

ADNOC Distribution

Volume and Price growth boosted profitability

2Q22 Net Profit higher than our estimate

ADNOC Distribution's (ADNOCDIST/the Company) net profit rose 70.9% YOY to AED 891 Mn in 2Q22, higher than our estimate of AED 635 Mn. The growth in profit is driven by an increase in fuel sales volume supported by high fuel prices and inventory gain partially offset by higher direct cost

P&L Highlights

Adnoc's revenue rose 72.1% YOY to AED 8,637 Mn in 2Q22 mainly due to a higher selling price further supported by growth in corporate and retail volumes partially offset by a decline in aviation fuel volume. ADNOCDIST's overall fuel volumes rose 7.0% YOY in 2Q22 supported by an increase in retail volume by 3.4% YOY and corporate 35.1% YOY while, aviation fuel volume declined 69.3% YOY in 2Q22. Non-fuel retail sales declined 4.1% YOY to AED 271 Mn in 2Q22, while the number of non-fuel transactions rose 15.5% YOY due to improvement in customer sentiment, increase in convenience stores, strong promotion campaigns with improved offerings at the convenience stores. Similarly, direct cost rose 82.3% YOY to AED 6,921 in 2Q22 due to an increase in cost of crude oil. Thus, the gross profit rose 40.5% YOY to AED 1,717 Mn in 2Q22 supported by higher fuel volume, an increase in non-fuel retail business and higher inventory gain of AED 272 Mn in 2Q22 as compared to AED 87 Mn in 2Q21. Other income declined to AED 19 Mn in 2Q22 from AED 35 Mn in 2Q21. Distribution and administrative expenses rose 15.8% YOY to AED 783 Mn in 2Q22 attributable to a rise in staff costs due to an increase in the network of fuel stations and convenience stores. Impairments and other expenses declined 7.6% YOY to AED 14 Mn in 2Q22. As a result, operating profit rose 66.1% YOY to 939 Mn in 2Q22. EBITDA rose 56.4% to AED 1,113 Mn in 2Q22 with a margin of 12.9% in 2Q22 compared to 14.2% in 2Q21 due to increase in revenue as a result of higher energy prices. Net interest expense rose from AED 44 Mn in 2Q21 to AED 48 Mn in 2Q22 impacting bottom line.

Balance sheet highlights

Adnoc Distribution's cash and cash equivalents stood at AED 2,785 Mn in 2Q22, while borrowings stood at AED 5,502 Mn in 2Q22. ADNOCDIST CAPEX more than doubled from AED 81 Mn in 2Q21 to AED 217 Mn in 2Q22 due rise in capex on service stations, industrial projects, and plant and machinery. The Company generated AED 1.96 Bn in free cash flow from operations supported by higher bottom line and a decline in working capital requirement. Liquidity remains strong at AED 5.5 Bn in the form of cash and cash equivalent and an unused credit facility of AED 2.8 Bn in 2Q22.

Target price and rating

We revise our rating to HOLD on ADNOC Distribution with a target price of AED 4.82. The Company is right on track to expand domestically as well as internationally and achieved 60% of its expansion target to add 60-80 stations this year. ADNOCDIST opened 12 new service stations domestically whereas, added 26 new service stations in KSA region in 1H22. The Company also renovated five stores in 1H22 adding additional offerings to consumers, which contributed positively to the Company's top line and further plans

Rating : HOLD

First Look Note – 2Q22

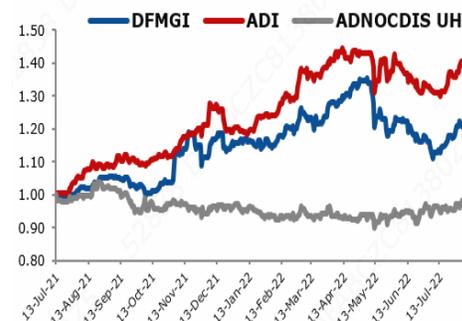
Sector: Oil & Gas

Recommendation

Current Price (10-Aug-22)	4.68
Target Price	4.82
Upside/Downside (%)	+3%

Stock Information

Market Cap (mm)	58,625.00
Paid Up Capital (mm)	1,000.00
52 Week High	4.74
52 Week Low	3.80
3M Avg. daily value (AED)	67,842,860



