

Abu Dhabi National Energy Company

High Energy Prices Supported the Profitability

1Q22 Net Profit higher than our estimate

Abu Dhabi National Energy Company (TAQA)'s net profit rose 37.4% YoY to AED 1,971 Mn in 1Q22, higher than our estimate of AED 1,711 Mn. The increase is driven by record increase in profit contribution from Oil & Gas Segment due to higher energy price somewhat offset by decline in Transmission & Distribution (T&D) and Generation Segment.

P&L highlights

TAQA recorded an increase in revenue by 20.2% YoY to AED 12.4 Bn in 1Q22, owing to higher oil and gas revenue due to higher energy prices. This is further supported by increase in pass-through costs incurred on bulk supply tariff related to T&D Segment. Oil & Gas Segment revenue rose 85.5% YoY to AED 3.1 Bn in 1Q22. Average volume of oil and gas output increased by 5% to 126.9 thousand barrels of oil equivalent per day (boepd), owing to increase in production in Europe. Average realized oil prices rose from USD 57.4 per barrel (bbl) in 1Q21 compared to USD 91.3 bbl in 1Q22 and average realized gas prices rose from USD 3.41 per mmbtu in 1Q21 to USD 8.79 in 1Q22. Operating expenses increased 26.1% YoY to AED 6.53 Bn in 1Q22 higher than revenue mainly due to higher bulk supply tariff in T&D Segment, fuel pass-through cost in international business in Generation Segment and increase in expense incurred at Oil & Gas Segment in Europe driven by higher fuel & emission trading costs. As a result, gross profit increased 21.9% YoY to AED 3.5 Bn in 1Q22. G&A expenses declined 17.2% YOY to AED 408 Mn in 1Q22. EBITDA grew 17.6% YOY to AED 5.5 Bn in 1Q22 due to higher revenue offset by higher expenses. Taqa generated an EBITDA margin of 45.0% in 1Q21 compared to 44.0% in 1Q22. Operating profit increased 30.0% YoY to AED 3.08 Bn in 1Q22, primarily due to decline in G&A expense and higher revenue. Finance costs decreased 8.0% YOY to AED 743 Mn in 1Q22. Income from associates & JVs more than tripled to AED 147 Mn in 1Q22 compared to AED 45 Mn in 1Q21 due to stronger income from Sohar Aluminum. These below items were offset by decline in interest and other income and increase in foreign exchange loss. Resultantly, profit before tax grew 38.3% YOY to AED 2.50 Bn in 1Q22. Income tax expense increased 61.5% YoY to AED 609 Mn in 1Q22 dragging the profit lower. Losses attributable to minority interest rose from AED 3 Mn in 1Q21 to AED 78 Mn in 1Q22 helping the profitability.

Balance sheet & cash flow highlights

Total liquidity stood at AED 19.3 Bn as of 31st March 2022, consisting of cash and cash equivalents of AED 6.0 Bn and undrawn credit facilities of AED 13.3 Bn. CAPEX declined 31% YOY to AED 868 Mn in 1Q22 due to lower expenditure in Transmission & Distribution Segment. Despite, lower capex free cash flow declined 5.0% YOY to AED 3.3 Bn in 1Q22. Gross Debt stood at AED 63.9 Bn in 1Q22 from AED 65.0 Bn in 4Q21 due to the repayment of MYR Islamic loan and amortization of existing debt. Net Debt to adjusted EBITDA declined from 2.9x in 4Q21 to 2.8x in 1Q22 due to record earnings.

Rating : BUY

First Look Note – 1Q22

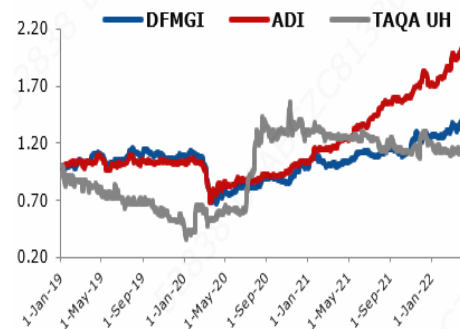
Sector: Utility

Recommendation

Current Price (24-May-22)	1.25
Target Price	1.50
Upside/Downside (%)	+20.0%

Stock Information

Market Cap (AED/mm)	140,542.81
Paid Up Capital (mm)	112,434.25
52 Week High	1.53
52 Week Low	1.13
3M Avg. daily value (AED)	7,916,094



Financial Ratios

Dividend Yield (12m)	3.52
Dividend Pay-out (%)	20.76
Price-Earnings Ratio (x)	22.67
Price-to-Book Ratio (x)	2.16
Book Value (AED)	0.58
Return-on Equity (%)	10.15
Earning Per Share (AED)	0.06
Beta	0.71

