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NATIONAL CENTRAL COOLING COMPANY PJSC
(DFM: TABREED)

EARNINGS CONFERENCE CALL TRANSCRIPT
H1 2024

Tabreed Participants:

Adel Salem Al Wahedi, Chief Financial Officer

Salik Malik, Vice President – Finance

Yugesh Suneja, Head of Investor Relations

Presentation

Yugesh Suneja

Thank you, everyone, for joining Tabreed Earnings Call for the first half of 2024. I am Yugesh Suneja, Head of Investor Relations at Tabreed. Joining me today are Adel Al-Wahedi, our CFO, and Salik Malik, Vice President of Finance.

Before we dive into the details, I would like to remind everyone that some of the statements we will make today are about future performance. These statements are based on current expectations and are subject to risks and uncertainties. Please refer to this slide for interpretation and limitation on these forward-looking statements.

Today's call is being recorded, the slides and other financial information which we will discuss today are available on Tabreed's website. The transcript and replay of this call will be made available on Tabreed's website under Investor Relations sections.

In today's agenda, we will discuss Tabreed's financial performance for the first six months. We will provide an update on our business operations and outlook, and then open the floor for your questions. Adel will commence with an overview of the first half's operational and financial highlights, including progress on our sustainability initiatives. Subsequently, Salik will delve into the financial results. Finally, Adel will conclude with a discussion on our strategic priorities and outlook on the capacity guidance. We will then open the call for your questions. I would now like to hand the presentation over to Adel.

Adel Salem Al Wahedi

Thank you, Yugesh. Good afternoon, everyone, and thank you for joining us today.

Tabreed had a good first half. We grew our business, improved our financial position, and continued to contribute positively to global sustainability goals.

Let us start with the **financials**. Revenue increased compared to the same period prior year. Growth in revenue on a like-for-like basis was 6% after considering deconsolidation of Tabreed Parks divestment and removing one-off CPI gains recorded last year. This shows a strong operating environment driven by rising consumption volumes and a new load connected over the last 12 months. Our **profit margins remained healthy**, with the first half **EBITDA margin reported at 56%**.

We prudently used surplus cash to reduce our debt by buying back Sukuk worth of USD 207 million, thereby saving interest charges, improving gearing, and optimizing balance sheet. Overall, **normalized net profit before tax grew by 4%** versus last year. Like-for-like growth adjusted for factors mentioned before would have been significantly higher. As a result of strong underlying growth and capital allocation measures, our **normalized return on equity** shows **sustainable improvement** year over year, **reaching 9.7%** in the first half of this year. These results demonstrate that we are on track to deliver on our strategic expansion plans and growth in earnings.

Moving to the **strategy of the company**, demand remained robust in the first half. Tabreed **saw 8% growth in consumption volumes** driven by rising cooling demand from our customers. In the first half, we commissioned one new greenfield plant at Saadiyat Island. This plant has an installed capacity of 9,000 RT, which will ultimately increase to 21,000 RT to serve growing demand in this community. During the last 12 months, we had added a new capacity of 24,000 RT in our core markets of UAE and GCC and grew our international presence in India and Egypt. We have a strong pipeline of new projects to continue this growth and expect momentum to increase in the second half of this year. I will provide more updates on future opportunities while discussing our growth outlook.

More than just growth, Tabreed is **committed to sustainability**. By enhancing energy efficiency and actively reducing carbon footprint, Tabreed sets a benchmark for responsible operations in the cooling sector, translating into significant environmental benefits.

In line with our commitment to transparency, Tabreed published its fourth ESG report during the second quarter of this year. Despite continual increase in cooling consumption, Tabreed was able to **reduce its energy intensity by 10% last year**, driven by efficiency initiatives, such as demand optimization and technology upgrades to plant equipment. The company made significant strides in decarbonization of cooling, as evident in the **carbon emission intensity reduction by 35% in 2023**. This was driven by lower energy consumption, use of clean and renewable energy sources such as geothermal, clean energy certificates, and decreasing emission intensity of grid electricity.

