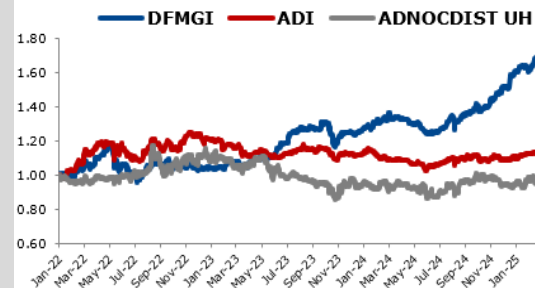


## ADNOC Distribution

Despite growth in fuel volumes lower crude oil prices impacted the topline

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.49	AED 4.46	+28%	BUY

- The company's total fuel volumes rose 7.2% YOY to 4 Bn liters in 4Q24 due to solid economic activity, increased mobility, and network expansion.
- ADNOCDIST operated 373 convenience stores in UAE as of 4Q24 and recorded 12.3% YOY growth in total non-fuel transactions to 13.4 Mn in 4Q24.
- EBITDA rose from AED 941 Mn in 4Q23 to AED 954 Mn in 4Q24 despite the inventory losses in 4Q24 compared to inventory gains in 4Q23.
- The board of directors approved a dividend of AED 1,285 Mn 2H24, resulting in a total dividend of AED 2,571 Mn for 2024 equivalent to 20.57 fils per share.



### 4Q24 Net Profit lower than our estimate

ADNOC Distribution's (ADNOCDIST/the Company) net profit declined 14.3% YOY to AED 580 Mn in 4Q24, lower than our estimate of AED 724 Mn. The decline in net profit is attributable to a decline in revenue coupled with higher tax and operating expenses, partially offset by lower direct cost and finance cost.

### P&L Highlights

ADNOC Distribution's revenue declined 7.6% YOY to AED 8,837 Mn in 4Q24 due to lower selling prices attributable to a decline in crude oil prices partially offset by an increase in volumes. The company's total fuel volumes rose 7.2% YOY to 4 Bn liters in 4Q24 due to solid economic activity, increased mobility, and network expansion. Revenue for the Retail segment fell 5.7% YOY to AED 5,923 Mn in 4Q24 mainly due to lower pump prices. Revenue from the non-fuel retail segment rose 12.7% YOY to AED 435 Mn in 4Q24. Likewise, revenue from the Commercial segment fell 11.2% YOY to AED 2,913 Mn in 4Q24 due to lower prices. Direct cost fell 10.1% YOY to AED 7,229 Mn in 4Q24. As a result, the Company's gross profit grew 5.4% YOY to AED 1,608 Mn in 4Q24. ADNOCDIST also recorded inventory losses of AED 9 Mn in 4Q24 compared to a gain of AED 51 Mn in 4Q23. The gross margin grew 224 bps YOY to 18.2% in 4Q24. The Company's other income declined 8.6% YOY to AED 35 Mn in 4Q24. Distribution and administrative expenses rose 10.2% YOY to AED 861 Mn in 4Q24 mainly attributable to a 4% rise in the Company's network in the KSA & UAE coupled with associated costs as well as consolidation of TotalEnergies Marketing Egypt. Impairment and other expenses increased 14.0% YOY to AED 38 Mn in 4Q24. Moreover, operating profit marginally declined 0.6% YOY to AED 744 Mn in 4Q24. However, the operating profit margin grew 59 bps YOY to 8.4% in 4Q24. D&A charges rose 9.3% YOY to AED 210 Mn in 4Q24.

### Stock Information

Market Cap (AED, mm)	43,625.00
Paid Up Capital (mm)	1,000.00
52 Week High	3.82
52 Week Low	3.24
3M Avg. daily value (AED)	12,714,760

### 4Q24 Result Review (AED, mn)

Total Assets	18,181
Total Liabilities	15,000
Total Equity	3,181
EBITDA	954
Net Profit	580

### Financial Ratios

Dividend Yield (12m)	5.93
Dividend Pay-out (%)	106.24
Price-Earnings Ratio(x)	17.92
Price-to-Book Ratio (x)	14.50
Book Value (AED)	0.24
Return-on Equity (%)	74.89

### Stock Performance

5 Days	-0.29%
1 Months	-1.13%
3 Months	0.58%
6 Months	-3.32%
1 Year	-2.24%
Month to Date (MTD%)	-3.06%
Quarter to Date (QTD%)	-0.85%
Year to Date (YTD%)	-0.85%

Furthermore, EBITDA rose from AED 941 Mn in 4Q23 to AED 954 million in 4Q24 despite the inventory losses in 4Q24 compared to inventory gains in 4Q23. Reported EBITDA excluding inventory movements and one-off items demonstrated 10.8% YOY to AED 986 Mn in 4Q24, supported by higher volumes, rising contribution from the non-fuel retail segment, coupled with international activities. In addition, ADNOC DIST's interest income declined from AED 40 Mn in 4Q23 to AED 27 Mn in 4Q24. Interest expense declined from AED 117 Mn in 4Q23 to AED 89 Mn in 4Q24. The Company incurred income tax expense of AED 90 Mn in 4Q24 compared to a tax credit AED 5 Mn in 4Q23.

