

NMDC Group FY24 results call transcript

17th February 2025

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Hello everyone and welcome to NMDC Group fourth quarter 24 and full year 2024 results conference call hosted by International Securities. My name is Afaq Nathani, senior research analyst at International Securities, and today I have the pleasure of introducing CEO of NMDC Group, Mr. Yasser Zaghloul, the Group CFO, Mr. Sreemont Barua, the senior director for project control and risk, Mr. Amjad Abdul Shakur, the group head of investor relations and financial communication, Hanzada Nessim, and the investor relations manager, Shaima Ali. NMDC team, I thank you all for joining the call today.

Following a presentation of NMDC Group's financial performance by their team, the floor will then be open to a Q&A session. In order to ask a question, you can tap the raise hand button. Once it is your turn, your name will be announced and your mic will be enabled. You will then be able to unmute locally and speak directly with the company's management. I now give the floor to NMDC Group's head of Investor relations and financial communications, Hanzada Nessim. Hanzada, please go ahead.

Hanzada Nessim, Group Head Investor Relations & Financial Communications - NMDC Group

Thank you, Afaq.

Good day, ladies and gentlemen, and welcome to NMDC Group full year results conference call. Joining us on the call today, our group CEO and for a general overview of the performance and then we will turn the call to our Group CFO, Sreemont for further financial analysis and review. I will start with a safe harbor statement and then we'll turn over the call to our CEO.

In our discussion today, we may include predictions, estimates or other financial information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. The company undertakes no obligation to revise or update forward-looking statements as a result of new information since these statements may no longer be accurate over time, I will now turn over the call to our group CEO, engineer Yasser.

Yasser Zaghloul, CEO - NMDC Group

Good afternoon and welcome everyone. Actually, the 2024 marks a very strong operational performance enabling us to achieve this outstanding results that exceeded our targets for the year. In 2024, we have achieved revenue AED 26.264 billion, EBITDA AED4.19 billion and net profit before tax AED3.459 billion. And this growth as you can see driven by great operation performance from the group delivering huge backlog. We have backlog now AED71 billion and the growth in backlog during 2024 was exceeding AED43 billion and that mainly was normal reflection for our growth strategy expansion, vertical wise and horizontal wise. Vertical wise and different sectors and different activities related to our business. We have established a new vertical during 2024 which is NMDC LTS that will serve the execution of the AED71 billion and more to come as well as it will have its own strategy for expansion as well to be totally independent vertical.

This growth of course has to be reflected to the shareholders and that's why we suggested for our AGM to distribute AED0.83 per shares which is AED701 million, in addition to the special dividends we announced and we already distributed last year after the successful IPO and as far as we are expanding and our strategy is robust for that and we have already achieved the result of this strategy by putting the award in Far East and more to come as well. We are busy now in different market on the Far East and in Africa and of course this growth will be reflected into our dividends because we aim to link the dividend growth to our profit growth. So dividend is important for us and our aim to continue the growing growth of rate of dividend. Of course, this growth to be sustainable, to be successful, to build our future together, we have to consider a robust system for our sustainability. Sustainability for us, it's mainly internally and externally. Internal wise we develop our capability, our process, our operation system to not to just suit but to exceed the targets for sustainability. We were so pleased to be ranked as AA in sustainability by MSCI and this is really almost the highest score into our sector. External wise we utilize our capability to help the clients and to help the infrastructure of the market's economy where we serve to suit the sustainability objectives.

We are now very active in renewable energy, we are now very active in transition energy by building the infrastructure for gas protection, and different aspects of transition and transition energy and renewable energy.

I believe that's a very short brief about we have in NMDC Group and now for the analysis and details of our results, I can hand it over to our Group CFO, Mr. Sreemont.

Sreemont Barua, Group CFO - NMDC Group

Thank you, Engineer Yasser, for the introduction to NMDC Group's performance for the year and thank you all for attending this call. As Engineer Yasser mentioned, we have had another successful year. NMDC Group's revenue soared to about AED26.3 billion, up 57% year on year, compared to AED16.7 billion in the previous year. We achieved a 44% growth in net profit, which we are reporting at AED3.108 billion, up from AED2.154 billion in 2023. This growth was driven by strong operational performance and strategic expansion into new projects, both locally and internationally. We also reported a 58% increase on net profit before tax from AED2.18 billion to AED3.45 billion.

