

Dubai Financial Market PJSC (DFM)

Strong growth in trading commission fees and investment income drove top-line

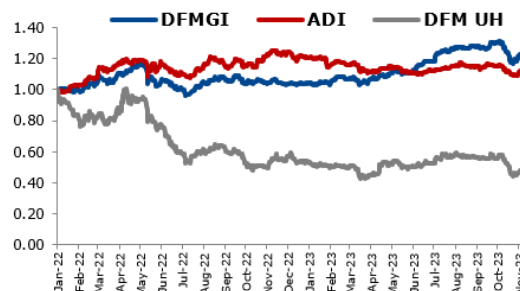
Current Price
AED 1.38

Target Price
AED 1.59

Upside/Downside (%)
+15.2%

Rating
BUY

- DFM recorded strong revenue growth of 84.5% YOY while profit more than doubled to AED 74 Mn in 3Q23
- DFM added a total of 35,357 new investors during 9M23. Out of the total, 72% of new investors are foreign investors
- Trading share of institutional and foreign investors stood at 56% and 47% respectively in 9M23 as compared to 57% and 48% in 1H23
- DFM total traded value grew 58.4% YOY and 18.5% QOQ to AED 32 Bn in 3Q23



Stock Information

Market Cap (AED, mm)	11,040.00
Paid Up Capital (mm)	8,000.00
52 Week High	1.75
52 Week Low	1.16
3M Avg. daily value (AED)	8,415,493

3Q23 Net Profit in line with our estimate

Dubai Financial Market PJSC ("DFM/the Company") net profit more than doubled to AED 74 Mn in 3Q23 compared to AED 26 Mn in 3Q22, in line with our estimate of AED 72 Mn. The increase in net profit is mainly attributable to robust trading and commission income coupled with strong growth in investment income partially offset by rise in interest expense.

3Q23 Result Review (AED, mm)

Total Assets	9,844
Total Liabilities	1,774
Total Equity	8,071
EBITDA	94
Net Profit	74

P&L Highlights

DFM's operating income rose 64.5% YOY to AED 86 Mn in 3Q23 mainly driven by a strong growth in trading & commission income, rise in clearing settlement fee and deposit fee. DFM's trading and commission fees rose 70.5% YOY to AED 70 Mn in 3Q23 mainly driven by a strong growth in total trading value which rose to 32.0 Bn in 3Q23 as compared to 20.2 Bn in 3Q22. Broker fees declined marginally 0.1% YOY to AED 3 Mn in 3Q23 whereas clearing settlement & depository fees more than doubled to AED 8 Mn in 3Q23 from AED 4 Mn in 3Q22. Moreover, listing & market data fees rose 4.8% YOY to AED 3 Mn in 3Q23 while other fees grew 4.0% YOY to AED 2 Mn. Furthermore, DFM's investment income rose significantly from AED 21 Mn in 3Q22 to AED 49 Mn in 3Q23 due to a solid performance of market. As a result, total operating income increased to AED 138 Mn in 3Q23 as compared to AED 75 Mn in 3Q22. On the other hand, G&A expenses rose 1.5% YOY to AED 35 Mn in 3Q23 while amortization expense stood unchanged on YOY basis at AED 14 Mn in 3Q23. However, the Company incurred impairment expense of AED 14 Mn in 3Q23 as compared to nil in 3Q22. Resultantly, total operating expenses rose 1.4% YOY to AED 50 Mn in 3Q23. DFM's cost to income ratio improved to 35.9% in 3Q23 as compared to 65.4% in 3Q22 driven by rise in income base.

Financial Ratios

Dividend Yield (12m)	1.22
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	45.78
Price-to-Book Ratio (x)	1.37
Book Value (AED)	1.01
Return-on Equity (%)	3.07

Stock Performance

5 Days	-1.43%
1 Months	-7.38%
3 Months	-14.81%
6 Months	-2.13%
1 Year	-15.85%
Month to Date (MTD%)	6.87%
Quarter to Date (QTD%)	-11.95%
Year to Date (YTD%)	-7.28%

Balance Sheet Highlights

DFM's investment deposits grew from AED 3.0 Bn in 2Q23 to AED 3.1 Bn in 3Q23. Financial assets measured at FVOCI grew to AED 1,036 Mn in 3Q23 from AED 974 Mn in 2Q23. Total liabilities declined 6.1% QOQ to AED 1.8 Bn in 3Q23 mainly due to a decline in payables & accrued expenses. Cash and cash equivalent declined from AED 244 Mn in 3Q23 to AED 107 Mn in 3Q23. Further, the company generated AED 302 Mn in cash flow from operations in 2Q23 as compared to a negative cash flow of AED 77 Mn in 3Q23.

