ADNOC Logistics & Services

Q1 2025 Earnings Call Transcript

12 May 2025

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

Thomas Backmann – ADNOC L&S – VP Investor Relations

Thomas Backmann – ADNOC L&S – Vice President, Investor Relations

Hello, and good afternoon to everyone, and welcome to the ADNOC L&S earnings call for the first quarter of 2025. My name is Thomas Backmann. I'm the Vice President Investor Relations at ADNOC L&S. We are glad to have you attending our call today. And on behalf of the team on this call, we greatly appreciate the level of interest and support that you show in ADNOC L&S.

By now, you should have received the First Quarter 2025 Earnings Presentation. If you haven't, you can download it from ADNOC L&S website in the Investor Relations section. I would 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 are Captain Abdulkareem Al Masabi, ADNOC L&S CEO, and Mr Nicholas Gleeson, ADNOC L&S CFO. I will now hand over to our CEO for his opening remarks.

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

Thank you, Thomas. Very good afternoon to you all. Thank you all for joining us. I appreciate the strong participation today, and I am pleased to report our first quarter 2025 earnings.

So 2025 earnings results successfully capturing the performance of our recent acquisition of 80% of Navig8 from 6th of January 2025. And we closed the quarter, delivering revenues of US$1.2 billion. This is up by 41% year-on-year, and EBITDA of $344 million. This is up by 20% year-on-year. And net profit of US$185 million.

Our integrated logistics segment has continued a strong, profitable growth across its offshore contracting services and project segments, with notable performance coming from accelerated completion of our EPC projects and strong profitability from our Jack-Up Barge fleet, which continues to see strong rates, high utilisations, and expansion, with the deployment of an additional two Jack-Up Barges during the quarter. Our integrated logistics remains the largest segment of our business, driving robust growth and offering the added advantage of earnings visibility through the long-term contracts with blue-chip customers.

We are committed to growing our integrated logistics business and made several investments during the period to cater for the growing demand from our customers. We are pleased to have completed the acquisition of 80% of Navig8 during the quarter, which has a modern fleet of 32 tankers, including one bunker tanker, and the expansion of our service segment to include commercial pooling and bunkering. With 20 of our tankers now added to Navig8's commercial pools, we are already benefiting from their global, commercial and technical presence. We are confident now that in combination with their strong fleet analytics, including ship watch, we will deliver above and beyond the synergies identified at signing. Volatility in shipping rates during the quarter, driven by trade wars and other geopolitical risks, has underscored the resilience of our business model. This strength is attributed to the diversification of activities, and it's important for investors to understand the income security delivered by our US$25 billion long-term contracted revenues and the extent to which future profitable growth is already secured.

Diversification and ensuring business resilience have always been our priority and our growth strategy to mitigate our sector's cyclicality. Hence, our strategic investment in new vessels position us well to capitalise on market opportunities and drive sustainable growth in both shipping and integrated logistics. You can please turn to slide five. Our international Integrated Logistics and Global Shipping Platform provides shareholders with robust growth and earnings visibility through long-term contracts with blue-chip customers.

Our continuing growth aspirations are supported by a strong balance sheet, which readies us to capture both organic and inorganic growth opportunities, benefiting in this way from weak markets through well-timed acquisitions, and to upsize our existing fleet in stronger markets. And we remain a major beneficiary of the exponential and exceptional growth that continues internationally through the ADNOC ecosystem, increasing demand for integrated logistics and shipping.

We anticipate multiple, changing, exciting prospects emerging from XRG, which is ADNOC's global vehicle for an investment in chemicals, gas, and low-carbon energy sectors. ADNOC's investments programme plans to drive $200 billion of investments in the UAE over the next five years, wherein we aim to be a major contributor to the elimination of supply chain inefficiencies. And our diverse portfolio of assets and services underpins our strategy for sustainable growth and returns. We are committed to leveraging our financial strength for value-accretive opportunities and delivering strong shareholder value. Our business boost and international presence expanded service offerings at blue-chip customers base, quality assets with long-term contracts, stable revenue, and clear visibility of cash flows. We are excited about the growth ahead and look forward to executing our strategy in 2025 and beyond.

At ADNOC Logistics and Services, we are deeply committed to achieving our goal of zero major incidents involving our people and the community. Our dedication to safety is unwavering, and it brings me great pleasure to report further improvement in both our lost time incident frequency and total recordable incident rate. And we continue to strive for improvement. Ensuring the safety of our employees and stakeholders remains our top priority.

Moving on to the right-hand side of the slide, I will highlight some of our recent initiatives and achievements at ADNOC Logistics and Service. We have successfully launched the HSE 100 innovators campaign, accompanied by roadshows across our organisation, showcasing our commitment to health, safety, and innovation. And we have kicked off our 2026-2030 HSE business plan with ADNOC Group HSE, setting the stage for our future safety and environmental goals.

