

## Dubai Financial Market PJSC (DFM)

Surge in profitability is driven by strong investment income and cost efficiency

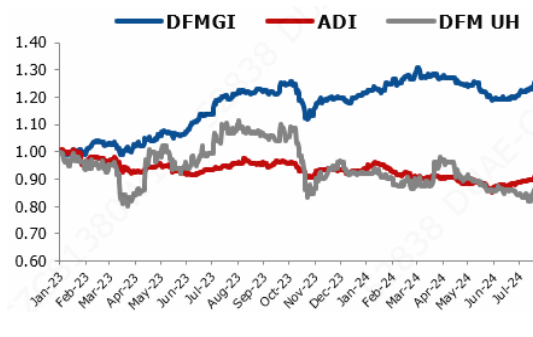
**Current Price**  
AED 1.23

**Target Price**  
AED 1.50

**Upside/Downside (%)**  
+21%

**Rating**  
BUY

- DFM's revenue rose 23.1% YOY to AED 158 Mn owing to growth in income from operation and investment income.
- Net profit rose 19.9% YOY to AED 92 Mn in 2Q24, surpassing forecasts.
- Total traded value rose 4% YOY to AED 48 Bn in 1H24 in addition to growth in the average daily traded value of 6% YOY to AED 395 Mn with a number of trades of 1.07 Mn in 1H24.
- DFM added a total of 72,583 new investors during 1H24. Out of this, 85% of new investors are foreign investors.
- DFM recorded growth in institutional investor trading shares from 65% in 1Q24 to 66% in 2Q24, and foreign investor trading shares also expanded from 47% in 1Q24 to 50% in 2Q24.



### Stock Information

Market Cap (AED, Mn)	9,920.00
Paid Up Capital (Mn)	8,000.00
52 Week High	1.68
52 Week Low	1.18
3M Avg. daily value (AED)	4,426,488

### 2Q24 Result Review (AED, Mn)

Total Assets	10,257
Total Liabilities	2,161
Total Equity	8,096
EBITDA	119
Net Profit	92

### Financial Ratios

Dividend Yield (12m)	2.82
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	25.10
Price-to-Book Ratio (x)	1.23
Book Value (AED)	1.01
Return-on Equity (%)	4.98

### Stock Performance

5 Days	-3.13%
1 Months	-1.59%
3 Months	-8.15%
6 Months	-6.06%
1 Year	-23.93%
Month to Date (MTD%)	-3.13%
Quarter to Date (QTD%)	-2.36%
Year to Date (YTD%)	-10.79%

### 2Q24 Net Profit higher than our estimate

Dubai Financial Market PJSC ("DFM/the Company") net profit rose 19.9% YOY to AED 92 Mn in 2Q24, surpassing our forecast of AED 79 Mn. This profit increase is largely attributed to a growth in income from clearing settlement & depository fees, investment income, and other fees partially offset by an increase in G&A expenses and the introduction of corporate tax in UAE in FY2024.

### P&L Highlights

DFM's operating income rose 11.3% YOY to AED 91 Mn in 2Q24. This growth was mainly driven by significant growth in clearing, settlement, and depository fees, as well as other fees, which more than compensated for a decline in trading commission fees and listing & market data fees. Trading commission fees decreased 18.8% YOY to AED 44 Mn in 2Q24 from AED 54 Mn in 2Q23 mainly due to a decline in trading value from AED 27 Bn in 2Q23 to AED 23 in 2Q24. Revenue from listing and market data fees also fell 25.7% YOY to AED 3 Mn in 2Q24. In contrast, clearing and depository fees more than doubled from AED 15 Mn in 2Q23 to AED 31 Mn in 2Q24. Other fees increased 68.4% YOY to AED 11 Mn in 2Q24, while brokerage fees saw a modest growth of 6.7% YOY to AED 3 Mn in 2Q24. DFM's investment income increased 50.1% YOY from AED 37 Mn in 2Q23 to AED 55 Mn in 2Q24, and dividend income grew 17.1% YOY to AED 11 Mn due to strong market performance. As a result, total income rose from AED 128 Mn in 2Q23 to AED 158 Mn in 2Q24. Total operating expenses grew 13.1% YOY to AED 58 Mn in 2Q24 mainly due to a growth in G&A expenses which rose from AED 37 Mn in 2Q23 to AED 43 Mn in 2Q24. DFM's cost-to-income ratio improved significantly to 36.7% in 2Q24 from 40.0% in 2Q23, driven by robust income growth. Taxes amounted to AED 8 Mn in 2Q24 impacting profitability in 2Q24.

