

Revisions driven by four rig recalls; dividend resumption expected in FY26E- Maintain “Neutral” against a balanced risk backdrop

Arabian Drilling (ADC) is poised for a significant operational and financial recovery beginning in FY26E, driven by the recall of four rigs (two offshore and two land - one earlier announced withdrawn) by Aramco for resumption during Q1/Q2-26 and the company’s first international expansion in the GCC. These developments have led to an upward revision of our FY26E and FY27E revenue forecasts to SAR 3,805mn and SAR 4,009mn, respectively, representing a 10.8% Y/Y rebound in FY26E. Consequently, total fleet utilization is projected to surpass 80% by Q2-26, supported by a fully active fleet of 11 offshore rigs. Profitability is expected to be further bolstered by a comprehensive OPEX optimization program with SAR 30mn in annualized savings, leading to expanded operating margins of 13.9% in FY26E and EBITDA margins stabilizing in the 38.0% to 39.7% range during FY26-30E. We have also raised our net income forecasts for FY26E and FY27E to SAR 299mn and SAR 406mn, respectively, as declining finance expenses and a Debt-to-Equity ratio easing to 0.1x by FY30E support a robust FY26-30E net income CAGR of 17.1%. While this improved performance facilitates a projected dividend resumption of SAR 1.25 per share in FY26E, backed by Free Cash Flow reaching SAR 578mn. Based on our updated forecasts, we derive a target price of **SAR 94.9/share**. However, we retain our “Neutral” recommendation due to a balanced risk-reward profile, where these operational upsides are offset by limited visibility on deployment of remaining fleet and 21 upcoming rig renewals in 2026.

Q4-25 losses induced by non-cash impairments, lower normalized gross margin and higher OPEX: ADC posted a net loss of SAR 149mn in Q4-25 compared to a loss of SAR 9mn in Q3-25 and our estimate of loss of SAR 4mn. Non-cash impairment of SAR 114mn related to three land rigs weighed on the earnings. Normalized net loss stood at SAR 34mn. The higher-than expected normalized loss was on account of lower gross margin in both onshore and offshore segment and surge in OPEX. Lower activity and non recurring offshore demobilization and reactivation expenses added pressure on Q4-25 bottom line. Revenue fell 1.3% Q/Q to SAR 824mn, higher than our estimate of SAR 800mn mainly due to higher onshore revenue. The normalized gross profit declined 16.6% Q/Q to SAR 84mn with gross margin contracting to 10.2% from 12.1% in Q3-25 and below our expectation of 13.0%, as onshore segment’s adjusted gross margin fell to 5.8% from 6.2% in Q3-25, while offshore gross margin decreased to 19.9% from 25.9%. Normalized operating profit at SAR 23mn (-58.2% Y/Y; AJBC estimate: SAR 59mn), impacted by spike in OPEX which we believe was related to one-off expenses related to preparation of redeployment of rigs.

Rig recalls and international expansion fueling a revenue rebound (+10.8% Y/Y) in FY26E: Arabian Drilling is positioned for a phase of recovery starting in FY26E, with forecasted revenues reaching SAR 3,805mn, representing a 10.8% Y/Y growth. This rebound is primarily driven by the resumption of four rigs—two offshore and two land (one land rig recall announced earlier was withdrawn). Two land and one offshore already resumed operation in Q1-26, while second offshore rig is expected to start early Q2-26. Average day rates in the offshore segment are also expected to improve starting in Q1-26 as temporary discounts, which were offered in FY25, come to an end. The projected increase to 11 active offshore rigs in FY26E is specifically attributed to the two recalled offshore rigs and the commencement of the company’s first international contract in the GCC region. As of Q4-25, the fleet status consists of 45 active rigs (37 land and 8 offshore) out of total 60 rigs, 75% utilization rate. After reactivation of recalled rigs, total fleet utilization is projected to surpass 80% by Q2-26, while the offshore segment is set to reach 100% utilization within the same period. Beyond the initial recovery, growth will be sustained by the gradual deployment of the remaining suspended rigs from FY27E onwards, with the active fleet count forecasted to reach 57 rigs by FY30E. This disciplined redeployment plan supports a long-term growth trajectory, with anticipated revenue increase of 5.4% in FY27E and translating into FY25-30E revenue CAGR of 4.8%. We made upward revision to our FY26E/FY27E revenue forecast post announcement of the recall of the company’s 4 rigs by Aramco from SAR 3,665mn/SAR 3,933mn to SAR 3,805mn/SAR 4,009mn.