I am proud to announce that we achieved an outstanding milestone of 15 million of our LNG fleet during Q1 2025. This accomplishment underscores our commitment to safety and operational excellence. It reflects the dedication and hard work of our team in maintaining the highest safety standards in the industry. Lastly, our participation in the AI Everything Global 2025 Expo demonstrates our proactive approach to embracing and implementing cutting-edge technology. This event provided us with valuable insights and opportunities to collaborate with industry leaders, further enhancing our capabilities and driving innovation within our operations. By staying at the forefront of technological advancements, we are better equipped to meet the evolving needs of our customers and maintaining our competitive edge in the industry. And with that, I will now hand over to Nick to update you in detail on our results. Over to Nick.

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

Thank you very much, Captain Abdulkareem. And as always, we value investors and analysts' strong interest in our calls. I can see we've got a very strong attendance today. And I know from messages that we've seen ahead of the call a couple of you have anticipated that there might be some accounting items that add a little bit of positive colour to the announcements we're making today, and that's certainly the case. We trust the results that we're showing already demonstrate the strong resilience of our transformational growth strategy, even in the face of market headwinds. So, we do have strong results that we're delivering already, despite the headwinds that we're seeing in the shipping markets. Revenue is up 41% to $1.2 billion, despite those headwinds on shipping.

I'll get later on to a note on the accounting treatment by which we no longer consolidate the commercial pools income that we projected we would be consolidating in our services segment. So, our revenue is up 41% to $1.2 billion, despite those strong headwinds in shipping. And the change that we've made in commercial pooling income is that we no longer need, under the accounting rules, to capture that top line. So that results in a higher EBITDA margin on commercial pooling income, but a smaller growth in revenue in the services segment than was projected before.

The integrated logistics has continued its exceptional growth path at strong margins. Revenue up 23% year-on-year. EBITDA up 15% over the same period. The reason the EBITDA is up less than the revenue is the impact of the EPC margins as we make strong progress on the G-island project. In shipping, we saw Navig8 tankers added with a bargain gain on acquisition into a weaker rate environment across LNG carriers, dry bulk and tankers. Still, we saw revenue up 87% year-on-year and EBITDA up 26% year-on-year. In services, we saw revenue up 9%, with EBITDA up 52%. And again, that's driven by that accounting item that I mentioned before. We don't capture the revenues now on third party owned vessels in commercial pools, but we do capture the EBITDA, which is generated through the commercial pool income.

And then finally, net income fell 5% year-on-year. And as some of you have already guessed, that's the results of the fair value uplift on the Navig8 acquisition. So, what's happened? There was quite a long time between the signing of that transaction in early 2024 and its execution at the beginning of this year. During that time, we captured $172 million of net profit from Navig8 because that transaction had accounting effect or economic effects, I should say, from 1st January 2024. And then on top of that, we've seen the strong value uplift because of the excellent pricing of the transaction.

The transaction was priced slightly below the value of the assets, including that net income uplift at the time we executed the transaction. As a result of that, we have some additional depreciation on top of what was projected. But of course, that's a non-cash accounting item. Despite even that, the outlook we're guiding towards maintaining our guidance on EBITDA and maintaining our guidance on net income, which, of course, translates to an improvement in the outlook for cash flow generation. So overall, it's been a very good quarter in the face of shipping headwinds, and there's good news coming out of it.

Turning to Slide eight, some key performance highlights. Revenue grew by 41% year-on-year to 1.2 billion, as I mentioned. We've had growth delivered across all segments. Jack-Up Barge utilisation and rates continued strongly. We added two Jack-Up Barges against the comparative period. Chartering activity increased, and EPC and projects advanced. And all of these contributed to the growth in integrated logistics performance. Consolidating 80% of Navig8's platform post-acquisition and strongly in tankers for owned and TC assets, despite significantly weaker rates than Q1 2024.
EBITDA is up 20% year-on-year to $344 million, including $26 million of one-off items. We had a gain on sale of MGC Yas. We had a contract termination, and we had the $12 million bargain gain on Navig8.

There might be a question later on with guidance to $8 million before the increment, is simply the increase in the cash balance of the business by the time we completed the transaction. Despite weaker rates, 2024 profits and asset values combined to deliver that bargain gain that I just mentioned on Navig8, resulting in higher than anticipated depreciation and therefore the lower net income outcome versus projections. Hopefully, the non-cash nature of that change and the underpinning it gives the quality of the Navig8 deal are clear to all listeners.

Net income dropped 5% year-on-year to $185 million due to that additional depreciation and due to the short-term financing costs of the Navig8 transaction using our pre-existing facilities until the HCI, the Hybrid Capital Instrument, was put in place. So the date of that Hybrid Capital Instrument mid-February. Those financing costs go off P&L. On the Net Debt side, Net Debt to EBITDA grew to 0.8 times after consolidating Navig8. We've continued to have an exceptionally strong balance sheet, well positioned to deliver committed growth, and with around $3 billion of incremental capacity to deliver new and not yet factored-in value-accretive transactions by the end of 2029.

