

ADNOC Distribution

Fuel volume growth and healthy momentum in non-fuel segment drove top-line

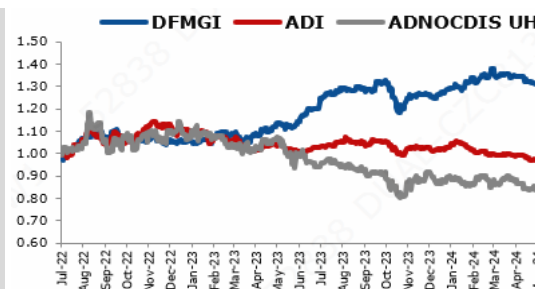
Current Price
AED 3.39

Target Price
AED 4.46

Upside/Downside (%)
+32%

Rating
BUY

- Total fuel volumes increased 17.3% YOY to 3.7 Bn liters in 1Q24. Fuel volumes excluding TotalEnergies Egypt rose 17.1% YOY in 1Q24.
- ADNOC DIST recorded inventory gains of AED 122 Mn in 1Q24 compared to the loss of AED 13 Mn in 1Q23.
- Incurred a capex of AED 169 Mn in 1Q24 and further aims to incur a capex of AED 0.9 to 1.1 Bn in 2024.
- The Company aims to operate 500 EV charging stations in UAE by 2028.
- ADNOC DIST paid an interim dividend of 10.285 fils per share in 1H23 and further approved a dividend of 10.285 fils per share for 2H23. Expected to maintain a payout ratio of 75% from 2024 onwards according to the updated dividend policy.



1Q24 Net Profit higher than our estimate

ADNOC Distribution's (ADNOC DIST/the Company) net profit rose marginally 2.3% YOY to AED 550 Mn in 1Q24, slightly higher than our estimate of AED 527 Mn. The rise in net profit is mainly attributable to growth in revenue driven by an increase in fuel volumes, higher contribution from non-fuel business, and acquisition of TotalEnergies Egypt. The increase in net profit is partially offset by a rise in direct cost and finance cost coupled with higher tax expenses and NCI.

P&L Highlights

ADNOC Distribution's revenue rose 9.4% YOY to AED 8,750 Mn in 1Q24 mainly attributed to an increase in fuel volumes, higher contribution from the Non-fuel retail segment, and synergies from the acquisition of TotalEnergies Egypt, partially offset by the lower selling prices owing to a decline in energy prices. The company's total fuel volumes increased 17.3% YOY to 3.7 Bn liters in 1Q24 mainly due to increased mobility, strong economic growth, and the acquisition of TotalEnergies Egypt. Revenue for the Retail segment rose 9.7% YOY to AED 5,768 Mn in 1Q24 mainly due to higher fuel volumes and strong contribution from the Non-fuel retail revenue further supported by the consolidation of TotalEnergies Egypt partially offset by lower selling prices. Revenue from the Non-fuel retail segment rose 13.4% YOY to AED 366 Mn in 1Q24 owing to a rise in non-fuel transactions despite three weeks of Ramadan during 1Q24 compared to one week in 1Q23. Additionally, improvement in consumer sentiment and enhanced consumer offerings after the refurbishment of convenience stores coupled with marketing campaigns under the ADNOC rewards loyalty program resulted in increased footfall and consumer spending. Likewise, revenue from the Commercial segment grew 8.9% YOY to AED 2,982 Mn in 1Q24 supported by 6.5% YOY growth in the revenue from the Corporate segment and a strong revenue growth of 28.0% YOY in the Aviation segment. ADNOC DIST's gross profit grew 17.1%

Stock Information

Market Cap (AED, mn)	42,375.00
Paid Up Capital (mn)	1,000.00
52 Week High	4.34
52 Week Low	3.24
3M Avg. daily value (AED)	30,142,390

1Q24 Result Review (AED, mn)

Total Assets	19,438
Total Liabilities	16,473
Total Equity	2,964
EBITDA	913
Net Profit	550

Financial Ratios

Dividend Yield (12m)	6.07
Dividend Pay-out (%)	98.84
Price-Earnings Ratio(x)	16.21
Price-to-Book Ratio (x)	15.70
Book Value (AED)	0.22
Return-on Equity (%)	96.92

Stock Performance

5 Days	-1.74%
1 Months	-5.04%
3 Months	-8.63%
6 Months	-7.88%
1 Year	-21.16%
Month to Date (MTD%)	-2.87%
Quarter to Date (QTD%)	-7.63%
Year to Date (YTD%)	-8.38%

