

ADNOC Drilling Company PJSC

Robust rig fleet expansion program supported the upstream growth plans

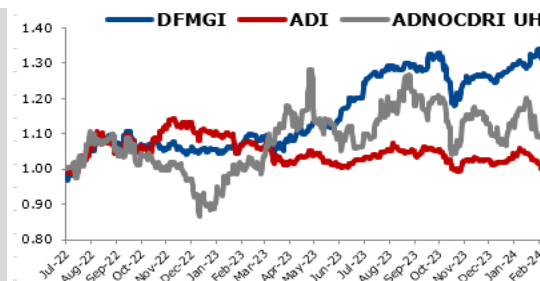
Current Price
AED 3.75

Target Price
AED 4.30

Upside/Downside (%)
+14.7%

Rating
ACCUMULATE

- ADNOC DRILL delivered a robust performance with a 14.7% YOY rise in topline and 20.3% YOY growth in EBITDA in 4Q23.
- The Company's average drilling days increased for Onshore drilling from 41 days in 4Q22 to 43 days in 4Q23, while for days grew from 77 days in 4Q22 to 82 days in 4Q23.
- Net debt grew from USD 1.6 Bn in 3Q23 to USD 1.8 Bn in 4Q23. While the LTM net debt to EBITDA remained stable at 1.2x in 4Q23 compared to 3Q23.
- ADNOC DRILL targets its EBITDA to be in the range of USD 1.7-1.9 Bn accompanied by an EBITDA margin of 48%-50% owing to an expansion in rig fleet and service offering.



Stock Information

Market Cap (AED, mm)	60,000.00
Shares Outstanding(mm)	16,000.00
52 Week High	4.33
52 Week Low	3.25
3M Avg. daily value (AED)	13,431,330

4Q23 Result Review (USD, mm)

Total Assets	6,740
Total Liabilities	3,476
Total Equity	3,264
EBITDA	425
Net Profit	329

Financial Ratios

Dividend Yield (12m)	4.28
Dividend Pay-out (%)	69.39
Price-Earnings Ratio(x)	15.53
Price-to-Book Ratio (x)	5.00
Book Value (AED)	0.20
Return-on Equity (%)	33.34

Stock Performance

5 Days	1.35%
1 Months	-4.09%
3 Months	-4.82%
6 Months	-7.18%
1 Year	8.70%
Month to Date (MTD%)	2.18%
Quarter to Date (QTD%)	-0.79%
Year to Date (YTD%)	-0.79%

4Q23 Net Profit higher than our estimate

ADNOC Drilling Co. PJSC (ADNOC DRILL/the Company) net profit grew 40.8% YOY to USD 329 Mn in 4Q23, higher than our estimate of USD 256 Mn. The increase in the net profit is mainly attributable to an growth in revenue across all the segments owing to the addition of new rigs entering the operational fleet along with lower direct cost and general and administrative expenses partially offset by higher finance cost.

P&L Highlights

ADNOC Drilling's net revenue grew 14.7% YOY to USD 841 Mn in 4Q23 due to solid growth across all the segments supported by adding land and jack-up rigs entering the operational fleet. Onshore Segment revenue grew 9.5% YOY to USD 415 Mn in 4Q23. The increase was backed by the full contribution from four lease-to-own land rigs, along with extensive rig relocations. Offshore Jack-up revenue rose 24.7% YOY to USD 224 Mn in 4Q23 owing to increased activity and a decline in major maintenance activities as against 4Q22. Revenue from the Offshore Island grew 3.4% YOY to USD 53 Mn in 4Q23 driven by increased activity. Furthermore, the OFS segmental revenue rose strongly 20.7% YOY to USD 148 Mn in 4Q23 owing to growth in activity from drilling fluids, directional drilling and pressure pumping. ADNOC DRILL's direct cost declined 2.6% YOY to USD 527 Mn in 4Q23. Thus, the Company's gross profit grew substantially 63.4% YOY to USD 314 Mn in 4Q23 driven by effective cost management initiatives and robust revenue growth. Gross profit margin grew from 26.2% in 4Q22 to 37.4% in 4Q23. General and administrative expenses declined 37.1% YOY to USD 31 Mn in 4Q23, mainly due to the cost management initiatives. Thus, EBITDA rose 20.3% YOY to USD 425 Mn in 4Q23. EBITDA margin grew 237 bps YOY to 50.5% in 4Q23. Onshore segment EBITDA rose 7.6% YOY to USD 203 Mn in 4Q23,

whereas the Offshore Jack-up segment's EBITDA rose from USD 108 Mn in 4Q22 to USD 148 Mn in 4Q23 supported by robust revenue growth and stable operating expenses. Similarly, Offshore Island and OFS segment EBITDA stood at USD 33 Mn and USD 41 Mn respectively in 4Q23. Other income increased from USD 1 Mn in 4Q22 to USD 4 Mn in 4Q23. Finance costs increased from USD 9 Mn in 4Q23 to USD 20 Mn in 4Q23 dragging profitability.

