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ADNOC DRILLING COMPANY P.J.S.C.

Acquisition of 80% Stake in MBPS

Webcast & Conference Call Transcript

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PRESENTATION

Operator

Hello, and welcome to today's ADNOC Drilling webcast and conference call about the acquisition of an 80% stake in MB Petroleum Services. My name is Bailey, and I will be the operator for today's call.

All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. If you would like to ask a question, please press star followed by one on your telephone keypad.

I'd now like to pass the conference over to Mr. Abdulla Ateya Al Messabi, ADNOC Drilling CEO. Please, go ahead.

Abdulla Al Messabi - *ADNOC Drilling - Chief Executive Officer*

Thank you. Thank you very much, and a very warm welcome from my perspective as well, and thanks for joining us today. We have called for this call really to brief you about the very exciting transaction we have done.

This is the second transaction in the region, and we are really, really glad we have managed to reach the SPA milestone, and hopefully, we will close it by the first half of 2026. Very much aligned with our growth strategy: sustainable, profitable, smart growth.

I think this transaction will really add value at the moment we close. Good long-term contracts, good economics. EBITDA, I think a transaction at 4x is really, really a great transaction.

So, very much aligned with our strategy in terms of profitable growth in the region. As I said, I think we have clear, focused priorities. One of them is the sustainable smart growth, which this transaction is part of that pillar.

The other two strategies that I have shared with you in the last call is about really operational excellence, as well as scaling up our technology and AI platforms, and hopefully soon you will hear from us on the other basically strategy pillars, and how we are progressing.

I will hand over to Youssef to give you a little bit more detail about the scope of the transaction and the financials. Then we will open it for Q&A. Thank you very much.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you so much, Bu Mohamed. Again, reiterating Bu Mohamed's welcome to everyone. Thank you so much for taking the time, especially on a short notice. We were keen to speak to you at the earliest opportunity to walk you through this transaction, which we're extremely excited about. So, thank you again for taking the time.

I think starting with, as Bu Mohamed said, this has to be set within the overall strategic context. That context is really the accelerating growth that we're embarking on.

So, on top of the domestic accelerated growth initiatives, which we have gone through during the Majlis recently, in terms of the unconventional ramp up to 300-plus wells a year, the integrated drilling services ramp up to 70-plus rigs, and the additional island offshore drilling activity in 2029 and 2030.

On top of all of that, accelerated domestic growth. We're now also embarking on accelerated, inorganic growth, both through Enersol, where we continue to see very strong synergies and deployments on the ground by the Enersol company, as well as now through our regional growth, which started with the partnership with SLB earlier this year, starting with eight rigs.

Now, through this additional partnership with MBPS, we're adding on another 21 rigs, both doubling down on our footprint in Oman and Kuwait, where now we effectively, with 19 rigs, will become the third largest drilling company in Oman.

And with six rigs, we become one of the top seven drilling companies in Kuwait, as well as the four rigs in Bahrain, as well as the oil field service in Saudi, as well as the additional pre-qualifications in additional countries of operation, which opens up for us additional opportunities to expand even further in the region on both drilling and oil field services.

I think with this second acquisition now, we're really transforming this into a consistent blueprint, and with the amount of similarities between the first and the second deal, which we'll walk you through, this now really is a full roll-up strategy that we're able to execute on consistently, and in a very disciplined way to continue to accelerate growth further.

So, if we go into the details of this transaction, we're taking an 80% stake, and hence keeping with us the partners, which is a long-standing, blue-chip, well-reputed family in Oman with a 20% stake.

Also, in the other countries of operations, like Kuwait, they've established JVs with four different local partners. So, effectively, we have the relationships now both in Oman and in Kuwait with local family groups that really allow us to continue to have the local relationships on the ground, which continue to future-proof the business.

From a perimeter perspective that includes 21 rigs, all of them are working, all are contracted. Out of these, you have 13 in Oman, four in Kuwait, and four in Bahrain. These rigs also vary from a horsepower perspective. Between these rigs and the SLBs we've done earlier this year, we now have everything from 550 horsepower all the way to 3,000 horsepower across these countries, and hence being able to span all the type of horsepower that the client wants, as well as the compatibility with our operations in Abu Dhabi across the different horsepower, providing us additional regional mobility and flexibility for our regional footprints.

From a financing perspective, we already have in place undrawn facilities that allow us to fully fund this transaction with debt, and hence it has no impact at all on our continued dividend policy, both the guaranteed minimum dividend as well as the additional potential discretionary dividend on top.

This effectively goes as part of our strategy to add additional leverage on the balance sheet to optimize the capital structure and continue to grow both the business and the dividends.

With that, it is immediately accretive on all fronts. So on earnings, it's immediately accretive. On free cash flow yield, it's double-digit compared to our high single-digit. On IRRs, it is mid to high teens compared to our low teens, so effectively it's accretive on all levels for us, similarly for return on equity, et cetera.

It will be fully consolidated in our financial results, and hence it will translate into immediate revenue, EBITDA, and net income growth for us from as soon as the second half of next year, and then the full financial impact will be in 2027.

