

## Mashreq Bank (MASQ)

Higher lending and impairment reversals boosted profitability

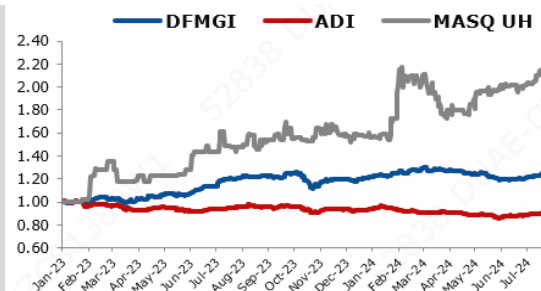
**Current Price**  
AED 208

**Target Price**  
AED 219

**Upside/Downside (%)**  
**+5%**

**Rating**  
**HOLD**

- Net advances grew 19.9% YOY and 3.0% QOQ to AED 114 Bn in 2Q24, while customer deposits grew 21.4% YOY but declined 1.0% QOQ to AED 154 Bn in 2Q24
- NIMs declined 41 bps YOY and 27 bps QOQ to 4.2% in 2Q24, while cost-to-income grew from 26.5% in 2Q23 to 27.9% in 2Q24
- Reported NPLs remained stable at 1.3% in 2Q24 compared to 1Q24, whereas provision coverage declined from 154.3% in 1Q24 to 142.1% in 2Q24
- MASQ successfully issued its additional Tier 1 sukuk of USD 500 Mn to strengthen its capital base and support its growth



### 2Q24 Net Profit in-line with our estimate

Mashreq Bank ("MASQ"/The Bank) net profit grew 4.7% YOY to AED 1,995 Mn in 2Q24, in line with our estimate of AED 1,948 Mn. The increase in net profit is mainly driven by substantial growth in net funded and non-funded income coupled with reversals in impairments partially offset by a rise in operating expenses and higher tax expenses.

### P&L Highlights

MASQ's interest income rose 26.7% YOY to AED 3,627 Mn in 2Q24, driven by robust growth in net advances and an increase in other interest-earnings assets. Similarly, interest expenses witnessed a sharp rise from AED 1,142 Mn in 2Q23 to AED 1,790 Mn in 2Q24 due to higher cost of funds. Income from Islamic financing grew 48.0% YOY to AED 409 Mn in 2Q24, whereas expenses on Islamic financing rose 29.8% YOY to AED 164 Mn in 2Q24. Thus, MASQ's net funded income rose 11.3% YOY to AED 2,082 Mn in 2Q24. The Bank's net fee and commission income grew 14.5% YOY to AED 336 Mn in 2Q24. The Bank recorded an income from investment securities of AED 70 Mn in 2Q24, compared to a loss of AED 15 Mn in 2Q23. In addition, MASQ's other operating income grew 8.8% YOY to AED 499 Mn in 2Q24. Resultantly, total non-funded income grew 22.7% YOY to AED 904 Mn in 2Q24. Furthermore, total operating income rose 14.6% YOY to AED 2,986 Mn in 2Q24. Furthermore, G&A expenses increased 20.9% YOY to AED 834 Mn in 2Q24. Thus, the cost-to-income ratio grew 147 bps YOY to 27.9% in 2Q24. The Bank reported an impairment reversal of AED 83 Mn in 2Q24 compared to AED 43 Mn in 2Q23. Tax expense stood at AED 223 Mn in 2Q24 compared to AED 34 Mn in 2Q23.

### Stock Information

Market Cap (AED, mn)	41,726.84
Paid Up Capital (mn)	2,006.10
52 Week High	225.40
52 Week Low	135.00
3M Avg. daily value(AED)	309,862

### 2Q24 Result Review (AED, mn)

Total Assets	253,467
Total Liabilities	220,213
Total Equity	32,252
Total Deposits	153,964
Net Profit	1,995

### Financial Ratios

Dividend Yield (12m)	8.89
Dividend Pay-out (%)	43.21
Price-Earnings Ratio(x)	4.60
Price-to-Book Ratio (x)	1.42
Book Value (AED)	146.12
Return-on Equity (%)	33.95

### Stock Performance

5 Days	-2.35%
1 Months	5.58%
3 Months	18.18%
6 Months	6.12%
1 Year	44.44%
Month to Date (MTD%)	5.58%
Quarter to Date (QTD%)	5.58%
Year to Date (YTD%)	36.84%

### Balance Sheet Highlights

The Bank's total assets grew 20.1% YOY and 1.6% QOQ to AED 253 Bn in 2Q24, mainly due to increased cash balance, net advances and growth in reinsurance contracts. MASQ's net advances rose 19.9% YOY and 3.0% QOQ to AED 114 Bn in 2Q24. Furthermore, customer deposits rose 21.4% YOY and declined 1.0% QOQ to AED 154 Bn in 2Q24. CASA deposits account for 64% of total deposits in 2Q24. Loan-to-deposit ratio stood at 73.9% in 2Q24 compared to 71.1% in 1Q24. On the other hand, total equity rose 27.7% YOY and 13.3% QOQ to AED 32 Bn in 2Q24.

