Investment Strategy & Research

Salik Company PJSC

Initiation of Coverage | **Sector – Industrials**

Traffic redistributor with widening dividend gates; Initiate with Outperform

Dubai's exclusive road network toll operator & seamless dividend play

We initiate coverage on Salik – Dubai's exclusive operator of the roadway toll system with its Radio Frequency Identification (RFID) technology. Our investment thesis on Salik is derived from the company's utility-type operating model with inflation protected organic cashflows, while supportive macroeconomics should contribute to increasing daytime population, toll gate traffic in Dubai, and potential road network growth. This should keep FCF growth strong and should reinforce the company's aim to distribute 100% of net profits as dividends. We have an 'Outperform rating on Salik, as we expect the company to benefit from the initiation of three first-time catalysts from 2024 onwards: 1) Addition of two new gates; 2) First CPI adjustments with the RTA; 3) Commencement of Salik managing Dubai Mall's parking system. Moreover, the potential materialization of new service lines should provide additional triggers for further upgrading our thesis.

Stable concession driven dividends & CPI indexed benefits

Revenue generating trips drive Salik's recurring revenues, and are primarily driven by daytime population growth, higher net toll traffic through toll gates and net positive activations spread. For the existing 8 toll gates, we forecast revenue generating trips to grow to 510.4 Mn trips at a CAGR of 7.3% over 2022-25E, as we see growth in these indicators. Further, we chose to exclusively apply lower concession fees to adjust for CPI increases, until we see the mechanics, timeline, and impact of the first tariff increase from AED 4 being executed by the RTA and TEC. Based on our assumptions of CPI increases, we expect the adjusted concession fee rate calculation to reach its 15% floor by 2029E. Salik's strong recurring revenues and margins profile (2024E-25E EBITDA margins: 69%-71%) should translate into a DPS of AED 0.15/share in 2023E. We forecast DPS to further grow to AED 0.16/share and AED 0.17/share by 2024E & 2025E respectively.

New gates & revenue diversification to materialize from 2024 onwards

Salik announced in Jan-2024 that the RTA has signed two new toll gates with the company to install, operate and maintain – 1) Business Bay Crossing; 2) Al Safa South. Our preliminary calculations suggest that the introduction of the two gates could translate into an EBITDA of AED 104 Mn – AED 188 Mn, based on EBITDA margins of ~66% based on steady-state operations. Separately, we view Salik's agreement signed with Emaar Malls Management to manage the parking system at Dubai Mall from Q3-2024 onwards positively. As Salik's technology will be deployed for automatic fee collection via ticketless parking, the same operating model can be utilized for other potential signings. However, we do not include the introduction of the two new toll gates, or the signing with Emaar Malls in our forecasts or valuation until we receive signing-specific operational, capex and funding guidance.

Valuation & Risks –TP of AED 3.80/share

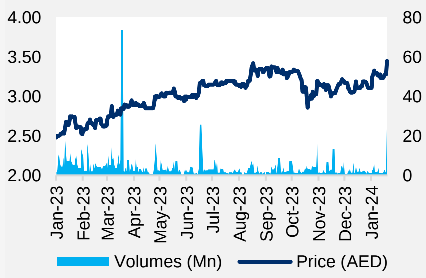
Our TP represents a 10.1% upside to Salik's current share price and is based on a DCF valuation of the company's 8 existing gates over its concession term with the RTA. Key downside risks: 1) Slower growth of daytime population, Salik tag activations & revenue-generating trips; 2) Termination of contract with TransCore.

Key Financials	2021	2022	2023E	2024E	2025E
Revenue (AED Bn)	1.69	1.89	2.08	2.21	2.30
EBITDA (AED Bn)	1.39	1.44	1.37	1.53	1.63
EPS (AED)	0.18	0.18	0.15	0.16	0.17
P/E (x)		14.6	20.5	21.7	20.0
EV/EBITDA (x)		15.6	19.0	18.6	17.4
Div. yield (%)		2.5%	4.9%	4.6%	5.0%

Source: Kamco Invest Research, and Salik

Outperform

CMP 19-Jan-24:	**AED 3.45**
Target Price:	**AED 3.80**
Upside:	**+10.1%**



Price Perf.	1M	3M	12M
Absolute	10.2%	16.2%	25.9%
Relative	8.8%	7.4%	4.2%

Stock Data	
Bloomberg Ticker	SALIK UH
Last Price (AED)	3.45
MCap (AED Mn)	25,875
MCap (USD Mn)	7,050
EV (AED Mn)	28,532
Stock Performance - YTD (%)	10.9%
PE - 2024E (x)	21.7
EV/EBITDA - 2024E (x)	18.6
Dividend yield - 2024E (%)	4.6%
52-Week Range (AED)	2.52/3.45

Sources: Kamco Invest Research & Bloomberg

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Valuation and Risks

Initiate with a TP of AED 3.80/share and an 'Outperform' rating

We initiate coverage on Salik – Dubai's exclusive operator of the roadway toll system with its Radio Frequency Identification (RFID) technology. Our investment thesis on Salik is primarily derived from the company's stable utility-type operating model with inflation protected organic cashflows (CFs), while supportive macroeconomics should contribute to increasing daytime population, toll gate traffic in Dubai, and potential road network growth. This should keep FCF growth strong and should reinforce the company's aim to distribute 100% of net profits as dividends.

Salik Fair Value

DCF value	**3.80**
Current market price (19 Jan 2024)	3.45
Upside	***10.1%***

Sources: Kamco Invest Research

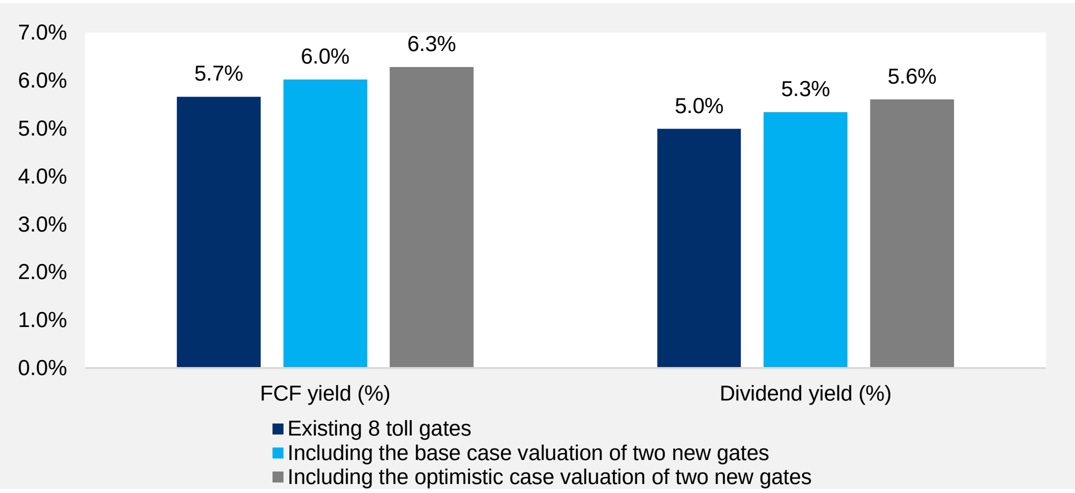
Our TP represents a 10.1% upside to the current share price of Salik and is based on a DCF valuation of the company's existing 8 gates over its concession term until 2071 with the RTA. We expect EBITDA margins to remain strong over the concession term at ~69%-70% and assume an average WACC of 6.2% over the forecast period. Further, we have adjusted our after-tax cashflows for the introduction of UAE's corporate income tax of 9% starting from 2024E.

String of new revenue & EBITDA catalysts commence from 2024

We have an 'Outperform rating on Salik, as we expect the company to benefit from the initiation of three first-time catalysts: 1) Addition of first new gates since IPO expected to be operational by Nov-2024 - i) Business Bay Crossing; ii) Al Safa South; 2) First CPI adjustments with the RTA; 3) Commencement of the smart mobility solutions with Salik signing an agreement with Emaar Malls Management to manage the parking system at Dubai Mall from Q3-2024 onwards. However, we do not include the introduction of the new toll gates or the signing with Emaar Malls in our forecasts or valuation until we receive further signing specific KPI guidance. Separately, the potential materialization of new service lines such as advertising and data monetization that leverages its strong technology and traffic data capabilities should provide additional triggers for further upgrading our thesis.

We do not include the valuation of the two new toll gates signed between Salik and the RTA (Business Bay Crossing & Al Safa South) in our fair value estimate for Salik, as it would require extensive assumptions to be made for details regarding the required upfront valuation, funding mix, guidance on revenues, EBITDA, and the company's balance sheet impact. Nevertheless, we ran scenarios for the full year impact of both gates to our 2025E FCF & dividend yield expectations, and ascertained the potential impact over the concession term to our DCF based price target.

