INVESTMENT RESEARCH | UAE

Utilities

TAQA – Positives priced in.

NEUTRAL: 12M TP @ 2.91

Valuation Summary (TTM)			
Price (AED)			3.18
PER TTM (x)			22.5
P/Book (x)			4.3
P/Sales (x)			7.0
EV/Sales (x)			8.8
EV/EBITDA (x)			20.0
Dividend Yield (%)			1.0
Free Float (%)			3%
Shares O/S (mn)			112,434
YTD Return (%)			-7%
Beta			1.2
(mn)		**AED**	**USD**
Market Cap		357,541	97,362
Total Assets		412,220	112,250
Price performance (%)	**1M**	**3M**	**12M**
TAQA	0%	-6%	-16%
FTSE ADX GENERAL	0%	-1%	-9%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (AED)	5,168	10,060	13,013
Avg Daily Volume (,000)	2,103	3,004	3,859
52 week	**High**	**Low**	**CTL***
Price (AED)	3.91	2.79	13.9
* CTL is % change in CMP to 52wk low			
Major shareholders			
Emirate of Abu Dhabi			90%
Multiply Group PJSC			7.3%
Others			2.7%
Other details			
Exchange			Abu Dhabi
Sector			Utilities
Index weight (%)			2.4%
Key ratios	**2020**	**2021**	**2022**
EPS (AED)	0.03	0.05	0.07
BVPS (AED)	0.55	0.59	0.63
DPS (AED)	0.03	0.05	0.05
Payout ratio (%)	100%	89%	72%

Abu Dhabi National Energy Company (Taqa) is the sole supplier of power and water to Abu Dhabi and one of the largest listed companies from the utilities sector in the world. The company is vertically integrated and has exposure to both conventional and non-conventional sources of energy. Taqa has presence in over 40 countries and with a gross power generation capacity of 37.4GW and water supply facility of 860 MIGD. In 2020, under the consolidation program initiated by ADQ, the company merged with AD Power, thereby bringing all power, water, transmission and distribution assets under Taqa. Further in 2022, the company invested in Masdar, thereby enhancing its renewable sources of energy production. In its 3Q23 commentary, the management has tripled its power generation targets for 2030 from 50GW to 150GW. While the ambitious plans are extremely positive for Abu Dhabi's goal to reach net zero emission targets of 2050, the impact on the financials of Taqa will be limited, as these new ventures are classified as JVs. Further, the O&G segment (15% revenue in 3Q23) is witnessing a decline due to lower production and a slump in the oil price. We expect a mid-single digit growth in revenue of 5.3% CAGR 2022-27e) based on the modest increase in power and water consumption, improvement in efficiency of the T&D business and status quo in O&G. The company is almost fully owned by the government (97% held directly and indirectly). This provides comfort in terms of stable regulatory environment, tariff structure and capital for growth. We do not expect any variance in the margins and the net income is expected to grow by 6.6% CAGR (2022-27e). While we are positive on the company and the defensive nature of the sector that it operates, we believe that at the current market price the stock is overvalued. The recent announcements on capacity additions created a euphoria that took the price 4x from the low in Sep 2022 and much beyond its intrinsic value. Our blended fair value estimate provides a target price of AED 2.91/share, which is 8.5% lower than the current price. We initiate coverage on Taqa with a NEUTRAL rating.

Expansion of capacities, move into renewables, decommissioning old assets and reducing O&G exposure will drive revenue and profits: Taqa is in a transformation phase post its merger with AD Power in 2020. Post the merger, there has been a change in the senior leadership, increase in capacities at a gross level, pursuit of inorganic growth opportunities, removing late-stage assets and most importantly, a big entry into the renewable energy segment. We expect a significant change in the way energy will be generated by Taqa over the next decade, with over 65% coming from renewables. We expect the O&G segment to be phased out gradually and Taqa will become a pure play utilities company, with investment in a wide range of generation assets across the world.

Long term revenue visibility, stable margins and robust cash flow aid valuations, quarterly dividend payouts an additional kicker: Taqa has a stable business model supported by an accommodative regulatory environment and exclusivity in future generation projects. The predictable cash flow, long term off take contracts, and the growth in regulated asset base provides comfort to valuations. The company follows a quarterly dividend payout mechanism which provide a steady cash flow to investors. We are positive on the company based on its robust balance sheet strength and parentage. However, the recent run up has moved the valuation beyond its intrinsic value. We have arrived at a blended target price of AED 2.91/share based on DCF and peer valuation. Since the fair value is 8.5% below the current price we initiate coverage on Taqa with a neutral rating.

Taqa is one of the largest companies listed in ADX with operations worldwide …

Taqa is a utilities behemoth and the primary provider of power and water to Abu Dhabi

Abu Dhabi National Energy Company (TAQA) is one of the largest utilities company in the region and amongst the top 10 in Europe, Middle East & Africa (EMEA). The company has presence in over 40 countries and 4 continents. Taqa is a fully integrated company with three major business segments, which includes the generation segment (with a gross installed power generation capacity of 37.4GW and desalinated water capacity to provide 860 Million Imperial Gallons per day – MIGD), transmission & distribution of power and water (14,393 kms of transmission and 97,718kms of distribution network), as well as upstream and midstream operations in oil and gas (production capacity of 117mboe/day, with a 2P reserve of 379mnboe). TAQA has the exclusive right to participate in all future power generation and water desalination projects in Abu Dhabi announced by the Emirates Water and Electricity Company (EWEC), which is the planning authority of the Emirate. The company can invest a minimum of 40% stake up to 2030 in any of the upcoming ventures. This further enhances the scope for Taqa, which is already servicing 95% of Abu Dhabi's power and water needs.

Taqa is a global major with assets across the world in energy and utilities sector

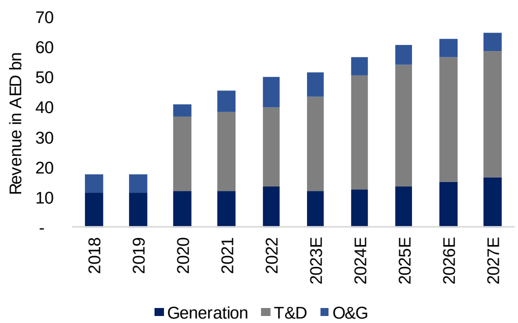
*Source: Company reports

^ indicates major installations only, portfolio includes investments across various countries

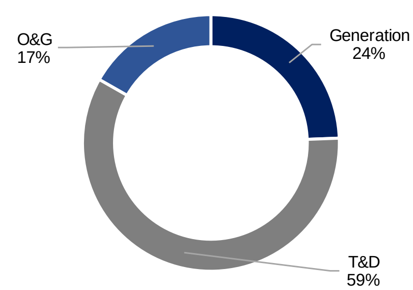
Merger with AD Power adds generation capacities and brings T&D segment into the business…

In 2020, Abu Dhabi Power Corporation (ADPower) was merged with Taqa to bring all energy and water assets in Abu Dhabi under a single entity. AD Power held 4.2GW of the power assets in Abu Dhabi and post-the merger these were transferred to Taqa, taking the total domestic generation capacity from 13GW to 17GW. More importantly, it brought in all the transmission and distribution assets of AD Power into Taqa, vertically integrating the business. The merger added a major revenue stream for the company (T&D) which, contributed to 59% in 9M23. Taqa currently manages the transmission through its 100% subsidiary, Abu Dhabi Transmission and Despatch Company PJSC (Transco) and distribution through Abu Dhabi Distribution Company PJSC (ADDC) and Al Ain Distribution Company PJSC (AADC).

