

Abu Dhabi Ports Company PJSC

Acquisition and healthy growth in ports fueled topline and profitability growth

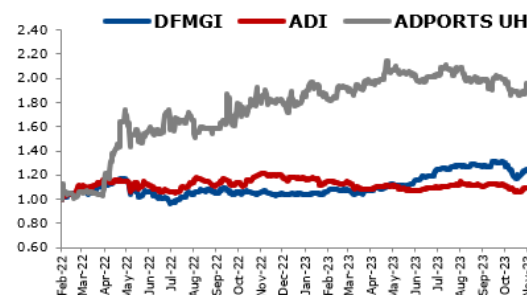
Current Price
AED 6.21

Target Price
AED 7.70

Upside/Downside (%)
+24%

Rating
BUY

- ADPORTS EBITDA grew strongly 27.9% YOY to AED 759 Mn in 3Q23 supported by the recent acquisition of Karachi Gateway Terminal and Noatum.
- ADPORTS total debt grew from AED 11,076 Mn in 2Q23 to AED 13,268 Mn in 3Q23 owing to higher vessel trading activities. Net debt to EBITDA grew from 3.8x in 2Q23 to 4.2x in 3Q23.
- In November 2023, ADPORTS purchased 10 offshore vehicles for AED 735 Mn, enhancing its offshore and subsea capacities in the Middle East and Southeast Asia by approximately 20%.
- ADPORTS plans a Capital expenditure of AED 15.0 Bn over the next five years with spending of AED 3.65 Bn as of 9M23.



3Q23 Net Profit higher than our estimate

AD Ports Group (ADPORTS /The Company) net profit grew 21.2% YOY to AED 381 Mn in 3Q23, higher than our estimate of AED 314 Mn. The growth in net profit is primarily attributable to strong revenue growth across Logistics, Maritime and Ports segment supported by recent consolidation of Noatum as well as higher finance income partially offset by an increase in direct cost, higher G&A expenses and increase in finance cost.

P&L Highlights

ADPORTS net revenue rose significantly from AED 1,466 Mn in 3Q22 to AED 4,235 Mn in 3Q23 driven by robust growth in the Maritime, Logistics and Port segment owing to recent consolidation of Noatum. Maritime Services revenue grew significantly from AED 671 Mn in 3Q22 to AED 2,443 Mn in 3Q23 supported by shipping segment, and vessel trading activities. The increase in Maritime revenue is further supported by the recent acquisition of Noatum. The acquisition accounted for 7.0% of total Maritime Cluster revenue in 3Q23. EC&FZ revenue grew 19.8% YOY to AED 442 Mn in 3Q23 mainly due to increase in revenue from Warehouses leases, KEZAD Communities, and Utilities. The growth in Warehouse and KEZAD Communities revenue is mainly driven by higher utilization. In addition, the Company acquired an extra 0.4 sq km of land in 3Q23, bringing the total land lease within the EC&FZ cluster to 66.5 sq km. Ports Cluster revenue grew from AED 284 Mn in 3Q22 to AED 487 Mn in 3Q23, underpinned by strong performance in concession fees, general cargo and Ro-Ro business. The segment is also benefitted from the consolidation of Noatum's Terminals business. The Container volume grew 19.0% YOY to 1.4 Mn TEUs in 3Q23. Cluster Ro-Ro volumes grew strongly 651% YOY and 49% YOY LFL, general cargo volumes rose 24.9% YOY in 3Q23. Revenue from Logistics segment grew from AED

Stock Information

Market Cap (AED, mm)	31,608.90
Shares Outstanding(mm)	5,090.00
52 Week High	6.95
52 Week Low	5.41
3M Avg. daily value (AED)	17,775,780

3Q23 Result Review (AED, mm)

Total Assets	52,202
Total Liabilities	28,967
Total Equity	23,235
EBITDA	759
Net Profit	381

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	23.01
Price-to-Book Ratio (x)	1.57
Book Value (AED)	3.95
Return-on Equity (%)	6.79

5 Days	-1.27%
1 Months	2.81%
3 Months	-1.43%
6 Months	-5.19%
1 Year	7.07%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-3.72%
Year to Date (YTD%)	8.19%

