Transcript

AD Ports Group 3Q23 Results Call

Wednesday, 15 November 2023

Ahmed Hazem Hello. Good afternoon, everyone. This is Ahmed Hazem from EFG Hermes Research, and we'd like to welcome you all today on the AD Ports Group Third Quarter Results Conference Call. With us on the line today, as always, Mr Martin Aarup, Group CFO, Mr Ross Thompson, Group Strategy Officer and Mr Marc Hammoud, VP of Investor Relations. First off, I'd like to congratulate the management on the amazing set of results that they presented yesterday. And without further delay, Marc, I'd hand over the call to you. Please go ahead.

Marc Hammoud Thank you, Ahmed, and thank you, EFG Hermes, for organising once again the call. Good morning and good afternoon, everyone. I'd like to welcome you to our Q3 Results Earnings Call. And without further ado, I'll kick off as usual the presentation before we move on to Ross and Martin. So the key messages for this quarter. Obviously, Noatum consolidation was the big event. And it added earnings growth momentum, although coming with margin dilution. But that was expected and largely guided for.

The M&A contribution playing a more important role, as I said, with Noatum. Having said that, we still delivered a record quarter, with a resilient overall performance in a tough macro environment globally. If we look at the regional macro, it's still looking positive and the top-down story is still supportive. If I look back at the first half of the year in the UAE, GDP growth was 3.7%, fuelled by the non-oil economy, which grew at 5.9%, which underpins my point.

The second key message, as I just said, is the Noatum consolidation which is adding earnings growth momentum. You can see the numbers. We're a growth story. We have a mandate to growth, and we have continued to deliver on that mandate. Revenue growth of 189% to AED 424 billion, EBITDA is up 28% to AED 759 million, and net profit up 20% to AED 403 million.

You can see also the like-for-like performance. And the like-for-like performance is adjusting for M&A activity only. We remain a resilient business, supported by the business model in the Ports and Economic Cities and Free Zone Clusters. And as of nine months 2023, we still have, despite the consolidation of Noatum, over 50% of our top line which is long-term and sticky.

The fourth key message. We continue to deliver on our M&A strategy with bolt-on acquisitions and investments. We also started to optimise our asset portfolio. On the acquisition front, we acquired Sesé Auto Logistics in Europe, which is basically vertical integration of logistics supply chain in the European automotive industry, and we divested a non-core asset, a 28% stake in BCDS, which was owned by Noatum. We also acquired ten offshore vessels from a company called E-NAV to bolster our offshore operations in the Middle East and Southeast Asia regions.

On the CapEx front, we spent about AED 800 million in Q3, which brings the total outlay for the nine months at AED 3.65 billion. As guided to a lot of you, we should end up the call, the year, sorry, somewhere between AED 4.5 billion and AED 5 billion, which is in line with the CapEx plan that we have of AED 15 billion, mostly front loaded, as we said several times. And you can expect 2024 to be around the same type of CapEx spending.

On the balance sheet front, net debt to EBITDA of four times as of Q3 2023, but that was on the back of the vessel trading activities, which increased temporarily the debt and the leverage. This should be normalised in Q4 of this year. The debt schedule remains well managed, with no upcoming maturity in financial year 23 and financial year 24.

On the equity story, I just said it, the macro and the top-down story remains supportive. For those who are listening to us for the first time, what I can add on this point is the strong alignment with the government strategies to diversify the economy away from the oil and gas economy and have a strong long-term target to industrialise and increase the manufacturing element of the economy by 2031.

On the triple-play growth, every quarter, we've been delivering on the three levers. So you can see that the operational ramp-up is taking place. We continue to spend, in terms of CapEx, in line with our AED 15 billion CapEx programme over the next five years, and we continue to deliver on the M&A strategy. Sesé Logistics is one of the transactions we completed, or we announced, sorry. It will be completed by Q1 of 2024. And the ten offshore vessels is another illustration of our delivery in the M&A strategy.

Third point, I touched on it. We remain quite a resilient business, with stable and highly predictable revenues. We still have more than 50% of long-term and sticky revenue streams despite the consolidation of Noatum.

Balance sheet, I just mentioned it. AED 1.9 billion in cash, AED 3.7 billion still available under existing bank facilities, so it gives you still some significant power for investing organically and inorganically. We should be well covered for the rest of the year and 2024. Net debt to EBITDA temporarily on the higher side, given the vessel trading activities, and the well managed debt maturity I just touched on.

Next slide will show you… That's a new slide that we want to start showing to the investor community and the market. You know the shareholding structure, with 75% owned by ADQ and about 17% free float, with 8% in the hands of Al Seer Marine, which is a strategic shareholder. But here, what I wanted to show is the foreign ownership, which is gradually inching up to reach 8% as of 10 November.

Second slide which is also new in this quarter is our performance, stock performance, 8% year to date, 94% since listing, and we're the third best-performing listing in the MENA region since Q4 2021 for IPOs of $100 million and above. So I'm quite proud of this achievement, and I think the Investor Relation function and investor engagement will continue to make sure that we continue to create shareholder value.

