

PP14767/09/2012(030761)

Friday, November 27, 2015

Malayan Banking Bhd

“All on Track”

Results Review

- Actual vs. expectation.** Malayan Banking Berhad (Maybank) 9M15 net profit of RM5.06 billion (+3.3% y-o-y) came in line within ours and consensus estimates respectively, accounting 72% and 75% of ours and consensus full year net profit forecast. The improving earnings was driven by other operating income whose contribution jumped to RM4.45 billion (+20% y-o-y) (excluding sale of subsidiary gained) on the back of gain from forex translation amounting to RM1.11 billion (+291% y-o-y). Nevertheless, a surge in allowance loan loss by 180% y-o-y in 9M15 on the back of higher collective allowance by 70.3% y-o-y and slower recoveries by -45.3% have hampered the earnings growth.
- Dividend.** No dividend declared in this quarter.
- Topline vs. Bottom line.** 9M15 net income gained commendably to RM15.6 billion (16% y-o-y) mainly due to higher net fund based income to RM10.77 billion (+13% y-o-y) and net fee based income to RM4.45 billion (+20% y-o-y). Islamic banking income soared by 21% y-o-y to RM2.98 billion. The higher net income led to pre-provision income higher by 17% y-o-y to RM8.11 billion.
- Stronger loans growth.** Maybank loans growth jumped 8.7% y-o-y (ex-forex impact) or +7.3% q-o-q, in line with guidance of 8%-9% in FY15. The bulk of the growth was contributed by Singapore operation (+11.3% y-o-y), followed by Malaysia (+6.4% y-o-y) and Indonesia (+5.9%). Looking into loans by purpose, loans were driven by residential (+18.6% y-o-y) and non-residential mortgage (+16.8 y-o-y), and other purpose (which includes government financing) segments (+37% y-o-y).

BUY (TP: RM9.92)

| | |
|--------------------------|---------|
| Current Price (RM) | RM8.48 |
| New Fair Value (RM) | RM9.92 |
| Previous Fair Value (RM) | RM10.20 |
| Previous Recommend. | BUY |
| Upside To Fair Value | 16.7% |
| Dividend Yield (FY15) | 5% |

Stock Code

| | |
|-----------|--------|
| Bloomberg | MAY MK |
|-----------|--------|

Stock & Market Data

| | | |
|--------------------------|-------------|--------|
| Listing | MAIN MARKET | |
| Sector | Finance | |
| Shariah Compliance | No | |
| Issued Shares (mn) | 9,761 | |
| Market Cap (RM mn) | 82,779 | |
| YTD Chg In Share Price | -7.52% | |
| Beta (x) | 0.97 | |
| 52-week Hi/Lo (RM) | RM9.74 | RM8.18 |
| 3M Average Volume (shrs) | 12.1mn | |
| Estimated Free Float | 40.5% | |

