

## ADNOC Distribution

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

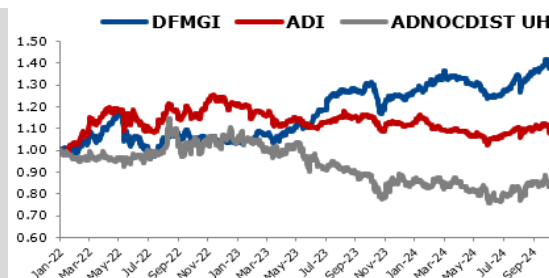
**Current Price**  
AED 3.56

**Target Price**  
AED 4.46

**Upside/Downside (%)**  
+25%

**Rating**  
BUY

- ADNOC DIST total fuel volume grew 9.2% YOY to 11.0 Bn liters in 9M24. Non-fuel retail gross profit rose 13.0% YOY to AED 547 Mn in 9M24. Non-fuel retail transactions in UAE increased by 9.2% YOY to 35.9 Mn in 9M24.
- ADNOC DIST generated a robust free cash flow of AED 1.97 Bn in 9M24.
- Convenience store conversion rate grew 175 bps YOY to 25.9% in 3Q24.
- The Company added 19 new stations in 9M24, achieved its target of 15-20 new stations in 2024.
- ADNOC DIST announced a dividend of AED 1.3 Bn, equivalent to 10.285 fils per share for 1H24 and distributed in October 2024.



### 3Q24 Net Profit higher than our estimate

ADNOC Distribution's (ADNOC DIST/the Company) net profit declined 20.1% YOY to AED 667 Mn in 3Q24, higher than our estimate of AED 570 Mn. The decline in net profit is attributable to a lower gross profit margin attributable to material reduction of inventory gains, and growth in D&A expenses coupled with the introduction of corporate income tax in the UAE partially offset by decline in finance cost.

### P&L Highlights

ADNOC Distribution's revenue grew 1.7% YOY to AED 9,083 Mn in 3Q24 mainly attributed to higher fuel volumes and increasing contribution of non-fuel retail business, partially offset by lower selling prices due to the result of lower crude oil prices. The company's total fuel volumes rose 7.0% YOY to 3.83 Bn liters in 3Q24 owing to strong economic activity in KSA and UAE, network expansion, and higher network traffic. Revenue for the Retail segment grew 0.4% YOY to AED 6,052 Mn in 3Q24 mainly due to higher fuel volumes and strong growth in non-fuel retail revenue partially offset by lower pump prices. Revenue from the non-fuel retail segment rose 10.0% YOY to AED 390 Mn in 3Q24 owing to growth in non-fuel transactions. Likewise, revenue from the Commercial segment grew 4.2% YOY to AED 3,031 Mn in 3Q24 supported by higher volume and and partially offset by lower prices. The Company's gross profit declined 4.3% YOY to AED 1,587 Mn in 3Q24. ADNOC DIST also recorded lower inventory gains of AED 14 Mn in 3Q24 compared to a gain of AED 228 Mn in 3Q23. Thus, the gross margin contracted 110 bps YOY to 17.5% in 3Q24. The Company's other income inclined 10.5% YOY to AED 32 Mn in 3Q24. Distribution and administrative expenses rose 10.5% YOY to AED 806 Mn in 3Q24 mainly due to the increase in the Company's network across UAE & KSA and associated costs.

### Stock Information

Market Cap (AED, mn)	44,500.00
Paid Up Capital (mn)	1,000.00
52 Week High	3.82
52 Week Low	3.24
3M Avg. daily value (AED)	23,632,030

### 3Q24 Result Review (AED, mn)

Total Assets	19,609
Total Liabilities	16,668
Total Equity	2,940
EBITDA	1,009
Net Profit	667

### Financial Ratios

Dividend Yield (12m)	5.78
Dividend Pay-out (%)	98.84
Price-Earnings Ratio(x)	17.68
Price-to-Book Ratio (x)	16.67
Book Value (AED)	0.21
Return-on Equity (%)	92.11

### Stock Performance

5 Days	-1.11%
1 Months	0.28%
3 Months	7.88%
6 Months	2.89%
1 Year	-0.84%
Month to Date (MTD%)	-1.39%
Quarter to Date (QTD%)	-1.39%
Year to Date (YTD%)	-3.78%

Impairment and other expenses decreased 26.3% YOY to AED 12 Mn in 3Q24. Moreover, operating profit decline 15.0% YOY to AED 801 Mn in 3Q24. As a result, the operating profit margin shrunk 173 bps YOY to 8.8% in 3Q24. D&A charges rose 23.1% YOY to AED 208 Mn in 3Q24. Furthermore, EBITDA declined 9.2% YOY to AED 1,009 in 3Q24 with an EBITDA margin of 11.1% in 3Q24 compared to 12.4% in 3Q23 due to lower inventory gains in 3Q24. In addition, ADNOCDIST's interest income increased from AED 28 Mn in 3Q23 to AED 36 Mn in 3Q24. Interest expense declined exponentially from AED 109 Mn in 3Q23 to AED 46 Mn in 3Q24 due to the reversal of forex loss in Egypt due to the adoption of International Accounting Standard 21. The Company incurred income tax expense of AED 74 Mn in 3Q24 compared to AED 11 Mn in 3Q23 due to the introduction of UAE corporate income tax in FY2024.

### Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents including term deposits stood at AED 3.4 Bn in 3Q24 along with an unutilized credit facility of AED 2.8 Bn leading to a strong liquidity position of AED 6.2 Bn in 3Q24. ADNOCDIST's borrowings grew marginally to AED 5.5 Bn in 3Q24 compared to 2Q24. Net debt to EBITDA ratio stood at 0.56x in 3Q24 compared to 0.53x in 2Q24. The company's CAPEX increased to AED 677 Mn in 9M24 from AED 620 Mn in 9M23 and to AED 307 Mn in 3Q24 compared to AED 201 Mn in 2Q24. The Capex incurred by the Company is spent on the construction of new service stations, the upgradation of existing service stations and the purchase of machinery and equipment. Moreover, the management estimates a capex expenditure of AED 0.9-1.1 Bn during FY2024, out of which 60% is to be allocated towards service station projects.

### 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 9M24. ADNOCDIST's fuel stations count reached 855 in 3Q24 out of which 543 stations are in UAE, 69 in KSA, and 243 in Egypt. The Company added 19 new stations in 9M24 and achieved its target of 15-20 in 2024. Furthermore, it is nearing completion of the KSA network revitalization and rebranding programme, further leveraging opportunities and improving efficiency in the KSA markets. On the other hand, the Company operated 366 convenience stores in UAE as of 3Q24 and recorded 10.3% YOY growth in total non-fuel transactions to 12.4 Mn in 3Q24. The average basket size in UAE rose 1.5% to AED 25.7 in 3Q24, while the convenience store conversion rate increased from 24.4% in 9M23 to 25.5% in 9M24 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 a total of 34 service centers across UAE in 9M24. The number of vehicles inspected (fresh tests) at the vehicle inspection center rose 24.0% YOY in 9M24 due to the introduction of new inspection centers & 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 112 fast and superfast EV charging stations in UAE and aims to own c. 150 to 200 charging stations by 2024 to cement its position in the UAE market. 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 307 Mn in 3Q24 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 6.2 Bn in 3Q24 will further support its future expansion plans. The Company also reported an OPEX saving of AED 48 Mn in 9M24 and is on track to realize cost savings of up to AED 184 Mn by FY2028. ADNOCDIST also operates the 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 20 innovative AI projects to utilize AI in its operational framework to further boost efficiency. ADNOCDIST distributed an interim dividend of 10.285 fils per share, equivalent to AED 1.3 Bn in October 2024 for the period of 1H24. 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)	20.2	18.7	19.9	16.3	17.2	17.3
PB (x)	12.6	13.0	14.0	13.0	12.9	13.5
EV/EBITDA	19.8	18.5	19.8	16.0	15.9	14.8
Dividend yield (%)	5.3%	5.8%	5.8%	5.8%	5.8%	5.8%

