

Dubai Taxi Company (DTC)

Higher finance cost and operating expenses impacted profitability

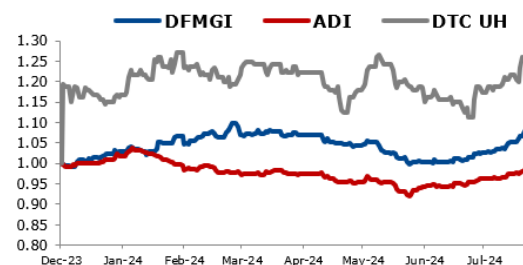
Current Price
AED 2.32

Target Price
AED 2.75

Upside/Downside (%)
+18.5%

Rating
BUY

- DTC acquired 94 taxi licenses in the recent RTA auction and further plans to participate in two upcoming auctions; one in August 2024 and the other at the end of the year.
- Signed an MOU with Blacklane Middle East to enhance luxury chauffeur services to meet international standards boosting the appeal of its premium limousine segment offering.
- Signed agreements with e-commerce and delivery aggregators like Tabalat UAE, a leading delivery platform for offering delivery and transportation solutions utilizing its diverse fleet of vehicles.
- The board approved a cash dividend of AED 159.3 Mn equivalent to 6.37 fils per share for 1H24.



2Q24 Net Profit lower than our estimate

Dubai Taxi Company P.J.S.C. (DTC/the Company) net profit declined 14.0% YOY to AED 79 Mn in 2Q24, lower than our estimate of AED 98 Mn. The decline in the net profit is mainly due to a sharp rise in finance cost, direct cost, G&A expenses and income tax charges partially offset by an increase in revenue.

P&L Highlights

DTC's revenue rose 11.6% YOY to AED 531 Mn in 2Q24 owing to strong growth across all segments attributable to the expansion of the fleet size. DTC benefits from the exclusivity agreement among the high-volume areas in Dubai. Revenue from the Taxi segment rose 10.0% YOY to AED 459 Mn in 1Q24 mainly due to the fleet expansion, increased number of trips and trip length, higher tariffs, and rise in airport taxis. DTC's exclusive pick-up rights at both Dubai Airports resulted in an attractive tariff structure. Limousine segment revenue rose 5.1% YOY to AED 28 Mn in 2Q24 owing to the expansion of the fleet and higher tariffs. The Taxi and Limousines completed 23.3 Mn trips in 2Q24 out of which 22.7 Mn trips were done by the taxis. The revenue from the Bus segment significantly increased 24.1% YOY to AED 36 Mn in 2Q24 owing to an increase in fleet size and the signing of new service contracts. Similarly, the Company's delivery bike segment revenue substantially rose from AED 3.9 Mn in 2Q23 to AED 9.0 Mn in 2Q24 mainly due to an increase in fleet size and new commercial agreements. The Company increased its fleet to 1,168 delivery bikes in 2Q24 by adding 181 bikes. On the other hand, operating costs rose 15.8% YOY to AED 335 Mn in 2Q24 due to a higher number of trips and an increase in staff, depreciation, maintenance, and insurance costs whereas the plate and license fees increased 6.4% YOY to AED 83 Mn due to increase in fleet size. Thus, the Company's gross profit increased 4.0% YOY to AED 114 Mn in 2Q24. DTC's G&A expenses rose 32.0% YOY to AED 26 Mn in 2Q24

Stock Information

Market Cap (AED, Mn)	5,800.00
Paid Up Capital (Mn)	100.00
52 Week High	2.38
52 Week Low	2.06
3M Avg. daily value (AED)	6,109,677

2Q24 Result Review (AED, Mn)

Total Assets	2,147
Total Liabilities	1,737
Total Equity	409
EBITDA	139
Net Profit	79

Financial Ratios

Dividend Yield (12m)	1.22
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	14.17
Book Value (AED)	0.16
Return-on Equity (%)	85.59

