

ADNOC Distribution

Robust growth in fuel volume and higher contribution from non-fuel retail business boosted profitability

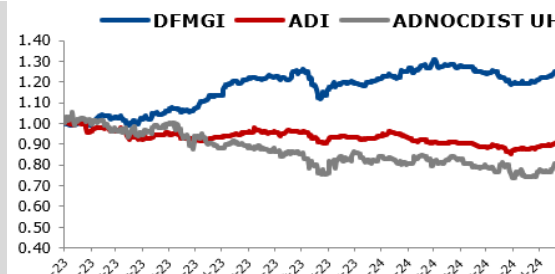
Current Price
AED 3.41

Target Price
AED 4.46

Upside/Downside (%)
+31%

Rating
BUY

- ADNOC DIST total Revenue grew 8.0% YOY to AED 8.8 Bn in 2Q24. Total fuel volumes rose 4.1% YOY to 3.53 Bn liters in 2Q24.
- ADNOC DIST generated a free cash flow of AED 1.2 Bn in 2Q24 compared to AED 174 Mn in 2Q23.
- The convenience store conversion rate grew 130 bps YOY to 26.1% in 2Q24.
- The Company added 14 EV charging stations in 2Q24, totaling its existing EV charging fleet to 104. Moreover, it aims to add more 50 to 100 stations by the end of FY2024.
- ADNOC DIST announced a dividend of USD 350 Mn / 10.285 fils per share for 1H24, which is expected to be distributed in October 2024 subject to board approval.



2Q24 Net Profit in line with our estimate

ADNOC Distribution's (ADNOC DIST/the Company) net profit rose 12.9% YOY to AED 623 Mn in 2Q24, in line with our estimate of AED 619 Mn. The rise in net profit is mainly attributable to growth in revenue driven by an increase in fuel volumes, higher contribution from non-fuel business and higher inventory gain compared to 2Q23. The increase in net profit is partially offset by an increase in impairment expense coupled with tax expense in 2Q24 due to introduction of corporate tax in UAE since FY2024.

P&L Highlights

ADNOC Distribution's revenue rose 8% YOY to AED 8,784 Mn in 2Q24 mainly attributed to an increase in fuel volumes & selling prices due to higher energy prices coupled with higher contribution from the non-fuel retail segment. The company's total fuel volumes grew 4.1% YOY to 3.53 Bn liters in 2Q24 owing to strong economic activity in KSA and UAE, network expansion and higher network traffic. Revenue for the Retail segment rose 7.2% YOY to AED 6,056 Mn in 2Q24 mainly due to higher fuel volumes & prices and strong contribution from the non-fuel retail revenue further supported by the increased pump to convenience store conversion rate. Revenue from the non-fuel retail segment rose 13.2% YOY to AED 385 Mn in 2Q24 owing to growth in non-fuel transactions mainly driven by the introduction & upgradation of car wash, upgradation of convenience stores, improvement in consumer sentiment and enhanced consumer offerings after the refurbishment of convenience stores, which in turn led to higher footfalls and increased conversion rate. Likewise, revenue from the commercial segment grew 9.9% YOY to AED 2,728 Mn in 2Q24, which was supported by higher volume and prices. The Company's gross profit grew 11.1% YOY to AED 1,541 Mn in 2Q24. ADNOC DIST also recorded inventory gains of AED 128 Mn in 2Q24 compared to a gain of AED 74 Mn in 2Q23.

Stock Information

Market Cap (AED, mm)	42,625.00
Paid Up Capital (mm)	1,000.00
52 Week High	3.95
52 Week Low	3.24
3M Avg. daily value (AED)	30,557,360

2Q24 Result Review (AED, mm)

Total Assets	19,033
Total Liabilities	15,457
Total Equity	3,576
EBITDA	979
Net Profit	623

Financial Ratios

Dividend Yield (12m)	6.03
Dividend Pay-out (%)	98.84
Price-Earnings Ratio(x)	15.87
Price-to-Book Ratio (x)	12.83
Book Value (AED)	0.27
Return-on Equity (%)	81.76

Stock Performance

5 Days	2.10%
1 Months	0.59%
3 Months	0.59%
6 Months	-7.84%
1 Year	-13.23%
Month to Date (MTD%)	-4.48%
Quarter to Date (QTD%)	0.59%
Year to Date (YTD%)	-7.84%