I trust the strong P&L growth in the weak shipping market clarifies the resilience of our model, even before we initiate revenues on the 340 years of additional revenue we contracted last year. None of that is on our books yet. So we already have an extremely resilient model, which will become significantly more resilient from next year.

Moving to slide nine. Here, we break down the continued exceptional performance of the integrated logistics segment. Offshore contracting grew 14% in revenue and 11% in EBITDA terms year-on-year, with strong demand and rates on Jack-Up Barges, including the two new Jack-Up Barges, and strong progress in Hail & Ghasha. Offshore services grew 8% in revenue and 21% in EBITDA, with higher charter-in and charter-out activity. Offshore projects grew 54% in revenues and 40% in EBITDA, with rapid catch-up on G-island time timelines. And of course, that business is at slightly lower margins, which is why the EBITDA doesn't grow as much. Overall, EBITDA margin contraction is the impact of that G-island EPC, and that's given us 14% growth in net profits at those slightly lower margins in Q1 2024. Offshore contracting is driven by ILSP and our Jack-Up Barges. We saw 23% increase in the number of vessels, against the 26% increase in volumes handled. We grew the Jack-Up Barge fleet 10% year-on-year while growing utilisation by almost 4%.

In offshore services, we grew the fleet slightly, with lower utilisation due to dry docking and maintenance against continued growth in third-party revenues. The G-island EPC project continues to progress well, along with Bu Haseer, both to complete in 2025, with 71% completion on G-island by the end of the quarter.

In shipping, we saw revenues up 87%, despite weaker rates across the board. Tankers grew 154%, driven by the Navig8 acquisition. Gas carriers grew 19%, with a new LNG carrier added, but at significantly lower rates on the fleet. Dry bulk fell 30% on a lower rate environment compared to Q1 2024, and EBITDA margins in shipping dropped as a result from 45% to 31%, with net profit falling by $21 million against the comparative quarter. Again, this just goes to highlight the resilience of our model. Even when we're having a rough time in shipping, you can see integrated logistics outperforming and delivering strong growth overall.

Operationally in shipping on slide 13, we saw owned assets decrease with the sale of the MGC Yas. And the Al Shelila was delivered early. That's the LNG carrier who moves from under construction to delivered. Utilisation remained in the high 90% range at weaker rates. Chartering in decreased by vessel numbers but increased by vessel days, with Navig8 also contributing now to time charter-in activity. On TCE analysis, you can see the extreme negative impact of weak rates. Even in the face of this significant market retreat, we're growing EBITDA strongly, and we're able to deliver positive growth in the business.

If we move to slide 14. This highlights the trend in vessel rates. So tankers have started to turn the corner since the end of Q1, with a short drop in dry bulk perhaps less likely to be long-lived. But bear in mind that LNG carriers remain depressed, which is likely to continue until mid-2027, with new production coming online at that time. But bear in mind that for our LNG carrier fleet, those go on to contract from Q2 to Q3 2026. In the past, we’ve guided mid-year. Some of those new contracts are likely to come forward a little. And then on delivery for the eight LNG carriers delivering after that. The ageing tankers fleet against the newbuilds continues to suggest a very positive outlook for very large crude carriers. And we're also constructive on the outlook for MRs and for LR2s in particular.

If we move to Slide 15, this slide has been added to help with visibility on additions and disposal of assets, which are below materiality levels. I don't think I need to speak to it in too much detail, but it should help with your modelling.

If we move to Slide 16. I think this slide helps to highlight, if our results haven't already done so, the significant platform value we've been actively developing in ADNOC L&S. We're building a platform which is highly resilient in the face of market turbulence due to long-term contracted income, much of which has not yet kicked in, and diversification across operating segments. The 340 years contracted income added last year is yet to begin. Nevertheless, we're one of the few platforms in our segment which has continued to grow strongly and profitably between periods. So, what are we offering? Unique opportunities to provide logistics and shipping solutions to the fast-growing ADNOC ecosystem. And again, if you look at the growth which is coming out of the ADNOC ecosystem, you'll see the high relevance that has to the services we're providing.

Low leverage. Net debt to EBITDA of 0.8 times at the end of the quarter. We've got strong stability and lower risk than others in the segment. Strong track record of value-accretive M&A. We won the Marine Money Deal of the Year for the Navig8 acquisition, which we're extremely proud of. Again, looking at bargain gain on acquisition of $12 million. We have diverse segments which bolster our earnings stability and provide high visibility of future earnings. And you see exactly that in this quarter's results, where we have weakness in shipping markets, yet still continue to grow profitably. High share of annuity income from long-term contracts with blue-chip customers. So over $25 billion. In fact, over $26 billion now of income at the end of the quarter going out to 2048.

Significant growth opportunities in our financial capacity. So we have, beyond what we've already announced, $3 billion of capacity available to spend on value-accretive opportunities to the benefit of our shareholders. And our global logistics and shipping platforms are well positioned to seize both organic and inorganic growth opportunities. So we've demonstrated what we can do in terms of M&A. We've demonstrated what we can do in terms of organic growth, and we anticipate more of the same.

