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NATIONAL CENTRAL COOLING COMPANY PJSC
(DFM: TABREED)

EARNINGS CONFERENCE CALL TRANSCRIPT
Q1 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 quarter of 2025. Our financial results, including a copy of this presentation, are already available on Tabreed's website. Video replay and transcript of this call will also be made available on our website.

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 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 am joined today by Adel Al Wahedi, our Chief Financial Officer, and Salik Malik, Vice President of Finance. Adel will start with key highlights of the first quarter. Following this, Salik will discuss the financial results in detail. Finally, Adel will conclude with an update on our guidance and outlook. I will now invite Adel to begin the results discussion.

Adel Salem Al Wahedi

Thank you, Yugesh.

A very good afternoon to you all. And thank you for joining our Q1 2025 Results conference call.

Before diving into Q1 2025, we would like to take a step back on the past five years, which have been a journey of transformation and growth for Tabreed.

Tabreed has demonstrated a track record of enhancing its market-leading position in the district cooling sector.

Tabreed has achieved sustainable growth by unlocking opportunities not only within its core market of UAE, but also by diversifying into other countries inside and outside of GCC. Tabreed has added around 77k RTs of annual capacity in the last five years or annualized growth of 7%. This was achieved through organic growth and selectively pursuing value accretive merger and acquisition transactions. In all its investments, Tabreed seeks a minimum IRR that exceeds our WACC, enabling us to add value to our shareholders.

Consistent execution on our growth strategy, coupled with rising demand for space cooling, have led to annualized growth of 12% in consumption volumes in the last five years. Revenue and EBITDA have grown at 10% annualized growth. All along our growth journey, we have maintained a strong focus on maximizing value creation by optimizing our operations and delivering exceptional customer service. This allowed us to expand our EBITDA margins, generate healthy cash, improve our balance sheet ability to invest further in future growth and enhance dividend payout to shareholders.

We remain committed to driving more growth in a capital disciplined manner, that drives shareholder value creation.

Next slide…

We are just getting started on renewed growth journey as we are actively working on expanding our growth pipeline, which will position us to sustain growth momentum in the next phase of our journey.

I am very excited to see a remarkable start to 2025. We witnessed a significant increase in connections in the first quarter compared to the same quarter last year. Tabreed also entered in a concession in partnership with Dubai Holding Investments to provide 250,000 RTs of cooling to premier master development of Palm Jabel Ali in Dubai. I will touch upon this in more detail on the following slide.

Another important milestone for Tabreed was the issuance of its first Green Sukuk amounting to USD 700 million. This green issuance underlines Tabreed's commitment to finance or refinance eligible projects in line with our Green Financing Framework, which is assured by independent third-party opinion.

In terms of financial performance, Tabreed has once again showed resilience of its business model with growing EBITDA and Net Profit, margin expansion and improving returns, strong cash flow generation and robust improvement in the balance sheet. Our cash balance increased by 14% year-to-date and net debt is now at the lowest level since 2019. Our balance sheet leverage has drastically improved from peak of almost 6 times in 2021 to 3.55 times at the end of first quarter, showing highly effective liability management. This financial strength positions us very well to seize growth opportunities while maintaining Investment Grade credit rating.

Overall, we are pleased with the first quarter's performance which shows continued focus in managing our costs by utilizing the latest technologies and automation, strengthening of our balance sheet and strong liquidity position. All these efforts are driving an improvement in our margins, a higher return on equity and attractive free cash flow yield.

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Let me elaborate more on our recent partnership with Dubai Holding. Tabreed and Dubai Holding Investments have established a joint venture to undertake district cooling services, on an exclusive basis, for one of Dubai's transformative developments. Tabreed will hold a 51% share in the special purpose vehicle while the remaining 49% held by Dubai Holding Investments.

