

30 August 2019

# Malayan Banking Berhad

## In Line but Let Down by Funding Costs

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**MAYBANK's 6M19 results are within expectations despite lower earnings due to higher NIM compression. Moving forward we tweaked our FY19E slightly lower on account of higher NIM compression and loan loss provisioning. TP revised downwards to RM9.70 but due to undemanding valuations maintained at OUTPERFORM**

**In line despite lower earnings.** 6M19 CNP of RM3.75b came within our/market expectations, accounting for 47%/46% of respective estimates. An interim DPS of 25.0 sen was declared (in line).

**Marginal top-line with higher costs.** YoY, CNP of RM3,750m fell 2% with a soft top-line (+0.7%) of RM11,750m. While Islamic income surged 7%, NOII was flattish with NII falling 2%. NOII was dragged by weak insurance business due to higher claims (+68% to RM3.91b) mitigated by investment & trading income gains of RM1.1b (mostly coming from MTM securities at RM419m). Loans was at +4.6% (within expectation with domestic at +4.2%, followed by Indonesia at +6.1% and Singapore at +2.3%). However, higher NIM compression (reported: -9bps due to recent OPR cut with higher funding costs mostly from Indonesia and Singapore markets) dragged NII by 2% to RM5,851m. CIR saw a 70bps uptick to 48% (vs industry of 48%) as opex was contained at +3%. Asset quality seemed to be contained as GIL fell 2bps to 2.62% but NPL saw 20bps uptick to 2.01%. As impairment allowances fell (-9% to RM996m) so do credit charge (-5bps) to 0.39% due to better recoveries.

**QoQ, CNP rebounded (+7%)** to RM1,940m despite flattish top-line at RM5,890m due to flat opex and lower impairment allowances (-27%) to RM461m. Top-line was driven primarily by NOII ahead at +13% to RM1,589m mostly coming derivatives gain of RM265m. 2Q saw pickup in loans at +2% but NII saw further NIM compression (-11bps). 2Q saw further deterioration in asset quality (since Dec 2018) as GIL added another 14bps to 2.64% with NPL picking up 29bps to 2.01%. However, provisioning fell as credit charge saw 17bps decline to 0.30% (due to better cash-flow/collateral securities).

**Management view 2H19 with caution** thus, credit charges are raised to 40-45bps (from ~40bps). NIM is expected to remain flat (from 1H19 level) as another OPR cut is expected translating to a 9-10bps compression for FY19. However, we still view that rate cuts will spur retail demand with fiscal spending under the low interest environment benefitting MAYBANK's business and corporate banking.

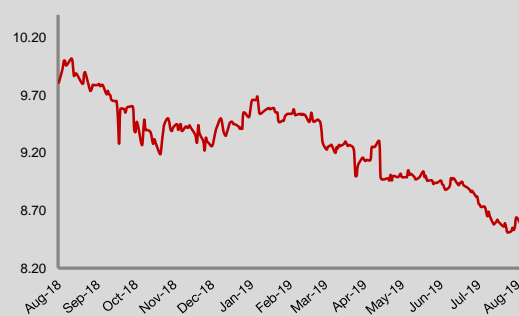
**Earnings forecasts.** Our FY19E earnings are lowered slightly (-2%) to RM7.9b on account of compressed NIM and higher credit charge. Our other conservative assumptions; (i) ROE at <10% (from ~10.5%), (ii) CIR at 47% (unchanged), (iii) NIM compression of 8-10bps (from -5bps), (iv) credit costs at 45bps (from 40bps), (v) loans growth <5% (unchanged), and (vi) flat NOII (unchanged).

**TP revised but call maintained.** TP lowered to RM9.70 (from RM10.35) as we ascribe to a lower FY20 PBV of 1.2x (from of 1.28x) implying a 1SD below mean). The lower multiples is to reflect the on-going uncertainties domestically and externally, coupled with on-going issue from an overseas account. With undemanding valuations coupled with dividend yield that is the most attractive in our banking universe at ~7.0%, we reiterate our **OUTPERFORM** call.

