

Shuaa Capital

One-offs Impacted Profitability

1Q22 Net Profit missed our estimates

Shuaa Capital PSC reported a decline in net profit to AED 6 Mn in 1Q22 from AED 25 Mn in 1Q21, lower than our estimate of AED 19 Mn. The decrease is primarily due to decrease in net fees and commission income and accelerated amortization of intangible asset. Adjusted net income excluding accelerated amortization stood at AED 37 Mn in 1Q22.

P&L highlights

The company mainly reports revenue from three business segments including Asset Management, Investment Banking and Corporate. Income from Asset Management declined 49.4% YOY to AED 38 Mn in 1Q22 due to intangible impairment of AED 34 Mn partially offset by growth in stable recurring fee income. AUM declined 3% QOQ AED 12.7 Bn in 1Q22 mainly due to the effect of foreign exchange fluctuation on the UK real estate assets and exit of some historical assets. Income from investment Banking rose from AED 3 Mn in 1Q21 to AED 5 Mn in 1Q22 due to the timely closures of deals and trading income in line with historical average. Corporate Segment reported a robust performance as top-line grew from AED 25 Mn in 1Q21 to AED 46 Mn in 1Q22 due substantial contribution from online brokerage business. Thus, total revenue declined 12.5% YOY to AED 89 Mn in 1Q22. On the other hand, total expenses increased from AED 58 Mn in 1Q21 to AED 118 Mn in 1Q22 driven by addition of target headcount to drive growth and one-time operating expense of AED 53 Mn. As a result, the company generated net operating loss of AED 29 Mn in 1Q22 compared to a profit of AED 45 Mn in 1Q21. Loss from other income rose from AED 6 Mn in 1Q21 to AED 20 Mn in 1Q22 due to increase in net fair value of loss from listed portfolio partially offset by decline in losses from associates, lower finance cost, higher credit relating to unit holders and increase in other income. Higher losses attributable to non-controlling interest holders led the company to generate a profit in 1Q22.

Balance Sheet highlights

Total debt declined from AED 1.9 Bn in 4Q21 to AED 1.5 Bn in 1Q22. Thus, leverage ratio reduced from 134% in 4Q21 to 112% in 1Q22. Cash and cash equivalents stood at AED 322.5 Mn in 1Q22 excluding, restricted deposit of AED 26.0 Mn.

Target price and rating

We maintain a BUY rating on Shuaa with a revised target price of AED 0.70. Shuaa Capital is one of the leading Asset Management and Investment Banking firms in the region with offices across the Middle East and the United Kingdom. It owns a diverse platform with expertise in delivering services across multiple domains including, public and private market, real estate debt and investment banking. It is expected to deliver a stable recurring revenue growth supported by launch of new permanent capital vehicles, a strong pipeline of active deals in 2022 and robust performance of NCM In-

Rating : BUY

First Look Note – 1Q22

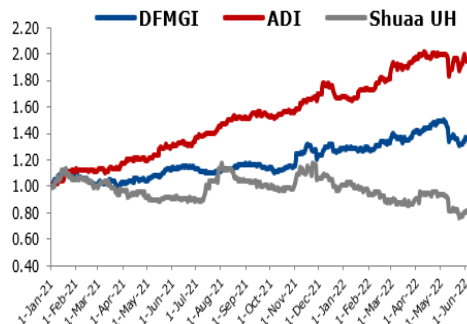
Sector: Financial Services

Recommendation

Current Price (15-Jun-22)	0.51
Target Price (AED)	0.70
Upside/Downside (%)	+37%

Stock Information

Market Cap (mm)	1,295.75
Paid Up Capital (mm)	2,535.72
52 Week High	0.83
52 Week Low	0.50
3M Avg. daily value (AED)	1,350,061



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	NA
Price-Earnings Ratio (x)	NA
Price-to-Book Ratio (x)	0.90
Book Value (AED)	0.57
Return-on Equity (%)	0.33
Earning Per Share (AED)	-0.01
Beta	0.93

