

Dubai Investments PJSC

Healthy growth in the Properties Segment boosted profitability

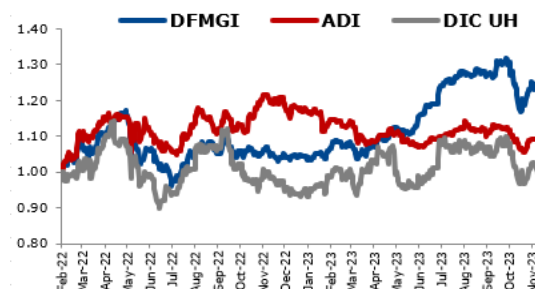
Current Price
AED 2.25

Target Price
AED 2.47

Upside/Downside (%)
+9.8%

Rating
HOLD

- DIC's revenue declined 43.9% YOY to AED 968 Mn in 3Q23, whereas adjusted revenue excluding one-time gain on disinvestment of stake in Emicool in 3Q22 and gain on fair value of investment properties rose 16.4% YOY in 3Q23.
- DIC's real estate projects Danah Bay, Al Marjan Island and Ras Al Khaimah continue to attract significant interest.
- DIC acquired an additional stake of 7.68% in Monument Bank based in the UK resulting in a total stake of 16.93%.



Stock Information

Market Cap (AED, mm)	9,524.52
Paid Up Capital (mm)	4,252.02
52 Week High	2.56
52 Week Low	2.12
3M Avg. daily value (AED)	2,962,923

3Q23 Net Profit higher than our estimate

Dubai Investment PJSC (DIC) net profit declined from AED 1,125 Mn in 3Q22 to AED 237 Mn in 3Q23, higher than our estimate of AED 143 Mn. The Company's net profit stood higher in 3Q22 due to the one-time gain of AED 980 Mn recorded on the disinvestment of shares in Emicool. The 3Q23 net profit also included a net gain from fair value of investment properties and investments of AED 87 Mn. After adjusting the net profit for a one-time gain stood at AED 150 Mn in 3Q23 compared to AED 145 Mn in 3Q22.

3Q23 Result Review (AED, mm)

Total Assets	21,084
Total Liabilities	7,823
Total Equity	13,260
EBITDA	348
Net Profit	237

P&L Highlights

DIC's total income declined 43.9% YOY to AED 968 Mn in 3Q23 as the Company recorded a one-time gain of AED 980 Mn during 3Q22 compared to AED 87 Mn in 3Q23 due to net gain on investment properties and investments. DIC disinvested its 50% stake in Emicool which resulted in a one-time gain in 3Q22. Adjusted total income rose 16.1% YOY to AED 881 Mn in 3Q23 owing to an adjusted net one-time gain of AED 966 Mn in 3Q22 and AED 87 Mn gain in 3Q23. DIC's income from the Property segment rose significantly from AED 352 Mn in 3Q22 to AED 615 Mn in 3Q23 driven by strong growth in the sale of properties, rental income, and gain on fair value of investment properties of AED 101 Mn. Moreover, the Manufacturing and Contracting segment revenue declined 8.8% YOY to AED 318 Mn in 3Q23 owing to a decline in contacting revenue. Income from the Investments segment grew from AED 21 Mn in 3Q22 to AED 35 Mn in 3Q23 due to strong growth in other income partially offset by loss on fair value investment. On the other hand, DIC's direct cost rose 16.0% YOY to AED 568 Mn in 3Q23. Thus, gross profit declined from AED 1,235 Mn in 3Q22 to AED 399 Mn in 3Q23. Operating expenses declined 14.0% YOY to AED 94 Mn in 3Q23 driven by a stable staff cost and a decline in other expenses. As a result, operating profit declined 72.9% YOY to AED 306 Mn in 3Q23. D&A expenses rose 8.6%

Financial Ratios

Dividend Yield (12m)	5.58
Dividend Pay-out (%)	33.04
Price-Earnings Ratio(x)	10.08
Price-to-Book Ratio (x)	0.73
Book Value (AED)	3.09
Return-on Equity (%)	7.25

Stock Performance

5 Days	-1.75%
1 Months	-3.45%
3 Months	-8.20%
6 Months	1.82%
1 Year	0.90%
Month to Date (MTD%)	1.81%
Quarter to Date (QTD%)	-8.91%
Year to Date (YTD%)	3.69%

YOY to AED 42 Mn in 3Q23. EBITDA stood at AED 348 Mn in 3Q23 as compared to AED 1,165 Mn in 3Q22. Furthermore, finance expenses rose significantly from AED 62 Mn in 3Q22 to AED 112 Mn in 3Q23. Whereas, finance income declined 76.6% YOY to AED 14 Mn in 3Q23. Moreover, other income rose 17.2% YOY to AED 10 Mn in 3Q23. Impairment expenses decreased 24.7% YOY to AED 9 Mn in 3Q23. In addition, the share of profit attributable to non-controlling interest holders rose from AED 3 Mn in 3Q22 to AED 27 Mn in 3Q23.

Balance Sheet Highlights

The company's Total debt marginally declined from AED 5.4 Bn in 2Q23 to AED 5.3 Bn in 3Q23. Cash and cash equivalent increased from AED 716 Mn in 2Q23 to AED 964 Mn in 3Q23. DIC cash flow from operations increased from AED 309 Mn in 2Q23 to AED 493 Mn in 3Q23.

