AUGUST 8, 2025

NATIONAL CENTRAL COOLING COMPANY PJSC

(DFM: TABREED)

EARNINGS CONFERENCE CALL TRANSCRIPT

H1 2025

Tabreed Participants:

Adel Salem Al Wahedi, Chief Financial Officer

Salik Malik, Vice President – Finance

Yugesh Suneja, Head of Investor Relations

Presentation

Yugesh Suneja

Good afternoon, everyone. On behalf of Tabreed's management, I welcome you to our earnings call for the first half of 2025 results. I am Yugesh, Head of Investor Relations at Tabreed.

You can access the presentation material, which we are discussing today, from our website shortly after the call. And other financial results materials are already available to download from our website and DFM.

I would like to draw your attention to the disclaimer on this slide. Some of the information in today's presentation is about future performance and the forward-looking in nature. These statements are based on our current expectations and are subject to risks and uncertainties. Please refer to this slide for more details.

Let us now move to the agenda for today's call. I have with me our Chief Financial Officer, Adel Al Wahedi and Salik Malik, Vice President of Finance. We will begin with the key highlights of the first half of 2025 results, including an update on the solid progress we have achieved on our growth plans. Following this, we will have in-depth discussion on our financial performance for the first half and second quarter. We will then conclude with an update on our guidance and outlook. Thereafter, we will open the line for Q&A. I will now invite Adel to begin the results discussion. Adel, over to you.

Adel Salem Al Wahedi

Thank you, Yugesh. A very good afternoon to you all and thank you for joining our first half of 2025 results conference call.

Over the last few years, Tabreed has demonstrated a strong track record of enhancing its market-leading position in the district cooling sector. We continue to show that Tabreed as a regional platform remains strong and can scale up efficiently.

During the first half, we delivered solid financial results and made good progress on our long-term growth strategy. The record organic capacity additions and two landmark transactions further cement our growing role as a trusted regional infrastructure partner and highlights clearly our focus on creating sustainable value.

Our total connected capacity is 1.37 million RTs with more than 41,000 RTs of a record high organic capacity added during the period. New capacity added during the first half of the year was nearly double the capacity added in the full 12 months of the year 2024. And this growth was purely organic and driven by commissioning of three new greenfield plants, with notable additions in UAE and Saudi Arabia. We continue to unlock value from our existing concessions such as Yas Islands, Saadiyat, and others, where we added new connections with a minimal new CAPEX, thereby improving our returns.

Consumption volumes increased by 8% year-on-year in the second quarter of the year, reflecting both seasonal uplift and growing utilization across Tabreed's network. Group revenue increased to 1.1 billion dirhams in the first half of this year, marking a 3% year-on-year increase. Following higher cooling demand and significant capacity additions in our home market of the UAE, revenue growth accelerated to 5% year-on-year in Q2 of this year. EBITDA was up by 5% to 632 million dirhams in the first half of this year, with margins improving to 57%. This increase reflects continued scale benefits and focus on cost controls.

Following strong operational performance, Tabreed advanced on its growth agenda with announcement to acquire PAL Cooling Holding from Multiply Group. This was executed through a 50-50 JV with CVC-DIF Asset Management, a leading infrastructure fund. The deal remains subject to regulatory approval.

This is a milestone transaction for Tabreed, which will not only expand our immediate footprint in Abu Dhabi by 182,000 RT but also secures a strong future growth pipeline of about 420,000 additional RTs and enhances our market position in the global district cooling sector. Progress also continued on the company's largest ever greenfield project at Pan Jebel Ali, a 250,000 RT exclusive concession secured this year in partnership with Dubai Holding Investments.

Tabreed has a robust financial position, underscored by investment-grade credit ratings by both Moody's and Fitch. Free cash flow reached US$ 973 million over the past 12 months, translating to 11.5% free cash flow yield. Cash flows are well-supported by strong collections, margin stability, and balanced capital allocation. As a result, Net Debt to EBITDA improved to 3.7x by the end of June 2025, compared to 4.2x year earlier.