Stock Performance

5 Days	-8.76%
1 Months	-9.42%
3 Months	5.86%
6 Months	5.86%
1 Year	-8.61%
Month to Date (MTD)	-10.07%
Quarter to Date (QTD)	-1.57%
Year to Date (YTD)	-3.77%

Target price and rating

We maintain our BUY rating on TAQA with a target price of AED 1.50. TAQA will continue to generate healthy profit supported by higher energy prices. In 1Q22, Oil & Gas Segment generated a record profit of AED 1.1 Bn compared to AED 0.4 Mn in 1Q21. Other than, the company's T&D and Generation Segment is a regulated business and generates long-term contractual earnings. These segments generated more than 80% of revenue and 85% of EBITDA over the last two years (FY2020-21). Existing projects in T&D and Generation Segment have weighted residual life of 12 years of P(W)PAs improves earning visibility. The projects under these businesses are financed by low leverage and have low exposure to merchant prices enabling it to maintain robust financial profile and earn strong cash flows. TAQA generated free cash flow of AED 3.3 Bn in 1Q22 enabling it to maintain dividend payment of 3 fils per share in 2022. Considering all these factors leading us to maintain our BUY rating on the stock.

TAQA - Relative valuation

(at CMP)	2018*	2019*	2020	2021	2022F
PE(X)	NA	NA	31.3	25.0	22.4
PB(X)	NA	NA	2.0	2.1	2.1
EV/EBITDA	NA	NA	12.3	10.3	9.9
Dividend yield	NA	NA	2.0%	3.8%	2.4%

FABS Estimates & Co Data

* Valuation ratios not included for 2018-19 due to the merger with AD Power thus, pre and post-merger company financials are not comparable.

TAQA - P&L

(in AED mm)	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY	QOQ	2021	2022F	YOY
Revenue from oil and gas	1,658	2,204	3,075	2,182	-29.0%	85.5%	39.5%	7,425	8,755	17.9%
Revenue from electricity and water	8,668	9,218	9,338	9,126	-2.3%	7.7%	1.3%	38,265	36,617	-4.3%
Total Revenue	10,326	11,422	12,413	11,308	-8.9%	20.2%	8.7%	45,690	45,371	-0.7%
Operating expenses	-5,186	-5,367	-6,539	-5,313	-18.7%	26.1%	21.8%	-24,006	-21,319	-11.2%
D&A and Impairment	-2,275	-2,884	-2,382	-2,855	19.9%	4.7%	-17.4%	-11,119	-11,456	3.0%
Gross Profit	2,865	3,171	3,492	3,139	-10.1%	21.9%	10.1%	10,565	12,596	19.2%
G&A expense	-493	-829	-408	-821	101.2%	-17.2%	-50.8%	-2,257	-3,293	45.9%
EBITDA	4,692	5,334	5,613	5,174	-7.8%	19.6%	5.2%	19,740	20,759	5.2%
Operating Profit	2,372	2,342	3,084	2,319	-24.8%	30.0%	31.7%	8,308	9,303	12.0%
Finance costs	-808	-781	-743	-678	-8.7%	-8.0%	-4.9%	-3,094	-3,055	-1.3%
Foreign exch. gain/(loss)	-11	-40	-34	0	NM	209.1%	-15.0%	-75	0	NM
Interest Income	105	2	6	2	-67.0%	-94.3%	200.0%	123	8	-93.5%
Other income	106	168	42	166	296.0%	-60.4%	-75.0%	1,116	667	-40.2%
Share of results of assoc. and JVs	45	108	147	0	NM	226.7%	36.1%	313	0	NM
Profit Before Tax	1,809	1,799	2,502	1,808	-27.7%	38.3%	39.1%	6,691	6,923	3.5%
Income tax expense/credit	-377	-98	-609	-97	-84.1%	61.5%	521.4%	-696	-648	-6.9%
Profit After Tax	1,432	1,701	1,893	1,711	-9.6%	32.2%	11.3%	5,995	6,275	4.7%
NCI	-3	0	-78	0	NM	2500.0%	NM	35	0	NM
Profit attributable to equity holders of the parent	1,435	1,701	1,971	1,711	-13.2%	37.4%	15.9%	5,960	6,275	5.3%

FABS Estimates & Co Data

TAQA- Margins

	1Q21	4Q21	1Q22A	YOY	QOQ	2021	2022F	Change
Gross profit margin	52.6%	44.1%	50.9%	-167	685	44.5%	46.4%	189
EBITDA margin	63.4%	52.4%	62.8%	-66	1,036	52.8%	53.5%	64
Operating profit margin	37.6%	28.7%	36.6%	-104	788	31.9%	34.7%	274
Net Margin	23.9%	40.2%	21.0%	-292	-1,920	29.9%	22.2%	-776

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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