

GFH Financial Group

Double digit EPS growth in 9M, lifting RoE to almost 10%

- Earnings grew comparatively by 3.3% y/y in Q3, impacted by global market sentiment, taking the nine months up by 9.8% y/y, as stronger performance from investment banking (+22%), commercial banking (+29%), and proprietary and co-investments (2.7x) were partly offset by lower treasury portfolio income (-27%) and higher CoF (65%).
- Asset quality improvement with stage 2 and 3 loans falling from 18.2% and 8.3% at YE 21A to 12.3% and 6.5%, respectively, while coverage of stage 2 and 3 improved from 2.8% and 38.6% YE 21A, respectively, to 3.2% and 42.7%.
- Maintain BUY as discount to book value is not pricing in better earnings resilience and conservative valuation on real estate assets (11% of FV).

EPS growth slowed to 3% y/y (vs. 10% in Q2 and 19% in Q1) as higher finance expense and lower treasury portfolio income almost offset a broad-based improvement in IB, CB, proprietary and co-investments. Earnings were supported by i) higher income from the investment banking division, up by 22% y/y, ii) higher income from the commercial banking segment, up by 22% y/y, on the back of expanding NIM as higher rates filter through balance sheet, and iii) added profits from equity accounted investees (USD 8.8m vs. 0 in Q2 21) following the Infracorp transaction and higher income from sale of assets (2.2x y/y). Nevertheless, this was partially offset by weaker treasury portfolio income, down by 27% y/y, and higher finance, up by 65% y/y. The 9M profit increased by 9.8% y/y, lifting RoE from 8.4% in 9m 21A to 9.2%.

Expanding asset base (+11.4% YtD) through proprietary investments, Treasury portfolio, and financing book, with a better allocation of capital. Broad-based asset growth with assets increasing by 11.4% YtD, mainly through i) higher investments in unquoted securities (10x YtD) comprising of 40% equity stake in Infracorp, ii) higher sovereign exposure with treasury portfolio up by 21% YtD, and iii) larger financing book up by 12.4% YtD through Murabaha (+7% YtD) and assets held-for-leasing (+22% YtD). Investment in RE fell by 33% YtD following the Infracorp transaction in Q1. Asset base expansion was mainly funded through higher placements from financial, non-financial institutions and individuals, up by 36% YtD, and term financing, up by 12% YtD, lifting net debt to equity ratio from 1.26x YE 21A to 1.47x.

Asset quality improved significantly. Stage 1, 2 and 3 loans make up 81.2%, 12.3%, 6.5%, respectively, compared to 73.5%, 18.2%, and 8.3%, respectively, at YE 21A. Stage 1, 2 and 3 loans coverage stand at 2.0%, 3.2% and 42.5%, respectively, compared to 2.0% 2.8%, 38.6%, respectively, as of YE 21A. We still identify a slight provision deficit of USD 22m (vs. 19m in Q1) vs our standard stress test of 1% coverage on stage 1 loans, 12% on stage 2, and 60% on stage 3. However, the collateral is strong, increasing total stage 3 coverage to 82.6% vs. cash coverage of 41.7% and stage 2 to 24.6% from 2.8% YE 21. We estimate a mid-cycle CoR of 90bps underpinning its RE loan share of >50% in the loan portfolio.

Optimal capital level and liquidity position. GFH operates at optimal capital levels, with T1 and CAR of 12.42% and 13.07%, respectively, with RWA down by 1.2% YtD following a rebound in credit risk in Q3 (+7% q/q). Shareholders also approved the issuance of an ADT1 bond of USD 300m, 4.2% of RWAs YE 22e. Leverage is reasonable at an asset/equity ratio of 9.4x, while gross loan/equity is low at 1.6x. NSFR stands at 102% (cs. 101% YE 21A), while LCR fell from 221% YE 21A to 142%. It has limited fungibility from KHC to the rest of the bank, however, with average liquidity of 47% of assets.

BUY. Discount to book value, not pricing in better earnings resilience. The stock trades at 0.9x P/tNAV, and still does not fully recognize the de-risking of the company, the enhanced focus on RoE, and the limited intangibles on the bank's balance sheet. The valuation of real estate is largely at cost, and we identify a USD 174m mark-to-market gain on the property investment book (11% of our FV) that is not reflected in shareholders' equity (2.4% of RWAs FY 22e), largely comprising land assets.

