

Investcorp Capital PLC

Rise in interest expense impacted profitability

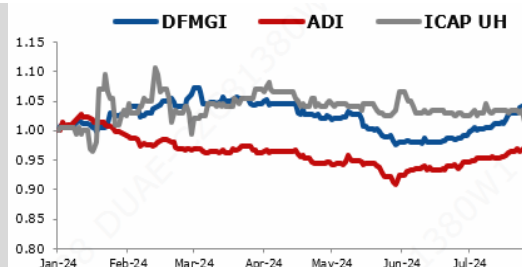
Current Price
AED 2.00

Target Price
AED 2.71

Upside/Downside (%)
+36%

Rating
BUY

- Investcorp Capital Plc's net profit fell 7.7% YOY to USD 12 Mn in 1Q25.
- The Company deployed USD 104 Mn across asset classes, with a realization of USD 183 Mn in 1Q25.
- The Capital Financing Services deployed USD 90 Mn across asset classes achieving realizing USD 151 Mn.
- The Capital Deployment deployed USD 14 Mn in 1Q25 and earned proceeds worth USD 32 Mn.
- The Company's borrowing grew from 132 Mn in 4Q24 to 228 Mn in 1Q25 due to the drawdown of the revolving credit facility to fund its business activities.



Stock Information

Market Cap (AED, Mn)	4,383.00
Paid Up Capital (Mn)	1,097.85
52 Week High	2.30
52 Week Low	1.91
3M Avg. daily value(AED)	1,380,084

1Q25 Net Profit lower than our estimate

Investcorp Capital Plc's (Investcorp/the company) net profit decreased 7.7% YOY to USD 12 Mn in 1Q25, lower than our estimate of USD 22 Mn. The decrease in net profit is primarily attributable to the doubling of interest expenses partially offset by an increase in gross income and a decline in operating expenses.

P&L Highlights

Investcorp's gross income increased 5.9% YOY to USD 18 Mn in 1Q25 driven by a strong increase in revenue from Capital Services and a rise in real estate income, partially offset by the absence of gains on financial assets. Revenue from Capital Services rose 37.5% YOY to USD 11 Mn in 1Q25 due to robust syndication activity that resulted in an average yield of 10.0% on the underwriting balance of USD 451 Mn. On the other hand, revenue from the Capital Deployment segment moderated from USD 9 Mn in 1Q24 to USD 7 Mn in 1Q25 mainly attributable to timing differences in recognition of fair value gains. Investcorp didn't record any gain on financial assets in 1Q25 compared to a USD 3 Mn gain in 1Q24. Yield on corporate debt remained stable in 1Q25 compared to 1Q24 while income from Real Estate rose 50.0% YOY to USD 3 in 1Q25. The Company's operating expenses declined 33.3% YOY to USD 2 Mn in 1Q25 owing to solid cost discipline and allocation. Thus, operating profit rose 14.3% YOY to USD 16 Mn in 1Q25. Interest expenses doubled from USD 3 Mn in 1Q24 to AED 6 Mn in 1Q25 owing to the drawdowns from the revolving facilities while interest income remained unchanged on YOY basis at USD 2 Mn in 1Q24.

1Q25 Result Review (USD, Mn)

Total Assets	1,691
Total Liabilities	273
Total Equity	1,418
Operating Profit	16
Net Profit	12

Financial Ratios

Dividend Yield (12m)	9.65
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	0.84
Book Value (USD)	0.65
Return-on Equity (%)	N/A

Stock Performance

5 Days	0.50%
1 Months	-1.96%
3 Months	-0.99%
6 Months	-1.96%
1 Year	-13.04%
Month to Date (MTD%)	-1.48%
Quarter to Date (QTD%)	1.01%
Year to Date (YTD%)	0.50%

Balance Sheet Highlights

Investcorp's total assets declined 3.4% QOQ to USD 1.7 Bn in 1Q25. Capital Service underwriting fell 14.2% QOQ to 369 Mn in 1Q25 while corporate investments increased marginally 1.7% QOQ to

