US$48.00bn	29.41%	US$16.70mn
Market Cap.	Free Float	Avg. Daily Value traded

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ACWA Power Co.

Renewable a key growth enabler, Initiate with a TP of SAR257/sh

Neutral

Price Target (SAR): 257.0

Current: 246.20
Upside/Downside: 4.2% above current

Valuation Multiples	22	23E	24E
P/E (x)	116.9	92.8	78.9
P/B (x)	8.9	8.4	7.8

Major Shareholders	% Ownership
Public Investment Fund	44.16
Vision Invest Co.	22.75

Price Performance	YTD	3M	1M
Absolute	-4.0%	34.2%	1.8%
Relative to TASI	-5.0%	19.4%	3.8%

Earnings

(SARmn)	2022	2023E	2024E
Revenue	5,276	6,461	7,604
Revenue growth	0.8%	22.5%	17.7%
Gross profit	2,865	3,693	4,256
Gross margin	54.3%	57.2%	56.0%
EBIT	2,362	3,376	3,864
EBIT margin	44.8%	52.3%	50.8%
EBITDA	2,828	3,920	4,450
EBITDA margin	53.6%	60.7%	58.5%
Net profit	1,540	1,939	2,281
Net margin	29.2%	30.0%	30.0%
EPS	2.1	2.7	3.1
DPS	0.8	0.8	0.9
P/E (current)	116.9x	92.8x	78.9x
P/E (target)	121.8x	96.8x	82.3x
RoE	7.7%	9.0%	9.8%

Source: Company data, Al Rajhi Capital

Saudi Arabia's leading critical utility player ACWA Power is pivotal to tapping the Kingdoms energy transition goals in the renewable energy segment. Headquartered in Riyadh, with its existence dating back to 2004, the company plays a significant role in the home market with a niche in development of independent power and water desalination plants and operation of these critical infrastructure assets. In its aim to triple its AUM to $250bn by 2030 with focus on explicitly ramping up the renewable asset portfolio and by venturing into the green hydrogen space, the company targets to retain its leadership in key markets and further deepen its geographical penetration by entering hyper-growth markets such as China. The PIF shareholding in the company further strengthens its capabilities and supports its monopolistic position in KSA. We believe renewables to lead the next leg of growth for the company besides the growing water and green hydrogen portfolio. Moreover, we have been cautious in our approach by assuming the Kingdom's target for renewable capacity to be pegged at 59GW despite the possibility of the target being revised to 130 GW by 2030. Despite this we reckon that the company has the potential to keep delivering a healthy double-digit revenue CAGR and has high growth potential over the next 2 decades. In essence, we believe the stock is still fairly valued despite its four-fold rally since the IPO. Hence, we initiate coverage on ACWA Power Co. with a target price of SAR257/sh implying a "Neutral" rating. Our detailed investment rationale is as follows.

An experienced and integrated player in the critical asset infrastructure: With a diversified asset base aggregating 50.1GW of electricity and 7.6 mn m^3/day of desalinated water over the past two decades, ACWA Power holds a unique position in the market, enjoying a key economic advantage in KSA's critical asset infrastructure space. ACWA Power has a strong international presence and an extensive experience in project execution with the capability to offer the most competitive tariffs for Solar PV and water desalination plants all across the world. Integrated across the value chain, the company oversees development and O&M of critical power and water assets. Additionally, its subsidiary, NOMAC, enhances ACWA Power's technical expertise in on-field operation and maintenance services across geographies. Consequently, ACWA Power is poised to spearhead the majority of upcoming capacity expansions in renewable energy and water desalination segments in its areas of operation.

On the brink of a multi-year growth upcycle with KSA being the centre of growth: Saudi Government's National Renewable Energy Program (NREP) supported by the PIF acts as a cornerstone for the projects that would be deployed in the Kingdom over the coming years. KSA intends to tender projects for approximately 20GW in 2024, aiming for ~59GW renewable portfolio by 2030. ACWA Power's prominent positioning in Saudi Arabia predominantly underscores the company's pivotal role in the country's capacity ramp up. Moreover, the company's aim for expansion of its renewable asset portfolio strategically aligns with the anticipated boom in the renewable pipeline across the globe. As per our analysis, we expect ACWA Power's renewable portfolio to grow six-fold over the next two decades, with KSA contributing an additional ~109GW to its portfolio between 2023-2040, thereby being the centre of growth.

PIF Strategic Framework Agreement to lend earnings visibility: As part of the 2021 strategic framework agreement between PIF and ACWA Power, the latter holds exclusive rights to jointly own and develop the renewable energy projects allocated to PIF under the National Renewable Energy Development Program. PIF has been entrusted to lead the development of a major part (70%) of the Kingdom's renewable energy target (~59 GW by 2030). ACWA Power, as part of the consortium with Badeel, PIF's subsidiary, will be responsible for delivering the commitment with 14 GW slated for development by 2024 and the remainder over the coming period. This ensures long-term earnings predictability for the company. Furthermore, owing to its monopolistic positioning in the home market, ACWA Power is well positioned to secure bids for a significant portion of the non-PIF pipeline as well.

Business strategy outlines foraying into newer areas and geographies: The company seeks to strengthen its presence beyond GCC countries, particularly in regions such as Central Asia and China, given their hyper-growth potential. The business strategy underscores the importance of deeper engagement in Uzbekistan and entry into the Chinese market as key drivers of expansion. ACWA Power's expansion into the Chinese markets would expedite growth for the company owing to anticipation of continued leadership by China in the global renewable capacity expansion. Additionally, the recent success on the Green Hydrogen front shall augur well for the company's multi-pronged growth strategy. We believe that the investment in the green hydrogen space will play out for the company as the green hydrogen market develops at a larger scale leading way for decarbonisation.

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 7.37% WACC implies a target price of SAR241/sh. Using the EV/Asset approach and assuming the gross power capacity to be a proxy for asset, we arrive at a target price of SAR272/sh implying a premium of 25% on the average EV/GW for similar European peers. An equally weighted mix of both the approaches implies a TP of SAR/257/sh. Thus, we initiate coverage of the stock assigning a “Neutral” rating implying an upside of 4.2% at the current price.

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Industry Overview

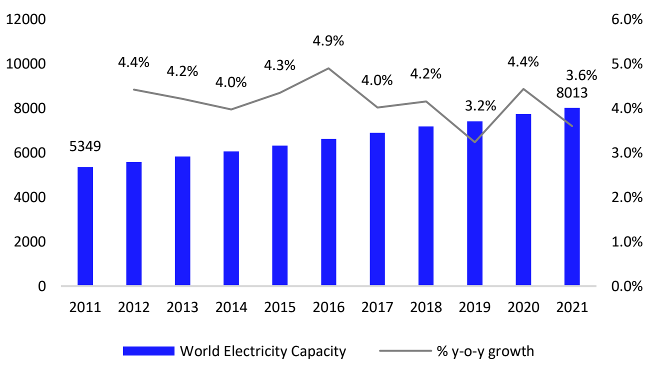
The energy industry is imperative to powering economic productivity and countries all across the globe are enormously emphasising the need for shift towards a more sustainable and diverse energy mix to mitigate environmental impact and ensure long-term energy security. Renewable energy sources are the new engine of growth and a majority of the new capabilities in the world are being deployed in this space. As per the EIA data, world electricity generation has been growing at a consistent pace of 3.5-5% over the last decade, but the growth in renewable capacities have been much rapid over the recent years. Moreover, the levelized cost of energy (i.e, the long-term costs per MWh of building and operating power plants) also depicts that renewable energy (primarily solar PV with tracking process) is one of the cheapest and most efficient sources of energy, even better than the natural gas combined cycle process. Essentially, solar and wind power has the potential to continue registering robust growth over the coming years. In line with the initiative towards clean energy, several countries have rolled out their targets for an increased contribution from the renewable sources to the energy mix going forward. The global target pegs tripling of the renewable energy capacity to ~11000GW by 2030 alluding to an acceleration in project pipeline across several parts of the world.

As per IEA, China ramped up its renewable capacity at a rapid pace in 2023 to 510GW, accounting for a substantial part of the global capacity build up in the last year. Going forward, solar builds would account for a fair share of renewable energy expansion due to the lower costs associated with it. Solar module prices have corrected sharply and have hit further lows post pandemic, thereby making a case for additional boost to solar power capacities. Besides, as per IEA Electricity Market Report 2023, Asia will account for half of the world's electricity consumption and China will account for about one-third of the world's electricity consumption by 2025.

KSA- Under the purview of Vision 2030, the Saudi Government's push for clean energy will be major driver for stepping up the share of renewable energy in the total installed power generation capacity. Currently renewables account for less than 10% of the overall capacity of the country. However, the country targets the development of 59GW of renewable energy by 2030 in its total capacity. This would foster an enormous rollout of incremental capacity addition in the utility space consequently driving growth for critical infrastructure players.