Five vertically integrated clusters. That hasn't changed. You can see the revenue and EBITDA distribution for the nine months. So Maritime and Shipping has become the largest in terms of revenue and EBITDA contribution, and followed very closely by the Economic Cities and Free Zone in terms of EBITDA contribution.

Number three is Ports, and the two smaller clusters remain Logistics and Digital. Obviously, you can see that Noatum, in terms of logistics, hasn't had a big impact on the nine-month numbers. But for the Logistics, if you look at Q3 separately, it's in the high single-digit contribution when it comes to EBITDA.

We've added the distribution in terms of total assets and CapEx. And not surprisingly, the same three clusters, Ports, Economic Cities and Free Zone and Maritime, are concentrating the assets and the CapEx spend. And I'll hand over to Ross for the market update. Those are two new slides to give you a pulse on the market conditions.

Ross Thompson Yes, good afternoon, everyone. Next slide, please, if you would. So what we see in the operating environment is that there are challenges in the market. We are just coming out some supply chain challenges that were born from COVID, which were well publicised.

And what we're seeing now is almost a perfect storm, where there's overcapacity in terms of containerised shipping, softening demand. There's geopolitical instability, particularly lately in our region, and what you're seeing both on a trade volume perspective and a global container volume perspective is there is a clear softening in the market.

I think rates have almost come to where we would consider the bottom, but the bottom seems to be long. And so there's no real good-news stories coming in 23, nor do we see it in 2024. So we have to operate in this environment, and we have a very robust strategy in how to deal with that. The group is relatively limited in its exposure to container freight rates. We're exposed a little bit in the Maritime side, but our business model on the Ports side relatively insulates us from any impact.

On the right-hand side of this slide, what you see is the traditional big trade lanes of North America, the Trans-Pacific, Europe, Asia, these are trade lanes that are softening in terms of their year-on-year growth. But where there is opportunity and growth markets is particularly Southeast Asia, India, Middle East, Sub-Saharan Africa. These are areas that have substantial growth within them.

Next slide, please, which of course is our home markets. Just a little bit the trends, Particularly in our Maritime business, we've invested heavily in a diverse portfolio. So as I said, we have part of our business exposed to container markets, but the majority of our Maritime business is in the bulk and the tanker business. These are our long-term contracts. And what we see is the growth trajectory of these markets is much more stable and much more positive as an outlook versus containers. Next slide, please.

So just a slide on how our acquisitions are shaping up and contributing. I think just to point out, in quarter two, the end of quarter two, we closed Noatum, and also, within quarter three, we closed the Karachi Port, the 50-year concession. It's an ongoing business. And therefore, what you have in quarter three results is one full quarter of Noatum, and you have a contribution from Karachi Port, which also then you'll see in quarter four and beyond.

In quarter three, we agreed the deal and closed the deal subject to Spanish FDI approval of Sesé Auto Logistics. This is a 100% acquisition. It's a specialised road and rail freight transport for finished and light vehicles. It is a bolt-on acquisition to increase the service offering of Noatum Automotive. It extends our reach in Europe of the markets that we can serve through our Mediterranean hub at Barcelona Port.

We also completed the sale of a minority interest that we held in Barcelona Depot Services. Through Noatum, we held a 27.9%, no consolidation and no control over the company. It was deemed a non-core asset and to divest it at a good value and then to reinvest those profits in growth opportunities.

Going forward, we still are awaiting the CCI approval from India in order to close GFS. We're expecting that to close in Q4 of this year. We announced the acquisition of the ten offshore vessels, acquired from a company called E-NAV. They will start to hit the P&L in quarter four and then quarter one in 2024. Next, please.

Again, while we still wait for the closing of GFS, I think just the story of what we've built up in terms of acquisitions into the group. Ownership percentages, I think we still follow a policy where we will only invest where we have operating control, the ability to control the company and the ability to consolidate. And you see that in the top row, that's a common theme.

If we look at the recent acquisition, I think, of Sesé Logistics, we've covered the others before in these calls, but the purchase consideration was €81 million for 100% of the company. The consolidation date that we see will be in quarter one, and it should be relatively early in quarter one. Rationale, again, it's moving along the supply chain, opening up new routes of services that our business can offer and also extending the reach of Barcelona Port into the European hinterland to the OEM manufacturing bases. Next slide, please.

I think we've been through this, and I've touched on it. But the real gem of this acquisition is it allows us to operate in five European countries, where actually Noatum haven't operated before. And it allows them to do imports and exports from manufacturing bases within Germany, Poland, Czech Republic and Hungary. These are the major areas of manufacture in Europe.

It also gives us direct relationships with some of the OEMs, some that we have relationships with today, like Renault, and others that are new to our company, which is Mazda, Daimler, a little bit BMW as well. These are opportunities for us to upsell our services into some new customers bases.

I think, in the deal valuation, EV/EBITDA of around 3.5 based on the last twelve months. I think that we find good value in this deal. We're expecting the automotive market to effectively boom for the next two to three years before it normalises. There's a lot of pent-up demand. There's a lot of stock. There's a lot of inventory to move. And automotive is a segment that not only have we invested heavily in, we have a huge expertise in the business through our acquisition of Noatum.

