Company Report

June 6 2024

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GFH Financial Group

EPS growth continues as the treasury and proprietary segment picks up, while the IB segment remains resilient.

- **In Q1, the strong performance was supported mainly by the income stemming from treasury and proprietary segment, up by c. 4x y/y, despite higher OpEx and impairment charges.**
- **The IB segment remains a key contributor to revenue generation, but income was only up by 2.4% y/y, while the commercial banking segment (-2.2% y/y) continues to be impacted by higher CoF. EPS still grew by 24% y/y and 25% q/q, yielding a RoE of 11.3% (vs 9.8% in Q1 23).**
- **The balance sheet was down by 5% YtD mainly due to the sale of real estate assets, with AUMs of USD20.6bn as of Q1 24 (vs. 21.1bn at YE 23).**
- **Maintain BUY on broad-based RoE expansion, de-risking, and growing AuM base. The stock trades at P/tNAV 24e of 1.1x while offering RoE of 11.4%. Next catalyst: Potential listing in KSA, expanding IB platform, and recovering commercial banking performance.**

We pencil in an EPS CAGR of 16% for FY23-28e, with RoE expanding from 9% in FY22 to 16% in FY28e. EPS grew by 24% y/y mainly thanks to higher income from the treasury and proprietary segment, up by c. 4x y/y, through a significant surge in direct investment income (USD 59m in Q1 24 vs. USD 3m in Q1 23) and the sale of assets, primarily real estate (USD 10m vs. USD 0.1m). The IB segment remains a crucial support to revenue generation, accounting for 28% of the total in Q1 24, although growth was limited to 2.4% y/y. Finally, the commercial banking segment, representing 24% of total revenue generation in Q1, was down by 2.2% y/y as higher CoF amidst an elevated rate environment offsets higher interest income. Total income jumped by 55%, though it was partially offset by higher other OpEx (+50% y/y) and impairment charges ($14m vs. $0.6m).

Ambitious targets on track. GFH continues to expand its assets and AUM base, reaching USD 20.6bn in Q1 24 vs. 17.6 in FY22. GFH is on track to achieve its USD 25bn target by YE25e, through organic and inorganic growth, reflected by the launch of GFH Partners, a dedicated global real estate investment arm currently USD 6bn in assets across US and Europe. The momentum in the IB segment is resilient, with five investment banking deals successfully closed in Q1 24 (total fund size of over USD 200m). We expect a revenue CAGR FY24-28e of 12%, an operating profit growth of 19%, and EPS CAGR of 17%, with RoE gradually improving from 10.4% in FY23 to 15.8% in FY28e and RORWA from 1.98% to 2.39%.

De-risked strategy. GFH cut its real estate portfolio (23.6% of assets in FY 21 to 10.7% in Q1 24A). The group plans to improve return generation by enhancing existing business lines through ii) refocusing on financial assets across the rest of the group, iii) enhancing Khaleeji's asset base, iv) expanding treasury operations and investment banking, and v) expanding international footprint.

Slight contraction in the asset base (mainly due to RE sales). The asset base declined by 5% YtD on contracting treasury portfolio and investment in real estate, down by 12% and 18% YtD, respectively, and sales of assets (USD 338m, mostly RE). This is reflected by a reduction in funding from financial institutions, down by 24% YtD. GFH targets to grow the AuM base to USD 25bn through organic/inorganic growth, focusing on recession-proof sectors and high-growth regional and global markets.