YOY to AED 1,481 Mn in 1Q24. ADNOCDIST also recorded inventory gains of AED 122 Mn in 1Q24 (gain of AED 118 Mn in fuel retail and AED 4 Mn in the commercial business) compared to AED 13 Mn of inventory loss in 1Q23. Thus, the gross margin expanded 112 bps YOY to 16.9% in 1Q24. The Company's other income declined 8.3% YOY to AED 45 Mn in 1Q24. The Company's distribution and administrative expenses grew 15.5% YOY to AED 773 Mn in 1Q24 mainly driven by the increase in the Company's network in UAE & KSA and its associated costs along with the consolidation of TotalEnergies Egypt. Impairment and other expenses declined 3.8% YOY to AED 17 Mn in 1Q24. Moreover, operating profit grew 17.5% YOY to AED 735 Mn in 1Q24. The operating profit margin rose 58 bps YOY to 8.4% in 1Q24. D&A charges rose 18.1% YOY to AED 177 Mn in 1Q24. Furthermore, EBITDA rose 17.6% YOY to AED 913 in 1Q24 with an EBITDA margin of 10.4% in 1Q24 compared to 9.7% in 1Q23 supported by higher fuel volumes and inventory gains in 1Q24. In addition, ADNOCDIST's interest income more than doubled from AED 15 Mn in 1Q23 to AED 48 Mn in 1Q24. Interest expense grew significantly from AED 95 Mn in 1Q23 to AED 209 Mn in 1Q24 owing to a one-off impact from FX losses in Egypt due to the devaluation of the Egyptian pound. The Company incurred income tax expense of AED 46 Mn in 1Q24 compared to AED 4 Mn in 1Q23 due to the introduction of UAE corporate tax.

Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents excluding term deposits stood at AED 3.4 Bn in 1Q24 compared to AED 3.0 Bn in 4Q23 along with an unutilized credit facility of AED 2.8 Bn. This combined availability of AED 6.2 Bn reflects the Company's strong liquidity position during 1Q24. ADNOCDIST's borrowings remain flat at AED 5.49 Bn in 1Q24 compared to 4Q23. Net debt to EBITDA ratio stood at 0.50x in 1Q24 compared to 0.62x in 4Q23. The company's CAPEX increased 7.7% YOY to AED 169 Mn in 1Q24. The Capex incurred by the Company is spent on the construction of new service stations, purchase of machinery and equipment, higher spending on industrial & other projects, and improvement in technology and infrastructure out of which c. 56.8% is spent on addition of new service stations. ADNOCDIST's net cash from operating activities declined 31.2% YOY to AED 865 Mn in 1Q24 while free cash flow declined from AED 1,048 Mn in 1Q23 to AED 581 Mn in 1Q24.

Target Price and Rating

We maintain our BUY rating on ADNOC Distribution with an unchanged target price of AED 4.46. Strong growth in fuel volumes and healthy performance of the Non-fuel segment coupled with synergies from the strategic acquisition of TotalEnergies Egypt led to a robust growth in ADNOCDIST's profitability during 1Q24 despite lower oil prices. ADNOCDIST total number of fuel stations reached 846 in 1Q24 out of which 532 stations are in UAE, 69 in KSA, and 245 in Egypt. The Company added 8 new stations in 1Q24 and further aims to add 15-20 stations in 2024. On the other hand, the Company operated 361 convenience stores in UAE as of 1Q24 and recorded 6.9% YOY growth in total non-fuel transactions in UAE to 11.3 Mn in 1Q24. The average basket size in UAE rose 1.5% to AED 22.8 in 1Q24 while the conversion rate marginally increased from 24.4% in 1Q23 to 24.5% in 1Q24 driven by improved customer offerings post refurbishment of stores and solid marketing and promotional campaigns coupled with higher F&B sales. ADNOCDIST also expanded its vehicle inspection services and added a new center leading to 34 service centers across UAE. The Company operates 90 fast and superfast EV charging stations in UAE and aims to own c. 200 charging stations by 2024. Furthermore, ADNOCDIST aims to expand its network to 1,000 stations, 500 EV charging stations, increase non-fuel transactions by 50%, and number of convenience stores by 25% by 2028. ADNOCDIST recorded inventory gains of AED 122 Mn in 1Q24 compared to the loss of AED 13 Mn in 1Q23. The Company incurred a capex of AED 169 Mn in 1Q24 and further aims to incur a capex of AED 0.9 to 1.1 Bn in 2024. ADNOCDIST's strong liquidity position of AED 6.4 Bn will further support its future expansion plans. The Company also operates its first high-speed hydrogen refuelling station in the Middle East and aims for future expansion in the green hydrogen segment. ADNOCDIST paid an interim dividend of 10.285 fils per share for 1H23 and further approved a dividend of 10.285 fils per share for 2H23 with an attractive 2023 dividend yield of 6.1%. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNOC Distribution - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	19.1	17.7	18.8	15.4	16.3	16.6
PB (x)	11.9	12.3	13.2	12.3	11.2	11.2
EV/EBITDA	18.7	17.6	18.8	15.2	15.1	14.2
Dividend yield (%)	5.6%	6.1%	6.1%	6.1%	6.1%	5.4%

