ADNOC Logistics & Services

First Half 2024 Earnings

Management Discussion & Analysis Report
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ADNOC Logistics & Services PLC
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أدنوك للإمداد والخدمات بي أل سي
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ADNOC Logistics & Services

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

Financial Highlights

ADNOC Logistics & Services plc ("ADNOC L&S" or the "Company") published its semi-annual financial results for the year-to-date June 30, 2024, once again demonstrating robust growth in revenue and profitability. This continuing strong financial performance is attributed to of the ongoing value-accretive delivery of the Company's transformational growth strategy; a rise in underlying demand; and enhanced operational efficiencies.

Once again, each business segment has delivered robust financial performance in the first half of 2024.

Integrated Logistics benefited from higher transported volumes and an enhanced contribution from Jack Up Barges (JUBs) driven by an expanded fleet, increased rates, and improved utilization. Additionally, the continued delivery of Integrated Logistics project activities (G-Island and Hail & Ghasha) and the growth of the owned fleet all contributed to profitable growth in the period.

Shipping benefited from robust charter rates for Tankers and Dry Bulk, along with additional earnings from the four new Very Large Crude Carriers (VLCCs) delivered in 2023.

Marine Services results grew driven by higher volumes in petroleum ports operations and by the marine terminal operations contract with ADNOC Offshore effective from 1 January 2024.

The company recorded outstanding revenues growth for the period increasing 42% to $1,740 million. EBITDA soared 42% year-on-year to $591 million with EBITDA margin 34%. Net profit increased 31% against H1 2023 to $401 million.

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
Revenue	1,740	1,225	42%	899	840	7%	632	42%
Direct Costs	(1,241)	(866)	43%	(641)	(600)	7%	(440)	46%
EBITDA [1]	591	417	42%	306	286	7%	219	40%
Margin	34%	34%	0%	34%	34%	0%	35%	(1%)
Net Profit	401	307	31%	208	194	7%	162	28%
EPS ($ /share)	0.05	0.04	31%	0.03	0.03	7%	0.02	28%
EPS (AED /share)	0.20	0.15	31%	0.10	0.10	7%	0.08	28%
Capital expenditures	(225)	(220)	3%	(100)	(125)	(20%)	(177)	(43%)
Free Cash Flow [2]	308	85	263%	150	157	(4%)	(98)	N/A

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
Total Equity	4677	4,158	13%	4,677	4,600	2%	4,158	13%
Net Debt [3]	(55)	(43)	(27%)	(55)	(54)	(2%)	(43)	(27%)
Net Debt / EBITDA	(0.05)x	(0.05)x		(0.04)x	(0.05)x	-	(0.05)x	-

[1] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

[2] *Free Cash Flow is calculated as EBITDA less working capital adjustments less income tax expense less capital expenditure*

[3] Net Debt and Cash is calculated as debt and debt-like items consisting of shareholder loan and current and non-current lease liabilities less cash and cash equivalents

H1 2024 financial highlights:

Revenue for H1 2024 was $1,740 million, up $515 million, (42%) against $1,225 million in H1 2023.

EBITDA for H1 2024 was $591 million, up $174 million, (42%) against $417 million in H1 2023.

Net Profit for H1 2024 was $401 million, up $94 million, (31%) against $307 million in H1 2023.

Total Shareholder Returns since IPO were 108% as at 30 June 2024.

Q2 2024 financial highlights:

Revenue for Q2 2024 was $899 million, up $267 million, (42%) against $632 million in Q2 2023; and an increase of $59 million, (7%) against $840 million for Q1 2024.

EBITDA for Q2 2024 was $306 million, up $87 million, (40%) against $219 million in Q2 2023; and an increase of $20 million, (7%) against $286 million for Q1 2024.

Net Profit for Q2 2024 was $208 million, up $45 million, (28%) against $162 million in Q2 2023; and an increase of $14 million, (7%) against $194 million for Q1 2024.

