

Parkin Company PJSC

Continued digitalization and favorable operating leverage boosted profitability

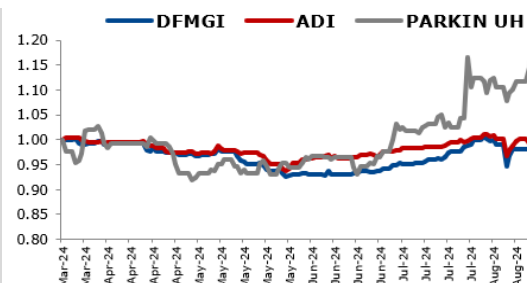
Current Price
AED 3.32

Target Price
AED 2.90

Upside/Downside (%)
-13%

Rating
REDUCE

- PARKIN's EBITDA grew by a strong 42.2% YOY to AED 134.0 Mn in 2Q24 with an EBITDA margin of 65.5% in 2Q24.
- The Company's total number of parking spaces grew from 195.4K in 2Q23 to 200.4K in 2Q24. The total number of parking transactions grew from 27.5 Mn in 2Q23 to 28.7 Mn in 2Q24.
- Utilization rate across the public parking spaces grew from 23.9% in 2Q23 to 25.7% in 2Q24 mainly due to the addition of new spaces in zones C and D.
- PARKIN signed an agreement to add c.7.5K spaces across six key locations in Dubai under its Developer Parking segment.
- The Company expects to pay a semi-annual dividend in April & October, declaring its first payment in October 2024 for 1H24.



Stock Information

Market Cap (AED, mm)	10,050.00
Paid Up Capital (mm)	60.00
52 Week High	3.37
52 Week Low	2.58
3M Avg. daily value (AED)	8,443,001

2Q24 Result Review (AED, mm)

Total Assets	2,167
Total Liabilities	1,708
Total Equity	460
EBITDA	134
Net Profit	95

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	21.84
Book Value (AED)	0.15
Return-on Equity (%)	N/A

Stock Performance

5 Days	7.03%
1 Months	14.33%
3 Months	24.54%
6 Months	NA
1 Year	NA
Month to Date (MTD%)	5.35%
Quarter to Date (QTD%)	20.94%
Year to Date (YTD%)	NA

2Q24 Net Profit higher than our estimate

Parkin Company PJSC (PARKIN/the Company) net profit grew 6.5% YOY to AED 95 Mn in 2Q24, higher than our estimate of AED 86 Mn. The growth in net profit is mainly due to strong revenue growth coupled with a decline in employee benefit expense partially offset by an increase in D&A expenses, as well as higher interest and income tax expenses.

P&L Highlights

PARKIN's revenue grew 11.1% YOY to AED 204.5 Mn in 2Q24, owing to strong growth in both Public Parking, Developer Parking, Fines 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 7% YOY to AED 89.6 Mn, primarily due to a higher volume of parking tickets issued in 2Q24, mainly in zone C. 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 174.1K space in 2Q23 to 177.0K space in 2Q24. Seasonal cards and permit revenue grew 15% YOY to AED 37.2 Mn in 2Q24, 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 39% YOY to 30.7K in 2Q24 primarily due to a strong growth in the issuance of seasonal cards. Developer parking revenue grew 7% YOY to AED 14.3 Mn in 2Q24, driven by higher ticket volumes. The Developer parking space rose 17% YOY to 20.2K in 2Q24 driven by the addition of 7.5K spaces across six key locations in Dubai in June 2024 partially offset by the reduction of c.1.4K spaces in the Al Sufouh region. Revenue from fines grew 27% YOY to AED 54.6 Mn in 2Q24 mainly, driven by increased transactions, higher number of customers and enhancement of enforcement framework owing to deployment of smart inspection scan cars. The Company's total number of fines grew 26% YOY to 365K in 2Q24. The

