Transcript

AD ports 1Q2024 Results call   Tuesday 5th May 2024

Ahmed Hazem Good morning and good afternoon, ladies and gentlemen. This is Ahmed Hazem speaking from EFG Hermes Research, and we'd like to welcome you all today to AD Ports' first quarter 2024 results conference call. We have with us on the line today Mr Martin Aarup, CFO of AD Ports Group, Mr Ross Thompson, Chief Strategy Officer of AD Ports Group. Mr Marc Hammoud, VP of Investor Relations.

Without further delay, I'd like to congratulate the management team on the impressive set of results in the first quarter and hand over the call to Marc. Marc, the line is yours.

Marc Hammoud Thank you, Ahmed and thank you EFG for hosting this quarterly earnings call for us once again. Good morning and good afternoon to everyone and welcome to our Q1 2024 earnings call. As usual I'll kick it off and then Ross and Martin will take you through the strategy piece and the financials, respectively.

The key messages, Q1 I think is marked by an accelerating momentum in the results. And this was fuelled by the acquisitions that we completed the in the quarter. Ross will take you through that later on. But the quarter is characterised by strong EBITDA growth, and this strong EBITDA growth was driven and supported by the continued triple-digit revenue performance that we delivered.

We also recently completed a certain number of M&A transaction, but they have yet to be fully reflected in the EBITDA performance, so we should see continued EBITDA performance in the next few quarters. The top-down story remains supportive, as you may know. If I look at the GDP growth in Abu Dhabi, first estimates are putting it at 3% overall. If we look at the overall economy, we’re talking about 9% for 2023. And there's continued strong alignment with the Abu Dhabi economic growth and diversification strategy. The latest case in point is the port concession we secured in Angola and that alignment with the government is both locally and internationally.

In terms of numbers, revenue increased by 114%, so more than doubling to AED 3.89 billion, 22% growth on a like-for-like basis. EBITDA, as I said, strengthened significantly to 49% a growth year-on-year to over a AED 1 billion and on a like-for-like basis, again lost 20%. Total net profit was up 10% year-on-year to 400 million, and that's after the introduction of the corporate tax in the UAE. Excluding or adjusting for that, we would have delivered a net profit of 21% growth year-on-year.

Third point, we remain despite the completion of GFS acquisition in February, which was the second largest acquisition that we did. We remain a resilient business with long-term secured revenue streams. As of Q1 44% of our top line is long term or sticky. In terms of CapEx, we spent 1.27 billion for the quarter. That's very much in line with the guidance that we gave of 12 to 15 billion for the next five years with a front loaded CapEx and primarily focused on projects and contracts. If I had to give you an estimate for the year, given that it's front loaded, we should end up at 4.5 billion for 2024.

Improvement in the leverage, we had alluded to that in Q4, that we didn't have the full reflection of M&A transactions while the debt side was incorporating that, so net debt to EBITDA declined to 3.4 times. We remain without any debt commitments for 2024 and the balance sheet is still supportive of our A-plus investment grade.

I think another key message for the quarter is obviously the Red Sea situation, which is likely to persist for the major part of 2024, in our view. This has had a positive impact on both volumes and freight rates in the shipping business. Main beneficiaries are Transmar, Safeen Feeders and for two months GFS. In Q1 29% of our container shipping volumes were conducted or transported in the Red Sea.

The equity story hasn’t changed. Resilient growth, and this is based on long-term secured cash flow with the triple-play growth drivers. I touched on the macro and top-down story. Again, I insist for those who are new to the call, that there's a very strong alignment with the government in Abu Dhabi and with the diversification strategy and industrial strategy they're engaged in. Triple-play growth, and you can see it in the numbers, the like-for-like is basically supporting the first lever. Plus 20% in terms of top line, plus 20% in terms of EBITDA growth, and this is coming from the operational ramp-up of existing assets and the synergies that we start seeing by acquiring strategic assets, but also bolt-on assets.

The second lever, as we continue to deploy this 12 to 15 billion CapEx programme, you would expect the same to happen as we spend that money. The third lever is also taking place. As I said, Ross will take you through the details of all the M&A that we completed in Q1, but this is fuelling the growth. You can see the additional growth that M&A is bringing in 2023 and in Q1 2024, between the like-for-like and the reported growth.

A third point is again on this resilience of the business and, despite the acquisition of GFS, we still have 44% of our revenue base which is long term and sticky. And finally, I touched on it as well, our balance sheet offers room for further leverage, while maintaining the investment grade ratings and that's how we manage our balance sheet. We had 1.7 billion of cash as of Q1 and 1.1 billion still available under existing bank facilities.

Again, for those who are new to this call, we’re 75% owned by ADQ. The remaining 25% is listed, it's free float. And actual free float, given Al Seer Marine's strategic shareholding is 17%. Increased foreign ownership and institutional participation continues. We reached 9% at the end of Q1, and this is on the back of continued intense investor education and engagement.

In terms of stock performance, Q1 we saw the stock going down 7% versus minus 4% for the index. I think there's been some weakness following the Q4 numbers, but overall, we're still one of the top performing recently listed companies with 80% performance since listing versus 5% for the Abu Dhabi Stock Exchange. And our six-month average daily traded value is around $3.5 million.

