

PP14767/09/2012(030761)

Malayan Banking Bhd

“Unexpected Exit”

Latest Development

- Selling profitable unit.** Malayan Banking Bhd (Maybank) announced it has reached an agreement with Kina Ventures Ltd and Kina Securities Ltd of Papua New Guinea (PNG) to sell Maybank’s PNG operation for RM418 million. The deal involves Kina Ventures Ltd and Kina Securities Ltd acquiring the entire stake of Maybank (PNG) Ltd (MPNG) and Mayban Property (PNG) Ltd (MPPNG), and expected to complete in 2H15. The deal will see Maybank discontinuing its 21 years presence in PNG, which primarily covers the commercial banking activities and property investment respectively.
- Beef-up capital.** Although PNG’s operation contributed marginally to the Group’s burgeoning topline but both MPNG and MPPNG units have been contributing consistently, nonetheless. In fact, Maybank reiterated that the sale is purely to maximize its capital exercise, where Maybank will continuously evaluate its international operations with a specific focus on maximizing its capital use. That said, we foresee the stringent Basel III requirement is heating on Maybank’s capital although Maybank’s capital position is already exceeding the requirement at 11.75% CET 1 and 13.54% Tier 1 as at FY14.
- All is not lost.** Despite the sale, according to the share sale agreement (SSA), Maybank will collaborate closely with Kina Ventures Ltd in providing customers in PNG with access to global financial market around the world, capitalizing on Maybank vast experiences and networks. By doing this, Maybank’s presence in PNG is not entirely vanished, but Maybank can still serve its loyal PNG customers through collaboration.
- Possibility to re-enter PNG.** Post-sales, we discount the possibility of Maybank re-entering the PNG market in

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BUY (TP: RM10.70)

Current Price (RM)	RM9.34
New Fair Value (RM)	RM10.70
Previous Fair Value (RM)	RM10.70
Previous Recommend.	BUY
Upside To Fair Value	14.5%
Dividend Yield (FY15)	5.8%

Stock Code	
Bloomberg	MAY MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	9,328
Market Cap (RM mn)	87,224
YTD Chg In Share Price	1.96%
Beta (x)	1.07
52-week Hi/Low (RM)	RM10.20   RM8.25
3M Average Volume (shrs)	8.4mn
Estimated Free Float	40.5%

Major Shareholders	
ASB	37.9%
EPF	12.5%
PNB	5.7%

longer term despite there are only 4 banks operating in the country. Moving forward, we expect Maybank regionalisation plan will focus on enhancing the PBT contribution ex-Malaysia market to touch a 40%-level (30.3% as at FY14) rather than pursuing any acquisition. Of note, Maybank currently have presence in Singapore and Indonesia, Philippines, Brunei, Cambodia, Vietnam, Laos, Thailand, Myanmar, Hong Kong, Papua New Guinea, Pakistan, India, Uzbekistan, Saudi Arabia, Bahrain, United Kingdom and the United States where Singapore and Indonesia market have been contributing the largest share ex-Malaysia at 17.4% as at FY14.

- **Change in earnings forecast.** No change to our forecast in FY15 as the proceeds from the sale is expected to beef up its capital requirement. In addition, the sale will not have any material effect on its financials given its minute contribution. On this score, FY15 and FY16 earnings are expected 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.
- **Valuation & recommendation.** We maintain our **BUY** recommendation of RM10.70 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

