

Al Waha Capital PJSC

Loss on derivatives and unquoted funds impacted profit

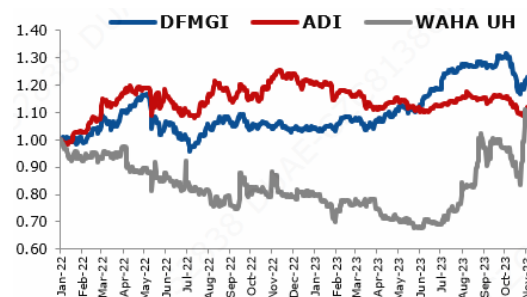
Current Price
AED 1.80

Target Price
AED 1.72

Upside/Downside (%)
-4%

Rating
HOLD

- Net operating income declined from AED 216.5 Mn in 3Q22 to AED 179.1 Mn in 3Q23 due to lower income from Public Markets and Waha Land Income partially offset by higher income from Private Investments.
- WAHA Investment received additional third-party investments of AED 0.5 Bn and was also mandated to manage AED 2.3 Bn from an institutional client bringing the total AUM to AED 8.1 Bn
- Waha MENA Equity fund reported a return of 13.5% during the first nine months of 2023 as compared to the benchmark return of 4.1%. Waha Emerging Markets Credit Fund recorded 4.3% returns during the first nine months of 2023 as compared to its benchmark return of 1.8%. Likewise, Waha Islamic Income Fund delivered a return of 3.93% during the first nine months of 2023 as against the benchmark return of 0.95%



3Q23 Net Profit lower than our estimate

Al Waha Capital PJSC (the Group/Waha) recorded a decline in net profit to AED 54 Mn in 3Q23 as compared to a net profit of AED 100 Mn in 3Q22, lower than our estimate of AED 82 Mn. The Group's net profit mainly fell due to lower income generated from financial investment and higher finance cost partially offset by an increase in fee income from asset management and lower profit attributed to non-controlling interest holders.

P&L Highlights

Waha's net operating income declined to AED 179 Mn in 3Q23 as compared to AED 217 Mn in 3Q22 driven by a lower return on income from financial investment owing to loss on derivatives & unquoted funds and lower income investment property partially offset by a higher profit from healthcare operations. Public markets net income declined from AED 129.4 Mn in 3Q22 to AED 89.4 Mn in 3Q23 due to lower income from financial investment owing to loss on derivatives and unquoted funds partially offset by higher return from equity and fixed securities and gain on convertible preference shares. Private markets investments recorded a higher net profit of AED 22.7 Mn in 3Q23 as compared to a profit of AED 9.3 Mn in 3Q22 due to higher gross profit from healthcare operations and gain on financial investments. Net profit from Waha Land declined from AED 8.6 Mn in 3Q22 to AED 5.2 Mn in 3Q23 due to a decline in income from property investments from AED 12.0 Mn in 3Q22 to AED 8.8 Mn in 2Q23. The Group's total assets under management stood at AED 9.8 Bn in 3Q23 as compared to AED 6.5 Bn in 4Q22. Investments in equity-accounted associates and JV's marginally fell from AED 95.5 Mn in 4Q22 to AED 94.3 Mn in 3Q23. On the other hand, financial investments rose from AED 6.9 bn in 4Q22 to AED 8.0 Bn in 3Q23. Waha's G&A expenses remained almost flat at AED 58 Mn in 3Q23. While finance cost rose

Stock Information

Market Cap (AED, mm)	3,500.13
Paid Up Capital (mm)	1,944.51
52 Week High	1.94
52 Week Low	1.15
3M Avg. daily value (AED)	9,460,349

3Q23 Result Review (AED, mm)

Total Assets	11,765
Total Liabilities	5,743
Total Equity	6,022
Total Operating Income	179
Net Profit	54

Financial Ratios

Dividend Yield (12m)	4.44
Dividend Pay-out (%)	41.52
Price-Earnings Ratio(x)	8.92
Price-to-Book Ratio (x)	1.00
Book Value (AED)	1.81
Return-on Equity (%)	12.57

Stock Performance

5 Days	-0.55%
1 Months	20.00%
3 Months	25.87%
6 Months	51.26%
1 Year	31.39%
Month to Date (MTD%)	-5.26%
Quarter to Date (QTD%)	8.43%
Year to Date (YTD%)	32.35%

from AED 27.9 Mn in 3Q22 to AED 31.8 Mn in 3Q23 due to higher interest rates. Additionally, the share of profit attributable to non-controlling interest holders declined from AED 60 Mn in 3Q22 to AED 35 Mn in 3Q23 supported profitability.

Balance Sheet Highlights

The Group's financial investments increased from AED 6.9 Bn in 4Q22 to AED 8.0 Bn in 3Q23 mainly due to higher allocation to public markets funds partially offset by a decline in allocation to private investments. On the other hand, the Group's cash and cash equivalents stood at AED 870 Mn in 3Q23, up from AED 797 Mn in 4Q22 due to contributions from non-controlling interest holders of AED 436.4 Mn and increase in repurchase liabilities payments of AED 1.3 bn related to public market funds offset by dividend payment of AED 150.7 Mn, payment for development properties AED 83.6 Mn and increase in receivables of public market funds AED 1.2 Mn. Other assets increased from AED 905.5 Mn in 4Q22 to AED 1.9 Bn in 3Q23. Waha's total borrowings increased to AED 5.0 Bn in 3Q23 as compared to AED 3.6 Bn in 4Q22 due to an increase in subsidiaries repurchase liabilities related to public market funds of AED 1.3 Bn in 3Q23.

