أدنوك
ADNOC

ADNOC Logistics & Services

H1 2024 Earnings Call Transcript

07 August 2024

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

Corporate Participants

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

Nicholas Gleeson – ADNOC L&S – Chief Financial Officer

Neeraj Kumar – ADNOC L&S – VP Investor Relations

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

A very good afternoon to everyone, and welcome to ADNOC L&S earnings call for the first half of 2024. My name is Neeraj Kumar fromInvestor Relations at ADNOC L&S. We are glad to have you attending our H1 2024 earnings call. On behalf of the team on this call, we greatly appreciate the level of interest and support in the company. By now, you should have received the H1 Earnings Presentation. If you haven't, you can download it from the website under the Investor Relations section. I would also like to direct your attention to our disclaimers on this slide before we begin. It contains important information, and we advise caution on the interpretation and limitations of historical data and forward-looking statements.

Presenting today, we have Captain Abdulkareem, our CEO, Nick Gleeson, our CFO. I will now hand over to our CEO Captain Abdulkareem.

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

Thank you, Neeraj. A very good afternoon to you all and thank you all for joining us. I am very delighted, actually, to attend this conference call with you all today. ADNOC Logistics & Services has delivered another set of exceptional financial results, continuing our strong momentum this year and building on the robust growth we achieved in 2023. This strong growth was driven by the continuing execution of ADNOC L&S's ambitious transformational growth strategy, whereby the company is extending its reach in the region and globally, primarily against long-term contracts, to deliver exceptional growth in shareholders returns.

Slightly more than one year post the IPO, ADNOC Logistics & Services has committed to over 50% of our transformative growth plan, providing high visibility on long-term profitable growth and to meet the growing demand for low-carbon energy sources in the UAE and beyond. We have continued to expand our market-leading fleet through significant new construction contracts for energy-efficient vessels, which we have witnessed in the last few months. And we are also excited to substantially expand our geographical presence through the acquisition of Navig8, which is expected to close later this year or early 2025.

And we will continue to target value-accretive investments to serve the increasing global demand for our services, and thereby deliver long-term value to our shareholders. ADNOC L&S values are underpinned by an unwavering focus on the 100% HSE pursuing the goal of no harm to people or the community. This has led to our outstanding track record, in terms of lost time incident frequency and total recordable incident rate, well below the industry benchmark. LTIs have significantly reduced since 2017, driven by an entrenched safety culture and enhanced by using market-leading technologies.
On the right-hand side of the slide, you can see how we are using artificial intelligence in our HSE. The Marine Services team has empowered oil spill response with an AI-based detection technology, which predicts trajectories and impacted sites, enabling predictive planning and rapid response. I'm also excited to update you on the acquisition of Navig8, which is still pending completion of regulatory

approvals, and with an economic effective date of 1st of January 2024, 28 tankers on the water and four new MR tankers to be delivered in the coming year.

And we believe this is not only a strategically excellent addition to the business, but well priced, in terms of the underlying assets and business, adding 15 offices globally to ship management partnerships and an international bunkering business, which services over 200 ports globally, and an exceptional team of strategic, commercial and technical operators. This will serve as a major platform for further highly value-accretive growth in, not only our Shipping segment, but also our Integrated Logistics and new services activities. And with this, let me hand over to Nick to update you in detail on the H1 2024 results. You go, Nick.

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

Thank you very much, Captain Abdulkareem, and thanks to everyone who's joined the call today. I'm very glad to see we have a high attendance, and I'm confident we can justify the time you've taken. Slightly more than a year past our IPO, we're very glad to present another set of stellar results, which have outperformed our guidance. I'm sure we'll get the question later on, are we guiding too low? As I've said, always in the past, we guide, based on our long-term contracted activity, which makes up more than two thirds of our underlying revenue and EBITDA. And then beyond that, we price against our expectations on spot, when we take a slightly conservative view in case we see some turn in the market.

So, it makes sense that we should usually be guiding slightly below where we end up, and that's what's happened this time. We continue to grow our revenue, our EBITDA and our profitability, which is driven by the continuing execution of our ambitious transformational growth strategy. We hope that you will have seen, in the past few weeks, just how committed we are to grow the business against long-term contracts with very strong value accretion to shareholders, leveraging our balance sheet capacity.

We've announced, in the past, that we target low- and double-digit unlevered IRRs on long-term contract-backed shipping investments, with accepted returns in the high- to very high-single-digit unlevered IRRs, which we believe still offers exceptional shareholder value, as we take advantage of our unlevered balance sheet, and given the low risk of long-term contracted activities, such as 20-year activities to very high-quality counterparties. We delivered $1.7 billion of revenue in the first half, 42% higher than the first half of 2023. We delivered EBITDA of $591 million, which is 42% up again on the first half of 2023.

We kept our EBITDA margins at 34%, and we continued progress on the lower-margin EPC works, and that was offset by the strength that we've seen in jack-up barges and Tankers in particular. Our net profit of $401 million is 31% above the $307 million we delivered in the first half of 2023, despite the incidents of UAE corporate taxes for the first time this year. The Integrated Logistics business benefited from higher activity levels, so despite 15 lost days due to adverse weather conditions in Q1, we were still able to achieve growth in Q2 and overall perform highly on ILSP. We performed well on non-ILSP as well, as you'll see later on.

