0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Transcript

AD Ports Group 2Q23 results call

Tuesday, 15 August 2023

Ahmed Hazem: Good afternoon, ladies and gentlemen, this is Ahmed Hazem from EFG Hermes research, and we are pleased to welcome you all on AD Ports group 2Q23 results conference call. I'd like to start off by congratulating the team on the results and introduce the full house management team we have on the call, with us are: Martin Aarup – Group CFO, Ross Thompson – Group CSO, Marc Hammoud – VP IR, Antonio Campoy – CEO of Noatum, Boniface Berthelot – CFO Noatum. And, without further delay, I'd like to hand over the call to Marc. Please go ahead.

Marc Hammoud Earnings call. And without further ado, I will share my screen and start with the key messages for the quarter. The number one message that we have is that we completed Noatum acquisition, and this is a transformational acquisition. To put it into perspective, and based on the first six months' results of both companies, Abu Dhabi Ports Group and Abu Dhabi Ports Group, it represents 58% of revenue and 13% of EBITDA. The other key messages, the macro outlook remains positive in in the region and internationally.

The second point is that we continue to deliver strong growth, as you can see through the numbers that we posted. Revenue was up 66% year-on-year to 2.1 billion, 44% on a like-for-like basis. EBITDA was up 29%, 686 million, 13% on a like-for-like basis, and 3% increase in the total net profit to 310 million. The growth dilution that you're seeing from top line to bottom line is the result of all the investments that we're making in future growth. I'm talking about both OpEx and CapEx investments.

The third point would be the long-term and sticky recurring business still represents 70% of the H1 results. The fourth point, we continue as just mentioned our strong investments in terms of CapEx, 1.84 billion for Q2, 2.85 billion for the first six months of the year. And our five-year CapEx plan of 15 billion between 23 and 27 remains unchanged. I'd like also to mention that the CapEx is primarily front loaded into 23 and 24, and it's primarily also project and contract based.

So, as I mentioned earlier, Noatum acquisition and two new port concessions in terms of new business developments. The Noatum acquisition was completed on 30 June, and as a result, all the data associated to the acquisition was booked in Q2, but no P&L effect, which will start from or onwards. On the two concessions, the first one an existing operation with immediate earnings accretion, I'm talking about Port of Karachi, that's a 50-year concession agreement. And the second one, which is Pointe-Noire Port in Republic of the Congo, is a 30-year concession that will commence in second half of 2025.

As a result of the Noatum acquisition, the net debt to EBIDTA increased to 3.5 times as of Q2 23. And again, it was slightly distorted by the fact that all the debt associated to the acquisition was booked, but no P&L effect, as I said. The balance sheet captures the debt associated to the deal, as I said, but no P&L contribution. And well-managed debt maturity, we will see when Martin takes you through the financials, that we still have well-managed debt.

Growth story. We're talking still about a resilient growth story. I already mentioned the fact that the macro and top-down story are still favourable, but for the first-time listeners, I think what I can add here is, as the exclusive master developer and regulator of ports and related infrastructure in the Emirate of Abu Dhabi, we have a strong alignment between the Abu Dhabi economic diversification and industrial strategies, and the business that we're running. So, everything outside oil and gas industry tends to impact us positively. Our triple-play growth strategy continues. First lever ramp-up of existing assets and the winding of the service offering, this is very well illustrated in our ports and economic city clusters. The second lever is the organic CapEx, as I mentioned, 15 billion, which remains unchanged.

And the third lever is the M&A opportunities that we will complete. TTEK, Noatum were two of the acquisitions we completed in Q2 and the two port concession in Pointe-Noire and Karachi are falling under that third lever.

The third point of the equity story, I mentioned it earlier. We still have 70% of our revenue in H1 which are long-term and sticky recurring business, that continues. And finally, I touched on it, net debt to EBITDA of 3.5 times as of Q2. We still have 1.5 billion in cash, about 5.8 billion under existing facilities, bank facilities, as firepower for further growth and to fund our growth strategy.

A picture of our five clusters based on the H1 results, revenue and EBITDA. You can see the strong growth in the maritime has led to a bigger weight of the cluster into the mix. So, 51% In terms of revenue and 34% in terms of EBITDA. Second, economic city and freezone, in terms of revenue, and more or less the same in terms of EBITDA contribution. Third, ports, with 15% and 20% EBITDA contribution, and smaller contribution from logistics and digital. Obviously, the Noatum acquisition will change the picture next quarter when it comes to the logistics and to the overall revenue mix going forward.

And on that note, I'll pass on to Ross, to take you through the strategy update.

Ross Thompson Hi, good afternoon, everyone. My name's Ross Thompson. I'll take you through the next slides. Next slide, please, Mike. I think most of you who attended before would have seen the next three to four slides. I won't take too much time. They remained fairly constant. I think we're continuing this to our growth strategy, and that's three-fold. We will always look to consolidate our position in Abu Dhabi and the UAE as a regional champion, and certainly a champion and semi-monopolistic player here in Abu Dhabi. We have a regional focus of expansion on an asset play, and we expand globally, to create networks through our logistic acquisitions, and particularly on maritime acquisitions. Which create a network that drive cargo and trade through our asset basis. Next slide, please.

