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Transcript

AD Ports Group 2Q24 Results Call

Tuesday, 13 August 2024

Ahmed	Hello. Good morning and good afternoon, ladies and gentlemen. This is Ahmed Hazem from EFG Hermes speaking. We'd like to welcome you all today to AD Ports Group Second Quarter 2024 Results Conference call., With us on the line today is Mr. Martin Aroup, CFO of the company; Mr. Ross Tompson, Chief Strategy Officer; and Mr. Mark Hammoud, VP of Investor Relations. First off, I'd like to congratulate the company on a great set of results. And without further delay, I'd like to hand over the call to Mark. Mark, please, the line is yours.
Mark	Thank you, Ahmed. Good morning, good afternoon, everyone. Thank you for EFG Hermes for hosting our Q2 2024 earnings call. I will kick it off as usual with the introduction of the presentation, then I'll hand over to our Chief Strategy Officer, Ross, and then to our CFO Martin Aroup for the financial section. First off, the key messages, I think if we had to keep one key message in mind for this quarter is the significant contribution of strategic acquisitions, Noatum and GFS, which have been significant and in full swing for the Q2. That led to a record high quarterly EBITDA, with revenue more than doubling from the base quarter, primarily on these two M&A transactions. The organic growth was driven by growth in the ports, logistics and digital clusters, and Noatum and GFS being the leaders on the organic front. The top down story remains very supportive, and we remain also committed to steering profitability through macro and geopolitical turbulences. The Q2 key financial KPIs, revenue, as I said, more than doubled to 4.2 billion dirham. EBITDA delivered a 56% year-on-year growth to 1.1 billion dirham, and total net profit increased by an impressive 42% year-on-year to 439 million dirham. If you adjust for the introduction of the UAE corporate income tax, then total net profit would have increased by 55% year-on-year. We remain quite a resilient and highly visible company in terms of financial delivery. 46% of H1 2024 top line was long term or sticky in nature. And if you remember, this is a slight increase from the 44% in Q1 2024. In terms of capex, we spent 2.5 billion dirham in H1 2024. This is very much in line with our guidance, whether it's the five-year capex plan that we have between 2024 and 2028 of 12 to [audio skip 03:22] and the 2024 yearly guidance of 4 to 4.5 billion dirham. This capex was mostly spent into the ports, economic city and free zone and maritime shipping clusters. It remains front loaded and primarily project and contract based. The fifth point in the key messages is the affirmation of S&P Global of our A+ rating, following on the upgrade to AA- last March by Fitch. In terms of balance sheet, net debt to EBITDA stood at 3.6x as of Q2. Our debt schedule remains well managed with no upcoming maturity in 2024, leaving some flexibility to the balance sheet for further organic and inorganic growth. On the Red Sea disruptions, obviously, we can all see in the media that it continued, and arguably it deteriorated, which has resulted in increased demand in terms of container

shipping and higher rates. We expect that situation to continue until at least the end of the year. As of Q2, we had 13 container vessels deployed in the Red Sea's on 7 services and about 30% for container shipping volumes conducted in the Red Sea.

Equity story, for those who have been attending this call, it's known, but I'll just reiterate the triple [audio skip 05:19] which is, as I said earlier, in full swing with the organic growth and the ramp up of existing assets; the capex spend and the resulting growth that we anticipate to deliver on the back of that spend; and the third lever, which is very concrete for this quarter and year to date is the contribution of M&A and specifically here Noatum and GFS.

On the balance sheet, maybe one information I didn't mention yet is the 1.8 billion cash position that we had as of Q2. The rest is all part of the key messages.

This is our shareholding structure. It remains the same. With ADQ still holding 75% of the capital and 25% being free float with one strategic shareholder being Al Seer Marine. We still have foreign ownership at 9% stable from Q1.

The performance of the stock has been resilient in a volatile, turbulent market. We remain one of the top performers since listing, and I think we're given the business model that we have and the visibility that we offer in terms of revenue and profits. AD Port Group remains in a good position to weather a market turbulence going forward.

The five vertically integrated clusters performance, revenue contribution and EBITDA contribution. On this slide, you can see that now maritime and shipping is the largest contributor in terms of revenue and EBITDA, followed by the economic city and free zone, with 24% in terms of EBITDA and 21% from the ports. Logistics and digital remain behind, with 8% and 6% respectively in terms of EBITDA contribution.

The same picture in terms of assets and capex. I already talked about the capex spend and where it went in the second quarter and in H1, going into the more capital intensive clusters, ports, Economic Cities and free zone and maritime and shipping to a lesser extent.

The scale of operations, we're now present or covering more than 50 countries. We have 33 terminals; 27 of them are operational in 8 countries. In terms of ports container capacity, we're close to 10 million TEU's. We handled 5.6 million TEU's in the last 12 months to Q2 2024. In terms of general cargo, we approaching the 50 million tons mark. And when it comes to Ro-Ro volumes, we reached 1.4 million.

In terms of maritime capabilities and scale, we have now 80 shipping vessels, and that's not only container, but also bulk, multi-purpose, Ro-Ro; everything within the shipping segment. 23 services when it comes to container feeder services. And we transport 1.3 million TEU's over the past 12 months. More specifically to Q2, we loaded one TEU every 13 seconds.

In the Economic City and Free Zones, 69.3 square kilometer of leased lands. The land bank remains the same, 550 square kilometer, and we have now bed capacity of 137,000 within KEZAD communities.

This is a map that depicts the geographic presence of AD Ports Group. And apart from the green dots, which is our global logistics presence, you can see that the other clusters are quite concentrated in the geographies and countries we focus on: Middle East and GCC, obviously; Africa, Indian subcontinent, Southeast Asia, and to the Mid-Eastern and West Mediterranean.

