

Dubai Electricity and Water Authority PJSC

Rise in other income coupled with lower net finance cost and impairments drove profitability

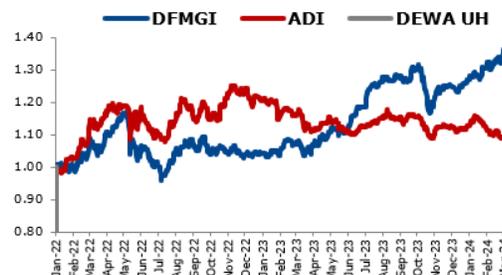
Current Price
AED 2.45

Target Price
AED 2.96

Upside/Downside (%)
+21%

Rating
BUY

- DEWA added 11,163 customers in 4Q23 and 53,974 customers in full-year resulting in a 4.7% growth in customer base to 1.2 Bn in 2023.
- DEWA's installed generation capacity stood at 15.7 GW and desalination capacity at 495 MIGD in 2023. DEWA expects its generation capacity to reach 20 GW and its desalination capacity to 735 MIGD by 2030. Around 27% of generation capacity will be sourced from clean sources by 2030.
- The annual peak generation demand in 2023 reached 10.4 GW which stands 9.0% higher than its peak demand in 2022 while the peak daily desalinated water demand stood 4.9% higher to 434 MIG compared to 2022.
- The Company paid a dividend of 6.2 fils per share during 1H23 and further proposed an equal amount in 2H23 leading to an annual dividend yield of 5.1% in 2023.



4Q23 Net Profit in line with our estimate

Dubai Electricity and Water Authority PJSC (DEWA/the company) net profit rose 8.3% YOY to USD 1,610 Mn in 4Q23, in line with our estimate of USD 1,613 Mn. The increase in net profit is mainly attributable to stable revenue growth driven by an increase in customer base amid higher demand for electricity and water along with a significant rise in other income supported by a decline in impairments and finance cost partially offset by an increase in direct cost, administrative expenses, and a fall in finance income.

P&L Highlights

DEWA recorded a 4.8% YOY growth in revenue to AED 7,026 Mn 4Q23 driven by an increase in customer base, power generation, and water production. DEWA's revenue from the sale of electricity grew marginally 1.7% YOY to AED 4,376 Mn in 4Q23 driven by a 7.7% YOY increase in demand for power to 13.4 terawatt hours (TWh). Similarly, clean power generation rose 26.8% YOY to 1.4 TWh in 4Q23. DEWA's 77.9% of electricity customers belong to the residential sector which contributes 30.1% of electricity consumption while the commercial customers comprise 20.0% of total electricity customers in 2023. The commercial sector contributed 49.3% of total energy consumption in 2023. Revenue from the sale of water increased 6.1% YOY to AED 1,330 Mn in 4Q23 supported by 5.3% YOY growth in desalinated water production to 36.2 Billions Imperial Gallons (BIG). The District Cooling segment recorded a healthy revenue growth of 9.1% YOY to AED 765 Mn in 4Q23. Revenue from other services grew 21.5% YOY to AED 545 Mn in 4Q23. On the other hand, the Company's direct cost rose 18.3% YOY to AED 4,618 Mn in 4Q23 mainly drive

Stock Information

Market Cap (AED, mm)	122,500.00
Paid Up Capital (mm)	500.00
52 Week High	2.74
52 Week Low	2.33
3M Avg. daily value (AED)	14,327,920

4Q23 Result Review (USD, mm)

Total Assets	181,164
Total Liabilities	88,262
Total Equity	92,701
EBITDA	3,566
Net Profit	1,610

Financial Ratios

Dividend Yield (12m)
Dividend Pay-out (%)
Price-Earnings Ratio(x)
Price-to-Book Ratio (x)
Book Value (AED)
Return-on Equity (%)

