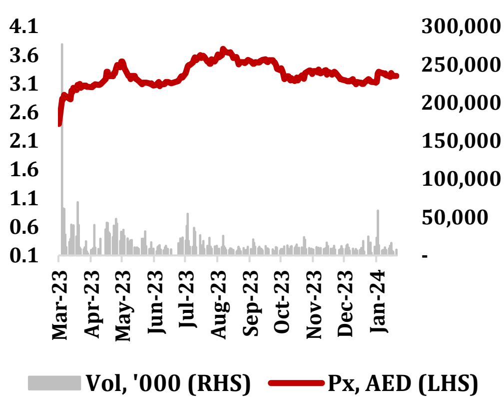
ADNOC Gas (ADNOCGAS)

Target Price: AED 3.7
Upside: 14.0%

Recommendation	**Accumulate**
Bloomberg Ticker	ADNOCGAS UH
Current Market Price (AED)	3.21
52wk High / Low (AED)	3.710/2.770
12m Average Vol. (000)	10,604.7
Mkt. Cap. (USD/AED mn)	67,086/246,372
Shares Outstanding (mn)	76,751.42
Free Float (%)	3%
3m Avg Daily Turnover (AED'000)	35,091.2
6m Avg Daily Turnover (AED'000)	35,084.2
P/E'23e (x)	14.7 x
EV/EBITDA'23e (x)	9.7 x
Dividend Yield '23e (%)	4.8%
Price Performance:	
1 month (%)	3.9%
3 month (%)	1.6%
12 month (%)	NA

Source: Bloomberg, values as of 29 January 2024

Price-Volume Performance



Source: Bloomberg

Neetika Gupta
Head of Research
neetika@u-capital.net
Tel: +968 24 94 90 36

- **ADNOC Gas benefits from UAE Government's planned investments of $17bn aiming towards production of 1.5 bscfd of gas by 2030 to help UAE meet its energy needs and play a leading role in the global natural gas market**
- **Procures feedstock directly from parent thereby mitigating supply risk and bears very limited upstream development risk**
- **Low debt-equity profile with attractive yield and payout**

We initiate coverage on ADNOC Gas (ADNOCGAS: Abu Dhabi) and assign an **Accumulate** rating to the stock, with a target price of **AED 3.7.** This reflects 14.0% potential upside from the current levels. Since its listing on 13th March 2023 the share price rose 56% reaching an all- time high of AED 3.710. But since August 2023, the share price has been declining and have declined 16% from its high as of Jan 29th, 2024. We anticipate that the stock to bounce back considering the company's new EPC contracts and LNG agreements in key markets, thereby fostering expansion for the business. The stock is currently trading at a P/E of 14.7x based on our 2024 estimates, compared to its historical average 1-year forward P/E of 15.9x.

Investment Thesis

ADNOC Gas is a global leader in integrated gas processing, offering diverse products sustainably.

- ADNOC Gas attained its highest quarterly sales volume and secured crucial EPC contracts and LNG agreements, resulting in an upward revision of its guidance for FY'23e.
- Revenue is expected to rise amid new contracts and agreements. Also, the growth is expected to be driven by an improved pricing environment post FY'23e.
- Feedstock supply risk is mitigated as it procures feedstock from its parent company. Furthermore, its operations across the value chain contributes to increased margins.
- ADNOC gas plans to allocate $14bn in expenditure over FY'23-28e, with peak capital expenditures expected between FY'25-26e which will potentially drive sales and margins.
- ADNOC gas maintains a low debt-to-equity and favorable net debt-to-EBITDA, highlighting its solid financial position and prudent leverage and is expected to deliver an attractive dividend yield and payout.

Key indicators

Year	FY21	FY22	FY23e	FY24e	FY25e
Revenues (USD mn)	17,038	17,857	17,992	19,126	20,142
Gross profit (USD mn)	7,237	7,329	6,749	6,791	7,152
EBITDA (USD mn)	5,852	6,194	6,471	6,682	7,037
Operating profit (USD mn)	4,694	5,184	5,419	5,655	5,925
Net income (USD mn)	3,602	4,173	4,359	4,572	4,754
EPS (USD)	0.06	0.00	0.06	0.06	0.06
EPS (AED)	0.22	0.00	0.21	0.22	0.23
P/E	NA	NA	15.4x	14.7x	14.1x
EV/EBITDA	NA	NA	10.0x	9.7x	9.2x
Dividend yield	0.0%	0.0%	4.8%	4.8%	5.1%

Source: Company Reports, U-Capital Research **P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price*

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

ADNOC Gas

Contents

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Investment Thesis

Company positioning:

- ADNOC Gas has a gas processing capacity exceeding 10 bscfd and a liquid processing capacity of 29 mtpa, the highest in terms of its global peers.
- ADNOC Gas operates across the entire gas value chain, from the procurement of feedstock to distribution, providing opportunities for enhanced profitability, competitiveness, and operational efficiency.
- ADNOC Gas extends its global presence, with significant markets not only in the UAE but also across Asia and the MENA region.

Competitive positioning:

- ADNOC Gas secures its feedstock through 25-year supply agreements signed with its parent company, ADNOC, effective from January 1st, 2023. Consequently, the company faces minimal risks related to feedstock supply and cost of goods sold (COGS). Additionally, ADNOC Gas bears very limited upstream development risk.
- As the key provider of natural gas in the UAE, accounting for over 60% of its gas needs, ADNOC Gas enjoys a dominant position in the domestic market. This likely ensures a reliable revenue stream for the company.

Key Risk:

- ADNOC Gas' revenue and profitability may be impacted by the substantial fluctuations in natural gas prices, which can result from geopolitical tensions, global economic conditions, and supply-demand dynamics.
- ADNOC Gas manages an infrastructure network comprising of pipelines, processing facilities, and LNG terminals. Accidents, technical failures, or cyberattacks targeting these assets could potentially disrupt operations, resulting in production losses and financial harm.
- Geopolitical events, such as sanctions or regional conflicts have the potential to interrupt logistics, consequently impacting revenues and profits.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

ADNOC Gas: A giant in gas processing and distribution

ADNOC Gas, a gas processing and transportation company headquartered in the UAE, was listed on the Abu Dhabi Securities Exchange (ADX) on March 13, 2023. Formed as part of the consolidation of the operations of ADNOC Gas Processing, ADNOC LNG, and ADNOC Industrial Gas, the company commenced operations on January 1, 2023. ADNOC Gas stands as a prominent global entity in gas processing, aiming to expand its operations to leverage growth opportunities in the UAE's petrochemical, industrial, and international LNG markets.

ADNOC Gas functions throughout the entire gas value chain, starting with the reception of raw gas feedstock from parent ADNOC. The company undertakes the processing of the gas, yielding a diverse product mix comprising methane, ethane, propane, butane, paraffinic naphtha, condensate, and Sulphur. Furthermore, through its liquefaction operations, the company generates liquefied natural gas (LNG) and LPG. ADNOC Gas plays a crucial role in meeting 60% of the UAE's sales gas requirements and serves a varied customer base spanning over 20 countries.

ADNOC Gas also operates a gas pipeline network in UAE which it established in 1978. This extensive pipeline system facilitates the distribution of gas across the UAE, allowing the group to supply gas to customers in Abu Dhabi, Dubai, and the Northern Emirates. This strategic network plays a pivotal role in meeting over 60% of the UAE's gas needs.

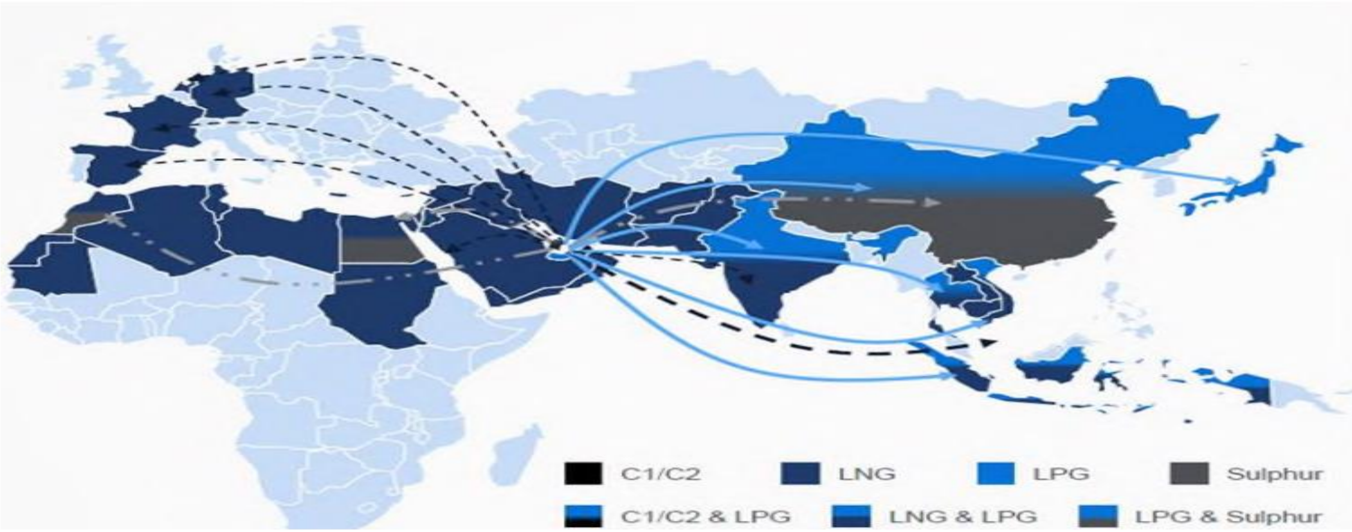
Processed gas utilization along with key end markets.

