

TASI

Oil & Gas Drilling

2Q26 Financials Review

ADES AB remained the sector growth driver, supported by Shelf consolidation and broader international offshore activity, although GCC suspensions weighed on sequential performance. ARABIAND AB moved back into a quarterly loss as offshore suspensions more than offset improved land profitability and cost optimization. Sector revenue increased 19.5% Y/Y to SAR 2.92bn and EBITDA rose 9% Y/Y to SAR 1.27bn, while net income declined 50.5% Y/Y to SAR 97mn on weaker margins and higher finance costs. Maintain BUY on **ADES AB** with TP of SAR 21.6, and downgrade **ARABIAND AB to HOLD** with TP of SAR 103.

Stocks covered	Rating	Target Price
ADES AB	Maintain BUY	SAR 21.6
ARABIAND AB	Downgrade to HOLD	SAR 103



SECTOR AGGREGATE FINANCIALS

Offshore suspensions reduced offshore utilization and day rates in 2Q26, while Shelf-supported revenue growth was offset by weaker margins, higher finance costs and lower net income

SAR mn	Quarterly					Rolling 4 quarters		
	2Q26	1Q26	2Q25	Q/Q	Y/Y	Jun-26	Jun-25	Y/Y
Revenue	2,918	3,212	2,441	-9.2%	19.5%	11,430	9,677	18.1%
Onshore	938	884	932	6.1%	0.6%	3,594	3,644	-1.4%
Offshore	1,980	2,329	1,509	-15.0%	31.2%	7,835	6,033	29.9%
GROSS PROFIT	798	979	716	-18.5%	11.5%	3,199	3,030	5.6%
Opex	245	244	161	0.4%	52.1%	904	712	26.9%
Operating Profits	553	735	555	-24.8%	-0.3%	2,295	2,318	-1.0%
EBITDA	1,265	1,439	1,161	-12.1%	9.0%	5,139	4,605	11.6%
Finance Cost	378	362	275	4.5%	37.8%	1,356	1,080	25.5%
Net Income	97	243	196	-60.1%	-50.5%	618	1,027	-39.9%
Gross Margin	27.4%	30.5%	29.3%	-314 bps	-197 bps	28.0%	31.3%	-333 bps
Operating Margin	18.9%	22.9%	22.7%	-394 bps	-377 bps	20.1%	24.0%	-388 bps
EBITDA Margin	43.3%	44.8%	47.5%	-144 bps	-420 bps	45.0%	47.6%	-263 bps
Net Margin	3.3%	7.6%	8.0%	-425 bps	-471 bps	5.4%	10.6%	-521 bps
Interest Coverage	1.5	2.0	2.0	-0.6 times	-0.6 times	1.7	2.1	-0.5 times
Net Debt/EBITDA	4.2	3.6	3.2	0.5 times	0.9 times	4.1	3.3	0.9 times
Implied Land Operational Rigs	64	64	65	0 rigs	-1 rigs	64	65	-1 rigs
Implied Offshore Operational Rigs	67	81	53	-14 rigs	14 rigs	67	53	14 rigs
Land Utilization	72%	81%	73%	-899 bps	-112 bps	76%	76%	-13 bps
Offshore Utilization	71%	93%	84%	-2128 bps	-1285 bps	86%	86%	-87 bps
Implied Land Day Rates (USD)	42,947	40,912	42,037	5.0%	2.2%	41,683	40,249	3.6%
Implied Offshore Day Rates (USD)	86,602	85,196	83,426	1.7%	3.8%	80,829	82,406	-1.9%

Due to limited operating disclosures from ADES, combined sector rig counts, utilization and implied day rates incorporate estimates for ADES based on available fleet, revenue and operating disclosures and should therefore be treated as indicative rather than actual reported operating metrics.

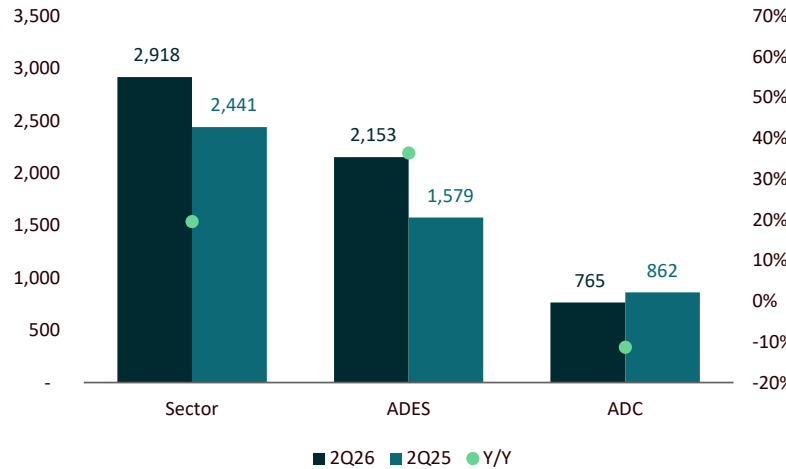
2Q26 implied offshore day rates is the weighted average of shelf's standalone contribution and ADES legacy /Arabian drilling rigs contribution

Rolling 4 quarters Utilization and Day Rates averages out last 4 quarters from reporting date

