

## National Central Cooling Company (Tabreed)

Higher consumption volume and increase in connected capacity supported profitability

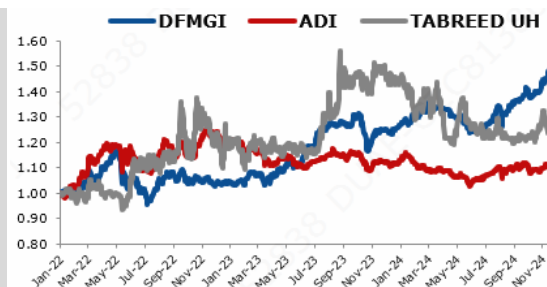
**Current Price**  
AED 2.88

**Target Price**  
AED 3.95

**Upside/Downside (%)**  
+37%

**Rating**  
BUY

- The Company's capacity reached 1,318K RT in 3Q24, primarily driven by an increase in capacity in the UAE.
- Tabreed's consumption volume grew by 6.0% YOY, reaching 2.0 Bn RT hours in 9M24, reflecting strong cooling demand and higher volumes.
- EBITDA grew 1.4% YOY to AED 330 Mn in 3Q24, while EBITDA margin declined 8 bps YOY to 42.8% in 3Q24.
- Plans to connect c.300,000 RTs over the medium term across its concession areas, including Downtown Dubai, Yas Island, and Saadiyat Island.



### Stock Information

Market Cap (AED, mn)	8,194.38
Paid Up Capital (mn)	2,845.27
52 Week High	3.75
52 Week Low	2.74
3M Avg. daily value (AED)	2,071,365

### 3Q24 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) reported a net profit of AED 156 Mn in 3Q24, compared to a net loss of AED 101 Mn in 3Q23, below than our estimate of AED 181 Mn. The increase in net profit was primarily driven by revenue growth, lower finance costs and income tax expense, partially offset by higher operating costs, increased administrative expenses, and lower finance income coupled with a decline in shares of associates & JV.

### 3Q24 Result Review (AED, mn)

Total Assets	14,034
Total Liabilities	7,200
Total Equity	6,834
EBITDA	330
Net Profit	156

### P&L Highlights

Tabreed's revenue grew 2.1% YOY to AED 771 Mn in 3Q24, driven by a 6.0% YOY growth in consumption volume, reflecting strong demand. Revenue from the Chilled Water segment rose slightly 1.0% YOY to AED 744 Mn in 3Q24, supported by new connections and higher consumption volumes. Fixed capacity charges accounted for 55% of total chilled water revenue, while variable consumption charges contributed the remaining 45% in 9M24. Tabreed's total capacity reached 2.0 Bn RT in 9M24. The Company's Chilled Water segment generated 96.5% of the total revenue, while the Value Chain business generated the remaining 3.5% in 3Q24. The Value Chain's business grew significantly 40.9% YOY to AED 27 Mn in 3Q24. Tabreed's direct costs grew 1.0% YOY to AED 483 Mn in 3Q24. Thus gross profit grew 3.8% YOY to AED 288 Mn in 3Q24. Gross profit margin expanded 62 bps YOY to 37.4% in 3Q24. However, administrative and other expenses rose 19.2% YOY to AED 73 Mn in 3Q24. Resultantly, the Company's operating profit declined marginally 0.6% YOY to AED 215 Mn in 3Q24, with a 73 bps YOY decline in operating margin of 27.9% in 3Q24. EBITDA increased from AED 324 Mn in 3Q23 to AED 330 Mn in 3Q24, however the EBITDA margin decreased 8 bps YOY to 42.8% in 3Q24. Finance costs declined 26.4% YOY to AED 48 Mn, while finance income declined 50.3% YOY to AED 8 Mn in 3Q24.