You see strong growth being driven by higher volumes, by higher rates and high utilisations, in addition to the first full-period results of the eight jack-up barges we added to the fleet last year. We progressed on G island EPC contract, and we accelerated the progress on the Hail & Ghasha project, contributing also to that year-on-year growth. The Shipping segment grew strongly, driven by higher charter rates in tankers and dry bulk, with incremental earnings from the four VLCCs that will be added during 2023. Regarding the outlook, we increase our revenue growth forecast for 2024 to low to mid 30% increase range from the low 30s that we earlier guided to. And that's driven by the continuing resilient rates environment that we see for both tankers and dry bulk.

You'll remember, in the last quarterly presentation, I mentioned that we saw the potential for tanker rates to come off somewhat towards the back half of the year. I would have to say, we see very resilient rates continuing through in tankers right now. We see this continued dearth, and I'll speak to that again later on in the call.

So, moving to slide number six, on our growth strategy, ADNOC L&S signed to increase our LNG fleet by eight to ten newbuild LNG carriers to meet ADNOC’s growing export volumes. So, we have six LNG carriers, which will begin delivering from the beginning of next year, one per quarter for six quarters. And on top of that, we have eight to ten new LNG carriers now signed for delivery and signed against vessel transportation agreements. This is committed through two shipbuilding contracts with Korean shipyards, Samsung Heavy Industries and Hanwha Ocean. And these LNG carriers are to be delivered from 2028, so mostly beyond the medium-term guidance period. Bear that in mind. And time-chartered for 20 years to ADNOC Group subsidiaries to support those growing export volumes of natural gas as an in-demand, critical, low-carbon transition fuel.

The new vessels will increase the company's fleet of LNG carriers from 14 to at least 20 vessels after we dispose of one or two of the older vessels that we have in the fleet. In the past, we've guided that those vessels might move to floating storage projects. Given where we're seeing pricing in the market at the moment, we're looking at, for one or two of those older vessels, disposing those, and we're factoring that into our guidance going forward. The six LNG carriers slated for delivery from the first quarter of 2025 to Q3 2026 to serve the ADNOC gas volumes will contribute to significant revenue growth in 2025 and the following years, as we’ve already announced.

We still have a relatively high proportion, typically 60 to 75% of our activities, contracted long term, and you'll see that reflected in labour investments. And, in fact, when you go beyond the medium-term guidance period, you'll see a significant growth in that long-term contracted activity as a result of those LNG carriers, which are coming into serviceable waste volumes. But also the AW Shipping joint venture we have, where we'll have these nine VLECs and two to four VLACs coming into the fleet, with those VLECs against long-term contract as well.

So, we're building a platform that will continue to grow, going forward, underpinned by these strong long-term contract earnings, and that underpins our ability to continue to finance value-accretive growth for shareholders. This is the model we promised on IPO. This is the model that we're delivering, and hopefully you can see that as you run the numbers going forward.

Moving to slide seven, ADNOC L&S’s joint venture with Wanhua Chemicals, AW Shipping, has signed shipbuilding contracts with Jiangnan Shipyard in China for nine very large ethane carriers and two to four very large ammonia carriers. The nine VLECs are priced at $1.4 billion in total and will be deployed on 20-year time charter contracts, generating revenues of around $4 billion through 180 years of combined contract coverage. Upon receiving the nine new vessels, AW Shipping will own one of the world's largest fleets of very large ethane carriers to service the market demand. The contract for two very large ammonia carriers is priced at approximately $250 million, with the option for another two, also at $250 million. The VLACs are not yet contracted, and these are targeted to serve the emerging ammonia transportation market. So, we're basically putting our toe in the water to be one of the first participants in large-scale ammonia transportation. We see that becoming an increasingly important market going forward. So, these new vessels will be among the world's largest ethane and ammonia carriers, and they'll run on energy-efficient, dual-fuel engines, once again. The new order by AW

Shipping reinforces our ongoing fleet expansion and will bolster our ability to transport lower-carbon energy sources and to support the energy transition.

Moving to Slide eight, I'll run you through the financial summary. So, as I said, once again, we've delivered substantial growth in the first half of 2024 across all key metrics, despite the negative weather events, which impacted operating days in Q1 for Integrated Logistics. Revenue is up 42% to $1.74 billion. EBITDA up 42% to $591 million. Net profit up 31% to $401 million. Free cash flow was 263% higher than the first half of 2023, underpinned by that EBITDA growth. We still have extremely low debt, and our net debt/EBITDA remains negative right now. We're well advanced on financing solutions beyond the senior unsecured facility, which is at 85 bips to SOFR, and our medium-term guidance assumes an all-in debt financing cost of 6% in the medium term. So, that's going out to 2028 and beyond, leaving some room for us to outperform. So, what you can see now is, until today, we still have negative net debt/EBITDA. You'll remember, at the time of the IPO, that we deliberately structured the balance sheet to be ready for this ambitious transformational growth strategy. We're now implementing that growth. That's very visible, and you can see that that growth can be efficiently debt financed going forward. So, we're building onto a platform that will continue to grow, supported by our recent announcement of the Navig8 acquisition, which is expected to close later this year or early next year. Navig8 will serve as a major platform for incremental, high-value and long-term contracted growth opportunities in and beyond the shipping segment.

Moving to Slide nine, financially, once again, we've delivered substantial growth in the first half of 2024, and we're guiding upwards now. Integrated Logistics delivered $403 million in incremental revenue and $97 million in incremental EBITDA. Shipping contributed an incremental $111 million in revenue and $65 million additional EBITDA over the comparative period. Our EBITDA margins remain strong at 34%, and net income continues to grow strongly, even with the new corporate tax. We've had quite a few questions as to whether we can sustain that 34% EBITDA margin. That's certainly our intention going forward. We're delivering more in our core segment, so we're adding valuable extensions to our existing 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.

