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NMDC Energy 2Q25 results call hosted by International Securities

Transcript

Afaq Nathani, International Securities

Hello everyone and welcome to NMDC Energy 2Q25 and 1H25 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:

The CEO of NMDC Energy, Engineer Ahmed Al Dhaheri
The Chief Engineering and commercial Officer, Hannah Dahdah,
The Finance Director, Rahul Agarwal,
The Senior Director Investor Relations and Financial Communications, Hanzada Nessim and,
The Investor relations manager, Shaima Ali.

NMDC Energy team, I thank you all for joining the call today. Following a presentation by the NMDC Energy team, the floor will the be open to a Q&A session. In order to ask a question please 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 to the company's management. I now give the floor to the senior director investor relations and financial communications, Hanzadda Nessim. Hanzada, please go ahead.

Hanzada Nessim, NMDC Energy

Thank you, Afaq.
Good day, ladies and gentlemen, and welcome to NMDC Energy Second Quarter 25 Results Conference call. 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 prediction 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obligation to revise or update forward-looking statement as a result of new information, since these statements may be no longer valid or accurate.
I will now turn over the call to our CEO, Engineer Ahmed.

Engineer Ahmed Dhaheri, NMDC Energy

Thank you Hanzada and thank you, International Securities team. I'd like to begin by welcoming everyone here on today's call. Yesterday, the company reported its second quarter and first half results for the year. Reporting a strong growth in its first half 2025

revenues, which rose by 41% year on year to reach AED8.2bn and net profit after tax, which increased 16% year on year to reach AED583mn. The company continued to enjoy a strong liquid balance sheet with a net cash position of AED4.6bn hosted by our strong collections from our clients, which reached AED9.2bn, surpassing our revenues for the first half. This set of results is a testament of the resilience of our business model and continuous strong execution of our backlog despite operating in a very challenging environment.

Our project wins reached AED13.9bn in the first half of 2025 with a backlog of AED49.9, divided across 23 projects and a healthy pipeline of AED66bn between projects that we tendered for and others which we are yet to submit tenders.
The company's strategy remain intact, we remain committed to our home market and continue to execute our expansion strategy. We signed also a very important agreement with our strategic partner, Aramco, and this a 3-year extension of our long term agreement. We inaugurated our Ras Al Khair KSA yard which is not fully operational to better serve Aramco and the rest of the region. Additionally, this will support our ambition to expand our onshore projects through modules fabrication. Moreover offshore wind segment is part of our expansion aspirations, particularly after our success in executing an offshore wind project in Taiwan last year.

We currently have three projects, 3 tenders in the pipeline and we are still focused on expanding our revenue stream from this important and strategic sector. Thank you.

Hanzada Nessim, NMDC Energy

We will now turn over the call to our Finance Director, Rahul.

Rahul Agarwal, NMDC Energy

Good afternoon all. Thank you for attending this call and to our CEO for key highlights of NMDC Energy’s achievements in the second quarter and first half of 25. Diving into some specifics of the financial performance for the first half.
As mentioned, NMDC Energy's revenue soar to AED8.2bn billion which is 41% increase year on year from AED5.8bn in first half of 24. In terms of key projects, this increase was driven by higher revenues from our existing projects, such as Hail & Gasha, EPC, local projects and Aramco projects. The increase in revenue resulted in us achieving 19% increase in profit before tax and a 16% increase in profit after tax, from AED502mn in first half of 2024 to AED583mnin first half 25. As a result, our EPS also rose to 16% from AED0.10 to AED0.12 per share.

Our awarded projects as our CEO mentioned reached AED13.9bn with a backlog of around

AED50bn at the end of the quarter which is due to be executed in the next four to five years. A backlog almost represents 3 times our revenue of AED14.4bn reported last year.

Turning to some key balance sheet metrics now. Our total assets at the end of 2Q stand at AED18bn, increasing mainly due to higher cash, trade receivables, current assets and contract assets. Our total equity stands at AED5.2bn. The total assets and total equity balances both increased compared to December 24, mainly driven by increase in our cash balances, increase in trade receivables and increase in contract assets. Cash balance increased by AED800mn, mainly due to accelerated collections.
Our DSO now stands at 117 days versus 144 days for first half 24 last year. The increase in cash balance by AED800mn is despite the dividend payout, mainly because we've received large advances from customers and also due to accelerated collections.

On the equity side, the dividend payment was offset by profit for the current period.
Our net working capital remains negative at the end of 2Q25 at AED2.8bn which is lower than both March 25 and December 24 levels of AED1.6bn due to excellent cash collections over the period. In terms of the free cash flow, we generated strong free cash flows of AED2.1bn during the second quarter of 25. Again as a result of, a higher cash conversion, higher collections from advanced from customers. CapEx was broadly stable in line with H124 at AED205mn. With that, I hand over to Miss Hanzada.

