

Mashreq Bank (MASQ)

Growth in funded income and reversals of impairments boosted bottom-line

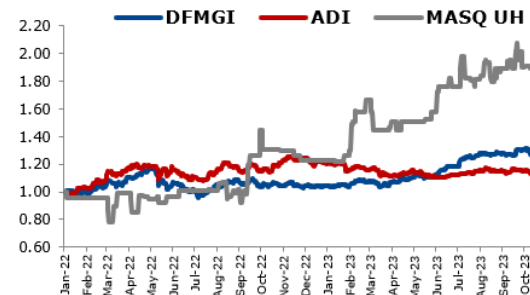
Current Price
AED 159.0

Target Price
AED 180.0

Upside/Downside (%)
13.21%

Rating
ACCUMULATE

- MASQ registered 9.9% 2023 YTD growth to AED 99.3 Bn in 3Q23 driven by increased lending across all the sectors.
- Recorded a provisioning reversal of AED 395 Mn as compared to a loss of AED 30 Mn in 3Q23 owing to its prudent risk management practices.
- Customers deposits witnessed 16.7% 2023 YTD growth with CASA balance accounting for 63.2% of total deposits in 3Q23.
- Asset quality continued to improve with an NPL ratio of 2.0%, whereas provision coverage declined from 205.6% in 2Q23 to 193.0% in 3Q23.



Stock Information

Market Cap (AED, mm)	31,896.96
Paid Up Capital (mm)	2,006.10
52 Week High	170.00
52 Week Low	95.00
3M Avg. daily value(AED)	77,321

3Q23 Result Review (AED, mm)

Total Assets	218,342
Total Liabilities	190,386
Total Equity	26,983
Total Deposits	132,864
Net Profit	2,252

Financial Ratios

Dividend Yield (12m)	5.66
Dividend Pay-out (%)	48.71
Price-Earnings Ratio(x)	4.63
Price-to-Book Ratio (x)	1.23
Book Value (AED)	129.01
Return-on Equity (%)	29.41

Stock Performance

5 Days	4.61%
1 Months	5.30%
3 Months	10.42%
6 Months	32.50%
1 Year	54.37%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	5.30%
Year to Date (YTD%)	63.08%

3Q23 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit grew significantly from AED 1,189 Mn in 3Q22 to AED 2,252 Mn in 3Q23, higher than our estimate of AED 1,866 Mn. The increase in net profit is mainly driven by a substantial growth in net funded income along with a reversal in impairment charges owing to prudent risk management partially offset by a rise in operating expenses.

P&L Highlights

MASQ's interest income rose significantly from AED 1,755 Mn in 3Q22 to AED 3,145 Mn in 3Q23 driven by a healthy growth in net advances and expansion in asset yield. Similarly, interest expenses witnessed a sharp rise from AED 621 Mn in 3Q22 to AED 1,386 Mn in 3Q23 due rise in cost of funds driven by higher benchmark rates. Income from Islamic financing also grew from AED 179 Mn in 3Q22 to AED 368 Mn in 3Q23 whereas expenses on Islamic financing rose to AED 122 Mn in 3Q23, up from AED 67 Mn in 3Q22. Thus, MASQ's net funded income rose substantially 60.9% YOY to AED 2,005 Mn in 3Q23. Thus, MASQ's NIMs grew 144 bps YOY and 16 bps QOQ to 4.8% in 3Q23. The Bank's net fee and commission income rose 3.5% YOY to AED 319 Mn in 3Q23 while income from investment securities occur a loss of AED 3 Mn in 3Q23, compared to a profit of AED 23 Mn in 3Q22. In addition, other operating income rose 7.2% YOY to AED 460 Mn in 3Q23. Non-funded income grew 2.1% YOY to AED 775 Mn in 3Q23. Total operating income rose 38.7% YOY to AED 2,780 Mn in 3Q23. Further, G&A expenses grew 17.2% YOY to AED 853 Mn in 3Q23. However, the cost-to-income ratio improved 562 bps YOY to 30.7% in 3Q23 owing to a strong growth in operating profit. The Bank reported an impairment reversal of AED 395 Mn in 3Q23 as compared to a loss of AED 30 Mn in 2Q22 mainly due to prudent risk management. While NCI declined 10.5% YOY to AED 22 Mn in 3Q23.

