

Malayan Banking Bhd

“Regionalisation is the Key”

Investors are advised to accumulate Maybank Berhad (Maybank) given its (1) good longer-term growth prospects in Indonesia, (2) regional expansion of its investment banking business, and (3) the benefits from the implementation of the projects under the Economic Transformation Programme (ETP) in Malaysia. We value Maybank at RM10.70 based on P/BV of 1.9x, equivalent to last 3 years average. The stock is a BUY.

Loans growth to pick up in 2H15. Maybank is targeting to achieve 9%-10% loans growth in FY15 where the majority of the growth will be supported by Malaysia’s loans growth. However, judging on 1Q15’s loans growth of 8.4% y-o-y, we feel that the target will be achieved through contribution from Malaysia and ex-Malaysia. Despite Maybank’s Malaysia operation loans growth only grew 3.8% on annualized basis in 1Q15, we are positive the 9%-10% loans growth target will be met through reviving the non-interest income (NII) in Malaysia market given the impending listing of several big IPOs and various sukuk.

Stay positive in Indonesia. Despite all the sluggish outlook in Indonesia a result Bank Indonesia’s move to cut benchmark interest rate, we feel that net interest margin (NIM) in Indonesia is still one of the highest where Maybank operating in, and still able to offer bright prospect once the economic environment improves. Additionally, Maybank BII stays positive on loan quality as some of its customers are impacted by the weakening of commodities and mining sectors amid Maybank BII re-profile effort of corporate customers.

Maybank Islamic going stronger. Maybank Islamic bagged notable accolade of Leadership Issuer of the Year Award due to issuance Subordinated Sukuk Murabahah amounting RM1.5 billion, the single largest deal of its kind by an Islamic financial institution. The sukuk received strong demand

BUY (TP: RM10.70)

Current Price (RM)	RM9.14
New Fair Value (RM)	RM10.70
Previous Fair Value (RM)	RM10.70
Previous Recommend.	BUY
Upside To Fair Value	17%
Dividend Yield (FY15)	6.2%

Stock Code	
Bloomberg	MAY MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	9,537
Market Cap (RM mn)	88,122
YTD Chg In Share Price	0.76%
Beta (x)	1.0
52-week Hi/Lo (RM)	RM10.20   RM8.25
3M Average Volume (shrs)	8.7mn
Estimated Free Float	40.5%

Major Shareholders	
ASB	37.6%
EPF	13.2%
PNB	5.7%

from investors due to its leadership position in Islamic banking in Malaysia and Asean. This should be a precursor for Maybank Islamic to steal and roll out few significant deals ahead.

**Looking at Thailand.** We feel the sluggish economic prospects in Malaysia and Asean countries may limit Maybank ability to grow beyond investment banking in Thailand. At the same time we foresee a value has emerged for Maybank to grow its commercial banking in Thailand by organic or inorganic expansion. Should Maybank manage to step into commercial banking in Thailand, Maybank will finally complete its Asean regionalisation effort.

**Asset quality likely to be resilient.** As expected, the absence of lumpy corporate account assisted gross impaired loans (GIL) ratio to further improve by 2bps to 1.50% in 1Q15. Worryingly, Indonesia’s GIL deteriorated further by 25bps to 3.49% in 1Q15 due to the exposure in selected commodities sector. Moving forward, as oppose to our earlier prediction, Indonesia’ GIL should stay at elevated level given soft commodity prices though Maybank exposure in commodity is relatively small.

**1Q15 within expectation.** 1QFY15 net profit of RM1.7 billion (-12% q-o-q, +6.2% y-o-y) accounted for 23.5% and 25% of ours and consensus full year forecast, in line with expectations. 1Q15 was underpinned by continued strong loans growth of 2.1% q-o-q and 14.2% y-o-y as well as q-o-q improvement in NIM. High q-o-q NIM was impressive vis-à-vis peers and attributed to its strong deposits franchise as CASA grew 2.1% q-o-q and 11.5% y-o-y as well as shredding of higher cost money market deposits.