Overall, Tabreed remains focused on profitable growth with solid cash flow generation of nearly AED 1 billion in the last 12 months. That translates into attractive free cash flow yield of more than 10%. This supports our ongoing investments in domestic and international business expansion and increasing dividend payout to maximize shareholder value creation.

Moving to the next slide.

This slide provides an **update on our operational performance** and **expansion** in the first half of this year. Our chilled water revenue, which is 96% of group revenue, comes mainly from two components, fixed capacity charges and variable consumption charges. In the first half, fixed charges contributed 62% of chilled water revenue and experienced like-for-like growth of over 3% driven by increased capacity and CPI indexation. Growth in variable charges was about 9% compared to last year. The growth in both fixed and variable charges on a reported basis was partially offset by deconsolidation of Tabreed Park investments in Q3 last year due to 50% divestment as well as higher one of CPI gains booked in 2023.

Consumption volumes increased by 8% year over year to reach 1 billion RT hours. This growth is attributed to both increased capacity and higher cooling demand.

The UAE remains our core market, accounting for 83% of our connected capacity. We have established presence in Saudi Arabia, Oman, Bahrain, India, and Egypt. Historically, our connected capacity has expanded by 8% annually since 2019. In the first half of this year, we added close to 5,000 RTs of new capacity, primarily within the UAE. There have been a few projects which were pushed by a few months due to delays in obtaining NOCs from authorities or completion delays at customer ends. Other than these delays, the new additions in the first half were broadly aligned with the typical project timelines forecasted for the year. I will provide further details on our capacity outlook later in the call.

On the next slide. Today, Tabreed announced appointment of Dr. Bakheet Al-Katheeri as the new chairman of the board of directors, succeeding Mr. Khaled Al-Qubaisi. Khaled has served as Tabreed chairman since 2017 and played an instrumental role in expanding Tabreed business in the UAE and entry into new markets.

Dr. Bakheet has been a member of Tabreed board since 2022 and currently serves as the CEO of Mubadala's UAE Investment Platform, where he is responsible for guiding the growth and strategic direction of a diverse portfolio of major UAE companies. With his diverse background, Dr. Al-Katheeri is well positioned to lead Tabreed through its next phase of growth.

Alongside, Tabreed also welcomes our new board member, Mr. Mansoor Al-Hamed. We are pleased to have the in-depth and vast experience that our board members offer to Tabreed, which will be extremely beneficial as we expand our business in several countries and redirect our efforts to optimize operations.

Tabreed plays a pivotal role in sustainable development through the provision of district cooling solutions. Cooling has become a critical component of modern infrastructure. District cooling offers a compelling solution to reduce carbon emissions and enhance energy efficiency. By leveraging advanced technologies, we not only meet immediate cooling demands, but also contribute to broader sustainability objectives.

Our operations have yielded substantial environmental benefits. In the past year, we achieved energy savings equivalent to powering over 148,000 homes and prevented the emission of 1.55 million tons of CO_2. As we expand our operations, our positive environmental impact will continue to grow.

Sustainability is central to Tabreed's long-term strategy. We are committed to reducing our carbon footprint and achieving net zero emissions. We are leveraging digital technologies, including big data and AI, to optimize our operations and enhance efficiency. Additionally, we are exploring and adopting renewable energy sources such as geothermal and solar power. Our collaboration with HTMS on the Maxwell Fluid Technology and the implementation of variable frequency drive motors are examples of our ongoing efforts to improve energy efficiency. Through these initiatives, Tabreed is demonstrating its leadership in sustainable district cooling.

Tabreed is committed to reducing water consumption and minimizing waste. We are implementing initiatives to conserve fresh water by utilizing treated sewage effluent and seawater in our cooling processes. Additionally, we are focused on responsible waste management, including the reduction, reuse, and recycling of materials. We follow strict environmental regulations in the handling of hazardous materials. I encourage you to go through our latest ESG report to find out more on progress made on environmental initiatives, investment in new technologies to combat sustainability challenges, employee well-being, and workplace diversity initiatives, as well as our governance practices.

