

SHUAA Capital

Lower fair value gains from financial assets impacted the bottom-line

3Q21 Net Profit higher than our estimate

Shuaa Capital reported a decrease by 40.9% YOY in the Net profit to AED35 Mn in 3Q21, as compared to a AED59 Mn in 3Q20, beating our estimate of AED30 Mn. This was mainly attributed to a decrease in Change in fair value gains from financial assets at fair value FVTPL.

P&L highlights

Shuaa's Funded income has decreased by 58.1% YOY to AED2 Mn in 3Q21, down from AED6 Mn in 3Q20. Whereas the Funded expenses decreased by 28.7% YOY to AED2 Mn in 3Q21. Therefore, the Net Funded income has significantly decreased by 83.7% YOY to AED0.5 Mn compared to AED3 Mn in 3Q20. Net Fees and commission income has decreased by 9.8% YOY to AED54 Mn in 3Q21, down from AED60 Mn in 3Q20. Moreover, the Total Operating income has slightly increased by 0.3% YOY to AED67 Mn in 3Q21, up from AED66 Mn in 3Q20. While the Total expenses have decreased by 24.1% YOY to AED51 Mn in 3Q21, down from AED67 Mn in 3Q20. As a result, the Net Operating income significantly increased to AED16 Mn in 3Q21, up from a loss of AED1 Mn in 3Q20. Change in fair value declined by 60.5% YOY to AED91 Mn in 3Q21, as compared to AED231 Mn in 3Q20. Similarly, the Income from investments in associates declined by 78.8% YOY reaching AED5 Mn in 3Q21, down from AED22 Mn in 3Q20. Furthermore, the Finance cost has decreased by 13.1% YOY to AED36 Mn, down from AED42 mm in 1Q20. Thus, the Profit from continuing operations declined by 38.1% YOY to AED42 Mn in 3Q21, down from AED68 Mn in 3Q20. The NCI decreased by 59.7% YOY to AED4 Mn compared to AED9 Mn in 3Q20.

Balance sheet highlights

Net advances and financial leases have declined by 23.9% YOY to AED284 Mn from AED373 Mn in 3Q20. While the Total assets increased by 13.1% YOY to AED6.13 Bn in 3Q21, as compared to AED5.42 Bn in 3Q20. Whereas the Total liabilities also increased by 13.3% YOY to AED4.1 Bn in 3Q21. Similarly, the Total equity has increased by 9.3% YOY to AED1.56 bn in 3Q21.

Target price and rating

We maintain a BUY rating on Shuaa with a target price of AED 0.93 based on three valuation methods (EVA, Justified PB, and Relative valuation). Shuaa Capital is one of the leading Asset Management and Investment Banking firms in the region with offices throughout the Middle East and the United Kingdom. Its mission is to be a financial intermediary and advisor to corporates and investors in the region starting from the SME stage to multinational expansion, to maximize profits and growth opportunities and ultimate value. Shuaa reported a robust nine-months financial performance reflected in an increase by 40% YOY in Net Profit to AED89 Mn in 9M21 up from AED64 Mn same period last year but the Net Profit in 3Q21 witnessed a drastic decrease YOY by reaching AED35 Mn as compared to AED59 Mn in 3Q20, a decrease by 41% YoY.

Rating : BUY

First Look Note – 3Q21

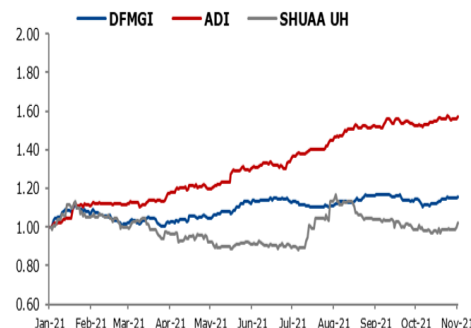
Sector: Financial

Recommendation

Current Price (24-Nov)	0.781
Target Price	0.930
Upside/Downside (%)	+19%

Stock Information

Market Cap (AED/mm)	2,015.90
Paid Up Capital (USD)	2,535.72
52 Week High	0.83
52 Week Low	0.59
3M Avg. daily value	6,582,326



Financial Ratios

Dividend Yield (12month)	3.77
Dividend Payout	59.44
Price-Earning Ratio	11.13
Price-to-Book Ratio	1.30
Book Value	0.61
Return-on Equity	10.10
Earning Per Share	0.07
Beta	1.24

Stock Performance

5 Days	1.79%
1 Months	18.66%
3 Months	12.13%
6 Months	27.20%
1 Year	32.50%
Month to Date (MTD%)	14.85%
Quarter to Date (QTD%)	16.22%
Year to Date (YTD%)	14.85%

Revenues in 3Q21 stood stable as compared to same period last year reporting AED66.5 Mn as compared to AED66.3 Mn in 3Q20, whereas the Revenues in 9M21 increased to AED309 Mn up from AED284 Mn in 9M20. Revenues benefitted from a strong performance in the Goldilocks flagship fund and SHUAA's increasing recurring revenue base over the year.

