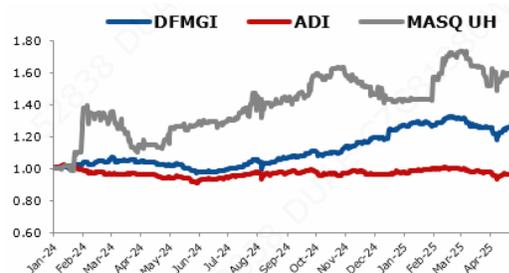


## Mashreq Bank (MASQ)

Higher impairments and lower core income impacted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 240.00	AED 270.00	+13%	ACCUMULATE

- MASQ's non-funded income continued to grow and now accounts for 37.0% of total operating income in 1Q25, compared to 31.7% in 1Q24.
- Impairment charges increased substantially from AED 38 Mn in 1Q24 to AED 101 Mn in 1Q25.
- Reported NPL ratio fell from 1.4% in 4Q24 to 1.3% in 1Q25, while reported provision coverage ratio remained steady at 204% in 1Q25 compared to the previous quarter.
- The Bank's also reported strong ROE and ROA of 21.0% and 2.5% respectively during 1Q25.
- MASQ maintained a healthy capitalization with a CET1 ratio of 15.4% and a total CAR of 18.5% in 1Q25.



### 1Q25 Net Profit lower than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit fell 12.5% YOY to AED 1,756 Mn in 1Q25, lower than our estimate of AED 1,987 Mn. The decline in net profit is mainly due to lower net funded income, increased G&A expenses, coupled with higher impairments and tax charges, partially offset by growth in non-funded income.

### P&L Highlights

MASQ's interest income declined 7.7% YOY to AED 3,341 Mn in 1Q25, mainly due to a contraction in asset yield. However, income from Islamic financing grew 10.6% YOY to AED 421 Mn in 1Q25. Thus, total funded income declined 5.9% YOY to AED 3,762 Mn in 1Q25. Moreover, funded expenses fell 3.2% YOY to AED 1,795 Mn in 1Q25 owing to lower cost of funds. As a result, net funded income declined 8.3% YOY to AED 1,967 Mn in 1Q25. MASQ's net fee and commission income declined 36.6% YOY to AED 348 Mn in 1Q25. The Bank recorded robust growth in income from investment securities of AED 112 Mn in 1Q25, compared to AED 67 Mn in 1Q24. In addition, MASQ's other operating income grew strongly from AED 382 Mn in 1Q24 to AED 694 Mn in 1Q25. Resultantly, the Bank's total non-funded income grew 15.7% YOY to AED 1,154 Mn in 1Q25. Total operating income declined marginally 0.7% YOY to AED 3,120 Mn in 1Q25. Furthermore, the Bank's G&A expenses increased 9.5% YOY to AED 918 Mn in 1Q25, driven by investment in digital innovation and strategic business expansion. Resultantly, the cost-to-income ratio rose from 26.7% in 1Q24 to 29.4% in 1Q25. MASQ's impairment charges increased significantly from AED 38 Mn in 1Q24 to AED 101 Mn in 1Q25, however, the Bank remained focused on prudent credit practices and a strong lending portfolio. MASQ tax expenses surged 38.1% YOY to AED 309 Mn in 1Q25, driven by the implementation of the BEPS Pillar 2 Global Minimum Top-up Tax. The Bank's NCI increased 7.1% YOY

### Stock Information

Market Cap (AED, Mn)	47,945.75
Paid Up Capital (Mn)	2,006.10
52 Week High	269.00
52 Week Low	187.00
3M Avg. daily value(AED)	198,487

### 1Q25 Result Review (AED, Mn)

Total Assets	272,703
Total Liabilities	237,357
Total Equity	34,269
Total Deposits	171,442
Net Profit	1,756

### Financial Ratios

Dividend Yield (12m)	8.83
Dividend Pay-out (%)	47.47
Price-Earnings Ratio(x)	5.53
Price-to-Book Ratio (x)	1.53
Book Value (AED)	156.18
Return-on Equity (%)	29.53

### Stock Performance

5 Days	-1.24%
1 Months	-2.05%
3 Months	0.84%
6 Months	0.42%
1 Year	25.13%
Month to Date (MTD%)	-1.24%
Quarter to Date (QTD%)	3.46%
Year to Date (YTD%)	9.63%

to AED 36 Mn in 1Q25.

### Balance Sheet Highlights

The Bank's total assets grew 9.3% YOY and 2.0% QOQ to AED 272.7 Bn in 1Q25, mainly due to strong growth in cash and bank balance with the central bank, Islamic financing and investment portfolio, investment in associates and loans and advances. MASQ's net advances rose 13.9% YOY and 0.8% QOQ to AED 125.8 Bn in 1Q25. Furthermore, customer deposits increased 10.3% YOY and 6.5% QOQ to AED 171.4 Bn in 1Q25, with CASA deposits accounting for 65% of the total deposit. The loan-to-deposit ratio declined to 73.4% in 1Q25 compared to 77.5% in 4Q24. On the other hand, total equity rose 20.4% YOY and fell 6.7% QOQ to AED 34.3 Bn in 1Q25.

