

GFH Financial Group (GFH)

Higher-income from treasury and proprietary and commercial banking segments boosted profitability

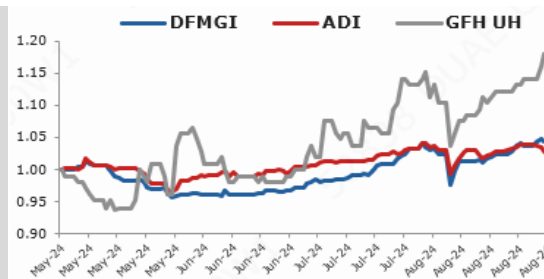
Current Price
AED 1.22

Target Price
AED 1.45

Upside/Downside (%)
+19%

Rating
BUY

- GFH's total treasury and proprietary investment recorded strong performance as it grew from USD 37 Mn in 2Q23 to USD 94 Mn in 2Q24, representing 55.2% of total income in 2Q24.
- Investment banking segment completed three deals totalling USD 165 Mn in 2Q24. The Company's total AUMs remained stable at USD 20.6 Bn in 2Q24 compared to 1Q24.
- GFH's capitalization remained strong, with a CET1 ratio of 16.9% and a total CAR of 18.1% in 2Q24.



Stock Information

Market Cap (AED, mn)	4,675.76
Paid Up Capital (mn)	1,015.64
52 Week High	1.25
52 Week Low	0.82
3M Avg. daily value (AED)	9,156,112

2Q24 Result Review (USD, Mn)

Total Assets	10,889
Total Liabilities	6,131
Total Equity	1,151
Total Income	169
Net Profit	34

Financial Ratios

Dividend Yield (12m)	4.94
Dividend Pay-out (%)	55.47
Price-Earnings Ratio(x)	10.72
Price-to-Book Ratio (x)	1.31
Book Value (USD)	0.25
Return-on Equity (%)	11.22

Stock Performance

5 Days	0.83%
1 Months	4.27%
3 Months	7.96%
6 Months	27.75%
1 Year	24.49%
Month to Date (MTD%)	-0.81%
Quarter to Date (QTD%)	15.09%
Year to Date (YTD%)	34.66%

2Q24 Net Profit higher than our estimate

GFH Financial Group's (GFH/the Company) net profit grew 9.8% YOY to USD 34 Mn in 2Q24, higher than our estimate of USD 25 Mn. The growth in net profit is primarily driven by growth in income from treasury and proprietary investments, as well as improved performance in the commercial banking segment, partially offset by a rise in profit share attributable to quasi-equity holders, higher operating expenses and lower investment banking income.

P&L Highlights

GFH's total income increased significantly 52.3% YOY to USD 169 Mn in 2Q24, mainly driven by strong performance from income from treasury and proprietary investments and the commercial banking segment. Commercial banking income grew from USD 29 Mn in 2Q23 to USD 34 Mn in 2Q24, driven by the successful implementation of recent restructuring initiatives. Income from the treasury and proprietary segment increased significantly from USD 37 Mn in 2Q23 to USD 94 Mn in 2Q24. Moreover, investment banking business revenue declined 7.6% YOY to USD 42 Mn in 2Q24. Furthermore, the Company's operating expenses increased 35.1% YOY to USD 50 Mn in 2Q24. However, the cost-to-income ratio declined from 33.4% in 2Q23 to 29.7% in 2Q24, mainly due to a strong rise in total income. Operating profit increased 60.9% YOY to USD 119 Mn in 2Q24. Operating profit margins also grew 377 bps YOY to 70.3% in 2Q24. In addition, the Company's finance cost grew from USD 11 Mn in 2Q23 to USD 20 Mn in 2Q24. Whereas impairments declined from USD 6 Mn in 2Q23 to USD 5 Mn in 2Q24. Share of profit attributable to quasi-equity holders grew from USD 24 Mn in 2Q23 to USD 57 Mn in 2Q24. In addition, share to non-controlling interest increased from USD 2 Mn in 2Q23 to USD 4 Mn in 2Q24.

