

Company

Abu Dhabi National
Energy Company

Rating

Hold

Bloomberg Ticker

TAQA UH

Date

12 September 2024

Recommendation

Target Price	AED 2.50/share
Upside / Downside	-5.1%
Recommendation	Hold

Cash flow stability built into TAQA's business model

TAQA's highly predictable and secure cash flow profile is underpinned by its regulated and contracted assets, strong regulatory framework and diversified portfolio.

Strategic acquisitions set to unlock long-term growth for TAQA

- TAQA's consortium wins Juranah independent strategic water reservoir project in Makkah
- TAQA and Jeera to develop industrial steam and electricity cogeneration plant for SATORP
 - These strategic partnerships and acquisitions will provide new sources of revenue. Given the long-term nature of the contracts, they will ensure a steady stream of income and create synergies for future growth

TAQA's SWS move drives UAE's green goals

The integration of SWS Holding strengthens TAQA's position as Abu Dhabi's fully integrated utilities provider. The addition of wastewater collection, treatment, and reuse capabilities further enhances TAQA's role in advancing the UAE's net-zero ambitions.

Fig 1. Key Indicators

Key Indicators	FY22	FY23	FY24e	FY25e	FY26e
Revenue	49,967	51,717	54,506	56,666	59,272
Gross profit margin	26.1%	24.2%	28.5%	29.1%	28.7%
EBITDA margin	41.0%	37.7%	41.9%	41.8%	40.7%
Net income margin	15.8%	32.5%	19.6%	20.1%	19.8%
ROE	10.4%	20.2%	11.1%	12.4%	12.5%
ROA	4.4%	8.9%	5.3%	5.8%	5.9%
P/E*	46.8x	23.4x	27.7x	26.0x	25.2x
EV/EBITDA*	21.2x	22.7x	15.4x	14.8x	14.6x
Dividend Yield*	1.5%	1.5%	2.5%	2.7%	2.7%

Source: Bloomberg, Company Reports, U Capital research

*P/E, EV/EBITDA and Dividend yield from 2024 onwards are calculated on current price

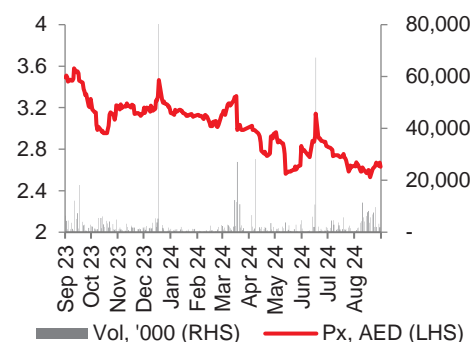
Current Market Price (AED)	2.63
52 week High/Low	3.66/2.51
12m Average Vol. (000)	3,372.0
Mkt. Cap. (USD/AED mn)	80,518/295,702
Free Float	2.68%
3m Avg Daily Turnover (000)	10,738.4
6m Avg Daily Turnover (000)	9,821.6
P/E'24e	27.7x
EV/EBITDA'4e	15.4x
Dividend Yield'24e	2.5%

Price Performance

1 month (%)	-0.4%
3 months (%)	-7.4%
12 months (%)	-25.9%

Source: Bloomberg

Fig 2. Price-Volume performance



Source: Bloomberg

Neetika Gupta

Head of Research

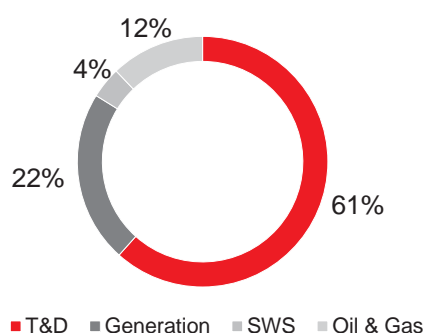
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Investment Rationale

TAQA: Largest player in utility market in Abu Dhabi

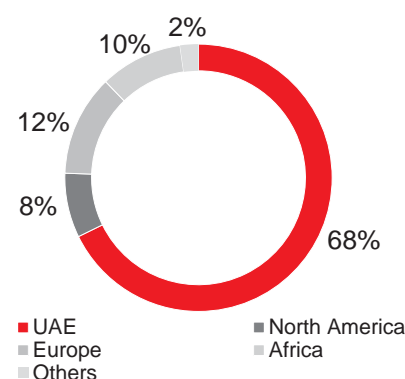
TAQA is a diversified utilities and energy group with significant investments across power and water generation, transmission, and distribution, as well as upstream and midstream oil and gas operations. The company has also successfully integrated its Sustainable Water Solutions business into its broader operations. TAQA's revenue streams are geographically diverse, spanning key regions such as the UAE, the Americas, Europe, and Africa.