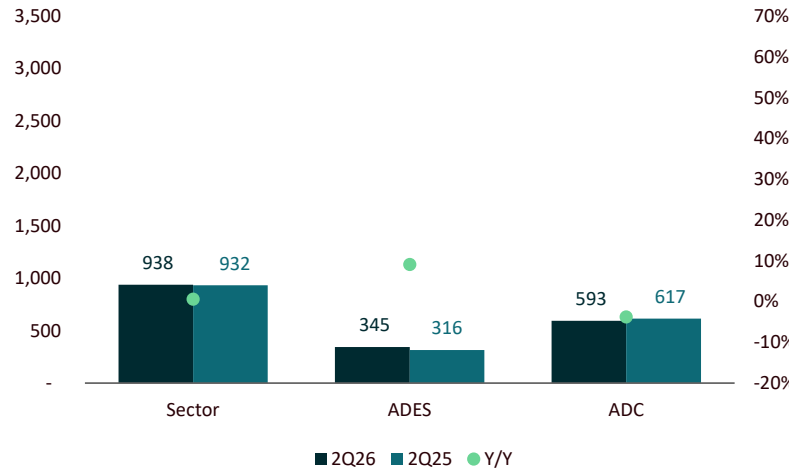
SECTOR REVENUE

Shelf consolidation and international growth sustained Y/Y growth, while GCC offshore suspensions drove the sequential decline

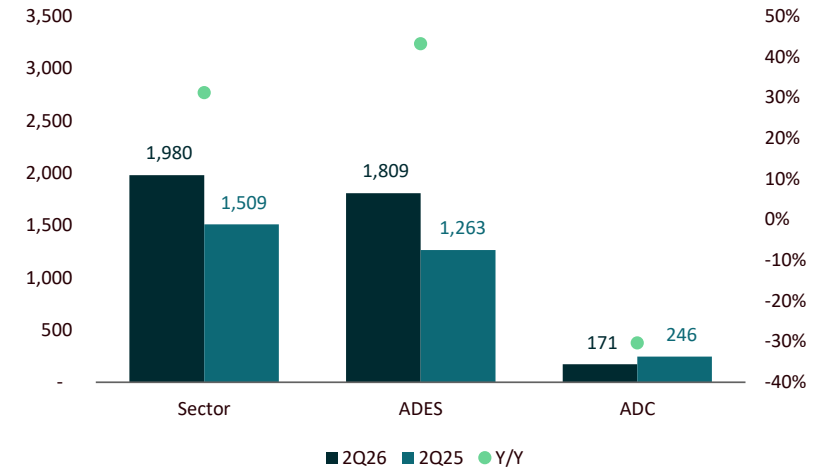
Total Revenue (SAR mn)



Onshore Revenue (SAR mn)

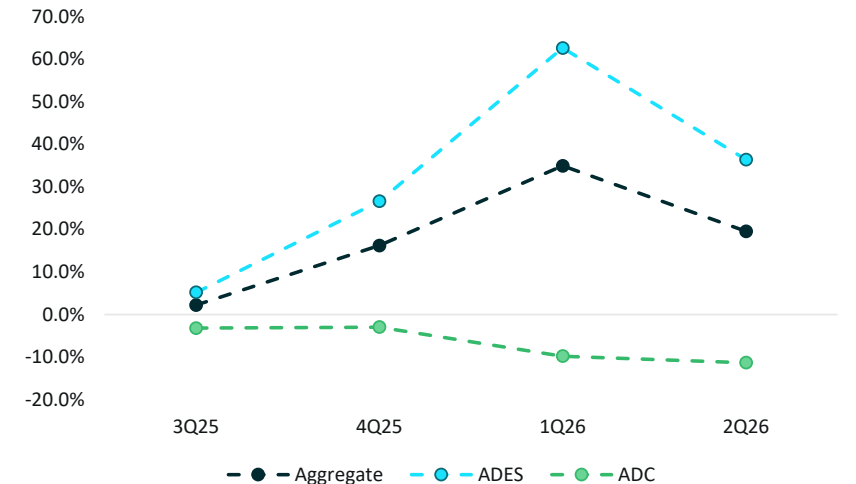


Offshore Revenue (SAR mn)



- **Sector revenue increased 19.5% Y/Y but declined 9.2% Q/Q to SAR 2.92bn.** Offshore revenue increased 31.2% Y/Y but fell 15% Q/Q to SAR 1.98bn, while onshore revenue was broadly flat Y/Y at SAR 938mn and rose 6.1% Q/Q.
- **ADES remained the sector growth driver**, with revenue increasing 36.4% Y/Y to SAR 2.15bn despite declining ~10% Q/Q. Y/Y growth was due to Shelf consolidation and broader international activity, while the sequential decline was driven by temporary offshore suspensions across Saudi Arabia and Qatar.
- **ADC revenue declined 11.3% Y/Y and ~7% Q/Q to SAR 765mn.** Temporary offshore suspensions reduced revenue by SAR 122mn Q/Q, partly offset by SAR 47mn of improvement in Land operations and SAR 18mn from the first full-quarter contribution of the international GCC contract.
- **Offshore remained the main source of sector growth**, accounting for ~68% of 2Q26 revenue and virtually all of the sector's Y/Y revenue increase. ADES contributed ~91% of sector offshore revenue, while ADC's offshore revenue declined ~37% Q/Q as five offshore rigs remained suspended at quarter-end.
- **On a rolling four-quarter basis**, sector revenue increased 18.1% Y/Y to SAR 11.43bn, with offshore revenue up 29.9% to SAR 7.84bn while onshore declined 1.4% to SAR 3.59bn, leaving sector growth entirely driven by offshore and ADES's enlarged international fleet.

