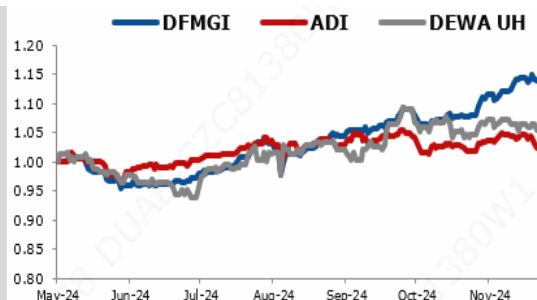


## Dubai Electricity and Water Authority (DEWA)

Higher direct costs coupled with increased administrative expenses impacted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.50	AED 2.98	+19%	BUY

- DEWA's customer base grew 4.2% YOY to 1.25 Mn in 3Q24.
- Gross power generation rose 3.9% YOY to 19.6 Tera Watt hours (TWh) in 3Q24. Out of which, 1.8 TWh is generated from green energy.
- Total desalination water production rose 4.6% YOY to 40.5 Bn imperial gallons in 3Q24.
- DEWA's installed generation capacity stood at 16.78 GW and its desalination capacity at 495 MIGD in 3Q24.
- The Company paid a dividend of AED 3.1 Bn for 1H24 on October 31, 2024, leading to an annual dividend yield of 5.0% in 2024.



### Stock Information

Market Cap (AED, mn)	126,000.00
Paid Up Capital (mn)	500.00
52 Week High	2.58
52 Week Low	2.20
3M Avg. daily value(AED)	15,232,300

### 3Q24 Net Profit lower than our estimate

Dubai Electricity and Water Authority PJSC (DEWA/the Company) net profit declined 14.0% YOY to AED 2,859 Mn in 3Q24, which is lower than our estimate of AED 3,371 Mn. The decline in net profit is mainly due to the higher Direct Costs & Administrative Expenses coupled with income tax expense, partially offset by higher revenue, other income, reversals in impairments and lower finance cost.

### P&L Highlights

DEWA recorded a 4.8% YOY increase in revenue to AED 9,870 Mn in 3Q24. This increase was mainly attributable to continued demand for electricity, water, and cooling services. Revenue from electricity sales rose 3.9% YOY to AED 6,648 Mn, supported by a 4.0% YOY increase in gross power generation, reaching 19.6 terawatt hours (TWh) in 3Q24. Within this, power generated from green energy rose 11.1% YOY to 1.8 TWh in 3Q24. Revenue from the sale of water increased 4.7% YOY to AED 1,527 Mn, supported by 4.6% YOY growth in desalinated water production to 40.5 Bn imperial gallons in 3Q24. The District Cooling segment grew 4.5% YOY to AED 1,091 Mn in 3Q24. Revenue from other services significantly grew 16.5% YOY to AED 605 Mn in 3Q24. However, the Company's direct cost rose 11.9% YOY to AED 5,522 Mn in 3Q24, owing to increased expenditure on generation & desalination, transmission & distribution, and purchase of power. Generation & desalination expenses rose 10.3% YOY owing to a higher expense on depreciation, employee benefit, repair & maintenance, and other expenses, partially offset by a decline in fuel costs expense. Transmission & distribution expenses rose due to higher depreciation and employee benefit expenses. As a result, DEWA's gross profit declined 3.1% YOY to AED 4,348 Mn in 3Q24.

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

Total Assets	186,030
Total Liabilities	94,169
Total Equity	91,628
EBITDA	5,148
Net Profit	2,859

### Financial Ratios

Dividend Yield (12m)	4.92
Dividend Pay-out (%)	80.51
Price-Earnings Ratio(x)	16.80
Price-to-Book Ratio (x)	1.41
Book Value (AED)	1.78
Return-on Equity (%)	8.62

### Stock Performance

5 Days	1.20%
1 Months	2.86%
3 Months	4.13%
6 Months	10.53%
1 Year	-1.18%
Month to Date (MTD%)	1.20%
Quarter to Date (QTD%)	-1.18%
Year to Date (YTD%)	2.44%