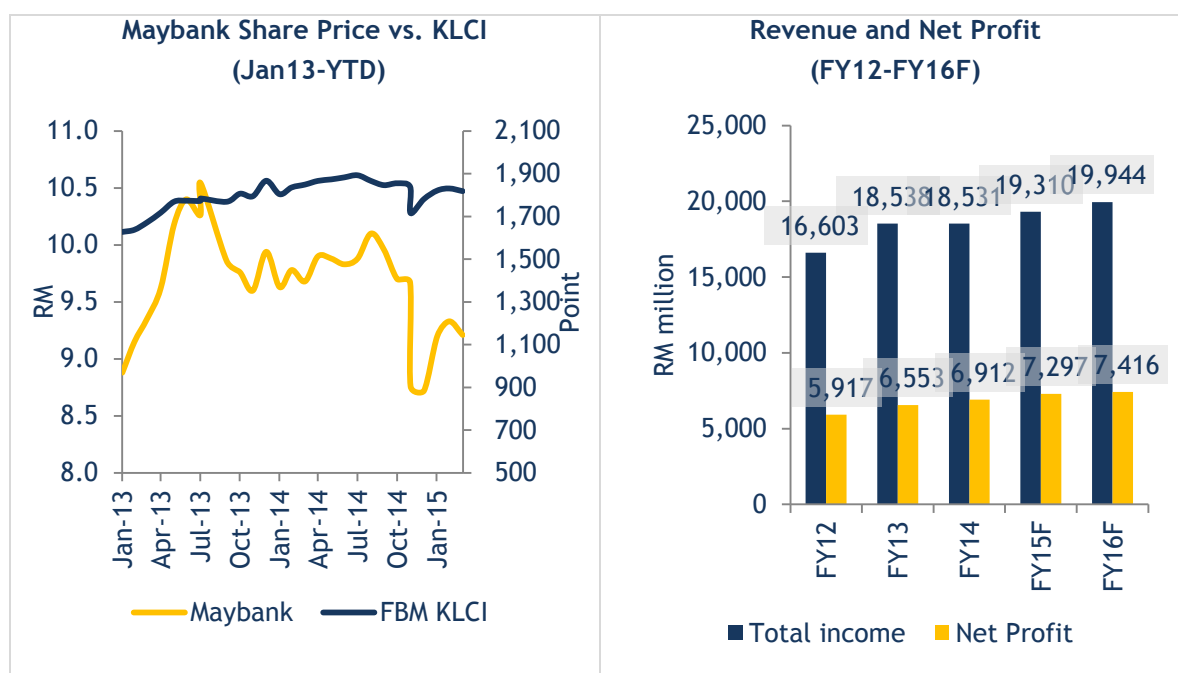
Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	4.75	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.37	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	7.00	Hold
BIMB	Dec	3.96	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	6.01	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.34	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.66	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.00	Hold
Public Bank	Dec	19.20	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Hold
Affin	Dec	2.90	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.94	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	16.00	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.90	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

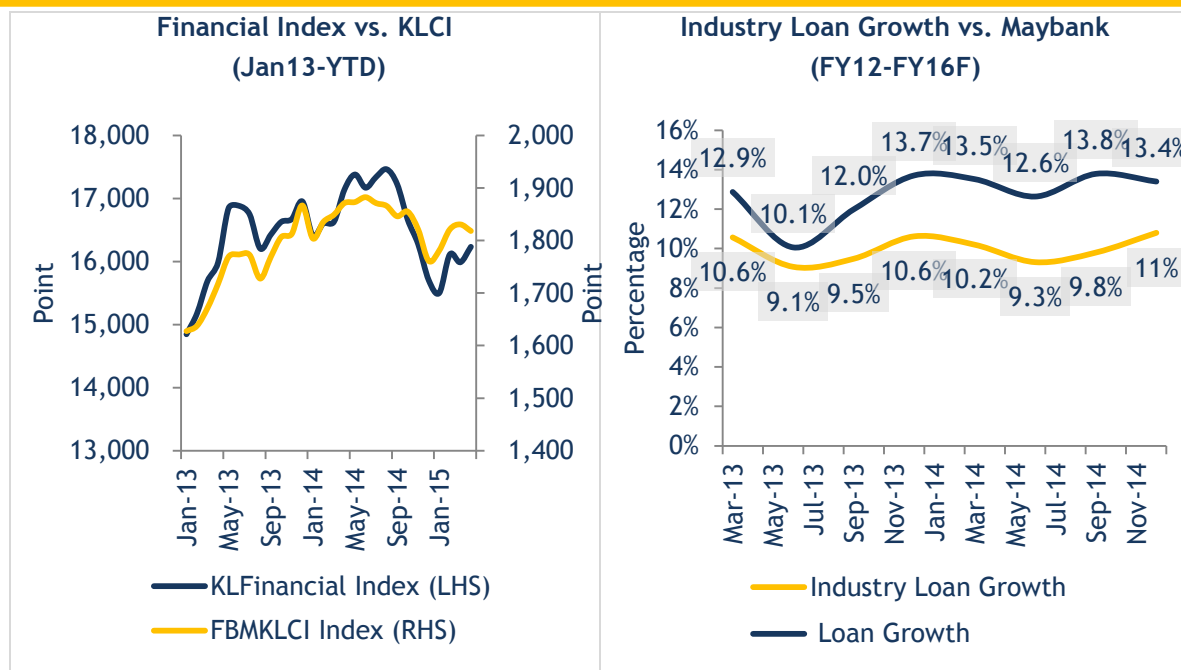
Table 3: Financial Forecast

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&amp;A Securities



Source: Bloomberg, M&amp;A Securities



# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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