

Abu Dhabi Ports Company PJSC

Healthy revenue growth supported by recent M&A deals drove profitability

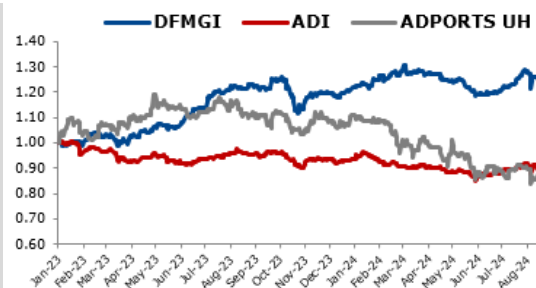
Current Price
AED 4.86

Target Price
AED 7.70

Upside/Downside (%)
+58%

Rating
BUY

- ADPORTS completed several major transactions in 2Q24, including acquiring an 81% stake in a JV to upgrade & operate Luanda Port and a 30% stake in TICTS to enter Tanzania.
- The Company is guided on a 15-20% revenue growth in the next five years and expects EBITDA margins to normalize to 25-30% in the medium term.
- ADPORTS signed various 50-year land lease agreements with different UAE-based companies in 2Q24, further expanding its EC & FZ operations.
- The Company plans a capex of AED 12-15 Bn over the next five years, with spending of AED 1.2 Bn in 2Q24.



2Q24 Net Profit lower than our estimate

Abu Dhabi Ports Company PJSC ("the Company" or "AD Ports Group" or "ADPORTS") net profit grew from AED 286 Mn in 2Q23 to AED 333 Mn in 2Q24, lower than our estimate of AED 384 Mn. The increase in net profit is primarily attributable to a strong growth in revenue and EBITDA driven by the recent consolidation of GFS and Noatum acquisitions, partially offset by higher direct costs, G&A & S&M expenses, finance costs and income tax expense.

P&L Highlights

ADPORTS net revenue rose significantly from AED 2,060 Mn in 2Q23 to AED 4,181 Mn in 2Q24, supported by significant growth in the Maritime, Ports, EC & FZ, Logistics and Digital Cluster segments driven by the recent consolidation of Noatum and GFS. Furthermore, 46% of the revenue recorded is sticky in the long term, providing a stable revenue stream. Maritime Services revenue grew significantly from AED 1.2 Bn in 2Q23 to AED 2.0 Bn in 2Q24, driven by the significant rise in feeder container volumes coupled with the recent acquisition of Noatum Maritime & GFS and ongoing disruptions in the Red Sea. The Maritime & Shipping Cluster accounted for the highest share in revenue and EBITDA, representing 47% and 50% of the Group's total revenue and EBITDA, respectively, in 2Q24. EC&FZ revenue grew 7.0% YOY to AED 471 Mn in 2Q24, mainly due to an increase in revenue from warehouse leases & KEZAD Communities and strong growth in gas volumes. The growth in Warehouse and KEZAD Communities is mainly driven by higher utilization. In addition, the Company signed additional land leases of 0.6 sq km in 2Q24, in line with its annual guidance of 3.5 – 4.0 sq km. Ports Cluster revenue grew from AED 307 Mn in 2Q23 to AED 563 Mn in 2Q24, underpinned by strong general cargo and Ro-Ro business performance. The segment is also benefitted from the consolidation of Noatum's

Stock Information

Market Cap (AED, mn)	24,737.40
Shares Outstanding (mn)	5,090.00
52 Week High	6.60
52 Week Low	4.78
3M Avg. daily value (AED)	8,360,015

2Q24 Result Review (AED, mn)

Total Assets	61,407
Total Liabilities	34,205
Total Equity	27,201
EBITDA	1,070
Net Profit	333

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	21.98
Price-to-Book Ratio (x)	1.08
Book Value (AED)	4.49
Return-on Equity (%)	5.21

Stock Performance

5 Days	-2.80%
1 Months	-7.25%
3 Months	-6.00%
6 Months	-14.13%
1 Year	-22.73%
Month to Date (MTD%)	-6.54%
Quarter to Date (QTD%)	-4.71%
Year to Date (YTD%)	-23.82%