Gross margins also declined 359 bps YOY to 44.1% in 3Q24. Administrative expenses increased from AED 773 Mn in 3Q23 to AED 953 Mn in 3Q24, primarily due to increased repairs & maintenance expenses, insurance, and other expenses in 3Q24. On the positive side, the Company reported a credit impairment reversal of AED 18 Mn in 3Q24, compared to a credit impairment loss of AED 53 Mn in 3Q23. Other income expanded from AED 66 Mn in 3Q23 to 132 Mn in 3Q24 due to increased miscellaneous income in 3Q24. DEWA's operating profit contracted 4.9% YOY to AED 3,545 Mn in 3Q24, with an operating profit margin of 35.9% in 3Q24 compared to 39.6% in 3Q23. DEWA's EBITDA remained unchanged at AED 5,148 Mn, while the EBITDA margin declined 248 bps YOY to 52.2% in 3Q24. Finance costs declined 1.1% YOY to AED 487 Mn, while finance income grew 20.2% YOY to AED 264 Mn in 3Q24. The profit share attributable to non-controlling interest holders declined from AED 65 Mn in 3Q23 to AED 58 Mn in 3Q24. DEWA incurred a tax expense of AED 319 Mn in 3Q24 due to the introduction of UAE corporate tax in 2024.

### Balance Sheet Highlights

The company's operating cash flow increased from AED 3.8 Bn in 3Q23 to AED 5.9 Bn in 3Q24, while cash and cash equivalents, including short-term deposits, increased from AED 8.2 Bn in 2Q24 to AED 10.5 Bn in 3Q24. Total borrowings declined from AED 39.0 Bn in 2Q24 to AED 38.8 Bn in 3Q24. Net debt stood at AED 28.3 Bn in 3Q24, compared to AED 30.7 Bn in 2Q24.

### Target Price and Rating

We maintain our BUY rating on DEWA with a target price of AED 2.98. In 3Q24, DEWA's profitability declined primarily due to higher direct costs and increased administrative and income tax expenses. However, the Company's revenue grew 4.8% YOY to AED 9.9 Bn in 3Q24 owing to strong demand for electricity, water, and cooling services. In addition, the demand for power and water grew 3.4% and 4.9%, respectively, in 3Q24, reflecting Dubai's continued expansion. As of September 2024, DEWA had 1.25 Mn customer accounts for electricity and water, an increase of 4.2% YOY compared to September 2023. DEWA's installed generation capacity reached 16.78 GW by the end of 3Q24, including 2.86 GW from renewable sources. The installed desalinated water production capacity remained stable at 495 MIGD. DEWA's future outlook remains strong, with plans to expand its power generation capacity to 20 GW, including 5.3 GW from renewables, by 2030. Additionally, the Company aims to achieve an installed desalinated water capacity of 735 MIGD by 2030. DEWA's continued focus on efficiency, innovation, and customer service positions it well to meet Dubai's evolving energy and water needs. According to DEWA's dividend policy, the company expects to pay a minimum annual dividend of AED 6.2 Bn for five years from October 2022. The dividends are distributed twice a year, in April & October. According to its dividend policy, the Company paid a dividend of AED 3.1 Bn for 1H24 on October 31, 2024, leading to an annual dividend yield of 5.0% in 2024. Considering these factors, we assign a BUY rating on the stock.

#### DEWA - Relative valuation<sup>1</sup>

(at CMP)	2021	2022	2023	2024F
PE	20.41	16.19	16.23	17.79
PB	1.34	1.40	1.40	1.41
EV/EBITDA	12.24	11.70	10.97	10.80
Dividend yield	NA	9.1%	5.0%	5.0%

FABS Estimates & Co Data

<sup>1</sup>Note – DEWA listed on DFM in 2022. Thus, the financial multiple for the prior period is unavailable

