

Abu Dhabi Ports Company PJSC

Strong top-line growth supported by recent M&A deals

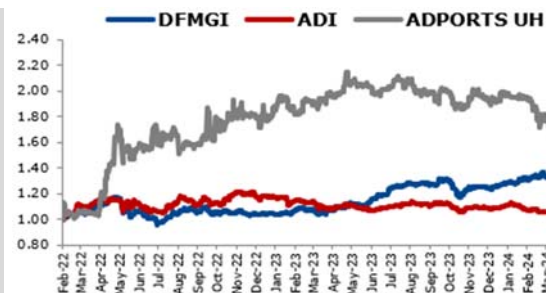
Current Price
AED 5.57

Target Price
AED 7.70

Upside/Downside (%)
+38%

Rating
BUY

- ADPORTS total debt grew from AED 13,268 Mn in 3Q23 to AED 15,105 Mn in 4Q23. Net debt to EBITDA grew from 4.3x in 3Q23 to 4.4x in 4Q23.
- The Company plans a Capital expenditure of AED 12-15 Bn over the next five years with spending of AED 4.6 Bn in 2023.
- Through the KEZAD group, the Company plans to increase its warehousing capacity by 250K sq mt by the end of 2025 owing to the strong demand for industrial and logistics facilities in Abu Dhabi.
- The Company recently completed the acquisition of GFS, obtaining a 51% stake for an enterprise value of AED 1.9 Bn, with the option to further increase the stake by 20% in 2026.



Stock Information

Market Cap (AED, mm)	28,351.30
Shares Outstanding(mm)	5,090.00
52 Week High	6.95
52 Week Low	5.41
3M Avg. daily value (AED)	10,032,950

4Q23 Result Review (AED, mm)

Total Assets	55,611
Total Liabilities	31,302
Total Equity	24,309
EBITDA	524
Net Profit	74

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	25.38
Price-to-Book Ratio (x)	1.36
Book Value (AED)	4.09
Return-on Equity (%)	5.35

4Q23 Net Profit lower than our estimate

AD Ports Group (ADPORTS /The Company) net profit declined from AED 331 Mn in 4Q22 to AED 74 Mn in 4Q23, lower than our estimate of AED 321 Mn. The decline in net profit is primarily attributable to a higher direct cost, G&A, and S&D expenses, increased finance cost, and higher share to NCI partially offset by revenue growth and a rise in other income.

P&L Highlights

ADPORTS net revenue rose significantly from AED 1,743 Mn in 4Q22 to AED 3,566 Mn in 4Q23 supported by the recent consolidation of Noatum and significant growth in the Maritime, and Logistics segment. Maritime Services revenue grew significantly from AED 857 Mn in 4Q22 to AED 1,772 Mn in 4Q23 driven by the shipping segment, and vessel trading activities coupled with the recent acquisition of Noatum. EC&FZ revenue grew 12.6% YOY to AED 469 Mn in 4Q23 mainly due to an increase in revenue from warehouse leases, KEZAD Communities, and Utilities along with the effects of the EAJ merger. Warehouse and KEZAD Communities revenue growth is mainly driven by higher utilization. In addition, the Company acquired an extra 0.9 sq km of land in 4Q23, bringing the total land lease within the EC&FZ cluster to 67 sq km. ADPORTS further plans to secure 3.5-4.0 sq km of new land leases going forward. Ports Cluster revenue grew from AED 347 Mn in 4Q22 to AED 485 Mn in 4Q23, underpinned by strong performance in general cargo and Ro-Ro business. The segment is also benefitted from the consolidation of Noatum's Terminals business. The Container volume grew 7.3% YOY to 1.3 Mn TEUs in 4Q23. Cluster Ro-Ro volumes grew strongly 716.3% YOY, and general cargo volumes rose 8.4% YOY in 4Q23. Revenue from the Logistics segment grew from AED 134 Mn in 4Q22 to AED 817 Mn in 4Q23 benefitted from Noatum's consolidation.

5 Days	1.09%
1 Months	-7.17%
3 Months	-9.43%
6 Months	-8.39%
1 Year	-9.58%
Month to Date (MTD%)	-3.80%
Quarter to Date (QTD%)	-12.70%
Year to Date (YTD%)	-12.70%