### Balance Sheet Highlights

ADNOC Distribution's cash and cash equivalents including term deposits stood at AED 2.9 Bn in 4Q24 along with an unutilized credit facility of AED 2.8 Bn leading to a strong liquidity position of AED 5.7 Bn in 4Q24. ADNOC DIST's borrowings remained at similar levels as 3Q24 at AED 5.6 Bn in 4Q24. Net debt to EBITDA ratio stood at 0.69x as of 4Q24 compared to 0.62x in 4Q23. The Company's Capex fell to AED 396 Mn in 4Q24 from AED 556 Mn in 4Q23. The Capex of AED 1,073 Mn incurred by the Company in FY2024 was spent on the construction of new service stations, the upgradation of existing service stations and the purchase of machinery and equipment. The Free Cash Flow stood at AED 804 Mn in 4Q24, compared to AED 1,356 Mn in 4Q23. The free cash flow excluding the effect of working capital rose 22.9% YOY to AED 698 Mn in 4Q24.

### Target Price and Rating

We maintain our BUY rating on ADNOC Distribution with an unchanged target price of AED 4.46. Although ADNOC Distribution's topline was impacted by the decline in crude oil prices, it recorded solid growth in the fuel volumes and non-fuel transactions. ADNOC DIST's fuel stations count reached 896 in 4Q24 out of which 551 stations are in UAE, 100 in KSA, and 245 in Egypt. It plans to expand the service station network to 1,000 stations by 2028 and is likely to add 40-50 new stations in 2025. On the other hand, the Company operated 373 convenience stores in UAE as of 4Q24 and recorded 12.3% YOY growth in total non-fuel transactions to 13.4 Mn in 4Q24. The Company is targeting a 50% increase in the non-fuel transactions by 2028. The average basket size in UAE fell 1.9% YOY to AED 22.3 in 4Q24, while the convenience store conversion rate increased from 25.5% in 4Q23 to 27.7% in 4Q24. ADNOC Distribution has made significant strides in property management. The company opened 39 properties during FY2024 featuring well-known international and local brands like McDonald's, Dunkin' Donuts, Domino's Pizza, Starbucks, and Al Baik, boosting foot traffic and turning service stations into popular destinations. Additionally, ADNOC Distribution operated 12 Burger King restaurants under a franchise model, resulting in a 2.5x higher yield compared to the conventional rental model. ADNOC Distribution plans to expand its franchising efforts significantly, with a goal of reaching 50 franchise operations by 2028. The company saw a 20.4% YOY increase in the number of vehicles inspected (fresh tests) in 2024. This growth was driven by the expansion of inspection centres, the introduction of new services, and enhanced marketing and promotions. ADNOC Distribution introduced 5 car wash tunnels, offering much higher capacity than traditional car wash facilities. Around 50% of the existing automatic car wash stations were upgraded, focusing on the top-performing Tier-1 car washes. The company's EV charging points stood at 220 as of 4Q24, surpassing the 4Q23 count by more than four times. It plans to expand EV charging infrastructure by 10 to 15 times by 2028 and is likely to add 100 EV charging stations in 2025. The expansion plans are likely to benefit the Company's topline. The board of directors approved a dividend of AED 1,285 Mn 2H24, resulting in a total dividend of AED 2,571 Mn for 2024 equivalent to 20.57 fils per share. Thus, based on our analysis, we maintain our BUY rating on the stock.

### ADNOC Distribution - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE (x)	18.3	19.4	15.9	16.8	18.1	16.1
PB (x)	12.7	13.7	12.7	12.6	13.2	13.9
EV/EBITDA	18.1	19.3	15.6	15.5	15.0	1.9
Dividend yield (%)	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%

