

ADNOC Logistics & Services PLC

Robust growth across all segments boosted topline

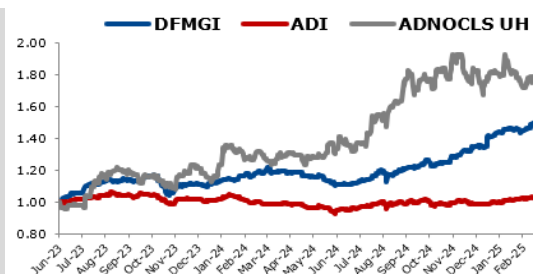
Current Price
AED 5.09

Target Price
AED 6.50

Upside/Downside (%)
+28%

Rating
BUY

- The board of directors recommended a cash dividend of 6.78 fils per share for 2H24 amounting to USD 136.5 Mn. ADNOCLS expects the dividend to grow 5% annually over the medium term.
- The Company expects the consolidated revenue to grow in the range of mid to high 40% YOY for FY2025.
- Total EBITDA grew 16.6% YOY to USD 282 Mn in 4Q24. The EBITDA margin grew 280 bps YOY and 232 bps QOQ to 32.0% in 4Q24.
- CAPEX investments are being made into 14 LNG carriers (LNGCs), four very large ammonia carriers (VLACs), and nine very large ethane carriers (VLECs), all scheduled for delivery between FY2025-28.



4Q24 Net Profit in line with our estimate

ADNOC Logistics & Services Plc's (ADNOCLS/the Company) net profit rose 8.9% YOY to USD 180 Mn in 4Q24, in line with our estimate of USD 176 Mn. The profit growth is mainly driven by higher revenue growth coupled with decline in operating expenses partially offset by a rise in direct cost and tax charge.

P&L Highlights

ADNOCLS revenue rose 6.4% YOY to USD 881 Mn in 4Q24 primarily driven by the robust performance across all business segments. Revenue from the Integrated Logistics segment grew 16.7% YOY to USD 610 Mn in 4Q24 mainly driven solid performance in offshore contracting, offshore services, and offshore projects. Shipping segment revenue fell 8.7% YOY to USD 211 Mn in 4Q24 mainly due to decline in revenue from gas carriers and tankers segment partially offset by growth in dry bulk and containers segment. Revenue from Dry Bulk increased 3.9% YOY to USD 69 Mn in 4Q24 due to high charter rates, whereas the Tankers revenue fell 10.9% YOY to USD 99 Mn in 4Q24 attributable to cyclical slowdown. Gas revenue moderated 19.7% YOY to USD 42 Mn in 4Q24 primarily due to a reduction in lower-margin LNG Carrier chartering-activities. Furthermore, the Services segment revenue declined from USD 75 Mn in 4Q23 to USD 61 Mn in 4Q24 due to lower Borouge Container Terminal operation volumes. EBITDA for the Integrated Logistics business increased 13.1% YOY to USD 181 Mn in 4Q24 with an EBITDA margin of 29.8% in 4Q24 compared to 30.7% in 4Q23. Furthermore, the Shipping segment EBITDA declined from USD 82 Mn in 4Q23 USD 81 Mn in 4Q24 with an EBITDA margin of 38.3% compared to 35.5% in 4Q23. Similarly, the Services business EBITDA fell 24.1% YOY to USD 10 Mn in 4Q24 with an EBITDA margin of 17.0% in 4Q24 compared to 18.2% in 4Q23. As a result, total EBITDA grew 16.6% to USD 282 Mn in 4Q24.

Stock Information

Market Cap (AED, mm)	38,028.28
Paid Up Capital (mm)	3,994.72
52 Week High	5.90
52 Week Low	3.80
3M Avg. daily value (AED)	20,051,530

4Q24 Result Review (USD, mm)

Total Assets	7,003
Total Liabilities	2,109
Total Equity	4,895
EBITDA	282
Net Profit	180

Financial Ratios

Dividend Yield (12m)	2.56
Dividend Pay-out (%)	36.20
Price-Earnings Ratio(x)	14.28
Price-to-Book Ratio (x)	2.13
Book Value (AED)	0.66
Return-on Equity (%)	16.26

Stock Performance

5 Days	-3.78%
1 Months	-4.14%
3 Months	-8.45%
6 Months	-1.74%
1 Year	29.19%
Month to Date (MTD%)	-1.74%
Quarter to Date (QTD%)	-6.26%
Year to Date (YTD%)	-6.26%

The EBITDA margin grew 280 bps YOY and 232 bps QOQ to 32.0% in 4Q24. The operating profit expanded 14.8% YOY to USD 190 Mn in 4Q24. Furthermore, ADNOC's finance income remained unchanged at USD 4 Mn in 4Q24. Moreover, finance costs also remained flat at USD 4 Mn in 4Q24. Additionally, income tax expense stood at USD 15 Mn in 4Q24 compared to USD 4 Mn in 4Q23 due to the introduction of corporate tax in UAE starting from FY2024.

