

ADNOC Drilling (ADNOC DRI)

Stable earnings as regional expansion offsets unconventional phasing

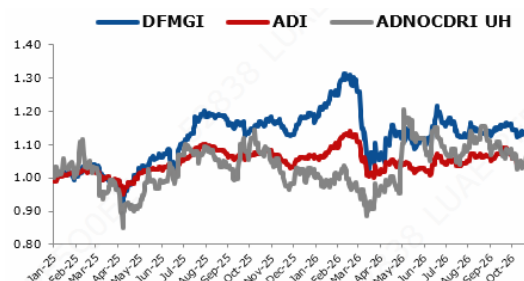
Current Price
AED 5.75

Target Price
AED 7.00

Upside/Downside (%)
+22%

Rating
BUY

- Fleet expanded 23% YOY to 172 rigs, with 142 rigs in Abu Dhabi and 30 regional rigs, primarily reflecting the addition of 30 regional rigs through the SLDC and MBPS acquisitions.
- Integrated Drilling Services (IDS) rigs increased from 59 in 3Q25 to 62 in 3Q26, with OFS services provided across 115 rigs, while IDS drilling efficiency improved 23% in 3Q26 compared to the 2025 benchmark.
- Approved a 3Q26 dividend of USD 350 Mn (c. 8.0 fils per share), comprising the USD 262.5 Mn base dividend and the first USD 87.5 Mn tranche of a USD 175 Mn discretionary dividend.
- Net debt stood at USD 2.14 Bn, or 1.0x LTM EBITDA, at the lower end of the Company's 1.0–2.0x pre-M&A target range.



3Q26 Net Profit in line with our estimate

ADNOC Drilling Co. PJSC (ADNOC DRI/the Company) net profit attributable to equity shareholders decreased marginally 0.8% YOY to USD 365 Mn in 3Q26, in line with our estimate of USD 369 Mn. The decline was mainly driven by lower revenue and other income, higher G&A expenses, finance costs and corporate tax, along with the recognition of non-controlling interests following the consolidation of SLDC and MBPS. This was partially offset by a decline in direct costs coupled with a higher share of results from joint ventures.

P&L Highlights

ADNOC DRI's revenue declined 1.0% YOY to USD 1,247 Mn in 3Q26, primarily due to the anticipated lower phasing of unconventional activity, which contributed USD 67 Mn to 3Q26 revenue compared to USD 158 Mn in 3Q25, along with the repurposing of certain land rigs and two jack-up rigs. This was partially offset by the consolidation of the SLDC and MBPS acquisitions, which added 30 regional land rigs, and the integration of two AI-enabled offshore island rigs, one added in June 2026 and the second joining the fleet in 3Q26. Onshore revenue increased 8.8% YOY to USD 557 Mn in 3Q26 on the consolidation of SLDC and MBPS, along with higher fuel escalation. However, Onshore EBITDA rose 2.0% YOY to USD 259 Mn in 3Q26, with margin contracting to 46.5% in 3Q26 from 49.6% in 3Q25, primarily due to rise in operating expenses on higher fuel costs and the consolidated regional operations outpaced revenue growth. Offshore (Jack-up & Island) revenue increased 1.9% YOY to USD 372 Mn in 3Q26, and EBITDA rose 3.3% YOY to USD 247 Mn, with margin improving to 66.4% in 3Q26 from 65.5% in 3Q25, supported by the full-quarter contribution of the island rig added in June 2026 and cost optimisation initiatives. OFS revenue declined 17.0% YOY to USD 318 Mn in 3Q26, owing to the expected lower phasing of unconventional

Stock Information

Market Cap (AED, mm)	92,640.00
Shares Outstanding(mm)	16,000.00
52 Week High	6.67
52 Week Low	4.51
3M Avg. daily value (AED)	47,814,420

3Q26 Result Review (USD, Mn)

Total Assets	8,793
Total Liabilities	4,399
Total Equity	4,394
EBITDA	579
Net Profit	365

Financial Ratios

Dividend Yield (12m)	4.06
Dividend Pay-out (%)	64.44
Price-Earnings Ratio(x)	17.21
Price-to-Book Ratio (x)	5.81
Book Value (AED)	0.27
Return-on Equity (%)	34.78

