

Abu Dhabi Ports Company PJSC

Robust revenue growth supported by recent acquisitions and new partnerships

1Q23 Net profit lower than our estimates

AD Ports Group (ADPORTS /The Company) net profit rose 8.5% YOY to AED 331 Mn in 1Q23, lower than our estimate of AED 360 Mn. The increase in net profit is primarily attributable due to strong revenue growth in the Maritime, EC&FZ and Port Cluster supported by the acquisitions completed in 2022 & 1Q23. Maritime revenue rose significantly from AED 255 Mn in 1Q22 to AED 915 Mn in 1Q23 mainly due to the acquisition of four new companies to the portfolio.

P&L highlights

ADPORTS net revenue rose significantly from AED 1,047 Mn in 1Q22 to AED 1,817 Mn in 1Q23 led by robust growth in the Maritime, EC&FZ and Port Cluster Segment. Maritime Services grew significantly from AED 255 Mn in 1Q22 to AED 915 Mn in 1Q23 as a result of greater capacity, increased service offerings, and stronger participation from the new business segments. The increase in Maritime revenue is further supported by recent acquisition of Divetech, ASCL, SAFEEN Surveys, and Subsea Services and Transmar. These acquisitions accounted for 30% of total Maritime Cluster revenue in 1Q23. EC&FZ revenue increased 13.0% YOY to AED 429 Mn in 1Q23 due to an increase in utilities revenue, previously signed leases and a contribution of AED 73 Mn from the merger of Al Eskan Al Jame (EAJ). In addition, it leased an additional 1.4 sq km of property in 1Q23, maintaining its annual guidance of 3.5-4.0 sq km addition in 2023. Ports Cluster revenue grew significantly from AED 253 Mn in 1Q22 to AED 314 Mn in 1Q23, underpinned by recovery from COVID-19 and supply chain disruptions along with an increase in utilization rate. The Container capacity utilization rate increased from 43.0% in 1Q22 to 51.0% in 1Q23. The Ports Cluster's revenue was boosted by a substantial 361% YOY increase in cruise passengers, a 32.0% YOY increase in Ro-RO volumes, and a 40% YOY increase in general cargo volumes. Revenue from Logistics segment declined 3.0% YOY to AED 139 Mn in 1Q23 mainly due to the shutdown of strategic customer production plants and also due to the end of COVID-19 vaccine business. Furthermore, Digital Cluster revenue also fell marginally 2.0% YOY to AED 101 Mn in 1Q23 due to a decline in the demand for internal IT services. Direct costs grew significantly from AED 561 Mn in 1Q22 to AED 1,102 Mn in 1Q23 mainly due to an increase in revenue. Thus, gross profit grew significantly from AED 486 Mn in 1Q22 to AED 715 Mn in 1Q23 with a decline in gross profit margin from 46.4% in 1Q22 to 39.3% in 1Q23 due to change in business mix. G&A expenses grew 38.1% YOY to AED 266 Mn in 1Q23. Impairment of trade receivables increased from AED 7 Mn in 1Q22 to AED 32 Mn in 1Q23. While selling and marketing expenses declined 17.7% YOY to AED 9 Mn in 1Q23. Resultantly, EBIT grew significantly from AED 276 Mn in 1Q22 to AED 408 Mn in 1Q23. EBITDA also rose strongly from AED 524 Mn in 1Q22 to AED 699 Mn in 1Q23 mainly due to the strong growth in revenue. The Company recorded strong growth in EBITDA mainly due to the growth in the Maritime, EC&FZ and Ports segments which were further supported by the recent acquisitions. Finance cost increased from AED 93 Mn in 1Q22 to AED 122 Mn in 1Q23 due to an increase in borrowing. Share of profit from joint venture and associates grew significantly from AED 39 Mn in 1Q22 to AED 63 Mn in 1Q23. Tax expenses stood at AED 1 Mn in 1Q23. While share to NCI rose from AED 1 Mn in 1Q22 to AED 32 Mn in 1Q23 dragging profitability.

