

ADNOC Distribution

Higher Direct costs hinders growth in profitability

3Q21 Net profit lower than our estimate

ADNOC Distribution reported a drop by 21.2% YOY in Net Profit to AED529 Mn in 3Q21, as compared to AED671 Mn in 3Q20, missing our estimate of AED668 Mn by 20.8%. This was mainly due to lower fuel margins and lower inventory gains, partially offset by higher retail fuel volumes, non-fuel business growth and a reduction in operating costs.

P&L highlights

Revenue increased by 33.9% YOY to AED5,398 Mn in 3Q21, up from AED4,030 Mn in 3Q20. Direct costs strongly increased by 82.1% YOY to AED4,195 Mn in 3Q21, up from AED2,304 Mn in 3Q20. As a result, the Gross Profit declined by 30.3% YOY to AED1,203 Mn in 3Q21, down from AED1,726 Mn in 3Q20, with a Gross Profit Margin (GPM) equal to 22.3% in 3Q21, down from 42.8% in 3Q20. The Operating Profit decreased by 18.3% YOY to AED580 Mn in 3Q21, as compared to AED710 Mn in 3Q20. It was mainly supported by 65% YOY drop in Other Income to AED14 Mn in 3Q21, down from AED40 Mn in 3Q20. Additionally, the Impairment charges significantly decreased by 97.3% YOY to AED5 Mn in 3Q21, down from AED198 Mn. The Distribution & Administrative expenses declined by 26.3% YOY to AED632 Mn in 3Q21, down from AED858 Mn in 3Q20. The Operating Profit Margin declined by 688 bps to 10.7% in 3Q21, down from 17.6% in 3Q20. The Depreciation & Amortization expenses decreased by 7% YOY to AED157 Mn in 3Q21 from AED169 Mn in 3Q20. Therefore, the EBITDA decreased by 16.2% YOY to AED737 Mn in 3Q21, as compared to AED879 Mn in 3Q20 due to lower fuel margins and lower inventory gains, partially offset by higher retail fuel volumes, non-fuel business growth and a reduction in operating costs. The Interest Income declined to a loss of AED1 Mn in 3Q21 from AED7 Mn in 3Q20. The Interest Expenses increased by 8.8% YOY to AED50 Mn in 3Q21, up from AED46 Mn in 3Q20.

Balance sheet highlights

Total Assets increased by 6.3% YOY to AED14.09 Bn in 3Q21 from AED13.25 Bn in 3Q20. Whereas the Total Liabilities increased by 9.2% YOY to AED11.44 Bn from AED10.47 Bn in 3Q20. In addition to a decrease by 4.7% YOY in the Total Equity to AED2.65 Bn, down from AED2.78 Bn in 3Q20.

Target price and rating

We revised our rating to ACCUMULATE on ADNOC Distribution with a target price of AED 4.82. ADNOC Distribution continued to deliver modern, digitally enabled fuel retail convenience across all UAE. The company's network witnessed an expansion domestically reaching 459 retail fuel stations with the company opening 14 new service stations in 9M21. It also expanded its international presence with 10 New stations in Saudi Arabia, 40-45 new stations planned to be opened in the Saudi in 2021. The company keeps focusing on its long-term growth strategy and on increasing the value of its shareholders.

Rating : ACCUMULATE

First Look Note – 3Q21

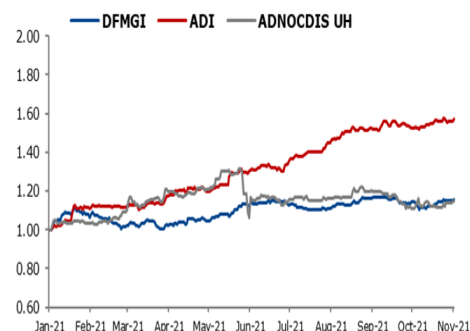
Sector: Oil & Gas

Recommendation

Current Price (17-Nov)	4.22
Target Price	4.82
Upside/(Downside) (%)	+14%

Stock Information

Market Cap (mm)	52,500.00
Share Capital (mm)	1,000.00
52 Week High	5.01
52 Week Low	3.40
3M Avg. daily value (AED)	67,773,180



Financial Ratios

Dividend Yield (12m)	4.90
Dividend Pay-out (%)	105.74
Price-Earnings Ratio (x)	20.78
Price-to-Book Ratio (x)	19.83
Book Value (AED)	0.21
Return-on Equity (%)	93.35
Earning Per Share (AED)	0.20
Beta	0.61

Stock Performance

5 Days	-2.10%
1 Months	-0.24%
3 Months	-6.46%
6 Months	-13.04%
1 Year	21.74%
Month to Date (MTD)	-1.63%
Quarter to Date (QTD)	1.44%
Year to Date (YTD)	12.53%

