

## GFH Financial Group (GFH)

Strong growth across the Treasury and Investment Banking segment drove profitability

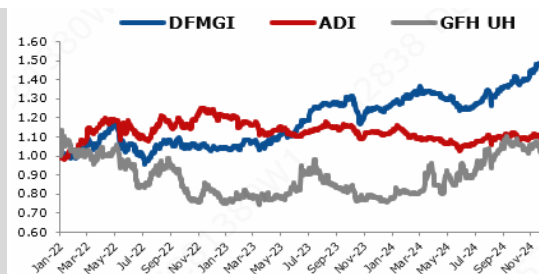
**Current Price**  
AED 1.14

**Target Price**  
AED 1.50

**Upside/Downside (%)**  
32%

**Rating**  
BUY

- Investment banking segment completed 13 deals in 2024.
- Total AUM increased to USD 22 Bn in 2024 from USD 20 Bn in 2023.
- Partnerships with leading acquired asset managers in the UK and US, providing access to high-potential investment opportunities
- Solid liquidity with 48% of assets in cash and the treasury portfolio.
- CAR, LCR, and NSFR ratios remain strong, exceeding regulatory requirements.
- Proposed cash dividend of 6.02 fils per share for 2024 with a dividend yield of 5.3%.



### 4Q24 Net Profit higher than our estimate

GFH Financial Group's (GFH/the Company) net profit increased 27.6% YOY to USD 31 Mn in 4Q24, higher than our estimate of USD 24 Mn. The increase in net profit is primarily driven by strong growth in Treasury & Proprietary and Investment Banking income, partially offset by a decline in Commercial Banking income, higher operating expenses, finance expense, and due to Quasi equity.

### P&L Highlights

GFH's total income increased 32.6% YOY to USD 189 Mn in 4Q24, mainly driven by a strong performance from the Investment Banking and Treasury & Proprietary revenue Segments, partially offset by a decline in income from the Commercial Banking segment. Income from Investment Banking grew 33.7% YOY to USD 47 Mn in 4Q24, owing to significant growth in income from Asset Management, partially offset by a decline in Deal-related income. Income from Treasury & Proprietary investments boosted 66.3% YOY to USD 103 Mn in 4Q24, due to the Company's asset monetization strategy and solid portfolio management. However, income from commercial Banking declined 13.4% YOY to USD 40 Mn in 4Q24, attributed to a decline in fees & other income and a significant increase in funded expenses. Furthermore, GFH's operating expenses rose 56.4% YOY to USD 96 Mn in 4Q24, coupled with an increase in cost-to-income ratio from 42.9% in 4Q23 to 50.6% in 4Q24. Thus, operating profit increased 14.7% YOY to USD 93 Mn in 4Q24, while the operating profit margins decreased 771 bps YOY to 49.4%. In addition, the Company's finance cost rose 23.4% YOY to USD 20 Mn in 4Q24. GFH recorded an impairment charge of USD 4 Mn in 4Q24 compared to an impairment reversal of USD 7 Mn in 4Q23. Furthermore, share of profit attributable to quasi-equity holders stood at USD 45 Mn in 4Q24, compared to USD 35 Mn in 4Q23.

### Stock Information

Market Cap (AED, Mn)	4,369.16
Paid Up Capital (Mn)	1,015.64
52 Week High	1.30
52 Week Low	0.93
3M Avg. daily value (AED)	5,261,915

### 4Q24 Result Review (USD, Mn)

Total Assets	11,031
Total Liabilities	6,935
Total Equity	1,115
Total Income	189
Net Profit	31

### Financial Ratios

Dividend Yield (12m)	5.28
Dividend Pay-out (%)	49.46
Price-Earnings Ratio(x)	7.75
Price-to-Book Ratio (x)	1.13
Book Value (USD)	0.27
Return-on Equity (%)	12.03

### Stock Performance

5 Days	-3.39%
1 Months	-0.87%
3 Months	-5.79%
6 Months	-10.94%
1 Year	19.37%
Month to Date (MTD%)	-3.39%
Quarter to Date (QTD%)	-6.56%
Year to Date (YTD%)	-6.56%