Furthermore, Digital cluster revenue rose 18.5% YOY to AED 137 Mn in 4Q23 driven by the contribution from TTEK. Direct costs grew significantly from AED 919 Mn in 4Q22 to AED 3,019 Mn in 4Q23 mainly due to an increase in revenue. Thus, gross profit declined from AED 824 Mn in 4Q22 to AED 547 Mn in 4Q23 with a decline in gross profit margin from 47.3% in 4Q22 to 15.3% in 4Q23. G&A expenses grew from AED 318 Mn in 4Q22 to AED 387 Mn in 4Q23. The Company received a reversal for impairments on financial assets of AED 7 Mn in 4Q23 compared to an impairment charge of AED 53 Mn in 4Q23. Selling and marketing expenses grew 27.5% YOY to AED 42 Mn in 4Q23. Other income grew from AED 7 Mn in 4Q22 to AED 99 Mn in 4Q23. Resultantly, EBIT grew 6.1% YOY to AED 448 Mn in 4Q23. However, EBITDA declined marginally 0.2% YOY to AED 524 Mn in 4Q23 driven by a decline in the Maritime and logistics segment. Maritime EBITDA declined significantly from AED 207 Mn in 4Q22 to AED 44 Mn in 4Q23. The logistics segment recorded a negative EBITDA of AED 103 Mn in 4Q23 as compared to a positive EBITDA of AED 26 Mn in 4Q22. While Ports Cluster and EZ & FZ EBITDA grew 5.3% YOY and 81.8% YOY to AED 218 Mn and AED 394 Mn respectively in 4Q23. Digital Cluster EBITDA grew 36.4% YOY to AED 79 Mn in 4Q23. Finance costs grew from AED 99 Mn in 4Q22 to AED 205 Mn in 4Q23 due to an increase in borrowing. Share of profit from joint venture declined from AED 16 Mn in 4Q22 to AED 15 Mn in 4Q23. Income tax expense recorded a reversal of AED 12 Mn in 4Q23 compared to a charge of AED 1 Mn in 4Q22. Share to NCI grew significantly from AED 13 Mn in 4Q22 to AED 211 Mn in 4Q23 dragging profitability.

Balance Sheet Highlights

ADPORTS total debt grew from AED 13,268 Mn in 3Q23 to AED 15,105 Mn in 4Q23. Furthermore, including the amount due to project companies the gross debt grew from AED 15,678 Mn in 3Q23 to AED 17,511 Mn in 4Q23. Net debt increased from AED 11,393 Mn in 3Q23 to AED 11,821 Mn in 4Q23. Net debt to EBITDA also grew from 4.3x in 3Q23 to 4.4x in 4Q23. Cash and cash equivalents grew from AED 1,876 Mn in 3Q23 to AED 3,283 Mn in 4Q23. Cash flow from operation stood at AED 1,465 Mn in 2023, as compared to AED 1,626 Mn in 2022 mainly due to investment in working capital. ADPORTS further plans a Capital expenditure of AED 12-15 Bn over the next five years with spending of AED 4.6 Bn in 2023. Thus, free cash flow to the firm remained negative at AED 5,411 Mn in 2023 owing to the heavy organic CAPEX and acquisition.

Target Price and Rating

We maintain our BUY rating on AD Ports Group with a target price of AED 7.70. ADPORTS delivered strong growth driven by a robust rise in revenue and EBITDA during 2023. The revenue growth was driven by a strong increase in the Logistics, Maritime, Ports, and Digital Cluster segments owing to the recent consolidation of Noatum. The recent acquisition of Noatum contributed AED 972 Mn in revenue and AED 73 Mn in EBITDA during 4Q23. ADPORTS further expects revenue to grow by 15-20% CAGR and EBITDA by 20-25% CAGR from 2023 to 2028. The Company recorded c. 65% of total revenue from the long-term and sticky business during 2023. Moreover, as of 2023, ADPORTS generated 25% of its revenue and 19% of EBITDA through the recent merger and acquisition initiatives. The Company recently completed the acquisition of GFS, obtaining a 51% stake for an enterprise value of AED 1.9 Bn, with the option to further increase the stake by 20% in 2026. Through Noatum, the Company acquired APM Terminals Castellon in Spain for EUR 10 Mn and also completed the acquisition of Sese Auto Logistics for a total acquisition cost of EUR 81 Mn. With the addition of APM Terminals Castellon, the Company's capacity in Castellon has expanded to 250,000 TEUs in container operations and 2 Mn tonnes in bulk cargo, along with its Ro-Ro capabilities. Meanwhile, the acquisition of Sese Auto Logistics enables the Company to oversee the entire logistics value chain, spanning distribution, transportation, and vehicle delivery. Additionally, ADPORTS Maqta Gateway purchased a 60% stake in Dubai Technologies, a developer of trade and transportation solutions for AED 28 Mn. The acquisition is anticipated to enhance its range of digital trade services, boost Maqta Gateway's internal capabilities, and solidify its position as a leading innovator in digital trade solutions. Through the KEZAD group, the Company plans to increase its warehousing capacity by 250K sq mt by the end of 2025 mainly due to the strong demand for industrial and logistics facilities in Abu Dhabi. The expansion, constituting a 43% growth in total warehousing capacity, will require an investment of AED 620 Mn in capex. ADPORTS also plans a capital expenditure of AED 12-15 Bn over the next five years with a spending of AED 4.6 Bn as of 2023. In addition, the Company also maintained a robust

financial position with a Net debt/EBITDA of 4.4x and a cash balance of AED 3.2 Bn that offers flexibility to drive both organic and inorganic growth going forward. Considering all these factors, we maintain our BUY rating on the stock.