Fig 3. Revenue by Segment



Source: Company reports, U Capital research

Fig 4. Revenue by Geography



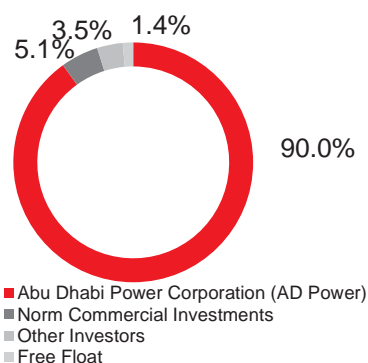
Source: Company reports, U Capital research

TAQA's free float has experienced a consistent decline over the years, falling from 46.4% in 2014 to 1.4% as of YTD 2024. However, according to Bloomberg, the current free float is reported at 2.68%.

Free float plummets

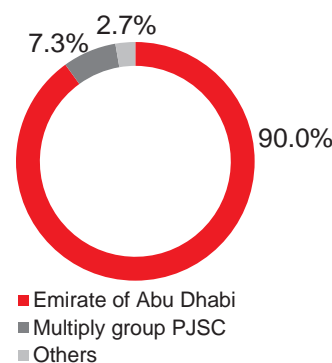
- > TAQA identifies Abu Dhabi Power Corporation (AD Power), a wholly owned subsidiary of ADQ, one of the Emirate of Abu Dhabi's key strategic investment entities as its largest shareholder, with Norm Commercial Investment being the second-largest shareholder.
- > Bloomberg provides a slightly different breakdown, still identifying the Emirate of Abu Dhabi as the largest shareholder but listing Multiply Group PJSC as the second-largest shareholder. Multiply Group owns a 7.3% stake, including the 5.1% interest held through its subsidiary, Norm Commercial Investment.

Fig 5. Shareholding Pattern (as per TAQA)



Source: Company reports, U Capital research

Fig 6. Shareholding pattern (as per Bloomberg)



Source: Bloomberg, U Capital research

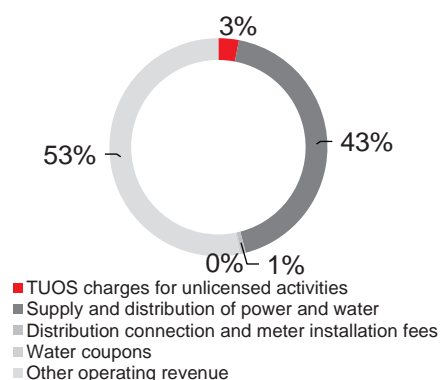
Transmission and Distribution segment (T&D)

TAQA's T&D segment is engaged in transmission and distribution of water and electricity from the generation and desalination plants in the UAE. Revenue from the supply and distribution of power and water constitutes 43% of the total transmission and distribution segment, while 53% comes from other operating revenue.

TAQA operates an extensive high-voltage transmission network that enables the transfer of electricity across Abu Dhabi. The distribution of electricity and water to end-users is managed by the Abu Dhabi Distribution Company (ADDC) and the Al Ain Distribution Company (AADC). As of 2Q24, TAQA's transmission network covers 14,504 km, while the distribution network extends over 96,376 km.

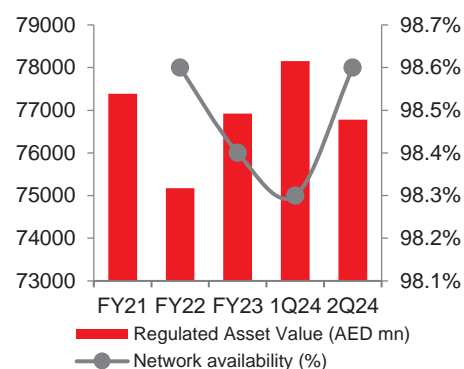
➤ As of 2Q24, network availability is robust at 98.6%, and the regulated asset value stands at AED 76,778mn.

Fig 7. T&D segment breakup



Source: Company reports, U Capital research

Fig 8. Regulated asset and network availability



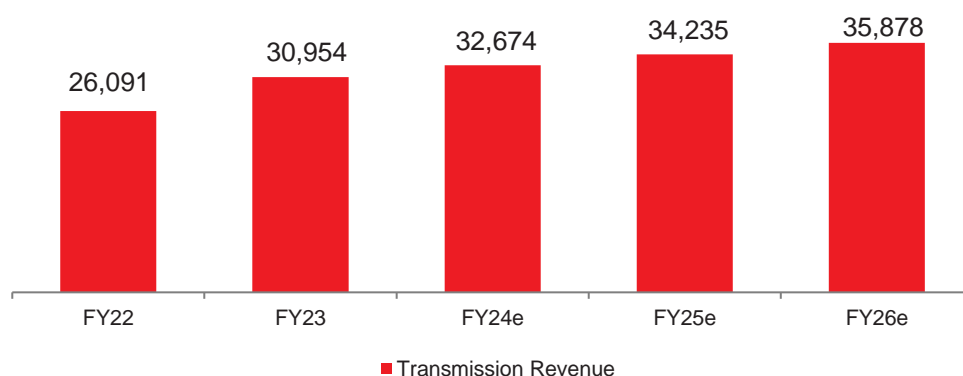
Source: Company reports, U Capital research

