National Central Cooling Co. - Tabreed

Initiation of Coverage | **Sector - Utilities**

Dominant niche utility with a growing TAM; Initiate with Outperform

Acquisitions focused; but flexibility allows quick pivot to a dividend play

We initiate coverage on Tabreed with an Outperform rating, and believe that the company is a unique play that is a blend of both growth and defensive fundamentals. Tabreed is poised to capitalize on growth derived from a growing total addressable market (TAM), and industry tailwinds driving preference towards district cooling (DC), which should also translate into additional market share gains. Tabreed should continue to achieve value-accretive acquisitions, similar to 2020, as RE developers offload non-core DC assets. The company's LT contracts of 25+ years, with limited renewal risk provides the basis for its defensive fundamentals. Tabreed should be able to pivot from its acquisitions focus and achieve a higher dividend payout ratio (DPO) of around 70%-80%, should market dynamics change. We also feel that the company's ESG thesis is underappreciated from a GCC context, which could warrant a re-rating within regional ESG indices.

Growing TAM with significant visibility on recurring revenues & margins

We expect GCC's district cooling market to have a TAM of 6.4 Mn RT – 9.9 Mn RT, which represents significant market growth from the 4 Mn RT installed at the end of 2020. For Tabreed, we forecast a revenue CAGR of 9.2% over 2020-2023E, driven by 6% CAGR in total connected capacity, from the 1.4 Mn RT (2020). This should be derived from new development signings, and from moving current connected capacities towards their ultimate concession capacities in ongoing projects. EBITDA margins should remain strong at +56% average over 2021E-2023E, given the higher proportion of non-cyclical capacity-linked revenues, with +89% of the next ten years' revenues locked-in. These catalysts should drive EPS to grow at 7.3% CAGR for Tabreed over 2020-23E (2023E: 25 fils), and keep DPO stable at ~60%, despite the company's focus towards growth via acquisitions, in our view.

Relevance of the IG rating intact; growth ex-UAE not without its challenges

With potential acquisitions, Tabreed readily acquires EBITDA and FFO. The strategy of targeting projects with a 10%-12% IRR leaves a comfortable spread above the all-in cost of debt, which alleviates debt management concerns. The lower headroom from investment grade (IG) ratings-based thresholds, would however mean that target acquisitions would need to have a significant portion of its ultimate capacity connected at the time of acquisition. Separately, Tabreed's potential growth markets such as India and Saudi Arabia do possess a large TAM, however achieving and translating (TAM) into a serviceable obtainable market (SOM) for each of the markets does represent unique market-specific challenges.

Valuation & Risks – TP of AED 3.45/share

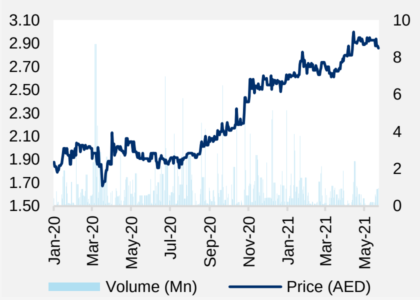
We value Tabreed based on a DCF methodology, and arrive at our target price (TP) of AED 3.45/share. *Downside risks:* 1) Lower real estate project market activity; 2) Extension of Covid-19 altering end-user real estate demand, in turn impacting district cooling viability *(More detailed risks on page 3).*

Key Financials	2019	2020	2021E	2022E	2023E
Revenue (AED Mn)	1,520	1,741	2,012	2,142	2,269
EBITDA (AED Mn)	763	970	1,169	1,212	1,289
Net Income (AED Mn)	472	550	642	658	695
EPS (AED)	0.17	0.20	0.23	0.24	0.25
PE (x)	16.8	14.4	12.4	12.1	11.4
EV/EBITDA (x)	10.5	12.8	10.9	10.4	9.6
Div. yield (%)	5.6%	2.2%	4.8%	5.0%	5.3%

Sources: Kamco Invest Research, and Tabreed

Outperform

CMP 23-May-21:	**AED 2.86**
Target Price:	**AED 3.45**
Upside:	**20.6%**



Price Perf.	1M	3M	12M
Absolute	-3.1%	4.4%	49.9%
Relative	-7.7%	-6.2%	21.8%

Stock Data	
Bloomberg Ticker	TABREED UH
Last Price (AED)	2.86
MCap (AED Mn)	7,930
MCap (USD Mn)	2,161
EV (AED Mn)	12,793
Stock Performance - YTD (%)	10.3%
PE - 2021E (x)	12.4
EV/EBITDA - 2021E (x)	10.9
Dividend yield - 2021E (%)	4.8%
52-Week Range (AED)	1.79/3.15

Sources: Kamco Invest Research & Bloomberg

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Valuation and Risks

Initiate with a TP of AED 3.45/share and an 'Outperform' rating

We initiate coverage on Tabreed with an Outperform rating. We believe that the company presents investors with an equity story that is a unique blend of both growth and defensive fundamentals. The company is positioned to capitalize on growth derived from industry tailwinds in the form of technological & sustainable preference towards district cooling (as compared to traditional forms of cooling). This should additionally translate into market share gains, given its pan-GCC presence. Moreover, the company also possesses defensive characteristics of a utility-play, and should drive higher total shareholder returns going forward, in our view.

We choose DCF as our preferred valuation methodology, given the company's unique business model, and the significant visibility of its recurring revenues and cashflows, attained from having a major portion of revenues locked-in, as per take-or-pay contracts over the next 10 years. Our DCF valuation for Tabreed incorporates a revenue CAGR of 9.2% over 2020-2023E, driven by 6% CAGR in total connected capacity, from the 1.4 Mn RT connected in 2020 across the GCC. We expect EBITDA margins to remain strong at an average of +56% over 2021E-2023E, given the higher proportion of non-cyclical and stable capacity linked revenues. We have assumed a terminal growth rate of 2.0%, and average WACC of 6.7% over our forecast period, which we believe adequately represents the sustainable long-term growth rate for the company, and reflects the current risks and competition in the market. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC. For value from associates and JVs, we derive market values based on a target IRR of 10%. Book values of cash, debt and minorities are based on Q1-2021 financials. Our DCF based target price (TP) of AED 3.45/share represents an upside of 20.6% as compared to last traded market price of AED 2.86/share.

Tabreed target price (AED/share)

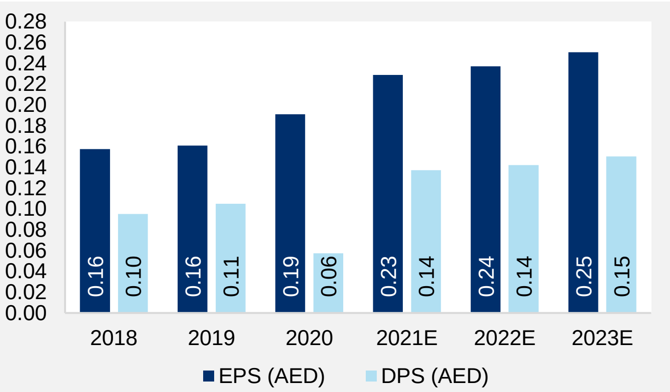
DCF based value	**3.45**
Current market price (23 May 2021)	2.86
Upside	***20.6%***

Sources: Kamco Invest Research

Dividend strategy & flexibility acceptable for acquisitions focus

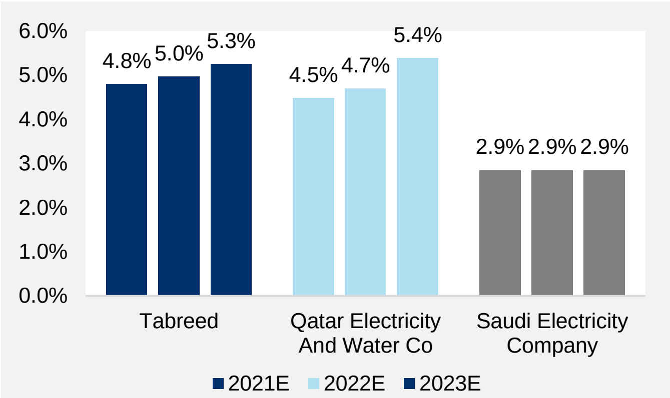
Recurring revenues and strong margins should drive EPS to grow at 7.3% CAGR over 2020-23E, and to 25 fils by 2023 in our view. Tabreed should be able to achieve a dividend payout ratio (DPO) of 60% over 2021E-23E, translating into a DPS of 13.7 fils for 2021E, 14.2 fils for 2022E and 15.0 fils for 2023E, given its focus towards acquisitions of district cooling assets.

Tabreed EPS and DPS forecasts



Source: Kamco Invest Research, Bloomberg

Tabreed vs key GCC utilities peers - dividend yield



Source: Bloomberg, Kamco Invest Research

If the acquisitions stance were to change, we believe the company would have the flexibility to achieve a DPO of 70%-80%, and achieve a minimum DPS of 16.0 fils (2021E), 16.6 fils (2022E) and 17.5 fils (2023E) based on a DPO of 70%. If the company does pivot to a higher DPO, this would position Tabreed as one of the best sustainable dividend stories in the GCC, trading at a dividend yield range of 5.6%-7.0% based on current prices, which provides more credence to our Outperform case. Moreover, this would enable Tabreed to trade at significantly higher dividend yields than its GCC utilities peers.

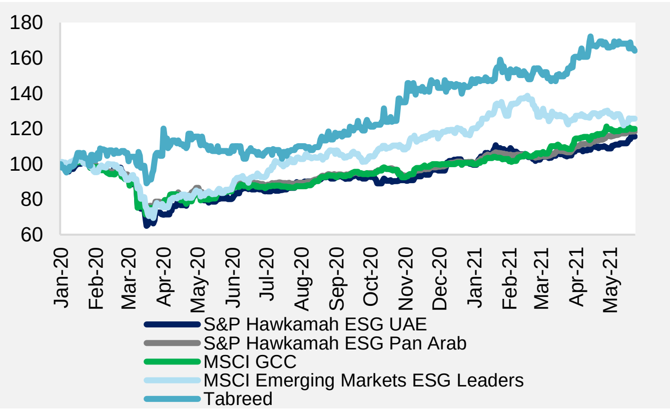
Potential Qatar divestment – IRR based exit value more relevant

Tabreed had expressed its interest to divest its 44% stake in Qatar Cool (224K RT). Though the replacement cost based on construction costs of AED 10,000/RT (guided by the company for building new capacity) could result in an exit value of AED 986 Mn, we believe this could be overly optimistic, as it does not take into account the age and remaining life of the assets. Therefore, an exit value based on the company's target 10%-12% IRR estimate would be more appropriate, in our view. Our lower end valuation of Tabreed's investment in the Qatar Cool based on a 10% target IRR gives an exit value of AED 475 Mn, which we include in our DCF valuation.

