International Securities
an IHC company

NMDC Energy	Industrials	BUY	AED 3.46
Initiation of coverage	26 Sep 2024		(upside: 15%)

Initiating coverage with Fair Value AED3.46/share., 15% upside and 4.6% FY24e dividend yield

- NMDC Energy is a provider of Engineering, Procurement and Construction (EPC) services with expertise in development of offshore and onshore oil and gas assets
- The company has a current backlog of AED54bn, over 5x of LTM revenues, plus an additional pipeline of identified projects worth AED53bn with an average bid win ratio of 39%
- We initiate coverage with a Buy recommendation and fair value of AED3.46/share., offering 15% price upside along with 4.6% FY24 dividend yield

NMDC Energy is a 100% owned subsidiary of NMDC Group and specializes in providing Engineering, Procurement and Construction (EPC) services for the development of offshore and onshore oil and gas projects. The company has long-standing strategic partnerships with key industry giants including ADNOC, Saudi Aramco, Borouge, Saipem and Tecnicas Reunidas. NMDC Energy primarily operates in the UAE, KSA, Kuwait and Taiwan and has executed over 1,200 projects, comprising of 1,360 installed structures, c.8,000km of laid pipelines and c.2,000km of marine cables.

The revenues and net profit have grown at a 3-year CAGR of 22% and 94% between FY20-FY23, respectively, backed by execution of sizeable contracts, both onshore and offshore, led by a strong energy growth momentum in UAE and KSA. The net profit CAGR is significantly higher than revenues, as the company has sizeable operating leverage where the operating expenses to sales ratio has dropped from 10.0% in FY20 to 4.0% in FY23, and further to 3.4% in 1H24.

NMDC Energy has a current backlog of AED54bn, as at 1H24, 5.1x of Last Twelve Months (LTM) revenues. The company has guided on phase-out of these revenues with major chunk expected to be realized in FY25 (AED16bn), FY26 (AED14.9bn) and FY27 (AED8.5bn). **The company has also identified potential contracts of AED53bn** and has an average bid win ratio of 39%. **Going forward, we foresee NMDC Energy's revenues to increase at a 5-year CAGR (FY23-FY28) of 22% to AED21.3bn by FY28. We also expect profits to increase at a 5-year CAGR of 20% to AED1.9bn,** at a slightly slower pace than revenues as the expected growth in margins would be offset to some extent by application of corporate taxes starting FY24.

NMDC Energy is well positioned to benefit from the continued growth of the energy sector in GCC where key drivers include, i) continued expansion in oil and gas investments as well as company's focus on renewable projects, ii) multiple growth projects by key partner group, ADNOC, including ADNOC Gas' LNG 2.0, Ruwais LNG and Bab Gas Cap projects as well as Borouge's Borouge 4, iii) plans of expanding operations in other geographies and, iv) expansion of service offerings.

We initiate coverage on NMDC Energy with a Buy recommendation and Fair Value of AED3.46/share, offering 15% price upside. We have valued the stock using a combination of DCF (70% weight) and relative valuation multiples, PE (15% weight) and EV/EBITDA (15% weight). The management has also guided on AED700mn in annual dividends for FY24-FY26, implying a dividend yield of 4.6% for FY24e.

NMDC Energy financials

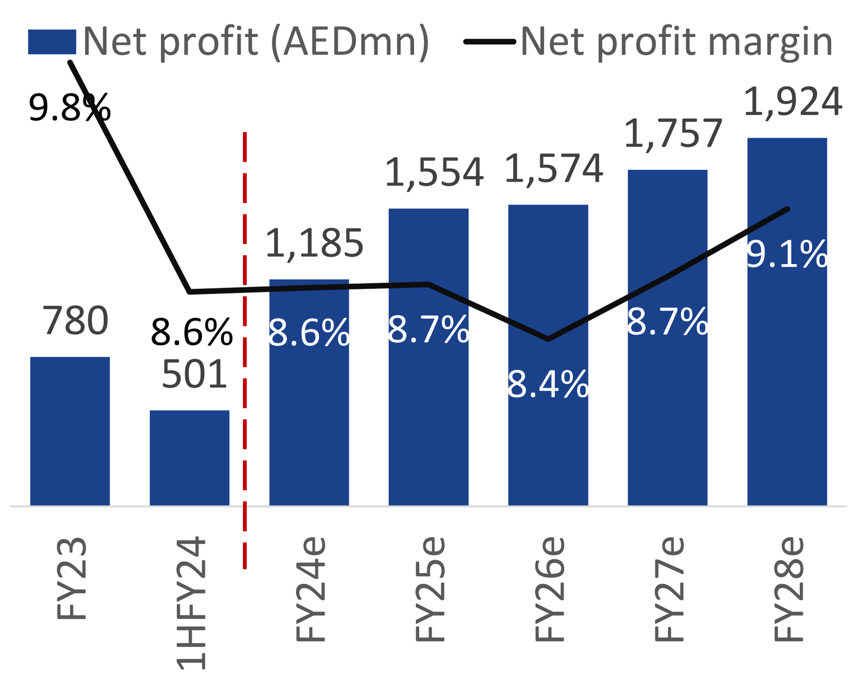
AEDmn	FY23	FY24e	FY25e
Revenue	7,941	13,706	17,950
EBITDA	953	1,456	1,898
Net Profit	780	1,185	1,554
EPS	0.16	0.24	0.31
DPS	-	0.14	0.14
Total Assets	13,020	20,249	23,829
Total Equity	4,599	5,786	6,643
Total Liabilities	8,422	14,464	17,186
EBITDA Margin	12.0%	10.6%	10.6%
Net Margin	9.8%	8.6%	8.7%
Opex/sales	4.0%	3.8%	3.6%
ROE	17.0%	20.5%	23.4%
Dividend yield	-	4.6%	4.6%

Source: Company Data, IS Research

Valuation	AED bn	Weight	Weighted avg.
DCF	18,285	70%	12,799
P/E	17,119	15%	2,568
EV/EBITDA	12,863	15%	1,929
Cumulative		100%	17,296

Source: Company Data, IS Research

Net profit and margins



Source: IS Research.

Afaq Nasir Nathani, CFA
anasir@intlsecurities.ae
+971 2 494 2619
IS Research
research@intlsecurities.ae

Table of Contents

Executive Summary 03-07

Valuation and key risks 08-13

About NMDC Energy 14-23

Company Background 15-20

Market Outlook 21-22

Key Management Personnel 23

Financials 24-33

Financial Statements 25-26

Financials Overview 27-28

Forecast & Assumptions 29-32

Sensitivities 33

Executive Summary

NMDC Energy: A major EPC player set to capitalize on GCC's energy growth

NMDC Energy (formerly known as NPCC) was established in 1973 and is a fully owned subsidiary of NMDC Group. The company provides engineering, procurement and construction services (EPC) to both offshore and onshore Oil & Gas industry clients. NMDC Energy has a long-standing track record of successful project executions totaling over 1,200 projects, comprising 1,360 installed structures, c.8,000km of laid pipelines and c.2,000km of marine cables.

The Company primarily operates in UAE, Saudi Arabia, Kuwait, and Taiwan and owns 33% stake in Principa (France), 100% in NEL India and 80% in ANEWA India, which provide engineering services. NMDC Energy has procurement and client interface offices in Spain, Italy, China and Malaysia.

NMDC has strategic partnerships with industry giants including ADNOC, Aramco, Borouge, Saipem and Tecnicas Reunidas and successfully executed over 22 projects for Aramco since 2016 cumulatively surpassing AED28bn. **This has resulted in a strong revenue CAGR between FY20-FY23 of 22% to reach AED7.9bn in FY23 and further to AED5.8bn in 1HFY24.**

The core EPC services of the company are tailored to the unique needs of offshore and onshore clients can be broken down as follows:

- **Engineering:** the engineering division provides innovative onshore and offshore engineering solutions. There are four operating centers i.e. NMDC Energy, NEL, ANEWA, and Principia. The engineering capabilities covers Civil, Mechanical, Structural, Electrical, Piping, Architectural, Telecommunication, Safety, Instrumentation control etc.

- **Procurement:** Managed by a strong team of 300+ highly qualified professionals controlled out of Abu Dhabi using a Hub and Spoke model. The procurement team is supported by a global network of offices (Europe, India, and China), expeditors and inspectors, overseeing a wide range of procurement requests to deliver for NMDC Energy and its clients.

- **Construction:** Fabrication yard with an annual capacity of 100,000 metric tons and the ability to load out topsides weighing up to 25,000 metric tons. NMDC Energy's fabrication yards are tailored to cater demand of both offshore and onshore Energy projects and has modern facilities capable of delivering a wide range of EPC construction tasks, from wellheads to process platforms.

NMDC Energy is dedicated to embedding Environmental, Social and Governance (ESG) principles throughout its operations. The company's ESG initiatives are directed towards key issues like climate change and ethical practices. Some of the key initiatives include Yard electrification, circularity in projects, value engineering, digitalization, energy management systems and waste management & reduction program

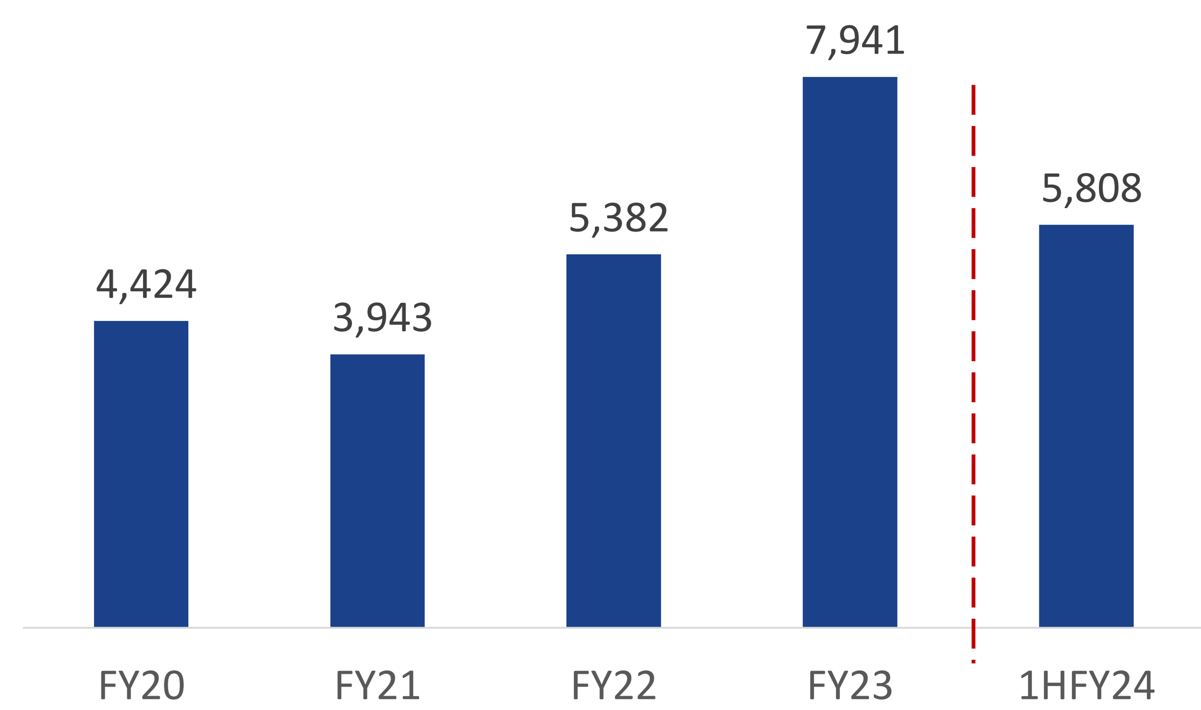
Key subsidiaries	Stake	Region
NMDC Marine Services LLC	100%	UAE
National Petroleum Construction Saudi	100%	KSA
NPCC Engineering Ltd	100%	India
NPCC Service Malaysia	100%	Malaysia
Al Dhabi Construction	100%	Iraq
ANEWA Engineering	80%	India
NT Energies	51%	UAE
Principia SAS	33%	France

Source: Company Data, IS Research

Key business partnerships

Source: Company Data, IS Research.

Revenue FY20-FY23 (AEDmn)



Source: Company Data, IS Research.

List of construction yards

Mussafah Yard	**Area:** 1.3km2 **Manpower:** 15,000 **Capabilities:** major structures such as platforms, decks, etc
ICAD4 Yard	**Area:** 0.312km2 **Manpower:** 350 **Capabilities:** Pipe coating
Modular Fabrication Yard	**Area:** 0.168km2 **Manpower:** 3,000 **Capabilities:** Modular fabrication
KSA Yard	**Area:** 0.40km2 **Manpower:** 5,000 **Capabilities:** PDMs, Jackets

Source: Company Data, IS Research.

NMDC Energy: Revenue visibility with a backlog over 5x of LTM revenues

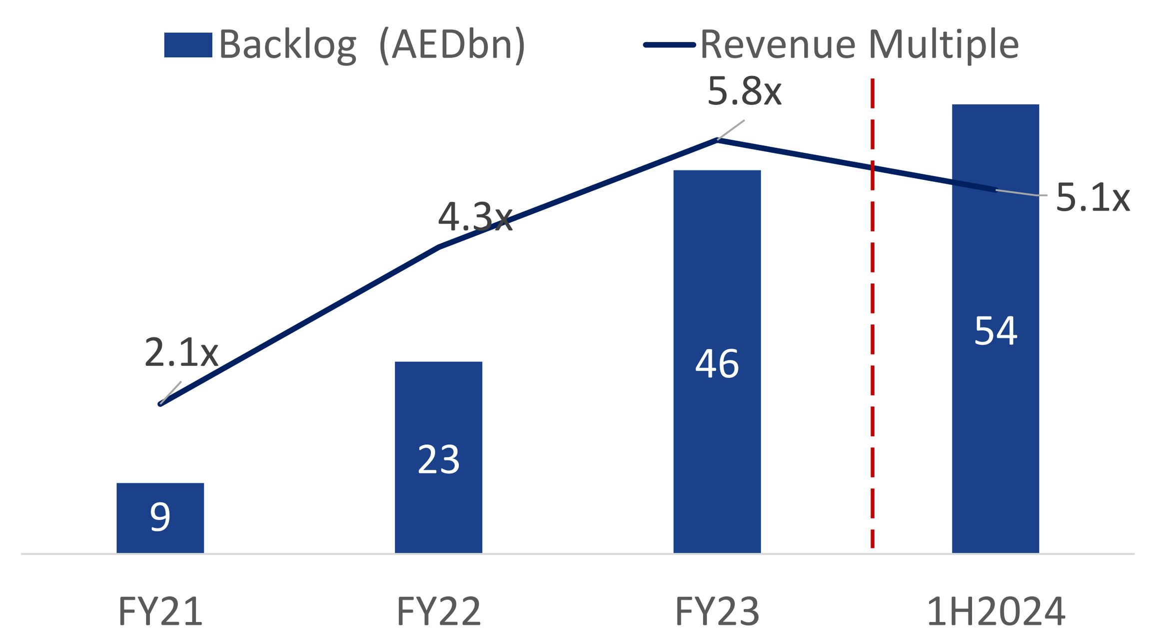
NMDC Energy operates under a unique business model with high-degree of revenue visibility. The company currently has a backlog of AED54bn as at 1HFY24, 5.1x of LTM revenues. The management has guided on phase-out of this backlog with major revenue recognition expected in FY25 (AED16bn), FY26 (AED14.9bn) and FY27 (AED8.5bn). **On top of this, the management has also identified potential contracts worth AED53bn and has an average tender bid-win ratio of 39%.**

NMDC Energy's backlog has grown from AED8.5bn in FY21 to AED46.1bn in FY23 and AED54bn in 1HFY24, on back of continued energy sector growth in UAE and KSA in both offshore (Zuluf, Umm sheif, Dalma and NGML projects) and onshore (Hail & Gasha, ESTIDAMA and Meram).

We foresee strong growth triggers for the company backed by expected growth of the energy sector and the company's plans to expand its operations to other geographies. Some of the key growth areas include:

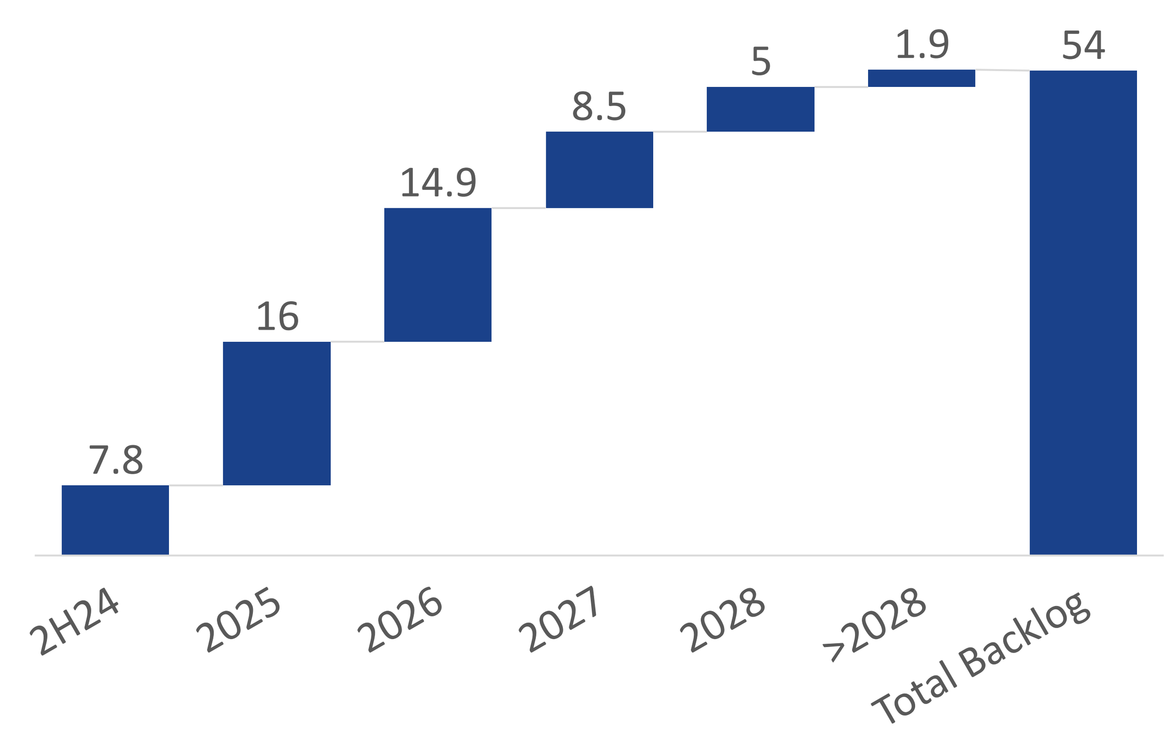
- **Energy investments in the Middle East are projected to reach approximately USD175bn in 2024, with clean energy comprising around 15% of this total**. Global upstream oil and gas capex is expected to grow by USD24bn in 2024, surpassing USD600bn.
- **Development of unconventional resources:** While the company does not have projects in the unconventional space yet, wee believe the focus on development of unconventional resources offers huge potential for the energy sector. ADNOC Drilling was recently awarded a contract worth USD1.7bn for the first phase and has guided on the second phase being potentially over 10x of the first phase.
- **Multiple growth projects in UAE by partner companies:** NMDC Energy's strategic partner, ADNOC Group, is on an expansion spree with several projects lined up including ADNOC Gas' Bab Gas Cap, LNG 2.0 and Ruwais LNG, Borouge's Borouge 4, and Taziz Petrochemical expansion.
- **Energy Transition:** Through its JV NT Energies, the company is poised to benefit from energy transition opportunities which is estimated to exceed AED56bn over the next five years in the GCC market alone.
- **Renewables:** The Company has strategically expanded into renewable energy by partnering with Masdar to accelerate green technology adoption and create new opportunities for clean energy integration.
- **International Expansion:** The company has already established a new yard in KSA with an investment exceeding AED200mn while it also plans to enter the African market, where the potential project size is estimated at AED850bn in the next five years.
- **Sector Expansion:** NMDC Energy plans to enter the decommissioning sector by building inhouse capabilities or through an acquisition. The total expected global decommissioning expenditure out to 2050 is around USD 500bn of which USD128bn is expected between 2022-30.
- **Enhancing Capabilities:** An additional yard has been identified in Musaffah with an area of 220,000m^2 to focus on modular fabrication. The company is also expanding the capabilities of its engineering office in India to undertake small and medium-sized EPC projects.

Backlog and multiple



*Source: Company Data, IS Research. Note: *Revenue multiple as of 30 June 2024 based on 30 June 2024 LTM revenues*

Expected phasing of backlog to revenue (AEDbn)



Source: Company Data, IS Research.

Major revenue growth contributors

Project	Award (AED bn)
Offshore	
Zuluf	8.3
Umm Sheif	3.5
Dalma	1.9
NMGL	1.9
Onshore	
Hail & Gasha	
Estidama	22.3
Meram	

Source: Company Data, IS Research.

NMDC Energy: Revenues and profits expected to continue growing

We forecast NMDC Energy's revenue to grow at 5-year CAGR of 22% to reach AED21.3bn in FY28, from AED7.9bn in FY23. Our forecast incorporates phasing out of the current backlog of AED54bn, as guided by the management, while we have also projected the company to win additional contracts of AED13bn/year from FY25-FY28 with each project phasing out over the following 4-5 years. The management has guided on revenue CAGR of 10-12% between FY24-FY28 while our forecasts suggest 11.6% during the period with FY24 revenue expected at AED13.7bn.

The company has maintained gross margins between 12-14% between FY21-1HFY24 while the management has guided for the same range until FY28. **As per our estimates, gross profit is expected to reach AED2.9bn by FY28, from AED1.1bn in FY23** with gross margins expected to gradually increase to 13.6% in FY28 versus 12.1% in 1HFY24 but slightly lower than 14.4% in FY23.