EBITDA margin to improve backed by recovery in utilization rates and OPEX optimization initiatives but stabilize below 40%; net margin to be bolstered by declining finance expenses: ADC’s margins are expected to improve alongside the normalization of utilization rates and the revocation of temporary FY25 offshore day rate discounts starting in FY26E. As the revenue contribution from the higher-margin offshore segment increases with the return of suspended rigs and the commencement of international contracts, gross margins are forecasted to improve from 10.9% in FY25 to 19.5% in FY26E, eventually reaching 21.0% by FY30E. Similarly, operating margins are expected to expand from 4.9% in FY25 to 13.9% in FY26E, and 15.8% by FY30E. Supporting this recovery, ADC has undertaken a comprehensive OPEX optimization program, including workforce downsizing and SG&A rationalization, which delivered SAR 30mn in annualized savings. These efficiency measures, combined with rising activity levels, are expected to bolster EBITDA margins in the range of 38.0% to 39.7% through FY26-30E.

Recommendation	Neutral
Target Price (SAR)	94.9
Upside / (Downside)*	13.1%

Source: Tadawul *prices as of 02nd of March 2026

Key Financials

SAR mn (unless specified)	FY23	FY24	FY25	FY26E
Revenue	3,477	3,619	3,433	3,805
Growth %	28.6%	4.1%	-5.1%	10.8%
Gross Profit	976	760	374	741
EBITDA	1,485	1,507	1,125	1,507
Net Income	605	321	(75)	299
Growth %	8.4%	-46.8%	NM	NM
EPS	6.79	3.61	(0.85)	3.35
DPS	5.06	2.70	-	1.25

Source: Company reports, Aljazeera Capital Research

Key Ratios

	FY23	FY24	FY25	FY26E
Gross Margin	28.1%	21.0%	10.9%	19.5%
EBITDA Margin	42.7%	41.6%	32.8%	39.6%
Net Margin	17.4%	8.9%	-2.2%	7.8%
ROE	10.5%	5.4%	-1.3%	5.0%
ROA	6.0%	3.0%	-0.7%	2.8%
P/E (x)	28.1	30.9	Neg	25.0
P/B (x)	2.9	1.7	1.5	1.2
EV/EBITDA (x)	12.5	8.2	9.9	6.3
Dividend Yield	2.6%	2.4%	0.0%	1.5%

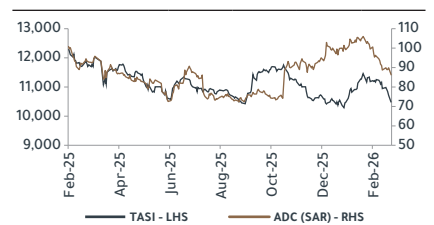
Source: Company reports, Aljazeera Capita Research

Key Market Data

Market Cap(bn)	7.5
YTD%	-15.0%
52 week (High)/(Low)	107.00/72.00
Share Outstanding (mn)	89.0

Source: Company reports, Aljazeera Capital Research

Price Performance



Source: Tadawul, Aljazeera Capital Research

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Arabian Drilling (ADC)

Investment Update

Total utilization is projected to reach approximately 95% by FY30E, up from 75.0% recorded in Q4-25, as the company focuses on redeploying its fleet. Furthermore, net margins are projected to reach 13.0% by FY30E, aided by a decrease in finance expenses from anticipated interest rate cuts and strategic deleveraging, with the Debt-to-Equity (D/E) ratio forecasted to ease to 0.1x by FY30E from 0.5x in FY24E. This comprehensive approach to both operational growth and cost discipline supports a healthy projected FY26E-FY30E net income CAGR of 17.1% as the company restores its profitability momentum. We revised FY26E/FY27E net income forecast based on rig recall schedule from SAR 254mn/SAR 346mn to SAR 299mn/SAR 406mn.

