

Mashreq Bank (MASQ)

Strong growth in funded and non-funded income drove the bottom line

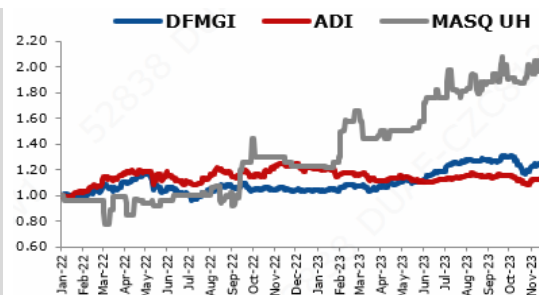
Current Price
AED 191.0

Target Price
AED 195.0

Upside/Downside (%)
+2.00%

Rating
HOLD

- MASQ registered 21.3% YOY and 0.1% QOQ growth in advances to AED 110.5 Bn in 1Q24.
- The Bank reported 24.7% YOY growth in net profit to AED 2 Bn in 1Q24 despite the introduction of 9.0% corporate tax.
- Customer deposits witnessed 29.4% YOY and 6.3% QOQ growth with CASA balance accounting for 62% of total deposits in 1Q24.
- MASQ's shareholders approved a robust dividend of AED 18.5 per share for the year 2023, resulting in a strong dividend yield of 9.7%.



1Q24 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit grew 24.7% YOY to AED 2,007 Mn in 1Q24 higher than our estimate of AED 1,606 Mn. The increase in net profit is mainly driven by a substantial growth in net funded and non-funded income, partially offset by a rise in operating expenses and higher tax expenses.

P&L Highlights

MASQ's interest income rose significantly 40.0% YOY to AED 3,618 Mn in 1Q24 driven by a robust growth in net advances and expansion in asset yield. Similarly, interest expenses witnessed a sharp rise from AED 985 Mn in 1Q23 to AED 1,702 Mn in 1Q24 due to higher cost of funds driven by high benchmark rates. Income from Islamic financing grew 42.6% YOY to AED 380 Mn in 1Q24 whereas expenses on Islamic financing rose 27.9% YOY to AED 153 Mn in 1Q24. Thus, MASQ's net funded income rose 22.8% YOY to AED 2,144 Mn in 1Q24. The Bank's net fee and commission income declined 6.0% YOY to AED 548 Mn in 1Q24 while income from investment securities increased significantly from AED 18 Mn in 1Q23 to AED 67 Mn in 1Q24. In addition, MASQ's other operating income more than doubled from AED 172 Mn in 1Q23 to AED 382 Mn in 1Q24. Resultantly, total non-funded income grew 28.9% YOY to AED 997 Mn in 1Q24. Furthermore, total operating income rose 24.7% YOY to AED 3,141 Mn in 1Q24. Furthermore, G&A expenses increased 10.2% YOY to AED 839 Mn in 1Q24. However, the cost-to-income ratio improved 349 bps YOY to 26.7% in 1Q24 on the back of strong growth in operating profit. The Bank reported an impairment charge of AED 38 Mn in 1Q24 compared to AED 96 Mn in 1Q23. The tax expense stood at AED 224 Mn in 1Q24 compared to AED 28 Mn in 1Q23. In addition, NCI rose 38.7% YOY to AED 34 Mn in 1Q24.

1Q24 Result Review (AED, mm)

Total Assets	249,592
Total Liabilities	221,119
Total Equity	28,473
Total Deposits	155,498
Net Profit	2,007

Financial Ratios

Dividend Yield (12m)	9.69
Dividend Pay-out (%)	43.21
Price-Earnings Ratio(x)	4.26
Price-to-Book Ratio (x)	1.40
Book Value (AED)	136.44
Return-on Equity (%)	36.25

Stock Performance

5 Days	6.11%
1 Months	9.14%
3 Months	-2.05%
6 Months	23.23%
1 Year	59.17%
Month to Date (MTD%)	8.52%
Quarter to Date (QTD%)	9.14%
Year to Date (YTD%)	25.66%

Balance Sheet Highlights

MASQ's net advances rose 21.3% YOY and 0.1% QOQ to AED 110.5 Bn in 1Q24. The Bank's total assets grew 24.0% YOY and 4.0% QOQ to AED 249.6 Bn in 1Q24. Furthermore, customer deposits rose significantly 29.4% YOY and 6.3% QOQ to AED 155.5 Bn in 1Q24. CASA deposits account for 62% of total deposits in 1Q24. However, the loan-to-deposit ratio stood at 71.1% in 1Q24 compared to 75.5% in 4Q23. On the other hand, total equity rose 22.1% YOY and declined 6.1% QOQ to AED 28.5 Bn in 1Q24.

