

Mashreq Bank

Rise in NIMs and lower provisioning to boost profitability

1Q22 Net profit beats our estimate

Mashreq Bank (MASQ) reported a significant increase in net profit to AED 606 Mn in 1Q22 from AED 43 Mn in 1Q21, higher than our estimate of AED 519 Mn. The increase in net profit was mainly attributed to strong growth in funded and a decline in impairment charges partially offset by increase in operating expenses.

P&L highlights

The Bank's funded income including interest income and income from Islamic financing rose 10.6% YOY to AED 1,243 Mn in 1Q22. Interest Expense and Distribution to Depositors in Islamic Finance fell 2.8% YOY to AED 414 Mn in 1Q22 due to change in favorable deposit mix both on QOQ and YOY basis. Consequently, net funded income rose 18.8% YOY to AED 829 Mn in 1Q22. Net fees and Commissions rose 1.1% YOY to AED 454 Mn in 1Q22. Whereas, other operating income rose 12.4% YOY to AED 263 Mn in 1Q22. As a result, total non-funded income rose 3.3% YOY to AED 735 Mn in 1Q22. Thus, total operating income was influenced due to the favourable outcome and increased 11.0% YOY to AED 1,564 Mn in 1Q22. Operating expenses grew 8.0% YOY to AED 670 Mn in 1Q22. Cost-to-income ratio fell from 44.0% in 1Q21 to 42.8% in 1Q22 due to high growth in operating income as compared to expense. Impairment charges fell significantly from AED 711 Mn in 1Q21 to AED 252 Mn in 1Q22 due to recoveries against loans written off earlier.

Balance sheet highlights

Net Advances increased 13.9% YOY to AED 86.3 Bn in 1Q22. As a result, total Assets rose 12.5% YOY to AED 182.6 Bn. Similarly, customer deposits grew 15.5% YOY to AED104.3 Bn in 1Q22. Total equity increased 7.9% YOY to AED21.2 Bn in 1Q22.

Target price and rating

We maintain our BUY rating on Mashreq Bank with a target price of AED 91.00. The bank's net interest margin is expected to benefit in a rising interest rate environment due to the positive interest rate sensitivity gap. In a rising interest rate scenario, positive gap will push the NIM upwards and vice versa. A positive gap happens when rate sensitive assets are greater than rate sensitive liabilities. MASQ also maintains a stable funding profile largely funded by customer deposits reflecting strong franchise. Low-cost CASA deposits make up 64.6% of total customer deposits as of 1Q22. We expect MASQ's NPL ratio to sta-

Rating : BUY

First Look Note – 1Q22

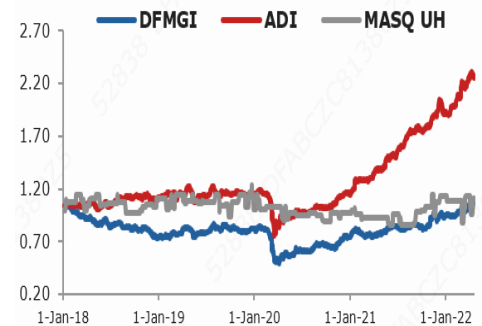
Sector: Banking

Recommendation

Current Price (10-May-22)	74.50
Target Price	91.00
Upside/Downside (%)	+22%

Stock Information

Market Cap (mm)	14,945.43
Paid Up Capital (mm)	2,006.10
52 Week High	79.95
52 Week Low	53.10
3M Avg. daily value (AED)	24,671



Financial Ratios

Dividend Yield (12m)	1.34
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	10.86
Price-to-Book Ratio (x)	0.73
Book Value (AED)	101.54
Return-on Equity (%)	7.98
Earning Per Share (AED)	6.86
Beta	0.14

Stock Performance

5 Days	-0.67%
1 Months	10.37%
3 Months	-1.97%
6 Months	5.23%
1 Year	29.52%
Month to Date (MTD)	-0.67%
Quarter to Date (QTD)	-5.64%
Year to Date (YTD)	-6.29%

bilize at lower levels due to strong recoveries. Overall, NPL ratio declined from 6.2% in 4Q21 to 5.5% in 1Q22. Total coverage remained healthy at 126% in 1Q22 compared to 124% in 4Q21. The buffer against loan loss will shield the bank from unexpected rise in loan losses. Considering all these factors, we assign a BUY rating on the stock.

