

J.P.Morgan

MENA Fireside Chat call series - ADNOC L&S | J.P.Morgan | September 4, 2024

Nicholas Gleeson:

So good morning, good afternoon everyone who's joined the call. Thanks very much for taking the time. It's a pleasure to present to you this afternoon an update on ADNOC Logistics and Services. We've had a tremendous year, in fact we've had a tremendous period post-IPO for the company. We've achieved extremely substantial growth and hopefully you've been watching us deliver on those promises from IPO. At the time of IPO, we committed to making investments in the range of four to five million US dollars, highly value-accretive delivering the low double-digit level for the business. And the reason that we made that commitment on the investment side is because we had so much latent demand for the business and understood what are the investments that were required to capture those opportunities. Now the good news is we've captured those opportunities and many more. In fact, in the past seven months, we've announced \$5.3 billion of incremental investment, predominantly against long-term contracted activity for the company. So we're really happy with how things are going.

We're finding highly value-accretive growth for the business in integrated logistics. We're finding highly value-accretive growth in shipping. We're finding very long-term contract opportunities so we can secure that visibility of long-term revenue. We have guided to the fact that typically we target low double-digit IRRs in the integrated logistics segment. For some of the recent contracting that we've done in shipping, we've delivered that on what I would call high to very high or extremely high single-digit IRRs unlevered, simply because we see that so much value in that long-term contracting activity against the delivery of vessels, particularly when vessels are at relatively high prices at the moment. It's really important that we can lock in those returns for the early stage of ownership. And when I talk about early stage of ownership, 20-year contracts really takes us very far along the line.

So what we've seen in the business, tremendous growth, commitment to future tremendous growth even beyond the midterm projection period. Quite a bit of that growth we've guided to come from 2029 and going forward. And on top of that, we've maintained very strong health and safety performance for the business. Really, market-leading indicators on HSE, which is so important to us. Everyone who begins the day for the company should return home unharmed. It's a very fundamental principle, but with a business as big and complex as ours, that's not easy to maintain. We put a lot of effort into that across the business. And on top of that, we've been able to expand our margins consistently across the business and maintain those mid 30% level average, even the margins across the business. So at a high level, that's where we are. Maybe with that, I can pass over to see one of the key questions that are being asked for this fireside chat today.

Anna Antonova:

Thank you, Nicholas. And these were introductory remarks from Mr. Nicholas Gleeson, Chief Financial Officer of ADNOC Logistics and Services. Good afternoon, ladies and gentlemen, and welcome to this fireside chat. The purpose of this call is just a refresher of the company's present case and the opportunity for you to ask any questions post the Q2 earning season. Please use the right hand function

in your zoom or you can always email or IPV with your questions and I can read them aloud. So with this, I will pause and ask the operator if we have any live questions on the line.

Operator:

As a reminder, the raise hand function can be found at the bottom of your Zoom interface or by clicking into the three dots or more button if you're on a mobile device. Anna, we have no raised hands just yet.

Anna Antonova:

Okay, well just to kick start the discussion then, Nicholas, again, thank you so much for your time. So obviously H1 results were pretty strong. Could you please remind us about the company's outlook into the end of this year and also just remind us about the midterm guidance for the company and whether there has been any material changes to the company's growth plans versus the guidance that was provided at the IPO last year.

Nicholas Gleeson:

Sure, Anna. And so what I would say is there have been material changes and the material changes are onwards and upwards basically. What we're seeing is that remember that our medium term outlook takes us to 2028, but we've announced significant investments that we'll see continued growth in '28 and '29 and beyond. So one of the things that are really important to understand for the business is that when we start to extend our guidance into 2029 and beyond, you'll start to see the impact of the eight to 10 LNG carriers that we've committed to construction of and contracted to ADNOC for the transportation of ADNOC gas molecules. So those are 20-year contracts beginning in 2028 and 2029. So very strong growth beyond the medium term period.

On top of that, we've got through AW Shipping. We've committed to nine very large ethane carriers, again on long-term contracts, as well as two very large ammonia carriers with options to extend that to four very large ammonia carriers. Those are not contracted, but we're building those in anticipation of that market also significantly increasing in addition to the ethane market. We're really happy, by the way, with the way the partnership with Wanhua is going, that AWS 50/50 partnership that we have with Wanhua where we see the transportation against long-term contract of molecules into China. So there is significant growth beyond the medium term.

Our medium term guidance at the moment is essentially for low to mid 30% year-on-year growth in 2024 with high single-digit year-on-year growth thereafter through the medium term. And you could imagine once we start to extend that guidance into 2029 and beyond, you see those numbers begin to increase. And this is before we factor in Navig8. I'll get to Navig8 in a minute. On the EBITDA side, what we're seeing at the moment is low 30% year-on-year growth with mid-teens year-on-year growth in EBITDA. And what does that mean for net income, is low 20% year-on-year growth with low teens year-on-year growth in the medium term.