Stock Performance

5 Days	3.11%
1 Months	12.62%
3 Months	7.91%
6 Months	1.75%
1 Year	N/A
Month to Date (MTD%)	12.62%
Quarter to Date (QTD%)	12.62%
Year to Date (YTD%)	8.92%

whereas other income rose 25.4% YOY to AED 12 Mn. In addition, the Company recorded an impairment reversal of AED 3 Mn in 2Q24 compared to an impairment charge of AED 5 Mn in 2Q23. As a result, operating profit rose 8.5% YOY to AED 103 Mn in 2Q24. DTC's EBITDA grew 13.9% YOY to AED 139 Mn in 2Q24 with an EBITDA margin to 26.2% in 2Q24 compared to 25.7% in 2Q23. The growth in the EBITDA is mainly attributable to enhanced operational efficiencies and fleet expansion. DTC's finance income rose from AED 2 Mn in 2Q23 to AED 5 Mn in 2Q24 while finance cost increased from 0.03 Mn in 2Q23 to AED 16 Mn in 2Q24 owing to the addition of debt. Staff bonus declined marginally 1.6% YOY to AED 5 Mn in 2Q24. In addition, the Company incurred an income tax charge of AED 8 Mn in 2Q24 owing to the introduction of UAE corporate tax which led to a decline in net margin by 444 bps YOY to 14.9%.

Balance Sheet Highlights

DTC's cash and cash equivalent including Wakala deposits stood at AED 374 Mn in 2Q24 compared to AED 412 Mn in 1Q24. DTC's debt stood stable at AED 1.0 Bn in 2Q24 compared to 1Q24 and recorded a net debt of AED 623 Mn in 2Q24 compared to AED 585 Mn in 1Q24. The Company's net debt to LTM EBITDA ratio stood stable at 1.1x in 2Q24 compared to 1Q24. DTC generated a free cash flow of AED 178.5 Mn in 1H24.

Target Price and Rating

We revise our rating on Dubai Taxi Company from ACCUMULATE to BUY with a revised target price of AED 2.75. Expansion of the fleet, rise in trips and trip length, and higher tariffs determined by the Road and Transport Authority (RTA) drove the Company's revenue in 2Q24. Dubai International Airport recorded its highest quarterly traffic in 1Q24 welcoming 23 Mn passengers whereas, the Company expects Dubai's tourist visits to grow at a CAGR of 20.5% from 17.2 Mn in 2023 to 25.0 Mn in 2025. Robust tourism performance in the emirate drives the demand for mobility across the city. The Company's exclusivity agreements with the Dubai government in high-volume areas provide a competitive advantage over other operators. DTC witnessed a solid fleet expansion across all segments in 1H24 and added 194 taxis, 5 buses, and 181 bikes to its fleet in 2Q24. DTC acquired 94 taxi licenses in the recent RTA auction and further plans to participate in two upcoming auctions; one in August 2024 and the other at the end of the year. DTC signed an MOU with Blacklane Middle East to enhance luxury chauffeur services to meet international standards boosting the appeal of its premium limousine segment offering. The Company focuses on growing its taxi fleet, improving operating efficiency, expanding adjacent businesses, and considering valuable inorganic growth opportunities. Around 85% of DTC's fleet comprises hybrid cars, and the company plans to add Tesla and BYD to their fleet as these electric cars will reduce operating costs. Solid relations with the Ministry of Education and the rising student population led to the winning of additional private school contracts in the Bus segment and the Company also expanded bus services to corporate entities. DTC signed agreements with e-commerce and delivery aggregators like Tabalat UAE, a leading delivery platform for offering delivery and transportation solutions utilizing its diverse fleet of vehicles. The Company incurred a capex of AED 115 Mn in 2Q24 compared to AED 42 Mn in 1Q24 and further plans to grow its core operations to overcome the rising passenger traffic demand. The board approved a cash dividend of AED 159.3 Mn equivalent to 6.37 fils per share for 1H24 in line with its dividend policy of a minimum dividend payout of 85% of its net profit in 2024 and thereafter. Thus, considering the abovementioned factors, we assign a BUY rating on the stock.

DTC- Relative valuation

(at CMP)	2022	2023	2024
PE (x)	NA	16.8	14.9
PB (x)	NA	18.8	12.5
EV/EBITDA	NA	13.2	10.7
Dividend yield (%)	NA	1.2%	5.6%

FABS Estimates & Co Data

Note – Dubai Taxi Company was listed on DFM in 2023. Thus, the financial multiple for the prior period is unavailable

