

Mashreq Bank (MASQ)

One-off in other income boosted profitability

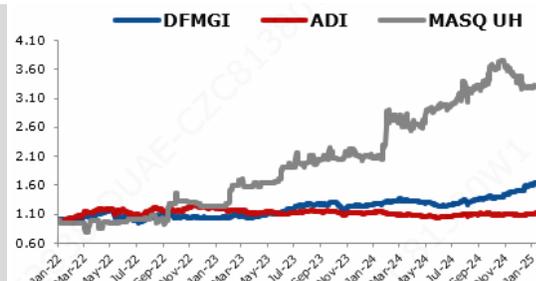
Current Price
AED 242.0

Target Price
AED 270.0

Upside/Downside (%)
+12%

Rating
ACCUMULATE

- Other income growth is driven by the one-off capital gain worth AED 1.2 Bn from the sale of 65% stake in IDFAA Payment Service LLC.
- Asset quality improved as its reported NPL ratio fell from 1.5% in 3Q24 to 1.4% in 4Q24.
- Reported an impairment reversal of AED 239 Mn in 4Q24 compared to a reversal of AED 1,027 Mn in 4Q23.
- Customer deposits rose 10.1% YOY and 3.1% QOQ to AED 160.9 Bn in 4Q24. CASA deposits represented 66% of the total deposits in 4Q24.
- Board of Directors recommended a cash dividend of AED 21.1 per share for the year 2024, amounting to AED 4.2Bn and a strong yield of 8.9%.



Stock Information

Market Cap (AED, mn)	48,547.58
Paid Up Capital (mn)	2,006.10
52 Week High	254.15
52 Week Low	165.00
3M Avg. daily value(AED)	400,799

4Q24 Result Review (AED, mn)

Total Assets	267,453
Total Liabilities	229,673
Total Equity	36,713
Total Deposits	160,940
Net Profit	3,143

4Q24 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit grew 11.4% YOY to AED 3,143 Mn in 4Q24, higher than our estimate of AED 1,587 Mn. The growth in net profit is mainly driven by higher other income, partially offset by a decline in net funded income coupled with a rise in operating expenses. The growth in other income is driven by the one-off effect of the realization of a capital gain worth AED 1,211 Mn from the sale of 65% of the Bank's direct stake in IDFAA Payment Service LLC.

P&L Highlights

MASQ's interest income rose 0.9% YOY to AED 3,408 Mn in 4Q24, driven by robust growth in net advances and an increase in other interest-earnings assets. Income from Islamic financing grew 15.2% YOY to AED 438 Mn in 4Q24. On the other hand, funded expenses rose 7.4% YOY to AED 1,791 Mn in 4Q24. Thus, MASQ's net funded income fell marginally 1.7% YOY to AED 2,054 Mn in 4Q24. The Bank's net fee and commission income increased 26.7% YOY to AED 301 Mn in 4Q24. The Bank recorded an income from investment securities of AED 21 Mn in 4Q24, compared to AED 29 Mn in 4Q23. In addition, MASQ's other operating income grew from AED 541 Mn in 4Q23 to AED 1,941 Mn in 4Q24 due to the one-off capital gain from the sale of its stake in a subsidiary. Resultantly, total non-funded income grew from AED 807 Mn in 4Q23 to AED 2,263 Mn in 4Q24. Thus, total operating income rose 49.1% YOY to AED 4,317 Mn in 4Q24. Furthermore, G&A expenses increased 11.3% YOY to AED 1,155 Mn in 4Q24. However, the cost-to-income ratio declined from 35.8% in 4Q23 to 26.7% in 4Q24, owing to higher total operating income. The Bank reported an impairment reversal of AED 239 Mn in 4Q24 compared to a reversal of AED 1,027 Mn in 4Q23. Tax expense stood

Financial Ratios

Dividend Yield (12m)	7.68
Dividend Pay-out (%)	47.47
Price-Earnings Ratio(x)	5.65
Price-to-Book Ratio (x)	1.55
Book Value (AED)	156.19
Return-on Equity (%)	30.04

Stock Performance

5 Days	1.02%
1 Months	11.01%
3 Months	0.04%
6 Months	15.73%
1 Year	18.05%
Month to Date (MTD%)	1.02%
Quarter to Date (QTD%)	11.01%
Year to Date (YTD%)	11.01%

at AED 225 Mn in 4Q24 compared to AED 43 Mn in 4Q23. In addition, NCI rose from AED 22 Mn in 4Q23 to AED 34 Mn in 4Q24.

