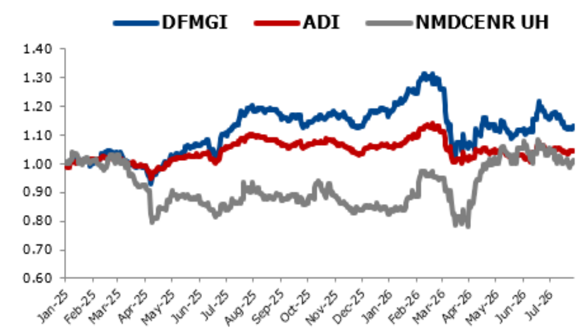
NMDC Energy

Cost overruns weighed on earnings despite resilient revenue

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.77	AED 3.80	+37%	BUY

- NMDC Energy's project pipeline stood at c. AED 55.2 Bn as of 2Q26.
- The Company's backlog stood at AED 33.3 Bn, with 82% from the local (UAE) market and 18% from international markets, comprising 68% offshore and 32% onshore projects.
- The Company secured AED 2.2 Bn of new project awards during 2Q26, further strengthening long-term revenue visibility.
- Management expects 2H26 performance to improve, subject to a stable regional operating environment.
- Management indicated that the elevated tax rate in 2Q26 was driven by a one-off item and is expected to normalize during 2H26.



Stock Information	
Market Cap (AED, Mn)	13,850.00
Paid Up Capital (Mn)	2,500.00
52 Week High	3.05
52 Week Low	2.17
3M Avg. daily value (AED)	7,434,762

2Q26 Result Review (AED, Mn)	
Total Assets	19,794
Total Liabilities	14,213
Total Equity	5,581
EBITDA	351
Net Profit	170

Financial Ratios	
Dividend Yield (12M)	5.78
Dividend Pay-out (%)	49.98
Price-Earnings Ratio(x)	11.06
Price-to-Book Ratio (x)	2.49
Book Value (AED)	1.11
Return-on Equity (%)	23.67

Stock Performance	
5 Days	-2.81%
1 Months	-6.10%
3 Months	-2.12%
6 Months	5.32%
1 Year	7.78%
Month to Date (MTD%)	-0.72%
Quarter to Date (QTD%)	-7.05%
Year to Date (YTD%)	18.88%

2Q26 Net Profit is higher than our estimate

NMDC Energy (NMDC/The Company) reported a decline in net profit attributable to shareholders from AED 366 Mn in 2Q25 to AED 170 Mn in 2Q26, higher than our estimate of AED 53 Mn. The decline in net profit was primarily driven by higher direct costs, other operating expenses, income tax expense, coupled with lower finance income, partially offset by higher revenue, along with lower G&A expenses and finance costs.

P&L Highlights

NMDC Energy's revenue increased 2.0% YOY to AED 4.5 Bn in 2Q26, supported by continued execution of its strong backlog despite ongoing operational challenges and regional geopolitical unrest. Revenue from the local market grew marginally by 0.9% YOY to AED 3,163 Mn, while revenue contribution from international markets increased 4.6% YOY to AED 1,356 Mn in 2Q26, reflecting the UAE's continued position as the Company's primary market. The revenue mix comprised 57% offshore and 43% onshore projects. The Company's backlog stood at AED 33.3 Bn in 2Q26, offering solid revenue visibility, with 82% of the backlog coming from the local (UAE) market and the remaining 18% from international markets. The Company's direct costs rose 6.6% YOY to AED 4,205 Mn in 2Q26. Consequently, gross profit declined 35.3% YOY to AED 315 Mn in 2Q26, with the gross margin decreasing by 401 bps YOY to 7.0% in 2Q26. G&A expenses decreased 15.8% YOY to AED 18 Mn in 2Q26, while other operating expenses increased 1.9% YOY to AED 68 Mn in 2Q26. The Company reported other income of AED 1 Mn in 2Q26, compared with other expenses of AED 1 Mn in 2Q25. NMDC Energy's EBITDA declined 27.6% YOY to AED 351 Mn in 2Q26, reflecting continued cost overruns and operational challenges. As a result, the EBITDA margin contracted by 318 bps

YOY to 7.8% in 2Q26. NMDC Energy's operating profit declined 42.9% YOY to AED 223 Mn in 2Q26, with the operating margin decreasing by 388 bps YOY to 4.9% in 2Q26. The Company's finance costs declined 24.4% YOY to AED 8 Mn in 2Q26, while finance income decreased 26.1% YOY to AED 20 Mn in 2Q26. Additionally, income tax expenses increased from AED 41 Mn in 2Q25 to AED 64 Mn in 2Q26, driven by an exceptional one-off item. Profit attributable to NCI increased 22.7% YOY to AED 1 Mn in 2Q26.