Terminals and KGTM. The Container volume grew 34.0% YOY and 19% on an LFL (Like for like) basis to 1.6 Mn TEUs in 2Q24. Cluster Ro-Ro volumes grew strongly 522% YOY, and general cargo volumes rose 46% YOY and declined 2% YOY on an LFL basis in 2Q24. Revenue from the Logistics segment grew strongly from AED 127 Mn in 2Q23 to AED 1,080 Mn in 2Q24, mainly attributable to higher polymer volumes, commencement of ADL-Ulanish JV, and Noatum & Sese Auto Logistics consolidation. Furthermore, Digital cluster revenue rose 32% YOY to AED 154 Mn in 2Q24, attributed to continued growth from Foreign Labour Service (FLS) transactions and consolidation of Dubai Technologies. Direct costs grew significantly from AED 1.3 Bn in 2Q23 to AED 3.0 Bn in 2Q24, mainly due to increased revenue. Thus, gross profit increased 67.1% YOY to AED 1.2 Bn in 2Q24. However, gross profit margin declined from 35.8% in 2Q23 to 29.5% in 2Q24. G&A expenses grew from AED 289 Mn in 2Q23 to AED 491 Mn in 2Q24. Impairments on trade receivables rose from AED 8 Mn in 2Q23 to AED 58 Mn in 2Q24. Selling and marketing expenses grew from AED 12 Mn in 2Q23 to AED 15 Mn in 2Q24. Other income grew significantly from AED 3 Mn in 2Q23 to AED 22 Mn in 2Q24. Resultantly, EBIT grew strongly from AED 431 Mn in 2Q23 to AED 689 Mn in 2Q24. EBITDA grew from AED 686 Mn in 2Q23 to AED 1,070 Mn in 2Q24, driven by the growth across all the segments and the M&A effect. Maritime EBITDA grew from AED 281 Mn in 2Q23 to AED 534 Mn in 2Q24, driven by the consolidation of GFS and Noatum coupled with higher demand and rising rates for shipping operations in the Red Sea. Logistics segment EBITDA grew from AED 21 Mn in 2Q23 to AED 96 Mn in 2Q24, mainly due to higher polymer and air freight volume partially offset by a decline in ocean freight volumes. Ports Cluster EBITDA grew 41.8% YOY to AED 235 Mn, while EC & FZ EBITDA declined 13.3% YOY to AED 257 Mn in 2Q24. Digital Cluster EBITDA declined 25.7% YOY to AED 50 Mn in 2Q24. Finance costs grew from AED 141 Mn in 2Q23 to AED 236 Mn in 2Q24, primarily due to increased borrowing. Share of profit from joint ventures remained unchanged at AED 18 Mn in 2Q24 compared to 2Q23. Income tax expense expanded to AED 55 Mn in 2Q24, mainly due to the introduction of UAE corporate tax. Share to NCI grew significantly from AED 24 Mn in 2Q23 to AED 106 Mn in 2Q24, dragging profitability.

Balance Sheet Highlights

ADPORTS total debt grew from AED 16.0 Bn in 1Q24 to AED 17.1 Bn in 2Q24. Furthermore, including the amount due to project companies, the gross debt grew from AED 18.4 Bn in 1Q24 to AED 19.5 Bn in 2Q24. Net debt (excluding project payables) grew from AED 14.4 Bn 1Q24 to AED 15.3 Bn in 2Q24. Net debt to EBITDA increased from 3.4x in 1Q24 to 3.6x in 2Q24, mainly due to increase in net Debt, partially offset by a strong EBITDA growth. However, ADPORTS' balance sheet still offers additional flexibility, primarily due to its healthy cash balance and the fact that there will be no upcoming maturities in FY2024. Cash and cash equivalents increased from AED 1,604 Mn in 1Q24 to AED 1,743 Mn in 2Q24. Cash flow from operation stood at AED 591 Mn in 2Q24, as compared to AED 508 Mn in 2Q23. The Company spent AED 1.2 Bn in capex in 2Q24, mainly attributed to KEZAD projects, vessel purchases & drydocking and CMA Terminal at KP, and is in line with its FY2024 guidance of AED 4.0 – 4.5 Bn. Furthermore, it expects to spend AED 12-15 Bn in Capital expenditure over the next five years. Thus, free cash flow to the firm remained negative at AED 719 Mn in 2Q24 owing to the heavy organic CAPEX and acquisitions.

Target Price and Rating

We maintain our BUY rating on AD Ports Group with a target price of AED 7.70. ADPORTS delivered solid growth driven by a significant rise in revenue and EBITDA in 2Q24. The revenue growth was driven by a strong increase in the Ports, Logistics and Digital Cluster segments and the consolidation of Noatum and GFS. Excluding the effect of M&A, the Company's total revenue grew 6% on an LFL basis in 2Q24. The Company recorded c.46% of total revenue from the long-term and sticky business during 2Q24. ADPORTS completed several major transactions in 2Q24, including the acquisition of an 81% stake in a JV that secured a 20-year concession agreement to upgrade and operate the Luanda Port in Angola. It also purchased a 30% stake in Tanzania International Container Terminal Services (TICTS), a JV with East Harbour Terminals and Adani ports to enter the Tanzania region in 2Q24. The Company generated 48% of its revenue and 31% of EBITDA through the recent M&A initiatives in 2Q24. The current Red Sea situation positively impacted volumes and freight rates in the Company's shipping business, benefiting its operations. It expects a strong demand and higher price for its shipping operations in the Red Sea in 2024. The Company's Noatum recently launched a Maritime office in Türkiye to expand its regional footprint and support maritime agency services in the Mediterranean. AD Ports

