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NATIONAL CENTRAL COOLING COMPANY PJSC

(DFM: TABREED)

EARNINGS CONFERENCE CALL TRANSCRIPT

H1 2026

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, and welcome to Tabreed's first half of 2026 results conference call. I am Yugesh Suneja, Head of Investor Relations at Tabreed.

On today's call, we will review the first half's key highlights, discuss the factors shaping our performance, and share management's view on the current operating environment and outlook. Our agenda for today is outlined on the next slide.

We will begin with key business and financial highlights, which will be presented by our CFO, Adel Al Wahedi. This will be followed by a more detailed review of the financial results by our SVP Finance, Salik Malik. Our CFO will then return to provide an update on our guidance and outlook, before we open the line for Q&A.

Now, before we move forward with the presentation, I would like to draw your attention to the forward-looking statements disclaimer, which is presented on the next slide.

During today's call, certain statements may be forward-looking in nature and are based on our current expectations and assumptions. These statements are subject to risks and uncertainties that could cause actual results to differ from our expectations. Please refer to the disclosure on this slide for further information. With that, let me hand the call over to Adel, who will walk you through the key highlights of the period.

Adel Al Wahedi

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

The first half of 2026 demonstrated the resilience of our operating platform with stable service delivery, high network availability, and continued focus on sustainable cooling. Over the past 12 months, we added nearly 212,000 RTs of district cooling capacity, bringing total connected capacity to 1.58 million RTs, a 15% year-on-year increase. This growth was mainly driven by the PAL Cooling acquisition completed in the 4th quarter of 2025. We also continued to progress our organic growth pipeline with investments focused primarily on expanding capacity in our core UAE market.

Group revenue rose 2% year on year to AED 1.13 billion, supported by higher fixed capacity revenue and contributions from our value chain business. EBITDA reached AED 615 million with 55% margin, reflecting healthy underlying operations. Our asset base is underpinned by long-term contracts with highly creditworthy customers, providing strong revenue visibility and stable recurring cash flows. This was reflected in another period of robust cash generation with net operating cash flow up to 40% year on year, supported by improved cash conversions and efficient working capital management.

Operating profit and net profit reflect a more normalized cost base compared with the prior year. Finance costs also increased following the refinancing of debt facilities at prevailing market rates at the start of last year, while debt levels rose in line with the current investment cycle. These factors are transitional. As operational capacity ramps up and acquisition synergies are gradually realized, we expect positive incremental contributions to earnings.

Our balance sheet remains strong. Net debt to EBITDA improved to 4.57 multiples at period end, supported by robust cash flows. The strength, resilience, and predictability of our business model continue to be recognized through our investment grade credit rating from both Moody's and Fitch.

The board's approval of an interim dividend of 5.0 fils for the first half of 2026 reinforces our confidence in the business recurring cash flows while maintaining a prudent approach to preserving our investment grade credit profile.

Let me now turn to the next slide for business updates. This slide summarizes the operating performance of our core chilled water business. Over the past 12 months, we added nearly 190,000 RTs through the PAL Cooling acquisition completed in the 4th quarter of 2025, alongside 21,000 RTs of organic additions. Additions in the 1st half were lower, mainly due to the phasing of customer projects, with some handover dates shifting to later periods as development schedules changed. While this has moderated the pace of new customer connections, we continue to expect these projects to be delivered over time.

Cooling volumes in the second quarter were affected by weather conditions and lower occupancy compared with the same quarter of last year. Lower wet bulb temperature, fewer cooling degree hours, and fewer extreme heat days reduced consumption volumes. Lower tourism flows and hospitality occupancy also had a marginal impact given our limited exposure to the sector. As a result, consolidated consumption volumes declined 7.1% year on year in Q2 of this year. For the 1st half of this year, volumes declined 2.3% year on year following strong growth in the 1st quarter. Let me now turn to the next slide.

Turning now to capital allocation and shareholder returns. For the 1st half of this year, the Board of Directors approved an interim cash dividend of 5.0 fils per share. This represents a payout ratio of 73% of normalized net profit, in line with our historical average. We are currently evaluating several projects that may require future capital deployment. Maintaining the payout ratio at historical levels reflects our continued commitment to delivering healthy shareholder returns while preserving the financial flexibility needed to support future growth opportunities and maintain our investment grade profile, which remains a strategic priority.

