

## Mashreq Bank (MASQ)

Growth in NIMs and other operating income supported profit

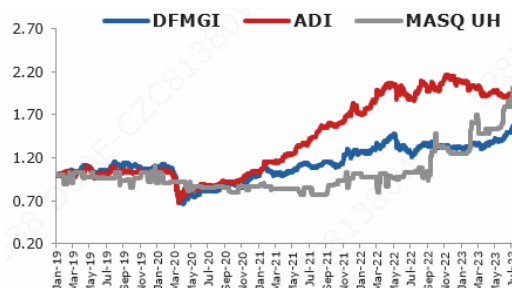
**Current Price**  
AED 146.0

**Target Price**  
AED 160.0

**Upside/Downside (%)**  
+10%

**Rating**  
**ACCUMULATE**

- An increase in other operating income offset decline in core fee and commission income. Non-funded income rose 8.3% YOY to AED 737 Mn in 2Q23
- Recorded a provisioning reversal of AED 43 Mn as compared to a loss of AED 212 Mn in 2Q23
- Retail accounts for 25.7% of total loans, Govt./GRE 12% and the remaining to the wholesale segment
- Asset quality continued to improve with an NPL ratio of 2.2%, whereas provision coverage rose to 205.6% in 2Q23.



### Stock Information

Market Cap (AED, mm)	29,289.04
Paid Up Capital (mm)	2,006.10
52 Week High	170.00
52 Week Low	72.90
3M Avg. daily value(AED)	144,549

### 2Q23 Result Review (AED, mm)

Total Assets	210,964
Total Liabilities	184,752
Total Equity	25,260
Total Deposits	126,778
Net Profit	1,906

### Financial Ratios

Dividend Yield (12m)	6.16
Dividend Pay-out (%)	48.71
Price-Earnings Ratio(x)	5.03
Price-to-Book Ratio (x)	1.21
Book Value (AED)	120.42
Return-on Equity (%)	26.24

### Stock Performance

5 Days	1.39%
1 Months	4.29%
3 Months	21.67%
6 Months	23.26%
1 Year	72.78%
Month to Date (MTD%)	1.39%
Quarter to Date (QTD%)	4.29%
Year to Date (YTD%)	49.74%

### 2Q23 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit more than doubled from AED 796 Mn in 2Q22 to AED 1,906 Mn in 2Q23, higher than our estimate of AED 1,583 Mn. The increase in net profit is mainly driven by a robust growth in net funded and non-funded income coupled with a reversal in impairment charges partially offset by a rise in operating expenses.

### P&L Highlights

MASQ's interest income rose significantly from AED 1,351 Mn in 2Q22 to AED 2,861 Mn in 2Q23 driven by a healthy growth in net advances and increase in asset yield. Similarly, interest expenses witnessed a sharp rise from AED 445 Mn in 2Q22 to AED 1,142 Mn in 2Q23 due rise in cost of funds driven by higher benchmark rates. Income from Islamic financing grew 83.9% YOY to AED 277 Mn in 2Q23 whereas expenses on Islamic financing rose to AED 126 Mn in 2Q23, up from AED 42 Mn in 2Q22. Thus, MASQ's net funded income rose 84.4% YOY to AED 1,870 Mn in 2Q23. MASQ's NIMs rose 181 bps YOY and 22 bps QOQ to 4.6% in 2Q23. The Bank's net fee and commission income declined 22.0% YOY to AED 293 Mn in 2Q23 however income from investment securities rose 7.8% YOY to AED 15 Mn in 2Q23. In addition, other operating income rose 44.2% YOY to AED 458 Mn in 2Q23. Resultantly, non-funded income grew 8.3% YOY to AED 737 Mn in 2Q23. Total operating income rose 53.8% YOY to AED 2,607 Mn in 2Q23. Further, G&A expenses increased 9.0% YOY to AED 690 Mn in 2Q23. However, the cost-to-income ratio improved from 1,090 bps YOY to 26.5% in 2Q23 owing to a strong growth in operating profit. The Bank reported an impairment reversal of AED 43 Mn in 2Q23 as compared to a loss of AED 212 Mn in 2Q22. While NCI also declined 12.1% to AED 19 Mn in 2Q23.

