

Abu Dhabi Ports Company

Strong top-line growth supported by recent M&A deals

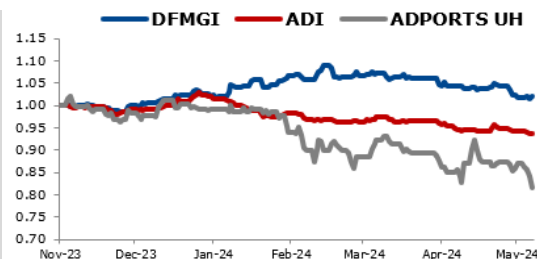
Current Price
AED 5.14

Target Price
AED 7.70

Upside/Downside (%)
+50%

Rating
BUY

- ADPORTS completed several major transactions in 1Q24, including Castellon terminals in Spain, 15-year cruise concessions in Egypt, expansion of Karachi terminal operations, 60% stake in Dubai Technologies and GFS in 1Q24.
- The recent acquisition of Noatum and GFS contributed AED 1,115 Mn and AED 428 Mn, respectively, in revenue during 1Q24.
- ADPORTS total debt grew marginally from AED 15,105 Mn in 4Q23 to AED 15,983 Mn in 1Q24. Net debt to EBITDA declined from 4.4x in 4Q23 to 3.4x in 1Q24.
- The Company plans a Capital expenditure of AED 12-15 Bn over the next five years with spending of AED 1.3 Bn in 1Q24.



1Q24 Net Profit higher than our estimate

AD Ports Group (ADPORTS /The Company) net profit declined from AED 331 Mn in 1Q23 to AED 314 Mn in 1Q24, higher than our estimate of AED 262 Mn. The decline in net profit is primarily attributable to higher direct costs, G&A and S&D expenses, increased finance costs, and higher share to NCI, partially offset by strong growth in revenue and EBITDA driven by the consolidation of recent acquisitions.

P&L Highlights

ADPORTS net revenue rose significantly from AED 1,817 Mn in 1Q23 to AED 3,888 Mn in 1Q24, supported by significant growth in the Maritime, Ports, Logistics and Digital Cluster segment driven by the recent consolidation of Noatum and GFS. Maritime Services revenue grew significantly from AED 915 Mn in 1Q23 to AED 1,757 Mn in 1Q24, driven by the growth in Shipping, Marine services, and Offshore & subsea segments coupled with the recent acquisition of Noatum and GFS. The Maritime & Shipping Cluster accounted for the highest share in revenue and EBITDA, representing 44% and 37% of the Group's total revenue and EBITDA, respectively in 1Q24. EC&FZ revenue grew 7.3% YOY to AED 461 Mn in 1Q24, mainly due to an increase in revenue from warehouse leases and KEZAD Communities. The growth in Warehouse and KEZAD Communities is mainly driven by higher utilization. In addition, the Company acquired an extra 1.4 sq km of land in 1Q24, bringing the total land lease within the EC&FZ cluster to 69 sq km. Ports Cluster revenue grew from AED 314 Mn in 1Q23 to AED 565 Mn in 1Q24, underpinned by strong performance in general cargo and Ro-Ro business. The segment is also benefitted from the consolidation of Noatum's Terminals and KGTM. The Container volume grew 26.0% YOY and 14% on LFL (Like for like) basis to 1.4 Mn TEUs in 1Q24. Cluster Ro-Ro volumes grew strongly 430% YOY, and general cargo volumes rose 36% YOY and declined 2% YOY on LFL basis in 1Q24. Revenue from the Logistics segment grew strongly

Stock Information

Market Cap (AED, mm)	26,162.60
Shares Outstanding(mm)	5,090.00
52 Week High	6.85
52 Week Low	5.13
3M Avg. daily value (AED)	8,531,361

1Q24 Result Review (AED, mm)

Total Assets	58,254
Total Liabilities	33,300
Total Equity	24,953
EBITDA	1,039
Net Profit	314

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	24.34
Price-to-Book Ratio (x)	1.25
Book Value (AED)	4.10
Return-on Equity (%)	5.24

5 Days	-5.17%
1 Months	-4.64%
3 Months	-9.19%
6 Months	-18.28%
1 Year	-21.53%
Month to Date (MTD%)	-11.53%
Quarter to Date (QTD%)	-10.76%
Year to Date (YTD%)	-19.44%