Balanced risk-reward profile: Neutral recommendation reflecting operational recovery vs. structural uncertainties: Our “Neutral” recommendation is based on a balanced outlook where significant operational upsides are offset by persistent contractual and macroeconomic risks. The primary upside drivers include the projected recovery in revenue and profitability, fueled by the resumption of four rigs by Q2-26 and the end of temporary offshore day rate discounts. These are further supported by aggressive OPEX optimization and SG&A rationalization aimed at restoring margin momentum. Conversely, significant downside risks persist, including the potential inability to successfully redeploy the remaining idle fleet and a challenging renewal cycle, with 21 rig contracts scheduled for renewal in 2026. Although ADC maintained a strong track record of renewing 24 contracts in 2025, the risk of further suspensions remains evident, as seen with the three land rigs suspended early in Q3-25. Despite OPEC+’s recent announcement of production hike from April 2026, withdrawal of ADC’s one recalled rig and the company’s impairment of three idle rigs in Q4-25 adds to the weaker outlook. This may constrain regional rig activity growth, potentially limiting further demand upside beyond the currently announced recalls.

Expected dividend resumption in FY26E supported by robust free cash flow generation: We anticipate a resumption of dividend payments starting in FY26E (~35% payout, SAR 1.25 per share), underpinned by a significant turnaround in the company’s ability to generate cash. After a challenging period, Free Cash Flow (FCF) is forecasted to experience a major improvement, climbing from a deficit of SAR 108mn in FY24 to a robust SAR 590mn in FY26E. This strong cash flow trajectory is primarily driven by the expected recovery in operational performance. Furthermore, as major expansion projects conclude, lower projected CAPEX requirements will allow a higher proportion of operating cash flow to be converted into FCF, providing the ADC with the necessary liquidity to support a sustainable dividend policy and drive long-term value for shareholders.

AJBC view and valuation: Our outlook on Arabian Drilling is balanced. The company is positioned for a significant recovery starting in FY26E, with revenue revised upward to SAR 3,805mn (+10.8% Y/Y) following the recall of four rigs and international expansion into the GCC. Improved utilization, projected to surpass 80% by Q2-26, alongside an OPEX optimization program materializing SAR 30mn in savings, is expected to expand operating margins to 15.8% in FY30E and drive a robust FY26-30E net income CAGR of 17.1%. Furthermore, a sharp turnaround in Free Cash Flow to SAR 578mn supports the resumption of dividends at SAR 1.25/share in FY26E. However, these operational gains are tempered by structural risks, specifically the 21 rig contracts due for renewal in 2026 and limited visibility regarding redeployment of remaining rigs. We valued ADC with 50% weightage to DCF (WACC=9.1%, terminal growth rate=1.5%) and 50% weight to FY27E EV/EBITDA (8.0x, discounted at WACC) to arrive at a TP of **SAR 94.9/share**. We retain our rating on the stock at “**Neutral**” due to balanced risk-reward profile. ADC’s stock is currently trading at P/E of 25.0x and EV/EBITDA of 6.3x, while the dividend yield is expected to be 1.5%, based on our FY26E estimates. **Downside risks** to our valuations are (i) a delay in securing new contracts for currently suspended/idle rigs, which would prolong the utilization drag and weigh on revenue recovery, (ii) non-extension of international contract beyond exploration period (iii) additional suspensions by Aramco, which could further depress utilization levels, and (iv) prolonged weak oil & gas activity due to macro/geopolitical uncertainty, leading to softer rig demand and day rates. Major **upside risks** to our valuation are (i) winning additional unconventional rig contracts in Jafurah Phase II of significantly high value, (ii) faster and more material progress on international expansion through the partnership with Shelf Drilling or other new alliances, (iii) growth via the opportunistic acquisition of rigs in attractive markets, and (iv) securing new contracts for suspended rigs at better day rates and earlier-than-expected reinstatement of onshore rigs.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	98.5	50%	49.2
EV/EBITDA	91.4	50%	45.7
Blended TP			94.9
Up/Downside			13.1%

