SAUDI ARABIA DRILLING MARKET UPDATE

Drilling Market Update | May 2025

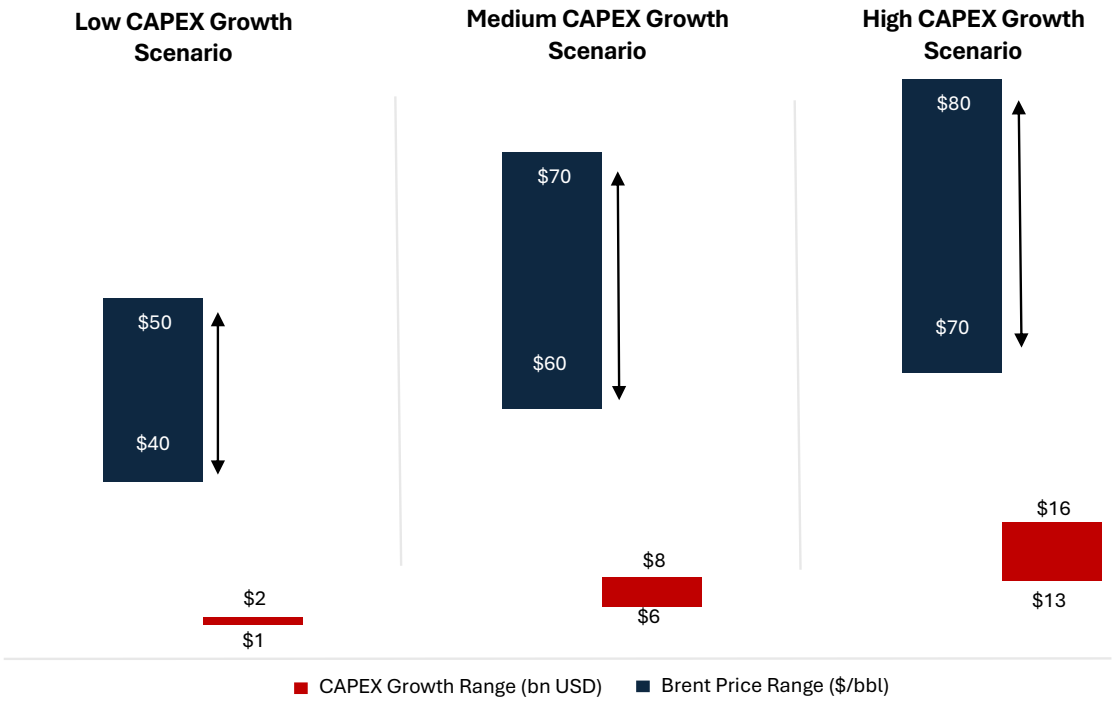
Topic: Upstream drilling
Coverage: Saudi Arabia, GCC

Executive Summary

Saudi Arabia's upstream investment landscape in 2025 is marked by a cautious yet strategic recovery following major rig suspensions in 2024 and a significant $40 billion CAPEX cut. Aramco's organic CAPEX rose sharply from $37.6 billion in 2023 to $50.4 billion in 2024, driven primarily by gas-focused upstream expansion projects, most notably Jafurah and the Master Gas System. CAPEX growth is expected to remain elevated in 2025–2026, supported by the gas expansion momentum, maintenance of the 12 mbpd MSC as OPEC+ unwinds production cuts, and potential redeployments of previously suspended rigs. Three scenarios were developed to assess future CAPEX trajectories:

Scenario	Summary	Brent range	Expected CAPEX growth
Base Case: Medium Growth	The base case assumes that global oil demand fundamentals remain stable but unexceptional, while geopolitical tensions continue to contribute a premium. Chinese demand continues to grow modestly (~200,000 bpd/year), and US shale output slows but does not plateau. OPEC+ unwinds production cuts gradually, allowing Aramco to increase output. Global economic uncertainty, driven by persistently changing US trade and foreign policy, can risk further slowdowns in US shale investments, leaving room for Saudi CAPEX growth. Geopolitically, conflict zones like Iran, Russia, Libya, and Venezuela remain unresolved but without major escalations. Aramco expands its LTA-based contracts while steadily transitioning downstream output focus from transport fuels to petrochemicals.	$60–$70/bbl	$6–$8 billion growth
High CAPEX Growth	In this upside case, short-term geopolitical instability intensifies while supply-side fundamentals deteriorate. US shale production could plateau due to prolonged low prices, contributing to a tighter global supply outlook. OPEC+ proceeds with unwinding production cuts. On the geopolitics side, the US pursues a low-intensity conflict with Iran to prompt further compromises from Iran in negotiations. Escalating conflict between Russia and Ukraine, and the disruption of Libyan and Venezuelan oil exports amplify global supply risks in the short/medium-term. Against this backdrop, Aramco accelerates its upstream and downstream investments, buoyed by strong revenues and the full-scale implementation of its LTA contracting model. This scenario represents a high-risk, high-reward environment that justifies a significant increase in CAPEX, under the assumption that geopolitical escalations between the US and Iran are short-lived, while the other geopolitical events may take longer to de-escalate.	$70–$80/bbl	$13+ billion growth
Low CAPEX Growth	This downside scenario assumes a continued softening in global oil demand and easing of geopolitical risk. Chinese oil consumption plateaus in 2025, and WTI prices fall below $55, halting growth in US shale. OPEC+ fails to complete its production unwind due to market weakness (i.e., demand growth falls faster than supply growth). On the diplomatic front, breakthroughs in US–Iran and Russia–Ukraine talks lead to partial sanctions relief, bringing more supply to market gradually. Aramco's strategy to shift to LTA contracting faces resistance from drillers diversifying away, further slowing upstream expansion. CAPEX growth is marginal and conservative.	$40–$50/bbl	$1–$2 billion growth

Expected CAPEX growth and Brent price range by scenario



The 2024 rig suspensions, affecting 34 offshore and 11 onshore rigs, were partly driven by Aramco's reassessment of its 13 mbpd MSC expansion target. These suspensions served multiple strategic purposes:

1. Redirecting cashflows to dividend obligations amid Saudi Arabia's overspending-induced fiscal budget deficit.
2. Improving investment efficiency through avoiding investment in technically difficult offshore and onshore projects such as Safaniya, Marjan, and Manifa.
3. Initiating a broader shift in Saudi Arabia's contracting environment from day-rate to Long-Term Agreement (LTA) models. These LTAs offer a middle ground between cost certainty for NOCs and reduced risk for drillers, improving both financial and operational efficiency.

Looking forward, supply-side uncertainties, especially involving the US, Russia, Iran, Libya, and Venezuela, may pressure Aramco to resume its suspended greenfield expansions and even revisit its 13 mbpd MSC ambition. However, the cohesion of OPEC+ remains a key variable. Renewed tensions in Russia, combined with increasing OPEC+ output, could trigger a price war similar to the one witnessed in 2020, which has considerable potential to break OPEC+.

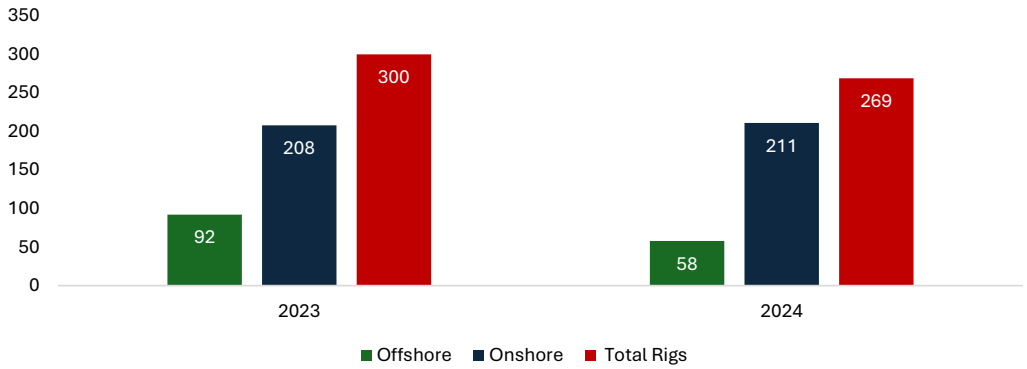
Aramco's gas expansion strategy remains central to its long-term vision. Unlike Qatar and the UAE, which prioritize LNG exports, Saudi Arabia focuses on using natural gas to serve domestic demand and stimulate vertical (e.g., petrochemical production) and horizontal (e.g., blue hydrogen and ammonia production) industrial growth. However, as the persistence of natural gas subsidies continues to distort renewables project economics in the Kingdom, a shift in this policy before 2030 could hurt gas expansion efforts.