Now all of this is before we factor in the acquisition of Navig8. So hopefully those on the call will remember the acquisition of Navig8, which is financially effective from the 1st of January, 2024, subject to typical regulatory approvals. Those approvals are underway. We're hopeful of completion before the end of this year, but we under normal circumstances, would expect the latest completion to be at the end of Q1 next year. If we were to include those results on a pro-forma basis, basically you'd be looking at 2024 growth as 90% year-on-year growth against 2023 with medium-term high teens year-on-year growth in revenues. We'd be seeing beyond 70% year-on-year growth in EBITDA, translating to high teens year-on-year growth in the medium term. And then you have beyond 50% year-on-year growth in

net income with mid-teens year-on-year growth in the medium term. Once we incorporate Navig8, and that's assuming that we fully consolidated the P&L from the 1st of January, 2024.

Now, there are some accounting implications around that. Essentially what will happen is the transaction accounting will mean that any profits generated from the 1st of January, 2024 until completion will be an increase in the valuation of the company at the date of completion for transaction accounting purposes. So it would reduce goodwill or increase bargain gain on acquisition at the time of the transaction. But of course, that cash flow from the business comes along with the acquisition of the company. Once we've completed the transaction thereafter, the P&L would be fully consolidated. And we see earnings accretion, EPS accretion of beyond 20% immediately on completion. So again, this is a really valuable transaction for the business. On top of that, that's giving us offices globally and additional 15 offices across five continents. And what that does is it increases our scope for future growth beyond what we've already announced.

So in terms of material changes beyond the guidance that we gave so far, the most important areas are first of all, pro forma accounting for the acquisition of Navig8, the impact that will have. But secondly, the transactions that we've made, which will impact our beyond medium term outlook with long-term contracted strong EBITDA against very high investments, investments of \$5.3 billion against long-term contracted assets to extremely high quality counterparties, delivering strong EBITDA of the type that we've already seen in the gas business so far. So long answer to a short question, Anna.

Anna Antonova:

Good. Long answers are absolutely welcome here. And I've got an incoming question from one of the investors. I guess following up on your comments on Navig8. Why do you think Navig8 is the right fit for ADNOC L&S? And on a high level, what are the growth drivers for Navig8 to contribute meaningfully to such teams growth, even when consolidated?

Nicholas Gleeson:

Yeah. Really, it's such an important question for the future of the company. So if we go back a couple of years, we had recognized that for ADNOC L&S one of our, challenge is not the right word. Maybe one of our shortcomings in terms of our global growth strategy was the fact that we're operating our global shipping from a single office in Abu Dhabi. And for most major shipping businesses, by major I mean shipping businesses with the scale of fleet that we already have, operating from one time zone is quite challenging. And in particular, a lot of transactions that happen in our industries in the tanker segment as well as in LPG and in dry bulk, a lot of those transactions are happening in certain geographies around the world where we just didn't have a presence. So it's really important to be in London, it's important to be in Singapore. It's very important these days to be present in Texas. And there's also significant opportunities that come out of locations like Switzerland and so on where you have presence of major trading companies globally.

So the acquisition of Navig8, first of all, gives us reach into those markets globally and into those time zones where we might've been missing transaction opportunities as a result of our sole presence in Abu Dhabi. Now, bear in mind that historically we've been very focused on servicing the ADNOC requirements going back a few years, and we've gradually built from the ADNOC requirements into a much more balanced fleet servicing both ADNOC and third parties until we got to the point in shipping where the majority of shipping is beyond ADNOC. Now, that Navig8 platform allows us to effectively service clients in jurisdictions around the world, in time zones around the world. But even more importantly than that, it adds a very highly qualified chartering personnel to our organization who are able to affect that business in those locations.

And that's not just about chartering existing assets, it's about recognizing opportunities for future profitable growth with counterparties, where our dialogue historically might've been two to three times per year, but now can be on a weekly or even a daily basis with major trading houses. So it creates tremendous opportunity to generate future profits through growth in the shipping business. Beyond that, Navig8 has the integrate platform. So integrate Platform is a bunkering platform that's servicing more than 200 ports worldwide in terms of delivering bunkers on a back-to-back basis to vessels. So not taking product risk, but securing bunkering availability for vessels around the world. And again, that's important first of all, in terms of extending our service offering to clients, but also in terms of extending our network around the world and outreach to other ports. Important not only for the shipping business, but also for the future growth of the integrated logistics business. So the access that we have globally as a result of the integrated business as well as the chartering business within Navig8 is really important.