We move to Slide 17, This should be a familiar slide by now, but it shows the impact of over $25 billion of forward contracted revenues across our platform.

Slide 18 we also add for reference. So slide 18 helps to understand the distribution of results across our segments and subsegments. And while we're on this slide, I'll just highlight that if we look at the shipping segment there. In tankers, we're going to add in the owned vessels and the time chartered-in fleet from Navig8. And in services, we bring in share of profit from bunkering activities in Integr8, as well as the commercial pool results. So the earnings on the commercial pools, but not the revenues, go into that services segment as well, from Q1 this year going forward.

If we go to the next slide, please. Slide 19. Again, a familiar slide. This is our breakdown of long-term contracted shipping revenues, highlighting also the EBITDA-based exposure, which we previously had as revenue. We've put EBITDA here after queries from a number of analysts, but I do think this gives a better outlook in terms of our fleet extent to which our profitability is contracted going forward. As you can see, across the next five-year period, an average of 32% of our total EBITDA is exposed to spot shipping rates. The remaining 68% is not exposed to that spot shipping market.

If we move to the next slide. Our Services segment grew through the inclusion of Navig8 commercial pooling and shared profits from Integr8, the bunkering business. Net income is up 138% after the deconsolidation of commercial pooling revenues, which I mentioned before. That's the change in accounting treatment, which means we don't have that very significant revenue growth that we've projected in services. But you'll see from a net income perspective, the growth is still very strong.

On slide 21, cash flow-wise, we continue to deliver strong, positive free cash flows. And working capital increased, you'll see, by $60 million. And that's mainly the result of the project activities we have ongoing now. It takes longer to document and complete the collection of revenues against those projects, such as G-island. So that's why we see an increase in our working capital, which we intend to address certainly by the end of the year.

If we move forward to Slide 22. Slide 22 addresses the significant continuing progress we're making in terms of sustainability. And you can see going all the way to 2030, our interim target to reduce carbon intensity by at least 40% with near-zero greenhouse gas emissions. So we're making very strong progress along those curves. We've had an actual reduction in carbon intensity of 57% between 2019 and last year. And between 2019 and 2030, we expect 74% to be the actual reduction in carbon intensity. So we're doing a lot on the sustainability front.

Moving to slide 23. This is a slide which has become a standard for us. Basically, this is taking the material transactions that we announced on the ADX and on our website in terms of major investments and the status of those over time and when the cash flows will move to fund those, the sources of funding for those items. And demonstrating, again, that we have at least $3 billion of incremental investment capacity beyond what we've already committed and built into our guidance. Now, most importantly, we have this Hybrid Capital Instrument. So far has drawn $1.1 billion. We have capacity of $1.3 billion in 2025 and up to $2 billion going forward. Now, that Hybrid Capital Instrument is priced at 125 basis points above SOFR, so it's very well-priced equity on our books. It doesn't factor into net debt to EBITDA. And the financing costs on the Hybrid Capital Instrument don't appear on our P&L. So, again, it doesn't detract from net income as we use that facility. What you've seen, the additional financing costs in the first quarter of this year, are the senior unsecured financing that we used before the Hybrid Capital Instrument was signed.

If we move to the next slide. 24. I've already spoken to this, but for your reference, this shows how the Navig8 business elements fit into our segmental structure.

Okay, we can move to the next slide. So just moving to the segmental 2025 and medium-term outlook. So we're maintaining our guidance on EBITDA and net income levels. We make an adjustment on the revenue level because of the segmentation, the services segmentation, the impact of commercial pooling income. So on the revenue side, integrated logistics, low to mid-single-digit year-on-year growth. In the medium term, low single-digit reduction. That's because of this one-off G-island project, which delivered a very strong revenue line. On EBITDA, mid-to-high teens year-on-year growth, and in the medium term, low single-digit growth going forward.

On shipping in 2025, we see low 80% year-on-year growth in revenue and high single-digit growth in revenue.And on the EBITDA side in shipping, we see mid-to-high 20% year-on-year growth. In the medium term, mid-teens growth in shipping. That's particularly driven by this additional long-term contracted income, which is coming into the fleet.

On the services side in 2025, we see low double-digit year-on-year growth in revenue and mid-single-digit growth in the medium term. On the EBITDA side in 2025, we see high teens year-on-year growth. And in the medium term, mid-teens growth. And again, in 2025, we projected a much higher growth in revenue. The reason that's not coming in is actually a positive for us. It's because, from an accounting perspective, we've agreed that it's not necessary for us to show the top-line revenue of third-party assets against the commercial falling income around this at the end.

