

Adnoc Drilling Company P.J.S.C.

Current Price
AED 5.14

Target Price
AED 5.85

Upside/Downside (%)
+14%

Rating
ACCUMULATE

3Q24 Net Profit higher than our estimate

- Net revenue grew strongly 32.2% YOY to USD 1,026 Mn in 3Q24 driven by the expansion of onshore & offshore fleets, coupled with continued growth of the oilfield services (OFS) segment. The initial contributions from the Turnwell and the Enersol joint ventures further boosted growth.
- Onshore Segment revenue grew 28.5% YOY to USD 486 Mn in 3Q24, primarily due to new rigs starting operations.
- Revenue from the Offshore Jackup grew 45.6% YOY to USD 290 Mn in 3Q24, driven by expansion of jack-up rigs.
- Revenue from the Offshore Island fell marginally 3.5% YOY to USD 52 Mn in 3Q24, due to positive one-off claim in 3Q23 related to demobilization of island rig allocated to the Hail and Ghasha project.
- OFS segmental revenue witnessed robust growth of 36.4% YOY and reached USD 197 Mn in 3Q24, owing to growth in activity from drilling fluids and wireline services.
- Gross profit grew 46.9% YOY to USD 423 Mn in 3Q24, while Gross profit margin grew 413 bps YOY to 41.2% in 3Q24.
- EBITDA grew strongly 34.0% YOY to USD 510 Mn in 3Q24 owing to robust revenue growth coupled with effective cost management initiatives. EBITDA margin grew 65 bps YOY to 49.7% in 3Q24.
- Onshore segment EBITDA rose 26.4% YOY to USD 241 Mn in 3Q24 due to higher revenue and cost efficiencies, whereas the Offshore Jack-up segment's EBITDA rose from USD 131 Mn in 3Q23 to USD 198 Mn in 3Q24 supported by robust revenue growth and expansion in margin owing to operational efficiency.
- Offshore Island EBITDA declined 13.2% YOY to AED 32 Mn in 3Q24 due to the reactivation cost of the island rigs assigned to Hail and Ghasha project.
- OFS segment EBITDA stood at USD 40 Mn in 3Q24 compared to USD 22 Mn in 3Q23 owing to higher activity and contributions from Enersol and Turnwell.
- Net profit grew 30.1% YOY to USD 335 Mn in 3Q24 owing to revenue growth partially offset by higher G&A expense and implementation of tax charge owing to introduction of corporate tax in the UAE.
- ADNOC DRILL distributed interim cash dividends of AED 9.05 fils per share for 1H24, under its new dividend policy.
- Enersol acquired an additional 42.2% stake in Gordon Technologies LLC, a 51% stake in NTS Amega, and a 100% stake in EV Holdings.
- The Company finalized its deal with SLB and Patterson-UTI and thereby formed the Turnwell joint venture. It also accelerated the previously secured USD 1.7 Bn 144-well, unconventional oil and gas program.

Earnings Call Summary

- ADNOC DRILL's fleet size increased from 124 in September 2023 to 140 in September 2024, including 95 land rigs, 35 offshore jack-ups and 10 island rigs. It is on track to achieve its target of 142 rigs by the end of FY2024 by adding two additional jack-up rigs.
- ADNOC DRILL's additional free float of 16.5% provides more liquidity & accessibility for investors.
- The Company's acquisitions during 3Q24 provided access to more than 120 patent technologies.
- Six hybrid rigs commenced operations during 3Q24 which brings the Company closer to its target of achieving a production capacity of 5 million barrels per day.
- It drilled 175 wells in 3Q24, compared to 148 in 2Q24.

- Oilfield services are provided c. 70% of the rigs and the coverage is anticipated to increase in the long run as the Company plans to boost OFS volume aligned with the planned phasing of IDS rigs ramp up with the continued progress on unconventional drilling.
- The company aims to expand its oil field services. In line with this aim, it has a target of completing 50 IDS rigs in the next four years.
- The services mix in the OFS segment might cause short-term fluctuations in margins as few services provide higher margin than others.
- Turnwell contributed USD 33 Mn to ADNOC DRILL's topline in 3Q24.
- The company expects to generate USD 1.7 Bn in revenue by the end of FY2026.
- Cash Capex including prepayment and excluding accruals stood at USD 197 Mn for 3Q24. It estimates capex to stand at USD 900 Mn during FY2024 owing to the company's ongoing rig acquisition program.
- Unconventional business contributed USD 33 Mn to the total revenue in 3Q24.
- ADNOC DRILL revised its FY2024 revenue guidance from USD 3.7-3.85 Bn to USD 3.8-3.9 Bn. Onshore segment revenue is anticipated to reach USD 1.7-1.8 Bn.
- EBITDA guidance was revised to USD 1.85-1.95 Bn, while net income is projected to reach USD 1.2-1.3 Bn.
- The net income margin of Turnwell's Phase 1 is projected to be around 9-10%.
- It expects the capex incurred on the unconventional facility to decline in FY2025. The maintenance capex includes USD 210 Mn spent on three new island rigs that will be completed in FY2026.
- It anticipates making further investments of up to USD 560 Mn in Enersol during 4Q24 and FY2025. ADNOC DRILL has already invested USD 205 Mn in the first five months of 2024.
- In the unconventional operations, ADNOC DRILL's OFS segment holds a 100% market share.
- Enersol is anticipated to incur a capex of USD 765 Mn, of which USD 255 Mn has been deployed and the remaining USD 510 Mn will be deployed in 4Q24 or 1Q25.
- The Company expects to earn USD 10 Mn revenue per well.
- The margin benefitted from economies of scale and ADNOC DRILL further anticipates the margins to be stable.
- ADNOC DRILL anticipates maintaining its net working capital as a percentage of revenue of 12% in the medium term.
- The company expects sequential growth of single digits in 4Q24, driven by the operational expansion and the addition of two new jackup rigs to the fleet in November 2024.

Adnoc Drilling – P&L

USD mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch
Revenue	776	935	1,026	984	4.3%	32.2%	9.7%
Direct Cost	-488	-539	-603	-558	8.0%	23.5%	11.9%
Gross Profit	288	396	423	426	-0.6%	46.9%	6.8%
G&A Expenses	-21	-41	-34	-44	-23.9%	64.0%	-18.0%
EBITDA	381	472	510	495	3.0%	34.0%	8.1%
EBIT	267	355	389	381	2.1%	45.6%	9.6%
Share of results of a joint venture	0	1	2	1	96.1%	NM	NM
Other Income	3	1	2	1	59.1%	-29.8%	NM
Finance Costs	-13	-33	-31	-29	7.3%	NM	-7.5%
Profit before tax	257	324	363	355	2.2%	41.0%	12.1%
Corporate tax	0	-29	-28	-32	-12.1%	NM	-2.8%
Net Profit	257	295	335	323	3.6%	30.1%	13.5%

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%

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