

Near-term headwinds and increased uncertainty drive TP cut; international potential offers limited medium-term support – Downgrade to “Neutral”

Arabian Drilling Company (ADC) is facing a more challenging operating backdrop in the near term, as the latest suspension of 2 onshore and 1 offshore rig in Q2-25 (taking total suspended rigs to 8) and temporary day-rate discounts continue to weigh on utilization and topline performance. Management's cautious guidance of up to a 10% Q/Q revenue decline in Q3-25, together with the pause in dividend distribution and lower capex for FY25, reflects limited visibility in the short run. Accordingly, we forecast FY25E revenue to decline by 5.5% Y/Y to SAR 3.4bn. From FY26E onwards, however, we see scope for a gradual recovery driven by the first international offshore contract that will start in Q1-26, international opportunities through alliance with Shelf Drilling, potential reinstatement of onshore rigs by Aramco, and opportunities from the Jafurah Phase-II tenders. In parallel, the company has launched an OPEX optimization program (workforce rationalization and SG&A efficiencies), and the expiry of temporary discounts in FY25 should support margin recovery alongside higher utilization. We forecast utilization to improve from 78.7% in Q2-25 to ~88% by FY29E, as active rig count is expected to increase from 48 as of Q2-25 to 57 by FY29E. Revenue is expected to grow at a CAGR of 3.9% over FY24-29E and EBITDA margins recover from 37.9% in FY25E back to 39.6% by FY29E. Lower finance costs, driven by debt repayment and a more favorable rate environment, should further support margin expansion, translating into a FY24-29E net income CAGR of 10.3%. Based on our updated forecasts, we derive a lower target price of **SAR 87.9/share**. Given the increased level of uncertainty surrounding ADC's future performance amid delay in redeployment of rigs suspended last year, continued fresh suspensions and execution risk related to international expansion, we downgrade to “Neutral” recommendation.

Q2-25 net income falls 90% Q/Q to SAR 7mn on lower rig activity, absence of one-off gains and margin compression; three fresh suspensions during the quarter: ADC's net income plunged 90.1% Q/Q to SAR 7mn in Q2-25, well below AJC's estimate of SAR 61mn. The deviation from our estimate was attributable to the lower-than-expected gross margin and higher OPEX. The Q/Q drop in net income was mainly driven by the lower rig movement (Q1-25 witnessed exceptionally high rig movement), one-off other income in Q1-25 and extended shipyard time for one of the rigs. Revenue declined 5.3% to SAR 862mn, broadly in line with our estimate SAR 832mn, as absence exceptional rig move income that supported in revenue in Q1-25 along with suspension of 2 land and 1 offshore rig led to lower revenue. However, additional revenue from the new offshore vessel partially supported the revenue. The gross margin decreased to 14.3% in Q2-25 from 19.8% in Q1-25 (below our expectation of 19.2%), reflecting a fall in utilization rate to 78.7% from 83.3% in the previous quarter. Operating profit came in at SAR 67mn (-51.0% Q/Q), missing our estimate of SAR 116mn. Operating profit was weighed down by lower revenue and gross margin in addition to absence of one-off other income in Q1-25.

Additional onshore and offshore suspensions, day rate discounts and cautious stance from management indicate a weaker near-term outlook; revenue set to see a mid-single-digit drop in FY25E: ADC is facing mounting near-term headwinds as rig suspensions and pricing pressure (discount on day rates) begin to weigh more visibly on performance. In Q2-25, Aramco announced another round of suspensions covering 2 onshore and 1 offshore rig, taking total suspended units as of June 30, 2025 to 8 rigs (3 onshore and 5 offshore). The continuation of both onshore and offshore suspensions adds further uncertainty around the company's near-term operating environment and utilization rates (which dropped below 80% in Q2-25). In addition, the discounts offered by the company for two offshore rigs earlier this year will continue to exert downward pressure on the topline over the coming quarters. Reflecting this backdrop, management adopted a notably cautious tone during its recent update, guiding up to a 10% Q/Q decline in revenue in Q3-25, pausing dividend distributions for FY25, and lowering capital expenditure plans. Given the softer outlook, we forecast FY25E revenue at SAR 3,418mn, implying a 5.5% Y/Y decline. Over the longer term, we expect a gradual recovery supported by rig reactivations, translating into an FY24-29E CAGR of 3.9%.