**Earnings outlook.** FY15 and FY16 earnings are expected to grow by 5.5 y-o-y and 1.6% y-o-y driven by i) Singapore’s unit solid growth; ii) steady performance in both household and business segment in Malaysia; and iii) cost containment as well as overhead expenses trending lower.

**Outlook.** Stay invested in Maybank to capitalise on its regional network, which could benefit from the increasing trade in the Asean region. In Malaysia, Maybank being one of the banking sector bellwether companies, is expected to be the least vulnerable with the slowing down in household segment, thanks to respectable risk management practise. Additionally, its positions in investment banking will recover in FY15 due to number of capital market activities such as big ticket IPOs to be listed in FY15.

**Valuation & recommendation.** We reiterate our fair value of RM10.70 on Maybank based on P/BV of 1.9x (3-year average) and the stock is a **BUY**. Re-rating catalyst for Maybank could emanate from 1) the recovery of Indonesia operating environment; 2) gaining strength in investment banking business; and 3) listing of insurance arm.

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	4.39	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Buy
AMMB	March	6.03	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Buy
BIMB	Dec	4.04	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.47	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	9.14	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.37	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	18.72	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	22.30	Buy
Affin	Dec	2.70	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.69	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.91	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.40	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average					11.5	10.8	1.5	1.5				

Source: Bloomberg, M&A Securities

Table 3: Financial Forecast

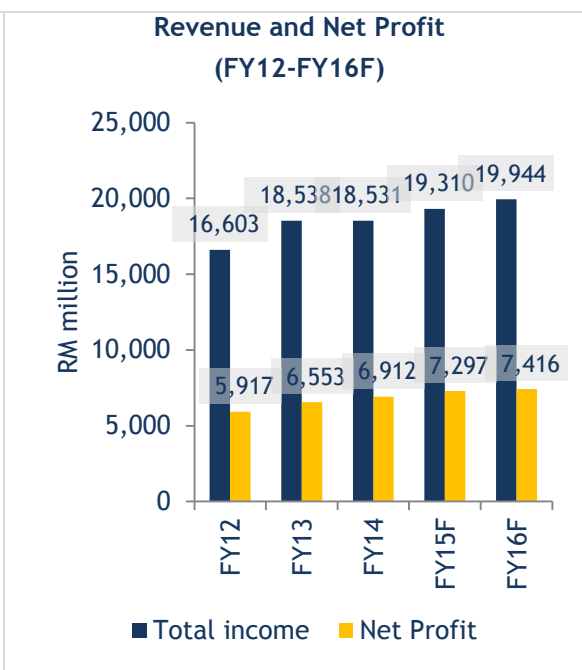
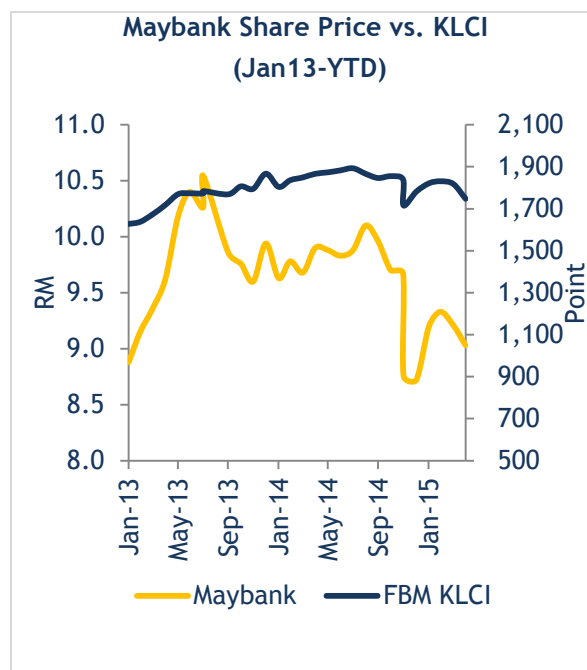
YE: Dec (RM million)	FY13	FY14	FY15F	FY16F
Net interest income	9,585	9,704	9,898	10,145
Non-Interest Income	6,143	5,556	5,945	6,123
Islamic banking income	2,810	3,271	3,467	3,675
Total income	18,538	18,531	19,310	19,944
Overhead expenses	(8,928)	(9,111)	(9,430)	(9,713)
Pre-provision income	9,611	9,420	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&A Securities

