

Mashreq Bank

Higher Funded & Non-Funded income and Lower Impairments supported profits

4Q21 Net profit significantly beats our estimate

Mashreq Bank (MASQ) reported a significant increase in Net profit to AED737 Mn in 4Q21, compared to a Net loss of AED1,630 Mn in 4Q20, strongly beating our estimate. The increase in net profit was mainly due to higher funded and non-funded income in addition to lower Impairment charges.

P&L highlights

MASQ's Interest Income has increased by 8.9% YOY to AED1,094 Mn in 4Q21, up from AED1,005 Mn in 4Q20. Similarly, the Income from Islamic Financing has increased by 40.8% YOY to AED138 Mn in 4Q21 from AED98 Mn in 4Q20. Interest Expense and Distribution to Depositors in Islamic Finance have decreased both by 11.2% and 29.2% YOY to AED380 Mn and AED41 Mn, respectively in 4Q21. As a result, Net Funded Income has shown a growth by 31.4% YOY to AED810 Mn in 4Q21, as compared to AED617 Mn in 4Q20. Net Fees and Commission Income has increased by 39.6% YOY to AED397 Mn in 4Q21, up from AED284 Mn in 4Q20. Whereas the Total Other OI has increased by 24.5% YOY to AED698 Mn in 4Q21, up from AED561 Mn in 4Q20. Therefore, the Total Operating Income has increased by 28.1% YOY to AED1,508 Mn in 4Q21, as compared to AED1,177 Mn in 4Q20. General & admin expenses decreased by 33% YOY to AED711 Mn from AED1,061 Mn in 4Q20. Thus, the Cost to income ratio has significantly declined to 47.1%, down from 90.1% in 4Q20. Moreover, Impairment charges has strongly dropped reaching AED24 Mn in 4Q21, down from AED1,714 Mn in 4Q20, supporting the profitability.

Balance sheet highlights

Net Advances have increased by 13.9% YOY to AED81.5 Bn from AED71.5 Bn in 4Q20. Whereas the Total Assets have increased by 11.7% YOY to AED177.1 Bn in 4Q21, up from AED158.5 Bn in 4Q20. Customer Deposits have increased by 15% YOY to AED101.5 Bn in 4Q21 compared to AED88.3 Bn in 4Q20. Total Equity rose by 4.1% YOY to AED21 Bn from AED20.2 Bn in 4Q20.

Target price and rating

We upgrade our rating to BUY on MASQ with a revised target price of AED91.00. Mashreq is one of the leading financial institutions in the UAE and the best digital bank in the Middle East also offering a wide range of products through international branches, aiming to build a long-term relationship with clients, colleagues, and communities. In the year ending December 2021, the bank has reported a strong growth by 12.8% YOY in the Operating Income reaching AED 5.8 Bn, mainly attributed to an increase in both Net Interest Income and Income from Islamic Financing coupled with improvements in Fees and commission Income. Moreover, the Bank's non-interest income to operating income ratio continues to remain high at 47.5% in 2021, compared to 48% in 2020. As a result of higher Operating Income and lower expenses, the Operating profit increased to AED 3.2 Bn in 2021,

Rating : BUY

First Look Note – 4Q21

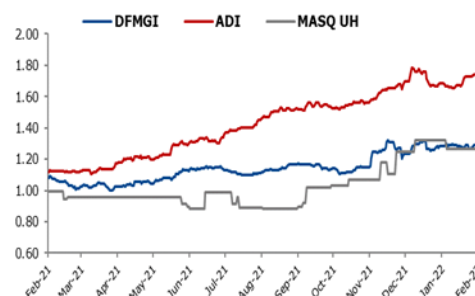
Sector: Banking

Recommendation

Current Price (7-Feb)	76.00
Target Price	91.00
Upside/Downside (%)	+20%

Stock Information

Market Cap (mm)	15,246.35
Paid Up Capital (mm)	2,006.10
52 Week High	79.50
52 Week Low	53.10
3M Avg. daily value (AED)	1,304



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	18.76
Price-to-Book Ratio (x)	0.75
Book Value (AED)	100.83
Return-on Equity (%)	5.05
Earning Per Share (AED)	4.05
Beta	0.30

Stock Performance

5 Days	0.00%
1 Months	-4.40%
3 Months	18.46%
6 Months	43.13%
1 Year	27.32%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	-4.40%
Year to Date (YTD)	-4.40%