Despite the cyclical downturn in the global drilling market, Saudi Arabia and the GCC are expected to remain among the most resilient and active markets worldwide. While Aramco's projected recovery in rig demand reflects renewed optimism, significant structural risks continue to weigh on the sector. These include ongoing global economic uncertainty, subdued offshore activity in Southeast Asia and the Mediterranean, and contractor reluctance to rely exclusively on Saudi Arabia. In the case of the third risk, drillers face a dilemma: while the Saudi market is expected to continue leading global rig demand, last year's abrupt suspensions have prompted a more cautious approach, with many seeking to diversify away from overreliance on Saudi projects. A key strategy that continues to play out in response to these operational uncertainties is the pursuit of fleet and market diversification by drillers through strategic alliances and M&As.

Last Year's Suspensions

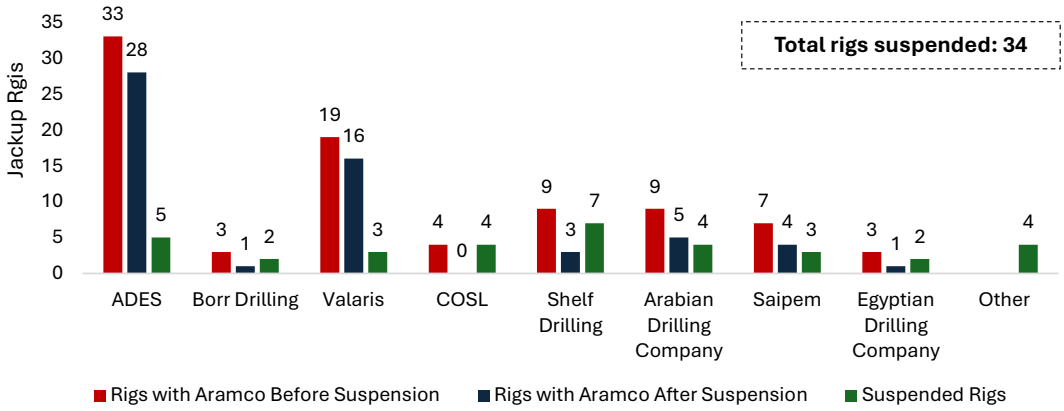
In 2024, we saw around 34 jackup rigs and around 11 onshore rigs suspended by Aramco. These suspensions follow Aramco's decision to backtrack on their 13 mbpd MSC expansion target and a subsequent $40bn CAPEX cut across 4 years. Our latest estimates suggest that the 2024 operational rig count declined by 10.3% led by the offshore rig suspensions, while onshore suspensions were more than offset by the deployment of 13 Arabian Drilling unconventional onshore rigs, for Jafurah's Phase 1 of the expansion project.

Saudi Arabia rig count, 2023–2024



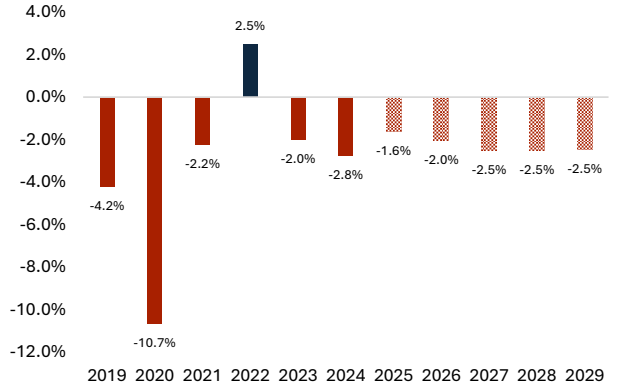
During our analysis from last October, we hypothesized that the reason behind the decision to backtrack on the 13 mbpd expansion target and the $40bn CAPEX cut was not only due to slowing demand, but also as a cashflow rerouting exercise. Cashflows were freed up from what Aramco deemed to be 'inefficient' or 'unsustainable' offshore investments such as expansion projects in Marjan, Manifa, and Safaniya, which the price of oil at the time did not justify the pursuit of these technically challenging expansions. As for the onshore suspensions of 8 KCA Deutag and 3 NBR rigs, these rigs were also associated with the 13 mbpd expansion target and were seen as 'low productivity' investments, thus prompting their suspensions and freeing up more cashflows.