### Target Price and Rating

We maintain our HOLD rating on MASQ with an unchanged target price of AED 219.0. MASQ reported an increase in profitability backed by a strong rise in core and non-core income, along with reversals in impairments in 2Q24. MASQ net advances grew 19.9% YOY and 3.0% QOQ to AED 114 Bn in 2Q24, mainly driven by increased lending to construction, personal, transportation and communication, services, residential mortgage, and personal and financial institutions sectors, partially offset by a decline in exposure to GREs, trade and manufacturing sectors. NIMs declined 41 bps YOY and 27 bps QOQ to 4.2% in 2Q24, owing to higher funding costs. The Bank's cost of funds grew 74 bps YOY and 11 bps QOQ to 3.9% in 2Q24. MASQ's customer deposits grew 21.4% YOY but declined 1.0% QOQ to AED 154 Bn in 2Q24, mainly due to the decline in Islamic deposits. Furthermore, asset quality remained unchanged as its reported NPL ratio stood at 1.3% in 2Q24 compared to 1Q24. However, the Bank's stage 2 loans as a percentage of total gross loans grew from 6.1% in 1Q24 to 6.3% in 2Q24. The provision coverage ratio declined from 154.3% in 1Q24 to 142.1% in 2Q24, which may affect the bank's ability to manage potential loan losses and impact its overall asset quality going forward. MASQ maintained a healthy capitalization with a CET1 ratio of 15.7% and a total CAR of 19.5% in 2Q24. Moreover, the Bank successfully issued its additional Tier 1 sukuk of USD 500 Mn to strengthen its capital base and support its growth. Thus, considering the above-mentioned reasons, we maintain our HOLD rating on the stock.

### MASQ - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024
PB	2.09	2.31	2.22	2.00	1.54	1.35
PE	21.75	NA	44.82	12.04	5.29	5.93
Dividend yield	1.9%	NA	0.5%	4.3%	8.9%	8.9%

FABS Estimates & Co Data

**MASQ – P&L**

AED mn	2Q23	1Q24	2Q24A	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Interest income	2,861	3,618	3,627	3,708	-2.2%	26.7%	0.2%	11,966	15,245	27.4%
Inc. from Islamic financing	277	380	409	400	2.3%	48.0%	7.6%	1,291	1,607	24.5%
<b>Funded income</b>	<b>3,138</b>	<b>3,999</b>	<b>4,036</b>	<b>4,108</b>	<b>-1.8%</b>	<b>28.6%</b>	<b>0.9%</b>	<b>13,257</b>	<b>16,852</b>	<b>27.1%</b>
Funded expense	-1,269	-1,855	-1,954	-1,923	1.7%	54.1%	5.4%	-5,548	-7,617	37.3%
<b>Net funded income</b>	<b>1,870</b>	<b>2,144</b>	<b>2,082</b>	<b>2,186</b>	<b>-4.8%</b>	<b>11.3%</b>	<b>-2.9%</b>	<b>7,710</b>	<b>9,235</b>	<b>19.8%</b>
Net Fee & Commission inc.	293	548	336	384	-12.5%	14.5%	-38.7%	1,433	1,504	5.0%
Inc. from Invst. securities	-15	67	70	27	159.0%	NM	3.6%	30	273	NM
Other Operating inc., net	458	382	499	439	13.6%	8.8%	30.7%	1,631	1,794	10.0%
<b>Total other OI</b>	<b>737</b>	<b>997</b>	<b>904</b>	<b>850</b>	<b>6.4%</b>	<b>22.7%</b>	<b>-9.3%</b>	<b>3,093</b>	<b>3,572</b>	<b>15.5%</b>
<b>Total Operating income</b>	<b>2,607</b>	<b>3,141</b>	<b>2,986</b>	<b>3,036</b>	<b>-1.6%</b>	<b>14.6%</b>	<b>-4.9%</b>	<b>10,803</b>	<b>12,807</b>	<b>18.6%</b>
G&A expenses	-690	-839	-834	-729	14.5%	20.9%	-0.5%	-3,342	-3,522	5.4%
<b>Pre provision profit</b>	<b>1,917</b>	<b>2,303</b>	<b>2,152</b>	<b>2,307</b>	<b>-6.7%</b>	<b>12.3%</b>	<b>-6.6%</b>	<b>7,461</b>	<b>9,285</b>	<b>24.4%</b>
Impairment allowance, net	43	-38	83	-116	NM	94.0%	NM	1,369	-522	NM
Income tax exp.	-34	-224	-223	-219	1.8%	NM	-0.3%	-154	-876	NM
Non-controlling interests	-19	-34	-16	-24	-32.1%	-16.5%	-52.7%	-87	-94	8.2%
<b>Net Profit</b>	<b>1,906</b>	<b>2,007</b>	<b>1,995</b>	<b>1,948</b>	<b>2.4%</b>	<b>4.7%</b>	<b>-0.6%</b>	<b>8,589</b>	<b>7,793</b>	<b>-9.3%</b>