I think that the criteria for that remains fairly constant. We're looking to invest in logistics, particularly in shipping and in ports. On the right hand side, this will always be relevant geographies, geographies that have very high trade volumes to and from this region, and particularly to the UAE where our current customers have particularly high trade volumes, as well, or where there's a G2G angle. We'll always look at transactions that are of appropriate size and scale. And, of course, we'll talk about Noatum today, as we completed the transaction in quarter two. And the financial tracking, we look for value in the deal and we look for transactions that will create value accretion through the rest of our businesses, great synergies that we can exploit and recognise on the balance sheet going forward. Next slide, please, Marc.

Okay, so, as we're talking quarter two, I think in the first half, at the last investor call, we went through Al Eskan Al Jamae and Safaga Port concession. I think we've added to that quite well in in quarter two. We close the deal for TTEK, which is the developer of border control solutions and customs systems. This really is a bolt-on service to our Maqda Gateway, opens up a lot of opportunity, particularly with foreign governments around the region, and ones that want to clean up their customs system or advance their custom system. TTEK is a company that was known to us, it was a supplier for Maqda Gateway. And it's a good addition to our suite of digital solutions that we can deploy in various markets.

I'll come back to Noatum, as we're talking about it later, and I'll jump to the Karachi Port 50-year concession. We closed and finalised the deal it for an existing terminal. Their current concessioner had come to an end, the government wanted a change. We were able to negotiate with the government, effectively paying an upfront fee of around 50 million for a 50-year concession. It is a current operating terminal. We have inherited the management and the equipment. Part of the upfront payment was to acquire that equipment from the previous concession holder, and also from the Port Authority itself. It's been doing around 500,000 to 600,000 TEUs a year, so it is a substantial concession. It's a very, very high-margin business, it's around about 50, 51% operating margin business. Largely because of the gateway, the cargo is gateway. We have a significant plan to grow our footprint in Pakistan and invest in other areas. I think you would have probably seen the news and that we have made an offer for the bulk and the general cargo, to grow our footprint. And what we see is, it is actually quite a high-growth market with very sustainable volumes.

We also signed the concession at Pointe-Noire in Congo-Brazzaville, that's a 30-year concession. There is a number of CPs that need to be satisfied on both sides that we are working through, and I have the details for you later in the presentation. Finalising the Noatum and completing the Noatum deal has been quite a milestone for the company. That was achieved. We now will reverse merger our existing Middle East logistics business underneath Noatum to create one management team.

We will drive synergies through that merger, and we will take cost out of the system, but it allows us to offer end-to-end solutions on a logistics basis to our customers, as well as building on the customer base Noatum already has. Very, very strong in terminal management, which fits for our group in the terminals division. Very strong player and market + leader in automotive, and something that is attractive to us as a key market segment for our group. Also in the maritime sector, where ship management and other services provide us with a good platform to scale that opportunity to particularly bring it to our region. And serve ourselves to service our group, so they can start to serve our shipping arm, the ship agency market.

We look forward to the second half, and we will close GFS in the second half. I don't have a date to communicate to you yet. I can tell you, we have all but one regulatory approvals and we're working with the last one to satisfy regulatory approval, so that we can complete and finalise the deal for GFS. Next please, Marc.

Just a little bit about the acquisitions that we have completed in the first half and in the GFS on the right hand side, which we'll complete in the second half. But you can see the details, the ownership status. For Noatum it is 100% for the Pakistan terminal, which is KGTL, it's at 60%. We have a partner that has currently 40% in there. TTEK was 100% acquisition. You can see the purchase consideration and the consolidation dates in the P&L. So really, they have limited impact on the P&L in the second half, primarily because these transactions were closing towards the end of the quarter, so you're going to see the impact from the second half, and really from the end of June going forward.

Rationale for these groups, and you can see where they fit in with our strategy, a lot to do with owning customer relationships and being able to influence where trade goes. A lot of pairing up a global network that we're creating on the shipping and feedering side, plus the logistics side. Pairing them with our asset base to create value and to offer supply chain density and options to our customers in the markets that we serve. Next slide, please.

I think I'm going to hand over to Antonio Campoy, introducing the new CEO of Abu Dhabi Ports's logistics cluster and Noatum as a company.

Antonio Campoy Good afternoon to everyone, I'm very pleased to join this session for the first time. My name is Antonio Campoy, I'm the CEO of Noatum. Well, I think Ross has explained a little bit ahead of me. Noatum is an integral logistics operator, but we add to our structure three different businesses, logistic, maritime and terminal, really working as one because we believe in a concept of delivering a one-stop-shop to our client. So, we are already established in 26 countries, with an incorporation in the Emirates of UAE. Then we have for the maritime business, we are well-placed in the West Med. In terminal, we operate in 15 terminals in Spain plus one terminal in Abu Dhabi. Obviously we have 143 offices, just to make this activity going on, and we employ over 2,900 employees. The different activities working as one, you have the relevant milestone in the last 12 months.

