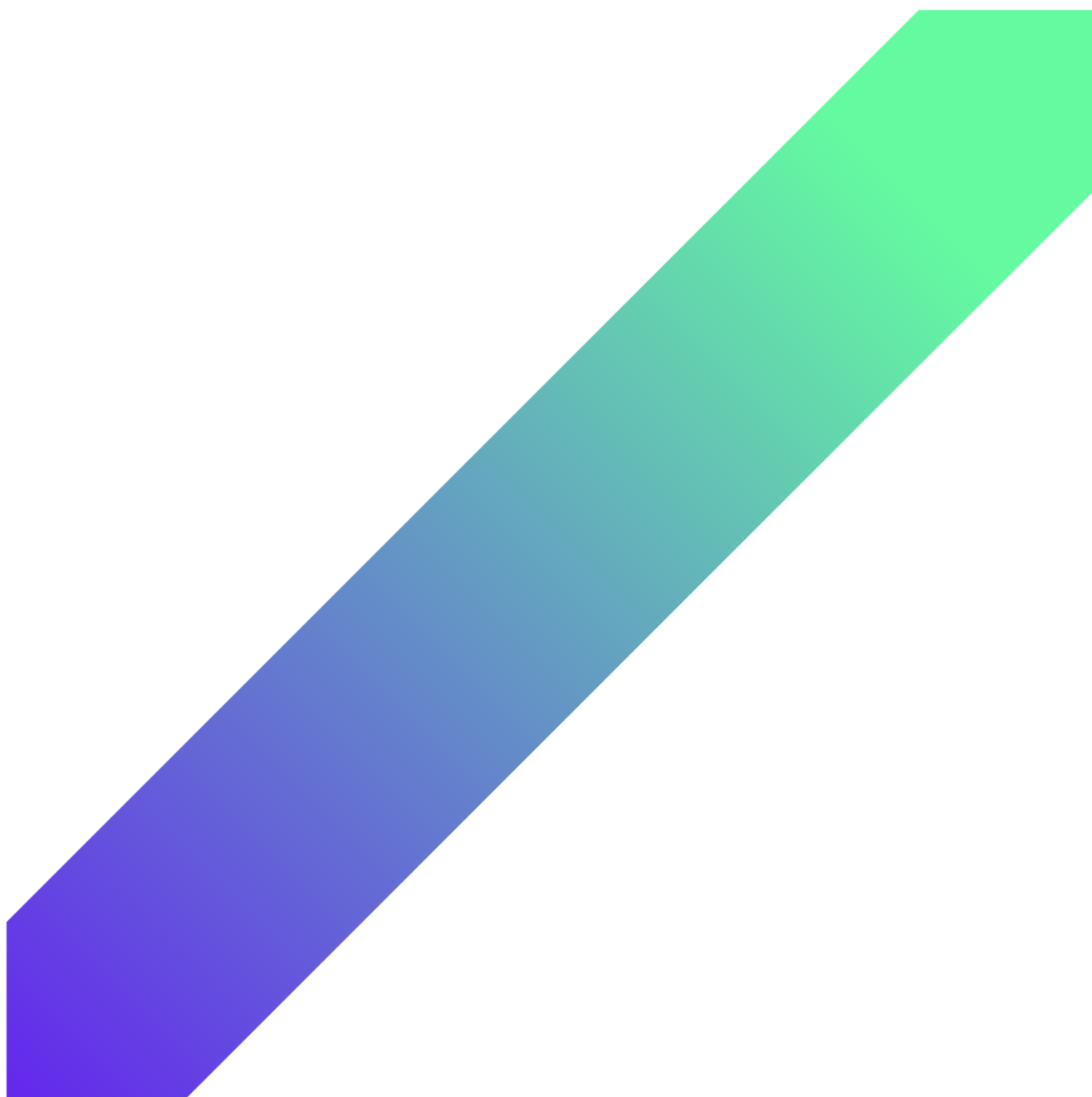


H1 2023

Earnings call transcript

**Goldman
Sachs**



Company: Goldman Sachs International (EVENT)
Conference Title: H1 DFM 2023 Earnings Call
Moderator: Waleed Mohsin
Date: Wednesday, 2nd August 2023
Conference Time: 16:00 UTC+04:00

Operator: Good day and welcome to the Dubai Financial Markets' second quarter 2023 earnings call hosted by Goldman Sachs. Today's conference is being recorded. At this time, I'd like to turn the call over to Waleed Mohsin.

