

## ADNOC Logistics & Services PLC

Higher rates across Integrated Logistics and Shipping rates boosted profit

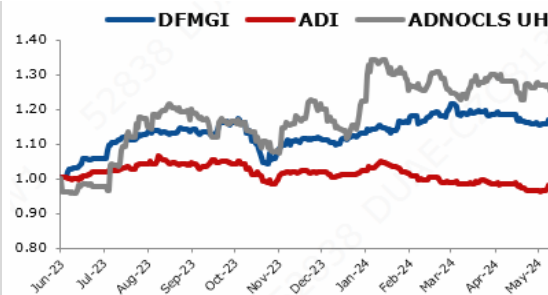
**Current Price**  
AED 3.91

**Target Price**  
AED 4.93

**Upside/Downside (%)**  
+26%

**Rating**  
BUY

- Revised FY2024 guidance upward; expect topline & EBITDA to grow by low 30% and net profit by low 20%.
- Strong demand translated into an increase in ZMI fleet size and offshore fleet size coupled with a robust utilization rate.
- Expect to complete 70-90% of the G-Island contract in 2024.
- Tanker fundamentals are expected to remain strong in 2024 and 2025 due to increased ton-mile demand and limited fleet expansion.
- The undersupply of energy vessels to meet projected demand bodes favorably for the rates.
- The Company plans the mid-term organic growth capex of ~USD 4-5 Bn to generate a low double-digit IRR.



### 1Q24 Net Profit higher than our estimate

ADNOC Logistics & Services Plc's (ADNOCLS/the Company) net profit rose 33.7% YOY to USD 194 Mn in 1Q24, higher than our estimate of USD 161 Mn. The healthy growth in the profit is mainly driven by higher growth of the Integrated Logistics and Shipping Segment. The Integrated Logistics segment benefitted from higher rates, utilization and addition of JUBs. The Shipping segment benefitted from robust charter rates of tankers and dry bulk.

### P&L Highlights

ADNOCLS revenue rose 41.9% YOY to USD 840 Mn in 1Q24 primarily driven by the robust performance of the Integrated Logistics and shipping business. Revenue from the Integrated Logistics segment significantly grew 55.5% YOY to USD 546 Mn in 1Q24 mainly due to higher utilization and pricing on JUBs coupled with higher volumes, strong activity across the business line, growth investment in 2023, expansion of the owned fleet and ongoing execution of the EPC contract of G-Island. Shipping segment revenue increased 25.2% YOY to USD 251 Mn in 1Q24 owing to robust growth in topline from dry bulk & containers and tanker business partially offset by a decline in gas carrier revenues. Revenue from the dry bulk and containers segment expanded 13.7% YOY to USD 68 Mn in 1Q24 due to an increase in trade volume coupled with the impact of geopolitical events on distances travelled and vessel availability. Moreover, revenue from the tankers rose 57.0% YOY to USD 150 Mn in 1Q24 primarily due to higher charter rates and addition of four new VLCCs in 2023. However, Gas revenue fell 27.0% YOY to USD 33 Mn in 1Q24 driven by higher charter rate of two additional vessels deployed in 1Q23. Furthermore, the Marine segment revenue rose 7.0% YOY to USD 43 Mn in 1Q24 driven by higher activity levels in petroleum ports operations and execution of marine terminal operations contract with ADNOC Offshore.

### Stock Information

Market Cap (AED, mn)	28,928.13
Shares Outstanding (mn)	7,398.50
52 Week High	4.48
52 Week Low	2.90
3M Avg. daily value (AED)	7,314,354

### 1Q24 Result Review (USD, mn)

Total Assets	6,062
Total Liabilities	1,462
Total Equity	4,600
EBITDA	286
Net Profit	194

### Financial Ratios

Dividend Yield (12m)	2.47
Dividend Pay-out (%)	31.44
Price-Earnings Ratio(x)	11.77
Price-to-Book Ratio (x)	1.71
Book Value (AED)	0.62
Return-on Equity (%)	15.57

