

## ADNOC Logistics & Services PLC

Higher rates across Integrated Logistics and Shipping business boosted profit

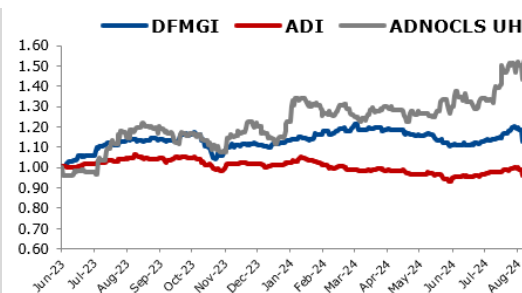
**Current Price**  
AED 4.85

**Target Price**  
AED 5.60

**Upside/Downside (%)**  
+15%

**Rating**  
BUY

- Revised FY2024 revenue guidance to grow from low to mid 30% YOY in 2024.
- Revenue for gas carriers is expected to grow mid-20% YOY from 2025 to 2027, driven by the addition of 6 new LNG vessels partially offset by the disposal of older vessels.
- Expect to complete 70-80% of the G-Island contract in 2024.
- Tanker fundamentals expected to remain strong in 2024 and 2025 owing to an increase in ton-mile demand and limited fleet expansion.
- The Company plans the organic growth capex over USD 5 Bn in the mid-term.
- New building contracts for eight LNG carriers (four from Samsung Heavy Industries and four from Hanwha Ocean, with one optional from each) will begin delivery from the beginning of 2028.



### 2Q24 Net Profit higher than our estimate

ADNOC Logistics & Services Plc's (ADNOCLS/the Company) net profit rose 27.9% YOY to USD 208 Mn in 2Q24, higher than our estimate of USD 188 Mn. The healthy profit growth is mainly driven by strong growth in the Integrated Logistics and Shipping Segment. The Integrated Logistics segment benefitted from higher rates, utilization, and the addition of JUBs. The shipping segment benefitted from robust charter rates for tankers and dry bulk.

### P&L Highlights

ADNOCLS revenue rose 42.2% YOY to USD 899 Mn in 2Q24 primarily driven by the robust performance of the Integrated Logistics and shipping business. Revenue from the Integrated Logistics segment significantly grew 55.0% YOY to USD 587 Mn in 2Q24 mainly driven by robust business activity, higher volume, utilization rates and fleet expansion coupled with substantial growth driven by progress on the G-Island EPC contract and the accelerated Hail & Ghasha project. Shipping segment revenue increased 29.3% YOY to USD 268 Mn in 2Q24 owing to robust growth in Tankers in addition to sustained growth in Gas Carriers and Dry Bulk & Containers business segment. Revenue from the Dry bulk and Containers segment grew 5.7% YOY to USD 75 Mn in 2Q24 due to higher charter rates. Moreover, revenue from the tankers rose 54.9% YOY to USD 153 Mn in 2Q24 primarily due to higher charter rates, addition of four new VLCCs in 2023 and higher tonne-mile driven by geopolitical tensions. In addition, Gas revenue improved and grew 6.7% YOY to USD 40 Mn in 2Q24 driven by the deployment of a newly acquired second-hand VLGC at the end of 1Q24. Furthermore, the Marine segment revenue declined 4.2% YOY to USD 45 Mn in 2Q24 due to one-off equipment services performed in 2Q23. EBITDA for the Integrated Logistics business increased from USD 131 Mn in 1Q24 to USD 169 Mn in 2Q24 with an EBITDA margin of 28.8% due to higher revenue, improved asset

### Stock Information

Market Cap (AED, mm)	35,882.72
Shares Outstanding(mm)	7,398.50
52 Week High	4.93
52 Week Low	3.30
3M Avg. daily value (AED)	25,688,010

### 2Q24 Result Review (USD, mm)

Total Assets	6,194
Total Liabilities	1,516
Total Equity	4,677
EBITDA	306
Net Profit	208

### Financial Ratios

Dividend Yield (12m)	1.99
Dividend Pay-out (%)	31.44
Price-Earnings Ratio(x)	13.68
Price-to-Book Ratio (x)	2.09
Book Value (AED)	0.63
Return-on Equity (%)	16.17