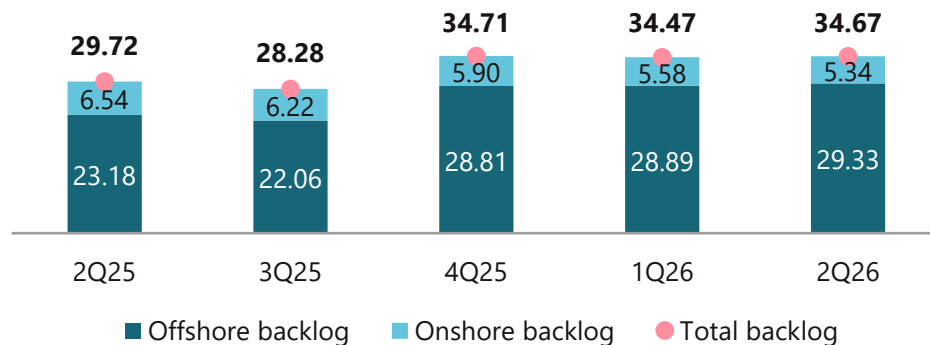
Rolling 4Q Y/Y revenue growth



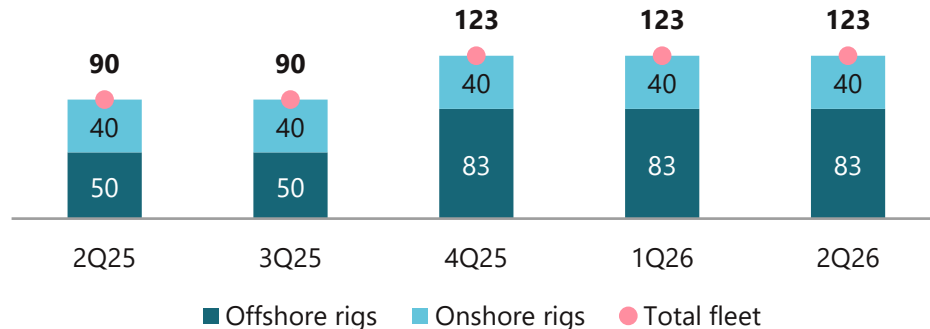
BACKLOG AND FLEET DEVELOPMENT

ADES retained long-duration, offshore-heavy backlog after Shelf, while land renewals extended Arabian Drilling's visibility as offshore coverage weakened

ADES backlog (SAR bn)



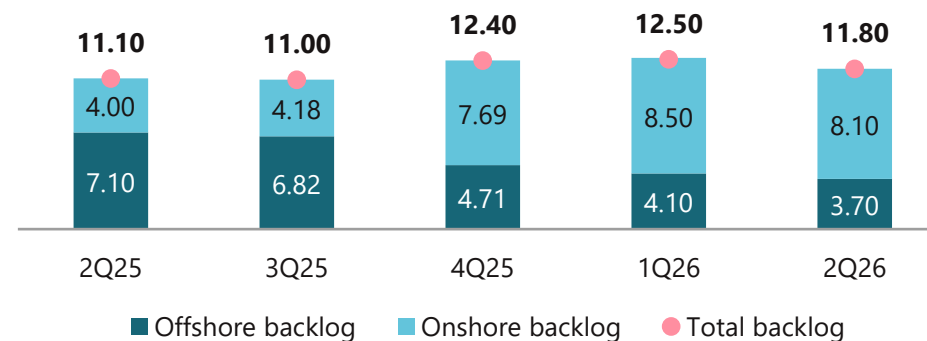
ADES fleet (rigs)



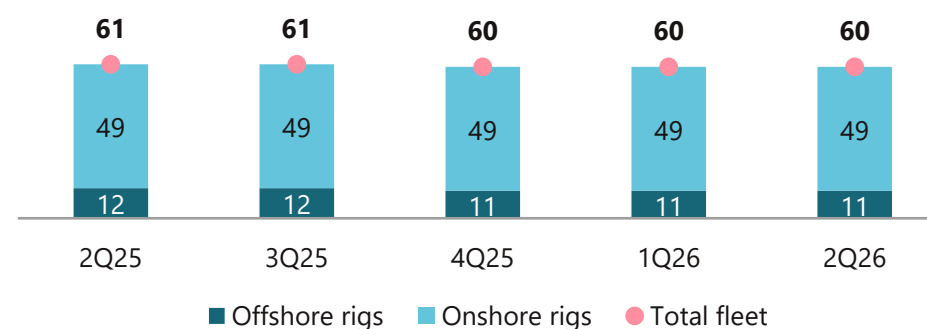
ADES

- Backlog remains long dated, with weighted-average tenor at 4.54 years in 2Q26 versus 4.73 years at YE25.
- Offshore dominates the book at 84.6%, while 68% of backlog is firm and 32% optional.
- Awards kept pace with burn, with 1H26 renewals and new contracts offsetting SAR 4.5bn of backlog recognition; offshore coverage has also stabilized after the Shelf fleet addition.

Arabian Drilling backlog (SAR bn)



Arabian Drilling fleet (rigs)

