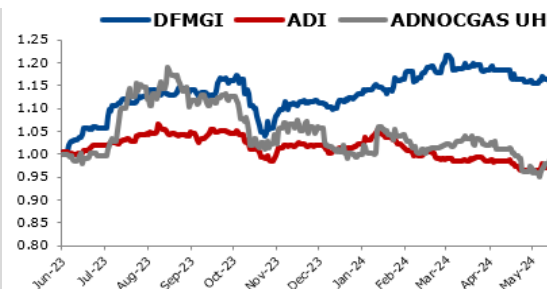


ADNOC Gas PLC

Higher sales volumes and improved pricing supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.06	AED 3.93	+28%	BUY

- ADNOC GAS's total production volume (excluding LNG JV) grew 14.2% YOY to 822 TBTU in 1Q24 driven by an increase in production from Domestic gas and Trading and export products.
- The sales volume of LNG JV is anticipated to grow from the previous guidance of 220-240 TBTU to 240-260 TBTU, owing to the positive outlook.
- ADNOC GAS plans to make domestic and international investments, with a planned investment of USD 13 Bn starting in 2024.
- Incurred a capex of USD 174 Mn in 1Q24, while further plans to allocate USD 13.2 Bn towards growth capex between 2024-28.



Stock Information

Market Cap (AED, mn)	234,859.35
Paid Up Capital (mn)	19,187.86
52 Week High	3.71
52 Week Low	2.94
3M Avg. daily value (AED)	17,852,020

1Q24 Result Review (USD, mn)

Total Assets	30,292
Total Liabilities	8,437
Total Equity	21,854
EBITDA	1,885
Net Profit	1,187

Financial Ratios

Dividend Yield (12m)	5.08
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	13.81
Price-to-Book Ratio (x)	2.93
Book Value (AED)	0.28
Return-on Equity (%)	21.89

Stock Performance

5 Days	3.03%
1 Months	-2.24%
3 Months	-1.29%
6 Months	-7.83%
1 Year	-5.56%
Month to Date (MTD%)	2.00%
Quarter to Date (QTD%)	-2.86%
Year to Date (YTD%)	-0.97%

1Q24 Net Profit higher than our estimate

ADNOC Gas plc (ADNOC GAS/the Company) net profit declined 6.9% YOY to USD 1,187 Mn in 1Q24, higher than our estimate of USD 1,081 Mn. The decline in net profit is mainly attributable to an increase in direct cost and operating expenses partially offset by strong revenue growth resulting from improved pricing and higher volume and growth in EBITDA.

P&L Highlights

ADNOC GAS's net revenue grew 11.4% YOY to USD 4,560 Mn in 1Q24, whereas the Company's total revenue including revenue from reinjection, revenue from ADNOC LNG JV and revenue from intercompany elimination and other income grew 15.0% YOY to USD 6,011 Mn in 1Q24 primarily due to improved pricing and growth in production volume. The total production volume (excluding ADNOC GAS LNG JV) grew 14.2% YOY in 1Q24 to 822 TBTU. The Company's domestic gas production volume grew 12.7% YOY to 575 trillion British thermal units (TBTU) in 1Q24, primarily due to the UAE's strong economic development. Exports and Traded liquids volume rose to 247 TBTU in 1Q24 from 210 TBTU in 1Q23. ADNOC GAS's share of LNG production improved from 62 TBTU in 1Q23 to 72 TBTU in 1Q24. Furthermore, ADNOC GAS sales volume also grew 14.1% YOY to 890 TBTU owing to its healthy level of reliability of 99.4% across its assets in 1Q24. The Company's direct cost grew 13.1% YOY to USD 2,771 Mn in 1Q24 owing to more profit sharing with ADNOC Upstream based on the Supply and Payment Agreement (GSPA). Thus, gross profit grew 8.8% YOY to USD 1,789 Mn in 1Q24 primarily due to the revenue growth. However, gross margins declined 94 bps YOY to 39.2% in 1Q24. Other operating income grew from USD 246 Mn in 1Q23 to USD 302 Mn in 1Q24. Share of profit to equity accounted investee also grew from USD 89 Mn in