Gas Product Mix	Used as	Key end market
Methane (C1)	Used as a feedstock for the production of chemicals, as a fuel for power generation and other industrial purposes or for re-injection into reservoirs	UAE
Ethane (C2)	Used as a as a feedstock for the production of chemicals, including ethylene, propylene, polyethylene and polypropylene, which are used in a variety of products such as plastics, resins and synthetic fibres	UAE
Liquefied Petroleum Gas (C3 & C4)	Used as a fuel for cooking, heating and transportation, and is also used as a feedstock for the production of chemicals	China, India, Indonesia, Japan, Thailand, UAE, Vietnam, Bangladesh and other
Naphtha	Used as a feedstock for the production of chemicals, including ethylene and propylene, which are used in a variety of products such as plastics, resins and synthetic fibres	China, India, Japan, Thailand, Singapore, and Vietnam
Sulphur	Used as a feedstock for the production of chemicals, including sulphuric acid, which is used in a variety of industries such as fertilisers, detergents and metals processing	China, Jordan, Morocco, and others
Liquefied Natural Gas	Used as a fuel for power generation and other industrial purposes, and is also used as a feedstock for the production of chemicals	India, MENA, Southeast Asia and more recently in Europe
Condensate	Used as a feedstock for the production of chemicals and as a feedstock for the production of gasoline and other fuels in refineries	UAE
Industrial Gas	End customers for industrial gases include a range of industries such as steelmaking, food and beverage processing, pharmaceuticals andelectronics	UAE and other

Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Key End Markets



Source: Company Reports, U Capital Research

ADNOC gas revenue and sales volume segmentation

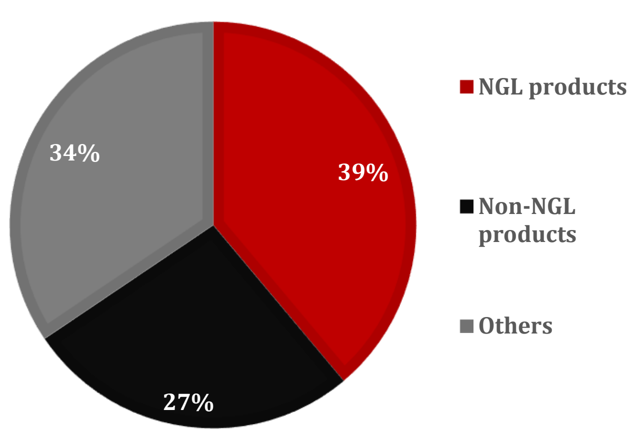
ADNOC Gas categorizes its revenue based on product types, namely:

- **NGL (Natural Gas Liquids):** NGL products encompass Propane, Butane, and Paraffinic Naphtha, while
- **Non-NGL products**: Consist of Natural Gas, Ethane, and Sulphur.
- **Others:** Includes local condensate sales.

In terms of sales volume, ADNOC Gas divides its volume into:

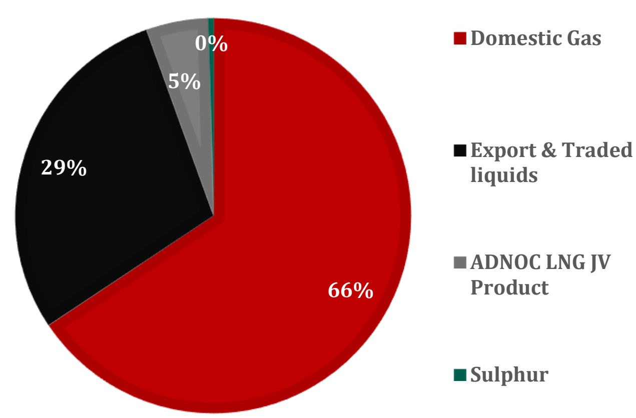
- **Domestic gas:** Covers sales gas, ethane, and reinjection gas.
- **Export and traded liquids:** Involves C+ (propane, butane, paraffinic naphtha) and condensate.
- **ADNOC LNG JV product:** Sales volumes of LNG are represented proportionately based on the Group's 70% ownership interest in ALNG.
- **Sulphur**.

Revenue by product (Q3'23)



Source: Company Reports, U Capital Research

Sales Volume (Q3'23)



Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

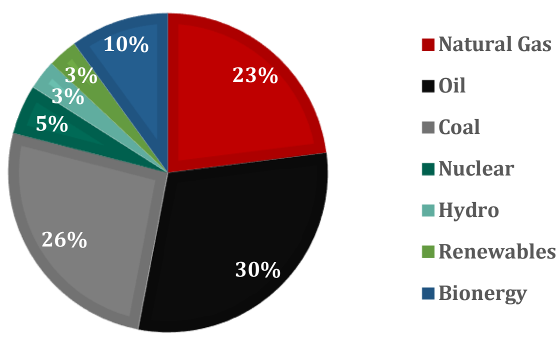
Global energy outlook 2050

According to the GECF Secretariat report, global primary energy demand is projected to increase by 22%, reaching 17,865 Mtoe by 2050. Most of this growth will originate from the rapidly expanding economies of Asia Pacific and Africa. The ongoing energy transition is expected to lead to a more diversified global energy mix, with the swift expansion of renewables playing a significant role. Nevertheless, fossil fuels, including natural gas, oil, and coal, will continue to play a predominant role, constituting 63% of the energy mix in 2050.

Natural gas is expected to increase its share to 26% by 2050. The demand for natural gas is forecasted to rise by 36%, from 4,025 bcm in 2021 to 5,460 bcm in 2050, with no peak expected. Key drivers for this growth include policies aimed at improving air quality and transitioning from coal and oil to gas. Emerging technologies like blue hydrogen and CCS/CCUS are expected to support a sustained demand trend.

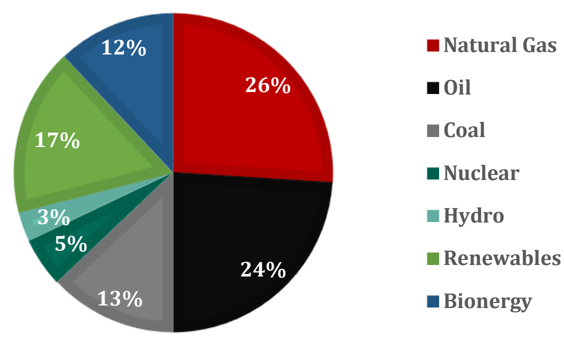
The bulk of future gas demand growth is anticipated in Asia Pacific, the Middle East, and Africa. However, Europe is an exception due to the implementation of the REPowerEU plan, resulting in a long-term contraction of demand in the region.

