

Dubai Taxi Company (DTC)

Higher loss on financial assets impacted profitability

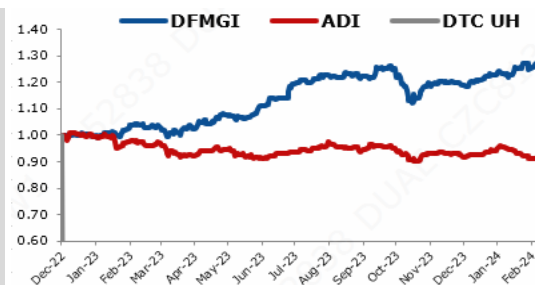
Current Price
AED 2.23

Target Price
AED 2.48

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- DTC doubled the fleet size from 350 to 700 airport taxis in 4Q23, enabling it to earn higher revenue compared to street taxis and generate higher margin.
- DTC recorded a robust revenue growth of 10.7% YOY to AED 540 Mn in 4Q23, mainly due to fleet expansion and implementation of smart technologies across the segment.
- The Company's EBITDA rose 17.6% YOY to AED 132 Mn in 4Q23 with an EBITDA margin of 24.5% mainly due to enhanced operational efficiencies.
- The board of directors recommended a cash dividend of AED 71 Mn, equivalent to 2.84 fils per share for 4Q23 with a dividend yield of 1.3%.



Stock Information

Market Cap (AED, mm)	5,575.00
Paid Up Capital (mm)	100.00
52 Week High	2.38
52 Week Low	2.10
20D Avg daily value(AED)	4,833,952

4Q23 Result Review (AED, mm)

Total Assets	1,969
Total Liabilities	1,661
Total Equity	308
EBITDA	132
Net Profit	78

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	18.12
Book Value (AED)	0.12
Return-on Equity (%)	N/A

Stock Performance

5 Days	-0.45%
1 Months	-2.19%
3 Months	20.54%
6 Months	N/A
1 Year	N/A
Month to Date (MTD%)	1.36%
Quarter to Date (QTD%)	4.69%
Year to Date (YTD%)	4.69%

4Q23 Net Profit lower than our estimate

Dubai Taxi Company P.J.S.C. (DTC/the Company) net profit declined 12.9% YOY to AED 78 Mn in 4Q23, lower than our estimate of AED 89 Mn. The decline in the net profit is mainly due to higher impairment loss on financial assets coupled with an increase in the net finance cost, and operating costs partially offset by growth in the revenue and other income.

P&L Highlights

DTC's revenue rose 10.7% YOY to AED 540 Mn in 4Q23 owing to the expansion of the taxi, buses, and bike delivery segments. The growth is mainly driven by the rise in fleet volume coupled with a healthy partnership between the Dubai government and DTC, particularly through the exclusivity agreement among the high-volume areas of the city. Revenue from the Taxi segment rose from AED 427 Mn in 4Q22 to AED 466 Mn in 4Q23 mainly due to healthy growth in the fleet expansion driven by integration of smart technologies throughout the segment. Limousine segment revenue stood unchanged at AED 29 Mn in 4Q23 whereas revenue from the bus segment significantly increased 27% YOY to AED 38 Mn in the same period. Similarly, the Company's delivery bike segment substantially rose following its launch in September 2022 from AED 1 Mn in 4Q22 to AED 7 Mn in 4Q23. The surge is attributable to the newly established partnership between Noon and Etisalat Smiles for the last-mile delivery services. The total number of fleet volumes grew to 752 bikes by 2023. On the other hand, operating costs rose 11.2% YOY to AED 335 Mn in 4Q23, and plate and license fees declined 3.3% YOY to AED 77 Mn. Thus, the company's gross profit increased 20.0% YOY to AED 127 Mn in 4Q23. DTC's G&A expenses fell 7.5% YOY to AED 20 Mn in 4Q23 driven by enhanced operating efficiency. Furthermore, other income increased significantly from AED 11 Mn in 4Q22 to AED 16 Mn in 4Q23. The Company's impairment loss on financial assets

grew from AED 4 Mn in 4Q22 to AED 25 Mn in 4Q23. As a result, operating profit rose 7.6% YOY to AED 99 Mn in 4Q23. DTC's EBITDA rose 17.6% YOY to AED 132 Mn in 4Q23 with an EBITDA margin of 24.5% compared to AED 23.0% in 4Q22. The growth in the EBITDA is mainly attributable to the enhanced operational efficiencies resulting from the adoption of new technologies, fleet expansion, and the increasing adoption of e-hailing services. DTC's finance income declined substantially from AED 3 Mn in 4Q22 to negative AED 3 Mn in 4Q23 while finance cost fell from nil in 4Q22 to AED 14 Mn mainly due to the settlement of the RTA liabilities.

