

Mashreq Bank (MASQ)

Impairment allowance and decline in asset yield impacted profitability

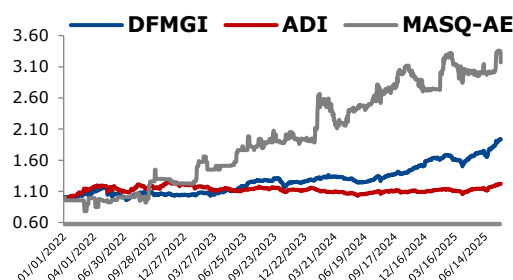
Current Price
AED 252.00

Target Price
AED 270.00

Upside/Downside (%)
+7.1%

Rating
HOLD

- MASQ's non-funded income continued to grow and now accounts for 35.0% of total operating income in 2Q25, compared to 30.3% in 2Q24.
- The Bank recorded impairment charges of AED 144 Mn in 2Q25 compared to a reversal of AED 83 Mn in 2Q24.
- Customer deposits increased 15.4% YOY and 3.6% QOQ to AED 177.6 Bn in 2Q25, and net advances rose 17.8% YOY and 6.6% QOQ to AED 134.1 Bn.
- MASQ maintained a healthy capitalization with a CET1 ratio of 14.8% and a total CAR of 17.5% in 2Q25.
- CASA deposits represented 69% of total deposits in 2Q25, up from 62% in 2Q24, providing a stable, low-cost funding base.



2Q25 Net Profit lower than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit fell 17.4% YOY to AED 1,648 Mn in 2Q25, lower than our estimate of AED 1,815 Mn. The decline in net profit is mainly due to lower net funded income, increased G&A expenses, tax charges and non-controlling interest, coupled with impairment charges recorded in 2Q25, partially offset by growth in non-funded income.

P&L Highlights

MASQ's interest income declined 5.5% YOY to AED 3,426 Mn in 2Q25, mainly due to a contraction in asset yield, partially offset by a rise in average interest-earning assets. However, income from Islamic financing grew 13.4% YOY to AED 464 Mn in 2Q25, supported by a surge in average Islamic financing assets, partially offset by a decline in asset yield on Islamic assets. Thus, total funded income declined 3.6% YOY to AED 3,890 Mn in 2Q25. Moreover, funded expenses fell 3.0% YOY to AED 1,895 Mn in 2Q25 owing to a decline in interest expenses and distribution to depositors of Islamic products impacted by the lower cost of funds. As a result, net funded income fell 4.2% YOY to AED 1,995 Mn in 2Q25. MASQ's net fee and commission income declined 11.9% YOY to AED 296 Mn in 2Q25. The Bank recorded robust growth in income from investment securities of AED 100 Mn in 2Q25, compared to AED 70 Mn in 2Q24. In addition, MASQ's other operating income grew strongly from AED 499 Mn in 2Q24 to AED 676 Mn in 2Q25. Resultantly, the Bank's total non-funded income grew 18.6% YOY to AED 1,072 Mn in 2Q25. Thus, MASQ's total operating income surged 2.7% YOY to AED 3,067 Mn in 2Q25, primarily supported by a rise in non-funded income and double-digit growth in the loan and advances. Furthermore, the Bank's G&A expenses increased 13.6% YOY to AED 948 Mn in 2Q25, driven by focused investments to support international expansion, upgrade

Stock Information

Market Cap (AED, Mn)	53,161.60
Paid Up Capital (Mn)	200.61
52 Week High	275.00
52 Week Low	198.90
3M Avg. daily value(AED)	1,568.2

2Q25 Result Review (AED, Mn)

Total Assets	293,635
Total Liabilities	256,639
Total Equity	35,876
Total Deposits	177,645
Net Profit	1,648

Financial Ratios

Dividend Yield (12m)	8.4
Dividend Pay-out (%)	47.47
Price-Earnings Ratio(x)	4.90
Price-to-Book Ratio (x)	1.29
Book Value (AED)	168.36
Return-on Equity (%)	28.31

