

Investcorp Capital Plc

Lower fair value gains and a sharp rise in interest rates impacted profitability

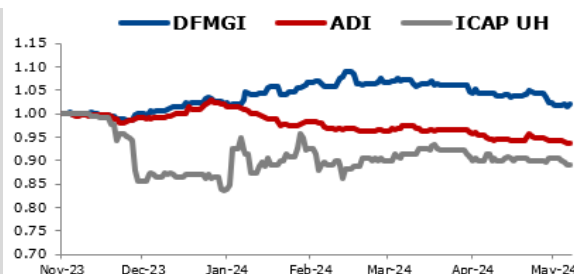
Current Price
AED 2.05

Target Price
AED 2.71

Upside/Downside (%)
+32%

Rating
BUY

- Investcorp invested a total of USD 821 Mn across its Capital Deployment and Capital Financing Services segments and realized USD 641 Mn in 9M24.
- The Capital Deployment segment generated a healthy return of 7% on average asset exposure, whereas the Capital Financing Services segment generated 9% returns in 9M24.
- Investcorp entered into a revolving credit facility of USD 800 Mn with an international consortium of banks, replacing the existing USD 600 Mn facility with Investcorp. The new RCF facility is issued at a floating rate with a margin of 250 bps over SOFR.
- Investcorp paid a dividend of AED 0.1 per share for 1H24, and we expect the company to pay a dividend of AED 0.1 per share for 2H24 further, resulting in a dividend yield of 9.7% in 2024.



3Q24 Net Profit lower than our estimate

Investcorp Capital Plc's (Investcorp/the company) net profit declined 55.9% YOY to USD 15 Mn in 3Q24, lower than our estimate of USD 43 Mn. The decline in net profit is mainly attributable to a decline in gross revenue due to lower fair value gains and an increase in interest expense partially offset by lower operating expenses.

P&L Highlights

Investcorp's gross revenue declined 46.2% YOY to USD 21 Mn in 3Q24 due to a decline in revenue from the Capital Financing Services (CFS) segment as well as the Capital Deployment (CD) segment. Revenue from capital services declined 42.1% YOY to USD 11 Mn in 3Q24. On the other hand, Capital Deployment segment revenue fell due to lower fair value gains. Gain on financial assets declined 61.5% YOY to USD 5 Mn in 3Q24. Similarly, yield on corporate debt fell 25.0% YOY to USD 3 Mn in 3Q24 whereas Real Estate income reduced 33.3% YOY to USD 2 Mn. The Company's operating expenses declined 66.7% YOY to USD 2 Mn in 3Q24. As a result, operating profit fell 42.4% YOY to USD 19 Mn in 3Q24 while operating margin improved 586 bps YOY to 90.5%. Interest income doubled to USD 2 Mn in 3Q24 while interest expense stood at USD 6 Mn in 3Q24 compared to nil in 3Q23. The increase in interest expense is attributable to higher borrowings to fulfil underwriting requirements. The Company is exempted from tax as it operates in the free zone.

Balance Sheet Highlights

Investcorp's total assets rose 19.6% YTD to USD 1.7 Mn in 3Q24. Total equity increased 14.1% YTD to USD 1.4 Bn in 3Q24. Capital service underwriting assets grew 42.1% YTD to USD 594 Mn in 3Q24 while corporate investments increased 9.9% YTD to USD 368

Stock Information

Market Cap (AED, mm)	4,492.58
Paid Up Capital (mm)	1,097.84
52 Week High	2.40
52 Week Low	1.91
3M Avg. daily value (AED)	1,204,330

3Q24 Result Review (USD, mm)

Total Assets	1,706
Total Liabilities	297
Total Equity	1,409
Operating Profit	19
Net Profit	15

Financial Ratios

Dividend Yield (12m)	4.88
Dividend Pay-out (%)	0.00
Est P/E Ratio(x)	13.61
Est P/B Ratio (x)	0.85
EV/EBITDA Ratio (x)	13.94
Return-on Equity (%)	9.86

Stock Performance

5 Days	-1.44%
1 Months	-2.38%
3 Months	0.00%
6 Months	-10.87%
1 Year	N/A
Month to Date (MTD%)	-1.91%
Quarter to Date (QTD%)	-3.76%
Year to Date (YTD%)	3.02%

Mn. However, real estate assets and global credit assets declined 3.2% YTD to USD 150 Mn and 11.5% YTD to USD 223 Mn respectively in 3Q24. Investcorp's cash generating assets to total assets stood ratio stood at 78% in 3Q24 compared to 77% in 4Q23. The Capital deployment to long-term capital ratio marginally declined from 0.63x in 4Q23 to 0.56x in 3Q24.

