ADNOC Logistics & Services

Nine Months 2023 Earnings Call Transcript

13 November 2023

ADNOC Logistics & Services PLC
Part of Level 28, 28, Al Sarab Tower, Abu Dhabi Global
Market Square, Al Maryah Island, Abu Dhabi, UAE

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جزء من الطابق 28، الطابق 28، برج السراب، مربعة سوق
أبوظبي العالمي، جزيرة الماريا، أبوظبي، الإمارات العربية المتحدة

Corporate Participants

Abdulkareem Al Masabi – ADNOC L&S – Chief Executive Officer

Nicholas Gleeson – ADNOC L&S – Chief Financial Officer

Neeraj Kumar – ADNOC L&S – VP Investor Relations

Neeraj Kumar – *ADNOC L&S – Vice President, Investor Relations*

Hello and very good afternoon to everyone. Welcome to ADNOC L&S earnings call for the third quarter and nine months 2023. My name is Neeraj Kumar, I'm a Vice President, Investor Relations at ADNOC L&S. We are glad to have you attending our second earnings call since the IPO in June 2023. On behalf of the team on this call, we greatly appreciate the level of interest and support in ADNOC L&S. By now you should have received the third quarter earnings presentation. If you haven't, you can download it from our Investor Relations website. I also would like to direct your attention to our disclaimer on this slide before we begin. It contains important information, and we advise caution on the interpretation and limitations of historical data and forward-looking statements.

Presenting today will be Captain Abdulkareem, CEO, and Nicholas Gleeson, our CFO. I will hand over now to our CEO for his opening remarks.

Abdulkareem Al Masabi – *ADNOC L&S – Chief Executive Officer*

Thank you, Neeraj. A very good afternoon to you all. Thanks for joining us today.
I'm delighted to be here today and pleased to report another set of outstanding results driven by substantiated progress towards our smart growth strategy. Our continued profitable growth and strong positive cash delivery positions us well for our transformational investment program. And this cements our position as a global energy maritime logistics leader. We remain committed to rewarding our shareholders for their support and trust in ADNOC L&S.

Before we dive into the specifics on the financial performance, I would like to spend a few moments on our HSE record progress. And I said it last quarter and I will say it again today, that the ADNOC Group is fully committed to 100% HSE. At ADNOC L&S, we are focused on our goal of zero harm to our people or the community. We have an outstanding track record which is one of the best in the industry by any benchmark. As you can see in both charts on the slide, our significant efforts to reduce incident rates are delivering important progress.

On the right-hand side of the slide, you can see our recent recognition from IdeasUK. IdeasUK is a nonprofit organization that assists leading global companies specifically in developing and implementing innovation management systems and frameworks. We launched our own innovation program back in 2022. Since then, we have made great improvements and progress in this area in a very short space of time and are now certified as 'gold level' by IdeasUK. With that, let me hand over to Nick to update you in detail on the nine-months 2023 results. Over to you Nick.

Nicholas Gleeson – *ADNOC L&S – Chief Financial Officer*

Thank you, Captain Abdulkareem, and thank you very much to investors and analysts' community joining the call.
We deeply appreciate your interest and we're very proud to be able to present excellent results in our nine months update today. So once again, we're pleased to share a very strong performance across

key segments and line items in the business. Our revenues are up 49% for the nine months year on year, to $1.927 billion. Our EBITDA was up 124% to $635 million, and our net profit is up 162% to $455 million.

So, this high growth and robust profitability is driven in particular by the well-timed addition of high-quality assets and strongly value-accretive contracts and projects in the Integrated Logistics and Shipping segments.

We continue to execute on our smart growth strategy. You could say we're just getting started in fact, with much more to come. Through value-accretive growth and a progressive dividend policy, we're committed to delivering attractive shareholder returns. And along those lines, we've just announced our $65 million dividend for the second quarter of this year, in line with our IPO commitments.