Salik 2025E FCF yield & dividend yield impact scenarios on two new gates addition

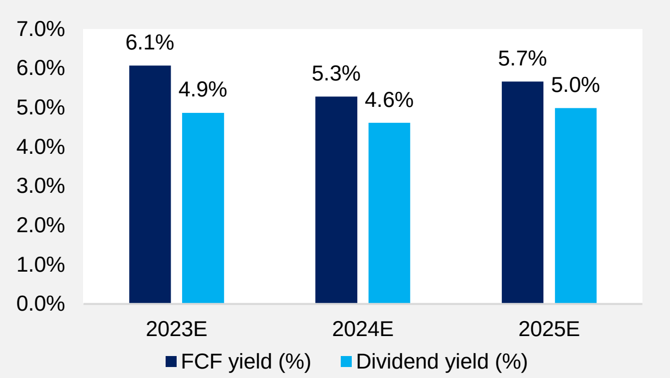


Sources: Kamco Invest Research

Our preliminary calculations suggest that the two gates could contribute to an EBITDA of AED 104 Mn – AED 188 Mn on a steady state basis after one or two years of operations, based on EBITDA margin assumptions of ~66%. While a specific year impact like our 2025E forecast would not be see a sizeable impact in FCF or DPS terms, value should be created over the concession term until 2071. Our scenario-based valuation exercise provided an additional valuation range of AED 0.20/share – AED 0.43/share (that could be added to our current target price), which when combined pushes our target price range to AED 4.00/share – AED 4.22/share.

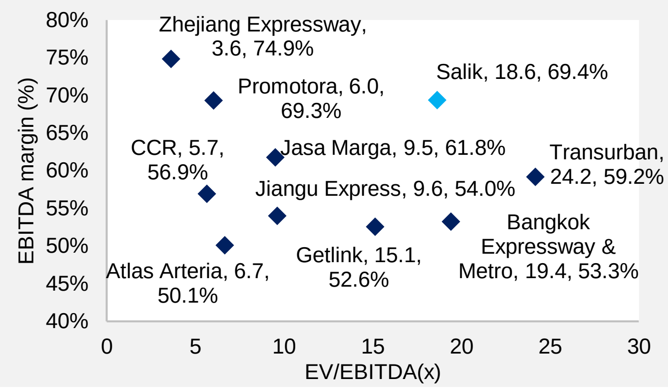
Based on our current forecasts for the existing 8 gates, Salik's steady-state FCF/EBITDA (%) should normalize at ~91% over 2024E and 2025E.The company's strong recurring revenues and margins profile (2024E-25E EBITDA margins: 69%-71%) should translate into a DPS of AED 0.15/share in 2023E, and further the DPS should grow to AED 0.16/share and AED 0.17/share by 2024E & 2025E respectively, as per our forecasts. Based on the current market price, Salik trades at 2024E and 2025E dividend yield of 4.6% and 5.0% respectively.

Salik FCF and dividend yields



Source: Kamco Invest Research

Salik vs. toll road operator peers



Source: Kamco Invest Research, Bloomberg

Salik runs an asset-light operating model and is only responsible for operating and maintaining the toll gates, and this translates into strong EBITDA-to-FCF conversion for the company. As a result, we did not utilize blended valuation which includes relative valuation of global peers based on multiples such as EV/EBITDA etc. as most of the global peers incur construction capex and run capital intensive operating business models.

Downside risks to our valuation & forecasts include:

Downside risks:

- Declines in Dubai's non-oil GDP growth and/or global macro slowdown delaying implementation of Dubai 2040 Urban Master Plan.
- Slower daytime population growth and Salik tag activations.
- Declines in toll gate traffic volumes and revenue generating trips.
- Termination of 49-year concession agreement with the RTA prematurely.
- Non-renewal of Salik's agreement with TransCore beyond 2026 or early termination of the contract considering TransCore's significance for Salik's future growth and revenue diversification initiatives such as consulting services and dynamic pricing.

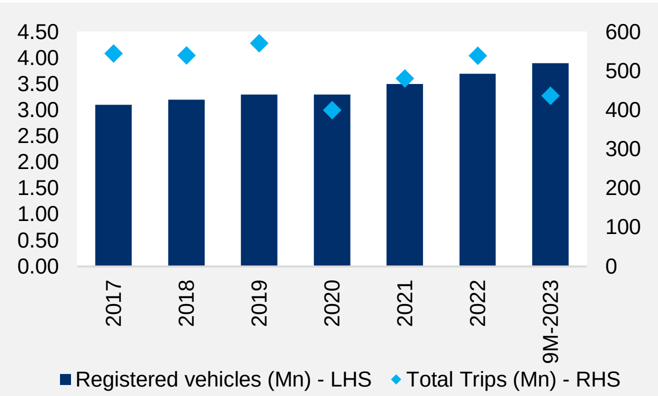
Investment Thesis

We initiate coverage on Salik – Dubai's exclusive operator of the roadway toll system. The company currently operates eight toll gates in Dubai with its Radio Frequency Identification (RFID) technology. Our investment thesis on Salik is primarily derived from the company's stable utility-type operating model with inflation protected organic cashflows (CFs), while supportive macroeconomics should contribute to increasing daytime population, toll gate traffic in Dubai, and potential road network growth. This should keep FCF growth strong and should reinforce the company's aim to distribute 100% of net profits as dividends. We expect the company to benefit from the initiation of three first-time catalysts from 2024 onwards: 1) Addition of two new gates; 2) First CPI adjustments with the RTA; 3) Commencement of Salik managing Dubai Mall's parking system. Moreover, the potential materialization of new service lines should provide additional triggers for further upgrading our thesis.

BAU on current concession driven recurring revenues & CPI indexed benefits

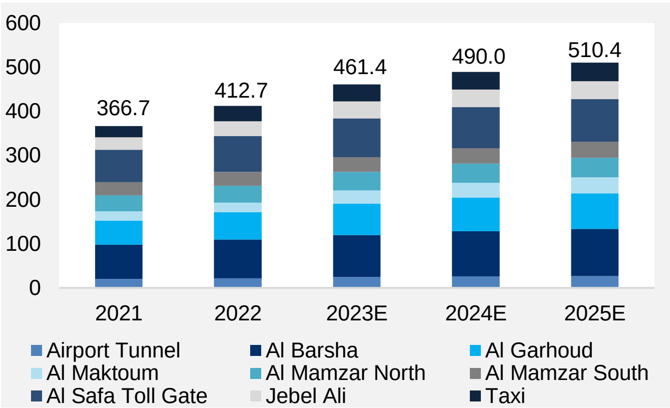
Salik's operations are based on its concession agreement with Dubai's RTA of 49 years expiring on 30 June 2071, which allows the company its right to operate, maintain, develop and/or upgrade the RTA's toll gates, as well as the rights to use RTA's assets as required to operate the toll gates. Active registered vehicles and traffic growth in Dubai are key drivers that feed into Salik's customer base and revenue-generating trips. Active registered vehicles reached 3.9 Mn at the end of 9M-2023 from 3.3 Mn in 2020, driven by population growth and daytime population growth as the Government of Dubai continues to focus on ensuring that the Emirate remains a key destination for tourism and new residents. This was also evident from growth in registered accounts that grew by 13% y-o-y to ~2.4 Mn at the end of 9M-2023.

Dubai active registered vehicles & total traffic - Salik



Source: Salik H1-2023 Investor Presentation, active registered vehicles include non-UAE vehicles

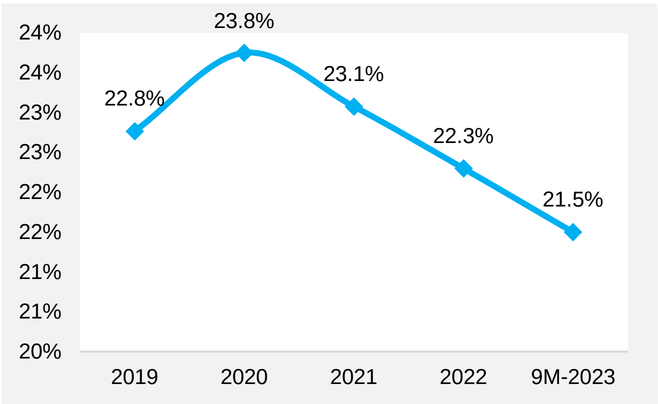
Dubai toll gate revenue-generating trips forecast (Mn)