With that, I will now hand over to Salik to take you through the detailed financial results.

Salik Malik

Thank you, Adel. Good afternoon, everyone. I will now walk you through the detailed financial results for the 1st half of 2026. The key takeaway is that the underlying business continues to perform as expected, demonstrating the stability, predictability, and resilience that characterize our operating model. Revenue growth was supported by higher fixed capacity revenue and a strong contribution from the value chain businesses. The increase in fixed revenue highlights the strength of our predominantly contracted and long-term nature of our revenue base. On cost, operating costs, including depreciation and amortization, rose by approximately 4% to AED 600 million, largely tied to value chain growth and higher O&M costs. The G&A expenses of AED 162 million were up 17%, mainly reflecting normalized timing of these expenses being recognized, including the personal cost and the business development activity that we are into. EBITDA of AED 615 million was down by 2%, and our EBITDA margins remained healthy at around 55%, reflecting the robustness of our core operations. Profitability remained healthy with a margin of 55% on EBITDA, and our below the EBITDA movements in net profit were driven primarily by non-operational items. As a result, net profit to the parent company was around AED 192 million, and the normalized net profit is around AED 194 million, down 29%, which I will take you through these bridges, including the share of results from our JVs and associates in more detail in the following slides.

Overall, business continues to show steady top-line growth with earnings expected to normalize progressively as new capacity becomes fully operational.

Now moving on to the next slide. We now look into the revenue performance. The group revenue increased 2% year over year to AED 1.13 billion in the 1st half of this year. Our core chilled water segment, which remains the core of the business, was stable, while the value chain businesses representing 5% of the total 1st half revenue delivered strong growth of 53%. Within chilled water, fixed revenue rose to 2.8% year over year in the 1st half. This was supported by around 20,000 tons of organic capacity additions consolidated over the past 12 months, together with the CPI indexation of 1.2% from the start of 2026. The increase was partly offset by the amortization of finance lease assets and the lower CPI gains compared to 2025, wherein the CPI was 1.67%.

Consumption revenue, which typically accounts for around 40% of our chilled water revenue, declined by 2.3% during the 1st half. As Adel had mentioned earlier, consumption was mainly affected by weather patterns with some impact from lower occupancy in Q2. The seasonality chart on the bottom right shows that Q2 is usually the 2nd highest quarter for consumption. As a result of this seasonality and the Q2 weather impact, chilled water revenue for the quarter declined 3% year over year.

In the value chain business, growth during the period was mainly driven by our manufacturing arm of a pre-insulated piping company, which delivered a large contract during the quarter. Tasleem, our billing and collection division, also recorded stronger growth as it continued to onboard new third-party customers.

Moving on to the next slide…

Talking about profitability, Gross profit remained stable year over year, and that can be demonstrated during the 1st half of 2026 at AED 528 million. Higher operating costs were mainly driven by increased material costs linked to growth in the value chain businesses and the maintenance spend that we do based on our proactive asset management strategy and increased personal expenses. EBITDA reached AED 615 million during this period, with a margin of 55%, and remained comfortably within our last 12 months guidance range of 50 to 53%. The year-over-year margin decline from 57% to 55% mainly reflects a change in revenue mix with a higher contribution from our lower margin value chain businesses, as well as the higher G&A expenses.

The increase in G&A reflects several factors, major being the timing of the expenses recognized compared to the prior period, higher staff cost benefits aligned with the market benchmarks, and additionally, quarter-specific costs, including the development expenses such as legal and commercial due diligence, as well as the higher insurance fees for expanded risk coverage. These items created a tougher year-on-year comparison, but they do not change our disciplined approach to cost management or our focus on operational efficiency.

Moving on to the next slide. Reported net profit declined 30% year-over-year to AED 192 million, and the normalized net profit, excluding the one-off items, was around AED 194 million, broadly aligned with the reported results. The year-on-year movement was mainly driven by two factors, which I will address in turn.

Firstly, the net finance cost rose by 49% year-over-year from AED 95 million to AED 142 million. This was driven by higher average debt following the PAL Cooling acquisition in the last quarter of last year, and by the repricing of the debt after the green sukuk refinancing at the end of last year's 1st quarter. The original AED 2.6 billion facility was raised in 2020 during an exceptionally low interest rate environment. Following the refinancing, the funding cost was reset to prevailing market rates. Importantly, this represents one-time rebasing of finance costs rather than a structural change in our capital allocation strategy or our financial approach.

