

ADNOC Drilling Company P.J.S.C. (ADNOC Drilling) - 4Q23 Result Review

Analyst: Neetika Gupta

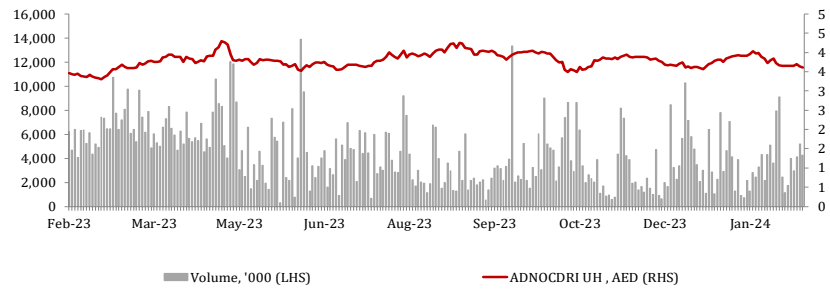
Previous Recommendation:
Previous Reco. & Date:

Buy
TP: AED 4.90 per share; Accumulate on 19-November-2023

Target Price (AED): 4.90
Upside / (Downside): 35.7%

Date: 13-02-2024

Bloomberg Ticker	ADNOC DRI UH
Current Market Price (AED)	3.6
52wk High / Low (AED)	4.3/3.3
12m Average Vol. (mn)	3,473.5
Mkt.Cap. (USD/AED bn)	15,595/57,760
Shares Outstanding (mn)	16,000.0
Free Float (%)	11%
3m Avg Daily Turnover (AED mn)	13,278.2
6m Average Daily Turnover (AED mn)	13,287.2
PE 2024e (x)	13.8x
EV/EBITDA 2024e (x)	9.7x
Dividend Yield '24e (%)	4.3%
Price Perf. (1m/3m) (%)	-7.9%/-6.7%



Revenue grows 15% YoY, largely in-line with U-Capital estimates

The company reported 4Q23 revenue of USD 841mn (15% YoY and 8% QoQ). This figure closely aligns with U-Capital's estimate of USD 891mn and the Bloomberg consensus of USD 833mn. The notable surge in 4Q23 revenue was primarily driven by increased activity and reduced major maintenance in offshore jack-up operations, along with increased activity in pressure pumping, drilling fluids, and directional drilling within oilfield services. Offshore jack-up operations saw a 25% YoY growth in 4Q23, while oilfield services experienced a 20% growth during the same period. For FY23, revenue amounted to USD 3,057mn, reflecting a 14% growth compared to FY22.

EBITDA and Operating profit rise YoY for 4Q23

Adnoc Drilling reported an operating profit of USD 345mn for 4Q23 (43% YoY and 29% QoQ), surpassing the Bloomberg consensus of USD 282mn and U-Capital's estimate of USD 302mn. This significant growth is driven by a strong topline. EBITDA for 4Q23 was USD 424 million (20% YoY and 11% QoQ), aligning closely with U-Capital's estimate of USD 448mn and Bloomberg's consensus of USD 401mn. EBITDA margins for 4Q23 stood at 50%, and the substantial growth in EBITDA, both YoY and QoQ, is attributed to improved revenue contributions from all segments amidst increased activity. For FY23, EBITDA stood at USD 1,483 million, reflecting a 20% growth compared to FY22, with an EBITDA margin of 49%.

Net income grows 41% YoY – ahead of Bloomberg consensus and U-Capital estimate

The company reported a net income of USD 329mn for the quarter (41% YoY and 28% QoQ), surpassing the Bloomberg consensus estimate of USD 268mn and the U-Capital estimate of USD 289mn. This significant difference in net income is propelled by robust revenue growth, and net income has been positively impacted by the change in depreciation (due to change in remaining useful life and residual value estimates of our assets, along with a more granular approach in asset recognition). For FY23, net income amounted to USD 1,033 mn, reflecting a 29% YoY change.

Maintain target price

ADNOC Drilling expanded its fleet by adding 14 new drilling units during FY23, which included four lease-to-own land rigs. As a result, the company experienced a 14% increase in revenue for FY23. This growth was primarily driven by the Offshore Jack-up and Oilfield Services (OFS) segments, which saw respective increases of 31% and 37% due to increase activity levels in FY23. Supported by the robust performance in FY23 and its joint venture with Alpha Dhabi, which has a pipeline of investments prepared for 2024, we anticipate continued growth for Adnoc Drilling in 2024. As per the guidance provided by Adnoc Drilling, the company expects revenue to be in the range of USD 3,600-3,800mn for FY24e, compared to FY23 revenue of USD 3,057mn. Additionally, it aims for an EBITDA margin of close to 50% and a net income margin between 30% and 33% for FY24e. Considering these factors, we are maintaining our **Buy** rating on the stock with a target price of **AED 4.9 per share**. Adnoc Drilling is one of our top picks. In our view, the current trading level offer an an attractive entry point with significant upside potential.

Valuation

ADNOC Drilling is trading at 2024e P/E of 13.8x compared to its historical average 1-year forward P/E of 17.2x. Similarly, the stock is valued at an EV/EBITDA of 12.4x, based on the FY24 estimate, compared to its historical average of 12.4x.