Exclusive transmission rights expected to drive T&D revenue

TAQA boasts an extensive network of transmission and distribution lines throughout Abu Dhabi. The company's Transmission & Distribution (T&D) business primarily generates revenue through regulated tariffs, with TAQA holding exclusive rights for the transmission and distribution of electricity and water within the Emirate. This exclusivity provides a robust foundation for TAQA's operations and ensures a stable revenue stream.

➤ Given this TAQA's exclusive rights in Abu Dhabi, we expect a steady increase in TAQA's T&D revenue post-FY24e.

Fig 9. Transmission revenue (AED mn)



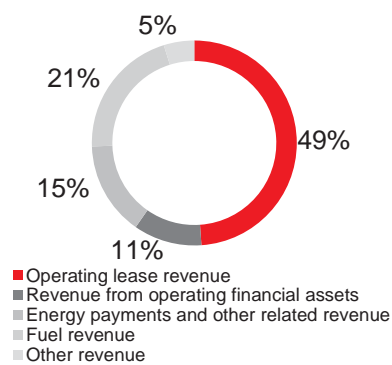
Source: Company reports, U Capital research

Generation segment

TAQA's Power and Water Generation segment is responsible for the production of electricity and desalinated water for supply within the UAE, as well as electricity generation in Morocco, India, Ghana, and Saudi Arabia.

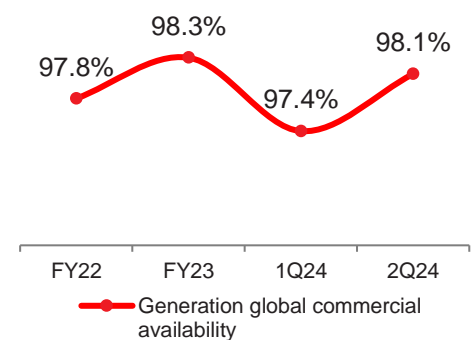
The segment also encompasses investments in joint ventures and associates, which manage a variety of assets focused on renewable energy and sustainable development across multiple countries.

Fig 10. Generation revenue breakup



Source: Company reports, U Capital research

Fig 11. Global commercial availability



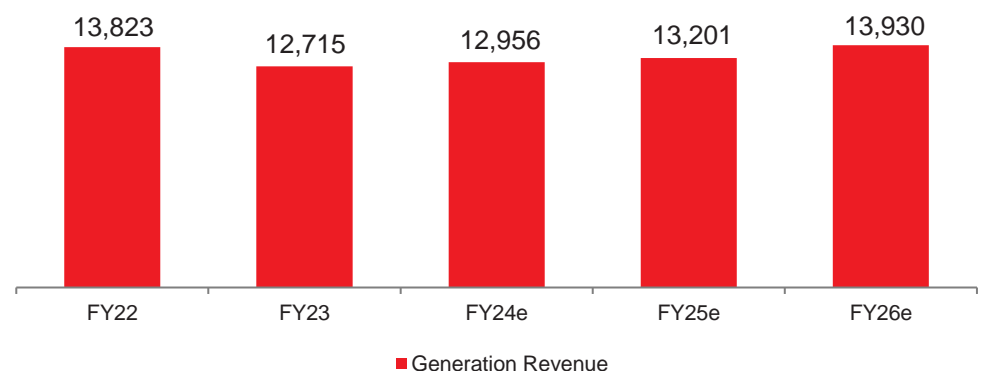
Source: Company reports, U Capital research

Exclusive rights and capacity expansion to drive generation revenue growth

TAQA has outlined an ambitious plan to expand its net power generation capacity to 50 GW and its water desalination capacity to 1,300 MIGD by 2030. The company has also secured exclusive rights to participate in all power and water generation projects tendered in Abu Dhabi over the next decade, with a guaranteed minimum stake of 40% in each project.

- > Given the expansion plans and exclusive rights to participate in all power and water generation projects tendered in Abu Dhabi, we anticipate a steady increase in revenue from TAQA's generation segment post-FY24e.