The third aspect is commercial pooling. So over the past couple of years, we've seen most of the energy shipping segments performing relatively strongly. It's really important as we hedge ourselves in the shipping business, first of all, to enter into long-term contracts. And we're very well long-term contracted in the gas segment. In the tanker space, and in the dry bulk, we're shorter term contracted or spot exposed. So in tankers, we're purely spot exposed, in dry bulk we have a model which is predominantly charter in charter out, which is a hedge of its own nature. But the commercial pooling for tankers that exists in the Navig8 platform gives us the protection, the downside risk protection of commercial pooling. So in a down market, larger fleets tend to be able to outperform financially smaller fleets, so-

Nicholas Gleeson:

... perform financially smaller fleets. So there are two types of protections we typically take in the tankers business. One of those is entering into long-term contracts. And while the short-term outlook for the market remains as bullish as it is at the moment, you don't see us moving to longer-term contracts. Eventually I'm sure we will. But equally, having the access to the commercial pools and participating in commercial pools gives us that downside risk protection through participating in larger managed fleets. Now, on top of that, there's an information advantage to commercial pools. And that means that beyond your own fleet, you are operating the fleet of other pool participants and sharing information, analysis and reporting across the pool. So it gives us access to data for business improvement beyond our own fleet. Which we also share, by the way, with the commercial clients of that business. But as you know, information at the moment is absolutely critical to maintaining leadership in markets. So that's an additional advantage of the participation in Navig8. Also, they have a particularly advanced analysis function within their business that we were keen to be able to adopt and deploy, not only to our tankers business, but also to our other shipping segments.

Then even beyond this, they have partial ownership in ship management activities in Singapore and in Germany, which have deep experience in tankers, but also have deep experience in bulk and gas. So we have a lot of assets being delivered in China in the shorter term and Korea in the longer term for LNG carriers, VLECs, VLACs. And some of the skills and capabilities that exist within particularly the German joint venture of Navig8 will be really important to us.

Also in the gas fleet globally, as we see that gas fleet increasing against significantly increasing demand for transportation volumes, there will be tightness in the availability of seafarers, masters and individuals who have experience in delivering assets. And so having access to that ship management capability is also valuable to us. The same with the Singaporean ship management capability, which is more tankers focused. That should give us the opportunity to improve even further on our OPEX costs

attaching to the tankers fleet. So there are multiple aspects of why we think Navig8's really valuable to us.

And then the final one I would mention is it's a 17-year-old business, it's still run by its founders who retain a 20% ownership post this first phase of acquisition, Nick Busch and Gary Rocklesby. And they're exceptional individuals with an exceptional management team. So we spent a lot of time getting to know them and getting to know their team. In fact, many of us knew them from the past, the shipping industry is a relatively small industry globally, so we knew about the individuals, we knew about their character, we knew about their capabilities and what they've delivered over the past 17 years. We very much wanted them to be a part of our platform as well, along with their exceptional management team. So again, a long answer, but that's the nature of that Navig8 transaction and why we find that so valuable for us.

Anna Antonova:

That's very clear, thank you. Well, it does sound like a good strategic fit for the company. Can we reasonably expect that you may be looking at some similar opportunities in the future, maybe not in one or two years, but sometime down the road? Seeing how this fits, would you be open to putting more similar assets into ADNOC's perimeter?

Nicholas Gleeson:

Yeah. So we are, and there's a few different ways. So I'm always a little bit nervous when somebody mentions M&A at the moment because we've got a lot ahead of us in terms of absorbing and realizing all of the value that we can out of that Navig8 platform. And we're still in the process of realizing the full value out of the ZMI platform. Although that's, you can see through the numbers, that's going very well at the moment. There's still a lot more that we can gain from that ZMI platform. I was in their offices with our management team today, and again, the incremental opportunities that exist to create value, to squeeze the lemon if you like, from that acquisition are very exciting. And we know that there'll be much more in Navig8 beyond what I've mentioned. So we want to make sure that we don't stretch ourselves too far too quickly.

I think what's likely in the short to medium term is that we look at growth and acquisitions mostly against long-term contracts, which will fit into those platforms that we already have, particularly on the shipping side. So for example, establishment of pools beyond the tankers pool to Navig8 could be really interesting if we find the right opportunities in the right markets. Incremental assets and adding assets, it's a little easier than taking over a whole business. So that's likely to be the future growth in the shipping business, although we have a lot of growth already coming.

On the integrated logistics side, we see an imperative to continue to grow that business. And in particular, I think international growth for integrated logistics is really critical to us. So we have a great set of logistics and activities here in the UAE and in the region. But we're very excited to extend that beyond the region. And that's very likely to require some sort of partnership or acquisition to operate effectively in other regions around the world.

Now, as to timing, we need to make sure that we have the resources to absorb anything additional that we do effectively. But certainly if I look at the logistics and the achievements that we've made in the integrated logistics services platform, how well we're doing with the jack-up barge fleet here in the region, it's very interesting to extend that internationally. And that's probably where the majority of our focus is at the moment in terms of the next phase of M&A is the potential to internationally expand the integrated logistics business.

Anna Antonova:

On that note, by the way, could you provide some example, so what it actually means to internationalize ILSP for example? Because shipping is relatively straightforward, especially with the case of Navig8, but what about integrated logistics, could you give some examples maybe?

