

ADNOC Logistics & Services PLC

Higher rates and volumes along with robust utilization drove profitability

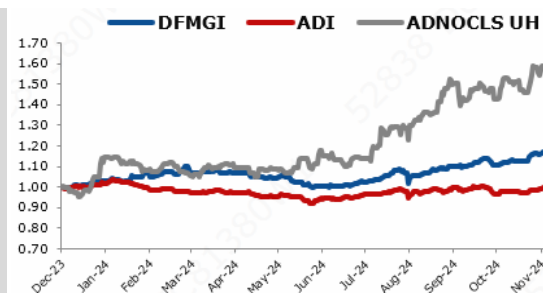
Current Price
AED 5.36

Target Price
AED 6.50

Upside/Downside (%)
+21%

Rating
BUY

- Deployed AIQ's SMARTi safety monitoring solutions across 86 vessels to enhance the health and safety of its vessels and employees.
- ADNOCLS won contracts c. USD 2.5 Bn from AW Shipping for 10 new energy carriers, USD 500 Mn for four Very Large Ammonia Carriers (VLAC), and USD 1.4 Bn for nine Very Large Ethane Carriers (VLEC)
- Committed to building eight new LNG carriers in Korea delivering to ADNOC charters in 2028-29.
- Tanker market rates are estimated to witness a strong rate environment in the near term while the Company anticipates strong rates for Dry-Bulk containers in the mid-term.
- Announced additional capex of USD 3 Bn by 2029 due to robust demand.



3Q24 Net Profit lower than our estimate

ADNOC Logistics & Services Plc's (ADNOCLS/the Company) net profit rose 18.5% YOY to USD 175 Mn in 3Q24, lower than our estimate of USD 193 Mn. The healthy profit growth is mainly driven by strong revenue growth across all segments partially offset by a rise in direct cost and operating expenses.

P&L Highlights

ADNOCLS revenue rose 32.2% YOY to USD 928 Mn in 3Q24 primarily driven by the robust performance across all business segments. Revenue from the Integrated Logistics segment grew 41.6% YOY to USD 539 Mn in 3Q24 mainly driven by an increase in volume, higher rates, expansion of the fleet, and a rise in utilization rate coupled with strong growth driven by the delivery of G-Island and Hail & Ghasha project activities. 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. Revenue from Dry Bulk increased from 23.2% YOY to USD 75 Mn in 3Q24 due to healthy charter rates while the Tankers revenue increased 12.5% YOY to USD 114 Mn attributable to addition of four new VLCCs. However, Gas revenue moderated 2.1% YOY to USD 37 Mn in 3Q24 owing to the closure of spot charter-in operations and carriers staying out of service due to planned maintenance days partially offset by deployment of new VLGC since 1Q24. Furthermore, the 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. EBITDA for the Integrated Logistics business increased from USD 135 Mn in 3Q23 to USD 176 Mn in 3Q24 with an EBITDA margin of 29.0% due to improved utilization and higher rates. Furthermore, the Shipping segment EBITDA rose 17.7% YOY to USD 83 Mn in 3Q24 with an EBITDA margin of 43.0% mainly driven by robust charter rates across the Tankers and Dry Bulk and

Stock Information

Market Cap (AED, mm)	39,655.95
Shares Outstanding(mm)	7,398.50
52 Week High	5.87
52 Week Low	3.30
3M Avg. daily value (AED)	17,890,000

3Q24 Result Review (USD, mm)

Total Assets	6,650
Total Liabilities	1,798
Total Equity	4,851
EBITDA	275
Net Profit	175

Financial Ratios

Dividend Yield (12m)	2.47
Dividend Pay-out (%)	31.44
Price-Earnings Ratio(x)	15.11
Price-to-Book Ratio (x)	2.23
Book Value (AED)	0.66
Return-on Equity (%)	16.19

Stock Performance

5 Days	-6.78%
1 Months	-3.25%
3 Months	7.85%
6 Months	34.00%
1 Year	46.05%
Month to Date (MTD%)	-7.59%
Quarter to Date (QTD%)	0.19%
Year to Date (YTD%)	39.95%

additional income from four new VLCCs deployed in 2023. Furthermore, the Shipping segment EBITDA rose 17.7% YOY to USD 83 Mn in 3Q24 with an EBITDA margin of 43.0% mainly driven by robust charter rates across the Tankers and Dry Bulk and additional income from four new VLCCs deployed in 2023. Similarly, the Services business EBITDA rose 27.2% YOY to USD 17 Mn in 3Q24 with an EBITDA margin of 23.0%. As a result, operating profit expanded 28.5% YOY to USD 191 Mn in 3Q24 whereas total EBITDA grew 26.6% YOY to USD 275 Mn. Furthermore, ADNOC's finance income rose from USD 2 Mn in 3Q23 to USD 4 Mn in 3Q24 while finance costs moderated 4.7% YOY to USD 6 Mn in 3Q24. Additionally, income tax expense stood at USD 16 Mn in 3Q24 compared to USD 1 Mn in 3Q23 due to the introduction of corporate tax in UAE starting from FY2024.