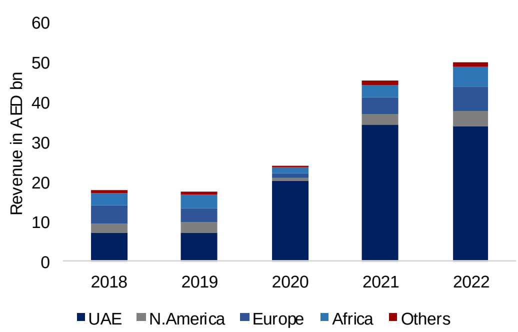
Merger with AD Power changes the revenue model



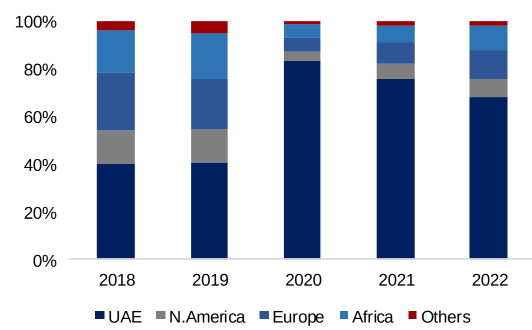
T&D contributed to 59% of topline (in 9M23)



New geographies included post merger



Domestic market continues to be the main driver



*Source: Company reports, US research

ADQ has strived to make measureable changes across its investment portfolios…

The merger was part of the ADQ's (Abu Dhabi Development Holding Company- Sovereign fund of Abu Dhabi government) larger plan of consolidating and rebalancing the entire investment portfolio of the Abu Dhabi government. One of the major objectives of ADQ, other than creating fewer larger companies has been to improve the efficiencies. ADQ has been aggressively involved in assisting group companies to grow by providing capital, building management capabilities and bringing accountability. Post the merger, Taqa witnessed an increase in margins both on the gross and net levels. Top management was replaced, synergies with other government companies have increased, digital infrastructure in line with global standards have been introduced. We are extremely positive on the aggressive stance taken by ADQ and the impact it is creating in its investment portfolio. The pursuit to maximize profitability is being pushed by the parent from the top and we believe the trickledown effect from the larger plan will offer a sustainable growth opportunity for companies like Taqa.

Revised capacity addition target for 2030 is 3x more than the one set earlier, but additional revenue will not fall into consolidated accounts

Gross power capacity to touch 150GW by 2030…

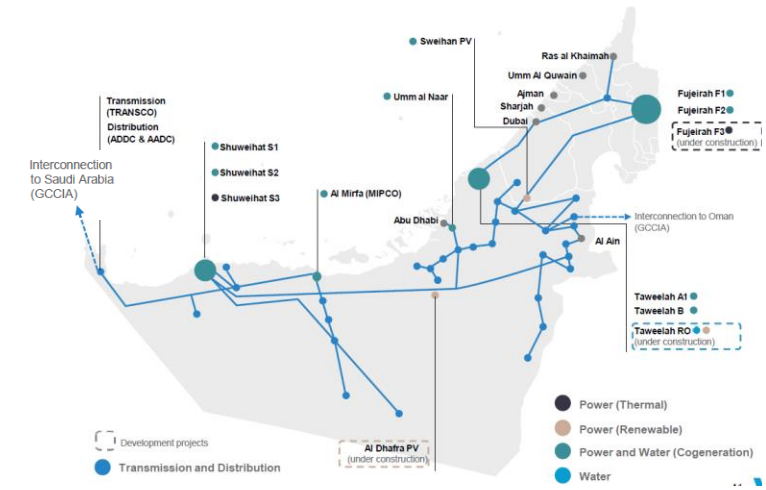
Taqa in its recent 3Q23 earnings commentary updated its strategic road map (earlier road map was presented in 2021, post-merger with AD Power) on capacity addition in the power generation segment from 50GW to 150 GW by 2030. This significant increase came post its investment in the renewable energy company, Abu Dhabi Future Energy Company (Masdar) in 2022 (a JV with Adnoc and Mubadala in which Taqa holds 43% stake).

New capacities to be added in 2024…

Taqa currently has 21 generation assets globally, out of which 14 are located in the UAE, with a gross production capacity of 37.4GW. Further addition in KSA and Uzbekistan will add 2.5GW and the recent agreement with Emirates Global Aluminum (EGA) will add another 5.4GW going forward. Some of the upcoming projects for power and water when completed will be the largest in the world, such as the Al Dhafra Solar PV2 plant with 2GW capacity (largest single site solar plant). The Fujairah F3 power plant, which will use the latest gas turbine technology and will be the largest IPP (Independent Power Plant) in the

UAE. The company also targets to increase its water generation capacity to 1,300 MIGD by 2030 from the current 860 MIGD, with two-thirds of the increased capacity contributed by the low carbon and highly efficient RO technology. Majority of these new additions are expected via Masdar, which is expected to grow its assets from the current 7.3GW to 100GW and will contribute to 65% of TAQA's total gross generation capacity by 2030.

Taqa's current network of power and water connectivity in UAE



*Source: Company reports

Most new ventures formed as JV and associates…

While the ambitious additions will increase the installed capacities at a gross level, it is unlikely to make a significant impact on Taqa's segmental revenue from generation, since most of the projects are classified as associates or joint ventures and not consolidated into the group revenue, despite having more than 50% ownership in many of them (the articles of association and board structure gives all shareholders an equal and joint ability to direct the relevant activities of these entities). The contribution of the share of profit to the overall group net income was only 4% in 2022 (vs 5.2% in 2021). The share of profit has further declined in 9M23 period and was AED 157mn (vs AED 398mn in 9M22). Significant drag in share of profits in 9M23 were due to the lower net income from Sohar Aluminum and losses in Masdar, which continues to incur high project development costs.

