Company Report
November 28 2024

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GFH Financial Group

On track to meet our FY estimates, with RoE remaining in the double digits

- **With 9M 24 meeting 75% of our FY24e estimate, we leave our estimates unchanged with USD 25m upside from lower policy rates, but we expect investment income to normalize. We expect an EPS growth of 14% and a 5-year EPS CAGR of 16%.**
- **For Q3, it recorded an EPS growth of 7.5% y/y, yielding a RoE of 11.6% (vs 10.4% in Q3 23). In Q3, the strong performance was supported mainly by the treasury and proprietary segment, up by c. +191% y/y, and improved performance of commercial banking, up +21% y/y.**
- **Maintain BUY on broad-based RoE expansion, de-risking, and growing AuM base, reaching USD21bn in Q3 24 vs. USD 17.6bn in Q4 22. The stock trades at P/tNAV 24e of 1.1x while offering RoE of >11%. Next catalyst: expanding IB platform and recovering commercial banking performance (on lower CoF) & interest rate cuts, and potential cross-listing in KSA.**

We pencil in an EPS CAGR of 16% for FY23-28e, with RoE expanding from 10.4% in FY23 to 16% in FY28e. EPS grew by +2.8% y/y and +7.5% YtD mainly thanks to higher income from the treasury and proprietary segment, up by c. +191% y/y, through a significant surge in proprietary investment income (USD 72.7m in Q3 24 vs. 26.9m USD in Q3 23) and the sale of assets, primarily real estate (USD52.2m vs. USD 6.5m). The IB segment remains crucial to revenue generation, accounting for 29.2% of the total revenue in Q3 24, revenue was up by +24.2% y/y. Finally, the commercial banking segment's result, representing 22.4% of total revenue generation in Q3, was up by 70% y/y on an easy comparison base despite the higher CoF. Total income jumped by 42.9% y/y for 9M 24, though it was partially offset by higher other OpEx (+30% y/y).

Ambitious targets on track. GFH continues to expand its assets and AUM base, reaching USD 21bn in Q3 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 with USD 6bn in assets across the US and Europe. The momentum in the IB segment is resilient, with the number of investment banking deals successfully closed in 9M 24 (total fund size of over USD +750m). We expect a revenue CAGR FY24-28e of 12%, an operating profit growth of 19%, and an 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%, supported by lower policy rates, which will reduce borrowing costs.

Strategic contraction in the asset base (mainly due to RE sales): GFH Financial Group monetised some of its real estate investments, with real estate investment book further declining by double digits as a %. As a result, GFH's total asset base contracted by 1.7% YtD. GFH's real estate investment property portfolio contracted by -32% y/y to USD 525m. However, the development portfolio expanded by +21.6% y/y to USD 675m to focus on value-accretive construction projects. We anticipate the expansion to be mainly concentrated in UAE and Saudi Arabia, backed by the growing demand for logistics infrastructure and residential projects.

De-risked strategy, with reduced minority share leakage. The group plans to improve return generation by enhancing existing business lines through ii) enhancing Khaleeji's asset base, iv) expanding treasury operations and investment banking, v) expanding international footprint, vii) reduced minority share, as it bought an additional 25% stake in Khaleeji. (GFH has increased its ownership in Khaleeji Commercial Bank from 57.95% to 82.95% as of September 30, 2024). GFH targets to grow the AuM base to USD 25bn (vs USD 21bn currently) 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

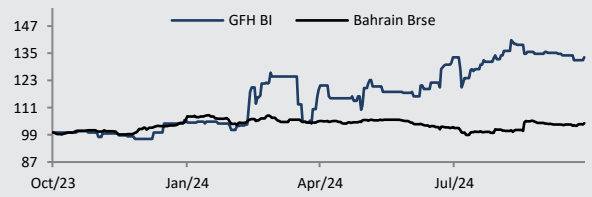
Bloomberg code	GFH BI
Market index	Bahrain Brse
Target Price	0.41
Upside (%)	25.2

Market data 11/21/2024

Last closing price (USD)	0.34
52 Week range	0.2-0.4
35Market cap (USD m)	1,265
Free float (%)	90%