The key projects which drove our phenomenal revenue and net profit growth comprise our projects in the energy and oil and gas sectors with clients such as ADNOC and Aramco, and also with real estate sector with Modon. EBITDA increased to AED4.19 billion with a 62% increase and our return on average equity went up to 30%, which is a phenomenal number. Just touching briefly on the costs and margin side of our performance, we are able to achieve efficiencies in the delivery of our projects due to which our 2024 operating margins improved by almost 6% from 12.9% to 13.8%, we also achieved savings in our G&A expenses as a percent of revenue, which decreased from 1.6% to 1.3%. This gain was slightly dampened and then profit level, however, because we had the impact of corporate income tax, which as you will see in the financial statements is AED350 million of tax expenses in 2024.

In terms of earnings per share, also it rose about 36% from AED2.61 per share to AED3.55 in 2024 and total assets increased to AED33.2 billion up by almost 60% in 2023 when we had AED20.8 billion as total assets. Our equity also increased by about almost AED4 billion from AED8.6 billion to AED12.6 billion, which was largely driven by the net profit for the year and gain on the IPO, offset by dividends paid during the year.

I've already spoken about this. I think next slide is on the quarter performance. So just for touching briefly on the results for the quarter, we achieved a 37% growth in revenue as you can see AED7.7 billion up from about AED5.7 billion in the previous period. And we reported net profit of AED916 million, 43% increase compared to the same period of 2023.

As Engineer Yasser mentioned, on the back of our outstanding performance, the Board of Directors have proposed a final dividend of AED701 million for the financial

year ended 31st December 2024, which represents a cash dividend of AED0.83 per share with a payout of 24% for the year for the annual dividend. This is in addition to the AED2 billion special interim dividends already paid during the year and if you take both of these into account, a payout ratio goes up to as high as 91% and the dividend yield to 12.9%.

So, touching up on the free cash flow, then we generated free cash flows of about AED1.7 billion during 2024. It remains a big flat compared to 2023 because despite an increase in cash generated from operations by about half a billion, we also increase our cash outflows on CapEx by a similar amount. For 2024 4Q, only at about AED2.1 billion, just slightly better than full year because large part of the cash outflow and CapEx happened in previous quarters. In addition, we achieved significant product collection in the last quarter, which is why our FCF for 4Q24 is slightly better than the one for the full year.

In terms of working capital, we showed a decrease from a AED1 billion to about AED387million which is primarily due to increase in contract liabilities as you can see on slide. This is because we had increase in billings based on milestones and we also received significant advances from our customers.

On the backlog, we have a current secured backlog of AED71 billion which is to be delivered out of which AED30 billion is to be delivered in 2025 and the rest of it is unwinding over the next two or three years. Of course you can see a declining trend, but that is because we continue to replenish our backlog as we go. And just to give you an example, we started 2024 with a backlog of AED54 billion and of course, we consumed AED26 billion in revenue for the year, and then we ended up with AED71 billion, which means we secured new awards worth AED43 billion during 2024 itself. So we continue to work on exist on attendance at the moment and we will continue to replenish the backlog as we go.

I think that's all we had on the financial numbers. If we can move on.

Hanzada Nessim, Group Head Investor Relations & Financial Communications - NMDC Group

Afaq can you please open the floor for Q&A?

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Sure. Thank you, NMDC team, we will now open the floor for questions. As a reminder, all the participants, you may tap the raise hand button to ask a question. Once it is your turn, your mic will be enabled and your name will be announced. You

will then be able to unmute locally and ask your question. We request participants to please mention the organization you're representing before you ask your question.

We will give a moment here for the questions to come in.

We have our first question from the line of Alok Nawani. Alok, your mic has been enabled. You can unmute locally and please go ahead.

Alok Nawani, Portfolio Manager - Ghobash Group

Good afternoon, everyone and thanks so much for the call. Just a couple of questions from my side. You mentioned that you expected the growth in dividends to the growth in profits. So should we assume that the 24% business as usual dividend payout ratio should continue in the future or is there scope for that dividend payout ratio to increase moving forward? Secondly, if you could perhaps give us some sort of an indication of guidance for 2025. I mean, we can see that the backlog phasing sort of implies that around AED30.3 billion in revenue that you expect in 2025 but any sort of guidance that you can provide in terms of EBITDA margins, CapEx, you know, any other metrics would be very much appreciated. Yeah, for for.