Stock Performance

5 Days
1 Months
3 Months
6 Months
1 Year
Month to Date (MTD%)
Quarter to Date (QTD%)
Year to Date (YTD%)

by a solid rise in generation and desalination expenses partially offset by a decline in transmission and distribution expenses and the amount incurred on the purchase of power. Thus, the gross profit declined 14.0% YOY to AED 2,409 Mn in 4Q23. DEWA's administrative expenses increased marginally 1.2% YOY to AED 961 Mn in 4Q23 whereas credit impairment losses declined 71.7% YOY to AED 33 Mn. Moreover, other income recorded a sharp rise from AED 64 Mn in 4Q22 to AED 499 Mn in 4Q23 owing to higher write-off of liabilities. DEWA's operating profit rose 6.3% YOY to AED 1,913 Mn in 4Q23. EBITDA rose 15.3% YOY to AED 3,566 Mn in 4Q23 while EBITDA margin grew 463 bps YOY to 50.8%. Finance cost fell 28.6% YOY to AED 213 Mn in 4Q23 whereas finance income declined 26.1% YOY to AED 137 Mn. The share of profit attributable to non-controlling interest holders rose 17.4% YOY to AED 102 Mn in 4Q23.

Balance Sheet Highlights

The Company recorded a solid operating cash flow of AED 16.1 Bn in 2023 compared to AED 14.2 Bn in 2022 with robust cash and cash equivalents of AED 5.3 Bn in 2023 similar to 2022. Additionally, DEWA possesses undrawn facilities of AED 2.9 Bn as of 2023. The Company's overall borrowings declined 4.4% to AED 38.9 Bn in 2023. Net debt stood at AED 28.7 Bn in 2023 compared to AED 27.9 Bn in 2022.

Target Price and Rating

We maintain our BUY rating on DEWA with an unchanged target price of AED 2.96. DEWA recorded a healthy growth in profitability driven by an increase in customer base and power generation. The power demand increased 6.3% to 56.5 TWh in 2023. The Company's clean power generation rose 32.7% to 6.2 TWh, accounting for 11% of the total power generated in 2023. DEWA further aims to maintain a sustainable generation mix to cater to growing demand. On the other hand, demand for desalinated water rose 5.2% to 144.1 BIG in 2023. DEWA added 11,163 customers in 4Q23 and 53,974 customers during the year resulting in a strong customer base of 1.2 Mn in 2023. DEWA's generation plant capacity stood at 15.7 GW in 2023 out of which 2.6 GW of the capacity belonged to clean energy sources while desalination capacity stood at 495 MIGD in 2023. DEWA is actively expanding its plants and expects its total installed generation capacity to rise to 20 GW by 2030. Out of the total capacity, 27% will be generated from clean sources indicating sustainable business practices. The Company also plans to add solar capacity in its ongoing IPP projects. In addition, DEWA expects to add a desalination capacity of 240 MIGD by 2030 using the seawater reverse osmosis technology. The Company spent more than AED 8 Bn on capital projects in 2023. DEWA is the exclusive provider of electricity and water in Dubai and growing electricity and water demand will further drive the Company's topline. In addition, the Company's strategic plans to install solar capacity and generate energy from renewable sources will further increase the Company's operating efficiency and its contribution towards carbon neutrality. According to DEWA's dividend policy, it expects to pay a minimum annual dividend of AED 6.2 Bn for five years from October 2022. The Company paid a dividend of 6.2 fils per share during 1H23 and further proposed an equal for 2H23 leading to an annual dividend yield of 5.1% in 2023. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

DEWA - Relative valuation

(at CMP)	2022	2023	2023F
PE	15.7	15.8	15.8
PB	1.4	1.4	1.3
EV/EBITDA	11.5	10.7	10.5
Dividend yield	9.4%	5.1%	5.1%

FABS Estimates & Co Data

Note – DEWA listed on DFM in 2022. Thus, financial multiple for the prior period is unavailable