NMDC Energy has sizeable operating leverage built into the business as several operating expenses (including costs of the headquarters) are largely fixed in nature and do not grow with the contracted revenues. Accordingly, the opex/revenue has fallen from 9% in FY21 to 4% in FY23 and further to 3.4% in 1HFY24. **Going forward, we expect operating expense/revenue to decline to 3% by FY28.**

Accordingly, we expect EBITDA margins of 11.7% in FY28 compared to 11.2% in 1HFY24, as the growth in revenue is expected to outpace the growth in operating expenses. **Our EBITDA forecast stands at AED2.5bn in FY28 versus AED953mn in FY23 and AED650mn in 1HFY24.**

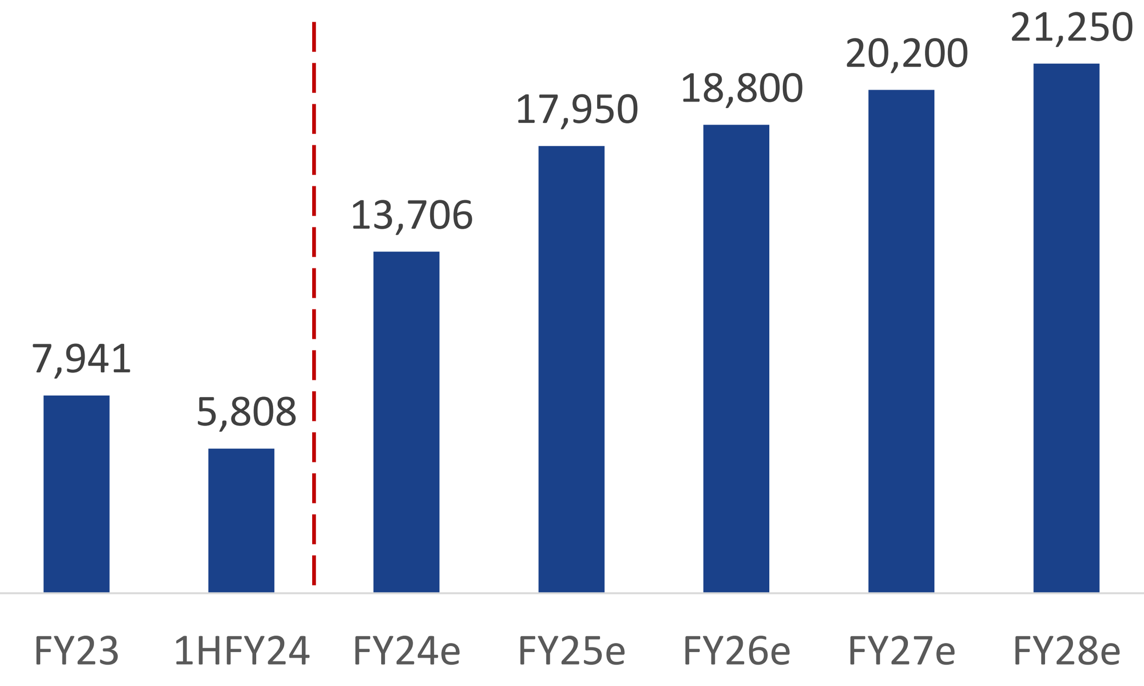
The company has a highly favorable balance sheet standing with a net cash position of AED1.4bn as at 1HFY24(adjusting for lease liabilities). While we have assumed additional borrowings from FY26 onwards to fund the planned capital expenditure, dividend payments and likely working capital outflows, we believe the company would continue to maintain a net cash position backed by strong cashflows and advance payments from clients. Accordingly, our finance cost estimate stays minimal in our forecasted numbers and is largely offset by finance income on outstanding cash.

On taxes, we have assumed a 9% corporate tax rate for FY24-FY25 which we have conservatively increased to 15% to incorporate the global minimum tax regulation. We expect NMDC Energy to pay tax of AED340mn in FY28, compared to AED35mn in 1H24. Our profits for FY26-28 would on average be c.7% higher had we maintained the tax rate at 9%.

Accordingly, our estimates suggests net profits to grow at a 5-year CAGR (FY23-FY28) of 20% to reach AED1.9bn in FY28 from AED780mn in FY23. For FY24-FY28, the management has guided on net margins between 7-10% while our forecasts suggest margins between 8.6-9.1%.

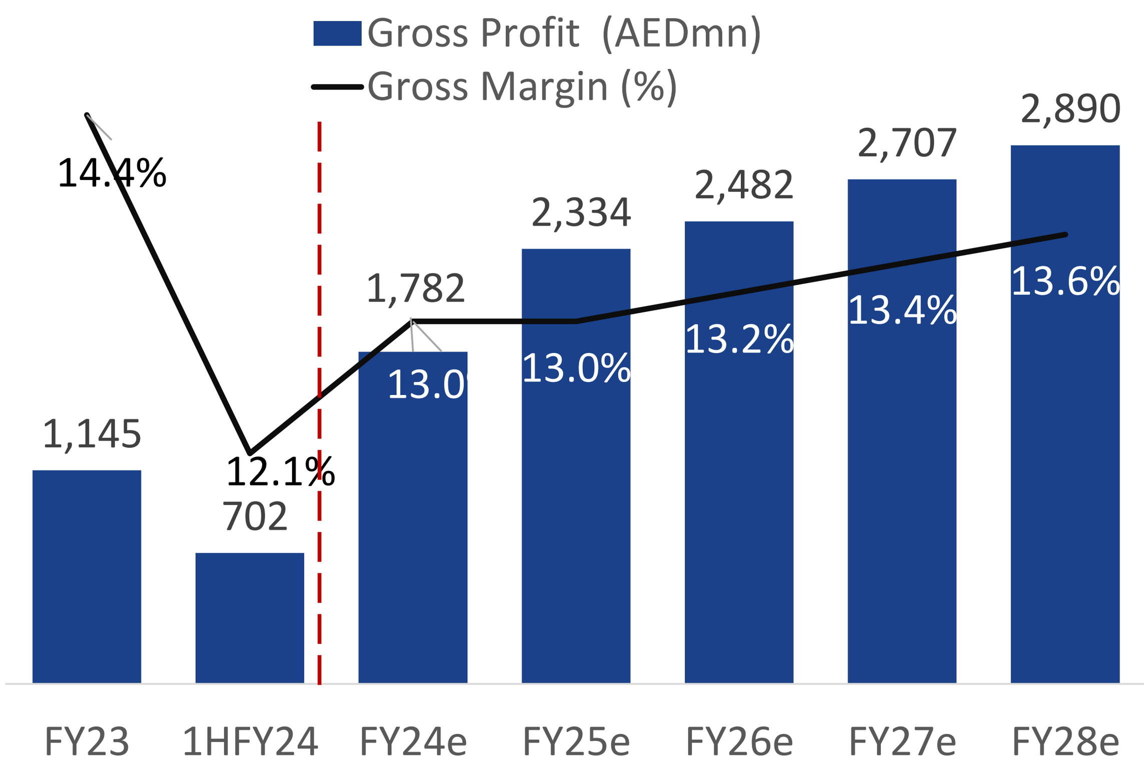
NMDC Energy has guided on annual dividend of AED700mn for FY24-FY26 with first dividend payment expected in 1H25. This implies a dividend yield of 4.6% for FY24.

NMDC Energy expected revenue (AEDmn)



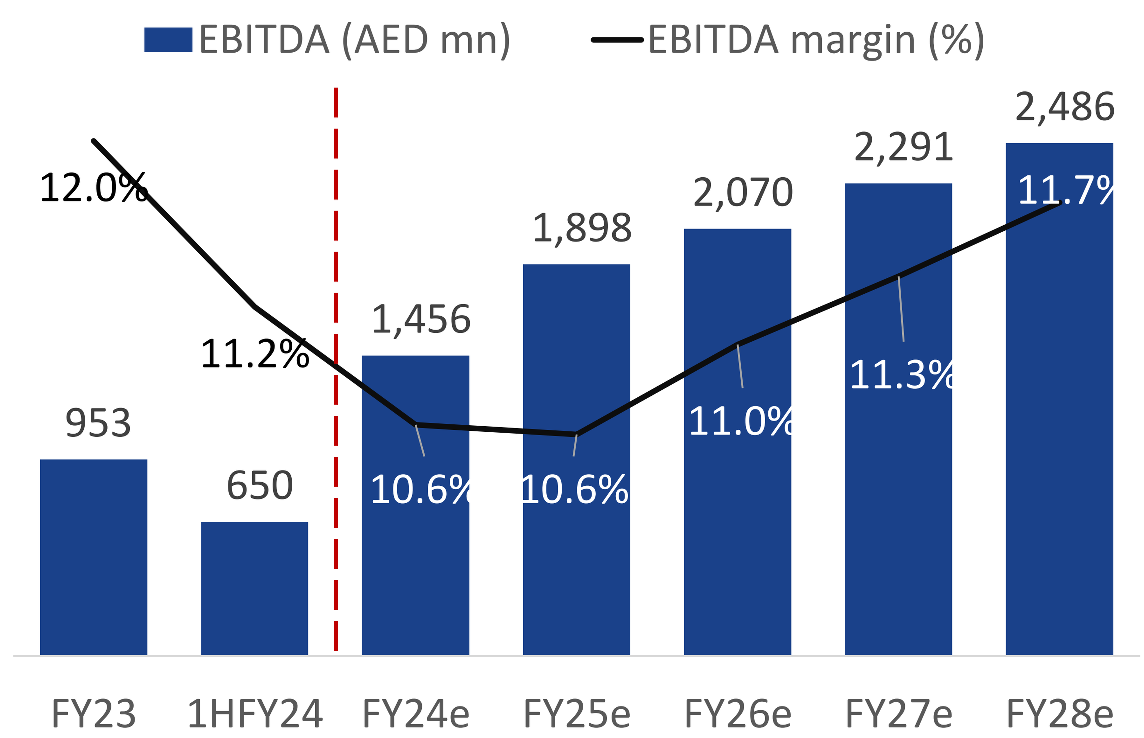
Source: Company Data, IS Research.

Gross profit to reach AED2.9bn by FY28e



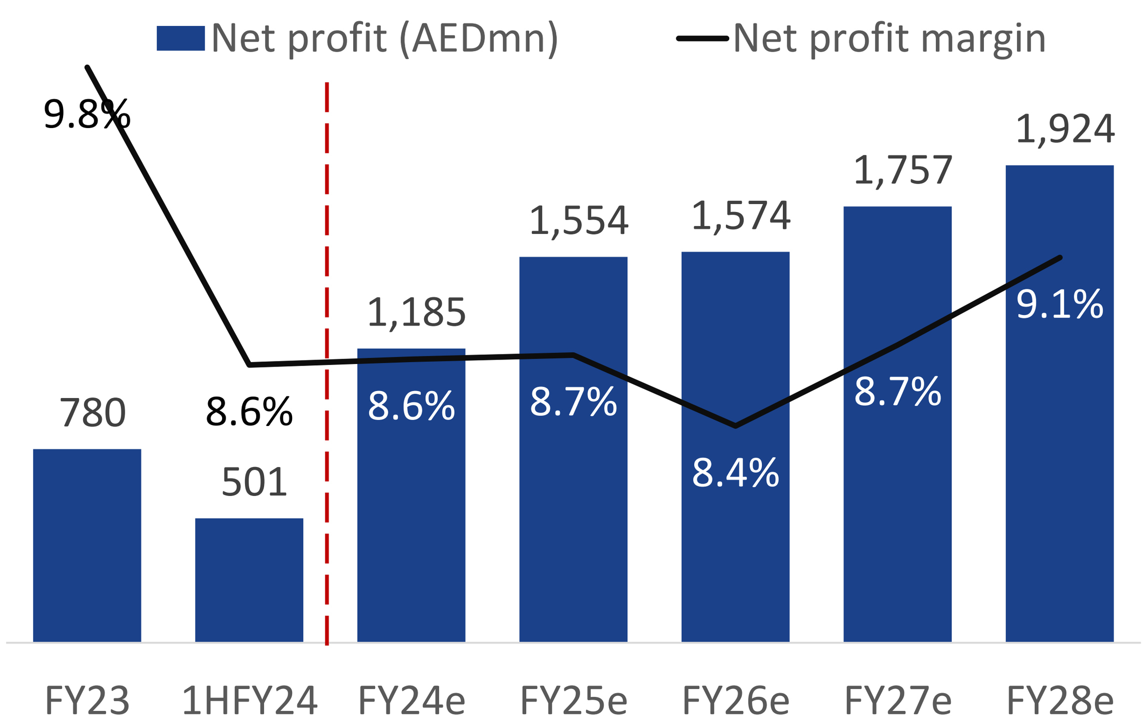
Source: Company Data, IS Research.

EBITDA to increase to AED2.5bn by FY28e



Source: Company Data, IS Research.

Net profit to jump to AED1.9bn by FY28e



Source: Company Data, IS Research.

NMDC Energy: We initiate with Buy and fair value of AED3.46/share.

We initiate coverage on the name with a Buy recommendation and fair value of AED3.46/sh. Our valuation is based on a mix of DCF (70% weight), relative P/E (15% weight) and relative EV/EBITDA (15% weight). We believe a higher weight to DCF is justified given the strong and consistent margin profile as well as a very strong backlog which provides high-degree of revenue and earnings visibility.

For DCF, we have used cost of equity of 10.0% and terminal growth rate of 2.5%. We have forecasted financials until FY29, which becomes our terminal year. **Our valuation on DCF alone clocks in at AED18.3bn or AED3.66/sh.**

Since NMDC Energy operates under unique business dynamics with sizeable backlog and key strategic partnerships, we have chosen a wide range of peers from various geographies. Our chosen peers are either comparable to NMDC Energy directly on business dynamics or belong to the wider energy sector space.

Compared to peers, we believe NMDC Energy may command a valuation premium, owing to better standing on the following:

- Strong backlog of over AED54bn, 5x of Last Twelve Months (LTM) revenues, as well as additional pipeline of potential contracts of AED53bn with average bid-win ratio of 39%.
- Compared to peers, NMDC Energy has a lower debt/equity ratio of 15% versus peer average of 97%.
- Average dividend yield of peers is 1.9%, compared to NMDC Energy's 4.6% yield at current levels.

On P/E and EV/EBITDA multiples, we have a valuation of AED17.1bn and AED12.9bn, respectively. With a 70% weight to DCF and 15% each to P/E and EV/EBITDA based valuation, **we arrive at our cumulative weighted average valuation target of AED18.29mn, implying a fair value of AED3.46/sh.**

At current levels, NMDC Energy has an FY25 P/E, EV/EBITDA, P/B and dividend yield of 9.7x, 7.3x, 2.3x and 4.6%, respectively.

Key investment risks include: i) increasing focus on sustainable energy sources, ii) rising geopolitical tensions, iii) competition, iv) risk of contract flow, iv) business execution risk, v) capital risk, and vi) concentration risk.

DCF Valuation (AEDmn)	
Sum of discounted FCFE	2,705
Discounted terminal value	15,579
Total Equity value	18,285
Total Equity value (AED/sh.)	3.66

Source: Company Data, IS Research

FY24 P/E Valuation (AEDmn)	
FY24 P/E peer average	14.5x
NMDC Energy FY24e profit	1,185
Total Equity value	17,119
Total Equity value (AED/sh.)	3.42

Source: Company Data, Refinitiv, IS Research

FY24 EV/EBITDA Valuation (AEDmn)	
FY24 EV/EBITDA peer average (x)	8.02x
NMDC Energy FY24e EBITDA	1,456
Enterprise value	11,681
Add: Net Cash	1,182
Total Equity value	12,863
Total Equity value (AED/sh.)	2.57

Source: Company Data, Refinitiv, IS Research

NMDC Energy key metrics	FY24	FY25
P/E	12.8x	9.7x
P/B	2.6x	2.3x
EV/EBITDA	9.6x	7.3x
EBITDA Margins	10.6%	10.6%
Dividend yield	4.6%	4.6%

Source: Refinitiv, Company Data, IS Research.

Valuation & Risks

Valuation Summary

We value NMDC Energy at AED17.3bn, implying a fair value of AED3.46/sh. We have assigned a 70% weight to **Discounted Cash Flow (DCF)** and 15% each to relative **EV/EBITDA** and **P/E** multiples. On management's guided dividend policy, the stock offers FY24 dividend yield of 4.6% with first dividend for FY2024 expected to be paid in 1H25.

DCF based valuation clocks in at AED18.3bn (AED3.66/sh.) where we have assumed a cost of equity of 10.0% (risk-free rate: 4.0%, Market Risk Premium (MRP): 6.0% and Beta: 1.0) and a terminal growth rate of 2.5%. We have forecasted the cashflows until FY29, which becomes our terminal year. In our assumptions, we have assumed the unwinding of the current backlog as per management guidance while we have additionally assumed AED13bn annual wins in contracts on a sustainable basis. We believe the higher weight for DCF is justified given the company's strong and consistent margins, net cash position allowing ample headroom to grow and strong contract backlog with strategic partnerships with industry giants, Aramco and ADNOC.

For relative EV/EBITDA and P/E multiple valuations, we have used a simple average of peer FY24e valuation multiples **Our relative P/E based multiples suggests a valuation of AED17.1bn (AED3.42/sh.) while EV/EBITDA multiple valuation clocks in at AED12.9bn (AED2.57/sh.).** We believe NMDC Energy would command premium multiples compared to peers backed by stronger business dynamics, backlog over 5x of LTM revenues and strong identified avenues of growth.

Assigning a 70% weight to DCF and 15% weight to relative EV/EBITDA and P/E brings us to our **weighted average equity valuation of AED17.3bn, implying a fair value of AED3.46/share, 15% higher than current market price.**

Weighted average valuation (70% DCF, 15% P/E, 15% EV/EBITDA) – AED mn

Valuation Method	Valuation	Weight	Weighted Value
DCF	18,285	70%	12,799
Peer average FY 24 P/E	17,119	15%	2,568
Peer average FY 24 EV/EBITDA	12,863	15%	1,929
Weighted average valuation			**17,296**
Weighted average valuation – Fair Value (AED/sh.)			**3.46**

Source: Company Data, IS Research

DCF Valuation (AEDmn)	
Sum of discounted FCFE	2,705
Discounted terminal value	15,579
Total Equity value	**18,285**
Total Equity value (AED/sh.)	**3.66**

Source: Company Data, IS Research

DCF cost of equity	
Risk free rate	4.0%
Market Risk Premium	6.0%
Beta (x)	1.0
Cost of Equity	**10.0%**
Terminal growth rate	2.5%

Source: Company Data, IS Research

FY24 P/E Valuation (AEDmn)	
FY24 P/E peer average	14.5x
NMDC Energy FY24e profit	1,185
Total Equity value	**17,119**
Total Equity value (AED/sh.)	**3.42**

Source: Company Data, Refinitiv, IS Research

FY24 EV/EBITDA Valuation (AEDmn)	
FY24 EV/EBITDA peer average (x)	8.02x
NMDC Energy FY24e EBITDA	1,456
Enterprise value	11,681
Add: Net Cash	1,182
Total Equity value	**12,863**
Total Equity value (AED/sh.)	**2.57**

Source: Company Data, Refinitiv, IS Research

Discounted cashflow (DCF) valuation

We have forecasted the financials of NMDC Energy until 2029, which becomes our terminal year. The company currently has a positive working capital cycle as there are significant advances from customers on the balance sheet. As per management's guidance, we have built in working capital outflows over the next five years taking the net working capital to revenue ratio close to 20% by 2029 compared to (5%) in 2023.

The company currently has debt of AED713mn which is set to be repaid by FY26. From 2027 onwards, we have assumed that the company will increase its borrowings to maintain an optimal capital structure. However, despite adding borrowings between 2027-2029, the company continues to maintain a net cash position backed by strong cashflows despite working capital outflows, dividends and capex. **Our DCF suggests a valuation of AED18.3bn** while we have assigned a 70% weight to DCF.

Our calculations and assumptions along with sensitivities to key valuation metrics are as follows.

DCF Valuation - AEDmn

		2024e	2025e	2026e	2027e	2028e
FCFE (refer to page 26 for cashflows)		(938)	470	196	928	1,611
Discounting period		0	0.5	1.5	2.5	3.5
Discounted FCFE		(938)	449	170	731	1,154
Terminal cashflow	1,750					
Sum of discounted FCFE	2,705					
Discounted terminal value	15,579					
Total Equity value	18,285					
Fair value (AED/sh.)	3.46					

Source: Company Data, IS Research.

DCF cost of equity

Risk free rate	4.0%
Market Risk Premium (MRP)	6.0%
Beta (x)	1.0
Cost of Equity	10.0%
Terminal growth rate	2.5%

Source: Company Data, IS Research

DCF valuation sensitivity to the cost of equity and growth rate (AED/share)

		Terminal growth rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
	9.0%	4.02	4.31	4.64	5.03	5.50
	9.5%	3.72	3.96	4.24	4.57	4.95
Cost of Equity	10.0%	3.45	3.66	3.90	4.17	4.49
	10.5%	3.21	3.39	3.60	3.83	4.10
	11.0%	3.00	3.16	3.34	3.54	3.77

Source: Company Data, IS Research.

Relative valuation

We have assigned a cumulative weight of 30% to relative valuation using average peer valuation multiples, with an equal weighted split between EV/EBITDA and P/E. We have valued NMDC Energy on simple average of FY24e peer valuations.

P/E based valuation: AED17.1bn – AED3.42/sh.

The simple average of peers' P/E multiple is 14.5x, which we have utilized to value NMDC Energy using our FY24e net profit of AED1.19bn. Using this methodology, we foresee a valuation of AED17.1bn or AED3.42 on per share basis. We have assigned a 15% weight to this methodology. Sensitivities to key valuation metrics is as follows:

FY24 P/E Valuation (AEDmn)	
FY24 P/E peer average	14.5x
NMDC Energy FY24e profit	1,185
Total Equity value	**17,119**
Total Equity value (AED/sh.)	**3.42**

Source: Company Data, Refinitiv, IS Research

P/E valuation sensitivity to multiple and FY24 profit (AED/share)

		P/E multiple (x)				
		13.0	14.0	15.0	16.0	17.0
FY24e profit (AEDbn)	1,000	2.60	2.80	3.00	3.20	3.40
	1,100	2.86	3.08	3.30	3.52	3.74
	1,200	3.12	3.36	3.60	3.84	4.08
	1,300	3.38	3.64	3.90	4.16	4.42
	1,400	3.64	3.92	4.20	4.48	4.76

Source: Company Data, IS Research.

P/EV/EBITDA based valuation: AED12.9bn – AED2.57/sh.

The simple average peer EV/EBITDA multiple for FY24e is 8.02x while we expect NMDC Energy to generate total EBITDA of AED1.46bn in FY24. As per our estimates, company would close FY24 with total debt of AED885mn (including lease liabilities) and a cash balance of AED2.07bn. We have assigned a 15% weight to the valuation derived from this methodology. We believe NMDC Energy will command a sizeable valuation premium to peer multiples given the company's strong order backlog, strategic partnerships industry giants, strong and consistent margin profile and net cash position allowing massive headroom for organic or inorganic growth.

FY24 EV/EBITDA Valuation (AEDmn)	
FY24 EV/EBITDA peer average (x)	8.02x
NMDC Energy FY24e EBITDA	1,456
Enterprise value	11,681
Add: Net Cash	1,182
Total Equity value	**12,863**
Total Equity value (AED/sh.)	**2.57**

Source: Company Data, Refinitiv, IS Research

EV/EBITDA valuation sensitivity to multiple and FY24 EBITDA (AED/share)

		EV/EBITDA multiple (x)				
		7.0	8.0	9.0	10.0	11.0
FY24e EBITDA (AEDbn)	1,100	1.78	2.00	2.22	2.44	2.66
	1,300	2.06	2.32	2.58	2.84	3.10
	1,500	2.34	2.64	2.94	3.24	3.54
	1,700	2.62	2.96	3.30	3.64	3.98
	1,900	2.90	3.28	3.66	4.04	4.42

Source: Company Data, IS Research.

Relative peer valuation – Selected peers

NMDC Energy operates under unique business dynamics with a current backlog of AED54bn, translating into 5.1x of LTM revenues. Given a highly visible revenue model, we have chosen a wide range of peers from various geographies. Our chosen peers are either comparable to NMDC Energy directly on business dynamics or belong to the wider energy sector space.

