

## Al Waha Capital PJSC

Losses in public market impacted profitability

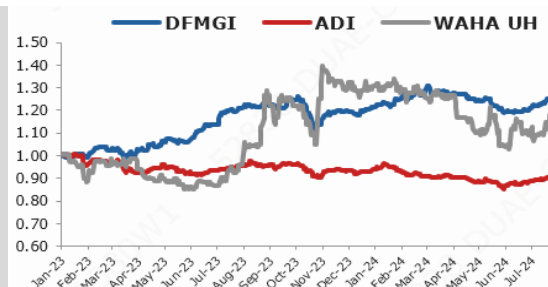
**Current Price**  
AED 1.58

**Target Price**  
AED 1.75

**Upside/Downside (%)**  
+11%

**Rating**  
**ACCUMULATE**

- Total assets under management grew to AED 10.9 Bn in 2Q24, up from AED 10.5 Bn in 4Q23.
- Secured AED 691 Mn in new third-party capital from institutional investors.
- Public market third-party AUM grew to AED 6 Bn in 2Q24, while Private investment AUMs stood at AED 820 Mn as of 2Q24.
- Divested the holding of Despegar from the Private Investment's legacy portfolio securing a consideration of AED 221 Mn.
- Total borrowings rose from AED 5.1 Bn in 1Q24 to AED 5.7 Bn in 2Q24, primarily due to increased subsidiaries repurchase liabilities related to Public Market funds partially offset by repayment of corporate borrowings.



### 2Q24 Net Profit lower than our estimate

Al Waha Capital PJSC (the Group/Waha) reported a net profit attributable to equity holders of AED 38 Mn in 2Q24. This profit was mainly driven by mark-to-market gain across the Private Investment Portfolio coupled with lower corporate costs partially offset by losses in the public market.

### P&L Highlights

Waha's net operating income significantly dropped from AED 259 Mn in 2Q23 to AED 111 Mn in 2Q24. This decline in net operating margin was primarily due to a loss in the Public Markets segment partially offset by a gain in Private Investments and Waha Land. Public Market registered a net operating loss of AED 17 Mn in 2Q24 compared to a profit of AED 243 Mn in 2Q23. Conversely, Private Investments net operating income surged from AED 4 Mn in 2Q23 to AED 115 Mn in 2Q24, largely due to positive mark-to-market movement of investments. Waha Land reported a net operating income of AED 13 Mn in 2Q24 up from AED 12 Mn in 2Q23, driven by strong rental income. The group's cost of sales rose 5.7% YOY to AED 28 Mn in 2Q24, leading to a 14.5% YOY increase in gross profit of AED 10 Mn in 2Q24. Waha total assets under management grew to AED 10.9 Bn in 2Q24, up from AED 10.5 Bn in 4Q23. Income from financial investments decreased from AED 226 Mn in 2Q23 to AED 72 Mn in 2Q24, while income from property investments rose 8.0% YOY to AED 13 Mn in 2Q24. Other income fell 6.8% YOY to AED 5 Mn in 2Q24. G&A expenses dropped from AED 59 Mn in 2Q23 to AED 48 Mn in 2Q24, primarily due to lower staff-related expenses partially offset by an increase in legal and other professional expenses. However, finance costs increased significantly from AED 30 Mn in 2Q23 to AED 70 Mn in 2Q24 due to higher benchmark interest rates and increased utilization of repurchase liabilities for public investments. The share of

### Stock Information

Market Cap (AED, Mn)	3,091.78
Paid Up Capital (Mn)	1,944.51
52 Week High	1.94
52 Week Low	1.37
3M Avg. daily value (AED)	2,914,870

### 2Q24 Result Review (AED, Mn)

Total Assets	13,757
Total Liabilities	6,473
Total Equity	7,284
Total Operating Income	111
Net Profit	38

### Financial Ratios

Dividend Yield (12m)	6.29
Dividend Pay-out (%)	42.38
Price-Earnings Ratio(x)	6.25
Price-to-Book Ratio (x)	0.83
Book Value (AED)	1.93
Return-on Equity (%)	13.11

### Stock Performance

5 Days	3.25%
1 Months	6.00%
3 Months	2.58%
6 Months	-8.62%
1 Year	11.97%
Month to Date (MTD%)	1.92%
Quarter to Date (QTD%)	5.30%
Year to Date (YTD%)	-10.67%

profit attributable to non-controlling recorded a loss of AED 50 Mn in 2Q24 compared to a profit of AED 77 Mn in 2Q23.

