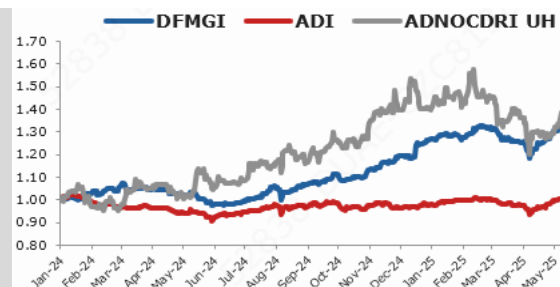


## ADNOC Drilling (ADNOC DRI)

Rigs expansion and healthy contribution from unconventional business boosted topline

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.39	AED 6.25	+16%	BUY

- OFS segmental revenue grew significantly from USD 146 Mn in 1Q24 to USD 342 Mn in 1Q25, mainly driven by USD 122 Mn revenue from the unconventional business, coupled with increased IDS activity and provision of more discrete services.
- ADNOC DRILL was operating 95 onshore and 47 offshore, with a rig availability of 96%, as of 1Q25.
- ADNOC Drilling has secured six additional island rigs that will be added incrementally between 2026 and 2028, bringing the total fleet to 148 rigs by 2026 and 151 by 2028.
- For 2024, ADNOC Drilling distributed a total dividend of USD 788 Mn (18.1 fils per share), and approved a dividend of c.5 fils per share (USD 217 Mn) for 1Q25.



### Stock Information

Market Cap (AED, mm)	86,240.00
Shares Outstanding(mm)	16,000.00
52 Week High	6.01
52 Week Low	3.92
3M Avg. daily value (AED)	52,656,380

### 1Q25 Result Review (USD, Mn)

Total Assets	7,811
Total Liabilities	4,129
Total Equity	3,752
EBITDA	533
Net Profit	341

### Financial Ratios

Dividend Yield (12m)	3.36
Dividend Pay-out (%)	60.45
Price-Earnings Ratio(x)	17.20
Price-to-Book Ratio (x)	6.26
Book Value (AED)	0.23
Return-on Equity (%)	39.52

### Stock Performance

5 Days	6.94%
1 Months	9.55%
3 Months	-3.41%
6 Months	2.28%
1 Year	31.46%
Month to Date (MTD%)	10.00%
Quarter to Date (QTD%)	4.86%
Year to Date (YTD%)	1.13%

### 1Q25 Net Profit in line with our estimate

ADNOC Drilling Co. PJSC (ADNOC DRILL/the Company) net profit grew 24.2% YOY to USD 341 Mn in 1Q25, in line with our estimate of USD 346 Mn. The increase in the net profit is mainly attributable to solid revenue growth and full operational effect of new rigs, partially offset by higher direct cost, net finance costs, and tax charges.

### P&L Highlights

ADNOC Drilling's revenue grew strongly 32.1% YOY to USD 1,170 Mn in 1Q25 driven by the expansion of operations, the full operational impact of rigs commissioned in stages during 2024, moreover the unconventional business supported revenue by USD 152 Mn in 1Q25. Onshore revenue increased 20.1% YOY USD 494 Mn in 1Q25 due to new rigs commencing operations and a USD 30 Mn contribution from unconventional activity related to land drilling. Revenue from the Offshore Jackup & Island grew 2% YOY to USD 334 Mn in 1Q25, driven by higher activity from reactivation island rigs for Hailand Ghasha project. 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, coupled with growth in IDS activities, and providing more discrete services. The direct cost grew 39.7% YOY to USD 723 Mn in 1Q25. Thus, the Company's 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. G&A expenses grew 18.5% YOY to USD 49 Mn in 1Q25. Thus, EBITDA rose 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 from USD 190 Mn in 1Q24 to USD 246 Mn in 1Q25 due to higher revenue and the realization of cost optimization initiatives and less operational day in 1Q25, 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 resulting in lower operational costs. OFS segment EBITDA rose from USD 34 Mn in 1Q24 compared to USD 51 Mn in 1Q25 owing to higher activity by unconventional business with lower margin discrete services and contributions from Enersol and Turnwell JVs. Net finance costs increased 5.6% YOY to USD 29 Mn in 1Q25 owing to increased rate of interest. The share of results of a JV amounted to USD 3 Mn in 1Q25 compared to USD 2 Mn in 1Q24. ADNOC DRILL recorded a growth in the other income from USD 1 Mn in 1Q24 to USD 2 Mn in 1Q25. The corporate tax expense amounted to USD 33 Mn in 1Q25.