Currently, we're handling just shy of 2 million vehicles or just over 2 million vehicles on an annual basis, and we look to upsize/upscale that over the coming years. We will be entering into the aftermarket and the parts market as we grow this vertical. And this is why Sesé is a keystone acquisition and a bolt-on acquisition for our portfolio and allows us to sell more end-to-end to our customer base. Next slide, please.

I think our Economic Zones and Free Zones continue to be a lynchpin and an anchor point of our business. We're very pleased with the progress. We see strong demand in the market, not just for… For three products, really. I think the demand is very, very strong for the build-to-suit, which is a new product that we've been developing. I think it's very, very strong for land lease. And likewise, it's extremely strong for small and light industrial warehousing of product that we own and bring to market. But we're seeing a growing demand particularly here in Abu Dhabi.

I think that three things that are quite exciting and something that we're investing heavily in is the Abu Dhabi Food Hub… We are developing the largest food hub in the region in collaboration with Rungis International from France. They have one of the largest food distribution sites just outside of Paris. And it will be a food hub that serves the wider region, and not just the UAE market.

Likewise, we have the Global Auto Hub. Same concept. It serves all types of automotive in terms of storage, showrooms, spare parts, workshops, test tracks. We're now doing manufacturing, manufacturing of electric vehicles, or should I say assembly of electric vehicles from China, and this is an area that will grow and grow. So really following the story, our investment in the automotive sector is not just in our Logistics, but it's in Economic Zones as well.

CapEx for primary infrastructure is AED 330 million, which was the development for both Hubs. We're expecting significant demand for both of these hubs, going forward. Next, please.

And as I touched on, I think in the Economic Zones, the demand is strong across all product sectors, energy, food, steel and chemical sectors in particular, and they form part of the new leases that we've secured. Just a few to highlight. APS, which is Advanced Petro Services, a land lease agreement for a facility at KEZAD, covering 24,000 square metres. Gulf Printing and Packaging, or GPP, almost a fivefold increase in the size of their existing facility. So they're expanding their facility from 12,000 square metres up to 57,000 square metres.

These are all really good new stories for us. It shows the demand for Abu Dhabi as a base. It shows that the strategy that we're deploying is working in attracting additional investment. But what's really pleasing, underlying, is that it shows that the strategy of having the Logistics network and the Port network is allowing the customer base and the manufacturing base that's already existing in KEZAD to grow, to meet more regional demand and expand their facilities and really to be profitable organisations, and from a base of Abu Dhabi. Next, please.

With that, I'll hand over to Martin, who will take you through the financial performance.

Martin Aarup Ross. Next slide, Marc. So as highlighted earlier by Marc, in Q3, we continued our growth trajectory, in line with our strategy, and delivered strong operational and financial results across all segments. The group's revenue more than doubled, growing 189%, year on year, to AED 4.24 billion, which included the effect of M&A activity, and notably Noatum's logistics, maritime and ports businesses. It was also the first full quarter of consolidation of consolidation of Karachi Gateway Terminal.

Q3 EBITDA rose by 28%, year on year, to AED 759 million, with strong growth particularly in Ports, Maritime and Logistics clusters, as well as from acquisitions and a one-off gain of AED 39 million related to the divestment that Ross mentioned of a minority stake in Barcelona Container Depot.

On a like-for-like basis, excluding effect from acquisitions, revenue and EBITDA grew by 113% and 2%, year on year, respectively in Q3 as EBITDA was diluted by a one-off cost related to an increased pension liability, and also for some consultancy.

So the net profit increased by 20%, year on year, to AED 403 million, supported by a one-off gain related to brand amortisation, with a positive impact of AED 92 million, which again was partly offset by initial deferred tax liability, as per new UAE corporate tax law that will come into play next year. Q3 year-to-date figures were in line with the medium-term expected growth trajectory. Next slide.

Operationally, Q3 was very strong for the Ports cluster. General cargo volumes increased 25%, year on year, and reached 10.9 million tons, 6% up on a like-for-like basis, mainly driven by robust bulk steel and paper pulp cargoes. South Quay and Khalifa Logistics Port were operated last December, widening service offering and thus driving growth in the future.

One of the recent developments that we have seen in this respect, this increased capacity, include the launch of SAFEEN Drydocks, which is a JV that we have with Premier Marine, which will offer shipbuilding, drydocking and repair services in Khalifa Port.

Container throughput grew to 1.36 million TEUs in Q3, up 19%, year on year, and 17% up on a like-for-like basis. This was driven by higher capacity from Karachi Gateway Terminal and Noatum Ports and improved overall container utilisation to 56%, up from 54% in the same period of last year.

Volume mix remained relatively stable, with 60% transshipment and 40% origin and destination volume. RORO volumes soared a 651%, year on year, and 49% on a like-for-like basis with the addition of Noatum Ports, which is extremely strong in the RORO segment. Cruise segment was low, and that was just mainly due to the fact that it's off-season period with the summer here in Abu Dhabi. Next slide.

In the Economic Cities cluster, we signed 400,000 square metres of net new land leases in Q3, bringing the year to date to 2.1 square kilometres. We remain on track to achieve around the average 3.5 to 4 square kilometres annual guidance we have previously communicated. Again, it should be noted that the year-to-date 2022 land leases included the mega deal with Al Rawabi, which is why we had an extreme spike at that point in time.