Rating : BUY

First Look Note – 1Q23

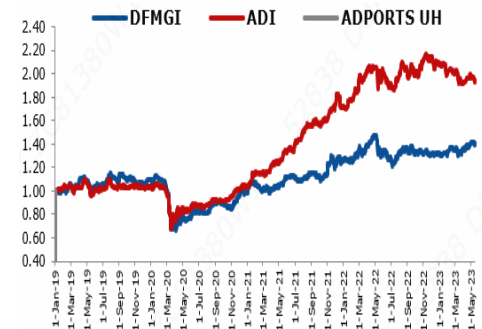
Sector: Industrials

Recommendation

Current Price (01-Jun-23)	6.56
Target Price (AED)	7.70
Upside/Downside (%)	+17.6%

Stock Information

Market Cap (mm)	33,390.40
Paid Up Capital (mm)	N/A
52 Week High	6.95
52 Week Low	4.78
3M Avg. daily value (AED)	32,120,790



Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	25.72
Price-to-Book Ratio (x)	1.73
Book Value (AED)	3.78
Return-on Equity (%)	8.35
Earning Per Share (AED)	0.26
Beta	N/A

Stock Performance

5 Days	0.46%
1 Months	-2.09%
3 Months	6.67%
6 Months	13.10%
1 Year	33.60%
Month to Date (MTD)	-0.15%
Quarter to Date (QTD)	4.30%
Year to Date (YTD)	14.11%

Balance Sheet highlights

ADPORTS total debt grew from AED 5,066 Mn in 4Q22 to AED 6,815 Mn in 1Q23. Including the amount due to project companies the gross debt grew from AED 7,485 Mn in 1Q22 to AED 9,234 Mn in 1Q23. While, net debt increased from AED 4,276 Mn in 4Q22 to AED 5,930 Mn in 1Q23. Net debt to EBITDA grew from 1.9x in 4Q22 to 2.1x in 1Q23. Cash and cash equivalents stood at AED 886 Mn in 1Q23. Cash flow from operation rose significantly from AED 60 Mn in 1Q22 to AED 350 Mn in 1Q23 owing to an improve in operating performance. Cash conversion rose from 10% in 1Q22 to 48% in 1Q23. ADPORTS further plans a Capital expenditure of AED 15.0 Bn over the next five years with a spending of AED 1.02 Bn in 1Q23. Thus, free cash flow to the firm remained negative at AED 544 Mn in 1Q23 owing to the heavy organic CAPEX and acquisition.

Target price and rating

We maintain our BUY rating on AD Ports Group with a target price of AED 7.70. ADPORTS delivered strong growth in business with a robust increase in revenue. The Company recorded c. 70% of its total revenue from the long-term and sticky business in 1Q23. ADPORTS's net revenue grew substantially mainly due to the strong rise in all the segments and solid contribution from the recent acquisitions. It further expects its revenue to grow by 25-30% CAGR and EBITDA by 20-25% CAGR from 2022 to 2027. The Company's recent acquisition contributed 19% and 12% in revenue and EBITDA respectively in 1Q23. In addition, the Company is further planning to complete the acquisition of Noatum in 2Q23 and GFS in 3Q23 which will further drive the revenue and profitability growth going forward. In addition, the Company also intends to expand its business by making value-added acquisitions to increase supply chain density along trade routes. Recently the Company announced the 100% acquisition of TTEK which is anticipated to strengthen AD Ports vision of being a comprehensive single-window solution provider. ADPORTS further anticipates its Capex to be around AED 15 Bn by 2023-27, as a result of the expansion strategy supported by Khalifa Port's ambition to maintain a container volume capacity of up to 15 Mn TEUs and the increase of vessel fleet across all entities. In addition, the group also maintained a robust financial position with a Net debt/EBITDA of 2.1x and a cash balance of AED 886 Mn offers flexibility to drive both organic and inorganic growth going forward. Considering all these factors, we maintain our BUY rating on the stock.