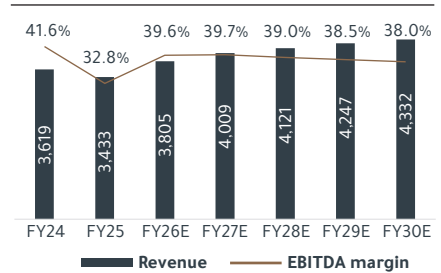
Source: Aljazira Capital Research

Active rigs: Onshore and Offshore

Operating metrics	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
	Active rigs	45	50	52	54	56
Onshore	8	11	11	11	11	11
Offshore	37	39	41	43	45	46

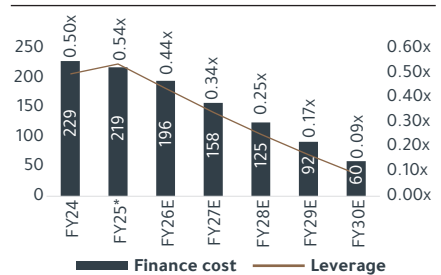
Source: Company reports, Aljazira Capital

Revenue and EBITDA margin



Source: Company reports, Aljazira Capital, FY25 EBITDA includes impairment

Finance cost and leverage



Source: Company reports, Aljazira Capital; FY25 financials are based on available key numbers

