

National Central Cooling Company (Tabreed)

Higher administrative and income tax expenses impacted profitability

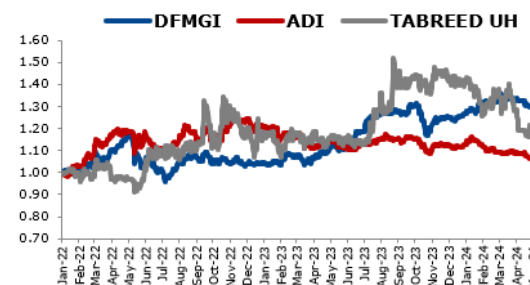
Current Price
AED 3.18

Target Price
AED 3.95

Upside/Downside (%)
+24%

Rating
BUY

- Tabreed's EBITDA grew 1.5% YOY to AED 272 Mn in 1Q24 with an EBITDA margin of 58.1% in 1Q24 compared to 57.8% in 1Q23
- The total connected capacity reached 1,305K RT in 1Q24, and the Company added 1,700 RT of new customers in 1Q24.
- The Company progressed according to the planned capacity guidance of 2023-2024 and delivered 55K RT in 1Q24.
- Out of the total addition of 55K RT, 33k RT in UAE, 14k RT in Saudi, 3k RT each in Bahrain and Egypt, and the remaining 1k RT each for India and Oman.
- Net debt declined from AED 4,929 Mn in 4Q23 to AED 4,770 Mn in 1Q24, while Net debt to LTM EBITDA declined from 4.11x in 4Q23 to 3.97x in 1Q24.



1Q24 Net Profit lower than our estimate

National Central Cooling Company (Tabreed/The Company) net profit declined 52.6% YOY to AED 112 Mn in 1Q24, lower than our estimate of AED 133 Mn. The decline in the net profit is mainly attributable to higher administrative & other expenses, coupled with an increase in the cost of sales and income tax expense partially offset by marginal growth in revenue along with lower finance costs and higher finance income. However, normalized net profit before tax and one-off gains/loss rose from AED 117 Mn in 1Q23 to AED 122 Mn in 1Q23.

P&L Highlights

Tabreed's revenue rose 0.9% YOY to AED 468 Mn in 1Q24, mainly due to growth in the revenue from the Chilled Water and Value Chain business segment. The revenue from the Chilled water segment increased marginally by 0.3% YOY to AED 448 Mn in 1Q24 attributed to new connections, existing concessions, higher consumption volumes, and positive CPI. Revenue from the Chilled Water segment consists of fixed and variable consumption charges. The Chilled Water segment consists of fixed capacity charges and variable consumption charges. The fixed capacity charges grew 3% based on the additions of the connected capacity from the previous year. Moreover, the variable consumption charges rose 9% QOQ in 1Q24. Tabreed's total capacity rose marginally from 1,304K refrigeration tonnes (RT) in 4Q23 to 1,305K RT in 1Q24. The expansion is largely driven by organic growth through new connections in existing concession areas, as well as new 'greenfield' plants. The Company generated 95.7% of its revenue from the Chilled Water segment and the remaining 4.3% from the Value Chain business, which grew 18.8% YOY to AED 20 Mn in 1Q24. Tabreed's cost of revenue rose 2.4% YOY to AED 230 Mn in 1Q24. Thus, gross profit marginally declined 0.5% YOY to AED 238 Mn in 1Q24 with a decrease in gross profit margin of 72 bps YOY to

Stock Information

Market Cap (AED, mm)	9,047.96
Paid Up Capital (mm)	2,845.27
52 Week High	3.93
52 Week Low	2.81
3M Avg. daily value (AED)	2,655,687

1Q24 Result Review (AED, mm)

Total Assets	14,868
Total Liabilities	8,277
Total Equity	6,591
EBITDA	272
Net Profit	112

Financial Ratios

Dividend Yield (12m)	4.87
Dividend Pay-out (%)	102.29
Price-Earnings Ratio(x)	29.51
Price-to-Book Ratio (x)	1.51
Book Value (AED)	2.10
Return-on Equity (%)	5.05