Segmental Results

Integrated Logistics

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
Revenue	1,132	729	55%	587	546	8%	378	55%
Direct Costs	(845)	(523)	62%	(436)	(409)	7%	(263)	66%
EBITDA (1)	329	232	42%	169	160	6%	131	29%
Margin	29%	32%	(3%)	29%	29%	(1%)	35%	(6%)
Net Profit	213	163	31%	109	104	5%	94	16%

(1) *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

Year-on-Year Performance

Integrated Logistics revenue grew 55% to $587 million in Q2 2024, from $378 million in Q2 2023. Revenue grew 55% to $1,132 million in H1 2024, from $729 million in H1 2023. This growth was driven by higher volumes and activity rates across business lines; increased utilization and average rates on Jack Up Barges (JUBs); along with growth investments in 2023 adding 25% to the JUB fleet; as well as expansion in owned fleet beyond JUBs. Planned progress on the G-Island EPC contract and the accelerated Hail & Ghasha project also contributed to the substantial period-on-period growth.

EBITDA was up 29% to $169 million in Q2 2024, from $131 million in Q2 2023. EBITDA was up 42% to $329 million in H1 2024, from $232 million in H1 2023. This was driven by revenue growth described above, in combination with continuous focus on improving asset utilization and cost-efficiencies.

Quarter-on-Quarter Performance

Revenue increased by 8% to $587 million in Q2 2024, from $546 million in Q1 2024. The increase was driven by an improvement in volumes was albeit activity was adversely impacted in Q1 2024 by adverse weather conditions; and planned progress on the EPC contracts.

EBITDA of $169 million in Q2 2024 was 6% higher than the $160 million achieved in Q1 2024.

ADNOC

Shipping

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
Revenue	**519**	**408**	**27%**	**268**	**251**	**7%**	**207**	**29%**
Gas Carriers	73	83	(12%)	40	33	21%	38	7%
Tankers	303	194	56%	153	150	1%	99	55%
Dry-Bulk and Containers	142	130	9%	75	68	11%	71	6%
Direct Costs	**(330)**	**(272)**	**21%**	**(173)**	**(158)**	**10%**	**(140)**	**24%**
Gas Carriers	(56)	(50)	11%	(28)	(28)	0%	(25)	11%
Tankers	(167)	(121)	38%	(87)	(79)	10%	(62)	41%
Dry-Bulk and Containers	(108)	(101)	7%	(57)	(50)	14%	(53)	9%
EBITDA [1]	**232**	**168**	**38%**	**119**	**114**	**5%**	**85**	**40%**
Gas Carriers	39	53	(27%)	24	15	60%	24	1%
Tankers	157	85	84%	76	81	(6%)	43	78%
Dry-Bulk and Containers	37	30	24%	19	18	5%	18	4%
Margin	**45%**	**41%**	**4%**	**44%**	**45%**	**(1%)**	**41%**	**3%**
Gas Carriers	53%	63%	(11%)	59%	45%	14%	63%	(4%)
Tankers	52%	44%	8%	50%	54%	(4%)	43%	6%
Dry-Bulk and Containers	26%	23%	3%	25%	27%	(1%)	26%	0%
Net Profit	**168**	**131**	**28%**	**85**	**82**	**4%**	**67**	**28%**
Gas Carriers	20	40	(50%)	13	7	98%	18	(25%)
Tankers	120	67	78%	58	62	(7%)	33	73%
Dry-Bulk and Containers	28	24	16%	15	14	6%	16	(6%)

[1] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

Gas Carriers

Year-on-Year Performance

Revenue from Gas Carriers increased 7% to $40 million in Q2 2024, compared to $38 million in Q2 2023. This was mainly due to the deployment of a newly-acquired second-hand VLGC at the end of Q1 2024. Revenue decreased 12% to $73 million for H1 2024, from $83 million in H1 2023. The decrease was mainly driven by spot hire of two LNG Carriers at higher spot market rates in H1 2023 and technical off-hire of one LNG vessel in Q1 2024; partially offset by the deployment of the newly-acquired VLGC from the end of Q1 2024.

