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AD Ports Q3-22 Earnings Call

Tuesday, 15 November 2022

Ahmed Hazem Good morning and good afternoon, ladies and gentlemen. This is Ahmed from EFG Hermes Research, and we are pleased to welcome you all today to Abu Dhabi Ports 3Q 2022 Results Conference Call. With us on the line today is Mr Martin Aarup, Group CFO, Mr Ross Thompson, Group CSO, and Mr Marc Hammoud, VP of Investor Relations. Without further delay, I'd like to congratulate the company on today's set of results and hand over the call to Marc. Marc, please go ahead.

Marc Hammoud Thank you, Ahmed. Good morning, good afternoon, everyone. We are pleased to host our first earnings call for the Q3 2022 results. We delivered another record quarter performance. We will take you today through the presentation, and at the end, we'll have a Q&A session. I will start with the key messages and the equity story before handing it over to Ross, first, to take you through the strategy, and then we'll have Martin taking you through the financial performance. I'll share my screen. All right.

So the key messages for this quarter remains part of the equity story, which are the strong macro outlook which remains positive, and the top-down story. Those are supportive in 2022 and should remain supportive in 2023.

In terms of results, as I said earlier, revenue growth of 53% to AED 1.47 of revenue, EBITDA growth of 52% year on year to AED 594 million, net profit growth of 77% to AED 334 million. So we remain, as these numbers attest, a strong growth story.

In terms of business resilience, we started sharing with you earlier the portion of long-term and sticky business. We refined this, and as of nine-month, we can share with you that 75% of our business is coming from those type of revenues.

We continue to progress according to plan in terms of capex. For Q3, it's AED 1.6 billion, for the nine-month, AED 4.2 billion, as part of our AED 15 billion capex programme for the next five years. We completed one transaction, in Egypt, that's Transmar and TCI, for AED 483 million, and we announced the acquisition of GFS, which should be completed in Q1 for AED 2.7 billion. We still have a strong balance sheet, as the net debt to EBITDA ratio attested, of 1.6 times as of Q3 2022.

The equity story. As I said earlier, I think the specificity of our equity story is that it's resilient and it delivers growth. And as I mentioned above, part of the equity story is the supportive macro and top-down story. Whether it's high oil prices, the strong UAE GDP growth forecast, we have good visibility in the foreseeable future.

In addition to that, we have a strong alignment with Abu Dhabi government industrial and manufacturing strategies, and we continue to be supported by the government and various sovereign wealth funds when it comes to trade and investment agreements that they do with other countries, and we tend to benefit from that from a trade perspective.

The second point of the equity story is the triple play growth. Again, we've been investing in capex for the past four years aggressively and the first lever of growth continues to be the ramp-up of operations of these assets. The second lever is the AED 15 billion ongoing capex programme that we have for the next five years. And the third lever is M&A opportunities and M&A activities, generally speaking, domestically and internationally. And we started delivering on that with five acquisitions so far in 2022.

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The stable and highly predictable revenues, as I said, this is our resilient model. It comes from the landlord business model that we have in our ports and economic cities and free zone clusters, but also from the long-term partners and contracts that we have in the logistics and maritime clusters. In all our clusters, the long-term, sticky, recurring revenues constitute the bulk of our revenues. And as of nine-month, I reiterate the fact that it's 75% of our top line.

And finally, I mentioned it, a strong balance sheet. We have AED 717 million in cash as of Q3. We still have over AED 3 billion in available debt under the existing RCF, and we have well managed debt maturity. So the balance sheet can support further growth, organically and inorganically. Ross, over to you for the strategy update.

Ross Thompson Marc. Good afternoon, everyone. I'll give you a brief overview of the company's strategy and some of the achievements that we've had in the last nine months and this year. But effectively, the company is on a growth trajectory, and we have three very clear areas that we focus on, and objectives and outcomes.