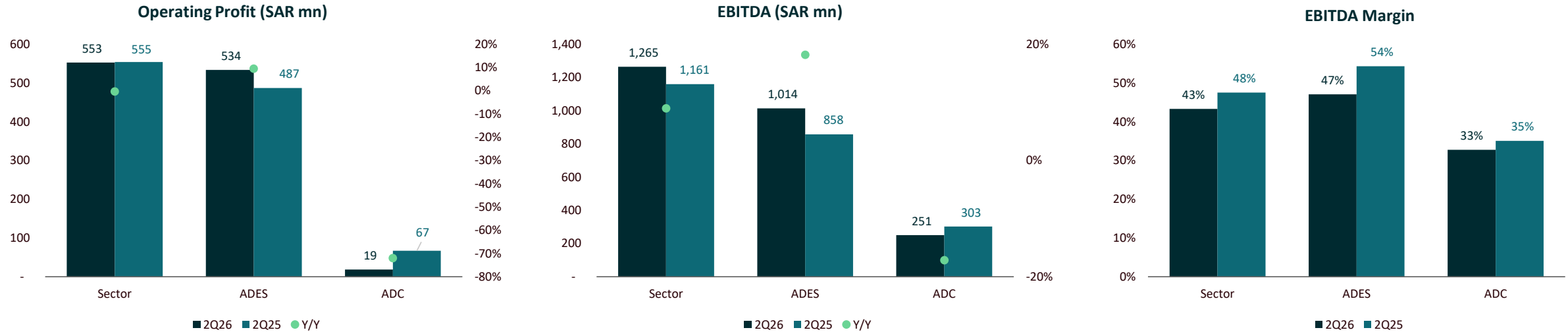


Arabian Drilling

- Contract visibility has improved, with average backlog tenor rising to 3.3 years from 2.4 years in 2Q25, helped by longer-term land renewals.
- The book has shifted toward land, while offshore backlog per rig fell from ~SAR 592mn to SAR 336mn over the past year as revenue burn outpaced new offshore awards, with one leased jackup also returned following contract termination.
- Renewal risk in 2H has reduced sharply, with the 11 Gas LSTK rigs renewed for five years in August, adding ~SAR 3bn to backlog. All suspended offshore rigs have also received resumption notices.

SECTOR OPERATING PROFITABILITY AND MARGINS

EBITDA remained above last year, but offshore suspensions and Shelf dilution drove a broad sequential margin decline



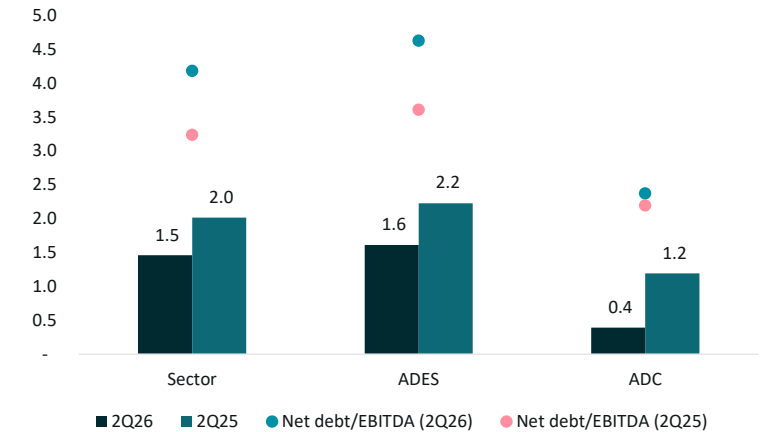
- **Sector gross profit increased 11.5% Y/Y but declined 18.5% Q/Q to SAR 798mn**, with gross margin falling to 27.4% from 30.5% in 1Q26 and 29.3% in 2Q25. Pressure was owing to offshore suspensions at both companies and elevated war insurance premium.
- **Sector operating profit was broadly flat Y/Y at SAR 553mn but declined 24.8% Q/Q**, with operating margin falling to 18.9% from 22.9% in 1Q26 and 22.7% in 2Q25. Sector revenue was almost 20% higher Y/Y, but the increase did not translate into operating profit growth as margins compressed.
- **Sector EBITDA increased 9% Y/Y but declined 12.1% Q/Q to SAR 1.27bn**. EBITDA margin fell to 43.3%, down 144bps Q/Q and 420bps Y/Y.
- **ADES was the sector's EBITDA anchor**, generating SAR 1.01bn, or ~80% of sector EBITDA. EBITDA increased 18.2% Y/Y but declined 11.8% Q/Q, with margin at 47.1% vs. 48.1% in 1Q26 and 54.4% in 2Q25. Management said the impact of suspension was SAR 140mn, normalizing for it, EBITDA was SAR 1.15bn at a 49% margin.
- **ADC's profitability weakened further as offshore suspensions outweighed the Land recovery**. EBITDA declined 13.3% Q/Q and ~17% Y/Y to SAR 251mn, with margin falling to 32.8%. Land gross margin recovered to 13.6% from 2.2% in 1Q26, but offshore gross margin swung to -6% from +32.4% as the company retained its offshore workforce during the temporary suspensions. Cost optimization generated ~SAR 25mn of savings during the quarter.

SECTOR LEVERAGE AND BOTTOMLINE PROFITABILITY

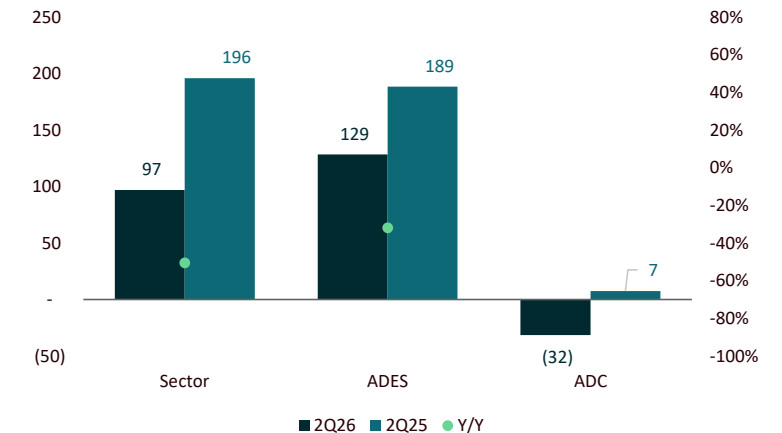
Suspension-related earnings pressure and ADES's higher debt burden drove a sharp decline in sector net income and coverage

