

GFH Financial Group (GFH)

Strong growth across the Investment and Commercial Banking supported profitability

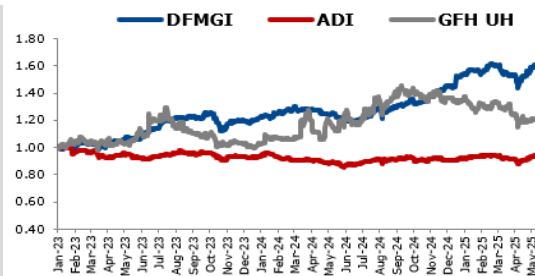
Current Price
AED 1.12

Target Price
AED 1.50

Upside/Downside (%)
34%

Rating
BUY

- Assets under management increased from USD 21.7 Bn in 4Q24 to USD 22.6 Bn in 1Q25.
- The Company's core business, Investment Banking, continued to grow strongly, contributing 39% of the total income in 1Q25 compared to 28% in 1Q24.
- GFH's NSFR and LCR stood at 133% and 210% in 1Q25.
- Shareholders approved a cash dividend of 6.2% of the capital equivalent, 6.02 fils per share for 2024.
- The Company's board also proposed paying semi-annual dividends starting 2025.



1Q25 Net Profit higher than our estimate

GFH Financial Group's (GFH/the Company) net profit increased 11.1% YOY to USD 30 Mn in 1Q25, higher than our estimated USD 26 Mn. The increase in net profit is primarily driven by strong growth in Investment Banking and Commercial Banking income, coupled with lower operating expenses and impairment charges partially offset by a decline in Treasury and Proprietary income, higher share to Quasi equity holders.

P&L Highlights

GFH's total income increased 4.9% YOY to USD 171 Mn in 1Q25, mainly driven by a strong performance from the Investment Banking and Commercial Banking segments, partially offset by a decline in income from the Treasury & Proprietary segment. Income from Investment Banking grew strongly 44.7% YOY to USD 67 Mn in 1Q25, owing to significant growth in income from Asset Management and Deal-related income. Income from Treasury & Proprietary investments declined 19.8% YOY to USD 63 Mn in 1Q25. However, income from Commercial Banking grew 7.2% YOY to USD 42 Mn in 1Q25, attributed to a rise in income from financing and fees & other income partially offset by a decline in treasury and investment income. Furthermore, GFH's operating expenses declined 3.1% YOY to USD 60 Mn in 1Q25 driven by the cost-effective measures. Thus, cost-to-income ratio also declined from 37.8% in 1Q24 to 34.9% in 1Q25. Thus, operating profit increased 9.8% YOY to USD 111 Mn in 1Q25, with an increase in the operating profit margins of 289 bps YOY to 65.1%. In addition, the Company's finance cost grew from USD 14 Mn in 1Q24 to USD 24 Mn in 1Q25. GFH's impairment charges declined from USD 14 Mn in 1Q24 to USD 6 Mn in 1Q25. Furthermore, the share of profit attributable to quasi-equity holders stood at USD 51 Mn in 1Q25, compared to USD 43 Mn in 1Q24.

Stock Information

Market Cap (AED, Mn)	4,292.51
Paid Up Capital (Mn)	1,015.64
52 Week High	1.30
52 Week Low	0.99
3M Avg. daily value (AED)	3,617,493

1Q25 Result Review (USD, Mn)

Total Assets	11,589
Total Liabilities	6,715
Total Equity	937
Total Income	171
Net Profit	30

Financial Ratios

Dividend Yield (12m)	5.38
Dividend Pay-out (%)	49.46
Price-Earnings Ratio(x)	7.47
Price-to-Book Ratio (x)	1.25
Book Value (AED)	0.24
Return-on Equity (%)	13.06

Stock Performance

5 Days	0.90%
1 Months	6.67%
3 Months	-5.08%
6 Months	-5.88%
1 Year	6.67%
Month to Date (MTD%)	5.66%
Quarter to Date (QTD%)	1.82%
Year to Date (YTD%)	-8.20%