Income Statement											
(USD mn)	4Q22*	1Q23	2Q23	3Q23	4Q23	4Q23e YoY (%)	QoQ (%)	Var (%)	FY22*	FY23	YoY (%)
Sales/Revenue	733	716	724	776	841	891	15%	8%	2,673	3,057	14%
Operating Profit (Loss)	242	229	240	267	345	302	43%	29%	824	1,082	31%
EBITDA	353	333	344	381	424	448	20%	11%	1,232	1,483	20%
Net Profit	234	219	228	257	329	289	41%	28%	802	1,033	29%
Balance Sheet											
(USD mn)	4Q22*	1Q23	2Q23	3Q23	4Q23	4Q23e YoY (%)	QoQ (%)	Var (%)	FY22*	FY23	YoY (%)
Shareholders' Equity	2,931	3,150	3,036	3,293	3,264	3,253	11%	-1%	2,931	3,264	11%
Key Ratios											
	4Q22*	1Q23	2Q23	3Q23	4Q23	4Q23e YoY (%)	QoQ (%)	Var (%)	FY22*	FY23	YoY (%)
EBITDA margin	48%	47%	48%	49%	50%	50%			46%	49%	
Operating Profit Margin	33%	32%	33%	34%	41%	34%			31%	35%	
Net Profit Margin	32%	31%	31%	33%	39%	32%			30%	34%	
Return on Equity (RoE)	32%	28%	30%	31%	40%	36%			27%	32%	

Source: Financials, ADX Disclosure, Bloomberg, U Capital Research
* - restated


For our earlier report, please [click here](#).


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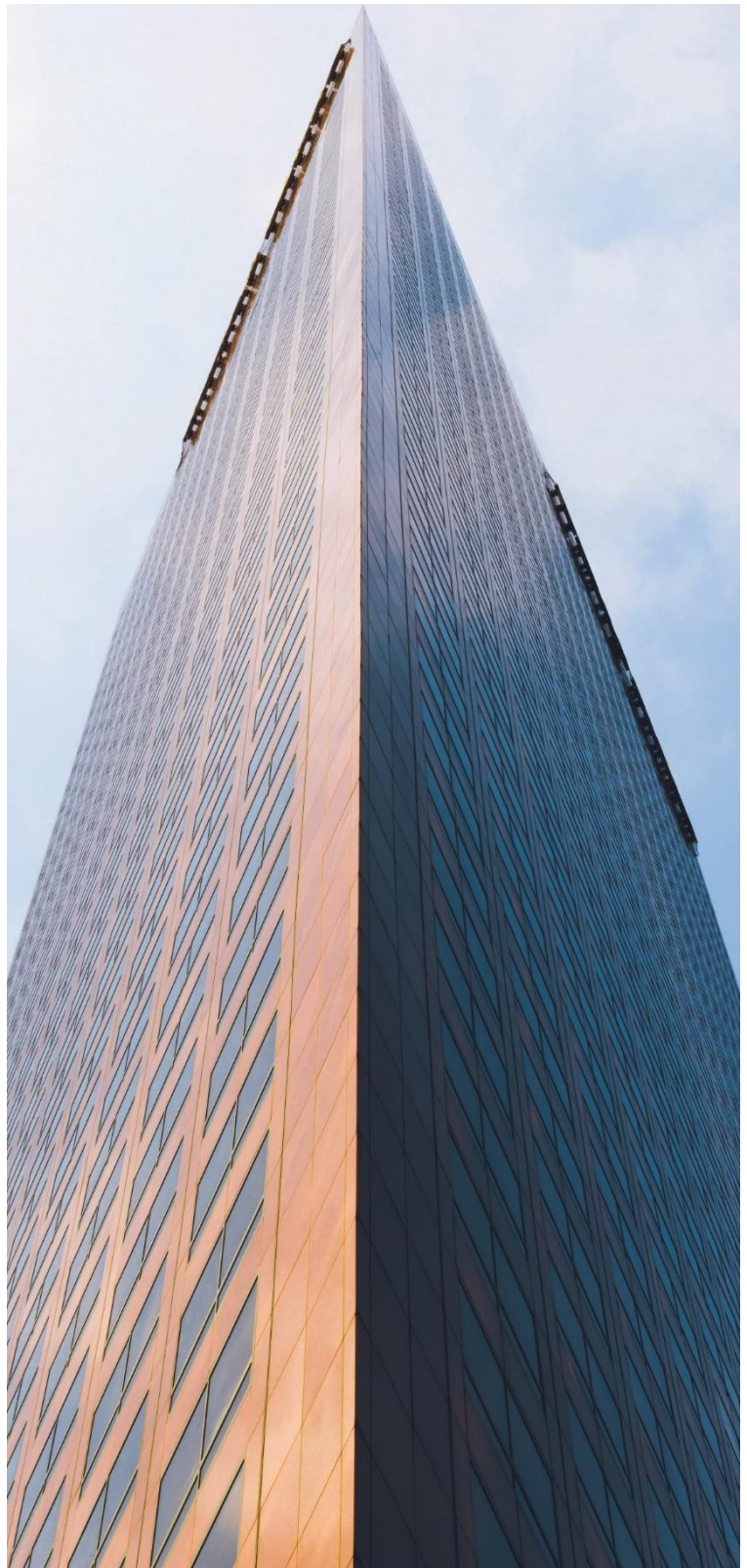
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%