Fine collection rate improved to 87% in 2Q24. The multi-story car parking segment (MSCP) declined 40% YOY to AED 2.6 Mn in 2Q24, mainly due to a decline in MSCP spaces. MSCP spaces declined from 4.1K spaces in 2Q23 to 3.2K spaces in 2Q24, mainly due to the demolition of the Sabkha car park and the temporary closure of the Al Rigga site for maintenance and repairs. However, the company is on track to reopen the Al Rigga site by the end of 2024, which will restore its access to c.500 MSCP spaces in a new refurbished location. Other income & finance income rose from AED 0.2 Mn in 2Q23 compared to AED 1.0 in 2Q24. The Company incurred a concession fee expense of AED 27 Mn in 2Q24, according to the concession agreement signed with RTA. Commission expense remained flat at AED 6.9 Mn in 2Q24 compared to 2Q23. Maintenance expenses declined from AED 7.2 Mn in 2Q23 to AED 4.3 Mn in 2Q24. Employee benefits expenses declined significantly from AED 36 Mn in 2Q23 to AED 26 Mn in 2Q24 as earlier the RTA cost center allocation was based on c.450 employees in 2Q24 compared to the current allocation of only 311 employees in 2Q24. 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. Other expenses stayed unchanged at AED 6.4 Mn in 2Q24. Thus, PARKIN's EBITDA grew by a strong 42.2% YOY to AED 134 Mn in 2Q24, supported by strong revenue growth and favorable operating leverage. EBITDA margin grew from 51.2% in 2Q23 to 65.5% in 2Q24. The growth in the EBITDA margin is mainly attributable to the growing PARKIN platform and ongoing digitalization initiatives. Depreciation and amortization expenses grew from AED 5 Mn in 2Q23 to AED 13 Mn in 2Q24. The Company's finance cost grew from AED 0.2 Mn in 2Q23 to AED 16.5 Mn in 2Q24. In addition, it incurred an income tax charge of AED 9.4 Mn in 2Q24 owing to the introduction of UAE corporate tax, which led to a decline in net margin by 199 bps YOY to 46.5%.

Balance sheet highlights

PARKIN's cash and cash equivalent stood at AED 106 Mn in 2Q24. The company also had AED 151 Mn as short-term deposits in bank. The Company's gross debt stood at AED 1.1 Bn in 2Q24, while the net debt position stood at AED 846.6 Mn in 2Q24. The net debt to EBITDA ratio stood at 3.1x. PARKIN generated a free cash flow of AED 135.6 Mn in 2Q24 with a cash conversion of 100% driven by the Company's capex light model coupled with strong revenue growth and a stable cost base. The company also has an AED 100 Mn Murabaha revolving credit facility, thus totaling the company's available liquidity at AED 357.1 Mn as of 2Q24.

Target Price and Rating

We revise our rating from HOLD to REDUCE on PARKIN Company PJSC. with a revised target price of AED 2.90. The Company reported growth in profitability primarily driven by strong revenue growth and favorable operating leverage in 2Q24. Total parking spaces grew from 195.4K in 2Q23 to 200.4K in 2Q24. Total parking transactions rose from 27.5 Mn in 2Q23 to 28.7 Mn in 2Q24 mainly due to the growth in transactions within the public parking segment. In addition, the utilization rate across the public parking spaces grew from 23.9% in 2Q23 to 25.7% in 2Q24 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 2Q23 to AED 2.01 in 2Q24. 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 42.2% YOY to AED 134 Mn in 2Q24 with a strong growth in EBITDA margin from 51.2% in 2Q23 to 65.5% in 2Q24 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 135.6 Mn in 2Q24 with a cash conversion of 100% in 2Q24 leading it to pay a healthy dividend going forward. 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 necessary reserves. The Company's contract with Al Sufouh is set to expire in 2024 resulting in a reduction of c. 7.7k spaces. However, PARKIN signed an agreement to add

c.7.5K spaces across six key locations in Dubai under the developer parking segment. Hence, due to this netting-out effect, the company's top line is expected to remain stable, as the number of spaces reduced is equal to the number of spaces added, thus keeping the total number of developer parking spaces unchanged. Despite all the positives, PARKIN trades at an expensive valuation compared to the industry average, which renders it expensive. Thus, based on our analysis, we assign a REDUCE rating on the stock.

PARKIN- Relative valuation¹

(at CMP)	2023	2024
PE (x)	NA	27.6
PB (x)	NA	34.3
EV/EBITDA	NA	21.2
Dividend yield (%)	NA	4.3%

