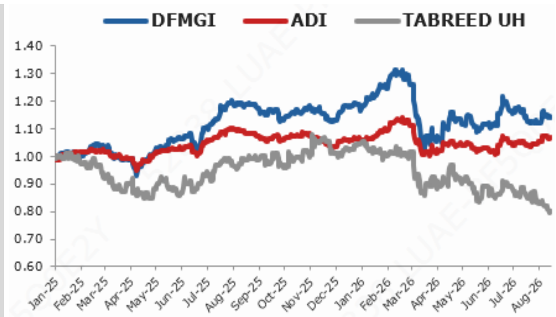
National Central Cooling Company (Tabreed)

Flat Revenue Growth Amid Margin Compression Weighs on Earnings

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.44	AED 3.65	+50%	BUY

- Net debt to EBITDA stood at 4.57x in 1H26, compared to 4.61x in 2025.
- Connected capacity increased 15.5% YOY to 1.58 Mn RT in 1H26, supported by organic and inorganic expansion, including the PAL Cooling acquisition.
- Consumption volumes declined 2.3% YOY in 1H26, with lower variable consumption charges partly offset by higher fixed capacity charges and CPI indexation.
- Tabreed revised its 2026 organic capacity growth guidance to c. 1%, while maintaining 3–5% annual growth for 2027–28.



Stock Information	
Market Cap (AED, Mn)	6,942.46
Paid Up Capital (Mn)	2,845.27
52 Week High	3.33
52 Week Low	2.37
3M Avg. daily value (AED)	2,619,502

2Q26 Result Review (AED, Mn)	
Total Assets	14,582
Total Liabilities	7,868
Total Equity	6,715
EBITDA	330
Net Profit	114

Financial Ratios	
Dividend Yield (12m)	5.37
Dividend Pay-out (%)	94.77
Price-Earnings Ratio(x)	18.20
Price-to-Book Ratio (x)	1.13
Book Value (AED)	2.15
Return-on Equity (%)	6.21

Stock Performance	
5 Days	0.41%
1 Months	-4.31%
3 Months	-3.17%
6 Months	-19.47%
1 Year	-17.57%
Month to Date (MTD%)	-2.01%
Quarter to Date (QTD%)	-7.58%
Year to Date (YTD%)	-22.54%

2Q26 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) net profit decreased significantly 28.7% YOY to AED 114 Mn in 2Q26, lower than our estimate of AED 168 Mn. The decrease in net profit was primarily driven by increase in operating costs, administrative & other expense and finance costs, coupled with decrease in finance income, other gains and losses and share of profit from associates & JV, partially offset by decrease in tax expense.

P&L Highlights

Tabreed's revenue remained broadly flat at AED 642 Mn in 2Q26, compared to 2Q25. Revenue from the Supply of Chilled Water declined 3.2% YOY to AED 604 Mn, primarily due to lower variable consumption charges as consumption volumes declined 2.3% YOY, partially offset by higher fixed capacity charges. Value Chain Business revenue increased from AED 18 Mn in 2Q25 to AED 38 Mn in 2Q26. Operating costs increased 2.8% YOY to AED 356 Mn in 2Q26, resulting in a decline in gross profit to AED 286 Mn in 2Q26 from AED 296 Mn in 2Q25, while gross profit margin contracted to 44.6% in 2Q26 from 46.1% in 2Q25. Administrative and other expenses increased 27.9% YOY to AED 81 Mn in 2Q26. EBITDA declined 5.7% YOY to AED 330 Mn in 2Q26, with EBITDA margin contracting to 51.4% in 2Q26 from 54.5% in 2Q25. Tabreed's operating profit declined 11.9% YOY to AED 205 Mn in 2Q26. Finance costs increased 13.9% YOY to AED 76 Mn in 2Q26, while finance income declined 36.8% YOY to AED 5 Mn in 2Q26. The Company recorded other losses of AED 2 Mn in 2Q26, compared to other gains of AED 5 Mn in 2Q25. The share of associates and JVs declined to AED 5 Mn in 2Q26 from AED 6 Mn in 2Q25, while tax expense declined 12.8% YOY to AED 14 Mn in 2Q26. Share of profit attributable to NCI stood mostly stable at AED 9 Mn in 2Q26.

Balance Sheet Highlights

Tabreed's cash and cash equivalents declined from AED 756 Mn in 1Q26 to AED 661 Mn in 2Q26. Net debt remained broadly stable at AED 5.7 Bn in 2Q26 compared to 1Q26, while net debt to EBITDA stood at 4.57x in 1H26 compared to 4.61x in 2025. Net cash flow from operating activities declined from AED 352 Mn in 1Q26 to AED 280 Mn in 2Q26.

