

## Mashreq Bank (MASQ)

Solid funded and non-funded income and reversal of impairments drove bottom-line

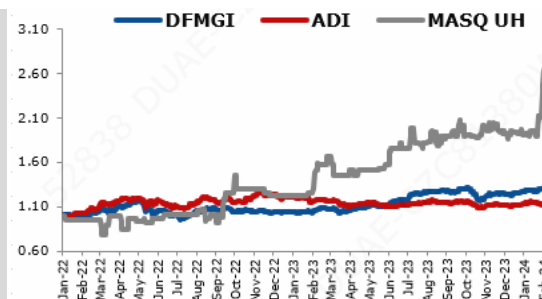
**Current Price**  
AED 205.0

**Target Price**  
AED 195.0

**Upside/Downside (%)**  
-4.9%

**Rating**  
HOLD

- MASQ registered 22.2% growth in advances to AED 110.4 Bn in 2023 driven by increased lending across all the sectors except the transportation and communication sector.
- MASQ recorded a provisioning reversal of AED 1,027 Mn compared to a reversal of AED 3 Mn in 2023 owing to its prudent risk management practices.
- Customers deposits witnessed 28.5% growth with CASA balance accounting for 60% of total deposits in 2023.
- MASQ's board proposed a robust dividend of AED 18.5 per share for the year 2023 resulting in a strong dividend yield of 9.4%.



### Stock Information

Market Cap (AED, Mn)	41,125.02
Paid Up Capital (Mn)	2,006.10
52 Week High	225.40
52 Week Low	115.00
3M Avg. daily value(AED)	185,439

### 4Q23 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit grew significantly from AED 1,077 Mn in 4Q22 to AED 2,770 Mn in 4Q23, higher than our estimate of AED 1,920 Mn. The increase in net profit is mainly driven by the reversal of impairments on loans and advances coupled with substantial growth in net funded and non-funded income partially offset by a rise in operating expenses.

### 4Q23 Result Review (AED, Mn)

Total Assets	239,981
Total Liabilities	208,663
Total Equity	30,333
Total Deposits	146,232
Net Profit	2,770

### P&L Highlights

MASQ's interest income rose significantly from AED 2,190 Mn in 4Q22 to AED 3,376 Mn in 4Q23 driven by a robust growth in net advances and expansion in asset yield. Similarly, interest expenses witnessed a sharp rise from AED 817 Mn in 4Q22 to AED 1,539 Mn in 4Q23 due rise in cost of funds driven by higher benchmark rates. Income from Islamic financing also grew from AED 219 Mn in 4Q22 to AED 380 Mn in 4Q23 whereas expenses on Islamic financing rose to AED 128 Mn in 4Q23, up from AED 109 Mn in 4Q22. Thus, MASQ's net funded income rose significantly 40.9% YOY to AED 2,089 Mn in 4Q23. As a result, MASQ's NIMs grew 92 bps YOY to 4.8% in 4Q23. The Bank's net fee and commission income declined 22.4% YOY to AED 237 Mn in 4Q23 while income from investment securities declined 55.3% YOY to AED 29 Mn in 4Q23. In addition, MASQ's other operating income more than doubled from AED 250 Mn in 4Q22 to AED 541 Mn in 4Q23. Resultantly, total non-funded income grew 30.0% YOY to AED 807 Mn in 4Q23. Furthermore, total operating income rose 37.7% YOY to AED 2,896 Mn in 4Q23. Further, G&A expenses increased 14.8% YOY to AED 1,038 Mn in 4Q23. However, the cost-to-income ratio improved from 713 bps YOY to 35.8% in 4Q23 on the back of strong growth in operating profit. The Bank reported an impairment reversal of AED 1,027 Mn in 4Q23 compared to reversals of AED 3 Mn in 4Q22. In addition, NCI moderated 0.5% YOY to AED 73 Mn in 4Q23.

### Financial Ratios

Dividend Yield (12m)	4.29
Dividend Pay-out (%)	43.21
Price-Earnings Ratio(x)	4.90
Price-to-Book Ratio (x)	1.44
Book Value (AED)	145.71
Return-on Equity (%)	33.21

### Stock Performance

5 Days	0.00%
1 Months	38.16%
3 Months	28.83%
6 Months	36.36%
1 Year	75.00%
Month to Date (MTD%)	7.14%
Quarter to Date (QTD%)	38.16%
Year to Date (YTD%)	38.16%

### Balance Sheet Highlights

MASQ's net advances rose 22.2% YOY to AED 110.4 Bn in 4Q23 owing to an increased lending activity across all segments. The Bank's total assets grew 21.7% YOY to AED 240.0 Bn in 4Q23. Furthermore, customer deposits rose significantly 28.5% YOY to AED 146.2 Bn in 4Q23. CASA deposits account for 60% of total deposits in 2023. However, loan to deposit ratio stood at 75.5% in 2023 compared to 79.4% in 2022. On the other hand, total equity rose significantly 28.5% to AED 30.3 Bn in 4Q23.

