

National Central Cooling Company (Tabreed)

Higher consumption volumes and lower finance cost supported profitability

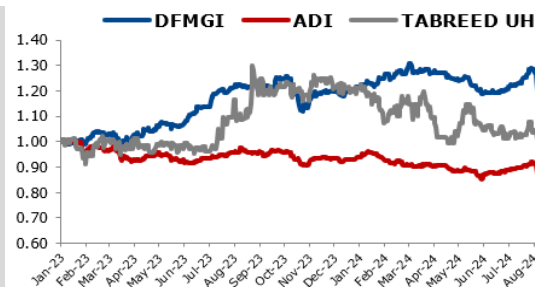
Current Price
AED 3.01

Target Price
AED 3.95

Upside/Downside (%)
+31%

Rating
BUY

- The Company's capacity reached 1,308K RT in 2Q24, mainly due to network expansion.
- Consumption volume rose 8% YOY to 1 Bn RT hours owing to robust cooling demand and higher volumes in the last twelve months.
- EBITDA grew from AED 322 Mn in 2Q23 to AED 331 Mn in 2Q24.
- Tabreed completed and launched a new district cooling plant on Saadiyat Island with a capacity of 21,000 RT.
- Cash and cash equivalents fell from AED 1.6 Bn in 1Q24 to AED 0.6 Bn in 2Q24 owing to debt repayment and increased payment of cash dividends.



2Q24 Net Profit slightly higher than our estimate

National Central Cooling Company (Tabreed/The Company) net profit rose 4.6% YOY to AED 157 Mn in 2Q24, slightly higher than our estimate of AED 152 Mn. The rise in the net profit is mainly attributable to a marginal growth in revenue owing to higher consumption volumes coupled with a decline in finance costs and higher associate's income partially offset by an increase in operating costs, administrative and other expenses, and income tax expense.

P&L Highlights

Tabreed's revenue rose marginally 1.3% YOY to AED 611 Mn in 2Q24 owing to 8% YOY growth in consumption volume attributed to growth in cooling demand during summer coupled with strategic expansion in the last 12 months. The revenue from the Chilled water segment increased marginally 1.2% YOY to AED 586 Mn in 2Q24 attributed to new connections, higher consumption volumes, and positive CPI indexation. Revenue from the Chilled Water segment consists of fixed and variable consumption charges. The fixed capacity charges accounted for 62%, while variable consumption charges accounted for the remaining 38% of the total chilled water revenue in 1H24. Tabreed's total capacity rose marginally from 1,305K refrigeration tonnes (RT) in 1Q24 to 1,308K RT in 2Q24. The expansion is largely driven by organic growth through new connections owing to the acquisition of new customers and a rise in consumption volumes. The Company generated 95.9% of its revenue from the Chilled Water segment and the remaining 4.1% from the Value Chain business, which grew 2.7% YOY to AED 25 Mn in 2Q24. Tabreed's direct cost rose 1.9% YOY to AED 323 Mn in 2Q24. Thus, gross profit marginally rose 0.6% YOY to AED 288 Mn in 2Q24 with a decrease in gross profit margin of 34 bps YOY to 47.2% in 2Q24. Moreover, administrative and other expenses rose 8.0% YOY to 70 Mn in 2Q24. Thus, operating

Stock Information

Market Cap (AED, mn)	8,535.81
Paid Up Capital (mn)	2,845.27
52 Week High	3.93
52 Week Low	2.88
3M Avg. daily value (AED)	1,128,848

2Q24 Result Review (AED, mn)

Total Assets	13,860
Total Liabilities	7,127
Total Equity	6,733
EBITDA	331
Net Profit	157

Financial Ratios

Dividend Yield (12m)	5.17
Dividend Pay-out (%)	102.29
Price-Earnings Ratio(x)	27.29
Price-to-Book Ratio (x)	1.40
Book Value (AED)	2.15
Return-on Equity (%)	5.04

Stock Performance

5 Days	0.00%
1 Months	-1.64%
3 Months	-10.45%
6 Months	-11.24%
1 Year	-9.91%
Month to Date (MTD%)	-1.96%
Quarter to Date (QTD%)	0.00%
Year to Date (YTD%)	-16.20%

profit declined 1.6% YOY to AED 219 Mn in 2Q24, with an operating margin of 35.7% in 2Q24 compared to 36.8% in 2Q23. Tabreed's EBITDA grew from AED 322 Mn in 2Q23 to AED 331 Mn in 2Q24. EBITDA margin rose 80 bps YOY to 54.1% in 2Q24. Finance cost declined 15.9% YOY to AED 58 Mn in 2Q24, while finance income fell from AED 11 Mn in 2Q23 to AED 5 Mn in 2Q24. Income from associates and JV increased from AED 8 Mn in 2Q23 to AED 12 Mn in 2Q24. Income tax expenses amounted to AED 13 Mn in 2Q24 due to the introduction of UAE corporate tax. Share to NCI declined from AED 9 Mn in 2Q23 to AED 8 Mn in 2Q24.

Balance Sheet Highlights

Tabreed's cash and cash equivalents fell from AED 1.6 Bn in 1Q24 to AED 0.6 Bn in 2Q24 owing to debt repayment and increased payment of cash dividends. The Company's net debt rose from AED 4,770 Mn in 1Q24 to AED 5,087 Mn in 2Q24. Net debt to LTM EBITDA grew from 3.97x in 1Q24 to 4.20x in 2Q24. The Company's net cash flow from operating activities increased to AED 251 Mn in 2Q24 compared to AED 244 Mn in 1Q24.

