

PP14767/09/2012(030761)

Malayan Banking Berhad

“Hampered by Loan Loss”

Market Access

Results Review

- **Actual vs. expectations.** Malayan Banking Bhd (Maybank) posted a lower 3M16 earnings of RM1.45 billion (-15% y-o-y, -16% q-o-q) that came in line with ours and consensus estimates, accounting 21% and 22% of ours and consensus full year net profit forecast. Earnings was weighed by 1) hefty provision that surged to RM865 million (+249% y-o-y, +85% q-o-q) due to lower recoveries and higher collective allowance especially in Hong Kong and Singapore. Nevertheless, all is not lost as Maybank’s net interest income (NII) and non-interest income (NOII) offset the decline in the provisions.
- its non-interest income (NOII) performing well for two consecutive quarters, attributed from unrealised forex gains.
- **Dividend.** No dividend was declared in this quarter.
- **Topline vs. Bottom line.** Maybank’s 3M16 net income gained commendably by 8% y-o-y to RM5.4 billion underpinned by the gains in NII and NOII. NOII was supported by unrealised forex gains while fee income was down due to sluggish capital market. NII surged 14% y-o-y due to higher yield loans which was repriced. Notwithstanding that, Maybank’s hefty provision led to lower operating profit by 14% y-o-y to RM1.89 billion.
- **Gross loans on was slower.** Maybank’s loans growth lagged management target at only 5.6% y-o-y vs. 8%-9% target as management prioritize to work on funding growth and ultimately preserving net interest margin. The 5.6% y-o-y growth mainly came from Singapore market (+4.9% y-o-y), whilst Malaysia loans growth subdued at only 3.1% y-o-y vs. industry guidance on 6.4% y-o-y. Excluding FX impacts, the Group’s gross loan growth was +3% y-o-y. Loans growth in Malaysia turns subdued given slower momentum in Global Banking. Global Banking’s corporate loans turned slower with

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HOLD (TP: RM9.10)

Current Price (RM)	RM8.28
New Fair Value (RM)	RM9.10
Previous Fair Value (RM)	RM9.10
Previous Recommend.	HOLD
Upside To Fair Value	10%
Dividend Yield (FY16F)	5.5%

Stock Code	
Bloomberg	MAY MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	9,773
Market Cap (RM mn)	80,827
YTD Chg In Share Price	-1.6%
Beta (x)	0.97
52-week Hi/Low (RM)	RM9.32 RM8.18
3M Average Volume (shrs)	10.90mn
Estimated Free Float	32%

Major Shareholders	
ASB	35.9%
EPF	14.7%
PNB	6.5%

flattish growth of -6.3% y-o-y while loan growth surged to 7.1% y-o-y. On CFS loans, mortgage loans, credit cards and auto finance all slowed down in pace compared to the previous quarter. SME and Business Banking loans were also slower in momentum.