Thus, the gross margin expanded 47 bps YOY to 17.5% in 2Q24. The Company's other income declined 11.1% YOY to AED 26 Mn in 2Q24. Distribution and administrative expenses grew 2.5% YOY to AED 756 Mn in 2Q24 mainly due to the increase in the Company's network across UAE & KSA and associated costs. Impairment and other expenses increased 59.6% YOY to AED 23 Mn in 2Q24. Moreover, operating profit grew 18.4% YOY to AED 788 Mn in 2Q24. The operating profit margin rose 79 bps YOY to 9.0% in 2Q24. D&A charges rose 2.8% YOY to AED 191 Mn in 2Q24. Furthermore, EBITDA rose 15.0% YOY to AED 979 in 2Q24 with an EBITDA margin of 11.1% in 2Q24 compared to 10.5% in 2Q23 supported by improved operational efficiency and inventory gains in 2Q24. In addition, ADNOCDIST's interest income doubled from AED 16 Mn in 2Q23 to AED 32 Mn in 2Q24. Interest expense remained almost flat at AED 113 Mn in 2Q24. The Company incurred income tax expense of AED 74 Mn in 2Q24 compared to AED 8 Mn in 2Q23 due to the introduction of UAE corporate tax in FY2024.

Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents, excluding term deposits stood at AED 3.2 Bn in 2Q24 compared to AED 3.4 Bn in 1Q24 along with an unutilized credit facility of AED 2.8 Bn leading to a strong liquidity position of AED 6 Bn in 2Q24. ADNOCDIST's borrowings remain flat at AED 5.5 Bn in 2Q24 compared to 1Q24. Net debt to EBITDA ratio stood at 0.53x in 2Q24 compared to 0.50x in 1Q24. The company's CAPEX declined to AED 370 Mn in 1H24 from AED 384 Mn in 1H23. The Capex incurred by the Company is spent on constructing new service stations, upgrading existing service stations and purchasing machinery and equipment. Moreover, the management estimates a capex expenditure of AED c.0.9 to 1.1 Bn during FY2024, out of which 60% is to be allocated towards growth-focused initiatives. ADNOCDIST's net cash from operating activities grew by a solid 43.7% YOY to AED 2.3 Bn in 1H24 while free cash flow expanded significantly from AED 1.2 Bn in 1H23 to AED 1.8 Bn in 1H24.

Target Price and Rating

We maintain our BUY rating on ADNOC Distribution with an unchanged target price of AED 4.46. Strong growth in fuel volumes, increased activity from international operations and healthy performance of the non-fuel segment led to a robust growth in ADNOCDIST's profitability during 2Q24. ADNOCDIST's fuel stations count reached 847 in 2Q24 out of which 534 stations are in UAE, 69 in KSA, and 244 in Egypt. The Company added two new stations in 2Q24 and aims to add 15-20 stations in 2024. Furthermore, the completion of the KSA network revitalization and rebranding programme is nearing completion, further leveraging opportunities and improving efficiency in the KSA markets. On the other hand, the Company operated 365 convenience stores in UAE as of 2Q24 and recorded 10.9% YOY growth in total non-fuel transactions to 12.2 Mn in 2Q24. The average basket size in UAE rose 2.2% to AED 26.3 in 2Q24 while the convenience store conversion rate increased from 24.5% in 1Q24 to 26.1% in 2Q24 driven by improved customer offerings post refurbishment of stores, and solid marketing & promotional campaigns coupled with higher F&B sales. Moreover, the company aims to double the number of units occupied by top F&B brands by 2025 and digitize the channels to order and transact for better customer experience. ADNOCDIST also expanded its vehicle inspection services and added a new center leading to 34 service centers across UAE in H124. The number of vehicles inspected (fresh tests) at the vehicle inspection center rose 23.0% YOY in H124 due to the introduction of new inspection services and increased marketing & promotional activity. ADNOCDIST also opened two car wash tunnels with significantly higher capacity, compared to the existing car wash tunnels and plans to open additional car wash tunnels in 2024 and upgrade 50% of the existing automatic car tunnels by 2024. The Company operates 104 fast and superfast EV charging stations in UAE and aims to own c. 150 to 200 charging stations by 2024. Furthermore, ADNOCDIST aims to expand its network to 1,000 fuel stations, grow its existing network of EV charging stations by 10-15x, increase non-fuel transactions by 50%, and number of convenience stores by 25% by 2028. The Company incurred a capex of AED 201 Mn in 2Q24 and further aims to incur a capex of AED c.0.9 to 1.1 Bn in 2024. ADNOCDIST's strong liquidity position of AED 6.0 Bn will further support its future expansion plans. The Company also reported an OPEX saving of AED 37 Mn in 1H24 and is on track to realize a cost savings by up to AED 184 Mn by FY2028. ADNOCDIST also operates its first high-speed hydrogen refueling station in the Middle East and aims for future expansion in the green hydrogen segment. Moreover, the company is pursuing over twenty innovative AI projects to embed AI in its operational framework to further boost efficiency. ADNOCDIST is expected to pay an

interim dividend of 10.285 fils per share in October 2024 after the board's approval. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNOC Distribution - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	19.3	17.8	19.0	15.6	16.4	16.9
PB (x)	12.0	12.4	13.4	12.4	12.3	12.9
EV/EBITDA	18.9	17.8	18.9	15.3	15.2	14.4
Dividend yield (%)	5.6%	6.0%	6.0%	6.0%	6.0%	6.0%