### Balance Sheet Highlights

MASQ's net advances rose 5.9% YOY and 4.2% QOQ to AED 95.0 Bn in 2Q23 owing to an increased lending activity across all segments. The Bank's total assets rose 11.8% YOY and 4.8% QOQ to AED 211.0 Bn in 2Q23. Further, Customer deposits increase significantly 16.0% YOY and 5.5% QOQ to AED 126.8 Bn in 2Q23 due to an increase in current account deposits. CASA accounts for 65% of total deposits in 2Q23. However, loan to deposit ratio stood at 74.9% in 2Q23 as compared to 82.0% in 2Q22. On the other hand, total equity rose significantly 24.9% YOY and 8.3% QOQ to AED 25.3 Bn in 2Q23.

### Target Price and Rating

We maintain our ACCUMULATE rating on Mashreq Bank with an unchanged target price of AED 160.0. The Bank reported a robust growth in net profit owing to the strong growth in NIMs and net advances. On the YTD basis, gross advances rose 4.5% to AED 117.9 Bn. The expansion in the NIMs is on account of strong growth in deposits which rose 5.5% QOQ to AED 126.8 Bn in 2Q23. Advances to deposit ratio also fell from 75.8% in 1Q23 to 74.9% in 2Q23. CASA deposit account for 65% of total deposits in 2Q23 as compared to 64% in December 2022. The growth of CASA deposits is favourable for the NIMs and supports the NIMs going forward. MASQ's asset quality improved as its NPL ratio declined from 2.7% in 1Q23 to 2.2% in 2Q23. The provision coverage ratio also strengthened to 205.6% in 2Q23, up from 192.3% in 1Q23 which will provide a cushion against unforeseen losses. The bank's capitalization also stood strong with a Tier 1 capital ratio of 15.7%, total capital ratio of 18.0% and CET 1 ratio of 15.0% in 2Q23. The stock is trading at a 2023 dividend yield of 5.5% as compared to its peers' average of 5.8%, which still renders it attractive compared to other banking stocks. We assign an ACCUMULATE rating on the stock.

#### MASQ - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023E
PB	1.44	1.35	1.50	1.44	1.29	1.09
PE	14.12	14.09	NA	29.02	7.85	4.97
Dividend yield	2.4%	2.4%	NA	0.7%	6.2%	5.5%

FABS Estimates & Co Data

**MASQ – P&L**

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest income	1,351	2,584	2,861	2,731	5%	111.9%	10.7%	6,415	10,972	71.0%
Inc. from Islamic financing	150	267	277	268	3%	83.9%	3.7%	672	1,037	54.4%
<b>Funded income</b>	<b>1,501</b>	<b>2,851</b>	<b>3,138</b>	<b>2,998</b>	<b>5%</b>	<b>109.1%</b>	<b>10.1%</b>	<b>7,087</b>	<b>12,009</b>	<b>69.5%</b>
Interest expense	-445	-985	-1,142	-1,023	12%	156.8%	15.9%	-2,255	-4,144	83.8%
Dist. to Islamic depositors	-42	-119	-126	-126	0%	200.1%	5.9%	-260	-547	110.8%
<b>Net funded income</b>	<b>1,014</b>	<b>1,746</b>	<b>1,870</b>	<b>1,849</b>	<b>1%</b>	<b>84.4%</b>	<b>7.1%</b>	<b>4,572</b>	<b>7,318</b>	<b>60.1%</b>
Net Fee & Commission inc.	376	583	293	554	-47%	-22.0%	-49.7%	1,741	2,176	25.0%
Inc. from Invst. securities	-14	18	-15	19	-178%	7.8%	-179.8%	92	94	2.0%
Other Operating inc., net	318	172	458	198	132%	44.2%	166.8%	1,091	818	-25.0%
<b>Total other OI</b>	<b>681</b>	<b>774</b>	<b>737</b>	<b>771</b>	<b>-4%</b>	<b>8.3%</b>	<b>-4.7%</b>	<b>2,924</b>	<b>3,088</b>	<b>5.6%</b>
<b>Total Operating income</b>	<b>1,695</b>	<b>2,520</b>	<b>2,607</b>	<b>2,619</b>	<b>0%</b>	<b>53.8%</b>	<b>3.4%</b>	<b>7,496</b>	<b>10,406</b>	<b>38.8%</b>
G&A expenses	-633	-761	-690	-825	-16%	9.0%	-9.3%	-3,066	-3,642	18.8%
Pre provision profit	<b>1,061</b>	<b>1,759</b>	<b>1,917</b>	<b>1,794</b>	<b>7%</b>	<b>80.6%</b>	<b>9.0%</b>	<b>4,430</b>	<b>6,764</b>	<b>52.7%</b>
Impairment allowance, net	-212	-96	43	-141	-130%	NA	-144.3%	-497	-604	21.5%
Overseas income tax exp.	-31	-28	-34	-41	-18%	8.9%	19.0%	-146	-185	26.5%
Non-controlling interests	-22	27	-19	-29	-35%	-12.1%	-170.2%	-80	-86	8.0%
<b>Net Profit</b>	<b>796</b>	<b>1,662</b>	<b>1,906</b>	<b>1,583</b>	<b>20.4%</b>	<b>139.4%</b>	<b>14.7%</b>	<b>3,706</b>	<b>5,889</b>	<b>58.9%</b>