### Balance Sheet Highlights

DFM's investment deposits increased from AED 2.8 Bn in 1Q24 to AED 3.1 Bn in 2Q24. Financial assets measured at FVOCI decreased from AED 1,051 Mn in 1Q24 to AED 1,028 Mn in 2Q24. Total liabilities decreased by 14.6% QOQ to AED 2.2 Bn in 2Q24, primarily due to reductions in payables & accrued expenses, and dividends payable. Cash and cash equivalents significantly decreased from AED 953 Mn in 1Q24 to AED 476 Mn in 2Q24 due to a lower generation from operation, investment in deposits and dividend payment. The company reported a net cash outflow of AED 125 Mn from operations in 2Q24.

### Target Price and Rating

We maintain our BUY rating on DFM with a revised target price of AED 1.50. The company reported strong results for 2Q24, driven by significant growth in trading commission fees, clearing settlement & depository fees, and investment income. As of 2Q24, DFM's total market capitalization fell 1.3% from YTD to AED 679 Bn in 2Q24, while the total trading value of the company rose 4% YOY to AED 48 Bn in 2Q24, with foreign investors accounting for 50% of the trading. DFM also onboarded 28,324 new investors in 2Q24, bringing the total number of new investors to 72,583 investors in 1H24 of which 85% were foreign investors. DFM completed two IPOs in 2Q24, raising approximately AED 3.0 Bn, reflecting strong investor interest and confidence in the market. Noteworthy, new listings of Parkin attracted a strong investor response with an oversubscription of 165x and Spinneys IPO was oversubscribed 64x. In 1Q24, the Company introduced a new dividend policy that requires a minimum distribution of 50% of net profit. This is the first time DFM established a dividend policy. Moreover, DFM is also benefitting from a higher interest rate environment as it placed investment deposits with UAE-based financial institutions, with annual profit rates ranging from 5.1% to 5.9%. The investment in sukuk in UAE which matures in 3-8 years carries an average fixed profit rate of 4% per annum. Based on our analysis, we assign a BUY rating to the stock.

#### DFM - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024E
PE (x)	81.5	71.3	94.7	66.9	29.8	29.0
PB (x)	1.2	1.3	1.2	1.2	1.2	1.2
EV/EBITDA	47.5	42.0	53.0	42.2	23.8	22.3
Dividend yield (%)	2.0%	0.0%	2.4%	1.4%	2.8%	2.8%

