

ADNOC Logistics & Services PLC

Solid growth in the Integrated Logistics business drove the top-line

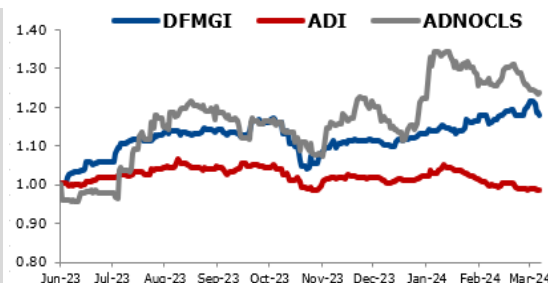
Current Price
AED 3.86

Target Price
AED 4.66

Upside/Downside (%)
+21%

Rating
BUY

- ADNOCLS took delivery of the fourth additional VLCCs in 4Q23 along with eight JUBs (six owned & two chartered-in) to its fleet volume ADNOCLS achieved a 25% growth in its fleet expansion in 2023.
- The Company's material handling volume under ILSP rose 13%, while non-ILSP volumes grew 67% during 2023.
- ADNOCLS expects its consolidated revenue to grow by high teens in 2024 and by a mid-to-high single digit in the medium term. Likewise, the Company estimates its average EBITDA growth in the medium term to stay in the low teens.
- The board of directors recommended a cash dividend of USD 130 Mn, equivalent to 6.45 fils per share for 2H23, leading to a total dividend of 9.68 fils per share in 2023 with an attractive dividend yield of 2.5%.



Stock Information

Market Cap (AED, Mn)	28,632.19
Shares Outstanding(Mn)	7,398.50
52 Week High	4.48
52 Week Low	2.90
3M Avg. daily value (AED)	21,366,880

4Q23 Result Review (USD, mm)

Total Assets	5,746
Total Liabilities	1,340
Total Equity	4,406
EBITDA	242
Net Profit	165

Financial Ratios

Dividend Yield (12m)	0.83
Dividend Pay-out (%)	31.44
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	1.77
Book Value (AED)	0.60
Return-on Equity (%)	N/A

Stock Performance

5 Days	-1.53%
1 Months	-1.78%
3 Months	5.16%
6 Months	4.88%
1 Year	N/A
Month to Date (MTD%)	-1.53%
Quarter to Date (QTD%)	1.04%
Year to Date (YTD%)	1.04%

4Q23 Net Profit higher than our estimate

ADNOC Logistics & Services Plc's (ADNOCLS/the Company) net profit rose 88.9% YOY to USD 165 Mn in 4Q23, higher than our estimate of USD 143 Mn. The growth in the net profit is mainly due to strong growth in revenue driven by the solid performance of the Integrated Logistics division due to Engineering Procurement and Construction (EPC) activities, ZMI acquisition, and growth in Integrated Logistics Service Platform (ILSP) volumes coupled with a decline in finance cost. The rise in direct cost and G&A expenses partially offset the growth in the net profit.

P&L Highlights

ADNOCLS' revenue rose 26.0% YOY to USD 828 Mn in 4Q23 primarily driven by the robust performance of the Integrated Logistics business, higher charter rates, and newly introduced VLCCs and gas carriers. However, the growth is partially offset by a decline in revenue from the Shipping and Marine segment. Revenue from the Integrated Logistics segment significantly grew 56.4% YOY to USD 554 Mn in 4Q23 mainly due to the deployment of eight additional jack-up-barge (JUBs), strong utilization of existing vessels, and higher rates supported by solid volume expansion in the ILSP and ongoing growth in the EPC activities. Shipping segment revenue declined 10.7% YOY to USD 231 Mn in 4Q23. Revenue from the Gas Carriers decreased 24.6% YOY to USD 53 Mn in 4Q23 owing to a decrease in chartering activities coupled with a decline in charter rates. Moreover, revenue from the tankers declined marginally 0.9% YOY to USD 112 Mn in 4Q23 primarily due to lower spot contract rates partially offset by disruptions in the Red Sea leading to deviations to longer routes and thus higher prices. Similarly, Dry-Bulk and Containers revenue fell 12.5% YOY to USD 67 Mn in 4Q23 driven by lower spot market rates. Furthermore, the Marine segment revenue softened 2.6% YOY to USD 44 Mn in 4Q23, owing lower Petroleum Port Operations volumes.

