

PP14767/09/2012(030761)

Friday, May 29, 2015

Malayan Banking Bhd

“Stabilizing Period”

Results Review

- Actual vs. expectation.** Malayan Banking Berhad (Maybank)) 1Q15 net profit of RM1.71 billion that soared by 5% y-o-y, came in line within ours and consensus estimates respectively, accounting 23.5% and 25% of ours and consensus full year net profit forecast. The better earnings performance was aided by lower impairment of RM51 million in 1Q15 (-144% y-o-y). Nonetheless, earnings dropped by 15% q-o-q premised on lower taxation in 4Q14.
- Dividend.** No dividend declared during the quarter.
- Topline vs. Bottom line.** 1Q15 net income gained commendably to RM4.98 billion (12% y-o-y, -2% q-o-q) mainly due to higher non-interest income to RM1.45 billion (+18% y-o-y, -21% q-o-q) and Islamic banking income of RM933 million (+15% y-o-y, +16% q-o-q). Similarly, Maybank pre-provision profit rose satisfactorily to RM2.49 billion on the back rising expenses by 12% y-o-y.
- Review of segment.** Across all segment, the commendable net income was attributed by strong growth in asset management segment that performed very well that grew 49.1% y-o-y due to the new initiative of Maybank Boseru Greater China with opportunity to tap China and Asean Islamic equities. Similarly, income from Investment Bank surged to RM318 million (+26.7% y-o-y), global market rose to RM469 million (+12.1% y-o-y), community financial services gained to RM1.96 billion (+10% y-o-y), international banking expanded to RM1.48 billion (+6.6% y-o-y and corporate banking and insurance banking up 3% y-o-y and 0.1% y-o-y respectively.

BUY (TP: RM10.70)

Current Price (RM)	RM9.11
New Fair Value (RM)	RM10.70
Previous Fair Value (RM)	RM11.00
Previous Recommend.	BUY
Upside To Fair Value	17.4%
Dividend Yield (FY15)	6.3%

Stock Code

Bloomberg	MAY MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Finance	
Shariah Compliance	No	
Issued Shares (mn)	9,318.6	
Market Cap (RM mn)	84,995.4	
YTD Chg In Share Price	-0.65%	
Beta (x)	1.07	
52-week Hi/Lo (RM)	RM10.20	RM8.25
3M Average Volume (shrs)	13.7mn	
Estimated Free Float	40.5%	

