FAB أبوظبي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 1Q25

UAE Equity Research | Sector: Energy | Market: ADX

ADNOC Distribution (ADNOCDIST)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.42	AED 4.46	+30%	BUY

1Q25 Net Profit higher than our estimate

- Revenue fell 3.2% YOY to AED 8,473 Mn in 1Q25, mainly due to reduced selling prices stemming from a drop in crude oil prices, partially offset by a growth in fuel volumes and higher contribution from non-fuel segment.
- Direct costs declined 5.7% YOY to AED 6,855 in 1Q25. Resultantly, the gross profit rose 9.3% YOY to AED 1,618 Mn in 1Q25, mainly due to higher fuel volumes and a rise in non-fuel retail business, coupled with efficient margin management. Inventory gain declined from AED 122 Mn in 1Q24 to AED 110 Mn in 1Q25.
- Total fuel volume rose 1.1% YOY to 3.7 Bn litres in 1Q25. Excluding an extra day in 1Q24, the volume grew 2.2% YOY in 1Q25. Total fuel volume in GCC rose 1.5% YOY to 2.9 Mn liters in 1Q25
- Retail fuel volumes increased 2.6% YOY to 2.6 Bn litres in 1Q25 while commercial fuel volumes fell 2.3% YOY to 1.1 Bn litres.
- Non-fuel transactions in the UAE rose 8.5% YOY to 12.3 Mn in 1Q25, driven by improved consumer sentiment and higher non-fuel offerings following the introduction of car wash tunnels and the ongoing upgrade of automatic car washes.
- Average gross basket size increased 1.3% YOY to AED 28.0 in 1Q25, and convenience store revenue across the GCC region grew 8.1% YOY to AED 236 Mn in 1Q25, primarily due to an increased number of transactions.
- OPEX increased 5.1% YOY to AED 812 Mn in 1Q25, while the cash opex rose 1.8% YOY to AED 606 Mn.
- EBITDA grew 10.8% YOY to AED 1,011 Mn in 1Q25 even with lower inventory gains in 1Q25 compared to inventory gains in 1Q24.
- Adjusted EBITDA excluding inventory movements and one-off items witnessed 12.9% YOY to AED 904 Mn in 1Q25, driven by higher volumes, effective cost management measures and increased contribution from the non-fuel retail segment.
- Net profit attributable to shareholders grew 16.2% YOY to AED 639 Mn in 1Q25, attributed to lower finance cost partially mitigated by lower finance income and higher tax expenses.

Earnings Call Summary

- ADNOC Distribution's five-year agreement with ADNOC offers protection against inventory-related losses, providing a stable foundation for operations.
- The Company maintained its capital expenditure guidance between USD 250 Mn and USD 300 Mn for 2025, with c. USD 80 Mn invested in 1Q25. Capital is being strategically allocated to enhance convenience and mobility store formats.
- ADNOC Distribution focuses on investing in AI for revenue growth and enhanced cost management. Alongside, generating a new revenue stream with the high-margin EV business.
- AI cloud technology is used to create advanced models to increase efficiency in operations and collect consumer insights to fulfil the customer demand. Additionally, it has fuel demand prediction model and smart workforce allocation management to avoid excess cost and optimize inventory.
- The Company’s non-fuel retail gross profits grew faster compared to fuel gross profit with the help of convenience stores and property management initiatives. The Company expects high earnings contribution from non-fuel retail segment like car wash, vehicle inspection, property management etc.

- ADNOC distribution charging network reached 283 EV charging points in 1Q25 with further expectation of 100 new points by the end of 2025.
- The Company's aviation business in Egypt have showcased strong performance with volumes rising by 20% on YOY basis.
- ADNOC Distribution added five new stations in UAE and 15 new dual-core station on a contract basis in KSA in 1Q25.
- The Company expects to add 30 to 40 new stations under the DOCO model in 2025.
- ADNOC Distribution plans to launch private label in ADNOC Oasis brand to improve the quality perception and sales.
- The total reward members of the loyalty program rose 19% YOY, reaching 2.4 Mn members in 1Q25. C. 100K members were added during 1Q25.
- The Company achieved a LFL Opex saving of USD 17 Mn in the last twelve months.
- The Company is pursuing a capital light, smart growth strategy in Saudi Arabia and remains on track for continued network expansion.
- The Company aims to grow its network to 300 stations in Saudi Arabia by 2026, with continued strong momentum.
- ADNOC Distribution partnership with Noon to create dark stores withing the stations and aims to provide convenience to its customer.
- The agreement with Noon includes the home delivery of ADNOC Oasis products via Noon bikers providing comfort to customers.
- The improved gross margins are a result of corporate fuel margin management due to the Company's focus on high margin contracts.

ADNOC Distribution – P&L

AED mm	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch
Revenue	8,750	8,836	8,473	8,478	-0.1%	-3.2%	-4.1%
Direct costs	-7,269	-7,229	-6,855	-6,952	-1.4%	-5.7%	-5.2%
Gross profit	**1,481**	**1,608**	**1,618**	**1,526**	**6.0%**	**9.3%**	**0.6%**
Distribution & admin. expense	-773	-861	-812	-793	2.5%	5.1%	-5.6%
Operating profit	**735**	**744**	**805**	**748**	**7.6%**	**9.4%**	**8.1%**
EBITDA	**913**	**954**	**1,011**	**955**	**5.9%**	**10.8%**	**6.0%**
Profit before tax	**574**	**682**	**720**	**670**	**7.4%**	**25.4%**	**5.6%**
Income tax	-46	-90	-72	-60	19.3%	55.4%	-19.8%
Net profit attributable to equity	**550**	**580**	**639**	**604**	**5.8%**	**16.2%**	**10.0%**

FABS estimate & Co Data

2025 Guidance:

- **40-50 new service stations:** (Including 30-40 stations in KSA under CAPEX-light Dealer Owned-Company Operated model).
- **~100 new EV charging points:** (Expanding in a disciplined manner based on EV adoption, utilization and current forecast of On-the-Go EV charging customer demand).
- **$250-300 million CAPEX:** (Focused on organic growth).
- **Explore inorganic opportunities:** (In pursuit of step-change growth through value-accretive transactions).

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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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