This is one of the largest greenfield deals secured by Tabreed with size of project almost equal to 20% of our current connected capacity. It also increases our accumulation of contracted capacity significantly, which will not only enhance our future revenue visibility but also increases the level of our future revenues. And it also strengthens our market position in Dubai's district cooling market, which is expected to grow strongly over the coming years.

Subject to customary approvals, construction of the district cooling network is expected to commence in Q2 2025, with the first cooling services expected to be delivered by end of 2027 or early 2028. Over time, load will be ramped up to meet anticipated total cooling capacity of approximately 250,000 Refrigeration Tons with an estimated total Capex of AED 1.5 billion. This capex is expected to be funded by Tabreed through its cash generation year over year.

Signing this project is a significant milestone for Tabreed. We are confident that it will not only strengthen our market position in Dubai but also pave the way for future successes.

Moving to the next slide…

Tabreed continues to be a pioneer in the international sukuk market, having been a regular issuer over the past 20 years. In 2006, its USD 200 million sukuk issuance was the first to be listed on the London Stock Exchange, which paved the way for other issuers to follow. That issuance was also the first rated sukuk by a corporate entity in the Middle East.

Tabreed returned to international debt capital markets this year with its largest sukuk or bond transaction ever. And this was the first issuance under our USD 1.5 billion trust certificate programme.

The issuance attracted strong institutional demand from high quality local, regional and international investors, with final issue being oversubscribed by nearly 2.6 times. The sukuk was competitively priced with a profit rate of 5.279%, achieving the tightest ever credit spread for a five-year instrument by Tabreed and by any regional corporate sukuk with similar credit rating.

This high demand was supported by investment grade credit ratings from Moody's at Baa3 and Fitch at BBB), consistent with Tabreed's corporate ratings.

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Let me now provide updates on our operational performance and expansion during first quarter of 2025.

Compared to the end of Q1 2024, we added gross new capacity of around 27k RTs, of which close to 4.6k RTs of new connections came in the first quarter of 2025. Most of this new capacity was from organic increase in our key concessions in UAE such as Al Raha, Saadiyat Island, Downtown Dubai, Yas Island, Al Maryah Island etc. We also added 3 k RTs in other GCC countries, mainly Oman and Saudi. Lastly, we have further expanded our presence outside GCC with expansion in capacity in Egypt and India by 1.5 k RTs and 3.0 k RTs in the last 12 months.

We are on track to see an increased pace of new capacity this year, which I will discuss later during update on guidance.

The UAE remains our core market representing 83% of total connected capacity, while other GCC markets such as Saudi Arabia, Oman and Bahrain account for 17% of total connected capacity. We are continuing to pursue opportunities to increase our presence outside GCC, through key markets such as India and Egypt.

As you can see, consumption volumes declined by 7% in the first quarter due to relatively cold weather in Q1 of this year versus same period last year. However, Q1 seasonally had seen the lowest consumption across the four quarters and therefore should have a limited impact on our full year volumes. Moreover, considering majority of our EBITDA comes from fixed capacity charges, therefore, it had a limited impact on our Q1 results

Capacity charges contribute most to our chilled water revenue. In Q1 2025, this contribution increased marginally to 72% with a growth of 2% in fixed charges underpinned by increased capacity and CPI Indexation of 1.66% applied for the year 2025.

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During the Annual General Assembly meeting in March 2025, shareholders approved a dividend of 15.5 fils per share for the year 2024, which was subsequently paid in April. In the last five years, dividends have increased at an annualized rate of 8%. At the current share price, it has an attractive dividend yield of 5.7%.

The Board of Directors have adopted a progressive approach in distributing dividends as evident by a consistent increase in payout ratio over the last five years. We expect this trend to continue. Our disciplined capital allocation and prudent financial management has been at the center of our value creation strategy. Strong business fundamentals and visibility of future cash flows allow us to sustain attractive cash returns for our shareholders, while maintaining investment grade credit rating.

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Cooling has become a critical part of the GCCs infrastructure needs, especially important given increasing climate challenges.