Fig 12. Generation revenue (AED mn)



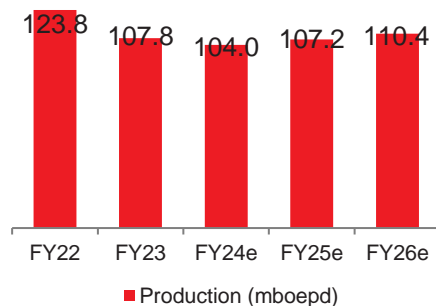
Source: Company reports, U Capital research

Oil & Gas Segment

The Oil and Gas segment is involved in both Upstream and Midstream activities in Canada and the Netherlands, and exclusively in Upstream operations in the United Kingdom and the Kurdistan region of Iraq. In 2024, TAQA successfully completed sale of its interest in the Atrush Block in Kurdistan, leading to an 8% decline in production volumes during the 1H24.

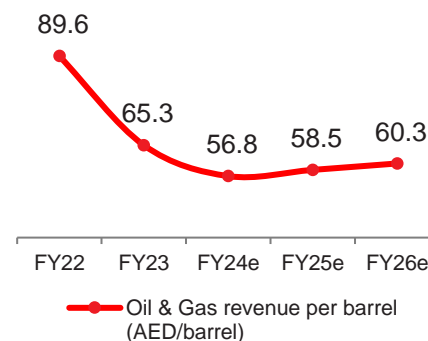
- > We anticipate that production volumes will continue to decrease on a YoY basis through 2024e, followed by a gradual recovery in volumes thereafter. Additionally, oil and gas prices have remained relatively low in 2024 due to higher inventories and increased supply from non-OPEC countries.
- > We expect this price pressure to persist for the remainder of 2024e, with price stabilization expected thereafter.

Fig 13. Oil & Gas production (mboepd)



Source: Company reports, U Capital research

Fig 14. Oil & Gas revenue per barrel



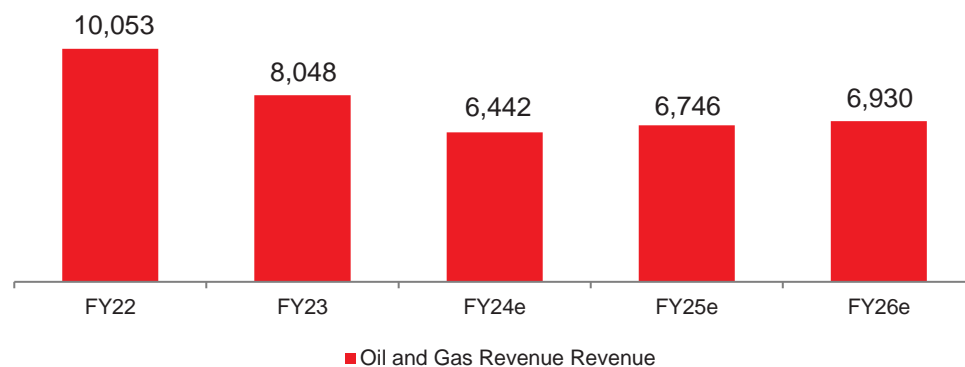
Source: Company reports, U Capital research

Oil & Gas divisional revenue expected to decline in FY24e amidst volume and price pressure

TAQA experienced a decline in Oil & Gas revenue in 1H24, primarily driven by the completed divestiture of its interest in the Atrush Block in Kurdistan, leading to lower production volumes, compounded by reduced per-barrel prices amid ongoing pressure on oil and gas prices.

Looking ahead, we expect continued challenges in both volumes and prices throughout the remainder of 2024, resulting in a YoY decline in total Oil and Gas segment revenue for FY24e. However, we anticipate stabilization thereafter, with a steady increase in revenues going forward.

Fig 15. Oil & Gas revenue (AED mn)



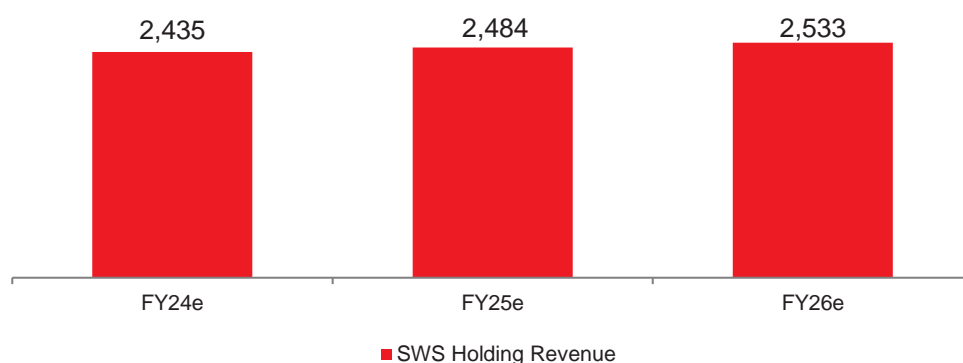
Source: Company reports, U Capital research

Wastewater network expansion with SWS acquisition

TAQA has entered the wastewater networks and treatment sector with the planned AED 1.7bn acquisition of Sustainable Water Solutions Holding Company (SWS). This acquisition solidifies TAQA's position as Abu Dhabi's fully integrated utilities company, managing a network of sewer pipelines spanning over 12,000 km and a sewage treatment capacity of approximately 1.3mn cubic meters per day.