The continued steady lease-out of our Economic Cities is supported by the strong macro environment and the alignment with Abu Dhabi Industrial Strategy to turn the Emirate into a manufacturing hub and to make a strong push to diversify the economy. By end of Q3, we had a total of 66.5 square kilometres leased out in our Economic Cities, and we continue to see healthy demand.

Warehouse leases were up 66%, year on year, in Q3 and 15% up, quarter on quarter, as we continued to see strong demand and gradually lease out at the new capacity we commissioned end of 2022.

Warehouse capacity, including the cold storage, increased by 285,000 square metres in Q4 of 2022, doubling our overall warehouse capacity, which resulted in a mechanical drop in the overall utilisation. We are now back at 85% utilisation of the increased warehouse space that we have, and we have now started the next expansion to cater for the continued strong demand for warehouses and industrial space. Next slide.

KEZAD Communities bed capacity increased by 73%, year on year, due to improved occupancy on higher capacity and the addition of 55,000 beds coming with the merger of Al Eskan Al Jamae at the beginning of the year. Overall utilisation is now 55%, as we gradually lease out the vacant space in Razeen, after it ceased from Q1 of this year to be used by the government as COVID-19 isolation and quarantine facilities. Gas volumes increased 14%, year on year, in line with expansion of our gas network to cater for ongoing demand. Next slide.

In the Maritime cluster, key operational indicators such as vessel fleet, port calls, container feedering volumes and marine services all delivered healthy growth, year on year. Feedering container volumes were up 30%, year on year, driven by an increase of 45%, year on year, in feedering port calls. Number of services increased to nine, up from five, in Q3 of 2022. 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 this effort, we have expanded our owned and chartered-in dry and liquid bulk and Ro-Ro vessel fleet from nine in Q3 of 2022 to 23 in Q3 of 2023. This fleet is used to improve connectivity, particularly for Khalifa Port as the main hub, and it's a key component for freight forwarders, providing a crucial link to global liners for uninterrupted trade.

Similarly, we gradually expanded our offshore and subsea vessel fleet, which now comprise 57 vessels, with another ten being added as part of the recently announced E-NAV transaction. Expansion of offshore and subsea vessel fleet is in line with the strategic objective to fortify and enhance our footprint in Middle East and Southeast Asia in this space. Next slide.

In our Logistics cluster's polymer's business, we saw a healthy 10% year-on-year increase. Also, with the addition of Noatum Logistics, our air freight volumes reached more than 8,000 tons for the quarter, a drop of 28%, year on year, pre-consolidation. This is in line with transfer of volumes to ocean, post-COVID, as supply availability has been coming back.

Ocean freight, conversely, increased 5%, year on year, to more than 97,000 TEUs in Q3, gaining market share, but with rates under pressure. The drop, quarter on quarter, was due to some extraordinarily high volumes in Q2 related to the earthquake in Turkey. Digital cluster single window transactions were down 90%, year on year, due to a revised charging model for internal services. Next slide.

Our group's revenue more than doubled in Q3, as mentioned, growing 189%, year on year, to AED 4.24 billion. This is including the effect of M&A activity, and particularly the addition of Noatum. On a like-for-like basis, it was up 113%, year on year, excluding effects from M&A.

The Maritime cluster reported another impressive performance, with revenue growth of 264%, year on year, to AED 2.44 billion, primarily driven by opportunistic vessel trading activities in the shipping segment and by the marine services segment, which included the consolidation of Noatum's marine business.

The Economic Cities and Free Zones cluster reported a 20% year-on-year growth to AED 443 million, mainly driven by KEZAD Communities, warehouse leases and utilities. Like-for-like was down 7%, year on year, as performance was impacted by lower utilisation of the Razeen staff accommodation as it ceased to be used as a COVID-19 facility from Q1 of this year, as mentioned earlier. Since then, Razeen facilities have been gradually ramping up occupancy but commanding lower rates.

The Ports cluster reported a Q3 revenue growth of 71%, year on year, to AED 487 million, up 8%, year on year, on a like-for-like basis. This was mainly driven by higher volumes and first full quarter consolidation of Noatum Ports and Karachi Gateway Terminal.

Logistics cluster revenue increased more than fivefold to AED 852 million with the consolidation of Noatum Logistics. Lastly, the Digital cluster reported an 11% increase, year on year, to AED 100 million, supported by an almost AED 8 million revenue-generating single window transaction and rate increases for certain services. Next slide.

For Q3, 85% of our total revenue came from the UAE, followed by 8% from Europe and 3% from Africa. Of the AED 8.1 billion revenue, year to date, AED 1.86 billion, or 23%, came from M&A. In Ports, Karachi Gateway Terminal and Noatum Terminals were a significant portion of the M&A contribution and are ramping up well. Maritime included Noatum Maritime, Safeen Subsea and Transmar. And for, what is that, Economic Cities and Free Zone, Al Eskan Al Jamae was the driver, and for Logistics, it was Noatum Logistics that was the contributor. Next slide.