UAE generation assets						
Country	**Plant**	**Gross power capacity (MW)**	**Gross water capacity (MIGD)**	**Ownership**	**Holding Type**	**Energy type**
UAE	SHUWEIHAT S1	1615	101	60%	Subsidary	Gas fired plant
UAE	SHUWEIHAT S2	1627	101	60%	Subsidary	Gas fired plant
UAE	SHUWEIHAT S3 (added post merger)	1647		60%	Subsidary	Gas fired plant
UAE	MIRFA INTERNATIONAL (added post merger)	1702	53	60%	Subsidary	Gas fired plant
UAE	UMM AL NAR	1670	96	60%	Subsidary	Gas fired plant
UAE	TAWEELAH A1	1671	84	60%	Subsidary	Coal-fired power plant
UAE	TAWEELAH B	2220	162	70%	Subsidary	Gas fired plant
UAE	FUJAIRAH F1	861	131	60%	JV	Gas fired plant
UAE	FUJAIRAH F2	2114	132	60%	JV	Gas fired plant
UAE	NOOR AD (added post merger)	935	0	60%	Subsidary	Solar PV
UAE	AL DHAFRA SOLAR PV	2101	0	40%	JV	Solar PV
	Total domestic capacities	**18163**	**860**			

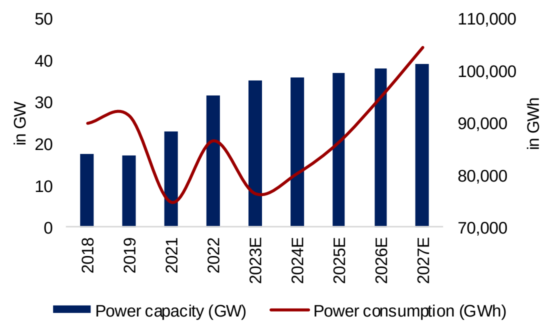
International generation assets						
Country	**Plant**	**Gross power capacity (MW)**	**Gross water capacity (MIGD)**	**Ownership**	**Holding Type**	**Energy type**
USA	LAKEFIELD WIND FARM (MINNESOTA)	206	0	50%	JV	Wind farm
MOROCCO	JORF LASFAR (UNITS 1-6)	2056	0	86%-91%	Subsidary	Coal-fired power plant
GHANA	TAKORADI TRI-FUEL POWER PLANT	330	0	90%	Subsidary	Gas-fired power plant
KSA	JUBAIL GAS-FIRED POWER PLANT	250	0	25%	Associate	red power (captive use of SADAF Petchem
OMAN	SOHAR ALUMINIUM SMELTER	1000	0	40%	Associate	ired power plant (captive use of Sohar Alumi
INDIA	NEYVELI LIGNITE POWER PLANT	250	0	100%	Subsidary	Lignite-fired power plant
	Total international capacities	**4092**	**0**			
UAE/OTHERS	MASDAR (operational/under const)	7500	0	43%	JV	Solar
	Total operational capacities	**29755**	**860**			

Under construction assets							
Country	**Plant**	**Gross power capacity (MW)**	**Gross water capacity (MIGD)**	**Ownership**	**Holding Type**	**Energy type**	**Date of commencement**
UAE	TAWEELAH RO	69	205	20%	JV	MSF RO desalination	2023
UAE	FUJAIRAH F3	2457	0	40%	Subsidary	Gas fired plant	2023
UAE	MIRFA 2	0	120	40%	JV	MSF RO desalination	2025
KSA	TANAJIB POWER	940	5	60%	JV	Gas fired plant	2025
UAE/OTHERS	MASDAR (upcoming)	7300	0			Solar	
	Total under construction capacities	**10766**	**330**				

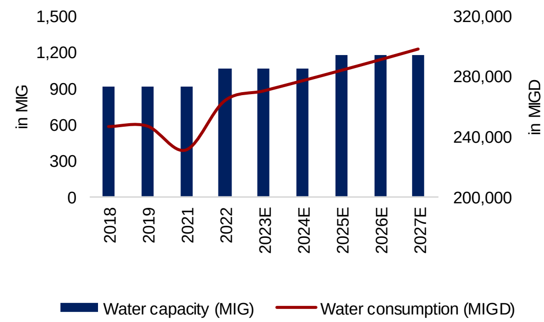
Upcoming assets							
Country	**Plant**	**Gross power capacity (MW)**	**Gross water capacity (MIGD)**	**Ownership**	**Holding Type**	**Energy type**	**Date of commencement**
UZBEKISTAN	TALIMARJAN POWER	1600	0		JV	Gas-fired power plant	2025
UAE	EGA	5400	0		JV	Gas-fired power plant	2023
UAE/OTHERS	MASDAR (upcoming)	100000	0		JV	Solar	2030
	Total upcoming capacities	**107000**	**0**				
	Expected capacities by 2030	**147521**	**1300**				

*Source: Company reports, US research

Group power generation to increase



Water generation capacity to reach 1,300 by 2030

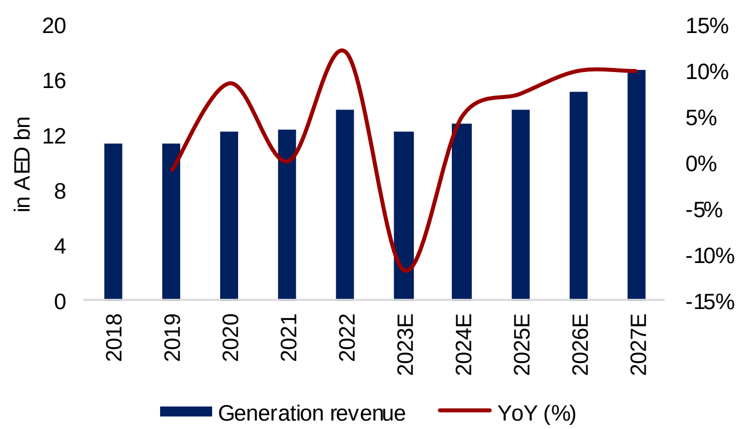


*Source: Company reports, US research

Generation revenue has grown in mid-single digits in the past…

The consolidated revenue is contributed by domestic and international subsidiaries, which have gross capacities of 16GW in power and 600 MIGD of water. The power generated from these assets have witnessed a flattish growth of 1.5% CAGR (2018-22) domestically and near zero growth internationally. This has resulted in a modest 4.9% CAGR (2018-22) growth in generation revenue, despite higher capacities. Some of the late stage assets (Taweelah 2 and Mirfa Power) are also being decommissioned and hence no generation have accrued from them. In 2023, the contribution from Red Oak (US based asset with tolling arrangement) has been zero, as the agreement ended last year. Additionally, there have been unplanned outages in 3 IWPPs (Independent water and power plant) causing lower availability.

Generation revenue to grow at 3.8% CAGR (2022-27e)



*Source: Company reports, US research

Revenue from generation segment to grow modestly…

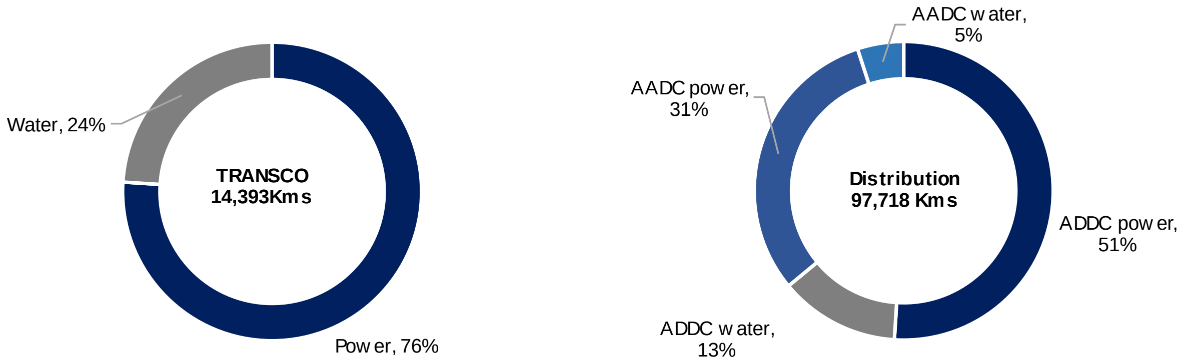
We don't expect any significant addition in capacities from the subsidiaries to cause a major impact to the generation revenues. However, the stable tariff system, which is a combination of capacity and variable payments will compensate for higher availability and consumption trends. Based on the expected buoyancy in domestic business, and an increased influx of expats and tourists, we forecast a modest increase in segment revenue by 3.8% CAGR (2022-27e).