## Balance Sheet Highlights

GFH's assets under management increased from USD 20 Bn in 2023 to USD 22 Bn 2024. CET 1 ratio and capital adequacy ratio stood healthy at 16.4% and 17.0%, respectively, in 4Q24. Likewise, GFH's NSFR and LCR stood at 133% and 194% in 4Q24. GFH's total equity increased marginally by 1.2% QOQ and 3.8% YOY to USD 1.1 Bn in 4Q24. GFH's total assets increased 0.8% QOQ but declined 0.8% YOY to USD 11.0 Bn in 4Q24

## Target Price and Rating

We maintain our BUY rating on GFH with a revised target price of AED 1.50. GFH profitability improved in 4Q24 primarily driven by strong growth across all segments partially offset by a lower income from the Commercial Banking segment. GFH completed 13 investment banking deals in 2024 along with several well-timed exits from investments. The Group also completed the sale of its education platform and achieved an early exit from its joint investment in Citrix, 18 months ahead of the planned three-year period. Additionally, GFH exited real estate assets from its proprietary portfolio. Furthermore, regulatory ratios, including CAR, LCR, and NSFR, remain strong and well above the required thresholds. The Company continues to expand its investment portfolio globally by strengthening its access to the US markets and leveraging industry growth in the GCC, particularly in the UAE and KSA. Khaleeji Commercial Bank launched its digital banking platform "Hafeez" that offers new services to streamline procedures and improve efficiency. GFH's sustained profitability ensured stable dividend payments, proposing 6.02 fils per share for 2024, with a dividend yield of 5.3%. Additionally, the board proposed paying semi-annual dividends from 2025. Thus, based on our analysis, we maintain our BUY rating on the stock.

### GFH - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	23.7	12.1	11.9	10.7	9.6	10.4
PB	1.3	1.3	1.2	1.1	1.2	1.2
Cash dividend yield	1.5%	3.8%	5.0%	5.3%	5.3%	5.3%

FABS Estimates & Co Data

### GFH - P&L

USD mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Investment Banking Income	35	45	47	49	-3.8%	33.7%	4.2%	201	180	-10.5%
Commercial banking income	46	37	40	34	17.7%	-13.4%	9.3%	136	149	9.4%
Treasury & proprietary income	62	73	103	76	34.5%	66.3%	41.0%	146	347	138.1%
<b>Total income</b>	<b>143</b>	<b>154</b>	<b>189</b>	<b>159</b>	<b>19.1%</b>	<b>32.6%</b>	<b>22.7%</b>	<b>483</b>	<b>676</b>	<b>39.9%</b>
Operating expenses	61	45	96	50	92.2%	56.4%	113.8%	181	253	39.2%
<b>Operating Profit</b>	<b>82</b>	<b>109</b>	<b>93</b>	<b>109</b>	<b>-14.3%</b>	<b>14.7%</b>	<b>-14.6%</b>	<b>302</b>	<b>423</b>	<b>40.2%</b>
Finance expenses	16	21	20	22	-9.5%	23.4%	-7.0%	62	74	18.7%
Impairment allowance	7	4	-4	5	NM	NM	NM	20	18	-10.6%
<b>Total Expense excl. OPEX</b>	<b>23</b>	<b>25</b>	<b>15</b>	<b>26</b>	<b>-42.5%</b>	<b>-33.1%</b>	<b>-39.5%</b>	<b>83</b>	<b>92</b>	<b>11.5%</b>
<b>Profit before tax</b>	<b>59</b>	<b>84</b>	<b>78</b>	<b>83</b>	<b>-5.3%</b>	<b>33.1%</b>	<b>-7.1%</b>	<b>219</b>	<b>331</b>	<b>51.1%</b>
Quasi equity	35	57	45	57	-20.2%	30.9%	-19.9%	114	202	NM
Non-Controlling Interest	0	0	2	2	14.3%	NM	NM	2	10	NM
<b>Profit to shareholders</b>	<b>24</b>	<b>27</b>	<b>31</b>	<b>24</b>	<b>28.8%</b>	<b>27.6%</b>	<b>12.3%</b>	<b>103</b>	<b>119</b>	<b>15.2%</b>

FABS estimate & Co Data

### GFH - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Operating margin	57.1%	70.9%	49.4%	-771	-2,156	62.5%	62.6%	17
Net profit margin	16.8%	17.6%	16.1%	-62	-149	21.3%	17.5%	-375