Target Price and Rating

We maintain our BUY rating on Investcorp Capital with an unchanged target price of AED 2.71. The Company's profitability declined in 3Q24 mainly driven by lower gross income owing to a fall in fair value gains. The Company's business is impacted due to a sharp rise in interest rates. Investcorp invested a total of USD 821 Mn across its Capital Deployment and Capital Financing Services segments and realized USD 641 Mn in 9M24. The Capital Deployment segment generated a healthy return of 7% on average asset exposure during 9M24 whereas the Capital Financing Services segment generated 9% returns. The Company's solid portfolio is strategically diversified, and 78% of its assets are invested in recurring yield-generating assets. The Company expanded its portfolio and included infrastructure investment in JFK International Airport Terminal 6, New York in February 2024. Moreover, the Company entered into a revolving credit facility of USD 800 Mn with an international consortium of banks, replacing the existing USD 600 Mn facility with Investcorp. The new RCF facility is issued at a floating rate with a margin of 250 bps over SOFR. Investcorp increased its underwriting portfolio to take advantage of opportunities owing to current macroeconomic conditions. The Company focuses on few high-quality companies which reflect good chances of exiting. Furthermore, the Company is working to establish a liquidity mechanism to safeguard the interests of equity investors. In addition, Investcorp Capital listed its first publicly listed Real Estate Investment Trust (REIT) on the Delhi Stock Exchange in India, marking its entry into a new asset category. The Company paid a dividend of AED 0.1 per share for 1H24 and we expect the company to further pay a dividend of AED 0.1 per share for 2H24, resulting in a dividend yield of 9.7% in 2024. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

Investcorp - Relative valuation

(at CMP)	2022	2023	2024F
PE	NA	10.92	12.41
PB	NA	1.00	0.85
Dividend yield	NA	0.0%	9.7%

FABS Estimates & Co Data

Note – Investcorp listed on ADX in November 2023. Thus, financial multiple for the prior period is unavailable.

Investcorp – P&L

USD mm	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue from capital services	19	14	11	11	3.2%	-42.1%	-21.4%	45	43	-3.7%
Gain on financial assets	13	2	5	18	-72.5%	-61.5%	150.0%	47	35	-24.7%
Yield on corporate debt	4	6	3	6	-49.6%	-25.0%	-50.0%	17	18	7.4%
Dividend inc.- Real Estate	3	2	2	4	-54.3%	-33.3%	0.0%	8	9	6.3%
Performance Rebate	0	0	0	0	NM	NM	NM	0	0	NM
Gross income	39	24	21	39	-46.6%	-46.2%	-12.5%	117	106	-9.7%
Operating expenses	-6	-1	-2	-1	152.0%	-66.7%	100.0%	-10	-8	-16.8%
Operating Profit	33	23	19	39	-50.7%	-42.4%	-17.4%	107	97	-9.0%
Interest Income	1	1	2	3	-20.0%	100.0%	100.0%	9	8	-11.1%
Interest Expenses	0	-3	-6	2	NM	NM	100.0%	-2	-6	210.6%
Profit before zakat	34	21	15	43	-65.1%	-55.9%	-28.6%	114	99	-13.1%
Income tax	0	0	0	0	NM	NM	NM	-1	0	NM
Net Profit	34	21	15	43	-65.1%	-55.9%	-28.6%	113	99	-12.0%

FABS estimate & Co Data

Investcorp - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Operating margin	84.6%	95.8%	90.5%	586	-536	91.5%	92.1%	67
Net profit margin	87.2%	87.5%	71.4%	-1,575	-1,607	96.3%	93.8%	-247

FABS estimate & Co Data

Valuation:

We use Discount Dividend Method (DDM), Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Net Asset Value (NAV) method to value Investcorp. We have assigned equal weights to each.

