

# Earnings Release

13 November 2013

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## SHUAA reports profitable third quarter 2013

- » **Second consecutive profitable quarter;** third quarter 2013 financial performance reverses negative earnings trend, confirms SHUAA's operating leverage, and provides a solid foundation for more sustainable income generation and earnings visibility
- » **Total Revenues AED 54.8m;** 57% upturn compared to Q3 2012 revenues of AED 34.9m
- » **Net Profit AED 3.6m;** AED 17.5m bottom-line improvement on Q3 2012 net loss of AED 13.9m
- » **Better quality earnings;** 75% of revenues generated from recurring fee & interest income whereas 25% from non-recurring income
- » **Profitable Businesses:** Investment Banking, Asset Management, Capital Markets, Lending and Brokerage
- » **Operating Expenses AED 41.9m;** 10% improvement from AED 46.7m in Q3 2012
- » **Cost/Income Ratio now at 76%,** double-digit improvement on Cost/Income Ratio of 134% in Q3 2012
- » **SHUAA maintains strong balance sheet;** Total Assets slightly increased to AED 1.5bn, Total Liabilities increased to AED 371.5m; as a result of increasing bank lines, the leverage ratio increased to 0.21 x as of 30 September 2013 (30 June 2013: 0.12x)

SHUAA reported two consecutive profitable quarters for the first time since the onset of the financial crisis in 2008. The total Q3 net profit stood at AED 3.6 million, which is a AED 2.3 million improvement compared to net profit of AED 1.3 million at the end of Q2 2013 and a AED 17.5 million improvement over the Q3 2012 net loss of AED 13.9 million.

Total revenues of AED 54.8 million, a 57% increase on Q3 2012 of AED 34.9 million and 26% increase on Q2 2013 of AED 43.4 million were driven by an increase in gains from investments in SHUAA managed Funds of AED 12.1 million, interest income of AED 29.3 million and net fees and commissions of AED 11.9 million. Operating Expenses in the third quarter decreased to AED 41.9 million from AED 46.7 million for the same period last year. In addition, the Group's strategy of redeploying its balance sheet to grow revenues from lending and the allocation of capital to Credit and Capital Markets, the Institutional Sales & Trading business, have resulted in revenue growth across respective divisions. SHUAA continues to focus on cost/income ratio as a key performance indicator. The cost/income ratio saw a double-digit improvement to 76% from 134% compared to the same period in 2012.

SHUAA maintains its strong balance sheet. Total assets stood at AED 1.5 billion as of 30 September 2013. Loans, advances and finance leases rose by AED 114 million during the third quarter totalling to AED 845 million at the end of the period. This is principally due to growth in lending activity of GFC and GIC. Consequently the Group's cash position was down 16% to AED 202 million and total liabilities increased from AED 265 million to AED 372 million over the quarter.

HH Sheikh Maktoum Hasher Al Maktoum, Executive Chairman of SHUAA Capital, commented:

"We are pleased to report two successively profitable quarters. The improved market environment in the UAE drove client activity and our core businesses generated solid results. SHUAA's positive performance reflects the progress we have made on strategic, operational and financial initiatives. We are encouraged to see higher quality fee and interest income generation during the quarter, which now accounts for 75% of quarterly revenue. The economic recovery in the UAE balances our revenue expectations for the year and unlocks SHUAA's operating leverage in our market facing businesses.

From early 2011 until the beginning of the third quarter 2013, SHUAA has been focused on reducing cost to improve its cost to income ratio. Now that we have achieved a cost to income ratio of 76%, we will start looking at improving the ratio by focusing on income generation. We are well positioned to maintain the momentum that has turned the business around so far. We are maximizing our effort to deliver a number of on-going strategic initiatives and work streams across all aspects of the business. We will stay focused on cost control and balance sheet management, and remain committed to achieving our earnings guidance for the year."

## **Segmental Information**

### **Lending**

The Lending division net profit remains stable at AED 3.9 million (Q3 2012: AED 3.8m) as revenues increased 45% to AED 28.4 million (Q3 2012: AED 19.6m) whereas provision charges increased to AED 9.3 million (Q3 2012: 2.3m) due to an increase in general provisions related to the significant growth of the loan book.

Total lending on the balance sheet to SMEs in the UAE and Saudi Arabia has now reached AED 814 million as of 30 September 2013, up from AED 495 million at the end of the third quarter 2012. The loan portfolio at the end of September 2013 consisted of exposures to the following sectors: 23% Manufacturing, 18% Power, Oil, Gas & Water, 14% Logistics, 9% Infrastructure, 7% Printing & Media, 6% Marine, 5% Sport, Leisure & Hospitality and 18% other sectors. Geographically, 89% of the gross loan portfolio exposure was in the UAE and the balance of 11% in Saudi Arabia.