USD 529 Mn. Additionally, Global Credit assets declined 6.6% QOQ to USD 226 Mn in 1Q25, driven by an increase in CLO exits while real estate assets grew 4.3% QOQ to USD 169 Mn. Furthermore, the Company's total liabilities declined 5.5% QOQ to USD 273 Mn in 1Q25, primarily due to a substantial decline in payable & accrued expenses due to the payment of a dividend. Financing grew from 132 Mn in 4Q24 to 228 Mn in 1Q25 owing to the drawdown of revolving credit facilities.

Target Price and Rating

We maintain our BUY rating on Investcorp Capital with an unchanged target price of USD 2.71. The Company's profitability impacted in 1Q25 mainly due to a rise in interest expense owing to the drawdown of the revolving facility. Investcorp's business model is cyclical due to the timing of fair value updates across asset classes in the second and fourth quarter. Thus, short-term results might not accurately represent long-term profitability trends. Investcorp earned realization worth USD 32 Mn from the Capital deployment segment of which USD 23 Mn is generated from Global Credit CLOs in Europe and the US. The Company further deployed USD 14 Mn across various asset classes in the Capital Deployment segment in 1Q25 to diversify its portfolio including USD 10 Mn to real estate, USD 3 Mn in global credit, and USD 1 Mn is allocated to corporate investments. Similarly, Investcorp invested USD 90 Mn in the Capital Financing Services segment during 1Q25, with USD 46 Mn allocated to Global Credit, USD 26 Mn in corporate investments through the acquisition of Stowe Family Law, and USD 18 Mn invested in real estate. The Company generated USD 151 Mn from investments in the Capital Financing Services segment in 1Q25, of which, USD 100 Mn is realized from the real estate portfolio, primarily driven by the US Student Housing Portfolio and US Industrial Growth Portfolio. The Company is expected to maintain a solid dividend yield of 9.7% during 2025 driven by its strategic investments across a diversified portfolio, maintaining its commitment to deliver a minimum yield of 8%. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

Investcorp - Relative valuation

(at CMP)	2022	2023	2024
PE	NA	10.46	11.26
PB	NA	0.96	0.81
Dividend yield	NA	0.0%	9.7%

FABS Estimates & Co Data

Note – Investcorp listed on ADX in November 2023. Thus, financial multiple for the prior period is unavailable

Investcorp – P&L

USD mm	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue from capital services	8	16	11	12	-11.7%	37.5%	-31.3%	49	47	-4.6%
Gain on financial assets	3	39	0	10	NM	NM	NM	49	69	41.0%
Yield on corporate debt	4	6	4	5	-16.4%	0.0%	-33.3%	19	20	3.7%
Dividend inc.- Real Estate	2	2	3	2	22.2%	50.0%	50.0%	8	12	56.2%
Performance Rebate	0	0	0	0	NM	NM	NM	0	0	NM
Gross income	17	63	18	30	-40.0%	5.9%	-71.4%	125	148	18.7%
Operating expenses	-3	-2	-2	-2	20.2%	-33.3%	0.0%	-8	-8	4.3%
Operating Profit	14	61	16	28	-43.5%	14.3%	-73.8%	117	140	19.7%
Interest Income	2	2	2	3	-20.0%	0.0%	0.0%	7	10	42.9%
Interest Expenses	-3	-7	-6	-8	-28.6%	100.0%	-14.3%	-19	-14	-26.9%
Profit before zakat	13	56	12	22	-46.5%	-7.7%	-78.6%	105	136	29.7%
Income tax	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	13	56	12	22	-46.5%	-7.7%	-78.6%	105	136	29.7%

FABS estimate & Co Data

Investcorp - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025	Change
Operating margin	82.4%	96.8%	88.9%	654	-794	93.6%	94.4%	78
Net profit margin	76.5%	88.9%	66.7%	-980	-2,222	84.0%	91.8%	776

FABS estimate & Co Data

Valuation:

We use Discount Dividend Method (DDM), Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Net Asset Value (NAV) method to value Investcorp. We have assigned equal weights to each.