The integration of SWS holding will further enhance TAQA's role in supporting the UAE's net zero ambitions. In 1H24, SWS achieved a water asset availability rate of 96.4%, demonstrating strong performance since its integration. We expect asset availability to remain at this level, contributing to steady revenue growth from the SWS business.

Fig 16. Sustainable Water Solution revenue (AED mn)



Source: Company reports, U Capital research, SWS included in the business from 1Q24

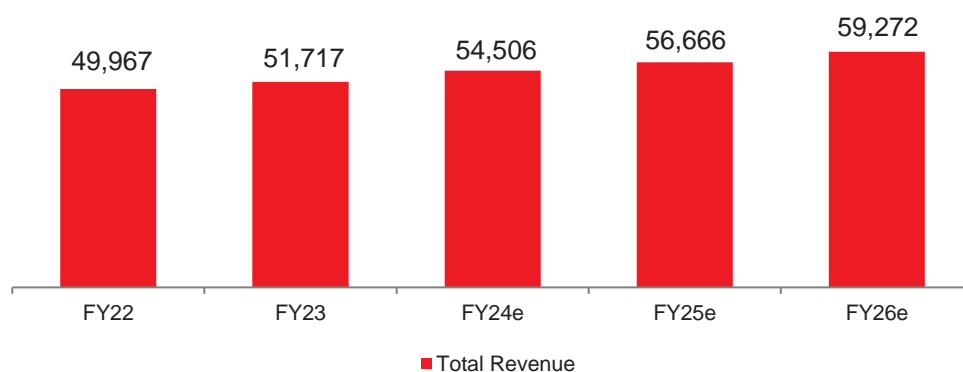
Capacity expansion and strategic partnerships to fuel total revenue growth for TAQA

Since FY21, total revenue has demonstrated consistent growth, with a CAGR of 7% between FY21-23. However, in 2Q24, revenue saw a modest decline, primarily due to a decrease in revenue from the Oil & Gas and Generation segments. This decline was partially offset by increased revenue in the T&D segment and contributions from the integration of SWS Holding.

During 2024, TAQA entered into two significant strategic partnerships. The first is a consortium that secured the Juranah Independent Strategic Water Reservoir project in Makkah. The second is a partnership with JEERA to develop an industrial steam and electricity cogeneration plant for SATORP. These initiatives are expected to create new revenue streams and generate synergies.

Given TAQA's capacity expansion plans, the integration of SWS Holding, and the value from these strategic partnerships, we expect a steady increase in total revenue beyond FY24e.

Fig 17. Total revenue (AED mn)



Source: Company reports, U Capital research

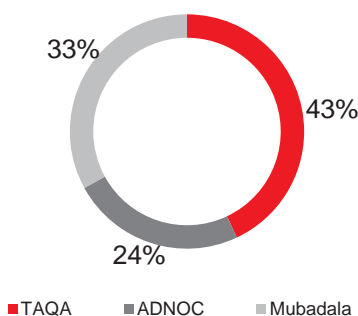
Masdar JV: Powering TAQA's renewable projects

Masdar, a key strategic partnership between TAQA, ADNOC, and Mubadala, serves as Abu Dhabi's flagship clean energy company, rapidly expanding its global footprint in renewable power and other enabling clean energy technologies.

As the execution arm for Abu Dhabi's domestic and international renewable energy ambitions, Masdar has made significant strides in 2024. Notably, it acquired a 50% stake in Terra-Gen Power Holdings, one of the largest independent renewable energy producers in the United States.

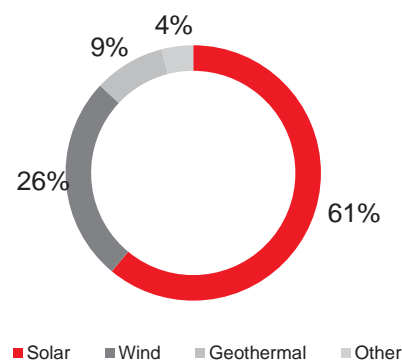
Additionally, Masdar secured a 67% stake in Terna Energy SA, which is expected to play a pivotal role in expanding Masdar's European portfolio as it aims for 100 GW of global capacity by 2030, supporting the global energy transition. Furthermore, Masdar has partnered with Endesa Spain on a €1.7bn renewable energy project. These strategic acquisitions and partnerships are expected to deliver substantial long-term benefits for TAQA, aligning with its 2030 objectives.

