

## Dubai Electricity and Water Authority (DEWA)

Strong demand for water, electricity, and cooling services drove top-line

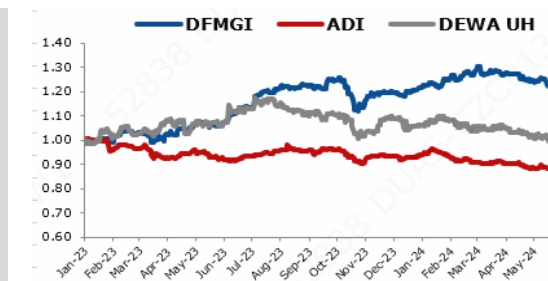
**Current Price**  
AED 2.30

**Target Price**  
AED 2.98

**Upside/Downside (%)**  
+30%

**Rating**  
BUY

- DEWA customer base grew 4.7% YOY to 1.2 Mn in 1Q24.
- DEWA's installed generation capacity stood at 16.27 GW and its desalination capacity at 495 MIGD in 1Q24. DEWA expects its generation capacity to reach 20 GW and its desalination capacity to 735 MIGD by 2030. Around 5.3 GW generation capacity will be sourced from clean sources by 2030.
- The quarterly peak generation demand in 1Q24 grew 7.2% YOY to 6.1 GW while the peak daily desalinated water demand rose 5.4% to 401 MIG.
- The Company paid a dividend of 12.4 fils per share leading to an annual dividend yield of 5.4% in 2023.



### Stock Information

Market Cap (AED, mm)	115,000
Shares Outstanding(mm)	50,000
52 Week High	2.74
52 Week Low	2.29
3M Avg. daily value(AED)	13,501,260

### 1Q24 Result Review (AED, mm)

Total Assets	182,451
Total Liabilities	91,730
Total Equity	90,514
EBITDA	2,566
Net Profit	647

### 1Q24 Net Profit lower than our estimate

Dubai Electricity and Water Authority PJSC (DEWA/the company) net profit declined 13.0% YOY to AED 647 Mn in 1Q24, lower than our estimate of AED 882 Mn. The decline in net profit is mainly due to an increase in administrative expenses owing to asset write-off and a rise in direct cost and finance costs coupled with higher taxes partially offset by growth in revenue, other income, and finance income.

### P&L Highlights

DEWA recorded a 6.7% YOY growth in revenue to AED 5,800 Mn 1Q24 driven by an increase in demand for electricity, cooling services, and water. DEWA's revenue from the sale of electricity grew 6.6% YOY to AED 3,389 Mn in 1Q24 driven by a 6.2% YOY increase in gross power generation to 10.3 terawatt hours (TWh). Demand for electricity rose 6.4% YOY in 1Q24. Similarly, clean power generation rose 19.8% YOY to 1.5 TWh in 1Q24. Revenue from the sale of water increased 3.9% YOY to AED 1,320 Mn in 1Q24 supported by 5.4% YOY growth in desalinated water production to 34 Billion Imperial Gallons (BIG). Peak daily demand for desalinated water rose 5.0% YOY to 401 Million Imperial Gallons (MIG) in 1Q24. The District Cooling segment recorded a healthy revenue growth of 10.8% YOY to AED 537 Mn in 1Q24. Revenue from other services grew 7.0% YOY to AED 533 Mn in 1Q24. On the other hand, the Company's direct cost rose 3.5% YOY to AED 4,037 Mn in 1Q24. Thus, the gross profit increased 14.8% YOY to AED 1,763 Mn in 1Q24. DEWA's administrative expenses increased significantly from AED 687 Mn in 1Q23 to AED 1,104 Mn in 1Q24 due to asset write-off whereas the Company experienced an impairment reversal of AED 15 Mn in 1Q24 compared to an impairment loss of AED 1 Mn in 1Q23. Moreover, other income

### Financial Ratios

Dividend Yield (12m)	5.39
Dividend Pay-out (%)	80.51
Price-Earnings Ratio(x)	15.33
Price-to-Book Ratio (x)	1.29
Book Value (AED)	1.78
Return-on Equity (%)	8.62