Basically, we do everything in logistics to do an end-to-end solution to our client. From airfreight, sea freight, warehousing, control logistic, project logistic, customs, everything. We do everything in commercial in maritime, attending shipping lime as commercial representation, port agency, ship services, all types of specialised services, we are second to none in that activity. And we are operating 15 terminals in Spain at this moment in time, we are number one in in operation for automotive transportation. We've done, particularly in the last 12 months, close to 1 million cars in our terminal. Just to tell you that the expectation for this, the whole year, will be 1.5 million, so it is increasing.

In general, we are controlling and operating a number of cargo and container and airfreight. We operate over 200,000 m² warehouses. A relevant milestone is that we've done more than 12,000 vessels attending in different ports and we have 150,000 users' commercial representation. Next, Marc, please.

This would summarise what we do in the different businesses. Again, the system that we try to do it as an integrated service to all of our clients. So, with holistic, all type of freight management, contract logistic, warehousing, customs clearance and trade compliance as international supply chain from origin to destination. All type of cargo, e-solutions, is a very well advanced platform for logistics. While in maritime, we are attending regular line, tramping, all type of vessel we do under our agencies, outsourcing. We do all types of services on behalf of the mega carriers. We do ship service, all type of repair and all type of supplies, whatever, to ship, as well as dry chartering and cruise services, as cruise services is an interesting industry in our sector. And in terminals, we operate multi types of terminal, from multi-purpose container terminal, reefer terminal, bulk terminal, ro-ro terminal. Mainly growing in the last year with an increase of electric cars coming from China, mainly, and we operate a number of warehouses.

The picture you see here is the present reality of a long journey that started 60 years ago, we turned 60 this year. And that gives you a footprint of the group today. We try to be global in the most relevant economies, always justifying a trade line between our different regions, to make the service to our clients about an origin or destination. So, we are not doing all the activities in all the [unclear], mainly we're doing maritime services in West Med. Our West Med is Saudi, Europe and North Africa. We're doing terminal in Spain and Abu Dhabi and we're doing logistic in the rest of the 26 countries. So, this relevant footprint allows us to deliver our second-to-none service to the clients.

Marc Hammoud I think, Ross, you can take us to the rationale for the transaction.

Ross Thompson Yes, I think the rationale for why we bought Noatum and why we see them as a very synergistic fit into the group. I think first and foremost, we benchmarked globally companies of similar size and scale, even some that were bigger, and we look for a number of things. One, the strategic fit with the company. Two, a management team that had demonstrated solid financial results and growth. A management team that had capability and also demonstrated the ability to grow their company through organic and acquisition, in many different markets. And then then proved that the acquisition had been integrated well through evidence on the P&L.

When we came across Noatum that was very, very clear to us that it was a very well-run company, a very demonstrable track record, financially very, very strong and doing well. Diverse, like our group, and split into three distinct categories, which was logistics, maritime, and ports and terminals, which fitted our group profile and our cluster model very, very well. We could see the penetration of synergies and we could see the ability to expand Abu Dhabi Ports Group international logistics business on a more global scale, and create that network that we've been talking about in our strategy for some time. So, we have bought Noatum as a strong existing business, one that will drive synergies and cost optimisation through our existing businesses, and one that is a platform for future growth, both on the organic side and on the inorganic side.

And I think that that's largely why it is we've seen it as such a complimentary fit in our business and one which we're very excited about and that would deliver a significant uplift on the P&L, both in the logistics cluster, but also in our other clusters, particularly in ports, maritime, as well as the synergies we'll get from amalgamating our existing business with theirs. Next slide, please, Marc.

Boniface Berthelot I think that’s my turn good afternoon, everyone. My name is Boniface Berthelot and I'm the CFO of Noatum. Antonio explained to you what is Noatum, a global integrated logistics company. Let me now explain how that translates into numbers. So, what you can see on the slides are the concentrated numbers of the group, of the three divisions. We are a €1.4 billion revenue company, generating over the last 12 months 106 million EBITDA. I think an important comment here is that, I'm sure you're all aware, that there's been a strong and fast normalisation of the freight markets over the last six to eight months. But, despite this strong normalisation that we all expect to happen at some stage, the performance of Noatum has been very healthy and very strong over the last six months, and we'll see it in more detail for each division.

What is really important, as well, is that our EBITDA margin of the last 12 months remain in the range that AD Port I think communicated to you when they announced the transaction at the end of last year. We are talking about a range of 6.5 to 8% and we achieved 7.6%. The cash flow generation, as well, has been very strong, despite a CapEx which has been above the normal range that we have every year. It has been above because we made a significant investment in UK for [unclear], so that will be a CapEx that generates value in the future. But despite this CapEx, strong cash flow generation, and that also led to the fact that our net debt position is very healthy. The numbers you see here is including the IFRS 16 impact, but if we exclude it, we actually have a net cash position of 40 million at the end of June.

