

Dubai Financial Market PJSC (DFM)

Strong growth in traded value and investment income drove top-line

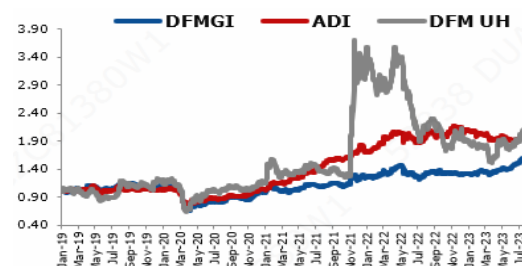
Current Price
AED 1.64

Target Price
AED 1.57

Upside/Downside (%)
-4%

Rating
HOLD

- DFM recorded strong revenue growth of 24.2% YOY while profit more than doubled to AED 77 Mn in 2Q23.
- DFM added total 25,699 new investors during 1H2023. Out of the total, 74% of new investors are foreign investors.
- Trading share of institutional and foreign investors stood at 57% and 48% in 1H23 as compared to 54% and 47% respectively in 1H22.
- DFM total traded value grew 42% QOQ in 2Q23 with an average daily traded value of AED 375 Mn in 1H2023.



2Q23 Net Profit higher than our estimate

Dubai Financial Market PJSC ("DFM/the Company") net profit more than doubled to AED 77 Mn in 2Q23 compared to AED 36 Mn in 2Q22, higher than our estimate of AED 45 Mn. The increase in net profit is mainly attributable to robust trading and commission income, strong growth in clearing settlement & depository fees, other fees and solid growth in investment income partially offset by a rise in operating expenses.

P&L Highlights

DFM's operating income grew 24.2% YOY to AED 82 Mn in 2Q23 owing to growth in trading commission fees supported by a higher average daily traded value. DFM's trading and commission fees rose 6.4% YOY to AED 54 Mn in 2Q23 due to a growth in total traded value from AED 26.5 Bn in 2Q22 to AED 27.0 Bn in 2Q23. However average daily traded value declined 5.1% YOY to AED 375 Mn in 1H23. Broker's fees declined 12.9% YOY to AED 3.0 Mn in 2Q23 whereas clearing settlement & depository fees significantly increased from AED 7 Mn in 2Q22 to AED 15 Mn in 2Q23. Additionally, the listing and market data fees rose 34.9% YOY to AED 3 Mn in 2Q23 while other fees rose from AED 3 Mn in 2Q22 to AED 6 Mn in 2Q23. Furthermore, investment income more than doubled from AED 16 Mn in 2Q22 to AED 37 Mn in 2Q23 due to growth in the Company's investment deposits further supported by higher benchmark interest rates. Further, the company's dividend income stood at 9 Mn in 2Q23 compared to 3 Mn in 2Q22. Thus, total income rose 48.9% YOY to AED 128 Mn in 2Q23 mainly driven by higher investment income. The company's G&A expenses rose 5.1% YOY to AED 37 Mn in 2Q23, while the amortization of intangible assets remained unchanged at AED 14 Mn in 2Q23 as compared to 2Q22. Thus, the total operating expenses grew 2.3% YOY to AED 51 Mn in 2Q23. DFM's cost-to-income ratio declined from 41.0% in 2Q22 to 28.9% in 2Q23 mainly attributed to the rise in total operating income.

Stock Information

Market Cap (AED, mm)	13,120.00
Paid Up Capital (mm)	8,000.00
52 Week High	1.86
52 Week Low	1.16
3M Avg. daily value (AED)	19,142,690

2Q23 Result Review (AED, mm)

Total Assets	9,823
Total Liabilities	1,889
Total Equity	7,934
EBITDA	96
Net Profit	77

Financial Ratios

Dividend Yield (12m)	1.02
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	68.20
Price-to-Book Ratio (x)	1.66
Book Value (AED)	0.99
Return-on Equity (%)	2.49

Stock Performance

5 Days	0.61%
1 Months	-0.61%
3 Months	11.56%
6 Months	13.89%
1 Year	-6.82%
Month to Date (MTD%)	-1.20%
Quarter to Date (QTD%)	9.33%
Year to Date (YTD%)	8.61%

Balance Sheet Highlights

DFM's investment deposits grew from AED 2.5 Bn in 1Q23 to AED 3.0 Bn in 2Q23. Financial assets measured at FVOCI grew to AED 974 Mn in 2Q23 from AED 939 Mn in 1Q23. Total liabilities increased 7.1% QOQ to AED 1.8 Bn in 2Q23 mainly due to an increase in payables & accrued expenses. Cash and cash equivalent declined from AED 501 Mn in 1Q23 to AED 244 Mn in 2Q23. Further, the company generated AED 302 Mn in cash flow from operations in 2Q23 compared to AED 46 Mn in 1Q23 mainly due to a strong increase in net profit and rise in payable and accrued expenses.

