

National Central Cooling Company (Tabreed)

Decline in finance cost drove profit

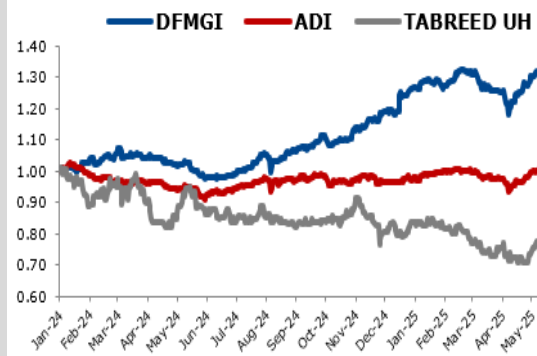
Current Price
AED 2.66

Target Price
AED 3.95

Upside/Downside (%)
+48%

Rating
BUY

- Tabreed signed a concession agreement in partnership with Dubai Holding Investments to establish a concession capacity of 250,000 RT in Palm Jebel Ali, with a total project capex of AED 1.5 Bn funded through internal cash accruals.
- The Company issued USD 700 Mn green Sukuk, marking the first issuance under its USD 1.5 Bn trust certificate program.
- Tabreed's total Capacity increased from 1,305 KRT in 1Q24 to 1,329 KRT in 1Q25.
- Added new customers with a connection capacity of 4,599 RT in 1Q25.
- Consumption volume declined 7% YOY in 1Q25 due to cold weather compared to 1Q24.
- During 1Q25, the shareholders approved a cash dividend of 15.5 fils per share for 2024.



1Q25 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) net profit increased 2.9% YOY to AED 115 Mn in 1Q25, lower than our estimate of AED 127 Mn. The increase in net profit is mainly attributed to lower finance costs, lower administrative & other expenses and an increase in share of associates & JV, partially offset by a marginal decline in revenue, marginal increase in operating costs and lower finance income.

P&L Highlights

Tabreed's revenue decreased marginally 0.5% YOY to AED 466 Mn in 1Q25, due to a decline in revenue from the supply of chilled water segment, partially offset by a marginal uptick in revenue from the value chain business segment. Revenue from the Supply of Chilled Water declined 0.5% YOY to AED 446 Mn, while Value Chain Business revenue increased 1.0% YOY to AED 20 Mn in 1Q25. Consumption revenue declined 7% YOY in 1Q25 due to cold weather compared to 1Q24. Revenue mix of the Chilled Water segment amounted to 72% from fixed charges and 28% from variable charges in 1Q25 versus 71% and 29% in 1Q24. Direct cost grew marginally 0.4% YOY to AED 231 Mn in 1Q25. Thus, gross profit decreased 1.3% YOY to AED 235 Mn in 1Q25 with a decline in gross profit margin of 42 bps YOY to 50.5%. Moreover, administrative and other operating expenses fell marginally from AED 76 Mn in 1Q24 to AED 75 Mn in 1Q25. EBITDA grew 4.0% YOY to AED 283 Mn in 1Q25, while EBITDA margin increased from 58.1% in 1Q24 to 60.7% in 1Q25. Tabreed's operating profit moderately declined 0.8% YOY to AED 161 Mn in 1Q25 primarily due to lower gross profit partially offset by a decrease in administrative and other expenses. Finance income fell from AED 21

Stock Information

Market Cap (AED, Mn)	7,568.42
Paid Up Capital (Mn)	2,845.27
52 Week High	3.38
52 Week Low	2.49
3M Avg. daily value (AED)	1,205,422

1Q25 Result Review (AED, Mn)

Total Assets	14,168
Total Liabilities	7,577
Total Equity	5,990
EBITDA	283
Net Profit	115

Financial Ratios

Dividend Yield (12m)	5.83
Dividend Pay-out (%)	79.84
Price-Earnings Ratio(x)	13.16
Price-to-Book Ratio (x)	1.26
Book Value (AED)	2.11
Return-on Equity (%)	9.58

Stock Performance

5 Days	-2.56%
1 Months	4.72%
3 Months	-10.44%
6 Months	-13.64%
1 Year	-19.39%
Month to Date (MTD%)	0.76%
Quarter to Date (QTD%)	-1.48%
Year to Date (YTD%)	-11.33%

Mn in 1Q24 to AED 11 Mn in 1Q25, whereas finance costs reduced 21.7% YOY to AED 47 Mn in 1Q25. Share of associates & JV rose from AED 6 Mn in 1Q24 to AED 8 Mn in 1Q25. While profit attributable to non-controlling interest holders declined from AED 7 Mn in 1Q24 to AED 6 Mn in 1Q25.

Balance Sheet Highlights

Tabreed's cash and cash equivalents increased from AED 1.0 Bn in 4Q24 to AED 1.2 Bn in 1Q25. The Company's net debt declined from AED 4.6 Bn in 4Q24 to AED 4.5 Bn in 1Q25 due to increased cash and short-term deposits. Net debt to LTM EBITDA declined from 3.69x in 4Q24 to 3.55x in 1Q25 owing to proactive debt management. The Company's net cash flow from operating activities decreased from AED 244 Mn in 1Q24 to AED 207 Mn in 1Q25, owing to lower cash generated from working capital in 1Q25.

