

Dubai Financial Market PJSC (DFM)

Higher income from investment activity and trading commission fees drove profitability

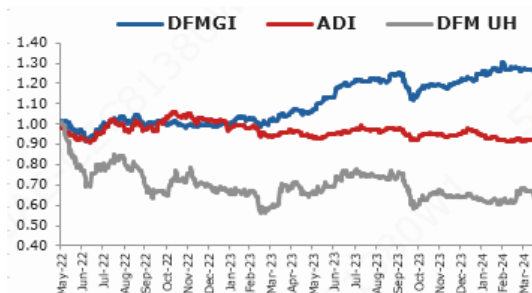
Current Price
AED 1.36

Target Price
AED 1.59

Upside/Downside (%)
+17%

Rating
BUY

- DFM recorded strong revenue growth of 64.3% YOY, while profit also grew significantly from AED 36 Mn in 1Q23 to AED 90 Mn in 1Q24.
- The Company's dividend Income grew from AED 8 Mn in 1Q23 to AED 29 Mn in 1Q24.
- DFM added a total of 44,259 new investors during 1Q24. Out of this, 85% of new investors are foreign investors.
- The General Index of DFM recorded a growth of 4.59% on a YTD basis and the market capitalization also rose 6% to AED 730 Bn, compared to the end of FY2023.



1Q24 Net Profit higher than our estimate

Dubai Financial Market PJSC ("DFM/the Company") net profit grew from AED 36 Mn in 1Q23 to AED 90 Mn in 1Q24, significantly higher than our estimate of AED 43 Mn. The increase in net profit is mainly attributable to the strong growth in dividend income and investment income coupled with higher trading commission fees, which mitigates the impact of tax expense.

P&L Highlights

DFM's operating income rose 30.1% YOY to AED 62 Mn in 1Q24, mainly due to strong growth in clearing settlement & depository fees and trading commission fees offsetting the marginal decline in brokers fee. DFM's Clearing settlement & depository fees grew 49.6% from AED 5 Mn in 1Q23 to AED 8 Mn in 1Q24. Trading and commission fees rose 34.9% YOY to AED 48 Mn in 1Q24. However, Broker fees declined 5.0% YOY to AED 3 Mn in 1Q24. Listing & market data fees also grew 4.4% YOY to AED 3 Mn in 1Q24 while other fees declined 43.8% YOY to AED 1 Mn. DFM's investment income rose 62.9% YOY from AED 34 Mn in 1Q23 to AED 55 Mn in 1Q24, and dividend income more than tripled to AED 29 Mn due to a strong market performance. As a result, total operating income grew from AED 90 Mn in 1Q23 to AED 148 Mn in 1Q24. G&A expenses decreased 5.8% YOY to AED 38 Mn in 1Q24, while amortization expenses remained flat on a YOY basis at AED 14 Mn in 1Q24. However, the Company's corporate tax was AED 6 Mn in 1Q24, compared to nil in 1Q23. Total operating expenses fell 3.7% YOY to AED 53 Mn in 1Q24. DFM's cost-to-income ratio improved significantly to 35.5% in 1Q24 compared to 60.5% in 1Q23, driven by strong growth in the income base.

Stock Information

Market Cap (AED, mm)	10,880.00
Paid Up Capital (mm)	8,000.00
52 Week High	1.71
52 Week Low	1.26
3M Avg. daily value (AED)	6,349,929

1Q24 Result Review (AED, mm)

Total Assets	10,556
Total Liabilities	2,529
Total Equity	8,027
EBITDA	110
Net Profit	90

Financial Ratios

Dividend Yield (12m)	2.57
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	28.46
Price-to-Book Ratio (x)	1.33
Book Value (AED)	1.02
Return-on Equity (%)	4.09

Stock Performance

5 Days	0.00%
1 Months	-6.85%
3 Months	2.26%
6 Months	0.74%
1 Year	-11.69%
Month to Date (MTD%)	-1.45%
Quarter to Date (QTD%)	-6.85%
Year to Date (YTD%)	-2.16%

Balance Sheet Highlights

DFM's investment deposits decreased from AED 3.1 Bn in 4Q23 to AED 2.9 Bn in 1Q24. Financial assets measured at FVOCI increased from AED 1,019 Mn in 4Q23 to AED 1,051 Mn in 1Q24. Total liabilities increased 53.8% QOQ to AED 2.5 Bn in 1Q24 mainly due to growth in payables & accrued expenses and dividends payable. Cash and cash equivalent rose significantly from AED 161 Mn in 4Q23 to AED 953 Mn in 1Q24. Further, the company generated AED 603 Mn in cash flow from operations in 1Q24 compared to AED 7 Mn in 4Q23.

