

Dubai Financial Market PJSC (DFM)

Higher depository fee and investment income drove top-line

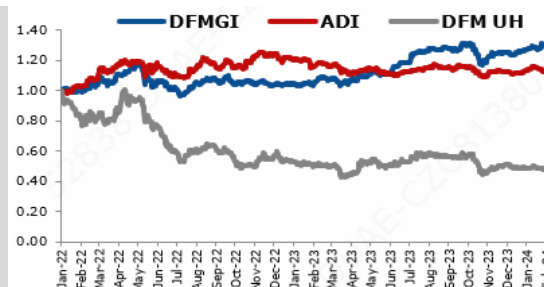
Current Price
AED 1.33

Target Price
AED 1.59

Upside/Downside (%)
+20%

Rating
BUY

- DFM recorded strong revenue growth of 67.2% YOY while profit also grew significantly from AED 59 Mn in 4Q22 to AED 130 Mn in 4Q23.
- The Company's clearing settlement and depository fee grew from AED 9 Mn in 4Q22 to AED 60 Mn in 4Q23.
- DFM added a total of 62,676 new investors during 2023. Out of the total, foreign investors accounted for 73%.
- Trading share of institutional and foreign investors stood at 58% and 47%, respectively in 2023.



4Q23 Net Profit higher than our estimate

Dubai Financial Market PJSC ("DFM/the Company") net profit grew from AED 59 Mn in 4Q22 to AED 130 Mn in 4Q23, higher than our estimate of AED 108 Mn. The increase in net profit is mainly attributable to the strong rise in clearing settlement and depository fee coupled with strong growth in investment income partially offset by a rise in general and administration expenses.

P&L Highlights

DFM's operating income rose 62.2% YOY to AED 133 Mn in 4Q23, mainly driven by strong growth in clearing settlement and depository fee and rise in trading & commission income. DFM's trading and commission fees rose 1.6% YOY to AED 66 Mn in 4Q23. Broker fees declined 26.5% YOY to AED 3 Mn in 4Q23. Clearing settlement & depository fees grew significantly from AED 9 Mn in 4Q22 to AED 60 Mn in 4Q23. Moreover, listing & market data fees rose 3.1% YOY to AED 3 Mn in 4Q23 while other fees declined 27.7% YOY to AED 1 Mn. Furthermore, DFM's investment income rose significantly from AED 28 Mn in 4Q22 to AED 49 Mn in 4Q23 due to a solid performance of the market. As a result, total operating income grew from AED 114 Mn in 4Q22 to AED 191 Mn in 4Q23. On the other hand, G&A expenses rose 13.9% YOY to AED 48 Mn in 4Q23, while amortization expenses stood unchanged on YOY basis at AED 14 Mn in 4Q23. However, the Company incurred a reversal of impairment of AED 9 Mn in 4Q23 as compared to nil in 4Q22. Resultantly, total operating expenses rose 10.8% YOY to AED 62 Mn in 4Q23. DFM's cost-to-income ratio improved to 32.6% in 4Q23 compared to 49.2% in 4Q22 driven by a rise in income base.

4Q23 Result Review (AED, mm)

Total Assets	9,837
Total Liabilities	1,645
Total Equity	8,192
EBITDA	163
Net Profit	130

Financial Ratios

Dividend Yield (12m)	1.26
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	32.61
Price-to-Book Ratio (x)	1.30
Book Value (AED)	1.02
Return-on Equity (%)	4.09

Stock Performance

5 Days	-2.92%
1 Months	-4.32%
3 Months	-1.48%
6 Months	-19.39%
1 Year	-6.34%
Month to Date (MTD%)	-2.21%
Quarter to Date (QTD%)	-4.32%
Year to Date (YTD%)	-4.32%

Balance Sheet Highlights

DFM's investment deposits grew marginally from AED 3.09 Bn in 3Q23 to AED 3.10 Bn in 4Q23. Financial assets measured at FVOCI declined from AED 1,036 Mn in 3Q23 to AED 1,019 Mn in 4Q23. Total liabilities declined 7.3% QOQ to AED 1.6 Bn in 4Q23 mainly due to a decline in payables & accrued expenses. Cash and cash equivalent rose from AED 107 Mn in 3Q23 to AED 161 Mn in 4Q23. Further, the company generated AED 277 Mn in cash flow from operations in 2023 as compared to a negative cash flow of AED 159 Mn in 2022.

Target Price and Rating

We maintain our BUY rating on DFM with a target price of AED 1.59. The Company witnessed strong growth driven by solid growth recorded in clearing settlement, depository fee, and reversal of impairments received in 4Q23. DFM's total market capitalisation grew 18% to AED 688 Bn during 2023. While the Company's total traded value witnessed a solid growth of 12.2% YOY to AED 78 Bn in 9M23 primarily due to strong return generated by DFMGI index. Moreover, 62,676 investors were onboarded in 2023 out of which foreign investors accounted for 73%. Foreign and institutional investors accounted for 47% and 58% respectively of the Company's total traded value in 2023. The increased interest of foreign investors is mainly due to the execution of the Company's four international roadshows conducted in Singapore, London and two in New York. The recent roadshow conducted in New York in November 2023 attracted large number of foreign investors. DFM also introduced new asset classes and on-board digital brokers for a solid trading experience, and launched the IPO accelerator program. In the first year of its launch, the IPO Accelerator program served as a platform for more than 40 private companies by providing strong support to make them IPO ready. These developments in the economy will boost DFM's fee income with additional listings. Furthermore, new listings is also expected to attract investors interest in Dubai's markets. During 2023 the two new listings of Al Ansari Financial Services and Dubai Taxi Corporation received an overwhelming response and raised AED 1.93 Bn. The Company's board of directors also proposed a dividend of 3.5 fils per equivalent to a dividend yield of 2.6% in 2023. Thus, based on our analysis, we assign a BUY rating on the stock.