Overall EBITDA increased 28%, year on year, to AED 759 million, and that's again largely supported by the acquisition of Noatum and Karachi Gateway Terminal. Key contributors to the EBITDA were the Logistics, Ports and Maritime clusters, as well as impact from acquisition.

The Maritime cluster increased 44%, year on year, to AED 318 million, driven by strong top line growth related to vessel trading activities. Contribution from new acquisitions, Transmar and Noatum Maritime, accounted for approximately 6% of total Q3 cluster EBITDA.

Economic Cities and Free Zone cluster was up 3%, year on year, to AED 278 million, with the contribution from Al Eskan Al Jamae accounting for 18% of the Q3 cluster EBITDA. As previously mentioned, the like-for-like performance was impacted by lower utilisation of Razeen staff accommodation, again, as it ceased to be used as COVID-19 quarantine facilities in Q1 of this year.

Ports cluster increased 63%, year on year, to AED 270 million on the back of growth in container volumes, improved utilisation, as well as increase in Ro-Ro volumes. 31% of the Q3 cluster EBITDA were contributed by Karachi Gateway Terminal and Noatum Terminals, which included a one-off gain of the AED 39 million related to the sale of the Barcelona Container Depot.

Logistics cluster was up 75%, year on year, to AED 66 million due to consolidation impact of Noatum Logistics. And Digital cluster is slightly down, year on year, due to timing differences related to software development. Next slide.

As highlighted by Marc, we have a big shift in margins due to the composition of the various different businesses. Higher contribution from the relatively lower-margin Maritime, Shipping and Logistics businesses resulted in further EBITDA margin dilution to 17.9% versus 14.5% in Q3 of 2022.

We maintain our EBITDA margin guidance of 25% to 30% in the medium term, as we expect the revenue mix to continue to rebalance while we continue to invest heavily, both organically and inorganically, in the foreseeable future.

We also expect the operating profitability to rebalance as we gradually deliver on extracting synergies from acquisition and scaling up our operations.

The year-to-date, year-on-year slight decrease in margin in Economic Cities and Free Zones was due to cease of the Razeen government contract that I mentioned, whereas the quarter-on-quarter decrease was due to timing of provision, so no underlying deterioration in the margin. For Ports, the quarter-on-quarter decrease in margin was due to base effect of Noatum Ports and Karachi Gateway Terminal. Next slide.

On the balance sheet, total assets increased from AED 49.5 billion in Q2 to AED 52.2 billion in Q3, mainly due to the ongoing CapEx programme and the consolidation of recent acquisitions, Noatum and Karachi Gateway Terminal. By end of Q3, 93% of total assets were deployed in UAE, followed by 4% in Europe and 2% in Africa.

Our capital structure as of Q3 comprised 36% debt to equity, excluding payables to project companies. Q3 increase in debt was mainly, or partly due to additional drawdown for organic CapEx and partly due to the working capital required for the vessel trading activities. This is expected to normalise in Q4, when cash is collected from the sales of the vessels.

In addition to AED 1.8 billion cash at hand, we currently have AED 3.7 billion available under existing debt facilities by end of Q3. Our net-debt-to-EBITDA ratio stood at four times at the end of Q3, temporarily elevated due to the working capital requirements for the vessel trading activities. Again, we expect the leverage to normalise in, in theory, Q4 of this year. Next slide.

For CapEx during Q3, we have continued to execute on our ambitious organic CapEx programme, of which the majority is revenue-generating. In Q3, CapEx was moderate, at AED 800 million, putting the total year-to-date outlay to AED 3.65 billion, in line with our front-loaded AED 15 billion CapEx programme between 23 and 27. Main recipients continue to be the Maritime and Shipping clusters, Economic Cities and Ports and will remain so in the future.

In Ports, we continued the expansion of Karachi Port, mainly for the new CMA Terminal and for the connection to Etihad Rail. Also, the recently announced Safaga Port in Egypt, Pointe Noire in Republic of Congo and Karachi Gateway Terminal in Pakistan will gain momentum from a CapEx perspective over the coming quarters.

In our Economic Cities, CapEx was mainly deployed for build-to-suit assets, warehouses, specialised industrial clusters and the continued gradual unlocking of land in line with demand. And for Maritime, we continued to expand our vessel fleet, mainly for bulk, tanker and offshore vessels. All key messages and ongoing projects are currently progressing as per plan and within budget. Next slide, please.

Our operating cash flow for Q3 was negative AED 579 million and was impacted by a temporary deterioration in working capital in relation with the vessel trading activities. We expect net operating cash flows to recoup this negative performance in Q4, when the associated cash collections take place. Despite the deterioration in the operating cash flow, the free cash flow performance improved on the back of lower investing activities. Based on current visibility and in line with previous guidance, we expect to become free cash flow positive around 2025. Next slide. Next slide, please.

So in spite of the renewed geopolitical tensions and a faster-than-anticipated correction in the container shipping rates, our medium-term guidance remains unchanged, in line with the resilient nature of our business model. Although some fluctuations may occur quarter on quarter, we anticipate continuing our annual growth trajectory in 2023 and beyond in our core businesses and also for the newly acquired companies.