Compared to peers, we believe NMDC Energy may command a valuation premium, owing to better standing on the following:

- Strong backlog of over AED54bn, 5x of Last Twelve Months (LTM) revenues, as well as additional pipeline of potential contracts of AED53bn with average bid-win ratio of 39%.
- Compared to peers, NMDC Energy has a lower debt/equity ratio of 15% versus peer average of 97%.
- Average dividend yield of peers is 1.9%, compared to NMDC Energy's 4.6% yield at current levels.

Selected peers and key metrics

Company	Country	Market Cap USDmn	P/E (x)		EV/EBITDA (x)		P/B (x)		D/E (%)	Div Yld (%)	LTM EBITDA Margin (%)
			FY24	FY25	FY24	FY25	FY24	FY25			
TechnipFMC plc	UK	10,864	19.3	13.7	8.5	6.9	3.4	2.9	36.6	0.8	13.7%
Ackermans & Van Haaren	Belgium	6,927	13.5	11.6	13.9	12.0	1.2	1.1	194.3	1.3	16.3%
Sweco AB	Sweden	6,074	27.9	23.9	17.1	14.8	5.4	4.9	65.1	1.7	13.4%
National Marine Dredging Company	UAE	5,762	6.7	5.3	5.1	4.0	1.9	1.5	39.1	3.0	15.0%
Subsea 7 SA	UK	5,312	22.4	11.4	6.2	4.7	1.2	1.1	31.2	1.7	14.2%
Technip Energies NV	France	4,552	10.6	9.5	3.6	3.2	1.9	1.6	52.4	2.1	4.7%
Arabian Drilling Company	KSA	2,656	21.4	15.5	7.8	7.2	1.4	1.4	52.6	3.5	40.0%
Gulf International Services	Qatar	1,688	9.8	8.5	9.3	8.2	1.7	1.6	143.7	4.5	23.7%
Technicas Reunidas	Spain	1,066	8.9	7.5	4.2	3.8	1.9	1.7	244.0	-	4.7%
Great Lakes Dredge & Dock Corp	USA	658	12.0	11.8	7.6	7.2	1.5	1.3	98.8	-	15.6%
Compagnie d'Entreprises	Belgium	188	6.4	4.9	6.4	5.2	0.7	0.6	111.3	4.2	4.1%
Petrofac Limited	Jersey	122	NaN	4.0	6.5	3.1	NaN	NaN	NULL	-	-12.5%
Simple Average			14.5	10.6	8.0	6.7	2.0	1.8	97.2	1.9	12.8%
NMDC Energy	UAE	4,114	12.8	9.7	9.6	7.3	2.6	2.3	15.3	4.6	11.7%

Source: Refinitiv, IS Research

Key Challenges and Investment Risks

Key Challenges

1) **Increasing focus on sustainable energy sources** – Increasing awareness about climate change has shifted focus toward renewable energy sources including solar rooftops, wind energy, and other sustainable solutions. EPC companies need to adjust their business models to embrace this change and collaborate on sustainable projects to create synergies. NMDC Energy has already joined hands with Technip to advance energy transition projects in MENA region.

2) **Rising geopolitical tensions** – Geopolitical uncertainties alongside multiple elections in 2024 and disagreement within OPEC+ regarding production quota remains a challenge.

Investment Risks

Competition Risk: The Company provides Engineering, Procurement and Construction (EPC) services in the Energy sector, which is a highly competitive segment. The Company may face increasing competition in this industry as a result of new market entrants and from existing players in the market. Any failure by the Company to maintain its competitive position could adversely impact the Company's ability to secure new contracts, materially impacting the future financial performance.

Contract Flow Risk: The company depends on the award of new contracts for large-scale projects in the energy sector and it submits a number of bids each year to win new contracts. Failure to win such bids may have a material adverse effect on its business, financial position and business operations, financial condition and cash flows.

Business Execution Risk: The actual work require to complete a contract could vary from the scope of work originally agreed. If the company is unsuccessful in negotiating variations to existing agreements, the company's financial results may be adversely impacted. Failure to successfully execute projects, or time delay or cost overrun, may also result in substantial penalties or losses.

Capital Risk: The company require substantial capital investment, and there could be restricted covenants in its financing agreements from making future capital expenditures which could adversely impact the company performance in the future years.

Geopolitical Risk: The company has business exposure in different geographies, and any increase in geopolitical risk can adversely impact the financial performance of the company. GCC region accounted for c92% of the consolidated revenue in 2023. Economies in GCC are heavily dependent on the oil and any decrease in the global oil prices can adversely the region and the company.

Concentration Risk: The company is exposed to concentration risks from its dependence on a limited number of significant clients at any given time.

Third Party Risk: The Group relies on third-party equipment manufacturers and subcontractors and may be exposed to liability for their act and/or omissions.

About NMDC Energy

About NMDC Energy

About NMDC Energy: NMDC Energy (formerly known as NPCC), was established in 1973 and is a fully owned subsidiary of NMDC Group. The Company provides engineering, procurement and construction services ("EPC") to both offshore and onshore Oil & Gas industry clients and has executed over 1200+ projects, comprising of 1,360 installed structures, c. 8,000 km of laid pipelines both onshore and offshore, and c. 2000 km of marine cables. The main clients of NMDC Energy include industry leaders like ADNOC and Aramco.

The Company primarily operates in UAE, Saudi Arabia, Kuwait, and Taiwan and owns 33% stake in Principa (France), 100% in NEL India and 80% in ANEWA India, which provide engineering services. NMDC Energy has procurement and client interface offices in Spain, Italy, China and Malaysia.

The company owns 4 fabrication yards namely: ICAD4 Yard, Modular Fabrication Yard, KSA Yard and the Mussafah Yard (one of the largest fabrication yards in MENA region), and owns 18 vessels comprising of heavy lift and pipelay vessels, pipelay barges, jack up barges, cable laying barges, anchor handling tugs, and transportation cargo barges.

NMDC Energy Global Presence : Beside the home market in UAE, NMDC has international presence in nine countries. The company has 3 yards in UAE with an area of 1.5mn sq. mt. and is currently executing 29 projects worth AED44.3bn. In KSA the company has established a new yard with total area of 400k sq. mt. and is currently executing 12 projects with a total value of AED14.4bn.

The company has two engineering offices in India (NEL and ANEWA) and one in France (Principia Engineering), and procurement offices in Spain, Italy, China and a client interfacing office in Malaysia. In Taiwan the company is executing the largest offshore wind farm project worth AED800mn and executing a project in Kuwait worth AED850mn.

NMDC Energy: Established in 1973, and headquartered in Mussafah, Abu Dhabi, this entity oversees the strategic direction, governance, and operational management of global portfolio of projects.

National Petroleum Construction Co. (Saudi) Ltd.: The company is crucial to tender and execute projects in KSA effectively and holds a construction yard of 400k sq. mt.

NPCC Engineering Pvt. Ltd. (NEL): Headquartered in Mumbai (India), the company offers Design & Engineering Services to the Energy sector.

ANEWA Engineering Pvt. Ltd. (ANEWA): Established in 2007, it offers design & engineering services to energy onshore and offshore projects and various other industries.

NT Energies JV: Joint Venture between Technip Energies and NMDC Energy, providing value-added services in blue and green hydrogen, decarbonization projects, and Carbon Capture, alongside industrial initiatives in waste-to-energy, biorefining, and biochemistry.

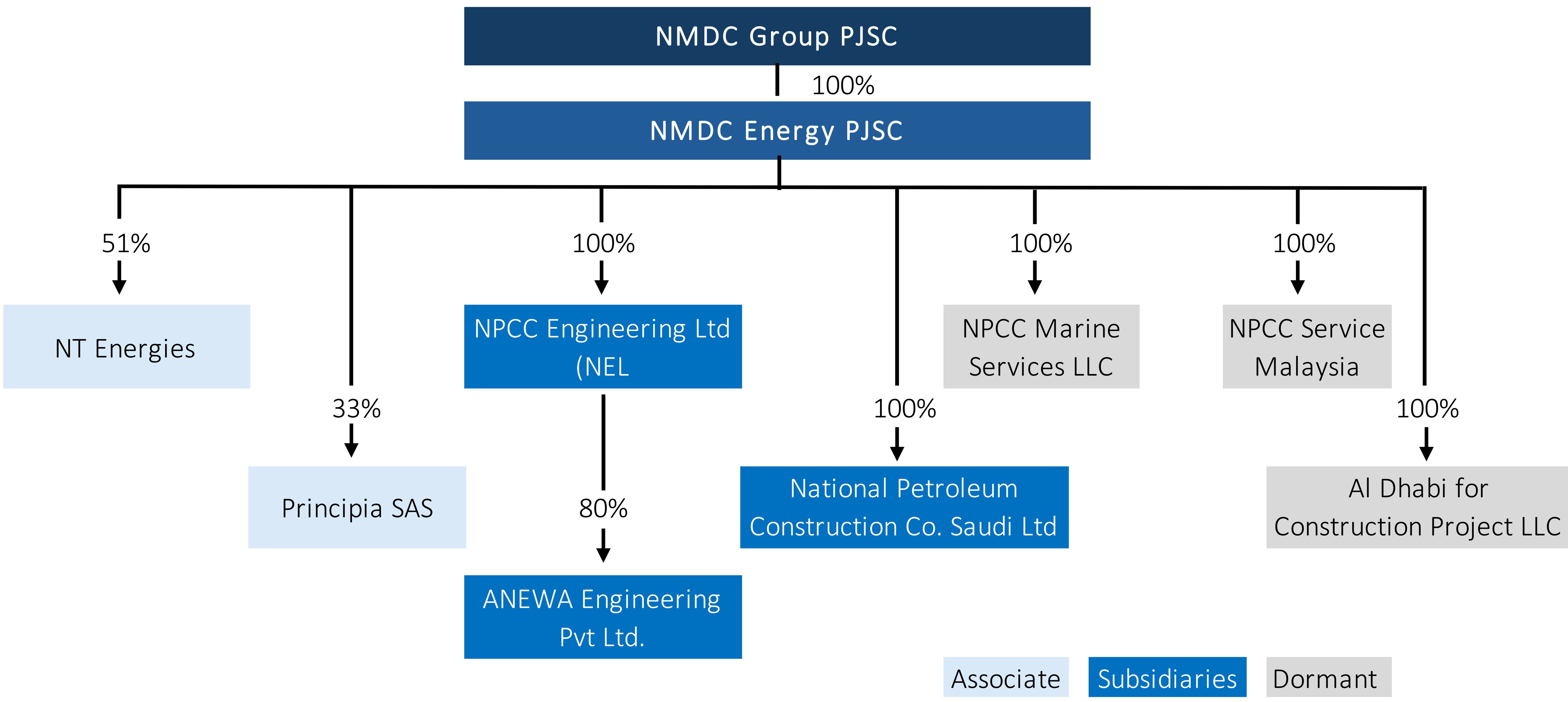
Principia SAS: Joint Venture between ARTELIA, Naval Group and NMDC Energy and a renowned name in engineering expertise for the Offshore, Maritime, and Nuclear industries.

Total Workforce: *15,673*

Revenue FY23: *AED7.9bn*

EBITDA FY23: *AED953mn*

Current Backlog *: AED54bn (as of Jun 2024)*



About NMDC Energy

NMDC Energy Key Milestones

1973: NMDC Energy founded, under NPCC name	1974: Launch of Saadiyat fabrication yard Established Offshore Construction division	1986: Launch of onshore operations Launch of engineering division	1994: Commissioning of FBE/PE/PP coating plant
2016: NMDC Energy acquires 33.3% in Principa Engineering	2007: Established Engineering Company in India (NEL) & acquisition of ANEWA	2001: Won first major EPC contract	1995: Launched Mussafah fabrication yard
2019: Guinness world record for heaviest topside module of Umm Lulu Super Complex	2021: Merger with NMDC PJSC	2023: Ranked 1st in Oil & Gas Middle East & NPCC Rebranded to NMDC Energy	

Core Services

1) **Engineering:** Comprises of 1,900 skilled engineering personnel based in 4 centers in Abu Dhabi, Mumbai, Hyderabad, and France, the engineering division provides innovative onshore and offshore engineering solutions. There are four operating centers i.e. NMDC Energy, NEL, ANEWA, and Principa. The engineering manpower is largely based in UAE (700) and India (1,200). The engineering capabilities covers Civil, Mechanical, Structural, Electrical, Piping, Architectural, Telecommunication, Safety, Instrumentation control etc.

2) **Procurement:** Managed by a strong team of 300+ highly qualified professionals controlled out of Abu Dhabi using a Hub and Spoke model. The procurement team is supported by a global network of offices (Europe, India, and China), expeditors and inspectors, handling a wide range of procurement requests to deliver for NMDC Energy and its clients.

3) **Construction:** Fabrication yard with a total area of over 1.3mn sq. mt has an annual capacity of 100,000 metric tons and the ability to load out topsides weighing up to 25,000 metric tons. The yards ensure efficient and precise production, including production of certified pressure vessels with a wall thickness of 200 mm and a production capacity of 9,000 tons. NMDC Energy's fabrication yards are tailored to cater demand of both offshore and onshore Energy projects and has modern facilities capable of handling a wide range of EPC construction tasks, from wellheads to process platforms.

Geographic Presence
Europe: *Spain, Italy, and France*
GCC: *UAE, KSA, and Kuwait*
Asia: *India, China, Taiwan and Malaysia*

List of Construction Yards

Mussafah Yard	**Area:** 1.3km2 **Manpower:** 15,000 **Capabilities:** major structures such as platforms, decks, etc
ICAD4 Yard	**Area:** 0.312km2 **Manpower:** 350 **Capabilities:** Pipe coating
Modular Fabrication Yard	**Area:** 0.168km2 **Manpower:** 3,000 **Capabilities:** Modular fabrication
KSA Yard	**Area:** 0.40km2 **Manpower:** 5,000 **Capabilities:** PDMs, Jackets

About NMDC Energy

EPC Services:

a. **Offshore:** With over five decades of experience in the energy sector, the company specializeS in delivering EPC solutions tailored to the unique needs of offshore greenfield and brownfield projects for leading Energy companies**.** The company expertise covers beach pulling, pipe laying, subsea works, risers, above water tie-ins, transpooling, and installation of low and high voltage cables and umbilicals, jackets, bridges, and topsides using lifting and float over techniques apart from pre-commissioning, hook up and commissioning & decommissioning services.

b. **Onshore:** NMDC Energy has experience in executing large brownfield and greenfield onshore projects and provides full range of services from engineering to turn-key EPC solutions covering design and construction of process facilities, pipelines and storage facilities. The executed projects includes downstream EPC for refinery, liquification, pipelines, storage, and LNG.

c. **Pipe Coating:** In 1994, the Company installed the first plant for three-layer coating with outer diameters ranging from 3" to 52", which improved to pipes with diameters from 3" to 48" in 2014 and later upgraded to coat pipes up to 64" in diameter in 2023. The company occupying an area of 140,000 square meters for the state of the art pipe coating facility in Mussafah and is capable of coating 900km pipeline per year. The company also undertakes pipe coating services using fusion bonded epoxy, polyethylene, polypropylene, and reinforced iron ore-concrete mixture coatings.

d. **Pressure Vessels:** With deep understanding of pressure vessel manufacturing, the fabrication yard can build vessels of carbon steel or corrosion resistant steel with a wall thickness of up to 200mm.

Backlog

As of 30 June 2024, the company has a **backlog of AED54bn**, reflecting the robust pipeline of upcoming projects. These are projects for which the contracts have already been secured. The company constantly bids for new projects and has a bid win rate of 39% over the last three years. The backlog comprises a diverse range of projects, spread across various geographies**,** including UAE, KSA, Kuwait, and Taiwan.

Key projects under current backlog

1) **Hail & Gasha Project** : Aggregate order value of AED15.0bn and expected completion date of Q3-2028
2) **MERAM Project** : Aggregate order value of AED6.4bn and expected completion date of Q3-2027
3) **ZULUF Project** : Aggregate order value of AED8.0bn and expected completion date of Q2-2026
4) **HURLK Project** : Aggregate order value of AED2.3bn and expected completion date of Q3-2026
5) **Lower Zakum LYDP1** : Aggregate order value of AED8.8bn and expected completion date of Q2-2028

Selected Won Projects

2023

*UAE: Hail & Ghasha development, ESTIDAMA Package 3, MERAM Project **(worth AED22.8bn)***

*KSA: Zuluf Trunkline – Z1, Zuluf Package – 3, Zuluf Package – 4 **(worth AED5.1bn)***

*Global: T&I work of Monopiles in Yunlin Wind Farm, Taiwan **(worth AED0.3bn)***

1H24

1. *ADNOC Lower Zakum HURLK + 20 EPC Project **(worth AED2.3bn)***
2. *ADNOC LZ LTDP-1 – EPC Work for EPS-2 & PDP **(worth AED8.8bn)***
3. *ADNOC Ruwais LNG Facilities EPC Projects **(worth AED4.0bn)***

Awards & Recognitions

1) *#1 EPC Contractor in the Middle East (2020, 2022, 2023)*
2) *Quality Award Winner 2024 my Make It in the Emirates*
3) *Sheikh Khalifa Excellence Award in 2019*
4) *Guinness World Record Holder for Heaviest Single Module*
5) *Largest Fabrication Yard in the MENA region*
6) *3 times winner of British Safety Council Swords of Honour*
7) *10 Years Consecutive winner of RoSPA Safety Award Gold*
8) *Highest ICV Score amongst industry peers in 2022 and 2023*
9) *Biggest Construction Fleet in MENA Region: 19 Vessels*
10) *Industry 4.0 Digital Leader for Ministry of Industry & Advanced Technology*

Total Backlog AED54bn as of 30 Jun 2024

Company Strategic Growth Initiatives

The company is committed to seek avenues for growth and expansion by investing into new areas for growth and by diversify revenue streams to mitigate market volatility and align itself with global sustainability trends. Following are couple of areas and initiatives undertaken by NMDC Energy to grow, diversify and expand its business operations.

Growth strategy is aligned with sustainability and energy transition

1) **Energy Transition:** Through its JV NT Energies (with Technip Energies) the company is poised to benefit from energy transition opportunities which is estimated to exceed AED56bn over the next five years in the GCC market alone. NT Energies is headquartered in Abu Dhabi and has commitments to advance energy transition in the UAE, broader Middle East, and North Africa. NT Energies provides value-added services in blue and green hydrogen, decarbonization projects, and carbon capture, alongside industrial initiatives in waste-to-energy, biorefining, and biochemistry.

Focus is growing towards renewables

2) **Renewables:** The Company has strategically expanded into renewable energy by partnering with Masdar to accelerate green technology adoption and create new opportunities for clean energy integration. The company renewable energy portfolio includes UAE's first green hydrogen facility and an offshore wind farm in Taiwan. The Taiwan Wind farm project is expected to double revenue by acquiring a DP vessel propelling the company to reach an annual revenue exceeding AED1bn and solidifying its position in the renewable energy sector.

3) **International Expansion:** The company has already established a new yard in KSA with an investment exceeding AED200mn reflecting its commitment to enhance its capabilities and handle greater volume of projects in KSA. Entry into Southeast Asian market through its partnership with Sapura heralds has open new opportunities for the company in the region. The company also plan to enter into the African oil market, as the continent offer immense potential with projects estimated worth AED850bn expected to come over the next five years in the region.

Planning to enter into Decommissioning sector

4) **Sector Expansion:** NMDC Energy is planning to enter into the Decommissioning sector through building its own inhouse capabilities or through an acquisition.. Further as per the study from the Rystad Energy total expected global decommissioning expenditure out to 2050 is around USD500bn of which USD 128bn between 2022 and 2030. The company has already expanded into Onshore business by winning five ongoing onshore projects worth AED25.1bn. The company is also exploring opportunities to expand its coverage in the upstream oil and gas value chain and diversify revenue streams into Operations and Maintenance activities (O&M) which are typically long-term contracts.

Additional yard getting ready in Musaffah for module fabrication, with an area of 220,000 sq. mt.

5) **Enhancing Capabilities:** An additional yard has been identified in Musaffah with an area of 220,000 sq. mt. to focus on modular fabrication. Whilst the company is currently expanding the capabilities of its engineering office in India (NEL) to undertake small and medium-sized EPC projects.

Partnerships and Alliances

1. **Saudi Aramco (2016) :** NMDC Energy forged a pivotal partnership with Saudi Aramco, culminating a long-term agreement aimed at executing world class offshore development projects. Since the inception, 22 projects have been awarded with a cumulative value surpassing AED28bn.
2. **Masdar (2022) :** The company signed an MOU with Masdar marking a strategic collaboration to explore the development of renewable energy projects under sustainable initiatives.
3. **Technip Energies (2022) :** JV between NMDC Energy & Technip Energies (NT Energies) to support energy transition by providing value-added services in the blue and green hydrogen sector, decarbonization projects, and in capturing carbon dioxide. NMDC Energy led consortium with Technip Energies won a front-end engineering design contract for a Carbon Capture and Storage (CCS) at the Kasawari gas field in Malaysia, one of the world's largest offshore CCS project.
4. **Borouge (2023) :** An MOU was signed to supply critical materials for key energy projects in UAE, valued at nearly AED60mln.
5. **ADNOC (2023) :** MOU between NMDC Energy and ADNOC for steel fabrication structure works was signed.
6. **Saipem (2023) :** NMDC Energy leads a consortium with Saipem for the development of Hail & Ghasha natural gas field project with a total value of more than AED30bn.
7. **Tecnicas Reunidas :** NMDC Energy lead a consortium with Tecnicas Reunidas for Methane Recovery and Maximization (MERAM) project from ADNOC Gas worth more than AED13bn.
8. **CAT Group :** NMDC Energy led consortium with CAT for Estidama package 3 project worth more than AED13bn
9. **Technip Energies & JGC :** NMDC Energy partnership with Technip Energies and JGC (TJN Ruwais JV), is for the Ruwais low-carbon LNG project (RLNG) from ADNOC with a total value of more than AED20bn.

<u>Key Clients:</u>

1) **ADNOC –** NMDC Energy has been working with ADNOC for over the past five decades and is assured of receiving order flows from ADNOC due to its consistent high-quality deliverables, competitiveness and local integrated solutions. The company expects opportunities worth AED20bln in onshore projects, AED30bn in offshore projects and AED20bn in Gas projects coming from ADNOC.
2) **Saudi Aramco –** Saudi Aramco has awarded projects worth more than AED26bn to NMDC Energy over the past five years. NMDC Energy presence in KSA further proves operational flexibility and economies of scale. Tenders worth AED20bn have already been submitted, while tenders worth AED25bn are under preparation. The company expects tenders worth AED15bn to come from Aramco on the onshore segment.