I'll leave the floor to Russ to date you on the market and on the strategy as well. Over to you, Russ.

Russ

Thanks. Mark. Good afternoon, everyone. Next slide please.

I think the first half of this year can still be characterized by there are more complexities in the global supply chain than perhaps we've seen for some time. We're facing quite some geopolitical tensions, particularly within region, which are changing supply chain dynamics and is changing the routing of cargo, which presents challenges to the market, but also presents great opportunities for companies like ours that are able to adapt to changing supply chain environment.

We have tariffs being implemented, particularly in the US and Europe, for Chinese goods that come in pretty much from the second half of 2024 all the way through to 2025. These are on goods that are commonly transported by companies like ours: electric vehicles, steel, metals, semiconductors. And there's been a surge of cargo in the global trade lanes to beat or to arrive in the US, in particular in Europe, from the Far East ahead of these tariff implementations. So we're seeing sort of in the latter half of this year, and particularly in Q3, a little spike in cargo that we expect to dissipate towards the end of this year.

You have economic data coming out, particularly the US, a little bit in China, which is quite depressed, let's say, and you're seeing volatility in the capital markets. Therefore, most companies are operating with their supply chains in a more complex environment, in a more volatile environment. Having said that, that volatility in the shipping side of the business is creating a strong market, particularly for rates. We're seeing volume growth, but we're seeing rate increases, particularly through the second quarter, where in fact we're seeing price increases almost on a weekly to every other basis, where the supply and demand dynamic still remain in favor of the shipping lines. This is down to congestion in major ports; shipping distances are becoming longer because of the routes are changing. The issues in the Red Sea, forcing people to ship from the Far East to Europe around the Cape of Good Hope. It's causing container shortages in certain areas. And, therefore, demand remains very strong and rates are in a very favorable position for us, particularly in this region. And so although we have turmoil in the market, we have some strong headwinds in our group.

Notwithstanding, though, if you look at our financial performance, it isn't all coming from maritime, although maritime is helping us on the shipping side. Actually the underlying performance of our Ports business and our Logistics business is doing very, very well in the organic growth side of our company. But all the major indices are up, as you see. Container Freight Rate Index remains strong. We believe that we will see this continue towards the end of this year; we don't see any immediate changes. And in fact, we see potentially some worsening situations, particularly in the region, some concerns around what may happen in the coming weeks. And so the market will remain favorable to us with strong demand for our services.

What we've been able to do very, very well is position our services away from perhaps less demanded areas, and concentrate on trade lanes where there's significant demand for service providers like ourselves.

Next slide, please. On the bulk it's a similar story. I think that not so much at the peak that we're seeing on the container side, but strong demand continues and trending up on most of the major freight indices, both on the dry side, on the liquid bulk and volume growth in the bulk side remains quite robust. I think this region of the world, both in container traffic and when I talk about this region, it's quite a wide region. We include India, Southeast Asia, the Arabian Gulf, the Red Sea, and down to East Africa. We're growing at a greater rate of rate than some of the traditional markets. I think we pretty much see volume growth around about 5% to 5.6% for the remainder of the year. The global average should be around about 3.5%, so the majority of our shipping assets being within this region see high growth rates.

Next slide, please. Maybe a word of caution, I think that we're seeing a demand slow for seaborne car trade. Having said that, our volumes have been very, very good. In the railroad side, there has been a buildup of stock, particularly in the major hubs around the world. Until that stock clears, we're seeing Ro-Ro traffic taper off from its high of post-COVID, and now come back to normalization volumes.

Next slide, please. So I think just to continue, I think the focus of the group has been in increasing our infrastructure, and specifically our ports and terminals in key markets and key markets that are important to trade with the UAE, and particularly Abu Dhabi, and the continuation of that is the highlights that we signed two major deals in quarter two. One was the long term concession, 20 year concession of Luanda Port in Angola. It is a revamp of an existing terminal. It's an existing operation business. Having said that, the assets, the depth of the key need to be modernized. So we will invest and create a platform where I think we'll be the first operator in Angola to bring in STS cranes instead of mobile harbor cranes, that we're going to build one of the most efficient terminals. We see a lot of future opportunity in Angola, and it pairs very nicely. It has a large trade with Spain and Portugal, where we have a heavy presence through Noatum. There's good opportunities, both in the Ro-Ro general cargo and containers in the region and in the country. And we will be investing over the next 12 months and then become operational.

We also took a stake in Dar es Salaam in Tanzania, in their primary container terminal within the port. This is one of the major ports on that particular coast of Africa. It's a core market, primarily because it's an entry point into around seven different economies in Africa. It serves a lot of the land locked economies, and it was important for us to take a stake in the port asset in such a core market and a core entry point in one of the growing economies around the world.

Next slide, please. I think Mark touched on this, but we wanted to demonstrate, I think now we're seeing some of the full benefits of the major transactions that we've done. I think work continues on synergies, and I'll come on to talk about that and cost initiatives and top line initiatives that we're now seeing hit the P&L, but largely a fantastic contribution in quarter two from both Noatum and GFS. Just shy of 2 billion dirhams in terms of revenue, and over 328 million dirhams in terms of EBITDA.

It's important to say that that's in combination and separately, both GFS and Noatum are performing ahead of the investment case that we foresaw, particularly in GFS. We're aware that some of that is market related and the market rates helping us somewhat ahead of the investment case. But notwithstanding, we're doing a huge amount of work at migrating customers across our group onto our maritime platform. We have on-boarded through the Red Sea services that we're providing over 400 new customers into the group, and we're doing a huge amount of work, and a proportion of those are Blue Chip companies that we've never had relationships before. We're starting to upsell into that customer base, and we're doing a lot of work about how to create the stickiness that when the Red Sea crisis abates, that those customers remain on board and as part of the group structure, and we retain the relationship and the volumes that we're now increasing.

