

National Central Cooling Co. - Tabreed

Equity Research Update

Sector - Utilities

Penchant remains for bolt-on acquisitions

Steady FCF allows deleveraging & enables valuable pivot. Retain 'Outperform'

Our positive thesis on Tabreed revolves around the company's significant visibility of recurring revenues, FCF resilience from LT fixed contracts (25+ years), and low operational risks from significant pass-through of variable costs escalation. This enables the company to deleverage steadily post bolt-on acquisitions, which are largely debt-funded. Further, significant support from strategic shareholders allows the company to remain nimble-footed to capitalize on prospective acquisitions, while maintaining its investment grade (IG) rating from ratings agencies. Tabreed's flexibility to be able to pivot away from its acquisition focus, and achieve a higher dividend payout ratio (70%-80%) should be valuable for investors, in our view. Apart from its strong blend of growth and defensive fundamentals that leads us to maintain our 'Outperform' rating, the company's ESG thesis remains underappreciated from a GCC context, which should warrant a re-rating within regional ESG indices.

Capacity addition to be more back-end loaded from 2021-2022 guidance

Organic capacity connections came in slower in 2021 (9M-2021: 29k RT), and particularly in H1-2021 (13k RT), driven by slower construction activity by clients. We however remain confident on the company achieving its additional capacity guidance of 120k RT over 2021-2022, and expect connections to be more back-end loaded. Our revised capacity forecasts now also include full consolidation of Al Maryah Island DC assets (~65k RT of connected capacity/80k RT of ultimate capacity) by late Q4-2021, which should drive a capacity growth CAGR of 7.6% CAGR over 2020-23E from 1,174k RT in 2020. Nevertheless, we trim our forecasts beyond 2023E, as some of the larger DC assets bids which were potential acquisition targets, are now off the market. We forecast Tabreed's group revenues to reach AED 1.9 Bn in 2021E, and grow to AED 2.23 Bn by 2023E driven by organic capacity growth, and a higher proportion of non-cyclical capacity-linked revenues. We continue to forecast strong EBITDA margins of around 54%-55% over 2021E-23E, and expect EBITDA margins to improve from 53% in 9M-2021 to 55% for full year 2021, as the Q4-2021 revenue mix tilts more towards higher margin capacity revenues.

Opportunistic stance and IG rating will be preserved

Tabreed remains opportunistic in acquiring DC assets, despite possessing a net debt/EBITDA of 5.2x as of 9M-2021. The company reaffirmed that it would receive support from strategic shareholders for future acquisitions, which would enable its IG ratings, and ratings thresholds such as 2022E FFO net leverage < 4.5x from Fitch, to be maintained. We remain confident of Tabreed's deleveraging capabilities, given the company's strong organic FCFs, and with ~90% of the next ten years' revenues locked-in via take or pay contracts. Moreover, a readily acquired EBITDA and FFO along with a target IRR of 10%-12% leaves a comfortable spread above the current all-in cost of debt of around 4%, currently prevalent in the market. In Saudi Arabia, the total addressable market (TAM) continues to remain large, and we are hopeful on Tabreed's pursuits via bids that involve multi-utility tenders with strategic partners like ACWA Power.

Valuation & Risks – Lowering TP to AED 3.00/share

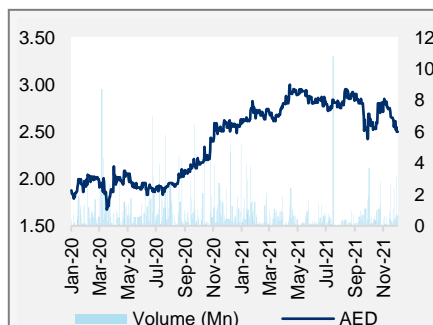
We revise our DCF based TP for Tabreed to AED 3.00/share (previous: AED 3.45/share), to factor in slower capacity growth beyond 2023E, as fewer potential landmark DC assets from developers/operators remain in the UAE for competitive bids. Separately, at current market prices, Tabreed trades at dividend yields of 4.5% (2021E) and 5.1% (2022E) respectively (DPO: 60%), which should protect against significant share price downside from here on in. **Downside risks to our valuation & forecasts include:** 1) Lower RE project market activity; 2) Delays in ramp-up of Tabreed's connected capacity towards ultimate capacity targets; 3) Extension of Covid-19 structurally altering end-user RE demand, impacting district cooling viability. 4) Deflationary trends impacting contract revenues.

Outperform

CMP 30-Nov-21: AED 2.50

Target Price: AED 3.00

Upside: +20.0%



Price Perf.	1M	3M	12M
Absolute	-11.0%	-13.8%	-1.7%
Relative	-17.7%	-19.2%	-28.7%

Stock Data

Bloomberg Ticker	TABREED UH
Last Price (AED)	2.50
MCap (AED Mn)	6,932
MCap (USD Mn)	1,889
EV (AED Mn)	12,734
Stock Performance - YTD (%)	-3.5%
PE - 2021E (x)	11.6
EV/EBITDA - 2021E (x)	12.1
Dividend yield - 2021E (%)	4.5%
52-Week Range (AED)	2.42/3.00