Nicholas Gleeson:

Yeah, for sure. So if you look at what we're doing in integrated logistics, the Integrated Logistics Services Platform is basically a platform which took what used to be a very disparate set of contracts operating in the UAE ... So in the past, some of our key clients used to make literally hundreds if not thousands of individual contracts per annum to execute all of their logistics activities within the energy fields here in the UAE. So what that means is calling in to different vessel providers to arrange the transportation of personnel, equipment, food, water, diesel from shore to the offshore islands and between the offshore islands.

Now with the Integrated Logistics Services Platform, we bundled together those logistics for one customer, in this case ADNOC Offshore, and we said, "Why don't we dedicate the fleet to your requirements? You provide us advance insight into your requirements. And we'll use that to optimize those logistics so that we can provide the same services that you require with much less pain, much less complexity, significantly reduced cost. Still make a good margin for ourselves, and at the same time focus on reducing non-performing time for your field by increasing the speed of response on your logistics requirements."

Now, we've learned a lot in that process. And we've been able to deliver those solutions while delivering significant cost reduction for our client. At the same time delivering a strong margin performance for ourselves. Less, by the way, than our average margin in that business, but strong because it's a long-term contract. And so from a risk perspective, with minimum volume commitments, we can accept making a lower margin on that business understanding the volume is increasing over time. It becomes a really valuable business to us at the same time as being valuable to our client.

We'd love to take that concept and deploy it to other energy fields internationally where we think it can have equal weight and equal benefit. The same, the logistics that we're operating, for example, around project support, around jack-up barges that we're providing here in the UAE, in Qatar, in Saudi Arabia. We see opportunities to use those same skills and deploy the knowledge that we have and the capabilities that we have in the region here in other energy fields globally.

Anna Antonova:

Thank you, that's clear. Meanwhile, I've been having a few incoming questions from the IB chat. Going back to Navig8, the question is about the difference between the business, let me say ADNOC L& S business and Navig8. Most of the vessels in the existing business are chartered obviously long-term contracts to ADNOC for like seven, 15, 20 years. Could you please comment, what are the structure of the contract in Navig8? How sticky are the charters of Navig8 that will be coming into the asset perimeter?

Nicholas Gleeson:

So they're shorter-term contractors. So what we've got in Navig8 is a series of assets which are operating into their commercial pool, benefiting from participating in their commercial pool or essentially spot exposed. On top of that, they have a charter-in fleet. So their charter-in fleet, similar to our charter-in fleet, is chartered in and chartered out, although over longer term than what we do in the

dry bulk business. And that gives them a limited exposure to the margin which is available in the tankers business.

So both businesses have been at a phase, given the cycle of tankers, where we felt like it's a good idea to maintain a significant exposure to the spot market in tankers just because of where rates are and where we anticipate rates will be in the future.

Now the difference for them of course is they have assets operating in that commercial pool, which we believe provide some downside risk mitigation because those pool revenues tend to outperform individual assets in a down market. But obviously there'll be a strategic decision there around tankers to what extent we maintain that complete exposure to the spot market in the mid-term after completion of the transaction. Prior to completion of the transaction, we're legally prevented from combining the strategy of the two fleets.

Anna Antonova:

Thank you. So would it be fair to say that with the addition of Navig8 into the asset perimeter, the overall cyclicity of the shipping business will be similar or lower or higher, as is, in the current perimeter without the addition of any new ship [inaudible 00:25:37]? Will it stay the same or be lower?

Nicholas Gleeson:

Yeah. In the current perimeter from now until 2028, the cyclicity exposure will be higher in the tankers business. So on the date of completion, we take over exposure to an additional 28 vessels plus four MRs to be delivered, and that will be a direct addition to cyclicity exposure in tankers.

By the time we get to 2029, assuming that we didn't make any change to the contracting profile of the tankers fleet, that cyclicity exposure will dramatically reduce with the introduction of the additional gas carriers against long-term contracts.

Having said that, we don't look at cyclicity and risk management in exactly that way. We look at cyclicity and risk management by individual sub-segment, not only at the shipping segment overall. So there will be a discussion immediately on completion about how we manage that cyclical exposure in the tanker segment. And how we manage over time transition of any portion of the fleet to longer term contracts or fleet participation in the pool to manage that downside cyclicity risk if we see a downturn or when we eventually see a downturn in that tankers market.

Anna Antonova:

All right, thank you. So the addition of Navig8 will increase temporarily the embedded cyclicity of the business. While the new contracts with ADNOC for the new ships that will be coming between next year and 2028 will reduce the impact of charter rates basically?

Nicholas Gleeson:

Exactly, exactly, because long-term contract.

Anna Antonova:

All right, thank you. Thank you. I have just a few more questions from IB before we move to Zoom Q&A. Going back to your discussion about ZMI and the jack-up barges. The question is, what is the long-term target for the number of JUBs that you would like to have basically? Is there any?