BUY USD 0.41/ AED 1.51/ Kwd 0.13

Banks / BAHRAIN

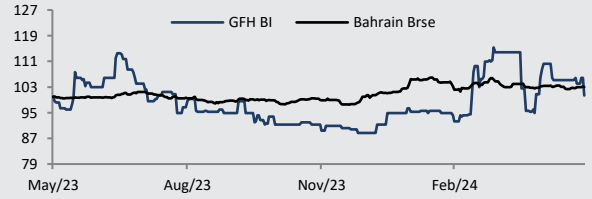
Bloomberg code	GFH BI/ GFH UH/ GFH KK
Market index	Bahrain Brse/ DFM/ ADX/ Boursa Kuwait
Target Price	USD 0.41/ AED 1.51/ Kwd 0.13
Upside (%)	33.3

Market data 6/3/2024

Last closing price (USD)	0.31
52 Week range	0.2-0.3
Market cap (USD m)	1,180
Free float (%)	92%

Year-end (local m)	2022	2023	2024e	2025e
Revenue	221	273	294	334
Pre-provisioning profit	73	91	116	147
EPS	0.02	0.03	0.03	0.04
P/E (x) (mkt price)	13.2	11.6	10.2	8.5
BVPS	0.3	0.3	0.3	0.3
Tangible BVPS	0.3	0.3	0.3	0.3
P/B (x) (mkt price)	1.2	1.2	1.1	1.1
P/TBVPS (x) (mkt price)	1.2	1.2	1.1	1.1
DPS	0.02	0.02	0.02	0.02
Div. yield (%)	5.1	5.1	5.5	6.4
RoAA (%)	1.0	1.0	1.0	1.1
RoRWA (%)	1.2	2.0	1.7	1.9
RoATE (%)	9.2	10.4	11.4	12.9
RoEcC (%)	9.7	14.0	12.9	14.6
RAROC (%)	9.4	14.0	12.9	14.9
Net LtD ratio (%)	106.7	42.1	43.0	42.9
Risk Weighted Assets (bn)	7.3	5.2	6.9	7.4
Core Equity T1 ratio (%)	13.9	19.6	17.1	17.0
Tier 1 capital ratio (%)	14.0	19.7	17.2	17.1
Total capital ratio (%)	14.7	21.0	18.1	18.0
NPL ratio (%)	3.5	7.9	8.0	8.0
Coverage ratio (%)	124.4	56.8	56.6	58.7
Number of shares	3,833	3,833	3,833	3,833

Price Performance



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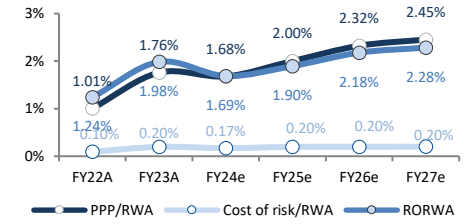
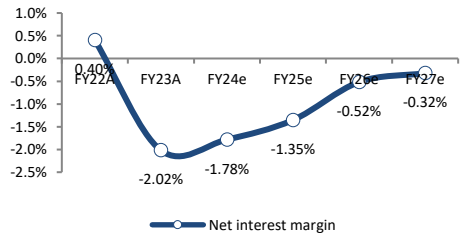
Abacus *Arqaam Capital Fundamental Data*