Major Shareholders

| | |
|-----|-------|
| ASB | 37.9% |
| EPF | 12.8% |
| PNB | 5.7% |

- **Deposits still lagged.** Deposits grew marginally albeit an improvement in 3Q15 mainly thanks to steady demand deposit and fixed deposit performance. Deposits grew 4.4% y-o-y in 9M15 (ex-forex impact) or 6% q-o-q. However, loan-to-deposit ratio decline to 95.3% vs. 94.2% in 6M15 due to acceleration in loans growth in 9M15. Liquidity has improved in 9M15 with CASA position rising to 35.3% with stronger contributor largely from Malaysia as a result of intense deposits campaign launched in August.
- **NIM stronger on Indonesia operations.** On q-o-q basis, net interest margin (NIM) grew stronger by 10bps to 2.38% despite stronger deposits growth, especially in Malaysia operation. We of the view that Indonesia environment still offers attracting return given Indonesia central bank recent measure to cut reserve requirement recently. NIM trend is therefore ahead of the company's earlier articulated target or compressing by 8bp to 10bps YoY for FY15.
- **Higher opex in 3Q15, lower CIR.** Opex rising 14.9% y-o-y in 9M15 as a result of lower general expenses and personnel cost. However, Maybank cost-to-income (CIR) improved to 47.9% vs. 49.5% in 6M15 with positive JAW reported at 1.3%.
- **Gross impaired loans improving.** There was 2bps downward gross impaired loans to 1.54% with improvement recorded in working capital segment with notable weakness recorded in Singapore and Vietnam operations.
- **Change in earnings forecast.** We maintain our FY15 and FY16 earnings as 9M15 results were within our expectation. Nonetheless, FY15 and FY16 earnings are projected to grow by 5.5% and 1.6% driven by i) Singapore's unit solid growth ii) steady performance in both household and business segment iii) cost containment as well as overhead expenses trending lower.
- **Outlook.** We remains confident with Maybank to conclude FY15 with fine performance as the Group manage to grow its loans and deposit with Malaysia operation showing an improvement to recover after posting uninspiring 1H15 due to intense competition and slowdown in consumer spending. Additionally, Maybank BII stays positive on loan quality as some of its customers are impacted by the weakening of the commodities and mining sectors as Maybank BII is in the midst to re-profile its corporate customers towards higher credit quality.
- **Valuation & recommendation.** We value Maybank at RM9.92 as we incorporate 1 standard deviation below P/BV of 1.7x. That said, we maintain our **BUY** call on Maybank. Re-rating catalyst for Maybank could emanate from i) adjustment in OPR ii) further M&A activity iii) lower than expected loan loss allowance

Table 1: Peers Comparison

| Company | YE | Price (RM) | EPS (RM) | | P/E (x) | | P/B (X) | | ROE (%) | Div Yield (%) | TP (RM) | Call |
|-------------|-----|------------|----------|------|---------|------|---------|------|---------|---------------|---------|------|
| | | | FY15 | FY16 | FY15 | FY16 | FY15 | FY16 | | | | |
| AFG | Mac | 3.55 | 0.4 | 0.4 | 12.7 | 12.0 | 1.7 | 1.6 | 14.3 | 1.9 | 4.00 | Hold |
| AMMB | Mac | 4.62 | 0.6 | 0.6 | 11.0 | 11.0 | 1.4 | 1.3 | 14.1 | 4.5 | 5.10 | Hold |
| BIMB | Dec | 3.96 | 0.3 | 0.4 | 11.7 | 11.3 | 1.8 | 2.0 | 16.0 | 5.8 | 4.60 | Buy |
| CIMB | Dec | 4.50 | 0.5 | 0.6 | 12.1 | 10.4 | 1.3 | 1.5 | 9.2 | 3.5 | 4.90 | Hold |
| Maybank | Dec | 8.48 | 0.7 | 0.8 | 12.6 | 11.9 | 1.5 | 1.5 | 13.6 | 6.2 | 9.92 | Buy |
| RHB Cap | Dec | 5.59 | 0.8 | 0.9 | 9.7 | 9.1 | 1.1 | 1.1 | 11.5 | 1.3 | 6.60 | Hold |
| Public Bank | Dec | 18.26 | 1.2 | 1.3 | 15.3 | 14.2 | 2.6 | 2.8 | 18.7 | 2.9 | 19.14 | Hold |
| Affin | Dec | 2.40 | 0.3 | 0.3 | 9.0 | 8.5 | 0.7 | 0.7 | 7.8 | 5.1 | NR | NR |
| MBSB | Dec | 1.61 | 0.2 | 0.3 | 9.1 | 8.4 | 1.2 | 1.1 | 29.6 | 2.3 | NR | NR |
| STMB | Dec | 3.73 | NA | NA | NA | NA | NA | NA | 24.3 | 6.6 | NR | NR |
| HL Bank | Jun | 13.30 | 1.2 | 1.3 | 12.0 | 11.2 | 1.6 | 1.5 | 14.7 | 2.9 | NR | NR |
| Average | | | 0.6 | 0.7 | 11.5 | 10.8 | 1.5 | 1.5 | 15.8 | 3.9 | | |

