First Look Note | 3Q26

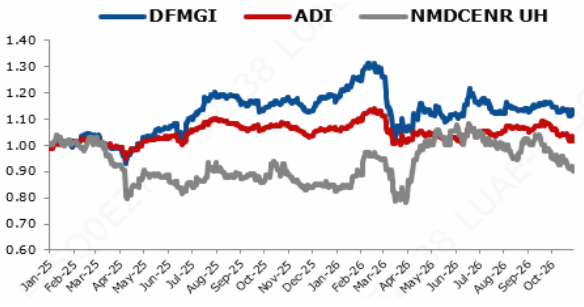
UAE Equity Research | Sector: Energy | Market: ADX

NMDC Energy (NMDCENR)

Cost overruns compressed margins and profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.54	AED 3.80	+50%	BUY

- NMDCENR project pipeline stood at c. AED 80.4 Bn as of 3Q26.
- The Company's backlog stood at AED 29.8 Bn as of 3Q26, with 76% from the local (UAE) market and 24% from international markets, comprising 71% offshore and 29% onshore projects.
- Secured new project awards of AED 0.3 Bn during 3Q26.
- Received EPC offshore contract from Aramco of AED 2.8 Bn after 3Q26.
- Management attributed the decline in profitability mainly due to cost overruns related to logistics, insurance and fuel prices amid the ongoing regional situation.



Stock Information	
Market Cap (AED, Mn)	12,300.00
Paid Up Capital (Mn)	2,500.00
52 Week High	3.05
52 Week Low	2.17
3M Avg. daily value (AED)	7,443,173

3Q26 Result Review (AED, Mn)	
Total Assets	19,549
Total Liabilities	13,803
Total Equity	5,747
EBITDA	291
Net Profit	168

Financial Ratios	
Dividend Yield (12M)	6.30
Dividend Pay-out (%)	49.98
Price-Earnings Ratio(x)	9.83
Price-to-Book Ratio (x)	2.21
Book Value (AED)	1.11
Return-on Equity (%)	23.67

Stock Performance	
5 Days	-4.65%
1 Months	-8.55%
3 Months	-13.38%
6 Months	-12.77%
1 Year	-1.99%
Month to Date (MTD%)	-8.55%
Quarter to Date (QTD%)	-8.55%
Year to Date (YTD%)	5.58%

3Q26 Net Profit lower than our estimate

NMDC Energy (NMDCENR/The Company) reported a decline in net profit attributable to shareholders from AED 367 Mn in 3Q25 to AED 168 Mn in 3Q26, lower than our estimate of AED 243 Mn. The decline in net profit is primarily driven by lower revenue and finance income coupled with higher direct costs, other operating expense, and net other expenses, partially offset by lower G&A expenses, finance costs and income tax charges.

P&L Highlights

NMDCENR's revenue declined 2.3% YOY to AED 4,732 Mn in 3Q26, amid operational challenges and regional geopolitical conflict, despite continued backlog execution. Revenue from the local market declined 4.8% YOY to AED 3,312 Mn, while revenue contribution from international markets increased 3.9% YOY to AED 1,420 Mn in 3Q26. The revenue mix comprised 56% offshore and 44% onshore projects during 3Q26. The Company's backlog stood at AED 29.8 Bn, with 76% attributable to the local UAE market and 24% to international markets, providing multi-year revenue visibility. Direct costs rose 2.2% YOY to AED 4,451 Mn in 3Q26. As a result, gross profit fell 42.6% YOY to AED 281 Mn in 3Q26, while the gross margin contracted from 10.1% in 3Q25 to 5.9% in 3Q26. Other operating expenses remained broadly stable at AED 57 Mn in 3Q26, compared to 3Q25. G&A expenses fell 15.2% YOY to AED 37 Mn in 3Q26. Other expenses increased 3.3% YOY to AED 15 Mn in 3Q26. As a result, operating profit declined significantly from AED 367 Mn in 3Q25 to AED 163 Mn in 3Q26, and the operating margin contracted from 7.6% in 3Q25 to 3.4% in 3Q26. EBITDA declined 38.3% YOY to AED 291 Mn in 3Q26, while the EBITDA margin contracted 359 bps YOY to 6.1% in 3Q26.

The decline in EBITDA is primarily due to cost overruns related to logistics, insurance and fuel amid the ongoing geopolitical situation in the region. Finance income decreased 34.3% YOY to AED 23 Mn in 3Q26, while finance costs fell 29.5% YOY to AED 6 Mn in 3Q26. Consequently, profit before tax declined from AED 392 Mn in 3Q25 to AED 179 Mn in 3Q26. Income tax expense decreased from AED 25 Mn in 3Q25 to AED 10 Mn in 3Q26. Profits attributable to non-controlling interest rose from AED 0.3 Mn in 3Q25 to AED 0.6 Mn in 3Q26.