from AED 139 Mn in 1Q23 to AED 1,081 Mn in 1Q24, mainly attributable to the consolidation of Noatum, Sese Auto Logistics. Furthermore, Digital cluster revenue rose 49.8% YOY to AED 151 Mn in 1Q24 attributed to higher revenue from Foreign Labour Service (FLS) transactions and external projects, as well as the commencement of security services. Direct costs grew significantly from AED 1,102 Mn in 1Q23 to AED 2,764 Mn in 1Q24, mainly due to increased revenue. Thus, gross profit increased from AED 715 Mn in 1Q23 to AED 1,124 Mn in 1Q24. However, gross profit margin declined from 39.3% in 1Q23 to 28.9% in 1Q24. G&A expenses grew from AED 266 Mn in 1Q23 to AED 536 Mn in 1Q24. Impairments on trade receivables declined from AED 32 Mn in 1Q23 to AED 11 Mn in 1Q24. Selling and marketing expenses grew 19.7% YOY to AED 11 Mn in 1Q24. Other income grew significantly from AED 1 Mn in 4Q22 to AED 57 Mn in 1Q24. Resultantly, EBIT grew strongly from AED 408 Mn in 1Q23 to AED 623 Mn in 1Q24. EBITDA grew from AED 699 Mn in 1Q23 to AED 1,039 Mn in 1Q24, driven by the growth across all the segments and the M&A effect. Maritime EBITDA grew from AED 290 Mn in 1Q23 to AED 436 Mn in 1Q24, driven by the consolidation of GFS and Noatum coupled with higher demand and rising rates for shipping operations in the Red Sea. Logistics segment EBITDA grew from AED 32 Mn in 1Q23 to AED 93 Mn in 1Q24, mainly due to higher polymer volumes. Ports Cluster and EZ & FZ EBITDA grew 43.9% YOY and 3.5% YOY to AED 249 Mn and AED 305 Mn, respectively, in 1Q24. Digital Cluster EBITDA grew 60.1% YOY to AED 94 Mn in 1Q24. Finance costs grew from AED 122 Mn in 1Q23 to AED 207 Mn in 1Q24, primarily due to increased borrowing. Share of profit from joint venture declined from AED 63 Mn in 1Q23 to AED 22 Mn in 1Q24. Income tax expense grew from AED 1 Mn in 1Q23 to AED 62 Mn in 1Q24, mainly due to the introduction of UAE corporate tax. Share to NCI grew significantly from AED 32 Mn in 1Q23 to AED 86 Mn in 1Q24, dragging profitability.

Balance Sheet Highlights

ADPORTS total debt grew marginally from AED 15,105 Mn in 4Q23 to AED 15,983 Mn in 1Q24. Furthermore, including the amount due to project companies, the gross debt grew from AED 17,511 Mn in 4Q23 to AED 18,391 Mn in 1Q24. Net debt (excluding project payables) grew from AED 11,821 Mn in 4Q23 to AED 14,380 Mn in 1Q24. Net debt to EBITDA declined from 4.4x in 4Q23 to 3.4x in 1Q24, mainly due to strong EBITDA growth. Cash and cash equivalents declined from AED 3,283 Mn in 4Q23 to AED 1,604 Mn in 1Q24. Cash flow from operation stood at AED 781 Mn in 1Q24, as compared to AED 335 Mn in 1Q23. ADPORTS further plans a Capital expenditure of AED 12-15 Bn over the next five years, with spending of AED 1.3 Bn in 1Q24. Thus, free cash flow to the firm remained negative at AED 2,099 Mn in 1Q24 owing to the heavy organic CAPEX and acquisitions.

Target Price and Rating

We maintain our BUY rating on AD Ports Group with a target price of AED 7.70. ADPORTS delivered solid growth driven by a significant rise in revenue and EBITDA in 1Q24. The revenue growth was driven by a strong increase in the Ports, Logistics, Maritime & Shipping, and Digital Cluster segments owing to the recent consolidation of Noatum and GFS. The recent acquisition of Noatum and GFS contributed AED 1,115 Mn and AED 428 Mn, respectively, in revenue during 1Q24. Excluding the effect of M&A, the Company's total revenue grew 22% on an LFL basis in 1Q24. The Company recorded c. 44% of total revenue from the long-term and sticky business during 1Q24. ADPORTS completed several major transactions in 1Q24, including consolidating the Castellon terminals in Spain, 15-year cruise concessions in Egypt, expanding Karachi terminal operations, and 60% stake in Dubai Technologies and GFS in 1Q24. The Company generated 43% of its revenue and 19% of EBITDA through the recent M&As initiatives in 1Q24. The current Red Sea situation positively impacted volumes and freight rates in the Company's shipping business, benefiting Transmars, Safin feeders, and GFS. The Company expects a strong demand and higher price for its shipping operations in the Red Sea in 2024. Recently, the Company's Noatum launched a Maritime office in Türkiye to expand its regional footprint and support maritime agency services in the Mediterranean. AD Ports also acquired a 60% stake in Tbilisi Dry Port, with operations expected to begin in 4Q24, enhancing trade along the Middle Corridor between Western Asia and Eastern Europe. Additionally, ADPORTS signed a 20-year concession to operate and upgrade Luanda Multipurpose Port Terminal in Angola, acquiring an 81% stake in JV overseeing terminal operations and a 90% stake in JV catering to the broader logistics sector. The Company also partnered with ADNOC Distribution to extend its Port Cluster business by supplying marine lubricants. The current ongoing partnership and acquisitions are anticipated to