# OUTPERFORM ↔

Price : RM8.57  
Target Price : RM9.70 ↓

### Share Price Performance



KLCI 1,595.18  
YTD KLCI chg -5.6%  
YTD stock price chg -9.8%

### Stock Information

|                      |               |
|----------------------|---------------|
| Shariah Compliant    | No            |
| Bloomberg Ticker     | MAY MK Equity |
| Market Cap (RM m)    | 96,338.5      |
| Shares Outstanding   | 11,241.4      |
| 52-week range (H)    | 10.14         |
| 52-week range (L)    | 8.50          |
| 3-mth avg daily vol: | 7,021,746     |
| Free Float           | 45%           |
| Beta                 | 0.9           |

### Major Shareholders

|                              |       |
|------------------------------|-------|
| Skim Amanah Saham Bumiputera | 34.7% |
| Employees Provident Fund     | 12.4% |
| Yayasan Pelaburan Bumiputra  | 7.6%  |

### Summary Earnings Table

| FY Dec (RM'm)              | 2018A  | 2019E  | 2020E  |
|----------------------------|--------|--------|--------|
| <b>Net Interest Income</b> | 12,073 | 12,264 | 12,812 |
| Islamic Banking Inc.       | 5,612  | 5,800  | 6,183  |
| Non-Interest Income        | 5,945  | 5,996  | 6,050  |
| Total Income               | 23,630 | 24,059 | 25,045 |
| PBT                        | 10,901 | 10,619 | 11,114 |
| <b>Net Profit (NP)</b>     | 8,113  | 7,934  | 8,304  |
| Consensus NP               |        | 8,120  | 8,645  |
| Earnings Revision (%)      |        | -1.7%  | -0.3%  |
| EPS (sen)                  | 73.4   | 71.8   | 75.1   |
| EPS growth (%)             | 4.5    | -2.2   | 4.7    |
| DPS (sen)                  | 57.0   | 56.2   | 58.8   |
| BV/Share (RM)              | 6.82   | 7.5    | 8.1    |
| NTA/Share                  | 6.2    | 6.8    | 7.5    |
| ROE (%)                    | 10.9   | 10.1   | 9.7    |
| PER (x)                    | 11.7   | 11.9   | 11.4   |
| Price/NTA (x)              | 1.38   | 1.3    | 1.1    |
| Price/Book (x)             | 1.26   | 1.1    | 1.1    |
| Dividend Yield (%)         | 6.7    | 6.6    | 6.9    |

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**Risks to our call are:** (i) constricting margins, (ii) lower-than-expected loans and deposits growth rates, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

