

Taageer Finance SAOG (TFCI)

TP: OMR 0.104 / share
Upside/ (Downside): 20.9%

Bloomberg Ticker	TFCI OM
Current Market Price (OMR)	0.086
52wk High / Low (OMR)	0.102/0.069
12m Average Vol. (000)	239.0
Mkt. Cap. (USD/OMR mn)	57 / 22
Shares Outstanding (mn)	253.6
Free Float (%)	35%
3m Avg Daily Turnover (000)	13.5
6m Avg Daily Turnover (000)	20.0
P/E 2022e (x)	9.9
P/Bv 2022e (x)	0.5
Dividend Yield 2022e (%)	5%
Price Perf. (1m/3m) (%)	-8.51 / 2

Source: Bloomberg



- **Net finance margin is Improving (1Q'22: 6.5%; FY'21: 5.6%; FY20: 4.7%)**
- **Operating performance is recovering as there are signs of improvement in income and finance asset growth**
- **Asset quality metrics are strengthening**

We revise our target price of **Taageer Finance (TFCI)** up to OMR 0.104 per share from our earlier TP of OMR 0.082. We upgrade our rating to **BUY**. Our TP implies a P/E'22e of 8.8x and a P/B'22e of 0.5x, which is attractive in our view, given the improving macroeconomic indicators warranting improving outlook for the company. We believe that the company's operating performance metrics are showing improvement post-covid-19 pandemic, where its finance asset growth has improved and its asset quality has strengthened, giving us a better outlook on the stock. Our earlier TP of OMR 0.082 that was set in Nov'21 has been reached, and we believe that the stock has more steam left.

Valuation & Outlook

We believe that the company will see growth in its net finance assets at a CAGR of 8.4% over the forecast period 2022-26e. We are continuously watching the current market situation, as inflation is in the rise, we have been very cautious in our estimates for top line as well as bottom line growth prospects of the company until the market sentiment improves.

The company's net profit increased by 22.9%YoY from 2020 to 2021, and its 1Q'22 performance came better compared to 1Q'21, with profit showing progress. Net profit for 1Q'22 is higher by 25%YoY at OMR 811 thousand. This was primarily due to increase in the total income of the company. In the first quarter of 2022, the company has taken a provision worth OMR 909 thousand, which is 27.6% of its total operating income of 3.294mn for 1Q'22. In our model building process, we have assumed moderate finance asset growth coupled with improvement in net financing margin. However, we have assumed cost of risk (provision expense to average interest earning assets) to stay at the same levels as the management cited to improve provision buffer sequentially over the coming years. We foresee net profit to grow higher and reach pre-covid numbers only towards the end of the forecast period. However, we believe FY22e will see about a 15.2%YoY increase in net profit if the current world economy and hot inflation stay at high levels, as Oman usually has 6-month lag effect on the economy, in our view.

Key Risks to Valuations

Key upside risk to our valuation arises from faster recoveries and a better-than-expected finance asset growth. Downside risks include weaker-than-expected net finance growth and continued pressure on asset quality metrics.

Key Indicators

Year	2020	2021	2022E	2023E	2024E
Net Finance Asset (OMR '000)	170,154	165,064	189,299	200,220	218,820
Interest Bearing Liabilities (OMR '000)	129,455	136,046	155,990	164,978	180,285
Operating Income (OMR '000)	9,411	10,660	12,087	12,900	13,944
Net Profit (OMR '000)	2,070	2,543	2,929	3,200	3,663
Diluted EPS (OMR)	0.008	0.010	0.012	0.013	0.014
Diluted BVPS (OMR)	0.165	0.165	0.189	0.196	0.204
P/E (x)	10.2	7.2	8.8	5.9	5.2
P/BVPS (x)	0.44	0.54	0.38	0.37	0.35
Dividend Yield (%)	0%	7%	6%	10%	11%

Source: Company Financials, U Capital Research

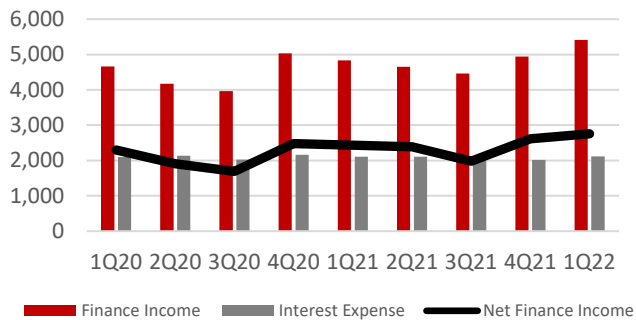
Hafeedh Al Ghazali
 Research Analyst
Hafeedh@u-capital.net
 Tel: +968 24 949 033