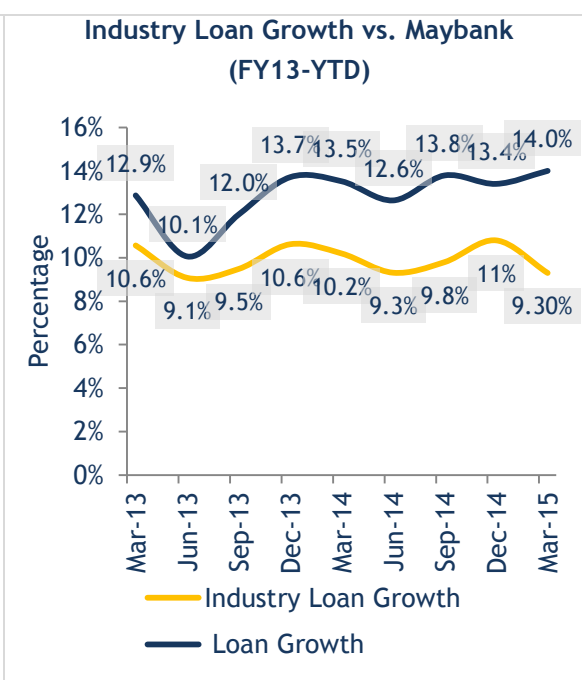
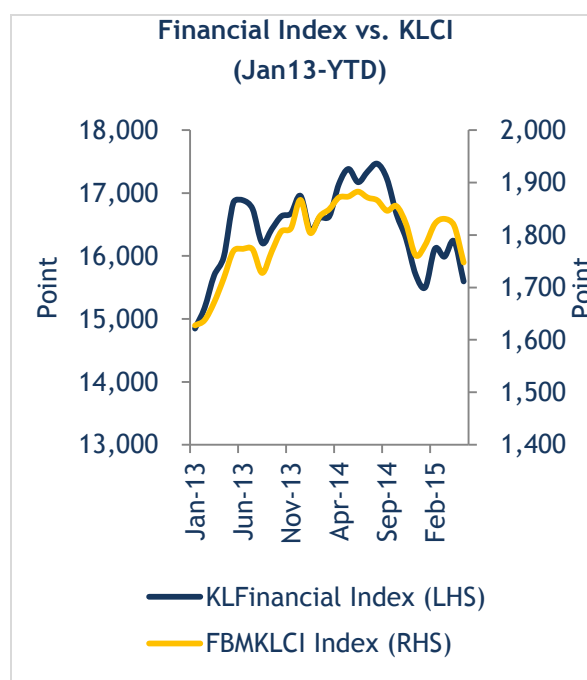
Table 4: Financial Ratios

	FY12	FY13	FY14	3M15
<b>ASSET QUALITY</b>				
Gross Impairment	1.8%	1.48	1.52	1.5
Allowance Coverage	106.0%	107.5%	106.35	93.5%
<b>PROFITABILITY</b>				
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%
<b>LENDING AND DEPOSIT</b>				
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%
<b>MARGIN</b>				
Net interest margin	2.4%	2.33	2.20	2.26
<b>CAPITAL STRENGTH</b>				
CET 1	Nil	Nil	11.39%	11.15%
Total Capital	Nil	Nil	15.88%	15.35%



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&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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