

Dubai Electricity and Water Authority (DEWA)

Taxes and depreciation eroded profits, offsetting core operation benefits

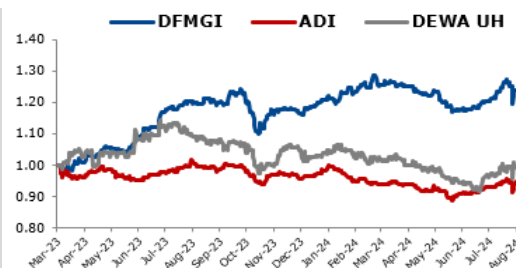
Current Price
AED 2.42

Target Price
AED 2.98

Upside/Downside (%)
+23.0%

Rating
BUY

- DEWA's customer base grew 4.4% YOY to 1.24 Mn in 2Q24.
- Gross power generation rose 6.7% YOY to 25.5 Tera Watt hours (TWh) in 1H24. Out of this, 3.3 TWh is generated from green energy.
- Total desalination water production rose 4.3% YOY to 71.3 Bn imperial gallons in 1H24.
- DEWA's installed generation capacity stood at 16.78 GW and its desalination capacity at 495 MIGD in 2Q24.
- Approved a dividend of AED 3.1 Bn for 1H24 to be paid to shareholders in October 2024.



Stock Information

Market Cap (AED, mn)	121,000.00
Paid Up Capital (mn)	500.00
52 Week High	2.61
52 Week Low	2.20
3M Avg. daily value(AED)	15,199,720

2Q24 Net Profit in line with our estimate

Dubai Electricity and Water Authority PJSC (DEWA/the Company) net profit declined 3.6% YOY to AED 1,860 Mn in 2Q24, which is in line with our estimate of AED 1,853 Mn. The decline in net profit is mainly due to the first-time application of corporate tax in 2024 and higher depreciation expense partially offset by a growth in topline owing to robust power and water consumption.

2Q24 Result Review (AED, mn)

Total Assets	182,556
Total Liabilities	89,287
Total Equity	93,122
EBITDA	4,037
Net Profit	1,860

P&L Highlights

DEWA recorded the highest top-line, with a 7.8% YOY increase in revenue to AED 7,864 Mn in 2Q24. The growth was mainly driven by an increase in demand for electricity, water, and cooling services. Revenue from electricity sales rose 6.0% YOY to AED 5,006 Mn in 2Q24, supported by a 7.0% YOY increase in gross power generation, reaching 15.2 terawatt hours (TWh). Within this, power generated from green energy rose 8.0% YOY to 1.8 TWh in 2Q24. Revenue from the sale of water increased 5.8% YOY to AED 1,339 Mn in 2Q24 supported by 3.4% YOY growth in desalinated water production to 37 Bn imperial gallons. The District Cooling segment recorded a healthy revenue growth of 12.5% YOY to AED 722 Mn in 2Q24. Revenue from other services significantly grew 23.1% YOY to AED 631 Mn in 2Q24. However, the Company's direct cost rose 10.5% YOY to AED 4,954 Mn in 2Q24 owing to increased expenditure on generation & desalination, transmission & distribution and purchase of power. Generation & desalination expense rose owing to a higher expense on fuel, depreciation and repair & maintenance partially offset by a decline in employee benefit expense. Transmission & distribution expense rose due to higher depreciation and employee benefit expense. Despite this, DEWA's gross profit increased 3.5% YOY to AED 2,910 Mn in 2Q24. Administrative expenses increased from AED 592 Mn in 2Q23 to AED 642 Mn in 2Q24, primarily due to an increase in employee

Financial Ratios

Dividend Yield (12m)	5.12
Dividend Pay-out (%)	80.51
Price-Earnings Ratio(x)	16.13
Price-to-Book Ratio (x)	1.36
Book Value (AED)	1.78
Return-on Equity (%)	8.62

Stock Performance

5 Days	0.83%
1 Months	2.11%
3 Months	5.22%
6 Months	0.00%
1 Year	-6.92%
Month to Date (MTD%)	1.68%
Quarter to Date (QTD%)	10.00%
Year to Date (YTD%)	-1.63%

benefit expense from AED 395 Mn in 2Q23 to AED 423 Mn in 2Q24. On the positive side, the Company reported a credit impairment reversal of AED 13 Mn in 2Q24, compared to a credit impairment loss of AED 38 Mn in 2Q23. Other income decreased from AED 42 Mn in 2Q23 to 36 Mn in 2Q24 due to reduction in proceeds from the sale of scrap. DEWA's operating profit rose 4.2% YOY to AED 2,317 Mn in 2Q24 with an operating profit margin of 29.5%. EBITDA rose 8.8% YOY to AED 4,037 Mn in 2Q24, while EBITDA margin declined 45 bps YOY to 51.3%. Finance costs decreased by 2.1% YOY to AED 504 Mn in 2Q24, while finance income also declined by 11.3% YOY to AED 219 Mn. The share of profit attributable to non-controlling interest holders remained stable at AED 46 Mn in 2Q24 compared to 2Q23. DEWA incurred a tax expense of AED 186 Mn in 2Q24 due to the introduction of UAE corporate tax in FY2024.