up from AED 2.2 Bn in 2020. Moreover, the Impairment charges have declined by 38.7% YOY to AED 2.1 Bn, down from AED 3.4 Bn in 2020. The increase in Operating profit along with the decline in the Impairment charges, supported the strong increase in Net profit to AED 1 Bn in 2021, as compared to a Net loss of AED 1.3 Bn in 2020. The Bank has shown a robust performance in the balance sheet by the end of December 2021, with an increase in the Total Assets to AED 177.1 Bn, up from AED 158.5 Bn as December 2020. Furthermore, the Net Advances has increased by 13.9% YOY standing at AED 81.5 Bn as of end of December 2021. Similarly, the Customer Deposits rose by 15% YOY reaching AED 101.5 Bn in 2021, compared to AED 88.3 Bn in 2020. Thus, the Advances to Deposits (ADR) ratio stood at 80.3%, down from 81% in 2020. In addition, the Total Equity has increased by 4.1% YOY to AED 21 Bn in 2021. Bank's Net interest margin (NIM) has slightly increased by 8 bps reaching 2.5% in 2021. Moreover, the Bank's Capital Adequacy ratio stood at 14.5% in 2021 which is a decrease by 151 bps compared to 16.01% in the year ended 2020. Whereas the Tier 1 ratio has also declined by 152 bps standing at 13.4% in 2021, down from 14.9% in the same period last year. The NPL ratio slightly increased to 5.2% at the end of 2021, up from 5.1% in 2020, showing a good asset quality. The Coverage ratio dropped to 128.2% in 2021, down from 130.3% in 2020. In addition, the Bank's ROE and ROA ratios have increased both reaching 0.65% and 5.15%, respectively in 2021. The Bank will leverage its investments in new digital solutions to deliver revenue growth, more enhanced customer journeys, and geographic expansion across high-growth markets. The Board of Directors have proposed 10% cash dividends for FY2021. Based on our analysis we revised our rating to BUY on the stock.

MASQ –Relative valuation

(at CMP)	2017	2018	2019	2020	2021
PE (x)	7.4	7.4	7.4	-11.9	13.7
P/B (x)	0.7	0.8	0.7	0.8	0.8
Dividend yield	5%	5%	5%	0%	1.3%

FABS Estimate and Co Data
MASQ - P&L

AED mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Interest income	1,005	1,087	1,094	1,119	-2.3%	8.9%	0.7%	4,515	4,252	-5.8%
Income from Islamic financing	98	116	138	118	16.6%	40.8%	18.2%	543	475	-12.6%
Interest expense	-427	-366	-380	-381	-0.2%	-11.2%	3.8%	-2,111	-1,506	-28.7%
Distribution to depositors – Islamic products	-59	-42	-41	-42	-1.3%	-29.2%	-2.0%	-271	-176	-35.2%
Net funded income	617	795	810	815	-0.5%	31.4%	1.9%	2,676	3,045	13.8%
Net Fee and commission income	284	362	397	369	7.4%	39.6%	9.6%	1,220	1,577	29.3%
Inc. from investment securities	32	40	3	113	-97.5%	-91.2%	-92.9%	321	177	-45.0%
Other income, net	244	231	299	246	21.2%	22.2%	29.0%	931	1,007	8.2%
Total other OI	561	633	698	728	-4.2%	24.5%	10.2%	2,472	2,761	11.7%
Total operating income	1,177	1,428	1,508	1,543	-2.3%	28.1%	5.6%	5,148	5,806	12.8%
General & admin. Exps	-1,061	-691	-711	-665	6.9%	-33.0%	2.9%	-2,945	-2,623	-10.9%
Pre provision profit	116	737	797	878	-9.2%	NM	8.2%	2,203	3,183	44.5%
Allowances for impairment, net	-1,714	-538	-24	-638	-96.2%	-98.6%	-95.5%	-3,357	-2,059	-38.7%
Overseas income tax expense	-19	-6	-17	-13	35.5%	-9.1%	NM	-52	-49	-5.9%
Non-controlling interests	-13	-13	-19	-24	-20.3%	44.7%	43.6%	-73	-74	1.3%
Net Profit	-1,630	180	737	203	NM	NM	NM	-1,278	1,002	NM

FABS estimate & Co Data

MASQ - KPI

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Net FI/OI	52.4%	55.7%	53.7%	135	-194	52.0%	52.5%	47
NIM	2.4%	2.4%	2.5%	8	8	2.4%	2.5%	10
NIS	2.5%	2.5%	2.6%	13	9	2.5%	2.6%	13
Fees & comms/OI	24.1%	25.3%	26.3%	217	96	23.7%	27.2%	347
Trading/OI	2.7%	2.8%	0.2%	-256	-261	6.2%	3.0%	-320
Cost to income	90.1%	48.4%	47.1%	-4299	-126	57.2%	45.2%	-1,202
Impairment/PPP	1474.6%	73.1%	3.0%	NM	-7005	152.3%	64.7%	-8,767
NP/OI	-138.4%	12.6%	48.9%	NM	3629	-24.8%	17.3%	4,208
ROAE	-6.0%	-6.4%	4.8%	1085	1126	-6.0%	4.9%	1,089
ROAA	-0.8%	-0.87%	0.60%	139	146	-0.8%	0.6%	140

FABS estimate & Co Data

MASQ - key BS items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
Net Advances	71,533	75,797	77,282	76,982	81,486	13.9%
QOQ changes	0.0%	6.0%	2.0%	-0.4%	5.9%	
Total Assets	158,523	162,253	172,763	169,561	177,054	11.7%
QOQ changes	-6.6%	2.4%	6.5%	-1.9%	4.4%	
Customer Deposits	88,261	90,205	95,433	94,779	101,483	15.0%
QOQ changes	-6.8%	2.2%	5.8%	-0.7%	7.1%	
Total Equity	20,188	19,652	20,067	20,165	21,024	4.1%
QOQ changes	-7.1%	-2.7%	2.1%	0.5%	4.3%	

FABS estimate & Co Data

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%

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