

ADNOC Drilling

Additions of new rigs drove profitability

4Q22 Net Profit higher than our estimates

ADNOC Drilling Co. PJSC (ADNOC DRI/the Company) net profit rose significantly from USD 144 Mn in 4Q21 to USD 234 Mn in 4Q22, higher than our estimate of USD 193 Mn. The increase in net profit was mainly driven by an increase in overall business revenue due to the commencement of operations from newly integrated rigs partially offset by a rise in operating expenses.

P&L Highlights

ADNOC Drilling reported the highest-ever quarterly revenue of USD 733 Mn in 4Q22, as compared to USD 575 Mn in 4Q21. The increase in revenue is mainly attributable to strong growth in the company's overall business segments. Onshore Segment revenue rose 29.5% YOY to USD 379 Mn in 4Q22 due to the commencement of operations of additional rigs which joined the fleet. Offshore Jack-up recorded revenue growth of 23.5% YOY to USD 180 Mn in 4Q22 driven by increased activity from five new additional rigs put in operation. Revenue from the Offshore Island Segment increased 35.2% YOY to USD 51 Mn in 4Q22 owing to the reversal of claims in 4Q21. In addition, the OFS segment witnessed 25.5% YOY growth in revenue to USD 123 Mn in 4Q22 mainly due to the introduction of new services to the portfolio along with increased volumes. On the other hand, the company's direct cost rose 13.6% YOY to USD 420 Mn in 4Q22 due to a rise in drilling activity, growth in material cost inflation, a hike in labor cost, increased maintenance cost, and other associated costs. The company plans to optimize the number of crew working on rigs to enhance cost savings. ADNOC Drilling's G&A expenses rose significantly 23.0% YOY to USD 71 Mn in 4Q22. Thus, EBITDA rose 34.8% YOY to USD 353 Mn in 4Q22. EBITDA of the onshore segment rose 42.9% YOY to USD 189 Mn with a margin of 49.7% in 4Q22 due to cost optimization and growth in volumes whereas the offshore jackup segment EBITDA rose 30.2% YOY to USD 108 Mn with a margin of 60.1% owing to commencement in operations of new jackups. Similarly, offshore island and OFS segment EBITDA margins stood at 54.4% and 23.5% in 4Q22 with an EBITDA of USD 28 Mn and USD 29 Mn respectively. Finance costs increased from USD 4.3 Mn in 4Q21 to USD 9.1 Mn in 4Q22 due to higher benchmark rates. Other income rose to USD 0.8 Mn in 4Q22 as compared to USD 0.6 Mn in 4Q21.

Balance sheet highlights

ADNOC DRI's working capital declined 46.7% to USD 314 Mn in 2022 due to rise in liabilities, efficient inventory management and focus on collections from related parties. The company incurred a capex of USD 942 Mn in 2022 as compared to USD 583 Mn in 2021 resulting in a marginal decline in free cash flow by 1.5% to USD 588 Mn in 2022. ADNOC DRI's capex increased due to the rig fleet expansion program and payments made towards Offshore Jack-up rigs. Furthermore, the Company plans to incur a capex of USD 1.3-1.8 Bn in 2023. In addition, the Company maintained strong cash and cash equivalents worth USD 326 Mn in 2022 and an unutilized syndicated term and revolving facility of USD 1.25 Bn.

Rating : BUY

First Look Note – 4Q22

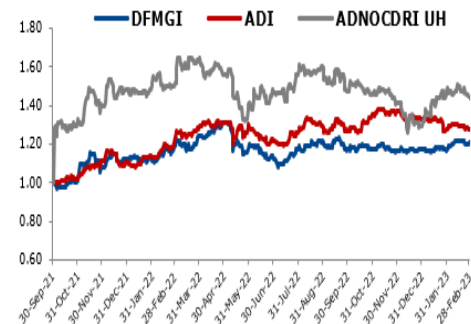
Sector: Oil & Gas

Recommendation

Current Price (1-Mar-23)	3.36
Target Price (AED)	4.30
Upside/Downside (%)	+28%

Stock Information

Market Cap (mm)	54,400.00
Shares Outstanding (mm)	16,000
52 Week High	3.92
52 Week Low	2.90
3M Avg. daily value (AED)	23,149,540



