

PP14767/09/2012(030761)

Malayan Banking Bhd

“Conservative on Outlook”

Results Review

- Actual vs. expectation.** Malayan Banking Berhad (Maybank) 6M15 net profit of RM3.33 billion (+2% y-o-y) came in line within ours and consensus estimates respectively, accounting 45% and 48% of ours and consensus full year net profit forecast. The relatively minute growth in earnings was weighed by higher overhead expenses amounting to RM4.9 billion (+15% y-o-y), and loans loss provision amounting to RM549 million (+51% y-o-y).
- Dividend.** Maybank declared first interim dividend of 24 cent in line with 6M14 dividend, translating into 69% payout ratio.
- Topline vs. Bottom line.** 6M15 net income gained commendably to RM9.87 billion (11% y-o-y) mainly due to higher interest income amounting of RM9.44 billion (+10% y-o-y) on the back of solid loans performance, commendable Islamic banking income of RM 1.9 billion (+17% y-o-y) and steady other operating income amounting to RM2.75 billion (+6% y-o-y) driven by forex gains.
- Fee based income gearing up.** Net fund based income advanced at stronger pace of 11.2% y-o-y to RM6.9 billion underpinned by higher yield in loans growth by 9.4% y-o-y. All key operating markets reported reasonable loans growth despite the challenging economic condition. All key operating markets reported decent loans growth led by Singapore (+9.9% y-o-y), Malaysia (+9.9% y-o-y) followed by Indonesia (+2.8% y-o-y). Annualising 2Q15 loans growth came ahead of management target of 11.1% vs. management’s target of 9-10%. Segmentally, Community Financial Services (CFS) continued to see commendable growth while Global

Friday, August 28, 2015

BUY (TP: RM10.20)

Current Price (RM)	RM8.65
New Fair Value (RM)	RM10.20
Previous Fair Value (RM)	RM10.70
Previous Recommend.	BUY
Upside To Fair Value	17.%
Dividend Yield (FY15)	5%

Stock Code	
Bloomberg	MAY MK

Stock & Market Data		
Listing		MAIN MARKET
Sector		Finance
Shariah Compliance		No
Issued Shares (mn)		9,539
Market Cap (RM mn)		82,514
YTD Chg In Share Price		-5.67%
Beta (x)		1.07
52-week Hi/Lo (RM)	RM10.20	RM8.18
3M Average Volume (shrs)		13.7mn
Estimated Free Float		40.5%

Major Shareholders	
ASB	37.9%
EPF	12.5%
PNB	5.7%

banking segment in Malaysia, Singapore and Indonesia continued to face challenging operating environment given subdued capital market activities.

