

ADNOC Gas PLC

Strong revenue growth amid favourable pricing boosted profitability

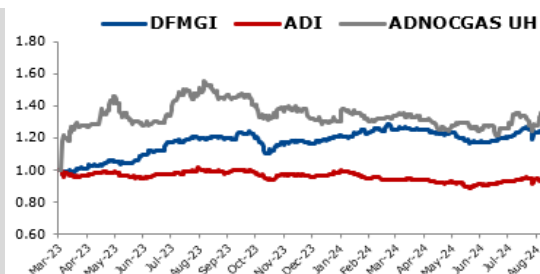
Current Price
AED 3.11

Target Price
AED 3.93

Upside/Downside (%)
+26%

Rating
BUY

- ADNOC GAS's total production volume (excluding ADNOC GAS LNG JV) grew 2.2% YOY to 846 TBTU in 2Q24, driven by an increase in export & trading liquids volume partially offset by a marginal decline in domestic gas volume.
- Expect lower sales volume in 4Q24 primarily due to planned shutdowns, thus it revised its sales volume from 2,215-2,300 to 2,240-2,280 TBTU for the domestic gas segment.
- Total revenue grew 12.6% YOY to USD 6,076 Mn, while total EBITDA grew 20.9% YOY to USD 1,922 Mn in 2Q24.
- Incurred a capex of USD 431 Mn in 2Q24, while further plans to allocate USD 13.2 Bn towards growth capex between FY2024-28.



2Q24 Net Profit slightly lower than our estimate

ADNOC Gas plc (ADNOC GAS/the Company) reported a significant increase in net profit, rising 21.0% YOY to USD 1,190 Mn in 2Q24, aligning closely with our estimate of USD 1,221 Mn. The increase in net profit is primarily driven by a strong increase in revenue owing to a favourable pricing environment coupled with higher finance income and lower finance costs partially offset by an increase in direct costs, operating expenses and income tax.

P&L Highlights

ADNOC GAS's net revenue grew 19.8% YOY to USD 4,863 Mn in 2Q24, while the Company's total revenue, which includes revenue from reinjection, ADNOC LNG JV, and intercompany elimination and other income, grew 12.6% YOY to USD 6,076 Mn in 2Q24. This was mainly due to improved pricing and growth in the production volume. The total production volume (excluding ADNOC GAS LNG JV) grew marginally 1.0% YOY to 846 TBTU in 2Q24. The Company's domestic gas production volume declined marginally 0.3% YOY to 580 trillion British thermal units (TBTU) in 2Q24, while exports and traded liquids volume rose from 256 TBTU in 2Q23 to 266 TBTU in 2Q24. Furthermore, the Company's total sales volume grew marginally 0.9% YOY to 908 TBTU in 2Q24, supported by improved availability and reliability of 99.7% across its assets in 2Q24. The Company's domestic gas sales volume grew 0.9% YOY to 580 TBTU in 2Q24. Exports and traded liquids volume increased to 266 TBTU in 2Q24 from 253 TBTU in 2Q23. ADNOC GAS's share of LNG production declined from 69 TBTU in 2Q23 to 56 TBTU in 2Q24. The sales volume of sulfur increased from 3 TBTU in 2Q23 to 6 TBTU in 2Q24. The Company's direct cost rose 16.8% YOY to USD 2,943 Mn in 2Q24. Thus, gross profit increased 24.7% YOY to USD 1,921 Mn in 2Q24, primarily due to strong revenue growth. Gross margins grew from

Stock Information

Market Cap (AED, mn)	238,696.92
Paid Up Capital (mn)	19,187.86
52 Week High	3.64
52 Week Low	2.87
3M Avg. daily value (AED)	43,715,290

2Q24 Result Review (USD, mn)

Total Assets	29,799
Total Liabilities	6,755
Total Equity	23,044
EBITDA	1,922
Net Profit	1,190

Financial Ratios

Dividend Yield (12m)	4.46
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	13.43
Price-to-Book Ratio (x)	2.82
Book Value (AED)	0.30
Return-on Equity (%)	21.75

5 Days	-1.89%
1 Months	-3.12%
3 Months	0.97%
6 Months	-0.64%
1 Year	-13.85%
Month to Date (MTD%)	-0.32%
Quarter to Date (QTD%)	7.61%
Year to Date (YTD%)	0.65%

