

## ACWA POWER Co. (ACWA POWER)

Target Price: SAR 242.1/share

Downside: 35.6%

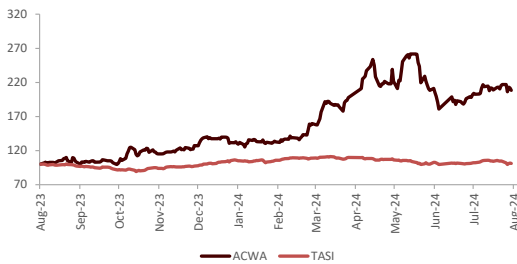
## Recommendation

Sell

|                                 |                |
|---------------------------------|----------------|
| Current Market Price (SAR)      | 382.0          |
| 52wk High / Low (SAR)           | 493.4/177.6    |
| Mkt. Cap. (USD/SAR Mn)          | 75,124/281,890 |
| Shares Outstanding (mn)         | 732.6          |
| Free Float (%)                  | 52.1%          |
| 3m Average Vol. (000)           | 538.6          |
| 3m Avg Daily Turnover (SAR'000) | 216,016        |
| Dividend Yield '24e (%)         | 0.3%           |
| P/E'24e (x)                     | 105.8          |
| EV/EBITDA'24e (x)               | 64.4           |

Source: Bloomberg

## Relative Price Performance



## Key Indicators

| SAR (mn)          | 2022  | 2023  | 2024e | 2025e |
|-------------------|-------|-------|-------|-------|
| Revenue           | 5,276 | 6,095 | 8,154 | 9,848 |
| Gross profit      | 2,865 | 3,495 | 4,525 | 5,466 |
| Gross margin (%)  | 54%   | 57%   | 56%   | 56%   |
| EBIT              | 2,614 | 2,984 | 4,048 | 4,698 |
| EBIT margin (%)   | 50%   | 49%   | 50%   | 48%   |
| EBITDA            | 3,079 | 3,447 | 4,523 | 5,196 |
| EBITDA margin (%) | 58%   | 57%   | 55%   | 53%   |
| Net Income        | 1,540 | 1,662 | 2,598 | 3,551 |
| Net margin (%)    | 29%   | 27%   | 32%   | 36%   |
| EPS (SAR)         | 2.11  | 2.27  | 3.55  | 4.86  |
| RoE (%)           | 9%    | 9%    | 13%   | 16%   |

Source: Company Reports, Yaqeen Capital

## Major Shareholders (%)

|                                     |        |
|-------------------------------------|--------|
| Public Investment Fund              | 44.16% |
| Vision International Investment Co. | 22.75% |
| Mohammed Abdullah Abunayyan         | 3.65%  |

Source: Bloomberg, Yaqeen Capital

## Bottom line improved by higher revenue and disinvestment

- ACWA POWER's net income surged by 52.2% YoY and 112.9% QoQ to SAR 631mn in 2Q2024, driven by higher gross profit from increased revenue, gains from divestments, a greater share in net results of equity-accounted investees, and increased finance income. These gains were partially offset by higher project development costs, increased general and administrative expenses, higher finance charges, and a larger zakat and tax charge. The net margin for 2Q2024 improved by 11.0ppts YoY and 16.7ppts QoQ.
- Revenues increased by 10.7% YoY and 24.8% QoQ to SAR 1,563mn in 2Q2024, primarily due to higher operation and maintenance revenue and increased development business and construction management services delivered to projects. On a QoQ basis, the growth was also driven by higher electricity sales.
- Gross profit rose by 5.4% YoY and 34.9% QoQ to SAR 837mn in 2Q2024, mainly due to higher revenue. The gross profit margin decreased by 2.7ppts YoY but rose by 4.0ppts QoQ to 53.6%.
- Operating income grew by 35.7% YoY and 146.8% QoQ to SAR 990mn in 2Q2024, driven by higher gross profit and gains from disinvestments. However, the operating margin declined by 11.7ppts YoY and 31.3ppts QoQ to 63.4%.
- In 1H2024, net income rose by 35.5% YoY to SAR 927mn, driven by higher equity-accounted investee results, divestment gains, and increased finance income. This growth was partly offset by lower gross profit, higher project development costs, increased expenses, and an impairment loss. The net profit margin improved by 8.0ppts YoY to 32.9%.
- In 1H2024, revenue grew by 2.6% YoY to SAR 2,814mn, driven by higher operation and maintenance revenue. However, this growth was partially offset by lower revenue from development business and construction management services to projects, along with a decline in finance lease income.