Those areas of consideration for us are we will consolidate our position in Abu Dhabi and the UAE as one of the leaders of integrated maritime logistics. Two, we'll expand regionally in core markets that have tangible benefit back to our existing asset base. And three, we'll look to develop the company as a fully globalised, integrated maritime logistics service player. Number three obviously comes more sequentially, after number one and two have given us the strong foundations to do that.

I think in the right-hand column on the presentation, the objectives and outcomes, what we're looking to do is create maximum returns in our portfolio through synergies. We're looking to create maximum customer stickiness and long-term relationships, and have a greater degree of ownership of the end customer relationships in the supply chain.

And superior supply chain outcomes, which means that we are able to offer the market, through our supply chain density, a number of different solutions and we're able to adapt routings and supply in order to benefit their business. Next slide, please, Marc.

We have a big inorganic growth programme. It's very well defined. It will largely be led by looking to acquire logistics players, maritime and feeder services and a ports portfolio. And how we define our targets is that they're in the relevant geographies to our core markets and they have a tangible benefit back to our existing asset bases, so become very, very accretive.

They need to be appropriate scale and size. And they have to have a certain financial attractiveness for us. So we're looking for companies that have strong management teams, have strong potential for growth and have sustainable and long-term contracts within their business. Next slide, please, Marc.

So this year, in 2022, we've been able to acquire five companies. In quarter one, we acquired Divetech, which supports the offshore industry, particularly in the region. That acquisition made us the largest supplier of diving services within the region. And we also acquired a company called ASCL, or Alligator Shipping, which is an NVOCC that owns customer relationships and containers which are specific to the UAE and India trade, one of our largest trading partners.

In quarter two, we had Safeen Subsea, which is a partnership with NMDC to conduct offshore surveys and subsea services in the UAE region. Really again supports the offshore and core markets that we serve here in the UAE.

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And then in quarter three, we completed Transmar/TCI, an Egyptian-based company, but with strong services and a vessel deployment between Egypt, the Red Sea and the Gulf. A very, very complementary acquisition for us insofar that we share customers, and it's very focused on polymers business, which is a core business of Abu Dhabi and the region.

And we also acquired its sister company, called TCI, which gives us the exclusivity to operate stevedoring services and value-added services out of Adabiya in Egypt. They also operate in Sokhna and elsewhere in the region. And lastly, we announced some two weeks ago the acquisition of GFS, and I'll come on to the details of that acquisition in the presentation. Next slide, please, Marc.

Just a little bit about the acquisitions that we have made. So far this year, we've deployed AED 3.7 billion of capital across five acquisitions. The ownerships are slightly different, but what's consistent is that we have control and consolidation in all of our acquisitions. Purchase prices have ranged from a niche player in ASCL at AED 30 million right up to the agreement, at AED 2.7 billion, with GFS.

Largely, the rationale fits in with our strategy. It enhances our competitive position in the region. It enhances the services that we offer to our core market. Largely, in all of these transactions, it gives us leadership positions and a certain amount of market dominance in those markets.

And it's very focused around serving our key clientele and our key markets, but very synergistic with our current business offerings. And therefore, once we start to build this picture of services across the piece, we have a very compelling proposition to the market and to our key market sectors.

Contributions. Divetech, nine-month contribution to date this year, revenue, AED 71 million, and an EBITDA contribution of AED 8 million. ASCL, AED 128 million, and AED 12 million EBITDA. Safeen Subsea, AED 109 million in revenue and AED 22 million in EBITDA. Transmar, it only accounts for one month in the nine months, so one month in the quarter, a contribution of AED 47 million of revenue and AED 29 million of EBITDA. Next slide, please.

As I mentioned, what we are actually creating is a complete supply chain for our core markets and supply chain density. And this is an illustration of realistically where those acquisitions fit in on the supply chain. So we're one of the only companies that has such a broad service offering and such a density along the supply chain within the region.

And what that allows us to do is offer a number of services under one umbrella to our core markets and our core customers. It effectively gives us the ability to gain a greater share of wallet of the supply chain, either in a sector, either in a trade lane between geographies or with a key customer. It also gives us much more customer interaction and ownership and it creates that stickiness that means our customers will be with us for a long duration. Next slide, please.

