

ADNOC Gas PLC

Strong revenue and EBITDA amid favourable pricing environment supported profitability

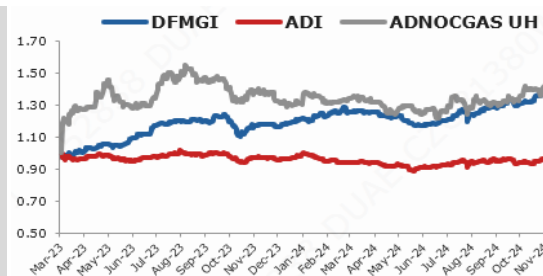
Current Price
AED 3.35

Target Price
AED 3.93

Upside/Downside (%)
+17%

Rating
BUY

- ADNOCGAS's total production volume (excluding ADNOCGAS LNG JV) declined 2.1% YOY to 876 TBTU in 3Q24.
- ADNOCGAS increased its guidance for export & traded liquid sales volume from 940-960 TBTU to 970-990 TBTU and for LNG JV products from 240-260 TBTU to 250-270 TBTU in 2024.
- Total revenue grew 2.1% YOY to USD 4,870 Mn, while total EBITDA grew 13.9% YOY to USD 2,002 Mn in 2Q24.
- Revised Capex guidance from USD 2,000-2,300 Mn to USD 1,900-2,200 Mn for 2024.
- In line with its dividend policy, the Company anticipates paying a final dividend of USD 3.4 Bn, resulting in a dividend yield of 4.9% for 2024.



3Q24 Net Profit lower than our estimate

ADNOC Gas plc (ADNOCGAS/the Company) reported an 11.5% YOY increase in net profit to USD 1,243 Mn in 3Q24, lower than our estimate of USD 1,312 Mn. The increase in net profit is primarily attributable to increased revenue owing to a favourable pricing environment coupled with higher profit share from equity accounted investee and lower direct and other operating costs partially offset by an increase in operating expenses, finance cost and income tax.

P&L Highlights

ADNOCGAS's net revenue grew 2.1% YOY to USD 4,870 Mn in 3Q24, while the Company's total revenue, which includes revenue from reinjection, ADNOC LNG JV, and intercompany elimination and other income, grew 8.2 YOY to USD 6,281 Mn in 3Q24 mainly supported by favourable pricing environment. The total production volume (excluding ADNOCGAS LNG JV) declined 2.1% YOY to 876 TBTU in 3Q24. The Company's domestic gas production volume declined 2.2% YOY and grew 5.7% QOQ to 613 trillion British thermal units (TBTU) in 3Q24. Exports and traded liquids volume declined 1.9% YOY and 1.1% QOQ to 263 TBTU in 3Q24. Furthermore, the Company's total sales volume grew marginally 0.2% YOY to 948 TBTU in 3Q24, supported by improved availability and reliability of 98.6% across its assets in 3Q24. The Company's domestic gas sales volume declined 1.9% YOY and grew 5.0% QOQ to 609 TBTU in 3Q24. Exports and traded liquids volume declined 2.9% YOY and 0.4% QOQ to 265 TBTU in 3Q24. ADNOCGAS's share of LNG production grew significantly 45.8% YOY and 25.0% QOQ to 70 TBTU in 3Q24. The sales volume of sulfur remained stable at 4 TBTU in 3Q24 compared to 3Q23. The Company's direct cost declined 2.0% YOY to USD 2,962 Mn in 3Q24. Thus, gross profit increased 9.2% YOY to USD 1,908 Mn in 3Q24,

Stock Information

Market Cap (AED, mn)	258,652.29
Paid Up Capital (mn)	19,187.86
52 Week High	3.48
52 Week Low	2.87
3M Avg. daily value (AED)	48,698,640

3Q24 Result Review (USD, mn)

Total Assets	29,447
Total Liabilities	6,866
Total Equity	22,581
EBITDA	2,002
Net Profit	1,243