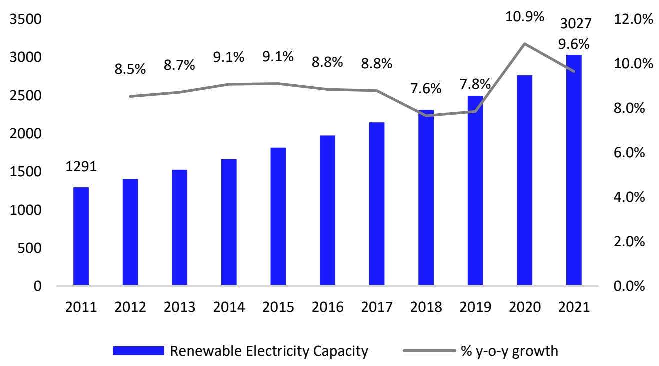
Altogether, there would be a paradigm shift in the energy mix in the years to come and ACWA Power being an established market leader in KSA, stands to emerge as the preferred bidder for multiple projects that would be tendered over the next decade or two. Additionally, China, being a hyper-growth market remains a key target area for ACWA Power. Any success with respect to the company's expansion of its footprint in China would act as a game-changer given the thriving energy landscape in the country.

Figure 1 **Global World Electricity Capacity (GW)**



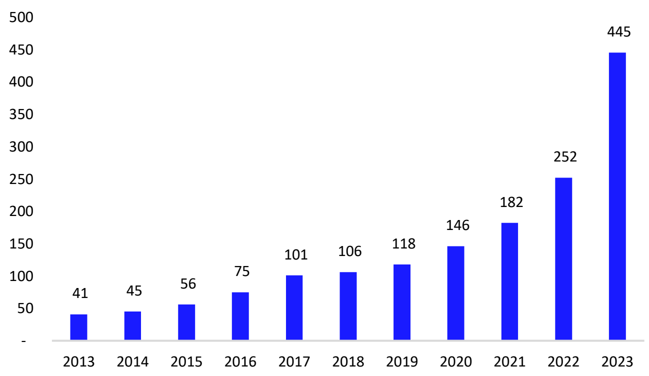
Source: EIA, Al Rajhi Capital

Figure 2 **Global Renewable Electricity Capacity (GW)**



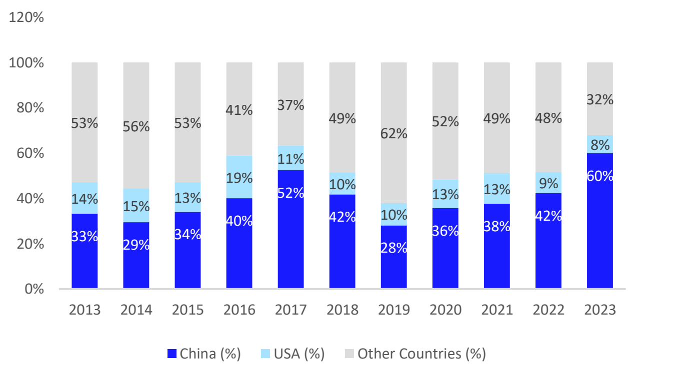
Source: EIA, Al Rajhi Capital

Figure 3 **Global Solar Capacity Additions Per Year (GW)**



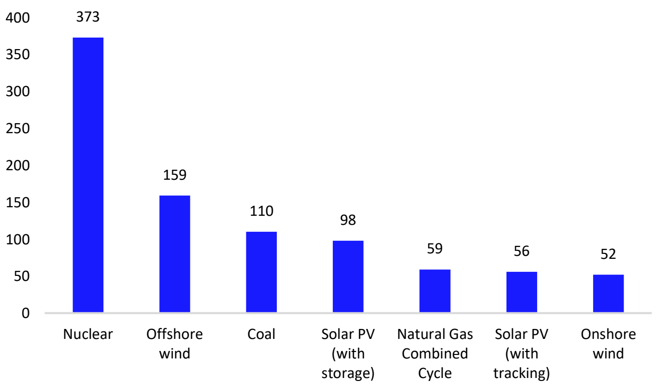
Source: Bloomberg Intelligence, Al Rajhi Capital

Figure 4 **Country-wise contribution to Annual Capacity Build up**



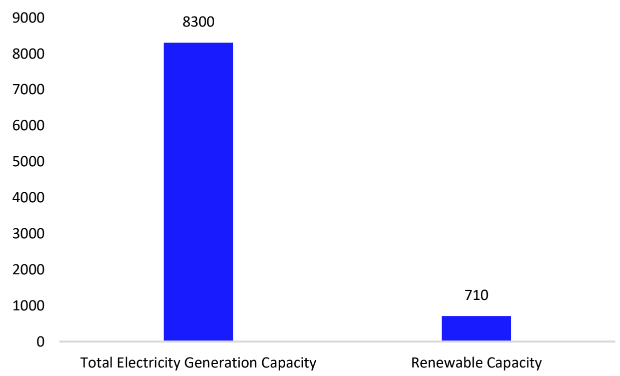
Source: Bloomberg Intelligence, Al Rajhi Capital

Figure 5 **Levelized Cost of Electricity (USD/MWh)**



Source: Bloomberg Intelligence, Al Rajhi Capital

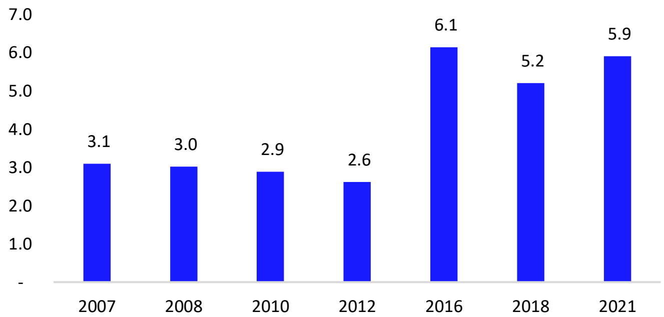
Figure 6 **KSA Electricity Capacity (MW) 2022**



Source: IEA Electricity Market Report 2023, Al Rajhi Capital

Water Desalination- Water desalination involves the process of removing salt from seawater and has garnered key attention in GCC countries for their water needs. Saudi Arabia leads the world in water desalination. According to Ministry of Environment, Water and Agriculture, KSA, Saudi Arabia produces one-fifth of world's total desalinated water. Owing to rising population the need for desalinated water capacity is expected to keep inching upwards thereby providing further growth potential to ACWA Power.

Figure 7 **KSA Desalinated Water Production (million cubic meters per day)**



Source: SWCC, industry research reports 2000-2020, Al Rajhi Capital

Company Overview

ACWA Power is a leading private developer, investor and operator of critical power and water desalination assets in the GCC region and other international regions namely Egypt, Ethiopia, Morocco, South Africa, Turkey, Uzbekistan, Azerbaijan, and Vietnam. Headquartered in Riyadh, Saudi Arabia, the company is a key player in the Kingdom with a dominant market share, involved in the development, operation, and maintenance of several power projects, relying on both conventional and renewable technologies. The company is also a leading investor and operator of critical water desalination assets. ACWA Power intends to grow via a three-pronged strategy- i) by aiming to become one of the largest power generation and water desalination players in its areas of operations, iii) increasing the share of green offerings in its asset portfolio, and iii) becoming a leading name in the green hydrogen space by establishing plants extracting hydrogen to be used as a fuel and a means to store energy. In view to its alignment with the Saudi Government's Vision 2030 energy transition targets, the company stands to be a potential beneficiary owing to its capability to emerge as a preferred bidder for a large pie of upcoming projects in the Kingdom's renewable energy as well as water desalination infrastructure.

Furthermore, ACWA Power's wholly owned subsidiary NOMAC (National Operation and Maintenance Company) is dedicated to providing operation and maintenance service for a substantial number of portfolio assets under the group's umbrella. Cash flows for the services provided by NOMAC have seniority structure as compared to debt payments and hence they lend predictability to a secure cash flow and dividend channel to the company's operations.

ACWA Power Value Chain-

Develop- ACWA Power is equipped to develop critical infrastructure assets like power and water plants across key markets with long term offtake agreements bringing long tenor projects under its purview. The contracts are mostly undertaken with Government, Quasi-Government or Investment-grade off takers at a pre-determined tariff ensuring contract stability.

Invest- The companies modus operandi is to co-invest in the projects that it undertakes by bringing in equity partners and maintaining significant operational and technical control over its portfolio.