Source: Kamco Invest Research, Salik

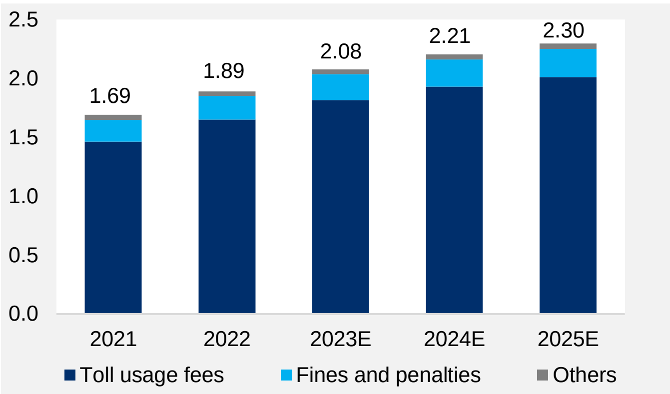
Total toll traffic measured by total vehicle trips through Salik toll gates grew by 10.6% y-o-y to 436.7 Mn in 9M-2023. Revenue generating trips which excludes gate-specific free time and discounts, taxis without passengers, multiple violations and exempted is the real revenue driver for Salik and came in at 412.7 Mn trips in 2022. We forecast revenue generating trips to grow to 510.4 Mn trips at a CAGR of 7.3% over 2022-25E due to the following reasons: 1) *Dubai's daytime population set to grow* - Population growth and daytime population growth in the city are the main organic growth drivers for traffic prospects. The original Dubai 2040 Urban Master Plan aims to drive population growth to 5.8 Mn by 2040 (Dec-2023: 3.65 Mn – Dubai Statistics Center). The Dubai 2040 Urban Master plan targets to create 5 interconnected urban centers to meet the needs of its fast-growing population which is expected to create traffic on new roads. Further, Dubai's daytime population is forecasted to increase from 4.7 Mn per annum in 2022 (Source: Salik) to 7.8 Mn by 2040 as per the plan; 2) *Tourism & recurring events pipeline to increase* - Dubai targets 25 Mn annual tourists and 400 global events per annum by 2025 which should add to Dubai's overnight visitor count and recurring daytime road traffic; 3) *Positive net activations spread* - An improving run-rate of net activations (tag activations vs. deactivations) witnessed over Q1-Q3 2023 (~80k net activations) should continue in 2024E & 2025E as several visa and residency schemes drive ownership growth of private cars - the dominant mode of transport in Dubai at ~61% (Source: Salik H1-2023 presentation); 4) *FTI market study forecasts 5% CAGR in traffic over 2022-26* - Organic traffic growth forecasts should provide a base case for traffic via Salik toll gates, and we therefore feel comfortable with our revenue generating trip forecasts CAGR of 7.3% over 2022-25E; 5) _Temporary road closures and traffic decongestion spillovers_ - Road closures would potentially drive traffic diversion to Salik gates such as the continued closure of the Floating Bridge contributing to the toll traffic through Al Maktoum Bridge gate and Al Garhoud gate. Over 9M-2023E, revenue generating trips increased by 36.7% and 14.7% y-o-y respectively at Al Maktoum Bridge gate and Al Garhoud gate. Further, potential diversion of traffic from road upgrade and decongestion projects could also potentially drive more traffic via Salik toll gates on the Sheikh Zayed road. RTA recently announced the improvement of Umm Suqeim Street and Hessa Street aimed at alleviating traffic congestion for commuters; 6) _Discounted trips through Salik gates declining in percentage terms_ - Discounted trips include taxis without passengers, Al Mamzar and Al Maktoum gates free time and discounts, vehicles exempted by law, and multiple violations. Discounted trips as a percentage of total traffic through Salik gates dropped from 23.8% in 2020 to 21.5% in 9M-2023. The growth in net activations dominated by private cars should lead to a lower percentage of discounted trips over the medium term in our view.

Discounted trips % of total traffic through Salik gates



Source: Salik

Salik revenue forecasts (AED Bn)



Source: Kamco Invest Research, Salik

Revenue generating trips directly feed into toll usage fees based on the current toll tariff of AED 4 per trip, and toll usage fees should contribute 87.6% of Salik's total revenues over 2023E-25E according to our estimates. We forecast total revenues of AED 2.08 Bn for Salik in 2023E and expect revenues to grow to AED 2.30 Bn by 2025E at a CAGR of 6.7% over 2022-25E based on its steady business as usual (BAU) recurring revenues from its concession with the RTA. Fines & penalties and tag activation fees are forecasted to contribute to 10.5% and 1.6% of revenues average over 2023E-25E.

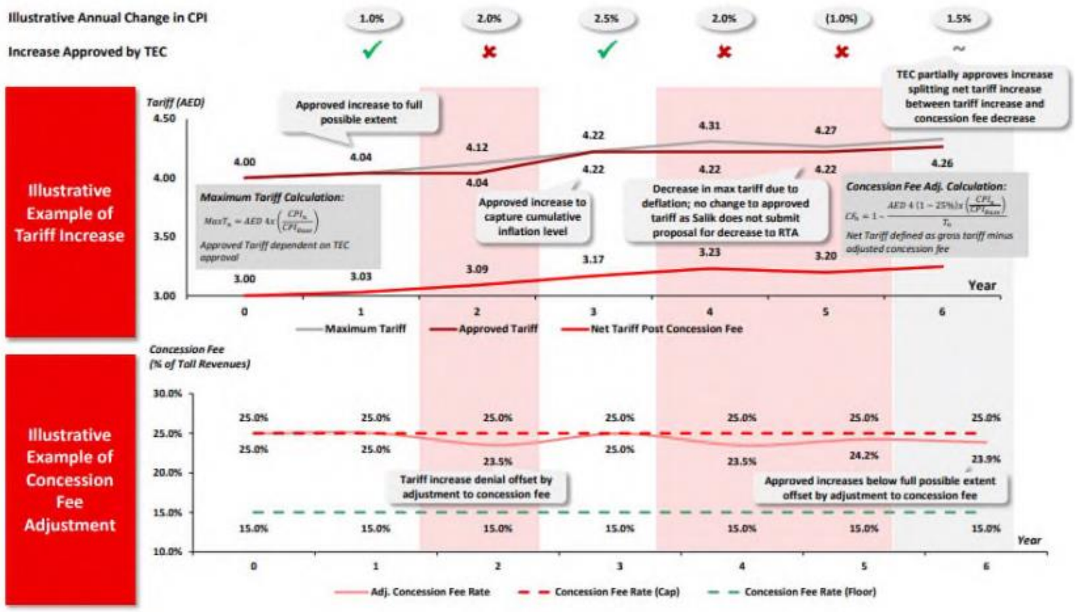
2024 to set the precedent for ebbs and flows of CPI and RTA adjustment

Salik guided that they expect to propose the first possible tariff increase in 2024 based on CPI data of 2023 from the current toll fees through each of the gates is AED 4. Salik can submit tariff increase proposals to the RTA on an annual basis, which the RTA can then raise with The Executive Council (TEC) at its discretion. Dubai averaged a y-o-y CPI increase of ~3.35% from Jan-Nov 2023. Salik in its IPO prospectus mentioned that RTA estimated the price elasticity of demand to a tariff fee hike be -0.171 to -0.2 thereby pointing towards marginal reduction in traffic volumes through its toll gates. Nevertheless, in terms of absolute revenues the strong drivers that aid net tag activations and revenue generating trips should be able to compensate for the reduction demand if the TEC approves the tariff increase.

If the TEC refuses Salik's request to increase tariffs due to inflationary pressure, then the RTA will lower the concession fee applicable to the company. The concession fee, however, is capped at 25% of toll revenues and cannot be reduced below the floor of 15% of toll revenues for any given year. Nevertheless, if the TEC rejects the Company's request to increase tariffs due to other events, the RTA is not obligated to lower the concession fee.

For our model, we chose to exclusively apply lower concession fees to adjust for CPI increases based on the concession fee adjustment calculation, until we see the mechanics, timeline, and impact of the first tariff increase from AED 4 being executed. Moreover, applying the lower concession fees by RTA eliminates the ambiguity with capturing cumulative CPI changes or hybrid adjustments of splitting the net tariff increase between a partial tariff increase and concession fee decrease.

Illustrative examples of tariff increase and concession fee adjustment - Salik



Source: Salik IPO Prospectus

Adjusted concession fee payment floor of 15% to be reached by 2029E: The net impact to Salik's EBITDA from either tariff increase, a concession fee reduction or hybrid adjustments involving both a partial tariff increase, and a concession fee reduction is not going to be materially different as both are based on toll usage revenues. Nevertheless, the adjustment by the RTA in 2024 to compensate for CPI increases is likely to set the precedent for medium term adjustments and our modeling purposes. We have utilized the average y-o-y CPI increase of ~3.35% from Jan-Nov 2023 for the concession fee adjustment in 2024E, and assumed a CPI increase of 2% for the years thereafter. Based on our assumptions of CPI increases, we expect the adjusted concession fee rate calculation to reach its 15% floor by 2029E. However, we expect it to be highly likely that TEC implements a tariff increase prior to 2029E to keep the operating model of Salik open for adjustments on an ongoing basis.