Nicholas Gleeson:

Yeah, there's not a specific number that we're targeting.

Anna Antonova:

How much more?

Nicholas Gleeson:

What we can say right now is that there's a pretty strong backlog in the jack-up barge market in the Middle ...

Nicholas Gleeson:

There's a pretty strong backlog in the jack-up barge market in the Middle East. So if you had an additional jack-up barge on hand today, my understanding is that we can place her on contract relatively quickly. So there is a strong demand for jack-up barges. And we believe that in our hands we can do better with a jack-up barge than almost anyone else in the market. And that's because of that strong market share that we have, that strong market presence and the significant quality of relationships and of course the strong operating performance of the Zakher marine business. So it's a business that's been built over many years operating at high quality while still maintaining very effective cost levels. That's allowed them to deliver strong profitability on jack-ups. So we would like to have more jack-ups.

Ultimately, we also need to be careful, as in the shipping business, with diversification of sources of revenue and the exposure to cyclical in the jack-up barge market. So there are two elements to that. One element to that is the ability to deploy jack-up barges on projects the nature of which are different than what we're operating on at the moment. And the other element of that is looking to participate in other asset classes which take advantage of our skills, capabilities, and personnel, but are counter-cyclical or at least unrelated to the cyclical of the jack-up barge market.

But in the short run, the answer would be we think there's room to continue to build the jack-up barge fleet very profitably.

Anna Antonova:

Thank you, that's very clear. Another questions I have which can be combined I guess in one bracket of generally the questions about the CapEx, but first when investors try to break it down between maintenance and growth, especially in the mid-term. So firstly, assuming Navig8 enters the perimeter and all the ships are delivered that have been ordered by 2028, what kind of maintenance CapEx ballpark can be expected in 2028 or 2029? I remember that your current maintenance needs are about a 100/120 mill per year. Could that roughly double or increase by 30% when all these additions to the fleet and to the group perimeter are in, ballpark?

Nicholas Gleeson:

Yeah, so my short answer to that would be we'll take that on advisement to include a specific number in the next financial update we provide after the Q3 results. Because I want to be careful about coming up with a number off the top of my head. And the reason I say that, it's so subjective. For example, we have options of eight to 10 vessels in the LNG carrier fleet, we have two to four vessels on the VLACs coming in. And we have certain other investments that we are thinking about that are factored into the way I think about maintenance CapEx right now.

But I think in broad terms, looking at a double would give you a conservative view on where we're likely to end up on maintenance CapEx. Bearing in mind that so much of the fleet will be relatively new, and

the early cycle maintenance CapEx is lower than the average CapEx over the life cycle of a vessel. So I think that's a reasonable way to look at it for now. But I'm aware that that question is being asked more broadly. So what we can do is when we issue our numbers and our guidance at the end of Q3, we can also tackle the question of maintenance CapEx at that time.

Anna Antonova:

Thank you, that would be much appreciated. And then moving from maintenance to growth, you mentioned that you'll be rolling the guidance to 2028 obviously some time next year. The question is about also growth CapEx plans for the midterm. And the question reads that, looking at ADNOC's expansion plans, I'm talking about the parent and overall energy capacity expansion in the region, is it reasonable to assume that after all the recently contracted ships are delivered by 2030, there could be more to come? And that could be part of ongoing organic CapEx and growth CapEx post-2030, is that a fair question/assumption?

Nicholas Gleeson:

Yeah, it's a good assumption. So I think at the moment, quite a bit of what we've been able to deliver in terms of growth is against that original plan that we had in mind at the time of the IPO. But equally, there's quite a bit of opportunity beyond what we had in the IPO. And so bear in mind, for example, for the Navig8 acquisition, while we had an M&A in mind, that M&A is not part of the four to five billion guidance that we gave at the time of IPO, which we subsequently upgraded to \$5 billion plus. So there's some incremental numbers there. We've taken on a few more tankers, we did have ambitions to grow the tanker fleet, but we've grown the tanker fleet slightly more than we planned, at the same time as developing this global platform that we're so interested to deliver.

When we look at the nine VLECs and two to four very large ammonia carriers, this is incremental to what our original ambition was for participation in that segment by that point in time. So there's already been a bit of upside in terms of the CapEx. And what that means is there are still some of those opportunities that we had in mind at the time of IPO where we think there are very strong commercial opportunities if we can find the right assets. So some of that still exists. And equally with the growth of ADNOC and opportunities with customers beyond ADNOC, we are seeing increasing opportunities for growth beyond what we originally had in mind.

So the short answer, is at this stage, yes, I would anticipate that we continue to target growth at a strong rate. We always want to maintain our focus on strong value accretion of any investment that we make. So in the shipping against long-term contract, we might go down to the high to very high single digits. In integrated logistics, still the double-digit plus unlevered IRRs are really important to us. And we do see opportunity sets out there to continue to deliver growth against that. So we're not finished yet.

