

## ADNOC Distribution

Higher Direct Costs reduced profitability

### 4Q21 Net profit Marginally higher than our estimate

ADNOC Distribution reported a drop by 29.9% YOY in Net Profit to AED571 Mn in 4Q21, as compared to AED815 Mn in 4Q20, beating our estimate of AED560 Mn by 2%. This decline was mainly due to a significant increase in Direct Costs.

### P&L highlights

Revenue increased by 50.1% YOY to AED6,223 Mn in 4Q21, up from AED4,146 Mn in 4Q20. Direct costs strongly increased by 94.6% YOY to AED4,933 Mn in 4Q21, up from AED2,535 Mn in 4Q20. As a result, the Gross Profit declined by 19.9% YOY to AED1,290 Mn in 4Q21, down from AED1,611 Mn in 4Q20, with a Gross Profit Margin (GPM) equal to 20.7% in 4Q21, down from 38.9% in 4Q20. The Operating Profit decreased by 29.3% YOY to AED613 Mn in 4Q21, as compared to AED866 Mn in 4Q20. It was mainly driven by a strong drop in Other Income to a negative of AED3 Mn in 4Q21, down from AED25 Mn in 4Q20. Additionally, the Impairment charges significantly increased by 90.9% YOY to AED7 Mn in 4Q21, up from AED3 Mn. The Distribution & Administrative expenses declined by 12.9% YOY to AED668 Mn in 4Q21, down from AED766 Mn in 4Q20. The Operating Profit Margin declined to 9.8% in 4Q21, down from 20.9% in 4Q20. The Depreciation & Amortization expenses increased by 24% YOY to AED189 Mn in 4Q21 from AED153 Mn in 4Q20. Therefore, the EBITDA decreased by 21.3% YOY to AED802 Mn in 4Q21, as compared to AED1,019 Mn in 4Q20. The Interest Income declined by 83.6% YOY to AED1 Mn in 4Q21 from AED5 Mn in 4Q20. The Interest Expenses decreased by 25.2% YOY to AED42 Mn in 4Q21, down from AED56 Mn in 4Q20.

### Balance sheet highlights

Total Assets increased by 11.1% YOY to AED13.8 Bn in 4Q21 from AED12.4 Bn in 4Q20. Whereas the Total Liabilities increased by 18% YOY to AED10.58 Bn from AED8.96 Bn in 4Q20. In addition to a decrease by 6.8% YOY in the Total Equity to AED3.2 Bn, down from AED3.4 Bn in 4Q20.

### Target price and rating

We Upgrade our rating to BUY on ADNOC Distribution with a target price of AED4.82. ADNOC Distribution is the UAE's leading operator of retail fuel service stations and the sole retail fuel operator in Abu Dhabi and Sharjah, with the mission to maximize the value of energy resources through partnership, innovation, and a relentless focus on high-performance. For the year ended 31 December 2021, the company remains committed to meeting its expansion goals by opening 19 new Stations in the UAE (5 in Dubai) as well as 38 new Stations in Saudi Arabia. Additionally,

**Rating : BUY**

### First Look Note – 4Q21

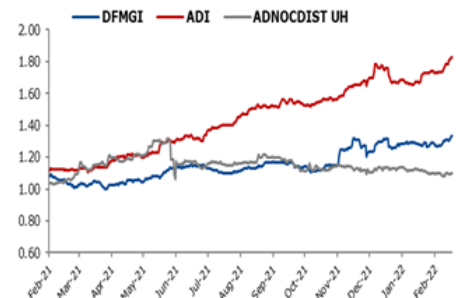
Sector: Oil & Gas

#### Recommendation

Current Price (18-Feb)	4.11
Target Price	4.82
Upside/(Downside) (%)	+17%

#### Stock Information

Market Cap (mm)	51,375.00
Paid Up Capital (mm)	1,000.00
52 Week High	5.01
52 Week Low	3.85
3M Avg. daily value (AED)	48,455,320



#### Financial Ratios

Dividend Yield (12m)	5.00
Dividend Pay-out (%)	116.76
Price-Earnings Ratio (x)	22.87
Price-to-Book Ratio (x)	16.04
Book Value (AED)	0.26
Return-on Equity (%)	67.87
Earning Per Share (AED)	0.18
Beta	0.53

#### Stock Performance

5 Days	-0.24%
1 Months	-1.91%
3 Months	-2.84%
6 Months	-9.67%
1 Year	3.01%
Month to Date (MTD)	-0.48%
Quarter to Date (QTD)	-3.75%
Year to Date (YTD)	-3.75%

there are 12 Stations under execution in Dubai. Moreover, the Company has signed new Sales agreements in the commercial business during the FY 2021, with experts of ADNOC Voyager lubricants growing to 19 countries.

