

ADNOC Distribution

Rise in fuel volumes and new station expansion support top-line

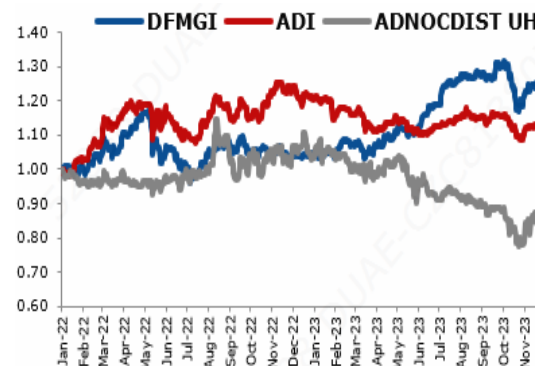
Current Price
AED 3.58

Target Price
AED 4.46

Upside/Downside (%)
+25%

Rating
BUY

- ADNOC Distribution aims to pay a minimum dividend of USD 350 Mn for April 2024 and a minimum of 75% of the distributable profit from 2024 onwards, according to the recently updated dividend policy
- ADNOC Distribution expects to have c.50 super-fast EV charging stations from 40 stations in 3Q23 to meet EV customer demand by the end of FY2023.
- Total fuel volume rose 5.4% QOQ to 3.6 Bn litres in 3Q23. Revenue grew 4.5% YOY to AED 8.9 Bn supported by growth in fuel volume and higher non-fuel retail segment contribution.
- ADNOC DIST's operational efficiency improved across all the business units led to a decrease in OPEX by 5.4% YOY despite a 7% increase in the Company's network in the UAE and KSA.
- The Company maintained a strong financial position at the end of September 2023 with ample liquidity of AED 6 Bn in the form of cash and unutilised credit facility.



3Q23 Net Profit higher than our estimate

ADNOC Distribution's (ADNOC DIST/the Company) net profit rose 9.0% YOY to AED 835 Mn in 3Q23, higher than our estimate of AED 563 Mn. The rise in net profit is mainly driven by double-digit growth in fuel volume, growth in non-fuel transactions, higher contribution from international operations, and efficiency improvements as well as a positive impact of inventory gains. Excluding the effect of inventory movements net profit declined 7.6% YOY to AED 608 Mn in 3Q23 due to a change in the useful life of assets in 3Q22. This change resulted in a reduction in depreciation charge in 9M22 with a full impact reflected in 3Q22.

P&L Highlights

ADNOC Distribution's revenue rose 4.5% YOY to AED 8,935 Mn. The growth is primarily driven by higher fuel volumes, growing contribution of non-fuel retail business and consolidation of TotalEnergies Marketing Egypt, partially offset by lower selling prices due to lower crude oil prices. The company's total fuel volumes increased 54.1% YOY to 3,578 Mn litres in 3Q23 mainly attributable to the integration of TotalEnergies into the company's operational framework. Within the GCC region, total fuel volume rose 20.7% YOY to 2,803 Mn litres in 3Q23 owing to economic activity, mobility, and network expansion. Retail fuel volume across GCC and Egypt rose 55.5% to 2,461 Mn litres and commercial volume grew 51.2% YOY to 1,117 Mn litres in 3Q23. The growth in retail fuel volume is owing to low double-digit growth in GCC and the consolidation of the operation of TotalEnergies Egypt. While Commercial fuel volume rose led by growth in corporate and aviation segments in GCC, in addition to the consolidation of the operation of TotalEnergies.

Stock Information

Market Cap (AED, mm)	44,750.00
Paid Up Capital (mm)	1,000.00
52 Week High	4.72
52 Week Low	3.24
3M Avg. daily value (AED)	27,621,710

3Q23 Result Review (AED, mm)

Total Assets	18,305
Total Liabilities	15,416
Total Equity	2,889
EBITDA	1,111
Net Profit	835

Financial Ratios

Dividend Yield (12m)	5.75
Dividend Pay-out (%)	93.55
Price-Earnings Ratio(x)	19.09
Price-to-Book Ratio (x)	16.00
Book Value (AED)	0.22
Return-on Equity (%)	80.55

Stock Performance

5 Days	-3.50%
1 Months	6.87%
3 Months	-6.77%
6 Months	-13.11%
1 Year	-17.89%
Month to Date (MTD%)	6.55%
Quarter to Date (QTD%)	-4.53%
Year to Date (YTD%)	-18.82%