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	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenues	184	215	204	206	-0.7%	11.1%	-5.0%	779	820	5.2%
Other Income	0	0	0	0	-4.5%	1.1%	-3.0%	1	1	43.9%
Finance Income			1	1	31.5%	NM	NM	0	2	NA
Concession fee expense	0	29	27	28	-5.5%	NM	-7.1%	0	113	NM
Commission expense	7	8	7	8	-7.7%	4.0%	-8.7%	28	32	13.8%
Maintenance expense	7	4	4	4	2.6%	-40.1%	22.6%	28	16	-40.6%
Corporate allocation exp	31	0	0	0	NA	NA	NM	121	0	NM
Employee benefits exp	36	18	26	30	-15.0%	-28.6%	38.4%	139	108	-22.4%
Variable Lease Payments	3	4	2	4	-33.3%	-28.3%	-36.8%	14	12	-9.5%
TSA Expenses	0	0	0	0	NA	NM	NA	0	0	NM
Rev of imp loss/ (imp loss) on trade rec	0	8	-1	2	NM	NM	NM	10	10	0.3%
Other Expenses	6	7	6	8	-13.8%	0.4%	-8.0%	26	21	-21.3%
Rent expense	0	0	0	0	NA	NM	NA	0	0	NM
EBITDA	94	138	134	124	8.3%	42.2%	-3.1%	414	509	22.8%
D&A exp	5	13	13	13	0.8%	168.3%	2.3%	19	49	150.3%
EBIT	89	126	121	111	9.2%	35.3%	-3.7%	395	461	16.6%
Finance Cost	0	-12	-17	-16	2.0%	NM	42.5%	-1	-65	NM
Earning Before Tax	89	114	104	95	10.4%	17.1%	-8.4%	394	395	0.3%
Income Tax Expense	0	10	9	9	10.3%	NM	-8.4%	0	36	NM
Net Profit	89	104	95	86	10.4%	6.5%	-8.4%	394	359	-8.8%

FABS estimate & Co Data

PARKIN - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
EBITDA	51.2%	64.2%	65.5%	1,431	127	53.2%	62.1%	889
Operating profit	48.6%	58.3%	59.2%	1,059	82	50.7%	56.1%	547
Net profit	48.5%	48.2%	46.5%	-199	-171	50.6%	43.8%	-675

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Parkin Company P.J.S.C. 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	2.97	75.0%	2.23
DDM Method	2.81	15.0%	0.42
Average of PE & EV/EBITDA	2.51	10.0%	0.25
Weighted Average Valuation (AED)			2.90
Current market price (AED)			3.32
Upside/Downside (%)			-13%

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 8.0%. 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 5.4%, a beta of 0.83, and an equity risk premium of 3.5%. 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 2.5%.

Sum of PV (AED, Mn)	2,152
Terminal value (AED, Mn)	7,638
FV to Common shareholders (AED, Mn)	8,815
No. of share (Mn)	3,000
Current Market Price (AED)	3.32
Fair Value per share (AED)	2.97

DCF Method

(All Figures in AED, Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	427	451	469	505	528
Depreciation & Amortization	49	54	64	65	73
Capex	-19	-34	-35	-40	-34
Change in Working Capital	72	2	2	1	3
Free Cash Flow to Firm (FCFF)	528	473	500	530	570
Discounting Factor	0.96	0.89	0.83	0.76	0.71
Discounted FCFF	508	422	413	405	404

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 30% to the infrastructure peers' median valuation multiple to value Parkin. It is valued at a 2024 EV/EBITDA multiple of 15.6x compared to a peer valuation of 12.0x. In addition, it is valued at a 2024 P/E multiple of 21.9x compared to a peer valuation of 16.9x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
<u>Regional Infrastructure Cos</u>					
Dubai taxi company	1,486	9.8	8.7	14.8	13.1
Salik Co PJSC	6,881	18.1	15.5	22.4	19.6
Dubai Electricity & Water au	32,533	9.7	9.2	16.9	15.9
Emirates Central Cooling sys	4,628	13.7	12.4	17.6	16.8
Abu Dhabi National Oil Co	11,638	12.0	11.3	16.5	15.3
Average		12.7x	11.4x	17.6x	16.1x
Median		12.0x	11.4x	16.9x	15.9x
Max		13.7x	12.4x	17.6x	16.8x
Min		9.8x	9.2x	16.5x	15.3x

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. 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)	1,876
Terminal value (AED, Mn)	6,559
FV to Common shareholders (AED, Mn)	8,436
No. of share (Mn)	3,000
Current Market Price (AED)	3.25
Fair Value per share (AED)	2.81

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
H1	213	207	223	240	263
H2	217	207	223	240	263
Total Dividend	430	413	446	481	526
Discounting Factor	0.96	0.89	0.82	0.76	0.70
Present Value of Dividend	413	367	365	364	368

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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