# National Central Cooling Co. (PJSC)
# (DFM: TABREED)

## Tabreed acquires world's largest district cooling scheme in Downtown Dubai

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**Tabreed Participants:**

Bader Al Lamki, Chief Executive Officer
Adel Salem Al Wahedi, Chief Financial Officer
Francois Xavier BOUL, Chief Development Officer
Richard Rose, Senior Vice President – Finance
Souad Jamal AlSerkal, Vice President – Strategic Communications
Faisal Tahir – Acting VP, Regional Business Development

## Presentation

### Operator

Ladies and gentlemen, welcome to Tabreed's call to discuss the acquisition of Emaar District Cooling Assets. I hand over the call to your host, Ms. Souad Jamal Al Serkal, Vice President Strategic Communications. Madam, please go ahead.

### Souad Jamal Al Serkal

Hi, this is Souad Jamal Al Serkal, Vice President of Strategic Communications at Tabreed. On behalf of Tabreed's management, I welcome you all and thank you for joining us on such short notice today to discuss Tabreed's acquisition of the world's largest district cooling scheme in Downtown Dubai from Emaar Group.

As you are aware that in this unprecedented COVID-19 situation, all of us are working remotely, so kindly excuse us for any technical issues during the call.

Before we begin our presentation, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide two of the presentation for the detailed disclaimer.

I would now request you to turn to slide number three for today's agenda. On today's call we have with us Bader Al Lamki - Chief Executive Officer, Adel Wahedi - Chief Financial Officer, Francois-Xavier - Chief Development Officer, Richard Rose - Senior Vice President of Finance, Faisal Tahir - Acting Vice President of Regional Business Development.

Today, Bader will first provide a brief overview of the transaction, following with FX who will engage into a detailed discussion on the strategic rationale. Richard will then discuss the key transaction trends and integration and synergies, following which, Bader will conclude the presentation before opening lines for Q&A.

Thank you, and over to you, Bader.

### Bader Al Lamki

Thank you, Souad. Thank you everyone for joining us today. Indeed, today is a remarkable day in the history of Tabreed. I am pleased to announce a transformational transaction for the company. Tabreed is now proudly the partner of choice for Emaar, an investment-grade counterparty to provide cooling for the most iconic developments in Downtown Dubai.

This is an AED 2.5 billion transaction, or approximately US$677 million. It involves acquisition of 80% interest in Emaar's existing Downtown Dubai district cooling company, with Emaar retaining the balance 20%.

The transaction includes a long-term concession to exclusively provide up to 235,000 RTs of cooling to Dubai's most iconic and prestigious developments and, therefore, paves the way for a long-term relationship with one of the world's largest and most reputable real estate developers.

The acquisition and transaction costs will be funded by a five-year, $692 million senior unsecured term loan with 100% bullet payment. Tabreed anticipates reaffirmation of our investment-grade credit ratings, given our robust cash flow and our ability to deleverage quickly. This is something that Tabreed has been delivering year-on-year and we are consistent in delivering against the promise that we make.

Tabreed has full operational control and majority of the board of the SPV, and we will be leveraging our excellence in operational maintenance in delivering sustainable and uninterrupted operational cooling assets. The transaction has concluded in Q2 of this year.

With this, I will now hand over to FX to take us through further details.

**Francois-Xavier Boul**

Good afternoon all. Thank you, Bader. My name is Francois-Xavier Boul, in short, FX. I'm Chief Development Officer at Tabreed. I'll go through the strategic rationale of the transaction together with some other details of the deal.

This transaction is a fantastic transaction for Tabreed. As Bader said, it's transformational. It's strategic in its nature. It's helping us to jump from a number four position in the Dubai market, Dubai being, of course, the largest district cooling market in the world, and this scheme being the largest as well in the world. This scheme helps us to jump to number two in Dubai and retain, of course, our leading role as a leading district cooling developer in the GCC region and beyond. We are the market leaders in all the geographies that we operate in.

It's also a transaction that helps us diversify our customer's risk in terms of concentration. We have very high-quality investment-grade customers, with strong cash flows and also delivering potential future growth in the future with the fact that we have a long-term contract and exclusivity rights.

This is a transaction in line with our strategy. It helps to accelerate our growth that we've been looking to achieve over the last few years.