- Sector net income declined 50.5% Y/Y and 60% Q/Q to SAR 97mn, with net margin falling to 3.3% from 7.6% in 1Q26 and 8% in 2Q25. ADES remained profitable, while ADC posted a quarterly loss.
- Sector finance costs increased 37.8% Y/Y and 4.5% Q/Q to SAR 378mn, largely reflecting ADES's higher debt following the Shelf acquisition. Interest coverage declined to 1.5x from 2x in both 1Q26 and 2Q25.
- Net debt/EBITDA increased to 4.2x from 3.6x in 1Q26 and 3.2x in 2Q25, as EBITDA declined sequentially while debt remained elevated. ADES net debt increased 3.1% Q/Q to SAR 18.1bn, while ADC net debt rose 1.4% Q/Q to SAR 2.4bn.
- ADES attributable net profit declined 32% Y/Y and 46% Q/Q to SAR 129mn. Below EBITDA, depreciation increased 34% Y/Y to SAR 480mn and finance costs rose 51% Y/Y to SAR 331mn, owing to the larger fleet and higher debt following the Shelf acquisition. Provision reversals partly offset these pressures below the EBITDA line.
- ADC recorded a net loss of SAR 31.5mn vs. net profits of SAR 7mn in 1Q26 and SAR 7.5mn in 2Q25. Operating profit declined 69% Q/Q and 72% Y/Y to SAR 19mn, while depreciation was broadly stable at SAR 232mn, up 1% Q/Q and down 2% Y/Y. Finance costs declined 3% Q/Q and 15% Y/Y to SAR 48mn, but remained well above operating profit, resulting in a pre-tax loss of SAR 26mn.

Interest coverage and Net Debt/EBITDA



Net Income (SAR mn)



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ADES Holding Co. (ADES)

2Q26 Financials Review

Bloomberg	ADES AB
Rating	BUY
Market Price	17.6
12-month Target Price	21.6
Upside / Downside	23%
Mkt Cap (SAR mn)	19,466
52 week High/Low	19.74/14.42



ADES Holding Co. (ADES) (BUY, TP: SAR 21.6, 2382.SE) 2Q26 Results Review

Shelf and international growth sustain the Y/Y uplift, while GCC suspensions and elevated insurance drive the sequential decline

ADES reported a net profit attributable to equity holders of SAR 129mn (EPS SAR 0.12), down 32% Y/Y and 46% Q/Q. Revenue rose 36% Y/Y to SAR 2.15bn on the Shelf consolidation and higher offshore activity across West & Central Africa, India and Southeast Asia, but declined 10% Q/Q as 10 offshore rigs across Saudi Arabia and Qatar were temporarily suspended and conflict-related insurance costs remained elevated. Management put the suspension impact at SAR 140mn at the EBITDA level and the incremental insurance charge at SAR 50mn Q/Q. Excluding both, net profit would have been SAR 274mn. Gross margin contracted 375bps Y/Y and 296bps Q/Q to 33.8%, while finance costs rose 51% Y/Y to SAR 331mn.

- At 2Q26 end, the combined fleet stood at 123 rigs, comprising 83 offshore and 40 onshore across 20 countries, with 101 rigs operating during 1H26 vs. 73 in 1H25. Eight offshore units were uncontracted, 3 in Egypt comprising the mobile offshore production unit and two barges, and 5 in India, where the company has bid them into an ongoing tender. Contracts on another 8 offshore rigs expire during 2H26, most within Aramco. Backlog stood at SAR 34.67bn vs. SAR 34.71bn at end-2025, as awards and renewals during the half offset revenue burn of SAR 4.5bn. Weighted average remaining tenor declined to 4.54 years from 4.73 years at end-2025, and the backlog is 68% firm and 32% optional. Offshore contracts make up 84.6% of the backlog. By client, GCC NOCs account for 66%, with Saudi Arabia the largest single exposure at 52.2%. Utilisation held at 97.6% in 1H26 vs. 98.6% in 1H25.
- Revenue grew 36% Y/Y but declined 10% Q/Q to SAR 2.15bn. Offshore rose 43% Y/Y to SAR 1.81bn but fell 12% Q/Q on the suspensions, while onshore rose 9% Y/Y and 3% Q/Q to SAR 345mn on higher Kuwaiti utilisation. Saudi Arabia declined 18% Y/Y and 12% Q/Q to SAR 752mn mainly due to offshore suspensions, and Qatar fell 49% Y/Y and 33% Q/Q to SAR 51mn on suspensions and lower standby rates. Against that, West & Central Africa contributed SAR 322mn, up 11% Q/Q, on a regional fleet of 10 contracted rigs, and India rose 145% Y/Y to SAR 143mn on 9 operating rigs vs. 3. GCC concentration fell to 46% of revenue from 74% in 2Q25.
- Gross profit increased 23% Y/Y but declined 17% Q/Q to SAR 728mn, with gross margin down 375bps Y/Y and 296bps Q/Q to 33.8% on Shelf's relatively lower margin contracts and standby rates on suspended rigs. EBITDA rose 18% Y/Y to SAR 1.01bn with the margin down 725bps Y/Y and 98bps Q/Q to 47.1%, normalised for the suspensions, it stood at SAR 1.15bn with margin of 49%. Below EBITDA, depreciation rose 34% to SAR 480mn and finance costs 51% Y/Y to SAR 331mn. The bottomline was supported by the reversal of provisions on Shelf tax exposures and Egyptian receivables, which offset the incremental insurance charge.
- 2Q26 absorbed the full quarter of GCC suspensions and elevated war insurance. Both have since eased, all suspended Saudi offshore rigs resumed on 31 August, with Qatar already back, and monthly insurance has fallen to SAR 15mn from SAR 45mn at the start of the conflict. Management held 2026 EBITDA guidance at SAR 4.5-4.87bn, which requires SAR 2.3-2.7bn in 2H26 vs. SAR 2.16bn in 1H26. The upper end assumed resumption within weeks, which has now happened. Even so, the rigs sat idle for two of 3Q26's three months, so we forecast 2026 EBITDA of SAR 4.6bn, in the lower half of guidance. This includes the impact of acquisition of Saipem's five jackups from 4Q26. Looking into 2027, growth rests on no suspension drag and full Shelf synergies of SAR 187.5-225mn, a full year of Saipem at ~SAR 225mn of EBITDA. These forecasts carry recontracting risk, with 8 offshore rigs uncontracted and contracts on another 8 expiring in 2H26, leaving both 2H26 and 2027 revenue exposed to idle gaps. Management, however, remains confident on placement, with 90-plus tenders in the pipeline and every 2026 award and renewal secured at higher day rates. We keep our 2026 and 2027 attributable net profit estimates broadly unchanged, as the incremental contribution from Saipem's five jackups is largely offset by higher finance costs. We lower our TP to SAR 21.6 from SAR 23.4, as we now expect interest rates to remain elevated for longer and easing to begin later than previously assumed. Maintain BUY.