Secondly, share of results from our joint ventures and associates declined from AED 16 million to AED 7 million. This was mainly driven by our acquisition of PAL Cooling, which is based on the current stage of asset operational ramp-up. This outcome is consistent with our investment case and expectations, and we expect stronger contribution over time as utilization and operational capacity increases. Overall, while these factors affected the reported net profit during the period, they do not change the strength of the underlying business, which continues to deliver resilient operating performance and strong cash generation.

With that, I will move on to the balance sheet highlights. Our balance sheet continues to remain strong and to support the investment-grade credit profile. The total assets stood at AED 14.6 billion, broadly stable compared with the year-end 2025. The main movement was higher receivables reflecting increased customer billing following the seasonally higher consumption compared with the December-ending quarter. Excluding the seasonal effect, receivables days improved compared with the prior year period.

Investments in associates and JVs increased due to the purchase of non-controlling stake in Tabreed Asia and the equity contribution to PAL Cooling. Fixed assets movement mainly reflected periodic depreciation and amortization, partially offset by additions to the capital work in progress.

On the liability side, total debt declined marginally to AED 6.4 billion following the scheduled repayments. Payables increased mainly due to accrued utility payments in line with the sequential increase in consumption and utility costs. The modest increase in equity and reserves reflected profit generation and the fair value movements on derivatives, partly offset by the payment of the H2 2025 dividend that we had paid in the 2nd quarter of this year. Net debt to EBITDA improved to 4.57 times at the end of 1st half, compared with 4.6 times at the end of the year 2025. This remains comfortably within the investment-grade parameters, and we are pleased that both Moody's and Fitch reaffirmed our investment-grade credit ratings. Importantly, we have no significant debt maturities scheduled over the next 12 months, apart from the scheduled amortization related to the Islamic financing facility raised late last year. This provides meaningful financial flexibility and limits our near-term refinancing risk. As shown in the debt maturity profile at the bottom right, most of our maturities, which is approximately close to AED 4 billion, fall between 2029 and 2035, providing long-term funding visibility and the runway.

Let me move on to the next slide. This is regarding the cash flow generation. In the 1st half, we generated AED 616 million of operating cash flow before working capital movements, reflecting the continued strength and resilience of our core operations. Working capital contributed further AED 15 million, mainly driven by higher payables and improved collections from the receivables. This reflects efficient working capital management, supported by high credit quality of our customer base and a disciplined approach to cash collections and treasury management. As a result, net operating cash flow reached AED 632 million, up by 40% year-over-year, representing a very strong cash flow performance for the 1st half of this year.

Capital expenditure totaled AED 127 million during the 1st half. Primarily, this was directed towards the greenfield development and network expansion within our existing concessions. Consequently, free cash flows reached AED 467 million. Surplus cash was used to service debt and pay dividends to the shareholders. Even after funding the capital expenditure, meeting debt service obligations, and returning our capital to our shareholders through dividends, our cash balance remained broadly stable year-to-date. This underscores a key strength of our business model, which is its ability to generate strong, predictable cash flow consistently. With that, I will hand back the call to Adel for an update on our outlook.

Adel Al Wahedi
Thank you, Salik. As of the first half of 2026, organic connected capacity growth stood at 1.5%, supported by new connections across our existing connections. Capacity additions in the first half were relatively modest, mainly due to the phasing of customer construction schedules, with some project handovers moving beyond our original expectations. This reflects normal contracting and execution lead time in the construction sector, as well as extended delivery timelines for certain projects amid the evolving regional situation. We continue to see these projects progressing and view the movement as a timing shift rather than a change in underlying demand. Against this situation, management has taken a prudent approach to revising the company's capacity growth guidance. The expected impact is largely limited to the near term in 2026, while the company's long-term growth outlook remains intact, supported by continued expansion opportunities and resilient market fundamentals. A portion of our capacity additions and related revenue contribution originally expected in 2026 is now anticipated to be recognized later than planned. Accordingly, we now expect connected capacity growth of approximately 1% in 2026 before returning to our medium-term growth path of 3 to 5% annually in '27 and '28.