support the revenue and EBITDA growth going forward. The Company expects revenue to grow by 15-20% CAGR and EBITDA by 20-25% CAGR from 2023 to 2028. ADPORTS also plans a capital expenditure of AED 12-15 Bn over the next five years, with spending of AED 1.3 Bn as of 1Q24. In addition, the Company also maintained a robust financial position with a Net debt/EBITDA of 3.4x and a cash balance of AED 1.6 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)	2021	2022	2023	2024F
PE	NA	21.6	25.2	20.6
PB	NA	1.4	1.3	1.2
EV/EBITDA	NA	20.6	15.4	13.5

FABS Estimates & Co Data

AD PORTS – P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,817	3,566	3,888	4,013	-3.1%	114.0%	9.0%	11,679	16,457	40.9%
Direct costs	-1,102	-3,019	-2,764	-3,009	-8.1%	150.7%	-8.5%	-8,574	-11,809	37.7%
Gross profit	715	547	1,124	1,004	12.0%	57.3%	105.5%	3,105	4,648	49.7%
G&A expenses	-266	-387	-536	-401	33.6%	101.6%	38.6%	-1,408	-1,975	40.3%
Impairment of Trade Rec	-32	7	-11	-23	-53.4%	-66.3%	NM	-80	-80	-0.1%
Selling & mkt expenses	-9	-42	-11	-40	-72.9%	19.7%	-74.2%	-77	-132	71.7%
Impairment of invest prop	0	364	0	0	NM	NM	NM	364	231	-36.3%
Impairment of inv in eq acc	0	-139	0	-36	NM	NM	NM	-139	-144	2.9%
Other income	1	99	57	92	-38.9%	NM	-42.7%	103	126	NM
EBITDA	699	524	1,039	881	18.0%	48.7%	98.3%	2,668	4,058	52.1%
EBIT	408	448	623	596	4.6%	52.5%	39.2%	1,867	2,675	43.3%
Finance cost	-122	-205	-207	-287	-27.8%	70.3%	1.0%	-667	-1,148	72.2%
Financial income	4	12	16	16	-2.0%	NM	37.1%	31	49	57.6%
Share of profit from assoc	9	6	16	7	138.9%	73.8%	168.5%	26	27	3.0%
Share of profit from JV	63	15	22	30	-28.0%	-65.5%	49.1%	118	120	1.5%
Profit before tax	363	273	470	362	29.8%	29.4%	72.0%	1,411	1,723	22.1%
Income tax	-1	12	-62	-33	88.9%	NM	NM	-50	-155	207.3%
Profit after Tax	363	285	400	329	21.5%	10.3%	40.5%	1,360	1,568	15.3%
Non-controlling int.	32	211	86	67	29.0%	172.3%	-59.0%	288	258	-10.3%
Net Profit	331	74	314	262	19.6%	-5.2%	322.7%	1,072	1,310	22.2%

FABS estimate & Co Data

AD PORTS - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	39.3%	15.3%	28.9%	-1,042	1,358	26.6%	28.2%	166
EBITDA	38.5%	14.7%	26.7%	-1,173	1,203	22.8%	24.7%	181
Operating Profit	22.5%	12.6%	16.0%	-646	347	16.0%	16.3%	27
Net Profit	18.2%	2.1%	8.1%	-1,014	599	9.2%	8.0%	-122

FABS estimate & Co Data

Valuation:

We assigned a 100% weight to DCF valuation as the company is working on multiple projects that 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 12-15 Bn during FY2024-28 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)			5.14
Upside/Downside (%)			+50%

1) ADPORTS DCF Method:

ADPORTS is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It is arrived after using the cost of equity of 9.5% and the after-tax cost of debt of 5.8%. Cost of equity is calculated by using a 10-year government bond yield of 5.3%, beta of 1.05, and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	12,751
Terminal value (AED, Mn)	45,423
FV to Common shareholders (AED, Mn)	39,088
No. of share (Mn)	5,078
Current Market Price (AED)	5.14
Fair Value per share (AED)	7.70

DCF Method

(All Figures in AED Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
EBIT	2,435	2,788	3,118	3,494	3,646	3,822	4,009
D&A	1,383	1,507	1,707	1,750	1,881	1,923	1,962
(-) Capex	-4,600	-2,800	-1,700	-1,400	-1,800	-1,600	-1,300
(-) Change in working capital	735	-474	-423	-1,047	-337	-256	-359
Free Cash Flow to Firm (FCFF)	-48	1,020	2,702	2,797	3,389	3,890	4,312
Discounting Factor	0.95	0.89	0.82	0.76	0.71	0.65	0.61
Discounted FCFF	-46	903	2,218	2,128	2,390	2,543	2,614

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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