Turning to the next slide….

Let me briefly recap the strategic importance of our recent acquisition of PAL Cooling.

On the strategic fit, PAL is a leading district cooling provider in Abu Dhabi with eight long-term concessions and 182,000 RTs of connected capacity. It brings exclusive rights, high-quality customers, and an average contract life of 25 years.

From growth potential, five of PAL's concessions are on Reem Island, an area undergoing rapid development and now part of the ADGM free zone, with one plant under construction and three more planned. Total capacity is expected to grow to 600,000 RTs, including expansion of the current plants. This acquisition increases Tabreed connected capacity by 13% to 1.55 million RTs, boosting our UAE market share by 5%. It also diversifies our customer base and establishes a new relationship with Modon, a key Abu Dhabi real estate developer. The deal adds significant future capacity, including the high-growth Reem Island concession. Combined with our existing pipeline, we now have visibility of over 1 million RTs of secured capacity.

We expect both revenue and cost synergies through operational integration, shared services, and geographic overlap. The transaction is structured to preserve our investment-grade credit rating, with pro forma net debt to EBITDA at 4.5x. It also maintains our ability to continue dividend distributions.

The transaction values PAL Cooling at an enterprise value of 4.1 billion Dirhams. The acquisition was executed through a 50-50 JV between Tabreed and CVC-DIF. The JV will be funded by equity from both partners and non-recourse project level debt, which will not be consolidated into Tabreed's financials. Future capex for capacity expansion will be funded at the SPV level through an accordion facility. Our share of AED 1.2 billion equity is being funded through a mix of bank debt and internal cash reserves. The transaction delivers a project IRR in line with our hurdle rate of high single to low double digits. Tabreed retains a call option to acquire the remaining 50% stake in the future with no put option from CVC, ensuring full flexibility.

Moving to the next slide.

The PAL Cooling acquisition and Palm Jebel Ali concession represent the two biggest strategic deals in Tabreed's history. Together with Tabreed existing secured concession capacity of 380,000 RTs, these two transactions expand the company's total site capacity to approximately 2.6 million RT, thereby positioning Tabreed for long-term capital efficient growth and high cash flow visibility.

Almost 95% of this secured capacity is in the UAE, which clearly indicates that the UAE remains at the center of our growth strategy. We are further focusing on developing a new pipeline of opportunities. We are targeting a new green field opportunities to meet demand from increasing investments in real estate and infrastructure projects. UAE and broader GCC region will continue to offer such prospects, considering inflow of population and capital, as well as a strong push from government to meet national energy efficiency targets

Next slide…

Tabreed has delivered attractive returns to its shareholders in the past five years, with dividends growing at annualized growth of 8%. Demonstrating this strong focus on shareholder returns and on the back of a strong financial position and healthy cash generation, Tabreed's Board of Directors proposed an interim dividend of 6.5 fills per share for the first half of this year. This marks the first interim dividend in the company's history and reflects our confidence in Tabreed outlook and ability to deliver sustainable long-term value. Payout ratio for interim dividend, both in terms of percentage of net operating cash flow or net profit from the period, remains broadly aligned with our historical payouts.

The payment of interim dividend remains subject to shareholders' approval at the general assembly meeting to be convened in September of this year. With this, I will now hand over to Salik to discuss our financial performance in detail.

Salik Malik
Thank you, Adel, and good afternoon, everyone. Let me walk you through our H1 and Q2 financial performance, covering the income statement, balance sheet, and cashflow.

This quarter continues to demonstrate the strength and scalability of Tabreed's business model. We have seen a clear acceleration in performance, both in revenue and EBITDA, which have grown faster in Q2, supported by the record capacity additions and an increase in supply of chilled water volumes. Margins continue to remain strong, and our cash flows remain healthy. This has led to further improvements in our leverage ratios, reinforcing our financial discipline. Overall, Tabreed is well positioned to deliver solid returns to shareholders, driven by a balanced approach that combines growth with consistent dividend payouts.

