FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

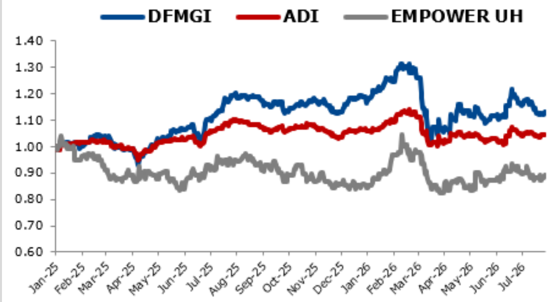
UAE Equity Research   Sector: Utilities   Market: DFM

Emirates Central Cooling Systems Corporation (EMPOWER)

Softer consumption weighed on revenue, while capacity expansion continued

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.56	AED 2.25	+44.2%	BUY

- Revenue declined by 2.7% YOY due to lower occupancy amid regional conflict leading to reduce cooling consumption.
- 1,707 K RT connection added in 2Q26, taking the total connected capacity to 1.71 Mn RT.
- Signed 33 new contract to supply 37.8K RT cooling services, taking the total contract capacity to 2.02 Mn RT.
- EMPOWER expects additional connected capacity of c.49-59K RT during 2H26, taking total connected capacity to c. 1,756-1,766k RT by 2026.
- EMPOWER reaffirms annual dividend commitment of AED 875 Mn remains unchanged for 2026.



Stock Information	
Market Cap (AED, Mn)	15,600.00
Paid Up Capital (Mn)	1,000.00
52 Week High	1.96
52 Week Low	1.48
3M Avg. daily value (AED)	6,956,478

2Q26 Result Review (AED, Mn)	
Total Assets	12,267
Total Liabilities	8,739
Total Equity	3,528
EBITDA	415
Net Profit	256

Financial Ratios	
Dividend Yield (12m)	5.83
Dividend Pay-out (%)	44.05
Price-Earnings Ratio(x)	14.73
Price-to-Book Ratio (x)	4.67
Book Value (AED)	0.33
Return-on Equity (%)	32.61

Stock Performance	
5 Days	-2.50%
1 Months	-3.11%
3 Months	-4.88%
6 Months	-14.29%
1 Year	-11.86%
Month to Date (MTD%)	-1.27%
Quarter to Date (QTD%)	-4.29%
Year to Date (YTD%)	1.30%

2Q26 Net Profit lower than our estimate

Empower Group's (EMPOWER/the Company) net profit grew marginally by 0.6% YOY to AED 256 Mn in 2Q26, lower than our estimate of AED 296 Mn. The marginal growth in the net profit is primarily supported by lower direct costs, increase in other income, finance income, and lower finance costs, partially offset by decline in revenue and higher G&A expenses.

P&L Highlights

EMPOWER's revenue fell 2.7% YOY to AED 889 Mn in 2Q26. This decline is largely due to lower cooling consumption and lower effective full load hours. Revenue from Demand Charges grew 6.7% YOY to AED 305 Mn in 2Q26. While revenue from Consumption Charges declined 8.6% YOY to AED 502 Mn in 2Q26. Revenue from the Others category increased marginally by 0.5% YOY to AED 79 Mn in 2Q26. Interest income on financial assets at amortized cost decreased 1.5% YOY to AED 14 Mn in 2Q26. The Company's direct costs decreased 3.6% YOY to AED 522 Mn in 2Q26. Thus, gross profit declined 1.4% YOY to AED 381 Mn in 2Q26. However, gross profit margin improved 56 bps YOY to 42.9% in 2Q26. G&A expenses rose 8.5% YOY to AED 70 Mn in 2Q26. Other income increased from AED 4 Mn in 2Q25 to AED 7 Mn in 2Q26. EMPOWER's EBITDA declined 1.9% YOY to AED 415 Mn, while EBITDA margin expanded 39 bps YOY to 46.7% in 2Q26. The Company's operating profit declined 2.7% YOY to AED 318 Mn, with operating margin remaining stable at 35.8% in 2Q26, as compared to 2Q25. Finance income increased 42.0% YOY to AED 16 Mn in 2Q26. Whereas, finance costs decreased 10.4% YOY to AED 49 Mn in 2Q26. The Company's tax expenses increased marginally by 0.4% YOY to AED 26 Mn in 2Q26. Profit share to non-controlling interest holders grew 3.7% YOY to AED 3 Mn in 2Q26.