Rating and Risks

We are BUY rated on ADES with a 12-month TP of SAR 21.6. Upside risks include faster Shelf integration, earlier synergy capture, contracting of the 8 idle offshore rigs, stronger repricing on the 8 renewals due in 2H26, and an end to the conflict removing the war insurance charge. Downside risks include renewed regional disruption, slower contracting / utilisation ramp of the acquired Shelf fleet, delays to Saipem integration, weaker renewals in key international markets, and a heavier than expected drag from depreciation and finance costs.

SAR mln	2Q26	1Q26	2Q25	Q/Q %	Y/Y %
Revenues	2153	2391	1579	-10%	36%
Cost of Goods	1425	1512	986	-6%	45%
Gross Profit	728	879	593	-17%	23%
G&A Expenses	194	204	105	-5%	84%
EBITDA	1014	1150	858	-12%	18%
Net Income attri. Equity holders	129	236	189	-46%	-32%
EPS	0.12	0.21	0.17	-46%	-32%

Margins (%)

Gross Margin	33.8	36.8	37.5	-296 bps	-375 bps
EBITDA Margin	47.1	48.1	54.4	-99 bps	-725 bps
Net Margin	6.0	9.9	11.9	-392 bps	-598 bps

Rating Summary and Forecasts

Rating Summary

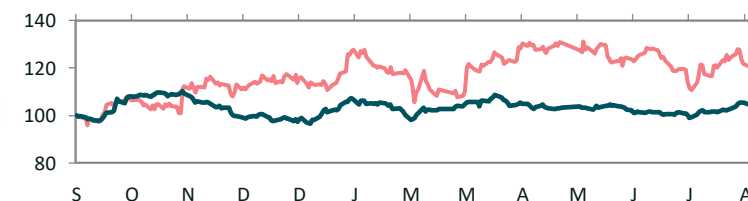
Rating	BUY
Market Price	17.6
12-month Target Price	21.6
Upside / Downside	23%
Mkt Cap (SAR mn)	19,466
52 week High/Low	19.74/14.42

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	818	936	1152	1265
PER (x)	21.2	20.8	16.9	15.4
PBV (x)	2.6	2.7	2.5	2.4
EPS (SAR)	0.7	0.8	1.0	1.1
DPS (SAR)	0.5	0.5	0.6	0.7
RoE (%)	12.3	13.3	15.4	15.9
Dividend Yield (%)	2.9	2.9	3.7	4.0

Price Chart

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ADES Holding Co: Summary Financials

<i>SAR mn</i>	A Dec-24	A Dec-25	A Dec-26	A Dec-27	A Dec-28	A Dec-29
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Income Statement						
Revenue	6,199	6,689	9,483	10,337	10,512	10,641
Offshore	4,841	5,485	7,865	8,475	8,646	8,752
Onshore	1,358	1,204	1,618	1,861	1,866	1,889
Gross Profit	2,359	2,533	3,394	3,622	3,696	3,782
Operating Profit	1,824	2,006	2,651	2,904	2,959	3,025
EBITDA	3,037	3,553	4,596	5,062	5,118	5,185
Finance Costs	804	941	1,325	1,298	1,182	1,089
Profit Attributable to Equity Holders	802	818	936	1,152	1,265	1,386
EPS	0.7	0.7	0.8	1.0	1.1	1.3
DPS	0.4	0.5	0.5	0.6	0.7	0.8
Balance Sheet						
Total Current Assets	3,261	5,670	5,184	5,691	5,758	5,890
Property And Equipment	17,568	25,031	25,401	24,413	23,508	22,575
Total Non-Current Assets	18,368	25,742	26,218	25,615	24,505	23,375
Total Assets	21,629	31,412	31,403	31,306	30,263	29,266
Current Portion Of Loans And Leases	2,275	3,460	4,430	4,460	3,020	2,843
Total Current Liabilities	3,831	6,203	7,150	7,284	5,331	5,172
Long Term Loans And Leases	9,945	17,012	15,692	15,026	15,480	14,169
Total Non-Current Liabilities	11,260	18,395	16,953	16,245	16,645	15,247
Total Liabilities	15,091	24,599	24,104	23,529	21,976	20,420
Total Equity	6,538	6,813	7,299	7,777	8,287	8,846
Total Equity And Liabilities	21,629	31,412	31,403	31,306	30,263	29,266

<i>SAR mn</i>	A Dec-24	A Dec-25	A Dec-26	A Dec-27	A Dec-28	A Dec-29
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
CashFlow Statement						
Operating Cashflows	2,996	2,981	3,713	4,575	4,091	4,325
Capex Including Acquisitions	(3,086)	(2,919)	(2,366)	(1,553)	(1,057)	(1,030)
Free Cashflow To Firm	(90)	62	1,347	3,022	3,034	3,295
Cashflow To Lenders	745	1,953	(1,715)	(1,934)	(2,169)	(2,575)
Cashflow To Equity Holders	(247)	(487)	(486)	(699)	(782)	(856)
Increase In Cash And Equivalents	312	1,714	(832)	406	101	(121)
Ratios						
Gross Margin	38%	38%	36%	35%	35%	36%
Operating Margin	29%	30%	28%	28%	28%	28%
EBITDA Margin	49%	53%	48%	49%	49%	49%
Net Margin	13%	12%	10%	11%	12%	13%
RoE	13%	12%	14%	16%	16%	17%
Debt to Assets	0.6	0.7	0.7	0.6	0.6	0.6
Net Debt/EBITDA	3.9	5.1	4.1	3.5	3.3	2.9
Interest Coverage	2.2	2.1	1.9	2.2	2.4	2.7