ADNOC L&S is committed to our smart growth strategy of growing our Integrated Logistics and Shipping fleets by investing in high quality, environmentally efficient, profitably contractible assets. We've taken delivery of two VLCCs in this quarter, one in the first half, and the fourth is imminent for announcement. These are LNG dual-fuel assets at the leading end of environmental efficiency. We've also taken delivery of eight new jack-up barges, six owned and two chartered-in, growing our already market leading jack-up barge fleet by 25%. We continue also to grow our geographic footprint with assets and logistics into new geographies.

On the Integrated Logistics front, quarter on quarter revenue growth was 75% and nine months to nine months, 108% growth, which is driven by the ZMI acquisition in November 2022 along with the continued growth of ILSP volumes, and significant additional non-ILSP activity in Integrated Logistics, including EPC works commencing.

EBITDA performance has improved dramatically by 173% and 320% respectively between the quarter to quarter and the nine months to nine months growth due to growing revenues coupled with improving cost and logistics efficiency in the operation of our fleet.

Net Profit has grown by 159% and 414% respectively for the same reasons driving EBITDA. The outlook is positive across the business areas within Integrated Logistics, with ILSP volumes continuing to increase month on month, growth in the jack-up barge fleet and improved utilization on higher margin contracts. Full year, with the $975 million G Island Project in 2024 and a strong pipeline of incremental EPC opportunities as well as the onshore business and margins continuing to grow. So, across the board, we're experiencing great results: great growth and improvements in profitability.

If I look at Shipping, Shipping revenues and profitability are down quarter on quarter which is driven by the typical market weakness that we see in tanker rates in the third quarter of each calendar year. And by the dry bulk market being lower compared to 2022.

Gas rates continue to be strong and the outlook for tanker rates is very positive from a market perspective. Across tankers and gas shipping, we're constructive looking forward into the medium term with a low projected increase in fleet size over time but continuing strong demand across both vessel classes. On dry bulk, we anticipate the market remaining somewhat flat with potential for a moderate improvement in Q4 and into 2024.

On Marine Services, revenues are slightly down due to lower activity and port operations quarter on quarter but are up strongly nine months on nine months.

EBITDA is lower in Q3 due to our Hose change campaign which is a low margin activity. It's essentially the same on the revenue and cost line but steady year on year margin wise. Net profit is flat year on year and the outlook remains consistent with EBITDA margins remaining steady around 20%.

On the cash flow side, we see strong operating free cash flows, the strongest in the company's history actually, driven by robust profitable growth, which has been applied to capex without drawing significantly on the well-priced debt facilities we have in place. I recognize that low leverage might seem wasteful of those well priced facilities at the moment but bear in mind we're at the early stage of a significant value accretive investment cycle, and we have positive plans for application of that significant debt capacity. That's why you see the dividend remaining where it is, free cash flows in place, ready for that incremental investment coming next year and the subsequent few years.

On decarbonisation, fleet wide carbon intensity reduction initiatives continued to improve our performance in this respect towards ADNOC’s announced net zero 2045 ambitions. We're investing around $2 billion in carbon intensity reduction, including dual fuel capabilities, fuel consumption reduction initiatives such as hull coefficient improvements in newly designed vessels, vessel trim optimization, air lubrication systems and projects such as coal binding with shore power connection. Shore power systems construction packages are complete in Musaffah and Ruwais with vessel modifications ongoing. The Shipping segment is our main source of emissions representing around 80% of our emissions profile. So, most of the work has been done on that fleet.

Our decarbonisation journey began many years ago with significant improvements already having been made, reducing our Shipping carbon intensity by an estimated 39% compared to 2020. As an example, we expect to reduce emissions annually by 11,000 tonnes of carbon dioxide, 215,000 kilograms of nitrogen oxide, 3,300 kilograms of sulphur dioxide and 4,950 kilograms of particulate matter.

We move forward to the segmental medium-term targets. On Integrated Logistics, for revenues we anticipate strong double-digit year on year growth, the remainder of this year and into 2024. And then to follow the UAE inflation rates. On EBITA, we see ourselves growing into the mid 30 percentages short term on existing lines, bear in mind that the incremental EPC activities typically will achieve mid to high single digit returns which is in line with industry norms.