### Stock Performance

5 Days	2.11%
1 Months	11.24%
3 Months	24.04%
6 Months	21.86%
1 Year	29.33%
Month to Date (MTD%)	3.19%
Quarter to Date (QTD%)	15.75%
Year to Date (YTD%)	26.63%

utilization and cost-efficiencies. Furthermore, EBITDA of the shipping segment rose 40.1% YOY to USD 119 Mn in 2Q24 with an EBITDA margin of 44.4%. Similarly, the Marine business EBITDA grew 95.4% YOY to USD 18 Mn in 2Q24 with an EBITDA margin of 40.4% due to one-time other income realized from liquidated damages recovered from late deliveries of smaller assets. As a result, operating profit expanded 43.2% YOY to USD 226 Mn in 2Q24, whereas total EBITDA grew 39.9% YOY to USD 306 Mn in 2Q24. Furthermore, ADNOCLS finance income rose from USD 3 Mn in 2Q23 to USD 4 Mn in 2Q24, while finance costs increased from USD 3 Mn in 2Q23 to USD 4 Mn in 2Q24. Additionally, income tax expense stood at USD 22 Mn in 2Q24 compared to a tax benefit of USD 2 Mn in 2Q23. The Government of UAE introduced corporate tax in UAE starting from FY2024.

### Balance Sheet Highlights

ADNOCLS' cash and cash equivalent stood at USD 341 Mn in 2Q24 compared to USD 348 Mn in 1Q24. The Company debt remained unchanged at USD 100 Mn in 2Q24 compared to previous quarter this year. ADNOCLS incurred a total capex of USD 225 Mn in 1H24. Moreover, the Company generated a free cash flow of USD 308 Mn in 1H24 compared to USD 85 Mn in 1H23 due to a strong growth in profitability and lower investment in working capital.

### Target Price and Rating

We maintain our rating on ADNOC L&S to BUY with a target price of AED 5.60. ADNOC L&S demonstrated strong growth in profitability owing to higher revenues, value-accretive investments, growth in demand, improvement in business efficiency, and positive contributions from all business segments. Integrated logistics segment revenue benefitted from the ongoing execution of the EPC contract of G-Island, growth in the owned fleet, healthy rates, and higher utilization. The Company's Integrated Logistics segment owned 111 vessels with a utilization rate of more than 92% in 2Q24. The EPC contract of USD 975 Mn with ADNOC Offshore for G-Island is expected to be completed by 2025 and accelerated execution of the project in 2H24. ADNOC L&S is expecting the delivery of six LNG carriers between 1Q25 to 3Q26, five of these are already contracted to ADNOC Gas for seven to fifteen years on long-term charter. In addition, the outlook for tanker charter rates is expected to remain healthy in 2024 and 2025 due to an increase in ton-mile demand and limited growth in fleet coupled with geopolitical tension in the region. The Company revised its revenue guidance upward and expects its consolidated revenue to grow from the low to mid 30% range in 2024. ADNOC L&S anticipates a high single-digit percentage revenue growth for the medium term, spanning from 2024 to 2028. The Company anticipates annual EBITDA growth in the low 30% range in 2024 and targets an average annual EBITDA growth in the mid-teens percentage range for the medium term from 2024 to 2028. It expects the dividend to grow 5% annually over the medium term. ADNOCLS financial position remains healthy with a debt of USD 100 Mn and cash & cash equivalents of USD 341 Mn in 2024. It has unutilized credit facility of USD 1.75 Bn in 2Q24. Thus, based on our analysis, we assign a BUY rating on the stock.

#### ADNOC L&S - Relative valuation

(at CMP)	2023	2024F
PE (x)	15.8	12.4
PB (x)	2.2	2.1
EV/EBITDA	11.0	8.2
Dividend yield (%)	2.0%	2.8%

FABS Estimates & Co Data

Note – ADNOC Logistics & Services listed on ADX in 2023. Thus, the financial multiple for the prior period is unavailable

