FAB أبوظبـي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 2Q26

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Distribution (ADNOCDIST)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 4.07	AED 4.70	+15.5%	BUY

2Q26 Net Profit higher than our estimate

- ADNOC Distribution's revenue increased from AED 8,638 Mn in 2Q25 to AED 13,201 Mn in 2Q26, driven by higher fuel selling prices following elevated crude oil prices, robust aviation fuel demand and continued growth in the non-fuel retail business, partially offset by lower retail fuel volumes.
- Direct cost from AED 6,957 Mn in 2Q25 to AED 10,773 Mn in 2Q26. Consequently, the Company's gross profit increased 44.5% YOY to AED 2,429 Mn, supported by strong operating performance and significantly higher inventory gains. However, gross margin declined 106 bps YOY to 18.4% in 2Q26.
- ADNOCDIST recorded inventory gains of AED 738 Mn in 2Q26 compared to AED 37 Mn in 2Q25, comprising AED 485 Mn from the fuel retail segment and AED 253 Mn from the commercial segment.
- The Company's total fuel volumes increased marginally by 0.8% YOY to 3.9 Bn litres in 2Q26, supported by strong aviation fuel demand, partially offset by lower retail and corporate fuel volumes.
- Retail segment fuel volumes declined 1.6% YOY to 2.7 Bn litres in 2Q26, while commercial fuel volumes increased 6.7% YOY to 1,247 Mn litres, driven by a 64.2% YOY increase in aviation fuel volumes to 205 Mn litres.
- Convenience store revenue increased 5.7% YOY to AED 279 Mn in 2Q26. However, convenience store conversion rates declined 120 bps YOY to 26.0%, while fresh vehicle inspections increased 9.8% YOY to 355K during the quarter.
- Distribution and administrative expenses declined 1.1% YOY to AED 824 Mn in 2Q26, while impairment and other expenses increased from AED 20 Mn in 2Q25 to AED 91 Mn in 2Q26 due to prudent provisioning amid heightened market volatility.
- EBITDA increased from AED 1,069 Mn in 2Q25 to AED 1,757 Mn in 2Q26, with EBITDA margin improving 93 bps YOY to 13.3%, supported by higher inventory gains, improved operating performance and lower depreciation expenses.
- Net profit attributable to shareholders increased sharply from AED 677 Mn in 2Q25 to AED 1,315 Mn in 2Q26, driven by higher revenue, inventory gains, higher other income and lower distribution & administrative, depreciation and finance expenses, partially offset by higher direct costs, impairment charges, income tax expenses and non-controlling interests.

Earnings Call Summary

- The Company announced the acquisition of 100% of Shell Downstream South Africa (SDSA) at an implied Enterprise Value of USD 1 Bn which is expected to expand the network by around 55% to 1,600 stations and increase fuel volumes by c. 20%, strengthening the Company's presence in Africa.
- Following completion of the SDSA acquisition, the Company is planning to evaluate multiple fuel sourcing options, including leveraging ADNOC Group's trading capabilities and supply chain to unlock operational synergies.
- The fuel volumes in July month recorded low single-digit YOY growth across the UAE and GCC, indicating a decent demand environment heading into 3Q26.
- Higher impairment charges of AED 91 Mn in 2Q26 versus AED 81 Mn in 1Q26 were primarily driven by a conservative provisioning approach in response to heightened geopolitical and market volatility and are not expected to be recurring.
- Inventory gains continue to be embedded within the Company's commercial pricing strategy, enabling effective inventory management while maximising margins and profitability.

- The Company's non-fuel business is expected to remain a key earnings driver, supported by a 4.0% YOY increase in occupied and awarded rental units to 1,181, continued expansion of The HUB, and strategic partnerships with Americana and Engage by ADNOC.
- OASIS by ADNOC contributes over 40% of non-fuel gross profit, supported by AI-driven merchandising, targeted marketing initiatives and the planned rollout of private-label products.
- The Company's partnership with Americana is expected to support the rollout of up to 200 quick-service restaurants, driving higher customer traffic, improved property monetisation and growth in food & beverage revenues.
- Engage by ADNOC, the Company's AI-powered retail media platform, is expected to contribute c. AED 92 Mn to non-fuel gross profit over the next five years by monetising customer data and digital engagement.
- The ADNOC Rewards programme expanded to 2.8 Mn members, strengthening customer engagement and supporting long-term growth across the Company's higher-margin non-fuel businesses.
- The Company's B2B prices are decided by balancing inventory costs, market prices, and margins to maximise overall profitability.
- The Company's contractual B2B business provides stable earnings, while exposure to weaker pricing environments is mitigated by selectively reducing spot trading activity, thereby limiting downside risk to margins.
- The Company declared a 2Q26 dividend of 5.14 fils per share, taking the cumulative 1H26 dividend to 10.285 fils per share, in line with its quarterly dividend policy.
- Management reaffirmed 2026 capex guidance of USD 250-300 Mn, with annual investment expected to remain broadly around similar levels in the medium-term while supporting network and EV infrastructure expansion.
- The Company also reaffirmed its 2026 guidance, targeting the addition of 60-70 service stations, 50-60 EV charging points and continued execution of all planned operational growth initiatives.

ADNOC Distribution – P&L

AED Mn	**2Q25**	**1Q26**	**2Q26**	**2Q26F**	**Var**	**YOY Ch**	**QOQ Ch**
Revenue	8,638	8,834	13,201	9,240	42.9%	52.8%	49.4%
Direct costs	-6,957	-7,010	-10,773	-7,374	46.1%	54.8%	53.7%
Gross profit	**1,681**	**1,824**	**2,429**	**1,865**	**30.2%**	**44.5%**	**33.2%**
Distribution & admin. expense	-833	-822	-824	-855	-3.6%	-1.1%	0.3%
Operating profit	**857**	**949**	**1,568**	**1,034**	**51.7%**	**82.9%**	**65.3%**
EBITDA	**1,069**	**1,129**	**1,757**	**1,240**	**41.7%**	**64.3%**	**55.6%**
Profit before tax	**769**	**873**	**1,494**	**957**	**56.1%**	**94.3%**	**71.2%**
Income tax	-80	-87	-152	-99	54.0%	89.5%	74.3%
Net profit attributable to equity	**677**	**771**	**1,315**	**842**	**56.1%**	**94.3%**	**70.6%**

FABS estimate & Co Data

Management Guidance:

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	Ahmad.Banihani@Bankfab.com
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

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