DTC- P&L

AED mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	476	558	531	564	-5.8%	11.6%	-4.9%	1,954	2,242	14.8%
Operating cost	-289	-328	-335	-336	-0.2%	15.8%	2.0%	-1,205	-1,395	15.8%
Plate & license fee	-78	-78	-83	-80	3.4%	6.4%	5.9%	-310	-319	2.9%
Gross profit	109	152	114	148	-23.5%	4.0%	-25.2%	439	529	20.5%
Other Income	10	8	12	10	22.8%	25.4%	52.1%	51	54	6.8%
G&A Expenses	-20	-27	-26	-28	-8.5%	32.0%	-3.2%	-73	-87	19.3%
Impairments	-5	4	3	0	NM	NM	NM	-44	0	NM
Operating profit	95	137	103	130	-21.0%	8.5%	-25.0%	372	496	33.2%
EBITDA	122	170	139	151	-8.0%	13.9%	-18.0%	491	599	22.1%
Finance Income	2	3	5	2	NM	NM	56.4%	7	13	NM
Finance Cost	0	-16	-16	-15	7.9%	NM	3.5%	-16	-60	NM
Staff Bonus	-5	-6	-5	-8	-43.5%	-1.6%	-23.5%	-18	-20	12.9%
Profit Before Tax	92	119	87	108	-19.5%	-5.5%	-26.5%	345	429	24.3%
Tax	0	-11	-8	-11	-25.4%	NM	-26.5%	0	-40	NM
Net Profit	92	108	79	98	-18.9%	-14.0%	-26.5%	345	389	12.5%

FABS estimate & Co Data

DTC - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	22.9%	27.2%	21.4%	-155	-583	22.5%	23.6%	111
EBITDA margin	25.7%	30.4%	26.2%	54	-420	25.1%	26.7%	161
Operating margin	19.9%	24.6%	19.4%	-54	-520	19.1%	22.1%	306
Net profit margin	19.4%	19.3%	14.9%	-444	-441	17.7%	17.3%	-35

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Dubai Taxi Company P.J.S.C. We have assigned 70% weight to DCF, 15% to DDM, and 15% to EV/EBITDA.

Valuation Method	Valuation	Weight	Weighted Value
DCF Method	2.86	70.0%	2.00
DDM Method	2.58	15.0%	0.39
EV/EBITDA	2.36	15.0%	0.35
Weighted Average Valuation (AED)			2.75
Current market price (AED)			2.32
Upside/Downside (%)			+18.5%

1) DCF Method:

Dubai Taxi Company P.J.S.C. is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.6%. It is arrived after using the cost of equity of 9.2% and after tax cost of debt of 5.5%. Cost of equity is calculated by using a 10-year government bond yield of 5.4%, beta of 0.90 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai's Government spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,924
Terminal value (AED, Mn)	5,943
FV to Common shareholders (AED, Mn)	7,160
No. of share (Mn)	2,500
Current Market Price (AED)	2.32
Fair Value per share (AED)	2.86

DCF Method

(All Figures in AED, Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	451	514	549	596	647
Depreciation & Amortization	124	133	163	154	147
Capex	-299	-240	-304	-138	-238
Change in Working Capital	-16	108	83	-28	-2
Free Cash Flow to Firm (FCFF)	261	516	490	584	554
Discounting Factor	0.96	0.88	0.81	0.75	0.69
Discounted FCFF	250	456	399	437	382

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Dubai Taxi Corporation P.J.S.C. and it is valued using the EV/EBITDA multiple of 11.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Regional Infrastructure and Taxi Cos					
Salik	7,000	19.2	16.6	22.8	19.4
Empower	4,600	12.3	12.0	17.6	16.6
Dewa	32,670	9.6	9.1	17.1	16.0
ADNOC Drilling	19,810	12.1	10.7	16.3	14.3
ADNOC Distribution	11,980	12.8	11.8	17.8	15.7
Budget	1,900	10.0	8.1	22.5	16.5
Theeb	759	4.6	NA	19.4	13.5
Lumi	1,350	8.2	7.5	21.5	14.4
Average		11.1x	10.8x	19.4x	15.8x
Median		11.0x	10.7x	18.6x	15.9x
Max		12.4x	11.9x	21.8x	16.5x
Min		9.3x	8.6x	17.5x	14.4x

Source: FAB Securities

3) DDM Method:

The company maintains a policy to declare regular dividend to shareholders in the forecasted period. DTC is expected to pay a regular dividend of at least 85% of annual net profit in the forecasted period. The dividend is discounted at the cost of equity of 9.2%.

Sum of PV (AED, Mn)	1,646
Terminal value (AED, Mn)	4,798
FV to Common shareholders (AED, Mn)	6,445
No. of share (Mn)	2,500
Current Market Price (AED)	2.32
Fair Value per share (AED)	2.58

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
H1	162	189	205	226	247
H2	162	189	205	226	247
Total Dividend	325	378	410	452	493
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Dividend	312	334	331	334	334

Source: FAB Securities