Balance Sheet Highlights

GFH's assets under management remained at the same levels at USD 9.9 Bn in 2Q24 compared to 1Q24, whereas the Company's management and performance fees increased from USD 12.9 Mn in 1Q24 to USD 15.3 Mn in 2Q24. In addition, the group's CET 1 ratio and capital adequacy ratio stood healthy at 16.9% and 18.1%, respectively, in 2Q24. The Company's interest-earning assets grew 2.0% QOQ to USD 8.3 Bn in 2Q24. GFH's total equity rose 6.1% QOQ to USD 1.2 Bn in 2Q24. The Company's quasi-equity grew from USD 3.5 Bn in 4Q23 to USD 3.6 Bn in 2Q24, primarily due to its decision in 4Q23 to shift its funding profile from Murabaha to Wakala.

Target Price and Rating

We maintain our BUY rating on GFH with a revised target price of AED 1.45. The Company's stock price grew 27% since our last rating (April 2024). GFH profitability grew in 2Q24 primarily due to strong growth in total income driven by solid performance across the treasury and proprietary and commercial banking segments. GFH's total treasury and proprietary investment grew significantly from USD 37 Mn in 2Q23 to USD 94 Mn in 2Q24, representing 55.2% of total income in 2Q24. The growth is primarily driven by higher returns from exiting property investments, along with gains from the sale of the stake in Charthouse Bahrain. Furthermore, the Company's investment banking segment remains a key part of its business strategy, successfully managing a diverse global investment portfolio. The segment generated a total income of USD 42 Mn, representing 25% of the total income in 2Q24. GFH's investment banking segment successfully completed three deals totalling USD 165 Mn in 2Q24. The Company's total AUMs remained stable at USD 20.6 Bn in 2Q24 compared to 1Q24. GFH also recorded positive contributions from its commercial business segment, with Khaleeji Bank reporting higher income growth driven by the continued success of recent restructuring efforts. Total financing assets grew 17.0% YOY to USD 1.8 Bn in 2Q24. The Bank's asset yield on financing income rose 77 bps to 5.8% in 2Q24. Asset quality deteriorated as NPLs grew from 6.2% in 1Q24 to 7.7% in 2Q24, while provision coverage also declined from 56.6% in 1Q24 to 46.7% in 2Q24. However, the Bank's stage 2 loans as a percentage of total loans declined from 14.7% in 1Q24 to 12.6% in 2Q24, indicating improvement in the credit quality of its loan portfolio. Capitalization also remained strong, with a CET1 ratio of 16.9% and a total CAR of 18.1% in 2Q24. Furthermore, GFH remains committed to driving inorganic growth through strategic investments, partnerships, and acquisitions, including ongoing evaluations of Ithmaar Holding's investment portfolios. The Company's focus on investing in diversified sectors and expansion across different geographies is expected to boost its income going forward. Thus, based on our analysis, we maintain our BUY rating on the stock.

GFH - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	16.9	25.0	12.8	12.5	11.3	11.3
PB	1.3	1.4	1.3	1.3	1.1	1.2
Cash dividend yield	2.6%	1.4%	3.6%	4.8%	4.9%	5.3%

FABS Estimates & Co Data

GFH – P&L

USD mn	2Q23	1Q24	2Q24	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Investment Banking Income	45	46	42	44	-3.9%	-7.6%	-9.1%	201	192	-4.8%
Commercial banking income	29	39	34	43	-20.9%	16.5%	-12.8%	79	123	56.2%
Income from treasury and prop inc	37	78	94	26	NM	154.6%	19.8%	89	360	303.3%
Total income	111	163	169	110	54.2%	52.3%	3.9%	370	675	82.6%
Operating expenses	37	62	50	42	20.4%	35.1%	-18.5%	181	250	37.6%
Operating Profit	74	101	119	68	75.0%	60.9%	17.5%	188	425	125.9%
Finance expenses	11	14	20	15	32.3%	85.6%	42.7%	62	62	-1.0%
Impairment allowance	6	14	5	7	-30.6%	-23.7%	NM	20	38	84.7%
Total Expense excl. OPEX	17	28	24	22	12.3%	44.8%	-11.2%	83	100	20.1%
Profit before tax	57	74	95	46	104.6%	65.7%	28.2%	105	325	209.3%
Quasi equity	24	43	57	21	NM	NM	31.2%	200	200	NM
Non-Controlling Interest	2	3	4	1	NM	NM	22.9%	2	13	NM
Profit to shareholders	31	27	34	25	34.8%	9.8%	23.9%	103	113	9.4%