Yasser Zaghloul, CEO - NMDC Group

Thank you for the question. I know it's important question for investor. Yeah, dividend wise, we will continue the growth of the EBITDA, and we will aim for 20 to 25% from net profit after tax to be the dividend. So whatever we have growth in profits, it will be reflected directly to dividends and for what was next question?

Alok Nawani, Portfolio Manager - Ghobash Group

Your guidance please, if you if you happen to have any guidance you can provide.

Yasser Zaghloul, CEO - NMDC Group

At least the percentage wise as a profitability will not decline, but always we aim for more. We are sure that we aim to be more, but it will not decline.

Alok Nawani, Portfolio Manager - Ghobash Group

OK. And can you tell us what kind of CapEx do you expect us incur in 2025?

Sreemont Barua, Group CFO - NMDC Group

We have a budgeted CapEx of about AED2.2 billion already in 2025 and we have also additional about maybe AED2 billion for M&A, so maybe close to AED5 billion in terms of M&A and other Capex.

Alok Nawani, Portfolio Manager - Ghobash Group

All right. Just a final question from my side please. What do you expect in, in terms of your M&A outlook, what kind of geographies or assets could you be looking at?

Yasser Zaghloul, CEO - NMDC Group

Yeah, for M&A, mainly to serve the new verticals for related business but in some time we are targeting not only activity but market wise. So if you look now, we are quite active and the strategic market now for Far East and we are aiming to have our Far East as a second home market. So we are already busy discussing few opportunities there as well as to help and support our business. There are some targets in Europe as well to support our business excellence if you say and optimization for operation, so that as well as one of our targets. The third target will be something to support our fleet expansion to make sure that we are executing our fleet by efficient way because our strategy, as you know, if we if we go and order new equipments, we just create more competition and this is not healthy for flooding the market by equipments. So we feel that and we are sure about it, if we acquire company with assets that would mean we gain the profit without putting pressure on the competition and our pricing.

Alok Nawani, Portfolio Manager - Ghobash Group

OK, that's clear. Thank you. I'll get back in the queue.

Yasser Zaghloul, CEO - NMDC Group

Thank you.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Alok. That was Alok from Gobash Group. Our next question is from the line of Nikhil Mishra. Nikhil, I've enabled your mic. You can unmute locally and ask your question please.

Nikhil Mishra, Analyst - Al Ramz Capital

Thank you. Thank you for this call and taking the questions. This is Nikhil Mishra from Al Ramz capital. Two questions please. First of all, in terms of backlog, how should we look at the backlog going forward? What is your confidence in in maintaining or perhaps increasing the current backlog number over 2025 and perhaps beyond? And secondly on the M&A, so you mentioned you have a lot of targets in three key areas you are looking at, so what is the ticket size of them and what is the you know, is

there a minimum ticket size you are looking at or is there a maximum ticket size you are looking at in terms of that M&A activity?

Yasser Zaghloul, CEO - NMDC Group

For M&A, allow me to answer this one before handing over to Amjad for backlogs. Tickets wise it depends on the business. Mainly our objective and main aim to consolidate. However, it depends on the target but the size of ticket related to cash we don't have a limitation for that as far as it fits with our strategy. That's what I would like to expand.

Nikhil Mishra, Analyst - Al Ramz Capital

So just a bit follow-up. So, you're currently negative net debt to EBITDA leverage ratio, so what's the maximum leverage that you know, you can go to and what's your idea about optimum or maximum leverage that NMDC group can take on over let's say over the medium to long term?

Yasser Zaghloul, CEO - NMDC Group

It's time now to utilize our relationship with our partner financial institutions and to avoid using the equity. We will focus more on the coming period once we have the right target, utilise our relationship with our partners and we utilize more leverage than equity.

Nikhil Mishra, Analyst - Al Ramz Capital

Oh, OK, sure. And on backlog please.