Recommendation	Neutral
Target Price (SAR)	87.9
Upside / (Downside)*	16.9%

Source: Tadawul *prices as of 19th of Aug 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	3,477	3,619	3,418	3,665
Growth %	28.6%	4.1%	-5.5%	7.2%
Gross profit	976	760	540	667
EBITDA	1,485	1,507	1,296	1,439
Net Income	605	321	101	254
Growth %	8.4%	-46.8%	-68.6%	151.4%
EPS	6.79	3.61	1.13	2.85
DPS	5.06	2.70	-	1.25

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	28.1%	21.0%	15.8%	18.2%
EBIT margin	23.0%	15.6%	9.9%	12.1%
EBITDA Margin	42.7%	41.6%	37.9%	39.3%
Net Margin	17.4%	8.9%	3.0%	6.9%
ROE	10.5%	5.4%	1.7%	4.1%
ROA	6.0%	3.0%	0.9%	2.4%
P/E (x)	28.1	30.9	66.4	26.4
P/B (x)	2.9	1.7	1.1	1.1
EV/EBITDA (x)	12.5	8.2	7.0	6.1
Dividend Yield	2.6%	2.4%	0.0%	1.7%

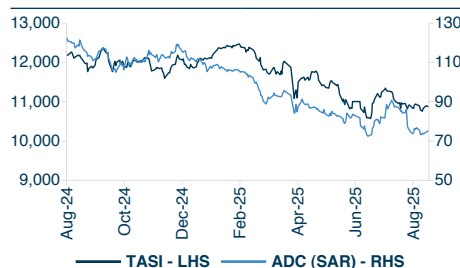
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	6.7
YTD%	-32.6%
52 weeks (High)/(Low)	125.20/72.00
Share Outstanding (mn)	89.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Bloomberg, Aljazira Capital Research

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



International expansion initiatives, contract renewals and upcoming Jafurah tenders provide a path for gradual recovery though uncertainty remains around the realization of these positives: While the near-term environment remains subdued, we see a scope for gradual medium-term recovery, anchored by several tangible developments such as the company's first international offshore contract (awarded in July 2025) will deploy one of the currently suspended offshore rigs in Q1-26, a modest but meaningful step toward international expansion. Moreover, supported by its strategic alliance with Shelf Drilling, ADC targets new opportunities globally including the UAE, India and West Africa. On the domestic front, the current onshore suspensions appear driven by short-term optimization rather than structural weakness, and we therefore expect a phased reactivation of onshore rigs from FY26E as activity normalizes. Further, Aramco is increasing its production with a roll back of cuts, which may require additional rig activation in the long term. Thus, ADC, with an idle fleet within KSA, has a chance to reap benefits if any requirement comes up. Additionally, contract visibility has also improved, with 10 of the company's 24 expiring contracts already renewed by the end of Q2-25 and one additional renewal concluded in July 2025. ADC recently announced a one-year extension for 11 onshore gas drilling rigs under a lump-sum turnkey agreement with SLB. This renewal activity reflects continued customer confidence and secures utilization over the near term. Furthermore, the upcoming second-phase unconventional gas tender for the Jafurah field (potentially next year) could provide an additional boost, with ADC well positioned to secure more contracts after winning a 13-rig package in phase one. That said, there remains a risk related to actual realization of all the aforementioned factors supporting a recovery. We expect the company's active rig count to increase from 48 as of Q2-25 to 57 by FY29E.

OPEX optimization initiatives to support EBITDA margin recovery along with gradual recovery in utilization rate; net margin to be bolstered by lower finance expenses: In addition to the expected improvement in activity levels, ADC has also undertaken a number of cost efficiency initiatives that should help underpin a steady recovery in profitability. The company has initiated an OPEX optimization program that includes a downsizing of workforce and other SG&A rationalization measures, which management expects will drive a declining SG&A trend on a sequential basis over the next few quarters. In parallel, the temporary discounts granted on two offshore rigs (implemented only for FY25) are set to be revoked from FY26E, which will provide further support to EBITDA margins as utilization normalizes. We expect utilization rate to reach ~88% by FY29E from 78.7% now. As a result, after declining from 41.6% in FY24 to 37.9% in FY25E, we expect EBITDA margins to improve to 39.3% in FY26E and reach gradually to 39.6% by FY29E, supported by both cost savings and higher utilization rates. Furthermore, the expected decrease in finance expenses due to anticipated interest rate cuts and gradual repayment of debt (D/E is forecasted to ease to 0.2x by FY29E from 0.5x in FY24) would aid net margin expansion from 8.9% in FY24 to 12.0%, translating into FY24-29E net income CAGR of 10.3%.

