

## National Central Cooling Company (Tabreed)

Capacity expansion to drive profitability

### 4Q22 Net profit higher than our estimate

National Central Cooling Company's (Tabreed/The Company) net profit rose marginally 1.7% YOY to AED 201 Mn in 4Q22 missing our estimate of AED 113 Mn. The increase was primarily due to higher revenue growth from the Chill water segment, a lower increase in cost as compared to revenue partially offset by a decline in other gains and losses.

### P&L highlights

Tabreed's net revenue grew 13.5% YOY to AED 557 Mn in 4Q22. The increase in revenue was supported by the addition acquisition Al Mouj DC assets in Oman and addition of new capacity in UAE. Total capacity rose from 1.21 Mn refrigeration tonnes in 2021 (RT) to 1.26 Mn RT in 2022. UAE capacity rose from 1.03 Mn RT in 2021 to 1.06 Mn RT in 2022, Oman from 33 thousand RT to 52 thousand RT in 2022, while capacity in Bahrain remain unchanged. Total revenue was also supported by an increase in the Core Chill water and Value Chain segments. Revenue from the Chilled water segment increased 13.8% YOY to AED 534 Mn in 4Q22 owing to the acquisition of Al Mouj DC assets in Oman and capacity in UAE. It is also driven by long-term contracted capacity addition and steady increase in growth due to utility nature of the business. The Company derives 64% revenue from the wholly government owned and partially government owned entities showing strong visibility going forward. Revenue from Value Chain segment grew 7.4% YOY to AED 23 Mn in 4Q22. The company added a total of 54,156 RT of new customer connections in 2022 out of which 34,454 RT added in UAE, 19,202 RT in Oman, and 500 RT in Bahrain. Operating cost grew 9.1% YOY to AED 299 Mn in 4Q22. Thus, the gross profit increased 19.1% YOY to AED 257 Mn in 4Q22 with an increase in gross profit margin from 44.1% in 4Q21 to 46.2% in 4Q22. Furthermore, administrative and other expenses declined 27.3% YOY to AED 55 Mn in 4Q22. Resultantly, operating profit grew significantly 43.9% YOY to AED 203 Mn in 4Q22 with an improved operating margin of 36.4% rising 770 bps YOY. Finance cost grew from AED 71 Mn in 4Q21 to AED 73 Mn in 4Q22 mainly due to a rise in benchmark rates. While, finance income grew significantly from AED 1 Mn in 4Q21 to AED 13 Mn in 4Q22. Impairments for trade receivables rose from negative AED 1 Mn in 4Q21 to positive AED 9 Mn in 4Q22. Other gains and losses decreased from AED 132 Mn in 3Q22 to AED 57 Mn in 4Q22. Share of profit from associates and JVs declined 15.4% YOY to AED 2 Mn in 4Q22. The Company recorded nil profit/loss from its discontinued operation as compared to loss of AED 4 Mn in 4Q21. Profit attributable to non-controlling interest holders increased from AED 4 Mn in 4Q21 to AED 9 Mn in 4Q22 dragging profitability.

### Balance sheet & cash flow highlights

Tabreed's cash and cash equivalents stood at AED 1,773 Mn in 2022 compared to AED 1,197 Mn in 2021. The Company's net operating cash rose from AED 1,316 Mn in 2021 to AED 1,355 Mn in 2022 owing to lower working capital requirements. Total debt stood decreased marginally from AED 7.11 Bn in 4Q22 to AED 7.09 Bn in 2022 due to scheduled repayments. Net debt to EBITDA reduced from 5.97x in 2021 to 4.49x in 2022.

**Rating : BUY**

### First Look Note – 4Q22

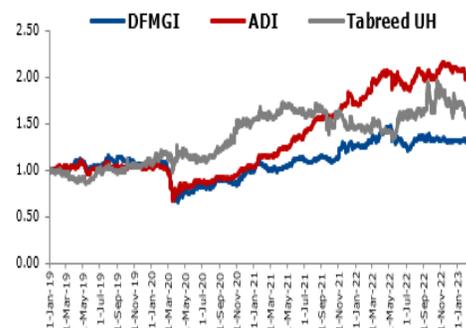
**Sector: Utility**

#### Recommendation

Current Price (13-Mar-23)	2.88
Target Price (AED)	3.50
Upside/Downside (%)	+22%

#### Stock Information

Market Cap (mm)	8,222.83
Paid-Up Capital (mm)	2,845.27
52 Week High	3.52
52 Week Low	2.27
3M Avg. daily value (AED)	2,254,499



#### Financial Ratios

Dividend Yield (12m)	2.03
Dividend Pay-out (%)	63.93
Price-Earnings Ratio (x)	13.66
Price-to-Book Ratio (x)	1.27
Book Value (AED)	2.28
Return-on Equity (%)	9.82
Earning Per Share (AED)	0.21
Beta	0.77

#### Stock Performance

5 Days	-3.34%
1 Months	-2.03%
3 Months	5.09%
6 Months	-3.67%
1 Year	13.06%
Month to Date (MTD)	-3.02%
Quarter to Date (QTD)	-2.36%
Year to Date (YTD)	-2.36%