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

| YE: Dec (RM million) | 3Q15 | 2Q15 | 3Q14 | y-o-y chg | q-o-q chg | 9M15 | 9M14 | y-o-y chg |
|-------------------------------|--------|--------|--------|-----------|-----------|--------|--------|-----------|
| Net Interest Income | 2,897 | 2,680 | 2,462 | 18% | 8% | 8,182 | 7,262 | 13% |
| Non Interest Expense | 1,766 | 1,241 | 1,228 | 44% | 42% | 4,457 | 3,725 | 20% |
| Islamic Banking Income | 1,085 | 967 | 848 | 28% | 12% | 2,984 | 2,466 | 21% |
| Total Income | 5,747 | 4,888 | 4,538 | 27% | 18% | 15,623 | 13,452 | 16% |
| Overhead Expense | -2,601 | -2,419 | -2,284 | 14% | 8% | -7,509 | -6,538 | 15% |
| Pre-provision income | 3,146 | 2,470 | 2,254 | 40% | 27% | 8,114 | 6,914 | 17% |
| Allowance for Loan Loss | -668 | -301 | -71 | 847% | 122% | -1,217 | -435 | 180% |
| Impairment on Other Asset | -129 | -94 | -2 | 6377% | 37% | -274 | 84 | -427% |
| Operating profit | 2,349 | 2,075 | 2,181 | 8% | 13% | 6,623 | 6,562 | 1% |
| Share of Profit in Associates | 34 | 76 | 45 | -23% | -55% | 152 | 118 | 29% |
| Pre-tax Profit | 2,383 | 2,150 | 2,226 | 7% | 11% | 6,775 | 6,681 | 1% |
| Taxation and Zakat | -457 | -529 | -579 | -21% | -14% | -1,516 | -1,780 | -15% |
| Net Profit | 1,926 | 1,621 | 1,647 | 16.9% | 19% | 5,259 | 4,901 | 7% |
| EPS | 19.9 | 16.8 | 17.6 | 13% | 19% | 55.0 | 53.2 | 3% |
| Net Interest income margin | 25% | 30% | 28% | | | 28% | 28% | |
| Non-interest income margin | 31% | 25% | 27% | | | 29% | 28% | |
| PBT margin | 41% | 44% | 49% | | | 43% | 50% | |
| PAT margin | 34% | 33% | 36% | | | 34% | 36% | |

