ADNOC Drilling Company

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.54	AED 6.50	+17.3%	BUY

MB Petroleum Services Acquisition Summary:

- ADNOC Drilling entered into an agreement to acquire an 80% stake in MB Petroleum Services (MBPS) for AED 749 Mn (USD 204 Mn), which is expected to close in 1H26, financed through its existing debt capacity, with the remaining 20% stake to be acquired in cash from Mohammed Al Barwani LLC post the lock-up period, making this the second accretive acquisition. It will pay an acquisition consideration of USD 163 Mn for 80% stake in MBPS.
- This transaction will increase ADNOC Drilling's fleet size to 169 rigs, adding 21 rigs from MBPS post regulatory approvals, and eight rigs from the transaction with SLB, driving future business growth in the region.
- The 21 rigs of MBPS consist of 10 land rigs and 11 worker rigs. Out of the 10 land rigs, six rigs are in Oman, and the remaining four are in Kuwait. Out of 11 worker rigs, 7 rigs are in Oman, and 4 rigs are in Bahrain.
- MBPS is one of the key OFS Companies in the Middle East, offering Onshore Drilling and OFS services, and recorded revenue of USD 187 Mn and EBITDA of USD 56 Mn in FY2024 implying a ~30% EBITDA margin. The Onshore Drilling segment contributed USD 140 Mn in revenue, while the OFS segment contributed the remaining USD 47 Mn in revenue in FY2024.
- The acquisition represents a further step in building a dedicated platform for regional expansion and diversification, following the partnership with SLB's land drilling business in Oman and Kuwait.
- The transaction portfolio covers 21 drilling & workover rigs, production services units and drilling fluid solutions, complemented by pre-qualifications, subsidiaries and an established presence across four key Gulf geographies.
- This acquisition creates product and geographical synergies, expanding ADNOC's customer base in Oman, Kuwait, KSA, Bahrain, Qatar and other Middle Eastern geographies, further delivering the Company's geographical expansion strategy.
- MBPS revenue backlog stood at USD 900 Mn with contracts in place with state-owned entities and other blue-chip customers, providing visibility on long-term cash-flow generation with contracts spanning from three to four years.
- MBPS is a highly credible partner with compatible project objectives, benefiting from its existing strong track record, customer relationships, and contracts.
- The Company is expected to acquire MBPS at an attractive valuation of less than 4x EV/EBITDA with a marginal impact on ADNOC Drilling's expected margins and is anticipated to generate a free cash flow yield of more than 10%.
- MBPS has a highly experienced team recognised in the regional oilfield services industry, advancing ADNOC Drilling's strategy to become an integrated drilling service provider throughout the region, beyond Abu Dhabi.
- The transaction showcases the Company's commitment to responsible capital allocation and sustainable returns. This value-adding transaction highlights ADNOC Drilling's careful strategy for growth, with expectations of generating appealing returns.
- Upon completion and subject to regulatory approvals, this acquisition is expected further to enhance ADNOC Drilling's operational and financial resilience, positioning the company to navigate market cycles better and deliver consistent results for clients and shareholders.
- Upon completion of the transaction, ADNOC Drilling expects full consolidation (line by line) in the Onshore segment.

Overview of MBPS Operations:

MBPS (MB Petroleum services) is one of the key OFS (Oil field services) companies in the Middle East.

[1] *6 rigs in Oman, 4 rigs in Kuwait (presence in Kuwait via 2 JVs; 2 rigs are operated by a JV partner leveraging MBPS license and 2 rigs operated by MBPS).*

[2] *For the 11 workover rigs, it includes 7 rigs in Oman, and 4 rigs in Bahrain.*