EBITDA was flat at $24 million in Q2 2024, compared to Q1 2024. EBITDA decreased 27% to $39 million for H1 2024, from $53 million for H1 2023 due to same factors impacting revenue.

Quarter-on-Quarter Performance

Revenue increased 21% to $40 million in Q2 2024, from $33 million in the previous quarter due to the deployment of a newly-acquired second hand VLGC from the end of Q1 2024; in addition to the technical off hire of one LNG Carrier in Q1 2024.

EBITDA of $24 million in Q2 2024 was 60% higher than the $15 million achieved in Q1 2024 due to the same factors impacting revenue.

Tankers

Year-on-Year Performance

Revenue from Tankers increased 55% to $153 million in Q2 2024, compared to $99 million in Q2 2023. Revenue increased 56% to $303 million for H1 2024, from $194 million H1 2023. This growth primarily resulted from higher charter rates for Tankers; four newbuild VLCCs to the fleet delivered in 2023; increased tonne-miles driven by geopolitical tensions impacting shipping voyage distances (reducing availability) and hence also rates.

EBITDA was up 78% to $76 million in Q2 2024, from $43 million in Q2 2023. EBITDA increased 84% to $157 million for H1 2024, from $85 million in H1 2023, due to the same factors impacting revenue.

Quarter-on-Quarter Performance

Revenue is slightly up by 1% to $153 million in Q2 2024, from $150 million in the previous quarter.

EBITDA of $76 million in Q2 2024 was 6% lower than the $81 million achieved in Q1 2024, due to slightly lower achieved rates.

Dry-Bulk and Containers

Year-on-Year Performance

Revenue from Dry-Bulk increased 6% to $75 million in Q2 2024, compared to $71 million in Q2 2023. Revenue increased 9% to $142 million for H1 2024, from $130 million in H1 2023, mainly driven by higher charter rates.

EBITDA was up 4% to $19 million in Q2 2024, from $18 million in Q2 2023. EBITDA increased 24% to $37 million for H1 2024, from $30 million in H1 2023, driven by the same factors impacting revenue.

Quarter-on-Quarter Performance

Revenue increased 11% to $75 million in Q2 2024, from $68 million in Q1 2024, mainly due to higher chartering activity.

EBITDA of $19 million in Q2 2024 was 5% higher than $18 million achieved in Q1 2024 due to the same factors impacting revenue.

Marine Services

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
Revenue	89	88	1%	45	43	4%	47	(4%)
Direct Costs	(66)	(71)	(7%)	(32)	(33)	(4%)	(38)	(14%)
EBITDA [1]	29	17	64%	18	10	76%	9	95%
Margin	32%	20%	12%	40%	24%	17%	20%	21%
Net Profit	17	8	100%	12	5	153%	5	160%

[1] *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization*

Year-on-Year Performance

Revenue from Marine Services decreased 4% to $45 million in Q2 2024, from $47 million in Q2 2023 due to one-off equipment services performed in Q2 2023. Revenue was marginally up 1% to $89 million for H1 2024, from $88 million in H1 2023. This was driven by higher activity levels in petroleum ports operations coupled with the execution of Marine Terminal Operations contract with ADNOC Offshore, effective 1 January 2024.

EBITDA was up 95% to $18 million in Q2 2024, from $9 million in Q2 2023. EBITDA increased 64% to $29 million for H1 2024, from $17 million in H1 2023, driven by higher activity levels in petroleum port operations coupled with one-off other income for liquidated damages recovered on late deliveries of smaller assets.

Quarter-on-Quarter Performance

Revenue increased 4% to $45 million in Q2 2024, from $43 million in Q1 2024.

EBITDA of $18 million in Q2 2024 was 76% higher than the $10 million achieved in Q1 2024 mainly due to one-off other income for liquidated damages recoveries, and operating cost improvements achieved.