Balance Sheet Highlights

MASQ's net advances rose 8.7% YOY and 4.5% QOQ to AED 99.3 Bn in 3Q23 owing to an increased lending activity across all segments. The Bank's total assets rose 16.4% YOY and 3.5% QOQ to AED 218.3 Bn in 3Q23. Further, customer deposits rose significantly 21.4% YOY and 4.8% QOQ to AED 132.9 Bn in 3Q23. CASA accounts for 63.2% of total deposits in 3Q23. However, loan to deposit ratio stood at 74.7% in 3Q23 as compared to 83.5% in 3Q22. On the other hand, total equity rose significantly 22.0% YOY and 6.8% QOQ to AED 30.0 Bn in 3Q23.

Target Price and Rating

We maintain our ACCUMULATE rating on Mashreq Bank with a revised target price of AED 180.0. The Bank reported strong growth in net funded income and conservative risk management practices, which reduced impairments in 3Q23. The growth in net operating income was driven by increased activity across all the business operations backed by rising interest rates. MASQ recorded a 9.9% YTD rise in net advances driven by an increase in lending across all the sectors. Moreover, as of 9M23 the Bank possessed a well-diversified loan portfolio, with no single sector representing more than c.18.0% of its total portfolio. Wholesale banking accounted for 50.3% and the Retail banking segment accounted for 12.3% of Bank's total assets as of 1H23. MASQ's NIMs grew 144 bps YOY and 16 bps QOQ to 4.8% in 3Q23. Customer deposits also registered 16.7% 2023 YTD growth with a CASA balance of 63.2% of total deposits in 3Q23 compared to 65% in 2Q23. Furthermore, MASQ's asset quality improved as its NPL ratio declined from 2.2% in 2Q23 to 2.0% in 3Q23. Stage 2 loans as a percentage of total gross loans also declined from 8.6% in 2Q23 to 7.9% in 3Q23. However, the provision coverage ratio declined from 205.6% in 2Q23 to 193.0% in 3Q23. The high coverage ratio will provide a cushion against non-performing loans going forward. MASQ also maintained a healthy capitalization with a CET1 ratio of 15.6% and total CAR of 18.6% in 3Q23. Thus, we maintain our ACCUMULATE rating on the stock considering the aforementioned reasons.

MASQ - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023E
PB	1.58	1.48	1.64	1.58	1.42	1.11
PE	15.48	15.45	NA	31.83	8.61	4.05
Dividend yield	2.2%	2.2%	NA	0.6%	5.7%	5.0%

FABS Estimates & Co Data

MASQ – P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest income	1,755	2,861	3,145	3,114	1.0%	79.2%	9.9%	6,415	12,116	88.9%
Inc. from Islamic financing	179	277	368	285	28.8%	105.2%	32.9%	672	1,354	101.6%
Funded income	1,934	3,138	3,513	3,400	3.3%	81.6%	11.9%	7,087	13,470	90.1%
Interest expense	-621	-1,142	-1,386	-1,294	7.0%	123.2%	21.3%	-2,255	-5,034	123.2%
Dist. to Islamic depositors	-67	-126	-122	-135	-9.4%	81.9%	-3.1%	-260	-507	95.0%
Net funded income	1,246	1,870	2,005	1,970	1.8%	60.9%	7.2%	4,572	7,930	73.5%
Net Fee & Commission inc.	308	293	319	287	10.8%	3.5%	8.6%	1,741	1,532	-12.0%
Inc. from Invst. securities	23	-15	-3	26	NM	NM	-78.4%	92	46	-50.0%
Other Operating inc., net	429	458	460	390	18.0%	7.2%	0.3%	1,091	1,555	42.5%
Total other OI	759	737	775	704	10.2%	2.1%	5.2%	2,924	3,133	7.1%
Total Operating income	2,005	2,607	2,780	2,674	4.0%	38.7%	6.7%	7,496	11,063	47.6%
G&A expenses	-728	-690	-853	-655	30.2%	17.2%	23.6%	-3,066	-3,319	8.2%
Pre provision profit	1,277	1,917	1,927	2,019	-4.5%	50.9%	0.5%	4,430	7,744	74.8%
Impairment allowance, net	-30	43	395	-94	NM	NM	NM	-497	396	-179.5%
Overseas income tax exp.	-33	-34	-48	-39	25.5%	46.3%	42.9%	-146	-163	11.4%
Non-controlling interests	-24	-19	-22	-21	5.3%	-10.5%	13.7%	-80	-40	-50.0%
Net Profit	1,189	1,906	2,252	1,866	20.7%	89.3%	18.1%	3,706	7,937	114.2%

