

Dubai Electricity and Water Authority (DEWA)

High cost of sales and lower other income impacted net profit

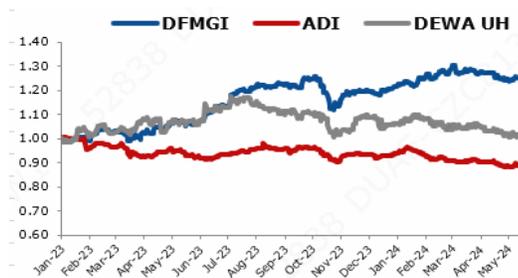
Current Price
AED 2.68

Target Price
AED 2.98

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- Company invested AED 2.3 Bn in 1Q25 to support energy transition and capacity expansion.
- Plans to increase desalinated capacity to 735 MIGD using efficient reverse osmosis technology.
- Expected to increase power generation capacity to 22 GW by 2030.
- Company plans to raise clean energy share to 34% of total capacity by 2030.
- DEWA achieved its highest ever first quarter revenue of AED 5,964 Mn in 1Q25.
- DEWA plans to distribute AED 3.1 Bn for 1H25.



1Q25 Net Profit lower than our estimate

Dubai Electricity and Water Authority PJSC (DEWA/the Company) net profit decreased 23.1% YOY to AED 498 Mn in 1Q25, which is lower than our estimate of AED 757 Mn. The decrease in net profit is mainly due to higher cost of sales and contraction in gross margins, an increase in tax and coupled with lower other income and finance income, partially offset by higher revenue with lower administration expenses and finance cost.

P&L Highlights

DEWA recorded a 2.8% YOY increase in revenue to AED 5,964 Mn in 1Q25. This increase was mainly attributable to continued demand for electricity, water, and cooling services. Revenue from sale of electricity rose 2.3% YOY to AED 3,467 Mn. Electricity generation increased 2.8% YOY to 10.50 TWh in 1Q25 with clean power generation of 1.86 TWh, contributing 17.7% to overall power generation. Revenue from the sale of water increased 2.8% YOY to AED 1,357 Mn, supported by 4.6% YOY growth in desalinated water production to 35.61 BIG imperial gallons in 1Q25. The District Cooling segment grew marginally 0.2% YOY to AED 538 Mn in 1Q25. Revenue from other services grew 8.8% YOY to AED 602 Mn in 1Q25. On the other hand, the Company's direct cost rose 9.2% YOY to AED 4,407 Mn in 1Q25, driven by higher electricity and water production volumes, increased depreciation and amortization, expanded operational and maintenance activity, and rising input, fuel cost and others. As a result, DEWA's gross profit declined 11.7% YOY to AED 1,557 Mn in 1Q25. Moreover, gross profit margin contracted from 30.4% in 1Q24 to 26.1% in 1Q25. Administrative expenses declined from AED 1,104 Mn in 1Q24 to AED 825 Mn in 1Q25, primarily due to a decline in repair and maintenance coupled with other costs. Company reported a credit impairment reversal of AED 22 Mn in 1Q25, as compared to AED 15 Mn in 1Q24.

Stock Information

Market Cap (AED, Mn)	135,000.00
Paid Up Capital (Mn)	500.00
52 Week High	2.89
52 Week Low	2.20
3M Avg. daily value(AED)	35,708,100

1Q25 Result Review (AED, Mn)

Total Assets	186,379
Total Liabilities	92,888
Total Equity	93,111
EBITDA	2,432
Net Profit	498

Financial Ratios

Dividend Yield (12m)	4.59
Dividend Pay-out (%)	88.41
Price-Earnings Ratio(x)	19.25
Price-to-Book Ratio (x)	1.51
Book Value (AED)	1.79
Return-on Equity (%)	7.85

Stock Performance

5 Days	1.89%
1 Months	4.65%
3 Months	0.00%
6 Months	8.43%
1 Year	15.38%
Month to Date (MTD%)	0.75%
Quarter to Date (QTD%)	9.31%
Year to Date (YTD%)	-4.93%

Other income fell substantially from AED 320 Mn in 1Q24 to AED 84 Mn in 1Q25. DEWA's operating profit declined 15.8% YOY to AED 838 Mn in 1Q25, with an operating profit margin of 14.1% in 1Q25 compared to 17.2% in 1Q24. DEWA's EBITDA declined 5.2% YOY to AED 2,432 Mn, and the EBITDA margin contracted from 44.2% YOY in 1Q24 to 40.8% in 1Q25. Finance costs declined 19.4%YOY to AED 428 Mn in 1Q25 and finance income also declined 26.0% YOY to AED 193 Mn in 1Q25. Additionally, the deferral account credit balance stood at AED 12 Mn in 1Q25. DEWA incurred a tax expense of AED 96 Mn in 1Q25 compared to AED 67 Mn reported in 1Q24.