### **Balance Sheet Highlights**

ADNOC DRILL cash and cash equivalent decreased from USD 330 Mn in 4Q24 to USD 259 Mn in 1Q25 due to payment of dividend during the quarter. Net debt increased to USD 2.1 Bn in 1Q25 compared to USD 2.0 Bn in 4Q24, and the net debt to LTM EBITDA ratio stable at 1.0x in 1Q25 compared to 4Q24. ADNOC Drilling's cash flow from operation improved from USD 347 Mn in 1Q24 to USD 521 Mn in 1Q25, mainly due to higher profitability and cash generated from working capital during 1Q25 compared to investment in working capital during 1Q24. The Company's net working capital rose from USD 322 Mn in 4Q24 to USD 338 Mn in 1Q25. Capex declines from USD 215 Mn in 4Q24 to USD 91 Mn in 1Q25.

### **Target Price and Rating**

We maintain our BUY rating on ADNOC Drilling with a target price of AED 6.25. the stock appreciated by 8.1% since our last report. ADNOC Drilling delivered a strong financial and operational performance in 1Q25, supported by fleet expansion, improved efficiency, and strategic growth initiatives. As of March 2025, the Company owned 142 rigs, including 95 onshore and 47 offshore, with a rig availability rate of 96%, indicating excellent operational uptime. ADNOC Drilling has secured six additional island rigs that will be added incrementally between 2026 and 2028, bringing the total fleet to 148 rigs by 2026 and 151 by 2028. Revenue for 2025 is projected to range between USD 4.6-4.8 Bn, driven by the full contribution of rigs added in 2024 and ongoing growth in Oilfield Services (OFS) and unconventional operations. Improved drilling efficiency, including a 23% boost in Integrated Drilling Services (IDS) performance, is expected to support margin expansion. The number of IDS rigs rose to 57 from 49 in 1Q24, with 46 rigs receiving discrete services, covering over 70% of the fleet. ADNOC Drilling is also advancing its international expansion, with one rig currently operating in Jordan and tenders active in Oman and Kuwait. No material disruption from global uncertainties or tariffs has been reported. Additionally, the Company is leveraging its Enersol joint venture to support growth, investing c. USD 400 Mn in 2025. Enersol has already deployed USD 800 Mn in acquisitions across four technology-driven companies, including the recent addition of DeepWell Services (DWS). Gordon Technologies has opened a fully operational facility in Abu Dhabi, while EV is relocating its regional base to the UAE, enhancing the local tech ecosystem. For 2025, EBITDA is forecasted between USD 2.15-2.30 Bn, with margins of 46-48%. Net income is expected in the USD 1.35-1.45 Bn range, translating to a healthy net margin of 28-30%. ADNOC Drilling's CapEx is projected at USD 350-550 Mn, for rig maintenance and investments in new island rigs. CapEx is expected to increase in the second half of the year, tied to the construction and phased delivery of rigs scheduled for 2027-2028. Safety performance remains strong, with a Drilling Incident Rate (DRIR) of 0.58 in Q1 2025, outperforming the target of 0.61. ADNOC Drilling continues to prioritize its dividend policy, with management considering a potential revision to the base dividend in 2025. This follows the 2024 shift to quarterly payments and a 10% annual growth floor. For 2024, ADNOC Drilling distributed a total dividend of USD 788 Mn (18.1 fils per share), and approved a dividend of c.5 fils per share (USD 217 Mn) for 1Q25. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

#### ADNOC Drilling - Relative valuation

(at CMP in USD)	2020	2021	2022	2023	2024	2025F
PE	NA	37.8	28.4	22.1	17.5	16.5
PB	NA	8.2	7.8	7.0	6.0	5.2
EV/EBITDA	NA	22.8	19.5	16.5	12.3	11.4
DPS (AED)	NA	0.16	0.16	0.16	0.18	0.20
Dividend yield	NA	3.0%	3.0%	3.0%	3.4%	3.7%

