

Dubai Investments

One-offs gain partially weighed by losses in manufacturing

1Q23 Net profit higher than our estimate

Dubai Investment PJSC (DIC) net profit rose 55.2% YOY to AED 314 Mn in 1Q23, higher than our estimate of AED 137 Mn. The increase in net profit is mainly due to a one-time fair value gain on investment properties of AED 251.4 Mn recorded by the group which resulted in a strong gain in Property Segment revenue. It was partially offset by an increase in direct cost, higher finance expenses and decline in finance income.

P&L highlights

DIC's total income grew 33.9% YOY to AED 1,019 Mn in 1Q23 mainly attributable to the one-time fair value gain on investment properties. Income from the Property segment more than doubled from AED 281 Mn in 1Q22 to AED 636 Mn in 1Q23 mainly due to a strong one-time fair value gain on investment property, growth in income from property sales, and growth in rental income. The Manufacturing, contracting, and services segment income declined 28.2% YOY to AED 315 Mn in 1Q23. Income from the Investments segment grew 63.1% YOY to AED 68 Mn in 1Q23 owing to an increase in gain on the investment portfolio. On the other hand, DIC's direct cost rose 11.5% YOY to AED 518 Mn in 1Q23. Thus, gross profit rose significantly 69.0% YOY to AED 501 Mn in 1Q23. Gross profit margin rose 1,021 bps YOY to 49.1% in 1Q23. Operating expenses rose marginally 1.3% YOY to AED 108 Mn in 1Q23. As a result, total operating profit more than doubled from AED 190 Mn in 1Q22 to AED 393 Mn in 1Q23. D&A expenses declined 30.7% YOY to AED 41 Mn in 1Q23. Finance expenses rose significantly 95.0% YOY to AED 92 Mn in 1Q23 while finance income declined 76.5% YOY to AED 13 Mn in 1Q23. Other income declined from AED 9 Mn in 1Q22 to AED 5 Mn in 1Q23. The performance of all the segments except Investments recorded a decline as compared to 1Q22. Net profit of property segment declined from AED 113.3 Mn in 1Q22 to AED 44.4 Mn in 1Q23 excluding the one-time gain on fair value of investment properties. Manufacturing, Contracting and Services Segment recorded a loss as compared to the profit in 1Q22 due to decline in sales. Investment Segment profit rose from AED 10.8 Mn in 1Q22 to AED 27.1 Mn in 1Q23.

Balance sheet and cash flow highlights

Total debt of the company rose marginally from AED 5.2 Bn in 4Q22 to AED 5.3 Bn in 1Q23. Cash and cash equivalent stood at AED 950 Mn in 1Q23 as against AED 963 Mn in 4Q22. DIC cash flow from operations stood flat on YOY basis at AED 208 Mn in 1Q23 as compared to AED 207 Mn in 1Q22.

Target price and rating

We maintain our HOLD rating on DIC with a target price of AED 2.15. DIC profit is boosted by the one-off gain in 1Q23 and partially weighed by rise in expenses in Manufacturing and Property Segment. The Company is actively expanding into new geographies. DIC signed an agreement with Millennium Hotels & Resorts to start a 300-room hotel on Danah Bay, which will be operated under the brand name Grand Millennium. Danah Bay is a premium beach

Rating : HOLD

First Look Note – 1Q23

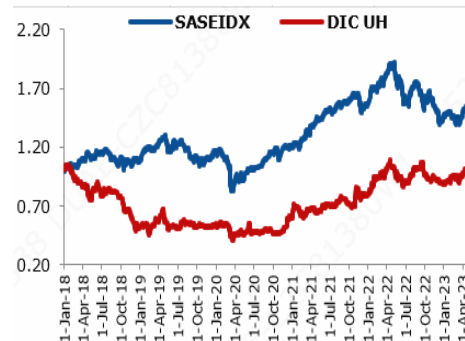
Sector: Industrials

Recommendation

Current Price (16-May-23)	2.22
Target Price (AED)	2.15
Upside/Downside (%)	-3%

Stock Information

Market Cap (mm)	9,396.96
Paid Up Capital (mm)	4,252.02
52 Week High	2.60
52 Week Low	2.04
3M Avg. daily value (AED)	4,850,682



Financial Ratios

Dividend Yield (12m)	9.05
Dividend Pay-out (%)	33.04
Price-Earnings Ratio (x)	5.50
Price-to-Book Ratio (x)	0.71
Book Value (AED)	3.10
Return-on Equity (%)	13.53
Earning Per Share (AED)	0.40
Beta	0.98

Stock Performance

5 Days	-2.21%
1 Months	-9.05%
3 Months	-4.74%
6 Months	-2.21%
1 Year	-6.75%
Month to Date (MTD)	-9.80%
Quarter to Date (QTD)	-3.91%
Year to Date (YTD)	1.84%

community and a resort-style retreat spanning 86,000 sqm with 40,000 sqm of beaches comprising 209 villas is an attractive investment in the Emirates of Ras Al Khaimah. The Company is planning to launch the next phase of Danah Bay development which earlier exceeded DIC's expectations. We expect the Danah Bay development to generate a robust cash flow in the long term given the increase in tourism activity in UAE. Furthermore, DIC acquired a 9% equity stake in Monument Bank Limited. The acquisition of the stake in Monument Bank marks DIC's entry into the digital banking space by leveraging technological capabilities. DIC aims to divest stakes in mature businesses over the period of time. DIC agreed to pay a final dividend of AED 0.13 per share leading to a total dividend of 0.20 per share for the year 2022 with a dividend yield of 9.0%. Considering, the above-mentioned factors, we assign a HOLD rating on the stock.

