ADNOC Logistics & Services

# FY 2023 Earnings Call Transcript

**08 May 2024**

## Corporate Participants

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

**أدنوك للإمداد والخدمات بي أل سي**
جزء من الطابق 28، الطابق 28، برج السراب، مربعة سوق
أبوظبي العالمي، جزيرة الماريا، أبوظبي، الإمارات العربية المتحدة

**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*

Thank you, Ali. Hello, everyone. A very good afternoon to everyone and welcome to the ADNOC L&S earnings call for the first quarter of 2024. My name is Neeraj Kumar, I'm the Vice President of Investor Relations at ADNOC L&S. We are glad to have you attending our Q1 2024 earnings call. On behalf of the team on this call, we greatly appreciate the level of interest and support for ADNOC L&S. By now you should have received the Q1 2024 earnings presentation. If you haven't, you can download it from the website in the Investor Relations section.
I would also like to direct your attention to our disclaimer on slide number two 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 we have our CEO and our CFO. With this, I will hand over this call to our CEO for his opening remarks.

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

Thank you, Neeraj. As-salamu alaykum, a very good afternoon to you all and thank you for joining us. I am very delighted to attend this conference call today. We can say this has started the 2024 by delivering another set of strong financial results, continuing from the profitable growth we promised at the IPO and delivered in 2023. And we continue to benefit from the earlier phases of our transformational growth strategy, which is reflected in the growth in the EBITDA and also in the net profit, and there's much more to come.
Our growth strategy is about taking our historic success to a new level and extending into adjacent verticals and internationally, as had been witnessed over the last few months. Leveraging an existing relationship, including with ADNOC's international growth, as well as continuing to expand our blue-chip client base. There is tremendous demand for our services, and we feel uniquely positioned to continue to catch the value-accretive growth. In light of our strong results and continuing positive outlook, we have again revised our guidance upwards, which will be addressed later by Nick Gleeson. It is important to bear in mind that we guide based on secured opportunities and reliable earnings. The future phases of our growth strategy leveraging our strong financial capacity are not yet factored in, as a result. And we will deploy more than $5 billion in value-accretive growth investments in the next few years, razor focused on delivering strong shareholders' return.
Before we dive into these specifics on the operational and financial performance, I would like to highlight to you our performance on the health, safety and the environment. I have always said before, HSE is our top priority and we are fully committed to ensuring that our workforce of over 10,000 strong team return to their families each day, safely and free from injury. We continue to invest in tools, technologies and processes, including AI-driven monitoring solutions, to achieve this critical objective. On the right-hand side of slide number four you can see our technology development initiatives for safety through artificial intelligence. And the company has deployed an innovative AI-based solution, the first of its kind, actually, globally. Designed to trigger predictive maintenance LS for early detection of HSE risks and reduce maintenance costs. With this, let me hand over to Nick Gleeson, our CFO, to update you in detail on the Q1 2024 results. Over to you, Nick, please.

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

Thank you very much, Captain Abdul Kareem, and thank you very much to Arqaam Capital for hosting us and to the investors and analysts who have joined us on the call today. As always, I'm extremely glad to be presenting our results today. Once again, as we've done every single time since IPO, we're presenting a strong set of results which outperform our original expectations at this point in time. If I assume that analysts are at least demonstrating growth throughout the year, we are a growth stock after all, the Q1 seems to be outperforming the average quarterly analyst projection for the company.

Why do we keep on outperforming in every single call? This is really important to understand, and Captain Abdul Kareem mentioned it very clearly in his statement. We guide the market based on what we already have in hand, what's our existing, contracted and projected spot activity for our existing asset base. We only add to our forecasts when we've completed our virtually certain of completion of new contracting or new activities. As a result of that, and given the fact that we're a growth company that's in a significant acquisition mode, the expectation should be that we always significantly outperform our guidance, as long as we're delivering on that growth that we're promising to the market. We continue delivering on that growth. We have a strong backlog of opportunities and what's critical to us is finding those investments that we keep making, to deploy against those opportunities. And as a result of that, we continue to grow our revenue, we continue to grow our EBITDA and we continue to grow our profitability. We've been able to maintain our EBITDA margin at that strong level that we achieved or grew to post-IPO because we've built a business model that allows us to do that. We're continuing to build those platforms and that business model that will allow us to continue to deliver strong EBITDA margin, at the same time as growing very strongly.

I'd point out, and I'd get to it later in the call, that we're still essentially unlevered. We have $100 million of debt and we have negative net debt. Why are we unlevered? We did that at IPO so that we would be able to invest in the significant investments available to us, to meet the strong backlog of growth opportunities that we have. We will continue to grow, we will continue to find those investments.

