The ADNOC Advantage

Visible income, resilient cash flows and Abu Dhabi-backed growth

We initiate coverage on ADNOC Distribution, ADNOC Drilling and Borouge with Buy ratings. The stocks offer differentiated exposure to ADNOC's integrated platform,XRG-led growth ambitions and Abu Dhabi's strategic backing. Visible dividends, contracted cash flows and DCF-based upside underpin an attractive total return opportunity.

بنك أبوظبي التجاري
ADCB

Executive summary

ADNOC's listed operating companies offer investors a unique opportunity to gain exposure to one of the world's most strategically important integrated energy platforms, underpinned by Abu Dhabi's sovereign wealth and a multi decade investment program.

ADNOC (A globally relevant, integrated energy and industrial platform): ADNOC is the state-owned energy company of Abu Dhabi and a central pillar of the UAE energy landscape, supported by one of the world's largest hydrocarbon resource bases. Global oil demand is expected to rise from 100mbpd in 2024 to 113mbpd by 2050, mainly driven by emerging markets. In our view, ADNOC is well positioned to capture this incremental global demand through its low-cost reserves, competitive operating structure and long-term investment program. Investors gain diversified exposure to ADNOC through its six listed subsidiaries on the ADX, which have delivered strong returns through capital appreciation and reliable dividends.

XRG (ADNOC's global energy and industrial investment platform): XRG is ADNOC's international investment arm, focused on natural gas, chemicals, and lower carbon energy solutions. Its enterprise value has increased from more than $80bn (Nov 2024) at launch to $151bn (Nov 2025) and is a key platform for ADNOC's global expansion. XRG broadens ADNOC's investment case beyond upstream hydrocarbons by adding scale, global market access, and exposure to structural growth in LNG, chemicals, specialty materials, AI driven infrastructure and lower carbon infrastructure.

ADNOC Drilling (High-visibility growth, resilient margins, and strategic expansion): ADNOC Drilling offers a compelling investment case anchored in long-term contracted cash flows, exceptional margin resilience, and multi-year volume growth tied directly to ADNOC's upstream expansion plans. The company operates under a unique rig framework agreement that guarantees fixed returns and protects margins through cycles, resulting in consistently high EBITDA margins across its drilling businesses. Growth visibility is strong, supported by ADNOC's push toward 5mbpd capacity by 2027E, rising unconventional activity, and disciplined regional expansion via accretive acquisitions. Our DCF-based fair value is AED 7.00, implying upside of 20%, and we initiate coverage with a Buy rating on the stock.

Borouge (Advantaged feedstock and resilient margins): Borouge is an advantaged polyolefin producer with a premium product portfolio, backed by Borstar production technology, and a cost-efficient feedstock agreement with ADNOC. The business consistently operates in the first quartile of the global cost curve, supporting superior and stable EBITDA margins that have remained resilient even as global peers faced volatility from benchmark polymer prices. Our DCF-based fair value is AED 3.00 per share, implying upside of 18%, and we initiate with a Buy rating on the stock.

ADNOC Distribution (Stable cash generator with scalable growth): Offers a highly defensive cash-flow profile supported by regulated margins in the UAE, long-term supply agreements with ADNOC, and a diversified retail and commercial franchise. The UAE fuel retail business, its core engine, benefits from at least 45 Fils per litre in guaranteed gross margins and protection against inventory losses, creating a stable floor for profitability. The company targets a 1,150-station network by 2028, and the non-fuel retail ecosystem continues to scale through higher convenience store transactions and rollout of The Hub, a high-margin, lease-focused format. Our DCF-based fair value is AED 4.65, which implies upside of 17%, and we initiate with a Buy rating on the stock.

Risks: Geopolitics & supply-chain disruption; ADNOC Drilling: OFS margin dilution/activity sensitivity; Execution risk (unconventional + regional expansion); Borouge: Polyolefins oversupply / pricing pressure; BGI integration & leverage; ADNOC Distribution: Margin compression from international expansion; Execution risk on network & non-fuel scaling.

ADNOC Drilling (ADNOCDRI UH)	
Initiate at Buy	
Fair value	Previous Fair Value
AED 7.00	–
Current price	Upside/(Downside)
AED 5.84	+20%

ADNOC Distribution (ADNOCDIS UH)	
Initiate at Buy	
Fair Value	Previous Fair Value
AED 4.65	–
Current price	Upside/(Downside)
AED 3.97	+17%

Borouge (Borouge UH)	
Initiate at Buy	
Fair Value	Previous Fair Value
AED 3.00	–
Current price	Upside/(Downside)
AED 2.55	+18%

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Abbreviation/Definitions

ADNOC	Abu Dhabi National Oil Company
ADX	Abu Dhabi Securities Exchange
APAC	Asia Pacific
BGI	Borouge Group International/ Borouge International
CAGR	Compound annual growth rate
CFR	Cost and freight
DCF	Discounted cash flow
DOCO	Dealer-owned company operated
EIBOR	Emirates interbank offered rate
ERP	Equity risk premium
EV	Electric vehicle
FOB	Free on board
IDS	Integrated drilling services
IEA	International Energy Agency
JV	Joint venture
KSA	Saudi Arabia
KT	Kilo tonnes
MBPD/mbpd	Million barrels per day
MBPS	MB Petroleum Services
MEA	Middle East and Africa
MENA	Middle East North Africa
MSCI	Morgan Stanley Capital International
MT	Million tonnes
MWD	Measurement while drilling
NEA	Northeast Asia
NFR	Non-fuel retail
NOC	National oil company
OFS	Oilfield services
OpCOs	Operating companies
PE	Polyethylene
PP	Polypropylene
ROIC	Return on invested capital
SKU	Stock keeping unit
SLB	Schlumberger
TCF	Trillion cubic feet
TEME	TotalEnergies Marketing Egypt
UAE	United Arab Emirates

ADNOC: the fully integrated NOC

Abu Dhabi National Oil Company (ADNOC) is the state-owned energy company of the Emirate of Abu Dhabi and plays a central role in the United Arab Emirates energy ecosystem. The group operates as a diversified platform across development, production, refining, logistics, marketing, and trading, positioning it as a key participant in meeting the evolving requirements of the global energy market.

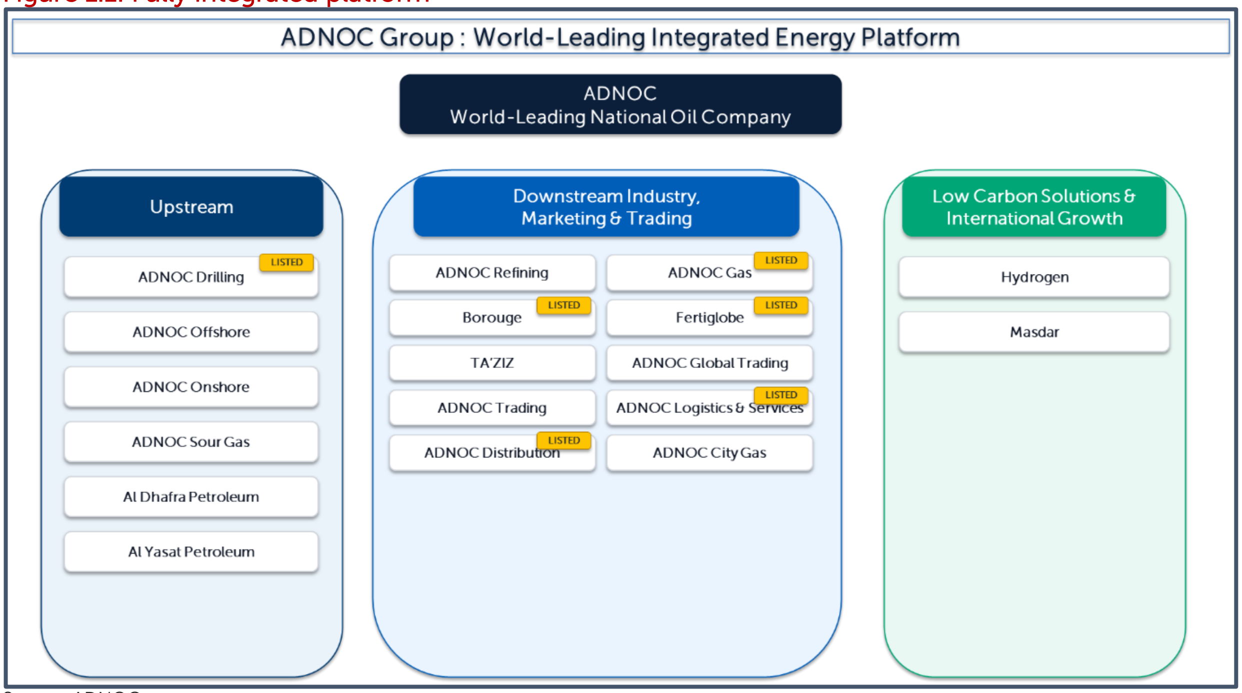
ADNOC is owned by Abu Dhabi Government and is the primary custodian of Abu Dhabi's oil and gas reserves. It benefits from the UAE's standing among the top holders of hydrocarbon resources worldwide. The company's oil reserves are estimated at 120bn stock tank barrels, while its natural gas reserves are 297tn standard cubic feet. These assets provide ADNOC with a substantial and long-duration resource base, supporting long-term investment visibility and strategic expansion plans.

Full value chain integration

ADNOC, a truly integrated national oil company, with operations spanning the full oil and gas value chain, from upstream resource development and drilling to gas processing, refining, chemicals, trading, logistics, distribution, and lower carbon solutions.

ADNOC's breadth is a key differentiator for listed company investors. Its listed entities are not isolated public market holdings; rather, they are embedded within a fully integrated energy ecosystem, supported by advantaged feedstock, captive infrastructure, deep market access, strategic sponsorship, and visible long-term growth pathways. This integration strengthens earnings resilience, improves capital deployment visibility, and gives each listed platform a clearer role within ADNOC's wider value creation agenda.

Figure 1.1: Fully integrated platform



Source: ADNOC

Backed by Abu Dhabi sovereign

ADNOC is wholly owned by the Abu Dhabi government, giving investors exposure to one of the world's strongest sovereign sponsors. Abu Dhabi is among the wealthiest regions globally, underpinned by large hydrocarbon reserves, substantial fiscal buffers, and strong sovereign ratings of AA by S&P and Fitch and Aa2 by Moody's.

The emirate also controls some of the world's largest investment platforms, including:

- ADIA, with AUM of $1.19tn (source: globalswf.com)
- Mubadala, with reported AUM of $385bn (source: mubadala.com)
- L'IMAD, with around $300bn in managed assets (source: reuters.com)

This depth of strategic backing is important for investors. ADNOC is not only a commercial energy platform. It is also a national champion aligned with Abu Dhabi's financial strength, policy priorities, and long-term economic agenda. This sovereign alignment supports funding access, enhances resilience through cycles, and strengthens confidence in the sustainability of ADNOC's listed platforms.

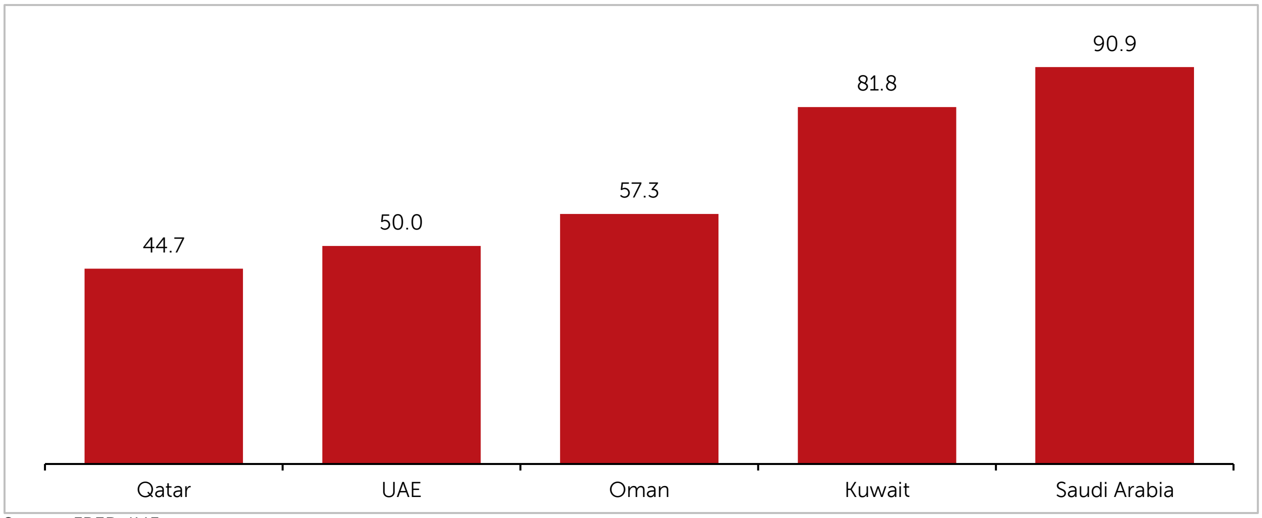
Low production cost and fiscal breakeven

ADNOC benefits from a structurally low-cost hydrocarbon base, which supports strong cash generation for both the group and the emirate across the cycle. ADNOC's low-cost and lower-carbon barrels reflect favourable geology, asset design, technology, and efficiency across the value chain

This cost advantage is reinforced by the UAE's low fiscal breakeven oil price. FRED reports the UAE's 2025 breakeven fiscal oil price at about $49.95/bbl, which represents the oil price required for the government to balance its budget. At around $50/bbl, the UAE's fiscal breakeven is low compared to other regional countries. FRED shows Saudi Arabia at about $90.9/bbl, Kuwait at about $81.8/bbl, Oman at about $57.3/bbl, and Qatar at about $44.7/bbl for 2025.

For investors in ADNOC's listed companies, a low fiscal breakeven reduces pressure on the sponsor during oil downturns and supports continuity of strategic capex. This strengthens confidence in ADNOC's ability to fund growth across drilling, gas, logistics, distribution, chemicals, and lower carbon businesses.

Figure 1.2: Fiscal breakeven prices (USD per barrel, 2025)

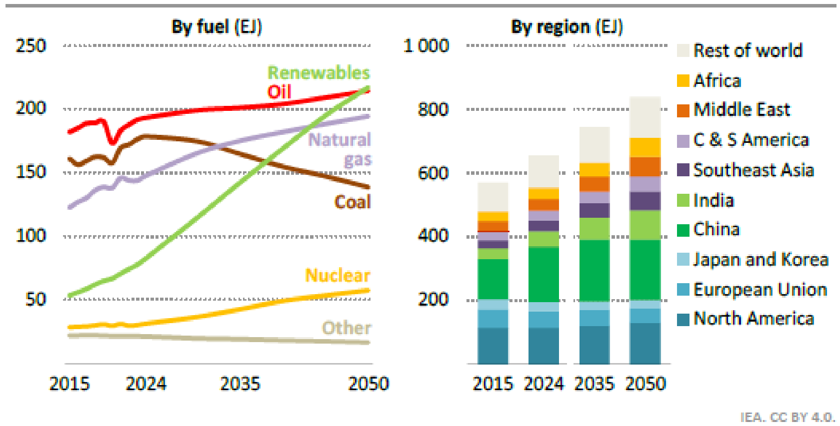


Source: FRED, IMF

Developing economies leading the future demand

According to the IEA Current Policies Scenario, which reflects only that energy measures already adopted in legislation and regulation, global energy demand increased by 1.6% per year between 2015 and 2024 and is projected to expand by a further 1.2% annually through 2035. Emerging market and developing economies accounting for around 90% of the increase. After 2035, demand growth is expected to moderate to an average of 0.8% per year.

Figure 1.3: Total energy demand by fuel and region



Around 90% of global energy demand growth comes from emerging market and developing economies, and global oil and natural gas use rises through to 2050

Notes: EJ = exajoule; C & S = Central and South America. Other includes traditional use of biomass and non-renewable waste.

Source: IEA

Oil remains the dominant fuel through 2050, and demand remains resilient on this trajectory. Global oil use stood at 100mbpd in 2024 and is expected to increase to 105mbpd in 2035 and 113mbpd by 2050, an average annual increase of roughly 0.5mbpd, driven by petrochemical feedstock needs, industrial activity and sustained expansion in aviation (Source: IEA).

Nearly all incremental barrels come from emerging markets, with India, Southeast Asia and Africa driving the bulk of consumption growth, as demand in advanced economies continues to decline. India alone accounts for almost half of global demand growth to 2035, with consumption rising from 5.5mbpd to 8.0mbpd driven by increasing car ownership, expanding plastics and chemicals consumption demand, and growing aviation activity.

As per IEA, meeting rising global demand requires contributions from a wider pool of producers, including higher output from existing suppliers, additional volumes from countries under sanctions and renewed development in higher-cost regions supported by structurally higher oil prices.

Against this backdrop, ADNOC stands in a favourable position. Strong underlying demand, combined with tightening supply conditions, underscores the strategic value of ADNOC's large reserve base and its ability to deploy long-term capital at scale. We believe its high-quality reserves, competitive cost structure and substantial planned investment programme together create a compelling platform for capacity expansion and sustained market share gains.

Large investments planned across the group

ADNOC is targeting continuous growth, underpinned by its low-cost production base and Abu Dhabi's low fiscal breakeven profile. This gives the group flexibility to pursue large-scale expansion while maintaining resilience through the cycle. ADNOC is now executing one of the most ambitious growth programmes among global NOCs, anchored by a board approved $150bn capex plan for 2026 to 2030 to maintain current operations and drive smart growth.

In May 2026, ADNOC announced AED200bn, or $55bn, of planned project awards for 2026 to 2028, spanning upstream and downstream operations and reinforcing delivery of its five-year capex plan. These investments enhance ADNOC's ability to meet rising global energy demand while expanding across the breadth of the group, including oil, gas, downstream, chemicals, and industrial localisation.

Figure 1.4: Selected planned investment across the ADNOC group

Area	Project/Programme	Description
Upstream: Gas development	ADNOC Ghasha	• Approved the creation of ADNOC Ghasha, a new operating company for the Ghasha Concession • Concession includes Hail, Ghasha, Dalma, SARB, and Nasr fields • Expected to produce 1.8bscfd of gas and 150,000 bpd of oil and condensates.
Upstream: Unconventional	Abu Dhabi unconventional gas and oil development	• Development of Abu Dhabi's unconventional resources • Reserves estimated at 160tscf of gas and 22bn stock tank barrels of oil.
Downstream: Chemicals	TA'ZIZ Phase 1 chemicals ecosystem	• Largest integrated chemicals platforms in the Gulf • Phase 1 projects underway • Expected to produce 4.7mtpa of industrial chemicals.
Downstream: Domestic industrialization	In Country Value programme	• Plans to drive AED220bn, or about $60bn, into the UAE economy over the next five years through ICV and "Make it in the Emirates' • Signed $21.8bn in local manufacturing offtake agreements and aims to source $24.5bn of industrial products domestically by 2030.
International growth	XRG	• XRG targets global opportunities in chemicals, natural gas, and lower carbon energy • Enterprise value increasing from about $80bn at launch to $151bn

Source: ADNOC

XRG: Strategic global investment platform

ADNOC's investment case is expanding through the addition of a new international growth platform that complements its core oil and gas business. The group continues to be anchored by its traditional strengths in upstream hydrocarbons, while also broadening its strategic profile into a more globally relevant energy and industrial platform.

The launch of XRG in November 2024 formalized this development, with an initial enterprise value of more than $80bn. XRG is ADNOC's international energy investment company, with a mandate spanning natural gas, chemicals, and lower carbon energy solutions. Its enterprise value has since increased to $151bn as of November 2025, reflecting the scale and strategic importance of the platform today.

ADNOC announced the internal transfer of its equity stakes in listed companies to XRG in September 2025. Importantly, this was an internal transfer rather than a change in ultimate control. ADNOC continues to retain control and ultimate ownership through its 100% shareholding in XRG. Day-to-day operations, management teams, strategic direction, and dividend policies remain unchanged. The listed company transfers deepen XRG's financial base and provide access to stable dividend streams. This gives XRG a stronger funding base and greater credibility as it scales internationally.

Three Platform Strategy

XRG's growth strategy is built around three core platforms: Global Chemicals, International Gas, and Energy Solutions by capitalizing on three structural megatrends:

- Transformation of energy systems
- Exponential growth in AI
- The rise of emerging economies

Together, these themes support demand for reliable gas, LNG, chemicals, industrial materials, lower carbon fuels, and energy infrastructure.

Global Chemicals: From feedstock advantage to global materials platform

Chemical demand is projected to increase by 70% by 2050, providing substantial headroom to companies for growth. Against this backdrop, XRG is targeting the creation of a top three global chemicals platform. In chemicals, XRG has moved quickly from ambition to execution through two major steps:

- Acquired Covestro, a global specialty chemicals and advanced materials company
- Created Borouge International through the combination of Borouge, Borealis, and NOVA Chemicals. This creates a global polyolefins champion with scale across Europe, the Middle East, and North America

International Gas: Building a top five global LNG and Gas platform

Management expects global natural gas demand to increase by 15% over the next decade, alongside a projected 65% increase in LNG demand by 2050. XRG's gas strategy is already visible through several concrete moves.

- In the United States, XRG acquired an 11.7% equity stake in Phase 1 of Rio Grande LNG in Texas, covering Trains 1 to 3, and later announced plans to acquire an additional 7.6% stake in Trains 4 and 5.
- Entered into a 20-year LNG offtake agreement for 1.9mtpa from Train 4. This gives XRG exposure to one of the world's most important LNG export markets and strengthens its North American gas position.
- bp and XRG have also established Arcius Energy, a new regional gas platform initially focused on gas assets in Egypt, with bp owning 51% and XRG owning 49%.
- In parallel, XRG has added exposure to Mozambique's Area 4 Rovuma Basin, Azerbaijan's Absheron gas and condensate field, and Turkmenistan's Offshore Block I.

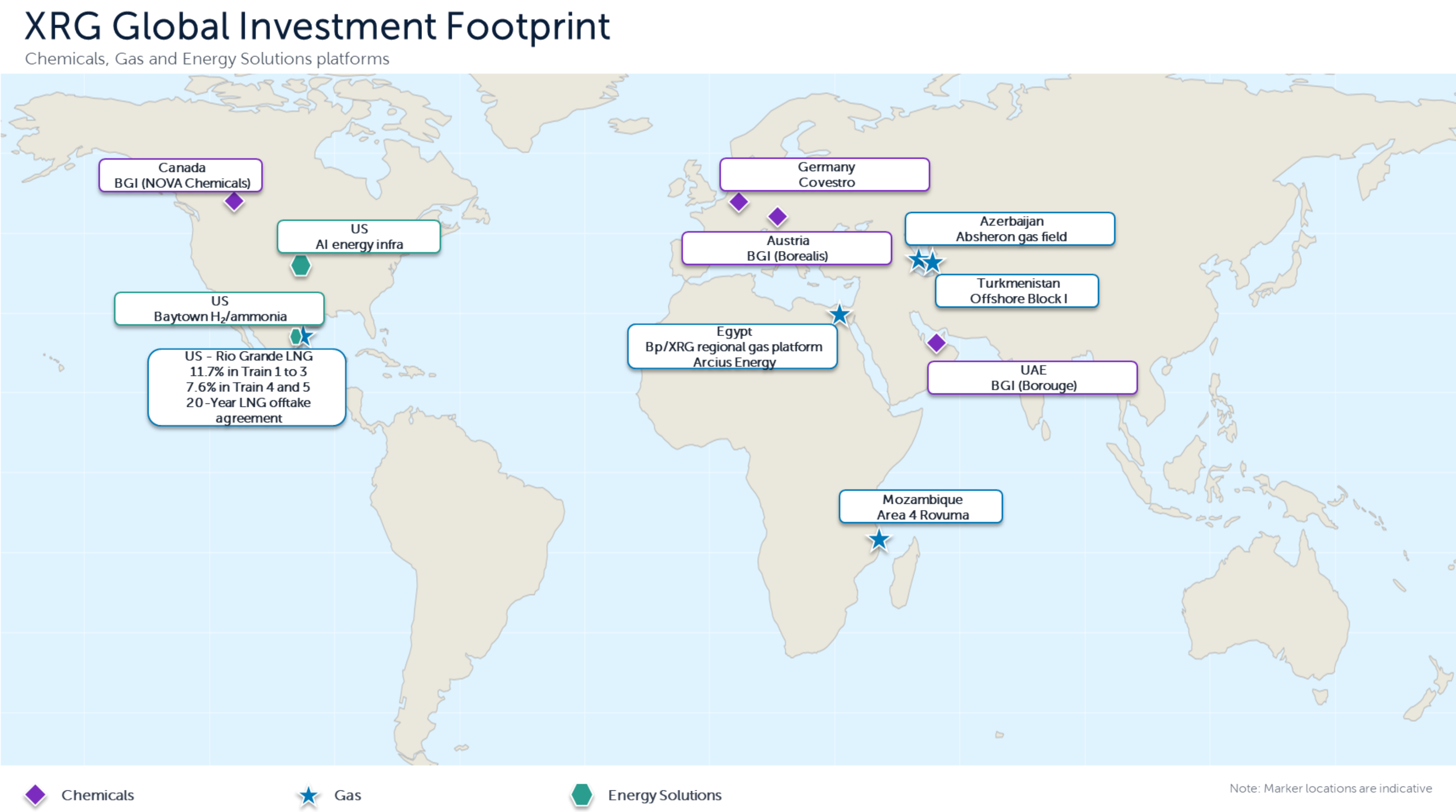
Energy Solutions: Lower carbon growth and AI linked infrastructure

The mandate of the Energy Solutions platform is to invest in solutions that meet rising demand for lower carbon energy and decarbonization technologies. In this context, XRG acquired

- 35% equity stake in ExxonMobil's proposed low carbon hydrogen and ammonia production facility in Baytown, Texas
- Plans to invest in US energy infrastructure to address rising demand from AI and digitalization

These investments expand XRG beyond conventional lower carbon fuels into the infrastructure required to support increasingly power intensive digital systems. As AI and data centre demand accelerate, energy security, gas supply, electricity infrastructure, and lower carbon solutions are becoming more closely interconnected. XRG is positioning itself at that intersection.

Figure 1.5: XRG selected investments



Source: ADNOC

XRG highlights an important evolution in ADNOC's strategic profile. ADNOC is building on its traditional role as a reserve owner and hydrocarbon producer by adding a broader role as a global capital allocator across energy molecules, industrial materials, and lower carbon infrastructure. Upstream cash flow remains the foundation of the model. However, future value creation is becoming increasingly linked to integration, market access, partnerships, technology, and exposure to global demand pools beyond crude oil.

For investors, the message is clear. ADNOC's growth story is not only about increasing production capacity. It is also about using Abu Dhabi's upstream and feedstock advantage to build a diversified global platform across LNG, chemicals, specialty materials, hydrogen, ammonia, carbon capture, and clean energy. XRG is the clearest expression of this strategy. It serves as ADNOC's international growth arm and provides the bridge from a traditional NOC model to a globally integrated energy and industrial champion.

Multiple investment vehicles

ADNOC Group operates a broad portfolio of companies, six of which are listed on the Abu Dhabi Securities Exchange, giving investors direct exposure to the ADNOC ecosystem. These listed entities have delivered strong returns since their respective listings through a combination of capital appreciation and steady dividends, appealing to both growth-oriented investors and those seeking dependable income. Together, they provide a diversified entry point into one of the region's most strategically significant and financially resilient energy platforms.

Figure 1.6: ADNOC Operating companies' total return

Company	ADNOC/XRG ownership	Listing date	Share price return[1]	Total return[2]	Annualized total return
ADNOC DISTRIBUTION	77.0%	13 Dec 2017	58.0%	153.6%	11.4%
ADNOC DRILLING	78.5%	3 Oct 2021	153.5%	207.8%	27.4%
ADNOC GAS	86.0%	13 Mar 2023	44.7%	70.5%	17.6%
ADNOC LOGISTICS & SERVICES	78.0%	1 Jun 2023	193.5%	220.4%	46.8%
BOROUGE[3]	54% (BGI 90%)	3 Jun 2022	3.7%	30.3%	6.6%
FERTIGLOBE	86.2%	27 Oct 2021	9.8%	53.6%	13.9%

Source: Bloomberg as of June 2026
Note: 1. Share price return since listing, based on the offer (IPO) price; 2. Total return since listing, based on the offer/IPO price and assuming reinvestment of gross dividends; 3. Borouge is currently 90% owned by Borouge International (BGI), reflecting the contribution of ADNOC 54% stake and Borealis 36% stake to the new combined entity

In this report, we initiate coverage on three ADNOC operating companies: ADNOC Drilling, ADNOC Distribution and Borouge. Each of these companies has delivered solid returns since listing and has committed to a clear dividend policy that supports both income stability and long-term visibility.

ADNOC Distribution and ADNOC Drilling pay quarterly dividends. ADNOC Distribution has an annual dividend floor of AED 2.57bn, equivalent to 20.57 Fils per share, or at least 75% of net profit, whichever is higher. ADNOC Drilling targets at least 5% annual dividend growth through 2030. Borouge pays semi-annual dividends, with a floor of 16.2 Fils, and we see potential upside following the formation of BGI, which enhances integration and product optionality.

Collectively, these companies offer a compelling blend of income resilience, growth potential and exposure to the ADNOC value chain, in our view, making them attractive holdings for both dividend-focused and total-return investors.

Figure 1.7: ADNOC Operating companies' multiple summary

Company	Country	Current price	Market cap (USD m)	ADCB rating	ADCB fair value	Upside/ Downside	EV/Sales		EV/EBITDA		P/E		Div. Yield	
							2026	2027	2026	2027	2026	2027	2026	2027
ADNOC GAS	UAE	3.44	71,883	N/R	N/R	N/R	3.6	3.0	9.5	7.6	17.8	13.6	5.3%	5.3%
ADNOC DRILLING	UAE	5.84	25,443	Buy	7.00	+20%	5.5	5.4	12.5	12.1	17.8	17.6	4.1%	4.3%
BOROUGE	UAE	2.55	20,675	Buy	3.00	+18%	4.3	3.7	10.9	9.5	18.6	16.1	6.4%	6.4%
ADNOC DISTRIBUTION	UAE	3.97	13,513	Buy	4.65	+17%	1.3	1.3	11.6	11.2	16.3	15.8	5.2%	5.2%
ADNOC LOGISTICS & SERVICES	UAE	5.93	11,945	N/R	N/R	N/R	2.6	2.6	7.7	7.8	12.0	12.3	3.0%	3.6%
FERTIGLOBE	UAE	2.81	6,351	N/R	N/R	N/R	2.3	2.5	5.7	6.6	10.6	12.9	8.0%	7.5%

Source: ADCB estimates (ADNOC Drilling, Borouge, ADNOC Distribution), Bloomberg as of 26 June 2026

ADNOC Drilling: Visible core earnings with OFS growth

- **ADNOC Drilling offers a structurally defensive and highly visible earnings model.** It operates under long-term contracts with ADNOC that provide guaranteed returns, stable margins, and strong revenue visibility. This insulated framework limits exposure to global day-rate volatility and supports resilient cash generation across cycles.
- **Unconventional drilling and oilfield services drive the next leg of growth.** Expansion into unconventional resources and higher-value oilfield services increases revenue per well and deepens ADNOC Drilling's role across the value chain, positioning the company for multi-year growth beyond traditional rig activity.
- **ADNOC Drilling also offers an attractive income story with visible upside.** At the current price, the stock offers a 4% dividend yield, supported by a dividend policy targeting at least 5% annual DPS growth through 2030. We initiate coverage with a Buy rating and a fair value of AED 7.00 per share.

ADNOCDRI UH

INITIATE AT BUY

Fair Value (AED)	Previous Fair Value (AED)
7.00	N/A
Current Price (AED)	**Upside/ (Downside)**
5.84	+20%

ADNOC Drilling is the listed upstream growth platform of the ADNOC ecosystem and the sole supplier of drilling services to ADNOC Onshore and ADNOC Offshore, the upstream ADNOC operating companies. ADNOC is the majority shareholder, holding 78.5%. The company operates a fleet of 140 rigs in the UAE and has expanded regionally by adding 30 rigs through recent acquisitions. Its operations are structured into three segments that cover onshore, offshore, and oilfield services.

ADNOC Drilling is among the largest drilling companies globally, with operations concentrated in the United Arab Emirates, where it maintains a contractual drilling exclusivity with ADNOC. The company has recently begun a long-anticipated regional expansion programme by acquiring majority stakes in SLB's land-drilling business in Oman and Kuwait, and in MB Petroleum Services (MBPS).

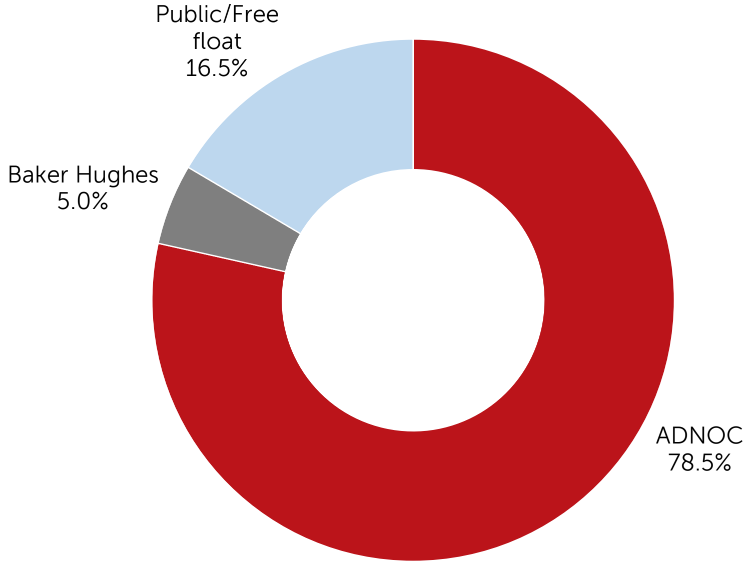
Its long-term contractual framework, majority ADNOC ownership, and role in supporting ADNOC's production capacity expansion underpin a more defensive and visible earnings profile than those of conventional global peers.

Figure 2.1: Selected global drillers

Company	Onshore	Offshore	Total	Operations
Sinopec	447	11	458	KSA, Kuwait, Egypt
Helmerich & Payne	334	5	338	US, KSA, Oman, Argentina
Nabors	239	27	266	US, KSA, Argentina, Colombia
Precision Drilling	184	–	184	US, Canada
ADNOC Drilling*	**122**	**48**	**170**	**UAE, Oman, Kuwait**
Patterson-UTI	152	–	152	US, Colombia, Ecuador
ADES	40	50	90	KSA, Algeria, Kuwait, India
Arabian Drilling	49	11	60	KSA
ENAFOR	51	–	51	Algeria
Transocean	–	27	27	US, Norwegian North Sea

Source: Company presentation, website, filings, as of May 2026; Note: *Includes SLB and MBPS

Figure 2.2: ADNOC Drilling ownership



Source: Company filings

Diverse segments

ADNOC Drilling's operations are organised into three segments. Until 2024, the company operated four segments, but since the beginning of 2025, offshore jack-up and offshore island have been merged into a unified offshore segment. This consolidation was aimed at streamlining operations and improving reporting for offshore activities. Each segment serves a distinct business line. Onshore and offshore operations deliver fixed returns under a contractual arrangement with ADNOC, which we will discuss in detail later.

The Oilfield Services segment focuses on integrated service offerings. OFS has a different margin profile that are generally lower than those of the core drilling services because they fall outside the scope of ADNOC's core drilling service agreements. However, returns remain high because these activities are less capital-intensive than drilling.

Onshore and offshore drilling generate significantly higher margins than global operators due to the scale of operations in Abu Dhabi, backed by the agreement with ADNOC, while margins in Oilfield Services are broadly in line with global peers.

Figure 2.3: Segment summary

Segment/ % of total revenue[1]	Description	Operational highlight	EBITDA margin profile[2]
Onshore 42%	It is the largest segment and offers drilling, completion, and workover services to ADNOC operating companies, including ADNOC Onshore. Drills a wide range of oil and gas wells and handles challenging drilling programmes. The fleet includes 122 land rigs (92 domestic and 30 regional), with 16 hybrid rigs and several high-capacity workover rigs	Wells drilled: FY24: 558 FY25: 666	49%
Offshore 29%	The offshore segment combines offshore jack-up and offshore island operations. Jack-up: It can drill wells to depths ranging from 18,000 to 30,000 feet and in water depths between 110 and 350 feet, depending on rig size, location, and outfitting. Island: Drills on artificial islands using island rigs with integrated low-pressure hydraulic walking systems that allow island rigs to move between well sites without the need to dismantle. The fleet includes 36 jack-ups and 12 island rigs.	Wells drilled: FY24: 118 FY25: 170	68%
Oilfield services 30%	Provides drilling and completion fluids, wireline services, directional drilling, cased hole logging, and surface logging services. In addition, the segment delivers pressure-pumping services, which are essential for well stimulation and maintaining reservoir performance. Notably, 80% of unconventional revenue is attributed to OFS, and the remainder is driven by onshore operations	IDS rigs: FY24: 57 FY25: 60	17%

Source: Company filings.
Notes:
1. 2025A revenue breakdown, Figures may not sum to 100% due to rounding
2. 2025A EBITDA margin

Business of better rigs

The rig market is broadly divided into offshore and onshore segments. The offshore segment includes rigs deployed in marine environments for oil and gas exploration, appraisal, and production, covering shallow-water, deepwater, and offshore island operations. The onshore segment includes rigs used for land-based drilling and production activities across conventional and unconventional oil and gas fields.

Offshore market segmentation

The offshore drilling market is generally divided into three main commercial rig classes:

- Jack-ups: Bottom-supported rigs used mainly in shallow water
- Semisubmersibles: Floating rigs used in deeper water and harsher environments
- Drillships: Ship-shaped floating units used in deepwater and ultra-deepwater basins

Alongside these categories, there is a more specialised class, offshore island rigs, which operate from artificial islands rather than from floating units or conventional seabed-supported offshore rigs.

The Gulf Cooperation Council (GCC) offshore market is relatively shallow, with activity concentrated in jack-up rigs and artificial islands. ADNOC Drilling's offshore fleet reflects this structure, with a focus on jack-up and island rigs aligned to ADNOC Offshore's asset base.

ADNOC Offshore's fields include a combination of shallow-water and artificial-island developments, making these two rig types the most efficient fit for Abu Dhabi's offshore geology and development model.

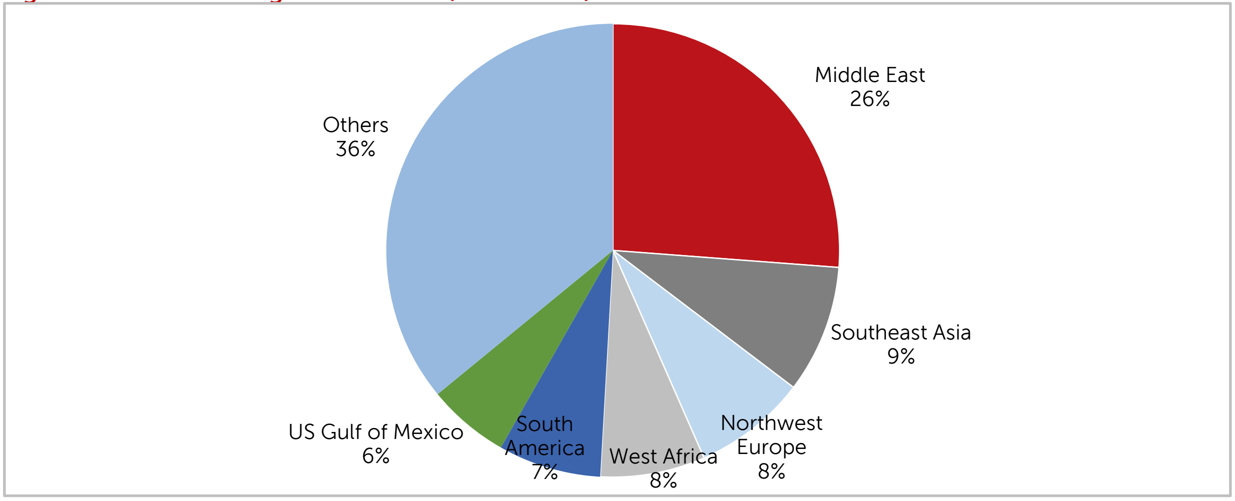
ADNOC Offshore explicitly uses artificial islands in several offshore developments, and ADNOC Drilling's island rigs are purpose-built for that environment. These rigs are equipped with hydraulic walking systems, allowing them to move between well slots without being dismantled. This improves drilling speed, reduces operational disruption, lowers rig move costs, and supports higher uptime.

This is a niche rig category and is not widely used globally. Beyond Abu Dhabi, similar concepts have been deployed in Saudi Aramco's Manifa field, which uses man-made drilling islands, and in Alaska's Northstar development.

Middle East largest market

The Middle East is the single most important region in the global offshore rig market. As of 19 June 2026, the region accounted for 175 of 667 offshore rigs globally, or about 26% of total supply, making it the largest regional market for offshore mobile rigs. Most of this fleet consists of jack-ups, reflecting the shallow-water nature of Gulf developments. Within the region, activity is concentrated in Saudi Arabia, the UAE, and Qatar, which means the global jack-up cycle is disproportionately influenced by developments in these three markets.

Figure 2.4: Offshore rigs breakdown (June 2026)



Source: S&P Petrodata Weekly Rig Count, total offshore rig count 667 rigs

The offshore rig market is structurally healthier than it was in the late 2010s. Supply has become more disciplined, and many older rigs have exited effective competition through scrapping, cold stacking, or redeployment outside drilling. Operators increasingly favour modern premium rigs over lower-spec legacy units.

