

ADNOC Gas PLC

Lower energy prices impacted profit

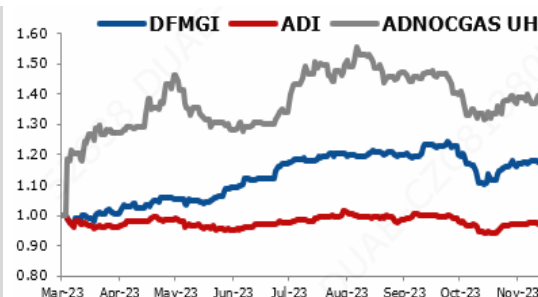
Current Price
AED 3.28

Target Price
AED 3.93

Upside/Downside (%)
+20%

Rating
BUY

- ADNOC GAS awarded contracts worth USD 3.6 Bn for UAE gas infrastructure expansion and approved a USD 615 Mn contract for a carbon capture project.
- As of 3Q23, ADNOC GAS signed LNG deals with Indian Oil, JAPEX, Petrochina, and JERA, amounting to a total value of LNG supply contracts between USD 9.4 Bn and USD 12 Bn since its listing.
- The Company recently revised upwards its 2023 production volume projections for Domestic Gas segment to 2,225-2,250 TBTU, for Exports & Traded Liquid to 950-975 TBTU, and for ALNG JV products to 210-240 TBTU.
- ADNOC GAS's incurred a capex of USD 746 Mn in 9M23, while it plans to allocate USD 14 Bn towards growth capex between 2023-28.



Stock Information

Market Cap (AED, mm)	251,744.66
Paid Up Capital (mm)	19,187.86
52 Week High	3.71
52 Week Low	2.77
3M Avg. daily value (AED)	32,489,180

3Q23 Result Review (USD, mm)

Total Assets	28,630
Total Liabilities	6,068
Total Equity	22,562
EBITDA	1,863
Net Profit	1,116

Financial Ratios

Dividend Yield (12m)	2.41
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	3.15
Book Value (AED)	0.28
Return-on Equity (%)	N/A

Stock Performance

5 Days	0.92%
1 Months	4.79%
3 Months	-8.12%
6 Months	4.13%
1 Year	N/A
Month to Date (MTD%)	2.18%
Quarter to Date (QTD%)	-5.75%
Year to Date (YTD%)	N/A

3Q23 Net Profit lower than our estimate

ADNOC Gas plc (ADNOC GAS/the Company) net profit declined 3.9% YOY to USD 1,116 Mn in 3Q23, lower than our estimate of USD 1,196 Mn. The decline in net profit was primarily attributable to lower revenue resulting from unfavorable pricing environment that led to lower prices of Brent Oil, LNG, LPG, and Naphtha prices, partially offset by higher sales volume across Domestic and Export & Traded liquids and decline in direct cost along with lower operating expenses.

P&L Highlights

ADNOC Gas net revenue declined from USD 6,613 Mn in 3Q22 to USD 5,807 Mn in 3Q23 owing to a drop in Brent oil prices along with a decline in price of LNG, LPG and Naphtha further leading to a decline in gas prices. However, revenue grew 7.6% QOQ owing to less favorable pricing environment compared to 3Q22 and due to growth in production volume. The total production volume grew 6.8% QOQ in 3Q23. The Company's domestic gas volume grew 14% YOY to 627 trillion british thermal units (TBTU) in 3Q23. Exports and Traded liquids volume rose to 268 TBTU in 3Q23 from 261 TBTU in 3Q22. While, LNG production witnessed a decline from 70 TBTU in 3Q22 to 53 TBTU in 3Q23. ADNOC GAS sales volume also grew 4.2% YOY to 946 MMBTU owing to its healthy level of reliability of 98.6% across its asset in 3Q23. The Company's direct cost declined 11.3% YOY to USD 3,466 Mn in 3Q23 mainly due to the benefit from Supply and Payment Agreement (GSPA) with ADNOC Upstream. However, gross profit declined from USD 2,705 Mn in 3Q22 to USD 2,341 Mn in 3Q23 due to decline in revenue. Gross margins also declined 59 bps YOY to 40.3% in 3Q23. Other operating income stood at USD 281 Mn in 3Q23, while share of profit to equity accounted investee stood at USD 53 Mn in 3Q23. Total operating expenses declined from USD 521 Mn

in 3Q22 to USD 479 Mn in 3Q23. Thus, EBIT stood at USD 1,486 Mn in 3Q23. EBITDA declined from USD 2,185 Mn in 3Q22 to USD 1,863 Mn in 3Q23. Domestic Gas segment delivered at steady performance rising 32% YOY to USD 727 Mn in 3Q23 owing to favorable contract prices. Export & traded liquids EBITDA fell from USD 1,081 Mn in 3Q22 to USD 948 Mn in 3Q23 due to unfavorable price environment. ADNOC Gas's LNG EBITDA also fell from USD 490 Mn in 3Q22 to USD 161 Mn in 3Q23 due to a decline in pricing. The Company finance cost stood at USD 43 Mn in 3Q23. While total income tax expenses stood to USD 358 Mn in 3Q23.

