

ADNOC Drilling

Topline growth offset by rising cost inflation

3Q22 Net Profit in line with our estimates

ADNOC Drilling Co. PJSC (ADNOC DRI/the Company) net profit rose 5.8% YOY to USD 189 Mn in 3Q22, slightly lower than our estimate of USD 194 Mn. The increase in net profit was mainly driven by an increase in revenue which rose due to the strong performance from the Onshore and Oilfield Services (OFS) segments.

P&L Highlights

Net revenue grew 17.4% YOY to 670 Mn in 3Q22. The increase in revenue was mainly due to the growth in Onshore and Oilfield services partially offset by a decrease in the Offshore Jackup and Offshore Island segment. Onshore segment revenue rose 33.1% YOY to USD 372 Mn in 3Q22 owing to the addition of new rigs. Offshore Jackup segment revenue declined 8.9% YOY to USD 143 Mn in 3Q22 primarily due to planned maintenance of specific rigs partially offset by addition of three new rigs to operation. Offshore Island Segment revenue declined 14.2% YOY to USD 52 Mn in 3Q22, owing mostly to one-off claims concluded and recognized in 3Q21. While the revenue from OFS increased significantly 40.1% YOY to USD 103 Mn in 3Q22 owing to the increased volume in the OFS portfolio. Direct cost increased 22.0% YOY to USD 405 Mn in 3Q22 primarily attributable to an increase in activity level, associated costs, increase in energy prices and inflation in consumable cost partially offset by cost efficiency. G&A expenses rose 21.6% YOY to USD 69 Mn in 3Q22. Thus, EBITDA increased 4.9% YOY to USD 299 Mn in 3Q22 with a decrease in EBITDA margin from 49.9% in 3Q21 to 44.6% in 3Q22. The decline in EBITDA margin is mainly due to a fall in margin across all segments except, Onshore Segment. The margin of the Onshore Segment rose from 42.1% in 3Q21 to 47.4% in 3Q22 due to an increase in activity level. Offshore Jackup margin fell from 63.6% in 3Q21 to 48.8% in 3Q22 due to an increase in consumable cost inflation and planned maintenance. Offshore Island margin fell from 71.7% in 3Q21 to 68.0% in 3Q22 impacted due to one-off claims recorded in 3Q22. OFS margin fell from 32.6% in 3Q21 to 16.9% in 3Q22 due to a one-off accounting adjustment in OPEX in 3Q21, however steady activity in the segment drove profitability slightly offset by cost inflation. Other income rose from USD 0.6 Mn in 3Q21 to USD 1.4 Mn in 3Q22 whereas, finance costs rose from USD 4 Mn in 3Q21 to USD 9 Mn in 3Q22 due to an increase in interest rates.

Balance sheet highlights

ADNOC DRI's working capital investment grew from USD 378 Mn in 2Q22 to USD 385 Mn 3Q22, owing to increased business activity offset by strong collections in 9M22. Net cash from operating activities stood at USD 1,135 Mn in 9M22 compared to USD 721 Mn in 9M21 mainly due to the growth in the OFS and Onshore segments. Thus, free cash flow increased to USD 629 Mn in 9M22 from USD 268 Mn in 9M21. CAPEX rose to USD 506 Mn in 9M22, up from USD 453 Mn in 9M21, reflecting the company's acceleration of the rig fleet expansion program. It further accelerated its rig fleet expansion program in 3Q22 and signed two sale and buy agreements worth USD 210 Mn to acquire three additional premium jack-up drilling equipment. Furthermore, the company maintained healthy liquidity with cash and cash equivalent of USD 383 Mn and an unutilized syndicated term facility of USD 1.6 Bn as of 9M22.