Target Price and Rating

We maintain our BUY rating on Tabreed with an unchanged target price of AED 3.95. The Company maintained its medium-term guidance for capacity growth, capex and EBITDA margin. Tabreed's consumption performance demonstrates robust YOY growth in 2Q25, reinforcing expectations for a positive full-year result. Further, the Company expects the capacity to grow by 3–5% per annum, with an annual organic capex of AED 200–300 Mn, and an EBITDA margin of 50–53% between 2025 - 2027. It has secured a future capacity of 0.37 Mn RT through existing concessions and master agreements signed with developers. Out of which, 80% of the total capacity is in the UAE. Tabreed also signed a concession agreement in partnership with Dubai Holding Investments to establish a concession capacity of 250,000 RT in Palm Jebel Ali, with a total project capex of AED 1.5 Bn funded through internal cash accruals. The capacity will be established in multiple phases, with the first phase commencing operation at the end of 2027 or the beginning of 2028. Furthermore, the concession agreement spans 30 years, with an option to renew for an additional 25 years. The addition of new capacity is expected to boost contracted capacity and provide long-term revenue visibility. The Company raised USD 700 Mn through a Green Sukuk in 1Q25 to refinance debt. It added 4,599 RT of new customer connections within the UAE in 1Q25, with further capacity addition expected in the coming months. Total Capacity increased from 1,305 KRT in 1Q24 to 1,329 KRT in 1Q25. Furthermore, the Company signed long-term framework agreements with key vendors to mitigate any potential inflation impact on capacity charges. Furthermore, Tabreed continues to witness a robust future pipeline comprising both greenfield developments and M&A opportunities which is expected to provide earnings visibility. 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	13.12	12.92	12.60	17.53	13.26	12.48
PB	1.46	1.32	1.17	1.20	1.19	1.16
EV/EBITDA	14.08	13.96	11.18	10.95	10.23	9.86
DPS (AED)	0.575*	0.060*	0.135	0.155	0.155	0.155
Dividend yield	2.2%	2.3%	5.1%	5.8%	5.8%	5.8%

FABS Estimates & Co Data. * In addition, the company distributed Bonus share of 2.5% for the period of 2021 and 2.222% in 2020.

Tabreed – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	468	583	466	497	6.7%	-0.5%	-20.1%	2,434	2,556	5.0%
Operating costs	-230	-317	-231	-244	5.7%	0.4%	-27.4%	-1,353	-1,419	4.9%
Gross profit	238	266	235	254	7.7%	-1.3%	-11.5%	1,081	1,138	5.2%
Administrative & other exp.	-76	-68	-75	-77	3.3%	-2.4%	10.0%	-287	-307	6.9%
EBITDA	272	319	283	280	-0.9%	4.0%	-11.3%	1,252	1,284	2.6%
Operating profit/ EBIT	162	198	161	177	9.8%	-0.8%	-18.9%	794	831	4.6%
Finance costs	-60	-48	-47	-45	-4.7%	-21.7%	-1.9%	-215	-211	-2.2%
Finance income	21	8	11	6	-43.7%	-49.5%	35.9%	41	38	-8.1%
Impairment provision for trade receivables	0	-1	0	0	NM	NM	NM	-1	0	NM
Other gains and losses	1	4	1	0	-26.6%	-8.3%	-86.3%	6	5	-16.2%
Share of associates & JV	6	13	8	9	11.5%	29.2%	-38.8%	38	38	0.0%
Profit from continuing operations	129	174	133	147	10.7%	2.5%	-23.7%	662	700	5.8%
Income tax expense	-10	-20	-11	-13	18.9%	10.6%	-45.3%	-60	-63	5.9%
Profit before NCI	119	153	122	134	9.9%	1.8%	-20.8%	603	637	5.7%
Non-controlling interest	7	8	6	7	9.9%	-15.3%	-27.2%	33	32	-2.0%
Net profit/(loss)	112	145	115	127	9.9%	2.9%	-20.4%	570	606	6.2%

FABS estimate & Co Data

Tabreed - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	50.9%	45.6%	50.5%	-42	492	44.4%	44.5%	8
EBITDA	58.1%	54.7%	60.7%	263	605	51.4%	50.2%	-121
Operating profit	34.6%	34.0%	34.5%	-10	53	32.6%	32.5%	-12
Net Margin	24.0%	24.9%	24.8%	82	-9	23.4%	23.7%	26

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	4.32	70.0%	3.02
Relative Valuation (EV/EBITDA)	3.09	30.0%	0.93
Weighted Average Valuation (AED)			3.95
Current market price (AED)			2.66
Upside/Downside (%)			+48%

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 7.4%. It is arrived after using cost of equity of 9.2% and after-tax cost of debt of 5.0% with a debt-to-equity ratio of 74.7%. Cost of equity is calculated by using a 10-year government bond yield of 5.7%, beta of 0.85 and equity risk premium of 4.1%. Government bond yield is calculated after adding the 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)	3,598
Terminal value (AED, Mn)	13,564
FV to Common shareholders (AED, Mn)	17,161
No. of share (Mn)	2,842
Current Market Price (AED)	2.66
Fair Value per share (AED)	4.32

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	768	821	853	882	912
D&A	365	367	367	367	368
Change in working capital	-46	-36	-34	5	5
(-) Capex	-256	-267	-276	-285	-293
Free Cash Flow to Firm (FCFF)	831	885	909	969	992
Discounting Factor	0.96	0.89	0.83	0.77	0.72
Discounted FCFF	596	788	753	748	713

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 10.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Essential Utilities, Inc.	10,490	14.1	13.0	17.8	16.8
SJW Group	1,724	11.0	10.1	17.0	16.1
Emirates Central Cooling Systems Corporation	4,383	11.2	10.8	16.3	14.6
Exelon Corporation	43,380	10.3	9.6	15.9	15.2
Dubai Electricity and Water Authority	36,073	9.6	9.2	17.8	16.6
Saudi Electricity Company	16,862	5.5	5.0	19.2	13.3
Average		10.3x	9.6x	17.3x	15.4x
Median		10.6x	9.9x	17.4x	15.6x
Max		11.2x	10.6x	17.8x	16.5x
Min		9.7x	9.3x	16.5x	14.7x

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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