

National Central Cooling Company (Tabreed)

Effective cost control maintained operating margins despite a decline in revenue

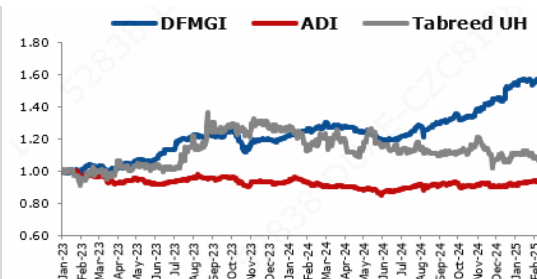
Current Price
AED 2.82

Target Price
AED 3.95

Upside/Downside (%)
+40%

Rating
BUY

- The Company's total connected capacity reached 1,325 Mn RT in 2024.
- Tabreed's EBITDA grew 4.5% YOY to AED 1.25 Bn in 2024 with improved margin of 51.4%.
- Net debt to LTM EBITDA declined from 4.11x in 4Q23 to 3.70x in 4Q24 showcasing proactive debt management.
- Capacity expansion via new plants and brownfield acquisition will lead to the creation of revenue-generating assets.
- Net cash flow from operating activities increased to AED 275 Mn in 3Q24 compared to AED 419 Mn in 4Q24.
- Proposed a dividend of 15.5 fils per share for 2024 amounting to AED 441 Mn with a healthy dividend yield of 5.5%.



4Q24 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) net profit fell marginally 0.7% YOY to AED 145 Mn in 4Q24, lower than our estimate of AED 158 Mn. The reduction in the net profit is mainly attributable to a decrease in revenue and higher tax expense partially offset by a decline in operating expenses.

P&L Highlights

Tabreed's revenue declined 1.6% YOY to AED 583 Mn in 4Q24 due to a decline in revenue from the supply of chilled water and value chain business. Revenue from Supply of Chilled Water marginally declined 0.5% YOY to AED 568 Mn in 4Q24, while Value Chain Business revenue declined 29.5% YOY to AED 15 Mn. Direct cost grew marginally 0.9% YOY to AED 317 Mn in 4Q24. Thus, gross profit fell 4.3% YOY to AED 266 Mn in 4Q24 with a decrease in gross profit margin of 132 bps YOY to 45.6%. Moreover, administrative and other operating expenses fell from AED 79 Mn in 4Q23 to AED 68 Mn in 4Q24. EBITDA grew 12.3% YOY to AED 319 Mn in 4Q24, while EBITDA margin increased from 47.9% in 4Q23 to 54.7% in 4Q24. Tabreed's operating profit moderated 0.4% YOY to AED 198 Mn in 4Q24 primarily due to the reduction in gross profit partially offset by a decrease in administrative and other expenses. Finance income fell from AED 18 Mn in 4Q23 to AED 8 Mn in 4Q24, whereas finance costs reduced 13.7% YOY to AED 48 Mn owing to the reduction of profit in Sukuk. Share of associates & JV rose 78.6% YOY to AED 13 Mn in 4Q24. Income tax expense stood at AED 20 Mn in 4Q24 due to the introduction of corporate tax in UAE in FY2024. Share of profit attributable to non-controlling interest holders increased 26.9% YOY to AED 8 Mn in 4Q24.

Stock Information

| | |
|---------------------------|-----------|
| Market Cap (AED, mm) | 8,023.66 |
| Paid Up Capital (mm) | 2,845.27 |
| 52 Week High | 3.59 |
| 52 Week Low | 2.74 |
| 3M Avg. daily value (AED) | 2,538,272 |

4Q24 Result Review (AED, mm)

| | |
|-------------------|--------|
| Total Assets | 14,118 |
| Total Liabilities | 7,156 |
| Total Equity | 6,962 |
| EBITDA | 319 |
| Net Profit | 145 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 5.50 |
| Dividend Pay-out (%) | 79.84 |
| Price-Earnings Ratio(x) | 14.09 |
| Price-to-Book Ratio (x) | 1.26 |
| Book Value (AED) | 2.23 |
| Return-on Equity (%) | 9.01 |