Global primary energy demand 2021



Source: GECF Secretariat based on data from the GECF GGM

Global primary energy demand 2050

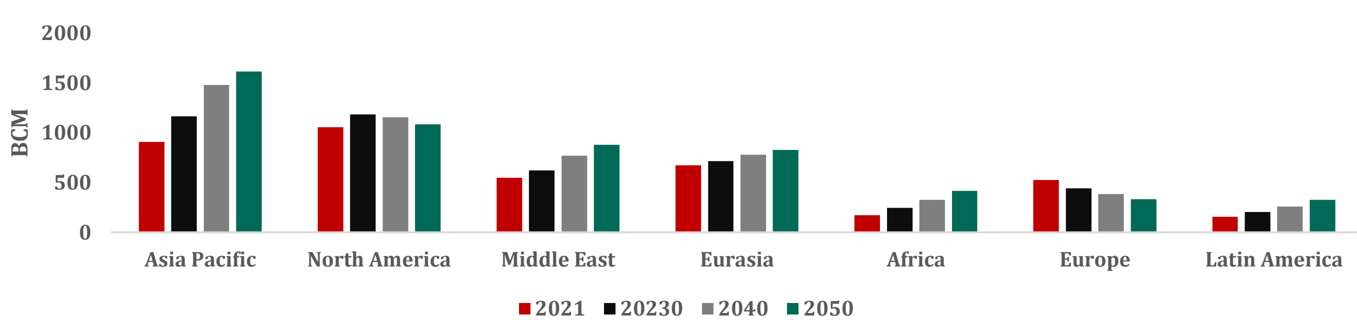


Source: GECF Secretariat based on data from the GECF GGM

Dynamic shifts in global natural gas demand

The Asia Pacific region is emerging as the primary driver of global natural gas demand, contributing to 50% of the overall increase. Projections indicate a substantial 78% growth, reaching 1,620 bcm by 2050. This surge is underpinned by the region's commitment to air quality goals, reduced coal dependency, and comprehensive energy transition strategies, particularly evident in China, India, and Southeast Asia

Global Natural gas demand by region



Source: GECF Secretariat based on data from the GECF GGM

The Middle East is poised for a 60% increase in gas demand, accounting for 23% of global growth and reaching 870 bcm by 2050. This growth is attributed to an expanding domestic gas supply, the displacement of oil products, and

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

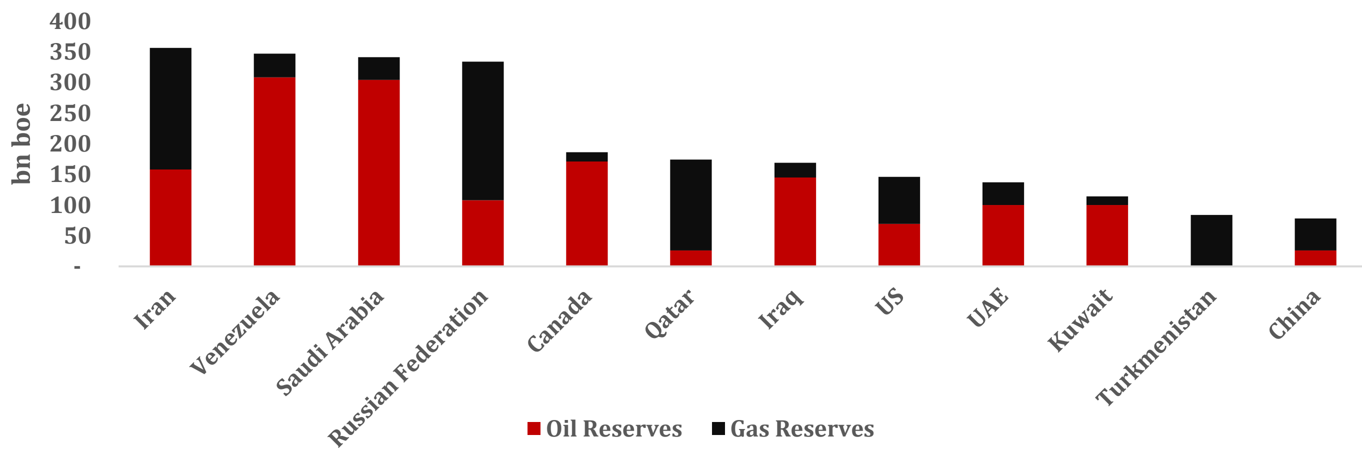
a strong push for renewables, including state-funded blue hydrogen projects. In Africa, natural gas demand is set to grow by an impressive 152% to 415 bcm by 2050, propelled by economic growth, urbanization, and escalating electricity needs.

UAE's strategic gas reserves: A roadmap to energy independence by 2030

According to reports from OPEC and Worldometers, as of 2023, the UAE holds approximately 8.21 trillion cubic meters of proven natural gas reserves, ranking it among the top 10 globally, with projections suggesting these reserves could last for about 82 years based on current consumption. Despite importing gas and relying on external sources, such as Qatar, the UAE is committed to achieving net self-sufficiency in gas by 2030.

To realize this goal, substantial investments are being made in exploring and developing new natural gas fields, particularly offshore reserves. Utilizing advanced techniques like hydraulic fracturing and horizontal drilling, the UAE aims to maximize extraction from existing fields. This strategic approach is expected to not only meet domestic needs but also contribute significantly to global gas demand, signaling a potential increase in production levels for the UAE.

Proven Oil & Gas reserves



Source: BP statistical review 2022, U Capital Research

Middle East gas production: UAE eyes self-sufficiency

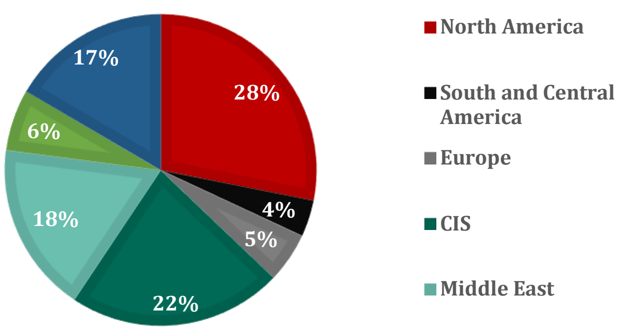
As per the 2022 BP Statistical Report, the Middle East accounted for around 18% of the worldwide natural gas production. Within the region, a total of 714.9 bn cubic meters of natural gas was produced out of the global production of 4,036.9 bn cubic meters. The United Arab Emirates (UAE) specifically contributed 57 bn cubic meters, constituting approximately 8% of the overall natural gas production in the Middle East.

UAE is currently consuming 69.4bn cubic meters of gas per year, exceeding its domestic production and necessitating imports. Despite this shortfall, the UAE has set goals to achieve net self-sufficiency in gas by 2030. To achieve this, ADNOC has awarded contracts totaling $17bn for a gas project. This project aims to operate with net zero carbon dioxide emissions, making it the world's first of its kind.

The two engineering, procurement, and construction (EPC) contracts were signed for the Hail and Ghasha Offshore Development project which is expected to produce 1.5bn standard cubic feet per day (bscfd) of gas by 2030. These investments will likely help UAE increase its gas production, boosting its self-sufficiency and reducing reliance on imports.

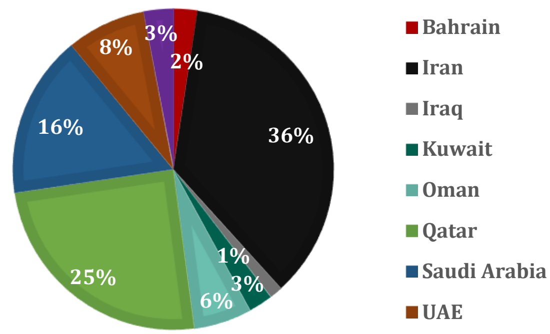
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Natural gas production globally



Source: BP statistical review 2022, U Capital Research

Natural gas production Middle East



Source: BP statistical review 2022, U Capital Research

ADNOC's competitive position in UAE markets

ADNOC holds a very strong competitive position within the UAE's oil and gas landscape. ADNOC controls roughly 60% of the UAE's crude oil production and 90% of its gas production, making it the dominant player in the industry. This translates to significant control over resources and pricing.

ADNOC operates across the entire oil and gas value chain, from exploration and production to refining, marketing, and trading. This vertical integration gives them operational efficiencies and cost advantages. As a state-owned company, ADNOC enjoys access to substantial financial resources from the UAE government, enabling them to invest in exploration, technology, and infrastructure.

ADNOC Gas buys feedstock from parent ADNOC under 25-year supply agreements it signed Jan 1st, 2023 - it hence has low feedstock supply and COGS risks

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Investment Rationale

ADNOC gas eyes long-term expansion with new deals and capex plans

ADNOC Gas has observed a 4% increase in sales volume, reaching 946 MMBTU in Q3'23, surpassing Q3'22. This growth is attributed to the exceptional reliability of 98.6% across their operations. Q3'23 marks the highest quarterly sales volume achieved since Q1'22, driven by robust domestic demand, reduced scheduled shutdowns across facilities, and a substantial increase in domestic gas sales and LPG.

Looking ahead, ADNOC Gas has recently been awarded EPC contracts for key growth projects MERAM and Estidama, with respective contractual values of \$3.6bn and \$1.3bn. Additionally, the company has signed LNG agreements with Indian Oil, JAPEX, Petrochina, and JERA, bringing the total value of LNG supply deals since ADNOC Gas' listing to between \$9 bn and \$12bn. Considering these growth initiatives, ADNOC Gas has revised its FY'23e guidance for volumes.

Growth projects over the next 5 years.