### Results Highlight

| Y/E : 31-Dec. (RM'm)                            | 2Q19           | 1Q19           | QoQ Chg.    | 2Q18           | YoY Chg.     | 6M19            | 6M18            | YoY Chg.     |
|---|----------------|----------------|-------------|----------------|--------------|-----------------|-----------------|--------------|
| Net Interest Income                             | 2,897.6        | 2,953.5        | -1.9%       | 2,960.0        | -2.1%        | 5,851.1         | 5,979.9         | -2.2%        |
| Net Income from Islamic Banking                 | 1,402.9        | 1,496.6        | -6.3%       | 1,360.1        | 3.1%         | 2,899.6         | 2,708.1         | 7.1%         |
| Non Interest Income                             | 1,589.3        | 1,409.9        | 12.7%       | 1,535.1        | 3.5%         | 2,999.2         | 2,983.6         | 0.5%         |
| <b>Total Income</b>                             | <b>5,889.8</b> | <b>5,860.1</b> | <b>0.5%</b> | <b>5,855.2</b> | <b>0.6%</b>  | <b>11,749.8</b> | <b>11,671.7</b> | <b>0.7%</b>  |
| Operating Expenses                              | (2,821.7)      | (2,807.6)      | 0.5%        | (2,715.6)      | 3.9%         | (5,629.3)       | (5,483.1)       | 2.7%         |
| (Allowances)/write-backs                        | (391.6)        | (604.0)        | -35.2%      | (582.1)        | -32.7%       | (995.6)         | (1,091.5)       | -8.8%        |
| (Other Impairments)/Writebacks                  | (69.4)         | (24.6)         | 181.9%      | 6.2            | -1224.0%     | (94.0)          | 21.0            | -546.7%      |
| <b>Operating Profit</b>                         | <b>2,676.4</b> | <b>2,448.5</b> | <b>9.3%</b> | <b>2,557.4</b> | <b>4.7%</b>  | <b>5,124.9</b>  | <b>5,097.1</b>  | <b>0.5%</b>  |
| Others  | (24.8)         | 2.0            | -1368.4%    | 52.1           | -147.6%      | (22.9)          | 69.2            | -133.0%      |
| <b>Pre-Tax Profit</b>                           | <b>2,651.6</b> | <b>2,450.4</b> | <b>8.2%</b> | <b>2,609.6</b> | <b>1.6%</b>  | <b>5,102.0</b>  | <b>5,166.2</b>  | <b>-1.2%</b> |
| Tax & Minority Interest                         | (710.7)        | (641.2)        | 10.8%       | (650.6)        | 9.2%         | (1,351.9)       | (1,336.2)       | 1.2%         |
| <b>Net Profit</b>                               | <b>1,940.9</b> | <b>1,809.3</b> | <b>7.3%</b> | <b>1,959.0</b> | <b>-0.9%</b> | <b>3,750.1</b>  | <b>3,830.0</b>  | <b>-2.1%</b> |
| <b>EPS (sen)</b>                                | <b>17.5</b>    | <b>16.4</b>    | <b>6.7%</b> | <b>17.9</b>    | <b>-2.6%</b> | <b>33.8</b>     | <b>35.1</b>     | <b>-3.5%</b> |
| <b>DPS (sen)</b>                                | <b>25.0</b>    | <b>-</b>       | <b>Na.</b>  | <b>25.0</b>    | <b>-</b>     | <b>25.0</b>     | <b>25.0</b>     | <b>0.0%</b>  |
| Gross Loans                                     | 525,578.5      | 516,887.9      | 1.7%        | 502,397.9      | 4.6%         | 525,578.5       | 502,397.9       | 4.6%         |
| Net Loans                                       | 515,261.9      | 506,733.1      | 1.7%        | 491,858.9      | 4.8%         | 515,261.9       | 491,858.9       | 4.8%         |
| Total Customer Deposits (incl IA)               | 560,908.5      | 557,563.9      | 0.6%        | 539,839.3      | 3.9%         | 560,908.5       | 539,839.3       | 3.9%         |
| CASA / Low Cost Deposits                        | 183,007.7      | 180,703.3      | 1.3%        | 179,182.9      | 2.1%         | 183,007.7       | 179,182.9       | 2.1%         |
| Book value/share (RM)                           | 7.17           | 7.08           | 1.3%        | 6.59           | 8.7%         | 7.17            | 6.59            | 8.7%         |
| NTA/share (RM)                                  | 6.55           | 6.47           | 1.2%        | 6.00           | 9.2%         | 6.55            | 6.00            | 9.2%         |
| Est. Annualised Net Interest Margin             | 2.30%          | 2.41%          |             | 2.41%          |              | 2.34%           | 2.42%           |              |
| Cost-to-Income Ratio                            | 2.19%          | 2.30%          |             | 2.27%          |              | 2.24%           | 2.33%           |              |
| Est. Annualised Credit Charge (Writeback) Ratio | 47.91%         | 47.91%         |             | 46.38%         |              | 47.9%           | 47.0%           |              |
| Effective Tax Rate                              | 0.30%          | 0.47%          |             | 0.47%          |              | 0.39%           | 0.44%           |              |
| G.Loan-to-Deposit Ratio                         | 25.02%         | 23.49%         |             | 23.55%         |              | 24.3%           | 24.6%           |              |
| N.Loan-to-Deposit Ratio                         | 93.70%         | 92.70%         |             | 93.06%         |              | 93.7%           | 93.1%           |              |
| % of CASA to Total Customer Deposits            | 91.86%         | 90.88%         |             | 91.11%         |              | 91.9%           | 91.1%           |              |
| Total Allowances-to-Loans                       | 32.63%         | 32.41%         |             | 33.19%         |              | 32.6%           | 33.2%           |              |
| Gross Impaired Loans Ratio                      | 1.96%          | 1.96%          |             | 2.10%          |              | 1.96%           | 2.10%           |              |
| Loan Loss Coverage                              | 2.62%          | 2.48%          |             | 2.64%          |              | 2.62%           | 2.64%           |              |
| CET1  | 74.82%         | 79.22%         |             | 79.44%         |              | 74.8%           | 79.4%           |              |
| Total Capital                                   | 14.95%         | 15.07%         |             | 13.63%         |              | 14.9%           | 13.6%           |              |
| Est. Annualised ROE                             | 18.70%         | 19.52%         |             | 18.25%         |              | 18.7%           | 18.3%           |              |

