Arabian Drilling Co.
Energy
ARABIAND AB: Saudi Arabia
28 May 2025

alrajhi capital الراجحي المالية

US$1.90bn	30.00%	US$5.27mn
Market Cap.	Free Float	Avg. Daily Value traded

Research Department
Madhu Appissa, CFA
Tel +966 11 836 5464, appissam@alrajhi-capital.com

Arabian Drilling Co.

Heightened uncertainty, Downgrade to Neutral

- ***1Q25 earnings were broadly in line with estimates, but 2Q25 guidance is tepid***
- ***No further suspension in 1Q25 is positive, but uncertainty persists around the upcoming renewals***
- ***Macro fundamentals have come under pressure since our last update note***
- ***Thus, we trim our earnings estimates to reflect suspensions that happened in 4Q24, weaker pricing in offshore and no new contracts***
- ***We reduce our target price to SAR 85/share and turn neutral***

Neutral

Price Target (SAR): 85.00

Current (28th May 2025): 80.00
Upside/Downside: 6.4% above current

Valuation Multiples	24	25E	26E
P/E (x)	22.2	25.8	20.1
P/B (x)	1.2	1.2	1.2

Major Shareholders	% Ownership
Manufacturing & Energy Services Co.	35.70
Services Petroliers Schlumberger	34.30

Price Performance	YTD	3M	1M
Absolute	-29.1%	-21.1%	-9.3%
Relative to TASI	-19.9%	-11.3%	-2.2%

Earnings

(SARmn)	2024	2025E	2026E	2027E
Revenue	3,619	3,464	3,515	3,538
Revenue Growth	4.1%	-4.3%	1.5%	0.7%
Gross Profit	760	694	760	769
Gross Margin	21.0%	20.0%	21.6%	21.7%
EBITDA*	1,508	1,443	1,495	1,499
EBITDA margin	41.7%	41.7%	42.5%	42.4%
Net profit	321	276	353	405
Net Profit Growth	-46.8%	-14.1%	28.0%	14.6%
Net margin	8.9%	8.0%	10.1%	11.5%
EPS (SAR)	3.6	3.1	4.0	4.6
DPS (SAR)	2.7	2.7	3.0	3.4
Payout ratio	74.8%	87.0%	75.0%	75.0%
P/E (Current)	22.2x	25.8x	20.1x	17.6x
P/E (Target)	23.6x	27.4x	21.4x	18.7x

Source: Company data, Al Rajhi Capital; *FY24 EBITDA is ex impairment

Figure 1 **Earnings Summary 1Q25**

(SAR mn)	Q1 2025	Q4 2024	Q1 2024	ARC est.	Cons Est.	y-o-y	q-o-q	vs ARC	vs Cons
Revenue	911	850	967	893	881	-5.8%	7.2%	**2.0%**	**3.4%**
Gross Profit	180	182	269	185	NA	-33.1%	-1.1%	**-2.9%**	**NM**
Gross margin	*19.8%*	*21.4%*	*27.8%*	*20.8%*	*NA*				
Operating Profit	137	133	214	134	NA	-36.0%	3.0%	**2.0%**	**NM**
Operating margin	*15.0%*	*15.6%*	*22.1%*	*15.0%*	*NA*				
Net Profit	**75**	**70**	**146**	**72**	**82**	**-48.6%**	**7.1%**	**4.3%**	**-8.5%**
Net margin	*8.2%*	*8.2%*	*15.1%*	*8.1%*	*9.3%*				

Source: Company data, Al Rajhi Capital

1Q25 earnings summary: Arabian Drilling (ADC) reported 1Q25 top-line at ~SAR 911mn, registering a 7.2% sequential increase and 13.9% while declining by 5.8% y-o-y. The y-o-y drop in revenues can be attributed to contract suspensions undertaken by Aramco in the offshore and land segment during FY24. Revenue uptick on q-o-q basis was underpinned by full operational effect of 13 unconventional rigs deployed for Aramco, 2 of which commenced operations in Feb'25 owing to acceptance procedures and higher rig move revenue which is not sustainable going forward. Onshore revenues witnessed a sharp increase of ~22% q-o-q with the full quarter operational impact of rigs deployed in 4Q24. However, offshore revenues declined by ~18% owing to temporary day rate discount on 2 rigs (which shall prevail all through FY25) and absence of an extra mobilization revenue present in 4Q24. For 2Q25, the company's revenue guidance was subdued, indicating a quarter-on-quarter decline of 5–10%.

