

ADNOC Drilling Company

Rig expansion boosted top-line

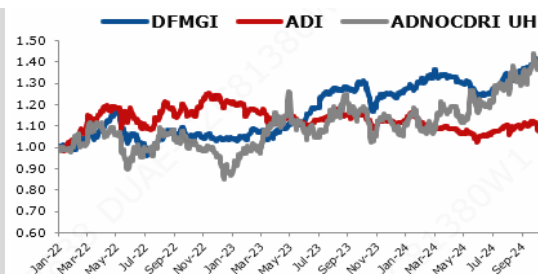
Current Price
AED 5.23

Target Price
AED 5.85

Upside/Downside (%)
+12%

Rating
ACCUMULATE

- EBITDA rose 34.0% YOY to USD 510 Mn in 3Q24 while EBITDA margin grew 65 bps YOY but fell 74 bps QOQ to 49.7% in 3Q24.
- The Company revised its revenue guidance from USD 3.7-3.85 Bn to USD 3.8-3.9 Bn, while EBITDA guidance also revised from USD 1.80-1.95 Bn to USD 1.85-1.95 Bn in 2024.
- Six new hybrid land rigs commenced operations in 3Q24, resulting in a fleet count of 140 rigs as of September 2024, including 95 land rigs, 35 offshore jack-ups and 10 island rigs.
- Net working capital rose from USD 250 Mn in 2Q24 to USD 418 Mn in 3Q24, mainly driven by higher working capital activities.



3Q24 Net Profit higher than our estimate

ADNOC Drilling Co. PJSC (ADNOC DRILL/the Company) net profit grew 30.1% YOY to USD 335 Mn in 3Q24, higher than our estimate of USD 323 Mn. The increase in the net profit is mainly attributable to solid revenue and EBITDA growth, partially offset by higher G&A and finance cost coupled with tax charges owing to the introduction of corporate tax in the UAE.

P&L Highlights

ADNOC Drilling's net revenue grew strongly 32.2% YOY to USD 1,026 Mn in 3Q24, driven by the expansion of onshore & offshore fleets, coupled with the continued growth of the oilfield services (OFS) segment. The initial contributions from the Turnwell and the Enersol joint ventures further boosted growth. Onshore Segment revenue grew 28.5% YOY to USD 486 Mn in 3Q24, primarily due to new rigs starting operations. Revenue from the Offshore Jackup grew 45.6% YOY to USD 290 Mn in 3Q24, driven by the expansion of jack-up rigs. Revenue from the Offshore Island fell marginally 3.5% YOY to USD 52 Mn in 3Q24, due to positive one-off claim in 3Q23 related to demobilization of island rig allocated to the Hail and Ghasha project. OFS segmental revenue witnessed robust growth of 36.4% YOY to USD 197 Mn in 3Q24, owing to growth in activity from drilling fluids and directional drilling. The direct cost grew 23.5% YOY to USD 603 Mn in 3Q24. Thus, the Company's gross profit expanded 46.9% YOY to USD 423 Mn in 3Q24. Gross profit margin grew from 37.1% in 3Q23 to 41.2% in 3Q24 due to effective cost management initiatives. G&A expenses increased significantly from USD 21 Mn in 3Q23 to USD 34 Mn in 3Q24. Thus, EBITDA rose 34.0% YOY to USD 510 Mn in 3Q24. EBITDA margin grew 65 bps YOY but fell 74 bps QOQ to 49.7% in 3Q24. Onshore segment EBITDA rose 26.4% YOY to USD 241 Mn in 3Q24 due to higher revenue and cost efficiencies while Offshore jack-

Stock Information

Market Cap (AED, mm)	83,680.00
Shares Outstanding	16,000.00
52 Week High	5.29
52 Week Low	3.54
3M Avg. daily value (AED)	95,836,470

3Q24 Result Review (USD, mm)

Total Assets	7,499
Total Liabilities	4,087
Total Equity	3,412
EBITDA	510
Net Profit	335

Financial Ratios

Dividend Yield (12m)	3.30
Dividend Pay-out (%)	69.39
Price-Earnings Ratio(x)	18.47
Price-to-Book Ratio (x)	6.68
Book Value (AED)	0.21
Return-on Equity (%)	36.79