I will now hand the presentation over to Salik for a detailed discussion of our financial performance in the first half of the current year.

Salik Malik
Thank you, Adel, and good afternoon, everyone.

Let me take you through the financial performance starting with the high-level overview for the first half of 2024.

We achieved resilient financial results, including a healthy EBITDA margin of 56% and an increase of 4% in normalized net profit before tax. Divestment of 50% stake in the Dubai Parks DCP and higher one-off CPI gains in 2023 are masking the underlying growth in key financial markets. However, like-for-like growth across key metrics remains strong. This is clear in improved return ratios, highlighting efficient financial management and value-creative initiatives. Tabreed generated significant cash flows enabling us to enhance shareholder value through balance sheet optimization and increased dividend payouts.

Let's delve deeper into our income statement performance for the first half of this year. Group revenue reached 1.1 billion, increasing by 1% year-over-year from the same period last year. However, the growth on the normalized basis was 6% before the effect of year-over-year CPI gain on finance leases and the deconsolidation of the Dubai Parks DCP that resulted in a change in accounting to equity method.

Let me explain these one-off impacts in detail. In 2023, same period benefited from a one-time higher CPI gain with indexation of 4.8%, while in 2024, the CPI indexation was at 1.6%. This reduced year-over-year one-off gains on the finance leases, which had an impact on our top-line growth by about 3%.

Similarly, revenue from the Dubai Parks DCP, which had been deconsolidated effective Q3 last year, had impacted revenue growth by another 2%. On a like-for-like basis, revenue growth is primarily organic, attributed to the addition of 24,000 tons connected during the last 12 months and the rise in consumption volumes by 8%.

Gross Profit remains steady as the increase in operating costs reflects the growth in volumes and the new connected capacity.

EBITDA reached AED 603 million with a healthy margin of 56%. The growth in EBITDA was impacted by the deconsolidation of the Dubai Parks DCP and the costs related to the expansion of our operations in both existing and new markets.

Looking at the net profit movement, in first half, the net profit before UAE corporate taxes grew by 4 percent to AED 291 million, mainly driven by significant savings in finance costs, partially offset by the factors that I mentioned before which suppresses the real growth. With the introduction of corporate taxes in 2024, the reported net profit after tax for the first half is AED 269 million.

The next slide outlines Tabreed's balance sheet as of the end of 30th June 2024. The total liabilities were reduced by 6%, mainly reflecting the repayment of debt and the payment of dividends, as we used surplus cash to optimize our balance sheet.

- Movement in fixed assets and intangibles, mainly reflect the depreciation and amortization during the first half of this year, partially offset by the increase in capital work-in-progress.
- Investment in Associates and the JVs increased due to the profits earned during the period and the positive movement in the fair value of the derivative instruments held by the Associates.
- Receivables and other assets increased during the first half due to the higher trade receivables partly offset by the reduction in the fair value of the derivatives. The increase in trade receivables was mainly related to the timing of collections and should normalize during the rest of the year.
- Cash balance was reduced as we partially bought back Sukuk worth AED 880 million in the first half and paid 2023 dividends, amounting to AED 441 million. As a result, our net debt slightly increased to AED 5.1 billion by the end of the first half of this year.
- The decrease in equity and reserves was due to the payment of 2023 shareholders' dividends and the fair value changes in derivatives, partly offset by the profit for the first half of this year.
- Payables and other liabilities remained the same.

We have two debt facilities as you may be aware, maturing in 2025 – AED 2.5 billion bank debt in the first half and the remaining AED 950 million Sukuk in the second half of the next year. As of first half of 2024, the Tabreed’s leverage ratio i.e. net debt to EBITDA remains healthy at 4.2 times. This robust balance sheet and strong cash flow generating business model allows us to comfortably manage refinancing either fully or partially as required.