Total suspended offshore rigs in 2024



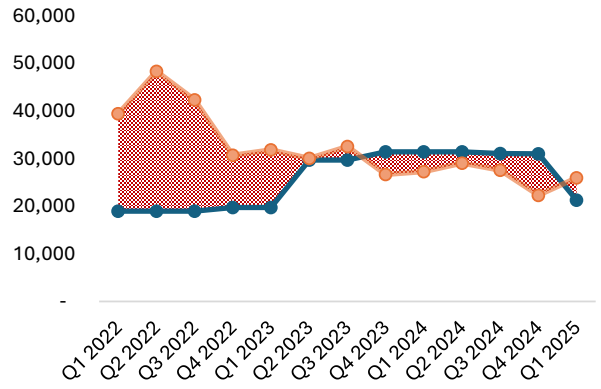
The cashflows were then rerouted towards Aramco's dividends as the Saudi government, which owns around 97.62% of shares in Aramco, needed to further finance their overspending-induced fiscal budget deficit (see figures below). This hypothesis was further reinforced recently as Aramco's Q1 2025 dividends share fell after oil prices dipped and Aramco now plans to enter the debt market to maintain a stable stream of dividends. This supports our initial intuition from last October as Aramco cannot afford to further downscale upstream investments and might have reached an investment efficiency limit, thus having to resort to the debt market to sustain dividends while investing in growth.

National budget balance, share of Saudi GDP (2019–2029E)



Saudi national budget deficit forecasted to average between 2.5–3% of GDP from 2024–2029. This may explain why Aramco cut CAPEX by $40bn for 4 years.

Aramco dividend payouts against net income growth (Q1 2022–Q2 2024)



Saudi dividends consistently remained around 30bn USD between Q2 2023 until Q4 2024, declining by 30% in Q1 2025 due to lower oil prices.

Another reason we previously explored was Aramco's long-term strategy to use the suspensions to reshape the drilling contract environment. For the longest time, contracting between NOCs and drillers in the region was considered inefficient as both parties found it difficult to reconcile between the NOCs' preference of lump-sum turnkey (LSTK) contracts and the drillers' preference of day-rate contracts. NOCs prefer LSTK contracts as they help them manage their costs effectively without risking any cost overruns on projects, whereas drillers dislike it as it levies most of the unexpected cost risks on the drillers. On the contrary, drillers prefer day-rate contracts because they shift most of the cost risk onto NOCs. However, for NOCs, such contracts carry the risk of project cost overruns.

More recently, Aramco has been adopting long-term agreement (LTA) and integrated drilling services (IDS) contracts, both of which serve as middle-ground models that pay based on (1) performance units rather than time units at pre-defined rates, and (2) fixed durations and operational zones. This way, drillers can be safeguarded from uncertain operational, economic, and oil market conditions, whilst also providing a relatively reliable fixed cost estimate for the NOCs. Aramco's suspensions were a way to begin implementing this new contract environment that improves not only the cost efficiency of projects moving forward, but also the time efficiency of creating those contracts.

Post-suspension rig market

One question that continues to linger as we discuss the topic of last year's suspensions is whether Aramco will extend the suspensions or renew the contracts this year. It seems that the OPEC+ production cut unwind has already influenced the redeployment of some suspended offshore fleets such as a rig from ADES in April. However, there are two caveats to the redeployment of the suspended rigs: (1) not all suspended rigs will be redeployed at the existing market conditions and (2) the redeployed rigs will likely be under LTA contracts. Offshore rigs associated with production expansions are unlikely to resume operations, as the unwinding of OPEC+ production cuts alone does not justify returning to the 13 mbpd MSC target. Moreover, the return of ADES's jackup to Aramco's fleet suggests that Aramco aims to bring certain fleets back under an LTA agreement that ensures cost-efficiency for Aramco.

So, what would warrant the return of all the suspended fleets? We believe it hinges on growing supply-side risks from the US, Russia, Iran, Libya, and Venezuela, as these risks may prompt Aramco to return to its 13 mbpd MSC target and ultimately redeploy suspended rigs for expansion projects. From the US's side, falling oil prices are resulting in the slowdown of shale growth, and if US production does plateau, this poses a significant supply-side risk that the market may not see coming. On the geopolitics side, growing uncertainties surrounding diplomatic efforts between Russia and Ukraine, Iran and the US, and Venezuela and the US, may ultimately lead to lower exports from Iran, Russia, and Venezuela due to increased sanctions or even lower production from those countries.

However, it is worth mentioning that one point against the argument above is the cohesion of OPEC+. If Russia faces further sanctions and prices continue to fall, it is unlikely that Russia would support

OPEC+ proceeding with the production cut unwind, as it could lead to unfavourable pricing for Russian crude. On the other hand, Saudi Arabia and other low-cost OPEC+ producers may favour proceeding with the production cut unwind, similar to what occurred in 2020. This could lead to significant tensions within OPEC+, potentially triggering (1) a price war and/or (2) a collapse of the alliance. Under such circumstances, Aramco may hold off on pursuing its 13 mbpd MSC target to preserve OPEC+ cohesion and avoid another price war.