- **Group deposit slower, however at double digit pace.** The group's deposits grew +11.5% y-o-y or 6.3% annualised with Indonesia sustaining its strong CASA growth with 5bps q-o-q gains to 39.7%. Deposit growth in Malaysia surged strongly by 5.1% annualized, contributed by outflow of high cost deposits. Singapore deposits were in weaker momentum with -2.9% annualized performance hampered by slower growth in savings and FDs of -2% annualised and -0.7% annualised. Meanwhile, deposit growth in Indonesia was +8.0% annualized basis. The group's LDR remained stable at 94.2% with LDR for Malaysia and Singapore trending higher to 90.8% and 93.4% respectively.
- **NIM weakness still persists.** Group NIM contracted in small movement by 3bps q-o-q to 2.28% with improved funding mix in Malaysia and Singapore respectively, contributing to the slower contraction assisted by the growth in CASA.
- **Lower opex in 2Q15.** Opex improved 5% y-o-y in 2Q15 as a result of lower establishment cost. However, Maybank overhead cost was at higher level given the impact of staff union collective agreement in 1Q15 that drove cost-to-income to touch 49.2% and 49.5% in 2Q15 and 6M15 respectively.
- **Gross impaired loans rising in Indonesia.** Impaired loans amount grew by 8.5% q-o-q derailed by higher impaired loans in Singapore and Indonesia. However, we understand the situation in Singapore was hampered by several large accounts. Excluding this, Singapore's impaired loans would be flat. Meanwhile, Malaysia asset quality continued to improve. Overall, we are not overly concerned about asset quality in Malaysia and Singapore.
- **Change in earnings forecast.** We maintain our FY15 and FY16 earnings as 2Q15 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.** Maybank target is to achieve 8%-9% loans growth in FY15 where the majority of the growth will be supported by Malaysia's loans growth. However, judging on 2Q15's loans growth of 8.4% y-o-y, we feel that the target will be achieved through contribution from Malaysia and ex-Malaysia operation. 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 is operating in, and it is still able to offer bright prospects once the economic environment improves. Additionally, Maybank BII stays positive on loans quality despite some customers are impacted by the weakening of the commodities and mining sectors as Maybank BII is in the midst of re-profiling its corporate customers towards higher credit quality.
- **Valuation & recommendation.** We reduce our target price on Maybank to RM10.20 as we rolled our valuation into FY16 based on 3-year average P/BV of 1.7x. With this, we reiterate 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	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	3.64	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.56	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	3.99	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	4.88	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.65	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	6.44	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	18.02	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.30	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.39	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.67	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.04	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)	2Q15	1Q15	2Q14	y-o-y chg	q-o-q chg	6M15	6M14	y-o-y chg
Net Interest Income	2,680	2,605	2,407	11%	3%	5,285	4,800	10%
Non Interest Expense	1,241	1,450	1,263	-2%	-14%	2,691	2,497	8%
Islamic Banking Income	967	933	809	20%	4%	1,900	1,618	17%
Total Income	4,888	4,988	4,479	9%	-2%	9,876	8,915	11%
Overhead Expense	-2,419	-2,489	-2,086	16%	-3%	-4,908	-4,255	15%
Pre-provision income	2,470	2,498	2,393	3%	-1%	4,968	4,660	7%
Allowance for Loan Loss	-301	-248	-154	95%	21%	-549	-364	51%
Impairment on Other Asset	-94	-51	-30	214%	85%	-145	86	-269%
Operating profit	2,075	2,200	2,209	-6%	-6%	4,274	4,381	-2%
Share of Profit in Associates	76	42	37	103%	78%	118	74	60%
Pre-tax Profit	2,150	2,242	2,246	-4%	-4%	4,392	4,455	-1%
Taxation and Zakat	-529	-530	-628	-16%	0%	-1,059	-1,201	-12%
Net Profit	1,621	1,712	1,618	0.2%	-5%	3,333	3,253	2%
EPS	16.8	18.3	17.5	-4%	-8%	35.0	35.6	-1%
Net Interest income margin	30%	28%	27%			29%	28%	
Non-interest income margin	25%	29%	28%			27%	28%	
PBT margin	44%	45%	50%			44%	50%	
PAT margin	33%	34%	36%			34%	36%	

Source: Bursa Malaysia, M&A Securities

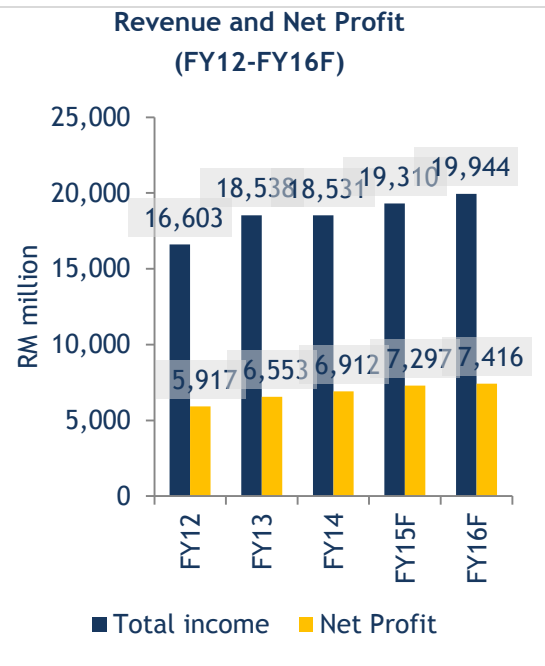
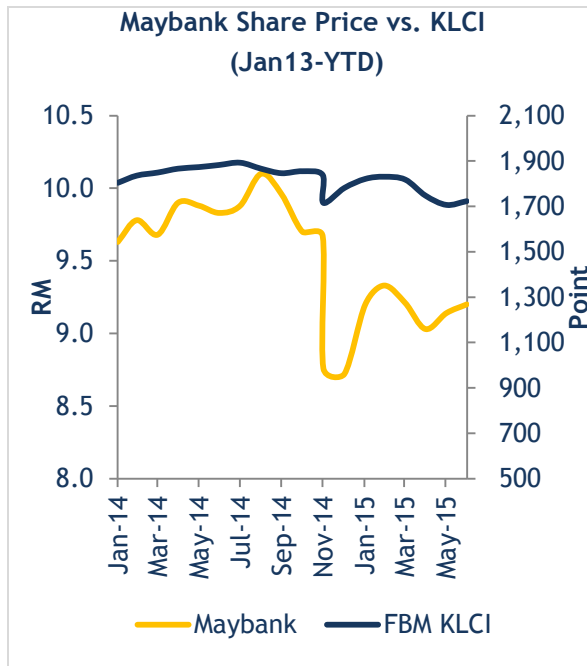
Table 3: Financial Forecast