*FABS estimate & Co Data*
**MASQ – KPI**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	71.7%	68.3%	69.7%	-201	146	71.4%	72.1%	75
NIM	4.6%	4.5%	4.2%	-41	-27	4.5%	4.6%	8
NIS	4.6%	4.6%	4.3%	-32	-31	4.5%	4.7%	25
Fees & comms/OI	11.3%	17.5%	11.2%	-1	-621	13.3%	11.7%	-152
Trading/OI	-0.6%	2.1%	2.3%	NM	19	0.3%	2.1%	186
Cost to income	26.5%	26.7%	27.9%	147	125	30.9%	27.5%	-343
Provisions/PPP	-2.2%	1.6%	-3.8%	-162	NM	-18.3%	5.6%	NM
NP/OI	73.1%	63.9%	66.8%	-631	292	79.5%	60.8%	NM
Cost of risk - Calculated	-0.2%	0.2%	-0.3%	-14	NM	-1.6%	0.5%	NM
Loan-to-deposit	74.9%	71.1%	73.9%	-97	288	75.5%	75.6%	15
NPL - Calculated	2.1%	1.7%	1.7%	-36	5	1.7%	1.8%	11
Coverage excluding collateral-Calculated	205.6%	154.3%	142.1%	NM	-1,225	151.9%	158.0%	609
CET 1	15.0%	14.9%	15.7%	64	75	13.7%	14.8%	104
Capital adequacy	18.0%	17.7%	19.5%	145	174	16.5%	18.4%	186
ROAE	24.7%	31.3%	31.7%	695	43	32.8%	24.2%	-865
ROAA	2.8%	3.6%	3.6%	79	-4	3.9%	3.1%	-84

*FABS estimate & Co Data*
**MASQ – Key B/S items**

AED mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	94,956	99,275	110,355	110,484	113,827	19.9%
QOQ ch	4.2%	4.5%	11.2%	0.1%	3.0%	
Total assets	210,964	218,342	239,981	249,592	253,467	20.1%
QOQ ch	4.8%	3.5%	9.9%	4.0%	1.6%	
Customer deposits	126,778	132,864	146,232	155,498	153,964	21.4%
QOQ ch	5.5%	4.8%	10.1%	6.3%	-1.0%	
Total equity	25,260	26,983	30,333	28,473	32,252	27.7%
QOQ ch	8.3%	6.8%	12.4%	-6.1%	13.3%	

*FABS estimate & Co Data*

## Valuation:

We use the Residual Income and Relative Valuation (RV) method to value MASQ. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	234	70.0%	164
Relative Valuation (RV)	184	30.0%	55
<b>Weighted Average Valuation (AED)</b>			<b>219</b>
Current market price (AED)			208
Upside/Downside (%)			+5%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.9 and equity risk premium of 4.3%. Government bond yield is calculated after adding Dubai 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	8,819
Terminal value (AED, Mn)	<b>8,821</b>
Book Value of Equity (as of June 2024)	29,313
<b>FV to Common shareholders (AED, Mn)</b>	<b>46,953</b>
No. of share (Mn)	201
Current Market Price (AED)	208
<b>Fair Value per share (AED)</b>	<b>234</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	7,568	6,960	6,180	5,547	5,301
(-) Equity Charge	-3,094	-3,478	-3,824	-4,108	-4,369
<b>Excess Equity</b>	<b>4,474</b>	<b>3,481</b>	<b>2,356</b>	<b>1,439</b>	<b>933</b>
Discounting Factor	0.96	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>2,156<sup>1</sup></b>	<b>3,070</b>	<b>1,901</b>	<b>1,063</b>	<b>630</b>

Source: FAB Securities, <sup>1</sup>adjusted for partial year

## 2) Relative Valuation:

We have used local peers to value MASQ and it is valued using the PB multiple. It is valued at PB multiple of 1.1x in line with the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
RAK Bank	2,900	0.9	0.9	5.6	6.1	6.9	7.5
Commercial Bank of Dubai (CBD)	5,040	1.2	1.2	NA	NA	7.1	6.5
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
Abu Dhabi Islamic Bank (ADIB)	11,970	2.0	1.8	8.9	9.1	6.0	5.9
Sharjah Islamic Bank (SIB)	1,980	1.1	1.0	9.4	8.7	5.3	5.8
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.3x</b>	<b>7.4x</b>	<b>6.3%</b>	<b>6.4%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.3x</b>	<b>7.4x</b>	<b>6.3%</b>	<b>6.2%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.2x</b>	<b>9.0x</b>	<b>8.8x</b>	<b>6.9%</b>	<b>6.5%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>5.5x</b>	<b>6.0x</b>	<b>6.0%</b>	<b>5.9%</b>

Source: FAB Securities

### Research Rating Methodology:

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Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

### FAB Securities Contacts:

#### Research Analyst

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

#### Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link  
+971-2-6161777

Institutional Desk +971-4-4245765

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