Company Report
November 16 2022

Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Ribal Hachem
ribal.hachem@arqaamcapital.com

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 KHCB 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

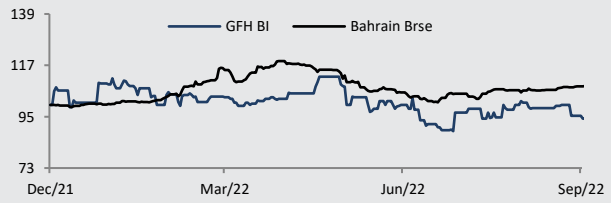
Banks / BAHRAIN

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
Market cap (USD m)	958
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

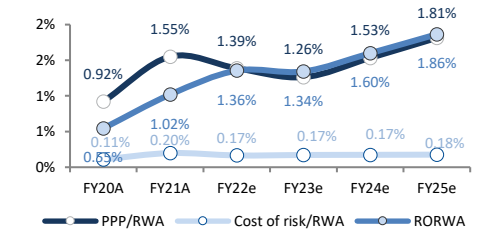
Price Performance



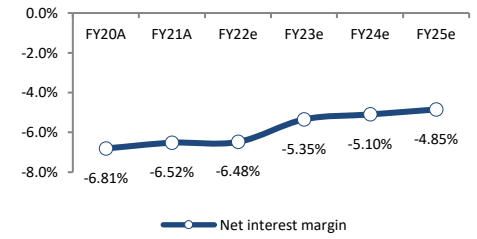
© Copyright 2022, Arqaam Capital Limited. All Rights Reserved.
See Important Notice (see note 7). **This is a commissioned report.**

Abacus *Arqaam Capital Fundamental Data*

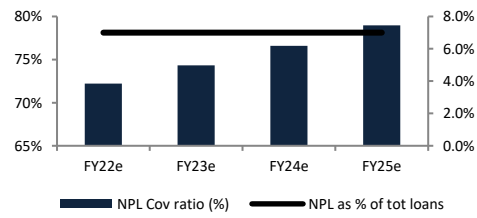
Profitability



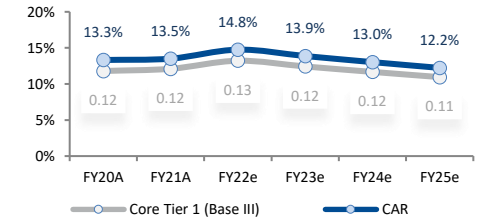
NIM



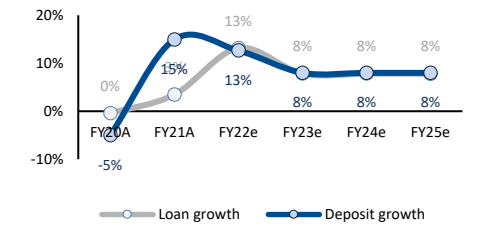
Credit Quality



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

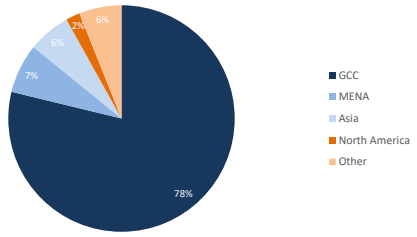
© Copyright 2022, Arqaam Capital Limited. All Rights Reserved. See Important Notice.

Abacus *Arqaam Capital Fundamental Data*

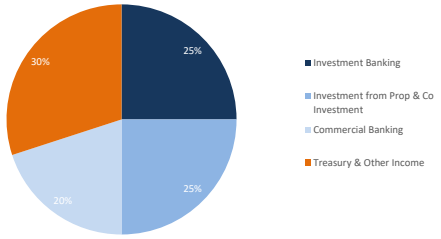
Company Profile

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 - electonic 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

Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Ribal Hachem
ribal.hachem@arqaamcapital.com

© Copyright 2022, Arqaam Capital Limited. All Rights Reserved. See Important Notice.

Important Notice

1. Author, regulator and responsibility
Arqaam Capital Limited ("**Arqaam**") is incorporated in the Dubai International Financial Centre ("**DIFC**") and is authorised and regulated by the Dubai Financial Services Authority ("**DFSA**") to carry on financial services in and from the DIFC. Arqaam publishes and distributes (i.e. issues) all research.
Arqaam Capital Research Offshore s.a.l. is a specialist research centre in Beirut, Lebanon, which assists in the production of research issued by Arqaam.

2. Purpose
This document is provided for informational purposes only. Nothing contained in this document constitutes investment, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Arqaam did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives.

3. Rating system
Arqaam investment research is based on the analysis of regional and country economics, industries and company fundamentals. Arqaam company research reflects a long-term (12-month) fair value target for a company or stock. The ratings bands are:

Buy	Total return >15%
Hold	0-15%
Sell	Total return <0%

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Arqaam policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Arqaam's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Arqaam clients.

4. Accuracy of information
The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is accurate or complete and it should not be relied upon as such. Any mention of market rumours has been derived from the markets and is not purported to be fact or reflect our opinions. Arqaam has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. In accordance with Regulation AC of the 1934 Exchange Act, the views expressed in this research report accurately reflect the research analysts' personal views about the subject securities or issuers and are subject to change without notice. No part of the research analysts' compensation is related to the specific recommendations or views in the research report.

5. Recipients and sales and marketing restrictions
5.1 Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service.
5.2 This document is directed at Professional Clients and not Retail Clients within the meaning of DFSA rules. Any investments or financial products referred to herein will only be made available to clients who Arqaam is satisfied qualifies as Professional Clients. Any other persons in receipt of this document must not rely upon or otherwise act upon it.
5.3 This document is only being distributed to investors who meet certain qualifications and to whom an investment or service may be offered or promoted in accordance with relevant country restrictions. This excludes the US except for SEC registered broker-dealers (or banks in permissible "broker" or "dealer" capacity) acting on a principal or agency capacity, and major US institutional investors in accordance with SEC Rules 15a-6(a)(2). Details of other relevant country restrictions are set out on our website at http://www.arqaamcapital.com/english/system/footer/terms-of-use.aspx. Persons into whose possession this document comes are required to inform themselves about, and observe, such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorisation, registration or other legal requirements.

6. Risk warnings
6.1 Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected.
6.2 The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).
6.3 Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgement. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance.
6.4 Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.
6.5 This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

7. Conflict
7.1 Arqaam and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document.
7.2 Arqaam may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document.
7.3 Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Arqaam business areas, including investment banking personnel.
7.4 Emirates NBD PJSC owns 8.32% of Arqaam.
7.5 The report on GFH is a commissioned piece, for which Arqaam Capital has been remunerated.

8. No warranty
Arqaam makes no representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, merchantability, fitness for a particular purpose and/or non-infringement.

9. No liability
Arqaam will accept no liability in any event including (without limitation) negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

10. Copyright and Confidentiality
The entire content of this document is subject to copyright with all rights reserved and the information is private and confidential for your own personal use only. This document and the information contained herein may not be reproduced, distributed or transmitted to any other person or incorporated in any way into another document or other material without our prior written consent.

11. Governing law
English law governs this document and these disclaimers and any dispute in relation thereto shall be exclusively referred to the English Courts.

© Copyright 2022, Arqaam Capital Limited. All Rights Reserved. See Important Notice.