Stock Performance

5 Days	-5.07%
1 Months	8.16%
3 Months	-7.02%
6 Months	-14.05%
1 Year	11.58%
Month to Date (MTD%)	4.61%
Quarter to Date (QTD%)	-1.55%
Year to Date (YTD%)	-11.17%

50.9% in 1Q24. Moreover, administrative and other operating expenses rose from AED 68 Mn in 1Q23 to AED 76 Mn in 1Q24. Operating profit declined 5.8% YOY to AED 162 Mn in 1Q24 with an operating margin of 34.6% in 1Q24 compared to 37.1% in 1Q23. Tabreed's EBITDA grew from AED 268 Mn in 1Q23 to AED 272 Mn in 1Q24. EBITDA margin rose 31 bps YOY to 58.1% in 1Q24. Finance cost declined 18.2% YOY to AED 60 Mn in 1Q24, while finance income grew from AED 16 Mn in 1Q23 to AED 21 Mn in 1Q24. Tabreed recorded a gain of AED 1 Mn in 1Q24 compared to a gain of AED 119 Mn in 1Q23. Income from associates and JV declined from AED 9 Mn in 1Q23 to AED 6 Mn in 1Q24. Income tax expenses amounted to AED 10 Mn in 1Q24 due to the introduction of UAE corporate tax. Share to NCI grew from AED 6 Mn in 1Q23 to AED 7 Mn in 1Q24.

Balance Sheet Highlights

Tabreed's cash and cash equivalents rose from AED 1.5 Bn in 4Q23 to AED 1.6 Bn in 1Q24. The Company's net debt declined from AED 4,929 Mn in 4Q23 to AED 4,770 Mn in 1Q24. Net debt to LTM EBITDA declined from 4.11x in 4Q23 to 3.97x in 1Q24. In addition, debt of AED 4.3 Bn debt is maturing in 2025 and AED 2.0 Bn debt will be maturing between 2026-34. The Company's net cash flow from operating activities rose to AED 274 Mn in 1Q24 compared to AED 268 Mn in 1Q23.

Target Price and Rating

We maintain our BUY rating on Tabreed with a target price of AED 3.95. In 1Q24, Tabreed's revenue grew 0.9% YOY to AED 468 Mn, primarily due to strong consumption volumes driven by the rise in new business connections. The Company's consumption volumes grew 9% YOY in 1Q24, mainly due to organic growth. Further, the Company progressed according to the planned capacity guidance of 2023-2024 and delivered 55K RT in 1Q24, including 33K RT in UAE, 14K RT in Saudi, 3K RT each in Bahrain and Egypt, and the remaining 1K RT each for India and Oman. Thus, the total connected capacity reached 1,305K RT in 1Q24. Tabreed further expects the capacity to grow by 3-5% annually during 2024-26. The Company added 1,700 RT of new customer connections in 1Q24, mainly in the UAE and continues to focus on growing new projects regionally and internationally for future growth plans. Thus, the company's revenue outlook for the upcoming year is enhanced through its strategic expansion at both regional and international levels. Tabreed further plans to expand new plants, concessions, and brownfield acquisitions in Saudi, India, and the wider MENA region for the upcoming years. During 1Q24, the Company incurred a total capex of AED 57 Mn, spent towards the ongoing construction of the plant, while the Company further expects the capex to increase for the upcoming years attributable to the expansion strategy. Tabreed District cooling division provides significant efficiency by utilizing 50% less energy and is highly reliable and cost-effective throughout the life-cycle. In addition, the Company's space cooling division accounts for c.50% of peak electricity consumption, and the energy demand is expected to rise to c.3% by 2050. Moreover, Tabreed recorded a decline in net debt from AED 4.9 Bn in 4Q23 to AED 4.8 Bn in 1Q24, while the net debt-to-EBITDA declined from 4.11x in 4Q23 to 3.97x in 1Q24. Moreover, the growing district cooling demand across the key markets and the Company's long-term contract provide strong revenue visibility. Thus, based on the aforementioned factors, we maintain our BUY rating for the stock.