Balance Sheet Highlights

ADNOCGAS's investment in capex grew from USD 482 Mn in 9M22 to USD 746 Mn in 9M23 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 14 Bn towards growth capex between 2023-28, along with an additional USD 1 Bn for maintenance capex over the next three years. ADNOCGAS's free cash flow experienced a decline from USD 4,205 Mn in 9M22 to USD 3,625 Mn in 9M23, primarily due to investments in capex and a reduction in EBITDA owing lower prices realization in 9M23 partially offset by benefit of lower taxes and lower investment in working capital. As of 3Q23, the Company held cash and cash equivalents of USD 4,131 Mn, while its gross debt declined from USD 1,350 Mn in 2Q23 to USD 500 Mn in 3Q23.

Target Price and Rating

We revise our rating from ACCUMULATE to BUY on ADNOCGAS with an unchanged target price of AED 3.93. The Company's share price declined 9.5% since our last rating (August 2023). ADNOCGAS's profitability continued to get impacted in 3Q23 owing to a decline in net revenue and EBITDA mainly due to drop in energy prices. The net revenue declined 12.2% YOY in 3Q23 mainly due to the reduction in the Brent crude oil prices coupled with decline in LNG, LPG, and Naphtha prices. However, owing to the improved price environment the net revenue grew 7.6% QOQ in 3Q23. While the EBITDA grew 5.5% QOQ to USD 1,863 Mn in 3Q23. Revenue and EBITDA were also supported by higher production volume of the Domestic and Export & Traded liquids owing to strong domestic demand and lower shutdowns. ADNOCGAS's total production volume grew 6.8% QOQ to 895 TBTU in 3Q23. Sales volume excluding ADNOC LNG's JV share grew 7.3% YOY to 898 TBTU in 3Q23. The rise in sales volume was mainly driven by a healthy level of reliability of 98.6% across its asset in 3Q23. Recently the Company revised its production volume upward to 2,225-2,250 TBTU for the Domestic Gas segment, 950-975 TBTU for Exports & Traded Liquid, and 210-240 TBTU for ALNG JV products in 2023. ADNOCGAS currently owns a total gross gas processing facilities of 10+ BSCFD and 29 MTPA of liquid processing capacity. While it further anticipates to add an additional gas processing facility of 3 BSCFD and liquid processing by 6 MTPA over the next five years. ADNOCGAS recently awarded contracts totaling USD 3.6 Bn to expand its gas processing infrastructure in the UAE. The contracts involve the construction of new facilities aimed at optimizing the supply to the Ruwais Industrial Complex. Additionally, the Company also approved a contract worth USD 615 Mn for a carbon capture project. The Company is also actively capitalizing on the increasing global demand for natural gas while expanding its presence. As of 3Q23, 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 since its listing. ADNOCGAS is also planning to gradually increase leverage to fund its capex requirement. It has earmarked a Capex of USD 14 Bn over 2023-28. The Company aims to achieve a 5.0% annual dividend payment increase from 2024 to 2027, while it plans to pay an interim cash dividend of USD 1.63 Bn for 1H23 and USD 1.63 Bn for 2H23 in 2Q24. The energy price is expected to be boosted by continued supply measures undertaken by OPEC countries. In addition to the proposed cut by countries, OPEC plans to further deepen cuts to boost energy prices which will boost the top-line of ADNOC Gas's in the near-term. Thus, based on our analysis we assign BUY rating on the stock.