Balance Sheet Highlights

The Company's net debt (term deposit included in cash) remained broadly stable at AED 2.9 Bn in 2Q26 compared to 1Q26. Net debt to LTM EBITDA ratio stood at 1.8x in 2Q26. EMPOWER's net cash flow from operating activity increased from AED 474 Mn in 2Q25 to AED 544 Mn in 2Q26, supported by lower working capital activities. The calculated free cash flow increased from AED 391 Mn in 2Q25 to AED 434 Mn in 2Q26.

Target Price and Rating

We maintain our BUY rating on EMPOWER with a target price of AED 2.25. Empower reported a softer performance in 2Q26, with lower cooling demand leading to reduced cooling consumption and lower Effective Full Load Hours. The softer demand was primarily attributable to lower occupancy levels in Dubai, driven by regional geopolitical tensions. However, the Company expects consumption revenue to rebound in 3Q26 and remain strong throughout 2H26, supported by seasonal demand and favourable weather conditions. Despite the decline in revenue in 2Q26, the Company maintained strong profitability and delivered margin expansion through disciplined cost management and lower financing costs. Operationally, Empower continued to execute on its long-term growth strategy by expanding its district cooling network, increasing the connected capacity to 1.71 Mn RT and contracted capacity to 2.02 Mn RT, supported by new 1,707 K RT connections in 2Q26 and signing 33 new contracts to supply 37.8k RT of district cooling services in Dubai thereby strengthening the growth prospects. EMPOWER maintained a robust leverage profile in 2Q26, with the Net Debt/LTM EBITDA remaining stable at 1.8x in 2Q26, compared to 1.7X in 1Q26. Gross debt remained broadly stable at AED 5.50 Bn, while net debt remained stable at AED 2.9 Bn in 2Q26, compared to 1Q26, reflecting in a stable leverage profile. During 1H26, the company also successfully refinanced its AED 5.5 Bn term loan, extending its maturity from September 2027 to February 2028, while securing a lower margin under the revolving credit facility. The stable interest rate environment also continues to support the Company's financing costs and future expansion plans. The refinancing strengthens EMPOWER's liquidity profile, reducing refinancing risk and providing additional financial flexibility to support future capacity expansion. Subsequent to the quarter, EMPOWER also advanced its expansion pipeline by securing a 37K RT district cooling contract for the Mercedes-Benz Places in Binghatti City and initiating the construction of a 23.4K RT district cooling plant in Al Sufouh 2. These projects are expected to support future capacity growth and broaden EMPOWER's customer base. Also, concession agreements and contracted customer base are expected to provide stable cash flow visibility despite short-term fluctuations in cooling demand. Furthermore, the Company maintained its medium-term capex guidance of c. AED 450-500 Mn and expects to connect an additional 49-59K RT during 2H26, taking total connected capacity to 1,756-1,766K RT by the end of 2026. Also, the Company reaffirms its dividend policy of distributing AED 875 Mn in 2026 equivalent to 8.75 fils per share, providing visibility on shareholder returns. Overall, despite the softer cooling demand in 2Q26, Empower remains well positioned to benefit from the seasonally stronger demand in 3Q26, supported by its expanding connected and contracted capacity base, which is expected to drive higher customer connections and strengthen earnings in 2026. Thus, based on our analysis we assigned a BUY rating on EMPOWER.