Hanzada Nessim, NMDC Energy

Yes. Thank you, Afaq. Can you please now open the floor for Q&A?

Afaq Nathani, International Securities

Sure. Thank you, NMDC team. We will now open the floor to questions. As a reminder, please 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 a question. We will give a moment here to allow participants to click the raise hand button.

While we wait for questions online to come in, we can start with some of the questions we received via e-mail. The first question reads, would you provide some additional details on how the new fabrication yard in Saudi would enhance the company's business? Is there an estimated financial impact that can be assessed at this point?

Engineer Ahmed Dhaheri, NMDC Energy

The fabrication yard is basically an investment of roughly AED200mn. It has a total area of 400,000 square metres and it is currently operational. We started really the fabrication activities for one of our Aramco projects. We believe that this will really position the company differently in Saudi Arabia, it will boost our Activa score and it will also enable us to enter into the onshore sector as nowadays most of the onshore projects are converted into modules and modules are always more, let's say enables faster execution while being fabricated under a controlled environment. So this is really a state of art facility with cutting edge technology and we are really looking forward also to use it now, not only for Saudi, but also for what we foresee in relation to KGO projects, so if we are successful, this also is going to be the fabrication yard to execute the job.

Rahul Agarwal, NMDC Energy

I mean in terms of financial impact, obviously you know as we build the backlog and we continue to, you know maximize utilization of that facility, we expect significant returns of invest on the investment we've made. The idea was to get the yard ready up and operational and we have successfully reached there. So now it's about monetizing.

Afaq Nathani, International Securities

Thank you so much. Participants, in case of any questions, you can tap the raise hand button and we'll come back to you. There's a question from the line of Akarsh Tomar. Akarsh, I've enabled your mic now. You can unmute locally and proceed with your question, please.

Akarsh Tomar, SICO Bahrain

Yes, yes. Good afternoon. Thank you for the presentation. Congratulations on the great set of result. This is Akash Tomar from SICO Bahrain. I have two questions. So first of all is on your revenue generation in terms of diversification. So my understanding of your business is that it is more, you'll have more revenues in the phase where countries are increasing production, for example UAE and once the production increase has happened and there's only a maintenance required just to maintain, for example like Saudi's maintaining12 MSC. So in that case, the business should start having lower backlog. So what exactly are you doing to mitigate that? Are you looking for diversification of your revenues in any way? That's the first one.

And the second one is on your free cash flows. So considering you have a huge backlog for 26 and 27 as well. You'll be generating much higher cash than your announced dividend policy of 700. So how exactly are you looking to utilize this cash? Thank you so much.

Hannah Dahdah, NMDC Energy

Projects in the pipeline there are developments as well as to maintain potential projects, whether in UAE or Saudi Arabia. These will not come down because of achieving the level of production that they may achieve in the coming 3-4 years.
Abu Dhabi is set to achieve its target production by 2030, so projects will still be coming. Projects are still being in the pipeline from Abu Dhabi, from Saudi Arabia, from joint ventures between Abu Dhabi and Kuwait. And as our CEO mentioned, we are in the diversification business. We are certainly looking at expanding our operations and works in offshore wind project has continuation to what we have done in the last three years. So this is one line of business that we are looking at. That is going to help us continue sustaining our overall sales and revenue. We are as well as you mentioned looking at expanding and undertaking onshore projects in Saudi Arabia, which will be supported by the fabrication yard that we have now in operation. So that effort of modularization puts us in a good and of looking at onshore projects in Saudi Arabia, which is a diversification from what we have right now. So in general, new type of business plus new areas of focus will maintain our sales as well as revenue in the coming years and we don't see these to be held down by whatever may be happening in the market and supply and demand. They will still be going on.

Hanzada Nessim, NMDC Energy

On the dividend question, we already distributed AED700mn in 2025 paid on 2024 numbers and as the prospectus of the IPO in September, our dividend policy is that we will be paying a dividend of AED700mn for the next three years. One is paid and on 2025 and 2026, there is another AED700 million that is going to be paid. Does that answer your question?

Akarsh Tomar, SICO Bahrain

Thank you so much. Yeah. So I was just wondering that given your free cash flows would be much higher than 700, I was just wondering what else would you be looking to do with this cash? Are you looking for inorganic growth or like what exactly is the plan there?

Engineer Ahmed Dhaheri, NMDC Energy

Yes, allow me to answer this part of the question. Basically, if you look at our CapEx, I mean today we are hovering around the requirements of let's say AED600mn-700mn annually. We have expanded a lot in the past few years in terms of our capabilities and assets. Now what we see in front of us, we have additional offshore vessel that we are trying to acquire and this will be in the region of USD100-150mn. In addition to that, we are assessing the possibility to invest in a dedicated onshore dedicated offshore wind vessel. So this is still being assessed, but if it passes all the gates within the organization, then this would require something like USD570mn. In addition to that, we are looking at geographic expansion

through either M&A or through partnerships. So this is in a nutshell our plans and we will always keep investors posted whenever they really reach an advanced stage or they materialize.