Balance Sheet Highlights

ADNOC's cash and cash equivalent stood at USD 220 Mn in 3Q24 compared to USD 341 Mn in 2Q24. The Company debt increased to USD 250 in 3Q24 from USD 100 Mn in 2Q24. ADNOC incurred a total capex of USD 136 Mn in 3Q24, up from USD 100 Mn in the previous quarter. Moreover, the Company generated a free cash flow of USD 39 Mn in 3Q24 compared to USD 150 Mn in 2Q24 owing to higher capex.

Target Price and Rating

We maintain our BUY rating on ADNOC L&S with a revised target price of AED 6.50. The revision in the rating is mainly attributable to the additional capex announced by the Company coupled with the incorporation of the Navig8 acquisition. ADNOC deployed AIQ's SMARTi safety monitoring solutions across 86 vessels to enhance the health and safety of its vessels and employees. The AI-enabled technology detects hazards in real-time by processing over 1 Bn images daily with 90% accuracy. The Company is in the process of securing regulatory approvals required for the completion of the Navig8 acquisition which is estimated to be completed by 1Q25. Strong growth in the Company's profitability is mainly attributable to an increase in volumes, higher rates, value-accretive investments towards expanding the fleet, robust demand, and high utilization rates. ADNOC won contracts c. USD 2.5 Bn from AW Shipping for 10 new energy carriers, USD 500 Mn for four Very Large Ammonia Carriers (VLAC), and USD 1.4 Bn for nine Very Large Ethane Carriers (VLEC). Moreover, Six LNG carriers are set for delivery from 1Q25 to 2028 out of which five are already contracted to ADNOC Gas for seven to fifteen years on long-term charter. Tanker market rates are estimated to witness a strong rate environment in the near term while the Company anticipates strong rates for Dry-Bulk containers in the mid-term. Besides, AW Shipping's partnership with ADNOC continues to strengthen with nine new VLECs 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. On the other hand, the contract for four 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. Additionally, the Company is also committed to building eight new LNG carriers in Korea delivering to ADNOC charters in 2028-29 with two additional options yet to be exercised. Furthermore, the Company expects its revenue on proforma basis including the Navig8 acquisition to grow beyond 90% YOY in 2024 while the proforma net profit is expected to increase beyond 50% YOY. ADNOC expects the dividend to grow 5% annually over the medium term. ADNOC's financial position remains healthy with a debt of USD 250 Mn and cash & cash equivalents of USD 220 Mn in 3Q24. Thus, based on our analysis, we assign a BUY rating on the stock.

ADNOC L&S - Relative valuation

(at CMP)	2023	2024F
PE (x)	17.7	14.3
PB (x)	2.5	2.3
EV/EBITDA	12.4	9.6
Dividend yield (%)	1.8%	2.5%

FABS Estimates & Co Data

Note – ADNOC Logistics & Services listed on ADX in 2023. Thus, the financial multiple for the prior period is unavailable

ADNOC L&S – P&L

USD mm	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	702	899	928	927	0.1%	32.2%	3.2%	2,755	3,651	32.5%
Direct cost	-516	-641	-705	-669	5.5%	36.7%	10.0%	-2,003	-2,650	32.3%
Gross profit	187	258	223	259	-13.7%	19.6%	-13.6%	752	1,001	33.1%
G&A expenses	-36	-33	-37	-38	-2.6%	3.2%	14.3%	-146	-164	12.3%
Other expenses	0	-4	0	0	-61.2%	NM	-95.8%	0	0	NM
Other income	0	2	9	0	NM	NM	NM	11	18	65.0%
Provision for expected credit losses, net	-1	3	-4	-4	1.9%	NM	NM	-3	-7	NM
EBITDA	218	306	275	290	-5.2%	26.6%	-10.0%	876	1,147	30.8%
EBIT	149	226	191	216	-11.7%	28.5%	-15.6%	614	847	38.0%
Share of profit from JV	4	3	3	3	-5.2%	-22.8%	-12.5%	14	13	-11.2%
Finance income	2	4	4	3	13.8%	62.0%	-7.2%	10	16	63.6%
Finance costs	-7	-4	-6	-10	-39.0%	-4.7%	53.0%	-15	-27	79.4%
Profit before tax	148	230	191	212	-9.9%	29.1%	-16.6%	622	848	36.3%
Income tax expense	-1	-22	-16	-19	-13.8%	NM	-24.7%	-2	-81	NM
Net Profit	148	208	175	193	-9.5%	18.5%	-15.7%	620	768	23.8%