But if we go to the next slide, Marc, please. On the next slide, we are breaking down this concentrated number by business units and by geography, to give you a better understanding of how we are split. If we look at business units, obviously the logistic division is and will remain the key division of Noatum. However, over the last months, with the normalisation of freight rates, there has been a rebalancing towards maritime and the terminal business units. But again, logistic remains the largest one by far.

Talking about geographies, West Med remain our core market today. Why is it our core market today? It's because we are operating in the three divisions in Spain, Portugal, France, Algeria and Morocco, that's what we call West Med. That's not the case in the other geographies, where in some of them, we only have logistics or we have logistic and maritime. But having said that, you can see that all the other regions remain a significant contributor to the group. Going forward, as we develop Noatum and AD Port cluster towards a more intentional player, we expect the proportion of West Med to decline over time.

Let's look now at the performance by division. That's the performance of logistics. I think the evolution of logistic has been quite impressive. In 2019 we made a transformative acquisitions for Noatum, which was the acquisition of a US logistic company that converted us into a global logistic player. And you can see that all the numbers have been going up since 2019. We have increased the maritime traffic, which is our core segment, by 30%. The revenues have nearly doubled, the EBITDA have been multiplying nearly by four times, so that's been quite impressive. But I think what is even more impressive is the performance that we have still delivered over the last six months in more difficult market conditions. If you look at the maritime traffic in terms of TEUs, the last 12 months compared to 2022, it has been up 6%. That's nearly unseen in the market because most of the other logistic companies have reported lower numbers than last year. Actually, you even have DSV reporting a market decline of more than 10%. And despite this environment, we have been able to increase volumes.

Obviously, revenues have come down because of the lower freight rates, but we are very pleased with the numbers that we have been generating over the last six months. Going forward, I think that the future for us is very bright. We see a lot of opportunities to develop all products and all geographies, and that will be even more the case in the AD Ports Group and we see a lot of synergies with the other segments of the AD Ports Group.

If we go to maritime, Marc, next slide. I think maritime, that's also a division we are very proud of. We think it's also very impressive in evolution. That's not what you can see on the first shot, on the left. That's actually our core, our historical segment, the commercial representation for container lines. You can see that the evolution has been a bit patchy. That's due to the consolidation of shipping lines, but having said that, the division has done a fantastic job diversifying the services that it provides to the shipping world, that's what Antonio was describing before. But we have been very good at creating new services, such as Husbandry. We have developed the Tramp business, as well. We developed Ship services.

We made a small acquisition that has created a lot of value in 2018. And you can see this evolution in the KPI at the bottom on the left, with a number of calls that we are managing. That has nearly increased by 50% compared to 2019. We are really generating some strong products and we believe that going forward in the AD Port Group, as Ross was mentioning before, we'll be able to provide the services to the other companies of the group. And there's the idea to develop all activities in the Middle East and in other regions, and we see a lot of potential for this division.

Also, having in mind that over the last few years we have done a transformation of the operating model of the division and you can see that the margins that we are generating have increased a lot from the 6% of 2019 to the 10% over the last 12 months. We expect this 10% mark to be the correct mark for the future.

Finally, if we go to the terminal division. Marc, if you go to the next slide. The terminal division is a very diversified business. Why is it diversified? Because we have many multipurpose channels. We have a lot of different type of cargos, from containers to ro-ro to bulk, agri bulk, [unclear]. We have a lot of different traffic, and that gives us the protection to downsize. If you look at the last few years, what does perform very well is our container business. That's a bit weaker now, given the market conditions where we operate, but what has recovered very strongly recently is the rural traffic.

Last 12 months we have done nearly a million. I think Antonio was talking about the 1.5 for this year, which is even above the mid-term target that we have because the market is extremely strong at the moment. And we have been very successful in a strategy to develop our ports as ups for the mid-market, and also for the electric vehicles. Barcelona has been extremely successful delivering this strategy. We have been also very successful in developing some commercial ventures for bulk traffic. You can see that all bulk traffic has been increasing steadily over the last few years.

We are very confident that the terminal operations or terminal division has a very bright future going forward and that there will be a lot of synergies, as well, with the AD Ports Group. I think Ross was mentioning the automotive segment, which is a key segment for us in terminals. And there will be a lot of opportunities to grow this segment in other geographies, having in mind that we have developed a very strong relationship with car makers and with the ro-ro shipping lines.

Just as a recap, I think I've finished my slide, but as a recap, what I wanted to give you as a message, is we have been able to develop a strong global integrated logistic group, delivering solid performance. Solid performance that we have maintained in the last few months, when the freight markets have been more difficult. We see now a lot of opportunities to grow our business as part of the AD Ports family. We also see a lot of synergies that we can develop, as Ross was mentioning before, both in terms of revenues and in terms of cost. And I think that's a perfect transition for us to talk about these synergies.

