

RESEARCH NOTE: Dubai Financial Market (DFM)

Research and Advisory | UAE

3Q13 Performance Overview:

- * DFM 3Q13 profits attributable to common shareholders reached AED82.76mn compared to a loss of AED1.71mn in 3Q12, and slightly up compared to Bloomberg's consensus estimate at AED80.90mn. The gain in the past quarter was backed by the strong jump in its revenues. Revenues in 3Q13 climbed to AED114mn almost 4x higher compared to 3Q12. In particular, trading commission fees jumped by almost 7x to AED104mn YoY. This was mainly due to the increased trading value in the Dubai Bourse during the past quarter. Value traded during 3Q13 in Dubai market reached AED45bn compared to AED7bn in 3Q12.

DFM Share Price Performance Mostly Driven by Specific Events and Speculative Waves

- * Based on the trailing four quarters, DFM multiples seem to be expensive compared to the average of Finance and Investment stocks. As of yesterday, DFM share price reached to AED2.32, translating to a Price/Book multiple of 2.40x and P/E of 106x (versus the sector average of 1.37x Price/Book, and PE at 12.8x). Even by quadrupling 3Q13 earnings the P/E remains above 50x.
- * For its market multiples to look relatively okay, that is to say a P/E gravitating to the market average, an annualized bottom-line of AED1.50bn or more is required. In other words, streams from commission and trading may probably need to cross AED1.60bn on annual basis (noting that the trading and commission fees account for more than 90% of the total company's revenue). In this particular case, and holding other factors constant, values traded in Dubai stock market should elegantly exceed AED2.5bn a day, compared to an average around AED700mn per day in 3Q13.
- * Even when looking into prospective dividend yields, the company's cash capacity is yet still limited, knowing that a 5% yield would entail paying out a cash of more than AED900mn. The message here is that fundamentals may not be the driver here, in our opinion, but rather due to specific news and general trading sentiments.
- * The upside journey of the stock started sometime in April, skyrocketing since then by more than 127% in almost six months. During that period, investors were mainly focused on the Dubai and Abu Dhabi stock markets merger update.
- * Last update on the subject was on 1 October 2013, when the stock closed on limit up (15%) following news that advisers had been hired for a planned merger with ADX. Speculation over the deal started in May 2010, but no progress has been made officially since then. Abu Dhabi Executive Council, has hired JPMorgan Chase and First Gulf Bank to serve as Abu Dhabi's advisers. Meanwhile, Investment Corporation of Dubai (ICD) appointed Citigroup.

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Notice: In the interest of timeliness, this report has not been edited.

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Technical Indicators		Latest Market Statistics	
SMA - 10	2.30	Market Cap (AED mn)	18,550.17
SMA - 20	2.26	Shares Outstanding (mn)	8,000.00
SMA - 50	2.05	Floated Shares	1,629.60
RSI - 14	60.87	Free Float Rate	20%
%K	95.09%	Stock Price	2.32
MFI - 14	62.21	90-Day Ave. Value Traded (K)	29.99

Valuation Ratios			Trading Barriers	
	DFM	Sector	Support 1	2.31
Trailing P/E	>50	12.80	Support 2	2.30
Forward P/E	>50	NA	Support 3	2.27
Price / Book. LFI	2.40	1.37	Resistance 1	2.34
EV / EBITDA. LFI	311	NA	Resistance 2	2.36
Dividend Yield. LFI	ND	4.48%	Resistance 3	2.39

All price related data are based on closing as of 04 November 2013.

Data Source: Thomson Reuters

