

Waha Capital

Healthy performance of the Public Market boosted profitability

4Q22 Net profit higher than our estimate

Waha Capital (the Group/WAHA) recorded a significant rise in net profit from AED 94 Mn in 4Q21 to AED 157 Mn in 4Q22, higher than our estimate of AED 83 Mn. The profit was mainly driven by a gain from partial disposal of stake in Channel VAS Investment Limited and a decline in profit attributable to non-controlling interest holders partially offset by a fall in income from financial investments and increase in operating expenses.

P&L Highlights

WAHA's total operating income increased 23.2% YOY to AED 305 Mn in 4Q22 driven by an increase in income from the Private Investments segment partially offset by a decline in income from the Public Markets and Waha Land. Private Investment operating income increased from a loss of AED 21 Mn in 4Q21 to AED 159 Mn in 4Q22 whereas income from Waha land fell 22.0% YOY to AED 7 Mn in 4Q22. Income from Public Markets declined 46.5% YOY to AED 137 Mn in 4Q22. The Group's assets under management rose to AED 6.54 Bn as of 4Q22 whereas the public assets under management rose to AED 4.8 Bn as of 4Q22 as compared to AED 4.4 Bn as of 4Q21. Income from investment in financial assets declined from AED 204 Mn in 4Q21 to AED 127 Mn in 4Q22 mainly due to a fall in income from fixed-income and equity securities, partially offset by increased income from derivatives. In addition, the Group sold its partial stake in Channel VAS Investment Limited (Optasia) resulting in an one-time net gain on sale of AED 129 Mn in 4Q22 with proceeds of AED 203 Mn compared to zero income in 4Q21. WAHA's cost of sales rose marginally 0.6% to AED 25 Mn in 4Q22 resulting in a gross profit of AED 6.7 Mn in 4Q22 as compared to a profit of AED 2.5 Mn in 4Q21. The Group's G&A expenses rose significantly from AED 34 Mn in 4Q21 to AED 52 Mn in 4Q22 driven by higher legal expenses of subsidiaries partially offset by lower staff cost of the company. WAHA's finance cost rose from AED 24 Mn in 4Q21 to AED 38 Mn in 4Q22 attributable to an increase in interest rates partially offset by a lower usage of repurchased liabilities for public market funds by subsidiaries. On the other hand, the share of profit attributable to non-controlling interest holders declined 46.4% YOY to AED 33 Mn in 4Q22.

Balance Sheet Highlights

The Group's financial investments rose from AED 6.4 Bn in 2021 to AED 6.9 Bn in 2022 primarily due to addition of AED 291 Mn in private investments also, addition of AED 169 Mn in public market funds. On the other hand, the cash and cash equivalents declined from AED 1,421 Mn in 2021 to AED 797 Mn in 2022 owing to a dividend payment of AED 139 Mn, repayment of a revolving credit facility of AED 239 Mn in the corporate segment, a decline in the repurchase liabilities by AED 297 Mn, a fall in working capital of AED 393 Mn and investments in unquoted funds and loan investments of AED 403 Mn partially offset by the sale of financial investments of AED 298 Mn, a contribution from non-controlling interest holders of AED 200 Mn in the Public Markets segment, and disposal of investments of AED 354 Mn in the Private investments segment. Assets held for sale stood at AED 467 Mn in 2022 which includes assets from investment property. The group's borrowings declined

Rating : ACCUMULATE

First Look Note – 4Q22

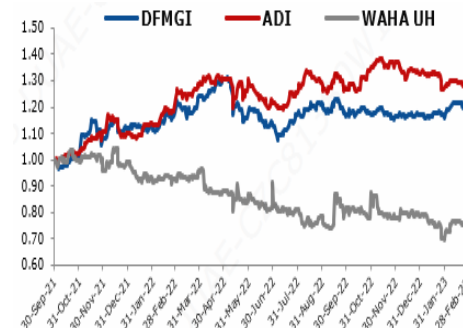
Sector: Financials

Recommendation

Current Price (03-Mar-23)	1.32
Target Price (AED)	1.48
Upside/Downside (%)	+12%

Stock Information

Market Cap (mm)	2,566.76
Paid Up Capital (mm)	1,944.51
52 Week High	1.69
52 Week Low	1.16
3M Avg. daily value (AED)	2,428,295



Financial Ratios

Dividend Yield (12m)	5.72
Dividend Pay-out (%)	41.52
Price-Earnings Ratio (x)	7.06
Price-to-Book Ratio (x)	0.69
Book Value (AED)	1.90
Return-on Equity (%)	10.11
Earning Per Share (AED)	0.19
Beta	0.77

Stock Performance

5 Days	0.76%
1 Months	4.76%
3 Months	-1.49%
6 Months	2.33%
1 Year	-19.51%
Month to Date (MTD)	-1.49%
Quarter to Date (QTD)	-2.94%
Year to Date (YTD)	-2.94%

12.9% to AED 3.6 Bn in 2022 mainly due to a decline in repurchase liabilities relating to public market funds and repayments of the revolving corporate facility.

