

Al Waha Capital PJSC

Strong growth in the Public market income boosted profitability

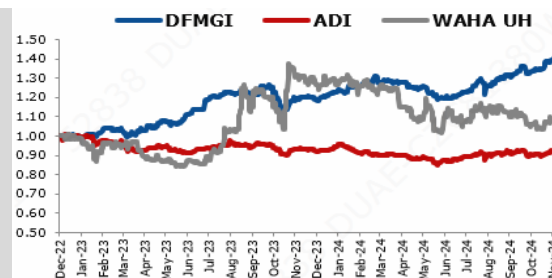
Current Price
AED 1.48

Target Price
AED 1.75

Upside/Downside (%)
+18%

Rating
BUY

- Waha's total AUMs grew to AED 11.4 Bn in 3Q24, up from AED 10.4 Bn in 4Q23.
- The Group secured AED 1.2 Bn in new third-party capital from institutional investors in 9M24.
- Public market third-party AUM grew to AED 6.6 Bn in 3Q24, while Private investment AUMs stood at AED 671 Mn.
- Waha successfully secured a new revolving credit line of AED 1.5 Bn, extendable to AED 1.8 Bn in 3Q24, enhancing its financial flexibility.
- Total borrowings declined from AED 5.7 Bn in 2Q24 to AED 5.3 Bn in 3Q24, primarily due to repayment of existing loans.



Stock Information

Market Cap (AED, Mn)	2,877.88
Paid Up Capital (Mn)	1,944.51
52 Week High	1.84
52 Week Low	1.37
3M Avg. daily value (AED)	2,107,256

3Q24 Net Profit lower than our estimate

Al Waha Capital PJSC (the Group/Waha) reported a net profit of AED 78 Mn in 3Q24, higher than our estimate of AED 54 Mn. This growth in net profit is mainly driven by a strong growth in public market income partially offset by losses in private investments.

P&L Highlights

Waha's net operating income rose significantly from AED 179 Mn in 3Q23 to AED 376 Mn in 3Q24. This growth in net operating margin is primarily due to a significant rise in income received from financial investments, particularly from listed fixed income securities along with a healthy growth in dividend and interest income. Public Market income more than tripled from AED 138 Mn in 3Q23 to AED 424 Mn in 3Q24. On the other hand, the Private Investment segment registered a loss of AED 61 Mn in 3Q24 compared to a profit of AED 32 Mn in 3Q24. Waha Land reported a net operating income of AED 13.1 Mn in 3Q24, up from AED 8.9 Mn in 3Q23. The Group's cost of sales rose 4.1% YOY to AED 27 Mn in 3Q24. Gross profit increased from AED 4 Mn in 3Q23 to AED 7 Mn in 3Q24. Waha's total AUMs increased to AED 11.4 Bn in 3Q24, up from AED 10.4 Bn in 4Q23. Income from financial investments expanded from AED 155 Mn in 3Q23 to AED 341 Mn in 3Q24, mainly attributable to an increase in listed fixed income securities gains coupled with a rise in dividend and interest income. Income from property investments rose 49.5% YOY to AED 13 Mn in 3Q24. Other income increased 36.9% YOY to AED 12 Mn in 3Q24. G&A expenses rose from AED 58 Mn in 3Q23 to AED 62 Mn in 3Q24, while the finance costs increased significantly from AED 32 Mn in 3Q23 to AED 64 Mn in 3Q24 due to a sharp rise in interest on borrowings. The share of profit attributable to non-controlling interest holders substantially grew from AED 35 Mn in 3Q23 to AED 172 Mn in 3Q24.

3Q24 Result Review (AED, Mn)

Total Assets	14,014
Total Liabilities	6,157
Total Equity	7,857
Total Operating Income	376
Net Profit	78

Financial Ratios

Dividend Yield (12m)	6.76
Dividend Pay-out (%)	42.38
Price-Earnings Ratio(x)	5.55
Price-to-Book Ratio (x)	0.73
Book Value (AED)	2.03
Return-on Equity (%)	13.50

Stock Performance

5 Days	-2.63%
1 Months	0.68%
3 Months	-6.33%
6 Months	-7.50%
1 Year	-17.78%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-2.63%
Year to Date (YTD%)	-16.85%

Balance Sheet Highlights

The Group's financial investments grew from AED 9.8 Bn in 2Q24 to AED 10.0 Bn in 3Q24, mainly attributable to an increase in listed fixed income securities. Cash and cash equivalents rose to AED 1.2 Bn in 3Q24, up from AED 0.9 billion in 2Q24, primarily as a result of new investments and a rise in working capital due to trading activities. Trade and other receivables fell from AED 1.9 Bn in 2Q24 to AED 1.7 Bn in 3Q24. Waha's total borrowings declined from AED 5.7 Bn in 2Q24 to AED 5.3 Bn in 3Q24, primarily due to the repayment of existing loans. Trade and other liabilities increased from AED 467 Mn in 2Q24 to AED 587 Mn in 3Q24.