Moving to Slide ten, I'll talk through the growth highlights for Integrated Logistics. So, despite lost days to weather in the first quarter of 2024, Integrated Logistics delivered robust growth in the first half. Strong demand and GCC market tightening translated into high utilisation and strong rates for most of our assets. Our activities beyond ADNOC have extended substantially, particularly that non-ILSP business. We see very strong growth. We continue to grow our own fleet in Integrated Logistics as demand and outlook for volumes and activity levels continue to expand. We maintain a balance between owned and chartered-in vessels as a hedge against market softening. Typically, excluding jack-up barges, we're operating at around 50% owned and 50% chartered-in, to give us that strong balance and resilience in case of a market softening, although at the moment we certainly don't see that coming. The $975 million G island EPC contract is set for a major ramp-up in the in the second half of 2024. We'd mentioned in the last quarterly report that we anticipated that ramp-up during Q2. We're now seeing that ramp-up coming in the second half of 2024. We're still projecting to complete between 70 to 80% by the end of this year.

Moving to Slide 11, Operating Highlights for Integrated Logistics, ILSP volumes were up 8%, and non-ILSP volumes were up 213% in the first half of 2024 on strong ADNOC and third-party business activity, partially offset by the adverse weather conditions in the first quarter of this year. Diesel sales volumes increased by 18% in the first half against the prior year due to those accelerated activities. For ILSP, volume growth for both upper deck and lower deck is consistent with a gradual growth trend in overall volumes, again, despite those adverse weather events in the first quarter. Strong demand and continued market tightening translated into higher utilisation on strong rates for most of our assets.

Moving to the financials for Integrated Logistics on Slide 12, that continued growth in operating performance translated into solid financial growth for the Integrated Logistics business. Revenue grew 55%, from $729 million to 1 billion, $132 million for the Integrated Logistics activity. EBITDA was up 42% from $232 million to 329 million. Net profit grew 31%, from $163 to 213 million, and this is attributable to the point I made on the prior page. Higher volumes and higher activity rates, increased own fleet, increased utilisation and average rates on jack-up barges, along with 25% growth in that jack-up barge fleet with the eighth asset that we added to the platform in 2023.

Continued progress on G island EPC, and, in particular, strong progress on the Hail & Ghasha project, and continued focus on improving asset utilisation and cost efficiencies to leverage economies of scale as we grow, making sure that we can maintain those strong margins even as we deliver that lower-margin EPC project activity. We remain focused on enhancing utilisation of cost efficiencies by capitalising on these economies of scale as we continue to grow. We're confident that the Integrated Logistics segment will continue to excel in the future, driven by the execution of EPC projects.

We're estimating $200 to 300 million annually, post G island, in our forward-looking guidance. That's one of the regular questions we've had in the past. As we start to move towards a higher degree of confidence on new contracts, we've factored in $200 to 300 million of EPC project revenue annually, going forward into our guidance. We also see the expansion of the jack-up barge fleet and sustained activity levels in the medium term.

Moving to shipping and benchmark TCE rates. So, tanker rates have remained firm, with strong peaks and dry bulk rates have seen short-term highs as well. Despite the recent softening in rates, notably for VLCCs, on the back of Opec+ production cuts, as well as lower oil imports into China, demand for crude oil tankers is expected to remain robust in the second half of 24 and into 2025, as growth in oil exports from the Americas translates into longer-haul oil shipments. The outlook for tanker market remains robust, and we expect a continued strong run over the next few years, as regional imbalances in oil supply translates into increased tonne-mile demand.

And at the same time, we see relatively low historic orders for new tanker deliveries. So, that combination of increase in demand, due to higher tonne-miles, combined with a relative low supply against the run-off of the tanker fleet. Tanker order book remains at one of the lowest levels over the past 20 years, and we see relatively low shipyard capacity, uncertainty around environmental regulations and historically high newbuilding prices, which is translating into a dearth of new ordering.

Moving to slide 14, Operational Highlights and Shipping, again, we continue to see positive developments. Utilisation rates remain in the high 90s. In dry bulk, we had higher charter-in days, which translates into higher revenues and higher profitability. Particularly, we saw strengthening in rates in the dry bulk segment in the second quarter. Gas carriers time charter rates were softer than they have been in recent years, but the outlook remains firm in the LNG sector. There remain good spots available for newbuilds in the medium term, similar to tankers, so the outlook for rates remains strong.

So, for shipping financials, shipping revenue increased by 27% to $519 million. EBITDA grew 38% to $232 million, with a strong margin expansion by four percentage points to 45%. Revenue from tankers increased 56% to $303 million in the first half from $194 million in the comparable period. EBITDA for tankers was up 84% to $157 million from $85 million in the first half of 2023, and four new VLCCs were added during 2023, the new dual-fuel VLCCs. Revenue from dry bulk increased 9% to $142 million from $130 million in the comparable period. Dry bulk EBITDA was up 24% to $37 million from $30 million in the first half of 2023, driven by those higher rates I just mentioned.

Revenue from gas carriers was down 12% to $73 million from the first half of 2023. Bear in mind, in the first half of 2023, we had two additional charter-in assets, and on top of that, we've seen lower rates in the short term in the gas segment. EBITDA was down 27% on gas to $39 million, and this was mainly due to those two fewer chartered-in assets and the slightly lower rates that we're seeing at the moment, partially offset by the deployment of a new VLGC, the Al Maria, that we took to work from the end of Q1 2024.