132 Mn in 3Q22 to AED 853 Mn in 3Q23 benefitted from Noatum's consolidation and enhanced volume from Borouge. Furthermore, Digital Cluster revenue rose 11.0% YOY to AED 100 Mn in 3Q23 driven by TTEK contribution and rise in rates of certain services. Direct costs grew significantly from AED 815 Mn in 3Q22 to AED 3,129 Mn in 3Q23, mainly due to an increase in revenue. Thus, gross profit grew from AED 651 Mn in 3Q22 to AED 1,106 Mn in 3Q23 with a decline in gross profit margin from 44.4% in 3Q22 to 26.1% in 3Q23. G&A expenses grew from AED 228 Mn in 3Q22 to AED 467 Mn in 3Q23. Impairment of trade receivables grew from AED 16 Mn in 3Q22 to AED 47 Mn in 3Q23. While, selling and marketing expenses declined 45.0% YOY to AED 14 Mn in 3Q23. Resultantly, EBIT grew from AED 385 Mn in 3Q22 to AED 579 Mn in 3Q23. EBITDA also grew from AED 594 Mn in 3Q22 to AED 759 Mn in 3Q23 supported by growth in Maritime, Ports and logistics segment. Maritime EBITDA grew 44.2% YOY to AED 318 Mn in 3Q23 owing to strong contribution from Noatum and Transmar which together accounted for 6% of total segment EBITDA. Ports Cluster EBITDA grew 63.1% YOY to AED 270 Mn in 3Q23 driven by strong contribution of KGTL and Noatum which together accounted for 32% of total cluster EBITDA. Logistics and EZ& FZ EBITDA grew 74.7% YOY and 3.1% YOY to AED 66 Mn and AED 278 Mn respectively in 3Q23. While, Digital Cluster EBITDA declined 11.8% YOY to AED 47 Mn in 3Q23. Finance cost grew from AED 100 Mn in 3Q22 to AED 199 Mn in 3Q23 due to an increase in borrowing. Share of profit from joint venture declined from AED 37 Mn in 3Q22 to AED 23 Mn in 3Q23. Income tax expense grew from AED 1 Mn in 3Q22 to AED 62 Mn in 3Q23. Share to NCI also grew 8.3% YOY to AED 22 Mn in 3Q23 dragging profitability.

Balance Sheet Highlights

ADPORTS total debt grew from AED 11,076 Mn in 2Q23 to AED 13,268 Mn in 3Q23 owing to higher vessel trading activities. Furthermore, including the amount due to project companies the gross debt grew from AED 13,488 Mn in 2Q23 to AED 15,678 Mn in 3Q23. Net debt increased from AED 9,577 Mn in 2Q23 to AED 11,393 Mn in 3Q23. Net debt to EBITDA also grew from 3.8x in 2Q23 to 4.2x in 3Q23. Cash and cash equivalents grew from AED 1,499 Mn in 2Q23 to AED 1,876 Mn in 3Q23. Cash flow from operation stood negative at AED 579 Mn in 3Q23, as compared to positive operating cash flow of AED 730 Mn in 3Q22 mainly due to investment in working capital owing to higher vessel trading activities. However, the Company anticipates a recovery in operating cash flow in 4Q23 mainly due to the expected collection of cash from the vessels that were transacted. ADPORTS further plans a Capital expenditure of AED 15.0 Bn over the next five years with a spending of AED 3.65 Bn as of 9M23. Thus, free cash flow to the firm remained negative at AED 1,401 Mn in 3Q23 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 a strong rise in profitability driven by robust rise in revenue in Logistics, Maritime and Ports Cluster segment owing to recent consolidation of Noatum. The recent acquisition of Noatum contributed AED 999 Mn in revenue and AED 98.2 Mn in EBITDA during 3Q23. The strong performance in revenue was also driven by increase in volume growth across Ports Cluster, Maritime, and Logistics. ADPORTS further expects its revenue to grow by 25-30% CAGR and EBITDA by 20-25% CAGR from 2022 to 2027. The Company recorded c. 50% of its total revenue from the long-term and sticky business during 9M23. Moreover, as of 3Q23, ADPORTS generated 29% of its revenue and 24% of EBITDA through its recent merger and acquisition initiatives. The Company recently announced the purchase of Sese Auto Logistics for a total acquisition cost of EUR 81 Mn the transaction of which is anticipated to finalize by 1Q24. The acquisition will enable the Company to oversee the complete logistics value chain, encompassing distribution, transport, and the delivery of vehicles. In addition, in November 2023, ADPORTS purchased 10 offshore vessels for AED 735 Mn, enhancing its offshore and subsea capacities in the Middle East and Southeast Asia by approximately 20%. The delivery of all 10 vessels is anticipated in the 4Q23, while its financial consolidation is expected to commence from the 1Q24. In addition, the Company is further planning to complete the acquisition of GFS in 4Q23 which will drive the revenue and profitability growth going forward. ADPORTS also plans to take over contracts with clients in the Oil and Gas industry, including International Oil Companies and National Oil Companies, in the Middle East and Southeast Asia. This goal aligns with ADPORTS strategy to maintain a diverse portfolio within its Maritime sector by integrating assets and services that experience varying market conditions and cycles. The Company also plans

a Capital expenditure of AED 15.0 Bn over the next five years with a spending of AED 3.65 Bn as of 9M23. In addition, the Company also maintained a robust financial position with a Net debt/EBITDA of 4.2x and a cash balance of AED 1.9 Bn that 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	31.5	48.0	60.5	28.2	24.9	23.4
PB	4.3	3.2	3.1	2.2	1.6	1.5
EV/EBITDA	31.8	21.8	17.9	21.3	23.5	19.1