Financial Ratios

Dividend Yield (12m)	4.73
Dividend Pay-out (%)	68.86
Price-Earnings Ratio(x)	14.18
Price-to-Book Ratio (x)	3.12
Book Value (AED)	0.29
Return-on Equity (%)	22.00

Stock Performance

5 Days	2.43%
1 Months	1.81%
3 Months	6.31%
6 Months	10.13%
1 Year	3.06%
Month to Date (MTD%)	1.81%
Quarter to Date (QTD%)	5.97%
Year to Date (YTD%)	9.06%

primarily due to strong revenue growth and lower direct costs. Gross margins grew from 36.6% in 3Q23 to 39.2% in 3Q24. Other operating income declined from USD 281 Mn in 3Q23 to USD 262 Mn in 3Q24. However, the share of profit to equity accounted investee grew significantly from USD 53 Mn in 3Q23 to USD 160 Mn in 3Q24. Employee benefit expenses grew marginally 0.9% YOY to USD 276 Mn in 3Q24. Other operating costs declined from USD 116 Mn in 3Q23 to USD 94 Mn in 3Q24. Share of operating cost in equity accounted investee grew from USD 52 Mn in 3Q23 to USD 57 Mn in 3Q24. Inventory consumption declined from USD 19 Mn in 3Q23 to USD 17 Mn in 3Q24. Other expenses grew significantly from USD 19 Mn in 3Q23 to USD 40 Mn in 3Q24. The Company's EBITDA grew 13.9% YOY to USD 2,002 Mn in 3Q24, whereas adjusted EBITDA grew 18.5% YOY to USD 2,205 Mn in 3Q24. Domestic segment EBITDA declined marginally from USD 727 Mn in 3Q23 to USD 724 Mn in 3Q24. Export & traded liquid EBITDA grew 17.2% YOY to USD 1,111 Mn in 3Q24, driven by improved prices. ADNOC GAS's share of LNG EBITDA grew significantly from USD 161 Mn in 3Q23 to USD 333 Mn in 3Q24, mainly supported by the favourable pricing and volume environment. Thus, the Company's operating profit grew 14.0% YOY to USD 1,694 Mn in 3Q24. Finance income grew from USD 30 Mn in 3Q23 to USD 39 Mn in 3Q24. Finance cost grew from USD 43 Mn in 3Q23 to USD 51 Mn in 3Q24. Total income tax expenses grew from USD 358 Mn in 3Q23 to USD 439 Mn in 3Q24 owing to the introduction of UAE Corporate tax.

Balance Sheet Highlights

ADNOC GAS's investment in capex grew from USD 347 Mn in 3Q23 to USD 503 Mn in 3Q24, primarily due to the expansion of growth projects. The Company revised its capex guidance from USD 2,000-2,300 Mn to USD 1,900-2,200 Mn for 2024. The Company's net cash flow from operating activities declined from USD 1,417 Mn in 3Q23 to USD 1,388 Mn in 3Q24. ADNOC GAS's free cash flow declined from USD 1,308 Mn in 3Q23 to USD 1,184 Mn in 3Q24. As of 3Q24, the Company held cash and cash equivalents of USD 3.3 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 revenue and EBITDA growth owing to a favourable pricing environment and marginal expansion in volume during 3Q24. ADNOC GAS's total production volume (excluding ADNOC GAS LNG JV) declined 2.1% YOY to 876 TBTU in 3Q24, mainly due to a decline in domestic and trading & export products gas volume. However, the Company's total sales volume increased marginally 0.2% YOY to 948 TBTU in 3Q24, driven by a healthy level of reliability of 98.6% across its assets in 3Q24. Furthermore, the Company expects lower sales volume in 4Q24 primarily due to planned shutdowns to maintain asset integrity and extend asset life. Thus, it expects a sales volume of 2,240-2,290 TBTU for the domestic gas segment. However, the Company increased its guidance for export & traded liquid from 940-960 TBTU to 970-990 TBTU and for LNG JV products from 240-260 TBTU to 250-270 TBTU in 2024. 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. The Company's Rich Gas Development project is anticipated to play a key role in supporting increased oil production and contributing to ADNOC's downstream expansion efforts. ADNOC GAS is also focusing on developing and delivering three major projects through 2029, the MERAM project, which is anticipated to add up to 3.4 MTPA of production capacity, IGD-E2, with a gas processing capacity of 370 MSCFD, and Ruwais LNG, capable of producing up to 9.6 MTPA of LNG. The Company's strategy for advancing the projects is expected to target a c.30% growth in gas and liquids processing capacity by 2029. ADNOC GAS also aims to achieve a 20% growth in processing capacity by 2028, which could result in a 40% increase in EBITDA in 2029. It further expects an EBITDA margin of 34-35% in 2024. Recently, it revised its Capex guidance from USD 2,000-2,300 Mn to USD 1,900-2,200 Mn for 2024. The Company also aims to achieve a 5.0% annual dividend payment increase from 2024 to 2027. In line with its dividend policy, the Company anticipates paying a final dividend of USD 3.4 Bn, resulting in a dividend yield of 4.9% for 2024. 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	13.82	15.74
PB	NA	3.14	3.04
EV/EBITDA	NA	8.67	7.98
Dividend yield	NA	4.6%	4.9%