1Q23 to USD 143 Mn in 1Q24. Employee benefit expenses grew from USD 180 Mn in 1Q23 to USD 310 Mn in 1Q24. Other operating cost grew from USD 49 Mn in 1Q23 to USD 102 Mn in 1Q24. Share of operating cost in equity accounted investee declined from USD 65 Mn in 1Q23 to USD 58 Mn in 1Q24. Inventory consumption declined from USD 21 Mn in 1Q23 to USD 9 Mn in 1Q24. Other expenses grew from USD 30 Mn in 1Q23 to USD 44 Mn in 1Q24. The Company's EBITDA grew strongly 15.3% YOY to USD 1,885 Mn in 1Q24, whereas adjusted EBITDA also grew strongly 17.0% YOY to USD 2,076 Mn in 1Q24. Domestic segment EBITDA grew from USD 554 Mn in 1Q23 to USD 726 Mn in 1Q24 supported by higher volumes and favorable contract prices. Export & traded liquids EBITDA grew 9.5% YOY to USD 1,026 Mn in 1Q24 driven by higher volume partially offset by weaker pricing. ADNOC Gas's LNG EBITDA also grew from USD 220 Mn in 1Q23 to USD 307 Mn in 1Q24 driven by higher volumes and a decline in pricing. Thus, the Company's operating profit grew 16.1% YOY to USD 1,603 Mn in 1Q24. Finance income grew strongly from USD 3 Mn in 1Q23 to USD 21 Mn in 1Q24. Finance cost declined from USD 38 Mn in 1Q23 to USD 20 Mn in 1Q24. Total income tax expenses grew from USD 70 Mn in 1Q23 to USD 417 Mn in 1Q24.

Balance Sheet Highlights

ADNOCGAS's investment in capex grew from USD 174 Mn in 1Q23 to USD 387 Mn in 1Q24 primarily due to the commencement of the construction activities of the growth projects. Furthermore, the Company plans to allocate USD 13.2 Bn towards growth capex between 2024-28, along with an additional USD 300-400 Mn annually for the maintenance capex. ADNOCGAS's free cash flow grew from USD 1,075 Mn in 1Q23 to USD 1,117 Mn in 1Q24. As of 1Q24, the Company held cash and cash equivalents of USD 4.5 Bn with a gross debt of USD 500 Mn.

Target Price and Rating

We maintain our BUY rating on ADNOCGAS with a target price of AED 3.93. The Company reported an increase in profitability supported by higher production volume and a favorable price environment in 1Q24. ADNOCGAS's total production volume (excluding LNG JV) grew 14.2% YOY to 822 TBTU in 1Q24 driven by an increase in production from Domestic gas and Trading and export products. Sales volume, including ADNOC LNG's JV share, also grew 14.1% YOY to 890 TBTU in 1Q24. The growth in sales volume is mainly driven by a healthy level of reliability of 99.4% across its assets in 1Q24. ADNOCGAS also benefitted from a lower shutdown in 1Q24. The Company further expects its sales volume to range between 2,215-2,300 TBTU for the Domestic Gas segment, 940-960 TBTU for Exports & Traded Liquid in 2024, whereas the sales volume of LNG JV is anticipated to grow from the previous guidance of 220-240 TBTU to 240-260 TBTU owing to the positive outlook. Additionally, the Company aims to boost its LNG export volumes in the growing global LNG market through the acquisition of the new Ruwais LNG plant. The acquisition is anticipated to more than double the LNG production capacity by 2028. ADNOCGAS also plans to make domestic and international investments, with a planned investment of USD 13 Bn starting in 2024. The company has allocated contracts worth USD 5 Bn for expanding gas processing facilities and the natural gas pipeline network to serve existing and new customers in the UAE by early 2026. The projects are expected to increase sales volumes by up to 20%. In addition, the Company is actively seeking international expansion and aiming to establish new footholds in the gas value chain across Europe, India, China, and Southeast Asia. ADNOCGAS is also planning to gradually increase leverage to fund its capex requirement. The Company has earmarked a growth Capex of USD 13.2 Bn over 2024-28 and a maintenance capex of USD 300-400 per annum. Moreover, ADNOCGAS aims to achieve a 5.0% annual dividend payment increase from 2024 to 2027. The Company also proposed a final cash dividend of 15.55 fils per share for 2023 generating a dividend yield of 5.1%. Thus, based on our analysis we maintain our BUY rating on the stock.