37.9% in 2Q23 to 39.5% in 2Q24. Other operating income declined from USD 283 Mn in 2Q23 to USD 267 Mn in 2Q24. However, the share of profit to equity accounted investee declined from USD 140 Mn in 2Q23 to USD 93 Mn in 2Q24. Employee benefit expenses grew from USD 238 Mn in 2Q23 to USD 274 Mn in 2Q24. Other operating costs grew from USD 46 Mn in 2Q23 to USD 76 Mn in 2Q24. Share of operating cost in equity accounted investee declined from USD 65 Mn in 2Q23 to USD 64 Mn in 2Q24. Inventory consumption declined from USD 18 Mn in 2Q23 to USD 17 Mn in 2Q24. Other expenses grew significantly from USD 8 Mn in 2Q23 to USD 66 Mn in 2Q24. The Company's EBITDA grew strongly 20.9% YOY to USD 1,922 Mn in 2Q24, whereas adjusted EBITDA also grew strongly 18.1% YOY to USD 2,086 Mn in 2Q24. Domestic segment EBITDA grew from USD 615 Mn in 2Q23 to USD 695 Mn in 2Q24, supported by favourable contract prices. Export & traded liquid EBITDA grew 28.1% YOY to USD 1,093 Mn in 2Q24, driven by improved prices. ADNOC GAS's share of LNG EBITDA declined from USD 270 Mn in 1Q23 to USD 265 Mn in 2Q24, mainly affected by the adverse pricing and volume environment. Thus, the Company's operating profit grew 21.4% YOY to USD 1,618 Mn in 2Q24. Finance income grew strongly from USD 17 Mn in 2Q23 to USD 36 Mn in 2Q24. Finance cost declined from USD 73 Mn in 2Q23 to USD 45 Mn in 2Q24. Total income tax expenses grew from USD 292 Mn in 2Q23 to USD 419 Mn in 2Q24 owing to the introduction of UAE Corporate tax.

Balance Sheet Highlights

ADNOC GAS's investment in capex grew from USD 226 Mn in 2Q23 to USD 431 Mn in 2Q24, primarily due to the expansion on growth projects. The Company revised its capex guidance from USD 2,000-2,500 Mn to USD 2,000-2,300 Mn primarily due to the transfer of the ESTIDAMA project to ADNOC. Furthermore, the Company plans to allocate USD 13.2 Bn towards growth capex between 2024-28, along with an additional USD 300-400 Mn annually for the maintenance capex. ADNOC GAS's free cash flow declined from USD 1,600 Mn in 2Q23 to USD 1,002 Mn in 2Q24. As of 2Q24, the Company held cash and cash equivalents of USD 3.9 Bn with a gross debt of USD 500 Mn.

Target Price and Rating

We maintain our BUY rating on ADNOC GAS with a target price of AED 3.93. The Company reported an increase in profitability driven by higher production volume and a favourable pricing environment in 2Q24. ADNOC GAS's total production volume (excluding ADNOC GAS LNG JV) grew 1.0% YOY to 846 TBTU in 2Q24, driven by an increase in export & trading liquids volume partially offset by a marginal decline in domestic gas volume. Total sales volume increased marginally 0.9% YOY to 908 TBTU in 2Q24, driven by a healthy level of reliability of 99.7% across its assets in 2Q24. The Company expects an increase in sales volume during 3Q24. However, it expects lower sales volume in 4Q24 primarily due to planned shutdowns to maintain asset integrity and extend asset life. Thus, it revised its sales volume from 2,215-2,300 to 2,240-2,228 TBTU for the domestic gas segment. However, the guidance for export & traded liquid and LNG JV remains unchanged at 940-960 TBTU and 240-260 TBTU, respectively. Moreover, the Company continues to advance its strategic growth initiatives in alignment with ADNOC's broader objective of expanding production capacity to 5.0 Mn barrels per day by 2027 by accelerating its growth plans. In July 2024, ADNOC GAS announced the transfer of ownership of the USD 2.4 Bn ESTIDAMA gas pipeline extension project to ADNOC. The transfer is expected to enhance capital efficiency by having ADNOC cover the project's capital expenditures. Additionally, the Company is advancing the Ruwais LNG project following ADNOC's June FID announcement. In addition, ADNOC also awarded the Company an EPC contract valued at over USD 5.5 Bn. ADNOC GAS also aims to achieve a 20% growth in processing capacity by 2028, which could result in a 40% increase in EBITDA. It further expects an EBITDA margin of 34% in 2024. The Company has earmarked a growth Capex of USD 13.2 Bn over 2024-28 and a maintenance capex of USD 300-400 Mn per annum. It also aims to achieve a 5.0% annual dividend payment increase from 2024 to 2027. The Company anticipates paying an interim dividend of USD 1.7 Bn in September and a final dividend of USD 3.4 Bn in 2Q25. Thus, based on our analysis we maintain our BUY rating on the stock.