Other performances across the board are blended. They're all at a blended average. We are ahead of plan in terms of what we've purchased, and what we should be delivering now, which is good news, but we have no major concerns. And the focus of the company over the last six months in particular, since we've had GFS since the end of January, and we've had Noatum just over a year now, has been really on integrating these companies and extracting the value that we saw that perhaps wasn't part of the business case at the time, but the synergies and the top line opportunities that are being brought into our group. We're far down the exercise with Noatum and GFS, but we have more work to do on that, and you'll see more impact coming into the P&L in Q3 and Q4, and particularly Q1 next year, as some of these initiatives take time to organize.

We are migrating our maritime business into one operational platform, effectively under a number of brands, but the operational platform is migrating into one. So management of vessels, management of voyages are all being done centrally now to reduce our unit costs and position the business that it can return significant returns, not just in a favorable market, but also when we see normalization of rates, whenever that will be. And perhaps pushing into 2025, the businesses is much better positioned than it was as when we acquired those businesses.

Next slide, please. Economic Zones continue to do well. We're still seeing strong demand for land and warehouses, in particular. We've highlighted some of the key agreements that were signed in the quarter. I think a 50-year land lease agreement with NMVC Energy, Ducab Metals and also a biotech company. This also shows the diversified customer base that is being attracted into the region. That will continue. These are large scale deals, they're, relatively speaking, significant investments by the companies involved, and it continues to grow our land bank significantly.

Next slide, please. A little case study and maybe an explanation. I think that we've talked to you about international expansion and how the company brings all of its elements together in order to develop those opportunities, those economic ties, and also bring opportunities in the wider group. So the first entry point is not always the end game, but it's an opening for the company to really develop opportunities within the ecosystem that surrounds the major investments that we make, but also how the group then benefits from that, and how we benefit economies that we do invest in.

Here we've just picked Egypt as maybe an example. I think back in 2022, we made our first international acquisition of Transmar and TCI or IACC. It was relatively a minor acquisition, but it gave us a presence in the market. It gave us a strong operating company with experience of the market, and it gave us a product and a brand name that we could build off around. We then signed a port concession, Safaga Port concession of 30 years. We have started moving our first product through the port, even if that's ahead of schedule, even though it's still in building phase, but we start to move some fertilizer business through Safaga Port, and some of that coming to the UAE as well. So port concession was the next and that gives us an asset play and an infrastructure play where we can develop out major infrastructure that will be an anchor of our investment over the next 30 years.

We then, in order to support both of those investments, we then start to position our movable assets, our asset light, which is our Logistics and in particular our marine services, and we start to initiate our Maritime division to initiate services to Egypt. So we started our first core in Egypt in 2023. We then progressed discussions with the government and the port authorities. We signed in 2024 three concessions to run three cruise terminals, Sharm El Sheikh, Safaga and Hurghada; tourist areas and destinations in Egypt itself.

And then we started to offer and diversify our shipping services. From one shipping services in 2023, we've now grown that to five. We have 13 container vessels that are deployed all in Egypt. And that growth is really in line with market demand. So we start to initiate services. Market demand builds up. We start to make connections running all the way through our companies, and then we start to build up those services as we progress and the market demand dictates.

We then look at future opportunities. So what we're looking at next in a place like Egypt, we have signed MOU’s. This is all public domain, but we signed MOUs and concessions to run railroad terminals. So we'll be bringing our railroad network and our railroad expertise, and also our common customer base that are looking for solutions into Egypt for finished vehicles. Our Logistics company are starting to move freight in Egypt. Marine services to service our own fleet, but also to service third market and third party and our Digital company. So, we're starting to see the benefit of our initial investments, which we made towards the end of 2022, and in a very short space of time, in the period less than two years, we're now becoming a major maritime player and a major port player. And in the future, a major service provider in an economy that two years ago we had zero footprint in.

So it's just an example and explanation of how the group works, and how we look at our key and cornerstone initial investments into economies. So if you play this back, when you look at things that we signed like Congo Brazzaville and Angola to develop ports out, we will follow the same pattern that our marine services will start to funnel cargo, they'll start to build up the service profile, that creates logistics opportunities; the group then starts to follow and we start to develop many, many opportunities to grow our revenues, our footprint and our investments within a jurisdiction or an economy.

Next slide please. I think just a little synopsis on how we see after a year, and it's almost a year to date. I think June was the date that we closed Noatum, June 23. And just passing June 24, we've owned Noatum for just over 13 months now, but 12 months in the first half. And how we're creating top line synergies and cross selling and integration between our existing organization, our existing assets, and now Noatum and their three pillars of business. So if you look at Noatum Maritime, for example, with the help of Noatum Maritime, we've introduced three new feeder services into the East and West med. This is a market that the previously to our Noatum acquisition, our maritime division, our shipping division was not present in the med market. It's a strong short C market. It's a natural expansion area for a company like GFS and a company like shipping feeders, and we needed the footprint, the market know-how, the customer relationships in order to enter that market and enter that market sustainably and profitably.

We're now doing four agency agreements with both GFS and Cordelia, which is GFS's MVOCC, and we're serving the ports of Barcelona and Valencia. And again, this is all new business. It's intercompany business where Noatum provided these services to our maritime business and our maritime business is driving volume through Noatum, particularly in Logistics as well.

When it comes to Logistics, we have successfully merged our existing Middle East Logistics operation under Noatum. It's a Noatum management team that are now running the Middle East as a region, but it's fully integrated as an operating entity under the Noatum global network.