Company Performance & Outlook

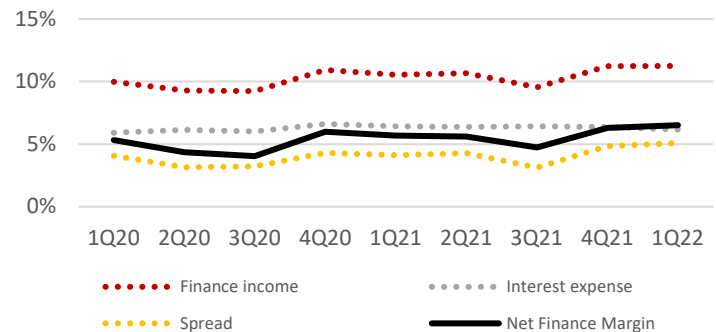
Operating Income increased 21% YoY in 1Q22, with 12%YoY growth in total income reported for 1Q22

The company's operating income grew due to increase in its net finance margin. The company expects a better performance for the year. However, there are some risks due high inflation and increased competition from other players in the leasing segment as well as from Islamic banks & Islamic windows of conventional banks. Despite that, the company has shown good recovery for the quarter.

TFCI: Quarterly net finance income (OMR '000)



TFCI: Annualized quarterly net financing margin



Source: Company Financials, U Capital Research

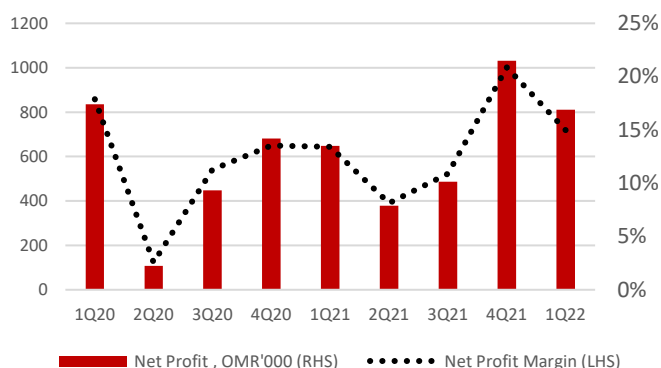
The company's net finance income is showing signs of recovery, with upward ticks in the past quarters. The overall trend has been an uptrend. As net financing margin is improving, this uptrend can continue for the next few quarters. In addition to this, the company's other operating income is also looking good on better finance asset growth.

In our forecasts, we have assumed net finance income & total operating income to grow at a CAGR of 7.7% on improving net finance income margin in a rising interest rate environment as assets are re-priced.

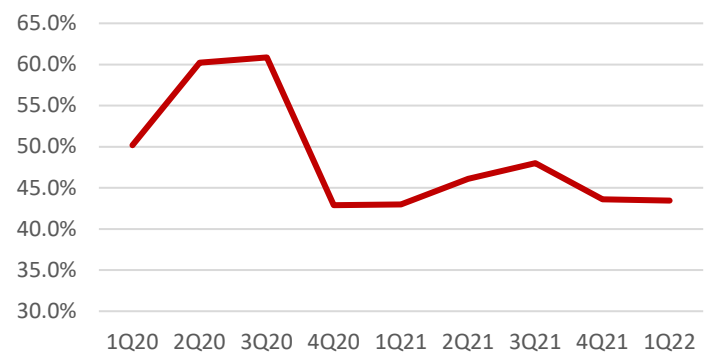
Improving efficiency

Increase in topline performance is further supported by increasing operating profit margin. Operating expenses have been at the same levels.

TFCI: Net profit & Margin



TFCI: Operating Cost to Operating income



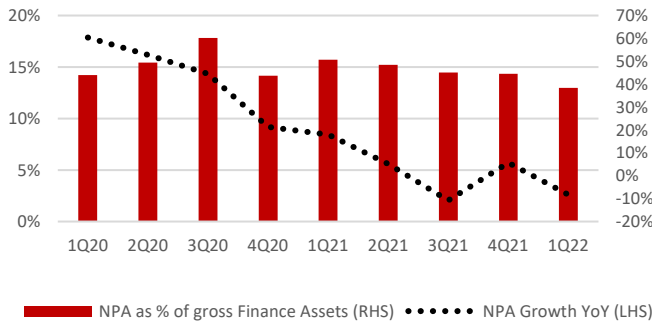
Source: Company Financials, U Capital Research

We believe that the company will be able to stay at same levels of its operating expenses. Therefore, as we expect operating income to improve, this will have a better operating profit margin for the company.

