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CREDIT OPINION
21 December 2023

Update

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RATINGS

National Central Cooling Company PJSC

Domicile	United Arab Emirates
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Paul Feghaly *Analyst* paul.feghaly@moodys.com	+971.4.237.9531
Ahmed Al-hubaishi *Sr Ratings Associate* ahmed.al-hubaishi@moodys.com	+971.4.237.9508
Rehan Akbar, CFA *Senior Vice President* rehan.akbar@moodys.com	+971.4.237.9565

National Central Cooling Company PJSC

Update to credit analysis

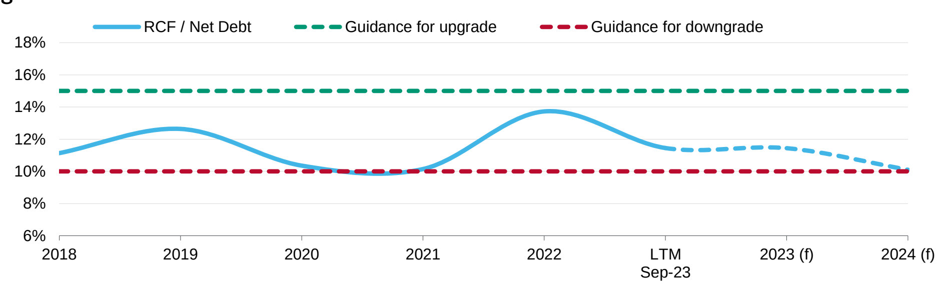
Summary

National Central Cooling Company PJSC's (Tabreed) Baa3 issuer rating is supported by the company's (1) strong cash flow resilience because of long-term fixed charge contracts; (2) low operating risk levels, with most variable costs being passed through; (3) strong competitive positions in growing Gulf Cooperation Council (GCC) markets; and (4) complementary shareholder base.

The rating is constrained by Tabreed's (1) geographical concentration in the United Arab Emirates (UAE, Aa2 stable); (2) a relatively high level of customer concentration; (3) high dividends, which limit free cash flow (FCF); and (4) appetite for opportunistic debt-funded acquisitions.

Exhibit 1

Tabreed's net leverage to stabilize in the next 12-18 months at the lower end of our rating guidance



All ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Investors Service

Credit strengths

» Strong cash flow resilience from long-term fixed charge contracts

» Strong market position in the GCC

» Low operating risks

» Complementary shareholder base

Credit challenges

» Geographical concentration in the UAE

» Exposure to a few large customers

» High dividends limit free cash flows

» Appetite for debt-funded acquisitions

Rating outlook

The stable outlook reflects our expectation of sustained operating performance in the next 12-18 months and a gradual deleveraging within our rating guidance.

Factors that could lead to an upgrade

Positive rating pressure could emerge over time should Tabreed sustainably improve its financial profile such that:

» (CFO pre-W/C + interest)/interest increases above 5.0x

» Retained cash flow (RCF)/net debt increases above 15%

Factors that could lead to a downgrade

Negative rating pressure could develop if:

» (CFO pre-W/C + interest)/interest decreases below 4.0x

» RCF/net debt decreases below 10%

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022	LTM Sep-23	2023 (f)	2024 (f)
(CFO Pre-W/C + Interest) / Interest	4.5x	4.5x	4.8x	4.2x	4.4x	4.6x	4.8x	4.5x
(CFO Pre-W/C) / Net Debt	18%	22%	16%	13%	18%	20%	20%	19%
RCF / Net Debt	11%	13%	10%	10%	14%	11%	11%	10%

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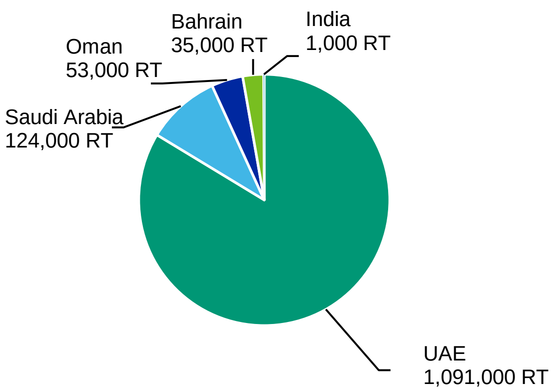
Source: Moody's Investors Service