Balance Sheet Highlights

The company's cash and cash equivalents, including short-term deposits, increased from AED 9.7 Bn in 4Q24 to AED 11.7 Bn in 1Q25. Net debt declined from AED 26.5 Bn in 4Q24 to AED 23.8 Bn in 1Q25. Net cash inflow from operation stood at AED 3.9 Bn in 1Q25, compared to AED 3.3 Bn in 1Q24.

Target Price and Rating

We revise our rating from BUY to ACCUMULATE on DEWA with an unchanged target price of AED 2.98. DEWA reported substantial revenue and cash from operations in 1Q25. DEWA's installed a power generation capacity stood at 17,579 MW with 3,460 MW capacity from clean energy in 1Q25. The Company invested AED 2.3 Bn in infrastructure, primarily aligned with its energy transition strategy, which aims to increase the share of clean energy in its generation mix. DEWA added 11,614 new customer accounts in 1Q25, and total customers of 57,339 in 1Q25 with a 3.7% YOY growth compared to 1Q24, reflecting Dubai's ongoing economic and population expansion. Additionally, DEWA commissioned two 132kv substations and 441 (11–6.6 kV) substations in 1Q25. The Company plans to increase energy generation capacity to 22 GW by 2030, with 7.5 GW from clean power generation, representing 34% of generation mix. DEWA aims to enhance water security by expanding desalinated water capacity to 735 MIGD by 2030, adding 240 MIGD, and focusing on seawater reverse osmosis (RO) technology. The current desalination capacity stood at 495 MIGD, with majority of 427 MIGD from Jebel Ali Multi-Stage Flash. DEWA is expected to benefit from Dubai's population and real estate expansion, driving long-term electricity, water, and cooling demand. By introducing new projects, DEWA is investing in digital transformation, smart grid infrastructure, and AI-driven efficiency improvements. Dewa aims to provide 100% of Dubai's energy production capacity from clean energy by 2050. The Company distributed dividend of AED 3.1 Bn for 2H24 and plans a similar amount for 1H25. Based on above positive points, we assign ACCUMULATE rating to the stock.

DEWA - Relative valuation¹

(at CMP)	2022	2023	2024	2025F
PE	17.16	17.21	18.89	18.84
PB	1.48	1.49	1.49	1.47
EV/EBITDA	12.24	11.47	10.87	10.39
DPS (AED)	0.2	0.12	0.12	0.12
Dividend yield	8.6%	4.7%	4.6%	4.6%

FABS Estimates & Co Data

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

DEWA – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch.	QOQ Ch.	2024	2025F	Change
Revenues	5,800	7,443	5,964	6,039	-1.2%	2.8%	-19.9%	30,977	31,461	1.6%
Direct Cost	-4,037	-4,658	-4,407	-4,118	7.0%	9.2%	-5.4%	-19,170	-18,969	-1.1%
Gross Profit	1,763	2,785	1,557	1,921	-18.9%	-11.7%	-44.1%	11,807	12,492	5.8%
Administrative exp	-1,104	-470	-825	-1,066	-22.6%	-25.3%	75.5%	-3,169	-3,472	9.5%
Credit impairment reversal/ (losses)	15	47	22	23	-4.2%	41.8%	-53.1%	93	-88	NM
Other income	320	105	84	296	-71.7%	-73.9%	-20.5%	594	218	-63.2%
EBITDA	2,566	2,333	2,432	2,918	-16.7%	-5.2%	4.2%	15,725	16,126	2.5%
EBIT	995	2,468	838	1,174	-28.6%	-15.8%	-66.0%	9,325	9,151	-1.9%
Finance costs	-531	-612	-428	-519	-17.6%	-19.4%	-30.1%	-2,134	-1,884	-11.7%
Finance income	261	216	193	271	-28.7%	-26.0%	-10.4%	960	840	-12.5%
P/L before net movement in regulatory deferral	725	2,071	604	926	-34.8%	-16.8%	-70.9%	8,151	8,106	-0.5%
Net movement in regulatory deferral account credit balance	-7	-134	-12	-1	NM	65.3%	-90.8%	-167	-6	-96.6%
Tax	-67	-177	-96	-83	14.7%	43.4%	-46.0%	-749	-730	-2.6%
Profit before NCI	651	1,760	496	841	-41.1%	-23.9%	-71.8%	7,234	7,371	1.9%
Non-controlling interest	-3	-114	2	-85	NM	NM	NM	-222	-339	52.9%
Profit attributable	647	1,646	498	757	-34.2%	-23.1%	-69.8%	7,013	7,032	0.3%