At the moment we've delivered so much free cash flow from our strong growth, that we've been able to fully cash fund almost all of the investments that we've made since IPO. But don't worry, we have opportunities out there to deploy that capital to the value of our shareholders on strong, value-accretive investment, which will meet our minimum low double-digit IRRs unlevered. And so we continue to grow and we continue to grow our profitability.

Back to Q1 2024. Our quarterly net profit of $194 million is 34% above the $145 million we delivered in the first quarter of last year. The company achieved that profit with $840 million of revenue in Q1, which is 42% higher than Q1 of last year. Our EBITDA grew 44% to $286 million over the same period, with growth across all segments of the business. We maintained the EBITDA margins of 34%, even though we incorporated the progress on the relatively low margin EPC contract, G-Island. That's a $975 million contract that we've guided on mid-to-high single-digit EBITDA.

The integrated logistic business benefited from higher activity levels, despite 15 lost days due to unusually negative weather conditions in the first quarter. So, please bear that in mind when you look at the results. For integrated logistics we have 15 negative weather days impacting our results. Nevertheless, you see the strong growth. Jack-up barges, in particular, benefited from higher rates, higher utilisation and the eight recent asset additions that we've made, six owned and two chartered in, to that fleet.

We also continued to grow our own fleet in other integrated logistics asset classes, as demand and outlook for volumes and activity levels continue to expand. We maintain a balance between owned and chartered in vessel as a hedge against market softening, although that certainly doesn't feel like the outlook at the moment.

We continued the early stages of the $975 million engineering procurement and construction EPC contract for G-Island, set for a major ramp-up beginning this month. Essentially, year-to-date has been the slower progress portion of the curve on that EPC project and from May going forward we see the ramp-up coming significantly in that project. We anticipate by the end of the year we'll be somewhere between 70 to 80% complete on the G-Island project.

Shipping benefited from strong charter rates in tankers and dry bulk, with incremental earnings from four new VLCCs, very large crude carriers, which were added to the fleet in 2023. Marine services grew its P&L contribution, driven by a new marine terminal operations contract, which began from 1 January 2024.

Given our strong results and continued strengthening demand, we've revised our guidance upwards. And we're very glad to say that, it's our target as a growth company to be continually guiding upwards from where we begin, as a result of delivering on that incremental growth that we plan to deliver into this business. We now expect revenue growth in the low 30% range in 2024, with EBITDA growth also in the low 30% range in 2024. Previously we guided to high teens percentage growth, so that's a significant uplift in our growth outlook.

Our shareholders approved a final dividend of $130 million for 2023, in line with the IPO communicated dividend policy. Until now that policy remains at an anticipated 5% growth rate annually in that dividend, based on the annualised $260 million dividend for 2023.

As I mentioned earlier, we still have extremely low debt and our net debt to EBITDA is, in fact, negative right now. We're positioned for the next phase of our transformational growth strategy, whereby we grow a highly successful operating model to be ready for increased international activity and extension into adjacent verticals.

Looking to our growth strategy, we maintain our intension to invest in excess of $5 billion in value-accretive growth in energy related maritime logistics over the medium term, to meet growing demand in energy related maritime logistics. Now we've guided in the past, and we continue to guide, to a net debt to EBITDA of 2 to 2.5 times. If you calculate where our EBITDA is going for the year, you'll see that we have well in excess of 2.5 billion of debt financing potential for new investments. That's assuming that we solely use debt to finance those new investments, and that's before the free cash flows we deliver from operations after paying dividends. So, we have substantial growth capacity going forward.

Remember that when we announce new growth, that will be incremental to our guidance. What we haven't announced yet, what we plan to spend on new growth, is going to lift our guidance every single time. We'll provide updates with each realised opportunity. In 2023 we delivered four VLCCs and eight jack-up barges, two of those chartered in, on top of numerous smaller investments into the integrated logistics fleet, which continues to see substantial expansion in activity. There's much more to come in 2024 and each time these investments are tested against a high bar for long-term shareholder value accretion. Essentially, we're testing it against the low double-digit, unlevered IRR for each of these opportunities.

Six LNG carriers are due to deliver between Q1 2025 and Q3 2026. Five of those are contracted on long-term charters, contributing to strong revenue growth outlook for 2025 and beyond in the gas segment of the shipping business. In practice, we'll deliver one LNG carrier each quarter during that period. ADNOC L&S has negotiated a deal with SFI Energy to charter in four eco-specified new build MR tankers for a minimum of seven years.