Empower - Relative valuation

(at CMP)	2022	2023	2024	2025	2026F
PE (x)	15.5	16.3	17.3	15.6	14.4
PB (x)	5.1	4.9	4.8	4.7	4.4
EV/EBITDA	13.5	13.4	12.6	11.8	11.2
EPS	0.100	0.095	0.090	0.099	0.108
BPS	0.303	0.314	0.320	0.331	0.351
Dividend	0.043	0.085	0.086	0.088	0.088
Dividend yield	2.8%	5.4%	5.5%	5.6%	5.6%

FABS Estimates & Co Data, the company got listed in Nov 2022, so prior period financials are not available

Empower – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	913	631	889	967	-8.0%	-2.7%	41.0%	3,419	3,561	4.2%
Interest inc on financial asset	15	14	14	15	-4.6%	-1.5%	0.8%	58	59	1.5%
Direct costs	-541	-323	-522	-557	-6.2%	-3.6%	NM	-1,989	-2,052	3.2%
Gross profit	**387**	**322**	**381**	**425**	**-10.3%**	**-1.4%**	**18.3%**	**1,488**	**1,568**	**5.3%**
G&A expenses	-64	-65	-70	-67	4.1%	8.5%	6.5%	-256	-270	5.3%
Net impair. loss on fin assets	0	0	0	0	NM	NM	NM	16	17	NM
Other income	4	6	7	6	3.9%	46.4%	11.9%	24	25	0.9%
EBITDA	**423**	**358**	**415**	**462**	**-10.2%**	**-1.9%**	**15.9%**	**1,649**	**1,677**	**1.7%**
EBIT	**327**	**263**	**318**	**365**	**-12.7%**	**-2.7%**	**21.1%**	**1,273**	**1,339**	**5.2%**
Finance Income	11	15	16	13	20.2%	42.0%	6.8%	55	55	0.0%
Finance costs	-55	-49	-49	-49	-0.2%	-10.4%	1.1%	-225	-197	-12.4%
Profit before NCI	**283**	**229**	**285**	**329**	**-13.3%**	**0.6%**	**24.4%**	**1,103**	**1,198**	**8.6%**
Tax	-25	-21	-26	-30	-13.6%	0.4%	24.3%	-99	-108	8.6%
Non-controlling int.	3	1	3	3	-0.5%	3.7%	NM	11	12	8.6%
Net Profit	**255**	**207**	**256**	**296**	**-13.4%**	**0.6%**	**23.8%**	**993**	**1,078**	**8.6%**

FABS estimate & Co Data

Empower - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross profit	42.3%	51.1%	42.9%	56	-821	43.5%	44.0%	50
EBITDA	46.3%	56.8%	46.7%	39	-1,010	48.2%	47.1%	-113
EBIT	35.8%	41.7%	35.8%	0	-587	37.2%	37.6%	39
Net profit	27.9%	32.8%	28.9%	94	-399	29.0%	30.3%	123

FABS estimate & Co Data

Key Developments

- **21 July 2026 -** EMPOWER awarded the contract to construct a new 23,400 RT district cooling plant in Al Sufouh 2, with commissioning expected in 3Q27. The plant will incorporate advanced Thermal Energy Storage and Treated Sewage Effluent technologies to improve energy and water efficiency, expand the company's cooling capacity and support rising demand from mixed-use developments while advancing Dubai's sustainability objectives.
- **13 July 2026 -** EMPOWER signed an agreement with Binghatti Developers to supply 37,000 RT of district cooling capacity to the Mercedes-Benz Places - Binghatti City project in Meydan. The project expands the connected capacity, strengthens its portfolio of landmark developments, and supports long-term recurring revenue while reinforcing its leadership position in Dubai's premium real estate market.
- **29 June 2026 -** EMPOWER signed a strategic MoU with international organisations and industry leaders during the 117th IDEA Conference to accelerate the global adoption of district cooling through knowledge sharing, innovation, and policy collaboration. The agreement strengthens the Company’s global leadership in district cooling, expands opportunities for international partnerships and reinforces its role in advancing sustainable urban energy solutions.
- **2 June 2026 -** EMPOWER inaugurated an advanced Command Control Centre integrating AI, IoT, big data analytics and SCADA systems to monitor and manage its district cooling network across Dubai with 99.99% network reliability. The centre enhances operational collaboration supports Dubai’s sustainability goals by delivering energy-efficient cooling solutions to the luxury mixed-use development featuring global hotel brands MGM, Bellagio and Aria.