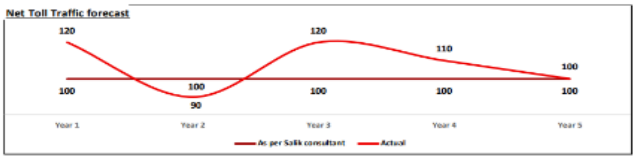
New gates – roadway for growth and absolute EBITDA addition

Salik announced in Jan-2024 that the RTA has signed two new toll gates with the company to install, operate and maintain – 1) Business Bay Crossing; 2) Al Safa South.

Illustrative example of Salik's potential new gate cashflows and payment

Net Toll Traffic forecast							
As per Salik consultant	m		100	100	100	100	100
Actual	m		120	90	120	110	100

Other Assumption		
Toll price for revenue	AED	4
Adjusted EBITDA margin	%	65%
Effective tax rate	%	9%
Capex	AEDm	0.1
Pre-determined WACC	%	10%
Valuation Estimate		
As per Salik consultants	AEDm	1,000
As per RTA consultants	AEDm	1,500



		Day 1	Year 1	Year 2	End of Year 3	Year 4	Year 5
Adj. Cash Flow forecast							
As per Salik consultant	AEDm		237	237	237	237	237
Actual	AEDm		284	213	284	260	237
After 3 years (sum of year 1-3)							
As per Salik consultant	AEDm				710		
Actual	AEDm				780		
Difference (Actual being higher)	AEDm				71		
Difference adjusted for WACC	**AEDm**				**94**		
After 5 years (sum of year 4-5)							
As per Salik consultant							473
Actual							497
Difference (Actual being higher)							24
Difference adjusted for WACC	**AEDm**						**38**
Salik payment to RTA (I + II + III)	**AEDm**	**1,000**			**94**		**38**

Day-1 payment based on independent advisor's decision taking into account consultants' valuations

Additional payments in Year 3 and 5 accounting for traffic outperformance

Source: Salik, 1. Compounding the Positive Adjusted Cashflow Delta by the New Toll Gate Valuation Discount Rate. 2. All figures are only an illustrative example of a potential new gate and would be provided by industry expert (third party evaluator) report.

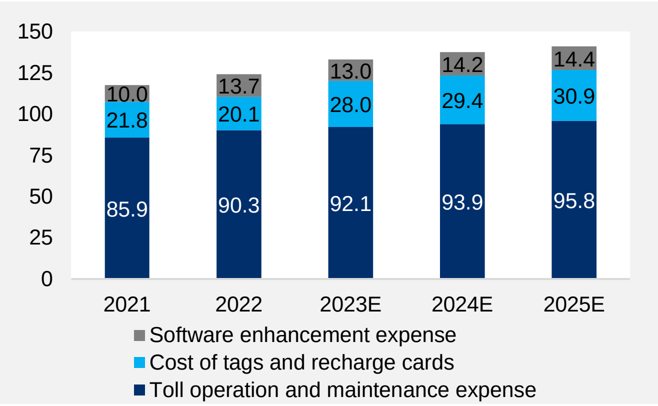
The company earlier guided that a new gate could take anywhere between 9-12 months before becoming operational, and as per the IPO prospectus capex is around AED 20 Mn - AED 30 million depending on the number of lanes at the selected location. To acquire tolling rights to a gate Salik will have to pay the RTA an upfront fee based on the valuation of the new gate in addition to the ongoing concession fee. The valuation of the new gate is performed by commercial advisers appointed by the RTA, Salik and independent expert based on projected traffic volumes, projected toll revenues, projected EBITDA, and adjusted cash flow. The independent expert determines the upfront fee based on the weighted average cost of capital (WACC) for the new toll gate plus an incentive premium of 2% and the two valuations, each based on the inputs and forecasts prepared by each commercial adviser. Where there is no discrepancy between the two valuations proposed by the designated commercial advisors, the final valuation shall be equal to the valuations proposed by the independent expert. Based on the IPO prospectus, where there is a discrepancy between the two valuations which is <= 5%, then the final valuation will be the average of the two. If the discrepancy between the two valuations is >5%, Salik's upfront payment to be paid will be based on the lowest NPV, plus a potential earn-out.

The addition of new toll gates adds absolute EBITDA for Salik through its concession term until 2071. Based on Salik's press release the RTA expects the Business Bay Crossing gate to assist in improving traffic congestion by 12-15% on Al Khail Road, reducing traffic volume by 10-16% on Al Rabat Street, and redistributing traffic to Al Maktoum and Al Garhoud bridges and Ras Al Khor Street. The press release also mentioned that Al Safa South is expected to reduce right-turn traffic volume from Sheikh Zayed Road to Meydan Street by 15% and optimize traffic flow on Financial Centre, First Al Khail, and Al Asayel streets. Our back of the envelope calculation for the potential new gates suggests that steady-state revenue generating trips could potentially range from 22 Mn – 35 Mn based on data from gates such as Airport Tunnel gate and Jebel Ali (toll gates with amongst the least toll traffic). Further our preliminary calculations suggest that this could translate into an EBITDA of AED 104 Mn – AED 188 Mn, based on EBITDA margins of ~66%. *We do not include the addition of the two new gates to our forecasts or valuation for Salik until details regarding the required upfront valuation, funding mix, guidance on revenues, EBITDA and balance sheet impact are clearer.*

TransCore fulfills specialized services that buttresses Salik's future offerings

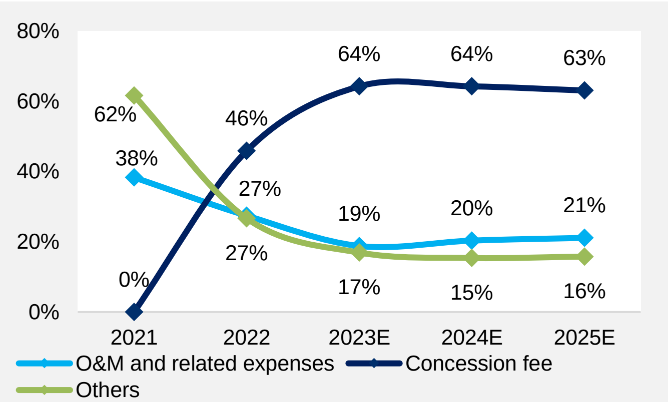
Salik and TransCore are continuing a previous standing agreement from 2006, following its novation from the RTA to Salik, under which TransCore provides a full range of design-build, operation & maintenance services of the road network toll gate system in Dubai. The TransCore Agreement was renewed in 2013, 2016 and in September 2021 for a period of 3 years and was further extended in 2022 as part of its novation from the RTA to Salik to September 2026.

Salik's TransCore related costs forecast (AED Mn)



Source: Kamco Invest Research, Salik

Salik's key operating costs breakup - (%) of total operating costs



Source: Kamco Invest Research, Salik

TransCore is a wholly owned subsidiary of ST Engineering, a global technology, defense, and engineering group headquartered in Singapore with a diverse portfolio of businesses across the aerospace, smart city, defense, and public security segments and serves more customers in more than 100 countries.

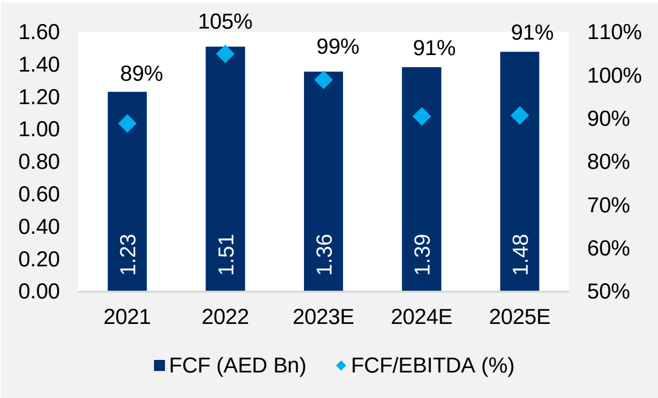
Salik's major operating costs which involve payments to TransCore include - 1) Toll operation and maintenance expense; 2) Cost of tags and recharge cards; and 3) Software enhancement expense.

The company guides these cost components to amount to 6%-7% of total revenues over the medium term. We forecast operating costs related to TransCore to come in at AED 120 Mn in 2023E and further expect these costs to reach AED 126.7 Mn by 2025E. In terms of total operating costs, payments to TransCore which are a part of O&M and related expenses should average 19%-20% of total operating costs over 2023E-25E according to our forecast. Further, we believe Salik's agreement with TransCore is also significant for Salik's future growth and revenue diversification initiatives such as new toll gates, consulting services and dynamic pricing.