Fig 18. Shareholding pattern



Source: Company reports, U Capital research

Fig 19. Technology Mix

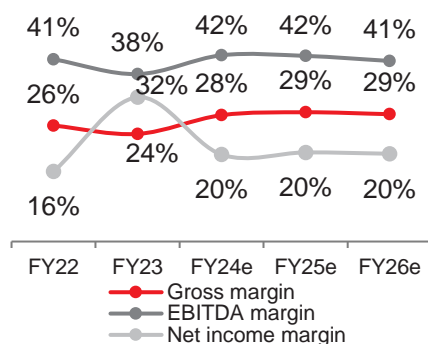


Source: Company reports, U Capital research

TAQA's stable and secure profit margins

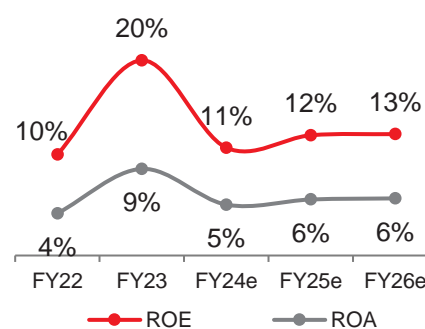
The group has consistently maintained stable margins, with 80% of its adjusted EBITDA being derived from regulated and contracted assets, reflecting a highly predictable and secure cash flow profile. In FY23, the net income margin rose to 32%, driven by a one-off gain on an investment worth AED 10,784mn. We expect the net income margin to normalize in FY24e, stabilizing around 20% in subsequent years. Additionally, we anticipate EBITDA margins to remain steady post-FY24e.

Fig 20. Margins



Source: Company reports, U Capital research

Fig 21. Return Ratios



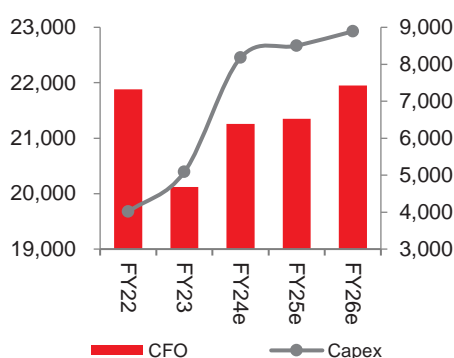
Source: Company reports, U Capital research

Capacity expansion and strategic partnerships drives capex

TAQA is actively pursuing expansion plans aimed at increasing the capacity of its Transmission & Distribution (T&D) and Generation businesses. In addition, TAQA has formed strategic partnerships expected to broaden its geographical presence. Consequently, we foresee an increase in capital expenditures post FY24e.

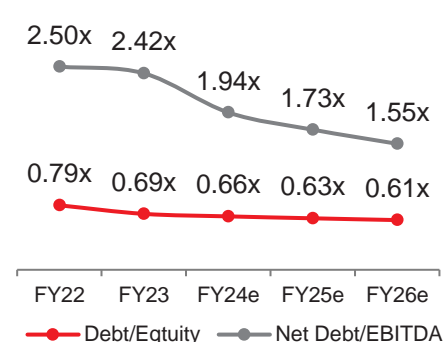
The recent Shuweihat 4 Reverse Osmosis Seawater Desalination Project and the Independent Strategic Water Reservoir Project in Makkah are funded 71% and 80% through debt, with TAQA holding stakes of 60% and 35%, respectively. While this increase in debt is significant, it is offset by expected repayments between FY24-28e and given the group's strong cash position, we anticipate a reduction in leverage ratio post-FY24e.

Fig 22. CFO and Capex



Source: Company reports, U Capital research

Fig 23. Leverage

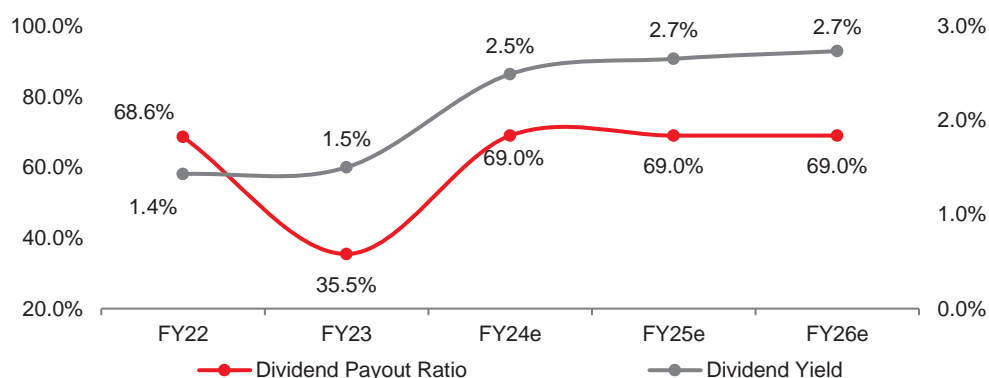


Source: Company reports, U Capital research

Steady dividend payout ratio with rising yields post FY24e

TAQA has a consistent track record of regular dividend payments, supported by a clear and transparent dividend policy. For FY24e, the group has set dividends at 3.50 fils/share from its Transmission & Distribution and Generation segments, with an increase to 3.75 fils/share projected for FY25e from those segments. Factoring in the Oil & Gas and SWS holdings, we anticipate a payout ratio of 69% for FY24e and expect it to be around that range post-FY24e with dividend yields expected to increase steadily post-FY24e.