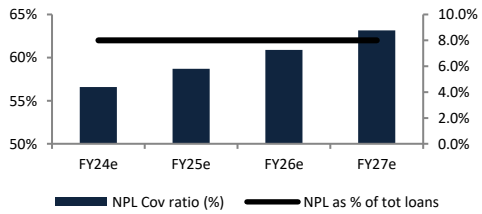
Profitability



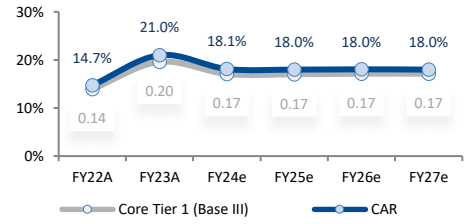
NIM



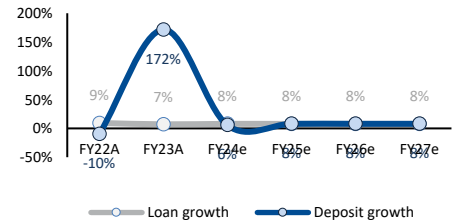
Credit Quality



Capital Ratios



Growth



GFH Financial Group

Year-end	2022	2023	2024e	2025e	2026e	2027e
Performance analysis						
Net Interest Margin (%)	0.40	(2.02)	(1.78)	(1.35)	(0.52)	(0.32)
Asset yield (%)	4.38	5.07	4.50	4.30	4.10	4.10
Cost of Funds (%)	1.38	1.97	1.50	1.40	1.20	1.20
Risk Adjusted Margins (%)	0.08	(2.50)	(2.36)	(1.99)	(1.13)	(0.91)
Cost / Income (%)	66.9	66.6	60.6	55.9	52.2	50.8
Net Interest Income / total income (%)	3.9	(15.6)	(12.2)	(9.2)	(3.5)	(2.2)
Fees & Commissions / operating income (%)	4.2	10.0	10.2	9.9	9.5	9.5
Trading gains / operating income (%)	73.3	91.3	87.5	85.2	80.5	79.2
RoATE (%)	9.2	10.4	11.4	12.9	14.7	15.2
Pre-prov. RoATE (%)	9.8	11.4	12.3	13.8	15.4	16.0
RoAA (%)	1.0	1.0	1.0	1.1	1.3	1.3
Revenue / RWA (%)	3.04	5.26	4.26	4.54	4.86	4.99
Costs / RWA (%)	2.03	3.50	2.58	2.54	2.54	2.54
PPP / RWA (%)	1.01	1.76	1.68	2.00	2.32	2.45
Cost of Risk / RWA (%)	0.10	0.20	0.17	0.20	0.20	0.20
RoRWA (%)	1.24	1.98	1.69	1.90	2.18	2.28
RoRWA (%) (adj. for gross-up of associates)	1.24	1.98	1.69	1.90	2.18	2.28

Year-end	2022	2023	2024e	2025e	2026e	2027e
Asset Quality						
Provisions charge / avg. gross loans (%)	0.5	0.7	0.7	0.8	0.8	0.8
Past due not impaired / gross loans (%)	4.8	4.0	4.1	4.2	4.3	4.5
NPL / gross loans (%)	3.5	7.9	8.0	8.0	8.0	8.0
NPL coverage ratio (%)	124.4	56.8	56.6	58.7	60.9	63.2
Provisions / avg. gross loans (%)	4.8	4.0	4.1	4.2	4.3	4.5
Provisions charge / operating income (%)	9.5	11.2	10.1	9.8	8.6	8.2

Year-end	2022	2023	2024e	2025e	2026e	2027e
Funding and Liquidity						
Net Loans / Deposits (%)	106.7	42.1	43.0	42.9	42.8	42.7
Cash and interbank / assets (%)	8.8	3.4	-	(1.9)	(3.5)	(5.1)
Deposits / liabilities (%)	15.5	36.4	35.5	35.5	35.5	35.5

Year-end	2022	2023	2024e	2025e	2026e	2027e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	13.9	19.6	17.1	17.0	17.1	17.1
Tier 1 ratio (%)	14.0	19.7	17.2	17.1	17.2	17.2
Total capital ratio (%)	14.7	21.0	18.1	18.0	18.0	18.0
Tangible equity / assets (%)	11.0	9.7	9.5	9.4	9.5	9.4
RWA / assets (%)	74.6	46.6	57.4	56.7	56.1	55.5

Year-end	2022	2023	2024e	2025e	2026e	2027e
Growth						
Revenues (%)	(15.5)	23.2	7.7	13.8	14.4	9.8
Cost (%)	10.8	22.6	(2.0)	5.0	6.9	6.9
Pre-Provision Operating Profit Growth (%)	(42.8)	24.3	27.0	27.3	23.9	12.9
Provisions (%)	(57.7)	47.2	14.7	23.4	8.0	8.0
Net Profit (%)	7.2	14.0	13.1	20.0	22.7	12.1
Assets (%)	20.7	13.9	8.0	8.0	8.0	8.0
Loans (%)	9.5	7.1	7.9	7.8	7.8	7.8
Deposits (%)	(9.8)	171.7	5.7	8.0	8.0	8.0
Risk Weighted Assets (%)	(11.9)	(28.9)	33.0	6.7	6.8	6.9