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

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	59.8%	69.3%	71.7%	1,188	242	61.0%	70.3%	933
NIM	2.8%	4.4%	4.6%	181	22	3.3%	4.7%	142
NIS	22.2%	23.1%	11.3%	-1,095	-1,189	23.2%	20.9%	-231
Fees & comms/OI	-0.8%	0.7%	-0.6%	24	-130	1.2%	0.9%	-33
Cost to income	37.4%	30.2%	26.5%	-1,090	-371	40.9%	35.0%	-591
Provisions/PPP	20.0%	5.5%	-2.2%	-2,221	-770	11.2%	8.9%	-230
NP/OI	47.0%	65.9%	73.1%	2,613	718	49.4%	56.6%	714
ROAE	11.7%	21.0%	25.1%	1,334	403	17.3%	23.9%	655
ROAA	1.3%	2.4%	2.8%	154	46	2.0%	2.9%	92

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

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	89,676	91,326	90,303	91,109	94,956	5.9%
QOQ ch	3.9%	1.8%	-1.1%	0.9%	4.2%	
Total assets	188,644	187,588	197,246	201,233	210,964	11.8%
QOQ ch	3.3%	-0.6%	5.1%	2.0%	4.8%	
Customer deposits	109,335	109,430	113,806	120,162	126,778	16.0%
QOQ ch	4.9%	0.1%	4.0%	5.6%	5.5%	
Total equity	20,220	22,111	23,599	23,314	25,260	24.9%
QOQ ch	-0.7%	9.4%	6.7%	-1.2%	8.3%	

*FABS estimate & Co Data*

## Valuation:

We use 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	165	70.0%	116
Relative Valuation (RV)	148	30.0%	44
<b>Weighted Average Valuation (AED)</b>			<b>160</b>
Current market price (AED)			146
Upside/Downside (%)			+10%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 3.8%. 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)	7,129
Terminal value (AED, Mn)	1,830
Book Value of Equity (as of June 2023)	24,158
<b>FV to Common shareholders (AED, Mn)</b>	<b>33,116</b>
No. of share (Mn)	201
Current Market Price (AED)	146
<b>Fair Value per share (AED)</b>	<b>165</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	5,856	4,583	3,956	3,581	3,199
(-) Equity Charge	-2,276	-2,532	-2,735	-2,906	-3,044
<b>Excess Equity</b>	<b>3,579</b>	<b>2,050</b>	<b>1,221</b>	<b>675</b>	<b>155</b>
Discounting Factor	0.95	0.96	0.88	0.81	0.75
<b>Present Value of Excess Equity</b>	<b>3,415</b>	<b>1,967</b>	<b>1,080</b>	<b>550</b>	<b>117</b>

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 peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
RakBank	2,494	1.0	0.9	6.2	6.8	8.1%	7.5%
Commercial Bank of Dubai (CBD)	3,823	1.1	1.0	6.4	6.9	6.7%	6.5%
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5%	4.5%
United Arab Bank (UAB)	618	1.4	1.2	11.5	12.8	1.9%	2.3%
Sharjah Islamic Bank (SIB)	1,993	1.1	1.1	10.8	9.5	4.9%	5.3%
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.1x</b>	<b>8.6x</b>	<b>5.2%</b>	<b>5.2%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.4x</b>	<b>6.9x</b>	<b>4.9%</b>	<b>5.3%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.1x</b>	<b>10.8x</b>	<b>9.5x</b>	<b>6.7%</b>	<b>6.5%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.2x</b>	<b>6.9x</b>	<b>4.5%</b>	<b>4.5%</b>

Source: FAB Securities