For the group, 2025 and medium-term outlook for the business. We have consolidated revenue in 2025 of mid-to-high 20% year-on-year growth. And medium-term CAGR growth in the low single digits. For EBITDA in 2025, we see high teens year-on-year growth, and in the medium term, high single-digit growth. And full year 2025 net profit, we see low double-digit year-on-year growth and high single-digit growth. Now, very important for that consolidated net profit number to bear in mind the comments I made before about the additional depreciation on fair value uplift. So even with that additional depreciation on fair value uplift, we're still guiding for low double-digit year-on-year growth in consolidated net profit. On Capex in the medium term, we are projecting an additional $3 billion capacity by 2029. So very important to bear in mind that that $3 billion is additional financial capacity that we have remaining within 2.5 times net debt to EBITDA.

Our capital structure outlook. Our target remains to stay within the tune of 2.5 times net debt to EBITDA range. We're projecting average all-in cost of debt finance at 6% or less. Hybrid Capital Instrument financing costs are paid out of subsidiary retained earnings. Hence, there's no P&L impact on that. Eventually, $2 billion of Hybrid Capital Instrument facility that will not hit net income because it will be a reduction from retained earnings. Other important factors. Our effective tax rate decreased to 6% from 9% as a result of the implementation of 1% effective tax rate on international shipping income. Navig8 acquisition accounting results in an incremental depreciation of $54 million on fair value uplift in 2025, and that amount reduces in subsequent years. We've added an appendix to give the details of the accounting depreciation on that transaction. Again, that's a non-cash item.

And then for dividends, we're targeting an annual dividend per share, growing by 5% annually from the original 2024 dividend of $273 million. On top of that, of course, we have the perpetual capital security distributions from retained earnings. What that means is the financing cost on the Hybrid Capital Instrument will also show as a dividend in our accounts, on top of that 5% growing annual dividend.

Thanks very much for listening in. I'm sure there are quite a few questions for me. With that, I'll hand back to Captain Abdulkareem.

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

Thank you, Nick. ADNOC Logistics Services' strategic diversification and resilient business model has delivered strong net profit and operating cash flow results. Our recent acquisition of 80% of Navig8 and the integration of their capabilities into our business further strengthens our customers' offering and international footprint, unlocking new shareholder value. And looking ahead, we will continue to execute in our growth strategy and focusing on expanding our services and enhancing operational efficiencies to drive sustainable growth. Thank you again for joining us today. I will now ask the moderator to open the call for Q&A.

Q&A Session:

Ram Kamath

I have a couple on the business segments. So could you talk about shipping business a bit, please? The company revenue and EBITDA is growing, but the margin have declined across tankers and dry bulk container. How do you see the market shaping up for the rest of the year, particularly on the backdrop of reports suggesting a substantial progress between the US and China trade deal? And also, would you consider reviewing the guidance in case of a potential tailwind here? And also just to follow up, dry bulk and container performance is weak due to the lower charter rate activities. So, just to get a sense, how do you see this for the remaining quarters of this year? Thank you.

Nicholas Gleeson

So the first part of my answer, I'll just put my crystal ball away in terms of what's going to come out of the ongoing trade talks at the moment. So everything is subject to the outcomes of those. But essentially, what we see. At the moment we've seen strong weakness in LNG carriers. That's really not related to what's going on in the moment in relation to international trade. It's been driven more originally by the fact that there were more tankers delivered ahead of new production coming online in terms of LNG. Of course, there will be an impact of international trade talks, but ultimately for us, our LNG carriers, our newbuild fleets, are all going on to long-term contract by one vessel from Q2, Q3 next year. So we see that as a temporary effect for ourselves. But it has had a strong downwards effect on our gas performance from Q1 last year to Q1 this year. The second one, dry bulk, is driven much more by macroeconomic outlook and the level of demand for transportation of product internationally. That's the segment which is most likely to be impacted by ongoing trade discussions. And so we watch this space. But I think the outlook that we're projecting is based on a continuing relative weakness against the numbers we saw last year. Then the third area is tankers. So tankers is clearly where we've made a large investment. We saw in Q1 this year tanker rates came off significantly compared to Q1 last year. In fact, already in Q4 last year, they were relatively weak. Our outlook for tankers is still constructive. We're guiding based on a more moderate view than the average view in the market, but actually, the outlook continues to improve, and we've seen strengthening rates over the last couple of weeks in tankers. We see a relatively low build-out of the fleet compared to the age of the fleet, particularly for VLCCs. A strong demand going forward for MR tankers and LR tankers, we're also constructive on. I think the big question is what will happen in terms of trade routes internationally. If we see the worst-case outcome from ongoing trade talks, that might actually result in significant upward pressure on the rates environment in tankers. And the reason for that is it risks creating inefficiency in international logistics, which actually sucks tonnage out of the market and pushes rates upward. But I think our expectation at the moment is that we will probably see some degree of normalisation in routing. But still, the outlook for tanker rates is quite strong, just because the build-out of the fleet doesn't match the outlook for demand in tonnage, which needs to move. Bearing in mind also the increases we've seen in OPEC volumes.

