

Target Price: SAR107/share
Current Price: SAR92.7/share
Upside: +15.5% (+2.2% Div. Yield)
Rating: **Overweight**

Arabian Drilling Co.

Fleet reactivation to drive earnings recovery in 2026

- Set for a strong 2026 start driven by the reactivation of five rigs and its first international contract, raising active fleet by 5 to ~50 by 1Q26 (40 onshore and 10 offshore)
- EBITDA is likely to increase by low double-digit percentage in 2026e, driven by high-digit top-line growth, margin expansion, and cost efficiencies.
- Post reactivation of 5 rigs, our revised 1Y Fwd TP stands at SAR107/share based on DCF and EV/EBITDA (8x on 2026e EBITDA), implying an Overweight rating on the stock.

3Q25 results: ADC reported a 3Q25 top-line at SAR835mn (-3.1% q/q), largely in line with our estimate of SAR808mn (consensus: SAR815mn), but beating its guidance of up to 10% q/q decline. The sequential revenue decline is primarily due to lower rig activities, offsetting the contribution from the newly acquired MVSP. Utilization rates declined from 78.7% in 2Q25 to 73.8% during the quarter, with the active number of rigs dropping from 48 in 2Q25 to 45 (49 expected) in 3Q25. Gross profit declined ~18% q/q to SAR101mn, above our estimate, with the gross margin narrowing by 2.2ppts q/q to 12.1% (vs. 10.4% expected). This is mainly due to the weaker performance of the onshore segment, which witnessed a decline in margin, likely due to lower land move activities, offsetting an improvement in offshore margin (+3.2bps q/q to 25.9%). Further, operating profit declined by over 17% q/q to ~SAR55mn, beating our estimates, mainly due to better-than-expected margins and improved operating efficiencies (-18% q/q decline in OPEX). Overall, ADC reported net losses of SAR9.4mn, lower than our loss estimate of ~SAR20mn, due to lower-than-expected financial costs and/or zakat expenses.

Solid start in 2026 with multiple rigs activation... ADC is poised for a strong kickoff in 2026 with a robust backlog of SAR11bn (avg. contract tenor: 2.4 years), following a series of operational and contractual milestones. ADC has received notices of resumption for five rigs—two offshore and three land-based—with operations likely to begin during 1Q26. This momentum builds on ADC's robust contract renewal performance in 9M25, where 22 (4 in 1Q25 and 6 in 2Q25, and 12 in 3Q25) out of 24 rig contracts were successfully renewed or extended, notably including eleven gas land rigs. Adding to its strategic expansion, ADC secured its first international contract (SAR75mn), marking a significant step in its global footprint. ADC has also indicated that renewals for the remaining two rigs are forthcoming, indicating a healthy growth in 2026.

Figure 1: Key financial metrics

SARmn	2023a	2024a	2025e	2026e	2027e
Revenue	3,477	3,619	3,443	3,711	3,739
Revenue growth	29%	4%	-5%	8%	1%
Gross Profit	976	760	507	723	740
Gross Profit margin	28%	21%	15%	19%	20%
EBITDA	1,485	1,403	1,270	1,408	1,415
Op. income	801	566	316	517	533
Net profit	605	321	77	278	337
Net profit margin	17%	9%	2%	7%	9%
EPS (SAR)	6.8	3.6	0.9	3.1	3.8
P/E	13.6x	25.7x	107.0x	29.7x	24.5x