T&D critical to the vertical integration of the company…

Significant investment into T&D will increase network, improve efficiencies and compliment growth

Taqa manages the transmission of power and water through its wholly owned subsidiary, Abu Dhabi Transmission & Despatch Company (Transco). Transco is the sole supplier of power and water to the Emirate, having a power network of 10,939 km and water pipeline running 3,454 km. The power and water distribution business is administrated by two of its wholly owned companies - Abu Dhabi Distribution Company (ADDC) and Al Ain Distribution Company (AADC). While power is supplied through a network of 80,139 kms of power lines, water runs through 17,589kms of pipelines.

Network length of T&D segment - Transco is the sole transmission company in Abu Dhabi



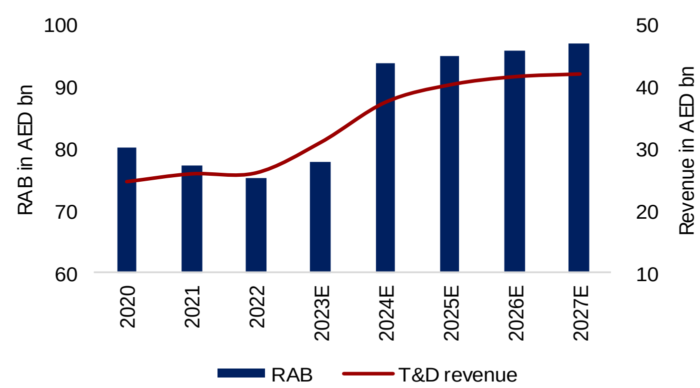
*Source: Company reports, US research

The company envisages a major capex spending of AED 40bn by 2030. The investment will focus on expansion and interconnection of power, water and recycled water infrastructure in Abu Dhabi, along with focus on asset management, operational excellence, regulatory management and business development.

SWS acquisition marks an entry into new segment…

In June 2023, the company entered into an agreement to acquire SWS Holding for a value of AED 1.7bn. SWS has ownership of Abu Dhabi Sustainable Water Solutions Company (ADSWS), the main entity behind all wastewater collection, treatment, and reuse in the Emirate of Abu Dhabi. The entity owns over 12,000 kms of sewer pipelines and has a capacity to treat 1.3mn cubic meters/day from its 37 wholly owned and 4 partially owned treatment plants in Abu Dhabi. This acquisition marks an entry into a new segment for Taqa and increases its RAB (regulated asset base) by 20% (+AED 16bn).

RAB to increase with SWS acquisition



*Source: Company reports, US research

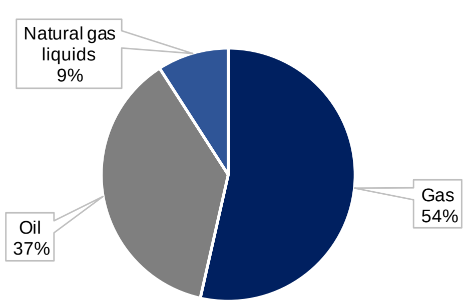
Investment to improve operational efficiencies…

The T&D segment is also investing in enhancing operational excellence, improving customer service and increasing digitization efforts across the entire value chain. It has taken steps to implement advanced metering infrastructure (AMI) in association with Etisalat, to ensure efficient operations of over 1mn smart meters, thereby reducing leakage. Power network reliability indicators showed a combined 6.0% improvement in average outage duration for each customer served and a combined 9.4% improvement on average number of interruptions a customer may experience in 2022. Also, in 2022, the company achieved the highest collection of receivables in the last 20 years by emphasis on key institutional accounts and improvement in internal governance standards. We believe the overall efforts taken to elevate operating standards to global levels will reduce T&D losses and improve cash flow management going forward. We expect 10.1% CAGR (2022-27e) growth in revenue from this segment.

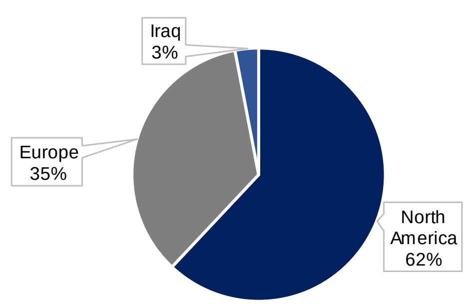
Oil and gas business to maintain status quo with no further addition expected to the portfolio

The oil & gas segment contributed to 17% of the overall revenue in 2022. The segment operates in Canada, UK, Netherlands and Iraq. Currently TAQA has a production capacity of 97.9 mboe/day (3Q23) with the production of gas (53%), oil (37%) and natural gas liquids (10%). Geographically, 62% of production occurs in North America with TAQA being a top onshore O&G producer in Western Canada, while Europe contributes to 35% and Iraq 3%. Globally Taqa has a 2P reserve of 379mn boe in the O&G segment.

Oil & Gas production mix



O & G Geographical production contibution

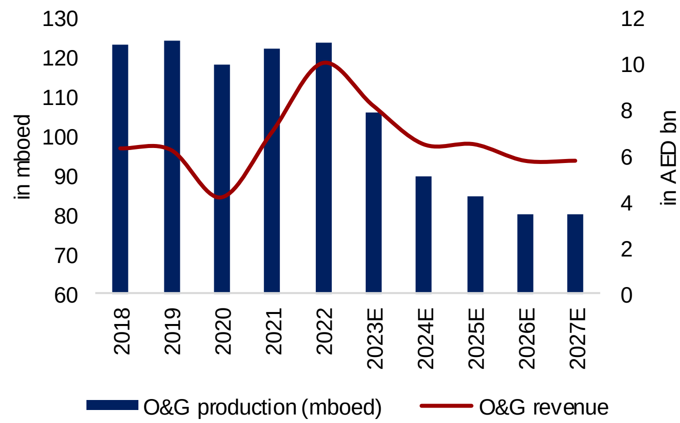


*Source: Company reports, US research

Contribution from O&G likely to decline…

This has been an ailing segment for the group and the management has at multiple times planned to close it down. In June 22, it completed a strategic review of the segment, which concluded to continue holding the current portfolio in Canada and Iraq, while decommissioning the assets in North Sea. We do not expect O&G to receive additional investment going forward, as the management intends to maintain the assets and run it for their maximum value. We forecast a decline of 10.5% CAGR (2022-27e) in revenue from this segment.

