

Dubai Financial Market

SELL

Target Price
AED1.73

Market Data

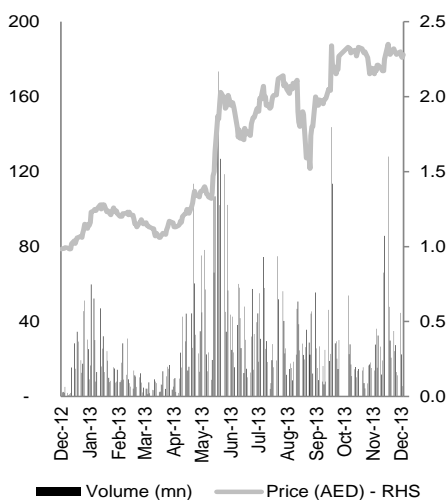
Bloomberg Code:	DFM UH
Reuters Code:	DFM.DU
CMP (22 nd Dec 2013):	2.28
O/S (mn)	8,000
Market Cap (AED mn):	18,240
Market Cap (USD mn):	4,966
P/E 2014e (x):	43.6
P/BV 2014e (x):	2.3

Price Performance 1-Yr

High (AED):	2.35
Low (AED):	0.98
Average Volume (mn):	28.1

	1m	3m	12m
Absolute (%)	3.2	16.9	130.3
Relative (%)	-8.4	-2.1	29.6

Price Volume Performance



Source: Reuters

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- **Earnings almost quadrupled YoY in 9M13**
- **MSCI upgrade of UAE and Expo 2020 to boost trading activity**
- **DFM authorizes 8 more brokerage house to DMA in 2013**
- **SELL maintained; TP: AED1.73/share; Stock up 130.3% in 12months**

Earnings surge 376%YoY in 9M13

The latest financials from DFM for the period ended in September demonstrated a massive growth in profit. Net profit for 9M13 was AED176mn up from AED37mn in 9M12, 376% increase. While the 3Q13 net profit was AED81mn up from a net loss of AED2mn in 3Q12. This increase was due to the tremendous increase in the daily traded value on the indices. The average daily traded value on DFM surged 165% in 9M13 and 505% in 3Q13 on YoY. This was a result of improved investor sentiment over the news of upgrading the UAE to emerging markets and to the most recent news of Dubai winning the bid to host the World Expo 2020. Apart from the above mentioned reason, Dubai market rallied on the real estate recovery in which majority sectors have investments.

DFM's top-line almost doubled on YoY in 9M13 to reach AED304mn. The main reason for the huge increase was a substantial jump in trading commission fees. The latest data showed that the trading commission fees witnessed an increase of 154% to AED231mn in 9M13 and a staggering 611% increase to AED104mn in 3Q13. That being said, the revenues from trading commission fees amount for 76% of the revenues in 9M13 up from 56% in 9M12 which goes against the company's intention of diversifying their sources of revenue. Although it's understandable that the revenues from trading commission fees will grow at a faster pace from the momentum that DFM is going through because of the good investor expectations for the country, the other fees (generally) did not grow at a significantly level. The brokerage fees fell by 15%, fees generated by ownership transfer & mortgages rose 56% while the other fees grew at a stable pace of 9% YoY in 9M13.

MSCI upgrade of UAE and Expo 2020 to boost trading activity

Earlier this year the UAE was upgraded from a frontier market to an emerging market by MSCI. Furthermore, in November it was announced that Dubai has won the bid to host Expo 2020. We expect that news of this magnitude will bring more cash flows into the Emirate. Dubai's government said that it will invest USD8.1bn in new infrastructure apart from other ongoing. The Expo is also expected to boost the Emirate's GDP by 2% over the coming years. We also estimate that the upgrade of the UAE to an emerging market will attract hefty cash flows to the country which will bring new cash flows to Dubai's NASDAQ and DFM. The implementation of the upgrade will happen at the start of 2Q14 and we expect a sizable flow into the markets in the quarters after the induction of the UAE to the index. The MSCI Emerging Market Index gave the UAE a weight of 0.4%. The upgrade had a huge bearing on our estimates which we have significantly revised.

Talks about a merger between DFM and ADX

Some reports issued by 3rd party sources said that merger talk between DFM and Abu Dhabi Securities Exchange (ADX) is on the way. Some reports went on and stated that the firms have already hired investment banks to guide the merger. DFM posted a statement on their website after these news came to surface saying "The idea of merging financial markets in the UAE has always been under consideration by the concerned representatives of both Abu Dhabi and Dubai governments", but went on saying that the company is not directly involved in any discussions about a potential merger with ADX. We have not ruled out the possibility of the merger but for the time being we have not included it in our estimates.