Anna Antonova:

Clear, thank you. I don't have any incoming questions from IB, but I see some raised hands. Operator, could you please help us with questions from the line?

Operator:

Yes. Our question comes from Aaron John, your line is open, feel free to unmute.

Aaron John:

Hello, am I audible?

Nicholas Gleeson:

Yes, thanks.

Aaron John:

Hello.

Anna Antonova:

Yes, we can hear you well.

Aaron John:

Yeah, yeah. So my question is on the offshore supply vessels, now the spot market has been fairly strong for OSVs and perhaps it will get even stronger over the next several years. So will this trend in the OSVs eventually flow through to your profit and loss and revenues?

Nicholas Gleeson:

Yes, it does. So in OSVs, we have two types of assets that we operate. We have owned assets and chartered-in assets. So for the owned assets in OSVs, we are typically doing very well at the moment, particularly where they're short-term contracted. For the chartered-in assets, the margin expands somewhat, but we don't take all of the profitability because we're paying a higher rate to charter in those assets.

I'm always cautious in the OSV segment of saying that the outlook is strong for several years because I think the timeline for cyclical in the OSV segment is a little shorter than it is in shipping. But certainly in the medium term, in our guidance period, we maintain a strong outlook for integrated logistics assets in the UAE in particular, but also elsewhere in the globe. And so we expect that we will continue to benefit from that.

The challenge at the moment is acquiring the incremental assets that we need for growth at good pricing. Bearing in mind that we tend to take a view that after three to four years, we can't rely heavily on rates remaining where they are at the moment. But the short to mid-term outlook still feels very positive. And yes, for around 50% of the fleet we benefit fully from those very strong rates against the owned cost of the assets. And for the roughly 50% charter-in fleet, we benefit from a stronger margin as a result of the strength in rates in OSVs.

Aaron John:

Okay. And so considering the unique nature of your contract, so is there a time lag for the spot market changes to flow through to your financials?

Nicholas Gleeson:

Yeah. So if we look at the ILSP, and remember that's only a portion of the overall integrated logistics business, so for the ILSP, if anything, where rates are at the moment on OSVs, that's reduced the profitability of that contract for us against where it would otherwise have been. So for the portion of the fleet that we charter in, that's become more expensive while we're operating on the same tariffs that we've negotiated.

However, that pushes us to deliver higher efficiencies in terms of improving the volume delivered per asset and the margins that we can deliver as a result of logistics efficiencies. And that's reflecting in our financial results at the moment.

But for other sub-segments of integrated logistics, by the way, at the moment, we only report integrated logistics as a single segment, but we do have an ambition, which we've announced, to begin reporting sub-segments of integrated logistics, which will help to answer this type of question. I have to be a little bit circumspect at the moment because I can't give information which is not already in the market. But if you look at the contracting activity within the OSV fleet, that's performing extremely well as a result of the strength in rates. Also on the projects business where we are using owned assets to support the marine spread for projects, we benefit again from the strong rate environment that we see at the moment in the public space.

Aaron John:

Okay, thank you very much, that's clear.

Nicholas Gleeson:

Sure, sure.

Anna Antonova:

Thank you. Operator, do we have any more raised hands? Because I don't see any right now.

Operator:

There are no other raised hands at this time.

Anna Antonova:

Okay. We still have a few minutes left. So I have some more incoming questions from the IB chat. But before we move to them, Nicholas, just a quick one, maybe speaking very long term, but still, could you please talk about how will energy transition impact your business? Because from some very long-only investors, I sometimes hear that, well, in the end of the day that ADNOC L&S is connected to oil and gas services and potentially even when we wake up in an oil-free world, however long-term it is, the company's business model may not be completely in demand in that kind of new green economy of the future. Could you please talk about whether the company will be made redundant or are there any opportunities for the company's business to continue thriving even with all the unfolding energy transition fronts?

Nicholas Gleeson:

Yeah, for sure. I mean, it's a really important question for the business, and it's something that we spend a lot of time thinking about as well. Ultimately, we see a relatively long horizon, particularly in this part of the world, for the continued production of oil and gas. And remember that the part of the world that we're operating in has some of the lowest marginal cost of production oil and gas generation in the world.

So the first question is, how long does oil and gas consumption continue? And what are the sources of the product? And what are the destinations for demand? And that will drive ton-mile demand for vessels of the existing asset classes that we have at the moment. So in terms of life cycle of our vessels, we wouldn't be making those investments unless we felt optimistic about the continued requirements there.

But we do see also that the demand profile will change over time. What we're trying to do about that is also to be involved in the transportation of newer energies and in the offshore logistics support for

newer energies. So for example, to participate in renewable energy production where it requires offshore maritime support. Obvious examples of that would be in wind farm, also the transportation of energy which has been produced under newer formats. So for example, the transportation of hydrogen derivatives. That's why we think participation in very large ethane transportation, ammonia transportation is really important. But even beyond that, you might see the transportation of newer energies come into play in the future and the support of newer energy production, offshore production becoming, in the much longer term, increasingly important.

