

Mashreq Bank

Improved asset quality and growth in advances drove profitability

4Q22 Net profit exceeded our estimate

Mashreq Bank ("MASQ"/The Bank) reported a significant increase in net profit from AED 737 Mn in 4Q21 to AED 1,126 Mn in 4Q22, higher than our estimate of AED 811 Mn. The increase in net profit is mainly driven by solid growth in net funded income as well as sharp decline in impairment charges which is partially offset by a rise in operating expenses.

P&L highlights

MASQ's funded income including income from Islamic financing almost doubled from AED 1,231 Mn in 4Q21 to AED 2,409 Mn in 4Q22 driven by a growth in loan book, rise in interest-earning assets, and an increase in asset yield. The Bank's asset yield jumped 123 bps QOQ to 6.4% in 4Q22. Similarly, MASQ's funded expense increased significantly to AED 927 Mn in 4Q22 as compared to AED 421 Mn in 4Q21 due to higher cost of funds attributable to a rise in benchmark rates. MASQ's cost of funds rose 62 bps QOQ to 2.5% in 4Q22. Thus, net funded income rose 82.9% YOY to AED 1,482 Mn in 4Q22. The Bank's NIMs rose 61 bps QOQ to 4.0% in 4Q22. Net fees and commission income rose marginally 2.6% YOY to AED 407 Mn in 4Q22 while investment income witnessed a sharp hike to AED 65 Mn in 4Q22, up from AED 3 Mn in 4Q21. Other operating income declined 33.4% YOY to AED 199 Mn in 4Q22. Consequently, total non-funded income declined marginally 3.9% YOY to AED 671 Mn in 4Q22. Resultantly, total operating income rose 42.8% YOY to AED 2,153 Mn in 4Q22 mainly due to a rise in interest income. Furthermore, operating expenses grew 26.9% YOY to AED 902 Mn in 4Q22. However, cost-to-income ratio improved 525 bps YOY to 41.9% due to higher revenue. Thus, pre provision profit increased significantly from AED 797 Mn in 4Q21 to AED 1,251 Mn in 4Q22. Impairments declined from AED 24 Mn in 4Q21 to AED 3 Mn in 4Q22 owing to an improvement in asset qualities and improved recoveries in NPLs.

Balance sheet highlights

MASQ's net advances increased 10.8% to AED 90.3 Bn in 2022 due to increased lending to personal and manufacturing segment. Manufacturing accounted for 18.2% of gross loans in 2022, followed by personal at 15.7% and residential mortgage at 10.4%. Loan-to-deposit ratio marginally increased from 76.2% in 2021 to 76.5% in 2022. Furthermore, total assets rose 12.3% to AED 198.8 Bn in 2022. Similarly, customer deposits grew 12.1% to AED 113.8 Bn in 2022 mainly due to strong growth in CASA deposits which grew 20.4% to AED 72.4 Bn in 2022. CASA accounts for 63.6% of the total deposit in 2022. Total equity increased 16.4% to AED 23.5 Bn in 2022. In addition, Tier 1 Capital ratio stood at 13.7% in 2022 higher than the requirement of 8.5%.

Target price and rating

We revise our rating from HOLD to BUY on Mashreq Bank with a revised target price of AED 145.0. The bank reported strong results in 2022 mainly due to a significant decline in impairments and solid growth in its loan book. Improved asset quality and higher recoveries benefited MASQ as its NPLs decreased significantly from 3.6% in 3Q22 to 2.2% in 4Q22, while its coverage ratio increased from

Rating : BUY

First Look Note – 4Q22

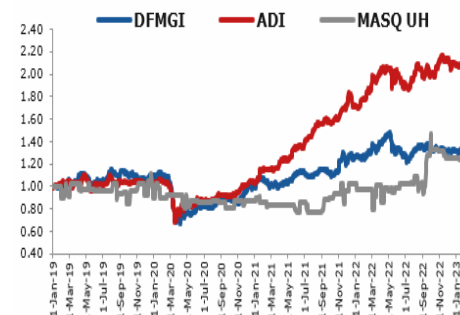
Sector: Banking

Recommendation

| | |
|---------------------------|-------|
| Current Price (21-Feb-23) | 125.0 |
| Target Price (AED) | 145.0 |
| Upside/Downside (%) | +16% |

