

Dubai Investments PJSC (DIC)

Lower revenue and rising operating expenses impacted profitability

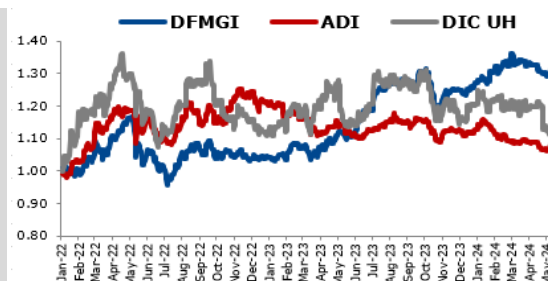
Current Price
AED 2.11

Target Price
AED 2.47

Upside/Downside (%)
+17%

Rating
BUY

- DIC's net profit, excluding a one-off gain on the fair value of investment properties, rose 90% YOY in 1Q24.
- DIC continues asset expansion with the upcoming launch of the DIP Angola project in Africa.
- DIC launched the Violet Tower project in 1Q24, indicating the resilience of the residential real estate sector.
- The Danah Bay project on Al Marjan Island in Ras Al Khaimah is anticipated to be completed by 3Q26 for residential and 3Q27 for the hotel.
- The Company is also focusing on the diversification strategy, as it announced the acquisition of a 34.3% stake in Global Fertility Partners.



Stock Information

Market Cap (AED, mm)	8,971.76
Paid Up Capital (mm)	4,252.02
52 Week High	2.56
52 Week Low	2.09
3M Avg. daily value (AED)	6,641,056

1Q24 Result Review (AED, mm)

Total Assets	21,464
Total Liabilities	7,655
Total Equity	13,809
EBITDA	248
Net Profit	120

Financial Ratios

Dividend Yield (12m)	5.84
Dividend Pay-out (%)	47.00
Price-Earnings Ratio(x)	9.65
Price-to-Book Ratio (x)	0.67
Book Value (AED)	3.19
Return-on Equity (%)	7.00

Stock Performance

5 Days	-2.76%
1 Months	-3.21%
3 Months	-9.44%
6 Months	-7.46%
1 Year	-5.38%
Month to Date (MTD%)	-3.21%
Quarter to Date (QTD%)	-8.26%
Year to Date (YTD%)	-9.44%

1Q24 Net Profit lower than our estimate

Dubai Investment PJSC (DIC) net profit declined from AED 314 Mn in 1Q23 to AED 120 Mn in 1Q24, lower than our estimate of AED 200 Mn. The decline in net profit is attributed to a fall in revenue coupled with a rise in operating and finance expenses partially offset by lower direct costs and higher finance income. However, excluding the one-off gain on the fair value of investment properties in 1Q23, the Company's net profit grew 90% YOY in 1Q24 primarily due to the strong performance of the property sector driven by the higher sale of properties.

P&L Highlights

DIC's total income declined 22.3% YOY to AED 792 Mn in 1Q24, owing to the decline across all the segments. DIC's income from the Property segment declined from AED 636 Mn in 1Q23 to AED 440 Mn in 1Q24, primarily as the Company did not receive any one-off gains compared to 1Q23. However, property sales and rental income grew by 12.9% YOY and 9.3% YOY, to AED 26 Mn and AED 246 Mn, respectively, driven by robust demand in the real estate sector. Moreover, the Manufacturing and Contracting segment revenue declined 8.1% YOY to AED 289 Mn in 1Q24 due to a decline in the sale of goods and services and lower contacting revenue. Income from the Investments segment declined 7.6% YOY to AED 63 in 1Q24 due to a decline in the sale of goods and services and a lower gain on the sale of investment properties partially offset by the growth in other income. On the other hand, DIC's direct cost declined 9.2% YOY to AED 471 Mn in 1Q24. Thus, gross profit declined 35.8% YOY to AED 321 Mn in 1Q24. Gross margins declined from 49.1% in 1Q23 to 40.5% in 1Q24. Operating expenses rose 3.6% YOY to AED 112 Mn in 1Q24, driven by a rise in staff costs partially offset by lower depreciation charges and a decline in selling and marketing expenses. As a result, operating profit declined 46.7% YOY to AED 209 Mn in 1Q24. D&A expenses rose 3.6%

YOY to AED 38 Mn in 1Q24. EBITDA stood at AED 248 Mn in 1Q24 compared to AED 430 Mn in 1Q23, while the EBITDA margin declined from 42.2% in 1Q23 to 31.3% in 1Q24. Furthermore, finance expenses rose 15.0% YOY to AED 107 Mn in 1Q24. Whereas finance income stood at AED 17 Mn in 1Q24 compared to AED 13 Mn in 1Q23. Moreover, other income rose 19.0% YOY to AED 5 Mn in 1Q24. Impairment charges stood at AED 3 Mn in 1Q24, compared to AED 2 Mn in 1Q23. The Company incurred tax expenses of AED 10 Mn in 1Q24, mainly due to the introduction of UAE corporate tax. Share of profit attributable to non-controlling interest holders grew from AED 0.4 Mn in 1Q23 to AED 8 Mn in 1Q24.

Balance Sheet Highlights

The total gross debt of the company declined from AED 5.3 Bn in 4Q23 to AED 5.1 Bn in 1Q24. Cash and cash equivalent stood at AED 957 Mn in 1Q24, compared to AED 1,236 Mn in 4Q23. DIC's cash flow from operations increased from AED 173 Mn in 1Q23 to AED 207 Mn in 1Q24. Total assets remained flat at AED 21.5 Bn in 1Q24 compared to 4Q23.