DFM - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024E
PE (x)	88.2	77.1	102.4	72.3	32.2	27.3
PB (x)	1.3	1.4	1.3	1.3	1.3	1.3
EV/EBITDA	51.4	45.5	57.4	45.8	26.0	21.3
Dividend yield (%)	1.9%	0.0%	2.3%	1.3%	2.6%	2.6%

FABS Estimates & Co Data

DFM – P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Trading commission fees	65	70	66	93	-28.6%	1.6%	-5.7%	200	226	12.8%
Brokers fees	3	3	3	3	-22.2%	-26.5%	-25.8%	14	12	-11.3%
Clearing settlement & depository fee	9	8	60	10	NM	NM	NM	26	89	246.2%
Listing & market data fees	3	3	3	3	-2.8%	3.1%	5.4%	10	11	12.2%
Other fees	2	2	1	3	-49.3%	-27.7%	-23.1%	7	11	51.3%
Operating income	82	86	133	111	19.6%	62.2%	53.9%	257	349	35.9%
Investment income	28	49	49	54	-8.7%	77.5%	0.4%	80	169	111.0%
Other income	0	3	-2	0	NM	NM	NM	0	0	NM
Dividend Income	4	0	4	0	NM	-15.6%	NM	14	20	NM
Profit Income	1	0	0	0	NM	NM	NM	4	0	NM
Reversal of imp on asset	0	0	9	0	NM	NM	NM	0	9	NM
Total Income	114	138	191	164	16.4%	67.2%	38.8%	355	547	54.4%
G&A expenses	-42	-35	-48	-43	11.3%	13.9%	36.0%	-150	-161	7.7%
Amortization	-14	-14	-14	-14	0.0%	0.0%	0.0%	-56	-56	0.0%
Interest Expense	0	0	0	0	NM	NM	NM	-1	0	NM
Total Operating Expenses	-56	-50	-62	-57	8.7%	10.8%	25.9%	-207	-218	5.1%
Profit Expenses	-1	0	0	0	NM	NM	NM	-4	0	NM
NCI	-2	0	-1	0	NM	-62.5%	NM	-3	0	NM
Net Profit	59	88	130	108	20.4%	118.9%	46.9%	147	330	124.2%

FABS estimate & Co Data

DFM - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	YOY Ch.
Operating margin	71.4%	62.5%	69.3%	-213	679	72.4%	63.8%	-869
Net profit margin	51.7%	64.0%	67.7%	1599	374	41.5%	60.2%	1875

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value DFM. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	1.71	70.0%	1.20
Relative Valuation (RV)	1.32	30.0%	0.40
Weighted Average Valuation (AED)			1.59
Current market price (AED)			1.33
Upside/Downside (%)			+20%

1) DCF Method:

DFM is valued using free cash flow to equity since the Company is not paying interest on borrowings. We have discounted the cash flow using the cost of equity of 8.2%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 0.80, and an equity risk premium of 3.9%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	2,813
Terminal value (AED, Mn)	10,840
FV to Common shareholders (AED, Mn)	13,653
No. of share (Mn)	7,996
Current Market Price (AED)	1.33
Fair Value per share (AED)	1.71

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	365	430	528	623	748
(+) D&A	79	80	84	84	85
Working Capital	307	159	135	143	176
(-) Capex	-21	-24	-28	-33	-39
Free Cash Flow to Equity (FCFE)	730	645	718	816	971
Discounting Factor	0.85	0.79	0.73	0.67	0.62
Discounted FCFE	624	510	524	550	605

Source: FAB Securities

2) Relative Valuation:

We have used regional as well as global peers to value DFM, which is valued using the PE multiple. It is valued at PE multiple of 29.0x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
BSE Ltd	4,080	57.1	34.2	65.5	41.2
NASDAQ Inc	32,940	16.6	15.0	26.9	22.5
Singapore Exchange Limited	7,520	12.9	12.4	18.9	18.5
Hong Kong Exchanges	38,330	15.1	14.2	23.8	22.2
Deutsche Borse	37,160	12.3	11.3	18.6	17.5
London Stock exchange	61,500	12.9	11.5	25.0	27.6
Saudi Tadawul Group Holdings	6,800	48.3	35.7	49.7	42.4
Average		25.0x	19.2x	32.6x	27.4x
Median		15.1x	14.2x	25.0x	22.5x
Max		32.5x	24.6x	38.3x	34.4x
Min		12.9x	12.0x	21.4x	20.4x

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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