### Stock Performance

5 Days	-2.95%
1 Months	-3.36%
3 Months	-5.74%
6 Months	-8.37%
1 Year	-7.63%
Month to Date (MTD%)	-2.13%
Quarter to Date (QTD%)	-5.74%
Year to Date (YTD%)	-6.50%

recorded a sharp rise from AED 45 Mn in 1Q23 to AED 320 Mn in 1Q24 owing to a sharp rise in insurance claims. DEWA's operating profit rose 11.6% YOY to AED 995 Mn in 1Q24 with an operating profit margin of 17.2%. EBITDA rose 9.0% YOY to AED 2,566 Mn in 1Q24 while EBITDA margin grew 94 bps YOY to 44.2%. Finance cost rose 34.0% YOY to AED 531 Mn in 1Q24 whereas finance income increased 29.0% YOY to AED 261 Mn. The share of profit attributable to non-controlling interest holders declined from AED 19 Mn in 1Q23 to AED 3 Mn in 1Q24. DEWA incurred a tax expense of AED 67 Mn in 1Q24 owing to the newly introduced UAE corporate tax.

### Balance Sheet Highlights

The Company operating cash flow declined from AED 6.9 Bn in 4Q23 to AED 3.3 Bn in 1Q24 while cash and cash equivalents marginally increased 6.6% YOY to AED 5.7 Bn in 1Q24. The Company's overall borrowings declined marginally 0.5% QOQ to AED 38.7 Bn in 1Q24. Net debt stood at AED 28.5 Bn in 1Q24 compared to AED 28.7 Bn in 4Q23.

### Target Price and Rating

We maintain our BUY rating on DEWA with a target price of AED 2.98. The power demand increased 6.4% in 1Q24 while demand for water rose 5.9% YOY. The Company's clean power generation rose 19.8% YOY in 1Q24 to 1.5 TWh and accounted for 14% of the total power generated in 1Q24. DEWA further aims to maintain a sustainable generation mix to cater to growing demand. On the other hand, demand for desalinated water rose 5.4% to 34 BIG in 1Q24. DEWA's customer base grew 4.7% YOY to 1.22 Mn in 1Q24. DEWA's gross generation plant capacity stood at 16.27 GW in 1Q24 out of which 2.63 GW of the capacity belonged to clean energy sources while desalination capacity stood at 495 MIGD in 1Q24. DEWA completed three 132 kV substations and 281 11 kV substations in 1Q24. In addition, the Company also achieved financial closure of two new IPP/IWP projects in 1Q24, namely 1800 MW Shuaa 4 Solar PV and 180 MIGD Hassyan Water Company plant in 1Q24. DEWA is actively expanding its plants and expects its total installed generation capacity to rise to 20 GW and 735 <OGD pf desalinated water capacity by 2030, with 5.3 GW from renewable sources. Out of the total capacity, 27% will be generated from clean sources indicating sustainable business practices. DEWA also plans to add reverse osmosis technology backed 240 MIGD desalination capacity by 2030. DEWA is the exclusive provider of electricity and water in Dubai and growing electricity and water demand will further drive the Company's topline. The Company also operates several other businesses like Mai Dubai, a manufacturer and distributor of bottled water, a digital business solution company, Digital DEWA, and Etihad ESCO (a company focused on developing and implementing energy-efficient solutions). 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 AED 0.124 per share leading to an annual dividend yield of 5.4% in 2023. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

### DEWA - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	NA	15.0	15.0	15.8
PB	NA	1.3	1.3	1.3
EV/EBITDA	NA	11.0	10.3	10.2
Dividend yield	NA	9.9%	4.1%	5.4%