Target Price and Rating

We revise our rating on DIC from HOLD to BUY with an unchanged target price of AED 2.47. The Company's share price declined 7.4% since our last rating (March 2024). DIC's property segment continues to show robust performance, driving top-line growth in 1Q24. The Company expect to continue growth in 2024, with the real estate sector as a key area of its business operations. With a strategic concentration on carrying out essential real estate projects launched in 2023, DIC remains dedicated to providing optimized value for shareholders. The Company continues the asset expansion and portfolio growth with the upcoming launch of the DIP Angola project, supporting economic growth and infrastructure development in Africa. In addition, robust demand continues for the Danah Bay project on Al Marjan Island in Ras Al Khaimah, which is anticipated to be completed by 3Q26 for residential and 3Q27 for the hotel. We expect the Danah Bay project to generate robust cash flow in the long term, driven by the increase in tourism activity in the UAE. DIC also announced the launch of the Violet Tower project, which will cater to the high demand for luxurious residential apartments in Jumeirah Village Circle, Dubai. The construction is anticipated to begin in the 2Q24, and completion is expected within two years. The Company is also focusing on the diversification strategy, as it announced the acquisition of a 34.3% stake in Global Fertility Partners. This investment is expected to benefit the company in the long term, as GFP is a leading network of fertility and reproductive genetics centers in the Middle East. Moreover, DIC distributed a cash dividend of AED 0.125 per share for 2023 generating a healthy annual dividend yield of 5.8%. Thus, considering the above-mentioned factors, we assign an BUY rating on the stock.

DIC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.8	26.2	14.7	5.7	8.0	18.0
PB	0.8	0.8	0.8	0.7	0.7	0.7
EV/EBITDA	15.7	23.7	17.3	6.8	7.9	13.6
Dividend yield	4.7%	3.7%	5.6%	9.3%	5.8%	6.1%

FABS Estimates & Co Data

DIC – P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	VAR.	YOY Ch	QOQ Ch	2023	2024F	Change
Total Income	1,019	1,107	792	980	-19.2%	-22.3%	-28.4%	4,106	3,547	-13.6%
Direct Costs	-518	-469	-471	-568	-17.1%	-9.2%	0.4%	-2,045	-2,199	7.5%
Gross profit	501	638	321	411	-21.9%	-35.8%	-49.7%	2,061	1,348	-34.6%
Operating Expenses	-108	-209	-112	-130	-14.0%	3.6%	-46.3%	-524	-520	-0.9%
EBITDA	430	473	248	321	-22.9%	-42.4%	-47.7%	1,702	988	-42.0%
D&A	37	44	38	40	-3.8%	3.6%	-12.3%	166	160	-3.6%
Operating profit	393	429	209	281	-25.6%	-46.7%	-51.3%	1,537	828	-46.1%
Finance expenses	-93	-109	-107	-101	6.1%	15.0%	-2.1%	-428	-403	-5.8%
Finance income	13	19	17	15	17.6%	38.1%	-6.8%	59	53	-9.4%
Impairments	-2	-51	-3	0	NM	3.4%	-94.9%	-140	0	NM
Other income	5	21	5	15	-63.5%	19.0%	-74.8%	41	36	-13.6%
Profit before NCI	314	309	122	210	-41.7%	-61.0%	-60.4%	1,069	514	-51.9%
Tax/zakat		-20	-10	-19	-47.2%	NM	-48.9%		-46	NM
NCI	0	-24	-8	-9	-18.8%	NM	-68.9%	-82	-37	-54.3%
Net Profit	314	314	120	200	-40.1%	-61.8%	-61.8%	1,131	505	-55.3%

FABS estimate & Co Data

DIC - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2,023	2024F	Change
Gross Profit	49.1%	57.6%	40.5%	-858	-1,708	50.2%	38.0%	-1,219
EBITDA	42.2%	42.8%	31.3%	-1,090	-1,148	41.5%	27.9%	-1,361
Operating Profit	38.5%	38.8%	26.4%	-1,211	-1,237	37.4%	23.4%	-1,407
Net Profit	30.9%	28.4%	15.1%	-1,572	-1,322	27.5%	14.2%	-1,330

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	2.57	70.0%	1.80
Relative Valuation (RV)	2.23	30.0%	0.67
Weighted Average Valuation (AED)			2.47
Current market price (AED)			2.11
Upside/Downside (%)			+17%

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 8.6%. It is arrived after using cost of equity of 9.3% and cost of debt of 7.4% with a debt-to-equity ratio of 55.9%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00, and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Cost of debt of 7.4% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,351
Terminal value (AED, Mn)	8,010
FV to Common shareholders (AED, Mn)	10,939
No. of share (Mn)	4,252
Current Market Price (AED)	2.11
Fair Value per share (AED)	2.57

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	847	896	924	949	960
D&A	160	155	151	147	144
Change in working capital	380	-52	-47	-44	-44
Capex	-291	-283	-285	-292	-299
Free Cash Flow to Equity (FCFF)	1,095	716	742	760	760
Discounting Factor	0.95	0.88	0.81	0.74	0.68
Discounted FCFF	1,042	627	598	564	520

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 9.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Emaar Properties	19,443	4.9	5.0	6.2	6.8
Dar AlArkan Real Estate	3,670	16.2	13.7	16.1	12.4
Sobha Ltd	2,010	49.6	24.2	28.0	45.7
Arabian Centres	2,821	6.8	5.2	8.3	6.8
Deyaar Development	891	9.4	9.5	13.5	12.5
TECOM Group	3,757	8.7	7.4	11.3	8.6
Aldar Properties	13,015	40.7	32.3	76.5	60.1
Average		19.5x	13.9x	22.8x	21.9x
Median		9.4x	9.5x	13.5x	12.4x
Max		28.5x	19.0x	22.1x	29.1x
Min		7.7x	6.3x	9.8x	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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