Stock Performance

5 Days	-0.75%
1 Months	10.42%
3 Months	9.50%
6 Months	22.12%
1 Year	27.56%
Month to Date (MTD%)	10.42%
Quarter to Date (QTD%)	10.42%
Year to Date (YTD%)	21.56%

digital infrastructure and improve client interface channels across key markets. Resultantly, the cost-to-income ratio rose from 27.9% in 2Q24 to 30.9% in 2Q25. MASQ's recorded impairment charges of AED 144 Mn in 2Q25 compared to the impairment reversal of AED 83 Mn in 2Q24. MASQ tax expenses surged 32.3% YOY to AED 295 Mn in 2Q25 due to the introduction of DMTT. The Bank's NCI increased from AED 16 Mn in 2Q24 to AED 32 Mn in 2Q25.

Balance Sheet Highlights

The Bank's total assets grew 15.8% YOY and 7.7% QOQ to AED 293.6 Bn in 2Q25, mainly due to sustained credit expansion and effective liquidity optimization along with the growth in wholesale and retail banking segments. MASQ's net advances rose 17.8% YOY and 6.6% QOQ to AED 134.1 Bn in 2Q25, supported by strong growth across strategically important sectors such as residential mortgages, manufacturing, construction, and financial institutions, reinforcing the Bank's role in driving real economy development. Customer deposits increased 15.4% YOY and 3.6% QOQ to AED 177.6 Bn in 2Q25, driven by strengthened client relationships and sustained franchise momentum. Furthermore, the CASA ratio improved to 69% of total deposits in 2Q25. The loan-to-deposit ratio increased from 73.4% in 1Q25 to 75.5% in 2Q25. On the other hand, total equity rose 11.2% YOY and 4.7% QOQ to AED 35.9 Bn in 2Q25.

Target Price and Rating

We revise our rating from ACCUMULATE to HOLD on MASQ with an unchanged target price of AED 270.0. The share price of MASQ rose 7.4% from our last rating in June 2025. MASQ recorded a decline in profitability in 2Q25 on a YOY basis, primarily due to lower net funded income and higher impairment charges. However, the Bank's non-funded income continued to grow, accounting for 35.0% of total operating income in 2Q25, compared to 30.3% in 2Q24, mainly due to the Bank's strategy to diversify revenue sources. Additionally, Mashreq's Cross-Sell Ratio increased to 36%, marking a 5% YOY gain, underscoring the effectiveness of its relationship-driven strategy and enhanced client engagement across business lines. Net advances grew 17.8% YOY and 6.6% QOQ to AED 134.1 Bn in 2Q25, driven by robust growth in strategically key sectors. Customer deposits grew 15.4% YOY and 3.6% QOQ to AED 177.6 Bn in 2Q25, with a significant portion contributed by CASA accounts, supported by strong franchise strength, stable retail inflows, and continued customer preference for low-cost, digital-first banking solutions. Moreover, CASA deposits represented 69% of total deposits in 2Q25, up from 62% in 2Q24, providing a stable, low-cost funding base that strengthens both profitability and liquidity resilience. However, the Bank's NIMs fell 79 bps YOY and 15 bps QOQ to 3.4% in 2Q25. MASQ, asset quality improved as calculated NPL ratio fell from 1.7% in 2Q24 to 1.6% in 2Q25, reflecting the Bank's prudent underwriting practices and robust early-warning systems, and reinforcing its position as a leader in credit risk management. Additionally, MASQ reported a Liquid Assets Ratio of 30.6% and a Liquidity Coverage Ratio (LCR) of 120% in 2Q25, above the regulatory requirement, indicating the Bank's conservative liquidity posture and capacity to navigate dynamic market conditions. MASQ maintained strong capitalization in 2Q25, with a CET1 ratio of 14.8% and a total CAR of 17.5%, providing a substantial buffer above regulatory minimums and positioning the Bank to support growth while managing risk effectively. MASQ reported strong returns in 2Q25, with calculated ROAE at 26.0%, supported by disciplined capital deployment, a capital-light operating model, and diversified revenue streams. To strengthen its funding base, Mashreq issued USD 500 Mn Sukuk during 1H25, priced at UST + 105 bps with a fixed profit rate of 5.03% per annum, enhancing its access to international capital markets and reaffirming its leadership in Islamic finance. To deliver a best-in-class client experience, MASQ is making impactful investments, including upgrading technology infrastructure, expanding its digital and international presence, and forging strategic partnerships. Furthermore, the Bank's strategic expansion into high-growth markets such as Pakistan, Türkiye, and Oman, along with its entry into GIFT City in India, aims to enhance Mashreq's global relevance and connectivity while facilitating cross-border capital flows and delivering tailored, high-impact financial solutions to clients across key economic corridors. In 1H25, Mashreq was designated a D-SIB by the UAE Central Bank, reflecting its financial strength and systemic importance. The Bank exceeds D-SIB capital requirements by 25%, affirming its readiness for enhanced regulatory standards and strategic national role. Thus, considering the above-mentioned reasons, we assign a HOLD rating on the stock.