Balance Sheet Highlights

DTC's cash and cash equivalent stood at AED 296 Mn in 4Q23 compared to AED 287 Mn in 3Q23. In addition, the Company also held investments in financial assets and a Wakala deposit worth AED 109 Mn in 2023. DTC's debt grew from nil to AED 1.0 Bn in 2023 as a result of a loan drawdown to settle the RTA liabilities. In addition, the Company obtained a revolving credit facility of AED 200 Mn with a maturity period of 5 years. The net debt-to-EBITDA ratio stood at 1.3x in 2023 compared to negative 0.7x in 2022. DTC generated a free cash flow of AED 129 Mn in 2023 and incurred a capex of AED 324 Mn in 2023 compared to AED 254 Mn in 2022.

Target Price and Rating

We maintain our ACCUMULATE rating on Dubai Taxi Company P.J.S.C. with a target price of AED 2.48. Solid fleet expansion levels across all segments and an increase in the number of trips coupled with enhancement in operating efficiency drove the Company's topline during 4Q23. The robust performance of Dubai's tourism sector propelled by an increasing number of passengers and visitors along with numerous international events hosted in the emirate elevates the demand for mobility across the city. On the other hand, Dubai's 2040 Master Plan outlines the development of new urban clusters across Dubai, contributing to the demand for taxis and limousines fleet. DTC doubled the fleet size from 350 to 700 airport taxis in 4Q23, earning higher revenue than street taxis and generating higher margin. Thus, the fleet expansion helps to align with the rising demand for taxis due to the increasing passenger traffic at Dubai's airport. The Company's fleet size recorded over 7,400 vehicles, with Taxis and Limousines collectively completing 46 Mn trips in 2023 reflecting an 8% YOY expansion rate. DTC's taxis introduced smart technologies such as In-safe hand services on the DTC app, to facilitate the transportation of children to and from school, particularly for the students not covered by the school buses. Moreover, the company integrated advanced features on the school buses, including surveillance cameras, a system to monitor student activity during transit, and an emergency alert system for prompt communication with emergency services. DTC also signed a new agreement between Noon and Etisalat Smiles to scale the delivery segment for the upcoming years. Thus, these high-tech evolvments across the segments drive the company's revenue visibility. DTC offers a premium transportation service in Dubai through a partnership with the Dubai World Trade Centre to provide 24/7 limousine services for visitors and exhibitors. The company incurred a capex of AED 324 Mn in 2023 and further plans to grow its core operations to elevate the rising passenger traffic demand and provide robust taxi services in the Emirates' airports. The board of directors recommended a cash dividend of AED 71 Mn equivalent to 2.84 fils per share in 4Q23 with a dividend yield of 1.3%. The dividend is expected to be distributed in April 2024. Thus, considering the abovementioned factors, we recommend our ACCUMULATE rating on the stock.

DTC- Relative valuation

(at CMP)	2022	2023	2024F
PE (x)	NA	16.0	15.8
PB (x)	NA	18.0	12.6
EV/EBITDA	NA	12.6	11.0
Dividend yield (%)	NA	1.3%	5.4%

FABS Estimates & Co Data

Note – Dubai Taxi Company was listed on DFM in Dec 2023. Thus, the financial multiple for the prior period is unavailable