A little bit of deep dive on the GFS acquisition. As Marc pointed out, we're going through the regulatory approvals or the antitrust approvals. We expect to achieve that sometime in quarter one. That process is underway as we speak. But [unclear] we acquired 80% of Global Feeder.

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It's the third largest feeder company globally, but it is the market leader and it's number one in the region, the region being defined as India into the Gulf, the Gulf region and the Red Sea market. It has the largest market share. It also has the largest ASPI. It currently carried around about 2.2 million TEUs of cargo a year.

It owns 22 vessels but operates 24, so has two chartered in. It also charters out two vessels into the market. It also owns an NVOCC. An NVOCC is a logistics company which owns the customer contract and the customer relationships and the containers themselves, but it doesn't own the underlying space on the ships or the ships. And we also acquired, through GFS, a trucking company in Africa which operates in Kenya, Uganda and Rwanda, where we've taken on 400 trucks to support the NVOCC business that we have through GFS in that region.

[Unclear] revenues, just over \$1 billion and around about \$521 million of EBITDA in a last-12-months basis, and a net profit of \$481 million. GFS delivered cash conversion of 135% in 2020 and 110% in 2021. In the first nine months, it delivered around about 86%.

As you can see in the bottom left-hand corner, effectively, the majority of the revenues are coming from the feeder business. But why the acquisition? What it's given us is a significant platform of significant connectivity, and it's very complementary of our existing services of Safeen Feeders and Transmar, which was an earlier acquisition by us. Next slide, please.

If you see the global footprint and the services that GFS supports, services coming from the Far East, in particular, China through Shanghai into Thailand, Port Klang, through the transshipment hubs of Colombo and into Southeast Asia, and India in particular, and then from India into the Gulf region and through to the Red Sea. Again, very complementary to where our core trading markets are, and leadership in all of these core markets. Next slide, please, Marc.

Transaction details. In effect, we had an enterprise value of the company of \$1 billion. For the 80% stake, that was \$800 million, was the purchase price. It makes us the third largest company of its type. We have plans to take this company on a further growth cycle, and up from a capacity of 72,500 to just shy of 120,000 over the next three to four years.

The implied value on a trading multiple was 1.9. Based on the last 12 months precedent transactions, there is significant value. Having said that, we priced in the deterioration of freight rates in the market. We see the freight rates correcting an additional 60% from where we are today. That was valued in the valuation and agreed with the sellers.

One of the attractive [unclear] was limited options in the market of companies of this size and scale. I think GFS was a bilateral discussion. It was one of the only of-scale leadership platforms that was available. We're very pleased to have come to an agreement with the sellers, and we're very pleased with the management and the assets that we have acquired. Next slide, Marc, please.

Okay, just a little bit about the complementary fit. I think the asset base and the services really boost our foothold in the region and give us a more globalised footprint. We now have shipping services to most, if not all, of our core trading markets with the UAE.

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It reinforces our integrated business model. I think that our end-to-end supply chain services both on now the logistics capability, freight forwarding side, the port side, the digital side, now we're significantly invested and have significant assets and routes on the shipping side, again which just strengthens that supply chain density that's part of the company's strategy.

It gives us stronger client relationships and an ability to influence trade. It certainly delivers cross-selling opportunities within our business. And as I've already mentioned, it is increasing our share of the wallet of supply chain spend within trade lines, within customer supply chains themselves and with geographic areas.

It's very highly complementary to our existing business. We will extract a number of operational synergies out of this. Part of our strategy is to be a cost leader in the region in this sector. But with Safeen Feeders and Transmar and Alligator Shipping, previous transactions, we now have a significant platform that is synergistic across the piece.

And a lot of knowledge and an experienced management team. The management will stay in position and will stay in position for some time. We're very, very happy with the team that we've taken on. Next slide, please, Marc.