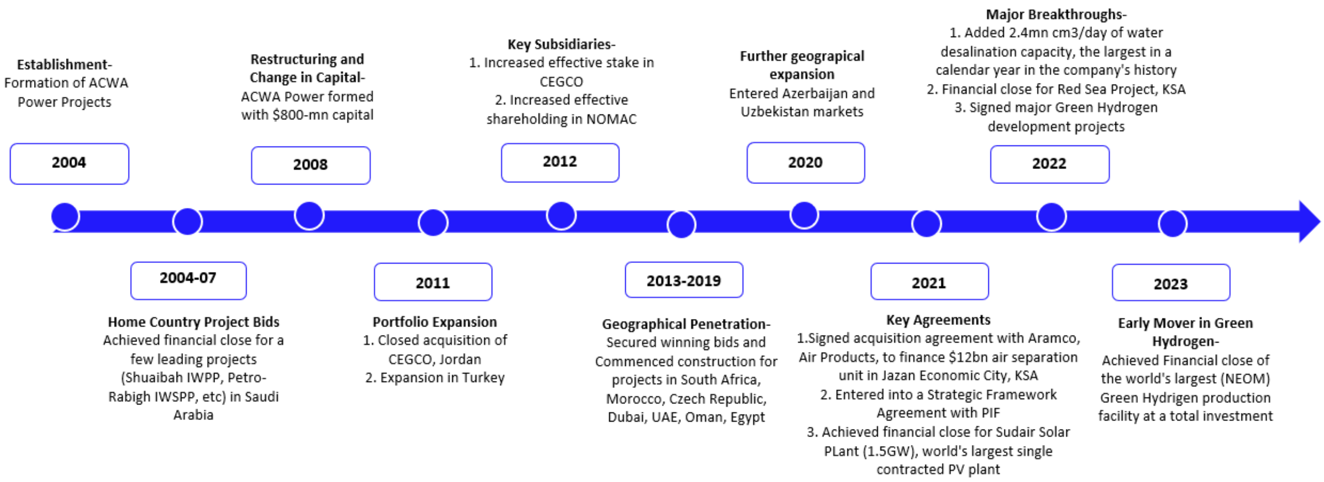
Operate- NOMAC through its technical and operational know-how is responsible for operating most of the assets developed by ACWA Power under a standardized operating model prioritising safety standard. Consequently, the company stands to benefit from economies of scale due to NOMAC's competitive operating profile across geographies.

Optimise- The company continually seeks to optimise returns from the portfolio via financial and operational initiatives. Moreover, the company also aims to undertake capital recycling via selling down minority stakes in its asset portfolio and undertaking M&As.

Figure 8 **ACWA Power Geographical Footprint**

Source: Company Data, Al Rajhi Capital

Figure 9 **ACWA Power Timeline**



Source: Company Data, Al Rajhi Capital

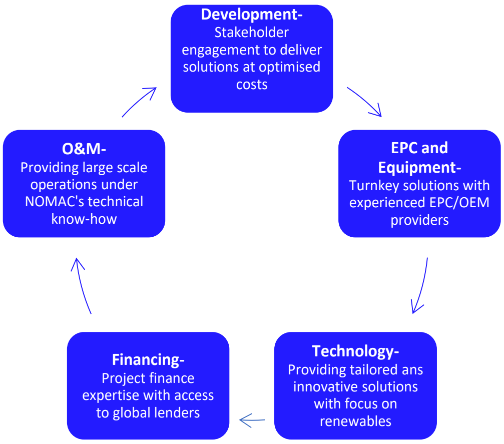
Business Model

As an aftermath of the Kingdom's revised regulation for water and power sector privatisation, ACWA Power Projects' establishment dates to nearly 2 decades ago with a clear focus on participating in utility projects in the home market. In 2008, ACWA Power Projects became a wholly owned subsidiary of ACWA Power Group charting its path to building a leadership position in the Kingdom. Subsequently, starting in 2011, the company endeavoured international expansion in strong markets by way of value accretive acquisitions and the company is now present across 12 countries. Overall, the company's operation is a pivot to the Kingdom's energy transition towards greener sources. The Kingdom's vision 2030 outlines an entire elimination of oil as a source of electricity generation and shifting towards an equal mix of gas and renewable energy portfolio by 2030. ACWA Power is well poised to tap significant opportunities as the renewable capacity is augmented in Saudi Arabia.

At present, ACWA Power is a leading developer, co-investor, operator in essential critical infrastructure space encompassing power and water utility projects besides being a first mover in the green hydrogen solutions. In continuation to the company overview, ACWA Power's develop-invest-operate-optimise business model entails providing several solutions across the asset lifecycle ranging from development-construction to its operation and maintenance. Moreover, the company benefits form the scale and size of these critical assets due to their nature of shareholding wherein they retain de-facto control over most of their assets. The companies fee income from these projects are characterised as- i) development fees (linked to achieving financial close of the project), ii) project management and advisory fees (during construction) and iii) operation and maintenance revenues (post capacity being made available to the off taker) under the NOMAC umbrella. Long tenor contracts coupled with strong revenue visibility is a major characteristic of most projects as the company enters into projects with sovereign or high-rated corporate off takers. Collectively, the group seeks to enhance the efficiency of its invested asset portfolio by means of its long-standing lender relationships or by equity sell-downs, while upholding a diverse asset foundation spanning several strong geographies.

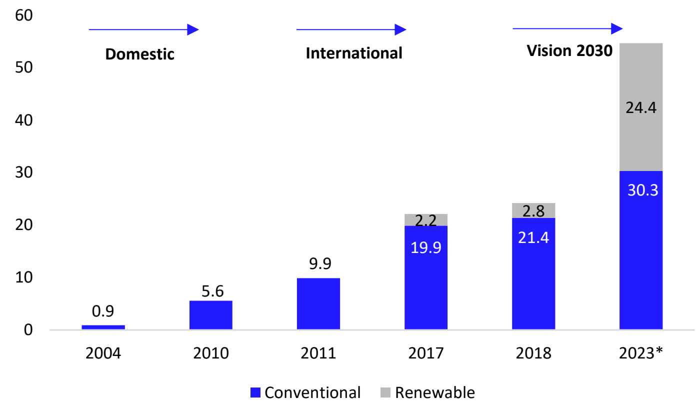
The company boasts of a well-diversified asset portfolio with an AUM of SAR315bn divided between a healthy mix of power and water projects. As of Q32023, the company has proactively ramped up the share of renewable capacity additions in its power split from 17.4GW in 2022 to 23.0GW in Q32023. Hence, over a period of 9 months the company's power split moved from 61:39 (Dec'22) to 54:46 (Oct'23) between conventional and renewable with renewables contributing to almost half of the gross capacity. Meanwhile, ACWA Power is a world leader in seawater desalination with about 19 desalination plants (as of Dec 2023) and a desalination capacity of 7.6 million cubic metres per day with capacity getting skewed towards solar SWRO desalination rather than thermal desalination.

Figure 10 **ACWA Power Pool of Solutions**



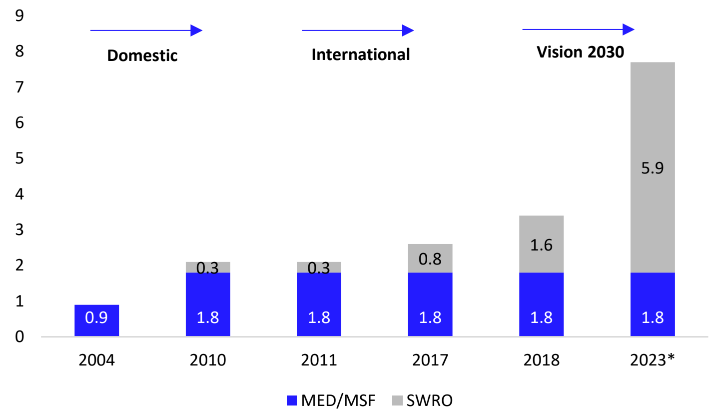
Source: Company Data, Al Rajhi Capital

Figure 11 **Power Portfolio Evolution (Gross Capacity- GW)**



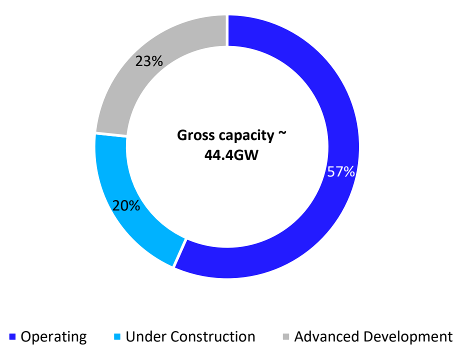
Source: Company Data, Al Rajhi Capital; * expected as per company data

Figure 12 **Water Portfolio Evolution (Gross Capacity- million cubic metres per day)**



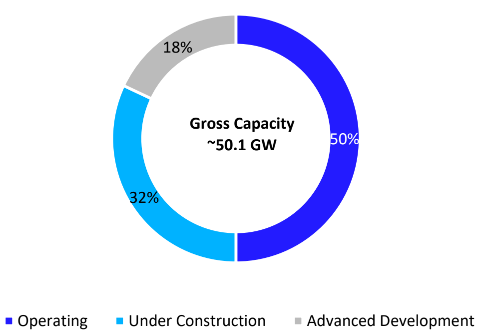
Source: Company Data, Al Rajhi Capital; * expected as per company data