Tabreed - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	18.4	15.8	15.5	15.2	21.1	13.3
PB	1.8	1.8	1.6	1.4	1.4	1.4
EV/EBITDA	15.4	15.4	15.2	12.3	12.0	10.8
Dividend yield	3.4%	1.9%	2.0%	4.3%	4.9%	5.4%

FABS Estimates & Co Data

Tabreed – P&L

AED mm	1Q23	4Q23	1Q24A	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	464	593	468	572	-18.2%	0.9%	-21.0%	2,415	2,589	7.2%
Operating costs	-224	-315	-230	-297	-22.6%	2.4%	-27.0%	-1,333	-1,387	4.1%
Gross profit	240	278	238	276	-13.5%	-0.5%	-14.2%	1,082	1,201	11.0%
Admin and other expenses	-68	-79	-76	-76	0.6%	13.1%	-3.2%	-272	-295	8.3%
EBITDA	268	284	272	303	-10.4%	1.5%	-4.2%	1,198	1,321	10.3%
Operating profit/EBIT	172	199	162	200	-18.8%	-5.8%	-18.6%	810	906	11.9%
Finance costs	-74	-56	-60	-65	-7.3%	-18.2%	8.1%	-265	-261	-1.4%
Finance income	16	18	21	16	31.1%	29.6%	14.7%	61	55	-9.4%
Other gains and losses	119	-12	1	0	NM	NM	NM	149	35	-76.5%
Share of associates & JV	9	7	6	0	NM	NM	NM	35	33	-4.4%
Profit from cont operation	242	153	129	150	-14.0%	-46.6%	-15.2%	785	768	-2.2%
Income tax expense	0	0	-10	-14	-25.8%	NM	NM	-359	-69	-80.7%
Profit from discont. operation	0	0	0	0	NM	NM	NM	0	0	NM
Profit before NCI	242	153	119	137	-12.8%	-50.8%	-21.8%	427	699	63.9%
Non-controlling interest	6	7	7	4	102.4%	17.9%	9.1%	-5	14	NM
Net Profit	236	146	112	133	-15.9%	-52.6%	-23.2%	431	685	58.9%

FABS estimate & Co Data

Tabreed - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	51.7%	46.9%	50.9%	-72	402	44.8%	46.4%	160
EBITDA	57.8%	47.9%	58.1%	31	1,018	49.6%	51.0%	145
Operating Profit	37.1%	33.6%	34.6%	-248	102	33.5%	35.0%	148
Net Profit	51.0%	24.6%	24.0%	-2,702	-68	17.8%	26.5%	862

FABS estimate & Co Data

Valuation:

We use 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	3.86	70.0%	2.70
EV/EBITDA	4.15	30.0%	1.25
Weighted Average Valuation (AED)			3.95
Current market price (AED)			3.18
Upside/Downside (%)			+24%

1) DCF Method:

Tabreed is valued using free cash flow to firm. 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 9.0% and after tax cost of debt of 5.5% with debt-to-equity ratio of 68.0%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.91 and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 5.5% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,787
Terminal value (AED, Mn)	12,572
FV to Common shareholders (AED, Mn)	10,981
No. of share (Mn)	2,842
Current Market Price (AED)	3.18
Fair Value per share (AED)	3.86

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	837	874	913	954	999
D&A	327	327	327	328	330
Change in working capital	-66	-28	-114	-42	-91
(-) Capex	-238	-249	-260	-272	-284
Free Cash Flow to Firm (FCFF)	860	924	866	968	954
Discounting Factor	0.96	0.89	0.83	0.77	0.71
Discounted FCFF	823	821	716	745	682

Source: FAB Securities

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 EV/EBITDA multiple of 13.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Essential Utilities, Inc.	10,700	14.2	13.4	17.9	17.0
SJW Group	1,917	13.3	12.8	21.7	20.2
Essential Utilities, Inc.	4,414	13.0	11.7	17.0	16.1
Emirates Central Cooling Systems Corporation	37,900	10.3	9.9	15.5	14.4
Exelon Corporation	31,310	9.3	8.9	16.5	15.5
Dubai Electricity and Water Authority	19,700	9.9	8.2	15.4	12.2
Saudi Electricity Company	10,700	14.2	13.4	17.9	17.0
Average		12.0x	11.2x	17.4x	16.1x
Median		13.0x	11.7x	17.0x	16.1x
Max		13.8x	13.1x	17.9x	17.0x
Min		10.1x	9.4x	16.0x	15.0x

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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