The cost synergies. We are identifying \$5 million of annualised cost synergies to extract within the first 12 months, but I think there's many, many more opportunities for us to deliver over and above there. But that, on that basis, is around about 5% on normalised medium-term EBITDA, an increase within the acquisition, and therefore, it becomes very accretive to the acquisition that we've made.

Cost synergies that we've identified across the piece will be personnel costs, administrative costs, agent costs, terminal expenses because it gives us greater buying power, equipment synergies and others. And other revenue and cost synergies. Higher vessel fleet utilisation through the combination of our service network by combining Transmar, Safeen Feeders and GFS. Stronger levers to negotiate discounts on new vessels and new vessel purchases and even chartering.

Improved access to financing to accelerate our growth. We will have the number one and optimised service network in the region, and we intend to grow that and to grow other regions. And potential re-routing of GFS cargo into our own terminals, both here and abroad, make it a very value-accretive deal across our business. Next slide, please.

Here just a little bit more about the company before we get on to more the financials. But fleet size we intend to take from where it is today up to 32 vessels, which will give us around about 118,000 or 120,000 TEUs of capacity at any one point in time. That would grow the current 2.5 million TEUs that we currently carry today. That would grow the TEU carrying capacity to over 3 million.

Our NVOCC containers that we own will grow substantially up until around 87,000 or just shy of 100,000 within the company, and the total volume that we'll carry, in the bottom left, is just shy of the 3 million TEUs, as I previously said. Next slide, please, Marc.

Some of the key financial metrics. It's a very, very well run company. Current EBITDA margin, a high-margin business for the sector. It's currently operating at a 50% margin. Operating cash flow was \$374 million. Cash conversion for the first nine months was 86%. So it's a very cash generative business. Free cash flow of \$294 million.

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A small amount of debt, which is largely vessels and container purchases, but \$86 million. And the book value of the fleet from September 2022 is \$284 million, but the market value of those vessels, as it's an asset-heavy business, is already at \$891 million. Next slide, please.

So what we've created now is the world's third largest pure feeder operator by container capacity. And GFS plus our other businesses, along the bottom, you see that it makes us the number one business in the Middle East of its type, number three globally, combined feeder champion.

So the last 12 months gives us an EBITDA, combination EBITDA of \$604 million in this new combined entity, an operating margin of 47.5%, just shy of 100,000 TEUs of capacity and 2.5 million TEUs of carried business per year. Next slide, please. So at this point, I'll hand it over to Martin, let him take you through the finances.

Martin Aarup Slide, please. Thank you, Ross. So our business is truly integrated across the logistics supply chain, allowing us to provide end-to-end solutions to our clients and be the one-stop-shop for all trade and logistics requirements. Majority of our top customers touch all of our five clusters, which creates a lot of synergies and stickiness.

With the recent acquisitions in the maritime domain, our maritime and economic cities clusters are now similar-sized by revenue, followed by ports, whereas from an EBITDA perspective, economic cities is the main contributor, followed by maritime and ports. We will continue to have a balanced mix across the different clusters to create the strongest possible ecosystem with maximum synergies and returns. Next slide.

Our growth trajectory remains linked to our integrated business model, built on a foundation of long-term client contracts and concessions, enhanced service offerings and diversification into synergistic new businesses. Revenue grew 53% year on year to AED 1.466 billion in Q3, driven by strong growth in our maritime cluster and a robust performance in our economic cities cluster.

Port cluster revenue grew 18% year on year on a like-for-like basis when adjusted for the positive effect of a one-off sand supply contract in 2021. EBITDA increased by 52% year on year to AED 594 million in Q3, implying an EBITDA margin of 40.5% in Q3 and 43.9% year to date.

Net profits soared 77% year on year to reach AED 334 million in Q3, and with the accelerated growth in Q3, year on year, resulted in year-to-date year-on-year growth of 35%, 42% and 58% for revenue, EBITDA and net profit, respectively. Next slide, please.

