

## National Central Cooling Company (Tabreed)

Higher operating expenses impacted profitability

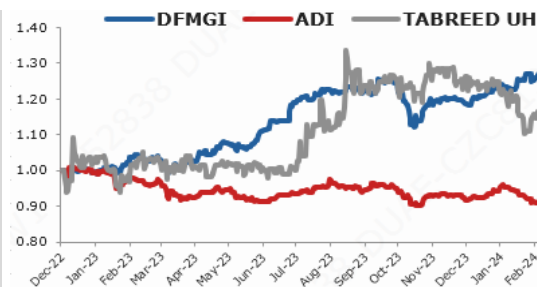
**Current Price**  
AED 3.42

**Target Price**  
AED 3.95

**Upside/Downside (%)**  
+16%

**Rating**  
**BUY**

- Tabreed commenced its operations of the geothermal district cooling plant in Masdar City, UAE in partnership with ADNOC in 4Q23 and further completed a pilot project to use new innovative nanofluid technology to enhance the district cooling network efficiency.
- The company added 53k refrigeration tonnes (RT) capacity in 4Q23 and further plans to increase 3-5% p.a. for the capacity guidance in 2024-2026.
- Out of the total addition of 53K RT, 31K RT in UAE, 14k RT in KSA, and the remaining 3k RT each in Bahrain and Egypt, 1k RT from Oman and India.
- Tabreed expands its global portfolio with the commissioning of six new plants in UAE, Egypt, Saudi Arabia, and India.



### Stock Information

Market Cap (AED, mm)	9,730.83
Paid Up Capital (mm)	2,845.27
52 Week High	3.93
52 Week Low	2.75
3M Avg. daily value (AED)	2,615,098

### 4Q23 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) net profit declined 27.2% YOY to AED 146 Mn in 4Q23, lower than our estimate of AED 180 Mn. The decline in the net profit is mainly attributable to higher administrative & other expenses and other losses compared to gains partially offset by lower cost of sales compared to revenue and decline in finance costs.

### P&L Highlights

Tabreed's revenue rose 6.5% YOY to AED 593 Mn in 4Q23 mainly due to growth in the revenue from the Chilled water segment. The revenue from the chilled water segment increased by 7.0% YOY attributed to new connections, existing concessions, new plants, higher consumption volumes, and positive CPI. Tabreed's total capacity including equity accounted capacity of JVs rose 3.4% to 1.30 Mn RT in 4Q23, excluding capacity of JV consolidated capacity declined from 1.06 Mn RT in FY2022 to 1.05 Mn RT in FY2023. UAE's capacity excluding the capacity of JV fell marginally from 1.06 Mn RT in FY2022 to 1.05 Mn RT in 4Q23, whereas capacity in Oman increased from 52 thousand RT in FY2022 to 53 thousand RT in 4Q23 and Bahrain's capacity rose from 34k RT in FY2022 to 37k RT in 4Q23. It started operation in India and Egypt with an initial capacity of 1k RT and 3k RT in FY2023. Revenue from the chilled water segment grew 7.0% YOY to AED 571 Mn in 4Q23. The company generated 96.3% of its revenue from the chilled water segment and the remaining 3.7% from the value chain business, which fell 3.0% YOY to AED 22 Mn in 4Q23. Tabreed's cost of revenue rose 5.1% YOY to AED 315 Mn in 4Q23. Thus, gross profit increased 8.0% YOY to AED 278 Mn in 4Q23 with an increase in gross profit margin of 68 bps YOY to 46.9% in 4Q23. Moreover, Tabreed's operating expenses rose from AED 55 Mn in 4Q22 to AED 79 Mn in 4Q23. Tabreed's EBITDA declined 11.3% YOY to AED 284 Mn in 4Q23 with an EBITDA margin of 47.9% in 4Q23

### 4Q23 Result Review (AED, mm)

Total Assets	17,337
Total Liabilities	7,870
Total Equity	6,943
EBITDA	284
Net Profit	146

### Financial Ratios

Dividend Yield (12m)	3.95
Dividend Pay-out (%)	102.29
Price-Earnings Ratio(x)	22.54
Price-to-Book Ratio (x)	1.54
Book Value (AED)	2.22
Return-on Equity (%)	6.74

### Stock Performance

5 Days	1.79%
1 Months	3.01%
3 Months	-6.30%
6 Months	-4.74%
1 Year	14.77%
Month to Date (MTD%)	6.54%
Quarter to Date (QTD%)	-4.47%
Year to Date (YTD%)	-4.47%

compared to 57.5% in 4Q22. Operating profit declined marginally 1.8% YOY to AED 199 Mn in 4Q23 with an operating margin of 33.6% in 4Q23 compared to 36.4% in 4Q22. Finance cost declined 23.4% YOY to AED 56 Mn in 4Q23 while finance income rose significantly from AED 13 Mn in 4Q22 to AED 18 Mn in 4Q23. Tabreed recorded a gain of AED 57 Mn in 4Q22 compared to a loss of AED 12 Mn in 4Q23 dragging profitability.