On the Shipping side, we see gas broadly in line with a stronger than anticipated 2023 performance with growth rates 30% plus on the revenue lines 2025 until 2027 due to the delivery of new LNG carriers. In the tanker fleet, we see slightly lower strength in 2024 against 2023. That's still very profitable with some weakness anticipated in VLCCs but with product tankers remaining strong. On dry bulk, we see performance consistent with 2023 and on the EBITDA side what this means is single digit margin expansion in 2024, with a higher proportion of time-chartered assets.

On Marine Services we see revenue growth in line with UAE inflation and EBITDA margins remaining around 20%. Remember, this is very long-term contracted business. So very predictable, very stable.

In terms of Group level targets, in aggregate, this means that we're going to see mid to high single digit consolidated revenue growth year on year in the medium term, consolidated EBITDA margins in the mid-30s, excluding those new EPC projects at those mid to high single digit margins. Organic growth capex, we still project $4 billion to $5 billion with significant upside potential on those numbers in the next few years, and this is the result of seeing increasing opportunities due to increasing outlook for ADNOC production, as well as the requirements of our external customers. We target mean leverage of 2.0 to 2.5 times net debt to EBITDA over the medium term.

And with that, I'll hand you back to Captain Abdulkareem for his closing remarks.

Abdulkareem Al Masabi – *ADNOC L&S – Chief Executive Officer*

Thank you, Nick.

To close, we have delivered an outstanding performance in the first nine months of 2023. And we have continued to deliver on our financial targets at the top and bottom line with strong revenue growth and continued EBITDA margin expansion and with impressive net profit growth of 162% year on year. We have continued to deliver on our smart growth strategy during the period having made further strong progress in growing sustainably and expanding our dual fuel environmentally efficiently fleet. We look forward to the delivery of our fourth environmentally efficient VLCC to further accelerate this strategic momentum. And looking ahead, we continue to actively seek smart well-timed growth opportunities to cement our position as a global energy maritime logistics leader.

Lastly, on dividends, let me reiterate our view on position. The company reaffirms its commitment to delivering attractive shareholder returns with the distribution of an interim dividend payment of $65 million earlier this month for Q2 2023. The final dividend for the second half of 2023 is anticipated to be paid in Q2 2024. At the time of listing, the company indicated a second half 2023 dividend of $130 million. With that, I would like to thank you again for joining us today. We prize our investors, as we do our team, our clients, suppliers, and business partners. And we'll be glad to answer any questions you may have. I will now hand back to Neeraj for Q&A.

Neeraj Kumar – *ADNOC L&S – Vice President, Investor Relations*

Thank you very much. This concludes our presentation. Now we're open to question and answers. You can put the questions in the chat, or you can raise your hand and we will pause for a few seconds to take the questions.

Anna Antonova, JP Morgan

Good afternoon. Congratulations on a very good set of results. One question from our side. Your capex run rates in the nine months of this year has been roughly half a billion dollars. I remember that at the time of the IPO you guided to spend more than 1 billion for the full year this year. So how should we think about your capex spend into Q4 and then into next year? Well, we understand that the capex run rates are still higher year over year, this year versus last year. You're still kind of lagging behind the capex spend. Does it mean that you will be catching up in Q4 or can we reasonably assume that your capex schedule is now shifting somewhat into 2024 and going forward? Thank you.

Nicholas Gleeson, CFO

Thank you. It's a really good question. I think you know what we see is yes, while our capex profile has grown this year compared to the prior year, we have stronger ambitions but will come in just short, I think, of the $1 billion capex for the full year, but no capex has been cancelled. Typically, when we're looking at capex opportunities, there are two other factors we need to keep in mind. One is the start date for the other underlying programs which we’re investing in the capex against. And the second is making sure we get assets at good market timing. So, we won’t just execute the capex for the sake of executing the capex. We're making sure that we pick up assets at the right price at the right time in the cycle to get the right outcomes for our investors. So, there's been no cancellation in the capex but what we expect is that this will ultimately be a deferral to later in the period.

Sathish Sivakumar, Citibank

I have two questions. So firstly, on the ILSP if I look at the margin in quarter three was slightly below that we are for the full year, right. Obviously, it's still at the margins from last year. How should we think about the margin evolution? Just want to understand, is there any seasonality that saw that small 1% below the run rate? Or do you think the margin will normalize at these levels for the rest of the year?