Stock Information

| | |
|---------------------------|-----------|
| Market Cap (mm) | 25,076.23 |
| Paid Up Capital (mm) | 2,006.10 |
| 52 Week High | 126.20 |
| 52 Week Low | 62.10 |
| 3M Avg. daily value (AED) | 1,442,242 |



Financial Ratios

| | |
|--------------------------|--------|
| Dividend Yield (12m) | 0.80 |
| Dividend Pay-out (%) | 0.00 |
| Price-Earnings Ratio (x) | 6.77 |
| Price-to-Book Ratio (x) | 1.12 |
| Book Value (AED) | 111.86 |
| Return-on Equity (%) | 17.37 |
| Earning Per Share (AED) | 18.47 |
| Beta | 0.24 |

Stock Performance

| | |
|-----------------------|--------|
| 5 Days | 0.00% |
| 1 Months | 28.87% |
| 3 Months | 25.00% |
| 6 Months | 63.19% |
| 1 Year | 64.47% |
| Month to Date (MTD) | 25.00% |
| Quarter to Date (QTD) | 28.21% |
| Year to Date (YTD) | 28.21% |

149.7% in 3Q22 to 190.8% in 4Q22. However, the Bank's total stage 2 loans rose marginally from AED 4.9 Bn in 3Q22 to AED 5.3 Bn in 4Q22. The Bank's capitalization stood strong with a Tier 1 ratio of 13.7% and total CAR of 16.0% in 4Q22. In addition, MASQ's credit profile is diversified across multiple sectors providing stability to the credit quality. The Bank also increased its exposure to retail and mortgages segment that provides stability in a moderate economy growth environment. Net loans and advances grew 10.8% mainly due to the increased lending to the personal and wholesale segment. Wholesale banking, the bank's largest asset segment, accounted for 48% of total assets, followed by retail and other segments. NIM of the Bank rose 61 bps QOQ to 3.9% in 4Q22. Moreover, the Bank benefited from a rising interest rate scenario and is further anticipated to improve due to the positive interest rate sensitivity gap and low-cost CASA deposits making up 63.6% of total deposits in 4Q22. In addition, the board of directors of the bank also proposed a cash dividend of 90% on par value of shares generating a dividend yield of 7.2% in 2022. Hence based on the aforementioned reasons we assign a BUY rating to the stock.

MASQ - Relative valuation

| (At CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|----------------|-------|-------|------|-------|------|-------|
| P/B (x) | 1.24 | 1.16 | 1.29 | 1.24 | 1.12 | 1.03 |
| P/E (x) | 12.17 | 12.14 | NA | 25.02 | 6.77 | 6.62 |
| Dividend yield | 2.8% | 2.8% | 0.0% | 0.8% | 7.2% | 4.8% |