Balance Sheet Highlights

ADNOC's cash and cash equivalent stood at USD 199 Mn in 4Q24 compared to USD 220 Mn in 3Q24. The Company debt increased to USD 550 in 4Q24 from USD 250 Mn in 3Q24. ADNOC incurred a total capex of USD 450 Mn in 4Q24, up from USD 136 Mn in the previous quarter. Moreover, the Company's free cash flow stood at negative USD 162 Mn in 4Q24 compared to negative USD 95 Mn in 4Q23 owing to higher capex. The net debt to EBITDA ratio rose from 0.1x in FY2023 to 0.5x in FY2024 attributable to increase in shareholder loan

Target Price and Rating

We maintain our BUY rating on ADNOC L&S with an unchanged target price of AED 6.50. ADNOC witnessed solid financial performance in FY2024 owing to an increase in volumes, higher rates, fleet expansion, and high utilization rates. The Company expects the consolidated revenue to grow in the range of mid to high 40% YOY for FY2025. The integrated logistics segment is poised to benefit from the Completion of G Island and other EPC Projects during the year, increase in fleet of offshore services, Higher material handling volumes, new investments in JUBs & OSVs with high utilization as well as Hail & Ghasha project acceleration. In the shipping and services segment, ADNOC will likely benefit from the addition of 32 tankers attributable to acquisition of Navig8. However, it projects a continued slowdown in the LNG rates and vessel demand for sulphur cargoes in FY2025. Apart from this, the Company controlled its operating expenses which led to a higher EBITDA margin in FY2024. The Company's ability to control costs is likely to benefit the bottom line. The tanker rate are anticipated to remain weak at the beginning of FY2025 followed by market tightening during the rest of the year. It expects the EBITDA to grow by high teens in FY2025. ADNOC effective tax rate (ETR) is projected to decrease from 9% to 6% in FY2025, benefitting its net income. ADNOC has robust expansion plans for the medium term. CAPEX investments are being made into 14 LNG carriers (LNGCs), four very large ammonia carriers (VLACs), and nine very large ethane carriers (VLECs), all scheduled for delivery between FY2025-28, with the majority of these assets contracted for up to 20 years upon delivery. ADNOC targets low double-digit unlevered internal rates of return (IRRs) for its investment plans, while aiming for high single-digit IRRs for long-term contracts. Additionally, at least USD 3 Bn is anticipated to be mobilized for new value-accretive growth projects by FY2029. The board of directors recommended a cash dividend of 6.78 fils per share for 2H24 amounting to USD 136.5 Mn. ADNOC expects the dividend to grow 5% annually over the medium term. Thus, based on our analysis, we assign a BUY rating on the stock.

ADNOC L&S - Relative valuation

(at CMP)	2,024	2025F
PE (x)	13.9	10.2
PB (x)	2.2	2.7
EV/EBITDA	9.1	9.9
Dividend yield (%)	2.6%	2.7%

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	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	828	928	881	983	-10.3%	6.4%	-5.1%	2,755	3,549	28.8%
Direct cost	-621	-705	-662	-736	-10.0%	6.7%	-6.1%	-2,003	-2,609	30.2%
Gross profit	207	223	219	247	-11.3%	5.7%	-1.9%	752	941	25.1%
G&A expenses	-47	-37	-36	-49	-25.6%	-22.5%	-2.0%	-146	-142	-3.4%
Other expenses	0	0	0	4	NM	NM	NM	0	-4	NM
Other income	4	9	5	3	56.7%	21.6%	-39.7%	11	20	83.1%
Provision for expected credit losses, net	1	-4	3	-7	NM	NM	NM	-3	3	NM
EBITDA	242	275	282	280	0.8%	16.6%	2.4%	876	1,149	31.1%
EBIT	166	191	190	198	-3.9%	14.8%	-0.3%	614	817	33.2%
Share of profit from JV	4	3	4	3	66.4%	14.9%	43.6%	14	14	0.9%
Finance income	4	4	4	4	-10.3%	2.5%	-4.7%	10	16	59.4%
Finance costs	-4	-6	-4	-8	-53.9%	-19.5%	-42.6%	-15	-18	19.4%
Profit before tax	169	191	195	197	-1.2%	15.4%	1.7%	622	829	33.2%
Income tax expense	-4	-16	-15	-21	-29.1%	NM	-9.5%	-2	-73	NM
Net Profit	165	175	180	176	2.2%	8.9%	2.8%	620	756	21.9%

