

ADNOC Gas - 4Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Accumulate

Previous Reco. & Date:

TP: AED 3.7 per share; Accumulate on 30-January-2024

Target Price (AED):

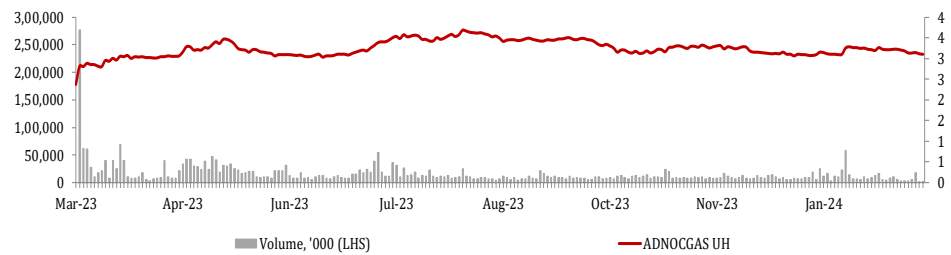
3.70

Upside / (Downside):

19.4%

Date: 12-02-2024

Bloomberg Ticker	ADNOGAS UH
Current Market Price (AED)	3.1
52wk High / Low (AED)	3.71/2.77
6m Average Vol. (mn)	10,063.1
Mkt.Cap. (USD/AED bn)	64,241/237,929
Shares Outstanding (mn)	76,751.4
Free Float (%)	3%
3m Avg Daily Turnover (AED mn)	32,247.9
6m Average Daily Turnover (AED mn)	33,047.3
PE 2024e (x)	14.8x
EV/EBITDA 2024e (x)	8.8x
Dividend Yield '24e (%)	4.8%
Price Perf. (1m/3m) (%)	-5.5%/-5.8%



Revenue grows 4% QoQ for 4Q23, in-line with Bloomberg consensus and U-Capital estimates

The company reported 4Q23 revenue of USD 4,973 mn (4% QoQ), in-line with U-Capital estimate of USD 5,069mn and Bloomberg consensus of USD 5,051mn. When considering the proportionate ADNOC Gas consolidation of JVs (i.e.: ADNOC Gas Facilities + ALNG JV Share) revenue stands at USD 6,301mn, reflecting a 7% growth compared to 4Q22. This YoY growth is primarily due to better volumes (3% YoY growth which exceeded guidance) and better pricing in 4Q23. For FY23, revenue totalled USD 22,731 mn (ADNOC Gas Facilities + ALNG JV Share), marking a 12% decrease YoY due to less favourable pricing environment in the initial part of 2023.

Gross profit and Operating Profit largely in-line with U-Capital estimate for 4Q23

The company achieved a gross profit of USD 1,962mn in 4Q23 (12% QoQ), largely in-line with our estimate of USD 1,815mn. When considering the proportionate ADNOC Gas consolidation of JVs (i.e.: ADNOC Gas Facilities + ALNG JV Share), Gross profit stood at USD 2,703mn (11% YoY and 15% QoQ). This substantial growth is due to high sales volume and better pricing in 4Q23. Operating Profit stood at USD 1,352mn (-1% QoQ) largely in-line with our estimate of USD 1,434mn and Bloomberg consensus of USD 1,380mn. Operating profit for ADNOC Gas Facilities + ALNG JV Share stood at USD 2,212mn (15% YoY and 19% QoQ). This growth is due to better performance from Domestic gas segment amid favourable contract prices. Also, profit contribution from Export & Traded Liquids slightly improved due to better pricing environment.

Net income grows 24% YoY for 4Q23, ahead of Bloomberg consensus and U-Capital estimate

The company's net income for the quarter amounted to USD 1,345 mn (24% YoY and 21% QoQ), surpassing our estimated USD 984 million and Bloomberg's consensus estimate of USD 1,066 million. This variance is due to the inclusion of a non-recurring item from the recognition of a deferred tax asset following the establishment of ADNOC Gas. For FY23, net income totalled USD 4,720 million, indicating a 2% decrease from FY22. Despite a decrease in revenue, this impact was largely mitigated by reductions in feedstock costs and taxes during FY23, resulting in minimal YoY decline in net income.

