FAB SECURITIES
أبوظبي الأول للأوراق المالية

SLB Acquisition Insight

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Drilling (ADNOCDRI)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.30	AED 6.25	+17.9%	BUY

SLB Land Rigs Business Acquisition Summary

- ADNOC Drilling is acquiring a majority stake in a regional land rig portfolio operated by SLB (Schlumberger) in Oman and Kuwait, marking its first major international expansion.
- The acquisition consideration for the 70% stake is USD 112 Mn, including a USD 21 Mn earn-out component tied to business performance, with the base purchase price at USD 91 Mn.
- The acquisition includes a co-pay earn-out mechanism, ensuring that final consideration is tied to contract renewals and actual business performance, effectively reducing transaction risk for ADNOC Drilling.
- Final deal value will be adjusted for net debt and cash at closing, meaning ADNOC Drilling will only pay for the clean enterprise value, reducing financial risk from unforeseen liabilities.
- Transaction is being funded through ADNOC Drilling’s existing debt capacity, highlighting the company’s strong balance sheet and no immediate equity dilution or new fundraising required.
- Transaction closing is targeted for 1Q26, subject to customary regulatory approvals, after which ADNOC Drilling will fully consolidate the acquired assets in its Onshore segment on a line-by-line basis.
- The rigs are being acquired at an enterprise value of under 4x EBITDA, which was described as very attractive, especially considering a revenue backlog of around USD 400 Mn.
- Valuation is highly attractive at less than 4x EBITDA, representing a significant discount to ADNOC Drilling’s current trading multiple, and provides immediate earnings and margin uplift.
- Expected free cash flow yield from the transaction exceeds 10%, making it a highly cash-generative acquisition and strongly supportive of ADNOC Drilling’s dividend and reinvestment capacity.
- The deal is expected to be immediately earnings accretive, contributing positively to net income and margins while delivering an internal rate of return (IRR) above ADNOC’s domestic rig business.
- The higher IRR reflects the risk-return balance from shorter contract durations, with ADNOC Drilling benefiting from the flexibility to redeploy rigs if needed, while locking in favorable pricing.
- The deal is underpinned by a USD 400 Mn contracted backlog, providing revenue visibility for the next three years, with six of the eight rigs contracted through end of 2028.
- The deal involves acquiring the rigs along with associated contracts and workforce. SLB retains a minority stake, indicating a joint venture structure and ongoing operational collaboration.
- The acquisition includes an earn-out clause tied to the renewal of contracts and performance, aligning incentives and helping de-risk the upfront valuation of the assets.
- This acquisition represents ADNOC Drilling's first regional expansion, in line with IPO goals to become a regional drilling champion beyond Abu Dhabi.

- Expansion targets Oman and Kuwait, both politically stable and energy-rich markets, where NOC-led drilling programs provide long-term contract stability and demand visibility.
- The entry is fully de-risked via acquiring rigs already under contract with the respective national oil companies (NOCs) in Oman and Kuwait, minimizing ramp-up and utilization risks.
- ADNOC Drilling highlighted that the rigs are spec-compatible with Abu Dhabi's requirements, providing a backstop option to redeploy them domestically if regional contracts are not renewed.
- ADNOC plans to transfer operational efficiencies and best practices from Abu Dhabi to Oman and Kuwait, enhancing competitiveness and offering clients a higher value proposition.
- ADNOC Drilling has already qualified for rig and cementing services in both Oman and Kuwait, which positions it well for upcoming tenders beyond this acquisition.
- ADNOC sees this JV as a base for future expansion in MENA, supported by its operational success, client relationships, and future tendering qualifications.
- The partnership could evolve to include oilfield services and technology collaboration, with both parties open to exploring deeper cooperation beyond just rig operations.
- The acquired rig portfolio has an EBITDA margin of around 40%, generating about USD 160 Mn in EBITDA from the USD 400 Mn backlog. Initial capital payback is expected to come directly from the existing contracted backlog, eliminating dependence on future extensions and making the transaction self-funding in early years.
- Expected net income is c. USD 25 Mn, yielding a net margin of around 20% on projected annual revenues of above USD 120 Mn in 2025.
- ADNOC Drilling expects USD 25–30 Mn in free cash flow annually from these rigs, after accounting for Capex, taxes, and working capital.
- Initial Capex is estimated at USD 15 Mn annually for the first two years, reducing to USD 7.5 Mn annually afterward as the spend transitions to maintenance-only levels.
- The acquisition includes eight land rigs, six in Oman and two in Kuwait, with high-spec capabilities such as 2,000 to 3,000 horsepower, designed for deep and complex drilling operations.
- Two smaller 1,000 horsepower rigs in Oman are newer units, which alongside the premium rigs offer a balance of age and technical capability, contributing to overall fleet value and longevity.
- The acquired rigs are either newer or premium deep drilling rigs, specifically suited to the geology of Oman and Kuwait, making them highly competitive in those markets.
- The Oman and Kuwait markets are highly competitive, with over 300 active rigs. ADNOC Drilling will leverage SLB’s 55-year local presence to mitigate market entry risks.
- The rigs were specifically built for the demanding geological conditions in Oman and Kuwait, giving them a distinct technical edge over many competitors' generic assets.
- As part of the deal, ADNOC is retaining the entire operating team from SLB to ensure continuity and local knowledge retention, which is crucial for a smooth transition.
- SLB’s continued minority stake and earn-out model ensures they remain incentivized to support operational and commercial performance post-transaction.