Last but not least, the integration of these assets would be rather straightforward in our view. We will benefit from synergies from the operational excellence that we have in our O&M teams. These plants are well operated, they are well maintained. They have been designed and built to the highest standards and they're very much similar to the plants that we have in our existing portfolio.

This transaction meets our tests, being qualitative tests on key parameters that include the customer quality, the type of contracts with robust structure and bankability of these contracts and, of course, the economics of the project.

I'll jump to the next slide, which describes the transaction in slightly in more detail, the location thereof and, indeed, the market positioning that we will achieve through this transaction (slide eight).

Dubai being the largest district cooling market in the world, it attracts a lot of tourists. Dubai Downtown is a prime area of Dubai. For those familiar with Dubai, I think it goes without saying. For those not familiar with Dubai, Dubai Downtown is where you have the Burj Khalifa, the Dubai Mall, so it's basically the most iconic buildings of Dubai.

Together with the existing assets that we have in Dubai, mostly with RTA, with the Metro Station and also with our other Dubai plants serving developments across the Sheikh Zayed Road. We think we've got quality assets in Dubai, the best quality assets that we can have available to us in the Dubai market.

District cooling opportunities of this nature through M&A are very scarce, not a lot of these opportunities are available. It comes with concession growth, which means contracts in place and future contracts of loads coming in the next years. It's a long-term deal.

We'll move to the next slide, which is describing on the left-hand side the diversification of our top customers concentration, showing that it's helping us to reduce that concentration of top three customers now are at 44% compared to 56% last year. The deal itself means that 90% of the connected capacity is already contracted with Emaar Group entities, where Emaar properties will guarantee these loads. The rest are with blue chips, you can see some of the names, like HSBC, Standard Chartered, Mashreq, all are top institutions and it comes as a very diversified pool of customers. 84% of the estimated concession capacity of 235,000 tons is already contracted. It's been embedded into our valuation and price being paid to Emaar.

The underlying contracts are long-term contracts. They are very similar to the contracts that we have in our existing portfolio. It comes with a load, it comes with a tariff and take-and-pay structure and ensuring future cash flow visibility.

Next slide is a slide that you're probably familiar with, is showing, the five pillars of our strategy. This transaction ticks four pillars of that strategy. It's a long-term concession with Emaar. It provides exclusivity to service current and future developments in Downtown Dubai. The fleet of three existing plants plus one, which is under construction, the fleet requires no expansion CapEx for the length of the concession. There is a limited need for maintenance CapEx, given the young age of the fleet and these assets have been operated with the best standards. Basically meaning that we will take them over in very good condition. So, the first, it is a concession.

The second aspect, an acquisition, so it's value-accretive from day through EBITDA and P&L. The EBITDA contributions are slightly shy of AED 200 million for 2019, and that's the typical impact we will expect going forward. In the long-term, it will bring new connections to Tabreed, given the exclusivity that we have, and the nature of these contracts means that we have an exclusivity of an area where future developments will come to be connected in the near to medium-term.

Last, but not least, it's of course adding four plants, ultimately, to our portfolio of 80 plants plus three today, meaning 83 plants now.

Overall, the transaction is in line with our growth strategy of adding monopoly-like concessions with strong cash flow generation.

I move to the next slide, which is on the right-hand side showing the plants in the Downtown Dubai area. You've got four plants, including one in construction in the right-hand corner. These are four interconnected plants serving all the developments in Dubai Downtown, which are inclusive of the Burj Khalifa, the highest tower in the world, the Dubai Opera, the Dubai Mall, The Address Hotel, another iconic development in this part of prime Dubai.

Emaar District Cooling is 100% owned by Emaar, ultimately. A SPV called Downtown DCP LLP has been formed which will include 4 plants with an ultimate concession under the agreement of 235k RT. Tabreed is acquiring 80% stake in the SPV.

As I've mentioned before that we have performed very extensive due diligence. These assets are in extremely good condition, they are young, they are very much to the standards of our designs and standards of operation. We will, of course, bring our best-in-class expertise to continue to operate them at the highest levels and bring our operational excellence to bring energy efficiencies at the highest possible levels.

In terms of financials, you've got some of the financials here. In 2019, DCP has delivered strong capacity addition growth of 13%, revenue 9% and EBITDA 10%. As expected for a transaction, which is a concession of this nature, we have exclusivity over this area on current developments, but also on future developments, which as I said, will bring about future connection opportunities over the longer run.

With that, I hand over to Richard for more details on the transaction terms.