### Stock Performance

5 Days	-1.26%
1 Months	-2.49%
3 Months	-2.25%
6 Months	6.25%
1 Year	N/A
Month to Date (MTD%)	-2.25%
Quarter to Date (QTD%)	-3.93%
Year to Date (YTD%)	2.09%

EBITDA for the Integrated Logistics business increased from USD 101 Mn in 1Q23 to USD 160 Mn in 1Q24 with an EBITDA margin of 29.4% due to higher revenues, higher utilization rate and cost optimization initiative. Furthermore, EBITDA of the shipping segment rose 36.8% YOY to USD 114 Mn in 1Q24 with a higher EBITDA margin of 45.3%. Similarly, the Marine business EBITDA grew 27.6% YOY to USD 10 Mn in 1Q24 with an EBITDA margin of 23.8%. As a result, the Company's operating profit rose 52.2% YOY to USD 209 Mn in 1Q24, whereas total EBITDA grew 43.9% YOY to USD 286 Mn in 1Q24. Total EBITDA margin increased 47 YOY bps to 34.0% in 1Q24. Furthermore, ADNOC's finance income doubled to USD 4 Mn in 1Q24, while finance costs significantly increased from USD 1 Mn in 1Q23 to USD 4 Mn in 1Q24. Additionally, income tax expense stood at USD 20 Mn in 1Q24 compared to USD 0.3 Mn in 1Q23.

### **Balance Sheet Highlights**

ADNOC's cash and cash equivalent stood at USD 348 Mn in 1Q24 compared to USD 216 Mn in 4Q23. The Company's net debt stood at negative USD 54 Mn in 1Q24 compared to positive USD 74 Mn in 4Q23. ADNOC incurred a capex of USD 125 Mn in 1Q24 against USD 270 Mn in 4Q23. Moreover, the company's free cash flow stood at USD 197 Mn in 1Q24 compared to a negative free cash flow of USD 88 Mn in 4Q23 due to a strong growth in profitability.

### **Target Price and Rating**

We revise our rating on ADNOC L&S from ACCUMULATE to BUY with a revised target price of AED 4.93. ADNOC demonstrated strong growth in profitability owing to higher revenues, value-accretive investments, growth in demand, improvement in business efficiency, and positive contributions from all business segments. Integrated logistics segment revenue rose due to the ongoing execution of the EPC contract of G-Island, growth in the owned fleet, healthy rates, and higher utilization of assets. The Company's Integrated Logistics segment owned 107 vessels with a utilization rate of more than 92% in 1Q24. ADNOC is expecting the delivery of six LNG carriers between 1Q25 to 3Q26, five of these are already contracted to ADNOC Gas from seven to fifteen years on long-term charter. The Company also signed an agreement with SFI Energy to charter four methanol-ready Medium Range (MT) tankers for at least seven years which is scheduled to be delivered in 2026 and 2027. The EPC contract of USD 975 Mn with ADNOC Offshore for G-Island is expected to be completed by the end of 2025. The Company revised its guidance upward and expects its consolidated revenue and EBITDA to grow in the low 30% in 2024 primarily driven by the strong solid performance of the Integrated Logistics segment and higher shipping rates. ADNOC anticipates its EBITDA margin for the Integrated Logistics business to exceed 30% in 2024 supported by contributions from G-Island, higher EPC activities, JUB utilization & rates, and ILSP volume growth. The Shipping division performance is expected to grow by mid-to-high single digit in 2024 as charter rates are anticipated to stay in line with 2023 levels. The Marine services Segment is anticipated to maintain stability and grow in the low single digits in 2024 due to the stable nature of marine services contracted activity in petroleum ports operations and oil spill response services. The Company incurred a capex of USD 125 Mn in 1Q24 and is expected to spend USD 1.0 - 1.1 Bn in 2024. It expects its dividend to grow 5% annually over the medium term. ADNOC has a negative debt of USD 54 Mn with a net debt-to-EBITDA ratio of negative 0.19x in 1Q24 against 0.08x in 4Q23. The shareholders of ADNOC approved a cash dividend of USD 130 Mn equivalent to 6.45 fils per share in 2H23 resulting in a total dividend of 9.68 fils per share in 2023. ADNOC aims to pay a progressive annual dividend with a minimum 5% annual growth based on annualized dividend of 2023. The Company's medium-term objectives along with strong cash-generative operations indicate a robust financial condition for the forthcoming period. Thus, based on our analysis, we assign a BUY rating on the stock.

