

Mashreq Bank (MASQ)

Higher impairments and tax charges impacted the bottom line

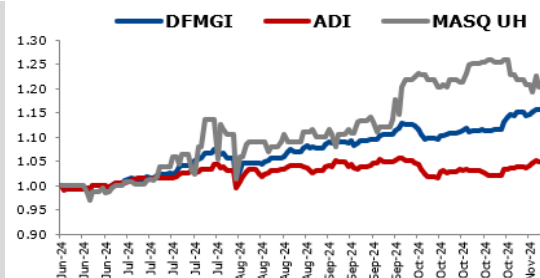
Current Price
AED 238.00

Target Price
AED 235.00

Upside/Downside (%)
-1%

Rating
HOLD

- Net advances grew 19.4% YOY and 4.1% QOQ to AED 119 Bn in 3Q24, while customer deposits grew 17.5% YOY and 1.4% QOQ to AED 156 Bn in 3Q24.
- NIMs declined 58 bps YOY and 2 bps QOQ to 4.2% in 3Q24, while cost-to-income improved from 30.7% in 3Q23 to 29.2% in 3Q24.
- Reported NPLs grew from 1.3% in 2Q24 to 1.5% in 3Q24, whereas provision coverage declined from 142.1% in 2Q24 to 117.1% in 3Q24.
- MASQ is enhancing its digital footprint by expanding platforms like NEO CORP and NEOBIZ, aiming to strengthen its position in corporate and business banking segments.



Stock Information

Market Cap (AED, mn)	47,745.14
Paid Up Capital (mn)	2,006.10
52 Week High	254.15
52 Week Low	147.00
3M Avg. daily value(AED)	217,795

3Q24 Result Review (AED, mn)

Total Assets	254,411
Total Liabilities	219,109
Total Equity	34,272
Total Deposits	156,063
Net Profit	1,771

Financial Ratios

Dividend Yield (12m)	7.77
Dividend Pay-out (%)	43.21
Price-Earnings Ratio(x)	5.56
Price-to-Book Ratio (x)	1.52
Book Value (AED)	156.19
Return-on Equity (%)	30.04

Stock Performance

5 Days	0.00%
1 Months	-0.83%
3 Months	10.70%
6 Months	23.96%
1 Year	52.08%
Month to Date (MTD%)	-1.65%
Quarter to Date (QTD%)	-1.24%
Year to Date (YTD%)	56.58%

3Q24 Net Profit lower than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit declined 21.3% YOY to AED 1,771 Mn in 3Q24, lower than our estimate of AED 1,851 Mn. The decline in net profit is mainly driven by higher operating expenses and impairment charges coupled with tax expenses, partially offset by growth in net funded and non-funded income.

P&L Highlights

MASQ's interest income rose 15.1% YOY to AED 3,619 Mn in 3Q24, driven by robust growth in net advances and an increase in other interest-earnings assets. Similarly, interest expenses sharply rose from AED 1,386 Mn in 3Q23 to AED 1,762 Mn in 3Q24. Income from Islamic financing grew 19.5% YOY to AED 439 Mn in 3Q24, whereas expenses on Islamic financing rose 54.2% YOY to AED 189 Mn in 3Q24. Thus, MASQ's net funded income rose 5.1% YOY to AED 2,108 Mn in 3Q24. The Bank's net fee and commission income declined 12.2% YOY to AED 280 Mn in 3Q24. The Bank recorded a strong income from investment securities of AED 71 Mn in 3Q24, compared to a loss of AED 3 Mn in 3Q23. In addition, MASQ's other operating income grew 11.4% YOY to AED 512 Mn in 3Q24. Resultantly, total non-funded income grew 11.3% YOY to AED 863 Mn in 3Q24. Furthermore, total operating income rose 6.9% YOY to AED 2,971 Mn in 3Q24. Furthermore, G&A expenses increased 1.8% YOY to AED 868 Mn in 3Q24. However, the cost-to-income ratio declined 147 bps YOY to 29.2% in 3Q24, owing to the Bank's ongoing commitment to effective cost management and operational efficiency. The Bank reported an impairment charge of AED 118 Mn in 3Q24 compared to an impairment reversal of AED 395 Mn in 3Q23. Tax expense stood at AED 197 Mn in 3Q24 compared to AED 48 Mn in 3Q23. In addition, NCI declined 22.6% YOY to AED 17 Mn in 3Q24.