FABS estimate & Co Data

MASQ - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	62.1%	71.7%	72.1%	998	39	61.0%	71.7%	1,069
NIM	3.3%	4.6%	4.8%	144	16	3.3%	4.9%	159
NIS	3.3%	4.6%	4.8%	151	18	3.3%	5.2%	189
Fees & comms/OI	15.4%	11.3%	11.5%	-389	21	23.2%	13.8%	-938
Cost to income	1.1%	-0.6%	-0.1%	-124	45	1.2%	0.4%	-81
Provisions/PPP	36.3%	26.5%	30.7%	-562	421	40.9%	30.0%	-1,091
NP/OI	2.4%	-2.2%	-20.5%	-2,285	-1,827	11.2%	-5.1%	-1,634
ROAE	59.3%	73.1%	81.0%	2,167	787	49.4%	71.7%	2,230
ROAA	16.4%	25.1%	27.5%	1,103	241	17.3%	30.9%	1,358

FABS estimate & Co Data

MASQ - Key B/S items

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	91,326	90,303	91,109	94,956	99,275	8.7%
QOQ ch	1.8%	-1.1%	0.9%	4.2%	4.5%	
Total assets	187,588	197,246	201,233	210,964	218,342	16.4%
QOQ ch	-0.6%	5.1%	2.0%	4.8%	3.5%	
Customer deposits	109,430	113,806	120,162	126,778	132,864	21.4%
QOQ ch	0.1%	4.0%	5.6%	5.5%	4.8%	
Total equity	22,111	23,599	23,314	25,260	26,983	22.0%
QOQ ch	9.4%	6.7%	-1.2%	8.3%	6.8%	

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	192	70.0%	135
Relative Valuation (RV)	151	30.0%	45
Weighted Average Valuation (AED)			180
Current market price (AED)			159
Upside/Downside (%)			+12.50%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 0.9 and equity risk premium of 4.0%. 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)	7,398
Terminal value (AED, Mn)	5,330
Book Value of Equity (as of June 2023)	25,881
FV to Common shareholders (AED, Mn)	38,609
No. of share (Mn)	201
Current Market Price (AED)	159
Fair Value per share (AED)	193

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	7,885	6,123	5,229	4,667	4,031
(-) Equity Charge	-2,430	-2,815	-3,124	-3,386	-3,594
Excess Equity	909	3,308	2,105	1,281	437
Discounting Factor	0.93	0.98	0.90	0.83	0.77
Present Value of Excess Equity	850	3,242	1,902	1,068	336

Source: FAB Securities

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)	
		2023F	2024F	2023F	2024F	2023F	2024F
RakBank	2,908	1.1	1.1	6.1	7.4	8.3	7.0
Commercial Bank of Dubai (CBD)	3,747	1.0	1.0	NA	NA	5.6	6.0
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
United Arab Bank (UAB)	724	1.5	1.5	15.9	17.0	1.9	2.3
Sharjah Islamic Bank (SIB)	2,070	1.2	1.1	11.2	9.8	4.5	5.2
Average		1.1x	1.1x	9.5x	10.0x	5.1%	5.1%
Median		1.1x	1.1x	8.7x	8.6x	5.2%	5.2%
Max		1.2x	1.1x	12.4x	11.6x	5.6%	6.0%
Min		1.0x	1.0x	5.8x	7.0x	4.5%	5.2%

Source: FAB Securities

Research Rating Methodology:

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%

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