Major Shareholders

ASB	37.9%
EPF	12.5%
PNB	5.7%

- **Gross loans still strong.** Despite guiding slower loans growth for FY15 of 9%-10% and reducing exposure in consumer segment, 1Q15 gross loans grew strongly by 14.3% y-o-y underpinned by higher growth in Singapore by 11.6% y-o-y and growth in community financial services (CFS) in both Malaysia (+11.2 y-o-y) and Singapore (+38.9% y-o-y). Malaysia's loans growth still healthy at 10.2% y-o-y and ahead of industry guidance at 9.3% y-o-y. Malaysia's loans growth was led by CFS growth of 11.2% y-o-y, where residential and hire purchase recorded growth of 14.1% y-o-y and 10.4% y-o-y. Moving forward, we echoed management sentiment to reduce in some selective consumer segment in line with subdued private investment.
- **Deposits still healthy.** Deposit growth weakened marginally, but still healthy at 13% y-o-y with all deposits type showed an improvement. We notice that fixed deposits growth was still at manageable pace of 5.1% y-o-y in 1Q15 given stiff competition in securing low cost funding.
- **NIM weakness still persists.** Like most other banks, Maybank's NIM still under pressure with latter fell another 5bps from 2.31% in FY14 resulting from pressure from cost of funds, especially higher cost of deposits pricing, especially in retail deposits.
- **Gross impaired loans continued at low level.** Despite improvement in gross impaired ratio to 1.50% vs. 1.52% in FY14, absolute impaired loans rising 0.5% q-o-q with rising bad loans in hire purchase loans that continued to be in the limelight. However we see that GIL level still at alarming level with Indonesia's GIL still at higher level of 3.49% vs. 3.24%.
- **Change in earnings forecast.** We maintain our FY15 and FY16 earnings as 1Q15 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.** Entering FY15, we foresee that Maybank's FY15 KPI is still within management target given its ability to meet all revised KPI in FY14 amid challenging environment. Positively, we feel that the earnings could be assisted by normalization of credit costs due to absence of lumpy recoveries. Also we shared the sentiments of turning NOII and hence, it would help to recover its ROE. The Indonesian operation should pick up momentum in FY15F after re-profiling its business, tightening credit underwriting, and imposing new loan limits. There is also room to improve its cost structure
- **Valuation & recommendation.** We maintain our target price on Maybank at RM10.70 based on 3-year average P/BV of 1.94x and thus, we maintain our **BUY** call. 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	4.52	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.90	Hold
AMMB	March	6.34	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Hold
BIMB	Dec	4.08	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.66	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.11	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.45	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
Public Bank	Dec	18.96	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Hold
Affin	Dec	2.79	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.81	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	16.20	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.62	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)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Net Interest Income	2,605	2,442	2,393	9%	7%	2,605	2,393	9%
Non Interest Expense	1,450	1,831	1,234	18%	-21%	1,450	1,234	18%
Islamic Banking Income	933	806	808	15%	16%	933	808	15%
Total Income	4,988	5,079	4,435	12%	-2%	4,988	4,435	12%
Overhead Expense	-2,489	-2,573	-2,168	15%	-3%	-2,489	-2,168	15%
Pre-provision income	2,498	2,506	2,267	10%	0%	2,498	2,267	10%
Allowance for Loan Loss	-248	35	-210	18%	-817%	-248	-210	18%
Impairment on Other Asset	-51	-154	115	-144%	-67%	-51	115	-144%
Operating profit	2,200	2,386	2,171	1%	-8%	2,200	2,171	1%
Share of Profit in Associates	42	45	36	16%	-5%	42	36	16%
Pre-tax Profit	2,242	2,431	2,208	2%	-8%	2,242	2,208	2%
Taxation and Zakat	-530	-421	-573	-8%	26%	-530	-573	-8%
Net Profit	1,712	2,010	1,634	5%	-15%	1,712	1,634	5%
EPS	18.3	20.8	18.1	1%	-12%	18.3	18.1	1%
Net Interest income margin	28%	25%	29%			28%	29%	
Non-interest income margin	29%	36%	28%			29%	28%	
PBT margin	45%	48%	50%			45%	50%	
PAT margin	34%	40%	37%			34%	37%	