**ADNOC L&S – P&L**

USD mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	632	840	899	860	4.6%	42.2%	7.0%	2,755	3,638	32.1%
Direct cost	-440	-600	-641	-619	3.6%	45.7%	6.9%	-2,003	-2,610	30.3%
<b>Gross profit</b>	<b>192</b>	<b>240</b>	<b>258</b>	<b>241</b>	<b>7.3%</b>	<b>34.2%</b>	<b>7.5%</b>	<b>752</b>	<b>1,028</b>	<b>36.7%</b>
G&A expenses	-32	-35	-33	-36	-9.8%	1.5%	-7.8%	-146	-164	12.0%
Other expenses	0	0	-4	0	NM	NM	NM	0	0	NM
Other income	4	4	2	4	NM	NM	NM	11	11	5.0%
Provision for expected credit losses, net	-6	1	3	1	NM	NM	NM	-3	-7	172.3%
<b>EBITDA</b>	<b>219</b>	<b>286</b>	<b>306</b>	<b>284</b>	<b>7.8%</b>	<b>39.9%</b>	<b>7.1%</b>	<b>876</b>	<b>1,165</b>	<b>32.9%</b>
<b>EBIT</b>	<b>158</b>	<b>210</b>	<b>226</b>	<b>209</b>	<b>8.0%</b>	<b>43.2%</b>	<b>7.9%</b>	<b>614</b>	<b>868</b>	<b>41.4%</b>
Share of profit from JV	3	4	3	3	14.1%	21.2%	-5.6%	14	13	-11.2%
Finance income	3	4	4	2	NM	59.6%	-1.6%	10	10	-2.5%
Finance costs	-3	-4	-4	-8	-48.3%	39.0%	-0.2%	-15	-24	59.0%
<b>Profit before tax</b>	<b>160</b>	<b>213</b>	<b>230</b>	<b>206</b>	<b>11.2%</b>	<b>43.2%</b>	<b>7.6%</b>	<b>622</b>	<b>866</b>	<b>39.1%</b>
Income tax expense	2	-20	-22	-19	17.8%	NM	11.6%	-2	-78	NM
<b>Net Profit</b>	<b>162</b>	<b>194</b>	<b>208</b>	<b>188</b>	<b>10.6%</b>	<b>27.9%</b>	<b>7.2%</b>	<b>620</b>	<b>788</b>	<b>27.1%</b>

FABS estimate & Co Data

**ADNOC L&S - Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	30.4%	28.6%	28.7%	-172	12	27.3%	28.3%	96
EBITDA margin	34.6%	34.0%	34.0%	-55	2	31.8%	32.0%	21
Operating margin	25.0%	25.0%	25.1%	18	19	22.3%	23.9%	158
Net profit margin	25.7%	23.1%	23.1%	-258	4	22.5%	21.7%	-85

FABS estimate & Co Data

# ADNOC L&S Guidance:

## Medium Term Outlook:

UPDATE ON CONSOLIDATED REVENUE		CAPEX
<p><b>2024:</b></p> <ul style="list-style-type: none"> <li>Low to mid 30% YoY growth</li> </ul> <p><b>Medium term<sup>1</sup>:</b></p> <ul style="list-style-type: none"> <li>High single digit YoY growth</li> </ul>	<p><b>PF 2024:</b></p> <ul style="list-style-type: none"> <li>Beyond 90% YoY growth</li> </ul> <p><b>Medium term<sup>2</sup>:</b></p> <ul style="list-style-type: none"> <li>High teens YoY growth</li> </ul>	<ul style="list-style-type: none"> <li><b>2024:</b> &gt; \$1.0bn in addition to M&amp;A \$1.0bn</li> <li><b>Medium term:</b> Organic growth capex guidance of \$5bn+</li> <li><b>Capital allocation policy:</b> Targeting low double digit unlevered IRRs<sup>3</sup> in Integrated Logistics; High single digit unlevered IRRs<sup>3</sup> on long term contracted high value shipping</li> <li><b>M&amp;A:</b> Seeking value-accretive M&amp;A to expand and enhance service offerings geographically and into adjacent business verticals</li> </ul>
UPDATE ON CONSOLIDATED EBITDA		CAPITAL STRUCTURE
<p><b>2024:</b></p> <ul style="list-style-type: none"> <li>Low 30% YoY growth</li> </ul> <p><b>Medium term<sup>1</sup>:</b></p> <ul style="list-style-type: none"> <li>Mid teens YoY growth</li> </ul>	<p><b>PF 2024:</b></p> <ul style="list-style-type: none"> <li>Beyond 70% YoY growth</li> </ul> <p><b>Medium term<sup>2</sup>:</b></p> <ul style="list-style-type: none"> <li>High teens YoY growth</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium Term:</b> Target 2.0-2.5x Net Debt to EBITDA</li> <li>Projected average all-in cost of debt finance 6.0%</li> </ul>
UPDATE ON CONSOLIDATED NET INCOME		Others
<p><b>2024:</b></p> <ul style="list-style-type: none"> <li>Low 20% YoY growth</li> </ul> <p><b>Medium term<sup>1</sup>:</b></p> <ul style="list-style-type: none"> <li>Low teens YoY growth</li> </ul>	<p><b>PF 2024:</b></p> <ul style="list-style-type: none"> <li>Beyond 50% YoY growth</li> </ul> <p><b>Medium term<sup>2</sup>:</b></p> <ul style="list-style-type: none"> <li>Mid teens YoY growth</li> </ul>	<ul style="list-style-type: none"> <li><b>Dividends:</b> Targeted annual dividend per share growing by 5% annually from the 2023 annualized dividend of \$260 million</li> <li><b>Effective tax rate 9%</b> from 1 Jan 2024</li> </ul>