AD PORTS - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	33.3	50.7	63.9	29.8	26.3	22.4
PB(X)	4.5	3.3	3.3	2.4	1.7	1.6
EV/EBITDA	33.6	23.0	18.8	22.3	24.6	19.9

FABS Estimates & Co Data

AD PORTS - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var	YOY Ch	QOQ Ch	2022	2023F	Change
Revenues	1,047	1,763	1,817	1,580	15.0%	73.5%	3.1%	5,518	7,705	39.6%
Government grants	0	0	0	0	NA	NA	NA	0	0	NA
Direct Cost	-561	-919	-1,102	-966	14.1%	96.5%	20.0%	-2,865	-4,406	53.8%
Gross Profit	486	844	715	614	16.4%	46.9%	-15.4%	2,653	3,299	24.4%
G&A expense	-193	-323	-266	-276	-3.7%	38.1%	-17.7%	-989	-1,233	24.6%
S&M Expenses	-11	-33	-9	-22	-58.7%	-17.7%	-72.5%	-83	-77	-7.1%
Impair of invst property	0	-5	0	0	NA	NA	NA	-5	0	-100.0%
Other (Exp) / Income	-7	-46	-31	125	NA	NA	NA	-133	64	-147.9%
EBITDA	524	546	699	633	10.4%	33.2%	27.9%	2,196	3,088	40.6%
EBIT	276	437	408	440	-7.2%	47.9%	-6.6%	1,443	2,053	42.3%
Finance cost	-93	-99	-122	-122	-0.3%	30.6%	22.4%	-394	-590	49.8%
Financial income	0	3	4	0	NA	NA	56.4%	15	0	-100.0%
Gain on disposal assets	73	0	0	0	NA	NA	NA	73	0	-100.0%
Share of profit from associate	11	10	9	12	-23.1%	-12.6%	-10.4%	43	23	-47.6%
Share of profit from JVs	39	16	63	33	89.9%	59.6%	NA	128	130	2.0%
Profit Before Tax	306	366	363	363	-0.1%	18.5%	-1.0%	1,308	1,615	23.5%
Income Tax	0	-1	-1	0	NA	NA	-55.8%	0	0	NA
Profit After Tax	306	365	363	363	-0.1%	NA	-0.7%	1,308	1,615	NA
Non-controlling interest	1	13	32	3	NA	NA	NA	36	121	NA
Net Profit	305	353	331	360	-8.1%	8.5%	-6.2%	1,270	1,494	17.7%

AD Ports - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	46.4%	47.9%	39.3%	-710	-857	48.1%	42.8%	-526
EBITDA	50.1%	31.0%	38.5%	-1,161	747	39.8%	40.1%	27
Operating profit	26.4%	24.8%	22.5%	-388	-233	26.1%	26.6%	49
Net Profit	29.1%	20.0%	18.2%	-1,090	-179	23.0%	19.4%	-362

FABS estimate & Co Data

Valuation:

We assigned a 100% weight to DCF valuation as the company is working on multiple projects which are still under development and these projects will be completed over a period of time. The Company also plans to incur a capex of approx. AED 15 Bn during FY2022-26 to complete these projects. Thus, we believe DCF valuation will be able to capture the valuation more precisely as compared to the other valuation methods.

Valuation Method	Target	Weight	Weighted Value
DCF	7.70	100.0%	7.70
Weighted Average Valuation (AED)			7.70
Current market price (AED)			6.56
Upside/Downside (%)			17.32%

1) DCF Method:

ADPORTS is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It is arrived after using cost of equity of 8.9% and after-tax cost of debt of 4.8% with debt-to-equity ratio of 27.7%. Cost of equity is calculated by using 10-year government bond yield of 3.6%, beta of 1.0 and equity risk premium of 4.6%. 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 (AED, Mn)	7,062
Terminal value (AED, Mn)	41,584

FV to Common shareholders (AED, Mn)	39,173
No. of share (Mn)	5,090
Current Market Price (AED)	6.56
Fair Value per share (AED)	7.70

DCF method

(All Figures in AED Mn)	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT	2,053	2,459	2,715	2,821	3,006	3,097	3,250	3,267
Depreciation & Amortization	1,035	1,120	1,254	1,386	1,401	1,468	1,509	1,536
(-) Capex	-3,750	-3,400	-3,050	-2,600	-2,200	-1,300	-875	-475
(-) Change in Working Capital	-1,311	-682	-516	-651	-392	106	140	-27
Free Cash Flow to Firm (FCFF)	-1,973	-503	403	956	1,815	3,370	4,024	4,301
Discounting Factor	0.95	0.88	0.82	0.76	0.71	0.65	0.61	0.56
Discounted FCFF	-1,884	-445	331	728	1,280	2,202	2,437	2,413

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