

Dubai Financial Market PJSC (DFM)

Strong clearing fees & investment income supported profitability

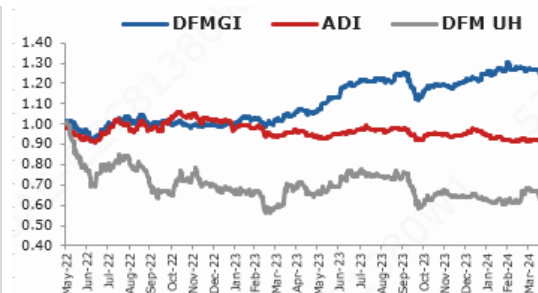
Current Price
AED 1.33

Target Price
AED 1.50

Upside/Downside (%)
+12.8%

Rating
ACCUMULATE

- DFM's revenue from Trading commission fees decreased by 34.6% YOY to AED 46 Mn in 3Q24. In contrast, clearing and depository fees experienced remarkable growth, more than tripling to AED 37 Mn in 3Q24.
- Investment income rose by 27.6% YOY, from AED 49 Mn in 3Q23 to AED 62 Mn in 3Q24.
- Cash and cash equivalents, saw a significant decrease, falling to AED 249 Mn in 3Q24 from AED 476 Mn in 2Q24, largely driven by increased investments in deposits and financial assets.
- The total trading value for the company declined by 6% YOY, reaching AED 73 Bn in 3Q24.
- DFM onboarded 18,568 new investors in 3Q24, bringing the total number of new investors to 91,151 for 9M24.



3Q24 Net Profit higher than our estimate

Dubai Financial Market PJSC ("DFM/the Company") reported an increase of 27.0% YOY to AED 94 Mn in net profit in 3Q24, exceeding our forecast of AED 72 Mn. The increase in net profit is mainly attributable to higher operating income driven by an increase in clearing settlement & depository fees coupled with higher investment income partially offset by an increase in general and administrative expenses and income tax expense.

P&L Highlights

Dubai Financial Market (DFM) reported a 6.2% YOY increase in operating income, reaching AED 92 Mn in 3Q24. This growth was primarily driven by a significant increase in clearing settlement, depository fees, and other fee categories, partially offset by the decline in trading commission fees. Trading commission fees decreased by 34.6% YOY to AED 46 Mn in 3Q24, down from AED 70 Mn in 3Q23. The decline was attributed to a drop in trading value, which fell from AED 32 Bn in 3Q23 to AED 25 Bn in 3Q24. Revenue from listing and market data fees saw a modest increase of 2.8% YOY, reaching AED 3 Mn in 3Q24. In contrast, clearing and depository fees experienced remarkable growth from AED 8 Mn in 3Q23 to AED 37 Mn in 3Q24. Other fees also increased strongly, rising 43.4% YOY to AED 3 Mn in 3Q24. Meanwhile, brokerage fees declined 10.2% YOY, amounting to AED 3 Mn in 3Q24. In addition, investment income rose 27.6% YOY, from AED 49 Mn in 3Q23 to AED 62 Mn in 3Q24. The Company also recorded a dividend income of AED 1 Mn in 3Q24 compared to nil in 3Q23. As a result, total income increased strongly from AED 124 Mn in 3Q23 to AED 155 Mn in 3Q24. Operating expenses grew 3.5% YOY to AED 51 Mn in 3Q24, primarily driven by a rise in general and administrative (G&A) expenses, which increased from AED 35 Mn in 3Q23 to AED 37 Mn in 3Q24. Despite the increase

Stock Information

Market Cap (AED, Mn)	10,640.00
Paid Up Capital (Mn)	8,000.00
52 Week High	1.50
52 Week Low	1.18
3M Avg. daily value (AED)	5,780,590

3Q24 Result Review (AED, Mn)

Total Assets	10,437
Total Liabilities	2,157
Total Equity	8,281
EBITDA	122
Net Profit	94

Financial Ratios

Dividend Yield (12m)	2.63
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	26.92
Price-to-Book Ratio (x)	1.32
Book Value (AED)	1.01
Return on Equity (%)	4.98

Stock Performance

5 Days	5.56%
1 Months	5.56%
3 Months	3.91%
6 Months	-0.75%
1 Year	-3.62%
Month to Date (MTD%)	4.72%
Quarter to Date (QTD%)	1.53%
Year to Date (YTD%)	-4.32%

in expenses, DFM's cost-to-income ratio improved to 33.1% in 3Q24 from 35.9% in 3Q23. The Company recorded a tax expense of AED 9 Mn in 3Q24 owing to the introduction of the corporate tax in the UAE.

Balance Sheet Highlights

DFM's investment deposits increased 13.3%, rising from AED 3.0 Bn in 2Q24 to AED 3.4 Bn in 3Q24. Meanwhile, financial assets measured at fair value through other comprehensive income (FVOCI) saw a modest increase, rising from AED 1,028 Mn in 2Q24 to AED 1,119 Mn in 3Q24. Total liabilities declined 0.2% QOQ to AED 2.2 Bn in 3Q24, mainly due to decreased payables and accrued expenses and a reduction in lease liabilities. Cash and cash equivalents declined from AED 476 Mn in 2Q24 to AED 249 Mn in 3Q24, largely driven by lower generations from operation and increased investments in deposits and financial assets. The Company's net cash from operations stood at AED 131 Mn in 3Q24.

