ADNOC Gas . Q3 2023 Financial Results

Analyst Call Transcript

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- **Participants:**

Zoltan Pandi, ADNOC Gas, Vice President, Investor Relations
Mohamed Al Hashmi, ADNOC Gas, Chief Operating Officer
Peter van Driel, ADNOC Gas, Chief Financial Officer

- **Presentation:**

Zoltan Pandi, ADNOC Gas, Vice President, Investor Relations

Good afternoon and welcome to ADNOC Gas, Q3 2023 Earnings Call. My name is Zoltan Pandi. I am the Vice President of Investor Relations at ADNOC Gas. We have met many of you on the road this year. On behalf of the wider team, we are grateful for your continued interest and support.

If you go to slide two, as a publicly listed company, I need to remind you of our disclaimer on this slide, which we encourage you to read. It contains important information and we advise caution on the interpretation and limits of historical data and forward looking statements. For reference, the presentation slides are available on our Investor Relations website.

In addition to our usual disclosure, for the first time you can also find the data book uploaded to our website. I hope you'll find them.

Please go to slide three. Presenting today is Mr. Mohammed Al Hashemi, ADNOC Gas Chief Operating Officer, as well as Mr. Peter van Driel, ADNOC Gas Chief Financial Officer. Following the presentation, we will open up for a Q&A session. I will now pass on to our Chief Operating Officer, Mr. Hashemi, to walk you through the highlights of the third quarter.

Mohamed Al Hashmi, ADNOC Gas, Chief Operating Officer

Thank you, Zoltan. And good afternoon. As-salaam ‘alykum. Thank you all for joining us today. During the third quarter of 2023, we achieved several significant milestones on the operational, financial, growth, and sustainability fronts.

On the operational front, our sales volume increased to 946 MMBTU, which is up by 4% compared to that Q3 2022 period, while maintaining world class reliability of 98.6% across all of our operations. We also continued the shift to higher margin liquids, which help mitigate some of the year-on-year pricing impact and demonstrate the flexibility in our operations.

On the financial front, our revenues increased to 5.8 billion, marking an 8% increase compared to quarter two of 2023. This growth is in line with the improving price environment and increased sales volumes. Our net income reached 1.81 billion, reflecting a 15% increase compared to quarter two of 2023 and resulting in net income of 3.4 billion for the first nine months of 2023. During the first nine months of 2023, we generated a free cash flow of 3.6 billion, which is sufficient to cover the annual dividend of 3.25 billion. I am pleased to announce that the Board has approved our first interim dividend of 1.6 to 5 billion, which we expect to pay by 14th of December 2023.

On our growth projects, we awarded EPC contracts for two important growth projects, MERAM and Estidama, with a contractual value of 3.6 billion and 1.3 billion respectively. We also signed LNG agreements with Indian Oil, JAPEX, Petrochina, JERA, bringing the total value of the LNG supply deals since our listing in March to between $9 and $12 billion.

On our sustainability front, we have taken significant steps in line with ADNOC Gas' ESG strategy. We recently awarded a contract for the construction of the largest carbon capture units in MENA and pipeline infrastructure, and a network of wells for CO2 injection at the Habshan gas processing plant with a 1.5 million tonnes per annum carbon emission reduction capacity. On HSE performance during Q3, we continue to operate a very safe operation and sustain a first quartile performance with a Total Recordable Injury Rate, which is .09%. Go to the next slide.

Given our high-quality asset base, the location of assets, with our assets, and unique position to access ADNOC' vast natural gas resources, ADNOC Gas is well placed to benefit from domestic and international demand growth for natural gas as markets gradually transition towards lower carbon emissions. To the next slide, please.

You have seen this chart before, which illustrates our systematic approach to increase our returns, improve energy security, de-risk demand and reduce emissions. As I said earlier, we have several significant projects in motion and in different stages of the project taken from a selection to define an execution. As demonstrated in the slide. As I noted earlier, we have announced a number of contracted awards during the past period that are supportive of our stated growth strategy. And let me share a few of these projects.