Adnoc Gas - Relative valuation

(at CMP in USD)	2022	2023F
PE	NA	14.8
PB	NA	3.0
EV/EBITDA	NA	9.6
Dividend yield	NA	4.8%

FABS Estimates & Co Data

ADNOC GAS share started trading in 2023, hence previous-year multiples are not provided

Adnoc Gas - P&L

USD mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	6,613	5,397	5,807	5,761	0.8%	-12.2%	7.6%	21,200	19,279	-9.1%
Direct Cost	3,908	3,078	3,466	3,190	8.7%	-11.3%	12.6%	NA	11,580	NA
Gross Profit	2,705	2,319	2,341	2,570	-8.9%	-13.5%	0.9%	NA	7,699	NA
G&A Expenses	521	-553	-479	-474	1.0%	-191.9%	-13.4%	NA	2,605	NA
EBITDA	2,185	1,766	1,863	2,096	-11.1%	-14.7%	5.5%	7,300	6,689	-8.4%
Net Profit	1,161	984	1,116	1,196	-6.7%	-3.9%	13.4%	4,900	4,570	-6.7%

FABS estimate & Co Data

Adnoc Gas - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	40.9%	43.0%	40.3%	-59	-265	NA	12.5%	NA
EBITDA	33.0%	32.7%	32.1%	-96	-64	34.4%	34.7%	26
Net Profit	17.6%	18.2%	19.2%	166	99	23.1%	23.7%	59

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	4.14	70.0%	2.90
Relative Valuation (RV)	3.59	15.0%	0.54
Dividend Yield	3.29	15.0%	0.49
Weighted Average Valuation (AED)			3.93
Current market price (AED)			3.28
Upside/Downside (%)			20%

1) ADNOC Gas DCF Method:

Adnoc Gas is valued using free cash flow to Equity. We have discounted the cash flow using weighted average cost of equity of 8.8%. 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 3.8%. 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 (USD, Mn)	20,810
Terminal value (USD, Mn)	57,860
FV to Common shareholders (USD, Mn)	78,669
No. of share (Mn)	76,751
Current Market Price (AED)	3.28
Fair Value per share (AED)	3.76

DCF Method

(All Figures in USD Mn)	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	4,145	4,247	4,268	4,516	4,804	4,588	5,047	5,689
D&A	1,156	1,211	1,355	1,523	1,666	1,813	1,890	1,913
(-) Capex	-1,900	-3,500	-3,500	-3,000	-3,100	-3,200	-1,668	-500
Change in working capital	-54	-45	-6	-131	5	-62	-43	-9
Net change in debt	0	500	1,000	1,000	1,000	500	0	0
Free Cash Flow to Equity (FCFE)	558	2,413	3,117	3,908	4,376	3,639	5,227	7,093
Discounting Factor	0.99	0.91	0.84	0.77	0.71	0.65	0.60	0.55
Discounted FCFE	553	2,197	2,608	3,004	3,090	2,360	3,115	3,884

Source: FAB Securities

1) ADNOC Gas 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 weighted average cost of equity of 8.8%. 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 3.8%. 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 (USD, Mn)	3,550
Terminal value (USD, Mn)	7,666
FV to Common shareholders (USD, Mn)	11,216

DCF Method

(All Figures in USD Mn)	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	627	523	524	591	672	689	722	757
D&A	143	143	143	143	143	293	293	293
(-) Capex	-135	-324	-334	-371	-368	-408	-147	-152
Change in working capital	-81	-36	-37	-42	-48	-53	-56	-58
Net change in debt	0	250	250	300	300	200	100	100
Free Cash Flow to Equity (FCFE)	92	555	545	621	699	721	913	940
Discounting Factor	0.99	0.91	0.84	0.77	0.71	0.65	0.60	0.55
Discounted FCFE	92	505	456	477	494	467	544	515

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 8.6x in line with its peers. In the dividend yield, we have used a dividend Yield of 5.0% to value ADNOC GAS.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Saudi Basic Industries Corp	65,070	10.0	7.4	63.7	18.1	4.4	4.7
Saudi Arabian Oil Co	21,590	7.9	7.8	16.5	16.7	5.0	5.2
Borouge	20,380	10.9	9.1	20.9	15.3	6.1	6.1
Petronas Gas Bhd	7,158	9.2	8.9	17.7	17.4	4.7	4.8
Kinder Morgan Inc	38,430	9.1	8.8	15.1	14.3	6.5	6.7
Valero Energy Corp	42,680	3.2	4.6	5.0	8.6	3.3	3.4
Marathon Petroleum Corp	56,650	4.2	5.9	6.5	9.8	2.1	2.3
Oneok Inc	38,830	12.0	10.1	12.4	13.3	5.7	5.9
Targa Resources Corp	19,450	9.1	8.3	19.7	14.5	2.3	3.3
Williams Cos Inc	44,070	10.1	9.9	17.4	19.2	5.0	5.2
Average		8.6x	8.1x	19.5x	14.7x	4.5x	4.7x
Median		9.1x	8.6x	17.0x	14.9x	4.8x	5.0x
Max		10.1x	9.0x	19.2x	17.2x	5.6x	5.7x
Min		8.2x	7.5x	13.1x	13.6x	3.5x	3.7x

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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