DFM to attract more investors due to DMA

DFM is increasing their exposure to new investors as it authorizes more brokerage houses to conduct Direct Market Access (DMA). The DMA allows investors to trade in DFM over the internet through the online portals of brokerage houses. Lately DFM increased the total number of its brokerage firms providing this service to 11 companies which is four times as much as they had in the beginning of 2013.

Revision in Estimates

In the light of the latest financials, the strong average turnover in DFM, MSCI inclusion with effect from April 2014 and the news of World Expo 2020 we have revised out estimates.

(AED '000)	Old	New	Change%	Old	New	Change%
	2013e	2013e		2014e	2014e	
Trading Commission Fees	248,184	363,182	46.3%	323,888	483,219	49.2%
Brokerage Fees	17,749	16,329	-8.0%	20,411	18,778	-8.0%
Ownership Transfer & Mortgage Fees	21,033	22,294	6.0%	25,239	26,753	6.0%
Other Fees	12,949	14,182	9.5%	13,596	14,891	9.5%
Total Revenues	299,914	415,987	38.7%	383,134	543,642	41.9%

Target price revised to AED1.73/share; SELL maintained; 12m price up by 130.3%

We have revised the fair value upward to AED1.73/share, which is 24.2% below the current market price. Hike in the fair value resulted largely because of strong average turnover in DFM, MSCI inclusion with effect from April 2014 and the news of World Expo 2020. However, most of the positive are already factored in the stock price, reflected in its 130.3% appreciation over the last one year. At current price the stock is trading at 2014 PE and P/Bv multiple of 43.6x and 2.3x, respectively. Thus, we maintain our **SELL** rating for the stock.

