ADNOC

ADNOC Logistics & Services

First Half 2023 Earnings

Management Discussion & Analysis Report
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ADNOC Logistics & Services PLC
Part of Level 28, 28, Al Sarab Tower, Abu Dhabi Global
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أدنوك للإمداد والخدمات بي أل سي
جزء من الطابق 28، الطابق 28، برج السراب، مربعة سوق
أبوظبي العالمي، جزيرة الماريا، أبوظبي، الإمارات العربية المتحدة

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") reported its first results after its successful 1 June 2023 listing, delivering continued earnings growth in the second quarter ending June 30, 2023. Revenue in the first half of the year amounted to $1,225 million, with EBITDA reaching $417 million and net profit of $307 million. EBITDA margin reached 34.1% for the first half of 2023.

USD Million	Q2 23	Q1 23	*QoQ %*	Q2 22	*YoY %*	H1 23	H1 22	*YoY %*
Revenue	632	592	7%	443	43%	1,225	756	62%
Direct Costs	(440)	(426)	3%	(363)	21%	(867)	(635)	37%
EBITDA (1)	219	199	10%	94	132%	417	145	188%
Margin	34.5%	33.6%	1%	21%	13%	34.1%	19.2%	15%
Net Profit	162	145	12%	56	189%	307	72	327%
EPS ($ /share)	0.02	N/A	N/A	N/A	N/A	0.04	N/A	N/A
EPS (AED /share)	0.07	N/A	N/A	N/A	N/A	0.15	N/A	N/A
Capital expenditures	177	43	312%	93	90%	220	258	(15%)
Free Cash Flow (2)	(101)	183	(155%)	(1)	NM	82	(205)	(140%)

USD Million	Q2 23	Q1 23	*QoQ %*	Q2 22	*YoY %*	H1 23	H1 22	*YoY %*
Total Equity	4158	3995	4%	1601	160%	4158	1601	160%
Net Debt	(43)	(259)	(83%)	507	(108%)	(43)	507	(108%)
Net Debt / EBITDA	(0.05)x	(0.33)x		1.35x		(0.05)x	1.75x	

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

(2) *Free Cash Flow is defined as Operating Free Cash Flow less Capital Expenditure. Operating Free Cash Flow is defined as EBITDA and Total Working Capital Adjustments less income tax expense*

(3) *Net Debt and Cash is defined as debt and debt-like items consisting of shareholder loan and current and non-current lease liabilities less cash and cash equivalent balances*

Capitalizing on the Zakher Marine International ("ZMI") acquisition and the success of the May-2022 launched Integrated Logistics Services Platform ("ILSP"); as well as continued upward trend in rates in Gas carriers and Tankers segments; ADNOC L&S delivered strong results growth for the second quarter and first six months of the year when compared to last year's results.

ADNOC

Revenue for the three-month period ended 30 June 2023 was $632 million, an increase of $40 million, or 7%, compared to $592 million for the three-month period ended 31 March 2023. Revenue increased by $189 million, or 43%, compared to $443 million for the three-month period ended 30 June 2022.

Revenue for the six-month period ended 30 June 2023 was $1,225 million, an increase of $469 million, or 62%, compared to $756 million for the six-month period ended 30 June 2022.

EBITDA for the three-month period ended 30 June 2023 was $219 million, an increase of $19 million, or 10%, compared to $199 million for the three-month period ended 31 March 2023. EBITDA increased by $124 million, or 132%, compared to $94 million for the three-month period ended 30 June 2022.

EBITDA for the six-month period ended 30 June 2023 was $417 million, an increase of $272 million, or 188%, compared to $145 million for the six-month period ended 30 June 2022.

Net Profit for the three-month period ended 30 June 2023 was $162 million, an increase of $17 million, or 12%, compared to $145 million for the three-month period ended 31 March 2023. Net Profit increased by $106 million, or 189%, compared to $56 million for the three-month period ended 30 June 2022.

Net Profit for the six-month period ended 30 June 2023 was $307 million, an increase of $235 million, or 327%, compared to $72 million for the six-month period ended 30 June 2022.

Segmental Results

Integrated Logistics

USD Million	Q2 23	Q1 23	*QoQ %*	Q2 22	*YoY %*	H1 23	H1 22	*YoY %*
Revenue	378	351	8%	182	108%	729	309	136%
Direct Costs	(262)	(261)	1%	(166)	58%	(523)	(271)	93%
EBITDA [(1)]	131	101	30%	15	773%	232	37	519%
Margin	35%	29%	6%	8%	27%	32%	12%	20%
Net Profit	94	69	36%	3	NM	163	14	NM

YoY Performance

Integrated Logistics revenue was up 108% to $378 million in the 3-month period ended 30 June 2023, from $182 million in the same period last year. This is a revenue increase of 136% to $729 million in the 6 months period ended 30 June 2023, from $309 million in the same period last year. The increase was largely driven by the operational impact of 23 Jack-up barges ("JUB's") and offshore support fleet acquired in the ZMI acquisition; the impact of the May 2022-deployment of the Integrated Logistics Services Platform ("ILSP"); and the initiation of works supporting the Hail and Ghasha project.