Target Price and Rating

We maintain our HOLD rating on DIC with a target price of AED 2.47. The Company's share price fell 7.0% since our previous rating. DIC's one-time gain adjusted revenue rose 16.1% YOY in 3Q23, driven by strong property sale and rental income growth. The Company continues to prioritize the real estate sector as one of its primary business areas and remains dedicated to efficiently investing capital in opportunities that enhance value. It is also planning to actively expand its portfolio into new geographies. DIC acquired an additional stake of 7.68% in Monument Bank based in the UK resulting in a total stake of 16.93%. Monument Bank recently increased its capital and raised GBP 40 Mn which indicates its promising growth strategy while the Bank's investment in technology and other service verticals reflects its innovative and customer-centric approach. In addition, the Company revealed that Phase 1 of the Danah Bay project in June 2023 achieved full occupancy while the construction of phase 1 is expected to be completed by 1Q25. Similarly, Danah Bay Phase 2 features the exclusive first-ever breakwater villas in Ras Al Khaima. The phase 2 construction is expected to be completed by 2Q25. Meanwhile, phase 3 will comprise of residential apartments and a resort with 300 rooms. We further expect that the Danah Bay development will generate a robust cash flow in the long-term given the increase in tourism activity in UAE. The Company targets to divest stakes in mature businesses earning solid returns over the investment. DIC also generates significant gains on the fair value of investment property and will continue with the strong growth in the Real Estate sector. The Company also owns investment in both quoted and unquoted equity securities, funds, bonds and Sukuk and a stake in Emicool, which further provide a boost to its value. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

DIC - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	14.8	14.6	27.6	15.5	6.0	9.2
PB	0.8	0.8	0.8	0.8	0.7	0.7
EV/EBITDA	17.7	16.3	24.5	17.9	7.1	9.1
Dividend yield	4.4%	4.4%	3.5%	5.3%	8.8%	5.3%

FABS Estimates & Co Data

DIC – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Total Income	1,725	1,013	968	749	29.2%	-43.9%	-4.4%	4,255	3,883	-8.7%
Direct Costs	-490	-490	-568	-382	48.8%	16.0%	16.1%	-1,959	-2,058	5.1%
Gross profit	1,235	523	399	367	8.8%	-67.7%	-23.7%	2,296	1,825	-20.5%
Operating Expenses	-109	-114	-94	-103	-9.3%	-14.0%	-18.0%	-506	-435	-14.0%
EBITDA	1,165	452	348	301	15.3%	-70.2%	-23.1%	1,984	1,551	-21.9%
D&A	39	43	42	38	11.4%	8.6%	-2.5%	194	161	-17.1%
Operating profit	1,126	409	306	264	15.9%	-72.9%	-25.2%	1,790	1,390	-22.4%
Finance expenses	-62	-113	-112	-95	18.3%	82.3%	-0.9%	-250	-425	70.2%
Finance income	60	14	14	15	-6.3%	-76.6%	3.0%	152	54	-64.2%
Impairments	-12	-78	-9	-78	-88.8%	-24.7%	-88.8%	-161	-89	NM
Other income	9	5	10	5	98.7%	17.2%	97.4%	34	31	-9.7%
Profit before NCI	1,122	237	209	111	88.1%	-81.4%	-11.6%	1,565	961	-38.6%
NCI	-3	-30	-27	-32	-13.9%	834.8%	-6.8%	-44	-86	98.7%
Net Profit	1,125	266	237	143	65.4%	-79.0%	-11.1%	1,609	1,048	-34.9%

FABS estimate & Co Data

DIC - Margins

	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	71.6%	51.7%	41.3%	-3,032	-1,039	54.0%	47.0%	-696
EBITDA	67.5%	44.6%	35.9%	-3,160	-870	46.6%	39.9%	-670
Operating Profit	65.3%	40.4%	31.6%	-3,369	-879	42.1%	35.8%	-628
Net Profit	65.2%	26.3%	24.4%	-4,076	-183	37.8%	27.0%	-1,083

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	2.60	70.0%	1.82
Relative Valuation (RV)	2.16	30.0%	0.65
Weighted Average Valuation (AED)			2.47
Current market price (AED)			2.25
Upside/Downside (%)			+9.8%

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 8.3%. It is arrived after using cost of equity of 9.0% and cost of debt of 7.0% with a debt-to-equity ratio of 55.3%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 0.90, and equity risk premium of 3.7%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,812
Terminal value (AED, Mn)	9,027
FV to Common shareholders (AED, Mn)	11,055
No. of share (Mn)	4,252
Current Market Price (AED)	2.25
Fair Value per share (AED)	2.60

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	1,390	831	867	891	914
D&A	161	166	160	155	151
Change in working capital	418	348	48	27	39
Capex	-408	-336	-327	-329	-331
Free Cash Flow to Equity (FCFF)	111	1,009	748	744	773
Discounting Factor	0.99	0.92	0.85	0.78	0.72
Discounted FCFF	110	926	634	582	558

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 10.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Emaar Properties	16,460	4.5	3.6	6.9	6.9
Dar AlArkan Real Estate	4,223	18.2	16.1	NA	NA
Sobha Ltd	899	15.9	10.0	25.4	14.5
Arabian Centres	2,595	11.8	11.1	9.4	9.1
Deyaar Development	741	11.6	9.6	12.4	8.9
TECOM Group	3,568	10.2	10.0	NA	NA
Aldar Properties	12,250	9.9	8.7	14.3	12.9
Average		11.7x	9.9x	13.7x	10.5x
Median		11.6x	10.0x	12.4x	9.1x
Max		13.9x	10.6x	14.3x	12.9x
Min		10.1x	9.1x	9.4x	8.9x

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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