Maintain target price

Adnoc Gas experienced improved results in 4Q23, driven by increased volumes and a favourable pricing environment. However, volumes are anticipated to slightly decrease in FY24e due to the normalization of planned maintenance activities compared to FY22. Adnoc Gas observed fewer shutdown days in FY23, resulting in higher volumes. However, with the group's planned capital expenditures focused on upstream supply growth, upgrading processing capacity, and expanding and enhancing the product mix, volumes are expected to increase post 1H-25e. Furthermore, the group anticipates positive gas demand starting in FY24e, with strong support expected for LNG operations. Adnoc Gas is also poised to gain from the rising demand for products from low-emission intensity producers, with Abu Dhabi ranking as the fourth-lowest emitting producer globally. Thus, considering these factors, we are maintaining our **Accumulate** rating on the stock with target price of **AED 3.7/share**.

Valuation

ADNOC Gas is trading at 2024e P/E of 14.8x compared to its historical average 1-year forward P/E of 15.6x. Similarly, the stock is valued at an EV/EBITDA of 8.8x, based on the FY24 estimate, compared to its historical average of 10x.

Income Statement														
(USD mn)	4Q22 * ⁽¹⁾	1Q23	2Q23	3Q23	4Q23	4Q23 ⁽¹⁾	4Q23e	YoY (%) ⁽¹⁾	QoQ (%)	Var (%)	FY22* ⁽¹⁾	FY23	FY23 ⁽¹⁾	YoY (%) ⁽¹⁾
Sales/Revenue	5,888	4,095	4,059	4,769	4,973	6,301	5,069	7%	4%	-2%	25,785	17,896	22,731	-12%
Gross Profit (Loss)	2,443	1,646	1,540	1,748	1,962	2,703	1,815	11%	12%	8%	10,659	6,896	9,652	-9%
Operating Income	1,926	1,356	1,256	1,372	1,352	2,212	1,434	15%	-1%	-6%	8,674	5,336	7,614	-12%
Net Profit attributable to sharehoders	1,084	1,275	984	1,116	1,345	1,345	984	24%	21%	37%	4,797	4,720	4,720	-2%
Balance Sheet														
(USD mn)	4Q22 * ⁽¹⁾	1Q23	2Q23	3Q23	4Q23	4Q23 ⁽¹⁾	4Q23e	YoY (%) ⁽¹⁾	QoQ (%)	Var (%)	FY22* ⁽¹⁾	FY23	FY23 ⁽¹⁾	YoY (%) ⁽¹⁾
Shareholders' Equity	17,880	20,463	21,447	22,562	22,292	22,292	26,406	25%	-1%	-16%	17,880	22,292	22,292	25%
Key Ratios														
	4Q22 * ⁽¹⁾	1Q23	2Q23	3Q23	4Q23	4Q23 ⁽¹⁾	4Q23e	YoY (%) ⁽¹⁾	QoQ (%)	Var (%)	FY22* ⁽¹⁾	FY23	FY23 ⁽¹⁾	YoY (%) ⁽¹⁾
Gross Margin	41%	40%	38%	37%	39%	43%	36%				41%	39%	42%	
EBITDA Margin	33%	33%	31%	29%	27%	35%	28%				34%	30%	33%	
Net Profit Margin	18%	31%	24%	23%	27%	21%	19%				19%	26%	21%	
Return on Equity (RoE)	24%	25%	18%	20%	24%	24%	15%				27%	21%	21%	

Source: Financials, ADX disclosure, Bloomberg, U Capital Research

* Assuming reorganization happened on 1 Jan 2022

⁽¹⁾ include proportionate ADNOC Gas consolidation of JVs (i.e.: ADNOC Gas Facilities + ALNG JV Share)

For our earlier report, please [click here](#).

FY23 Conference call key takeaways

- Adnoc expects the global gas demand to be positive
- Increasing demand for product from low emission intensity producers and with Abu Dhabi being the 4th lowest emitting producer, Adnoc Gas is expected to benefit from it
- USD 13.4bn capital investment in the next 5 years
- Volumes increase in 4Q23 are backed by strong domestic demand and pricing was positive in 4Q23
- Maintenance activity to normalize as per 2022 in Q124, so volumes expected to decrease YoY in 2024e.
- Volumes expected to foresee growth post 1H-25