Abdulkareem Masabi I think just maybe complement the points. The last point that just Nick mentioned. Basically, the volume of OPEC+ that is increasing. And I think we have seen the impact now on the VLCC rates, because they needed more vessels to ship the crude. Eventually, I think if the refineries' margins improve again, that we might see an impact effect on the product tankers. But also, we've just seen in the last week as well, the more and more sanctions on shadow fleet, whether it be through Russia and Ukraine or the Iranian flow of oil as well. So, again, we are monitoring this. I think we're still positive about it. We're still maintaining our guidance, and we'll keep closely monitoring the situations going forward.

Mohamed Elmessiry Hi. Thank you for the presentation. I just have three questions, please. I'd just like to know the actual consolidation date for Navig8. Did the company start collecting revenues from 1st Jan? And the second question is regarding the gross margin contraction for Q1. If you can just shed some colour on that. And just to follow up on one of my colleague's questions regarding the EBITDA margin for tankers. We've seen it's about half what it was. Was that mainly due to lower TCE rates? Thank you.

Nicholas Gleeson Very good. So, the answer to the first part of your question is yes and no. What I mean by that is we have the economic value of the Navig8 transaction from 1st January 2024. How it's accounted for is that the net profit that was generated between 1st January 2024 and 7th of January 2025 when the transaction was completed, that is added to the transaction accounting. So roughly $172 million of retained earnings were added to the value of the business that we acquired. That's one of the reasons that you see this $12 million bargain gain on acquisition is because we have this uplift from 80% of the profitability that business had generated in the intervening period. So it is adding value to us, but it's not adding revenues because it's consolidated as part of the transaction accounting over that period. That's also part of the reason why we have this additional depreciation going forward, which is a non-cash item. And it's very important to understand how to look at that because it's really an accounting outcome of the transaction that we carry over the next five years, depreciating down to the net book value of the assets at the date of acquisition.

In terms of the Q1 margin contraction, yes, as you suggested, it's driven predominantly. Well, in the shipping segment, it's driven wholly by the reduction that we've seen in TCE rates. Our utilisations have remained very close to the same. There weren't significant differences in terms of maintenance-off hire and so on, so it was really the reduction in TCE rates across the board. Tankers, dry bulk and LNG carriers that resulted in the margin contraction. In integrated logistics, we had a slight margin contraction, which is driven by the higher proportion of EPC works. Our EPC works typically earn mid to high-single-digit EBITDA margins compared to the 30% plus margins on average across the rest of the integrated logistics business. So that was the cause of the EBITDA contraction, EBITDA margin contraction in integrated logistics.

And then your third question was, establish margin in tankers. So was the impact again the lower TCE rates? Yes, exactly. So what you're seeing, and there was a slide that we showed in the deck, which basically shows the reduction in rates that we experienced across the different segments. I would recommend to have a look at that. And then if you compare that slide to the margins which were achieved in the shipping subsegments, you can see that that's exactly the impact. The margin reduction is almost entirely driven by the reduction in rates we saw in each subsegment. Okay, I've got another question in front of me here. As per the outlook, ADNOC L&S anticipates an additional US$3 billion plus of value-accretive organic investment spend by 2029. But I'd throw some light on this. So, yes, the $3 billion. I should always signal this is about financial capacity. So we've guided to maintaining net debt to EBITDA within 2 to 2.5 times over the medium term. And even if we deliver. Well, after we deliver all of the committed growth capex that we have at the moment, on top of the inorganic growth that we've also now delivered, and the remaining 20% of the Navig8 transaction, we still have $3 billion of financial capacity within that net debt to EBITDA theoretical constraint to add further value-accretive investments to the benefit of shareholders. Organic and inorganic capacity.

Ildar Khaziev

Yes, hi. Thank you so much for the presentation. Just a quick question on the tanker rates. Is it fair to say that when looking at the spot rate in the market, that your achieved, realised TCE rates would move with a slight time lag? Meaning that I think the VLCC tanker rates have bottomed in Q4. I think there was a nice bump from January of this year. On average, are you generating now higher rates in your VLCC fleet than the average of 1Q 2025? Thank you.

Nicholas Gleeson

Yes, that's a reasonable assumption. And the reason for that is just the contracted period for any voids that we undertake. So there will always be a delay in impact when we move up, on the back of increasing rates over time. And indeed, if you look over the last two or three weeks, we've seen much stronger rates in the market than we saw on average during Q1. So, yes, it's a reasonable assumption that the work that we're doing now is on higher TCE rates than we achieved on average during Q1.

Naveed Ahmed

Hello. Good afternoon and thank you so much for the call. I have two questions. My first question is very closely related to the previous question. Given that we are almost one and a half months into the second quarter, can you give us some indication in terms of how much have the tanker rates recovered during the second quarter? And my second question is related to the overall net profit guidance. So you have reiterated it off of a growth that you're expecting into 25. I just wanted to clarify, is this profit growth excluding the one-offs that you booked in the first quarter, or you might book in the coming quarters?