We remain organised around five integrated clusters and you can see the distribution of revenue and EBITDA for those clusters. The three main ones remain ports, economic city and freezone, and maritime, at least from the EBITDA standpoint. We’re still close to 50% coming from the infrastructure clusters, ports and economic city and freezones, where we have a landlord business model and we have about 45% now coming from maritime and shipping, as well as logistic. Same picture would be for the total assets and the CapEx that we deployed. You can see that the CapEx is mainly going into the three main clusters, ports, economic cities and free zone, and maritime and shipping.

This is a new slide for those who have been regulars to this call. And it allows you to have a quick snapshot on our presence, our reach, and our operations globally. We're now in over 50 countries, either through presence and operations, or as a reach or connection to that country or geography. 28 terminals, 25 of them operational. 550 km² of landbank in the UAE. In terms of maritime and shipping, we’re connected to 28 countries and 78 ports through 23 services, feeder container services.

In terms of logistics, 33 countries, and you can see them, it's the green dots, and two countries for the digital clusters. Again, here the slide is to highlight the scale of operations at 28 terminals, close to 10 million TEUs in terms of ports container capacity, 78 shipping vessels, as I said, serving 28 countries. And then in the UAE 550 km² of land bank with

136,000 beds within KEZAD Communities. And in the middle you can see also, as of Q1, some of the volumes and the operational KPI s that we achieved.

I'll let the floor to Ross, to take you through the market update before moving on to the financial section.

Ross Thompson Thanks, Marc. Good afternoon, good morning, everyone. Next slide. I think just to provide some context of the market that we find ourselves operating in, in 2024 and particularly in the first quarter. But largely we are still having some very encouraging trade factors within the region that we operate, predominantly where our assets are and our shipping line is based.

In terms of global container volumes, we do see that there are strong growth on a globalised basis. The regional trade lanes where most of our tonnage is deployed on the shipping side and most of our ports operate at this point, is outperforming in terms of growth. Many of the world stats, so ISC and Middle East, which is a big area for us, year-to-date growth is around about 10%. Same for sub-Saharan Africa, where we have a lot of our services based. This is in contradiction to some of the larger trade lanes, Europe, Asia, North America, where there are challenges and slowdown in a little bit of China to US trades. And congestion affecting major hubs because of the Red Sea crisis in the Med, as far as South East Asia too. Next slide.

Freight rates, we've seen the bottoming out of freight rates, and particularly as we move towards the end of quarter one and into quarter two, we see a positive sign in freight rates. In our region they're particularly being driven by the Red Sea issue causing the freight rates to go up, particularly Red Sea to Gulf, and within the Red Sea trade itself. But that's having a spillover effect and we're seeing freight rates increase between India and the Gulf, and the upper Gulf in particular. And also globally, we're seeing freight rates rise based on peak season, lack of capacity caused by the transiting round the Cape of Good Hope, sucking up a lot of box supply and also container capacity around the globe.

So, positive trends. I think the company has benefited in quarter one from the Red Sea and the increasing rates in the Red Sea. We’re still serving Red Sea ports. We didn't really see any benefit in terms of on the P&L in January, but in February and March our best estimate on an EBITDA basis is the company benefited by AED 45 million of positive EBITDA contribution in February and again in March. That tends to be the run rate.

We don't see any immediate cessation of the issue and, therefore, we believe rates will hold certainly through quarter two and quarter three. Looking beyond that, it's hard to see when and how this resolves itself. But things change very quickly, and I'm not a politician, but I suspect that when it does get resolved, things will normalise very quickly. Next slide, please.

In the dry bulk side of the market things have generally been relatively stable. There is a slowdown in demand in the first quarter from China. You do have Chinese New Year in February, which always brings a little bit of growth in demand for commodities. Most of the major commodities are trending well, and had trended well in the first quarter. Having said that, because of supply/demand dynamics and a little bit slowdown in growth in China, we see a softening in the rate environment in the bulk side, but as a group we're not significantly exposed in this area. Next slide, please.

In terms of the ro-ro trade or finished vehicle trade, it's a little bit of a mixed bag. It's certainly not as bullish as it was in 2023. What we're seeing is a slowdown of electric vehicle demand, particularly in Europe and a little bit in North America. A little bit on that is because of demand. I think there was a big bubble of demand for EVs in 2023, and charging infrastructure still remains relatively behind demand and ownership. And I think at this point there's a little bit of saturation in terms of everybody who wants to buy an EV has probably bought by now.

And therefore, the initial boom has slowed, so what we're seeing is a rebalancing between combustion engine and EV demand, but relatively speaking, the demand is still strong and still remains above 2022. I think 23 benefited from your post-COVID demand bubble. And I think what we're seeing now in 2024 is a return to normalisation. Next slide, please.

In quarter one we closed and therefore benefited onto the P&L of a number of different transactions. Relatively speaking, they were all small size transactions. I think this shows the history of how we've progressed from quarter two 2023 with the adding of Karachi and TTEK, and then moving into Sesé Logistics, which we're now seeing the benefit on the P&L from the first quarter this year.