	Highlights	Impact	Expected Completion	
A ESTIDAMA	• Extend market reach (new customer in Northern Emirates) • Debottleneck existing network and enable LNG growth	c.300km of pipeline	Q3 2025	2
B IGD-E2	• Longevity and growth • De-couple oil from LNG production • Debottlenecking of compression capacity	370 MMSCFD	Q3 2024	3
C MERAM	• Maximize Ethane recovery to meet the future Ethane demand • Secure supply of Ethane in line with Borouge 4 demand (2 MTPA sustainable)	2.2MTPA of Ethane and 1.8MTPA NGLs	Q4 2025	2 3
D Habshan CO2 Recovery & Injection *1	• Significant CO2 emission reduction (8% of ADNOC Gas) • Enhance oil recovery and monetise carbon credit	1.5MTPA reduction in CO2 + Enhanced Oil Recovery	Q1 2026	
E Bab Gas Cap	• High IRR greenfield gas processing plant to process cost advantaged and rich gas • Contributes to development of LNG and Taziz Petrochemical expansion	1,855 MMSCFD	2027 onwards	1 2 3
F Project 5.0	• Modifications in Das Island, Asab, Bu Hasa, Habshan & Habshan 5 • Accommodate additional associated gas with oil production growing to 5.0 MMBOPD	>1,000 MMSCFD	2027 onwards	1 2 3
G LNG 2.0	• Electrification of LNG trains to reduce GHG emissions • Debottlenecking LNG trains • Ethane extraction and export	1.2 MTPA of Ethane, 0.9 MTPA of LNG, and 1.1 MTPA of C3+	2028	2 3
H LNG Project	• Monetize C1 and enable the downstream ambitious industrialization plans • Clean fuel to global market targeting a near net zero CO2 emission	9.6MTPA of LNG	2028	3

Ruwais LNG to be developed by ADNOC outside ADNOC Gas perimeter. ADNOC intends to contribute LNG to the perimeter at or close to commissioning. Value to be determined at time of contribution.

Gas Processing Projects | LNG Projects | 1 Upstream Supply Growth | 2 Processing Capacity Upgrade | 3 Product Mix Enhancement

Source: Company Reports, U Capital Research

ADNOC Gas is focusing on key growth initiatives as outlined in its approved budget and business plan. The group intends to earmark \$14bn in expenditures over the period from FY'23 to FY'28, with the highest capital expenditures anticipated between FY'25 and FY'26. Additionally, ADNOC Gas plans to channel \$2bn into its LNG joint venture during the same timeframe, with the peak capital expenditure expected in FY'25-26. The group also targets annual maintenance capital expenditures of \$300-400mn and \$50mn for the LNG joint venture.

Favorable pricing and strategic initiatives drive revenue growth

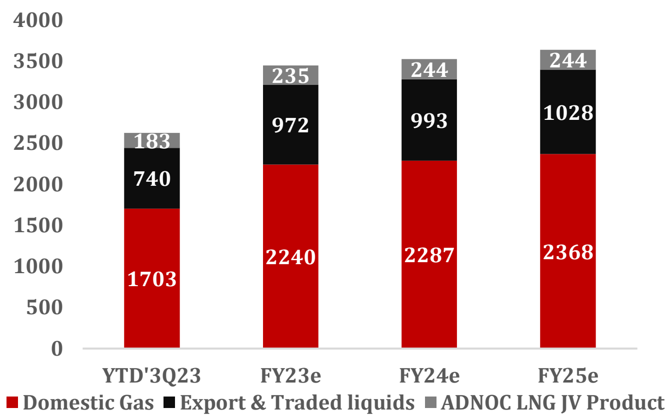
In Q3'23, revenues saw a robust increase to \$5.8 bn, marking an 8% upswing compared to Q2'23. This growth is attributed to a favorable pricing environment and increased sales volumes. We anticipate this positive trajectory to persist for FY'23.

With the implementation of diverse growth initiatives in FY'23, along with recently secured EPC contracts and LNG agreements, we anticipate a 3% CAGR in production volume from FY'23-25e, reaching 3,640 TBTU by FY'25e. The expansion in volumes, driven by new contracts and capex plans, is expected to have a positive impact on revenues.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

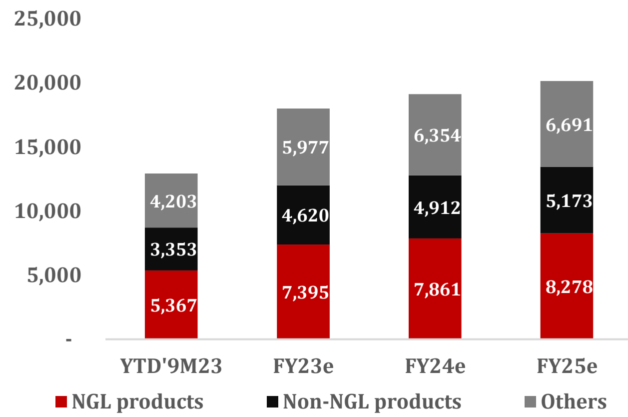
Furthermore, the advantageous pricing environment is anticipated to endure beyond FY'23e, contributing to a gradual revenue increase, targeting $20.1 bn by FY'25 and achieving a CAGR of 6%.

Production Volumes



Source: Company Reports, U Capital Research

Revenue



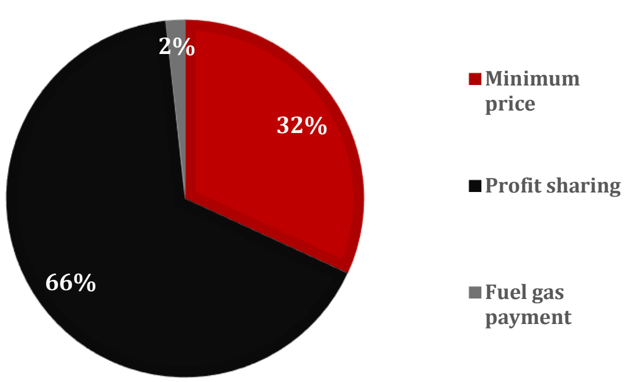
Source: Company Reports, U Capital Research

Stability expected in feedstock cost post FY'23e

ADNOC Gas purchases feedstock from its parent company, ADNOC, through 25-year supply agreements signed on January 1st, 2023. Consequently, it faces low feedstock supply and cost of goods sold (COGS) risks. Feedstock costs are categorized into minimum price, profit sharing, and fuel gas payment. The minimum price constitutes 32% of the total cost, while profit-sharing accounts for 66%. Gas prices experienced a rebound in the latter half of 2023, driven by increased consumption and lower-than-expected production.

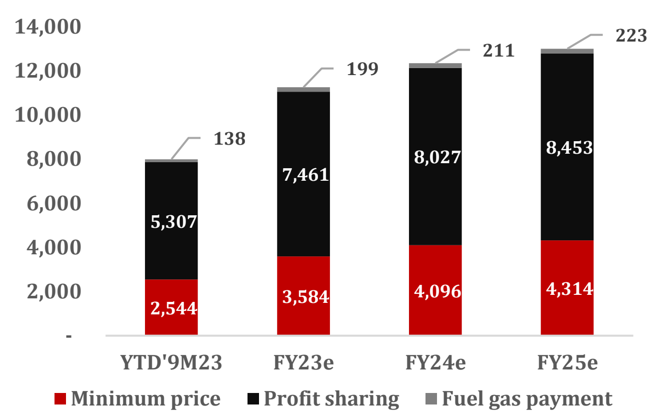
We anticipate prices to continue following this trend in the initial part of 2024, after which we expect stability. The anticipated rise in prices is primarily attributed to the growing demand fuelled by government policies promoting cleaner energy in Asia. Additionally, geopolitical tensions in Europe and West Asia could contribute to an increase in natural gas prices.

Feedstock cost - breakup



Source: Company Reports, U Capital Research

Rise in feedstock cost



Source: Company Reports, U Capital Research

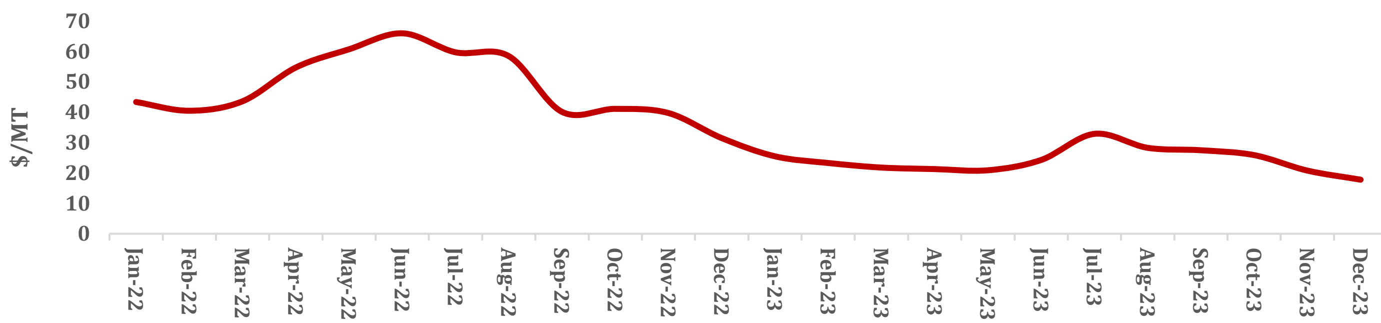
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

ADNOC Gas portfolio includes various processed gases

Methane: The methane produced by ADNOC Gas serves as a raw material to produce chemicals, power generation, and various industrial applications, including reinjection into reservoirs, primarily targeting markets within the UAE. Sales are executed through enduring agreements with entities such as EWEC, DUSUP, Emirates Global Aluminum, and companies affiliated with ADNOC.