### Financial Ratios

Dividend Yield (12m)	5.38
Dividend Pay-out (%)	102.29
Price-Earnings Ratio(x)	38.78
Price-to-Book Ratio (x)	1.32
Book Value (AED)	2.19
Return-on Equity (%)	9.18

### Stock Performance

5 Days	-3.03%
1 Months	-8.28%
3 Months	-3.36%
6 Months	-8.57%
1 Year	-21.10%
Month to Date (MTD%)	-11.11%
Quarter to Date (QTD%)	-4.64%
Year to Date (YTD%)	-19.55%

Income from share of associates and JV declined from AED 10 Mn in 3Q23 to AED 6 Mn in 3Q24. Income tax expense declined significantly from AED 359 Mn in 3Q23 to AED 16 Mn in 3Q24 as the Company had recorded a one-off non-cash deferred tax liability in 3Q23. The share to NCI recorded a profit of AED 9 Mn in 3Q24 compared to a loss of AED 27 Mn in 3Q23.

### Balance Sheet Highlights

Tabreed's cash and cash equivalents increased from AED 578 Mn in 2Q24 to AED 748 Mn in 3Q24. The Company's net debt declined from AED 4.9 Bn in 2Q24 to AED 4.7 Bn in 3Q24. Tabreed's total debt declined 12% on a 2024 YTD basis, mainly as it partially bought back Sukuks. The Company's reported net debt to LTM EBITDA ratio improved from 4.18x in 3Q23 to 4.04x in 3Q24. Additionally, net cash flow from operating activities rose to AED 244 Mn in 3Q24, up from AED 236 Mn in 3Q23. Capex continued to grow from AED 102 Mn in 1H24 to AED 210 Mn in 9M24.

### Target Price and Rating

We maintain our BUY rating on Tabreed with a target price of AED 3.95. The Company recorded an increase in profitability driven by higher revenue, lower finance costs and income tax expense in 3Q24. Tabreed's connected capacity reached 1.16 Mn RT in 3Q24, bringing the total consolidated capacity to 1.32 Mn RT in 9M24, primarily driven by organic growth. The consumption volume rose 6.0% YOY to 2.0 Bn RT hours in 9M24, reflecting strong cooling demand and higher volumes. Additionally, the Company is on track with its planned capacity guidance for 2023-2024, having delivered 70K RT in 9M24, which includes 43.3K RT in the UAE, 14.2K RT in Saudi Arabia, 4.5K RT in Egypt, 4K RT in India, 3K RT in Bahrain, and 1.4K RT in Oman. Tabreed expects its capacity to grow by 3-5% annually from 2024 to 2026. The Company progressed by adding 12.4K RT of new connections in 3Q24 compared to 4.7K RT in 1H24. Moreover, it also commissioned one new greenfield plant as per its previous plans. Tabreed plans to further expand in the UAE through organic and inorganic routes, including greenfield and brownfield expansion. It also 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 also plans to connect c.300,000 RTs over the medium term across its concession areas, including Downtown Dubai, Yas Island, and Saadiyat Island. Tabreed's capacity expansion plans will likely drive growth by creating new revenue-generating assets. Additionally, the growing district cooling demand across the key markets and the Company's long-term contract provide strong revenue visibility. Tabreed's focus on deleveraging is also expected to reduce its financial costs and support its profitability. Thus, based on the aforementioned factors, we maintain our BUY rating for the stock.

#### Tabreed - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	16.41	14.09	13.88	13.53	18.84	13.93
PB	1.64	1.57	1.41	1.26	1.29	1.26
EV/EBITDA	14.18	14.40	14.27	11.47	11.23	10.60
Dividend yield	3.7%	2.0%	2.1%	4.7%	5.4%	5.6%

