

ADNOC Distribution

Increase in corporate fuel volumes, higher margins, and reduction in operating costs boosting the Profitability

1Q21 Net profit lower than our estimate

Abu Dhabi National Oil Company for Distribution PJSC (ADNOCDIST) reported an increase by 57.9% YOY in Net Profit to AED631 mm in 1Q21, compared to AED400 mm in 1Q20, missing our estimate by 12.1%. This was mainly driven by a decline in Direct costs and Operating costs.

P&L highlights

ADNOCDIST's Revenue decreased by 13.3% YOY to AED4,282 mm in 1Q21 from AED4,939 mm in 1Q20. Whereas the Direct costs decreased by 22.8% YOY to AED2,957 mm compared to AED3,830 mm in 1Q20. Resultantly, Gross profit has increased by 19.4% YOY to AED1,326 mm in 1Q21 from AED1,110 mm in 1Q20, with a GPM equal to 31% compared to 22.5% in 1Q20. Moreover, Distribution & Admin expenses have decreased by 3.8% YOY to AED673 mm in 1Q21. Impairments & Other expenses decreased by 62.3% YOY to AED7 mm from AED19 mm in 1Q20, supporting the profit to increase. As a result, the Operating profit has increased by 59.4% YOY to AED672 mm in 1Q21, with an OPM equal to 15.7% from 8.5% in 1Q20. EBITDA has climbed by 46.8% YOY to AED817 mm from AED556 mm in 1Q20. ADNOCDIST's Interest income has significantly declined by 82.2% YOY to AED5 mm in 1Q21. Whereas the Interest expenses also decreased by 8.1% YOY to AED46 mm in 1Q21 compared to AED50 mm in 1Q20.

Balance sheet highlights

Total assets decreased by 20% YOY to AED12.3 bn in 1Q21 from AED15.4 bn in 1Q20. Whereas the Total liabilities declined by 24.3% YOY to AED9.5 bn from AED12.5 bn in 1Q20. In addition to a marginal decrease by 0.8% YOT in the Total equity to AED2.84 bn from AED2.86 bn in 1Q20.

Target price and rating

We maintain a HOLD rating on ADNOC Distribution with a revised target price of AED4.82 due to I) Healthy dividend yield (4.3%). II) Higher fuel margins in the retail fuel business and reduction in fuel cost following re-negotiation of the fuel supply contract. III) Cost-saving programs in place, which are likely to support the margin expansion (cost efficiency). IV) Expanding in Fuel business networks in UAE & Saudi Arabia. ADNOC Distribution is one of the world's leading energy producers and a primary catalyst for the growth and diversification of the Abu Dhabi economy. ADNOCDIST has expanded their work locally by opening 4 new stations and 6 new stores inside the UAE, two of them were in Dubai, and they are targeting to open 30 to 35 new stations and 40 to 60 new stores in the final year of 2021. On the other hand, ADNOCDIST is aiming to open 40 to 45 new stations in Saudi Arabia in 2021. The company has already signed an agreement to start with 35 stations in KSA. Furthermore, the number of ser-

Rating : HOLD

First Look Note – 1Q21

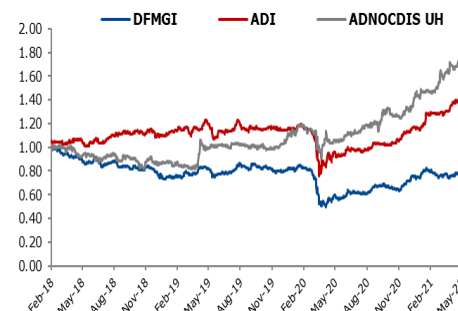
Sector: Energy

Recommendation

Current Price (19-May)	4.81
Target Price	4.82
Upside/(Downside) (%)	+0.20%

Stock Information

Market Cap (mm)	60,125.00
Paid Up Capital (mm)	1,000.00
52 Week High	5.01
52 Week Low	2.78
3M Avg. daily value (AED)	95,099,740



Financial Ratios

Dividend Yield (12m)	4.28
Dividend Pay-out (%)	105.74
Price-Earnings Ratio (x)	22.57
Price-to-Book Ratio (x)	21.16
Book Value (AED)	0.23
Return-on Equity (%)	93.39
Earning Per Share (AED)	0.21
Beta	0.61

Stock Performance

5 Days	1.26%
1 Months	8.09%
3 Months	20.55%
6 Months	39.42%
1 Year	72.40%
Month to Date (MTD)	6.18%
Quarter to Date (QTD)	7.13%
Year to Date (YTD)	28.27%