- **Deposits growth weakened.** Management efforts to focus on balance sheet has done very well with deposits grew 9.9% y-o-y and 7.3% y-o-y ex forex impact. Deposits growth for Malaysia and international picked up pace to 5.6% y-o-y and 17% y-o-y respectively with Singapore recording the strongest growth of 16.7% y-o-y. Group CASA ratio declined to 33.3% from 33.7% in 4Q15 contributed by lower CASA ratio in Malaysia and Singapore at 37.6.9% and 20.4%. The Group's liquidity has strengthened via the deposit campaigns in its three markets as evidenced by an improved LD ratio of 89.9% at group level. Malaysia and Singapore reported improved LD ratios due to the deposit campaigns in 4QFY15.
- **Asset quality is weak.** Gross impairment ratio (GIL) trended higher to 2.11% from 1.86% in 4Q15 with stress signs are being seen in the across board of operations including Malaysia, Indonesia and Singapore. Malaysia GIL down to 1.83% vs. 1.76% in 4Q15 derailed by corporate banking segment. The significant deterioration in GIL was seen in Singapore with business segment witnessed the hefty deterioration, especially from business and corporate segment.
- **NIM was stronger.** Management efforts to re price the loans yield as well as to shift focus towards better quality assets successfully lift NIM by 5bps q-o-q to 2.34% despite the stronger expansion in deposits. We believe part of it was owed to the expiry of various promotional rate that drove that deterioration in NIM during 4Q15.
- **Asset quality is weak, but significant deterioration has abated.** Gross impairment ratio slowed to 3.1% vs. 3.4% in 9M15. Some signs of stress are being seen in the auto-financing segment, similarly in its commercial business as economic activity remains lackluster. Management views both situations as under-control for now.
- **Change to earnings forecast.** No change to our FY16 and FY17 forecast. At this juncture, FY16 and FY17 earnings are expected to grow by 1.5% y-o-y and 15% y-o-y 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.** While the increase in loans yields resulted in stable y-o-y NIM in 2015, efforts to focus on better quality loans, expectations that deposits would grow at a stronger pace than loans along with rising cost of funds due to competition, should result in some margin compression for Maybank in 2016. Notwithstanding that, we expect Maybank's NIM will add further compression in FY16, however it will offset by benign credit cost especially on loans categorised as restructured and rescheduled (R&R) are not at risk of delinquency, for now.

- **Valuation & recommendation.** We value Maybank at RM9.10 as we incorporate 1 standard deviation below P/BV of 1.7x. That said, we maintain our **HOLD** 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
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.06	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.40	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.80	Hold
BIMB	Dec	4.01	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.37	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	8.27	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Cap	Dec	6.17	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	6.20	Hold
Public Bank	Dec	19.14	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.24	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.14	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	3.86	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.40	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: Dec (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Interest income	5,301	5,282	4,722	12%	0%	5,301	4,722	12%
Interest expense	(2,399)	(2,349)	(2,117)	13%	2%	(2,399)	(2,117)	13%
Net Interest Income	2,903	2,932	2,605	11%	-1%	2,903	2,605	11%
Non interest income	1,511	1,728	1,450	4%	-13%	1,511	1,450	4%
Islamic Banking Income	978	954	933	5%	2%	978	933	5%
Total income	5,392	5,615	4,988	8%	-4%	5,392	4,988	8%
Overhead Expense	(2,620)	(2,776)	(2,498)	5%	-6%	(2,620)	(2,498)	5%
Pre-provision income	2,772	2,839	2,489	11%	-2%	2,772	2,489	11%
Allowance for Loan Loss	(865)	(467)	(248)	249%	85%	(865)	(248)	249%
Impairment allowance	(13)	(55)	(51)	-74%	-76%	(13)	(51)	-74%
Operating profit	1,893	2,317	2,191	-14%	-18%	1,893	2,191	-14%
Associates	38	59	42	-10%	-35%	38	42	-10%
Disposal of subsidiary	-	-	-	#DIV/0!	#DIV/0!	-	-	#DIV/0!
Pre-tax Profit	1,931	2,376	2,233	-14%	-19%	1,931	2,233	-14%
Taxation and Zakat	(480)	(649)	(530)	-9%	-26%	(480)	(530)	-9%
Net Profit	1,451	1,727	1,703	-15%	-16%	1,451	1,703	-15%
						-	-	
EPS (sen)	14.64	17.08	18.27			14.64	18.27	
Dividend - sen	0	30	0			0	0	
Dividend payment (RMm)	0	2928.6	0			0	0	
Dividend payout (%)	0	170%	0			0	0	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