Balance Sheet Highlights

The company's operating cash flow decreased from AED 2.9 Bn in 2Q23 to AED 2.4 Bn in 2Q24, while cash and cash equivalents including term deposits declined from AED 10.2 Bn in 1Q24 to AED 8.2 Bn in 2Q24. Total borrowings rose from AED 38.7 Bn in 1Q24 to AED 39.0 Bn in 2Q24. Net debt stood at AED 30.7 Bn in 2Q24, compared to AED 28.5 Bn in 1Q24.

Target Price and Rating

We maintain our BUY rating on DEWA with a target price of AED 2.98, supported by the company's strong revenue growth of 7.8% YOY and notable EBITDA growth of 8.8% YOY in 2Q24. Demand for power and water in 2024 grew by 6.7% and 4.3%, respectively, reflecting Dubai's continued expansion. As of June 30, 2024, DEWA had 1.24 Mn customer accounts for electricity and water, an increase of 52,134 compared to June 30, 2023. DEWA's installed generation capacity reached 16.78 GW by the end of 2Q24, including 2.86 GW from renewable sources. The installed desalinated water production capacity remained stable at 495 MIGD. A significant milestone in 2Q24 was the commissioning of a new 120 MIG water reservoir in Enkhali, which is connected to Dubai's water network, enhancing the city's water security. This development is part of DEWA's broader strategy to increase water storage capacity to 1,121.3 MIG upon completing ongoing projects. DEWA's future outlook remains strong, with plans to expand its power generation capacity to 20 GW, including 5.3 GW from renewables, by 2030. The company also signed an MoU with Parkin to expand the number of EV 'Green Charger' stations, reinforcing DEWA's commitment to sustainability and supporting the growing adoption of electric vehicles in Dubai. The adoption of electric vehicles would lead to higher energy consumption benefitting DEWA. DEWA's continued focus on efficiency, innovation, and customer service positions it well to meet Dubai's evolving energy and water needs. According to DEWA's dividend policy, the company expects to pay a minimum annual dividend of AED 6.2 Bn for five years from October 2022. The Company paid a semi-annual dividend of AED 3.1 Bn equivalent to 6.2 fils per share leading to an annual dividend yield of 5.1% in 2024. Considering these factors, we assign a BUY rating on the stock.

DEWA - Relative valuation

(at CMP)	2022	2023	2024F
PE	15.7	15.7	16.9
PB	1.4	1.4	1.4
EV/EBITDA	11.4	10.7	10.4
Dividend yield	9.4%	5.1%	5.1%

FABS Estimates & Co Data

Note – DEWA listed on DFM in 2022.

DEWA – P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenues	7,294	5,800	7,864	7,917	-0.7%	7.8%	35.6%	29,178	30,399	4.2%
Direct Cost	-4,482	-4,037	-4,954	-4,765	4.0%	10.5%	22.7%	-17,933	-18,552	3.5%
Gross Profit	2,811	1,763	2,910	3,152	-7.7%	3.5%	65.0%	11,245	11,848	5.4%
Administrative exp	-592	-1,104	-642	-834	-23.0%	8.5%	-41.8%	-3,013	-3,214	6.6%
Credit impairment losses	-38	15	13	29	-54.1%	NM	-13.7%	-126	-115	-8.4%
Other income	42	320	36	162	-77.6%	NM	-88.7%	651	806	23.9%
EBITDA	3,711	2,566	4,037	4,021	0.4%	8.8%	57.3%	14,780	15,265	3.3%
EBIT	2,223	995	2,317	2,510	-7.7%	4.2%	NM	8,757	9,325	6.5%
Finance costs	-515	-531	-504	-633	-20.4%	-2.1%	-5.1%	-1,617	-1,854	14.7%
Finance income	247	261	219	306	-28.4%	-11.3%	-16.0%	806	735	-8.9%
P/L before net movement in regulatory deferral	1,956	725	2,033	2,183	-6.9%	3.9%	180.4%	7,946	8,206	3.3%
Net movement in regulatory deferral account credit balance	21	-7	60	0	NM	NM	NM	-105	-8	-92.0%
Tax	0	-67	-186	-225	-17.4%	NM	NM	92	-739	NM
Profit before NCI	1,977	651	1,907	1,958	-2.6%	-3.5%	NM	7,934	7,459	-6.0%
Non-controlling interest	-46	-3	-46	-105	-55.9%	-0.6%	NM	-233	-317	36.2%
Profit attributable	1,930	647	1,860	1,853	0.4%	-3.6%	187.4%	7,701	7,142	-7.3%