Rating : BUY

First Look Note – 3Q22

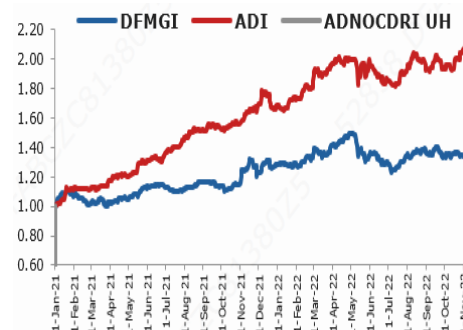
Sector: Oil & Gas

Recommendation

Current Price (16-Nov-22)	3.38
Target Price (AED)	4.15
Upside/Downside (%)	+22.8%

Stock Information

Market Cap (mm)	54,080
Shares Outstanding (mm)	16,000
52 Week High	3.92
52 Week Low	2.97
3M Avg. daily value (AED)	23,316,380



Financial Ratios

Dividend Yield (12m)	4.63
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	20.66
Price-to-Book Ratio (x)	5.46
Book Value (AED)	0.17
Return-on Equity (%)	26.59
Earning Per Share (AED)	0.04
Beta (1 Year)	0.83

Stock Performance

5 Days	0.00%
1 Months	-2.31%
3 Months	-6.11%
6 Months	2.42%
1 Year	0.00%
Month to Date (MTD)	0.90%
Quarter to Date (QTD)	-0.30%
Year to Date (YTD)	-0.59%

Target price and rating

We maintain BUY rating on ADNOC DRI with a target price of AED 4.15. ADNOC DRI remains a key enabler of ADNOC's ambitious program to increase its production capacity in the UAE to 5 Mn barrels per day and 1 Bn cubic feet of gas. The Company added nine rigs during 9M22 and plans to add additional rigs in the fourth quarter to enable UAE to meet its long-term production target. It also received two contracts of USD 3.4 Bn for eight offshore jack-ups from ADNOC offshore. In addition, ADNOC DRI also received a contract of USD 980 Mn for two additional premium jack-up rigs to support ADNOC's drilling operations. Furthermore, OFS segment awarded additional contracts for Hail and Ghasha project which will support revenue of the segment over a period of time. The company is generating sustainable free cash flow (FCF) across the period and the FCF as a percentage of EBITDA stood at 71.4% in 9M2022. Due to which, ADNOC DRI would be able to distribute healthy dividends even after providing for growth opportunities. ADNOC DRI is expected to generate a dividend yield of 4.9% based on FY2022 dividend. ADNOC DRI is facing cost pressure due to global inflationary conditions which might impact its profitability in the near term. Considering all these aforementioned factors we continue to retain our BUY rating on the stock.

Adnoc Drilling Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E	NA	NA	NA	24.37	19.49
P/B	NA	NA	NA	5.27	5.10
EV/EBITDA	NA	NA	NA	15.03	13.50
Dividend Yield	NA	NA	NA	4.7%	4.9%

FABS estimate & Co Data

Adnoc Drilling - P&L

(USD Mn)	3Q21	2Q22	3Q22A	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	571	668	670	678	-1.2%	17.4%	0.3%	2,269	2,631	15.9%
Direct Cost	-332	-396	-405	-400	1.2%	22.0%	2.3%	-1,385	-1,579	14.0%
Gross Profit	239	272	265	278	-4.6%	11.1%	-2.6%	884	1,052	19.0%
General and Administrative expenses	-57	-64	-69	-75	-7.2%	21.6%	8.7%	-274	-273	-0.2%
EBITDA	287	300	299	310	-3.5%	4.2%	-0.3%	1,049	1,173	11.8%
Other Income- Net	1	3	1	1	0.1%	144.7%	-50.7%	10	7	-33.6%
Finance Costs- Net	-4	-7	-9	-11	-20.9%	115.4%	32.8%	-17	-31	80.5%
Profit for the period	178	205	189	194	-2.6%	5.0%	-7.8%	604	755	25.1%

FABS estimate & Co Data

Adnoc Drilling - Margins

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Profit Margin	41.8%	40.8%	39.6%	-226	-117	39.0%	40.0%	103
EBITDA Margin	50.3%	44.9%	44.6%	-565	-28	46.2%	44.6%	-163
Net Profit Margin	31.3%	30.6%	28.2%	-309	-249	26.6%	28.7%	210

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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