

Abu Dhabi National Energy Company

Higher D&A expenses reduced the Net profit

4Q21 profit higher than our estimate

Abu Dhabi National Energy Company (TAQA) reported a drop by 58.2% YOY in Net Profit to AED1,701 Mn in 4Q21, beating our estimate of AED1,447 Mn by 17.6%. This decline was mainly attributed to a significant increase in the D&A expenses.

P&L highlights

Revenue increased by 47.2% YOY to AED11,422 Mn in 4Q21, up from AED7,762 Mn in 4Q20, while Cost of Sales increased as well by 35.9% YOY to AED5,367 Mn in 4Q21, up from AED3,950 Mn in 4Q20 while decreasing slightly as a percentage of Total Revenue being 47% in 4Q21 compared to 51% in 4Q20. Thus, the Gross Profit increased by 58.8% YOY to AED6,055 Mn in 4Q21, up from AED3,812 Mn in 4Q20 and Gross Profit Margin increased from 49.1% in 4Q20 to 53% in 4Q21. General and Administrative Expenses increased significantly to AED2,884 Mn in 4Q21. Resultantly, the Operating Profit decreased by 32.2% YOY reaching AED2,342 Mn in 4Q21 down from AED3,452 Mn in 4Q20. Similarly, the Other income decreased by 61.4% YOY to AED238 Mn in 4Q21, down from AED617 Mn in 4Q20. While the Financial charges strongly rose to AED781 Mn in 4Q21. However, the Zakat expense dropped by 56.8% to AED98 Mn in 4Q21, down from AED227 Mn in 4Q20.

Balance sheet highlights

Total Assets decreased by 3.6% YOY to AED180.2 Bn down from AED186.9 Bn in 4Q20. Total Liabilities also decreased by 9.1% YOY to AED106.9 Bn in 4Q21 compared to AED117.7 Bn in 4Q20. While the Total Equity increased by 5.7% YOY to AED73.2 Bn in 4Q21 up from AED69.3 Bn in 4Q20.

Target price and rating

We assign a BUY rating on TAQA, with a target price of AED1.50. TAQA is an international energy and water company operating in 11 countries around the world. The company aims to provide a clean power and water that governments, businesses, and consumers needed for a sustainable and successful life. TAQA is working to be a low carbon and water champion. For the FY 2021, the Company has reported a strong operational performance, with an increase by 4% YOY in the Oil and gas production to 122.4 mboepd. The power and water transmission availability were slightly lower standing at 98.4% in 2021, as compared to 98.5% in 2020, reflecting a high network availability and security of supply during 2021. While the availability for Global technical were lower by 1.6% reaching 92.3%, down from 93.9% in 2020, that reflects the planned and unplanned outages within the UAE fleet, offset by higher availability in international assets in Ghana and India. Furthermore, the Group has recorded a significant increase by 90.5% YOY in the Total Revenue to AED 45.7 Bn at the end of 2021, up from AED 24 Bn in the same period last year. Similarly, the Cost of sales were up by 89.5% YOY

Rating : BUY

First Look Note – 4Q21

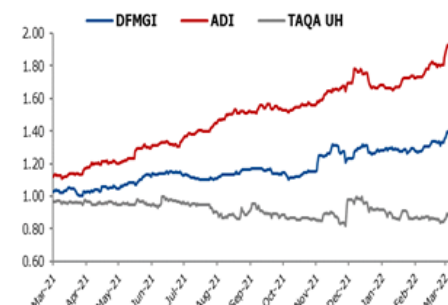
Sector: Utilities

Recommendation

| | |
|------------------------|-------|
| Current Price (16-Mar) | 1.24 |
| Target Price | 1.50 |
| Upside/(Downside) (%) | 21.0% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 138,294.13 |
| Paid Up Capital (mm) | 112,434.25 |
| 52 Week High | 1.55 |
| 52 Week Low | 1.15 |
| 3M Avg. daily value (AED) | 3,840,748 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 2.15 |
| Dividend Pay-out (%) | 20.76 |
| Price-Earnings Ratio (x) | 27.26 |
| Price-to-Book Ratio (x) | 2.10 |
| Book Value (AED) | 0.59 |
| Return-on Equity (%) | 9.33 |
| Earning Per Share (AED) | 0.05 |
| Beta | 0.52 |

Stock Performance

| | |
|-----------------------|---------|
| 5 Days | -1.59% |
| 1 Months | 0.00% |
| 3 Months | -10.14% |
| 6 Months | -3.12% |
| 1 Year | -10.79% |
| Month to Date (MTD) | 0.81% |
| Quarter to Date (QTD) | -6.06% |
| Year to Date (YTD) | -6.06% |

to AED 24 Bn in 2021. Therefore, the Gross profit increased by 91.6% to AED 21.7 Bn, as compared to AED 11.3 Bn in 2020, with a slight increase in the Gross profit margin (GPM) to 47.5%, up from 47.2%. At the year ended 31 December 2021, the Company has reported a strong increase by 93.8% YOY in the EBITDA to AED 19.4 Bn, mainly driven by higher revenues and associate income, and it was partially offset by higher General expenses. TAQA's Net income significantly increased by 56.5% to AED 6 Bn in 2021, up from AED 3.8 Bn in 2020, mainly attributed to higher contribution from Oil and Gas, with the fact that 2020 Net income was reduced by AED 1.5 Bn post-tax Impairment charge. The CAPEX stood at AED 4.7 Bn at the end of 2021, this reflects higher spending in Transmission and Distribution and Oil & Gas, as well as lower spending in Generation.