Target Price and Rating

We revise our rating on DFM from BUY to ACCUMULATE with a revised target price of AED 1.50. The Company's profitability grew primarily due to higher operating income coupled with higher investment income in 3Q24. As of 3Q24, DFM's total market capitalization grew 8.6% YOY to AED 757 Bn in 9M24. The total number of traders grew 19.0% YOY to 1.7 Mn in 9M24. However, the total trading value for the Company declined 6.0% YOY, reaching AED 73 Bn in 9M24. Foreign investors accounted for 49% of the total trading volume during the quarter. Additionally, DFM onboarded 91,151 new investors in 9M24, with 85% constituting foreign investors. Foreign investors accounted for 49% of the total traded value, while foreign investors' net purchases accounted for AED 1.5 Bn during 9M24. Furthermore, the Company is focusing on its listing & product diversification strategy such as including Equities, Fixed-income instruments, derivatives, REITs, and ETFs. In addition, it is also increasing the number of members providing fintech solutions and direct market access, which is expected to support its role as a leading financial hub. The Company also benefitted from the current higher interest rate environment, having placed 92% of its investment deposits with UAE-based financial institutions, with annual profit rates ranging from 4.2% to 5.9%. DFM's investment in UAE sukuk, which matures in 3 to 8 years, carries an average fixed profit rate of 4% per annum. Thus, based on our analysis, we assign an ACCUMULATE rating for the stock.

DFM - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024E
PE (x)	88.2	77.1	102.4	72.3	33.7	28.7
PB (x)	1.3	1.4	1.3	1.3	1.3	1.3
EV/EBITDA	51.4	45.5	57.4	45.8	26.7	23.5
Dividend yield (%)	1.9%	0.0%	2.3%	1.3%	2.6%	2.9%

FABS Estimates & Co Data

DFM – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Trading commission fees	70	44	46	50	-7.7%	-34.6%	4.4%	226	205	-9.4%
Brokers fees	3	3	3	4	-14.5%	-10.2%	-3.8%	12	13	10.0%
Clearing settlement & depository fee	8	31	37	17	123.2%	NM	19.9%	89	94	6.0%
Listing & market data fees	3	3	3	3	-2.1%	2.8%	4.1%	11	12	5.0%
Other fees	2	11	3	3	-4.4%	43.4%	-75.9%	11	16	50.0%
Operating income	86	91	92	75	21.4%	6.2%	0.1%	349	340	-2.5%
Investment income	49	55	62	55	12.9%	27.6%	13.0%	169	238	40.9%
Other income	3	0	0	0	NM	NM	NM	0	1	NM
Dividend Income	0	11	1	0	NM	NM	NM	20	43	110.0%
Provision expense	-14	0	0	0	NM	NM	NM	-14	0	NM
Profit Income	0	0	0	0	NM	NM	NM	0	0	NM
Reversal of imp on asset	0	0	0	0	NM	NM	NM	9	0	NM
Total Income	124	158	155	131	18.3%	25.0%	-1.9%	533	622	16.6%
G&A expenses	-35	-43	-37	-39	-6.1%	3.9%	-15.2%	-161	-163	1.2%
Amortization	-14	-14	-14	-14	0.0%	0.0%	0.0%	-56	-56	0.0%
Interest Expense	0	0	0	0	NM	NM	-0.3%	0	0	NM
Total Operating Expenses	-50	-58	-51	-53	-3.9%	3.5%	-11.4%	-218	-220	0.9%
Profit Expenses	0	0	0	0	NM	NM	NM	0	0	NM
Tax	0	-8	-9	-6	65.6%	NM	15.1%	0	-32	NM
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	74	92	94	72	31.1%	27.0%	2.5%	316	370	17.3%

FABS estimate & Co Data

DFM - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch.
Operating margin	69.7%	58.0%	59.2%	-1,045	118	65.5%	54.7%	-1072
Net profit margin	59.9%	58.3%	60.8%	99	259	59.2%	59.5%	37

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value DFM. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	1.54	70.0%	1.08
Relative Valuation (RV)	1.42	30.0%	0.43
Weighted Average Valuation (AED)			1.50
Current market price (AED)			1.33
Upside/Downside (%)			+12.8%

1) DCF Method:

DFM is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 8.1%. The cost of equity is calculated using a 10-year government bond yield of 4.2%, a beta of 0.75, and an equity risk premium of 3.6%. Government bond yield is calculated after adding Dubai's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	2,286
Terminal value (AED, Mn)	10,018
FV to Common shareholders (AED, Mn)	12,304
No. of share (Mn)	7,996
Current Market Price (AED)	1.33
Fair Value per share (AED)	1.50

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	370	361	408	463	547
(+) D&A	75	80	83	83	84
Working Capital	340	144	138	142	146
(-) Capex	-17	-19	-21	-24	-27
Free Cash Flow to Equity (FCFE)	768	566	608	664	749
Discounting Factor	0.99	0.92	0.85	0.78	0.72
Discounted FCFE	190	518	515	520	543

Source: FAB Securities

2) Relative Valuation:

We have used regional as well as global peers to value DFM, which is valued using the PE multiple. It is valued at PE multiple of 30.6x close to its regional peer.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
BSE Ltd	7,640	49.8	42.6	60.7	50.3
NASDAQ Inc	45,228	20.9	19.3	28.1	25.1
Singapore Exchange Limited	9,225	15.7	15.3	21.3	20.7
Hong Kong Exchanges	53,017	9.0	8.5	32.1	30.8
Deutsche Borse	41,751	14.4	13.9	20.2	19.6
London Stock exchange	73,804	16.3	15.0	30.6	27.2
Saudi Tadawul Group Holdings	7,770	38.1	31.0	44.6	40.1
Average		23.5x	20.8x	33.9x	30.5x
Median		16.3x	15.3x	30.6x	27.2x
Max		29.5x	25.2x	38.4x	35.5x
Min		15.1x	14.5x	24.7x	22.9x

Source: FAB Securities