Akarsh Tomar, SICO Bahrain

Thank you very much. That's very helpful and all the best for the future. Thank you.

Afaq Nathani, International Securities

Thank you, Akarsh. As a reminder, participants, if there are any questions, you can tap the raise hand button and we'll come back to you. Meanwhile, we can take another question we received via e-mail. This one reads, the company has mentioned that the project pipeline is over AED65bn. Realistically, how much of these projects does the company expect to win and what would be the timeline of this?

Hannah Dahdah, NMDC Energy

Timeline for the projects that we have built or yet to build as of now are targeting awards towards the end of this year or first quarter 2026. With the type of projects that we are bidding and the regions where we are bidding in, we expect that we are to materialize 20% of what is in the pipeline. Whilst noting that this is like the target which is similar to what we achieved in 2025 already, so achieving a AED13-14bn in awards in the pipeline is foreseen as something achievable. It's many jobs are there and expectation to achieve this target is there as well and like what I said, target is either towards end of the year or first quarter next year.

Engineer Ahmed Dhaheri, NMDC Energy

And of course, I mean, as I mentioned in my opening remarks, we were really successful in winning two jobs this year totalling AED13.9bn.

Afaq Nathani, International Securities

Thank you. Very clear. We have a question online from the line of Abdul Aziz Abdullah Al Sheikh. I've enabled your mic now, Abdul Aziz, you can unmute locally and speak to the management.

Abdulazeez Abdulla, Jadwa Investment

Hello gentlemen, thank you for the presentation. My first question is on the working capital. I remember during the time of the IPO there was some guidance that your working capital requirement would increase after the IPO given that some of the working capital was borne

by the holding company, but as we look into the financials, we see your working capital remains very strong. So, if you can update us on that fund, what should we expect and what should you expect working capital to be going forward? My second question is on the bidding pipeline. I'm sorry if I missed that on the presentation. Can you just share what's the current bidding pipeline and what are you looking for in the next year?

Rahul Agarwal, NMDC Energy

Yeah. If I may take the first question on working capital, right. So a working capital, like I said at the end of quarter 2Q25 is AED-2.1bn. And if you look at December 24, it was different and this profile given the nature of the business It's changing every quarter because you know, given the nature of the business, we tend to win large projects, we get a significant amount of advance upon award and then that gradually gets recovered as the project progresses. Therefore, every quarter you could see that you know the working capital gets negative and then that unwinds and then so on and so forth. So if you were to form a view on the normalized working capital profile, I would suggest maybe you could take an average of the last four quarters or so.

Just to get a broad range, but you know it is significantly dependent on how our billings progress, how our projects progress on the ground and advances resulting from award of new projects.

Abdulazeez Abdulla, Jadwa Investment

Clear. If I might just follow up on that, correct me if I'm wrong. My understanding is eventually the current negative working capital position would turn into a positive working capital. Am I understanding that correctly or should I change my understanding. Because the last couple of quarters you remained within an negative on capital position. So should we turn now into positive or?

Rahul Agarwal, NMDC Energy

You wouldn't necessarily say it would turn positive because but yes, you're you would be right if you say it will unwind and turn gradually towards positive. But like Mr. Hannaa just said, if you were to get new projects awarded, let's say, towards the end of this year and as a result it we get a large chunk of advance upon award, then you suddenly see it going back to negative as well potentially. So yes, there will definitely be an unwind but that will get offset, let's say in 1Q25 again, if that answers your question.

Hannah Dahdah, NMDC Energy

On the question on projects in the pipeline, I provided information earlier at present we have around 20 projects. Some are already tendered, some are yet to be tendered. 14 of

these projects are in Saudi Arabia. Three of these projects presently are in Abu Dhabi and there are three that relate to offshore wind which are overseas.
So it's a mix of projects that tendered and to be tendered before the end of this year.
We target award as we mentioned either end of this year or first quarter in 2026.

Abdulazeez Abdulla, Jadwa Investment

OK, clear. And what's the total bidding pipeline when it comes to value?

Hannah Dahdah, NMDC Energy

It was indicated to be around AED66bn and our expectation we should achieve something like 20% of those. So we expect awards the range of AED14bn which is similar to what we achieved so far in 2025.

Abdulazeez Abdulla, Jadwa Investment

Clear. Just if I may follow up on that, when it comes to tendering for Saudi Arabia's business, what kind of projects is your main focus in Saudi?