ADNOC Distribution has reported a strong operating performance for the FY 2021, with an improvement in the Total fuel volumes that increased by 5.6% YOY reaching 9,139 million liters, up from 8,657 million liters in 2020, supported by the vaccine roll out and further ease in mobility restrictions. Moreover, the Retail fuel volumes have increased by 11% YOY standing at 6,384 million liters in the year ended 2021. While the commercial fuel volumes dropped by 5% YOY to 2,755 million liters, down from 5,758 million liters in 2020, driven by 13.1% YOY lower Aviation customers to 471 million liters, down from 542 million liters. The Company's Revenue has increased by 29.7% YOY to AED 20.9 Bn in 2021, compared to AED 16.1 Bn in 2020. Similarly, the Direct Costs have strongly increased by 53.5% YOY to AED 15.9 Bn, up from AED 10.3 Bn in 2020. As a result, the Gross profit declined by 12.8% YOY reaching AED 5.04 Bn at the year ended 2021, down from AED 5.78 Bn in the same period last year, with a Gross profit margin (GPM) equal to 24.1% in 2021, down from 35.8% in 2020. Furthermore, ADNOC's EBITDA has dropped by 2.7% YOY to AED 3.07 Bn, as compared to AED 3.15 Bn in 2020, mainly attributed to an increase by 7.7% YOY in the Depreciation & Amortization expenses standing at AED 638 Mn in 2021. Whereas the Underlying EBITDA excluding inventory losses/gains and one-off transactions, has also decreased by 25.4% YOY reaching AED 3.63 Bn in 2021. Meanwhile, the Non-fuel business continued to demonstrate a positive result, with the increase by 10.6% YOY in the Transactions to 34.4 million in 2021, as well as the improve by 33.2% in the Convenience stores margin. The Company's Interest Income has significantly decreased by 83.9% YOY to AED 8 Mn, up from AED 48 Mn in 2020. Interest expenses have also declined by 13% YOY to AED 185 Mn in 2021. Resultantly, ADNOC Distribution has reported a decline by 6% YOY in the Net profit to AED 2.3 Bn at the end of the year 2021, as compared to AED 2.4 Bn in 2020.

On the other hand, the Company continued showing a strong balance sheet and liquidity to pursue growth opportunities while maintaining an attractive shareholder payback. Total Assets have increased by 11% YOY to AED 13.7 Bn, up from AED 12.4 Bn in 2020. Add to that, the Company reflect a robust free cash flow generation, with a significant increase to AED 2.26 Bn in 2021. The Net debt has increased by 20% YOY to AED 3.24 Bn, up from AED 2.7 Bn in the year ended 31 December 2020, while the Net debt to EBITDA ratio stood at 1.06x at the end of 2021. Finally, ADNOC Distribution has recommended a cash dividend of AED 1.29 Bn for the second half of 2021 which is expected to be paid in April 2022, so this will bring the Total Dividend of 2021 to AED 2.57 Bn. Based on our analysis, we upgrade our rating to BUY on the stock.

**ADNOC Distribution - Relative Valuation**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021</b>
PE (X)	28.54	24.18	23.90	21.41	22.83
PB (X)	18.04	14.37	14.43	14.96	16.04
Dividend yield (%)	1.3%	2.8%	4.5%	4.9%	5.0%

*FABS estimate and Co data*

**ADNOC Distribution - P&L**

AED mm	4Q20	3Q21	4Q21	4Q21F	Var.	YOY Ch	QOQ Ch	2020	2021	Change
Revenue	4,146	5,398	6,223	5,695	9.3%	50.1%	15.3%	16,132	20,921	29.7%
Direct costs	-2,535	-4,195	-4,933	-4,425	11.5%	94.6%	17.6%	-10,349	-15,881	53.5%
<b>Gross profit</b>	<b>1,611</b>	<b>1,203</b>	<b>1,290</b>	<b>1,269</b>	<b>1.6%</b>	<b>-19.9%</b>	<b>7.2%</b>	<b>5,783</b>	<b>5,040</b>	<b>-12.8%</b>
Other income	25	14	-3	36	NM	NM	NM	114	72	-36.4%
Distribution & admin. Exp.	-766	-632	-668	-686	-2.7%	-12.9%	5.7%	-3,069	-2,649	-13.7%
Impairment & others Expenses	-3	-5	-7	-16	-58.7%	90.9%	19.8%	-267	-35	-87.0%
<b>Operating profit</b>	<b>866</b>	<b>580</b>	<b>613</b>	<b>604</b>	<b>1.5%</b>	<b>-29.3%</b>	<b>5.6%</b>	<b>2,560</b>	<b>2,429</b>	<b>-5.1%</b>
Depreciation & Amortization	153	157	189	150	26.2%	24.0%	20.8%	592	638	7.7%
<b>EBITDA</b>	<b>1,019</b>	<b>737</b>	<b>802</b>	<b>754</b>	<b>6.4%</b>	<b>-21.3%</b>	<b>8.8%</b>	<b>3,152</b>	<b>3,067</b>	<b>-2.7%</b>
Interest income	5	-1	1	4	-80.7%	-83.6%	NM	48	8	-83.9%
Interest expenses	-56	-50	-42	-48	-12.3%	-25.2%	-16.4%	-212	-185	-13.0%
<b>Net profit</b>	<b>815</b>	<b>529</b>	<b>571</b>	<b>560</b>	<b>2.0%</b>	<b>-29.9%</b>	<b>8.0%</b>	<b>2,396</b>	<b>2,252</b>	<b>-6.0%</b>

FABS estimate & Co Data

**ADNOC-Margins**

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	YOY Ch.
GPM	38.9%	22.3%	20.7%	-1,813	-156	35.8%	24.1%	-1,176
OPM	20.9%	10.7%	9.8%	-1,105	-90	15.9%	11.6%	-426
Net Profit margin	19.7%	9.8%	9.2%	-1,047	-62	14.9%	10.8%	-409

FABS estimate & Co Data

**Research Rating Methodology:**

<b>Rating</b>	<b>Upside/Downside potential</b>
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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