

ADNOC Drilling Company

Activity phasing boosted topline

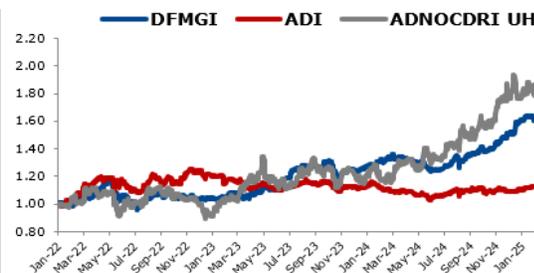
Current Price
AED 5.51

Target Price
AED 6.25

Upside/Downside (%)
+13%

Rating
ACCUMULATE

- OFS segmental revenue grew significantly from USD 148 Mn in 4Q23 to USD 313 Mn in 4Q24, owing to growth in IDS activities, specifically positive phasing during 4Q24 related to pressure pumping, directional drilling and unconventional business.
- EBITDA rose 40.6% YOY to USD 596 Mn in 4Q24 owing to robust revenue growth partially offset by a rise in direct costs. EBITDA margin fell 19 bps YOY to 50.2% in 4Q24.
- ADNOC DRILL's board of directors recommended a cash dividend of USD 9.05 fils per share amounting to USD 394 Mn for 2H24.



Stock Information

Market Cap (AED, mm)	88,160.00
Shares Outstanding (mm)	16,000.00
52 Week High	6.01
52 Week Low	3.56
3M Avg. daily value (AED)	61,960,430

4Q24 Result Review (USD, Mn)

Total Assets	7,766
Total Liabilities	3,956
Total Equity	3,810
EBITDA	596
Net Profit	399

Financial Ratios

Dividend Yield (12m)	3.16
Dividend Pay-out (%)	60.45
Price-Earnings Ratio(x)	18.41
Price-to-Book Ratio (x)	6.25
Book Value (AED)	0.24
Return-on Equity (%)	36.85

Stock Performance

5 Days	-0.54%
1 Months	-1.25%
3 Months	2.61%
6 Months	21.63%
1 Year	52.63%
Month to Date (MTD%)	2.04%
Quarter to Date (QTD%)	3.38%
Year to Date (YTD%)	3.38%

4Q24 Net Profit higher than our estimate

ADNOC Drilling Co. PJSC (ADNOC DRILL/the Company) net profit grew 21.3% YOY to USD 399 Mn in 4Q24, higher than our estimate of USD 361 Mn. The increase in the net profit is mainly attributable to solid revenue growth partially offset by higher direct cost, net finance costs, and implementation of tax charges owing to the introduction of corporate tax in the UAE.

P&L Highlights

ADNOC Drilling's total revenue grew strongly 41.2% YOY to USD 1,187 Mn in 4Q24 driven by the expansion of operations, activity phasing in the oilfield services (OFS) segment and cost reimbursement in Onshore Segment. Onshore revenue increased 33.2% YOY USD 554 Mn in 4Q24. Revenue from the Offshore Jackup grew 17.3% YOY to USD 264 Mn in 4Q24, driven by higher activity from Jack-ups compared to previous year. Revenue from the Offshore Island rose from USD 52 Mn in 4Q23 to USD 56 Mn in 4Q24, due to reactivation of an island rig for Hail and Ghasha project. OFS segmental revenue grew significantly from USD 148 Mn in 4Q23 to USD 313 Mn in 4Q24, owing to growth in IDS activities, specifically positive phasing during 4Q24 related to pressure pumping, directional drilling and unconventional business. The direct cost grew 48.6% YOY to USD 677 Mn in 4Q24. Thus, the Company's gross profit grew 32.4% YOY to USD 510 Mn in 4Q24, while gross profit margin fell 286 bps YOY to 42.9% in 4Q24. G&A expenses fell marginally 0.9% YOY to USD 39 Mn in 4Q24 due to cost optimization initiatives. Thus, EBITDA rose 40.6% YOY to USD 596 Mn in 4Q24 owing to robust revenue growth partially offset by a rise in direct costs. EBITDA margin fell 19 bps YOY to 50.2% in 4Q24. Onshore segment EBITDA rose from USD 203 Mn in 4Q23 to USD 285 Mn in 4Q24 due to higher revenue and the realization of cost optimization initiatives, whereas the Offshore Jack-up segment's EBITDA rose from USD 148 Mn in 4Q23