Stock Performance

5 Days	2.30%
1 Months	0.35%
3 Months	0.70%
6 Months	2.30%
1 Year	2.84%
Month to Date (MTD%)	0.35%
Quarter to Date (QTD%)	0.35%
Year to Date (YTD%)	8.43%

activity and the OFS activity mix, partially offset by higher Integrated Drilling Services activity, as IDS rigs increased from 59 in 3Q25 to 62 in 3Q26. OFS EBITDA rose 9.0% YOY to USD 73 Mn, with margin expanding to 23.0% in 3Q26 from 17.5% in 3Q25, as lower unconventional activity, which carries relatively lower margins, drove a 21.0% YOY reduction in operating expenses, alongside a higher-margin activity mix and a higher contribution from the Enersol and Turnwell joint ventures. Direct cost declined 5.1% YOY to USD 783 Mn in 3Q26, lifting gross profit 6.8% YOY to USD 465 Mn, with gross margin up 271 bps YOY to 37.2%, while G&A expenses rose 28.8% YOY to USD 47 Mn in 3Q26. Consequently, EBITDA increased 3.4% YOY to USD 579 Mn, while EBITDA margin improved 198 bps YOY to 46.4%. The Company's net finance costs increased 22.6% YOY to USD 28 Mn in 3Q26. The share of results of joint ventures increased from USD 3 Mn in 3Q25 to USD 6 Mn in 3Q26, reflecting a higher contribution from Enersol and Turnwell. Other income declined from USD 23 Mn in 3Q25 to USD 5 Mn in 3Q26, while tax charges rose 1.7% YOY to USD 35 Mn in 3Q26. Non-controlling interests were recognised at USD 1 Mn in 3Q26 against nil in 3Q25.

Balance Sheet Highlights

ADNOC DRILL's cash and cash equivalents rose from USD 355 Mn in 2Q26 to USD 374 Mn in 3Q26. Net debt marginally decreased from USD 2.2 Bn in 2Q26 to USD 2.1 Bn in 2Q26. Net debt to LTM EBITDA remained at 1.0x in 3Q26, unchanged from 2Q26, at the lower end of the Company's long-term pre-M&A leverage target range of 1.0x to 2.0x, while liquidity headroom, including unutilised syndicated term and revolving facilities, stood at c. USD 1.16 Bn as of 30 September 2026. ADNOC DRILL's cash flow from operations increased from USD 403 Mn in 2Q26 to USD 461 Mn in 3Q26, supported by higher EBITDA and better collections. Total cash capex (excluding capex accruals) increased from USD 99 Mn in 2Q26 to USD 153 Mn in 3Q26.

Target Price and Rating

We maintain our BUY rating on ADNOC DRILL with a target price of AED 7.00. Revenue declined 1.0% YOY to USD 1,247 Mn in 3Q26, primarily due to the anticipated lower phasing of unconventional activity, which contributed USD 67 Mn in 3Q26 compared to USD 158 Mn in 3Q25, along with the repurposing of certain land rigs and two jack-up rigs. This was partially offset by the consolidation of SLDC (70% stake) and MBPS (80% stake), which added 30 regional land rigs across Oman, Kuwait, Saudi Arabia and Bahrain, and the integration of two AI-enabled island rigs. The fleet expanded 23% YOY to 172 rigs, with 142 rigs in Abu Dhabi and 30 regional rigs, primarily reflecting the addition of 30 regional rigs through the SLDC and MBPS acquisitions. IDS rigs increased from 59 in 3Q25 to 62 in 3Q26, with OFS services provided across 115 rigs, while IDS drilling efficiency improved 23% in 3Q26 compared to the 2025 benchmark, driving cumulative client savings of USD 164 Mn in 9M26. The second AI-enabled island rig joined the fleet during 3Q26 and is expected to contribute a full quarter in 4Q26, while the remaining four new island rigs are expected to join the fleet gradually in 2027, mostly in 2H27. During 3Q26, ADNOC Drilling commenced operations of one repurposed land rig in Oman, marking its first organic rig deployment in the Sultanate. Enabled through the MBPS platform, the deployment demonstrates early cross-border synergies, expands the Company's client base and strengthens its regional expansion strategy. Enersol, which has acquired stakes in four technology companies with a cumulative investment of c. USD 0.8 Bn, and Turnwell, which supports ADNOC's unconventional drilling programme, contributed USD 7 Mn to OFS earnings in 3Q26, up from USD 3 Mn in 3Q25. The Company continued to expand its domestic drilling fleet in line with ADNOC's objective of increasing oil production capacity to 5 Mn barrels per day by 2027. The Company also launched its Drill-to-Operate strategy to expand across the full well lifecycle, targeting a long-term fleet of c. 200 rigs, a 60%+ share of the c. USD 3 Bn existing OFS market and a c. 25%+ share of a new USD 4–5 Bn addressable market in services such as early production facilities, tie-ins, completions and OCTG, with a meaningful financial contribution expected from 2028. Net debt stood at USD 2.14 Bn, or 1.0x LTM EBITDA, at the lower end of the Company's 1.0–2.0x pre-M&A target range, while liquidity headroom stood at c. USD 1.16 Bn. The Company approved a total 3Q26 dividend of USD 350 Mn (c. 8.0 fils per share), comprising the base quarterly dividend of USD 262.5 Mn and the first USD 87.5 Mn tranche of a USD 175 Mn discretionary dividend, payable in the second half of November 2026, with the second tranche expected around April 2027, subject to shareholder approval. This lifts expected 2026 dividends to USD 1.225 Bn, 22.5% above 2025 and well above the USD 1.05 Bn dividend floor, which is set to rise by at least 5% a year through at least 2030, to USD 1.10 Bn in 2027. For 2026, the Company confirmed and sharpened its guidance, expecting revenue of c. USD 5 Bn, comprising more than USD 2.1 Bn from Onshore, more than USD 1.4 Bn from Offshore (Jack-

