

Adnoc Drilling (ADNOC DRI)

Current Price

AED 5.52

Target Price

AED 6.25

Upside/Downside (%)

+13%

Rating

ACCUMULATE

4Q24 Net Profit higher than our estimate

- Net revenue grew strongly 41.2% YOY to USD 1,187 Mn in 4Q24 driven by the expansion of operations. The half of the growth is driven by activity phasing in the oilfield services (OFS) segment and cost reimbursement in Onshore.
- Onshore Segment revenue grew 33.2% YOY to USD 554 Mn in 4Q24, primarily due to new rigs starting operations and USD 48 Mn contribution from unconventional activity related to land drilling.
- Revenue from the Offshore Jack-up grew 17.3% YOY to USD 264 Mn in 4Q24, driven by higher activity from Jack-ups compared to previous year.
- Revenue from the Offshore Island rose 8% YOY to USD 56 Mn in 4Q24, due to reactivation of an island rig for Hail and Ghasha project.
- OFS segmental revenue grew significantly from USD 148 Mn in 4Q23 to USD 313 Mn in 4Q24, owing to growth in IDS activities, specifically positive phasing during 4Q24 related to pressure pumping, directional drilling and unconventional business.
- Gross profit grew 32.4% YOY to USD 510 Mn in 4Q24 while gross profit margin fell 286 bps YOY to 42.9% in 4Q24.
- EBITDA grew strongly 40.6% YOY to USD 596 Mn in 4Q24 owing to robust revenue growth partially offset by a rise in direct costs. EBITDA margin fell 19 bps YOY to 50.2% in 4Q24.
- Onshore segment EBITDA rose 40.6% YOY to USD 285 Mn in 4Q24 due to higher revenue and the realization of cost optimization initiatives, whereas the Offshore Jack-up segment's EBITDA rose from USD 148 Mn in 4Q23 to USD 197 Mn in 4Q24 supported by robust revenue growth and improved operational efficiency.
- Offshore Island EBITDA declined marginally by 3.0% YOY to AED 32 Mn in 4Q24 due to the reactivation cost of the island rigs assigned to the Hail and Ghasha project.
- OFS segment EBITDA stood at USD 82 Mn in 4Q24 compared to USD 40 Mn in 4Q23 owing to higher activity and contributions from Enersol and Turnwell JVs.
- Net profit grew 21.3% YOY to USD 399 Mn in 4Q24 owing to revenue growth partially offset by higher direct cost, net finance costs, and implementation of tax charges owing to the introduction of corporate tax in the UAE.
- The board of directors recommended a cash dividend of USD 9.05 fils per share amounting to USD 394 Mn for 2H24.

Earnings Call Summary

- ADNOC DRILL's rig fleet stood at 142 rigs as of 4Q24, with 13 new rigs added in FY2024, including two jackup rigs, which are expected to contribute to revenue in 1H25.
- The Company secured a USD 1.7 Bn contract for the unconventional business. ADNOC Drilling announced the acquisition of four tech-enabled oilfield service companies over the years strengthening the portfolio.
- ADNOC Drilling is expanding its operations beyond the UAE and secured contract extension in Jordan and targeting potential operations in Kuwait and Oman.
- Enersol acquired technology-focused companies in 4Q24, such as Deep Well Services, to enhance ADNOC Drilling's oilfield services.

- ADNOC DRILL expects capex of USD 350-550 Mn in FY2025 including maintenance and capex for island rigs. The Company plans to make inorganic growth investments in the Enersol JV up to USD 490 Mn. Total capex for FY2025 could exceed USD 1 Bn, depending on M&A activity and investment opportunities
- ADNOC DRILL expects to generate revenue of USD 4.6-4.8 Bn in FY2025, driven by full contribution from rigs added in FY2024, along with continued growth in OFS and unconventional businesses.
- ADNOC DRILL will consolidate Offshore Jack-up and Offshore Island segments into a single Offshore segment to optimize asset mix and maximize operational efficiency from 1Q25 onwards.
- The Company expects EBITDA to range between USD 2.15-2.30 Bn, with an estimated margin of 46-48%.
- Net income is projected to range between USD 1.35-1.45 Bn, with a net margin of 28-30%.
- The Company expects 1Q25 revenue to average between 3Q24 and 4Q24.
- FCF guidance for FY2025 ranges between USD 1.3-1.6 Bn. The free cash flow is expected to support the company's dividend floor of approximately USD 870 Mn for FY2025, which represents a minimum 10% YOY growth in dividends.
- The working capital ratio is likely to be maintained at 12% in the medium-term.
- ADNOC DRILL is expecting to acquire three island rigs. The first is expected to arrive by 2H25, with operations expected to start between 1Q26 and 2Q26. The other two rigs will follow in FY2026, with the third rig potentially starting in 1H27.
- ADNOC DRILL plans to have a total of 148 rigs by FY2026 and 151 rigs by FY2028.
- The reduction in drilling time is expected to result in higher margins for ADNOC DRILL.
- The company aims to expand its fleet of IDS rigs to 62 rigs in FY2025.
- Island rigs come with AI and smart capabilities for optimized island drilling operations.
- Revenue from unconventional drilling exceeded USD 100 Mn in 4Q24 supported by strong oil field activities.
- Well drilling time reduced to 15 days and improvement in drilling speed benefitting both ADNOC and clients.

Adnoc Drilling – P&L

USD mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch
Revenue	841	1,026	1,187	1,072	10.7%	41.2%	15.7%
Direct Cost	-456	-603	-677	-617	9.8%	48.6%	12.3%
Gross Profit	385	423	510	455	12.0%	32.4%	20.5%
G&A Expenses	-40	-34	-39	-33	19.1%	-0.9%	16.6%
EBITDA	424	510	596	512	16.4%	40.6%	16.8%
EBIT	345	389	470	422	11.4%	36.2%	20.8%
Share of results of a joint venture	0	2	3	1	NM	NM	25.0%
Other Income	4	2	2	2	9.7%	-44.9%	0.1%
Finance Costs	-20	-31	-32	-30	8.2%	60.5%	5.5%
Profit before tax	329	363	443	394	12.4%	34.6%	22.0%
Corporate tax	0	-28	-44	-33	33.1%	NM	56.3%
Net Profit	329	335	399	361	10.5%	21.3%	19.2%

FABS estimate & Co Data

