

Al Waha Capital PJSC

Healthy growth in Public Market business and higher fee income supported profitability

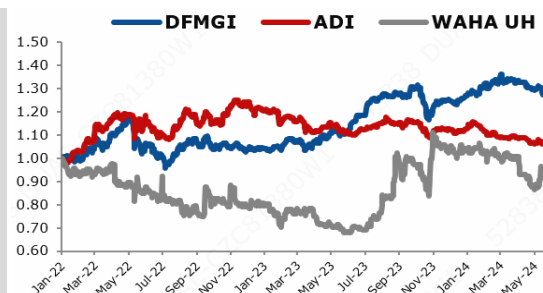
Current Price
AED 1.41

Target Price
AED 1.72

Upside/Downside (%)
+22%

Rating
BUY

- Total assets under management rose from AED 10.5 Bn in 4Q23 to AED 11.1 Bn in 1Q24, mainly due to capital inflows of AED 389 Mn received from the third party.
- Public market third-party AUM grew to AED 6 Bn in 1Q24, while Private investment AUMs stood at AED 911 Mn as of 1Q24.
- Total borrowings declined from AED 6.0 Bn in 4Q23 to AED 5.1 Bn in 1Q24 primarily due to a decrease in subsidiaries repurchase liabilities relating to Public market funds.
- The Group completed the expansion of Stage 2B of the ALMARKAZ Project in 1Q24, adding c. 75,000 sq mt of premium leasable space and currently boasts a 15% occupancy.



1Q24 Net Profit higher than our estimate

Al Waha Capital PJSC (the Group/Waha) recorded an increase in the net profit to AED 166 Mn in 1Q24 as compared to AED 75 Mn in 1Q23, higher than our estimate of AED 76 Mn. The Group's net profit is primarily driven by the robust profitability recorded from financial investments, higher fee income in the Public market business, and an increase in other income partially offset by growth in general and administrative expenses, higher finance cost and an increase in share to NCI.

P&L Highlights

Waha's net operating income rose significantly from AED 242 Mn in 1Q23 to AED 418 Mn in 1Q24, driven by growth in Public markets, Private investments and Waha Land income. Waha Capital's Public Markets segment net profit grew from AED 153 Mn in 1Q23 to AED 167 Mn in 1Q24, largely due to the flagship credit fund's significant outperformance compared to its benchmark. Private Market Investments recorded a net profit of AED 37 Mn in 1Q24 compared to a net loss of AED 23 Mn in 1Q23, primarily due to robust returns from the portfolio. Waha Land recorded a net profit of AED 10 Mn in 1Q24 compared to a profit of AED 8 Mn in 1Q23 owing to robust rental income. The Group's cost of sales increased 6.9% YOY to AED 28 Mn in 1Q24. The gross profit increased 12.9% YOY to AED 11 Mn in 1Q24 and gross profit margins grew 107 bps YOY to 27.2% in 1Q24. The Group's total assets under management grew to AED 11.1 Bn in 1Q24 as against AED 10.5 Bn in 4Q23 primarily as the Group received capital inflows from the third party of AED 389 Mn. In addition, income from financial investments grew strongly from AED 220 Mn in 1Q23 to AED 376 Mn in 1Q24 mainly due to a substantial increase in income from listed fixed income and equity securities partially offset by the losses from derivatives and unquoted fund. Income from property investments grew 18.7% YOY to AED 14 Mn in 1Q24. Moreover, other

Stock Information

Market Cap (AED, mn)	2,761.21
Paid Up Capital (mn)	1,944.51
52 Week High	1.94
52 Week Low	1.15
3M Avg. daily value (AED)	3,599,755

1Q24 Result Review (AED, mn)

Total Assets	13,139
Total Liabilities	6,033
Total Equity	7,106
Total Operating Income	447
Net Profit	166