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Arabian Drilling Co. (ARABIAN DRILLING)

2Q26 Financials Review

Bloomberg	ARABIAND AB
Rating	HOLD
Market Price	96.4
12-month Target Price	103.0
Upside / Downside	7%
Mkt Cap (SAR mn)	8,580
52 week High/Low	106/72.4



Arabian Drilling Co. (ARABIAN DRILLING) (HOLD, TP: SAR 103, 2381.SE) 2Q26 Results Review

Offshore suspensions drove a net loss, while land margin recovered; post-quarter reactivations and the LSTK renewal support 2H26

ADC reported a net loss of SAR 31.5mn (EPS SAR -0.35), vs. net income of SAR 7.1mn in 1Q26 and SAR 7.5mn in 2Q25. The Q/Q decline was driven by four additional offshore rig suspensions (five in total), which reduced revenue by SAR 122mn and resulted in an offshore segment loss as crews were retained. This was partly offset by SAR 47mn of improvement in land operations, SAR 18mn from a full quarter of the GCC jackup contract and ~SAR 25mn of cost savings. Y/Y, profitability was lower on reduced drilling revenue and higher tax expense.

- As of 2Q26, ADC operated 60 rigs, unchanged Q/Q. Active rigs declined to 43 from 49 in 1Q26 and 48 in 2Q25, with utilization falling to 72% from 82% and 79%. Land active rigs declined to 37 from 39 in 1Q26, and offshore to 6 from 10 as suspended offshore rigs rose to 5 from 1. Idle and suspended rigs rose to 17 from 11 (12 land, 5 offshore). Backlog declined 5.5% Q/Q to SAR 11.8bn (+7.1% Y/Y), land SAR 8.1bn and offshore SAR 3.7bn, with remaining tenure of 3.3 years. 2026 expiries reduced to 15 from 18 after one deferral and two onshore terminations. Post quarter, three suspended offshore rigs resumed by 1st August and notices were received for the remaining two on 12th August, taking offshore utilization to 100% by end-3Q26, the 11-rig Gas LSTK contract was renewed with SLB for five years at ~SAR 3bn; and a two-firm-well contract was signed in Oman.
- Revenue declined 7% Q/Q and 11% Y/Y to SAR 765mn, against guidance for a decline of up to 12% Q/Q. Drilling revenue declined to SAR 585mn (-8% Q/Q, -12% Y/Y), rig move revenue to SAR 115mn (-7% Q/Q, -3% Y/Y) on fewer moves, mobilization revenue was flat Q/Q at SAR 21mn (-20% Y/Y), and catering and other revenue rose to SAR 43mn (+3% Q/Q, -16% Y/Y). Land revenue increased to SAR 593mn (+8% Q/Q, -4% Y/Y) on rig move efficiency and improved maintenance planning, while offshore declined to SAR 171mn (-37% Q/Q, -30% Y/Y) as the SAR 122mn suspension impact was only partly offset by the new GCC contract (~SAR 18mn).
- Gross profit declined 30% Q/Q and 43% Y/Y to SAR 70mn, with gross margin at 9.2% (-304bps Q/Q, -507bps Y/Y). Land contribution rose to SAR 80mn from SAR 12mn in 1Q26 and SAR 67mn in 2Q25, with margin at 13.6% (+11.4ppt Q/Q, +266bps Y/Y) on rig move efficiency. Management called most of the onshore gain structural, with some one-offs. Offshore recorded a loss of SAR 10mn vs. SAR 88mn in 1Q26 and SAR 56mn in 2Q25, as the company retained its workforce despite suspensions. G&A declined 6% Q/Q and 14% Y/Y to SAR 49mn. Cost optimisation generated ~SAR 25mn of savings across the company during the quarter. EBITDA declined to SAR 251mn (-13% Q/Q, -17% Y/Y), with margin at 32.8% (-240bps Q/Q, -230bps Y/Y). Finance costs declined to SAR 48mn (-3% Q/Q, -15% Y/Y). Net debt to EBITDA rose to 2.2x from 2x; the SAR 2bn Sukuk matures in Feb'27.
- 2Q26 was the most difficult quarter of the year for ADC, and management expects revenue to begin recovering from 3Q26. Its guidance of 4-6% Q/Q growth (~SAR 795-811mn) assumed three offshore rigs returning, the notices on the remaining two came a day after the call and are not in the guidance, so 3Q26 revenue should come in above the guided range. The returning rigs still contribute only partially in 3Q26 given the timing of their return, and land revenue will be slightly lower Q/Q on rig move timing. We expect the full offshore contribution in 4Q26, with management targeting blended utilization of 85-90% and offshore at 100%. The LSTK renewal covers 11 of the 15 contracts expiring in 2026 (now 4 renewals remaining in 2026), and the renewal schedule through 2027 is materially lighter (2 renewals in 2027 vs 21 in 2026). We cut our 2026E net income by to SAR 80mn on the 2Q26 loss and a 3Q26 guide below our earlier assumption (due to the war-driven suspensions), elevated interest rate environment, and lower 2026E DPS to SAR 0.5 in line with the lower earnings and with the SAR 2bn Sukuk still to be refinanced ahead of its February 2027 maturity. We trim 2027E net income for the shorter contract durations on the internationally deployed jack-up, which imply utilization gaps between assignments. Separately, we also lower our TP to SAR 103 from SAR 105, mainly reflecting higher interest rates over the medium term than earlier expectations. Downgrade to HOLD.