Profile

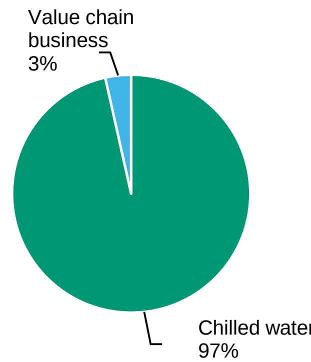
Tabreed is an independent district cooling company based in the UAE and mainly operating in the GCC, Egypt and India. The company provided a total of 1.3 million refrigerated tons of chilled water as of 30 September 2023 through 86 plants, with a reported revenue of AED2.4 billion and EBITDA of AED1.5 billion in the 12 months to 30 September 2023. Tabreed is owned by two major shareholders, Mamoura Diversified Global Holding PJSC (42%, Aa2 stable) and ENGIE SA (40%, Baa1 stable), with the remaining 18% publicly traded on the Dubai Financial Market.

Exhibit 3
Cooling capacity by country
In refrigeration tons (RT)



As of 30 September 2023
Source: Company reports

Exhibit 4
Revenue by business segment (LTM)



LTM = Last 12 months as of 30 September 2023
Source: Company reports

Detailed credit considerations

Strong cash flow resilience supported by long-term contractual arrangements

We consider district cooling as a utility-like service, especially considering the warm climate in the Middle East. Tabreed benefits from strong predictable cash flow underpinned by long-term contracts that are typically over 25 years in length. There is limited contract renewal risk, with less than 8% of the company's contracted capacity maturing within five years and around 19% maturing within 10 years. The useful life of a district cooling plant is longer than the average contract and offers the option to renew contracts at expiry. We view contract renewal risk as limited, given the generally high costs involved in switching to an alternative cooling source. We also take comfort from the fact that the company takes relatively limited project risk and will only construct a new plant under a contractual off-take agreement that guarantees a return on investment to Tabreed over the life of the contract.

All of Tabreed's contracts follow a take-or-pay structure that ensures strong revenue and earnings resilience. A fixed capacity charge guarantees a return on Tabreed's capital investments. This charge is payable regardless of utilisation and is generally indexed to inflation. On average, 58% of Tabreed's consolidated revenue and 77% of its reported EBITDA were generated from capacity charges over the last three years. A variable consumption charge is also contained in most contracts and allows Tabreed to pass through input and other variable costs incurred.

Low operating risk business model and strong operational track record but high customer concentration

The pass-through clauses in most of Tabreed's contracts limit its exposure to fluctuations in the cost of raw materials. Tabreed is using a large amount of electricity in the production of chilled water as well as a number of other elements, including water and chemical additives. For most contracts, an increase in input costs is billed to the customer with no delay. Tabreed is only exposed to residual risks such as an increase in working capital from increased customer payable in case of rising input costs. Tabreed benefits from a strong operational track record of over 20 years, with plant availability exceeding 99.9%. The company is designing, building, operating and maintaining its plants in-house, and it is using reputable third-party suppliers for its refrigerating units. The technology involved is well understood and does not present any major operational risk. Refrigerating units are scaled, which reduces the risk of a complete plant outage in case of technical failure. Critical equipment is often duplicated and all the infrastructure is subject to a comprehensive maintenance schedule.

Tabreed is exposed to a degree of customer concentration, with the top-four customers being United Arab Emirates Armed Forces, Dubai's Roads and Transport Authority, Emaar Properties PJSC (Baa2 stable) and Aldar Properties PJSC (Baa2 stable). These customers represent 53% of consolidated chilled water revenue in 2022. The company mainly operates on a wholesale basis, with contracts signed directly with property developers as opposed to retail customers. This reduces the overhead costs related to the collection of receivables but increases the reliance on a limited number of larger counterparties. Tabreed has significant exposure to government-owned entities, with fully-owned government customers representing 54% of consolidated chilled water revenue in 2022 and majority-owned government customers an additional 26%. However, we view the credit quality of Tabreed's current customer base as mixed, comprising (1) high-quality government-owned counterparties such as Abu Dhabi (Aa2 stable), Saudi Arabia (A1 positive) and Dubai.