In our ports cluster, the general cargo volumes were down 41% year on year, and mainly due to unfavourable base effect from the earlier mentioned one-off sand supply contract that ran from March to October in 2021. On a like-for-like basis, volumes decreased by 5% pursuant to changes in the planned completion of certain external projects. However, on a quarter-on-quarter basis, we saw a strong positive trend, with growth of 35% on the back of strong steel, bulk and project cargo businesses in Q3.

Year-to-date container volumes were up by 28% year on year as gradual recovery from COVID-19 and supply chain disruptions continue. Capacity utilisation also increased, to 54% in Q3 from 40% in 2021, in line with volume growth, filling up the capacity expansions that were commissioned at the end of 2021. Next slide.

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For our economic cities, we inked a record of 4.5 square kilometres of new land leases year to date, more than what we did full year for each of 2021 and 2020. The accelerated growth 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 2031. Fast-growing industries include food processing, agtech green technology, pharmaceutical and retail.

Warehouse leases were up 8% year to date as we continue to see strong demand for warehouses. By Q3, capacity utilisation reached 96%, which is promising for our new additional 250,000 square metres of warehouses coming online in Q4. Next slide.

For our maritime cluster, Safeen Feeders' port calls and volumes both increased 27% year on year as we continued expanding capacity and services. We recently launched a Southeast Asia service, linking Singapore, Chennai and Colombo, as well as a UAE-China service, directly connecting Khalifa Port in Abu Dhabi to three Chinese ports, Shanghai, Qingdao and Ningbo. Transshipment volumes covering both steel and bulk side were up 18% year on year, in line with operational ramp-up of our two Transshipment contracts. Next slide.

In our logistics cluster, we saw a steady growth of our polymers business, up 2% year on year with a 5% improvement in the capture rate. We expect faster growth for this business going forward as the COVID-19 impact on demand for polymers and the lack of availability of containers ease.

Single window transactions in our digital cluster were up 133% year on year on the back of strong growth in trading volumes across the board as well as additions of new services launched throughout 2022 as part of the advanced trade and logistics platform. Next slide.

Year to date, our maritime cluster was up 241% to AED 1.3 billion due to increased activity in new business segments and service offerings, including feeder, chartering, transshipment and offshore services. Furthermore, our maritime cluster also benefited from contribution from new acquisitions such as Divetech, ASCL, Safeen Subsea and Transmar, which accounted for around 27% of total year-to-date maritime cluster revenue.

Economic cities cluster was up 10% year on year to AED 1.2 billion, mainly on the back of new leases and higher utilities revenue. Ports cluster was down 3% year on year to AED 783 million, however, on a like-for-like basis, up 18% year on year when adjusting for the one-off sand supply contract that ran from March to October in 2021.

Logistics down 9% year on year to AED 397 million as a result of reduction in vaccine business with easing of the pandemic, as well as revision of a contract with a key client from a short-term asset-heavy to a long-term asset-light model. Digital cluster up 54% year on year to AED 285 million, driven by development progress of various technology-led solutions for both internal and external stakeholders. Next slide, please.

EBITDA increased 52% year on year to AED 594 million in Q3, with year-to-date reaching AED 1.65 billion. This equates to an EBITDA margin of 40.5% in Q3 and 43.9% year to date. EBITDA growth for the quarter was largely in line with the revenue growth. Significantly higher contribution from the maritime cluster has equally diluted the ones from the economic cities and ports clusters.

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The adjustment of the business mix has strengthened the ecosystem, with positive overall impact on the profitability. Maritime, logistics and digital clusters all improved their margins year on year, while ports and economic cities largely maintained their margins. Next slide.

Year-to-date economic cities EBITDA was up 9% year on year to AED 870 million, mainly on the back of revenue uplift partly offset by provisions for ECL. When adjusting for the ECL, EBITDA was up 15% year on year on a like-for-like basis. Maritime cluster was up by AED 435 million to AED 463 million, in line with the strong top line growth, completion of initial ramp-up period for new businesses, as well as contribution of the new acquisitions and JVs.