Balance Sheet Highlights

ADNOC DRILL cash and cash equivalent declined from USD 551 Mn in 3Q23 to USD 354 Mn in 4Q23 mainly due to the repayment of the 2023 interim dividend in October. Net debt grew from USD 1.6 Bn in 3Q23 to USD 1.8 Bn in 4Q23. Meanwhile, the LTM net debt to EBITDA remained stable at 1.2x in 4Q23 compared to 3Q23. The Company's net working capital declined 24.0% YOY to USD 239 Mn in 2023 primarily due to Capex related payments and increased focus on collections from related parties. Capex grew from USD 942 Mn in 2022 to USD 1,062 Mn in 2023 owing to the expected ramp-up in rig expansion. Moreover, the Company is projected to incur a capex of c. USD 200-250 Mn per annum for the medium-term post 2024. Free cash flow declined from USD 588 Mn in 2022 to USD 306 Mn in 2023 due to a planned increase in Capex supported by the Company's rig fleet expansion. The Company's Board of Directors proposed a cash dividend of 8.22 file per share resulting to a total dividend of USD 717 Mn in 2023.

Target Price and Rating

We maintain our ACCUMULATE rating on ADNOC Drilling with an unchanged target price of AED 4.30. ADNOC DRILL delivered a strong performance with 14.7% YOY growth in revenue and a 20.3% increase in EBITDA in 4Q23. The Company experienced a substantial increase in revenue, propelled by the addition of the new rigs and notable growth in the Onshore and Offshore Jack-up segments in 4Q23. The growth in EBITDA was primarily driven by robust growth in the topline and effective cost-management measures implemented by the Company. Moreover, the robust increase in the Oilfield Service segment was aided by the increased volume over the entire portfolio and growth in IDS rigs from 40 rigs in 2022 to 48 rigs in 2023 whereas the drilling efficiency improved 15.5% YOY in 2023. In addition, the increase in the Onshore segment is primarily attributed to the full contribution of the eight acquired H&P rigs and the introduction of new additional rigs in 2023. This was followed by integrating four lease-to-own land rigs, with an extra five hybrid land rigs joining the fleet count in 4Q23. The operations of two rigs commenced in 4Q23, while the remaining three are expected to gradually start operations in 1H24. The robust growth in the Offshore Jack-up business is facilitated by the acquisition of five new rigs, along with four jack-ups initiating operations in 4Q23. Additionally, the availability of the jack-up fleet rig was 98%, as the new jack-ups progressively began their work in 4Q23. In addition, the average drilling days rose for Onshore drilling from 41 days in 4Q22 to 43 days in 4Q23, while the Offshore average drilling days increased from 77 days in 4Q22 to 82 days in 4Q23. The number of total wells drilled declined from 177 in 4Q22 to 161 wells in 4Q23. While the number of Onshore wells drilled also declined from 151 wells in 4Q22 to 140 wells in 4Q23, and the number of island wells stood at 5 in 4Q23 as compared to 8 in 4Q22. Furthermore, ADNOC DRILL launched its first international rig in Jordan in 4Q23. In January 2024, ADNOC Drilling and Alpha Dhabi jointly disclosed the establishment of their strategic JV at the Abu Dhabi Global Market. This partnership aims to invest internationally in energy technology and enhance technologically-driven energy services. The company also expedited its growth plan to support ADNOC upstream in reaching the goal of producing five million barrels of oil per day and achieving gas self-sufficiency in the UAE by 2027. Consequently, the company intends to raise the rig count to 142, incorporating four new lease-to-own land rigs by 2024. The Company's total owned rigs reached 129 in 4Q23 in line with its set target. To facilitate further expansion, the company foresees its annual Capex to range between USD 7.5 Bn to USD 9.5 Bn for the FY2024, while actively progressing with its rig acquisition initiative. Furthermore, ADNOC DRILL expects its EBITDA to be in the range of USD 1.7-1.9 Bn and an EBITDA margin of 48%-50 owing to an expansion in rig fleet and service offering. The Company also intends to uphold its dividend policy and proposed a final dividend of 8.22 fills per share generating a dividend yield of 4.4% in 2023. Hence, based on the above-mentioned factors, we assign a ACCUMULATE rating on the stock.