Nicholas Gleeson, CFO

Okay, so for Integrated Logistics and for ILSP we've seen the margin growing through the year, and that was anticipated. The reason that we see that is twofold. The first one is the acquisition of ZMI, and those vessels have been redeployed on contracts in a very healthy market environment. So, they're strongly driving profitability. On top of that, we see continued strength in both the ILSP and the non-ILSP segments of Integrated Logistics. So, across the board, those margins have been improving over time, and we think they're reaching a point which will be stable for some years to come. So, in the mid-30s, is what we've guided towards, and we've grown towards that during the year. We think we've reached a level now that we're able to sustain for some time. Did that answer your question? And do you want to move on to the second part?

Sathish Sivakumar, Citibank

Yes. So basically, you should expect it to be stabilized around these levels in the near term. And as we go into next year you probably get some pricing uplift, yes ? In terms of margin, so it's fair to say that it's kind of going to be stable around these levels, around 33 ?

Nicholas Gleeson, CFO

Yes, that's right.

Sathish Sivakumar, Citibank

My second question was more about what are the risks that you're seeing in terms of your actual delivery of vessels, right, because you do have tanker vessels coming in. And then you also have gas vessels and what's the conversation at the shipyard, are they on track?

Nicholas Gleeson, CFO

So, for the VLCCs, they're very much on track. The announcement of the fourth of the series of four VLCCs is imminent. The others have been delivered, they're on time, they're going straight to work, and they've been delivered in good quality. On the LNG carriers, they're some years out and set to be delivered 2025-26. Again, the outlook is positive for those, we remain in close dialogue with the shipyard, and we have good relationship with that yard already, so we feel confident.

Sathish Sivakumar, Citibank

And there's no cost escalation on the LNGs versus what has been committed at the time of agreement ?

Nicholas Gleeson, CFO

Nope – these were already contracted.

Sathish Sivakumar, Citibank

Okay, got it. Yeah. Thank you.

Nicholas Gleeson, CFO

I'm just reading a question that's coming through the online Q&A. Can management give us an indication of the revenue contribution and EBITDA margin profile of the new VLCCs that have joined the fleet this year?

So, we deliberately don't go asset by asset as we think we will create a burden for analysts and investors because we have 256 vessels in our fleet today. So, if we start to go down to a granular individual level, vessel by vessel level for assets that will become almost impossible to understand, but what we can tell you is those assets are operating in the spot market. They're fully employed. They're benefiting from the strength of that market as we speak today. And that's the best way to look at them is to look at market rates on those assets, which are doing rather well immediately to delivery.

Captain Abdulkareem Al Masabi, CEO

This side of the business basically is public. You can see what's the cost and what's the revenue these days on the spot market day by day.

Nicholas Gleeson, CFO

And then a second question from online: what has been the revenue and EBITDA contribution from ZMI so far this year? How is the business performing on a year-on-year basis?

Okay, so again, for ZMI, we have integrated ZMI in the Integrated Logistics business. Now, doing the direct end to end comparison is very difficult. And the reason for that is that some of those assets from the ZMI business operate together with ADNOC offshore through contracts established through our pre-existing offshore logistics business. There's a lot of integration. What we've done really is to bring a fleet of assets which complements very positively our pre-existing fleet and our pre-existing asset portfolio. So, we don't provide a back-to-back comparison, but what I can tell you is that in the jack-up barge market, we've seen that market significantly tighten since the acquisition. So, it's certainly a positive outcome, since the acquisition was complete, and if we looked at them as they existed before our acquisition against the value of being contributors today, certainly there's some significant upside there.

Abhishek Kumar, HSBC

So, my question is around the Integrated Logistics business and in particular, the EPC business that got started in that particular division. So just wanted to understand the current backlog of the EPC business and the bidding pipeline that's there? There is a significant difference in the margins of the EPC business versus the other parts of the business in the same division. So, can we get a breakup of those separately so that you know, it becomes easy for us to model that?