Waleed Mohsin: Thank you very much. Good day, everyone, and welcome to the Dubai Financial Markets' second quarter 2023 earnings call, hosted by Goldman Sachs. It is my pleasure to welcome the DFM Management to this call, represented by the Chief Financial Officer, Mr. Ali Al Hashimi, and the Investor Relations Manager, Ms. Moza AlShafar. Please note that today's call is being recorded, and the call is intended for analysts and investors only. Any media personnel on the call should disconnect immediately. So, without any further delay, I will pass the call to Mr. Ali. Ali, please proceed.

Ali Al Hashimi: Thank you, Waleed. Thank you all for being here and joining us today. The template for today's session—I'll start with an overview of Dubai's macroeconomics. Overall, we've witnessed Dubai emerge as a major global economic hub, becoming one of the world's safest and most attractive places to live, visit, and work. These factors have significantly contributed to the current indicators, and we observed this trend last year as well as in the first half of this year, surpassing expectations to a considerable extent.

This positive trajectory continues, further solidifying Dubai's position as a leading global destination. We remain committed to delivering long-term value to our shareholders and stakeholders and look ahead to the rest of the year with confidence.

The role of tourism in Dubai's growth cannot be understated, as we welcomed over 8.5 million international visitors, solidifying our place as a top global destination. The real estate sector has also

demonstrated remarkable growth, with total transaction valuations exceeding AED 285 billion. Additionally, DIFC's appeal has attracted hedge fund managers, resulting in an increasing number of offices being set up within its premises. Dubai's efforts to improve the ease of doing business have made it an attractive destination for private businesses, talented individuals, and investors alike. These highlights illustrate the factors that contributed to DFM's robust performance, building on the momentum established in 2022 with the announcement of IPOs and the government-related entities (GRE) IPO pipeline.

The private sector has shown a keen interest in accessing capital markets, leading to new listings, sector diversification, and enhanced operational efficiencies, all in response to the demands of international investors. Notably, the IPO pipeline's materialization occurred after the Dubai Securities and Exchange Higher Committee's announcement, unlocking a host of opportunities in the capital market. Among the ten announced IPOs, four have already come to fruition, with two more recently announced. News reports suggest that these offerings could materialize either this year, next year, or in the near future.

Some of these factors have significantly contributed to the capital markets in terms of value and interaction with external and local investors. The demand, combined with the transactions we've witnessed, resulted in approximately AED 31 billion in capital raised. However, the demand on the table exceeded AED 670 billion in 2022. Subscription multiples for these transactions ranged from 18x to 49x oversubscription, highlighting the strong interest. This success was backed by the story behind these blue-chip offerings.

We anticipate a healthy pipeline for new listings, including government initiatives, and high interest from private sector companies in sectors that are not yet or less represented in the market. Dubai's GDP boasts diversification, yet there remain underrepresented sectors to tap into, as evident from recent developments. In Q2, we welcomed the successful listing of Al Ansari Financial Services, a prominent UAE family-owned business, which raised approximately AED 773 million through its IPO. This was well-received by both international and local investors, setting a template for other family businesses to tap into the capital markets.

Our initiatives also encompass the IPO Accelerator program, which has gained growing interest from private sector companies. The SME ecosystem contributes significantly to the economy, in Dubai alone SMEs make up nearly 95% of all companies. DFM launched the IPO Accelerator program in collaboration with the Dubai Chamber of Commerce to support SMEs on their journey toward growth, expansion, and potentially IPOs.

Another development, particularly relevant operationally, is the launch of future contracts on the DFM Index as part of our commitment to diversify products and offer investors hedging opportunities. These actions have played a pivotal role in the success of DFM's roadmap in 2022 and the first half of 2023.