- *~4.86mn barrels of oil production capacity per day*
- *~10bn standard cubic feet of gas production per day*
- *~96 rigs used for a large number of well drilling on land, surrounding seas of Abu Dhabi and on artificial islands*

- *~12mn barrels oil production capacity pe day*
- *Major oil fields include: Fadhili, Marjan, Jafurah, Wasit, Shaybah, Zuluf, Safaniya and Manifa*
- *Aramco owns 70% stake on SABIC (the world's largest petrochemicals manufacturer)*

ESG

NMDC Energy is dedicated to embedding Environmental, Social, and Governance (ESG) principles throughout its operations. The Company's ESG initiatives are focusing on key issues like climate change and ethical practices, aiming to contribute positively to the global energy transition while delivering value to its stakeholders. Below are the key ESG initiatives. Below are the key ESG initiatives taken by the company:

ESG initiative	Description
Yard Electrification	Substantial investments in yard upgrades and electrification enable NMDC Energy to operate more efficiently while advancing towards a greener future.
Circularity in projects	Strategic move to double its revenue from wind projects by acquiring a dynamic positioning vessel is poised to be a transformative step, propelling the company towards an annual revenue exceeding AED 1bn and solidifying its position as a key player in the rapidly expanding renewable energy sector.
Value Engineering	Value engineering is a key principle within the Company's engineering department, focused on achieving more with less material and delivering projects within a smarter way.
Digitalization	NMDC delivers fully digitized projects, tools like digital twin increase efficiency, reduce travel and enable artificial intelligence solutions.
Energy management system	NMDC Energy has an energy management system in place to reduce energy consumption in the offices and on the yard.
Waste management & reduction program	NMDC Energy has a waste management and resource recovery system in place to collect and segregate operational waste. In addition, NMDC Energy undertakes renovation, repurposing, or decommissioning of offshore platforms to extend their lifecycle or ensure proper dismantling, facilitating recycling of waste materials back into the value chain.

Source: Company Data IS Research.

Market Outlook

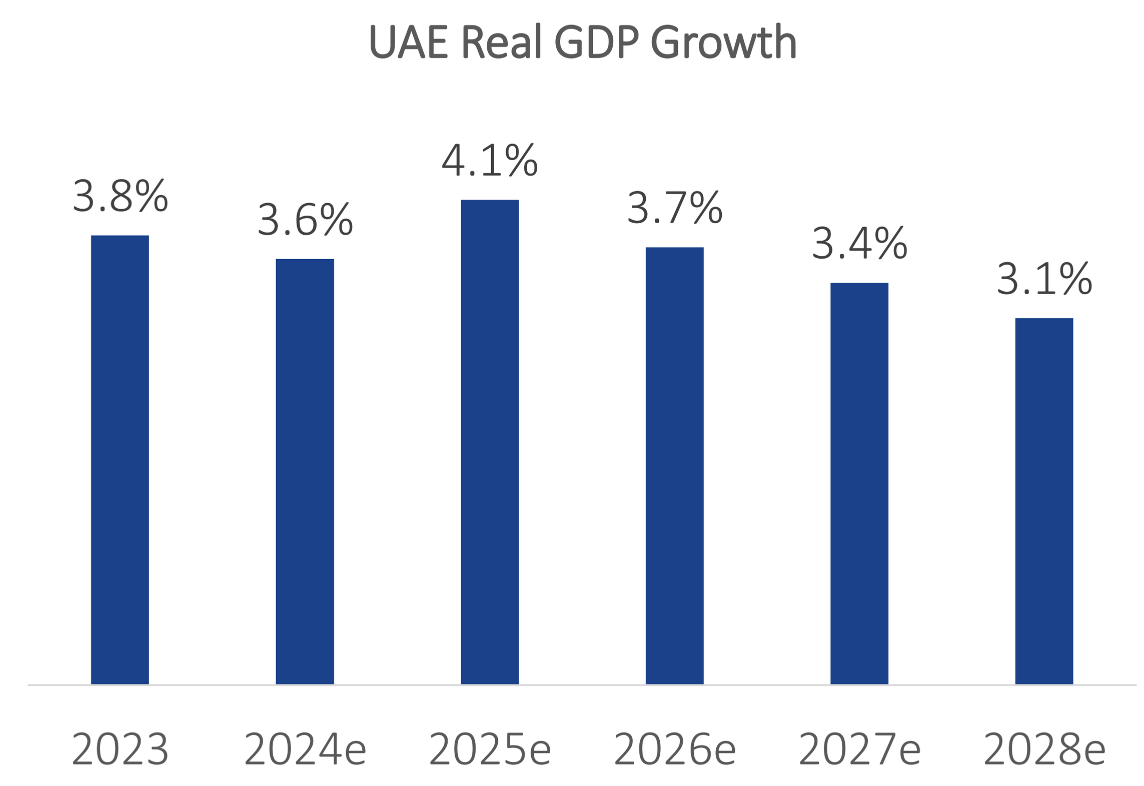
The global energy demand is expected to be driven by population growth, which is expected to increase by 2 billion people by 2050, alongside increase in prosperity in rapidly urbanizing emerging economies that are improving access to energy. There are different scenarios reflecting the prospective of EIA or OPEC, like government policies, geopolitical stability, and environmental targets influencing energy demand. But despite of changing variables, all scenarios projects an increase in absolute energy demand by 2050. The growth in renewables is anticipated to be the fastest, all forms of energy will be necessary for the foreseeable future. Oil and gas are expected to continue comprising a significant portion of the total energy supply in all projected scenarios.

Energy investments in the Middle East are expected to reach USD175bn in 2024, with clean energy comprising around 15% of the total. By 2030, clean energy investment is expected by the IEA to more than triple compared to 2024 levels. Upstream oil and gas capex is expected to grow by USD24bn in 2024, surpassing USD600bn. The International Energy Forum forecasts annual investment will need to grow by another USD135bn, or 22%, to USD738bn by 2030 to ensure adequate supply.

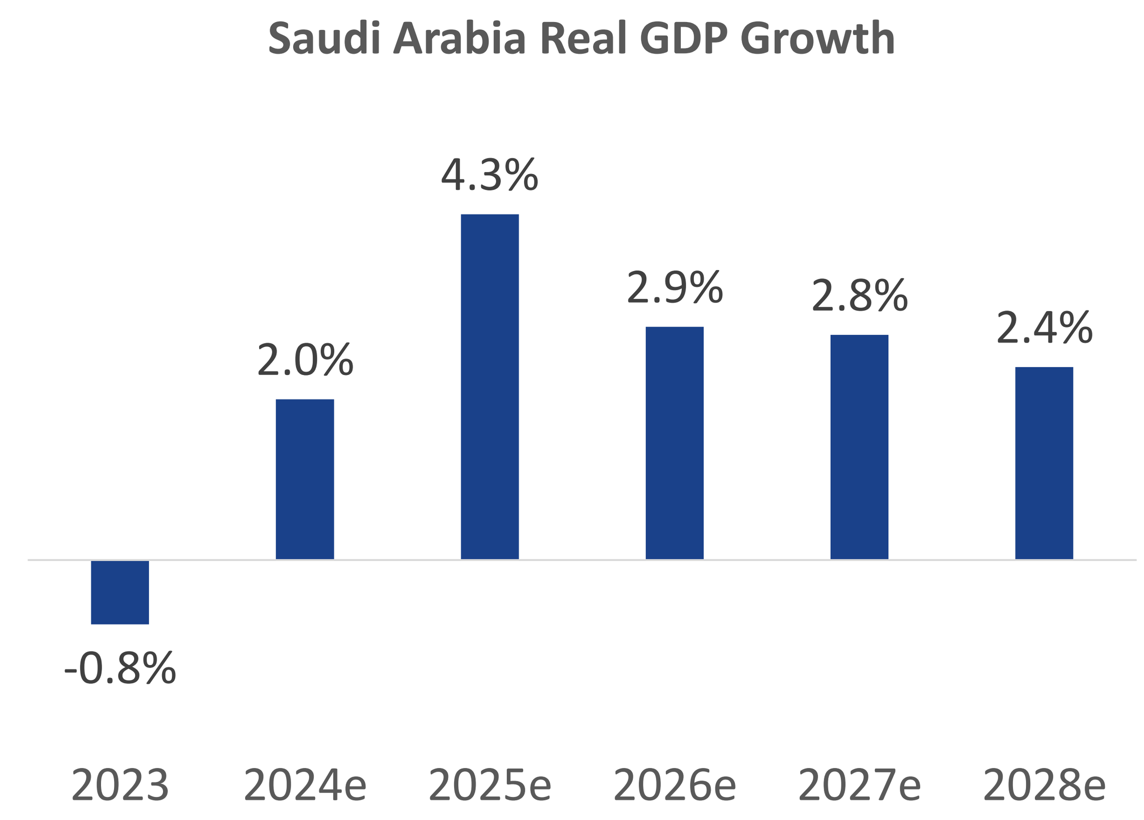
Five of the twelve countries in the Middle East region have set net-zero emission targets. The UAE and Oman aim to achieve net-zero emissions by 2050, while Saudi Arabia, Bahrain, and Kuwait have set a target for 2060. Additionally, the UAE has committed to reducing emissions by 19% by 2030 from 2019 levels and has pledged USD30bn in catalytic capital to launch a climate-focused investment initiative at COP28 (Source IEA).

According to EIU, **UAE real GDP is expected to grow by 3.6% in 2024 and 4.1% in 2025**, driven by a rising contribution from non-oil sectors, whilst oil continues to plays a significant role. Oil based economy contributes about 50% of Abu Dhabi GDP. Oil and gas capacity expansion is expected to continue with OPEC+ quotas are lifted in 2025, resulting in higher UAE oil production. Non-oil sectors such as tourism, business services, and logistics are witnessing strong growth, with private sector playing a crucial role. The non-oil GDP is expected to keep growing between 2024-2028, supported by a favorable business environment, world-class infrastructure, and high oil-related liquidity. Inflation on the other had is expected to remain stable as global commodity prices and supplychain bottlenecks ease.

KSA GDP contracted in 2023 primarily on account of decline in oil prices and voluntary oil production cuts. However, in 2024 the GDP is expected grow by 2.0% led by strong performance from non-oil sectors (such as tourism, manufacturing, and logistics). In 2025, economic growth will accelerate further, as oil output increases with the gradual lifting of production curbs, and strategic development projects under Vision 2030 drive investments. The private sector contribution to the economy is expected to improve to 65% by 2030, from 43% in 2022. Overall inflation is expected to stay stable at 2.1% in 2024-25 and increase by 2.3% between 2026-28 due to stronger domestic demand. The oil & gas sector is still expected to remain the major driver of real GDP growth.



Source: Economist Intelligence Unit (EIU), IS Research.



Source: Economist Intelligence Unit (EIU), IS Research.

Global Oil and Gas EPC industry

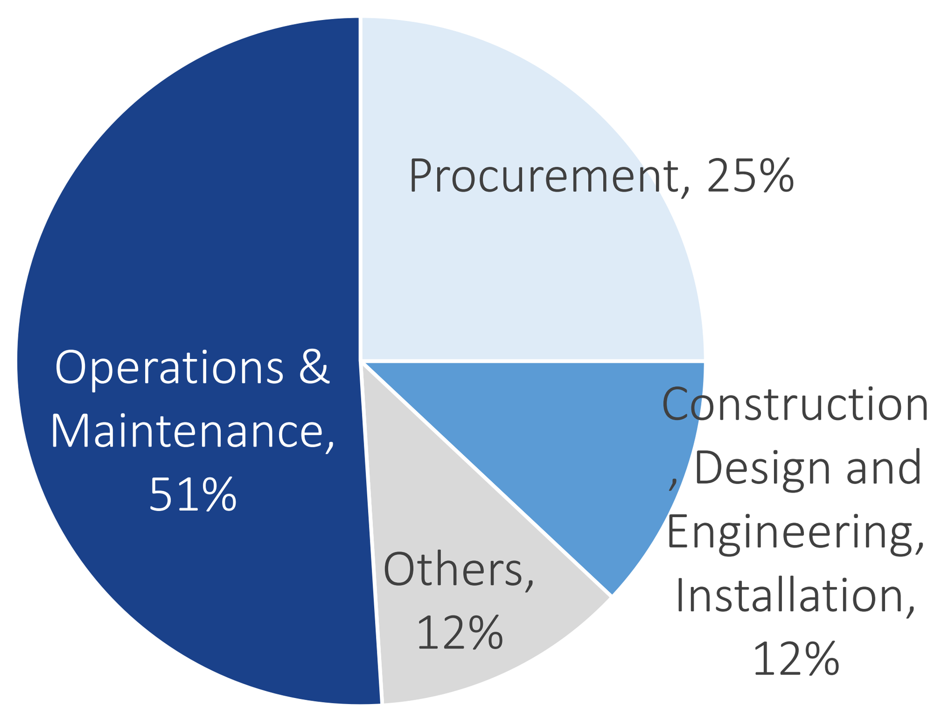
Despite a YoY decrease in the volume of number contract disclosed in 2023, the industry has sustained the momentum in contract value. Significant projects such as North Field South LNG, Golden Pass LNG, Hail and Ghasha field, Agogo FPSO, and the expansion of the Amiral petrochemicals facility maintained the momentum. The key high-value contracts include 1) Technip Energies and Consolidated Contractors' secured a USD10bn EPCC contract for Qatar Energy's North Field South LNG project. 2) Tecnimont's USD8.7bn contract in UAE. 3) Saipem and NMDC Energy Consortiums' USD8.2bn EPC contracts for the Hail and Ghasha Development Project in the UAE. 4) Yinson Holdings' USD5.3bn Agogo FPSO charter and maintenance. 5) Hyundai's USD5bn EPC work for the Amiral petrochemicals facility expansion in KSA.

The operations and maintenance contracts represented 51% of the total contracts awarded in 2023, followed by procurement activities 25%. The rest 24% comprised construction, design and engineering, installation, asset retirement, and others scopes.

Global Oil & Gas EPC projects by value

2022: USD189.9bn
2023: USD187.5bn

2023 O&G contracts share by volume



UAE Oil & Gas EPC market overview

The UAE continues to focus on enhancing oil and gas production capacity, despite OPEC+ group's efforts to reduce production as a precautionary measure to regulate prices. ADNOC has announced oil discoveries at Bu Hasa (500 mn b/d), Abu Dhabi's Onshore Block 3 (100 mn b/d) and 50 mn barrels of light and sweet Murban-quality crude at Al Dhafra Petroleum Concession.

The demand for EPC contractors is expected to stay robust due to the discovery of new oil and gas reserves and ongoing efforts to improve capacity. However, in the long term, the growing emphasis on sustainable energy sources may lead to some slowdown in demand. The key EPC players in the UAE market include NMDC Energy, Petrofac, Saipem, and Technip Energies.

Key Drivers for EPC Contracts

1) **New oil & gas discoveries** – The growth in new oil and gas fields discoveries across Middle-East region is expected to drive demand for EPC contractor services.

2) **Rising investments in upstream** – Complex and advance technologies are required in the upstream sector, ranging from seismic surveys, geological modeling to drilling and well completion. Increase in investment toward the sector drives the need of EPC contractor services.

3) **Focus on technological enablement** – Digital transformation is essential for the EPC companies in the energy sector, as digital engineering tools can significantly improve project performance and predictability.

Key ADNOC EPC contracts FY23-YTD'24

Mar 2024 – Awarded EPC contract for LNG project in Al Ruwais Industrial City. The project would be led by Technip Energies, JGC Corporation and NMDC Energy

Oct 2023 – Awarded EPC contracts for Hail and Ghasha offshore sour gas field development project to a consortium of NMDC Energy and Saipem (USD8.2bn)

Jul 2023 – Awarded EPC contracts to consortium of Petrofac, NMDC Energy and C.A.T International for the expansion of natural gas pipeline network under ESTIDAMA program (USD1.3bn)

Jun 2023 – Awarded EPC contracts to Petrojet (Package 1 to Package 5), Galfar (Package 2), Matrix Construction and Arabian Industries (Package 3 and 4) for Bab and Asab oil field clusters to enhance crude oil production (USD516mn)

Key managerial Personnel

Eng. Ahmed Al Dhaheri (CEO) – Mr. Al Dhaheri is CEO of NMDC Energy since 2018 and has over 22 years of experience in the industrial sector. He leads the current business and transformation of the company and oversees the growth strategy, focusing on new markets and capabilities while driving operational excellence across all levels. In addition to his role at NMDC Energy, Mr. Al Dhaheri serves as the Chairman of NTS Group and as Vice Chairman of Enersol, a joint venture between Alpha Dhabi Holding and ADNOC Drilling. Mr. Al Dhaheri also sits on the boards of Abu Dhabi Aviation & other companies. Prior to joining NMDC Energy, he was the Chief Commercial Officer of Emirates Steel, where he played a leading role in the delivery of the company's expansion strategy. Mr. Al Dhaheri holds a Bachelor of Science in Industrial Engineering from the University of Miami and a Masters Certificate in Project Management from the George Washington University, as well as an Executive MBA from UAE University.

Eng. Hesham Awda (COO Offshore) – Hesham Awda is the COO of Offshore division since 2018. He is also serving as General Manager of NPCC KSA, and a board member of Safeen, NEL and ANEWA. Mr. Awda has over 25 years of experience in Project Management, Engineering, and Technical Support in the Oil & Gas Industry. His extensive industrial experience includes managing Engineering, Construction and Execution of Major Green and Brown Field Projects, with a current portfolio of over AED25bn worth of projects in the Middle East region and other geographies. Mr.Awada manages the business performance of offshore operations, through managing and directing overall project execution and delivery, fabrication yard operations, and offshore operations. He holds a Bachelor's Degree in Mechanical Engineering from UAE University, and a Postgraduate Certificate in Engineering Systems and Management from the American University of Sharjah.

Paolo Bigi (COO Onshore) – Mr. Bigi has recently joined NMDC Energy and has over 35 years' experience in the onshore Energy EPC Industry. Mr. Bigi started his career in Tecnimont where he covered various Operating and Business Development roles over a period of 22 years. He has subsequently joined Techint E&C as CEO and Petrofac as Managing Director and spent the last few years in Saudi Arabia, ultimately as Group CEO of Arkad. He has graduated with honors in Mechanical Engineering at the University of Milan and holds a master in Management from INSEAD.

Eng. Hanna Dahdah (Chief Engineering & Commercial Officer) – Hanna Dahdah is the Chief Engineering & Commercial Officer (CECO) NMDC Energy since 2021. Mr. Dahdah has been with NMDC Energy for over four decades, dedicating his career to the growth and success of the organization. An expert in the oil & gas industry, his impressive journey combines project engineering experience, supply chain management, business acumen and strategic development expertise. In his current role, he leads the commercial functions of Business Development, Contracts and Proposals, and Supply Chain for NMDC Energy. In addition, he serves in the Board of Directors for NPCC Engineering Limited (NEL) and ANEWA India. He has over 30 years of in-depth experience in the industrial sector and holds a Bachelor of Science Degree from the University of Manchester in the United Kingdom.

Ashish Khandelwal (Finance Director) – Mr. Khandelwal has recently joined NMDC Energy, but carries over 25 years' of experience in Finance and Investments. He started his career with one of the big four audit firms and subsequently transitioned into Deal Advisory, covering an array of services including financial due diligence, M&A and restructuring advisory. He has previously held senior leadership roles with big four firms, including as Partner with both KPMG in the UAE and PricewaterhouseCoopers in the Middle East. In his previous roles, he has worked with some of the largest corporate and investment companies in the region, advising senior management and board level executives on finance, strategy and investment matters. Mr. Khandelwal has previously advised on some of the largest deals in the region and has significant experience of working on mandates related to the Energy sector. He is a Chartered Accountant from India and holds a bachelor's degree in finance and commerce.

Financials

Financial Statements

Income statement (AED mn)

	FY21	FY22	FY23	1HFY24	FY24e	FY25e	FY26e	FY27e	FY28e
Contracted revenue	3,943	5,382	7,941	5,808	13,706	17,950	18,800	20,200	21,250
Direct costs	(3,466)	(4,739)	(6,795)	(5,106)	(11,924)	(15,617)	(16,318)	(17,493)	(18,360)
Gross Profit	**476**	**643**	**1,145**	**702**	**1,782**	**2,334**	**2,482**	**2,707**	**2,890**
Other operating expenses	(311)	(251)	(200)	(135)	(331)	(416)	(417)	(428)	(429)
G&A	(43)	(22)	(121)	(63)	(196)	(239)	(231)	(228)	(219)
Other income	35	34 -	22	20	20	21	21	22	23
Net finance cost	(33)	(31)	15	20	39	21	10	8	11
Profit before tax	115	363	805	538	1,303	1,710	1,854	2,070	2,265
Income tax	16	(23)	(25)	(35)	(117)	(154)	(278)	(310)	(340)
Profit after tax	131	577	780	502	1,186	1,556	1,576	1,759	1,926
Shareholder profit	**131**	**577**	**780**	**501**	**1,185**	**1,554**	**1,574**	**1,757**	**1,924**
EBITDA	**361**	**607**	**953**	**650**	**1,456**	**1,898**	**2,070**	**2,291**	**2,486**
EPS	**0.03**	**0.12**	**0.16**	**0.10**	**0.24**	**0.31**	**0.31**	**0.35**	**0.38**
DPS					**0.14**	**0.14**	**0.14**	**0.14**	**0.14**

Balance sheet (AED mn)

	FY21	FY22	FY23	1HFY24	FY24e	FY25e	FY26e	FY27e	FY28e
Property, plant and equipment	2,591	2,547	3,041	3,148	3,668	4,020	4,355	4,412	4,467
Others	316	323	316	451	309	303	296	289	283
Total Non-current assets	**2,907**	**2,870**	**3,357**	**3,598**	**3,978**	**4,323**	**4,651**	**4,702**	**4,750**
Inventories	144	241	236	186	457	578	581	599	604
Trade receivables	1,857	2,978	3,199	5,746	9,763	12,540	12,877	13,559	13,973
Contract assets	1,500	1,018	2,209	3,125	2,231	2,253	2,275	2,298	2,321
Cash and bank	579	1,682	3,004	2,578	2,067	1,839	1,336	1,566	2,479
Others	-	786	1,016	1,238	1,753	2,296	2,405	2,584	2,718
Total current assets	**4,080**	**6,705**	**9,663**	**12,872**	**16,272**	**19,506**	**19,475**	**20,606**	**22,095**
Total Assets	**6,987**	**9,575**	**13,020**	**16,470**	**20,249**	**23,829**	**24,126**	**25,308**	**26,845**
Equity and Liabilities									
Share capital	100	100	100	100	2,500	2,500	2,500	2,500	2,500
Retained earnings	3,086	3,663	4,443	4,194	3,228	4,084	4,960	6,020	7,245
Others	45	36	56	75	57	59	61	62	65
Total Equity	**3,231**	**3,800**	**4,599**	**4,368**	**5,786**	**6,643**	**7,521**	**8,582**	**9,810**
Term loans	1,109	845	580	448	325	165	165	365	665
Others	549	544	558	646	536	508	481	455	429
Total Non-current liabilities	**1,659**	**1,388**	**1,138**	**1,094**	**861**	**673**	**646**	**819**	**1,094**
Trade payables	1,767	3,785	6,795	10,332	13,068	16,044	15,648	15,576	15,593
Term loans	264	264	264	264	260	160	-	-	-
Others	65	337	224	412	275	309	312	330	347
Total current liabilities	**2,097**	**4,387**	**7,283**	**11,008**	**13,603**	**16,513**	**15,960**	**15,907**	**15,941**
Total Liabilities	**3,755**	**5,775**	**8,422**	**12,102**	**14,464**	**17,186**	**16,605**	**16,726**	**17,035**
Total Equity and Liabilities	**6,987**	**9,575**	**13,020**	**16,470**	**20,249**	**23,829**	**24,126**	**25,308**	**26,845**

Key ratios

	FY21	FY22	FY23	1HFY24	FY24e	FY25e	FY26e	FY27e	FY28e
Gross margin	12.1%	11.9%	14.4%	12.1%	13.0%	13.0%	13.2%	13.4%	13.6%
EBITDA margin	9.2%	11.3%	12.0%	11.2%	10.6%	10.6%	11.0%	11.3%	11.7%
Revenue (YoY)	-10.9%	36.5%	47.6%	87.9%	72.6%	31.0%	4.7%	7.4%	5.2%
Shareholder's profit YoY	22.9%	339.4%	35.2%	106.8%	51.9%	31.2%	1.3%	11.6%	9.5%
Operating expenses/sales	-9.0%	-5.1%	-4.0%	-3.4%	-3.8%	-3.6%	-3.4%	-3.2%	-3.0%
Net working capital/revenue	42.3%	16.7%	-4.5%	NA	6.3%	7.3%	11.6%	15.5%	17.3%
ROE	4.1%	15.2%	17.0%	NA	20.5%	23.4%	20.9%	20.5%	19.6%

Source: Company Data, IS Research.