### Target Price and Rating

We maintain our ACCUMULATE rating on MASQ with a target price of AED 270.0. MASQ recorded a decline in profitability in 1Q25 primarily due to lower net funded income and higher impairment charges. However, the Bank's non-funded income continued to grow and now accounts for 37.0% of total operating income in 1Q25, compared to 31.7% in 1Q24, mainly due to the Bank's strategy to diversify revenue sources. Net advances grew 13.9% YOY and 0.8% QOQ to AED 125.8 Bn in 1Q25, supported by healthy expansion in Islamic and investment portfolios. Customer deposits grew 10.3% YOY and 6.5% QOQ to AED 171.4 Bn in 1Q25. CASA deposits accounted for 65% of total deposits in 1Q25, which underpins the Bank's low-cost funding base and highlights the strength of its retail and corporate franchise across core markets. NIMs declined 87 bps YOY and 35 bps QOQ to 3.6% in 1Q25. Furthermore, asset quality improved as its reported NPL ratio fell from 1.4% in 4Q24 to 1.3% in 1Q25. The reported provision coverage ratio remained steady at 204% in 1Q25 compared to the previous quarter, providing a cushion against potential bad loans. The Bank's also reported strong ROE and ROA of 21.0% and 2.5% respectively during 1Q25. Additionally, MASQ reported a Liquid Assets Ratio of 32.5% and a Liquidity Coverage Ratio (LCR) of 126%, above the regulatory requirement, indicating the Bank's robust liquidity management. MASQ also maintained a healthy capitalization with a CET1 ratio of 15.4% and a total CAR of 18.5% in 1Q25. Moreover, MASQ made significant progress on its strategic priorities in 1Q25, including the launch of Mashreq Oman and the pilot of digital retail banking in Pakistan. The Bank also continued to expand its presence in key markets such as MENA and Egypt in 1Q25. These initiatives are expected to strengthen the Bank's regional footprint and diversify its revenue streams. Thus, considering the above-mentioned reasons, we maintain our ACCUMULATE rating on the stock.

### MASQ - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PB	2.48	2.38	2.14	1.65	1.43	1.29
PE	NA	48.04	12.91	5.61	5.40	6.90
DPS	NA	1.00	9.00	18.50	21.10	17.38
Dividend yield	NA	0.4%	3.8%	7.7%	8.8%	7.2%

FABS Estimates & Co Data

**MASQ – P&L**

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Interest income	3,618	3,408	3,341	3,495	-4.4%	-7.7%	-1.9%	14,271	13,369	-6.3%
Inc. from Islamic financing	380	438	421	438	-4.1%	10.6%	-3.9%	1,667	1,645	-1.3%
<b>Funded income</b>	<b>3,999</b>	<b>3,845</b>	<b>3,762</b>	<b>3,933</b>	<b>-4.4%</b>	<b>-5.9%</b>	<b>-2.2%</b>	<b>15,938</b>	<b>15,014</b>	<b>-5.8%</b>
Funded expense	-1,855	-1,791	-1,795	-1,741	3.1%	-3.2%	0.3%	-7,550	-7,042	-6.7%
<b>Net funded income</b>	<b>2,144</b>	<b>2,054</b>	<b>1,967</b>	<b>2,192</b>	<b>-10.3%</b>	<b>-8.3%</b>	<b>-4.3%</b>	<b>8,388</b>	<b>7,971</b>	<b>-5.0%</b>
Net Fee & Commission inc.	548	301	348	541	-35.7%	-36.6%	15.7%	1,465	1,655	13.0%
Inc. from Invst. securities	67	21	112	52	116.7%	67.1%	NM	229	462	102.0%
Other Operating inc., net	382	1,941	694	408	70.1%	81.6%	NM	3,335	2,901	-13.0%
<b>Total other OI</b>	<b>997</b>	<b>2,263</b>	<b>1,154</b>	<b>1,001</b>	<b>15.3%</b>	<b>15.7%</b>	<b>-49.0%</b>	<b>5,028</b>	<b>5,018</b>	<b>-0.2%</b>
<b>Total Operating income</b>	<b>3,141</b>	<b>4,317</b>	<b>3,120</b>	<b>3,193</b>	<b>-2.3%</b>	<b>-0.7%</b>	<b>-27.7%</b>	<b>13,416</b>	<b>12,989</b>	<b>-3.2%</b>
G&A expenses	-839	-1,155	-918	-862	6.5%	9.5%	-20.5%	-3,696	-3,741	1.2%
<b>Pre provision profit</b>	<b>2,303</b>	<b>3,162</b>	<b>2,202</b>	<b>2,331</b>	<b>-5.5%</b>	<b>-4.4%</b>	<b>-30.4%</b>	<b>9,720</b>	<b>9,248</b>	<b>-4.9%</b>
Impairment allowance, net	-38	239	-101	-108	-6.1%	NM	NM	166	-594	NM
Income tax exp.	-224	-225	-309	-200	54.5%	38.1%	37.4%	-869	-1,298	49.5%
Non-controlling interests	-34	-34	-36	-36	2.0%	7.1%	8.1%	-100	-156	56.0%
<b>Net Profit</b>	<b>2,007</b>	<b>3,143</b>	<b>1,756</b>	<b>1,987</b>	<b>-11.6%</b>	<b>-12.5%</b>	<b>-44.1%</b>	<b>8,917</b>	<b>7,200</b>	<b>-19.3%</b>