up & Island) and more than USD 1.4 Bn from Oilfield Services. EBITDA is expected at c. USD 2.2 Bn, with a margin of c. 44%, and net profit at c. USD 1.45 Bn, with a margin of c. 29%, the lower end of the previously guided ranges. Additionally, the Company expects cash capex (excluding M&A) of c. USD 0.6 Bn and free cash flow (excluding M&A) of USD 1.2–1.3 Bn. For 2027, the Company expects low-to-mid single-digit revenue growth, a broadly stable EBITDA margin and broadly stable net profit, as higher depreciation and financing costs offset operational growth, with total capex rising to c. USD 0.8 Bn (maintenance up to USD 0.3 Bn and growth c. USD 0.5 Bn). Thus, considering all the above-mentioned factors, we maintain BUY rating on the stock.

ADNOC Drilling - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	41.70	31.41	24.38	19.32	17.35	17.39
PB	9.01	8.59	7.71	6.61	6.14	5.59
EV/EBITDA	25.06	21.39	18.09	13.47	12.38	12.36
BVPS (AED)	0.642	0.673	0.749	0.875	0.941	1.034
EPS (AED)	0.139	0.184	0.237	0.299	0.333	0.332
DPS (AED)	0.157	0.157	0.165	0.181	0.230	0.281
Dividend yield	2.7%	2.7%	2.9%	3.1%	4.0%	4.9%

FABS Estimates & Co Data

ADNOC Drilling - P&L

USD Mn	3Q25	2Q26	3Q26	3Q26F	Var.	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	1,260	1,232	1,247	1,246	0.1%	-1.0%	1.3%	4,903	4,968	1.3%
Direct Cost	-825	-770	-783	-775	1.0%	-5.1%	1.6%	-3,106	-3,145	1.3%
Gross Profit	435	461	465	471	-1.4%	6.8%	0.7%	1,797	1,823	1.4%
G&A expenses	-37	-48	-47	-36	30.2%	28.8%	-1.1%	-167	-181	8.2%
EBITDA	560	557	579	557	3.9%	3.4%	3.8%	2,198	2,206	0.4%
EBIT	399	414	418	435	-4.0%	4.8%	0.9%	1,630	1,642	0.7%
Share of results of a JV	3	6	6	1	NM	NM	-0.4%	29	30	4.0%
Other Income- Net	23	2	5	1	NM	NM	NM	27	15	NM
Finance Costs- Net	-23	-29	-28	-24	15.7%	22.6%	-4.0%	-98	-96	-1.4%
Profit before tax	402	394	401	413	-2.8%	-0.3%	1.9%	1,588	1,590	0.2%
Corporate tax	-34	-35	-35	-38	-7.6%	1.7%	0.2%	-139	-143	2.9%
Non-controlling Interest	0	2	1	6	NM	NM	NM	0	6	NM
Net profit to shareholders	368	357	365	369	-1.1%	-0.8%	2.3%	1,449	1,441	-0.5%