Adnoc Gas - Relative valuation¹

(at CMP in USD)	2022	2023	2024
PE	NA	12.79	13.70
PB	NA	2.91	2.81
EV/EBITDA	NA	7.98	7.34
Dividend yield	NA	5.0%	5.3%

FABS Estimates & Co Data
¹ADNOC GAS share started trading in 2023 hence previous-year multiples is not provide

Adnoc Gas - P&L

(USD mn)	2Q23	1Q24	2Q24	2024F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	4,059	4,560	4,863	4,695	3.6%	19.8%	6.6%	17,905	18,529	3.5%
Direct Cost	2,519	2,771	2,943	2,810	4.7%	16.8%	6.2%	11,000	11,576	5.2%
Gross Profit	1,540	1,789	1,921	1,884	1.9%	24.7%	7.3%	6,905	6,953	0.7%
Other Operating income	283	302	267	326	-17.9%	-5.4%	-11.4%	1,105	1,142	3.3%
Share of profit of eq-acc inv	140	143	93	168	-44.7%	-33.8%	-35.2%	402	613	52.4%
Recharges to eq acc inv	0	173	138	130	6.3%	NM	-20.3%	442	596	35.0%
Employee benefit expenses	-238	-310	-274	-322	-14.7%	15.5%	-11.3%	-984	-1,064	8.2%
Other operating costs	-46	-102	-76	-106	-28.8%	65.8%	-26.0%	-451	-330	-26.8%
Share of operating costs in eq acc inv	-65	-58	-64	-60	6.2%	-1.7%	10.4%	-247	-202	-18.2%
Inventory Consumption	-18	-9	-17	-10	76.5%	-5.4%	83.5%	-67	-55	-17.4%
Other expenses	-8	-44	-66	-46	43.5%	NM	49.2%	-73	-183	152.7%
EBITDA	1,589	1,885	1,922	1,964	-2.2%	20.9%	2.0%	7,034	7,469	6.2%
Depreciation and amortization	-257	-282	-304	-287	6.0%	18.4%	8.0%	-1,100	-1,143	3.9%
EBIT	1,332	1,603	1,618	1,677	-3.5%	21.4%	0.9%	5,934	6,327	6.6%
Finance Income	17	21	36	26	40.0%	115.0%	74.7%	95	130	36.2%
Finance Cost	-73	-20	-45	-58	-21.7%	-38.1%	127.4%	-207	-232	11.9%
Profit before tax	1,276	1,604	1,609	1,645	-2.2%	26.1%	0.3%	5,822	6,225	6.9%
Income Tax expense	292	417	419	424	-1.3%	43.4%	0.5%	1,102	1,497	35.8%
Net Income	984	1,187	1,190	1,221	-2.5%	21.0%	0.2%	4,720	4,728	0.2%

FABS estimate & Co Data
Adnoc Gas - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	37.9%	39.2%	39.5%	154	25	38.6%	37.5%	-104
EBITDA	39.1%	41.3%	39.5%	37	-181	39.3%	40.3%	103
Net Profit	24.2%	26.0%	24.5%	24	-156	26.4%	25.5%	-84

FABS estimate & Co Data

Valuation:

We have used Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Dividend Yield to value ADNOC Gas. We have assigned 70% weight to DCF, 15% to RV, and 15% to Dividend Yield. In addition, we have also valued ADNOC LNG JV using the Discounted Free Cash Flow (DCF) and Relative Valuation (RV) method. We excluded the profit of ADNOC LNG JV while valuing ADNOC GAS; as a result it is valued as a standalone business.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.92	70.0%	2.74
Relative Valuation (RV) – EV/EBITDA	4.17	15.0%	0.62
– Dividend Yield	3.77	15.0%	0.57
Weighted Average Valuation (AED)			3.93
Current market price (AED)			3.11
Upside/Downside (%)			+26%