Moving on to the next slide.

Let me provide you an update on our operational performance and expansions during the second quarter of 2025. Compared to the year-end, we added a gross new capacity of 41,600 tons, of which 4,600 tons of new connections came in the first quarter, while the remaining 37,000 tons came in the second quarter alone. Most importantly, all the new capacity addition was in organic in nature, mostly coming from new greenfield plants commissioned during this quarter in the UAE and in Saudi Arabia. New connections in our existing concessions in UAE, such as Yas Island, Saadiyat Island and Al Raha Beach, where we continued to connect new connections, which all contributed to growth in capacity .

Following rapid delivery of new capacity in the second quarter of 2025, I would like to emphasize that capacity additions can be non-linear, driven by the real estate development schedules. The last few quarters saw slow delivery, reflecting timing delays, but not a slowdown in business momentum. This quarter marked a sharp ramp up with multiple green field sites commissioned. Timing differences can therefore be skewing quarterly comparisons, however, do not reflect the long-term trajectory. Our pipeline remains strong, and delivery cycles will continue to vary based on the project milestones. The UAE remains our core market, representing 83% of the total connected capacity, while the other GCC markets, such as Saudi Arabia, Oman, Bahrain, account for the remaining total connected capacity. Consumption volumes rebounded in the second quarter as temperature rose during the summer months and due to our growing capacity footprint as well.

Moving on to the next slide, let me talk to you about the revenue performance for the period.

The group achieved a revenue of AED 1.11 billion during the first half of this year, demonstrating a steady 3% increase year-over-year. In particular, revenue growth was higher in this quarter, which is Quarter 2, at 5% following a recovery in volumes, and the additions that we encountered in the capacity through the new connections and commissioning of new plants.

Most of the growth was largely driven by our core chilled water businesses across both periods, both H1 and this quarter. In H1, fixed capacity charges increased by 4%, while in Q2 alone, growth was solid 6% year-over-year. This growth is a testament towards the additions which were made in the last 12 months of almost 61,000 RTs, including, as I mentioned, 41,600 tons in the first six months of this year. And in addition to this, the application of the CPI indexation. These additions in capacity have stimulated the consumption revenue growth by 3% in the first half, compared to the first half of last year. In addition, we also noted in Q1, the supply of chilled water was impacted due to lower average temperatures, which kind of reduced cooling demand, but it bounced back as per our expectations more positively in Q2, recording an increase of almost 7% in volumes.

During the summer months, seasonality and increased cooling demand led to a greater share of revenue coming from variable consumption rather than fixed charges. This shift results in a different margin mix, with Q2 margins typically differing from those in Q1, a normal pattern reflecting the seasonal changes in margin profiles during summertime. However, this composition remains broadly the same versus last year.

Going on to the next slide. We'd like to highlight some of the profitability metrics. Gross Profit showed a steady increase of 3% year-over-year in Q2, following our stable performance in Q1 this year. Total operating costs increased in both Q2 and H1, reflecting higher consumption revenue and therefore increasing utility costs. Additionally, continued investment in the company's infrastructure assets also resulted in increased depreciation charges, which was reflected in the higher direct costs and therefore marginal movement in gross profit margins versus the last year.

Group EBITDA increased by 5%, reported at AED 632 million during the first half of this year, alongside a margin expansion to 57%. Excluding depreciation and amortization, our cost overheads were lower than last year, supporting the margin expansion.

Following the refinancing, at the end of Q1, we had settled the term loan through the issuance of a Green Sukuk. Taking into account the higher market interest rates applicable to new issuance this year, compared to the bank debt obtained during the low-interest rate environment in 2020, net finance costs increased slightly by 2% during the first half of the year.