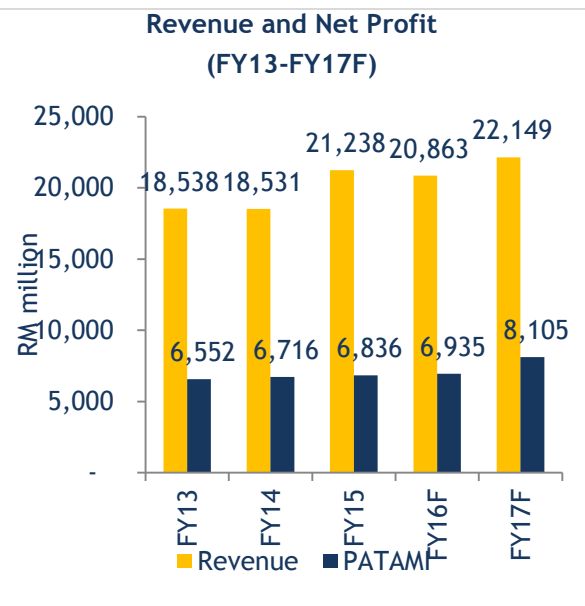
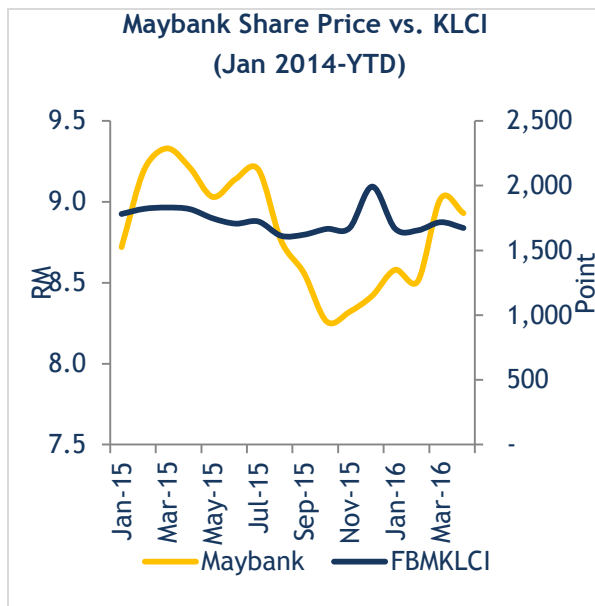
YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Interest income	16,306	17,852	19,793	19,913	21,515
Interest expense	-6,721	-8,148	-8,679	-9,166	-9,563
Net interest income	9,585	9,704	11,114	10,747	11,952
Islamic banking income	2,810	3,271	3,939	4,084	4,235
Net earned insurance premium	3,941	3,946	4,197	4,323	4,452
Other operating income	5,882	5,540	5,773	5,797	5,924
Total operating income	22,219	22,461	25,022	24,951	26,564
Insurance income	-3,681	-3,931	-3,784	-4,087	-4,414
Net income	18,538	18,531	21,238	20,863	22,149
Operating expenses	-8,928	-9,111	-10,285	-10,390	-10,947
Pre-provision profit	9,610	9,419	10,953	10,474	11,203
Loan loss provision	-730	-400	-1,684	-1,027	-163
Other provision	-151	-70	-329	-183	-194
Associates and JV	139	163	211	171	182
PBT	8,870	9,112	9,152	9,435	11,027
Taxation	-2,098	-2,201	-2,165	-2,312	-2,702
PAT	6,771	6,911	6,986	7,123	8,325
No of Share	8,862	9,319	9,762	9,762	9,762
EPS (sen)	75.8	74.2	70.0	71.0	83.0
Dividend - sen	53.5	57	54.0	49.7	58.1
Dividend payment (RMm)	4,741	5,312	5,271	4,854	5,673
Dividend payout (%)	72%	79%	77%	70%	70%
Retained Earnings	1,811	1,405	1,565	2,080	2,431
PER (x)	13.1	12.4	12.0	11.8	10.1
BV	1.43	1.64	2.09	1.65	1.75
P/BV	6.9	5.6	4.0	5.1	4.8