Financial Ratios

Dividend Yield (12m)	6.45
Dividend Pay-out (%)	42.38
Price-Earnings Ratio(x)	5.01
Price-to-Book Ratio (x)	0.69
Book Value (AED)	2.06
Return-on Equity (%)	14.88

Stock Performance

5 Days	-0.70%
1 Months	-6.58%
3 Months	-15.48%
6 Months	-21.11%
1 Year	22.41%
Month to Date (MTD%)	0.71%
Quarter to Date (QTD%)	-17.44%
Year to Date (YTD%)	-20.22%

income grew significantly from AED 1 Mn in 1Q23 to AED 15 Mn in 1Q24. Waha's G&A expenses rose from AED 62 Mn in 1Q23 to AED 75 Mn in 1Q24. Moreover, finance cost grew significantly from AED 32 Mn in 1Q23 to AED 62 Mn in 1Q24 due to an increase in benchmark interest rates as well as increased utilization of repurchase liabilities for the Public investments business. In addition, the share of profits attributable to non-controlling interest holders rose significantly from AED 73 Mn in 1Q23 to AED 115 Mn in 1Q24.

Balance Sheet Highlights

The Group's financial investments grew from AED 8.7 Bn in 4Q23 to AED 9.2 Bn in 1Q24 primarily attributable to an increase of AED 489 Mn in Public Market funds and an increase of AED 28 Mn in Private Investments. On the other hand, the Group's cash and cash equivalents rose to AED 1.2 Bn in 1Q24 compared to AED 867 Mn in 1Q23, mainly due to an increase in contributions from non-controlling interest holders of AED 359 Mn from new investments in the Public Market funds and an increase in receivables of AED 1,251 Mn partially offset by a decline in repurchase liability relating to Public Market funds of AED 857 Mn. The increase in receivables is primarily attributable to the amount due from brokers owing to the settlement of trades. Investments in equity-accounted associates and JVs increased from AED 88 Mn in 4Q23 to AED 91 Mn in 1Q24. Waha's total borrowings declined from AED 6.0 Bn in 4Q23 to AED 5.1 Bn in 1Q24, primarily due to a decrease in subsidiaries repurchase liabilities relating to Public market funds. Trade and other liabilities increased from AED 672 Mn in 4Q23 to AED 725 Mn in 1Q24 owing to dividends payable amounting to AED 188 Mn partially offset by a decline in employee incentives.

Target Price and Rating

We revise our rating from HOLD to BUY on Waha Capital with an unchanged target price of AED 1.72. The Group's share price declined 17.5% since our last rating (February 2024). Waha Capital's total assets under management rose from AED 10.5 Bn in 4Q23 to AED 11.1 Bn in 1Q24 mainly due to capital inflows of AED 389 Mn received from the third party. Furthermore, despite sluggish economic growth and higher interest rates, the Group's Public market investments performed well, contributing to overall growth. The Group's Public division recorded strong growth in profitability primarily due to a rise in fee income of AED 69 Mn in 1Q24. Public market third-party AUM grew from AED 4 Bn in 1Q23 to AED 6 Bn in 1Q24, which includes a diverse client base, including sovereign wealth funds, insurance companies, pension funds, family offices, private banks, and high-net-worth individuals. Waha Emerging Markets Credit Fund recorded an 8.7% net return, compared to a 2% return generated by the JP Morgan EMBI Global Diversified Index, whereas Waha's Mena Equity Fund SP reported a 0.3% net return compared to a net return of 2.8% generated by the S&P Pan Arab Composite Index. Similarly, Waha Islamic Income Fund delivered a gross return of 1.6% compared to flat returns generated by the Dow Jones Sukuk Index. Furthermore, Private investment AUMs stood at AED 911 Mn as of 1Q24. The Private investments segment possesses a healthy deal pipeline and prioritizes optimal options for divestment that will aid in enhancing shareholder value. Waha Land's Stages 1 and 2A of the ALMARKAZ project consist of 182,400 industrial and logistics units, with an occupancy rate of 97% in 1Q24. In addition, the Group completed the expansion of Stage 2B in 1Q24, adding c.75,000 mt sq area of premium leasable space. The Stage 2B project currently boasts a 15% occupancy rate and is poised for further growth amid increasing demand for high-quality logistics. Moreover, the Group also approved a final dividend of AED 0.10 per share, generating a dividend yield of 7.1% in 2023. Thus, based on our analysis, we assign a BUY rating on the stock.

