significant inventory of drilled wells.
- New services are expected to start at mid-to-high single-digit net margins, given the partnership economics, and normalise to c. 13% (in line with OFS) within c. five years.

- Enersol, ADNOC Drilling's 51%-owned joint venture, has completed the acquisition of stakes in four companies, with Gordon Technologies (67.2%), NTS Amega Global (51%), EV (100%) and Deep Well Services (95%). Its cumulative investment so far is c. USD 0.8 Bn, around half of its total committed amount, and further transactions are targeted in due course.
- The Company does not plan to enter manufacturing, focusing instead on engineering, procurement, installation and servicing. It targets long-term earnings mix of c. 80% UAE and 20% international, mainly the Middle East.
- The Company exercised the discretionary element of its dividend policy, approving a USD 175 Mn discretionary dividend payable in two tranches of USD 87.5 Mn each. The first will be paid with the 3Q26 base dividend of USD 262.5 Mn (a total of USD 350 Mn, c. 8.0 fils per share) in the second half of November 2026, and the second around April 2027, subject to shareholder approval. This lifts expected 2026 dividends to USD 1.225 Bn, up 22.5% YOY.
- The Company's discretionary dividends will be assessed each year, but should not be assumed for 2027, given higher capex and the base dividend floor rising to USD 1.10 Bn.
- The Company indicated implied revenue of c. USD 90-95K per day for jack-ups, c. USD 55K (older) to c. USD 70K (newer) per day for island rigs, and c. USD 30K per day for onshore rigs, varying by horsepower, services and age.

ADNOC Drilling – P&L

USD Mn	3Q25	2Q26	3Q26	3Q26F	Var.	YOY Ch	QOQ Ch
Revenue	1,260	1,232	1,247	1,246	0.1%	-1.0%	1.3%
Direct Cost	-825	-770	-783	-775	1.0%	-5.1%	1.6%
Gross Profit	435	461	465	471	-1.4%	6.8%	0.7%
G&A Expenses	-37	-48	-47	-36	30.2%	28.8%	-1.1%
EBITDA	560	557	579	557	3.9%	3.4%	3.8%
EBIT	399	414	418	435	-4.0%	4.8%	0.9%
Share of results of a joint venture	3	6	6	1	NM	NM	-0.4%
Other Income	23	2	5	1	NM	NM	124.2%
Finance Costs	-23	-29	-28	-24	15.7%	22.6%	-4.0%
Profit before tax	402	394	401	413	-2.8%	-0.3%	1.9%
Corporate tax	-34	-35	-35	-38	-7.6%	1.7%	0.2%
Non-controlling interest	0	2	1	6	NM	NM	-51.8%
Net Profit	368	357	365	369	-1.1%	-0.8%	2.3%

FABS estimate & Co Data

2026 Management Guidance:

(USD, Billion)	FY26 Guidance
Revenue	~5
<i>Onshore Revenue</i>	<i>> 2.1</i>
<i>Offshore Revenue (Jack-up & Island)</i>	<i>> 1.4</i>
<i>Oilfield Services Revenue</i>	<i>> 1.4</i>
EBITDA	~2.2
EBITDA Margin	~44%
Net Profit	~1.45
Net Profit Margin	~29%
Cash CapEx (excluding M&A)	~0.6
FCF (excluding M&A)	1.2 - 1.3
Dividends	1.225 (+22.5% YoY)

Medium-Term Outlook

- Looking beyond 2026, ADNOC Drilling's growth is supported by the continued scaling of OFS and IDS, regional expansion, and accelerating technology adoption.
- Maintenance CapEx is expected to be up to \$0.3 billion per annum, with around \$0.5 billion growth CapEx expected in full-year 2027.
- The Company targets a long-term leverage range (pre-M&A) of 1.0x-2.0x Net Debt/EBITDA, reflecting its highly contracted earnings profile and commitment to efficient capital allocation.
- As anticipated, for full-year 2027, the Company expects low-to-mid-single-digit revenue growth and broadly stable EBITDA margin¹ compared to full-year 26 guidance level.
- Net income is expected to remain stable from full-year 2026 to full-year 2027 as a result of higher depreciation and financing cost.
- A more granular guidance for 2027 and beyond will be provided in due course, as future business needs and financial contributions are further determined.

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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