FABS Estimates & Co Data

**ADNOC Distribution - P&L**

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	8,935	8,784	9,083	8,926	1.8%	1.7%	3.4%	34,629	36,306	4.8%
Direct costs	-7,276	-7,244	-7,496	-7,435	0.8%	3.0%	3.5%	-28,793	-30,134	4.7%
<b>Gross profit</b>	<b>1,659</b>	<b>1,541</b>	<b>1,587</b>	<b>1,491</b>	<b>6.5%</b>	<b>-4.3%</b>	<b>3.0%</b>	<b>5,836</b>	<b>6,172</b>	<b>5.8%</b>
Other income	29	26	32	27	19.9%	10.5%	23.4%	146	153	4.8%
Distribution & admin exp.	-729	-756	-806	-768	5.0%	10.5%	6.6%	-2,917	-3,058	4.8%
Impairment & other exp.	-17	-23	-12	-22	-45.1%	-26.3%	-46.1%	-82	-86	4.8%
<b>Operating profit</b>	<b>942</b>	<b>788</b>	<b>801</b>	<b>727</b>	<b>10.1%</b>	<b>-15.0%</b>	<b>1.7%</b>	<b>2,983</b>	<b>3,181</b>	<b>6.6%</b>
Depreciation & Amortization	169	191	208	177	17.4%	23.1%	8.8%	697	738	6.0%
<b>EBITDA</b>	<b>1,111</b>	<b>979</b>	<b>1,009</b>	<b>904</b>	<b>11.6%</b>	<b>-9.2%</b>	<b>3.0%</b>	<b>3,680</b>	<b>3,919</b>	<b>6.5%</b>
Interest income	28	32	36	33	9.9%	31.5%	11.7%	99	152	54.3%
Interest expenses	-109	-113	-46	-107	-57.5%	-58.3%	-59.8%	-433	-456	5.4%
<b>Profit before tax</b>	<b>861</b>	<b>708</b>	<b>792</b>	<b>653</b>	<b>21.2%</b>	<b>-8.0%</b>	<b>11.9%</b>	<b>2,649</b>	<b>2,877</b>	<b>8.6%</b>
Income tax	-11	-74	-74	-69	7.2%	581.8%	-0.4%	-19	-259	NM
<b>Net Profit for the year</b>	<b>850</b>	<b>634</b>	<b>718</b>	<b>585</b>	<b>22.9%</b>	<b>-15.5%</b>	<b>13.4%</b>	<b>2,630</b>	<b>2,618</b>	<b>-0.5%</b>
Non-controlling interest	15	11	51	15	249.6%	247.3%	371.8%	29	26	NM
<b>Net Profit</b>	<b>835</b>	<b>623</b>	<b>667</b>	<b>570</b>	<b>17.0%</b>	<b>-20.1%</b>	<b>7.1%</b>	<b>2,601</b>	<b>2,592</b>	<b>-0.4%</b>

FABS estimate & Co Data

**ADNOC Distribution - Margins**

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	18.6%	17.5%	17.5%	-110	-7	16.9%	17.0%	15
EBITDA margin	12.4%	11.1%	11.1%	-133	-4	10.6%	10.8%	17
Operating margin	10.5%	9.0%	8.8%	-173	-15	8.6%	8.8%	15
Net profit margin	9.4%	7.1%	7.3%	-200	26	7.5%	7.1%	-37

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	4.71	70.0%	3.30
Relative Valuation (RV)	3.87	30.0%	1.16
<b>Weighted Average Valuation (AED)</b>			<b>4.46</b>
Current market price (AED)			3.56
Upside/Downside (%)			+25.3%

### 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 8.1%. It is arrived after using the cost of equity of 8.4% and after-tax cost of debt of 5.5%. The cost of equity is calculated by using a 10-year government bond yield of 4.8%, 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)	12,612
Terminal value (AED, Mn)	50,404
<b>Firm Value</b>	<b>63,016</b>
Net debt as of Sept 2024	4,085
<b>FV to Common shareholders (AED, Mn)</b>	<b>58,930</b>
No. of share (Mn)	12,500
Current Market Price (AED)	3.58
<b>Fair Value per share (AED)</b>	<b>4.71</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	2,922	3,315	3,594	3,646	3,829
Depreciation & Amortization	738	801	855	899	952
(-) Capex	-1,017	-975	-803	-817	-843
(-) Change in Working Capital	-315	107	71	52	153
<b>Free Cash Flow to Firm (FCFF)</b>	<b>2,328</b>	<b>3,248</b>	<b>3,716</b>	<b>3,781</b>	<b>4,091</b>
Discounting Factor	0.99	0.91	0.85	0.78	0.72
<b>Discounted FCFF</b>	<b>575<sup>1</sup></b>	<b>2,969</b>	<b>3,144</b>	<b>2,960</b>	<b>2,964</b>

Source: FAB Securities, <sup>1</sup>Adjusted for the partial year

## 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 13.4x compared to the peer multiple of 9.5x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Petronas Dagangan	4,086	8.6	8.8	18.1	17.5
Murphy USA	9,816	11.8	10.9	20.4	18.1
Hindustan Petroleum Corporation Limited	9,640	9.5	7.3	11.3	8.6
Aldrees Petroleum	3,574	16.7	14.7	41.6	30.1
Qatar Fuel Company	4,053	8.2	8.4	13.1	13.2
<b>Average</b>		<b>11.0x</b>	<b>10.0x</b>	<b>20.9x</b>	<b>17.5x</b>
<b>Median</b>		<b>9.5x</b>	<b>8.8x</b>	<b>18.1x</b>	<b>17.5x</b>
<b>Max</b>		<b>11.8x</b>	<b>10.9x</b>	<b>20.4x</b>	<b>18.1x</b>
<b>Min</b>		<b>8.6x</b>	<b>8.4x</b>	<b>13.1x</b>	<b>13.2x</b>

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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