FABS Estimates & Co Data

**ADNOC Distribution – P&L**

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	9,564	9,083	8,837	9,689	-8.8%	-7.6%	-2.7%	34,629	35,454	2.4%
Direct costs	-8,038	-7,496	-7,229	-8,125	-11.0%	-10.1%	-3.6%	-28,793	-29,238	1.5%
<b>Gross profit</b>	<b>1,525</b>	<b>1,587</b>	<b>1,608</b>	<b>1,564</b>	<b>2.8%</b>	<b>5.4%</b>	<b>1.3%</b>	<b>5,836</b>	<b>6,216</b>	<b>6.5%</b>
Other income	39	32	35	50	-29.3%	-8.6%	10.0%	146	138	-5.2%
Distribution & admin exp.	-781	-806	-861	-724	19.0%	10.2%	6.8%	-2,917	-3,195	9.5%
Impairment & other exp.	-33	-12	-38	-34	12.2%	14.0%	NM	-82	-90	9.9%
<b>Operating profit</b>	<b>749</b>	<b>801</b>	<b>744</b>	<b>856</b>	<b>-13.1%</b>	<b>-0.6%</b>	<b>-7.1%</b>	<b>2,983</b>	<b>3,069</b>	<b>2.9%</b>
Depreciation & Amortization	192	208	210	162	29.5%	9.3%	0.9%	697	786	12.8%
<b>EBITDA</b>	<b>941</b>	<b>1,009</b>	<b>954</b>	<b>1,018</b>	<b>-6.3%</b>	<b>1.3%</b>	<b>-5.5%</b>	<b>3,680</b>	<b>3,855</b>	<b>4.8%</b>
Interest income	40	36	27	36	-24.0%	-31.5%	-25.2%	99	144	45.6%
Interest expenses	-117	-46	-89	-88	1.2%	-24.0%	96.1%	-433	-457	5.6%
<b>Profit before tax</b>	<b>672</b>	<b>792</b>	<b>682</b>	<b>804</b>	<b>-15.1%</b>	<b>1.6%</b>	<b>-13.9%</b>	<b>2,649</b>	<b>2,756</b>	<b>4.0%</b>
Income tax	5	-74	-90	-65	37.4%	NM	21.9%	-19	-283	NM
<b>Net Profit for the year</b>	<b>676</b>	<b>718</b>	<b>592</b>	<b>738</b>	<b>-19.8%</b>	<b>-12.4%</b>	<b>-17.5%</b>	<b>2,630</b>	<b>2,472</b>	<b>-6.0%</b>
Non-controlling interest	-1	51	12	15	-19.9%	NM	-76.5%	29	52	78.9%
<b>Net Profit</b>	<b>677</b>	<b>667</b>	<b>580</b>	<b>724</b>	<b>-19.8%</b>	<b>-14.3%</b>	<b>-13.0%</b>	<b>2,601</b>	<b>2,420</b>	<b>-7.0%</b>

FABS estimate & Co Data

**ADNOC Distribution - Margins**

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	15.9%	17.5%	18.2%	224	72	16.9%	17.5%	68
EBITDA margin	9.8%	11.1%	10.8%	95	-31	10.6%	10.9%	25
Operating margin	7.8%	8.8%	8.4%	59	-40	8.6%	8.7%	4
Net profit margin	7.1%	7.3%	6.6%	-51	-78	7.5%	6.8%	-69

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	4.66	70.0%	3.26
Relative Valuation (RV)	3.98	30.0%	1.20
<b>Weighted Average Valuation (AED)</b>			<b>4.46</b>
Current market price (AED)			3.49
Upside/Downside (%)			+28%

### 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 8.0%. It is arrived after using the cost of equity of 8.4% and after-tax cost of debt of 5.5%. The cost of equity is calculated by using a 10-year government bond yield of 4.8%, beta of 0.90 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)	14,232
Terminal value (AED, Mn)	48,544
<b>Firm Value</b>	<b>62,777</b>
Net debt as of Dec 2024	4,568
<b>FV to Common shareholders (AED, Mn)</b>	<b>58,208</b>
No. of share (Mn)	12,500
Current Market Price (AED)	3.49
<b>Fair Value per share (AED)</b>	<b>4.66</b>

### DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	3,077	3,516	3,692	3,895	4,092
Depreciation & Amortization	828	927	1,003	1,076	1,145
(-) Capex	-1,086	-1,096	-1,066	-1,092	-1,065
(-) Change in Working Capital	254	-139	19	-70	-65
<b>Free Cash Flow to Firm (FCFF)</b>	<b>3,073</b>	<b>3,207</b>	<b>3,648</b>	<b>3,809</b>	<b>4,107</b>
Discounting Factor	0.94	0.87	0.80	0.74	0.69
<b>Discounted FCFF</b>	<b>2,874</b>	<b>2,778</b>	<b>2,926</b>	<b>2,829</b>	<b>2,825</b>

Source: FAB Securities, <sup>1</sup>Adjusted for the partial year

## 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 13.0x compared to the peer multiple of 9.2x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
UGI Corp	7,100	4.1	3.4	11.2	11.0
Petronas Dagangan	4,280	9.2	9.2	18.2	18.0
Murphy USA	9,690	11.0	10.5	18.4	16.7
Hindustan Petroleum Corporation Limited	7,840	8.7	6.6	11.2	7.3
Aldrees Petroleum	3,970	14.3	12.9	29.4	27.8
Qatar Fuel Company	4,230	8.5	8.1	13.5	13.4
<b>Average</b>		<b>10.4x</b>	<b>9.5x</b>	<b>18.1x</b>	<b>16.6x</b>
<b>Median</b>		<b>9.2x</b>	<b>9.2x</b>	<b>18.2x</b>	<b>16.7x</b>
<b>Max</b>		<b>11.0x</b>	<b>10.5x</b>	<b>18.4x</b>	<b>18.0x</b>
<b>Min</b>		<b>8.7x</b>	<b>8.1x</b>	<b>13.5x</b>	<b>13.4x</b>

Source: FAB Securities

