

ADNOC Drilling (ADNOC DRI)

Current Price
AED 5.23

Target Price
AED 6.50

Upside/Downside (%)
+24.3%

Rating
BUY

4Q25 Net Profit slightly higher than our estimate

- Net revenue grew 7.5% YOY to USD 1,276 Mn in 4Q25, driven by the expansion of its unconventional operations and the integration of offshore rigs in 2H25. Additionally, the Company's revenue in 4Q24 benefited from favorable OFS phasing and Onshore reimbursements of c. USD 80 Mn; excluding this, 4Q25 revenue would have grown 15.3% YOY.
- Onshore Segment revenue declined 6.4% YOY to USD 519 Mn in 4Q25, as 4Q24 benefited from certain cost reimbursements, while 4Q25 revenue reflected the initial impact of transitioning select onshore rigs following an age review.
- Revenue from the Offshore Jack-up & Island grew 14.9% YOY to USD 368 Mn in 4Q25, driven by the conversion of two rigs (one in 2Q25 and one in 3Q25) from Onshore to Offshore, alongside the full revenue contribution from two new jack-up rigs.
- Oil Field Services (OFS) segmental revenue grew 24.7% YOY to USD 390 Mn in 4Q25, primarily driven by USD 149 Mn in revenue from the unconventional segment, alongside increased IDS activity and higher provision of discrete services.
- Gross profit declined 7.6% YOY to USD 471 Mn in 4Q25, while gross profit margin fell 604 bps YOY to 36.9% in 4Q25.
- EBITDA declined 6.0% YOY to USD 560 Mn in 4Q25, driven by higher maintenance costs and the initial transition of select onshore rigs, with repurposing impacting 4Q25 by c. USD 8 Mn in EBITDA. Adjusting 4Q24 for reimbursements and OFS phasing, the Company's EBITDA would have grown 3% YOY in 4Q25.
- Onshore segment EBITDA decreased 17.7% YOY to USD 235 Mn in 4Q25, however adjusted Onshore EBITDA decrease in is 12% YOY.
- Offshore Jack-up & Island segment's EBITDA increased 6.7% YOY to USD 244 Mn in 4Q25.
- OFS segment EBITDA decreased marginally 0.9% YOY to USD 81 Mn in 4Q25, as 4Q24 benefited from favorable high-margin revenue phasing in directional drilling and pressure pumping, however on an adjusted basis, OFS EBITDA would have increased 56% YOY.
- Net profit decreased 2.6% YOY to USD 389 Mn in 4Q25, primarily driven by higher direct costs and decline in EBITDA, partially offset by an increase in revenue, lower G&A expenses and decrease in net finance costs and income tax charges.
- On an adjusted basis, the Company's net profit would have risen 8% YOY in 4Q25, after excluding favourable OFS phasing, onshore reimbursements, and one-off D&A effects.
- The board of directors recommended 4Q25 dividends of USD 250 Mn (c. AED 918 Mn, 5.7 fils per share) expected to pay in April 2026, subject to AGM approval.

Earnings Call Summary

- ADNOC DRILL's well-delivery time improved 20% YOY in 2025, achieving a regional drilling record of one mile per day in MENA.
- The Company expanded beyond Abu Dhabi for the first time by acquiring a 70% stake in a land-rig JV operating in Oman and Kuwait, while also signing an agreement to acquire 80% of MBE Petroleum Services, strengthening its regional footprint and service capabilities.
- Onshore fleet stood at 121 rigs in 2025 (92 in Abu Dhabi and 29 across the GCC), delivering 666 wells with 98% rig availability.