### Balance Sheet Highlights

Tabreed's cash and cash equivalents rose from AED 1.4 Bn in 3Q23 to AED 1.5 Bn in 4Q23. The Company's gross debt declined from AED 6.3 Bn in 3Q23 to AED 6.2 Bn in 4Q23. Net debt to LTM EBITDA declined from 4.18x in 3Q23 to 4.11x in 4Q23. In addition, debt of AED 4.4 Bn debt is maturing in 2025 and AED 1.9 Bn debt will be maturing between 2026-34. Tabreed's board of directors recommended a 15.5 fils dividend per share for 31 December 2023.

### Target Price and Rating

We revise our rating on Tabreed from HOLD to BUY ratings with a target price of AED 3.95. The Company share price declined 9.1% since our last rating on 28 November 2023. Tabreed demonstrated revenue growth driven by strong consumption volumes and the increase in new business connections in 4Q23. Further, the company progressed according to the planned capacity guidance of 2023-2024 and delivered 53k RT in FY2023 including 31k RT in UAE, 14k RT in Saudi, 3k RT each in Bahrain and Egypt, and the remaining 1k RT for India and Oman. Thus, the total connected capacity including capacity of JVs reached 1.30 Mn RT in FY2023. The new capacity guidance for 2024-2026 is expected to grow 3-5% p.a. During 4Q23, the company incurred a total capex of AED 59.7 Mn, spent towards the ongoing construction of the plant while the company further expects the capex to increase for the upcoming years attributable to the expansion strategy. Moreover, the company aims to broaden its strategic growth initiatives by extending its presence in regional and international markets within the UAE and GCC. The company is in six countries and started operations internationally in India and Egypt in FY2023. The company aims to increase its regional expansion by initiating its first geothermal district cooling plant in partnership with ADNOC in Masdar coupled with the construction of the King Salman Park project in Saudi Arabia with a total concession capacity of 60k RT. Moreover, out of the six new operational plants, five are greenfield and one is a brownfield plant. Tabreed continues to expand its geographical footprint internationally in India and announced a new Hyderabad Pharma City project with a total concession capacity of 125k RT. The implementation of the project is in various phases with Ph. 1 capacity of 2.5k RT. Moreover, the company plans to add new connections to the existing concession areas in Egypt for the upcoming years. Thus, the company's revenue outlook for the upcoming year is enhanced through its strategic expansion at both regional and international levels. Tabreed contracted 81% of its capacity being locked into long-term contracts for more than 25 years providing strong revenue visibility by ensuring stability and continuity. Furthermore, the Company earns around 80% of chilled water revenue from wholly and partially government-owned entities. Tabreed recorded a decline in gross debt by AED 850 Mn due to early settlement of debt and partial buyback of Sukuk in 4Q23, while the net debt-to-EBITDA declined to 4.11x in 4Q23 as against 4.18x in 3Q23. Thus, based on the aforementioned factors, we assign a 'BUY' rating to the stock.

### Tabreed - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	19.5	16.7	16.5	16.1	22.3	14.3
PB	1.9	1.9	1.7	1.5	1.5	1.5
EV/EBITDA	16.2	16.0	15.7	12.7	12.7	11.3
Dividend yield	3.1%	1.7%	1.8%	4.0%	4.6%	4.9%