Target Price and Rating

We maintain our BUY rating on DFM with a target price of AED 1.59. The Company reported strong 1Q24 results owing to robust growth in trading commission fees, clearing settlement and depository fees and dividend income received from investments. In 1Q24, DFM's total market capitalization grew 6% to AED 730 Bn compared to FY2023. The Company's total trading value surpassed AED 25 Bn in 1Q24, of which foreign investors accounted for 47% of the trading value with net purchases of AED 1.3 Bn in 1Q24. DFM also onboarded 44,259 new investors, of which 85% were foreign investors. DFM launched ARENA to expand its product offerings. On this platform, private companies, including family businesses, growth companies, and private companies will be able to raise capital through equity and debt. DFM also launched iVestor, a digital platform that will make investment and money management more efficient for retail investors, attracting more investors toward capital markets and leading to higher trading volume. Parkin was listed in FY2024, making it the first IPO of the year. Spinney's, expected to list on DFM, received a strong investor response for USD 375 Mn IPO and was oversubscribed with orders exceeding USD 19 Bn. These developments in the capital markets and additional efforts undertaken by the company will boost DFM's fee income. Thus, based on our analysis, we assign a BUY rating on the stock.

DFM - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024E
PE (x)	89.5	78.3	104.0	73.4	32.7	32.8
PB (x)	1.4	1.4	1.4	1.4	1.3	1.3
EV/EBITDA	52.2	46.2	58.3	46.5	26.2	25.3
Dividend yield (%)	1.9%	0.0%	2.2%	1.2%	2.6%	2.4%

FABS Estimates & Co Data

DFM – P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Trading commission fees	36	66	48	40	20.3%	34.9%	-26.6%	226	244	8.1%
Brokers fees	3	3	3	3	17.6%	-5.0%	22.3%	12	13	10.0%
Clearing settlement & depository fee	5	60	8	8	-9.5%	49.6%	-87.3%	89	84	-5.0%
Listing & market data fees	2	3	3	3	3.7%	4.4%	-4.6%	11	10	-10.7%
Other fees	1	1	1	2	-70.7%	-43.8%	-47.3%	11	15	35.0%
Operating income	48	133	62	56	11.0%	30.1%	-52.9%	349	367	5.1%
Investment income	34	49	55	47	17.7%	62.9%	12.7%	169	178	5.7%
Other income	0	-2	1	0	NM	NM	NM	0	0	NM
Dividend Income	8	4	29	4	NM	276.4%	NM	20	36	80.0%
Profit Income	0	0	0	0	NM	NM	NM	0	0	NM
Reversal of imp on asset	0	9	0	0	NM	NM	NM	9	0	NM
Total Income	90	191	148	107	38.2%	64.3%	-22.6%	547	582	6.2%
G&A expenses	-40	-48	-38	-50	-24.5%	-5.8%	-21.0%	-161	-174	8.4%
Amortization	-14	-14	-14	-14	0.0%	0.0%	0.0%	-56	-56	0.0%
Interest Expense	0	0	0	0	NM	NM	NM	0	0	NM
Total Operating Expenses	-55	-62	-53	-64	-18.6%	-3.7%	-15.8%	-218	-231	6.1%
Profit Expenses	0	0	0	0	NM	NM	NM	0	0	NM
Tax	0	0	-6	0	NM	NM	NM		-22	NM
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	36	129	90	43	110.0%	151.7%	-30.8%	330	329	-0.3%

FABS estimate & Co Data

DFM - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch.
Operating margin	53.3%	69.3%	42.2%	-1,111	-2,710	63.8%	63.1%	-71
Net profit margin	39.5%	67.6%	60.5%	2,100	-708	60.2%	56.5%	-369

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF Method	1.57	70.0%	1.10
Relative Valuation (RV)	1.62	30.0%	0.49
Weighted Average Valuation (AED)			1.59
Current market price (AED)			1.36
Upside/Downside (%)			+17%

1) DCF Method:

DFM is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 8.0%. The cost of equity is calculated using a 10-year government bond yield of 5.9%, a beta of 0.75, and an equity risk premium of 2.7%. Government bond yield is calculated after adding Dubai's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	2,589
Terminal value (AED, Mn)	9,986
FV to Common shareholders (AED, Mn)	12,575
No. of share (Mn)	7,996
Current Market Price (AED)	1.36
Fair Value per share (AED)	1.57

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	329	394	459	523	647
(+) D&A	79	80	83	83	85
Working Capital	332	137	134	145	137
(-) Capex	-18	-22	-26	-29	-34
Free Cash Flow to Equity (FCFE)	722	589	652	723	834
Discounting Factor	0.86	0.80	0.74	0.68	0.63
Discounted FCFE	620	469	480	493	527

Source: FAB Securities

2) Relative Valuation:

We have used regional as well as global peers to value DFM, which is valued using the PE multiple. It is valued at PE multiple of 39.4x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
BSE Ltd	4,528	32.2	25.6	42.5	34.1
NASDAQ Inc	34,476	17.0	15.5	30.3	25.5
Singapore Exchange Limited	7,360	12.9	12.3	18.6	18.6
Hong Kong Exchanges	40,685	19.5	18.5	26.0	24.8
Deutsche Borse	35,879	11.9	11.0	18.3	17.1
London Stock exchange	59,206	13.0	11.6	54.1	40.5
Saudi Tadawul Group Holdings	8,320	41.4	35.5	47.5	41.9
Average		21.1	18.6	33.9	28.9
Median		17.0	15.5	30.3	25.5
Max		25.9	22.1	45.0	37.3
Min		13.0	12.0	22.3	21.7

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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