Balance Sheet Highlights

GFH's assets under management increased from USD 21.7 Bn in 4Q24 to USD 22.6 Bn in 1Q25. CET 1 ratio and capital adequacy ratio stood healthy at 15.6% and 16.3%, respectively in 1Q25. Likewise, GFH's NSFR and LCR stood at 133% and 210% in 1Q25. GFH's total equity declined 1.4% YOY and 4.0% QOQ to USD 1.1 Bn in 1Q25 mainly due to the dividend approval by the shareholders for 2024. GFH's total assets increased 9.8% YOY and 5.1% QOQ to USD 11.6 Bn in 1Q25.

Target Price and Rating

We maintain our rating on GFH with a target price of AED. GFH's profitability improved in 1Q25, primarily driven by strong growth across the Investment Banking and Commercial Banking divisions, partially offset by a decline in the Treasury and Proprietary Investments segment. The Company's core business, Investment Banking, continued to grow strongly, contributing 39% of the total income in 1Q25 compared to 28% in 1Q24. The Company's investment banking business continues to gain momentum, supported by strong connectivity with leading U.S. and U.K. asset managers. These partnerships enable access to high-quality investment opportunities and drive consistent fee income through placements and portfolio management. GFH Partners, the Company's asset management arm, recently placed an opportunity in the industrial and transport logistics space, while the private equity division launched an investment in a pan-European renewable energy platform in collaboration with a top-tier U.S. asset manager. These strategic initiatives enhance the Company's recurring income streams and strengthen portfolio diversification across resilient and high-growth sectors. GFH's Proprietary and Treasury segment income declined of 19.8% YOY to USD 63 Mn in 1Q25 mainly due to lower investment income. However, the overall portfolio performance remained stronger in 1Q25 compared to 1Q24. GFH's Treasury segment is also actively leveraging market volatility and dislocations to enhance returns in the upcoming period. The Company's Commercial Banking arm, Khaleeji Bank, recorded strong growth with a rise in financing and fee income during 1Q25. Furthermore, regulatory ratios, including CAR, LCR, and NSFR, remain strong and well above the required thresholds. GFH's shareholders also approved a cash dividend of 6.2% of the capital equivalent 6.02 fils per share for 2024, resulting in a dividend yield of 5.3%. Additionally, the board also proposed paying semi-annual dividends starting 2025. Thus, based on our analysis, we maintain our rating on the stock.

GFH - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	23.3	11.9	11.7	10.5	9.5	9.1
PB	1.3	1.2	1.2	1.1	1.2	1.1
DPS (AED)	0.017	0.044	0.058	0.060	0.060	0.060
Dividend yield	1.5%	3.9%	5.1%	5.3%	5.3%	5.3%

FABS Estimates & Co Data

GFH - P&L

USD Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Investment Banking Income	46	47	67	41	61.4%	44.7%	42.3%	180	266	47.5%
Commercial banking income	39	40	42	39	5.4%	7.2%	4.2%	149	180	20.6%
Treasury & proprietary income	78	103	63	74	-15.5%	-19.8%	-38.9%	347	299	-13.7%
Total income	163	189	171	155	10.4%	4.9%	-9.7%	676	744	10.2%
Operating expenses	62	96	60	62	-3.7%	-3.1%	-37.8%	253	275	9.1%
Operating Profit	101	93	111	93	19.7%	9.8%	19.0%	423	469	10.8%
Finance expenses	14	20	24	22	7.1%	NM	22.0%	74	81	9.0%
Impairment allowance	14	-4	6	5	22.4%	-57.8%	NM	18	35	91.3%
Total Expense excl. OPEX	28	15	30	27	9.8%	8.0%	95.5%	92	116	25.3%
Profit before tax	74	78	82	66	23.8%	10.4%	4.2%	331	353	6.7%
Quasi equity	43	45	51	36	39.6%	16.9%	12.2%	202	219	8.2%
Non-Controlling Interest	3	2	1	3	NM	NM	NM	10	11	7.3%
Profit to shareholders	27	31	30	26	13.8%	11.1%	-1.4%	119	123	4.2%