Gas carriers will grow strongly with the delivery of six new LNG carriers starting from Q1 next year, with that construction progressing positively. In tankers, charter rates are expected to remain robust in 24 and 25, underpinned by steady demand and the increasing tonne-miles that we already mentioned. And dry bulk rates are anticipated to remain steady now in 2024, which is good news. On Marine Services, we delivered growth. This is Slide 16, growth of 1% in revenue to $89 million, with a 64% increase in EBITDA, along with an expansion in EBITDA margin of 12 percentage points. This is driven by higher activity levels in petroleum ports operations and the execution of a new marine terminal operations contract from 1st January this year.

We did have some one-offs in relation to liquidated damages recovered on late deliveries of vessels earlier in the piece, so that one-off increase is not repeatable, and I'll come to that in guidance. We expect steady revenue and margins over time, given the long-term stable nature of the Marine Services segment.

Moving to slide 17, Cash Flow Profiles, what you can see clearly here is the very strong operating free cash flow profile we have, increasing 75% to $533 million in the first half of 2024, driven by that continuing profitable growth. Now, that has obvious implications for our ability to finance these investments that we've made going forward, and you'll see that we're capable of realising all of these investments well within our target, 2.5 times net debt/EBITDA ratio. Free cash flows were $308 million in the first half of 24, significantly up from the $85 million in the comparable period, as the business continues to fund growth investment using free cash flows after dividends, leaving significant free debt financing capacity on the balance sheet. Therefore, net debt remains negative. The company added $312 million in property, plant and equipment in the first half of 2024, all funded by free cash flows after dividend.

Moving to slide 18, I'll talk a little bit on our sustainability strategy. So, significant progress has also been made with the ADNOC L&S Shipping fleet in 23 and 2024 on sustainability. We continue to invest in dual-fuel and alternative fuel vessels to support sustainable growth over the long term, while meeting the UAE's decarbonisation and net zero agendas. Key benefits include a combination of environmental, operational, economic and market advantages, significant reductions in emissions, lowering in greenhouse gas emissions, improved operational flexibility on fuel use, lower operating costs, market competitiveness, and a greater potential for future proofing against future requirements on emissions and fuels availability.

On the left-hand side of the slide, you can see that the main abatement projects planned for the Shipping segment from 2024 to 2050 includes dual fuel, fleet modernisation, air lubricating systems, deployment of FSRUs, use of alternative fuels, including biofuels. So, the boxes show the abatement and the estimated percentage of reduction per vessel on average. The chart highlights the ADNOC L&S carbon intensity pathway to 2030. This indicates the company is making significant progress in surpassing IMO emissions intensity reduction target of 40% by 2030.

Important case studies are highlighted, in terms of the oil spill detection, prediction, tele-operated vessels and hybrid power solutions. These initiatives reduce fuel consumption and increase operating efficiency, in light of our deep-sea vessels and offshore fleet. Following the strong first-half results and continued growth in activities across all business segments, we've revised our guidance upwards. In Integrated Logistics, we expect revenues to grow in the mid 40% range in 2024, and thereafter at a mid- to high-single-digit percentage range over the medium term. We expect EBITDA growth in the high 30s in 2024 and mid-single-digit percentage range beyond 2024.

Despite the Q1 weather delays and deferred progress on G island into the second half, strong non-ADNOC logistics volumes and jack-up barges fleet growth, utilisation and rates have allowed us to maintain the outlook in 2024. We see growth in the non-ILSP outlook. You'll remember the significant growth that I spoke to in the second quarter of this year. We see continued strength in jack-up barges and additional projects in onshore to deliver continuing growth over the medium term. Beyond G island, we're not expecting material contribution from new EPC contracts at this stage, beyond what I've mentioned already, which is guidance to $200 to 300 million of EPC contracts per annum.

Moving to shipping, we guide revenue upwards and expect growth in the low to mid-teens in 2024, which was previously guided to the mid- to high-single-digit percentage range. We've also revised upwards the EBITDA growth and now expect high 20% range growth year on year in 2024. Previously, that was high teens to low 20s. For gas carries, we expect a slight reduction in 2024 due to asset sales and what I've already mentioned, in terms of rates, but we anticipate strong revenue growth mid 20% range year on year over 2025 to 2027, which is lower than the previous expectation of 30% year on year, mainly due to those asset sales, the sales of older assets that I mentioned earlier.

What you need to bear in mind, once we get to 2028 and beyond, we have these significant investments in incremental fleet, the eight to ten new LNG carriers coming for the release volumes, as well as the nine very large ethane carriers going into AW Shipping and two to four very large ammonia carriers. So, actually, we'll see very significant growth again in gas once we move beyond the immediate medium-term segmental outlook. We look forward to 1st January next year. We'll start to present the medium term, going out to 2029, and you'll see that growth starting to come in.

For tankers, we anticipate firm rates in 2024 as a result of the strong rate environment persisting higher than our originally expected growth. For dry bulk and containers, we anticipate better performance in 2024 now than we anticipated first-half performance, driven by the strong rates that we've seen. In marine services, the long-term nature of the contracts allows us to guide long term, and we see revenues growing in the mid-single-digit range in 2024. That was previously low single digits. And in the medium term, we see low- to mid-single-digit percentage range growth. We expect EBITDA to grow in the high-single-digit percentage range in 2024, and the flat-to-low single-digit percentage range in the medium term.

And now, if we move to the group medium-term outlook, for 2024, once again, we want to highlight the potential impact of the Navig8 acquisition. Now, we're a little constrained, in terms of how we can do that until we complete on the transaction. So, what we're showing in the left-hand column on this page is the as-is business before the acquisition of Navig8, what that guidance will look like in 2024 and in the medium term. And in the right-hand boxes, we're showing what that guidance would look like, as though we'd acquired Navig8 on 1st January 2024 and immediately begun to consolidate their results into our P&L, using the numbers that they delivered in 2023.

