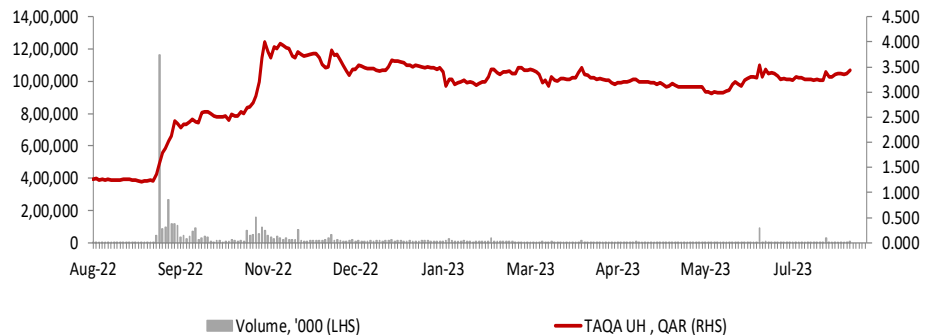


Abu Dhabi National Energy Company P.J.S.C. (TAQA) - 2Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:	Hold	Target Price (AED):	UR
Previous Reco. & Date:	TP: AED 3.4 per share; Hold on 15-May-2023	Upside / (Downside):	-
			Date: 14-08-2023

Bloomberg Ticker	TAQA UH
Current Market Price (AED)	3.430
52wk High / Low (AED)	4.143/1.212
12m Average Vol. (000)	19,233.4
Mkt. Cap. (USD/AED mn)	104,996/385,649
Shares Outstanding (mn)	1,12,434.3
Free Float (%)	10%
3m Avg Daily Turnover (000)	13,783.9
6m Avg Daily Turnover (000)	14,447.4
P/E'23e (x)	18.8x
EV/EBITDA'23e (x)	19.4x
Dividend Yield '23e (%)	1.7%
Price Perf. (1m/3m) (%)	5.2%/10.3%



Revenue increased 5% YoY, in line with estimates.

TAQA demonstrated consistent revenue performance in Q2'23 recording AED 13,665mn in revenue, which reflects a 5% YoY increase and a 4% QoQ increase. This performance aligns with our projected figure of AED 13,414mn. Notably, the company experienced substantial growth in the Transmission and Distribution (T&D) segment, which expanded by 19% YoY. However, this growth was offset by declines in the Generation of Power & Water and Oil & Gas segments, both of which decreased by 8.5% and 12.5%, respectively.

Gross and operating profits declines YoY, misses estimates.

Gross profit and operating profit stood at AED 3,267mn and AED 2,753mn, respectively, missing our estimated AED 3,555mn and AED 3,185mn, respectively. Higher-than-expected cost of sales and general & administrative expenses dragged margins as gross margin and operating margin fell to 24% (vs. 27% estimated) and 20% (vs. 24%), respectively.

Net profit fell by 83% QoQ, below estimate.

Net Income stood at AED 1,923mn (-17% YoY), missing our estimated AED 2,735 significantly. This miss was largely due to lower-than-expected operating income and higher-than-expected finance as well as income tax expenses. Meanwhile, net margins declined to 14% (vs. 20% estimated).

Target price under review.

Given the significant miss as compared to our estimates for Q2'23 at Net Income level, we are placing the stock under review and will update our estimates and investment case accordingly.

Valuation.

TAQA is trading at 2023e P/E of 18.8x – which represents a 50% discount compared to the historical average 1-year forward P/E of 37.5x. Additionally, the stock is valued at EV/EBITDA multiple of 19.4x, based on our FY23 estimate, which is at a 3% discount compared to the historical average of 20.1x.

Income Statement												
(AED mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)	
Sales/Revenue	13,697	10,844	13,139	13,665	13,414	5%	4%	2%	25,426.0	26,804	5%	
Gross Profit (Loss)	3,513	2,410	3,432	3,267	3,555	-10%	-5%	-8%	7,126.0	6,699	-6%	
Operating Profit (Loss)	2,987	1,670	2,913	2,753	3,185	-12%	-5%	-14%	6,226.0	5,666	-9%	
Net Profit (Loss)	2,236	1,511	11,572	1,923	2,735	-17%	-83%	-30%	4,283.0	13,495	215%	
Balance Sheet												
(AED mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)	
Shareholders' Equity	69,070	70,379	78,960	80,767	81,695	20%	2%	-1%	67,142.0	80,767	20%	
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)	
Gross Profit Margin	25.6%	22.2%	26.1%	24%	27%							
Operating Profit Margin	21.8%	15.4%	22.2%	20%	24%							
Net Profit Margin	16.3%	13.9%	88.1%	14%	20%							
Return on Equity (RoE)	12.9%	8.6%	58.6%	10%	13%							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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