We also recorded higher other income in Q2, following the divestment of our minority state in one of our associates. Share of results from JV and associates was lower than last year, since in H1 2024, figures included a one-off gain recorded in one of our associates on asset disposal. Excluding this, the performance of our associates and JVs remained stable. Despite the higher net finance costs and lower share of results, profit before tax increased by 4% and the net profit grew by 2.5% during the first half of the year, compared to the same period of last year.

Let us now look at the balance sheet on the next slide.

The total assets and liabilities remain stable. Major movements in the assets are:

The changes in the fixed assets and intangibles were primarily driven by the routine depreciation and amortization, partially offset by new capex incurred during the period. Investments in associates and joint ventures remain the same, reflecting the profit generated during the period being balanced by the dividends paid during the period, disposal of interest in one of our associates and adjustment in the fair value of derivatives held by the associates. Receivables and other assets experienced an increase due to an increase in revenue, driven by record high new connections and an increase in consumption volumes during the summer months. Therefore, higher trade receivables, which is settled as per the collection period. The increase in trade receivables was partially offset by the reduction in derivatives due to the successful closure of our hedge position following the settlement of the bank debt.

Looking at the movement in equity and other liabilities, equities and others reflect an adjustment due to the payment of 2024 dividend earlier this year and a slight decrease in the fair value of the derivatives. This was partially balanced by the profits generated during the first half of this year. The increase in payables and other liabilities was mainly due to an increase in utility cost payables after an increase in consumption volumes, which will be settled as per the payment terms.

The overall gross debt remains stable as the term loan was successfully refinanced through the proceeds of the inaugural Green Sukuk, amounting to 700 million US dollars. This refinancing has strengthened our liquidity profile and enhanced financial flexibility by moving debt maturities into a longer term. For 2025, the only outstanding Sukuk obligation amounts to close to 937 million dirhams equivalent, due in October. With our robust current cash flows and anticipated cash generation, we are well positioned to comfortably address this liability through our cash reserves or refinancing with a smaller new debt should the need arise.

We expect to fund our share of AED 1.2 billion equity investment for the acquisition of PAL through a partial use of cash and through the new debt. We may therefore also combine refinancing needs and funding of our equity investment in PAL into a one single debt facility.

The net debt by the end of the first half increased slightly following the payment of our 2024 dividend. However, our leverage ratio, which is the net debt to EBITDA, has seen considerable improvement in the last five years. From the peak level of six times in 2021 to 3.7 times at the end of the first half of this year. This reinforces the resilience of our high margin cash generative business model and underpins the strength of our credit fundamentals.

Moving on to the next slide.

Tabreed's operations continue to generate strong and consistent cash flows, enabling us to strategically allocate surplus funds towards growth, debt management and shareholder returns.

In H1, we delivered AED 451 million in net operating cash flows, supported by solid profitability. Increase in our Days Sales Outstanding (DSO) results from the seasonal higher revenue and therefore temporary increase in trade receivables. However, we have seen a significant improvement in DSOs over recent years, reflecting the strength of our B2B billing model and the high credit quality of our customers.

We invested during the first half of this year around AED 66 million in new CapEx for the plants in existing concessions and advance on new greenfield developments. While the H1 CapEx was modest, we expect to ramp up as projects reach near completion and demand accelerates. Overall, Tabreed achieved AED 398 million in free cash flows during the first half of this year and AED 973 million over the past twelve months, translating into a robust free cash flow yield of more than 11%.

Our financing strategy remains disciplined. Proceeds from the Green Sukuk were used to reduce the term loan and bank debt, enhancing financial resilience and supporting ongoing obligations.

We paid the full year dividend AED 441 million in Q2 this year, thereby showing our commitment to return cash back to shareholders in a consistent manner. By quarter end, our cash balance reached almost AED 900 million and we maintained access to an undrawn AED 600 million green revolving facility, reinforcing our strong liquidity and flexibility to execute capital allocation strategy.

With this, I conclude the summary of the financial results presentation, and I will hand it back to Adel to take you through the rest of the proceedings. Over to you, Adel.