The Group operates via 3 segments – Asset Management, Investment Banking and Corporate segment. The Asset Management was the highest contributor to Total Revenues in 9M21 with 49.9% witnessing an increase by 34.7% YOY to AED154 Mn up from AED114 Mn. The Corporate segment constitutes 44.8% of Total Revenues for AED138.5 Mn in 9M21 and the Investment Banking contributing to 5.3% of Revenues with AED16.24 Mn in 9M21, with the Corporate segment increasing by 52.5% YOY whereas the Investment Banking decreasing by 27% YOY.

The Company has been managing well its Expenses and has been following a cost discipline leading to the Operating Expenses decreasing by 24.11% YOY to AED51 Mn in 3Q21 down from AED67 Mn in 3Q20 and witnessing a decrease by 39% QOQ. This was mainly driven by the reversal of impairment losses on financial assets for AED9 Mn in 3Q21. Cost to income ratio is stable at 61% in line with the medium-term target of the company.

Considering the recent launches supporting the stability and continuity of revenues, Shuaa reported an increase in EBITDA for the third consecutive quarter with EBITDA reaching AED83 Mn in 3Q21, an increase by 5% QOQ, highlighting the healthy earnings capacity of the Group. The plan to fully divest the Non-Core Unit (NCU) is almost done with more than 90% reduction since inception phase and 63% reduction within the third quarter 2021.

Assets Under Management (AUM) decreased by 3% QOQ reaching USD13.1 Bn due to the foreign exchange fluctuations on UK Real Estate Assets, revaluation of the UAE Real Estate portfolio and the exits in NCU. In 3Q21, the Group made significant progress towards reducing its non-core assets, with a further 63% reduction during the quarter coupled with significant additional cash proceeds from asset disposals.

Total Assets are following an increasing trend reaching AED 6.13 Bn in 3Q21 as compared to AED6.05 Bn as at end of 2020. Total Liabilities also increased reaching AED 4.09 Bn in 3Q21 up from AED4.02 Bn as at end of 2020 with the borrowings of the Group decreasing to AED2.10 Bn in 3Q21 as opposed to AED2.39 Bn as at end of 2020. The total Equity remained almost stable at AED2.03 Bn. At the annual general meeting in April 2021, the Shareholders approved a Cash Dividend of 3 fils per share amounting to AED76Mn for the year ending December 2020. This amount was paid at the end of 1H21. Based on the above, we maintain our BUY rating on the stock.

SHUAA Capital - Relative Valuation

(At CMP)	2017	2018	2019	2020	2021F
P/E	11.7	20.3	43.9	9.6	15.8
P/B	1.0	0.2	1.4	1.3	1.3
Dividend Yield	2.5%	0.0%	0.0%	3.7%	3.7%

FABS estimates & Co Data

Shuaa Capital - P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	6	4	2	4	-58.1%	-43.4%	19	14	-27.4%
Funded expense	-3	-2	-2	-3	-28.7%	13.5%	-4	-7	90.8%
Net Funded Income	3	3	0.5	1	-83.7%	-80.5%	15	6	-57.3%
Fees and commission Income	65	68	56	58	-13.1%	-17.8%	232	285	22.8%
Fees and commission Expense	-5	-8	-2	-2	-55.7%	-75.3%	-13	-17	31.2%
Net Fees and commission Income	60	60	54	56	-9.8%	-9.8%	219	268	22.3%
Advisory income	3	1	5	3	86.1%	NM	30	11	-63.7%
Trading income	3	1	2	2	-42.7%	29.1%	4	6	47.1%
Other operating income	-2	75	5	6	NM	-92.7%	271	100	-63.1%
Total Operating Income	66	140	67	68	0.3%	-52.5%	539	391	-27.4%
General & administrative exp. & staff costs	-48	-58	-49	-55	2.8%	-14.9%	-213	-213	-0.1%
Depreciation and amortisation	-14	-11	-12	-12	-15.0%	3.5%	-52	-46	-11.5%
Reversal/(Provisions) for impairment losses on financial instruments	-1	-10	9	10	NM	NM	-5	18	NM
Other operating expenses	-5	-4	1	0	NM	NM	-27	-10	-64.1%
Total expenses	-67	-83	-51	-56	-24.1%	-38.9%	-297	-251	-15.4%
Net operating income	-1	57	16	12	NM	-72.2%	242	140	-42.1%
Change in fair value (losses)/gains from financial assets at fair value FVTPL	231	122	91	91	-60.5%	-24.8%	-255	379	NM
Gain/(loss) on derivative financial liability	-4	1	1	1	NM	6.8%	-4	3	NM
Income from investments in associates	22	13	5	9	-78.8%	-64.0%	80	15	-81.8%
Finance Cost	-42	-38	-36	-37	-13.1%	-5.2%	-172	-151	-12.3%
Finance credit (finance cost) relating to unit holders	-140	-113	-43	-40	-69.5%	-62.4%	114	-228	NM
Other income/(expenses)	0	13	8	10	NM	-38.7%	153	40	-74.0%
Profit from continuing operations	68	54	42	45	-38.1%	-22.3%	158	197	24.6%
Profit from discontinued operations	0	-15	-4	-7	NA	-75.3%	-3	-39	NM
Non-controlling interests	-9	-10	-4	-8	-59.7%	-64.4%	-30	-28	-6.7%
Net profit attributable	59	29	35	30	-40.9%	19.2%	125	130	3.8%

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2-6161628	shiv.prakash@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	Online Trading Link

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