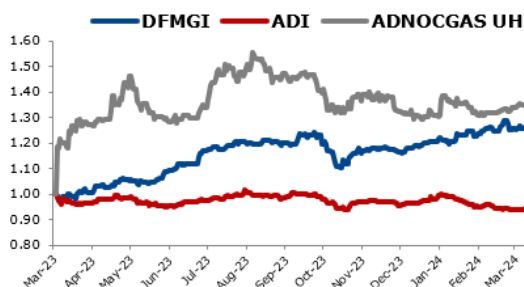


ADNOC Gas PLC

Higher production volume and a positive price environment supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.18	AED 3.93	+24%	BUY

- ADNOC GAS awarded contracts worth USD 4.9 Bn in 2023, with USD 3.6 Bn allocated for expanding gas processing infrastructure in the UAE.
- In January 2024, ADNOC GAS signed a 10-year agreement with Gail India Ltd to supply 0.5 MMTA of LNG, expanding its presence in the Asian market.
- The Company expects its production volume for the Domestic Gas segment to range between 2,215-2,300 TBTU, for Exports & Traded Liquid to 940-960 TBTU, and for ALNG JV products to 220-240 TBTU in 2024.
- Incurred a capex of USD 1,267 Mn in 2023, while further plans to allocate USD 13.8 Bn towards growth capex between 2024-28



Stock Information

Market Cap (AED, mm)	244,837.04
Paid Up Capital (mm)	19,187.86
52 Week High	3.71
52 Week Low	2.78
3M Avg. daily value (AED)	25,834,720

4Q23 Result Review (USD, mm)

Total Assets	29,019
Total Liabilities	6,727
Total Equity	22,292
EBITDA	2,212
Net Profit	1,345

Financial Ratios

Dividend Yield (12m)	2.44
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	2.95
Book Value (AED)	0.29
Return-on Equity (%)	N/A

Stock Performance

5 Days	0.00%
1 Months	1.92%
3 Months	2.90%
6 Months	-7.27%
1 Year	11.93%
Month to Date (MTD%)	1.27%
Quarter to Date (QTD%)	3.24%
Year to Date (YTD%)	3.24%

4Q23 Net Profit higher than our estimate

ADNOC Gas plc (ADNOC GAS/the Company) net profit grew 24.1% YOY to USD 1,345 Mn in 4Q23, higher than our estimate of USD 887 Mn. The rise in net profit was primarily attributable to growth in revenue resulting from higher volume and improved pricing as well as strong growth in EBITDA and a decline in operating expenses.

P&L Highlights

ADNOC Gas net revenue grew 7.0% YOY to USD 6,301 Mn in 4Q23 mainly due to improved pricing and growth in production volume. The total production volume grew 5.3% YOY in 4Q23. The Company's domestic gas volume grew 6.2% YOY to 596 trillion British thermal units (TBTU) in 4Q23. Exports and Traded liquids volume rose to 260 TBTU in 4Q23 from 252 TBTU in 4Q22. While ADNOC GAS's share of LNG production improved from 45 TBTU in 4Q22 to 64 TBTU in 4Q23. Furthermore, ADNOC GAS sales volume also grew 5.1% YOY to 912 TBTU owing to its healthy level of reliability of 99.8% across its assets in 4Q23. The Company's direct cost rose 4.4% YOY to USD 3,598 Mn in 4Q23 owing to more profit sharing with ADNOC Upstream based on the Supply and Payment Agreement (GSPA). Thus, gross profit grew from USD 2,443 Mn in 4Q22 to USD 2,703 Mn in 4Q23 primarily due to the revenue growth. Gross margins expanded 141 bps YOY to 42.9% in 4Q23. Other operating income stood at USD 295 Mn in 4Q23, while the share of profit to equity accounted investee stood at USD 66 Mn in 4Q23. Total operating expenses declined from USD 517 Mn in 4Q22 to USD 491 Mn in 4Q23. Thus, EBIT stood at USD 1,735 Mn in 4Q23. EBITDA grew strongly 14.8% YOY to USD 2,212 Mn in 4Q23. Domestic Gas segment EBITDA grew strongly 31.0% YOY to USD 753 Mn in 4Q23 owing to favorable contract prices. Export & traded liquids EBITDA grew from USD 1,096 Mn in 4Q22 to USD 1,109 Mn in 4Q23 backed by a favorable price environment.