**DEWA – P&L**

AED mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenues	9,422	7,864	9,870	9,761	1.1%	4.8%	25.5%	29,178	31,950	9.5%
Direct Cost	-4,933	-4,954	-5,522	-5,186	6.5%	11.9%	11.5%	-17,933	-19,869	10.8%
<b>Gross Profit</b>	<b>4,489</b>	<b>2,910</b>	<b>4,348</b>	<b>4,574</b>	<b>-4.9%</b>	<b>-3.1%</b>	<b>49.4%</b>	<b>11,245</b>	<b>12,081</b>	<b>7.4%</b>
Administrative expenses	-773	-642	-953	-540	76.4%	23.2%	48.3%	-3,013	-3,879	28.7%
Credit impairment losses	-53	13	18	-68	NM	NM	NM	-126	66	-152.8%
Other income	66	36	132	225	-41.5%	100.4%	NM	651	876	34.6%
<b>EBITDA</b>	<b>5,148</b>	<b>4,037</b>	<b>5,148</b>	<b>5,550</b>	<b>-7.2%</b>	<b>0.0%</b>	<b>27.5%</b>	<b>14,780</b>	<b>15,132</b>	<b>2.4%</b>
<b>EBIT</b>	<b>3,729</b>	<b>2,317</b>	<b>3,545</b>	<b>4,191</b>	<b>-15.4%</b>	<b>-4.9%</b>	<b>53.0%</b>	<b>8,757</b>	<b>9,145</b>	<b>4.4%</b>
Finance costs	-493	-504	-487	-603	-19.2%	-1.1%	-3.3%	-1,617	-1,935	19.7%
Finance income	220	219	264	334	-21.1%	20.2%	20.3%	806	963	19.5%
<b>P/L before net movement in regulatory deferral</b>	<b>3,456</b>	<b>2,033</b>	<b>3,322</b>	<b>3,923</b>	<b>-15.3%</b>	<b>-3.9%</b>	<b>63.4%</b>	<b>7,946</b>	<b>8,173</b>	<b>2.9%</b>
Net movement in regulatory deferral account credit balance	-66	60	-86	-78	9.3%	NM	NM	-105	-120	14.3%
Tax	0	-186	-319	-354	-9.7%	NM	71.6%	92	-736	NM
<b>Profit before NCI</b>	<b>3,390</b>	<b>1,907</b>	<b>2,917</b>	<b>3,491</b>	<b>-16.4%</b>	<b>-14.0%</b>	<b>53.0%</b>	<b>7,934</b>	<b>7,318</b>	<b>-7.8%</b>
Non-controlling interest	-65	-46	-58	-120	-51.7%	-10.7%	NM	-233	-293	26.0%
<b>Profit attributable</b>	<b>3,325</b>	<b>1,860</b>	<b>2,859</b>	<b>3,371</b>	<b>-15.2%</b>	<b>-14.0%</b>	<b>53.7%</b>	<b>7,701</b>	<b>7,024</b>	<b>-8.8%</b>

FABS estimate & Co Data

**DEWA - Margins**

	3Q23	2Q24	3Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	47.6%	37.0%	44.1%	-359	705	38.5%	37.8%	-73
EBITDA	54.6%	51.3%	52.2%	-248	82	50.7%	47.4%	-329
Operating Profit	39.6%	29.5%	35.9%	-366	645	30.0%	28.6%	-139
Net Profit	35.3%	23.7%	29.0%	-633	531	26.4%	22.0%	-441

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	3.12	85.0%	2.66
DDM Method	2.15	15.0%	0.32
<b>Weighted Average Valuation (AED)</b>			<b>2.98</b>
Current market price (AED)			2.50
Upside/Downside (%)			+19%

### 1) SOTP Method:

Name of Entity	Type of Valuation	Total Value (AED Mn)
DEWA	DCF	144,750
IPP/IWP	DCF	21,430
Others	PE	5,285
<b>Total Enterprise Value</b>		<b>171,464</b>
Empower	DCF	12,164
Net Debt		-23,758
Minority Interest		-3,651
<b>Total Valuation (AED)</b>		<b>156,219</b>
<b>Valuation per share (AED)</b>		<b>3.12</b>

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 8.3% and after-tax cost of debt of 5.6% with an equity weight of 76.3% and debt of 23.7%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.70 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 6.1% is adjusted for a tax rate of 9.0% to arrive at after tax cost of debt of 5.6%. Also, assumed a terminal growth rate of 2.0%.