Nicholas Gleeson

So, yes, I'll answer the second question first. So we highlighted that we have $54 million of depreciation related to the fair value uplift to come in the remainder of 2025, and we're including that. So what we're basically saying is we target to make up for that in our net income generation for the full year. So even after that outcome, which is an accounting construct, we see that we will be able to support maintaining the net income guidance that we gave in the past. So in the absence of that accounting construct, that would have been something like an uplift in our outlook.

If I go to your first question, I can't answer specifically, of course, where our results are. But what I can tell you is we have seen significant positive movement in the tanker's market. What we do is we guide you to external market analysis to draw conclusions on where the market is. So we've seen it move up compared to the average of Q1 by about one-third by the early part of Q2 and the end of Q1. And that gives you some guide of where the market is moving at the moment and going forward.

Abdulkareem Masabi

The impact of the whole of the shipping side is only one-third of the EBITDA as well. So, again, we are very much resilient to all of this big cyclicality in terms of shipping, because over about 65% is actually generated, actually, from the integrated logistics side business. And so we are very much in a very, I'll say, not convertible. However, we are in a much better position than other shipping companies if you look at the results of where they are and where we are today. And that's why diversification and investment in integrated logistics with long-term contracts gave us all that cushion against all this big cyclicality in the market.

Naveed Ahmed

Sure. I just wanted to clarify the additional depreciation expense. If I understood it correctly, what I understood was this was not factored in at the beginning of the year, which is perfectly fine. So the 54 million will come in during the course of the year, and that will be mitigated by the one-off. So the net profit increase, is it adjusted for that, or it is including that?

Nicholas Gleeson

It's including that depreciation. So exactly. What you say is exactly right. At the beginning of the year, we hadn't completed the Navig8 transaction yet. And what happens from a mechanic's perspective? You complete the transaction. We have advisors appointed who carry out the fair value accounting and independent analysis. They completed that in the weeks following the transaction. So by the time that we were able to come up with an exact number, that had resulted in a significant increase in the depreciation we'll take because the value of the transaction was so high. So it's actually an extremely positive piece of news in terms of the quality of the transaction, but it does translate into additional depreciation in the coming five years. What we're doing is we're saying we're bending over backwards to find ways to cover up even that incremental depreciation, which will result in much higher cash for the business.

Ildar Khaziev

Thanks again. Yes, I have another question on those recent US tax proposals for the Chinese-built ships. I know that you're building a LPG large fleet of vessels, and if that fleet is destined to deliver LPG from US to China? Can you comment on whether those proposals have become finalised? Is that a law already or not? And I understand the situation is very fluid, but how do you think about potential impact on your business? Thank you.

Nicholas Gleeson

So, indeed, the situation is extremely fluid, and it's very difficult to predict where it lands at the moment. If you rely on economic forces, it would seem that it would be quite an inefficient outcome if you ended up in a situation that cargos can't move freely, globally for energy. It would result in actually a significant increase in transportation costs, which would be good for the shipping industry. We're not factoring in any of that upside at the moment because, from our perspective, it's quite likely to normalise, to deliver the optimal economic outcome for everybody who's involved. So we have to sit and wait and watch. But at the moment, we see the upside, which is coming from that as being significant beyond the downside. If you look at the US port oil costs, which might result from having Chinese ownership of fleet, we have seen some degree of resolution on the outlook for those costs, and the impact is not so significant on the energy industry.

Nicholas Gleeson

So I've got a couple of questions in front of me. What is the reason behind the change in 2025 earnings guidance for the services segment? Yes. So this is, essentially, there's a major change in revenue guidance for the services segment. At the time that we acquired Navig8, their accounting for commercial pooling required them to book at a gross level all of the revenues for all of the fleet in the commercial pools, which included fleet owned by third parties. We've reviewed that with our external auditors, and we've reviewed the accounting standards, and we've confirmed that we're able to book that commercial pooling without capturing the gross revenue but capturing the margin and the net income from that segment. So that's resulted in a significant reduction in our projected gross revenue but doesn't impact our projected profitability from the commercial pooling business. It's really an accounting construct on the revenue line.

Abdulkareem Masabi And it improves the EBITDA.

Nicholas Gleeson

It improves the EBITDA margin for the business. The next question we have is. Thank you, just one follow-up regarding the pooling segment. You've mentioned earlier that the figures will be added to the EBITDA, not the revenues. If you could explain the accounting treatment. So this is essentially the same question. And, yes, the answer is that for third-party vessels in those commercial pools, we don't have to capture those revenues in the pool. In fact, we don't capture any revenues in the pool for our own assets which are in the pools. We capture that in the shipping tankers' subsegment. But for third-party vessels, where we used to capture those revenues. We don't do that anymore, which means EBITDA remains the same, but there's no revenue attaching to that EBITDA. And then it says, as it's mentioned, in 1Q 25, that services revenues grew by 9% due to the commercial pooling segment. No, that's not quite right. So in 1Q 2025, EBITDA grew. So the combination of the commercial pooling segment and in Integr8, but neither of those added to the revenues in that part of the business.