Stock Performance

5 Days	3.16%
1 Months	11.99%
3 Months	14.44%
6 Months	36.55%
1 Year	36.20%
Month to Date (MTD%)	3.16%
Quarter to Date (QTD%)	10.57%
Year to Date (YTD%)	38.36%

up EBITDA grew significantly from USD 131 Mn in 3Q23 to USD 198 Mn in 3Q24, supported by robust revenue growth and expansion in margin owing to operational efficiency. Offshore Island EBITDA declined 13.2% YOY to AED 32 Mn in 3Q24 due to the reactivation cost of the island rigs assigned to Hail and Ghasha project. OFS segment EBITDA stood at USD 40 Mn in 3Q24 compared to USD 22 Mn in 3Q23, owing to higher activity and contributions from Enersol and Turnwell. Consequently, operating income increased 45.6% YOY to USD 389 Mn in 3Q24. Net finance costs increased significantly from USD 13 Mn in 3Q23 to USD 31 Mn in 3Q24, owing to increased borrowings. The share of results of a JV amounted to USD 2 Mn in 3Q24 compared to nil in 3Q23. ADNOC DRILL recorded a decline in the other income from USD 3 Mn in 3Q23 to USD 2 Mn in 3Q24. The corporate tax expense amounted to USD 28 Mn in 3Q24 owing to the introduction of corporate tax in UAE in FY2024, impacting profitability.

Balance Sheet Highlights

ADNOC DRILL cash and cash equivalent declined from USD 331 Mn in 2Q24 to USD 308 Mn in 3Q24. Net debt rose to USD 2.2 Bn in 3Q24 compared to USD 1.8 Bn in 2Q24, and the net debt to LTM EBITDA ratio increased from 1.0x in 2Q24 to 1.2x in 3Q24. ADNOC Drilling's cash flow from operation declined from USD 519 Mn in 2Q24 to USD 315 Mn in 3Q24, mainly due to higher working capital activities. The Company's net working capital rose from USD 250 Mn in 2Q24 to USD 418 Mn in 3Q24, driven by higher receivables due from related parties attributable to growth in activity. Capex fell from USD 234 Mn in 2Q24 to USD 201 Mn in 3Q24.

Target Price and Rating

We maintain our ACCUMULATE rating on ADNOC Drilling with a revised target price of AED 5.85. ADNOC DRILL recorded a robust financial performance in 3Q24 owing to its efforts to achieve operational efficiencies and expand its rig count. The Company's six new hybrid land rigs commenced operations in 3Q24, resulting in a fleet count of 140 rigs as of September 2024, including 95 land rigs, 35 offshore jack-ups and 10 island rigs. ADNOC DRILL is on track to achieve its target of 142 rigs by the end of FY2024 by adding two additional jack-up rigs. The Company drilled 175 wells in 3Q24, compared to 148 in 2Q24. The overall rig availability increased from 94% in 2Q24 to 95% in 3Q24. The Company plans to boost OFS volume aligned with the planned phasing of IDS rigs ramp up with the continued progress on unconventional drilling. ADNOC DRILL aims to expand its oil field services. In line with this aim, the Company aims to complete 50 IDS rigs in the next four years, which provides strong revenue visibility. ADNOC DRILL revised its 2024 revenue guidance from USD 3.7-3.85 Bn to USD 3.8-3.9 Bn. In addition, it expects to generate USD 1.7 Bn in revenue by the end of FY2026. The Company also revised its EBITDA guidance from USD 1.80-1.95 Bn to USD 1.85-1.95 Bn. Moreover, the Company also raised its capex guidance from USD 750-950 Mn for FY2024. It also plans to incur a maintenance capex of USD 200-250 Mn post-2024, mainly due to the scheduled organic and inorganic growth plans. Furthermore, in line with its goal to expand and enhance operational efficiency, the Company's JV Enersol acquired an additional 42.2% stake in Gordon Technologies LLC, a 51% stake in NTS Amega, and a 100% stake in EV Holdings. ADNOC DRILL also finalized its deal with SLB and Patterson-UTI and thereby formed the Turnwell joint venture. The newly formed JV is anticipated to accelerate the Company's previously secured USD 1.7 Bn 144-well unconventional oil and gas program. Moreover, ADNOC DRILL distributed interim cash dividends of 9.05 fils per share for 1H24, resulting in a dividend yield of 3.5% in 2024. Thus, considering the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

Adnoc Drilling - Relative valuation

(at CMP in USD)	2020	2021	2022	2023	2024F
PE	NA	37.8	28.5	22.1	18.5
PB	NA	8.2	7.8	7.0	6.1
EV/EBITDA	NA	22.8	19.5	16.5	13.0
Dividend yield	NA	3.0%	3.0%	3.1%	3.5%