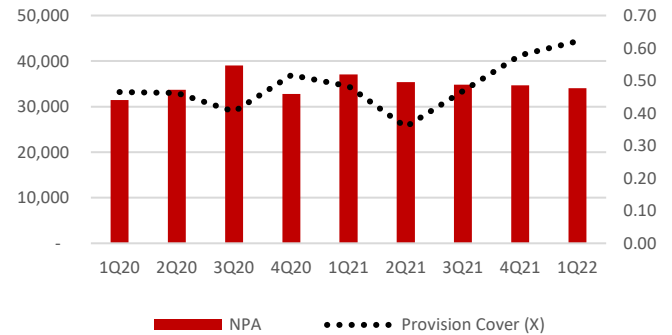
Asset quality is strengthening

We are conservative on the cost of risk; we expect it will increase to 180bps in FY22e and will gradually decrease to 141bps in FY2026e. The company is building on its provisions, where currently (1Q22) its provision cover stands at 0.62x We are expecting cost of risk to remain high for FY22 then decrease over the remaining forecast period but by conservative amounts. Our assumption is based on our overall positive sector outlook.

TFCI: Asset Quality



TFCI: Provision Cover

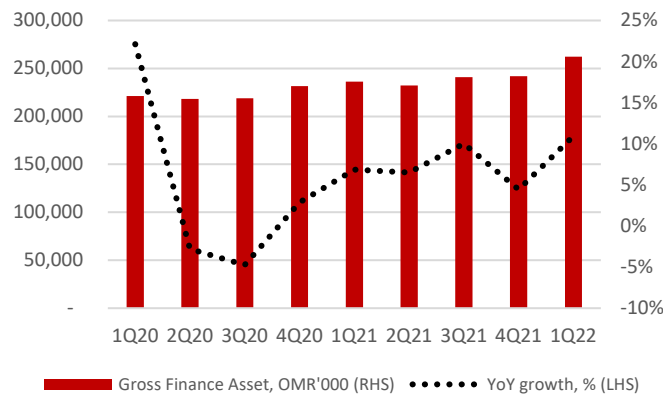


Source: Company Financials, U Capital Research

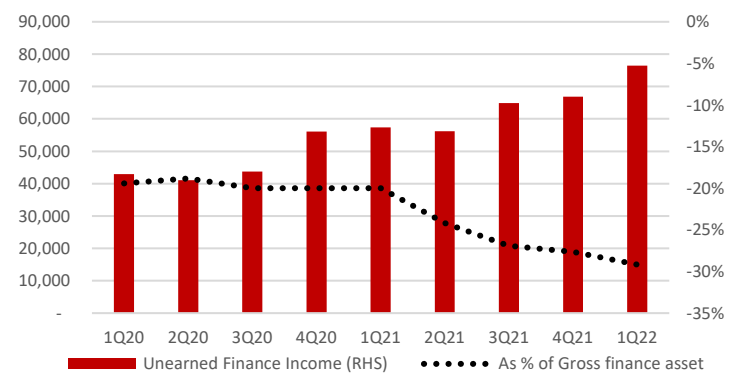
Increase in finance asset growth

The company’s gross finance assets have improved at about OMR 262.119mn in 1Q22, and OMR 242.020mn FY21 with growth levels having increased by 19% in 2 years. Net finance assets improved marginally in 1Q22 by approximately 1% YoY to OMR 173.302mn Its unearned finance income, which is a key measure of future realizable income, has increased as a percentage of gross finance assets from > 19% in 2016-2017 to 29% in 1Q22, pointing to improved future income prospects.

TFCI: Gross finance asset & YoY growth



TFCI: Unearned finance income growth



Source: Company Financials, U Capital Research

Additionally, impairment as a percentage of gross finance asset has marginally stayed at same levels of 6-8% in previous quarters. We believe that the company will be able to grow its net finance asset over the forecast horizon (CAGR: 8.4%).

Economic sector concentration of gross investment in finance leases

Looking at the customer concentration of the gross investment in finance lease, corporate has the larger portion of finance lease, at 71% of the total amount, at about OMR 186.423mn in 1Q22. This percentage has been gradually increasing throughout the previous quarters, whereas the individuals’ share has been decreasing.