### Balance Sheet Highlights

The Group's financial investments grew from AED 9.1 Bn in 1Q24 to AED 9.7 Bn in 2Q24, primarily due to an increase of AED 1.2 Bn in Public Market funds partially offset by a net decrease of AED 94.5 Mn from private investments. Cash and cash equivalents decreased to AED 924 Mn in 2Q24 from AED 1.2 Bn in 1Q24, mainly due to increased investments in financial assets of AED 486 Mn, dividend payments, loan repayments, and an increase in receivables of AED 251 Mn. The net increase in receivables of AED 251 Mn was primarily due to an increase in receivables, higher accrued interest, and growth in margin accounts. Waha's total borrowings rose from AED 5.1 Bn in 1Q24 to AED 5.7 Bn in 2Q24, primarily due to increased subsidiaries repurchase liabilities related to Public Market funds partially offset by repayment of corporate borrowings. Trade and other liabilities decreased from AED 701 Mn in 1Q24 to AED 467 Mn in 2Q24 primarily due to dividend repayment for FY2023 partially offset by a growth in trade payables, and other payables & accruals.

### Target Price and Rating

We revise our rating from BUY to ACCUMULATE on Waha Capital with a revised target price of AED 1.75. The Group's share price declined 10% since our last rating (June 2024). Waha delivered an average equity return of 13.1%, leveraging its emerging markets expertise and superior research capabilities to navigate market volatility. Total assets under management rose from AED 10.5 Bn in 4Q23 to AED 10.9 Bn in 2Q24. Waha's public market segment offers investment across emerging market credit and equity fund. The segment also secured third-party net inflow of AED 691 Mn in 1H24 and earned a fee income of AED 101 Mn. The third-party AUM surpassed AED 6 Bn constituting 50% of total AUM. The investors in the fund are spread across a diverse client base, including sovereign wealth funds, insurance companies, pension funds, family offices, private banks, and high-net-worth individuals. Waha's Emerging Markets Credit Fund recorded a net return of 10.1% in 1H24, compared to a 2.3% return by the JP Morgan EMBI Global Diversified Index during the same period, whereas Waha's Mena Equity Fund SP reported a negative return of 3.7% in 1H24 compared to a decline in benchmark the S&P Pan Arab Composite Index of 1.5% during the same period. Waha's Islamic Income Fund posted a total return of 2.6% (gross of fees) in 1H24 compared to a 0.6% increase in the benchmark, the Dow Jones Sukuk Index. All funds continued to outperform benchmark indices by a wide margin since inception. Private investment AUMs stood at AED 820 Mn as of 2Q24. The Private Investments business recorded a net profit of AED 141 Mn in 1H24, against a loss of AED 26 Mn loss in 1H23, driven predominantly by mark-to-market gains across the portfolio. The company also successfully divested its holding in Despegar at the beginning of the second quarter, securing a consideration of AED 221 Mn. The Private Investments segment possesses a healthy deal pipeline and prioritizes optimal divestment options to enhance shareholder value. Waha's Land's Stages 1 and 2A of the ALMARKAZ project consist of 182,400 industrial and logistics units, with an occupancy rate of 98% in 2Q24. Additionally, the Group completed the expansion of Stage 2B in 1Q24, adding approximately 76,000 sqm of premium leasable space. The Stage 2B project currently has a 20% occupancy rate and is poised for further growth amid increasing demand for high-quality logistics. Waha is also expected to benefit from the Fed interest rate cut during the upcoming year as both investments and group debt benefit from this. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

### Waha Capital - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	6.3	7.3	8.4	6.6	7.7
PB	1.0	0.9	0.9	0.8	0.8	0.8
Dividend yield	NM	3.9%	4.9%	5.2%	6.3%	6.5%