FABS Estimates & Co Data

**Tabreed – P&L**

AED mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	755	611	771	779	-1.0%	2.1%	26.1%	2,415	2,518	4.2%
Operating costs	-478	-323	-483	-466	3.7%	1.0%	49.5%	-1,333	-1,385	3.8%
<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>	<b>1,082</b>	<b>1,133</b>	<b>4.7%</b>
Admin and other expenses	-61	-70	-73	-69	5.8%	19.2%	4.1%	-272	-302	10.9%
<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>1,198</b>	<b>1,269</b>	<b>5.9%</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>	<b>810</b>	<b>831</b>	<b>2.6%</b>
Finance costs	-65	-58	-48	-60	-19.8%	-26.4%	-17.6%	-265	-228	-14.0%
Finance income	15	5	8	12	-35.5%	-50.3%	64.2%	61	40	-33.5%
Other gains and losses	54	1	0	3	NM	NM	NM	149	5	NM
Share of associates & JV	10	12	6	9	-29.4%	-39.6%	-47.9%	35	33	-4.4%
<b>Profit from cont operation</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>	<b>785</b>	<b>682</b>	<b>-13.2%</b>
Income tax expense	-359	-13	-16	-19	-15.7%	NM	17.1%	-359	-61	NM
<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>	<b>427</b>	<b>620</b>	<b>45.5%</b>
Non-controlling interest	-27	8	9	8	24.2%	NM	22.7%	-5	37	NM
<b>Net Profit</b>	<b>-101</b>	<b>157</b>	<b>156</b>	<b>181</b>	<b>-13.7%</b>	<b>NM</b>	<b>-0.5%</b>	<b>431</b>	<b>583</b>	<b>35.3%</b>

FABS estimate & Co Data

**Tabreed - Margins**

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	36.7%	47.2%	37.4%	62	-981	44.8%	45.0%	20
EBITDA	42.9%	54.1%	42.8%	-8	-1,133	49.6%	50.4%	82
Operating Profit	28.7%	35.7%	27.9%	-73	-782	33.5%	33.0%	-52
Net Profit	-13.4%	25.7%	20.3%	NM	-540	17.8%	23.2%	532

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	4.01	70.0%	2.80
EV/EBITDA	3.82	30.0%	1.15
<b>Weighted Average Valuation (AED)</b>			<b>3.95</b>
Current market price (AED)			2.88
Upside/Downside (%)			+37%

### 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 7.5%. It is arrived after using cost of equity of 8.9% and after-tax cost of debt of 5.5% with debt-to-equity ratio of 67.2%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.85 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 5.5% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,109
Terminal value (AED, Mn)	13,802
<b>FV to Common shareholders (AED, Mn)</b>	<b>11,388</b>
No. of share (Mn)	2,842
Current Market Price (AED)	2.88
<b>Fair Value per share (AED)</b>	<b>4.01</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	769	798	842	895	952
D&A	350	326	326	327	328
Change in working capital	-46	-65	-84	-93	-15
(-) Capex	-232	-243	-252	-261	-270
<b>Free Cash Flow to Firm (FCFF)</b>	<b>842</b>	<b>815</b>	<b>832</b>	<b>869</b>	<b>995</b>
Discounting Factor	0.99	0.92	0.86	0.80	0.74
<b>Discounted FCFF</b>	<b>209<sup>1</sup></b>	<b>752</b>	<b>714</b>	<b>694</b>	<b>739</b>

Source: FAB Securities, <sup>1</sup>FCFF adjusted for partial year

## 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 2024 EV/EBITDA multiple of 12.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Essential Utilities, Inc.	10,507	15.3	13.7	19.2	18.1
SJW Group	1,790	12.3	11.2	19.6	18.2
Emirates Central Cooling Systems Corporation	5,037	13.6	13.1	19.2	18.4
Exelon Corporation	38,304	10.1	9.5	15.5	14.5
Dubai Electricity and Water Authority	33,892	9.8	9.3	17.6	16.7
Qatar Electricity and Water Company QPSC	4,762	18.1	17.3	10.9	10.2
<b>Average</b>		<b>13.2x</b>	<b>12.3x</b>	<b>17.0x</b>	<b>16.0x</b>
<b>Median</b>		<b>12.9x</b>	<b>12.2x</b>	<b>18.4x</b>	<b>17.4x</b>
<b>Max</b>		<b>14.9x</b>	<b>13.6x</b>	<b>19.2x</b>	<b>18.2x</b>
<b>Min</b>		<b>10.7x</b>	<b>9.9x</b>	<b>16.0x</b>	<b>15.0x</b>

Source: FAB Securities

**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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