## 1) DEWA

Sum of PV (AED, Mn)	30,483
Terminal value (AED, Mn)	114,267
<b>FV to Common shareholders (AED, Mn)</b>	<b>144,750</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.50
<b>Fair Value per share (AED)</b>	<b>2.89</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	7,550	8,293	8,764	8,982	9,206
(+/-) Depreciation & amortization	4,815	5,126	5,346	5,549	5,736
(+/-) Capex	-4,500	-4,500	-5,000	-5,500	-6,000
(+/-) Working capital	-292	-306	-368	-394	-439
<b>Free Cash Flow to Firm (FCFF)</b>	<b>7,573</b>	<b>8,612</b>	<b>8,742</b>	<b>8,637</b>	<b>8,504</b>
Discounting Factor	0.99	0.92	0.86	0.80	0.74
<b>Discounted FCFF</b>	<b>1,879<sup>1</sup></b>	<b>7,944</b>	<b>7,491</b>	<b>6,877</b>	<b>6,291</b>

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

## 2) IPP/WPP

Sum of PV (AED, Mn)	1,360
Terminal value (AED, Mn)	20,070
<b>FV to Common shareholders (AED, Mn)</b>	<b>21,430</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.50
<b>Fair Value per share (AED)</b>	<b>0.43</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	858	985	1,116	1,222	1,313
(+/-) Depreciation & amortization	445	474	495	513	531
(+/-) Capex	-2,575	-1,800	-1,400	-850	-350
<b>Free Cash Flow to Firm (FCFF)</b>	<b>-1,271</b>	<b>-341</b>	<b>210</b>	<b>885</b>	<b>1,494</b>
Discounting Factor	0.99	0.92	0.86	0.80	0.74
<b>Discounted FCFF</b>	<b>-315<sup>1</sup></b>	<b>-315</b>	<b>180</b>	<b>705</b>	<b>1,105</b>

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

### 3) Others

We have used local peers to value DEWA and it is valued using the PE multiple. It is valued at PE multiple of 17.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Britvic PLC	3,988	11.6	11.0	17.5	16.2	7.7	6.5
Nongfu Spring Co Ltd	45,660	17.2	15.3	26.4	23.4	9.7	8.3
Danone	43,536	11.2	10.7	18.2	17.1	2.3	2.2
Lotte Chilsung Beverage	831	6.5	5.8	10.8	6.8	0.8	0.7
Suntory	10,131	6.6	6.0	17.6	15.3	1.4	1.3
<b>Average</b>		<b>10.6x</b>	<b>9.8x</b>	<b>18.1x</b>	<b>15.8x</b>	<b>4.4x</b>	<b>3.8x</b>
<b>Median</b>		<b>11.2x</b>	<b>10.7x</b>	<b>17.6x</b>	<b>16.2x</b>	<b>2.3x</b>	<b>2.2x</b>
<b>Max</b>		<b>11.6x</b>	<b>11.0x</b>	<b>18.2x</b>	<b>17.1x</b>	<b>7.7x</b>	<b>6.5x</b>
<b>Min</b>		<b>6.6x</b>	<b>6.0x</b>	<b>17.5x</b>	<b>15.3x</b>	<b>1.4x</b>	<b>1.3x</b>

Source: FAB Securities

### Empower

Sum of PV (AED, Mn)	4,525
Terminal value (AED, Mn)	19,352
<b>FV to Common shareholders (AED, Mn)</b>	<b>20,369</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.50
<b>Fair Value per share (AED)</b>	<b>0.41</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,124	1,201	1,261	1,331	1,403
(+/-) Depreciation & amortization	361	385	401	416	430
(+/-) Capex	-600	-500	-400	-450	-450
(+/-) Working capital	40	43	45	48	50
<b>Free Cash Flow to Firm (FCFF)</b>	<b>925</b>	<b>1,129</b>	<b>1,307</b>	<b>1,345</b>	<b>1,433</b>
Discounting Factor	0.99	0.92	0.86	0.80	0.74
<b>Discounted FCFF</b>	<b>230<sup>1</sup></b>	<b>1,041</b>	<b>1,120</b>	<b>1,071</b>	<b>1,060</b>

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

## 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 8.3%.

Sum of PV (AED, Mn)	26,501
Terminal value (AED, Mn)	81,131
<b>FV to Common shareholders (AED, Mn)</b>	<b>107,631</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.50
<b>Fair Value per share (AED)</b>	<b>2.15</b>

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
1H	3,100	3,300	3,300	3,500	3,750
2H	3,100	3,300	3,300	3,500	3,700
<b>Total Dividend</b>	<b>6,200</b>	<b>6,600</b>	<b>6,600</b>	<b>7,000</b>	<b>7,450</b>
Discounting Factor	0.92	0.85	0.78	0.72	0.67
<b>Present Value of Dividend</b>	<b>5,692</b>	<b>5,597</b>	<b>5,169</b>	<b>5,064</b>	<b>4,978</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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