Target Price and Rating

We maintain our HOLD rating on Mashreq Bank with a target price of AED 195.0. The Bank reported strong growth in net profit due to a robust growth in net funded and non-funded income. MASQ recorded a strong rise in net advances during 1Q24 mainly driven by an increase in lending to GREs, personal, trade, residential mortgage, construction, services, and financial institutions sectors partially offset by a decline in exposure to transport and communication and manufacturing sectors. The Bank's NIMs recorded a marginal growth of 9 bps YOY in 1Q24 but declined 16 bps QOQ to 4.4% owing to higher funding costs. MASQ's customer deposits registered a solid growth of 29.4% YOY and 6.3% QOQ to AED 155.5 Bn in 1Q24 with CASA balance representing 62% of total deposits in 1Q24 compared to 60% in 4Q23. The Bank's asset quality remained unchanged as its NPL ratio stood flat at 1.7% in 1Q24 compared to 4Q23. Stage 2 loans as a percentage of total gross loans grew from 5.2% in 4Q23 to 6.1% in 1Q24. However, the provision coverage ratio rose from 151.9% in 4Q23 to 154.3% in 1Q24. A high coverage ratio will provide a strong cushion against non-performing loans going forward. MASQ recorded strong liquidity with an LCR of 154% in 1Q24. MASQ also maintained a healthy capitalization with a CET1 ratio of 14.9% and a total CAR of 17.7% in 1Q24. Additionally, the Bank is expanding internationally by launching a new branch in Mumbai and starting corporate banking operations in the United Kingdom. MASQ also planning to launch a digital retail bank in Pakistan. Furthermore, shareholders of the Bank approved the distribution of a robust dividend of AED 18.5 per share for the period 2023 resulting in a solid dividend yield of 9.7%. 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	1.71	1.90	1.82	1.64	1.26	1.16
PE	17.87	NA	36.83	9.90	4.30	5.93
Dividend yield	1.9%	NA	0.5%	4.9%	9.7%	8.1%

FABS Estimates & Co Data

MASQ – P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Interest income	2,584	3,376	3,618	3,551	1.9%	40.0%	7.2%	11,966	14,166	18.4%
Inc. from Islamic financing	267	380	380	386	-1.5%	42.6%	0.1%	1,291	1,497	15.9%
Funded income	2,851	3,756	3,999	3,937	1.6%	40.3%	6.5%	13,257	15,663	18.1%
Interest expense	-985	-1,539	-1,702	-1,720	-1.0%	72.8%	10.6%	-5,052	-6,928	37.1%
Dist. to Islamic depositors	-119	-128	-153	-135	12.9%	27.9%	19.2%	-496	-592	19.2%
Net funded income	1,746	2,089	2,144	2,082	3.0%	22.8%	2.6%	7,710	8,143	5.6%
Net Fee & Commission inc.	583	237	548	256	113.9%	-6.0%	131.0%	1,433	1,490	4.0%
Inc. from Invst. securities	18	29	67	31	113.4%	264.3%	130.5%	30	59	100.0%
Other Operating inc., net	172	541	382	584	-34.6%	122.2%	-29.4%	1,631	1,794	10.0%
Total other OI	774	807	997	872	14.4%	28.9%	23.5%	3,093	3,344	8.1%
Total Operating income	2,520	2,896	3,141	2,954	6.3%	24.7%	8.5%	10,803	11,487	6.3%
G&A expenses	-761	-1,038	-839	-1,034	-18.9%	10.2%	-19.2%	-3,342	-3,561	6.6%
Pre provision profit	1,759	1,858	2,303	1,920	19.9%	30.9%	23.9%	7,461	7,926	6.2%
Impairment allowance, net	-96	1,027	-38	-99	-61.8%	-60.7%	-103.7%	1,369	-741	NM
Overseas income tax exp.	-28	-43	-224	-191	17.0%	NM	420.4%	-154	-826	NM
Non-controlling interests	-24	-22	-34	-24	39.5%	38.7%	55.4%	-87	-94	8.2%
Net Profit	1,610	2,821	2,007	1,606	25.0%	24.7%	-28.8%	8,589	6,264	-27.1%