Target Price and Rating

We revise our rating from BUY to HOLD on Dubai Financial Market with a target price of AED 1.57. DFM recorded a robust growth in total traded value which rose 42.1% QOQ to AED 27 Bn in 2Q23 mainly due to the healthy return of 14% generated by DFMGI during 1H2023. The company added 11,064 new customers in 2Q23 as compared to 14,635 in 1Q23. The market capitalization of listed securities on DFM increased 10.1% QOQ to AED 652 Bn during 2Q23 mainly due to robust economic performance and growth in earnings of the listed companies. Further, the new entities in Dubai raised AED 32 Bn in capital through IPO from 2020 until 1H23. Moreover, the foreign investors accounted for 48% of trading value during 1H23 exhibiting a net purchase of AED 3.27 Bn. On the other hand, the trading share of institutional investors stood at 57% with net purchases of AED 630 Mn for 1H23. Further, the company consistently exhibited progressive growth in its average daily traded volume which grew at a CAGR of 18.8% from AED 213 Mn in 2019 to AED 357 Mn in 2022. However, the average daily traded value softened from AED 395 Mn in 1H23 to AED 375 Mn in 2Q23. DFM's market velocity stood at 15% in 2022 as compared to the global average velocity of 39% in 2022 reflecting the scope for more improvement in trading activity. Furthermore, DFM's board of directors implemented a new dividend policy of a minimum annual payout of 50% which will enhance returns to shareholders. Moreover, the company is trading at higher multiples as compared to its peers rendering it expensive. Thus, based on our analysis, we assign a HOLD rating on the stock.

DFM - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023E
PE (x)	104.5	108.7	95.1	126.3	89.1	57.9
PB (x)	1.7	1.7	1.7	1.6	1.6	1.6
EV/EBITDA	66.0	63.6	56.5	71.0	56.9	42.3
Dividend yield (%)	0.0%	1.5%	0.0%	1.8%	1.0%	0.9%

FABS Estimates & Co Data

DFM – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Trading commission fees	51	36	54	47	15.9%	6.4%	50.5%	200	203	1.2%
Brokers fees	3	3	3	3	-9.9%	-12.9%	-8.5%	14	15	10.0%
Clearing settlement & depository fee	7	5	15	6	176.1%	136.2%	203.8%	26	36	40.0%
Listing & market data fees	3	2	3	3	25.4%	34.9%	37.9%	10	10	5.0%
Other fees	3	1	6	3	151.4%	117.5%	390.2%	7	12	70.0%
Operating income	66	48	82	61	35.3%	24.2%	71.2%	257	276	7.6%
Investment income	16	34	37	36	3.2%	131.4%	8.4%	80	139	73.5%
Other income	0	0	0	0	NM	NM	NM	0	0	NM
Dividend Income	3	8	9	0	NM	NM	18.0%	14	20	NM
Profit Income	1	0	0	0	NM	NM	NM	4	0	NM
Total Income	86	90	128	96	32.8%	48.9%	42.1%	355	435	22.7%
General & administration expenses	-35	-40	-37	-38	-1.5%	5.1%	-8.3%	-150	-152	1.8%
Amortisation of intangible assets	-14	-14	-14	-14	0.0%	0.0%	0.0%	-56	-56	0.0%
Interest Expense	-1	0	0	0	NM	NM	NM	-1	0	NM
Total Operating Expenses	-50	-55	-51	-52	-1.1%	2.3%	-6.2%	-207	-209	0.8%
Profit Expenses	-1	0	0	0	NM	NM	NM	-4	0	NM
NCI	-1	0	0	0	NM	NM	NM	-3	0	NM
Net Profit	36	35	77	45	71.3%	113.4%	116.8%	147	226	53.9%

FABS estimate & Co Data

DFM - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2022	Change
Operating margin	77.0%	53.3%	64.2%	-1275	1091	72.4%	77.0%	-893
Net profit margin	41.7%	39.2%	59.8%	1807	2062	41.5%	41.7%	1054

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	1.57	70.0%	1.10
Relative Valuation (RV)	1.58	30.0%	0.47
Weighted Average Valuation (AED)			1.57
Current market price (AED)			1.64
Upside/Downside (%)			-4%

1) DCF Method:

DFM is valued using free cash flow to equity since the Company is debt free. We have discounted the cash flow using the cost of equity of 7.3%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 0.75, and an equity risk premium of 2.9%. 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)	2,182
Terminal value (AED, Mn)	10,337
FV to Common shareholders (AED, Mn)	12,519
No. of share (Mn)	7,996
Current Market Price (AED)	1.64
Fair Value per share (AED)	1.57

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	226	285	349	407	474
(+) D&A	79	79	78	77	76
Working Capital	78	139	147	141	144
(-) Capex	-8	-8	-10	-11	-10
Free Cash Flow to Equity (FCFE)	375	495	564	613	684
Discounting Factor	0.93	0.87	0.81	0.76	0.70
Discounted FCFE	350	430	457	463	482

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 44.3x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
BSE Ltd	1,444	17.6	10.5	26.8	39.1
NASDAQ Inc	24,585	13.9	12.6	21.6	19.3
Singapore Exchange Limited	7,717	14.1	13.0	20.9	20.2
Hong Kong Exchanges	50,438	16.3	14.7	30.3	28.1
Deutsche Borse	33,981	11.6	11.0	17.5	16.9
London Stock exchange	57,982	13.3	12.1	34.0	26.6
Saudi Tadawul Group Holdings	5,824	55.6	37.6	53.9	44.3
Average		20.3x	15.9x	29.3x	27.8x
Median		14.1x	12.6x	26.8x	26.6x
Max		17.0x	13.9x	32.2x	33.6x
Min		13.6x	11.6x	21.3x	19.8x

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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