

GFH Financial Group (GFH)

Solid performance across all segments drove profitability

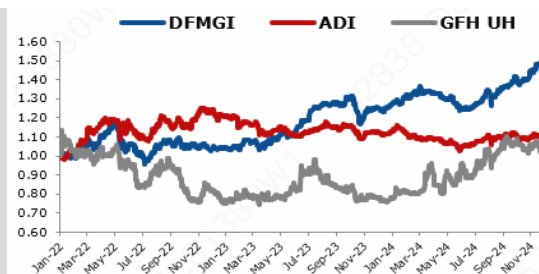
Current Price
AED 1.20

Target Price
AED 1.45

Upside/Downside (%)
21%

Rating
BUY

- Investment banking segment completed four deals in 3Q24. Total AUMs and assets stood at USD 21.2 Bn in 3Q24.
- Co-investing in a European maritime ship leasing platform along with Hayfin Capital Management committing an investment of USD 50 Mn in 3Q24 and with Blackstone in a renewable energy platform in the US.
- GFH Partners acquired four A-grade student housing assets with more than 1,600 beds and two cold storage and distribution facilities in Massachusetts and Texas.
- Launched an AI-powered mobile App that offers EKYC & onboarding services, real-time subscription & payment accounts, and GFH Infinite Privilege Card.



3Q24 Net Profit lower than our estimate

GFH Financial Group's (GFH/the Company) net profit increased 11.9% YOY to USD 27 Mn in 3Q24, lower than our estimate of USD 50 Mn. The increase in net profit is primarily driven by an increase in income across commercial banking and treasury and proprietary investment segments partially offset by a decline in investment banking income, higher operating expenses, finance expenses, and a rise in profit attributable to quasi-equity holders.

P&L Highlights

GFH's total income increased 24.2% YOY to USD 154 Mn in 3Q24, mainly driven by strong performance from income from treasury and proprietary investment and commercial banking segment. Commercial banking income grew 69.9% YOY to USD 37 Mn in 3Q24 owing to solid recurring contributions and a decline in finance expenses. Income from Treasury and proprietary segment increased from USD 27 Mn in 3Q23 to USD 73 Mn in 3Q24 driven by the Company's asset monetization strategy and solid portfolio management. GFH recorded mark to-market gain of USD 8.37 Mn across the treasury portfolio in 3Q24. However, Investment Banking revenue declined 40.5% YOY to USD 45 Mn in 3Q24 due to a decline in deal-related income partially offset by a solid growth in asset management revenue. Furthermore, the Company's operating expenses increased 7.3% YOY to USD 45 Mn in 3Q24. The cost-to-income ratio declined from 33.7% in 3Q23 to 29.1% in 3Q24. Operating profit increased 32.8% YOY to USD 109 Mn in 3Q24 while the operating profit margins grew 459 bps YOY to 70.9%. In addition, the Company's finance cost rose from USD 15 Mn in 3Q23 to USD 21 Mn in 3Q24, whereas impairments declined 38.6% YOY to USD 4 Mn in 3Q24. Additionally, the share of profit attributable to quasi-equity holders stood at USD 57 Mn in 3Q24 compared to USD 37 Mn in 3Q23.

Stock Information

Market Cap (AED, mn)	4,599.11
Paid Up Capital (mn)	1,015.64
52 Week High	1.30
52 Week Low	0.82
3M Avg. daily value (AED)	10,210,480

3Q24 Result Review (USD, Mn)

Total Assets	10,939
Total Liabilities	9,838
Total Equity	1,102
Total Income	154
Net Profit	27

Financial Ratios

Dividend Yield (12m)	5.02
Dividend Pay-out (%)	55.47
Price-Earnings Ratio(x)	8.49
Price-to-Book Ratio (x)	1.26
Book Value (USD)	0.26
Return-on Equity (%)	11.24

Stock Performance

5 Days	-0.83%
1 Months	-1.64%
3 Months	-3.23%
6 Months	8.11%
1 Year	31.43%
Month to Date (MTD%)	-0.83%
Quarter to Date (QTD%)	-4.00%
Year to Date (YTD%)	32.45%

Balance Sheet Highlights

GFH's assets under management remained at the same levels at USD 9.9 Bn in 3Q24 compared to 2Q24, whereas the Company's management and performance fees declined from USD 15.3 Mn in 2Q24 to USD 13.9 Mn in 3Q24. In addition, GFH's CET 1 ratio and capital adequacy ratio stood healthy at 16.7% and 17.5%, respectively, in 3Q24. The Company's interest-earning assets grew 1.2% QOQ to USD 8.4 Bn in 3Q24. GFH's total equity fell 4.3% QOQ to USD 1.1 Bn in 3Q24. The Company's quasi-equity fell from USD 3.6 Bn in 2Q24 to USD 3.1 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on GFH with a target price of AED1.45. GFH profitability improved in 3Q24 primarily driven by healthy growth across all segments partially offset by a lower investment banking income. GFH successfully placed four investment banking deals across PE and GFH Partners in 3Q24 maintaining a solid momentum. The Company is effectively managing its portfolio of global investments by co-investing in a European maritime ship leasing platform along with Hayfin Capital Management committing an investment of USD 50 Mn in 3Q24. GFH also co-invested with Blackstone in a renewable energy platform in the US. On the other hand, GFH Partners acquired four A-grade student housing assets with more than 1,600 beds across Kentucky, Texas, Tennessee, and Minnesota with an investment of USD 300 Mn. Additionally, GFH Partners also acquired two cold storage and distribution facilities in Massachusetts and Texas for consideration of c. USD 50 Mn. Furthermore, GFH launched an AI-powered mobile App that offers EKYC & onboarding services, real-time subscription & payment accounts, and GFH Infinite Privilege Card. The management expects the interest rate cut to positively benefit the Company's financials in the upcoming period. The Company's revenue is expected to grow further, supported by an increased stake in the Khaleeji Commercial Bank during 3Q24. Furthermore, GFH remains committed to driving inorganic growth through strategic investments, partnerships, and acquisitions. The Company's focus on investing in diversified sectors and expansion across different geographies is expected to boost its income going forward. Thus, based on our analysis, we maintain our BUY rating on the stock.