**Richard Rose**

Thank you, FX. So, turning to slide 13 everyone, this slide outlines the transaction structure. As FX has described, Emaar has transferred all of the district cooling plants, network, service agreements, and the concession agreement to an SPV called Downtown DCP LLC. Tabreed has acquired an 80% stake in that entity, with Emaar retaining 20%, thereby enabling a long-term future partnership with Emaar. The CCSA is a third-party customer, it is not part of the Emaar Group have also transferred to the new entity. The existing contracts are consistent with Tabreed's normal contract structure and CCSAs include fixed capacity charges with variable consumption charges with utility pass-through mechanisms.

Moving onto the next slide. This slide outlines the financing and the rating agency considerations. The transaction is 100% debt financed through a fully underwritten corporate facility of US$692 million, with a tenure of five years and a 100% bullet at maturity. The cost of the debt is LIBOR plus a margin and the all-in cost is marginally below our existing corporate loan facility.

This new facility allows penalty-free prepayments, therefore enabling refinancing flexibility for Tabreed. We're confident in our ability to generate strong cash flows, it will enable us to manage the leverage profile and bring it back into line with the guidance provided by the rating agencies within an 18-month period. We expect to continue to enjoy investment-grade ratings with stable outlook, which has been confirmed today by Moody's, and which is testament to our strong financial position and cash flows.

The transaction does not impact our working capital liquidity, which consists of cash-on-hand and an AED 590 million revolving credit facility.

I'll now move on to talk a little bit more about the combination and integration of the business. As FX said, we don't consider this to be highly complex, but slide 16 sets out the combination synergies. So, Downtown DC assets increase Tabreed's current connected capacity by 13% from 1.18 million tons to 1.33 million tons, with further expansion potential. Downtown also adds 21% to our revenues and 24% to our EBITDA, based on 2019 financials.

Initial technical due diligence concluded that Emaar's plants are operating well and are maintained to industry standards. The assets are of a similar nature and currently designed to Tabreed's existing plants in the UAE.

A detailed integration plan has been prepared and smooth integration of the assets is a key 2020 priority for Tabreed's management and board, and to facilitate that smooth handover, Tabreed has retained the workforce responsible for operating the plants.

Some cost savings are expected due to the transition of external maintenance contracts to Tabreed's existing in-house maintenance teams, and also through improved electrical and more proficiencies over time. The average age of the plants is less than six years, with minimal replacement and refurbishment CapEx requirements expected in the next 10 years.

With this, I'll pass back to Bader for closing remarks.

### Bader Al Lamki

Thank you, Richard. Before we open the Q&A, let me make some few remarks.

This acquisition is strategic in nature and transformational in the history of Tabreed and its shareholders. We are delivering against our ambitious growth strategy. This significantly enhances Tabreed's market position in the largest DC market in the world (Dubai), and we are doing so through a long-term partnership with Emaar, the leading real estate developer in the region.

The transaction is funded through an attractive five-year flexible term loan with 100% bullet payment, and we are confident of maintaining our investment-grade rating through strong cash flows that will be generated driven by our contracts with the investment-grade company, such as Emaar, who actually have 91% of the current offtake.

With this, I would like now to ask the operator to start putting through the questions that you have. Thank you.

## Questions & Answers

### Operator

Our first question comes from Divye Arora from Daman Investments. Please go ahead.

### Divye Arora

Hi, congratulations on the acquisition. I just wanted to understand that the total capacity is around 235,000 RT and currently the utilized capacity is around 150,000 RT. So, you were saying that soon you will reach 190,000 and how soon do you expect maximum utilization of the full capacity? It will take you three years, or four years from now? That's number one.

Number two is what sort of an equity IRR you will get on this acquisition? I'm sure that you guys must have it in your math. Typically, you target something above 10%, so is it well in that range? Thank you.

### Richard Rose

Thanks very much for the question. As you say, the ultimate capacity of the concession is 235,000 RT. We currently have 150,000 RT connected capacity, 190,000 RT is contracted. So there is 40,000 RT which is already contracted with fixed take-or-pay dates, which we will be connecting in the next three to four years, that's the expectation. Overall, we'd anticipate that the entire concession is connected within the next 10 years. It's going to take some time, but I would say in seven to 10 years.

In terms of equity IRR, I think you're right. We normally say that we're going to be around about the low double-digit numbers. I think this is very high single-digit numbers, but it is broadly in the range that we would anticipate, given the very, very high-quality assets, the very high quality concession area and, in our view, the very high quality customer base as well.