In the medium term, our expectations remain to deliver a revenue CAGR of 25% to 30%, an EBITDA CAGR of 20% to 25% between 22 and 27, as well as organic capital investments of around AED 15 billion over the period 23 to 27. This is again based on the currently announced transactions. Over to you, Marc.

Marc Hammoud Thank you, Martin. Ahmed, I think we can open for Q&A.

Ahmed Hazem Sure. So, everyone, just as a reminder, you can use the Raise-Hand function, or you can send me your questions in the Q&A box. We'll prioritise the questions coming in via audio first. We have our first question coming in from Ashwinder. Ashwinder, please unmute your mike locally and ask your question. Hello, Ashwinder. Can you please unmute locally as well? Yes, please go ahead. Your mike is open.

Ashwinder Oh, thank you. Thank you so much for that presentation. I just want to go back to the leverage question. So, obviously, S&P has put out a report. They think this year's leverage ends at probably 4.5 and then starts to come down next year. And they obviously have some sensitivity around leverage of 4x.

But obviously, where my question is coming from is there's been market commentary around you essentially acquiring this international operator at AED 2 billion price tag, which is obviously… I appreciate it's something which is being still discussed, and obviously I'm not going to ask you whether it's going to happen or not.

But I just want to understand from you that if you did have to make a large acquisition at this stage, when your leverage is already likely to be above 4x, which is where the rating agencies are comfortable, do you have any levers to keep the leverage below 4x? Or are you willing to maybe lose A-plus rating and you're happy with single-A rating? Just would be interesting to hear what you're thinking about. Thank you.

Martin Aarup It's a good question. Obviously, we don't comment on market rumours. Our guidance, when it comes to leverage, remains the same, and that is that we want to maintain an investment-grade credit rating. We can go a notch down, so that's not an issue, based on where we are.

Again, as what we have mentioned previously as well, the reason for the high leverage that we currently experience is because of the accelerated growth that we're having both organically and inorganically. Especially on the organic front, we are peaking this year and next year and will gradually increase from there onwards.

So we expect, again, the inflection point for becoming free cash flow positive to be around 2025. And we still have room for increasing leverage, and we also can see light at the end of the tunnel, when we will start to natural deleverage and become free cash flow positive.

In between, we will be able to manage. Obviously, there, we have various different levers in terms of also our existing asset base, partnering with different… If we do acquisitions, find partners, like we have done in our previous acquisitions. And we also have an asset base that gives us quite some flexibility. So again, with a view that the elevated leverage that we are currently having is only for the next a little over a year, I think we are in a comfortable space to continue our growth journey while still maintaining a healthy balance sheet.

Ahmed Hazem Thank you for that, Martin. Our next question comes from Anna Antonova. Anna, your line is unlocked from my end. Please unmute locally as well.

Anna Antonova Just two questions from our side. First, if you could comment, without vessel trading activity in Q3 and various other one-offs that you have recorded, could you comment what would have been your group EBITDA margin in Q3 versus the headline reported 18%? Would it be closer to Q1/Q2 levels, or not? Any colour would be much appreciated. And then I will ask my second question. Thank you.

Martin Aarup For your first question, no, it would not be the same, reason being that we have just added a big block in terms of Noatum coming in, but it naturally is changing the dynamics in terms of the leverage. When it comes to the vessel trading activities, that's for us not a one-off. That's an inherent part of our business. It was particularly active in this quarter or in Q3 but will continue, going forward as well.

So it would have been… The extraordinary items that have occurred during the quarter, we have disclosed those, and they virtually come to a neutral match, although the positive is mostly below EBITDA line and the negative is above EBITDA line. But those have been disclosed also, with the amounts.

Ahmed Hazem Anna, do you have any further questions?

Anna Antonova Yes, thank you. So is it fair to assume that, roughly speaking, your Q3 EBITDA margin would have fallen in the guided 25% to 30% range in Q3, all things considered?

Martin Aarup I have not, and I'm sorry, I've not done the exact calculation, but we can revert separately on that, because we have disclosed the extraordinary items that were in Q3. The negative were above EBITDA, whereas the positive was below, so obviously, adjusting for that, the EBITDA margin would have been higher.

Anna Antonova Sure. Thank you so much. And my second question is actually following up on the previous ones around your leverage, which is obviously in the spotlight for any high-growth company. Could you maybe shed some light? So what exactly gives you confidence that you will be able to keep your net debt/EBITDA below the five times ceiling, especially as you continue to execute, as it seems, multiple M&A deals in a currently high interest rate environment?

So you're basically financing with higher interest rates. And if we assume that rates will be rolling over in the next 12 months, potentially you could end up with very expensive debt on the balance sheet. And if this could be the case, would you consider some other forms of financing to keep leverage under control, potentially an equity raise at some point? Thank you.

Martin Aarup Yes, no, it's a good question. In terms of the leverage, the high leverage that we're having in Q3, as we also explained, part of that is due to additional working capital requirements that will normalise in Q4. In addition to that, we still have room to increase our leverage, and therefore, both to fund our CapEx and also inorganic acquisitions.

What has to be mentioned, and I think if you look carefully also at the recently announced acquisitions that we have made, that we can still do inorganic acquisitions whereby many of those, actually based on the profile, will not have any negative drag on the leverage as such. So it very much also depends on the type of acquisitions that we're doing and the margin profile of those acquisitions.