Target Price and Rating

We maintain our BUY rating on Tabreed with a target price of AED 3.95. Tabreed's connected capacity reached 1,308K RT in 2Q24 from AED 1,305K RT in 1Q24, mainly due to network expansion. Tabreed's consumption volume rose 8% YOY to 1 Bn RT hours owing to robust cooling demand and higher volumes in the last twelve months. Further, the Company progressed according to the planned capacity guidance of FY2023-2024 and delivered 58K RT in 1H24, including 35.4K RT in UAE, 14K RT in Saudi, 3K RT each in Bahrain and Egypt, 1.4K RT in Oman, and 1K RT in India. Tabreed further expects the capacity to grow by 3-5% annually during FY2024-26. The Company added 4,646 RT of new customer connections in 1H24, mainly in the UAE. It plans to expand further in the UAE through organic and inorganic routes, including greenfield and brownfield expansion. The Company's few greenfield expansions are expected to be completed in 2H24. Tabreed is also actively considering opportunities for expansion in Saudi Arabia, India, and the wider Asian region. Furthermore, it secured additional capacity in the existing concession area and plans to connect about 300,000 ACs units over the medium term across key locations such as Dubai, Yas Island, Saadiyat Island, and others. Recently, Tabreed completed and launched a new district cooling plant on Saadiyat Island with a capacity of 21,000 RT. The Company's capacity expansion plans are likely to drive growth by creating new revenue-generating assets. Moreover, Tabreed's 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. 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	17.3	14.8	14.6	14.3	19.8	13.8
PB	1.7	1.7	1.5	1.3	1.4	1.3
EV/EBITDA	14.7	14.8	14.7	11.8	11.6	11.0
Dividend yield	3.5%	1.9%	2.0%	4.5%	5.1%	5.7%

FABS Estimates & Co Data

Tabreed – P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	604	468	611	605	1.0%	1.3%	30.6%	2,415	2,546	5.4%
Operating costs	-317	-230	-323	-321	0.7%	1.9%	40.6%	-1,333	-1,405	5.4%
Gross profit	287	238	288	284	1.4%	0.6%	21.0%	1,082	1,141	5.4%
Admin and other expenses	-65	-76	-70	-73	-3.6%	8.0%	-8.5%	-272	-306	12.1%
EBITDA	322	272	331	314	5.5%	2.8%	21.7%	1,198	1,251	4.4%
Operating profit/EBIT	222	162	219	212	3.2%	-1.6%	34.9%	810	835	3.1%
Finance costs	-69	-60	-58	-68	-14.1%	-15.9%	-3.4%	-265	-261	-1.4%
Finance income	11	21	5	13	-63.9%	-57.9%	NM	61	54	-10.9%
Other gains and losses	-12	1	1	9	-84.8%	NM	NM	149	35	-76.5%
Share of associates & JV	8	6	12	8	45.2%	44.8%	91.6%	35	33	-4.4%
Profit from cont operation	159	129	178	173	2.6%	11.6%	37.6%	785	697	-11.3%
Income tax expense	0	-10	-13	-16	-13.9%	NM	33.8%	-359	-63	-82.5%
Profit from discont. operation	0	0	0	0	NM	NM	NM	0	0	NM
Profit before NCI	159	119	165	158	4.2%	3.2%	37.9%	427	634	48.6%
Non-controlling interest	9	7	8	6	20.9%	-18.5%	6.4%	-5	13	NM
Net Profit	150	112	157	152	3.5%	4.6%	39.9%	431	621	44.1%

FABS estimate & Co Data

Tabreed - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	47.5%	50.9%	47.2%	-34	-376	44.8%	44.8%	0
EBITDA	53.3%	58.1%	54.1%	80	-397	49.6%	49.1%	-48
Operating Profit	36.8%	34.6%	35.7%	-105	112	33.5%	32.8%	-72
Net Profit	24.8%	24.0%	25.7%	81	170	17.8%	24.4%	655

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	4.09	70.0%	2.86
EV/EBITDA	3.62	30.0%	1.09
Weighted Average Valuation (AED)			3.95
Current market price (AED)			3.01
Upside/Downside (%)			+31%

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 63.8%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.86 and equity risk premium of 4.1%. 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)	3,335
Terminal value (AED, Mn)	13,997
FV to Common shareholders (AED, Mn)	11,624
No. of share (Mn)	2,842
Current Market Price (AED)	3.01
Fair Value per share (AED)	4.09

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	772	812	875	931	1,019
D&A	327	327	327	328	330
Change in working capital	-40	-25	-128	-90	-9
(-) Capex	-234	-246	-258	-271	-285
Free Cash Flow to Firm (FCFF)	825	867	815	897	1,055
Discounting Factor	0.97	0.90	0.84	0.78	0.73
Discounted FCFF	401¹	784	685	700	765

Source: FAB Securities, ¹FCFF adjusted for partial years

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 2024 EV/EBITDA multiple of 12.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Essential Utilities, Inc.	10,941	15.3	13.6	20.1	18.8
SJW Group	1,890	12.8	11.3	21.0	19.4
Essential Utilities, Inc.	10,941	15.3	13.6	20.1	18.8
Emirates Central Cooling Systems Corporation	4,628	13.0	12.3	17.5	16.8
Exelon Corporation	37,500	10.3	9.9	15.3	14.3
Dubai Electricity and Water Authority	32,532	9.4	9.0	16.9	15.9
Saudi Electricity Company	18,652	5.3	4.8	17.9	13.1
Average		11.6x	10.6x	18.4x	16.7x
Median		12.8x	11.3x	17.9x	16.8x
Max		14.1x	13.0x	20.1x	18.8x
Min		9.9x	9.5x	17.2x	15.1x

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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