Figure 13 **Operational Mix by Gross Power Capacity (FY22)**



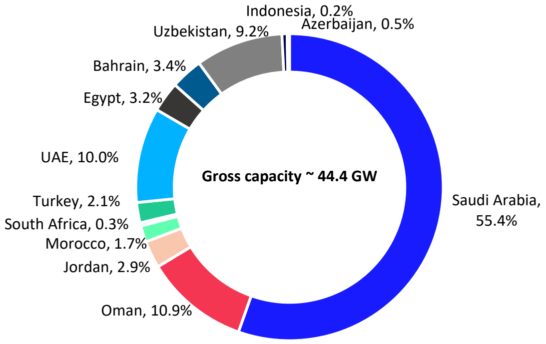
Source: Company Data, Al Rajhi Capital

Figure 14 **Operational Mix by Gross Power Capacity (Q3 2023)**



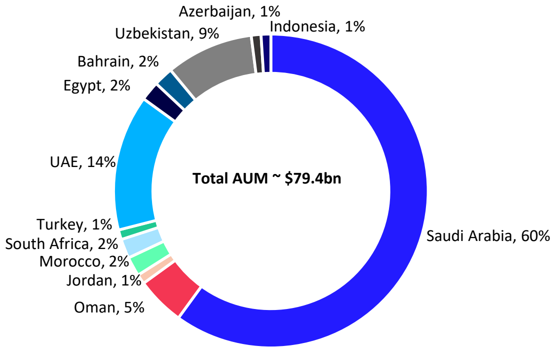
Source: Company Data, Al Rajhi Capital

Figure 15 **Project Split by Geography based on capacity (FY22)**



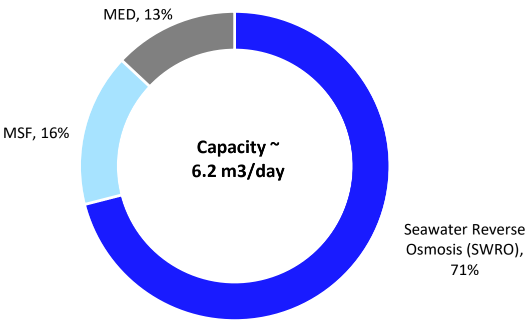
Source: Company Data, Al Rajhi Capital

Figure 16 **Project Split by Geography based on TIC* (Q3 2023)**



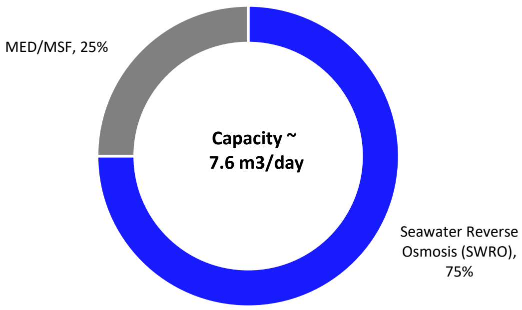
Source: Company Data, Al Rajhi Capital; * TIC is total investment cost

Figure 17 **Water Split by Technology (FY22)**



Source: Company Data, Al Rajhi Capital

Figure 18 **Water Split by Technology (Q3 2023)**



Source: Company Data, Al Rajhi Capital; * TIC is total investment cost

Revenue Composition

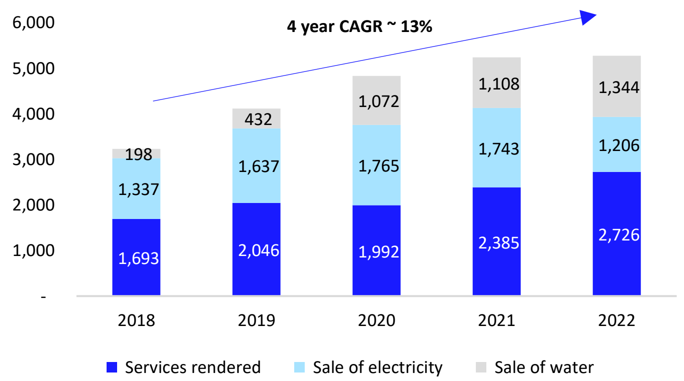
ACWA Power delivers turnkey solutions by entering into contracts with the best EPC contractors for electricity and water desalination plants and additionally specialises in providing integrated services by way of the operation and maintenance of those plants. ACWA Power derives its revenues from sale of electricity and water based on the availability of generation and production capacity respectively and from the services rendered with respect to activities related to operation-maintenance and development-construction of contracted bids. Revenues are sourced in accordance with the nature of conventional and renewable capacity.

- In case of conventional power and water projects, the revenues accrue based on available capacity subject to incentives/penalties with respect to better availability/unplanned outages. Also, long term offtake agreements are the foundation of such contracts thereby eliminating the risks associated with the demand generated for the available capacity.
- On the other hand, revenues for renewable projects are structured in the form of a bundled revenue covering all fixed and variable project costs and are based on the actual dispatch, i.e., the electricity delivered irrespective of the electricity consumed by the off taker. A key tenet associated in this regard is that the off taker is required to make a payment for all the power that the project company is capable of delivering.

- The operating and maintenance revenues are relatively a more stable source of income for the company and comprise of fixed as well as variable payments depending on the pre-determined terms. The company also generates revenue through long term service agreements for the equipment with the suppliers or EPC contractors.

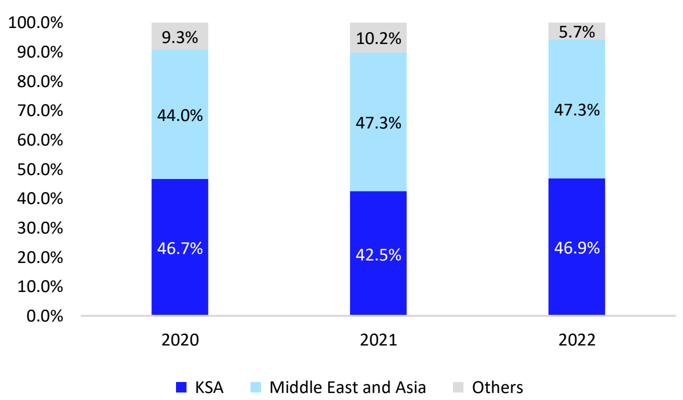
A major proportion of ACWA Power's revenues are generated from the services rendered arms which comprises of the revenues derived from the operational management of the projects and development and construction fees accruing from the contracted project pipeline. Moreover, the company's niche market KSA, single handedly accounted for about ~47% of the company's revenues as of FY22. We believe that the company's upcoming project pipeline will be powered by the Kingdom to a large extent owing to their alignment with the aim of complete elimination of oil as a source of electricity generation as outlined in the Vision 2030.

Figure 19 **Segment-wise revenue composition (SARmn)**



Source: Company Data, Al Rajhi Capital;

Figure 20 **Geographical concentration of revenues (%)**

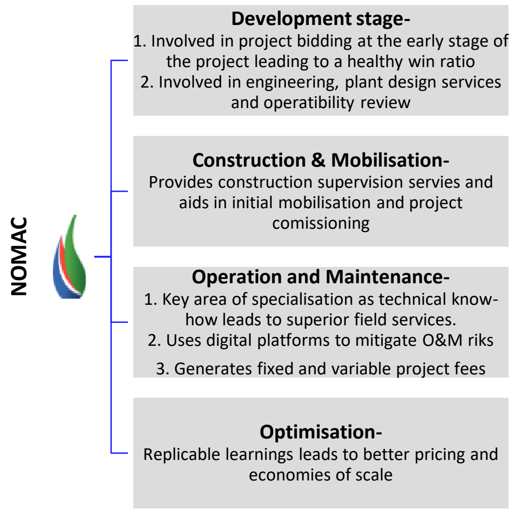


Source: Company Data, Al Rajhi Capital

<u>Operational Synergies from NOMAC, the wholly owned subsidiary of ACWA Power-</u>

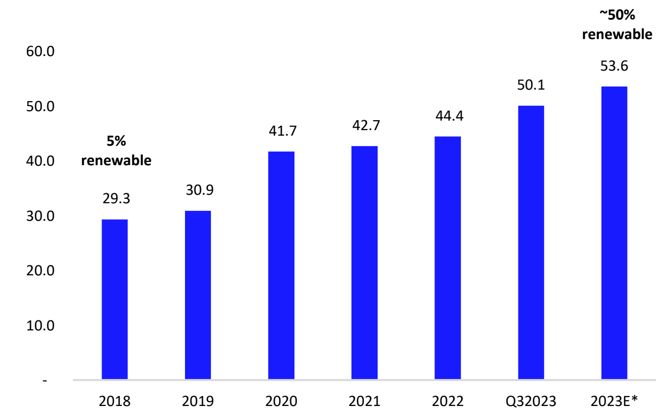
NOMAC, the group's wholly owned subsidiary is a pioneer in operating and maintenance services for diverse power and water projects spanning across multiple geographies and hence possesses superior field-service capabilities for a large pie of the operational and management contracts for the Group's projects. The scale and synergies that NOMAC brings to the forefront as a leading on-the-ground operator of these projects is value accretive to ACWA Power. Moreover, the fixed nature of these contracts aid in providing visibility of cash flows and dividends for the company. Hence, ACWA Power leverages NOMAC's widespread geographical presence and technical know-hows leading to economies of scale by way of optimised pricing through reduced costs and higher margins. In essence, NOMAC has a vertically integrated role to play in the company with its involvement throughout the project life cycle beginning from bidding and development to the operation and maintenance of the project. Hence, it generates value at every stage.