Source: Bursa Malaysia, M&A Securities

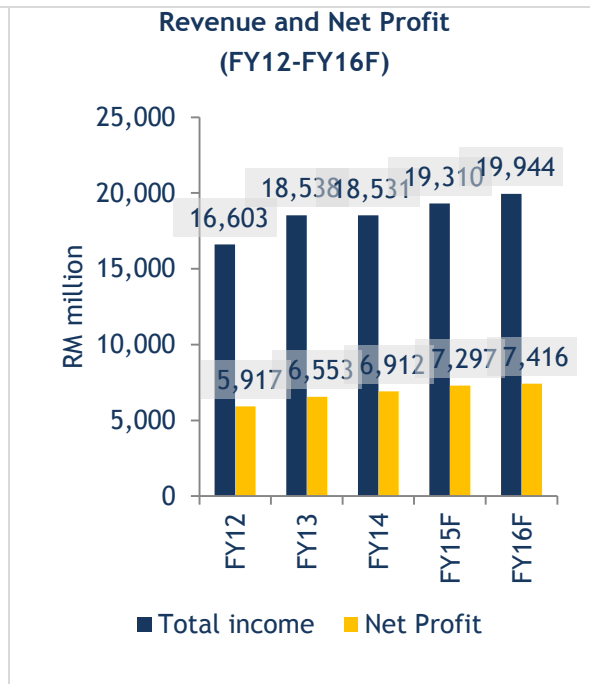
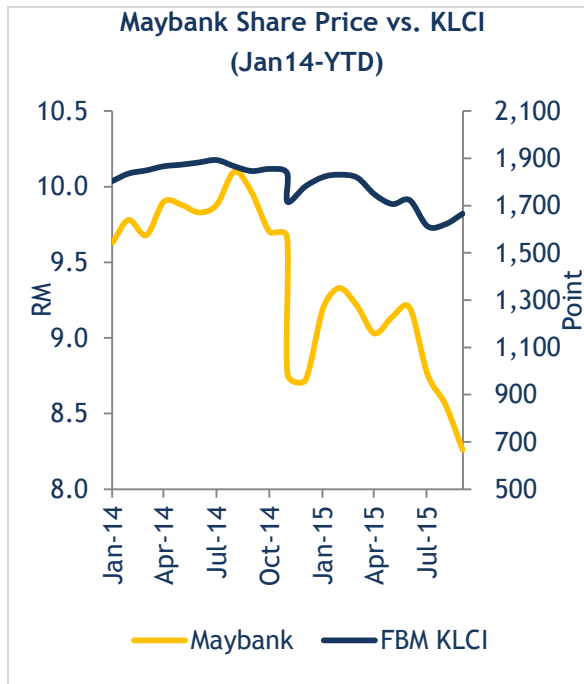
Table 3: Financial Forecast

| YE: Dec (RM million) | FY13 | FY14 | FY15F | FY16F |
|------------------------|---------|---------|---------|---------|
| Net interest income | 9,585 | 9,704 | 9,898 | 10,145 |
| Non-Interest Income | 6,143 | 5,556 | 5,945 | 6,123 |
| Islamic banking income | 2,810 | 3,271 | 3,467 | 3,675 |
| Total income | 18,538 | 18,531 | 19,310 | 19,944 |
| Overhead expenses | (8,928) | (9,111) | (9,430) | (9,713) |
| Pre-provision income | 9,611 | 9,420 | 9,880 | 10,231 |
| Loan loss allowance | (730) | (400) | (320) | (453) |
| Operating profit | 8,730 | 8,950 | 9,558 | 9,698 |
| Associates | 139 | 163 | 171 | 190 |
| PBT | 8,870 | 9,113 | 9,729 | 9,888 |
| PAT | 6,553 | 6,912 | 7,297 | 7,416 |
| EPS (sen) | 74 | 74 | 78 | 80 |
| Op. profit margin | 47% | 48% | 49% | 49% |
| PBT Margin | 48% | 49% | 50% | 50% |
| PAT Margin | 35% | 37% | 38% | 37% |
| PER (x) | 12.9 | 12.8 | 11.9 | 10.8 |
| P/BV (x) | 1.89 | 1.74 | 1.64 | 1.54 |