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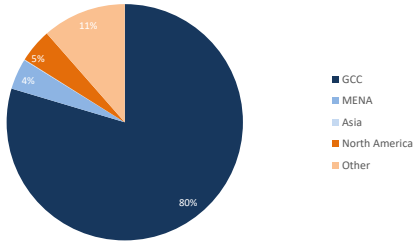
Abacus *Arqaam Capital Fundamental Data*

Company Profile

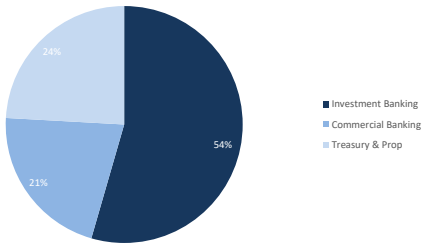
GFH is a Bahrain-domiciled Sharia-compliant financial group that is focused on investment banking, treasury activities, commercial and retail banking in Bahrain via Khaleeji Bank BSC (Khaleeji) and proprietary investments.

GFH Ratings affirmed by Fitch at "B"; Outlook stable. GFH is listed on four stock exchanges.

Geographical breakdown



Revenue Breakdown



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

Major Shareholders	
Keypoint Trust	6.13%

GFH Financial Group

Year-end	2022	2023	2024e	2025e	2026e	2027e
Income statement (USDmn)						
Interest income	95	107	91	97	105	118
Interest expense	86	149	127	128	118	128
Net Interest Income	**9**	**(42)**	**(36)**	**(31)**	**(13)**	**(9)**
Fee income	9	27	30	33	36	40
Net investment income	43	29	54	66	71	77
Other operating income	160	259	245	266	288	312
Total operating income	**221**	**273**	**294**	**334**	**382**	**419**
Total operating expenses	148	181	178	187	199	213
Pre-provision operating profit	**73**	**91**	**116**	**147**	**183**	**206**
Net provisions	7	10	12	14	16	17
Other provisions / impairment	(4)	10	4	4	5	5
Operating profit	**70**	**71**	**100**	**128**	**162**	**184**
Associates	28	35	20	20	20	20
Pre-tax profit	**98**	**105**	**120**	**148**	**182**	**204**
Taxation	-	-	-	-	-	-
Net profit	**98**	**105**	**120**	**148**	**182**	**204**
Minorities	7	2	4	9	11	12
Others	-	-	-	-	-	-
Attributable net profit	**90**	**103**	**116**	**140**	**171**	**192**
Diluted EPS	0.02	0.03	0.03	0.04	0.04	0.05
DPS	0.02	0.02	0.02	0.02	0.03	0.03
BVPS	0.26	0.26	0.27	0.29	0.32	0.34
Tangible BVPS	0.26	0.26	0.27	0.29	0.32	0.34