FABS estimate & Co Data

DEWA - Margins

	2Q23	1Q24	2Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross margin	38.5%	30.4%	37.0%	-155	660	38.5%	39.0%	43
EBITDA margin	50.9%	44.2%	51.3%	45	709	50.7%	50.2%	-44
Operating margin	30.5%	17.2%	29.5%	-102	1,231	30.0%	30.7%	66
Net profit margin	26.5%	11.2%	23.7%	-281	1249	26.4%	23.5%	-290

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	3.11	85.0%	2.64
DDM Method	2.25	15.0%	0.34
Weighted Average Valuation (AED)			2.98
Current market price (AED)			2.42
Upside/Downside (%)			+23%

1) SOTP Method:

Name of Entity	Type of Valuation	Total Value (AED Mn)
DEWA	DCF	155,507
IPP/IWP	DCF	13,280
Others	PE	5,462
Total Enterprise Value		175,243
Empower	DCF	11,545
Net Debt		-26,207
Minority Interest		-4,291
Total Valuation (AED)		155,295
Valuation per share (AED)		3.11

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 8.3% and after-tax cost of debt of 5.6% with an equity weight of 75.6% and debt of 24.4%. The cost of equity is calculated using 10-year government bond yield of 5.4%, beta of 0.70 and equity risk premium of 4.2%. 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)	32,087
Terminal value (AED, Mn)	123,420
FV to Common shareholders (AED, Mn)	155,507
No. of share (Mn)	50,000
Current Market Price (AED)	2.42
Fair Value per share (AED)	3.11

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	4,821	5,112	5,323	5,517	5,692
(+/-) Capex	-4,500	-4,500	-4,500	-4,500	-4,500
(+/-) Working capital	-277	-285	-292	-300	-309
Free Cash Flow to Firm (FCFF)	7,422	8,209	8,604	8,991	9,361
Discounting Factor	0.97	0.90	0.84	0.78	0.73
Discounted FCFF	3,613	7,426	7,233	7,022	6,793

Source: FAB Securities

2) IPP/WPP

Sum of PV (AED, Mn)	1,995
Terminal value (AED, Mn)	11,284
FV to Common shareholders (AED, Mn)	13,280
No. of share (Mn)	50,000
Current Market Price (AED)	2.42
Fair Value per share (AED)	0.27

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	868	976	1,055	1,141	1,229
(+/-) Depreciation & amortization	446	473	492	510	527
(+/-) Capex	-1,675	-975	-960	-910	-900
Free Cash Flow to Firm (FCFF)	-361	474	588	742	856
Discounting Factor	0.97	0.90	0.84	0.78	0.73
Discounted FCFF	-128	429	494	579	621

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 17.2x 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	3,538	10.2	9.3	22.9	19.2	2.4	2.2
Nongfu Spring Co Ltd	42,052	14.2	12.5	22.6	19.7	8.6	7.3
Danone	42,802	10.6	10.2	17.1	16.0	2.2	2.1
Lotte Chilsung Beverage	994	6.7	6.0	11.1	7.4	0.9	0.8
Suntory	10,940	6.8	6.2	17.2	15.3	1.4	1.3
Average		9.7x	8.9x	18.2x	15.5x	3.1x	2.7x
Median		10.2x	9.3x	17.2x	16.0x	2.2x	2.1x
Max		10.6x	10.2x	22.6x	19.2x	2.4x	2.2x
Min		6.8x	6.2x	17.1x	15.3x	1.4x	1.3x

Source: FAB Securities

Empower

Sum of PV (AED, Mn)	4,881
Terminal value (AED, Mn)	19,546
FV to Common shareholders (AED, Mn)	20,616
No. of share (Mn)	50,000
Current Market Price (AED)	2.42
Fair Value per share (AED)	0.41

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,176	1,243	1,305	1,377	1,451
(+/-) Depreciation & amortization	362	384	399	414	427
(+/-) Capex	-700	-400	-400	-450	-450
(+/-) Working capital	44	46	49	51	54
Free Cash Flow to Firm (FCFF)	882	1,273	1,353	1,393	1,482
Discounting Factor	0.97	0.90	0.84	0.78	0.73
Discounted FCFF	429	1,151	1,137	1,088	1,076

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 8.3%.

Sum of PV (AED, Mn)	27,355
Terminal value (AED, Mn)	85,117
FV to Common shareholders (AED, Mn)	112,472
No. of share (Mn)	50,000
Current Market Price (AED)	2.42
Fair Value per share (AED)	2.25

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
1H	3,100	3,300	3,500	3,700	3,950
2H	3,100	3,300	3,500	3,700	3,900
Total Dividend	6,200	6,600	7,000	7,400	7,850
Discounting Factor	0.92	0.85	0.78	0.73	0.67
Present Value of Dividend	5,691	5,595	5,479	5,349	5,240

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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