DEWA – P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch.	QOQ Ch.	2022	2023	Change
Revenues	6,706	9,422	7,026	7,119	-1.3%	4.8%	-25.4%	27,336	29,178	6.7%
Direct Cost	-3,904	-4,933	-4,618	-4,384	5.3%	18.3%	-6.4%	-16,489	-17,933	8.8%
Gross Profit	2,802	4,489	2,409	2,735	-11.9%	-14.0%	-46.3%	10,847	11,245	3.7%
Administrative exp	-949	-773	-961	-737	30.4%	1.2%	24.3%	-2,881	-3,013	4.6%
Credit impairment losses	-117	-53	-33	-51	-34.5%	-71.7%	-37.1%	-154	-126	-18.6%
Other income	64	66	499	43	NM	NM	NM	404	651	61.1%
EBITDA	3,094	5,148	3,566	3,536	0.9%	15.3%	-30.7%	13,961	14,780	5.9%
EBIT	1,799	3,729	1,913	1,991	-3.9%	6.3%	-48.7%	8,216	8,757	6.6%
Finance costs	-299	-493	-213	-445	-52.0%	-28.6%	-56.7%	-1,006	-1,617	60.8%
Finance income	185	220	137	201	-31.9%	-26.1%	-37.6%	553	806	45.9%
P/L before net movement in regulatory deferral	1,685	3,456	1,837	1,747	5.1%	9.0%	-46.9%	7,763	7,946	2.4%
Net movement in regulatory deferral acc. credit balance	-113	-66	-125	2	NM	10.7%	89.1%	284	-105	NM
Tax	0	0	0	0	NM	NM	NM	0	92	NM
Profit before NCI	1,573	3,390	1,712	1,749	-2.1%	8.8%	-49.5%	8,046	7,934	-1.4%
Non-controlling interest	-87	-65	-102	-136	-24.9%	17.4%	NM	-324	-233	-28.0%
Net Profit	1,486	3,325	1,610	1,613	-0.2%	8.3%	-51.6%	7,723	7,701	-0.3%

FABS estimate & Co Data

DEWA - Margins

	4Q22	3Q23	4Q23	YOY Ch.	QOQ Ch.	2022	2023	Change
Gross margin	41.8%	47.6%	34.3%	-750	-1,337	39.7%	38.5%	-114
EBITDA margin	46.1%	54.6%	50.8%	463	-388	51.1%	50.7%	-42
Operating margin	26.8%	39.6%	27.2%	40	-1,235	30.1%	30.0%	-4
Net profit margin	22.2%	35.3%	22.9%	76	-1,238	28.3%	26.4%	-186

FABS estimate & Co Data

Valuation:

We use Sum of the parts (SOTP) and Discount Dividend Method (DDM) to value DEWA. We have assigned 85% weight to SOTP and 15% to DDM.

Valuation Method	Target	Weight	Weighted Value
SOTP Method	3.09	85.0%	2.62
DDM Method	2.28	15.0%	0.34
Weighted Average Valuation (AED)			2.96
Current market price (AED)			2.45
Upside/Downside (%)			+21%

1) Sum of the parts (SOTP) Method:

Name of Entity	Type of Valuation	Total Value (AED Mn)
DEWA	DCF	155,857
IPP/IWP	DCF	13,780
Others	PE	5,405
Total Enterprise Value		175,043
Empower	DCF	11,404
Net Debt		-28,693
Minority Interest		-3,489
Total Valuation (AED)		154,264
Valuation per share (AED)		3.09

DEWA is valued using SOTP valuation as it operates in multiple business segments and we have assigned higher weight to SOTP since in this valuation methodology each segment is valued separately and all segment KPIs are captured for valuation. We have discounted the cash flow using the weighted average cost of capital of 7.6%. It is arrived after using cost of equity of 8.2% and after tax cost of debt of 5.6% with an equity weight of 75.8% and debt of 24.2%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 0.70 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. The cost of debt of 6.1% is adjusted for a tax rate of 9.0% to arrive at an after-tax cost of debt of 5.6%. Also, assumed a terminal growth rate of 2.0%.