Cash Flow Statement

Cashflow (AED mn)

	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Net Profit	131	577	780	1,186	1,556	1,576	1,759	1,926
Depreciation & amortization	240	213	162	192	209	226	229	232
Working capital changes	87	766	1,257	(1,233)	(450)	(864)	(955)	(541)
Cash flow from operations	**459**	**1,556**	**2,200**	**145**	**1,315**	**938**	**1,033**	**1,616**
Capex	(68)	(176)	(649)	(813)	(550)	(550)	(275)	(275)
Interest*	28	33	(16)	(36)	(19)	(9)	(7)	(10)
FCFF	**419**	**1,413**	**1,535**	**(704)**	**746**	**379**	**752**	**1,332**
Interest*	(28)	(33)	16	36	19	9	7	10
Net debt	(325)	(269)	(248)	(270)	(290)	(187)	174	275
FCFE	**66**	**1,111**	**1,303**	**(938)**	**470**	**196**	**928**	**1,611**
Dividends & Reserves Change	4	(9)	18	-	(700)	(700)	(700)	(700)
Net cash flow	71	1,102	1,322	(937)	(228)	(503)	229	913
Opening cash	509	579	1,682	3,004	2,067	1,839	1,336	1,566
Closing cash	**579**	**1,682**	**3,004**	**2,067**	**1,839**	**1,336**	**1,566**	**2,479**

Source: Company Data, IS Research. Net of Tax*

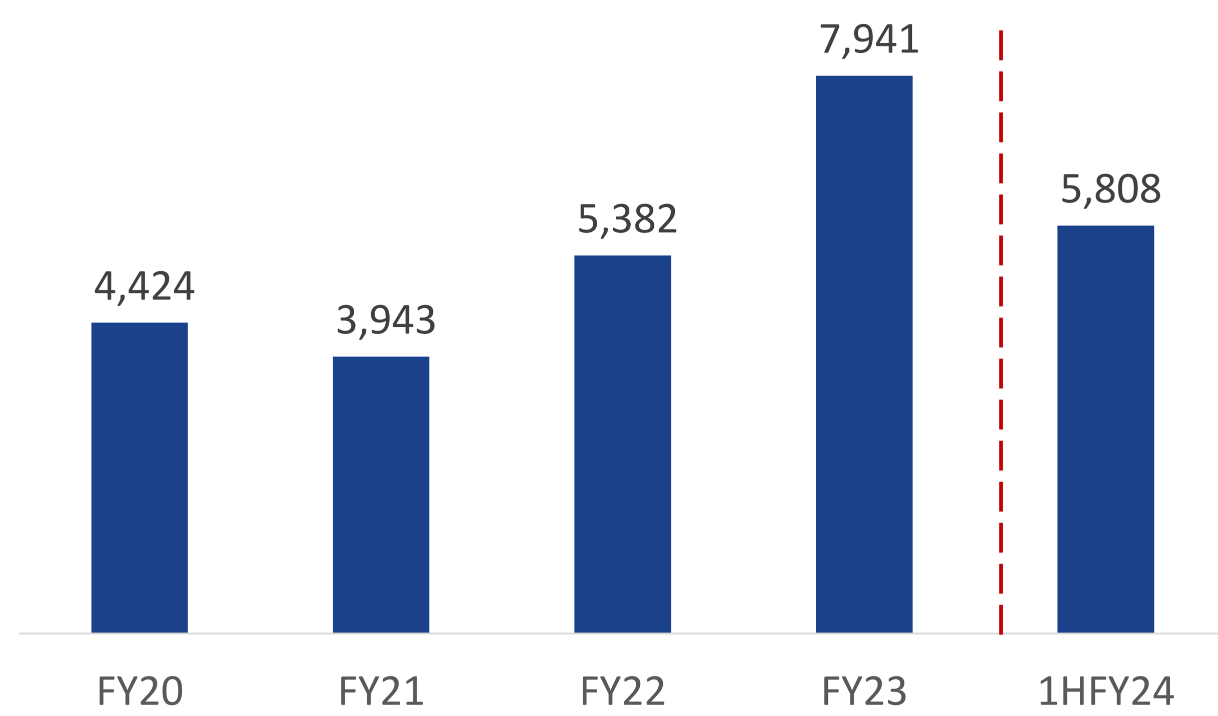
NMDC Energy Historical Financial Performance

NMDC Energy's revenues grew at a CAGR of 22% between FY20-FY23 led by strong oil & gas growth in the UAE and GCC. The company primarily operates in UAE, Saudi Arabia, Kuwait and Taiwan. Additionally, it owns a 33% stake in Principia SAS (France), 100% in NEL (India) and 80% in ANEWA (India), which provide core engineering services. The company also has procurement and client interface offices in Spain, Italy, China and Malaysia.

NMDC Energy's primary markets include UAE, KSA, Kuwait and Taiwan

The company's revenues have jumped from AED4.4bn in FY20 to AED7.9bn in FY23 and AED5.8bn in 1H24. Some of the key contributors for the sizeable jump in revenue includes offshore projects including, i) Zuluf (AED8.3bn), ii) Umm Sheif (AED3.5bn), Dalma (AED1.9bn) and NMGL (AED1.9bn) as well as onshore projects including, i) Hail & Gasha, ESTIDAMA and Meram with a cumulative value of AED22.3bn.

Revenue FY20-FY23 (AEDmn)



Source: Company Data, IS Research.

Since 2016, 22 projects have been awarded to the company by Aramco with a cumulative value of over AED28bn. The company has similar partnerships with other industry giants including Masdar, Technip Energies, Borouge, Saipem, Technicas Reunidas and C.A.T Group which have all contributed to the jump in revenues.

Particularly, ADNOC has been on an expansion spree since with ADNOC Drilling increasing the rig capacity to 140 in 1H24 from 95 in FY21. This growth required critical drilling infrastructure which contributed to NMDC's revenues.

Major revenue growth contributors

Project	Award (AED bn)
Offshore	
Zuluf	8.3
Umm Sheif	3.5
Dalma	1.9
NMGL	1.9
Onshore	
Hail & Gasha	
Estidama	22.3
Meram	

Source: Company Data, IS Research.

NMDC Energy has had an average tender win ratio of c.39% over the past three years. The company is a major player in the EPC space in GCC and has maintained a healthy revenue backlog which jumped from AED8.5bn in 2021 to AED54.0bn in 1H24. The current backlog includes only committed and signed contracts while the company has an additional pipeline of potential tender bids of AED53bn as at 1H24.

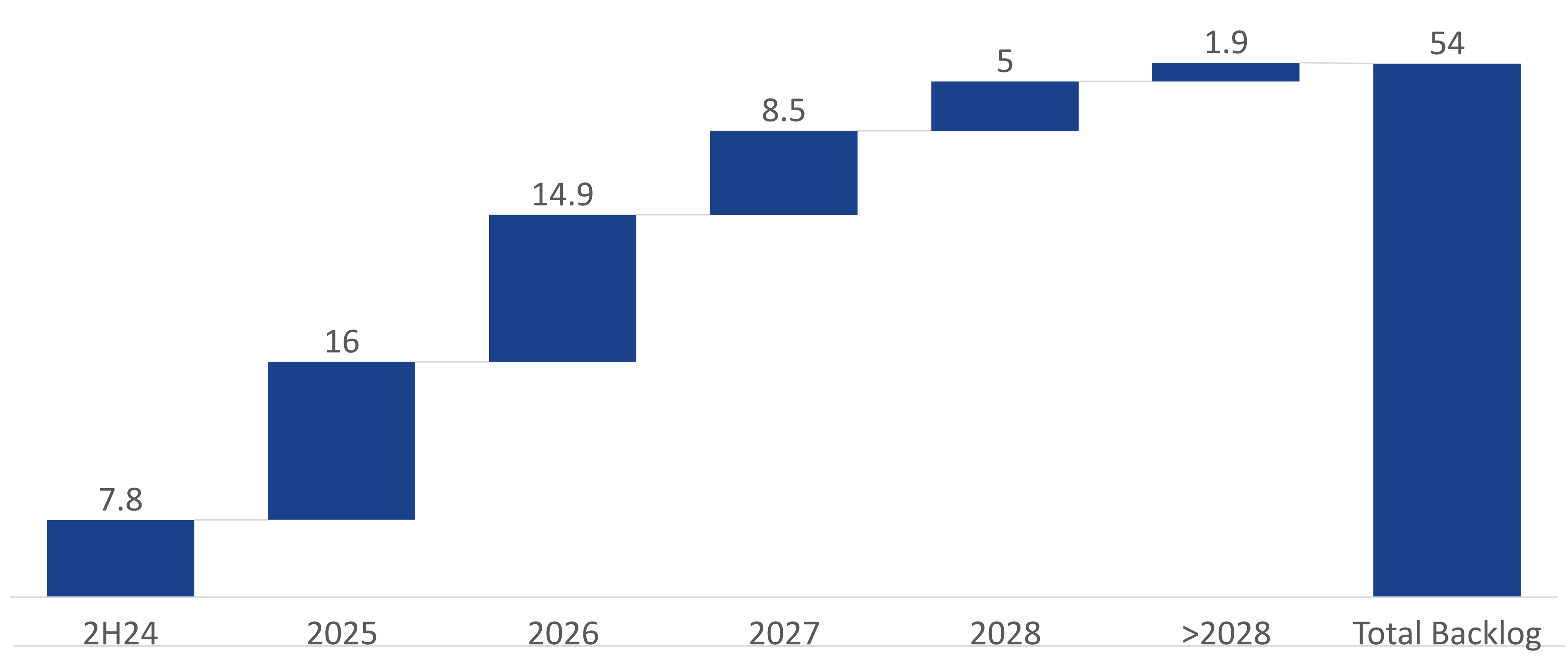
Key business partnerships

Saudi Aramco, ADNOC, SAIPEM, Masdar, Tecnicas Reunidas, C.A.T. Group, Technip Energies, JGC, Borouge

Source: Company Data, IS Research.

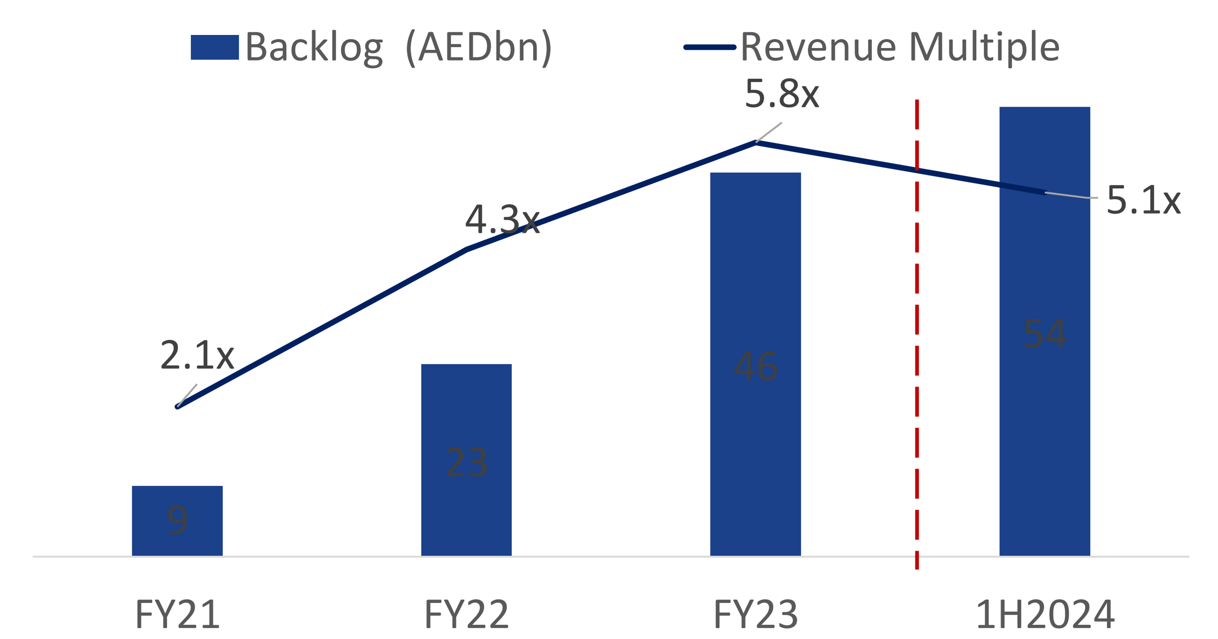
The current backlog of AED54bn is expected to phase out over the next few years with major revenue expected to be booked in 2H24 (AED7.8bn), 2025 (AED16bn), 2026 (AED14.9bn) and 2027 (AED8.5bn).

Expected phasing of backlog into revenue (AEDbn)



Source: Company Data, IS Research.

Backlog and Revenue multiple



*Source: Company Data, IS Research. Note: *Revenue multiple as of 30 June 2024 based on 30 June 2024 LTM revenues*

NMDC Energy Historical Financial Performance

NMDC has maintained stable gross margins of 12-14% between FY20 to FY23, taking gross profits to 1.1bn in FY23 from 622mn in FY20. While there is a decline in gross margins in 1H24 to 12.1%, the margins are typically higher during the second half of the year due to usually more favorable weather conditions in second half as well as natural timeline of the contracts which usually witness a higher revenue being booked towards the later part of the year. This was visible in FY23 when the 1H23 gross margins were 10.9% versus 2H23 margins of 16.7%, taking the FY23 margins to 14.4%. We expect a similar trend in FY24 where the 2H24 gross margins are expected 13.7% versus 1H24 margins of 12.1%. On a full year basis, management has guided on gross margins of 12-14% in the medium term.

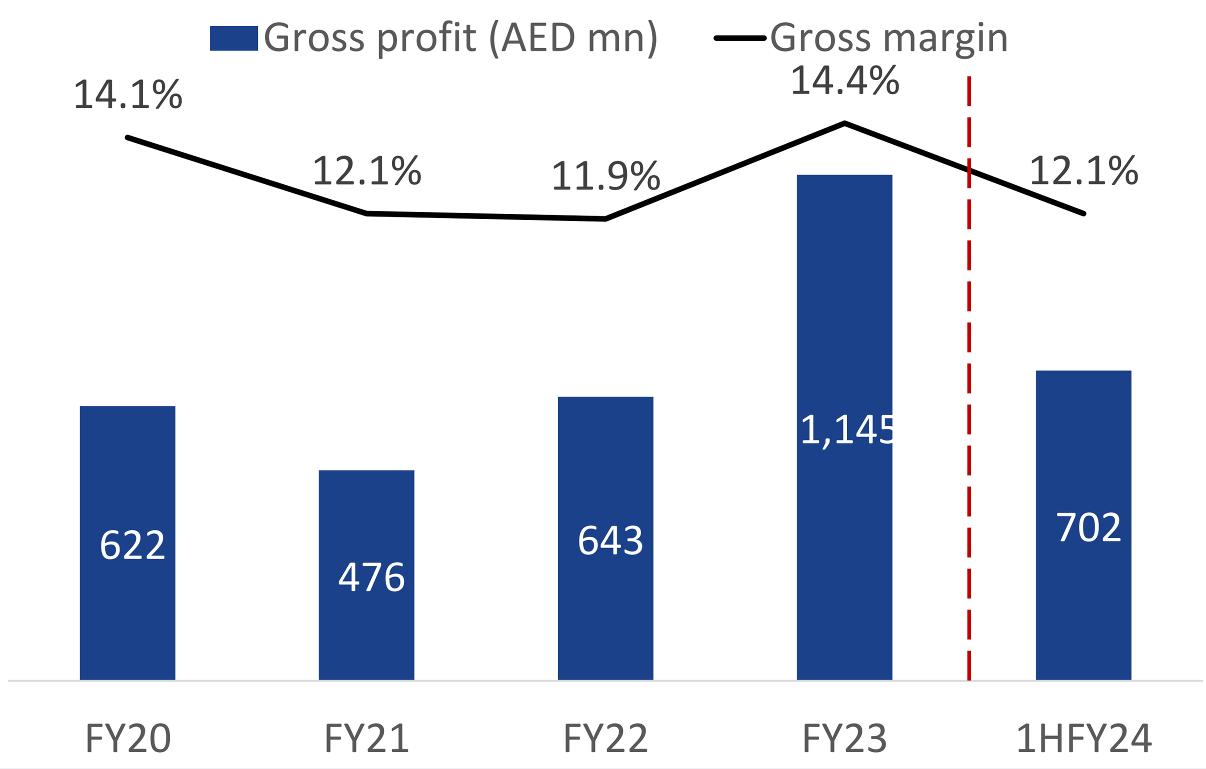
Within direct costs, the major elements are cost of materials, labour and sub-contracting. Once the contract is signed, NMDC energy receives funds from the client for the execution of the project which are booked in the income statement based on the execution status and achievement of project KPIs.

Other operating expenses and G&A expenses represent costs which are not directly allocable to projects and includes cost of trainings, administration, meetings, offsite programs, etc. From 1H24 onwards, the company has started classifying 'other operating expenses' under direct costs. However, for clarity and consistency in forecasts, we have maintained the 'other operating expenses' as a separate line item. If reclassified under direct costs, the gross profit would be lower but there would be no impact on EBITDA or net profit. These costs have fallen as a percentage of revenue from 9.0% in FY21 to 3.4% in 1HFY24, as the relationship between revenue growth and operating expenses is not linear and the company is able to take advantage from economies of scale.

NMDC's EBITDA has grown from AED476mn in FY20 to AED953mn in FY23, a 3-year CAGR of 26%. In 1H24, the EBITDA clocked in at AED650mn. The company has maintained EBITDA margins in a healthy range of 11-12%, barring FY21 when the EBITDA margins were 9.2% due to the ongoing impact of the Covid pandemic. We expect EBITDA margins to increase over time as the pace of revenue and gross profit growth is expected to outperform the pace of operating expenses' increase.

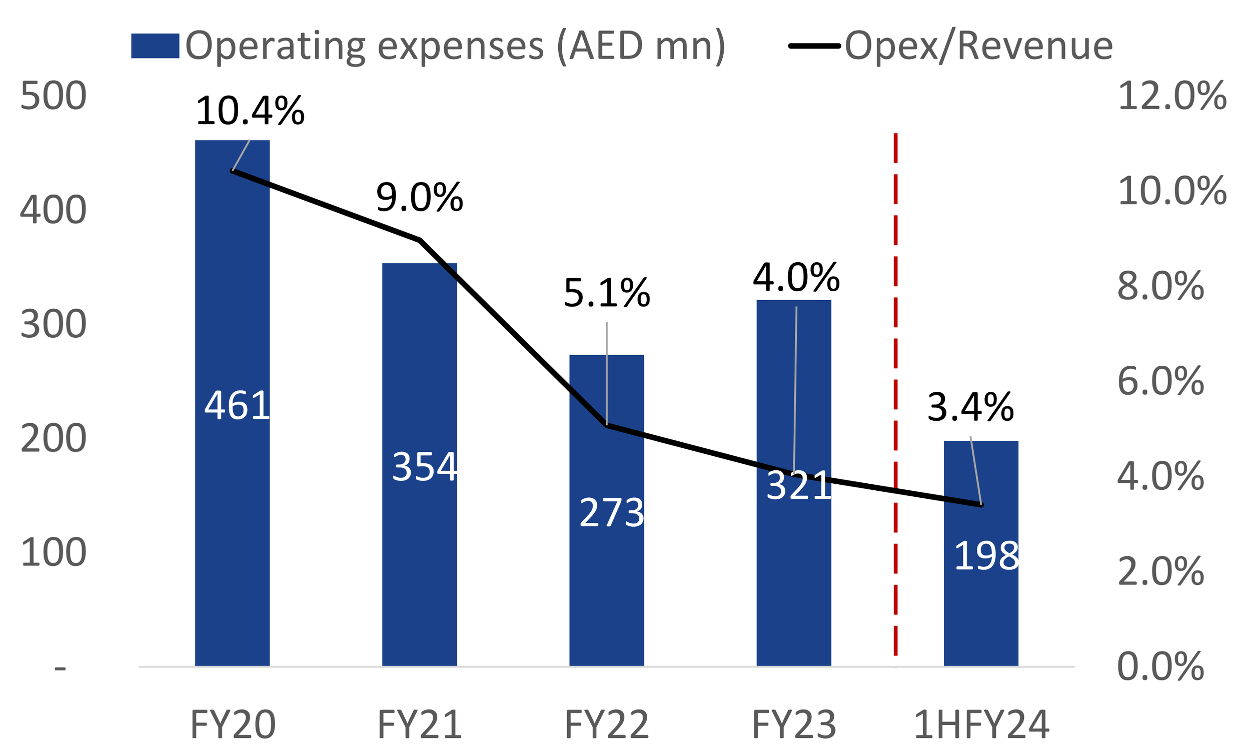
Net Profit has jumped from AED107mn in FY20 to AED780mn in FY23, a CAGR of 94%. In 1H24 profit clocked in at AED 501mn, up 107% YoY. The company usually recognizes a higher profit in 2H owing to usually better weather conditions as well as usual nature of contracts which witness a higher revenue contribution in 2H versus 1H. In 2023, the 2H profit of AED537mn was more than double of AED243mn booked in 1H23. We expect a similar trend in 2024 where our full year FY24 profit expectation stands at AED1.17bn versus 1H24 profit of AED502mn. The company has posted net profit margin of 11% and 10% in FY22 and FY23, respectively, which we expect would reduce to 8%-9% in FY24 and onwards, mainly owing to implication of corporate taxes. In our tax assumption, we have assumed a 9% corporate tax rate for FY24 and FY25, and conservatively increased it to 15% from FY26 onwards, in line with the global minimum tax regime.