So, it's a pro forma basis. Hopefully, you'll understand, what's happened in the tanker market in this year means that that should be a reasonably conservative view to take on the business. All we're trying to do is to give some degree of indication of where the numbers might go post-transaction. Bear in mind the transaction accounting, which I'll get to later on. So, if we look, on a consolidated revenue basis, we're seeing low to mid-30% range year-on-year growth in 2024 and high-single-digit year-on-year growth in the medium term on revenue.

On EBITDA, we're seeing low-30% range year-on-year growth in 2024 and mid-teens year-on-year growth in the medium term. And on consolidated net income, we see low-20% year-on-year growth in 2024 and low-teens year-on-year growth in the medium term. So, that's consistent guidance with what we gave last quarter with some uptick in 2024 on the revenue line. Once we take Navig8 acquisition into account, we see, as we guided before, beyond 90% year-on-year growth in pro forma revenues and high-teens, year-on-year growth into the medium term. On EBITDA, we see beyond 70% year-on-year growth and high-teens year-on-year growth in the medium term. And on net income, we see beyond-50% year-on-year growth in the pro forma revenues in pro forma net income, and we see mid-teens year-on-year growth in the medium-term net income.

On the capex side, in 2024, we still see capex deployment in excess of $1 billion in addition to the $1 billion of M&A spend on Navig8, assuming completion within 2024. In the medium term, we see organic growth, capex guidance of $5 billion or beyond. We're targeting low-double-digit unlevered IRRs in Integrated Logistics, high-single-digit unlevered IRRs on long-term contracts with high-value shipping. On M&A, we're seeking value-accretive M&As to expand and enhance service offerings geographically and into adjacent business verticals. On capital structuring, in the medium term, we target 2 to 2.5 times net debt/EBITDA, and we're projecting an average all-in cost of debt finance, 6%. Dividend policy remains unchanged, continues to grow 5% annually, from the annualised dividend of $260 million in 2023.

So, if we move to the next slide, I'll just make some closing remarks on the business. In summary, we've delivered another set of exceptional results. We've accelerated the growth momentum that started in 2023, and the diligent execution of our transformational growth strategy is reflected in strong revenue and profitability growth across all business segments. We remain poised for further strong growth and substantial value-accretive investment as we continue to grow and extend our platform through our acquisition of Navig8, which is expected to close later this year or early next year. And as you can see, that will give us a tremendously strong international growth platform for all of our businesses.

There are three key things that I'd like to highlight. Firstly, we continue to exceed the ambitious financial targets we set ourselves at the time of IPO. That's not because we're underpinning our targets. It’s because we're outperforming on all of our business growth initiatives, and we're very proud of that. We've delivered EBITDA growth of 42% and net profit growth of 31% in the first half of 2024, testament to our commitment to making high-quality investments, delivering strong shareholder value.

We continue to deliver on our transformational growth strategy, growing safely and sustainably and expanding our fleet and leveraging AI for further growth in profitability. Thirdly, we remain confident in our ability to further strengthen our platform and our position as a global energy maritime logistics leader. Thank you again for joining us today. I can see some questions coming through already. We'll open the call to Q&A. As always, we really value your insights and your queries. We appreciate questions today, and please, feel free to reach out, subsequent to the call, to our Investor Relations team if you have other matters to discuss. Thank you very much.

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

Thank you, Nick. With this, we'll conclude our presentation, and we are open for the question and answer, so you can put the questions in the chat box.

Nicholas Gleeson, CFO

Okay, I have a question here. Thank you, and congratulations for the Q2 24 results. My questions are, can you provide more details on the $5 billion strategic investment target? What types of projects or acquisitions are prioritised? With the recent acquisition and expansion efforts, what markets or regions are being targeted for further growth, and why? Given the decline in gas carriers' earnings, what strategies are in place to stabilise or grow? All right, all very good questions. Let me move through one by one.

So, in terms of details on the strategic investment targets, a number of these, of course, have already been announced. So, we've announced in excess of $6 billion of forward-looking investments already this year. It's not the end, but that's already a very significant foray into increasing our international presence. The key investment, of course, is the investment in Navig8. That's a $1.4 to 1.5 billion investment over the course of the next three years, beginning with $1 billion on completion of the immediate exercise for 80% of the company. That will give us 15 offices globally in cities around the world, with very strong presence supporting ship ownership.

They have 28 modern tankers and four new MR tankers to be delivered. They have exceptional commercial shipping management, shipping analysis, the commercial pooling platform they have Integr8, which is an international bunkering platform, servicing more than 200 ports globally. So, this is a very significant growth acquisition for the business, gives us a great increasing opportunity set to grow globally. Beyond that, we have the eight to ten LNG carriers, which are being delivered from 2028 going forward. We have the nine very large ethane carriers. So, the LNG carriers, that's a $2.5 billion investment. The very large ethane carriers, which is a $1.4 billion investment in nine very large ethane carriers, and we have two very large ammonia carriers at $250 million in total, plus another two options for ammonia carriers there.

So, you can see already, in relation to the strategic investment, we have quite a lot coming. We do plan to grow beyond that. So, which regions or markets are we targeting? So, the first answer is, globally. That's the nature of the Navig8 acquisition. It gives us a truly global presence and a truly global employee base with very high-quality commercial operations and commercial chartering capabilities in all time zones around the world, across five continents, 15 cities. Beyond that, we still plan to grow our Integrated Logistics business also internationally. We think we've got a very successful model operating here, which can be grown into other regions in the world.