FABS Estimates & Co Data

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

**DEWA – P&L**

AED mm	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenues	5,436	7,026	5,800	5,968	-2.8%	6.7%	-17.5%	29,178	30,399	4.2%
Direct Cost	-3,900	-4,618	-4,037	-4,057	-0.5%	3.5%	-12.6%	-17,933	-18,552	3.5%
<b>Gross Profit</b>	<b>1,536</b>	<b>2,409</b>	<b>1,763</b>	<b>1,911</b>	<b>-7.7%</b>	<b>14.8%</b>	<b>-26.8%</b>	<b>11,245</b>	<b>11,848</b>	<b>5.4%</b>
Administrative exp	-687	-961	-1,104	-676	63.3%	60.7%	14.9%	-3,013	-3,095	2.7%
Credit impairment losses	-1	-33	15	-28	NM	NM	-146.6%	-126	-115	-8.4%
Other income	45	499	320	49	NM	NM	-35.7%	651	594	-8.8%
<b>EBITDA</b>	<b>2,354</b>	<b>3,566</b>	<b>2,566</b>	<b>2,740</b>	<b>-6.3%</b>	<b>9.0%</b>	<b>-28.0%</b>	<b>14,780</b>	<b>15,168</b>	<b>2.6%</b>
<b>EBIT</b>	<b>892</b>	<b>1,913</b>	<b>995</b>	<b>1,256</b>	<b>-20.8%</b>	<b>11.6%</b>	<b>-48.0%</b>	<b>8,757</b>	<b>9,231</b>	<b>5.4%</b>
Finance costs	-396	-213	-531	-389	36.5%	34.0%	NM	-1,617	-1,611	-0.4%
Finance income	202	137	261	184	42.1%	29.0%	90.5%	806	735	-8.9%
<b>P/L before net movement in regulatory deferral</b>	<b>698</b>	<b>1,837</b>	<b>725</b>	<b>1,051</b>	<b>-31.0%</b>	<b>3.9%</b>	<b>-60.5%</b>	<b>7,946</b>	<b>8,354</b>	<b>5.1%</b>
Net movement in regulatory deferral account credit balance	65	-125	-7	-2	NM	NM	NM	-105	-8	-92.0%
Tax	0	0	-67	-95	-29.5%	NM	NM	92	-752	NM
<b>Profit before NCI</b>	<b>763</b>	<b>1,712</b>	<b>651</b>	<b>954</b>	<b>-31.8%</b>	<b>-14.7%</b>	<b>-62.0%</b>	<b>7,934</b>	<b>7,594</b>	<b>-4.3%</b>
Non-controlling interest	-19	-102	-3	-72	-95.2%	NM	-96.6%	-233	-261	12.2%
<b>Profit attributable</b>	<b>744</b>	<b>1,610</b>	<b>647</b>	<b>882</b>	<b>-26.6%</b>	<b>-13.0%</b>	<b>-59.8%</b>	<b>7,701</b>	<b>7,333</b>	<b>-4.8%</b>

FABS estimate & Co Data

**DEWA - Margins**

	1Q23	4Q23	1Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross margin	28.3%	34.3%	30.4%	215	-388	38.5%	39.0%	43
EBITDA margin	43.3%	50.8%	44.2%	94	-651	50.7%	49.9%	-76
Operating margin	16.4%	27.2%	17.2%	75	-1,007	30.0%	30.4%	35
Net profit margin	13.7%	22.9%	11.2%	-252	-1175	26.4%	24.1%	-227

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	3.10	85.0%	2.64
DDM Method	2.29	15.0%	0.34
<b>Weighted Average Valuation (AED)</b>			<b>2.98</b>
Current market price (AED)			2.30
Upside/Downside (%)			+30%

### 1) SOTP Method:

Name of Entity	Type of Valuation	Total Value (AED Mn)
DEWA	DCF	156,147
IPP/IWP	DCF	13,086
Others	PE	6,242
<b>Total Enterprise Value</b>		<b>175,475</b>
Empower	DCF	11,603
Net Debt		-28,538
Minority Interest		-3,527
<b>Total Valuation (AED)</b>		<b>155,013</b>
<b>Valuation per share (AED)</b>		<b>3.10</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 8.2% and after tax cost of debt of 5.6% with an equity weight of 75.9% and debt of 24.1%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 0.70 and equity risk premium of 3.6%. 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)	32,343
Terminal value (AED, Mn)	123,804
<b>FV to Common shareholders (AED, Mn)</b>	<b>156,147</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.30
<b>Fair Value per share (AED)</b>	<b>3.12</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	7,379	7,882	8,074	8,273	8,478
(+/-) Depreciation & amortization	4,818	5,108	5,317	5,510	5,684
(+/-) Capex	-4,500	-4,500	-4,500	-4,500	-4,500
(+/-) Working capital	-277	-285	-292	-300	-309
<b>Free Cash Flow to Firm (FCFF)</b>	<b>4,555</b>	<b>8,205</b>	<b>8,598</b>	<b>8,983</b>	<b>9,353</b>
Discounting Factor	0.96	0.89	0.83	0.77	0.72
<b>Discounted FCFF</b>	<b>4,356</b>	<b>7,294</b>	<b>7,107</b>	<b>6,903</b>	<b>6,683</b>

