

## Neutral

### Price Target (SAR): 275.0

 Current (6<sup>th</sup> March 2024): 289.60  
 Upside/Downside: 4.9% below current

Valuation Multiples	23	24E	25E
P/E (x)	127.4	103.9	72.6
P/B (x)	10.2	9.4	8.4

### Major Shareholders % Ownership

Public Investment Fund	44.16
Vision Invest Co.	22.75

Price Performance	YTD	3M	1M
Absolute	12.7%	28.9%	19.1%
Relative to TASI	7.7%	16.5%	15.0%

## Earnings

(SARmn)	2023	2024E	2025E
Revenue	6,095	7,301	8,249
Revenue growth	15.5%	19.8%	13.0%
Gross profit	3,495	4,145	4,738
Gross margin	57.3%	56.8%	57.4%
EBIT	2,984	3,667	4,633
EBIT margin	49.0%	50.2%	56.2%
EBITDA	3,447	4,241	5,228
EBITDA margin	56.5%	58.1%	63.4%
Net profit	1,662	2,038	2,918
Net margin	27.3%	27.9%	35.4%
EPS	2.3	2.8	4.0
DPS	0.5	0.5	0.5
P/E (current)	127.4x	103.9x	72.6x
P/E (target)	121.2x	98.8x	69.0x
RoE	8.0%	9.1%	11.6%

Source: Company data, Al Rajhi Capital

# ACWA Power Co.

## TP raised to SAR275/sh, Maintain Neutral

ACWA Power, a critical infrastructure player in KSA reported robust sequential performance in Q4 2023 registering an increase of 17% on a q-o-q basis. The strong performance in the services segment acted as a major catalyst for the solid revenues during the quarter. Higher contribution from the operation & maintenance fees and development & construction revenues spearheaded revenue growth for the company. The renewable portfolio now constitutes 44% of the gross power capacity for the company in contrast to 39% as of FY22. Bulk of the growth in the gross power portfolio came through the renewable energy in FY23 supported by Saudi Government's thrust on green energy. ACWA Power, being a dominant player in the industry, is positioned to secure bids for a large share of the prospective renewable energy projects in the Kingdom. Moreover, the strategic framework with PIF also aligns well for the company. We reiterate from our last note that KSA will be a cornerstone of growth for the company. Furthermore, ACWA Power's focus on expanding the geographical footprint shall augur well for the company in the long term. The stock has rallied significantly post declaring Q4 earnings and this can be attributed to the market's expectation of positive announcement from the potential pipeline in China. Currently, the company is conducting due diligence on 5-8 identified projects in China. However, at the current juncture, we cannot quantify the project pipeline in China and hence have not incorporated those metrics in our financial projections. Additionally, we have been conservative in factoring in the renewable energy target (59GW) for Saudi Arabia as the revised targets for green energy (pegged at 130 GW by 2030) has not yet been confirmed. Any material development in this respect shall lead to a significant advantage for the company. Post updating FY23 financials, we increase our target for the company from the earlier TP of SAR257/sh to SAR275/sh implying a "Neutral" rating.

**Q4 2023 Results:** ACWA Power reported Q4 2023 revenues at SAR1,810mn, registering a 15% y-o-y increase driven by an improvement in O&M fees from new projects as well as the contribution from existing projects. The robust number of financial closes (12 financial closes achieved in FY23) aided the notable growth in the development and operation fees. Consequently, the gross margins came in at 62% supported by higher revenues. Overall, the bottom-line grew by 45.7% q-o-q backed by revenues from new units online and higher development costs. However, net profit registered a fall of 11.7% y-o-y to SAR580mn, and this can be ascertained to higher financing burden and lower capital recycling gains besides lower other income in Q4 2023. Therefore, Net Profit margins came in at 32%.

Figure 1 Earnings Summary Q4 2023

SARmn	Q4 2023	Q3 2023	Q4 2022	% chg y-o-y	% chg q-o-q
Revenue	1,810	1,542	1,568	15%	17%
Gross Profit	1,122	877	916	23%	28%
Gross Margin	62.0%	56.9%	58.4%		
Operating Profit	877	822	566	55%	7%
Operating Margin	48.5%	53.3%	36.1%		
<b>Net Profit</b>	<b>580</b>	<b>398</b>	<b>656</b>	-12%	46%
Net Margin	32.0%	25.8%	41.9%		

Source: Company data, Al Rajhi Capital

**Valuations:** We value the company based on a blend of DCF and relative valuation methodology (EV/Asset). The DCF approach, based on a 5.0% terminal growth rate and 7.34% WACC implies a target price of SAR246/sh. Using the EV/Asset approach and assuming the gross power capacity (currently 55GW) to be a proxy for asset, we arrive at a target price of SAR304/sh implying a premium of 22% on the average EV/GW for similar European peers. An equally weighted mix of both the approaches implies a TP of SAR275/sh. Thus, we initiate coverage of the stock assigning a “Neutral” rating implying a downside of 4.9% at the current price.

**Risks:** The key downside risks to our valuation assumptions are delayed project execution leading to setback in earnings, slower than expected rollout of renewable energy pipeline in KSA and any unfavourable regulatory changes.