But the first quarter in 2024, the real big points were we completed the consolidation of the Castellón terminals, an acquisition from APM. We're involved in Castellón, it's something that gives us 100% ownership and then, therefore, consolidation of terminals in Spain. We signed three 15-year cruise concessions, although they're just concessions at this point, they're not hitting the P&L yet.

This is Red Sea cruises and to run and operate cruises in Egypt. The Karachi bulk terminal, which is an extension to the 50-year container concession agreement we signed in 2023, we've now taken the adjacent bulk terminal. We are recognising revenue and we do have ongoing operations in quarter one. Having said that, there's a CapEx program and a dredging program to unlock the full potential of the bulk terminal, which will happen in 2024 and a little bit into 2025. So, full potential and full revenues and generation will really come in 2025 and beyond from the bulk terminal.

Dubai Technologies, we acquired a 60% stake. It's effectively a technology that adds to Maqta Gateway, our existing digital business. It gives us a lot of capabilities and a lot of skill set that we need. It allows us to deploy our own software in terminals around the globe that we're developing, particularly PCS, port community systems, and the ability to have it in-house lessens the CapEx requirement for IT services that we've baked into the business cases for some of the concessions that we've closed around the world.

And we closed the acquisition of 60% ownership of Tbilisi Dry Port in Georgia. We see that as very strategic. Although it's a relatively small acquisition, the infrastructure gives us road rail storage. It really allows us to pull in volumes from a number of countries within the region and funnel them through Tbilisi and then out to ports or out to the destinations, depending if it's import and exports. It's an area of the world that's growing in trade and has great growth potential for us. Next slide, please.

I think just a summary of the pure acquisitions that we made or consolidated from the first quarter this year, and what has impacted positively on the P&L. I think we've touched on most of them, they're all very much in line with our strategy. I think what you are seeing in quarter one, as well, is maybe perhaps the delayed benefit from quarter four, but certainly we're starting to recognise the optimisation and synergies between the acquisitions, particularly Noatum and GFS.

GFS being integrated with Safeen Feeders, Transmar, and some other shipping entities, Invictus, that we have. We're starting to see the cost benefit, the network benefit, and the ability to optimise the network within there.

In quarter one, for example, we saw two services from Safeen which we were able to take out, but not lose any profitability because we optimise the network through GFS. So, not only are we seeing both the synergies on the bottom line, we're also seeing top line synergies through the group. And also, extending our reach with customers. We're picking up new business, particularly Red Sea business, business out of Turkey, through our line and on Noatum that's now coming into our ports in the UAE, and particularly Khalifa Port. So, growth in top line optimisation and bottom line synergies are now being realised on the P&L in quarter one. Next slide, please.

We continue to do very well in our economic zones. Demand remains high, despite political tensions within the region. That hasn't disrupted the demand for land. The UAE is in still a very compelling place to locate, particularly from manufacturing. We have land availability, we have utility availability and industrial quantity and industrial tariffs over the long term, that make utilities very, very compelling here. We have a suite of government initiatives that make doing business here and locating your business here. And then we have the integration between our ports and our maritime network, that allows you to tap into not only your supply chain, but also access to market for your finished goods. It becomes a very compelling place.

We leased just over 1 km², 1.2 km² in quarter one. Some of the highlights are listed here, but we're seeing a range of different sectors and different markets showing particular interests from the automotive perspective. We have lithium battery processing for EVs, we have green metal and steel recycling productions, and automotive precision technology. These are highly skilled, significant high-end engineering businesses that have signed long-term agreements and invested significant money over 50-year leases. And we're happy with the fill-out rate that we have within the economics hub. Next slide, please.

With that, I'll hand over to Martin.

Martin Aarup Thank you, Ross. I'll take you through the operational and financial performance Q1. Overall for the quarter, it was financially a strong quarter in line with the expected rebound from the challenging Q4 that we had, which included numerous negative one-off items. We continued focusing this year in terms of our value capture initiatives spreading across focus on our integration synergies, cost savings, CapEx rationalisation and also optimising our work in capital, which is now starting to flow through to the P&L.

Revenue for the quarter more than double year-on-year to 3.89 billion, up 22% year-on-year. The 22% was on a like-for-like basis when you adjust for the effect of recent acquisitions. EBITDA increased 49% year-on-year to 1.04 billion in Q1 and that is up 20% year-on-year on a like-for-like basis. Total net profit reached 400 million Q1, up 10% year-on-year on a reported basis and up 21% year-on-year when you adjust for the introduction of the new corporate income tax in UAE, which had a negative effect of AED 40 million in Q1. Next slide.

In terms of our operational performance in the port cluster, general cargo volumes were up 36% year-on-year, supported by the addition of Noatum and Karachi multi-purpose terminal. UAE volumes were resilient, particularly high-yield steel cargo was strong during the quarter. Container volumes increased 26% year-on-year and 14% on a like-for-like basis, with increasing utilisation both in the UAE and internationally. The overall mix has become more balanced with addition of international ports and stood at 54% transhipment and 46% O&D volumes in Q1.