Gross profit & margins



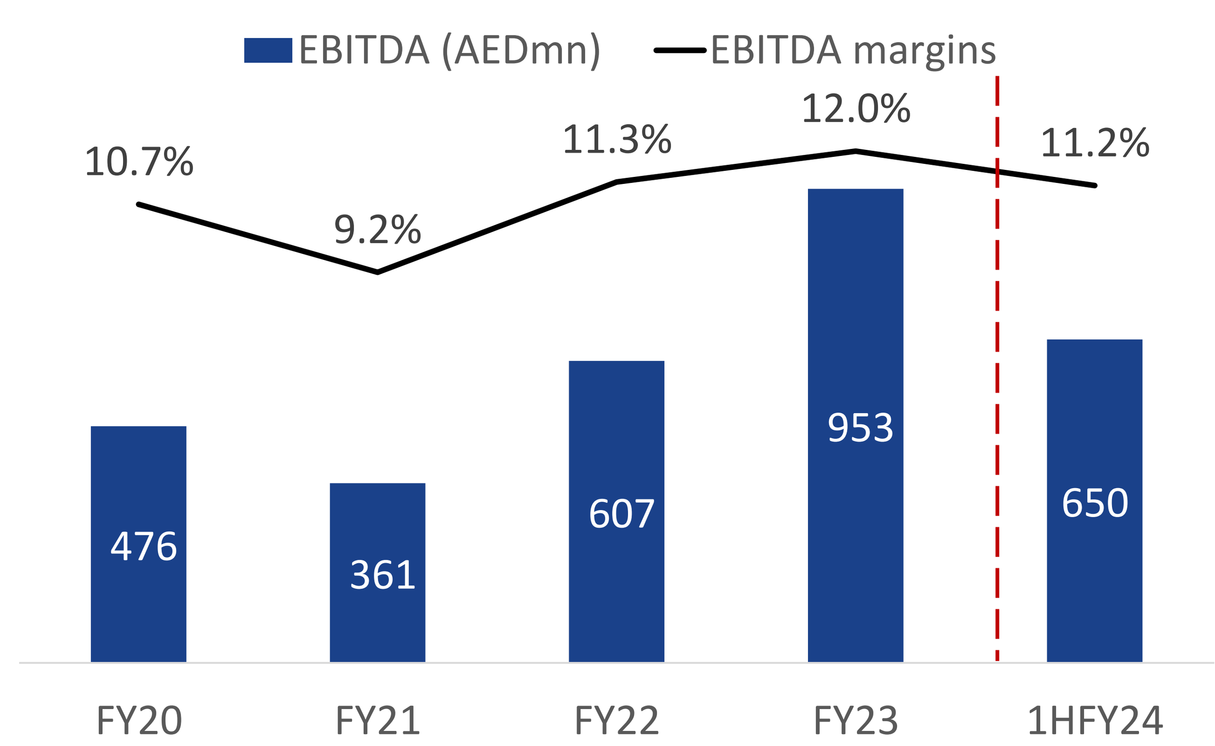
Source: Company Data, IS Research.

Opex and Opex-to-revenue



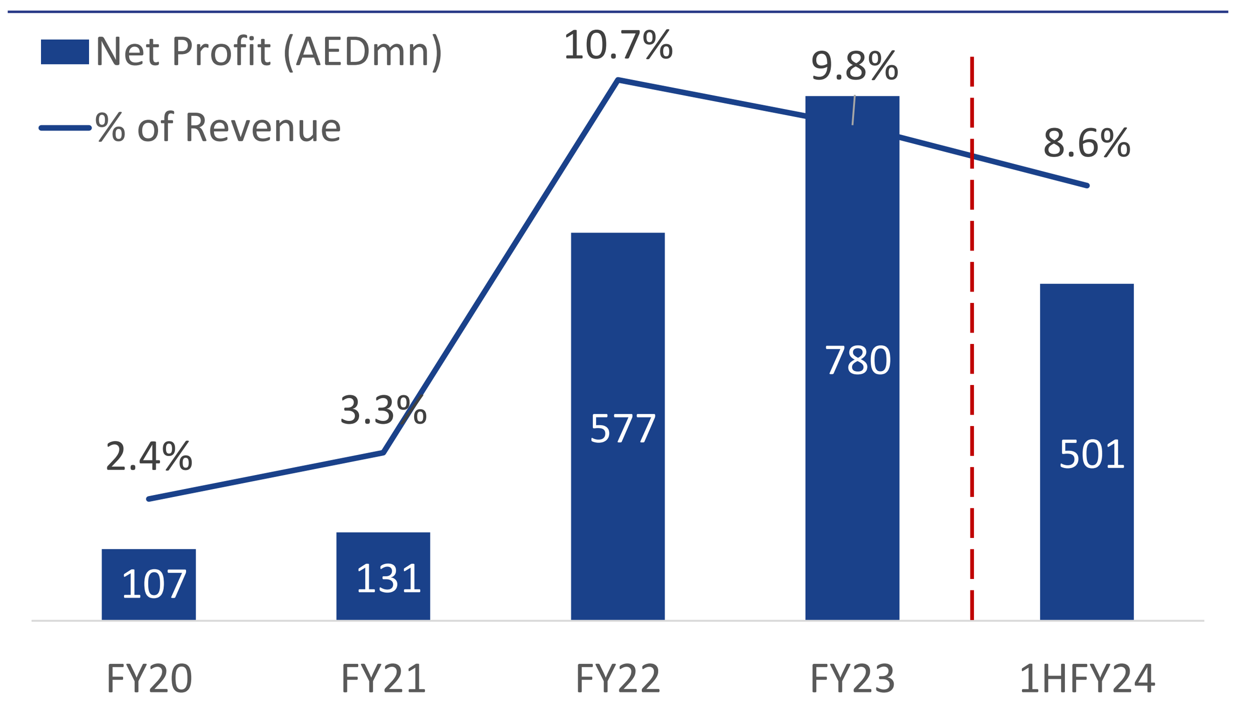
Source: Company Data, IS Research.

EBITDA and EBITDA margins



Source: Company Data, IS Research.

Net profit and net margins



Source: Company Data, IS Research.

NMDC Energy Financials – Assumptions and Forecasts

NMDC Energy operates majorly in a contractual business space where the key driver is the ability to continue securing contracts. The company has received new contracts of AED14.5bn, AED23bn and AED8bn in FY22, FY23 and 1HFY24, respectively. We believe this trend should continue going forward, backed by the overall growth in the GCC energy sector. The key areas of growth to look forward to include:

- **Development of unconventional resources:** UAE's target of reaching 5mn barrels per day of drilling capacity is nearly complete now with ADNOC Drilling increasing rig capacity from 95 in 2021 to 140 as at 1H24. While the growth for NMDC Energy from development of conventional drilling may be already largely built into the current backlog of contracts, we believe the development of unconventional resources offers huge potential. While NMDC Energy does not have any projects in the unconventional space currently, we believe the continued investment in the energy space would bode well for the sector and would lead to requirements for additional energy infrastructure. ADNOC Drilling recently received a contract worth USD1.7bn for the first phase of development of unconventional energy resources which will result in higher demand for ancillary services, in our view. As per ADNOC Drilling, the size of the second phase could potentially be over 10x the first phase.

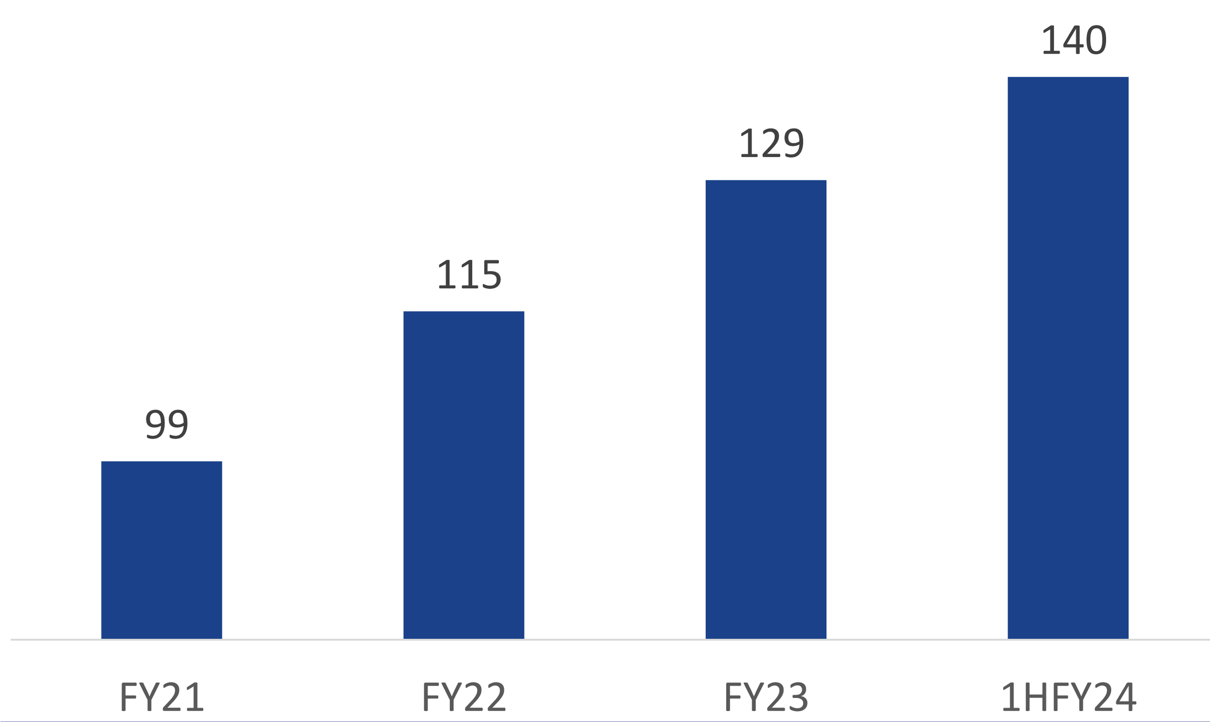
- **Energy investment in the Middle East is projected to reach approximately USD175bn in 2024, with clean energy comprising around 15% of this total**. Upstream oil and gas capex is expected to grow by USD24bn in 2024, surpassing USD600bn for the first time in a decade. The International Energy Forum forecasts annual investment will need to grow by another USD135bn to USD 738bn by 2030 to ensure adequate supply.

- **Multiple growth projects lined up in UAE:** In line with the overall energy sector growth, there are multiple growth projects by the ADNOC Group companies which we believe NMDC could target. These include ADNOC Gas' Bab Gas Cap, LNG 2.0 and Ruwais LNG, Borouge's Borouge 4, and Taziz Petrochemical expansion, etc.

- **Geographical expansion and addition in service offerings:** NMDC Energy is actively looking to expand beyond their existing markets with particular focus in African markets where the potential project market size is north of AED800bn. The company is also planning on venturing into the decommissioning space by expanding the service offerings.

On top of the AED54bn committed contracts outstanding as at 1H24, NMDC Energy also has a strong pipeline of over AED53bn with a bid win average rate of 39%. We expect NMDC Energy to receive AED52bn new contracts between FY25-FY28, with gradual phasing of the contracts into revenues. Accordingly, our FY28 revenue forecast is AED21.3bn, versus AED7.9bn in FY23.

ADNOC Drilling rig count



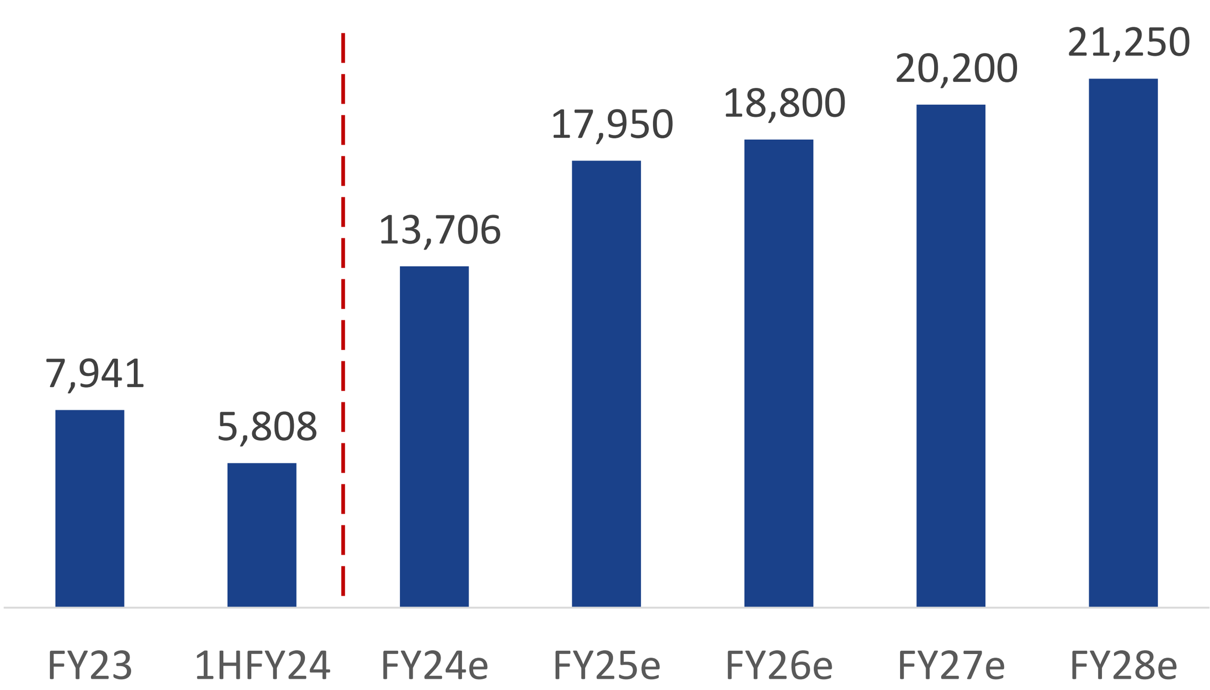
Source: Company Data, IS Research.

Select ADNOC Group growth projects

Company	Project
ADNOC Gas	Bab Gas Cap
ADNOC Gas	LNG 2.0
ADNOC Gas	Ruwais LNG
Borouge	Borouge 4
Taziz	Petrochemical expansion

Source: Company Data, IS Research.

NMDC Energy expected revenue



Source: Company Data, IS Research.

NMDC Energy Financials – Assumptions and Forecasts

On margins, we expect the company to post gross margins of 13.0% in FY24 which we grow to 13.6% by FY28. Our gross profit forecast in FY28 stands at AED2.9bn, a CAGR of 20% from AED1.1bn in FY23. The gradual increase in margins would be led by continued focus on cost optimization as well as inherent operating leverage in the business where the same infrastructure is able to be utilized for more than one project.

We expect gross profits to post a 5-year CAGR of 20% to reach AED2.9bn by FY28

On operating expenses, we foresee a CAGR of 16.5% to reach AED429mn by FY28. Operating expenses mainly include costs that are not directly allocable to each project including costs associated with the headquarters. Owing to operating leverage, these costs have fallen as a percentage of revenue from 9% in FY21 to 3.4% in 1HFY24 while we expect this trend to continue to reach 3.0% by FY28.

Operating expenses as a proportion of revenue is expected to fall from 3.4% in 1HFY24 to 3.0% by FY28 as the company has significant operating leverage

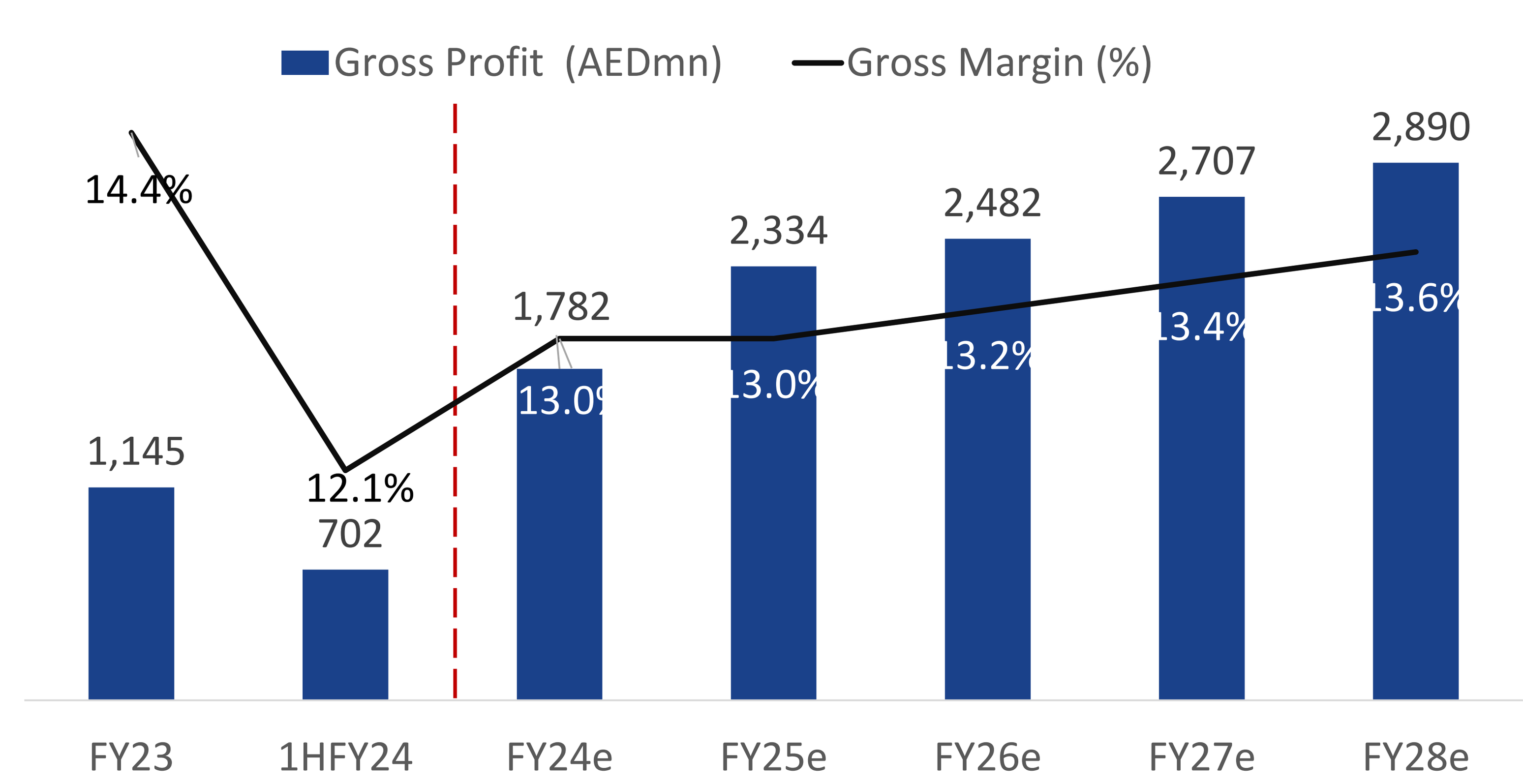
EBITDA of AED953mn in FY23 is expected to reach AED2.5bn by FY28, implying a CAGR of 21%. On EBITDA margins, our forecast fall towards the mid of management's guided range of 10-12% with FY24 EBITDA margin expected at 10.6% which would gradually increase to 11.7% by FY28.

We expect EBITDA to post a 21% 5-year CAGR to reach AED2.5bn by FY28

Accordingly, our net profit is expected at AED1.19bn in FY24 and AED1.92bn in FY28. The management's guidance on net profit margins of 7-10% in the medium term while our forecasts suggests 8.6-9.1% between FY24-FY28, lower than 11% and 10% in FY22 and FY23, respectively, mainly owing to implication of corporate taxes from FY24.