Amjad Abdul Shakoor, Senior Director Project Control & Risk - NMDC Group

Yeah. Good afternoon. On the backlog, that's a good question. As you know, we are executing a lot of EPC projects and those projects which are spanning close to two to three years. So as you would see from our backlog unwinding, 2025 and 2026 is more or less having close to AED30 billion as revenues to be unwinded. Going for 2027, we have close to AED8.9billion I believe, where in which the replenishment will be done in the usual cycle of projects award. Whenever it gets awarded in 2025, as you know, it follows an S curve when it comes to the unwinding of the backlog, so it'll be replenished as soon as 2025 awards happen. And this has been the trend over the period of time. If you see the history of NMDC group passage. So we are quite confident about the pipeline which we are having at present and those will be replenishing 2027 going forward.

Nikhil Mishra, Analyst - Al Ramz Capital

OK, OK. Thank you. And just last question if I may. So NMDC Energy was, you know, we had IPO of NMDC energy last year. Are there any other verticals that you think you know are ready or can we potentially be ready over the next one or two years for potential IPOs? So any comments on potential monetization of stakes in any of your other businesses please.

Yasser Zaghloul, CEO - NMDC Group

Yeah, OK, about IPOs, this is part of our strategy and a very important topic for us. We, in short, we build this new verticals to support our growth and that comes to develop this company, this kind of different verticals invest on it, make it mature and ready. Once it's ready, we will go for the market to share our success with our investment community around us. So today we have different verticals. We have NMDC LTS, We have NMDC constructions and we are working very good shape with both of them and even next year, in 2025, you will see financial results for this kind of verticals making it ready and matured, once we feel it's the right time, we will go for it.

Nikhil Mishra, Analyst - Al Ramz Capital

OK. Thank you very much. That's very clear.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Nikhil. Just a reminder for any participant who wishes to ask a question, you can tap the raise hand button and we will announce your name. Our next question comes from the line of Shahrukh Saleem. Shahrukh, I've enabled your mic. You can unmute locally and proceed with your question please.

Shahrukh Saleem, Analyst - Mashreq Capital

Yeah. Hi. Thank you so much for taking my question. I just have a very quick question that if you look at your projects, given you already mentioned they have like a tenure of two to three years, how should we think the profitability or margins move when it comes to this two or three-year project? Like do we see margin expansion towards the end of these contracts? Or is it like stable throughout the life of a contract?

Yasser Zaghloul, CEO - NMDC Group

For long term projects we deal with that as per budge. So our profitability for the project, we have zero chance to decline because we from the day one we put all risk involved in it. We consider all of this. We have robust plan for project control to

make sure that we maintain the profitability of the project across the project life cycle.

Shahrukh Saleem, Analyst - Mashreq Capital

OK. And I just wanted to understand in terms of pricing like is it like based on market prices or what the competition are charging or is it just for you that you market your contracts based on cost plus a certain margin of yours?

Yasser Zaghloul, CEO - NMDC Group

There is no cost to plus at all. All of our project, we take it through international tendering and the process for tendering is very robust. If you look at our clients as well, talk about, ADNOC, ARAMCO, Far East, all of them have very robust process for tendering, so cost plus there is no cost to plus in our system at all.

Shahrukh Saleem, Analyst - Mashreq Capital

OK. Thank you.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Shahrukh. That was Shahrukh from Mashreq Capital. We have received a few questions via e-mail, so while we wait for any further questions to come online, we can jump to these.

One of the questions we received reads, as per the backlog unwinding FY25 and FY26 is expected at AED30 billion and AED26 billion, but there is a sizeable drop in FY27 to AED9 billion. Does the management expect to replenish the backlog to maintain a similar level of revenue in FY27? Is there a sustainable level of revenue we should expect once the major part of the current backlog unwinds.

Amjad Abdul Shakoor, Senior Director Project Control & Risk - NMDC Group

Yeah, this has been answered earlier. I will again repeat a bit more on the backlog side of unwinding. So normally as the projects are having a life cycle of two to three years, as I explained before, as soon as the project is awarded in 2025, it is replenished the middle portion of 2027 onwards because it follows an S curve the first year we may be having 15 to 20% that the remainder of the other two years will be balanced out. So it's a phased approach and if you see the trend of our backlog unwinding, it always happens. The next two years, you'll be having the full visibility as well as the unwinding of the backlog and the projects get subordinated. 2025 will be having, you know, replenishing in 2027 for example. This is the way it is.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Amjad. Participants, if there are any questions, you may raise your hand and we'll enable your mic. We have our next question from the line of Anuj Mehrotra. Anuj I've enabled your mic. You can unmute locally and proceed with your question please.