In the beginning of 2022, methane prices experienced an increase owing to disruptions in the supply chain and the Russia-Ukraine war. However, prices subsequently declined in response to falling gas prices and efforts to reduce emissions. Methane prices are closely tied to natural gas prices, and according to the International Energy Agency, global gas demand is anticipated to show robust growth in 2024 despite increased geopolitical tensions. The resurgence in demand is attributed to anticipated colder weather and lower prices. Consequently, we anticipate methane prices to increase in the coming months of 2024.

Methane prices ($/MT)

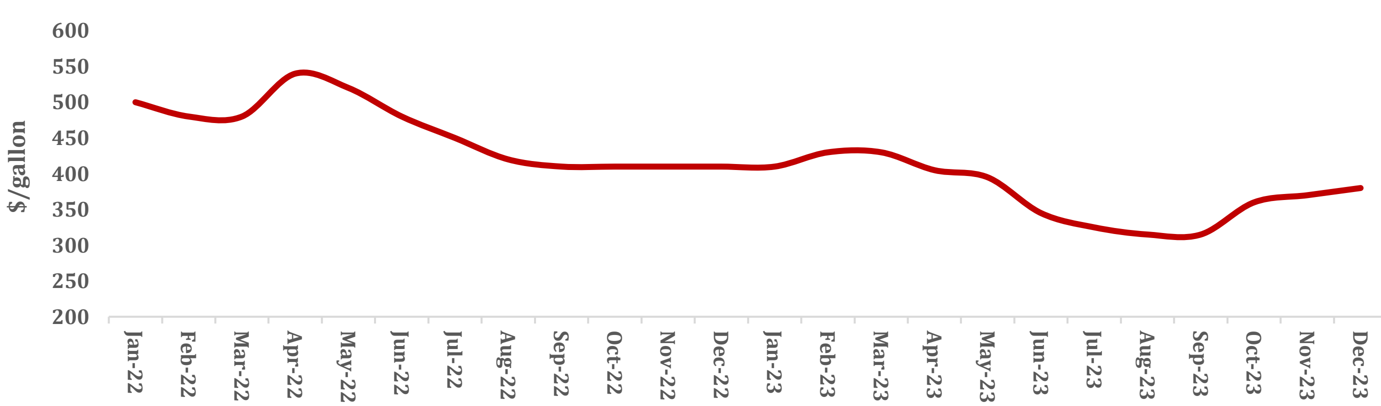


Source: Bloomberg, U Capital Research

Ethane: ADNOC Gas generates ethane, which serves as a primary raw material for manufacturing various chemicals like ethylene, propylene, polyethylene, and polypropylene. These chemicals find applications in the production of diverse goods, including plastics, resins, and synthetic fibers. Most of the ethane produced is supplied to Borouge.

During the early period of 2022, ethane prices experienced a surge attributed to the upward trend in natural gas prices. Nevertheless, an oversupply of ethylene, which is a downstream product of ethane, led to weakened demand and subsequently exerted downward pressure on ethane prices in 2023. Anticipated growth in end markets such as plastics, detergents, and textiles is expected to drive an increase in ethylene demand in 2024. This surge in demand could, in turn, boost ethane consumption and prices, especially considering the global rise in demand for these products. Additionally, the potential escalation of natural gas prices might contribute to an increase in ethane prices in 2024.

Ethane prices ($/Gallon)



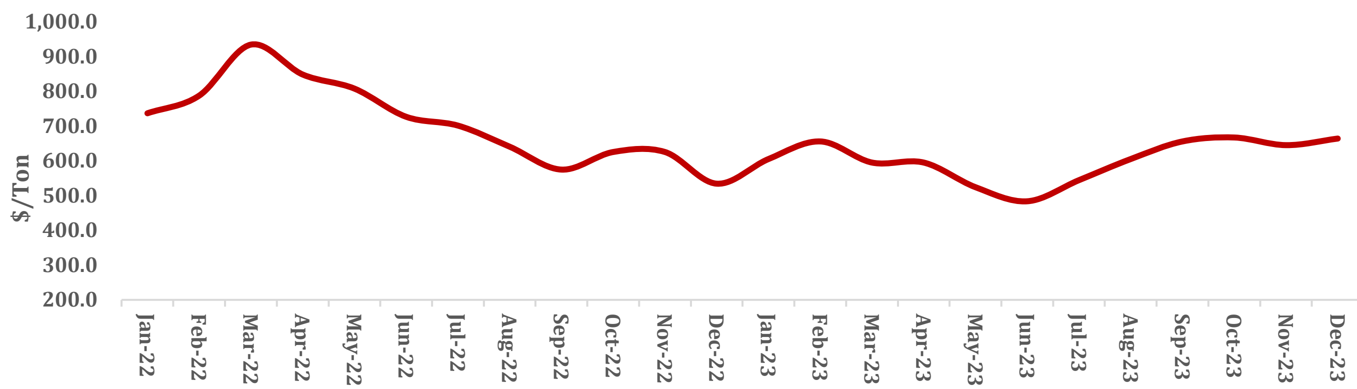
Source: Bloomberg, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Naphtha: Primarily used as a raw material in chemical production, paraffinic naphtha plays a key role in the creation of substances like ethylene and propylene. These chemicals are utilized in a wide range of products, including plastics, resins, and synthetic fibers. Except for the naphtha produced by ALNG, all generated naphtha is sold to AGT.

In 2022, the prices of naphtha experienced significant fluctuations, showing notable volatility throughout the year. They peaked in March 2022 and gradually decreased in the second quarter. This drop was linked to reduced demand for downstream products like petrochemicals and gasoline, particularly in Europe and Asia. The downward trend persisted into 2023, with prices remaining relatively lower compared to the highs of 2022.

Naphtha prices ($/Ton)



Source: Company reports, U Capital Research

According to S&P Global Commodity Insights, the Asian naphtha market is expected to face continued pressure in 2024 due to squeezed olefins margins amidst macroeconomic challenges. Despite reasonable growth in the packaging sectors, analysts noted in the December Asia naphtha monthly outlook report that downstream oversupply would be a prevalent theme in 2024, limiting plant operations.

Sulphur: The generated sulfur serves mainly as a raw material for manufacturing chemicals, notably sulfuric acid, employed across diverse industries like fertilizers, detergents, and metals processing. ADNOC purchases the produced sulfur, subsequently marketing and distributing it to end users.

Condensate: Condensate, a lightweight hydrocarbon, is discovered and extracted during the natural gas processing, serving as a raw material for chemical production and as a feedstock for refining gasoline and other fuels in refineries. ADNOC Refining exclusively purchases all the condensate.

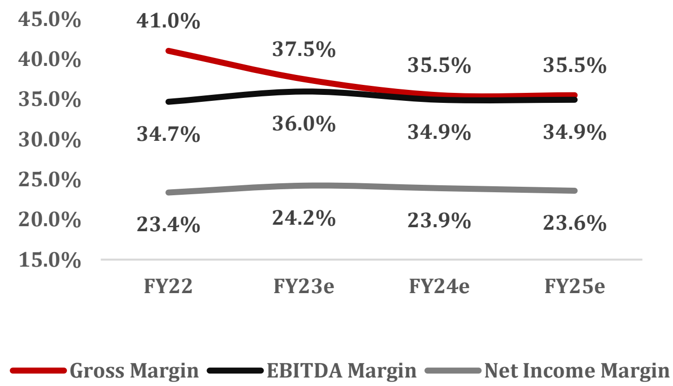
Stable margin outlook for FY’24-25 post weaker margins in FY’23

ADNOC Gas demonstrated resilient performance and consistent revenue growth, achieving a robust gross margin of 41% in the fiscal year 2022. However, in the initial three quarters of FY’23, ADNOC Gas encountered a decline in gross margins primarily attributed to a rise in feedstock costs. Consequently, the gross margin decreased from 40.2% in Q1’23 to 36.7% in Q3’23. Anticipating similar patterns in the final quarter of FY’23, we expect a gross margin of 37.5% for the entire FY’23.