Balance Sheet Highlights

The Bank's total assets grew 16.5% YOY and 0.4% QOQ to AED 254 Bn in 3Q24, mainly due to increased cash balance, net advances and growth in reinsurance contracts. MASQ's net advances rose 19.4% YOY and 4.1% QOQ to AED 119 Bn in 3Q24. Furthermore, customer deposits rose 17.5% YOY and 1.4% QOQ to AED 156 Bn in 3Q24. Loan-to-deposit ratio grew to 76.0% in 3Q24 compared to 74.0% in 2Q24. On the other hand, total equity rose 27.0% YOY and 6.3% QOQ to AED 34 Bn in 3Q24.

Target Price and Rating

We maintain our HOLD rating on MASQ with a target price of AED 235.0. MASQ recorded a decline in profitability mainly due to increased impairments and tax charges in 3Q24. However, the Bank's core and non-core income grew strongly in 3Q24. MASQ focused on its diversification strategy, as its non-core income accounted for 29.1% of total operating income in 3Q24 compared to 27.9% in 3Q23. Net advances grew 19.4% YOY and 4.1% QOQ to AED 119 Bn in 3Q24, mainly driven by increased lending to construction, manufacturing, personal, transportation and communication, services, residential mortgage, and financial institutions sectors, partially offset by a decline in exposure to GREs and trade sectors. Customer deposits grew 17.5% YOY and 1.4% QOQ to AED 156 Bn in 3Q24. The Bank's CASA deposits accounted for 68% of total deposits in 3Q24, compared to 64% in 2Q24. NIMs recorded a contraction of 58 bps YOY and 2 bps QOQ to 4.2% in 3Q24. Furthermore, asset quality deteriorated as its reported NPL ratio grew from 1.3% in 2Q24 to 1.5% in 3Q24. However, the Bank's stage 2 loans as a percentage of total gross loans rose from 6.3% in 2Q24 to 7.6% in 3Q24. The provision coverage ratio also declined from 142.1% in 2Q24 to 117.1% in 3Q24, which may affect the bank's impact its overall asset quality going forward. MASQ maintained a healthy capitalization with a CET1 ratio of 16.1% and a total CAR of 19.8% in 3Q24. Moreover, the Bank also recorded a healthy ROAE of 29.7% and ROAA of 3.6% in 3Q24. MASQ is enhancing its digital footprint by expanding platforms like NEO CORP and NEOBIZ, aiming to strengthen its position in corporate and business banking segments. Additionally, its launch of a corporate banking transaction in the UK is expected to enhance its international presence. 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	2.25	2.50	2.40	2.16	1.66	1.44
PE	23.50	NA	48.42	13.01	5.71	6.33
Dividend yield	1.5%	NA	0.4%	3.7%	7.8%	7.8%

FABS Estimates & Co Data

MASQ – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Interest income	3,145	3,627	3,619	3,672	-1.5%	15.1%	-0.2%	11,966	14,523	21.4%
Inc. from Islamic financing	368	409	439	402	9.2%	19.5%	7.3%	1,291	1,684	30.4%
Funded income	3,513	4,036	4,058	4,075	-0.4%	15.5%	0.5%	13,257	16,207	22.3%
Funded expense	-1,508	-1,954	-1,950	-1,966	-0.8%	29.3%	-0.2%	-5,548	-7,219	30.1%
Net funded income	2,005	2,082	2,108	2,108	0.0%	5.1%	1.3%	7,710	8,988	16.6%
Net Fee & Commission inc.	319	336	280	319	-12.3%	-12.2%	-16.7%	1,433	1,461	2.0%
Inc. from Invst. securities	-3	70	71	71	0.0%	NM	2.0%	30	282	NM
Other Operating inc., net	460	499	512	454	12.9%	11.4%	2.7%	1,631	1,957	20.0%
Total other OI	775	904	863	844	2.3%	11.3%	-4.5%	3,093	3,701	19.6%
Total Operating income	2,780	2,986	2,971	2,952	0.6%	6.9%	-0.5%	10,803	12,689	17.5%
G&A expenses	-853	-834	-868	-824	5.4%	1.8%	4.0%	-3,342	-3,464	3.7%
Pre provision profit	1,927	2,152	2,103	2,129	-1.2%	9.1%	-2.3%	7,461	9,225	23.6%
Impairment allowance, net	395	83	-118	-50	135.5%	NM	NM	1,369	-365	NM
Income tax exp.	-48	-223	-197	-208	-5.3%	NM	-11.7%	-154	-886	NM
Non-controlling interests	-22	-16	-17	-19	-12.2%	-22.6%	5.4%	-87	-84	-3.0%
Net Profit	2,252	1,995	1,771	1,851	-4.3%	-21.3%	-11.2%	8,589	7,889	-8.2%