FABS Estimates & Co Data

¹ADNOC GAS share started trading in 2023 hence previous-year multiples is not provide.

Adnoc Gas - P&L

(USD mn)	3Q23	2Q24	3Q24	3Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	4,769	4,863	4,870	5,002	-2.6%	2.1%	0.1%	17,905	18,024	0.7%
Direct Cost	3,021	2,943	2,962	3,006	-1.5%	-2.0%	0.7%	11,000	10,964	-0.3%
Gross Profit	1,748	1,921	1,908	1,996	-4.4%	9.2%	-0.6%	6,905	7,060	2.2%
Other Operating income	281	267	262	277	-5.6%	-6.9%	-2.1%	1,105	1,065	-3.7%
Share of profit of eq-acc inv	53	93	160	153	4.3%	NM	72.2%	402	590	46.5%
Recharges to eq acc inv	154	138	156	141	10.5%	1.1%	12.7%	442	627	42.0%
Employee benefit expenses	-273	-274	-276	-264	4.2%	0.9%	0.4%	-984	-1,082	9.9%
Other operating costs	-116	-76	-94	-75	25.4%	-18.6%	24.5%	-451	-330	-26.9%
Share of operating costs in eq acc inv	-52	-64	-57	-68	-15.5%	11.0%	-9.7%	-247	-202	-18.2%
Inventory Consumption	-19	-17	-17	-19	-11.3%	-9.1%	-0.7%	-67	-55	-17.4%
Other expenses	-19	-66	-40	-65	-39.2%	104.5%	-39.5%	-73	-165	NM
EBITDA	1,758	1,922	2,002	2,075	-3.5%	13.9%	4.1%	7,034	7,508	6.7%
Depreciation and amortization	-272	-304	-308	-306	0.4%	13.2%	1.0%	-1,100	-1,220	10.9%
EBIT	1,486	1,618	1,694	1,769	-4.2%	14.0%	4.7%	5,934	6,288	6.0%
Finance Income	30	36	39	38	2.8%	29.8%	7.3%	95	136	42.5%
Finance Cost	-43	-45	-51	-58	-11.6%	19.9%	13.0%	-207	-229	10.7%
Profit before tax	1,473	1,609	1,682	1,749	-3.8%	14.2%	4.6%	5,822	6,195	6.4%
Income Tax expense	358	419	439	437	0.3%	22.6%	4.7%	1,102	1,746	58.4%
Net Income	1,116	1,190	1,243	1,312	-5.2%	11.5%	4.5%	4,720	4,449	-5.8%