Anuj Mehrotra, Portfolio Manager – Dymon Asia

Thank you very much for the presentation and a great set of results. I just had one question. If you look at your bidding pipeline as it stands today, which is basically the projects that you're bidding for at the moment, would you be able to give a sense of what bidding pipeline looks like in terms of AED billion like is it AED15 billion, AED20 billion, AED50 billion, the pipeline that you're actually bidding for at the moment?

Yasser Zaghloul, CEO - NMDC Group

We are bidding for more than what we have today as a backlog.

Anuj Mehrotra, Portfolio Manager – Dymon Asia

So in excess of AED70 billion?

Yasser Zaghloul, CEO - NMDC Group

100%. And you can see that from the expansion plan from our industry clients, if you look at the expansion plan for Abu Dhabi expansion plan in renewable energy, the expansion plan of ADNOC is huge, expansion plan from Aramco is huge and we are competing on this in the industry with less than 10 giants worldwide. And all of us are fully aware about this expansion plan. All of us are fully aware about tendering, so I believe from this perspective we feel very confident on the growth of the backlog and the growth there is almost guaranteed. But now we are even growing more to build more verticals to grab more backlog on different sectors and with different clients. So our aim is to expand as well through wider broad clients mapping for us.

Anuj Mehrotra, Portfolio Manager – Dymon Asia

Perfect. Thank you very much. Wish you all the best.

Yasser Zaghloul, CEO - NMDC Group

Thank you.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Anuj. While we wait for any further questions online, we can take another question we received via e-mail. This is on NMDC LTS. Can you elaborate on the scope of work NMDC LTS will be doing? What exactly is the potential of this segment?

Amjad Abdul Shakoor, Senior Director Project Control & Risk - NMDC Group

OK, NMDC LTS will manage logistic operations, marine management, survey services diving and also plant and equipment, material management, all those which are enabling our business to grow as well as externally and for internal clients. This is what the portfolio of NMDC LTS looks like and we are further expanding in terms of business for calibration, asset integration. Those which are also supporting our business growth. So basically it is an enabler business. Plus we'll be serving also outside market in order to have our revenue stream secured.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Amjad. We have a few other questions in e-mail, but some of them have been answered. So we'll take one more. This is on Emdad. Could you provide some financial indication of the size of the acquisition and the profitability of Emdad? Should we expect similar M&A activity under NMDC LTS in 2025?

Sreemont Barua, Group CFO - NMDC Group

So, this is Sreemont, on the size of the deal, I'll just indicate in the range of AED250 to AED300 million. And in terms of profitability, I think the about 9.5% EBITDA and average revenue of about AED500 to AED600 million over the past three years with EBITDA of about 7 to 8%. So that should give you some indication.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you Sreemont. Participants if there are any other questions you may raise your hand at this point and we will come back to you. We'll give a moment here for any further questions to come in.

We have received another follow-up question from Alok Nawani. Alok, I've enabled your mic again. You may please go ahead.

Alok Nawani, Portfolio Manager - Ghobash Group

Hi. Thanks again. Would you kindly confirm that your corporate income tax would be stepping up from 9 to 15% in 2025?

Sreemont Barua, Group CFO - NMDC Group

9 to 15%.

Alok Nawani, Portfolio Manager - Ghobash Group

So that's confirmed then?

Sreemont Barua, Group CFO - NMDC Group

Yeah. So as you know, the announcement has recently been made and it's not very clear as to how it is exactly going to be implemented. But the bottom line remains that there will be a impact on us, which will go up from 9 to 15%.

Alok Nawani, Portfolio Manager - Ghobash Group

Great. Thank you. Thank you.

Afaq Nasir Nathani, Senior Research Analyst – International Securities

Thank you, Alok. We have no further questions at this point. Thank you, NMDC Group's management team for joining the call today and for a comprehensive review of the full year 2024 results and for taking the questions. I also would like to thank all the participants for joining the call. A recording of the call will be available and you may get in touch with your contact at either NMDC or International Securities for access. Have a nice day, everyone. This concludes the call today. Goodbye.