

ADNOC Logistics & Services PLC (ADNOC LS)

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---------------|--------------|---------------------|--------|
| 5.41 | AED 6.50 | +20% | BUY |

3Q24 Net Profit lower than our estimate

- Revenue rose 32.2% YOY to USD 928 Mn in 3Q24, attributed to strong growth across all segments.
- Revenue from Integrated Logistics grew 41.6% YOY to USD 539 Mn in 2Q24 due to a rise in volumes and activity rates along with strong utilization and expansion of the fleet. Besides delivery of G-Island and Hail & Ghasha project activities.
- EBITDA of integrated logistics services increased 30.1% YOY to USD 176 Mn in 2Q24 owing to improved utilization and higher rates.
- Shipping segment revenue increased 13.0% YOY to USD 226 Mn in 3Q24 mainly driven by robust charter rates across the Tankers and Dry Bulk and additional income from four new VLCCs deployed in 2023.
- EBITDA of the shipping segment grew 17.7% YOY to USD 83 Mn in 3Q24 with a margin of 43.0%.
- Services (previously known as Marine Services) segment revenue increased from USD 121 Mn in 3Q23 to USD 163 Mn in 3Q24 due to higher volumes in petroleum ports and onshore terminal operations.
- Total EBITDA rose 26.6% YOY to USD 275 Mn in 3Q24 with a margin of 29.7%.
- Net profit grew 18.5% YOY to USD 175 Mn in 3Q24 with a net profit margin of 18.8%.

Earnings Call Summary

- Increased technical capex guidance by USD 3 Bn by 2029 due to higher demand.
- ADNOCLS deployed AIQ's SMARTi safety monitoring solutions across 856 vessels to enhance the health and safety of its vessels and employees. The AI-enabled technology detects hazards in real-time by processing more than 1 Bn images daily with 90% accuracy
- ADNOCLS won contracts c. USD 2.5 Bn from AWS shipping for 10 new energy carriers, USD 500 Mn for very-large ammonia carriers, and USD 1.4 Bn for nine very-large ethane carriers.
- The Company is in the process of securing regulatory approvals required for the completion of the Navig8 which is estimated to be completed by 1Q25.
- ADNOCLS targets low double-digit unlevered IRRs on their new investments.
- Six LNG carriers are set for delivery from 1Q25 to 2028 out of which five are already contracted to ADNOC Gas.
- Committed to building eight new LNG careers in Korea delivering to ADNOC charters in 2028-29 with two additional options yet to be exercised.
- AW Shippings's partnership with ADNOCLS continues to strengthen with nine new very large ethane carriers (VLEC) valued at approximately USD 1.4 Bn with a 50% ownership stake. VLECs will be operated under a 20-year time charter generating USD 4 Bn over the contracted period.
- Contract for four very large ammonia carriers (VLACs) valued c. USD 500 Mn are not yet contracted and are intended for the emerging ammonia transportation market in anticipation that the ammonia market will develop similarly to the LNG and ethane markets.
- The Marine services Segment is renamed to Services and the Company added a few onshore activities as it is preparing the segment to include activities like Bunkering after the Navig8 acquisition.
- Management expects Integrated Logistics segment revenue to record a mid-40s percentage YOY growth in 2024.
- Consolidated revenue is expected to grow by mid-30s percentage YOY in 2024. Additionally, revenue on proforma basis that includes the Navig8 acquisition is expected to grow beyond 90% YOY in 2024.
- ADNOCLS is looking forward to using ZMI as a platform for growth in the Integrated Logistics segment

Medium Term Outlook:

| UPDATE ON CONSOLIDATED REVENUE | | CAPEX |
|---|---|---|
| 2024: <ul style="list-style-type: none"> Low to mid 30% YoY growth Medium term¹: <ul style="list-style-type: none"> High single digit YoY growth | PF 2024: <ul style="list-style-type: none"> Beyond 90% YoY growth Medium term²: <ul style="list-style-type: none"> High teens YoY growth | <ul style="list-style-type: none"> 2024: > \$1.0bn in addition to M&A \$1.0bn for the acquisition of 80% of Navig8 by 31 March 2025 latest Medium term: Anticipate an additional \$3bn+ by 2029, beyond the projects already announced, applying the same investment return criteria Capital allocation policy: Targeting low double digit unlevered IRRs³ in Integrated Logistics; High single digit unlevered IRRs on long term contracted high value shipping M&A: Seeking value-accretive M&A to expand and enhance service offerings geographically and into adjacent business verticals |
| UPDATE ON CONSOLIDATED EBITDA | | CAPITAL STRUCTURE |
| 2024: <ul style="list-style-type: none"> Low 30% YoY growth Medium term¹: <ul style="list-style-type: none"> Mid teens YoY growth | PF 2024: <ul style="list-style-type: none"> Beyond 70% YoY growth Medium term²: <ul style="list-style-type: none"> High teens YoY growth | <ul style="list-style-type: none"> Medium Term: Target 2.0-2.5x Net Debt to EBITDA Projected average all-in cost of debt finance 6.0% |
| UPDATE ON CONSOLIDATED NET INCOME | | Others |
| 2024: <ul style="list-style-type: none"> Low 20% YoY growth Medium term¹: <ul style="list-style-type: none"> Low teens YoY growth | PF 2024: <ul style="list-style-type: none"> Beyond 50% YoY growth Medium term²: <ul style="list-style-type: none"> Mid teens YoY growth | <ul style="list-style-type: none"> Effective tax rate below 9% from 1 Jan 2024 Dividends: Targeted annual dividend per share growing by 5% annually from the 2024 dividend of \$273 million |

1. Group medium term outlook (Excluding Navig8)
2. 2024-28 including Navig8 on proforma basis; Refer to appendix for accounting treatment details
3. Internal Rate of Return

Segmental Medium Term (2024-28) Outlook:

| | | REVENUE | EBITDA |
|-----------------------------|----------------------------------|--|---|
| Integrated Logistics | | 2024: Mid-40% YoY growth MT: Mid to high single digit YoY growth | 2024: Low-30% YoY growth MT: Mid-single digit YoY growth beyond 2024 |
| | Offshore Contracting | 2024: Higher ISLP Volumes, JUB utilization & Hail & Ghasha project acceleration. | 2024: Higher ISLP Volumes, JUB utilization & Hail & Ghasha project acceleration. |
| | Offshore Services | 2024: Increase in offshore chartered vessels owned and third party & Increase number of managed vessels. | 2024: Increase in offshore chartered vessels owned and third party & Increase in number of managed vessels. |
| | Offshore Projects | 2024: 70-75% Completion of G-Island by End of Year 2024. | 2024: 70-75% Completion of G-Island by end of year 2024. |
| Shipping | | 2024: Low to mid teens YoY growth MT: Mid single digit YoY growth | 2024: High 20% YoY growth MT: Mid teens YoY growth |
| | Tankers | 2024: Strong rate environment in the first half, with a slight softening in the second half | 2024: Strong rate environment in the first half, with a slight softening in the second half |
| | Gas Carriers | 2024: Slight reduction due to current spot market rates | 2024: Slight reduction due to asset sales |
| | Dry-bulk & Containers | 2024: Strong rates on Dry-bulk | 2024: Strong rates on Dry-bulk |
| Services | | 2024: Mid single digit YoY growth MT: Low-to-mid single digit YoY growth | 2024: High single digit YoY growth MT: Flat to low single digit YoY growth |

Source : Company information

ADNOC LS – P&L

| USD mm | 3Q23 | 2Q24 | 3Q24 | 3Q24F | Var. | YOY Ch | QOQ Ch |
|------------------------------|------------|------------|------------|------------|--------------|--------------|---------------|
| Revenue | 702 | 899 | 928 | 927 | 0.1% | 32.2% | 3.2% |
| Direct cost | -516 | -641 | -705 | -669 | 5.5% | 36.7% | 10.0% |
| Gross profit | 187 | 258 | 223 | 259 | -13.7% | 19.6% | -13.6% |
| G&A expenses | -36 | -33 | -37 | -38 | -2.6% | 3.2% | 14.3% |
| EBITDA | 218 | 306 | 275 | 290 | -5.2% | 26.6% | -10.0% |
| EBIT | 149 | 226 | 191 | 216 | -11.7% | 28.5% | -15.6% |
| Finance income | 2 | 4 | 4 | 3 | 13.8% | 62.0% | -7.2% |
| Finance costs | -7 | -4 | -6 | -10 | -39.0% | -4.7% | 53.0% |
| Profit before tax | 148 | 230 | 191 | 212 | -9.9% | 29.1% | -16.6% |
| Income tax expense | -1 | -22 | -16 | -19 | -13.8% | NM | -24.7% |
| Profit for the period | 148 | 208 | 175 | 193 | -9.5% | 18.5% | -15.7% |

FABS estimate & Co Data

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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