vice stations in the UAE increased by 15.4% YOY to 449 stations in Q1 2021, while there was no change in the number of the stations located in KSA (2 stations in Q1 2021). Whereas the number of convenience stores in the UAE has climbed by 23.4% YOY to 332 stores in Q1 2021. The Company showed a strong financial performance during the first quarter of 2021. Compared to last year levels, the fuel volume recovery recorded a total of 95%. ADNOCDIST has reported a strong growth rate in Gross profit and EBITDA. Retail Business gross profit (B2C) increased by 10.1% YOY to 252 million USD in Q1 2021, led by the inventory gains and higher margins. Whereas the Commercial Business (B2B) has also increased by 48.5% YOY to 109 million USD, driven by an increase in margins plus higher Corporate volumes. As a result, Gross profit showed a growth of 19.4% YOY to 361 million USD compared to 302 million USD in Q1 2020. The Gross profit has been split as 61% from Retail Fuel (B2C), 9% from Retail Non-Fuel (B2C), 20% from Commercial Corporate (B2B), and 10% from Commercial Aviation (B2B). Besides, the Retail EBITDA has increased by 28.3% YOY, due to a decline in OPEX and increase in margins. Whereas the Commercial EBITDA has significantly increased to 77 million USD from 38 million USD in the first quarter of 2020, due to an increase in margins, OPEX savings, and Corporate fuel volumes. Resultantly, the Total EBITDA has grown up by 46.8% YOY to 222 million USD in Q1 2021. Total EBITDA has been split as 65% from Retail Fuel and Non-fuel (B2C), 27% from the Commercial Corporate (B2B), 7% from the Commercial Aviation (B2B), and 1% was unallocated. In addition, Operating expenditure (OPEX) has declined by 6.5% YOY. While the Capital expenditure (CAPEX) recorded 49 million USD in Q1 2021. In the first quarter of 2021, ADNOCDIST's savings stood at 10 million USD besides that the Company achieved a strong Balance sheet and liquidity. ADNOCDIST's free cash flow indicates strong growth by 56.7% YOY to 227 million USD in Q1 2021. While the Net debt has significantly increased to 976 million USD compared to 70 million USD in Q1 2020. Moreover, the Return on Capital Employed (ROCE) has climbed by 690 bps to 30.6% in Q1 2021. In addition, the Return on Equity has significantly increased to 93.7% in Q1 2021 from 71.2% in Q1 2020.

On 14th February 2021, the Board further approved the amendments to the dividend policy to enhance the visibility of shareholder return, The company's 2021 dividend policy is set to continue with a dividend of AED 2.57 billion, with a minimum of AED 2.57 billion dividend for 2022. Dividend policy for the years thereafter remains unchanged at a dividend equal to at least 75% of distributable profits. In April 2021, ADNOCDIST has paid a cash dividend of 350 million USD for the second half of 2020, that leads to a dividend pay of 700 million USD for 2020. ADNOCDIST's dividend policy sets 700 million USD for the FY 2021, that helps in offering an attractive yield of 4.3%.

After the free float doubled to 20% in September 2020, the share liquidity showed a significant increase. Total fuel volumes have decreased by 3.7% YOY to 2,220 ml in Q1 2021. Fuel and Non-fuel transactions have decreased by 7.1% and 17.5% YOY, respectively. ADNOCDIST's average Gross basket size rose by 2.2% YOY to 7.5 (USD) in the first quarter of 2021 compared to 7.4 (USD) in Q1 2020. We expect Earnings Per Share (EPS) for 2021F to be at AED0.212 (2020: AED0.195). The Return on Equity (ROE) increased to 93.7% as of 1Q21 (2020: 74.7%). Based on the above and after reviewing our valuation methods (*Discount Cash Flow, Relative valuation (EV/EBITDA), Relative valuation (P/E) and Dividend Discount*), Hence, we revised our target price to AED4.82 with a HOLD rating.

ADNOC Distribution - Relative Valuation

	2017	2018	2019	2020F	2021F
PE (X)	33.32	28.28	27.11	24.72	22.65
PB (X)	21.11	16.82	16.88	17.29	16.29
Dividend yield (%)	3.6%	2.4%	4.0%	4.3%	4.3%

FABS estimate and Co data

ADNOC Distribution - P&L

AED mm	1Q20	4Q20	1Q21	1Q21F	Variance	YOY Ch.	QOQ Ch.	2020	2021F	YoY Ch
Revenue	4,939	4,146	4,282	4,229	1.3%	-13.3%	3.3%	16,132	18,345	13.7%
Direct costs	-3,830	-2,535	-2,957	-2,791	5.9%	-22.8%	16.6%	-10,349	-12,660	22.3%
Gross profit	1,110	1,611	1,326	1,438	-7.8%	19.4%	-17.7%	5,783	5,685	-1.7%
Other income	30	25	26	28	-4.6%	-13.7%	6.2%	114	128	12.7%
Distribution & admin. Exp.	-700	-730	-673	-701	-3.9%	-3.8%	-7.8%	-3,033	-2,881	-5.0%
Impairment & others Expenses	-19	-3	-7	-11	-33.6%	-62.3%	NM	-267	-120	-55.0%
Operating profit	421	902	672	754	-10.9%	59.4%	-25.6%	2,597	2,812	8.3%
Depreciation & Amortisation	135	153	145	148	-2.0%	7.7%	-5.0%	592	612	3.4%
EBITDA	556	1,055	817	902	-9.4%	46.8%	-22.6%	3,189	3,425	7.4%
Interest income	28	5	5	8	-37.6%	-82.2%	0.5%	48	31	-35.8%
Interest expenses	-50	-56	-46	-50	-8.4%	-8.1%	-18.6%	-212	-188	-11.4%
Net profit	400	851	631	712	-11.4%	57.9%	-25.9%	2,432	2,655	9.2%

FABS estimate & Co Data
ADNOC-Margins

AED mm	1Q20	4Q20	1Q21	YOY Ch.	QOQ Ch.	2020	2021F	YOY Ch.
Gross profit margin	22.5%	38.9%	31.0%	849	-790	35.8%	31.0%	-486
Operating profit margin	8.5%	21.8%	15.7%	715	-609	16.1%	15.3%	-77
Net Profit margin	8.1%	20.5%	14.7%	664	-580	15.1%	14.5%	-60

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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