Balance Sheet Highlights

NMDCENR's cash and bank balances stood at AED 3.0 Bn in 3Q26, lower than AED 3.3 Bn in 2Q26, due to tax and lease payments, supplier payments and debt repayments. Cash flow from operations improved to negative AED 129 Mn in 3Q26 from negative AED 1,168 Mn in 3Q25. Capex declined from AED 191 Mn in 3Q25 to AED 89 Mn in 3Q26. Free cash flow stood negative at AED 218 Mn in 3Q26, compared with negative AED 1,359 Mn in 3Q25. Moreover, the Company's debt, including long-term lease liabilities, decreased from AED 556 Mn in 2Q26 to AED 476 Mn in 3Q26.

Target Price and Rating

We maintain our BUY rating on NMDC Energy with a target price of AED 3.80. NMDCENR's performance remained under pressure in 3Q26 amid ongoing operational challenges and current geopolitical environment in the region. Revenue declined 2.3% YOY to AED 4.7 Bn, but rose 4.7% QOQ, supported by continued execution of backlog. Profitability weakened due to cost overruns related to logistics, insurance and fuel prices amid the ongoing regional situation. EBITDA declined 38.3% YOY and 17.1% QOQ to AED 291 Mn, and the EBITDA margin contracted 359 bps YOY and 162 bps QOQ to 6.1% in 3Q26. As of 3Q26, the Company's backlog stood at AED 29.8 Bn, providing strong revenue visibility. The backlog comprised of 76% from local projects and 24% from international projects, with offshore projects accounting for 71% and onshore projects for 29% as of 3Q26. The Company secured AED 2.6 Bn of new project awards during 9M26, including an AED 0.3 Bn EPC diesel pipeline project from EWEC in 3Q26. Subsequent to the quarter, the Company secured three new offshore EPC projects worth AED 2.8 Bn from Saudi Aramco, with an expected execution period of 18-23 months, further strengthening the presence in Saudi Arabia. NMDCENR holds a healthy project pipeline of c. AED 80.4 Bn as of 3Q26, up from AED 55.2 Bn in 2Q26, which supports sustainable long-term growth. The pipeline comprises ongoing tenders and identified prospects expected to be awarded over the next 18-20 months, although c. 30-40% has reached the preliminary stage the remainder awaiting further progression from clients. The UAE remains the Company's core market, while it sees additional opportunities from India and Qatar. However, timely conversion of the pipeline into awarded contracts will be important to sustain backlog replenishment as existing projects progress through execution. The disclosed backlog unwinding schedule indicates that AED 15.7 Bn is expected to be executed in 2027 and AED 9.9 Bn in 2028, supporting revenue visibility over the next two years. The company has revised project revenue phasing in response to regional disruptions, shifting some expected revenue from 2027 into 2028 as it adopts a more prudent approach to execution projections. NMDCENR maintained a strong liquidity position, with cash and bank balances of AED 3.0 Bn and net cash of AED 2.8 Bn as of 3Q26. Collections were strong at AED 13.4 Bn (95% of revenue) during 9M26. Despite the strong collection, cash generation weakened, with operating cash flow at negative AED 105 Mn and free cash flow at negative AED 418 Mn during 9M26 due to adverse working capital movements resulting from lower advances from clients, lower job accruals, increase in contract assets. Contract assets increased 30.2% YTD to AED 5.7 Bn in 3Q26 from AED 4.4 Bn in 4Q25, reflecting higher unbilled revenue. Going forward, timely invoicing and collection of these balances will be important to improve cash flow and reduce working-capital pressure. The near-term outlook depends on normalisation of project costs, recovery in EBITDA margins and improvement in working-capital conversion. Also, the Company remains cautiously optimistic about the usual year-end margin uplift from project closures, however regional uncertainty could limit the improvement in 4Q26. However, the Company's sizeable backlog, expanding project pipeline and new projects awards is expected to provide support to the longer-term growth prospects. Thus, considering the above factors, we maintain a BUY rating on the stock.

NMDC Energy - Relative valuation [1]

(at CMP)	2024	2025	2026F
PE	9.19	8.06	13.47
PB	2.47	2.10	2.04
EV/EBITDA	5.22	4.07	6.35
BVPS	1.044	1.231	1.263
EPS	0.281	0.320	0.192
DPS	0.140	0.160	0.096
Dividend yield	5.5%	6.3%	3.8%