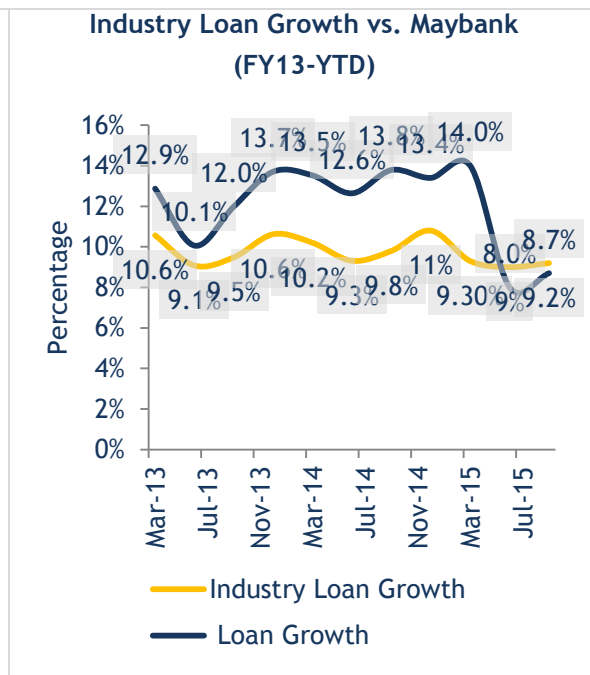
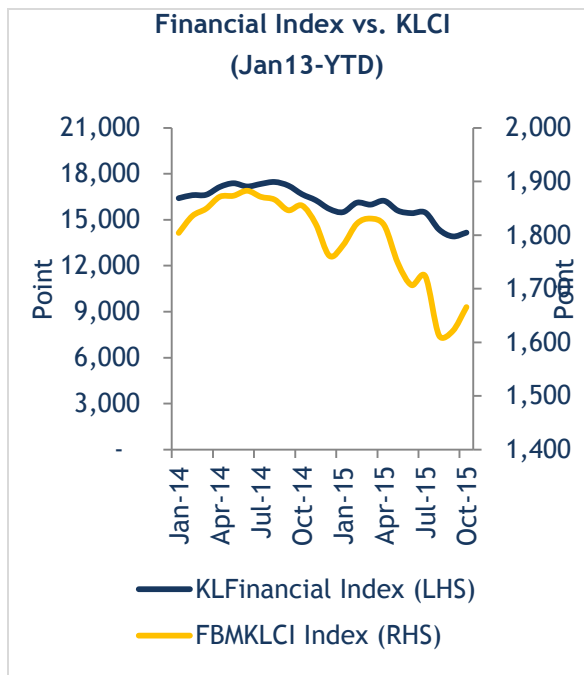
Source: Bursa Malaysia, M&A Securities

Table 4: Financial Ratios

| | FY12 | FY13 | FY14 | 9M15 |
|----------------------------|--------|--------|--------|--------|
| ASSET QUALITY | | | | |
| Gross Impairment | 1.8% | 1.48 | 1.52 | 1.56 |
| Allowance Coverage | 106.0% | 107.5% | 106.35 | 85.4% |
| | | | | |
| PROFITABILITY | | | | |
| ROA | 1.2% | 1.1% | 1.2% | 1.2% |
| ROE | 15.9% | 15.1 | 15.9% | 12.0% |
| Cost to income | 51.0% | 47.8% | 50.4% | 47.5% |
| | | | | |
| LENDING AND DEPOSIT | | | | |
| Loan Growth | 12.2% | 14.0% | 13.4% | 10.7% |
| Deposit Growth | 10.3% | 14.0% | 11.1% | 12.6% |
| Loan-to-Deposit Ratio | 89.8% | 89.9% | 91.8% | 95.3% |
| | | | | |
| MARGIN | | | | |
| Net interest margin | 2.4% | 2.33 | 2.20 | 2.29 |
| | | | | |
| CAPITAL STRENGTH | | | | |
| CET 1 | | | 11.39% | 11.42% |
| Total Capital | | | 15.88% | 15.26% |



Source: Bloomberg, M&A Securities



M&A Securities

STOCK RECOMMENDATIONS

| | |
|--------------------|--|
| BUY | Share price is expected to be $\geq +10\%$ over the next 12 months. |
| TRADING BUY | Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow. |
| HOLD | Share price is expected to be between -10% and $+10\%$ over the next 12 months. |
| SELL | Share price is expected to be $\geq -10\%$ over the next 12 months. |

SECTOR RECOMMENDATIONS

| | |
|--------------------|--|
| OVERWEIGHT | The sector is expected to outperform the FBM KLCI over the next 12 months. |
| NEUTRAL | The sector is expected to perform in line with the FBM KLCI over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform the FBM KLCI over the next 12 months. |

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