

GFH Financial Group

Robust growth in investment banking and real estate income drove profitability

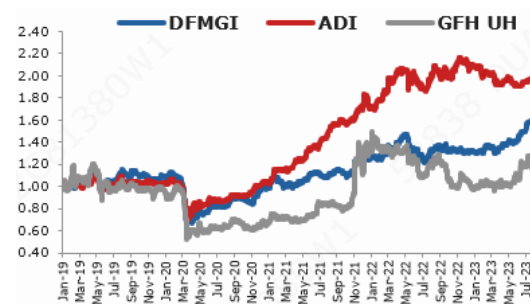
Current Price
AED 0.98

Target Price
AED 1.30

Upside/Downside (%)
+32%

Rating
BUY

- GFH reported doubled growth in income and profitability due to healthy contributions from the core business lines
- GFH generated USD 39.2 Mn income from investment activities in 2Q23 as it placed the Healian regional healthcare platform in addition to the placement of GCC Logistics Fund and US Opportunistic Fund
- Launched GFH Partners, a fully-owned subsidiary to grow and expand global asset management capabilities primarily in the real estate sector. It manages over USD 6 Bn of AUM in the real estate sector
- GFH maintained healthy capitalization with a capital adequacy ratio of 15.16% and a robust liquidity coverage ratio of 237%.



2Q23 Net Profit in line with our estimate

GFH Financial Group's (GFH/the Company) net profit reported strong growth of 32.7% YOY to USD 31 Mn in 2Q23, in line with our estimate of USD 32 Mn. The Company's net profit is mainly driven by the strong income from the investment banking segment, real estate segment and profit from the treasury segment as compared to losses in 2Q23 partially offset by an increase in finance costs and operating expenses.

P&L Highlights

GFH's total income rose 54.7% YOY to USD 87 Mn in 2Q23 mainly due to the robust growth in income from investment banking, real estate, treasury and other income partially offset by a decline in proprietary & co-investments and commercial banking income. The company's income from investment banking almost doubled to USD 45 Mn in 2Q23 from USD 20 Mn in 2Q22 due to strong growth in deal-related income coupled with robust sector and platform fundamentals, and the resilience of the GCC countries. Similarly, income from the real estate segment rose 64.4% YOY to USD 10 Mn in 2Q23 contributed by the growth in sales, development, and rental income. Whereas treasury and other income stood at USD 1 Mn in 2Q23 as compared to a loss of USD 4 Mn in 2Q22 owing to an increase in finance income partially offset by higher finance costs. Commercial banking income declined 7.9% YOY to USD 16 Mn in 2Q23 primarily due to higher finance expenses. While income from proprietary and co-investment decreased 9.9% YOY to USD 14 Mn in 2Q23. The company's operating expenses rose 47.1% YOY to USD 37 Mn in 2Q23 with a cost-to-income ratio of 42.8% in 2Q23 as compared to 45.0% in 2Q22. As a result, operating profit rose 61.0% YOY to USD 50 Mn in 2Q23. Furthermore, the Company's finance cost rose 16.8% YOY to USD 11 Mn in 2Q23 due to the higher interest rates. Moreover, the impairment allowance fell from a reversal of USD 4 Mn to a provision of USD 6 Mn in 2Q23. Thus, profit for the period rose 25.8% YOY to USD 33 Mn in

Stock Information

Market Cap (AED, mm)	3,740.61
Paid Up Capital (mm)	1,015.64
52 Week High	1.20
52 Week Low	0.87
3M Avg. daily value (AED)	21,731,700

2Q23 Result Review (USD,'000)

Total Assets	10,336
Total Liabilities	9,284
Total Common Equity	973
Total Income	87
Net Profit	31

Financial Ratios

Dividend Yield (12m)	5.98
Dividend Pay-out (%)	61.51
Price-Earnings Ratio(x)	8.80
Price-to-Book Ratio (x)	1.05
Book Value (AED)	0.25
Return-on Equity (%)	10.53

Stock Performance

5 Days	-0.51%
1 Months	-7.05%
3 Months	1.46%
6 Months	7.25%
1 Year	-10.46%
Month to Date (MTD%)	-0.51%
Quarter to Date (QTD%)	-7.92%
Year to Date (YTD%)	9.79%

in 2Q23. While non-controlling interest declined 28.6% YOY to USD 2 Mn in 2Q23.