Ross Thompson We mentioned it several times in the presentation, but really, we've identified an annualised EBITDA of around about 130 to 190 million, that we believe that we can recognise by 2025. These are both top line synergies by providing services into our group of companies, largely internal, if not all internal side. And also cost saving from optimising and merging the two groups together. We've really driven that through seven areas of concentration for this. I think that Noatum will clearly expand into this region, on the back of being able to expand by providing services to our organisation. But also, by expanding in markets that are particularly important to Abu Dhabi Ports and its asset base around the region.

Again, we will bring in services that are currently performed by third parties, but now can be immediately performed by Noatum. We will launch new and deepen a comprehensive industry solutions to our existing customer base. That allows us, where before we've been constrained to really service our customers in the UAE and in Abu Dhabi, it allows us to go to our existing customer base that's been particularly sticky with us and been serving us for a long, long time. It allows us to go to them and start to offer them solutions on a globalised basis, from China into the UAE and the UAE into India, for example, that we haven't had the capability to deliver before.

I think the fifth point is we'll leverage increased purchasing power for transport across our group and for our customers, particularly sea freight rates and sea transport. The scale allows us to procure better, I think it will optimise our operations and certainly one of the plans is to lower the cost of vessels. I think we have a suite of options that we will deliver over the next 18 months, both on the top line and the bottom line. As I said, we're transparent in what we're targeting and this annualised figure of somewhere between 130 and 190 million into the collective P&L over the next 18 months. Next slide, please, Marc.

Just some very, very brief details on the concessions that we signed during quarter two. This is the 30-year concession agreement for Pointe-Noire Port in Congo-Brazzaville. It is a multi-purpose port, it has container as well GC, ro-ro, automotive and bulk products for us. Ownership structure is 100% us. There's a 30-year concession agreement, which is expandable by 20 years. It's somewhat of a greenfield project that needs to get off the ground. There's a lot of dredging to do, there's a lot of construction to do. Since we signed, we are recruiting as we speak a general manager for this project. We're looking to close the CPs on both sides, both on the government side and our side to the contract, as well as the financing terms. And we've completed things like the long-lead items, like the cranes and the equipment, the specification of those. And we'll be out to tender in the markets as soon as we have satisfied the CPs.

We are creating container capacity around about 400,000 TEUs and the logistics area behind there. Our CapEx assumption is around about $220 million for phase one, and that will be spent over the first 30 months of the project. Next slide, please.

Details around the existing container port in Karachi in Pakistan. Again, the 50-year concession was signed with the government. The ownership structure is 60% us and Kaheel Terminal is 40%. It is a 50-year concession. We have a current capacity of around about 750,000 TEUs. We will take that up to 1 million TEUs once the terminal hits its capacity. We have expansion rights to expand the terminal into adjacent land. We have a CapEx program and we plan to invest in infrastructure, and of course that CapEx is equity proportion to the shareholding, but we'll be investing over around 220 million in new superstructure, modernising the terminal, slight dredging, and also the expansion plans. That CapEx and the bulk of the investment, it's all within the first ten years, but the upfront is largely spent between 2023 and 2026.

It's a very good operating business, as I said, margins are very, very high and stable. They've been a 51% margin business, largely due to because it's predominantly gateway traffic. They've had a very, very consistent and sticky customer base. We will support this through additional volumes. We know that we can transfer GFS volumes into this terminal and that will create synergistic benefits for the group, almost on an immediate basis. Next slide.

Martin Aarup I'll take you through the financial performance. Marc, if you go to the next slide. In Q2 we delivered good operational financial results, balancing returns from the existing, business, and also investing in future growth. Our growth trajectory remains linked to our integrated business model, and that's of course built on a foundation of long-term contracts and concessions with more than 70% of the Q2 revenue being long-term or sticky in nature.

We continued enhancing our service offering and diversification into synergistic new businesses, both domestically and increasing the international. The group's revenue grew 66% year-on-year to 2.06 billion in Q2, driven by volume growth in key sectors, expanded service offering, as well as geographic expansion, both organically and through M&A. The Q2 EBITDA growth by 29% year-on-year to 686 million, with strong growth particularly in maritime, digital and ports clusters, as well as from the recent acquisitions.

On a like-for-like basis, excluding effects from acquisitions, revenue and EBITDA grew by 44% and 13% year-on-year, respectively, in Q2. Total net profit increased by 3% year-on-year to 310 million in Q2, as the EBITDA growth was diluted by the increase in amortisation charges from acquisitions, as well as depreciation and finance costs associated with the procurement of new assets with deferred revenue effect. That's what I mentioned by balancing the returns of the existing business and investing in the future growth. Q2 year-to-date figures were in line with medium-term expected growth trajectory. Next slide, please.