ESG indices' upgrade possible, given underappreciated 'E-pillar' focus

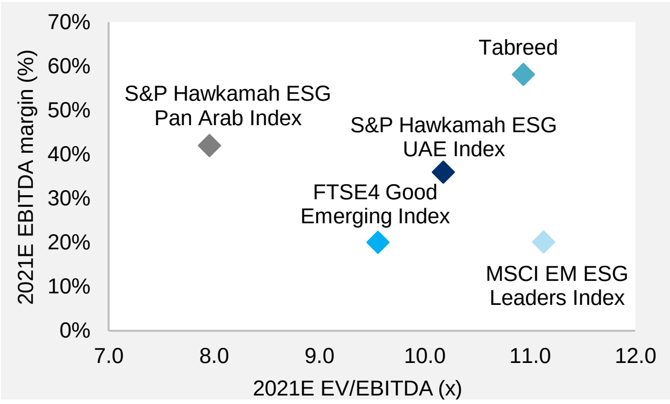
Tabreed outperformed most regional and emerging market ESG indices since Jan-2020. We also think that Tabreed could potentially be a candidate for a re-rating as one of the top companies in ESG indices regionally. Currently it does not feature in either, the top 5 (S&P Hawkamah ESG UAE Index) or top 10 (S&P Hawkamah ESG Pan Arab Index) constituents of those indices, which we believe does not adequately reflect Tabreed's strong Environment pillar (E-pillar) focus and improvements.

Tabreed vs ESG indices – total returns



Source: Kamco Invest Research, Bloomberg

Tabreed vs ESG indices – EBITDA margins (%) & EV/EBITDA (x)



Source: Kamco Invest Research, Bloomberg

Further, the potential growth via addition organic capacity warrants the higher valuation that the company possess at 10.9x 2021E EV/EBITDA, as compared to the respective ESG indices average of 9.7x, while growth via acquisitions could make the stock more attractive going forward, in our view.

Downside risks to our valuation & forecasts include:

Downside risks:

- Slower non-oil GDP growth within the GCC
- Lower real estate project market activity, and new project cancellations in Tabreed's target markets
- Extension of Covid-19 structurally altering end-user real estate demand, such as lower size of projects, in turn impacting district cooling viability
- Delays in ramp-up of Tabreed's connected capacity towards ultimate capacity targets in existing projects
- Lower consumption revenues for the Chilled Water segment due to lower occupancy rates and footfall from existing commercial real estate clients
- Ratings downgrade or significant jump in finance costs from interest rate hikes impacting the spread between projects IRRs and cost of debt
- Deflationary trends impacting contract revenues

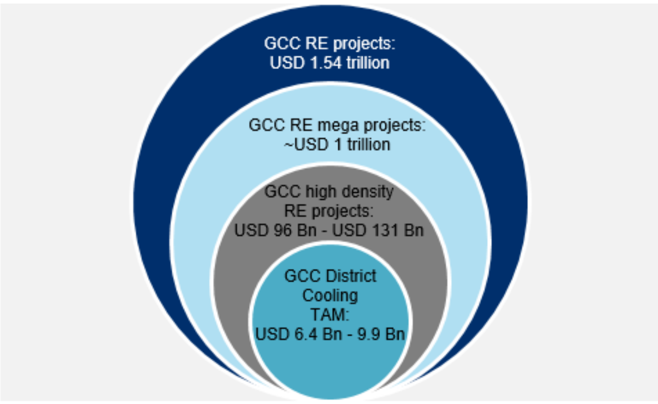
Investment Thesis

Dominant market position & growth in GCC's growing district cooling TAM

Our positive investment thesis on Tabreed is ascribed from the company's market position as a leading provider of district cooling services in the GCC, and from the significant market potential for the adoption of district cooling technology as the preferred type of cooling (vs. conventional AC cooling), given the large number of upcoming high density real estate projects in the region. We believe this positions Tabreed as a unique equity story in the GCC, poised for growth from both industry tailwinds and market share gains, while possessing defensive characteristics of a utility play. As a result, this should drive topline growth at extremely healthy margins, and should drive higher total shareholder returns going forward, in our view. (*For detailed industry outlook, technology overview, refer page 11*)

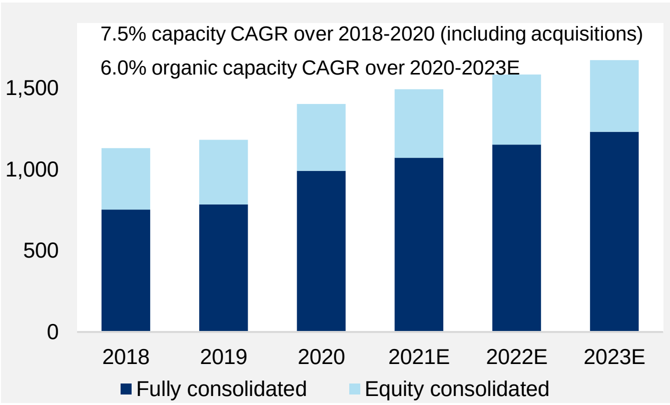
Sizing GCC's district cooling growing TAM shows massive opportunity for Tabreed: We forecast GCC's district cooling market to have a TAM (total addressable market-once) of 6.4 Mn RT – 9.9 Mn RT, from additions to greenfield capacity installations, which represents a market growth of around 60% to almost 1.5x the 4 Mn RT installed at the end of 2020, on the optimistic side. Key assumptions driving our forecasts include, an upcoming high density real estate market of USD 96 Bn – USD 131 Bn in the GCC and capex costs of around USD 23.2 Mn – USD 27.2 Mn for a plant size of 10k RT across mixed use real estate developments. Tabreed remains the dominant player in terms of scale in the district cooling market with an existing pan-GCC presence, either directly or via its JV & equity accounted participations. The company therefore has a competitive advantage of a being a large incumbent for securing future district cooling capacity installation contracts, along with subsequently signing offtake agreements and participating in brownfield acquisitions of existing captive capacities from real estate developers.

GCC's upcoming district cooling (DC) TAM



Source: Kamco Invest Research, MEED, Strategy & Co

Tabreed connected capacity ramp up (k RT)



Source: Kamco Invest Research, Tabreed

Organic capacity growth of 6% CAGR over 2020-2023E from targeted ultimate concession capacity: We expect Tabreed's total connected capacity including its equity consolidated participations to reach 1.67 Mn RT by 2023E, from 1.40 Mn RT in 2020, achieving a CAGR of 6% over 2020-2023E, and adding an average of 90k RT/year over the period. Tabreed's organic capacity addition for 2020 was 40k RT, while the company's guidance was for an addition of 75k RT of capacity over 2020/21 combined. The company guides for a capacity guidance of 120k RT of capacity addition over 2021/22. The company beat its organic capacity growth guidance by +52% in 2020, and beat their guidance by 31% on average from 2017/18 to 2019/2020, which validates our higher forecast assumptions. Moreover, apart from new development signings, there remains significant room for moving current connected capacities towards their ultimate concession capacities in key projects in the UAE. As of end 2020, from the two key acquisitions of Downtown DCP and Saadiyat Island District Cooling assets, the gap between connected capacity and ultimate connected capacity was 142k RT. This should transpire as per agreed dates between Tabreed and its clients, given the nature of signed take-or-pay contracts for the cooling concession or offtake agreements. The nature of these contracts also mean that capacity growth is not dependent on business-as-usual returning post Covid-19, other than minor delays requested from clients, which should keep capacity growth on target.

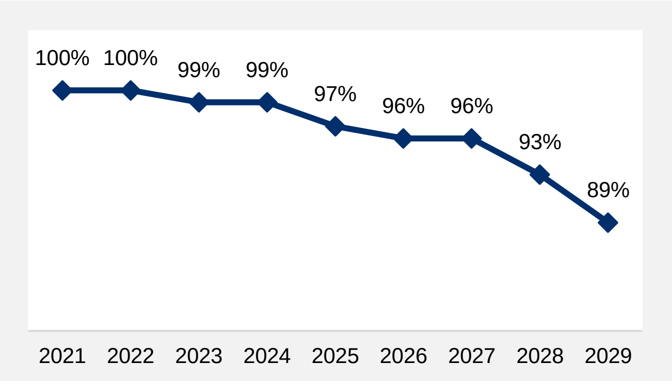
Vagaries of Covid-19, and its impact on real estate benefits Tabreed's acquisitions pursuit:
The impact of Covid-19 has significantly affected end user demand in GCC's real estate market, putting downward pressure on rents and prices. Moreover, we believe it has accelerated several emerging trends, and introduced new structural drivers for the sector's demand outlook (for more details, read *GCC Real Estate Update – Cyclical or Structural Conundrum - Dec 2020*). This has put additional pressure on real estate developers and their ambitions to fund future capex, as cashflows and timelines to achieve sell-through of development projects have been delayed. Moreover, income generating portfolios of these developers, especially on the commercial real estates segment have been negatively impacted by a combination of lower rental incomes and higher costs. As a result, many frontline developers have chosen to offload non-core assets such as district cooling assets to district cooling operators, in order plug in the gap in terms of funding cashflows for future capex.

Tabreed has been a major beneficiary of this trend and has been able to acquire major district cooling assets from developers in the UAE. In 2020, Tabreed achieved significant growth via acquisitions, which included the acquisition of 80% of Emaar's Downtown District Cooling ("DDC") assets for AED 2.48 Bn, acquiring plants with an ultimate concession capacity of 235k RT, with around 146k RT connected at the time of acquisition. Other deals included the acquisition of Saadiyat Island District Cooling assets from Aldar Properties with a current and ultimate capacity of 35k RT and 88k RT respectively for AED 963 Mn, and Masdar City district concession with a total capacity of 69k RT. Tabreed has guided that their focus for both greenfield and brownfield acquisitions is to achieve a target IRR of 10-%-12% from their investments, which is achievable in our view. The trend of real estate developers offloading non-core district cooling assets should continue, and result in acquisitions for leading district cooling operators such as Tabreed until the real estate market recovers. Further, the broader real estate market recovery should contribute to additional mixed-use projects being announced, which should translate into opportunities for the company to participate in their concession and offtake agreements. Tabreed continues to look for these brownfield opportunities, and has been reportedly interested in acquiring the district cooling unit that serves Dubai International Airport and developer Nakheel's potential sale of its district cooling. Given the state of the real estate market, we believe the company's clear metrics in terms of achieving scale and returns via acquisitions, will further strengthen Tabreed to achieve value-accretive capacity addition via acquisitions, until the real estate market recovers.

Capacity contracts secure recurring revenues, strong EBITDA margins

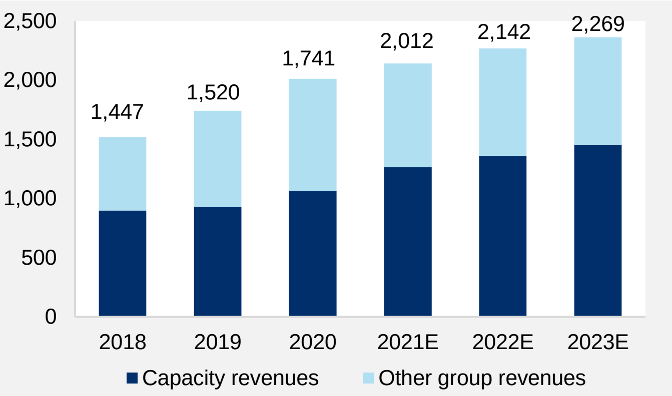
Tabreed's business model operates on constructing DC plants only based on guaranteed offtake contracts with take-or-pay structures. These contracts run for typically 25+ years and have limited contract termination or renewal risk, as it is not economically viable to switch to alternate cooling infrastructure, and also given Tabreed's strong relationship with its clients. A significant portion (~80%) of chilled water contracts are with government-linked entities like UAE Armed Forces (UAF), Road and Transport Authority of Dubai (RTA).