We are closely monitoring the interest rate market and looking at various options for refinancing. We will choose the optimal refinancing option, which is in the best interest of our shareholders. As soon as the decision is reached and approved by the board, we will update the market.

The next slide shows sources and uses of cash during the first half of this year. Tabreed generated an operating cash flow of AED 608 million, reflecting the robust nature of our business and sustainable profitability margins.

The negative working capital during the period reflects the increase in trade receivables, which is more related to the timing of collections and the release of supplier payments. Overall, trade receivables continue to stay near healthy levels, indicating efficient collection process implemented at Tabreed and a strong customer credit profile.

Capital expenditure of AED 102 million was incurred during this period, which indicates the expansion of our operations including the completion of a new plant and connecting new loads in our concession areas. Overall, Tabreed generated a robust free cash flow of AED 404 million in the first half of 2024.

Financing activities indicate prudent use of surplus cash in servicing our debt, including buyback of Sukuk and increasing dividend payments to our shareholders.

At the end of the first half of 2024, we reported a cash balance of AED 578 million. In addition, we have AED 600 million green revolving credit facility, which remains unutilized as of today. This enables a strong liquidity position for Tabreed and allows us to capitalize on any growth opportunity through organic and / or in the form of acquisitions while maintaining strength of our balance sheet.

With this, I conclude my part of the financial results presentation. Now I will hand it back to Adel to take you through the rest of the proceedings.

Adel Salem Al Wahedi

Thank you, Salik. Let me now provide you with an update on our cooling capacity and the future growth plans.

We previously provided a capacity guidance of 120,000 RT over a two-year period of 2023 and 2024, of which approximately 60% was expected to come from consolidated entities and remaining from equity-accounted entities, mainly Saudi Arabia. We are now updating our capacity guidance to 100,000 RT, and on the other hand, it increases the connections expected from consolidated entities to 85%. In a nutshell, if you look at the absolute number, we expect more capacity to come from consolidated entities than previous guidance, ensuring an increase in contribution to revenue and EBITDA.

And for equity-accounted capacity, it is still expected to contribute in line with the expectations, but with a slight delay in Saudi Arabia as King Salman Project Phase 1 connected loads of 20,000 RT is now expected to complete in H1 2025, rather than our previous anticipation of Q4 2024.

All in all, we remain committed to delivering on our growth expectations. As of the first half of this year, we have already delivered 58,000 RT in the last 18 months. While the run rate in H1 this year looks below our guidance, this is in line with the phasing of projects in H1 versus H2. There are a few greenfield expansions which are due to be completed in the second half of this year. Similarly, we have already signed loads in our existing connections which are due to be connected during the rest of this year and will help us in achieving our guidance.

Beyond this year's guidance, we are targeting an annual growth rate of 3 to 5% in connected capacity over the next three years. This growth should be driven by ongoing projects within our existing concession areas, new project wins anticipated this year and early 2025, which will be completed by 2026 and potential M&A opportunities.

The next slide provides key drivers of growth in the district cooling industry. Due to renewed focus on accelerating climate action and advancing sustainability goals, we see strong tailwinds for the sector.

Cooling typically accounts for 50% of electricity consumption and 70% of peak demand, especially in Tabreed's key markets, which show a relatively hot climate. Energy demand for cooling is expected to fast track, demanding huge investments in electricity systems.

District cooling is 50% more energy efficient, more reliable, has longer asset life and is more economical over a life cycle compared to conventional cooling and thus offers huge potential to save energy and avoid massive investments. Given its high efficiency, district cooling will be a critical enabler to meet strategic net zero emission targets announced by various governments in the region. Further efficiency improvements brought in by new technological developments such as thermal energy storage, zero water consumption solutions, renewable energy etc. make district cooling a preferred choice for smart and sustainable developments.