These vessels will be delivered from Chengxi Shipyard in China in the second half of 2026, two units, and in the first half of 2027, two units. These are classified as methanol-ready carriers. The ships will have the optionality to carry Ta'ziz methanol volumes, underscoring the company's continued pursuit of low and zero-carbon fuels. We continue to pursue relevant, high-quality, value-accretive growth across our business segments an in related verticals, with a strong pipeline of growth opportunities within and beyond ADNOC. I strongly recommend to watch this space. A lot is going to happen between our quarterly earnings calls. We're planning for growth, we're financed for growth, we've been delivering growth. Please follow our announcements, you'll see the company continue to grow.

If we move on to our financial summary, once again we've delivered substantial growth in Q1 2024 across all key metrics, despite the negative weather events which impacted operating days. Revenues are up 42% to $840 million. EBITDA is up 44% to $286 million. Net profit is up 34% to $194 million. Hopefully everyone on the call is seeing a pattern forming. We've seen analyst consensus target price move up significantly and we're seeing our guidance, against which that target price setting was made, continue to grow, and we're lifting it again.

We guide against high probability growth on realised investments and newly announced investments will deliver incremental performance, each and every time. We don't anticipate running out of high value accretion opportunities against which to deploy our significant financial capacity. We have a balance sheet which is well positioned to use debt to invest in high-value growth for very specific reasons.

Free cash flow for the period was 7% higher than Q1 2023, which is underpinned by that profitable growth. As you're aware, UAE has implemented income tax from first of January this year, which has resulted so far in an effective tax rate of 9.2% in the first quarter for our company. Of course we'll continue to look for tax opportunities as we go forward. Bear in mind that with our high proportion of long-term contracted activity, most of the growth that we achieve we lock in over the medium to long term.

Again, we're very focused on acquiring assets against long-term profitable contracts. That's been our model until now and we don't intend to change that. We have a relatively high proportion, typically 60 to 75% of our activities contracted long-term. We're building onto a platform that will continue to grow going forward, so this is growth that you're seeing today, that you've seen the last two quarters, that will continue into the future.

Integrated logistics delivered $195 million of incremental revenue and $59 million of incremental EBITDA. Shipping contributed $51 million of revenue growth, of which $31 million was EBITDA growth over the period. Our EBITDA margins remain at 34% and net income continues to grow, albeit impacted by the newly introduced income tax. We're delivering more in our core segments and we're adding valuable extensions to our service offerings. We're growing in and beyond the UAE. We're growing our non-ADNOC business at the same time as we continue to deliver strong growth and new opportunities through ADNOC.

If we move to the operational highlights for integrated logistics, despite lost days to weather in Q1, integrated logistics delivered robust growth again in the first quarter of the year. Strong demand and Gulf market tightening translated into a high utilisation on strong rates for our assets. Offshore energy activity continues to improve, both from oil and gas, as well as EPC activities. Clients have ambitious investment plans, indicating continued offshore activity growth, which we're well positioned to service with improving economies of scale over time.

We balance the fleet, as I mentioned earlier, between owned and chartered in, and that's to manage the downside risk in case of a market softening. Demand growth saw an expansion in our own fleet of 10%, that's a 10% increase in vessels in use, including a 25% increase in the already market-leading jack-up barge fleet during 2023. The top left chart shows the growth in vessel numbers and the robust utilisation rates underpinned by continued resilient demand. The bottom left shows the growth of the fully contracted jack-up barge fleet, benefiting from strong demand across the Gulf region with strong demand backlog across the region as well.

On the top right you can see ILSP volumes were slightly off and that's a result of the atypical adverse weather conditions that I mentioned around 15 lost days. And non-ILSP volumes were significantly higher, despite that weather impact. On the bottom right you can see the progress on the EPC contract. We expect overall execution around 70 to 80% by the end of this year. To bear in mind, if you look at that separately, that's a $975 million contract that we've guided to EBITDA margins in the mid-to-high single digits.

Moving forward to the financials for integrated logistics. The continued growth in integrated logistics translated into another strong financial performance. Revenues up 55% from $351 to $546 million. EBITDA up 59% from $101 to $160 million. Net profit up 51% from $69 to $104 million, and this is all attributable to higher volumes and higher activity rates across business lines, as well as that increase in the own fleet, increased utilisation and average rates on jack-up barges, along with the 25% growth in the jack-up barge fleet.

Continued progress on the G-Island project, although most of that progress begins this month and going forward, and our continued focus on improving our utilisation and cost efficiencies, leveraging economies of scale as we grow. In particular, the economies of scale that we're able to achieve through that highly performing integrated logistic service platform, the model for which we can deploy to other areas of our integrated logistics business.

Revenue and EBITDA are relatively flat compared to Q4 2023 due to the unusual weather experienced in the first quarter, partly mitigated by a high proportion of long-term contracted revenues, improved utilisation of jack-ups and continued progress on EPC. Overall, we believe the integrated logistics segment will continue to strongly outperform in the future, underpinned by the execution of the EPC and related projects, and similar projects, I should say. Recent jack-up barge fleet expansion and continued strong activity growth across the business.