FABS estimate & Co Data

MASQ - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	72.1%	69.7%	70.9%	-117	123	71.4%	70.8%	-53
NIM	4.8%	4.2%	4.2%	-58	-2	4.5%	4.5%	0
NIS	4.8%	4.3%	4.2%	-62	-11	4.5%	4.5%	-2
Fees & comms/OI	11.5%	11.2%	9.4%	-204	-183	13.3%	11.5%	-175
Trading/OI	-0.1%	2.3%	2.4%	250	6	0.3%	2.2%	195
Cost to income	30.7%	27.9%	29.2%	-147	127	30.9%	27.3%	-363
Provisions/PPP	-20.5%	-3.8%	5.6%	NM	NM	-18.3%	4.0%	NM
NP/OI	81.0%	66.8%	59.6%	NM	-720	79.5%	62.2%	NM
Cost of risk - Calculated	-1.9%	-0.3%	0.5%	NM	NM	-1.6%	0.4%	NM
Loan-to-deposit	74.7%	73.9%	76.0%	123	202	75.5%	77.4%	193
NPL - Reported	1.5%	1.3%	1.5%	0	20	1.3%	1.9%	63
Coverage excluding collateral-Calculated	193.0%	142.1%	117.1%	-7,594	-2,504	151.9%	120.0%	-3,191
CET 1	15.6%	15.7%	16.1%	44	41	13.7%	14.8%	109
Capital adequacy	18.6%	19.5%	19.8%	121	32	16.5%	18.4%	191
ROAE	29.0%	33.6%	29.7%	72	-388	32.8%	24.4%	-848
ROAA	3.4%	3.9%	3.6%	26	-27	3.9%	3.2%	-77

FABS estimate & Co Data

MASQ - Key B/S items

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	99,275	110,355	110,484	113,827	118,534	19.4%
QOQ ch	4.5%	11.2%	0.1%	3.0%	4.1%	
Total assets	218,342	239,981	249,592	253,467	254,411	16.5%
QOQ ch	3.5%	9.9%	4.0%	1.6%	0.4%	
Customer deposits	132,864	146,232	155,498	153,964	156,063	17.5%
QOQ ch	4.8%	10.1%	6.3%	-1.0%	1.4%	
Total equity	26,983	30,333	28,473	32,252	34,272	27.0%
QOQ ch	6.8%	12.4%	-6.1%	13.3%	6.3%	

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	254	70.0%	178
Relative Valuation (RV)	189	30.0%	57
Weighted Average Valuation (AED)			235
Current market price (AED)			238
Upside/Downside (%)			-1%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.78 and equity risk premium of 4.7%. 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)	8,756
Terminal value (AED, Mn)	10,932
Book Value of Equity (as of June 2024)	31,334
FV to Common shareholders (AED, Mn)	51,022
No. of share (Mn)	201
Current Market Price (AED)	238
Fair Value per share (AED)	254

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	7,665	7,079	6,442	5,759	5,363
(-) Equity Charge	-3,027	-3,407	-3,761	-4,044	-4,292
Excess Equity	4,638	3,673	2,681	1,715	1,071
Discounting Factor	0.99	0.91	0.83	0.76	0.70
Present Value of Excess Equity	1,145¹	3,327	2,228	1,308	749

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 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	2,930	0.9	0.9	5.4	5.8	6.9	7.5
Commercial Bank of Dubai (CBD)	5,543	1.4	1.3	7.5	7.9	6.3	5.8
Emirates NBD	34,200	1.1	1.0	5.5	6.2	5.9	5.8
Abu Dhabi Islamic Bank (ADIB)	12,103	2.0	1.8	8.7	9.0	6.2	6.2
Sharjah Islamic Bank (SIB)	2,017	1.1	1.1	9.5	8.8	5.2	5.7
Average		1.3x	1.2x	7.3x	7.5x	6.1x	6.2x
Median		1.1x	1.1x	7.5x	7.9x	6.2x	5.8x
Max		1.4x	1.3x	8.7x	8.8x	6.3x	6.2x
Min		1.1x	1.0x	5.5x	6.2x	5.9x	5.8x

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

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

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