89%+ of capacity revenue locked-in for next 10 years



Source: Tabreed

Tabreed group revenues (AED Mn)

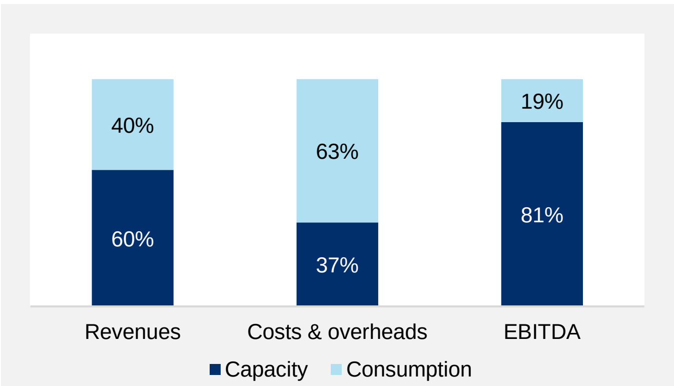


Source: Kamco Invest Research, Tabreed

Over 89% of capacity revenue locked-in for next 10 years: Revenues for Tabreed's chilled water contracts are derived from: 1) Capacity charges based on capacity reserved for the customer that contributes to around 59% of revenues on average (2018-2020), and remains stable throughout the year; and 2) Consumption charges that are billed based on metering of cooling consumption that contribute to the remaining revenues, which peak during the summer months (Q2 & Q3). As per Tabreed, only less than 5% of the company's contracted capacity is maturing over the next five years and over 89% of capacity revenues are locked in for the next ten years.

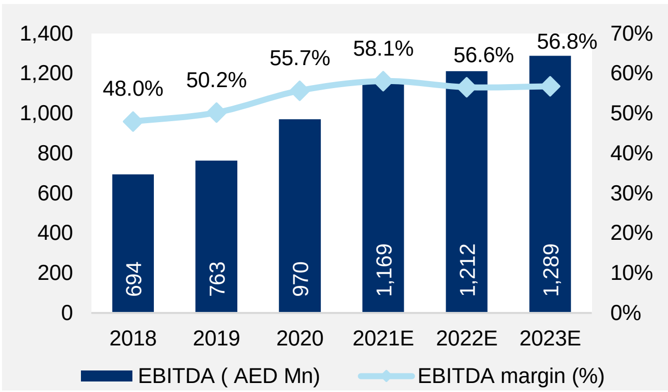
Capacity revenues forecasted to grow at 16.2% CAGR over 2020-2023E; carries group revenues at 9.2% CAGR: We forecast capacity revenues to grow at CAGR of 16.2% from AED 1.07 Bn in 2020 to AED 1.45 Bn, driven mainly from the full year impact of acquisition-led capacity additions of Downtown District Cooling, Saadiyat Island from 2021 onwards, and based on our forecasts of 6% CAGR in organic capacity growth. We assume a CPI escalation of 0.5%-1.0% and apply 55% indexation based on 2020 reported numbers. We expect group revenues to grow at a CAGR of 9.2% over 2020-2023E from AED 1.74 Bn in 2020 to AED 2.27 Bn in 2023E, driven by the growth of capacity revenues and consumption revenues growing by 7.7% over the period. For consumption revenues, our forecasts are based on an average consumption revenue per cooling hour of 40 fils and a usage rate of 1,800 RTh per RT. We pencil in a gradual recovery of full year cooling consumption post the impact of Covid-19 from 2022E onwards, and do not expect any additional discounts from power companies that may be passed on to customers.

Capacity & Consumption impact: 2018-2020



Source: Tabreed

Tabreed group EBITDA & EBITDA margins



Source: Kamco Invest Research, Tabreed

EBITDA margins of +56% achievable from higher-margin capacity biz contribution: We forecast EBITDA to grow by 20.1% y-o-y from AED 0.97 Bn in 2020 to AED 1.17 Bn in 2021, and reach AED 1.29 Bn by 2023E. Our forecast of a jump from 2020 to 2021E is based on account of the full year impact of the two key aforementioned acquisitions, organic capacity additions and higher proportion of capacity linked revenues vs. consumption revenues as compared to a normalized consumption environment. The lower consumption revenues are ascribed to lower utilization rates from end-users in commercial real estate segment from restrictions on footfalls, and remote models such as WFH (work-from-home). EBITDA margins are also forecasted to be higher in 2021E (58.1%), as compared to 2020 (55.7%), as most of the costs and over heads (63% of total costs over 2018-2020) are more variable in nature, and should be lower in 2021E. As in our current forecasts, we expect normalized consumption environment for cooling in 2022E and 2023E, and therefore expect EBITDA margins of around 56%, as organic capacity additions offset the ramp up in lower margin and more variable cooling consumption volumes. We also factor in seasonality, with Q1 and Q2 EBITDA margins pegged higher from lower utilization rates of cooling consumption than in Q2 & Q3 of a calendar year.

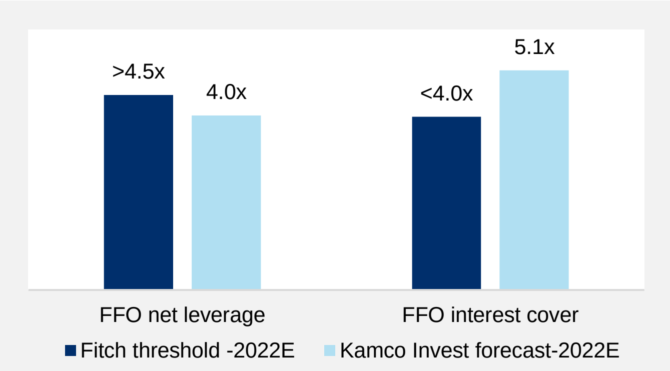
Relevance of the IG rating intact despite acquisitions pursuit

Tabreed's strategy is to utilize internally generated cashflows for organic capacity growth, while utilizing debt for acquiring brownfield opportunities. The company has also made its intentions clear about acquisitions, while maintaining their investment grade (IG) rating from ratings agencies - Moody's & Fitch. Tabreed's current ratings are Baa3 with a stable outlook from Moody's, and BBB with a negative outlook by Fitch.

Internal cashflow accruals adequate for organic capacity build-up: The market concerns revolve around whether the company can pursue growth, while keeping their ratings intact given thresholds for metrics set by the ratings agencies, which are currently close to the limits. The threshold for negative ratings action set by Fitch are: 1) a failure to adjust financial policy leading to 2022E FFO net leverage consistently above 4.5x, and 2) 2022E FFO interest cover consistently below 4x (FFO= Funds from operations). From Moody's, negative ratings action limits are set at: 1) (FFO+ Interest)/ Interest less than 4.0x, and 2) RCF/net debt less than 10% (RCF= Retained cash flow).

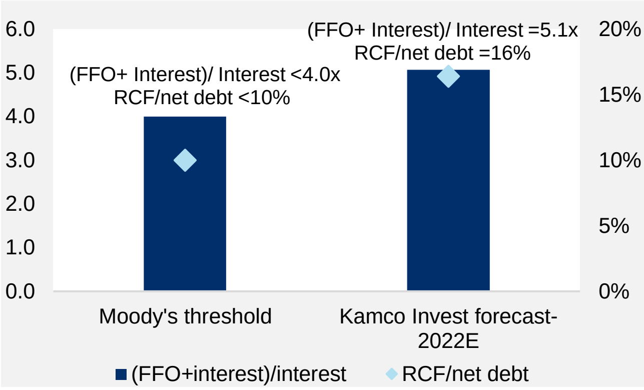
We believe that Tabreed's current debt funding mix does not breach any of the negative thresholds set by Moody's and Fitch, based on cashflows from the current installed capacity, and the organic capacity build-up towards the ultimate capacity of Downtown District Cooling and Saadiyaat Island district cooling assets. We forecast Tabreed's FFO net leverage to come in at around 4.0x, while achieving a FFO interest cover of around 5.1x, providing room from the negative thresholds set by Fitch ratings. Separately a (FFO+ Interest)/ Interest greater than 5.1x, and RCF/net debt of 16% is also clear from any concerns over the investment grade ratings limits set by Moody's.

Fitch ratings threshold for negative ratings action



Source: Fitch ratings, Kamco Invest Research

Moody's ratings threshold for negative ratings action



Source: Moody's ratings, Kamco Invest Research

Organic growth should also deleverage balance sheet, barring acquisitions: The company does not require significant financing required until 2025, when the USD 500 Mn sukuk matures, and the Downtown DCP related 5-year USD 692 Mn bullet repayment falls due. While net debt/EBITDA stood at 5.54x at the end of 2020, we expect the company's strong organic free cashflows to enable the company to deleverage its balance sheet significantly, given the stable nature of take-or-pay contracts, and base consumption revenues. We expect net debt/ EBITDA to reach 0.76x by 2031E, even when considering a higher average payout ratio (DPO) of 68% over 2021E-31E, barring any acquisitions, as we assume that the company should be able to comfortably achieve a DPO of 70%-80% post significant repayments due in 2025E, in such a scenario.

Tabreed deleveraging of balance sheet over 2021E-31E

Organic growth driven FCFF impact on debt profile	
Debt/assets (x) - 2020	**0.50**
Net debt/EBITDA (x) -2020	**5.54**
FCFF (AED Mn) over 2021E-2031E: (1)	8,478
Debt (AED Mn) 2021E-2031E: (2)	6,498
Dividends (AED Mn) 2021E-2031E @ 68% avg. DPO: (3)	6,387
Outstanding Debt (AED Mn) -2031E: (4) = (1) - (2) - (3)	4,406
Cash (AED Mn) in 2031E: (5)	2,431
Net debt (AED Mn) in 2031E: (6) = (4) - (5)	1,975
Net debt/EBITDA (x) -2031E	**0.76**
Debt/assets (x) - 2031E	**0.31**

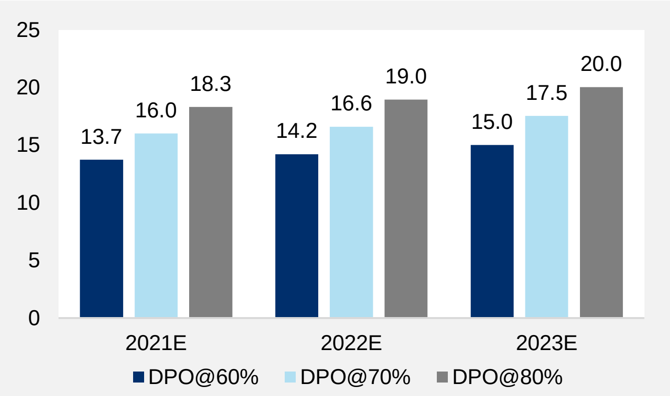
Sources: Kamco Invest Research

IG ratings downgrade thresholds more dependent on EBITDA post acquisitions: The catalysts and limits for a ratings downgrade from investment grade are more relevant when acquisitions are pursued in our view. Tabreed reportedly received shareholder approval in Oct-2020 to head to market for up to USD 1 Bn in debt offerings for growth in new markets, as well as to pick up more projects in its home base, either through non-convertible bonds or Sharia-compliant sukuk issues. However, with acquisitions the company readily acquires EBITDA and FFO, while the management's clear strategy of targeting 10%-12% IRR leaves a comfortable spread above the current all-in cost of debt of around 4%, or potentially higher finance costs from interest rate hikes over 2021E & 2022E. We however believe that the lower headroom between the thresholds for maintaining the investment grade ratings and its corresponding forecasted metrics would mean that target acquisitions would need to have a significant portion of its ultimate capacity connected at the time of acquisition. Nevertheless, the company guided that if lucrative opportunities do arise, major shareholders would step in to support growth, which should alleviate concerns of a ratings downgrade.