Valuation Method	Target	Weight	Weighted Value
DDM Method	2.41	33.3%	0.80
DCF + Relative Valuation Method	2.57	33.3%	0.86
NAV	3.14	33.3%	1.05
Weighted Average Valuation (AED)			2.71
Current market price (AED)			2.05
Upside/Downside (%)			+32%

1) DDM Method:

Investcorp distributed a healthy dividend of USD 1 fil per share for 1H24 and further aims to pay regular dividends in the forecasted period. The Company commits to achieve a minimum dividend yield of 8% per year. The dividend is discounted at the cost of equity of 10.7%.

Sum of PV (USD, Mn)	460
Terminal value (USD, Mn)	982
FV to Common shareholders (USD, Mn)	1,441
No. of share (Mn)	2,192
Current Market Price (AED)	2.05
Fair Value per share (AED)	2.41

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend	115	116	116	125	136
Total Dividend	115	116	116	125	136
Discounting Factor	0.93	0.84	0.76	0.68	0.62
Discounted FCFF	106	97	88	85	84

Source: FAB Securities

2) DDM + RV Method:

1) DCF Method

Capital Financial Services segment in Investcorp Capital is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 10.7%. Cost of equity is calculated by using 10-year government bond yield of 7.2%, beta of 1.00 and equity risk premium of 3.5%. Government bond yield is calculated after adding Bahrain 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	378
Terminal value (USD, Mn)	191
FV to Common shareholders (USD, Mn)	569
No. of share (Mn)	2,192
Current Market Price (AED)	2.05
Fair Value per share (AED)	0.95

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	41	44	41	41	42
(+/-) Working Capital	-106	-9	-14	-17	-14
Net Change in debt	240	135	26	0	-1
Free Cash Flow to Equity	175	171	53	25	26
Discounting Factor	0.93	0.84	0.76	0.68	0.62
Discounted FCFE	162	143	40	17	16

Source: FAB Securities

2) RV Method:

We have used local as well as international peers to value Capital Deployment segment in Investcorp Capital and it is valued using the average valuation obtained from PE and PB multiple. It is valued at PE and PB multiples of 13.4x and 1.3x respectively.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F
INDUSTRIVARDEN AB-A SHS	15,016	NA	NA	0.9x	NA
KINGDOM HOLDING CO	6,952	22.6x	21.3x	NA	NA
WENDEL	4,426	8.7x	9.1x	0.9x	0.8x
BLACKROCK INC	119,651	19.5x	17.3x	3.0x	2.7x
BROOKFIELD CORP	68,904	13.4x	10.8x	1.6x	1.6x
TIKEHAU CAPITAL	3,936	13.1x	9.3x	1.1x	1.0x
INTERMEDIATE CAPITAL GROUP	8,348	16.6x	14.7x	3.0x	2.6x
SCHRODERS PLC	7,418	11.4x	10.5x	1.3x	1.3x
Average		15.0x	13.3x	1.7x	1.7x
Median		13.4x	10.8x	1.3x	1.4x
Max		18.0x	16.0x	2.3x	2.4x
Min		12.3x	9.9x	1.0x	1.1x

Source: FAB Securities

3) Net Asset Value:

We applied peer median price-to-book multiple of 1.3x to the computed NAV post IPO proceed to arrive at the equity of Investcorp Capital. NAV here corresponds to the book value/invested capital of the firm. The NAV reported at the end of FY2023 is used to compute valuation and added expected IPO proceed to arrive at the NAV. This NAV is used for valuing the firm.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F
INDUSTRIVARDEN AB-A SHS	15,016	NA	NA	0.9x	NA
KINGDOM HOLDING CO	6,952	22.6x	21.3x	NA	NA
WENDEL	4,426	8.7x	9.1x	0.9x	0.8x
BLACKROCK INC	119,651	19.5x	17.3x	3.0x	2.7x
KKR & CO INC	93,071	22.2x	17.2x	3.2x	2.7x
BROOKFIELD CORP	68,904	13.4x	10.8x	1.6x	1.6x
TIKEHAU CAPITAL	3,936	13.1x	9.3x	1.1x	1.0x
INTERMEDIATE CAPITAL GROUP	8,348	16.6x	14.7x	3.0x	2.6x
SCHRODERS PLC	7,418	11.4x	10.5x	1.3x	1.3x
Average		15.0x	13.3x	1.7x	1.7x
Median		13.4x	10.8x	1.3x	1.4x
Max		18.0x	16.0x	2.3x	2.4x
Min		12.3x	9.9x	1.0x	1.1x

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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