Balance Sheet Highlights

NMDC Energy's cash and bank balances stood at AED 3.3 Bn in 2Q26, lower than AED 3.5 Bn in 1Q26. Cash flow from operations declined to AED 24 Mn in 2Q26 from AED 2,259 Mn in 2Q25, primarily due to negative working capital movements resulting from lower advances from clients and lower job accruals. Free cash flow amounted to negative AED 80 Mn in 2Q26, compared with positive AED 2,155 Mn in 2Q25. Capex stood at AED 104 Mn in 2Q26, primarily related to KSA yard construction, UAE yard upgrades, equipment purchases, and maintenance activities. Moreover, NMDC Energy's debt, including long-term lease liabilities, decreased to AED 556 Mn in 2Q26 from AED 634 Mn in 1Q26.

Target Price and Rating

We maintain our BUY rating on NMDC Energy with a revised target price of AED 3.80. NMDC Energy demonstrated resilient operational execution in 2Q26 despite ongoing operational challenges and a dynamic regional environment. Revenue increased 2.0% YOY to AED 4.5 Bn, supported by continued execution of its strong backlog. While profitability remained under pressure from cost overruns and operational challenges, the Company delivered a sequential recovery, with EBITDA increasing by 78.2% QOQ and EBITDA margin improving to 7.8% in 2Q26 from 4.0% in 1Q26, driven by efficient resource deployment and enhanced operational adaptability. Management also indicated that the higher effective tax rate in 2Q26 was primarily attributable to a one-off item and expects tax rates to normalize during 2H26. As of 2Q26, NMDC Energy's backlog stood at AED 33.3 Bn following AED 2.2 Bn of new project awards secured during the quarter, providing strong revenue visibility. The backlog comprised of 82% local projects and 18% international projects, with offshore projects accounting for 68% and onshore projects for 32% of the total backlog. Management highlighted a healthy project pipeline of c. AED 55.2 Bn as of June 2026 and continued pursuit of strategic opportunities across regional and global energy markets, supporting sustainable long-term growth. The Company strengthened its industrial localization strategy through a series of strategic partnerships announced at Make it in the Emirates (MIITE) 2026, aimed at expanding domestic manufacturing capabilities, reducing import dependence, and creating new long-term growth opportunities. It signed a MoU with Energy Masters to establish the UAE's first manufacturing facility for Electro Submersible Pumps (ESPs), while its partnership with Borouge will explore advanced steel pipe coating solutions for infrastructure and energy projects. In addition, agreements with Neway Valve (Suzhou) Co., Ltd. and Wasco Energy Ltd. will support the localization of valve manufacturing and the development of modular fabrication solutions for data centres, respectively. These initiatives are expected to strengthen the UAE's industrial ecosystem, enhance local value creation, attract future investments, and reinforce the Company's long-term growth pipeline. Management also highlighted continued investments in AI technologies and modern fabrication yards to improve operational efficiency and support project execution. NMDC Energy maintained a strong liquidity position, with cash and bank balances of AED 3.3 Bn as of June 2026, providing financial flexibility to support future growth opportunities despite paying AED 800 Mn of dividends during 1H26. Looking ahead, management expects 2H26 performance to be more positive, subject to the regional operating environment remaining stable. Thus, considering the above factors, we assign a BUY rating on the stock.

