

Dubai Investments PJSC (DIC)

High property sales and fair valuation gain on investment property from boosted profit

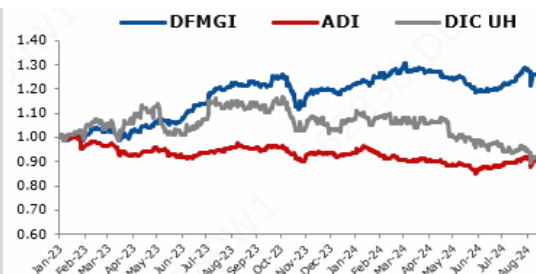
Current Price
AED 2.02

Target Price
AED 2.40

Upside/Downside (%)
+19%

Rating
BUY

- DIC's net profit, excluding a one-off gain on the fair value of investment properties, rose 78.1% YOY to AED 183 Mn in 2Q24.
- The ongoing construction of Phase 1 of the Danah Bay project is expected to record significant progress by the end of 2024.
- Commenced the off-plan sales of the Violet Tower project in Jumeirah Village Circle in 1Q24.
- Dubai Investments strengthened its investment portfolio by acquiring a 100% equity stake in Carnation Education LLC, which holds the property of Kent College in Dubai through its subsidiary Al Mal Capital REIT.



Stock Information

Market Cap (AED, mn)	8,589.08
Paid Up Capital (mn)	4,252.02
52 Week High	2.55
52 Week Low	1.93
3M Avg. daily value (AED)	3,955,640

2Q24 Result Review (AED, mn)

Total Assets	21,820
Total Liabilities	8,238
Total Equity	13,582
EBITDA	429
Net Profit	289

Financial Ratios

Dividend Yield (12m)	6.19
Dividend Pay-out (%)	47.00
Price-Earnings Ratio(x)	8.71
Price-to-Book Ratio (x)	0.64
Book Value (AED)	3.14
Return-on Equity (%)	7.32

Stock Performance

5 Days	1.00%
1 Months	-2.88%
3 Months	-5.61%
6 Months	-12.17%
1 Year	-18.55%
Month to Date (MTD%)	-0.98%
Quarter to Date (QTD%)	-4.27%
Year to Date (YTD%)	-13.30%

2Q24 Net Profit higher than our estimate

Dubai Investment PJSC (DIC) net profit grew from AED 266 Mn in 2Q23 to AED 289 Mn in 2Q24, higher than our estimate of AED 122 Mn. This growth was primarily driven by higher profit generated from the Property Segment owing to higher revenue from property sales partially offset by a decline in profit of Manufacturing, Contracting & Services and Investment Segment. In addition, the property segment also recorded gain from the fair valuation of investment property investment of AED 164 Mn in 2Q23 compared to a gain of AED 107 Mn in 2Q24. After adjusting for a one-time gain from the fair valuation of investment properties, net profit attributable to shareholders rose 78.1% YOY to AED 183 Mn in 2Q24.

P&L Highlights

DIC's total income grew 22.3% YOY to AED 1,238 Mn in 2Q24, owing to a significant increase in revenue from the Property segment. Revenue from the Property segment increased 45.9% YOY to AED 839 Mn, mainly due to a 194.1% YOY rise in revenue from property sales. This growth was driven by the recognition of revenue over time from long-term contracts, reflecting the steady progress and completion of ongoing projects, as well as increased demand and successful execution of sales agreements. However, the revenue from Manufacturing, Contracting and Services segment revenue fell 3.9% YOY to AED 290 Mn in 2Q24 primarily due to a 5.5% YOY decline in the sale of goods and services partially offset by an 8.4% YOY growth in contract revenue. Income from the Investments segment declined 19.6% YOY to AED 109 in 2Q24 due to a lower gain on the fair value of investment and sale of investment. On the other hand, DIC's direct cost increased 46.7% YOY to AED 718 Mn in 2Q24. Thus, gross profit remained stable at AED 520 Mn in 2Q24 while margins declined from 51.7% in 2Q23 to 42.0% in 2Q24. Operating expenses increased 19.6% YOY to AED 137 Mn in 2Q24, driven by higher selling &

marketing expenses. Consequently, operating profit declined 6.2% YOY to AED 384 Mn in 2Q24. D&A expenses rose 5.1% YOY to AED 45 Mn in 2Q24. EBITDA declined from AED 452 Mn in 2Q23 to AED 429 Mn in 2Q24, with a decline in the EBITDA margin from 44.6% in 2Q23 to 34.6% in 2Q24. Furthermore, finance expenses decreased 6.3% YOY to AED 106 Mn in 2Q24, whereas finance income stood at AED 25 Mn in 2Q24 compared to AED 14 Mn in 2Q23. Moreover, other income grew from AED 5 Mn in 2Q23 to AED 9 Mn in 2Q24 and impairment charges dropped from AED 78 Mn in 2Q23 to AED 2 Mn in 2Q24. The company incurred a tax expense of AED 20 Mn in 2Q24, mainly due to the introduction of UAE corporate tax. Share of profit attributable to non-controlling interest holders decreased from AED 30 Mn in 2Q23 to AED 0.1 Mn in 2Q24 boosting profit.

Balance Sheet Highlights

Total gross debt of the company increased from AED 5.1 Bn in 1Q24 to AED 5.7 Bn in 2Q24. Cash and cash equivalent stood at AED 1,199 Mn in 2Q24, compared to AED 957 Mn in 1Q24. DIC's cash flow from operations grew from AED 309 Mn in 2Q23 to AED 534 Mn in 2Q24 owing to higher profit generated in 2Q24 and higher cash generated from working capital in 2Q24 compared to 2Q23. Total assets stood at AED 21.8 Bn in 2Q24 compared to AED 21.5 Bn in 2Q23.