Figure 21 **NOMAC Operational synergies across asset lifecycle**



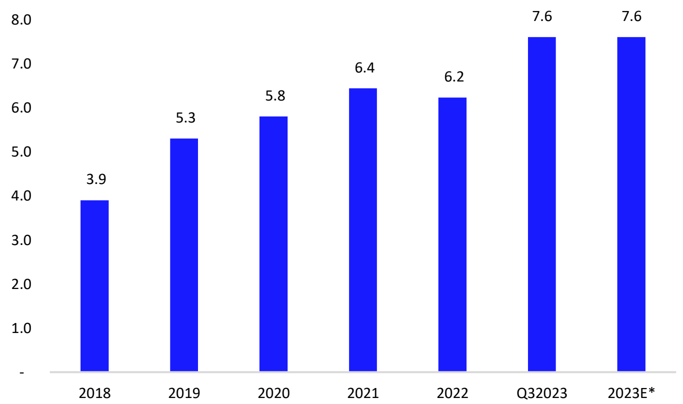
Source: Company Data, Al Rajhi Capital

Figure 22 **Gross Power capacity (GW) over recent years**



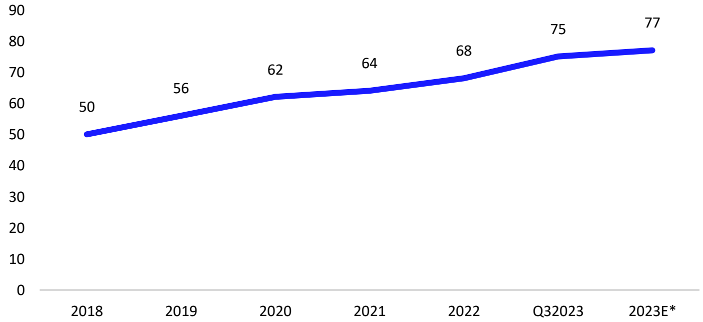
Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 23 **Gross Desal. capacity (mn m^3/day) over recent years**



Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 24 **Number of Projects under the ACWA Power Portfolio**



Source: Company Data, Al Rajhi Capital; * ARC estimates

Multipronged growth strategy.

Geographical penetration- Aligned with the burgeoning global focus on cleaner energy, ACWA Power aims to maintain its monopolistic position in the critical infrastructure space in its home market (KSA). The company also strives to expand its presence in other high-growth markets like Central Asia and China, Middle East and Africa. Low-cost critical infrastructure remains a key tenet in ACWA Power's growth strategy. The company has a healthy project pipeline in Central Asia primarily Azerbaijan and Uzbekistan), the largest outside KSA, with a remarkable investment of $8.7bn (total investment cost) earmarked towards it.

Figure 25 **Central Asia Capacity Development**

Gross capacity in advanced development	Azerbaijan	Uzbekistan
Solar (MW)		1400
Wind(MW)	240	3652
GH2 (Kton/year)		3
BESS (MWh)^2		3285
CCGT (MW)		1500

Source: Company Data, Al Rajhi Capital

Beyond KSA, China- ACWA Power's focus on China is a key to the company's aspiration to triple its assets under management from $79.4bn (Q32023) to almost ~$250bn by 2030. The company unveiled the potential opportunity for 5-8 projects in the Chinese markets which are in the initial screening phase, in its Nov'23 strategy report. Approximately 2.4GW of identified power projects, 0.3 MTPA of green hydrogen project and 0.3 million m^3/day water projects are also under due diligence.

PIF Pipeline- ACWA Power has been entrusted to deliver the PIF program of 70% of the renewable energy that would be installed in the Kingdom which shall be the key to spearheading the country's energy transition.

Accelerated progress in the Green Hydrogen sphere- Essential to achieving low carbon footprint, ACWA Power's Joint venture with NEOM, Air Products (each having equal stake) is the world's first and largest utility-scale green hydrogen plant powered entirely by renewable energy to be commissioned in 2026. The NEOM GH2 project will produce 600 tonnes per day of clean hydrogen and 1.2 mn tonnes per year of green ammonia leading the way for a new ecosystem of clean energy. Additionally, the company is leveraging its first mover advantage in this space and has successfully signed green hydrogen projects in key markets like Egypt, Uzbekistan, Jordan and Indonesia.

Figure 26 **NEOM Green Hydrogen Project Highlights**

Key Facts	
Location	NEOM, Saudi Arabia
EPC	Air Products
Technology	Green Hydrogen
Power	3.9GW
Project Cost	$8.5bn
ACWA Power share	33.33%
Project Company	NEOM Green Hydrogen Company

Source: Company Data, Al Rajhi Capital

Figure 27 **Activity in the Green Hydrogen Space**

GH2 Project Highlights	
Uzbekistan	
Phase 1	Green Hydrogen- 3000 mt per year
Phase 2	Power- 2.4GW Green Ammonia- 500,000 tonnes per year
Egypt	Green Ammonia- 600,000 tonnes per year

Source: Company Data, Al Rajhi Capital

Figure 28 **Near-term Pipeline for ACWA Power**

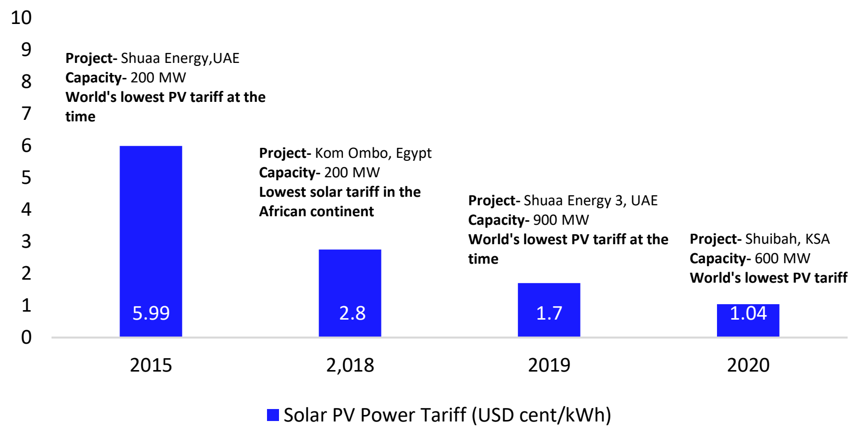
	Power (GW)	Water (mn m3/day)	Number of Countries
Pipeline (Oct'23- Mar'24)			
Actve bids/deals	~8	~1.5	11
Potential bids/deals	>20	~2	12
Till 2023-end			
Wet Financial closes	5	2	4

Source: Company Data, Al Rajhi Capital; As of 9M2023

Investment Rationale

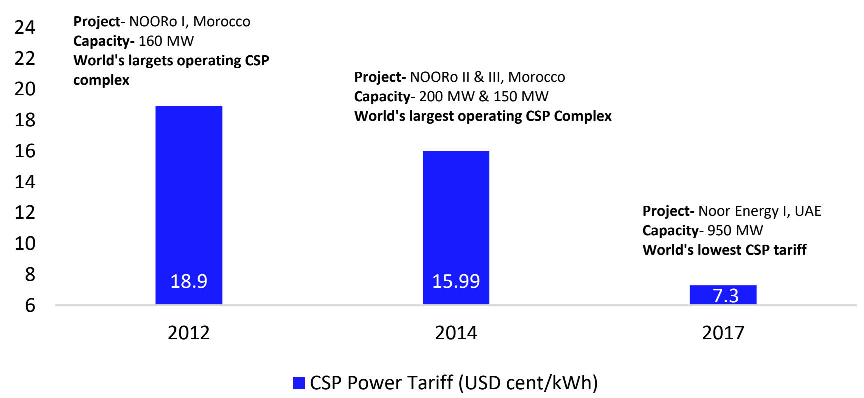
- **An experienced and integrated player in the critical asset infrastructure-**
  Specializing in providing turnkey solutions with leading OEMs and EPC contractors at competitive cost structures, ACWA Power is capable of delivering the most competitive tariffs for solar PV plants and water desalination plants across the world. The company has built a diversified asset base boasting a strong portfolio with a gross capacity of 50.1GW of electricity and 7.6 mn m^3/day of desalinated water over the last 2 decades. More importantly, the company does not have any close substitutes in the market and hence has a key economic moat in the critical asset infrastructure space in KSA. Besides being backed by the PIF, it is the largest private sector power and water entity in the Kingdom along with a strong international presence and multiple years of experience in the execution of extensive project pipelines. Meanwhile, the company is integrated across the value chain as its scope of business encompasses both development and O&M of the critical power and water assets. Moreover, NOMAC, the subsidiary of ACWA Power, places the latter on a strong footing with its superior technical know-how in terms of on-field operation and maintenance services across geographies. Hence, we expect ACWA Power to undertake the majority of the upcoming new capacity build-ups in the renewable energy as well as water desalination segments.