Adel Salem Al Wahedi

Thank you, Salik.

As of the first half of this year, we achieved 4.5% year-on-year growth in connected capacity. In line with our guidance, capacity additions are influenced by project timelines and customer demand, which can cause quarterly fluctuations. In H1, the run rate is a snapshot, not a full year indicator. Our medium-term guidance remains unchanged, with expected capacity growth of 3 to 5% annually through 2027. With a strong pipeline, long-term concessions, and expanding geographic footprint, Tabrid is well-positioned to deliver sustained growth through the rest of 2025 this year and beyond.

I would also like to remind here that PAL acquisition should not affect this guidance immediately, as our guidance is mostly for organic growth and excludes sizable M&A transactions. However, once PAL acquisition is completed, we will integrate subsequent growth in PAL's capacity into our guidance.

To support this capacity growth, we expect organic CAPEX in the range of AED 200 to 300 million annually. In H1, we invested AED 66 million, and this is expected to ramp up as construction progresses on ongoing expansion works and as the new plants enter construction stage.

On margins, we saw expansion of EBITDA margin by 1.2% in the first half of this year compared to same period last year, with last 12-month EBITDA margin of 52%, near the upper end of our guidance range of 50% to 53%. We are confident of delivering EBITDA margin as per our guidance.

Our leverage ratio, which is net debt to EBITDA, stands at 3.7 multiples as of June 30th of this year, comfortably well under the investment-grade thresholds. We aim to maintain this discipline while retaining flexibility to invest in growth. Post-completion of PAL acquisition transaction, our net debt-to-EBITDA ratio is expected to increase to around 4.5 multiples, which will be still within the investment-grade criteria.

Given our resilient business model, top-tier B2B customers, and support from strategic shareholders, we are confident that any temporary increases in leverage due to capital needs will normalize quickly as cash flows and EBITDA growth materializes.

We continue to see favorable economic trends across our key markets, which support strong long-term growth for the district cooling industry. Economic activity is expected to pick pace over the next five years, driven by population growth, urban planning & development, and government policy support. Major investments in megacities and global events, such as Expo World Cup, will further fuel demand for high-density developments that rely on centralized cooling solutions like district cooling. National energy efficiency goals and net-zero carbon targets will also drive an increase in DC adoption. Regulatory frameworks are evolving to support the industry, building trust and transparency between service providers and consumers, and ensuring high-quality, reliable, and competitively priced services.

These trends point to a growing need for energy-efficient and cost-effective cooling solutions, and Tabreed, with its diversified presence and proven expertise, is well-positioned to capitalize on these opportunities. With that, we conclude the presentation. We will now open the floor for Q&A.

Questions & Answers

Moderator

Thank you. We'll now be moving to the Q&A part of the call. If you'd like to ask a question, please press * 2 on your phone. And if you're dialed in by the web, you can type your question in the box provided or request to ask a voice question. We'll wait a few moments for the questions to come in. Our first question is from Jean Pierre from Kepler Chevreux. Your line is now open. Please go ahead.

Jean-Pierre (Kepler):

Q. Can you hear me?

Moderator: Yes, we can hear you. Looks like Jean's line dropped. Just once again, if you'd like to ask a question, please press * 2 on your phone. And if you're dialed in from the web, you can also type your question or request to ask a voice question. We'll give a few more moments. It looks like we have no questions. It appears like the presentation was comprehensive enough. I'll now hand it back to the sub-breed team for the closing remarks.

Yugesh Suneja:

All right. Thank you, everyone. We tried to give you a complete and detailed perspective on our results and the outlook. We received a few questions by email before the call, and we have responded to these questions. We will contact Jean-Pierre to answer his question after the call. If you still have further follow-ups or any clarifications, please feel free to reach out to us. Our contact details are mentioned at the end of this presentation. And with that, we conclude today's call. Have a good day and great weekend.

Note: This transcript has been edited to improve readability.

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