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	1.46	70.0%	1.02
Relative valuation	1.60	30.0%	0.48
<b>Weighted Average Valuation (AED)</b>			<b>1.50</b>
Current market price (AED)			1.14
Upside/Downside (%)			+32%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 10.3%. The cost of equity is calculated by using a 10-year government bond yield of 6.8%, beta of 0.83 and equity risk premium of 4.2%. 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)	5
Terminal value (USD, Mn)	2
Required Capital	754
<b>FV to common shareholders (USD, Mn)</b>	<b>862</b>
Capital Surplus	298
Dividend	63
Fair Value gain on real estate	302
<b>Total Fair Value (USD, Mn)</b>	<b>1,525</b>
No. of share (Mn)	3,833
Current Market Price (AED)	1.14
<b>Fair Value per share (AED)</b>	<b>1.46</b>

### Residual Income Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net profit	110	119	123	122	124
Excess return excess capital	-34	-30	-30	-30	-31
<b>Adjusted net Profit</b>	<b>75</b>	<b>89</b>	<b>93</b>	<b>92</b>	<b>93</b>
Equity Charge	-81	-84	-87	-90	-93
<b>Economic Profit</b>	<b>-5</b>	<b>5</b>	<b>6</b>	<b>2</b>	<b>1</b>
Discounting Factor	0.92	0.84	0.76	0.69	0.62
<b>Present value of excess equity</b>	<b>-5</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>0</b>

Source: FAB Securities

## 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 1.1x. The Investment Banking Segment is valued using the PE multiple of regional and global peers with a median PE multiple of 8.3. Treasury and Hold Co. segment is valued using international peers using a median PB multiple of 1.1x.

Commercial bank	Market (USD Mn)	PB (x)		PE (x)	
		2025F	2026F	2025F	2026F
Bank Muscat	5,030	1.0	0.9	8.4	7.8
RAK Bank	3,724	1.1	1.0	7.0	7.2
Emirates NBD	38,605	1.2	1.1	6.1	6.8
Banque Saudi Fransi	10,689	1.0	0.9	9.1	8.5
Bank Aljazira	4,747	1.2	1.1	12.8	10.6
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.7x</b>	<b>8.2x</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.4x</b>	<b>7.8x</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>9.1x</b>	<b>8.5x</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.0x</b>	<b>7.2x</b>

Source: FAB Securities

Investment bank	Market (USD Mn)	PB (x)		PE (x)	
		2025F	2026F	2025F	2026F
Stifel Financial Corp	11,018	2.0	1.8	12.9	11.2
Guotai Junan Securities	19,926	0.9	0.9	12.7	11.5
Samsung Securities	2,791	0.5	0.5	4.7	4.6
EFG holdings	710	1.2	1.1	8.3	7.2
Lincoln National Corporation	6,646	0.8	0.7	5.1	4.6
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.7x</b>	<b>7.8x</b>
<b>Median</b>		<b>0.9x</b>	<b>0.9x</b>	<b>8.3x</b>	<b>7.2x</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>12.7x</b>	<b>11.2x</b>
<b>Min</b>		<b>0.8x</b>	<b>0.7x</b>	<b>5.1x</b>	<b>4.6x</b>

Source: FAB Securities

Treasury and Holdco	Market (USD Mn)	PB (x)		PE (x)	
		2025F	2026F	2025F	2026F
Nomura Holdings	19,036	0.8	0.8	9.1	9.4
Canaccord Genuity Group	547	1.1	0.8	11.2	7.9
Barclays PLC	56,377	0.7	0.6	7.3	6.1
PNC financial services	75,952	1.4	1.3	12.5	11.1
Insignia Financial	1,773	1.4	1.3	11.8	10.9
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>10.4x</b>	<b>9.1x</b>
<b>Median</b>		<b>1.1x</b>	<b>0.8x</b>	<b>11.2x</b>	<b>9.4x</b>
<b>Max</b>		<b>1.4x</b>	<b>1.3x</b>	<b>11.8x</b>	<b>10.9x</b>
<b>Min</b>		<b>0.8x</b>	<b>0.8x</b>	<b>9.1x</b>	<b>7.9x</b>

Source: FAB Securities

### Research Rating Methodology:

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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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