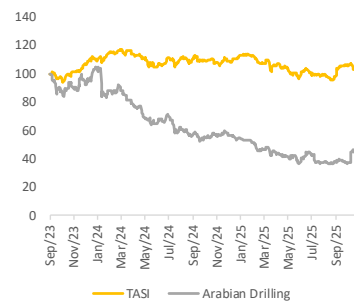
Source: Company data, GIB Capital

Stock data

TASI Ticker	2381
Mkt cap (SARmn)	8,250
Trd. Val 3m (SARmn)	22.3
Free float	30.0%
QFI holding	6.2%
TASI FF weight	0.10%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Accordingly, we expect the total active fleet to rise from 45 by 2025-end to 50 by 1Q26e (10 offshore and 40 onshore out of 60 available fleet), driven by the reactivation of 5 earlier suspended rigs, a new offshore rig short-term contract in the UAE, offsetting the return of one of the lease rigs (likely by 2025-end). In addition, day rates are expected to remain stable in 2026e (with a possible upside risks for offshore dayrates amid the tight market), aided by the reactivation of 5 rigs at the prevailing market rates, the absence of a temporary discount given for 2 Jack-ups in 2025, and a strong renewal track record, resulting in a high single-digit top-line growth in 2026, despite weak expected revenues (-5% y/y drop) this year.

... resulting in margin expansion and double-digit EBITDA growth in 2026e: ADC anticipates its 4Q revenue to remain largely unchanged sequentially (in line with our estimate), with a potential risk of 5% q/q decline due to the full impact of the 3Q25 temporarily suspended rig, partially offsetting likely higher rig move activities. Further capex for 2025 is guided at SAR800mn (in line), including the majority of capex for recently announced rig resummptions. Nonetheless, we expect the top-line to recover notably, growing ~8% y/y to SAR3.7bn (SAR3.4bn in 2025e) in 2026e, driven by higher active rigs on the reactivation of 5 rigs, improved utilization, and stable day rates. This, coupled with likely improvement in cost efficiencies driven by multiple rigs reactivation, the return of one low-margin offshore lease rig, and higher offshore revenue contribution, should drive EBITDA growth by a lower double-digit percentage in 2026e with EBITDA margin likely expanding by over ~1ppt y/y to 37.9% by 2026e (35.1% in 3Q25 and 36.9% in 2025e).

Valuation and risks: Post revision in our estimates and factoring the 5 recall rigs during 1Q26, we set our target price at SAR107/sh. based on the DCF valuation method (9.0% WACC and 2% terminal growth) and EV/ EBITDA (8x on 2026e EBITDA), implying 15.5% upside from the current price. We see as a good buying opportunity at the current level, due to i) a recovery in earnings in 2026 post resumption of 5 rigs (2 offshore and 3 onshore), ii) a likely margin expansion on cost efficiency, iii) the absence of any further impairment, iv) strong 2026 e FCF yield (~10% with ~55% FCF conversion rate) and v) a potential recovery in DPS in 2026 (subject to new board's approval). In addition, opportunities in conventional and unconventional gas drilling in the Jafurah gas field (which we are not factoring into our forecasts) and a possible resumption of the remaining suspended/idle rigs would act as upside risks to our valuation.

The upside risks include higher-than-expected deployment of idle rigs, any further regional/global expansion, and better-than-expected revision in day rates on renewals. Key downside risks include global economic slowdown/recession caused by geopolitical issues/high-interest rate environment, weaker-than-expected oil demand, oversupply in the rig market leading to a fall in day rates, high dependency on Saudi Aramco, a delay in deployment of additional rigs, environmental concerns, and a change in the energy mix.

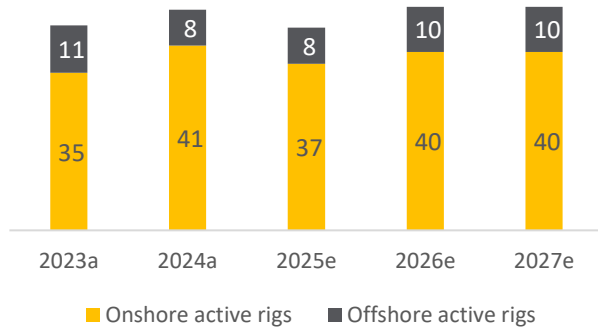
Figure 2: 3Q25 result

SARmn	3Q25	3Q24	y/y %	2Q25	q/q %	GIBC est.	Variance %
Revenues	835	863	-3.2%	863	-3.1%	808	3.4%
Cost of sales	735	684	7.4%	740	-0.7%	724	1.5%
Gross profit	101	180	-43.8%	123	-18.0%	84	19.6%
Opex	46	36	26.3%	56	-18.4%	51	-10.8%
Operating profit	55	144	-61.5%	67	-17.6%	33	66.1%
Net income	(9)	85	NM	8	NM	(20)	52.0%
Gross margin	12.1%	20.8%		14.3%		10.4%	
Operating margin	6.6%	16.6%		7.8%		4.1%	
Net margin	-1.1%	9.8%		0.9%		-2.4%	