Hannah Dahdah, NMDC Energy

At present, the main focus and Saudi relates to offshore projects. Part for Saudi Aramco and part for KGO, which is Saudi Arabia Kuwait. And as mentioned, if we succeed, the fabrication related to that KGO project will be undertaken at our yards in Saudi Arabia. The projects with Aramco are maintained potential plus, new developments. The projects in Abu Dhabi are, I would say same upgrade of existing facilities plus new production both offshore and on island works, so both land and offshore, aAnd offshore wind projects are outside the area. In various areas, Japan, Germany, UK that are totally offshore.

Abdulazeez Abdulla, Jadwa Investment

Clear. So, so when it comes to to to business in Saudi Arabia compared to what you were what you were doing in the UAE, are you finding yourself more or less competitive in Saudi Arabia, given that you have a strong, a strong positioning in the UAE, so how should we think about your tendering in Saudi compared to UAE?

Hannah Dahdah, NMDC Energy

I think so. The Aramco we have very strong partnership relations with them that started way back in 2016 when we signed our first long term agreement that we just as mentioned by CEO got renewed for another three years last April plus another three optional extension period. We are serving Aramco as a major partner, developing our fabrication yard in Saudi Arabia is an added plus because it indicates seriousness and beating Saudi Arabia targets in

general, maximizing work's local area. To reference this, we are maybe the only party was this main yard in KSA now against our competitors. So we believe that establishing that yard other than enhancing our capability to win the project's force will Aramco and Saudi Arabia opens up the opportunity for us to look at onshore projects as well.

Abdulazeez Abdulla, Jadwa Investment

Clear. Thank you so much, gentlemen.

Afaq Nathani, International Securities

Thank you, Abdul Aziz. All right, we have another question from the line of Nikhil Mishra. Nikhil, I've enabled your mic now. You can unmute locally and proceed with your question, please.

Nikhil Mishra, Al Ramz Capital

Yes, hello, this is Nikhil from Al Ramz Capital. Just a quick question. So you mentioned that you have a backlog of AED50bn at the end of first half, if I remember correctly, but around the same level at the end of 2024. So during the first half you had total awarded projects of around AED14bn, whereas your revenue was around AED8bn or so. So what is this gap of around AED6bn coming from? Why is the basically just to understand why is the backlog not higher than AED50bn at the current at the end of first half, just to understand how this is moving and how we should look at projecting the revenues going forward. Thank you.

Rahul Agarwal, NMDC Energy

So the backlog at the see, there's a project of the project, but really it was awarded in January 2025. It was potentially included in the December number as well, but officially it got awarded in January 2025. That's why you see that gap. Otherwise, there's no gap in the backlog unwined.

Nikhil Mishra, Al Ramz Capital

Oh, OK. So this was mostly related to the Taiwan project that you got at the beginning of this year.

Rahul Agarwal, NMDC Energy

Correct. Correct. Yeah.

Nikhil Mishra, Al Ramz Capital

All right. All right. All right. Thank you very much. That was very clear.

Afaq Nathani, International Securities

Thank you, Nikhil. Participants, if there are any questions, you can tap the raise hand button. We'll take one more question we received via e-mail. This is on your general and admin expenses. It reads that we've noticed in second quarter 25, the general and admin expenses have fallen both on QoQ and YOY. What is driving this and is this a sustainable level?

Rahul Agarwal, NMDC Energy

Yes, you're absolutely right in spotting that.
And you know, it is actually on the back of a very conscious effort to keep indirect overheads under control. This is the actual spend is lower not only was the strike period, but also was this budget and yes, we do consider that you know this should be the run rate level although as we proceed into the second-half the overheads could increase as we strive to grow significantly in the second-half. But yeah, this is as a conscious result of keeping overheads under control.

Afaq Nathani, International Securities

Thank you. Thank you so much. One more question that we have is on your tax rates. Should we expect 15% going forward or is the current level more sustainable in your view?

Rahul Agarwal, NMDC Energy

Yeah, look, 15% is only to the extent it relates in UAE and 15% is not a blanket rate.
There are various other considerations under the tax laws that need to be taken into account, and therefore the blended tax rate for the group will not 15%, it would be far lower because we also have projects in Saudi where the tax rate is not 15%.
So you know, broadly you could take the blended tax rate that we have in 1H25 to be indicative of what it should be but bear in mind that this blended tax rate changes depending on how our geography mix changes because if you have got more revenues say outside of Saudi than the tax rate could increase the blended rate. If you've got more in Saudi, then it could be on the lower side.

Afaq Nathani, International Securities

Very clear, very clear. Thank you. Final reminder, participants, if there are any questions, you can raise your hand at this point and we'll come back to you.

All right. NMDC team, we have no further questions. I would like to thank your team for joining the call today and for taking us through the first half results as well as the questions. I would also like to thank all the participants for dialing in today. A recording of this call will be available. You may get in touch with your contact person at either International Securities or NMDC for access. Have a nice day everyone. You may now disconnect. Goodbye.