Source: FAB Securities

## 2) IPP/WPP

Sum of PV (AED, Mn)	1,766
Terminal value (AED, Mn)	11,319
<b>FV to Common shareholders (AED, Mn)</b>	<b>13,086</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.30
<b>Fair Value per share (AED)</b>	<b>0.26</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	683	976	1,055	1,141	1,229
(+/-) Depreciation & amortization	446	473	492	510	526
(+/-) Capex	-1,675	-975	-960	-910	-900
<b>Free Cash Flow to Firm (FCFF)</b>	<b>-336</b>	<b>474</b>	<b>587</b>	<b>741</b>	<b>855</b>
Discounting Factor	0.96	0.89	0.83	0.77	0.72
<b>Discounted FCFF</b>	<b>-321</b>	<b>421</b>	<b>485</b>	<b>570</b>	<b>611</b>

Source: FAB Securities

### 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 19.4x 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	3,438	10.4	9.8	23.7	20.4	2.3	2.2
Nongfu Spring Co Ltd	66,889	23.3	20.4	35.8	31.2	14.3	12.2
Danone	41,828	10.4	10.0	16.9	15.7	2.1	2.0
Lotte Chilsung Beverage	936	6.5	5.8	8.6	6.6	0.8	0.8
Suntory	11,309	7.5	7.0	19.4	17.5	1.6	1.5
<b>Average</b>		<b>11.6x</b>	<b>10.6x</b>	<b>20.9x</b>	<b>18.3x</b>	<b>4.2x</b>	<b>3.7x</b>
<b>Median</b>		<b>10.4x</b>	<b>9.8x</b>	<b>19.4x</b>	<b>17.5x</b>	<b>2.1x</b>	<b>2.0x</b>
<b>Max</b>		<b>10.4x</b>	<b>10.0x</b>	<b>23.7x</b>	<b>20.4x</b>	<b>2.3x</b>	<b>2.2x</b>
<b>Min</b>		<b>7.5x</b>	<b>7.0x</b>	<b>16.9x</b>	<b>15.7x</b>	<b>1.6x</b>	<b>1.5x</b>

Source: FAB Securities

### Empower

Sum of PV (AED, Mn)	4,883
Terminal value (AED, Mn)	19,579
<b>FV to Common shareholders (AED, Mn)</b>	<b>20,720</b>
No. of share (Mn)	50,000
Current Market Price (AED)	2.30
<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	1,173	1,239	1,302	1,375	1,449
(+/-) Depreciation & amortization	362	383	399	413	426
(+/-) Capex	-700	-400	-400	-450	-450
(+/-) Working capital	44	46	49	51	54
<b>Free Cash Flow to Firm (FCFF)</b>	<b>539</b>	<b>1,269</b>	<b>1,349</b>	<b>1,389</b>	<b>1,479</b>
Discounting Factor	0.96	0.89	0.83	0.77	0.72
<b>Discounted FCFF</b>	<b>515</b>	<b>1,128</b>	<b>1,115</b>	<b>1,068</b>	<b>1,057</b>

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)	27,396
Terminal value (AED, Mn)	86,893
FV to Common shareholders (AED, Mn)	114,289
No. of share (Mn)	50,000
Current Market Price (AED)	2.30
<b>Fair Value per share (AED)</b>	<b>2.29</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	3,500	3,700	3,900
2H	3,100	3,300	3,500	3,700	3,900
<b>Total Dividend</b>	<b>6,200</b>	<b>6,600</b>	<b>7,000</b>	<b>7,400</b>	<b>7,800</b>
Discounting Factor	0.92	0.85	0.78	0.73	0.67
<b>Present Value of Dividend</b>	<b>5,697</b>	<b>5,605</b>	<b>5,495</b>	<b>5,369</b>	<b>5,231</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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