We can use the network of the Navig8 organisation for that international expansion, but we also see opportunities for growing ADNOC projects internationally, for example. Given the decline in gas carriers' earnings, what strategies are in place? Well, the main one, this is really a fleet renewal and growth. So we're selling down one or two of our older vessels in gas carriers, and that's giving a short-term dip in those earnings. But you can see, we have a very significant growth in our gas fleet, not only in the LNG fleet. We've also grown the VLGC fleet at the beginning of this year with the addition of the Al Maria. And we also have growth coming, in terms of ethane and ammonia large-scale transportation capability.

So, hopefully, Arthur, that answers your question fully. With that one, let's move to the next question, please. What is the like-for-like growth in first half, 24 versus first half 2023, excluding the vessels and fleet additions? What would be the normalised shipping revenue, excluding the geopolitical tension increment? Okay, so we don't have numbers here, which are excluding the vessels and the fleet additions, but to give you a glimpse of where those numbers come from, we added four VLCCs to the tankers fleet in 2023. So, we still would have had extremely significant growth from the first half of 2023 to 2024 without those additions. But if you take those four VLCCs, they were fully operational for the whole of the first half in 2024 and had a relatively minor impact on the first half of 2023.

So, you can take that away from the tankers. For the fleet additions, the other fleet additions were the jack-up barges. For the jack-up barges, we added eight jack-ups during the course of last year, mostly towards the back end of the year. So, that was six owned and two charted in. So, that's predominantly the change in jack-up barge capacity in first half of 24 versus first half of 2023. Again, we would still have significantly grown without those new jack-ups coming into the fleet. The reason for that is, for example, the 200%-plus growth in non-ILSP operations, growth in utilisation and rates in DP2s and conventional assets, as well as the growth that we saw in ILSP volumes on average, as well as the addition of the G island project this year.

So, very significant growth, like for like, but I can't give you specific numbers, I'm afraid, for that question. We now have a question on the line, question number five, if the operator could open up for us.

Sathish Sivakumar, Citi Group

I’ve got three questions here. Maybe I'll start off with the first one around the JV on the contract vessels. And if you look at the 13 vessels that you signed, the new JVs, and you calculate these TCEs, those TCEs for those vessels are probably coming around 50% more than where the market is today. And could you just help us understand, actually, what is driving that premium and those time charter rates of those new JVs? And then the second one is around the Jack-up barges, and obviously, you did comment that the utilisations are better. As well, any numbers that you could quantify on the utilisation? Especially, I would be keen to understand the difference between the new jack-up barges that have been put into service this year, versus your old or legacy ones.

And then the third one is probably around your M&A. If I look at, obviously, you've done anchor, and you've placed vessels for the gas segment, so that, kind of, leaves us out dry bulk. So, what is your strategy here, in terms of dry bulk as you move forward here? Thank you.

Nicholas Gleeson, CFO

Okay, very good. Thanks very much, Sathish. So, to the first question on the JV contracted vessels, let me explain how the accounting works for those, and that might impact the way that you're looking at the numbers. So, those vessels will be owned in joint venture with Wanhua Chemicals. We have a joint venture called AW Shipping, and we have 50/50 ownership, so we own 50% in that company. And we account for that on a joint control basis, which essentially means that the revenues don't flow into the P&L, but the EBITDA and the net profit do.

And we also finance acquisitions into that fleet through the joint venture, and that financing doesn't appear on our balance sheet. So, for those assets, when we bring them in, I can assure you that the VLECs are contracted at market rates, not at double market rates. And the reason for that is that the nature of this joint venture is being charted into Wanhua Chemicals, the joint discipline. So, they're very actively involved in securing the right charter rates for the assets and very motivated to do so. And so, those are being chartered at exactly the market rates. I suspect it's to do with the joint venture accounting, that you're achieving the different outcome there. What I would suggest is just to have a direct call with our Investor Relations Department on that one.

On the jack-up barge utilisation, we're utilising in the high 90% range at the moment, and rates are also very strong in jack-ups. What's happening, essentially, is, we're seeing increasing work coming for jack-ups. Even where we see decreases in production, we're actually seeing increasing work requirements for jack-up barges because of increased range of work that jack-up barges are bringing to the beneficial form. So, all of our fleet is benefiting from that increase in utilisation. The only changes we see there are transition of the units off-contracted in the new contracts, so we can have some delay there, for example, modification of vessels and repair and maintenance of vessels between contracts. But the utilisation is very high, and the outlook for utilisation remains high.

There's a really strong contract backlog in the market. So, the expectation is to continue high utilisation, certainly through 24 and through 25. And beyond that, the market is still looking very firm. The new assets have been deployed, already operating successfully on contract and delivering returns well above the range that we guide to for our new investments.

On M&A and growth, you've talked about tankers and gas and asked, what's coming next to dry? It's a really good question. It's a question that our chartering desk regularly asks. There's definitely more opportunity there. So we see growing volumes of sulphur export from the UAE, and that means that there's room for us to own more of these assets.

We do use quite a significant proportion of chartered-in fleet for that activity, and owning those vessels can make sense because of the expected long-term nature of those logistics, in terms of sulphur transportation. So, we are looking at opportunities to grow the dry bulk fleet. We just have to wait for the right market timing and the right pricing to be available. One of the interesting dynamics in dry bulk is that, even when rate softened last year and the beginning of this year, we didn't see a commensurate softening in asset prices. So, we are interested in acquisition of dry bulk, but it has to be at the right price to deliver the right returns to shareholders, particularly given that those will be non-long-term contracted assets in the fleet.