Aramco's Gas Expansion Status and Strategy

Most of Aramco's upstream spending growth has recently been led by their 60% gas expansion plan by 2030. The two-phase expansion of Jafurah has already seen the deployment of 13 rigs from Arabian Drilling in the first phase alone, starting earlier this year. Additional rigs are also being allocated to other newly discovered gas-bearing structures, 10–15% of which are expected to be offshore or transitional.

Despite Aramco's significant progress towards their gas expansion target, their gas strategy significantly differs from its two regional competitors, Qatar and the UAE. Qatar and the UAE aim to increase their LNG production to compete in the growing global export market, whereas Saudi Arabia aims to increase gas production to satisfy its growing domestic market, namely power generation and petrochemical feedstock. This strategy aims to use natural gas production to propel domestic diversification efforts into vertical and horizontal industries.

In the vertical direction, the petrochemical sector seems to be highly complementary to the renewables industry as plastics and other petrochemicals are essential to solar panel, EV, and battery manufacturing. In the horizontal direction, Aramco plans to use gas as feedstock for blue hydrogen and ammonia production, as the global demand market for clean hydrogen and ammonia continues to grow, most notably in East Asia. Aramco seeks to support economic diversification by expanding its gas production capabilities to a level that enables the development of new and diversified export markets.

However, it is worth noting an internal policy dilemma that Saudi Arabia faces with respect to its gas expansion. Despite electricity price reforms in 2022 that eliminated direct subsidies, natural gas feedstock subsidies remain in place at around $1.25 per million BTU. These implicit electricity subsidies prevent solar, wind, and other renewable projects from achieving cost parity with natural gas power generation on a per-watt basis. The decision to keep this subsidy could prevent further domestic diversification efforts into renewables as project economics are less competitive than they should be. On the other hand, if the subsidy is eliminated, power prices may rise and could also hurt domestic demand for natural gas from the power sector. For the time being, this does not seem to be a significant concern for the government; however, the alteration of the subsidy policy before 2030 can hurt Aramco's gas expansion efforts.

Aramco CAPEX Outlook 2025–2026

Despite the uncertain outlook for the oil market and weakening economic conditions in Saudi Arabia in 2024, Aramco's organic CAPEX rose significantly by $12.8 billion, increasing from $37.6 billion to $50.4 billion. This unexpected surge appears to be primarily driven by upstream growth investments, particularly the two-phase expansion of the Jafurah unconventional gas field and continued development of the Master Gas System expansion. In parallel, upstream maintenance CAPEX is also expected to remain elevated in 2025 and 2026, as Aramco sustains its 12 million bpd MSC in anticipation of OPEC+ gradually unwinding production cuts. We describe three possible CAPEX scenarios below:

Base Case: Medium Growth Scenario

In the base case scenario, Chinese demand continues to grow slowly through 2025–2026 but stays above 200,000 barrels per day in annual growth. US shale production also slows but does not reach a plateau, while OPEC+ proceeds with its planned unwinding of production cuts.

Geopolitically, the situation remains tense but controlled. US–Iran and Russia–Ukraine negotiations either stall or progress very slowly, with only minor escalations. Libya continues to face internal instability that puts supply at risk, while Venezuelan exports decline modestly as Chevron cancels contracts due to US sanctions.

Operationally, Aramco continues to push for a shift from day-rate contracts to an LTA-dominated contract environment for new field and facility expansions. Meanwhile, its downstream operations begin transitioning modestly from transport fuels toward petrochemicals. Under these assumptions, oil prices are expected to range between $60 and $70 per barrel, with CAPEX growing by $6–$8 billion year-over-year in 2025.

High CAPEX Growth Scenario

This upside scenario is driven primarily by a threat of supply scarcity caused by geopolitical escalations. Chinese demand trends remain consistent with the base case while US production plateaus in 2025 due to weak prices. OPEC+ continues unwinding production cuts to compensate for plateauing US production and geopolitically induced supply risks.

Geopolitical developments are the most disruptive in this scenario as short-term and isolated geopolitical shocks create a supply-side tightness in the global oil market. In the case of the US–Iran negotiations, the US would team up with Israel to create a low-intensity conflict that weakens Iran and pushes it to the table through a controlled mix of force and diplomacy. The Russia–Ukraine conflict intensifies as diplomatic efforts fail, placing Russian supply at heightened risk from sanctions, physical operational pressures, and weakening Russian upstream investments as the conflict persists. Libyan oil exports halve as the Eastern government sets up an oil blockade (exports drop from $\sim$1 mbpd $\rightarrow$ $\sim$0.5 mbpd, similar to September 2024), forcing European importers to seek alternative sources. Venezuelan exports drop sharply following Chevron's cancellation of production contracts, while territorial disputes between Venezuela and Guyana slowly but steadily escalate, eventually disrupting upstream capital inflows into Guyana.