Year-end (local m)	2023	2024e	2025e	2026e
Revenue	273	300	334	382
Pre-provisioning profit	91	123	147	183
EPS	0.03	0.03	0.04	0.04
P/E (x) (mkt price)	11.6	10.2	8.5	6.9
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	1.1	1.1	1.0
P/TBVPS (x) (mkt price)	1.2	1.1	1.1	1.0
DPS	0.02	0.02	0.02	0.03
Div. yield (%)	5.1	5.5	6.4	8.4
RoAA (%)	1.0	1.0	1.1	1.3
RoRWA (%)	2.0	1.7	1.9	2.2
RoATE (%)	10.4	11.5	12.9	14.7
RoEcC (%)	14.0	12.9	14.6	16.9
RAROC (%)	14.0	12.9	14.9	17.2
Net LtD ratio (%)	42.1	43.0	42.9	42.8
Risk Weighted Assets (bn)	5.2	6.9	7.4	7.9
Core Equity T1 ratio (%)	19.6	17.1	17.0	17.1
Tier 1 capital ratio (%)	19.7	17.2	17.1	17.2
Total capital ratio (%)	21.0	18.1	18.0	18.0
NPL ratio (%)	7.9	8.0	8.0	8.0
Coverage ratio (%)	56.8	56.6	58.7	60.9
Number of shares	3,833	3,833	3,833	3,833

Price Performance



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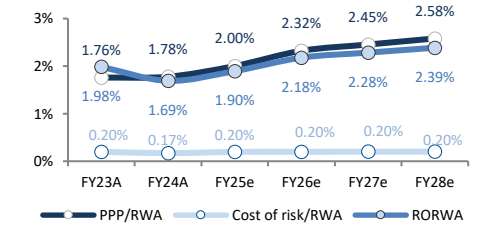
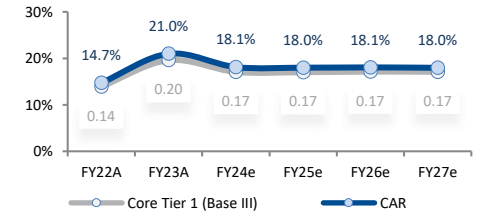
Abacus *Arqaam Capital Fundamental Data*