MASQ - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PB	2.68	2.58	2.32	1.78	1.54	1.42
PE	NA	52.02	13.98	6.07	5.85	7.65
EPS	10.270	10.270	10.270	10.270	10.270	10.270
BVPS	96.863	100.839	112.152	145.720	168.367	183.096
DPS	NA	1.000	9.000	18.500	21.100	16.986
Dividend yield	NA	0.4%	3.6%	7.3%	8.4%	6.7%

FABS Estimates & Co Data
MASQ - P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Interest income	3,627	3,341	3,426	3,343	2.5%	-5.5%	2.5%	14,271	13,420	-6.0%
Inc. from Islamic financing	409	421	464	411	13.1%	13.4%	10.4%	1,667	1,637	-1.8%
Funded income	4,036	3,762	3,890	3,754	3.6%	-3.6%	3.4%	15,938	15,057	-5.5%
Funded expense	-1,954	-1,795	-1,895	-1,716	10.5%	-3.0%	5.6%	-7,550	-7,263	-3.8%
Net funded income	2,082	1,967	1,995	2,038	-2.2%	-4.2%	1.4%	8,388	7,794	-7.1%
Fee & Commission inc.	336	348	296	390	-24.0%	-11.9%	-14.9%	1,465	1,611	10.0%
Inc. from Invst. securities	70	112	100	115	-12.4%	44.1%	-10.7%	229	462	102.0%
Other Operating inc., net	499	694	676	700	-3.5%	35.5%	-2.5%	3,335	2,901	-13.0%
Total other OI	904	1,154	1,072	1,205	-11.0%	18.6%	-7.0%	5,028	4,974	-1.1%
Total Op income	2,986	3,120	3,067	3,243	-5.4%	2.7%	-1.7%	13,416	12,768	-4.8%
G&A expenses	-834	-918	-948	-957	-0.9%	13.6%	3.3%	-3,696	-3,677	-0.5%
Pre provision profit	2,152	2,202	2,119	2,286	-7.3%	-1.5%	-3.8%	9,720	9,091	-6.5%
Impairment allowance	83	-101	-144	-106	35.9%	NM	42.2%	166	-625	NM
Income tax exp.	-223	-309	-295	-327	-9.8%	32.3%	-4.5%	-869	-1,270	46.2%
Non-controlling interests	-16	-36	-32	-38	-16.3%	NM	-11.3%	-100	-156	56.0%
Net Profit	1,995	1,756	1,648	1,815	-9.2%	-17.4%	-6.1%	8,917	7,040	-21.1%