also signed three concession agreements for cruise terminal operations at Safaga, Hurgada and Sharm El Sheikh Ports in Egypt. ADPORTS recorded strong demand for land and warehouses, with new agreements signed, including a 50-year land lease with Golden Spike and Wheat, NMDC Energy, Dukab Metals, and Bi-Tech. The Company also partnered with ADNOC Distribution to extend its Port Cluster business by supplying marine lubricants, initially in the UAE and later globally. The current ongoing partnership and acquisitions are anticipated to support the revenue and EBITDA growth going forward. The Company expects revenue to grow by 15-20% CAGR and EBITDA by 20-25% CAGR from 2023 to 2028 with margins beginning to normalize to 25-30% in the medium term. ADPORTS also plans a capex of AED 12-15 Bn over the next five years, with spending of AED 1.2 Bn as of 2Q24. In addition, the Company also maintained a robust financial position with a net debt/EBITDA of 3.6x and a cash balance of AED 1.7 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	19.8	23.1	17.7
PB	NA	1.3	1.2	1.1
EV/EBITDA	NA	19.2	14.4	12.7

FABS Estimates & Co Data

AD PORTS – P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	2,060	3,888	4,181	4,084	2.4%	103.0%	7.5%	11,679	17,165	47.0%
Direct costs	-1,323	-2,764	-2,950	-2,853	3.4%	123.0%	6.7%	-8,574	-12,587	46.8%
Gross profit	737	1,124	1,231	1,230	0.1%	67.1%	9.5%	3,105	4,578	47.5%
G&A expenses	-289	-536	-491	-551	-10.9%	70.2%	-8.4%	-1,408	-2,060	46.3%
Impairment of Trade Rec	-8	-11	-58	-20	192.5%	NM	NM	-80	-92	14.6%
Selling & mkt expenses	-12	-11	-15	-16	-7.6%	30.7%	38.9%	-77	-137	79.1%
Impairment of invest prop	0	0	0	0	NM	NM	NM	364	234	-35.7%
Impairment of inv in eq acc	0	0	0	-36	NM	NM	NM	-139	-143	2.9%
Other income	3	57	22	188	-88.3%	NM	NM	103	643	NM
EBITDA	686	1,039	1,070	1,080	-1.0%	55.9%	3.0%	2,668	4,470	67.6%
EBIT	431	623	689	795	-13.3%	59.8%	10.7%	1,867	3,023	61.9%
Finance cost	-141	-207	-236	-287	-17.9%	66.9%	13.7%	-667	-1,148	72.2%
Financial income	4	16	19	16	16.2%	NM	18.6%	31	66	110.2%
Share of profit from assoc	1	16	12	12	0.0%	NM	-26.9%	26	47	80.0%
Share of profit from JV	18	22	18	30	-41.6%	-3.7%	-19.0%	118	120	1.3%
Profit before tax	311	470	503	566	-11.1%	62.0%	7.1%	1,411	2,107	49.3%
Income tax	0	-62	-55	-76	-28.3%	NM	-11.0%	-50	-284	NM
Profit after Tax	310	400	439	490	-10.4%	41.5%	9.6%	1,360	1,822	34.0%
Non-controlling int.	24	86	106	106	0.4%	NM	23.1%	288	421	46.2%
Net Profit	286	314	333	384	-13.4%	16.3%	6.0%	1,072	1,401	30.7%

FABS estimate & Co Data

AD PORTS - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	35.8%	28.9%	29.5%	-1,042	1,358	26.6%	26.7%	8
EBITDA	33.3%	26.7%	25.6%	-1,173	1,203	22.8%	26.0%	320
Operating Profit	20.9%	16.0%	16.5%	-646	347	16.0%	17.6%	163
Net Profit	13.9%	8.1%	8.0%	-1,014	599	9.2%	8.2%	-102

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)			4.86
Upside/Downside (%)			58.4%

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 7.8%. It is arrived after using the cost of equity of 9.6% and the after-tax cost of debt of 5.5%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 1.05, and equity risk premium of 4.4%. 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)	9,961
Terminal value (AED, Mn)	49,636
FV to Common shareholders (AED, Mn)	39,086
No. of share (Mn)	5,078
Current Market Price (AED)	4.86
Fair Value per share (AED)	7.70

DCF Method

(All Figures in AED Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT	2,615	3,199	3,781	4,064	4,304	4,044	4,233
D&A	1,448	1,682	1,745	1,837	1,903	1,952	1,993
(-) Capex	-6,000	-4,400	-3,300	-2,400	-1,800	-1,600	-1,300
(-) Change in working capital	-1,943	274	-1,124	-501	-1,039	-419	-340
Free Cash Flow to Firm (FCFF)	-3,880	754	1,102	3,000	3,368	3,977	4,587
Discounting Factor	0.97	0.90	0.84	0.78	0.72	0.67	0.62
Discounted FCFF	-1,888¹	681	922	2,328	2,424	2,655	2,839

Source: FAB Securities, ¹Adjusted for partial year