FABS estimate & Co Data

GFH - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Operating Profit	62.2%	49.4%	65.1%	289	1,572	62.6%	63.0%	37
Net Profit	16.6%	16.1%	17.6%	98	149	17.5%	16.6%	-95

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	1.42	70.0%	0.99
Relative valuation	1.70	30.0%	0.51
Weighted Average Valuation (AED)			1.50
Current market price (AED)			1.12
Upside/Downside (%)			+34%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 10.1%. The cost of equity is calculated by using a 10-year government bond yield of 6.4%, beta of 0.85 and equity risk premium of 4.3%. 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)	16
Terminal value (USD, Mn)	-82
Required Capital	754
FV to common shareholders (USD, Mn)	784
Capital Surplus	298
Dividend	63
Fair Value gain on real estate	332
Total Fair Value (USD, Mn)	1,477
No. of share (Mn)	3,833
Current Market Price (AED)	1.12
Fair Value per share (AED)	1.42

Residual Income Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net profit	124	130	133	128	122
Excess return excess capital	-31	-39	-47	-53	-59
Adjusted net Profit	92	91	86	75	64
Equity Charge	-81	-79	-78	-78	-79
Economic Profit	12	12	8	-3	-16
Discounting Factor	0.94	0.86	0.78	0.71	0.64
Present value of excess equity	8	10	6	-2	-10

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 1.0x. The Investment Banking Segment is valued using the PE multiple of regional and global peers with a median PE multiple of 8.2x. 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	5,188	1.0	1.0	9.9	8.9
RAK Bank	3,598	1.0	1.0	6.7	6.8
Emirates NBD	36,973	1.0	0.9	6.4	6.5
Banque Saudi Fransi	11,930	1.1	1.0	9.3	9.1
Bank Aljazira	4,584	1.2	1.1	15.0	11.8
Average		1.1x	1.0x	9.4x	8.6x
Median		1.0x	1.0x	9.3x	8.9x
Max		1.1x	1.0x	9.9x	9.1x
Min		1.0x	1.0x	6.7x	6.8x

Source: FAB Securities

Investment bank	Market (USD Mn)	PB (x)		PE (x)	
		2025F	2026F	2025F	2026F
CSC Financial Co.	23,512	0.6	0.5	7.7	6.5
Stifel Financial Corp	10,223	2.0	1.9	14.6	11.3
Guotai Junan Securities	40,426	1.0	0.9	14.2	13.5
Samsung Securities	3,479	0.6	0.6	5.8	5.4
EFG holdings	766	1.1	1.0	8.8	7.0
Lincoln National Corporation	6,059	0.8	0.7	4.8	4.6
Average		1.0x	0.9x	9.3x	8.0x
Median		0.9x	0.8x	8.2x	6.7x
Max		1.0x	0.9x	12.9x	10.2x
Min		0.7x	0.6x	6.3x	5.7x

Source: FAB Securities

Treasury and Holdco	Market (USD Mn)	PB (x)		PE (x)	
		2025F	2026F	2025F	2026F
Nomura Holdings	17,750	0.7	0.7	8.6	8.6
Canaccord Genuity Group	639	1.2	0.9	12.7	8.9
Barclays PLC	59,834	0.7	0.6	7.6	6.2
PNC financial services	70,225	1.3	1.2	11.7	10.4
Insignia Financial	1,455	1.1	1.0	9.5	9.4
Average		1.0x	0.9x	10.0x	8.7x
Median		1.1x	0.9x	9.5x	8.9x
Max		1.2x	1.0x	11.7x	9.4x
Min		0.7x	0.7x	8.6x	8.6x

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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