Adnoc Gas - Relative valuation¹

(at CMP in USD)	2022	2023	2024F
PE	NA	12.5	14.0
PB	NA	2.8	2.7
EV/EBITDA	NA	7.8	7.6
Dividend yield	NA	5.1%	5.4%

FABS Estimates & Co Data

¹ADNOC GAS share started trading in 2023; hence previous-year multiples is not provided

Adnoc Gas - P&L

(USD mn)	1Q23	4Q23	1Q24A	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	4,094	4,983	4,560	4,794	-4.9%	11.4%	-8.5%	17,905	17,737	-0.9%
Direct Cost	2,449	3,010	2,771	3,116	-11.1%	13.1%	-8.0%	11,000	10,790	-1.9%
Gross Profit	1,645	1,973	1,789	1,678	6.6%	8.8%	-9.3%	6,905	6,948	0.6%
Other Operating income	246	295	302	273	10.4%	22.7%	2.2%	1,105	1,093	-1.1%
Share of profit of eq-acc inv	89	120	143	98	46.8%	60.7%	19.7%	402	390	-3.0%
Recharges to eq acc inv	0	329	173	110	57.0%	NM	-47.4%	442	442	0.0%
Employee benefit expenses	-180	-293	-310	-241	28.4%	71.6%	5.7%	-984	-965	-2.0%
Other operating costs	-49	-291	-102	-111	-7.3%	110.4%	-64.8%	-451	-443	-1.9%
Share of operating costs in eq acc inv	-65	-66	-58	-60	-4.9%	-10.8%	-12.6%	-247	-242	-1.9%
Inventory Consumption	-21	-17	-9	-16	-42.6%	-55.4%	-44.0%	-67	-65	-1.9%
Other expenses	-30	2	-44	-18	147.7%	45.9%	NM	-73	-71	-1.9%
EBITDA	1,635	2,052	1,885	1,713	10.0%	15.3%	-8.2%	7,034	7,087	0.8%
Depreciation and amortization	-254	-317	-282	-287	-1.8%	10.9%	-11.0%	-1,100	-1,149	4.4%
EBIT	1,381	1,735	1,603	1,425	12.4%	16.1%	-7.6%	5,934	5,938	0.1%
Finance Income	3	46	21	25	-15.0%	NM	-54.6%	95	98	2.7%
Finance Cost	-38	-53	-20	-45	-56.0%	-48.0%	-62.3%	-207	-181	-12.5%
Profit before tax	1,345	1,728	1,604	1,405	14.2%	19.3%	-7.2%	5,822	5,855	0.6%
Income Tax expense	70	383	417	323	28.8%	NM	8.9%	1,102	1,347	22.2%
Net Income	1,275	1,346	1,187	1,081	9.8%	-6.9%	-11.8%	4,720	4,508	-4.5%

FABS estimate & Co Data

Adnoc Gas - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	40.2%	39.6%	39.2%	-94	-35	38.6%	39.2%	60
EBITDA	39.9%	41.2%	41.3%	139	15	33.1%	33.5%	34
Net Profit	31.1%	27.0%	26.0%	-511	-97	26.4%	25.4%	-95

FABS estimate & Co Data

Valuation:

We have used Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Dividend Yield to value ADNOC Gas. We have assigned 70% weight to DCF, 15% to RV, and 15% to Dividend Yield. In addition, we have also valued ADNOC LNG JV using the Discounted Free Cash Flow (DCF) and Relative Valuation (RV) method. We excluded the profit of ADNOC LNG JV while valuing ADNOC GAS as a result it is valued as a standalone business.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.01	70.0%	2.81
Relative Valuation (RV)	3.96	15.0%	0.59
Dividend Yield	3.56	15.0%	0.53
Weighted Average Valuation (AED)			3.93
Current market price (AED)			3.06
Upside/Downside (%)			+28%