In the last 12 months, our operations have resulted in substantial environmental benefits with energy savings of 2.6 billion kWh, equivalent to powering around 150,000 homes and prevented 1.56 million tons of carbon emissions. And as our business grows, so does Tabreed's contribution to reducing environmental footprint with more and more savings in energy consumption. By leveraging advanced technologies and innovative practices, we are not only meeting the immediate cooling needs but are also contributing towards achieving broader sustainability goals.

Simultaneously, Tabreed is actively pursuing a roadmap to achieve net zero emissions by 2050, aligning with the UAE Energy Strategy 2050.

We have invested in several new technologies and solutions that improve operational efficiency and reduce environmental impact. Various examples of such achievements include:

use of variable frequency drives which is expected to save 23 million kWh of energy over the next 10 years

nano-fluids particles in our chilled water network, which has been successfully deployed in 4 plants in Dubai and expected to save energy consumption by 10% at plant level
Geothermal district cooling project in Masdar, which provides 700 RT of cooling and consumes 3 times less electricity than standalone air-cooled system

As we ramp up deployment of these initiatives more widely across our portfolio of plants, we expect this to support our margin profile going forward.

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.

Before I delve into the income statement balance sheet and cash flow in detail, let me give you a quarter one 2025 financial results highlights, which show the robust nature of our business model and affirm the stability ensured by fixed capacity charges.

Our EBITDA and net profit demonstrated commendable growth even as consumption volumes experienced a slight moderation. Profitability margins and cash collections continue to showcase remarkable resilience, contributing positively to further reductions in net debt and enhancing leverage in relation to gearing.

We are optimally positioned to deliver substantial value to our shareholders by strategically combining growth initiatives with consistent dividend distribution.

Moving on to the next slide.

The group achieved a revenue of AED 466 million in the first quarter of this year, demonstrating steady performance year over year and an impressive 7% compounded annual growth rate since 2021.

In Q1, fixed capacity charges increased by 2%, driven by the addition of 27,000 tons over the last 12 months and also the CPI indexation. Starting 2025, CPI indexation of 1.66% is applied as per the 2024 inflation index published by the UAE. This CPI is broadly the same as last year's CPI indexation of 1.63%.

Growth in fixed charges effectively balanced the impact of reduced consumption revenue and higher finance lease amortization. Consumption volumes experienced 7% decline in Q1 2025 compared to the same quarter last year, primarily due to lower average temperatures reducing cooling demand. This weather-related shift reflects a natural adjustment in energy usage patterns. However, as Adel mentioned, this had a limited impact on our profitability as Q1 has lower consumption volumes across the four quarters.

Total operating cost demonstrated remarkable stability this quarter, supported by a reduction in utility charges that aligned with our lower consumption levels. Additionally, other direct costs experienced a decline while the capitalization of assets resulted in an increase in depreciation charges, reflecting our strategic investment in the company's infrastructure.

Gross profit demonstrated consistent stability year-over-year, reflecting positive alignment with our revenue trends. Over the last four years, annualized gross profit growth has been a commendable 6%.

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Group EBITDA increased by 4% to AED 283 million with EBITDA margin expanding to 61%. Excluding depreciation and amortization charges, our direct cost and cost overheads were lower than last year as management remained focused on optimization of expenses.

Below operating profit, we also realized 7% savings in net finance costs following continued reduction in our net debt. We also saw sustained growth in the share of results from our JVs and associates. Overall, net profit grew by 3% to AED 115 million in this first quarter, compared to AED 112 million in the same quarter last year. On a historical basis, net profit has increased at a compounded annual growth rate of 7%. And excluding the impact of UAE corporate tax, profit before tax grew a 10% annualized growth rate driven by effective debt management.

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

Total assets and liabilities remain stable year to date. Major movements in assets are:

The change in fixed assets and intangibles were primarily driven by depreciation and amortization, complemented positively by capital expenditure investments.