In addition to that, we don't have a specific ceiling. You're referring to a five times ceiling. There's for us not necessarily a fixed ceiling. Again, we want to maintain the investment-grade credit rating, and we can also see that the inflection point to become free cash flow positive is coming very close to us. And we are confident that we, also with the current asset base that we're having, can manage the period in between.

Ahmed Hazem Okay. Anna, any further questions from you, or should we move to the next one? Your line is open.

Anna Antonova Yes, maybe a quick follow-up. You mentioned you currently have AED 4 billion in existing bank facilities. Can you comment if this was local or international banks or a combination?

Martin Aarup So we have AED 3.7 billion as of end of Q3, and it's a combination. So it's syndicated facilities, and the details are disclosed in our financial statements, but it both comes with local and international banks.

Anna Antonova Understood. Thank you so much. No further questions from my side.

Ahmed Hazem So our next question will come from Nikhil. Nikhil, please unmute locally and ask your questions.

Nikhil Presentation. Congratulations on a good set of numbers. Just first question, again, coming from the previous questions on vessel trading. You mentioned this is something which is part of your business. So can you just give us some colour on what kind of size of vessel trading did you see in Q3, and on a normalised basis or on an average basis, how much bigger it is compared to the average?

And secondly, on GFS acquisition, can you give us some idea on what's holding this up right now? And we have not yet seen any conclusion of this particular acquisition. And thirdly, M&A. So which areas, which geographical areas and which segments are you focusing on for your M&A, let's say, over the next one or two years? Thank you.

Martin Aarup I will take the first one, and then I'll hand over to Ross to take the second and third question. So with regards to our vessel trading activities, it's an inherent part of our business model and service offering, although it happens on an infrequent basis.

Basically, what it does, it allows us to gain from market cycle volatility, where we can leverage our network, and also, we have some preferential access to certain vessel types. And that's what we are playing here. It's nothing new. We have done it in the previous quarters as well, and then we have also explicitly guided for that in the previous presentations. It's done on an opportunistic basis, but it's risk-neutral when we do the vessel trading, with back-to-back agreements, and it does not carry any market exposure.

What we have been trading so far this year, its cost of the vessels sold that we have traded is AED 1.1 billion, year to date. And you will also see that disclosed in our financial statements. For competitive sensitivities, we cannot disclose anything on specific gains on the trades, but we can confirm that all the trades that we have concluded were executed profitably. I'll hand over to Ross for answering the second and third questions.

Ross Thompson Yes. I think that the second question was on GFS. It's just regulatory approval. We have all our regulatory approvals, apart from India, which we continue engagement with and working with. And we expect it to be concluded very, very soon. It's just taken longer than we had envisaged. So that's the general answer.

The third question was, I think, which areas of focus do we see for M&A. I think, realistically, I think you look at Maritime, insofar Ports and Logistics will form a significant part of our external CapEx spend. I think, in our minds, we still think that in terms of CapEx split, around 60% of our growth CapEx will be spent on organic growth and growing our Maritime business, through ship acquisition as well, and around about 35% will be complementary M&A. And so a lot of our business will grow through the organic avenue. And where we see value in the market in particularly Ports and Logistics, we have the ability to step in.

Ahmed Hazem Thank you, Martin and Ross. So we'll move to the Q&A box and give people more time if they want to raise the hand function. And if already have your answer, or your question answered, please lower your hands. So our first question comes from Alok Nawani. Can management highlight the performance of the Logistics cluster on an ex-Noatum basis for both revenue and EBITDA in the third quarter? And is there any weakness, and what's driving this?

Martin Aarup So what you have here is, and I think that's disclosed, you asked… I think the question was the Logistics cluster performance excluding Noatum. And we have disclosed that here, that we had an increase of 4% on a like-for-like basis, So that was without adding Noatum. So particularly Borouge volumes, as also highlighted, the polymers volumes that we saw in Borouge, had a strong increase, quarter on quarter. And that was what is driving the like-for-like improvement.

Ross Thompson Just to add to that, though, it's not easy to split, going forward, because Noatum… We're first merging or integrating our existing Logistics business into Noatum. And since the beginning of July, so for the quarter, it has been Noatum that's managing that existing level of business. So the separation between what was existing and what is Noatum going forward, it just merges into one.

Ahmed Hazem Thank you, Martin. Thank you, Ross. So we have a question coming from Ankit Bansal. What is the reason for the drop in depreciation expenses in the third quarter of 2023 compared to the prior quarters? Since Noatum has been consolidated in the third quarter, depreciation expense should have gone up.

Martin Aarup Yes. That's a good question, and well spotted in that short period of time. So as we also disclosed in our financial statements in connection with the annual external expert assessments that we are doing on our vessel portfolio, which is basically occurring every Q3 of every year, we have had a depreciation adjustment, mainly related to the scrap value of the assets. So this is simply part of the annual reassessment of the investment portfolio which we do every Q3. And there's been a positive adjustment from that perspective.