GFH - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	16.8	24.8	12.7	12.4	11.2	11.3
PB	1.3	1.4	1.3	1.3	1.1	1.2
Cash dividend yield	2.6%	1.4%	3.6%	4.8%	5.0%	5.3%

FABS Estimates & Co Data

GFH - P&L

USD mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Investment Banking Income	76	42	45	50	-10.1%	-40.5%	7.4%	201	182	-9.6%
Commercial banking income	21	34	37	31	17.8%	69.9%	8.0%	79	143	80.9%
Treasury & proprietary income	27	94	73	106	-31.6%	NM	-22.3%	89	320	259.4%
Total income	124	169	154	187	-17.7%	24.2%	-8.9%	370	645	74.7%
Operating expenses	42	50	45	56	-20.3%	7.3%	-10.7%	181	207	13.9%
Operating Profit	82	119	109	131	-16.6%	32.8%	-8.1%	188	439	133.3%
Finance expenses	15	20	21	25	-16.4%	38.7%	7.3%	62	76	22.0%
Impairment allowance	7	5	4	9	-54.8%	-38.6%	-15.2%	20	27	34.3%
Total Expense excl. OPEX	22	24	25	34	-26.5%	15.2%	2.9%	83	104	25.0%
Profit before tax	61	95	84	97	-13.1%	NM	-10.9%	105	335	218.5%
Quasi equity	37	57	57	42	35.2%	NM	-0.8%	0	214	NM
Non-Controlling Interest	0	4	0	6	-91.7%	NM	-88.4%	2	10	NM
Profit to shareholders	24	34	27	50	-45.2%	11.9%	-19.1%	103	112	8.6%

FABS estimate & Co Data

GFH - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Operating margin	66.3%	70.3%	70.9%	459	59	50.9%	68.0%	1,708
Net profit margin	19.6%	19.9%	17.6%	-194	-223	27.8%	17.3%	-1,053

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	1.46	70.0%	1.02
Relative valuation	1.44	30.0%	0.43
Weighted Average Valuation (AED)			1.45
Current market price (AED)			1.20
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 10.2%. The cost of equity is calculated by using a 10-year government bond yield of 6.4%, beta of 0.83 and equity risk premium of 4.6%. 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)	1
Terminal value (USD, Mn)	27
Required Capital	841
FV to common shareholders (USD, Mn)	968
Capital Surplus	265
Dividend	67
Fair Value gain on real estate	222
Total Fair Value (USD, Mn)	1,522
No. of share (Mn)	3,833
Current Market Price (AED)	1.20
Fair Value per share (AED)	1.46

Residual Income Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	112	99	101	117	116
Excess return excess capital	-17	-17	-17	-17	-18
Adjusted net Profit	-86	-88	-90	-92	-93
Equity Charge	9	-6	-6	9	5
Economic Profit	0.99	0.90	0.82	0.74	0.67
Discounting Factor	0.97	0.88	0.80	0.72	0.66
Present value of excess equity	1¹	-5	-5	6	3

Source: FAB Securities, ¹Adjusted for partial year

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 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 8.0. Treasury and Hold Co. segment is valued using international peers using a median PB multiple of 1.0x.

Commercial bank	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
Bank Muscat	4,913	1.0	0.9	8.6	8.3
RAK Bank	3,121	1.0	0.9	5.5	6.2
Mashreq Bank	12,288	1.4	1.3	7.0	7.4
Commercial Bank of Dubai	5,924	1.5	1.4	8.0	8.4
Bank Aljazira	4,366	1.1	1.0	15.5	11.7
Average		1.2x	1.1x	8.9x	8.4x
Median		1.1x	1.0x	8.0x	8.3x
Max		1.4x	1.3x	8.6x	8.4x
Min		1.0x	0.9x	7.0x	7.4x

Source: FAB Securities

Investment bank	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
CSC Financial Co.	25,713	0.7	0.6	9.9	7.4
Stifel Financial Corp	11,902	2.4	2.2	17.8	15.0
Guotai Junan Securities	21,409	1.0	1.0	14.1	13.7
Samsung Securities	3,033	0.6	0.6	4.6	5.3
EFG holdings	567	1.0	0.9	6.1	5.9
Lincoln National Corporation	6,039	0.8	0.7	5.5	4.6
Average		1.1x	1.0x	9.7x	8.6x
Median		0.9x	0.8x	8.0x	6.6x
Max		1.0x	1.0x	13.0x	12.1x
Min		0.7x	0.6x	5.7x	5.4x

Source: FAB Securities

Treasury and Holdco	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
Nomura Holdings	17,638	0.8	0.7	9.7	9.6
Canaccord Genuity Group	741	1.4	NA	12.6	9.3
Barclays PLC	47,315	0.6	0.6	7.3	6.4
PNC financial services	85,308	1.7	1.6	16.1	14.4
Insignia Financial	1,356	1.0	0.9	8.5	8.2
Average		1.1x	1.0x	10.8x	9.6x
Median		1.0x	0.8x	9.7x	9.3x
Max		1.4x	1.1x	12.6x	9.6x
Min		0.8x	0.7x	8.5x	8.2x

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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