Balance Sheet Highlights

The Bank's total assets grew 11.4% YOY and 5.1% QOQ to AED 267.5 Bn in 4Q24, mainly due to increased net advances, due from banks, Islamic financing and investment products, and investment in associates. MASQ's net advances rose 13.1% YOY and 5.3% QOQ to AED 124.8 Bn in 4Q24. Furthermore, customer deposits rose 10.1% YOY and 3.1% QOQ to AED 160.9 Bn in 4Q24. CASA deposits represented 66% of the total deposits in 4Q24. Loan-to-deposit ratio grew to 77.5% in 4Q24 compared to 76.0% in 3Q24. On the other hand, total equity rose 21.0% YOY and 7.1% QOQ to AED 36.7 Bn in 4Q24.

Target Price and Rating

We revise our rating from HOLD to ACCUMULATE on MASQ with a revised target price of AED 270.0. MASQ recorded an increase in the Loan to deposit ratio from 76.0% in 3Q24 to 77.5% in 4Q24, likely to benefit the Bank's funded income. In the case of a change in interest rates by 50 bps, net interest income would change by 3.1%. The cost to income ratio fell from 30.9% in 2023 to 27.5% in 2024 reflecting continued progress in enhancing operational efficiency and driving digital transformation efforts. NIMs recorded a contraction of 68 bps YOY and 27 bps QOQ to 3.9% in 4Q24. Furthermore, asset quality improved as its reported NPL ratio fell from 1.5% in 3Q24 to 1.4% in 4Q24. Moreover, the Bank's stage 2 loans as a percentage of total gross loans declined from 7.6% in 3Q24 to 5.8% in 4Q24, indicating an improvement in asset quality. The provision coverage ratio remained steady at 117.6% in 4Q24 compared to the previous quarter, providing a cushion against potential bad loans. MASQ maintained a healthy capitalization with a CET1 ratio of 14.4% and a total CAR of 17.5% in 4Q24. The Liquid Assets Ratio was 34%, and the Liquidity Coverage Ratio was 150%, reflecting solid liquidity management. Moreover, the Bank also recorded a healthy ROAE of 27.8% and ROAA of 3.5% in 4Q24. The Board of Directors recommended a cash dividend of AED 21.1 per share for the year 2024 amounting to AED 4.2 Bn and a strong yield of 8.9%. Thus, considering the above-mentioned reasons, we assign an ACCUMULATE rating on the stock.

MASQ - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PB	2.45	2.35	2.11	1.63	1.41	1.28
PE	NA	47.44	12.75	5.60	5.43	7.18
Dividend yield	NA	0.4%	3.8%	7.8%	8.9%	7.0%

FABS Estimates & Co Data

MASQ – P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Interest income	3,376	3,619	3,408	3,611	-5.6%	0.9%	-5.8%	11,966	14,271	19.3%
Inc. from Islamic financing	380	439	438	455	-3.8%	15.2%	-0.4%	1,291	1,667	29.1%
Funded income	3,756	4,058	3,845	4,066	-5.4%	2.4%	-5.3%	13,257	15,938	20.2%
Funded expense	-1,667	-1,950	-1,791	-1,965	-8.9%	7.4%	-8.2%	-5,548	-7,550	36.1%
Net funded income	2,089	2,108	2,054	2,101	-2.2%	-1.7%	-2.5%	7,710	8,388	8.8%
Net Fee & Commission inc.	237	280	301	297	1.1%	26.7%	7.4%	1,433	1,465	2.2%
Inc. from Invst. securities	29	71	21	74	-72.1%	-28.9%	-70.8%	30	229	NM
Other Operating inc., net	541	512	1,941	564	NM	NM	NM	1,631	3,335	NM
Total other OI	807	863	2,263	936	NM	NM	NM	3,093	5,028	62.5%
Total Operating income	2,896	2,971	4,317	3,037	42.1%	49.1%	45.3%	10,803	13,416	24.2%
G&A expenses	-1,038	-868	-1,155	-973	18.7%	11.3%	33.0%	-3,342	-3,696	10.6%
Pre provision profit	1,858	2,103	3,162	2,064	53.2%	70.2%	50.4%	7,461	9,720	30.3%
Impairment allowance, net	1,027	-118	239	-219	NM	NM	NM	1,369	166	NM
Income tax exp.	-43	-197	-225	-240	-6.2%	NM	14.2%	-154	-869	NM
Non-controlling interests	-22	-17	-34	-18	88.5%	54.0%	98.7%	-87	-100	15.1%
Net Profit	2,821	1,771	3,143	1,587	98.0%	11.4%	77.5%	8,589	8,917	3.8%