Rig suspensions, a key dampener- It is notable that the company's performance in the unconventional segment has been timely and resilient. Nevertheless, with a total fleet size of 60 rigs as of Mar'25 (excluding one offshore rig held for sale), the company's active rig count stands at 50 indicating a sub 90% rig utilization level. The inactive rigs mostly comprise of suspended rigs with 2 in the offshore segment suspended in mid-2024 and 3 land rigs suspended towards the end of FY24 with the remaining rigs not contracted. However, it is essential to note that land rigs suspensions are temporary and hence, there is scope for re-contracting these rigs at a lower turnaround time as compared to offshore rigs, but we refrain from considering any new contracts. Arabian Drilling's inability (versus peers) to secure contracts for the suspended offshore rigs has been one of the key reasons for the stock's underperformance in the last year. Previously, we were expecting gas rigs to underpin the performance of the company in FY25 but given the adverse macro scenario and subpar execution vis-a vis-peers, it is difficult to assume re-contracting of the suspended land and offshore rigs in the near future.

FY25 Outlook- On account of external market pressure, the situation for ARDC has become unfavorable as compared to FY24. For FY25, the top-line is expected to include full contribution from 13 unconventional rigs for the full year and as startup costs associated with these are expected to normalize, it will be margin accretive for the onshore segment. However, the revenue outlook for the offshore segment appears to be bleak for FY25 owing to several factors like i) the uncertainty surrounding the re-contracting of offshore rigs and ii) margin pressure accruing on account of temporary day rate reduction on 2 rigs which are expected to remain in effect throughout the year, albeit not beyond FY25. Moreover, the reported rig move revenue in 1Q25 is also expected to normalize in the upcoming quarters. In addition to this, uncertainty around oil prices due to the current macro-economic environment with respect to tariffs is likely to impact new tenders from being rolled out. Although demand for existing rigs will continue to be steady, the possibility of another phase of suspension by Aramco cannot be ruled out. That being said, currently there are 19 rigs (17 land and 2 offshore) rolling off contract in FY25 for Arabian Drilling. The company is quite optimistic on securing renewal for most of its contracts approaching expiry in the current year as most of the land rigs are in the gas segment with SLB. However, the uncertainty remains in the offshore segment. Nevertheless, even if the contract for one offshore rig with Aramco rolling-off in FY25 is terminated, the company has the flexibility to get rid of the rig since it is a leased rig. In summary, we broadly consider renewals for all the 19 rigs rolling off contract in FY25.

On the other hand, Arabian Drilling recently entered into a strategic alliance with Shelf Drilling to tap into the international market and expand its global footprint. The alliance entails accessibility to ARDC's certain premium offshore rigs for Shelf Drilling and the latter leveraging its international footprint to source new rig contracts. Although there are several tenders floating, we have restrained from building in the financial impact of the same as we await materialization of awards. In the current backdrop, we expect FY25 revenues to be weaker than FY24 (-4.3%) dragged by the full year impact of suspensions that happened last year and weaker pricing in the offshore segment.

Deleveraging, a key focus area- In its latest stakeholder call, the capex outlay for FY25 has been trimmed down by around SAR 100-200mn reflecting the management's cautious stance. Given the reduced appetite for capital expenditure, we anticipate the company will prioritize deleveraging in the coming years. This strategy is expected to enhance net profit margins in FY26 and FY27 as the interest burden declines. Nevertheless, amidst the prevailing revenue growth and margin concerns and macro-outlook stoking further ambiguity, we trim our target price to SAR 85/share and accordingly change our rating to 'Neutral'.

Valuations: We value the company based on the relative valuation methodology (EV/EBITDA). The EV/EBITDA methodology yields a fair value of SAR 85/sh at a target multiple of 7x on the blended 12-month forward EBITDA. We continue to assume KSA players to trade at a slight premium to its global peers (Schlumberger, Baker Hughes and Halliburton) which trade at a blended forward EV/EBITDA multiple of about 6.5x. However, we believe Arabian Drilling to trade at a discount to ADES given the latter's better execution capabilities. Thus, we value it at 7x compared to ADES's 8x blended 12-month forward EV/EBITDA. At out new target price of SAR 85/share there is an implied upside of 6.4% and accordingly we revise our rating to Neutral.