Source: Tadawul. GIB Capital

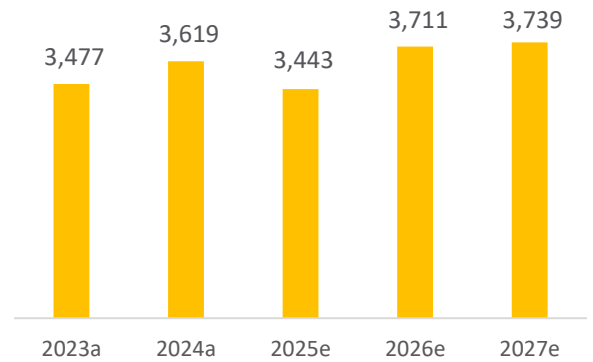
Financial analysis in charts

Figure 3: ADC's active rigs trend



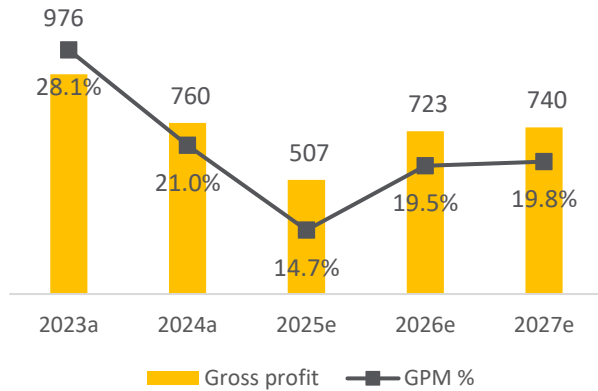
Source: Company data, GIB Capital

Figure 4: Revenue trend (SARmn)