We added Sese Logistics, which was an expansion through an acquisition, but it was an expansion of our service profile to OEMs, and allowed us to expand the reach of our major Ro-Ro terminal in Barcelona to go as far as Poland. So it provides finished vehicle logistics on road and rail, connecting OEMs to the port. So we now have a road and rail presence in Northern Europe, in Belgium and in Holland, which we previously had no coverage, and as far as Poland to reach the automotive manufacturers in Europe. These are bringing product to and from our terminal in Barcelona.

Lastly, we have Noatum terminals. Again, we're amalgamating Noatum terminals underneath our existing terminal management business. We have 15 multipurpose terminals in Spain. That's coming under one common management, which includes our acquisition in Karachi, and will include the new terminals that we've signed, particularly in Egypt and in Africa. Now we have one common procurement, we have one common operating entity, one HSSC entity, and we're starting to see the ability to leverage pricing to customers across multiple terminals. And that's starting to impact on the P&L, and we're starting to see cost being optimized from a centralized system across all of our terminal basis.

Next slide, please. Okay with that, I will hand over to the CFO, Martin Aroup.

Martin Russ, next slide, please.

So in terms of our financial performance, Q2 was a robust quarter, building on the momentum that we had in Q1. We continue capitalizing on the favorable demand supply dynamics caught by the Red Sea disruption. And at the same time, we have been focusing on our value capture initiatives that are gaining momentum, spanning across integration synergies, cost savings and cap [indiscernible 32:46].

That is being gradually reflected in our P&L performance. Revenue for the quarter more than doubled year-on-year to 4.181 billion, with the consolidation of GFS and Noatum, and 6% up year-on-year on a like-for-like basis, when you're adjusting for the effect of the acquisitions.

EBITDA increased by 56% year-on-year to almost 1.07 billion in Q2, up 8% year-on-year on a like-for-like basis. And our total net profit reached 439 million for the quarter, up 42% year-on-year, and 55% year-on-year when you're adjusting for the introduction of the corporate income tax in the UAE.

Next slide, please. General cargo volumes were up 46% year-on-year, supported by the addition of Noatum and Karachi bulk terminal. The UAE volumes were resilient, particularly due to strong [indiscernible 33:49] and high yield steel cargo. The new bulk terminal in Karachi and Noatum terminal support the international volume growth, which accounted for 18% and 15% respectively of the total cargo volumes in Q2.

Container volumes increased 34% year-on-year, and 19% on a like-for-like basis, with increasing utilization both in the UAE and internationally. At Khalifa Port, which accounts for 85% of the total container throughput, we reached the utilization of 71%.

Overall mix has become more balanced with the addition of international ports, and stood at 54% transshipment and 46% O&D volumes in Q2.

Ro-Ro volumes increased five-fold year-on-year with the addition of Noatum and healthy 25% increase quarter-on-quarter, driven by a higher than usual transshipment business and higher O&D volumes for one of our key accounts.

Cruise passenger volumes dropped 73% in year two during the quarter due to impact of the Red Sea disruption on our Aqaba cruise operation, and due to some base effect coming from ad hoc business that we had last year in Abu Dhabi.

Next slide. In our Economic Cities, we inked 0.6 six square kilometers of net new land leases in Q2, bringing the year to date to two square kilometers. The new land leases are supported by the strong macro environment and our alignment with the Abu Dhabi Economic Diversification and Industrial Strategies.

We continue to see strong demand for new land leases, and our pipeline is solid. The guidance on average annual net new land leases that remains unchanged at 3.5 to 4 square kilometers.

For our warehouses, the steady lease out of our latest capacity edition is continuing with utilization increasing from 88% in Q1 to 92% in Q2. 250,000 square meters of additional warehouse capacity is currently under construction, on track to be commissioned by end of 2025.

Next slide. KEZAD community utilization continued to increase with ramp up of new facilities, that stood at 63% by end of Q2 based on a bed capacity of 137,000. Our gas volumes were up 38% quarter-on-quarter and year-on-year, due to steady demand for gas, supported by increase in our industrial customer base and expansion of our gas network, which is currently at 82 kilometers.

Next slide. In our Maritime Shipping Cluster, we operated 23 container feeder services in Q2 with a fleet of 49 vessels, connecting to 84 ports across 36 countries. Feedering container volumes increased 37% quarter-on-quarter, with the first full quarter consolidation of GFS versus two months in Q1. Around 27% of our feeder volumes across selling surfaces came from the Red Sea in Q2, slightly down versus Q1.

Next slide. As in previous quarters, we continue to focus on creating a balanced statistic portfolio of maritime businesses with different market cycles to limit business performance volatility. And in line with these efforts, we now manage 28 bulk and Ro-Ro vessels, up from 26 in Q1 and we have 109 vessels deployed in our offshore and subsea segment.

Next slide. In our Logistics Cluster, polymers volumes were up 13% year-on-year and 6% quarter-on-quarter. The big increase year-on-year was partly due to Peru's plant maintenance in Q1 of 2023, temporarily negatively impacting production capacity. In Q2, we had a rebound in air freight forwarding volumes with 25% year-on-year increase, which was a result of stronger demand from some of our key customers and signing of new customers.

Ocean freight was down 15% year-on-year due to an unfavorable base effect in Q2 of 2023 where we benefited from significantly higher business in the East Med region following the earthquake that took place in Turkey.

Next slide. With regards to our revenue, the maritime top line grew 72% year-on-year, and slightly down on a like-for-like basis, excluding the impact from acquisitions. All sub segments, marine services, shipping and offshore and subsea performed well and continue to grow. No vessel trading revenue was booked in Q2 whereas we had 141 million in the same period of 2023.

The Economic Cities recorded revenue growth of 7% year-on-year, and that was mainly driven by warehouse leases and KEZAD communities as utilization rates in these two areas continued to increase.