Investments in associates and JVs experienced a modest increase, reflecting the profits generated during the period, which were only slightly tempered by minor adjustments in the fair value of derivatives held by the associates.

Receivables and other assets experienced a reduction due to the successful closure of hedge position coinciding with the full repayment of the bank debt that matured in Q1 2025.

Additionally, overall customer collections demonstrated consistent improvement, while the cash balance strengthened, supported by robust cash generation from operations.

Looking at the movement in equities and other liabilities:

Equity and reserves reflect a modest adjustment, primarily driven by the allocation of the 2024 dividend amount to current payables and a slight decrease in the fair value of derivatives. This adjustment was partially balanced by the positive profit generated during the first quarter of this year.

The increase in payables and other liabilities primarily reflect the allocation of 2024 dividend amount designated for shareholders, which was successfully distributed in April this year.

The overall gross debt remains stable as the bank debt was successfully refinanced through the proceeds of Tabreed's inaugural green Sukuk amounting to USD 700 million, which garnered significant interest from our investors. This refinancing has enabled most of our borrowings to transition into longer-term maturity. For 2025, the only outstanding Sukuk obligation amounts to AED 970 million due in October. With our current cash balance and anticipated cash generation during the rest of the year, we are well positioned to comfortably address this liability through our cash reserves or refinance with a new debt should the need arise.

Net debt witnessed a remarkable reduction to AED 4.5 billion at the end of the first quarter, marking its lowest position in five years, driven by robust cash generation and stable gross debt levels. In tandem, the net debt to EBITDA ratio improved significantly to 3.55 times, further underscoring the strength of our credit fundamentals.

Our financial position is notably robust, demonstrated by the gearing ratio of 37%. The stability provided by long-term contracts ensures excellent visibility on future cash flows, offering a prudent buffer to adjust the gearing ratio if required, to support the potential funding needs for growth opportunities.

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Tabreed operations consistently generate substantial cash, enabling strategic allocation of surplus funds towards business expansion, effective management of debt obligations, and rewarding our shareholders with dividends. Our operations successfully generated net operating cash flow of AED 207 million, supported by consistently strong profitability margins. The robustness of our cash collections is highlighted by significant improvement in our DSOs over recent years. Tabreed's B2B billing structure and the exceptional credit worthiness of our customers serve as a vital strength, enhancing our credit profile and ensuring minimal counterparty risk. We have invested AED 25 million during this first quarter to support the expansion of capacity within the existing concessions and to advance the development of new greenfield plants. Although the Q1 capital expenditure rate has been modest, it is expected to accelerate as ongoing greenfield projects move closer to completion, aligning with the anticipated growth in customer demand.

During the first quarter, Tabreed achieved remarkable free cash flows, totaling AED 182 million, complemented by an impressive AED 966 million over the past 12 months, yielding 12%.

Our financing approach has exemplified strategic foresight and discipline management. The proceeds from the inaugural Green Sukuk were efficiently channeled to reduce our bank debt, ensuring financial resilience and continuity in servicing our obligations. By the close of the first quarter, we achieved a notable 14% growth in our cash balance, reaching AED 1.2 billion. Additionally, the availability of undrawn AED 600 million green RCF underscores our strong liquidity position, providing us with the flexibility to seamlessly implement our well-defined capital allocation strategy.

With this, I conclude the summary of the financial results presentation for Q1. I'll now hand it back to Adel to take you through the rest of the proceedings.

Adel Salem Al Wahedi
Thank you, Salik.

I will now talk about our medium-term guidance, which remains unchanged.

We provided a capacity growth guidance of 3% to 5% per year until 2027. As of Q1 2025, capacity grew by 2% year-on-year. Capacity additions in our business are interconnected with project timelines and customer demand trends, resulting in variations across quarters. As a result, the Q1 run rate serves as a snapshot rather than a definitive representation of the robust growth anticipated over the full year. And looking at post quarter trends, we expect a strong uptick in capacity additions in the next quarters. Other than new connections in our concession areas, we expect to complete 2 greenfield plants. We are therefore confident in delivering our capacity guidance.