1. Group medium term outlook (shared for Q1 2024; Excluding Navig8)  
2. 2024-28 including Navig8 on proforma basis; Refer to appendix for accounting treatment details  
3. Internal Rate of Return

## Segmental Medium-term (2024-28) Outlook:

INTEGRATED LOGISTICS	SHIPPING	MARINE SERVICES
<p><b>Revenue</b></p> <p><b>2024:</b> Mid-40% YoY growth.</p> <ul style="list-style-type: none"> <li>Despite Q1 weather delays &amp; deferred progress on G-Island, strong non-ADNOC logistics volumes &amp; JUB fleet growth, utilization &amp; rates maintain outlook.</li> </ul> <p><b>Medium term:</b></p> <ul style="list-style-type: none"> <li>Mid to high-single digit YoY growth.</li> <li>Lower Project / EPC projections offset by growth in ILSP / non-ILSP / JUBs</li> </ul> <p><b>EBITDA</b></p> <ul style="list-style-type: none"> <li>High 30% YoY growth</li> </ul> <p><b>Medium term:</b></p> <p><b>2024:</b> Mid-single digit YoY growth beyond 2024.</p> <ul style="list-style-type: none"> <li>Growth in non-ILSP outlook; continued strength in JUBs; and additional projects in Onshore to deliver continuing growth</li> </ul>	<p><b>Revenue</b></p> <p><b>2024:</b> Low to mid teens YoY growth</p> <ul style="list-style-type: none"> <li><b>Gas Carriers:</b> <ul style="list-style-type: none"> <li>2024 slight reduction due to asset sales</li> <li>Mid 20% YoY growth, 2025-27, due to 6x new LNG less 2x older vessels disposed</li> </ul> </li> <li><b>Tankers:</b> <ul style="list-style-type: none"> <li>2024: Strong rate environment persists delivering higher than expected growth</li> </ul> </li> <li><b>Dry-Bulk and Containers:</b> <ul style="list-style-type: none"> <li>2024: Strong rates on dry bulk</li> </ul> </li> </ul> <p><b>EBITDA</b></p> <p><b>2024:</b> High 20% YoY growth</p> <ul style="list-style-type: none"> <li>Strong rates on Tankers / Dry-Bulk</li> </ul> <p><b>Medium term:</b></p> <ul style="list-style-type: none"> <li>Mid teens YoY growth</li> <li>Timing difference between asset sales / deliveries &amp; lower container earnings outlook</li> </ul>	<p><b>Revenue</b></p> <p><b>2024:</b> Mid single digit YoY growth</p> <p><b>Medium term:</b></p> <ul style="list-style-type: none"> <li>Low-to-mid single digit YoY growth.</li> <li>Stable nature of Marine Services contracted activity in petroleum ports operations and oil spill response services</li> </ul> <p><b>EBITDA</b></p> <p><b>2024:</b> High single digit YoY growth</p> <p><b>Medium term:</b></p> <ul style="list-style-type: none"> <li>Flat to low single digit YoY growth</li> <li>Stable nature of long-term contracted business</li> </ul>

## Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value ADNOC Logistics & Services. We have assigned 70% weight to DCF, 20% to RV, and 10% to DDM.

