

Dubai Investments PJSC

Strong performances from manufacturing, services, and investments segments supported the earnings

1Q21 Net Profit slightly higher than our estimate

Dubai Investments PJSC (DIC) reported a Net Profit of AED124 mm in 1Q21, up from a Net Loss of AED7 mm in 1Q20. The Company performed better than our estimate and beat our forecast by 3.8%. This was mainly due to strong performances led by the manufacturing, services, and investments segments, in addition to an increase in Finance Income recorded in 1Q21, while the real estate segment has remained resilient.

P&L highlights

The Total Income reported by the Company strongly increased by 37.2% YOY to AED638 mm in 1Q21, compared to AED465 mm in 1Q20. The Direct Costs increased by 20% YOY to AED344 mm in 1Q21, up from AED282 mm in 1Q20. The Gross Profit was positively impacted by the favorable performance of Total Income and increased by a solid 60.6% YOY to AED294 mm in 1Q21, up from AED183 mm in 1Q20. This was mainly due to an improvement in economic activity in the first three months of 2021. The Company managed to Reduce Operating Expenses by 2% YOY to AED97 mm in 1Q21, down from AED99 mm in 1Q20. The EBITDA recovered significantly in 1Q21 to AED196 mm in 1Q21, compared to AED84 mm in 1Q20. The Company had maintained a strong EBITDA throughout 2020. The Finance Expenses have reduced by 19% YOY to AED53 mm in 1Q21, down from AED66 in 1Q20. The Finance Income increased significantly to AED47 mm in 1Q21, compared to AED9 mm in 1Q20. The Company recorded a surge in Impairments in 1Q21 to AED21 mm in 1Q21, compared to AED6 mm in 1Q20. Resultantly, the Profit Before NCI recovered to AED125 mm in 1Q21, compared to a Loss Before NCI to AED19 mm in 1Q20. As per the above-mentioned line items, the Company reported a Net Profit of AED124 mm in 1Q21, compared to a Net Loss of AED7 mm in 1Q20.

Balance sheet highlights

The Total Assets increased by 3.5% YOY to AED22 bn in 1Q21, up from AED21.2 bn in 1Q20. The Total Liabilities increased by 8.4% YOY to AED9.8 bn in 1Q21 as compared to AED9.0 bn in 1Q20. The Total Equity reduced to AED12 bn in 1Q21, compared to AED12.2 bn in 1Q20, mainly due to a reduction in the Fair Value Reserve.

Target price and rating

We revised our rating to Reduce with same target price at AED1.38. Dubai Investments PJSC reported recovery in 1Q21, as the Company recorded a significant increase in Net Profit to AED124 mm in 1Q21 compared to a Net Loss of AED7 mm in 1Q20. This was mainly due to the Company's ability to increase

Rating : REDUCE

First Look Note – 1Q21

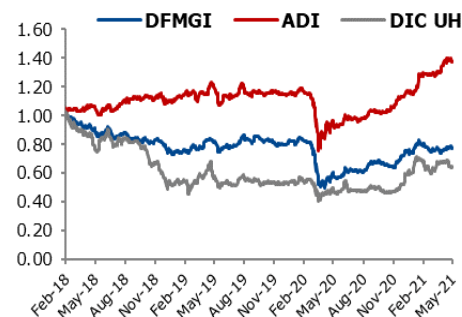
Sector: Invest. & Fin. Services

Recommendation

Current Price (19- May)	1.57
Target Price	1.38
Upside/Downside (%)	-12.1%

Stock Information

Market Cap (mm)	6,675.67
Paid Up Capital (mm)	4,252.02
52 Week High	1.72
52 Week Low	1.11
3M Avg. daily value (AED)	5,378,545



Financial Ratios

Dividend Yield (12m)	5.10
Dividend Pay-out (%)	122.34
Price-Earnings Ratio (x)	13.97
Price-to-Book Ratio (x)	0.56
Book Value (SAR)	2.81
Return-on Equity (%)	4.00
Earning Per Share (SAR)	0.11
Beta	0.83

Stock Performance

5 Days	-2.48%
1 Months	0.64%
3 Months	4.67%
6 Months	33.05%
1 Year	37.72%
Month to Date (MTD)	3.25%
Quarter to Date (QTD)	-1.85%
Year to Date (YTD)	9.66%