DTC- P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	487	457	540	523	3.3%	10.7%	18.1%	1,760	1,954	11.0%
Operating cost	-301	-285	-335	-337	-0.5%	11.2%	17.6%	-1,173	-1,205	2.7%
Plate & license fee	-80	-77	-77	-62	25.9%	-3.3%	1.1%	-313	-310	-1.2%
Gross profit	106	96	127	124	2.5%	20.0%	33.1%	273	439	60.6%
Other Income	11	11	16	12	31.8%	42.8%	44.5%	37	51	36.8%
G&A Expenses	-22	-17	-20	-20	-1.3%	-7.5%	16.0%	-68	-73	7.0%
Impairment on fin. asset	-4	-4	-25	-7	NM	NM	NM	-12	-44	NM
Operating profit	92	85	99	109	-9.2%	7.6%	15.9%	230	372	61.6%
EBITDA	112	117	132	132	0.0%	17.6%	12.6%	317	491	54.9%
Finance Income	3	2	-3	0	NM	NM	NM	6	7	19.6%
Finance Cost	0	-3	-14	-15	-12.1%	NM	NM	0	-16	NM
Income Tax	0	0	0	0	NM	NM	NM	0	0	NM
Staff Bonus	-5	-4	-4	-5	-13.6%	-14.2%	-4.7%	-12	-18	53.4%
Net Profit	90	81	78	89	-12.3%	-12.9%	-3.2%	224	345	53.9%

FABS estimate & Co Data

DTC - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross margin	21.8%	20.9%	23.6%	182	267	15.5%	22.5%	694
EBITDA margin	23.0%	25.6%	24.5%	143	-119	18.0%	25.1%	711
Operating margin	18.9%	18.7%	18.3%	-54	-36	13.1%	19.1%	597
Net profit margin	18.4%	17.7%	14.5%	-392	-318	12.8%	17.7%	493

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Dubai Taxi Company P.J.S.C. We have assigned 70% weight to DCF, 15% to DDM, and 15% to EV/EBITDA.

Valuation Method	Valuation	Weight	Weighted Value
DCF Method	2.56	70.0%	1.79
DDM Method	2.46	15.0%	0.37
EV/EBITDA	2.10	15.0%	0.32
Weighted Average Valuation (AED)			2.48
Current market price (AED)			2.23
Upside/Downside (%)			+11%

1) DCF Method:

Dubai Taxi Company P.J.S.C. is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It is arrived after using the cost of equity of 8.5% and cost of debt of 6.1%. Cost of equity is calculated by using a 10-year government bond yield of 4.0%, beta of 0.87 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai's Government spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,793
Terminal value (AED, Mn)	5,206
FV to Common shareholders (AED, Mn)	6,406
No. of share (Mn)	2,500
Current Market Price (AED)	2.23
Fair Value per share (AED)	2.56

DCF Method

(All Figures in AED, Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	419	463	492	535	582
Depreciation & Amortization	118	121	148	149	153
Capex	-90	-155	-288	-286	-300
Change in Working Capital	-40	87	72	-24	-3
Free Cash Flow to Firm (FCFF)	407	517	425	374	433
Discounting Factor	0.96	0.89	0.82	0.76	0.71
Discounted FCFF	392	460	350	285	306

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Dubai Taxi Corporation PJSC. and it is valued using the EV/EBITDA multiple of 10.5x in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2024F	2025F	2024F	2025F
<u>Regional Infrastructure and Taxi Cos</u>					
Salik	6,417	17.8	16.4	21.5	19.0
Empower	4,932	13.3	12.5	19.0	18.0
Dewa	32,698	10.2	9.6	17.1	15.9
ADNOC Drilling	16,639	10.7	9.7	15.1	13.9
ADNOC Distribution	12,219	13.4	12.3	17.8	16.2
Budget	1,260	9.6	6.5	15.1	13.9
Theeb	711	6.3	5.5	11.6	11.2
Lumi	1,286	8.7	7.3	15.7	12.6
Average		11.2x	10.0x	16.6x	15.1x
Median		10.5x	9.7x	16.4x	14.9x
Max		13.3x	12.4x	18.1x	16.7x
Min		9.3x	7.1x	15.1x	13.6x

Source: FAB Securities

3) DDM Method:

The company maintains a policy to declare regular dividends to shareholders in the forecasted period. DTC is expected to pay a regular dividend of at least 85% of annual net profit in the forecasted period. The dividend is discounted at the cost of equity of 8.5%.

Sum of PV (AED, Mn)	1,449
Terminal value (AED, Mn)	4,706
FV to Common shareholders (AED, Mn)	6,155
No. of share (Mn)	2,500
Current Market Price (AED)	2.23
Fair Value per share (AED)	2.46

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
H1	149	168	182	201	220
H2	149	168	182	201	220
Total Dividend	298	336	364	403	441
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Present Value of Dividend	278	290	289	295	297

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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