Quick pivot to an attractive dividend-play possible; if stance changes

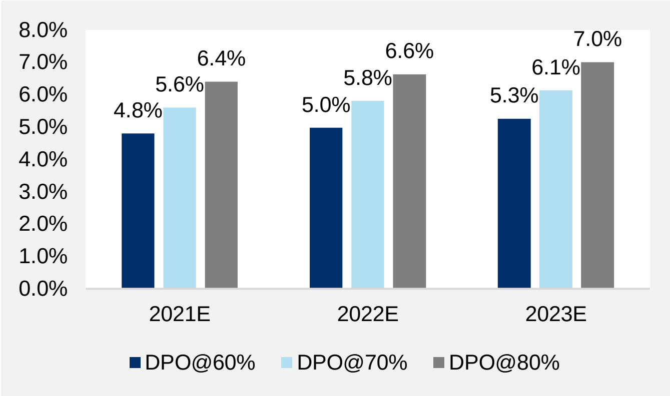
While we view Tabreed's acquisitions focus positively, our thesis and rating on the company does not significantly change if the company decides against pursuing acquisitions going forward. The predictability of the company's recurring revenues, strong margins and high FCF conversion rates allow the company to pivot to a strong dividend yield candidate in our view.

DPS scenarios (fils)



Source: Kamco Invest Research

Dividend yield scenarios (%)



Source: Kamco Invest Research

For 2020, the company paid cash dividends of 5.75 fils, and issued bonus shares based on a ratio of 1:45. The lower cash dividends while issuing bonus issues conserves cash for future acquisitions, and should aid shareholders to benefit from potential growth. For shareholders, the total combined value from cash dividends and bonus shares also translates into a slightly lower overall payout than the average of around 60% achieved in 2018 and 2019, in our view. Going forward, in a scenario where the acquisitions focus remains unchanged, we forecast the company's total payout to remain at 60%, translating into a DPS of 13.7 fils for 2021E, 14.2 fils for 2022E and 15.0 fils for 2023E. If the stance towards acquisitions were to change, we believe the company has the flexibility to achieve a DPO of 70%-80%, and achieve a minimum DPS of 16.0 fils for 2021E and 16.6 fils for 2022E and 17.5 fils for 2023E, respectively based on a DPO of 70%. In such a scenario playing out, the higher DPO would catapult the company as one of the best sustainable dividend stories in the GCC, as the company would trade at a dividend yield range of 5.6%-7.0% based on current prices, which provides more credence to our Outperform case.

Scale potential outside the UAE – a question of TAM to SOM realization

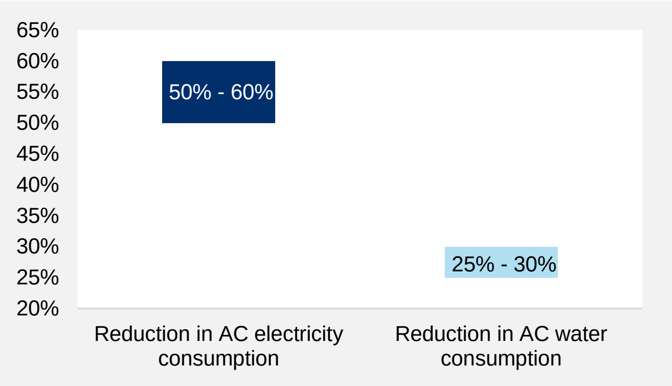
Tabreed pursues growth outside the UAE primarily through its associates and JV participations. The company's main associate participations outside the UAE include a 28% stake in Tabreed District Cooling Company (Saudi Tabreed), and a 44% stake in Qatar Central Cooling Cool (Qatar Cool) which is currently classified as assets held for sale. New growth markets of keen interest to Tabreed mainly include India and Egypt. ***The potential markets do possess a large TAM in terms of potential demand for Tabreed, however we believe that achieving and translating the total addressable market (TAM) into a serviceable obtainable market (SOM) for each of the markets does represent unique market-specific challenges.***

Saudi Arabia: Saudi Tabreed remains the largest independent district cooling company in KSA with 110,000 RT of connected capacity. That said, real estate developers continue to operate and own most of their captive district cooling assets in their projects. There are various catalysts for higher real estate market activity in Saudi Arabia, and recently in order to accelerate growth in the sector, the Royal

Commission for Riyadh set a target to attract up to 500 multinational companies to set up their regional headquarters in Riyadh over the next 10 years. This comes in addition to the new sponsorship announcement, as part of the master plan to increase foreign talent, which is expected to encourage and attract foreign investment and ownership, in addition to the set-up of businesses, that should aid real estate demand both in the residential and commercial segments of the market. Moreover, as per King Abdullah Petroleum Studies and Research Center (KAPSARC), the Saudi Electricity Company and the King Abdullah City for Science and Technology are conducting trials on newer technologies aimed at improving energy efficiency rating (EER) and sustainable forms of cooling.

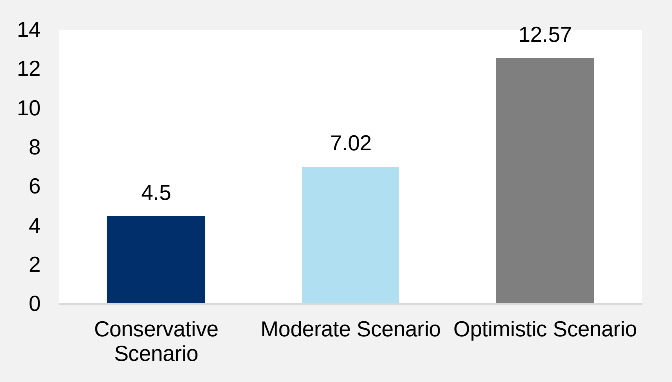
The challenge however is that, while district cooling offers vast potential to cool at scale, installing capacity outside highly planned and dense urban contexts remain a challenge in Saudi Arabia. Moreover, real estate developers are likely to continue to own captive district cooling units, given stable IRR considerations, until cashflows for growth capex are strapped, which could eventually lead to developers considering offloading non-core assets to fund growth, similar to the UAE.

King Abdullah University for Science and Technology cooling initiative targets - Apr 2019 to Mar 2022



Source: KAPSARC

Total commercial+residential cooling demand potential in India from district cooling by year 2037-38 (Mn RT)



Source: UNEP, EESL

India: India presents huge potential for district cooling installations, and in turn for Tabreed's strategic growth objectives. According to the India Cooling Action Plan (ICAP), the breakup of nationwide cooling requirement was 57% in residential and commercial buildings, by 23% in transport air conditioning, 20% in refrigeration and 0.5% in cold chain in 2017-18. By 2037-38, the country's cooling requirements is projected to grow by 8 times compared to the 2017-18 baseline estimate. Based on the extent of policy push, involvement of municipal corporations/municipalities, pilot, and awareness programs, and other factors, the National District Cooling Potential Study for India outlined conservative, moderate and optimistic scenarios for cooling potential in India, which range from 4.5 Mn RT to 12.57 Mn RT.

To capitalize on the opportunity, Tabreed and the International Finance Corporation (IFC), are expected to establish a district energy investment platform in Singapore with a target of USD 400 Mn in capital deployment. The 75:25 JV between the two entities is expected to be funded by Tabreed (75%) and IFC (25%), as and when opportunities arise. The JV will invest in district cooling, trigeneration and cooling-as-a-service opportunities with a primary focus on India followed by other South East Asian countries. The opportunities would include greenfield projects and acquisitions, but the size of the opportunities are currently not comparable to the UAE. Tabreed could potentially face challenges in realizing this potential due to lack of policy implementation in favor of district cooling, scale of standalone projects, and increased competition in our view. Other indirect challenges would be FX risks, dividend repatriation concerns, which can be managed effectively.

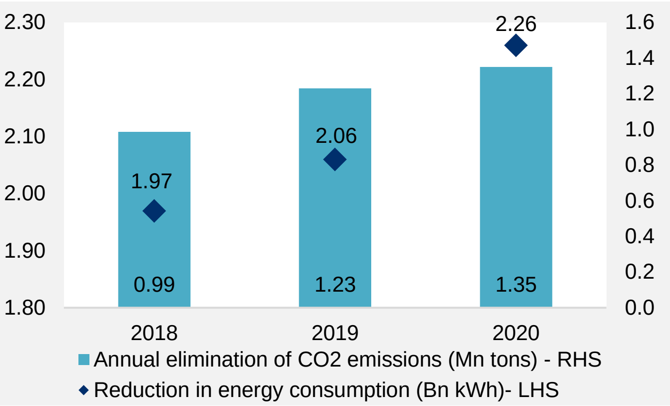
Egypt: Tabreed's growth in putting up district cooling assets in Egypt would hinge on the future development of master development communities, as currently there aren't many such opportunities currently for acquisitions and development. Also, along with higher penetration of air conditioning in the country, scale of the projects would need to justify district cooling capex upfront.

Exit from Qatar: The company's decision on the sale of its Qatar Cool investment is largely on account of looking at higher returns elsewhere going forward, than offered by its investment in Qatar. The management believes that there other more lucrative opportunities available in terms of scale and IRRs. With the FIFA World Cup Qatar 2022 just about a year away, we believe Tabreed's move to exit makes sense, given that, the super cycle of infrastructure and real estate developments could slow down after the major event. Nevertheless, the management has guided that they would be targeting an IRR of at least 10% from the exit of the investment. Accordingly, we model our exit value based on an IRR of 10% and based on the company's 44% ownership, arriving at value of AED 474.85 Mn and constituting ~5% of our target price at 17.1 fils.