MERAM, which is in the execute phase, relates to the maximization of the ethane recovery and aims to achieve dual objective: Firstly, to increase ethane extraction from ADNOC Gas's existing onshore facilities in the Habshan complex grow the construction of a new gas processing facilities. Secondly, to unlock further value from existing feedstock and deliver through the ways via dedicated 120 kilometers of NGL pipeline. In August, we awarded a significant contract for the commissioning of a new gas processing facilities with a 70% of the $3.6 billion award value to flow back into the UAE economy and ADNOC's successful in-country value program.

For the Estidama project, all sources in the executed phase involve the construction of 350 kilometer of pipeline to connect to the Northern Emirates of the UAE and aid in fulfilling identified commercial opportunities. In Q3, we awarded a combined $1.3 billion of construction contracts to enable the delivery of these critical projects. In summary, we have a range of projects that will allow us to leverage upstream growth, increase our processing capacity and enhance our product mix to extract value from the existing streams. Importantly, our projects will both increase capacity and drive efficiency gains from existing capacity, thus enabling margin expansion.

With that, I will pass now to our CFO, Mr. Peter van Driel, who will take you through our financial performance.

Peter van Driel, ADNOC Gas, Chief Financial Officer

Thank you Mohamed and good afternoon everybody. As Mohammed just noted, we are seeing an improving price environment in the Third Quarter of '23 compared to the previous quarter. However, we want to draw your attention to the fact that Brent crude prices in the Third Quarter of this year are still 12%. 12% lower year-on-year.

LNG, LPG, and NAPHTHA prices also declined for -- just the prior year and they fell by 12, 31, and 6% respectively. I would like to note, however, if I look at October. In October the prices improved across all markers, which is news that we of course welcome.

On sales, I am pleased to share that we achieved the highest quarterly sales volumes in this quarter, due to Q3 23 since Q1 22. This is all supported by strong domestic demand and also fewer scheduled shutdowns across our facilities than in the first half of this year. Sales increased both against the Q3 22 and the Q2 23 periods by 4 and 5% respectively. As previously mentioned, we also continue to shift to higher-margin liquids, demonstrating the flexibility in our operations.

The financial data. EBITDA. Let me start there. EBITDA for the first nine months of this year, as reported at $5.4 billion dollars, and that is 20% lower than the prior year. And this is primarily due to the lower pricing environment. And to a certain extent it is offset by lower cost of feedstock and stronger volumes. If we look at Q3 23, which you see on the right hand side of the slide, you will notice that it is also lower, in terms of EBITDA, than last year and explained again by this price.

If, however, we look at the bottom left graph in which you see Q2 23 versus Q3 23, you notice the impact of a more stable pricing environment and that translates actually in a EBIDTA that improved by 5%. So to Q2 to Q3.

Net income. In the first nine months this year, net income was 3.4 billion, and that is a 10% drop from the 3.7 last year in that same nine-month period. And again, a reflection of the strong pricing environment in 22. And again, we managed to partly offset the rising back by means of higher volumes and of course we have lower taxes to pay. And the same is true if we Q-on-Q, Q2 23 versus the same period last year, net income was down 4% in the first quarter of this year, 1.1 billion. Consistent with EBIDTA, you see that if we compare the first quarter with the second quarter of 23 or by the impact of a price environment is actually helping our income. You see that we had a 13% increase in results and that gave us a net income of $1.1 billion dollars.

Now free cash-flow. Same logic. We look at the nine months and we look at the quarter-on-quarter. If I look at the first nine months of this year, we generated $3.6 billion in free cash flow, down from 4.2 last year. This is due to the lower EBIDTA that I just explained, the negative pricing variance in it. And Q3 23 compared to last year also was lower. Again, we saw the impact of price, but we were able to offset the impact to a certain extent by lowering capital expenditures. The capital expenditures in the first nine months of the year amounted to 746 million. And this is on the back of growth products -- projects like Estidama and MERAM. And of course we also have to fund our ongoing maintenance and shutdown programs.

