

GFH Financial Group

Strong investment income drove profits

4Q22 net profit lower than our estimates

GFH Financial Group's (GFH/the Company) net profit rose marginally 0.3% YOY to USD 24 Mn in 4Q22, lower than our estimate of USD 36 Mn. The growth in profit is mainly driven by strong growth in total income and a sharp decline in impairment provisions partially offset by a hike in operating expenses and finance costs.

P&L highlights

GFH's total income rose 15.3% YOY to USD 148 Mn in 4Q22 driven by a solid growth in income from proprietary and co-investments and commercial banking income partially offset by a decline in investment banking income, real estate income, and treasury and other income. GFH's commercial banking income rose significantly 53.8% YOY to USD 21 Mn in 4Q22 driven by a strong performance from KHC bank. Similarly, income from proprietary and co-investments recorded a sharp rise from USD 4 Mn in 4Q21 to USD 55 Mn in 4Q22. On the other hand, the Company's investment banking income declined 10.5% YOY to USD 47 Mn in 4Q22 whereas treasury and other income fell 30.4% YOY to USD 31 Mn. GFH's real estate segment witnessed a loss of USD 5 Mn in 4Q22 as compared to an income of USD 13 Mn in 4Q21. The Company's operating expenses rose 36.4% YOY to USD 64 Mn in 4Q22 as compared to USD 47 Mn in 4Q21. As a result, operating profit rose 3.1% YOY to USD 84 Mn in 4Q22. Furthermore, the Company's finance cost rose 40.7% YOY to USD 55 Mn in 4Q22. Moreover, impairment allowances declined from USD 18 Mn in 4Q21 to USD 3 Mn in 4Q22. Thus, total expenses rose marginally 1.2% YOY to USD 58 Mn in 4Q22. In addition, the share of profit attributable to non-controlling interest holders stood at USD 2 Mn in 4Q22.

Balance Sheet highlights

GFH's assets under management stood at USD 7.9 Bn in 2022 as compared to USD 5.3 Bn in 2021 whereas the group charged management fees and performance fees of USD 34 Mn in 2022 as against USD 8 Mn in 2021. The company holds a solid cash and cash equivalents balance of USD 858 Mn in 2022, up from USD 722 Mn in 2021. In addition, the group's CET 1 ratio and capital adequacy ratio stood healthy at 14.0% and 14.7% respectively in 2022. The group's interest-earning assets rose significantly 38.9% to USD 7.7 Bn in 2022. GFH's total equity declined 8.3% to USD 1.1 Bn in 2022.

Target price and recommendation

We maintain our BUY rating on GFH with a revised target price of AED 1.30. The group manages a total of USD 17.6 Bn of assets and funds which includes a global portfolio of investments in healthcare, logistics, education, and technology across Europe, North America, and the MENA region. As of December 2022, the group's AUMs stood at USD 7.9 Bn. The Company invested more than USD 1.2 Bn in student housing and medical building assets in the USA. GFH also launched its office in London for effective management of assets across the UK and Europe. The Company also acquired Big Sky Medical which is a real estate asset management company focusing on the healthcare segment. Furthermore, GFH entered in a JV with Big Sky and acquired two medical clinic portfolios valued in excess

Rating : BUY

First Look Note – 4Q22

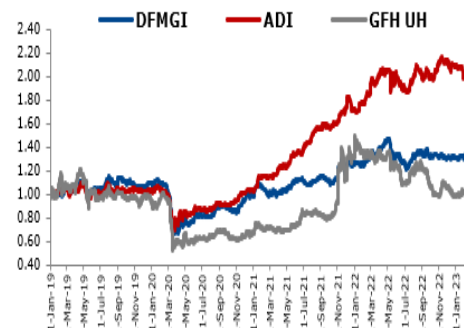
Sector: Financial Services

Recommendation

Current Price (13-Mar-23)	0.891
Target Price (AED)	1.30
Upside/Downside (%)	+46%

Stock Information

Market Cap (mm)	3,414.76
Paid Up Capital (mm)	1,015.61
52 Week High	1.25
52 Week Low	0.88
3M Avg. daily value (AED)	1,869,680



Financial Ratios

Dividend Yield (12m)	4.91
Dividend Pay-out (%)	61.51
Price-Earnings Ratio (x)	9.14
Price-to-Book Ratio (x)	0.85
Book Value (AED)	0.29
Return-on Equity (%)	9.21
Earning Per Share (AED)	0.03
Beta	1.29

Stock Performance

5 Days	-2.73%
1 Months	-5.81%
3 Months	-4.91%
6 Months	-16.73%
1 Year	-23.36%
Month to Date (MTD)	-2.20%
Quarter to Date (QTD)	0.23%
Year to Date (YTD)	0.23%

of USD 800 Mn. In addition, the Company also launched its offices in Saudi Arabia to strengthen its position in KSA. On the other hand, GFH launched a mobile application "GFH Online" which offers investment statements and news on the Company's latest deals and offerings. The company is continuously diversifying its revenue segment with the increasing product offering. GFH's asset quality improved significantly 188 bps QOQ to 4.6% in 4Q22 with growth in coverage ratio from 73.0% in 3Q22 to 92.5% in 4Q22 whereas, stage 2 loans as a percentage of total loans declined from 12.3% in 3Q22 to 9.6% in 4Q22. Strategic diversification and investments into downturn-resistant sectors positively benefited the company with solid returns on investment. GFH declared a dividend of USD 0.0159 per share amounting to a dividend yield of 6.5% in 2022. Thus, based on our analysis, we assign a BUY rating on the stock.

GFH - Relative Valuation

(at CPM)	2018	2019	2020	2021	2022	2023F
PE	0.08	0.13	0.19	0.10	0.09	0.10
PB	0.90	0.95	1.04	0.99	0.95	0.88
Dividend Yield	3.5%	3.6%	2.0%	4.9%	6.5%	6.5%

FABS estimate & Co Data

GFH - P&L

USD 000's	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Investment Banking Income	52	29	47	34	36.5%	-10.5%	63.4%	110	121	9.2%
Commercial banking income	13	22	21	35	-41.2%	53.8%	-5.0%	72	79	9.9%
Inc. from proprietary & co-invest.	4	18	55	10	422.6%	NM	208.1%	29	104	259.8%
Real Estate Income	13	17	-5	20	NM	NM	NM	30	21	-29.2%
Treasury and other income	45	26	31	37	-15.7%	-30.4%	21.0%	158	117	-25.9%
Total income	128	111	148	137	7.7%	15.3%	33.0%	399	442	10.7%
Operating expenses	47	24	64	38	66.6%	36.4%	162.1%	134	148	10.8%
Operating Profit	81	87	84	99	-15.1%	3.1%	-3.3%	265	294	10.7%
finance expenses	39	57	55	54	1.9%	40.7%	-5.1%	137	193	40.6%
impairment allowance	18	3	3	7	-59.1%	-83.3%	-3.8%	36	3	-90.7%
Total Expense	57	61	58	61	-5.5%	1.2%	-5.0%	173	196	13.6%
Profit for the period	24	26	26	38	-30.6%	7.5%	0.5%	93	98	5.4%
Non-Controlling Interest	0	2	2	2	8.3%	383.4%	8.3%	8	7	-11.2%
Profit to shareholders	24	24	24	36	-32.8%	0.3%	-0.2%	84	90	7.1%

FABS Estimates & Co Data

GFH - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Operating Profit Margin	63.4%	78.0%	56.7%	-671	-2132	66.5%	66.5%	-1
Net Profit Margin	18.7%	21.6%	16.3%	-243	-540	21.1%	20.4%	-70

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

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