Year-end	2022	2023	2024e	2025e	2026e	2027e
Balance sheet (USDmn)						
Gross loans and advances	**1,500**	**1,609**	**1,738**	**1,877**	**2,027**	**2,189**
Less: loan loss provisions	64	72	79	88	99	111
Net loans and advances	1,435	1,537	1,659	1,789	1,928	2,079
Cash and central bank	858	377	456	616	790	979
Due from banks	-	-	-	-	-	-
Investment, net	6,644	7,806	8,420	8,984	9,593	10,251
Fixed assets, net	233	275	275	286	297	309
Other assets	590	1,126	1,201	1,297	1,401	1,513
Total assets	**9,760**	**11,121**	**12,011**	**12,972**	**14,010**	**15,131**
Customer deposits	1,345	3,655	3,862	4,171	4,505	4,865
Due to banks	-	-	460	861	1,281	1,743
Debt	5,733	4,448	4,448	4,448	4,448	4,448
Other liabilities	1,611	1,945	2,100	2,269	2,450	2,646
Total liabilities	**8,689**	**10,047**	**10,870**	**11,749**	**12,683**	**13,702**
Total equity	**1,071**	**1,074**	**1,141**	**1,223**	**1,327**	**1,428**
Risk Weighted Assets (bn)	7	5	7	7	8	8
Average Interest-Earning Assets	2,163	2,104	2,015	2,260	2,562	2,888
Average Interest-Bearing Liabilities	6,216	7,590	8,436	9,125	9,857	10,645
Common shareholders	997	990	1,045	1,120	1,215	1,307
Core Equity Tier 1 (Basel III)	1,016	1,016	1,177	1,252	1,347	1,439
Tier 1 capital	1,020	1,023	1,184	1,259	1,354	1,447

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Improvement in stage 2 and 3 loans, though coverage remains inadequate. Nevertheless, the impact remains limited as financing assets comprise 18% of overall assets. Stage 1, 2, and 3 loans make up 79%, 15%, and 6%, respectively, compared to 74%, 18%, and 8% at YE 23A. Stage 1, 2, and 3 loans coverage stand at 0.5%, 6.2%, and 35.3%, respectively, compared to 0.7%, 8.2%, and 30.6%, at YE 23A. We calculate a provision deficit of USD 53m vs. our standard stress test of 1% coverage on stage 1 loans, 12% on stage 2, and 60% on stage 3. However, the collateral as of YE 23A is substantial, with the average collateral coverage ratio on secured facilities at 148%.

Strong capital base with noticeable improvement in liquidity. GFH operates at a CET1 and CAR of 18.3% and 19.6%, respectively, compared to 14.0% and 14.7% at YE22, thanks to a drop in CRWA. Leverage stands at an asset/equity ratio of 9.7x, while net loan/equity is low at 1.7x. GFH reported an NSFR and LCR of 133% and 219%, respectively. The fair value of the real estate is USD 121m ahead of the book value as of YE 23.

Maintain BUY on earnings resilience thanks to a diversified business model. The stock trades at 1.1x P/tNAV24e and 10.2x P/E 24e while offering RoE of 11.4% and a 5Y EPS CAGR of 16%. Next catalyst: Potential listing in KSA, expanding IB platform and recovering commercial banking performance.

Exhibit 1: GFH Q1 24 review table

USD mn	Q1 24A	Q4 23A	q/q 24	Q1 23A	Q4 22A	q/q 23	y/y Q1	y/y Q4
Revenue by segment								
Invst. Banking	46.2	35.1	31.5%	45.1	20.4	120.8%	2.4%	71.9%
Commercial Banking	34.2	19.7	73.4%	25.5	17.1	48.9%	34.3%	15.4%
Treasury and prop.	82.6	53.4	54.7%	34.5	18.6	85.6%	139.5%	187.3%
Total Revenue	**163.0**	**108.2**	**50.6%**	**105.1**	**56.1**	**87.2%**	**55.1%**	**92.9%**
Expenses by segment								
Invst. Banking	33.2	35.3	(5.8%)	33.5	22.3	50.1%	(0.8%)	58.0%
Commercial Banking	24.2	25.1	(3.8%)	15.4	5.1	201.5%	57.0%	392.2%
Treasury and prop.	61.4	16.8	265.5%	31.1	5.5	463.0%	97.7%	204.4%
Total Expenses	**118.8**	**77.2**	**53.9%**	**80.0**	**33.0**	**142.7%**	**48.6%**	**134.3%**
Impairment allowance	**13.8**	**6.9**	**101.2%**	**0.6**	**-1.5**	**(142.9%)**	**nm**	**(561.7%)**
Net Income	**30.3**	**24.2**	**25.5%**	**24.4**	**24.6**	**(0.8%)**	**24.2%**	**(1.9%)**
Assets	**10,558**	**11,121**	**(5.1%)**	**10,401**	**8,520**	**22.1%**	**1.5%**	**30.5%**
Liabilities*	**9,474**	**10,047**	**(5.7%)**	**9,343**	**7,478**	**24.9%**	**1.4%**	**34.4%**