Turning to market enhancements, we recently introduced omnibus account structure, which has received regulatory approval. This move aims to improve international investors' access to Dubai's capital markets. The Securities Lending and Borrowing (SLB) program has also been activated, with HSBC being the first to transact on this facility. Operating through Dubai Clear, one of our subsidiaries, this tool aims to facilitate these activities and presents a new opportunity for the region.

In terms of investor engagement, our Q1 MENA IPO Summit garnered significant interest. More than 500 participants from the IPO community engaged in discussions with global industry leaders, focusing on listing strategies, effective IPO communication, and supporting newly listed entities. Additionally, we've been active in utilizing our roadshows to engage with investors. DFM's international investor roadshows have seen robust participation from equity and fixed income issuers.

These roadshows are aimed at strengthening Dubai's capital market connections with international institutions based in major financial hubs such as New York, London, and Asia. We've been observing particularly strong interest from the Asian region, which is an area we are closely monitoring. In terms of operational highlights, we continue to enhance our market flexibility. Our focus on the digital onboarding journey has been successful in attracting new investors. Last year, we attracted over 167,000 investors, and in the current year, we've already welcomed 25,699 new investors in the first half of 2023. Among these, 74% are foreign investors.

The trading value reached AED 46 billion in the first half of the year, and the index recorded a 14% rise, closing at 3,792 points. This marks the highest level since 2015. Market capitalization grew by 12%, reaching approximately AED 652 billion. Institutional investors contributed 57% of the trading values in the

first half of the year, with foreign investors maintaining a 48% share in trading activity. Their foreign ownership of market capitalization increased to approximately 20%, up from around 18% last year.

Turning to financial results for the first half of 2023, the net income surged by 84% year-on-year to AED 112 million. This growth was supported by a healthy increase in trading activity, investment revenues, and other revenue streams inherent to our business model. Overall, total revenues rose by 32% year-on-year in 1H23, reaching approximately AED 218 million, and they further increased by 42% quarter-on-quarter in 2Q23. On the expense side, we've maintained control, resulting in a drop of the cost-to-income ratio to 48.5% in 1H23, compared to 62% in the first half of 2022. This improvement reflects a stronger income performance. Our EBITDA margin stands at an impressive 69%.

In terms of our business verticals, I can confidently state that all segments have delivered high income and profit in this quarter. With this, I would like to conclude my general overview of the H1 performance and pass the floor to Waleed to open the floor for the Q&A session.

Waleed Mohsin: Thank you, Ali. Operator, could you please open the floor for Q&A to all the participants? You can either ask a live question or if you prefer, you can send your questions via email to me at waleed.mohsin@gs.com or to the DFM Investor Relations team. We'll now pause briefly and then proceed with the Q&A session. Over to you, Operator.

Operator: Thank you. If you have a question, please press *1 on your telephone keypad. If you're using a speakerphone, kindly ensure that your mute function is disabled so that your question can reach us. Once again, press *1 to indicate that you have a question over the phone. We'll wait for a moment. Our first question comes from Abdulaziz with Hassana Investment Company.

Abdulaziz: Hi. Thank you for taking my question. So, I just want to understand what happened in terms of number of listed companies, how many delisting has happened year to date, and what were the reasons? And then if you can quantify in terms of IPO in the second half of this year, what should we expect?

Ali Al Hashimi: Thank you, Abdulaziz. Yes, regarding delistings, we've had a couple of overseas companies that were delisted. These were dual-listed entities on DFM. They have delisted in their home market, so they have also to delist from DFM. Additionally, another entities (3) that was primarily listed on DFM was delisted due to insolvency and legal actions.

As for your second question about the IPO pipeline for the remainder of this year, there have been announcements in the media regarding certain entities, both from the government-related entities (GRE) and the private sector, expressing their considerations for IPOs. However, nothing is confirmed at this stage, and these are preliminary announcements. A few potential IPOs have been mentioned in the news, particularly from the private sector. Nevertheless, I cannot provide confirmation or specific details about discussions related to listings from other exchanges at this point in time.