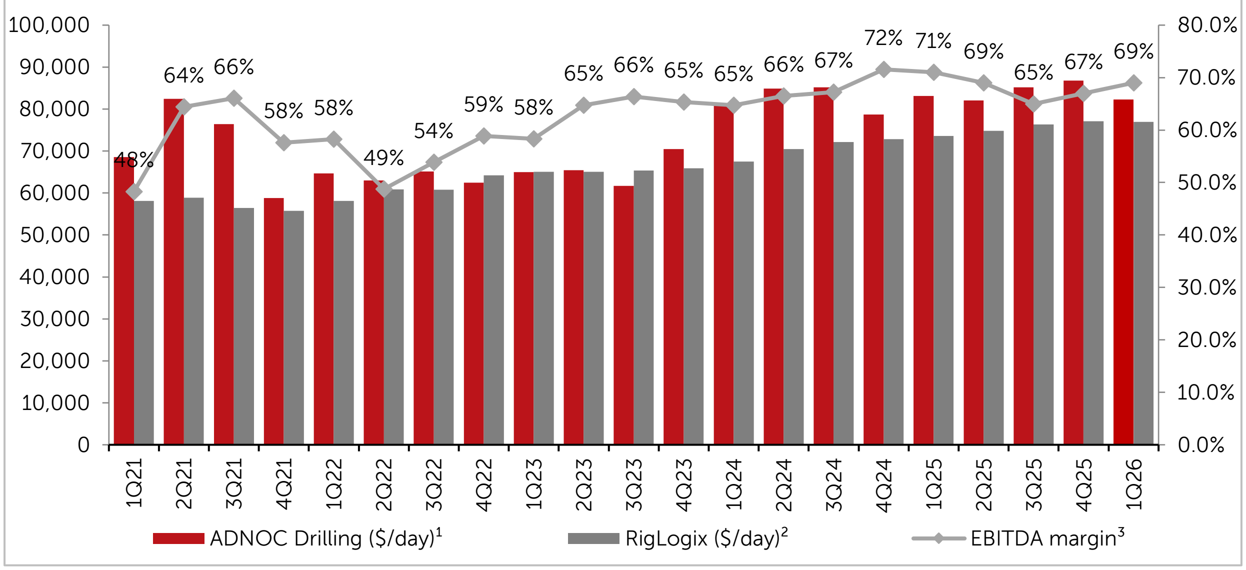
Westwood highlights that high-spec units have seen significantly better pricing than older rigs, a quality gap that is expected to persist. In practical terms, this means the headline fleet overstates true competitive supply, as a meaningful number of older rigs are no longer commercially relevant.

Pricing momentum weakened in 2025. The turning point was Saudi Aramco's suspension or termination of 36 jack-ups, which released additional rigs into the market, disrupted what had been a tightening supply backdrop, and weighed on day-rate prices.

Notably, for ADNOC Drilling, this global day-rate volatility is far less important than for internationally exposed offshore contractors. The company is the sole drilling provider to ADNOC and operates within a bespoke contractual framework with guaranteed returns on rig investments. ADNOC Offshore is the captive customer within the ADNOC ecosystem, and ADNOC Drilling provides rigs and associated drilling services under long-duration agreements rather than through pure spot-market exposure.

ADNOC Drilling's rates are underpinned by long-term and take-or-pay contracts of up to 15 years, with guaranteed IRRs. This structure provides stable revenue per rig, high earnings visibility and strong downside protection. At the same time, the company benefits from the scale of its operations and efficiencies. This supports ADNOC Drilling's industry-leading margins.

Figure 2.5: Offshore day rates



Source: ADNOC Drilling filings, Bloomberg

Notes:

1. ADNOC Drilling's day rates are estimated as offshore revenue divided by the average number of offshore rigs during the quarter.
2. RigLogix data is sourced from Bloomberg and represents jack-up rigs with IC below 250 feet.
3. EBITDA margins refer to ADNOC Drilling's offshore segment margins.

Onshore market: Scale, standardisation, and fleet modernisation

The global onshore drilling market is far larger than offshore by unit count, which naturally makes it more standardised, repeatable, and industrialised. In practice, onshore drilling increasingly resembles a manufacturing process: operators focus on drilling speed, consistency, efficiency, and scalable execution. Meanwhile, the offshore market remains more engineering-intensive and capital-heavy because it must manage marine logistics, harsher operating environments, and more specialised equipment.

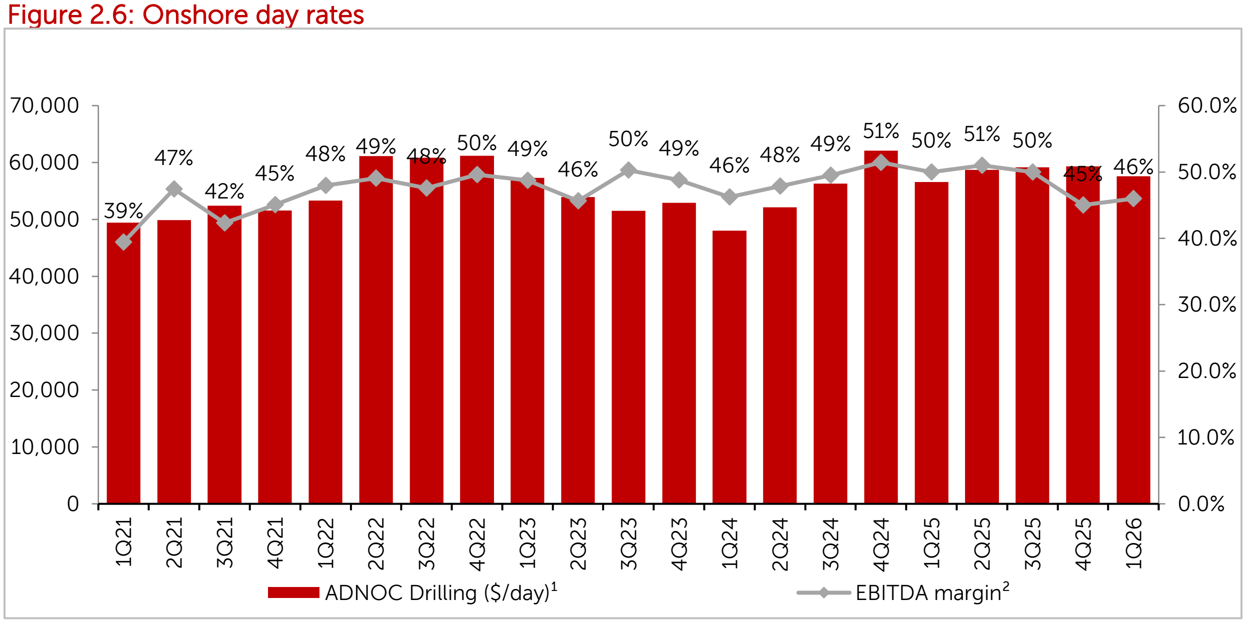
That scale advantage does not mean all onshore rigs are equal. The more important industry shift is not simply toward more rigs, but toward better rigs. Mordor Intelligence notes that the land rig market is moving toward walking super-spec rigs, higher-horsepower AC fleets, hybrid or electric drive systems, stronger emissions-control packages, and automated pipe handling and digital workflows. This suggests a contractor may own many legacy rigs and still be structurally disadvantaged if those rigs do not meet customers' rising technical, environmental, and efficiency requirements.

ADNOC Drilling continues to invest in better rigs, as higher-spec assets improve operating efficiency, support ADNOC's production growth plans, and future-proof the fleet against rising customer and emissions requirements.

ADNOC Drilling owns 92 land rigs in Abu Dhabi and 30 regional rigs, including 16 hybrid rigs. These hybrid units combine high-capacity batteries and engine automation with traditional diesel generation, enabling better power management, lower fuel use, and up to 15% lower greenhouse-gas emissions than traditional rigs (source: ADNOC Drilling).

This is important from an investment perspective because it shows that ADNOC Drilling continues to evolve and upgrading its land fleet in line with broader industry trends, with a clear focus on efficiency, automation, lower emissions, and higher technical capability. In our view, this improves ADNOC Drilling's ability to compete for opportunities beyond its domestic market and supports its long-term expansion ambitions.

Figure 2.6: Onshore day rates



Source: ADNOC Drilling filings
Notes:
1. ADNOC Drilling rates are estimated as onshore revenue divided by the average number of onshore rigs during the quarter.
2. EBITDA margins refer to ADNOC Drilling's onshore segment margins.

Operational stability amid a more complex regional backdrop

Regional geopolitical tensions have increased investor focus on energy security, operational continuity, and business continuity across the GCC. Against this backdrop, ADNOC Drilling has continued to demonstrate the strength of its business model, maintaining FY2026E guidance and delivering 1Q26 results ahead of market expectations.

In our view, ADNOC Drilling's regular operational updates and market disclosures have been helpful from an investor perspective. During periods of elevated regional uncertainty, timely communication provides reassurance on operations, financial strength, and business continuity, while reinforcing confidence in the durability of its long-term contracted business model.

Structural defensiveness

ADNOC Drilling is the exclusive provider of drilling and associated rig services to ADNOC, operating under long-term contracts that offer strong revenue visibility and guaranteed IRRs on rig investments. Its business model is aligned with ADNOC's long-term upstream capacity expansion, positioning the company as a direct facilitator of production growth rather than a spot-exposed services exporter.

Crucially, ADNOC Drilling generates earnings from drilling activity and oilfield services, rather than from the physical export of hydrocarbons. This provides a differentiated earnings profile relative to companies whose cash flows are more directly exposed to commodity flows, shipping disruptions, and short-term market volatility.

Stable operations

ADNOC Drilling's latest disclosures continue to support the view that the business remains operationally and financially stable despite the more complex regional backdrop. In its 3 March 2026 update, the company said operations were continuing as normal, with no material effect on business activities. Management highlighted its close coordination with UAE authorities and active monitoring of developments.

This stability was reiterated in the 1 April 2026 AGM release, where management stated that core drilling operations, which contributed around 90% of 2025 net income, remained substantially unaffected by regional developments.

Strong 1Q26 results

ADNOC Drilling reported its 1Q26 results on 11 May 2026. The company delivered strong results, with revenue rising 5% YoY to $1.23bn, driven primarily by increased activity across the OFS and offshore segments. This was partially offset by the anticipated effect of the repurposing of certain onshore rigs, which management had flagged in prior disclosures. Importantly, this repurposing reflects a strategic optimisation of the fleet and is not linked to the current geopolitical environment.

EBITDA declined marginally to about $527m (down 1% YoY), with margins compressing to 43% from 46% in 1Q25. The softer margin profile is largely attributable to mix, with OFS rising faster and accounting for c.33% of revenue, up from 30% in the previous quarter. This dilution is structural, given that OFS operates at lower margins than conventional drilling.

At the segment level, Onshore revenue declined 3% YoY to $477m, primarily due to the full-quarter impact of rig repurposing and the conversion of certain onshore rigs to offshore applications. This was partially offset by the contribution from eight land rigs acquired via the SLB JV in Oman and Kuwait.

Offshore revenue increased by 3% YoY to $345m, supported by new jack-ups that commenced operations in 2H25, alongside continued high utilisation levels.

OFS remained the key growth driver, with revenue up 19% YoY to $406m, underpinned by higher integrated drilling services (IDS) activity and the expanded delivery of discrete services. The quarter also benefited from favourable phasing, particularly in directional drilling and fluids.

Notably, ADNOC Drilling has maintained its FY26 guidance. Overall, the results reinforce the resilience of ADNOC Drilling's long-term contracted business model. Despite regional geopolitical tensions, operations remained stable with no material disruption reported in 1Q or subsequent months, highlighting strong execution, high fleet utilisation, and continuity of activity.

Figure 2.7: 1Q26 results summary

$ m	1Q25	4Q25	1Q26	QoQ	YoY
Onshore	494	519	477	-8%	-3%
Offshore (jack-up + island)	334	368	345	-6%	3%
OFS	342	389	406	4%	19%
Total	**1,170**	**1,276**	**1,228**	**-4%**	**5%**
EBITDA	533	545	527	-3%	-1%
Margin	45.6%	42.7%	42.9%	–	–
Net income	341	351	347	-1%	2%
Margin	29.1%	27.5%	28.3%	–	–

Source: ADNOC Drilling filings

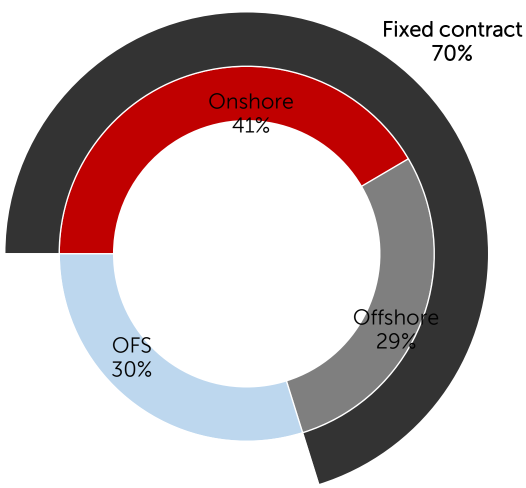
Core drilling business protected

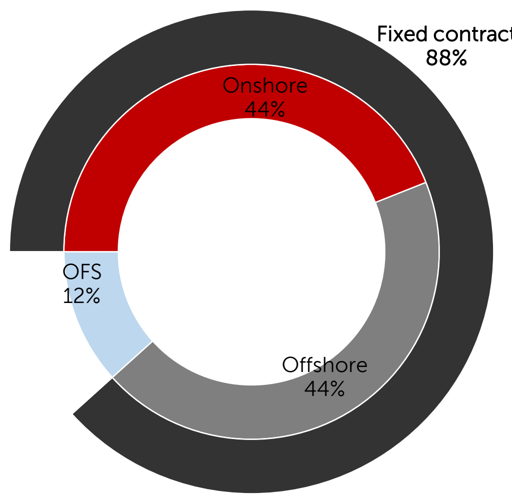
Drilling and oilfield services both remain aligned with ADNOC's long-term capacity expansion plans. However, drilling benefits from greater contractual protection through take-or-pay agreements, providing stronger visibility and downside support.

OFS is more activity sensitive and directly linked to completion, stimulation, and production optimisation work. OFS growth has been driven by higher IDS activity, incremental discrete services, and unconventional work, and its service portfolio includes directional drilling, wireline, pressure pumping, logging, fluids, and hydraulic fracturing.

Figure 2.8: High share of fixed contract business

Revenue (70% fixed contract)	EBITDA (88% fixed contract)





Source: ADNOC Drilling filings (2025A)

Looking into 1Q26, management appears to view the current environment as manageable through active mitigation, supported by business continuity planning, enterprise risk management, and structured response frameworks. The operating backdrop is clearly challenging, but the company is coping well so far.

Despite challenging backdrop, ADNOC Drilling has maintained its FY26 guidance due to the resilience of its business model. Still, if disruption were to persist long enough to force upstream production curtailment, some pressure on activity levels could emerge over time. In such a scenario, production-linked work such as fracturing, stimulation, completions, and discretionary services would likely face the earliest moderation.

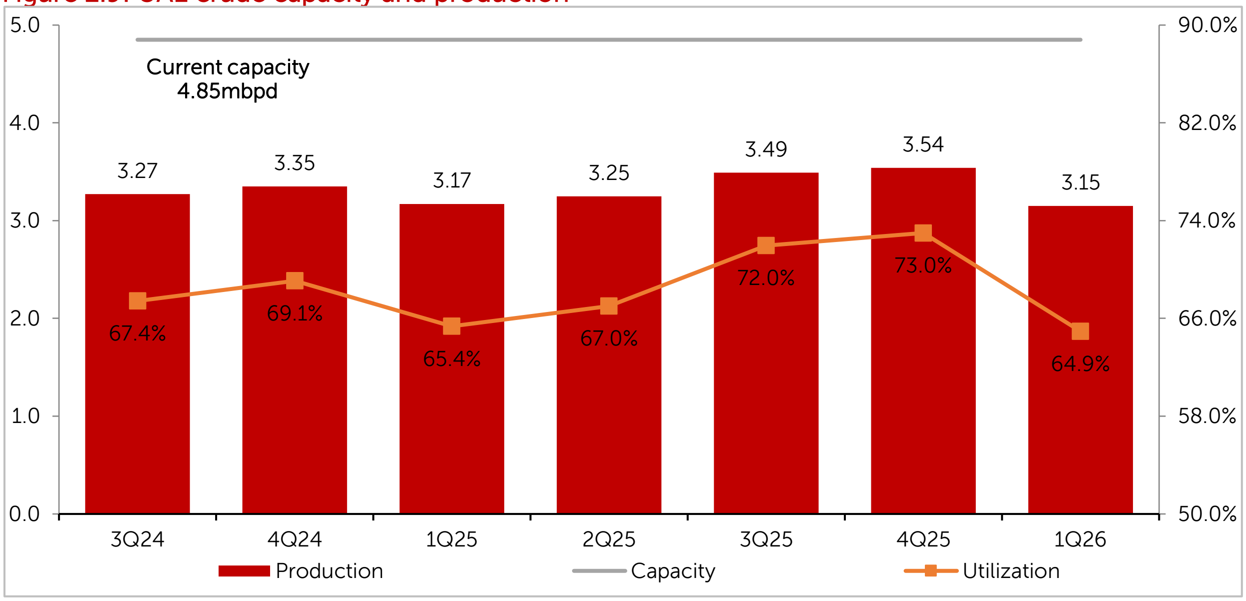
We believe core drilling should remain relatively better insulated, given its contractual base and strategic role in ADNOC's capacity plans. Overall, we continue to view the resilience of ADNOC Drilling's business positively, and no material group-level impact is evident so far.

OPEC exit could be positive for ADNOC Drilling

The UAE announced on 28 April 2026 that it would exit OPEC and OPEC+, effective 1 May 2026, following a review of its production policy and current and future capacity. The UAE said the move better aligns with its national interest and evolving market needs. The country added that it remains committed to global market stability and intends to bring any additional production to market gradually and responsibly, in line with demand and market conditions.

ADNOC's crude oil production capacity reached 4.85mbpd in May 2024 (source: S&P Global). However, production has remained in the 3.15 to 3.5mbpd range, implying average utilisation of less than 70%.

Figure 2.9: UAE crude capacity and production



Source: IEA, S&P Global

We believe the UAE's exit from OPEC is structurally positive for ADNOC Drilling over the medium term. ADNOC Drilling is directly leveraged to ADNOC's upstream capacity build-out, and the company remains the sole provider of drilling and associated rig-related services to ADNOC, positioning it as a direct facilitator of ADNOC's production growth plans.

ADNOC's move from 4mbpd capacity toward 5mbpd created a major fleet expansion cycle for ADNOC Drilling. ADNOC originally targeted 5mbpd production capacity by 2030. The decisive acceleration came in November 2022, when ADNOC brought forward the target to 2027 and approved a $150bn capex plan for 2023-27.

In this context, ADNOC Drilling added more than 40 rigs as ADNOC progressed on its capacity expansion. ADNOC Drilling more than doubled its net income between 2021 and 2024. The company also expanded its role in oilfield services and unconventional resource development, in line with the UAE's broader push into unconventional gas and tighter reservoirs.

With current production still sitting below installed capacity, the UAE's move away from quota constraints should, in principle, create more room to monetise spare capacity over time. That should support ADNOC Drilling through:

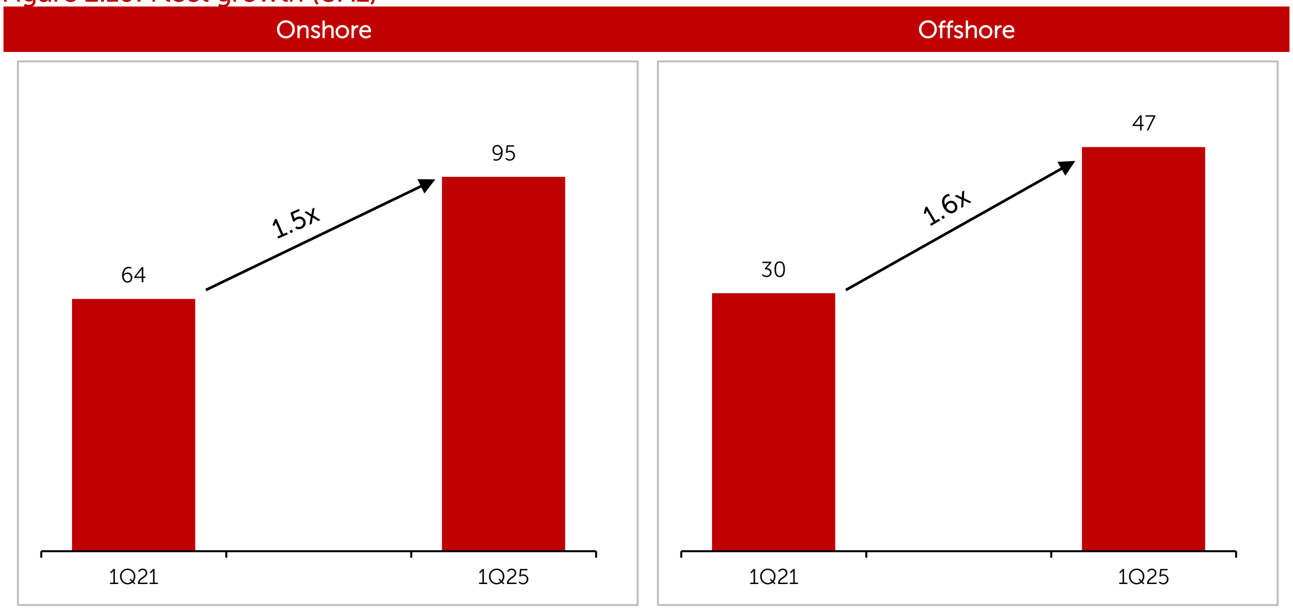
- More drilling activity, higher rig utilisation and more well completions
- Stronger OFS demand, especially in IDS, fracturing, fluids, wireline, and other discrete services
- Better visibility on future contract awards tied to ADNOC's domestic capacity expansion

Potential new revenue stream

The historical fleet buildout is an important reference point when assessing ADNOC Drilling's ability to capture incremental revenue from any further ADNOC capacity expansion. The previous 1mbpd increase in production capacity required a meaningful addition to the rig fleet. On the 1Q26 earnings call, the CFO noted that historically, 1mbpd of incremental capacity has translated into demand for around 45 rigs. He added that this should be treated as a factual starting point, before adjusting for factors such as timing, the onshore versus offshore mix, conventional versus unconventional activity, and field type.

Historical fleet growth was broadly balanced between onshore and offshore. Between 2021 and 2025, both fleets increased by around 50%, with the total fleet at the end of 2025 around 1.5x the level at the start of 2021.

Figure 2.10: Fleet growth (UAE)



Source: Company filings, Fleet growth is benchmarked against 1Q25, as this represents the last period before the repurposing of certain onshore rigs.

Current fleet for sustainable 5mbpd capacity

A key investor concern is whether ADNOC Drilling will become overbuilt once ADNOC reaches 5mbpd. According to management, apart from c.±10 rigs being repurposed, much of the operating fleet needs to continue working to maintain the 5mbpd plateau and support gas expansion. In addition, long-term contracts for rigs of up to 15 years provide strong revenue visibility and help underpin fleet utilisation over an extended period.

Once ADNOC reaches 5mbpd, the nature of drilling demand will shift. The work will become less about rapid capacity buildout and more about:

- Keeping capacity sustainable
- Offsetting natural decline
- Maintaining spare capacity
- Improving recovery from mature fields
- Replacing underperforming wells

Saudi Arabia provides a useful regional imperfect cross-check. Saudi Arabia had around 269 active drilling rigs as of May 2026, which we believe are largely tied to Saudi Aramco. Aramco has a sustainable capacity of 12mbpd, implying around 22 rigs for each 1mbpd of sustainable capacity.

Applying this benchmark to ADNOC's 5mbpd capacity implies a requirement of around 110 rigs. This points to a still large recurring drilling services market for ADNOC Drilling, even after the accelerated capacity buildout phase normalises.

In addition, ADNOC Drilling is exposed to unconventional expansion through Turnwell and its broader OFS platform. This means that any future capacity expansion would likely require new rigs and create additional oilfield services activity.

New rigs for new capacity

We have assessed the high-level financial impact of ADNOC adding another 1mbpd of sustainable capacity, particularly now that the UAE is no longer constrained by OPEC quotas.

If ADNOC Drilling moves ahead with another 1mbpd sustainable capacity addition under a rig configuration similar to the previous expansion cycle, the company could require a broadly similar incremental rig package over time. In our base case, we assume 45 incremental rigs, split between 30 onshore rigs and 15 offshore rigs.

Under this scenario, the incremental annual run-rate would be around $1,050m of revenue and $600m of EBITDA once fully deployed.

We have also considered alternative scenarios. A higher offshore mix would increase incremental revenue and EBITDA because offshore rigs generate higher revenue and EBITDA per rig than onshore rigs. However, offshore rigs are also more capital-intensive, which could dilute return ratios. Conversely, an all-onshore expansion would generate lower absolute revenue and EBITDA but could deliver stronger return metrics due to lower capital intensity.

Figure 2.11: Revenue sensitivity of new 1mbpd capacity expansion

Scenario	Incremental rigs	Incremental revenue run-rate per year	Incremental EBITDA run-rate per year	Comment
Base case	30 onshore, 15 offshore	$1,050m	$600m	Balanced but onshore weighted
Offshore led	15 onshore, 30 offshore	$1,200m	$750m	Higher earnings, higher capital intensity
All onshore	45 onshore	$900m	$450m	Lower earnings, likely higher return ratios

Source: ADCB; Note: Onshore rigs are assumed to generate around $20m revenue per rig per year and around $10m EBITDA per rig per year, implying an EBITDA margin of around 50%. Offshore rigs are assumed to generate around $30m revenue per rig per year and around $20m EBITDA per rig per year, implying an EBITDA margin of around 67%. Margin assumptions are based on historical segment performance.

There are several other variables that could significantly change the outcome:

- Timing, as a faster rig ramp-up would bring forward the revenue run-rate
- Jack-up versus island rig mix
- Conventional versus unconventional resource mix
- Field type, for example, Upper Zakum versus smaller fields
- Level of associated OFS scope captured by ADNOC Drilling

We do not include a new 1mbpd capacity expansion in our model forecast. However, the historical precedent is significant. The previous 1mbpd capacity addition was equivalent to around 45 rigs, and most of the existing fleet is required to maintain the 5mbpd capacity and support gas growth.

Any announcement by ADNOC to add another 1mbpd of sustainable capacity would be a significant upside catalyst for ADNOC Drilling. In our view, this provides a credible re-rating trigger. The current model captures the existing contracted business, OFS growth, regional expansion and unconventional contribution.

If ADNOC moves beyond the 5mbpd target and enters another capacity expansion cycle, ADNOC Drilling would likely provide incremental rigs, OFS activity and long-term contract coverage, potentially creating a new stream of revenue and profit.

Ongoing domestic push

ADNOC Drilling offers a differentiated value proposition, supported by a clear vision for the future. The company is well-positioned to capitalise on multiple growth drivers. ADNOC Drilling remains a key facilitator of sustainable value creation in the energy sector.

ADNOC Drilling is the only listed upstream company within the ADNOC Group and effectively serves as the group's primary growth engine. It operates across onshore and offshore assets and works on both conventional and unconventional resources. Because of this broad footprint, it is the closest publicly traded proxy for the ADNOC Group's upstream investment program and provides investors direct exposure to its core growth story.

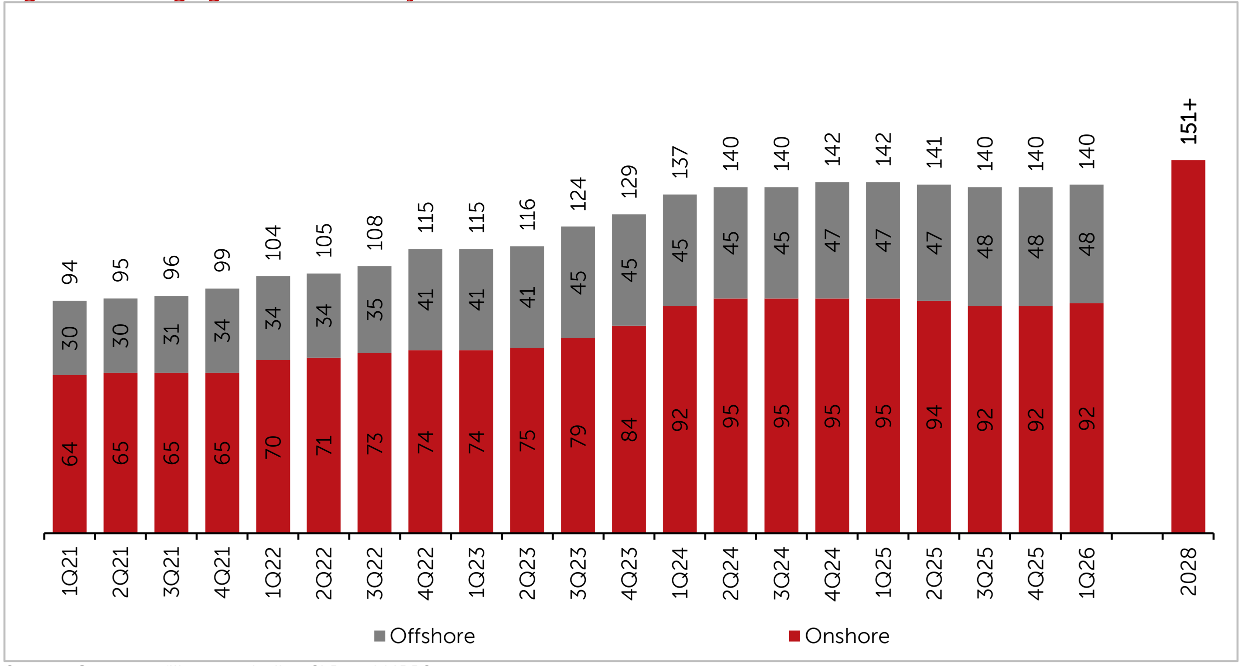
Core growth: ADNOC's capacity expansion

In November 2022, ADNOC launched a plan to reach 5mbpd of crude oil production capacity by 2027, as part of a $150bn capex programme spanning 2023-27. In line with this strategy, ADNOC Drilling has significantly expanded its rig fleet, increasing from 94 rigs in 1Q21 to 140 by the end of 4Q25, a strong operational ramp-up to support the capacity expansion target of its parent company.

Crude capacity rose to 4.85mbpd in May 2024, and ADNOC is on track to achieve its 5mbpd target by early 2027 (source: S&P Global). Abu Dhabi's state-owned producer remains committed to its growth trajectory, with ADNOC Drilling planning to reach over 151 rigs by 2028. Notably, two new island rigs are expected to commence operations gradually in 2H26, with a further four island rigs scheduled to join the fleet progressively through 2026 and 2027.

The sustained increase in rig count, along with regional and unconventional expansion, positions the company for solid near-term revenue momentum, in our view. The broader rollout of integrated service offerings further strengthens this outlook, as it allows the company to capture more value per well and deepen its role across the drilling cycle.

Figure 2.12: Rigs growth (UAE only)



Source: Company filings, excluding SLB and MBPS

ADNOC Drilling has maintained a steady increase in rig count over the past five years, underscoring its commitment to supporting ADNOC's capacity expansion strategy. ADNOC Drilling is optimising its rig fleet based on a review of rig age and operational efficiency. Management expects that some onshore rigs will shift from drilling to support roles, with a high single-digit number of units likely to be repurposed or retired in 2026.

Looking ahead, ADNOC Drilling targets a fleet of 151+ rigs by 2028. Given the repurposing of certain Onshore rigs, we believe that the company would require approximately 20 additional rigs over the next two to three years to support capacity expansion and meet the increasing demand for unconventional operations.

ADNOC Drilling is set to expand its fleet significantly, with six island rigs scheduled to join between 2026 and 2028. The company added 22 rigs from the MBPS acquisition, and eight rigs from the SLB transaction, for a total regional fleet outside the UAE of 30 rigs. This outlook does not factor in any additional requirements that could arise from further unconventional activity, which may provide incremental upside. This disciplined approach to fleet management positions the company for sustained revenue growth while maintaining operational flexibility, in our view.

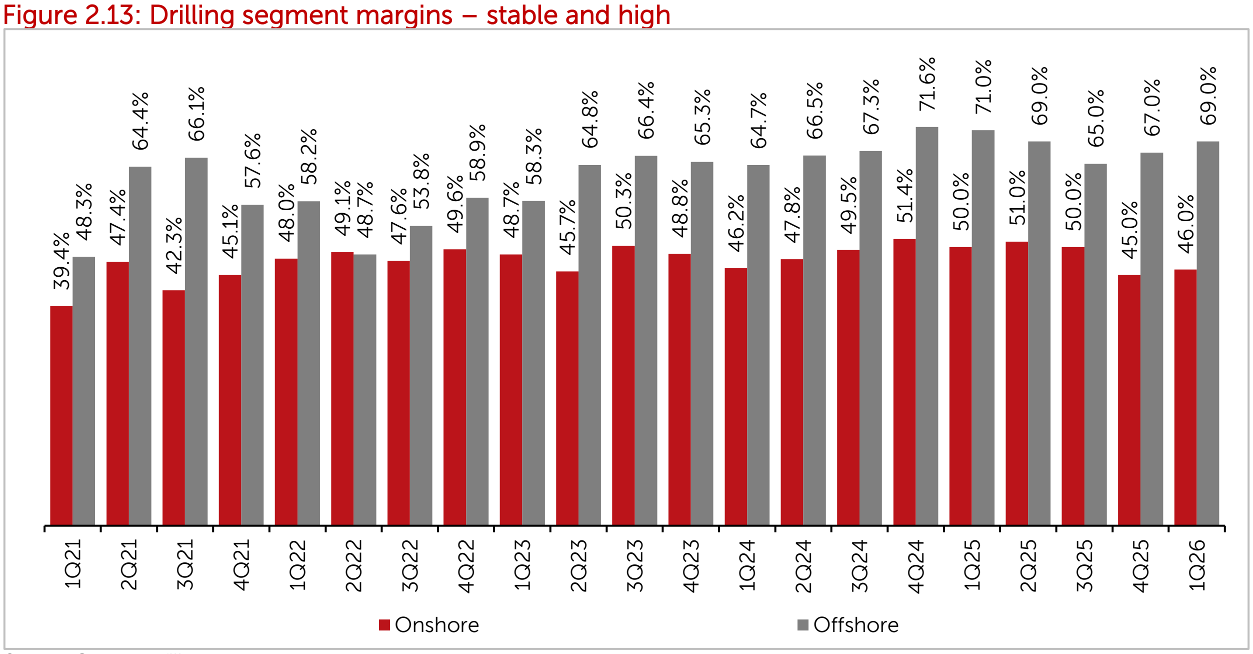
Fixed return agreement

ADNOC Drilling operates as the sole drilling service provider for ADNOC's upstream operating companies, ensuring a captive and recurring demand base for both conventional and unconventional reserves. The onshore and offshore segments benefit from a long-term Rig Services Framework Agreement with ADNOC, which underpins significantly higher margins than those of global peers. Key highlights of the agreement include:

- **Guaranteed IRR:** Offshore rigs earn 11-13% IRR and onshore rigs 10-12% IRR during the initial 15-year term (Initial Rig Base Term).
- **Margins after Initial Rig Base Term expires:** Cost-plus pricing ensures a 15-17% EBIT margin for onshore rigs. For offshore rigs, pricing is the higher of (a) cost-plus with a 15-17% EBIT margin, or (b) a 16% discount to the average rate for active GCC contracts, excluding ADNOC Drilling.
- **Rate protection:** ADNOC Drilling can adjust rates to maintain minimum IRR and EBIT margins.
- **Long-term visibility:** The agreement spans 40 years and covers all ADNOC upstream entities.

This framework, combined with ADNOC Drilling's integration within the ADNOC ecosystem and its large-scale, creates strong operational synergies, high margin stability, and robust revenue visibility. These factors translate into superior cash-generation capability and a resilient business model compared to global drilling operators.

Figure 2.13: Drilling segment margins – stable and high



Source: Company filings.

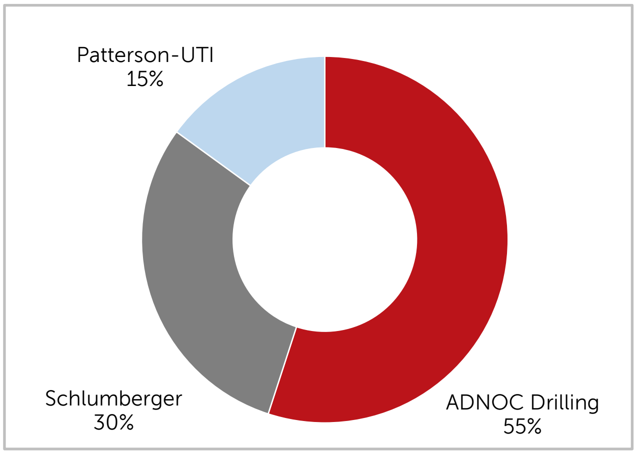
Future proofing: Unconventional segment

Abu Dhabi holds an estimated 220bn barrels of unconventional oil and 460 trillion cubic feet (tcf) of unconventional gas, representing one of the largest untapped energy resources globally. The scale of this opportunity is exceptional, with production potential comparable to leading US shale investments. To put this in perspective, the gas resources alone equate to roughly 180 years of the UAE's annual consumption, underscoring the strategic importance of these reserves (source: wam.ae).

"Unconventional" refers to hydrocarbons trapped in tight formations that require advanced technologies for extraction, creating a new frontier for ADNOC's growth. The commencement of unconventional oil and gas development in Abu Dhabi unlocks a significant new growth sector for the ADNOC ecosystem, and ADNOC Drilling in particular.

To capitalise on this opportunity, ADNOC Drilling has established a JV, Turnwell, with Schlumberger and Patterson-UTI, combining global expertise and regional experience with a proven record in unconventional projects. This partnership positions ADNOC Drilling to play a critical role in developing these resources, driving long-term revenue growth, and reinforcing its strategic importance within ADNOC's integrated value chain.

Figure 2.14: Turnwell JV ownership



Source: Company filings

Multi-year expansion

ADNOC Drilling entered the unconventional energy segment with its first contract in May 2024, a $1.7bn award to drill 144 oil and gas wells over a two-year-plus period. This milestone marks the beginning of a multi-year growth cycle, as Abu Dhabi's fully fledged unconventional programme would require thousands of wells to unlock its vast reserves.

ADNOC Drilling generated $692m in unconventional revenue in 2025. As of April 2026, the company had drilled 94 wells and completed fracturing on 64 wells. Over time, ADNOC may require more than 300 wells annually by 2030.

This level of activity would require the support of as many as 30 rigs in operation, implying a potential annualised revenue run-rate of roughly $2.4bn to $3.0bn, based on our assumption of $8m to $10m per well. We also expect EBITDA margins to improve gradually from current levels as the company continues to invest in additional assets.

Altogether, we expect a significant increase in the number of wells drilled, rising nearly fivefold over the four-year period from 2026 to 2030. On the revenue side, based on our assumption of $8–10m per well, unconventional revenue is expected to grow at a CAGR of 35–43% from the 2026E base over the same period.

Importantly, the company has already demonstrated successful execution in boosting ADNOC's capacity toward its 5mbpd objective, underscoring ADNOC Drilling's ability to scale as required. This established delivery record gives us comfort that ADNOC Drilling can achieve outlined unconventional growth targets, positioning the company for a period of strong revenue expansion and cash generation.

Figure 2.15: Number of wells

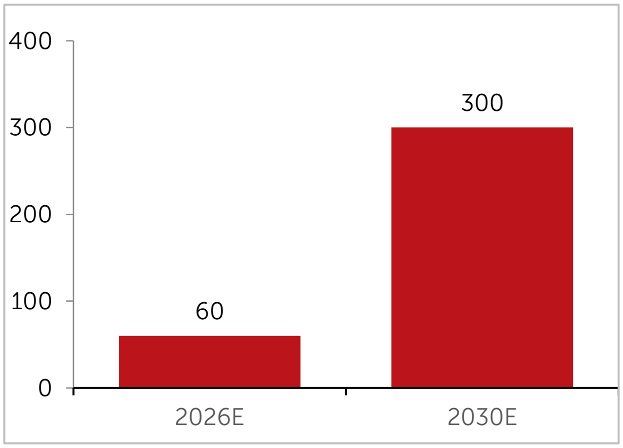
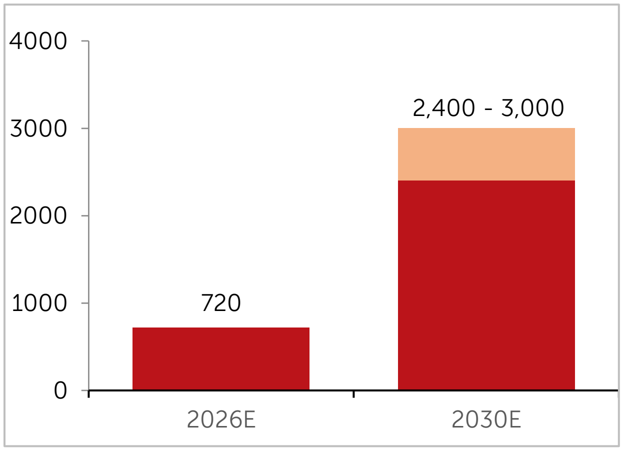


Figure 2.16: Unconventional revenue ($ m)



Source: Company filings, ADCB assumptions of $8-10m revenue/well

Structured unconventional JV strategy

ADNOC Drilling records profit through a mix of contract margin and equity-attributed profit from the JV structure. ADNOC Onshore awarded a $1.7bn contract to ADNOC Drilling for the delivery of 144 wells. ADNOC Drilling records the contract margin from the main contract and mandates that Turnwell execute the project.

Following completion of the work, ADNOC Drilling recognises profit from Turnwell in accordance with its equity share in the JV. We have provided the accounting below as an illustration; it is not an exact calculation.