Investment fundamentals of an asset light dividend aristocrat

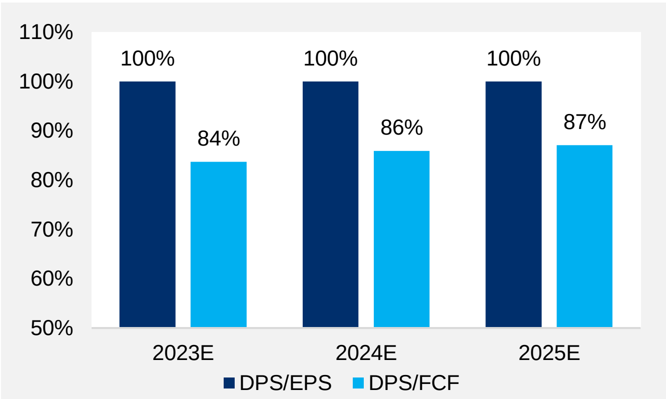
Salik has the investment fundamentals of a strong defensive infrastructure and its status as an exclusive essential service provider is aided by supportive macroeconomics. Favorable macroeconomics include Dubai's growing daytime population which is expected to increase from 4.7 Mn per annum in 2022 to 7.8 Mn by 2040E. Separately, the extensive roster of recurring events should drive tourism with plans to host 400+ global events per annum by 2025. As a result, regulation of traffic circulation will become vital and should create more opportunities for Salik as the sole operator of toll gates in Dubai. Salik has significant revenue and CF visibility from its concession agreement with the RTA of 49 years (expiring on 30 June 2071),

Salik's FCF (AED Mn) & FCF/EBITDA conversion (%)



Source: Kamco Invest Research, Salik

Dividend payout (%)



Source: Kamco Invest Research, Salik

Based on our expectations for the existing 8 toll gates that are operational, we forecast Salik to achieve an EBITDA of AED 1.37 Bn in 2023E, and EBITDA should grow thereafter to AED 1.63 Bn by 2025E driven by growth in revenue generating trips. EBITDA margins should come in at ~66% in 2023E and further grow to ~71% by 2025E as 30%-35% of the operating costs are fixed or semi-fixed. Salik runs an asset-light operating model and is only responsible for operating and maintaining the toll gates, and this translates into strong EBITDA-to-FCF conversion for the company. Based on our forecasts, Salik's steady-state FCF/EBITDA (%) should normalize at ~91% over 2024E and 2025E. Salik guides for a 100% dividend payout of the net profit available for distribution, and this should combine with its strong margins and growing organic FCF profile to keep income focused investors interested in the company. While organic growth is expected to be strong with the addition of the two new gates at the end of 2024, future sources of revenue diversification and their potential are the next triggers for further upgrading our thesis on Salik.

Smart mobility solutions for Emaar Malls opens revenue diversification efforts

Salik is also focused on diversifying its revenues and aims to leverage its technology and operational expertise to areas that provide new service offerings which are not in competition with the RTA. These include:

- *Advertisements:* Leveraging Salik's technology to push forward advertising opportunities via the Salik app, website, and toll gates.
- *Data monetization:* Partner with retailers and local businesses to set up customized offers and marketing strategies based on data collected per user through electronic tag / sticker and the Salik App. Salik data such as mobile, trip transaction details, vehicle details, etc. can be

monetized, and additionally APIs can be utilized for fleet and car rental companies enabling them to use Salik trip details for easier customer billing and fleet management.

- *Consulting services:* Sell Salik's toll operating services beyond Dubai and internationally.
- *Dynamic pricing in the future:* Salik could also benefit from dynamic pricing from its toll gates in the future. Dynamic pricing systems could be tailored to reduce congestion in specific areas and times in the hearts of the city. This would need to be studied and implemented by the RTA with approval from TEC. Dynamic pricing potentially increases tolling revenues as it optimizes traffic for the RTA and would have incremental EBITDA implications across existing toll gates, in our view. *We do not include dynamic pricing to our forecasts or valuation for Salik and prefer to wait for announcements regarding the introduction of either of the RTA tools to consider including them.*

RTA continues to study several options for easing road network congestion in Dubai. RTA's Strategic Plan 2024-2030 was released, and the plan expects to facilitate the development of roads and transport systems that support the 20-minute city and includes improving accessibility, fostering better integration of multi-modal transport.

In Dec 2023, Salik announced an agreement with Emaar Malls Management to manage the parking system at Dubai Mall from Q3-2024 onwards. Salik's technology will be deployed for automatic fee collection via ticketless parking, using vehicle plate recognition to deduct fees from the Salik user accounts of vehicles based on parking rules defined by Emaar Malls. Salik mentioned that it sees a compelling opportunity to expand with such services in the private parking market in Dubai, the total addressable market for which they estimated at over 50,000 parking spaces.

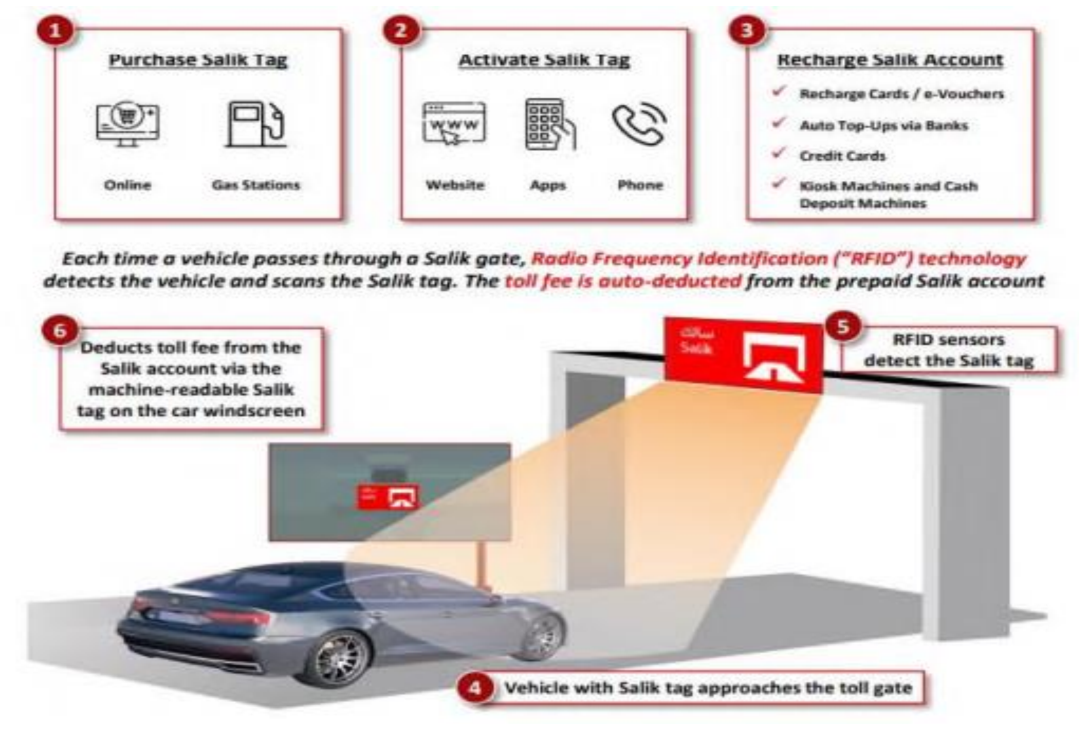
We do not include the agreement between Salik and Emaar Mall Management in our forecasts or valuation until we receive further guidance in terms of number of chargeable parking spaces, exact revenue sharing terms and revenue tiers if any, system improvement costs and extra O&M costs to Transcore, free hours and parking fees based on spend at outlets. Further, we expect the revenues to be complementary and not very significant when compared to Salik's toll gate revenues, but margins should be healthy without concession fees and any major specific recurring cost components. We do not include any of the other new service offerings that Salik could potentially pursue in our model forecasts and valuation until we gain clarity and visibility on each of its operating and revenue models upon commencement of these services.

Salik Company PJSC – Company Overview

Dubai's exclusive road network toll gate operator

Salik Company PJSC is the exclusive operator of the roadway toll system in Dubai and currently operates eight toll gates in Dubai with its Radio Frequency Identification (RFID) technology. Apart from toll gate operations, the company is responsible for the maintenance of assets required for the Salik tolling operations and the design and implementation of new toll gates in Dubai. Established in 2007 within the Roads & Transport Authority (RTA), Salik was carved out into a separate legal entity in 2022 and was listed on the DFM following an IPO in September 2022, which was more than 49 times oversubscribed. As of 2022, Salik generated total revenues of AED 1.892 Bn, and an EBITDA of AED 1.440 Bn from its pure-play road network toll operating business.