Stock Performance

| | |
|------------------------|---------|
| 5 Days | -3.09% |
| 1 Months | -5.69% |
| 3 Months | 2.92% |
| 6 Months | -5.69% |
| 1 Year | -17.54% |
| Month to Date (MTD%) | -3.42% |
| Quarter to Date (QTD%) | -6.00% |
| Year to Date (YTD%) | -6.00% |

Balance Sheet Highlights

Tabreed's cash and cash equivalents declined from AED 1.5 Bn in 4Q23 to AED 1.0 Bn in 4Q24. The Company's net debt declined from AED 4.9 Bn in 4Q23 to AED 4.6 Bn in 4Q24 due to a decline in cash. Net debt to LTM EBITDA declined from 4.11x in 4Q23 to 3.70x in 4Q24 owing to proactive debt management. The Company's net cash flow from operating activities increased from AED 275 Mn in 3Q24 to AED 419 Mn in 4Q24.

Target Price and Rating

We maintain our BUY rating on Tabreed with a target price of AED 3.95. The Company's consumption volumes increased 5.0% YOY to 2.7 Bn RTh in 2024. Tabreed added two new greenfield plants in UAE and Oman to meet the new demand. The Company added 23.8 thousand RT of new connections in 2024 via 92 plants located in UAE, Saudi Arabia, Oman, Egypt and India, leading to a total connected capacity of 1.325 Mn RT. Capacity expansion through new plants and brownfield acquisition in international markets leads to the creation of revenue-generating assets, with the existing one-third of the total capacity generated outside of the UAE. Tabreed expects 3% to 5% YOY growth in capacity annually during 2025-27, with AED 200 to 300 Mn of capex per annum and an EBITDA margin range of 50% to 53%. The Company's cash is used to reduce debt by repurchasing AED 759 Mn of Sukuk in 2024. Net debt to LTM EBITDA declined from 4.11x in 4Q23 to 3.70x in 4Q24, showcasing proactive debt management. Tabreed delivered a 10% CAGR on EBITDA from 2019 to 2024 reflecting its ability to generate strong returns on its assets. The Company uses solar panels and nano-fluids to bring efficiency to operations. Additionally, demand for space cooling is expected to rise 3 times by the year 2050, wherein Tabreed offers district space cooling systems with up to 50% efficiency and life cycle cost efficiency of 16%. Furthermore, District cooling is expected to remain a preferred energy-efficient solution for urban developments and infrastructure projects, benefiting from favorable regulatory policies. The Company proposed a dividend of 15.5 fils per share for 2024 equivalent to AED 441 Mn leading to a dividend yield of 5.5%. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

Tabreed - Relative valuation

| (at CMP) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F |
|----------------|-------|-------|-------|-------|-------|-------|
| PE | 14.30 | 14.08 | 13.73 | 19.12 | 14.45 | 12.86 |
| PB | 1.60 | 1.43 | 1.27 | 1.30 | 1.30 | 1.26 |
| EV/EBITDA | 14.52 | 14.38 | 11.56 | 11.32 | 9.86 | 10.37 |
| Dividend yield | 2.2% | 2.3% | 4.9% | 5.5% | 5.5% | 5.5% |