To meet this anticipated capacity growth, we expect to incur organic capital expenditure between AED 200 to 300 million per year. In Q1, we have incurred AED 25 million Capex. Capex run rate is likely to increase over the coming quarters as we complete new plants and connect new loads in concession areas.

In terms of margins, we saw EBITDA margin expansion of almost 2.5% in Q1 2025 versus Q1 2024. We delivered EBITDA margin of 52% on the last 12 months' basis, which is closer to a higher end of our EBITDA margin guidance of 50% to 53%.

Our current leverage ratio, which mainly refers to Net Debt to EBITDA stands at 3.55x. This is well below the threshold required to maintain investment grade credit rating. Our intention is to keep our leverage within the levels of investment grade. This leaves us with sufficient room to invest in growth. Moreover, the resilient nature of our business, our B2B top-tier customers and backing from our major strategic shareholders allow leverage ratios to trend above the requirements for a temporary period as cash flows and acquired EBITDA would mean that these ratios will go back to normal levels in a short period of time. Therefore, our leverage target is aligned to our approach of keeping a fine balance that meets the requirements of various stakeholders.

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This slide shows how Tabreed will deliver on its guidance while leaving significant room for upside.

Tabreed has already secured a significant pipeline of about 370 k RT new capacity, which will take our capacity to 1.7 m RT once fully connected. And this figure does not yet include 250k RTs from Palm Jebel Ali concession, which will further uplift this secured capacity and future visibility.

This secured growth will be materialized as per construction progress in the master developments. Almost 80% of this secured capacity is in the UAE, which remains at the center of our growth strategy. This contracted capacity is in the form of either concession agreements for certain master developments, where any new development will be connected to Tabreed or we have signed master agreements with the developers. This expansion offers steady and secure organic growth at minimal incremental capex and therefore will drive improvement in returns going forward.

We are also focusing on developing a new pipeline of opportunities in the form of both organic and inorganic growth.

We are targeting new greenfield opportunities to meet demand from increasing investments in real estate and infrastructure projects. UAE will continue to offer such prospects considering inflow of population and capital as well as strong push from government to meet national energy efficiency targets. The district cooling sector offers significant untapped potential, presenting substantial opportunities for growth and development in underserved markets.

We also anticipate further opportunities in the form of mergers and acquisitions. In UAE, developers still own captive assets which can be monetized at the right time. We have right of first offer to acquire Emaar's district cooling assets in Dubai if it decides to monetize. Similarly, we are also actively looking at other opportunities in the market. The international landscape also provides opportunities for growth through mergers and acquisitions, where Tabreed can acquire captive assets owned by developers or public sector entities.

In conclusion, our extensive expertise in the district cooling industry positions us to capitalize on these opportunities, while our robust financial framework ensures sustainable value creation for our shareholders.

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We see favorable macro-economic trends in the key markets where we are present that should support strong growth for the District Cooling industry.

Economic activity is expected to pick up over the next five years in most of our markets driven by population growth, development and increasing disposable income. We also see increasing investments in large-scale development of mega cities or hosting mega events such as Expo, Olympics, World Cup etc. in our core markets. These trends drive demand for high-rise buildings, master communities and high-density developments, which typically demand centralized cooling systems such as district cooling.

National energy efficiency targets and Net Zero Carbon emissions goals are also supportive factors for adopting District Cooling. National Cooling Action Plan of India is one such example where government is encouraging the use of DC in all new commercial developments.

District cooling regulations are another important step in boosting confidence among all stakeholders to increase use of district cooling. Such regulations aim to build strong trust between consumers and service providers and environment of transparency by ensuring high quality, reliable and customer friendly services at competitive prices.

All these market trends are expected to drive a rise in energy needed for space cooling and increasing use of more energy efficient, reliable and cost-effective district cooling. Tabreed, with its diversified presence across various countries, is well placed to capitalize on these opportunities.