Salik operating model



Source: Salik

Vehicle owners utilize the road toll system in Dubai by purchasing Salik Tags online or at gas stations, and thereafter activating the Salik Tags online through phone apps and then recharging their account via recharge cards, e-vouchers, banks, credit cards, kiosk and cash deposit machines throughout Dubai. The toll fee is auto-deducted from the prepaid Salik account as the vehicle passes the respective toll gates.

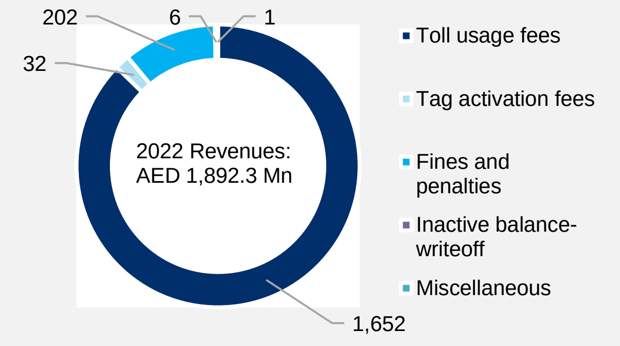
Pure-play on road toll operations for now; Dubai Investment Fund is top shareholder

The key strategic shareholder in Salik is Dubai Investment Fund with a holding of 75.1%. In Dec-2023, a law was established with Dubai Investment Fund functioning as Dubai Government's vested authority when it comes to owning shares in entities like Salik Company amongst other companies directly owned by the Dubai Government. Salik remains the only GCC listed pure-play on road network toll operations and the company derives all of its revenues from related activities. Toll usage fees (AED 1,652 Mn), Fines and penalties (AED 201.6 Mn) and Tag activation fees (AED 32.2 Mn) were the main sources of group revenues of AED 1.892 Bn as of 2022.

The Company is also focused on diversifying its revenues and aims to leverage its technology and operational expertise to areas that provide complementary service offerings which are not in competition with the RTA. These include:

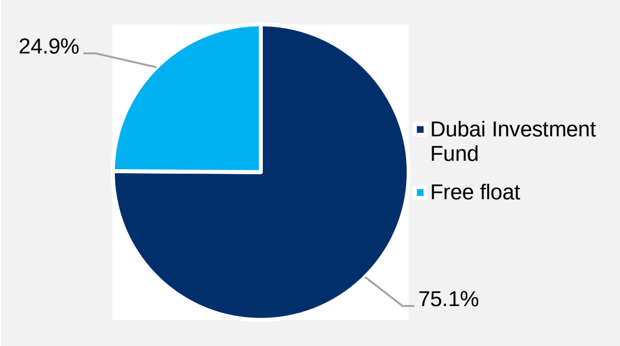
- *Advertisements:* Leveraging Salik's technology to push forward advertising opportunities via the Salik app, website, and toll gates.

Salik revenue split -2022



Source: Company data

Salik shareholding pattern



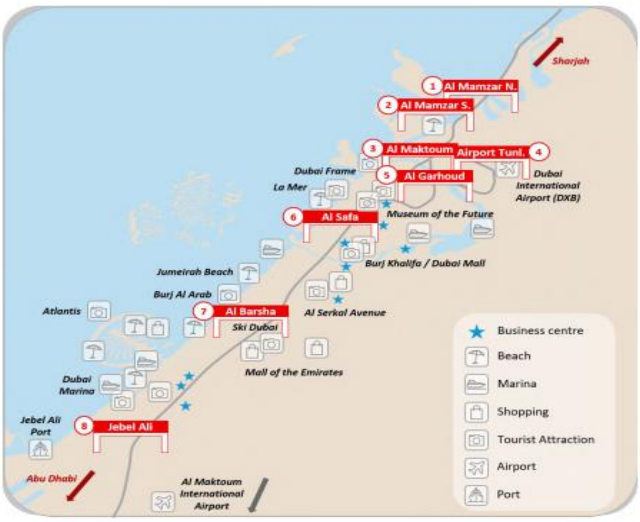
Source: DFM

- *Data monetization:* Partner with retailers and local businesses to set up customized offers and marketing strategies based on data collected per user through electronic tag / sticker and the Salik App. Salik data such as mobile, trip transaction details, vehicle details, etc. can be monetized, and additionally APIs can be utilized for fleet and car rental companies enabling them to use Salik trip details for easier customer billing and fleet management.
- *Consulting services:* Sell Salik's toll operating services beyond Dubai and internationally.
- *Dynamic pricing in the future:* Dynamic pricing systems could be tailored to reduce congestion in specific areas and times in the hearts of the city. This would need to be studied and implemented in time by RTA with an approval from TEC and could potentially increase the tolling revenue based on similar implementations elsewhere globally.

Symbiotic relationship with RTA is key

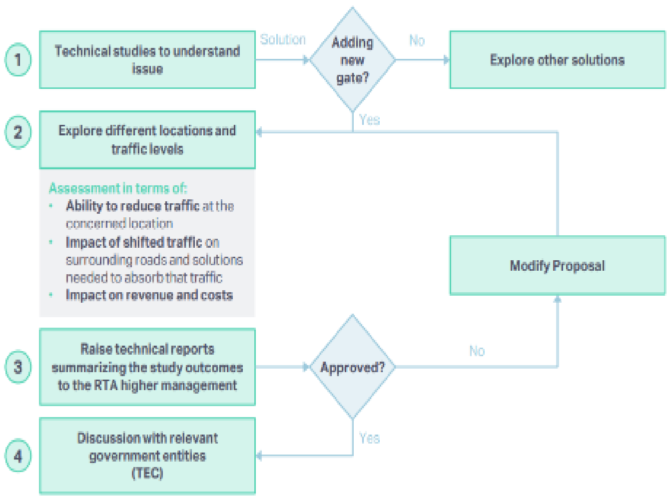
The RTA was established in the Emirate of Dubai on 1 November 2005. The RTA was formed to develop solutions for Dubai's transportation needs and manage the roads and traffic systems. Salik toll was launched by the RTA on 1 July 2007 with the introduction of two toll gates - one near Al Garhoud Bridge and one at Al Barsha near Mall of the Emirates on Sheikh Zayed Road. In September 2008, two more gates were installed on Maktoum Bridge and at Al Safa, followed by three additional gates activated in April 2013 - two on either side of Al Mamzar Intersection on Al-Ittihad road and one at the Dubai Airport Tunnel. The Jebel Ali gate was added on Sheikh Zayed Road in October 2018, adding up to a total of eight Salik toll gates in Dubai.

Salik toll gate locations



Source: Salik

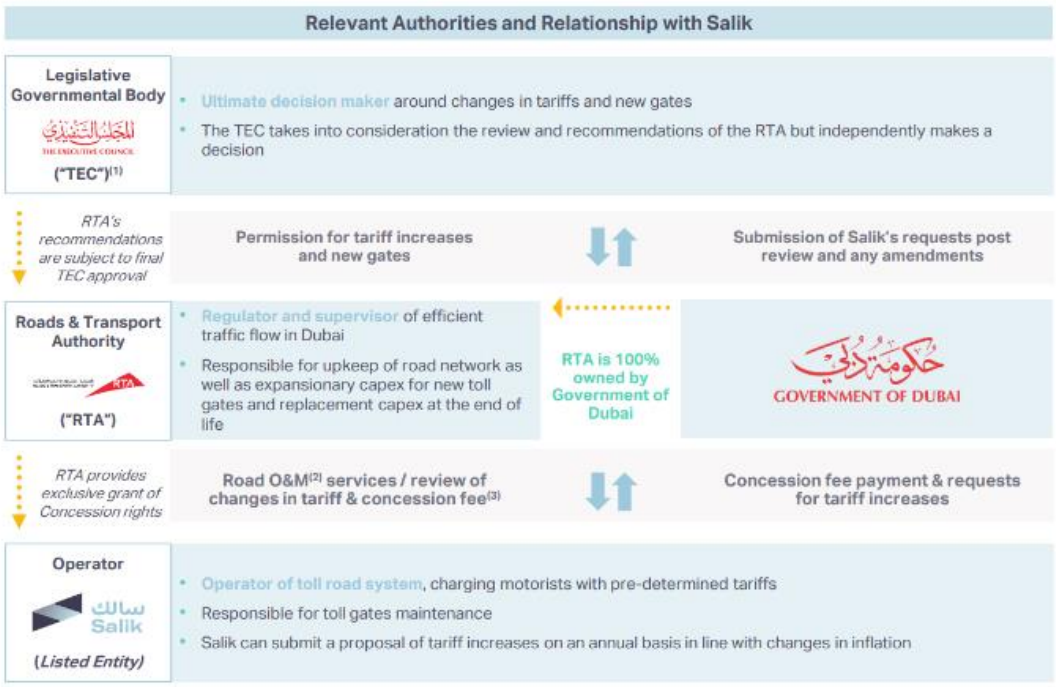
New gates detailed action plan followed by the RTA



Source: Salik

Salik's operations are dependent on the Concession Agreement with the RTA of 49 years expiring on 30 June 2071, which allows the company its right to operate, maintain, develop and/or upgrade the RTA's toll gates, as well as the rights to use the RTA's assets as required to operate the toll gates. The Concession Agreement reportedly contains early termination provisions, including early termination by the RTA in the event of, for example, (i) an insolvency proceeding of the Company, (ii) a material breach of the Concession Agreement by the Company, and (iii) the Company committing a prohibited act, such as bribery or fraud. Further the agreement also provides for voluntary early termination, which allows the RTA to terminate the Concession Agreement by notice at any time following a notice period of six months. Salik paid an upfront concession payment of AED 4 Bn to the RTA. Additionally, as per the concession agreement, Salik is expected to pay a maximum concession fee of 25% of the revenues from the toll fees from eight existing toll gates and any future toll gates.