FABS Estimates & Co Data

#### ADNOC Drilling - P&L

USD Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	886	1,187	1,170	1,101	6.3%	32.1%	-1.4%	4,034	4,740	17.5%
Direct Cost	-518	-677	-723	-649	11.4%	39.7%	6.7%	-2,337	-2,898	24.0%
<b>Gross Profit</b>	<b>368</b>	<b>510</b>	<b>447</b>	<b>452</b>	<b>-1.1%</b>	<b>21.3%</b>	<b>-12.3%</b>	<b>1,697</b>	<b>1,842</b>	<b>8.6%</b>
G&A expenses	-41	-39	-49	-42	16.8%	18.5%	24.3%	-155	-190	22.0%
<b>EBITDA</b>	<b>437</b>	<b>596</b>	<b>533</b>	<b>521</b>	<b>2.2%</b>	<b>22.0%</b>	<b>-10.6%</b>	<b>2,015</b>	<b>2,178</b>	<b>8.1%</b>
<b>EBIT</b>	<b>327</b>	<b>470</b>	<b>398</b>	<b>410</b>	<b>-2.9%</b>	<b>21.7%</b>	<b>-15.4%</b>	<b>1,541</b>	<b>1,653</b>	<b>7.2%</b>
Share of results of a JV	2	3	3	3	-1.0%	58.7%	0.0%	8	9	1.0%
Other Income- Net	1	2	2	1	43.6%	104.3%	-6.3%	6	7	11.3%
Finance Costs- Net	-28	-32	-29	-34	-14.8%	5.6%	-9.6%	-124	-149	20.0%
<b>Profit before tax</b>	<b>302</b>	<b>443</b>	<b>374</b>	<b>380</b>	<b>-1.7%</b>	<b>23.7%</b>	<b>-15.7%</b>	<b>1,432</b>	<b>1,519</b>	<b>6.1%</b>
Corporate tax	-28	-44	-33	-34	-4.4%	18.7%	-25.5%	-129	-137	6.4%
<b>Profit for the period</b>	<b>275</b>	<b>399</b>	<b>341</b>	<b>346</b>	<b>-1.4%</b>	<b>24.2%</b>	<b>-14.6%</b>	<b>1,304</b>	<b>1,382</b>	<b>6.0%</b>

FABS estimate & Co Data

#### ADNOC Drilling - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	41.6%	42.9%	38.2%	-338	-474	42.1%	38.9%	-320
EBITDA	49.3%	50.2%	45.5%	-374	-467	49.9%	46.0%	-399
Net Profit	31.0%	33.6%	29.1%	-185	-448	32.3%	29.2%	-315

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	6.60	80.0%	5.28
Relative Valuation (RV)			
EV/EBITDA	3.54	10.0%	0.35
PE	6.11	10.0%	0.61
<b>Weighted Average Valuation (AED)</b>			<b>6.25</b>
Current market price (AED)			5.39
Upside/Downside (%)			+16%

### 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 8.6%. It is arrived after using the cost of equity of 8.9% and the after-tax cost of debt of 5.9%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, 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)	6,759
Terminal value (USD, Mn)	24,135
<b>FV to Common shareholders (USD, Mn)</b>	<b>28,778</b>
No. of share (Mn)	16,000
Current Market Price (AED)	5.39
<b>Fair Value per share (AED)</b>	<b>6.60</b>

### DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,516	1,737	1,850	1,946	2,036
D&A	518	506	494	480	465
(-) Capex	-1,000	-375	-355	-325	-295
Change in working capital	-107	-126	-11	54	60
<b>Free Cash Flow to Firm (FCFF)</b>	<b>695</b>	<b>1,742</b>	<b>1,977</b>	<b>2,155</b>	<b>2,266</b>
Discounting Factor	0.97	0.87	0.80	0.74	0.68
<b>Discounted FCFF</b>	<b>508<sup>1</sup></b>	<b>1,521</b>	<b>1,590</b>	<b>1,596</b>	<b>1,545</b>

Source: FAB Securities, <sup>1</sup>Adjusted for partial year

## 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 8.0x and 19.3x, respectively, compared to the peer multiple of 5.0x and 12.0x

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Halliburton	16644	5.4	5.1	8.0	7.2
Schlumberger (Us)	45565	6.5	6.1	10.5	9.8
Baker Hughes Company	35974	8.3	7.7	15.2	13.2
Petrovietnam Drilling & Well Service Corporation	395	4.9	3.9	13.9	9.1
Borr Drilling Limited	400	5.2	5.4	10.8	9.3
ADES Holding Co	4314	8.5	8.0	17.7	15.0
China Oilfield Services	6897	4.9	4.8	6.1	5.7
Weatherford International	3122	3.6	3.3	8.4	6.1
Seadrill Limited	1422	4.3	2.9	13.3	4.5
Arabian Drilling Co	1998	6.5	6.2	17.7	13.9
Odfjell Drilling Ltd	1256	4.5	3.8	7.8	5.1
Noble Corp PLC	3585	4.7	4.4	15.4	11.2
<b>Average</b>		<b>5.6x</b>	<b>5.1x</b>	<b>12.1x</b>	<b>9.2x</b>
<b>Median</b>		<b>5.0x</b>	<b>5.0x</b>	<b>12.0x</b>	<b>9.2x</b>
<b>Max</b>		<b>6.5x</b>	<b>6.2x</b>	<b>15.2x</b>	<b>11.7x</b>
<b>Min</b>		<b>4.7x</b>	<b>3.8x</b>	<b>8.3x</b>	<b>6.0x</b>

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%

## FAB Securities Contacts:

### Research Analyst

Ahmad Banihani                      +971-2-6161629                      [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

### Sales & Execution

Abu Dhabi Head Office

Trading Desk                      +971-2-6161700/1                      Online Trading Link

+971-2-6161777

Institutional Desk                      +971-4-4245765

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