

31 May 2019

# Malayan Banking Berhad

## Lower Earnings, Within Expectations

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**MAYBANK's 3M19 are within expectations despite lower earnings due to unexpected higher impairments. Asset quality stayed stable and comfortable with impairments expected to remain within guidance. TP raised to RM10.35 as we roll over to FY20 and reiterate our OUTPERFORM call on account of undemanding valuations and attractive dividend yield.**

**In line despite lower earnings.** 3M19 CNP of RM1.81b came within our/market expectations, accounting for 22% of both our and market estimates. No dividend declared as expected.

**Higher provisioning dragged earnings.** YoY, CNP of RM1,809m fell 3% as top-line was soft (grew <1% to RM5,860m) with higher impairments (+18% to RM604m). While NII fell 2%, Islamic banking continued to grow (+11%) as Islamic financing outpaced conventional loans by 380bps to +7%. NOI (-3%) was dragged by higher insurance claims & commission fee mitigated by rebound in its investment & trading income to RM477m. Group loans growth was within expectations 4.8% mitigated by a soft domestic (+3.8% vs system's +4.9%) with Indonesia gaining traction by 4ppts to +11.3% while Singapore moderated by 110bps to +3.4%. NIM (-8bps) was below guidance (3 of 3-5s compression) due to higher traction in FDs (at +8% vs CASA 1%). CIR of 48% was in line with estimates/guidance of 47% vs industry of 48% on higher opex mainly due to surge in personnel costs (+6%). GIL saw an 11bps uptick mainly from 26bps uptick in R&R and Performing loans impaired due to Judgement while NPL saw improvement (-15bps) to 1.72%. Credit cost was above guidance (40 of 40bps) 47bps due to extra provisioning of existing impairments.

**QoQ, CNP** fell (-22%) dragged by top-line (-7%) and impairment allowances (>100%). Weak top-line was exacerbated by weak NOI (+17%) compounded by weak abysmal contribution from investment & trading income of RM9m (vs 4Q18: RM265m). Loans were flat with NIM falling 8bps. Slight uptick in GIL (+7bps) was seen due to uptick in R&R and Performing loans impaired due to Judgement. Due to higher impairments, credit loss jumped by 41bps to 0.47%.

**Conservative assumptions maintained.** Going forward, we expect NIM to prevail as guided. We do not expect a repeat of the intensive FD taking (especially from Indonesia given that the Presidential election is over). We understand from management that issue from a particular overseas account is likely to be settled by 2019; hence, no change in credit costs guidance. We maintain our conservative assumptions; (i) ROE at ~10.5%, (ii) CIR at 47%, (iii) NIM compression of 5bps (from -3bps), (iv) credit costs at 40bps, (v) loans growth <5%, and (vi) flat NOI.

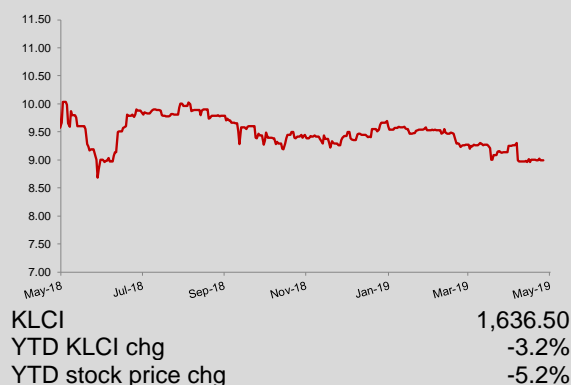
**Earnings forecasts.** Our FY19E earnings are lowered slightly on account of higher NIM compression.

**TP raised and Call maintained.** Our TP is now raised to RM10.35 (from RM10.20) based on a target PBV of 1.28x (implying a 0.8SD below mean) as we roll over to FY20E numbers. The lower mean is to reflect the on-going uncertainties prevailing domestically and externally, coupled with on-going issue from an overseas account. We expect overall asset quality to remain stable ahead especially domestically; hence, a higher BV/share (+9%) is anticipated ahead. As valuations are undemanding coupled with dividend yield that is the most attractive in our banking universe at >6.0%; we reiterate **OUTPERFORM**.