Valuation Method	Target	Weight	Weighted Value
DDM Method	1.48	33.3%	0.49
DCF + Relative Valuation Method	3.55	33.3%	1.18
NAV	3.10	33.3%	1.03
Weighted Average Valuation (AED)			2.71
Current market price (AED)			2.00
Upside/Downside (%)			+36%

1) DDM Method:

Investcorp distributed a healthy dividend of USD 155 Mn in 2024 and further aims to pay regular dividends in the forecasted period. The Company commits to achieve a minimum dividend yield of 8% per year. The dividend is discounted at the cost of equity of 10.9%.

Sum of PV (USD, Mn)	303
Terminal value (USD, Mn)	579
FV to Common shareholders (USD, Mn)	882
No. of share (Mn)	2,192
Current Market Price (AED)	2.00
Fair Value per share (AED)	1.48

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY2029E
Dividend	88	88	88	89	91
Total Dividend	88	88	88	89	91
Discounting Factor	0.83	0.75	0.68	0.61	0.55
Discounted FCFF	73	66	60	54	50

Source: FAB Securities

2) DDM + RV Method:

1) DCF Method

Capital Financial Services segment in Investcorp Capital is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 10.9%. Cost of equity is calculated by using 10-year government bond yield of 6.4%, beta of 1.00 and equity risk premium of 4.5%. Government bond yield is calculated after adding Bahrain 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	256
Terminal value (USD, Mn)	394
FV to Common shareholders (USD, Mn)	651
No. of share (Mn)	2,192
Current Market Price (AED)	2.00
Fair Value per share (AED)	1.09

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY2029E
Net Income	40	38	40	40	41
(+/-) Working Capital	25	14	12	14	14
Net Change in debt	47	15	7	7	7
Free Cash Flow to Equity	112	68	59	61	62
Discounting Factor	0.83	0.75	0.68	0.61	0.55
Discounted FCFE	94	51	40	37	34

Source: FAB Securities

2) RV Method:

We have used local as well as international peers to value Capital Deployment segment in Investcorp Capital and it is valued using the average valuation obtained from PE and PB multiple. It is valued at PE and PB multiples of 14.7x and 1.3x respectively.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024	2025F	2024	2025F
KINGDOM HOLDING CO	8,859	29.9x	24.9x	NA	NA
WENDEL	4,374	18.2x	23.3x	1.2x	1.1x
COMPASS DIVERSIFIED HOLDINGS	1,782	10.8x	9.6x	1.5x	1.4x
BROOKFIELD CORP	98,828	15.6x	15.2x	2.2x	2.1x
TIKEHAU CAPITAL	3,821	17.3x	10.5x	1.1x	1.1x
INTERMEDIATE CAPITAL GROUP	7,506	14.4x	14.7x	2.6x	2.4x
SCHRODERS PLC	6,304	10.8x	9.8x	1.1x	1.1x
Average		16.7x	15.4x	1.6x	1.5x
Median		15.6x	14.7x	1.3x	1.3x
Max		17.8x	19.3x	2.0x	1.9x
Min		12.6x	10.1x	1.2x	1.1x

Source: FAB Securities

3) Net Asset Value:

We applied peer median price-to-book multiple of 1.3x to the computed NAV to arrive at the equity of Investcorp Capital. NAV here corresponds to the book value/invested capital of the firm. The NAV reported at the end of FY2024 is used for valuing the firm.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024	2025F	2024	2025F
KINGDOM HOLDING CO	8,859	29.9x	24.9x	NA	NA
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Average		16.7x	15.4x	1.6x	1.5x
Median		15.6x	14.7x	1.3x	1.3x
Max		17.8x	19.3x	2.0x	1.9x
Min		12.6x	10.1x	1.2x	1.1x

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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