Target Price and Rating

We maintain our HOLD rating on Waha Capital with a revised target price of AED 1.72. Waha Capital's total assets under management rose from AED 6.5 Bn a year to USD 9.5 Bn as of 30 September 2023. The public market fund continues to outperform the benchmark by a healthy margin. The flagship fund Mena Equity Fund generated more than double the return over its benchmark. Due to its exceptional track record, the fund continued to attract investment flow from the majority of the institutional investors with third-party commitments of USD 800 Mn in 2023. Thus, fee income generated from managing third-party funds almost doubled to AED 69 Mn during 9M23. In addition, due to the receipt of significant investment from regional and global institutional investors worth AED 2.8 Bn in 2023 fee income was boosted. Total assets under management by public funds rose from AED 4.8 Bn to AED 8.1 Bn in 3Q23. All three funds managed by public market funds generated robust returns as compared to the benchmark. Private investment generated a profit of AED 22.7 Mn in 3Q23 compared to a profit of AED 9.3 Mn in 3Q22. Whereas, private investment AUMs including Waha Land stood at AED 1.7 Bn in 3Q23 as compared to AED 1.6 Bn in 2Q23. Furthermore, Waha Land's net profit declined from AED 8.6 Mn in 3Q22 to AED 5.2 Mn in 3Q23. 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. Further, an expansion of Stage 2B is currently under construction, which will add circa 75,000-meter square area of premium/logistics facilities and is expected to be completed by 4Q23. Borrowings rose from AED 3.6 Bn in FY2022 to AED 5.0 Bn in 3Q23 due to increase in borrowings from repurchase liabilities related to public market funds. This will be settled once the Company receives funds from brokers on settlement of trades. We expect the public market portfolio to record moderate gains owing to a slowdown in economic growth and higher interest rate continue to run higher in FY2023. Thus, we assign a HOLD rating on the stock.

Waha Capital - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	22.95	NA	14.41	8.50	9.84	11.47
PB	0.93	1.18	1.10	1.00	0.97	0.94
Dividend yield	4.1%	NM	3.3%	4.2%	4.4%	5.0%

FABS Estimates & Co Data

Waha Capital – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	24	36	30	34	-12.1%	21.3%	-17.3%	112	134	20.0%
Cost of sales	-21	-27	-26	-26	-2.8%	21.6%	-4.8%	-90	-104	15.5%
Gross Profit	3	9	4	7	-45.1%	19.1%	-54.7%	21	29	39.2%
Profit/(loss) from fin. Invstmnts	190	226	155	230	-32.5%	-18.2%	-31.4%	467	786	68.5%
Inc. from Property Invstmnts	12	12	9	13	-33.6%	-26.9%	-25.7%	46	44	-3.3%
Other Income, net	9	5	9	4	146.2%	-1.5%	68.7%	13	20	57.1%
Total operating income	238	285	205	281	-27.1%	-13.8%	-28.3%	811	994	22.6%
Net operating profit /(loss)	217	259	179	254	-29.6%	-17.3%	-30.7%	720	890	23.5%
G&A expenses	-58	-59	-58	-66	-11.9%	0.7%	-0.5%	-174	-227	30.4%
Finance cost, net	-28	-30	-32	-31	3.4%	13.8%	7.5%	-120	-123	2.6%
Profit before NCI	160	170	89	157	-43.4%	-44.3%	-47.7%	449	540	20.2%
NCI	-60	-77	-35	-76	-53.1%	-41.2%	-53.7%	-104	-243	132.5%
Net Profit	100	94	54	82	-34.5%	-46.2%	-42.9%	344	297	-13.8%

FABS estimate & Co Data

Waha Capital - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	14.0%	25.1%	13.8%	-25	-1,135	19.0%	22.0%	303
Operating margin	66.8%	70.1%	59.0%	-777	-1,104	67.3%	66.6%	-70
Net profit margin	42.0%	32.9%	26.2%	-1,576	-670	42.5%	29.8%	-1,263

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	1.43	50.0%	0.71
Weighted Average Valuation (AED)			1.72
Current market price (AED)			1.80
Upside/Downside (%)			-4%

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 8.5% and cost of debt of 7.3% with a debt-to-equity ratio of 146.3%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.95 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)	1,979
Terminal value (AED, Mn)	7,355
FV to Common shareholders (AED, Mn)	3,789
No. of share (Mn)	1,880
Current Market Price (AED)	1.80
Fair Value per share (AED)	2.02

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	663	602	572	582	573
D&A	14	14	14	15	15
Changes in working capital	-235	90	42	-17	15
(-) Capex	-94	-48	-46	-47	-47
Free Cash Flow to Firm (FCFF)	41	659	583	533	556
Discounting Factor	0.99	0.92	0.85	0.79	0.74
Discounted FCFF	40	607	498	423	410

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 42%, and expect the payout ratio to average 66% during the next five years. The dividend is discounted at the cost of equity of 8.3%.

Sum of PV (AED, Mn)	694
Terminal value (AED, Mn)	1,991
FV to Common shareholders (AED, Mn)	2,685
No. of share (Mn)	1,880
Current Market Price (AED)	1.82
Fair Value per share (AED)	1.43

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend Paid					
12 months	160	160	164	164	169
Total Dividend	160	160	164	164	169
Discounting Factor	0.99	0.92	0.85	0.78	0.72
Present Value of Dividend	158	146	139	128	122

Source: FAB Securities