**OUTPERFORM** ↔

Price : **RM9.01**  
Target Price : **RM10.35** ↑

### Share Price Performance



### Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAY MK Equity
Market Cap (RM m)	99,557.6
Shares Outstanding	11,049.7
52-week range (H)	10.14
52-week range (L)	8.68
3-mth avg daily vol:	8,787,732
Free Float	45%
Beta	0.9

### Major Shareholders

Skim Amanah Saham Bumiputera	34.4%
Employees Provident Fund	12.7%
Yayasan Pelaburan Bumiputra	7.6%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
<b>Net Interest Income</b>	12,073	12,363	12,917
Islamic Banking Inc.	5,612	5,938	6,327
Non-Interest Income	5,945	5,996	6,050
Total Income	23,630	24,296	25,293
PBT	10,901	10,803	11,147
<b>Net Profit (NP)</b>	8,113	8,071	8,328
Consensus NP		8385	8824
Earnings Revision (%)		-2.1%	
EPS (sen)	73.4	73.0	75.4
EPS growth (%)	4.5	-0.5	3.2
DPS (sen)	57.0	57.2	59.0
BV/Share (RM)	6.82	7.5	8.1
NTA/Share	6.2	6.8	7.5
ROE (%)	10.9	10.2	9.7
PER (x)	12.3	12.3	12.0
Price/NTA (x)	1.45	1.3	1.2
Price/Book (x)	1.32	1.2	1.1
Dividend Yield (%)	6.3	6.3	6.5

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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)	1Q19	4Q18	QoQ Chg.	1Q18	YoY Chg.	3M19	3M18	YoY Chg.
Net Interest Income	2,953.5	3,108.3	-5.0%	3,019.9	-2.2%	2,953.5	3,019.9	-2.2%
Net Income from Islamic Banking	1,496.6	1,499.9	-0.2%	1,348.0	11.0%	1,496.6	1,348.0	11.0%
Non Interest Income	1,409.9	1,692.8	-16.7%	1,448.5	-2.7%	1,409.9	1,448.5	-2.7%
<b>Total Income</b>	<b>5,860.1</b>	<b>6,300.9</b>	<b>-7.0%</b>	<b>5,816.5</b>	<b>0.7%</b>	<b>5,860.1</b>	<b>5,816.5</b>	<b>0.7%</b>
Operating Expenses	(2,807.6)	(3,068.4)	-8.5%	(2,767.5)	1.4%	(2,807.6)	(2,767.5)	1.4%
(Allowances)/write-backs	(604.0)	(81.3)	642.5%	(509.3)	18.6%	(604.0)	(509.3)	18.6%
(Other Impairments)/Writebacks	(24.6)	(81.0)	-69.6%	14.9	-265.5%	(24.6)	14.9	-265.5%
<b>Operating Profit</b>	<b>2,448.5</b>	<b>3,151.1</b>	<b>-22.3%</b>	<b>2,539.6</b>	<b>-3.6%</b>	<b>2,448.5</b>	<b>2,539.6</b>	<b>-3.6%</b>
Others	2.0	(55.5)	-103.5%	17.0	-88.5%	2.0	17.0	-88.5%
<b>Pre-Tax Profit</b>	<b>2,450.4</b>	<b>3,095.6</b>	<b>-20.8%</b>	<b>2,556.7</b>	<b>-4.2%</b>	<b>2,450.4</b>	<b>2,556.7</b>	<b>-4.2%</b>
Tax & Minority Interest	(641.2)	(769.2)	-16.6%	(685.6)	-6.5%	(641.2)	(685.6)	-6.5%
<b>Net Profit</b>	<b>1,809.3</b>	<b>2,326.4</b>	<b>-22.2%</b>	<b>1,871.0</b>	<b>-3.3%</b>	<b>1,809.3</b>	<b>1,871.0</b>	<b>-3.3%</b>
<b>EPS (sen)</b>	<b>16.4</b>	<b>21.1</b>	<b>-22.2%</b>	<b>17.3</b>	<b>-5.1%</b>	<b>16.4</b>	<b>17.3</b>	<b>-5.1%</b>
<b>DPS (sen)</b>	<b>-</b>	<b>32.0</b>	<b>N.a</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>N.a</b>
Gross Loans	516,887.9	517,333.7	-0.1%	493,394.3	4.8%	516,887.9	493,394.3	4.8%
Net Loans	506,733.1	507,084.1	-0.1%	465,477.2	8.9%	506,733.1	465,477.2	8.9%
Total Customer Deposits (incl IA)	557,563.9	556,297.7	0.2%	532,125.5	4.8%	557,563.9	532,125.5	4.8%
CASA / Low Cost Deposits	180,703.3	186,899.3	-3.3%	178,541.9	1.2%	180,703.3	178,541.9	1.2%
Book value/share (RM)	7.08	6.82	3.8%	6.76	4.7%	7.08	6.76	4.7%
NTA/share (RM)	6.47	6.21	4.2%	6.16	5.0%	6.47	6.16	5.0%
Est. Annualised Net Interest Margin	2.27%	2.39%		2.39%		2.27%	2.39%	
Cost-to-Income Ratio	47.91%	48.70%		47.58%		47.9%	47.6%	
Est. Annualised Credit Charge (Writeback) Ratio	0.47%	0.06%		0.42%		0.47%	0.42%	
Effective Tax Rate	23.49%	20.83%		25.70%		23.5%	25.7%	
G.Loan-to-Deposit Ratio	92.70%	93.00%		92.72%		92.7%	92.7%	
N.Loan-to-Deposit Ratio	90.88%	91.15%		87.48%		90.9%	87.5%	
% of CASA to Total Customer Deposits	32.41%	33.60%		33.55%		32.4%	33.6%	
Total Allowances-to-Loans	1.96%	1.98%		1.67%		1.96%	1.67%	
Gross Impaired Loans Ratio	2.48%	2.41%		2.37%		2.48%	2.37%	
Loan Loss Coverage	79.22%	82.09%		70.55%		79.2%	70.6%	
CET1	15.07%	15.03%		14.31%		15.1%	14.3%	
Total Capital	0.00%	19.02%		19.06%		0.0%	19.1%	
Est. Annualised ROE	9.70%	12.68%		10.34%		9.7%	10.3%	