AD PORTS - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	NA	22.7	26.4	18.6
PB	NA	1.5	1.4	1.3
EV/EBITDA	NA	21.5	16.0	12.8

FABS Estimates & Co Data

AD PORTS – P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	1,743	4,235	3,566	4,343	-17.9%	104.6%	-15.8%	5,498	11,679	112.4%
Direct costs	-919	-3,129	-3,019	-3,241	-6.8%	228.7%	-3.5%	-2,865	-8,574	199.2%
Gross profit	824	1,106	547	1,102	-50.4%	-33.6%	-50.6%	2,632	3,105	17.9%
G&A expenses	-318	-467	-387	-536	-27.8%	21.6%	-17.1%	-985	-1,408	43.0%
Impairment of Trade Rec	-53	-47	7	-51	NM	NM	NM	-142	-80	-43.7%
Selling & mkt expenses	-33	-14	-42	-18	137.4%	27.5%	202.2%	-83	-77	-7.6%
Impairment of invest prop	-5	0	364	0	NM	NM	NM	-5	364	NM
Impairment of inv in eq acc	0	0	-139	0	NM	NM	NM	0	-139	NM
Other income	7	1	99	45	118.5%	NM	NM	10	103	NM
EBITDA	525	759	524	945	-44.5%	-0.2%	-30.9%	2,175	2,668	22.7%
EBIT	422	579	448	543	-17.5%	6.1%	-22.7%	1,428	1,867	30.8%
Finance cost	-99	-199	-205	-210	-2.2%	106.4%	3.0%	-394	-667	69.2%
Financial income	3	11	12	4	178.0%	NM	6.1%	15	31	NM
Gain on disposal of asset	0	0	0	0	NM	NM	NM	73	0	NM
Gain on disposal of assoc	0	39	0	0	NM	NM	NM	0	39	NM
Fair value loss/ gain on invt	0	2	-2	0	NM	NM	NM	0	-4	NM
Share of profit from assoc	4	9	6	14	-56.2%	39.3%	-36.6%	37	26	-29.4%
Share of profit from JV	16	23	15	27	-45.5%	-7.0%	-37.0%	128	118	-7.5%
Profit before tax	345	464	273	378	-27.7%	-20.9%	-41.2%	1,286	1,411	9.7%
Income tax	-1	-62	12	-43	NM	NM	-119.8%	-2	-50	NM
Profit after Tax	344	403	285	334	-14.8%	-17.1%	-29.3%	1,284	1,360	NA
Non-controlling interest	13	22	211	13	NM	NM	NM	36	288	699.1%
Net Profit	331	381	74	321	-76.9%	-77.6%	-80.5%	1,248	1,072	-14.1%

FABS estimate & Co Data

AD PORTS - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	47.3%	26.1%	15.3%	-3,196	-1,078	47.9%	26.6%	-2,130
EBITDA	30.1%	17.9%	14.7%	-1,543	-322	39.6%	22.8%	-1,672
Operating Profit	24.2%	13.7%	12.6%	-1,167	-112	26.0%	16.0%	-998
Net Profit	19.0%	9.0%	2.1%	-1,693	-691	22.7%	9.2%	-1,353

FABS estimate & Co Data

Valuation:

We assigned a 100% weight to DCF valuation as the company is working on multiple projects which are still under development and these projects will be completed over a period of time. The Company also plans to incur a capex of approx. AED 12-15 Bn during FY2024-28 to complete these projects. Thus, we believe DCF valuation will be able to capture the valuation more precisely as compared to the other valuation methods.

Valuation Method	Target	Weight	Weighted Value
DCF Method	7.70	100.0%	7.70
Weighted Average Valuation (AED)			7.70
Current market price (AED)			5.57
Upside/Downside (%)			+38%

1) ADPORTS DCF Method:

ADPORTS is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It is arrived after using the cost of equity of 9.4% and the after-tax cost of debt of 4.0%. Cost of equity is calculated by using a 10-year government bond yield of 5.2%, beta of 1.05, and equity risk premium of 4.1%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	11,498
Terminal value (AED, Mn)	43,354
FV to Common shareholders (AED, Mn)	39,099
No. of share (Mn)	5,078
Current Market Price (AED)	5.57
Fair Value per share (AED)	7.70

DCF Method

(All Figures in AED Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT	2,674	2,989	3,365	3,674	3,761	3,712	3,876
D&A	1,455	1,620	1,670	1,720	1,759	1,804	1,845
(-) Capex	-4,600	-2,800	-1,700	-1,400	-1,800	-1,600	-1,300
(-) Change in working capital	-224	-962	-970	-466	-903	-193	-280
Free Cash Flow to Firm (FCFF)	-694	847	2,366	3,528	2,817	3,723	4,140
Discounting Factor	0.94	0.87	0.81	0.75	0.70	0.65	0.60
Discounted FCFF	-653	740	1,916	2,649	1,962	2,405	2,480

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%

FAB Securities Contacts:**Research Analyst**

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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