FAB أبوظبـي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 1Q25

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Drilling (ADNOCDRI)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.25	AED 6.25	+19.0%	BUY

1Q25 Net Profit in line with our estimate

- Net revenue grew strongly 32.1% YOY to USD 1,170 Mn in 1Q25 driven by the expansion of operations.
- Onshore Segment revenue grew 20.1% YOY to USD 494 Mn in 1Q25, primarily due to new rigs starting operations and USD 30 Mn contribution from unconventional activity related to land drilling.
- Revenue from the Offshore Jack-up & Island grew 2% YOY to USD 334 Mn in 1Q25, driven by higher activity island rigs for Hail and Ghasha project from Jack-ups compared to previous year.
- OFS segmental revenue grew significantly from USD 146 Mn in 1Q24 to USD 342 Mn in 1Q25, primarily driven by USD 122 Mn revenue from the unconventional business owing to growth in IDS activities, providing more discrete services.
- Gross profit grew 21.3% YOY to USD 447 Mn in 1Q25, while gross profit margin fell 338 bps YOY to 38.2% in 1Q25.
- EBITDA grew strongly 22.0% YOY to USD 533 Mn in 1Q25 owing to robust revenue growth partially offset by a rise in direct costs. EBITDA margin fell 374 bps YOY to 45.5% in 1Q25.
- Onshore segment EBITDA rose 29.5% YOY to USD 246 Mn in 1Q25 due to higher revenue and the realization of cost optimization initiatives, whereas the Offshore Jack-up & Island segment's EBITDA rose from USD 213 Mn in 1Q24 to USD 236 Mn in 1Q25 supported by robust revenue growth and improved operational efficiency.
- OFS segment EBITDA stood at USD 51 Mn in 1Q25 compared to USD 34 Mn in 1Q24 owing to higher activity and contributions from Enersol and Turnwell JVs.
- Net profit grew 24.2% YOY to USD 341 Mn in 1Q25 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.
- Distributed total dividend of USD 788 Mn for 2024, equivalent to 18.1 fils per share.
- The board of directors approved a cash dividend of c. 5 fils per share amounting to USD 217 Mn for 1Q25.

Earnings Call Summary

- ADNOCDRILL was operating 95 onshore and 47 offshore, with a rig availability of 96%, ensuring high operational uptime, as of 1Q25.
- The company's Drilling Incident Rate (DRIR) for 1Q25 was 0.58, surpassing the target of 0.61, indicating a commendable safety performance with fewer incidents than anticipated.
- One rig is operating in Jordan, with international expansion efforts in Oman and Kuwait remain on track, with live tenders in progress and no major disruptions reported so far due to tariffs or regional uncertainties.
- Two jack-ups joined the fleet at the end of 4Q24 and are expected to contribute to revenue by the end of 2Q25.
- SLB and Paterson are two strategic partners involved in ADNOC's unconventional drilling operation.
- Three additional island rigs, valued at c. USD 800 Mn, will join the fleet by 2027–2028, driving future revenue growth.
- ADNOC Drilling's unconventional drilling segment currently operates with rented equipment and short-term resources due to the limited scope of Phase 1. Upon securing a long-term contract for Phase 2, the company plans to transition to owned rigs and long-term assets, aligning the segment's margins with those of conventional drilling.

