ADNOC Gas PLC

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.40	AED 4.30	+26.5%	BUY

2Q26 Net Profit higher than our estimate

- Revenue declined 33.2% YOY to USD 3,111 Mn in 2Q26, primarily due to lower domestic gas sales, reduced exports and traded liquids sales volumes amid the continued Strait of Hormuz disruption.
- Total sales volume declined 39.1% YOY to 567 trillion British thermal units (TBTU) in 2Q26.
- Domestic gas sales volume declined 29.8% YOY to 429 TBTU in 2Q26, while the export and traded liquids volumes declined 53.6% YOY to 117 TBTU.
- ADNOC LNG JV sales volume declined from 65 TBTU in 2Q25 to 19 TBTU in 2Q26. The sales volume of sulfur declined from 4 TBTU in 2Q25 to 1 TBTU in 2Q26.
- Direct costs declined 34.4% YOY to USD 1,729 Mn in 2Q26, resulting in a 31.6% YOY decline in gross profit to USD 1,383 Mn in 2Q26. Thus, gross margin expanded 102 bps YOY to 44.4% in 2Q26.
- EBITDA declined 46.4% YOY to USD 1,118 Mn in 2Q26, while EBITDA margin contracted from 44.8% in 2Q25 to 35.9% in 2Q26. On a consolidated basis, including ADNOC LNG JV and other adjustments, EBITDA declined 47.0% YOY to USD 1,194 Mn.
- Operating profit declined 55.9% YOY to USD 779 Mn in 2Q26.
- Finance income declined to USD 13 Mn in 2Q26, from USD 18 Mn in 2Q25, while finance costs increased 3.7% YOY to USD 48 Mn in 2Q26.
- Net profit declined 52.0% YOY to USD 665 Mn in 2Q26, higher than our estimate of USD 568 Mn. The decline was primarily driven by lower revenue and other operating income, lower profit share from equity-accounted investees, reduced recharges to equity-accounted investees, and higher other operating costs, depreciation & amortisation and other expenses, alongside lower finance income and higher finance costs. These factors were partially offset by lower direct costs, employee benefit expenses and income tax expenses.

Earnings Call Summary

- ADNOCGAS is targeting ~60% EBITDA growth by 2030 vs 2023, supported by c.45% volume growth and USD 28 Bn of committed investment, with improvement in product mix also expected to support EBITDA growth.
- The Company's Habshan plant recovery progressed significantly ahead of the initial timeline with around 85% of supply restored by June, with AI and robotics helping accelerate asset inspections.
- The Company's current capex plan is aligned with a 5 Mn bpd UAE oil production capacity target, while any incremental processing capacity required for higher oil production would be subject to a feasibility assessment.
- Investment is expected to step up in 2027, with RGD Phase 1 focused on debottlenecking existing facilities and increasing output from the current asset base, before RGD Phases 2 and 3 begin contributing more materially from 2028-29.
- RGD Phases 2 and 3 are expected to operate at high utilization following commissioning, supported by more efficient facilities and AI-based optimization of gas allocation across the processing network.
- Capex is expected to peak in 2027-28 before declining as major growth projects are completed, with normalized annual spending estimated at around USD 1.5-2.0 Bn, including maintenance and smaller optimization projects.
- RGD Phase 2 and 3 capex exposure is partly protected through EPC contracting, reducing the impact of regional cost inflation and providing better visibility on project costs.