Balance Sheet Highlights

GFH's assets under management stood at USD 8.4 Bn in 2Q23 compared to USD 7.9 Bn in 1Q23 whereas the group charged management and performance fees of USD 9.6 Mn in 1H23 as against USD 3.6 Mn in 1H22. In addition, the group's CET 1 ratio and capital adequacy ratio stood healthy at 14.30% and 15.16% respectively in 2Q23. The group's interest-earning assets rose 2.7% QOQ to USD 9.0 Bn in 2Q23. GFH's total equity attributable to shareholders of the bank declined marginally QOQ to USD 973 Mn in 2Q23 due to the payment of dividends.

Target Price and Rating

We maintain our BUY rating on GFH with a target price of AED 1.30. GFH reported healthy financial performance attributable to the ongoing progress and contribution from the group's core business line including investment banking, real estate, treasury, and proprietary investments. Strong growth in asset management fees and deal-related income boosted the Company's Investment Banking Income in 2Q23 and contributed 52.3% to the total income in 2Q23. Further, the Company launched GFH Partners, a wholly-owned subsidiary particular focus on the real estate sector to expand the group's global asset management capabilities, where the group currently manages over USD 6 Bn of assets. This segment mainly focuses on the core markets of the US, UK, and the GCC, with a strategic objective to capture and capitalize on robust economic expansion opportunities in the regions. GFH regional healthcare platform, Healian, received a capital commitment of USD 250 Mn for immediate deployment during 2H2023. The group managed USD 18.8 Bn of assets and funds, including a global portfolio of investments in healthcare, logistics, education, and technology across Europe, North America, and the MENA region. The Company's total assets rose 21.3% YOY to USD 10.3 Bn in 2Q23 while the AUM increased 26.0% YOY to USD 8.4 Bn in 2Q23. However, the company's asset yield on financing income grew 27 bps QOQ basis and stood at 5.05% whereas the cost of funds declined marginally by 5 bps QOQ to 0.59% in 2Q23. On the other hand, GFH's asset quality improved with an NPL ratio of 5.9% in 2Q23 compared to 6.2% in 1Q23 whereas the provision coverage ratio inclined from 74.5% in 2Q23 to 66.6% in 1Q23. In addition, stage 2 loans as a percentage of total loans increased from 11% in 1Q23 to 18% in 2Q23. However, the company maintained healthy capitalization with a capital adequacy ratio of 15.16% and a robust liquidity coverage ratio of 237%. Thus, based on our analysis, we assign a BUY rating on the stock.

GFH - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	8.29	13.62	20.08	10.27	10.08	8.90
PB	0.97	1.02	1.12	1.06	1.03	0.93
Dividend yield	3.3%	3.3%	1.8%	4.5%	6.0%	6.0%

FABS Estimates & Co Data

GFH – P&L

USD mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Investment Banking Income	20	45	45	38	20.2%	122.5%	0.8%	121	165	36.9%
Commercial banking income	17	25	16	30	-47.4%	-7.9%	-38.1%	79	69	-13.0%
Income from proprietary and co-investments	16	14	14	19	-24.5%	-9.9%	5.7%	104	63	-39.5%
Real Estate Income	6	5	10	7	53.1%	64.4%	124.1%	21	31	45.1%
Treasury and other income	-4	-2	1	28	NM	NM	-168.4%	117	33	-71.6%
Total income	56	87	87	121	-28.4%	54.7%	-0.1%	442	361	-18.4%
Operating expenses	25	41	37	34	9.5%	47.1%	-9.6%	148	162	9.7%
Operating Profit	31	46	50	87	-43.1%	61.0%	8.4%	294	198	-32.5%
Finance expenses	9	21	11	49	-78.2%	16.8%	-49.0%	193	73	-62.0%
Impairment allowance	-4	1	6	3	85.3%	NM	893.1%	3	15	346.9%
Total Expense excl. OPEX	5	21	17	52	-67.5%	NM	-21.0%	196	88	-55.1%
Profit for the period	26	24	33	35	-7.0%	25.8%	34.0%	98	110	12.8%
Non-Controlling Interest	3	0	2	3	-28.6%	-27.8%	397.0%	7	7	0.0%
Profit to shareholders	23	24	31	32	-5.0%	32.7%	27.5%	90	103	13.9%