FABS estimate & Co Data
MASQ - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	69.3%	72.1%	68.3%	-105	-387	71.4%	70.9%	-47
NIM	4.4%	4.6%	4.5%	9	-16	4.5%	4.1%	-37
NIS	4.3%	4.7%	4.6%	28	-10	4.5%	4.4%	-6
Fees & comms/OI	23.1%	8.2%	17.5%	-570	926	13.3%	13.0%	-29
Cost to income	0.7%	1.0%	2.1%	141	113	0.3%	0.5%	24
Provisions/PPP	30.2%	35.8%	26.7%	-349	-914	30.9%	31.0%	7
NP/OI	5.5%	-55.3%	1.6%	-383	NM	-18.3%	9.3%	NM
Cost of risk - Calculated	63.9%	97.4%	63.9%	0	-3,351	79.5%	54.5%	NM
Loan-to-deposit	0.5%	-4.5%	0.2%	-32	466	-1.6%	0.7%	225
NPL - Calculated	75.8%	75.5%	71.1%	-477	-441	75.5%	77.4%	196
Coverage excluding collateral-Calculated	2.6%	1.7%	1.7%	-89	1	1.7%	1.8%	11
CET 1	192.3%	151.9%	154.3%	-3,796	243	151.9%	212.0%	NM
Capital adequacy	14.4%	13.7%	14.9%	54	120	13.7%	14.2%	45
ROAE	17.4%	16.5%	17.7%	27	120	16.5%	16.2%	-29
ROAA	20.9%	31.2%	31.8%	1,085	58	33.2%	20.5%	-1,268

FABS estimate & Co Data
MASQ - Key B/S items

AED mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	91,109	94,956	99,275	110,355	110,484	21.3%
QOQ ch	0.9%	4.2%	4.5%	11.2%	0.1%	
Total assets	201,233	210,964	218,342	239,981	249,592	24.0%
QOQ ch	2.0%	4.8%	3.5%	9.9%	4.0%	
Customer deposits	120,162	126,778	132,864	146,232	155,498	29.4%
QOQ ch	5.6%	5.5%	4.8%	10.1%	6.3%	
Total equity	23,314	25,260	26,983	30,333	28,473	22.1%
QOQ ch	-1.2%	8.3%	6.8%	12.4%	-6.1%	

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	205	70.0%	144
Relative Valuation (RV)	171	30.0%	51
Weighted Average Valuation (AED)			195
Current market price (AED)			191
Upside/Downside (%)			+2.0%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 0.9 and equity risk premium of 3.4%. 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)	7,563
Terminal value (AED, Mn)	9,914
Book Value of Equity (as of Mar 2024)	27,371
FV to Common shareholders (AED, Mn)	41,137
No. of share (Mn)	201
Current Market Price (AED)	191
Fair Value per share (AED)	205

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,220	5,473	5,173	4,995	4,691
(-) Equity Charge	-2,784	-3,022	-3,264	-3,501	-3,719
Excess Equity	2,272	2,451	1,909	1,494	972
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Present Value of Excess Equity	2,149	2,132	1,527	1,098	657

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)	
		2024F	2025F	2024F	2025F	2024F	2025F
RAK Bank	2,820	0.9	0.8	6.1	5.9	6.6	7.6
Commercial Bank of Dubai (CBD)	5,490	1.3	1.3	NM	NM	6.5	6.0
Emirates NBD	26,920	0.9	0.8	5.3	5.6	6.4	6.4
Abu Dhabi Islamic Bank (ADIB)	39,950	1.8	1.6	8.6	8.5	6.3	6.3
Sharjah Islamic Bank (SIB)	1,940	1.1	1.0	9.2	8.5	5.5	5.9
Average		1.2x	1.1x	7.3x	7.1x	6.3%	6.4%
Median		1.1x	1.0x	7.4x	7.2x	6.4%	6.3%
Max		1.3x	1.3x	8.8x	8.5x	6.5%	6.4%
Min		0.9x	0.8x	5.9x	5.8x	6.3%	6.0%

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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