That's why when we come to talk about the guidance, the impact of this will really appear once we release the full 2027 guidance. That's where you would have the step change from this.

We also have an agreed mechanism in place in terms of call and put options to be able to buy the remaining 20% stake after three years, which means that we have a clear sight down the line to be able to extract even more synergies between SLDC and MBPS, and any other additional opportunities we pursue.

For now, there are synergies between them, while our biggest focus is on maintaining these local relationships on the ground, and with time, we'll have even more avenues to consolidate and drive even more synergies.

From a size perspective, as we have discussed, effectively, we are focusing on specific markets in order to be able to really achieve synergies and size in these markets.

So, by being the third largest player in Oman, and within touching distance of players number one and number two, in terms of size, we're really able to build a sizable position. In Kuwait, that is effectively, ultimately, what we're also continuing to push forward.

In terms of the margins of this business, so on an overall blended margin, we're around 30%. The drilling margins are higher, are closer to the high 30% to the 40%, but we have also the oil field services business that is a lower margin, but a higher return business due to the asset-like nature.

So, overall, we have a 30% EBITDA margin, which overall, is effectively - continues to be accretive from a returns perspective for our business.

From a top line, that's around $190 million top line with growth, effectively that will add a couple of $100 million at least by 2027 to our top line. Hence, effectively, it will be a boost.

On EBITDA, that's currently around $56 million. So, again, by 2027, that will be an incremental $60 million for our current EBITDA coming from this fleet.

In terms of the rigs, if you look at the core drilling rigs, for example, the six rigs in Oman, five out of which are built in the last five years, and four out of the five are built in the last three years. So, this is a new fleet, effectively, that we're able to kind of carry value on for a very long time.

On the contracts, this is a $900 million backlog. These are some of the longest contracts you'll be able to find in the region outside Abu Dhabi, where some of these contracts are six years firm, plus two-year extension option, plus another two years, so for around 10 years. Some of these expiries go all the way until 2033, and hence they really give us long-term visibility on the business.

With $900 million backlog, at a 30% EBITDA margin, that's close to $270 million of implied EBITDA backlog. That's more than the entire valuation of the business, and hence we're able to recover the principal, plus a base level of return just from the contracted cash flows of the business over the next few years.

We're operating in resilient geographies, Kuwait ramping up to 4 million barrels per day by 2035. Oman as well, ramping up its capacity to above a million barrels a day. De-risked by operating with world-class operators like KOC in Kuwait, PDO in Oman, as well as some of the independent operators in Oman, like Oxy. Long-standing relationships with these clients.

From a valuation perspective, we continue to come in at lower than four times, closer to three and a half times, and hence completely de-risking this from a valuation perspective as well, and basically kind of recovering and having it paid back within a very short period of time.

Further upside potentially to come from having more oilfield services come into these countries, as well as now we have a significant pipeline of tenders in these countries for both rigs and services, which now, with the operation and track record on the ground, we will be very well positioned in these tenders.

So, maybe to recap quickly, strategically, very much doubling down our strategy, for geographies, expanding capacity, high-quality clients, young rigs that are able to serve them. A full fleet of capabilities from a horsepower perspective.

Financially, it's accretive on every front: earnings per share, free cash flow yield, IRR.

From a capital structure perspective, allows us to deploy a little bit more leverage, effectively extract more cash flows and hence improve the capital structure and the returns. Then, really a springboard to deploy additional rigs, additional services, and go further.

So we see it on one side, very much a core validation testament to the strategy we've all aligned on. Second, really demonstrating that this was not just one deal with SLDC, but is a clear blueprint that we're now able to continue to take further.

Thank you again for taking the time. We're very much looking forward to closing this within the first half of next year after all the regulatory approvals are completed. We would love for Bu Mohamed and myself to take any questions you have.

QUESTIONS AND ANSWERS

Anna Kishmariya - *UBS*

Good day. Thank you very much for doing this call to present the deal. It's always very helpful. I have several questions, please.

First, maybe you can comment around the day rates in the countries, and how it differs from maybe the previous deal. The second question would be around timing for the contract. So, in the presentation, you mentioned that four rigs contracted for six years. Could you provide some color around the other remaining contracts?

My third question will be around, after these two deals, can we expect any further? Because I remember that you were mentioning that possibly near-term target is to increase the rig fleet internationally to around 30 rigs. So, you're already there. Should we expect a pause now? Or do you see some further upside?

Thanks so much.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thanks a lot for the questions. I think on the first one, if you look at the day rate, the first transaction was done, it was around $125 million on around eight rigs. So, we were looking at around $15 million to $16 million per rig per year in terms of revenue.

Which was implying a blended day rate of around $40,000 per day, and that is because the majority of the rigs were towards the higher horsepower that we effectively had.

If you look at the second transaction we've done, if you look at the revenues of the drilling part of the business, it's around $140 million, or closer to 20 rigs. You can see that the revenue per rig is closer to around $7 million, which is closer to around $20,000 day rate. That is because the majority of the rigs are towards the lower horsepower.

From a returns and a margin perspective, you will see that they are relatively similar. So, on the drilling side, if you exclude the OFS, both of them trend between the high 30% to the 40% EBITDA margin.