FABS Estimates & Co Data
ADNOC Distribution – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	7,998	9,564	8,750	8,708	0.5%	9.4%	-8.5%	34,629	36,128	4.3%
Direct costs	-6,735	-8,038	-7,269	-7,323	-0.7%	7.9%	-9.6%	-28,793	-29,986	4.1%
Gross profit	1,264	1,525	1,481	1,385	6.9%	17.1%	-2.9%	5,836	6,142	5.2%
Other income	49	39	45	35	28.1%	-8.3%	15.5%	146	145	-0.8%
Distribution & admin exp.	-669	-781	-773	-731	5.6%	15.5%	-1.1%	-2,917	-3,071	5.3%
Impairment & other exp.	-18	-33	-17	-19	-10.0%	-3.8%	-48.3%	-82	-79	-3.2%
Operating profit	626	749	735	669	9.9%	17.5%	-1.9%	2,983	3,136	5.1%
Depreciation & Amortization	150	192	177	177	0.1%	18.1%	-7.5%	697	718	3.0%
EBITDA	776	941	913	846	7.9%	17.6%	-3.0%	3,680	3,854	4.7%
Interest income	15	40	48	22	120.2%	215.9%	21.0%	99	181	82.8%
Interest expenses	-95	-117	-209	-101	107.9%	120.7%	78.2%	-433	-455	5.2%
Profit before tax	546	672	574	590	-2.7%	5.1%	-14.5%	2,649	2,861	8.0%
Income tax	-4	5	-46	-53	-12.8%	NM	NM	-19	-257	NM
Non-controlling interest	5	-1	-22	10	NM	NM	NM	29	47	NM
Net Profit	537	677	550	527	4.3%	2.3%	-18.8%	2,601	2,557	-1.7%

FABS estimate & Co Data
ADNOC Distribution - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	15.8%	15.9%	16.9%	112	97	16.9%	17.0%	15
EBITDA margin	9.7%	9.8%	10.4%	73	59	10.6%	10.7%	4
Operating margin	7.8%	7.8%	8.4%	58	57	8.6%	8.7%	7
Net profit margin	6.7%	7.1%	6.3%	-44	-80	7.5%	7.1%	-44

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value ADNOC Distribution. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.56	70.0%	3.19
Relative Valuation (RV)	4.22	30.0%	1.27
Weighted Average Valuation (AED)			4.46
Current market price (AED)			3.39
Upside/Downside (%)			+32%

1) DCF Method:

ADNOC Distribution is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.2%. It is arrived after using the cost of equity of 8.5% and cost of debt of 5.9%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 and equity risk premium of 3.6%. 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)	13,889
Terminal value (AED, Mn)	47,014
FV to Common shareholders (AED, Mn)	57,002
No. of share (Mn)	12,500
Current Market Price (AED)	3.39
Fair Value per share (AED)	4.56

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	3,136	3,535	3,793	3,733	3,855
Depreciation & Amortization	718	785	829	852	889
(-) Capex	-903	-764	-778	-767	-777
(-) Change in Working Capital	-303	144	94	120	180
Free Cash Flow to Firm (FCFF)	1,706	3,699	3,939	3,938	4,147
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Discounted FCFF	1,621	3,248	3,195	2,952	2,872

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value ADNOC Distribution and it is valued using the EV/EBITDA multiple. We have applied a premium to peer valuation as the company stands at a leading position in UAE's fuel and convenience retail segment. In addition, the ADNOC group guarantees minimum fuel margins eliminating the risk of volatility in global oil prices. It is valued at EV/EBITDA multiple of 14.7x compared to the peer multiple of 10.5x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Petronas Dagangan	4,500	10.6	10.4	21.0	20.1
Murphy USA	8,670	10.5	9.6	17.4	14.9
PTG Energy	387	7.0	6.4	14.3	12.2
Aldrees Petroleum	3,060	14.9	12.9	32.9	25.3
Qatar Fuel Company	4,010	10.0	10.0	13.0	13.2
Average		10.6x	9.9x	19.7x	17.1x
Median		10.5x	10.0x	17.4x	14.9x
Max		10.6x	10.4x	21.0x	20.1x
Min		10.0x	9.6x	14.3x	13.2x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@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

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.