O&G revenue to decline with lower production



*Source: Company reports, US research

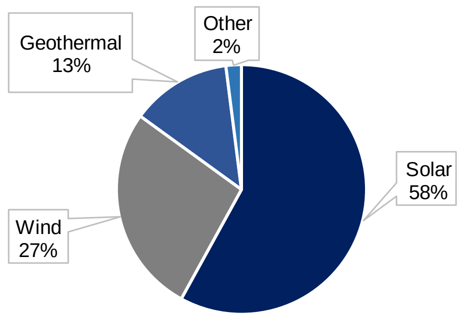
Significant push from the government to achieve net zero emission will drive Masdar's growth…

TAQA's shift towards clean energy sources a game changer for the future of UAE

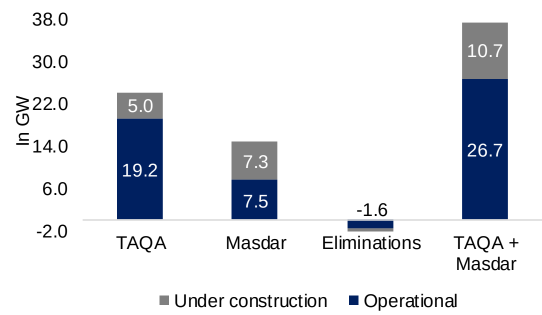
UAE is the first country in the region to announce a net zero emission target by 2050. Keeping in line with the objective, companies like Taqa have aggressively planned for building capabilities in the renewable energy segment. As part of the plan, Taqa (43%) along with Adnoc (24%) have invested AED 7bn for a 67% stake in Masdar (Abu Dhabi Future Energy Company). which was owned by Mubadala (retains 33%). Masdar was incorporated in 2006 by the Abu Dhabi government to explore opportunities in the clean energy sector. It is currently active in 17 countries with an installed capacity of 14.8GW (and 7.3 GW under construction). The company's portfolio consists of solar, wind, energy storage, waste-to-energy and geothermal energy. Additionally, it is also a pioneer in the green hydrogen segment which acts as a separate entity, in which Taqa holds (24%) stake along with Adnoc (43%) and Mubadala (33%).

The major objective of the acquisition was to utilize the platform already set by Mubadala and to rapidly grow Masdar in both the domestic and international markets. Masdar has an ambitious target of achieving 100 GW of renewable capacity by 2030 (vs 15GW in 2022) with focus on solar and wind. It is also targeting an annual production capacity of 1mn tonnes of green hydrogen by 2030. In 2022, Masdar through its various ventures removed more than 10 million tonnes of CO_2 emissions. Going forward we expect all future renewable energy contracts in Abu Dhabi to be handled by Masdar. Sourcing power through renewables offers the lowest levelized cost of energy (LCOE) reducing the overall cost of production.

Masdar's current technology mix



Shift in favour of renewable energy



*Source: Company reports, US research

Masdar yet to reach steady state…

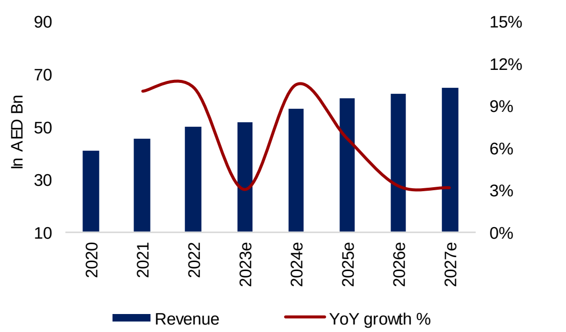
Taqa will witness significant increase in its gross capacities on the back of Masdar's growth, however it will receive only a share of profit due to the classification as a JV. Masdar reported a profit of AED49mn in 2Q23 and a loss of 81mn in 3Q23. We believe it will take much longer to impact the financials of Taqa meaningfully, despite being a game changer for Abu Dhabi.

Modest topline growth and steady margins will lead to profit growth; regular quarterly dividend will provide bond like returns

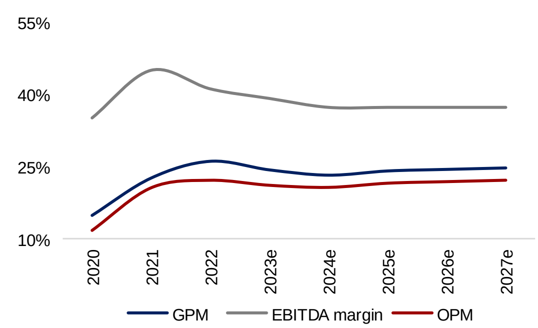
2023 has been a weaker year in terms of revenue…

Taqa group revenues have grown by 10.2% CAGR (2020-22) post-merger with AD Power. This has been primarily due to the doubling of O&G revenue, which increased on account of the higher oil prices in the last two years. Generation and T&D revenue have grown in mid-single digits during the same period. However, in 9M23, the decline in oil prices, lower average production (109mboepd in 9M23 vs 122mboepd in 9M22), shutdown in Iraq and closure of pipeline in late life UK assets have led to a 21% YoY decline in O&G revenues. Generation revenue also declined by 8% YoY in 9M23, on account of lower availability, higher contribution from Barakah nuclear plant (where Taqa has no stake) and absence of tolling revenue from Red Oak, USA. However, T&D revenue grew by 15% YoY in 9M23 on account of increase in pass through fuel revenues, higher inflation and favorable regulatory changes. Overall, gross consolidated revenue for 9M23 grew by 1.1% YoY. We forecast gross revenue to grow at 5.3% CAGR (2022-27e) on the back of higher consumption in the domestic market and some of the international subsidiaries.

Revenue vs revenue growth



GPM vs EBITDA vs OPM

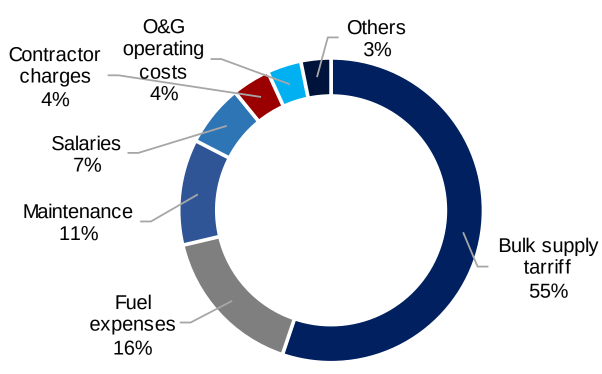


*Source: Company reports, US research

Cost control has been robust…

Since most cost components are fixed in nature and output is regulated we do not expect significant variance in the margins. Any increase in fuel expense is either passed through to the customer or is reimbursed as per the PPA (Purchasing Power Agreement). Bulk supply tariff is also paid to EWEC at a pre fixed rate, which includes both consumption demand and variable costs. Hence we expect Taqa to continue maintaining its current levels of cost which will result in steady margins. We expect operating profit to grow in line with revenue at 5.2% CAGR (2022-27e) and EBITDA to increase by 3.2% CAGR (2022-27e).