Source: Company Data, Arqaam Capital Research
**(incl. Equity of Invest. Account holders)*

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Exhibit 2: Valuation Table: (USD m)

Year-end	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e	perp	subtotal
1. DCF															
Net profit	217	107	114	66	45	84	90	103	116	140	171	192	214	220	
Other adjustments (comprehensive income and GW amortization)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Minus: excess return excess capital	18	16	17	10	7	5	5	16	10	11	11	12	13	13	
Risk free rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Tax shelter	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Adjusted net profit	199	91	97	56	38	79	85	87	106	129	160	180	201	206	
Capital requirements	516	1,007	964	1,000	993	992	874	622	827	883	943	1,008	1,078	1,105	
RoEcC	38.5%	9.1%	10.1%	5.6%	3.8%	8.0%	9.7%	14.0%	12.9%	14.6%	16.9%	17.8%	18.7%	18.7%	
Cost of capital	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Capital charge	67	131	125	130	129	129	114	81	108	115	123	131	140	144	
Economic profit	132	(40)	(28)	(74)	(91)	(50)	(29)	6	(1)	14	37	49	61	63	
Discount factor	--	--	--	--	--	--	--	--	1.00	0.88	0.78	0.69	0.61	0.54	
NPV of Economic Profit	--	--	--	--	--	--	--	--	(1)	13	29	34	38	34	
DCF EVA Forecast period															112
Perpetual growth rate (nominal GDP)														2.5%	
Terminal Value														598	
Terminal value discounted															325
Required Capital															622
Value of the bank operations															**1,058**
2. Capital surplus/deficit															
Available capital:															
Shareholders equity	908	1,150	1,059	1,005	913	963	997	990	1,045	1,120	1,215	1,307	1,407		
Minorities	214	346	364	288	273	205	75	85	96	104	112	121	131		
Less Goodwill & intangibles	(55)	--	--	--	--	--	--	--	--	--	--	--	--		
Less non equity elements reported shareholders equity															
Less Dividends (if included in reported equity)	(89)	(85)	(32)	(33)	(18)	(46)	(61)	(61)	(65)	(76)	(99)	(115)	(134)		
Tangible equity	978	1,411	1,391	1,260	1,168	1,122	1,010	1,013	1,076	1,147	1,227	1,314	1,404		
Capital needs															
RWAs (Basel III)	4,299	8,388	8,031	8,330	8,272	8,268	7,285	5,182	6,895	7,360	7,861	8,402	8,986		
Equity as % RWA	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%		
Financial stakes	--	--	--	--	--	--	--	--	--	--	--	--	--		
Capital Requirements	516	1,007	964	1,000	993	992	874	622	827	883	943	1,008	1,078		
Surplus capital	**462**	**404**	**427**	**260**	**175**	**130**	**136**	**392**	**249**	**264**	**284**	**305**	**326**		**392**
3. Other adjustments															
Real Estate hidden value															122
Underprovisionning vs. arqaam acid test (conservative)															(53)
Total adjustments															**69**
4. Dividends															**65**
Total Fair Value															**1,584**
Fully diluted number of shares															3,833
Fair value per share															**0.41**
Current share price															**0.31**
Upside															**33.3%**
Implied P/E (x)	7.3	14.8	13.9	24.0	35.1	18.8	17.5	15.4	13.6	11.4	9.2	8.3	7.4		
Implied P/tNAV (x)	1.9	1.4	1.5	1.6	1.7	1.6	1.6	1.6	1.5	1.4	1.3	1.2	1.1		

Source: Company Data, Arqaam Capital Research

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