These geopolitical shocks create an immediate bullish impact on oil prices by amplifying the threat of supply scarcity. However, if such instability persists, the same dynamics could begin to suppress longer-term investments. The threat of infrastructure attacks and enduring political uncertainty, especially in the case of Iran, may erode investor confidence in Saudi Arabia, potentially choking future upstream capital flows.

Operationally, Aramco fully transitions to an LTA-based contract model for new projects, allowing for more efficient upstream investments and drilling activity. The company's downstream strategy also gains traction, effectively shifting toward petrochemical production. Oil prices are expected to rise to the $70–$80 per barrel range under this scenario, and CAPEX could increase by more than $13 billion year-over-year in 2025.

Low CAPEX Growth Scenario

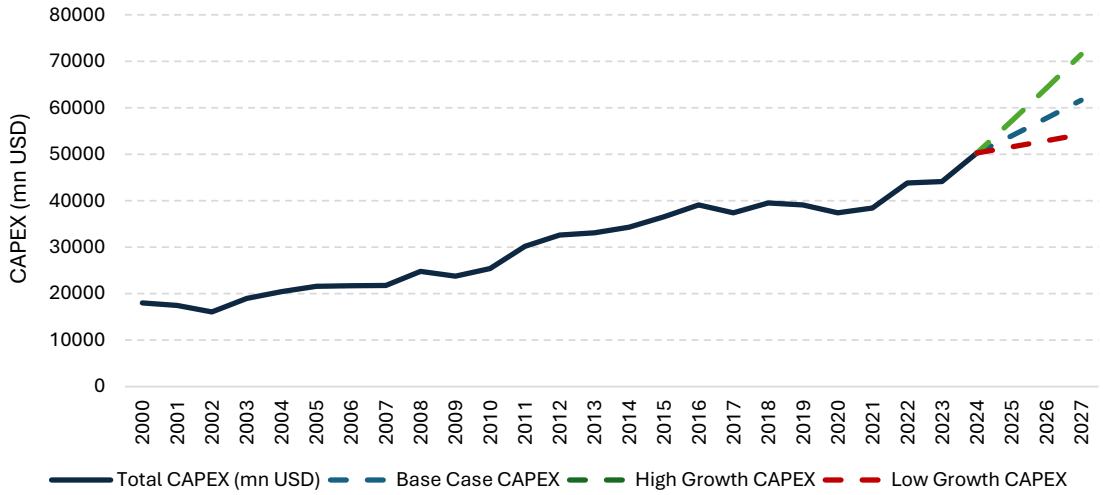
In the downside scenario, global oil demand continues to underperform while geopolitical tensions de-escalate. Chinese demand is projected to peak by 2025, as suggested by CNPC forecasts. Meanwhile, US shale production plateaus as WTI prices fall below the $55 per barrel range.

Geopolitical tensions are more stable and optimistic in this case. Breakthroughs in US–Iran and Russia–Ukraine negotiations bring partial sanctions relief and reduce geopolitical risk. Libya achieves political agreement between its Eastern and Western governments, improving internal stability and oil output reliability. Venezuela's dispute with Guyana is also de-escalated, conditioned by Venezuela's sanctions relief, prompting a gradual return of oil to market. OPEC+ deepens production cuts as geopolitical drivers shift from threatening supply growth to raising concerns of an oversupplied market.

On the operational front, Aramco's push toward an LTA-focused contract model sees mixed results. Resistance from drillers, some of whom begin forming alliances to diversify away from the Saudi drilling market, limits the full implementation of this model. Oil prices in this scenario range between $40 and $50 per barrel, with a conservative CAPEX increase of just $1–$2 billion year-over-year in 2025.