EBITDA was up 773% to $131 million in the 3-month period ended 30 June 2023, from $15 million in the same period last year. This is an increase of 519% to $232 million in the 6 months period ended 30 June 2023, from $37 million in the same period last year. This was driven by the increased revenues coupled with a focus on operational and cost-efficiency.

QoQ Performance

Revenue increased 8% to $378 million in the second quarter, from $351 million in the previous quarter. The increase was mainly due to increased volumes managed through ILSP and higher JUB utilization and rates.

EBITDA of $131 million in the quarter was 30% higher than the $101 million achieved in the previous quarter. This was mainly due to higher margins achieved on JUB's coupled with higher volumes and cost efficiencies achieved in ILSP and Non-ILSP.

SHIPPING

USD Million	Q2 23	Q1 23	*QoQ %*	Q2 22	*YoY %*	H1 23	H1 22	*YoY %*
Revenue	**208**	**200**	**4%**	**223**	**(7%)**	**408**	**373**	**9%**
Gas carriers	38	45	(17%)	31	22%	83	68	23%
Tankers	98	96	2%	82	20%	194	124	56%
Dry-bulk shipping	71	59	20%	110	(35%)	130	181	(28%)
Direct Costs	**(140)**	**(132)**	**6%**	**(162)**	**(14%)**	**(272)**	**(294)**	**(7%)**
Gas carriers	(21)	(25)	(16%)	(17)	24%	(46)	(37)	24%
Tankers	(62)	(59)	5%	(70)	(11%)	(121)	(127)	(5%)
Dry-bulk shipping	(57)	(48)	19%	(75)	(24%)	(105)	(130)	(19%)
EBITDA (1)	**85**	**83**	**2%**	**75**	**13%**	**168**	**104**	**61%**
Gas carriers	28	29	(3%)	18	56%	57	40	43%
Tankers	43	43	1%	21	105%	85	13	554%
Dry-bulk shipping	14	12	17%	36	(61%)	26	52	(50%)
Margin	**41%**	**42%**	**(1%)**	**34%**	**7%**	**41%**	**28%**	**13%**
Gas carriers	74%	64%	10%	58%	16%	68%	59%	9%
Tankers	44%	44%	0%	26%	18%	44%	10%	33%
Dry-bulk shipping	20%	20%	(0.7%)	33%	(13%)	20%	29%	(9%)
Net Profit	**67**	**64**	**5%**	**56**	**20%**	**131**	**68**	**93%**
Gas carriers	22	22	0%	13	69%	44	29	52%
Tankers	33	34	(3%)	9	267%	67	(8)	NM
Dry-bulk shipping	12	8	50%	34	(65%)	20	47	(57%)

Gas carriers

YoY Performance

Gas carriers' revenue was up 22% to $38 million in the 3-month period ended 30 June 2023, from $31 million in the same period last year. This is an increase of 23% to $83 million in the 6 months period ended 30 June 2023, from $68 million in the same period last year. The increase was mainly due to the charter-in of two additional vessels at higher charter rates to benefit from higher market spot rates.

EBITDA was up 56% to $28 million in the 3-month period ended 30 June 2023, from $18 million in the same period last year. This is an increase of 43% to $57 million in the 6 months period ended 30 June 2023, from $40 million in the same period last year. As explained above the increase was mainly due to chartering-in two additional vessels to take profit from higher spot market rates.

QoQ Performance

Revenue decreased 17% to $38 million in the quarter, from $45 million in the previous quarter. The decrease was mainly due to market seasonality in the spot contracts. Higher demand of product during wintertime has a direct impact on the market spot rates, with winter months typically benefiting from higher rates.

EBITDA of $28 million in the quarter was 3% lower than the $29 million achieved in the previous quarter. This was due to the reasons explained above.

Tankers

YoY Performance

Revenue for the Tankers segment was up 20% to $98 million in the 3-month period ended 30 June 2023, from $82 million in the same period last year. This is an increase of 56% to $194 million in the 6 months period ended 30 June 2023, from $124 million in the same period last year. The increase was mainly due to higher charter rates benefiting from the spot-deployed fleet.