Target Price and Rating

We maintain our BUY rating on DIC with a revised target price of AED 2.40. DIC's property segment continues to demonstrate robust performance, driving top-line growth in 2Q24. Dubai Investments reported notable progress in 2Q24, particularly in its real estate and investment sectors. The construction of Phase 1 of the Danah Bay project in Ras Al Khaimah is advancing, with substantial completion expected by the end of 2024. Additionally, the Violet Tower project in Jumeirah Village Circle, launched in 1Q24, commenced off-plan sales. In addition, rental income continued to grow steadily from AED 239 Mn in 2Q23 to AED 258 Mn in 2Q24 owing to strong occupancy levels maintained in Dubai Investment Parks. It is further expected to benefit from strong demand for real estate in the UAE. During the quarter, Al Mal Capital REIT, a subsidiary of Dubai Investments, completed the acquisition of a 100% equity stake in Carnation Education LLC which holds the property of Kent College in Dubai. This acquisition strategically enhances the REIT's investment portfolio, further expanding Dubai Investments' market presence. Looking ahead, Dubai Investments remains focused on advancing key projects and expanding its investment footprint across regional and international markets. This strategic approach is expected to sustain the company's strong performance throughout 2024, reinforcing its position as a pivotal player in driving economic growth and enhancing shareholder value. Therefore, considering these factors, we assign a BUY rating to the stock.

DIC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024
PE	13.1	24.8	13.9	5.4	7.6	10.9
PB	0.7	0.7	0.7	0.7	0.6	0.6
EV/EBITDA	15.2	22.9	16.8	6.6	7.6	12.2
Dividend yield	4.9%	3.9%	5.9%	9.9%	6.2%	6.2%

FABS Estimates & Co Data

DIC – P&L

AED mn	2Q23	1Q24	2Q24	2024F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Total Income	1,013	792	1,238	773	60.1%	22.3%	56.3%	4,106	3,791	-7.7%
Direct Costs	-490	-471	-718	-464	54.7%	46.7%	0.4%	-2,045	-2,180	6.6%
Gross profit	523	321	520	309	68.1%	-0.6%	-49.7%	2,061	1,611	-21.8%
Operating Expenses	-114	-112	-137	-108	26.9%	19.6%	-46.3%	-524	-488	-6.8%
EBITDA	452	248	429	242	77.4%	-5.1%	-47.7%	1,702	1,092	-35.9%
Operating profit	409	209	384	202	90.1%	-6.2%	-51.3%	1,537	1,123	-26.9%
Finance expenses	-113	-107	-106	-102	4.5%	-6.3%	-2.1%	-428	-403	-5.8%
Finance income	14	17	25	15	58.9%	80.3%	-6.8%	59	76	29.2%
Impairments	-78	-3	-2	0	NM	-97.8%	-94.9%	-140	-9	NM
Other income	5	5	9	8	18.6%	74.0%	-74.8%	41	38	-7.7%
Profit before NCI	237	122	309	123	151.0%	30.8%	-60.4%	1,069	825	-22.8%
Tax/zakat		-10	-20	-10	93.2%	NM	-48.9%	-20	-74	NM
NCI	-30	-8	0	-9	NM	NM	NM	-82	-45	-45.0%
Net Profit	266	120	289	122	137.5%	8.7%	-61.8%	1,131	796	-29.7%

FABS estimate & Co Data

DIC - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2,023	2024F	Change
Gross Profit	51.7%	40.5%	42.0%	-964	147	50.2%	42.5%	-769
EBITDA	44.6%	31.3%	34.6%	-1,000	336	41.5%	28.8%	-1,266
Operating Profit	40.4%	26.4%	31.0%	-940	457	37.4%	29.6%	-781
Net Profit	26.3%	15.1%	23.4%	-291	821	27.5%	21.0%	-656

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	2.51	70.0%	1.76
Relative Valuation (RV)	2.16	30.0%	0.65
Weighted Average Valuation (AED)			2.40
Current market price (AED)			2.02
Upside/Downside (%)			+19%

1) DCF Method:

Dubai Investments is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using cost of equity of 9.5% and cost of debt of 7.0% with a debt-to-equity ratio of 65.9%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.00, and equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai 10-year CDS spread over 10-year US risk-free rate. Cost of debt of 7.0% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,809
Terminal value (AED, Mn)	8,736
FV to Common shareholders (AED, Mn)	10,661
No. of share (Mn)	4,252
Current Market Price (AED)	2.02
Fair Value per share (AED)	2.51

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,022	887	920	947	958
D&A	160	155	151	148	145
Change in working capital	223	80	-49	-45	-45
Capex	-726	-284	-286	-294	-301
Free Cash Flow to Equity (FCFF)	679	838	737	756	757
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Discounted FCFF	330	752	611	579	536

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Dubai Investments and it is valued using the EV/EBITDA multiple. It is valued at a 2024 EV/EBITDA multiple of 9.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Emaar Properties	20,380	2.7	2.1	6.2	6.0
Dar AlArkan Real Estate	4,166	19.0	17.6	25.4	16.6
Sobha Ltd	2,150	54.1	35.6	NM	65.3
Arabian Centres	2,714	13.3	10.9	9.7	8.6
Deyaar Development	801	5.8	4.4	NA	6.7
TECOM Group	3,880	9.2	9.2	11.8	11.3
Aldar Properties	15,220	7.7	6.8	10.1	9.4
Average		16.0x	12.4x	12.6x	17.7x
Median		9.2x	9.2x	10.1x	9.4x
Max		16.2x	14.3x	11.8x	14.0x
Min		6.8x	5.6x	9.7x	7.7x

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%

FAB Securities Contacts:**Research Analyst**

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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