

ADNOC Distribution

Solid retail segment performance and acquisition synergies drove bottom-line

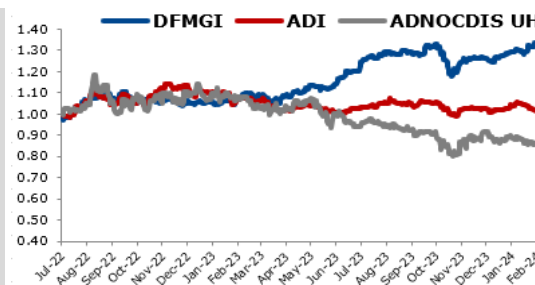
Current Price
AED 3.70

Target Price
AED 4.46

Upside/Downside (%)
+21%

Rating
BUY

- ADNOC DIST paid an interim dividend of 10.285 fils per share for 1H23 and further proposed a dividend of 10.285 fils per share for 2H23 and a minimum of 75% of the distributable profit from 2024 onwards, according to the recently updated dividend policy.
- Total fuel volumes increased 39.3% YOY to 3.7 Bn liters in 4Q23, whereas fuel volumes excluding TotalEnergies rose 9.5% YOY in 4Q23.
- ADNOC DIST recorded inventory gains of AED 339 Mn in 2023 compared to AED 622 Mn in 2022. The Company incurred a capex of AED 1.2 Bn in 2023 and further aims to incur a capex of AED 0.9 to 1.1 Bn in 2024.
- The convenience store's average basket size in UAE rose 0.5% to AED 22.2 in 2023, while the conversion rate increased from 21.7% in 2022 to 24.7% in 2023.



Stock Information

Market Cap (AED,Mn)	46,250.00
Paid Up Capital (Mn)	1,000.00
52 Week High	4.48
52 Week Low	3.24
3M Avg. daily value (AED)	29,722,640

4Q23 Result Review (AED, Mn)

Total Assets	18,892
Total Liabilities	15,096
Total Equity	3,796
EBITDA	941
Net Profit	677

Financial Ratios

Dividend Yield (12m)	5.56
Dividend Pay-out (%)	98.84
Price-Earnings Ratio(x)	17.78
Price-to-Book Ratio (x)	13.32
Book Value (AED)	0.28
Return-on Equity (%)	75.22

Stock Performance

5 Days	0.00%
1 Months	1.93%
3 Months	-0.54%
6 Months	-5.61%
1 Year	-17.04%
Month to Date (MTD%)	4.23%
Quarter to Date (QTD%)	0.00%
Year to Date (YTD%)	0.00%

4Q23 Net Profit in-line with our estimate

ADNOC Distribution's (ADNOC DIST/the Company) net profit rose significantly 61.3% YOY to AED 677 Mn in 4Q23, in line with our estimate of AED 687 Mn. The rise in net profit is mainly attributable to a healthy growth in revenue driven by an increase in fuel volumes, higher contribution from non-fuel business, and acquisition of TotalEnergies. The increase in net profit is partially offset by a rise in direct cost and higher operating expenses. Excluding the effect of inventory movements net profit rose 35.5% YOY to AED 626 Mn in 4Q23.

P&L Highlights

ADNOC Distribution's revenue rose 16.8% YOY to AED 9,564 Mn in 4Q23. The revenue growth is mainly attributed to an increase in fuel volumes, higher contribution by the non-fuel retail segment, and synergies from the acquisition of TotalEnergies partially offset by the lower selling prices owing to lower energy prices. The company's total fuel volumes increased 39.3% YOY in 4Q23 mainly due to the acquisition of TotalEnergies, strong economic growth, an increase in mobility, and addition of new fuel stations. Nevertheless, ADNOC DIST's fuel volumes excluding TotalEnergies rose 9.5% YOY in 4Q23. Revenue for the Retail segment rose 18.6% YOY to AED 6,283 Mn in 4Q23 mainly due to higher fuel volumes and 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 23.5% YOY to AED 386 Mn in 4Q23. Additionally, revenue from the Commercial segment grew 13.5% YOY to AED 3,281 Mn in 4Q23 supported by 7.6% YOY growth in the revenue from the corporate segment and a strong revenue growth of 74.4% YOY in the Aviation segment in 4Q23. ADNOC DIST's gross profit grew 24.5% YOY to AED 1,525 Mn in 4Q23.