Ports EBITDA down 6% year on year to AED 433 million due to the unfavourable base effect from the one-off sand supply contract mentioned earlier. Logistics up 17% year on year to AED 168 million, mainly driven by the one-off gain of AED 73 million in Q1 from sale of a purpose-built warehouse as part of the new long-term contract with a strategic customer, as well as the contribution of Aramex from Q1 of this year. Last but not least, digital up by 107% year on year to AED 160 million, driven by revenue growth. Next slide.

Our capital structure as of Q3 comprised 18% debt, excluding the payables to the [unclear] project companies, and mainly consisting of an unsecured \$1 billion bond issued in 2021. We also have the \$1 billion syndicated revolving credit facility with a consortium of local and international banks, with a term of three years with an extension option, of which AED 550 million had been drawn by Q3.

The strategy remains to utilise bonds as the predominant long-term funding vehicle, with the RCF serving as a liquidity backstop. We continue to have a well-managed debt maturity profile with adequate liquidity lines to cater for our growth aspiration, and we target to maintain our investment grade credit rating going forward. Next slide.

We continue to press ahead with our organic capex programme, all of which are virtually revenue generating. In Q3, we spent AED 1.6 billion, which brings us to AED 4.2 billion year to date as per plan. Main recipients continue to be our maritime, economic cities and ports clusters. In ports, we continued the expansion of Khalifa Port, mainly for the new CMA terminal, Khalifa Logistics Port, and the new South Quay, as well as for the upcoming connection to Etihad Rail.

In our economic cities, capex is mainly deployed for build-to-suit assets, warehouses, specialised industrial clusters such as the new Metal Park, Wholesale Food Hub and Auto Hub, which we announced earlier this year, and gradual unlocking of land in line with demand. For maritime, we continue to expand our vessel fleet across all asset classes, container, bulk and offshore predominantly. Next slide.

Our operating cash flow amounted to AED 1.3 billion year to date, implying a cash conversion of 76%, while our free cash flow remained negative at AED 2.6 billion due to the large ongoing revenue-generating growth capex investments. Both operating cash flow and cash conversion significantly improved year on year. Next slide.

So globally, we are currently experiencing a turbulent period, with high inflation, rising interest rates and geopolitical tensions. Pressure on container trade growth is increasing globally, with macroeconomic headwinds. Container shipping market softened during Q3 from previously exceptional levels, with rates starting to return towards more normal territory.

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Market conditions are expected to continue to soften into 23 and 24 as supply pressure increases and disruptions unwind. The magnitude and timing of further softening in rates will be determined by trends in port congestion, trade volumes and fleet growth, but rates are generally expected to continue to return to more normal market levels.

Abu Dhabi Ports Group presents a unique business model, with defensive attributes on account of highly synergistic assets and long-term contracted revenues, while investing heavily in both organic and inorganic growth. We have planned organic capital investments of more than 15 billion over the period 2023 to 2027.

Moreover, our strategic alignment with the emirate of Abu Dhabi offers significant business opportunities in a region which is currently experiencing a buoyant economy, notably on the back of the high oil prices that we mentioned earlier and various government initiatives to diversify the economy and open up the country. We anticipate continuing our growth trajectory for the rest of the year here in 2022.

In the medium term, we expect to deliver revenue CAGR of high teens and EBITDA CAGR of mid-teens between 2022 and 2027. Organic revenue growth will be driven by the ports, economic cities and maritime clusters as well as the recently announced acquisitions.

Ports, economic cities and digital clusters will support overall margins, while maritime and logistics clusters are likely to pull them down a bit. Revenue mix will determine where margins stabilise, but we will likely see a softening from the current 40% to 45% in EBITDA margins to around 35% to 40% in the medium term. Next slide. Over to you, Marc.

Marc Hammoud Thank you, Martin. And there will be some appendices to this presentation that we will post on our website after the call, presenting the clusters in a deep-dive way. But we'll open it to questions for the time being. So Ahmed, if you can start taking questions, please.

