

12 April 2021

Malayan Banking Bhd

Five-Year Road Map : M25

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MAYBANK has laid out a five-year plan (2025) to drive sustainable ROE, CIR, and EPS above 100.0 sen. Amongst its key strategies are to boost regional banking businesses, insurance segment, emphasise on digital capabilities as well as widening its investment banking and management-based propositions. The group also intends to develop a more prominent ESG identity. Maintain OP with a higher TP of RM10.60 (from RM8.65) as we input higher ROE to our GGM-derived PBV.

M25 Investors Day. Last Friday, MAYBANK hosted a briefing to share its 5-year plan and strategies to achieve planned targets by 2025. Fundamentally, these targets include: (i) sustainable ROEs of 13-15%; (ii) CIR of less than 45%; and (iii) EPS of above 100.0 sen (accounting for future dividend reinvestments). Management also aspires to position the group as a regional ESG leader by driving sustainable financing up to RM50b in 2025, and to be carbon neutral by 2030.

Digitally sustainable measures. To achieve its ambitions, management has identified strategies to strengthen digital capabilities to allow for wider access to SMEs. With broader coverage, this will widen cost-efficient cross-selling opportunities in its commercial users, enabled by its MAE platform. This could be a much needed driver to expand the group's insurance and takaful clientele regionally with more personalised offerings.

Cleaner global identity. The group aims to be more involved with ESG initiatives. During the briefing, management commits to the NDPE stance and will not finance new coal activities (be it with debt or equity fund raising) and will assist borrowers to transition to a sustainable renewable energy mix. On concerns that green financing could be less profitable, management opines that trade-offs are not necessarily meaningful and the net benefit could be greater. With this new approach, management sees new opportunities in investment banking and asset management as an ESG-centric alternative to the global market.

Post briefing, we make no changes to our FY21E/FY22E earnings assumptions as management maintained its FY21E targets. We believe that the results from these initiatives could only materialise in FY22 but could be at risk from a potential worsening of the pandemic.

That said, **we came out feeling reassured** by the aspirations presented by management. We view these targets to be achievable by 2025, given that we are expecting the group to organically improve its ROE in FY22E to 10.3% which are pre-pandemic levels. Summarising our key takes, MAYBANK has identified effective channels to bolster its top-line prospects which are also cost effective that could translate to better profits, thereby meeting its 2025 goals. While this is caveated by variables in regional policies and regulations, the tone set by management plays a crucial role in steering the group towards the right direction.

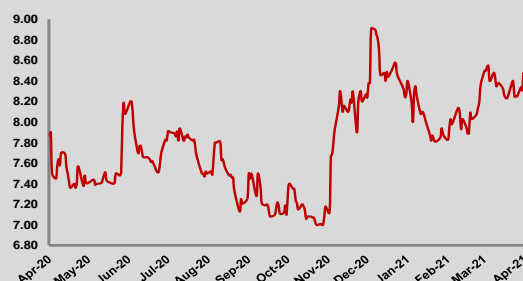
Maintain OUTPERFORM with a higher TP of RM10.60 (from RM8.75). Our higher TP is mainly derived from a higher applied ROE of 11% (which is below management's 5-year target of 13-15% given its long time horizon and execution risks involved). This puts our GGM-derived FY22E PBV to 1.37x (1.0SD above 5-year mean) from 1.18x. MAYBANK is our Top Pick for the banking sector for its most favourable risk-to-reward with the highest dividend yield in the industry paired by solid ROE prospects. Its market leading position in loans and deposits should prove beneficial in an economic recovery phase while its CASA-to-deposit ratio of c.40% would ease access to funds.

Risks to our call include: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

OUTPERFORM ↔

Price : RM8.29
Target Price : RM10.60 ↑

Share Price Performance



KLCI 1,602.40
YTD KLCI chg -0.9%
YTD stock price chg -2.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAY MK Equity
Market Cap (RM m)	94,622.0
Shares Outstanding	11,414.0
52-week range (H)	8.91
52-week range (L)	7.00
3-mth avg daily vol	7,819,534
Free Float	24%
Beta	0.9