FABS Estimates & Co Data

AD PORTS - P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	Var	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	1,466	2,060	4,235	2,243	88.8%	188.9%	105.6%	5,518	12,007	117.6%
Direct costs	-815	-1,323	-3,129	-1,457	114.8%	283.9%	136.5%	-2,865	-8,446	194.8%
Gross profit	651	737	1,106	786	40.7%	69.9%	50.1%	2,653	3,560	34.2%
G&A expenses	-228	-289	-467	-303	54.0%	105.0%	61.6%	-989	-1,501	51.7%
Impairment of Trade Rec	-16	-8	-47	-7	NM	203.0%	473.0%	-142	-88	-38.5%
Selling & mkt expenses	-25	-12	-14	-13	3.5%	-45.0%	20.6%	-83	-48	-42.1%
Other income	2	3	1	9	-94.3%	-78.7%	-82.8%	10	53	456.2%
EBITDA	594	686	759	720	5.5%	27.9%	10.6%	2,196	3,023	37.6%
EBIT	385	431	579	472	22.7%	50.4%	34.2%	1,443	1,977	37.0%
Finance cost	-100	-141	-199	-164	21.5%	NM	41.0%	-394	-671	70.4%
Financial income	3	4	11	0	NM	NM	NM	15	20	NA
Gain on disposal of asset	0	0	0	0	NM	NM	NM	73	0	NA
Share of profit from assoc	10	1	9	6	59.4%	-6.4%	NM	43	23	-47.6%
Share of profit from JV	37	18	23	25	-7.2%	-37.6%	26.6%	128	130	2.0%
Profit before tax	335	314	424	339	24.9%	26.3%	34.8%	1,308	1,515	15.9%
Income tax	-1	0	-62	0	NM	NM	NM	0	0	NA
Profit after Tax	334	310	403	339	18.8%	20.4%	29.9%	1,308	1,515	NA
Non-controlling int.	20	24	22	25	-14.3%	8.3%	-10.1%	36	91	152.1%
Net Profit	314	286	381	314	21.5%	21.2%	33.3%	1,270	1,349	6.2%

FABS estimate & Co Data

AD PORTS - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	44.4%	35.8%	26.1%	-1,829	-966	48.1%	29.7%	-1,842
EBITDA	40.5%	33.3%	17.9%	-2,257	-1,539	39.8%	25.2%	-1,462
Operating Profit	26.3%	20.9%	13.7%	-1,258	-727	26.1%	16.5%	-969
Net Profit	21.4%	13.9%	9.0%	-1,245	-488	23.0%	11.2%	-1,178

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 FY2023-27 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 Method	7.70	100.0%	7.70
Weighted Average Valuation (AED)			7.70
Current market price (AED)			6.21
Upside/Downside (%)			24.0%

1) ADPORTS 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 8.0%. It is arrived after using cost of equity of 9.4% and after-tax cost of debt of 4.1%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 1.05 and equity risk premium of 4.1%. 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)	10,386
Terminal value (AED, Mn)	43,874
FV to Common shareholders (AED, Mn)	39,085
No. of share (Mn)	5,078
Current Market Price (AED)	6.21
Fair Value per share (AED)	7.70

DCF Method

(All Figures in AED Mn)	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT	1,878	2,429	2,846	3,080	3,271	3,452	3,594	3,737
D&A	1,047	1,261	1,292	1,345	1,379	1,406	1,447	1,476
(-) Capex	-5,850	-4,800	-2,500	-950	-900	-1,650	-1,100	-550
(-) Change in working capital	-1,249	-1,027	-124	-353	-462	-242	-259	-190
Free Cash Flow to Firm (FCFF)	-696	-2,138	1,514	3,122	3,289	2,965	3,682	4,473
Discounting Factor	0.99	0.92	0.85	0.79	0.73	0.68	0.63	0.58
Discounted FCFF	-691	-1,965	1,289	2,460	2,399	2,003	2,302	2,589

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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