EBITDA for the Integrated Logistics business more than doubled from USD 76 Mn in 4Q22 to USD 162 Mn in 4Q23 with an EBITDA margin of 29.2% mainly due to the strong operational performance of JUBs, additional logistics volume under ILSP coupled with high asset utilization and improved cost efficiencies. Furthermore, EBITDA for the shipping segment declined 10.8% YOY to USD 82 Mn in 4Q23 with an unchanged EBITDA margin of 35.5% mainly attributed to the downward trend in the spot market rates. Similarly, the Marine business recorded a substantial growth in EBITDA from USD 2 Mn in 4Q22 to USD 12 Mn in 4Q23 with an EBITDA margin of 28%. As a result, operating profit rose 44.8% YOY to USD 165 Mn in 4Q23 whereas total EBITDA grew 43.3% YOY to USD 243 Mn in 4Q23. The total EBITDA margin increased by 354 bps to 29.3% in 4Q23. Furthermore, ADNOC's finance income fell 23.1% YOY to USD 2 Mn in 4Q23 while finance cost declined significantly to USD 2 Mn in 4Q23 as against USD 24 Mn in 4Q22. Additionally, income tax expense stood at USD 4 Mn in 4Q23 compared to USD 1 Mn in 4Q22.

Balance Sheet Highlights

ADNOC's cash and cash equivalent stood at USD 216 Mn in 2023 compared to USD 165 Mn in 2022. The Company's net debt stood at USD 74 Mn in 2023 compared to USD 1,814 Mn in 2022 due to the shareholder's loan repayment of USD 1,800 Mn. ADNOC incurred a capex of USD 774 Mn in 2023 as against USD 300 Mn in 2022 mainly due to the delivery of the four newly added VLCCs, eight JUBs coupled with the other ongoing offshore projects. Moreover, the company's free cash flow stood at USD 49 Mn in 2023 compared to a negative free cash flow of USD 33 Mn in 2022 due to a decline in investing activity.

Target Price and Rating

We maintain our BUY rating on ADNOC Logistics & Services with a revised target price of AED 4.66. ADNOC demonstrated robust growth in profitability owing to the continued momentum in the Integrated Logistics business driven by the ZMI Holdings acquisition, Integrated Logistics Services, and EPC activity. The Company's material handling volume of ILSP rose 13% in 2023 and non-ILSP volumes grew 67% due to third-party service extensions and ILPS. Meanwhile, the Company's Integrated Logistics segment owned 107 vessels with a more than 92% utilization rate in 2023. ADNOC is actively expanding its fleet volumes for VLCCs and JUBs, took delivery of the fourth LNG dual-fuel VLCCs in 4Q23, and added eight new JUBs during 2023. The Company expects its consolidated revenue to increase in the high teens in 2024 and EBITDA by the low teens primarily driven by the strong solid performance of the Integrated Logistics segment and fleet addition. The Company anticipates its EBITDA margin for the Integrated Logistics business to exceed 30% in 2024 supported by contributions from G-land and higher EPC activities. The Shipping division performance is expected to stay stable in 2024 as charter rates are anticipated to stay in line with 2023 levels. The Marine services are anticipated to maintain stability due to the expansion of Petroleum Port Operations and the demand for Oil Spill Response Services. The Company incurred a capex of USD 770 Mn in 2023 and is expected to spend USD 1.0 - 1.1 Bn in 2024. ADNOC recorded a decline in net debt of USD 74 Mn in 2023 from USD 1.8 Bn in 2022 due to the repayment of the shareholder loans while the net debt-to-EBITDA decreased to 0.08x in 2023 as against 4.00x in 2022. The board of directors recommended 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 with a dividend yield of 2.5%. ADNOC aims to pay progressive annual dividends with a minimum 5% yearly growth based on 2023 annualized dividends. The Company's medium-term objectives and its solid cash-generating operations indicate a robust financial condition for the upcoming years. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNOC L&S - Relative valuation

(at CMP)	2022	2023	2024F
PE (x)	NA	12.55	11.77
PB (x)	NA	1.77	1.62
EV/EBITDA	NA	8.75	7.84
Dividend yield (%)	NA	2.5%	2.6%