The company has a shutdown program and our solid asset management systems. They continue to demonstrate the effectiveness of our operations to maintenance, in particular. Over the nine month period, in this year, we spent 374 million sustaining our assets and turnaround activities. And with that, we enhanced technical and economical life of our infrastructure.

So on the slides you see in front of us, it is basically a recap of what I just shared with you. You see all the metrics. I don't want to go into the numbers. You heard them before, but we believe it's always good to have a comprehensive overview of our performance and in this year and the pro forma statements for the last year. Let's go to the next slide, please.

Let's talk about dividends and the outlook. I'm pleased to report that we generate sufficient free cash flow in nine months to pay for the full year dividend. So after nine months, we've covered the dividend in full. And in addition to that, our liquidity position is strong. We have enough retained earnings and all of that enables us to pay an interim dividend. And that, I want to emphasize is, is completely consistent with what we've been saying all along since the day of the IPO of ADNOC Gas on March the 13th. And the board has approved the dividend as well. It is 50% of the total of 325, and that gives you 1,675 billion. And we expect to pay that on the 14th of November 2023 – the 14th, December 2023.

Forward looking guidance with all the comments as you saw on the first slide with precaution around our forward-looking statements. And we continue to make some progress delivering our long term growth strategy and maximizing the returns for our shareholders. And we continue that -- and we've said this all along, we are a stable and predictable margin business and consequently also for the remainder of 23, EBIDTA margins will be about 33%.

Volumes will be slightly higher than what we previously expected. And you saw the impact there of when I made the comparison between the second and the third quarter of this year. Unit net profit margins stay in the same range that we have achieved to date, but we see a slight uplift in our domestic estimation. And as we've explained to many of you, we benefit from the strategic imperatives of the ADNOC Group to expand the production capacity from 4 to 5 million barrels per day by 2027. And ADNOC Gas is able to accommodate this growth 4 to 5 million barrels per day. Also, no later than 27. And we will spend in our five year program an amount of $14 billion dollars, and that's very much aimed at our growth fortunes portfolio and it emphasis a range of projects that ensures we continue to accommodate leverage, the expansion of the upstream colleagues.

And we also focus on making the most of what we have in our existing infrastructure and invest in that, for example, by means of de-bottlenecking of infrastructure. As I mentioned before, we've got a $3.6 billion dollars of free cash flow generated in the first nine months of this year. And that means that the target dividend for the full year of 23 of 3.25 billion is now fully covered. And subsequently in coming years, we expect to grow the dividend of $3.25 billion dollars by 5% every year. So that will happen in the period 24 to 27.

And the growth in dividend that reflects our strong and very visible future cash flows and they provide sufficient headroom to invest in the long term future growth and also to provide you, a shareholder, with stable returns.

Now, let me conclude with we're pleased with the progress we're making on our journey. We continue to be successful in supporting ambitions of both ADNOC and the UAE. We continue to deliver and do that in a way, in an innovative and in a reliable as well as a safe manner, both for our domestic gas and for our energy operations. And we deliver the value to the shareholder throughout the cycle. After all, ADNOC Gas is a predictable margin business, but we continue to invest in growth and also in profit enhancements. And all of that, as I said before, is underpinned by world class efficiency in everything we do.

I would like to thank you again for joining us today. And of course, more than happy to answer any of your questions. And with that, I would like to hand back to the operator. Thank you.

Operator

Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure your device is unmuted locally. As a reminder that is star one on your telephone keypad to ask a question.

[Pause]

We have no questions, but this concludes our Q&A and I hand back to Zoltan Pandi, Vice President of Investor Relations for closing remarks.

Zoltan Pandi, ADNOC Gas, Vice President, Investor Relations

Thank you. In case you have further questions, please feel free to reach out to the Investor Relations team of ADNOC Gas. Thank you very much.

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