The retail revenue segment rose 3.1% YOY to AED 6,026 in 3Q23 despite lower pump prices and mainly supported by higher volumes, strong growth in non-fuel retail revenue and consolidation of TotalEnergies Marketing Egypt. The revenue from the fuel retail segment rose 2.0% YOY further supported by strong growth in a non-fuel retail segment which rose 25.4% YOY in 3Q23. Additionally, commercial segment revenue grew 7.4% YOY to AED 2,909 Mn mainly due to 1.5% YOY growth in revenue from the corporate segment and partially offset by a strong growth of 70.9% YOY in the aviation segment. ADNOC DIST's gross profit rose 29.9% YOY to AED 1,659 Mn in 3Q23 supported by higher fuel volumes and growth in non-fuel retail business. In addition, the Company also recorded an inventory gain of AED 228 Mn in 3Q23 (AED 177 Mn in fuel retail and AED 51 Mn in commercial business) compared to AED 109 Mn in 3Q22. As a result, the gross margin expanded from 14.9% in 3Q22 to 18.6% YOY in 3Q23. Distribution and administrative expenses rose 50.9% YOY to AED 729 Mn in 3Q23 due to the significant growth in expenses across all heads. Excluding the change in accounting effect of depreciation, distribution and administrative expenses rose 29.7% YOY to AED 560 Mn in 3Q23. Impairment and other expenses rose from AED 3 Mn in 3Q22 to AED 17 Mn in 3Q23. As a result, operating profit rose 15.4% YOY to AED 942 Mn in 3Q23 with an expansion in operating profit margin from 8.2% in 2Q23 to 10.5% in 3Q23. Depreciation charges rose 228.0% to AED 169 Mn in 3Q23. Furthermore, EBITDA rose 28.0% YOY to AED 1,111 in 3Q23 with an EBITDA margin of 12.4% in 3Q23 as compared to 10.2% in 3Q22 supported by the higher fuel volumes, as well as higher inventory gains in 3Q23 compared to 3Q22. In addition, interest income declined from AED 32 in 3Q22 to AED 28 in 3Q23 while interest expenses rose from AED 82 Mn in 3Q22 to AED 109 Mn in 3Q23 due to higher benchmark rates. Furthermore, income tax expenses and profit attributable to non-controlling interest holders amounted to AED 11 Mn and AED 15 Mn, respectively in 3Q23 dragging profitability.

Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents stood at AED 3.2 Bn in 3Q23 in addition to an unutilized credit facility of AED 2.8 Bn. This combined availability of AED 6.0 Bn reflects the Company's strong liquidity position. ADNOC DIST's borrowings remained flat at AED 5.5 Bn in 3Q23. Net debt to EBITDA ratio stood at 0.67x in 3Q23 as compared to 1.13x in 2Q23. The company's CAPEX declined 16.4% to AED 620 Mn in 9M23. Around 70% of the Company Capex is been utilized for the growth plans which comprises of development and construction of new service stations. ADNOC DIST cash from operating activities rose from AED 370 Mn in 2Q23 to AED 1,699 Mn in 3Q23 while free cash flow rose from AED 174 Mn in 2Q23 to AED 1,447 Mn in 3Q23. Furthermore, the Company paid a dividend of AED 1.285 Bn in 1H23 and further expects to pay a dividend of AED 1.29 Bn in 2H23 subject to the discretion of the board and shareholders' approval.

Target Price and Rating

We maintain our BUY rating on ADNOC Distribution with a revised target price of AED 4.46. ADNOC DIST achieved a substantial operational performance characterized by notable revenue expansion, also underpinned by the strategic acquisition of TotalEnergies Marketing Egypt. This acquisition yielded significant results, as evidenced by a noteworthy 40.5% YOY surge in the Company's fuel volume, and 10,118 Mn liters in 9M23. Within this volume, retail fuel experienced a robust growth of 44.6%, while commercial fuel volume witnessed an increase of 32.0%. These promising outcomes can predominantly be attributed to the successful integration of TotalEnergies Marketing Egypt into the Company's portfolio. ADNOC DIST's total stations network count reached 828 in 3Q23 of which 518 stores are in UAE, 67 in KSA and 243 in Egypt. In 9M23 it opened 28 new stations and outlined its strategic projection to establish an additional 25-35 new stations in 2023 across its network. ADNOC DIST added 20 new stations in UAE and four new stations in Dubai to reach 518 stations. Further, it continued to execute its plan in KSA with 67 stations in 9M23. Similarly, the Company's convenience stores stood at 355 in 9M23 in UAE. Furthermore, ADNOC DIST is dedicated to maintaining its strategic focus and enhancing its convenience store offerings. The Company's continuous commitment to optimizing and revitalizing the convenience store experience led to its consistent customer-centric initiatives and objectives. It modernized over c.210 ADNOC Oasis stores in 2020-9M23 by offering fresh food, barista-brewed coffee and a wider menu selection. Moreover, it accelerated its operations and businesses to remain a cost-effective fuel-retailer. The Company incurred a capex of AED 620 Mn in 9M23 and utilizes around 70% of the capex to support the future growth plans. Additionally, it also plans to evaluate international opportunities with an emphasis on

effective capital allocation towards growth. ADNOC also maintains a healthy financial position and generated free cash flow of AED 1,447 Mn in 3Q23 with a strong liquidity position of AED 6 Bn in the form of AED 3.2 Bn in cash and cash equivalent and AED 2.8 Bn in unutilized credit facility. The strong liquidity position will help provide the Company to support its potential future international expansions through its value-accretive transactions. ADNOC Distribution also plans to operate its first high-speed hydrogen refueling stations in the Middle-east by the end of 2023. Additionally, the board of directors sanctioned an appealing dividend policy, encompassing a minimum disbursement of AED 2.57 Bn in 2023. Beyond 2023, the dividend policy sets out a minimum 75% of distributable profits per year, subject to the discretion of the board and shareholders' approval. Consequently, the Company further anticipates to disburse an interim dividend of AED 1.29 Bn in 2H23 subject to board approvals and remains consistent with the Company's established dividend framework. Thus, based on our analysis, we assign BUY rating on the stock.

