

Parkin Company PJSC

Strong growth in the core business segment and operating leverage supported margins

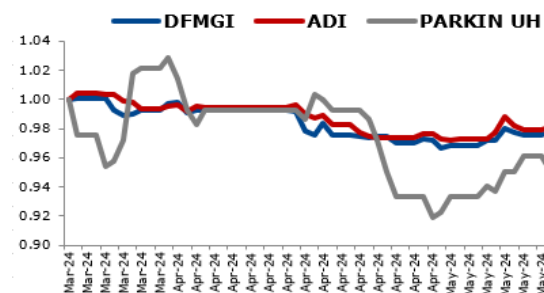
Current Price
AED 2.70

Target Price
AED 2.60

Upside/Downside (%)
-3.70%

Rating
HOLD

- PARKIN's EBITDA grew strongly 33.1% YOY to AED 138 Mn in 1Q24 with an EBITDA margin of 64.2% in 1Q24.
- The Company's total number of parking spaces grew from 195.0K in 1Q23 to 197.3K in 1Q24. The total number of parking transactions grew from 29.9 Mn in 1Q23 to 32.5 Mn in 1Q24.
- Utilization rate across the public parking spaces grew from 24% in 1Q23 to 26% in 1Q24, mainly due to the addition of new spaces in zones C and D.
- PARKIN's contract with Al Sufouh is set to expire in 2024. On the renewal of the contract, the Company's operating space is expected to decline from c.17,800 to c.10,000, primarily as per the change in agreement with the developer.



1Q24 Net Profit higher than our estimate

Parkin Company PJSC. (PARKIN/the Company) net profit grew 4.9% YOY to AED 104 Mn in 1Q24, higher than our estimate of AED 97 Mn. The growth in net profit is mainly due to strong revenue growth driven by a rise in both Public parking and Developer parking, along with the Seasonal cards/permits segment partially offset by an increase in depreciation and amortization expenses, as well as higher interest expenses and income tax expenses.

P&L Highlights

PARKIN's revenue grew 8.3% YOY to AED 215 Mn in 1Q24, owing to strong growth in both Public and Developer parking and the Seasonal cards and permits segment partially offset by a decline in the Public multi-story car parking (MSCP) segment. Revenue from Public parking grew 11% YOY to AED 99 Mn, primarily due to a higher volume of parking tickets issued in 1Q24. The utilization rate grew in zones C and D primarily due to the addition of new parking spaces in these areas. The Company's Public parking spaces grew from 173.6K space in 1Q23 to 176.2K space in 1Q24. Seasonal cards and permit revenue grew 17% YOY to AED 37 Mn in 1Q24, mainly due to a higher volume of permits, particularly those with validity periods ranging from 0 to 3 months. The total number of seasonal cards and permits grew 35% YOY to 32.4K in 1Q24 primarily due to a strong growth in the issuance of seasonal cards. Developer parking revenue grew 13% YOY to AED 17 Mn in 1Q24, driven by higher ticket volumes. The Developer parking space rose 4% YOY to 17.9K in 1Q24 driven by the addition of spaces at Business Bay and Burj Khalifa. Revenue from fines grew 1% YOY to AED 53 Mn in 1Q24. The Company's total number of fines grew 2% YOY to 378.4K in 1Q24. The collection rate improved by 87% in 1Q24, primarily due to the increase in smart inspection vehicles, which grew from 9 vehicles in 1Q23 to 18 vehicles in 1Q24. The public

Stock Information

Market Cap (AED, mm)	8,100.00
Paid Up Capital (mm)	60.00
52 Week High	2.98
52 Week Low	2.58
20d Avg daily value (AED)	16,720,590

1Q24 Result Review (AED, mm)

Total Assets	2,066
Total Liabilities	1,696
Total Equity	370
EBITDA	138
Net Profit	104

Financial Ratios (Forward)

Dividend Yield (%)	5.0
Dividend Pay-out (%)	-
Price-Earnings Ratio(x)	24.4
Price-to-Book Ratio (x)	29.7
EV/EBITDA (x)	18.7

Stock Performance

5 Days	1.12%
1 Months	-4.26%
3 Months	N/A
6 Months	N/A
1 Year	N/A
Month to Date (MTD%)	3.45%
Quarter to Date (QTD%)	-6.90%
Year to Date (YTD%)	N/A