Sathish Sivakumar, Citi Group

Thanks. Yes, one quick follow-up, actually. On the JV of the 13 vessels side, so, if I understand correctly, even the debt doesn't sit on your balance sheet. So, your net debt or leverage target would probably end up excluding this, right?

Nicholas Gleeson, CFO

Correct. So, what we'll do, our net debt/EBITDA target, 2.5 times, is what we show on our balance sheet, on debt. Of course, we'll disclose to the market when we're involved in financings, including in our joint ventures, so that the market will be able to understand our full, all-encompassing leverage. We don't intend to hide anything, in terms of risk. I think it's really important for our shareholders to understand what we're doing on a leverage basis and to be able to assess risk. And I think you'll see, over time, that the way that we're planning our financing, including off-balance sheet financing, isn't designed to put us in a position of taking very significant leverage, compared to what's typical in the market.

Okay, we can take some more of the text questions here, and there's one here, actually, from JP. Can you clarify how your capex guidance of over $1 billion for 2024 is split between capex on consolidated assets on one hand and capex related to your JV investment on the other hand? Same question on the split of your medium-term capex target, please. Okay, great. So the easiest way to describe this is to go to the JV capex investment. So, the JV capex investment is, for very large ethane carriers, $1.4

billion, and for very large ammonia carriers, $250 million to 500 million, depending on whether we exercise those two options. So, that will be the split out of that $6 billion plus. So, $2.5 billion for LNG carriers, $1.4 to 1.5 billion for Navig8, then the remainder for the JV.

In terms of this year, we would only take the initial instalments on the new assets, which are coming in. So, typically, those will be 10 to 20% on the LNG carrier fleet. So, $250 million against $2.5 billion of LNG carriers, $140 million this year, against $1.4 billion of very large ethane carriers, and on very large ammonia carriers, $25 to 50 million of instalment payments against those newbuilds going forward. So, on top of that, the initial capex that we have coming in, which excludes the Navig8 investment, is predominantly investments that we're making in the Integrated Logistics fleet.

So, we have, actually, a wide range of, what I'd call, sub-materiality investments in the Integrated Logistics fleet, so multipurpose support vessels, DP2, dynamic positioning vessels, also portside investments, investments in the onshore business, a large number of investments there, which, in total, go into the few-hundred-million-dollar range.

So, a combination of wholly owned assets in Integrated Logistics, instalment payments on vessels to be owned, which is the LNG carriers, and instalment payments on vessels to be in the joint venture, which is the very large ammonia carriers and the very large ethane carriers. Hopefully, that's clear.
All Right, there's another question here. Congratulations on the strong result. Most of the investments are focused on shipping. What initiatives are being undertaken on Integrated Logistics to expand? From the IPO prospective, it was stated, the company would also provide aviation services. Is the company targeting to acquire its own passenger aircraft fleet, similar to Aramco in Saudi Arabia?
Okay, really good questions. So, on the first one, I'm very glad that you've asked this, by the way, if you build out our numbers going forward, you'll see that shipping is becoming an increasingly important element of our overall business. But what we've always guided to, and we continue to guide to, is that we expect the business to remain broadly proportionate over time, meaning that Integrated Logistics should make up somewhere between 60 and 67% of our overall business portfolio, the remainder being shipping.

The nature of shipping investments is that they're very long-term realisation. So, we're investing today for vessels to be delivered in 2028 and 2029, which is why you see so much investment in the pipeline for shipping. The nature of Integrated Logistics activities is, the investments tend to be made within the three- to six-month range, or sometimes within a year. But we don't have these long building runways, and so you don't have anywhere near the visibility. Also, on an individual asset basis, they tend to fall below the level, at which we make market announcements.

So, we will have announcements coming up, which will list all of the incremental assets that we've placed into the Integrated Logistics fleet just to provide that visibility. It's not in the presentation today, but it's in materials, which will be coming out, but what you'll see is, the intention is still very much to continue to grow the Integrated Logistics business, proportionate to where it is now, at the same time as we continue to grow Shipping. You can imagine that, with the Navig8 investment that we've made and with the significant investments that we're making to support ADNOC's LNG volumes and the significant investments we're making to support Wanhua Chemical volumes through AW Shipping, the last couple of months have been extremely focused on that shipping investment activity.

You can see us turning our eyes now towards the growth of the Integrated Logistics activity and the extension of what we're doing into new adjacent verticals, but also into new geographies internationally. So, watch this space.

I don't want to avoid the last question. Is the company targeting to acquire its own passenger aircraft fleet, similar to Aramco in Saudi Arabia? So, we have been involved in the transportation of personnel within the UAE to the offshore energy fields here. We did have ambitions to win and deliver aviation services in that respect. At the moment, we don't have any specific projects ready to announce to the market.

Next question. What is the timeline for delivery of the new fleet order for AW Shipping, and the expected fleet economics on revenue and EBITDA margin potential? Also, why not do this expansion on a fully consolidated basis, as opposed to the JV route? Let me take that first, and then I'll take the second question.

So, the timeline for delivery of that new fleet for AW Shipping is 2028/2029. In terms of why we don't take that fully on balance sheet, it's to do with the nature of the joint venture that we have with AW Shipping, which we think is working extremely well. So, Wanhua Chemicals benefits by taking a strategic exposure to the profitability of the shipping element for the transportation element of volumes that they're using. The cooperation is working extremely well between the parties. So, we actually very much appreciate the nature of this joint venture, and as you can see, it's delivering significant business to us. The reason why we don't take more is because our partner, as with us, is very content to take 50% exposure on this item.