ADNOC Distribution - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	21.3	21.0	18.9	20.1	16.5	18.0
PB (x)	12.7	12.7	13.2	14.1	13.1	12.9
EV/EBITDA	20.2	20.0	18.7	20.0	16.1	16.8
Dividend yield (%)	3.2%	5.3%	5.7%	5.7%	5.7%	5.7%

FABS Estimates & Co Data

ADNOC Distribution – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY	QOQ	2022	2023F	Chng
Revenue	8,551	8,132	8,935	7,928	12.7%	4.5%	9.9%	32,111	34,136	6.3%
Direct costs	-7,274	-6,744	-7,276	-6,580	10.6%	0.0%	7.9%	-26,443	-28,333	7.1%
Gross profit	1,277	1,388	1,659	1,348	23.1%	29.9%	19.5%	5,668	5,803	2.4%
Other income	26	29	29	24	22.2%	10.2%	-0.7%	103	119	15.6%
Distribution & admin exp.	-483	-737	-729	-694	5.1%	50.9%	-1.1%	-2,762	-2,970	7.5%
Impairment & other exp.	-3	-14	-17	-8	109.6%	NM	16.7%	-36	-41	13.2%
Operating profit	817	666	942	670	40.7%	15.4%	41.6%	2,973	2,912	-2.1%
Depreciation & Amortization	51	186	169	124	35.8%	228.2%	-9.1%	544	671	23.3%
EBITDA	868	851	1,111	794	39.9%	28.0%	30.5%	3,517	3,582	1.9%
Interest income	32	16	28	16	74.1%	-14.5%	68.1%	55	75	37.3%
Interest expenses	-82	-112	-109	-118	-7.6%	32.8%	-2.2%	-280	-449	60.6%
Income tax	0	-8	-11	-5	137.6%	NM	29.5%	0	-28	NM
Non-controlling interest	0	11	15	0	NM	NM	NM	0	45	NM
Net Profit	767	551	835	563	48.3%	9.0%	51.5%	2,749	2,465	-10.3%

FABS estimate & Co Data

ADNOC Distribution - Margins

	3Q22	2Q23	3Q23	YOY	QOQ	2022	2023F	Chng
Gross margin	14.9%	17.1%	18.6%	363	150	17.7%	17.0%	-65
EBITDA margin	10.2%	10.5%	12.4%	228	197	11.0%	10.5%	-46
Operating margin	9.6%	8.2%	10.5%	100	236	9.3%	8.5%	-73
Net profit margin	9.0%	6.8%	9.4%	38	257	8.6%	7.2%	-134

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value ADNOC Distribution. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.66	70.0%	3.26
Relative Valuation (RV)	4.01	30.0%	1.20
Weighted Average Valuation (AED)			4.46
Current market price (AED)			3.58
Upside/Downside (%)			+25%

1) DCF Method:

ADNOC Distribution is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It is arrived after using cost of equity of 8.3% and cost of debt of 5.9%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 0.91 and equity risk premium of 3.4%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	12,762
Terminal value (AED, Mn)	49,622
FV to Common shareholders (AED, Mn)	58,263
No. of share (Mn)	12,500
Current Market Price (AED)	3.58
Fair Value per share (AED)	4.66

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT	2,912	3,503	3,521	3,612	3,708
Depreciation & Amortization	671	740	730	738	735
(-) Capex	-956	-912	-719	-730	-727
(-) Change in Working Capital	151	105	392	252	289
Free Cash Flow to Firm (FCFF)	309	3,436	3,924	3,872	4,004
Discounting Factor	0.99	0.92	0.85	0.79	0.73
Discounted FCFF	306	3,154	3,336	3,048	2,918

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value ADNOC Distribution and it is valued using the EV/EBITDA multiple. We have applied a premium to peer valuation as the company stands at a leading position in UAE's fuel and convenience retail segment. In addition, the ADNOC group guarantees minimum fuel margins eliminating the risk of volatility in global oil prices. It is valued at EV/EBITDA multiple of 15.1x compared to the peer multiple of 12.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
UGI Corp	5,097	3.1	2.9	-43.1	7.9
Petronas Dagangan	4,922	12.1	11.7	24.7	23.9
Murphy USA	6,495	8.8	8.7	14.3	13.8
PTG Energy	487	6.9	6.2	14.1	11.6
Aldrees Petroleum	2,421	13.8	12.2	30.5	22.6
Qatar Fuel Company	4,488	12.7	10.3	16.8	14.0
Average		10.9x	9.8x	20.1x	17.2x
Median		12.1x	10.3x	16.8x	14.0x
Max		12.7x	11.7x	24.7x	22.6x
Min		8.8x	8.7x	14.3x	13.8x

Source: FAB Securities

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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