Valuation Method	Target	Weight	Weighted Value
DCF Method	5.90	70.0%	4.13
Relative Valuation (RV)	6.11	20.0%	1.22
DDM Method	2.45	10.0%	0.25
<b>Weighted Average Valuation (AED)</b>			<b>5.60</b>
Current market price (AED)			4.85
Upside/Downside (%)			+15%

### 1) DCF Method:

ADNOC Logistics & Services 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 8.4% and the cost of debt of 5.5%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.9 and equity risk premium of 4.0%. 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)	1,172
Terminal value (USD, Mn)	10,662
Cash (as of June 2024)	55
<b>FV to Common shareholders (USD, Mn)</b>	<b>11,888</b>
No. of share (Mn)	7,398
Current Market Price (AED)	4.85
<b>Fair Value per share (AED)</b>	<b>5.90</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	809	881	933	1,033	1,095
Depreciation & Amortization	258	307	355	326	337
Capex	-1,100	-1,100	-1,200	-700	-430
Change in Working Capital	-15	-18	-51	-38	-85
<b>Free Cash Flow to Firm (FCFF)</b>	<b>-48</b>	<b>70</b>	<b>37</b>	<b>621</b>	<b>918</b>
Discounting Factor	0.97	0.90	0.83	0.77	0.71
<b>Discounted FCFF</b>	<b>-46</b>	<b>63</b>	<b>31</b>	<b>475</b>	<b>649</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local as well as international peers to value ADNOC Logistics & Services and it is valued using the EV/EBITDA multiple. The Integrated & Marine business is valued at EV/EBITDA multiple of 11.6x and the Shipping business is valued at EV/EBITDA multiple of 7.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<b><u>Integrated &amp; Marine peers</u></b>					
ADNOC DRILLING CO PJSC	19,949	11.7	10.7	16.7	15.2
EMIRATES CENTRAL COOLING SYS	4,630	12.8	12.1	17.2	16.5
DUBAI ELECTRICITY & WATER AU	32,540	9.4	9.0	16.9	15.9
ABU DHABI PORTS CO PJSC	6,860	11.6	10.2	22.6	15.5
DTC	1,560	10.7	9.5	16.0	14.1
<b>Average</b>		<b>11.4x</b>	<b>10.5x</b>	<b>18.4x</b>	<b>15.8x</b>
<b>Median</b>		<b>11.6x</b>	<b>10.5x</b>	<b>17.0x</b>	<b>15.7x</b>
<b>Max</b>		<b>12.0x</b>	<b>11.0x</b>	<b>18.5x</b>	<b>16.1x</b>
<b>Min</b>		<b>11.0x</b>	<b>9.9x</b>	<b>16.8x</b>	<b>15.4x</b>

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<b><u>Shipping peers</u></b>					
QATAR GAS TRANSPORT(NAKILAT)	6,750	15.5	15.4	15.3	14.2
EURONAV NV	3,280	7.9	6.7	10.4	10.7
STAR BULK CARRIERS CORP	2,397	5.3	4.8	5.4	4.9
DORIAN LPG LTD	1,530	7.7	7.2	9.2	8.3
GOLAR LNG LTD	3,400	17.3	12.2	19.9	15.2
FLEX LNG LTD	1,400	9.7	9.7	11.7	10.8
FRONTLINE PLC	5,140	6.6	6.2	7.9	6.1
<b>Average</b>		<b>10.0x</b>	<b>8.9x</b>	<b>11.4x</b>	<b>10.0x</b>
<b>Median</b>		<b>7.9x</b>	<b>7.2x</b>	<b>10.4x</b>	<b>10.7x</b>
<b>Max</b>		<b>12.6x</b>	<b>10.9x</b>	<b>13.5x</b>	<b>12.5x</b>
<b>Min</b>		<b>7.1x</b>	<b>6.4x</b>	<b>8.5x</b>	<b>7.2x</b>

Source: FAB Securities

### 3) DDM Method:

ADNOC Logistics and Services plans to pay USD 273 Mn dividend in 2024 and expects to pay on a progressive basis in the forthcoming period with a minimum growth of 5% per annum. The dividend is discounted at the cost of equity of 8.4%.

Sum of PV (USD, Mn)	1,242
Terminal value (USD, Mn)	3,700
<b>FV to Common shareholders (USD, Mn)</b>	<b>4,942</b>
No. of share (Mn)	7,398
Current Market Price (AED)	4.86
<b>Fair Value per share (AED)</b>	<b>2.45</b>

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
H1	137	143	150	158	166
H2	137	143	150	158	166
<b>Total Dividend</b>	<b>273</b>	<b>287</b>	<b>301</b>	<b>316</b>	<b>332</b>
Discounting Factor	0.97	0.89	0.82	0.76	0.70
<b>Present Value of Dividend</b>	<b>265</b>	<b>256</b>	<b>248</b>	<b>240</b>	<b>233</b>

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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