## Financials

Figure 2 Income Statement

(SAR mn)	2023	2024E	2025E
<b>Sales</b>	<b>6,095</b>	<b>7,301</b>	<b>8,249</b>
Cost of Sales	(2,600)	(3,156)	(3,511)
% of revenues	42.7%	43.2%	42.6%
<b>Gross Income</b>	<b>3,495</b>	<b>4,145</b>	<b>4,738</b>
General and Administrative expenses	(1,306)	(1,395)	(1,483)
Share in net results of equity accounted inves	245	335	798
Other operating income	550	581	581
ECL Provision	(0)	0	0
<b>Operating Income</b>	<b>2,984</b>	<b>3,667</b>	<b>4,633</b>
Financial costs	(1,475)	(1,662)	(1,621)
Other income/ expenses	326	326	326
<b>Profit before tax</b>	<b>1,835</b>	<b>2,331</b>	<b>3,338</b>
Zakat & Tax	(54)	(187)	(267)
<b>Net Profit Before Unusual Items</b>	<b>1,781</b>	<b>2,145</b>	<b>3,071</b>
Income from discontinued opertaions	(10)	0	0
Non-controlling interest	(110)	(107)	(154)
<b>Net Income</b>	<b>1,662</b>	<b>2,038</b>	<b>2,918</b>
<b>EPS (SAR/sh)</b>	<b>2.27</b>	<b>2.79</b>	<b>3.99</b>

Source: Company Data, Al Rajhi Capital

Figure 4 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash from operations	3,344.9	4,367.3	5,060.6
Cash from investing	-8,408.4	-1,405.3	-1,507.0
Cash from financing	3,758.1	-203.6	-120.7
<b>Net change in cash and cash equivalents</b>	<b>-1,305.4</b>	<b>2,758.4</b>	<b>3,432.9</b>
<b>Cash and cash equivalents, end of the period</b>	<b>4,740.9</b>	<b>7,499.3</b>	<b>10,932.2</b>

Source: Company Data, Al Rajhi Capital

Figure 3 Balance Sheet

(SAR mn)	2023	2024E	2025E
<b>Assets</b>			
Property and Equipment	10,292	10,320	10,387
Intangible assets	2,047	2,057	2,069
Equity accounted investees	15,873	16,667	17,500
Net invetsment in finance lease	11,234	11,234	11,234
Deferred tax asset	153	153	153
Fair value of derivatives	755	755	755
Other assets	380	380	380
<b>Total non-current assets</b>	<b>40,736</b>	<b>41,567</b>	<b>42,479</b>
Inventories	479	562	625
Net invetsment in finance lease	382	382	382
Fair value of derivatives	88	88	88
Due from related parties	1,356	803	825
Accounts receivables, prepayments and other receivables	3,215	3,601	4,294
Short term investments	1,218	1,218	1,218
Cash and cash equivalents	4,741	7,499	10,932
Assets held for sale	2,803	2,803	2,803
<b>Total current Assets</b>	<b>14,282</b>	<b>16,956</b>	<b>21,168</b>
<b>Total assets</b>	<b>55,018</b>	<b>58,523</b>	<b>63,647</b>
<b>Liabilities</b>			
Long term financing and funding facilities	23,550	25,337	27,193
Due to related parties	855	855	855
Equity accounted investees	623	623	623
Fair value of derivatives	63	63	63
Deferred tax liability	163	163	163
Deferred revenue	140	140	140
Employee benefit obligations	211	219	227
Other liabilities	768	768	768
<b>Total non-current liabilities</b>	<b>26,373</b>	<b>28,168</b>	<b>30,032</b>
Accounts payable, accruals, and other financial liabilities	3,149	3,026	3,559
Short term financing facilities	317	341	366
Current portion of long term financing and funding facilities	1,613	1,613	1,613
Due to related parties	79	96	107
Zakat and taxation	194	194	194
Liabilities associated with held for sale	2,584	2,584	2,584
<b>Total current liabilities</b>	<b>7,937</b>	<b>7,855</b>	<b>8,424</b>
<b>Shareholders' equity</b>			
Share capital	7,134	7,134	7,134
Share premium	5,336	5,336	5,336
Other reserves	2,073	2,073	2,073
Statutory reserve	1,039	1,039	1,039
Retained earnings	3,247	4,931	7,469
Non controlling interest	1,551	1,658	1,812
Proposed Dividend	329	329	329
<b>Total equity</b>	<b>20,709</b>	<b>22,500</b>	<b>25,191</b>
<b>Total liabilities</b>	<b>55,018</b>	<b>58,523</b>	<b>63,647</b>

Source: Company Data, Al Rajhi Capital

Figure 5 Key Ratios

Key metrics	2023	2024E	2025E
Current ratio	1.8x	2.2x	2.5x
Gross margin (%)	57.3%	56.8%	57.4%
EBITDA margin (%)	56.5%	58.1%	63.4%
Operating margin (%)	49.0%	50.2%	56.2%
Net margin (%)	27.3%	27.9%	35.4%
ROA	3.0%	3.5%	4.6%
ROE	8.0%	9.1%	11.6%

Source: Company Data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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