**Divye Arora**

So, you're saying the IRR is in high single-digits for the time being, that is based on 150,000 connected capacity, right?

**Richard Rose**

That’s based on the future discounted cash flow for the concession area, which currently has 150,000 connected capacity.

**Divye Arora**

Obviously, you're assuming that in 10 years, the full capacity will be connected, almost close to the full capacity will be connected. Based on discounted cash flow, the equity IRR is going to be high single-digits.

**Richard Rose**

That’s right, yes.

**Divye Arora**

We understand that it’s a high-quality asset but is it not below the expectations you have when you do acquisitions, because you generally got for low double-digits, but this is in high single-digits.

**Richard Rose**

I think we've indicated in the last few presentations that we've done and at investor conferences and so on that WACC came down last year. For the right assets, we would reduce our low double-digit target slightly if we need to, and this is very slightly. It’s just dipping below that double-digit number, and we consider these to be the right assets.

**Divye Arora**

Any indication on the cost of debt, cost of funding? You said LIBOR plus margin, so what would that be?

**Richard Rose**

You have to look at not just the margin. The all-in cost of the debt including fees is slightly below the existing facility that we have. The margin on the debt is about 15 basis points below the existing facility that we have. Clearly, there's an opportunity at the current time as well to fix the LIBOR at very low levels indeed, so we will be looking to try and take advantage of that.

**Divye Arora**

And you were saying you were going to hedge it, right, so it will be a 50% hedge. Typically, you hedge at 50%, not the full hedging.

**Richard Rose**

Our board approved policy, as we stated before, is to hedge between 50 and 70% at our floating rate exposure. I think given the very low levels of LIBOR fixed rates available in the market at the moment, if we can secure those, we may go beyond that 75%, and we’ll certainly talk to the board about doing that.

**Operator**

Our next question comes from Dilawer Farazi from Loomis Sayles. Please go ahead.

**Dilawer Farazi**

A quick question. On the actual timing of payment to Emaar, are you expecting to make the payment straightaway, or will it be staggered over a period of time?

Second question relating to the financing, is that with a group of Emirati banks or are international banks involved. Can you give some color around that please?

**Richard Rose**

In terms of the financing, the facility is 100% underwritten by HSBC. The intention is that the facility will be syndicated out. I'm not going to disclose, at this time, what HSBC's target holders on the facility, but we are looking to do a syndication exercise. I can say that has kicked off extremely well in the first day, so with quite a significant portion of the facility already nabbed by another bank. That's the plan for that.

In terms of the payment to Emaar, this is a single payment to Emaar at the point of acquisition, so we have made that payment today.

**Operator**

Our next question comes from Franck Nowak from Franklin Templeton. Please go ahead.

**Franck Nowak**

Three very quick ones. I fully understood on the rationale, the logic, the assets. I just wanted to ask, since Emaar, as a group, is facing challenging times, and I fully understand also that the nature of your contract is take-or-pay, but how have you looked at customer risk in the end. We don't want to go into the very extreme scenarios, but I was just wondering if you had thought about it and mitigated it in any way. That would be one.

The second would be, you've said clearly that you expected your rating to be maintained, which I assume would be leverage going down, two, three years down the cycle. I was just wondering, also, if you could elaborate on what impact it could have on your dividend policy.

My last one would be, this is a significant acquisition for you and I know in the very recent past you were looking at other markets as well to expand, so I was just wondering if also you could give us a brief latest thought on future developments, even though integrating this one would probably take some time. Thank you.

**Richard Rose**

Those are three very good questions. I'm going to take them in reverse order if I may. In terms of our future capacity to grow and what we would expect in the future, we still believe that we have significant capacity for further growth. However, we're very conscious that we need to deliver that growth in controlled manner in light of our rating agency commitments to retain the investment-grade status. Also, as you say, that we need to make sure that we integrate this asset in a professional and effective and efficient manner as quickly as we can. We still believe we have capacity; we still believe there are opportunities out there, but we'll get this done first and then we'll start looking around and making moves. But, as I say, we'll retain that focus on our investment-grade status.

Now, coming back to that question that you asked, I think you mentioned two to three years. I think our modelling shows that we will come back within the guidance for leverage from the rating agencies within around about 18 months, after the completion of this transaction. That is our intention and that is the discussion and the data that we have shared with Moody's and Fitch. Moody's, indeed, have confirmed our investment-grade status today following this transaction with a stable outlook, so we're very confident on that.