Category	Base Case: Medium Growth	High CAPEX Case	Low CAPEX Growth Case
Market drivers	• Chinese demand steady (~200 kb/d) • US shale slows but doesn't plateau • OPEC+ cut unwind proceeds • US economic uncertainty deters US oil expansion investments	• Either Chinese demand improves or US output plateaus • OPEC+ continues unwind • Global demand recovery	• Chinese demand peaks (CNPC) • US production plateaus before reaching 14 mbpd • OPEC+ deepens production cuts
Geopolitical drivers	• Stalled US–Iran and Russia–Ukraine talks • Libyan supply at risk due to growing internal tensions • Chevron cancellation of contracts in Venezuela leads to lower exports	• US–Iran talks fail; Russia–Ukraine war escalates • Libyan output halts • Chevron exits Venezuela, significantly hurting Venezuelan production • Investment risk in Guyana (Essequibo) as territorial tensions with Venezuela grow	• US–Iran reach deal • Russia–Ukraine de-escalates • Libya achieves political agreement • Venezuela–Guyana conflict de-escalates
Operational drivers	• Aramco expands LTA use • Modest downstream pivot to petrochemicals	• Full LTA transition • Downstream petrochemicals expansion gains momentum	• LTA plan faces challenges • Drillers diversify away from Saudi Arabia
Oil price range	$60–$70/bbl	$70–$80/bbl	$40–$50/bbl
CAPEX impact (Y-o-Y)	$6–$8 billion growth	$13+ billion growth	$1–$2 billion growth

Aramco CAPEX growth scenario forecast (2000–2027E)



Drilling Market Implications

In both the base case and the high CAPEX growth case, one major implication for drillers is that Saudi Arabia remains the global leader in onshore and jackup rig demand. Four primary factors underpin this implication: (1) Aramco gaining momentum with their gas expansion, (2) OPEC+ production cut unwind resulting in increased Saudi output, (3) growing risks of a tight supply market due to increasingly uncertain geopolitical events related to key OPEC+ members and weakening US production growth, and (4) weakening offshore rig utilization and demand from Mediterranean and South East Asian markets.

However, despite Aramco's expected rig demand recovery, the broader drilling market faces significant short-to-medium-term challenges:

1. **Global economic uncertainty**, which continues to weigh on upstream investment appetite, particularly outside core regions such as the GCC and South America.

2. **Overreliance dilemma**, where on one hand, with the Saudi drilling market expected to recover, drillers that commit to a long-term presence are well positioned to benefit from medium-term upside as rig demand stabilizes. However, caution surrounding overreliance on Aramco means this strategy is not without risk (see Appendix). On the other hand, a reactive shift away from Saudi Arabia, driven by concerns following last year's suspensions, also carries significant downside, potentially missing out on market stability and growth from the Saudi market.
3. **Declining rig utilization in the Southeast Asian and Mediterranean markets**, where rigs often remain idle despite active contracts, putting sustained financial pressure on drillers and limiting the attractiveness of these markets for expansion.

Considering these structural market challenges, drillers cannot realistically pursue full diversification away from Saudi Arabia on an individual basis, nor can they afford to individually commit entirely to the Saudi drilling market. Instead, a more viable approach lies in collective diversification. By forming alliances with other contractors, drillers can distribute regional risk, enhance operational resilience, and better capture opportunities in more stable, demand-driven markets. This way, a driller with strong positioning in Saudi Arabia can share both the risks and benefits with a partner that holds a strategic presence in other global markets, and vice versa.

A recent example that may reflect this strategic direction is the MOU signed between Shelf Drilling and Arabian Drilling. Shelf Drilling, which had seven rigs suspended by Aramco in 2024, offers international market access that could enable Arabian Drilling to extend its operations beyond Saudi Arabia. Conversely, Arabian Drilling's established position in the Saudi jackup market provides Shelf Drilling with access to the world's most active and strategic market. Such partnerships could serve as templates for broader fleet and market diversification strategies within the drilling sector.

Beyond strategic alliances, drillers may also consider M&As as a mechanism to achieve broader risk diversification and operational resilience. The market recently witnessed the following transactions that target fleet diversification and market consolidation:

- ADNOC Drilling diversifying within the GCC region through acquiring a 70% stake in SLB's onshore rig operations in Oman and Kuwait.
- Saipem and Subsea7 merge to create Saipem7 to diversify their fleet, operations, and technologies within the global market.
- Noble and Diamond merger to consolidate offshore market day rates in a low-price environment.

