

Waha Capital

Decline in income from investments dragged profitability

1Q23 Net Profit lower than our estimate

Waha Capital (the Group/Waha) recorded a significant decline in net profit by 48.9% YOY to AED 75 Mn in 1Q23, lower than our estimate of AED 162 Mn. The decline in profit is mainly driven by a loss in Private Investments, a decline in profit of Waha Land and an increase in finance and other corporate costs partially offset by a growth in profit of Public Markets.

P&L Highlights

Waha's net operating income declined 13.1% YOY to AED 242 Mn in 1Q23 driven by an increase in public market income partially offset by a decline in income from private investment and Waha land. Public market income increased from AED 224 Mn in 1Q22 to AED 238 Mn in 1Q23 fueled by the strong performance of the credit and equity funds. Private investment reported a loss of AED 8 Mn in 1Q23 compared to income of AED 42 Mn in 1Q22 as a result of an unrealized revaluation loss on portfolio assets. Whereas Waha's land income declined marginally from AED 12.6 Mn in 1Q22 to AED 11.8 Mn in 1Q23. The group's total assets under management stood at AED 8.6 Bn in 1Q23 as compared to AED 6.5 Bn in 4Q22. Investments in equity-accounted associates and JV's rose marginally 0.4% YOY to AED 95.9 Mn in 1Q23. The Company's financial investment stood at AED 7.3 Bn in 1Q23 as compared to AED 6.9 Bn in 1Q22 mainly due to the net increase of AED 481 Mn in public market fund partially offset by a decline in private investment. The Group's G&A expenses rose 32.3% YOY to AED 62 Mn in 1Q23 mainly due to a prior year reversal resulting in lower staff cost in 1Q22 and an increase in professional and marketing expenses. Moreover, Waha's net finance cost rose 24.0% YOY to AED 32 Mn in 1Q23 attributable to an increase in interest rates partially offset higher interest income on time deposits, collateral and other income. On the other hand, the share of profit attributable to non-controlling interest holders increased 36.0% YOY to AED 73 Mn in 1Q23 impacting the profitability of the company.

Balance Sheet Highlights

The Group's financial investments rose from AED 6.9 Bn in 4Q22 to AED 7.3 Bn in 1Q23 primarily due to an increase in the public market fund by AED 481 Mn while private investment declined AED 28 Mn in 1Q23. On the other hand, the cash and cash equivalents rose from AED 797 Mn in 4Q22 to AED 861 Mn in 1Q23 owing to a contribution from NCI holders of AED 194 Mn and a decline in the working capital by AED 59 Mn due to a partial sale of a subsidiary. However, the cash balance is partially offset by a dividend payment of AED 151 Mn and a payment for the development of properties of AED 35 Mn. WAHA's total borrowing increased to AED 3.9 Mn in 1Q23 as compared to AED 3.6 Mn in 4Q22 mainly due to the increase in subsidiaries borrowings for the repurchase liabilities related to public market funds of AED 317 Mn.

Target Price and Rating

We revise our rating on Waha Capital from ACCUMULATE to BUY with a target price of AED 1.48. The Group's public market segment reported strong growth in income owing to positive returns from the credit and equity funds of the Company despite volatility in the

Rating : BUY

First Look Note – 1Q23

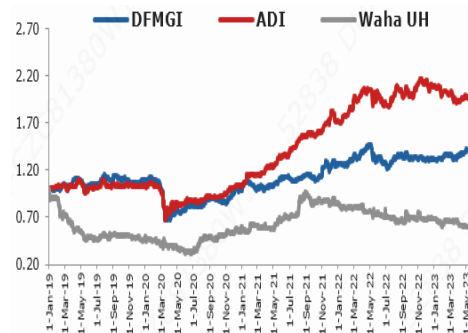
Sector: Financials

Recommendation

Current Price(14-Jun-23)	1.20
Target Price (AED)	1.48
Upside/Downside (%)	+23%

Stock Information

Market Cap (mm)	2,333.42
Paid Up Capital (mm)	1,944.51
52 Week High	1.58
52 Week Low	1.15
3M Avg. daily value (AED)	1,619,242



Financial Ratios

Dividend Yield (12m)	6.67
Dividend Pay-out (%)	41.52
Price-Earnings Ratio (x)	8.05
Price-to-Book Ratio (x)	0.64
Book Value (AED)	1.86
Return-on Equity (%)	8.09
Earning Per Share (AED)	0.15
Beta	0.73