Figure 2.17: Unconventional illustration

$, bn (Illustrative)	
Revenue (Cumulative over 2+ years)	1.70
Opex*	1.60
Contract margin (A)	**0.10**
Share of profit from JV (B)	**0.06**
Profit before tax (A+B)	0.16
Tax	0.01
Net profit	0.15
Margin	**~9-10%**
*Contract awarded to Turnwell JV	
Revenue	1.60
Opex	1.50
Net profit	0.10
Share of ADNOC Drilling (B)	0.06

Source: Company presentation, ADBC estimates

ADNOC Drilling has partnered with SLB and Patterson-UTI, two leading global players in unconventional resources, to gain access to best-in-class expertise.

In the future, we expect unconventional contracts to feature a structure and ownership model more favourable to ADNOC Drilling. This was the company's first unconventional drilling venture, and Turnwell's partners contributed critical expertise. A new structure should be determined after the completion of Phase 1. We believe that ADNOC Drilling may secure a larger equity share or receive proceeds from its partners as compensation for diluting its ownership in future JVs.

Attractive returns

ADNOC Drilling reported $692m in unconventional revenue for 2025. The majority of the remaining $900m contract value is expected to be realised between 2026 and 2027.

Cumulative contribution from unconventional activity should be around 80% to OFS and 20% to onshore land drilling. This drove OFS revenue up 80% YoY in 2025, while onshore posted 8% growth.

We expect ADNOC Drilling to reach a pace of about 300 unconventional wells a year by 2030. At the current net margin of 9-10% and based on our assumptions of $8-10m in revenue per well, this implies $240-300m in annual net profit, with potential upside as economies of scale and operational expertise support margin expansion.

The capital cost for each rig is estimated at $30m, and meeting the 300 wells annual target would require a total fleet of up to 30 units, representing about $900m in rig assets. The company already operates seven unconventional rigs, leaving an estimated $690m in remaining investment on the unconventional side.

Applying current leverage of c.30% (28% as of 1Q26), equity investment for unconventional stands at $630m. Based on projected net profit of $240-300m, this indicates a return on equity of 38-48%, which already exceeds the current ROE of 33% (as of 1Q26). With further potential for margin expansion from scale and learning effects, we expect ROE in the unconventional business to be significantly higher than the company's current business, pointing to meaningful value creation for investors.

Figure 2.18: Unconventional return summary by 2030

$ m		
Revenue per well (ADCB assumptions)	8	10
Wells (number)	300	300
Revenue from unconventional	2,400	3,000
Current net margin (%)	10%	10%
Net profit	240	300
Capex/Investment	900	900
Leverage	30%	30%
Equity	630	630
ROE	**38.1%**	**47.6%**

Source: ADCB estimates

Growth beyond UAE borders

ADNOC Drilling's expansion beyond the UAE leverages both technology and regional growth opportunities. The company is scaling Enersol as its strategic arm to invest in and acquire leading oilfield services (OFS) technologies, strengthening its capabilities and competitive positioning.

ADNOC Drilling has also advanced its long-awaited regional expansion through acquisitions in key GCC markets, building a broader operating footprint with strong growth visibility. Together, these initiatives position the company to capture incremental value across both technology-led services and regional diversification.

Enersol: Technology enabler

ADNOC Drilling established Enersol, a JV with Alpha Dhabi, to futureproof its business, develop proprietary intellectual property across the well value chain, and secure critical technology and supply chain resilience. The initiative aims to shift ADNOC Drilling from being a purchaser of technology to an owner and enabler, enhancing margins and operational efficiency while supporting Abu Dhabi's long-term economic objectives.

Enersol has committed $1.5bn in capital and is pursuing a pipeline of transactions with four already completed. These opportunities focus on cash-generative, low-leverage, technology-enabled oilfield services with direct application in Abu Dhabi and across the broader Middle East.

ADNOC Drilling's Enersol JV has already invested c.$800m across four strategic acquisitions. The JV may leverage its balance sheet over time and increase its investment as it executes suitable transactions. The four acquired companies are currently expected to generate around $100m in combined annual run-rate EBITDA and $50m in net profit.

ADNOC Drilling is pursuing its Enersol strategy with a disciplined, value-driven approach, in our view. No new transactions were completed in 2025 or recently, reflecting management's strict valuation framework rather than a lack of opportunities, with several potential deals declined due to elevated multiples.

Despite this, the company maintains a robust pipeline of targets and around $700m of capital earmarked for deployment, providing strong optionality for future growth. Management remains focused on long-term value creation, with no urgency to deploy capital, and would proceed only with transactions that meet both strategic fit and return thresholds.

Figure 2.19: Enersol JV mandate highlights

Source: Company filings

All-in-all, Enersol focuses on targets that offer a strong strategic fit, global market potential, and clear differentiation supported by robust financial profiles. Key investment characteristics include:

- Technology players with their own IP rights in the well value chain
- Global coverage with focus on tangible differentiated technologies
- Proven Middle Eastern applicability enabling deployment across MENA operations
- Focus on tangible processes that support cost efficiency and sustainability
- Cash generative companies with attractive deal dynamics to enable financial value creation

Figure 2.20: Enersol acquisitions

Company/date	Stake	Investment $ m	Business description	Revenue $ m	Valuation multiple	FCF yield and dividend
Gordon Technologies 11 Jan 2024 (25%) 11 Jun 2024 (42.2%)	67.2%	450	US-based leader in measurement-while-drilling (MWD) technology with 12 patents. Offers high applicability for unconventional drilling Headquartered in Louisiana; has service centres across key US basins Maintains relationships with major E&P players Revenue grew 3x and EBITDA 4x from pre-Covid levels in FY19 Accretive margin profile compared to OFS segment	FY2023: 230	EV/2023 EBITDA: Below 7x	FCF yield 10%+ Dividend yield 5%+ expectation
NTS Amega Global 11 Jul 2024	51.0%	58	Headquartered in UAE; a leading global provider of specialised O&G repair solutions Leading global provider of advanced manufacturing of precision equipment, complex tool repair and rental solutions for the energy sector Proven business model across major GCC markets Strong, long-standing partnerships with tier-1 players across multiple O&G subsectors Accretive margins vs OFS segment	FY2023: 120	EV/2023 EBITDA: 4x	FCF 10% High dividend potential
EV 5 Aug 2024	100.0%	45	Headquartered in the US, with global presence in 36 countries, including UAE and Saudi Arabia Leading global provider of vision-based diagnostics and analytical services for the oil and gas sector Valuable IP ownership with 116 patents	FY2024: 30	EV/2024 EBITDA: 5x	Free cash flow yield >10%
Deep Well Services 4 Nov 2024	95.0%	223	Headquarters in the US Leading API/Q21-registered technology and service company Specialises in high-pressure, long lateral, and multi-well completion and intervention operations US-focused operations with presence in South America and inroads in MENA markets through JV in KSA Robust EBITDA margin, higher than ADNOC Drilling's OFS	FY2024: 200	–	FCF yield of >10%

Source: Company filings

Enersol has acquired companies with global operations, strong intellectual property, and differentiated technology backed by patents and R&D. These businesses deliver solid revenue generation and margins that are accretive to ADNOC Drilling's existing OFS segment.

These acquisitions were completed at valuation multiples materially below ADNOC Drilling's current trading multiple of 12x EV/LTM EBITDA and are therefore immediately value accretive, in our view. Collectively, these assets combine global scalability, strong cash flow yields above 10%, and dividend potential, positioning Enersol as a high-margin, technology-driven growth platform.

Regional expansion

ADNOC Drilling's long-standing strategy is to expand beyond the UAE. The company is executing international expansion through a two-track approach: technology ownership via Enersol and consolidated regional operations.

Enersol serves as the holding platform for technology-enabled assets that futureproof the well value chain. In parallel, ADNOC Drilling is pursuing a disciplined regional build-out, starting with a 70% stake in SLB's land rig business in Oman and Kuwait and an 80% stake in MB Petroleum Services (MBPS).

Regional expansion is designed to generate incremental cash flows and create diversified revenue streams beyond UAE borders by deploying ADNOC Drilling's proven expertise, procurement discipline, and integrated services capabilities in larger addressable markets.

Unlocking a new era: SLB's Oman and Kuwait assets

ADNOC Drilling expanded its operations by acquiring a 70% stake in Schlumberger's (SLB) land rig business in Oman and Kuwait. The total consideration for the acquisition was $112m, including a $21m performance-linked earn-out. This implies an enterprise value of around $160m for the entire business.

The acquired assets include eight fully operational land rigs (six in Oman and two in Kuwait) under contract with the respective national oil companies (NOC). ADNOC Drilling funded the transaction through its existing debt capacity. The business is expected to generate 2025 revenue of more than $120m with an EBITDA margin of 38%, pointing to EBITDA of roughly $45.6m, which implies an EV/2025E EBITDA multiple of less than 4x, a significant discount to ADNOC Drilling's own current multiple.

According to the company, the acquired assets are projected to generate post-tax and working capital free cash flow of $25-30m annually, translating into an attractive FCF yield of more than 15%. This strong cash-generation profile underscores the financial appeal of the transaction and its potential to deliver robust returns over the medium term, in our view.

We believe the acquisition will be earnings accretive and generate attractive returns, supported by its relatively low acquisition multiple. The transaction closed on 1 January 2026, and ADNOC Drilling consolidated financial results from the start of 2026. ADNOC Drilling has an agreed mechanism to acquire the remaining stake over time.

Figure 2.21: SLB Oman and Kuwait rigs acquisition summary

$ m	
Stake acquired	70%
Consideration, including performance-linked earn-out	112
Total enterprise value	**160**
Key financials	**2025E**
Revenue	120
EBITDA	46
Margin	38%
EV/EBITDA	**3.5**

Source: Company filings

<u>De-risked expansion</u>

SLB brings a strong operational track record in both Oman and Kuwait, making it, in our view, a highly credible partner with established customer relationships and long-term contracts. The acquired assets are currently contracted with NOCs, which significantly de-risk ADNOC Drilling's entry into these new geographies. These rigs are contracted through 2028 with a backlog of around $400m, providing sustainable revenue generation from the acquisition.

The combined conventional land drilling market in Oman and Kuwait is more than three times the size of Abu Dhabi's land drilling market, with over 300 rigs across both countries. This acquisition provides ADNOC Drilling with an opportunity to scale its presence by leveraging SLB's expertise and operational capabilities. ADNOC Drilling, through the SLB asset acquisition, entered the market with a low single-digit market share. Management targets a high single-digit market share, either by leveraging SLB or expansion beyond the current JV.

Accelerated regional expansion: MBPS

ADNOC Drilling acquired an 80% stake in MB Petroleum Services (MBPS) for a total consideration of $163m as part of its regional growth strategy, implying a total enterprise value of around $204m. The deal includes 22 contracted rigs across Oman, Kuwait, and Bahrain, as well as oilfield services operations in Saudi Arabia.

This acquisition positions ADNOC Drilling as the third-largest drilling company in Oman and among the top seven in Kuwait, strengthening its footprint in high-growth regional markets. MBPS benefits from long-term contracts with NOCs, and a $900m backlog provides strong revenue visibility through 2033.

The acquisition was completed on 4 May 2026. It is expected to be earnings-accretive immediately, with full-year consolidation from 2027. MBPS delivered a robust financial performance in 2024, generating $187m in revenue, $140m from onshore drilling and $47m from OFS. According to a recent company press release, MBPS reported FY2025 revenue of around $200m and an EBITDA margin of approximately 30%. This implies EBITDA of $60m and an EV/EBITDA multiple of c.3.4x, a significant discount to ADNOC Drilling's current trading multiple.

The young fleet, with contracts up to 10 years, supports sustainable returns, in our view. Free cash flow currently stands at c.$30m and is expected to rise to $40m as capex normalises, translating into an attractive FCF yield of around 15-20% based on the implied enterprise value. We believe this transaction provides ADNOC Drilling with a strong platform for regional expansion while delivering compelling financial returns.

Figure 2.22: MBPS acquisition summary

$ m	
Stake acquired	80%
Consideration, including performance-linked earn-out	163
Total enterprise value	204
Key financials	**2025A**
Revenue	200
EBITDA	60
Margin	30%
EVEBITDA	3.4

Source: Company filings

Acquisitions providing access to new markets

Following the completion of the SLB land drilling business in Oman and Kuwait, and MBPS, ADNOC Drilling operates 30 rigs across Oman, Kuwait, and Bahrain, establishing a new growth engine beyond UAE borders. Both transactions were executed at attractive valuation multiples, making them accretive to earnings and returns.

These acquisitions provide ADNOC Drilling access to new markets, strong local partnerships, and additional pre-qualifications for tenders in Oman, Kuwait, Bahrain, Saudi Arabia, and Qatar. Acquired businesses are supported by stable markets, strong drilling activity, and top-tier clients, including NOCs, and secured long-term contracts. This geographic expansion diversifies ADNOC Drilling's business model, creating new revenue streams and incremental free cash flow beyond its domestic operations.

Solid financial position

ADNOC Drilling has consistently delivered value to its shareholders since listing, supported by solid top-line growth and stable margins. The company is well-positioned for strong medium-term growth as unconventional drilling and international operations become key drivers. On the OFS side, IDS rigs are expected to reach 70 by the end of 2026, up from 60 at the end of 2025, pointing to a strong increase in OFS activity, another key driver of growth. This expansion strategy is underpinned by a robust balance sheet with modest leverage, providing financial flexibility to pursue both organic and inorganic opportunities while maintaining disciplined capital allocation.

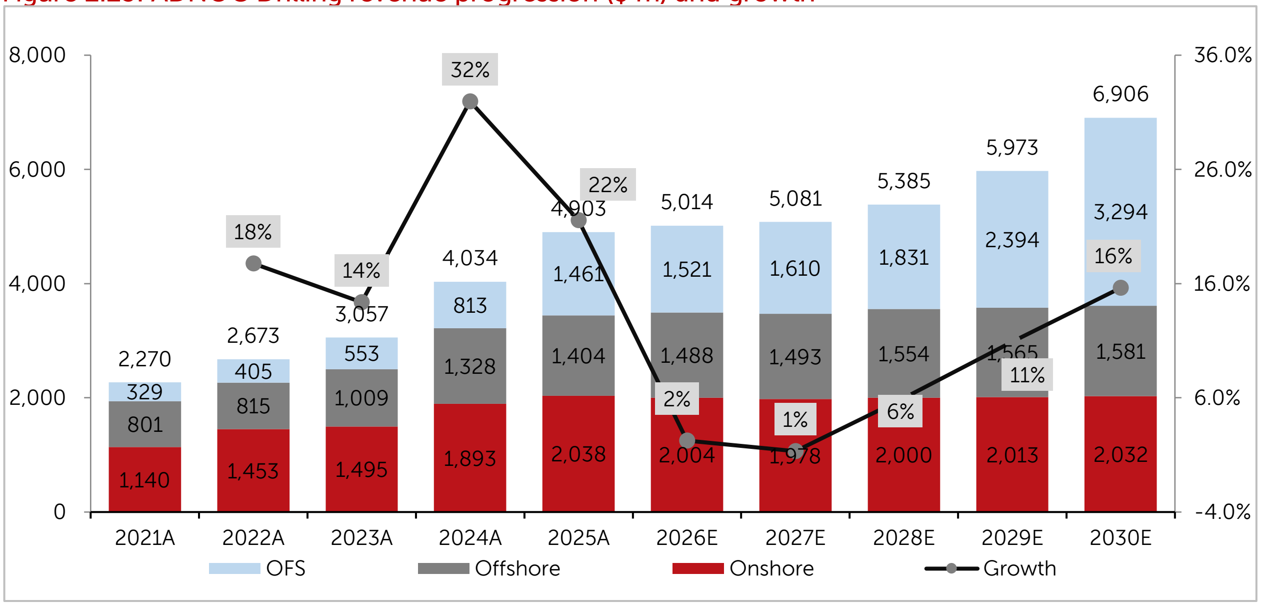
Solid top-line growth

ADNOC Drilling has delivered excellent top-line growth since its listing, reporting $4.9bn in revenue for full-year 2025, reflecting a 21% CAGR in 2021-25. This solid growth was attributed to the rapid ramp-up of core drilling operations supporting ADNOC's 5mbpd production target by 2027. Recent growth has been complemented by oilfield services and the award of the Phase 1 unconventional contract as new growth drivers.

For 2026, revenues are expected to reach about $5bn (+2% YoY), supported by continued growth in OFS conventional, higher offshore activity through new island rigs and the full-year contribution of recently added jack-ups, as well as consolidation of the businesses in Oman and Kuwait. EBITDA and net profit are expected to remain broadly in line with 2025.

From 2028E onward, we forecast a sharp rise in unconventional drilling, primarily in oilfield services, which we expect to expand at an annual rate of 27% in 2028-30. Overall, aggregate revenues are projected to increase at a 7% CAGR in 2025-30, a solid trajectory following the 21% growth achieved over the past four years, in our view.

Figure 2.23: ADNOC Drilling revenue progression ($ m) and growth



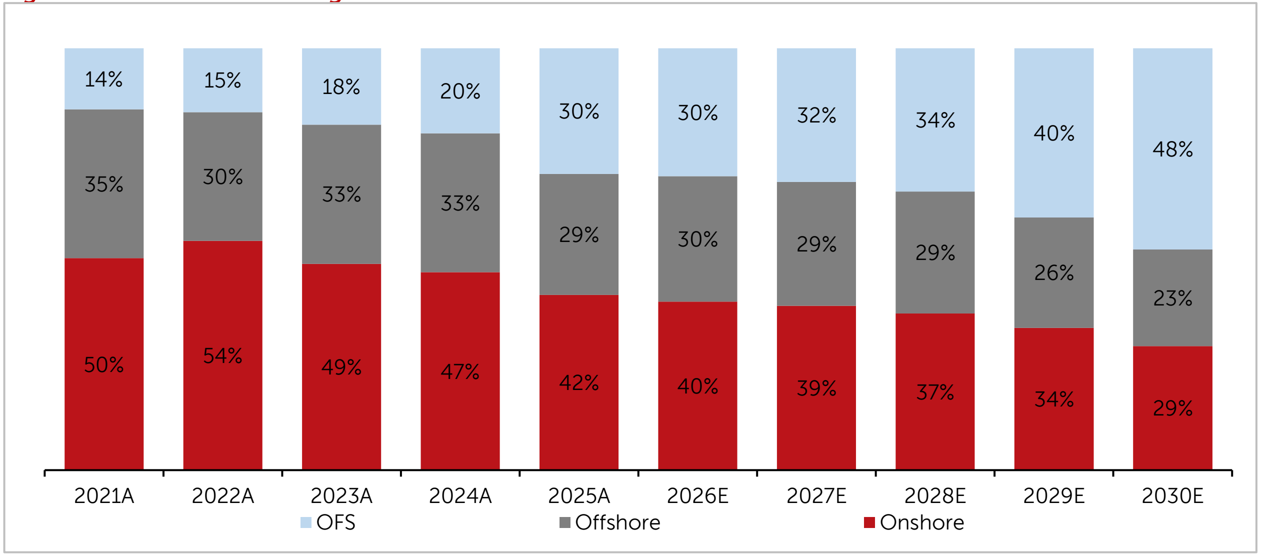
Source: Company filing, ADCB estimates

OFS share increasing

The share of oilfield services (OFS) in ADNOC Drilling's revenue mix is steadily increasing. Initially, this growth was driven by integrated services, and in the future, it should accelerate due to unconventional development, which carries a high share of integrated services.

In unconventional operations, around 80% of revenue is expected to accrue to OFS and only 20% to onshore drilling. As a result, the overall share of OFS in the revenue mix is projected to rise significantly, reaching about 48% by 2030E. This shift underscores the strategic importance of OFS as a key growth driver for ADNOC Drilling in the medium to long-term.

Figure 2.24: ADNOC Drilling revenue breakdown



Source: Company filing, ADCB estimates

Margins supported by rig framework

ADNOC Drilling continues to deliver robust EBITDA margins, consistently near 50% since listing, supported by strong operational efficiency and a stable rig framework. This framework provides fixed returns under long-term contractual agreements for drilling operations, ensuring resilience across both onshore and offshore segments. Margins for these segments remain exceptionally strong, averaging around 47% for onshore and 60%+ for offshore, well above global peers, reflecting the security of ADNOC's integrated model, and ADNOC Drilling's scale and high-quality assets.

Consolidated margins have begun to trend slightly lower as OFS gains a larger share of revenue. OFS margins remain structurally lower at c.18-22%. This shift, driven by integrated services and unconventional development, should gradually dilute overall margins. However, ADNOC Drilling's margin profile is expected to remain among the strongest globally, underpinned by long-term contracts with ADNOC and a diversified service offering that supports sustainable returns and cash flow visibility.

Figure 2.25: Aggregate EBITDA and margin

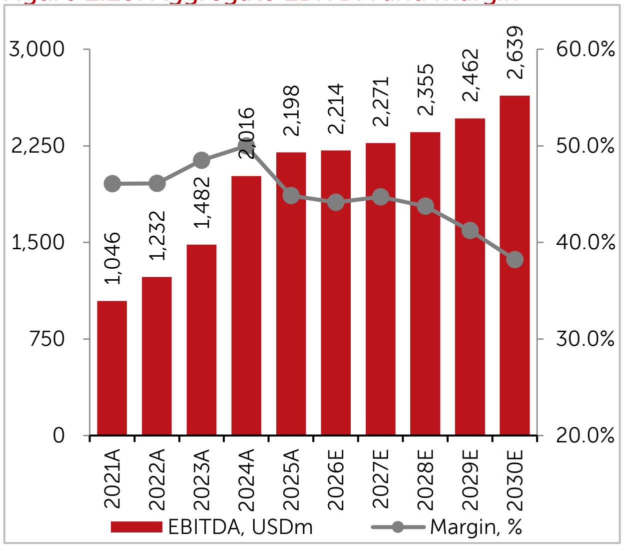
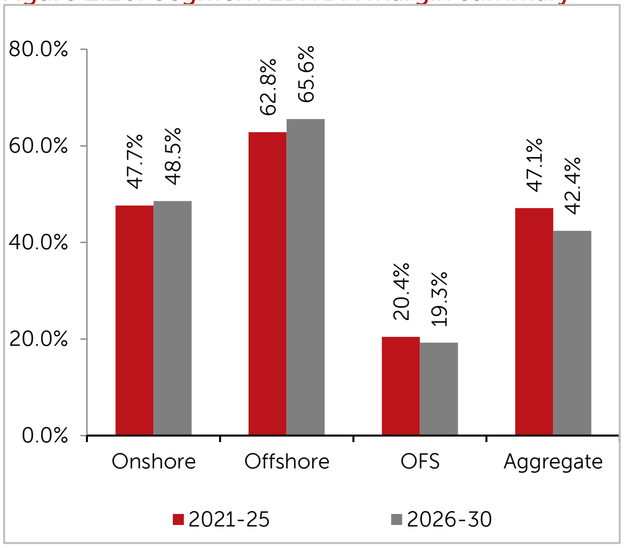


Figure 2.26: Segment EBITDA margin summary



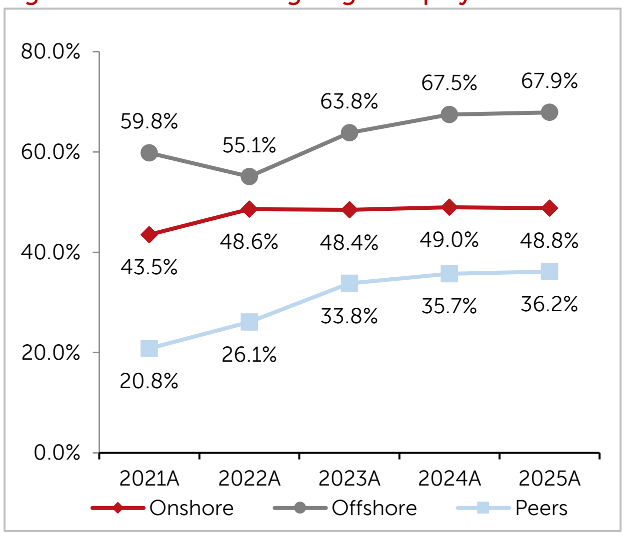
Source: Company filing, ADCB estimates

Core margins superior to global players

Both onshore and offshore operations deliver EBITDA margins that are significantly higher than those of global players, underscoring operational efficiency and the advantage gained from the rig framework agreement. ADNOC Drilling's margins have remained consistently strong over the years, in contrast to the volatility observed among international competitors, where fluctuations are driven by crude oil pricing and demand imbalances.

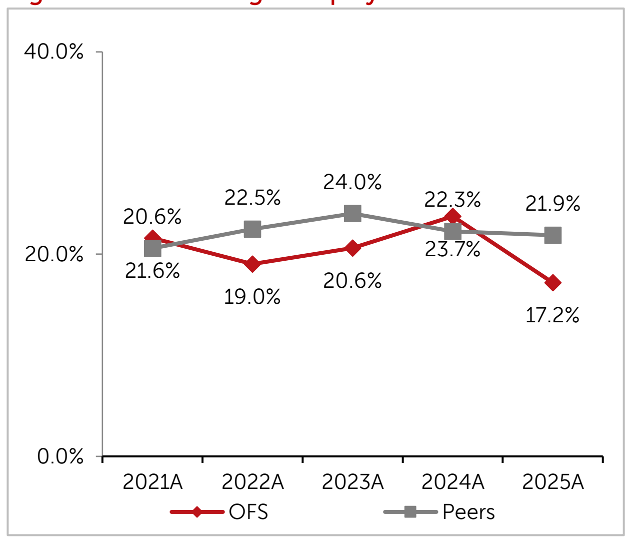
On the OFS side, ADNOC Drilling's margin profile closely mirrors that of leading global IDS players, indicating competitive positioning and the absence of any fixed-return agreement. According to company guidance, conventional oilfield services are expected to deliver EBITDA margins of c.23-26% over the medium term.

Figure 2.27: Core drilling vs global players*



Source: Company filing, *Includes Noble, Transocean, Valaris, ADES, Seadrill, H&P, Arabian Drilling, and Nabors

Figure 2.28: OFS vs global players*



Source: Company filing, *Includes SLB, Baker Hughes, Halliburton, China Oilfield Services, and Patterson-UTI

Superior OFS return

In the future, the majority of ADNOC Drilling's incremental revenue is expected to come from unconventional drilling within the oilfield services segment, reflecting the company's shift toward a broader, more diversified earnings base. Although OFS carries lower margins than core traditional drilling (which remains protected under the rig framework), it operates on a much lighter asset model, enabling the company to generate higher returns.

This becomes increasingly important as unconventional activity scales up. By 2030, when we expect the company to drill around 300 wells annually, we expect returns from unconventional to exceed those of the overall group, positioning the business as a key driver of long-term value creation and a meaningful contributor to both earnings resilience and future growth.

Based on assumption of 300 wells annually by 2030, the programme would require about 30 rigs, each costing $30m, implying an asset base of roughly $900m. Applying the company's typical debt to capital ratio of around 30% results in c.$630m of equity funding and $270m of debt. The lighter asset base of unconventional activity relative to core drilling drives significantly stronger return ratios for the unconventional business.

At current margins, the ROE for unconventional already exceeds the group average. As the company scales up its unconventional operations, benefiting from economies of scale and improved operational efficiency from a larger asset base, we expect EBITDA margins to expand. Even at a conservative 15% EBITDA margin, ROIC and ROE from unconventional activity meaningfully surpasses overall group returns. This positions the unconventional portfolio as a structurally higher return engine within ADNOC Drilling's long-term growth plan.

The below table is for illustrative purposes only and is designed to demonstrate the attractive return profile of the unconventional business, based on implied revenue of $2.7bn using the midpoint of our assumed $8–10m revenue per well.

Figure 2.29: Return metrics for unconventional (Illustration)

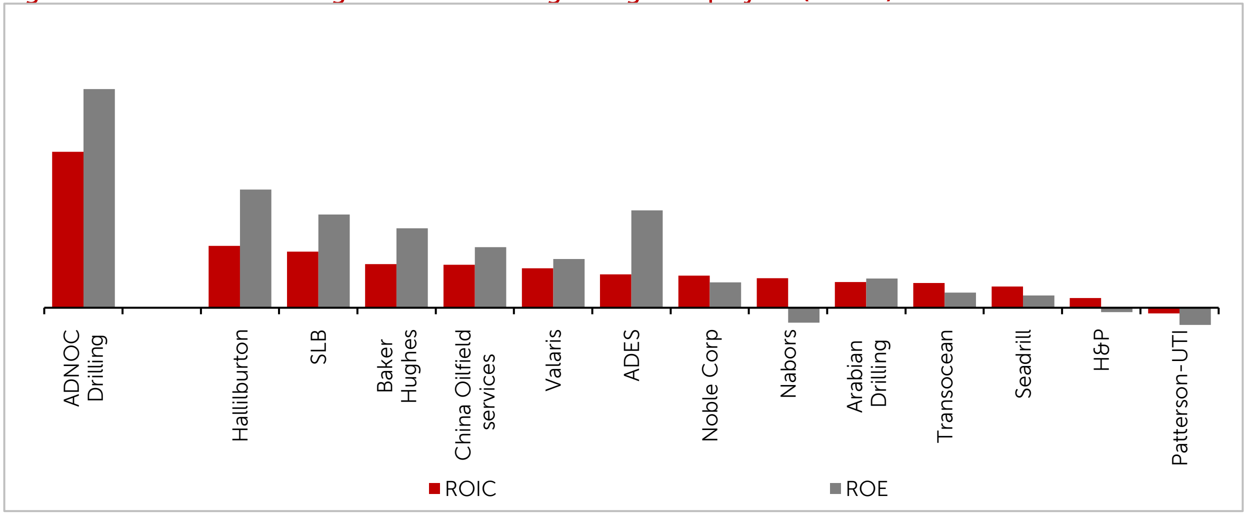
	Unconventional		
2030E	Current margin	Increase margin	Group (2030E)[3]
Equity[1]	630	630	6,075
Invested capital[2]	900	900	6,521
Revenue	2,700	2,700	6,906
EBITDA	324	405	2,639
Margin	12.0%	15.0%	38.2%
Net income	270	324	1,761
Margin	10.0%	12.0%	25.5%
NOPAT	295	369	2,402
ROIC	**32.8%**	**41.0%**	36.8%
ROE	**42.9%**	**51.4%**	29.0%

Source: ADCB estimates
Note:
1. Unconventional equity is based on a net debt to capital ratio of 30%.
2. Invested capital reflects the total investment in rigs, based on $30m per rig. For 30 rigs, this implies total invested capital of $900m.
3. Group 2030 estimates are based on ADCB forecasts.

ADNOC Drilling delivers return ratios significantly higher than those of global drilling peers. Its fixed-return rig framework, combined with scale advantages, operational efficiency and the rollout of unconventional activity, creates a structurally superior economic profile, in our view.

While most international drillers remain exposed to cyclical pricing, day-rate volatility and fragmented markets, ADNOC Drilling benefits from long-term contracted visibility, protected margins and a growing unconventional portfolio that enhances both capital efficiency and return on equity. Together, we estimate these factors position ADNOC Drilling as one of the strongest return generators in the global drilling universe.

Figure 2.30: ADNOC Drilling return metrics against global players (2026E)



Source: Company filing and ADCB estimates for ADNOC Drilling, Bloomberg for remaining companies

Balance sheet positioned for expansion

ADNOC Drilling maintains a conservative capital structure with gross debt of $2.07bn and net debt of $1.74bn as of March 2026. This translates into a leverage ratio (net debt/EBITDA) of roughly 0.8x based on LTM March 2026 EBITDA, a modest level for a capital-intensive business that generates revenue through tangible rig assets.

This low leverage positions ADRILL favourably to fund growth, as the company can comfortably increase borrowing to support expansion, according to our estimates. Planned investments include acquiring 23 additional rigs on the unconventional side to reach a fleet of 30 rigs, requiring about $690m in capex ($30m each), alongside $350m earmarked for the Enersol JV (ADNOC Drilling's share), bringing confirmed expansion commitments to roughly $1.04bn, excluding additional potential M&A opportunities.

Factoring in these obligations, leverage remains below 1.3x, reinforcing ADNOC Drilling's ability to repay debt following expansion investments within 1.5 years at current EBITDA levels. We expect EBITDA to increase on the back of business expansion, providing sufficient headroom to fund growth and support potential upside in dividends.

Furthermore, the company has significant liquidity headroom, with undrawn facilities totalling around $1.0bn, enough to cover the commitments discussed above. This headroom provides flexibility to pursue international expansion and unconventional drilling opportunities. ADNOC Drilling's disciplined financial position gives us strong confidence that its growth strategy is well supported without compromising financial stability.

Figure 2.31: ADNOC Drilling balance sheet summary

$ m	Mar 2026		Mar 2026
Current debt	778	**Uses**	
Non-current debt	1,247	Enersol JV ADRILL share	350
Lease liabilities	48	Unconventional rigs	690
Total	**2,073**	**Total**	**1,040**
Cash	331	Source/undrawn facility	
Net debt	**1,742**	Facility C	375
LTM EBITDA	2,192	Facility E	600
Leverage (Net debt/EBITDA)	*0.79*	**Total**	**975**
Pro forma net debt*	**2,782**	**Pro forma leverage***	**1.27**

Source: Company filing, pro forma includes debt arising from investment in Enersol and unconventional expansion, assuming all funded through debt

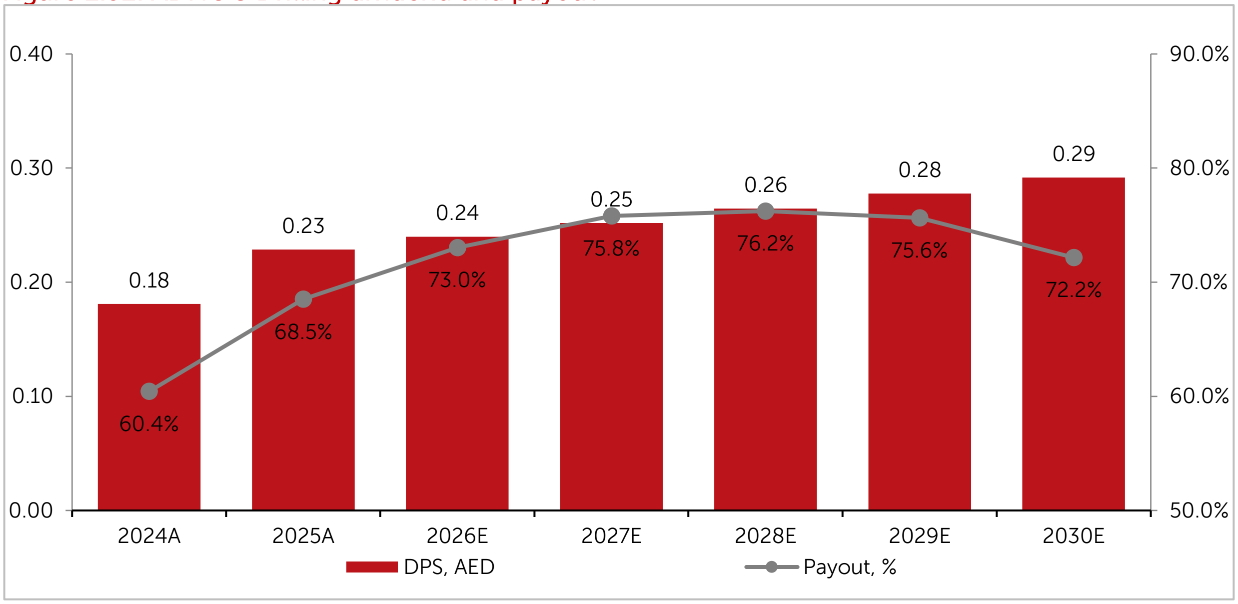
Rising dividends

ADNOC Drilling offers an attractive dividend policy that combines income stability with growth. The company has set a dividend floor of $1.05bn (equivalent to 24 Fils per share) for 2026E, +5% YoY compared to 2025, and follows a quarterly payout schedule, providing predictable cash returns. Management targets a minimum 5% annual dividend growth at least until 2030, translating into cumulative distributions of around $6.8bn over six years (2025-30).

On a per-share basis, this equates to about AED 1.6 in 2025-30, indicating a cumulative minimum yield of close to 27%. It is important to note that this is the floor set by management. For 2025, the company distributed c. AED 0.23 per share at a compelling yield of 4.3% (as of 31 Dec 2025). This policy positions ADNOC Drilling as an appealing choice for income-seeking investors while offering capital appreciation potential, driven by expansion through unconventional development and international growth initiatives.

Our dividend forecast assumes 5% annual growth. However, given strong free cash flow generation and financial capacity, we believe the company has significant headroom to increase dividends further.

Figure 2.32: ADNOC Drilling dividend and payout



Source: Company filing, ADCB estimates

Attractive valuation

We value ADNOC Drilling using the discounted cash flow method. The company operates under long-term contracts with fixed returns through its rig framework agreement with ADNOC, and it also benefits from unconventional development contracts with its parent company, which provide strong visibility over revenue and cash generation. These factors make the discounted cash flow approach suitable for valuing the company. ADNOC Drilling is also capex intensive, as its operations depend on rigs and other tangible assets, and the discounted cash flow method effectively captures these investments over the forecast period.

We have not relied on relative valuation, as the company's operations differ significantly from global peers given its contractual framework with ADNOC, which is also its majority shareholder. The company has a fixed dividend policy; however, the payout ratio of around 70% does not fully reflect its cash-generation capability, which limits the applicability of the dividend discount model. Our DCF assumptions are as follows:

- **Risk-free rate:** Based on the prevailing yield of the 10-year US Treasury note
- **Equity country risk premium:** Sourced from NYU Stern, where Aswath Damodaran summarises country default spreads and risk premiums (source: pages.stern.nyu.edu)
- **Beta:** Adjusted beta obtained from Bloomberg.
- **Tax rate:** UAE corporate tax rate
- **Capital structure:** Based on the market value of equity and the latest reported book value of debt

Figure 2.33: ADNOC Drilling WACC summary

WACC calculation	
Tax rate	9.0%
Cost of debt (Kd)	**4.5%**
Share of debt	7.1%
Risk-free rate	4.5%
Beta levered	0.70
ERP	5.0%
Cost of equity (Ke)	**8.0%**
Share of equity	92.9%
WACC	**7.7%**

Source: UAE Central Bank, Stern NYU, ADCB estimates

The fair value of the company based on our DCF analysis is **AED 7.00 per share**. This implies 20% upside from the current price. We are initiating coverage with a **Buy** rating on the stock.

Figure 2.34: ADNOC Drilling fair value

Fair value calculation, $ m	
Present value from explicit forecasts (2026-30E)	6,882
Present value from medium-term growth phase (2031-34E)	5,281
Terminal value	20,126
Enterprise value	**32,289**
(-) Net debt	1,741
(-) Non-controlling interest	43
Equity value	**30,505**
Outstanding shares	16,000
Fair value per share (USD)	1.91
Fair value per share (AED)	7.01
Fair value (round-off)	**7.00**

Source: ADCB estimates

Figure 2.35: DCF summary

$ m	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Terminal value
EBIT	1,690	1,674	1,694	1,751	1,834	1,990					
Tax rate (%)	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%					
NOPAT	1,538	1,523	1,541	1,594	1,669	1,811					
Depreciation (+)	508	540	578	604	629	650					
Capex (-)	815	740	595	585	475	425					
Change in working capital (-)	(5)	22	(21)	(31)	(47)	(38)					
Free cash flow to firm	**1,236**	**1,301**	**1,544**	**1,644**	**1,869**	**2,074**	**2,136**	**2,200**	**2,266**	**2,334**	**38,097**
Discount factor		0.96	0.89	0.83	0.77	0.71	0.66	0.61	0.57	0.53	0.53
Present value		**1,245**	**1,373**	**1,356**	**1,432**	**1,475**	**1,410**	**1,348**	**1,289**	**1,233**	**20,126**

Source: ADCB estimates

Sensitivity to unconventional drilling operations

A significant portion of the company's future value creation will be driven by unconventional drilling activity. Considering this, we have conducted a scenario analysis to assess how changes in unconventional operations could affect the company's financials and valuation. Specifically, we evaluated the effect of variations in the number of wells and revenue per well on the overall value.

Performing this analysis is important because it provides insight into the sensitivity of cash generation to operational changes, helping us understand potential volatility in future cash flows. This approach ensures that our valuation captures both upside opportunities and downside risks associated with unconventional drilling.

We have developed five scenarios to assess the effect of unconventional drilling on the company's valuation. In our base case (model forecast), we assume the number of unconventional wells will reach around 260 by 2030, while revenue per well declines to about $9m as operational efficiencies and scale benefits materialise.

For 2026, our assumptions remain unchanged across all scenarios because the company is already contracted under Phase 1 of the unconventional programme, which includes $1.7bn in revenue and 144 wells.

- **Base case:** c.262 wells by 2030, and revenue per well declines to $9m by 2030 due to efficiency gains
- **Scenario 1:** 20% fewer wells than base case
- **Scenario 2:** 10% fewer wells than base case
- **Scenario 3:** 10% more wells than base case
- **Scenario 4:** 20% more wells than base case

Figure 2.36: Multiple scenarios – unconventional development (number of wells)

	Base case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
2026E	41	41	41	41	41
2027E	41	33	37	45	49
2028E	66	53	59	73	79
2029E	131	105	118	144	157
2030E	262	210	236	288	314

Source: ADCB estimates

We assessed EBITDA across different scenarios while keeping revenue per well unchanged from the base case. The results show only modest volatility in earnings in the early years, with a slight downside of about 0.4% to 0.5% and similar upside. Even by 2030, the range stays moderate at around -2.1% to +2.1%. Overall, this shows that earnings remain resilient despite assuming volatility in the unconventional segment.

This suggests that incremental gains from the unconventional segment are strong. However, volatility in unconventional operations has no material impact on ADNOC Drilling's earnings, underscoring the resilience of its core operations. A similar trend is observed in fair value, which shows minimal change despite shifting operational assumptions on the unconventional side.