FABS Estimates & Co Data

Adnoc Drilling – P&L

USD mm	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	776	935	1,026	984	4.3%	32.2%	9.7%	3,057	3,888	27.2%
Direct Cost	-488	-539	-603	-558	8.0%	23.5%	11.9%	-1,849	-2,285	23.6%
Gross Profit	288	396	423	426	-0.6%	46.9%	6.8%	1,208	1,603	32.7%
G&A expenses	-21	-41	-34	-44	-23.9%	64.0%	-18.0%	-126	-148	17.0%
EBITDA	381	472	510	495	3.0%	34.0%	8.1%	1,483	1,915	29.1%
EBIT	267	355	389	381	2.1%	45.6%	9.6%	1,082	1,455	34.5%
Share of results of a JV		1	2	1	96.1%	NM	NM	0	6	NM
Other Income- Net	3	1	2	1	59.1%	-29.8%	NM	10	6	-40.8%
Finance Costs- Net	-13	-33	-31	-29	7.3%	NM	-7.5%	-59	-114	93.1%
Profit before tax	257	324	363	355	2.2%	41.0%	12.1%	1,033	1,354	31.1%
Corporate tax	0	-29	-28	-32	-12.1%	NM	-2.8%	0	-119	NM
Profit for the period	257	295	335	323	3.6%	30.1%	13.5%	1,033	1,235	19.5%

FABS estimate & Co Data

Adnoc Drilling - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	37.1%	42.3%	41.2%	413	-114	39.5%	41.2%	171
EBITDA	49.1%	50.5%	49.7%	65	-74	48.5%	49.3%	74
Net Profit	33.2%	31.5%	32.6%	-53	110	33.8%	31.7%	-204

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	6.26	80.0%	5.01
Relative Valuation (RV)			
EV/EBITDA	3.45	10.0%	0.34
PE	4.96	10.0%	0.50
Weighted Average Valuation (AED)			5.85
Current market price (AED)			5.23
Upside/Downside (%)			+12%

1) DCF Method:

Adnoc Drilling 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 after using the cost of equity of 8.5% and the after-tax cost of debt of 8.2%. The cost of equity is calculated using a 10-year government bond yield of 4.8%, 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 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	5,874
Terminal value (USD, Mn)	23,627
FV to Common shareholders (USD, Mn)	29,501
No. of share (Mn)	16,000
Current Market Price (AED)	5.23
Fair Value per share (AED)	6.26

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,336	1,487	1,623	1,736	1,826
D&A	454	478	456	437	421
(-) Capex	-850	-435	-236	-242	-250
Change in working capital	-118	-100	-54	-27	-31
Free Cash Flow to Firm (FCFF)	617	1,431	1,788	1,905	1,966
Discounting Factor	0.99	0.91	0.84	0.78	0.72
Discounted FCFF	153	1,306	1,510	1,487	1,418

Source: FAB Securities

2) Relative Valuation:

We have used regional and global peers to value Adnoc Drilling, 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 EV/EBITDA and PE multiple of 9.0x and 17.5x, respectively, compared to the peer multiple of 6.0x and 11.7x

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Halliburton	24,834	6.1	5.8	8.9	8.3
Schlumberger (Us)	56,938	7.3	6.9	11.9	10.9
Baker Hughes Company	37,770	9.1	8.3	16.6	14.9
Petrovietnam Drilling & Well Service Corporation	552	5.9	4.6	17.6	10.1
Borr Drilling Limited	1,049	5.2	4.3	8.6	5.0
ADES Holding Co	5,767	10.7	9.6	27.9	21.2
China Oilfield Services	8,303	5.8	5.4	9.9	7.0
Weatherford International	5,797	4.8	4.6	11.5	10.0
Seadrill Limited	2,594	7.0	4.6	9.3	9.0
Arabian Drilling Co	2,606	8.1	7.3	25.3	16.4
Odfjell Drilling Ltd	1,128	5.2	4.0	15.8	6.3
Noble Corp PLC	5,045	5.4	4.0	10.1	8.0
Average		6.7x	5.8x	14.5x	10.6x
Median		6.0x	5.0x	11.7x	9.5x
Max		7.5x	7.0x	16.9x	11.9x
Min		5.4x	4.5x	9.8x	7.7x

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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