

Dubai Investments PJSC

One-time gain and growth in Properties Segment boosted profitability

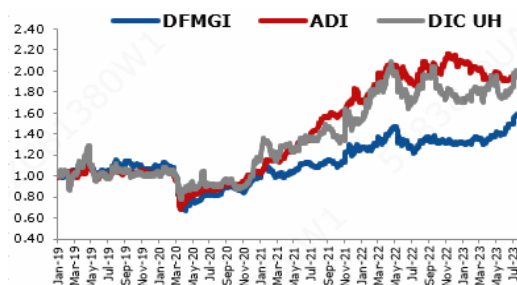
Current Price
AED 2.43

Target Price
AED 2.47

Upside/Downside (%)
+2%

Rating
HOLD

- DIC revenue declined 0.6% QOQ to AED 1.0 Bn in 2Q23 while core revenue, excluding gain on fair valuation of investment properties, investments, and sales of investments, rose marginally 2.1% YOY to AED 716 Mn
- The Company recorded a gain of AED 305 Mn in 1Q23 compared to AED 266 Mn in 2Q23
- DIC's net profit grew substantially in 2Q23, supported by robust growth gain on fair valuation of investment properties, investment and sales of investments partially offset by loss of impairments
- DIC real projects Danah Bay, Al Marjan Island and Ras Al Khaimah continue to attract significant interest
- DIC acquired an additional stake 3.01% stake in subsidiary AL Mal Capital resulting in a total stake of 73.19% as of 1H23



2Q23 Net Profit higher than our estimate

Dubai Investment PJSC (DIC) net profit grew significantly from AED 162 Mn in 2Q22 to AED 266 Mn in 2Q23, higher than our estimate of AED 126 Mn. The increase in net profit is primarily attributable to a marginal growth in core income, supported by a gain in fair valuation of investment properties, investments, and sale of investment partially offset by an increase in operating expenses, higher finance expenses and impairments.

P&L Highlights

DIC's total income grew 28.8% YOY to AED 1,013 Mn in 2Q23, mainly driven by the robust performance of the Company's Property and Investments Segment, partially offset by a decrease in the Manufacturing and Services segment. Income from the Property segment grew from AED 327 Mn in 2Q22 to AED 576 Mn in 2Q23, mainly due to a growth in rental income, sale of properties and gain on fair value of investment property. Manufacturing, Contracting, and Services segment income declined 38.4% YOY to AED 302 Mn in 2Q23 due to sale of the Company's interest in Emicool. Income from the Investments segment grew significantly from a loss of AED 30 Mn in 2Q22 to AED 136 Mn in 2Q23 owing to gain on fair value of investments, gain on sale of investments partially offset by decline in sale of goods & services. On the other hand, DIC's direct cost declined 6.7% YOY to AED 490 Mn in 2Q23 due to a decline in staff cost, material consumed, depreciation, and property cost. Thus, gross profit almost doubled from AED 262 Mn in 2Q22 to AED 523 Mn in 2Q23. Operating expenses grew 9.8% YOY to AED 114 Mn in 2Q23. As a result, total operating profit grew from AED 158 Mn in 2Q22 to AED 409 Mn in 2Q23. D&A expenses declined 28.9% YOY to AED 43 Mn in 2Q23. Finance expenses rose significantly from AED 65 Mn in 2Q22 to AED 113 Mn in 2Q23 while finance income declined 76.3% YOY to AED 14 Mn in 2Q23. Other income declined from AED 7 Mn in

Stock Information

Market Cap (AED, mm)	10,332.41
Paid Up Capital (mm)	4,252.02
52 Week High	2.60
52 Week Low	2.12
3M Avg. daily value (AED)	4,805,165

2Q23 Result Review (AED, mm)

Total Assets	20,863
Total Liabilities	7,809
Total Equity	13,054
EBITDA	452
Net Profit	266