1) ADNOC Gas DCF Method:

Adnoc Gas is valued using free cash flow to Equity. We have discounted the cash flow using a weighted average cost of equity of 8.9%. The cost of equity is calculated using a 10-year government bond yield of 4.9%, a beta of 0.97, and an equity risk premium of 4.1%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	18,798
Terminal value (USD, Mn)	50,283
FV to Common shareholders (USD, Mn)	69,080
No. of share (Mn)	76,751
Current Market Price (AED)	3.11
Fair Value per share (AED)	3.31

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	4,115	4,424	4,537	4,470	4,000	4,235	4,397
D&A	1,143	1,223	1,305	1,661	1,752	1,802	1,938
(-) Capex	-2,250	-3,200	-3,300	-3,150	-3,050	-1,648	-500
Change in working capital	87	-206	-131	-265	-199	-162	13
Net change in debt	500	1,500	1,000	1,000	500	0	0
Free Cash Flow to Equity (FCFE)	3,595	3,741	3,411	3,716	3,003	4,226	5,848
Discounting Factor	0.97	0.89	0.82	0.75	0.69	0.63	0.58
Discounted FCFE	1,742¹	3,331	2,789	2,790	2,070	2,675	3,400

Source: FAB Securities, ¹FCFE adjusted for partial year

2) ADNOC Gas LNG JV DCF Method:

Adnoc Gas LNG JV is valued using free cash flow to Equity. It is discounted using the similar WACC used to discount ADNOC GAS. We have discounted the cash flow using a weighted average cost of equity of 8.9%. The cost of equity is calculated using a 10-year government bond yield of 4.9%, a beta of 0.97, and an equity risk premium of 4.1%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	5,437
Terminal value (USD, Mn)	12,765
FV to Common shareholders (USD, Mn)	18,202

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	876	975	1,072	1,187	1,301	1,343	1,356
D&A	157	160	164	173	186	214	293
(-) Capex	-465	-553	-563	-387	-252	-186	-193
Change in working capital	-42	-46	-51	-58	-65	-68	-71
Net change in debt	250	250	300	300	200	100	100
Free Cash Flow to Equity (FCFE)	776	786	922	1,215	1,369	1,403	1,485
Discounting Factor	0.97	0.89	0.82	0.75	0.69	0.63	0.58
Discounted FCFE	376	700	753	912	944	888	863

Source: FAB Securities

3) Relative Valuation: (EV/EBITDA) & (Dividend Yield)

We have used regional and global peers to value ADNOC GAS PLC, which is valued using the EV/EBITDA and Dividend Yield multiples. It is valued at a 2024 EV/EBITDA multiple of 9.9x in line with its peers. In the dividend yield, we have used a dividend Yield of 4.3% to value ADNOC GAS.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Saudi Basic Industries Corp	59,100	9.9	6.7	32.2	17.1	3.1	5.2
Saudi Arabian Oil Co	182,600	7.2	7.2	15.3	15.3	6.7	5.1
Borouge	20,380	10.3	9.2	18.7	16.5	6.1	5.6
Petronas Gas Bhd	8,175	10.0	9.8	18.6	18.2	4.3	4.4
Kinder Morgan Inc	46,790	9.8	9.5	17.3	16.2	5.5	5.6
Valero Energy Corp	48,000	6.6	6.2	13.5	11.7	2.9	3.0
Marathon Petroleum Corp	60,250	6.8	7.0	15.3	12.7	1.9	2.0
Oneok Inc	51,100	11.6	10.8	17.2	15.5	4.5	4.7
Targa Resources Corp	31,210	11.3	10.1	25.5	20.0	2.1	2.6
Williams Cos Inc	53,790	11.3	10.6	24.9	21.0	4.3	4.6
Average		9.5x	8.7x	19.9x	16.4x	4.1%	4.3%
Median		9.9x	9.4x	18.0x	16.4x	4.3%	4.6%
Max		11.1x	10.0x	23.4x	17.9x	5.2%	5.2%
Min		7.8x	7.0x	15.8x	15.4x	2.9%	3.3%

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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