On capital expenditures, we invested AED 127 million in the first half of this year, fully aligned with our targeted organic CapEx range of AED 200 to 300 million per year. Our CapEx guidance remains unchanged, and we will update the market if any new projects or investment opportunities require a change to our CapEx plans.

Our last 12 months EBITDA margin remains stable at 51%, comfortably within our previously communicated guidance range of 50 to 53%, highlighting the resilience and efficiency of our operating model. However, given ongoing inflationary pressures, particularly on personnel costs and other expenses such as insurance fees and regulatory scope, we are modestly updating our margin outlook and now expect EBITDA margin to be around 50% going forward. While this is a refinement to our guidance, it remains robust and consistent with the lower end of our previously communicated range.

As of first half of this year, net debt to EBITDA stood at 4.57 multiples, keeping us comfortably within the parameters associated with our investment grade ratings. In addition to leverage metrics, rating agencies also assess cash flow-based measures, including Moody's retained cash flow to net debt ratio, which is an important component of our overall credit profile. As a result, our capital allocation framework is considered through the lens of both leverage and cash flow credit metrics. We remain committed to maintaining a strong investment grade balance sheet while balancing our growth ambitions and shareholders' returns. Next slide. Looking beyond the near term, this slide provides clearer visibility on the growth underpinning our expectations for the years ahead. We have a strong pipeline of contracted capacity scheduled to come online over the coming years, supporting future revenue growth. This includes the transactions as announced last year, which further enhance the visibility of our growth profile. A significant portion of this growth is already secured through long-term customer agreements, providing a solid foundation for future performance and reinforcing our positive outlook.

With that, let me turn to our concluding slide. We continue to see attractive growth opportunities across the UAE as a main market and the wider GCC, supported by population growth, infrastructure investment, net zero ambitions, and ongoing real estate development, all of which are driving demand for efficient and sustainable cooling. Our core business remains resilient and highly predictable, supported by long-term contracted revenues. In parallel, our strategic investments and developments have strengthened our platform for future growth.

Through disciplined capital allocation, funding, and balance sheet management, we remain focused on creating sustainable long-term shareholders' value while preserving the financial strength and flexibility that support our investment grade credit profile. With that, we conclude our presentation. We'll now open the floor for the questions.

Questions & Answers

Moderator

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 telephone, please press star 2 on your keypad. That's star 2 on your keypad. You may also ask a voice or a text question if you are dialed in via the web. We'll take the first question.

Abhishek Sukhatme (Decimal Point Analytics)

Q. When do you expect PAL Cooling to become positively accretive to net profit, and what earnings or synergy contribution should investors expect once this asset is fully integrated?

Salik Malik:

A. Hi. Good afternoon, Abhishek. Thanks for this question. See, first of all, we'd like to mention that the PAL acquisition which we concluded last year is a highly iconic asset for our portfolio, and it is coming with a long-term value. The total connected capacity today stands at around 190,000, but the whole concession is expected to be around 600,000. So, as you know, there is a big potential to increase this capacity in the days to come. So, in the short term, you would notice this kind of negative impact to our share of results in the JVs. That is predominantly due to the full funding of this whole acquisition value from debt. The value that has been considered as part of the PPA and accounting, where there is a high depreciation and amortization of our intangibles, which is on the contract value. So, as the capacity increases in the days to come, this will be turning into positive results. Also to give an assurance that this is as per our investment case, we are performing better than the investment case in this short term as well.

Moderator

Okay, thank you very much. Our next question comes from Mr. Omar Al Rajhi from Bank Muscat Securities.

Omar Al Rajhi (Bank Muscat):

Q. When are earnings expected from the new concession and acquisition?

Salik Malik:

A. Hi, Omar. I would like to take this question. Today we have a total connected capacity of around 1.6 million RT, and when fully commissioned, all these concessions that are under pipeline will add another one million tons. In the short term, let's say between 5 to 7 years, this should be around half of this will be connected, and beyond the period of 7 years, the other half will be connected. So, as these developments progress, and these are predominantly again in UAE, we expect this to add value to our growth, and this has been guided through our growth guidance as well, which is in the medium term 3 to 5%.

Moderator

Okay, thank you very much. Our next question comes from Mr. Vladimir David from Muzinich and Co.