Figure 2.37: Multiple scenarios — impact on EBITDA and fair value

$ m	Base case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
2026	2,214	2,214	2,214	2,214	2,214
2027	2,271	2,263	2,267	2,275	2,280
2028	2,355	2,343	2,349	2,362	2,368
2029	2,462	2,436	2,449	2,475	2,489
2030	2,639	2,583	2,611	2,667	2,694
AED					
Fair value	7.00	6.85	6.93	7.07	7.15

Chg.	Base case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
2026	–	0.0%	0.0%	0.0%	0.0%
2027	–	-0.4%	-0.2%	0.2%	0.4%
2028	–	-0.5%	-0.3%	0.3%	0.5%
2029	–	-1.1%	-0.5%	0.5%	1.1%
2030	–	-2.1%	-1.1%	1.0%	2.1%
Fair value	–	-2.1%	-1.0%	1.0%	2.1%

Source: ADCB estimates

We have also reviewed our fair value under different revenue-per-well assumptions. The analysis assumes a fixed revenue per well across all years. The analysis highlights a clear and consistent relationship between revenue per well and equity value. Higher revenue per well directly supports higher fair value across all scenarios. Even under more conservative assumptions, the valuation remains sensitive to incremental changes in well productivity.

Overall, our findings reinforce that revenue per well is a critical lever. Sustained high revenue per well would translate into meaningful valuation upside.

Figure 2.38: Fair value sensitivity to different scenarios and revenue per well

$ m per well	Base case (AED/share)	Scenario 1	Scenario 2	Scenario 3	Scenario 4
12.0	7.25	7.05	7.15	7.34	7.44
11.0	7.16	6.98	7.07	7.25	7.34
10.0	7.08	6.92	7.00	7.16	7.24
9.0	7.00	6.85	6.93	7.07	7.14
8.0	6.92	6.79	6.85	6.98	7.05

Source: ADCB estimates

Sensitivity to terminal growth and WACC

We have assessed fair value based on sensitivity to two key DCF assumptions: WACC and terminal growth. Our base case assumes a 7.7% WACC and 1.5% terminal growth, resulting in a fair value of AED 7.00 per share.

ADNOC Drilling's long-term growth would depend on future energy demand and ADNOC's sustainable capacity expansion plans to deliver reliable energy supply to meet that demand. If terminal growth is higher than our base assumption, fair value increases. Conversely, lower terminal growth reduces fair value.

WACC is also a key valuation driver. A higher WACC lowers fair value, while a lower WACC increases fair value. Notably, as WACC is partly driven by the risk-free rate, any sustained increase in rates could pressure our fair value estimate.

Figure 2.39: Fair value sensitivity to different WACC and terminal growth

		Terminal growth				
	Fair value sensitivity	0.5%	1.0%	1.5%	2.0%	2.5%
WACC	6.5%	7.76	8.26	8.87	9.60	10.53
	7.0%	7.10	7.51	8.00	8.58	9.30
	7.7%	6.32	6.64	7.00	7.43	7.94
	8.0%	6.06	6.34	6.67	7.05	7.51
	8.5%	5.63	5.87	6.15	6.47	6.84

Source: ADCB estimates

Unique model limits peer comparability

ADNOC Drilling trades at a premium valuation versus global drilling and oilfield services peers, with a 2026E EV/EBITDA multiple of 12.5x compared with 7.6x for drilling peers and 8.0x for OFS peers. This implies a premium of c. 1.4x versus the peer average.

We believe this premium is justified. ADNOC Drilling delivers structurally stronger margins, at around 40% above drilling peers and 2x+ OFS peers, supported by its scale, high fleet utilization, long-term contracts, and deep integration within the ADNOC ecosystem. Its margin profile is also underpinned by agreements that provide visibility and protect returns, reducing earnings volatility compared with more cyclical international peers.

More importantly, ADNOC Drilling generates materially higher returns. This is a key driver of shareholder value. Higher returns on capital mean the company can convert growth capex into earnings more efficiently and sustain stronger cash generation. In turn, this supports higher dividend capacity, balance sheet flexibility, and reinvestment into accretive fleet expansion. The premium valuation should therefore be viewed as a reflection of higher margins, earnings quality and ADNOC Drilling's superior ability to reinvest capital at attractive returns.

Figure 2.40: EV/EBITDA vs EBITDA margin for ADNOC Drilling and key global peers (2026E)

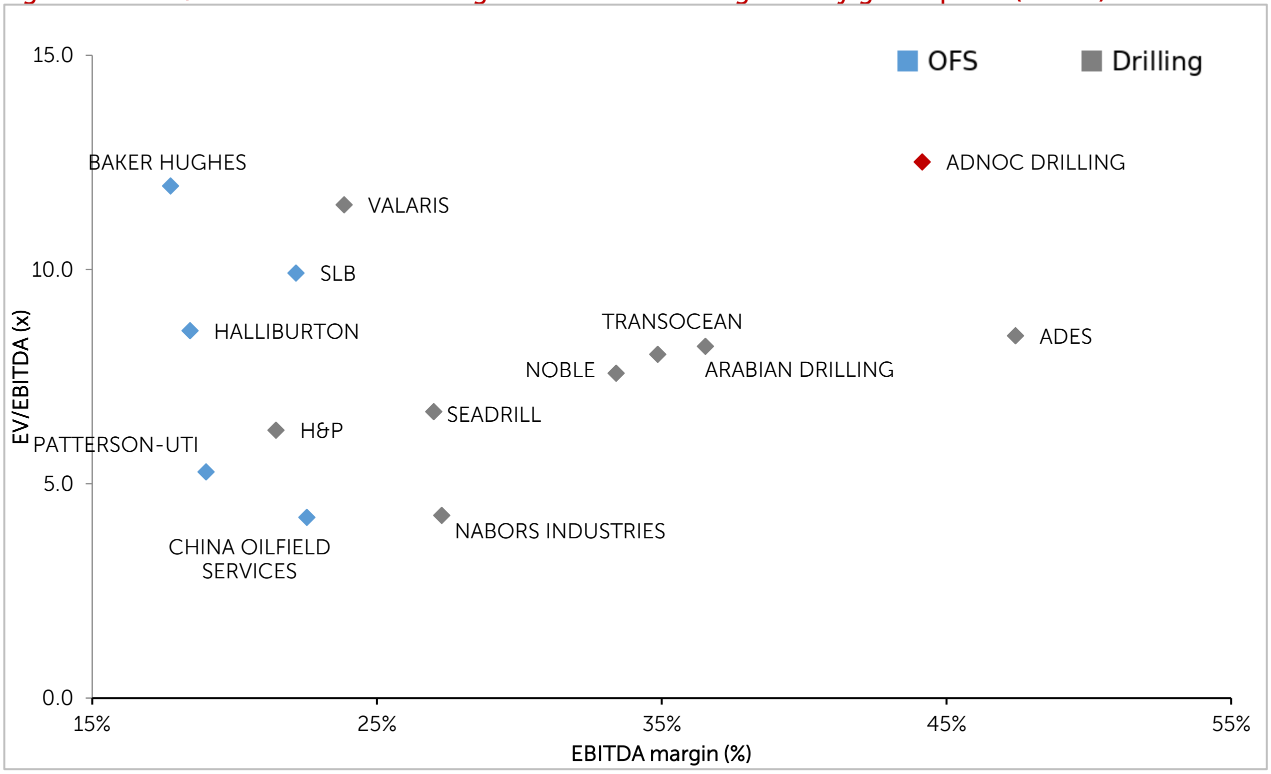
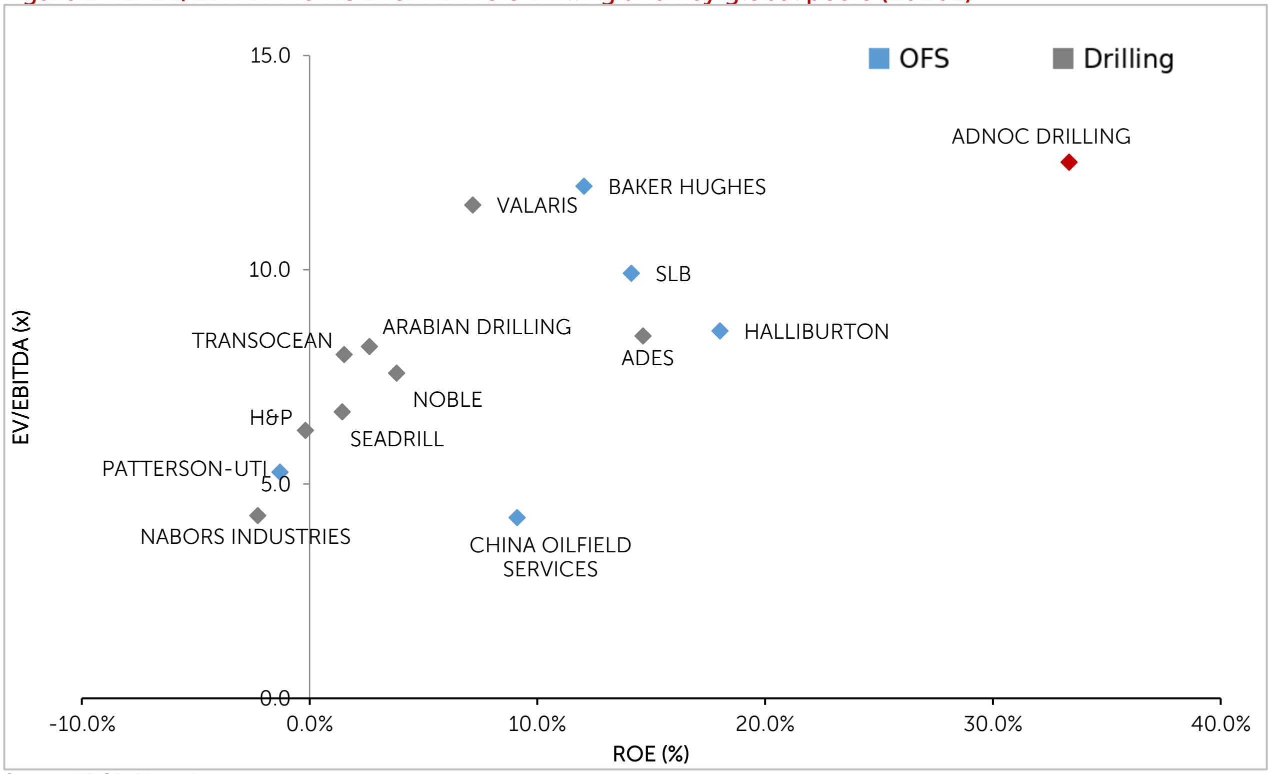


Figure 2.41: EV/EBITDA vs ROE for ADNOC Drilling and key global peers (2026E)



Source: ADCB, Bloomberg

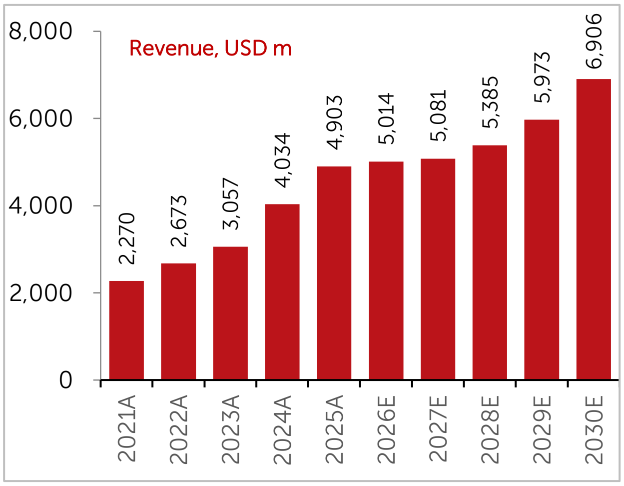
Valuation comps

Company	Country	Market Cap ($ m)	EBITDA margin 2026E	EBITDA margin 2027E	EV/Sales 2026E	EV/Sales 2027E	EV/EBITDA 2026E	EV/EBITDA 2027E	Div. yield 2025E	Div. yield 2026E	ROE 2026E
Drilling companies											
NOBLE CORP	UNITED STATES	6,249	33.4%	38.4%	2.5	2.3	7.6	5.9	5.1%	5.5%	3.8%
TRANSOCEAN	SWITZERLAND	5,818	34.9%	35.6%	2.8	2.8	8.0	7.8	0.0%	0.0%	1.5%
VALARIS	UNITED STATES	5,355	23.8%	32.3%	2.7	2.4	11.5	7.3	0.0%	0.0%	7.2%
ADES HOLDING	SAUDI ARABIA	5,634	47.4%	48.5%	4.0	3.7	8.5	7.6	3.0%	3.9%	14.6%
HELMERICH & PAYNE	UNITED STATES	3,399	21.4%	23.9%	1.3	1.3	6.2	5.2	3.0%	3.2%	-0.2%
SEADRILL	BERMUDA	2,400	27.0%	33.9%	1.8	1.6	6.7	4.7	1.2%	4.7%	1.4%
ARABIAN DRILLING	SAUDI ARABIA	2,176	36.5%	39.8%	3.0	2.6	8.2	6.7	1.7%	3.7%	2.6%
NABORS INDUSTRIES	UNITED STATES	1,342	27.3%	29.0%	1.2	1.1	4.3	3.7	0.0%	0.0%	-2.3%
Average			31.5%	35.2%	2.4	2.2	7.6	6.1	1.7%	2.6%	3.6%
Oilfield services											
SLB	UNITED STATES	70,896	22.2%	24.1%	2.2	2.0	9.9	8.5	2.5%	2.6%	14.1%
BAKER HUGHES	UNITED STATES	56,488	17.8%	19.0%	2.1	2.0	11.9	10.4	1.6%	1.7%	12.1%
HALLIBURTON	UNITED STATES	28,963	18.4%	19.8%	1.6	1.5	8.6	7.5	2.0%	2.1%	18.0%
CHINA OILFIELD SERVICES	CHINA	6,144	22.5%	22.7%	0.9	0.9	4.2	4.0	2.8%	3.0%	9.1%
PATTERSON-UTI ENERGY	UNITED STATES	3,709	19.0%	20.2%	1.0	0.9	5.3	4.6	4.0%	4.1%	-1.3%
Average			20.0%	21.1%	1.6	1.5	8.0	7.0	2.6%	2.7%	10.4%
ADNOC DRILLING	UAE	25,443	44.2%	44.7%	5.5	5.4	12.5	12.1	4.1%	4.3%	33.3%

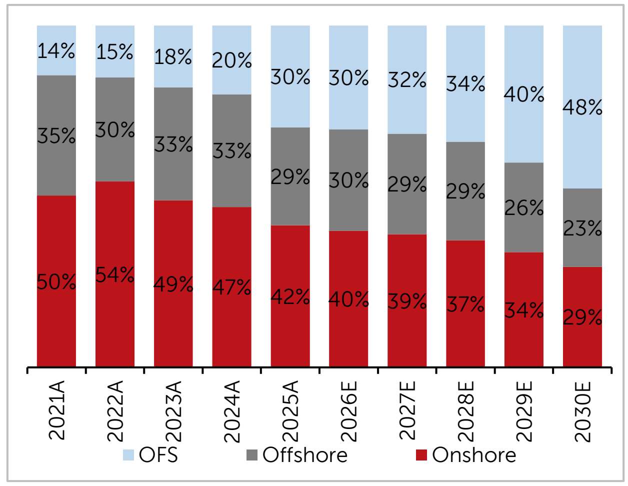
Source: ADCB estimates, Bloomberg, as of 25 June 2026

ADNOC Drilling — Key charts

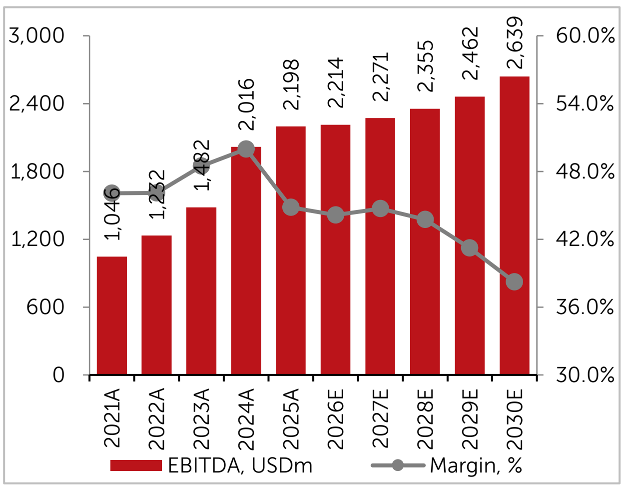
Solid revenue progression



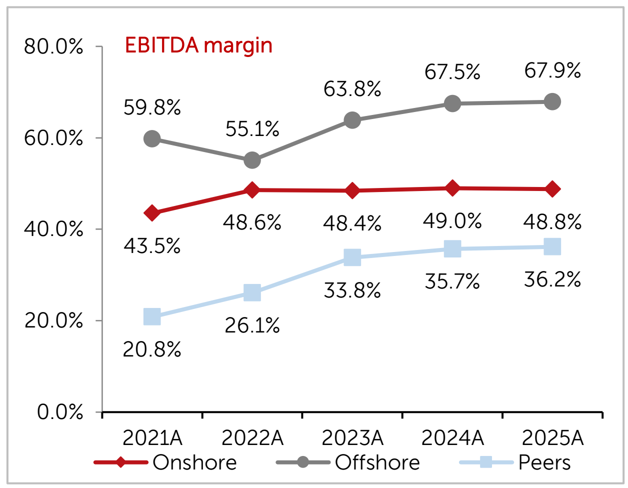
OFS share increasing



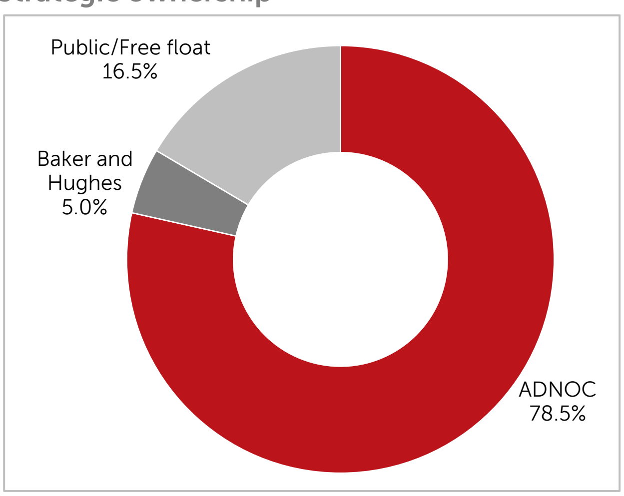
Consistent margins



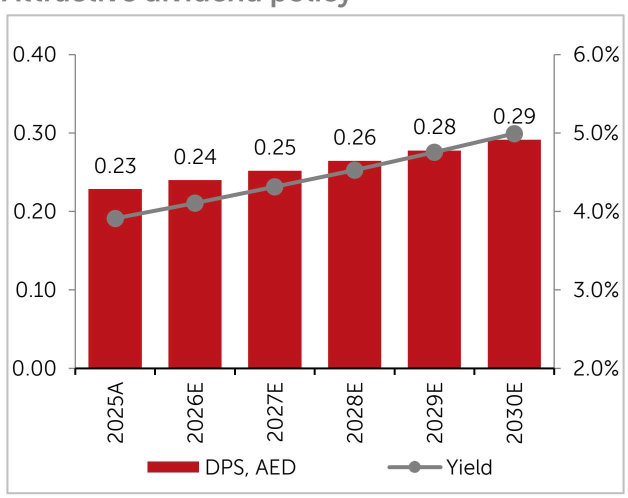
Strong core drilling margins



Strategic ownership



Attractive dividend policy



Source: Company filings, ADCB estimates

Profit and loss statement

$ m	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	2,673	3,057	4,034	4,903	5,014	5,081	5,385	5,973	6,906
Growth	*17.8%*	*14.4%*	*32.0%*	*21.5%*	*2.3%*	*1.3%*	*6.0%*	*10.9%*	*15.6%*
EBITDA	1,232	1,482	2,016	2,198	2,214	2,271	2,355	2,462	2,639
Growth	*17.8%*	*20.3%*	*36.0%*	*9.0%*	*0.7%*	*2.6%*	*3.7%*	*4.5%*	*7.2%*
Margin	*46.1%*	*48.5%*	*50.0%*	*44.8%*	*44.2%*	*44.7%*	*43.7%*	*41.2%*	*38.2%*
Depreciation and amortisation	401	391	458	508	540	578	604	629	650
EBIT	831	1,091	1,558	1,690	1,674	1,694	1,751	1,834	1,990
Growth	*34.2%*	*31.3%*	*42.8%*	*8.5%*	*-1.0%*	*1.2%*	*3.4%*	*4.7%*	*8.5%*
Margin	*31.1%*	*35.7%*	*38.6%*	*34.5%*	*33.4%*	*33.3%*	*32.5%*	*30.7%*	*28.8%*
Interest payment	29	59	124	98	89	89	76	62	41
PBT	802	1,032	1,434	1,592	1,584	1,605	1,675	1,772	1,948
Growth	*33.3%*	*28.6%*	*38.9%*	*11.0%*	*-0.5%*	*1.3%*	*4.4%*	*5.8%*	*9.9%*
Margin	*30.0%*	*33.8%*	*35.5%*	*32.5%*	*31.6%*	*31.6%*	*31.1%*	*29.7%*	*28.2%*
Net income	802	1,032	1,305	1,453	1,431	1,448	1,512	1,600	1,761
Growth	*33.3%*	*28.6%*	*26.4%*	*11.4%*	*-1.5%*	*1.2%*	*4.4%*	*5.8%*	*10.0%*
Margin	*30.0%*	*33.8%*	*32.3%*	*29.6%*	*28.5%*	*28.5%*	*28.1%*	*26.8%*	*25.5%*
Adjusted net profit	802	1,032	1,305	1,453	1,431	1,448	1,512	1,600	1,761
Growth	*33.3%*	*28.6%*	*26.4%*	*11.4%*	*-1.5%*	*1.2%*	*4.4%*	*5.8%*	*10.0%*
Margin	*30.0%*	*33.8%*	*32.3%*	*29.6%*	*28.5%*	*28.5%*	*28.1%*	*26.8%*	*25.5%*
Per share data									
EPS, USD	0.05	0.06	0.08	0.09	0.09	0.09	0.09	0.10	0.11
EPS, AED	0.18	0.24	0.30	0.33	0.33	0.33	0.35	0.37	0.40
DPS, AED	0.15	0.16	0.18	0.23	0.24	0.25	0.26	0.28	0.29
DPS, USD	0.04	0.04	0.05	0.06	0.07	0.07	0.07	0.08	0.08

Source: ADCB estimates

ADNOC Drilling — Financial statements and ratios

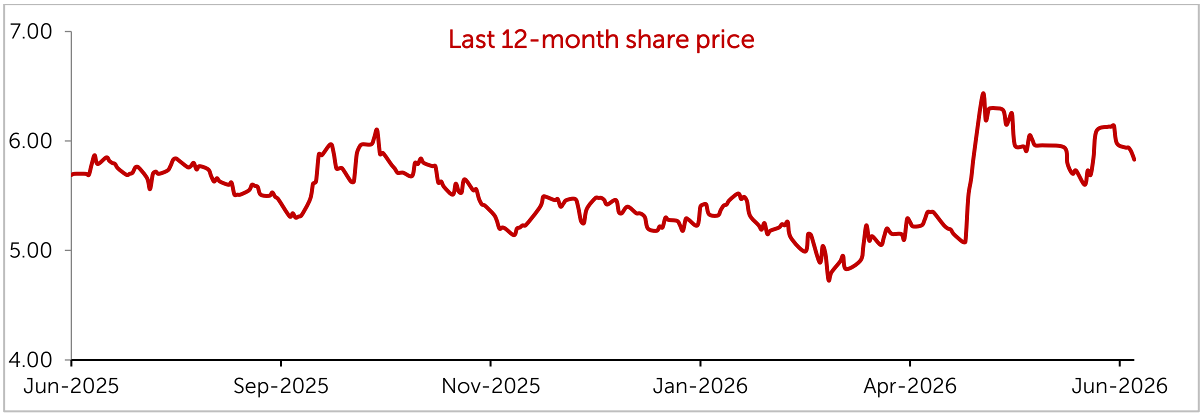
Year	2025A	2026E	2027E	2028E
Profit & loss summary ($ m)				
Revenue	4,903	5,014	5,081	5,385
EBITDA	2,198	2,214	2,271	2,355
D&A	508	540	578	604
EBIT	1,690	1,674	1,694	1,751
Net interest	98	89	89	76
PBT	1,592	1,584	1,605	1,675
Net profit	1,453	1,431	1,448	1,512
Adjusted net profit	1,453	1,431	1,448	1,512
Balance sheet summary ($ m)				
Tangible assets/PPE	5,477	6,062	6,097	6,095
Non-current assets	6,071	6,621	6,715	6,783
Cash	236	441	528	666
Current assets	2,030	2,256	2,341	2,511
Total assets	8,101	8,876	9,056	9,293
Current liabilities	2,508	1,738	1,756	1,816
Total debt	2,317	2,584	2,380	2,178
Net debt	2,081	2,143	1,852	1,511
Total liabilities	4,002	4,293	4,109	3,975
Shareholders' equity	4,099	4,485	4,836	5,195
Cash flow summary ($ m)				
Cash from operations	2,226	2,042	2,117	2,199
Capex	815	740	595	585
Free cash flow[1]	1,411	1,302	1,522	1,614
Cash from investment	(984)	(942)	(607)	(594)
Dividends	1,144	1,045	1,098	1,152

Year	2025A	2026E	2027E	2028E
Growth				
Revenue	21.5%	2.3%	1.3%	6.0%
EBITDA	9.0%	0.7%	2.6%	3.7%
EBIT	8.5%	-1.0%	1.2%	3.4%
Net profit	11.4%	-1.5%	1.2%	4.4%
Adjusted net profit	11.4%	-1.5%	1.2%	4.4%
Margin				
EBITDA	44.8%	44.2%	44.7%	43.7%
EBIT	34.5%	33.4%	33.3%	32.5%
Net profit	29.6%	28.5%	28.5%	28.1%
Adjusted net profit	29.6%	28.5%	28.5%	28.1%
Return metrics				
ROIC[2]	25.7%	23.8%	23.1%	23.8%
ROCE[3]	27.8%	23.9%	21.3%	21.6%
ROE	36.7%	33.3%	31.1%	30.1%
ROA	18.3%	16.9%	16.1%	16.5%
Leverage ratio				
Net debt/EBITDA	0.9	1.0	0.8	0.6
Interest coverage ratio[4]	22.5	24.8	25.6	30.9
Per share data				
EPS, USD	0.09	0.09	0.09	0.09
EPS, AED	0.33	0.33	0.35	0.37
DPS, USD	0.06	0.07	0.07	0.07
DPS, AED	0.23	0.24	0.25	0.26
Book value, USD	0.26	0.28	0.30	0.32

Year	2025A	2026E	2027E	2028E
Valuation ratio				
EV/Sales	5.5	5.5	5.4	5.0
EV/EBITDA	12.4	12.5	12.1	11.5
P/E	17.5	17.8	17.6	16.8
P/B	6.2	5.7	5.3	4.9
FCF yield	5.5%	5.1%	6.0%	6.3%
Dividend Yield	3.9%	4.1%	4.3%	4.5%

Market data	
Company name	ADNOC Drilling
Bloomberg ticker	ADNOCDRI UH
Share price (AED)	5.84
Fair value (AED)	7.00
Upside/(Downside)	20%
Rating	Buy
Market value (USD m)	25,443

Source: Company data, ADCB estimates
Note: 1. FCF = CFO – Capex; 2. ROIC: EBIT (1 – tax)/ (Debt + Shareholders equity – cash); 3. EBIT (1-tax)/ (Total assets – current liabilities); 4. EBITDA/net interest



Source: Bloomberg

Risks to our valuation

Reliance on a single customer

The company operates under a long-term framework agreement with ADNOC, which provides strong visibility but creates customer concentration risk. Any change in ADNOC's capex plans, contract terms, or upstream capacity strategy could materially affect activity levels. Any reduction or delay in ADNOC's capacity programmes would directly lower rig utilisation and revenue growth.

Geopolitical and offshore operational risk

Offshore and island operations are exposed to marine logistics disruption, regional tensions, and potential instability around the logistics supply chain. While core revenues are largely protected by long-term contracts, offshore and oilfield services activities remain more vulnerable to execution delays and cost inflation. Prolonged disruption could delay project execution, reduce offshore utilisation, and increase operating costs, leading to weaker near-term revenue recognition and margin pressure. This would translate into lower cash flow visibility

Unconventional segment execution risk

Scaling unconventional drilling requires significant capital investment, operational ramp-up, and coordination across multiple service lines and partners. Execution risks remain around well productivity, cost efficiency, and scaling timelines. Slower than expected ramp-up or weaker economics per well could limit the incremental revenue contribution from unconventional operations, which are a key growth driver. This would reduce medium-term earnings growth assumptions and negatively affect valuation upside.

JV and technology dependency risk (Turnwell/Enersol)

The company's unconventional and technology strategy relies on joint ventures and partnerships with global players, including SLB and Patterson-UTI, as well as investments through Enersol. This creates dependency on partners for execution, technology delivery, and capital allocation discipline. Any delays, misalignment, or underperformance within JV structures could reduce efficiency and returns, leading to lower-than-expected profitability.

Regional expansion and M&A integration risk

Expansion into international markets through acquisitions introduces integration, execution, and contract renewal risks in unfamiliar operating environments. Exposure to new regulatory regimes and customers also increases complexity. Delays in integration, cost overruns, or weaker performance of acquired assets could dilute margins and reduce return on invested capital.

Borouge: Cost leader with global platform upside

- **Borouge is a first quartile cost leader with structurally resilient margins.** Borouge benefits from scale, a young asset base, and long-term feedstock agreements with ADNOC, allowing its margins to remain well above global peers through the cycle.
- **BGI transforms Borouge into a global polyolefin platform.** he combination with Borealis, NOVA Chemicals, and potentially Borouge 4 materially improves scale, customer reach, geographic diversification, and synergy potential.
- **Attractive yield with upside from cycle recovery and transaction execution.** The stock provides a 6.4% dividend yield, with medium term upside driven by polymer market normalisation, BGI synergies, and potential capital market catalysts. We initiate coverage with a Buy rating and a fair value of AED 3.00 per share.

BOROUGE UH

INITIATE AT BUY

Fair Value (AED)	Previous Fair Value (AED)
3.00	N/A
Current Price (AED)	**Upside/ (Downside)**
2.55	+18%

Borouge PLC is a leading polyolefin producer specialising in differentiated polyethylene (PE) and polypropylene (PP) solutions, serving a wide range of consumer, infrastructure, mobility, healthcare, and industrial applications. The company operates through an integrated supply chain and leverages proprietary Borstar technology to deliver high performance solutions to customers in more than 90 countries and territories. Borouge serves some of the fastest growing markets, particularly APAC and MEA, which accounted for 59% and 32% of total sales volumes in 2025, respectively.

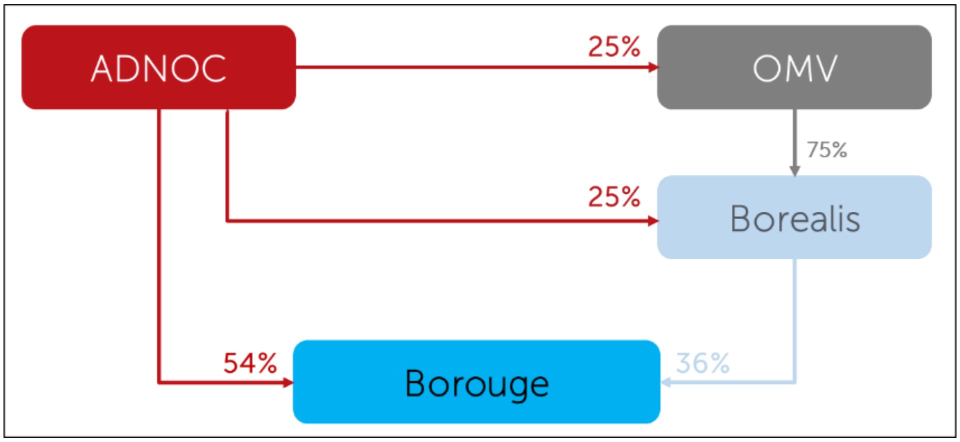
A key strategic focus for Borouge is differentiated products, which account for an estimated 80% of total sales. This product portfolio commands premium pricing, with through the cycle premia guidance of around $200/tonne for polyethylene and $140/tonne for polypropylene. In our view, this product mix, combined with Borouge's feedstock advantage and scale, underpins its structural margin and competitive position.

New structure, Borouge International

ADNOC and OMV announced the successful formation of Borouge International (BGI) on 31 March 2026. BGI was created through the combination of Borouge Plc and Borealis, alongside the acquisition of NOVA Chemicals. Previously, Borouge's ownership consisted of a 54% stake held by ADNOC, 36% by Borealis, and 10% as public free float.

Borealis is 75% owned by OMV, a listed multinational energy and chemicals group, and 25% owned by ADNOC. Under the new structure, BGI acquired ADNOC's and OMV's stakes, resulting in BGI owning 90% of Borouge. We discuss BGI in more detail later in this report.

Figure 3.1: Borouge's previous ownership (pre-BGI)



Source: Company filings

Young assets

Borouge owns and operates one of the largest single-site integrated polyolefin platforms in the world, with a nameplate production capacity of 5m tons per year. The company benefits from a young asset base, with ~90% of its capacity commissioned over the past 16 years and more than half within the last 11 years. This supports efficient operations and provides a long runway for productive output. This modern infrastructure helps Borouge maintain industry-leading reliability levels and positions it well for sustained performance.

Borouge expects to add more than 200kt of incremental PE capacity by 2027E, primarily through debottlenecking of its existing units. Through BGI, Borouge has also signed an asset usage agreement (AUA) that allows it to operate and market volumes from the Borouge 4 (B4) unit in return for an at-cost asset utilisation fee, with no direct capital outlay.

Combined, debottlenecking and access to B4 capacity provide a clear pathway to increase capacity without capex or significant incremental investment. All production units, including B4, are based on Borealis proprietary Borstar technology, supporting product consistency and margin resilience.

Figure 3.2: Borouge asset summary (kt per year)

		Capacity		Commissioned
Facility	Polyethylene (PE)	Polypropylene (PP)	Total	year
Borouge 1	620	–	620	2001
Borouge 2	700	800	1,500	2010
Borouge 3	1,430	950	2,380	2015
PP5	–	480	480	2022
Total	**2,750**	**2,230**	**4,980**	–

Source: Company filings

Diverse product range

Borouge's portfolio is anchored by two major product groups, polyethylene (PE) and polypropylene (PP), which together serve a broad mix of end markets across consumer solutions, infrastructure, mobility and industrial applications.

Polyethylene, the most used plastic worldwide, is a lightweight and durable thermoplastic that serves a wide range of applications across consumer products, construction, the automotive sector and electronics, among other industries. PE is produced from the polymerisation of ethylene, which the company derives from ethane supplied under long-term contracts with ADNOC.

The most common PE grades are:

- Branched versions: Low-density polyethylene (LDPE) and linear low-density polyethylene (LLDPE)
- Linear versions: High-density polyethylene (HDPE) and ultra-high-molecular-weight polyethylene (UHMWPE)
- Cross-linked: Cross-linked polyethylene (PEX or XLPE)
- Other: Medium-density polyethylene (MDPE)

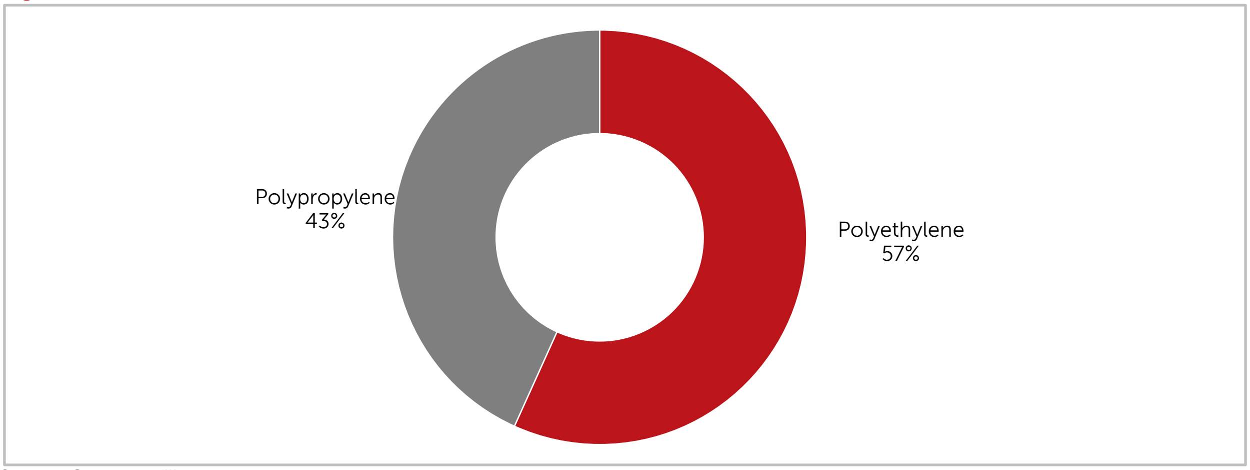
Polypropylene, the second most common plastic in use today, is a rigid and semi-crystalline thermoplastic used extensively in packaging, piping, textiles, medical products, automotive components and household goods.

PP is produced from polymerised propylene. The principal feedstock for PP production is propylene, which the company sources through long-term agreements with ADNOC and supplements with output from its olefins conversion unit that converts ethylene into propylene.

Primary PP grades include:

- Polypropylene homopolymer
- Polypropylene copolymers: PP random copolymers, suitable for applications requiring transparency and for products requiring an excellent appearance. PP block copolymers are suitable for applications that require high strength for industrial applications.

Figure 3.3: Sales volume breakdown (2025A)



Source: Company filings

Borouge provides targeted polymer solutions across two key segments, consumer and infrastructure.

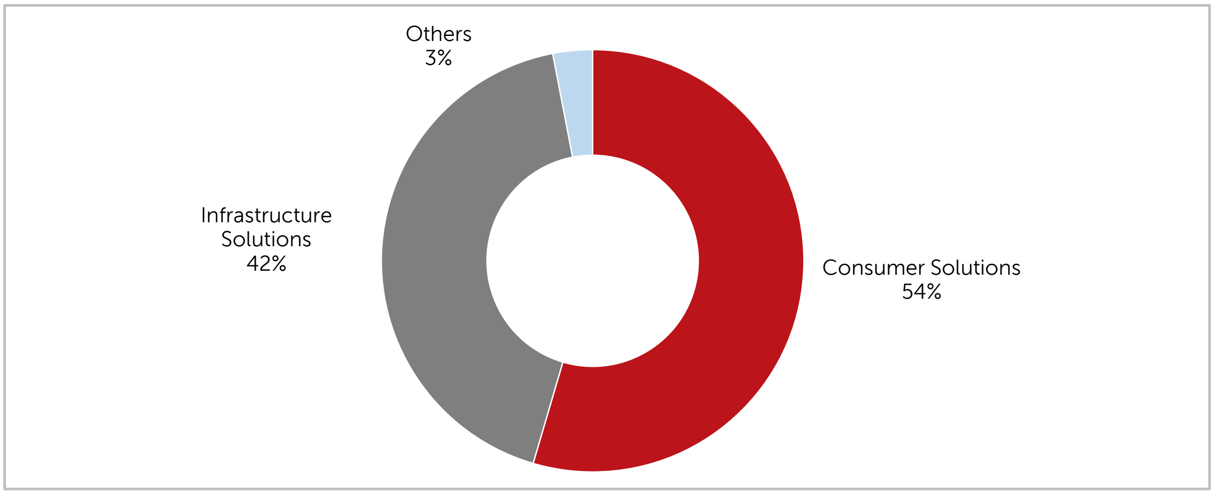
Consumer segment solutions

- Packaging: Ensures consistency and material performance to keep produce fresh without compromising sustainability and offers flexible and rigid packaging solutions
- Greenhouse films: Supports sustainable and innovative farming practices, and enhances crop protection and productivity
- Healthcare: Offers dedicated BorMed branded polyethylene and polypropylene grades tailored for medical and healthcare uses

Infrastructure segment solutions

- Pipes and fittings: Supplies durable polyethylene and polypropylene pipe materials, which significantly reduce leakage rates and improve efficiency in water and sanitation systems
- Energy solutions: Delivers protective cable jacketing materials for buildings, industrial sites, underground and underwater installations

Figure 3.4: Revenue by solutions (2025A)



Source: Company filings

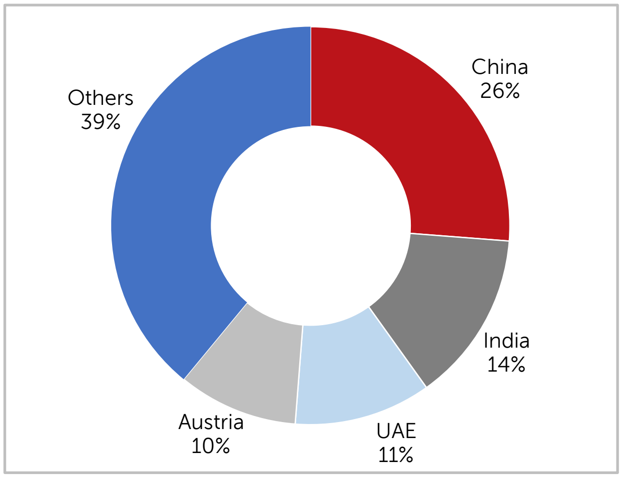
Serving high-growth markets

Borouge's sales footprint is concentrated in structurally faster-growing economies, with China and India together accounting for about 40% of total revenue in 2025 and the UAE contributing another 11%, while exposure to developed regions such as Western Europe and North America remains comparatively modest.

This positioning aligns the company with markets expected to expand considerably faster than the developed world over the coming years, supporting a strong and sustained volume runway for Borouge's consumer, infrastructure and energy applications that drive polyolefin consumption. The company is effectively leveraged to economies that would generate the bulk of incremental global plastics demand.