Free Cash Flow

USD Million	H1 24	H1 23	YoY %	Q2 24	Q1 24	QoQ %	Q2 23	YoY %
EBITDA [1]	591	417	42%	306	286	7%	219	40%
Working Capital Adj.	(17)	(114)	(85%)	(33)	17	N/A	(142)	76%
Income Tax	(41)	2	N/A	(22)	(20)	12%	2	N/A
Operating Free Cash Flow	533	305	75%	251	283	(11%)	79	218%
Capital Expenditure [2]	(225)	(220)	3%	(100)	(125)	(20%)	(177)	(43%)
Free Cash Flow	308	85	263%	150	157	(4%)	(98)	254%

(1) *EBITDA is calculated as profit before income tax, finance costs, finance income, depreciation and amortization.*
(2) *Refer to Note 11: Property, Plant and Equipment in Financial Statements for further details.*

In the first half of 2024, Operating Free Cash Flow increased 75% ($228m) to $533 million, driven by the continued growth in underlying profitability.

In the first half of 2024, free cash flows reached $308 million, marking an increase of $223 million from $85 million in 1H 2023. This continued growth and outperformance in free cash flow delivery through improved profitability and working capital management sees the business well-positioned to save on financing costs as the delivery of value-accretive transformational growth investment continues using free cash flows after dividends ahead of debt-financing.

In H1 2024, ADNOC L&S committed $225 million to capital expenditures, on top of announcing the acquisition of Navig8, subject to regulatory approvals. The company added $312 million in property, plant and equipment in H1 2024 (refer Note 6 PPE (Additions) in Financial Statements for further details). Since 30 June, the Company has announced signing for 8-10 newbuild LNG Carriers for $2.5b, contracted to ADNOC subsidiaries on 20 years' time charters; signing for 9 newbuild Very Large Ethane Carriers (VLECs) for $1.4bn contracted on 20 years' time charter contracts to Wanhua Chemical Group subsidiaries; and signing for 2-4 newbuild Very Large Ammonia Carriers (VLACs) for participation in the large-scale ammonia transportation market.

Outlook

Group

The Company revised its 2024 outlook upwards:

- Group Revenues: The Company revised annual revenue growth upwards to the low to mid 30% range in 2024 (previously low 30% range YoY). Over the medium term (2024-2028), the Company expects high single-digit year-on-year percentage growth.
- Group EBITDA: The Company anticipates annual EBITDA growth from 2023 to 2024 in the low 30% range. Over the medium term (2024-2028), the Company targets average annual EBITDA growth in the mid-teens percentage wise.
- Group Net Income: The Company expects annual year-on-year net income growth in the low 20% range into 2024. Over the medium term, the Company targets average annual net income growth in the low percentage teens.
- Dividend policy: Remains unchanged with a projected total dividend payable for 2024 of $273 million (5% increase from 2023 annualized dividend), payable 50% for 1H 2024 in Q4 2024, subject to approvals.
- Capital Structure: The Company targets a 2.0-2.5x net debt / EBITDA ratio over the medium term, with debt and free cash flows after dividends being the primary funding sources for growth investments.

Segmental Medium-Term Outlook

1. Integrated Logistics
   - Revenue: We expect revenue growth in the mid-40% range in 2024. Q1 weather delays & deferred progress on G-Island have been more than offset by strong non-ILSP logistics activity & JUB fleet growth, utilization & rates. Over the medium term, we expect mid to high-single digit percentage YoY growth; lower project / EPC contracts (around $200-300 million) offset by growth in ILSP, non-ILSP and JUBs.
   - EBITDA: We expect EBITDA growth in the high 30% range in 2024. Over the medium term, we expect mid-single digit percentage YoY growth beyond 2024 driven by growth in non-ILSP outlook; continued strength in JUBs; and additional projects in Onshore to deliver continuing growth.