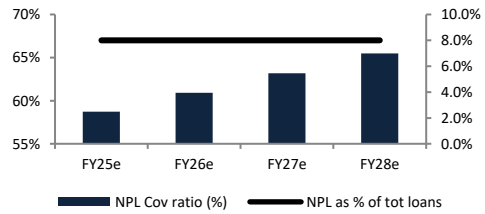
Profitability

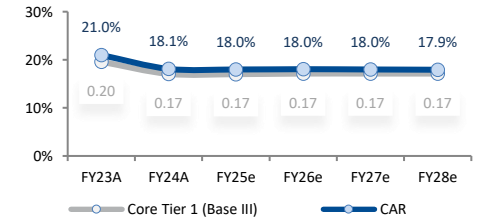


Capital Ratios



Credit Quality





GFH Financial Group

Year-end	2023	2024e	2025e	2026e	2027e	2028e
Performance analysis						
Asset yield (%)	5.07	4.50	4.30	4.10	4.10	4.10
Cost of Funds (%)	1.97	2.22	1.40	1.20	1.20	1.20
Cost / Income (%)	66.6	59.2	55.9	52.2	50.8	49.5
Fees & Commissions / operating income (%)	10.0	10.0	9.9	9.5	9.5	9.5
Trading gains / operating income (%)	91.3	108.0	85.2	80.5	79.2	78.0
RoATE (%)	10.4	11.5	12.9	14.7	15.2	15.8
Pre-prov. RoATE (%)	11.4	12.3	13.7	15.4	16.0	16.5
RoAA (%)	1.0	1.0	1.1	1.3	1.3	1.4
Revenue / RWA (%)	5.26	4.36	4.54	4.86	4.99	5.12
Costs / RWA (%)	3.50	2.58	2.54	2.54	2.54	2.53
PPP / RWA (%)	1.76	1.78	2.00	2.32	2.45	2.58
Cost of Risk / RWA (%)	0.20	0.17	0.20	0.20	0.20	0.20
RoRWA (%)	1.98	1.69	1.90	2.18	2.28	2.39
RoRWA (%) (adj. for gross-up of associates)	1.98	1.69	1.90	2.18	2.28	2.39
Year-end	**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Asset Quality						
Provisions charge / avg. gross loans (%)	0.7	0.7	0.8	0.8	0.8	0.8
Past due not impaired / gross loans (%)	4.0	4.1	4.2	4.3	4.5	4.7
NPL / gross loans (%)	7.9	8.0	8.0	8.0	8.0	8.0
NPL coverage ratio (%)	56.8	56.6	58.7	60.9	63.2	65.5
Provisions / avg. gross loans (%)	4.0	4.1	4.2	4.3	4.5	4.7
Provisions charge / operating income (%)	11.2	9.6	9.8	8.6	8.2	7.9
Year-end	**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Funding and Liquidity						
Net Loans / Deposits (%)	42.1	43.0	42.9	42.8	42.7	42.6
Cash and interbank / assets (%)	3.4	-	(1.9)	(3.5)	(5.1)	(6.5)
Deposits / liabilities (%)	36.4	35.5	35.5	35.5	35.5	35.5
Year-end	**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	19.6	17.1	17.0	17.1	17.1	17.1
Tier 1 ratio (%)	19.7	17.2	17.1	17.2	17.2	17.2
Total capital ratio (%)	21.0	18.1	18.0	18.0	18.0	17.9
Tangible equity / assets (%)	9.7	9.5	9.4	9.5	9.4	9.4
RWA / assets (%)	46.6	57.4	56.7	56.1	55.5	55.0
Year-end	**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Growth						
Revenues (%)	23.2	10.2	11.2	14.4	9.8	9.6
Cost (%)	22.6	(2.0)	5.0	6.9	6.9	6.9
Pre-Provision Operating Profit Growth (%)	24.3	34.5	20.2	23.9	12.9	12.5
Provisions (%)	47.2	14.7	23.4	8.0	8.0	8.0
Net Profit (%)	14.0	13.3	19.7	22.7	12.1	11.8
Assets (%)	13.9	8.0	8.0	8.0	8.0	8.0
Loans (%)	7.1	7.9	7.8	7.8	7.8	7.8
Deposits (%)	171.7	5.7	8.0	8.0	8.0	8.0
Risk Weighted Assets (%)	(28.9)	33.0	6.7	6.8	6.9	6.9

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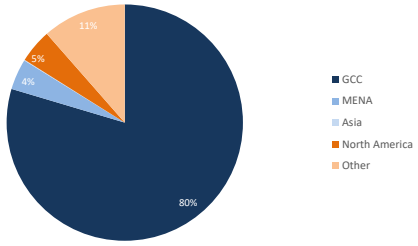
Abacus *Arqaam Capital Fundamental Data*

Company Profile

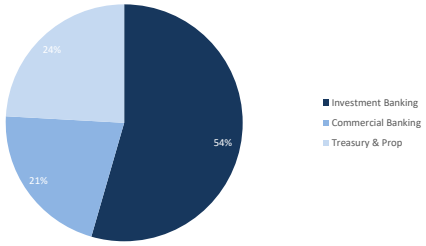
GFH is a Bahrain-domiciled Sharia-compliant financial group that is focused on investment banking, treasury and proprietary investments and commercial and retail banking in Bahrain via Khaleeji Bank BSC (Khaleeji)