FABS estimate & Co Data
MASQ - KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	69.7%	63.0%	65.0%	-468	200	62.5%	61.0%	-148
NIM	4.2%	3.6%	3.4%	-79	-15	4.1%	3.3%	-80
NIS	4.3%	3.5%	3.3%	-97	-16	4.1%	3.2%	-87
Fees & comms/OI	11.2%	11.1%	9.7%	-160	-150	10.9%	12.6%	170
Trading/OI	2.3%	3.6%	3.3%	94	-33	1.7%	3.6%	191
Cost to income	27.9%	29.4%	30.9%	297	149	27.5%	28.8%	125
Provisions/PPP	-3.8%	4.6%	6.8%	1,063	219	-1.7%	6.9%	858
NP/OI	66.8%	56.3%	53.7%	-1,309	-254	66.5%	55.1%	-1,133
Cost of risk - Calculated	-0.3%	0.4%	0.5%	87	14	-0.2%	0.5%	68
Loan-to-deposit - Calculated	73.9%	73.4%	75.5%	157	211	77.5%	71.3%	-618
NPL - Calculated	1.7%	1.7%	1.6%	-19	-16	1.7%	1.7%	-4
Coverage excl. collateral Calculated	142.1%	118.5%	116.8%	NM	-165	117.6%	117.0%	-55
CET 1	15.7%	15.4%	14.8%	-90	-64	14.4%	14.5%	4
Capital adequacy	19.5%	18.5%	17.5%	-190	-90	17.5%	17.3%	-18
ROAE	33.4%	28.8%	26.0%	-742	-282	27.8%	19.3%	-847
ROAA	3.9%	3.3%	3.0%	-87	-28	3.5%	2.5%	-106

FABS estimate & Co Data

MASQ - Key B/S items

AED Mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	113,827	118,534	124,758	125,817.11	134,120	17.8%
<i>QOQ change</i>	3.0%	4.1%	5.3%	0.8%	6.6%	
Total assets	253,467	254,411	267,453	272,703	293,635	15.8%
<i>QOQ change</i>	1.6%	0.4%	5.1%	2.0%	7.7%	
Customer deposits	153,964	156,063	160,940	171,442	177,645	15.4%
<i>QOQ change</i>	-1.0%	1.4%	3.1%	6.5%	3.6%	
Total equity	32,252	34,272	36,713	34,269	35,876	11.2%
<i>QOQ change</i>	13.3%	6.3%	7.1%	-6.7%	4.7%	

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	263.8	70%	184.6
Relative Valuation (RV)	284.5	30%	85.4
Weighted Average Valuation (AED)			270.0
Current market price (AED)			252.0
Upside/Downside (%)			+7.1%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 0.82 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)	8,276
Terminal value (AED, Mn)	11,699
Book Value of Equity (as of June 2025)	32,937
FV to Common shareholders (AED, Mn)	52,912
No. of share (Mn)	201
Current Market Price (AED)	252.0
Fair Value per share (AED)	363.8

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	6,815	6,479	6,357	6,087	5,721
(-) Equity Charge	-3,358	-3,659	-3,964	-4,251	-4,516
Excess Equity	3,458	2,820	2,393	1,836	1,205
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	1,667¹	2,491	1,937	1,362	819

Source: FAB Securities, ¹Adjusted 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 a 2025 PB multiple of 1.6x in line with the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
RAK Bank	4,009	1.3	1.2	7.2	8.0	6.9%	6.2%
Commercial Bank of Dubai (CBD)	7,152	1.8	1.7	9.1	11.2	5.3%	3.9%
Emirates NBD	41,615	1.3	1.1	8.0	8.2	3.9%	4.1%
Abu Dhabi Islamic Bank (ADIB)	21,773	3.4	3.1	14.5	13.8	3.6%	3.9%
Sharjah Islamic Bank (SIB)	2,458	NA	1.1	NM	9.1	0.1%	NA
Average		1.9x	1.6x	9.7x	10.0x	4.0%	4.5%
Median		1.6x	1.2x	8.5x	9.1x	3.9%	4.0%
Max		2.2x	1.7x	10.5x	11.2x	5.3%	4.6%
Min		1.3x	1.1x	7.8x	8.2x	3.6%	3.9%

Source: FAB Securities