2. Shipping
   - Revenue: We expect revenue growth upwards in the low to mid-teens percentage range YoY growth in 2024 (previously mid to high single digit YoY growth).
     - For Gas Carriers, we anticipate a slight reduction in 2024 performance due to sales of older assets to benefit from market pricing; mid 20%s YoY growth (2025-27) due to delivery of new fleet (6x LNG Carriers) offset by older asset sales (previously c.30% YoY growth over 2025-27).
     - Tankers market is expected to have a strong rate environment in 2024 to continue delivering higher than expected growth.
     - For Dry-Bulk and Containers, we anticipate strong rates in 2024.

- EBITDA: We expect EBITDA percentage growth in the high 20% range YoY in 2024 driven by strong rates on Tankers and Dry-Bulk (previously high teens to low 20% YoY growth). Over the medium term, we target slightly lower average annual EBITDA growth to the mid-teens YoY due to the timing difference between asset sales and deliveries, and the lower container earnings outlook (previously high teens to low 20% YoY growth).

3. Marine Services
   - Revenue: We expect revenue growth in the mid-single digit percentage YoY in 2024 (previously low-single digit YoY growth). The long-term stable nature of Marine Services contracted activity in Petroleum Ports Operations and Oil Spill Response Services provides strong revenue visibility. Consequently, we expect revenues to grow in the low to mid-single digit percentage range YoY over the medium term.
   - EBITDA: We expect EBITDA growth in the high-single digit percentage range YoY in 2024. We expect Marine Services EBITDA to grow in the flat to low-single digit percentage range YoY over the medium term.

Earnings Conference Call Details

ADNOC L&S will host the earnings webcast and conference call followed by a Q&A session for investors and analysts on Wednesday, August 07, 2024, at 2:00 pm UAE time / 11:00 am UK time.

The call will be hosted by Abdulkareem Al Masabi (CEO) and Nicholas Gleeson (CFO). Interested parties are invited to join the call by clicking here .

About ADNOC Logistics & Services

ADNOC Logistics & Services, listed on the Abu Dhabi Securities Exchange (ADX symbol ADNOCLS / ISIN “AEE01268A239”) is a global energy maritime logistics company based in Abu Dhabi. Through its three business units; Integrated logistics, Shipping and Marine Services, ADNOC L&S delivers energy products to more than 100 customers in over 50 countries.

To find out more, visit: www.adnocls.ae
For investors enquiries, please contact: IR@adnocls.ae

Cautionary Statement Regarding Forward-Looking Statements

This communication includes forward-looking statements which relate to, among other things, our plans, objectives, goals, strategies, future operational performance, and anticipated developments in markets in which we operate and in which we may operate in the future. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond our control and all of which are based on management's current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "would", "intends", "estimates", "plans", "targets", or "anticipates" or the negative thereof, or other comparable terminology. These forward-looking statements and other statements contained in this communication regarding matters that are not historical facts involve predictions and are based on the beliefs of our management, as well as the assumptions made by, and information currently available to, our management. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to: our ability to enter into strategic alliances and third party transactions; ; failure to successfully implement our operating initiatives and growth plans, including our cost savings initiatives, due to general economic conditions, our reliance on information technology to manage our business; laws and regulations pertaining to environmental protection, operational safety, the extent of our related party transactions with other ADNOC Group companies; the introduction of new taxes in the UAE; failure to successfully implement new policies, practices, systems and controls that we implemented in connection with or following our IPO; any inadequacy of our insurance to cover losses that we may suffer; general economic, financial and political conditions in Abu Dhabi and elsewhere in the UAE; instability and unrest in regions in which we operate; the introduction of new laws and regulations in Abu Dhabi and the UAE; and other risks and uncertainties detailed in our International Offering Memorandum dated May 16th 2023 relating to our initial public offering and the listing of our shares on the Abu Dhabi Securities Exchange, and from time to time in our other investor communications. Except as expressly required by law, we disclaim any intent or obligation to update or revise these forward-looking statements.

Absolute figures and percentages included in this document have been subject to rounding adjustments.