Our ro-ro volumes increased four-fold year-on-year with the addition of Noatum. However, it was slightly down quarter-on-quarter due to a temporary congestion in Barcelona, which has been resolved by the end Q1. Our cruise passengers were down 8% year-on-year, as our Aqaba cruise terminal in Jordan was negatively impacted by the Red Sea situation. And when you exclude that, the cruise volumes were up on a like-for-like basis 2% year-on-year. Next slide.

In our economic cities, we inked 1.4 km² of net new land leases in Q1. The new land leases is supported by the strong macro environment that Ross mentioned and our alignment with the Abu Dhabi economic diversification and industrial strategies. The effect of these strategies are gradually gaining momentum and we can also see that in terms of our pipeline, which continue to be strong. And we see a good demand for new land leases. Guidance on average annual net new land leases remains unchanged at 3.5 to 4 km² in the coming years.

No significant changes on the warehouse side, where we both improved utilisation year-on-year and quarter-on-quarter. As we mentioned in the last call as well, we have 25,000 m² of additional warehouse capacities that is currently under construction and on track to be commissioned by end of 2025. Next slide.

KEZAD Communities utilisation continued to increase with the ramp-up of the new facilities and stood at 61% by end of Q1, based on a bed capacity of 136,000 beds. Our gas volumes were down quarter-on-quarter due to seasonality and virtually flat year-on-year. We continue to expand our gas network, which will drive capacity and volume increase on that space going forward. Next slide.

In our maritime cluster, all operational KPIs developed positively, notably the consultation of GFS from 1 February significantly enhanced our value proposition. During the quarter we operated 23 services with a fleet of 49 vessels connecting to 78 ports across 28 countries. Key geographies include the Gulf, Red Sea, Indian subcontinent, Far East, Europe and Africa, with 65% of volumes currently in the Gulf and Red Sea. Our focus going forward is on integration and optimisation of network across GFS, Safeen Feeders and Transmar, with a view of further improving yield and utilisation.

Feedering container volumes were up 309% year-on-year with one TEU, so one container loaded, every 14 seconds during Q1 of 2024, which again highlight the scale of the business that we have built. Around 29% of our feeder volumes across seven services came from the Red Sea in Q1. Next slide.

We continue to focus on creating a balanced synergistic portfolio of maritime businesses with different market cycles, to limit business performance volatility. In line with these efforts, we now managed 26 dry bulk and ro-ro vessels and further expanded our offshore and subsea vessel fleet to 129 vessels by the end of Q1. Our total fleet size across different asset classes is now 263 vessels versus 184 in Q1 of 2023. Next slide.

In our logistics cluster, polymer volumes was significantly down quarter-on-quarter due to seasonality. However, Q1 was with a favourable mix. The big increase year-on-year was partly due to Borouge plant maintenance in Q1 2023, temporarily negatively impacting the year production capacity. Air freight volumes were impacted by softer demand and normalisation of rates in line with market down 3% year-on-year. Our ocean freight volumes increased 13% year-on-year, as capacity availability is improving, leading to higher volumes. Managed warehouses capacity in our logistics cluster was 305,000 m² with a utilisation of 70% as of Q1 2024. Next slide please.

In terms of our revenue key drivers, our maritime top line grew 92% year-on-year and 27% on a like-for-like basis.

All the sub segments, so marine services, shipping and offshore and subsea, performed well and continue to grow. The economic cities recorded a revenue growth of 7% year-on-year, mainly driven by warehouse leases and KEZAD Communities, as utilisation rates in these two areas continue to steadily increase.

The port cluster revenue grew by a staggering 80% year-on-year and 17% on a like-for-like basis. Port leases, general cargo and ro-ro handling were particularly strong during the quarter with the inclusion and ramp up of new businesses. This included the new international businesses from Noatum and Karachi, as well as the organic expansion in Khalifa Port, South Quay and Logistics Port. The logistics cluster revenue jumped almost seven-fold year-on-year to 1.08 billion in Q1, primarily driven by the consolidation of Noatum Logistics and Sesé Logistics, which was consolidated from 1 February, as well as the start of our new JV in Uzbekistan.

The digital cluster revenue grew by 50% year-on-year to 151 million in Q1, mainly driven by higher revenue from foreign data service transaction, external digital projects, and also commencement of our new security services. Next slide.

In terms of geographical revenue distribution, 65% of our revenue was coming from the UAE, followed by 21% from Europe and 6% from Asia. Almost 1.7 billion, or 43%, of Q1 revenue came from M&A activities spread across all clusters with logistics and maritime taking the lion's share. Next slide.

Q4 EBITDA was up 49% year-on-year, as mentioned, and up 31% quarter-on-quarter, when you're adjusting for the one-off items that we had in Q4 of 2023. The strong growth in maritime cluster was mainly driven by consolidation of GFS and Noatum maritime. Demand and rates for shipping operations in the Red Sea have been trending higher, and as Ross mentioned, we expect this to continue in the coming quarters. Economic cities was up by modest 4% year-on-year, mainly due to timing of cost. Ports cluster EBITDA increased 44% year-on-year and 19% on a like-for-like basis, the uplift coming from strong general cargo and container volumes, supported by the addition of the inclusion of Noatum and Karachi.