FABS estimate & Co Data

GFH - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Operating margin	66.6%	62.2%	70.3%	377	814	50.9%	63.0%	1208
Net profit margin	27.5%	16.6%	19.9%	-768	321	27.8%	16.7%	-1115

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value GFH. We have assigned 70% weight to Residual Income and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.36	70.0%	0.96
Relative valuation	1.64	30.0%	0.49
Weighted Average Valuation (AED)			1.45
Current market price (AED)			1.22
Upside/Downside (%)			+19%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 10.2%. The cost of equity is calculated by using a 10-year government bond yield of 6.9%, beta of 0.83 and equity risk premium of 4.1%. We have assumed Bahrain's 10Y Government Bond yield for valuing the Company. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	-33
Terminal value (USD, Mn)	8
Required Capital	838
FV to common shareholders (USD, Mn)	913
Capital Surplus	270
Dividend	68
Fair Value gain on real estate	173
Total Fair Value (USD, Mn)	1,424
No. of share (Mn)	3,833
Current Market Price (AED)	1.22
Fair Value per share (AED)	1.36

Residual Income Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	113	85	93	100	114
Excess return excess capital	-19	-19	-19	-19	-19
Adjusted net Profit	94	66	74	81	95
Equity Charge	-86	-88	-89	-91	-93
Economic Profit	8	-21	-16	-10	2
Discounting Factor	0.97	0.88	0.80	0.72	0.66
Present value of excess equity	4¹	-19	-12	-7	1

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local as well as international peers to value GFH's different segments. It owns a stake in Khaleeji Commercial Bank and it is valued using regional peers with PB multiple of 1.3x. The Investment Banking Segment is valued using the PE multiple of regional and global peers with a median PE multiple of 13.9. Treasury and Hold Co. Segment is valued using international peers using a median PB multiple of 0.8x.

Commercial bank	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
Bank Muscat	5,080	1.0	1.0	9.9	9.3
RAK Bank	2,900	0.9	0.9	5.6	6.1
Mashreq Bank	11,420	1.3	1.2	6.5	6.8
Commercial Bank of Dubai	5,040	1.2	1.2	NA	NA
Bank Aljazira	4,870	1.3	1.2	17.2	13.3
Qatar Islamic Bank	12,650	1.7	1.6	10.8	10.7
Average		1.2x	1.2x	10.0x	9.2x
Median		1.3x	1.2x	9.9x	9.3x
Max		1.3x	1.2x	10.8x	10.7x
Min		1.1x	1.0x	6.5x	6.8x

Source: FAB Securities

Investment bank	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
Jefferies Financial Group	11,980	1.3	1.2	19.5	13.4
Stifel Financial Group	8,950	1.8	1.7	14.8	12.7
Guotai Junan Securities	16,200	0.8	0.8	12.9	11.5
Lazard	4,470	8.4	6.3	21.5	14.2
EFG holdings	657	1.3	1.2	8.8	7.1
Lincoln National Corporation	5,470	0.8	0.7	3.3	4.6
Average		2.4x	2.0x	13.5x	10.6x
Median		1.3x	1.2x	13.9x	12.1x
Max		1.7x	1.6x	18.3x	13.2x
Min		0.9x	0.9x	9.8x	8.2x

Source: FAB Securities

Treasury and Holdco	Market (USD Mn)	PB (x)		PE (x)	
		2024F	2025F	2024F	2025F
Nomura Holdings	17,000	0.7	0.7	10.0	9.9
Canaccord Genuity Group	620	1.0	1.1	NA	11.8
Barclays PLC	44,540	0.6	0.5	7.3	6.0
PNC financial services	70,800	1.5	1.4	13.7	12.1
Insignia Financial	1,070	0.8	0.7	27.0	9.7
Average		0.9x	0.9x	14.5x	9.9x
Median		0.8x	0.7x	11.9x	9.9x
Max		1.0x	1.1x	17.0x	11.8x
Min		0.7x	0.7x	9.3x	9.7x

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

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.