### Target Price and Rating

We revise our rating on Mashreq Bank from BUY to HOLD with a revised target price of AED 195.0. MASQ's share price rose 34.2% since our previous rating (12 January 2024). The Bank reported strong growth in net profit due to the reversal of impairments in 4Q23. MASQ recorded a 22.2% rise in net advances during 2023 driven by an increase in lending across all the sectors except for a marginal decline in loans to the transportation and communication sector. The Bank's NIMs recorded a strong rise of 92 bps YOY in 4Q23 but declined 1 bps QOQ to 4.8% owing to higher funding cost. Furthermore, we expect the Bank's NIMs to moderate in 2024 driven by anticipated decline in interest rates and its exposure to corporate loans. In addition, the Bank's balance sheet is negatively geared for the declining interest rate scenario. MASQ's customer deposits registered a solid growth of 28.5% to AED 146.2 Bn in 2023 with CASA balance representing 60% of total deposits. The Bank's asset quality further improved as its NPL ratio declined from 2.0% in 3Q23 to 1.7% in 4Q23 due to healthy recoveries and write-offs. Whereas, stage 2 loans as a percentage of total gross loans also declined from 7.9% in 3Q23 to 5.2% in 4Q23. However, the provision coverage ratio declined from 193.0% in 3Q23 to 151.9% in 4Q23. The high coverage ratio will provide a strong cushion against non-performing loans going forward. MASQ recorded strong liquidity with an LCR of 134% in 2023. MASQ also maintained a healthy capitalization with a CET1 ratio of 13.7% and a total CAR of 16.5% in 2023. Furthermore, the Board proposed a robust dividend of AED 18.5 per share for the period 2023 resulting in a solid dividend yield of 9.4%. Thus, considering the above-mentioned reasons, we assign a HOLD rating on the stock.

### MASQ - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024E
PB	1.95	1.83	2.02	1.94	1.75	1.35	1.25
PE	19.09	19.04	NA	39.23	10.54	4.58	6.76
Dividend yield	1.8%	1.8%	NA	0.5%	4.6%	9.4%	6.7%

FABS Estimates & Co Data

**MASQ – P&L**

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Interest income	2,190	3,145	3,376	3,452	-2.2%	54.2%	7.3%	6,415	11,966	86.5%
Inc. from Islamic financing	219	368	380	443	-14.3%	73.4%	3.4%	672	1,291	92.2%
<b>Funded income</b>	<b>2,409</b>	<b>3,513</b>	<b>3,756</b>	<b>3,895</b>	<b>-3.6%</b>	<b>55.9%</b>	<b>6.9%</b>	<b>7,087</b>	<b>13,257</b>	<b>87.1%</b>
Interest expense	-817	-1,386	-1,539	-1,531	0.5%	88.3%	11.1%	-2,257	-5,052	123.8%
Dist. to Islamic depositors	-109	-122	-128	-140	-8.2%	17.1%	4.6%	-260	-496	91.0%
<b>Net funded income</b>	<b>1,482</b>	<b>2,005</b>	<b>2,089</b>	<b>2,224</b>	<b>-6.1%</b>	<b>40.9%</b>	<b>4.2%</b>	<b>4,570</b>	<b>7,710</b>	<b>68.7%</b>
Net Fee & Commission inc.	306	319	237	337	-29.6%	-22.4%	-25.5%	1,346	1,433	6.4%
Inc. from Invst. securities	65	-3	29	10	203.2%	-55.3%	NM	92	30	-67.7%
Other Operating inc., net	250	460	541	464	16.5%	NM	17.6%	1,299	1,631	25.6%
<b>Total other OI</b>	<b>621</b>	<b>775</b>	<b>807</b>	<b>811</b>	<b>-0.5%</b>	<b>30.0%</b>	<b>4.1%</b>	<b>2,737</b>	<b>3,093</b>	<b>13.0%</b>
<b>Total Operating income</b>	<b>2,103</b>	<b>2,780</b>	<b>2,896</b>	<b>3,035</b>	<b>-4.6%</b>	<b>37.7%</b>	<b>4.2%</b>	<b>7,307</b>	<b>10,803</b>	<b>47.9%</b>
G&A expenses	-904	-853	-1,038	-989	4.9%	14.8%	21.7%	-2,871	-3,342	16.4%
Pre provision profit	<b>1,200</b>	<b>1,927</b>	<b>1,858</b>	<b>2,046</b>	<b>-9.2%</b>	<b>54.9%</b>	<b>-3.6%</b>	<b>4,436</b>	<b>7,461</b>	<b>68.2%</b>
Impairment allowance, net	3	395	1,027	-51	NM	NM	160.2%	-468	1,369	NM
Overseas income tax exp.	-52	-48	-43	-49	-12.1%	-17.4%	-11.1%	-146	-154	5.1%
Non-controlling interests	-74	-22	-73	-26	179.0%	-0.5%	NM	-93	-87	-6.0%
<b>Net Profit</b>	<b>1,077</b>	<b>2,252</b>	<b>2,770</b>	<b>1,920</b>	<b>44.3%</b>	<b>157.2%</b>	<b>23.0%</b>	<b>3,729</b>	<b>8,589</b>	<b>130.3%</b>