Meanwhile, the Company has shown a strong Free cash flows standing at AED 17.7 Bn in the year ended 2021, enabling a drop by 15% in the Gross debt to AED 65 Bn, down from AED 76 Bn in 2020. Thus, the Net debt-to-Adjusted EBITDA ratio was significantly lower in 2021 standing at 2.9x, down from 4.2x in 2020. Additionally, the Company recorded a strong liquidity levels of AED 21.9 Bn, consist of AED 8.4 Bn for Cash and cash equivalents and the Other AED 13.5 Bn for the undrawn credit facilities. Finally, the Board of Directors has proposed a final cash dividend of AED 1.10 fils per share amounting to AED 1.2 Bn for the financial year 2021, in line with shareholder-approved dividend policy. In addition to Special dividend of 2.0 fils per share (AED2,249 mm), Based on our analysis, we maintain a BUY rating on the stock.

TAQA – Relative Valuation

| (at CMP) | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------|-------|-------|-------|-------|-------|
| P/E | 41.67 | 17.86 | 25.88 | 31.25 | 25.00 |
| P/B | 2.15 | 1.75 | 2.37 | 2.27 | 2.13 |

FABS Estimate & Co Data
TAQA - P&L

| AED mm | 4Q20 | 3Q21 | 4Q21 | 4Q21F | Var | YOY Ch | QOQ Ch | 2020 | 2021 | Change |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|--------------|
| Sales | 7,762 | 12,077 | 11,422 | 12,070 | -5.4% | 47.2% | -5.4% | 23,985 | 45,690 | 90.5% |
| Cost of Sales | -3,950 | -7,121 | -5,367 | -7,182 | -25.3% | 35.9% | -24.6% | -12,666 | -24,006 | 89.5% |
| Gross profit | 3,812 | 4,956 | 6,055 | 4,888 | 23.9% | 58.8% | 22.2% | 11,319 | 21,684 | 91.6% |
| SG&A Expenses | -620 | -493 | -829 | -483 | 71.7% | 33.7% | 68.2% | -1,294 | -2,257 | 74.4% |
| EBITDA | 3,192 | 4,463 | 5,226 | 4,406 | 18.6% | 63.7% | 17.1% | 10,025 | 19,427 | 93.8% |
| D&A Expenses | 260 | -2,460 | -2,884 | -2,414 | 19.5% | NM | 17.2% | -5,617 | -11,119 | 98.0% |
| Operating profit | 3,452 | 2,003 | 2,342 | 1,992 | 17.6% | -32.2% | 16.9% | 4,408 | 8,308 | 88.5% |
| Other income | 617 | 252 | 238 | 296 | -19.6% | -61.4% | -5.6% | 932 | 1,477 | 58.5% |
| Financial charges – net | 171 | -744 | -781 | -724 | 7.8% | NM | 5.0% | -1,581 | -3,094 | 95.7% |
| Profit before zakat | 4,240 | 1,511 | 1,799 | 1,563 | 15.1% | -57.6% | 19.1% | 3,759 | 6,691 | 78.0% |
| Zakat | -227 | -146 | -98 | -156 | -37.3% | -56.8% | -32.9% | 258 | -696 | NM |
| Profit before NCI | 4,013 | 1,365 | 1,701 | 1,407 | 20.9% | -57.6% | 24.6% | 4,017 | 5,995 | 49.2% |
| NCI | 61 | 38 | 0 | 40 | NM | NM | NM | -209 | -35 | -83.3% |
| Profit to shareholders | 4,074 | 1,403 | 1,701 | 1,447 | 17.6% | -58.2% | 21.2% | 3,808 | 5,960 | 56.5% |

FABS estimate & Co Data
TAQA- Margins

| % | 4Q20 | 3Q21 | 4Q21 | YOY ch | QOQ ch | 2020 | 2021 | Change |
|------------|-------|-------|-------|--------|--------|-------|-------|--------|
| GPM | 49.1% | 41.0% | 53.0% | 390 | 1198 | 47.2% | 47.5% | 27 |
| OPM | 44.5% | 16.6% | 20.5% | -2397 | 392 | 18.4% | 18.2% | -19 |
| Net margin | 52.5% | 11.6% | 14.9% | -3759 | 328 | 15.9% | 13.0% | -283 |

FABS estimate & Co Data

Research Rating Methodology:

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

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