The Ports Cluster revenue grew by a staggering 83% year-on-year, and 13% on a like-for-like basis. Strong performance during the quarter came from international container business, Karachi in Egypt, as well as general cargo and Ro-Ro businesses backed by consolidation of Karachi bulk terminal and Noatum terminals.

The Logistics Cluster revenue jumped more than eight-fold year-on-year to 1.08 billion in Q2 and that was primarily driven by the consolidation of Noatum, Logistics and Sese Auto Logistics, which was consolidated from first of February this year.

The Digital Cluster revenue grew by 32% year-on-year to 150 million in Q2, 17% on a like-for-like basis, on the back of continued momentum in digital trade services, and also the consolidation of Dubai Technologies.

Next slide. In terms of geographical revenue distribution, 65% of the revenue came from UAE in Q2 followed by 21 from Europe, and 5 from each of Asia and America. It should be noted that we currently are counting all maritime assets as UAE based, although majority is operating in international waters.

Almost 3.7 billion, or 46% of the year to date revenue came from M&A activities spread across all clusters with Logistics and Maritime taking the lion's share.

Next slide. Q2 EBITDA was up 56% year-on-year, and 3% quarter-on-quarter versus Q1 which included a one-off dividend from an MTC of 62 million. The strong growth in Maritime Cluster was the key driver with full quarter consolidation of GFS in Q2 versus two months in Q1.

Demand and rates, as Ross explained, for shipping operations in the Red Sea have been trending higher, and we expect this to continue in the coming quarters. Additionally, our marine services and offshore and subsea segments also added to the growth with new vessels that have been purchased in recent quarters.

Economic Cities was down 13% year-on-year, and that was mainly due to one-off staff expense impacting Q2 and some provision for doubtful debt.

Ports Cluster was up 42% year-on-year to 235 million, 6% on a like-for-like basis, due to uplift from strong general carbon container volume supported by Noatum and Karachi terminals.

The Logistics Cluster EBITDA grew more than 4x, and again due to the inclusion of Noatum and Sese Logistics and also strong polymer volumes in UAE.

And lastly, Digital Cluster was down 26% year-on-year due to timing differences in revenue recognition of project work and also some higher application licenses.

Next slide. The margin evolution has been led by 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 and Economic Cities will support the overall margins, while Maritime and Logistics Clusters come with lower margin profiles.

The overall EBITDA margin stood at 25.6 in Q2 in line with our guidance of 25 to 30 in the midterm.

Q2 margin in Economic Cities was again impacted by the one-off expenses that I mentioned, and when you exclude these, the Q2 margin would have been 66%. Ports margin deterioration is purely a result of change in mix and mainly due to the addition of Noatum and Maritime and Karachi terminals.

Next slide. On the LMC front, total assets grew by 24% year-on-year to 61 billion in Q2, whilst the total equity increased 21% year-on-year to 27 billion. By end of Q2, 92% of assets of the total assets that we have were deployed in the UAE, followed by 4% in Europe and 2% in Africa, and with no material changes since mid of 2023. And again, it should be noted that the maritime assets are all counted as UAE, even though they are operating in international waters.

Net debt to EBITDA ratio remained well under control at 3.6x in Q2, which came on the back of limited increase in net debt and strong quarterly EBITDA performance.

Our guidance remains unchanged to maintain an investment grade rating on a standalone basis. And as Mark mentioned, June Q1 this year, we got upgraded by Fitch to AA- and in July S&P we affirmed our A+ stable outlook rating. And again, this affirmation of our credit rating is a testament to our resilient business model and the growth strategy that we are having.

Next slide. The cap expense for the quarter reached 1.2 billion, slightly lower than in Q1. The majority of the Q2 spend was mainly for the new CMA terminal in [indiscernible 44:07] that is scheduled to commence operation later this year. Then we had some vessel purchases and dry docking expenses in maritime, and then obviously our industrial zones projects such as warehouses, metal parks, build to suit, warehouse and gas network and related infrastructure. This is, again, in line with the front loaded capex program that we have guided for of 12 to 15 billion over the period 2024 to 2028.

Capital intensity continued to shorten as per plan, and stood at 30% for the first half of 2024.

Next slide. The operating cash flow reached 591 million in Q2, which equates to a cash conversion of 55%. That is lower than Q1 and also lower than same period last year due to working capital requirements for expansion in our Logistics and Maritime Clusters, as well as some timing differences in collections from some of our big customers. As we gradually integrate and stabilize the new businesses, we expect to further improve the cash collections in the second half of this year.

The free cash flow continued to improve, both still negative for the quarter, mainly due to the ongoing capex program. And based on current visibility and in line with our previous guidance, we expect inflection point to become free cash flow positive around 2025 with full year impact in 2026.

Next slide, please. There's no change to our medium term guidance that we provided in mid-February. In the medium term, our expectation is to deliver a revenue CAGR of 15% to 20%, and CAGR of 20% to 25% between 2023 and 2028. Corresponding organic capital investments from ‘24 to ‘28 is expected around 12 billion to 15 billion, depending on market conditions, particularly also for [indiscernible 46:11] purchases.

Due to the base effect of the recent acquisition, some of the average growth rates will be front loaded, as you also can see from our year to date financials. And again, the guidance, medium term guidance that we are giving is only based on all currently announced transactions.

That concludes the update on the financial performance, and we'll hand it back to you, Mark.

Mark Thank you, Martin. I think, Ahmed, we can open it to Q&A, please.

Ahmed Sure. Absolutely. So as a reminder for everyone, you can use the raise hand function and we can unmute your mic to ask a question or you can send your questions in the Q&A box. We'll give it a moment for raised hands to pop up.