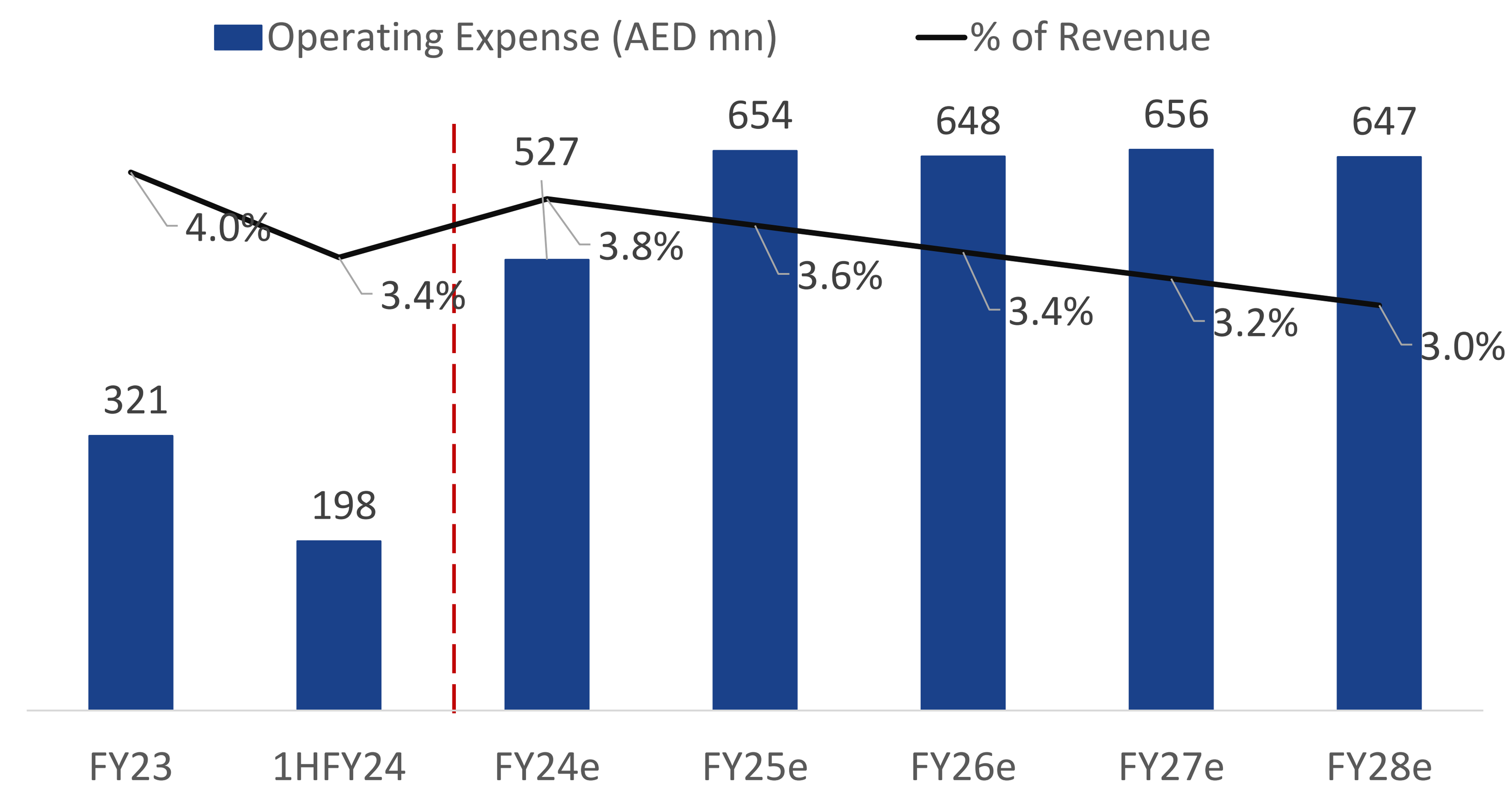
We expect net profit to post a 5-year CAGR of 20% to reach AED1.9bn by FY28

Gross profit expected to reach AED2.9bn by FY28



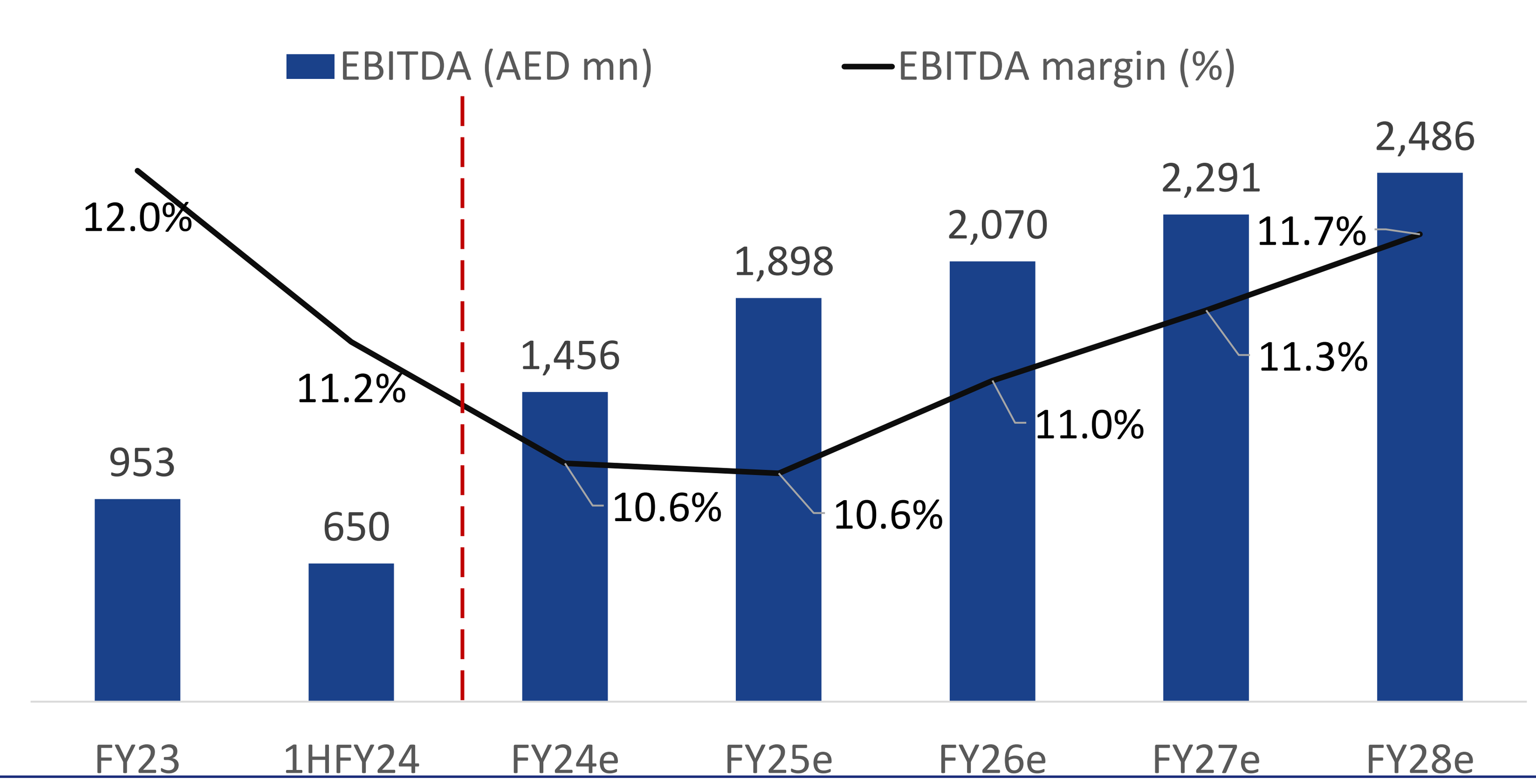
Source: Company Data, IS Research.

Opex/revenue expected to decline to 3.0% by FY28



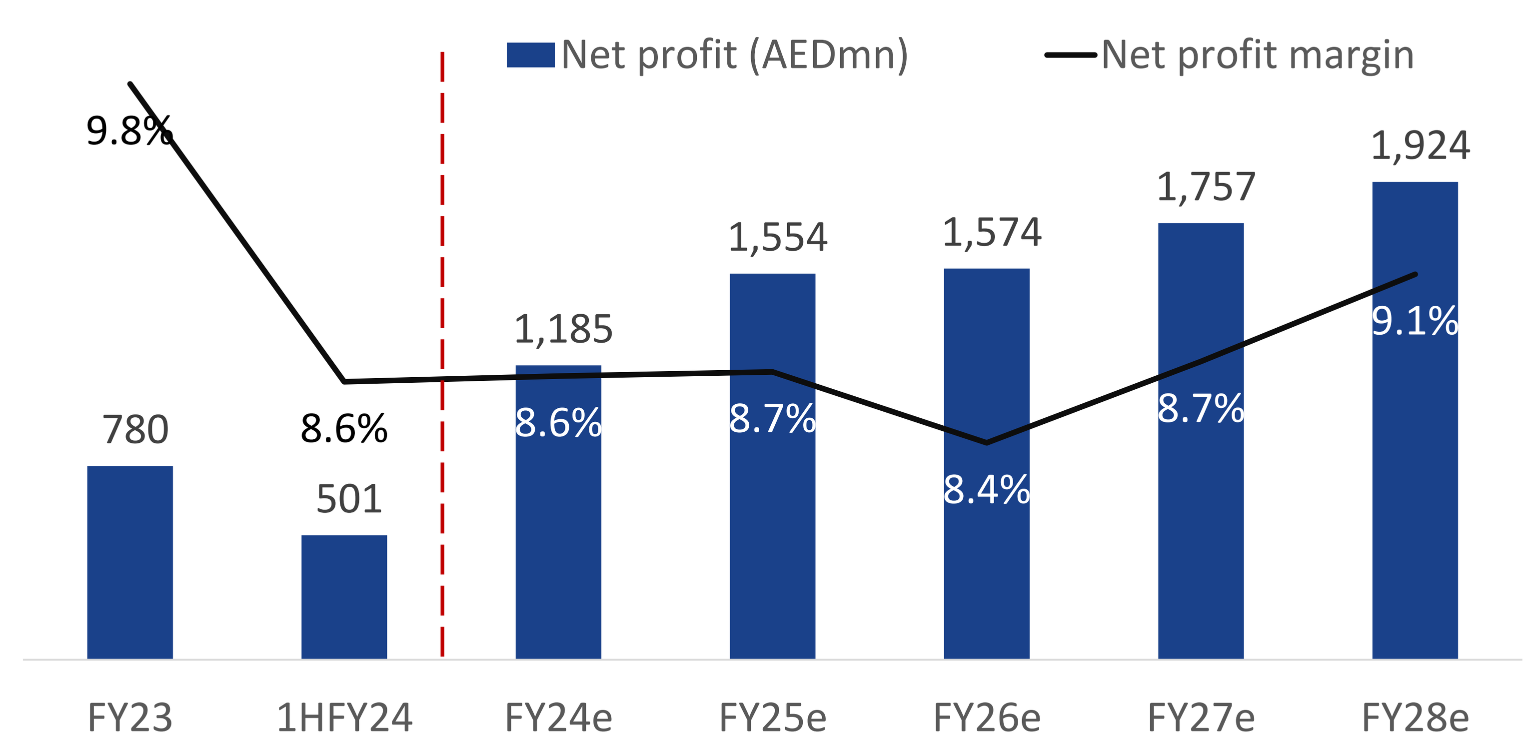
Source: Company Data, IS Research.

EBITDA expected to increase to AED2.5bn by FY28



Source: Company Data, IS Research.

Net profit expected to jump to AED1.9bn by FY28



Source: Company Data, IS Research.

NMDC Energy Financials – Assumptions and Forecasts

NMDC Energy has a FY23 net working capital of (5%) of revenue. The company has a positive working capital cycle as a major chunk of future contract payments are received at the time of contract signing which are then deployed gradually over time. The management has guided on working capital outflows going forward and net working capital to reach close to 20% by FY28. We have built in higher working capital requirements in our assumptions, taking the Net working capital to AED3.7bn in FY28 from (AED359mn) in FY23 with net working capital to revenue reaching 17% in FY28 from (5%) in FY23.

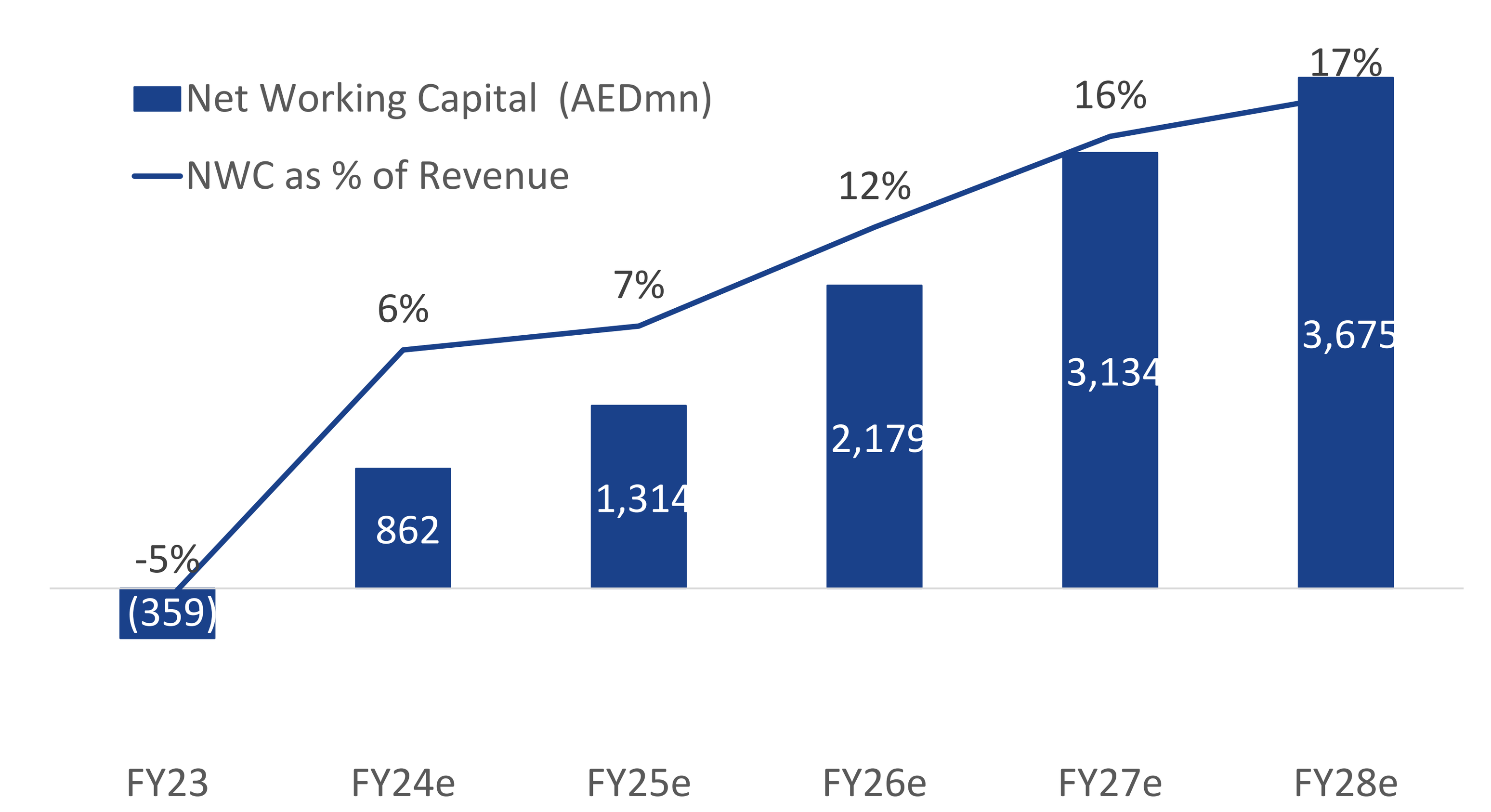
Net working capital is defined as: (inventories + trade receivables + dues from related party + contract assets) – (trade payables + contract liabilities + income tax payables + others)

The company has borrowings of AED713mn as at 1HFY24 which are scheduled to be repaid by FY26. In our assumptions, we have assumed the company will raise new debt in FY26 onwards to take total term loan to AED665mn by FY28 and further lease liabilities of AED201mn. We have assumed this to allow the company to fund the higher working capital, growth and maintenance capital expenditure and dividend payments, as well as to maintain an optimal capital structure. **Our financial charges are expected to stay minimal, as the company's debt cost is likely to be largely offset by income on cash deposits.**

Despite increasing borrowings post FY26, the company is expected to maintain its net cash position, allowing the company sizeable firepower to grow

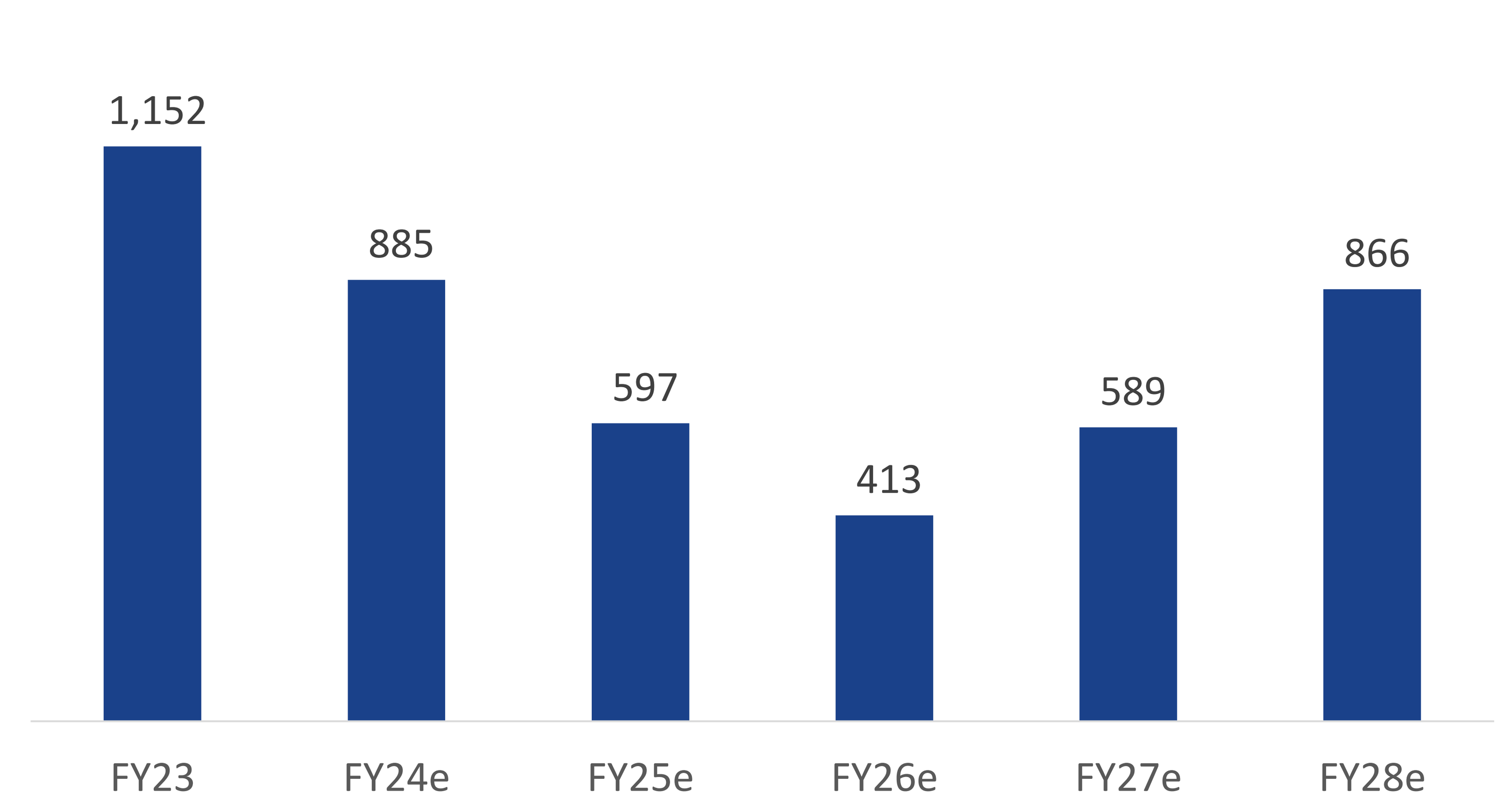
Despite increasing borrowings, the company is likely to remain net cash positive, given strong cashflows, providing sizeable headroom for future growth projects and inorganic acquisition.

Net working capital to reach 17% of revenue by FY28



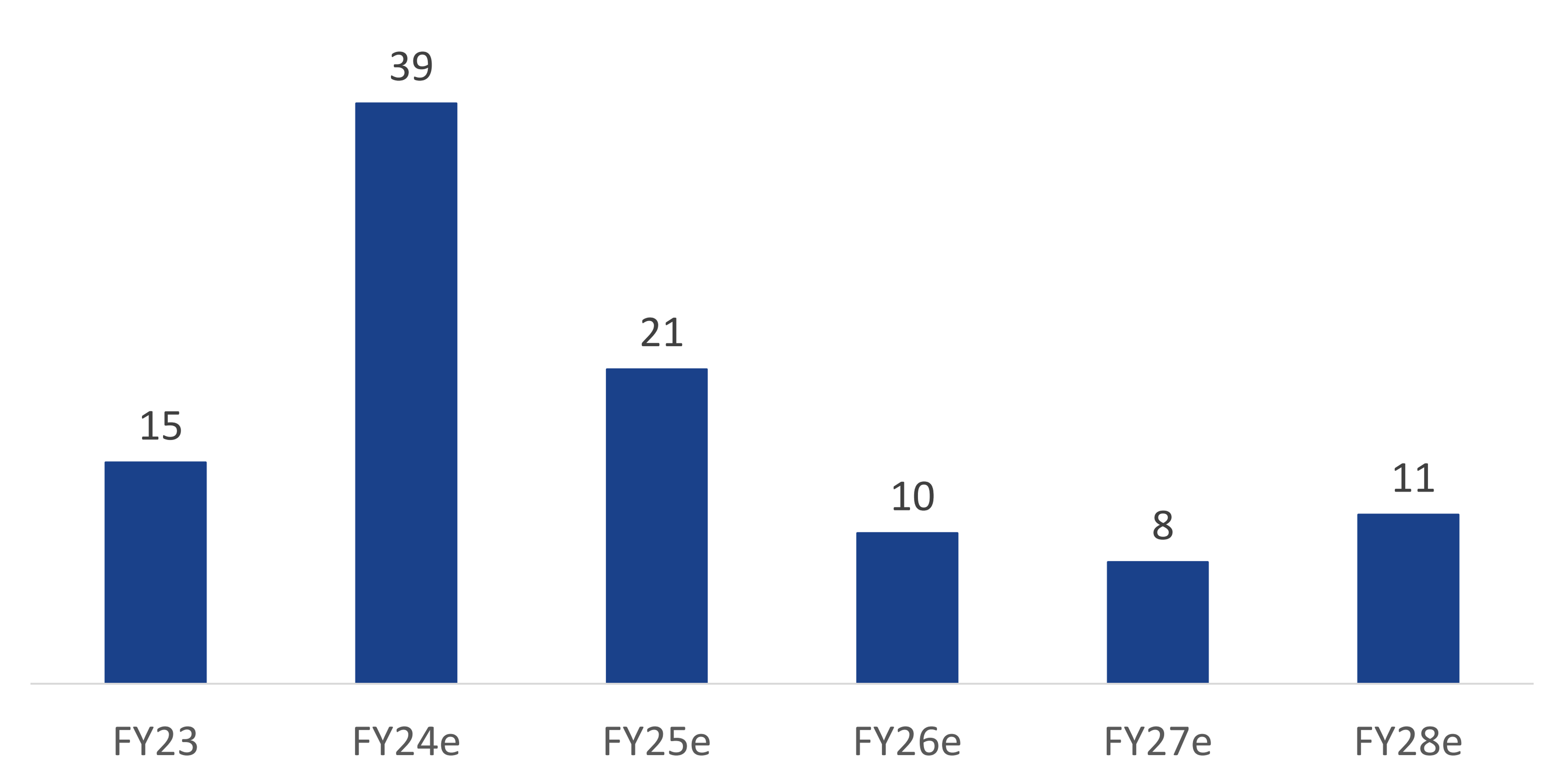
Source: Company Data, IS Research.

Borrowings (including lease) expected at AED866mn in FY28



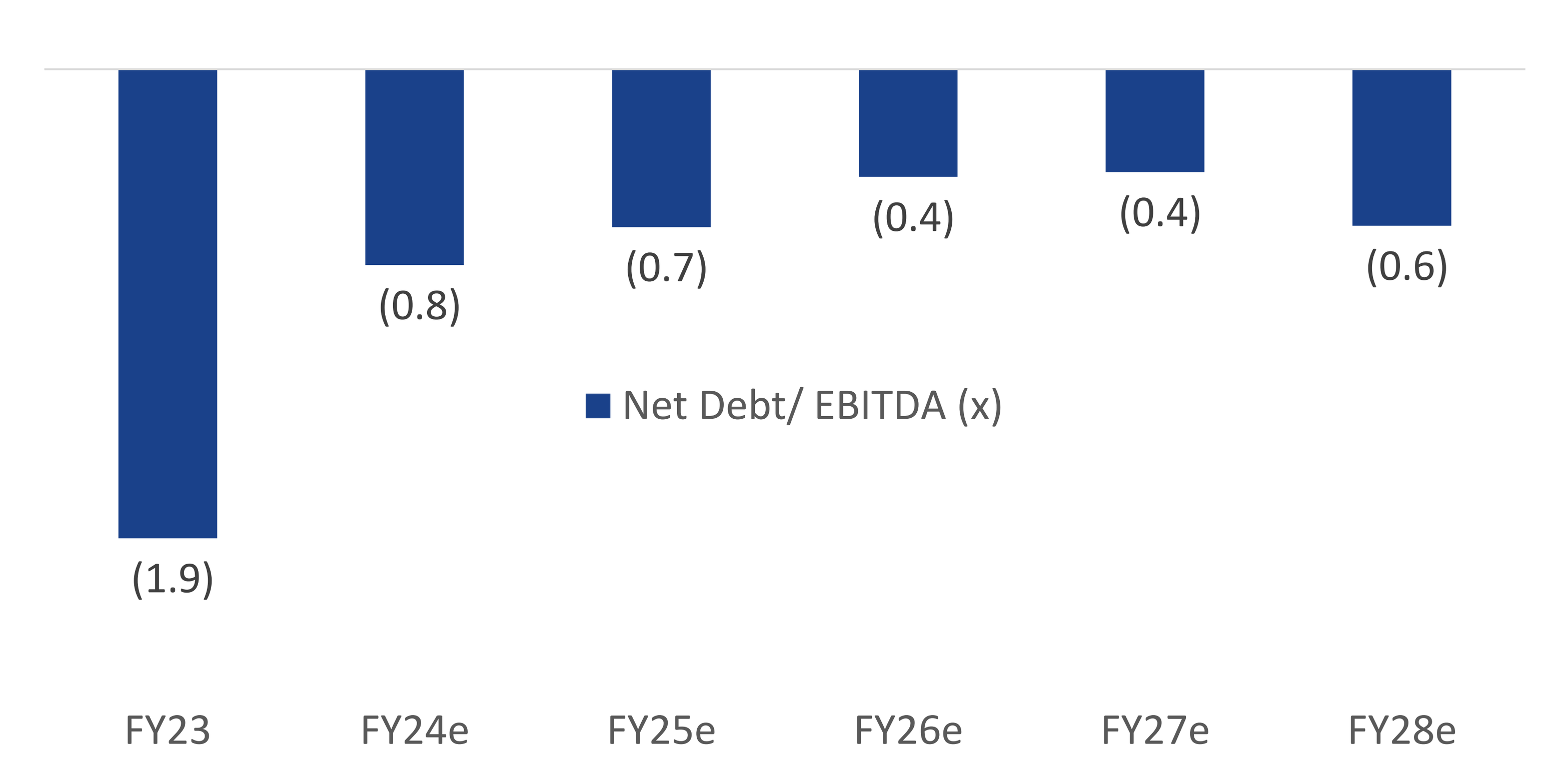
Source: Company Data, IS Research. Note: Borrowings include lease liabilities

Net finance income (AEDmn)



Source: Company Data, IS Research.