Following this, we anticipate an improvement in margins in FY’24e due to stability in feedstock prices. Consequently, we expect EBITDA to remain steady at approximately 35%, and Net income margins to be consistent around 24% until FY’25e. The company maintains high net income margins, attributed to its investments in equity-accounted investees.

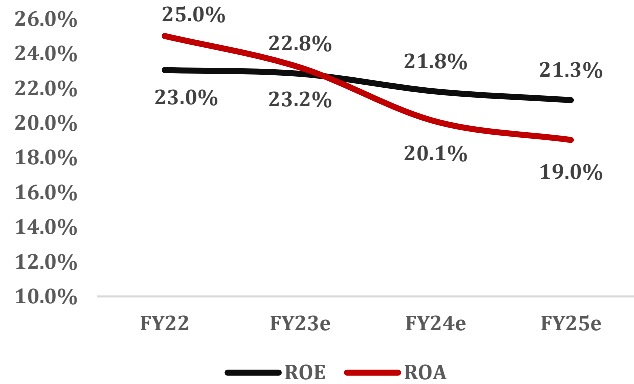
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Margins



Source: Company Reports, U Capital Research

ROE & ROA



Source: Company Reports, U Capital Research

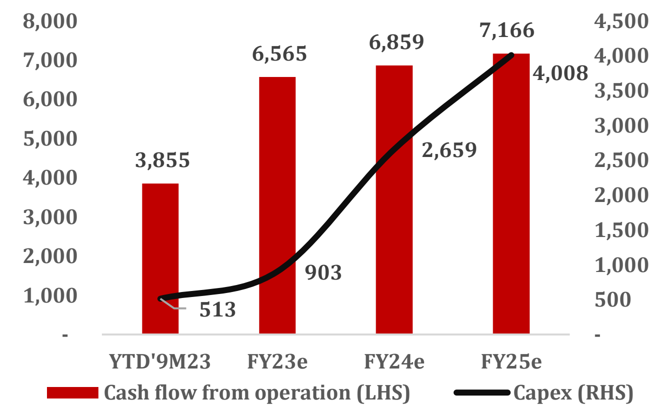
ADNOC gas's targeted capex fuels expansion plans

ADNOC Gas has a robust financial position, boasting a favorable cash conversion ratio as of 2023. Furthermore, the recently acquired EPC contracts and LNG agreements are anticipated to positively impact operating cash flows beyond FY'23e. The capital expenditure as of the YTD'3Q23 amounted to $513mn and is projected to reach $903mn by the year's end.

ADNOC Gas is strategically focusing on key growth initiatives, intending to allocate $14bn in expenditures from FY'23 to FY'28e. The highest capital expenditures are expected between FY'25e-26e, with an additional investment of $2bn in its LNG joint venture during the same period. Consequently, we anticipate capex spending to rise to $2.65bn in FY'24e and reach $4 bn by FY'25e.

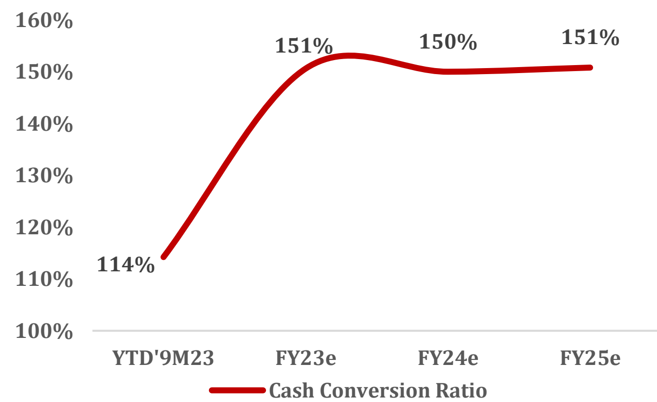
Despite these substantial investment plans, ADNOC Gas has a strong financial standing with efficient cash conversion and is well positioned to fund the upcoming capital expenditure activities without significant reliance on external financing sources.

CFO and Capex ($ mn)



Source: Company Reports, U Capital Research

Cash Conversion Cycle



Source: Company Reports, U Capital Research

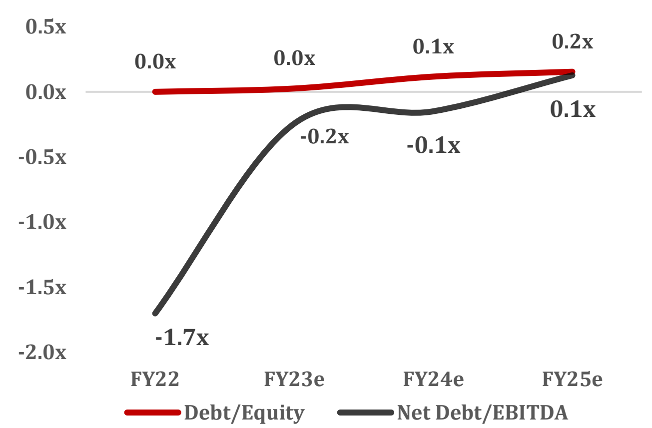
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Conservative debt and committed dividends signals long-term financial stability

Leverage: As of YTD'3Q23, ADNOC Gas has a solid financial position with Debt/Equity at 0.02x and leverage ratio at -2.9x indicating strong financial health and a low risk profile. The management has declared their intention to utilize debt to support the planned $14 bn growth capital expenditure, with a maximum Net Debt/EBITDA of 1.5x. However, with its strong cash flow, ADNOC gas can uphold a conservative stance in procuring loans. Thus, we anticipate a gradual increase in the leverage ratio; however, we still expect the leverage ratio to remain very low, underscoring a prudent approach to debt management and reinforcing the company's robust financial standing

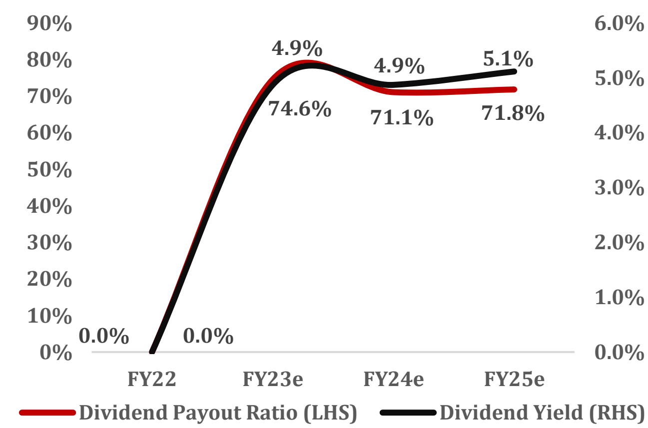
Dividend: ADNOC Gas has approved an interim cash dividend of $1.625 bn (AED 5.968 bn) which was distributed on December 14, 2023, equating to 7.776 fils per share. The company also plans to disburse an additional $1.625 bn in Q2'24e. Notably, this committed dividend of $3.25 bn is entirely funded from the free cash flow generated over the 9-month period in 2023. Following this, ADNOC Gas aims to increase the dividend per share by 5% annually throughout the period 2024-2027, thereby increasing the dividend yield and providing a reliable return to its shareholders.

Leverage



Source: Company Reports, U Capital Research

Dividend



Source: Company Reports, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

ADNOC Gas management team

Robust leadership possessing decades of experience

ADNOC Gas benefits from a resilient management team, comprising highly skilled and diverse senior leaders who are dedicated to attaining excellence and propelling the growth and performance of the organization.

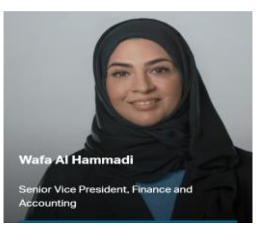
Key Management

Dr. Ahmed Mohamed Alebri is the Acting Chief Executive Officer of ADNOC Gas previously served as Acting CEO of ADNOC Gas Processing, the UAE's major supplier of gas and gas related products and as Acting General Manager of ADNOC Industrial Gases, UAE's supplier of nitrogen and liquid oxygen to the oil and gas sector. His professional experience spans 18 years in the oil and gas industry.

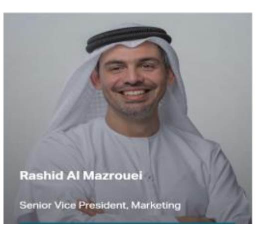
Mr. Peter van Driel is a highly experienced finance executive who has developed broad, deep, and international experience over 30 years in senior roles in the energy sector. Mr. van Driel joined Shell Plc in 1991, after graduating with a master's degree in business administration from Rotterdam School of Management in the Netherlands.