Major Shareholders

Amanah Saham Nasional	41.2%
Employees Provident Fund	14.1%
Yayasan Pelaburan Bumiputra	7.8%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	17,226	17,060	17,758
Non-interest income	7,299	6,925	6,294
Total income	24,525	23,984	24,053
Operating expenses	-11,245	-10,711	-11,246
Loan impairment	-5,070	-3,884	-1,519
Pre-tax profit	8,657	9,794	11,724
PATAMI	6,481	7,391	8,847
Core PATAMI	6,795	7,391	8,847
Consensus NP		7,555	8,644
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.60	0.66	0.79
EPS growth	-17%	9%	20%
NDPS (RM)	0.52	0.56	0.67
BV/share (RM)	7.5	7.6	7.7
NTA/share (RM)	6.9	7.0	7.1
ROE (%)	7.8	8.7	10.3
PER (x)	13.7	12.6	10.5
P/BV (x)	1.10	1.09	1.07
Net Div. Yield (%)	6.3	6.8	8.1

Maybank's M25 Targets



Source: Maybank

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Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Net interest income	17,685	18,075	17,226	17,060	17,758
Non-interest income	4,919	7,277	7,299	6,925	6,294
Total income	22,604	25,352	24,525	23,984	24,053
Operating expenses	-11,214	-11,562	-11,245	-10,711	-11,246
PPOP	11,390	13,790	13,280	13,273	12,806
Loan impairments	-1,591	-2,287	-4,599	-3,708	-1,291
Other impairments	-22	-36	-472	-176	-228
Associates	98	158	209	155	174
Pre-tax profit	10,901	11,014	8,657	9,794	11,724
Tax and zakat	-2,545	-2,538	-1,938	-2,253	-2,697
Minority interest	-243	-278	-238	-151	-181
PATAMI	8,113	8,198	6,481	7,391	8,847
Core PATAMI	8,113	8,198	6,795	7,391	8,847

Balance Sheet

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Cash & ST funds	59,055	60,108	61,429	65,036	68,350
Investment securities	177,952	192,830	215,186	227,824	239,431
Loans and financing	507,084	513,420	512,210	554,482	582,730
Other assets	56,182	61,219	61,386	40,830	35,096
Intangible assets	6,718	6,836	6,649	6,649	6,649
Total Assets	806,992	834,413	856,860	894,821	932,255
Customer deposits	532,733	544,531	556,349	584,693	608,434
Deposits & placements	43,851	43,557	37,879	39,809	41,425
Borrowings	47,396	55,014	49,893	52,435	54,564
Other liabilities	105,276	107,242	125,629	129,680	138,312
Total liabilities	729,254	750,344	769,750	806,616	842,735
Share capital	48,280	48,280	48,280	48,280	48,280
Retained earnings	25,986	27,163	29,495	30,590	31,905
Regulatory reserves	2,127	2,772	2,772	2,772	2,772
Other reserves	(1,063)	3,356	3,890	3,890	3,890
Shareholders' funds	75,330	81,571	84,437	85,532	86,847
Minority interest	2,407	2,498	2,673	2,673	2,673
Total liabilities and equity	806,992	834,413	856,860	894,821	932,255

Source: Kenanga Research

Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth					
Net interest income	3.7%	2.2%	-4.7%	-1.0%	4.1%
Non-interest income	-18.4%	47.9%	0.3%	-5.1%	-9.1%
Total income	-2.0%	12.2%	-3.3%	-2.2%	0.3%
Operating expenses	-1.3%	3.1%	-2.7%	-4.8%	5.0%
PPOP	-2.8%	21.1%	-3.7%	0.0%	-3.5%
Loan impairment	-18.8%	43.8%	101.0%	-19.4%	-65.2%
Pre-tax profit	8.0%	1.0%	-21.4%	13.1%	19.7%
PATAMI	7.9%	1.0%	-20.9%	14.0%	19.7%
Core PATAMI	7.9%	1.0%	-17.1%	8.8%	19.7%
Gross loans	4.4%	1.2%	-0.2%	8.3%	5.1%
Customer deposits	6.1%	2.2%	2.2%	5.1%	4.1%