FABS Estimates & Co Data

**Tabreed – P&L**

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	557	755	593	578	2.6%	6.5%	-21.6%	2,216	2,415	9.0%
Operating costs	-299	-478	-315	-253	24.2%	5.1%	-34.2%	-1,178	-1,333	13.2%
<b>Gross profit</b>	<b>257</b>	<b>278</b>	<b>278</b>	<b>325</b>	<b>-14.3%</b>	<b>8.0%</b>	<b>0.2%</b>	<b>1,038</b>	<b>1,082</b>	<b>4.2%</b>
Admin and other expenses	-55	-61	-79	-66	20.1%	44.5%	29.2%	-245	-272	11.1%
<b>EBITDA</b>	<b>320</b>	<b>324</b>	<b>284</b>	<b>354</b>	<b>-19.8%</b>	<b>-11.3%</b>	<b>-12.3%</b>	<b>1,232</b>	<b>1,198</b>	<b>-2.8%</b>
<b>Operating profit/EBIT</b>	<b>203</b>	<b>216</b>	<b>199</b>	<b>259</b>	<b>-23.1%</b>	<b>-1.8%</b>	<b>-8.0%</b>	<b>793</b>	<b>810</b>	<b>2.1%</b>
Finance costs	-73	-65	-56	-76	-26.6%	-23.4%	-14.5%	-289	-265	-8.6%
Finance income	13	15	18	18	3.0%	41.1%	20.5%	22	61	NM
Other gains and losses	57	54	-12	0	NM	NM	NM	70	149	NM
Share of associates & JV	2	10	7	2	331.8%	NM	-28.4%	30	35	18.0%
<b>Profit from cont operation</b>	<b>210</b>	<b>231</b>	<b>153</b>	<b>202</b>	<b>-24.5%</b>	<b>-27.3%</b>	<b>-33.9%</b>	<b>633</b>	<b>785</b>	<b>24.0%</b>
Profit from discount. operation	0	-359	0	0	NM	NM	NM	0	-359	NM
<b>Profit before NCI</b>	<b>210</b>	<b>-128</b>	<b>153</b>	<b>202</b>	<b>-24.5%</b>	<b>-27.3%</b>	<b>NM</b>	<b>633</b>	<b>427</b>	<b>-32.7%</b>
Non-controlling interest	9	-27	7	22	-70.3%	-22.9%	NM	33	-5	NM
<b>Net Profit</b>	<b>201</b>	<b>-101</b>	<b>146</b>	<b>180</b>	<b>-18.9%</b>	<b>-27.2%</b>	<b>NM</b>	<b>600</b>	<b>431</b>	<b>-28.2%</b>

FABS estimate & Co Data

**Tabreed - Margins**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross margin	46.2%	36.7%	46.9%	68	1,018	46.8%	44.8%	-205
EBITDA margin	57.5%	42.9%	47.9%	-956	505	55.6%	49.6%	-599
Operating margin	36.4%	28.7%	33.6%	-282	494	35.8%	33.5%	-227
Net profit margin	36.0%	-13.4%	24.6%	-1,139	3,804	27.1%	17.8%	-923

FABS estimate & Co Data

## Valuation:

We use Discounted Cash Flow (DCF) and Relative Valuation (RV) method to value Tabreed. We have assigned 70% weight to DCF and 30% weight to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.11	70.0%	2.88
EV/EBITDA	3.59	30.0%	1.08
<b>Weighted Average Valuation (AED)</b>			<b>3.95</b>
Current market price (AED)			3.42
Upside/Downside (%)			+16%

### 1) DCF Method:

Tabreed is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.6%. It is arrived after using cost of equity of 9.0% and after tax cost of debt of 5.5% with debt-to-equity ratio of 64.4%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 6.0% without adjusting tax rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,880
Terminal value (AED, Mn)	13,350
<b>FV to Common shareholders (AED, Mn)</b>	<b>11,676</b>
No. of share (Mn)	2,842
Current Market Price (AED)	3.42
<b>Fair Value per share (AED)</b>	<b>4.11</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	843	875	909	946	986
D&A	327	327	327	328	330
Change in working capital	-5	11	11	7	7
(-) Capex	-240	-249	-259	-270	-281
<b>Free Cash Flow to Firm (FCFF)</b>	<b>926</b>	<b>963</b>	<b>988</b>	<b>1,012</b>	<b>1,043</b>
Discounting Factor	0.94	0.87	0.81	0.75	0.70
<b>Discounted FCFF</b>	<b>748</b>	<b>840</b>	<b>801</b>	<b>763</b>	<b>730</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used Utilities Companies multiple to value Tabreed as there is only one pure-play company listed in the region. It is valued at EV/EBITDA multiple of 13.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Essential Utilities, Inc.	9,883	14.2	13.4	17.9	17.0
SJW Group	1,917	13.3	12.8	21.7	20.2
Abu Dhabi National Energy Company PJSC	96,810	18.7	17.3	44.5	38.5
ESSENTIAL UTILITIES, INC.	9,883	14.2	13.4	17.9	17.0
Emirates Central Cooling Systems Corporation	4,414	13.0	11.7	17.0	16.1
Exelon Corporation	34,572	10.1	9.7	14.1	13.1
Dubai Electricity and Water Authority	33,106	9.8	9.6	17.4	16.7
Saudi Electricity Company	22,066	9.1	NA	15.6	13.9
<b>Average</b>		<b>12.8x</b>	<b>12.6x</b>	<b>20.8x</b>	<b>19.1x</b>
<b>Median</b>		<b>13.2x</b>	<b>12.8x</b>	<b>17.7x</b>	<b>16.9x</b>
<b>Max</b>		<b>14.2x</b>	<b>13.4x</b>	<b>18.9x</b>	<b>17.8x</b>
<b>Min</b>		<b>10.0x</b>	<b>10.7x</b>	<b>16.7x</b>	<b>15.6x</b>

Source: FAB Securities

### Research Rating Methodology:

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Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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