BUY

USD 0.41

Banks / BAHRAIN

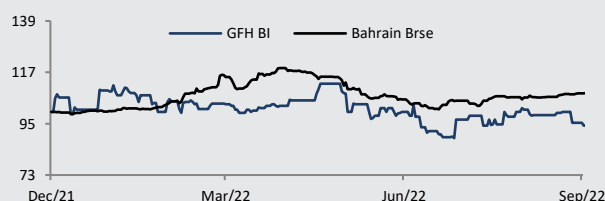
Bloomberg code	GFH BI
Market index	Bahrain Brse
Target Price	0.41
Upside (%)	63.6

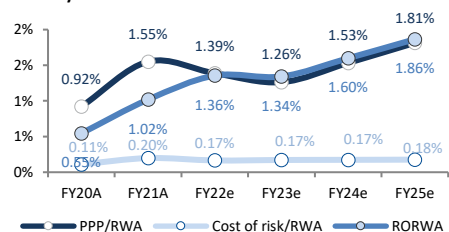
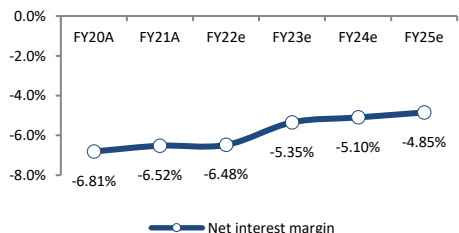
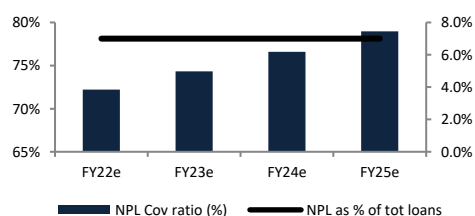
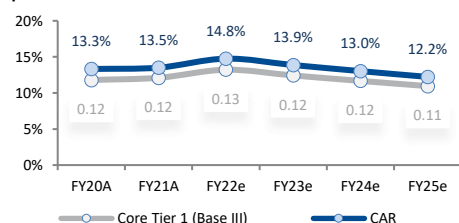
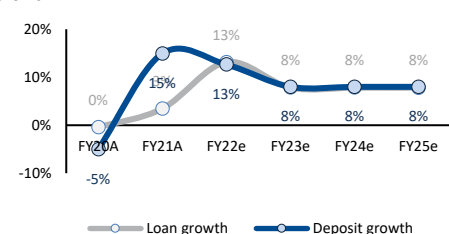
Market data 11/7/2022

Last closing price	0.25
52 Week range	0.2-0.4
Market cap (USD m)	958
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Average Daily Traded Value (USD m)	0.00
Average Daily Traded Value (USD m)	0.1
Free float (%)	80%

Year-end (local m)	2020	2021	2022e	2023e
Revenues	188	262	240	240
Pre-provisioning profit	76	128	105	102
EPS	0.01	0.02	0.03	0.03
P/E (x) (mkt price)	21.2	11.4	9.3	8.9
BVPS	0.2	0.3	0.3	0.3
Tangible BVPS	0.2	0.3	0.3	0.3
P/B (x) (mkt price)	1.0	1.0	0.9	0.9
P/TBVPS (x) (mkt price)	1.0	1.0	0.9	0.9
DPS	-	0.01	0.01	0.01
Div. yield (%)	1.9	4.8	4.8	4.8
EPPS	(0.02)	(0.01)	(0.01)	(0.01)
RoAA (%)	0.7	1.1	1.2	1.2
RoRWA (%)	0.5	1.0	1.4	1.3
RoATE (%)	4.7	9.0	10.3	10.3
RoEcC (%)	3.8	8.0	9.9	9.8
RAROC (%)	3.8	8.7	10.1	10.0
Net LtD ratio (%)	97.7	87.9	88.3	88.2
Risk Weighted Assets (bn)	8.3	8.3	7.6	8.1
Core Equity T1 ratio (%)	11.8	12.1	13.2	12.4
Tier 1 capital ratio (%)	12.4	12.9	14.0	13.2
Total capital ratio (%)	13.3	13.5	14.8	13.9
NPL ratio (%)	8.0	7.1	7.0	7.0
Coverage ratio (%)	52.8	73.2	72.2	74.3
Number of shares	3,833	3,833	3,833	3,833