Leading "E pillar" ESG play in the GCC amongst slim pickings in the space

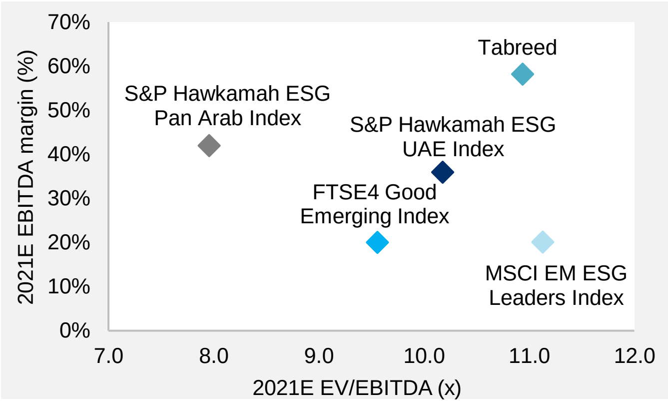
We feel that Tabreed's ESG thesis is underappreciated within a GCC context for a variety of reasons. With slim pickings from the space in the region, we feel the company presents ESG investors with one of the strongest "Environmental pillar" plays, from within the region. The company has been able to progressively improve its environmental ESG related metrics, such as lowering its carbon intensity in the form of a reduction in CO2 emissions (2020:1.35 Mn tons), and becoming more energy efficient highlighted by a reduction in an annual energy consumption of 2.26 B kWh in 2020. The company improved its energy efficiency utilization from 0.935 kWH/RTH in 2016 to 0.866 kWH/RTH in 2020. Other initiatives include Masdar and Tabreed collaborating R&D efforts to carry out testing on two deep geothermal wells located in Masdar City to study the viability of geothermal energy technology, and its ability to substantially reduce electricity consumption.

Tabreed's ESG "E pillar" sustainability metrics



Source: Tabreed

Tabreed vs ESG indices – EBITDA margins (%) & EV/EBITDA (x)



Source: Kamco Invest Research, Bloomberg

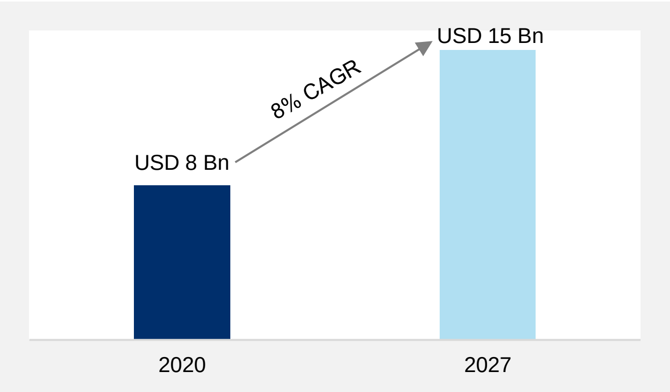
We also believe that Tabreed is a candidate for a re-rating as one of the top companies in ESG indices such as S&P Hawkamah ESG UAE Index and S&P Hawkamah ESG Pan Arab Index. Currently it does not feature in either, the top 5 (S&P Hawkamah ESG UAE Index) or top 10 (S&P Hawkamah ESG Pan Arab Index) constituents of those indices. As mentioned earlier in our valuation section, the potential growth via organic capacity addition warrants the higher valuation that the company trades (10.9x 2021E EV/EBITDA), as compared to the respective ESG indices average (9.7x), while growth via acquisitions could make the stock more attractive. Further, we believe that higher scale when achieved should make the company more attractive, and translate into better E pillar metrics such as carbon efficiency (CO2e MT/USD 1 Mn invested) and carbon foot print (CO2e MT/USD 1 Mn revenues), than its GCC peers, and warranting a higher ranking in such ESG indices. Higher disclosure on ESG metrics after its inaugural 2019-2020 ESG report should also provide visibility to investors looking at sustainable corporate investments.

GCC District Cooling Industry - Sustainably Advantaged

Structural catalysts provide tailwinds for DC capacity growth in the GCC

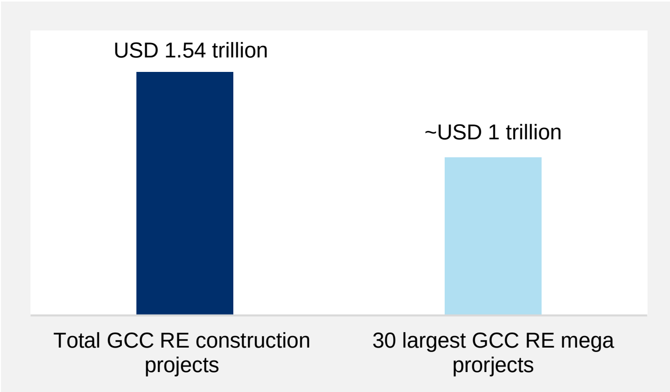
Several structural catalysts are in place for the GCC district cooling market to witness significant growth over the medium term, in our view. Drivers for growth include the wider global acceptance of district cooling (DC) technology as the more superior technology for cooling, and the push towards more energy efficient and sustainable energy usage. Specific to the GCC, the region's geographical positioning translating into recurring cooling consumption needs, and the upcoming real estate mega project pipeline, should drive more capacity installations going forward.

GCC DC market growth (2020-27)



Source: Global Market Insights

GCC RE upcoming mega projects landscape



Source: Kamco Invest Research, Strategy & Co, MEED

The GCC district cooling market is expected to grow at a CAGR of 8% from USD 8 Bn in 2020 to USD 15 Bn in 2027, as per Global Market Insights. They ascribe growth to rising infrastructure spend, and advanced technology adoption on account of environmental and economic benefits. In terms of capacity, we forecast GCC's district cooling market to have a TAM of 6.4 Mn RT – 9.9 Mn RT from additions to greenfield capacity installations, which represents a market growth of around 60% on the conservative side, to almost 1.5x the 4 Mn RT installed at the end of 2020 on the optimistic side. We believe that the pipeline of real estate mega projects represents significant advantages for both developers and end users to prefer DC installations. The total number of upcoming real estate mega projects amount to USD 1 trillion as per Strategy & Co, providing basis for our robust demand expectations for DC capacity installations. Additionally, more supportive government regulations towards district cooling based centralized networks should further augment the adoption of the technology in the region, especially for master developments and larger scale real estate projects. This also supports various other ancillary supplier technology industries as well.

Sustainability impetus to expedite adoption of DC for newer projects

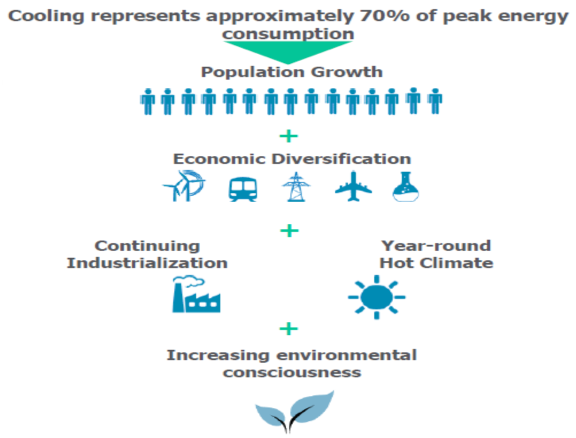
The primary demand driver for district cooling consumption demand in the GCC is due to the extreme hot climate prevalent in the region, due to geo-positioning and exacerbated by heat island effect. As a result, around 70% of the overall electricity demand during peak load periods in summer is from air conditioning systems. Further, the aggressive drive towards economic diversification away from oil has led to more tourism, hospitality, healthcare and industrial projects being announced, which would require air conditioning for their high-density developments apart from the conventional residential and commercial real estate.

Some of the more notable advantages of district cooling over conventional cooling are:

- **Lower capital, operating and maintenance costs:** Developers can hire district cooling companies to provide cooling infrastructure for larger projects, which reduces capital installation costs, in the range of 10%-15%. Moreover, as there are no onsite chillers, operating, and maintenance and overheads are significantly lower for district cooling.

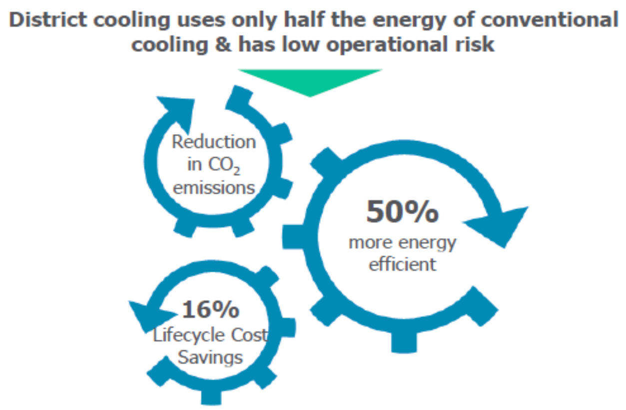
- **Economies of scale:** Centralized plants can achieve higher scale in terms of cooling capacity and can accommodate additions to existing capacity as compared to individual cooling plants, freeing up space and reducing noise from rooftop-installations.
- **Lower energy efficiency & fuel consumption needs:** District cooling reduces electric consumption by an average of 50%, and it could be 40-60% more efficient than conventional cooling.
- **Lower lifecycle costs & reliability for consumers:** For high-density projects, district cooling is able to achieve a lower cost per RT (refrigeration tons), along with managing variable diversity of load factors for independent project components of the master development.

Macro drivers for cooling needs in the GCC



Source: Tabreed

DC vs conventional cooling



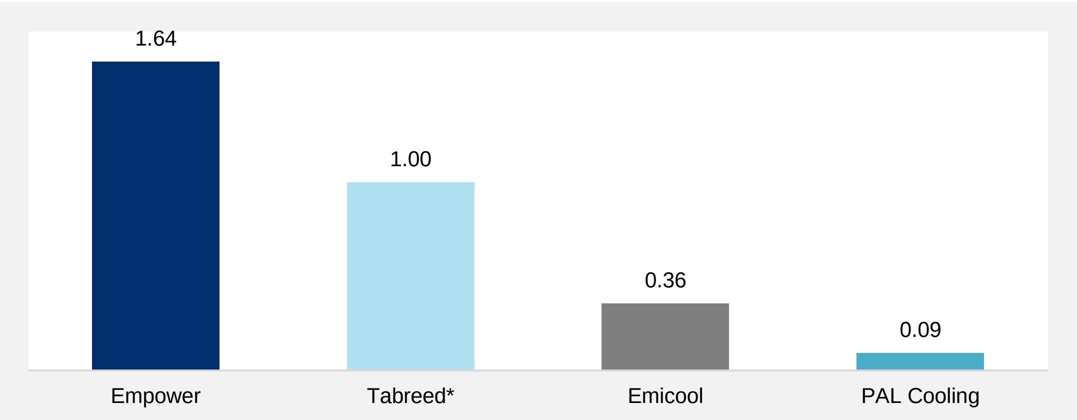
Source: Tabreed

Another key macro driver for the adoption of district cooling is the growing push in the GCC towards sustainability initiatives, and the focus towards providing environmentally friendly district cooling solutions that support the UN Sustainable Development Goals. Sustainability targets include the reduction of carbon emissions, improving energy efficiency, and initiatives such as the “District Energy In Cities Initiative” from UNEP supports governments to build know-how and implement enabling policies that will accelerate investment in low-carbon and climate-resilient district energy systems.

UAE remains the standout regional leader for DC technology adoption

Within the GCC, UAE leads the district cooling market, along with being the ranked among the world's largest markets with an installed capacity of more than 3 Mn RT. The country remains aggressive with its sustainability drive, as the UAE government aims to invest AED 600 Bn by 2050 to meet growing energy demands via sustainable sources, and aims to increase the contribution of clean energy in the total energy mix from 25% in 2017 to 50% by 2050 and reduce carbon footprint of power generation by 70%, thus saving AED 700 billion by 2050.