Target Price and Rating

We maintain our BUY rating on Tabreed with a revised target price of AED 3.65. The Company recorded a decline in net profit during 2Q26, primarily driven by higher operating and administrative expenses and lower consumption volumes, which weighed on profitability. Revenue remained broadly stable, supported by growth in fixed capacity charges, driven by 1.7% YOY growth in consolidated capacity and 1.25% CPI indexation, as well as continued growth in the Value Chain Business, partially offset by lower variable consumption charges as volumes declined 2.3% YOY in 2Q26. Operating costs increased due to higher costs related to the growth of the Value Chain Business and increased O&M expenses, while higher G&A expenses reflected normalized timing of expense recognition, increased personnel costs and higher costs related to ongoing business development. The increase in finance costs was primarily driven by the refinancing of AED 2.6 Bn of bank debt raised in 2020 through a Green Sukuk issuance at the end of 1Q25 at prevailing market rates, as well as a net increase in borrowings reflecting the Company's ongoing investment cycle. The lower share of results from associates and JVs was largely attributable to the temporary negative contribution from the recent PAL Cooling acquisition, mainly due to acquisition debt funding and higher depreciation and amortization of contract-related intangibles. However, PAL Cooling is expected to become increasingly accretive as connected capacity and utilization increase, with the Company noting that its performance is tracking ahead of the original investment case. Despite near-term earnings pressure, Tabreed continues to deliver steady topline growth, supported by its secured pipeline and long-term customer agreements. Total connected capacity increased 15.5% YOY to 1.58 Mn RT in 1H26, including 191k RT added through the PAL Cooling acquisition, while organic capacity excluding M&A increased 1.5% YOY. The Company expects new concessions and acquisitions to add approximately 1 Mn RT of potential capacity, with roughly half expected to be connected over the next five to seven years and the remainder thereafter. The secured pipeline remains predominantly concentrated in the UAE and is expected to support medium-term capacity growth. The Company revised 2026 organic capacity growth guidance to approximately 1%, while maintaining 3–5% annual growth for 2027–28, reflecting the timing of customer projects. Organic capex guidance remains at AED 200–300 Mn annually, despite lower near-term capacity additions, as investments continue to be planned with a long-term growth horizon. EBITDA margin guidance was revised to approximately 50%, reflecting inflationary cost pressures. Net debt/EBITDA improved to 4.57x in 1H26, while the Company continues to maintain its investment-grade credit ratings from Moody's and Fitch. Tabreed also approved an interim cash dividend of 5.0 fils per share for 1H26. The lower interim dividend versus 1H25 (6.5 fils per share) reflects the Company's focus on preserving financial flexibility for future growth and investment opportunities while maintaining shareholder returns and its investment-grade credit profile. With a strong secured pipeline, continued capacity expansion, increasing contribution from PAL Cooling and a clear medium-term growth trajectory, we expect earnings to normalize progressively as new capacity becomes fully operational. Thus, considering the above factors, we maintain our BUY rating on the stock.

Tabreed - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE (X)	11.75	11.46	15.95	12.06	14.76	17.13
PB (X)	1.20	1.06	1.09	1.08	1.13	1.12
EV/EBITDA (X)	13.30	10.63	10.38	9.68	10.50	10.73
BVPS	2.022	2.278	2.223	2.232	2.139	2.153
EPS	0.206	0.211	0.152	0.201	0.164	0.141
DPS	0.059[1]	0.135	0.155	0.155	0.130	0.100
Dividend yield	2.4%	5.5%	6.4%	6.4%	5.3%	4.1%

FABS Estimates & Co Data, [1]DPS for 2021 is bonus share adjusted (2.5%).

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Tabreed – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	642	486	642	653	-1.7%	0.0%	32.2%	2,456	2,502	1.8%
Operating costs	-346	-244	-356	-346	2.8%	2.8%	45.9%	-1,378	-1,426	3.4%
Gross profit	**296**	**242**	**286**	**307**	-6.9%	**-3.4%**	**18.3%**	**1,078**	**1,076**	**-0.2%**
Impairment provision for trade receivables	0	0	0	0	NM	NM	NM	-1	0	NM
Administrative and other expenses	-64	-81	-81	-69	18.8%	27.9%	0.7%	-285	-334	17.1%
EBITDA	**350**	**285**	**330**	**356**	-7.4%	**-5.7%**	**15.8%**	**1,268**	**1,224**	**-3.5%**
Operating profit/ EBIT	**232**	**161**	**205**	**239**	-14.2%	**-11.9%**	**27.1%**	**792**	**742**	**-6.3%**
Finance costs	-67	-76	-76	-71	6.5%	13.9%	-0.6%	-260	-305	17.1%
Finance income	8	5	5	8	-38.2%	-36.8%	-1.4%	31	16	-48.4%
Other gains and losses	5	1	-2	1	NM	NM	-343.4%	-18	5	NM
Share of associates & JV	6	3	5	18	-73.2%	-25.6%	88.3%	2	10	NM
Profit before tax	**185**	**93**	**137**	**195**	-29.7%	**-25.8%**	**47.4%**	**547**	**468**	**-14.5%**
Tax expense	-16	-8	-14	-16	-12.5%	-12.8%	66.1%	-51	-41	-19.4%
Profit before NCI	**169**	**85**	**123**	**179**	-31.2%	**-27.1%**	**45.6%**	**496**	**427**	**-14.0%**
Non-controlling interest	9	6	9	11	-12.1%	1.8%	47.8%	31	26	-16.2%
Profit/(-loss) for the period	**159**	**78**	**114**	**168**	**-32.4%**	**-28.7%**	**45.4%**	**465**	**401**	**-13.8%**