Bulk supply tariff is the biggest expense item

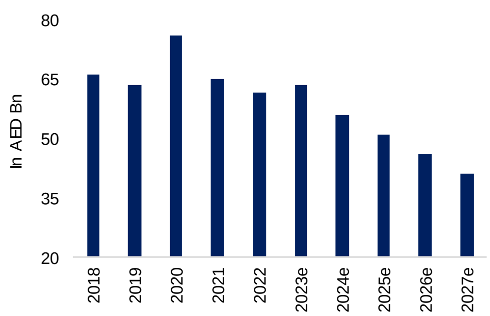


*Source: Company reports, US research

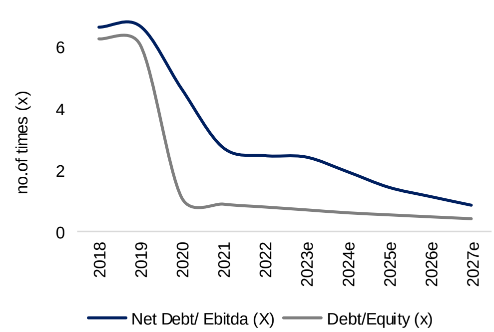
Debt levels to decline, leverage to reduce…

Finance cost is also a major expense item for the company and Taqa has constantly strived to reduce its leverage over the last couple of years. Gross loans have declined from AED 75bn in 2020 to AED 62bn in 3Q23. It is pertinent to note that through the merger there was significant improvement in the balance sheet cash position (from AED 3bn in 2019 to AED 8bn in 2020). The credit ratings at Aa3 by Moody's and AA- by Fitch for the group are one of the highest for a utility company in the world, and this has led to a low borrowing cost of 4.5%. The company has been successful in issuing the first green bonds of value AED 2.6bn for funding its investment in Masdar and to refinance the debt of Noor Abu Dhabi solar plant. The net debt/Ebitda stands at a manageable level of 2.3x in 3Q23 (from 4.6x in 2020). Cash position has further increased from AED 8.5bn in 2020 to AED 12.6bn in 3Q23, despite the significant investments and dividend payouts, clearly evidencing the improvement in the operations.

Gross debt likely to decline going forward



Current leverage is at manageable levels

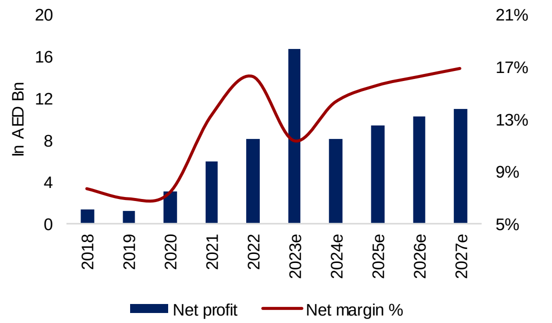


*Source: Company reports, US research

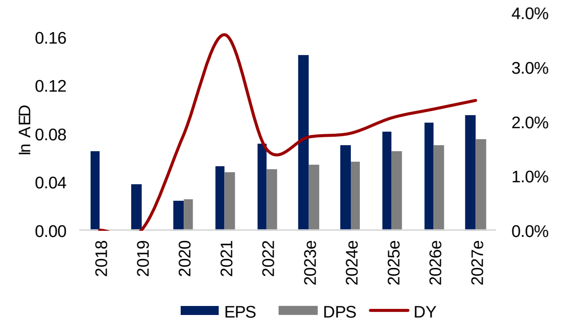
Quarterly dividend provides regular cash flow for investors…

Stable operations have resulted in steady net margins for the company in the past. We expect the same to continue with net margin holding at 14-16% levels going forward. This will result in an increase in net income by 6.6% CAGR (2022-27e). The company has a quarterly dividend policy, in which it pays a fixed amount based on the performance of each quarter and an additional special dividend based on the full year performance. The total payout in 2021 stood at AED 0.047/share at a 90% payout and in 2022 it increased to AED 0.051/share, at a 71% payout. During 1Q23 the company recognized its investment in Adnoc gas amounting to AED 10.8bn, which led to a higher net profit. We believe for 2023 there is scope for special dividend much higher compared to the previous years on account of this one-off income.

Net profit expected to rise by 6.6% CAGR (2022-27e)



Quarterly dividend distribution to be as per the policy



*Source: Company reports, US research

Valuation

We expect the company to maintain its leadership position, steady net margin levels and a predictable cash flow model. Further, the company is majority held by the government, which provides comfort to the valuation. The regular quarterly dividend makes Taqa a quasi-bond like investment, with scope for capital appreciation.

DCF fair value at AED 2.77 per share

We have used a blend of Discounted Cash Flow (DCF) method and peer valuation methodologies to arrive at the fair value of the stock. In our DCF method we have forecasted through 2023-2027e. We considered the cost of equity at 9.4%, derived from a risk-free rate of 4.0%, an equity risk premium of 8%, and a beta of 0.674. Based on these assumptions we arrive at a WACC of 6.8% for the company. We assume a terminal growth rate of 1% post the forecast period. Our DCF valuation of Taqa provides an intrinsic value of AED 2.77 per share

Blended value 8.5% lower than current price

We provide a premium multiple to Taqa comparing the size and balance sheet comfort. At 16x EV/EBITDA and 22x PE using we arrive at a fair value of AED 2.88/share and AED 3.21/share respectively. On a blended basis, assigning weights to our valuation methodologies we get a target price of AED 2.91/share. This provides a downside of 8.5% from the current level. Based on our target price we assign a NEUTRAL rating to Taqa.

DCF Method (in AED Mn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	**9,936**	**10,759**	**11,949**	**12,518**	**13,082**
Add: Depreciation & amortization	8,159	8,270	8,381	8,492	8,603
Less: Change in working capital	1,681	1,701	711	370	367
Less: Capex	-4,000	-3,000	-3,000	-3,000	-3,000
Free Cash Flow to Firm	**15,776**	**17,731**	**18,041**	**18,381**	**19,052**
PV of Free Cash Flows	15,705	16,522	15,740	15,013	15,561
PV of Terminal Value					285,994
Enterprise Value					364,535
Less: Net debt					51,283
Less: Minorities & Pension liabilities					1,853
Equity value					311,399
No of shares					112,434
Fair value per share (AED)					2.77

Valuation parameters	
Risk free rate (Rf)	4.0%
Beta	0.674
Equity Risk premium (Rm)	8.0%
Cost of equity (Ke)	9.4%
Terminal growth rate (g)	1.0%
Pretax Cost of Debt	4.7%
Effective tax rate	9.0%
After tax cost of debt	4.2%
Target Debt/Equity	50.0%
WACC	6.8%

Peer valuation	
EV/EBIDTA (TTM)	22.8
Target EV/EBIDTA	16.0
Fair value (AED)	2.88
PE (TTM)	23.8
Target PE	22.0
Fair value (AED)	3.21

