

ADNOC Distribution (ADNOCDIST)

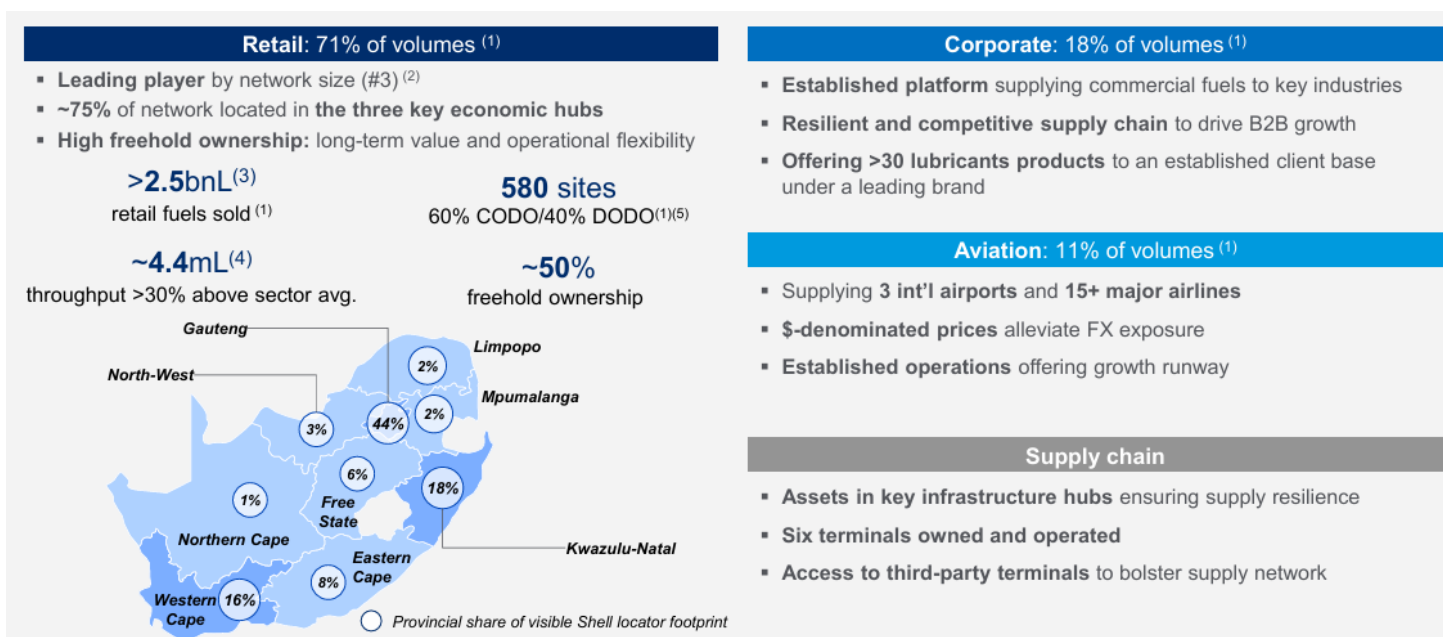
Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.94	AED 4.70	+19.3%	BUY

Shell Downstream South Africa (SDSA) Acquisition Summary:

- ADNOC Distribution announced the acquisition of 100% of Shell Downstream South Africa (SDSA) at an implied Enterprise Value of USD 1 Bn, with the transaction expected to close in 2027 upon receiving regulatory approvals.
- Following completion, ADNOC Distribution plans to divest a 28% stake to a local B-BBEE partner and Employee Share Ownership Plan (ESOP), resulting in a 72% ownership in SDSA.
- The acquisition represents ADNOC Distribution's largest international expansion, strengthening its footprint in Africa while advancing its strategy of becoming a global mobility and convenience retailer.
- SDSA operates 580 fuel stations, 360 convenience stores, commercial fuels, aviation, marine and lubricants businesses, with annual fuel sales of c. 3.5 Bn litres.
- South Africa becomes ADNOC Distribution's fourth operating market, complementing its existing presence in the UAE, Saudi Arabia and Egypt.
- The acquisition is expected to increase ADNOC Distribution service station network by 55%, convenience stores by 70% and fuel volumes by 20%, significantly expanding its international operating platform.
- SDSA is one of South Africa's leading fuel retailers with 120+ years of operating history, benefiting from a well-established brand and strategically located retail network. The Company derives 71% of its fuel volumes from retail operations, with commercial fuel and aviation contributing 18% and 11%, respectively, supporting earnings diversification.
- SDSA operates with fuel throughput over 30% above the industry average, reflecting premium site locations and strong customer traffic.
- SDSA's c. 50% of the retail network is situated on freehold land, while 60% of stations operate under the Company-Owned Dealer-Operated (CODO) model, supporting long-term value creation and higher margin capture.
- ADNOC Distribution expects EBITDA and Net Profit to increase by c.13% and c.6%, respectively, in the first full year following completion, making the transaction immediately earnings accretive.
- According to the ADNOC Distribution, the SDSA acquisition is being executed at an attractive valuation of c.6x EV/EBITDA, implying an estimated 15% free cash flow yield and returns above the Company's investment hurdle rate.
- Funding will comprise ADNOC Distribution resources, SDSA-level ZAR-denominated non-recourse debt, and financing from the local empowerment partner, limiting balance sheet risk. Despite this, ADNOC Distribution expects Net Debt/EBITDA to remain below 1.2x, supported by strong post-acquisition cash generation and a defined deleveraging plan.
- ADNOC Distribution also highlighted South Africa's regulated fuel pricing framework as a key attraction, with regulated margins and monthly fuel price adjustments supporting stable earnings and mitigating inflation and foreign exchange volatility.
- ADNOC Distribution identified USD 30-40 Mn of incremental annual EBITDA potential by Year 5 through fuel retail optimisation, non-fuel retail expansion, commercial customer growth and supply chain efficiencies.
- ADNOC Distribution plans to leverage its proven UAE retail capabilities, including food & beverage expansion, digital marketing, loyalty programmes and AI-driven category management, to enhance convenience retail performance across SDSA.
- The commercial fuels business provides additional growth opportunities through deeper penetration of mining, logistics and industrial customers, supported by ADNOC's regional supply chain capabilities.