to USD 197 Mn in 4Q24 supported by robust revenue growth and improved operational efficiency. Offshore Island EBITDA declined marginally by 3.0% YOY to AED 32 Mn in 4Q24 due to the reactivation cost of the island rigs assigned to the Hail and Ghasha project. OFS segment EBITDA stood at USD 82 Mn in 4Q24 compared to USD 40 Mn in 4Q23 owing to higher activity and contributions from Enersol and Turnwell JVs. Net finance costs increased significantly from USD 20 Mn in 4Q23 to USD 32 Mn in 4Q24 owing to increased borrowings. The share of results of a JV amounted to USD 3 Mn in 4Q24 compared to nil in 4Q23. ADNOC DRILL recorded a decline in the other income from USD 4 Mn in 4Q23 to USD 2 Mn in 4Q24. The corporate tax expense amounted to USD 44 Mn in 4Q24 owing to the introduction of corporate tax in UAE in FY2024, impacting profitability.

Balance Sheet Highlights

ADNOC DRILL cash and cash equivalent stood at similar levels as 4Q23 at USD 330 Mn in 4Q24. Net debt dropped to USD 2 Bn in 4Q24 compared to USD 2.2 Bn in 3Q24, and the net debt to LTM EBITDA ratio fell from 1.2x in 3Q24 to 1.0x in 4Q24. ADNOC Drilling's cash flow from operation improved from USD 397 Mn in 4Q23 to USD 474 Mn in 4Q24, mainly due to higher profitability. The Company's net working capital rose from USD 239 Mn in 4Q23 to USD 322 Mn in 4Q24. Capex rose from USD 197 Mn in 3Q24 to USD 215 Mn in 4Q24.

Target Price and Rating

We maintain our ACCUMULATE rating on ADNOC Drilling with a revised target price of AED 6.25. ADNOC DRILL recorded a robust financial performance in 4Q24. The Company's fleet count stood at 142 rigs as of December 2024, including 95 land rigs, 37 offshore jack-ups and 10 island rigs. It added 13 new rigs in FY2024, including two jackup rigs, which are expected to contribute to revenue in 1H25. ADNOC DRILL will acquire three island rigs. The first is expected to arrive by 2H25, with third rig potentially starting in 1H27. ADNOC DRILL plans to have a total of 148 rigs by FY2026 and 151 rigs by FY2028. As a result, the Company is expecting the revenue to range between USD 4.6-4.8 Bn in FY2025, driven by full contribution from rigs added in FY2024, along with continued growth in OFS and unconventional businesses. Moreover, it expects margins to improve owing to the reduction in drilling time. The Company aims to expand its fleet of IDS rigs to 62 rigs in FY2025. Island rigs come with AI and smart capabilities for optimized island drilling operations, likely to benefit ADNOC DRILL. The Company expects EBITDA to range between USD 2.15-2.30 Bn, with an estimated margin of 46-48% for FY2025. Net income is projected to range between USD 1.35-1.45 Bn, with a net margin of 28-30% for FY2025. ADNOC DRILL expects capex of USD 350-550 Mn in FY2025 for maintenance and capex for island rigs. The Company plans to make inorganic growth investments in the Enersol JV up to c. USD 500 Mn. Total capex for FY2025 could exceed USD 1 Bn, depending on M&A activity and investment opportunities. The Company secured a USD 1.7 Bn contract for the unconventional business. The number of wells drilled rose from 175 in 3Q24 to 214 in 4Q24, while the rig availability stood at 96%. The expansion plans, recently secured contract, and sold utilization rate ensure robust revenue visibility. Enersol will acquire a 95% stake in Deep Well Services (DWS) for USD 223 Mn. DWS specializes in advanced energy technologies and services, with strong financial performance and a broad customer base. This acquisition will support ADNOC Drilling's USD 1.7 Bn unconventional wells contract and enhance its technology portfolio, driving growth and operational efficiencies. ADNOC DRILL's board of directors recommended a cash dividend of AED 9.05 fils per share amounting to USD 394 Mn for 2H24. Thus, considering the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

Adnoc Drilling - Relative valuation

(at CMP in USD)	2020	2021	2022	2023	2024	2025F
PE	NA	40.3	30.3	23.6	18.7	16.3
PB	NA	8.7	8.3	7.5	6.4	5.4
EV/EBITDA	NA	24.2	20.7	17.5	13.0	11.8
Dividend yield	NA	2.8%	2.8%	2.9%	3.3%	3.6%