Financial Ratios

Dividend Yield (12m)	4.39
Dividend Pay-out (%)	116.76
Price-Earnings Ratio (x)	22.05
Price-to-Book Ratio (x)	16.59
Book Value (AED)	0.28
Return-on Equity (%)	76.99
Earning Per Share (AED)	0.21
Beta	0.54

Stock Performance

5 Days	8.56%
1 Months	10.35%
3 Months	14.95%
6 Months	13.83%
1 Year	7.08%
Month to Date (MTD)	9.58%
Quarter to Date (QTD)	11.14%
Year to Date (YTD)	9.84%

to revamp around 40 stores in 2022. Voyager Lubricants portfolio of Adnoc Distribution successfully expanded to 21 markets globally. The Company signed an agreement with Total Energies to acquire a 50% stake in TotalEnergies Marketing Egypt for a total consideration of AED 683 Mn along with an additional earn-out of AED 63.5 Mn subject to certain conditions. TotalEnergies Egypt is one of the top four fuel retailers in Egypt with 240 retail fuel stations and more than 100 convenience stores. The deal is expected to complete around 1Q23 subject to certain terms and regulatory approvals. The acquisition will fulfill the vision of becoming a leading fuel distribution player in the region. ADNOC is working to improve its cost efficiency by decreasing structural cost, staff optimization, outsourcing logistics, and energy efficiency through smart technology. Additionally, ADNOC DIST targets opex savings of AED 367 – 550 Mn over 2019-23. It has already achieved opex savings of AED 378 Mn over 2019-21 and further targets to achieve opex savings of AED 92 Mn over 2022-23. It plans to pay a minimum dividend of AED 2.6 Bn in FY2022 translating into a dividend yield of 4.8% at the current price. Based on our analysis, we assign a HOLD rating on the stock.

ADNOC Distribution - Relative Valuation

(at CMP) 10 August 2022	2018	2019	2020	2021	2022F
PE (x)	27.3	27.0	24.2	25.8	23.2
PB (x)	16.2	16.3	16.9	18.1	18.1
EV/EBITDA	20.9	20.7	19.3	20.0	16.6
Dividend Yield (%)	2.5%	4.1%	4.4%	4.4%	4.5%

FABS estimate & Co Data
ADNOC Distribution - P&L

AED mm	2Q21	1Q22	2Q22A	2Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	5,018	6,736	8,637	6,762	27.7%	72.1%	28.2%	20,921	27,804	32.9%
Direct costs	-3,797	-5,287	-6,921	-5,274	31.2%	82.3%	30.9%	-15,881	-21,779	37.1%
Gross profit	1,222	1,449	1,717	1,488	15.4%	40.5%	18.5%	5,040	6,025	19.5%
Other income	35	9	19	14	43.5%	-45.1%	116.2%	72	53	-26.4%
Distribution & admin. Exp.	-676	-733	-783	-811	-3.5%	15.8%	6.9%	-2,649	-3,097	16.9%
Impairment & others Expenses	-16	-7	-14	-7	114.5%	-7.6%	114.5%	-35	-41	17.9%
Operating profit	565	718	939	683	37.5%	66.1%	30.7%	2,429	2,940	21.0%
Depreciation & Amortisation	147	163	174	180	-3.2%	18.7%	7.0%	638	710	11.4%
EBITDA	712	881	1,113	863	29.0%	56.4%	26.3%	3,067	3,650	19.0%
Interest income	3	1	6	1	405.9%	141.2%	405.9%	8	20	154.9%
Interest expenses	-46	-49	-54	-49	10.4%	16.4%	10.4%	-185	-204	10.8%
Net profit	521	671	891	635	40.3%	70.9%	32.9%	2,252	2,755	22.3%

FABS estimate & Co Data
ADNOC Distribution - Margins

	2Q21	1Q22	2Q22A	YOY Ch	QOQ Ch	2021	2022F	Change
GPM	24.3%	21.5%	19.9%	-447	-163	24.1%	21.7%	-242
EBITDA Margin	14.2%	13.1%	12.9%	-130	-19	14.7%	13.1%	-153
OPM	11.3%	10.7%	10.9%	-39	21	11.6%	10.6%	-104
Net Profit margin	10.4%	10.0%	10.3%	-7	36	10.8%	9.9%	-86

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"