

ACWA POWER Co. (ACWA POWER)

Target Price: SAR 170.5/share
Downside: 31.1%

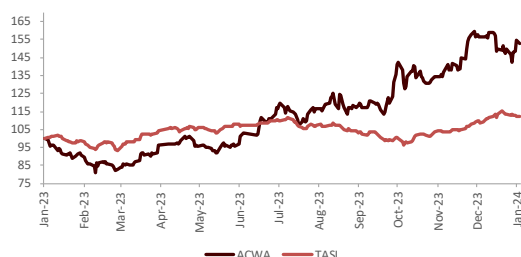
Recommendation

Sell

Current Market Price (SAR)	247.4
52wk High / Low (SAR)	261.8/131.2
Mkt. Cap. (USD/SAR Mn)	48,203/180,874
Shares Outstanding (mn)	731.1
Free Float (%)	52.2%
3m Average Vol. (000)	334.7
3m Avg Daily Turnover (SAR'000)	77,541
Dividend Yield '24e (%)	0.5%
P/E'24e (x)	61.4
EV/EBITDA'24e (x)	33.6

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	5,235	5,276	5,909	7,275
Gross profit	2,852	2,865	3,221	4,038
GPM (%)	54%	54%	55%	56%
EBIT	2,303	2,614	2,839	3,753
EBIT margin (%)	44%	50%	48%	52%
EBITDA	2,924	3,079	3,375	4,326
EBITDA margin (%)	56%	58%	57%	59%
Net Income	759	1,540	1,569	2,864
Net margin (%)	14%	29%	27%	39%
EPS (SAR)	1.14	2.11	2.15	3.92

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	44.16%
Vision International Investment Co.	22.75%
Mohammed Abdullah Abunayyan	3.65%

Source: Bloomberg, Yaqeen Capital

Higher revenue contributed to the bottom line

- ACWA POWER net income was up by 16.4% YoY (-4.0% QoQ) to SAR 398mn in 3Q2023 on account of higher revenues, better operating margin, reversal of impairments and FX gains. However, an increase in finance expenses (SAR 412mn vs. SAR 347mn in 3Q2022) and higher share for non-controlling interest constrained the gains at bottom-line level. For 3Q2023, net margin dropped to 25.8% (-125bps YoY, -355bps QoQ).
- Revenues jumped by 22.1% YoY (+9.2% QoQ) in 3Q2023, driven by significant growth in the Services business (~54% of total revenues, +39.9% YoY). The growth in the services business was led by the Development & Operation segment (+81.6% YoY), followed by Operation & Maintenance (+25.8% YoY). Meanwhile, other segments, including Sale of Electricity and Sale of Water, grew by 10.5% YoY and 2.2% YoY, respectively, during 3Q2023.
- Gross profit increased by 26.3% YoY to SAR 877mn (+10.5% QoQ) in 3Q2023 and the margin improved by 188bps YoY and 65bps QoQ to 56.9%.
- Operating income was higher by 25.0% YoY and 11.6% QoQ to SAR 814mn in 3Q2023, supported by improved operational performance in existing projects, the commercialization of new projects, and increased other operating income during the quarter. However, the positive impact was partially offset by higher general and administrative expenses, as well as an increase in development costs, provisions, and write-offs. For 3Q2023, operating margin improved to 56.9% compared to 51.6% in 3Q2022.
- For 9M2023, net income grew to SAR 1,082, registering robust growth of 22.5% YoY and the margin rose to 25.2% compared to 23.8% in 9M2022.

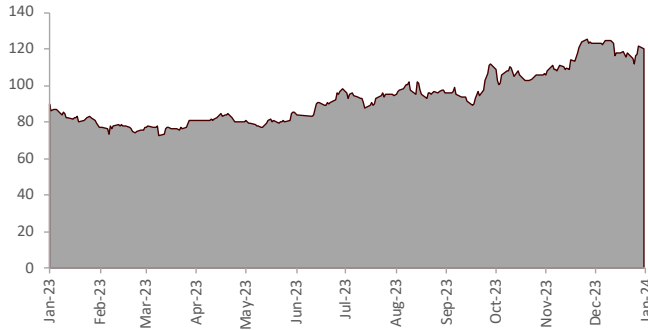
Outlook & Valuation: ACWA POWER holds a strong market position, standing as the largest private power producer in the Middle East and the world's largest private water desalination company. The company has consistently expanded its capacity across segments at a solid CAGR, and this momentum is expected to persist in the coming years. Furthermore, the company remains a key beneficiary of the Kingdom's push towards renewable energy, providing a robust impetus in the medium to long term. Overall, we maintain a positive outlook for the company, anticipating strong top line and earnings growth in the coming years. However, we believe the stock has exceeded its fundamentals, considering its 55% increase in the last year and a staggering 346% from its IPO offering price (listed on October 10, 2021), implying a downside from current levels. Based on EV/EBITDA valuation, we arrive at a fair value of SAR 170.5/share, suggesting a 31.1% downside from current levels. Hence, we recommend a sell rating for the company.

Financial Summary

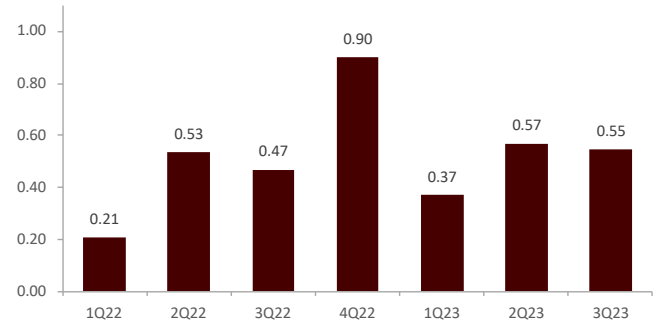
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	1,542	1,263	22%	1,412	9%
Gross profit	877	695	26%	794	10%
GPM (%)	57%	55%		56%	
EBIT	815	652	25%	730	12%
EBIT margin (%)	53%	52%		52%	
Net Income	398	342	16%	415	-4%
Net margin (%)	26%	27%		29%	
EPS (SAR)	0.55	0.47	16%	0.57	-4%

Source: Company Reports, Yaqeen Capital

Price to Book Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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