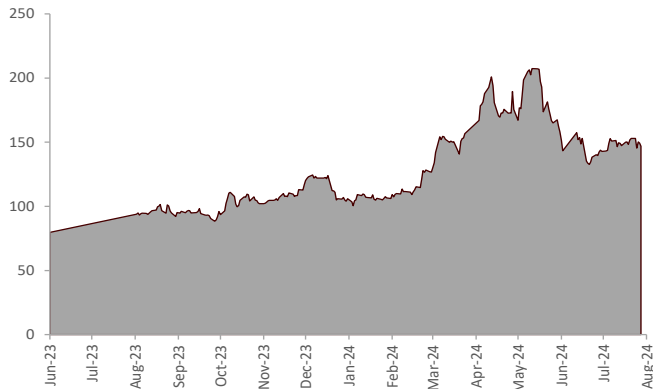
**Outlook & Valuation:** ACWA POWER holds a leading position as the largest private power producer in the Middle East and the top private water desalination company globally. The company has consistently expanded its capacity across various segments at a strong CAGR, with continued growth anticipated. Additionally, ACWA POWER is well-positioned to benefit from the Kingdom's renewable energy initiatives, driving medium to long-term growth. Overall, we hold a positive outlook for the company, forecasting strong revenue and earnings growth in the years ahead. However, we believe the stock has exceeded its fundamentals, considering its nearly 62% YTD increase, implying a downside from current levels. Based on DCF valuation, we arrive at a fair value of SAR 242.1/share, suggesting a 35.6% downside from current levels. Hence, we recommend a Sell rating for the company.

## Financial Summary

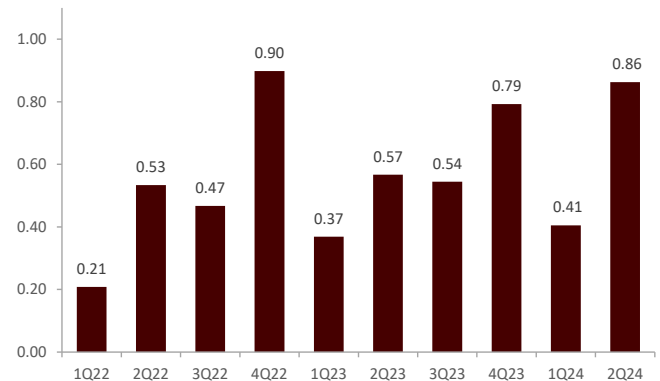
| SAR (mn)         | 2Q2024 | 2Q2023 | YoY | 1Q2024 | QoQ  |
|------------------|--------|--------|-----|--------|------|
| Revenue          | 1,563  | 1,412  | 11% | 1,252  | 25%  |
| Gross profit     | 837    | 794    | 5%  | 621    | 35%  |
| Gross margin (%) | 54%    | 56%    |     | 50%    |      |
| EBIT             | 990    | 730    | 36% | 401    | 147% |
| EBIT margin (%)  | 63%    | 52%    |     | 32%    |      |
| Net Income       | 631    | 414    | 52% | 296    | 113% |
| Net margin (%)   | 40%    | 29%    |     | 24%    |      |
| EPS (SAR)        | 0.86   | 0.57   | 52% | 0.41   | 113% |

Source: Company Reports, Yaqeen Capital

### Price to Earnings Ratio Trend



### EPS (SAR) Trend



## Rating Methodology

**Buy:** The Target share price exceeds the current share price by  $\geq 10\%$

**Hold:** The Target share price is either more or less than the current share price by  $10\%$

**Sell:** The Target share price is less than the current share price by  $\geq 10\%$

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