FABS estimate & Co Data

ADNOC L&S - Margins

	3Q23	2Q24	3Q24E	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross margin	26.6%	28.7%	24.0%	-253	-469	27.3%	27.4%	12
EBITDA margin	31.0%	34.0%	29.7%	-131	-435	31.8%	31.4%	-40
Operating margin	21.2%	25.1%	20.6%	-59	-458	22.3%	23.2%	92
Net profit margin	21.0%	23.1%	18.8%	-218	-424	22.5%	21.0%	-148

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value ADNOC Logistics & Services. We have assigned 70% weight to DCF, 20% to RV, and 10% to DDM.

Valuation Method	Target	Weight	Weighted Value
DCF Method	7.14	70.0%	5.00
Relative Valuation (RV)	6.26	20.0%	1.25
DDM Method	2.46	10.0%	0.25
Weighted Average Valuation (AED)			6.50
Current market price (AED)			5.36
Upside/Downside (%)			+21%

1) DCF Method:

ADNOC Logistics & Services is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.5%. It is arrived after using the cost of equity of 8.6% and the cost of debt of 5.5%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.9 and equity risk premium of 4.2%. 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)	1,000
Terminal value (USD, Mn)	13,600
Cash (as of September 2024)	-213
FV to Common shareholders (USD, Mn)	14,387
No. of share (Mn)	7,398
Current Market Price (AED)	5.36
Fair Value per share (AED)	7.14

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	786	1,191	1,266	1,367	1,480
Depreciation & Amortization	260	374	485	521	535
Capex	-1,200	-2,260	-1,340	-855	-670
Change in Working Capital	-6	-191	-25	-37	-124
Free Cash Flow to Firm (FCFF)	-160	-885	385	996	1,221
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	-158	-808	324	771	871

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value ADNOC Logistics & Services and it is valued using the EV/EBITDA multiple. The Integrated & Marine business is valued at EV/EBITDA multiple of 12.5x and the Shipping business is valued at EV/EBITDA multiple of 8.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<u>Integrated & Marine peers</u>					
ADNOC DRILLING CO PJSC	22,819	13.1	11.9	NA	NA
EMIRATES CENTRAL COOLING SYS	5,036	13.6	13.1	19.2	18.4
DUBAI ELECTRICITY & WATER AU	33,484	9.7	9.2	17.3	16.5
ABU DHABI PORTS CO PJSC	7,299	11.8	10.7	19.4	17.1
DTC	1,797	12.0	10.4	18.8	15.1
Average		12.0x	11.2x	18.6x	17.4x
Median		12.5x	11.3x	19.2x	17.1x
Max		13.2x	12.2x	19.3x	17.8x
Min		11.3x	10.3x	18.3x	16.8x

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<u>Shipping peers</u>					
QATAR GAS TRANSPORT(NAKILAT)	6,437	14.9	14.9	13.7	13.4
EURONAV NV	2,476	8.7	7.1	3.1	8.3
STAR BULK CARRIERS CORP	2,399	5.8	5.2	5.9	5.5
DORIAN LPG LTD	1,179	6.7	6.1	8.2	6.9
GOLAR LNG LTD	3,653	20.2	15.4	24.7	22.7
FLEX LNG LTD	1,379	10.0	9.9	11.1	12.2
FRONTLINE PLC	4,403	6.4	6.1	8.8	7.4
Average		10.4x	9.2x	10.8x	10.9x
Median		8.7x	7.1x	8.8x	8.3x
Max		12.5x	12.4x	12.4x	12.8x
Min		6.6x	6.1x	7.1x	7.1x

Source: FAB Securities

3) DDM Method:

ADNOC Logistics and Services plans to pay USD 273 Mn dividend in 2024 and expects to pay on a progressive basis in the forthcoming period with a minimum growth of 5% per annum. The dividend is discounted at the cost of equity of 8.6%.

Sum of PV (USD, Mn)	1,65
Terminal value (USD, Mn)	3,682
FV to Common shareholders (USD, Mn)	4,948
No. of share (Mn)	7,398
Current Market Price (AED)	5.36
Fair Value per share (AED)	2.46

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
H1	137	143	150	158	166
H2	137	143	150	158	166
Total Dividend	273	287	301	316	332
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Present Value of Dividend	270	261	253	245	237

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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