Financial Ratios

Dividend Yield (12m)	8.23
Dividend Pay-out (%)	33.04
Price-Earnings Ratio(x)	5.76
Price-to-Book Ratio (x)	0.80
Book Value (AED)	3.03
Return-on Equity (%)	14.71

Stock Performance

5 Days	-2.02%
1 Months	0.00%
3 Months	10.96%
6 Months	4.74%
1 Year	0.00%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	4.29%
Year to Date (YTD%)	11.98%

2Q22 to AED 5 Mn in 2Q23. Impairment expenses rose from AED 2 in 2Q22 to AED 78 Mn in 2Q23 impacting profit. Share of profit attributable to non-controlling interest holders grew from AED 6 Mn in 2Q22 to AED 30 Mn in 2Q23. The performance of all the segments except Manufacturing and services recorded a decline as compared to 2Q22. Net profit of the Property segment rose from AED 133 Mn in 2Q22 to AED 155 Mn in 2Q23 mainly due to increased property sales and rental income. Manufacturing, Contracting and Services Segment declined from AED 79 Mn in 2Q22 to AED 10 Mn in 2Q23 due to a decline in contract revenue and higher impairments. The investment Segment witnessed a profit of AED 77 Mn in 2Q23 compared to a loss of AED 53 Mn in 2Q22 owing to a one-time fair value gain received on investment properties.

Balance Sheet Highlights

Total debt of the company rose from AED 5.3 Bn in 1Q23 to AED 5.4 Bn in 2Q23. Cash and cash equivalent decreased from AED 950 in 2Q23 to AED 716 Mn in 2Q23. DIC cash flow from operations increased from AED 407 Mn in 1H22 to AED 517 Mn in 2Q23 due to a decline in working capital requirements.

Target Price and Rating

We maintain our rating HOLD on DIC with a revised target price of AED 2.47. The company's stock price rose 9.5% since our last rating (16 May 2023). DIC's net profit grew substantially in 2Q23 driven by an increase in the Investments and Property segments owing to the one-off gain received in 2Q23, partially weighed by sale of Emicool assets. The Company continues to prioritize the real estate sector as one of its primary business areas and remains dedicated to efficiently investing capital in opportunities that enhance value. It is also planning to actively expand its portfolio into new geographies. DIC entered into a partnership with Millennium Hotels & Resorts to establish a 300-room hotel Grand Millennium at Danah Bay. Recently in June 2023, the Company revealed that Phase 1 of the Danah Bay project achieved full occupancy and the construction of which is expected to be completed by 1Q25. Danah Bay is a premium beach community and a resort-style retreat spanning 90,000 sqm with 40,000 sqm of beaches comprising 188 villas is an attractive investment in the Emirates of Ras Al Khaimah. We further expect that the Danah Bay development will generate a robust cash flow in the long-term given the increase in tourism activity in UAE. DIC also acquired an additional stake in its existing subsidiary Al Mal Capital owing to which its stake in the subsidiary increased to 73.19% as of 1H23. The Company aims to divest stakes in mature businesses over a period of time. DIC continues to generate significant profit from a gain in fair valuation of investment properties which might be sustained in the long-term. Apart from the businesses the company operates it also owns investment in both quoted and unquoted equity securities, funds, bonds and Sukuk and stake in Emicool which further provide a boost to its value. Considering, the above-mentioned factors, we assign a HOLD rating on the stock.