- The USD 28 Bn capex plan remains economically viable, with project returns evaluated over a 30-year horizon and applicable domestic and export tax rates incorporated into investment decisions.
- Ruwais LNG is expected to be transferred to ADNOC Gas in 2H28, with the Company acquiring a 60% stake and the asset is expected to contribute to earnings from 2029.
- The domestic gas tax holiday is set to expire in 2027, with no visibility of an extension; the post-2027 earnings outlook should therefore reflect a higher tax burden, with an effective tax rate of c.40% indicated for 2030.
- The long-term volume mix is expected to remain broadly stable at around two-thirds domestic and one-third export, with domestic growth supported by UAE GDP, population growth and electrification, while export growth is supported by rising gas demand particularly in Asia.
- Domestic gas margins are expected to remain around 36% over the medium term, supported by contract optimization and higher-value gas flexibility opportunities.
- The Strait of Hormuz remains the key earnings risk, with 2026 net income guidance of USD 3.5-4.0 Bn incorporating continued disruption.
- The Company's 3Q26 guidance of USD 600-800 Mn in net profit assumes only partial normalization of Strait of Hormuz traffic, rather than a full return to historical shipping levels while the upper end of the guidance assumes some vessel movement through the Strait.
- ADNOCGAS is evaluating alternative export routes to reduce dependence on the Strait of Hormuz, including pipeline solutions and an east-coast export facility, although these options remain at an early stage.
- The Company is using alternative land-based logistics to access nearby markets for sulphur exports, reducing reliance on maritime routes through the Strait of Hormuz.
- The Company Gas Supply and Purchase Agreement provide a hedge against lower oil prices, as the profit share payable to ADNOC declines with weaker product economics, thereby reducing the Company's feedstock cost burden.
- Every USD 10/bbl change in oil prices is estimated to impact annual net income by around USD 300 Mn under normal conditions, with the sensitivity partly cushioned by the profit-sharing mechanism.
- ADNOCGAS has USD 6.0 Bn of financing arrangements available, comprising USD 2.0 Bn for working capital and USD 4.0 Bn to support its growth capex programme as investment in major projects ramps up.
- Shareholder returns remain a priority alongside growth investment, with the 2026 dividend commitment maintained at USD 3.76 Bn, including a USD 940 Mn cash dividend (4.50 fils per share) for 2Q26, in line with the annual dividend policy.
- ADNOC Gas has guided Net profit unit margins of domestic gas products (0.95-1.05 $/mmBTU), Net profit unit margins of exports & traded liquids (1.35-1.45 $/mmBTU), Net profit unit margins of LNG JV products (1.40-1.60 $/mmBTU), and Sulphur in the range of USD 400-450 Mn for FY2026.

ADNOC Gas - P&L

(USD Mn)	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Revenue	4,657	4,034	3,111	3,164	-1.7%	-33.2%	-22.9%
Direct Cost	2,635	2,303	1,729	2,033	-15.0%	-34.4%	-25.0%
Gross Profit	**2,023**	**1,731**	**1,383**	**1,131**	**22.3%**	**-31.6%**	**-20.1%**
Other Operating income	264	242	128	184	-30.4%	-51.5%	-47.0%
Share of profit of equity-accounted investee	150	62	11	70	-84.7%	-92.9%	-82.8%
Recharges to equity accounted investees	152	140	145	134	8.4%	-4.6%	3.9%
Employee benefit expenses	-295	-265	-275	-226	21.4%	-6.9%	3.6%
Other operating costs and administrative exp	-81	-85	-115	-84	36.4%	42.5%	35.7%
Share of operating costs in an equity acc inv	-58	-58	-55	-52	4.8%	-6.5%	-5.1%
Inventory Consumption	-16	-13	-16	-10	59.2%	0.5%	26.2%
Other expenses	-52	-49	-142	-40	254.3%	171.3%	188.1%
Other Income	0	0	48	NM	NM	NM	NM
EBITDA	**2,087**	**1,700**	**1,118**	**1,107**	**1.0%**	**-46.4%**	**-34.2%**
Depreciation and amortisation	-322	-332	-334	-349	-4.4%	3.8%	0.4%
EBIT	**1,765**	**1,373**	**779**	**758**	**2.8%**	**-55.9%**	**-43.3%**
Finance Income	18	17	13	25	-49.5%	-27.8%	-24.1%
Finance Cost	-46	-52	-48	-41	16.3%	3.7%	-7.3%
Profit before tax	**1,736**	**1,338**	**744**	**742**	**0.3%**	**-57.2%**	**-44.4%**
Income Tax expense	351	258	79	173	-54.3%	-77.4%	-69.4%
Net Income	**1,385**	**1,079**	**665**	**568**	**16.9%**	**-52.0%**	**-38.4%**

FABS estimate & Co Data

2026 Management Guidance:

Financial		H1 26 actual	2026 new
	EBITDA Margin %	35.0%	~36%

Sales volume	*(in TBTU)*	H1 26 actual	2026 new
	Domestic Gas Products	948	1,920 – 2,000
	Exports & Traded Liquids	319	730 – 770
	LNG JV Products	66	160 – 175

Net Profit Unit Margins	*(USD/mmBTU)*	H1 26 actual	2026 new
	Domestic Gas Products	1.08	0.95 – 1.05
	Exports & Traded Liquids	1.48	1.35 – 1.45
	LNG JV Products	1.17	1.40 – 1.60
	Sulphur (USD Millions)	225	400 - 500

Investments	*(USD Million)*	H1 26 actual	2026 new
	CAPEX	2,008	4,500 - 5,000

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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