Stock Performance

5 Days	-5.89%
1 Months	-7.93%
3 Months	-12.95%
6 Months	-28.13%
1 Year	-17.58%
Month to Date (MTD)	-7.09%
Quarter to Date (QTD)	-17.18%
Year to Date (YTD)	-25.40%

vestment, a trading and CFD platform with operations across Kuwait, Turkey, Jordan and UAE. Asset Management division of the company announced launch of regional venture fund along with Shuaa Venture Partners. The fund will provide alternative capital solutions to the high growing companies in GCC which will add to the topline. Shuaa also made a strategic investment in UAE fintech Souqalmal which will support its objective to grow its digital capabilities, improve personal finance and investment prospects for the consumers. It continues to manage expenses tightly despite increase in headcount supporting profitability. Total debt of the company reduced to AED 1.5 Bn in 1Q22 as a result debt-to-equity ratio fell from 134% in 4Q21 to 112% in 1Q22. Hence based on the basis of our analysis we assign a BUY rating to the stock.

Shuaa - Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E	10.60	28.71	10.73	55.45	9.88
P/B	1.76	0.92	0.90	0.92	0.93
Dividend yield	3.8%	0.0%	5.7%	0.0%	0.0%

FABS Estimates & Co Data

Shuaa Capital - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	VAR	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	4	3	5	3	70.3%	46.2%	95.9%	13	14	5.0%
Funded expense	-1	-1	-2	-1	59.4%	90.2%	64.2%	-6	-6	1.0%
Net Funded Income	3	2	3	2	78.0%	27.7%	122.8%	7	8	8.3%
Fees and commission inc.	101	64	87	71	22.7%	-14.1%	35.0%	290	325	12.0%
Fees and commission exp.	-4	-11	-5	-12	-54.1%	29.0%	-50.5%	-25	-27	8.0%
Net Fees and comm Inc.	97	54	82	59	37.7%	-15.9%	52.0%	265	297	12.4%
Advisory income	1	6	3	6	-49.5%	199.8%	-47.0%	13	14	7.0%
Trading income	1	2	2	2	11.3%	35.5%	10.2%	6	6	2.0%
Other operating income	0	23	0	24	NM	-214.8%	-101.6%	104	111	7.0%
Total Operating Income	102	86	89	93	-3.8%	-12.5%	4.6%	394	436	10.6%
G&A exps & staff costs	-50	-87	-60	-91	-34.5%	19.1%	-31.5%	-242	-265	9.5%
Employed Carried Cost	-1	4	0	0	NM	-83.8%	-106.3%	0	0	NM
D&A	-11	-11	-10	-13	-25.1%	-12.5%	-12.2%	-46	-15	-66.9%
Reve/(Prov) for impair losses on financial instruments	8	-25	1	-24	-103.7%	-89.0%	-103.6%	-18	-17	-6.5%
Other operating expenses	-3	-4	-49	-4	1221.4%	1711.9%	1241.2%	-10	-11	14.0%
Total expenses	-58	-124	-118	-132	-10.7%	105.0%	-4.5%	-315	-308	-2.4%
Net operating income	45	-38	-29	-39	-27.0%	-164.6%	-24.8%	79	128	62.2%
Chng in FV (losses)/gains from fina ass at fair value FVTPL	62	380	-85	437	-119.4%	-237.3%	-122.3%	655	668	2.0%
Gain/(loss) on derivative financial liability	1	1	1	1	35.9%	49.4%	35.9%	3	3	NM
Income from investments in associates	-13	-162	2	-162	-101.3%	-116.1%	-101.3%	-157	-157	NM
Finance Cost	-38	-35	-27	-34	-19.6%	-29.4%	-22.0%	-147	-125	-15.0%
Finance credit (finance cost) relating to unit holders	-27	-224	18	-220	-108.4%	-167.5%	-108.2%	-407	-367	-10.0%
Other income/(expenses)	10	7	71	7	863.1%	587.1%	959.4%	38	36	-5.0%
Profit/Loss from continuing operations	39	-72	-49	-10	394.5%	-225.9%	-32.4%	63	186	196.7%
Profit from discontinued operations	-10	36	0	0	NM	-99.3%	NM	8	0	NM
Non-controlling interests	4	29	54	29	85.9%	1316.7%	87.8%	47	50	7.0%
Profit for the period	25	-64	6	19	-71.0%	-77.5%	-108.7%	24	136	461.1%

FABS estimate & Co Data

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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