Valuation

We have used Dividend Discount model (80% weightage) as well as a Price-to-Book multiple (20% weightage) for arriving at our weighted average target price for the company. We have

Dividend Discount Model						Key Assumptions	
	2022E	2023E	2024E	2025E	2026E		
Dividends, OMR'000	1,675	1,830	2,095	2,383	2,655	Beta (Bloomberg: 2-yr average weekly)	0.763
PV of Dividends	1,587	1,723	1,760	1,787	1,777	Risk-free rate	6.650%
Terminal Growth Rate	1.4%					Risk Premium	7.067%
PV of Terminal Value	16,933						
Total Value	25,567					Cost of Equity	12.04%
Target Price, OMR	0.101						
Current Price	0.086						
Upside/Downside	17.4%						
Multiple-based Valuation							
Adjusted P/B multiple	0.600						
BVPS'22e	0.189						
Target Price, OMR	0.114						
Average Target Price, OMR	0.104						
Upside	20.9%						

Source: Company Financials, Bloomberg, U Capital Research

Risks to Valuation

Some of the downside risks to our valuation include: (1) Any regulatory action on capital requirements etc. that might have a negative impact on the profitability of leasing companies although we believe the probability of this is low given the regulatory body's (Central Bank of Oman) commitment to support the leasing sector. (2) Higher-than-expected sovereign risk resulting in cost of equity to rise. (3) Slower-than-expected improvement in net finance margin. (4) Deterioration in asset quality and loan-loss coverage levels resulting in higher-than-expected cost of risk.

Faster recoveries and provision releases remain the highest upside risk to our valuation, as we have assumed cost of risk to remain high throughout the forecast period. In case of faster recoveries, higher dividends will materialize and feed into our Dividend Discount Model, resulting in improvement in fair value of the stock. Other upside risks to our valuation include better-than-expected sovereign risk profile resulting in a lower cost of equity and better-than-expected finance asset growth amid improving net finance margin.

Sensitivity Analysis

Sensitivity analysis of some of our key assumptions reveals that as terminal growth rate changes from 1.2% to 1.7%, fair value per share remains stable at about OMR 0.104; hence, it is relatively insensitive to changes in terminal growth rate.

Similarly, if average price to book of the peer-group changes by 0.05x, the fair value per share is stable at about OMR 0.104 per share.

Our fair value is sensitive to cost of equity. A change of 0.5% from our assumed cost of equity of 12% reveals that fair value per share ranges between OMR 0.099 and OMR 0.108, a change of about 4% both ways from our fair value of OMR 0.104 per share. Hence, we cite changes in cost of equity to remain a key risk to our valuation, both positive and negative, depending on the change in cost of equity.

TFCI

		Terminal Growth Rate				
		0.9%	1.2%	1.4%	1.7%	1.9%
Cost of Equity	11.0%	0.108	0.110	0.112	0.113	0.115
	11.5%	0.104	0.106	0.107	0.108	0.111
	12.0%	0.100	0.102	0.104	0.105	0.106
	12.5%	0.098	0.099	0.100	0.101	0.103
	13.0%	0.095	0.096	0.097	0.098	0.100

		Price-to-Book (x)				
		0.50	0.55	0.60	0.65	0.70
Cost of Equity	11.0%	0.108	0.110	0.112	0.113	0.115
	11.5%	0.103	0.105	0.107	0.109	0.111
	12.0%	0.100	0.102	0.104	0.105	0.107
	12.5%	0.097	0.098	0.100	0.102	0.104
	13.0%	0.093	0.095	0.097	0.099	0.101

Source: Bloomberg, U Capital Research

Peer Group Comparison

Name	Mkt Cap (OMR mn)	Shares out (mn)	Last Px (OMR)	P/B'22e, (x)	P/E'22e, (x)	ROE'22e, (%)
NFCI	60.9	538.6	0.113	0.75	6.1	11.8%
TFCI	21.8	253.6	0.086	0.44	7.8	5.8%
AOFS	46.7	291.9	0.160	0.72	14.8	4.9%
Average				0.64	9.53	

