

Abu Dhabi Ports Company PJSC

Organic growth and inorganic expansion boosted profitability

3Q22 Net profit marginally lower than our estimates

AD Ports Group (ADPORTS /The Company) reported a significant increase in net profit from AED 187 Mn in 3Q21 to AED 314 Mn in 3Q22, slightly lower than our estimate of AED 324 Mn. This is primarily driven by the strong revenue growth in the Maritime and Digital Segment with stable growth in Economic Cities & Free Zones (EC&FZ) segment. Maritime revenue rose significantly from AED 133 Mn in 3Q21 to AED 676 Mn in 3Q22 led by an increase in contribution from new business segments, service offerings, and completion of recent acquisitions.

P&L highlights

ADPORTS revenue increased 52.8% YOY to AED 1,466 Mn led by robust growth in the Maritime and Logistics segment with stable growth from the EC&FZ segment. Revenue from Maritime Services expanded significantly from AED 133 Mn in 3Q21 to AED 676 Mn in 3Q22, owing mostly to new business and service offerings supported by the completion of acquisitions such as Divetech, ASCL, SAFEEN Surveys, and Subsea Services and Transmar, as well as higher freight rates. Ports Cluster revenue grew marginally 0.1% YOY to AED 279 Mn in 3Q22. Ports Cluster container volumes increased 31% YOY with capacity utilization of 54% in 3Q22 while, general cargo volume fell 24% YOY due to unfavorable base effect which included a one-time sand supply contract in 3Q21. Excluding, one-time contract general cargo volumes fell 5% YOY due to the planned completion of certain external projects. Excluding the effect of a one-off sand supply contract in FY2021, the Ports Cluster revenue rose 18% YOY in 3Q22. Digital Cluster revenue increased significantly 47.6% YOY to AED 90 Mn in 3Q22. EC&FZ revenue fell 3.2% YOY to AED 369 Mn in 3Q22 despite record land leases completed during 9M22 with robust demand for warehouse leases. Revenue from the logistics cluster declined 14.5% YOY to AED 132 Mn in 3Q22. Direct Costs rose significantly from AED 550 Mn in 3Q21 to AED 815 Mn in 3Q22 mainly due to the higher revenue. As a result, gross profit rose 47.0% YOY to AED 651 Mn in 3Q22, with a marginal decrease in gross profit margin to 44.4% in 3Q22 as compared to 44.6% in 3Q21. G&A expenses rose 32.3% YOY to AED 228 Mn in 3Q22. Impairment of trade receivables decreased from AED 28 Mn in 3Q21 to AED 16 Mn in 3Q22. Selling and marketing expenses rose significantly from AED 11 Mn in 3Q21 to AED 25 Mn in 3Q22. As a result, EBITDA strongly rose from AED 391 Mn in 3Q21 to AED 594 Mn with a slight decrease in EBITDA margin from 40.8% in 3Q21 to 40.5% in 3Q22. The Company recorded growth in EBITDA margin across majority of the segment except, EC&FZ and Logistics Segment. EC&FZ margin declined due to increase in provisions for expected credit loss offset growth in topline. Total finance cost increased from AED 84 Mn in 3Q21 to AED 97 Mn in 3Q22 due to increase in borrowing. Share of profit from joint venture and associates grew from a loss of AED 20 in 3Q21 to AED 47 Mn in 3Q22 due to addition of profit from Aramex and boost in bottom line of Zones Infrastructure Fund.

Rating : BUY

First Look Note – 3Q22

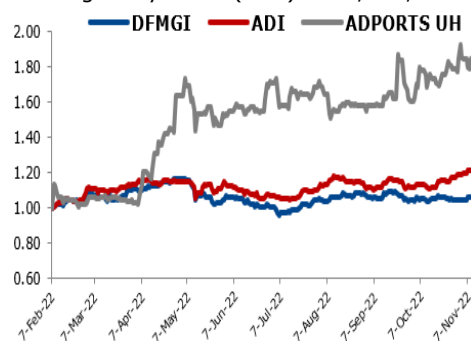
Sector: Industrials

Recommendation

Current Price (17-Nov-22)	5.71
Target Price (AED)	7.00
Upside/Downside (%)	+22.6%

Stock Information

Market Cap (mm)	29,063.90
Shares Outstanding (mm)	3,840.00
52 Week High	6.87
52 Week Low	3.22
3M Avg. daily value (AED)	51,805,270



Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	23.7
Price-to-Book Ratio (x)	1.52
Book Value (AED)	3.75
Return-on Equity (%)	9.21
Earning Per Share (AED)	0.22
Beta (1 Year)	0.811

Stock Performance

5 Days	-3.87%
1 Months	4.96%
3 Months	12.85%
6 Months	15.82%
1 Year	-
Month to Date (MTD)	0.53%
Quarter to Date (QTD)	10.87%
Year to Date (YTD)	-