Logistics cluster EBITDA grew by almost three times due to the inclusion of Noatum and Sesé Logistics, as well as strong polymer volumes in the UAE. Lastly, digital cluster increased 60% year-on-year, in line with the revenue growth. Next slide.

The margin evolution has been led by a change in mix, with higher contribution from logistics and maritime clusters, essential connectivity components for our ecosystem strategy to continue growing trade flows into our infrastructure assets. Going forward, ports economic cities and digital clusters will support the overall margins, while maritime and logistics clusters come with lower margin profiles. The EBITDA margin stood at 26.7% in Q1, which is in line with the guidance that we have previously given of 25 to 30% in the mid-term. Next slide.

Total assets grew by 34% year-on-year to 58 billion in Q1 2024, in line with the substantial organic and inorganic investments made. By end of Q1, 92% of total assets were deployed in the UAE, followed by 4% in and 2% in Africa.

Our net debt increased by AED 2.5 billion during Q1, mainly funding the ongoing organic CapEx program and then the recent acquisitions that were closed here in Q1. In addition to 1.7 billion cash at hand, we currently have 1.1 billion credit lines available under existing debt facilities.

With strong EBITDA performance during the quarter, net debt to EBITDA ratio dropped from 4.4 times in Q4 to 3.4 times in Q1 of 2024. Again, it's important to note, as we mention always, that revenues and profits associated with the recent organic and inorganic investments have not yet fully been reflected in our group P&L, due to the long-term nature and required operational ramp-up of these investments. Our guidance remain unchanged to maintain investment grade credit rating on a standalone basis and during the first quarter we got upgraded by Fitch to AA-. Next slide.

CapEx reached 1.27 billion in Q1, with majority being deployed in our ports and economic cities. This is in line with the front-loaded CapEx program of 12 to 15 billion we have for the period 2024 to 2028. All key ongoing projects are currently progressing as per plan and within budget. In ports, Etihad rail connection has commenced and we expect soft opening of the new CMA terminal by the end of the year. Internationally, work continue for in Safaga Port in Egypt and also Karachi Gateway Terminal in Pakistan. Next slide.

Our operating cash flow doubled year-on-year in Q1 to 781 million, which equate to a cash conversion of 75%. As we gradually integrate and stabilise new businesses, we expect to further improve the cash conversion over the coming quarters. Free cash flow was highly negative for the quarter, mainly due to the M&A payments for recent acquisitions. Based on current visibility and in line with previous guidance, we expect the inflection point to become free cash flow positive around 2025, full-year impact in 2026. Next slide.

In terms of the guidance and outlook, there's no changes to the updated guidance that we provided in mid-February. In the medium term, our expectation is still to deliver a revenue CAGR of 15 to 20% and an EBITDA CAGR of 20 to 25% between 2023 and 2028. And corresponding organic capital investments from 24 to 28 is expected around 12 to 15 billion. And again, due to the base effect of recent acquisitions, some of the average growth will be front loaded, as what can also be seen from our Q1 financials and the growth rates that is shown. Again, this is based on currently announced transactions. Back to you, Marc.

Marc Hammoud Thank you, Martin. Ahmed, we can open the floor to Q&A. I saw that the Graham from Jefferies raised his hand, so maybe we can give him the floor first.

Ahmed Hazem Sure, Marc. So Graham, your line is open. Please make sure to unmute locally, as well. Hi Graham, we cannot hear you. Hi Graham, you are audible now, please go ahead.

Graham Hunt Okay, I'll go ahead. Thank you, gentlemen, for the questions. I'll just ask two and then I might jump back into the queue. First one, just on the Red Sea disruption and the increased demand in rates you're seeing there. Maybe just putting the pricing to one side, how much of the increased demand or volumes would you say do you think you'll be able to hold onto long-term, you know, if we see the disruption stop and things normalise there? Are you actually taking share on the volume side that you can maintain longer term? Is it a structural benefit that you're getting or that you're achieving through your position there?

And then second question, maybe just on your latest thoughts on M&A. I guess my question is, do you feel that you now have the scale of business to do what you want to do and now you're shifting towards more focused on consolidation and driving efficiencies within the existing business? Or do you still feel like there's more scale to add and you have appetite to go out and do deals if they're possible? Thanks.

Ross Thompson The first part of the question, yes, clearly we picked up new customers, particularly direct relationships with cargo owners. And certainly blue-chip customers , and so our market share has obviously grown. Now we're doing a lot of work in order to embed ourselves with those new customers and also, we've seen that the relationship with those customers from the first quarter, where it was predominantly Red Sea, we're now benefiting from the fact that they're now using us and our platform outside of the Red Sea. So, we've been able to upsell to them. We don't envisage the that it would be a complete reversal, but clearly, when it resolves itself and shipping and competitors come back and vessel owners are a bit more relaxed about serving the Red Sea, then clearly there's going to be some erosion there.