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

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	68.3%	47.6%	63.0%	-523	1,544	62.5%	61.4%	-115
NIM	4.4%	3.9%	3.6%	-87	-35	4.1%	3.5%	-57
NIS	4.5%	3.8%	3.5%	-103	-36	4.1%	3.4%	-72
Fees & comms/OI	17.5%	7.0%	11.1%	-630	418	10.9%	12.7%	182
Trading/OI	2.1%	0.5%	3.6%	146	312	1.7%	3.6%	185
Cost to income	26.7%	26.7%	29.4%	272	268	27.5%	28.8%	125
Provisions/PPP	1.6%	-7.6%	4.6%	295	NM	-1.7%	6.4%	813
NP/OI	63.9%	72.8%	56.3%	-763	-1,654	66.5%	55.4%	-1,104
Cost of risk - Calculated	0.2%	-0.9%	0.4%	22	NM	-0.2%	0.5%	68
Loan-to-deposit - Calculated	71.1%	77.5%	73.4%	234	-413	77.5%	76.8%	-72
NPL - Calculated	1.7%	1.7%	1.7%	1	-1	1.7%	1.7%	-4
Coverage excluding collateral-Calculated	154.3%	117.6%	118.5%	NM	91	117.6%	117.0%	-55
CET 1	14.9%	14.4%	15.4%	50	95	14.4%	14.8%	38
Capital adequacy	17.7%	17.5%	18.5%	74	96	17.5%	17.6%	16
ROAE	35.7%	27.8%	29.0%	-670	118	27.8%	19.6%	-821
ROAA	4.0%	3.5%	3.3%	-67	-20	3.5%	2.6%	-92

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

AED Mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	110,484	113,827	118,534	124,758	125,817	13.9%
QOQ change	0.1%	3.0%	4.1%	5.3%	0.8%	
Total assets	249,592	253,467	254,411	267,453	272,703	9.3%
QOQ change	4.0%	1.6%	0.4%	5.1%	2.0%	
Customer deposits	155,498	153,964	156,063	160,940	171,442	10.3%
QOQ change	6.3%	-1.0%	1.4%	3.1%	6.5%	
Total equity	28,473	32,252	34,272	36,713	34,269	20.4%
QOQ change	-6.1%	13.3%	6.3%	7.1%	-6.7%	

*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	303	70%	212
Relative Valuation (RV)	194	30%	58
<b>Weighted Average Valuation (AED)</b>			<b>270</b>
Current market price (AED)			240
Upside/Downside (%)			+13%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 0.82 and equity risk premium of 4.2%. 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)	10,073
Terminal value (AED, Mn)	<b>19,310</b>
Book Value of Equity (as of Mar 2025)	31,330
<b>FV to Common shareholders (AED, Mn)</b>	<b>60,714</b>
No. of share (Mn)	201
Current Market Price (AED)	240
<b>Fair Value per share (AED)</b>	<b>303</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	6,975	6,628	6,379	6,196	6,159
(-) Equity Charge	-3,388	-3,708	-4,017	-4,318	-4,617
<b>Excess Equity</b>	<b>2,690</b>	<b>2,920</b>	<b>2,362</b>	<b>1,878</b>	<b>1,542</b>
Discounting Factor	0.94	0.87	0.87	0.87	0.87
<b>Present Value of Excess Equity</b>	<b>2,540</b>	<b>2,528</b>	<b>2,045</b>	<b>1,626</b>	<b>1,335</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 a 2025 PB multiple of 1.0x 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	3,461	1.0	0.9	6.5	6.7	7.3	7.4
Commercial Bank of Dubai (CBD)	6,258	1.4	1.3	7.5	7.9	6.2	5.8
Emirates NBD	33,448	0.9	0.8	5.9	5.6	5.4	5.9
Abu Dhabi Islamic Bank (ADIB)	16,157	2.4	2.2	11.3	10.6	4.9	5.2
Sharjah Islamic Bank (SIB)	2,053	1.0	1.0	8.6	8.0	5.2	5.6
<b>Average</b>		<b>1.4x</b>	<b>1.2x</b>	<b>8.0x</b>	<b>7.8x</b>	<b>5.8%</b>	<b>6.0%</b>
<b>Median</b>		<b>1.0x</b>	<b>1.0x</b>	<b>7.5x</b>	<b>7.9x</b>	<b>5.4%</b>	<b>5.8%</b>
<b>Max</b>		<b>1.4x</b>	<b>1.3x</b>	<b>8.6x</b>	<b>8.0x</b>	<b>6.2%</b>	<b>5.9%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.5x</b>	<b>6.7x</b>	<b>5.2%</b>	<b>5.6%</b>

Source: FAB Securities