Target Price and Rating

We revise our rating on Waha Capital from ACCUMULATE to BUY with an unchanged target price of AED 1.75. The Group's share price declined 6.3% since our last rating (August 2024). The Group's total AUMs rose from AED 10.4 Bn in 4Q23 to AED 11.4 Bn in 3Q24. Waha Investments secured a third-party net inflow of AED 1.2 Bn in 9M24 and earned a fee income of AED 166 Mn. Moreover, the third-party AUMs stood at AED 6.6 Bn, surpassing 50% of the total AUM. Waha Emerging Markets Credit Fund recorded a net return of 15.9% YTD in 3Q24, compared to an 8.6% return by its benchmark (JP Morgan EMBI Global Diversified Index). Consequently, the Waha Mena Equity Fund SP recorded a net return of 0.3% YTD in 3Q24 compared to the benchmark return (S&P Pan Arab Composite Index) of 5.1%. Waha Islamic Income Fund posted gross returns of 8.0% YTD in 3Q24 compared to a 5.3% increase in the benchmark (Dow Jones Sukuk Index). Private investment AUMs stood at AED 671 Mn as of 3Q24 and recorded a total income of AED 71 Mn in 9M24, against a loss of AED 3 Mn loss in 9M23, predominantly driven by mark-to-market gains across the portfolio. Waha Land's Stages 1 and 2A of the ALMARKAZ project consist of 182,400 industrial and logistics units, recorded a strong occupancy of 98% in 3Q24. Additionally, the Group completed the expansion of Stage 2B in 1Q24, adding approximately 76,000 sqm of premium leasable space. The current occupancy in the Stage 2B project stood at 40% and is poised for further growth amid increasing demand for high-quality logistics facilities. Additionally, the group has successfully obtained a new revolving credit line of AED 1.5 Bn, backed by four regional banks. This improves Waha Capital's financial agility, enabling it to seize new growth opportunities while carefully managing its balance sheet. 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	6.1	6.9	8.0	6.3	8.6
PB	1.0	0.9	0.8	0.8	0.7	0.7
Dividend yield	NM	4.1%	5.1%	5.4%	6.8%	6.8%

FABS Estimates & Co Data

Waha Capital – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var %	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	30	39	33	33	1.8%	12.0%	-14.2%	140	150	7.0%
Cost of sales	-26	-28	-27	-24	11.1%	4.1%	-6.2%	-107	-113	4.9%
Gross Profit	4	10	7	9	-23.9%	NM	-36.1%	33	38	13.9%
Profit/(loss) from fin. Inv	155	72	341	195	74.3%	119.4%	NM	1,089	1,095	0.5%
Inc. from Property Inv	9	13	13	13	-0.4%	49.5%	2.8%	60	52	-12.3%
Other Income, net	9	5	12	9	40.3%	36.9%	NM	30	41	34.7%
Total operating income	205	139	403	256	57.5%	96.7%	188.8%	1,330	1,351	1.6%
Net operating profit /(loss)	179	111	376	232	62.4%	109.9%	NM	1,222	1,238	1.3%
G&A expenses	-58	-48	-62	-56	11.6%	6.5%	27.9%	-260	-272	4.8%
Finance cost, net	-32	-72	-64	-68	-6.8%	99.9%	-11.9%	-139	-273	95.7%
Profit before Tax	89	-10	250	108	132.2%	181.1%	NM	820	694	-15.4%
Tax expense	0	-2	-1	0	NM	NM	-62.3%	0	-3	NM
NCI	35	-50	172	54	NM	NM	NM	380	366	-3.7%
Net Profit	54	38	78	54	44.0%	44.6%	102.6%	440	325	-26.3%

FABS estimate & Co Data

Waha Capital - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	13.8%	26.6%	19.8%	606	-681	23.5%	25.0%	152
Operating margin	59.0%	44.8%	78.0%	1,893	3,315	72.4%	71.5%	-87
Net profit margin	26.2%	27.5%	19.3%	-693	-820	33.1%	24.0%	-908

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	50.0%	1.02
DDM Method	1.47	50.0%	0.73
Weighted Average Valuation (AED)			1.75
Current market price (AED)			1.48
Upside/Downside (%)			+18%

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 9.4% and after tax cost of debt of 6.5% with a debt-to-equity ratio of 1.90x. Cost of equity is calculated by using 10-year government bond yield of 4.2%, 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)	2,757
Terminal value (AED, Mn)	9,260
FV to Common shareholders (AED, Mn)	12,017
No. of share (Mn)	1,884
Current Market Price (AED)	1.48
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	967	740	771	791	791
D&A	12	13	14	15	16
Changes in working capital	366	562	-7	-6	14
(-) Capex	-185	-155	-164	-164	-149
Free Cash Flow to Firm (FCFF)	1,160	1,161	614	636	672
Discounting Factor	0.99	0.92	0.86	0.80	0.74
Discounted FCFF	156	1,069	526	507	498

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 48% during the next five years. The dividend is discounted at the cost of equity of 9.4%.

Sum of PV (AED, Mn)	827
Terminal value (AED, Mn)	1,934
FV to Common shareholders (AED, Mn)	2,762
No. of share (Mn)	1,884
Current Market Price (AED)	1.48
Fair Value per share (AED)	1.47

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend Paid					
12 months	194	199	199	199	204
Total Dividend	194	199	199	199	204
Discounting Factor	0.99	0.90	0.83	0.75	0.69
Present Value of Dividend	192	180	164	150	141

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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