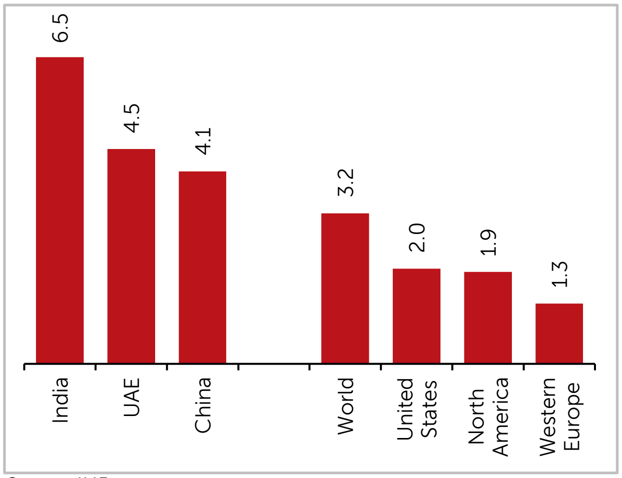
Following the BGI combination, sales will be more diversified across geographies, allowing the enlarged group to retain its strong presence in high-growth markets, while benefiting from reduced concentration risk through a broader global customer base. We will discuss this in more detail later in this report.

Figure 3.5: Revenue geographic breakdown



Source: Company filings, 2025

Figure 3.6: Average GDP growth (2025-30)



Source: IMF

Cost advantage

Borouge benefits from a structurally advantaged cost position, with all its production units operating in the first quartile of the global cost curve, according to IHS. This competitive position is anchored in economies of scale, a young and reliable asset base, and long-term access to low-cost ethane and propylene feedstock supplied by ADNOC.

Under the long-standing feedstock supply agreement, Borouge purchases raw ethane, propane, butane and propylene from ADNOC and its group companies to run the full Borouge complex.

Ethane sourced from ADNOC and pricing is linked to PE and PP price formulas with defined floors and caps. Propylene is supplied at local netback prices estimated to be roughly 25% below Northeast Asia CFR benchmarks. Propane and butane are priced at ADNOC's official selling prices on an FOB Ruwais basis.

The current feedstock supply agreement is scheduled to expire by November 2027, after which the new agreement will extend feedstock provisions through 2057 on broadly similar terms. Under the revised agreement, ethane will continue to be priced using a formula that mirrors the existing structure, though the polyethylene and polypropylene price caps within that formula will be increased.

It is important to note that even with the updated terms, Borouge will remain positioned within the first quartile of the global cost curve. Borouge 4 will operate under the new feedstock framework from its first day of production and is similarly expected to maintain a first-quartile cost position.

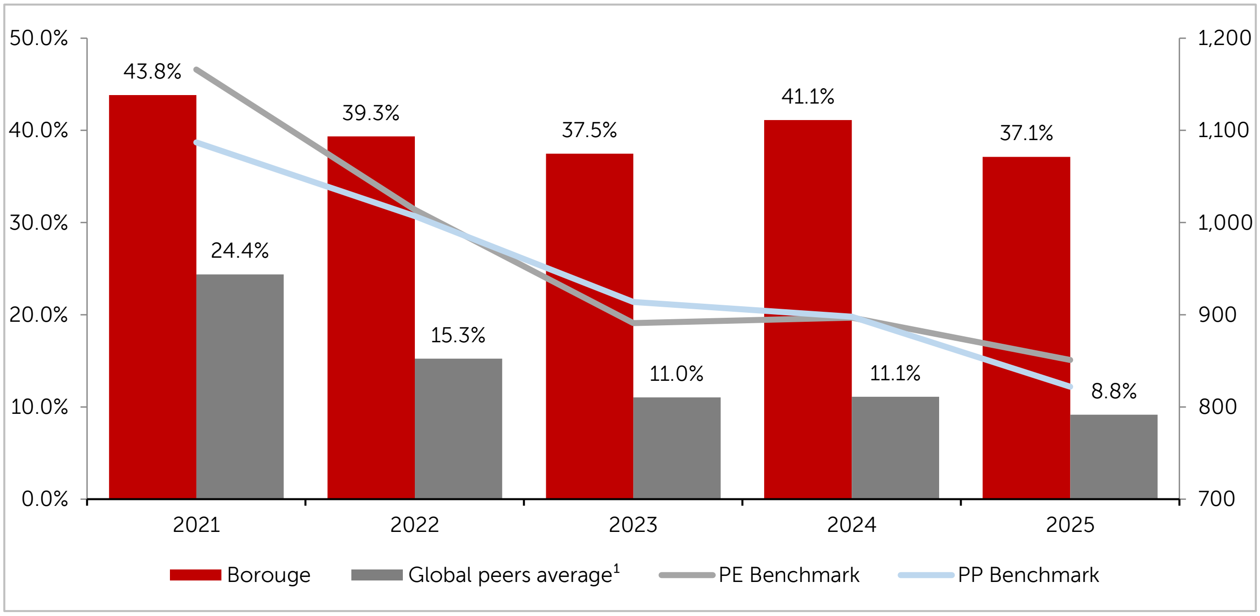
We expect further clarity on the integrated feedstock framework for BGI once the new structure begins operations. Given Borouge and BGI's proximity to ADNOC's upstream system and the historical structure of supply contracts, we expect the combined entity to retain a feedstock advantage, supporting its low-cost position and reinforcing margin resilience across cycles.

Strong and resilient margins

Borouge's EBITDA margins remain among the strongest in the global peer group, supported by a highly resilient cost structure anchored by its long-term feedstock agreement with ADNOC, which keeps the company positioned firmly in the first quartile of the global cost curve.

From 2021 to 2025, margins held stable despite notable softness in benchmark polymer pricing. In contrast, global producers have experienced significant volatility, with margins moving largely in line with benchmark price swings. In our view, this divergence highlights Borouge's structural advantage and reinforces the durability and strength of its margin profile across cycles.

Figure 3.7: Borouge and global players – EBITDA margins (%) and PE and PP benchmark pricing ($/tons)



Source: Company filings, Bloomberg. Benchmark prices represent HDPE Blow Molding NEA CFR and polypropylene Raffia NEA CFR prices, as indicated by IHS Markit data.

Note:

1. Peer average includes: SABIC, LG Chem, Dow, LyondellBasell Industries, Rongsheng Petrochemical, Nan Ya Plastics, Formosa Plastics, Westlake, Formosa Chemicals & Fibre, Petronas Chemicals Group, Yanbu National Petrochemical, and PTT Global Chemical

BGI: Global petrochemical champion

ADNOC and OMV entered into a binding framework agreement in March 2025 to combine their respective shareholdings in Borouge and Borealis into a single platform, Borouge International (BGI). Both shareholders will have a 46.94% stake in the new entity.

The strategic combination is strengthened by BGI's acquisition of NOVA Chemicals and the potential recontribution of Borouge 4 in 2029. Key entities in BGI, along with Borouge, include:

- **Borealis:** Headquartered in Vienna, Austria, owned 75% by OMV and 25% by ADNOC, it has advanced polyolefin technologies, including Borstar, alongside a strong European production and recycling footprint.
- **Nova Chemicals:** Major North American polyethylene producer with around 2.6mt of PE and 4.2mt of ethylene capacity, currently wholly owned by Mubadala.
- **Borouge 4:** Mega expansion in Ruwais that includes a 1.4mt per year ethane cracker and two Borstar polyethylene units of 700Kt per year each. Borouge 4, initially carved out to ring-fence construction risk, is expected to be reintegrated into BGI later.

Collectively, we believe this combination creates a diversified global polyolefin leader with innovative technology, a strong feedstock position, a distributed production footprint and broad geographic reach, underpinned by a clear pathway for capacity growth and value accretion.

OMV and XRG, ADNOC's international investment arm, announced the successful formation of Borouge Group International on 31 March 2026. For Borouge shareholders, the near-term structure remains unchanged and clear. Borouge is 90% owned by BGI and continues to trade on ADX. Notably, Borouge will continue to run standalone financial disclosure, reporting, and investor relations processes, while Borouge International operates as the holding company.

BGI strengthens Borouge's Platform as

- Combined entity would become top four polyolefins platform globally
- Distributed production footprint
- Adds Europe and North America exposure
- Reduces APAC and MEA concentration
- Expands customer reach and product offering
- Supports procurement and supply chain synergies
- Improves scale and potential index relevance
- Preserves ADNOC and OMV strategic alignment
- Creates cleaner platform for Borouge 4 growth

Structured plan for merger

The announced transaction is structured as a multi-step transformation designed to create a global polyolefin champion with scale, diversification and superior competitive positioning.

Figure 3.8: Multi-step transaction

1	ADNOC and OMV agreed to combine their ownership stakes in Borouge and Borealis through an all-share transaction to create Borouge International (BGI), a new global polyolefin leader *[Completed on 31 March 2026]*
2	OMV will make a €1.6bn primary injection into BGI to equalise ownership, with each shareholder holding 46.94% *[2027]*
3	As part of its value creation plan, BGI acquired NOVA Chemicals. *[NOVA part of BGI; Funding secured to complete acquisition]*
4	Share exchange offer to Borouge free float for new shares in BGI *[2027]*
5	A cash capital increase of up to $4bn is planned for 2027 to support an investment-grade credit profile and facilitate MSCI inclusion *[2027]*
6	Recontribution of Borouge 4 into BGI at a total cost of around $7.5bn once fully operational *[2029]*

Source: Company filings

Path to a simplified structure

The original framework contemplated a share exchange offer for Borouge's free float into the Borouge International (BGI). In March 2026, OMV and XRG reaffirmed the planned tender offer as the mechanism to simplify the structure and unlock value from the new global platform. The tender offer would convert Borouge shares into BGI shares, and management has stated that it will be aligned with BGI's future equity raise to maximise value for all shareholders.

BGI has indicated a potential equity raise of up to $4bn. The stated objectives for the capital raise are MSCI index inclusion, support for an investment-grade profile, and a through-the-cycle net leverage target of up to 2.5x EBITDA.

Both the tender offer and the equity raise are expected in 2027, subject to market conditions and regulatory approvals. Until then, BGI remains privately held, while Borouge is listed on ADX. This sets up a clear 2027 capital markets catalyst. We believe the tender offer and equity raise are the key triggers for a broader public market structure and potential index-related demand.

Volume growth without acquisition capex

Borouge 4 is not yet owned by the new group, but Borouge can capture incremental volumes through the Asset Usage Agreement (AUA) signed in March 2026. Under the AUA, Borouge operates and markets Borouge 4 volumes in return for an at-cost asset utilisation fee. The structure is designed to defer a future capital outlay and preserve timing flexibility.

As per the company, AUA is expected to deliver about $400m of cumulative net profit over three years after ramp-up. The transaction materials also highlight the recognition of right-of-use assets and lease liabilities on Borouge's balance sheet under this structure.

Management expects the AUA to remain in place until BGI acquires Borouge 4, which is not expected before 2029. This reinforces flexibility on the timing of capital outlays. All-in-all, we believe:

- Borouge can sell more tonnes without writing an acquisition cheque. The AUA gives Borouge commercial control of Borouge 4 volumes now, while deferring the asset purchase to a later date. This supports sales growth and market expansion without acquisition capex.
- Incremental earnings with balance sheet discipline. The AUA targets an incremental net profit of about $400m over three years after ramp-up, while pushing the larger capital outlay out to at least 2029. This supports near-term profitability and preserves financial flexibility.
- Better sequencing into the 2027 capital markets event. Deferring Borouge 4 ownership reduces funding pressure ahead of the planned 2027 tender offer and associated equity raise. This improves execution flexibility around the key capital markets catalyst.

Unlocking material synergies

ADNOC and OMV have had a 25-year strategic partnership through their joint ownership of Borouge, and we think this long-standing cooperation provides a strong foundation of operational alignment, shared governance practices, and trust. Mubadala, an Abu Dhabi-based sovereign wealth fund, further strengthens this network of relationships. Both ADNOC and Mubadala are also shareholders in Masdar, reinforcing a broader system of collaboration across major Abu Dhabi industrial platforms.

We believe ADNOC's institutional connectivity with OMV and Mubadala reduces merger execution risk, as the key stakeholders already share a common strategic culture, a proven history of co-investment, and a mutual commitment to Abu Dhabi's long-term industrial growth agenda.

These relationships also create multiple synergy drivers.

- Improves geographic coverage of sales and production: Operating multiple plants across different regions gives BGI an advantage over companies concentrated in a single geography, in our view. Multiple operating locations diversify geopolitical risk and enable customers to be served from the nearest facility. This supports faster delivery, better reliability, and lower transportation costs. Given logistics disruptions in the Middle East since March 2026, having diversified production units across multiple geographies has become increasingly important.
- Cross-selling opportunities: The integrated BGI platform would offer a wide range of grades across both PE and PP, helping customers to source a suite of solutions from a single commercial network. This can increase wallet share, improve customer stickiness, and expand market penetration.
- Improves procurement terms and supply chain efficiency: Operating with greater capacity and volume strengthens bargaining power with suppliers, helping the group to secure feedstock and materials at more competitive terms, which reduces unit costs and improves margin resilience.

Together, we believe these factors present a compelling, high conviction investment rationale with reduced risk and long-term strategic alignment. The merger should also lead to structural synergies worth over $500m per year, as indicated by Borouge management. The merger carries a one-time implementation cost of $150m, and about 75% of the synergies are expected to be realised within three years of completion.

Debt rises, leverage still modest

The formation of BGI includes the acquisition of NOVA for $13.4bn and the recontribution of Borouge 4 for $7.5bn, both funded primarily through debt, resulting in a substantial increase in leverage. Additional consolidation of balance sheet liabilities adds further gearing: Borealis contributes EUR568m of net debt as of December 2025 (about $669m), and Borouge adds another $2.6bn of net debt as of March 2026.

To support the balance sheet and equalise ownership, OMV is injecting EUR1.6bn (about $1.86bn) in equity. The planned Borouge International cash capital increase of about $4bn in 2027 should further strengthen the capital structure.

Adjusting for both equity infusions, total net debt stands at about $18.3 bn. This results in through-the-cycle leverage of 2.6x based on the group through-the-cycle EBITDA of $7bn. BGI through the cycle EBITDA is expected to exceed $7bn, according to Borouge.

This leverage remains modest for a company with such a large, diversified tangible asset base. The capital structure optimisation enhances the likelihood of maintaining an investment-grade credit rating and supports the ambition for MSCI index inclusion, in our view.

Figure 3.9: Capital action from transaction

Step	Action	Impact on net debt	Cumulative debt ($ bn)
1	Borealis/Borouge merger	Combining Borealis and Borouge net debt	3.25
2	OMV cash injection	Down by EUR1.6bn ($1.86bn)	1.39
3	Debt-funded NOVA acquisition	Up by $13.4bn	14.79
4	Share transfer	–	14.79
5	Capital raise	Down by $4bn	10.79
6	B4 recontribution	Up by $7.5bn	18.29
		Total net debt	**18.29**
		Through-the-cycle EBITDA ($ bn)	7.0
		Leverage	**2.6x**

Source: Company filings

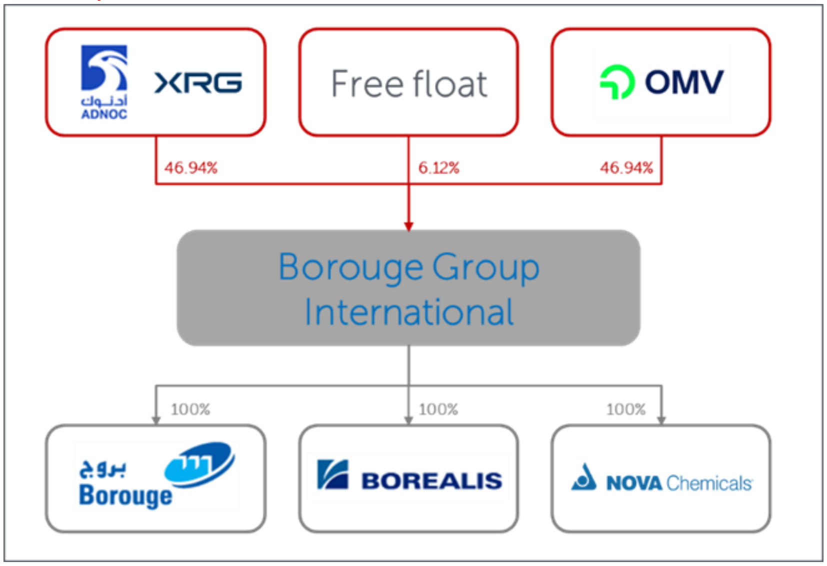
Headquarters in Austria, listing on ADX

BGI will be headquartered and domiciled in Austria. This will be supported by a regional headquarters in the UAE and a listing on the ADX. ADNOC and OMV will share equal governance rights and board representation, a structure designed to foster collaboration by promoting consensus on capital allocation and M&A, while keeping product, technology, and market priorities aligned across regions.

Establishing the company in Europe places BGI closer to premium customers and ensures it operates in line with the region's more demanding regulatory and circularity standards. ADNOC's shareholding in BGI moved to XRG's Global Chemicals platform, the ADNOC-owned international investment company launched in late 2024 to build top-tier positions across natural gas, chemicals, and scalable energy solutions that support AI and global industry.

Through XRG, ADNOC also acquired Covestro, a leading German producer of high-quality polymer materials, giving XRG the combined scale of BGI and Covestro under a single, government-backed investment platform. This strengthens XRG's position as a global chemical leader.

Figure 3.10: BGI ownership structure



Source: Company filings

Leading global platform

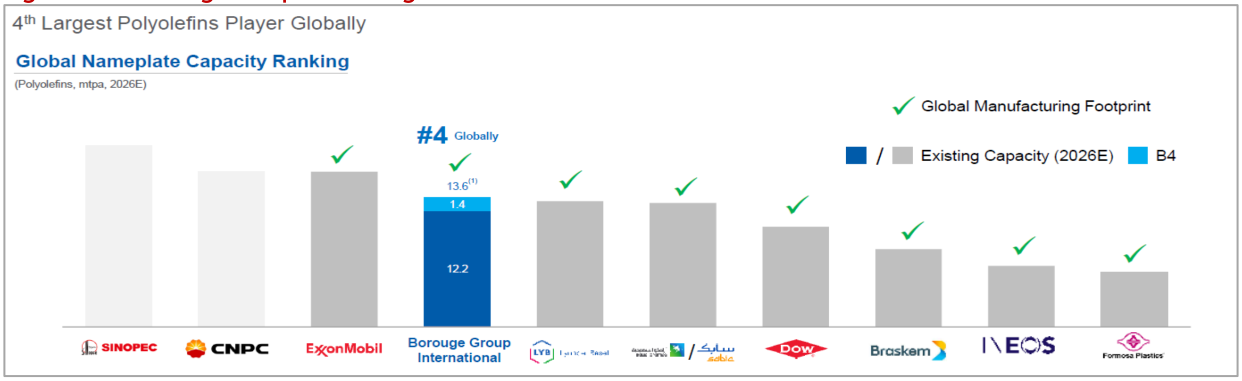
After completion of the transaction and the recontribution of B4, BGI should become the world's fourth-largest polyolefin producer with a total capacity of 13.6mt per year.

Figure 3.11: BGI capacity breakdown

Plant/company	MT/yr
Borouge	5.0
Borealis	4.1
Baystar	0.5
Nova	2.6
B4	1.4
Total	**13.6**

Source: Company filings

Figure 3.12: BGI global positioning



Source: Company filings

The platform would encompass:

- 14 olefins plants
- 36 polyolefin units, including B4 and Baystar
- 12 compounding plants

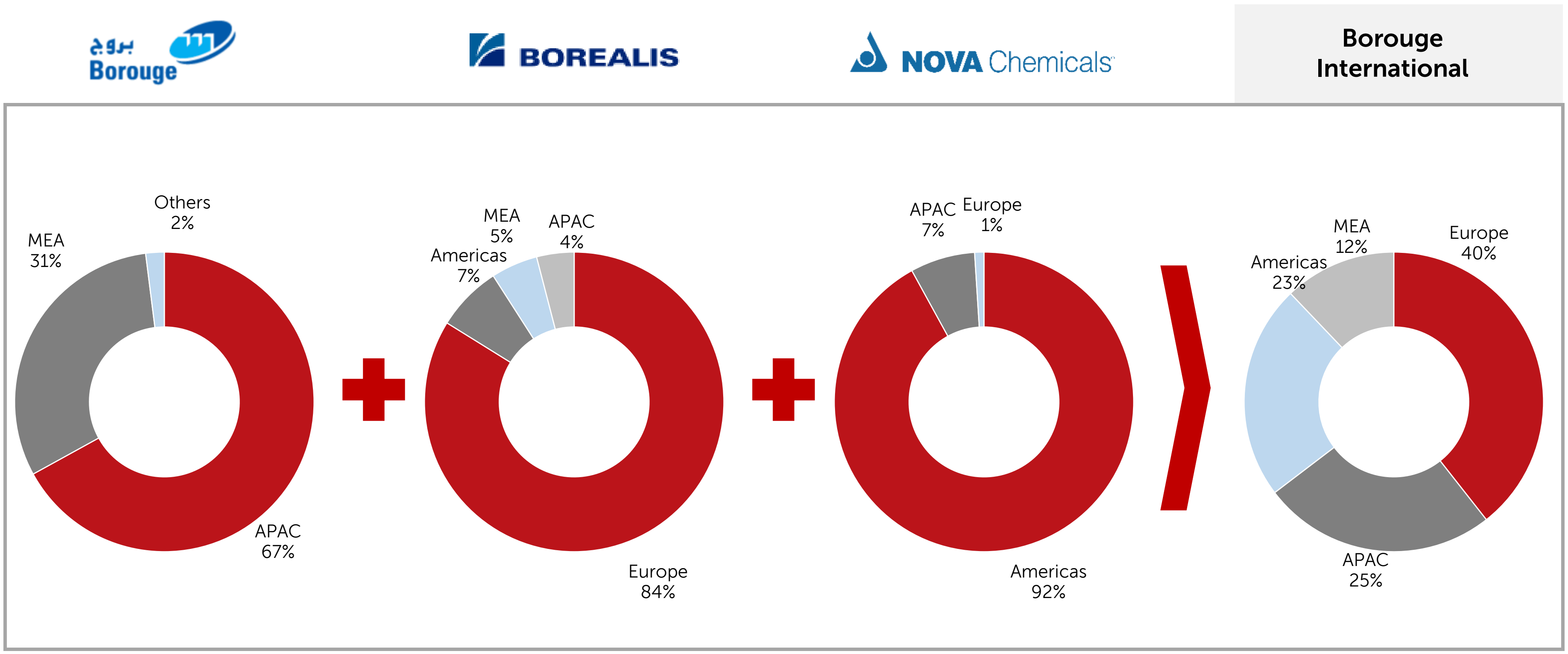
Together, this integrated footprint positions BGI as a large-scale player with diversified assets across the value chain, enabling broader product coverage, stronger cost competitiveness, and a more resilient global supply platform for long-term growth.

Diversified revenue base

Borouge, Borealis, and Nova bring highly complementary geographic revenue profiles to BGI. Borouge generates most of its revenue from APAC, with a strong concentration in China and India, while Borealis derives most of its revenue from Europe, and Nova Chemicals generates its revenue primarily from the Americas. This alignment reflects the simple industrial logic that each business earns most of its revenue in the regions where its production assets are located.

When combined, the three create a globally diversified entity in which no single region contributes more than 40% of revenue and no country accounts for outsized concentration risk. This diversification is strategically beneficial, as it reduces exposure to regional economic cycles, geopolitical risk, regulatory changes, and feedstock volatility. Diversified revenue streams also provide a more stable earnings base and strengthen the ability to allocate volumes strategically across markets.

Sales geographic breakdown: Diversifying through BGI (2024A)



Source: Company filings; Borouge's revenue is adjusted for intercompany eliminations to avoid double counting.

Feedstock cost advantage

BGI's entities benefit from structurally advantaged feedstock positions that reinforce its cost competitiveness across regions.

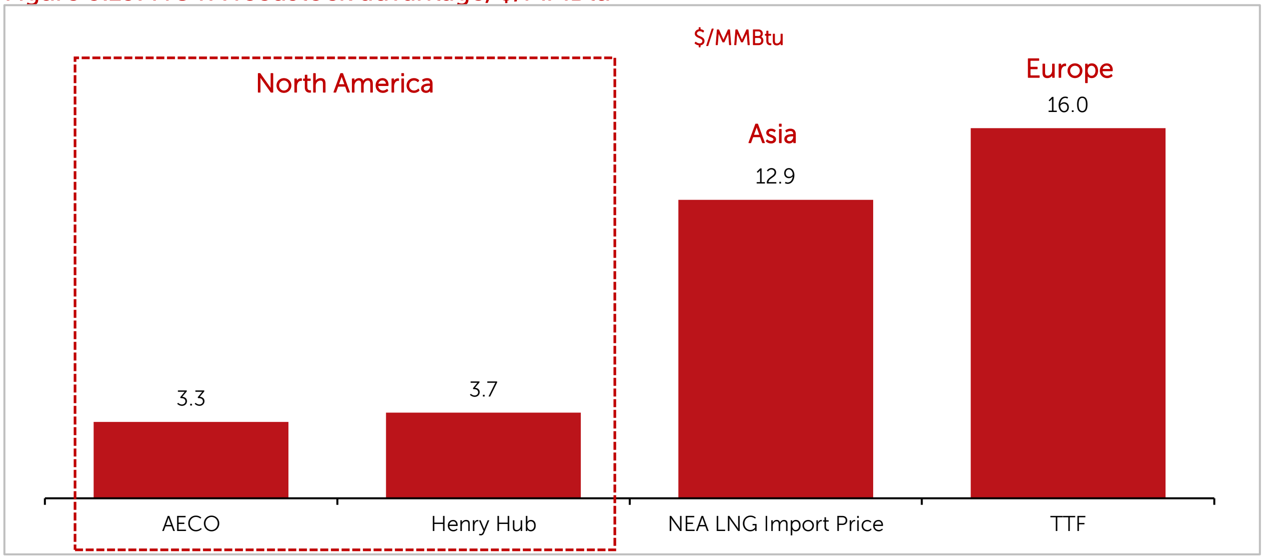
Borouge sources key feedstock from ADNOC under long-term arrangements, which allow it to procure major inputs at below-market prices, keeping its assets consistently in the first quartile of the cost curve.

NOVA's two integrated production centres in eastern and western Canada and merchant ethylene unit on the US Gulf Coast have exceptional access to low-cost feedstock. More than 75% of its feedstock exposure is linked to lower-priced benchmarks such as AECO, Henry Hub, and Mont Belvieu, supported by dedicated pipelines that provide supply security. NOVA's reliance on 100% ethane feedstock, together with the strategic location of one of its ethane units near prolific shale basins, further strengthens its structural cost advantage.

Borealis operates highly flexible crackers capable of running a high proportion of light feedstock, which is economically advantageous in volatile markets. Its sites also benefit from proximity to the sea and owned storage caverns, allowing Borealis to arbitrage global feedstock markets, including the import of low-cost US ethane via charter vessels. As a result, Borealis's olefins plants have been consistently ranked in the first quartile of the European cost curve, with its Stenungsund and Porvoo plants maintaining leading cost competitiveness over multiple years.

We believe this integrated feedstock advantage strengthens BGI's margin resilience and enhances its ability to compete across market cycles.

Figure 3.13: NOVA feedstock advantage, $/MMBtu



Source: Company filings

Superior and resilient margins

Backed by competitive feedstock sourcing in both the UAE and the US and supported by first-quartile cost positions at Borealis, BGI benefits from structurally low-cost feedstock across its integrated platform. In addition to its cost advantage, BGI has a differentiated, superior product portfolio and direct access to major markets through multiple commercial channels.

This combination of advantaged feedstock, diversified reach, and premium product mix translates into strong profitability. Over the past five years, management reports that BGI's pro forma EBITDA margin averaged 26%, outpacing industry-leading peers. At the same time, margins have been notably resilient, with the lowest margin recorded during this period still ranking highest among peers, underscoring the robustness of BGI's integrated model across cycles.

Figure 3.14: EBITDA margins, average 2020-24

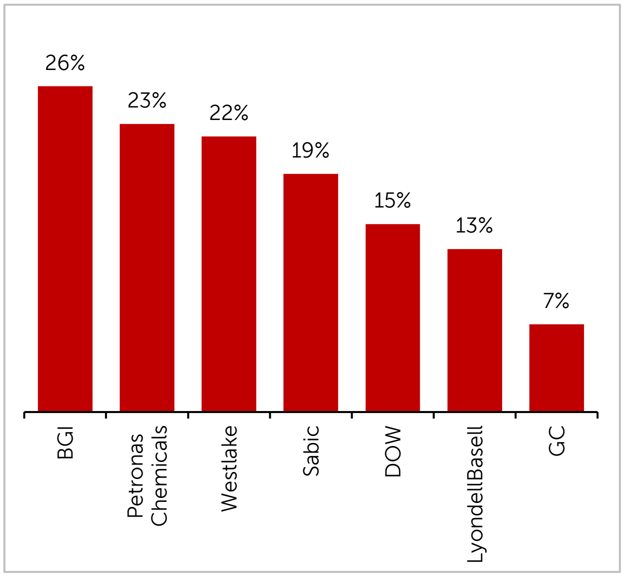
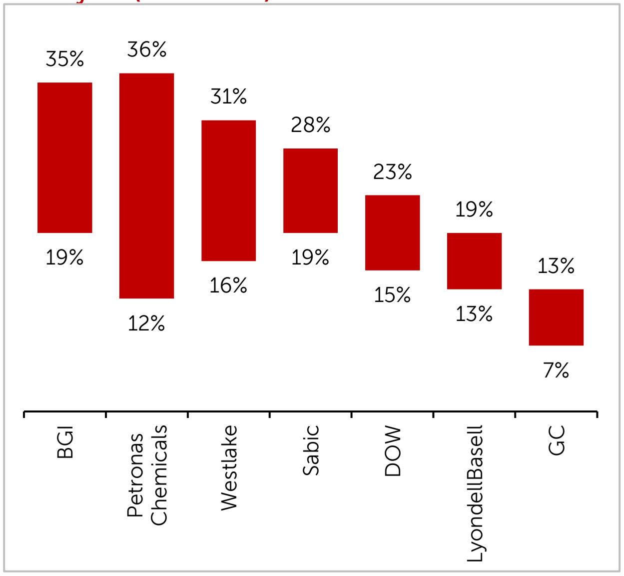


Figure 3.15: EBITDA margin resilience Through-the-Cycle (2020-24A)



Source: Company filings

Overall, we believe ADNOC and OMV are creating an entity with a structurally advantaged cost position, resilient and superior margins, and diversified production units. This foundation is further strengthened by meaningful synergy potential expected to emerge after integration. In our view, the transaction has been carefully structured to unlock value while maintaining only modest leverage, positioning the new entity for sustainable growth and long-term financial strength.

Borouge demonstrates resilience amid temporary logistics constraints

Recent regional developments created temporary logistics constraints for Borouge in 1Q26, affecting export routes, freight availability, and shipment timing. This resulted in lower reported sales volumes, higher freight and distribution expenses, increased feedstock costs, and a temporary inventory build.

At the same time, tighter regional export availability contributed to stronger global polyolefin pricing in March and April. Borouge was able to partially offset the near-term volume impact by maintaining customer deliveries through alternative logistics routes and benefiting from a more supportive pricing environment.

Overall, while logistics constraints weighed on volumes and costs in the near term, Borouge demonstrated operational flexibility, commercial discipline, and resilience across its production and distribution platform.

Resilient execution amid temporary logistics disruption

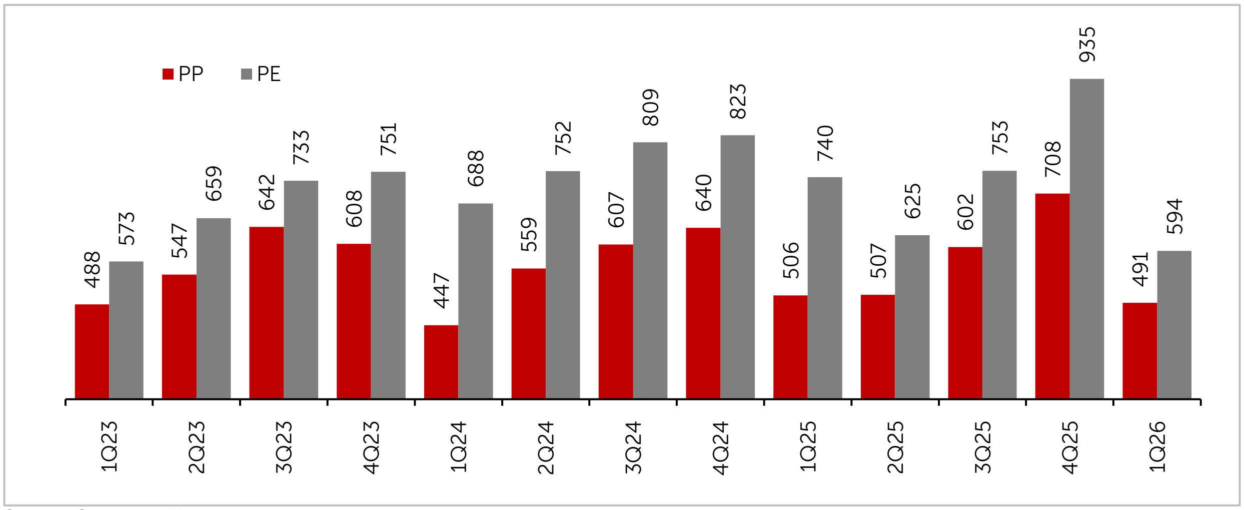
Borouge's sales volumes declined 13% YoY and 34% QoQ in 1Q26, primarily due to logistics disruptions in March and temporary constraints on export routes.

Polyethylene (PE) sales declined 20% YoY, while polypropylene (PP) sales fell 3%. PE volumes reached their lowest level since quarterly disclosure began in 3Q21, excluding 1Q23, when production volumes were affected by a planned turnaround at the Borouge 2 facility.

Similarly, PP volumes were at their lowest level in the past three years, excluding 1Q24, when production was affected by a feedstock-related operational turnaround. This suggests that the 1Q26 volume weakness was largely driven by external logistics constraints rather than underlying production capability.

The impact was more pronounced for PE, given its higher exposure to Asian export markets, which are predominantly served by seaborne routes. PP demonstrated greater resilience, supported by stronger Middle East and Africa demand and lower reliance on constrained maritime logistics.

Figure 3.16: Borouge sales volume (Kt)

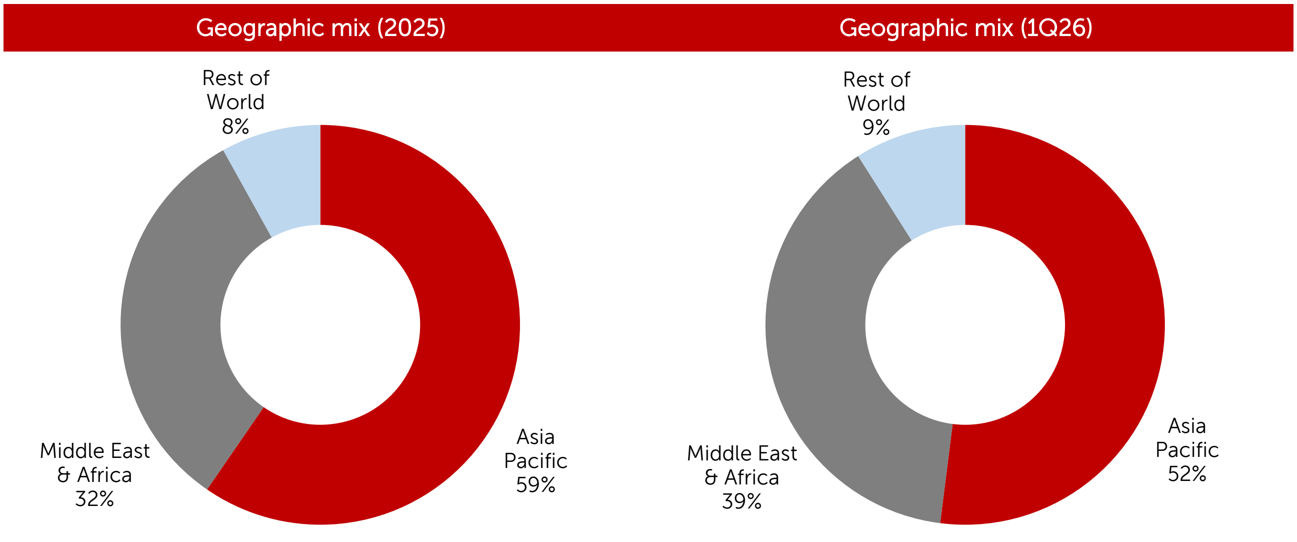


Source: Company filings

Asia Pacific accounted for 52% of total sales volumes in 1Q26, down from 59% in 2025, while the Middle East and Africa increased to 39% from 32%, supported by higher land freight sales.

The temporary constraints created near term operating difficulties and shipment delays. However, Borouge demonstrated adaptability by reallocating volumes across regions and activating alternative logistics routes. These actions helped sustain customer deliveries, cushion the impact on volumes, and highlight the resilience of the business despite a challenging external backdrop.

Figure 3.17: Borouge sales volume mix



Source: Company filings

Operations held steady

Borouge maintained strong production performance in 1Q26 despite temporary external logistics constraints. Total production reached around 1.2m tonnes, broadly flat YoY, supported by around 98% utilisation. This indicates that the asset base remained largely available and operationally resilient. Borouge's utilisation has generally remained above 100% in recent years, except in 2Q25, when the company conducted a planned turnaround at Borouge 3. This suggests that current utilisation remains solid, albeit slightly below the levels seen over the past two years.

This supports our view that the primary constraint in 1Q26 was logistics and shipment timing rather than plant reliability. Management noted that production exceeded sales during the quarter, as temporary shipping constraints limited the company's ability to move volumes in March. This is consistent with broader industry commentary that Middle East petrochemical assets largely remained operational, while trade flows were affected by shipping risk, route availability, and insurance considerations.

The same logistics constraints drove a clear inventory build in March 2026. Production exceeded sales by 123kt in 1Q26, with the unsold volumes deliberately moved into storage. Management framed this as a tactical decision, with the intention to release these volumes into stronger pricing conditions in 2Q26.

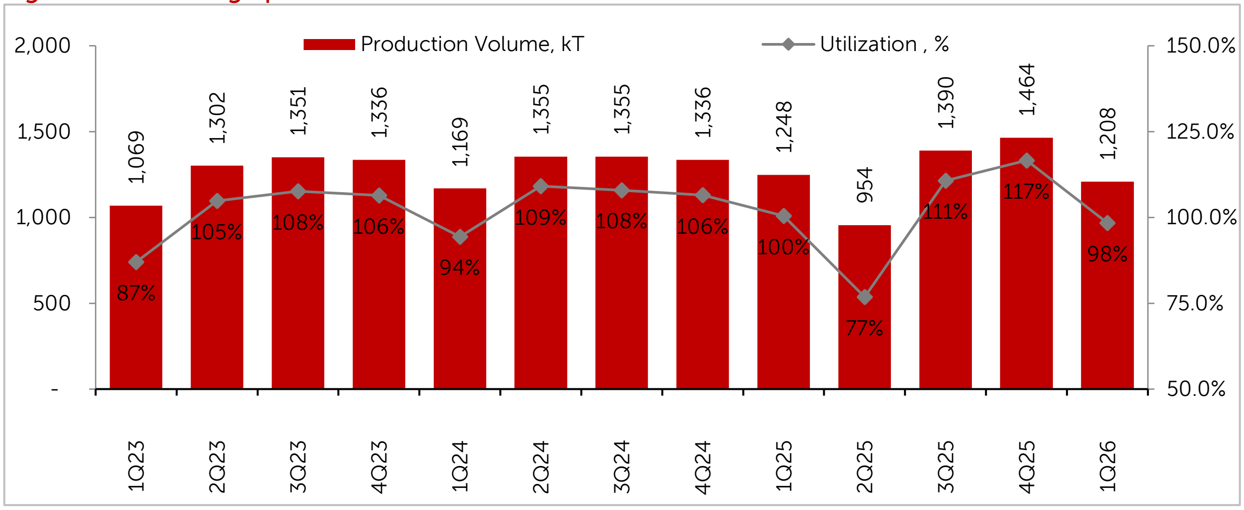
Borouge did not disclose its absolute storage capacity. However, Ruwais, where Borouge operates, is one of the largest integrated polyolefin hubs globally. The operating model benefits from logistics buffers and warehousing capacity, which help limit export volatility and provide flexibility during temporary shipment constraints.

Importantly, the company also redirected volumes through alternative channels, including increased land freight into MEA markets. This shift supported a higher MEA share in 1Q26 and helped reduce overall earnings pressure.

A site-related incident also affected Borouge's operations in April. The company confirmed that certain units were affected, that the situation was contained, and that there were no injuries. Production resumed in phases following the temporary suspension of the affected units. Management later indicated that most production units were available and that utilisation was ramping up through April, although 2Q26 utilisation is expected to be lower than 1Q26 due to the incident.

From an investment perspective, we see the near-term utilisation impact as manageable. Export routes were already affected, and 1Q26 inventory is positioned for sale into stronger 2Q26 pricing. In this context, moderately lower production should not be the binding constraint on earnings. The key swing factors remain the pace of logistics normalisation and inventory monetisation. Overall, production assets largely held up, while inventory management and logistics optimisation helped absorb a significant portion of the impact.