Figure 2 **Valuation Summary**

Valuation Methodology	Relative Valuation EV/EBITDA
Blended 12m Forward EBITDA	1,469
Target EV/EBITDA multiple	**7.0x**
EV	10,284
Less:Net Debt	(2,706)
Equity Value	**7,578**
Fair value per share (SAR)	**85**
Current Price (SAR)	80
Upside/ (Downside)	***6.4%***

Source: Company data, Al Rajhi Capital; #Net debt is based on 1Q25

Risks: The key downside risks to our valuation assumptions are inability to secure renewals for contracts due for expiry, further squeeze in day rates, increased leveraging, and unexpected increase in operating expenses thereby impacting margins.

Financials

Figure 3 **Income Statement**

(SAR mn)	2024	2025E	2026E	2027E
Revenue	**3,619**	**3,464**	**3,515**	**3,538**
Cost of revenues	(2,859)	(2,769)	(2,754)	(2,769)
Gross profit	**760**	**694**	**760**	**769**
Provision for impairment on financial assets	(1)	0	0	0
General and administrative expenses	(205)	(204)	(206)	(208)
Other operating income	11	23	11	11
Operating profit	**566**	**512**	**564**	**571**
Finance costs	(229)	(207)	(174)	(132)
Finance income	22	9	7	12
Profit before zakat and income tax	**358**	**314**	**397**	**450**
Zakat and income tax	(37)	(38)	(44)	(45)
Profit for the period	**321**	**276**	**353**	**405**
EPS	3.61	3.10	3.97	4.55
EBITDA*	**1,508**	**1,443**	**1,495**	**1,499**

Source: Al Rajhi Capital estimates; *FY24 EBITDA is ex impairment

Figure 5 **Cash Flow Statement**

(SAR mn)	2024	2025E	2026E	2027E
Operating activities	1,750	1,183	1,343	1,377
Investing activities	(1,864)	(885)	(505)	(385)
Financing activities	(740)	(419)	(524)	(1,001)
Change in cash	**(854)**	**(120)**	**313**	**(9)**
Cash and cash equivalents, start of the period	1,435	582	462	775
Cash and cash equivalents, end of the period	**582**	**462**	**775**	**765**

Source: Al Rajhi Capital estimates

Figure 6 **Key Ratios**

KPIs	2024	2025E	2026E	2027E
Gross margin (%)	21.0%	20.0%	21.6%	21.7%
EBITDA margin (%)	41.7%	41.7%	42.5%	42.4%
Operating margin (%)	15.6%	14.8%	16.1%	16.1%
Net margin (%)	8.9%	8.0%	10.1%	11.5%
ROA (%)	3.1%	2.7%	3.5%	4.3%
ROE (%)	5.4%	4.6%	5.8%	6.6%
D/E (x)	0.5x	0.5x	0.4x	0.3x
Net debt/EBITDA (x)	1.6x	1.7x	1.2x	0.7x

Source: Al Rajhi Capital estimates

Figure 4 **Balance sheet**

(SAR mn)	2024	2025E	2026E	2027E
Assets				
Cash and cash equivalents	582	462	775	765
Inventories	309	250	196	190
Trade and other receivables	780	759	693	679
Assets held for sale	6	6	6	6
Total current Assets	**1,686**	**1,487**	**1,681**	**1,650**
Property, plant and equipment	8,710	8,691	8,274	7,729
Right-of-use assets	65	38	29	32
Derivative financial instrument	6	6	6	6
Long term deposits	16	16	16	16
Total non-current assets	**8,848**	**8,802**	**8,377**	**7,834**
Total assets	**10,535**	**10,290**	**10,057**	**9,484**
Liabilities				
Trade and other payables	878	759	679	683
Current portion of long-term borrowings	282	250	2,200	200
Current portion of lease liabilities	64	37	29	32
Mobilization of revenues	66	66	66	66
Provision for zakat and income tax	6	6	6	6
Total current liabilities	**1,296**	**1,118**	**2,980**	**986**
Long-term borrowings	2,673	2,555	355	1,655
Lease liabilities	4	2	2	2
Employee benefit obligations	327	344	361	380
Mobilization revenue	113	113	113	113
Deferred tax liabilities	184	184	184	184
Total non-current liabilities	**3,301**	**3,198**	**1,015**	**2,334**
Shareholders' equity				
Share capital	890	890	890	890
Additional paid-in capital	791	791	791	791
Statutory reserve	267	267	267	267
Retained earnings	3,984	4,020	4,108	4,210
Total equity	**5,938**	**5,974**	**6,062**	**6,164**
Total liabilities	**10,535**	**10,290**	**10,057**	**9,484**

Source: Al Rajhi Capital estimates

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Contact us

Dr. Sultan Altowaim
Head of Research
Tel : +966 11 836 5468
Email: AltowaimS@alrajhi-capital.sa

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com
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