The regulatory framework for district cooling services in the GCC is evolving as local governments gradually introduce licensing requirements

Tabreed operates in unregulated but generally supportive markets because of the energy efficiency of district cooling. Regulatory frameworks for cooling are at an early stage in the GCC, but governments have a direct incentive to support district cooling as it reduces the cost of any energy subsidies and the need for investment in additional electricity generation infrastructure. Tabreed benefits from concessions in a number of districts, such as Yas Island and Maryah Island in Abu Dhabi, Downtown and the Parks phase 1 in Dubai, which require any new real estate development to use Tabreed's infrastructure for its cooling needs.

In April 2021, the government of Abu Dhabi issued the first district cooling license to Saadiyat Cooling under the Department of Energy's (DOE) District Cooling Regulations and the District Cooling Applicability Regulations, approved by the Abu Dhabi Government in September 2019. The Regulatory and Supervisory Bureau (RSB) for the electricity and water sector in Dubai also issued new district cooling regulations aimed at increasing efficiency and transparency in June 2022. So far, Tabreed has received the licences for 7 schemes and 9 plants, with the remaining Abu Dhabi plants (covered by Abu Dhabi DOE regulations) under process. The company has obtained from RSB, all the licenses for its Dubai plants.

Strong competitive position in growing GCC markets

Tabreed is the leading provider of district cooling in Abu Dhabi, Oman and Bahrain, as well as in Saudi Arabia, through joint ventures. The GCC markets have good fundamentals for the district cooling industry. The hot climatic conditions and energy inefficiency of conventional cooling solutions offer strong economic and environmental incentives for the development of district cooling in the GCC. Tabreed's dominant position and lack of significant competition in Abu Dhabi strengthens its competitive position and further reduces contract-renewal risk. The acquisition of Emaar's Downtown cooling assets has materially improved Tabreed's market position in Dubai. Dubai is the world's largest district cooling market and the presence of strong retail companies such as Empower, Emaar and Emicool makes it more competitive.

Tabreed is the only district cooling company in the GCC that has a presence in several countries, which strengthens its competitive position and would facilitate the absorption of smaller peers. However, the company remains exposed to a single region whose countries have somewhat correlated economies. The company's portfolio in the GCC has remained stable since its last significant acquisition in 2021 of Aldar's district cooling assets. During 2023, the Public Investment Fund (PIF, A1 positive) acquired a 30% stake in Saudi Tabreed. As a result, Tabreed's ownership was diluted to around 22% from 31% earlier. Tabreed remains committed to expanding its market share in Saudi Arabia and is well positioned to benefit from the development of projects related to Saudi Arabia's vision 2030. For example during 2023, Saudi Tabreed signed a 25-year agreement with the King Salman Park Foundation for the park's first district cooling plant with a total concession capacity of 60,000 RT. Phase 1 will include 20,000 RT with an estimated value of SAR200 million.

International expansion will improve Tabreed's geographical diversification but exposes it to riskier markets

In December 2021 Tabreed announced a strategic partnership with the International Finance Corporation (IFC) to expand its operations in India (Baa3 stable). Tabreed's operations in India will be 75% owned by Tabreed and 25% by IFC. The initial combined total equity commitments for both parties will be around AED367 million ($100 million), while total capital investments over the next 5 years is expected to reach around AED1.5 billion ($400 million). Tabreed is targeting a total capacity of 100,000 RT. In August 2023, Tabreed announced its partnership with the Government of Telangana, India to develop 125,000 RT of district cooling plants in Hyderabad Pharma City. Further, the company continues to explore opportunities in Egypt (Caa1 stable).