Mr. Mohamed Al Hashemi has more than 20 years' experience at ADNOC. During his first couple of years at ADNOC, Mr. Al Hashemi successfully set up the maintenance section in the largest ADNOC Gas Processing Plant (Habshan) as a part of the company's restructuring.

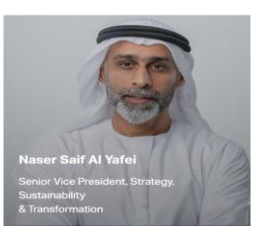
Senior Management



Ms. Wafa Al Hammadi has more than 25 years' experience, including 7+ years in various Chief Financial Officer roles, her most recent role as a CFO was in ADNOC Gas Processing, the UAE's major supplier of gas and gas related products and ADNOC Industrial Gases.

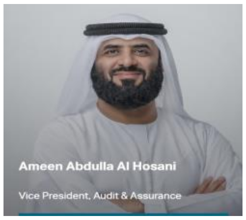


Mr. Rashid Al Mazrouei is the Senior Vice President of Commercial at ALNG. With over 20 years of experience at ADNOC, he has held a variety of managerial positions at the organization.

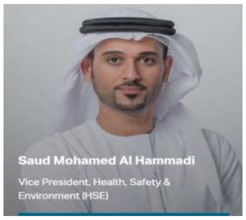


Mr. Naser Al Yafei has extensive experience working at ADNOC where he has specialized in Strategic Relations & Competitive Intelligence Management and Stakeholders Management. He holds a degree in Chemical Engineering, MBA, and a degree in Diplomacy & International Relations from the Anwar Gargash Diplomatic Academy.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net



Mr. Ameen Abdulla Al Hosani has been VP of Audit & Assurance since January 2023 and has more than 18 years in the oil and gas industry. Prior to joining the Company, Mr. Al Hosani has been with ADNOC since 2004, where he served in a number of roles in petroleum engineering, construction, project engineering management, project management, project quality management and corporate assurance.



With deep experience in Health, Safety & Environmental (HSE) Compliance & Assurance, Technical & Operational Safety, Crisis Management, Incident Prevention and Business Continuity, Mr. Saud Al Hammadi is responsible for overseeing the implementation of a robust HSE & Process Safety Culture as part of ADNOC's HSE Culture Transformation Strategy.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Sensitivity Analysis

Our TP for ADNOC Gas (ADNOCGAS) is sensitive to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards Cost of Equity. Our TP is also sensitive (although relatively much higher) to the Revenue per unit ($) and Sales volume.

ADNOC Gas

Terminal Growth rate \ Cost of Equity	6.3%	7.3%	8.3%	9.3%	10.3%
0.50%	4.1	3.8	3.5	3.2	3.0
0.75%	4.3	3.9	3.6	3.3	3.1
1.00%	4.4	4.0	3.7	3.4	3.1
1.25%	4.6	4.1	3.8	3.5	3.2
1.50%	4.7	4.2	3.9	3.5	3.3

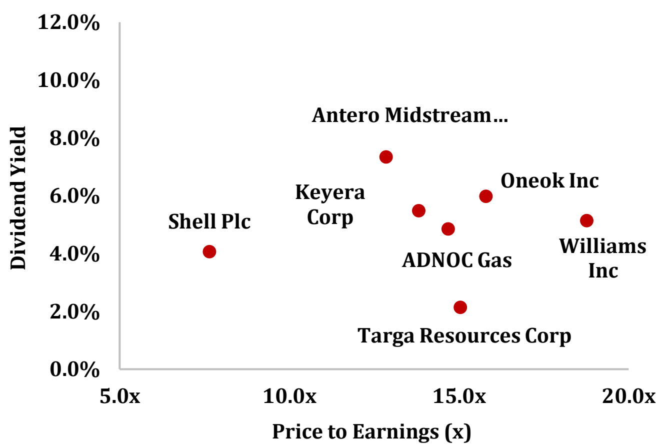
Sales Volume \ Revenue per unit ($)	19	24	29	34	39
2,446	3.0	3.2	3.5	3.8	4.1
2,946	3.1	3.3	3.6	3.9	4.3
3,446	3.1	3.4	3.7	4.0	4.4
3,946	3.2	3.5	3.8	4.1	4.6
4,446	3.3	3.5	3.9	4.2	4.7

Peer Group Valuation

Name	Mkt Cap (AED mn)	Last Px	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA' 24e, (x)	P/E'24e, (x)	ROE'24e, (%)	Div Yield' 24e, (%)	FCF Yield'24e (%)
ADNOC GAS PLC	2,46,372.1	3.21	4%	2%	4%	9.7	14.7	21.8%	4.8%	NA
SHELL PLC	7,44,962.0	2460.00	-4%	-9%	-4%	3.8	7.6	13.2%	4.1%	0.3%
ONEOK INC	1,50,717.0	70.44	0%	8%	0%	10.6	13.8	16.2%	5.5%	4.2%
ANTERO MIDSTREAM CORP	21,601.4	12.26	-2%	1%	-2%	8.6	12.9	22.7%	7.3%	3.1%
KEYERA CORP	20,725.1	33.09	3%	3%	3%	10.5	15.8	15.1%	6.0%	0.4%
TARGA RESOURCES CORP	71,094.5	86.81	0%	3%	0%	8.9	15.0	34.3%	2.1%	4.3%
WILLIAMS COS INC	1,55,801.9	34.87	0%	2%	0%	9.9	18.8	16.4%	5.1%	6.2%
Average						**8.8**	**14.1**	**20.0%**	**5.0%**	**3.1%**
Median						**9.7**	**14.7**	**16.4%**	**5.1%**	**3.6%**

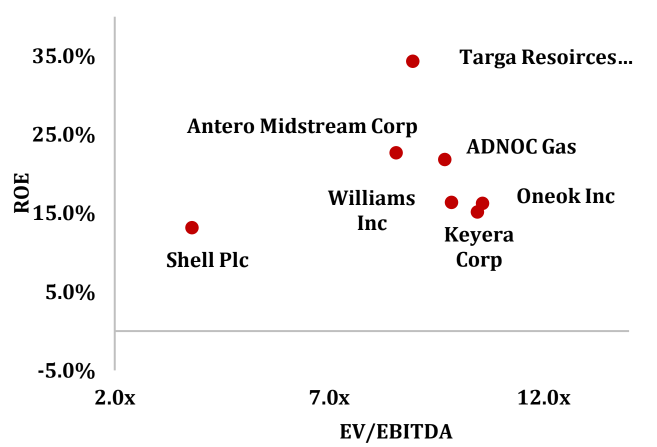
Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 29 January 2024 Market-cap weighted average multiples – EV/ EBITDA, and P/E

P/E & Dividend Yield



Source: Bloomberg, U Capital Research; As of 29 Jan 23

EV/EBITDA & ROE



Source: Bloomberg, U Capital Research; As of 29 Jan 23

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Valuation Summary

To value ADNOC Gas, we employed two valuation methods: the Discounted Cash Flow (DCF, 80% weight) and Relative Valuation. In our DCF analysis, we use a WACC of 7.8%, a cost of equity of 8.3%, a risk-free rate of 3.5%, a beta of 0.80, and a risk premium of 6.0%. This yields a fair value of AED 3.7 per share.

For Relative Valuation we consider EV/EBITDA and P/E with a 10% weight each. We derive this multiple based on industry median values, resulting in an EV/EBITDA multiple of 11.98x and P/E multiple of 16.11x. We then apply this multiple to EBITDA of AED 24,524mn and EPS of AED 0.22 per share, yielding fair values of AED 3.4 and 3.5 per share respectively.

Taking a weighted average of these valuations, we arrived at an overall fair value of **AED 3.7/ share**.