Ahmed Hazem Thank you, Marc. So as a reminder for everyone, you can use the raise hand function and we can unmute your mike, or you can send your questions in the Q&A box. So we have a question coming in the Q&A box from Sid Sabu. What is driving the economic zones and free zones EBITDA down 20% Q over Q? Note, 2Q EBITDA was impacted by ECL provision.

Martin Aarup Yes. The main reason relates to actually a Q2 extraordinary effect. You may recall, in Q2, we concluded a contingent asset, a contract with Abu Dhabi Police for the provision of COVID-related services that we have done for our overseen facilities. And therefore, we booked a 124 million revenue in Q2 of this year that also covered 2021.

Ahmed Hazem A follow-up question. Is Q3 normalised EBITDA in economic zones and free zones on current capacity?

Martin Aarup Yes. So in Q3, we don't have any extraordinary effects that we have seen in Q2.

Ahmed Hazem Thank you. As a reminder, you can use the raise hand function or send your questions in the Q&A box. Here I have a question from Anna [unclear]. Good morning or good afternoon, gentlemen. Thank you for the presentation. Can you please provide some guidance on your ex-M&A organic revenue and EBITDA growth that

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we can expect to see in the medium term? Can we expect ports' and economic zones' margins to stay flattish in the medium term?

Martin Aarup I didn't understand the first part of the question, but let me just answer the margin business. So when we look at both our containers and... Or, sorry, the ports business and the economic cities as well, there's a lot of embedded growth and scale benefits in the business model that we have in those two business segments or clusters.

So, first of all, in our ports cluster, we have our concessions, particularly on the container side, where there is a lot of built-in growth both in terms of the increase in concession revenues that we will get from those concessions going forward, volume ramp-up and the scale benefits coming from that.

And in the economic cities as well, we are leasing, on average, or we have in the last few years been leasing, on average, three to four new square kilometres of land every year that is then being added to the lease portfolio that is still in the infant stage. Most of these leases are running for 40 to 50 years, and hence, also, there will be a lot of scale benefits going forward within the economic cities cluster. So all other things being equal, we don't expect to see any dilution in terms of margins from those two businesses on the medium to long term.

Ahmed Hazem So I think the first question, Martin, was what is the guidance just for the organic, excluding M&A, on capex, on the capex side.

Martin Aarup On the capex side. So the 15 billion that we have here is on the organic side, so what we consider organic. And that's basically the three areas that we have talked about here. The continued expansion of Khalifa Port, the expansion there, the numerous projects that we have, especially in the coming years.

And then in our economic cities and free zones, we have the build-to-suit assets, the industrial hubs that we have announced earlier this year that will be under construction in the coming years. And then the gradual unlocking of land in line with demand. And we also consider vessel purchases as organic capex, and we have roughly one third of the 15 billion being basically allocated for new vessels over the next five years.

Ahmed Hazem And we have a clarification coming from Anna. Assuming no M&A activity in the future, where do you see the Group margins versus the current guidance of 35% to 40% in the mid-term?

Martin Aarup This, what you see here, the guidance that we are having here, is excluding any new inorganic acquisitions that have not been announced.

Ahmed Hazem Okay. Our next question comes from Ankit Bansal. The maritime cluster margin was above 45% in nine-month 2020, and this dropped to 5% in nine-month 2021. This has rebounded back to 35% in nine-month 2022. What is the long-term normalised EBITDA margin for the maritime cluster as it exists today, excluding the GFS acquisition?

Martin Aarup Yes, a good question. So again, I need to make sure that people understand that our maritime cluster is actually a conglomerate of maritime businesses. So we both have long-term take-or-pay contracts, especially

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in our transshipment businesses, we have medium-term contracts in our offshore businesses, and then we have the bus routes in terms of our container services.

So when you look at it long-term, without considering GFS, the expectation would be that with the current mix of businesses that we have, again excluding GFS, that it would normalise around the 30%, in the range of that, in the next three to five years.

Ahmed Hazem Thank you. We have another question coming from Sid. Organic capex guidance is 15 billion. Any investment guidance for inorganic capex and any gearing target for the medium term?