Source: Bursa Malaysia, M&A Securities

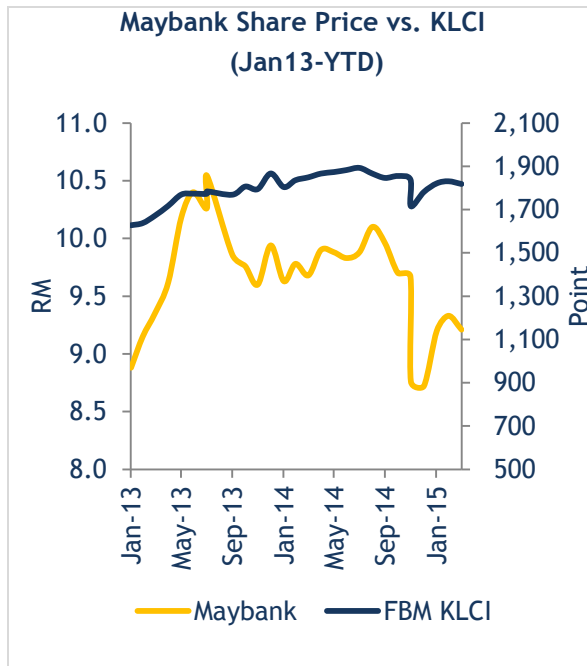
Table 3: Financial Forecast

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

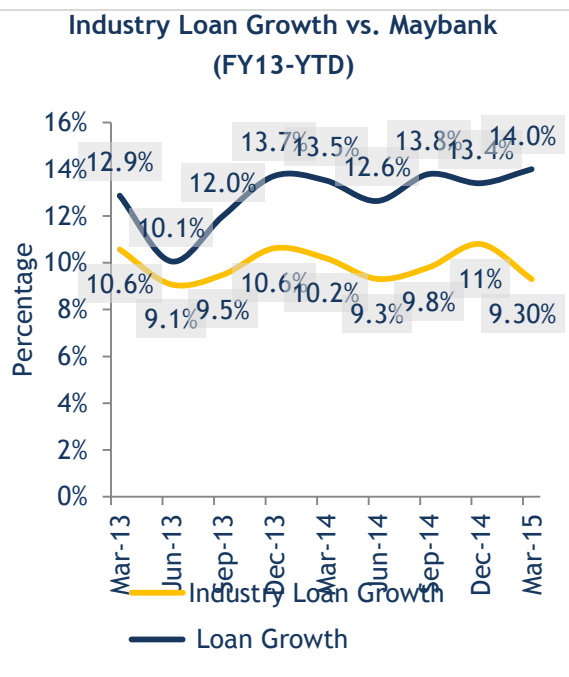
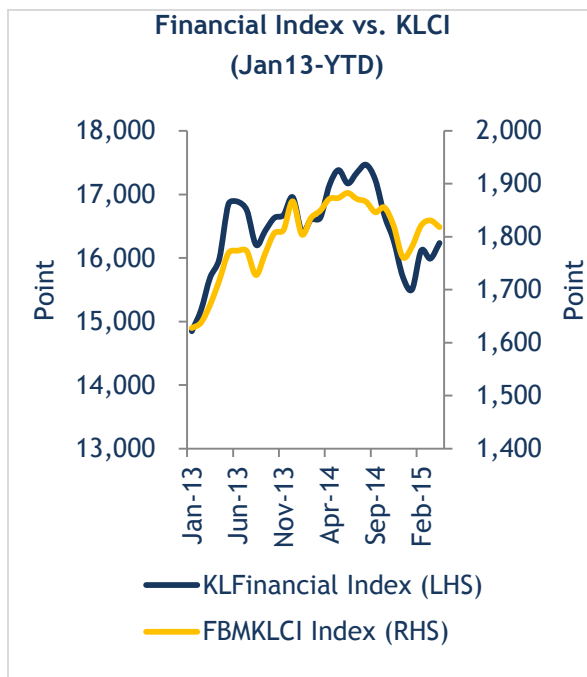
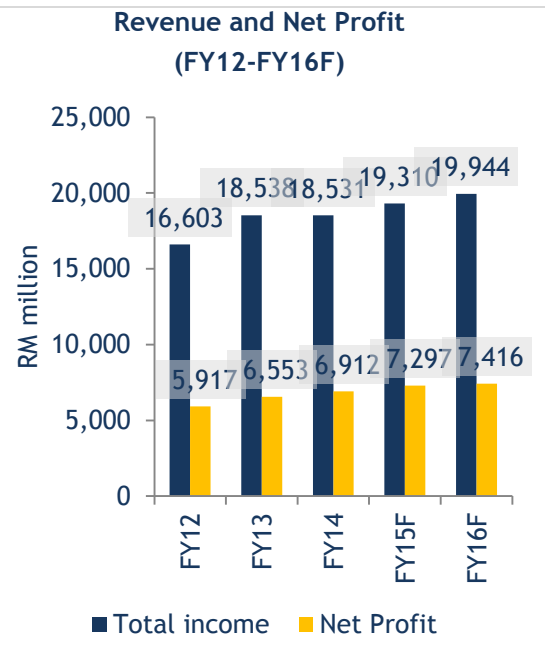
Source: Bursa Malaysia, M&A Securities

Table 4: Financial Ratios

	FY12	FY13	FY14	3M15
ASSET QUALITY				
Gross Impairment	1.8%	1.48	1.52	1.5
Allowance Coverage	106.0%	107.5%	106.35	93.5%
PROFITABILITY				
ROA	1.2%	1.1%	1.2%	1.2%
ROE	15.9%	15.1	15.9%	12.8%
Cost to income	51.0%	47.8%	50.4%	49.7%
LENDING AND DEPOSIT				
Loan Growth	12.2%	14.0%	13.4%	14.3%
Deposit Growth	10.3%	14.0%	11.1%	13.0%
Loan-to-Deposit Ratio	89.8%	89.9%	91.8%	92.2%
MARGIN				
Net interest margin	2.4%	2.33	2.20	2.26
CAPITAL STRENGTH				
CET 1			11.39%	11.15%
Total Capital			15.88%	15.35%



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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