

Waha Capital

Healthy performance of Public Market boosted profit

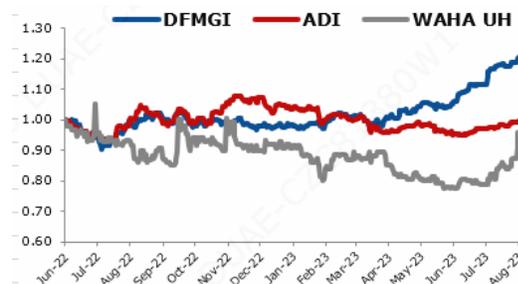
Current Price
AED 1.42

Target Price
AED 1.67

Upside/Downside (%)
+17.65%

Rating
BUY

- WAHA Investment received the mandate to manage AED 1.8 Bn from an institutional client bringing the total AUM to AED 7.3 Bn.
- Waha MENA Equity fund reported a return of 10.5% during the first six months of 2023 as compared to the benchmark return of 5.4%. Waha Emerging Markets Credit Fund recorded 3.8% returns during the first six months of 2023 as compared to its benchmark return of 4.1%. Likewise, Waha Islamic Income Fund delivered a return of 3.9% during the first six months of 2023 as against the benchmark return of 2.0%.
- Waha Land successfully leased 17 warehouse buildings at ALMARKAZ Industrial Development and is further developing 75,000 square meters of industrial/logistics property, expected to be completed by 3Q23.



2Q23 Net Profit higher than our estimate

Al Waha Capital PJSC (the Group/Waha) recorded a strong rise in net profit to AED 94 Mn in 2Q23 as compared to a net loss of AED 59 Mn in 2Q22, exceeding our estimate of AED 37 Mn. The Group's net profit mainly increased due to strong returns generated by capital markets and an increase in fee income from asset management partially offset by an increase in G&A expenses.

P&L Highlights

Waha's net operating income rose significantly to AED 259 Mn in 2Q23 as compared to a loss of AED 54 Mn in 2Q22 driven by higher returns earned on capital markets along with a solid growth in fee income from asset management and income on Private Investment as compared to loss partially offset by a decline in WAHA Land. Public markets net income increased significantly to AED 155 Mn in 2Q23 as compared to a loss of AED 54 Mn in 2Q22 driven by growth in fee income and along with strong returns from flagship funds. Private markets investments recorded a net loss of AED 3.3 Mn in 2Q23 as compared to a loss of AED 2.2 Mn in 2Q22 due to unrealized revaluation losses on portfolio assets. Net profit from Waha Land stood stable at AED 8 Mn in 2Q23 as compared to AED 10 Mn in 2Q22 due to decline in income from AED 12.8 Mn in 2Q22 to AED 11.8 Mn in 2Q23. The Group's total assets under management stood at AED 9.0 Bn in 2Q23 as compared to AED 6.5 Bn in 4Q22. Investments in equity-accounted associates and JV's fell 3.8% YOY to AED 92 Mn in 2Q23. On the other hand, financial investments rose 4.7% YOY to AED 7.7 Bn in 2Q23. Waha's G&A expenses increased significantly from AED 18 Mn in 2Q22 to AED 59 Mn in 2Q23 due to increase in performance-based incentive in 2Q23 and reversal of AED 10.4 Mn recorded in the 2Q22. Moreover, the Group's finance cost increased 3.6% YOY to AED 30 Mn in 2Q23 due to higher interest rates. Additio-

Stock Information	
Market Cap (AED, mm)	2,761.21
Paid Up Capital (mm)	1,944.51
52 Week High	1.54
52 Week Low	1.15
3M Avg. daily value (AED)	2,077,733

2Q23 Result Review (AED, mm)	
Total Assets	10,213
Total Liabilities	4,458
Total Equity	5,755
Total Operating Income	259
Net Profit	94

Financial Ratios	
Dividend Yield (12m)	5.63
Dividend Pay-out (%)	41.52
Price-Earnings Ratio(x)	6.20
Price-to-Book Ratio (x)	0.79
Book Value (AED)	1.81
Return-on Equity (%)	12.57

Stock Performance	
5 Days	1.43%
1 Months	17.36%
3 Months	18.33%
6 Months	6.77%
1 Year	9.23%
Month to Date (MTD%)	4.41%
Quarter to Date (QTD%)	20.34%
Year to Date (YTD%)	4.41%

nally, the share of profit attributable to non-controlling interest holders stood at AED 77 Mn in 2Q23 as compared to the loss of AED 42 Mn in 2Q22.

Balance Sheet Highlights

The Group's financial investments increased from AED 6.9 Bn in 4Q22 to AED 7.7 Bn in 2Q23. On the other hand, the Group's cash and cash equivalents stood at AED 552 Mn in 2Q23, down from AED 797 Mn in 4Q22 due to payments of AED 69.6 Mn for development properties, decline in working capital of public market funds, and unclaimed dividends paid worth AED 22 Mn. Waha's total borrowings marginally increased to AED 3.97 Bn in 2Q23 as compared to AED 3.59 Bn in 4Q22 due to an increase in subsidiaries repurchase liabilities related to public market funds of AED 331 Mn in 2Q23.