Despite additional borrowings, we expect net cash for NMDC



Source: Company Data, IS Research.

NMDC Energy Financials – Assumptions and Forecasts

Management has guided on growth capital expenditure of AED500-600mn by FY26 and maintenance expenditure of AED250-300mn annually. We have built these into our assumptions as guided by the management. This takes our total property plant and equipment to AED4.5bn by FY28 from AED3.0bn in FY23.

On depreciation, we expect depreciation expenses to rise to AED232mn by FY28 from AED162mn in FY23, in line with the increase in assets.

We have assumed a tax rate of 9% in FY24 and FY25 which we have increased to 15% from FY26 onwards to conservatively incorporate the global minimum tax regime. If we had maintained tax at 9% for the later years, our profit forecast would be higher by c.7% on average.

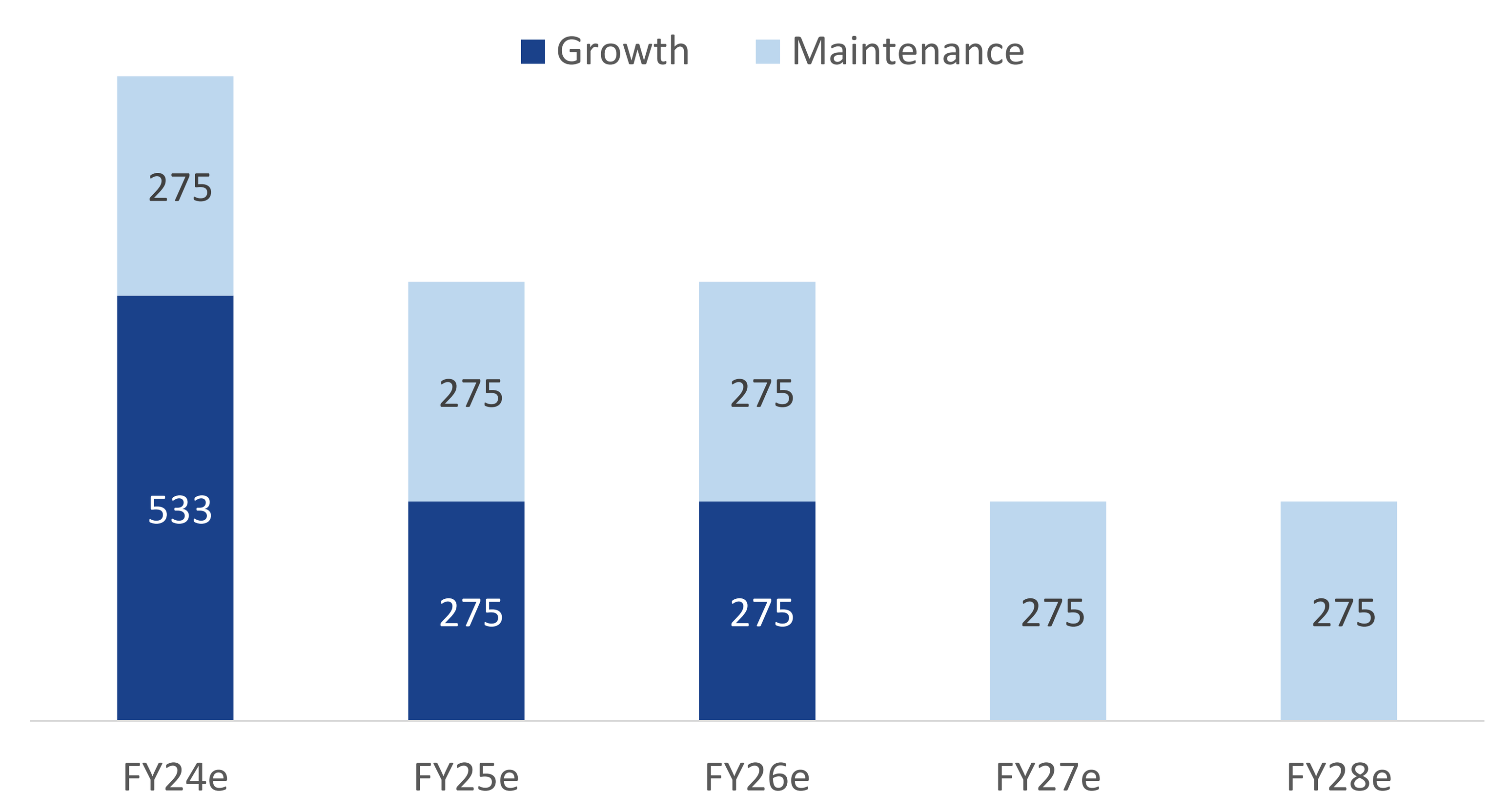
We have increased tax rates from FY26 to 15%. Assuming 9% tax, our profits forecast would increase by c.7%

We expect net profit to increase to AED1.9bn by FY28 from AED780mn in FY23 (AED501mn in 1HFY24), a growth CAGR of 20%, backed by a strong order backlog as well as expected new contracts which we have built in our estimates.

Management has guided on dividend of AED700mn for FY24-FY26, implying a dividend yield of 4.6%

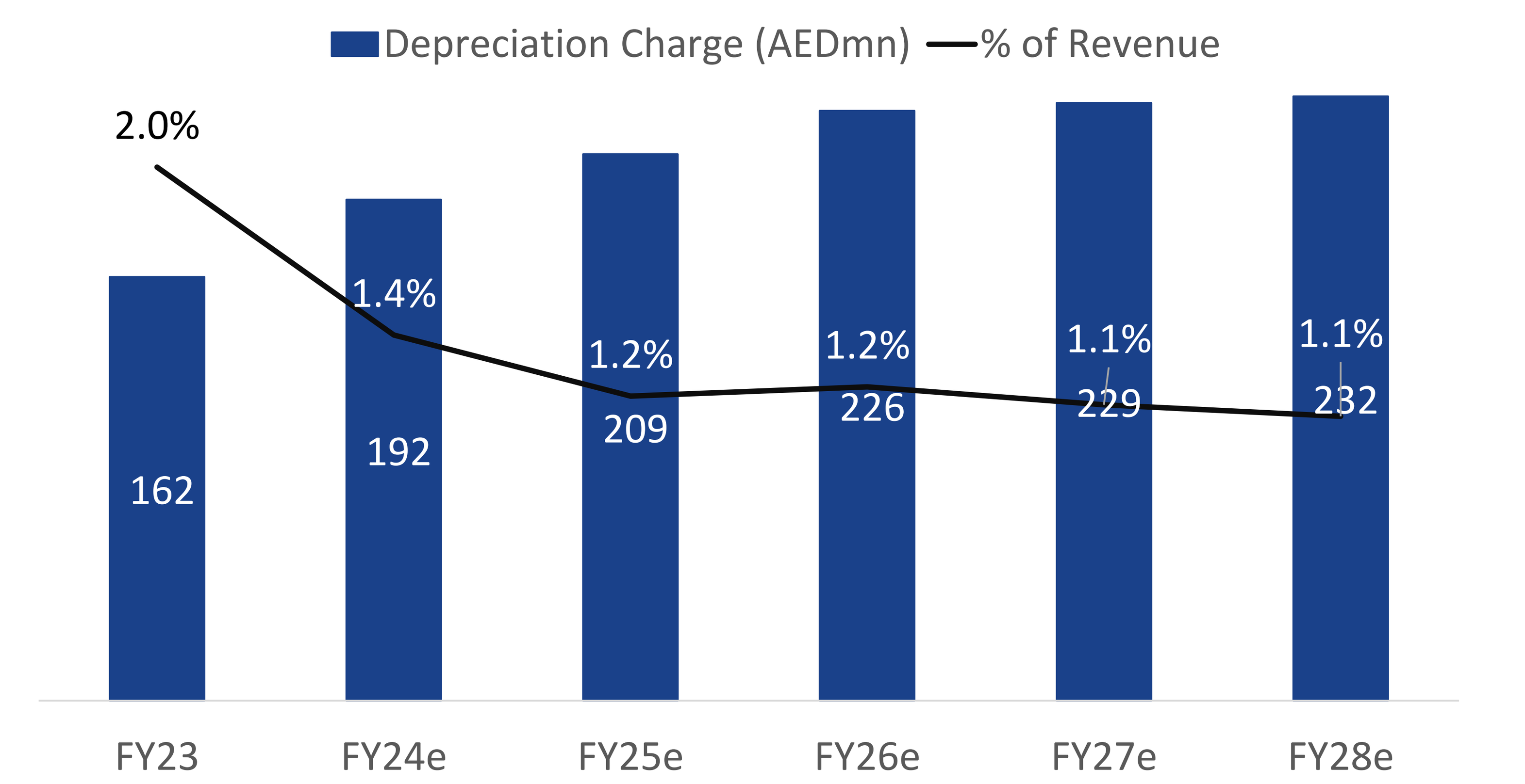
The management has guided on a dividend payment of AED700mn in FY24-FY26. We have assumed a similar dividend payment continuing until FY28. On the guided dividend, the stock offers 4.6% dividend yield for FY24.

Growth and maintenance capex (AEDmn)



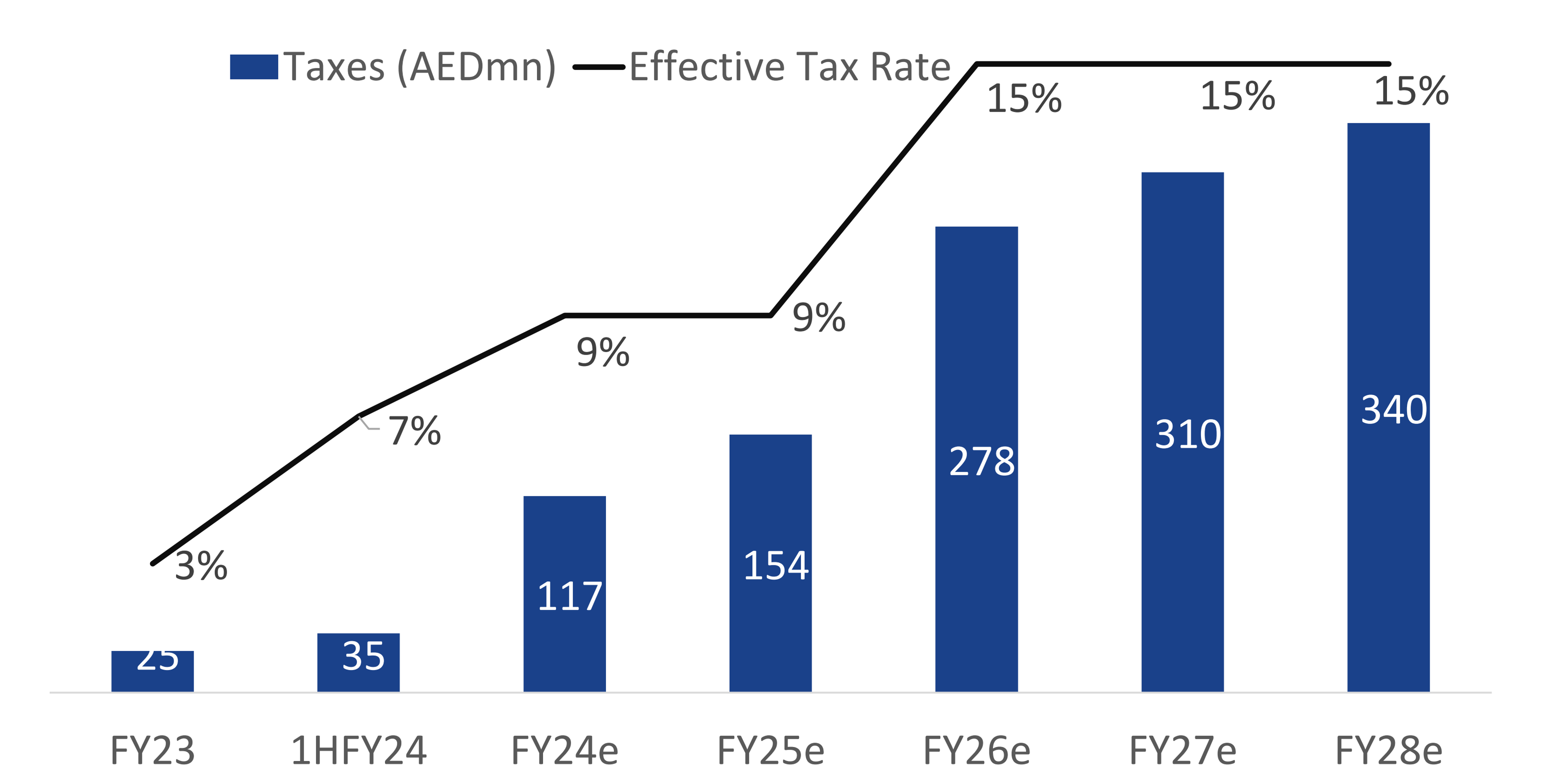
Source: Company Data, IS Research.

Depreciation



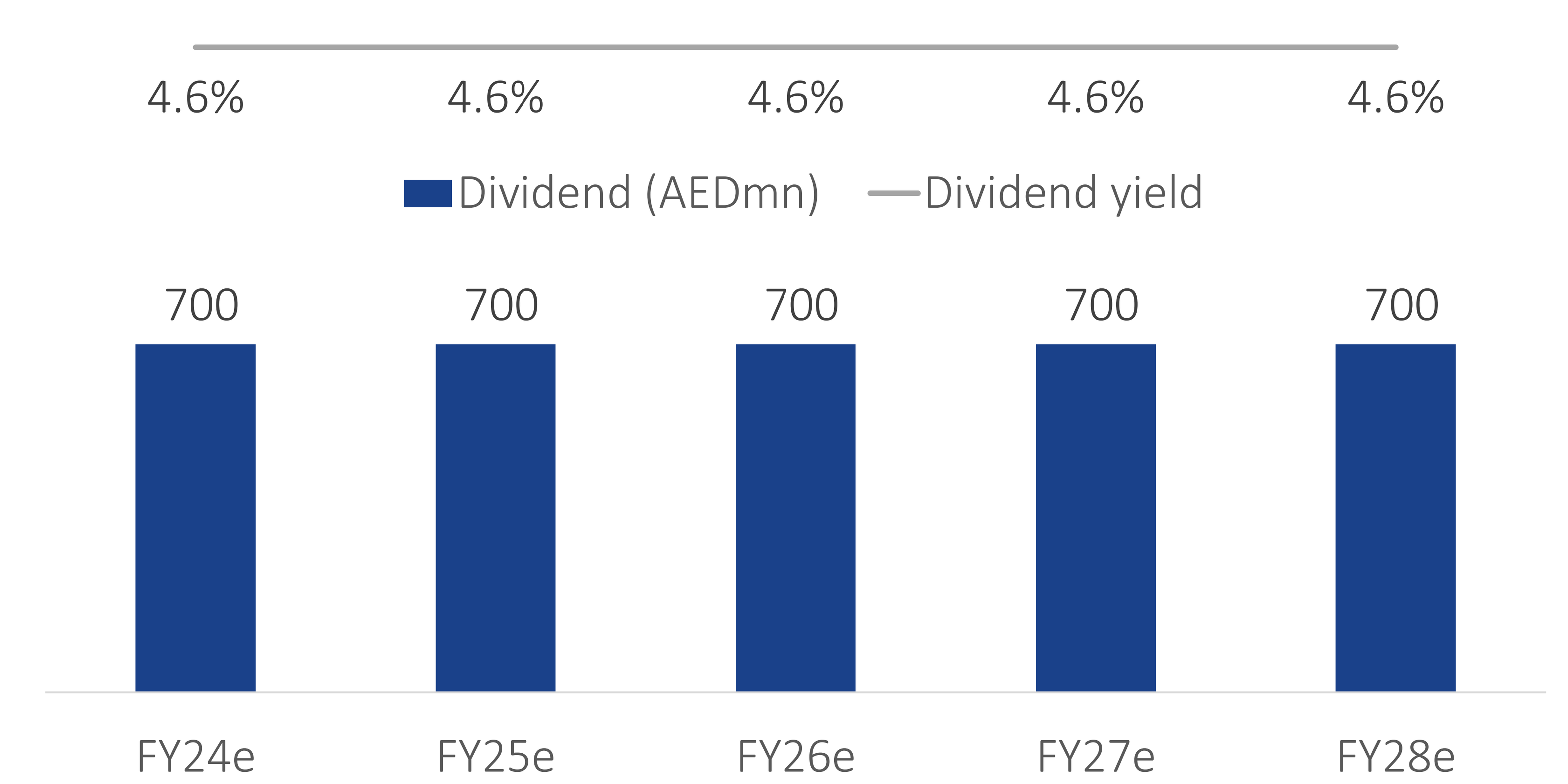
Source: Company Data, IS Research.

Tax expense and effective tax rate



Source: Company Data, IS Research.

Dividend and dividend yield



Source: Company Data, IS Research.

Management guidance vs IS forecast; Sensitivities to key variables

Our assumptions fall within the management's guided range as visible in the table on the right. We believe the key driver of NMDC's financials is the ability to secure new contracts. We feel confident on the company's ability to do so based on i) backlog of AED54bn which provide very high revenue visibility, ii) pipeline of new contracts as at 1H24 of AED53bn with an average bid win rate of 39%, iii) expansion of the energy sector in the UAE and KSA, iv) key partnerships with industry giants and vi) geographical expansion. In our assumptions, we have assumed the company will win additional contracts of AED52bn between FY25-FY28, an average of AED13bn/year, versus AED14.6bn won in FY22, AED23bn in FY23 and AED8bn in 1HFY24.

We have run sensitivities to key variables and assessed their impact on FY25e profits and our weighted average fair value:

- **Reducing new contracts per year to AED10bn between FY25-FY28 and in our terminal year, from our base case assumption of AED13bn,** reduces our earnings CAGR for FY23-FY28 to 15.2% from 19.8% in the base case while our weighted average fair value reduce to AED3.04/share. On the other hand, increasing new contracts per year to AED16bn, increasing earnings CAGR between FY23-FY28 to 23.8% while fair value would increase to AED3.87/sh.
- **Changing gross margins by 1pps**, changes our FY25 net profit by 12%. Our base case assumption for FY25e gross margins is 13% which we have increased to 13.6% by FY28. Assuming 1pps higher gross margins in our model FY24 onwards would result in fair value of AED3.89/share while 1pps lower margins would reduce fair value to AED3.03/share.
- **In our assumptions, we have increased the tax rate from FY26 onwards to 15%, conservatively incorporating the global minimum tax regime.** Assuming tax rates stay at 9% from FY26 onwards, our profits in for FY26-FY28 would be c.7% higher while our fair value would increase to AED3.71/share.

Management guidance vs IS estimates

Assumption	Management	IS
FY24 revenue	AED 13-14bn	AED13.7bn
Revenue growth CAGR FY24-FY28	10-12%	11.6%
Gross margins between FY24-FY28	12-14%	13.0-13.6%
EBITDA margins between FY24-FY28	10-12%	10.6-11.7%
Growth capex	AED 500-600mn by FY26	AED550mn by FY26
Maintenance capex	AED 250-300mn annually	AED275mn/year
Working capital/revenue	20% by FY28	17% by FY28
Net profit margin FY24-28	7-10%	8.6-9.0%

Source: Company Data, IS Research.

Sensitivity to incremental contracts (AED mn)

Assumption	FY23-28 CAGR (%)	Fair value (AED per share)	FY28e profit
AED16bn/year	23.8	3.87	2,264
Base Case (AED13bn/year)	19.8	**3.46**	1,924
AED10bn/year	15.2	**3.04**	1,583

*Source: Company Data, IS Research. *sensitivity applied to terminal year as well*

Sensitivity to changing gross margins by 1pps

Assumption	FY25e profit (AEDmn)	Fair value (AED per share)
+1%	1,719	3.89
Base Case (13.0% for FY25)	1,554	3.46
-1%	1,390	3.03

*Source: Company Data, IS Research. *sensitivity applied to terminal year as well*

Sensitivity to tax rates (FY26-FY28)

Assumption	Profit (AEDmn)			Fair value (AED per share)
	FY26e	FY27e	FY28e	
Base Case (FY24-FY25: 9%, FY26 onwards)	1,574	1,757	1,924	3.46
9% tax rate for FY 24 onwards	1,686	1,884	2,064	3.71

*Source: Company Data, IS Research. *sensitivity applied to terminal year as well*

Disclaimer

This document has been issued by International Securities for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. International Securities has based this document on information obtained from publicly available information, and sources it believes to be reliable reliable without being independently verified for their accuracy or completeness. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of International Securities. International Securities owns the intellectual property rights and any other material contained in this report. International Securities is regulated by the United Arab Emirates Securities and Commodities Authority under license number 20200000017. International Securities is a member of the Abu Dhabi Securities Exchange, Dubai Financial Market and NASDAQ Dubai.

Contact

Research
Email: research@intlsecurities.ae
Tel: +971 2 494 2619

International Securities

Head Office
Al Bateen Towers, C2, 14th Floor, P.O. Box 107077, Abu Dhabi,
UAE

Tel: +971 24 942 777
Fax: +971 26 354 669
Email: info@intlsecurities.ae