Figure 3.18: Borouge production and utilisation

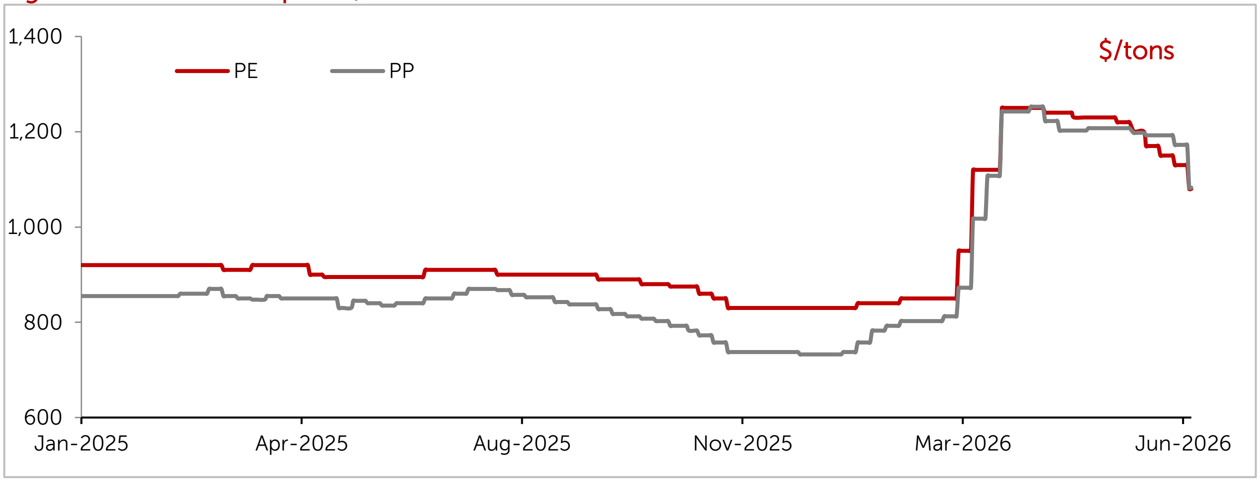


Source: Company filings. Production refers to combined polyethylene (PE) and polypropylene (PP) output. Utilisation is calculated using total polyolefin capacity and reflects combined PE and PP production.

Pricing strengthened as export availability tightened

Polyethylene (PE) and polypropylene (PP) prices strengthened sharply through March, as temporary regional logistics constraints reduced the availability of export cargoes and tightened global traded supply. Borouge cited a significant uplift in realised pricing, with momentum carrying into April. Benchmark prices rose significantly after February 2026, although they have softened slightly in recent weeks. PE prices are up 27%, while PP prices are up 33% since 28 February 2026.

Figure 3.19: PE and PP prices, USD/tons



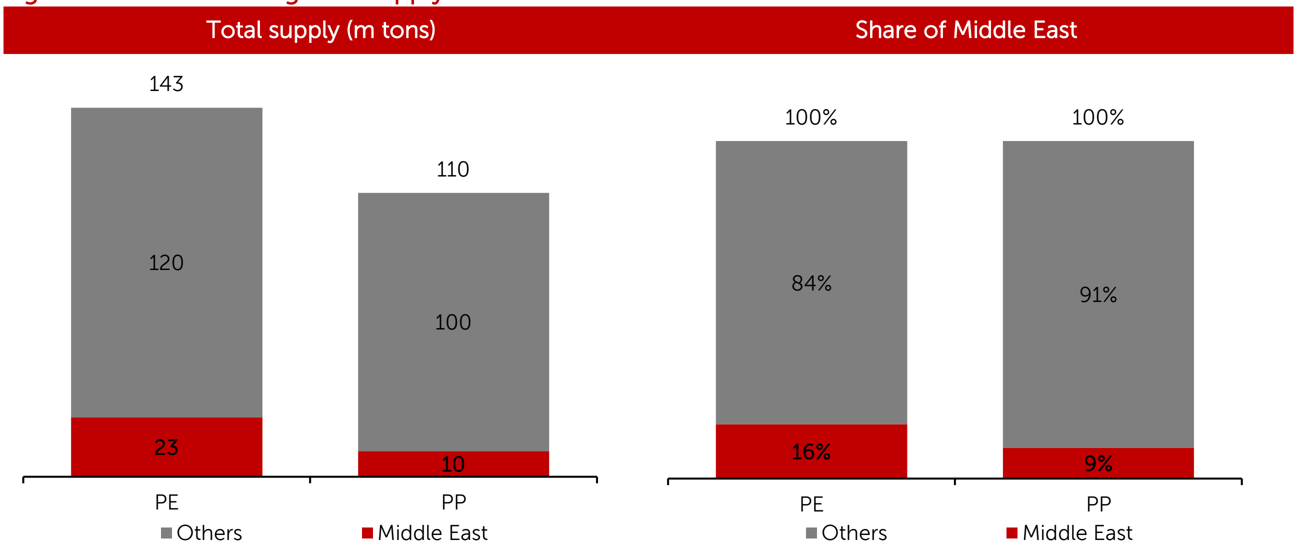
Source: Company Bloomberg, PE – HDPE Blow Moulding FEA; PP – PP Raffia FOB KSA

Middle East remains an important swing exporter

The Middle East plays an important role in global polyolefin trade, as it is a major exporter to import-dependent markets. Global PE (source: Expert Market Research) capacity is around 143m tonnes, with Middle East PE production capacity of more than 23m tonnes, or around 16% of global capacity. Global PP capacity is around 110m tonnes (source: Expert Market Research), while Middle East PP production capacity is more than 10m tonnes, or around 9% of global capacity.

Although the Middle East represents a modest share of global nameplate capacity, it is disproportionately export oriented. As a result, temporary constraints on regional export availability can have a meaningful impact on traded supply and pricing in import markets.

Figure 3.20: PE and PP global supply



Source: Company Bloomberg, PE – HDPE Blow Molding FEA; PP – PP Raffia FOB KSA

Import markets price off deliverable export cargoes, not global nameplate capacity. A considerable portion of global capacity is effectively absorbed within domestic systems, making traded supply particularly important for market pricing.

In 2025, the Middle East exported 18.7m tonnes of PE, representing around 43% of global PE exports. The PP export pool is similarly concentrated, with the Middle East exporting 7.0m tonnes, or around 42% of global PP exports. In aggregate, the region accounted for at least 42% of global export supply across PE and PP.

As a result, any temporary constraint on regional export availability can quickly affect import markets. Reduced availability of price-setting traded cargoes can support pricing until logistics conditions and trade flows normalise.

Figure 3.21: Polyolefins exports by origin region

PE exports			PP exports		
Origin region	Exports (m tonnes)	Share of global exports	Origin region	Exports (m tonnes)	Share of global exports
Middle East	**18.7**	**42.7%**	**Middle East**	**7.0**	**41.9%**
North America	15.6	35.6%	Asia Pacific	3.6	21.6%
Western Europe	4.2	9.6%	Western Europe	2.7	16.2%
Asia Pacific	2.7	6.2%	North America	1.8	10.8%
Others	2.6	5.9%	Others	1.6	9.6%
Global total	**43.8**	**100%**	**Global total**	**16.7**	**100%**

Source: itpweb

Second-order effect on supply

Asian crackers and petrochemical systems rely heavily on imported naphtha and related feedstock from the Middle East. Asia is reported to source around 70–80% of its naphtha feedstock from the region, much of which typically moves through key regional maritime routes.

ICIS also highlights that around 80% of Asia's seaborne naphtha import demand is supplied by the Middle East. This makes Asia particularly sensitive when regional trade flows are constrained. As a result, the impact was not limited to Gulf exports; it also tightened Asian operating economics and constrained production through reduced feedstock availability and cost inflation.

Regional logistics constraints also had second-order effects on Asian petrochemical markets. Several plants in Asia reportedly reduced operating rates or temporarily adjusted production because of tighter naphtha availability, with ICIS citing force majeure and sales allocation announcements across Asia and the Middle East in mid-March. This combination of reduced export availability from the region and feedstock-related operating constraints in Asia tightened effective supply into import markets and supported stronger PE and PP prices.

Borouge: Supporting margin resilience

Higher polyolefin prices are supportive of Borouge's earnings profile and help partially offset the volume impact from temporary export constraints. Management noted that pricing strengthened sharply in March and remained elevated into April. Borouge responded by redirecting volumes through alternative logistics routes, helping sustain customer deliveries and improve netbacks.

At the same time, Borouge built inventory tactically in March, with 123kt of volumes held in storage for release into 2Q26 pricing. In our view, this combination of stronger pricing, flexible logistics, and planned inventory monetisation supports near term margin resilience despite ongoing shipment constraints.

China supply discipline could support polyolefin recovery

The global petrochemical industry, particularly the PE and PP sectors, has undergone a clear structural shift since 2021–22. For nearly two decades, the sector benefited from the Chemicals Supercycle, an exceptional period during which China's rapid industrialisation and double-digit demand growth absorbed new capacity and supported elevated operating rates and margins. This dynamic has now materially changed.

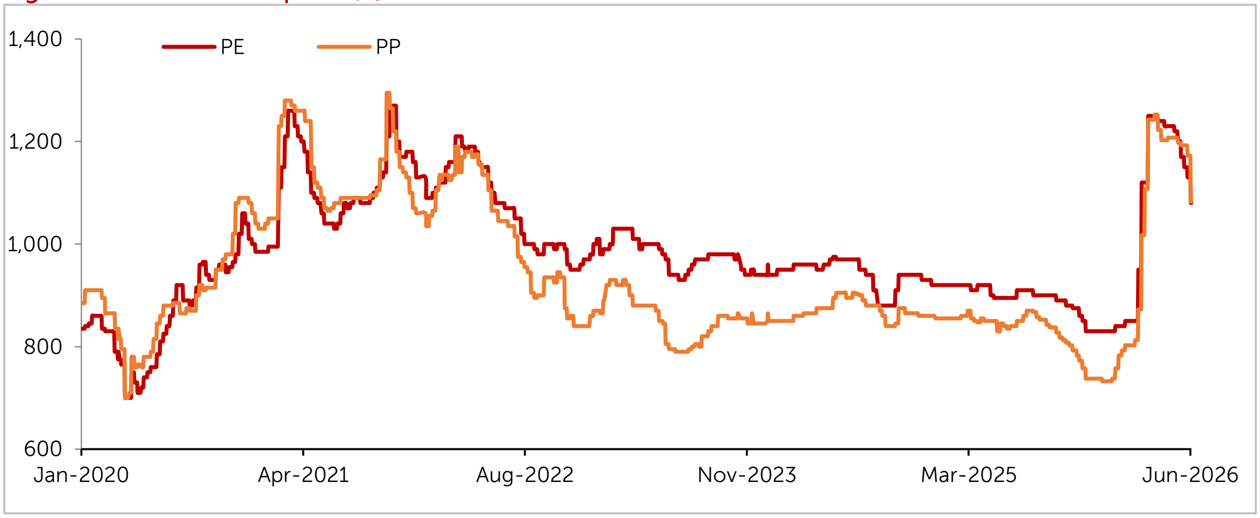
The Chemicals Supercycle was powered by China's extraordinary economic expansion, supported by its accession to the WTO in 2001, which accelerated China's integration into global supply chains. This was reinforced by globalisation, favourable demographics, and a large property and infrastructure cycle. Together, these forces created the backdrop demand that defined the Supercycle.

During the tail end of the Chemicals Supercycle, China added a substantial wave of new polyethylene and polypropylene capacity as part of its long-standing drive toward self-sufficiency. The combined impact of weaker demand growth and the structural relocation of supply have resulted in broad-based softness in both the PE and PP markets, exerting persistent downward pressure on global benchmark prices.

Notably, PE and PP prices have risen sharply since 28 February 2026, driven by temporary constraints that curtailed Middle East export flows and tightened global availability. In the near term, we expect pricing to remain elevated, as normalisation would take time. Even if physical transit improves, cargo backlogs, freight and routing constraints are likely to unwind only gradually, while buyers typically rebuild safety inventories once supply resumes.

The rebound could also be supported by second-order supply effects in Asia. We discussed these near-term sensitivities in the previous section. Here, we focus on longer term structural drivers that are less dependent on current logistics constraints and more linked to industry capacity discipline.

Figure 3.22: PE and PP prices, $/tons



Source: Bloomberg; PE – HDPE Blow Molding FEA; PP – PP Raffia FOB KSA

Polyethylene: Capacity growth continues to outpace demand

Global polyethylene capacity is set for significant expansion over the next few years, rising from 141mt/year in 2023 to 198mt/year by 2028, implying a capacity CAGR of around 7%. This growth is driven by 125+ planned and announced projects scheduled to come online by 2028, with the largest concentration in Asia, followed by the Middle East. Within Asia, China and India lead the additions, contributing 16.3mt/year and 5.1mt/year of new capacity, respectively (source: offshore technology).

On the demand side, China remains the world's largest PE market, accounting for 34% of global consumption, however, PE demand increased by only 1.2% in 2024, while Global demand growth slowed to 2.2%, one percentage point lower than in 2023. Looking ahead, global and Chinese PE demand are expected to expand at roughly 3.5% per year, well below the pace of capacity additions (source: argus, nbe).

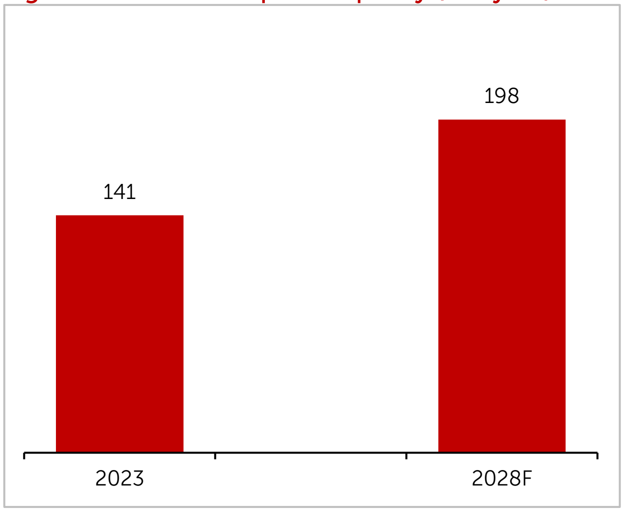
This imbalance points to a more disciplined operating environment over time. Historically, a healthy PE producer required an operating rate of around 88–90% to support reinvestment. Current projections indicate that operating rates may remain below 80% for an extended period.

In the near term, prices remain elevated due to logistics constraints rather than production capability. Plants are still running at high rates, but cargo movement has been constrained, and the traded pool has tightened. As logistics normalise and export flows resume, the market should reprice toward fundamentals.

Over time, the risk is that the market shifts from a logistics-driven shortage toward underlying surplus capacity. In that setting, margins could come under renewed pressure. Without meaningful capacity rationalisation, pricing power would likely shift back to buyers, pulling benchmark prices lower and weakening industry margins.

This reinforces the importance of cost leadership, product differentiation, and disciplined capacity growth, areas where Borouge remains well positioned.

Figure 3.23: PE nameplate capacity (MT/year)



Source: Offshore Technology

Figure 3.24: PE supply and demand imbalance

Growth (medium-term)	%
Supply/Capacity	7.0%
Demand	3.5%
Oversupply	**3.5%**

Source: argus, nbe

Polypropylene: China's export role is reshaping global trade

The global PP market is entering a period of structural oversupply that is even more pronounced than in PE, driven largely by the ease of adding new purpose-built propylene production technologies such as Propane Dehydrogenation. The defining shift in PP capacity evolution in 2020-25 was the sharp decoupling of China's capacity growth from the rest of the world, as China has added significant new capacity under its self-sufficiency programme.

During the early stages of the China-led Chemicals Supercycle, China's PP capacity met only 77% of domestic demand in 1992. Chinese capacity as a percentage of its demand was:

- Low at 67% in 2009 during the stimulus-driven manufacturing boom
- 101% by 2021, implying broad self-sufficiency
- 122% by 2025, reflecting a clear domestic surplus
- Estimated to rise further to 134% by 2028

This has shifted China from a long-standing net importer of PP to an increasingly important PP exporter. To absorb its domestic surplus, China is increasingly turning into an exporter to markets including Africa, Latin America and Southeast Asia, intensifying competitive pressure on producers in other regions.

The resulting domestic build-out in China has materially reshaped global balances. Excess global PP capacity was only 3m tonnes in 1992, rising gradually to 8m tonnes in 2009. At the beginning of China's commissioning of large-scale self-sufficient plants, the global surplus reached just 9m tonnes in 2021. However, surplus capacity has increased sharply since then, climbing to 22m tonnes by 2025 and expected to peak at 28m tonnes in 2028 (source: ICIS).

Although PP demand is projected to rise at a slightly higher rate relative to PE (a CAGR of 4.4% to 5.8% through 2035), the pace of new capacity additions continues to outstrip consumption growth. China now has structural surplus in many of the general-purpose PP grades and has effectively shifted from a long-standing net importer to a net exporter.

Figure 3.25: China PP capacity as % of its demand

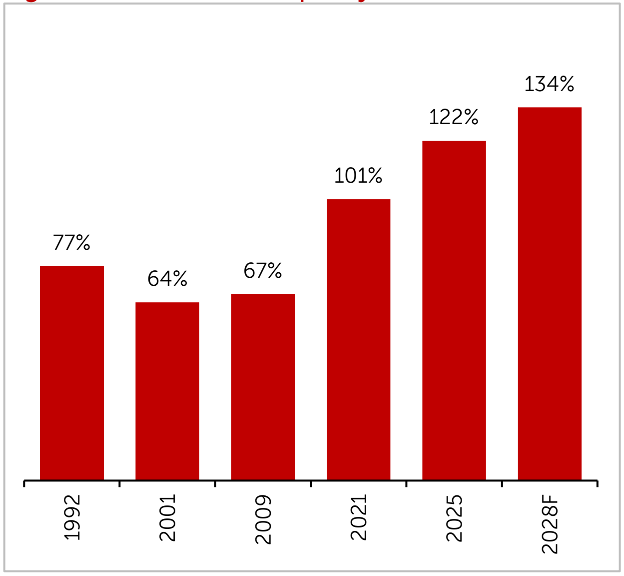
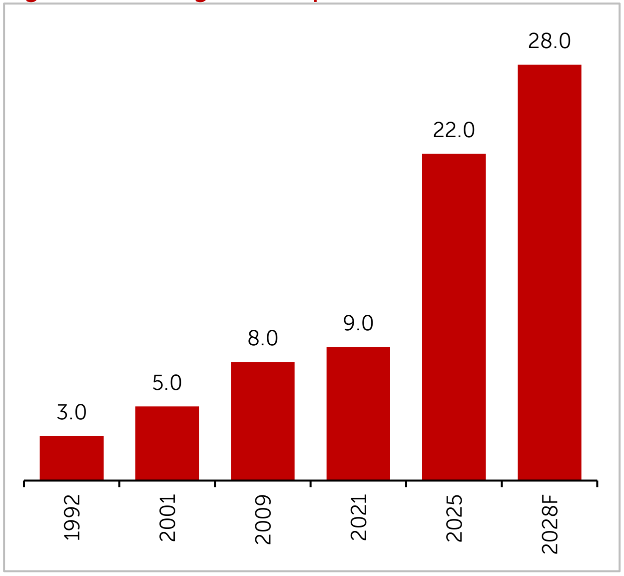


Figure 3.26: PP global surplus (m tons)



Source: ICIS

Capacity rationalisation in China

China's polyolefin sector has entered a phase of capacity rationalisation, as rapid capacity additions intensify domestic competition and compress margins across the value chain. In response, both policymakers and market forces are accelerating the exit of inefficient assets, with the "anti-involution" policy agenda aimed at promoting industry discipline and reducing margin destructive competition.

Stricter environmental and efficiency standards are forcing the exit of sub-scale "teapot" and standalone units, driving consolidation among state-owned and major private players. The agenda is pushing China's PE and PP industries away from low-margin volume growth and toward higher-value, innovation-driven materials, easing global oversupply pressure over time.

We expect the policy-driven restructuring cycle in China to take two to three years to work through the system. This should keep the industry in a transition phase through 2027. After that, we expect a more durable improvement in the supply/demand balance as capacity-discipline measures gradually feed through approvals, project pacing, and rationalisation decisions.

Even if regional logistics conditions normalise, prices are unlikely to revert immediately, as the system needs time to clear cargo backlogs, re-establish shipping patterns, and rebuild working inventories. In our view, this points to a better pricing backdrop than seen over the past two to three years. In the near term, logistics driven tightness has supported higher prices, but this should be followed by a more structural recovery as China's anti involution policy and industry rationalisation take hold.

Against this backdrop, the timing of BGI's formation by ADNOC and OMV appears strategically sound. The asset acquisition was announced when benchmark prices were low, while current higher benchmark prices and Borouge 4 volumes flowing into the system without upfront capital outlays create a more supportive setup for BGI.

Our estimates currently reflect Borouge on a standalone basis, as full details for BGI remain unavailable. However, we believe the alignment of restructuring timelines and the expected 2028 pricing recovery materially strengthens the investment case.

Upside from the current price

We value Borouge using a discounted cash flow method, which best captures the company's long-term earnings profile, capacity expansion, product mix, and feedstock advantage. The DCF framework allows us to reflect these fundamentals over the forecast period, particularly as Borouge remains a capex intensive petrochemical platform.

We have used relative valuation as a supporting cross-check rather than primary methodology, given Borouge's structurally different margins versus global peers. The company benefited from advantaged feedstock structure with ADNOC, product mx and high-quality asset base which makes direct peer comparisons less representative of its intrinsic profitability.

As a cross-check, we have also benchmarked the valuation against Borouge's dividend floor using the UAE dividend yield on key income-generating stocks to ensure alignment with local income-based investor expectations.

Our DCF assumptions are as follows.

- **Risk-free rate:** Derived using overnight EIBOR rates from the UAE Central Bank website (source: centralbank.ae).
- **Equity country risk premium:** Sourced from NYU Stern and Aswath Damodaran's country risk framework (source: pages.stern.nyu.edu).
- **Beta:** We have adjusted the beta sourced from Bloomberg using the Blume adjustment, which provides a more realistic forecast of future beta.
- **Tax rate:** We have applied a 30% rate, reflecting the company's implied effective tax rate.
- **Capital structure:** Based on the market value of equity and the latest reported book value of debt.

Figure 3.27: Borouge WACC summary

WACC calculation	
Tax rate	30.0%
Cost of debt (Kd)	**4.5%**
Share of debt	11.0%
Risk-free rate	3.5%
Beta levered	0.8
ERP	6.0%
Cost of equity (Ke)	**8.4%**
Share of equity	89.0%
WACC	**7.8%**

Source: Company filing, UAE Central Bank, Stern NYU, ADCB estimates

The fair value of the company based on our DCF analysis is **AED 3.00 per share**. Our fair value implies 18% upside from the current price. We are initiating coverage on the stock with a Buy rating.

Figure 3.28: Borouge fair value

Fair value calculation, $ m	
Present value from explicit forecasts (2026-28E)	4,142
Terminal value	22,743
Enterprise value	**26,885**
(-) Net debt	2,582
(-) Non-controlling interest	27
Equity value	**24,276**
Outstanding shares	29,776
Fair value per share (USD)	0.82
Fair value per share (AED)	2.99
Fair value (round-off)	**3.00**

Source: Company filing, ADCB estimates

Figure 3.29: DCF summary

$ m	2025A	2026E	2027E	2028E	Terminal value
EBIT	1,694	1,728	1,996	2,068	
Tax rate (%)	30.0%	30.0%	30.0%	30.0%	
NOPAT	1,186	1,210	1,397	1,447	
Depreciation (+)	476	430	484	565	
Capex (-)	308	200	175	175	
Change in working capital (-)	(138)	34	144	91	
Free cash flow to firm	**1,493**	**1,406**	**1,562**	**1,746**	**27,807**
Discount factor		0.95	0.88	0.82	0.82
Present value		**1,337**	**1,377**	**1,428**	**22,743**

Source: Company filing, ADCB estimates

Sensitivity to terminal growth and WACC

We have assessed fair value based on sensitivity to two key DCF assumptions: WACC and terminal growth. Our base case assumes a 7.4% WACC and 1.5% terminal growth.

Borouge's long-term growth would depend on global polyolefin demand, which is closely linked to growth in emerging economies. Rising urbanisation, infrastructure investment, consumer spending, healthcare demand, and packaging penetration should support long-term plastics consumption, particularly across Asia, the Middle East, and Africa. If demand is higher than expected, this would translate into higher long-term growth and increase our fair value. Conversely, lower long-term growth would reduce fair value.

WACC is also a key valuation driver. A higher WACC lowers fair value, while a lower WACC increases fair value. As WACC is partly driven by the risk-free rate and equity risk premium, any sustained increase in rates or market risk perception could pressure our fair value estimate.

Figure 3.30: Fair value sensitivity to different WACC and terminal growth

		Terminal growth				
	Fair value sensitivity	0.5%	1.0%	1.5%	2.0%	2.5%
WACC	6.5%	2.97	3.23	3.56	3.95	4.44
	7.0%	2.71	2.94	3.21	3.53	3.92
	7.4%	2.55	2.75	3.00	3.27	3.60
	8.0%	2.31	2.48	2.67	2.89	3.15
	8.5%	2.15	2.29	2.46	2.65	2.87

Source: ADCB estimates

Attractive dividend

The company has reiterated a dividend floor of 16.2 Fils per share, most recently at the 1Q26 results, despite a more complex regional operating backdrop. At the current share price, this implies a dividend yield of 6.4%. This floor is expected to apply from 2026 through 2030 and extends to Borouge International (BGI). The commitment is explicitly supported by the expected $500m+ in annual synergies to be realised at the BGI level. We think this provides strong visibility and downside protection to dividends.

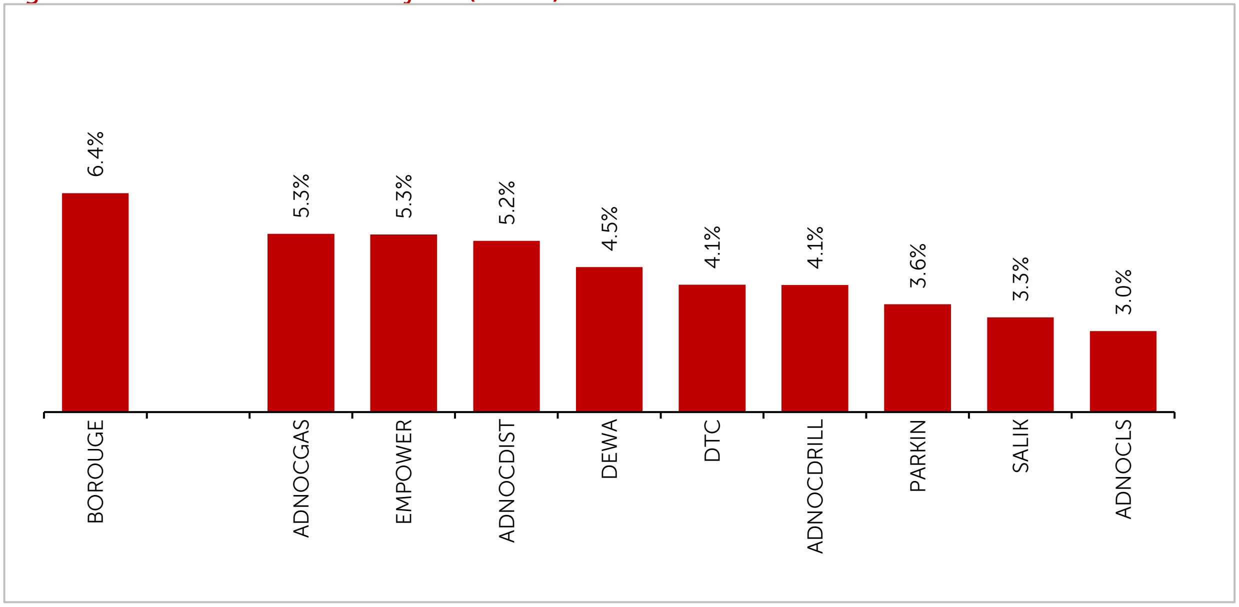
In addition, the dividend has the potential to increase over time, as synergies are progressively realised and scale benefits flow through earnings. Borouge's dividends are further underpinned by ADNOC's majority ownership, reinforcing capital discipline and payout stability.

And a high yield

Compared with other UAE equities with formal dividend distribution policies, Borouge offers a superior yield. Comparable UAE dividend names trade at an average yield of c.4.3%, within a range of 3.0-5.4%. Applying this sector-average yield to Borouge's 16.2 Fils DPS implies a fair value of AED 3.78 per share.

While Borouge has higher commodity exposure than some UAE income names, its dividend floor, feedstock framework, and strong margin profile support its relevance as an income-oriented equity.

Figure 3.31: UAE stocks dividend yield (2026E)



Source: Company filing, ADCB estimates, Bloomberg

Superior margins, discounted valuation

Borouge operates in the first quartile of the global polyolefin cost curve. This position is structurally driven by its highly attractive long-term feedstock agreements with ADNOC, which provide access to low-cost ethane and support stable input pricing and high-quality production assets.

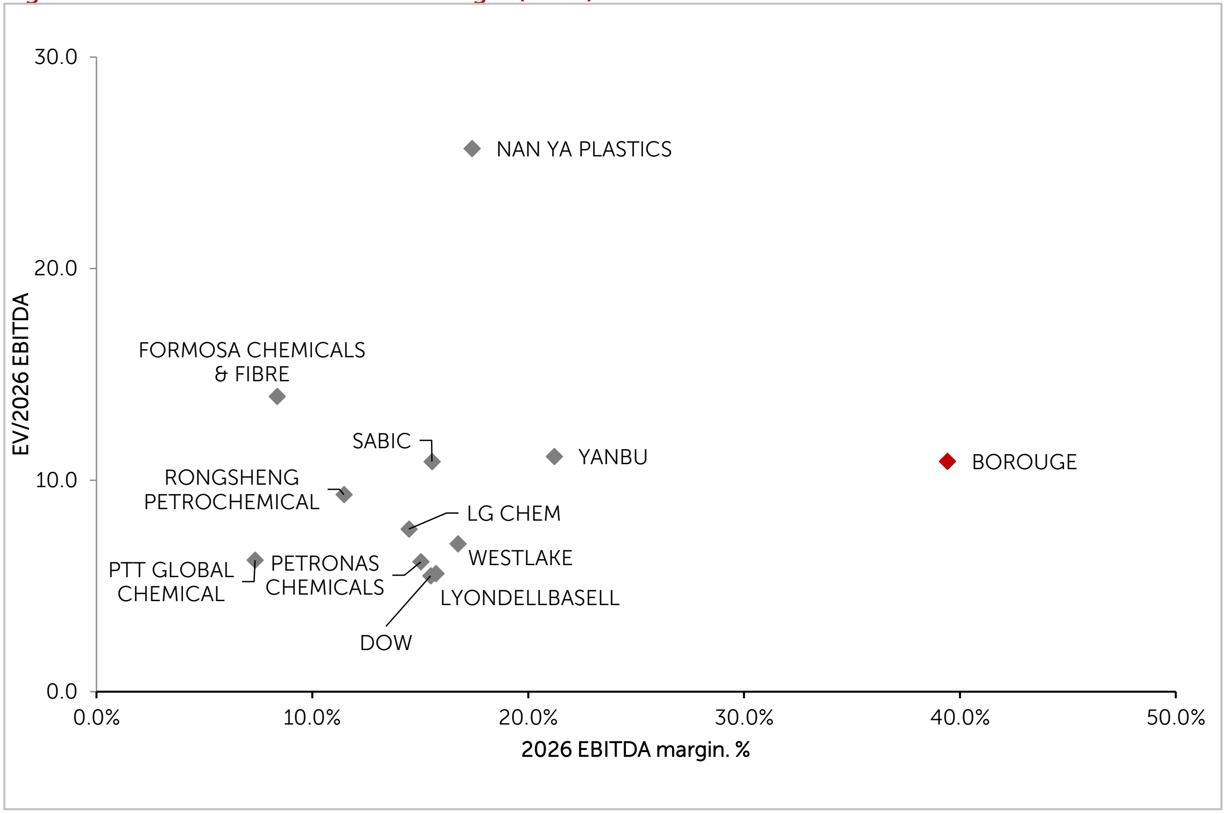
As a result, direct benchmarking against global peers should be treated with caution, in our view. Most international players operate with different feedstock price exposures and exhibit substantially different margin profiles.

Borouge generates EBITDA margins close to 40%, well above the peer average. This margin leadership reflects scale, feedstock advantage, and operational excellence rather than cyclical pricing alone.

Despite this, the stock is currently trading at 10.9x EV/EBITDA, representing a c.10% discount to the peer group average. We think this valuation disconnect understates Borouge's structural profitability, cost resilience, and dividend capacity.

In our view, this discount is difficult to justify given the company's superior margin profile, low-risk cost base, and long-term earnings visibility. Importantly, we believe Borouge should trade at a premium to the peer average multiple, given its strong margin profile, scale advantages, and strategic alignment with ADNOC.

Figure 3.32: EV/EBITDA vs EBITDA margin (2026)



Source: Company filing, ADCB estimates, Bloomberg

Borouge combines one of the highest margin profiles in the peer group with a valuation multiple below several lower margin peers. We believe this supports a re-rating case, particularly as investors gain comfort around BGI, dividend sustainability, and the normalisation of polyolefin markets.

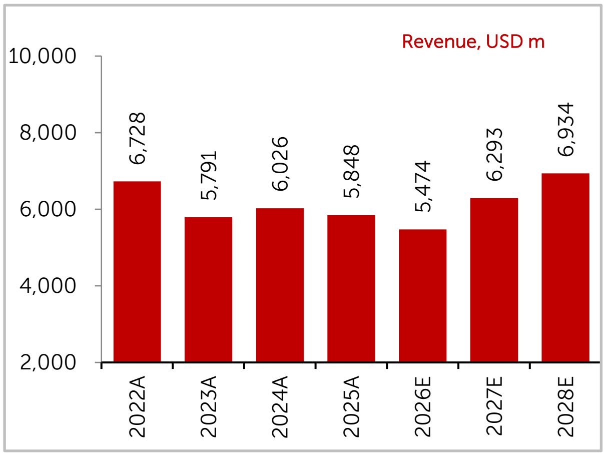
Valuation comps

Company	Country	Market Cap ($ m)	EBITDA margin 2026E	EBITDA margin 2027E	EV/Sales 2026E	EV/Sales 2027E	EV/EBITDA 2026E	EV/EBITDA 2027E
SAUDI BASIC INDUSTRIES (SABIC)	SAUDI ARABIA	42,420	15.5%	18.7%	1.7	1.5	10.9	7.8
NAN YA PLASTICS	TAIWAN	36,820	17.4%	19.5%	4.5	4.0	25.7	20.8
DOW	UNITED STATES	21,125	15.5%	13.8%	0.8	0.8	5.5	6.0
LYONDELLBASELL	UNITED STATES	18,024	15.7%	14.1%	0.9	0.9	5.6	6.4
RONGSHENG PETROCHEMICAL	CHINA	16,720	11.5%	12.1%	1.1	1.0	9.3	8.5
LG CHEM	SOUTH KOREA	12,376	14.5%	17.4%	1.1	1.0	7.7	5.6
FORMOSA PLASTICS	TAIWAN	10,424	5.5%	8.1%	2.0	1.9	36.1	23.2
FORMOSA CHEMICALS & FIBRE	TAIWAN	9,965	8.4%	8.6%	1.2	1.1	14.0	13.3
WESTLAKE	UNITED STATES	9,807	16.7%	16.3%	1.2	1.1	7.0	7.0
PETRONAS CHEMICALS GROUP	MALAYSIA	7,867	15.0%	13.9%	0.9	1.0	6.1	7.1
YANBU NATIONAL PETROCHEMICAL	SAUDI ARABIA	4,428	21.2%	23.4%	2.4	2.2	11.1	9.4
PTT GLOBAL CHEMICAL	THAILAND	4,358	7.3%	7.2%	0.5	0.5	6.2	6.7
Average			13.7%	14.4%	1.5	1.4	12.1	10.1
BOROUGE	UAE	20,675	39.4%	39.4%	4.3	3.7	10.9	9.5

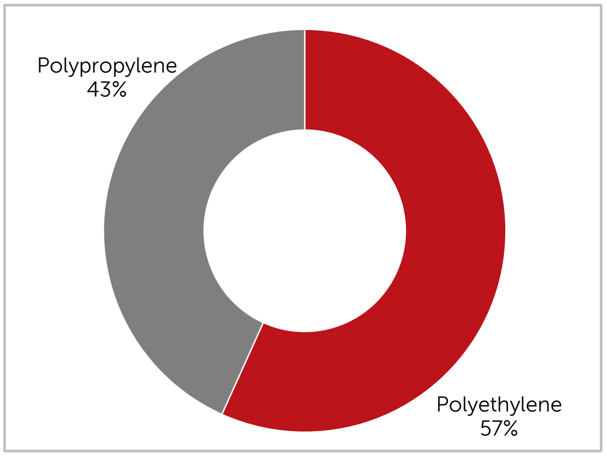
Source: ADCB estimates, Bloomberg, as of 25 June 2026

Borouge — Key charts

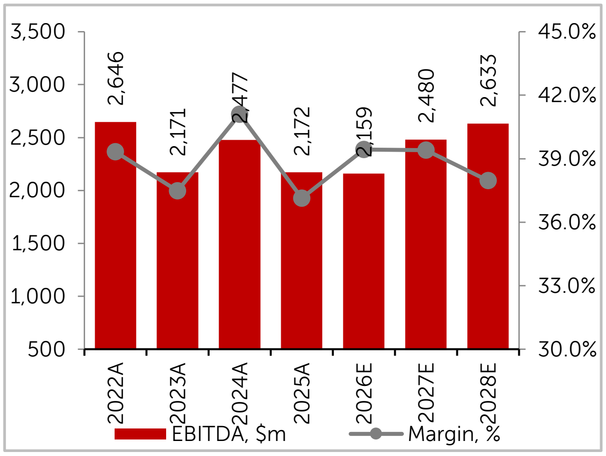
Steady revenue



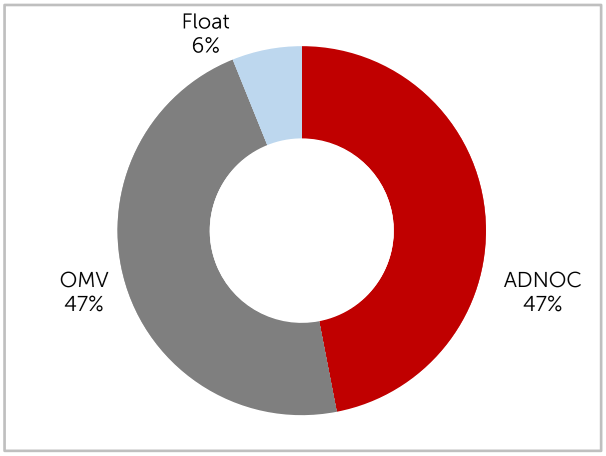
Supply – Most common polyolefins



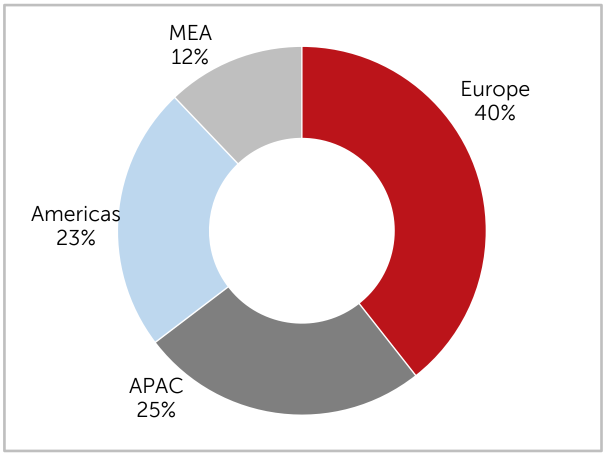
Resilient EBITDA margins



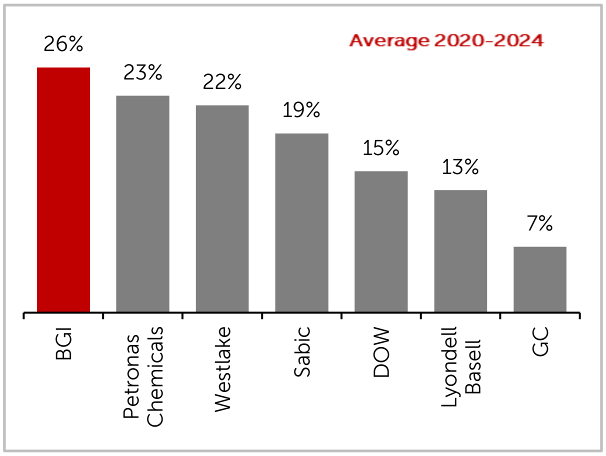
BGI – Equal ownership



BGI – Diversifies revenue for new entity



BGI — Best in class EBITDA margins



Source: Company filings, ADCB estimates

Borouge — Financial statements and ratios

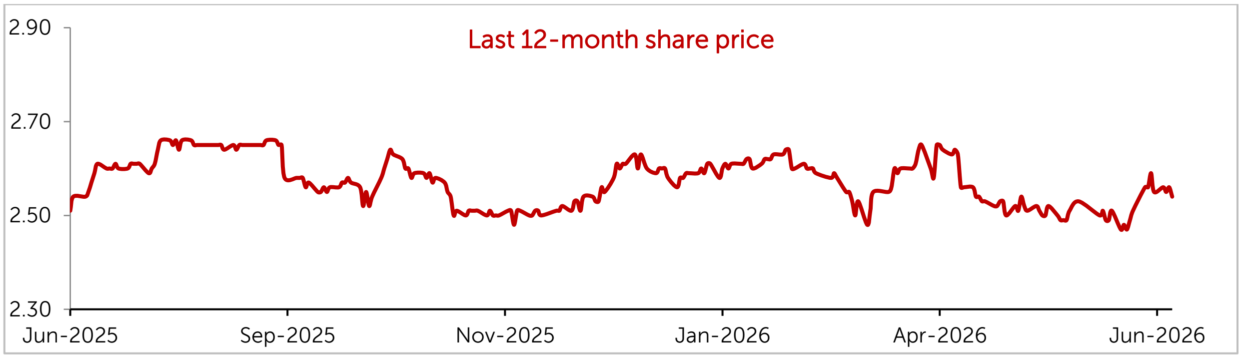
Year	2025A	2026E	2027E	2028E
Profit & loss summary ($ m)				
Revenue	5,848	5,474	6,293	6,934
EBITDA	2,172	2,159	2,480	2,633
D&A	476	430	484	565
EBIT	1,694	1,728	1,996	2,068
Net interest	154	137	139	135
PBT	1,540	1,591	1,857	1,933
Net profit	1,089	1,111	1,288	1,341
Adjusted net profit	1,089	1,111	1,288	1,341
Balance sheet summary ($ m)				
Tangible assets/PPE	6,082	5,879	5,647	5,411
Non-current assets	6,370	6,164	5,927	5,685
Cash	427	396	463	642
Current assets	2,119	2,003	2,307	2,672
Total assets	8,489	8,167	8,234	8,356
Current liabilities	3,995	917	1,010	1,105
Total debt	3,124	3,124	3,124	3,124
Net debt	2,697	2,728	2,661	2,482
Total liabilities	4,373	4,254	4,347	4,441
Shareholders' equity	4,089	3,886	3,861	3,888
Cash flow summary ($ m)				
Cash from operations	1,921	1,619	1,695	1,802
Capex	308	200	175	175
Free cash flow[1]	1,613	1,419	1,520	1,627
Cash from investment	(285)	(174)	(151)	(147)
Dividends	1,313	1,313	1,313	1,313

Year	2025A	2026E	2027E	2028E
Growth				
Revenue	-3.0%	-6.4%	14.9%	10.2%
EBITDA	-12.3%	-0.6%	14.9%	6.2%
EBIT	-11.8%	2.0%	15.5%	3.6%
Net profit	-11.1%	1.9%	16.0%	4.1%
Adjusted net profit	-11.1%	1.9%	16.0%	4.1%
Margin				
EBITDA	37.1%	39.4%	39.4%	38.0%
EBIT	29.0%	31.6%	31.7%	29.8%
Net profit	18.6%	20.3%	20.5%	19.3%
Adjusted net profit	18.6%	20.3%	20.5%	19.3%
Return metrics				
ROIC[2]	17.4%	18.2%	21.3%	22.5%
ROCE[3]	19.7%	20.8%	19.3%	20.0%
ROE	25.5%	27.9%	33.3%	34.6%
ROA	12.7%	13.3%	15.7%	16.2%
Leverage ratio				
Net debt/EBITDA	1.2	1.3	1.1	0.9
Interest coverage ratio[4]	14.1	15.7	17.8	19.5
Per share data				
EPS, USD	0.04	0.04	0.04	0.05
EPS, AED	0.13	0.14	0.16	0.17
DPS, USD	0.04	0.04	0.04	0.04
DPS, AED	0.16	0.16	0.16	0.16
Book value, USD	0.14	0.13	0.13	0.14

Year	2025A	2026E	2027E	2028E
Valuation ratio				
EV/Sales	4.0	4.3	3.7	3.4
EV/EBITDA	10.8	10.9	9.5	8.8
P/E	19.0	18.6	16.1	15.4
P/B	5.1	5.3	5.4	5.3
FCF yield	7.8%	6.9%	7.4%	7.9%
Dividend Yield	6.4%	6.4%	6.4%	6.4%

Market data	
Company name	Borouge
Bloomberg ticker	Borouge UH
Share price (AED)	2.55
Fair value (AED)	3.00
Upside/(Downside)	18%
Rating	Buy
Market value (USD m)	20,675

Source: Company filings, ADCB estimates
Note: 1. FCF = CFO – Capex; 2. ROIC: EBIT (1 – tax)/ (Debt + Shareholders equity – cash); 3. EBIT (1-tax)/ (Total assets – current liabilities); 4: EBITDA/Net interest



Source: Bloomberg

Risks to our valuation

High exposure to Asia and export logistics

Borouge has significant revenue concentration in Asia and relies heavily on seaborne exports. This creates exposure to regional demand fluctuations and logistics disruptions, particularly around key shipping routes. Any disruption to export flows or slowdown in Asian demand would directly reduce sales volumes and delay revenue realisation, while increasing inventory levels. Sustained disruption could weaken cash generation.