Figure 29 **ACWA Power Select Successful Bids- Solar PV**



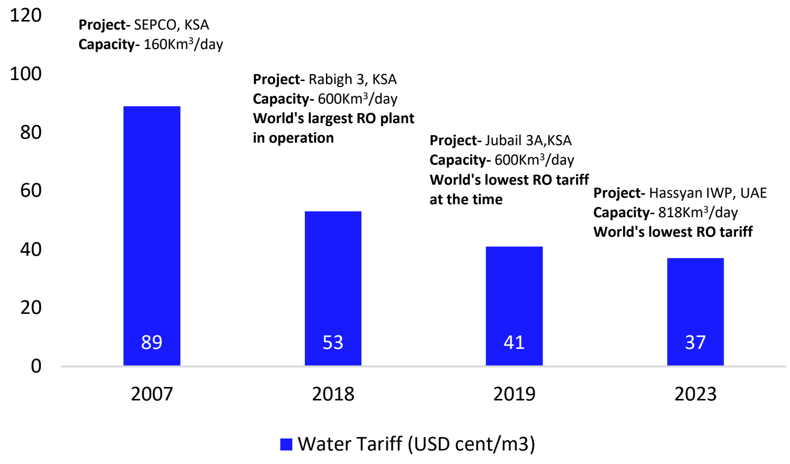
Source: Company Data, Al Rajhi Capital

Figure 30 **ACWA Power Select Successful Bids- CSP**



Source: Company Data, Al Rajhi Capital

Figure 31 **ACWA Power Select Successful Bids- Water Desalination**

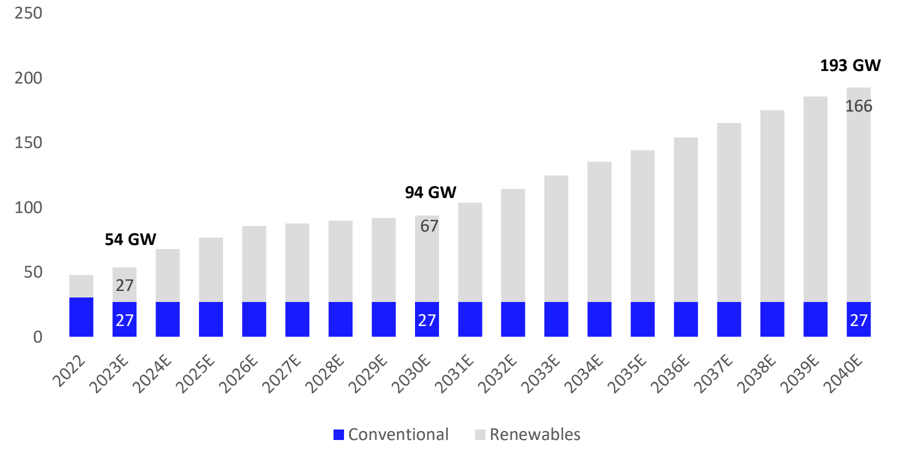


Source: Company Data, Al Rajhi Capital

- **On the brink of a multi-year growth upcycle with KSA being the center of growth-** Saudi Government's National Renewable Energy Program (NREP) supported by the PIF acts as a cornerstone for the projects that would be deployed in the Kingdom over the coming years. As part of its pledge to shift from oil as a source of energy to cleaner sources of energy, the Kingdom ramped up its renewable energy production capacity to ~2.2GW in 2023 vis-à-vis a mere 700MW in 2022. Moreover, the country plans to tender around 20GW in 2024 in its effort to reach ~59GW of renewable energy capacity by 2030. In our view, this places the renewable energy arm of ACWA Power at the cusp of a multi-year growth upcycle. The company already has a robust operating portfolio in KSA with long tenor contracts in place. Emerging as the winning bidder, ACWA Power has been the developer and co-investor for several large projects in KSA including a few key projects like the Sudair Solar PV Project (1.5GW), Shuaibah PV IPP, Ar Rass Solar PV IPP and the Red Sea Project. Moreover, the company has been a first mover in the NEOM Green Hydrogen project, the first and the largest of its kind.

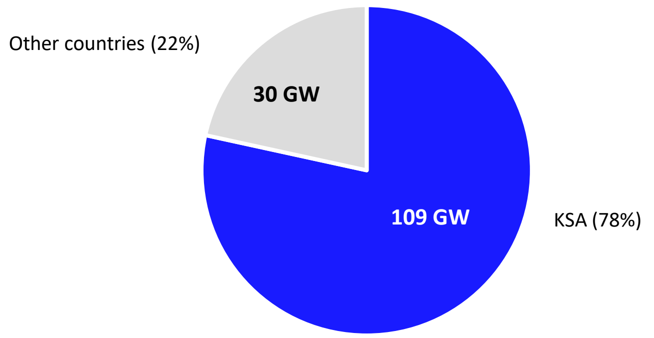
  We believe KSA to be the center of growth by contributing to the bulk of the incremental capacity additions (about 78%) in the company's renewable energy portfolio going forward. As per our analysis, we build in the possibility of ACWA power's renewable portfolio to register a 6x growth over the coming two decades given the thrust on clean energy. Delving deeper into our calculations, taking a conservative stance, we expect an addition of ~139 GW renewable energy capacity between 2023-2040 escalating the gross power capacity of ACWA Power to ~193 GW (assuming conventional sticky at 27 GW). Reiterating our assumption that 78% of the incremental addition would come through from KSA, we believe that the Kingdom would add ~109GW to ACWA power's gross capacity with the remaining 30 GW coming from other geographies. We would also like to highlight that although the Government is exploring the possibility of increasing the renewable target from 59GW to 130 GW by 2030, we adopt a cautious approach in our calculations and build in the possibility of a targeted renewable energy capacity of ~59GW by 2030 and ~155GW by 2040 for KSA, out of which 70% would be deployed by ACWA Power factoring its unique market positioning.

Figure 32 **ACWA Power Projected Gross Power Capacity (GW)***



Source: Company Data, Al Rajhi Capital; * ARC estimates

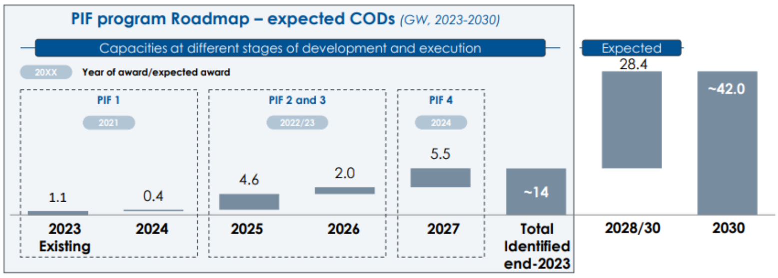
Figure 33 **Geographical Bifurcation of Incremental Renewable Power Capacity (2040E*)**



Source: Company Data, Al Rajhi Capital; * ARC estimates

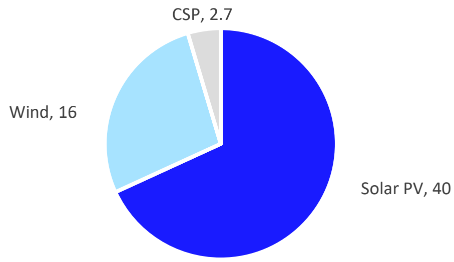
- **PIF Strategic Framework Agreement to lend earnings visibility-**
  In 2021, the company inked a strategic framework agreement with PIF in relation to the renewable energy development program to jointly develop the projects allocated to the latter. The PIF has committed to develop 70% of Saudi Arabia's renewable energy target by 2030 (i.e 70% of 59GW ~ 42GW). This implies that a vast majority of the Kingdom's transition in the energy forefront will be led by PIF (the largest shareholder in ACWA Power). Essentially under the agreement, ACWA Power (as part of the consortium with Badeel, PIF's wholly owned subsidiary) would be responsible for delivering the PIF commitment in the country's renewable capacity. About 14GW of the PIF program is under development by ACWA Power for 2024. Additionally, the remaining 26+GW ensures that a healthy project pipeline is underway for ACWA Power. This agreement shall pave the way for long-term earnings visibility for the company. On the other hand, owing to the company's dominant positioning in the home country, we expect it to emerge as the preferred bidder for a major chunk of the non-PIF pipeline as well.