Company / Assets	Country	Key Clients	Rig Size (HP)	Year Built
Drilling Services[1]				*Avg. Age of ~7 years (~4 years excl. Rig 4)*
Rig B152		شركة تنمية نفط عمان Petroleum Development Oman; دليل للنفط ش.م.م. Daleel Petroleum L.L.C.	1,500	2022
Rig B151			1,500	2022
Rig B150			1,500	2022
Rig B101			1,200	2022
Rig B100			1,000	2020
Rig 4			1,000	1999
Workover Services[1] (11 workover rigs)		Petroleum Development Oman; OXY	500 - 750	2006 - 2011
Production Services		bp		
Drilling Fluids Solutions		Petroleum Development Oman; Daleel Petroleum L.L.C.		
Kuwait JVs[1] (4 rigs)			550 x 4	

[1] *Total consists of 10 drilling rigs and 11 workover rigs. 6 drilling rigs are in Oman and 4 in Kuwait. For the 11 workover rigs it includes 7 rigs in Oman, and 4 rigs in Bahrain. Presence in Kuwait via 2 JVs: 2 rigs operated by a partner leveraging MBPS license and 2 rigs operated by MBPS*

Transaction Overview and Structure:

Transaction Overview

ADNOC Drilling will acquire **80%[1] stake in MB Petroleum Services (MBPS)**

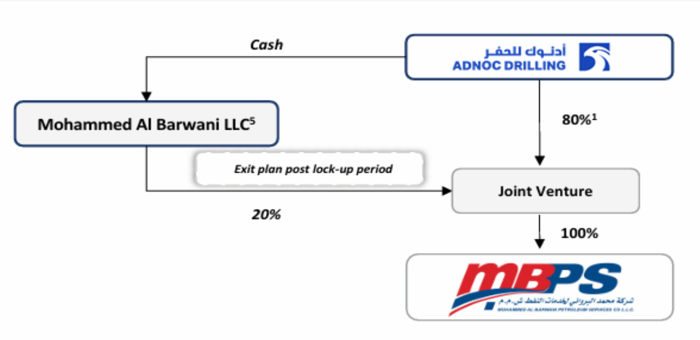
The acquisition consideration for the **80% stake is $163 million[2]**

Perimeter covers **Drilling , Workover & Production Services and Drilling Fluid Solutions, including 21 rigs across Oman, Bahrain, Kuwait[3] and compatible with Abu Dhabi operations**

ADNOC Drilling will fund the transaction **through its existing debt capacity**

The acquisition is expected to be **earnings accretive upon closing, expected by H1 2026[4], and to deliver attractive returns**

Transaction Structure



- Upon closing of the transaction, ADNOC Drilling is expected to **fully consolidate the financial results**
- **Derisked transaction with strong alignment of interests between shareholders given lock-up period and remaining equity interest**
- Agreed mechanism for ADNOC Drilling to acquire remaining stake

[1]Stake to be acquired through an ADNOC Drilling wholly owned subsidiary. [2] 80% of the transaction's Enterprise Value. [3]Presence in Kuwait via 2 JVs encompassing a total of 4 rigs; 2 rigs are operated by a partner leveraging MBPS license and 2 rigs operated by MBPS. [4]Transaction subject to regulatory approvals and the fulfillment of other closing requirements. [5]MB LLC is a multinational group of companies with operations and subsidiaries in more than 20 countries across the globe in the Middle East, Europe, Africa, South Asia and Australia. It is the parent company of MBPS before the transaction

Accretive Transaction for ADNOC Drilling:

Premium
vs domestic IRR[2]

Expected unlevered IRR
>
Domestic drilling IRR under framework agreement

<4x
25E EV/EBITDA[3]

Attractive implied entry multiple, at a significant discount to ADNOC Drilling's levels

Double-digit
free cash flow yield

Strong cash generation supporting **attractive returns**

~$0.9bn
Backlog[4]

Contracted revenues, **strong visibility on investment payback**

EPS accretive transaction

Debt funded, gradually optimizing the Balance sheet

[2]Refers to unlevered IRR of 10%-13% on domestic drilling, based on the rig framework agreement [3] Based on the acquisition consideration for the 80% stake of $163 million for ADNOC Drilling [4] Based on revenues from existing contracts.

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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