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

NMDC Energy – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY	QOQ	2025	2026F	Change
Contract revenue	4,846	4,519	4,732	4,813	-1.7%	-2.3%	4.7%	18,662	19,753	5.8%
Direct costs	-4,356	-4,205	-4,451	-4,428	0.5%	2.2%	5.9%	-16,464	-18,273	11.0%
Gross profit	**490**	**315**	**281**	**385**	**-27.0%**	**-42.6%**	**-10.8%**	**2,198**	**1,480**	**-32.6%**
Other operating expenses	-57	-68	-57	-72	-20.4%	1.0%	-15.7%	-277	-251	-9.5%
G&A Expenses	-44	-18	-37	-48	-22.8%	-15.2%	NM	-160	-142	-11.4%
Other income, net	-14	1	-15	8	NM	3.3%	NM	-17	-15	NM
Operating Profit	**367**	**223**	**163**	**273**	**-40.4%**	**NM**	**-27.1%**	**1,733**	**1,049**	**-39.5%**
EBITDA	**472**	**351**	**291**	**397**	**-26.7%**	**-38.3%**	**-17.1%**	**2,160**	**1,544**	**-28.5%**
Finance income	34	20	23	21	5.3%	-34.3%	14.4%	109	85	-21.9%
Finance costs	-9	-8	-6	-8	-23.5%	-29.5%	-15.6%	-39	-30	-23.6%
PBT from continuing operations	**392**	**235**	**179**	**286**	**-37.4%**	**NM**	**-23.9%**	**1,803**	**1,104**	**-38.7%**
Income tax expense	-25	-64	-10	-43	NM	NM	NM	-200	-144	-28.4%
Profit for the year	**368**	**171**	**169**	**243**	**-30.6%**	**NM**	**-1.3%**	**1,602**	**961**	**-40.0%**
NCI	0	1	1	0	NM	NM	-1.5%	2	3	NM
Net profit to shareholders	**367**	**170**	**168**	**243**	**-30.7%**	**NM**	**-1.3%**	**1,601**	**958**	**-40.2%**

FABS estimate & Co Data

NMDC Energy - Margins

	3Q25	2Q26	3Q26	YOY	QOQ	2025	2026F	Change
Gross Profit	10.1%	7.0%	5.9%	-417	-103	11.8%	7.5%	-428
EBITDA	9.7%	7.8%	6.1%	-359	-162	11.6%	7.8%	-376
Operating Profit	7.6%	4.9%	3.4%	-414	-150	9.3%	5.3%	-397
Net Profit	7.6%	3.8%	3.6%	-402	-22	8.6%	4.8%	-373

FABS estimate & Co Data

Key Developments:

- **3 February 2026:** NMDC Energy PJSC board proposed a 14% increase in the cash dividend to AED 800 Mn (16 fils per share) and a minimum 50% payout policy for 2025-2027.

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF	4.12	70.0%	2.88
EV/EBITDA	2.48	15.0%	0.37
P/E	3.63	15.0%	0.54
Weighted Average Valuation (AED)			**3.80**
Current market price (AED)			2.54
Upside/Downside (%)			+50%

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 9.6%. It has arrived after using a cost of equity of 9.8% and an after-tax cost of debt of 5.3%, with equity and debt weights of 95.5% and 4.5%, respectively. Cost of equity is calculated by using the 10-year government bond yield of 5.8%, the beta of 1.00 and the equity risk premium of 3.9%. 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)	3,541
Terminal value (AED, Mn)	14,720
Firm Value (AED, Mn)	**18,261**
Net Debt as of June 2026 (AED, Mn)	2,337
Equity Value to Share Holders (AED Mn)	**20,597**
No. of share (Mn)	5,000
Current Market Price (AED)	2.54
Fair Value per share (AED)	**4.12**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
NOPAT	913	1,406	1,598	1,788	2,023	2,231
(+/-) Depreciation & amortization	495	445	493	524	572	615
(+/-) CAPEX	-593	-662	-722	-721	-762	-799
(+/-) Working Capital	-1,520	-743	-647	-642	-488	-290
Free Cash Flow to Firm (FCFF)	**(705)**	**447**	**722**	**950**	**1,345**	**1,757**
Discounting Factor	*0.98*	*0.90*	*0.82*	*0.75*	*0.68*	*0.62*
Discounted FCFF	**(173)[1]**	**401**	**591**	**710**	**918**	**1,094**

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 multiples. It is valued at a 2027 EV/EBITDA multiple of 4.8x and a P/E multiple of 12.7x.

Company	Market Cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
TECNICAS REUNIDAS SA	2,691	5.2	4.3	12.4	9.0
MAIRE SPA	5,220	7.6	6.8	15.0	13.1
FLUOR CORP	6,915	9.0	8.0	19.2	15.2
TECHNIP ENERGIES NV	6,801	5.3	4.1	13.8	10.2
JGC HOLDINGS CORP	3,414	3.1	2.6	11.0	12.6
Offshore Oil Engineering Co Ltd	3,541	1.8	1.6	10.5	9.1
SUBSEA 7 SA	9,985	5.4	5.3	14.0	12.9
TECHNIPFMC PLC	28,711	13.9	12.3	24.1	20.0
Average		**6.4x**	**5.6x**	**15.0x**	**12.8x**
Median		**5.3x**	**4.8x**	**13.9x**	**12.7x**
Max		**7.9x**	**7.1x**	**16.0x**	**13.7x**
Min		**4.7x**	**3.7x**	**12.0x**	**9.9x**

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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