- SDSA will continue operating under the Shell brand through a long-term licensing agreement, ensuring customer continuity while significantly reducing execution and integration risks.
- Integration is expected to be supported by SDSA's experienced local management team alongside ADNOC Distribution's executives with prior South African operating experience, strengthening execution certainty.
- ADNOCDIST expects the transaction to support long-term dividend growth by enhancing earnings, free cash flow generation and geographical diversification while remaining consistent with its disciplined capital allocation strategy.

Target Overview:



¹As of 2025, ²Derived from publicly available website disclosures of South African fuel distribution players, ³Implied based on c.4.4mL throughput and 580 sites, ⁴Company information, ⁵Company Owned - Dealer Operated; Dealer Owned - Dealer Operated

Expected Financial Impact Post Acquisition:

	(1)	(2)
EBITDA	\$1,166m	c. +13% ⁽³⁾
Net profit	\$761m	c. +6% ⁽³⁾
Net debt/EBITDA ⁽⁴⁾	0.7x	<1.2x ⁽³⁾

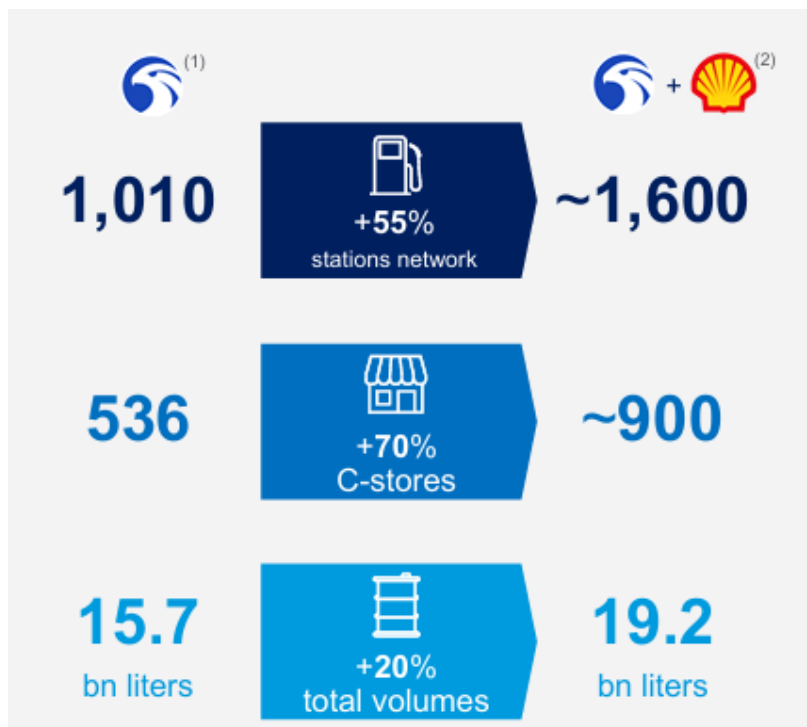
¹As of 2025, ²SDSA, ³Expected Year 1 post-closing impact, ⁴Pre IFRS 16

Overview of Transaction Structure:

Transaction structure	<ul style="list-style-type: none"> Acquisition of 100% in Shell Downstream South Africa (SDSA) with a subsequent sell-down of a 28% stake to a local empowerment partner and ESOP ⁽¹⁾ post-closing in line with local regulation ADNOC Distribution to ultimately own a majority stake of 72% in Shell Downstream South Africa (SDSA)
Transaction funding ⁽²⁾	<ul style="list-style-type: none"> Efficient combination of ADNOC Distribution's financing resources, SDSA-level ZAR-denominated non-recourse debt with net debt/EBITDA of ~2x at SDSA level, as well as local partner financing Post-transaction, ADNOC Distribution's net debt to EBITDA to remain under 1.2x
Branding	<ul style="list-style-type: none"> Long-term branding agreement to continue operating Shell's established globally-recognized brand with more than 120 years of presence in South Africa
Conditionality	<ul style="list-style-type: none"> Transaction is subject to customary regulatory conditions, other conditions precedent and closing conditions
Anticipated completion	<ul style="list-style-type: none"> Anticipated acquisition implementation date (transaction becomes effective): 2027 Envisaged timeline is in line with precedent transactions in South Africa

¹ Employee Share Ownership Plan, ² Funding sources and uses subject to closing accounts adjustment

Strategic impact and scale:



¹As of end of 2025, ²SDSA

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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