Target Price and Rating

We maintain our BUY rating on Waha Capital with a revised target price of AED 1.65. Waha's share price rose 18.3% since our previous rating (i.e., on 14 June 2023). The Group's public market segment recorded a sharp rise in profitability owing to a solid performance of capital markets. All funds managed by Public Market Segment continue to record positive performance in 2Q23. Waha MENA Equity fund reported a return of 10.5% during the six months of 2023 as compared to the benchmark return of 5.4%. Waha Emerging Markets Credit Fund recorded 3.8% returns during the six months of 2023 as compared to its benchmark return of 4.1%. Likewise, Waha Islamic Income Fund delivered a return of 3.9% during the six months of 2023 as against the benchmark return of 2.0%. The strong performance of the Emerging markets fund attracted an inflow of AED 2.1 Bn third-party capital in 2Q23. Moreover, Public Markets Funds' total assets under management rose to AED 7.3 Bn in 2Q23 as compared to 6.9 Bn in 1Q23. Whereas, private investment AUMs including Waha Land stood at AED 1.6 Bn as of 2Q23, up from AED 900 Mn in 1Q23. Furthermore, Waha Land recorded a stable net profit of AED 8 Mn in 2Q23 driven by stable rental income. Waha Land successfully leased 17 warehouse buildings at ALMARKAZ Industrial Development and is further developing 136,000 square meters of industrial property to develop the logistics and industrial sector in Abu Dhabi. 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 square meter 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. Thus, we assign a BUY rating on the stock.

Waha Capital - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	18.00	NA	11.30	6.68	7.75	8.94
PB	0.73	0.93	0.86	0.79	0.76	0.73
Dividend yield	5.3%	NM	4.2%	5.3%	5.6%	6.3%

FABS Estimates & Co Data

Waha Capital – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	29	36	36	37	-3.8%	25.0%	-0.4%	112	143	28.0%
Cost of sales	-23	-27	-27	-29	-7.6%	17.2%	0.9%	-90	-106	16.9%
Gross Profit	6	9	9	8	9.7%	56.2%	-4.3%	21	37	75.5%
Profit/(loss) from fin. Invstmnts	-108	220	226	132	71.6%	NM	3.1%	467	894	91.5%
Inc. from Property Invstmnts	12	12	12	13	-12.2%	-5.2%	0.8%	46	47	3.5%
Other Income, net	2	1	5	2	NM	NM	NM	13	13	0.0%
Total operating income	-31	268	285	184	54.9%	NM	6.4%	811	1,096	35.2%
Net operating profit /(loss)	-54	242	259	155	66.7%	NM	7.0%	720	991	37.5%
G&A expenses	-18	-62	-59	-47	25.8%	NM	-5.8%	-174	-258	47.9%
Finance cost, net	-29	-32	-30	-35	-15.7%	3.6%	-7.3%	-120	-123	2.6%
Profit before NCI	-101	148	170	74	131.8%	NM	15.4%	449	610	35.8%
NCI	42	-73	-77	-37	108.2%	NM	5.3%	-104	-311	197.8%
Net Profit	-59	75	94	37	155.4%	NM	25.3%	344	299	-13.3%

FABS estimate & Co Data

Waha Capital - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	20.1%	26.1%	25.1%	501	-100	19.0%	26.0%	703
Operating margin	NM	66.9%	70.1%	NM	315	67.3%	66.8%	-51
Net profit margin	NM	27.9%	32.9%	NM	497	42.5%	27.2%	-1,523

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	1.97	50.0%	0.99
DDM Method	1.37	50.0%	0.68
Weighted Average Valuation (AED)			1.67
Current market price (AED)			1.42
Upside/Downside (%)			+17.65%

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 7.8%. It is arrived after using cost of equity of 8.5% and cost of debt of 7.3% with a debt-to-equity ratio of 148.8%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 3.9%. 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)	2,322
Terminal value (AED, Mn)	7,042
FV to Common shareholders (AED, Mn)	3,706
No. of share (Mn)	1,880
Current Market Price (AED)	1.42
Fair Value per share (AED)	1.97

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	733	603	574	584	575
D&A	14	15	15	16	17
Changes in working capital	-352	208	41	-18	14
(-) Capex	-57	-50	-50	-52	-54
Free Cash Flow to Firm (FCFF)	338	777	580	530	552
Discounting Factor	0.97	0.90	0.84	0.78	0.72
Discounted FCFF	328	700	485	411	398

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. The dividend is discounted at the cost of equity of 8.7%.

Sum of PV (AED, Mn)	701
Terminal value (AED, Mn)	1,874
FV to Common shareholders (AED, Mn)	2,575
No. of share (Mn)	1,880
Current Market Price (AED)	1.42
Fair Value per share (AED)	1.37

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend Paid					
12 months	169	169	169	169	169
Total Dividend	169	169	169	169	169
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Present Value of Dividend	164	151	139	128	118

Source: FAB Securities