The shipping business unit and TCE rates. What you'll see here is the TCE rates in tankers have remained firm with very strong peaks, and dry bulk rates have seen short-term highs as well. The outlook for the tankers market remains very robust, with an outlook for demand to continue to outpace supply, a relatively low new build order book, and limited available slots for new deliveries.

Tanker market outlook is for a great run over the next few years, as regional imbalances in oil supply continue to increase ton-mile demand. At the same time, total tanker fleet growth has remained below the 3% since February 22, which is very low, stemming from a light order book as the industry sees full shipyard capacity, uncertainty around environmental regulations and historically high new building prices, with an ageing global fleet signalling an outlook for under-supply in the medium term. So, it's a great time to be a tanker owner.

Operating highlights for shipping. Operational performance was extremely strong, as well. Utilisation rates across the fleet remained in the high 90%. All the ships are operational and generating revenues, predominantly in the spot market. We increased our chartering-in activity, particular in dry bulk, supporting growing CFR sales of export sulphur from the UAE.

TCE rates remained strong for tankers and dry bulk, driven by a higher ton-mile demand. Gas carrier charter market conditions are softer than they've been in recent years, but the broader LNG sector remains very positive mid-to-long term, with investment in new infrastructure underpinning a major phase of ton-mile demand expansion in the coming years. If you look at the gas market, what you'll see is very few slots available for new builds, similar to tankers, but it takes much longer to complete those new builds and the orders are further out for gas carriers, but there's tremendous growth coming in that market. So, the outlook for rates is very strong.

Moving on to financials for shipping. Shipping revenue increased by 25% to $251 million. EBITDA grew 37% to $114 million with a strong expansion in EBITDA margin by 4 percentage points to 45%. That's driven by the strength in rates. Our revenue from tankers increased 57% to $150 million in Q1, compared to $96 million in Q1 last year. EBITDA for tankers was up 19% to $81 million in the first quarter of this year, compared to $43 million first quarter of last year, which is the results of those stronger charter rates in tankers, as well as the incremental VLCCs that we delivered during last year. Revenue for dry bulk increased 14% to $68 million in the first quarter of this year, against $59 million Q1 last year, and the EBITDA was up 56% to $18 million from $12 million in the comparable period. Gas carriers were down 27% to $33 million in Q1, compared to 45 million last year. Now bear in mind that we had additional charters in last year. EBITDA is down 49% to $15 million from $29 million in the same period last year. We did have one LNG carrier off hire during Q1, as well.

Gas carriers will continue to grow strongly, driven by the delivery of six additional LNG carriers, starting from Q1 of next year. On tankers charter rates are expected to remain robust through 24 and 25, underpinned by the steady demand and increase in ton-miles, supported by limited fleet growth. Dry bulk rates are anticipated to be steady for this year.

If we look to marine services, marine services delivered growth of 7% in revenue to $43 million and 28% increase in EBITDA compared to the prior year. They've expanded their EBITDA margin by 4 percentage points at the same time and this has been driven by higher activity levels in petroleum ports operations and the execution of a new marine terminal operation contract with ADNOC Offshore, which began on 1 January this year. We expect steady revenue and margins over time, as the long-term stable nature of the marine services contracted activity in both petroleum ports operations and oil spill response provide strong revenue visibility.

With that, let me move to cash flows. Q1 2024 cash flows increased by 42% to $322 million, driven by underlying profitability growth. Free cash flows were up $14 million to $197 million for the period, compared to $183 million last year. And this is a result of the business continuing to fund growth investment primarily through free cash flows after dividends, leaving significant free debt financing capacity to finance the remainder of our transformational growth programme $5 billion plus, over the next three to four years.

Net debt to EBITDA ratio remains negative as a result, pending the next round of value-accretive investments. So far, we've drawn only $100 million on our senior unsecured debt facility, which is at SOFR plus 85 basis points, by the way. There's a tremendous amount of free debt capacity at low cost available to fund that transformational growth programme, which we continue into this year.

Onto sustainability. Sustainability remains the foundation of our strategic focus and successful operations, reflecting our deep-seated commitment to key areas that include decarbonisation, energy efficiency, marine environment, client service, and regional socioeconomic growth. ADNOC L&S has developed a sustainability strategy framework that incorporate global best practices and a stakeholder-centred approach to building an impact-led strategy.