Operationally, we had a very strong Q2 in the ports cluster. General cargo volumes increased 40% year-on-year and reached 8.8 million tons. Quarter-on-quarter we're slightly down due to normal seasonality in the bulk and cargo volumes. Container throughput grew to 1.2 million TEUS in Q2, up 10% year-on-year. In line with the year-on-year increase in volumes, utilisation rates increase from 51% in Q1 of 2023 to 56% in Q2, and that's driven by the continued ramp-up of the terminals and the partner shipping lands gradually shifting their regional volumes to Khalifa Port, in line with their contractual obligations.

Volume mix remained relatively stable, with 63% from shipment and 37% origin and destination volume. In terms of our ro-ro and cruse segments, both continued their strong growth, with Q2 ro-ro volumes up 64% year-on-year and cruise passengers up by 152%. Next slide.

In the economic cities cluster, we signed 700,000 m² off new land leases, bringing the year-to-date to 1.6 km². We remain on track to achieve the 3.5 to 4 km²annual guidance we have previously communicated. Again, here it should be noted that in year-to-date 2022 land leases, it included the mega deal with Always Rawabi, so it's not directly comparable. The continued steady lease-out of our economic cities is supported by the strong macro environment and the alignment with Abu Dhabi industrial strategy to turn the emirate into a manufacturing hub and to make a strong push to diversify the economy.

By end of Q2 we had a total of 66.1 km² leased out in our economic cities. Warehouse leases were up 53% year-on-year in Q2 and 4% quarter-on-quarter, as we continue to see strong demand and gradually lease out the new capacity we commissioned end of 2022. Our warehouse capacity, including cold storage, increased by 285,000 m², almost doubling in Q4 of 2022, and that resulted in a mechanical drop in the overall utilisation, while we're gradually leasing out the new capacity that's come on stream. Next slide.

In our maritime cluster, the key operational indicators, such as vessel fleet, port calls, container feedering volumes and marine services all delivered a strong growth year-on-year. However, the quarter-on-quarter performance was impacted by a further softening of, in particular, the container market. The number of owned and chartered container and bulk vessels increased to 37, up from 12 in Q2 of 2022. Also, the number of services increase to ten from three in Q2 of 2022. We continue to focus on creating a balanced, synergistic portfolio of maritime businesses with different market cycles, to limit business performance volatility. And as of Q2, around 50% of our maritime cluster top line are long-term or sticky in nature. Next slide.

In our logistics cluster polymers business we saw an 8% year-on-year increase. The significant increase quarter-on-quarter was mainly due to Q1 being impacted by a temporary planned maintenance shutdown off of one of our strategic customers. The single-window transaction in our digital cluster reflected year-on-year due to a change in the calculation method for billable transactions. Next slide.

The group's revenue grew 66% year-on-year to 2.06 billion in Q2. The maritime cluster reported revenue growth of close to 208% year-on-year, reaching 1.16 billion in a combination of capacity increasing, wider service offering and increased activity in new business segment. On a like-for-like basis, excluding acquisitions, the growth was around 161% year-on-year. Contribution from new acquisition accounted for 50% of the total Q2 maritime cluster revenue. Key segments driving the growth were marine, feeder and offshore services. The economic cities top line declined 10%, and that was driven by a temporary lower utilisation of Razeen staff accommodation, as it ceased to be used as a COVID-19 isolation and quarantine facility. This was partly offset by the good performance in land leases and utilities, as well as the contribution of Al Eskan Al Jamae, which accounted for 70% of the total Q2 economic cities revenue.

The ports cluster reported revenue growth of 22% year-on-year in Q2, in line with general strong operational performance across all segments. Logistics cluster was up 3% year-on-year, as polymers volume growth was partly offset by end of COVID-19-related vaccine business. The digital cluster delivered a 26% year-on-year increase to 117 million, supported by a strong performance of [unclear] related services. Next slide.

Overall EBITDA increased 29% to 686 million in Q2. The key contributors to the EBITDA were the maritime, ports and digital clusters, as well as impact from acquisitions. On a like-for-like basis, excluding new businesses acquired, EBITDA growth was 13% year-on-year.

Maritime cluster increased 112% year-on-year to 281 million and up 85% year-on-year on a like-for-like basis. This was driven by strong top line growth from expanded service offering, as well as 13% contribution from new acquisitions. Economic cities was down 12% year-on-year, in line with impact from Razeen facilities, partly offset by uplift from Al Eskan Al Jamae, which accounted for 16% of Q2 EBITDA from economic cities.

Ports cluster EBITDA increase 19% year-on-year to 166 million, mainly on the back of strong volume performance, favourable product mix and operating leverage. Logistics cluster down 30% year-on-year, and that was mainly due to again, as I mentioned, the ceasing of the COVID-19 vaccine business, but also lower share of profit from Aramex and one-off costs associated with the Noatum acquisition. Digital cluster EBITDA up 36% year-on-year, in line with the top line growth. Next slide.