In terms of dividend, I have to give the same answer I give whenever I'm asked about dividend, which is that it really is a matter for the shareholders and the board. We haven't talked about any kind of change in dividend policy. The dividend policy stands as it is, and I don't expect any change to that, but it is ultimately a matter for the shareholders.

Then lastly, your question on Emaar. Clearly, we're all living through unprecedented and extremely challenging times, as you say. I think what I would emphasize is that this is an outright acquisition of 80% of the value of these assets and a 50-year concession agreement that we're signing with Emaar Properties and Emaar customers. A short-term problem arising from the COVID situation that we have, we don't believe should distract us from closing a transaction of this nature. We have done detailed analysis on what we think the impact could be and even in the worst-case scenario that we're looking at, we don't believe changes the return metrics significantly on the deal, because it is a 50-year deal. Emaar is an investment-grade group and we're confident in their ability to honor their obligations under the agreement.

**Operator**

Our next question comes from Ambereen Jiwani from Ajeej Capital. Please go ahead.

**Ambereen Jiwani**

I have two questions. One on the valuation. I multiples seemed a bit high versus your current multiples in the market, and previous acquisitions. If you could just give us an understanding on what you think of it and how do you justify the multiple.

Secondly, this might just be irrelevant, but if you could explain to us what portion of this district cooling that you're acquiring serves the hospitality and retail portion of the business.

Then my third question is if you could just explain to us how the utility costs and current consumption and other tariffs are structured in the contract. I just want to understand, even with your current business, if the discounts that the Government is giving on the utility costs, would there be pass-through to the customer or do you guys benefit from it. Thank you.

**Francois-Xavier Boul**

In terms of 2019, the multiple is in the region of 16.5 times of EBITDA. We think it's the right multiple for an essential infrastructure. Cooling in this part of the world is to be considered as an essential infrastructure, an essential service. These are long-term contracts, and on top of that, we are acquiring a company that is in growth, so actually the 2019 EBITDA multiple is not fully relevant for that matter. There is growth coming and that growth is also secured through the contracts with take-or-pay provisions.

On that basis, the way we looked at that is this is a result of our valuation and some of our assumptions, which we believe are realistic assumptions.

In terms of hospitality, this is a destination of course, the Downtown area. It is a mix of retail and hospitality. I would say it's about 50%, probably just below 50% if we aggregate the Dubai Mall and all the various hotels and hospitality developments in Downtown area.

Of course, having said that, again, it's backed by Emaar, and this is a utility. This is an essential service. This is a utility, it has a cost, it's an OpEx for our customers.

The last question was on the utility cost themselves that are indeed being lowered by the various entities of the Emirates. The way it is passed through is very equivalent to the way it's passed through in most of our contract at Tabreed. We're not benefitting from that effectively. It's passed through.

**Operator**

Our next question comes from Rakesh Tripathi from Franklin Templeton. Please go ahead.

**Rakesh Tripathi**

Congratulations for the acquisition and thanks for the presentation. I had a few questions. My first one was regarding your capacity addition guidance that you earlier gave for the next couple of years, the 75,000 RTs. Does that still hold and would you be looking to make any revisions to your CapEx plans for the year in light of this acquisition?

The second one is, the one plant that you mentioned is currently under construction, what sort of additional CapEx would you expect to be spent on that one?

The third one is related to the shutdowns and the COVID-19 impact on the economy. Have you had any of your customers coming back to you and having discussions with you with regards to the concessions with a number of assets being closed down as well, temporarily at least? I understand that these are take-or-pay contracts, but have you had any customers reaching out to you for discussions in that regard?

**Richard Rose**

In terms of capacity guidance, we do expect additional capacities to come online in the next two years from the Downtown concession that we've signed with Emaar. However, I think given the uncertainties around how long the COVID scenario is going to last and what impact that might have on the initial guidance that we gave at the beginning of the year, we've decided to retain our guidance at 75,000 additional tons for 2020 and 2021. Clearly, we all hope that the COVID scenario finishes soon and is resolved and we can all get back to normal. If that happens and the 75,000 can be increased, then we'll come back to the market and we'll advise at that time.