FABS estimate & Co Data

DEWA - Margins

	1Q24	4Q24	1Q25	YOY Ch.	QOQ Ch.	2024	2025F	Change
Gross Profit	30.4%	37.4%	26.1%	-429	-1,131	38.1%	39.7%	159
EBITDA	44.2%	31.3%	40.8%	-347	942	50.8%	51.3%	49
Operating Profit	17.2%	33.2%	14.1%	-310	-1,910	30.1%	29.1%	-102
Net Profit	11.2%	22.1%	8.3%	-282	-1377	22.6%	22.4%	-29

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	3.13	85.0%	2.66
DDM Method	2.10	15.0%	0.32
Weighted Average Valuation (AED)			2.98
Current market price (AED)			2.68
Upside/Downside (%)			+11.2%

1) SOTP Method:

Name of Entity	Type of Valuation	Total Value (AED Mn)
DEWA	DCF	145,109
IPP/IWP	DCF	15,391
Others	PE	6,214
Total Enterprise Value		166,714
Empower	DCF	14,811
Net Debt		-18,298
Minority Interest		-6,639
Total Valuation (AED)		156,587
Valuation per share (AED)		3.13

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 7.9%. It is arrived after using cost of equity of 8.6% and after-tax cost of debt of 5.6% with an equity weight of 77.4% and debt of 22.6%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 0.75 and equity risk premium of 4.0%. 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)	35,711
Terminal value (AED, Mn)	109,398
FV to Common shareholders (AED, Mn)	145,109
No. of share (Mn)	50,000
Current Market Price (AED)	2.68
Fair Value per share (AED)	2.90

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	7,818	8,295	8,526	8,763	8,978
(+/-) Depreciation & amortization	5,515	5,765	5,995	6,210	6,414
(+/-) Capex	-4,500	-5,000	-5,500	-6,000	-6,000
(+/-) Working capital	-285	-343	-368	-409	-422
Free Cash Flow to Firm (FCFF)	8,548	8,717	8,654	8,564	8,970
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Discounted FCFF	8,143	7,696	7,079	6,492	6,301

Source: FAB Securities

2) IPP/WPP

Sum of PV (AED, Mn)	1,268
Terminal value (AED, Mn)	14,123
FV to Common shareholders (AED, Mn)	15,391
No. of share (Mn)	50,000
Current Market Price (AED)	2.68
Fair Value per share (AED)	0.31

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	642	719	783	836	915
(+/-) Depreciation & amortization	510	533	555	575	593
(+/-) Capex	-1,800	-1,400	-850	-350	-350
Free Cash Flow to Firm (FCFF)	-648	-148	487	1,061	1,158
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Discounted FCFF	-617	-131	399	804	813

Source: FAB Securities

3) Others

We have used international peers to value DEWA and it is valued using the PE multiple. It is valued at PE multiple of 14.6x in line with peers.

Company	Market Cap. (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F	2025F	2026F
Britvic PLC	1,004	9.0	8.2	15.9	14.3	2.2	2.0
Nongfu Spring Co Ltd	55,639	19.1	17.2	28.9	25.7	10.7	9.1
Danone	51,544	11.5	11.0	19.2	17.9	2.5	2.4
Lotte Chilsung Beverage	714	6.0	5.5	8.7	6.9	0.7	0.6
Suntory	10,297	6.2	5.8	16.2	14.6	1.2	1.2
Average		10.4x	9.5x	17.7x	15.9x	3.5x	3.1x
Median		9.0x	8.2x	16.2x	14.6x	2.2x	2.0x
Max		11.5x	11.0x	19.2x	17.9x	2.5x	2.4x
Min		6.2x	5.8x	15.9x	14.3x	1.2x	1.2x

Source: FAB Securities

Empower

Sum of PV (AED, Mn)	5,638
Terminal value (AED, Mn)	19,026
FV to Common shareholders (AED, Mn)	21,158
No. of share (Mn)	50,000
Current Market Price (AED)	2.68
Fair Value per share (AED)	0.42

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,206	1,266	1,336	1,408	1,476
(+/-) Depreciation & amortization	414	433	450	466	481
(+/-) Capex	-500	-400	-450	-450	-450
(+/-) Working capital	43	45	48	50	53
Free Cash Flow to Firm (FCFF)	1,163	1,343	1,384	1,474	1,560
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Discounted FCFF	1,108	1,186	1,132	1,117	1,096

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 8.3%.

Sum of PV (AED, Mn)	26,970
Terminal value (AED, Mn)	81,652
FV to Common shareholders (AED, Mn)	108,622
No. of share (Mn)	50,000
Current Market Price (AED)	2.68
Fair Value per share (AED)	2.17

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend Paid					
1H	3,100	3,300	3,300	3,500	3,750
2H	3,100	3,300	3,300	3,500	3,700
Total Dividend	6,200	6,600	6,600	7,000	7,450
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Present Value of Dividend	5,883	5,766	5,309	5,185	5,080

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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