

ADNOC Drilling Company P.J.S.C. (ADNOC Drilling) - 1Q23 Result Review

Analyst: Neetika Gupta

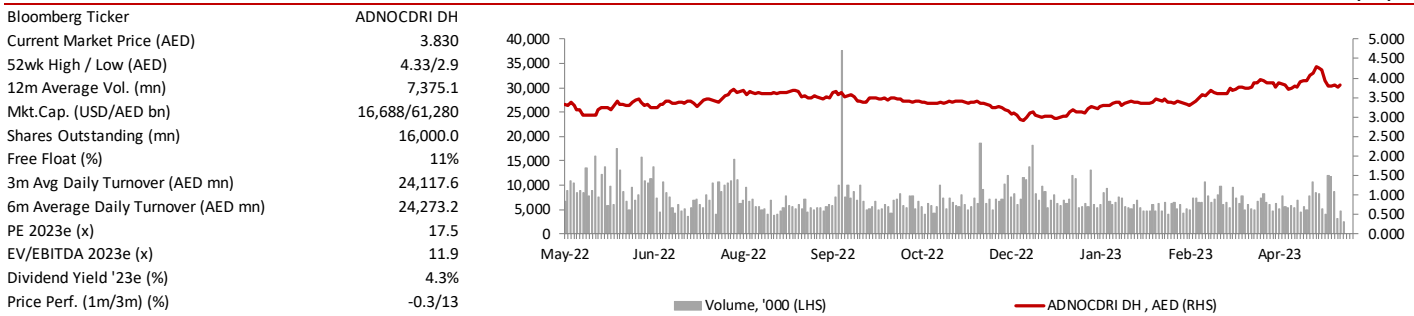
Previous Recommendation: **Accumulate**

Target Price (AED): **4.40**

Previous Reco. & Date: 20-Apr-22

Upside / (Downside): 14.9%

Date: 5/11/2023



Revenue misses estimate amid fewer days, lower reimbursements

The company reported Q1 2023 revenue of USD 716mn (-2.3% q-o-q), which was below our estimate of USD 770mn. The deviation from our estimate was primarily due to two fewer calendar days resulting in lower operating activity, and less benefit from the reimbursement of cost escalation claims, particularly related to diesel prices.

Gross profit and Operating profit align with estimates

The company's gross profit for the quarter was USD 300mn, in line with our estimated figure of USD 308mn. Additionally, the operating profit of USD 229mn (-5.0% q-o-q) was also in line with our estimated figure of USD 233mn.

Net income slightly misses estimate

The company's net income for the quarter was USD 219mn, which was slightly below our estimated figure of USD 227mn.

Maintain target price

We believe that ADNOC Drilling will continue to showcase strong growth in the future. Furthermore, after adding 5 jack-up rigs in the second half of 2022, there is a further plan to add 142 rigs by 2024 providing further scope for growth. We maintain our target price on the stock.

Valuation

ADNOC Drilling is trading at 2023e P/E of 17.5x – a 12% discount to the historical average 1-year forward P/E of 20x. Similarly, the stock trades at a discount on EV/EBITDA of 11.9x, based on our FY23 estimate, vs historical average of 12.58x. The stock appears attractively priced at these levels and we maintain 'Buy' rating on the stock.

Income Statement												
(USD mn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23e	YoY (%)
Sales/Revenue	601	668	670	733	716	770	19%	-2%	-7%	2,673	3,208	20%
Gross Profit (Loss)	242	272	265	313	300	308	24%	-4%	-2%	1,093	1,283	17%
Operating Profit (Loss)	177	209	196	242	229	233	29%	-5%	-1%	824	983	19%
Net Profit attributable to shareholders	174	205	189	234	219	227	25%	-6%	-4%	802	954	19%
Balance Sheet												
(USD mn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	2,970	2,970	2,697	2,931	3,150		6%	7%				
Key Ratios												
	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e						
Gross Margin	40%	41%	40%	43%	42%	40%						
Operating Profit Margin	30%	31%	29%	33%	32%	30%						
Net Profit Margin	29%	31%	28%	32%	31%	29%						
Return on Equity (RoE)	23%	28%	28%	32%	28%							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

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

Recommendation

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

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: research@u-capital.net

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