

Al Waha Capital PJSC

Solid growth in income from financial investments drove profitability

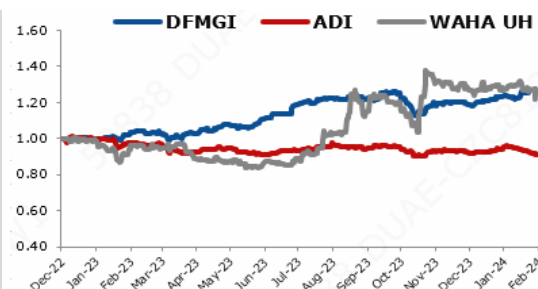
Current Price
AED 1.70

Target Price
AED 1.85

Upside/Downside (%)
+9%

Rating
HOLD

- Net operating income rose from AED 720 Mn in 2022 to AED 1,222 Mn in 2023 mainly due to higher income from Public Markets and Waha Land Income partially offset by lower income from Private Investments.
- WAHA Investment received additional third-party investments of AED 3.1 Bn and recorded the total Public Markets AUMs of AED 8.8 Bn in 2023 compared to AED 4.8 Bn in 2022.
- Waha MENA Equity Fund reported a net return of 24.3% during 2023 while Waha Emerging Markets Credit Fund recorded 9.5% in net returns. Likewise, Waha Islamic Income Fund delivered a gross return of 9.93% in 2023.



Stock Information

Market Cap (AED, mm)	3,305.67
Paid Up Capital (mm)	1,944.51
52 Week High	1.94
52 Week Low	1.15
3M Avg. daily value (AED)	4,707,236

4Q23 Net Profit higher than our estimate

Al Waha Capital PJSC (the Group/Waha) recorded an increase in the net profit to AED 218 Mn in 4Q23 as against AED 157 Mn in 4Q22, higher than our estimate of AED 73 Mn. The Group's net profit is primarily driven by the robust profitability recorded from financial investment and an increase in fee income from asset management partially offset by higher profits attributed to non-controlling interest holders, an increase in G&A expenses, and finance costs.

4Q23 Result Review (AED, mm)

Total Assets	13,541
Total Liabilities	6,872
Total Equity	6,669
Total Operating Income	543
Net Profit	218

P&L Highlights

Waha's net operating income rose significantly to AED 543 Mn in 4Q23 from AED 280 Mn in 4Q22 driven by higher returns earned on public markets supported by fee and commission income partially offset by a decline in the Private Investments segment. Waha Capital's Public Markets segment recorded a significant growth in net profit to AED 242 Mn in 4Q23 from AED 45 Mn in 4Q22 mainly due to strong returns from its flagship equity funds supported by higher fee income and commission income coupled with an increase in AUMs. Private Market Investments recorded a net loss of AED 47 Mn in 4Q23 as against a net profit of AED 122 Mn in 4Q22 primarily attributable to losses from financial investments. Net profit from Waha Land rose from AED 7 Mn in 4Q22 to AED 22 Mn in 4Q23 driven by strong rental income from its fully occupied developed properties. The Group's total assets under management stood at AED 10.5 Bn in 4Q23 as against AED 6.5 Bn in 4Q22. The Company's gain on the disposal of associates and JVs stood nil in 4Q23 from AED 129 Mn in 4Q22. In addition, income from financial investments more than doubled from AED 127 Mn in 4Q22 to AED 488 Mn in 4Q23 mainly due to a substantial increase in income from listed fixed income and equity securities partially offset by the decline in income from derivatives and losses from unquoted fund. Waha's G&A expenses rose from AED 52 Mn in 4Q22 to AED 81 Mn in 4Q23. Moreover, finance cost grew 22.2% YOY to AED 46 Mn in 4Q23.

Financial Ratios

Dividend Yield (12m)	4.71
Dividend Pay-out (%)	42.38
Price-Earnings Ratio(x)	7.25
Price-to-Book Ratio (x)	0.84
Book Value (AED)	2.01
Return-on Equity (%)	12.13

Stock Performance

5 Days	-1.73%
1 Months	-2.86%
3 Months	-2.86%
6 Months	-2.86%
1 Year	26.87%
Month to Date (MTD%)	-2.86%
Quarter to Date (QTD%)	-4.49%
Year to Date (YTD%)	-4.49%

mainly due to higher interest income generated in the public market division. In addition, the share of profits attributable to non-controlling interest holders rose significantly from AED 33 Mn in 4Q22 to AED 195 Mn in 4Q23 dragging profitability.

Balance Sheet Highlights

The Group's financial investments increased from AED 6.9 Bn in 2022 to AED 8.7 Bn in 2023 primarily attributable to an increase of AED 1.8 Bn in Public Market funds partially offset by a net decline of AED 62 Mn in Private Investments. On the other hand, the Group's cash and cash equivalents rose to AED 867 Mn in 2023 compared to AED 797 Mn in 2022 due to an increase in contributions from non-controlling interest holders of AED 708 Mn from new investments in the Public Market funds coupled with a rise in repurchase liability relating to Public Market funds of AED 2.3 Bn. The increase in the cash and cash equivalents is partially offset by dividend payments of AED 151 Mn, payments of development properties of AED 118 Mn, investment into financial assets of AED 543 Mn, and an increase in receivables of AED 2.1 Bn. The increase in receivables is attributable to the amount due from brokers owing to the settlement of trades. Investments in equity-accounted associates and JV's significantly fell from AED 94.3 Mn in 3Q23 to AED 88.3 Mn in 4Q23. Waha's total borrowings rose from AED 3.6 Bn in 2022 to AED 6.0 Bn in 2023 primarily due to an increase in subsidiaries' repurchase liabilities relating to public market funds of AED 2.3 Bn.