FABS estimate & Co Data

ADNOC L&S - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	YOY Ch
Gross margin	25.0%	24.0%	24.8%	-17	80	27.3%	26.5%	-79
EBITDA margin	29.2%	29.7%	32.0%	280	232	31.8%	32.4%	56
Operating margin	20.0%	20.6%	21.6%	157	104	22.3%	23.0%	75
Net profit margin	19.9%	18.8%	20.4%	46	156	22.5%	21.3%	-120

FABS estimate & Co Data

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	7.18	70.0%	5.03
Relative Valuation (RV)	6.09	20.0%	1.22
DDM Method	2.56	10.0%	0.26
Weighted Average Valuation (AED)			6.50
Current market price (AED)			5.09
Upside/Downside (%)			+28%

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 8.6%. It is arrived after using the cost of equity of 8.6% and the cost of debt of 6.0%. Cost of equity is calculated by using a 10-year government bond yield of 4.5%, beta of 0.9 and equity risk premium of 3.9%. 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 2.5%.

Sum of PV (USD, Mn)	1,928
Terminal value (USD, Mn)	13,078
Cash (as of December 2024)	-540
FV to Common shareholders (USD, Mn)	15,006
No. of share (Mn)	7,398
Current Market Price (AED)	5.09
Fair Value per share (AED)	7.18

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	899	992	1,129	1,266	1,437
Depreciation & Amortization	400	472	484	518	549
Capex	-1,777	-607	-875	-1,294	-732
Change in Working Capital	72	-38	-46	-109	-90
Free Cash Flow to Firm (FCFF)	-406	819	691	380	1,163
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Discounted FCFF	-378	703	547	277	780

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 11.0x and the Shipping business is valued at EV/EBITDA multiple of 6.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
<u>Integrated & Marine peers</u>					
ADNOC DRILLING CO PJSC	23,866	12.0	11.1	NA	NA
EMIRATES CENTRAL COOLING SYS	4,601	12.2	11.4	16.8	15.1
DUBAI ELECTRICITY & WATER AU	35,666	9.7	9.3	17.6	16.5
ABU DHABI PORTS CO PJSC	6,552	10.0	9.1	15.8	12.9
DTC	1,838	10.6	9.8	16.4	14.5
Average		11.0x	10.2x	16.7x	14.8x
Median		11.0x	10.2x	16.8x	15.1x
Max		12.0x	11.2x	17.2x	15.8x
Min		9.9x	9.2x	16.3x	14.0x

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
<u>Shipping peers</u>					
QATAR GAS TRANSPORT(NAKILAT)	6,757	15.1	15.0	13.7	12.3
CMB. TECH NV	1,897	7.3	6.1	6.4	4.9
STAR BULK CARRIERS CORP	1,815	6.4	4.7	11.7	6.3
DORIAN LPG LTD	907	6.2	6.1	7.4	7.3
GOLAR LNG LTD	907	6.2	6.1	7.4	7.3
FLEX LNG LTD	1,241	9.7	9.4	12.1	11.2
FRONTLINE PLC	3,511	6.3	6.3	8.0	7.1
Average		8.2x	7.7x	9.5x	8.0x
Median		6.4x	6.1x	8.0x	7.3x
Max		8.5x	7.9x	11.9x	9.2x
Min		6.3x	6.1x	7.4x	6.7x

Source: FAB Securities

3) DDM Method:

ADNOC Logistics and Services plans to paid 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 8.6%.

Sum of PV (USD, Mn)	1,250
Terminal value (USD, Mn)	3,901
FV to Common shareholders (USD, Mn)	5,151
No. of share (Mn)	7,398
Current Market Price (AED)	5.09
Fair Value per share (AED)	2.56

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend Paid					
H1	143	150	158	166	174
H2	143	150	158	166	174
Total Dividend	287	301	316	332	348
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Present Value of Dividend	267	258	250	241	233

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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