multi-story car parking segment (MSCP) declined 38% YOY to AED 3 Mn in 1Q24, mainly due to the decline in MSCP spaces. MSCP spaces declined from 4.1K spaces in 1Q23 to 3.2K spaces in 1Q24, mainly due to the demolition of the Sabkha car park and the temporary closure of the Al Rigga site for maintenance and repairs. Other income grew from AED 0.17 Mn in 1Q23 to AED 0.20 Mn in 1Q24. As per the Company's concession agreement with the RTA, the Company incurred a concession fee expense of AED 29 Mn in 1Q24. Commission expense grew 3.7% YOY to AED 8 Mn in 1Q24. Maintenance expenses declined from AED 6 Mn in 1Q23 to AED 4 Mn in 1Q24. Employee benefits expenses declined significantly from AED 36 Mn in 1Q23 to AED 18 Mn in 1Q24. The RTA cost center allocation was based on c.450 employees, while Parkin had only 282 employees by 1Q24. The headcount is anticipated to rise in 2024 as the Company strengthens its internal capabilities and reduces its dependence on the RTA's support functions. Impairment charge declined from 9.1% YOY to AED 8 Mn in 1Q24. Other expenses grew 6.5% YOY to AED 7 Mn in 1Q24. PARKIN's EBITDA grew strongly, 33.1% YOY, to AED 138 Mn in 1Q24, supported by strong revenue growth and operating leverage. The EBITDA margin grew from 52.3% in 1Q23 to 64.2% in 1Q24. The growth in the EBITDA margins is mainly attributable to the growing PARKIN platform and ongoing digitalization initiatives. Depreciation and amortization expenses grew from AED 5 Mn in 1Q23 to AED 13 Mn in 1Q24. The Company's finance cost grew from AED 0.34 Mn in 1Q23 to AED 12 Mn in 1Q24. In addition, the Company incurred an income tax charge of AED 10 Mn in 1Q24 owing to the introduction of UAE corporate tax, which led to a decline in net margin by 155 bps YOY to 48.2%.

Balance sheet highlights

PARKIN's cash and cash equivalent stood at AED 103 Mn in 1Q24. The Company's gross debt stood at AED 1.1 Bn in 1Q24, while the net debt position stood at AED 995 Mn in 1Q24. PARKIN generated a free cash flow of AED 103 Mn in 1Q24 with a cash conversion of 100% driven by the Company's capex light model coupled with strong revenue growth and a stable cost base.

Target Price and Rating

We assign a HOLD rating on PARKIN Company P.J.S.C. with a target price of AED 2.60. The Company reported growth in profitability primarily driven by an increase in the core business of 1Q24. PARKIN holds a dominant market position, with a 100.0% market share of the public parking market in Dubai and 91.0% of Dubai's paid parking market as of November 2023. The Company's total parking spaces grew from 195.0K in 1Q23 to 197.3K in 1Q24. Total parking transactions rose from 29.9 Mn in 1Q23 to 32.5 Mn in 1Q24 mainly due to the growth in transactions within the public parking segment. In addition, the utilization rate across the public parking spaces grew from 24% in 1Q23 to 26% in 1Q24 mainly due to higher utilization in zone C and D coupled with the addition of new spaces. The weighted average public parking tariff remained stable from AED 2.02 in 1Q23 to AED 2.01 in 1Q24. Furthermore, PARKIN is expanding collaborations with private developers, targeting 17 additional communities, and exploring opportunities to manage parking for various assets like malls and commercial buildings. The Company is also expanding its commercial activities to diversify revenue streams and capitalize on existing assets through advertising initiatives to enhance its financial stability which is expected to boost revenue growth. PARKIN's EBITDA grew strongly 33.1% YOY to AED 138 Mn in 1Q24 with a strong growth in EBITDA margin from 52.3% in 1Q23 to 64.2% in 1Q24 primarily due to the growing PARKIN platform and ongoing digitalization initiatives. Moreover, the Company operates as a capex-light model business model, as the RTA is responsible for the major capex, and PARKIN is only liable for maintenance capex. In addition, the Company also benefits from the advantaged cost position due to operating leverage which allows it to scale the business without incurring additional costs leading Parkin to generate strong cash flows. Free cash flow amounted to AED 103 Mn in 1Q24 with a cash conversion of 100% in 1Q24. PARKIN also intends to maintain a semi-annual dividend policy with a dividend payment in April and October to shareholders in 2024. The Company also aims to distribute either 100% of the annual net profit or the free cash flow to equity, after providing for statutory reserve. Moreover, the Company's contract with Al Sufouh is set to expire in 2024. However, on the renewal of the contract the Company's operating space is expected to decline from c.17,800 to c.10,000 primarily as per the change in agreement with the developer. The reduction in parking spaces is expected to negatively impact the topline in 2024. Since most of the positives are factored in the stock price, we assign a HOLD rating on the stock.

PARKIN- Relative valuation¹

(at CMP)	2023	2024
PE (x)	NA	24.4
PB (x)	NA	29.7
EV/EBITDA	NA	18.7
Dividend yield (%)	NA	5.0%

FABS Estimates & Co Data

¹Note – PARKIN Company was listed on DFM in March 2024. Thus, the financial multiple for the prior period is unavailable