Price Performance



Abacus Arqaam Capital Fundamental Data
Profitability

NIM

Credit Quality

Capital Ratios

Growth

GFH Financial Group

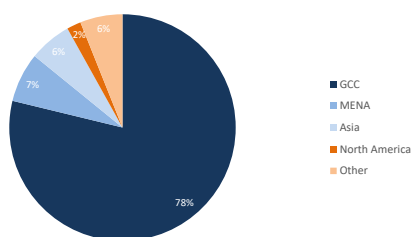
Year-end	2020	2021	2022e	2023e	2024e	2025e
Performance analysis						
Net Interest Margin (%)	(6.81)	(6.52)	(6.48)	(5.35)	(5.10)	(4.85)
Asset yield (%)	4.67	4.13	3.80	4.80	4.90	5.00
Cost of Funds (%)	4.90	4.36	4.60	5.20	5.25	5.30
Risk Adjusted Margins (%)	(7.34)	(7.37)	(6.97)	(5.77)	(5.51)	(5.25)
Cost / Income (%)	59.6	51.0	56.2	57.7	52.1	47.0
Net Interest Income / total income (%)	(62.2)	(47.8)	(69.8)	(73.4)	(67.9)	(62.6)
Fees & Commissions / operating income (%)	2.4	1.8	2.2	2.4	2.3	2.3
Trading gains / operating income (%)	128.7	115.3	125.6	124.9	121.2	117.5
RoATE (%)	4.7	9.0	10.3	10.3	12.2	13.8
Pre-prov. RoATE (%)	5.9	10.4	11.3	11.3	12.9	14.4
RoAA (%)	0.7	1.1	1.2	1.2	1.4	1.6
Revenue / RWA (%)	2.28	3.17	3.17	2.98	3.20	3.42
Costs / RWA (%)	1.36	1.62	1.78	1.72	1.67	1.61
PPP / RWA (%)	0.92	1.55	1.39	1.26	1.53	1.81
Cost of Risk / RWA (%)	0.11	0.20	0.17	0.17	0.17	0.18
RoRWA (%)	0.55	1.02	1.36	1.34	1.60	1.86
RoRWA (%) (adj. for gross-up of associates)	0.55	1.02	1.13	1.12	1.32	1.54
Year-end	2020	2021	2022e	2023e	2024e	2025e
Asset Quality						
Provisions charge / avg. gross loans (%)	0.7	1.2	0.9	0.9	0.9	0.9
Past due not impaired / gross loans (%)	8.1	4.1	4.6	4.7	4.8	5.0
NPL / gross loans (%)	8.0	7.1	7.0	7.0	7.0	7.0
NPL coverage ratio (%)	52.8	73.2	72.2	74.3	76.6	79.0
Provisions / avg. gross loans (%)	8.1	4.1	4.6	4.7	4.8	5.0
Provisions charge / operating income (%)	12.0	12.8	11.9	13.6	11.3	9.7
Year-end	2020	2021	2022e	2023e	2024e	2025e
Funding and Liquidity						
Net Loans / Deposits (%)	97.7	87.9	88.3	88.2	88.0	87.9
Cash and interbank / assets (%)	(16.8)	(17.2)	(22.0)	(22.8)	(23.3)	(23.7)
Deposits / liabilities (%)	24.0	21.6	21.2	21.2	21.2	21.2
Year-end	2020	2021	2022e	2023e	2024e	2025e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	11.8	12.1	13.2	12.4	11.7	11.0
Tier 1 ratio (%)	12.4	12.9	14.0	13.2	12.4	11.6
Total capital ratio (%)	13.3	13.5	14.8	13.9	13.0	12.2
Tangible equity / assets (%)	18.0	14.5	12.1	11.9	12.0	12.2
RWA / assets (%)	125.6	102.3	84.0	82.7	81.6	80.5
Year-end	2020	2021	2022e	2023e	2024e	2025e
Growth						
Revenues (%)	(10.4)	38.9	(8.4)	0.3	14.1	14.0
Cost (%)	9.6	18.9	0.9	3.0	3.0	3.0
Pre-Provision Operating Profit Growth (%)	(29.4)	68.4	(18.1)	(3.2)	29.3	26.1
Provisions (%)	(79.6)	78.8	(23.6)	10.3	8.0	8.0
Net Profit (%)	(31.7)	86.8	21.8	5.4	26.8	24.3
Assets (%)	10.8	22.7	11.5	8.0	8.0	8.0
Loans (%)	(0.4)	3.5	13.1	7.8	7.8	7.8
Deposits (%)	(5.0)	14.9	12.6	8.0	8.0	8.0
Risk Weighted Assets (%)	(0.7)	-	(8.4)	6.4	6.5	6.6