Waha Capital - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	5.8	6.6	7.7	6.0	8.4
PB	0.9	0.9	0.8	0.8	0.7	0.7
Dividend yield	NM	4.3%	5.4%	5.7%	7.1%	7.1%

FABS Estimates & Co Data

Waha Capital – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	36	39	39	41	-4.2%	8.4%	0.6%	140	146	4.0%
Cost of sales	-27	-28	-28	-31	-7.0%	6.9%	0.4%	-107	-109	1.3%
Gross Profit	9	10	11	10	4.2%	12.9%	1.3%	33	37	12.9%
Profit/(loss) from fin. Inv	220	488	376	173	NM	71.3%	-23.0%	1,089	727	-33.3%
Inc. from Property Inv	12	28	14	14	-0.5%	18.7%	-49.7%	60	56	-6.8%
Other Income, net	1	15	15	8	NM	NM	1.9%	30	30	NM
Total operating income	268	571	447	235	89.9%	66.5%	-21.8%	1,330	959	-27.9%
Net operating profit /(loss)	242	543	418	205	104.3%	73.0%	-23.0%	1,222	850	-30.5%
G&A expenses	-62	-81	-75	-51	45.6%	19.9%	-7.6%	-260	-221	-15.1%
Finance cost, net	-32	-46	-62	-42	50.3%	95.7%	35.7%	-139	-166	19.4%
Profit before Tax	148	413	281	112	151.2%	90.5%	-31.9%	820	463	-43.5%
Tax expense	0	0	0	-10	NM	NM	NM	0	-42	NM
NCI	73	195	115	26	NM	57.7%	-41.3%	380	105	-72.3%
Net Profit	75	218	166	76	120%	122.0%	-23.5%	440	316	-28.2%

FABS estimate & Co Data

Waha Capital - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	26.1%	27.0%	27.2%	107	18	23.5%	25.5%	200
Operating margin	66.9%	80.9%	76.9%	1,003	-396	72.4%	65.6%	-675
Net profit margin	27.9%	38.1%	37.2%	932	-85	33.1%	33.0%	-12

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	2.02	50.0%	1.01
DDM Method	1.42	50.0%	0.71
Weighted Average Valuation (AED)			1.72
Current market price (AED)			1.41
Upside/Downside (%)			+22%

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 7.1%. It is arrived after using cost of equity of 9.3% and after-tax cost of debt of 5.9% with a debt-to-equity ratio of 186.2%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.0%. 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)	2,963
Terminal value (AED, Mn)	8,253
FV to Common shareholders (AED, Mn)	3,920
No. of share (Mn)	1,945
Current Market Price (AED)	1.41
Fair Value per share (AED)	2.02

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	629	698	725	752	776
D&A	12	13	14	14	15
Changes in working capital	837	-163	-14	-31	-51
(-) Capex	-139	-155	-164	-169	-177
Free Cash Flow to Firm (FCFF)	1,339	393	561	565	563
Discounting Factor	0.96	0.90	0.84	0.78	0.73
Discounted FCFF	1,287	352	470	442	411

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 41%, and we expect the payout ratio to average 52% during the next five years. The dividend is discounted at the cost of equity of 9.3%.

Sum of PV (AED, Mn)	805
Terminal value (AED, Mn)	1,961
FV to Common shareholders (AED, Mn)	2,765
No. of share (Mn)	1,945
Current Market Price (AED)	1.41
Fair Value per share (AED)	1.42

(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	0.95	0.87	0.80	0.73	0.67
Present Value of Dividend	185	173	159	149	139

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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