FABS Estimates & Co Data

Tabreed – P&L

| AED mn | 4Q23 | 3Q24 | 4Q24 | 4Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024 | Change |
|------------------------------------------|------------|------------|------------|------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 593 | 771 | 583 | 667 | -12.6% | -1.6% | -24.3% | 2,415 | 2,434 | 0.8% |
| Operating costs | -315 | -483 | -317 | -349 | -9.1% | 0.9% | -34.3% | -1,333 | -1,353 | 1.5% |
| Gross profit | 278 | 288 | 266 | 318 | -16.3% | -4.3% | -7.7% | 1,082 | 1,081 | -0.1% |
| Administrative & other exp. | -79 | -73 | -68 | -83 | -18.2% | -14.1% | -6.9% | -272 | -287 | 5.4% |
| EBITDA | 284 | 330 | 319 | 336 | -5.1% | 12.3% | -3.3% | 1,198 | 1,252 | 4.5% |
| Operating profit/ EBIT | 199 | 215 | 198 | 235 | -15.7% | -0.4% | -7.9% | 810 | 794 | -1.9% |
| Finance costs | -56 | -48 | -48 | -61 | -20.4% | -13.7% | 0.3% | -265 | -215 | -18.7% |
| Finance income | 18 | 8 | 8 | 7 | 8.5% | -57.4% | 3.4% | 61 | 41 | -32.5% |
| Other gains and losses | -12 | 0 | 4 | 3 | 35.1% | NM | NM | 149 | 6 | -96.0% |
| Share of associates & JV | 7 | 6 | 13 | 9 | 46.8% | 78.6% | NM | 35 | 38 | 7.7% |
| Profit from continuing operations | 153 | 181 | 174 | 193 | -10.1% | 13.9% | -4.2% | 785 | 662 | -15.7% |
| Income tax expense | 0 | -16 | -20 | -22 | -8.3% | NM | 29.2% | -359 | -60 | -83.4% |
| Profit before NCI | 153 | 166 | 153 | 171 | -10.4% | 0.5% | -7.3% | 427 | 603 | 41.3% |
| Non-controlling interest | 7 | 9 | 8 | 13 | -36.0% | 26.9% | -10.8% | -5 | 33 | NM |
| Net profit/(loss) | 146 | 156 | 145 | 158 | -8.3% | -0.7% | -7.1% | 431 | 570 | 32.3% |

FABS estimate & Co Data

Tabreed - Margins

| | 4Q23 | 3Q24 | 4Q24 | YOY Ch | QOQ Ch | 2023 | 2024 | Change |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross Profit | 46.9% | 37.4% | 45.6% | -132 | 823 | 44.8% | 44.4% | -38 |
| EBITDA | 47.9% | 42.8% | 54.7% | 676 | 1,188 | 49.6% | 51.4% | 185 |
| Operating profit | 33.6% | 27.9% | 34.0% | 38 | 606 | 33.5% | 32.6% | -90 |
| Net Margin | 24.6% | 20.3% | 24.9% | 23 | 461 | 17.8% | 23.4% | 558 |

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 | 4.12 | 70.0% | 2.88 |
| EV/EBITDA | 3.56 | 30.0% | 1.07 |
| Weighted Average Valuation (AED) | | | 3.95 |
| Current market price (AED) | | | 2.82 |
| Upside/Downside (%) | | | +40% |

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 7.8%. It is arrived after using cost of equity of 9.1% and after tax cost of debt of 5.5% with debt-to-equity ratio of 54.7%. Cost of equity is calculated by using a 10-year government bond yield of 5.5%, 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) | 3,370 |
| Terminal value (AED, Mn) | 12,629 |
| FV to Common shareholders (AED, Mn) | 15,999 |
| No. of share (Mn) | 2,842 |
| Current Market Price (AED) | 2.82 |
| Fair Value per share (AED) | 4.12 |

DCF Method

| (All Figures in AED Mn) | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E |
|--------------------------------------|------------|------------|------------|------------|--------------|
| NOPAT | 805 | 818 | 882 | 936 | 967 |
| D&A | 328 | 328 | 329 | 330 | 332 |
| Change in working capital | -260 | -68 | -100 | -15 | -1 |
| (-) Capex | -239 | -248 | -256 | -265 | -275 |
| Free Cash Flow to Firm (FCFF) | 634 | 830 | 854 | 986 | 1,024 |
| Discounting Factor | 509 | 722 | 689 | 738 | 711 |
| Discounted FCFF | 509 | 722 | 689 | 738 | 711 |

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 11.2x in line with peers.

| Company | Market (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|----------------------------------------------|--------------------|---------------|--------------|--------------|--------------|
| | | 2025F | 2026F | 2025F | 2026F |
| 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 |
| Saudi Electricity Company | 18,640 | 6.0 | 5.2 | 17.1 | 14.6 |
| Average | | 11.2x | 10.3x | 18.0x | 16.8x |
| Median | | 11.2x | 10.3x | 18.4x | 17.4x |
| Max | | 13.2x | 12.6x | 19.2x | 18.2x |
| Min | | 9.9x | 9.3x | 17.2x | 15.1x |

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% |

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

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.