Feedstock dependency and pricing risk

The company's cost leadership is underpinned by long-term feedstock agreements with ADNOC. Changes in pricing terms, particularly under the revised post-2027 agreement, could reduce this structural advantage. Higher feedstock costs would narrow the margin gap compared to global peers, reducing EBITDA margins and profitability. This would weaken free cash flow generation.

Large-scale integration and execution risk (BGI)

The formation of Borouge International, alongside integration with Borealis and NOVA Chemicals, introduces complex execution risk, elevated leverage (c.$18bn), and reliance on synergy realisation. Delays or under-delivery of targeted synergies could result in weaker-than-expected earnings accretion, while higher leverage increases financial risk.

Commodity price volatility (polymer prices)

Polyethylene and polypropylene prices are cyclical and driven by global supply-demand dynamics. Despite strong cost positioning, Borouge remains exposed to fluctuations in benchmark polymer prices. Weak pricing environments would directly reduce revenue per ton, thereby lowering earnings and cash flow.

High dividend sustainability risk

Borouge offers an attractive dividend profile, supported by strong margins and expected synergies from BGI. However, dividend sustainability depends on continued earnings strength. Any shortfall in earnings, due to weaker margins, delays in synergy realisation, or market pressures, could limit dividend growth or reduce payout capacity.

Polyolefins market oversupply and structural pressure

Persistent oversupply would structurally compress industry margins and limit pricing power, even for low-cost producers like Borouge. While the company may outperform peers, absolute earnings could weaken, reducing long-term growth expectations and putting pressure on its valuation.

ADNOC Distribution — UAE market leader with resilient cash generation

- **ADNOC Distribution offers a defensive, cash-generative core with structurally resilient margins**. The UAE fuel retail business benefits from regulated margins, national scale, and ADNOC supply agreement, supporting strong earnings visibility and cash flow generation across cycles.
- **Regional expansion and the DOCO model unlock a capital-light growth platform.** This enables rapid network rollout, particularly in KSA, with minimal capex while capturing incremental margin and cash flow.
- **Non-fuel retail and new mobility verticals add medium-term upside.** ADNOC Distribution is scaling new businesses, including convenience retail, car services, property leasing (The Hub), and EV charging, which together diversify earnings, increase customer monetisation, and support a structurally more profitable mix over time. We initiate with a Buy rating and a fair value of AED 4.65 per share.

ADNOCDIS UH

INITIATE AT BUY

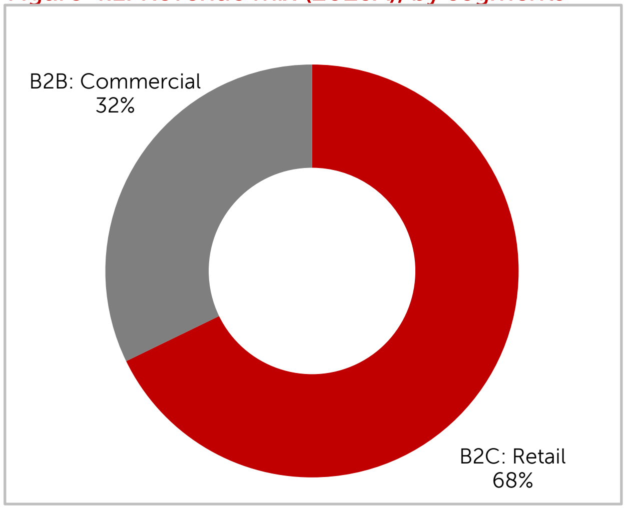
Fair Value (AED)	Previous Fair Value (AED)
4.65	N/A
Current Price (AED)	**Upside/ (Downside)**
3.97	+17%

ADNOC Distribution is the leading mobility retailer in the UAE. The company operates across two major business lines: retail and commercial.

The retail segment includes core fuel, EV charging, alternate fuels, and non-fuel retail. Fuel retailing serves as the primary cash flow generator for the company. ADNOC Distribution is the largest fuel retailer in the UAE, supported by a wide service station network and strong brand presence.

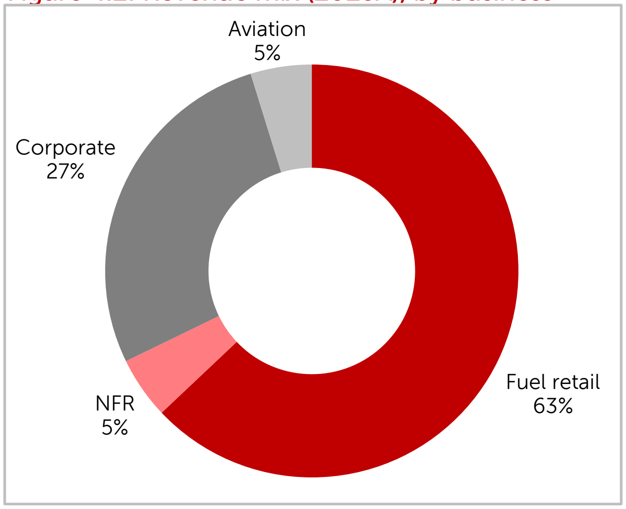
On the commercial side, the company supplies fuel products to corporate clients and the aviation sector, creating a diversified revenue base that enhances earnings stability while positioning ADNOC Distribution to benefit from the UAE's steady economic and transport sector growth.

Figure 4.1: Revenue mix (2025A), by segments



Source: Company filings, retail includes fuel and NFR, commercial includes corporate and aviation

Figure 4.2: Revenue mix (2025A), by business



Retail fuelling: Cash generator for the company

The retail business, which includes fuel retail and non-fuel retail, remains a key strength for the company, especially the UAE fuel retail segment. The segment consistently delivers robust EBITDA and operating profit, supported by the company's dominant market position and its long-standing relationship with ADNOC.

Resilient national business

ADNOC Distribution is the largest fuel retailer in the UAE. It operates 568 domestic sites (as of 1Q26) and maintains a commanding market presence in the emirate of Abu Dhabi. The company operates 511 stations across Abu Dhabi and the Northern Emirates, with an additional 57 sites in Dubai, giving it unmatched national coverage and scale advantages.

The UAE retail fuel business is highly cash generative. It is supported by an attractive regulatory environment that guarantees a retail fuel margin of c.45 Fils per litre. There is further upside through ADNOC Distribution's longstanding supply agreement with ADNOC. Under this contract, ADNOC Distribution captures an uplift from positive fuel price movements while remaining protected during adverse price adjustments. Retail prices typically follow movements in crude prices.

Inventory gain explanation

ADNOC Distribution's fuel inventory can create a temporary gain or loss. This is because retail pump prices are set monthly, while the fuel sold in each month is typically purchased in the prior month. This creates a timing effect between purchase cost and selling price. The company calculates these gains or losses monthly and reports them quarterly on a net basis.

We review multiple scenarios to analyse inventory gains and losses. The inventory gain/(loss) scenarios presented below are for illustrative purposes only, as purchase and selling prices are not directly aligned in practice. The calculation does not reflect the full pricing structure, which includes a margin of c. AED 0.45 per litre added to the purchase price, along with transport costs and 5% VAT applied to the final selling price at the pump.

Scenario: Gain captured by ADNOC Distribution

Figure 4.3: Inventory gain scenario

Month	Pump price (AED/L)	Prior month purchase cost (AED/L)	Inventory movement
Month 1	2.50	2.10	+40 Fils/L
Month 2	2.40	2.50	-10 Fils/L
Month 3	2.20	2.40	-20 Fils/L
Quarter total			**+10 Fils/L**

Source: ADCB estimates

In this scenario, oil prices rise at the start of the period. This allows ADNOC Distribution to sell fuel at a higher price than the prior month's purchase cost. Although the following two months show inventory losses, the quarter still ends with a net gain.

- In Month 1, ADNOC Distribution sells fuel at a higher pump price than its prior month purchase cost.
- In Month 2 and Month 3, pump prices fell below the prior month's purchase cost, creating inventory losses.
- However, the initial gain is large enough to offset the subsequent losses.
- The result is a net quarterly inventory gain of 10 Fils per litre.
- This gain is recognised in the current quarter.

ADNOC Distribution records a +10 Fils per litre gain in earnings for that quarter. Reported earnings benefit from this inventory movement. This explains why periods of rising oil prices can mechanically support reported profitability, even if underlying business trends remain unchanged.

Scenario: Inventory loss with ADNOC compensation

Figure 4.4: Inventory loss scenario

Month	Pump price (AED/L)	Prior month purchase cost (AED/L)	Inventory movement
Month 1	2.50	2.40	+10 Fils/L
Month 2	2.20	2.50	-30 Fils/L
Month 3	2.10	2.20	-10 Fils/L
Quarter total before compensation			-30 Fils/L
ADNOC compensation			+30 Fils/L
Reported inventory effect			**0 Fils/L**

Source: ADCB estimates

In this scenario, prices decline over the quarter. ADNOC Distribution records a small gain in Month 1, followed by larger losses in the next two months. On a standalone basis, this would result in a net quarterly inventory loss. However, this loss is compensated by ADNOC.

- In Month 1, ADNOC Distribution records a small inventory gain.
- In Month 2 and Month 3, declining pump prices create inventory losses.
- The quarter ends with a net inventory loss of 30 Fils per litre.
- This loss is compensated by ADNOC.
- As a result, ADNOC Distribution reports zero net inventory impact in the quarter.

On a standalone basis, the company would have reported a net inventory loss. However, ADNOC compensates ADNOC Distribution for this loss, effectively shielding earnings from negative inventory effects.

All in all, ADNOC Distribution retains upside from net inventory gains, while downside from net inventory losses is cushioned through ADNOC compensation. For investors, this reduces downside earnings volatility from fuel inventory, particularly in periods of declining oil prices.

Expanding KSA fuel retail operations

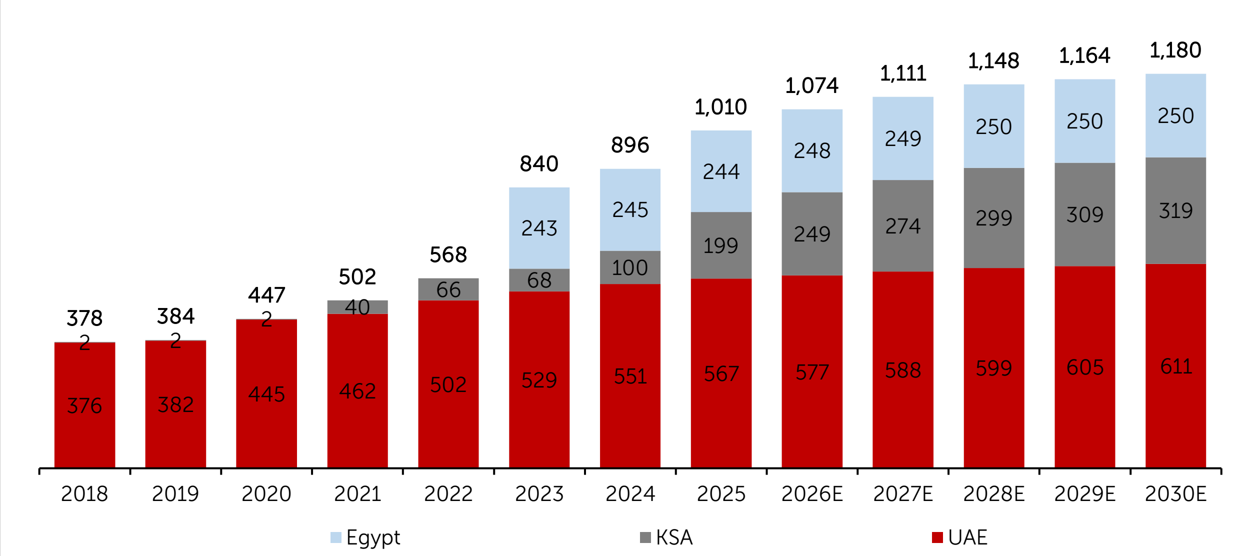
Beyond the UAE, ADNOC Distribution has expanded its regional footprint via entries into Saudi Arabia and Egypt. The company has 219 fuel stations in the Kingdom and 245 stations in Egypt through its 50% stake in TotalEnergies Marketing Egypt, as of 1Q26.

ADNOC Distribution acquired a 50% stake in TotalEnergies Marketing Egypt (TEME) for c.$186m in February 2023. This marked its entry into the high-growth Egyptian market, adding a diversified downstream platform across retail, aviation, and lubricants.

The company launched its Saudi operations in 2018 and accelerated its expansion from 4Q24 with the adoption of the dealer-owned company-operated (DOCO) model, which enables rapid network rollout with minimal capital investment.

ADNOC Distribution is targeting a network of 1,150 service stations by 2028E, with a significant portion of this growth expected to come from expanding its operations in Saudi Arabia through the DOCO model. The company targets at least 300 stations in operation across KSA by 2029, positioning it among the top five fuel and convenience retailers in the Saudi market.

Figure 4.5: Fuel station network evolution (# of stations)



Source: Company filings, ADCB estimates

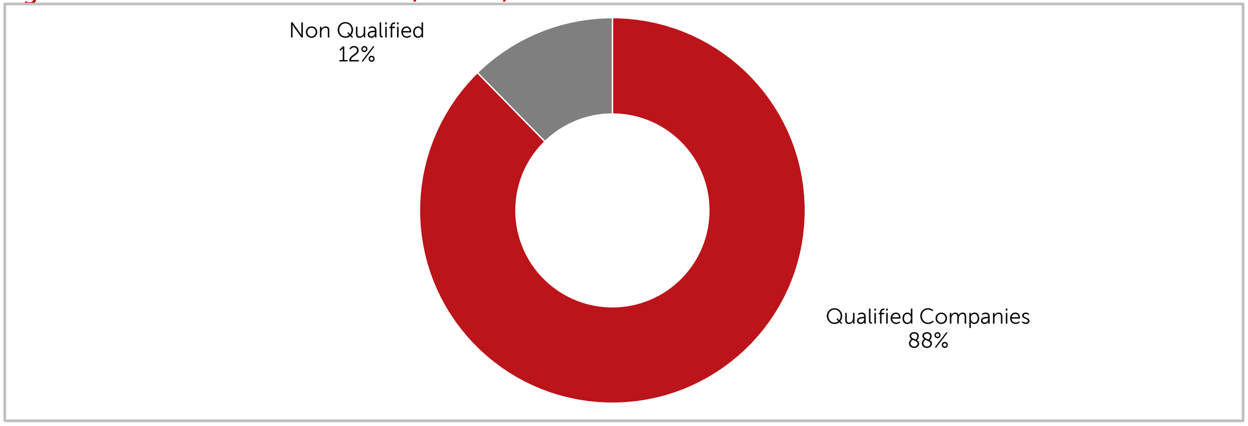
DOCO explained

We continue to see a meaningful consolidation opportunity for ADNOC Distribution in Saudi Arabia's fuel retail market. The Saudi market remains highly fragmented, with an estimated 7,300 stations nationwide, of which around 900, or 12% of the total, are currently owned by non-qualified players, according to Aldrees' latest disclosure. This compares with 44.1% in Aldrees' earlier market data, suggesting a sharp decline in the headline share of the non-organised segment.

However, in our view, this reduction is likely to overstate the true degree of market consolidation. Part of the shift appears to reflect licensing and classification changes rather than a full structural clean-up of the market. Some non-organised players have lost licenses and are waiting to partner with or be acquired by organised players to bring stations back into operation. In addition, the regulator has issued many new licenses, increasing the number of organised players to around 80.

Most of these companies have obtained qualification licenses for one year but retaining organised status would require meaningful investment and expansion. Companies that fail to comply may lose their licenses after one year. This suggests ADNOC Distribution has ample room to expand in Saudi Arabia through consolidation, targeting private/qualified players, non-operational stations and smaller newly qualified operators whose organised status may prove temporary.

Figure 4.6: KSA fuel retail network, total 7,300 stations



Source: Aldrees

Under the DOCO model, the station remains dealer-owned, while ADNOC Distribution maintains operational control, including site management, brand execution, and customer service delivery.

Under this model, ADNOC Distribution works with non-qualified players to help them achieve qualification under government standards covering infrastructure, safety, service requirements, and technical compliance.

A non-qualified fuel station earns a margin of SAR 0.09 per litre in gasoline, while a qualified station earns SAR 0.15 per litre. Under this model, the station owner invests capital to renovate and rebrand the site in line with ADNOC Distribution's specifications, allowing the station to qualify for the higher SAR 0.15 per litre margin.

The incremental SAR 0.06 per litre uplift is then shared between ADNOC Distribution and the dealer, while the original SAR 0.09 per litre margin remains entirely with the dealer. In other words, ADNOC Distribution shares only in the incremental margin created by the upgrade, rather than in the dealer's base margin.

ADNOC Distribution operates the station and receives a pre-agreed share of the incremental fuel margin and NFR revenue, supported by stronger branding, higher footfall, and improved service quality. This model offers dealers a path to higher profitability while enabling ADNOC Distribution to expand quickly in KSA with low capital intensity and capture new cash flow streams outside its core UAE market.

Under the DOCO model in Saudi Arabia, ADNOC Distribution earns a per-unit gross margin of around SAR 0.03 per litre, equivalent to about $0.01 per litre. Because the dealer owns the asset and covers day-to-day operating expenses, this gross margin effectively functions as the company's operating margin.

There are expectations that the Saudi government might lift qualified-operator gasoline margins toward SAR 0.23 per litre, up from today's SAR 0.15, pointing to a considerable uplift opportunity. Any incremental uplift, such as +SAR 0.08 per litre from SAR 0.15 to SAR 0.23, would be shared between ADNOC Distribution and the dealer under the DOCO model, further enhancing returns.

For illustration: Assuming a throughput of 10m litres per site, and a 300 DOCO station footprint in KSA, this expansion translates into around $30m in incremental EBITDA annually, representing additional cash flow complementing the core UAE retail operations.

Stable margins

ADNOC Distribution's gross-margin profile varies significantly across its key operating geographies. In the UAE, gasoline margins remain the strongest, consistently above 40 Fils per litre and supported by ADNOC's supply agreement, which provides downside protection. In Saudi Arabia, as part of the qualified network, the company earns a regulated gasoline margin of SAR0.15 per litre, which is structurally lower than UAE levels but stable. In Egypt, margins are comparatively weaker due to currency volatility. The fuel retail market in Egypt operates on a per-litre, gross-margin structure, and fuel margins are adjusted upward annually.

Figure 4.7: Gross margin by country

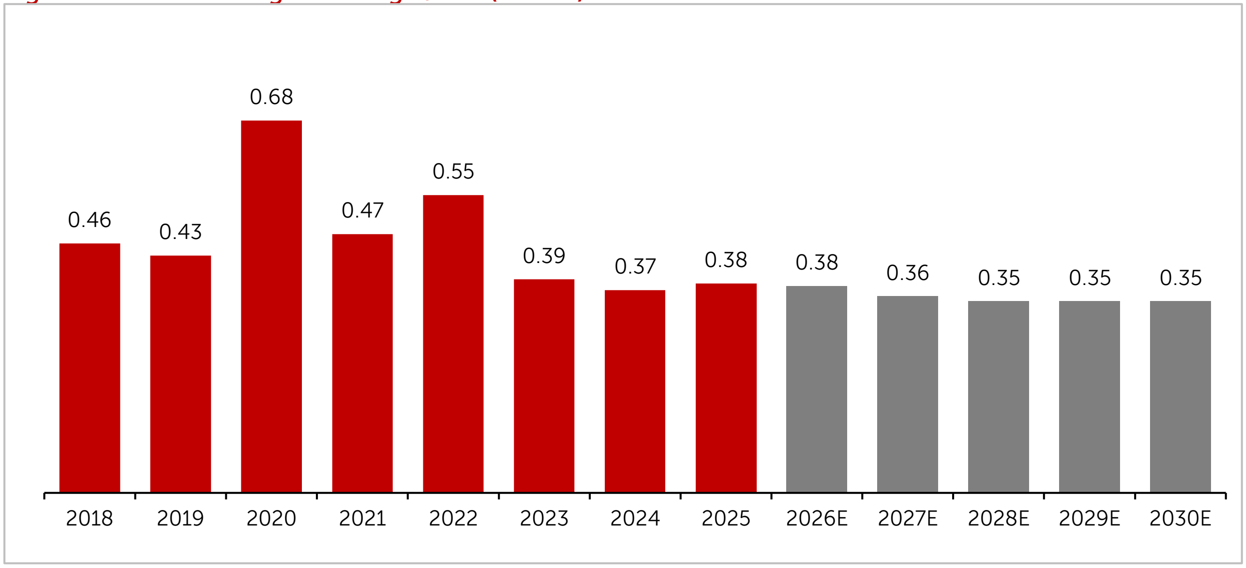
Geography	Supplier	Gross margin/litre
UAE	ADNOC	40 Fils+ (AED 0.40+)
KSA	ARAMCO	15 Halala (c. AED 0.15)

Source: Company filing

Until 2022, ADNOC Distribution operations were largely concentrated in the UAE, with only a small network in KSA, allowing the company to maintain gross margins above the 45 Fils level. Following the 2023 acquisition of TotalEnergies Marketing Egypt (TEME), group-wide gross margins declined, falling below 40 Fils as the share of lower-margin geographies, primarily Egypt, increased.

We expect margins to remain below 40 Fils per litre going forward as the contribution from Egypt and KSA continues to rise. Importantly, expansion beyond the UAE does not affect the UAE business, which remains structurally protected by ADNOC, while entry into new geographies provides the company with incremental cash flows, albeit at lower margins.

Figure 4.8: Retail fuel gross margin/litre (in AED)



Source: Company filing, ADCB estimates

Future-ready – EV charging

ADNOC Distribution is building out its EV charging business as part of its broader strategy to futureproof the company and participate in the energy transition. EV charging is expected to become an important part of on-the-go energy demand, and ADNOC Distribution aims to capture a share of this market through a premium network of fast and super-fast chargers located at its high-traffic service stations and mobility hubs.

Importantly, management is targeting a profitability profile broadly in line with fuel retail, supported by a robust EV charging regulatory environment and attractive margins, as well as higher customer dwell times that drive incremental non-fuel spending across convenience retail and food offerings

In terms of current scale, the company has already established a meaningful footprint in the UAE. As of 1Q26, ADNOC Distribution had installed around 400 fast and super-fast EV charging points, representing c.1.4x YoY growth, with coverage across key highways, urban centres, and service stations.

Looking ahead, the company targets adding 50-60 new charging points in 2026. Over the medium term, it aims to scale the network to 500-750 charging points by 2028 and establish a nationwide fast-charging backbone across key UAE highways.

Overall, EV charging has emerged as a strategic growth pillar. ADNOC Distribution is treating it as a commercial, premium-margin mobility business rather than just an ESG initiative. The company is also using EV charging to increase non-fuel monetisation, particularly through formats such as The Hub by ADNOC, where longer charging times can translate into higher non-fuel retail spending.

Beyond fuel retail

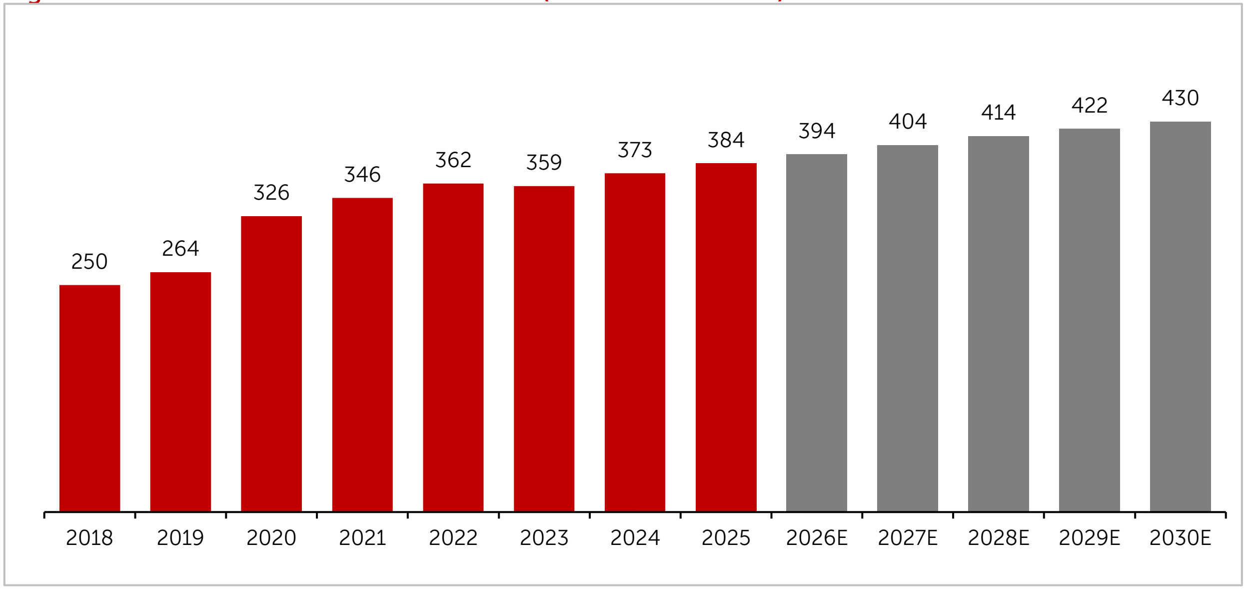
ADNOC Distribution continues to strengthen its position beyond its core fuel retail business by expanding in non-fuel retail (NFR) and the commercial segment. The company is actively working to increase its contribution from NFR, supported by improved store formats, a broader merchandise mix, and targeted initiatives to drive higher basket size and customer conversion.

Multiple offerings across NFR

ADNOC Distribution continues to broaden its retail network by offering a full suite of added-value services, including convenience stores, car care services, vehicle inspection centres, and property management.

The company operates 386 convenience stores in the UAE, along with 15 ADNOC Services locations in KSA, and 138 stores in Egypt through its 50% stake in TEME as of March 2026. The company is consistently expanding its convenience store network, while reporting growth in non-fuel transactions and higher customer conversion rates.

Figure 4.9: UAE convenience store network (number of stations)

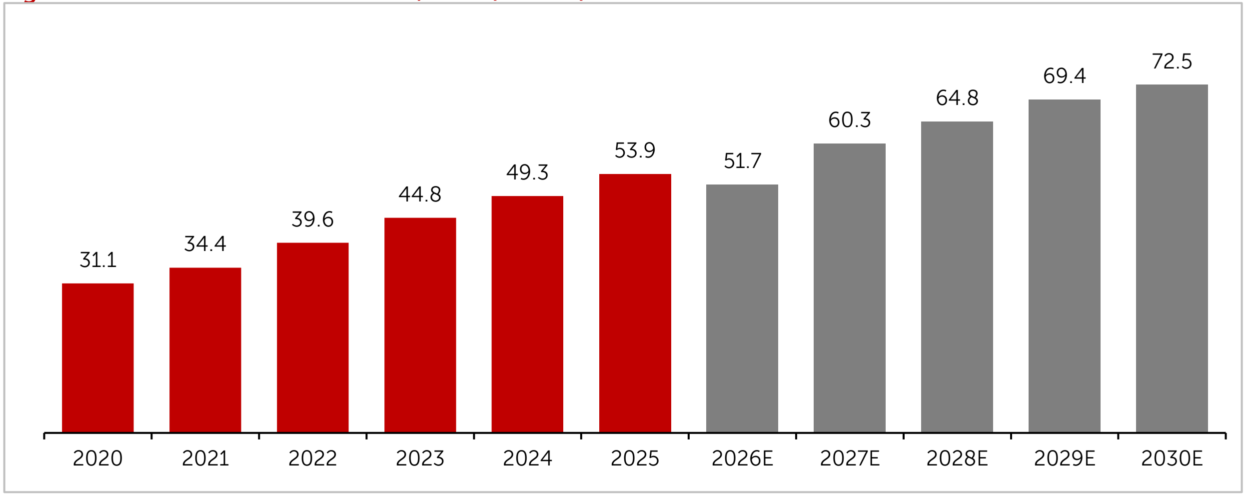


Source: Company filing, ADCB estimates

The company targets a 25% increase in the number of convenience stores by 2028 and a doubling of non-fuel transactions by 2030 (both relative to 2023). Achieving these targets should meaningfully increase the contribution of NFR to overall profitability, which remains low today compared to global benchmarks. In developed markets such as the US, nonfuel retail contributes 50-60% of fuel retailers' profits.

Progress toward ADNOC Distribution's targets would bring its business mix closer to Western economies and support a more sustainable, incremental cash flow stream beyond core fuel retailing. This diversified profit base should strengthen new cash-generation streams and enhance the company's long-term return profile.

Figure 4.10: Non-fuel transactions, UAE (million)



Source: Company filing, ADCB estimates

The company is progressing toward its 2028 targets, and in our estimates, we remain slightly conservative. This reflects our preference to incorporate execution risk, particularly as the expansion of NFR depends on continued improvements in store productivity, sustained growth in customer conversion rates, and successful scaling of newer formats such as EV-enabled mobility hubs and The Hub concept. We also factor in the time required to optimise location mix and tenant quality, which can delay full realisation.

Figure 4.11: NFR target

Metric, UAE	2023A	2025A	Target	2028/2030 target based on growth expectations	ADCB estimates
Convenience stores (number)	359	384	+25% (by 2028)	449	2028: 414
NFR transaction (m)	44.8	53.9	+100% (by 2030)	89.5m	2030: 72.5m

Source: Company filing

NFR: Car services portfolio

The company provides a wide range of automotive services at its service station locations, including car wash, oil change, tyre change, repairs, and general vehicle service. These services are offered both directly by the company and through its network of tenants and partners.

ADNOC Distribution operates 37 vehicle inspection centres in the UAE and is the only authorised provider of government-mandated annual vehicle inspections in the Emirate of Abu Dhabi. It also offers vehicle inspection services across other Emirates. The company performed 1.59m vehicle inspection transactions in 2025, underscoring the scale of this business line.

High-margin property business

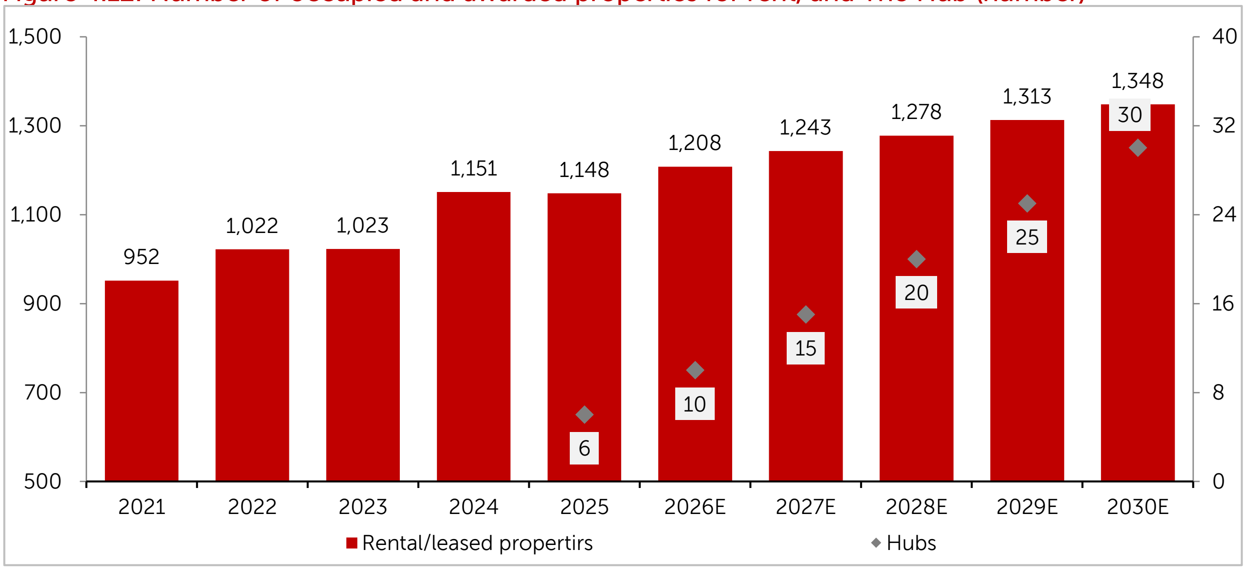
ADNOC Distribution's service stations host a broad network of around 1,150 properties, housing quick-service restaurants and retailers, as well as providers of supplementary amenities such as banking, insurance, and automotive services. Major tenants include globally and locally recognised brands such as McDonald's, Starbucks, KFC, and Al Baik, reinforcing the company's strong value proposition to customers and partners.

The company has also launched a new roadside retail format with the rollout of "The Hub by ADNOC" in 4Q25, which features a retail footprint three times larger than traditional service stations. Incremental income from The Hub is expected to come primarily from property management, as the company leases retail space to various outlets and brands.

Lease income from properties leased by ADNOC Distribution, including those at The Hub, carries a high margin profile given the limited direct associated costs. ADNOC Distribution had opened six Hub locations by the end of 2025 and targets 30 locations by 2030. Across the first six sites, 90% of retail units are already leased, signalling strong market demand. By 2030, Hub locations are expected to deliver annual EBITDA of about $30m, or roughly $1m per station.

By the end of 1Q26, the company had leased 1,163 properties. As rollout of The Hub accelerates, we expect the number of leased properties to increase materially, given the format's significantly larger retail area.

Figure 4.12: Number of occupied and awarded properties for rent, and The Hub (number)



Source: Company filing, ADCB estimates

Given the higher number of properties to be added as The Hub rollout continues, the company is building a cash-generative portfolio with minimal associated operating costs. The Hub represents another meaningful driver of diversification for ADNOC Distribution, with management targeting incremental cash generation of about $30m per year by 2030.

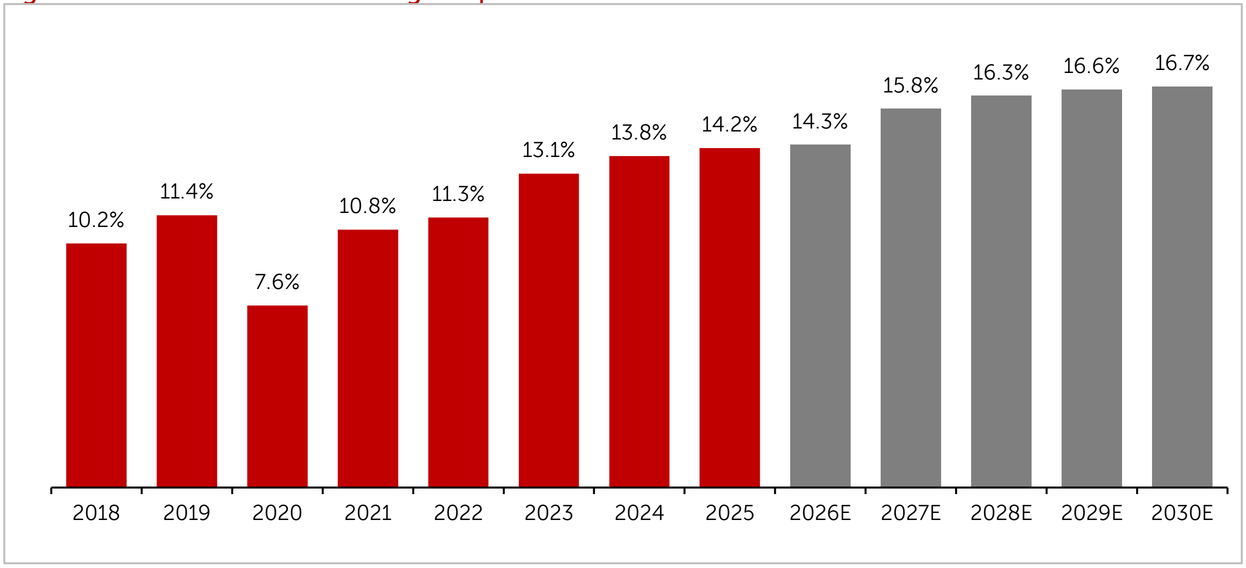
For investors, the introduction of a new, stable cash flow stream is particularly attractive. The high margin profile of lease income supports a stronger return on invested capital over time, positioning The Hub as a structurally accretive component of the company's long-term strategy.

Profit share of NFR is increasing

NFR continues to gain importance in ADNOC Distribution's earnings mix, with its contribution to total gross profit rising steadily over time. NFR gross profit accounted for roughly 10% of total gross profit in 2018 and increased to about 14% in 2025, supported by sustained growth in non-fuel transactions, which carry structurally higher margins than fuel.

This trend is expected to accelerate as ADNOC expands into higher-margin formats such as The Hub, where rental and leasing income has minimal direct cost and therefore delivers significantly higher profitability. As a result, we forecast the NFR share of total gross profit to reach around 17% by 2030, driven by larger basket sizes, higher conversion, and a growing real estate monetisation component. Together, these factors reinforce the long-term shift toward a more diversified and margin-rich earnings profile.

Figure 4.13: Share of NFR in total gross profit



Source: Company filing, ADCB estimates

Highly competitive commercial business

ADNOC Distribution operates as a major marketer, supplier, and distributor of refined petroleum products, including gasoline, gasoil, LPG, finished lubricants, and other specialised products serving residential, commercial, industrial, and government customers.

Corporate business summary

ADNOC Distribution supplies gasoil, gasoline, LPG, and lubricants to a wide range of commercial, industrial, and government clients across Abu Dhabi and the Northern Emirates, including major taxi fleets and last-mile delivery operators. Gasoil remains a highly competitive market with aggressive pricing and some exposure to grey-market activity.

ADNOC Distribution is benefiting from the gradual elimination of the grey market as regulatory enforcement strengthens. The company also operates 'My Station' service, which uses a fleet of 80-90 mid-sized fuel trucks to deliver fuel directly to customers, enhancing convenience and supporting customer retention. LPG sales primarily serve residential customers, restaurants, and light commercial users using a fleet of c.140 trucks.

In lubricants, ADNOC Distribution markets its proprietary ADNOC Voyager range, which includes more than 370 products and 2,000 SKUs designed for commercial fleets and sectors such as construction, manufacturing, marine, and power generation across 50 countries.