In the meantime, maybe I can read a few questions from the Q&A box. We have the first question coming from Ahmed Ben Heni. Actually, Ahmed has about five questions. The first one is, "The group spent 1.18 billion on organic capex in the second quarter. How does this align with your long term capital investment strategy? And what are the expected returns on these investments?" That's the first question.

Mark, do you want me to go through each question individually and then you answer, or –

Mark I think one by one, let's, let's address them one by one.

Ahmed Sure.

Mark And this one goes to Martin, I guess.

Martin Yes. Again, as I mentioned in the presentation, the cap expense that we have for the second quarters is very much in line with our plan, and also the guidance that we have given in terms of our cap expense for the five-years, '24 to '28, that is largely front loaded. A lot of the spend is going into the current expenses that we have ready for port, for the new CMA terminal that will come on stream later this year.

In terms of the expected returns, that's a bit different for the individual assets. But as we have also previously mentioned, in terms of the returns, it very much depends on the assets, where it's deployed, which of the clusters, and also whether it's domestic or international.

Ahmed Thank you. Martin. The next question from Ahmed is on the acquisition of Noatum and GFS have been highlighted as a significant growth driver for revenue growth. "So can you please share more details on these acquisitions and how have they been integrated with the existing operations and the synergies expected to be realized?"

Ross I'll take that. Look, I think they're in different stages. I think you can imagine we've owned one for 12 months and one for 5 months. Noatum being 12 months, so the integration is certainly a little bit more ahead than GFS, and they're different integrations. So Noatum is being split into its three pillars that report directly into our businesses, so it's no longer a separate company, it's no longer a corporate. We're taking out the corporate costs of Noatum, so Noatum Terminal now reports into our Ports business, Noatum Logistics reports into our Logistics business, and Noatum Maritime into our Maritime business.

We're reducing the duplication, so any HQ duplication. And, we're incentivizing and encouraging and rewarding the management structures on the amount of top line business that it generates between our existing businesses. And also obviously growing in its own right.

GFS is slightly different. It's much more of an operationally focused integration. It was the larger player, if you like, and is integrating a lot of our shipping services under one management. GFS had its own services that were being provided to Safine previously by third parties. We're reducing third party spend and in-housing those services. So things like ship management, vessel voyage and ships husbandry, where possible, we are doing that in-house now, where previously it came to third parties.

In order to do that, the CEO and the CFO of GFS are now the CEO and CFO of the combined maritime shipping business. It's a strong management team. Lots of years of experience, lots of years of experience in how to optimize and drive networks, both in good markets and down markets, and that's important for us. We've reduced headcount as a result, and we're centralizing procurement, particularly bunker, which is 80% of the cost in feedering. So we've done a lot in terms of integrating that business.

And the second part that business is on the top side about how we can drive our volumes through our existing ports and infrastructure basis. So changing the rotation of vessels [audio skip 51:35]. And the other side is, how do we cross sell to our new customers that we find through Noatum that have never interacted with the group before, and through GFS?

So the integration is pretty on the way. We're not complete. I think what we've done and we can tick the boxes in terms of financial reporting, we're a long way down the road; in terms of strategy and alignment of strategy and in terms of management changes and operational costs, we're a long way down the road with. We still have IT integration to undertake. We still have a lot more manpower planning and optimization opportunities. We still have a lot of synergies to get in terms of top line and cross selling. That's still to be developed, but I would say that we're on plan so far, and we're seeing the impact in the P&L as we speak.

Ahmed — Thank you, Ross. We have a question from [indiscernible 52:37] linked to this GFS integration. He's asking, “Can you quantify the cost synergies that you intend to extract from Noatum and GFS?”

Ross — Can we quantify in ’23? We can. I don't have that information to hand, but we can provide a guidance.

Ahmed — Great. Thank you.

So I see we have Graham Hunt having his hand raised, so I will open up the mic to Graham and then move back to the Q&A box. Graham, please ask your questions.

Graham — Thanks, gentlemen, for the presentation. Very helpful. My question was more around the capital structure and debt profile, I suppose directed more at Martin. How are you thinking about the maturity in 2025? And how are you thinking about the sort of split between fixed and variable rate debt at the moment? I think the long term ambition was to switch to longer term fixed. Is that still the ambition? And can we get some sense around the timing there?

And then just to follow up on that, given the shift towards the more cyclical kind of maritime and logistics business, does it still make sense to run the kind of current level of leverage 3.5x to 4x, or would you like to see that a little bit lower? Thank you.

Martin Good questions. So our cap structure policy is basically unchanged. So we want to finance our long term assets, but with long term fixed debt as well. We had planned and envisioned that we will convert some of the short term debt into long term fixed during this year. However, the interest rate environment has been quite volatile, and there's also been quite some dynamics and changes throughout the year, and that's why we didn't find an opportune window to do that. It's still the plan that we want to convert into long term, and we see opportunities in the next 12 to 18 months to take a decent portion of our medium term or short term debt and convert into long term fixed. So that's certainly the intention.

With regards to the leverage, what should be noted is that that the elevated leverage that we are having, relatively speaking, is due to the fact that we have a big ongoing expansion of ready for port that is causing us to be temporarily free cash flow negative. We know the inflection point when that roughly will be and that has been unchanged for quite a while now. And that also means that the leverage that we are currently operating under is a temporary phenomenon that we know will naturally reach an inflection point. And, therefore, after that, we will see a natural delevering unless the excess cash has been deployed for acquisitions, or for being paid out as dividend. So in that respect, it's a conscious choice of where we are. It has nothing to do with the business, it’s simply where we are in terms of our journey as a company.

Also, what should be noted again, and I think that has been highlighted several times, that still a very, very high portion of our revenue is long term or sticky. And also, when you look at our more on paper volatile businesses such as Logistics and Maritime, we still have a good portion of those cash flows also being secured in the medium term. So I hope that answers the question.