FABS Estimates & Co Data

**DFM – P&L**

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Trading commission fees	54	48	44	58	-24.0%	-18.8%	-9.5%	226	244	8.1%
Brokers fees	3	3	3	3	-0.3%	6.7%	2.7%	12	13	10.0%
Clearing settlement & depository fee	15	8	31	15	NM	102.6%	NM	89	40	-55.0%
Listing & market data fees	3	3	3	3	-5.1%	-25.7%	-1.8%	11	10	-10.7%
Other fees	6	1	11	1	NM	68.4%	NM	11	15	35.0%
<b>Operating income</b>	<b>82</b>	<b>62</b>	<b>91</b>	<b>79</b>	15.3%	11.3%	46.5%	<b>349</b>	<b>322</b>	<b>-7.7%</b>
Investment income	37	55	55	50	11.6%	50.1%	-0.1%	169	208	23.3%
Other income	0	1	0	0	NM	NM	NM	0	0	NM
Dividend Income	9	29	11	7	46.8%	17.1%	-63.3%	20	51	150.0%
Profit Income	0	0	0	0	NM	NM	NM	0	0	NM
Reversal of imp on asset	0	0	0	0	NM	NM	NM	9	0	NM
<b>Total Income</b>	<b>128</b>	<b>148</b>	<b>158</b>	<b>136</b>	15.8%	23.1%	6.5%	<b>547</b>	<b>581</b>	<b>6.1%</b>
G&A expenses	-37	-38	-43	-37	15.9%	17.1%	14.1%	-161	-163	1.0%
Amortization	-14	-14	-14	-14	0.0%	0.0%	0.0%	-56	-56	0.0%
Interest Expense	0	0	0	0	NM	NM	NM	0	0	NM
<b>Total Operating Expenses</b>	<b>-51</b>	<b>-53</b>	<b>-58</b>	<b>-52</b>	12.2%	13.1%	10.2%	<b>-218</b>	<b>-219</b>	<b>0.7%</b>
Profit Expenses	0	0	0	0	NM	NM	NM	0	0	NM
Tax	0	-6	-8	-5	52.8%	NM	34.5%		-22	NM
NCI	0	0	0	0	NM	NM	NM	0	0	NM
<b>Net Profit</b>	<b>77</b>	<b>90</b>	<b>92</b>	<b>79</b>	<b>15.7%</b>	<b>19.9%</b>	<b>2.5%</b>	<b>330</b>	<b>339</b>	<b>2.9%</b>

FABS estimate & Co Data

**DFM - Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch.
Operating margin	64.2%	42.2%	58.0%	-617	1,584	63.8%	55.5%	-830
Net profit margin	59.8%	60.5%	58.3%	-157	-225	60.2%	58.4%	-182

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	1.59	70.0%	1.11
Relative Valuation (RV)	1.31	30.0%	0.39
<b>Weighted Average Valuation (AED)</b>			<b>1.50</b>
Current market price (AED)			1.24
Upside/Downside (%)			+21%

### 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 7.9%. The cost of equity is calculated using a 10-year government bond yield of 5.4%, a beta of 0.75, and an equity risk premium of 3.3%. Government bond yield is calculated after adding Dubai's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	2,408
Terminal value (AED, Mn)	10,275
<b>FV to Common shareholders (AED, Mn)</b>	<b>12,683</b>
No. of share (Mn)	7,996
Current Market Price (AED)	1.24
<b>Fair Value per share (AED)</b>	<b>1.59</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	339	346	398	455	543
(+) D&A	79	80	83	82	84
Working Capital	329	155	141	145	150
(-) Capex	-16	-18	-20	-23	-26
<b>Free Cash Flow to Equity (FCFE)</b>	<b>731</b>	<b>563</b>	<b>601</b>	<b>660</b>	<b>750</b>
Discounting Factor	0.97	0.90	0.83	0.77	0.72
<b>Discounted FCFE</b>	<b>355</b>	<b>506</b>	<b>501</b>	<b>510</b>	<b>537</b>

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 30.9x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
BSE Ltd	3,325	25.5	20.9	35.3	28.1
NASDAQ Inc	37,013	17.8	16.5	23.4	20.7
Singapore Exchange Limited	7,673	13.9	13.3	19.5	18.8
Hong Kong Exchanges	36,748	5.2	5.0	22.9	22.0
Deutsche Borse	35,822	11.8	11.4	17.4	16.6
London Stock exchange	64,564	14.8	13.5	27.2	24.0
Saudi Tadawul Group Holdings	7,058	34.2	29.8	39.2	35.4
<b>Average</b>		<b>17.6x</b>	<b>15.8x</b>	<b>26.4x</b>	<b>23.7x</b>
<b>Median</b>		<b>14.8x</b>	<b>13.5x</b>	<b>23.4x</b>	<b>22.0x</b>
<b>Max</b>		<b>21.6x</b>	<b>18.7x</b>	<b>31.3x</b>	<b>26.1x</b>
<b>Min</b>		<b>12.9x</b>	<b>12.4x</b>	<b>21.2x</b>	<b>19.8x</b>

Source: FAB Securities