EBITDA was up 105% to $43 million in the 3-month period ended 30 June 2023, from $21 million in the same period last year. This is an increase of 554% to $85 million in the 6 months period ended 30 June 2023, from $13 million in the same period last year. As explained above the increase was mainly due to improved spot market rates.

QoQ Performance

Revenue increased 2% to $98 million in the quarter, from $96 million in the prior quarter.

EBITDA in the quarter of $43 million was broadly in line with the prior quarter.

Dry-bulk shipping

YoY Performance

Revenue of Dry-bulk shipping was down 35% to $71 million in the 3-month period ended 30 June 2023, from $110 million in the same period last year. This is a decrease of 28% to $130 million in the 6 months period ended 30 June 2023, from $181 million in the same period last year. The decrease is a direct reflection of the downward trend in the dry market spot rates for the past 12 months, mainly due to unfavourable macroeconomic conditions, the Russia-Ukraine war, and the Chinese weaker economic outlook. This was partially offset by an increase in the container vessels, mainly due to higher volumes.

EBITDA was down 61% to $14 million in the 3-month period ended 30 June 2023, from $36 million in the same period last year. This is a decrease of 50% to $26 million in the 6 months period ended 30 June 2023, from $52 million in the same period last year. As explained above, the decrease is mainly due to lower market spot rates.

QoQ Performance

Revenue increased 20% to $71 million in the quarter, from $59 million in the previous quarter. The increase was mainly due to increased chartered-in vessels activity.

EBITDA of $14 million in the quarter was 17% higher than the $12 million achieved in the previous quarter. This was due to the reason explained above.

MARINE

USD Million	Q2 23	Q1 23	QoQ %	Q2 22	YoY %	H1 23	H1 22	YoY %
Revenue	47	41	15%	38	24%	88	74	19%
Direct Costs	(38)	(33)	15%	(33)	15%	(71)	(65)	9%
EBITDA (1)	9	8	13%	6	50%	17	10	70%
Margin	19%	20%	0%	15%	5%	19%	14%	6%
Net Profit	5	3	67%	3	67%	8	2	300%

YoY Performance

Revenue of the Marine segment was up 24% to $47 million in the 3-month period ended 30 June 2023, from $38 million in the same period last year. This is an increase of 19% to $88 million in the 6 months period ended 30 June 2023, from $74 million in the same period last year. The improvement in performance was driven by one-off equipment services and higher volumes managed through the Port and Oil Spill Response Centres services.

EBITDA was up 50% to $9 million in the 3-month period ended 30 June 2023, from $6 million in the same period last year. This is an increase of 50% to $17 million in the 6 months period ended 30 June 2023, from $10 million in the same period last year.

QoQ Performance

Revenue increased 15% to $47 million in the quarter, from $41 million in the previous quarter. The increase was mainly due to equipment supply and installation.

EBITDA of $9 million in the quarter was 13% higher than the $8 million achieved in the previous quarter.

Free Cash Flow

USD Million	Q2 23	Q1 23	QoQ %	Q2 22	YoY %	H1 23	H1 22	YoY %
EBITDA	**219**	**199**	**10%**	**94**	**134%**	**417**	**145**	**188%**
Working Capital Adj.	(141)	28	NM	(2)	NM	(113)	(92)	23%
Income Tax	(2)	-	NM	-	NM	(2)	-	NM
Operating Free Cash Flow	**76**	**226**	**(66%)**	**92**	**(17%)**	**302**	**53**	**469%**
Capital Expenditure	(177)	(43)	312%	(93)	90%	(220)	(258)	(15%)
Free Cash Flow	**(101)**	**183**	**(155%)**	**(1)**	**NM**	**82**	**(205)**	**(140%)**

Operating Free Cash Flow for the six months ended 30 June 2023 was $302m, up $249m from $53m in the first six months of 2022 mainly due to a higher EBITDA which was partially offset by a decrease in working capital. Free cash flows for the same period were $82 million, up $287 million from (negative) $205 million in the first half of 2022. Capital expenditure for the six months period ended 30 June 2023 totalled $220 million, supporting delivery of ADNOC L&S' smart growth strategy, with the final payment on the newbuild VLCC delivered during the quarter and other ongoing offshore projects. However, still the company has no debt, given strong positive free cash flows from operations.

Two newbuild VLCC's were delivered (year-to-date), with two due to be delivered later in the year. Newbuild vessel purchases are typically paid in instalments with the last instalment being settled on delivery.

Free Cash Flow (negative) $101 million in the second quarter of 2023 was lower than the previous quarter due to higher capital expenditure in the quarter coupled with negative working capital adjustments.

Liquidity and Capital Resources

Historically we have financed our growth capex with free cashflow from operating activities and loans from ADNOC. The shareholder loan from ADNOC amounting to $1.9 billion at 31 December 2022 was fully equitized during the first quarter of 2023.