ADNOC Gas's LNG EBITDA also grew strongly 45.9% YOY to USD 296 Mn in 4Q23 driven by higher volumes and a decline in pricing. The Company finance cost grew from USD 43 Mn in 3Q23 to USD 53 Mn in 4Q23. Total income tax expenses grew from USD 358 Mn in 3Q23 to USD 383 Mn in 4Q23.

Balance Sheet Highlights

ADNOCGAS's investment in capex grew from USD 870 Mn in 2022 to USD 1,267 Mn in 2023 primarily due to growth projects such as ESTIDAMA and Meram as well as to fund the continuous maintenance/shutdown program. Furthermore, the Company plans to allocate USD 13.4 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 experienced a decline from USD 5,212 Mn in 2022 to USD 4,460 Mn in 2023, primarily due to investments in capex. As of 4Q23, the Company held cash and cash equivalents of USD 3,329 Mn 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 mainly due to growth in revenue and EBITDA supported by higher production volume and favorable price environment. ADNOCGAS's total production volume grew 5.3% YOY to 856 TBTU in 4Q23 driven by an increase in production from Domestic gas and Trading and export products. Sales volume including ADNOC LNG's JV share grew 5.1% YOY to 912 TBTU in 4Q23. The growth in sales volume was mainly driven by a healthy level of reliability of 99.8% across its assets in 4Q23. ADNOCGAS further expects its production volume to range between 2,215-2,300 TBTU for the Domestic Gas segment, 940-960 TBTU for Exports & Traded Liquid, and 220-240 TBTU for ALNG JV products in 2024. ADNOCGAS currently owns a total gross gas processing facilities of 10+ BSCFD and 29 MTPA of liquid processing capacity. It further anticipates adding a gas processing facility of 3 BSCFD and liquid processing by 6 MTPA over 2028. The Company recently awarded contracts totaling USD 4.9 Bn as a part of its growth strategy in 2023. Out of which USD 3.6 Bn contract is utilized to expand its gas processing infrastructure in the UAE. The contracts involve constructing new facilities to optimize the supply to the Ruwais Industrial Complex. In addition, the Company also approved a contract worth USD 615 Mn for a carbon capture project. ADNOCGAS is also actively capitalizing on the increasing global demand for natural gas while expanding its presence. In January 2024, the Company signed a 10-year deal with Gail India Ltd, committing to supply 0.5 MMTPA of liquefied natural gas. The agreement contributes to ADNOCGAS's expanding presence, particularly within the Asian LNG market. As of 4Q23, it inked LNG agreements with Indian Oil, JAPEX, PetroChina, and JERA, resulting in a collective value of LNG supply deals between USD 9.4 Bn and USD 12 Bn. ADNOCGAS is also planning to gradually increase leverage to fund its capex requirement. The Company has earmarked a growth Capex of USD 13.8 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 7.776 fils per share for 2H23, which would result in a total dividend of 4.9% in 2023. Thus, based on our analysis we maintain our BUY rating on the stock.