its Revenue from its operations and a disciplined approach with its Direct Costs. The Company's business model includes operations via three strategic business units, namely- 1) Property, 2) Manufacturing, contracting, and services, 3) Investments. The Manufacturing segment contributed around 59.6% to the Total Income, followed by Property and then Investments. The Revenue from the Property segment decreased by 10.6% YOY to AED224 mm in 1Q21, down from AED251 mm in 1Q20. This was mainly due to a reduction in sales of services and rental income. The Manufacturing segment reported strong performance and increased by 20% YOY to AED379 mm in 1Q21, from AED317 mm in 1Q20. This was driven by an increase in revenue from the services provided from the segment. Lastly, the Income from the Investments segment recovered to a Net Profit of AED33 mm in 1Q21 compared to a Net Loss of AED103 mm in 1Q20. The Investments in FY20 were negatively impacted by the volatility in the markets, resulting in loss on fair value. The Company recorded a gain in fair value due to a better macroeconomic environment. The Revenue from the services such as Investment Banking and Asset Management increased significantly to AED8 mm in 1Q21, compared to AED2 mm in 1Q20. The Company's margins are heavily influenced by the Manufacturing segment, as it accounts for 78% (in 1Q21) of the Group's Cost of Sales. The Group's Cost of Sale increased by 22% YOY mainly due to a 20% YOY increase in the Costs pertaining to the Manufacturing segment. The Cost of Sales for the Property segment increased despite the year-on-year decrease in Revenue from the segment. Furthermore, the segment recorded a significant increase in Impairments regarding its Financial and Contract Assets to AED21 mm in 1Q21, compared to AED5 mm in 1Q20. The Finance Income increased significantly, in line with the solid increase in Short Term Deposits within UAE (maturity less than three months). The Manufacturing segment recorded the highest rise in Finance and Other Income. The Net Profit is mainly contributed by the Property segment, driven by the current boost in the real estate sector. The Manufacturing and Investment segments recovered robustly and posted a Net Profit of AED14 mm and AED18.7, respectively, in 1Q21, compared to Net Loss in 1Q20. It was mainly driven by the increase in Finance Income and the better market environment resulting in a gain on fair value. Due to the Property segment asset-intensive nature, the segment recorded around 64% of the Total Assets. Similarly, around 53% of the Total Liabilities are contributed by this segment. The Group's Assets are dominated by the Investment Properties, which account for 39% of the Total Assets. The Group's Cash flow from Operations increased strongly by 38% YOY to AED275 mm in 1Q21 compared to AED199 mm in 1Q20. This was mainly due to favourable changes in its Working Capital position, strengthening the cash position. The Net cash used in Investing activities was positively impacted by the Finance Income received by the Group. The Group increased borrowings, further supporting its Capital position. On April 11, 2021, the Board proposed 8% cash dividends, in line with the Group's history of consistent dividends. Earnings Per Share (EPS) increased to AED0.029 in 1Q21, compared to the negative AED0.002 in 1Q20. The Group increased its existing interest of 8.46% in National General Insurance PJSC ('NGI') to equity interest of 29.99% during the year. The Company trades at a P/B of 0.5x. Based on the above, We assign a Reduce rating to the stock.

ADNOC Distribution - Relative Valuation

	2017	2018	2019	2020F	2021F
PE (X)	6.7	10.7	10.7	20.0	9.3
PB (X)	1.7	1.8	1.8	1.7	1.9
Dividend yield (%)	7.5%	6.3%	6.3%	5.0%	6.3%

FABS estimate and Co data

Dubai Investments -P&L

AED (mm)	1Q20	4Q20	1Q21	1Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	YOY Ch
Total Income	465	856	638	658	-3.1%	37.2%	-25.5%	2,762	2,889	4.6%
Direct Costs	-282	-407	-344	-347	-0.8%	22.0%	-15.5%	-1,351	-1,387	2.7%
Gross profit	183	449	294	312	-5.8%	60.6%	-34.6%	1,411	1,502	6.5%
Operating Expenses	-99	-99	-97	-99	-1.8%	-2.0%	-1.5%	-381	-404	6.1%
EBITDA	84	350	196	213	-7.6%	NM	-43.9%	1,030	1,098	6.6%
D&A	-63	-74	-61	-65	-6.7%	-3.7%	-18.0%	-260	-260	0.0%
Operating profit	21	276	136	148	-8.0%	NM	-50.9%	770	838	8.8%
Finance expenses	-66	-95	-53	-84	-36.7%	-19.0%	-44.0%	-333	-336	1.0%
Finance income	9	9	47	9	NM	NM	NM	35	36	4.0%
Impairments on accounted investee	-6	21	-21	-4	NM	NM	NM	11	-7	-170.0%
Other income	24	33	17	39	-57.5%	-29.8%	-49.1%	153	156	2.0%
Profit before NCI	-19	244	125	107	16.4%	NM	-48.8%	636	687	8.0%
NCI	-12	-20	1	-12	NM	-90.6%	NM	-46	-48	3.4%
Profit to shareholders	-7	264	124	119	3.8%	NM	-53.1%	682	735	7.7%

FABS estimate & Co Data

Dubai Investments - Margins

AED mm	1Q20	4Q20	1Q21	YOY Ch.	QOQ Ch	2020	2021F	YOY Ch
GPM	39.3%	52.5%	46.1%	673	-638	51.1%	52.0%	90
OPM	4.4%	32.3%	21.3%	1,686	-1,098	27.9%	29.0%	112
Net Margin	-1.5%	30.8%	19.4%	2,087	-1,144	24.7%	25.4%	73

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -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	Online Trading Link
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	

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