Ross Just to add to that, and it's important because it's been raised, but although the group's percentage of its revenue and its EBITDA for more cyclical businesses, particularly shipping and maybe the freight forwarding and logistics side, the counter argument to that is it's a timing aspect because it's temporary. If you look at the deals that have been signed that we've announced in infrastructure, which is the ports and the infrastructure that's coming on stream, particularly in 2025, which is the CMA terminal, which we've been building for the last three years and is now in in operational startup phase, those infrastructure projects will change that dynamic naturally. So we're expecting revenues to start coming in from Congo Brazzaville, Safaga and Luanda from 2025 onwards. And then we see the infrastructure in Khalifa Port, particularly from South Quay that we've built, and also the CMA terminal becoming operational, those revenues kicking in 2025. So you are seeing a temporary further exposure to maybe more cyclical business, but that will reduce over a period of time, but particularly from 2025 onwards as more of the infrastructure projects start to contribute revenue into the P&L, which they have signed, but they're not doing today.

Ahmed	Thank you for the explanation. We'll take one question from the Q&A box and then move back to the raised hands. One question is, "Considering the inorganic capex and organic capex and the growth, which will obviously help boost the top line and bottom line performance, is the company planning on distributing any dividends in the future? And if yes, how will it pass on to the shareholders?"
Martin	A standard question, and again the answer is that we are a growth platform. We have a growth strategy and will continue to grow also over the coming years. Currently, we're in a situation where we are free cash flow negative, so talking about dividend is not relevant at this point in time. Obviously, the day that we reach the inflection point, there will be a natural discussion about the excess cash that should be deployed for growth opportunities, for dividend or for de-leveraging. But I think let's reach the inflection point sometimes in 2025 with full year effect in 2026, and then we get into more details on potential dividend distribution.
Ahmed	Thank you, Martin. We'll now move to the raised hands. We have Anna wanting to ask a question. Anna, please unmute locally and ask your question.
Anna	Can you hear me?
Ahmed	Yes.
Anna	Thank you. Thank you very much for the opportunity to ask a question and congratulations with a solid set of results. Two questions from our side. So first, on the Logistics segment, I see that the segment has defended the 9% EBITDA margin in Q2. Is this the new normal level for the business in the next 12 months? So how should we think about this? That's the first question.
Martin	I think what Ross also mentioned earlier in terms of the integration that we're working on with Noatum, we still haven't fully captured the synergies as of yet. It's ongoing, it's stabilized, and it's partly integrated, but there are still synergies to be reached in the coming 6 to 12 months. So our hope and expectation, again, subject to market condition, is that we will see some kind of strengthening also in the Logistics margins.
Anna.	That's very clear. And the second question is actually maybe echoing the previous questions on the synergies. Just wonder, how much synergies contributed to the performance of Maritime and Shipping and Logistics divisions in Q2 or H1? Maybe you could provide us some color with kind of the run rate in terms of percentage of the top line or percentage of SG&A, kind of anything that would be very helpful, where it was in H1 or where you expect it to ramp up to? How much synergies in terms of bps of top line or SG&A going forward would you reasonably expect, or could we reasonably expect to see in these segments? Thank you.
Martin	So waiting if Ross wanted to comment on that. Otherwise, I will give a comment.

	So in terms of the shipping segment and of synergies that have been reaped in Q2, it's still relatively small, basically due to the fact that we have only had GFS for five months now. But there's a lot of synergies that are being worked on, that are being articulated, captured business case have been there, and they're under implementation. But in the bigger scheme of things, in terms of the synergies as percentage of the results for the first five months of GFS, it's relatively small. We don't have the exact amounts, or we will not disclose them as of now, but there's a lot more to come in the future, for sure.
Anna	That's all from my side. Thank you so much.
Ahmed	Thank you. Again, we'll take one more question from the Q&A box, and then move back to the raised hands. So we'll take one more question from Ahmed Ben Heni. "The group has been involved in various long term land lease agreements, such as those with Asta Biotech and MDC. What are the expected impact from these agreements on the group, future revenue streams and overall growth?"
Ross	Can you just repeat the question? I missed the first half.
Ahmed	No worries. So the question is on basically the group has been involved in various long term land lease agreements such as Biotech and MDC. What is the expected impact of those lease agreements on the group's future revenue streams and overall growth?
Ross	Okay. Martin, you want to take this?
Martin	So I just want to highlight the mechanics in terms of our land use business and how it impacts our P&L. So any agreement that we are signing right now, and let's say that's a 50-year agreement, there will be a grace period of two years. We only start recognizing, in terms of cash inflows, we only start recognizing revenue as and when our tenant has basically, or our investor, has basically secured funding and that they have developed the foundation of their future factory, or whatever it may be on that premise. So normally, the P&L effect will come with one-year gap, and the cash flows will come with two-years gap from the date of signing.
Ahmed	Thank you, Martin. I guess we'll move back to the raised hands. Next question comes from Nikhil Mishra. Nikhil, please unmute locally and ask your question.
Nikhil	Thank you for taking the questions. Two questions, both on the margin side. First on Maritime and Shipping, the margins were very strong in 2Q and I think partly due to the Red Sea disruption. So can you please provide some color on how we should look at the margins? I think you mentioned that these disruptions are likely to continue, the freight rates are expected to remain elevated for the rest of the year, so should we expect the similar kind of margins for second half? And also, once the Red Sea disruption normalizes, should the margins come back to around 15% level? Just some color on how we should look at margins, both for the second half and also from the one- to two-year perspective.

And secondly, on the margins for the Port business, Khalifa port is being ramped up, so will it be right to assume that as Khalifa Port ramps up, assuming that there is no further acquisitions on the port side, should we expect the margins for port business to perhaps increase over the next one or two years, or two to three years perspective? Thank you.