Figure 34 **PIF Program Roadmap- expected commercial operation dates.**



Source: Company Data, Al Rajhi Capital

Figure 35 **KSA Renewable Energy Targets 2030E (GW)**



Source: Saudi National Renewable Energy Program, Al Rajhi Capital

- **Business strategy outlines foraying into newer areas and geographies-**
  The company aims to solidify its footing beyond GCC countries, in regions including Central Asia and China due to their hyper-growth potential. The business strategy emphasizes that deeper penetration in Uzbekistan and entry into the China market would be a driving force in the company's expansion strategy. With the expectation of China leading the global renewable capacity build up, ACWA Power's expansion into the geography would bolster growth at an accelerated pace. In continuation to the company's collaboration with several Chinese partners on key projects in Saudi Arabia and beyond, awarding of identified projects in China would be one step up on the growth curve for ACWA Power.
  In addition to this, the company is betting big on the Green Hydrogen revolution, thereby embarking on several projects in this sphere. The recent wins in Egypt and Uzbekistan augurs well for unlocking further opportunities, following the awarding of the NEOM GH2 project. We expect the expanding geographical footprint and asset portfolio would predominantly provide further legs to the company's leading position in the critical infrastructure space.

Valuation and Key Risks

We value the company using an equally weighted mix of DCF and relative valuation methodologies. Taking into account the company's monopolistic nature and multiple tailwinds for growth across the power and water portfolio over the coming two decades, we use the DCF approach by forecasting free cash flows until 2040. We believe the growth outlook for the company shall be steady until 2040 owing to the world's net zero carbon emission targets and the boom in the renewable energy forefront. The DCF approach uses a 5.0% terminal growth rate at a 7.37% WACC implying a target price of SAR241/sh. On the other hand, the relative valuation methodology is based on the EV/Asset approach wherein we use the gross power capacity (GW) as a proxy for the asset. A comparative analysis with a few European peers (Orsted, RWE) in a similar industry suggests higher margins for ACWA Power. Based on that, we assign a 25% premium to ACWA Power's EV/GW compared to the peer average. This implies a target price of SAR272/sh. Hence, we initiate coverage on ACWA Power with a "Neutral" rating on the stock with a TP of SAR257/sh implying an upside of 4.2% at the current market price.

Figure 36 **Valuation**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	241	50%	121
Relative Valuation (EV/Asset)	272	50%	136
Fair Value (SAR)			**257**
Current Price (SAR)			*246*
Upside (%)			*4.2%*

Source: Al Rajhi Capital

Figure 37 **Relative Valuation**

Peers	EV 2023e* (SAR mn)	Gross Power Capcity (GW)	EV/GW
Orsted	120673	31	3931
RWE	124155	39	3159
Average EV/GW			3545

Source: Company data, Al Rajhi Capital; * Bloomberg estimates; Figures in (SAR mn)

Relative Valuation Methodology	Fair Value (SAR)
2023e Peer EV/GW	3545
Premium	**25%**
Target EV/GW for ACWA Power	4431
Target EV (SAR mn)	221563
Less:	
Debt	-25832
Minority Interest	-1622
Employee Retirement Benefits	-191
Add:	
Cash and bank balances	4995
Equity Value (SAR mn)	**198913**
Target price per share (SAR)	***272***

Source: Al Rajhi Capital; Figures in SAR mn

Key Risks:

1. Delay in execution of projects to lead to a setback in earnings.
2. Slower than expected rollout of renewable pipeline by the Kingdom and the rest of the globe.
3. Foreign exchange fluctuations in currencies other than dollar to affect revenues related to non-dollar denominated transactions.
4. Increased scenarios of unplanned outages to affect variable revenues.
5. Unfavourable regulatory changes to hinder business as usual operations.

Financial Assumptions

Revenue analysis: ACWA Power reported a 4-year revenue CAGR of ~13% and we expect the company's revenues to compound at a similar CAGR over the next 8 years (2022-2030E) owing to the momentum in the project pipeline. The company has a favourable revenue mix diversified across the utility value chain. Historically, the revenues derived from the services rendered arm contributed to almost half of the revenue construct of the company. Meanwhile the other half is contributed by almost an equal mix between sale of desalinated water and electricity for which the revenue is recognised upon delivery. It is notable that the operation and maintenance services form a core part of the company's business model and the revenue accrued from NOMAC's core expertise in this field is entirely consolidated. In addition to this, the capacity charges based on the delivered gross capacities also forms a key part of the revenue construct. Going forward, we expect the company to significantly step up its renewable capacity and desalinated water capacity over the next two decades. This would explicitly be underpinned by the company's strong win ratio which increases the probability of a strong project pipeline.

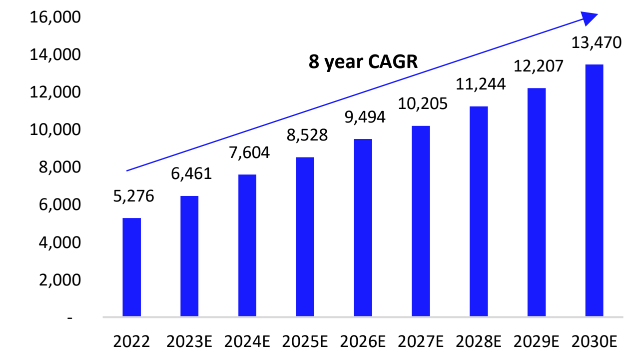
Hence, revenues for ACWA Power would register a steady growth trajectory as the company consistently extends its role as a lead developer and utilizes its operational know-how into its asset portfolio. Moreover, we expect a multi fold growth in the renewable portfolio from 23GW as of Q3 2023 to ~66 GW by 2030 and further upwards to ~166GW by 2040 with the conventional portfolio holding stable at 27GW thereby ramping the gross power capacity to 193GW (versus 50GW in Q32023). Besides, the desalinated water capacity is expected to grow at a consistent pace (from 7.6 mn m^3/day to 14.6 mn m^3/day over 2023E-2023E) owing to the high share of GCC countries in the global water desalination capacity and also in order to cater to needs of the rising population.

Cost analysis: The company's cost breakdown implies that about ~65% of the company's costs were attributed to direct material costs, depreciation and operating and technical fees for FY22. In our view, as the company's project pipeline materialises at an accelerated pace owing to the boom in the renewable energy space, the company may be in a position to reap the benefits of economies of scale. As a result of this, we do not expect these costs to rise significantly in proportion to revenues.

Margins: We expect a significant uptick in the gross margins of the company in the medium term and anticipate that the steady state gross margins would hover around 60-62% over 2030 to 2040. This shall be on account of the company's competitive benefits in terms of costs outlay owing to the monopolistic nature of business. Additionally, an increase in equity investments in proportion to the rise in number of secured projects and total AUM would propel higher flow to the equity income thereby leading to a steep upside potential for operating margins. The spike in equity income and the cool off in financing burden over the coming years would explicitly support the net margins of the company in the medium term.

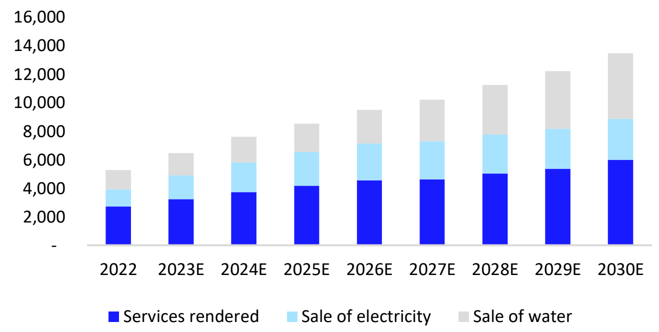
Balance Sheet: The long-term offtake agreements with creditworthy off takers with respect to the utility projects provides strength to ACWA Power's balance sheet. The company is rich in cash reserves and is in a comfortable position to deploy excess capital into new greenfield opportunities. Moreover, the strong and highly visible project pipeline lends predictability to the company's upcoming cash flows. Although utility projects are capex heavy, the co-investing model in the contracted projects mitigates the need for extensive capital deployment from the company's books. Hence, we expect the company to continue generating strong free cash flows going forward thereby creating room for deleveraging and enhanced dividend payouts in the medium-long term.

Figure 38 **ACWA Power Revenue Projection (SARmn)**



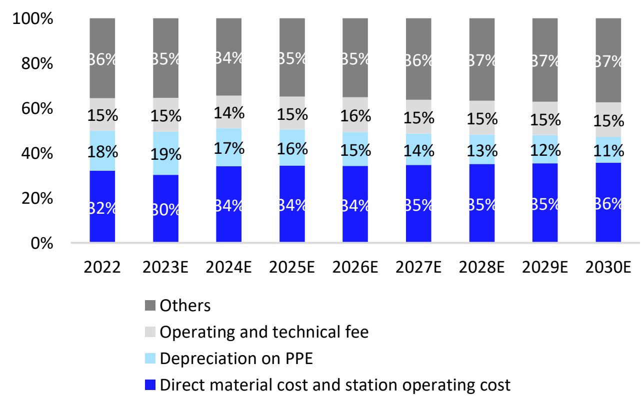
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 39 **Revenue Construct Evolution (2022-2030E)**