With this, we conclude the presentation. We will now open the floor for Q&A.

Questions & Answers

Moderator

Thank you very much for the presentation. We are now opening the questions and answers session. If you would like to ask a question, please press * 2 on your phone and wait to be prompted. If you are dialed in by the web, you can type your question in the box provided or request to ask a voice question. We'll just wait a moment or two for the questions to come in.

Our first question comes from Anna from J.P.Morgan. Please go ahead. Your line is now open.

Anna Antonova (J P Morgan):

Q. Could you please talk a bit more about the Palm Jebel Ali concession? For example, are there any carve-outs to your exclusivity for this project? And then how front-loaded will CAPEX deployment be?

Adel Al Wahedi:

A. As we mentioned, we formed a JV with Dubai Holding Investments with 51% and 49% ownership resp. It is an exclusive district cooling provider for that project over the concession period of 30 years, with an opportunity to renew for another 25 years. It is a greenfield project to be developed over various phases. With ultimate capacity of 250,000 RT to be reached around 10 years. This depends on the acceleration of the real estate market and the economy in the country and in the region with AED 1.5 billion expected CAPEX. Phase one to be commissioned by the end of 2027 or beginning of 2028 with expected capacity of 15,000 RT. Then on your other question, there is no carve out. Please let us know if there are any other questions.

Anna Antonova (J P Morgan):

Q. That's very helpful. Just one more clarifying question. You mentioned that the first volumes will be supplied at the end of 2027, beginning 2028. You mentioned the phase one of 15 thousand tons of capacity out of 250. Is that correct?

Adel Al Wahedi:

A. Yes.

Anna Antonova (J P Morgan):

Q. And when do you expect phase two and other phases to begin?

Adel Al Wahedi:

A. Next phases will follow as per progress of the development there.

Anna Antonova (J P Morgan):

Q. And in terms of CAPEX deployment out of this AED 1.5 billion. I would assume a minor part will be deployed into the next two years for the first phase. Is that correct?

Adel Al Wahedi:

A. Yes, exactly. It is expected that a yearly CAPEX range of AED 150 million, which also depends on pace of development. And it will be sourced from our internal cash.

Moderator:

Our next question comes from Jean-Pierre from Kepler. Please go ahead. Your line is now open.

Jean-Pierre (Kepler):

Q. Just a quick clarification regarding your anticipation of a strong uptick in connected capacity in the second quarter. Could you clarify if this is based on organic investments or if you also include M&A opportunities in these expectations? And could you also share with us the main greenfield projects expected to be started in the second quarter and their contribution to capacity addition?

Adel Al Wahedi:

A. Yes, this is coming from organic growth to answer your first question. On greenfield plants to be started in Q2, one of them is the Palm Jebel Ali. But there will be others, you know, related to concession areas and to meet our guidance. Regarding your question on contribution in terms of revenue, we are bound by the SCA and DFM regulations and we cannot provide any certain future figures for this. But it is within the Tabreed's aspirations and the performance returns.

Jean-Pierre (Kepler):

Q. Just the different questions regarding consumption as we are already halfway through the second quarter. Can you share with us the trend so far in terms of consumption in the second quarter of this year compared to the previous year?

Adel Al Wahedi:

A. Let me start with the same point that we are bound by DFM disclosures, and we cannot provide something certain. But I can mention that the company's performance is well, and we are witnessing growth year-over-year and by year end, it will be positive performance and results.

Moderator:

Thank you. We are now moving to the next question from Ildar from HSBC. Please go ahead. Your line is now open.

Ildar Khaziev (HSBC):

Q. Thank you so much for the presentation. Just a clarifying question about the Palm Jebel Ali project. Are you funding the total capex of AED 1.5 billion or are you responsible for your share of 51%? And then secondly, if you could share with us some guidance on total capex for 2025 and 2026, that'd be great.