FABS Estimates & Co Data

Adnoc Drilling – P&L

USD mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	841	1,026	1,187	1,072	10.7%	41.2%	15.7%	3,057	4,034	32.0%
Direct Cost	-456	-603	-677	-617	9.8%	48.6%	12.3%	-1,849	-2,337	26.4%
Gross Profit	385	423	510	455	12.0%	32.4%	20.5%	1,208	1,697	40.4%
G&A expenses	-40	-34	-39	-33	19.1%	-0.9%	16.6%	-126	-155	23.0%
EBITDA	424	510	596	512	16.4%	40.6%	16.8%	1,483	2,015	35.9%
EBIT	345	389	470	422	11.4%	36.2%	20.8%	1,082	1,541	42.5%
Share of results of a JV	0	2	3	1	NM	NM	25.0%	0	8	NM
Other Income- Net	4	2	2	2	9.7%	-44.9%	0.1%	10	6	-35.1%
Finance Costs- Net	-20	-31	-32	-30	8.2%	60.5%	5.5%	-59	-124	NM
Profit before tax	329	363	443	394	12.4%	34.6%	22.0%	1,033	1,432	38.7%
Corporate tax	0	-28	-44	-33	33.1%	NM	56.3%	0	-129	NM
Profit for the period	329	335	399	361	10.5%	21.3%	19.2%	1,033	1,304	26.2%

FABS estimate & Co Data

Adnoc Drilling - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross Profit	45.8%	41.2%	42.9%	-286	172	39.5%	42.1%	254
EBITDA	50.4%	49.7%	50.2%	-19	50	48.5%	49.9%	143
Net Profit	39.1%	32.6%	33.6%	-552	99	33.8%	32.3%	-147

FABS estimate & Co Data

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	6.51	80.0%	5.20
Relative Valuation (RV)			
EV/EBITDA	3.89	10.0%	0.39
PE	6.58	10.0%	0.66
Weighted Average Valuation (AED)			6.25
Current market price (AED)			5.51
Upside/Downside (%)			+13%

1) DCF Method:

Adnoc Drilling is valued using free cash flow to the firm. We have discounted the cash flow using a weighted average cost of capital of 8.6%. It is arrived after using the cost of equity of 9.0% and the after-tax cost of debt of 5.9%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 1.0, and an equity risk premium of 3.8%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	7,120
Terminal value (USD, Mn)	23,234
FV to Common shareholders (USD, Mn)	30,354
No. of share (Mn)	16,000
Current Market Price (AED)	5.51
Fair Value per share (AED)	6.51

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,580	1,801	1,898	1,985	2,069
D&A	441	436	429	421	412
(-) Capex	-450	-375	-355	-325	-295
Change in working capital	-148	-127	-7	54	59
Free Cash Flow to Firm (FCFF)	1,067	1,734	1,965	2,135	2,245
Discounting Factor	0.97	0.86	0.79	0.73	0.67
Discounted FCFF	1,030	1,487	1,551	1,551	1,501

Source: FAB Securities

2) Relative Valuation:

We have used regional and global peers to value Adnoc Drilling, which is valued using the EV/EBITDA and PE multiple. 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 EV/EBITDA and PE multiple of 8.7x and 19.3x, respectively, compared to the peer multiple of 5.5x and 12.0x

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Halliburton	22,796	6.2	6.2	9.7	8.6
Schlumberger (Us)	56,760	7.3	6.9	12.1	10.9
Baker Hughes Company	45,169	9.8	9.0	17.6	15.3
Petrovietnam Drilling & Well Service Corporation	530	5.1	4.3	13.4	10.3
Borr Drilling Limited	720	5.5	4.7	7.4	12.1
ADES Holding Co	5,079	9.1	8.5	20.4	18.0
China Oilfield Services	7,364	4.5	3.6	6.2	5.3
Weatherford International	4,770	3.4	3.5	10.2	8.7
Seadrill Limited	1,937	4.8	2.9	12.0	5.5
Arabian Drilling Co	2,457	7.5	6.9	18.6	16.1
Odfjell Drilling Ltd	1,400	4.5	3.4	9.2	5.7
Noble Corp PLC	4,285	5.4	4.2	20.0	7.8
Average		6.1x	5.3x	13.1x	10.4x
Median		5.5x	4.5x	12.0x	9.5x
Max		7.3x	6.9x	17.9x	12.9x
Min		4.7x	3.6x	9.6x	7.3x

Source: FAB Securities