So, how can we expect leverage to ramp up, considering your accelerating capex outlook? Also, is this 6% cost of leverage on a fixed basis, or do you have a floating rate arrangement with current rates implied at 6%? What is the current leverage profile? So, leverage will ramp up. Essentially, what I would do, if I wanted to model out the leverage ramp-up, you could take out cash flow delivery. So, we delivered $533 million of free cash flow in the first half of this year. On our dividends, we had $260 million annualised last year. We're going up by 5%, so that's $273 million of anticipated dividends this year.

You can take those out of the free cash flow delivered by the business, and you can assume that the remaining free cash flow is largely deployed to supporting new investments. Some component will go to the growth in working capital as we continue to grow. Beyond that, we'll finance with leverage. So, in very simple terms, if you take $533 million and double it so you’ve got just over $1 billion, you take off $273 million for dividends, so you've got, then, $625 million, which is going to be available for investment, maybe take $50 million off for increase in working capital and for additional growth, then you'll have an idea of what cash is being applied. And beyond that, the difference will be made up by debt financing.

You can anticipate that the first significant debt financing will be coupled with the timing of the realisation or the completion of the Navig8 transaction, so around $1 billion to go this year or early next year on the Navig8 transaction, plus the $1 billion of capital investment I guided to this year, plus the capex that we've guided to, going forward, in terms of the new fleet investment. And what you'll see is that that brings us, by the end of 2026, close to 2.5 times net debt/EBITDA before you factor in the off-balance sheet impact of AW Shipping and so on.

In terms of 6% cost of leverage on a fixed basis, or do you have a floating rate arrangement? Essentially, at the moment, we're using the forward SOFR curve, and we're assuming that we have variable debt at the margins that we're achieving at the moment on the forward rate for SOFR three-month term pricing. If we go to the next question, congratulations on the results. My question is regarding the new carriers announcement. Total investment, $1.9 billion, assuming you exercise your two ammonia vessel options. Your share of that investment is about 50% or $950 million. Correct. How should we think about this $950 million in relation to the $5 billion investment program?

So, indeed, you should regard that as $1 billion out of the forward-looking investment programme. So, we were guiding $5 billion-plus. We've got $2.5 billion going into LNG carriers. We've got about $1 billion going into this joint venture. On top of that, we've got forward-looking investment for the Integrated Logistics business. That's how you build up to that $5 billion.

Okay, let's go to the next one. Compared to last quarter, why did you change your target IRR threshold in the capital allocation policy section? Okay, so the change that we've made in our capital allocation policy is simply on the most recent investments that we've made in shipping.

So, particularly when we look at the VLECs and the VLACs going into AW Shipping, we're delivering unlevered IRR in the high to very high-single-digit range. The same when we look at some of the late-stage LNG carrier deliveries. Why are we willing to accept that? Once we move to a 20-year contract term on a newly delivered asset, we think that the degree of risk, in terms of realisation of profit is low enough to accept a high-to very high-single-digit unlevered IRR. On top of that, those assets specifically, while we tend to look at leverage on a portfolio basis, assets like those LNG carriers and the very large ethane carriers are extremely financeable.

So, you can finance those at pricing well within that 6% all-in cost range. So, we believe that a high-to very high-single-digit IRR still delivers exceptional shareholder value accretion.

If we move to the next, how much time does it take to build LNG carriers? The LNG contract with South Korean shipyards will start delivering in 2028. Is the delivery schedule synchronised with the increase in ADNOC LNG exports by 2027? Okay, good question. So, first of all, there are two fleets of LNG carriers coming for us. There's what we call the Dutch LNG fleet, so the six LNG carriers, which are delivering from the beginning of next year until the end of 2026, five of which go onto contract with ADNOC subsidiaries within 2026, and we operate them on the spot market from delivery until contract realisation.

Then we have the eight to ten LNG carriers, which will come in 2028-plus being built in the South Korean shipyards that are targeted towards the Ruwais. Typically, the delivery of those vessels will take around two years. However, access to yard slots at the moment is very congested for LNG carriers. It's one of the reasons that we have such a strong positive outlook on the LNG maritime transportation market in the medium term, and it's one of the reasons that we're able to achieve exceptional rates on newbuild vessels, even with 20-year contracts in place.

So, if we go back to the question, the reason it's taking so long from announcement of shipbuilding contracts until delivery is because the lead time to late keel, the lead time to start the building process for those LNG carriers is quite long because of the limited availability of yard slots at the moment. That's why LNG carrier prices are relatively high right now.

The next question, what is, roughly, the capex schedule for the next three years? So, I think, in the course of talking through this, I've actually gone through it. We don't guide year by year, so we only guide current year and medium term. But I've already talked through, specifically, the component of the capital allocation that we've already announced to market. And that completes unanswered questions until now.

Are there any other questions? I don't see any other questions on the call line. If there are any other questions to come through net, please speak now or forever hold your peace.

Excellent. All right, I'd really like to thank everybody. It's an outstanding attendance that we have today. I really appreciate it. I appreciate all of the questions that have been asked. They're really important, and it's teased out some details that I hadn't covered in the presentation. So, thank you very much for sharing those questions with the group. I can see, from the questions, there are two or three areas that will require further follow-up. Please, feel free to reach out to our Investor Relations Department.

We do make sure that any information that we share privately is consistent with the information that we've shared with the market. So, we won't be giving year-by-year breakdowns on forward-looking capex schedule or so on. But we are very happy to talk through with how we construct the medium-term guidance and to answer those sorts of questions so that you can reconcile your own numbers with the way that we've prepared our data. Thanks very much, once again, for your attention. We hope that you're pleased with the results we're delivering. We look forward to another very positive call in three months' time. Thank you.

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

Thank you very much.