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.	1-Yr. Fwd.		
<b>BANKING</b>																	
AFFIN BANK BHD	2.08	4,130.9	N	12/2019	7.2%	4.9%	11.2%	5.9%	8.2	7.4	6.8	0.5	0.5	6.3%	2.6%	2.60	OP
ALLIANCE BANK MALAYSIA BHD	3.82	5,913.8	N	03/2020	9.4%	8.0%	7.2%	9.2%	11.0	10.3	9.4	1.0	1.0	9.8%	4.7%	4.25	OP
AMMB HOLDINGS BHD	4.48	13,503.5	N	03/2020	9.7%	4.8%	-4.4%	2.8%	9.0	9.4	9.1	0.7	0.7	7.5%	4.5%	5.10	OP
BIMB HOLDINGS BHD	4.65	8,203.9	Y	12/2019	7.8%	8.5%	7.6%	13.6%	12.0	11.5	10.6	1.6	1.5	14.0%	3.5%	4.80	MP
CIMB GROUP HOLDINGS BHD	5.21	50,679.9	N	12/2019	4.6%	4.8%	-16.1%	-0.9%	8.7	10.8	11.2	0.9	0.9	8.5%	4.3%	6.25	OP
HONG LEONG BANK BERHAD	18.72	38,293.6	N	06/2019	5.8%	5.7%	2.0%	9.0%	14.5	14.2	13.1	1.6	1.5	11.0%	2.6%	20.05	MP
MALAYAN BANKING BHD	9.01	99,557.6	N	12/2019	4.2%	4.3%	-0.5%	3.2%	12.3	12.3	12.0	1.3	1.2	9.9%	6.3%	10.35	OP
MALAYSIA BUILDING SOCIETY	0.92	5,878.0	N	12/2019	-1.0%	5.3%	-10.7%	10.2%	9.2	10.3	9.7	0.8	0.7	7.2%	5.4%	1.15	OP
PUBLIC BANK BERHAD	23.60	91,618.5	N	12/2019	3.9%	5.2%	-0.1%	3.5%	16.3	16.3	15.8	2.2	2.2	13.7%	2.9%	24.10	MP
RHB BANK BHD	5.74	23,017.7	N	12/2019	6.0%	4.8%	3.7%	3.6%	10.0	9.6	9.3	1.0	0.9	9.9%	3.7%	6.05	MP
Simple Average					5.8%	5.6%	0.0%	6.0%	11.1	11.2	10.7	1.2	1.1	9.8%	4.0%		

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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