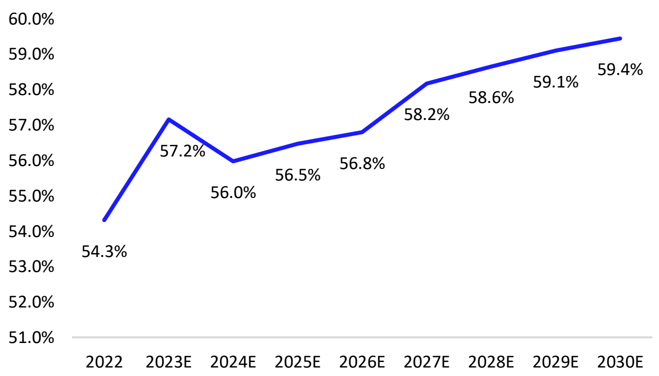
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 40 **Cost Breakdown (%) (2022-2030E)**



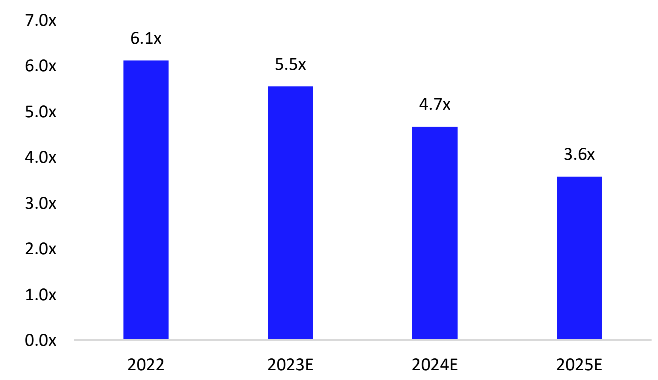
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 41 **Gross Margin Trajectory (2022-2030E)**



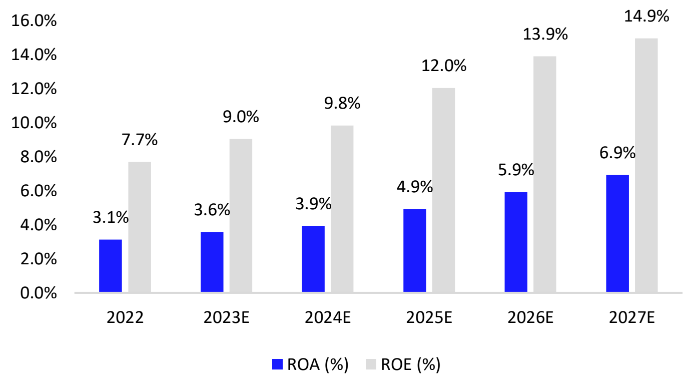
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 42 **Leverage (Net Debt/EBITDA)**



Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 43 **ROA and ROE (%) (2021-2028E)**



Source: Company Data, Al Rajhi Capital, ARC estimates

Key Financials

Figure 44 **Income Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Sales	**5,276**	**6,461**	**7,604**	**8,528**	**9,494**	**10,205**
Cost of Sales	(2,411)	(2,768)	(3,348)	(3,713)	(4,102)	(4,269)
% of revenues	*45.7%*	*42.8%*	*44.0%*	*43.5%*	*43.2%*	*41.8%*
Gross Income	**2,865**	**3,693**	**4,256**	**4,815**	**5,392**	**5,936**
General and Administrative expenses	(1,066)	(1,213)	(1,322)	(1,409)	(1,508)	(1,600)
Share in net results of equity accounted inves	294	302	335	798	1,358	1,931
Other operating income	520	594	594	594	594	594
ECL Provision	(252)	0	0	0	0	0
Operating Income	**2,362**	**3,376**	**3,864**	**4,798**	**5,835**	**6,861**
Financial costs	(1,229)	(1,474)	(1,571)	(1,567)	(1,497)	(1,402)
Other income/ expenses	358	317	317	317	317	317
Profit before tax	**1,491**	**2,218**	**2,609**	**3,548**	**4,655**	**5,776**
Zakat & Tax	(233)	(177)	(209)	(284)	(372)	(462)
Net Profit Before Unusual Items	**1,259**	**2,041**	**2,401**	**3,264**	**4,282**	**5,314**
Income from discontinued opertaions	218	0	0	0	0	0
Non-controlling interest	64	(102)	(120)	(163)	(214)	(266)
Net Income	**1,540**	**1,939**	**2,281**	**3,101**	**4,068**	**5,048**
EPS (SAR/sh)	**2.11**	**2.65**	**3.12**	**4.24**	**5.56**	**6.90**

Source: Company Data, Al Rajhi Capital

Figure 45 **Cash Flow Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	2,911.4	3,472.1	4,830.9	5,250.0	6,204.6	7,053.1
Cash from investing	-2,361.6	-5,841.6	-1,643.0	-1,548.3	-2,324.3	-2,631.5
Cash from financing	425.6	1,418.7	-514.4	-495.0	-22.3	-2,690.2
Net change in cash and cash equivalents	**975.3**	**-950.8**	**2,673.4**	**3,206.7**	**3,858.0**	**1,731.4**
Cash and cash equivalents, end of the period	**6,354.5**	**5,403.7**	**8,077.2**	**11,283.9**	**15,141.9**	**16,873.3**

Source: Company Data, Al Rajhi Capital

Figure 46 **Key Ratios**

Key metrics	2022	2023E	2024E	2025E	2026E	2027E
Current ratio	2.5x	2.3x	2.7x	3.1x	3.7x	3.9x
Gross margin (%)	54.3%	57.2%	56.0%	56.5%	56.8%	58.2%
EBITDA margin (%)	53.6%	60.7%	58.5%	63.4%	68.2%	73.2%
Operating margin (%)	44.8%	52.3%	50.8%	56.3%	61.5%	67.2%
Net margin (%)	29.2%	30.0%	30.0%	36.4%	42.9%	49.5%
ROA	3.1%	3.6%	3.9%	4.9%	5.9%	6.9%
ROE	7.7%	9.0%	9.8%	12.0%	13.9%	14.9%

Source: Company Data, Al Rajhi Capital

Figure 47 **Balance Sheet**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Assets						
Property and Equipment	10,106	10,619	10,797	10,810	10,949	10,881
Intangible assets	2,029	2,034	2,042	2,054	2,067	2,082
Equity accounted investees	12,625	17,403	18,274	19,187	20,722	22,795
Net invetsment in finance lease	11,502	11,502	11,502	11,502	11,502	11,502
Deferred tax asset	120	120	120	120	120	120
Fair value of derivatives	925	925	925	925	925	925
Other assets	398	398	398	398	398	398
Total non-current assets	**37,703**	**43,000**	**44,058**	**44,995**	**46,683**	**48,701**
Inventories	407	455	550	610	674	702
Net invetsment in finance lease	378	378	378	378	378	378
Fair value of derivatives	106	106	106	106	106	106
Due from related parties	985	1,034	836	853	949	1,020
Accounts receivables, prepayments and other receivables	3,227	3,717	3,750	4,439	4,682	5,033
Cash and cash equivalents	6,355	5,404	8,077	11,284	15,142	16,873
Assets held for sale	140	140	140	140	140	140
Total current Assets	**11,598**	**11,234**	**13,839**	**17,811**	**22,072**	**24,253**
Total assets	**49,301**	**54,235**	**57,896**	**62,806**	**68,755**	**72,954**
Liabilities						
Long term financing and funding facilties	22,333	25,586	27,260	28,998	31,182	30,725
Due to related parties	863	863	863	863	863	863
Equity accounted investees	68	68	68	68	68	68
Fair value of derivatives	2	2	2	2	2	2
Deferred tax liability	214	214	214	214	214	214
Deferred revenue	91	91	91	91	91	91
Employee benefit obligations	191	198	205	212	220	228
Other liabilities	820	820	820	820	820	820
Total non-current liabilities	**24,581**	**27,841**	**29,523**	**31,268**	**33,460**	**33,011**
Accounts payable, accruals, and other financial liabilities	3,051	3,034	3,210	3,764	3,933	4,093
Short term financing facilities	275	522	556	592	636	627
Current portion of long term financing and funding facilities	1,040	1,040	1,040	1,040	1,040	1,040
Due to related parties	89	99	119	132	146	152
Fair value of derivatives	0	0	0	0	0	0
Zakat and taxation	237	237	237	237	237	237
Finanicng and funding classified as current	0	0	0	0	0	0
Liabilities associated with held for sale	0	0	0	0	0	0
Total current liabilities	**4,692**	**4,931**	**5,163**	**5,764**	**5,993**	**6,149**
Shareholders' equity						
Share capital	7,134	7,134	7,134	7,134	7,134	7,134
Share premium	5,336	5,336	5,336	5,336	5,336	5,336
Other reserves	2,629	2,629	2,629	2,629	2,629	2,629
Statutory reserve	873	873	873	873	873	873
Retained earnings	2,081	3,413	5,041	7,440	10,754	14,981
Non controlling interest	1,369	1,471	1,591	1,754	1,968	2,234
Proposed Dividend	607	607	607	607	607	607
Total equity	**20,028**	**21,462**	**23,210**	**25,773**	**29,301**	**33,793**
Total liabilities	**49,301**	**54,235**	**57,896**	**62,806**	**68,755**	**72,954**

Source: Company Data, Al Rajhi Capital

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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