Investment thesis and valuation: ADC faces a challenging short-term outlook due to ongoing rig suspensions and temporary day-rate discounts, which are expected to drive a 5.5% Y/Y revenue decline in FY25E. However, a gradual recovery beyond FY26E should be supported by the company's first international offshore contract, further international opportunities through its alliance with Shelf Drilling, potential reinstatement of suspended onshore rigs and the upcoming Jafurah Phase-II tender. Combined with cost optimization initiatives and the expiry of temporary discounts, we expect utilization to rise to ~88% by FY29E, with revenue growing at a 3.9% CAGR over FY24-29E and EBITDA margins gradually recovering to 39.6%. Lower finance costs should further aid earnings, resulting in a net income CAGR of 10.3%. We valued ADC with 50% weightage to DCF (WACC=9.1%, terminal growth rate=1.5%) and 50% weight to FY26E EV/EBITDA (8.0x) to arrive at a TP of **SAR 87.9/share**. We downgrade our rating on the stock to "**Neutral**" given the increased level of uncertainty. ADC's stock is currently trading at P/E of 26.4x and EV/EBITDA of 6.1x, while the dividend yield is expected to be 1.7%, based on our FY26E estimates. **Downside risks** to our valuations are (i) a delay in securing new contracts for currently suspended rigs, which would prolong the utilization drag and weigh on revenue recovery, (ii) additional suspensions by Aramco, which could further depress utilization levels, and (iii) 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	90.5	50%	45.3
EV/EBITDA	85.3	50%	42.6
Blended TP			87.9
Up/Downside (%)			16.9

Source: AlJazira Capital research

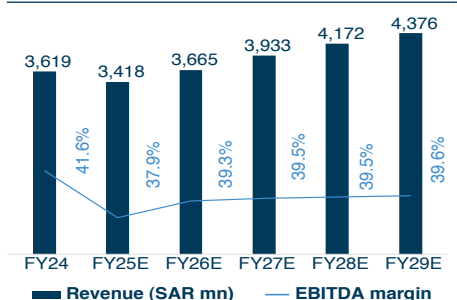
Active rigs: Onshore and Offshore

Operating metrics

	2024	2025E	2025E	2027E	2028E	2029E
Active rigs	49	48	51	54	56	57
Onshore	41	40	42	44	45	45
Offshore	8	8	9	10	11	12

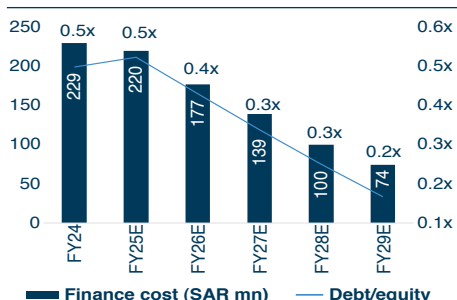
Source: Company reports, AlJazira Capital Research