FABS estimate & Co Data

**MASQ - KPI**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	70.5%	72.1%	72.1%	165	1	62.5%	71.4%	882
NIM	3.9%	4.8%	4.8%	92	-1	3.3%	4.6%	137
NIS	3.8%	4.8%	4.9%	116	12	3.3%	4.7%	145
Fees & comms/OI	14.5%	11.5%	8.2%	-635	-327	18.4%	13.3%	-516
Cost to income	43.0%	30.7%	35.8%	-713	515	39.3%	30.9%	-836
Provisions/PPP	-0.2%	-20.5%	-55.3%	NM	NM	10.5%	-18.3%	NM
NP/OI	51.2%	81.0%	95.6%	NM	1,462	51.0%	79.5%	NM
ROAE	17.1%	27.6%	31.2%	1,403	361	17.5%	33.2%	1,575
ROAA	1.9%	3.2%	3.7%	181	54	2.0%	3.9%	194

FABS estimate & Co Data

**MASQ - Key B/S items**

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	90,303	91,109	94,956	99,275	110,355	22.2%
QOQ ch	-1.1%	0.9%	4.2%	4.5%	11.2%	
Total assets	197,245	201,233	210,964	218,342	239,981	21.7%
QOQ ch	5.1%	2.0%	4.8%	3.5%	9.9%	
Customer deposits	113,806	120,162	126,778	132,864	146,232	28.5%
QOQ ch	4.0%	5.6%	5.5%	4.8%	10.1%	
Total equity	23,599	23,314	25,260	26,983	30,333	28.5%
QOQ ch	6.7%	-1.2%	8.3%	6.8%	12.4%	

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	203	70.0%	142
Relative Valuation (RV)	175	30.0%	53
<b>Weighted Average Valuation (AED)</b>			<b>195</b>
Current market price (AED)			205
Upside/Downside (%)			-4.9%

### 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 5.2%, 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)	7,314
Terminal value (AED, Mn)	<b>7,979</b>
Book Value of Equity (as of Dec 2023)	29,231
<b>FV to Common shareholders (AED, Mn)</b>	<b>40,813</b>
No. of share (Mn)	200.6
Current Market Price (AED)	205
<b>Fair Value per share (AED)</b>	<b>203</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,818	5,217	5,004	4,803	4,501
(-) Equity Charge	-2,776	-3,010	-3,249	-3,478	-3,689
<b>Excess Equity</b>	<b>2,788</b>	<b>2,207</b>	<b>1,756</b>	<b>1,325</b>	<b>812</b>
Discounting Factor	0.93	0.85	0.78	0.72	0.66
<b>Present Value of Excess Equity</b>	<b>2,580</b>	<b>1,876</b>	<b>1,371</b>	<b>951</b>	<b>535</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 the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
RAK Bank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Commercial Bank of Dubai (CBD)	4,064	1.1	NM	NM	NM	5.5	6.0
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
United Arab Bank (UAB)	741	1.5	NM	17.4	NM	2.3	NM
Sharjah Islamic Bank (SIB)	2,176	1.2	1.1	10.3	9.5	4.9	5.3
<b>Average</b>		<b>1.2x</b>	<b>1.0x</b>	<b>10.3x</b>	<b>7.0x</b>	<b>4.9x</b>	<b>6.3x</b>
<b>Median</b>		<b>1.1x</b>	<b>0.9x</b>	<b>8.8x</b>	<b>6.0x</b>	<b>4.9x</b>	<b>5.6x</b>
<b>Max</b>		<b>1.2x</b>	<b>1.0x</b>	<b>12.1x</b>	<b>7.8x</b>	<b>5.5x</b>	<b>6.8x</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.1x</b>	<b>5.8x</b>	<b>4.9x</b>	<b>5.2x</b>

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%

### FAB Securities Contacts:

#### Research Analyst

Ahmad Banihani                      +971-2-6161629                      [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

#### Sales & Execution

Abu Dhabi Head Office

Trading Desk                      +971-2-6161700/1                      Online Trading Link

+971-2-6161777

Institutional Desk                      +971-4-4245765

### DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.