However, the difference in the implied day rate is a function of the kind of the portfolio of the rigs. So, that's why for us the real focus is on being able to deliver the right returns and the right margins with them, and the day rates will vary depending on that horsepower.

In terms of your second question, in terms of the backlog, so the average kind of remaining contract period that we have in this business is around five years. So, some of them go all the way until 2033, which effectively gives us from now up to seven additional years. Some of them are shorter to three to four years. The blended average remaining life in the contracts we have is around five years remaining.

I think on your third question, obviously, as because we wanted to always guide very conservatively, we always use the round 30 rigs number because, obviously, we had that deal very advanced in the works, and hence had a very high visibility.

We have additional opportunities to deploy additional rigs, whether organic and/or inorganic. At this point, they're still at an earlier stage compared to where this deal was when we're more comfortable guiding toward it. Hence, at that point, we are definitely confident we'll be able to scale above the 29, and hopefully add a meaningful number of additional rigs in the medium term.

In terms of providing more specificity on that guidance, we'll do that immediately once we're more advanced in some of the tenders or the deals, to the level that allows us to give that level of specificity, again, that this is the number of rigs we're expecting, but we definitely see it as a growth driver that will continue to deliver in the medium term.

Anna Kishmariya - *UBS*

Thank you very much.

Ildar Khaziev - *HSBC*

Thank you so much. Youssef, when you talked about the sort of upside you mentioned new tenders in these countries. What sort of tenders are these? I think there is a pipeline of tenders for jack-up rigs in Kuwait, for instance. Is this something you will be also chasing, or the focus is rather on the onshore services, given the nature of your position so far? Thank you.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

So, on the offshore side, we are currently undergoing the pre-qualification process. We have very good engagement, at the highest level. We obviously have a very strong track record in offshore, in Abu Dhabi, where we have been operating for the last 50 years. We've done some of the most complex wells, high temperature, high pressure wells. We hold - on the offshore side, we hold the record for some of the longest laterals that have been done globally in offshore. So, we are very capable in that space, and we are going through this pre-qualification process, and having very strong progress.

Once that is - administrative process completed, then we'll be able to tender for these jack-ups. In the meantime, the tender that we’ll be pursuing in the immediate short term are the ones on the land-drilling and the oil field services side.

Ildar Khaziev - *HSBC*

Thank you.

Giuseppe Villari - *Morgan Stanley*

Hi. Thank you for the opportunity to ask questions. We have two, if we may.

The first one is about the services in Saudi. Does this acquisition offer you services that you don't currently have in your portfolio, or is there stuff that you can already offer your client?

Then secondly, for the pre-qualifications, for instance in Qatar, is it for both drilling and services? Thanks.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

Thank you. So, I think on the first part of your question, yes, on both. Effectively, one is MBPS offers us pre-qualifications in areas where we do not have, currently, pre-qualifications in terms of service, in terms of certain geographies. Hence, it's the ability to deploy services we already have, but into additional geographies that we now have access to.

A second is - the other thing is, it also offers some additional services. We were effectively gradually expanding into, for example, something like well testing, which was always part of where we were evolving.

As you are taking a step back, we started with drilling, then effectively drilling oil field services, then completion and then production services. So, effectively, with MBPS having some of these production services in place, like well testing and others, it's basically allowing us more geographic synergy as well as product synergy in terms of further expansion to that area.

I think when it comes to Qatar, so from an MBPS perspective, the focus is on the onshore opportunity, in terms of being able to bring some of the services like the fluids, et cetera, which they are doing in Oman in terms of being able to do that supply chain onshore, and then ultimately to serve offshore, effectively logistics around the provision and the servicing around the provision of the chemicals. So that's an opportunity that we see through MBPS, separately through ADNOC Drilling longer term, there can be an opportunity around the potential jack-ups in Qatar. That is more of an ADNOC Drilling opportunity for the medium to long-term.

The immediate opportunities through MBPS will be more of the complementarity in Qatar, through some of the services that they offer, like the drilling fluids and the chemicals, which are already established in Oman, and can be extended to Qatar.

Giuseppe Villari - *Morgan Stanley*

Thank you very much.

Anna Kishmariya - *UBS*

Thank you very much for taking my follow-up. Just a quick question, do you plan to - do you need to invest any additional CapEx for the rigs to maybe do some upgrades? Do you plan any investments further than the planned amount? Thanks.

Youssef Salem - *ADNOC Drilling - Chief Financial Officer*

So, currently, the business operates at around just under $60 million EBITDA. Around half of that at the current level is being reinvested predominantly into CapEx in terms of maintenance and upgrades, and then the remaining in terms of working capital, et cetera. So, the net income free cash flow level is around half of that, at just around $30 million.

In the medium term, there will be an opportunity for that to expand closer to $40 million of free cash flow, as effectively this kind of upgrade CapEx comes down, and we move into a more regular maintenance CapEx, which will be on average closer to just under $1 million per rig per year.

Anna Kishmariya - *UBS*

Thank you very much.

Operator

Thank you. There are no additional questions waiting at this time. That will close today's call. Thank you all for your participation. You may now disconnect your lines.