Blended Target price	Wtg	Target price	Wtd value
DCF	0.50	2.770	1.38
EV/EBIDTA	0.25	2.882	0.72
PE	0.25	3.210	0.80
Target price			2.91
CMP			**3.18**
Potential upside			**-8.56%**

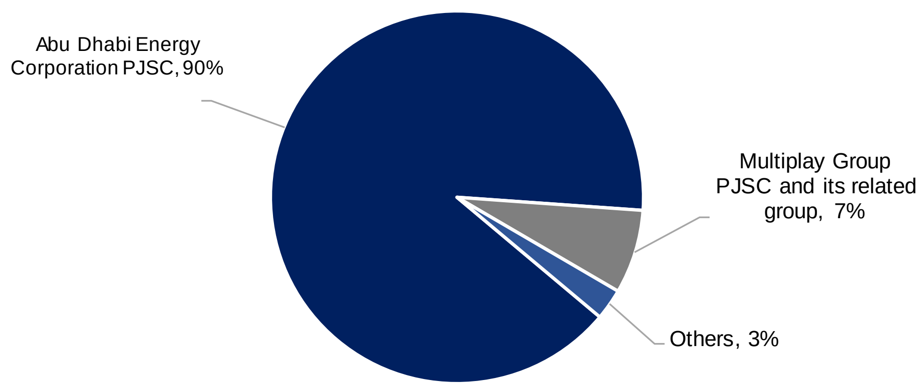
Key risks:

1. Sharp slowdown in the economy leading to reduced usage
2. Changes in regulations that could change the cost structure
3. New technologies that could make current capacities obsolete
4. Termination or non-renewal of agreements

Company Profile

TAQA was established in 2005, with the privatization of Abu Dhabi's power and water sector. The company listed on the Abu Dhabi Securities Exchange in 2005, and is one of the largest publicly listed companies in the UAE. Installed capacities for power and water were expanded post-merger with AD Power. The merger also introduced the transmission and distribution segment into the group. Currently, TAQA owns and operates assets across UAE, Ghana, Canada, India, Iraq, Morocco, Netherlands, Saudi Arabia, Oman, the United Kingdom and the United States. It operates the T&D business through its 100% wholly owned subsidiaries Abu Dhabi Transmission & Despatch Company (TRANSCO), Abu Dhabi Distribution Company (ADDC), Al Ain Distribution Company (AADC) and Abu Dhabi Energy Services (ADES). Taqa has 379 mboe of 2P oil reserve and a production capacity of 117 mboe/day globally.

Shareholding pattern of TAQA



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Mohamed Hassan Mohamed Hassan Al Suwaidi	Chairman	Independent
2	Jasim Husain Ahmed Thabet	Managing Director	Independent
3	Khalifa Sultan Sultan Hazim Alsuwaidi	Board Member	Independent
4	Mansour Mohamed Abdulqader Mohamed Almulla	Board Member	Independent
5	Hamad Abdulla Mohamed Alshorafa Alhammadi	Board Member	Independent
6	AbdulAziz Abdulla Ismail Mohamed Al Hajri	Board Member	Independent
7	Iman Abdulghafoor Mohammad Rafi AlQasim	Board Member	Independent
8	Mouza Saeed Khalfan Matar Al Romaithi	Board Member	Independent
9	Samia Toufic Bouazza	Board Member	Independent
10	Klaus Dieter Maubach	Board Member	Independent
11	Christopher Geoffrey Finlayson	Board Member	Independent

Source: Bloomberg ®, US Research

Income Statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Total revenue	**17,588**	**41,151**	**45,294**	**49,967**	**51,461**	**56,883**	**60,668**	**62,636**	**64,587**
Operating expenses	(7,965)	(23,332)	(23,901)	(27,369)	(29,590)	(34,130)	(36,401)	(37,582)	(38,752)
Depreciation	(3,819)	(9,606)	(11,111)	(9,549)	(9,334)	(9,508)	(9,620)	(9,732)	(9,845)
Gross profit	**5,740**	**6,209**	**10,282**	**13,049**	**12,537**	**13,245**	**14,647**	**15,322**	**15,990**
Administrative expenses	(600)	(1,920)	(2,254)	(2,166)	(2,058)	(2,275)	(2,427)	(2,505)	(2,583)
Share of results from JV/associates	108	105	313	321	107	398	425	438	452
Other Income/(loss)	-	231	1,116	84	273	455	485	501	517
EBIT	**5,219**	**4,916**	**9,378**	**11,115**	**10,918**	**11,823**	**13,130**	**13,756**	**14,376**
EBITDA	**9,038**	**14,522**	**20,489**	**20,664**	**20,252**	**21,331**	**22,750**	**23,489**	**24,220**
Finance - net	(3,853)	(3,271)	(2,947)	(2,777)	(2,461)	(2,254)	(2,022)	(1,789)	(1,557)
PBT	**1,405**	**2,215**	**6,431**	**8,338**	**19,242**	**9,569**	**11,109**	**11,967**	**12,819**
Income tax expense	(201)	797	(682)	(457)	(2,501)	(1,435)	(1,666)	(1,795)	(1,923)
PAT	**1,204**	**3,012**	**5,749**	**7,881**	**16,740**	**8,134**	**9,442**	**10,172**	**10,896**
PAT disc ops	-	-	246	242	-	-	-	-	-
Net profit	**1,204**	**3,012**	**5,995**	**8,123**	**16,740**	**8,134**	**9,442**	**10,172**	**10,896**

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	68,710	125,949	122,397	117,470	113,242	107,971	102,590	97,097	91,494
Operating financial assets	7,944	9,740	9,047	7,917	8,851	9,784	10,435	13,467	16,663
Intangible assets	1,797	19,232	17,974	16,708	15,556	14,339	13,120	11,900	10,679
Other non-current assets	7,996	8,792	8,277	14,510	30,156	30,969	31,537	31,832	32,125
Total non-current assets	**86,447**	**163,713**	**157,695**	**156,605**	**167,805**	**163,063**	**157,682**	**154,297**	**150,961**
Inventories	2,844	3,599	3,518	3,402	3,551	4,096	4,368	4,510	4,650
Amounts due from related parties	-	2,609	1,946	1,760	2,573	2,844	3,033	3,132	3,229
Accounts receivable and prepayments	4,277	7,290	6,534	7,333	6,690	7,395	7,887	8,143	8,396
Other current assets	1,038	1,197	1,732	1,752	1,550	1,702	1,808	2,301	2,822
Cash and short term deposits	2,953	8,519	8,772	10,422	14,132	14,117	17,875	18,827	19,866
Total current assets	**11,112**	**23,214**	**22,502**	**24,669**	**28,496**	**30,153**	**34,971**	**36,912**	**38,963**
TOTAL ASSETS	**97,559**	**186,927**	**180,197**	**181,508**	**196,301**	**193,217**	**192,653**	**191,209**	**189,925**
Share capital	6,066	112,434	112,434	112,434	112,434	112,434	112,434	112,434	112,434
Retained earnings	-	4,925	7,284	9,002	19,835	21,592	23,632	25,829	28,182
Reserves	(1,890)	(55,450)	(53,814)	(51,057)	(48,879)	(48,879)	(48,879)	(48,879)	(48,879)
Total Equity attributable to shareholders	**4,176**	**61,909**	**65,904**	**70,379**	**83,390**	**85,147**	**87,187**	**89,384**	**91,737**
Total non-controlling interest	6,252	7,346	7,298	7,362	7,251	7,404	7,581	7,773	7,977
Total equity	**10,428**	**69,255**	**73,202**	**77,741**	**90,642**	**92,551**	**94,768**	**97,156**	**99,715**
Interest bearing loans and borrowings	60,411	66,978	61,461	50,484	56,000	51,000	46,000	41,000	36,000
Other non-current liabilities	18,720	23,053	22,145	17,709	18,588	18,222	18,623	18,841	19,056
Total non-current liabilities	**79,131**	**90,031**	**83,606**	**68,193**	**74,588**	**69,222**	**64,623**	**59,841**	**55,056**
Accounts payable	4,905	16,271	16,228	18,047	19,233	22,184	23,660	24,428	25,189
Interest bearing loans	2,926	9,029	3,504	11,221	7,500	5,000	5,000	5,000	5,000
Other current liabilities	169	2,341	3,657	5,488	4,338	4,259	4,601	4,784	4,965
Total current liabilities	**8,000**	**27,641**	**23,389**	**34,756**	**31,071**	**31,443**	**33,262**	**34,212**	**35,154**
Total liabilities	**87,131**	**117,672**	**106,995**	**103,767**	**105,659**	**100,665**	**97,885**	**94,053**	**90,210**
Total equity and liabilities	**97,559**	**186,927**	**180,197**	**181,508**	**196,301**	**193,217**	**192,653**	**191,209**	**189,925**