Stock Performance

5 Days	0.84%
1 Months	-0.83%
3 Months	-9.09%
6 Months	-13.04%
1 Year	-16.67%
Month to Date (MTD)	2.56%
Quarter to Date (QTD)	-6.25%
Year to Date (YTD)	-11.76%

global market. Waha MENA Equity Fund reported a return of 4.6% as compared to the benchmark return of negative 0.5% with a fund size of AED 2.8 Bn. While Waha CEEMEA Credit Fund recorded a total return of 2.7% in line with its benchmark fund with a fund size of AED 2.1 Bn. Waha Islamic Income Fund delivered a gross return of 1.8% in 1Q23 marginally lower than the benchmark returns of 1.9% with a fund size of AED 0.17 Bn. Thus, Public market funds continued outperform the benchmark and added AED 1.8 Bn funds for institutional clients, bringing total assets under management to AED 6.9 Bn in 1Q23. Furthermore, the private investment AUMs stood at AED 900 Mn as of 1Q23 on which the company generated cash of AED 16 Mn through the deployment and recycling of capital across its portfolio. On the other hand, Waha Land recorded total revenue of AED 12 Mn in 1Q23 owing to the steady rental income. While the net carrying value stood at AED 719 Mn as of 1Q23 out of which AED 467 Mn is classified as held for sale. Moreover, the development project of 6 km square granted by the government of Abu Dhabi is planned to complete in four phases with multiple stages in each phase. Out of which Stage 1 and Stage 2A, circa 180,000-meter square area comprised of multi-use industrial and logistic units were completed along with the associated infrastructure like roads, utilities, and telecom which was fully leased out and further boost the lease income in the coming time. Further, an expansion of Stage 2B is currently under construction, which will add circa 75,000-meter square area of premium/logistics facilities, with an expected close by 3Q23. The expansion is in line with the WAHA's growth strategy with a strong logistics market. Thus, based on our analysis, we revise our rating to BUY on the stock.

Waha Capital - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	16.09	NM	10.10	5.97	6.78	7.90
P/B	0.65	0.83	0.77	0.70	0.67	0.64
Dividend yield	5.9%	NM	4.7%	5.9%	6.5%	5.3%

FABS Estimates & Co Data

Waha Capital - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	27	32	36	75	-51.7%	35.1%	13.8%	112	117	5.0%
Cost of sales	-21	-25	-27	-63	-58.0%	24.2%	6.7%	-90	-95	5.0%
Gross Profit	5	7	9	11	-16.0%	79.4%	40.1%	21	22	5.2%
In. from Financial Invest.	258	127	220	241	-8.7%	-14.8%	72.9%	467	722	54.7%
In. from Property Invest.	12	9	12	13	-12.5%	-3.8%	29.5%	46	47	3.5%
Other Income, net	0	1	1	1	-45.7%	41.5%	NM	13	13	0.0%
Net op. income / (loss)	278	280	242	266	-9.3%	-13.1%	-13.6%	720	804	11.6%
G&A expenses	-47	-52	-62	-48	29.6%	32.3%	19.5%	-174	-218	24.7%
Finance cost, net	-26	-38	-32	-25	25.9%	24.0%	-15.3%	-120	-140	17.0%
Profit/(Loss) from continued operations	206	190	148	193	-23.5%	-28.1%	-22.3%	426	446	4.8%
Net Profit & Loss for the period	200	190	148	193	-23.5%	-26.2%	-22.3%	449	446	-0.6%
NCI	-53	-33	-73	-31	135.0%	36.0%	122.4%	-104	-151	44.5%
Profit to Equity	147	157	75	162	-53.8%	-48.9%	-52.4%	344	295	-14.2%

FABS estimate & Co Data

Waha Capital - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
GPM	19.7%	21.2%	26.1%	645	490	19.0%	19.0%	3
OPM	77.2%	74.7%	66.9%	-1,025	-783	67.3%	65.2%	-209
Net margin	48.9%	51.7%	27.9%	-2,100	-2,373	42.5%	32.9%	-962

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 method.

Valuation Method	Target	Weight	Weighted Value
DCF	1.90	50.0%	0.95
Relative Valuation	1.06	50.0%	0.53
Weighted Average Valuation (AED)			1.48
Current market price (AED)			1.20
Upside/Downside (%)			23.3%

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 7.7%. It is arrived after using cost of equity of 8.7% and cost of debt of 7.2% with a debt-to-equity ratio of 183%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 4.4%. 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)	2,098
Terminal value (AED, Mn)	6,434

FV to Common shareholders (AED, Mn)	3,387
No. of share (Mn)	1,783
Current Market Price (AED)	1.20
Fair Value per share (AED)	1.90

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	587	564	533	548	561
D&A	14	14	15	15	16
Changes in Working Capital	(143)	42	44	(24)	(21)
Capex	(46)	(45)	(45)	(48)	(50)
Free Cash Flow to Firm (FCFF)	412	575	547	491	505
Discounting Factor	0.96	0.89	0.83	0.77	0.71
Discounted FCFF	395	513	452	377	360

2) DDM Method:

Waha Capital paid dividend in the last four of the last five years. It didn't pay any dividend for 2019. During the last three years, payout ratio stood at 42% and expect the payout ratio to maintain at 46% during the next five years. Dividend is discounted at the cost of equity of 8.7%.

Sum of PV (AED, Mn)	512
Terminal value (AED, Mn)	1,379
FV to Common shareholders (AED, Mn)	1,890
No. of shares (Mn)	1,783
Current Market Price (AED)	1.20
Fair Value per share (AED)	1.06

DDM method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend paid					
12 Months	124	125	122	127	132
Total Dividend	124	125	122	127	132
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Dividend	119	110	98	95	90

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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