Competitive landscape for DC companies in the UAE - Installed capacity (Mn RT)



*Sources: Latest capacity disclosures on company websites, * including equity accounted*

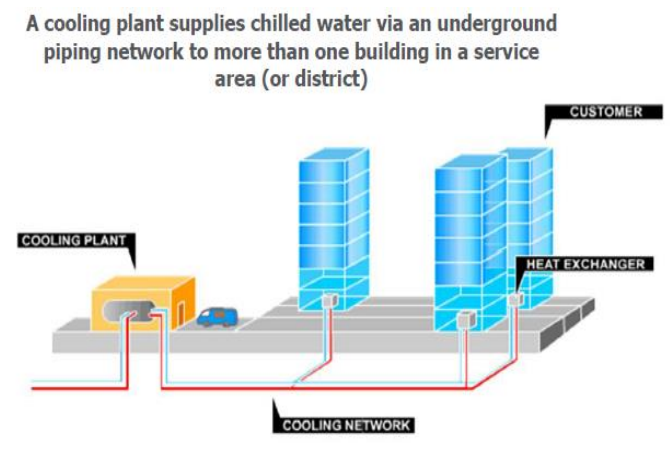
In the UAE, the largest district cooling player and competitor for Tabreed is Empower (Emirates Central Cooling Systems Corporation) and the company operates around 1.64 Mn RTs in more than 1,252 buildings. Empower holds 76%+ market share of Dubai's District Cooling sector, as per its website. Emicool and PAL Cooling are the other prominent players with installed capacities of 0.36 Mn RTs and 92,500 RTs respectively. Some of the players provide services on a captive basis such as Emicool that is wholly owned by Dubai Investment, while there are entities owned by ADNOC and Nakheel group of companies.

Other than the UAE, Saudi Arabia and Qatar are the more active district cooling markets in the region. Saudi Arabia remains the large potential market in terms of district cooling penetration, but barring Saudi Tabreed, which is the largest independent provider of cooling services, most installation facilities are managed by RE developers as their respective captive units.

DC technology overview

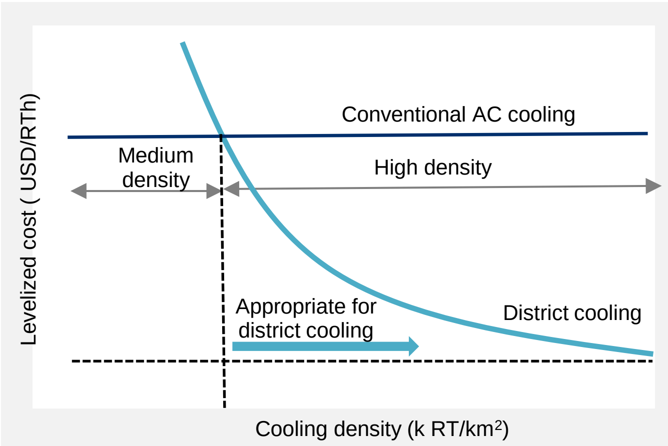
District cooling plants provide a centralized production and distribution system of cooling energy for spaces across offices, houses, apartments, and industries, and each plant typically consists of one or more chillers, heat exchangers, pumps and insulated piping. Through the principle of energy exchanging for air conditioning, central plant utilizes cool water and distributes it through insulated pipes to customers' buildings through a dedicated network. The chilled water passes through a heat exchanger at the customers building and cools the customer's own water circulating through their internal network. Air is passed over the chilled water pipes in the customer's network to produce air conditioning, while the warmer water is returned to the central plant to be rechilled and redistributed.

DC Technology



Source: Tabreed

DC impact on unit cost based on cooling density



Source: Kamco Invest Research

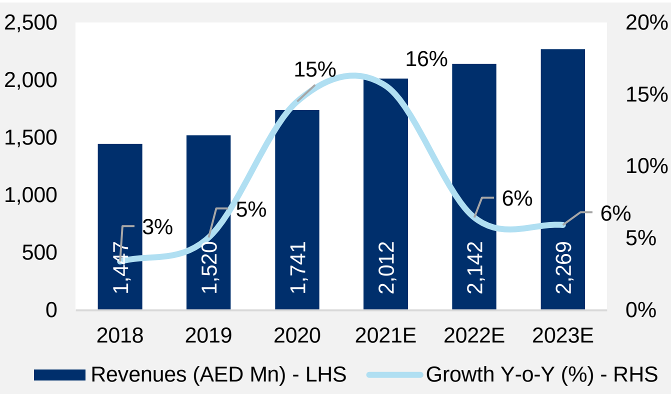
The services are provided over a concession agreement which varies between 25 and 50 years, initial tariffs are managed and adjusted to reflect inflation, and government utilities regulation. Water and power costs are typically paid by the offtaker as pass-through costs.

Running the numbers – Key financial forecasts

Revenues and GP margins (%)

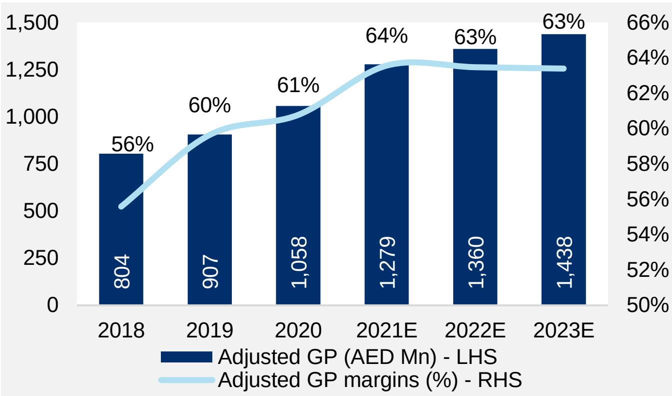
We expect group revenues to grow at a CAGR of 9.2% over 2020-2023E from AED 1.74 Bn in 2020 to AED 2.27 Bn in 2023E, driven by the growth of capacity revenues (10.9% CAGR) and consumption revenues (7.7% CAGR) within the Chilled Water segment. The Chilled Water segment is expected to contribute around 94% of the total group revenues in our forecast period. Chilled Water segment revenues are arrived at by deducting finance lease amortization from gross Chilled Water segment revenues, which includes both revenues from contracts and leases. The company guided that they expect the finance lease amortization to increase at a CAGR of 10 %, as the value of finance lease receivable reduce over the next five years, which are reflected in our forecasts.

Revenues & growth



Source: Kamco Invest Research, Tabreed

Gross Profit (GP) and GP margins



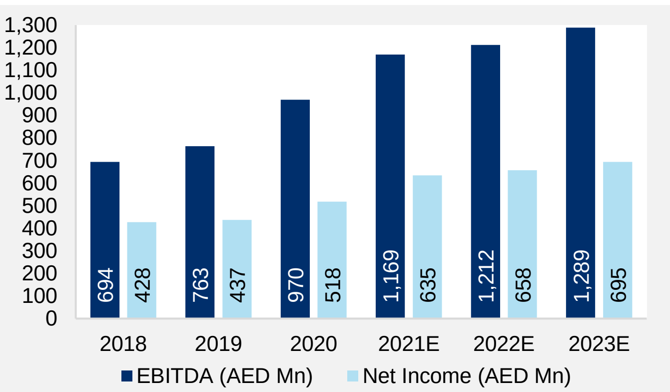
Source: Kamco Invest Research, Tabreed

We expect adjusted gross margins to increase from 61% in 2020 to an average of +63% over 2021E-2023E, reflecting the scale effects from the full year consolidation of the acquisitions in 2020, the ramp up of capacity towards their ultimate connected capacity, and growth via new signings of capacity additions over the period.

EBITDA, net income & dividends

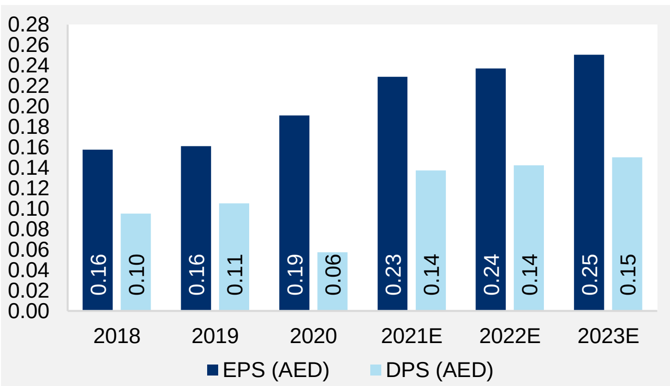
We forecast EBITDA and net income of AED 1.17 Bn and AED 0.64 Mn respectively for 2021E, and AED 1.21 Bn and AED 0.66 Bn respectively for 2022E. Both EBITDA and net margins should remain strong at an average of +56% and +30% over our explicit forecast period of 2021E-2023E, given the higher proportion of non-cyclical and stable capacity linked revenues as compared to more variable consumption revenues.

EBITDA & Net Income



Source: Kamco Invest Research, Tabreed, Net income is from continuing operations to the parent company

EPS & DPS



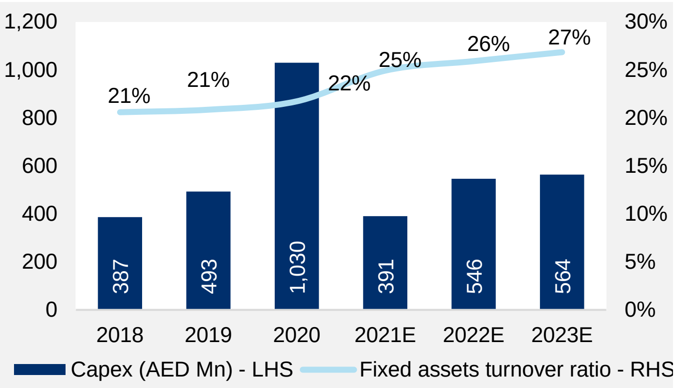
Source: Kamco Invest Research, Tabreed

Given the company's focus on acquisitions, we expect the company's total payout to remain at 60%, translating into a DPS of 13.7 fils for 2021E, 14.2 fils for 2022E and 15.0 fils for 2023E.

Capex, working capital and cash conversion cycle

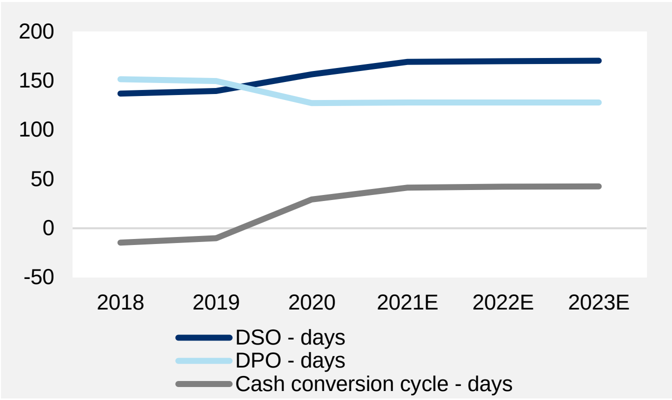
Post the acquisitions in 2020, we forecast total capex on fixed assets to normalize to AED 391 Mn in 2021E, AED 546 Mn an AED 564 Mn in 2022E and 2023E respectively, driven by the ramp up of existing capacities. Moreover, based on the spread between IRR and cost of debt, we expect efficiency to improve and the total fixed asset turnover ratio to improve from 22% in 2020 to around 27% by 2023E. The fixed asset turnover ratio of Tabreed is comparable utilities sector companies, in our view.