Source: Bloomberg, U Capital Research
nm = not meaningful

Key Financials

(OMR '000)	2019	2020	2021	2022E	2023E	2024E
Income Statement						
Finance Income	18,295	16,802	17,641	20,830	22,170	24,118
Interest Expense	(7,759)	(8,426)	(8,228)	(10,216)	(10,837)	(11,879)
Net Interest/Financing Income	10,536	8,376	9,413	10,614	11,333	12,239
Other Income	1,563	1,035	1,247	1,472	1,567	1,705
Total Operating Income	12,099	9,411	10,660	12,087	12,900	13,944
Provisions expense	(2,553)	(2,021)	(2,854)	(3,194)	(3,335)	(3,378)
Operating Expenses	(4,877)	(4,925)	(4,804)	(5,435)	(5,788)	(6,242)
Profit Before Taxation	4,669	2,465	3,002	3,458	3,777	4,324
Taxation	(866)	(395)	(459)	(529)	(578)	(661)
Net Profit	3,803	2,070	2,543	2,929	3,200	3,663
Balance Sheet						
Cash & Bank Balances	3,882	2,412	16,655	16,444	16,337	15,604
Gross Finance Debtors	188,975	186,051	188,079	251,544	255,512	273,068
Unearned Finance Income	(56,082)	(56,082)	(47,759)	(54,312)	(62,880)	(66,644)
Allowance for impairment	(16,951)	(16,951)	(17,887)	(19,229)	(20,767)	(22,532)
Net Finance Debtors	115,942	113,018	122,433	178,004	171,865	183,892
Net Fixed Assets	922	771	440	440	440	440
Other Assets	67,949	57,915	43,552	12,302	29,400	36,038
Total Assets	188,695	174,116	183,080	207,189	218,043	235,974
Short Term Loans	126,855	120,810	126,226	144,731	153,070	167,271
Corporate Deposits	10,251	8,645	9,820	11,260	11,908	13,013
Other Liabilities	9,826	5,079	4,909	5,740	6,080	6,871
Paid-up Capital	25,359	25,359	25,359	25,359	25,359	25,359
Retained Earnings	11,911	9,523	11,812	14,876	16,081	17,548
Other Reserves	4,493	4,700	4,954	5,223	5,544	5,912
Shareholders' Equity	41,763	39,582	42,125	45,459	46,984	48,818
Total Equity & Liability	188,695	174,116	183,080	207,189	218,043	235,974
Cash Flow Statement						
Cash from operations	(15,013)	14,100	7,492	(21,392)	(7,760)	(15,002)
Cash from investing activities	579	(151)	(331)	-	-	-
Cash from financing	17,488	(15,721)	6,420	21,180	7,653	14,269
Net changes in cash	1,896	(1,470)	14,243	(211)	(107)	(733)
Cash at the end of period	3,882	2,412	16,655	16,444	16,337	15,604
Key Ratios						
Return on Average Assets	2.1%	1.1%	1.4%	1.5%	1.5%	1.6%
Return on Average Equity	9.2%	5.0%	5.9%	6.3%	6.6%	7.2%
Yield on Finance Assets	10.9%	9.9%	9.8%	11.0%	11.1%	11.0%
Cost of Funds	5.7%	6.5%	6.5%	6.5%	6.6%	6.6%
Net Spread	5.2%	3.4%	3.3%	4.4%	4.5%	4.4%
Cost to Income Ratio	40.3%	52.3%	45.1%	45.0%	44.9%	44.8%
Finance Debtors to Total Assets	89.1%	97.7%	90.2%	91.4%	91.8%	92.7%
NPLs to Gross Loans	13.5%	13.4%	13.3%	13.2%	13.2%	13.1%
NPL Coverage	63.1%	51.7%	51.7%	51.6%	51.4%	51.2%
Cost of Risk (bps)	147.6	114.6	170.0	180.0	171.0	161.0
Equity to Gross Finance Debtors	17.2%	17.0%	17.0%	17.0%	16.1%	15.4%
Equity to Total Assets	22.1%	24.0%	24.2%	23.2%	22.8%	21.9%
Dividend Payout Ratio	66.7%	0.0%	49.9%	57.2%	57.2%	57.2%
Adjusted EPS (OMR)	0.015	0.008	0.010	0.012	0.013	0.014
Adjusted BVPS (OMR)	0.165	0.165	0.165	0.189	0.196	0.204
Market Price (OMR) *	0.102	0.083	0.072	0.102	0.075	0.075
Dividend Yield	9.8%	0.0%	6.9%	6.5%	9.6%	11.0%
P/E Ratio (x)	6.8	10.2	7.2	8.8	5.9	5.2
P/BV Ratio (x)	0.6	0.5	0.4	0.5	0.4	0.4

* Market price for the current and subsequent years as per the closing price of 19/06/2022

Source: Company Financials, U Capital Research

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9000
Fax: +968 2494 9099
Email: research@u-capital.net

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