Fig 24. Dividend payout ratio and yields



Source: Company reports, U Capital research

Sensitivity Analysis

Our TP for Abu Dhabi National Energy Company (TAQA UH) is sensitive to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards Cost of Equity.

Our TP is also sensitive to the Oil & Gas production (mboepd) and Oil & Gas revenue per barrel (AED).

Fig 25. Sensitivity Analysis

		Cost of Equity					Oil & Gas revenue per barrel (AED)						
		7.7%	8.7%	9.7%	10.7%	11.7%		53	55	57	59	61	
Terminal growth rate	2.3%	3.0	2.6	2.3	2.0	1.8	Oil & Gas prod. (mboepd)	84	2.1	2.2	2.3	2.4	2.4
	2.5%	3.2	2.7	2.4	2.1	1.9		94	2.3	2.3	2.4	2.4	2.4
	2.8%	3.4	2.9	2.5	2.2	2.0		104	2.3	2.4	2.5	2.5	2.5
	3.0%	3.6	3.1	2.6	2.3	2.0		114	2.4	2.4	2.5	2.6	2.7
	3.3%	3.9	3.3	2.8	2.4	2.1		124	2.4	2.4	2.6	2.6	2.7

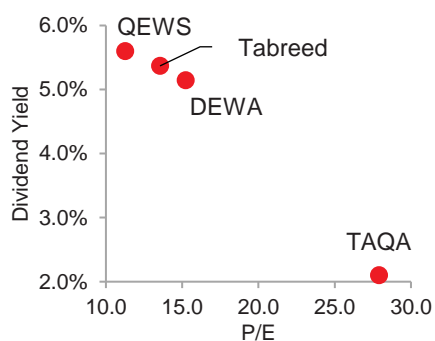
Source: Bloomberg, Company Reports, U Capital research

Fig 26. Peer Group Valuation

	Market Cap (AED bn)	CMP	Price change 1m	Price change 3m	Price change 12m	EV/EBITDA '24e	P/E '24e	Div. yield '24e	ROE '24e	FCF yield '24e
TAQA	295.7	2.63	0%	-7%	-25%	15.4	27.7	2.5%	11.1%	4.4%
Tabreed	8.5	2.99	-2%	-2%	-16%	10.5	13.6	5.4%	9.2%	12.7%
QEWS	17.2	15.55	0%	3%	-17%	18.9	11.3	5.6%	9.6%	5.9%
DEWA	120.0	2.40	1%	6%	-2%	9.0	15.3	5.1%	8.4%	6.7%
Average						12.8	13.4	5.4%	9.1%	7.4%
Median						10.5	13.6	5.4%	9.2%	6.3%

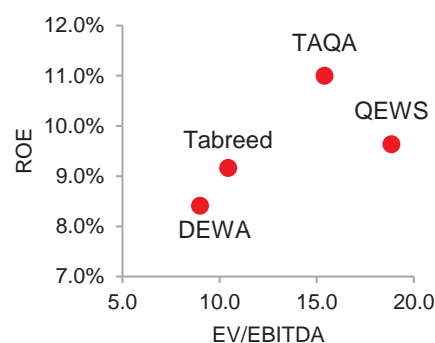
Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 11 September 2024 Market-cap weighted average multiples – EV/ EBITDA, and P/E

Fig 27. Price to Earnings and Dividend Yield



Source: Bloomberg

Fig 28. EV/EBITDA and ROE



Source: Bloomberg

Valuation

To value Abu Dhabi National Energy Company, we employed Sum-of-the-parts (SOTP) method for valuation. In our SOTP analysis, we have valued all the individual segments using EV/EBITDA multiple.

We have derived the valuation multiples using the median values of comparable peers across relevant segments. For the **Transmission & Distribution (T&D)** segment, we included peers such as Alliant Energy, WEC Energy, Tenaga Nasional Bhd, and Avista Corp. In the **Generation** segment, peers included are Dubai Electricity & Water, Saudi Electricity, Power Assets Holdings, and Korea Electric Power. Similarly, for the **Oil & Gas segment**, we used peers including Saudi Arabian Oil Company, Shell Plc, ENI SpA, and Total Energies SE. Lastly, for the **SWS Holdings**, we considered peers such as VA Tech Wabag Ltd, Thermax Ltd, Veolia Environment, and Pentair Plc.

SOTP yields a fair value of **AED 2.50 per share**.

