

Returns to profit on the back of sharp reduction in OPEX

Arabian Drilling (ADC) reported net profit of SAR 7mn in Q1-26 vs. net loss of SAR 149mn (adjusted net loss of SAR 34mn) in Q4-25 and beating AJBC's estimate of loss of SAR 4mn. The deviation from our estimate was mainly due to lower-than-expected OPEX, despite lower gross margin. Revenue fell marginally by 0.3% Q/Q to SAR 822mn, in line with our estimate of SAR 823mn, due to absence of rig move compared to the previous quarter. Gross margin widened ~200bps Q/Q to 12.2% from adjusted gross margin of 10.2% in Q4-25 but came below AJBC's estimate of 13.0%. Operating margin improved to 7.3% from adjusted margin of 2.8% in the previous quarter and was better than our estimate of 6.4%, as OPEX reduced sharply by 33.4% Q/Q.

- **ADC posted net profit** of SAR 7mn in Q1-26 vs. net loss of SAR 149mn and adjusted net loss of SAR 34mn in Q4-25. The previous quarter was impacted by SAR 114mn one-off impairments and certain demobilization and reactivations costs. The bottom line came ahead of AJBC's estimate of net loss of SAR 4mn. The earnings beat was primarily attributable to lower-than-expected OPEX (net of any other income and reversals). OPEX at SAR 41mn was significantly lower than our expectations of SAR 54mn. Additionally, non-operating expenses (net of finance income and any reversals) were also lower than expected.
- **Revenue** fell slightly by 0.3% Y/Y to SAR 822mn, in line with our estimate of SAR 823mn. Sequentially, revenue declined due to absence of rig move activity recorded in the previous quarter, despite fleet utilization rising to 81.7% from 75.0% in Q4-25. The number of active rigs increased to 49 from 45 in Q4-25 due activation of recalled rigs. Land segment revenue declined 4.0% Q/Q to SAR 549mn, while offshore revenue increased 8.3% Q/Q to SAR 273mn. The company's backlog stood at SAR 12.5bn vs. SAR 12.4bn in Q4-25.
- **Gross profit** came in at SAR 101mn vs. loss of SAR 30mn in Q4-25 and below our estimate of SAR 107mn. Gross margin widened ~200bps Q/Q to 12.2% from adjusted gross margin of 10.2% in Q4-25 but came below AJBC's estimate of 13.0%. Land segment gross margins were subdued at 2.2% (Q4-25: 5.8%), while Offshore segment gross margin was strong at 32.4% (Q4-25: 19.9%).
- **Operating profit** improved to SAR 60mn, up 155.2% from an adjusted profit of SAR 23mn. Operating margin rose to 7.3% from adjusted margin of 2.8% in the previous quarter and was better than our estimate of 6.4%, as OPEX reduced sharply by 33.4% Q/Q. We reckon there is possibility of certain one-off other operating income or reversal of provisions. EBITDA increased 9.7% Q/Q to SAR 289mn (in line with AJBC estimate of SAR 291mn), with 320 bps Q/Q expansion in EBITDA margin to 35.2%.

AJBC view and valuation: ADC delivered better than expected results in Q1-26 supported by lower OPEX. However, next quarter is likely to be challenging for the company with offshore rig suspensions announced in late March. The company guided up to 12% Q/Q decline in topline. Additionally, offshore suspensions will weigh heavily on margins as well. Meanwhile, reactivated land rigs and start of first international contract would briefly support the performance. The stock currently trades at EV/EBITDA of 8.4x based on our FY26E estimates. We maintain our "Neutral" recommendation on the stock and the TP of SAR 94.9/share.

Results Summary

SAR mn	Q1-25	Q4-25	Q1-26	Change Y/Y	Change Q/Q	Deviation from AJBC Estimates
Revenue	911	824	822	-9.8%	-0.3%	-0.1%
Gross Profit	180	-30	101	NM	NM	-6.0%
Gross Margin	19.8%	-3.6%	12.2%	-	-	-
EBITDA	381	264	289	-24.1%	9.7%	-0.6%
EBIT	137	-91	60	NM	NM	13.0%
Net Profit	75	-149	7	NM	NM	NM
EPS	0.84	-1.67	0.08	-	-	-

Source: Company Reports, Aljazira Capital Research; NM: Not Meaningful

Recommendation	Neutral
Target Price (SAR)	94.9
Upside / (Downside)*	5.8%

Source: Tadawul *prices as of 7th of May 2026

Key Financials

Financials (in SAR mn, unless specified)	FY23	FY24	FY25
Revenues	3,477	3,619	3,433
Growth %	28.6%	4.1%	-5.1%
Gross Profit	976	760	374
EBITDA	1,485	1,507	1,240
Net Income	605	321	-75
Growth %	8.4%	-46.8%	NM
EPS	6.79	3.61	-0.85
DPS	5.06	2.70	0.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25
Gross Margin	28.1%	21.0%	10.9%
EBITDA Margin	42.7%	41.6%	36.1%
Operating Margin	23.0%	15.6%	4.9%
Net Margin	17.4%	8.9%	-2.2%
ROE	10.5%	5.4%	-1.3%
ROA	6.0%	3.0%	-0.7%
P/E (x)	28.1	30.9	Neg
P/B (x)	2.9	1.7	1.5
EV/EBITDA (x)	12.5	8.2	9.0
Dividend Yield	2.6%	2.4%	0.0%

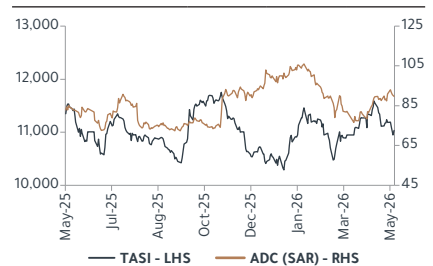
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	8.0
YTD%	-9.2%
52 week (High)/(Low)	107.00/72.00
Share Outstanding (mn)	89.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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RESEARCH
DIVISION

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RATING
TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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