Financial Statements

	(AED '000)	2010	2011	2012	2013e	2014e	2015e	2016e	2017e
Income Statement	Trading Commission Fees	158,725	76,795	114,753	363,182	483,219	533,396	572,716	605,616
	Brokerage Fees	20,838	18,082	14,199	16,329	18,778	20,656	22,722	24,994
	Ownership Transfer & Mortgage Fees	6,867	19,251	8,413	22,294	26,753	32,104	36,920	42,458
	Other Fees	3,218	9,776	12,332	14,182	14,891	15,635	16,417	17,238
	Total Revenues	189,648	123,904	149,697	415,987	543,642	601,791	648,774	690,305
	General, Administrative & Other Exp.	(113,922)	(113,755)	(101,842)	(106,173)	(115,619)	(125,034)	(135,893)	(145,415)
	Amortization	(75,854)	(75,854)	(62,363)	(62,363)	(62,363)	(62,363)	(62,363)	(62,365)
	Non Core Income	73,168	54,150	45,328	48,968	53,438	58,648	60,620	62,680
	Finance Cost	(1,536)	(1,715)	-	-	-	-	-	-
	Profit Before Taxation	73,463	(14,719)	31,962	295,856	418,567	472,547	510,733	544,911
Minority Interest	5,498	(7,859)	(3,223)	5,917	4,186	4,725	5,107	5,449	
Net Profit	78,961	(6,860)	35,185	289,939	414,381	467,821	505,625	539,461	
Balance Sheet	Cash and Bank Balance	247,980	50,980	65,295	321,094	429,642	593,492	758,822	859,813
	Investment Deposits	482,150	631,426	778,126	1,167,189	1,342,267	1,442,937	1,515,084	1,590,838
	Prepaid Expenses & Other Rec.	23,674	19,164	20,888	85,477	67,024	57,706	44,437	47,281
	Amount Due From a Related Party	2,618	917	-	-	-	-	-	-
	Total Current Assets	766,199	702,487	864,309	1,573,760	1,838,933	2,094,136	2,318,343	2,497,933
	-	-	-	-	-	-	-	-	-
	Available For Sale Investments	1,325,407	1,266,400	1,187,494	961,870	981,108	1,000,730	1,010,737	1,020,844
	Intangible Assets	2,647,238	2,571,384	2,509,021	2,446,658	2,384,295	2,321,932	2,259,569	2,197,204
	Goodwill	2,878,874	2,878,874	2,878,874	2,878,874	2,878,874	2,878,874	2,878,874	2,878,874
	Net Fixed Assets	40,006	21,889	14,664	13,561	11,792	9,359	6,261	2,498
	Total Non-Current Assets	7,148,785	6,995,807	6,847,313	6,558,223	6,513,329	6,468,155	6,412,701	6,356,680
	Total Assets	7,914,984	7,698,294	7,711,622	8,131,983	8,352,262	8,562,290	8,731,044	8,854,613
	Payables and Accrued Expenses	247,432	120,179	153,541	314,759	346,235	353,160	360,223	367,427
	Amount Due to a Related Party	48,500	48,500	50,331	50,331	50,331	50,331	50,331	50,331
	Employee Indemnity Provision	6,065	6,717	8,294	9,953	11,943	14,332	17,198	20,638
	Subordinate Loan	58,414	20,366	21,297	22,362	22,585	22,811	23,039	23,270
	Paid -up Capital	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
	Reserves	247,016	247,016	250,535	279,529	320,967	367,749	418,312	472,258
	Net IPO Surplus	31,608	-	-	-	-	-	-	-
	Investment Revaluation Reserve	(944,741)	(981,821)	(1,002,816)	(802,253)	(794,230)	(786,288)	(778,425)	(770,641)
Retained Earnings	375,634	218,190	214,516	235,461	368,404	509,443	604,506	650,021	
Total Shareholders Equity	7,523,203	7,479,021	7,457,871	7,708,373	7,890,776	8,086,540	8,240,029	8,347,274	
Total Equity & Liability	7,914,984	7,698,294	7,711,622	8,131,983	8,352,262	8,562,290	8,731,044	8,854,613	
Cash Flow	Cash Flow from Operating Activities	106,873	99,245	88,513	418,642	491,179	507,327	548,773	566,158
	Cash Flow from Investing Activities	344,728	44,663	(289,870)	76,092	(142,856)	(63,702)	(23,672)	(25,397)
	Cash Flow from Financing Activities	(314,018)	(186,339)	(694)	(238,935)	(239,776)	(279,774)	(359,772)	(439,770)
	Change in Cash	137,583	(42,431)	(202,051)	255,799	108,547	163,851	165,330	100,991
	Net Cash at End	476,827	434,396	232,345	321,094	429,642	593,492	758,822	859,813
Ratio Analysis	Current Ratio (x)	2.6	4.2	4.2	4.3	4.6	5.2	5.6	6.0
	Growth in Operating Profit	-76.8%	-109.1%	-581.5%	802.4%	41.3%	12.9%	8.1%	6.7%
	Growth in Net Profit	-77.3%	-120.0%	-317.1%	825.6%	41.5%	12.9%	8.1%	6.7%
	Operating Margin	39.5%	-5.5%	22.0%	71.4%	77.2%	78.7%	78.9%	79.1%
	Net Profit Margin	38.7%	-11.9%	21.4%	71.1%	77.0%	78.5%	78.7%	78.9%
	Return on Average Assets	0.9%	-0.2%	0.4%	3.7%	5.1%	5.6%	5.9%	6.2%
	Return on Average Equity	0.9%	-0.2%	0.4%	3.9%	5.4%	5.9%	6.3%	6.6%
	Debt / Equity (x)	0.0	0.01	0.00	0.00	0.00	0.00	0.00	0.00
	EV/Revenues (x)	63.5	52.2	55.2	43.7	33.0	29.6	27.2	25.3
	EV/EBITDA (x)	79.9	93.8	86.8	50.6	37.2	33.2	30.7	28.7
	EPS (AED)	0.01	(0.00)	0.00	0.04	0.05	0.06	0.06	0.07
	Book Value Per Share (AED)	0.94	0.93	0.93	0.96	0.99	1.01	1.03	1.04
	Market Price (AED) *	1.51	0.84	1.04	2.28	2.28	2.28	2.28	2.28
	Market Capitalization (AEDbn)	12.08	6.72	8.32	18.24	18.24	18.24	18.24	18.24
	Dividend Yield	3.29%	0.00%	0.00%	1.32%	1.32%	1.54%	1.97%	2.63%
P/E Ratio (x)	164.44	N/A	N/A	61.65	43.6	38.60	35.71	33.47	
P/BV Ratio (x)	1.61	0.90	1.12	2.37	2.3	2.26	2.21	2.19	

Source: Company Reports & Global Research

* Market price for 2013 and subsequent years as per closing prices on DFM on December 22, 2013

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research have been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Dubai Financial Market	SELL	DFM UH	DFM.DU	AED2.28	1,10

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SELL	Fair value of the stock is < -10% from the current market price

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