MASQ - Relative valuation

(at CMP)	2018	2019	2020	2021	2022E
P/E	7.30	7.29	NA	15.01	6.98
P/B	0.75	0.70	0.77	0.74	0.67
Dividend yield	5.3%	5.3%	NA	1.3%	2.6%

FABS Estimates & Co Data

MASQ - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	% Ch.
Interest income	1,013	1,094	1,120	1,241	-9.7%	10.5%	2.4%	4,252	4,661	9.6%
Income from Islamic finan.	110	138	123	140	-12.3%	11.7%	-10.6%	475	550	15.7%
Funded income	1,124	1,231	1,243	1,381	-10.0%	10.6%	0.9%	4,727	5,211	10.2%
Interest expense	-377	-380	-373	-416	-10.3%	-1.1%	-1.8%	-1,506	-1,748	16.1%
Distribution to depositors	-49	-41	-41	-46	-10.1%	-16.2%	-1.2%	-176	-184	4.5%
Net funded income	698	810	829	920	-9.9%	18.8%	2.3%	3,045	3,279	7.7%
Net fee & commission inc	449	397	454	404	12.3%	1.1%	14.5%	1,577	1,667	5.7%
Inc. from invest. securities	29	3	18	44	-59.6%	-37.6%	529.5%	177	177	0.0%
Other operating income, net	234	299	263	310	-15.3%	12.4%	-12.0%	1,007	1,118	11.0%
Total other OI	711	698	735	759	-3.2%	3.3%	5.3%	2,761	2,962	7.3%
Total operating income	1,409	1,508	1,564	1,679	-6.9%	11.0%	3.7%	5,806	6,241	7.5%
General & admin. Exp.	-620	-711	-670	-758	-11.7%	8.0%	-5.8%	-2,623	-2,823	7.6%
Pre provision profit	789	797	894	921	-2.9%	13.3%	12.1%	3,183	3,418	7.4%
Allowances for impair, net	-711	-24	-252	-296	-14.7%	-64.5%	NM	-2,059	-1,416	-31.2%
Overseas income tax exp	-14	-17	-12	-31	-62.1%	-16.0%	-31.0%	-49	-117	140.1%
Non-controlling interests	-21	-19	-24	-17	41.7%	11.9%	25.6%	-74	-69	-5.6%
Net Profit	43	737	606	577	5.1%	NM	-17.8%	1,002	1,815	81.1%

FABS estimate & Co Data

MASQ - P&L KPI

	1Q21	4Q21	1Q22	YoY Ch	QoQ Ch	2021	2022F	Change
Net FI/OI	49.5%	53.7%	53.0%	350	-71	52.5%	51.3%	-118
NIM	2.1%	2.3%	2.2%	15	-8	2.2%	2.4%	22
NIS	1.9%	2.2%	2.1%	22	-8	2.1%	2.4%	36
Fees & comms/OI	31.9%	26.3%	29.0%	-283	274	27.2%	26.7%	-44
Trading/OI	2.0%	0.2%	1.1%	-89	95	3.0%	2.8%	-21
Cost to income	44.0%	47.1%	42.8%	-116	-430	45.2%	45.2%	6
Impairment/PPP	90.1%	3.0%	28.2%	-6,186	2,520	64.7%	41.4%	-2,324
NP/OI	3.1%	48.9%	38.8%	3,571	-1,012	17.3%	29.1%	1,183
ROAE	-8.8%	5.1%	7.7%	1,651	265	5.1%	10.1%	507
ROAA	-1.1%	0.6%	0.9%	192	29	0.6%	1.2%	59

FABS estimate & Co Data

MASQ - Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22	YOY Ch
Net advances	75,797	77,282	76,982	81,486	86,295	13.9%
QOQ changes	6.0%	2.0%	-0.4%	5.9%	5.9%	
Total assets	162,253	172,763	169,561	177,054	182,581	12.5%
QOQ changes	2.4%	6.5%	-1.9%	4.4%	3.1%	
Customer deposits	90,205	95,433	94,779	101,483	104,228	15.5%
QOQ changes	2.2%	5.8%	-0.7%	7.1%	2.7%	
Total equity	19,652	20,067	20,165	21,024	21,206	7.9%
QOQ changes	-2.7%	2.1%	0.5%	4.3%	0.9%	

FABS estimate & Co Data

FAB Securities Awards



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in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"