**ADNOC L&S - Relative valuation**

(at CMP)	2023	2024F
PE (x)	12.7	10.6
PB (x)	1.8	1.6
EV/EBITDA	8.9	6.8
Dividend yield (%)	2.5%	3.5%

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 mn	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	592	828	840	848	-0.9%	41.9%	1.5%	2,755	3,455	25.4%
Direct cost	-426	-621	-600	-628	-4.4%	40.7%	-3.4%	-2,003	-2,475	23.5%
<b>Gross profit</b>	<b>166</b>	<b>207</b>	<b>240</b>	<b>221</b>	<b>9.0%</b>	<b>45.0%</b>	<b>16.0%</b>	<b>752</b>	<b>980</b>	<b>30.3%</b>
G&A expenses	-31	-47	-35	-45	-21.4%	12.9%	-24.9%	-146	-158	8.0%
Other expenses	0	0	0	0	NM	NM	NM	0	0	NM
Other income	3	4	4	5	-16.3%	38.7%	-12.2%	11	11	5.0%
<b>EBITDA</b>	<b>199</b>	<b>242</b>	<b>286</b>	<b>253</b>	<b>12.8%</b>	<b>43.9%</b>	<b>18.2%</b>	<b>876</b>	<b>1,125</b>	<b>28.4%</b>
<b>EBIT</b>	<b>137</b>	<b>165</b>	<b>209</b>	<b>180</b>	<b>15.9%</b>	<b>52.2%</b>	<b>26.6%</b>	<b>616</b>	<b>833</b>	<b>35.2%</b>
Provision for expected credit losses, net	4	1	1	-2	NM	NM	NM	-3	-7	158.6%
Share of profit from JV	4	4	4	3	14.8%	-3.8%	-3.1%	14	13	-11.2%
Finance income	1	2	4	2	124.4%	198.7%	172.7%	10	7	-24.6%
Finance costs	-1	-2	-4	-7	-37.4%	NM	NM	-15	-26	73.5%
<b>Profit before tax</b>	<b>145</b>	<b>169</b>	<b>213</b>	<b>177</b>	<b>20.5%</b>	<b>46.9%</b>	<b>26.4%</b>	<b>622</b>	<b>820</b>	<b>31.8%</b>
Income tax expense	0	-4	-20	-16	23.0%	NM	NM	-2	-74	NM
<b>Net Profit</b>	<b>145</b>	<b>165</b>	<b>194</b>	<b>161</b>	<b>20.3%</b>	<b>33.7%</b>	<b>17.3%</b>	<b>620</b>	<b>746</b>	<b>20.3%</b>

FABS estimate & Co Data

**ADNOC L&S - Margins**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross margin	28.0%	25.0%	28.6%	61	359	27.3%	28.4%	108
EBITDA margin	33.5%	29.2%	34.0%	47	481	31.8%	32.6%	76
Operating margin	23.2%	19.9%	24.9%	168	494	22.4%	24.1%	175
Net profit margin	24.5%	19.9%	23.1%	-142	311	22.5%	21.6%	-91

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	5.19	70.0%	3.63
Relative Valuation (RV)	5.41	20.0%	1.08
DDM Method	2.16	10.0%	0.22
<b>Weighted Average Valuation (AED)</b>			<b>4.93</b>
Current market price (AED)			3.92
Upside/Downside (%)			+25.8%