DIC - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.9	15.7	29.7	16.7	6.4	9.5
PB	0.9	0.9	0.9	0.9	0.8	0.8
EV/EBITDA	18.6	17.0	25.6	18.7	7.5	10.8
Dividend yield	4.1%	4.1%	3.3%	4.9%	8.2%	5.1%

FABS Estimates & Co Data

DIC – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Total Income	786	1,019	1,013	802	26.3%	28.8%	-0.6%	4,255	3,533	-17.0%
Direct Costs	-525	-518	-490	-497	-1.5%	-6.7%	-5.5%	-1,959	-1,802	-8.0%
Gross profit	262	501	523	305	71.7%	99.9%	4.5%	2,296	1,731	-24.6%
Operating Expenses	-104	-108	-114	-116	-1.6%	9.8%	5.6%	-506	-489	-3.4%
EBITDA	218	430	452	228	98.3%	107.1%	5.2%	1,984	1,398	-29.6%
D&A	60	37	43	39	9.4%	-28.9%	15.8%	194	155	-20.1%
Operating profit	158	393	409	189	116.8%	159.1%	4.2%	1,790	1,242	-30.6%
Finance expenses	-65	-93	-113	-92	23.7%	73.4%	22.1%	-250	-397	58.8%
Finance income	58	13	14	16	-15.0%	-76.3%	9.0%	152	159	4.8%
Impairments	-2	-2	-78	-2	NM	NM	NM	-161	0	NM
Other income	7	5	5	8	-34.2%	-22.4%	17.1%	34	35	2.7%
Profit before NCI	155	314	237	118	99.8%	52.6%	-24.7%	1,565	1,040	-33.5%
NCI	-6	0	-30	-8	NM	NM	NM	-44	-52	19.4%
Net Profit	162	314	266	126	110.7%	64.7%	-15.4%	1,609	1,092	-32.1%

FABS estimate & Co Data

DIC - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	33.3%	49.1%	51.7%	1,837	253	54.0%	49.0%	-496
EBITDA	27.8%	42.2%	44.6%	1,687	246	46.6%	39.6%	-708
Operating Profit	20.1%	38.5%	40.4%	2,031	186	42.1%	35.2%	-691
Net Profit	20.5%	30.9%	26.3%	573	-459	37.8%	30.9%	-689

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Dubai Investments. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.34	70.0%	1.64
Relative Valuation (RV)	2.78	30.0%	0.83
Weighted Average Valuation (AED)			2.47
Current market price (AED)			2.43
Upside/Downside (%)			+2%

1) DCF Method:

Dubai Investments is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.2%. It is arrived after using cost of equity of 9.2% and cost of debt of 6.5% with a debt-to-equity ratio of 57.3%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 1.0, and an equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,567
Terminal value (AED, Mn)	7,474
FV to Common shareholders (AED, Mn)	9,952
No. of share (Mn)	4,252
Current Market Price (AED)	2.43
Fair Value per share (AED)	2.34

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	1,242	782	823	852	871
D&A	155	157	156	156	155
Change in working capital	445	225	-40	-38	-38
Capex	-352	-338	-313	-319	-326
Free Cash Flow to Equity (FCFF)	1,491	825	626	650	663
Discounting Factor	0.94	0.87	0.80	0.74	0.69
Discounted FCFF	1,406	719	504	484	456

Source: FAB Securities

2) Relative Valuation:

We have used local and international peers to value Dubai Investments, which is valued using the EV/EBITDA multiple. It is valued at a 2023 EV/EBITDA multiple of 9.2x at a discount to the peer valuation. Since the Company is valued against leading real estate companies in UAE, we considered applying a discount to the valuation multiple.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Emaar Properties	16,342	5.0	4.3	7.2	7.7
Dar AlArkan Real Estate	5,384	22.4	19.9	NA	NA
Sobha Ltd	650	11.8	7.2	18.8	11.8
Arabian Centres	2,941	12.7	11.5	10.6	10.3
Deyaar Development	858	12.0	10.4	14.4	11.1
TECOM Group	3,485	11.3	10.6	NA	NA
Aldar Properties	10,941	9.6	7.9	12.5	11.7
Average		12.1x	10.3x	12.7x	10.5x
Median		11.8x	10.4x	12.5x	11.1x
Max		12.4x	11.1x	14.4x	11.7x
Min		10.4x	7.5x	10.6x	10.3x

Source: FAB Securities