PARKIN – P&L

AED mm	1Q23	1Q24	1Q24F	Var.	YOY Ch	2023	2024F	Change
Revenues	199	215	205	5.0%	8.3%	779	820	5.2%
Other Income	0.17	0.20	0	-3.9%	18.0%	1	1	43.9%
Concession fee expense	0	29	28	1.7%	NM	0	113	NM
Commission expense	7	8	8	-5.2%	3.7%	28	32	13.8%
Maintenance expense	6	4	2	42.9%	-43.5%	28	10	-64.3%
Corporate allocation exp	27	0	0	NM	NM	121	0	NM
Employee benefits exp	36	18	19	-4.7%	-48.4%	139	133	-4.4%
Variable Lease Payments	3	4	5	-25.0%	8.4%	14	20	44.8%
TSA Expenses	0	0	3	NM	NM	0	13	NM
Rev of imp loss/ (imp loss) on trade rec	9	8	2	NM	-9.1%	10	10	0.3%
Other Expenses	7	7	3	136.6%	6.5%	26	12	-54.4%
Rent expense	0	0	0	NM	NM	0	0	NM
EBITDA	104	138	134	3.5%	33.1%	414	479	15.6%
D&A exp	5	13	12	4.8%	169.2%	19	49	150.3%
EBIT	99	126	122	3.3%	26.6%	395	430	8.9%
Finance Cost	-0.34	-12	-16	-29.0%	NM	-1	-65	NM
Earning Before Tax	99	114	105	8.4%	15.3%	394	365	-7.4%
Income Tax Expense	0	10	8	24.8%	NM	0	33	NM
Net Profit	99	104	97	7.0%	4.9%	394	332	-15.7%

FABS estimate & Co Data

PARKIN - Margins

	1Q23	1Q24	YOY Ch	2023	2024F	YOY Ch
EBITDA	52.3%	64.2%	1,196	53.2%	58.4%	521
Operating profit	49.9%	58.3%	843	50.7%	52.5%	178
Net profit	49.7%	48.2%	-155	50.6%	40.5%	-1,008

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Parkin Company. We have assigned 75% weight to DCF, 15% to DDM, and 10% to the average of P/E & EV/EBITDA.

Valuation Method	Valuation	Weight	Weighted Value
DCF Method	2.67	75.0%	2.00
DDM Method	2.46	15.0%	0.37
Average of PE & EV/EBITDA	2.29	10.0%	0.23
Weighted Average Valuation (AED)			2.60
Current market price (AED)			2.70
Upside/Downside (%)			-3.70%

1) DCF Method:

Parkin Company P.J.S.C. is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 7.7%. It is arrived after using the cost of equity of 8.3% and after-tax cost of debt of 5.1%. The cost of equity is calculated by using a 10-year government bond yield of 5.7%, a beta of 0.83, and an equity risk premium of 3.2%. 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)	2,050
Terminal value (AED, Mn)	6,988
FV to Common shareholders (AED, Mn)	8,008
No. of share (Mn)	3,000
Current Market Price (AED)	2.70
Fair Value per share (AED)	2.67

DCF Method

(All Figures in AED, Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	397	431	439	472	492
Depreciation & Amortization	49	54	64	65	73
Capex	-19	-34	-35	-40	-34
Change in Working Capital	76	0	4	1	4
Free Cash Flow to Firm (FCFF)	503	452	472	498	535
Discounting Factor	0.96	0.90	0.83	0.77	0.72
Discounted FCFF	485	404	393	385	384

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value Parkin Company P.J.S.C., and it is valued using the average of EV/EBITDA and PE multiple. Parkin is valued based on multiple of local infrastructure companies. In addition, Parkin's business is comparable to Salik as both are operating at a concession agreement with RTA. Salik is trading at a premium multiple to other infrastructure peers, thus we applied a premium of 25% to the infrastructure peers' median valuation multiple to value Parkin. It is valued at a 2024 EV/EBITDA multiple of 15.8x compared to a peer valuation of 12.6x. In addition, it is valued at a 2024 P/E multiple of 21.7x compared to a peer valuation of 17.4x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<u>Regional Infrastructure Cos</u>					
Dubai taxi company	1,538	10.1	9.3	15.8	14.1
Salik Co PJSC	6,861	18.7	17.2	22.5	19.7
Dubai Electricity & Water au	33,353	9.8	9.3	17.4	16.6
Emirates Central Cooling sys	4,465	12.5	11.9	17.2	16.3
Abu Dhabi National Oil Co	12,559	13.5	12.4	18.7	17.3
Average		12.9x	12.0x	18.3x	16.8x
Median		12.6x	11.9x	17.4x	16.6x
Max		13.5x	12.4x	18.7x	17.3x
Min		10.1x	9.3x	17.2x	16.3x

Source: FAB Securities

3) DDM Method:

The company maintains a policy to declare regular dividends to shareholders in the forecasted period. Parkin is expected to pay a minimum dividend payment of the higher of 100.0% of net income or free cash flow to equity (FCFE) after deducting the statutory reserve requirement in the forecasted period. Since FCFE is higher than net income in the forecasted period as the result dividend is calculated based on the FCFE. The Company will distribute dividends semi-annually to reflect its strong cash flow generation profile. The dividend will be paid twice each fiscal year, the first half in October and the second half in April of the following year. The dividend is discounted at the cost of equity of 8.3%.

Sum of PV (AED, Mn)	1,764
Terminal value (AED, Mn)	5,601
FV to Common shareholders (AED, Mn)	7,365
No. of share (Mn)	3,000
Current Market Price (AED)	2.70
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	202	196	209	225	246
H2	205	196	209	225	246
Total Dividend	406	392	418	449	491
Discounting Factor	0.96	0.89	0.82	0.76	0.70
Present Value of Dividend	390	348	342	340	343

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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