What we are confident of is that in the very long term there continues to be demand for maritime capabilities irrespective the nature of energy transition. And so we do think we have a very important part to play in maritime logistics however they develop over time.

Anna Antonova:

Thank you. That's all clear. I have got a few more questions on different subjects. So we'll be, I guess, jumping back and forth a bit. The first question, it's actually about more, I guess, about integrated logistics segment. At the time of the IPO, I remember the management said that the volume of products moved by ADNOC L&S on behalf of the parent is set to double by 2030. Does this still hold or is it now more conservative for a more bullish projection?

Nicholas Gleeson:

No, I think we can't speak for other ADNOC entities, but all I can say is if we look at the public announcements and if we monitor the progress of projects within the ADNOC group, we haven't seen anything which would cause us to feel concerned or in any way, anything other than optimistic about the growth output for the demand requirements coming from ADNOC. In fact, the real challenge for us is we have this target that we've mentioned before to increase our diversity of customer base beyond ADNOC, and that's the greater challenge, of course, is delivering those opportunities, which we have done, of course recently, to deploy our asset base and our capabilities beyond servicing ADNOC so that we broaden out the proportion of our profit, which is being delivered by non-ADNOC activity.

Anna Antonova:

Thank you. And just to remind our [inaudible 00:43:43] participants, we have roughly five, seven minutes before the call ends, so don't be shy. If you have any questions, just please raise a hand on your Zoom app. And then two more questions that I currently have. First is, do you expect any corporate income tax hikes in UAE as the country implements OECD Pillar Two? And if yes, is this baked into your current midterm guidance?

Nicholas Gleeson:

So the short answer is no, we don't. We've been doing a lot of work over the past year and a half, obviously on preparation for tax and on understanding the outlook on the BEPS 2.0 for the UAE and for the maritime segment. I think the UAE has come up with a structure that makes sense internationally, and if you look at the anticipated BEPS Pillar Two outcomes in the maritime industry globally, I don't think there's any reason to feel that there would be significant upwards pressure on the tax rates which are achievable in the UAE under the current system.

Anna Antonova:

That's clear, thanks. Another question is ESG related. The sustainability strategy on the slides that I think you had in your future earnings presentation, there was a slide with, I guess potential abatement

projects in the shipping segment that you talked about reduce with carbon intensity by 2030. And the question is, what is the potential cost of these measures? Is it included into maintenance or overall ethics guidance for the group that you provide?

Nicholas Gleeson:

Yeah, so the answer is, it's included. It's very subjective to provide those costs and under the new reporting regime, we'll have specific reports which come out in relation to our spending and achievements on sustainability. And I'd prefer that we wait until we have those reports come out to ensure that any numbers that we're giving are prepared in accordance with the standards for that guidance. But the short answer is yes, we do incorporate in our CapEx program and our maintenance CapEx program, all of the spending that we have, which relates to improvements in fuel consumption, other areas of sustainability.

We have invested a significant amount in recent years. For example, ensuring that we're delivering dual fuel through the vessels, scrubber fitting on vessels, alternative treatments to improve trim, use of biofuels. There's all sorts of areas where we've been making... or extension of electrification offshore here in the UAE and the use of shore power. So a number of areas where we've been able to significantly improve our carbon footprint over time, and those numbers including our plans for the future are included in our CapEx projections, both investment CapEx and maintenance CapEx. But in terms of providing those numbers, you need to wait for our sustainability reporting to come out.

Anna Antonova:

Thank you. Another final question from investors is could you talk about company's relationship with [inaudible 00:47:00] ADNOC? How is decision-making structured and has anything changed since IPO? How is this relationship has been evolving recently? Any comments?

Nicholas Gleeson:

Yeah, yeah. No, no, no. Very happy to comment on that. It's an appropriate professional relationship that we have with ADNOC, of course. So the benefit that we have from being in the ADNOC ecosystem or the most obvious benefit we have from being in the ADNOC ecosystem is an ability to rely very strongly on the guidance that they have on future projects and growth coming out of their system, and the deep knowledge that we have on the opportunities which are coming up from the ADNOC system. When it comes to commercial negotiation, it's arm's length. Many of the projects that we participate in have third party stakeholders in the projects anyway, so everything that we do has to be arm's length.

And by the way, the other ADNOC businesses, many of them are listed. They all have their own profitability objectives, so no one's doing any favors for ADNOC L&S and ADNOC L&S is not doing any favors for anyone else simply because we share the ADNOC brand. But what we can do is execute extremely strong teamwork to mutually achieve great outcomes. And that's where we think that operating under the ADNOC banner has been very powerful for us historically and continues to be so going forward.