FABS Estimates & Co Data

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

ADNOC L&S – P&L

USD Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	657	702	828	675	23%	26.0%	17.9%	1,952	2,755	41.1%
Direct cost	-497	-516	-621	-495	25%	25.0%	20.4%	-1,537	-2,003	30.3%
Gross profit	155	187	207	180	15%	33.8%	11.0%	409	752	83.8%
G&A expenses	-43	-36	-47	-32	47%	9.6%	30.4%	-106	-146	38.7%
Other expenses	2	0	0	-1	NM	-73.2%	NM	-4	0	NM
Other income	0	0	4	3	71%	NM	NM	1	11	NM
EBITDA	169	218	242	223	8%	42.6%	11.1%	453	876	93.3%
EBIT	114	150	165	149	11%	44.8%	10.0%	301	616	104.9%
Provision for ECL, net	-6	-1	1	-2	NM	NM	NM	-6	-3	-54.6%
Share of profit from JVs	0	4	4	5	-20%	NM	-3.6%	2	14	NM
Finance income	2	4	2	5	-70%	-23.1%	-64.9%	4	10	NM
Finance costs	-24	-9	-2	-12	-79%	-89.8%	-71.3%	-38	-15	-60.8%
Profit before tax	89	148	169	145	16%	90.0%	13.8%	262	622	137.4%
Income tax expense	-1	-1	-4	-2	90%	NM	NM	-1	-2	69.1%
Net Profit	87	148	165	143	15%	88.9%	11.8%	261	620	137.8%

FABS estimate & Co Data

ADNOC L&S - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	YOY Ch
Gross margin	23.5%	26.6%	25.0%	147	-156	21.0%	27.3%	633
EBITDA margin	25.8%	31.0%	29.2%	341	-179	23.2%	31.8%	858
Operating margin	17.3%	21.4%	19.9%	259	-144	15.4%	22.4%	696
Net profit margin	13.3%	21.0%	19.9%	664	-108	13.4%	22.5%	915

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, 30% to RV, and 10% to DDM.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.94	70.0%	3.45
Relative Valuation (RV)	4.92	20.0%	0.98
DDM Method	2.18	10.0%	0.22
Weighted Average Valuation (AED)			4.66
Current market price (AED)			3.86
Upside/Downside (%)			+21%

1) DCF Method:

ADNOC Logistics & Services is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It is arrived after using cost of equity of 9.0% and cost of debt of 5.4%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	458
Terminal value (USD, Mn)	9,624
FV to Common shareholders (USD, Mn)	9,943
No. of share (Mn)	7,398
Current Market Price (AED)	3.86
Fair Value per share (AED)	4.94

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	764	789	803	889	938
Depreciation & Amortization	684	706	718	795	840
Capex	279	321	369	346	354
Change in Working Capital	-1,113	-900	-1,450	-700	-270
Free Cash Flow to Firm (FCFF)	-209	113	-409	380	822
Discounting Factor	0.94	0.87	0.80	0.74	0.69
Discounted FCFF	-160	98	-328	283	566

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 10.7x and the Shipping business is valued at EV/EBITDA multiple of 6.6x in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2024F	2025F	2024F	2025F
<u>Integrated & Marine peers</u>					
ADNOC DRILLING CO PJSC	15,900	10.1	9.0	14.3	12.8
EMIRATES CENTRAL COOLING SYS	4,470	12.8	12.0	18.0	16.7
DUBAI ELECTRICITY & WATER AU	32,810	9.6	9.5	17.3	16.7
SALIK CO PJSC	7,070	20.8	19.0	23.3	23.9
ABU DHABI PORTS CO PJSC	8,050	10.7	9.5	18.0	14.3
Average		12.8x	11.8x	18.2x	16.9x
Median		10.7x	9.5x	18.0x	16.7x
Max		12.8x	12.0x	18.0x	16.7x
Min		10.1x	9.5x	17.3x	14.3x

Source: FAB Securities

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2024F	2025F	2024F	2025F
<u>Shipping peers</u>					
QATAR GAS TRANSPORT(NAKILAT)	6,090	12.6	13.1	12.8	11.8
EURONAV NV	3,580	6.7	5.7	4.1	9.9
STAR BULK CARRIERS CORP	2,010	4.9	4.2	6.7	6.0
DORIAN LPG LTD	1,470	4.5	6.4	4.6	7.4
GOLAR LNG LTD	2,220	7.5	6.1	11.6	10.1
FLEX LNG LTD	11,750	6.2	7.2	14.6	13.0
MITSUI OSK LINES LTD	12,310	15.5	14.3	7.5	10.5
FRONTLINE PLC	5,060	6.4	5.5	5.6	5.9
Average		8.0x	7.8x	8.4x	9.3x
Median		6.6x	6.3x	7.1x	10.0x
Max		8.8x	8.6x	11.9x	10.8x
Min		5.9x	5.6x	5.3x	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 9.0%.

Sum of PV (USD, Mn)	1,182
Terminal value (USD, Mn)	3,217
FV to Common shareholders (USD, Mn)	4,399
No. of share (Mn)	7,398
Current Market Price (AED)	3.86
Fair Value per share (AED)	2.18

(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	0.93	0.86	0.78	0.72	0.66
Present Value of Dividend	254	245	236	227	219

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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