Balance Sheet highlights

ADPORTS total debt grew from AED 3,585 Mn in 2Q22 to AED 4,139 Mn in 3Q22. Including the amount due to project companies the debt rose from AED 6.0 Bn in 3Q21 to AED 6.6 Bn in 3Q22. Net debt increased from AED 1.8 Bn in 2Q22 to AED 3.4 Bn in 3Q22. Net debt to EBITDA rose from 0.97x in 2Q22 to 1.6x in 3Q22. Cash and cash equivalents stood at AED 717 Mn in 3Q22. Cash flow from operation rose significantly from AED 595 Mn in 9M21 to AED 1.3 Bn in 3Q22 with cash conversion of 76% in 9M22 as compared to 56% in 9M21. Capital expenditure stood at AED 1,629 Mn in 3Q22 and AED 4,205 Mn during 9M22 over the Maritime cluster ship fleet, the Khalifa Port Extension and Etihad Rail connection, the EC&FZ Cluster's new warehouses, Specialized industrial clusters and the expansion of vessel fleet across all entities. Thus, free cash flow to the firm remained negative at AED 3.4 Bn in 9M22 owing to the organic CAPEX and acquisition.

Target price and rating

We maintain our BUY rating on AD Ports with a revised target price of AED 7.00. The change in the target price is mainly after incorporating recent acquisitions made by the company. ADPORTS derives almost 75% of the total revenue from long-term and sticky business. It owns an integrated business model with a reliable source of recurring revenue. The Company is scaling up its business by making value-accretive acquisitions to build its supply chain density along trade routes. The acquisition is along the critical maritime trade routes of the UAE. It announced five acquisitions during 9M22 with a total investment of more than AED 3.7 Bn. The recent 70% acquisition of International Associated Cargo Carrier (IACC) enhances ADPORTS feeder business and connectivity in the Red Sea region. In November 2022, the company is planning to acquire an 80% stake in Global Feeder Shipping (GFS), the third-largest feeder shipping company globally and the largest in the Middle East region. In addition, AD Ports will become the largest pure feeder operator in the Middle East region and the third largest globally by container capacity of around 100K TEUs after this acquisition. The business is expected to be EPS accretive over the full year in FY2023. ADPORTS container volume is expected to benefit as partner shipping lines will shift regional volumes gradually to Khalifa Port as per the contractual obligation. EC&FZ topline is expected to rise due to the addition of 250 sq. km warehouse space in 4Q22. The Company's net leverage financial position provides headroom to raise additional funding for organic and inorganic growth opportunities. Considering all these factors, we retain our BUY rating on the stock.

AD PORTS - Relative valuation

(at CMP)	2020	2021	2022F
PE(X)	NA	25.9	23.6
PB(X)	NA	2.1	1.6
EV/EBITDA	NA	19.8	21.9

FABS Estimates & Co Data

AD PORTS - P&L

AED mm	3Q21	2Q22	3Q22	3Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Revenues	959	1,242	1,466	1,246	17.7%	52.8%	18.1%	3,910	4,973	27.2%
Government grants	33	0	0	0	NA	NA	NA	0	0	NA
Direct Cost	-550	-571	-815	-567	43.8%	48.3%	42.8%	-2,011	-2,499	24.3%
Gross Profit	443	671	651	679	-4.1%	47.0%	-3.0%	1,899	2,474	30.3%
G&A expense	-172	-246	-228	-250	-9.0%	32.3%	-7.6%	-684	-875	28.0%
Impair of trade receivables	28	-67	-16	-39	-59.9%	-156.0%	-76.7%	-21	-108	427.3%
S&M Expenses	-11	-14	-25	-16	62.9%	135.5%	86.3%	-65	-70	7.1%
Impair of invst property	0	0	0	0	NA	NA	NA	26	0	-100.0%
Other income	5	0	2	0	NA	-56.5%	3841.7%	10	6	-39.2%
EBITDA	391	532	594	522	13.7%	51.8%	11.6%	1,601	2,199	37.3%
EBIT	293	344	385	375	2.7%	31.2%	11.8%	1,165	1,427	22.4%
Finance cost	-84	-102	-100	-105	-5.2%	18.6%	-2.6%	-342	-409	19.6%
Financial income	0	9	3	9	-67.7%	1934.3%	-68.6%	1	15	2292.3%
Gain on disposal assets	0	0	0	0	NA	NA	-100.0%	0	39	NA
Share of profit from associate	0	12	10	12	-16.1%	NA	-16.1%	0	45	NA
Share of profit from JVs	-20	36	37	35	5.4%	-281.3%	1.9%	29	146	400.0%
Profit for the year	189	300	335	326	3.0%	77.2%	11.8%	853	1,264	48.1%
Non-controlling interest	2	2	20	2	903.4%	996.0%	830.8%	8	32	312.9%
Net Profit	187	298	314	324	-2.9%	67.8%	5.6%	846	1,232	45.7%

AD Ports - Margins

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	44.6%	54.0%	44.4%	-22	-963	48.6%	49.7%	117
EBITDA	40.8%	42.8%	40.5%	-28	-235	40.9%	44.2%	326
Operating profit	30.6%	27.7%	26.3%	-432	-148	29.8%	28.7%	-111
Net Profit	19.5%	24.0%	21.4%	191	-254	21.6%	24.8%	314

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%

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