Anna Antonova:

Thank you. One last question just came in. I guess perhaps the usual one for you to hear. Could you please comment if there is an intention to increase the free float?

Nicholas Gleeson:

Yeah, we get this a lot. I will always, whenever I speak with our parent representatives at the finance end, I'll always advocate for an increase in free float. We have a lot of investors who are asking to see more liquidity. Hopefully what you have seen over the past few months is a significant sustained boost in liquidity in the share trading of the company. There's definitely room for more of that. If you look at our balance sheet at the moment, it's hard for me to press very hard with our parent to see an increase in the free float right now. And the reason is that we're undelivered. So that was deliberate. It's not a shock or a surprise to us. At the time of the IPO, we equitized the pre-existing \$2 billion of debt, and that was so that we could achieve this significant growth program that we have ahead of us.

As I mentioned, in the last seven months, we've announced \$5.3 billion of growth spend. Most of that will be spent in 2028 and beyond, and that means we need to maintain the debt capacity to do that. So we have a target midterm net debt to even through 2.5 times. We haven't changed that target. We're delivering stronger cash flows than we projected at the time of the IPO, and that's because we were able to move so quickly in achieving margin improvements, particularly in the integrated logistics business. But also, we've benefited from the strength of rates, for example, in tankers. So that's delivering really strong operating free cash flows for us, and that means we're not using much of our debt capacity.

So it would be an unusual time to make a primary issuance, for example, when you have negative net debt to EBIDTA. In terms of parent company sell down, I'm obviously not a part of that discussion, but that would contribute to additional free float in the business. I guess their timing will be based on when they feel that they're achieving optimum or meaningful value on the position that they hold in stock, but that decision is made by people other than myself.

Anna Antonova:

Thank you. We are almost at the time, so maybe let's finish up with... I have a question from my side for you, Nicholas. What was the most interesting or thought-provoking question that you heard from investors this year? I'm not asking about the most common ones because I guess you could list a dozen. What was the most interesting in your view?

Nicholas Gleeson:

Yeah, there's a lot of interesting questions. I think we get a lot of questions around dividend policy. They're dissipating now. And the question which I think I like to answer is, "Do you think in the future, you'll pay out a higher level of dividends?" And I think that comes back to a question that we had earlier today, which is when do you see that growth opportunity set waning? So from that capital allocation perspective, I think we're a growth company and we believe there's a tremendous growth path ahead of us, and we are very comfortable to see our dividend yield dropping into the twos because we think that investors have caught on, accepted and embraced the fact that we're a growth-oriented company, and it will only be at the time that we don't see that value [inaudible 00:51:59] growth available to us that we're likely to see a change in dividend policy.

I think the other questions that are particularly interesting that we're asked are really around the capacity to absorb growth and how we've been able to grow so fast and so profitably and is that sustainable? And I think the short answer to that comes from some of the great strategy which has been deployed into the business over the past several years. So it might look that things are happening very quickly, but there's been a lot of deep thinking done years ago on how this business can develop and the acquisition of operating platforms into which we can inject and improve our activities has been a really important feature of the business.

So delivering that ZMI acquisition was important, but delivering operating improvement through the knowledge and capabilities within the ZMI platform has been equally important. And I think for Navigate, that will be an extension of the same concept saying, "We've been able to grow really quickly, but look how quickly and profitably we can grow with the benefit of that international Navigate platform attaching to us." So this is an important part of the strategy. It's not just about buying assets and delivering contracts. It's about building a platform that allows us to move from being a UAE-based international shipping and regional integrated logistics operator to being a truly global operator in both integrated logistics and shipping. That's the next phase of growth.

Anna Antonova:

That's very clear. I think that makes for a very nice concluding remarks, unless you want to add anything further because we are at the time now. So I'll hand it to you for any concluding or closing remarks if you'd like.

Nicholas Gleeson:

Thanks very much, Anna. All I'd say is I'd just like to thank everyone for the support to the business that we've received over time. We don't take it for granted. The business has performed really well. We've been very happy with our performance post-IPO. We're not complacent. We don't deliver new investments and sit down and take a breath. We deliver investments and we think about what we can do next to generate value for shareholders. We're always talking about it and we're very proud of what we've been able to deliver, but we look forward to doing more and more going forward.

So I really appreciate the support we're getting from shareholders. Thanks very much for the great questions that we've had today. I think for me, it's been a really useful session. I hope it was as interesting to you as I think it might be, but we look forward to your continued support and we look forward to continue to deliver really strong returns for our shareholders in the mid to long-term.

Anna Antonova:

Thank you, Nicholas. It was a pleasure hosting you and thank you very much for your comments and insights on the outlook and the company's business. Thank you for your time again, and I guess that concludes the call. I'd like to thank everyone for joining us today, and I hope you found our conversation useful. Thank you for your time, everyone, and goodbye. Thank you.

Nicholas Gleeson:

Thank you very much, Anna.

Speaker 1:

Thank you.