In most of our markets, economic growth is expected to speed up over the next five years compared to the previous five years. Some of these markets, such as Saudi Arabia and India, hold a huge potential given relatively low penetration of DC in cooling sectors amid significant size of cooling demand. There is an increasing focus on using district cooling systems and integrated with master plan.

Tabreed is well positioned to capitalize on the growing demand for sustainable district cooling solutions and we are confident in our ability to deliver consistent capacity growth and strengthen our market leadership position.

Let me elaborate more on Tabreed's growth outlook and key areas of growth.

In the heart of our growth strategy lies our local market, the United Arab Emirates. Our strategy here is twofold, focusing on organic growth through various green-field expansions and inorganic growth through various brownfield opportunities such as mergers and acquisitions.

We have already secured additional capacity in our existing concession areas. For instance, we have about 300,000 RTs to be connected over medium term in our concession areas such as Downtown Dubai, Al Raha Beach, Yas Island, Saadiyat Island, Al-Maryah Island, Masdar City, and others.

We also anticipate further opportunities in the form of mergers and acquisitions in the UAE, though the scale may not reflect the size of our historical acquisitions. Nonetheless, these opportunities remain an integral part of our growth strategy.

Beyond UAE, Tabreed is poised to expand in new geographies, aiming to replicate success on a regional scale. We have actively assessed multiple opportunities in dynamic markets such as Saudi Arabia, India, and the wider Asia region. Our goal is to build green field plants or enter into large concessions by leveraging our technical expertise and proven market records.

The international landscape offers suitable opportunities for growth through mergers and acquisitions as well. A prime example of this is Tabreed presence in Saudi Arabia, where Tabreed operates over 500,000 RTs for asset owners, highlighting potential avenues for acquiring assets and expanding our footprint in the near future.

In conclusion, we see exciting opportunities and promising prospects for Tabreed. Our expertise in the industry positions us uniquely to seize these opportunities, while a strong financial framework and governance ensures value accretion for our shareholders.

Before I conclude this presentation, let me summarize Tabreed's investment proposition. At the core of Tabreed's strategy to deliver long-term shareholder returns is a resilient business model designed for stability and sustainable growth. Our utility-like tariff structure forms the backbone of this resilience. These attributes enable us to form long-term contracts with our clients and provide us with a high degree of future revenue predictability and cash flow visibility, which is crucial for steady growth and investor returns.

Tabreed's free cash flow yield is over 10%, allowing us to allocate surplus cash either to invest in accelerating growth or increase dividends. Looking ahead, Tabreed is well-placed to tap significant growth opportunities. Our balance sheet de-leveraging in recent years puts us in a comfortable position to allocate capital towards growth initiatives.

We actively form partnerships to venture into new markets and adopt cutting-edge technologies aimed at long-term success and boosting operational efficiency. Our disciplined approach towards investment has been a key driver of our success.

By meticulously managing our cash flows, we have maximized shareholder returns through strategic growth investments, optimized capital structure, and increased dividends. This disciplined investment strategy is aligned with our commitment to value creation to our shareholders.

In conclusion, our focus remains on innovative solutions that are reliable, efficient, and beneficial for all stakeholders. At Tabreed, we are more than just a cooling service provider, we are partners in progress towards a sustainable future.

With that, I conclude our H1 earnings presentation. Thank you for your attention. We will open the lines for Q&A, and we are happy to answer any questions you may have.

Questions & Answers

Operator

Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you are dialed in via the telephone and would like to ask a question, please press star 2 on your keypad and wait for your name to be called. If you are dialed in via the web, you may also ask a voice or a text question. We'll give a moment for any additional questions to come through.

It looks like the call was very comprehensive, and we have no questions at this point. I will pass the line back to the management team of Tabreed for any concluding remarks.

Yugesh Suneja:

Thank you, everyone, for joining this call. And if you have any questions, please reach out to the Investor Relations team at ir@tabreed.ae. We will be happy to respond to any queries or questions you may have.

This concludes our call for the day, and I wish you all a very good day. Thank you very much.

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