

ADNOC Distribution

International and local expansion to aid growth

1Q22 net profit in line with our estimate

ADNOC Distribution (ADNOCDIS) recorded a 7.4% YOY increase in net profit to AED 671 Mn in 1Q22, in line with our net profit estimate of AED 660 Mn. The growth in profit is driven by an increase in profit in the retail segment and stable performance of the commercial segment partially offset by rise in distribution and administrative expenses.

P&L highlights

ADNOC's top line increased significantly 57.3% YOY to AED 6,736 Mn in 1Q22 due to higher selling price and growth in fuel volume and non-fuel business. Retail fuel volume rise 10.2% YOY to 1,656 Mn liters and commercial fuel volume rose 12.0% YOY to 804 Mn liters in 1Q22. Retail fuel volume rose due to the rebound in economic growth, easing of travel restriction and addition of new fuel stations. Growth in commercial fuel volume is supported by corporate fuel volume somewhat offset by a decline in aviation fuel volume. Similarly, direct costs increased 78.8% YOY to AED5,287 Mn in 1Q22 due to increase in crude oil price. As a result, gross profit rose 9.3% YOY to AED1,449 Mn in 1Q22 due to higher fuel volume and further supported by inventory gains. Distribution and administrative expense excluding, depreciation expense rose 8.0% YOY to AED 570 Mn in 1Q22 due to increase in company's network and associated staff cost. EBITDA rose 7.9% YOY to AED 881 mn in 1Q22 and underlying EBITDA excluding, inventory gains and one-offs rose 3.7% YOY to AED 767 Mn in 1Q22. Depreciation expense rose 12.1% YOY to AED 163 Mn in 1Q22 due to addition of new outlets. Thus, operating profit rose 7.0% YOY to AED718 Mn in 1Q22. Decline in interest income and rise in interest expense dragged the bottom line in 1Q22.

Balance sheet highlights

ADNOC capital expenditure rose from AED 180 Mn in 1Q21 to AED 196 Mn in 1Q22. Higher capex is mainly due to increase in capex on industrial projects and a flat capex on service station projects which accounts for almost 65% of total capex. Free cash flow excluding change in related party transaction declined from AED 443 Mn in 1Q21 to AED382 Mn in 1Q22 due to higher investment in working capital partially offsetting the impact of higher profit. The Company financial position remain strong with cash & cash equivalents of AED 4.1 bn and unutilized credit facility of AED 2.8 Bn.

Target price and recommendation

We maintain our BUY rating on ADNOC Distribution with a target price of AED 4.82. The Company is relying on international growth strategy to further expand its business. It is on right track to add 60-80 stations before the end of FY2022. Out of which, it plans to

Rating : BUY

First Look Note – 1Q22

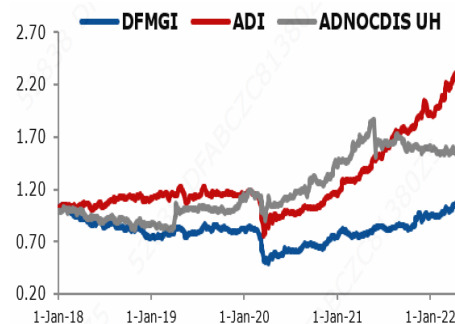
Sector: Oil & Gas

Recommendation

Current Price (23-May-22)	4.07
Target Price	4.82
Upside/Downside (%)	+18%

Stock Information

Market Cap (mm)	50,875.00
Paid Up Capital (mm)	1,000.00
52 Week High	4.95
52 Week Low	3.80
3M Avg. daily value (AED)	51,885,770



Financial Ratios

Dividend Yield (12m)	5.05
Dividend Pay-out (%)	116.76
Price-Earnings Ratio (x)	22.16
Price-to-Book Ratio (x)	19.42
Book Value (AED)	0.21
Return-on Equity (%)	83.96
Earning Per Share (AED)	0.18
Beta	0.55

Stock Performance

5 Days	0.99%
1 Months	0.25%
3 Months	-1.93%
6 Months	-2.40%
1 Year	-17.44%
Month to Date (MTD)	-1.69%
Quarter to Date (QTD)	-3.33%
Year to Date (YTD)	-4.92%

add 20-30 new fuel outlets in UAE and remaining in KSA. ADNOC already added 15 new stations in KSA during 1Q22. In UAE, it is focussing in the high growth market of Dubai and plans to add stations at strategic location. The Company also plans to revamp 40-50 non-convenience stores in 2022 after receiving strong momentum to revitalization program started over 2020-21. ADNOC is working to improve its cost efficiency and target 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. Strong balance sheet position will further aid ADNOC in pursuing strategic acquisition in the near future and improve visibility of future dividend payment. It plans to pay a minimum dividend of AED 2.6 Bn in FY2022 translating into a dividend yield of 5.0% at the current price. Considering all these factors we assign a BUY rating on the stock.

ADNOC Distribution - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	24.3	24.0	21.5	22.9	20.7
P/B (x)	14.4	14.5	15.0	16.1	16.1
EV/EBITDA	18.6	18.5	17.2	17.9	16.3
Dividend Yield (%)	2.8%	4.6%	5.0%	5.0%	5.0%

FABS Estimates & Co Data
ADNOC Distribution - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	4,282	6,223	6,736	6,747	-0.2%	57.3%	8.2%	20,921	26,983	29.0%
Direct costs	-2,957	-4,933	-5,287	-5,262	0.5%	78.8%	7.2%	-15,881	-20,939	31.9%
Gross profit	1,326	1,290	1,449	1,484	-2.4%	9.3%	12.3%	5,040	6,044	19.9%
Other income	26	-3	9	27	-66.7%	-65.8%	-368.6%	72	50	-30.8%
Distribution & admin. Exp.	-673	-668	-733	-810	-9.5%	8.9%	9.7%	-2,649	-3,458	30.6%
Impairment & others Exp.	-7	-7	-7	0	NM	-8.4%	2.5%	-35	-30	-13.9%
Operating profit	672	613	718	702	2.4%	7.0%	17.3%	2,429	2,606	7.3%
D&A	145	189	163	156	4.3%	12.1%	-14.1%	638	648	1.6%
EBITDA	817	802	881	858	2.7%	7.9%	9.9%	3,067	3,254	6.1%
Interest income	5	1	1	0	NM	-75.7%	49.5%	8	8	4.1%
Interest expenses	-46	-42	-49	-42	16.5%	6.8%	16.3%	-185	-210	13.8%
Net Profit	631	571	671	660	1.7%	6.3%	17.4%	2,252	2,404	6.7%

FABS Estimates & Co Data
ADNOC Distribution - Margins

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
GPM	31.0%	20.7%	21.5%	-945	78	24.1%	22.4%	-169
EBITDA	19.1%	12.9%	13.1%	-599	19	11.6%	9.7%	-195
OPM	15.7%	9.8%	10.7%	-502	82	11.6%	9.7%	-195
Net Profit margin	14.7%	9.2%	10.0%	-477	78	10.8%	8.9%	-186

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"