We task ourselves to become the UAE’s sustainability leader for the maritime and logistic ecosystem, safeguarding the nation’s rich maritime heritage and contributing to the realisation of UAE and global net zero ambitions. On the top-right side you'll see this chart highlighting the interim carbon intensity pathway to 2030. Key abatement projects included in this forecast are eco vessels, so dual-fuel HFO and LNG carriers, air lubricating systems, such as those on the six LR2s, Propulsion power controllers on the six existing LNG carriers, propeller and Mewis Duct energy efficiency devices across 24 ships, in addition to hybrid storage ammonia fuels, switching and cold ironing.

You can see the company is making significantly progress in surpassing the IMO emissions intensity reduction target of 40% by 2030. We’re working hard on sustainability. On the bottom right-hand side of the slide you can see the three case studies for further decarbonisation and investments. Let’s move to the next slide.

Importantly, our segmental medium-term outlook. As we mentioned at the start of the call, we’re happy to be guiding upwards in many areas, in terms of our outlook. Following the strong Q1 results and continued growth in activity across all business segments, we’re revising upwards. On integrated logistics we expect revenues to grow in the mid-40% range in 2024 and thereafter in the mid-to-high single-digit percentage over the medium term. We expect EBITDA growth in the high 30% range in 2024 and mid-single digit percentage growth beyond 24. This strong 2024 growth will be driven by the EPC project, G-Island, coupled with higher jack-up barge utilisation and rates, and continued expansion of activities for both ILSP and non-ILSP.

Beyond G-Island, we’re not expecting any material new contribution from EPC contracts at this stage, although we continue to explore similar opportunities and we'll announce those as they come. We expect continuous growth in integrated logistics, driven by strong contract profile from jack-up barges and stable growth in both ILSP and non-ILSP. What’s important to look at this, is you'll see that we’re guiding upwards in 2024, and that impacts of course our guidance for the remaining years thereafter. We’re very focused at the moment on what we see coming in 2024.

As we move to shipping, we guide revenue growth in the mid-to-high single-digit percentage range in 24. We expect EBITDA growth in the high teens to low 20s in 2024 and high teens to low 20s growth in the medium term, as well. For gas carriers we anticipate strong revenue growth around the 30% mark over 2025 to 2027, driven by the delivery of the six new build LNGs that I mentioned.

For tankers we anticipate firm rates in 2024, with the potential for some retracement when geopolitical tension ease. Although frankly, at the moment it doesn’t look like that will have much of an impact because the existing and the pending under-supply of tankers compared to the market outlook for ton-mile demand growth is so stark.

For dry bulk and containers we anticipate performance in 2024 in line with last year, with some uptick for better-than-anticipated Q1 performance. Marine services, the long-term nature of the contracts gives us long-term visibility, so typically we guide to flat, after factoring in that growth that's been achieved for the new MTO contract that I announced.

We expect revenues to grow in the low single-digit percentage range in 2024, with low-to-mid single-digit percentage range in the medium term. We expect EBITA to grow in the high single-digit percentage in 2024 and flat-to-low single-digit percentage range in the medium term.

Summarising that all up into the overall growth outlook for the medium term, on slide 18, we expect 2024 revenues to grow on the low 30s year-on-year. Thereafter, we expect high single-digit percentage growth. We anticipate EBITDA growth for 2024 in the low 30s, driven by strong top line growth. We expect EBITDA to grow in the mid-teen percentage wise year-on-year in the medium term thereafter.

We expect net income to grow in the low 20% range year-on-year in 2024, and the low percentage teen year-on-year on the average in the medium term, and that's including a 9% effective tax rate. We remain committed to targeting unlevered IRRs in the low teens on new investment CAPEX. A significant portion of that future growth will be funded through free cash flows and leverage. That translates into very strong levered returns to equity holders, particularly when we look at the rates at which we're able to borrow.

We're planning to be on $5 billion Capex over the medium term to make visible opportunities that match our capabilities and asset base, and we're pursuing M&A opportunities beyond that to expand our platform, to be ready to internationalise our capabilities and internationalise that profitable growth. $1 to $1.1 million of that organic Capex is targeted for 2024. We target net debt to EBITDA ratio of 2 to 2.5 times over the medium term, as previously announced. There's no change in our progressive dividend policy, 5% growth year-on-year starting with that annualised $260 million for 2023. We expect an effective tax rate around 9%. And with that, I'll pass you back to Captain Abdul Kareem. Thank you very much.

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

Thank you, Nick. Thank you very much. In summary, we have once again delivered a very strong result for Q1 2024, underscoring our ability to deliver exceptional performance through a carefully planned strategy of growth investments. And we remain poised for further strong growth and substantial value-accretive investments, as we continue to grow and extend our platform for maritime logistic support to the energy sector.

There are three key things that I would like you to take away from today's presentation. Firstly, we have substantially exceeded the ambitious financial targets we set ourselves at the time of the IPO and we have delivered EBITDA growth of 44% and net profit growth of 34% in Q1 2024, which is testament to our commitment to making high-quality investments which deliver strong shareholder value.