DIC - Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	14.4	14.3	27.0	15.2	5.8	10.5
P/B (x)	0.8	0.8	0.8	0.8	0.7	0.7
EV / EBITDA	17.5	16.0	24.1	17.6	7.0	11.5
Dividend Yield (%)	4.5%	4.5%	3.6%	5.4%	9.0%	5.4%

FABS Estimates & Co Data
DIC - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Total Income	761	982	1,019	725	40.5%	33.9%	3.8%	4,255	3,439	-19.2%
Direct Costs	-465	-480	-518	-457	13.4%	11.5%	8.1%	-1,959	-1,913	-2.4%
Gross profit	296	502	501	268	86.5%	69.0%	-0.3%	2,296	1,526	-33.5%
Operating Expenses	-107	-187	-108	-131	-17.5%	1.3%	-42.1%	-506	-473	-6.6%
EBITDA	248	352	433	142	205.5%	74.6%	22.9%	1,984	1,207	-39.2%
Operating profit	190	316	393	137	185.7%	107.1%	24.3%	1,790	1,054	-41.1%
Finance expenses	-48	-75	-93	-58	60.8%	95.0%	24.2%	-250	-319	27.9%
Finance income	53	-19	13	35	-64.1%	-76.5%	NM	152	86	-43.3%
Impairments	-2	-147	-2	0	NM	55.3%	-98.3%	-161	0	NM
Other income	9	10	5	14	-68.2%	-50.0%	-53.7%	34	34	-0.1%
Profit before NCI	203	85	314	129	144.3%	55.0%	270.1%	1,565	855	-45.4%
NCI	0	-34	0	-8	NM	NM	NM	-44	-43	-1.8%
Profit to shareholders	203	119	314	137	130.2%	55.2%	164.3%	1,609	898	-44.2%

FABS Estimates & Co Data
DIC - Margins

AED mm	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
GPM	38.9%	51.2%	49.1%	1,021	-202	54.0%	44.4%	8,225
EBITDA	32.6%	35.9%	42.5%	992	661	46.6%	35.1%	7,523
OPM	24.9%	32.1%	38.5%	1,362	638	42.1%	30.6%	7,284
Net Margin	26.6%	12.1%	30.9%	425	1,875	37.8%	26.1%	6,904

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	2.14	70.0%	1.50
Relative Valuation	2.17	30.0%	0.65
Weighted Average Valuation (AED)			2.15
Current market price (AED)			2.21
Upside/Downside (%)			-2.71%

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 7.4%. It is arrived after using cost of equity of 8.2% and cost of debt of 6.0% with a debt-to-equity ratio of 56.3%. Cost of equity is calculated by using 10-year government bond yield of 4.6%, beta of 1.03, and equity risk premium of 3.5%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Cost of debt is calculated using cost of 6.0%. Also, assumed a terminal growth rate of 2.0%. We have included the value of remaining interest in Emicool reported on balance sheet and deducted the proposed dividend from outstanding cash to arrive at the valuation. The said adjustment is also applied to arrive at the value using relative valuation.

Sum of PV (AED, Mn)	3,316
Terminal value (AED, Mn)	9,437
FV to Common shareholders (AED, Mn)	9,090
No. of share (Mn)	4,252
Current Market Price (AED)	2.20
Fair Value per share (AED)	2.14

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	803	823	881	926	963
D&A	191	191	182	183	184
Change in working capital	523	80	-67	-66	-68
(-) Capex	-347	-345	-355	-365	-376
Free Cash Flow to Firm (FCFF)	1,169	749	641	678	704
Discounting Factor	0.95	0.88	0.82	0.77	0.71
Discounted FCFF	1,108	661	526	519	501

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 EV/EBITDA multiple of 10.7x in line with peers.

Company	Market Cap (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Emaar Properties	14,320	4.5	3.9	6.9	7.3
Dar Al Arkan Real Estate	4,343	15.3	13.3	-	-
Sobha Ltd	639	10.1	7.5	26.1	13.0
Arabian Centres	2,632	-	-	10.1	9.4
Deyaar Development	791	16.9	13.4	16.6	13.3
TECOM Group	3,376	10.8	10.4	10.2	14.1
Aldar Properties	10,841	10.6	9.3	12.2	12.2
Average		12.7x	10.8x	15.0x	12.4x
Median		10.7x	9.8x	11.2x	12.6x
Max		14.2x	12.6x	15.5x	13.2x
Min		10.2x	7.9x	10.1x	10.1x

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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