In the numbers that I mentioned, it really accounts for that, the positive impact. That's why I have to give a best estimate, rather than a hard fact. But I think it's really peaked because as we come into quarter two, we're really seeing that 45 million on the EBITDA side, that comes from volume and price. We're really not seeing that grow and, in fact, it's starting to erode slightly as more people step into the market. There's new players that come into that market. Saudi launched a new service called Folk Marine. There's been some new Chinese entrance, etc. Some of the shipping lines have put some services back in. So, I think the maximum we're seeing, and I suspect that we will hang on to some, but not all, as and when the situation normalises.

That's probably question one. Question two, I think we still lack size and scale in certain areas. If I look at our logistics business, for example, I can tell you that we're a top 40 ocean logistics player globally. Yet that gives me a market share of total global volumes in logistics of 0.01%, which means that I don't cover all areas, I have gaps in some of our major trade routes. We still need to work on our network and we still view that through good quality acquisitions that have a value creation effect to the rest of our group. And that's what we're looking for.

Having said that, we've done a significant amount of work on optimising. We've still got much to go, but I think you're going to start to see the benefit of that in quarter one and you'll see that continue through quarter two, quarter three of this year. To answer your question, we'll be doing both when the opportunity presents itself. And a good target is there that, as I said, creates additional value into the rest of our group.

Ahmed Hazem Thanks, Ross. Our next question comes from Anna Antonova. Anna, please unmute locally and ask your questions, as well. Anna, you are not audible. Yes, we can hear you now, please go ahead.

Anna Antonova Thank you. Good afternoon, gentlemen, and thank you for the presentation and congratulations on a strong set of results. Three questions from our side. So first, on the GFS, I understand that you're not disclosing within the segments by company, but still, could you please guide us what was the EBITDA margin at GFS in Q1? Maybe if not one number, but perhaps can you guide us how close it was in Q1 to your full-year target, please? I remember the GFS EBITDA margin was targeted to be around 15% for this year, so in Q1, how was it? Like close to that target, like above or below? Any colour there would be much appreciated. I stop here and then I'll proceed with other questions after your answer. Thank you.

Marc Hammoud Anna, you have the answer on the slide. It's about 27.5% for Q1.

Anna Antonova Thank you. You were skimming through the slides a bit fast, so I didn't notice, but thank you for the clarification. So it was significant margin you targeted for this year, is that the peak margin in Q1 or how does it bode with your outlook in terms of rates and the volumes activity for this year? Do you think that your previous guidance of around 15% EBITDA margin target for this year was more conservative or you still expect it to normalise from current levels?

Ross Thompson There'll be a small adjustment coming into quarter two because the fuel costs are increasing. Having said that, fuel costs are generally passed on to the market, but there's a time differential. So when the market moves up, generally what you pass on is a month behind, so you incur the cost and then when the market comes down, you get a month's benefit on the other side. So, there'll be a small adjustment coming into quarter two. But structural adjustment, I think for the next quarter and probably the third quarter we're pretty confident that the margins will hold up.

Anna Antonova All right, thank you. That's very much appreciated. My next question is on your leverage. When I looked at the press release, I noticed on your slides, that your net debt to EBITDA was at 3.4 times in Q1. I understand this is based on annualised Q1 EBITDA number. Then if I take the last 12 months' EBITDA, the net debt to EBITDA would have been closer to 4.8 times. I wonder what methodology is used for testing against the five times net debt EBITDA ceiling for your investment grade credit rating?

I understand the difference in methodology may be not that big when the earnings are not volatile, but again, in your case the quarterly volatility can be material. And if we look at differences and how EBITDA is calculated, it can materially affect the ratio. So, what kind of ratio we would need to track net debt to last twelve months' EBITDA or to annualised EBITDA, to see how you're doing against your reiterated target of maintaining an investment grade credit rating?

Martin Aarup I's a good question Anna. Obviously in a business like ours, where we have significant growth rates and not only year-by-year, but also quarter-on-quarter, obviously what we and the credit rating agencies would look for is a normalised EBITDA, so based on how we're currently trending and annualising that.

How we are managing, as you also know with credit ratings, there's no hard covenants, so it's a holistic assessment of different parameters, and also during different timeframes. As we mentioned, we manage our capital structure based on maintaining an investment grade credit rating on a standalone basis. And we are currently using both S&P and Fitch, in terms of managing the capital structure. We know, and as we have talked about in several calls, the high leverage or the elevated leverage we will have here in 2024 and part of 2025, and so we'll become free cash flow positive. Obviously as we are we are getting up to the higher level, we are carefully engaging with our credit rating agencies on the headroom that we have versus potential downgrade. And currently, based on the financial results that we have and the mix and the visibility that we also have going forward, we're in a pretty comfortable space.

Anna Antonova All right, thank you for the comments. Quickly last two questions. One was could you please comment what was the scale of vessel trading activity in Q1? Was it material or relatively less material? I remember there were differences in the end of last year, so could you please comment what were the developments in Q1?

Martin Aarup We have not traded any vessels and neither purchased nor sold any vessels during the quarter.