Martin Good question. So on the first one, again, our base case right now is that the current Red Sea situation will continue for majority of the remainder of the year. We have previously guided for, especially on the shipping side, the container feedering side of our business, that margins would normally fluctuate between 15% to 25%, depending on where you are in the cycles. And we are certainly in the upper range, because of the current supply demand situation because of the Red Sea.

Where it lands and how it normalizes, when and where that lands, I think there your guess is as good as ours. But at least for the time being, we don't see any changes, material changes for the remainder of the year versus where we are in the first half of the year.

Ross Let me just to add to that, Martin. I think the top line growth is probably somewhere near, so the price is probably somewhere near its peak. I think towards the end, particularly the end of July, you start to see the supply demand dynamics on a global basis, and it has a trickledown effect to our markets, start to come off of where they are. I think there's been a million to TEU’s of capacity, of new build capacity coming into the market in the first half in 2024. There's a further 1.4 million TEU of capacity that's due to come in the market over the next 12 months. A little bit of softening demand, so it does have a trickledown effect.

And I think regardless of the Red Sea crisis, I think you're still going to get some growth, but not to what we've seen on the price side. What will be determinant of the margin going forward, particularly second half and into next year, is effectively the bunker price. It's the largest cost for the maritime services. And if the bunker price, depending on what happens in the region, etc., if the bunker price increases, it will eat into the margins. If it remains where it is or oil price comes down, then we'll see improvement in the margin. Notwithstanding some of the operational synergies that we will do, but they will more come into play in 2025 than 2024 for us. So, it's more what will happen on the cost side, I think, than on the top line price side from this point onwards.

But as Martin says, I don't think we see much change before the end of this year. And then coming into 2025, we're looking ahead into that and our best view of the market at the moment is probably somewhere early in 2025, early in the second quarter you'll see the rates start to normalize. And as Martin said, at this point, to look forward and try and guess where they will normalize, there's a lot of factors to play out between now and then.

Martin And just to answer your second question on the ports margin, in terms of do we expect an increase in margins going forward, so yes, on the Khalifa Port side, we do expect as the concession side and the landing side of our business in Khalifa Ports continue to increase. We'll see a strengthening of the margin. Where our overall Ports Cluster margins land depends on that relative growth to some of the international businesses that comes with somewhat lower margins compared to what we have in Khalifa Port. But at least in Khalifa Port and [audio drop 70:05].

Ahmed	Hello, Martin? I don't think you're audible at the moment.
Ross	I think we lost Martin. Maybe I'll try and finish it off for him. I think he was in the route to saying, if you look at Khalifa Port in isolation, because it's an owned asset and we're also the authority, you should see the margins certainly improve in Khalifa Port. As a blended average of the ports, because of the new terminals that will come on stream and the ramp up period as an overall, including the international, then slight deterioration in that. But Khalifa Port on its own, yes, you should see margin improvement.
Nikhil	Sure. Thank you. That was very clear.
Ahmed	Thank you. We have a question in the Q&A box, which I think has already been addressed, on the net debt progression and how do you think that will evolve in the near to medium term, if you would want to share anything else, other than what has been shared before?
Martin	Our net debt will gradually increase. We don't think that that will have any tremendous impact on our leverage, because we also see an increase in our operating results on the counter side.
Ahmed	Thank you, Martin. We have a question on the working capital from [indiscernible 72:00]. Hasheet [ph] is asking that the trade receivers basically went up to 7 billion as of June 2024 compared to 4.7 at the end of December 2023. Should we expect an increase in working capital requirements in the medium term?
Martin	No. First of all, I want to make sure that people then go into the financial statements of the trade and other receivables only increase to 4 billion. We have some accrued revenues from other receivables as well that is adding it up. So part of the increase that we're having is due to some, of course, the acquisitions that we are making. So there's a base effect in terms of development compared to the end of the year. And then also, because of the Red Sea, there's been an increase, particularly in the revenue side of the past that have a bit of a working capital drag. We do expect that we have reached that normalization here by mid this year, and we don't expect any negative working capital for the remainder of the year of any significant size, on the contrary.
Ahmed	Thank you, Martin. We have our next question as a follow up from Graham Hunt. Graham, please unmute locally and ask your question.
Graham	Yeah. Thanks for allowing the follow up. Just one quick one on SG&A. The numbers in maritime and at the corporate level just came in a little bit lower than we were expecting, at least. Were there any positive one-offs in those numbers? Or is that some of the synergy effect that we've been discussing? Just trying to understand kind of the run rate going into Q3 in the second half for SG&A specifically.
Martin	Yes. For SG&A, so there has not been any significant one-offs. Obviously, it's impacted a little bit also in terms of consultancy expenses that is associated with our rapid growth, both internationally and locally as well. One thing that we try to stress that we have been working

on in the last one and a half years is about this value capture program, which is not only related to the acquisitions and the integration and integration synergies, but also in terms of cost savings of the existing business, so to speak, and making sure that we have a scalable platform where we have scaled benefits also going forward. And that is what we tried to highlight, also, that is slowly kicking in, in the first half of this year. But there's no material one-off positive expenses on the SG&A side impacting Q2.

Graham Thanks.

Ahmed Thank you. And I see that Anna has her hand raised again. Anna, do you have any follow up questions? Please unmute locally as well. Okay, Anna lowered her hand.

So we don't actually have any more questions. If anyone has a question, use the raise hand function now, or send your question in the Q&A box, please. Okay, if there are no further questions, Martin, Ross and Mark, back to you.

Mark Ahmed, thank you everyone for attending, and we look forward to meeting you, physically, one-on-one or virtually. We can now disconnect. This ends the call. Thank you.

Ahmed Thank you everyone for attending. You may now disconnect.

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