FABS estimate & Co Data

ADNOC Drilling - Margins

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	34.5%	37.5%	37.2%	271	-22	36.7%	36.7%	4
EBITDA	44.4%	45.3%	46.4%	198	115	44.8%	44.4%	-42
Net Profit	29.2%	29.0%	29.3%	7	31	29.5%	29.0%	-54

FABS estimate & Co Data

Key Developments:

- **04 January 2026:** ADNOC Drilling completed the acquisition of a 70% stake in SLDC Holdings RSC LTD, a joint venture with SLB covering its land drilling rigs business in Kuwait and Oman, through its wholly owned subsidiary ADH RSC LTD.
- **04 May 2026:** ADNOC DRILL completed the acquisition of an 80% stake in MB Petroleum Services (MBPS), expanding its regional footprint across the GCC, increasing its fleet to 170 rigs, and strengthening long-term revenue visibility through additional contract wins in Oman and Kuwait.
- **25 June 2026:** ADNOC DRILL delivered its first AI-enabled walking island rig (AD-300) nearly three months ahead of schedule under a USD 1.54 Bn contract, featuring advanced automation, AI, and hybrid power technology to enhance operational efficiency, safety, and well delivery.

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	7.35	80.0%	5.88
Relative Valuation (RV):			
EV/EBITDA	4.59	10.0%	0.46
P/E	6.65	10.0%	0.66
Weighted Average Valuation (AED)			7.00
Current market price (AED)			5.75
Upside/Downside (%)			+22%

1) DCF Method:

ADNOC DRILL is valued using free cash flow to the firm. We have discounted the cash flow using a weighted average cost of capital of 8.9%. It is arrived after using the cost of equity of 9.3% and the after-tax cost of debt of 4.5%. The cost of equity is calculated using a 10-year government bond yield of 5.4%, a beta of 1.0, and an equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	8,392
Terminal value (USD, Mn)	25,840
Net Debt as of September 2026	-2,245
Investment in JV	13
FV to Common shareholders (USD, Mn)	32,000
No. of shares (Mn)	15,994
Current Market Price (AED)	5.75
Fair Value per share (AED)	7.35

DCF Method

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
NOPAT	1,499	1,605	1,845	2,094	2,352	2,625
D&A	550	546	550	516	501	488
(-) Capex	-763	-800	-400	-350	-350	-350
Change in working capital	125	41	-2	-59	-55	-59
Free Cash Flow to Firm (FCFF)	1,410	1,393	1,992	2,200	2,448	2,704
Discounting Factor	0.98	0.90	0.83	0.76	0.70	0.64
Discounted FCFF	347¹	1,260	1,655	1,678	1,714	1,738

Source: FAB Securities ¹Adjusted for partial year

2) Relative Valuation:

We have used regional and global peers to value ADNOC DRILL, using the EV/EBITDA and PE multiples. 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 a 2027 EV/EBITDA and PE multiple of 8.6x and 18.5x, respectively, compared to the peer median multiple of 6.1x and 13.2x

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2025F	2026F
Halliburton	8,316	8.7	7.6	14.8	12.0
Schlumberger (Us)	12,541	10.1	8.6	18.7	14.3
Baker Hughes Company	6,702	11.5	10.0	23.7	19.7
Petrovietnam Drilling & Well Service Corporation	168	6.8	6.1	14.5	12.0
Borr Drilling Limited	2,150	8.3	6.2	NA	14.5
ADES Holding Co	5,528	8.4	7.6	19.9	14.6
China Oilfield Services	2,418	2.8	2.7	6.2	5.7
Weatherford International	1,642	6.5	5.5	14.4	10.9
Seadrill Limited	633	7.1	5.0	54.4	12.1
Arabian Drilling Co	810	8.2	6.6	69.2	20.0
Odfjell Drilling Ltd	1,061	5.6	5.3	9.2	7.7
Noble Corp PLC	2,042	8.0	6.1	37.6	14.9
Average		7.7x	6.4x	25.7x	13.2x
Median		8.1x	6.1x	18.7x	13.2x
Max		8.4x	7.6x	30.6x	14.6x
Min		6.7x	5.5x	14.4x	11.7x

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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