Abdulaziz: Thank you. Can I ask one more question?

Ali Al Hashimi: Yes, of course. Please go ahead.

Abdulaziz: I'd like to inquire about the split and value of trading between retail investors, local institutions, and foreign institutions in the first half of this year.

Ali Al Hashimi: Certainly. In the first half of this year, institutional investors accounted for 57% of the trading value, while retail investors contributed to the remaining 43%. Among the foreign investors, they represented about 48% of the trading activity.

Abdulaziz: Great, thank you for clarifying that. If I may ask one more question, could you provide some insight into what we should expect in terms of the tax rate and its implementation in 2024?

Ali Al Hashimi: Certainly. The Corporate Taxation Law, which has been recently introduced, will start to take effect from January 1, 2024. Our first reporting under this new tax framework will occur in 2025. As we navigate this transition, we are actively seeking advice from tax specialists to ensure we have a clear understanding of the implications. This change is expected to impact the net profit for all applicable entities, and it aligns with the broader implementation of taxation for various businesses.

Abdulaziz: Got it. That's all from my side. Thank you.

Ali Al Hashimi: Thank you.

Operator: As a reminder, you can press *1 if you have a question to ask over the phone.

Waleed Mohsin: While we wait for live questions, Ali, I'd like to read out a couple of questions that were submitted via email. One question pertains to changes made to the fee structure, specifically focusing on the minimum fee. The second part of the question revolves around any potential risks to the fee structure, considering that regional exchanges have considerably lower fees.

Ali Al Hashimi: Thank you for the question, Waleed. Our fee structure has remained largely unchanged since its last revision in 2006 when it was reduced to 50% of the then-existing rates. Currently, the fee structure involves a 27.5 basis point (BPS) fee, with 10 BPS going to the exchange, depository and clearing functions, 5 BPS goes to SCA and 12.5 BPS for the brokers. We do not anticipate any immediate changes to the fee structure. Last year, we did adjust the minimum order fee, reducing it from AED 75 to the ticket fee of AED 10, eliminating any minimum order fee. This adjustment aims to encourage the execution of orders of smaller values efficiently without unduly affecting spreads or market dynamics. This is the sole alteration we've made. Our market makers receive further incentives, and as for potential changes, we currently have no plans for any alterations to the fee structure.

Waleed Mohsin: Thank you for the comprehensive response, Ali. Operator let's move to live questions, and then we'll address more written inquiries.

Operator: There are currently no questions in the queue. However, I would like to remind participants that they can press *1 to signal a question.

Waleed Mohsin: Okay. Let's just give it a minute. Otherwise, we'll move to some more written questions. Alright. While we wait, there's another question, Ali, which has come in about the diversification of the revenue base. Could you discuss the efforts made by DFM management to diversify revenues? Additionally,

there's a follow-up regarding the growth in non-trading revenues. What factors are driving that apart from investment income?

Ali Al Hashimi: Certainly. Our core operating revenue stream is derived from trading activity, closely tied to the market's trading volumes. Another significant revenue stream comes from our investment activities, which has been notably boosted by the rise in interest rates. This serves as a substantial second revenue source. These investments are mainly placed in low-risk vehicles such as bank deposits. Some of these deposits are part of our capital structure. Furthermore, a portion of the funds, approximately AED 1.6 billion, represents dividends payable on behalf of listed entities.

Part of our responsibilities involve managing dividends on behalf of these listed entities, as mandated by regulatory rules. Our wide retail investor base interacts with us for dividend-related matters, maintaining cash accounts for receiving dividends. Some investors hold onto these funds, while others use them for portfolio purposes, or they may utilize them for participating in IPOs and rights issues. The AED 1.6 billion on the balance sheet pertains to this activity. These funds are invested in short-term deposits to handle cash flow expectations and withdrawals. We also generate revenue from various ancillary services, including OTC transactions executed through our Dubai CSD LLC. Additionally, another revenue stream comes from market data and listings.