Target Price and Rating

We maintain our HOLD rating on Waha Capital with a revised target price of AED 1.85. Waha Capital's total assets under management rose from AED 6.5 Bn a year to USD 10.5 Bn as of 31 December 2023. The Group's public division recorded a robust growth in profitability and continues to outperform the benchmark by a healthy margin. All funds managed by Public Market Segment continue to record positive performance in 4Q23. Waha Emerging Markets Credit Fund SP recorded a net return of 9.5% on a fund size of AED 2.46 Bn in 2023. Waha Mena Equity Fund SP reported a 24.3% net return on a fund size of AED 3.55 Bn in 2023. Similarly, Waha Islamic Income Fund SP delivered a gross return of 9.93% on a fund size of AED 0.18 Bn in 2023. Waha Investments received AED 2.3 Bn from institutional clients and third-party institutional investments of AED 0.8 Bn in 2023. As a result, Public Markets Funds' total AUMs rose to AED 8.8 Bn in 2023 as against AED 4.8 Bn in 2022. Whereas, Private investment AUMs including Waha Land stood at AED 1.6 Bn as of 2023 compared to AED 1.7 Bn in 2022. Waha Land's ALMARKAZ Industrial Development fully leased out the existing units in Stage 1 and Stage 2A spread across c. 180,000 meter square. Further, the Company completed the expansion of Stage 2B in 4Q23 adding c. 75,000 meter square area of premium industrial and logistics facilities. Waha's total borrowings rose from AED 3.6 Bn in 2022 to AED 6.0 Bn in 2023 due to an increase in repurchase liabilities related to public market funds. We expect the public market portfolio to record moderate gains owing to a slowdown in economic growth and higher interest rates in 2024. The Company's board of directors recommended a cash dividend of 10 fils per share, including 1.5 fils per share of special dividend for 2023 with a dividend yield of 5.0%. Thus, based on our analysis, we assign a HOLD rating on the stock.

Waha Capital - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	7.00	8.03	9.29	7.30	8.87
PB	1.12	1.04	0.95	0.92	0.85	0.82
Dividend yield	NM	3.5%	4.4%	4.7%	5.8%	5.8%

FABS Estimates & Co Data

Waha Capital – P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	32	30	39	32	20.5%	22.6%	30.9%	112	140	25.9%
Cost of sales	-25	-26	-28	-25	12.2%	13.6%	10.8%	-90	-107	18.9%
Gross Profit	7	4	10	7	50.9%	56.1%	NM	21	33	55.9%
Profit/(loss) from fin. Invstmnts	127	155	488	185	NM	NM	NM	467	1,089	NM
Inc. from Property Invstmnts	9	9	28	12	NM	NM	NM	46	60	31.2%
Other Income, net	1	9	15	5	NM	NM	66.5%	13	30	NM
Total operating income	305	205	571	236	NM	87.5%	NM	811	1,330	64.0%
Net operating profit /(loss)	280	179	543	210	NM	94.1%	NM	720	1,222	69.7%
G&A expenses	-52	-58	-81	-48	66.7%	55.2%	38.5%	-174	-260	48.9%
Finance cost, net	-38	-32	-46	-31	49.7%	22.2%	44.8%	-120	-139	16.2%
Profit before NCI	190	89	413	131	NM	NM	NM	449	820	82.7%
NCI	33	35	195	58	NM	NM	NM	104	380	NM
Net Profit	157	54	218	73	NM	38.3%	NM	344	440	27.8%

FABS estimate & Co Data

Waha Capital - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross margin	21.2%	13.8%	27.0%	579	1,324	19.0%	23.5%	452
Operating margin	74.7%	59.0%	80.9%	616	2,187	67.3%	72.4%	506
Net profit margin	51.7%	26.2%	38.1%	-1,356	1,189	42.5%	33.1%	-939

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Dividend Discount Method (DDM) to value Waha Capital. We have assigned equal weight to DCF and DDM valuation methods.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.04	70%	1.43
DDM Method	1.40	30%	0.42
Weighted Average Valuation (AED)			1.85
Current market price (AED)			1.70
Upside/Downside (%)			+9%

1) DCF Method:

Waha Capital is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.5%. It is arrived after using cost of equity of 9.2% and cost of debt of 6.5% with a debt-to-equity ratio of 179.1%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,781
Terminal value (AED, Mn)	8,189
FV to Common shareholders (AED, Mn)	3,970
No. of share (Mn)	1,945
Current Market Price (AED)	1.70
Fair Value per share (AED)	2.04

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	697	695	717	733	748
D&A	12	13	14	14	15
Changes in working capital	1,658	34	-101	-124	-77
(-) Capex	-59	-59	-61	-63	-64
Free Cash Flow to Firm (FCFF)	1,975	683	568	561	622
Discounting Factor	0.94	0.88	0.81	0.76	0.71
Discounted FCFF	1,857	598	463	425	438

Source: FAB Securities

2) DDM Method:

Waha Capital paid dividends in the last four of the last five years. It didn't pay any dividends for 2019. During the last three years, the payout ratio stood at 35%, and expect the payout ratio to average 52% during the next five years. The dividend is discounted at the cost of equity of 9.2%.

Sum of PV (AED, Mn)	787
Terminal value (AED, Mn)	1,942
FV to Common shareholders (AED, Mn)	2,729
No. of share (Mn)	1,945
Current Market Price (AED)	1.71
Fair Value per share (AED)	1.40

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
12 months	194	199	199	204	209
Total Dividend	194	199	199	204	209
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Present Value of Dividend	180	169	155	146	137

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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