

National Central Cooling Company (Tabreed)

Current Price

AED 2.93

Target Price

AED 3.95

Upside/Downside (%)

+35%

Rating

BUY

4Q24 Net Profit lower than our estimate

- Tabreed's revenue declined 1.6% YOY to AED 583 Mn in 4Q24 owing to a decline in revenue of Value Chain Business and Supply of Chilled Water.
- The gross profit declined 4.3% YOY to AED 266 Mn in 4Q24. Gross profit margin declined from 46.9% in 4Q23 to 45.6% in 4Q24.
- EBITDA rose 12.3% YOY to AED 319 Mn in 4Q24 owing to lower operating expenses. The EBITDA margin stood at 54.7% compared to 47.9% in 4Q23.
- As a result, operating profit marginally declined 0.4% YOY to AED 198 Mn in 4Q24. The operating profit margin improved 38 bps YOY and 606 bps QOQ to 34.0% in 4Q24.
- Finance income fell from AED 18 Mn to AED 8 Mn in 4Q24, while finance costs declined 13.7% YOY to AED 48 Mn owing to decline in debt.
- Income tax expense stood at AED 20 Mn in 4Q24 compared to nil in 4Q23 due to the introduction of corporate tax in UAE in FY2024.
- Net profit attributable to equity shareholders marginally fell 0.7% YOY to AED 145 Mn in 4Q24 due to decline in revenue and increase in operating costs partially offset by lower administrative and other expense.
- Tabreed's Board of Directors recommended dividend payment of AED 0.155 per share for FY2024.

Earnings Call Summary

- UAE remains central to Tabreed's growth strategy, with organic and inorganic growth opportunities being pursued.
- The company secured capacity in existing concession areas, with around 300,000 RT expected to be connected in the medium term. The expected capital expenditures ranges between AED 200-300 Mn per year over the next few years to fund new projects and capacity growth.
- Tabreed is also targeting greenfield opportunities and mergers/acquisitions to drive growth in both the UAE and international markets, particularly in GCC countries, India, and Asia.
- The Company's undrawn credit facility stood at AED 600 Mn as of 4Q24.
- Investments in expansion included the completion of two new plants and the ongoing construction of three more.
- Tabreed targets 3-5% annual capacity growth over the next three years, driven by signed agreements and potential small-scale M&A opportunities.
- The company anticipates maintaining EBITDA margins between 50-53% and will focus on organic growth while considering temporary increases in leverage for large growth opportunities.
- District cooling is expected to remain a preferred energy-efficient solution for urban developments and infrastructure projects, benefiting from favorable regulatory policies.
- Tabreed bought back a portion of its outstanding sukuk maturing in FY2025.
- Tabreed faces debt maturities of AED 2.4 Bn by the end of Q1 2025, with remaining sukuk obligations of AED 970 Mn due in October 2025.
- The company is working on refinancing these debt obligations, either in full or in part, to optimize its financing costs.
- Tabreed generated net operating cash flows of AED 1.2 Bn and substantial free cash flows of AED 971 Mn, with a free cash flow yield of over 10%.

Tabreed – P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch
Revenue	593	771	583	667	-12.6%	-1.6%	-24.3%
Operating costs	-315	-483	-317	-349	-9.1%	0.9%	-34.3%
Gross profit	278	288	266	318	-16.3%	-4.3%	-7.7%
Administrative and other expenses	-79	-73	-68	-83	-18.2%	-14.1%	-6.9%
EBITDA	284	330	319	336	-5.1%	12.3%	-3.3%
Operating profit/ EBIT	199	215	198	235	-15.7%	-0.4%	-7.9%
Profit before tax	153	181	174	193	-10.1%	13.9%	-4.2%
Income tax expense	0	-16	-20	-22	-8.3%	NM	29.2%
Net profit for the period	153	166	153	171	-10.4%	0.5%	-7.3%
Profit attributable to equity holders	146	156	145	158	-8.3%	-0.7%	-7.1%

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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