FABS Estimates & Co Data

ADNOC Distribution - P&L

AED mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	8,132	8,750	8,784	9,159	-4.1%	8.0%	0.4%	34,629	36,128	4.3%
Direct costs	-6,744	-7,269	-7,244	-7,602	-4.7%	7.4%	-0.4%	-28,793	-29,986	4.1%
Gross profit	1,388	1,481	1,541	1,557	-1.0%	11.0%	4.1%	5,836	6,142	5.2%
Other income	29	45	26	46	-43.4%	-11.1%	-41.6%	146	145	-0.8%
Distribution & admin exp.	-737	-773	-756	-852	-11.3%	2.5%	-2.2%	-2,917	-3,071	5.3%
Impairment & other exp.	-14	-17	-23	-23	-1.2%	59.6%	31.8%	-82	-79	-3.2%
Operating profit	666	735	788	728	8.3%	18.4%	7.2%	2,983	3,136	5.1%
Depreciation & Amortization	186	177	191	179	6.7%	2.8%	7.7%	697	718	3.0%
EBITDA	851	913	979	908	7.8%	15.0%	7.3%	3,680	3,854	4.7%
Interest income	16	48	32	55	-40.9%	NM	-32.2%	99	181	82.8%
Interest expenses	-112	-209	-113	-123	-8.0%	1.5%	-45.9%	-433	-490	13.3%
Profit before tax	571	574	708	661	7.0%	24.0%	23.3%	2,649	2,826	6.7%
Income tax	-8	-46	-74	-59	25.2%	NM	59.5%	-19	-254	NM
Net Profit for the year	562	528	634	602	5.3%	12.7%	20.1%	2,630	2,572	-2.2%
Non-controlling interest	11	-22	11	-18	NM	1.0%	NM	29	46	NM
Net Profit	551	550	623	619	0.6%	12.9%	13.3%	2,601	2,526	-2.9%

FABS estimate & Co Data

ADNOC Distribution - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	17.1%	16.9%	17.5%	47	62	16.9%	17.0%	15
EBITDA margin	10.5%	10.4%	11.1%	68	72	10.6%	10.7%	4
Operating margin	8.2%	8.4%	9.0%	79	57	8.6%	8.7%	7
Net profit margin	6.8%	6.3%	7.1%	31	81	7.5%	7.0%	-52

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	4.46	70.0%	3.13
Relative Valuation (RV)	4.45	30.0%	1.33
Weighted Average Valuation (AED)			4.46
Current market price (AED)			3.41
Upside/Downside (%)			+31%

1) DCF Method:

ADNOC Distribution is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.2%. It is arrived after using the cost of equity of 8.5% and after-tax cost of debt of 5.9%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.90 and equity risk premium of 4.0%. 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)	12,919
Terminal value (AED, Mn)	46,930
FV to Common shareholders (AED, Mn)	59,849
No. of share (Mn)	12,500
Current Market Price (AED)	3.41
Fair Value per share (AED)	4.46

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	2,882	3,255	3,529	3,578	3,760
Depreciation & Amortization	718	785	836	879	931
(-) Capex	-903	-764	-787	-800	-827
(-) Change in Working Capital	-303	144	68	52	149
Free Cash Flow to Firm (FCFF)	2,393	3,419	3,646	3,709	4,013
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Discounted FCFF	1,160	3,064	3,019	2,838	2,837

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 15.5x compared to the peer multiple of 11.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
UGI Corp	5,034	6.9	6.7	8.0	7.8
Petronas Dagangan	3,967	8.3	8.3	17.5	17.0
Murphy USA	10,470	12.6	11.7	20.8	18.2
PTG Energy	377	6.9	6.6	13.0	11.0
Aldrees Petroleum	2,968	13.9	12.1	31.6	24.0
Qatar Fuel Company	4,099	11.1	11.0	13.3	13.4
Average		10.6x	9.9x	19.2x	16.7x
Median		11.1x	11.0x	17.5x	17.0x
Max		12.6x	11.7x	20.8x	18.2x
Min		8.3x	8.3x	13.3x	13.4x

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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