Sources: Kamco Invest Research & Bloomberg

Thomas Mathew

+ (965) 2233 6914

tmathew@kamcoinvest.com

Tabreed Financials						
Balance Sheet (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Assets						
Cash and cash equivalents	249	227	1,313	1,180	1,130	1,309
Receivables	813	901	1,214	1,290	1,403	1,456
Other current assets	33	35	42	51	57	60
Total current assets	1,095	1,163	2,569	2,522	2,590	2,826
Net PPE including capital WIP	4,052	3,940	4,437	5,336	5,648	5,758
Other assets	3,337	3,800	6,306	6,301	6,362	6,413
Total assets	8,484	8,904	13,313	14,158	14,601	14,997
Liabilities						
Current Liabilities	769	815	662	665	744	781
Total debt	2,845	2,947	6,623	6,983	6,961	6,958
Other Liabilities	132	127	153	204	230	246
Total liabilities	3,747	3,888	7,438	7,852	7,935	7,986
Shareholders' Equity						
Share capital	2,716	2,716	2,716	2,716	2,716	2,716
Retained earnings	956	1,923	2,134	2,490	2,768	3,029
Minority Interest	67	71	710	733	757	780
Other Equity	999	306	315	367	426	487
Total Equity	4,737	5,016	5,875	6,306	6,666	7,011
Total liabilities and equity	8,484	8,904	13,313	14,158	14,601	14,997
Income Statement (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Revenue	1,447	1,520	1,741	1,900	2,125	2,232
Cost of goods sold	-643	-613	-683	-742	-831	-877
Adjusted gross profit	804	907	1,058	1,158	1,294	1,356
General and administrative expenses	-110	-143	-88	-106	-132	-130
EBITDA	694	763	970	1,052	1,162	1,226
Depreciation and amortization	-235	-231	-340	-377	-409	-439
EBIT	459	532	630	674	753	787
Finance costs	-163	-181	-222	-263	-283	-293
Interest/investment income	1	3	3	4	5	5
Other Income/Loss	134	91	130	124	135	138
Net profit - continuing operations	431	445	542	539	610	636
Discontinued operations	0	36	32	80	0	0
Net profit	431	481	573	619	610	636
Minority interest	-4	-8	-23	-23	-23	-23
Net profit attributable to parent	428	472	550	596	587	613
Net profit attributable to parent- continuing operations	428	437	518	516	587	613
EPS (AED)	0.16	0.17	0.20	0.22	0.21	0.22
EPS from continuing operations (AED)	0.16	0.16	0.19	0.19	0.21	0.22
Cash Flow (AED Mn)	2018	2019	2020	2021E	2022E	2023E
Net cash from operating activities	662	782	629	996	1,122	1,207
Net cash (used in) from investing activities	(241)	(184)	(2,595)	(1,117)	(617)	(441)
Net cash from (used in) financing activities	(590)	(620)	3,051	(11)	(555)	(587)
Change in cash and cash equivalents	(169)	(22)	1,086	(132)	(50)	179
FX and other adjustments	0	0	0			
Cash at the end of the year	249	227	1,313	1,180	1,130	1,309

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	0.49	0.48	0.46
Total Debt / Equity (x)	0.60	0.59	1.13	1.11	1.04	0.99
Net Debt/Equity (x)	0.55	0.54	0.90	0.92	0.87	0.81
Operating Efficiency & Liquidity Ratios						
Receivables Turnover Ratio (%)	2.7	2.6	2.3	2.1	2.1	2.0
Payables Turnover Ratio (%)	2.4	2.4	2.9	2.9	2.9	2.9
Cash conversion cycle	-14.6	-10.1	29.2	49.8	45.1	50.4
Total Assets Turnover Ratio (x)	0.17	0.17	0.16	0.14	0.15	0.15
Current Ratio (x)	1.42	1.43	3.88	3.79	3.48	3.62
Margins & Profitability Ratios						
Adjusted Gross profit margin (%)	55.6%	59.6%	60.8%	60.9%	60.9%	60.7%
EBITDA margin (%)	48.0%	50.2%	55.7%	55.3%	54.7%	54.9%
EBIT margin (%)	31.7%	35.0%	36.2%	35.5%	35.4%	35.3%
Net profit margin (%)	29.6%	28.7%	29.8%	27.2%	27.6%	27.5%
Return on Assets (%)	5.0%	5.3%	4.1%	4.2%	4.0%	4.1%
Return on Equity (%)	9.0%	9.4%	9.4%	9.5%	8.8%	8.7%
ROIC (%)	7.8%	8.2%	6.2%	6.5%	6.4%	6.5%
Per Share Data and Valuation Ratios						
Earnings Per Share (AED)	0.16	0.17	0.20	0.22	0.21	0.22
Book Value Per Share (AED)	1.75	1.85	2.12	2.27	2.40	2.53
Dividend Per Share (AED)	0.10	0.11	0.06	0.11	0.13	0.13
PE (x)	16.2	14.7	12.6	11.6	11.8	11.3
EV/EBITDA (x)	10.6	10.5	13.0	12.1	11.0	10.3
PB (x)	1.0	1.0	1.2	1.1	1.0	1.0
Dividend Yield (%)	5.6%	5.6%	2.2%	4.5%	5.1%	5.3%

Source : Kamco Invest Research and Tabreed

Disclaimer & Important Disclosures

Kamco Invest is authorized and fully regulated by the Capital Markets Authority ("CMA, Kuwait") and partially regulated by the Central Bank of Kuwait ("CBK")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification

Each of the analysts identified in this report, if any and where applicable, certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Kamco Invest Ratings

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

- * **Outperform:** Target Price represents expected returns $\geq 10\%$ in the next 12 months
- * **Neutral:** Target Price represents expected returns between -10% and $+10\%$ in the next 12 months
- * **Underperform:** Target Price represents an expected return of $< -10\%$ in the next 12 months

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

Kamco Invest Investment Company (DIFC) Limited ("Kamco Invest DIFC") is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.



Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com