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25*	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement										
Revenues	2,199	2,704	3,477	3,619	3,433	3,805	4,009	4,121	4,247	4,332
Y/Y	-13.2%	22.9%	28.6%	4.1%	-5.1%	10.8%	5.4%	2.8%	3.1%	2.0%
Cost of revenue	(1,723)	(1,902)	(2,501)	(2,859)	(3,059)	(3,064)	(3,185)	(3,271)	(3,363)	(3,422)
Gross profit	476	801	976	760	374	741	824	850	885	909
Gross margin	21.6%	29.6%	28.1%	21.0%	10.9%	19.5%	20.5%	20.6%	20.8%	21.0%
General & administration expense	(105)	(180)	(181)	(205)	(206)	(222)	(221)	(224)	(228)	(232)
Operating profit	370	619	801	566	168	527	610	634	666	686
Y/Y	-7.4%	67.3%	29.4%	-29.4%	-70.2%	213.4%	15.7%	3.9%	5.0%	3.1%
Operating margin	16.8%	22.9%	23.0%	15.6%	4.9%	13.9%	15.2%	15.4%	15.7%	15.8%
EBITDA	910	1,144	1,485	1,507	1,125	1,507	1,592	1,608	1,634	1,645
Y/Y	-19.6%	25.7%	29.8%	1.5%	-25.4%	34.0%	5.7%	1.0%	1.6%	0.7%
EBITDA margin	41.4%	42.3%	42.7%	41.6%	32.8%	39.6%	39.7%	39.0%	38.5%	38.0%
Financial charges	(38)	(94)	(161)	(229)	(219)	(196)	(158)	(125)	(92)	(60)
Income before zakat	333	552	688	358	(48)	335	456	513	577	631
Zakat	(53)	5	(83)	(37)	(28)	(37)	(50)	(56)	(64)	(69)
Net income	280	558	605	321	(75)	299	406	456	514	562
Y/Y	-4.7%	99.0%	8.4%	-46.8%	-123.4%	-496.8%	36.0%	12.4%	12.6%	9.3%
Net margin	12.7%	20.6%	17.4%	8.9%	-2.2%	7.8%	10.1%	11.1%	12.1%	13.0%
EPS (SAR)	3.15	6.27	6.79	3.61	(0.85)	3.35	4.56	5.13	5.77	6.31
DPS (SAR)	-	0.24	5.06	2.70	-	1.25	2.00	2.50	3.00	3.50
Balance sheet										
Assets										
Cash & equivalent	412	832	1,435	582	773	578	530	434	570	888
Other current assets	864	2,017	1,365	1,105	1,229	1,455	1,504	1,549	1,596	1,618
Total current assets	1,275	2,849	2,801	1,686	2,002	2,033	2,033	1,983	2,166	2,506
Property plant & equipment	5,259	6,491	7,738	8,761	8,487	8,291	8,074	7,909	7,549	7,040
Right of use assets	2	199	132	65	115	107	99	91	83	74
Total assets	6,544	9,554	10,686	10,535	10,621	10,447	10,222	9,999	9,813	9,637
Liabilities & owners' equity										
Trade payables	457	585	729	878	796	944	976	1,006	1,036	1,051
Other current liabilities	576	225	362	418	413	409	405	401	397	393
Total current liabilities	1,033	809	1,091	1,296	1,209	1,353	1,381	1,407	1,433	1,444
Lease liabilities - non-current	-	136	68	4	60	56	51	47	43	39
Long term loans	836	2,481	2,886	2,673	2,873	2,373	1,873	1,373	873	373
Total non-current liabilities	1,320	3,155	3,634	3,301	3,556	3,052	2,548	2,044	1,540	1,036
Share capital	23	890	890	890	890	890	890	890	890	890
Reserves	4,169	4,700	5,071	5,048	4,973	5,160	5,410	5,667	5,958	6,275
Total owners' equity	4,192	5,590	5,961	5,938	5,863	6,050	6,300	6,557	6,848	7,165
Total equity & liabilities	6,544	9,554	10,686	10,535	10,621	10,447	10,222	9,999	9,813	9,637
Cashflow statement										
Operating activities	676	1,242	1,360	1,750	889	1,400	1,533	1,543	1,562	1,576
Investing activities	(227)	(2,724)	(789)	(1,864)	(730)	(746)	(721)	(574)	(551)	(536)
Financing activities	(677)	1,903	33	(740)	32	(815)	(822)	(834)	(823)	(813)
Change in cash	(228)	420	603	(854)	191	(162)	(10)	135	188	228
Ending cash balance	412	832	1,435	582	773	578	530	434	570	888
Liquidity ratios										
Current ratio (x)	1.2	3.5	2.6	1.3	1.7	1.5	1.5	1.4	1.5	1.7
Quick ratio (x)	0.8	2.5	1.3	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Profitability ratios										
Gross profit margin	21.6%	29.6%	28.1%	21.0%	10.9%	19.5%	20.5%	20.6%	20.8%	21.0%
Operating margin	16.8%	22.9%	23.0%	15.6%	4.9%	13.9%	15.2%	15.4%	15.7%	15.8%
EBITDA margin	41.4%	42.3%	42.7%	41.6%	32.8%	39.6%	39.7%	39.0%	38.5%	38.0%
Net profit margin	12.7%	20.6%	17.4%	8.9%	-2.2%	7.8%	10.1%	11.1%	12.1%	13.0%
Return on assets	4.2%	6.9%	6.0%	3.0%	-0.7%	2.8%	3.9%	4.5%	5.2%	5.8%
Return on equity	6.9%	11.4%	10.5%	5.4%	-1.3%	5.0%	6.6%	7.1%	7.7%	8.0%
Leverage ratio										
Net Debt / equity (x)	0.23	0.30	0.27	0.40	0.41	0.34	0.26	0.19	0.09	(0.03)
Market/valuation ratios										
EV/sales (x)	NM	NM	5.4	3.4	3.3	2.5	2.3	2.1	1.9	1.7
EV/EBITDA (x)	NM	NM	12.5	8.2	9.9	6.3	5.7	5.4	4.9	4.4
Market-Cap	NM	NM	16,999	9,935	8,791	7,469	7,469	7,469	7,469	7,469
P/E ratio (x)	NM	NM	28.1	30.9	Neg	25.0	18.4	16.4	14.5	13.3
P/BV ratio (x)	NM	NM	2.9	1.7	1.5	1.2	1.2	1.1	1.1	1.0
DY (%)	NM	NM	2.6%	2.4%	0.0%	1.5%	2.4%	3.0%	3.6%	4.2%

Source: Company reports, Aljazira Capital Research, * market price as of March 2, 2026, *FY25 financials are based on available key numbers

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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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