Vladimir David (Muzinich and Co.)

Q. Have you already updated Moody's on your revised guidance, and what was their reaction?

Adel Al Wahedi:

A. Hi Vladimir. We are doing the review with Fitch and Moody's on an annual basis, and, definitely we will do that to reflect update in our guidance. But, I would like to stress that we expect to maintain the investment grade rating. We will never shy away from that. Even with the guidance changes, we will maintain investment grade.

Vladimir David (Muzinich and Co.)

Q. For 2026, if capacity additions are lower, why is the organic CapEx guidance unchanged?

Adel Al Wahedi:

A. Hi again, Vladimir. As you can understand, our industry, our business is a long-term in nature. It is not seasonal. So, whatever we deploy as CapEx or investment is for the longer run, not on a short term. This is the direct answer for that.

Vladimir David (Muzinich and Co.)

Q. Can you please refresh us on your dividend policy?

Adel Al Wahedi:

A. Currently our guidance on dividends, whatever growth is happening, definitely the shareholders will benefit from that and returns for them for sure will also benefit. We introduced interim dividend last year, and for this year, as announced, we are maintaining that policy. If we have different structure of our policy, it will be announced and published in the market

Moderator:

Okay, thank you very much. Our next question comes from Ms. Ambereen Jiwani from Ajeej Capital.

Ambereen Jiwani (Ajeej Capital)

Q. Can you please discuss the monthly consumption trends during the quarter? Also, is consumption growth positive in July year on year?

Salik Malik:

A. Hello, Ambereen. Hi, good afternoon. Again, good question. With regard to the monthly consumption pattern, even if I am able to say, this may not add much value into your analysis. But rather what we present on our slide is quarterly trend. Generally, Quarter 2 and Quarter 3 of the year are the periods where we see higher consumption, mainly due to the weather pattern of the region. Having said that, this year, and especially in Q2 and the beginning of April and May, the temperatures were cooler than the usually recorded temperatures. And we have seen this, and we measure it based on the blended cooling degree hours, which was lower. And if I can tell you how the temperatures were there compared to previous year, in April, we have seen almost 20% lower compared to previous year. Similarly, in May, this was down by 5%. However, in June, this was back to normal compared to the same period last year. So, the weather is becoming hotter, similar to what we experienced last year, but April and May had a significant impact on lower temperatures. As a result, we saw a drop in our volumes close to 7% overall in the quarter. Hope this answers your query.

Moderator:

Thank you very much for that. We have a follow-up question from Mr. Omar Al Rajhi from Bank Muscat Securities.

Omar Al Rajhi (Bank Muscat Securities)
Q. Is the decline in dividend from 6.5 to 5 purely due to flexibility needed for potential growth or investment opportunities?

Adel Al Wahedi:
A. Hi again, Omar. You figured it right. The current strategy is pursuing growth and ways how to fund our growth. Also, at the same time, to maximize returns to our shareholders and maintain investment grade. Always we will balance all those 3 main pillars, and the answer is yes.

Moderator:
Okay, thank you very much. Once again, just a reminder for any additional questions, star 2 for a voice question. You may also ask a voice or a text question if you are dialed in via the web, and we'll wait a few minutes for any additional questions to come through. Okay, we have a follow-up question from Mr. Omar again from Bank Muscat Securities.

Omar Al Rajhi (Bank Muscat Securities)
Q. Can you please provide figures or estimates of how much the new acquisitions would contribute to the company's earnings?

Adel Al Wahedi:
A. Hi, Omar. As you can understand, as a listed organization, we cannot provide any such accurate projections. But we are still highlighting that we are maintaining the growth for the company. And we are very selective for those growth prospects, and we have a very disciplined process to identify that. Thank you.

Moderator:
Okay, thank you very much. Just a final reminder once again, for any additional questions, we'll give another 30 seconds for any additional questions. Okay, it looks like there are no further questions at this point. I'll be passing the line back to Tabreed management and IR team for their concluding remarks.

Yugesh Suneja:
Thank you, everyone, for joining today's call and for your interest in Tabreed. This concludes our presentation and Q&A session. Should you require any additional information or have further questions, please contact the IR team at email address ir@tabreed.ae. Thank you for your participation. You may now disconnect.

Note: This transcript has been edited to improve readability.

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