**Target price and rating**

We revise our rating from ACCUMULATE to BUY on Tabreed with a target price of AED 3.50. Tabreed embarked on its long-term strategic growth plan by adding new connections, creating long-term strategic partnerships, and expanding its sizable portfolio in 2022. The company added 34,454 Refrigeration Tons (RT) of new connections in the UAE, 19,202 RT in Oman, and 500 RT in Bahrain, bringing the total connected capacity to 1.26 Mn RT. Furthermore, over the last five years, the Group's connected capacity increased at an average annual rate of 8%, further strengthening the Company's local and regional presence. It also intends to add 120k RT of guided capacity in the coming years, with consolidated entities contributing 60% and equity-accounted entities contributing the remaining 40%. Tabreed is also looking to expand into new markets such as India and Egypt, making it a leading global provider of district cooling. The Company is also continuously seeking acquisition opportunities while remaining price-conscious. It entered the Egyptian market and signed two successful new projects, including a 30k RT concession for a new smart Medical City in Greater Cairo. In addition, approximately 81% of contracted capacity is locked in for more than 10 years providing strong revenue and cash flow visibility. Furthermore, the Company earns 64% of its revenue from wholly government and semi-government-owned entities lowers the contract risk. All these factors led Tabreed to maintain stable and predictable growth. Tabreed's Board of Directors also announced a cash dividend of AED 13.5 fils per share leading to a dividend yield of 4.8% in 2022. Based on the aforementioned factors, we assign a 'BUY' rating to the stock.

**Tabreed - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	18.6	16.8	14.4	14.2	13.9	11.5
P/B (x)	1.8	1.7	1.6	1.4	1.3	1.2
EV/EBITDA (x)	21.0	18.8	14.8	13.9	12	13
Dividend Yield (%)	3.2%	3.5%	1.9%	2.0%	4.8%	5.0%

*FABS Estimates & Co Data*
**Tabreed - P&L**

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	490	684	557	546	1.9%	13.5%	-18.6%	1,955	2,216	-11.8%
Operating costs	-274	-406	-299	-302	-0.8%	9.1%	-26.3%	-1,084	-1,178	-8.0%
<b>Gross profit</b>	<b>216</b>	<b>278</b>	<b>257</b>	<b>245</b>	<b>5.1%</b>	<b>19.1%</b>	<b>-7.4%</b>	<b>871</b>	<b>1,038</b>	<b>-16.1%</b>
Admin and other exps	-75	-64	-55	-74	-25.9%	-27.3%	-14.7%	-247	-245	0.6%
<b>EBITDA</b>	<b>257</b>	<b>323</b>	<b>320</b>	<b>243</b>	<b>31.9%</b>	<b>24.5%</b>	<b>-0.8%</b>	<b>1,033</b>	<b>1,232</b>	<b>-16.2%</b>
<b>Operating profit</b>	<b>141</b>	<b>214</b>	<b>203</b>	<b>171</b>	<b>18.5%</b>	<b>43.9%</b>	<b>-5.2%</b>	<b>624</b>	<b>793</b>	<b>-21.3%</b>
Finance costs	-71	-71	-73	-78	-6.4%	3.4%	3.0%	-258	-289	-11.0%
Finance income	1	5	13	5	154.3%	1174.3%	147.9%	3	22	-87.6%
Imp prov for trade rec	-1	0	9	0	NM	NM	NM	-1	9	-112.4%
Other gains and losses	132	12	57	0	NM	-57.2%	381.3%	130	70	87.0%
Share of assoc & JV	2	9	2	9	-81.5%	-15.4%	-81.1%	36	30	20.5%
<b>Profit from cont operation</b>	<b>205</b>	<b>169</b>	<b>210</b>	<b>107</b>	<b>95.5%</b>	<b>2.6%</b>	<b>24.2%</b>	<b>534</b>	<b>633</b>	<b>-15.7%</b>
Profit from disconti operation	-4	0	0	-1	NM	NM	NM	77	0	NM
<b>Profit before NCI</b>	<b>201</b>	<b>169</b>	<b>210</b>	<b>106</b>	<b>97.3%</b>	<b>4.4%</b>	<b>24.2%</b>	<b>611</b>	<b>633</b>	<b>-3.6%</b>
Non-controlling interest	-4	-10	-9	6	NM	135.6%	-3.6%	-26	-33	-23.0%
<b>Net Profit</b>	<b>197</b>	<b>159</b>	<b>201</b>	<b>113</b>	<b>78.2%</b>	<b>1.7%</b>	<b>25.9%</b>	<b>585</b>	<b>600</b>	<b>-2.5%</b>

*FABS estimate & Co Data*

**Tabreed - Margins**

	<b>4Q21</b>	<b>3Q22</b>	<b>4Q22</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2021</b>	<b>2022</b>	<b>Change</b>
Gross Profit	44.1%	40.6%	46.2%	218	560	44.5%	46.8%	231
EBITDA	52.4%	47.2%	57.5%	508	1,030	52.8%	55.6%	276
Operating Profit	28.7%	31.3%	36.4%	770	515	31.9%	35.8%	385
Net Profit	40.2%	23.3%	36.0%	-417	1,274	29.9%	27.1%	-285

*FABS estimate & Co Data*

**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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