Anna Antonova Understood, thanks. And then the final question from our side, on the taxation side, actually. I remember other public UAE companies, for example banks, in recent months are guiding that there is a likelihood that the corporate tax rate in the country may be hiked from the current 9% up to 15% already next year. Do you view the potential tax hike as probable and what are your views on this topic, please?

Martin Aarup Again a good question and again it comes back to why the 9% was implemented. Obviously it is to adhere to the OECD guidelines longer term and the Pillar Two, which has a tax rate of 15%, minimum tax rate over time. It's our expectation that that eventually the 9% will go up to 15% and we have conservatively planned that in all our business plan and outlooks coming in from next year. We don't have any clear guidance on that, so it's a bit speculative, but we believe it's a matter of time until the 9% would go to 15%. Again, assuming that the intention is to adhere to the OECD Pillar Two. And we have put that in for 25, which would be the earliest that that could happen.

Anna Antonova Many thanks, that's all clear. That's all from our side, thank you.

Ahmed Hazem Thank you. Just as a reminder for everyone, you can use the raise hand function or send your questions in the Q&A box. We'll take a couple of questions from the Q&A box and then back to Graham for some follow-up questions. We have a question from Rakesh. Hi, team. With no debt maturity scheduled for 2024, are there any plans to raise funds in the debt capital markets? That's the question.

Martin Aarup I think we have been consistent in what we've been saying every quarter, in terms of that we want to finance our investments with long-term debt and predominantly from the DCM. We are currently monitoring carefully the market and the evolutions. We had expected that rate cuts would have started earlier. It has not done that, so we are carefully evaluating, when is the best window of opportunity for us to convert some of our shorter term debt into long-term fixed, which is in line with our standard policy.

Ahmed Hazem Thank you, Martin. Our next question comes from Alok Nawani. One of the questions is basically on the GFS margin. What has helped GFS EBITDA margin reach the 27.5% in 1Q and what's management's view on margins for the business for the remainder of the year? And does that change management's original guidance of 15% margin for GFS in 2024? That's the first part of the question.

The second part is does management see the logistics segment’s 1Q 2024 EBITDA margin as sustainable forward?

And then the third question, does GFS feature solely in shipping segment or does it have any overlap in other segments, as well, when it comes to P&L contribution?

Martin Aarup The first question was already answered earlier by Ross. What was the second question?

Ahmed Hazem On the logistics segment, is the EBITDA from the first quarter 2024 sustainable going forward, as guidance?

Martin Aarup Yes, we believe so. Q1 was a tough quarter, specifically for logistics, and that could also be seen from a lot of our peers, in terms of the results that they have announced for Q1 in the logistics space. Again, we currently have a lot of integration and synergies that are being targeted for the acquisitions that we have made recently, particularly Noatum and GFS. So, we do see this as a sustainable and even possibly an expansion going forward. The third question was what? Sorry.

Ahmed Hazem No worries. The third question was on GFS again and does it feature solely in the shipping segment or is there any overlap in other segments or other clusters, as well?

Martin Aarup No, as we have presented previously in terms of GFS, they have activities in the container feedering side, NVOCC and also a small trucking business in Africa. But the majority is coming from the container feedering side.

Ahmed Hazem Thank you for that.

Ross Thompson If the question is being asked does it drive volume through our ports? It does. It calls at Karachi, we have calls at Khalifa Port, so it drives volume through our ports business, but that's reported in the ports earnings, not GFS’ earnings.

Ahmed Hazem Very clear. Thank you, Ross and thank you, Martin. We'll go back to the raised hands. We have Graham asking a question, as well, needing a follow-up. Graham, please unmute locally, as well, and ask your question.

Graham Hunt Thank you. You can hear me?

Ahmed Hazem Yes, we can hear you. Please go ahead.

Graham Hunt Just one follow-up for me, thanks. On the ports margins, I just wanted to understand how Khalifa Port had trended versus the acquisitions and concession agreements you have, especially given the sharp step-up in utilisation at Khalifa, I would have expected maybe the margins to be a little bit higher. So, just wondering how we should think about that going forward in 2024, in terms of the overall divisional margins?

Martin Aarup We're not disclosing margins on individual port basis, but also what could be in inferred from the commentary that we have made, Khalifa Port has been performing well in terms of both the container volumes and utilisation. The general cargo volumes were flat, but with a good mix, particularly from the steel side. And then obviously we continue to ramp up in terms of port leases, which is again indicates an expansion of margins there.

The reason why you don't see that really flowing through for on a total cluster perspective is because we have added both the ports in Spain, but particularly in Q1 we have, in addition to the Karachi container port, we also had the new Karachi bulk terminal coming in. So, it's not a contraction in margins, it's simply just a change in the mix. The individual terminals in terms of their margin profile has not contracted on the contract.

Ahmed Hazem If Graham doesn't have a follow-up, we'll move to Amir Badron. Amir, your line is open, please go ahead. Unmute locally, as well, please. Hello, Amir, we cannot hear you at the moment. We'll move to Nikhil Mishra until Amir fixes his mic. Nikhil1, please unmute locally and ask your question.