The Company's other income declined 20.5% YOY to AED 39 Mn in 4Q23. ADNOCDIST also recorded inventory gains of AED 51 Mn in 4Q23 (gain of AED 76 Mn in fuel retail and loss of AED 25 Mn in commercial business) compared to AED 43 Mn of inventory loss in 4Q22. Thus, the gross margin expanded 98 bps YOY to 15.9% in 4Q23. The Company's distribution and administrative expenses grew 2.4% YOY to AED 781 Mn in 4Q23 mainly driven by increase in the Company's network and its associated costs along with consolidation of TotalEnergies. Impairment and other expenses rose from AED 12 Mn in 4Q22 to AED 33 Mn in 4Q23. Operating profit grew 50.1% YOY to AED 749 Mn in 4Q23. The operating profit margin rose 174 bps YOY to 7.8% in 4Q23. D&A charges rose 23.3% YOY to AED 192 Mn in 4Q23. Furthermore, EBITDA rose 43.7% YOY to AED 941 in 4Q23 with an EBITDA margin of 9.8% in 4Q23 compared to 8.0% in 4Q22 supported by higher fuel volumes and inventory gains in 4Q23 compared to inventory loss in 4Q22. In addition, ADNOCDIST's interest income more than doubled from AED 15 Mn in 4Q22 to AED 40 Mn in 4Q23 while interest expense grew 24.2% YOY to AED 117 Mn in 4Q23 due to higher benchmark rates.

Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents stood at AED 3.2 Bn in 2023 compared to AED 2.8 Bn in 2022 along with an unutilized credit facility of AED 2.8 Bn. This combined availability of AED 6.0 Bn reflects the Company's strong liquidity position in 2023. ADNOCDIST's borrowings marginally increased 0.2% to AED 5.49 Bn in 2023. Net debt to EBITDA ratio stood at 0.62x in 2023 compared to 0.78x in 2022. The company's CAPEX moderated 4.5% to AED 1,176 Mn in 2023. The Capex incurred by the Company is spent on the construction of new service stations, purchase of PPE, and improvement in technology and infrastructure out of which c. 60% is spent on the addition of new service stations. ADNOCDIST's net cash from operating activities rose from AED 4.5 Bn in 2022 to AED 5.1 Bn in 2023, while free cash flow rose from AED 3.4 Bn in 2022 to AED 4.0 Bn in 2023.

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 developments in non-fuel segment coupled with synergies from strategic acquisition of TotalEnergies-Egypt, which led to a robust growth in ADNOCDIST's profitability during 4Q23 despite lower oil prices. Acquisition of TotalEnergies yielded significant results as the Company's total fuel volumes increased 39.3% YOY to 3,711 Mn liters in 4Q23. ADNOCDIST total number of fuel stations reached to 840 in 2023 compared to 568 in 2022 out of which 529 stations are in UAE, 68 in KSA, and 243 in Egypt. The Company added 41 new stations in 2023 and exceeded its target of adding 25-35 stations. It further aims to add 15-20 stations in 2024. On the other hand, the Company operated 359 convenience stores in UAE as of 2023 and recorded 12.9% YOY growth in total non-fuel transactions to 44.8 Mn in 2023. The average basket size in UAE rose 0.5% to AED 22.2 in 2023 while the conversion rate increased from 21.7% in 2022 to 24.7% in 2023 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 new centers leading to 344 service centers across UAE. The Company continued optimizing logistics costs, carried negotiations with vendors, and achieved like-for-like OPEX savings of AED 103 Mn in 2023. Furthermore, ADNOCDIST recorded inventory gains of AED 339 Mn in 2023 compared to AED 622 Mn in 2022. The Company incurred a capex of AED 1.2 Bn in 2023 and plans to evaluate international opportunities with an emphasis on effective capital allocation towards growth. The Company further aims to incur a capex of AED 0.9 to 1.1 Bn in 2024. ADNOCDIST's strong liquidity position of AED 6 Bn in 2023 will further support its future expansion plans. The Company launched the first high-speed hydrogen refueling station in the Middle East in 2023. Additionally, the board of directors sanctioned an attractive dividend policy in 2023. Beyond 2023, the dividend policy sets out a minimum 75% of distributable profits per year, subject to the discretion of the board and shareholders' approval. Consequently, ADNOCDIST paid an interim dividend of 10.285 fils per share for 1H23 and further proposed a dividend of 10.285 fils per share for 2H23 with an attractive 2023 dividend yield of 5.6%. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNOC Distribution - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE (x)	21.6	21.3	19.1	20.4	16.7	17.6	15.1
PB (x)	12.8	12.9	13.4	14.3	13.3	12.1	11.0
EV/EBITDA	20.4	20.3	19.0	20.2	16.3	16.3	17.3
Dividend yield (%)	3.2%	5.2%	5.6%	5.6%	5.6%	5.6%	5.6%