In terms of the fourth plant, so there won't be any additional CapEx arising on the fourth plant. That plant will be handed over to Tabreed on completion for no additional cost. As I said in the presentation, the age of these plants, on average, is only about six years and they've been well maintained and very well managed, and we don't anticipate any additional CapEx arising on the plants.

In terms of COVID-19 impacts, we don't discuss individual contracts with individual customers I'm afraid, so I can't specifically answer your question in relation to COVID impact. It's a situation, which is evolving every day. It's unprecedented, we don't know how it's going to end or impact the wider economy. What I can say is we believe that our business model is inherently resilient to short-term fluctuations in the market. 85% of our EBITDA comes from our capacity charge, which is fixed and flat for our customers. Consumption has a relatively small impact. I can also say that, as of yet, we are not seeing reductions in consumption across our network. The consumption so far this year is up on last year. It's very difficult and too early to give a detailed assessment of what we think the overall impact of COVID-19 will be.

**Rakesh Tripathi**

Just to follow-up on that, so regarding the capacity guidance, you mention you retain it as of now, but would it be fair to say that the CapEx related to this, to some extent, would be flexible and you will see how this situation evolves and would you have the ability to adjust the CapEx related to these additions?

**Richard Rose**

If there are delays to connections, there will delays to the CapEx that is required to deliver those connections as well, yes, if that's the case.

**Rakesh Tripathi**

Just one last point, does the 190K RT contracted capacity on these acquired assets, this entire capacity will be take-or-pay, right?

**Richard Rose**

Yes.

**Operator**

Our next question comes from Ahmed Jaber from London Investment Management.

**Ahmed Jaber**

Just a quick question please. Can you shed some light on the cost of funding there?

**Richard Rose**

You mean the cost of debt facility that we've taken out?

**Ahmed Jaber**

Yes, exactly.

**Richard Rose**

It's LIBOR plus a margin. The overall cost of the facility is slightly less than you will see for our existing corporate facility in the financial statements. I know existing facility at 165 basis points plus LIBOR, and this is a bit less than that. In addition to that, I will re-emphasize, I think there's a significant opportunity in the market, at the moment, to hedge the LIBOR rate at unprecedented low levels, so we would be looking to do our best to secure those low levels to hedging transactions and fix the cost of the facility in the long-term.

**Operator**

Our next question comes from Anoop Fernandes from SICO. Please go ahead.

**Anoop Fernandes**

Good afternoon and congratulations on the acquisition. My question is on your forward EV/EBITDA guidance, so you mentioned that the deal is being valued 14.5 times forward, so that roughly implies about a 10% EBITDA growth. Could you please give us a sense of where this EBITDA growth is coming from? on the back of volumes or is it these OEM savings that you've spoken about? That's question number one.

Secondly, are there CPI escalation clauses that you have structured in these contracts as well and what specifically happens to these contracts when we are in a deflationary mode? Does your revenue, accordingly, adjust on the downside as well?

The third question is on the accounting above the asset. Will all the AED 3.1 billion be recorded under PPE or do you expect some goodwill to be recorded as well?

**Francois-Xavier Boul**

On the first question, in terms of multiples, the growth that's inherent to the growth in EBITDA from 2019-2020. It's a combination of capacity and volume, but of course the bulk of it, as is it is in our business, in district cooling, is capacity. The margin is mostly capacity-based margin.

In terms of the second question on CPI, there are very limited circumstances allowing us to pass CPI indexation in the contracts, so we don't think there is *per se* escalation or indexation of the tariff in ordinary course of business.

And then last, Richard, maybe you can cover the goodwill question.

**Richard Rose**

As far as goodwill is concerned, we have a PPA (purchase price allocation) exercise to do, and then we have detailed discussions with our auditors on that. As I'm sure you're all aware, we have 12 months under the standards to look again at that purchase price allocation and revise it, so it's quite a long process to finalize that activity. I think we anticipate a small amount of goodwill realizing from this transaction. The vast majority of the assets we anticipate being recorded as PPE.

**Anoop Fernandes**

Just a follow-up on the OEM savings that you've mentioned, could you please throw some light on what these savings could be versus what the cost was earlier?

**Richard Rose**

I don't think we're ready to put numbers on that yet. What we can say is that a lot of the maintenance that was conducted previously was conducted by the original equipment manufacturers of the equipment installed in the plants. In our experience that tends to be much more expensive than having your own in-house operations when you have the kind of scale of operations that Tabreed does. We will be gradually transferring the maintenance of the equipment to our in-house operations and we do expect to see cost savings arise from that, but I don't think we're in a position to talk about precise numbers just yet.