Secondly, we continue to deliver on our transformational growth strategy, growing safely and sustainably and expanding our fleet and leveraging on AI. Thirdly, we remain confident and have revised upwards our current year and medium-term guidance, as we further strengthen our platform and our position as a global energy and maritime logistic leader.

Shareholders have approved a dividend of $130 million as the final dividend for 2023, which underscores our commitment to delivering value to shareholders, even as we grow for the future. Looking forward, we will continue to expand existing services, enter into adjacent business areas and grow our geographic footprint and global customer base, while applying new technologies, including artificial intelligence and sustainable practices to further strengthen our position as a global energy and maritime logistic leader. Thank you again for joining us today and let's open the call for the Q&A. As always, we value your insights and queries. Neeraj, over to you.

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

Thank you, Captain Abdulkareem. This concludes our presentation. I'll pass on to Operator Charlie for the Q&A.

## Sathish Sivakumar, Citi Group

For ILSP, if I look back historically, what is the average contract, i.e. how much of the percentage of your contracts are up for renewal in the next 12 months. This is again also related to Zakher Marine. Are there any legacy Zakher Marine contracts that have not been reprised so far? That's my question number one.
The second question around the marine services. I do see that you have upgraded the guidance there. Just wanted to understand how much of it actually driven by the new terminal operations contract that came into force at the start of this year or more these adverse weather conditions, is there any one-offs that has happened in Q1 so far that is actually relative in this guidance upgrade? The reason being is I thought this is more of a very stable and steady business, so you shouldn't expect much of a deviation year-on-year.
The third one is around the guidance for the shipping segment. As I understand that if I look at the tanker markets, it still continues to be robust. What's your assumptions as we go into quarter two and quarter three, what have you assumed in terms of time charter of rates there into your guidance? Also, if you can give any colour on how the market has been trending in quarter two, i.e. in April, how does that compare with the March exit rate? Thank you.

## Nicholas Gleeson, CFO

Thanks very much, Sathish. All very good questions. If I start off with the contract question, we have a huge range of contracts that we operate under. For example in the marine services business, we have 25- and 20-year contracts for the petroleum ports operation and for the oil spill hazardous and noxious substances response. ILSP is five plus five, a ten-year contract with an inflation renewal period. We have on LNG carriers, one will be delivered on a seven-year contract, four will be delivered on 15-year contracts. It's really hard to describe our contract profiles across the business without becoming extremely granular.
But what I can say, when I talk to the proportion of our contracts which are long-term, we say anything which is more than one year we include in that, but there's a very wide range there, from one-year to 25-year contracts across the business. What we do as a practice is actively work to ensure that we're ready to renew those contracts on time, that we understand what are the market conditions which are impacting demand, and to make sure that we continue to roll them over, so that we do have that good, strong, long-term visibility over our income and our profitability.
To weather days, there were actually 45 weather impacted days in the UAE in the first quarter. We calculated that impacted our ILSP by around 15 days. Now what you say is exactly right. Many of the assets which are working in that fleet, in the integrated logistics fleet, are contracted long-term or they're on charters, so they're not negatively impacted necessarily by weather days. The ILSP is a volume-based contract, so on those weather days the work doesn't proceed. That means if you wanted to estimate the impact of carrier forward and future forward, a very conservative way of doing that would be to assume that the ILSP was impacted by one half of the month, that is unlikely to be repeated going forward. And then not carry that over the rest of the fleet. That will give you a conservative view on the impact.
Moving on to shipping. How we look at the shipping segment at the moment is we believe that rates have been rather high in the first half and we factor in a slight decline in rates going forward, estimating that when we see the resolution of the Red Sea situation, we might see some slight retracement in rates. But in general, our view on the tanker segment is very constructive for the next two to three

years. And the reason for that is that growth in ton-mile demand, coupled with the significant under-supply in the fleet.

You will have seen in the press this week that there's also some potential for supply shock in relation to further sanctions resulting from geopolitical activity, so we're not factoring any of that in. We're simply saying we anticipate the current environment persists in Q2 and we see some retracement in Q3 and Q4, assuming that we'll see a normalisation in those events.

On dry bulk the impact has been less stark, but we also anticipate some softening in dry bulk when we put our guidance out there. For LNG, because we're long-term contracted against the majority of those activities, we're focusing on the rates that we have in our contracted activity, not on the market rates, on that fleet. Hopefully that answers your questions, but please go ahead if there's something I've missed.

## Sathish Sivakumar, Citi Group

Thanks. I've got a follow-up here. On the tanker segment, the assumption is that Q1 trends continue into quarter two and then you see some sort of a normalisation after, that's what you baked in your guidance?