Salik Malik:

A. Thank you for the question. Yes, the funding for the new project will be provided by Tabreed through shareholder loan to be recovered from JV's cash flows. And as Adel mentioned in his comments on the previous question, it will be part of our overall guidance of the organic capex between AED 200 to 300 million that we expect to incur annually for Greenfield and the maintenance-related capex.

Ildar Khaziev (HSBC):

Q. Understood. And AED 1.5 billion is the total project capex which you are fully funding, is my understanding correct?

Salik Malik:

A. Yes. But it is spread across over a period of years. Because it is divided into multiple phases. So, the first phase that is coming is ~15,000 tons. Accordingly, capex for this phase will be within the range of AED 130 million to 150 million spread across the next two-three years.

Ildar Khaziev (HSBC):

Q. And is there any contribution from Dubai Holding to this project?

Salik Malik:

A. Yes, at the SPV level. We would invest as part of the initial growth. And there will be something coming from Dubai Holding because they are doing the other infrastructure part of it, which I cannot comment on.

Moderator:

Our next question is a text question from Akshit from ABI Analytics. There are a few questions, so I will ask them one by one.

Akshit (ABI Analytics):

Q. Can you tell the expected revenue potential of the concession agreement signed with Dubai Holding investments?

Salik Malik:

A. The revenue potential is similar to what we expect in our business. The total concession is for 250,000 RT. Tariff structure will be similar to our existing tariff structure, which will be capacity and consumption. Most of this revenue will come under Capacity and the remaining will be the consumption.

Akshit (ABI Analytics):

Q. What is the capacity expansion that you have planned outside UAE?

Salik Malik:

A. In the short to medium term, UAE would remain the key focus and the core market for us. As you notice, 83% of our total connected capacity comes from UAE today and the remaining 17% comes across GCC, including India and Egypt. So that trend will be there for at least between the next three to five years in terms of growth.

Akshit (ABI Analytics):

Q. Recently, Multiply Group showcased interest in selling its district cooling asset. Is Tabreed interested in picking up this asset?

Adel Al Wahedi:

A. Tabreed cannot comment on any market speculation. But Tabreed will continue to pursue opportunities and various prospects to grow its portfolio and business. And we'll study any prospects around us if it meets our criteria. So, if adds value to our portfolio, definitely, we will try to pursue that. This is what I can say about it.

Dharmik Patel (Al Ramz):

Q. I would like to understand why EBITDA margins improved by 6% quarter on quarter in Q1, 2025, but net profit margins remained flat sequentially

Salik Malik:

A. As I mentioned, the consumption volumes are lower compared to last year in the first quarter, which effectively improves the EBITDA margin. In addition to that, the operational and fixed costs has been effectively managed with the management focus on cost savings efforts through a lot of innovations and automation strategies. So that is the reason that our EBITDA margin has increased. When it comes to the net income margin, the margin on net income has increased from 24% to 25%. The reason is depreciation charges. We have invested in assets over the period of the last 12 months, which we have capitalized, and as a result of that, the depreciation has increased. And those are all the reasons that, from EBITDA to net income, you see less positive impact.

Dharmik Patel (Al Ramz):

Q. I missed your comment on fixed and variable charges. Could you please share some highlights on the change in prices for both?

Salik Malik:

A. There was no change in prices of capacity or consumption charges. It is the margin that changed due to the revenue mix. Our revenue mix usually consists of 60% capacity and the remaining 40% consumption. If there are any variations, meaning consumption volumes reduction will lead to a lower mix and capacity will become higher, so the margins tend to increase. That is what Adel, and I were referring to. And there are no changes in the tariff structure itself. It is just the revenue mix based on the volumes. And generally, in the first quarter, it tends to be softer because of the weather conditions that are prevalent in the UAE. And as you noticed this year as well, the weather was colder than usual. And we should expect that in the coming months, the temperature will increase, the volumes will increase, and it will neutralize.