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

Geographical breakdown



Revenue Breakdown



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

Major Shareholders	
Keypoint Trusts	5%
Ahmad bin Mohamemmad Al Qassim	5%

GFH Financial Group

Year-end	2023	2024e	2025e	2026e	2027e	2028e
Income statement (USDmn)						
Interest income	107	91	97	105	118	133
Interest expense	149	187	128	118	128	138
Fee income	27	30	33	36	40	44
Net investment income	29	122	66	71	77	83
Other operating income	259	245	266	288	312	338
Total operating income	**273**	**300**	**334**	**382**	**419**	**460**
Total operating expenses	181	178	187	199	213	228
Pre-provision operating profit	**91**	**123**	**147**	**183**	**206**	**232**
Net provisions	10	12	14	16	17	18
Other provisions / impairment	10	4	4	5	5	6
Operating profit	**71**	**107**	**128**	**162**	**184**	**208**
Associates	35	20	20	20	20	20
Pre-tax profit	**105**	**127**	**148**	**182**	**204**	**228**
Taxation	-	-	-	-	-	-
Net profit	**105**	**127**	**148**	**182**	**204**	**228**
Minorities	2	10	9	11	12	14
Others	-	-	-	-	-	-
Attributable net profit	**103**	**117**	**140**	**171**	**192**	**214**
Diluted EPS	0.03	0.03	0.04	0.04	0.05	0.06
DPS	0.02	0.02	0.02	0.03	0.03	0.03
BVPS	0.26	0.27	0.29	0.32	0.34	0.37
Tangible BVPS	0.26	0.27	0.29	0.32	0.34	0.37

Year-end	2023	2024e	2025e	2026e	2027e	2028e
Balance sheet (USDmn)						
Gross loans and advances	**1,609**	**1,738**	**1,877**	**2,027**	**2,189**	**2,365**
Less: loan loss provisions	72	79	88	99	111	124
Net loans and advances	1,537	1,659	1,789	1,928	2,079	2,241
Cash and central bank	377	456	616	790	979	1,183
Due from banks	-	-	-	-	-	-
Investment, net	7,806	8,420	8,984	9,593	10,251	10,961
Fixed assets, net	275	275	286	297	309	321
Other assets	1,126	1,201	1,297	1,401	1,513	1,634
Total assets	**11,121**	**12,011**	**12,972**	**14,010**	**15,131**	**16,341**
Customer deposits	3,655	3,862	4,171	4,505	4,865	5,255
Due to banks	-	460	861	1,280	1,743	2,243
Debt	4,448	4,448	4,448	4,448	4,448	4,448
Other liabilities	1,945	2,100	2,269	2,450	2,646	2,858
Total liabilities	**10,047**	**10,870**	**11,748**	**12,683**	**13,702**	**14,803**
Total equity	**1,074**	**1,141**	**1,224**	**1,327**	**1,429**	**1,538**
Risk Weighted Assets (bn)	5	7	7	8	8	9
Average Interest-Earning Assets	2,104	2,015	2,260	2,562	2,888	3,241
Average Interest-Bearing Liabilities	7,590	8,436	9,125	9,856	10,644	11,501
Common shareholders	990	1,045	1,120	1,215	1,308	1,407
Core Equity Tier 1 (Basel III)	1,016	1,177	1,252	1,347	1,440	1,539
Tier 1 capital	1,023	1,185	1,260	1,355	1,447	1,547

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Asset quality indicators show insufficient provisioning: Credit costs increased marginally to 38bps in Q3 24 vs. 33bps in Q2 24 as NPL formation is increasing at 135 bps YTD vs 56bps in Q2, 110bps in Q1, and 67bps in Q3, 23). Stages 1, 2, and 3 loans make up 83%, 9.3%, and 7.7%, respectively, compared to 74%, 18%, and 8% at YE 23A. Stage 1, 2, and 3 loans coverage stand at 0.35%, 6.25%, and 31.7%, respectively, compared to 0.4%, 6.4%, and 31.1%, at YE 23A.. The loan book is well diversified with exposure spread across segments: 31% real estate, 24% Others, 15% Manufacturing, 15% Construction, and 14% Trading.

Capital ratios remain robust despite 15% higher RWAs: GFH operates at a CET1 and CAR of 16.7% and 17.51%, respectively, compared to 19.74% and 20.98% at YE23. RWAs increased 15% YTD, mostly related to higher credit risk-weighted assets. The asset/equity ratio is 9.9x (near optimal), while net loan/equity remains low at 1.85x. GFH reported an NSFR and LCR of 138% and 216%, respectively. GFH benefits from it being domiciled in Bahrain, as **Bahraini sovereign sukuks** held in its treasury portfolio is assigned a **zero-risk weight** under regulatory frameworks. The zero risk weight reduced the GFH's risk-weighted assets (RWA), which supports an uplift in in treasury income by a lower capital charge.