The envisioned geographical diversification will help the company reduce its business concentration risk in the GCC and more specifically in the UAE. In addition, the contemplated geographies present the company with substantial growth opportunities, given their demographic profile and ambitious climate goals. However, Tabreed will operate in a more challenging and less stable macro-environment than the GCC, which might negatively impact its operating and financial performance. Tabreed could be exposed to foreign-currency risks, which could lead to large swings in its EBITDA and ultimately to lower cash conversion. In addition, as a new market entrant Tabreed might face higher regulatory risks when compared to its current operating jurisdictions, where it has already established over the years a strong relationship and robust track record with the regulator. We will monitor the impact of the international expansion on Tabreed's capital structure and its overall business and credit profile.

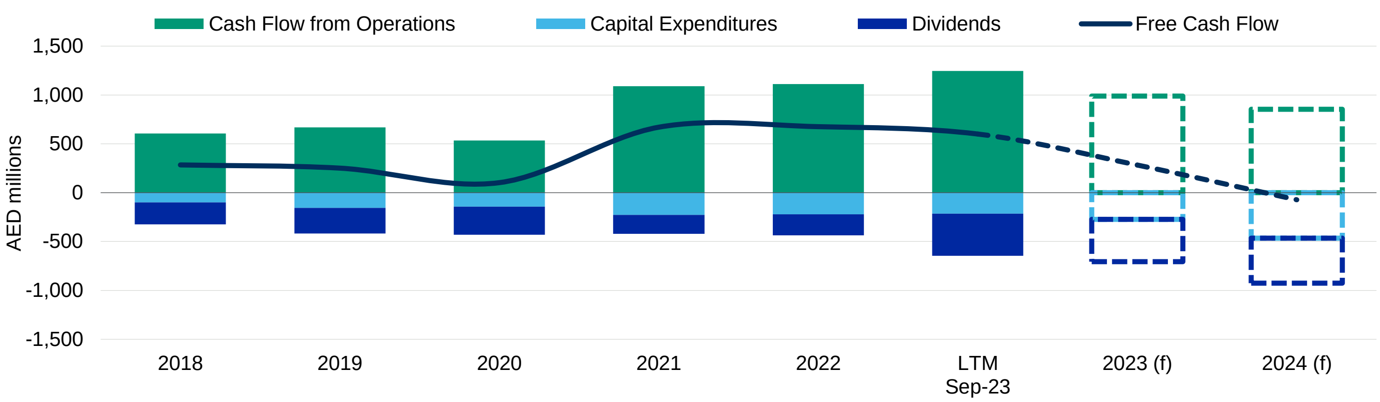
Tabreed's good cash flow generation is offset by large capital investments due to its international expansion and higher dividend payouts

We expect Moody's-adjusted EBITDA to reach around AED1.4 billion in 2024 and its EBITDA margin to remain stable over the coming years. Following its ongoing international expansion, we expect Tabreed's capital spending programme to increase to an average of AED750 million per year. However, the majority of it remains uncommitted and has a flexible deployment timeline. If fully committed, this will reduce the company's ability to generate positive free cash flow in the coming years.

In addition, Tabreed's cash flow generation is somewhat constrained by high dividends paid. The company has historically maintained a high dividend distribution policy with a target payout ratio of over 50%. Tabreed adopted a cash plus equity dividend for 2020 and 2021, to retain cash following its various acquisitions. During the same period, dividends paid as a percentage of net income averaged around 35%. In the absence of the 50% scrip dividend which was in place in the prior two years, we have assumed significantly higher dividend payout ratios for the upcoming forecasted periods. We expect Tabreed to generate around AED500 million of Moody's-adjusted RCF in 2024, implying a RCF/net debt ratio of 10%. This is weak for the rating category and maps to a Ba score under our methodology. We understand that in the event of a sustained reduction in Tabreed's cash levels or weakening in its liquidity, the company might once again reduce dividends, similar to the 2020 and 2021 years.