Ambreen Jiwan (Ajeej):

Q. Can you explain the IRR for new projects?

Salik Malik:

A. Generally our IRR target is in high single digit and low double-digit returns. That's what our target is, which is way above our WAC when it comes to any new projects that we target, creating value for our equity shareholders.

Ambreen Jiwan (Ajeej):

Q. How much is your maintenance CAPEX?

Salik Malik:

A. Generally, our maintenance CAPEX is not significant. It will be less than AED 25 million a year. We capitalize these maintenance CAPEX only if the benefits accrue over more than 12 months. In the ordinary course of business, if there is any CAPEX that is routine in nature, we expense it in our P&L.

Ambreen Jiwan (Ajeej):

Q. Are you looking at RAK or Kuwait as new markets?

Adel Al Wahedi:

A. We identify different markets, whether in the region or a little bit further. And yes, we have no reservations for exploring these markets, but nothing has happened so far.

Ildar Khaziev (HSBC):

Q. Just a general question about market dynamics. If we compare your existing portfolio today and the new projects which you are studying now, do you observe any inflation in CAPEX overall per unit of capacity? I mean, are these costs high in general? And similarly, if that's the case, would the capacity charges go high as well? I mean, is there a big difference between the existing projects you have and the new ones which are coming to the market?

Salik Malik:

A. Thank you, Ildar. We have not noticed any significant increase in our CAPEX expectations. It is almost in line with our existing projections, and we have mentioned this before. It ranges between AED 8,000 to 12,000, depending on the size of the network. Otherwise, there is nothing that we have seen in terms of significant increase, which could lead to any potential change in capacity.

And we signed long-term framework agreements with our main vendors. That's why it is one of the measures to control any inflation or potential inflation.

Mark Adeeb (CI Capital)

Q. Do you expect any changes regarding the dividend policy in light of the new expansion plans along with maturing debt in Q4 2025?

Salik Malik:

A. As we speak, it is a guidance where you know that the dividend distribution will grow as long as the business and the performance of the company across our portfolio and the returns grow. As our net income grows, the dividend distribution will also grow. We don't have formal policy as of now, but it is under study.

Mark Adeeb (CI Capital)

Q. Could you please provide some color on JV Income annual improvement throughout 2025 and are there any updates regarding Saudi Tabreed IPO or expansion plans? JV Income.

Adel Al Wahedi:

A. Regarding Saudi Tabreed IPO it is a market speculation that we cannot comment on and once we have any decision taken there, definitely we'll be transparent and share it with the market. But I'm sorry for the first part, the question is still not clear on JV income, and we can contact you after this call to clarify this one.

Mark Adeeb (CI Capital)

Q. Question on JV income is related to the outlook on share of results of associates which was AED 8.1 million in Q1 2025 versus AED 6.2 million in Q1 2024.

Salik Malik:

A. When it comes to the contribution, it will remain in line with what we have noticed during the first quarter as our main JVs are Saudi and TPI. TPI for example has already reached full load capacity. There is limited further growth potential within that project. And in the next 12 months, you can expect similar trends to the existing trend you notice. We'll not be having any significant jump or downside.

Fadwa Aouini (Alphamena)

Q. Can you provide details about the current energy mix and the costs related to them?

Salik Malik

A. If you mean within the current energy mix of electricity we source? If that is the question, the energy that we procure is from the authorities. And in the grid, there will be multiple sources coming from fossil fuel plus solar and nuclear energy. But that's not been identified by the authorities for our consumption. So, for us, all the consumption that we have is from the grid. And that remains the same. There are no changes, at least as of now.

Moderator:

Perfect. Thank you very much. At this point in time, we see no further questions. So, I would like to pass the line back to Tabreed team for their closing remarks.

Yugesh Suneja:

Thank you, everyone. Thanks for your participation in today's call. If you have further follow-up questions, please feel free to reach out to us and we will be happily taking and responding to these questions. With that, we conclude today's call. Thank you and have a good day.

Note: This transcript has been edited to improve readability.

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