## Nicholas Gleeson, CFO

I'd say normalisation, but not to the long-term, medium. We'd say a normalisation towards the type of rates that we've seen last year.

## Anna Antonova, JP Morgan

We'll take it one by one, just not to lose the train of thought. So if you could just comment, please, on the downgrade in EBITDA growth guidance rate from low teens previously to mid-single digit in the current guidance, that would be helpful. Thank you.

## Nicholas Gleeson, CFO

Sure. To be crystal clear, it's not a downgrade. What's happened is because we've upgraded our 2024 outlook for what's happening during this year, and that includes the completion of the EPC contract, because those numbers have gone up, the comparative numbers in the future years, even though they're in fact higher than our previous numbers were, in percentage terms they're slightly lower. So it's not a downgrade, but what you'll see when you run the numbers is you actually get a slightly higher numeric outcome, which results in a lower percentage in the subsequent years, moving from the teens down to the mid-to-high single digits.

## Anna Antonova, JP Morgan

All right, that's very clear. Thank you so much for the clarification. The second question from our side is on the taxation. I recall that other public UAE companies, for example banks, in recent months are guiding that there is a likelihood that the corporate tax rate in the country may be high from current 9% up to 15% already next year. What are your views on this, please?

## Nicholas Gleeson, CFO

The competitiveness of the international maritime industry is really important to consider when you look at this. And the importance of the maritime sector of the UAE. I'm not a policy maker, I'm not a decision maker in that space, but I think it's going to be very important for the UAE to remain competitive in the maritime space and to actively contemplate how the impact of changing tax rates drives behaviour in terms of ownership and participation in the industry from the UAE.
You'll see if you look internationally that many large shipping companies, even in countries with headline tax rates significantly higher than the tax rate in the UAE, are achieving competitive effective tax rates on their business. That's because even under BEPS there's still the availability of structures which allow competitive shipping tax rates, similar to what's always existing historically in tax. If you look at the BIPS programme, that bring specific concessions which have been allowed in relation to the maritime industry for just that reason. To keep the maritime industry healthy and competitive internationally and to avoid significant changes in maritime jurisdictions. At the moment we continue to guide to a 9% effective tax rate going forward.

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

We'll take some questions online, as well.

## Nicholas Gleeson, CFO

**One of the questions we've got here is what is the share of non-ADNOC revenues in integrated logistics division now? Can you give us a rough idea of which are the countries you have exposure to within the integrated logistics division? Is there incremental business to secure from ADNOC or will most of the new projects come from international markets?**
To the first question, the share of non-ADNOC revenues in integrated logistics is still less than 50%, but it's certainly grown during the course of this year. There's quite a bit that we're doing now with third parties and part of that will be explained by the geography. We have jack-up barges at the moment operating in Saudi Arabia, and other assets, by the way. In Qatar, we have one in Iraq at the moment, and we see significant geographic expansion opportunities beyond those locations. Those are with non-ADNOC customers, typically.
And business to be secured for ADNOC or new projects from intentional markets, so it's both. We'll continue to grow with the ADNOC growth in the region. If you see the numbers that ADNOC has guided to in terms of production of oil, gas, and other hydrocarbons, there's certainly going to be a lot of growth activity to continue to service in the UAE and in other international markets where ADNOC participates. But equally, we have relationships with other international oil companies and blue-chip clients in other locations and we're developing relationships that allow us to extend internationally, beyond the Gulf countries, as well.
**The next question, apart from the rising shipping rate, what project wins and other factors is driving the upgrade in guidance for the ILSP and shipping segments in 2024 and the medium term?**
Really what's driving the upgrade in guidance for integrated logistics is, first of all, as we've seen the increase in demand in both ILSP, non-ILSP work and the strong backlog in the order book for jack-up barges, coupled with our 100% contracting of jack-up barges, all operating at high utilisation. What that tells us for integrated logistics is the market has grown. What we do over time is we balance our fleet between chartered-in and owned vessels, so as the market's growing we've been buying additional assets to service those requirements and increasing our charter-in portfolio. That results in us upgrading our guidance, it's that combination of the strong demand that we see, the strong outlook of

the order book, and the increase in our fleet size, as we acquire vessels with good returns to deliver that work.

**Next part of this question, it would be helpful if management can provide examples. Is the guidance entirely based on organic growth or does it include inorganic growth initiatives?**

Good question. Our guidance is entirely based on organic growth. We'll only include inorganic growth at the time when we realise and announce that growth. The only exception to that would be anything we did inorganically which didn't meet our materiality for announcements. That's quite unlikely because we tend to focus very much on material inorganic growth opportunities. When you see an inorganic growth opportunity announced, that will be incremental to guidance.