Martin Aarup Yes. So in terms of specific guidance on inorganic growth, we don't provide that. And the reason being simple, that it's difficult to predict in terms of timing and quantum. I think, as Ross has outlined clearly in the presentation in terms of our strategy, it's very focused on growth, both organic and inorganic. We have a healthy pipeline of inorganic acquisitions. If and when those will materialise and the impact on them, we don't provide guidance on.

When it comes to our leverage, we have been set up for growth, post listing. So we have a very strong balance sheet, both to cater for the organic and inorganic growth. Our capital structure policy is that we want to maintain an investment grade credit rating on a long-term basis, and that requires that we use S&P net debt to EBITDA as the key metrics that we are steering towards.

And that means that we have to stay below a 5.5 net debt to EBITDA on a long-term basis to maintain that investment grade credit rating. But that gives us a lot of firepower, with the current balance sheet that we have, both for inorganic and organic growth, even after the GFS acquisition.

Ahmed Hazem Thank you, Martin. We have a question from Shankar. So what are the factors driving the year-over-year growth in the maritime division, in 3Q especially, especially considering the drop in shipping rates compared to last year? How much of 3Q growth is related to the acquisitions?

Martin Aarup We had provided guidance earlier that if you look at the year-to-date revenue from the acquisitions that we have concluded this year, roughly 27% of the maritime cluster nine-month revenue is coming from the acquisition. The remaining is coming from the organic growth.

And again here, we have different businesses. So a few years back, we started purely with marine services in our maritime cluster. We have heavily been diversifying and expanding. And that goes both with our long-term transshipment contracts, it's with the offshore business that we are expanding, and then with Safeen Feeders, where we had been growing organically until the Transmar and GFS acquisitions this year.

So there has been a ramp-up in terms of vessel acquisitions and new services being deployed. So it's a combination of all these things that are driving the year-on-year growth that you're seeing here, but the acquisition is contributing 27% of the revenue.

Marc Hammoud If I may add, Martin, to answer your question, 40% of our total nine-month maritime cluster top line revenue is coming from long-term and sticky revenues, which means that those revenues are not really

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exposed to market dynamics. And again, it's a key theme across our clusters, including the maritime. So maritime is not necessarily exposed to market rates and market dynamics, as we just said.

Ahmed Hazem Thank you, gentlemen. We have another question coming from Alok Nawani. Would the corporate income tax rate applicable for AD Ports, starting in 2024, likely be 15%, given the scale of the business? And if I were to add to this question from myself, are there any mitigating factors, given that you have economic zones and free zones and a ports business? Are there any tax rates that you may enjoy?

Martin Aarup Yes. So when we look at the corporate income tax rate in UAE, we believe the cap is not 15% but 9%. We don't have visibility in terms of detailed implementation rules, but we expect that there will be certain deductibles for part of our businesses and certain types of our expenses. So the effective tax rate will likely be lower than 9%, but 9% is the cap. We don't have any further details on that.

Ahmed Hazem Thank you, Martin. We have a question coming from Gus Shahib. Does management view the ownership stakes in NMDC and Aramex as core or non-core? Is there a possibility that AD Ports would consider selling down both stakes in order to use the cash proceeds for other capital allocation purposes?

Ross Thompson Yes, I'll take that one. Yes, so that is at the moment good financial investments for us to hold, and we have no plans to dispose of the investments in either companies at this point.

Ahmed Hazem Thank you, Ross. Now, as a reminder to everyone, you can use the raise hand function and you can unmute your mike or you can send your questions in the Q&A box. So there doesn't seem to be any questions coming in at the moment. With that, I'd like to hand over the call to management for any closing remarks.

Marc Hammoud I would like to thank you all for participating to this call. As I said earlier, this is our first earnings call, and we'll have that on a quarterly basis. Next one is obviously the full year results that will take place in Q1, and I look forward to having you all participating to it. Thank you very much.

Ahmed Hazem Thank you very much for the management team and for everyone who has attended. You may now disconnect your call. Thank you.