Financial Ratios

Dividend Yield (12m)	4.50
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	18.22
Price-to-Book Ratio (x)	5.05
Book Value (AED)	0.18
Return-on Equity (%)	28.00
Earning Per Share (AED)	0.05
Adjusted BETA	0.829

Stock Performance

5 Days	0.89%
1 Months	0.89%
3 Months	4.29%
6 Months	-4.23%
1 Year	-2.30%
Month to Date (MTD)	2.72%
Quarter to Date (QTD)	14.09%
Year to Date (YTD)	14.09%

Target price and rating

We maintain our BUY rating on ADNOC Drilling with a revised target price of AED 4.30. The revision is mainly due to the fast track of the growth plans announced with 4Q22 results and remains a key enabler to ADNOC Upstream growth plans. ADNOC Upstream accelerated its expansion strategy for achieving the target of five million barrels of oil per day and gas self-sufficiency in the UAE by 2027. Thus, ADNOC DRI plans to increase the rig count to 142 with a capex of USD 2.0-2.5 bn by 2024 as compared to the previous target of 127 rigs by 2030. This will provide a boost to near-term earnings. The Company drilled 620 wells in 2022 and integrated eight onshore H&P FlexRigs into operations which boosted the company's top line in FY2022. The OFS segment performed Integrated Drilling Services on 40 rigs whereas the drilling efficiency improved 14.3% YOY in 2022. Average drilling days increased for onshore drilling from 33 days in 4Q21 to 41 days in 4Q22 while offshore average drilling days declined by 1 day to 77 days in 4Q22 as compared to 4Q21. ADNOC Drilling's expansion program added 16 drilling units in 2022 which increased the rig fleet to 115 rigs as of 2022. ADNOC Drilling holds more than USD 10 Bn worth of contracted backlog as of 2022 which affirms long-term revenue visibility with robust cash flow. ADNOC Offshore Jack-up and Offshore Island segment received two contracts in 4Q22 worth USD 2.5 Bn for providing 14 jack-up rigs and 2 island rigs to ADNOC Offshore. Furthermore, OFS segment extended ADNOC Onshore and Offshore Integrated Drilling Services (IDS) contracts for two years with a total consideration of USD 2.7 Bn. The company released its financial guidance for the first time where it expects the revenue to range between USD 3.0-3.2 Bn in 2023 whereas the EBITDA is expected to range from USD 1.4-1.5 Bn with an EBITDA margin of around 45% to 47%. It is expected to record double digit growth in topline and bottom line during FY2022. Moreover, the company expects the dividend to grow by 5.0% in 2022 in line with its progressive 5-for-5 dividend policy. Thus, considering the abovementioned factors, we assign a BUY rating on the stock.

Adnoc Drilling Relative Valuation

(at CMP)	2020	2021	2022	2023F
P/E	NA	24.26	18.27	15.58
P/B	NA	5.24	5.00	4.70
EV/EBITDA	NA	14.99	12.84	11.87
Dividend Yield	NA	4.6%	4.8%	5.1%

FABS estimate & Co Data

Adnoc Drilling - P&L

(USD mn)	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	575	670	733	683	7.3%	27.5%	9.4%	2,269	2,673	17.8%
Direct Cost	-370	-405	-420	-405	3.7%	13.6%	3.7%	-1,385	-1,581	14.1%
Gross Profit	206	265	313	278	12.6%	52.4%	18.1%	884	1,093	23.6%
G&A expenses	-58	-69	-71	-75	-5.1%	23.0%	3.0%	-274	-268	-1.9%
EBITDA	262	299	353	305	15.7%	34.8%	18.1%	1,047	1,218	16.4%
Other Income- Net	1	1	1	1	-39.7%	44.6%	-39.3%	10	6	-39.2%
Finance Costs- Net	-4	-9	-9	-11	-18.3%	113.6%	4.4%	-17	-29	68.5%
Profit for the period	144	189	234	193	20.9%	62.4%	23.8%	604	802	32.8%

FABS estimate & Co Data

Adnoc Drilling - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross Profit Margin	35.8%	39.6%	42.7%	698	315	39.0%	40.9%	191
EBITDA Margin	45.5%	44.6%	48.2%	263	357	46.1%	45.6%	-56
Net Profit Margin	25.0%	28.2%	31.9%	685	371	26.6%	30.0%	338

FABS estimate & Co Data

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 Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@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
Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"