Adnoc Drilling - Relative valuation

(at CMP in USD)	2020	2021	2022	2023	2024F
PE	NA	26.5	20.0	15.5	13.5
PB	NA	5.7	5.5	4.9	4.3
EV/EBITDA	NA	16.3	13.9	11.9	9.6
Dividend yield	NA	4.3%	4.3%	4.4%	4.6%

FABS Estimates & Co Data

Adnoc Drilling - P&L

USD mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	733	776	841	826	1.8%	14.7%	8.3%	2,673	3,057	14.4%
Direct Cost	-541	-488	-527	-494	6.7%	-2.6%	7.8%	-1,730	-1,849	6.9%
Gross Profit	192	288	314	332	-5.5%	63.4%	9.1%	943	1,208	28.1%
G&A Expenses	50	-21	31	-61	NM	-37.1%	NM	-119	-126	6.2%
EBITDA	353	381	425	408	4.3%	20.3%	11.6%	1,218	1,483	21.7%
Other Income	1	3	4	3	22.1%	NM	27.4%	6	10	59.7%
Finance Costs	-9	-13	-20	-18	10.1%	NM	55.8%	-29	-59	NM
Net Profit	234	257	329	256	28.7%	40.8%	27.9%	802	1,033	28.8%

FABS estimate & Co Data

Adnoc Drilling - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	26.2%	37.1%	37.4%	1,114	28	35.3%	39.5%	424
EBITDA	48.2%	49.1%	50.5%	237	148	45.6%	48.5%	294
Net Profit	31.9%	33.2%	39.1%	727	598	30.0%	33.8%	379

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value ADNOC Drilling. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.74	70.0%	3.32
Relative Valuation (RV)	3.28	30.0%	0.98
Weighted Average Valuation (AED)			4.30
Current market price (AED)			3.75
Upside/Downside (%)			+14.7%

1) DCF Method:

Adnoc Drilling is valued using free cash flow to firm. We have discounted the cash flow using weighted average cost of capital of 9.1%. It is arrived after using the cost of equity of 9.4% and cost of debt 6.3%. The cost of equity is calculated using a 10-year government bond yield of 5.2%, a beta of 1.05, and an equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	5,610
Terminal value (USD, Mn)	16,674
FV to Common shareholders (USD, Mn)	20,646
No. of share (Mn)	16,000
Current Market Price (AED)	3.75
Fair Value per share (AED)	4.74

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	1,229	1,371	1,481	1,581	1,635
D&A	482	462	443	427	411
(-) Capex	-900	-225	-236	-242	-250
Change in working capital	-118	-84	-43	-33	-27
Free Cash Flow to Firm (FCFF)	694	1,524	1,645	1,733	1,769
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Discounted FCFF	643	1,294	1,280	1,236	1,157

Source: FAB Securities

2) Relative Valuation:

We have used regional and global peers to value Adnoc Drilling, which is valued using the EV/EBITDA multiple. We have applied a premium to peer valuation since the majority of the Company 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, leading ADNOC Drilling to invest in rigs to boost capacity to provide service to the parent. It is valued at EV/EBITDA multiple of 8.6x compared to the peer multiple of 6.9x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Halliburton	30,320	6.3	5.5	10.0	8.9
Schlumberger (Us)	67,920	7.9	6.8	13.6	11.4
Baker Hughes Company	29,040	7.3	6.1	14.2	11.3
Zhongman Petroleum and Natural Gas	1,020	3.3	2.7	6.2	4.9
Arabian Drilling Company	4,030	9.2	8.1	18.6	14.5
Petrovietnam Drilling & Well Service Corporation	655	7.5	6.0	21.2	14.3
Borr Drilling Limited	1,610	6.0	4.5	7.5	4.8
Diamond Offshore Drilling, Inc.	1,240	6.5	3.5	19.7	6.0
Average		6.8x	5.4x	13.9x	9.5x
Median		6.9x	5.7x	13.9x	10.1x
Max		7.6x	6.3x	18.9x	12.1x
Min		6.2x	4.2x	9.4x	5.7x

Source: FAB Securities

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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