1) ADNOC Gas DCF Method:

Adnoc Gas is valued using free cash flow to Equity. We have discounted the cash flow using a weighted average cost of equity of 9.1%. The cost of equity is calculated using a 10-year government bond yield of 5.3%, a beta of 0.96, and an equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	20,183
Terminal value (USD, Mn)	54,866
FV to Common shareholders (USD, Mn)	75,049
No. of share (Mn)	76,751
Current Market Price (AED)	3.06
Fair Value per share (AED)	3.59

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	4,118	4,412	4,663	4,728	4,402	4,947	5,500
D&A	1,149	1,228	1,310	1,668	1,761	1,801	1,937
(-) Capex	-2,500	-3,150	-3,300	-3,200	-3,100	-1,313	-500
Change in working capital	-38	-60	-195	-109	-20	21	-63
Net change in debt	500	1,000	1,000	1,000	500	0	0
Free Cash Flow to Equity (FCFE)	2,045	3,430	3,478	4,088	3,543	5,456	6,874
Discounting Factor	0.95	0.87	0.79	0.73	0.67	0.61	0.56
Discounted FCFE	1,935	2,973	2,762	2,974	2,362	3,332	3,846

Source: FAB Securities

1) ADNOC Gas LNG JV DCF Method:

Adnoc Gas LNG JV is valued using free cash flow to Equity. It is discounted using the similar WACC used to discount ADNOC GAS. We have discounted the cash flow using a weighted average cost of equity of 9.1%. The cost of equity is calculated using a 10-year government bond yield of 5.3%, a beta of 0.96, and an equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	3,508
Terminal value (USD, Mn)	8,999
FV to Common shareholders (USD, Mn)	12,502

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	558	635	728	842	937	974	982
D&A	143	143	143	143	186	214	293
(-) Capex	-445	-515	-525	-480	-472	-176	-182
Change in working capital	-39	-42	-47	-54	-60	-63	-66
Net change in debt	250	250	300	300	200	100	100
Free Cash Flow to Equity (FCFE)	295	471	599	751	791	1,050	1,127
Discounting Factor	0.95	0.87	0.79	0.73	0.67	0.61	0.56
Discounted FCFE	279	408	476	546	527	641	631

Source: FAB Securities

2) Relative Valuation: EV/ EBITDA & Dividend Yield

We have used regional and global peers to value ADNOC GAS PLC, which is valued using the EV/EBITDA and Dividend Yield multiple. It is valued at a 2024 EV/EBITDA multiple of 9.8x in line with its peers. In the dividend yield, we have used a dividend Yield of 4.6% to value ADNOC GAS.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Saudi Basic Industries Corp	64,040	9.6	6.8	38.5	17.4	4.3	5.0
Saudi Arabian Oil Co	1,927,000	7.6	7.5	16.1	15.8	6.3	4.8
Borouge	20,210	10.5	9.7	18.9	16.1	6.1	5.6
Petronas Gas Bhd	7,540	10.0	9.7	18.8	18.3	4.4	4.4
Kinder Morgan Inc	42,350	9.1	9.0	15.5	15.1	6.0	6.2
Valero Energy Corp	51,050	5.4	6.2	9.0	11.0	2.8	2.8
Marathon Petroleum Corp	63,260	5.8	6.4	9.8	10.8	1.9	2.0
Oneok Inc	46,730	11.0	10.3	16.0	14.6	5.0	5.2
Targa Resources Corp	25,100	10.0	9.0	20.6	16.3	2.7	3.3
Williams Cos Inc	48,310	10.7	10.0	21.9	19.2	4.8	5.1
Average		9.0x	8.5x	18.5x	15.5x	4.4%	4.4%
Median		9.8x	9.0x	17.5x	16.0x	4.6%	4.9%
Max		10.4x	9.7x	20.2x	17.1x	5.8%	5.1%
Min		8.0x	6.9x	15.6x	14.7x	3.1%	3.6%

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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