FABS estimate & Co Data

Adnoc Gas - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	36.6%	39.5%	39.2%	254	-31	38.6%	39.2%	60
EBITDA	36.9%	39.5%	41.1%	424	158	39.3%	41.7%	237
Net Profit	23.4%	24.5%	25.5%	214	106	26.4%	24.7%	-168

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 (ADNOC GAS + ADNOC L&G)	3.86	70.0%	2.70
Relative Valuation (RV) - EV/EBITDA	4.04	15.0%	0.61
Relative Valuation (RV) - Dividend Yield	4.12	15.0%	0.62
Weighted Average Valuation (AED)			3.93
Current market price (AED)			3.35
Upside/Downside (%)			+17%

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 9.0%. The cost of equity is calculated using a 10-year government bond yield of 4.8%, a beta of 0.97, and an equity risk premium of 4.3%. 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)	18,095
Terminal value (USD, Mn)	50,707
FV to Common shareholders (USD, Mn)	68,802
No. of share (Mn)	76,751
Current Market Price (AED)	3.35
Fair Value per share (AED)	3.29

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	3,859	4,067	4,279	4,421	3,871	4,167	4,369
D&A	1,220	1,315	1,404	1,655	1,746	1,796	1,932
(-) Capex	-2,050	-3,200	-3,300	-3,150	-3,050	-1,648	-500
Change in working capital	164	-128	-49	-168	-72	-40	46
Net change in debt	500	1,500	1,000	1,000	500	0	0
Free Cash Flow to Equity (FCFE)	3,693	3,554	3,335	3,758	2,995	4,275	5,847
Discounting Factor	0.99	0.91	0.83	0.76	0.70	0.64	0.59
Discounted FCFE	913¹	3,224	2,777	2,873	2,101	2,752	3,455

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 9.0%. The cost of equity is calculated using a 10-year government bond yield of 4.8%, a beta of 0.97, and an equity risk premium of 4.3%. 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)	4,909
Terminal value (USD, Mn)	12,007
FV to Common shareholders (USD, Mn)	16,916

DCF Method

(All Figures in USD Mn)	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
Net Income	842	912	1,002	1,110	1,215	1,254	1,265
D&A	157	160	164	173	186	214	293
(-) Capex	-477	-575	-585	-402	-261	-192	-199
Change in working capital	-43	-48	-54	-61	-68	-71	-74
Net change in debt	250	250	300	300	200	100	100
Free Cash Flow to Equity (FCFE)	729	699	827	1,120	1,271	1,305	1,384
Discounting Factor	0.99	0.91	0.83	0.76	0.70	0.64	0.59
Discounted FCFE	180¹	634	689	856	892	840	818

Source: FAB Securities, ¹FCFE Adjusted for Partial Year

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 9.6x in line with its peers. In the dividend yield, we have used a dividend Yield of 4.0% 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	56,980	9.7	6.9	35.1	18.8	4.7	5.2
Saudi Arabian Oil Co	1,808,000	7.7	7.6	16.7	16.1	6.7	5.0
Borouge	20,620	9.5	9.5	18.0	16.6	5.9	5.4
Petronas Gas Bhd	7,790	9.5	9.3	18.0	17.7	4.5	4.5
Kinder Morgan Inc	60,380	11.5	11.2	22.2	20.9	4.2	4.3
Valero Energy Corp	43,380	7.4	6.7	16.2	12.8	3.1	3.2
Marathon Petroleum Corp	49,880	6.8	7.0	16.0	14.1	2.2	2.4
Oneok Inc	62,990	14.2	10.9	21.0	18.2	3.7	3.8
Targa Resources Corp	42,370	13.7	12.4	31.8	25.3	1.5	2.1
Williams Cos Inc	69,170	13.4	12.5	30.3	27.2	3.4	3.6
Average		10.3x	9.4x	22.5x	18.8x	4.0%	3.9%
Median		9.6x	9.4x	19.5x	18.0x	4.0%	4.1%
Max		12.9x	11.1x	28.3x	20.4x	4.7%	4.8%
Min		8.1x	7.2x	17.0x	16.2x	3.2%	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%

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

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