FABS estimate & Co Data

GFH - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Operating margin	55.0%	52.7%	57.2%	223	448	66.5%	55.0%	-1150
Net profit margin	41.1%	27.6%	35.3%	-585	764	20.4%	28.5%	807

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value GFH. We have assigned 70% weight to Residual Income and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.21	70.0%	0.85
Relative valuation	1.50	30.0%	0.45
Weighted Average Valuation (AED)			1.30
Current market price (AED)			0.98
Upside/Downside (%)			+32%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 10.4%. The cost of equity is calculated by using a 10-year government bond yield of 6.4%, beta of 0.7 and equity risk premium of 5.6%. We have assumed Bahrain's 10Y Government Bond yield for valuing the company. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	-85
Terminal value (USD, Mn)	-147
Required Capital	1,052
FV to Common shareholders (USD, Mn)	1,267
No. of share (Mn)	3,833
Current Market Price (AED)	0.98
Fair Value per share (AED)	1.21

Residual Income Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net profit	103	110	111	117	126
Excess return excess capital	-8	-14	-19	-25	-31
Adjusted net Profit	95	96	92	92	95
Equity Charge	-109	-112	-116	-119	-123
Economic Profit	-15	-16	-24	-27	-28
Discounting Factor	0.97	0.88	0.80	0.72	0.65
Present value of excess equity	-14	-14	-19	-19	-18

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value GFH's different segments. It owns a stake in Khaleeji Commercial Bank and it is valued using regional peers with a PB multiple of 1.1x. The Investment Banking Segment is valued using the PE multiple of regional and global peers with a median PE multiple of 10.4x. Treasury and Hold Co. Segment is valued using international peers using a median PB multiple of 0.8x.

Commercial bank	Market (USD Mn)	PB (x)		PE (x)	
		2023F	2024F	2023F	2024F
Bank Muscat	5,479	1.2	1.1	9.7	9.5
RAK Bank	3,122	0.9	1.0	8.4	7.5
Mashreq Bank	7,784	1.1	1.0	5.0	5.8
Commercial Bank of Dubai	3,894	1.0	1.0	-	-
Bank Aljazira	3,929	1.2	1.0	13.3	11.7
Qatar Islamic Bank	13,126	1.9	1.8	11.7	10.9
Average		1.2x	1.1x	8.0x	7.6x
Median		1.1x	1.0x	9.0x	8.5x
Max		1.2x	1.1x	11.2x	10.6x
Min		1.0x	1.0x	5.8x	6.2x

Source: FAB Securities

Investment bank	Market (USD Mn)	PB (x)		PE (x)	
		2023F	2024F	2023F	2024F
Jefferies Financial Group	7,542	0.8	0.8	26.8	9.5
Stifel Financial Group	6,538	1.4	1.3	10.6	9.3
Guotai Junan Securities	17,227	0.9	0.8	9.7	8.6
Lazard	2,908	8.2	5.2	-	11.2
EFG Hermes holdings	749	1.1	1.0	10.1	8.6
Lincoln National Corporation	4,368	0.8	0.7	14.6	3.5
Average		2.2x	1.6x	12.0x	8.4x
Median		1.0x	0.9x	10.4x	8.9x
Max		1.3x	1.2x	13.6x	9.4x
Min		0.8x	0.8x	9.8x	8.6x

Source: FAB Securities

Treasury and Holding co	Market (USD Mn)	PB (x)		PE (x)	
		2023F	2024F	2023F	2024F
Nomura Holdings	11,188	0.5	0.5	16.5	9.9
Canaccord Genuity Group	596	1.1	1.1	-	17.8
Barclays PLC	28,338	0.4	0.4	4.6	4.3
PNC financial services	49,065	1.1	1.1	9.3	10.0
Insignia Financial	1,873	0.8	0.8	33.8	37.0
Average		0.8x	0.8x	12.9x	15.8x
Median		0.8x	0.8x	9.3x	10.0x
Max		1.1x	1.1x	16.5x	17.8x
Min		0.5x	0.5x	4.6x	9.9x

Source: FAB Securities

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%

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