Target Price and Rating

We revise our rating on Waha Capital from HOLD to ACCUMULATE with an unchanged target price of AED 1.48. The Group's private investment segment recorded strong growth in income due to the monetization of mature assets and return from its global opportunity investment strategy. Waha MENA Equity Fund recorded a return of 12.8% net growth in 2022 as compared to the benchmark negative return of 5.7% with a fund size of AED 2.7 Bn. Waha CEEMEA Credit Fund recorded 1.8% net rise in 2022 outperforming the benchmark index with a fund size of AED 1.9 Bn. Waha Islamic Income and Waha EM Equity Fund delivered 0.5% gross return in 2022 higher than benchmark return. The Public market funds continued to outperform the benchmark since inception. Private investments partially sold their stake in Channel Vas Investment Ltd. (Optasia) and earned a net gain of AED 129 Mn in 4Q22 whereas it also divested its stake in Anglo Arabian Healthcare and launched Waha Health platform. The Group also sold its stake in ADDAX Bank, and SDX Energy in 2022. Furthermore, the private investment AUMs stood at AED 528 Mn as of 2022. On the other hand, Waha land decided to sell 17 leased warehouse buildings in ALMARKAZ Industrial Development to Peninsula Real Estate Management Ltd for a cash consideration of AED 555 Mn. WAHA declared a dividend of 8 fils per share resulting in a dividend yield of 6.1%. Thus, based on our analysis, we revise our rating to ACCUMULATE on the stock.

Waha Capital - Relative valuation

(at CMP)	2018	2019	2020	2021	2022
PE(x)	17.70	NA	11.11	6.56	7.45
PB(x)	0.72	0.91	0.85	0.78	0.73
Dividend yield (%)	5.4%	5.4%	4.3%	5.4%	6.1%

FABS Estimates & Co Data

Waha Capital - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	27	24	32	25	26.4%	16.1%	29.4%	119	112	-6.1%
Cost of sales	-25	-21	-25	-21	17.2%	0.6%	18.6%	-91	-90	-0.3%
Gross Profit	2	3	7	4	78.7%	NM	96.0%	28	21	-24.8%
Sh of results of ass/JV	3	2	6	2	197.4%	114.5%	197.4%	-11	13	NA
Gain on disposal of ass/JV	0	0	129	0	NM	NM	NM	51	161	218.2%
Imp of assoc/JV	0	0	0	0	NM	NM	NM	-78	0	NA
In/ (loss) from fin invest.	204	190	127	194	-34.7%	-37.8%	-33.1%	874	467	-46.6%
In from Property Invest.	12	12	9	12	-24.7%	-22.7%	-24.7%	48	46	-4.9%
Other Income, net	1	9	1	10	-87.1%	8.5%	-86.5%	5	13	149.0%
Total Operating Income	247	238	305	243	25.3%	23.2%	28.3%	1,007	811	-19.5%
Net op. income / (loss)	223	217	280	222	26.1%	25.7%	29.2%	917	720	-21.4%
G&A expenses	-34	-58	-52	-61	-14.4%	52.4%	-10.1%	-190	-174	-8.2%
Finance cost, net	-24	-28	-38	-29	30.9%	56.7%	34.8%	-90	-120	33.2%
Profit/(Loss) from con- tinued operations	164	131	190	132	43.6%	15.7%	45.4%	637	426	-33.1%
Profit/(loss) from dis opos	-9	-3	0	0	NM	-100.0%	100.0%	-27	-10	NM
Gain on Disposal of Subsi.	0	33	0	0	NM	NA	NA	0	33	NM
Net Profit & Loss	155	160	190	132	43.6%	22.3%	18.8%	610	449	-26.4%
NCI	-61	-60	-33	-50	-34.1%	-46.4%	-45.8%	-219	-104	-52.2%
Profit to Equity	94	100	157	83	90.2%	66.6%	57.9%	828	344	-58.4%

FABS Estimates & Co Data

Waha Capital - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross Profit Margin (%)	9.0%	14.0%	21.2%	1,219	720	23.7%	19.0%	-471
Operating Profit Margin (%)	76.2%	66.8%	74.7%	-143	794	72.1%	67.3%	-479
Net Profit Margin (%)	38.2%	42.0%	51.7%	1,345	970	82.2%	42.5%	-3,976

FABS estimate & Co Data

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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