Adnoc Gas - Relative valuation

(at CMP in USD)	2022	2023	2024F
PE	NA	13.2	14.8
PB	NA	3.0	2.8
EV/EBITDA	NA	8.4	8.0
Dividend yield	NA	4.9%	5.1%

FABS Estimates & Co Data

ADNOCGAS share started trading in 2023; hence, previous-year multiples are not provided

Adnoc Gas – P&L

USD mm	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	5,888	5,807	6,301	5,481	15.0%	7.0%	8.5%	25,785	22,731	-11.8%
Direct Cost	3,445	3,466	3,598	2,764	30.2%	4.4%	3.8%	15,126	13,079	-13.5%
Gross Profit	2,443	2,341	2,703	2,717	-0.5%	10.6%	15.5%	10,659	9,652	-9.4%
G&A Expenses	-517	-479	-491	-653	-24.8%	-5.0%	2.5%	-1,985	-2,037	2.6%
EBITDA	1,926	1,863	2,212	1,781	24.2%	14.8%	18.7%	8,674	7,614	-12.2%
Net Profit	1,084	1,116	1,345	887	51.7%	24.1%	20.5%	4,797	4,720	-1.6%

FABS estimate & Co Data

Adnoc Gas - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	41.5%	40.3%	42.9%	141	258	41.3%	42.5%	112
EBITDA	32.7%	32.1%	35.1%	239	302	33.6%	33.5%	-14
Net Profit	18.4%	19.2%	21.3%	294	213	18.6%	20.8%	216

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 ADNOCGAS; as a result it is valued as a standalone business.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.12	70.0%	2.88
Relative Valuation (RV)	3.65	15.0%	0.55
Dividend Yield	3.35	15.0%	0.50
Weighted Average Valuation (AED)			3.93
Current market price (AED)			3.18
Upside/Downside (%)			+24%

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 9.0%. The cost of equity is calculated using a 10-year government bond yield of 5.2%, 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)	21,072
Terminal value (USD, Mn)	56,045
FV to Common shareholders (USD, Mn)	77,117
No. of share (Mn)	76,751
Current Market Price (AED)	3.18
Fair Value per share (AED)	3.69

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	4,118	4,412	4,690	4,804	4,491	5,042	5,603
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	-240	-94	-232	-103	-26	28	-71
Net change in debt	500	1,000	1,000	1,000	500	0	0
Free Cash Flow to Equity (FCFE)	3,027	3,396	3,468	4,170	3,627	5,558	6,969
Discounting Factor	0.93	0.86	0.78	0.72	0.66	0.61	0.55
Discounted FCFE	2,823	2,904	2,720	3,000	2,393	3,363	3,868

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 9.0%. The cost of equity is calculated using a 10-year government bond yield of 5.2%, 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)	3,630
Terminal value (USD, Mn)	9,067
FV to Common shareholders (USD, Mn)	12,697

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)	466	471	599	751	791	1,050	1,127
Discounting Factor	0.93	0.86	0.78	0.72	0.66	0.61	0.55
Discounted FCFE	435	402	470	540	522	635	626

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 9.1x in line with its peers. In the dividend yield, we have used a dividend Yield of 4.9% 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	62,990	8.4	6.0	27.8	16.9	4.6	5.1
Saudi Arabian Oil Co	2,059,000	7.9	7.9	16.9	16.5	5.6	4.4
Borouge	20,050	10.0	9.7	17.7	15.2	6.2	5.8
Petronas Gas Bhd	7,540	9.8	9.5	18.4	18.1	4.3	4.4
Kinder Morgan Inc	39,880	8.7	8.7	14.3	14.1	6.4	6.6
Valero Energy Corp	50,050	5.7	6.3	10.2	11.5	2.9	2.9
Marathon Petroleum Corp	65,550	6.5	7.0	11.7	12.9	1.9	2.0
Oneok Inc	45,070	11.1	10.3	15.7	14.2	5.1	5.3
Targa Resources Corp	23,340	9.6	8.6	19.2	15.1	2.9	3.5
Williams Cos Inc	44,580	9.9	9.4	20.2	17.5	5.2	5.4
Average		8.8x	8.3x	17.2x	15.2x	4.5%	4.5%
Median		9.1x	8.6x	17.3x	15.2x	4.9%	4.8%
Max		9.9x	9.5x	19.0x	16.8x	5.5%	5.4%
Min		8.0x	7.2x	14.7x	14.1x	3.2%	3.7%

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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