Target Price and Rating

We revise our rating on DFM from HOLD to BUY with an unchanged target price of AED 1.59. DFM's share price declined 16.5% since our previous rating. The Company's total traded value witnessed a solid growth of 58.4% YOY and 18.5% QOQ to AED 32 Bn in 3Q23 driven by strong return generated by DFMGI index during 9M23. The DFMGI index recorded a solid growth of 25% on YTD basis in 9M23. The Company added 9,658 new customers in 3Q23 as compared to 11,064 in 2Q23. Moreover, the market capitalization of listed securities on DFM rose 6.9% QOQ to AED 697 Bn in 3Q23 driven by the robust performance of listed companies. Moreover, foreign investors accounted for 72% of total new investors in 9M23. The rise in foreign investors is driven by the company's international roadshows. The recent roadshow conducted in Singapore attracted large number of foreign investors. The Company introduced new asset class and on boarded digital brokers for a solid trading experience whereas it also launched the IPO accelerator program. The IPO Accelerator programme in the first year of its launch, 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 an increasing number of companies coming up with IPO. Furthermore, new listings is expected to attract investors interest in Dubai's markets. Thus, based on our analysis, we assign a BUY rating on the stock.

DFM - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023E
PE (x)	87.3	90.8	79.4	105.5	74.5	41.9
PB (x)	1.4	1.4	1.4	1.4	1.4	1.4
EV/EBITDA	54.9	53.0	46.9	59.1	47.2	32.0
Dividend yield (%)	0.0%	1.8%	0.0%	2.2%	1.2%	1.2%

FABS Estimates & Co Data

DFM – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Trading commission fees	41	54	70	57	23.1%	70.5%	29.6%	200	228	13.6%
Brokers fees	3	3	3	4	-4.7%	-0.1%	14.4%	14	13	-6.0%
Clearing settlement & depository fee	4	15	8	14	-39.6%	NM	-45.6%	26	36	40.0%
Listing & market data fees	2	3	3	2	7.6%	4.8%	-24.7%	10	11	13.0%
Other fees	2	6	2	4	-56.5%	4.0%	-71.7%	7	12	70.0%
Operating income	52	82	86	81	6.6%	64.5%	4.9%	257	300	16.7%
Investment income	21	37	49	39	25.4%	NM	32.9%	80	162	102.4%
Other income	0	0	3	0	NM	NM	NM	0	0	NM
Dividend Income	0	9	0	0	NM	NM	NM	14	20	NM
Profit Income	1	0	0	0	NM	NM	NM	4	0	NM
Total Income	75	128	138	120	15.1%	84.5%	7.7%	355	482	35.8%
G&A expenses	-35	-37	-35	-34	5.6%	1.5%	-4.3%	-150	-149	-0.2%
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	-49	-51	-50	-48	3.9%	1.4%	-3.1%	-207	-206	-0.6%
Impairment of Fin. Asset	0	0	-14	0	NM	NM	NM	0	-14	NM
Profit Expenses	-1	0	0	0	NM	NM	NM	-4	0	NM
NCI	0	0	0	0	NM	NM	NM	-3	0	NM
Net Profit	26	77	74	72	2.6%	188.9%	-3.3%	147	276	87.5%

FABS estimate & Co Data

DFM - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	YOY Ch.
Operating margin	70.1%	64.2%	62.5%	-760	-170	72.4%	62.2%	-1020
Net profit margin	34.3%	59.8%	53.7%	1941	-612	41.5%	57.3%	1578

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	1.61	70.0%	1.13
Relative Valuation (RV)	1.53	30.0%	0.46
Weighted Average Valuation (AED)			1.59
Current market price (AED)			1.38
Upside/Downside (%)			+1%

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 7.5%. 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 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)	2,321
Terminal value (AED, Mn)	10,590
FV to Common shareholders (AED, Mn)	12,911
No. of share (Mn)	7,996
Current Market Price (AED)	1.38
Fair Value per share (AED)	1.61

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	262	313	383	447	521
(+) D&A	79	79	78	77	77
Working Capital	78	138	152	144	148
(-) Capex	-9	-9	-11	-13	-12
Free Cash Flow to Equity (FCFE)	410	520	602	655	734
Discounting Factor	0.93	0.87	0.81	0.75	0.70
Discounted FCFE	382	451	485	491	512

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 39.1x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
BSE Ltd	3,032	17.6	54.9	26.8	65.0
NASDAQ Inc	29,270	18.6	16.5	21.6	21.5
Singapore Exchange Limited	7,668	12.9	12.4	19.1	18.7
Hong Kong Exchanges	47,710	23.2	19.0	31.0	29.1
Deutsche Borse	31,290	11.7	10.8	16.9	16.0
London Stock exchange	55,333	13.3	12.0	26.9	23.5
Saudi Tadawul Group Holdings	5,563	54.1	36.0	50.8	41.4
Average		21.6x	23.1x	27.6x	30.7x
Median		17.6x	16.5x	26.8x	23.5x
Max		20.9x	27.5x	29.0x	35.3x
Min		13.1x	12.2x	20.4x	20.1x

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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