Transaction Overview

ADNOC Drilling will acquire **70%[1] stake in SLB's land rig business in Oman & Kuwait**

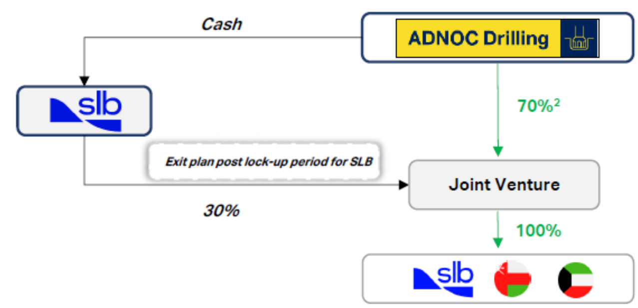
The acquisition consideration for the **70% stake is $112 million[1]**

Perimeter includes **eight fully operational land rigs under contract** with the respective national oil companies (NOCs) in both countries

ADNOC Drilling will fund the transaction **through its existing debt capacity**

The acquisition is expected to be **earnings accretive upon closing and to deliver attractive returns**

Transaction Structure



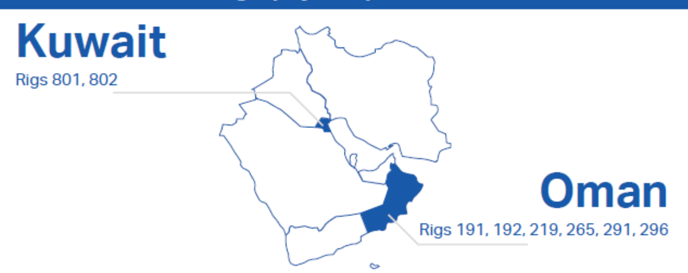
- Upon closing of the transaction, ADNOC Drilling is expected to **fully consolidate the financial results**
- Agreed mechanism for ADNOC Drilling to acquire remaining stake over time

1. Including an earn-out component of USD 21 Mn linked to the overall business performance, USD 91 Mn excluding potential earn-out. Final consideration is subject to closing accounts adjustments for net debt (debt minus cash) as at the closing date. 2. Stake to be acquired through an ADNOC Drilling wholly-owned subsidiary. Transaction subject to regulatory approvals and the fulfillment of other closing requirements.

Key Metrics

	Transaction Perimeter
Customers	
Rig fleet size	8 land rigs
Fleet overview	1,000 HP: 2 2,000 HP: 3 3,000 HP: 3
Revenue ($mm) FY25E	>$120 million
EBITDA margin (%) FY25E	+38%

Geography of Operations[1]



Rigs Overview

Rig	Location	Year built / upgraded	Rig Size (HP)
Rig 191	Jaleel	2018	1,000
Rig 192	Hanya	2018	1,000
Rig 219	Birba	2002	2,000
Rig 265	Birba	2014	2,000
Rig 291	Birba	2014	3,000
Rig 296	Harweel	2006	2,000
Rig 801	North	2019	3,000
Rig 802	North	2019	3,000

1 Regions marked on the map are indicative and not to scale

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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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