Abacus Arqaam Capital Fundamental Data

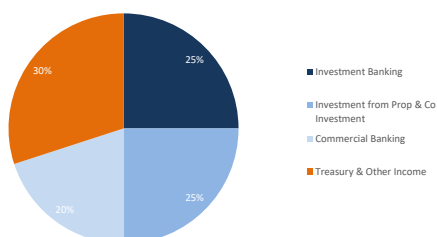
Company Profile

GFH is a Bahrain-domiciled Sharia-compliant financial group that is focused on investment banking, treasury activities, commercial and retail banking in Bahrain via Khaleeji Commercial Bank BSC (KHCB) and proprietary investments.

Geographical breakdown



Revenue Breakdown



Management

CEO	Hisham Ahmed Al Rayes
CFO	Suryanarayanan Hariharan
COO	Salah Abdulla Sharif

Major Shareholders

Keypoint Trust	10.00%
AL RAGHD & AL MANAR REAL ESTATE	9.79%
KFH Capital - electronic 1	2.92%
United Motors & Heavy Equipment Company	2.89%
PINNACLE	2.89%
ASSAD ABDUL AZIZ ABED ALLAH AL SANAD	2.42%

GFH Financial Group

Year-end	2020	2021	2022e	2023e	2024e	2025e
Income statement (USDmn)						
Interest income	80	79	98	158	179	202
Interest expense	198	204	265	335	365	398
Net Interest Income	(117)	(125)	(167)	(176)	(186)	(196)
Fee income	5	5	5	6	6	7
Net investment income	163	192	224	220	246	274
Other operating income	138	191	177	190	208	227
Total operating income	188	262	240	240	274	313
Total operating expenses	112	134	135	139	143	147
Pre-provision operating profit	76	128	105	102	131	166
Net provisions	9	16	13	14	15	16
Other provisions / impairment	18	19	11	12	13	14
Operating profit	49	93	81	76	103	135
Associates	-	-	28	39	43	46
Pre-tax profit	49	93	109	115	146	181
Taxation	-	-	-	-	-	-
Net profit	49	93	109	115	146	181
Minorities	4	8	7	7	9	11
Others	-	-	-	-	-	-
Attributable net profit	45	84	103	108	137	170
Diluted EPS	0.01	0.02	0.03	0.03	0.04	0.04
DPS	-	0.01	0.01	0.01	0.01	0.02
BVPS	0.24	0.25	0.27	0.28	0.31	0.34
Tangible BVPS	0.24	0.25	0.27	0.28	0.31	0.34

Year-end	2020	2021	2022e	2023e	2024e	2025e
Balance sheet (USDmn)						
Gross loans and advances	1,323	1,382	1,562	1,687	1,822	1,968
Less: loan loss provisions	56	71	79	88	98	109
Net loans and advances	1,267	1,311	1,483	1,599	1,724	1,859
Cash and central bank	537	722	586	727	880	1,045
Due from banks	-	-	-	-	-	-
Investment, net	4,033	5,379	6,208	6,619	7,062	7,542
Fixed assets, net	144	140	74	74	74	74
Other assets	606	531	541	584	631	681
Total assets	6,587	8,084	9,013	9,734	10,513	11,354
Customer deposits	1,298	1,491	1,680	1,814	1,959	2,116
Due to banks	1,640	2,113	2,569	2,948	3,334	3,732
Debt	1,089	1,751	1,932	1,932	1,932	1,932
Other liabilities	1,374	1,561	1,740	1,880	2,030	2,192
Total liabilities	5,401	6,916	7,921	8,574	9,255	9,972
Total equity	1,186	1,168	1,092	1,160	1,258	1,382
Risk Weighted Assets (bn)	8	8	8	8	9	9
Average Interest-Earning Assets	1,721	1,919	2,581	3,299	3,654	4,038
Average Interest-Bearing Liabilities	4,029	4,691	5,768	6,438	6,960	7,503
Common shareholders	913	963	1,020	1,082	1,174	1,291
Core Equity Tier 1 (Basel III)	976	1,001	1,001	1,001	1,001	1,001
Tier 1 capital	1,026	1,064	1,064	1,064	1,064	1,064

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