Capex and fixed asset turnover ratio



Source: Kamco Invest Research, Tabreed

Cash conversion cycle



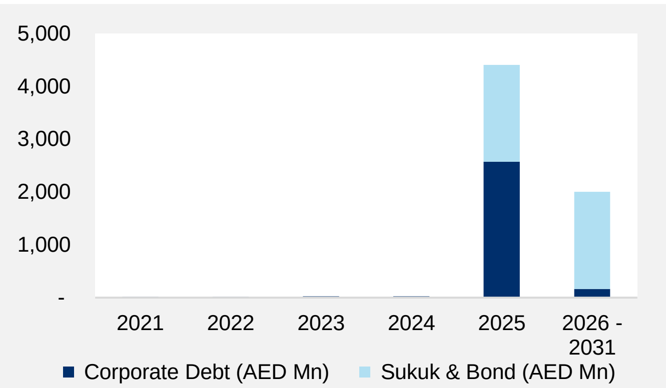
Source: Kamco Invest Research, Tabreed

The company had a negative conversion cycle up till 2019, as DPO >DSO, which reversed in 2020 to around 30 days, post Covid-19 and the acquisitions. We expect the cash conversion cycle to remain higher over 2021E-2023E at around 42 days, given that, the company could potentially support debtors, as the market recovers from the impact of the Covid-19.

Debt management

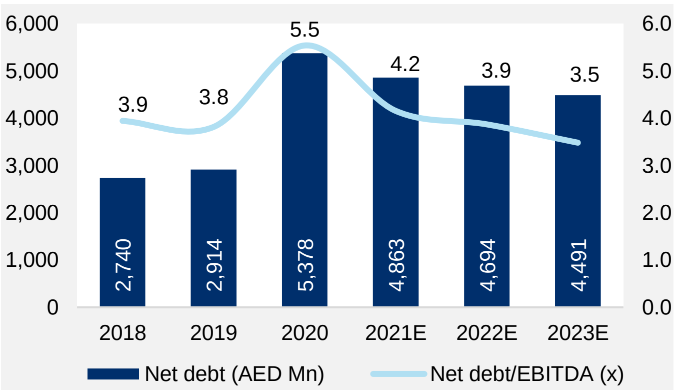
Tabreed aims to utilize debt for only acquisitions, while capex for organic capacity growth should be driven by internal cashflows. The company does not require significant financing until 2025, when the USD 500 Mn sukuk matures, and the Downtown DCP related 5-year USD 692 Mn bullet repayment falls due.

Debt maturity schedule



Source: Kamco Invest Research, Tabreed

Net debt and net debt-to-EBITDA



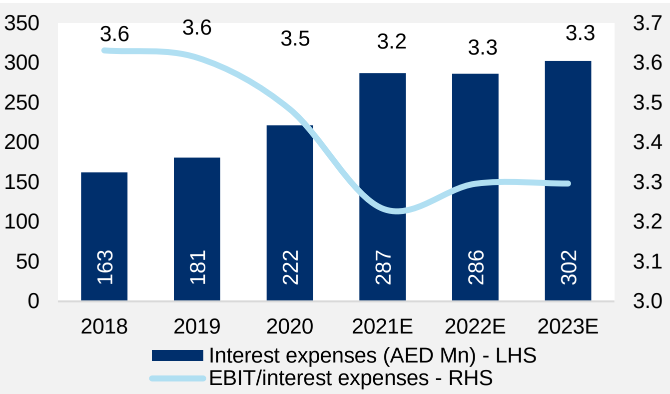
Source: Kamco Invest Research, Tabreed

While net debt/EBITDA stood at 5.5x at the end of 2020 according to our estimates, we expect net debt/ EBITDA to reach 3.5x by 2023E, even when considering an average payout ratio (DPO) of 60% over 2021E-23E, barring any acquisitions.

Interest coverage ratio and returns on capital

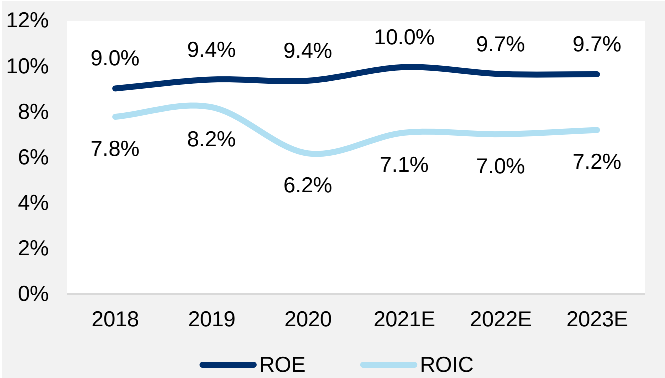
The amount of debt on Tabreed's balance sheet as of 2020 was high as a result of the debt-funded acquisitions. However, strong earnings and cashflow base combined with the lower current all-in cost of debt of around 4%, or potentially higher finance costs from marginal interest rate hikes over 2021E & 2022E leaves no concerns over interest coverage ratios which remains above 3.2x over 2021E-23E.

Interest expenses and interest coverage ratio



Source: Kamco Invest Research, Tabreed

ROE & ROIC



Source: Kamco Invest Research, Tabreed

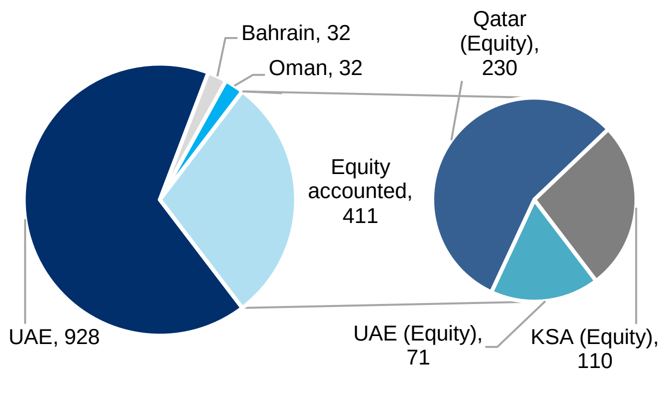
In terms of returns on capital, the return on invested capital (ROIC) dipped to 6.2% in 2020, but we expect ROIC to recover by atleast 100 bps to 7.2%, once connected capacity reaches full utilization rates, and consumption volumes improve from a recovery in commercial real estate occupancy rates and footfalls.

Tabreed – Company Overview

Sole listed DC company in the GCC

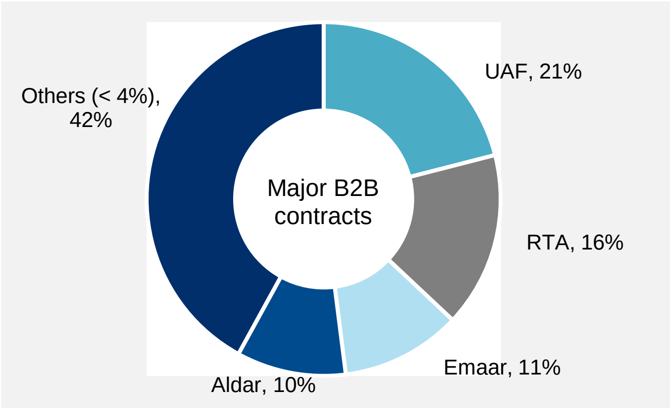
Tabreed is one of the largest district cooling companies in the world by connected capacity, and the only public listed district cooling provider in the GCC with 86 plants and an overall total connected capacity of 1.4 Mn RTs across fully consolidated and equity accounted participation. In 2020, Tabreed generated total revenues of AED 1.74 Bn, growing at a CAGR of 8% since 2017 (AED 1.40 Bn). The company operates in two business segments: 1) Chilled Water – The segment contributes to around 97% of group revenues as of 2020, and constructs, owns, operates cooling and air-conditioning systems, and produces and distributes chilled water for use in district cooling, 2) Value Chain Businesses: The segment involved in ancillary activities relating to the expansion of the group's chilled water business.

Connected Capacity split (k RT)



Source: Tabreed

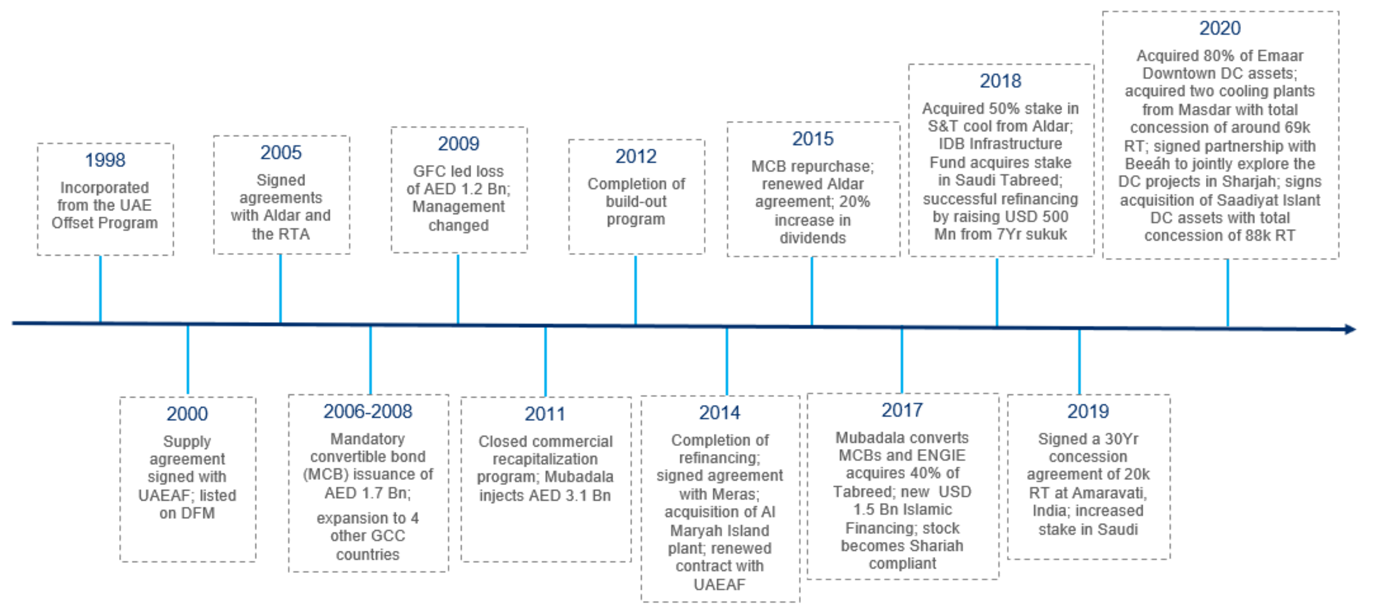
Major B2B clients for chilled water segment (FY 2020)



Source: Tabreed

A majority of Tabreed's clients are B2B entities like UAE Armed Forces (UAF), Road and Transport Authority of Dubai (RTA), and developers like Emaar and Aldar, with the top 3 customers accounting for about 47% of the chilled water revenues for the company in 2020. Moreover, significant portion of chilled water contracts are either with entities that are wholly owned by the government (46%) or majority government owned entities (23%) based on 2020 revenues.