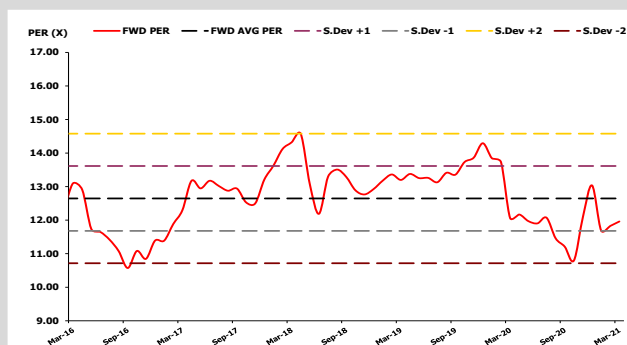
Operating metrics

Est avg asset yield	4.31%	4.38%	3.45%	3.28%	3.32%
Est avg funding cost	2.55%	2.66%	1.90%	1.65%	1.72%
Est NIM	2.38%	2.33%	2.14%	2.03%	2.02%
Cost-to-Income ratio	47.5%	46.7%	45.4%	44.2%	46.3%
Credit cost (bps)	32.1	44.8	89.7	69.5	22.7
Loan-to-deposit ratio	95.2%	94.3%	92.1%	94.8%	95.8%
GIL ratio	2.5%	2.7%	2.3%	2.5%	2.5%
LLC Ratio	82.1%	72.7%	98.6%	110.0%	110.0%
LLC Ratio (+ reg reserves)	99.1%	92.7%	122.4%	130.2%	128.8%
ROA	1.0%	1.0%	0.8%	0.8%	1.0%
ROE	10.9%	10.4%	7.8%	8.7%	10.3%

Valuations

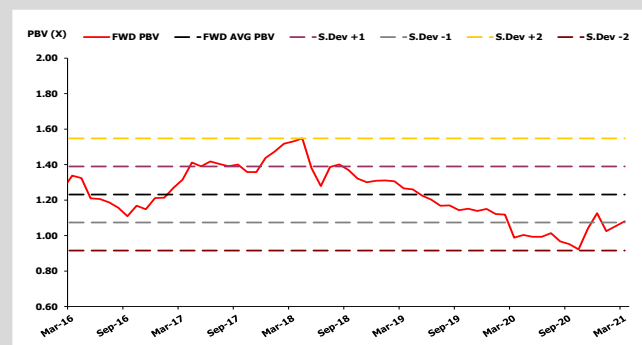
EPS (RM)	0.72	0.73	0.60	0.66	0.79
PER (x)	11.49	11.37	13.71	12.61	10.53
Div yield (%)	6.9	7.7	6.3	6.8	8.1
BV/share (RM)	6.70	7.26	7.51	7.61	7.73
P/BV (x)	1.24	1.14	1.10	1.09	1.07

Fwd Core PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Table 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.		
Stocks Under Coverage																	
AFFIN BANK BHD	1.82	3,785.2	N	12/2021	-4.6%	2.7%	46.5%	11.2%	16.4	11.2	10.1	0.4	0.4	3.5%	2.7%	1.35	UP
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	-10.1%	-6.4%	-14.7%	34.8%	9.7	11.3	8.4	0.7	0.7	5.9%	2.3%	2.30	UP
AMMB HOLDINGS BHD	3.10	9,325.2	N	03/2021	-10.9%	4.6%	-	190.0 %	7.0	N.A.	8.1	0.5	0.5	-7.9%	0.0%	2.40	UP
BIMB HOLDINGS BHD	3.97	7,359.0	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.3	9.7	9.6	1.2	1.1	11.5%	3.5%	5.15	OP
CIMB GROUP HOLDINGS BHD	4.29	42,569.5	N	12/2021	-0.3%	4.5%	176.0 %	35.0%	35.6	12.9	9.6	0.8	0.7	5.8%	3.0%	3.50	UP
HONG LEONG BANK BHD	18.52	40,146.1	N	06/2021	14.8%	9.6%	14.3%	6.3%	15.2	13.3	12.5	1.4	1.3	10.1%	1.9%	17.40	MP
MALAYAN BANKING BHD	8.29	94,622.0	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.7	12.6	10.5	1.1	1.1	8.7%	6.8%	10.60	OP
MALAYSIA BUILDING SOCIETY BHD	0.665	4,638.6	N	12/2021	66.6%	3.0%	173.9 %	14.4%	16.8	6.1	5.4	0.5	0.5	8.1%	4.5%	0.720	OP
PUBLIC BANK BHD	4.20	81,524.9	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.7	14.5	14.0	1.7	1.6	11.6%	3.3%	4.40	MP
RHB BANK BHD	5.40	21,654.2	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.7	10.7	9.2	0.8	0.8	7.7%	3.3%	6.25	OP
Simple Average					5.3%	2.4%	20.3%	33.1%	15.0	11.4	9.7	0.9	0.9	6.5%	3.1%		

Source: 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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