Salik relationship with TEC and RTA



Source: Salik

The current toll fees through each of the gates is AED 4. The are no toll charges when passing the Al Maktoum Bridge toll gate from 10:00 p.m. until 6:00 a.m. on weekdays and from Saturday 10:00 p.m. until Monday 6:00 a.m. Further, when passing Al Mamzar South and North gates in the same direction within an hour, vehicles are charged only once. When the toll is not paid, violation fees are applied.

Salik can submit tariff increase proposals to the RTA on an annual basis, which the RTA can then raise with the TEC at its discretion. If the TEC refuses Salik's request to increase tariffs due to inflationary pressure, then the RTA will lower the concession fee applicable to the company. The concession fee, however, is capped at 25% of toll revenues and cannot be reduced below the floor of 15% of toll revenues for any given year. Nevertheless, if the TEC rejects the Company's request to increase tariffs due to other events, the RTA is not obligated to lower the concession fee. Salik guided that they expect to propose the first possible tariff increase in 2024 based on CPI data of 2023.

Dubai 2040 Urban Master Plan & events focus to support daytime traffic trends

The original Dubai 2040 Urban Master Plan aims to drive population growth from 3.3 Mn to 7.8 Mn by 2040. Population growth and daytime population growth in the city are the main organic growth drivers for traffic prospects. The Dubai 2040 Urban Master plan targets to create 5 interconnected urban centres to meet the needs of its fast-growing population which is expected to create traffic on new roads. Further, Dubai's daytime population is expected to increase from 4.7 Mn per annum in 2022 to 7.8 Mn by 2040E. Separately, there is an extensive roster of recurring events to further drive tourism with plans to host 400+ global events per annum by 2025, in the backdrop of historical one-time events such as Expo 2020 and COP28 which contributed to large influx of tourists. As a result, regulation of traffic circulation will become vital and should create more opportunities for Salik as the sole operator of toll gates in Dubai. Moreover, traffic consultant FTI estimates a 5% growth per annum in Dubai's traffic over 2022-26.

Board of Directors & Management Team

Board of Directors	Title
H.E. Mattar Al Tayer	Chairman
Abdulmuhsen Ibrahim Abdulrahman Kalbat	Vice-Chairman
Eng. Maitha Mohammed bin Adai	Director
Mohammad Yousuf Al-Mudarreb	Director
Ibrahim Sultan Al Haddad	Director and Chief Executive Officer
Mohammed Abdulla Lengawi	Director
Mohammed Abdulrahman Alhawi	Director
Executive Management	**Title**
Ibrahim Sultan Al Haddad	CEO
Maged Ibrahim	CFO
Tariq Mohammed	CTO

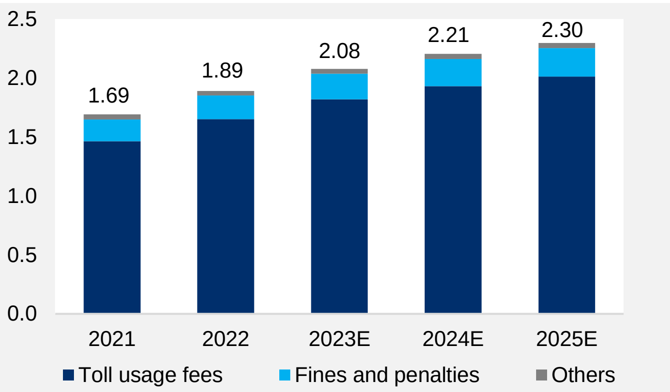
Source: Salik Integrated Annual Report 2022

Running the numbers – Group financial forecasts

Revenues and EBITDA

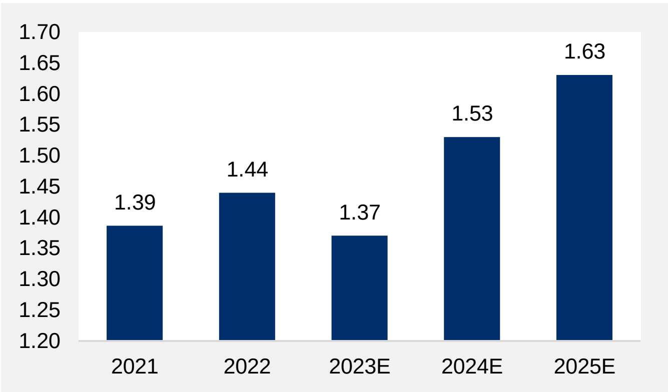
Our financial forecasts for Salik are based on the existing operations of managing and operating eight toll gates. We forecast total revenues of AED 2.08 Bn for Salik in 2023E and expect revenues to grow to AED 2.30 Bn by 2025E at a CAGR of 6.7% over 2022-25E, based on its steady business as usual (BAU) recurring revenues from its concession with the RTA. Fines & penalties and tag activation fees are forecasted to contribute to 10.5% and 1.6% of revenues average over 2023E-25E.

Revenues by segment (AED Bn)



Source: Kamco Invest Research, Company data

EBITDA (AED Bn)



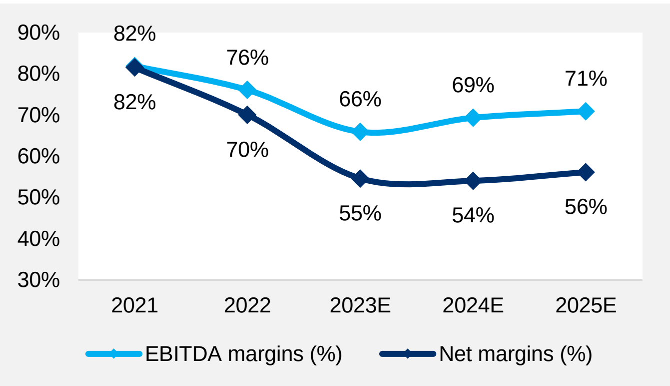
Source: Kamco Invest Research, Company data

We forecast Salik to achieve an EBITDA of AED 1.37 Bn in 2023E, and EBITDA should grow thereafter to AED 1.63 Bn by 2025E driven by growth in revenue generating trips.

Group margins, EPS & dividends

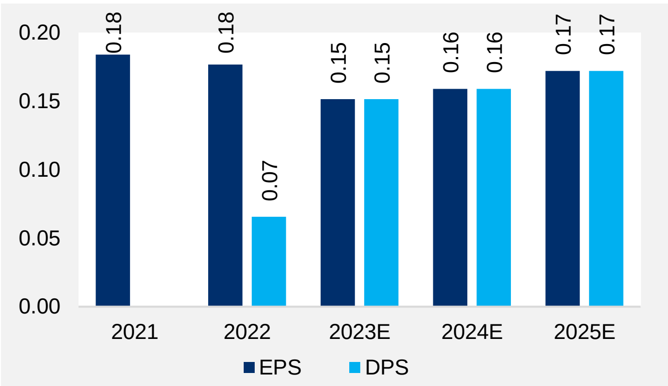
EBITDA margins should come in at ~66% in 2023E and further grow to ~71% by 2025E as 30%-35% of the operating costs are fixed or semi-fixed. As Salik runs an asset-light operating model and is only responsible for operating and maintaining the toll gates, net margins are also forecasted to be strong at 54%-56% over our explicit forecast period.