Nicholas Gleeson, CFO

So, yeah, again, you know, it's a question we'd anticipated and we're looking at the moment after we present our year end results, how we'll pull together our breakdown of the business and whether we're able to show EPC somehow separately. Of course, we're constrained to a certain extent by accounting requirements, but we're structuring our business so that we would be able to speak to the EPC results separately. In terms of the project pipeline, it's excellent, there's a very strong backlog of project opportunities in the region. There's a number of those opportunities that we feel we're very well positioned. So, we hope to be able to deliver continuing good news on the EPC pipeline. And then finally, in terms of the margins, absolutely it's the case that the margins are quite substantially lower than the margin in the average Integrated Logistics business. But of course, if you look in dollar terms of the value which is delivered, and you compare that to the assets that we need to deploy to those projects, they're very valuable freedom for the business. So, we're very focused there on the dollars and what we'll try and do is find a way to show you that market separately from the rest of our business for modelling purposes. We understand the question very well.

So, the next question from online is whether we can provide a breakdown of the $5 billion capex. So, at the moment, the most recent information provided is what we showed at the time of the IPO. You can see that a significant portion of the capex program over the next few years will be the six LNG carriers which are delivering in 2025 and 2026. In the first two years of that profile is a good balance between Integrated Logistics and Shipping and in the later years, it's predominantly focused on Shipping. But what we're not doing is providing a breakdown of capex by segment or by individual asset class. The reason we don't do that just to demonstrate we're not trying to be unfriendly if we go into showing our capex by way of individual asset class, the risk is that we create a market environment where sellers understand that we're buyers, which is competitively disadvantageous to us. So, at the moment, we're just sticking with the fact that we have this $4 billion to $5 billion capex program over the next few years.

The next online question is: could you please comment on the lower taxation during the quarter?
Yeah, it's an interesting question. So, a couple of things have happened during this year. The first one is because we have UAE taxation coming into effect from the first of January next year. That means that we have deferred tax benefits, which exist on our balance sheet at the moment that we bring to account so before the UAE taxes come into effect, we actually take a positive on our taxes in the UAE. On the other side of the business, with the businesses we've acquired from ZMI, together with other businesses that we've deployed into outside countries such as Saudi Arabia, Qatar, and now Iraq, we booked taxation in those locations. So, we have a lower taxation during the quarter, driven predominantly by those tax benefits that we've brought to account, which is the future tax benefits, resulting from our pensions essentially.

Sathish Sivakumar, Citibank

So, on the tanker charter rates, just wanted an update there. Obviously, you said that you signed new charter rates. What are the average durations on the new charter? And then any colour on those rates that have been signed versus the ones that have expired? Are those at industry levels or did you manage to get a slight premium to the market?

Captain Abdulkareem Al Masabi, CEO

I think, as Nick mentioned, these are basically on spot market and that's the rate for them. They are all in the public domain. Usually at this moment we are chartering them out mainly for most of the time voyage charter. Given the market where we are, we are seeing a very healthy market, it's a very bullish market I would say these days and hence why we are sticking to basically keeping them on the spot. But these rates are very good when you look at the product tankers or the VLCCs.

Sathish Sivakumar, Citibank

What does the utilization looks like?

Captain Abdulkareem Al Masabi, CEO

For these tankers, are fully utilized.

Nicholas Gleeson, CFO

The market is very tight at the moment. So, you're seeing those assets in very strong demand, particularly these LNG dual fuel assets. They're at the premium end of what the market is looking for at the moment. One more question has come up regarding net debt to EBITDA: since the company is delivering strong free cash flows should we expect, this guidance will decrease maybe at the 1.5 level? And I think the answer to that is not really it might be a slightly slower build up from where we are today to 2.5 times net debt to EBITDA. But certainly, if you look at the $4 billion to $5 billion capex we have guided to and on top of that we see significant opportunities to go beyond that. We certainly expect to bring ourselves to 2.5 times in the coming 12-18 months, taking full advantage of the existing debt that we have got access to at 85 basis point so far, to deliver value accretive assets to our investors using very well priced debt.

Neeraj Kumar, VP, Investor Relations

I would like to say thank you very much to everyone for joining the call. We are available so please do reach out to me for any further questions.

Thank you very much.