

National Central Cooling Company (Tabreed)

Expansion into new region and healthy profitability to drive stock

1Q22 Net Profit lower than our estimate

National Central Cooling Company's (Tabreed) net profit rose 3.1% YOY to AED 88 Mn in 1Q22, missing our estimate by 11.6%. This was primarily due to higher revenue from acquisition of Saadiyat DC assets and step acquisition of Al Wajeez, partially offset increase in interest expense due to rise in debt to complete Al Wajeez acquisition. During 1Q21, Tabreed record profit of AED 7.0 Mn from discontinued operations while, no profit was recorded in 1Q22 .

P&L highlights

Revenue grew 17.4% YOY to AED 420 Mn in 1Q22 mainly due to growth in the Chilled Water Segment somewhat offset by decline in revenue from Value Chain Segment. Chilled water top line rose 19.6% YOY to AED 406 Mn in 1Q22 mainly attributable to acquisition of Al Mouj DC assets completed in 1Q22. Tabreed added approximately 26,000 of refrigerated tonnes (RT) during 1Q22. Out of which, approximately 8,000 RT added from organic expansion and remaining from acquisition of Al Mouj DC assets in Oman. Operating costs increased 21.6% YOY to AED 206 Mn in 1Q22 due to consolidation of Saadiyat DC and Al Wajeez assets. Resultantly, gross profit increased 13.7% YOY to AED 214 Mn in 1Q22, with gross margin of 50.9% in 1Q22 from 52.6% in 1Q21. Administrative and other expenses rose 12.5% YOY to AED 60 Mn in 1Q22. Thus, EBITDA rose 16.2% YOY to AED 264 Mn in 1Q22 with EBITDA margin of 62.8% in 1Q22 compared to 63.4% in 1Q21. Finance cost rose 16.5% YOY to AED 72 Mn in 1Q22 due to rise in debt to complete acquisition of Al Wajeez.

Balance sheet & cash flow highlights

Tabreed maintained healthy liquidity on the balance sheet with cash and cash equivalents of AED 1,479 Mn in 1Q22 compared to AED 1,197 Mn in 4Q21 mainly due to healthy cash flow generation from operation. Total debt stood at AED 7.1 Bn in 1Q22 almost flat as compared to 4Q21. Net debt to EBITDA ratio declined from 6.0x in 4Q21 to AED 5.5 x in 1Q22 mainly due to decline in net debt and higher EBITDA generated from operations in 1Q22.

Target price and rating

We maintain our BUY rating on Tabreed with a Target price of AED3.35. The company currently operates in four countries such as UAE, KSA, Oman and Bahrain. It is further targeting to expand and grow its operation in new geographies, India and Egypt. Tabreed entered into strategic partnership with IFC to facilitate expansion of projects in India upto USD 400 Mn for the next five year. Furthermore, the company expanded its operation in Egypt via partnership agreement with Gascool and Marakez. Tabreed business model re-

Rating : BUY

First Look Note – 1Q22

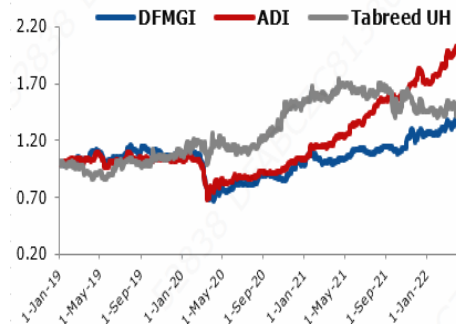
Sector: Utility

Recommendation

Current Price (23-May-22)	2.40
Target Price	3.35
Upside/Downside (%)	+40%

Stock Information

Market Cap (mm)	6,828.65
Paid Up Capital (mm)	2,845.27
52 Week High	2.92
52 Week Low	2.27
3M Avg. daily value (AED)	2,331,282



Financial Ratios

Dividend Yield (12m)	2.46
Dividend Pay-out (%)	32.76
Price-Earnings Ratio (x)	13.07
Price-to-Book Ratio (x)	1.17
Book Value (AED)	2.05
Return-on Equity (%)	10.71
Earning Per Share (AED)	0.18
Beta	0.60

Stock Performance

5 Days	0.00%
1 Months	-2.04%
3 Months	0.41%
6 Months	-3.53%
1 Year	-12.14%
Month to Date (MTD)	-2.44%
Quarter to Date (QTD)	-3.23%
Year to Date (YTD)	-2.76%

main resilient with strong visibility to revenue and cash flow. It is focused to enter into B2B contract with customers with strong portfolio reducing counterparty credit and collection risk. All these factors led the company to maintain stable and predictable growth. Expansion into new territories and acquisition would lead Tabreed to maintain this growth momentum. Tabreed also continues to generate healthy profitability with cash conversion factor of 127.4% in FY2021 and 148.4% in 1Q22. It has maintained a robust track record of converting almost all its EBITDA into cash flow during historical period. Solid cash flow generation will help in reducing net leverage from 5.5x going forward and provide headroom to focus on growth. Based on the above, we assign a BUY rating on this stock.

Tabreed - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	15.2	13.8	11.8	11.4	11.2
PB(X)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA	13.6	12.0	12.0	12.2	10.5
Dividend yield	4.0%	4.4%	2.4%	2.5%	4.6%

FABS Estimates & Co Data
Tabreed - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	YOY
Revenue	358	490	420	496	-15.3%	17.4%	-14.4%	1,955	2,186	11.8%
Operating costs	-170	-274	-206	-263	-21.6%	21.6%	-24.8%	-1,084	-1,171	8.0%
Gross profit	188	216	214	233	-8.3%	13.7%	-1.1%	871	1,015	16.6%
Admin and other exps	-53	-75	-60	-74	-19.2%	12.5%	-20.1%	-247	-257	4.2%
EBITDA	227	257	264	270	-2.4%	16.2%	NA	1,033	1,169	13.2%
Operating profit/ EBIT	135	141	154	159	-3.2%	14.2%	9.1%	624	758	21.4%
Finance costs	-62	-71	-72	-69	4.4%	16.5%	2.8%	-258	-295	14.5%
Finance income	1	1	1	1	17.2%	41.7%	28.9%	3	3	5.0%
Impair. Provis. for rece.	0	-1	0	-1	NA	NA	NA	-1	-1	0.0%
Other gains and losses	-2	132	0	7	-95.4%	NA	-99.8%	130	10	-92.3%
Share of associates & JV	12	2	11	2	NA	-15.2%	420.0%	36	35	-1.9%
Profit from cont. oper.	83	205	93	98	-4.8%	12.1%	-54.4%	534	510	-4.6%
Profit from discount. Oper.	7	-4	0	6	NA	NA	NA	77	0	-100.0%
Profit before NCI	90	201	93	104	-10.2%	3.4%	-53.6%	611	510	-16.5%
Non-controlling interest	-5	-4	-5	-4	22.6%	9.0%	28.3%	-26	-25	-2.3%
Profit attributable	86	197	88	100	-11.6%	3.1%	-55.3%	585	485	-17.2%

FABS Estimates & Co Data

Tabreed - Margins

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	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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