Ahmed Hazem Thank you, Martin. Our next follow-up actually is from Ankit as well. Noatum's EBITDA margin was around 10%, and the Marine segment EBITDA margin was around 40%. Are these margin levels representative of long-term mid-cycle margins, or are these too low or too high?

Martin Aarup So the first question was related to the Noatum margins?

Ahmed Hazem No, I think, Martin, Ankit was just asking or stating that the margins were 10% and 14% for Noatum and the Marine segment. And he's asking if these margin levels are representative of a mid-cycle, or are they high or low?

Martin Aarup Oh. So for the Maritime, we have guided previously that we expect it to normalise over time to between 20% to 25%, and for the Logistics business, in the range, if I'm not mistaken, 7% to 10%. Marc or Ross, correct me if I'm wrong.

Ross Thompson No, that's right.

Marc Hammoud Yes.

Ahmed Hazem Okay, thank you. I see Ashwinder has his hand raised and he has questions in the Q&A box. I'll unmute his mike. Maybe he wants to ask the questions himself.

Ashwinder Thank you so much. Yes, thank you. So you did say you were quite comfortable with the leverage going up. I'm just curious if you also look at things like debt to equity, and then on the equity side, if you would maybe consider raising a hybrid instrument if you felt you wanted to raise more equity. Alternatively, Abu Dhabi government has, in the past, supported different entities via asset transfers, which has also boosted the equity. So yes, if you can give me any thoughts on the equity capital, that would be very helpful.

Martin Aarup Yes. So I have to correct myself if I gave the impression that I feel fully comfortable with a high leverage. So, obviously, it is high, and we're in a high interest environment. Luckily, it looks like we have peaked from an interest perspective and that we also see gradually decreasing interest rates in the coming 12 to 18 months. So that's on the positive side.

I think again, what I mentioned was that both our balance sheet gives us flexibility, also in terms of our asset base, and at the same time, the leverage, the high leverage that we're having is of temporary nature. So there's a timing to be bridged. We have good visibility, and we're able to manage the secure transactions that we're having in the organic CapEx programme.

Obviously, we are not always in control of timing and amounts of quantum of inorganic acquisitions. And depending on what will come our way, the size, the profile of those acquisitions and the timing of it, we will look at different instruments that could facilitate our ultimate goal, which is to maintain an investment-grade credit rating on a standalone basis. But that is what our ultimate goal is, and it will manage in between for that. But I am looking forward for when we are reaching the inflection point and we will see some kind of slowly deleveraging.

Ashwinder Yes. Look, I appreciate what you're saying, but I do want to share the sensitivity that while I fully appreciate your commitment to investment-grade rating, clearly, you are at A-plus at the minute, so therefore, the gap between an A-plus and BBB-minus is quite far.

Martin Aarup I'm sorry…

Ashwinder As a bondholder, what…? Yes.

Martin Aarup Sorry. I said on a standalone basis, so without the sovereign uplift.

Ashwinder Right.

Martin Aarup Just to be clear.

Ashwinder Can you remind me what's your standalone rating? I can go and double check that.

Martin Aarup So it's BBB-plus.

Ashwinder BBB-plus, okay, so still… So you get three notches of uplift there for sovereign support, but in other words, you're willing to lose up to three notches of rating that'll keep you IG on standalone basis or, say, two notches you can lose. So yes, still, that's a lot of obviously downgrade. You might have already noticed that some of your… The bond spreads have slightly started underperforming versus rest of the Abu Dhabi curve. And clearly, if you are going down to even standalone BBB-minus, that can result in more underperformance.

So while I appreciate the IG commitment, and that's fantastic, but I do want to convey the thoughts that as a fund manager, we do take mark-to-mark losses when your bonds underperform. So therefore, I would fully convey the thought that please do factor that into account as well, that it's not just the IG rating, but the trajectory also is painful for us.

And maybe a follow-up question to that. Any plans to come back to Dollar bond markets for the green bond or anything? Because obviously, you've guided for this AED 15 billion CapEx spend, and you said it's going to be front loaded. I'm just trying to think where you're going to raise additional funds above the bank facility that you already have.

Martin Aarup Yes. So again, we have… When we did the initial bond, we did indicate that we would come back, and we will come back several times to the bond market. In terms of timing of that, we would expect that to be within the next 12 to 18 months, or it could be even sooner than that, depending on market conditions. So obviously, with the current composition of debt, again, we would like it over time, to convert it into a more longer-term, fixed nature. And therefore, at the right time, we will convert part of our facilities into, most likely, bonds.

Ashwinder Right. Thank you.

Ahmed Hazem Okay. We don't have any further questions either in the Q&A box or raised hands. So let's give it one last moment and then maybe hand over back to the management team. Okay. So I don't think we have any further questions. With that, Marc, Martin and Ross, back to you.

Marc Hammoud Thank you, Ahmed. Thank you all for dialling in. This presentation we used today will be posted on the website and sent out to you either this evening or tomorrow morning, along with the data supplement sheet, as usual. And you will see that the data supplement sheet will have further information and KPIs in it as part of our aim to continue to disclose more on the company and improve the level of transparency. Thank you all again, and thank you, Ahmed, for organising this call.

Ahmed Hazem Thank you all, and thanks, everyone who attended. And with that, that brings the call to an end.