Revenue and EBITDA margin



Source: Company reports, AlJazira Capital Research

Finance cost and leverage



Source: Company reports, AlJazira Capital Research


Key Financials

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenues	2,199	2,704	3,477	3,619	3,418	3,665	3,933	4,172	4,376
Y/Y	-13.2%	22.9%	28.6%	4.1%	-5.5%	7.2%	7.3%	6.1%	4.9%
Cost of revenue	(1,723)	(1,902)	(2,501)	(2,859)	(2,878)	(2,998)	(3,186)	(3,348)	(3,483)
Gross profit	476	801	976	760	540	667	747	824	893
Gross margin	21.6%	29.6%	28.1%	21.0%	15.8%	18.2%	19.0%	19.7%	20.4%
General & administration expense	(105)	(180)	(181)	(205)	(224)	(228)	(234)	(239)	(241)
Operating profit	370	619	801	566	337	443	518	590	657
Y/Y	-7.4%	67.3%	29.4%	-29.4%	-40.4%	31.4%	16.8%	14.1%	11.3%
Operating margin	16.8%	22.9%	23.0%	15.6%	9.9%	12.1%	13.2%	14.2%	15.0%
EBITDA	910	1,144	1,485	1,507	1,296	1,439	1,552	1,648	1,733
Y/Y	-19.6%	25.7%	29.8%	1.5%	-14.0%	11.1%	7.8%	6.2%	5.1%
EBITDA margin	41.4%	42.3%	42.7%	41.6%	37.9%	39.3%	39.5%	39.5%	39.6%
Financial charges	(38)	(94)	(161)	(229)	(220)	(177)	(139)	(100)	(74)
Income before zakat	333	552	688	358	120	285	388	499	590
Zakat	(53)	5	(83)	(37)	(19)	(31)	(43)	(55)	(65)
Net income	280	558	605	321	101	254	346	444	525
Y/Y	-4.7%	99.0%	8.4%	-46.8%	-68.6%	151.4%	36.3%	28.4%	18.2%
Net margin	12.7%	20.6%	17.4%	8.9%	3.0%	6.9%	8.8%	10.6%	12.0%
EPS (SAR)	3.15	6.27	6.79	3.61	1.13	2.85	3.88	4.99	5.90
DPS (SAR)	-	0.24	5.06	2.70	-	1.25	1.75	2.25	2.50
Balance sheet									
Assets									
Cash & equivalent	412	832	1,435	582	820	520	404	439	761
Other current assets	864	2,017	1,365	1,105	1,227	1,387	1,466	1,551	1,616
Total current assets	1,275	2,849	2,801	1,686	2,047	1,906	1,870	1,990	2,377
Property plant & equipment	5,259	6,491	7,738	8,761	8,618	8,505	8,291	7,970	7,428
Right of use assets	2	199	132	65	115	107	99	91	83
Total assets	6,544	9,554	10,686	10,535	10,796	10,535	10,276	10,067	9,904
Liabilities & owners' equity									
Trade payables	457	585	729	878	794	899	958	1,014	1,057
Other current liabilities	576	225	362	418	413	409	405	401	397
Total current liabilities	1,033	809	1,091	1,296	1,208	1,308	1,363	1,415	1,454
Lease liabilities – non-current	-	136	68	4	60	56	51	47	43
Long term loans	836	2,481	2,886	2,673	2,873	2,373	1,873	1,373	873
Total non-current liabilities	1,320	3,155	3,634	3,301	3,556	3,052	2,548	2,044	1,540
Share capital	23	890	890	890	890	890	890	890	890
Reserves	4,169	4,700	5,071	5,048	5,149	5,291	5,481	5,725	6,027
Total owners' equity	4,192	5,590	5,961	5,938	6,039	6,181	6,371	6,615	6,917
Total equity & liabilities	6,544	9,554	10,686	10,535	10,796	10,535	10,276	10,067	9,904
Cashflow statement									
Operating activities	676	1,242	1,360	1,750	1,070	1,360	1,497	1,572	1,654
Investing activities	(227)	(2,724)	(789)	(1,864)	(863)	(864)	(809)	(570)	(548)
Financing activities	(677)	1,903	33	(740)	31	(796)	(803)	(809)	(805)
Change in cash	(228)	420	603	(854)	238	(300)	(115)	193	301
Ending cash balance	412	832	1,435	582	820	520	404	439	761
Liquidity ratios									
Current ratio (x)	1.2	3.5	2.6	1.3	1.7	1.5	1.4	1.4	1.6
Quick ratio (x)	0.8	2.5	1.3	0.9	1.0	1.1	1.1	1.1	1.1
Profitability ratios									
Gross profit margin	21.6%	29.6%	28.1%	21.0%	15.8%	18.2%	19.0%	19.7%	20.4%
Operating margin	16.8%	22.9%	23.0%	15.6%	9.9%	12.1%	13.2%	14.2%	15.0%
EBITDA margin	41.4%	42.3%	42.7%	41.6%	37.9%	39.3%	39.5%	39.5%	39.6%
Net profit margin	12.7%	20.6%	17.4%	8.9%	3.0%	6.9%	8.8%	10.6%	12.0%
Return on assets	4.2%	6.9%	6.0%	3.0%	0.9%	2.4%	3.3%	4.4%	5.3%
Return on equity	6.9%	11.4%	10.5%	5.4%	1.7%	4.1%	5.5%	6.8%	7.8%
Leverage ratio									
Net Debt / equity (x)	0.23	0.30	0.27	0.40	0.39	0.35	0.27	0.18	0.06
Market/valuation ratios									
EV/sales (x)	NM	NM	5.4	3.4	2.6	2.4	2.1	1.9	1.6
EV/EBITDA (x)	NM	NM	12.5	8.2	7.0	6.1	5.4	4.8	4.1
Market-Cap	NM	NM	16,999	9,935	6,695	6,695	6,695	6,695	6,695
P/E ratio (x)	NM	NM	28.1	30.9	66.4	26.4	19.4	15.1	12.8
P/BV ratio (x)	NM	NM	2.9	1.7	1.1	1.1	1.1	1.0	1.0
DY (%)	NM	NM	2.6%	2.4%	0.0%	1.7%	2.3%	3.0%	3.3%

Source: Company reports, Aljazira Capital Research, * market price as of August 19, 2025





RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH
DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of securities, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. Some securities maybe, by nature, of low volume/trades, or may become so, unexpectedly in special circumstances, and this might increase the risk on the investor. Some fees might be levied on some investments in securities. Aljazira Capital, its employees, one or more of its board members, its affiliates, or its clients may have investments in the securities or assets referred to in this report. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.