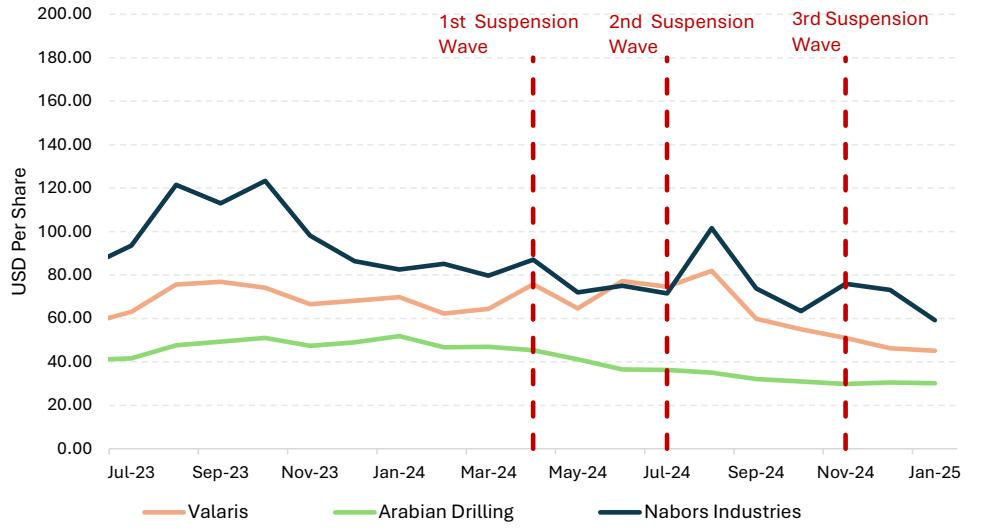
It is worth noting that the effectiveness of a collective diversification strategy depends heavily on the contracting environment across the regions where drillers operate. In typical day-rate contract environments, the benefits of risk-sharing tend to outweigh the downside of splitting revenues, particularly as drillers use this strategy to consolidate and gain greater pricing leverage in tighter markets. Conversely, in regions where safer LTA-based contracts dominate, the risk of sudden rig suspensions is significantly lower, but LTA rates are likely lower than those of day-rate contracts. In such cases, the trade-off of sharing profits may outweigh the advantages of distributed risk. This dynamic further supports the view that Aramco's 2024 rig suspensions and its accelerating shift toward LTA contracts were strategic moves aimed at preserving cost control and strengthening bargaining power amid shifting market conditions.

Appendix: Impact of Suspensions on Driller Valuation

Drillers impacted during each suspension wave

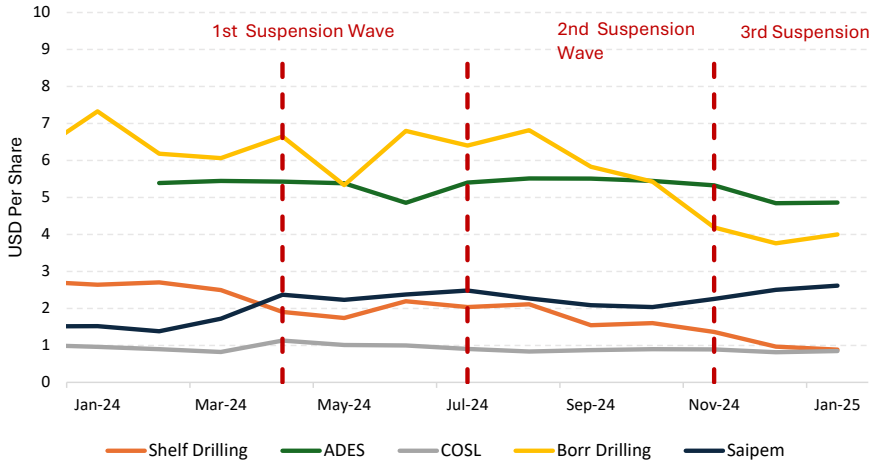
- **Wave 1:** Valaris, Arabian Drilling, ADES, COSL, Borr, Shelf
- **Wave 2:** Valaris, Saipem
- **Wave 3:** Nabors, Borr, Shelf

Valaris, Arabian Drilling, and Nabors Industries: financial market performance before and after Aramco's rig suspensions



Following the first wave of rig suspensions, Valaris and Arabian Drilling saw their share prices decline by 15% and 9%, respectively. Valaris experienced a further 3% drop in share value after the second wave of suspensions, indicating sustained market sensitivity to Aramco's actions. In contrast, Nabors' share price rose by 20% despite the suspension of three onshore rigs, suggesting a greater degree of resilience to Aramco-driven disruptions compared to both Valaris and Arabian Drilling.

ADES, COSL, Borr Drilling, Shelf Drilling and Saipem: financial market performance before and after Aramco's rig suspensions



After the first wave of rig suspensions, ADES shares declined by 1%, COSL by 11%, Borr Drilling by 20%, and Shelf Drilling by 9%. Saipem's share price fell by 9% following the second wave. The third suspension wave saw Borr and Shelf Drilling experience further declines of 16.5% and 22%, respectively. However, ADES and COSL were able to mitigate some of the adverse impacts on their share prices through prompt relocation contracts, which provided a buffer against the fallout.