Overall, EBITDA margin normalised at 33% in Q2, based on change in the revenue mix, lower share of profits from [unclear] and associates and ramp-up one-off cost associated with new businesses. Digital cluster EBITDA margin improved, where the ones of ports and economic cities were relatively stable and the ones of maritime and logistics softened. Apart from Karachi Gateway Terminal and Al Eskan Al Jamae, recent acquisitions all softened the overall EBITDA margin of the group. With the inclusion of GFS, we are guiding for an EBITDA margin around 25 to 30% in the short-to-medium term. Next slide.

Our capital structure as of Q2 comprised 49% debt-to-equity, excluding the payables to the project companies. During the first half of 2023 we have concluded a new $2 billion equivalent acquisition financing facility, with a syndicate of local and international banks, as well as a new $250 million Islamic facility. Additionally, we have absorbed existing debt of Al Eskan Al Jamae and Noatum, in connection with financial consolidation of those entities. Q2 increase in debt is partly due to additional RCF drawdown for organic CapEx, but primarily due to the completion of the fully debt-funded acquisition of Noatum on 30 June. In addition to the 1.5 billion cash at hand, we currently have 5.8 billion dirhams available under existing debt facilities, including 2.7 billion allocated for the GFS acquisition.

Net debt-to-EBITDA ratio stood at 3.5 times at the end of Q2, but was distorted by the completion of Noatum, as Marc mentioned, which was fully funded through debt in Q2, but with P&L impact only from Q3 onwards. Our short-term guidance on net leverage remain unchanged, around 3.3 times by the end of the 2023, post completion of GFS acquisition, as well as additional debt for organic growth. Next slide.

During Q2 we have continued to execute on our ambitious organic CapEx program, of which the majority is revenue generating. In Q2 we spent around 1.8 billion, as per plan. Main recipients continue to be the ports, economic cities and maritime clusters, and that will also remain in the future. In ports, we continued as per planned the expansion of Khalifa Port, mainly for the new CMA Terminal and for the upcoming connection to Etihad Rail. In our Economic Cities CapEx was mainly deployed for Build-to-Suit assets, the warehouses, and the specialised industrial clusters, as well as for additional unlocking of land in line with demand. In Maritime we continued to expand our vessel fleet, mainly for bulk and offshore vessels. Our overall 50 billion organic CapEx programme for June 2023 to 2027 is front loaded, commercially backed in nature and largely contracted. Next slide.

Our operating cash flow for Q2 amounted to 508 million and gradually improving quarter-on-quarter. This implies a cash conversion of 74% for Q2, mainly due to timing and collections. Our free cash flow reached negative 3.6 billion for the first half of the year, mainly due to the Noatum acquisition and our ongoing organic CapEx programme. Based on current visibility and in line with previous guidance, we expect to become free cash flow positive by 2025. Next slide.

In spite of the continued turbulent global environment and a faster than anticipated correction of container shipping rates, our medium-term guidance remain unchanged, in line with the resilient nature of our business model. We anticipate continuing our growth trajectory in 2023 and beyond in our core businesses and for the newly acquired companies. In the medium term our expectations remain to deliver a revenue CAGR of 25 to 30% and an EBITDA CAGR of 20 to 25% between 2022 and 2027. And then, as well, we have the organic capital investments around 15 billion over the period of 23 to 27. Next slide. Over to you, Marc.

Marc Hammoud I think we can open the floor to Q&A, if you don't mind, Ahmed.

Ahmed Hazem Sure. As a reminder for everyone, you can use the raise hand function and I can unmute your mic or you can send your questions to the Q&A box. We have our first question coming from the of Naveed Ahmed. Naveed, your line is unmuted, please unmute it locally as well. Hello, Naveed.

Naveed Ahmed Hello, good afternoon. Thank you so much for the very detailed presentation. Clearly a lot of things for us to go back and review. I have two questions at this stage. My first question is related to the recent acquisition, Noatum. Just as you provide us the 70% of the overall revenues being long-term in nature, can you give us the similar percentage at the Noatum level? That's my first question.

My second question is related to the maritime segment. The second quarter was extremely strong, so what's the outlook of that segment, given that shipping rates are probably softening at the moment?

Martin Aarup I will take the first part of the question, then hand over to Ross in terms of the outlook for the shipping segment. In terms of the revenue stickiness of Noatum, obviously it's a totally different business model, so we have not calculated how that will be for Noatum post the inclusion here. What we will do, is that we will probably change the way that we are guiding on this parameter, to look at the EBITDA. Because for logistics, in particular, it's not relevant to look at the long term and the stickiness of a freight forwarding business, it's more relevant to look at it from an EBITDA perspective. So, we will change and look at that slightly different. The revenue is not the critical piece for the logistics segment, that will be the EBITDA contribution. Ross, will you take the second part?

Ross Thompson Just to add to that point on Noatum, I think during the due diligence, an average age of customer relationships that we looked at was significant. I think if you look at the average tenure of a customer with Noatum, on average it's around 14 years, right from the start, so I think they do have a very, very sticky customer base.