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

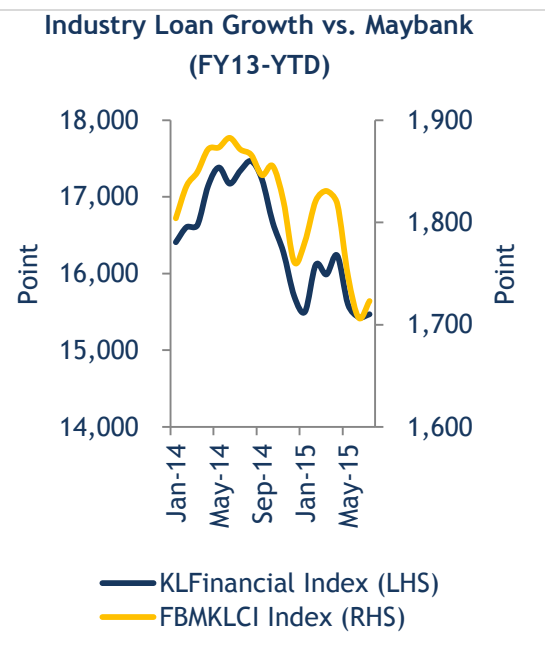
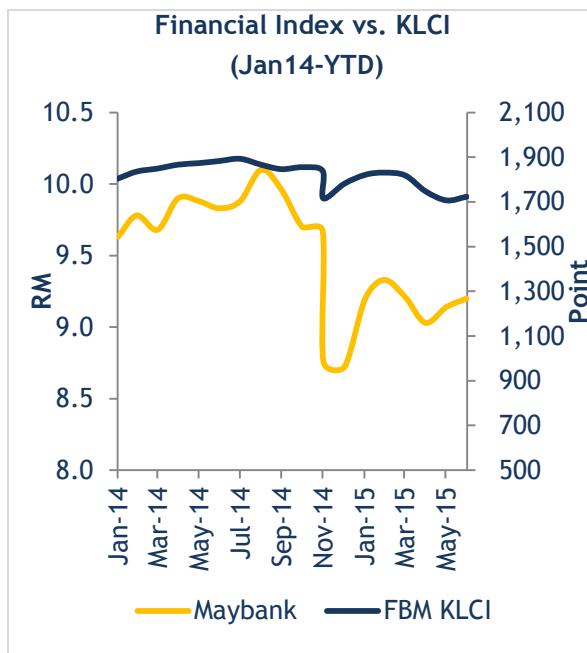
Source: Bursa Malaysia, M&A Securities

Table 4: Financial Ratios

	FY12	FY13	FY14	6M15
ASSET QUALITY				
Gross Impairment	1.8%	1.48	1.52	1.56
Allowance Coverage	106.0%	107.5%	106.35	83.4%
PROFITABILITY				
ROA	1.2%	1.1%	1.2%	1.2%
ROE	15.9%	15.1	15.9%	12.1%
Cost to income	51.0%	47.8%	50.4%	49.5%
LENDING AND DEPOSIT				
Loan Growth	12.2%	14.0%	13.4%	11.1%
Deposit Growth	10.3%	14.0%	11.1%	6.3%
Loan-to-Deposit Ratio	89.8%	89.9%	91.8%	94.2%
MARGIN				
Net interest margin	2.4%	2.33	2.20	2.29
CAPITAL STRENGTH				
CET 1			11.38%	11.15%
Tier-1			13.17%	13.16%
Total Capital			15.87%	15.54%



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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