Valuation

	ADNOC Gas
DCF (80% weight)	
PV of Free Cash Flow (AED mn)	
2023e	11,923
2024e	7,961
2025e	8,033
2026e	13,035
2027e	13,390
Terminal value	1,99,003
Total PV of Future Cashflows (Enterprise Value, AED mn)	2,53,345
Assumptions	
Risk Free Rate (%)	3.5%
Adjusted Beta	0.80
Risk Premium (%)	6.0%
Cost of Equity (COE) (%)	8.3%
WACC (%)	7.8%
Equity value (AED mn)	2,84,348
Outstanding Shares (mn)	76,751.4
Target Price (AED)	***3.7***
P/E based Relative Valuation (10% weight)	
Target P/E multiple for 2023e	*16.11*
EPS 2024e (AED)	*0.22*
Target Price (AED)	***3.5***
EV/EBITDA based Relative Valuation (10% weight)	
Target EV/EBITDA Multiple for 2022e	*11.98*
EBITDA FY22e (AED mn)	*24,524*
Target Price (AED)	***3.4***
Weighted Average Target Price (AED)	***3.7***
Current Market Price (AED)	*3.2*
Upside/(Downside), %	14.0%
Recommendation	**Accumulate**

Source: Company Financials, Bloomberg, U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

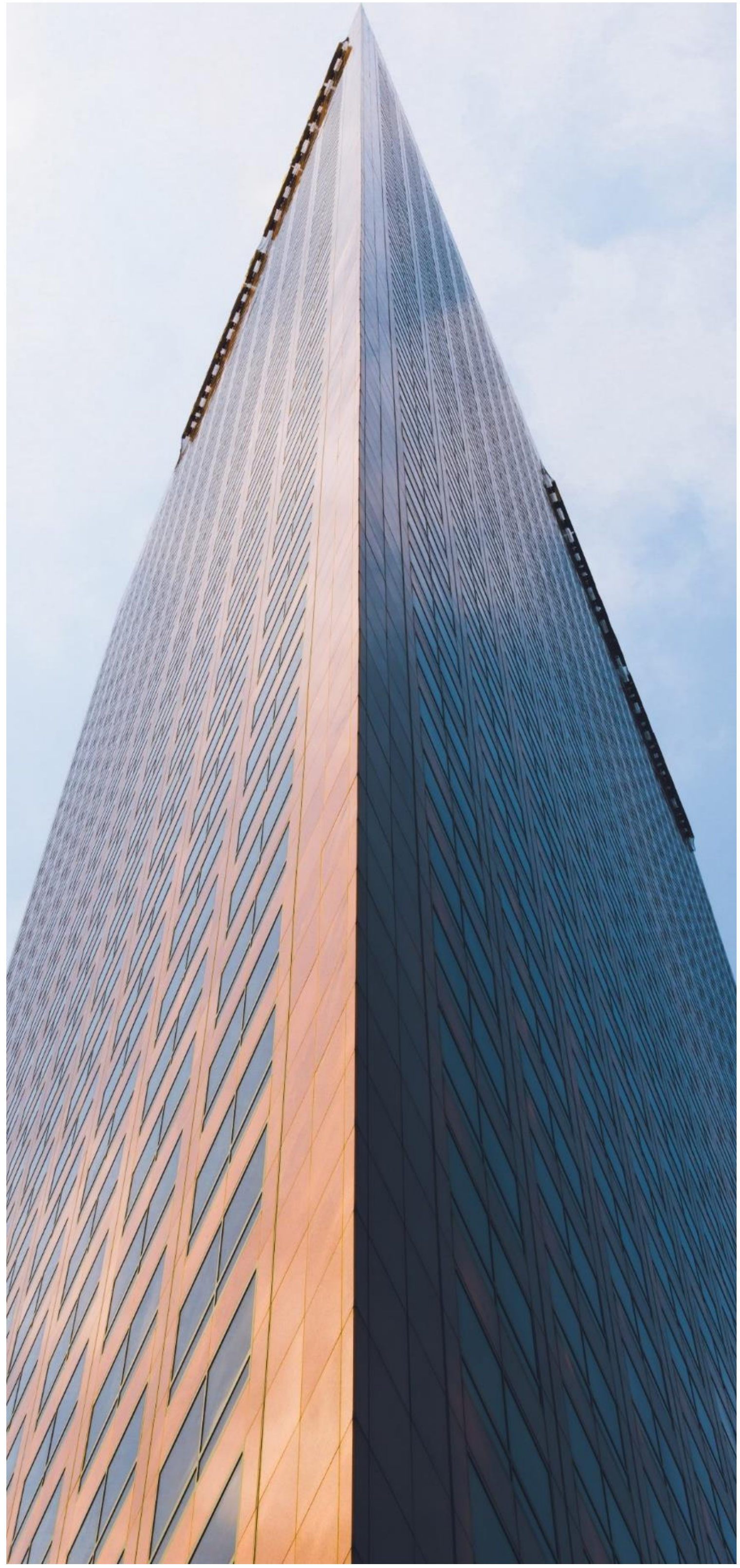
Financial Tables

(USD mn)	FY21	FY22	FY23e	FY24e	FY25e
Income Statement					
Sales	17,038	17,857	17,992	19,126	20,142
COGS	-9,801	-10,528	-11,244	-12,335	-12,990
Gross profit	**7,237**	**7,329**	**6,749**	**6,791**	**7,152**
General & Admin expenses	306	289	161	171	180
Employee Cost	657	503	801	851	896
Operating profit	**4,694**	**5,184**	**5,419**	**5,655**	**5,925**
Share of results of equity accounted investee	318	549	344	361	371
Finance charges	52	116	197	177	248
Income before tax	**4,960**	**5,617**	**5,417**	**5,683**	**5,909**
Income tax	1,431	1,544	1,424	1,493	1,553
Net income for the period	**3,602**	**4,173**	**4,359**	**4,572**	**4,754**
Balance Sheet					
Cash and bank balances			4,131	3,439	2,097
Inventories			165	180	191
Trade receivables			230	244	258
Property, plant and equipment	20,859	20,033	19,917	21,563	24,474
Right of use assets	20	0	32	49	67
Investment in equity accounted investees			1,202	1,238	1,275
Total assets	**21,140**	**20,308**	**26,406**	**29,985**	**32,540**
Shareholders loan			500	2,500	3,500
Trade and other payables			748	806	851
Lease liabilities - current			4	6	10
Long-term borrowings			0	0	0
Lease liabilities - noncurrent			12	18	32
Decommissioning provision	2,446	2,139	2,233	2,233	2,233
Share capital			19,188	19,188	19,188
Retained earnings			1,109	2,431	3,772
Total stockholders' equity	**18,329**	**17,880**	**20,296**	**21,619**	**22,960**
Total liabilities & stockholders' equity	**21,140**	**20,308**	**26,406**	**29,985**	**32,540**
Cash Flow Statement					
Cash from operating activities			6,565	6,859	7,166
Cash from investing activities			-3,766	-4,189	-5,646
Cash from financing activities			-2,759	-1,242	-2,394
Net changes in cash			40	1,428	-874
Cash at the end of the period			2,097	3,525	2,651
Key Ratios					
Current ratio	0.2	0.2	1.2	1.0	0.7
Inventory turnover ratio			68.2	71.4	70.0
Debtors' turnover ratio			78.2	80.7	80.3
Creditors turnover ratio			15.0	15.9	15.7
Gross profit margin	42.5%	41.0%	37.5%	35.5%	35.5%
Operating margin	27.6%	29.0%	30.1%	29.6%	29.4%
Net profit margin	21.1%	23.4%	24.2%	23.9%	23.6%
EBITDA margin	34.3%	34.7%	36.0%	34.9%	34.9%
Average return on equity	19.7%	23.3%	22.8%	21.8%	21.3%
Average return on assets	22.2%	25.5%	23.2%	20.1%	19.0%
Debt/Equity (x)	0.0x	0.0x	0.0x	0.1x	0.2x
Interest coverage ratio (x)	90.3x	44.7x	27.5x	32.0x	23.9x
P/E			15.4x	14.7x	14.1x
EV/EBITDA			10.0x	9.7x	9.2x
EV/Sales			13.2x	12.4x	11.8x
EPS	0.06	0.07	0.06	0.06	0.06
EPS (AED)	0.22	0.26	0.21	0.22	0.23
Dividend payout ratio	0.0%	0.0%	74.6%	71.1%	71.8%
Dividend yield	0.0%	0.0%	4.8%	4.8%	5.1%
Net debt	-3,593	-2,901	-1,581	-1,001	892
Net debt/ EBITDA	-2.2x	-1.7x	-0.2x	-0.1x	0.1x
ROCE	22.6%	25.9%	23.5%	21.4%	20.6%

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +9682494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Investment Research

Ubhar-Research@u-capital.net



Head of Research

Neetika Gupta

+968 2494 9036

neetika@u-capital.net

Research Team

Ahlam Al-Harthi

+968 2494 9024

ahlam.harthi@u-capital.net

Said Ghawas

+968 2494 9034

said.ghawas@u-capital.net

Amira Al Alawi

+968 2494 9112

amira.alalawi@u-capital.net

Head of Brokerage

Talal Al Balushi

+968 2494 9051

talal@u-capital.net

Visit us at: www.u-capital.net

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +9682494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9036
Fax: +968 2494 9099
Email: research@u-capital.net

Disclaimer: This report has been prepared by Ubhar Capital (U Capital) Research and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any other purpose.