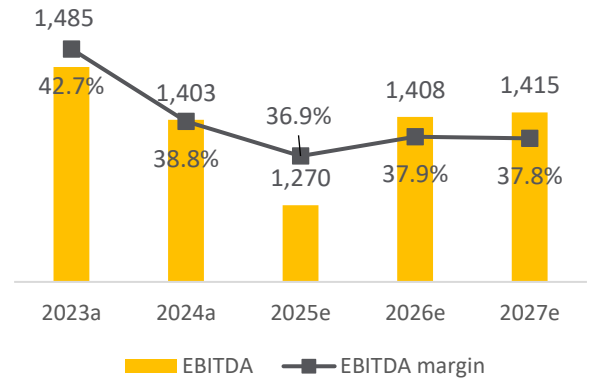
Source: Company data, GIB Capital

Figure 5: Gross profit (SARmn) and margin trend



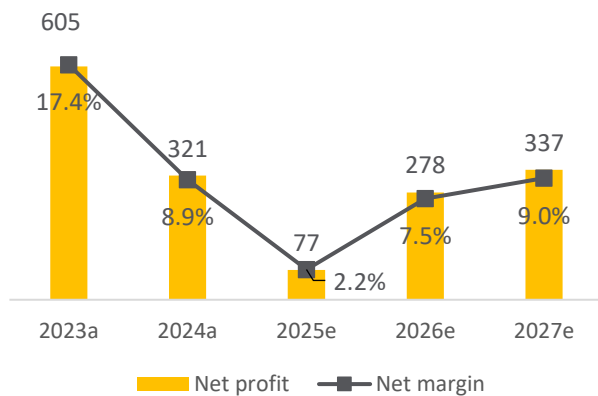
Source: Company data, GIB Capital

Figure 6: EBITDA (SARmn) and EBITDA margin



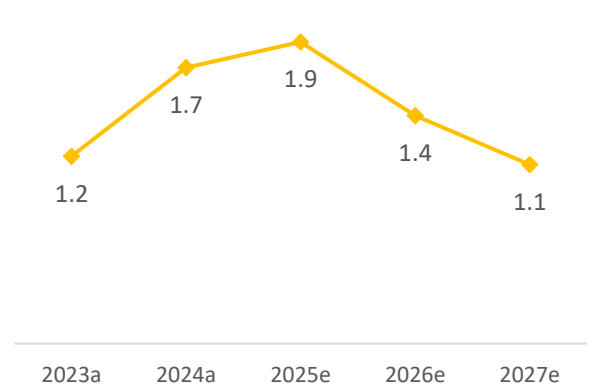
Source: Company data, GIB Capital

Figure 7: Net profit (SARmn) and net margin



Source: Company data, GIB Capital

Figure 8: Net debt to EBITDA trend



Source: Company data, GIB Capital

Financials

Figure 9: Financials

Income statement	2024a	2025e	2026e	2027e
Revenue	3,619	3,443	3,711	3,739
revenue y/y	4%	-5%	8%	1%
COGS	2,859	2,936	2,988	2,999
Gross Profit	760	507	723	740
Gross Profit margin	21%	15%	19%	20%
G&A	205	213	217	218
Other expenses / (income)	(10)	(22)	(11)	(11)
Operating profit	566	316	517	533
Operating margin	16%	9%	14%	14%
Finance costs	229	217	192	140
Net income	321	77	278	337
Net margin	9%	2%	7%	9%
y/y	-47%	-76%	261%	21%
EPS	3.6	0.9	3.1	3.8
DPS	2.7	0.7	2.0	2.8
Payout	75%	81%	64%	75%
EBITDA	1,403	1,270	1,408	1,415
Net debt	2,441	2,414	1,987	1,525
Balance Sheet	2024a	2025e	2026e	2027e
Inventories	309	317	327	329
Trade Receivables	780	802	864	819
Other Current Assets	16	16	16	16
Cash and Equivalents	582	505	713	158
Total Current Assets	1,686	1,640	1,922	1,322
Intangible Assets	51	54	58	61
Property, Plant & Equipment	8,710	8,642	8,248	7,866
Total Non-Current Assets	8,848	8,719	8,328	7,950
Total Assets	10,535	10,359	10,250	9,272
Current Liabilities	1,296	1,094	3,100	1,054
Non-current Liabilities	3,301	3,312	1,097	2,082
Equity	5,938	5,953	6,053	6,137
Total Equity and Liabilities	10,535	10,359	10,250	9,272
BVPS	66.7	66.9	68.0	69.0
Cashflow	2024a	2025e	2026e	2027e
Cashflow from Operations	1,750	914	1,104	1,218
Cashflow from Investing	(1,864)	(824)	(500)	(504)
Cashflow from Financing	(740)	(167)	(396)	(1,270)
Total Cashflows	(854)	(77)	209	(556)

Source: Company, GIB Capital

Figure 10: Key ratios

Key ratios	2024a	2025e	2026e	2027e
Profitability ratios				
RoA	3%	1%	3%	4%
RoE	5%	1%	5%	5%
Sales/Assets	34%	33%	36%	40%
Net margin	8.9%	2.2%	7.5%	9.0%
EBITDA margin	38.8%	36.9%	37.9%	37.8%
Liquidity ratios				
Current Assets/ Current Liabilities	1.3	1.5	0.6	1.3
Debt to Total Equity	50%	49%	45%	27%
Receivable Days	79	85	85	80
Inventory Days	39	39	40	40
Payable days	112	100	99	93
Debt ratios				
Net Debt/EBITDA	1.7	1.9	1.4	1.1
Debt/Assets	0.3	0.3	0.3	0.2
Valuation ratios				
P/E	25.7	107.0	29.7	24.5
P/B	1.4	1.4	1.4	1.3
EV/EBITDA	8.0	8.9	8.0	8.0
FCF yield	-1.1%	4.0%	9.8%	10.5%
Div Yield	2.9%	0.8%	2.2%	3.1%

Source: Company, GIB Capital

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