**Operator**

Our next question comes from Rita Guindy from Arqaam Capital. Please go ahead.

**Rita Guindy**

Just a follow-up question to confirm, you mentioned earlier that the 190,000 RTs capacity should be connected within three to four years and that we should reach 235k RT within 10 years. Is that correct? Did I hear it correctly?

**Richard Rose**

Yes, that's correct.

**Operator**

Our next question comes from Divye Arora from Daman Investments. Please go ahead.

**Divye Arora**

I have a follow-up question, so just to make sure, you were saying that the dividend policy remains the same. Can you reiterate what is the dividend policy? Is it 50% of the net income in terms of payout or is it 60%? That's number one.

Number two is, so this acquisition takes you much above five levels, maybe 5-5.5 levels in terms of net debt to RCF, which is how you are measured in terms of your investment-grade rating. Can you tell us what is that cutoff that you have to be inside to maintain your investment-grade rating, and how far are you going to go away from that?

Number three is, so you're talking about some cost savings on the operations and maintenance, given your experience in this business. The margins of Emaar are already pretty high, I think they are around 57% versus you at 50% levels, so where do you expect these margins to reach? Thank you.

**Richard Rose**

I do apologize, I didn't quite get that last question. Could you repeat the last question?

**Divye Arora**

The last question is that the margins of Emaar District Cooling business that you have acquired, it has around 57%, the EBITDA margin and your EBITDA margin is around 50% in the existing business, so where do you think this 57% margin could be taken up to? Can it go to 60% level, because you're talking about some cost savings?

**Richard Rose**

I think on that last question, a point I would like to make is that the valuation that we had done for this business does not rely on us delivering significant cost savings or massive synergy benefits. It's based on the contract cash flows from the contracts that we have with the Downtown DCP LLC company and the customer base. I don't want to get hung up on cost savings, they're really not significant to the valuation.

In terms of dividend policy, I think what we have seen in the last few years is that the dividend, which is either a whole number of fils or a half number of fils, so it does vary in terms of payout ratio from around about 55-60% just in terms of payout ratio. The board's dividend policy is to grow dividends in line with growth of the business and that's the stated dividend policy, that has not changed at this time, and I will reiterate that, ultimately, the dividend is a matter for the shareholders and not for management and the board.

In terms of ratings agency, so you're right, we do go above the guidance and Moody's have issued their opinion on this transaction today and they've clearly stated that we do breach their targets for us in terms of leverage as a result of this transaction, but based on the cash flows that the existing group and this acquisition generates, and our ability to de-lever as a result of those cash flows, that we should be back within the margins – the debt metrics within about 18 months, and that's our target. That's what we expect to deliver.

### Divye Arora

Can you share that number for you to be investment-grade, what is the net debt to EBITDA or net debt to RCF ratio as per ratings agencies?

### Richard Rose

So, we have two different metrics, one from Fitch and one from Moody's. So, they are slightly different in the terms of how they're calculated. But the Moody's metric for leverage is 10%, so that's the target that we need to get to.

### Divye Arora

Basically, when you say contracted capacity, you mean to say that, ultimately, you'll be contracting close to the full, you are not doing the valuation based on 190,000 RT. You are doing the valuation based on ultimate 220, or 230,000 RTs, right, that's a 95% utilization.

### Richard Rose

As we said in the presentation, 190k Rt is the contracted capacity and that does drive the majority of the valuation but, ultimately, the valuation considers the full concession size.

### Operator

Thank you very much. There are no further questions in the conference call. I will now give back the floor to Ms Souad. Thank you.

### Souad Jamal Al Serkal

This concludes our call to discuss the acquisition transaction. Tabreed does look forward to interacting with you at our earnings conference call and investor conferences. Should you have any further questions, please don't hesitate to contact us. Have a great day and thank you once again for joining us on this call and please do stay safe.

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*Note: This transcript has been edited to improve readability*

*For further information, please contact:*

**Saket Somani**
Investor Relations
Email: Tabreed@churchgatepartners.com

**Richard Rose**
Senior Vice President, Finance
Tel: +971 2202 0400
Email: IR@tabreed.ae

**Salik Malik**
Head, Financial Planning & Analysis
Tel: +971 2202 0397
Email: smalik@tabreed.ae