Source: Company, Kenanga Research

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### Peer Comparison

| Name                       | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth |             | Core Earnings Growth |             | PER (x) - Core Earnings |             |            | PBV (x)    |            | ROE (%)     | Net Div Yld (%) | Target Price (RM) | Rating |
|----------------------------|-----------------|-------------------|-------------------|-------------|----------------|-------------|----------------------|-------------|-------------------------|-------------|------------|------------|------------|-------------|-----------------|-------------------|--------|
|                            |                 |                   |                   |             | 1-Yr. Fwd.     | 2-Yr. Fwd.  | 1-Yr. Fwd.           | 2-Yr. Fwd.  | Hist.                   | 1-Yr. Fwd.  | 2-Yr. Fwd. | Hist.      | 1-Yr. Fwd. | 1-Yr. Fwd.  |                 |                   |        |
| <b>BANKING</b>             |                 |                   |                   |             |                |             |                      |             |                         |             |            |            |            |             |                 |                   |        |
| AFFIN BANK BHD             | 1.97            | 3,912.5           | N                 | 12/2019     | 8.2%           | 5.3%        | 9.3%                 | 15.9%       | 7.8                     | 7.1         | 6.1        | 0.5        | 0.4        | 6.2%        | 2.8%            | 2.40              | OP     |
| ALLIANCE BANK MALAYSIA BHD | 2.98            | 4,613.4           | N                 | 03/2020     | 5.9%           | 7.2%        | -1.5%                | 10.9%       | 8.6                     | 8.7         | 7.9        | 0.8        | 0.8        | 9.0%        | 5.5%            | 3.45              | OP     |
| AMMB HOLDINGS BHD          | 4.07            | 12,267.7          | N                 | 03/2020     | 10.4%          | 4.5%        | -0.4%                | 2.8%        | 8.1                     | 8.2         | 8.0        | 0.7        | 0.6        | 7.8%        | 4.9%            | 4.75              | OP     |
| BIMB HOLDINGS BHD          | 4.07            | 7,180.6           | Y                 | 12/2019     | 10.0%          | 6.6%        | 7.6%                 | 13.6%       | 10.5                    | 10.1        | 9.3        | 1.4        | 1.4        | 14.0%       | 4.0%            | 4.80              | OP     |
| CIMB GROUP HOLDINGS BHD    | 4.94            | 48,053.5          | N                 | 12/2019     | 4.6%           | 5.0%        | -16.2%               | 2.6%        | 8.3                     | 10.2        | 10.3       | 0.9        | 0.8        | 8.5%        | 4.6%            | 6.45              | OP     |
| HONG LEONG BANK BERHAD     | 16.50           | 35,767.3          | N                 | 06/2020     | 4.1%           | 5.1%        | 1.0%                 | 0.5%        | 12.8                    | 12.7        | 12.6       | 1.4        | 1.3        | 10.8%       | 3.0%            | 17.30             | MP     |
| MALAYAN BANKING BHD        | 8.57            | 96,338.5          | N                 | 12/2019     | 3.8%           | 4.3%        | -2.2%                | 4.7%        | 11.7                    | 11.9        | 11.4       | 1.2        | 1.1        | 9.7%        | 6.6%            | 9.70              | OP     |
| MALAYSIA BUILDING SOCIETY  | 0.83            | 5,572.1           | N                 | 12/2019     | -1.0%          | 5.3%        | -10.7%               | 10.2%       | 8.3                     | 9.3         | 8.8        | 0.7        | 0.7        | 7.2%        | 6.0%            | 1.15              | OP     |
| PUBLIC BANK BERHAD         | 20.32           | 78,885.1          | N                 | 12/2019     | 3.9%           | 5.2%        | -0.1%                | 3.5%        | 14.0                    | 14.1        | 13.6       | 1.9        | 1.9        | 13.7%       | 3.3%            | 25.20             | OP     |
| RHB BANK BHD               | 5.65            | 22,656.8          | N                 | 12/2019     | 6.0%           | 4.8%        | 3.7%                 | 5.7%        | 9.8                     | 9.5         | 9.0        | 1.0        | 0.9        | 9.9%        | 3.7%            | 6.05              | OP     |
| <b>Simple Average</b>      |                 |                   |                   |             | <b>5.6%</b>    | <b>5.3%</b> | <b>-0.9%</b>         | <b>7.0%</b> | <b>10.0</b>             | <b>10.2</b> | <b>9.7</b> | <b>1.0</b> | <b>1.0</b> | <b>9.7%</b> | <b>4.4%</b>     |                   |        |

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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