FABS Estimates & Co Data
MASQ - P&L

| AED mm | 4Q21 | 3Q22 | 4Q22 | 4Q22F | Var. | YOY Ch | QOQ Ch | 2021 | 2022 | Change |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|
| Interest income | 1,094 | 1,755 | 2,190 | 1,829 | 19.7% | 100.2% | 24.8% | 4,252 | 6,415 | 50.9% |
| Inc. from Islamic financing | 138 | 179 | 219 | 196 | 11.7% | 59.3% | 22.3% | 475 | 672 | 41.3% |
| Funded income | 1,231 | 1,934 | 2,409 | 2,026 | 18.9% | 95.6% | 24.6% | 4,727 | 7,087 | 49.9% |
| Interest expense | -380 | -621 | -817 | -710 | 15.1% | 115.2% | 31.6% | -1,506 | -2,255 | 49.8% |
| Dist. to Islamic depositors | -41 | -67 | -109 | -92 | 19.3% | 163.8% | 62.6% | -176 | -260 | 47.7% |
| Net funded income | 810 | 1,246 | 1,482 | 1,224 | 21.1% | 82.9% | 19.0% | 3,045 | 4,572 | 50.1% |
| Net Fee & Commission inc. | 397 | 404 | 407 | 412 | -1.3% | 2.6% | 0.6% | 1,577 | 1,741 | 10.4% |
| Inc. from Invst. securities | 3 | 23 | 65 | 23 | 189.8% | NM | 189.8% | 177 | 92 | -48.0% |
| Other Operating inc., net | 299 | 369 | 199 | 276 | -28.1% | -33.4% | -46.1% | 1,007 | 1,091 | 8.3% |
| Total other OI | 698 | 795 | 671 | 711 | -5.7% | -3.9% | -15.7% | 2,761 | 2,924 | 5.9% |
| Total Operating income | 1,508 | 2,041 | 2,153 | 1,935 | 11.3% | 42.8% | 5.5% | 5,806 | 7,496 | 29.1% |
| G&A expenses | -711 | -797 | -902 | -792 | 13.9% | 26.9% | 13.1% | -2,623 | -3,066 | 16.9% |
| Pre provision profit | 797 | 1,243 | 1,251 | 1,144 | 9.4% | 56.9% | 0.6% | 3,183 | 4,430 | 39.2% |
| Impairment allowance, net | -24 | -28 | -3 | -296 | -98.8% | -85.7% | -87.9% | -2,059 | -497 | -75.8% |
| Overseas income tax exp. | -17 | -14 | -105 | -17 | 520.8% | 514.0% | 631.7% | -49 | -146 | 199.5% |
| Non-controlling interests | -19 | -20 | -16 | -20 | -18.0% | -14.3% | -16.8% | -74 | -80 | 8.7% |
| Net Profit | 737 | 1,181 | 1,126 | 811 | 38.8% | 52.8% | -4.6% | 1,002 | 3,706 | 269.8% |

FABS estimate & Co Data

MASQ - P&L KPI

| | 4Q21 | 3Q22 | 4Q22 | YOY Ch | QOQ Ch | 2021 | 2022 | Change |
|-----------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Net FI/OI | 53.7% | 61.0% | 68.8% | 1,512 | 782 | 52.5% | 61.0% | 854 |
| NIM | 2.5% | 3.3% | 3.9% | 144 | 61 | 2.5% | 3.3% | 83 |
| NIS | 2.5% | 3.3% | 3.9% | 139 | 61 | 2.4% | 3.3% | 86 |
| Fees & comms/OI | 26.3% | 19.8% | 18.9% | -740 | -91 | 27.2% | 23.2% | -393 |
| Trading/OI | 0.2% | 1.1% | 3.0% | 284 | 193 | 3.0% | 1.2% | -182 |
| Cost to income | 47.1% | 39.1% | 41.9% | -525 | 282 | 45.2% | 40.9% | -427 |
| Impairment/PPP | 3.0% | 2.3% | 0.3% | -273 | -201 | 64.7% | 11.2% | -5,344 |
| NP/OI | 48.9% | 57.9% | 52.3% | 343 | -557 | 17.3% | 49.4% | 3,218 |
| ROAE | 5.1% | 16.1% | 17.1% | 1,200 | 97 | 5.1% | 16.9% | 1,188 |
| ROAA | 0.6% | 1.8% | 1.9% | 134 | 15 | 0.6% | 2.0% | 137 |

FABS estimate & Co Data

MASQ - Key BS Items

| AED mm | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | YOY Ch |
|-------------------|---------|---------|---------|---------|---------|--------|
| Net advances | 81,486 | 86,295 | 89,676 | 91,326 | 90,303 | 10.8% |
| QOQ changes | 5.9% | 5.9% | 3.9% | 1.8% | -1.1% | |
| Total assets | 177,054 | 182,581 | 188,644 | 187,587 | 198,811 | 12.3% |
| QOQ changes | 4.4% | 3.1% | 3.3% | -0.6% | 6.0% | |
| Customer deposits | 101,483 | 104,228 | 109,335 | 109,430 | 113,806 | 12.1% |
| QOQ changes | 7.1% | 2.7% | 4.9% | 0.1% | 4.0% | |
| Total equity | 20,228 | 20,369 | 20,220 | 22,111 | 23,541 | 16.4% |
| QOQ changes | 4.3% | 0.7% | -0.7% | 9.4% | 6.5% | |

FABS estimate & Co Data

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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