Rating and Risks

We are HOLD rated on ADC, and 12-month price target of SAR 103. Upside risks include roll-off of offshore day-rate discounts on future renewals, faster reactivation of the 12 idle and suspended land rigs, and further international awards. Downside risks include renewed offshore suspensions while the strait remains closed, execution risk on the February 2027 Sukuk refinancing, continued land pricing pressure, higher offshore insurance costs, and impairment on the idle fleet.

SAR mln	2Q26	1Q26	2Q25	Q/Q %	Y/Y %
Revenues	765	822	862	-7%	-11%
Cost of Goods	694	721	739	-4%	-6%
Gross Profit	70	101	123	-30%	-43%
G&A Expenses	49.3	53	57.4	-6%	-14%
EBITDA	251	289	303	-13%	-17%
Net Income	-31.5	7.1	7.5	NA	NA
EPS	-0.35	0.08	0.08	NA	NA

Margins (%)

Gross Margin	9.2	12.2	14.3	-304 bps	-507 bps
EBITDA Margin	32.8	35.2	35.1	-240 bps	-230 bps
Net Margin	-4.1	0.9	0.9	NA	NA

Rating Summary and Forecasts

Rating Summary

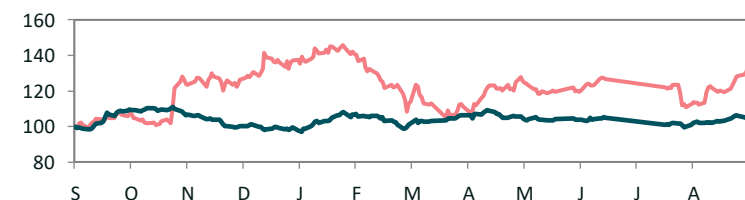
Rating	HOLD
Market Price	96.4
12-month Target Price	103.0
Upside / Downside	7%
Mkt Cap (SAR mn)	8,580
52 week High/Low	106/72.4

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	-75	80	392	537
PER (x)	n/a	106.6	21.9	16.0
PBV (x)	1.4	1.5	1.4	1.4
EPS (SAR)	-0.8	0.9	4.4	6.0
DPS (SAR)	0.0	0.5	3.5	6.0
RoE (%)	-1.3	1.4	6.6	8.8
Dividend Yield (%)	0.0	0.5	3.7	6.3

Price Chart

● ADC ● TASI



Arabian Drilling Co: Summary Financials

SAR mn	A Dec-24	A Dec-25	A Dec-26	A Dec-27	A Dec-28	A Dec-29
	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Income Statement						
Revenue	3,619	3,433	3,397	3,901	4,053	4,104
Onshore	2,142	2,434	2,482	2,601	2,732	2,767
Offshore	1,476	998	915	1,300	1,321	1,338
Gross Profit	760	374	480	785	871	891
Operating Profits	566	168	288	592	676	693
EBITDA	1,508	1,240	1,221	1,549	1,649	1,666
Finance costs	229	220	192	193	125	114
Profit Attributable to Equity Holders	321	(75)	80	392	537	567
EPS	3.6	(0.8)	0.9	4.4	6.0	6.4
DPS	2.7	-	0.5	3.5	6.0	6.4
Balance Sheet						
Total Current Assets	1,681	1,549	1,568	1,574	1,888	2,055
Property And Equipment	8,710	8,405	8,238	7,880	7,507	7,135
Total Non-Current Assets	8,849	8,512	8,349	7,952	7,539	7,127
Total Assets	10,536	10,089	9,944	9,554	9,455	9,210
Current Portion Of Loans And Leases	346	381	2,213	1,855	1,911	1,700
Total Current Liabilities	1,296	1,115	2,957	2,647	2,701	2,493
Long Term Loans And Leases	2,677	2,657	612	316	52	-
Total Non-Current Liabilities	3,301	3,228	1,181	885	621	569
Total Liabilities	4,597	4,343	4,138	3,532	3,322	3,062
Total Equity	5,939	5,746	5,806	6,022	6,133	6,148
Total Equity And Liabilities	10,536	10,089	9,944	9,554	9,455	9,210

SAR mn	A Dec-24	A Dec-25	A Dec-26	A Dec-27	A Dec-28	A Dec-29
	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Cashflow Statement						
Operating Cashflows	1,756	1,103	1,289	1,516	1,552	1,633
Capex Including Acquisitions	(1,841)	(764)	(783)	(572)	(571)	(573)
Free Cashflow To Firm	(85)	339	506	944	981	1,060
Cashflow To Lenders	(396)	(205)	(405)	(846)	(333)	(377)
Cashflow To Equity Holders	(345)	(120)	(20)	(177)	(425)	(552)
Increase In Cash And Equivalents	(854)	13	110	(57)	244	155
Ratios						
Gross Margin	21%	11%	14%	20%	22%	22%
Operating Margin	16%	5%	8%	15%	17%	17%
EBITDA Margin	42%	36%	36%	40%	41%	41%
Net Margin	9%	-2%	2%	10%	13%	14%
RoE	5%	-1%	1%	7%	9%	9%
Debt to Assets	0.3	0.3	0.3	0.2	0.2	0.2
Net Debt/EBITDA	1.6	2.0	1.7	1.0	0.6	0.4
Interest Coverage	2.6	0.8	1.6	3.1	5.5	6.2

Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

Saudi Fransi Capital (Closed Joint Stock Company Owned by BSF)

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