FABS estimate & Co Data

Tabreed - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	46.1%	49.8%	44.6%	-153	-523	43.9%	43.0%	-88
EBITDA	54.5%	58.7%	51.4%	-310	-728	51.6%	48.9%	-270
Operating Profit	36.2%	33.1%	31.9%	-430	-127	32.2%	29.7%	-259
Net Profit	24.8%	16.1%	17.7%	-713	161	18.9%	16.0%	-291

FABS estimate & Co Data

Key Developments:

- **25 June 2026:** Tabreed won two Global Banking & Markets Awards Middle East 2026 — Sustainable Loan Deal of the Year for its AED 1.8 Bn dual-tranche green facility and Acquisition Finance Deal of the Year for the AED 2.55 Bn multi-tranche senior secured financing supporting the PAL Cooling acquisition.

- **4 June 2026:** Tabreed appointed Atef Mohamed Awadh AlBreiki as Chief Asset Management Officer, effective immediately, with responsibility for asset management strategy, portfolio management and maximising value creation from the company's assets.

- **14 May 2026:** Tabreed reported Q1 2026 revenue of AED 486 Mn, up 4% YoY, with connected capacity rising 18% YoY to 1.57 Mn RT, supported by the PAL acquisition and 54.6k RT of organic expansion over the preceding 12 months. Consumption volumes increased 9% YoY to 338 Mn RTh, while net debt/EBITDA improved to 4.5x as of 31 March 2026.

- **26 March 2026:** Tabreed's Annual General Assembly approved the 6.5 fils/share H2 2025 cash dividend, taking the FY2025 dividend to 13.0 fils/share, while shareholders re-elected the existing nine-member Board for a three-year term. The AGA itself was held on 25 March 2026, with the announcement issued on 26 March 2026.

- **13 February 2026:** Tabreed reported FY2025 connected capacity of 1.57 Mn RT, up 19% YoY, including 58.2k RT of organic additions and 190.8k RT from the PAL Cooling acquisition. The company also highlighted the 250k RT Palm Jebel Ali concession, where construction had commenced in 3Q25 with first cooling expected in late 2027/early 2028, alongside the integration of 4,000 solar panels generating 2.4 MW across two Abu Dhabi plants and a long-term technology framework with Johnson Controls.

Valuation:

We use the 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	3.96	70.0%	2.77
EV/EBITDA	2.93	30.0%	0.88
Weighted Average Valuation (AED)			**3.65**
Current market price (AED)			2.44
Upside/Downside (%)			+50%

1) DCF Method:

Tabreed is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 6.9%. It arrived after using a cost of equity of 8.7% and after-tax cost of debt of 5.0% with a debt-to-equity ratio of 48.4%. Cost of equity is calculated by using a 10-year government bond yield of 5.1%, a beta of 0.9 and an equity risk premium of 4.3%. Government bond yield is calculated after adding the Dubai 10-year spread over the 10-year US risk-free rate. The cost of debt of 5.0% is calculated after adjusting for a tax rate of 9.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,093
Terminal value (AED, Mn)	13,269
Net Debt (AED Mn) (As of 30 Jun 2026)	-6,312
NCI (As of 30 Jun 2026)	-586
Investment in JV (As of 30 Jun 2026)	1,769
FV to Common shareholders (AED, Mn)	**11,233**
No. of share (Mn)	2,838
Current Market Price (AED)	2.44
Fair Value per share (AED)	**3.96**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	701	730	762	789	816
D&A	359	357	357	358	360
Change in working capital	1	-35	2	3	3
(-) Capex	-274	-287	-298	-309	-320
Free Cash Flow to Firm (FCFF)	**786**	**765**	**823**	**841**	**860**
Discounting Factor	*0.97*	*0.91*	*0.85*	*0.80*	*0.75*
Discounted FCFF	**383**	**697**	**702**	**671**	**641**

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

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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 an EV/EBITDA multiple of 10.5x in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Essential Utilities, Inc.	11,289	14.0	12.9	17.6	16.7
SJW Group	2,564	12.7	11.5	21.9	21.9
Emirates Central Cooling Systems Corporation	4,247	10.9	10.2	14.7	13.5
Exelon Corporation	45,935	10.1	9.3	15.6	14.7
Dubai Electricity and Water Authority	37,710	10.0	9.4	16.6	15.7
Saudi Electricity Company	19,419	9.8	9.2	16.0	14.1
Average		**11.2x**	**10.4x**	**17.1x**	**16.1x**
Median		**10.5x**	**9.8x**	**16.3x**	**15.2x**
Max (Quartile 3)		**12.3x**	**11.2x**	**17.4x**	**16.5x**
Min (Quartile 1)		**10.0x**	**9.3x**	**15.7x**	**14.3x**

Source: FAB Securities

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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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