

## National Central Cooling Co (Tabreed)

**Current Price**

AED 3.04

**Target Price**

AED 3.95

**Upside/Downside (%)**

+30%

**Rating**

BUY

### 3Q24 Net Profit lower than our estimate

- Tabreed revenue grew 2.1% YOY to AED 771 Mn in 3Q24, mainly attributable to the growth in the supply of chilled water and value chain business.
- The Company's consumption revenue grew 6.0% YOY in 9M24 owing to the strong demand.
- Direct cost rose 1.0% YOY to AED 483 Mn in 3Q24.
- Gross profit increased 3.8% YOY to AED 288 Mn in 3Q24, while gross margins grew from 36.7% in 3Q23 to 37.4% in 3Q24.
- EBITDA rose 1.9% YOY to AED 330 Mn with an EBITDA margin of 42.8% compared to 42.9% in 3Q23.
- Operating profit declined 0.6% YOY to AED 215 Mn in 3Q24, mainly due to increased administrative and other expenses.
- Finance costs declined 26.4% YOY to AED 48 Mn in 3Q24, while finance income also fell from AED 15 Mn to AED 8 Mn in 3Q24.
- Income tax expense declined to AED 16 Mn in 3Q24, compared to AED 359 Mn in 3Q23
- The Company recorded a net profit of AED 156 Mn in 3Q24, compared to a net loss of AED -101 Mn in 3Q23.
- Debt-to-EBITDA ratio stood at 4.04x in 9M24.

### Earnings Call Summary

- Tabreed added 29,000 RT of new capacity connections in the last twelve months.
- Tabreed became the first district cooling company in the world to achieve a 'Verified Carbon Standard' at one of its plants and can now trade carbon credits in the voluntary market.
- The Company normalized revenue grew 6% on an LFL basis in 9M24, excluding the effects of CPI gains on finance leases and the deconsolidation of the bypass DCP.
- Tabreed's total assets and liabilities fell 5% YTD, mainly reflecting the debt repayment and the dividend payment as the Company used the surplus cash to optimize the balance sheet and increase dividends.
- The Company's total debt declined 12% on a 2024 YTD basis, mainly as it partially bought back Sukuks.
- Working capital stood negative during 9M24 primarily due to an increase in receivables.
- The Company achieved 70,000 RT of its 100,000 RT capacity guidance for 2023-2024, with 85% expected from the consolidated entity.
- The Company expects Saudi Arabia and India to offer substantial growth potential, driven by their large market sizes and relatively low adoption rates of district cooling systems.
- The Company plans to connect c.300,000 RTs over the medium term across its concession areas, including Downtown Dubai, Yas Island, and Saadiyat Island.

**Tabreed – P&L**

AED mm	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch
Revenue	755	611	771	779	-1.0%	2.1%	26.1%
Operating costs	-478	-323	-483	-466	3.7%	1.0%	49.5%
<b>Gross profit</b>	<b>278</b>	<b>288</b>	<b>288</b>	<b>313</b>	<b>-8.0%</b>	<b>3.8%</b>	<b>-0.1%</b>
Administrative and other expenses	-61	-70	-73	-69	5.8%	19.2%	4.1%
<b>EBITDA</b>	<b>324</b>	<b>331</b>	<b>330</b>	<b>345</b>	<b>-4.4%</b>	<b>1.9%</b>	<b>-0.3%</b>
<b>Operating profit/ EBIT</b>	<b>216</b>	<b>219</b>	<b>215</b>	<b>244</b>	<b>-11.9%</b>	<b>-0.6%</b>	<b>-1.5%</b>
Finance costs	-65	-58	-48	-60	-19.8%	-26.4%	-17.6%
Finance income	15	5	8	12	-35.5%	-50.3%	64.2%
Other gains and losses	54	1	0	3	NM	NM	NM
Share of associates & JV	10	12	6	9	-29.4%	-39.6%	-47.9%
<b>Profit before tax</b>	<b>231</b>	<b>178</b>	<b>181</b>	<b>207</b>	<b>-12.5%</b>	<b>-21.5%</b>	<b>1.8%</b>
Income tax expense	-359	-13	-16	-19	-15.7%	NM	17.1%
<b>Profit before NCI</b>	<b>-128</b>	<b>165</b>	<b>166</b>	<b>189</b>	<b>-12.2%</b>	<b>NM</b>	<b>0.6%</b>
Non-controlling interest	-27	8	9	8	24.2%	NM	22.7%
<b>Net Profit to equity holders</b>	<b>-101</b>	<b>157</b>	<b>156</b>	<b>181</b>	<b>-13.7%</b>	<b>NM</b>	<b>-0.5%</b>

*FABS estimate & Co Data*

### Research Rating Methodology:

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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