Nikhil Mishra Just a quick question. Looking at your cash profile and looking at your guidance perhaps becoming a bit free cash flow positive in 2025 and based on your guidance for the next few years, which is mostly front loaded, will it be right to assume that for normal CapEx, raising of debt won't be required? It's only in case of any M&A activity that there will be a need to raise the debt by the company. So, just some clarity on what will basically make it necessary for you to raise the debt going forward.

Ahmed Hazem Good question. Again, what we have said is the inflection point of becoming free cash flow positive is in 2025, full-year effect in 2026. That also means that, as you can see in Q1 of this year, we had operating cash flow of roughly 801.2 billion in terms of CapEx. We are gradually decreasing the gap between the two. In terms of when exactly we will reach that inflection point, depends a bit in terms of the discretionary CapEx that we have in terms of the market environment, particularly on the vessel side, in terms of whether we believe it's opportunity to buy additional vessels and the size of those.

So, we cannot be more specific in terms of what we have guided already, that the inflection point is next year and then full-year effect of 2026 and also whether we will be required to raise a bit more debt before we be reach that inflection point, depends on the discretionary CapEx. And yes, obviously if there's any inorganic, material acquisitions, that would have to be funded separately.

Ahmed Hazem Thank you, Martin. Amir sent this question in the Q&A box. He's saying that despite strong revenue and EBITDA growth, we have not seen EPS growth since the first quarter of 2022. What is the management comment on that and help us understand how do you internally evaluate these investment decisions?

Martin Aarup Also a good question. Again, I think what we have tried to present is that we are a growth company with significant upfront investments. That temporarily we will have some negative drag, particularly below the EBITDA line. What you're seeing, obviously, especially also comparing to last year, is that we now have the effect of the corporate income tax coming in that pulls things down. But we also have in terms of the acquisitions that we have made in the last few years, we have basically from the purchase price allocation of those investments, we have a negative impact in terms of amortisation of intangibles, particularly in the next five years.

Again, this is non-cash, but obviously optically, it has an impact in terms of the EPS. I think one has to be careful only by looking at the EPS and the EPS evolution, but also have more focus in terms of the cash flow generation and how that actually translates. Because there is still a number of these intangible amortisation that is non-cash, weighing negatively below EBITDA . On top of that, obviously we have the effect of the rising interest rate. That is also temporarily, at least, I would say and hope, it's pulling down on the bottom line, but it's a key focus for us. Obviously, we like to grow, we want to grow both top line and EBITDA, more at the end of the day it's the bottom line that has to follow, as well, and it will come.

Ahmed Hazem Thank you. As a reminder for everyone, you can use the raise hand function or send your questions in the Q&A box. Maybe to give a bit of time for people to start sending their questions in or raising their hands, I have a question from myself. Can we get an update on the organic capacity expansion in Port Khalifa, in relation to the new terminals that should be coming online in 25 or 26? And is there any update on the timing of these terminals coming online?

Ross Thompson The first one that comes online is the CMA Terminal. That will start to receive vessels in quarter four of this year, but that's on the ramp-up, testing operational capability. It really hands over 1 January 2025, so you'll start to see that contributing to the P&L from quarter one in 2025. But, so far, everything on track. We've taken the first delivery of cranes. There's still some equipment to arrive, but we're in test phase, so everything on time and on track on those.

In terms of the other infrastructure, the Etihad Rail terminal is already receiving trains. Again, it's in a ramp-up phase, it really starts to hit us in 2025. And regards to the South Quay that we've built, it is fully operational and you are seeing the revenues already associated with that, within the P&L.

Ahmed Hazem Thank you, Ross. As a follow-up, basically, with the CMA Terminal, how much cargo or basically throughput do you expect will immediately come through? Because I understand that CMA already sends a lot of volumes to port to Jebel Ali and maybe that gets diverted very quickly. How much of that cargo basically goes to Port Khalifa from Jebel Ali?

Ross Thompson There's a ramp up period, but I would suggest a significant portion, let me put it that way.

Ahmed Hazem Okay. And roughly do you know the number that goes to Jebel Ali, as of 2023 or something?

Ross Thompson I do, but it's commercially sensitive.

Ahmed Hazem Okay, fair enough.

Marc Hammoud CMA CGM is starting with the capacity of 1.8 million and we've always said that the majority of their volumes within the Gulf will come to us. So, based on the capacity and the fact that we expect the majority of those volumes, you can work out more or less the throughput that we can expect very quickly. And when we say very quickly, it's 12 to 24 months.

Ahmed Hazem Perfect. Thank you, Ross and thank you, Marc. So we still have Nikhil with his hand raised. I'll open up his Michaela, maybe he has a follow up question. Nikhil, please unmute locally, as well, and ask your question.

Nikhil Mishra Sorry, it was already there, so no more questions, thank you.

Ahmed Hazem With that we don't have any further questions, so Marc and Ross, back to you for any closing remarks.

Marc Hammoud Thank you, Ahmed, thank you, everyone, to participate to the call. As usual, we will make available this earnings presentation, as well as the data supplement sheet, either today or tomorrow at the latest. And we're looking forward to meeting you soon. Thank you, all.

Ahmed Hazem Thank you. Thank you everyone for attending, you may now disconnect.