### 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 8.2%. It is arrived after using the cost of equity of 9.2% and cost of debt of 5.4%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 3.9%. 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)	709
Terminal value (USD, Mn)	9,819
<b>FV to Common shareholders (USD, Mn)</b>	<b>10,452</b>
No. of share (Mn)	7,398
Current Market Price (AED)	3.92
<b>Fair Value per share (AED)</b>	<b>5.19</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	770	812	842	940	1,010
Depreciation & Amortization	261	305	355	333	343
Capex	-1,113	-900	-1,450	-700	-370
Change in Working Capital	-92	-26	-61	-80	-135
<b>Free Cash Flow to Firm (FCFF)</b>	<b>-174</b>	<b>192</b>	<b>-314</b>	<b>493</b>	<b>849</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.69
<b>Discounted FCFF</b>	<b>-165</b>	<b>169</b>	<b>-255</b>	<b>371</b>	<b>589</b>

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 11.1x and the Shipping business is valued at EV/EBITDA multiple of 6.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<b><u>Integrated &amp; Marine peers</u></b>					
ADNOC DRILLING CO PJSC	16,810	10.5	9.3	15.2	13.4
EMIRATES CENTRAL COOLING SYS	4,270	11.6	11.3	15.6	15.4
DUBAI ELECTRICITY & WATER AU	31,990	9.5	8.9	17.2	16.1
ABU DHABI PORTS CO PJSC	7,550	11.7	10.3	20.1	15.9
DTC	1,560	10.7	9.5	16.0	14.1
<b>Average</b>		<b>10.8x</b>	<b>10.0x</b>	<b>17.0x</b>	<b>15.2x</b>
<b>Median</b>		<b>11.1x</b>	<b>9.8x</b>	<b>16.4x</b>	<b>15.7x</b>
<b>Max</b>		<b>11.6x</b>	<b>10.6x</b>	<b>17.9x</b>	<b>16.0x</b>
<b>Min</b>		<b>10.2x</b>	<b>9.2x</b>	<b>15.5x</b>	<b>14.9x</b>

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<b><u>Shipping peers</u></b>					
QATAR GAS TRANSPORT(NAKILAT)	6,010	12.3	13.0	12.9	11.6
EURONAV NV	3,360	4.4	4.8	5.3	9.4
STAR BULK CARRIERS CORP	3,000	5.9	5.2	7.7	8.2
DORIAN LPG LTD	1,720	5.3	7.3	5.5	8.4
GOLAR LNG LTD	2,680	10.1	7.4	14.5	13.0
FLEX LNG LTD	1,450	9.8	9.7	0.0	0.0
FRONTLINE PLC	5,540	6.6	6.2	7.2	6.7
<b>Average</b>		<b>7.8x</b>	<b>7.6x</b>	<b>7.6x</b>	<b>8.2x</b>
<b>Median</b>		<b>6.6x</b>	<b>7.3x</b>	<b>7.2x</b>	<b>8.4x</b>
<b>Max</b>		<b>9.9x</b>	<b>8.5x</b>	<b>10.3x</b>	<b>10.5x</b>
<b>Min</b>		<b>5.6x</b>	<b>5.7x</b>	<b>5.4x</b>	<b>7.4x</b>

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 9.2%.

Sum of PV (USD, Mn)	1,196
Terminal value (USD, Mn)	3,165
<b>FV to Common shareholders (USD, Mn)</b>	<b>4,361</b>
No. of share (Mn)	7,398
Current Market Price (AED)	3.92
<b>Fair Value per share (AED)</b>	<b>2.16</b>

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
H1	137	143	150	158	166
H2	137	143	150	158	166
<b>Total Dividend</b>	<b>273</b>	<b>287</b>	<b>301</b>	<b>316</b>	<b>332</b>
Discounting Factor	0.95	0.87	0.79	0.73	0.67
<b>Present Value of Dividend</b>	<b>258</b>	<b>248</b>	<b>239</b>	<b>230</b>	<b>221</b>

Source: FAB Securities