Fig 29. Valuation Summary

Valuation	TAQA
Sum-of-the-parts (SOTP)	
T&D (EV/EBITDA multiple)	
EV/EBITDA multiple	18.2x
EBITDA (AED mn)	8,252
Enterprise Value (AED mn)	1,49,951
Generation (EV/EBITDA multiple)	
EV/EBITDA multiple	11.1x
EBITDA (AED mn)	9,144
Enterprise Value (AED mn)	1,01,952
Oil & Gas (EV/EBITDA multiple)	
EV/EBITDA multiple	8.7x
EBITDA (AED mn)	3,688
Enterprise Value (AED mn)	31,908
Sustainable Water Solution (EV/EBITDA multiple)	
EV/EBITDA multiple	29.6x
EBITDA (AED mn)	1,572
Enterprise Value (AED mn)	46,509
Total Enterprise Value (AED mn)	3,30,320
Less: Net Debt (AED mn)	-49,601
Equity Value (AED mn)	2,80,719
Outstanding shares (mn)	1,12,434
Target Price (AED)	2.50
Current Market Price (AED)	2.63
Upside / (Downside) (%)	-5.1%
Recommendation	Hold

Source: Bloomberg, U Capital Research

Financial Tables

Figure 30: Financial Tables

AED mn	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Income Statement								
Sales	45,294	49,967	51,717	54,506	56,666	59,272	61,966	64,865
Gross profit	10,282	13,049	12,532	15,508	16,491	16,992	17,420	17,855
Operating profit	8,028	10,883	10,198	13,297	14,049	14,403	14,674	14,938
PBT	6,431	8,338	19,431	12,236	13,036	13,432	13,705	13,995
Net income	5,749	7,881	16,802	10,673	11,371	11,717	11,955	12,208
Balance Sheet								
PPE	1,22,397	1,17,470	1,15,376	1,15,288	1,15,455	1,15,949	1,16,787	1,18,004
Total Assets	1,80,197	1,81,508	1,94,000	1,95,568	1,97,351	1,99,712	2,03,017	2,05,554
Total Debt	64,965	61,705	61,228	59,577	58,617	57,745	57,714	56,854
Total Liabilities	1,14,293	1,11,129	1,11,482	1,11,398	1,11,286	1,11,748	1,13,168	1,13,832
Total Equity	65,904	70,379	82,518	84,171	86,065	87,964	89,849	91,722
Cash Flow								
CFO	20,293	21,879	20,118	21,260	21,353	21,950	22,252	22,506
CFI	-2,475	-8,036	-6,190	-8,602	-7,311	-7,696	-8,094	-8,522
CFF	-17,510	-12,331	-10,204	-11,347	-11,540	-11,654	-10,983	-11,966
Net change in cash	308	1,512	3,724	1,311	2,502	2,601	3,176	2,018
Cash balance	8,422	10,123	13,878	15,304	17,766	20,367	23,542	25,561
Key Ratios								
Current Ratio	1.0	0.7	0.9	1.0	1.1	1.2	1.3	1.3
Gross profit margin	22.7%	26.1%	24.2%	28.5%	29.1%	28.7%	28.1%	27.5%
Operating margin	17.7%	21.8%	19.7%	24.4%	24.8%	24.3%	23.7%	23.0%
EBITDA margin	42.4%	41.0%	37.7%	41.9%	41.8%	40.7%	39.4%	38.2%
Net income margin	12.7%	15.8%	32.5%	19.6%	20.1%	19.8%	19.3%	18.8%
ROE	8.1%	10.4%	20.2%	11.1%	12.4%	12.5%	12.5%	12.6%
ROA	3.1%	4.4%	8.9%	5.3%	5.8%	5.9%	5.9%	6.0%
Debt/Equity	0.9x	0.8x	0.7x	0.7x	0.6x	0.6x	0.6x	0.6x
Interest coverage	2.6x	3.7x	3.6x	4.8x	5.1x	5.3x	5.4x	5.6x
P/E	64.7x	46.8x	23.4x	27.7x	26.0x	25.2x	24.7x	24.2x
EV/EBITDA	11.0x	21.2x	22.7x	15.4x	14.8x	14.6x	14.4x	14.2x
EV/Sales	4.7x	8.7x	8.6x	6.5x	6.2x	5.9x	5.7x	5.4x
Div. payout ratio	50.0%	68.6%	35.5%	69.0%	69.0%	69.0%	69.0%	69.0%
Div. yield	2.0%	1.4%	1.5%	2.5%	2.7%	2.7%	2.8%	2.8%
Net Debt/EBITDA	2.9x	2.5x	2.4x	1.9x	1.7x	1.6x	1.4x	1.3x
ROCE	5.1%	7.4%	6.3%	8.0%	8.3%	8.4%	8.5%	8.6%



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Recommendation

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

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