On 1<sup>st</sup> September 2013 David Hunt was appointed CEO of Gulf Finance Corporation. David Hunt has been at Gulf Finance Corporation since 2011 and under his leadership Gulf Installments Company, launched in January 2013, has since lent over SAR 90m due to strong interest from SME businesses in Saudi Arabia looking for secured loans. In order to drive margin improvement, Gulf Finance Corporation has commenced a rightsizing program principally focussed on improving the

efficiency of the origination function, reducing central costs and integrating its back office functions with those of SHUAA. This will be complete by the end of the current financial year and is expected to show a cost improvement from the first quarter of next year.

### **Asset Management**

The Asset Management division booked quarterly revenues of AED 6.2 million (Q3 2012: AED 4.7m) that resulted in a near-doubling of net profits to AED 4.7 million (Q3 2012: AED 2.4m). This was due to a strong increase in market conditions as investors returned to regional markets and performance fees booked on client portfolios.

Assets under Management stood at AED 780 million (Q3 2012: AED 714m) as regional markets continued to recover and investors increased deposits. SHUAA's two principle funds – Arab Gateway Fund and Emirates Gateway Fund – have generated 27.3% and 57.51% returns respectively (as of NAV date 24 September), benefiting from strong growth in UAE equities as stock markets continue to recover. Both funds continued to outperform their respective benchmarks with top quartile performance.

### **Capital Markets**

Trading volumes in the quarter were well above 2012 averages across the UAE and GCC markets with institutional clients investing again. The Capital Markets division witnessed stronger Q3 quarterly revenue of AED 3.0 million (Q3 2012: AED 1.1m) and a net profit of AED 1.3 million (Q3 2012: AED 0.4m). Equity trading accounted for much of this rise in revenues during the quarter.

### **Investment Banking**

The Investment Banking division continued to work on transactions during the quarter which enabled it to record AED 2.6 million in net fees and commissions. This allowed the division to report revenues of AED 2.9 million (Q3 2012: AED 0.1m) and net profits of AED 0.6 million (Q3 2012: loss AED 1.8m). The division also booked AED 0.8 million more in revenue and doubled its profits (Q2 2013: AED 0.3m) on its previous quarter. SHUAA's Investment Banking business has a strong pipeline of mandates and it expects more transactions to start coming to market as the economy continues to recover.

### **Brokerage**

A drop in G&A expenses to AED 0.2 million (Q3 2012: AED 2.9m) and provision reversals of AED 0.3 million (Q3 2012: AED 2.1m) saw the division book a net profit of AED 0.05 million (Q3 2012: loss AED 0.08m).

### **Credit**

The Credit division posted a net loss of AED 2.3 million (Q3 2012: loss AED 0.8m) from expenses. No revenue was booked for the quarter.

### **Corporate**

Despite a back-to-back quarterly upswing in revenues made from gains from investments in SHUAA managed Funds and a drop in year-on-year quarterly G&A expenses of nearly 21%, the Corporate

division recorded a loss of AED 4.6 million despite posting revenues of AED 14.2 million. The cost/income ratio is now at 128% and the division aims to break even in the next financial calendar year.

**Cautionary Statement Regarding Forward-Looking Information**

*This document contains forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Forward-looking statements can be identified by words such as: "anticipate," "aspire," "intend," "plan," "goal," "objective," "seek," "believe," "project," "estimate," "expect," "forecast," "strategy," "target," "trend," "future," "likely," "may," "should," "will" and similar references to future periods.*

*Examples of forward-looking statements include, among others, statements we make regarding:*

- *Expected operating results, such as revenue growth and earnings.*
- *Anticipated levels of expenditures and uses of capital*
- *Current or future volatility in the capital and credit markets and future market conditions.*

*Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: Our ability to maintain adequate revenue levels and cost control; economic and financial conditions in the global markets and regional markets in which we operate, including volatility in interest rates, commodity and equity prices and the value of assets; the implementation of our strategic initiatives, including our ability to effectively manage the redeployment of our balance sheet and the expansion of our strategic businesses; the reliability of our risk management policies, procedures and methods; continued volatility in the capital or credit markets; geopolitical events; developments and changes in laws and regulations, including increased regulation of the financial services industry through legislative action and revised rules and standards applied by our regulators.*

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**SHUAA Capital psc** ('SHUAA') offers client-centric, fully integrated financial services. SHUAA, headquartered in Dubai, United Arab Emirates, services corporate and institutional clients as well as

family businesses and high-net-worth-individuals with expertise in the areas of asset management, investment banking advisory services, capital markets and credit. SHUAA was established in 1979 by Emiri decree No. 6. SHUAA is a public shareholding company, regulated as a financial investment company by the UAE Central Bank, and its stocks are listed on the Dubai Financial Market. [www.shuaa.com](http://www.shuaa.com)

**For further information please contact:**

**Oliver Schutzmann**

Head of Investor Relations & Corporate Communications

Tel: +971 4 319 9872

Mobile: +971 50 640 5722

[oschutzmann@shuaa.com](mailto:oschutzmann@shuaa.com)