FABS Estimates & Co Data

ADNOC Distribution – P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	8,187	8,935	9,564	8,859	8.0%	16.8%	7.0%	32,111	34,629	7.8%
Direct costs	-6,962	-7,276	-8,038	-7,301	10.1%	15.5%	10.5%	-26,443	-28,793	8.9%
Gross profit	1,225	1,659	1,525	1,558	-2.1%	24.5%	-8.1%	5,668	5,836	3.0%
Other income	49	29	39	29	33.2%	-20.5%	32.9%	103	146	40.9%
Distribution & admin exp.	-763	-729	-781	-731	6.9%	2.4%	7.1%	-2,762	-2,917	5.6%
Impairment & other exp.	-12	-17	-33	-19	75.6%	NM	NM	-36	-82	127.1%
Operating profit	499	942	749	836	-10.4%	50.1%	-20.5%	2,973	2,983	0.3%
Depreciation & Amortization	156	169	192	169	13.5%	23.3%	13.6%	544	697	28.1%
EBITDA	655	1,111	941	1,005	-6.4%	43.7%	-15.3%	3,517	3,680	4.6%
Interest income	15	28	40	26	52.4%	162.9%	43.5%	55	99	80.7%
Interest expenses	-95	-109	-117	-148	-20.7%	24.2%	7.7%	-280	-433	54.8%
Income tax	0	-11	5	-9	NM	NM	NM	0	-19	NM
Non-controlling interest	0	15	-1	18	NM	NM	NM	0	29	NM
Net Profit	420	835	677	687	-1.4%	61.3%	-18.9%	2,749	2,601	-5.4%

FABS estimate & Co Data

ADNOC Distribution - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross margin	15.0%	18.6%	15.9%	98	-262	17.7%	16.9%	-80
EBITDA margin	8.0%	12.4%	9.8%	184	-260	11.0%	10.6%	-33
Operating margin	6.1%	10.5%	7.8%	174	-271	9.3%	8.6%	-64
Net profit margin	5.1%	9.4%	7.1%	195	-227	8.6%	7.5%	-105

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	4.72	70.0%	3.30
Relative Valuation (RV)	3.85	30.0%	1.16
Weighted Average Valuation (AED)			4.46
Current market price (AED)			3.70
Upside/Downside (%)			+21%

1) DCF Method:

ADNOC Distribution is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.1%. It is arrived after using cost of equity of 8.3% and cost of debt of 5.9%. The cost of equity is calculated using 10-year government bond yield of 4.7%, beta of 0.91 and equity risk premium of 4.0%. 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)	14,719
Terminal value (AED, Mn)	48,638
FV to Common shareholders (AED, Mn)	58,987
No. of share (Mn)	12,500
Current Market Price (AED)	3.70
Fair Value per share (AED)	4.72

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	3,393	3,612	3,874	3,816	3,940
Depreciation & Amortization	725	798	844	868	906
(-) Capex	-914	-781	-795	-784	-794
(-) Change in Working Capital	-340	130	98	120	184
Free Cash Flow to Firm (FCFF)	2,569	3,759	4,021	4,021	4,236
Discounting Factor	0.93	0.86	0.80	0.74	0.68
Discounted FCFF	2,396	3,244	3,211	2,971	2,896

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 is leading 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 12.8x compared to the peer multiple of 10.2x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
UGI Corp	4,977	2.9	2.8	8.4	8.2
Petronas Dagangan	4,546	10.2	10.2	20.3	19.1
Murphy USA	5,796	3.4	2.8	9.3	7.1
PTG Energy	432	6.8	6.0	15.2	12.5
Aldrees Petroleum	3,373	15.7	13.8	35.4	28.9
Qatar Fuel Company	4,206	11.4	10.9	14.8	14.8
Average		9.5x	8.7x	19.0x	16.5x
Median		10.2x	10.2x	15.2x	14.8x
Max		11.4x	10.9x	20.3x	19.1x
Min		6.8x	6.0x	14.8x	12.5x

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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