Valuation:

We used Discounted Free Cash Flow (DCF), Discount Dividend Method (DDM), and Relative Valuation (RV) to value Empower. We have assigned 70% weight to DCF, 20% weight to RV, and 10% weight to DDM.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.43	70.0%	1.70
Relative Valuation (Avg of EV/EBITDA & P/E)	1.93	20.0%	0.39
DDM	1.57	10.0%	0.16
Weighted Average Valuation (AED)			**2.25**
Current market price (AED)			1.56
Upside/Downside (%)			+44%

1) DCF Method:

Empower is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It arrived after using cost of equity of 9.4% and after-tax cost of debt of 3.8% with an equity weight of 73.8% and debt of 26.2%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.95 and equity risk premium of 4.3%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 4.2% is adjusted for a tax rate of 9.0% to arrive at after tax cost of debt of 3.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	5,581
Terminal value (AED, Mn)	21,943
Firm Value (AED, Mn)	**27,525**
Net Debt as of June 2026 (AED, Mn)	2,991
Non-controlling int as of June 2026 (AED, Mn)	191
Equity Value to Share Holders (AED Mn)	**24,342**
No. of share (Mn)	10,000
Current Market Price (AED)	1.56
Fair Value per share (AED)	**2.43**

DCF Method

(All Figures in AED Mn)	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
NOPAT	1,219	1,299	1,393	1,504	1,606
Depreciation & amortization	379	402	418	434	449
CAPEX	-488	-480	-472	-449	-416
Working Capital	76	162	146	142	143
Free Cash Flow to Firm (FCFF)	**1,186**	**1,383**	**1,485**	**1,631**	**1,783**
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Discounted FCFF	**575[1]**	**1,242**	**1,235**	**1,257**	**1,272**

Source: FAB Securities, [1]Adjusted for partial year

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2) DDM Method:

Empower has a track record of consistently paying substantial dividends, highlighting its solid financial performance and dedication to rewarding shareholder confidence. The Company pays half-yearly dividends to its shareholders. Empower distributed a dividend of AED 850 Mn, AED 850 Mn, AED 875 Mn annually in 2023, 2024 and 2025, respectively. Under the new Progressive Dividend Framework, Empower is expected to pay a dividend of AED 875 Mn annually in 2026.

Sum of PV (AED, Mn)	4,212
Terminal value (AED, Mn)	11,512
FV to Common shareholders (AED Mn)	**15,725**
No. of share (Mn)	10,000
Current Market Price (AED)	1.55
Fair Value per share (AED)	**1.57**

(All Figures in USD Mn)	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Dividend Paid	875	950	1,050	1,150	1,250
Total Dividend	**875**	**950**	**1,050**	**1,150**	**1,250**
Discounting Factor	0.96	0.88	0.81	0.74	0.67
Present Value of Dividend	**844**	**837**	**845**	**846**	**840**

Source: FAB Securities

3) Relative Valuation:

We have used local and international peers to value Emirates Central Cooling Systems Corporation PJSC., and it is valued using the average of EV/EBITDA and P/E multiple. It is valued at a 2026 EV/EBITDA multiple of 13.7x and P/E multiple of 17.4x, in line with its peers.

Company	Market Cap	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Essential Utilities, Inc.	11,229	13.9	12.8	17.7	16.8
National Central Cooling Company PJSC	1,921	11.6	11.0	14.3	12.4
Exelon Corporation	47,236	10.2	9.4	16.0	15.1
Dubai Electricity and Water Authority	38,526	10.2	9.6	17.0	16.1
Qatar Electricity and Water Company QPSC	4,266	19.1	17.5	11.0	9.7
American Water Works Company	26,661	13.6	12.3	22.1	20.4
Shenzhen Envicool Technology Co., Ltd.	9,880	51.5	31.7	65.2	38.6
Abu Dhabi National Energy Company PJSC	81,736	16.8	16.6	37.2	36.1
Beijing Jingneng Thermal Co., Ltd.	380	NA	NA	NA	NA
Average		**18.4x**	**15.1x**	**25.1x**	**20.6x**
Median		**13.7x**	**12.6x**	**17.4x**	**16.5x**
Max		**17.4x**	**16.8x**	**25.9x**	**24.3x**
Min		**11.2x**	**10.7x**	**15.6x**	**14.4x**

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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