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NMDC Energy - Relative valuation [1]

(at CMP)	2024	2025	2026F
PE	10.11	8.87	13.62
PB	2.72	2.31	2.22
EV/EBITDA	5.95	4.67	6.75
BVPS (AED)	1.044	1.231	1.280
EPS (AED)	0.281	0.320	0.209
DPS (AED)	0.140	0.160	0.104
Dividend yield	5.0%	5.7%	3.7%

FABS Estimates & Co Data, [1]The Company was listed in 2024 hence no prior data is available

NMDC Energy – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY	QOQ	2025	2026F	Change
Contract revenue	4,432	4,964	4,519	4,758	-5.0%	2.0%	-9.0%	18,662	19,647	5.3%
Direct costs	-3,945	-4,794	-4,205	-4,615	-8.9%	6.6%	-12.3%	-16,464	-18,079	9.8%
Gross profit	**486**	**170**	**315**	**143**	**NM**	**-35.3%**	**85.3%**	**2,198**	**1,568**	**-28.6%**
Other operating expenses	-67	-41	-68	-62	10.3%	1.9%	67.8%	-277	-255	-7.9%
G&A Expenses	-21	-36	-18	-38	-53.1%	-15.8%	-50.2%	-160	-167	4.1%
Other income, net	-1	-5	1	6	-83.1%	NM	NM	-17	12	NM
EBIT	**391**	**79**	**223**	**49**	**NM**	**-42.9%**	**NM**	**1,733**	**1,150**	**-33.6%**
EBITDA	**485**	**197**	**351**	**162**	**NM**	**-27.6%**	**78.2%**	**2,160**	**1,645**	**-23.9%**
Finance income	27	21	20	26	-23.1%	-26.1%	-5.2%	109	85	-21.9%
Finance costs	-10	-8	-8	-11	-31.6%	-24.4%	1.4%	-39	-33	-16.3%
PBT from continuing operations	**408**	**92**	**235**	**63**	**NM**	**-42.3%**	**NM**	**1,803**	**1,202**	**-33.3%**
Income tax expense	-41	-12	-64	-9	NM	55.6%	NM	-200	-156	-22.0%
Profit for the year	**366**	**80**	**171**	**54**	**NM**	**-53.3%**	**NM**	**1,602**	**1,046**	**-34.7%**
NCI	0	1	1	0	72.5%	22.7%	-5.1%	2	3	NM
Net Profit after NCI	**366**	**80**	**170**	**53**	**NM**	**-53.4%**	**NM**	**1,601**	**1,043**	**-34.8%**

FABS estimate & Co Data

NMDC Energy - Margins

	2Q25	1Q26	2Q26	YOY	QOQ	2025	2026F	Change
Gross Profit	11.0%	3.4%	7.0%	-401	354	11.8%	8.0%	-380
EBITDA	10.9%	4.0%	7.8%	-318	380	11.6%	8.4%	-320
Operating Profit	8.8%	1.6%	4.9%	-388	335	9.3%	5.9%	-343
Net Profit	8.3%	1.6%	3.8%	-448	217	8.6%	5.3%	-327

FABS estimate & Co Data

Key Developments:

- **19 November 2025:** NMDC Energy P.J.S.C. advanced its international expansion by opening offices in Taiwan and Shanghai and signing an MoU with CITIC Steel to strengthen supply chains, deepen vendor relationships, and support energy projects across Southeast Asia.

- **12 November 2025:** NMDC Energy PJSC signed an MoU with Baker Hughes to localize offshore solutions in Saudi Arabia, leveraging its Ras Al Khair fabrication yard to deliver automated offshore products and services for the MENATI region.

- **6 November 2025:** NMDC Energy completed ADIPEC 2025 by announcing multiple MoUs with global partners across gas technology, offshore energy, ESPs, and onshore EPC, while showcasing its capabilities and project execution expertise.

- **21 May 2025:** NMDC Energy PJSC signed an MoU with Al Gharbia to strengthen metallic pipe manufacturing in the UAE, supporting local and regional demand in line with MIITE’s industrial growth objectives.

- **20 May 2025:** NMDC Energy PJSC signed an MoU with Shanghai Hilong Shine New Materials at the Make it in the Emirates forum to explore JV opportunities in coating and materials operations across the UAE and Saudi Arabia.