Margins (%) - EBITDA & net income



Source: Kamco Invest Research, Company data

EPS & DPS (AED)



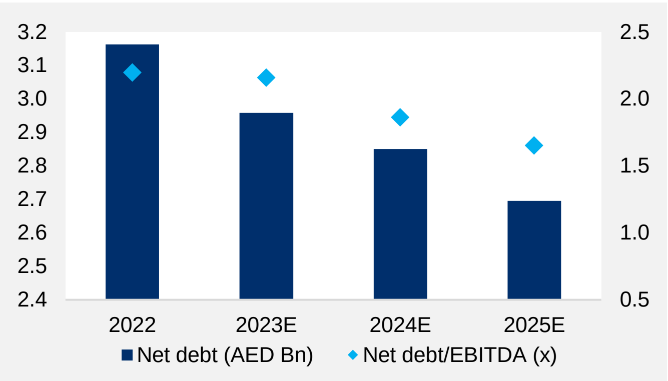
Source: Kamco Invest Research, Company data

Salik's EPS for the group is expected to come in at AED 0.15/share in 2023E and grow to AED 0.16/share and AED 0.17/share by 2024E & 2025E respectively, from the company's strong margins. Salik guides for a 100% dividend payout of the net profit available for distribution, and this should combine with its strong margins and growing organic FCF profile to keep income focused investors interested in the company. Based on the current share price and our DPS estimates, the company trades at dividend yields of 4.6% and 5.0% for 2024E and 2025E respectively.

Net debt and net interest expenses

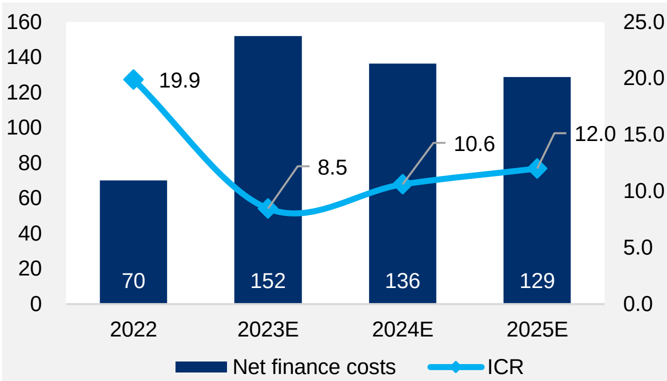
On 30 June 2022, Salik and Emirates NBD entered into an agreement for an AED 4.2 Bn unsecured Mudarabah credit facility out of which AED 4.0 Bn is a term facility. Borrowings under the term facility carries variable interest at 3-month EIBOR plus a margin of 0.82% per annum. The borrowing was mainly raised to make an upfront concession payment to the RTA. We forecast Salik's net debt to reach AED 2.96 Bn by 2023E and further decline to AED 2.70 Bn by 2025E ascribed to the company's strong recurring concession-driven revenues and cash conversion profile. Salik's net debt/EBITDA should decline to <2x over 2024E & 2025E and reach 1.65x by 2025E which keeps the company fully compliant with its financial covenant of net debt/EBITDA remaining <5x.

Net debt & Net debt/EBITDA forecasts



Source: Kamco Invest Research, Company data

Net interest expenses & EBIT interest coverage



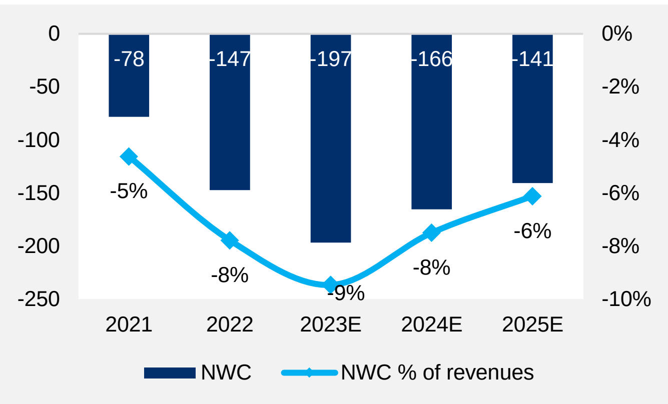
Source: Kamco Invest Research, Company data

Debt management should be extremely comfortable for Salik from strong recurring high margin revenues leading to steady deleveraging over our explicit forecast period. As a result, EBIT interest coverage should remain extremely comfortable at >10x over 2024E and 2025E.

Net working capital and ROIC

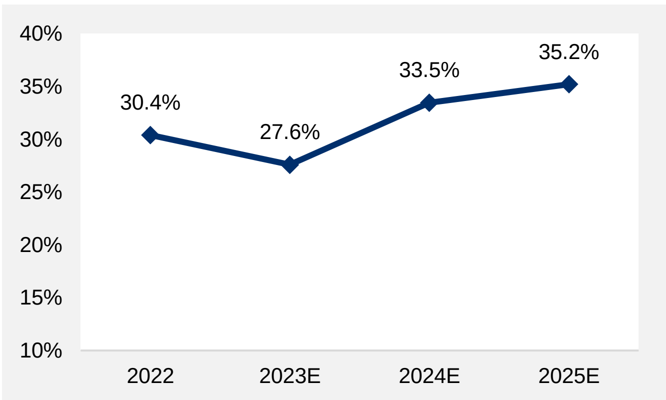
We expect Salik to continue to enjoy a negative working capital balance that amounts to -6% to -9% over 2023E-25E, largely due to the fact that customers recharge their Salik accounts in advance and revenue is recognized once the vehicle passes through a toll gate.

Net working capital (NWC) trends



Source: Kamco Invest Research, Company data

ROIC



Source: Kamco Invest Research, Company data

In terms of returns on capital, the company's strong EBIT margins and deleveraging profile are expected to contribute to ROIC growing from 30.4% in 2022 to 35.2% in 2025E.

Salik Financials

Balance Sheet (AED Mn)	2021	2022	2023E	2024E	2025E
Assets					
Cash and cash equivalents	0	823	1,025	1,087	1,226
Receivables	192	364	180	191	199
Other current assets	16	156	168	178	185
Total current assets	208	1,343	1,373	1,456	1,610
Net property, plant and equipment	107	0	5	7	8
Other assets	0	3,960	3,877	3,794	3,711
Total assets	**315**	**5,303**	**5,254**	**5,256**	**5,329**
Liabilities					
Current Liabilities	286	668	544	534	525
Total debt	0	3,986	3,984	3,938	3,922
Other Liabilities	39	46	46	46	47
Total liabilities	**325**	**4,699**	**4,574**	**4,518**	**4,493**
Shareholders' Equity					
Share capital	0	75	75	75	75
Retained earnings	0	491	568	625	724
Other Equity	-10	38	38	38	38
Total Equity	**-10**	**604**	**680**	**738**	**836**
Total liabilities and equity	**315**	**5,303**	**5,254**	**5,256**	**5,329**

Income Statement (AED Mn)	2021	2022	2023E	2024E	2025E
Revenue	**1,693**	**1,892**	**2,079**	**2,207**	**2,299**
Total costs	(307)	(452)	(708)	(676)	(668)
EBITDA	**1,387**	**1,440**	**1,371**	**1,530**	**1,631**
Depreciation and amortization	(6)	(44)	(83)	(83)	(83)
EBIT	**1,381**	**1,396**	**1,288**	**1,447**	**1,548**
Net finance costs	0	(70)	(152)	(136)	(129)
Net profit before taxes	**1,381**	**1,326**	**1,135**	**1,311**	**1,419**
Provision for Income Taxes	0	0	0	118	128
Net profit attributable to parent	**1,381**	**1,326**	**1,135**	**1,193**	**1,291**
EPS (AED)	**0.18**	**0.18**	**0.15**	**0.16**	**0.17**

Cash Flow (AED Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	1234	1516	1409	1368	1466
Net cash (used in) from investing activities	-1	-4000	-5	-1	-1
Net cash from (used in) financing activities	-1233	3307	-1201	-1305	-1325
Change in cash and cash equivalents	0	823	203	62	139
Cash at the end of the year	**0**	**823**	**1,025**	**1,087**	**1,226**

Source : Kamco Invest Research and Salik

Ratios	2021	2022	2023E	2024E	2025E
Profitability Ratios					
Return on Assets (%)	437.8%	25.0%	21.6%	22.7%	24.2%
Return on Equity (%)	N.M	219.5%	166.9%	161.7%	154.4%
ROIC (%)	N.M	30.4%	27.6%	33.5%	35.2%
Margins					
EBITDA margin (%)	81.9%	76.1%	65.9%	69.4%	70.9%
EBIT margin (%)	81.5%	73.8%	61.9%	65.6%	67.3%
Net profit margin (%)	81.5%	70.1%	54.6%	54.1%	56.2%
Per Share Data and Valuation Ratios					
Earnings Per Share (AED)		0.18	0.15	0.16	0.17
Book Value Per Share (AED)		0.08	0.09	0.10	0.11
Dividend Per Share (AED)		0.07	0.15	0.16	0.17
PE (x)		14.6	20.5	21.7	20.0
EV/EBITDA (x)		15.6	19.0	18.6	17.4
PB (x)		32.0	34.3	35.1	30.9
Dividend Yield (%)		2.5%	4.9%	4.6%	5.0%

Source : Kamco Invest Research and Salik

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