Waleed Mohsin: Thank you, Ali. Let's continue with some of the written questions. There's a question about unconstrained cash. Could you please remind us of the amount of excess or unconstrained cash that DFM had on its balance sheet as of the end of the second quarter of 2023? There's a second question related to revenues. The inquiry is about the factors driving the substantial increase in clearing, settlement, and depository fees during the second quarter.

Ali Al Hashimi: Yes, certainly. Regarding the second question, Waleed, there was some disruption.

Waleed Mohsin: Yes, of course. The question pertains to the significant increase in clearing and depository fees observed quarter on quarter. What is behind this notable change?

Ali Al Hashimi: Yes, indeed. The increase in clearing and depository fees is tied to specific one-off transactions that occur sporadically. Whenever there is an over-the-counter transaction or a transfer, certain applicable fees come into play. These occurrences are unforeseen and irregular. They depend on the nature of transactions taking place. Returning to your first question about cash and cash equivalents, we had approximately AED 244 million of unconstrained cash.

Waleed Mohsin: Thank you, Ali. As a follow-up to the AED 244 million unconstrained cash question, could you provide a reconciliation between the cash and the reported investments? Specifically, could you clarify what constitutes the unconstrained AED 244 million?

Ali Al Hashimi: Certainly. The investment cash, or what you referred to as the wallet, represents the cash held on behalf of investors and other listed entities. I believe this is what you're asking about.

Waleed Mohsin: Exactly. So, essentially, what you're identifying is the excess cash, excluding any commitments to clients. When reviewing your balance sheet, the sum of investments and deposits appears significantly higher.

Ali Al Hashimi: Yes, we can certainly address that. The cash in the first half equals AED 244 million. This is distinct from the AED 1.6 billion displayed on the balance sheet, which is held on behalf of investors and is part of the investment deposits.

Waleed Mohsin: Understood. Thank you, Ali. We have two more questions. I'll quickly go through them and then check with the operator for any additional questions. The next question pertains to dividends. Could you please refresh us on the company's dividend policy? Should I read it, or would you like to handle it?

Ali Al Hashimi: I'll take the dividend policy question. In Q1, we announced a new dividend policy which stipulates a minimum distribution of 50%. This marks the first time DFM has adopted a fixed dividend policy. The application of this policy will commence this year, depending on net income after deducting all applicable legal deductions and taxes.

Waleed Mohsin: Thank you, Ali. Moving on to the next question about the economics of listings. Can you remind us how DFM benefits from new listings beyond just increased trading volume? What type of fee structure is reflected in DFM's income statement?

Ali Al Hashimi: Certainly. New listings contribute a relatively modest percentage to our overall listing revenue, which is approximately in the range of 3 to 3.5 million. The exact amount depends on the size of the listed entity. These fees are annual in nature. It's important to note that listing fees constitute a smaller portion compared to other significant revenue sources like trading fees. Our primary focus is on trading fees, with listing fees comprising a minor component.

Waleed Mohsin: Thank you. And the final written question I have received pertains to the variability in the operating expense line. Operating expenses seemed elevated in the first quarter but decreased in the second quarter. Could you shed light on the factors driving this trend?

Ali Al Hashimi: Yes, that's correct. The increase in operating expenses in the first quarter can be attributed to specific investments we made in technology and related product development. Additionally, certain marketing activities were also undertaken.

Waleed Mohsin: I understand. That covers the questions we had in writing. Operator, could you please check if there are any live questions in the queue?

Operator: Certainly. As a reminder, press *1 if you'd like to ask a question. Currently, there are no additional questions in the queue.

Waleed Mohsin: Ali, it seems that we've addressed all the questions, both the ones sent through email and the ones presented live. I'll hand it over to you for any final remarks.

Ali Al Hashimi: Thank you very much, everyone. We appreciate your time and participation.

Waleed Mohsin: Great. Thank you, Ali. Our gratitude goes to the entire DFM management for their availability during this call. Also, a big thank you to all the participants for your engagement and the questions you've submitted. This concludes today's call. Thank you and have a wonderful rest of the day.

Ali Al Hashimi: Thank you. Thank you very much.

Operator: This concludes today's conference. Thank you for joining.

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