ADNOC distribution reported resilient performance in 9M21 with a continuous improvement in Total fuel volumes witnessing 10.6% increase compared to August and 6.3% increase up from 9M20, driven by the improved customer sentiment after the successful vaccination campaign in UAE, the ease in travel restrictions, and government offices back to working 100% on site and schools returning to in-person classes as well. Retail fuel volumes increased by 11.2% compared to 9M20 while Commercial fuel volumes decreased by 3% YOY due to lower aviation customers. ADNOC Distribution's 9M21 Revenue increased significantly by 22.6% YOY to AED14.7 Bn mainly driven by higher selling prices, higher retail fuel volume and non-fuel business growth. Gross Profit in 9M21 was down by 10.1% to AED3,750 Mn mainly due to the decrease in Fuel Retail Gross Profit by 20.6% YOY given lower margins, which was partially offset by the increase in fuel volumes and Inventory Gains reaching AED268 Mn in 9M21 compared to AED99 Mn in 9M20. The non-fuel Retail Gross Profit increased by 18% YOY mainly driven by better margins and higher number of non-fuel transactions. Nevertheless, the Commercial business Gross Profit increased by 10% YOY driven by higher margin per liter in corporate business, but it was partially lowered due to lower volumes of fuel.

ADNOC Distribution reported an increase in EBITDA by 6.2% in 9M21 to AED2.3 Bn driven by an increase in operating performance. The underlying EBITDA, excluding inventory losses/gains and one-off transactions was 21% lower in 9M21 at AED2.01 Bn as compared to AED2.55 Bn in 9M20. The company witnessed progress in its operating performance given the recovery in fuel volumes along better market share in Dubai and the increase in non-fuel operations accompanied by reduction in operating costs. The company outperformed its FY2021 target of decreasing its Operating Expenses by AED92 Mn since the Operating Expenses savings reached AED95 Mn by end of 3Q21 while ADNOC Distribution's Operating Expenses decreased by 17.8% in 9M21 despite the ongoing growth in the company's retail segment. The Net Profit in 9M21 increased by 6.3% YOY in 9M21 to AED1.68 Bn mainly driven by higher EBITDA contribution. The Free cash flow increased tremendously reaching AED1,777 Mn in 9M21 up from AED548 Mn in 9M20, driven by strong Operations and favorable Working capital adjustments.

The Company maintained its liquidity profile with AED5.9 Bn on its robust balance sheet. The Cash and Cash Equivalents comprised of AED3.1 Bn and around AED2.8 Bn in unutilized credit facility. The Term Debt will mature in 2022, however the Debt has no covenants. The Net Debt to EBITDA ratio stood at 0.71x in 9M21. The company currently retains 77% stake in the Company while the other 23% are publicly owned. The Company paid cash dividend in October 2021 of AED1.285 Bn, that is 10.285 fils per, corresponding to 1H21 results, with the 2nd and final Dividend to be paid in April 2022. Based on our analysis we assign an ACCUMULATE rating.

ADNOC Distribution - Relative Valuation

	2017	2018	2019	2020F	2021F
PE (X)	29.58	25.11	24.07	21.94	23.82
PB (X)	18.74	14.93	14.99	15.35	16.69
Dividend yield (%)	4.0%	2.8%	4.5%	4.8%	4.9%

FABS estimate and Co data

ADNOC Distribution - P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	4,030	5,018	5,398	5,294	2.0%	33.9%	7.6%	16,132	20,393	26.4%
Direct costs	-2,304	-3,797	-4,195	-3,923	6.9%	82.1%	10.5%	-10,349	-15,373	48.5%
Gross profit	1,726	1,222	1,203	1,371	-12.3%	-30.3%	-1.5%	5,783	5,020	-13.2%
Other income	40	35	14	36	-61.0%	-65.0%	-60.1%	114	112	-1.4%
Distribution & admin. Exp.	-858	-676	-632	-679	-6.9%	-26.3%	-6.6%	-3,033	-2,667	-12.1%
Impairment & others Expenses	-198	-16	-5	-16	-65.4%	-97.3%	-64.9%	-267	-44	-83.5%
Operating profit	710	565	580	713	-18.6%	-18.3%	2.6%	2,597	2,420	-6.8%
Depreciation & Amortization	169	147	157	148	5.8%	-7.0%	7.0%	592	598	1.0%
EBITDA	879	712	737	861	-14.4%	-16.2%	3.5%	3,189	3,019	-5.3%
Interest income	7	3	-1	3	-124.9%	-109.3%	-125.4%	48	11	-76.9%
Interest expenses	-46	-46	-50	-47	6.1%	8.8%	8.5%	-212	-190	-10.2%
Net profit	671	521	529	668	-20.8%	-21.2%	1.5%	2,432	2,241	-7.9%

FABS estimate & Co Data

ADNOC-Margins

AED mm	3Q20	4Q20	1Q21	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	YOY Ch.
GPM	42.8%	38.9%	31.0%	24.3%	22.3%	-2,054	-205	35.8%	24.6%	-1,123
OPM	17.6%	21.8%	15.7%	11.3%	10.7%	-688	-52	16.1%	11.9%	-423
Net Profit margin	16.6%	20.5%	14.7%	10.4%	9.8%	-685	-59	15.1%	11.0%	-409

FABS estimate & Co Data

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 Analysts

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2-6161628	shiv.prakash@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	Online Trading Link

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