Tabreed corporate timeline



Sources: Tabreed, Kamco Invest Research

Strong acquisition activity drove market share gains in 2020

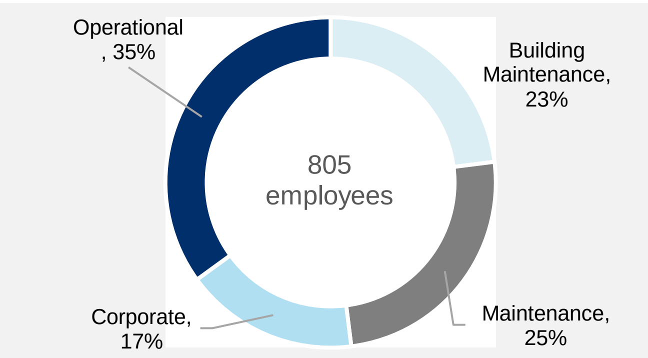
In 2020, Tabreed achieved significant growth via acquisitions, which included the landmark acquisition of 80% of Emaar's Downtown District Cooling ("DDC) assets for AED 2.48 Bn, acquiring plants with an ultimate concession capacity of 235k RT and around 146k RT connected at the time of acquisition. Subsequently, a long-term concession agreement was signed with Emaar. The deal allowed Tabreed to move from fourth position to second position in terms of district cooling capacity behind Empower. Other deals included the acquisition of Saadiyat Island District Cooling assets from Aldar Properties with a current/ultimate capacity of 35k/88k RT for AED 963 Mn, and acquiring Masdar City district concession with a total capacity of 69k RT. The company's portfolio of iconic developments as a provider of district cooling services now includes the Burj Khalifa, Dubai Mall, Dubai Opera, the RTA's Dubai Metro, Abu Dhabi Global Market, Etihad Towers, Yas Island, Aldar HQ, World Trade Centre Abu Dhabi, Cleveland Clinic Abu Dhabi, The Sheikh Zayed Grand Mosque, Bahrain Financial Harbour, Knowledge Oasis Muscat and the Jabal Omar Project in the holy city of Mecca.

Tabreed's key projects as exclusive provider of DC services

Sources: Tabreed

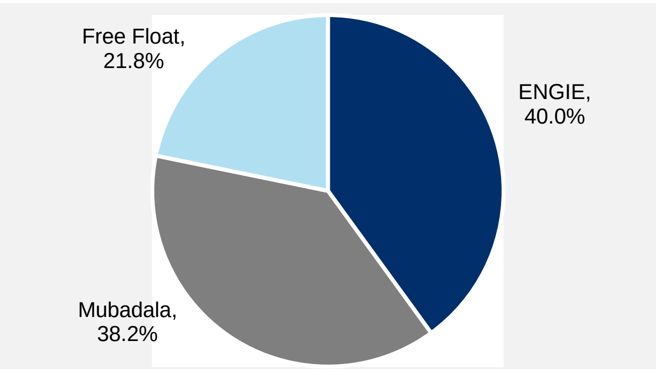
The company's EBITDA grew at a CAGR of 16% from 2017 to AED 970 Mn in 2020, driven by the higher degree of revenues that come from capacity charges (59% average over 2018-2020), as against consumption charges (41% average over 2018-2020). In terms of costs & overheads though, 63% (average over 2018-2020) of the total costs are ascribed to consumption revenue which covers all variable costs, while 37% of total costs were capacity related costs.

Employee headcount



Source: Tabreed, as of Mar 2021

Shareholding Pattern



Source: DFM, as of 23 May 2021

Strategic shareholders' backing augurs well for growth pursuit

Key shareholders in Tabreed include Mubadala (38.2%) and ENGIE (40.0%). Mubadala's investment in Tabreed is part of Mubadala's utilities portfolio, which includes renewable and conventional power generation, water desalination and district cooling business. ENGIE is a global energy and services group with a footprint in over 70 countries in the areas of renewable energy, gas and services. With extensive expertise in the utilities and sustainable infrastructure, we believe both strategic shareholders should provide extensive support to Tabreed's management team and ongoing growth initiatives objectives from a technology, sustainability, and organizational standpoint.

Board of Directors & Management Team

Board of Directors	Title
Khaled Abdulla Al Qubaisi	Chairman
Paulo Almirante	Vice Chairman
H.E. Dr. Ahmad Bin Abdullah Humaid Belhoul Al Falasi	Member
Saeed Ali Khalfan Al Dhaheri	Member
Mohammed Al Huraimel Al Shamsi	Member
Sébastien Arbola	Member
Frédéric Claux	Member
Frédérique Dufresnoy	Member
Musabbeh Al Kaabi	Member
Management	**Title**
Khalid Al Marzooqi	Chief Executive Officer
Adel Salem Al Wahedi	Chief Financial Officer
Francois-Xavier BOUL	Chief Development Officer
Jean-Francois Chartrain	Chief Operating Officer
Hamish Jooste	Chief Legal Counsel

Sources: Tabreed, Kamco Invest Research

Tabreed Financials

Balance Sheet (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Assets						
Cash and cash equivalents	249	227	1,313	1,809	1,956	2,156
Receivables	813	901	1,214	1,281	1,344	1,405
Other current assets	33	35	42	48	51	54
Total current assets	1,095	1,163	2,569	3,138	3,351	3,615
Net PPE including capital WIP	4,052	3,940	4,437	4,860	5,121	5,380
Other assets	3,337	3,800	6,306	5,983	5,913	5,838
Total assets	**8,484**	**8,904**	**13,313**	**13,982**	**14,385**	**14,833**
Liabilities						
Current Liabilities	769	815	662	704	750	794
Total debt	2,845	2,947	6,623	6,672	6,650	6,647
Other Liabilities	132	127	153	165	179	193
Total liabilities	**3,747**	**3,888**	**7,438**	**7,541**	**7,579**	**7,634**
Shareholders' Equity						
Share capital	2,716	2,716	2,716	2,716	2,716	2,716
Retained earnings	956	1,923	2,134	2,613	2,889	3,190
Minority Interest	67	71	710	733	757	780
Other Equity	999	306	315	379	445	514
Total Equity	**4,737**	**5,016**	**5,875**	**6,441**	**6,806**	**7,199**
Total liabilities and equity	**8,484**	**8,904**	**13,313**	**13,982**	**14,385**	**14,833**

Income Statement (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Revenue	1,447	1,520	1,741	2,012	2,142	2,269
Cost of goods sold	-643	-613	-683	-733	-782	-831
Adjusted gross profit	**804**	**907**	**1,058**	**1,279**	**1,360**	**1,438**
General and administrative expenses	-110	-143	-88	-110	-148	-150
EBITDA	**694**	**763**	**970**	**1,169**	**1,212**	**1,289**
Depreciation and amortization	-235	-231	-340	-361	-385	-411
EBIT	**459**	**532**	**630**	**808**	**827**	**878**
Finance costs	-163	-181	-222	-287	-286	-302
Interest/investment income	1	3	3	4	5	5
Other Income/Loss	134	91	130	133	135	138
Net profit - continuing operations	**431**	**445**	**542**	**658**	**681**	**718**
Discontinued operations	0	36	32	7	0	0
Net profit	**431**	**481**	**573**	**665**	**681**	**718**
Minority interest	-4	-8	-23	-23	-23	-23
Net profit attributable to parent	**428**	**472**	**550**	**642**	**658**	**695**
Net profit attributable to parent- continuing operations	**428**	**437**	**518**	**635**	**658**	**695**
EPS (AED)	**0.16**	**0.17**	**0.20**	**0.23**	**0.24**	**0.25**
EPS from continuing operations (AED)	**0.16**	**0.16**	**0.19**	**0.23**	**0.24**	**0.25**

Cash Flow (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Net cash from operating activities	662	782	629	1,164	1,192	1,269
Net cash (used in) from investing activities	(241)	(184)	(2,595)	(338)	(421)	(438)
Net cash from (used in) financing activities	(590)	(620)	3,051	(331)	(623)	(631)
Change in cash and cash equivalents	(169)	(22)	1,086	496	147	200
FX and other adjustments	0	0	0			
Cash at the end of the year	**249**	**227**	**1,313**	**1,809**	**1,956**	**2,156**

Source : Kamco Invest Research and Tabreed

Valuation & Financial Ratios

Ratios	2018	2019	2020	2021E	2022E	2023E
Leverage Ratios						
Total Debt / Total Assets (x)	0.34	0.33	0.50	0.48	0.46	0.45
Total Debt / Equity (x)	0.60	0.59	1.13	1.04	0.98	0.92
Net Debt/Equity (x)	0.55	0.54	0.90	0.76	0.69	0.62
Operating Efficiency & Liquidity Ratios						
Receivables Turnover Ratio (%)	2.7	2.6	2.3	2.2	2.1	2.1
Payables Turnover Ratio (%)	2.4	2.4	2.9	2.9	2.9	2.9
Cash conversion cycle	-14.6	-10.1	29.2	41.3	42.1	42.5
Total Assets Turnover Ratio (x)	0.17	0.17	0.16	0.15	0.15	0.16
Current Ratio (x)	1.42	1.43	3.88	4.46	4.47	4.55
Margins & Profitability Ratios						
Gross profit margin (%)	55.6%	59.6%	60.8%	63.6%	63.5%	63.4%
EBITDA margin (%)	48.0%	50.2%	55.7%	58.1%	56.6%	56.8%
EBIT margin (%)	31.7%	35.0%	36.2%	40.2%	38.6%	38.7%
Net profit margin (%)	29.6%	28.7%	29.8%	31.5%	30.7%	30.6%
Return on Assets (%)	5.0%	5.3%	4.1%	4.6%	4.6%	4.7%
Return on Equity (%)	9.0%	9.4%	9.4%	10.0%	9.7%	9.7%
ROIC (%)	7.8%	8.2%	6.2%	7.1%	7.0%	7.2%
Per Share Data and Valuation Ratios						
Earnings Per Share (AED)	0.16	0.17	0.20	0.23	0.24	0.25
Book Value Per Share (AED)	1.75	1.85	2.17	2.32	2.45	2.60
Dividend Per Share (AED)	0.10	0.11	0.06	0.14	0.14	0.15
PE (x)	18.5	16.8	14.4	12.4	12.1	11.4
EV/EBITDA (x)	10.6	10.5	12.8	10.9	10.4	9.6
PB (x)	1.0	1.0	1.2	1.2	1.2	1.1
Dividend Yield (%)	5.6%	5.6%	2.2%	4.8%	5.0%	5.3%

Source : Kamco Invest Research and Tabreed

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