On 5 May 2023, ADNOC L&S entered a $350 million revolving credit facility with ADNOC for an initial period of two years (plus one-year extension option exercisable at our discretion) which bears the interest rate calculated as the applicable SOFR + 85 basis points for the initial two-year period and the applicable SOFR + 95 basis points for the one-year extension period. As of 30 June 2023, given strong positive free cash flows from operations, we have not drawn on this loan facility.

On 5 May 2023, ADNOC L&S entered a $1,500 million term loan facility with ADNOC for an initial period of two years (plus one-year extension option exercisable at our discretion) which bears the interest rate calculated as the applicable SOFR + 85 basis points for the initial two-year period and the applicable SOFR + 95 basis points for the one-year extension period. As of 30 June 2023, given strong positive free cash flows from operations, we have not drawn on this loan facility.

Key Developments

On 8 June 2023, ADNOC L&S won a $975 million artificial island construction contract awarded by ADNOC Offshore. This award represents a new offering by ADNOC L&S in the provision of Engineering, Procurement and Construction (EPC) services in the integrated logistics business in line with the announced strategy to achieve significant ongoing growth, including expansion into new verticals. The EPC market is expected to experience substantial growth in the region in the coming years.

ADNOC L&S took a delivery of two of four newbuilds VLCCs to be delivered this year, as it continues its strategic fleet growth. These vessels are market-leading and environmentally efficient, largely due to their dual-fuel engine, which can also run on Liquified Natural Gas (LNG), significantly reducing their exhaust emissions.

ADNOC L&S has committed approximately $2 billion to building more environmentally efficient vessels and has successfully reduced the carbon intensity of its owned fleet by more than 20% since 2018.

Outlook

In keeping with guidance issued at the time of our IPO, medium-term target are as follows:

Group

- Consolidated Revenue: We target mid-to-high single digit growth year-on-year in the medium term.
- Consolidated EBITDA: We target an EBITDA margin of above 30% in 2023. Over the medium term, we target average annual EBITDA growth in the low teens towards an EBITDA margin of 35%.
- Capital Structure: We target 2.0-2.5x net debt / EBITDA over the medium term.

Segmental Medium-Term Targets

1. Integrated Logistics
    - Revenue: We target strong double-digit year-on-year growth in 2023 and 2024 including the impact of the new EPC contract. We target growth to continue in line with UAE inflation thereafter.
    - EBITDA: We target an EBITDA margin of approximately 30% in 2023, increasing to mid-30% levels afterwards in the medium term.
2. Shipping
    - Revenue:
        - For the Gas Carriers, we target a low single digit growth in the near term, with an increase of approximately 50% year-on-year starting from 2025 attributed to the delivery of six new-build LNG carriers, five of which already contracted to ADNOC Gas.
        - For the Tankers, we anticipate revenue growth in 2023 and revenue increases above UAE inflation levels thereafter in the medium term.
        - For Dry-bulk shipping, we have seen reductions in rates against the relatively strong rate environment of 2022, and we anticipate the lower rates to persist in the medium term. We anticipate revenue growth in line with UAE inflation from 2025 in the medium term.
    - EBITDA: We target mid-single digit margin expansion in 2023 and anticipate margins to be sustained at or near those levels in the medium term.
3. Marine Services
    - Revenue: We target mid to high single digits year-on-year growth in 2023. In the medium term, we target the growth rate in line with UAE inflation.
    - EBITDA: We target EBITDA margins above 20% in 2023 and at or near those levels in the medium term.

Dividend

The Board has adopted a dividend policy for the Group which targets shareholder value maximization and reflects the Company's strong earnings potential and cash flow generation, allowing the Company to retain sufficient capital to fund ongoing operating requirements and to invest in long-term value-accretive growth.

The Company intends to pay a dividend in Q4-2023 for 1H-2023. The Board will determine the dividend amount. At the time of listing the Company indicated a 1H-2023 dividend of $65 million. This would result in a dividend of AED 0.032 / share paid in Q4-2023. A final dividend is anticipated to be paid in Q2-2024 in relation to 2H-2023. At the time of listing the Company indicated a 2H-2023 dividend of $130 million.

Thereafter, the Company expects to increase the 2023 annual dividend per share on a progressive basis by at least 5% annual growth over the medium term, while regularly reviewing the policy considering value accretive growth opportunities. The Company intends to pay dividends twice each financial year, with an initial payment of the first-half results being paid in the fourth quarter of that year, and a second payment following second-half results being paid in the second quarter of the following calendar year.

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 Monday, Aug 07, 2023, 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 June 1st 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.