Exhibit 5

Tabreed's FCF generation will weaken due to higher capital spending and dividend payouts



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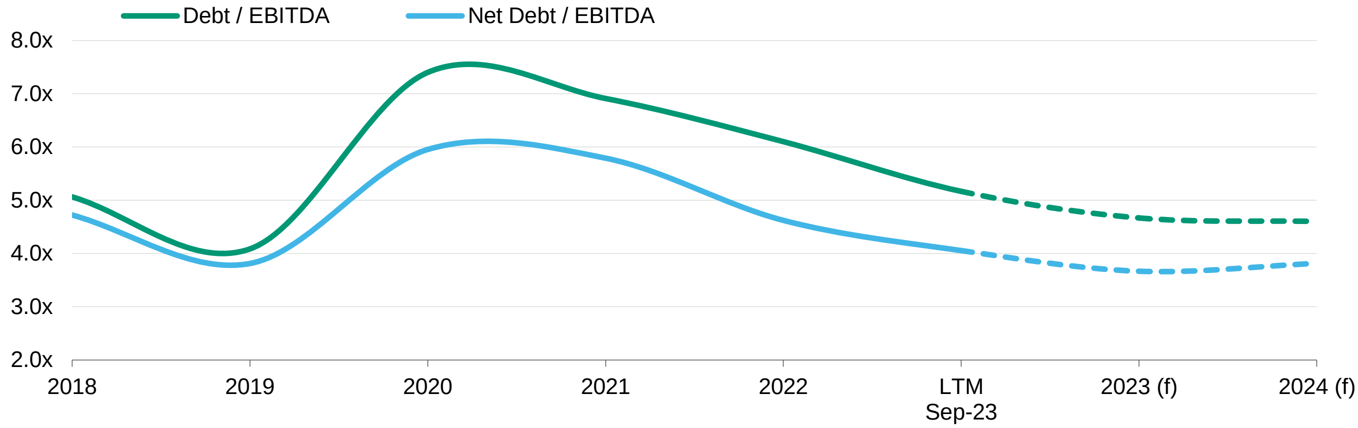
Source: Moody's Investors Service

Debt-funded opportunistic acquisitions may keep leverage elevated

Tabreed completed a series of sizable and opportunistic acquisitions in 2020 and 2021, including some of Emaar's and Aldar's district cooling assets and the remaining 50% stake in Al Wajeez Development Company (AWDC). The combined consideration for these acquisitions of around AED4.0 billion was financed primarily through existing cash and the issuance of additional debt. The disposal of the company's stake in Qatar Cool for AED415 million and the partial share-based dividend payment in 2021 and 2022 also helped offset some of the cost of these acquisitions. We understand that Tabreed will continue to consider opportunistic acquisitions, as a number of companies in the region are looking to sell their non-core district cooling assets.

We consider Tabreed's leverage to be moderate for the rating category, given the company's strong cash flow predictability. During the nine-month period ending 30 September 2023, the company has managed to reduce its bank debt by around AED770 million. Tabreed's Moody's-adjusted debt/EBITDA will trend below 5.0x in 2024 from 7.2x in 2021. Any acquisition resulting in a sustained deterioration in the company's financial profile would lead to a reassessment of its credit profile.

Exhibit 6
Tabreed's leverage will decline over the next 12-18 months back towards more moderate levels



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Source: Moody's Investors Service

ESG considerations

National Central Cooling Company PJSC's ESG credit impact score is CIS-1

Exhibit 7
ESG credit impact score

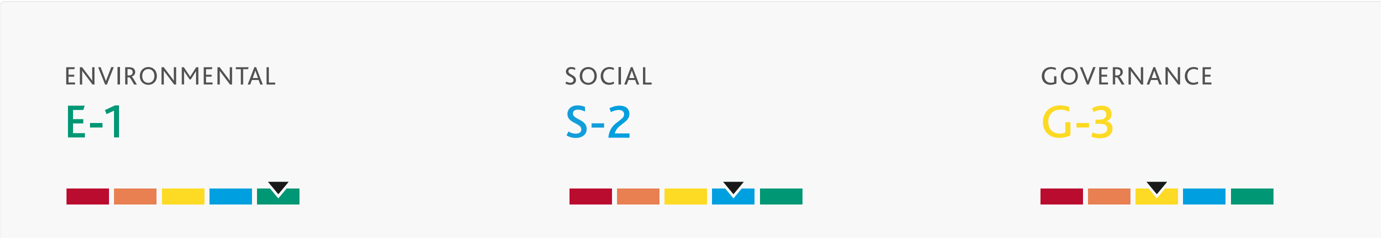
CIS-1

ESG considerations have a positive impact on the current rating which is higher than it would have been in the absence of ESG considerations.