FY24 Guidance

Financial	2023 Actual	2024 guidance	
	EBITDA Margin %	33.5%	Flat YoY
Sales volume	(in TBTU)	2023 Actual	2024 guidance
	Domestic Gas Products	2,293	2,215 – 2,300
	Exports & Traded Liquids	997	940 - 960
	ALNG JV Products	232	220 – 240
Net Profit Unit Margins	(in \$/MMBTU)	2023 Actual	2024 guidance
	Domestic Gas Products	0.95	0.97 – 0.99
	Exports & Traded Liquids	1.69	1.60 - 1.70
	ALNG JV Products	1.79	1.65 - 1.75 ¹
	Sulphur (\$ Millions)		~150
Investments	(\$ Million)	2023 Actual	2024 Actual
	CAPEX	1,267	2,000 - 2,500

Planned shutdowns mostly scheduled for Q1 2024 (similar to Q1 2023)


(1) Assuming an oil price of 75-85 \$/bbl


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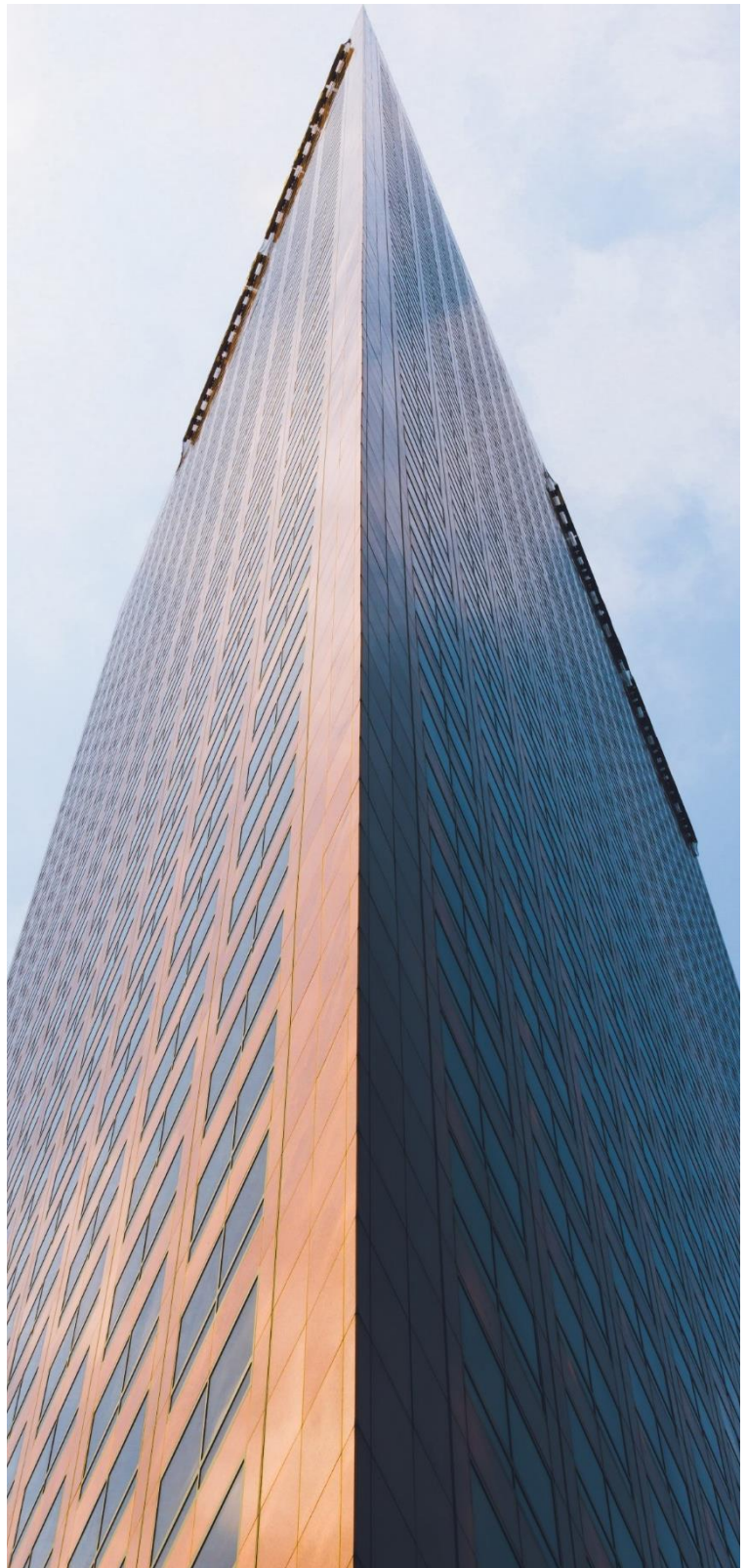
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Recommendation

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



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