FABS estimate & Co Data

MASQ - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	72.1%	70.9%	47.6%	-2,454	-2,336	71.4%	62.5%	-884
NIM	4.6%	4.2%	3.9%	-68	-27	4.5%	4.1%	-40
NIS	4.6%	4.2%	3.8%	-77	-34	4.5%	4.1%	-36
Fees & comms/OI	8.2%	9.4%	7.0%	-123	-246	13.3%	10.9%	-234
Trading/OI	1.0%	2.4%	0.5%	-53	-191	0.3%	1.7%	143
Cost to income	35.8%	29.2%	26.7%	-909	-247	30.9%	27.5%	-339
Provisions/PPP	-55.3%	5.6%	-7.6%	4,772	-1,317	-18.3%	-1.7%	NM
NP/OI	97.4%	59.6%	72.8%	-2,460	1,319	79.5%	66.5%	NM
Cost of risk - Calculated	-4.5%	0.5%	-0.9%	357	-140	-1.6%	-0.2%	NM
Loan-to-deposit - Calculated	75.5%	76.0%	77.5%	205	157	75.5%	77.5%	205
NPL - Reported	1.3%	1.5%	1.4%	10	-10	1.3%	1.7%	39
Coverage excluding collateral-Calculated	151.9%	117.1%	117.6%	-3,436	49	151.9%	117.6%	-3,436
CET 1	13.7%	16.1%	14.4%	74	-162	13.7%	14.4%	74
Capital adequacy	16.5%	19.8%	17.5%	98	-228	16.5%	17.5%	98
ROAE	32.8%	29.7%	27.8%	-505	-192	32.8%	27.8%	-505
ROAA	3.9%	3.6%	3.5%	-41	-12	3.9%	3.5%	-41

FABS estimate & Co Data

MASQ - Key B/S items

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	110,355	110,484	113,827	118,534	124,758	13.1%
QOQ ch	11.2%	0.1%	3.0%	4.1%	5.3%	
Total assets	239,981	249,592	253,467	254,411	267,453	11.4%
QOQ ch	9.9%	4.0%	1.6%	0.4%	5.1%	
Customer deposits	146,232	155,498	153,964	156,063	160,940	10.1%
QOQ ch	10.1%	6.3%	-1.0%	1.4%	3.1%	
Total equity	30,333	28,473	32,252	34,272	36,713	21.0%
QOQ ch	12.4%	-6.1%	13.3%	6.3%	7.1%	

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	292	70%	204
Relative Valuation (RV)	219	30%	66
Weighted Average Valuation (AED)			270
Current market price (AED)			242
Upside/Downside (%)			+12%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.2%. Cost of equity is calculated by using 10-year government bond yield of 5.5%, beta of 0.82 and equity risk premium of 4.5%. 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)	9,311
Terminal value (AED, Mn)	15,502
Book Value of Equity (as of Dec 2024)	33,774
FV to Common shareholders (AED, Mn)	58,587
No. of share (Mn)	201
Current Market Price (AED)	242
Fair Value per share (AED)	292

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	6,621	6,264	6,049	5,939	5,871
(-) Equity Charge	-3,422	-3,722	-4,012	-4,297	-4,578
Excess Equity	3,198	2,542	2,037	1,643	1,293
Discounting Factor	0.92	0.85	0.85	0.85	0.85
Present Value of Excess Equity	2,954	2,150	1,723	1,390	1,094

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 a 2025 PB multiple of 1.2x 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	3,592	1.0	1.0	6.6	6.6	6.7	7.0
Commercial Bank of Dubai (CBD)	6,112	1.4	1.3	7.4	7.7	6.4	6.0
Emirates NBD	35,597	1.0	0.9	6.3	6.1	5.3	6.1
Abu Dhabi Islamic Bank (ADIB)	15,208	2.2	2.0	10.7	10.3	5.3	5.3
Sharjah Islamic Bank (SIB)	2,326	1.2	1.1	9.8	9.1	4.6	5.0
Average		1.4x	1.3x	8.1x	8.0x	5.6%	5.9%
Median		1.2x	1.1x	7.4x	7.7x	5.3%	6.0%
Max		1.4x	1.3x	9.8x	9.1x	6.4%	6.1%
Min		1.0x	1.0x	6.6x	6.6x	5.3%	5.3%

Source: FAB Securities