Source: Moody's Investors Service

Tabreed's **CIS-1** indicates that its ESG attributes have a positive impact on its rating. The strong and growing demand for the company's district cooling services is driven by their cost competitiveness and environmental credentials. Tabreed's plants benefit from economies of scale and use significantly less electricity than alternative cooling solutions. The company's district cooling services are of significant importance to local governments seeking to mitigate the high energy consumption and carbon emissions associated with air conditioning. This also helps the local governments, in reducing their peak generation capacity investments.

Exhibit 8
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Tabreed's **E-1** reflects its unique business model. The strong and growing demand for the company's district cooling services is driven by their cost competitiveness and environmental credentials. This growth strongly contributes to Tabreed's revenue and margin growth. Tabreed's plants benefit from economies of scale and use significantly less electricity than alternative cooling solutions. This contributes to Tabreed's cost competitiveness, but also benefits local governments seeking to mitigate the high energy consumption and carbon emissions associated with air conditioning, in order to reduce peak generation capacity investments. The company enjoys local concessions that require new buildings to connect to their network and is well positioned to benefit from any regulation in favor of district cooling solutions.

Social

Tabreed's **S-2** reflects its limited exposure to social risks. The company could be subject in the future to potentially adverse regulatory or political interventions. Stricter health and safety practices could also lead to higher operational costs for the company.

Governance

Tabreed's **G-3** reflects its disciplined financial strategy and risk management, strong balance sheet and good liquidity profile, but also higher leverage at times due to opportunistic debt-funded acquisitions. In addition, the company is exposed to ownership concentration, Although we consider its anchor shareholders – Mamoura Diversified Global Holding PJSC (42%) and ENGIE SA (40%) – as supportive and complementary.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Tabreed has good liquidity. As of 30 September 2023, the company had AED1.4 billion in cash and cash equivalents as well as AED600 million available under its green revolving credit facility (RCF) that was renewed in December 2023. During the next 12 months, we expect the company to refinance most of its upcoming H2-2025 debt maturities through a combination of capital markets debt and bank debt. Tabreed has an outstanding sukuk due in October 2025 amounting to AED1.8 billion ($500 million), as well as other bank debt facilities that will mature around the same period.

We expect the company to generate operating cash flow of around AED1.4 billion over the next 18 months. The expected cash flow, along with its cash holdings, will be sufficient to cover (1) debt repayment (excluding the lump sum maturities of H2-2025) of AED114 million, (2) estimated committed and uncommitted capital spending of around AED640 million, and (3) estimated dividends of around AED690 million.

Rating methodology and scorecard factors

The principal methodology used in rating Tabreed was the Unregulated Utilities and Unregulated Power Companies (published in December 2023). The scorecard-indicated outcome of Baa3 is in line with the long-term issuer rating assigned to Tabreed.

Exhibit 9

Unregulated Utilities and Unregulated Power Companies Industry	Current LTM 9/30/2023		Moody's 12-18 Month Forward View	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Ba	Ba	Ba	Ba
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	A	A	A	A
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	A	A	A	A
e) Business Mix Impact on Cash Flow Predictability	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	4.5x	Baa	4.5x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	17%	Ba	19%	Ba
c) RCF / Net Debt (3 Year Avg)	12%	Ba	12%	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Baa3

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Source: Moody's Investors Service

Appendix

Exhibit 10

Moody's adjusted EBITDA breakdown

(in AED millions)	2018	2019	2020	2021	2022	LTM Sep-23
As Reported EBITDA	**769**	**796**	**985**	**1,065**	**1,243**	**1,471**
Unusual	(57)	(27)	(82)	0	(45)	(200)
Non-Standard Adjustments	(51)	0	0	0	0	0
Moody's-Adjusted EBITDA	**661**	**769**	**904**	**1,065**	**1,198**	**1,271**

All figures are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
NATIONAL CENTRAL COOLING COMPANY PJSC	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
TABREED SUKUK SPC LIMITED	
Outlook	Stable
Bkd Senior Unsecured	Baa3

Source: Moody's Investors Service

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