- Offshore fleet reached 48 rigs (36 jack-ups, 12 island rigs) in 2025, drilling 170 wells with 96% reliability with demand remaining strong underpinned by long-term contract visibility and a robust development pipeline.
- IDS rig count increased to 60 in 4Q25 compared to 57 in 4Q24.
- The Company expanded its OFS footprint by delivering at least one discrete service to an additional 58 rigs, increasing total coverage to 118 ADNOC Drilling-owned rigs. It also achieved a 22% improvement in integrated billing service efficiency versus the 2024 benchmark.
- ADNOC Drilling's 2026 guidance does not include any OFS expansion outside the UAE, nor does it fully reflect additional domestic upside, implying potential earnings upside, particularly from the OFS segment.
- MB Petroleum Services (MBPS) won 4 additional rigs (3 in Kuwait and 1 in Oman) through competitive tenders, expanding its fleet beyond the existing 21 rigs, with deployment expected by 2H26 or 1H27 and financial contribution expected from 2027.
- For unconventional Phase 1 contract value, cumulative revenue by end-2026 is expected to reach c. USD 1.35 Bn (USD 150 Mn in 2024, USD 700 Mn in 2025, USD 500 Mn in 2026), leaving c. USD 350 Mn for 2027, excluding potential overlap from Phase 2.
- The Company highlighted solid progress on unconventional Phase 2, with c. 90 wells drilled and c. 60 completed under Phase 1, and few FIDs expected in 1H26 and the remaining 2H26.
- The Company indicated that 1Q26 is expected to represent the trough, reflecting the full impact of rig repurposing, with a recovery anticipated over the course of the year as rigs are redeployed and new island rigs are brought online.
- The conservative 2026 free cash flow outlook reflects potential working capital normalization, as 2025 benefited from more than 100% collections and record-low 7% working capital (vs. normalized level of 12%).
- With leverage at 0.9x net debt/EBITDA, the Company retains flexibility to fund M&A while still considering additional dividends, subject to overall growth and cash flow dynamics.
- The Company expects growth outside the UAE from multiple channels, including expansion of existing JVs (with MBPS already securing four additional rigs), direct participation in regional tenders, and potential new joint ventures in Kuwait and Oman, including opportunities linked to shale development.
- ADNOC Drilling is now the largest OFS player in Abu Dhabi, with c. 35%-40% market share in Integrated Drilling Services, supporting stronger and more sustainable margins.
- The Company expects the 1Q26 to be the lowest quarter of the year with expected revenue of USD 1.23 Bn, EBITDA of USD 0.53 Bn and net income of USD 0.35 Bn, as it excludes MBPS closing (mid-year), rig cost transfers, new rig ramp-ups, and IDS expansion, implying stronger earnings momentum in subsequent quarters.
- ADNOC Drilling expects the 1Q26 and 2Q26 to be broadly similar, with stronger weighting toward 3Q26 and 4Q26 driven by MBPS consolidation and additional IDS activity.
- For Enersol the Company mentioned remaining capex of USD 350 Mn, with signing expected in 2026 and cash outflow likely in late 2026, potentially extending into 2027 depending on closing timing.
- For 2026, the Company guides for USD 5.0 Bn revenue driven by conventional drilling and OFS growth, with 2 Bn from onshore revenue and 1.5 Bn from offshore and oilfield services each, EBITDA of USD 2.2-2.3 Bn with 44-45% margin, net profit of USD 1.45-1.50 Bn with 29-30% margin, free cash flow (ex-M&A) of USD 1.2-1.3 Bn, net capex (ex-M&A) of USD 0.6-0.8 Bn, with leverage expected to remain below 2.0x net debt/EBITDA.

ADNOC Drilling – P&L

USD Mn	4Q24	3Q25	4Q25	4Q25F	Var	YOY Ch	QOQ Ch
Revenue	1,187	1,260	1,276	1,205	5.9%	7.5%	1.3%
Direct Cost	-677	-825	-806	-709	13.6%	18.9%	-2.3%
Gross Profit	510	435	471	496	-5.0%	-7.6%	8.2%
G&A Expenses	-39	-37	-37	-51	-27.3%	-5.2%	2.0%
EBITDA	596	560	560	557	0.6%	-6.0%	0.1%
EBIT	470	399	434	445	-2.5%	-7.8%	8.8%
Share of results of a joint venture	3.0	3	12	3	NM	NM	NM
Other Income	2	23	0	2	-67.7%	-77.5%	-97.9%
Finance Costs	-32	-23	-19	-36	-47.1%	-41.6%	-16.6%
Profit before tax	443	402	427	414	3.3%	-3.6%	6.2%
Corporate tax	-44	-34	-38	-41	-6.3%	-12.4%	12.7%
Net Profit	399	368	389	373	4.3%	-2.6%	5.6%

FABS estimate & Co Data

2026 Management Guidance:

(USD, Billion)	FY25 Actual	FY26 Guidance
Revenue	4.9	~5
Onshore Revenue	2.0	~2
Offshore Revenue (Jack-up & Island)	1.4	~1.5
Oilfield Services Revenue	1.5	~1.5
EBITDA	2.2	2.2 - 2.3
EBITDA Margin	45%	44% - 45%
Net Profit	1.4	1.45 - 1.50
Net Profit Margin	30%	29% - 30%
Cash CapEx (excluding M&A)	0.8	0.6 - 0.8
FCF (excluding M&A)	1.5	1.2 - 1.3
Leverage Target	< 2.0x	< 2.0x
Dividend Floor	1.0	1.05 (+5% YoY)