Nicholas Gleeson

Let me just say, let me just make one more comment. I'll go back to the slides. And if there's an error or a statement in the slides which is slightly unclear, I'll make sure that we clarify that and show that as a clarification in the slides that we publish. Sorry. Please go ahead.

Ricardo Rezende

Thanks for taking my question. I guess just a follow-up on the inorganic side of things. Nick, when you look at that potential $3 billion plus in firepower that you've had, would you be willing to wait a little bit and digest Navig8 before being a bit more active, or if there's any opportunities in the market to be ready to pull the trigger? Thank you.

Nicholas Gleeson

Thanks. It's a good question. We've grown very, very quickly, and we've demonstrated, even after the ZMI acquisition, that we were able to move quickly again with Navig8 and bring those two businesses in very successfully. So, for example, Navig8. Sorry, ZMI has added very significant value to our business. You see the results coming through from Jack-Up Barges are just exceptional and have been post-transaction. The difference is acquiring platforms which are ready to continue under their own steam. We do need to maintain strong governance of platforms that we add to our network. But if we buy platforms which already have good management, good business models, good customer base, and are being run well, the amount of work and attention which needs to be paid to those is less than if we buy what I would call a fixer-upper. So neither ZMI nor Navig8 was a fixer-upper. There were already businesses that work extremely well, and that means we can also look at adding to our portfolio now. I say that a little more slowly, because there definitely is still a lot of work for us to do in ensuring we extract full value from the Navig8 acquisition.

Abdulkareem Masabi

And I think just to complement as well, we always look at the governance and the compliance side of that business and ensure that it is totally in alignment with the ADNOC Logistics and Services. But more importantly, we look at how do we extract business and how do we extract opportunities that we can reverse engineer or reverse, basically, flow and put more and more businesses into these platforms. So when we talk about Navig8, we want to put more and more of business development, looking for opportunities, given their presence from west to east, but also looking at their systems and looking at their IT and looking at their software as well. All of that will basically enhance ADNOC Logistics and

Services' presence but also customer service offerings as well, to our clients. So it could be the reverse side where we make more and more use of that platform going forward.

Belal Sabbah

Hi. Just a quick question, please, on the depreciation. Sorry to ask you again after you've explained it several times. But because when I look at the MD&A that you guys posted on the ADX website, it mentioned that the pressure on the bottom line was due to additional depreciation of 54 million from the fair value uplift during the first quarter, and then you quoted 54 million as well to be recognised over the remainder of the year. So I'm just clarifying, was this 54 million was the impact in the first quarter, and there's an incremental 54 to be recognised for the remainder of the year? Or is this the same 54 that's essentially divided over four quarters, if you understand my question?

Nicholas Gleeson

I understand your question. So it's less than 54 million in the first quarter. We'll break it out. So there's a slide which is attaching to this presentation deck. We can break that out. But you basically see, for $540 million of total fair value uplifts to be depreciated over the next five years. And we show how that's scheduled out. In the first quarter, there were a couple of effects, but it should be approximately $12 million that you'll see in the first quarter of this year and $54 million for the full year. We'll put the exact numbers into that presentation.

Belal Sabbah

Thanks. And to maybe just summarise your outlook for the guidance, since you've maintained your guidance for low double-digit growth for the bottom line in 2025, despite this additional depreciation impact of roughly $18 million a quarter to come, and that would be mostly driven by higher rates, even though your estimates on the rates are still fairly conservative. Is my thinking correct?

Nicholas Gleeson

I get your point. But actually, what we've done, Belal, is since the beginning of this year, we saw that the rates environment was looking more negative, particularly for LNG carriers and dry bulk going forward. And so we implemented a series of what we call value efficiency initiatives for the business to improve our EBITDA margin generation from operating the same way. And so we've been working on a series of initiatives to improve profitability internally by improving costs and by improving value delivery on new projects. That's the majority of what's going to contribute to covering the incremental depreciation we'll have in 2025 and beyond.

.

Nicholas Gleeson

Excellent. We really appreciate everyone's attention to these calls and the well-thought-through questions that we're getting in the calls. We realise that sometimes there's a degree of complexity in our results, particularly given the amount of M&A transaction we've been involved in. So, please do feel free to reach out to us post-call if there are further questions. We'll also try to enhance the presentation in a couple of ways to make sure that there's a permanent record of the answers we're giving on these questions that you can carry forward. We're extremely happy with the results that we've presented. We hope that when you will work through and carve out the accounting constructs which have changed the results on revenue and net income, you'll see that this is an extremely strong performance for the business in the face of a tougher operating environment in shipping markets. And that just goes to highlight the very strong resilience we have already. Just imagine what that's going to be like when we have these 340 years of additional contracted income going forward. Thanks very much, everyone, for your attention, and we look forward to hear from you soon.