In terms of the maritime sector, we're roughly split in in maritime, where 50% of our business is on long-term contracted rates. That will either be long-term charters, vessels we own. In the bulk sector that will be long-term contracted charter rates. And 50% is exposed to shipping rates, so not all of our maritime business is. This also excludes, obviously GFS, which is exposed. But even with GFS, because the other sides of our business is growing, the contracted side of our business is growing, we anticipate something like over the long term, that only to rise to around about 50 to 60% of our maritime business. And if you take that a group level, that's around about 12% of the group revenue, so still relatively small on a group perspective. In the maritime's perspective, it's a larger chunk, of course.

Now when you take a look at the outlook, at the rates, effectively, where we see it bottoming, and particularly in this region. I think that you can talk about different areas of the world and they have different dynamics. So, if you look at China to North America, the China Pacific trade, that has a sharper fall than Asia into the Middle East, for example. So, what we've seen is that the rate stabilising in this region, particularly where our assets play, really around about 10% higher than 2019, so pre-pandemic levels. They're still around 10% higher, but they're around about 60 to 70% down on historic highs that happened during COVID.

What our thesis is, is that if it's not the bottom, it's relatively close to the bottom. I think what you'll see is that that bottom will be long and deep. I don't see that any dynamics in the shipping cycle is going to change in the near future. You have a huge amount of container shipping lines with a massive order book. New delivery of vessels are hitting the market from this year, next year in 2025, in particular. Those vessels will cascade then to certain routes, and so, the supply and demand dynamics look out of whack for any recovery in the freight rates. I would ideally say that we're almost or are at the bottom, and that that will be effectively where the normalisation happens going forward.

Naveed Ahmed Thank you so much, that was very useful.

Ahmed Hazem Thank you, gentlemen. As a reminder for everyone, you can use the raise hand function and we can unmute your mic. Until we get some more hands raised, we have a couple of questions in the Q&A box, coming Alok Nawani. What is the TTM net margin for Noatum? And then the second question, what is the status of GFS acquisition? What are the reasons for the delay in the transaction closing versus the initial guidance? And could you please provide a more recent TTM revenue EBITDA net margin profile for GFS, and the leverage profile of the asset itself?

Marc Hammoud I'll start with the GFS question on TTM. Unfortunately, we won't be able to disclose anything at this stage, further than what we had disclosed at the time of the announcement. We'll go through a similar exercise of a deep dive on all the numbers and then the strategic fit when we complete the acquisition.

Ahmed Hazem Thanks, Marc. The second question was on TTM for Noatum itself. Can you disclose that?

Marc Hammoud TTM?

Ahmed Hazem TTM net margin for Noatum.

Marc Hammoud No, we haven't disclosed it officially, so I don't want to disclose any further information on Noatum at this stage.

Ahmed Hazem Okay. Thank you. We have a question from Anna. Anna, your line is open, please unmute. Hi, Anna, you are unmuted, please go ahead. Anna, I think you've muted yourself locally, can you unmute and ask your questions?

Anna Antonova Quick question from our side. I think that you have a slide in the presentation where you guided that the short-term EBITDA margin guidance is now lower. I was wondering whether that means that with the EBITDA margin of 36% recorded in the first half of this year, we can still see EBITDA margin on the group level going down into the year end? This is my first question. The second one, the short-term guidance on EBITDA margins versus mid-term guidance on EBITDA the margins. Can you please specify what do you mean by short-term and medium-term? So, short-term, is it within 12 months, 18 months, one or two years? That would be very helpful. Thank you.

Martin Aarup Good question. In terms of the EBITDA margin, it's basically due to the change in the business mix. Particularly for Noatum coming in, we're having the latest figures and the 25 to 30% is post-acquisition of GFS, as well. This is within a timeframe of 12, 18 months, that we expected that it will normalise around that level.

Anna Antonova Very clear. Thank you so much.

Ahmed Hazem I think we have Alok asking also another question on GFS, on the reasons of the delay versus the initial guidance.

Ross Thompson I'll take that. Look, I think we've just gone through the regulatory approval process, which is taking longer than we had originally envisaged. I think that we have all but one jurisdictions approved. We're in the process of gaining the last, and that's simply just a regulatory approval process that’s taken time.

Ahmed Hazem We don't have any further questions in the Q&A box or hands raised. I think Anna, you have your hand raised, I'm not sure if you still have further questions? Anna just lowered your hand. Just maybe as a final reminder, before we move back to management, if you have a question, please use the raise hand function or send your question in the Q&A box. Okay, there appears to be no further questions. Marc, back to you.

Marc Hammoud Thank you, Ahmed, for hosting this call. Thank you all for attending it. I'd like to particularly thank Antonio and Boniface, who joined during their holidays. I look forward to interacting with you directly or at some conferences or roadshows that we will be organising again, starting in September. Thank you all and speak soon.

Ahmed Hazem Thank you, Marc, and thank you for the AD Ports management team, and thank you everyone for attending. You may now disconnect.