Source: Bursa Malaysia, M&A Securities

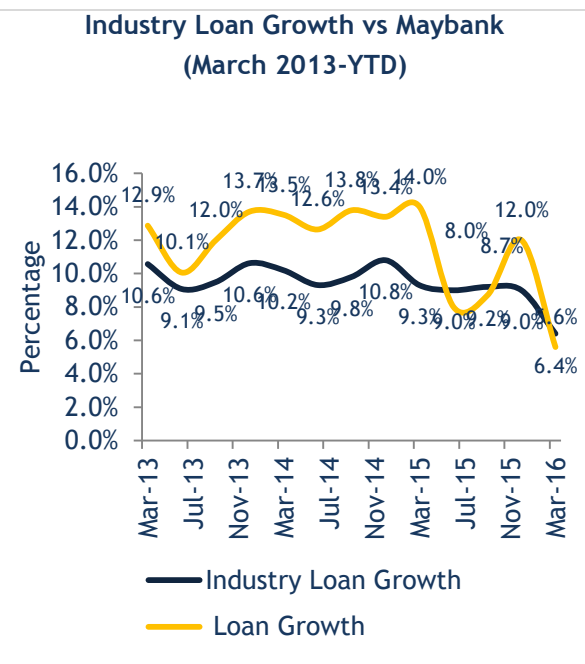
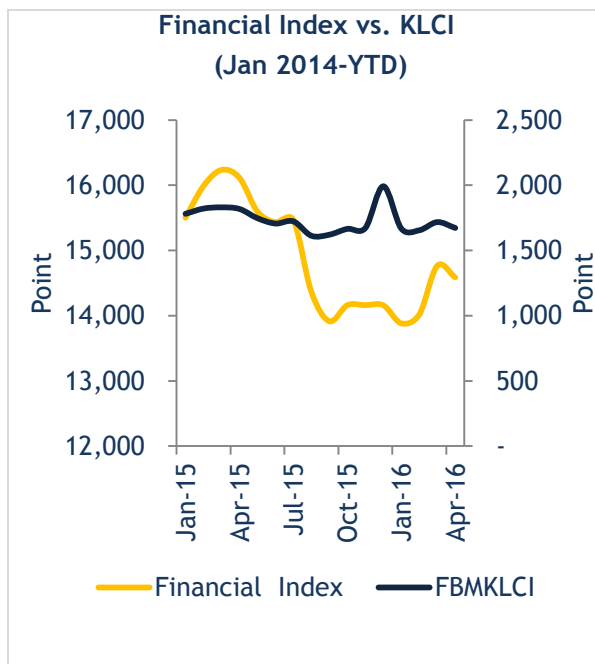
Table 4: Operational Ratio

YE: March (RM million)	FY14	FY15	FY16F	FY17F	FY18F
Margin					
NII Margin	52%	52%	52%	54%	60%
NOII Margin	51%	47%	49%	47%	42%
PPOP Margin	51%	52%	50%	51%	54%
PBT Margin	49%	43%	45%	50%	53%
PAT Margin	37%	33%	34%	38%	40%
Growth					
NII	1%	15%	-3%	11%	28%
NOII	-3%	5%	1%	3%	2%
Operating expenses	2%	13%	1%	5%	6%
Pre-provision profit	-2%	16%	-4%	7%	24%
Core net profit	2%	1%	2%	17%	23%
Gross loans	13%	12%	5%	9%	9%
Customer deposits	11%	9%	12%	10%	11%
Total assets	14%	11%	3%	8%	9%
Profitability					
Average Lending Yield	2.5%	2.3%	2.3%	2.3%	2.3%
Average Cost of funds	2.3%	1.9%	2.4%	2.3%	2.3%
NIM	2.31%	2.31%	2.33%	2.33%	2.33%
Cost/income	49%	48%	50%	49%	46%
Asset Quality					
Net NPL	1.0%	1.0%	1.4%	1.4%	1.5%
Gross NPL	1.5%	1.5%	1.9%	1.9%	1.9%
Return					
ROA	1.1%	1.0%	1.0%	1.1%	1.2%
ROE	13%	11%	11%	12%	14%

Source: Bursa Malaysia, M&A Securities



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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