FABS Estimates & Co Data

**Waha Capital – P&L**

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	36	39	39	38	2.8%	7.9%	-0.9%	140	146	4.0%
Cost of sales	-27	-28	-28	-28	0.6%	5.7%	-0.1%	-107	-109	1.3%
<b>Gross Profit</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>9.5%</b>	<b>14.5%</b>	<b>-2.9%</b>	<b>33</b>	<b>37</b>	<b>12.9%</b>
Profit/(loss) from fin. Inv	226	376	72	202	-64.3%	-68.2%	-80.9%	1,089	952	-12.6%
Inc. from Property Inv	12	14	13	15	-16.9%	8.0%	-8.2%	60	56	-6.8%
Other Income, net	5	15	5	7	-28.3%	-6.8%	-67.4%	30	39	30.9%
<b>Total operating income</b>	<b>285</b>	<b>447</b>	<b>139</b>	<b>262</b>	<b>-46.7%</b>	<b>-51.2%</b>	<b>-68.8%</b>	<b>1,330</b>	<b>1,206</b>	<b>-9.3%</b>
<b>Net operating profit / (loss)</b>	<b>259</b>	<b>418</b>	<b>111</b>	<b>233</b>	<b>-52.5%</b>	<b>-57.1%</b>	<b>-73.5%</b>	<b>1,222</b>	<b>1,098</b>	<b>-10.2%</b>
G&A expenses	-59	-75	-48	-61	-20.1%	-17.2%	-34.9%	-260	-263	1.3%
Finance cost, net	-30	-62	-72	-57	25.6%	NM	15.5%	-139	-250	79.2%
<b>Profit before Tax</b>	<b>170</b>	<b>281</b>	<b>-10</b>	<b>115</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>820</b>	<b>585</b>	<b>-28.7%</b>
Tax expense	0	0	-2	0	NM	NM	NM	0	-1	NM
NCI	77	115	-50	23	NM	NM	NM	380	205	-46.2%
<b>Net Profit</b>	<b>94</b>	<b>166</b>	<b>38</b>	<b>92</b>	<b>-58.5%</b>	<b>-59.2%</b>	<b>-77.0%</b>	<b>440</b>	<b>380</b>	<b>-13.7%</b>

FABS estimate & Co Data

**Waha Capital - Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	25.1%	27.2%	26.6%	152	-55	23.5%	25.5%	200
Operating margin	70.1%	76.9%	44.8%	NM	NM	72.4%	69.2%	-321
Net profit margin	32.9%	37.2%	27.5%	-543	-978	33.1%	31.5%	-160

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash Flow (DCF) and Dividend Discount Method (DDM) to value Waha Capital. We have assigned equal weight to DCF and DDM valuation methods.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.02	50.0%	1.01
DDM Method	1.48	50.0%	0.74
<b>Weighted Average Valuation (AED)</b>			<b>1.75</b>
Current market price (AED)			1.58
Upside/Downside (%)			+10.8%

### 1) DCF Method:

Waha Capital is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.5%. It is arrived after using cost of equity of 9.3% and after-tax cost of debt of 6.5% with a debt-to-equity ratio of 174.8%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.00 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,084
Terminal value (AED, Mn)	9,042
<b>FV to Common shareholders (AED, Mn)</b>	<b>3,803</b>
No. of share (Mn)	1,884
Current Market Price (AED)	1.58
<b>Fair Value per share (AED)</b>	<b>2.02</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	835	735	765	794	821
D&A	12	13	14	14	15
Changes in working capital	625	309	-6	-24	-44
(-) Capex	-121	-106	-111	-115	-119
<b>Free Cash Flow to Firm (FCFF)</b>	<b>1,350</b>	<b>951</b>	<b>663</b>	<b>670</b>	<b>673</b>
Discounting Factor	0.97	0.90	0.84	0.78	0.73
<b>Discounted FCFF</b>	<b>656</b>	<b>859</b>	<b>557</b>	<b>523</b>	<b>489</b>

Source: FAB Securities

## 2) DDM Method:

Waha Capital paid dividends in the last four of the last five years. It didn't pay any dividends for 2019. During the last three years, the payout ratio stood at 41%, and we expect the payout ratio to average 46% during the next five years. The dividend is discounted at the cost of equity of 9.3%.

Sum of PV (AED, Mn)	817
Terminal value (AED, Mn)	1,975
FV to Common shareholders (AED, Mn)	<b>2,792</b>
No. of share (Mn)	1,884
Current Market Price (AED)	1.55
<b>Fair Value per share (AED)</b>	<b>1.48</b>

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
<b>Dividend Paid</b>					
12 months	194	199	199	204	209
<b>Total Dividend</b>	<b>194</b>	<b>199</b>	<b>199</b>	<b>204</b>	<b>209</b>
Discounting Factor	0.97	0.88	0.81	0.74	0.68
<b>Present Value of Dividend</b>	<b>188</b>	<b>176</b>	<b>161</b>	<b>151</b>	<b>141</b>

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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