- **24 April 2025:** NMDC Energy PJSC extended its Long-Term Agreement with Aramco by three years, with a further three-year option, covering offshore EPCI works, supported by its new advanced fabrication yard in Ras Al Khair, Saudi Arabia.

- **13 March 2025:** NMDC Energy P.J.S.C. received a letter of award for an AED 9.7 Bn EPC project, set to commence on 31 March 2025 with a planned completion period of 57 months.

- **14 January 2025:** NMDC Energy inaugurated a 400,000 sqm fabrication yard in Ras Al Khair, Saudi Arabia, with 40,000-ton annual capacity, supporting offshore and onshore fabrication, aligned with Vision 2030 and backed by AED 200 Mn investment.

- **09 January 2025:** NMDC Energy secured a USD 1.14 Bn EPC contract from Taiwan Power Company for the Tung-Hsiao Power Plant renewal, covering subsea gas pipelines and dredging works, to be executed with NMDC Dredging & Marine.

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Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (EV/EBITDA and P/E) to value NMDC Energy. We have assigned 70% weight to DCF and 30% to RV (15% each to EV/EBITDA and P/E).

Valuation Method	Target	Weight	Weighted Value
DCF	3.92	70.0%	2.74
EV/EBITDA	2.88	15.0%	0.43
P/E	4.19	15.0%	0.63
Weighted Average Valuation (AED)			**3.80**
Current market price (AED)			2.77
Upside/Downside (%)			+37%

1) DCF Method:

NMDC Energy is valued using free cash flow to the firm. We have discounted the cash flows using a weighted-average cost of capital of 9.8%. It has arrived after using a cost of equity of 10.0% and an after-tax cost of debt of 5.3%, with equity and debt weights of 95.2% and 4.8%, respectively. Cost of equity is calculated by using the 10-year government bond yield of 5.2%, the beta of 1.00 and the equity risk premium of 4.8%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over the 10-year US risk-free rate. The cost of debt of 6.1% is adjusted for a tax rate of 13.0% to arrive at after tax cost of debt of 5.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,821
Terminal value (AED, Mn)	14,050
Firm Value (AED, Mn)	**16,872**
Net Debt as of June 2026 (AED, Mn)	2,726
Equity Value to Share Holders (AED Mn)	**19,872**
No. of share (Mn)	5,000
Current Market Price (AED)	2.77
Fair Value per share (AED)	**3.92**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	1,000	1,611	1,905	2,177	2,512
(+/-) Depreciation & amortization	495	444	493	528	584
(+/-) CAPEX	-589	-653	-739	-762	-837
(+/-) Working Capital	-1,583	-866	-726	-753	-646
Free Cash Flow to Firm (FCFF)	**(677)**	**537**	**932**	**1,189**	**1,613**
Discounting Factor	*0.96*	*0.88*	*0.80*	*0.73*	*0.66*
Discounted FCFF	**(325)**[1]	**470**	**744**	**864**	**1,068**

Source: FAB Securities, [1]Adjusted for partial years

2) Relative Valuation:

We have used local and international peers to value NMDC Energy, and it is valued using the EV/EBITDA and P/E multiple. It is valued at a 2027 EV/EBITDA multiple of 5.0x and a P/E multiple of 12.8x.

Company	Market Cap	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
TECNICAS REUNIDAS SA	2,568	5.0	4.4	11.2	9.2
MAIRE SPA	5,157	7.9	7.1	15.1	13.3
FLUOR CORP	7,439	9.1	8.3	20.8	16.3
TECHNIP ENERGIES NV	6,756	4.9	3.8	14.1	10.4
JGC HOLDINGS CORP	3,382	6.1	3.8	18.6	12.8
Offshore Oil Engineering Co Ltd	3,597	2.1	1.9	11.1	9.5
SUBSEA 7 SA	10,176	5.6	5.6	NA	NA
TECHNIPFMC PLC	30,309	14.3	12.8	25.4	21.4
Average		**6.9x**	**5.9x**	**16.6x**	**13.3x**
Median		**5.9x**	**5.0x**	**15.1x**	**12.8x**
Max		**8.2x**	**7.4x**	**19.7x**	**14.8x**
Min		**5.0x**	**3.8x**	**12.6x**	**10.0x**

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
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@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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