**If so, can management quantify? I've just done that. Does guidance assume that EPC business would continue beyond the G-Island contract?**

No, it doesn't. We think that there are EPC opportunities beyond the G-Island contract, but because none of them at the moment are firm or committed, we haven't included them in our guidance. If we realise anything, that will be incremental, as well. Hopefully you're seeing the pattern here. Why do we keep beating expectations? Why do we keep growing on results? Because we're announcing what we feel very confident to announce to the market, that we're very assured it is going to be delivered, but beyond that, we're continuing to invest in growth.

**The next question. Could you expand more on the recent drop in the LNG segment and how should we think about this going forward? Will this be the new basis that the new successes will build on or should we expect some organic recovery in existing fleet?**

For the LNG activity, it's long-term contracted, so the guidance that we're giving on LNG is particularly reliable. It's against a fleet that will be delivered against long-term contracts or is currently operating against long-term contracts. The changes in 2023 we have chartered in and chartered back out two vessels, so we have this incremental revenue and profitability based on those two chartered-in vessels, and that actively didn't continue this year. So that's the primary reason for the drop, plus we had one of the vessels was on technical off hire for part of Q1 this year, which had a specific impact in Q1 that we don't expect to continue.

**The other question is the same I just answered about the recurrence of EPC G-Island. So let's move to the next question, please. Are you planning to list any of your sub-segments, tankers, integrated logistics in the medium term?**

The answer is it would be very exciting to do that and the businesses, at the rate they're growing, are growing to a level where it could be a really interesting discussion. We only listed the existing company around eight months ago, 1 June of last year, so we're still building on that. And even though we're growing strongly and it is a really interesting question, because you could see the potential for some of these businesses as they grow their own arms and legs, to become suitable for a future listing, it's not an immediate plan at the moment.

## Guillaume Delaby, Bernstein Societe Generale Group

Thank you. One question. Your Capex plan, basically it's now above 5 billion, so I guess 6 billion is probably a reasonable assumption. Just would like to have your confirmation on that.

And second point, in terms of investment opportunities, I understand that you want to increase internationalisation, you want to do more AI. But also, given the US  project which is decelerating, Could we also expect some further investment in LNG tankers, which could be reasonable? My second question is I just want to play devil's advocate. What could you prevent from sleeping at night, what are the risks to your growth strategy, if you see any? Thank you.

Among all your opportunities, is there a sector or a region we should more look at rather than others?

## Nicholas Gleeson, CFO

Great, good questions, Guillaume, thank you very much. A couple of points there. First one on the growth and the LNG carriers. Wherever we see opportunities for transportation coming out of ADNOC, we will be bidding on those projects. Where we have the expertise and where we have the asset base or where we're able to acquire the asset base. So it's certainly reasonable to anticipate that we would bid on those projects. There's no guarantee that we win. We don't have an exclusivity, we do however carry 100% of the LNG or the methane molecules for ADNOC at the moment, so we'd certainly be strongly targeting to win that business as that growth comes down the track.
In terms of which sectors or geographies we should look at, we don't say no to any geography. We're calling at 100 different countries already on our international shipping fleet at the moment, so we're an absolutely global business and we intend to continue to increase our global expansion in international shipping.
On integrated logistics it's more challenging when you move to a new region. The relationships are very important, the connectivity to the work that's being carried out on the ground. And the access to the fleet which is relevant to that specific location is very important. I think areas that you could think about could be, for example, Gulf of Mexico, West Africa, Latin America, Southeast Asia. There might be potential there, but it really depends on the opportunities which come across our plate. At the moment the most obvious opportunities are continuing to expand in the Gulf and potentially the opportunities that you would see in West Africa.
You did ask the question as well in terms of guiding towards 6 billion. At the moment what we're saying is that we expect that growth to be beyond greater than $5 billion of new investment, but I can give you one more line of thought there. We will be constrained by capital, in my view, before we're constrained by opportunity. If you look at the capital that we have available, given our target net debt to EBITDA at 2.5 times, given the growth in EBITDA over time and given the free cash flows that we deliver after dividends, you'd be able to triangulate to a number that's even higher than the one that you just mentioned.

## Neeraj Kumar, VP, Investor Relations

Thank you very much. I think we don't have any more questions now.

## Nicholas Gleeson, CFO

Thanks very much, Charlie. I just like to say thank you again to everyone for attending. I see we have an extremely strong attendance today, so really appreciate the participation, very much appreciate the hosting by Arqaam Capital. Thank you all for joining, for your questions, and of course feel free to reach out if you'd like further discussions on our company. Thank you, everyone.

## Captain Abdulkareem Al Masabi, CEO

Thank you, Nick and everybody. Thank you, all.