- The Company is currently c. 30% through drilling and 10% through completions for Phase 1, with further advancements needed before providing definitive visibility on launching Phase 2.
- ADNOC Drilling has drilled 34 unconventional wells as part of Phase 1, demonstrating c. 40–50% improvement in drilling duration, highlighting significant efficiency gains that exceed original expectations.
- The Company anticipates maintaining a balanced mix between conventional and unconventional drilling operations through 2025. Starting in 2027, following the securing of long-term contracts for Phase 2, ADNOCDRILL plans to adjust its strategy.
- Management remains optimistic about Phase 2 of the unconventional program, emphasizing that continued drilling and completion efficiencies will build confidence to support broader expansion plans.
- Margins are expected to improve significantly post-2026, once Phase 2 of the unconventional program transitions to a fully integrated, asset-heavy model that replaces rented infrastructure with owned equipment.
- Capex expenses are expected to be higher in the second half due to the arrival of three additional island rigs from ADNOC offshore by 2027-2028. The Company will stick to its guidance of capex expenses around USD 350-550 Mn in 2025.
- ADNOC Drilling expects to deploy 151 rigs by 2028, which includes the six new island rigs, helping the company meet ADNOC's broader 5 Mn barrels per day oil capacity target by 2027.
- Management confirms that the current rig fleet is sufficient to meet P5 (5 million bpd) targets, although additional rigs may be added depending on unconventional activity or regional expansion plans.
- ADNOC Drilling plans to drill a total of 144 unconventional wells as part of Phase 1.
- During Phase 1, between 6-8 rigs will operate in the unconventional segment.
- The establishment of a facility in Abu Dhabi has streamlined operations, leading to improved efficiency in drilling activities.
- Enersol acquired a 95% stake in Deep Well Services, a company specializing in high-pressure, long lateral, and multi-well completion operations.
- Dividend policy remains a strategic focus, with management actively evaluating a potential revision to the base dividend in 2025, following last year's shift to quarterly payments and a 10% annual growth floor.
- The new quarterly dividend format enables ADNOC Drilling's board to reassess payouts more frequently, providing flexibility to adjust dividend levels based on performance and shareholder expectations.

ADNOC Drilling – P&L

USD Mn	**1Q24**	**4Q24**	**1Q25**	**1Q25F**	**Var**	**YOY Ch**	**QOQ Ch**
Revenue	886	1,187	1,170	1,101	6.3%	32.1%	-1.4%
Direct Cost	-518	-677	-723	-649	11.4%	39.7%	6.7%
Gross Profit	**368**	**510**	**447**	**452**	-1.1%	**21.3%**	**-12.3%**
G&A Expenses	-41	-39	-49	-42	16.8%	18.5%	24.3%
EBITDA	**437**	**596**	**533**	**521**	2.2%	**22.0%**	**-10.6%**
EBIT	**327**	**470**	**398**	**410**	-2.9%	**21.7%**	**-15.4%**
Share of results of a joint venture	2	3	3	3	-1.0%	58.7%	0.0%
Other Income	1	2	2	1	43.6%	104.3%	-6.3%
Finance Costs	-28	-32	-29	-34	-14.8%	5.6%	-9.6%
Profit before tax	**302**	**443**	**374**	**380**	-1.7%	**23.7%**	**-15.7%**
Corporate tax	-28	-44	-33	-34	-4.4%	18.7%	-25.5%
Net Profit	**275**	**399**	**341**	**346**	**-1.4%**	**24.2%**	**-14.6%**

FABS estimate & Co Data

Guidance:

(USD, Billion)	FY2025 Guidance
Revenue	**4.60 – 4.80**
Onshore Revenue	1.95 – 2.10
Offshore Revenue (Jack-up & Island)[1]	1.35 – 1.45
Oilfield Services Revenue	1.10 – 1.25
EBITDA	**2.15 – 2.30**
EBITDA Margin	*46% – 48%*
Net Profit	**1.35 – 1.45**
Net Profit Margin	*28% – 30%*
CapEx (excluding M&A)[2]	**0.35 – 0.55**
FCF (excluding M&A)[3]	**1.30 – 1.60**
Leverage Target	**< 2.0x**
Dividend floor (+10% vs 2024)	**0.87**

[1] Starting from the first quarter of 2025, the Company has simplified its reporting structure by reducing the number of segments from four to three. The results of Offshore Jack-Up and Offshore Island will be combined under a new segment called Offshore.

[2] Maintenance CapEx + CapEx for island rigs. It does not consider cash outflows associated with M&A.

[3] Free Cash flow calculated as EBITDA – CapEx – Δ Working Capital – taxes. It does not consider cash outflows associated with M&A.

Medium-Term Guidance

- FY 2026 Revenue expected at ~$5 billion
- Around 50% conventional EBITDA margin (conventional drilling margins exceeding 50% and OFS margin in a range of 22-26% medium-term)
- Conservative long-term leverage target of up to 2.0x Net Debt / EBITDA
- Net working capital as percentage of revenue target of around 12%
- Maintenance CapEx of $200 - $250 million per annum (excluding organic and inorganic growth CapEx)
- 148+ rigs by 2026 and 151+ by 2028

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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