The cost of funding offers room to fall as policy rates normalise. GFH's implied cost of funds (CoF) for 9M 2024 stands at 6.07% (annualised), well ahead of UAE and KSA banks, as quasi-equity forms 35% of the total funding base, which is participatory and will warrant higher profit-sharing. GFH's quasi-equity funding cost is generally lower than Sukuk issuance facilities, priced at (7.5%) but higher than other short-term deposits such as customer accounts, etc. Investment Account Holders (IAH) receive returns based on their contractual profit-sharing ratio under Mudharaba contracts. We expect GFH to be able to lower its CoF substantially once policy rate cuts come through.

GFH is strategically repositioning itself to benefit from regional infrastructure developments in the UAE and Saudi Arabia. GFH's real estate portfolio is divided into Investment Properties and Development properties. For 9M 24, the investment property portfolio declined by -32.6% y/y from asset sales needed for monetisation vs. +21% y/y expansion in the development portfolio, taking it to USD 675m. We believe the reallocation of capital from a mature investment portfolio to a growing development portfolio will be value accretive as GFH pivots its real estate strategy to benefit from the recovery demand in key GCC markets, especially in Saudia Arabia and UAE, focusing on sectors such as logistics, student housing and private equity investments.

Exhibit 1: Real Estate Portfolio

Segment	*Q3 2024*	*Q3 2023*	*YoY Change (%)*
Investment Property	**525**	**778**	***(33%)***
- Land	401	582	*(31%)*
- Building	124	196	*(37%)*
Development Property	**675**	**555**	***22%***
- Land	169	154	*10%*
- Building	506	401	*26%*
Total Portfolio	**1,200**	**1,333**	***(10%)***

Source: Arqaam Capital Research, Company Data

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Exhibit 2: GFH Q3 Preliminary Results

(USDm)	Q3 24A	ACe	vs. ACe	Q3 23A	y/y	Q2 24A	q/q	9M 24A	9M 23A	y/y c
Revenue By Segment										
IB Revenue	45	53	*(15%)*	76	*(41%)*	42	*7%*	133	166	*(20%)*
Commercial Banking	31	20	*52%*	13	*130%*	31	*(1%)*	96	55	*76%*
Proprietary & Treasury	79	28	*182%*	35	*124%*	96	*(18%)*	257	120	*115%*
Total Revenue	154	101	*53%*	124	*24%*	169	*(9%)*	486	340	*43%*
Expenses By Segment										
IB	18	37	*(51%)*	54	*(67%)*	25	*(26%)*	76	117	*(35%)*
Commercial Banking	25	15	*65%*	2	*1537%*	23	*9%*	72	26	*177%*
Treasury and Property	79	17	*363%*	38	*110%*	79	*(0%)*	220	103	*114%*
Total Expenses	123	69	*77%*	94	*31%*	127	*(3%)*	368	246	*50%*
Impairment	4			7		5		23	14	*67%*
Net income	28	32	*(13%)*	24	*17%*	38	*(26%)*	96	81	*18%*

Source: Arqaam Capital Research, Company Data

Exhibit 3: Valuation Table: (USD m)

Year-end	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e	perp	subtotal	% of total
1. DCF																
Net profit	217	107	114	66	45	84	90	103	117	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	107	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	7.1%
Perpetual growth rate (nominal GDP)														2.5%		
Terminal Value														598		
Terminal value discounted															325	20.5%
Required Capital															622	39.3%
Value of the bank operations															**1,059**	**66.8%**
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	1,308	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	1,077	1,147	1,228	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**	**306**	**326**		**392**	**24.7%**
3. Other adjustments																
Real Estate hidden value															122	7.7%
Underprovisionning vs. arqaam acid test (conservative)															(53)	
Total adjustments															**69**	**4.4%**
4. Dividends															**65**	**4.1%**
Total Fair Value															**1,584**	**100%**
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	17.6	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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