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	1,405	3,759	6,691	9,136	16,740	8,134	9,442	10,172	10,896
Investing cash flow	(1,599)	5,065	(2,475)	(8,036)	(3,508)	(2,650)	(2,650)	(2,650)	(2,650)
Financing cash flow	(7,257)	(7,412)	(17,510)	(12,331)	(8,115)	(17,400)	(15,693)	(16,033)	(16,368)
Change in cash	**(439)**	**5,566**	**253**	**1,650**	**3,709**	**(14)**	**3,758**	**951**	**1,039**
Beginning cash	3,392	2,953	8,519	8,772	10,422	14,131	14,117	17,875	18,827
Ending cash	**2,953**	**8,519**	**8,772**	**10,422**	**14,131**	**14,117**	**17,875**	**18,827**	**19,866**

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.039	0.025	0.053	0.071	0.146	0.071	0.082	0.089	0.095
BVPS (AED)	0.688	0.551	0.586	0.626	0.742	0.757	0.775	0.795	0.816
DPS (AED)	-	0.025	0.047	0.051	0.055	0.057	0.066	0.071	0.076
FCF per share (AED)	-0.032	0.078	0.037	0.010	0.118	0.049	0.060	0.067	0.073
Valuation									
Market cap (AED Mn)	3,160	161,905	148,413	385,649	357,540	357,540	357,540	357,540	357,540
EV (AED Mn)	63,544	229,393	204,606	436,932	406,908	399,423	390,665	384,713	378,674
EBITDA (AED Mn)	9,038	14,522	20,489	20,664	20,252	21,331	22,750	23,489	24,220
P/E (x)	13.5	58.1	24.9	48.0	21.8	44.9	38.6	35.9	33.5
EV/EBITDA (x)	7.0	15.8	10.0	21.1	20.1	18.7	17.2	16.4	15.6
Price/Book (x)	0.8	2.6	2.3	5.5	4.3	4.2	4.1	4.0	3.9
Dividend Yield (%)	0.0%	1.7%	3.6%	1.5%	1.7%	1.8%	2.1%	2.2%	2.4%
Price to sales (x)	0.2	3.9	3.3	7.7	6.9	6.3	5.9	5.7	5.5
EV to sales (x)	3.6	5.6	4.5	8.7	7.9	7.0	6.4	6.1	5.9
Liqiudity									
Cash Ratio (x)	0.4	0.3	0.4	0.3	0.5	0.4	0.5	0.6	0.6
Current Ratio (x)	1.4	0.8	1.0	0.7	0.9	1.0	1.1	1.1	1.1
Quick Ratio (x)	1.0	0.7	0.8	0.6	0.8	0.8	0.9	0.9	1.0
Returns Ratio									
ROA (%)	1.2%	1.6%	3.3%	4.5%	8.5%	4.2%	4.9%	5.3%	5.7%
ROE (%)	11.5%	4.3%	8.2%	10.4%	18.5%	8.8%	10.0%	10.5%	10.9%
ROCE (%)	1.3%	1.9%	3.8%	5.5%	10.1%	5.0%	5.9%	6.5%	7.0%
Cash Cycle									
Inventory turnover (x)	2.8	6.5	6.8	8.0	8.3	8.3	8.3	8.3	8.3
Accounts Payable turnover (x)	1.6	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Receivables turnover (x)	4.1	5.6	6.9	6.8	7.7	7.7	7.7	7.7	7.7
Inventory days	130	56	54	45	44	44	44	44	44
Payable Days	225	255	248	241	237	237	237	237	237
Receivables days	89	65	53	54	47	47	47	47	47
Cash Cycle	266	246	249	232	234	234	234	234	234
Profitability Ratio									
Net Margins (%)	6.8%	7.3%	13.2%	16.3%	11.3%	14.3%	15.6%	16.2%	16.9%
EBITDA Margins (%)	51.4%	35.3%	45.2%	41.4%	39.4%	37.5%	37.5%	37.5%	37.5%
PBT Margins (%)	8.0%	5.4%	14.2%	16.7%	16.4%	16.8%	18.3%	19.1%	19.8%
EBIT Margins (%)	29.7%	11.9%	20.7%	22.2%	21.2%	20.8%	21.6%	22.0%	22.3%
Leverage									
Total Debt (AED Mn)	63,337	76,007	64,965	61,705	63,500	56,000	51,000	46,000	41,000
Net Debt (AED Mn)	60,384	67,488	56,193	51,283	49,368	41,883	33,125	27,173	21,134
Net Debt/ Ebitda (X)	6.7	4.6	2.7	2.5	2.4	2.0	1.5	1.2	0.9
Debt/Equity (x)	6.1	1.1	0.9	0.8	0.7	0.6	0.5	0.5	0.4

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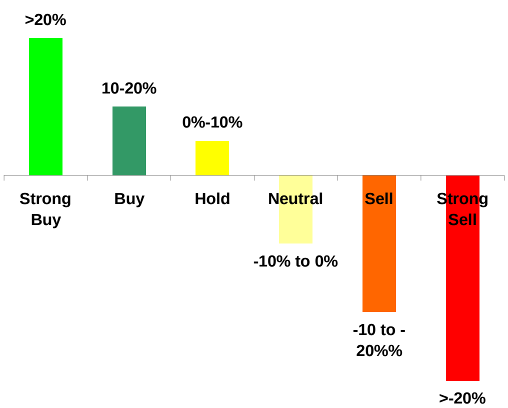
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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