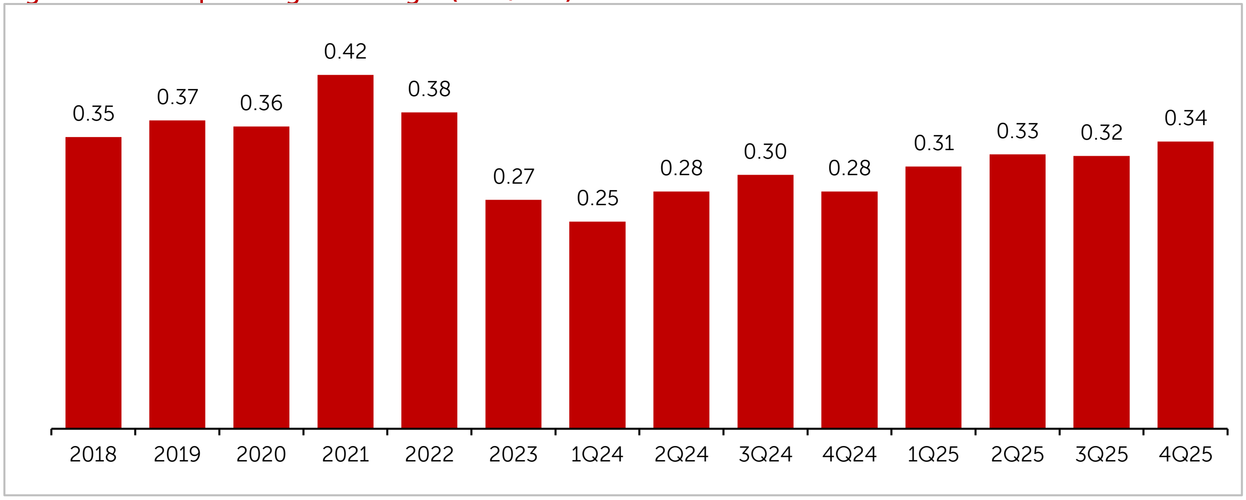
Margin improvement

Retail fuel margins remain structurally higher in the UAE, but the addition of lower-margin retail operations in KSA and Egypt naturally pulls the consolidated retail margin downward. In contrast, ADNOC's corporate segment operates under an unregulated margin framework, giving the company full pricing flexibility.

This helped corporate margins to rise sharply in 2025. The corporate fuel margin reached 33 Fils per litre for the full year, up 17% YoY. The improvement was driven by proactive contract selection, a reduction in low-margin spot sales, and a focus on higher-value tenders. Margin expansion was further supported by dynamic pricing, a heightened focus on revenue quality, and favourable market supply/demand conditions.

The company delivered a strong increase in corporate fuel margins across all four quarters of 2025, reaching up to 34 Fils in 4Q25. Despite lower annual volumes, this performance reflects a deliberate strategy of prioritising profitability by focusing on higher-margin B2B contracts to strengthen earnings quality and reduce exposure to low-return customer segments.

Figure 4.14: Corporate gross margin (AED/litre)



Source: Company filing

Aviation business summary

ADNOC Distribution provides fuel distribution services and manages refuelling operations for ADNOC's civil aviation customers, supplying aviation fuel and into-plane services to strategic clients across the UAE. The company also has an aviation footprint in Egypt through TEME, and in 2024, secured rights to supply aviation fuel to airlines. TEME is the joint venture partner at Cairo Airport and serves as the exclusive into-plane operator at Marsa Alam Airport.

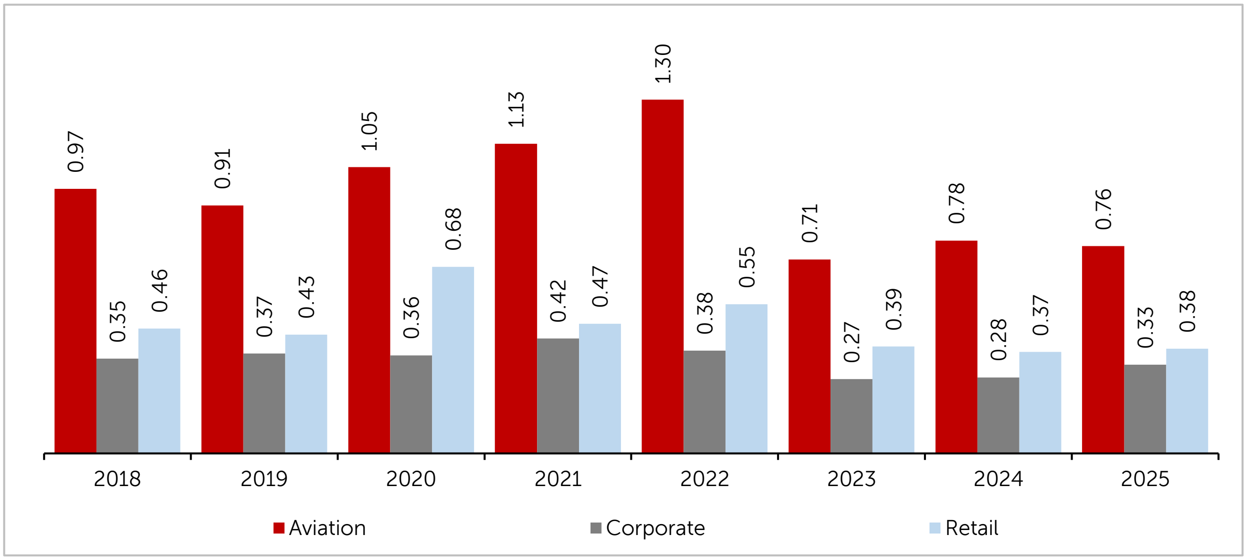
In Egypt, aviation customers pay in USD, offering protection from currency fluctuations that affect other segments, such as retail. Aviation volumes represent less than 10% of total group volumes, yet aviation activity outside the GCC, primarily Egypt, is fully dollar-denominated and accounts for about 70% of EBITDA from Egypt. Aviation fuel demand in Egypt continues to rise, supported by strong tourism activity, positioning this segment as a resilient and strategically meaningful contributor to the company's earnings.

Aviation remains the highest-margin segment within ADNOC Distribution's fuel portfolio, underpinned by structurally superior economics relative to both retail and broader commercial fuel.

Unlike retail fuel, where margins are regulated, aviation pricing is commercially negotiated. This allows greater pricing flexibility and margin optimisation for a specialised product through long-term, volume-based contracts with strategic customers. This has enabled ADNOC Distribution to build a premium margin profile in aviation, supported by a strong strategic customer base and captive demand at airports.

Notably, aviation volumes remain relatively low compared to retail and corporate segments, limiting their overall contribution to total throughput. As such, aviation represents a high-margin, low-volume segment, offering incremental profitability and margin resilience within ADNOC Distribution's diversified fuel business.

Figure 4.15: Gross margin per litre (in AED)



Source: Company filing

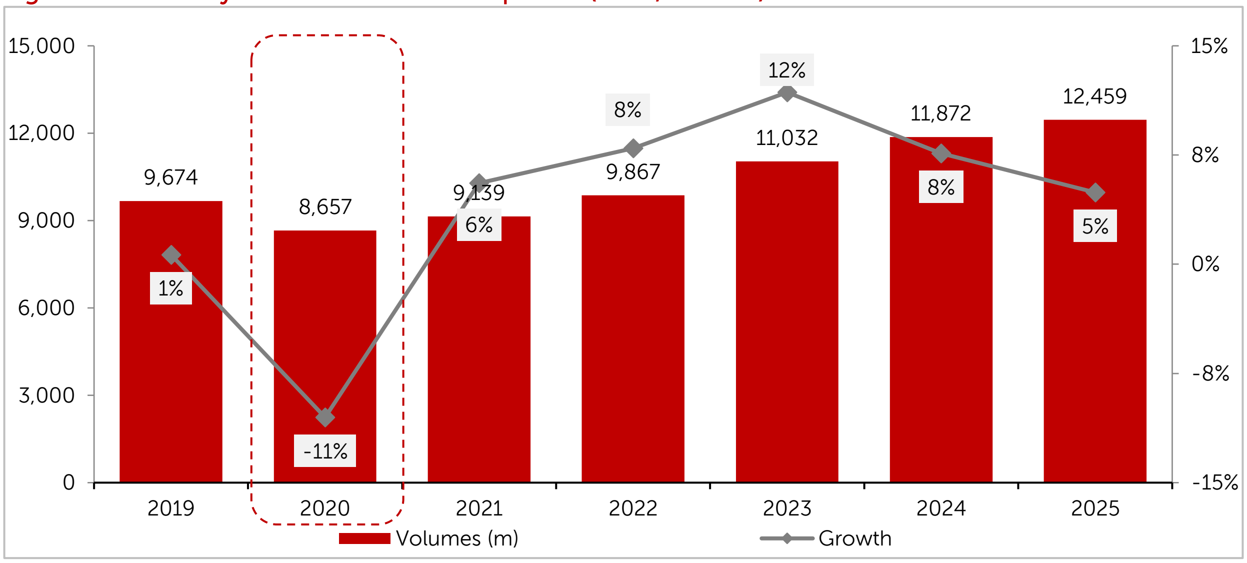
Resilient business

ADNOC Distribution's fuel retail business is fundamentally defensive, supported by the essential role fuel plays in day-to-day mobility for both individuals and businesses. Demand for transportation fuel is more closely tied to routine economic activity and commuting needs than to discretionary spending, making the business relatively resilient even during periods of macroeconomic or geopolitical disruption.

Periods of economic stress can lead to some moderation in fuel volumes, typically through lower driving intensity or slower vehicle ownership growth. However, the impact is usually modest and not structural, as fuel remains a necessity rather than a discretionary purchase.

Even in more volatile operating environments such as Covid, ADNOC Distribution has demonstrated resilience, maintaining strong volumes and uninterrupted operations. This underpins our view that the core fuel retail segment should continue to provide a stable earnings base and strong cash flow visibility for the broader investment case.

Figure 4.16: Steady volume across Covid period (GCC, m litres)



Source: Company filing, GCC: UAR and KSA

Volumes remained resilient through regional volatility

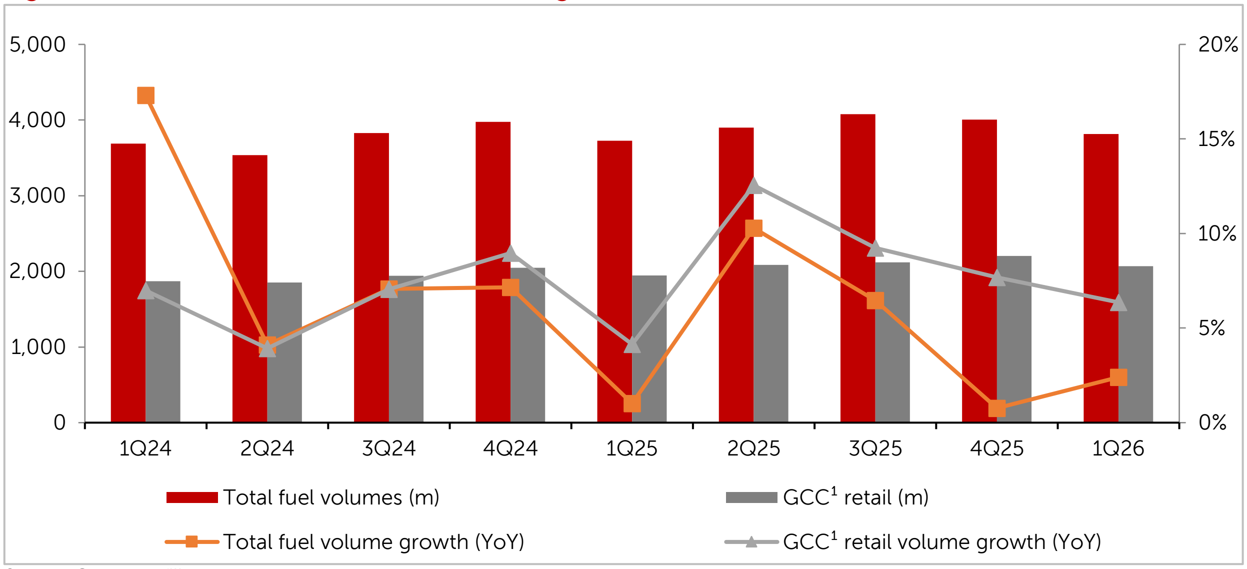
ADNOC Distribution's 1Q26 fuel volume performance underscored the strength of its core business, with total fuel volumes rising 2.4% YoY to 3.82bn litres, despite temporary disruption to mobility patterns and adverse weather conditions in March.

In the company's core GCC retail business, volumes were even stronger, with retail fuel volumes in the UAE and KSA up 6.4% YoY, supported by resilient mobility trends, continued network expansion, and sustained economic activity.

Importantly, management noted that March volumes were still up versus March last year, despite temporary mobility disruption, and that more recent trends in April and May continued to point to resilient volumes, with expected single digit growth for the year.

Overall, the business continued to operate uninterrupted, with no impact on safety, assets, or supply continuity. This highlights ADNOC Distribution's role as critical national infrastructure and the resilience of its network and earnings base.

Figure 4.17: Volumes remained resilient through 1Q26



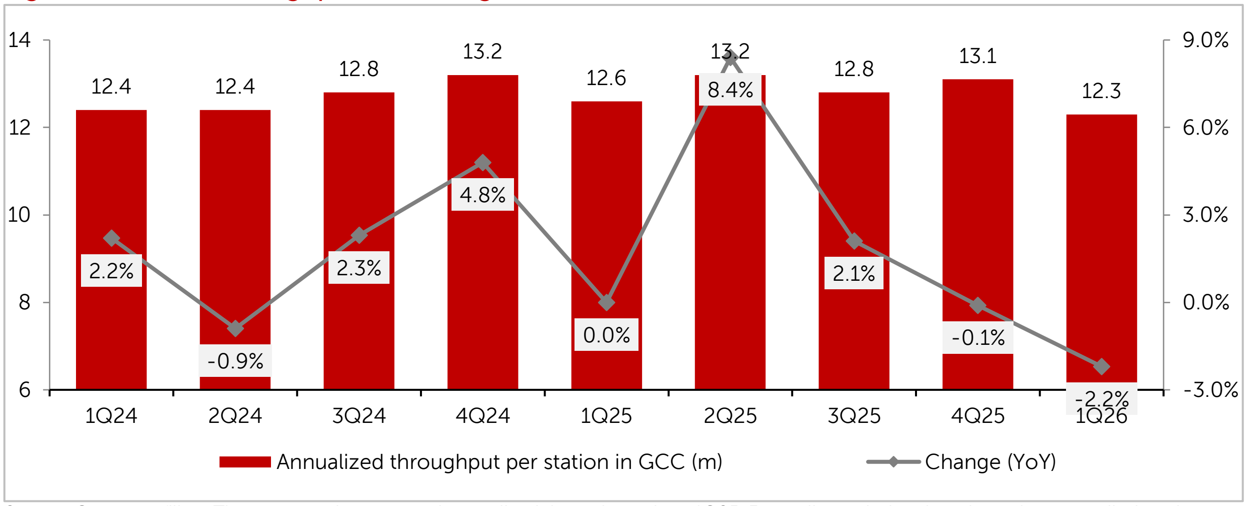
Source: Company filing.
Note: 1. GCC includes UAE and KSA business

A meaningful part of ADNOC Distribution's recent retail fuel volume growth is being driven by network expansion, with the GCC station count rising to 787 in 1Q26 from 670 in 1Q25, reflecting additions in both the UAE and, more notably, Saudi Arabia. This helped lift GCC retail fuel volumes by 6.4% YoY, even though annualised throughput per GCC station declined to 12.3m litres in 1Q26, down from 12.6m litres a year earlier and 13.1m litres in 4Q25.

In our view, this softer throughput is not surprising and likely reflects the rapid rollout of new stations in Saudi Arabia. When a fuel retailer opens many new stations over a short period, some degree of traffic redistribution or partial cannibalisation of nearby legacy sites is to be expected, particularly in the early phase of a build-out. At the same time, newly opened stations typically require a ramp-up period before they reach mature utilisation, as customer awareness, traffic patterns, and local demand take time to normalise.

In this context, we view the decline in per-station throughput as a normal near-term consequence of rapid network expansion rather than a sign of weak demand, particularly given that total volumes remained resilient and management continued to highlight positive retail fuel momentum across the UAE and KSA.

Figure 4.18: GCC throughput and change



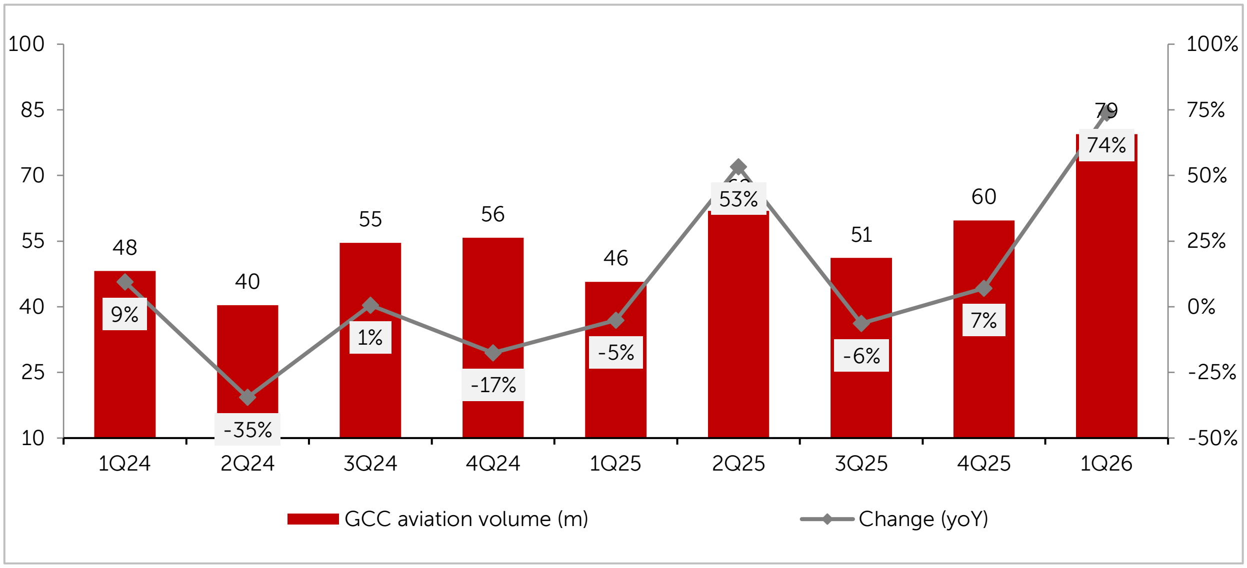
Source: Company filing; The company has reported annualized throughput since 1Q25. For earlier periods, when throughput was disclosed quarterly, we have annualized the figures by multiplying them by four for charting purposes.

Diversified customer base supported 1Q26 volume

Aviation volumes rose sharply during 1Q26, supported by higher demand from strategic customers in the UAE, particularly on the military side and temporary changes in regional aviation activity. Importantly, aviation is a high-margin business, so incremental aviation volumes translate into stronger profitability and cash generation relative to their share of total volumes.

We expect normalisation in aviation demand as regional conditions stabilises, suggesting that part of the 1Q26 strength may prove temporary rather than structural. The aviation business's performance in the quarter highlights the value of ADNOC Distribution's diversified business model.

Figure 4.19: GCC aviation volume



Source: Company filing

DCF supports meaningful upside

We have valued ADNOC Distribution using the discounted cash flow method. A significant portion of the company's profitability is supported by long-term supply contracts with ADNOC, which provide stable returns, as well as B2B agreements in the commercial and aviation segments, which offer recurring, predictable volumes. Together, these long-term and B2B contracts provide strong visibility over revenue and cash generation, making the discounted cash flow approach particularly suitable for valuing the business.

The company also invests heavily in setting up new stations and renovating existing ones, which makes its operations capital-intensive. The discounted cash flow method effectively captures the timing and magnitude of these investments over the forecast period.

Our DCF assumptions are as follows:

- **Risk-free rate:** Based on the prevailing yield of the 10-year US Treasury note.
- **Equity country risk premium:** Sourced from NYU Stern, where Aswath Damodaran summarises country default spreads and risk premiums (source: pages.stern.nyu.edu).
- **Beta:** Adjusted beta obtained from Bloomberg.
- **Tax rate:** UAE corporate tax rate.
- **Capital structure:** Based on the market value of equity and the latest reported book value of debt.

We have not relied on relative valuation as the primary methodology, as the company's operations differ significantly from global peers due to its regulated UAE margin framework, long-term ADNOC supply agreement, high dividend visibility, and regional growth profile.

Figure 4.20: ADNOC Distribution WACC summary

WACC calculation	
Tax rate	9.0%
Cost of debt (Kd)	**4.5%**
Share of debt	5.7%
Risk-free rate	4.5%
Beta levered	0.7
ERP	5.0%
Cost of equity (Ke)	**8.1%**
Share of equity	94.3%
WACC	**7.9%**

Source: Company filing, UAE Central Bank, Stern NYU, ADCB estimates

The fair value of the company based on our DCF analysis is **AED 4.65 per share**. This implies 17% upside from the current price. We are initiating coverage on the stock with a Buy rating.

Figure 4.21: ADNOC Distribution fair value

Fair value calculation, AED m	
Present value from explicit forecasts (2026-30E)	15,078
Terminal value	45,983
Enterprise value	**61,061**
(-) Net debt	2,955
(-) Non-controlling interest	215
Equity value	**57,891**
Outstanding shares	12,500
Fair value per share (AED)	4.64
Fair value (round-off)	**4.65**

Source: Company filing, ADCB estimates

Figure 4.22: ADNOC Distribution DCF summary

AED m	2025	2026	2027	2028	2029	2030	Terminal value
EBIT	3,505	3,714	3,825	3,933	4,125	4,306	
Tax rate (%)	10.2%	9.2%	10.0%	10.0%	10.0%	10.0%	
NOPAT	3,149	3,371	3,443	3,540	3,713	3,875	
Depreciation	776	788	818	848	875	892	
Capex	1,181	946	922	922	605	580	
Change in working capital	133	(269)	232	(215)	(79)	129	
Free cash flow to firm	**2,611**	**3,483**	**3,108**	**3,681**	**4,061**	**4,059**	**65,079**
Discount factor		0.96	0.89	0.82	0.76	0.71	0.71
Present value		**3,332**	**2,756**	**3,027**	**3,095**	**2,868**	**45,983**

Source: Company filing, ADCB estimates

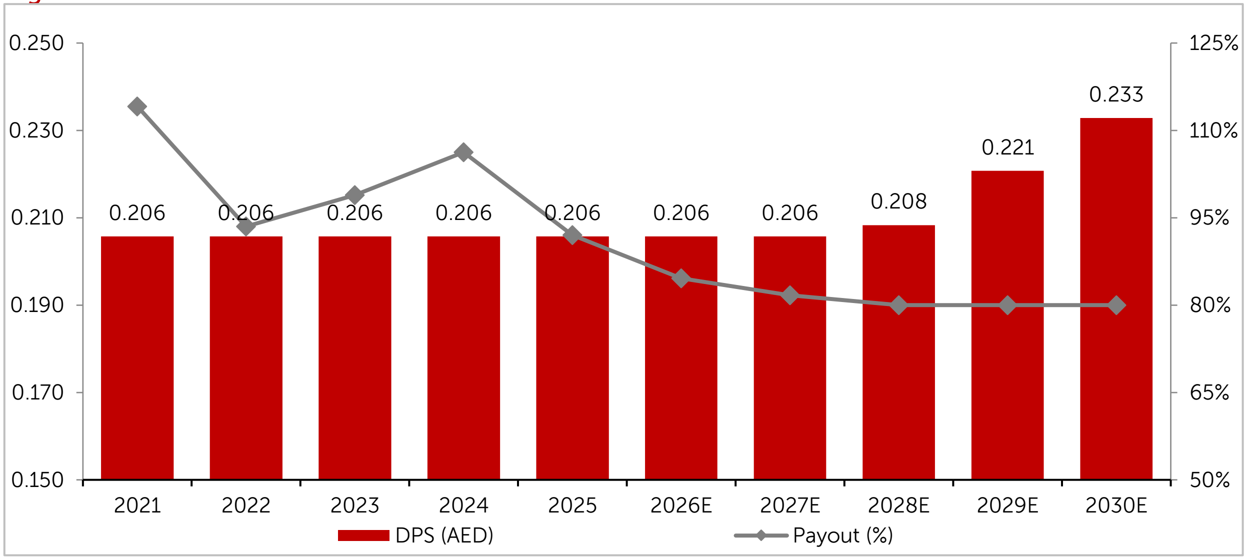
Stable dividends

ADNOC Distribution offers an attractive five-year dividend policy that extends through 2030, which provides long-term income visibility to shareholders. The company targets an annual distribution of $700m or a minimum payout of 75% of net profit, whichever is higher, effectively setting a floor of 20.57 Fils per share. The 2026-30 policy provides long-term visibility on shareholder distributions and offers potential upside to dividends from future earnings growth.

Beginning in 1Q26, the shift to a quarterly dividend cycle enhances predictability and provides more frequent cash distributions. We expect dividends to remain broadly stable over the next two years, with an increase in dividends from 2028 onwards as incremental benefits from the UAE retail hub expansion and the DOCO model in KSA begin to materialise.

In our estimates, the payout ratio remains above 80%, underscoring the company's ongoing commitment to shareholder returns. Our 2026E dividend forecast of 20.57 Fils implies a dividend yield of roughly 5.2%. In our view, the stability of the quarterly payout framework, combined with medium term upside from regional expansion, positions ADNOC Distribution as an attractive proposition for investors seeking reliable income alongside capital appreciation.

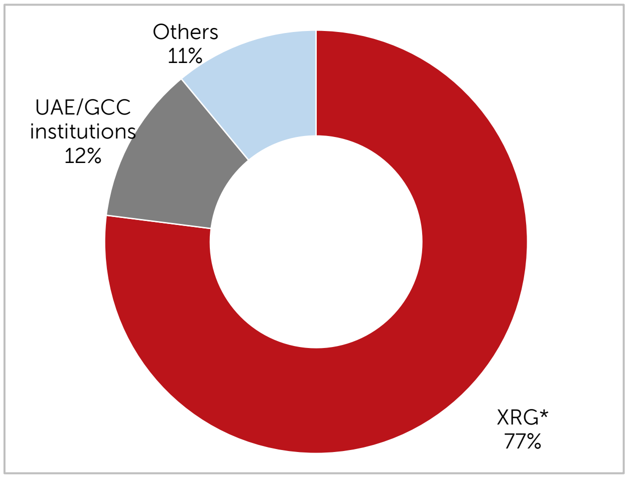
Figure 4.23: Dividends



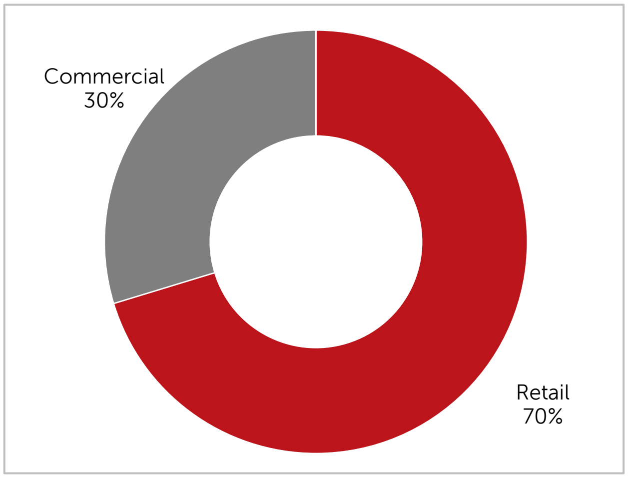
Source: Company filing, ADCB estimates

ADNOC Distribution — Key charts

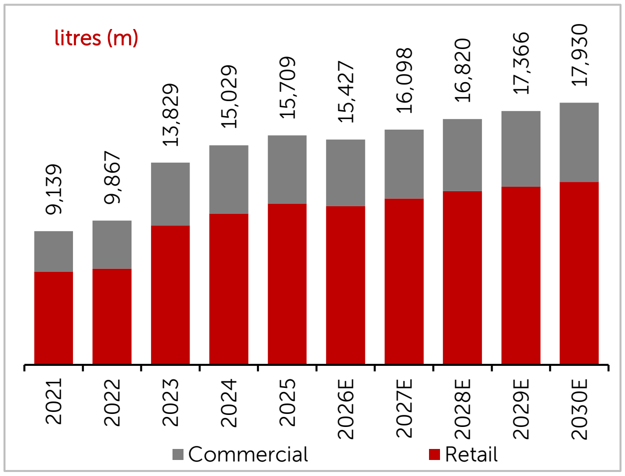
ADNOC: UAE supplier and major shareholder



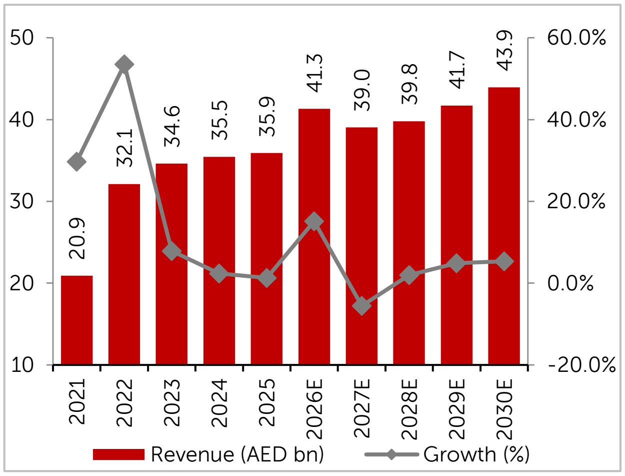
Retail dominates the volumes (2025A)



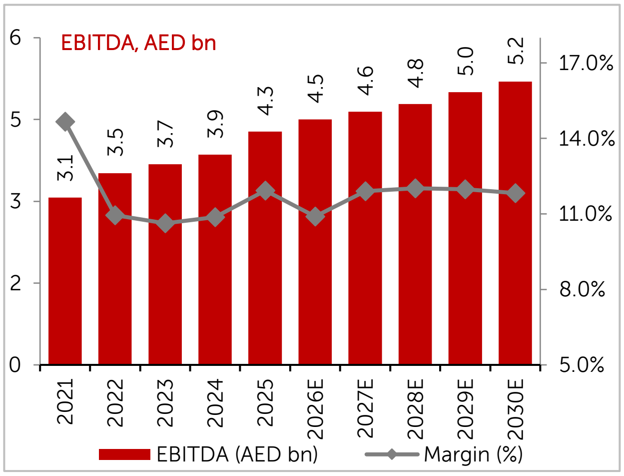
Solid fuel volumes progression



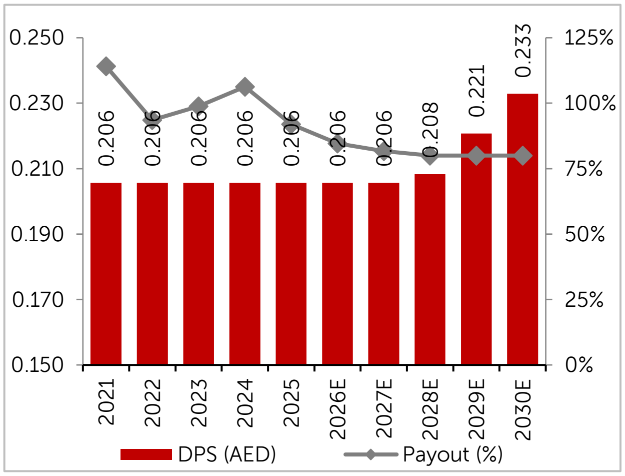
Steady revenue growth



Stable EBITDA margins



Dividends – High payout



Source: Company filing, ADCB estimates; Note: *XRG is 100% subsidiary of ADNOC

Profit and loss statement

AED m	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Fuel volume (m)										
Retail (GCC)	6,384	6,586	7,220	7,708	8,355	8,134	8,489	8,843	9,001	9,158
Commercial (GCC)	2,755	3,281	3,812	4,164	4,103	3,961	4,080	4,265	4,476	4,695
Egypt (total)	–	–	2,797	3,157	3,251	3,332	3,529	3,712	3,889	4,076
Total	**9,139**	**9,867**	**13,829**	**15,029**	**15,709**	**15,427**	**16,098**	**16,820**	**17,366**	**17,930**
Revenue	20,921	32,111	34,629	35,454	35,897	41,323	39,029	39,788	41,724	43,940
Growth	*29.7%*	*53.5%*	*7.8%*	*2.4%*	*1.2%*	*15.1%*	*-5.6%*	*1.9%*	*4.9%*	*5.3%*
EBITDA	3,067	3,517	3,680	3,855	4,282	4,502	4,644	4,781	5,000	5,198
Growth	*-3.8%*	*14.7%*	*4.6%*	*4.8%*	*11.1%*	*5.2%*	*3.1%*	*3.0%*	*4.6%*	*4.0%*
Margin	*14.7%*	*11.0%*	*10.6%*	*10.9%*	*11.9%*	*10.9%*	*11.9%*	*12.0%*	*12.0%*	*11.8%*
D&A	638	544	697	786	776	788	818	848	875	892
EBIT	2,430	2,974	2,982	3,069	3,505	3,714	3,825	3,933	4,125	4,306
Growth	*-6.4%*	*22.4%*	*0.3%*	*2.9%*	*14.2%*	*6.0%*	*3.0%*	*2.8%*	*4.9%*	*4.4%*
Margin	*11.6%*	*9.3%*	*8.6%*	*8.7%*	*9.8%*	*9.0%*	*9.8%*	*9.9%*	*9.9%*	*9.8%*
Interest payment	177	225	334	313	332	290	271	261	238	208
PBT	2,253	2,749	2,648	2,756	3,174	3,424	3,554	3,672	3,887	4,098
Growth	*-7.4%*	*22.0%*	*-3.7%*	*4.1%*	*15.2%*	*7.9%*	*3.8%*	*3.3%*	*5.9%*	*5.4%*
Margin	*10.8%*	*8.6%*	*7.6%*	*7.8%*	*8.8%*	*8.3%*	*9.1%*	*9.2%*	*9.3%*	*9.3%*
Net Income	2,253	2,749	2,601	2,420	2,794	3,039	3,148	3,255	3,449	3,639
Growth	*-7.4%*	*22.0%*	*-5.4%*	*-6.9%*	*15.4%*	*8.8%*	*3.6%*	*3.4%*	*6.0%*	*5.5%*
Margin	*10.8%*	*8.6%*	*7.5%*	*6.8%*	*7.8%*	*7.4%*	*8.1%*	*8.2%*	*8.3%*	*8.3%*
Per share data										
EPS, AED	0.18	0.22	0.21	0.19	0.22	0.24	0.25	0.26	0.28	0.29
DPS, AED	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.22	0.23

Source: Company filing

ADNOC Distribution — Financial statements and ratios

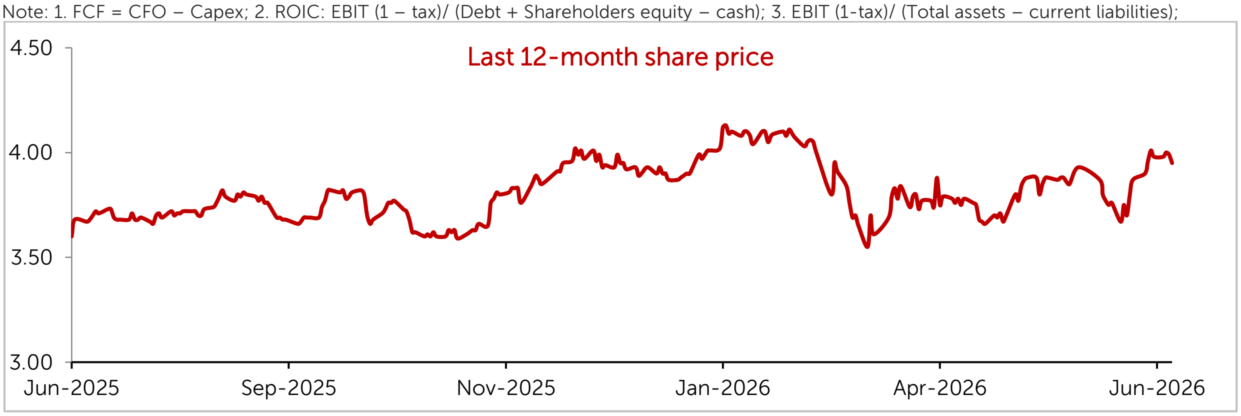
Year	2025A	2026E	2027E	2028E
Profit & loss summary (AED m)				
Revenue	35,897	41,323	39,029	39,788
EBITDA	4,282	4,502	4,644	4,781
D&A	776	788	818	848
EBIT	3,505	3,714	3,825	3,933
Net interest	332	290	271	261
PBT	3,174	3,424	3,554	3,672
Net profit	2,794	3,039	3,148	3,255
Adjusted net profit	2,513	3,001	3,148	3,255
Balance sheet summary (AED m)				
Tangible assets/PPE	8,032	8,351	8,608	8,828
Non-current assets	10,149	10,355	10,504	10,620
Cash	2,561	3,015	3,116	3,770
Current assets	7,526	8,800	8,795	9,678
Total assets	17,675	19,155	19,298	20,298
Current liabilities	6,965	8,491	8,149	8,589
Total debt	5,546	5,446	5,346	5,246
Net debt	2,985	2,431	2,230	1,476
Total liabilities	14,215	15,158	14,674	14,973
Shareholders' equity	3,230	3,699	4,276	4,927
Cash flow summary (AED m)				
Cash from operations	3,922	4,455	4,056	4,629
Capex	1,181	946	922	922
Free cash flow[1]	2,741	3,509	3,135	3,707
Cash from investment	(1,128)	(881)	(846)	(844)
Dividends	2,599	2,571	2,571	2,604

Year	2025A	2026E	2027E	2028E
Growth				
Revenue	1.2%	15.1%	-5.6%	1.9%
EBITDA	11.1%	5.2%	3.1%	3.0%
EBIT	14.2%	6.0%	3.0%	2.8%
Net profit	15.4%	8.8%	3.6%	3.4%
Adjusted net profit	14.3%	19.4%	4.9%	3.4%
Margin				
EBITDA	11.9%	10.9%	11.9%	12.0%
EBIT	9.8%	9.0%	9.8%	9.9%
Net profit	7.8%	7.4%	8.1%	8.2%
Adjusted net profit	7.0%	7.3%	8.1%	8.2%
Return metrics				
ROIC[2]	53.1%	54.6%	54.5%	54.8%
ROCE[3]	29.5%	31.5%	31.6%	31.0%
ROE	89.8%	87.7%	79.0%	70.7%
ROA	15.6%	16.5%	16.4%	16.4%
Leverage ratio				
Net debt/EBITDA	0.7	0.5	0.5	0.3
Interest coverage ratio	12.9	15.5	17.1	18.3
Per share data				
EPS, USD	0.06	0.07	0.07	0.07
EPS, AED	0.22	0.24	0.25	0.26
DPS, USD	0.06	0.06	0.06	0.06
DPS, AED	0.21	0.21	0.21	0.21
Book value, AED	0.26	0.30	0.34	0.39

Year	2025A	2026E	2027E	2028E
Valuation ratio				
EV/Sales	1.5	1.3	1.3	1.3
EV/EBITDA	12.3	11.6	11.2	10.8
P/E	17.8	16.3	15.8	15.2
P/B	15.4	13.4	11.6	10.1
FCF yield	5.5%	7.1%	6.3%	7.5%
Dividend Yield	5.2%	5.2%	5.2%	5.2%

Market data	
Company name	ADNOC Distribution
Bloomberg ticker	ADNOCDIS UH
Share price (AED)	3.97
Fair value (AED)	4.65
Upside/(Downside)	17%
Rating	Buy
Market value (USD m)	13,513

Source: Company data, ADCB estimates
Note: 1. FCF = CFO – Capex; 2. ROIC: EBIT (1 – tax)/ (Debt + Shareholders equity – cash); 3. EBIT (1-tax)/ (Total assets – current liabilities);



Source: Bloomberg

Risks to our valuation

KSA expansion and DOCO model risk

The Saudi fuel retail market is fragmented and highly competitive. Growth through the dealer-owned company-operated (DOCO) model also introduces execution risk, dependence on regulatory frameworks, and reliance on dealer participation. A slower-than-expected rollout or weaker-than-targeted margins in KSA could limit incremental revenue contribution and dilute group profitability.

Commercial segment margin pressure and competition

The B2B segment operates in a competitive environment with aggressive pricing, exposure to grey market activity, and active contract selection to maintain profitability. This can create volatility in both volumes and margins. Loss of high-value contracts could reduce the commercial segment's contribution, negatively affecting overall earnings.

Throughput dilution and cannibalisation risk

Rapid station rollout, particularly in newer markets such as Saudi Arabia, may lead to lower utilisation per station, especially during the initial ramp-up phase. Network expansion can also result in partial cannibalisation of existing sites. Lower throughput per station reduces revenue efficiency and delays returns on invested capital, affecting near-term earnings growth. This could weaken return metrics and slow the realisation of value from the expansion strategy.

Geopolitical and macro-driven demand risk

ADNOC Distribution's fuel retail business is structurally defensive; regional geopolitical disruptions, adverse weather, or macroeconomic volatility can temporarily affect mobility patterns, aviation demand, and fuel consumption. Periods of reduced mobility or weaker transport activity could lead to short-term softness in volumes and revenue growth. Although typically temporary, prolonged disruption may affect earnings visibility and increase perceived risk.

Execution risk in non-fuel retail (NFR) and new formats

Growth in higher-margin non-fuel retail depends on improving store productivity, increasing customer conversion, and successfully scaling new formats such as The Hub and EV-enabled mobility hubs. Underperformance in NFR scaling could limit margin expansion and diversification benefits.

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