I. DEWA

Sum of PV (AED, Mn)	33,544
Terminal value (AED, Mn)	122,313
FV to Common shareholders (AED, Mn)	155,857
No. of share (Mn)	50,000
Current Market Price (AED)	2.45
Fair Value per share (AED)	3.12

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	7,707	7,882	8,074	8,273	8,478
(+/-) Depreciation & amortization	4,829	5,127	5,343	5,543	5,717
(+/-) Capex	-4,500	-4,500	-4,500	-4,500	-4,500
(+/-) Working capital	-277	-285	-292	-300	-309
Free Cash Flow to Firm (FCFF)	6,206	8,224	8,624	9,016	9,386
Discounting Factor	0.94	0.88	0.82	0.76	0.70
Discounted FCFF	5,855	7,212	7,031	6,833	6,613

Source: FAB Securities

II. IPP/WPP

Sum of PV (AED, Mn)	1,929
Terminal value (AED, Mn)	11,852
FV to Common shareholders (AED, Mn)	13,780
No. of share (Mn)	50,000
Current Market Price (AED)	2.45
Fair Value per share (AED)	0.28

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	7,707	7,882	8,074	8,273	8,478
(+/-) Depreciation & amortization	4,829	5,127	5,343	5,543	5,717
(+/-) Capex	-4,500	-4,500	-4,500	-4,500	-4,500
Free Cash Flow to Firm (FCFF)	-306	520	637	793	909
Discounting Factor	0.94	0.88	0.82	0.76	0.70
Discounted FCFF	-289	456	519	601	641

Source: FAB Securities

III. Others

We have used local peers to value DEWA and it is valued using the PE multiple. It is valued at PE multiple of 16.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Primo Water Corp	2,800	8.4	7.4	27.2	23.1	1.9	1.8
Nongfu Spring Co Ltd	60,780	26.2	22.5	40.6	35.2	16.3	14.3
Danone	41,770	10.0	9.4	16.8	16.1	2.0	1.9
Lotte Chilsung Beverage	926	5.5	4.7	8.0	6.2	0.8	0.7
Suntory	9,830	5.9	5.2	16.3	14.8	1.3	1.2
Average		11.2x	9.8x	21.8x	19.1x	4.5x	4.0x
Median		8.4x	7.4x	16.8x	16.1x	1.9x	1.8x
Max		10.0x	9.4x	27.2x	23.1x	2.0x	1.9x
Min		5.9x	5.2x	16.3x	14.8x	1.3x	1.2x

Source: FAB Securities

IV. Empower

Sum of PV (AED, Mn)	4,987
Terminal value (AED, Mn)	19,307
FV to Common shareholders (AED, Mn)	20,364
No. of share (Mn)	50,000
Current Market Price (AED)	2.45
Fair Value per share (AED)	0.41

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,185	1,239	1,302	1,375	1,449
(+/-) Depreciation & amortization	362	385	401	416	429
(+/-) Capex	-700	-400	-400	-450	-450
(+/-) Working capital	44	46	49	51	54
Free Cash Flow to Firm (FCFF)	713	1,270	1,351	1,392	1,482
Discounting Factor	0.94	0.88	0.82	0.76	0.70
Discounted FCFF	673	1,114	1,102	1,055	1,044

Source: FAB Securities

2) DDM Method:

DEWA distributed a healthy dividend in 2023 and further aims to pay a dividend of USD 6.2 Bn in 2024. It further expects this dividend payment will be sustained even in the forecasted period due to strong cash flow generation. The dividend is discounted at the cost of equity of 8.2%.

Sum of PV (AED, Mn)	27,382
Terminal value (AED, Mn)	86,566
FV to Common shareholders (AED, Mn)	113,948
No. of share (Mn)	50,000
Current Market Price (AED)	2.45
Fair Value per share (AED)	2.28

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
1H	3,100	3,300	3,500	3,700	3,900
2H	3,100	3,300	3,500	3,700	3,900
Total Dividend	6,200	6,600	7,000	7,400	7,800
Discounting Factor	0.92	0.85	0.78	0.73	0.67
Present Value of Dividend	5,696	5,603	5,492	5,365	5,226

Source: FAB Securities

