

26 November 2021

Malayan Banking Bhd

9MFY21 Within Expectations

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9MFY21 PATAMI of RM6.04b (+22%) is within expectations. The impact from PEMULIH is not expected to meaningfully deter the group's delivery of its FY21 targets, with a chance of reporting better-than-expected credit cost. We continue to prefer MAYBANK amongst its peers as a high sustainability play, paired by generous dividend yield opportunities. Maintain OUTPERFORM with a GGM-derived PBV TP of RM10.55.

9MFY21 within expectations. 9MFY21 reported PATAMI of RM6.04b, within expectations, consisting 78%/77% of our/consensus full-year estimates. No dividend was declared as expected, as the group typically pays its dividends bi-annually. We expect the group to pay c.80% of its earnings (vs 40-60% payout policy) given its average track record of 80-90%.

YoY, 9MFY21 total income amounted to RM19.15b (+4%), carried by a stronger NII (+14%) thanks to better NIMs (2.33%, +23bps) and a 4% loans growth. A higher CASA-to-deposit ratio also helped, standing at 44.5% (+3.8ppt). On the flipside, NOII softened by 20% due to poorer trading and investment performances compared to the prior year. That said, CIR improved slightly to 44.7% (-0.6ppt) as operating costs (+3%) expanded at a slower rate than income. Total allowances were 29% lower YoY on the back of healthier provisioning needs from prior pre-emptive measures. As such, annualised credit cost came in at 63bps (-26bps). This drove a 22% improvement in 9MFY21 PATAMI to RM6.0b.

QoQ, 3QFY21 total income was flattish, as a 12% gain in NOII led by derivatives was offset by poorer NII (-3%), dragged by lower NIMs (2.30%, -12bps). Management explained that this was an impact of PEMULIH led modification losses (est. RM150m). Comparatively, provisions more than doubled (RM1.13b, vs RM525m) as more bookings were made on new reliefs. Notably, local repayment assistance rose to 30.6% in Nov 2021 (Aug 2021: 27.1%). With that, 3QFY21 PATAMI came in at RM1.69b (-14%).

Key briefing highlights. While the group will continue to be prudent with its asset quality management, it believes that it could outperform its initial credit cost guidance of 70-80bps for FY21 from staging improvements, in line with the economy reopening. However, there could be further modification losses recorded arising from URUS applications in Nov 2021. At this moment, the amount of applications under the program are manageable, with B50 customers only expected to make up less than 30% of total TRA mix. SMEs are still viewed to be a highly at-risk segment; it may contribute meaningfully as their performances could be propelled by looser movement restrictions. Meanwhile, we believe the group is in the clear to achieve its FY21 targets. Any unforeseen tightening in Dec 2021 should not meaningfully undermine its YTD progress, albeit may raise some concerns for FY22 which hinge on the continuous momentum of economic recovery.

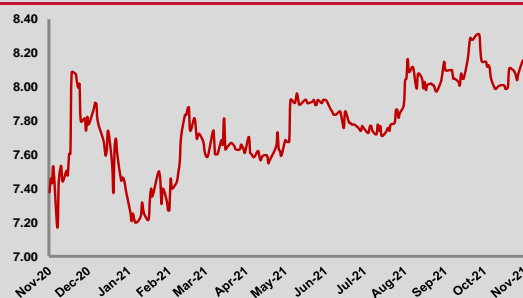
Post results, we make some minor earnings model updates.

Maintain OUTPERFORM and TP of RM10.55. Our TP is based on an unchanged FY22E GGM-derived PBV of 1.37x (1SD above 5-year mean). We continue to position MAYBANK with its most favourable risk-to-reward profile coupled with the highest dividend yield (6-8%) 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 levels would ease access to funds.

OUTPERFORM ↔

Price : RM8.11
Target Price : RM10.55 ↔

Share Price Performance



KLCI	1,517.60
YTD KLCI chg	-6.7%
YTD stock price chg	-4.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAY MK Equity
Market Cap (RM m)	96,291.3
Shares Outstanding	11,873.2
52-week range (H)	8.31
52-week range (L)	7.17
3-mth avg daily vol	8,119,488
Free Float	26%
Beta	0.9

Major Shareholders

Amanah Saham Nasional	40.0%
Employees Provident	14.1%
Yayasan Pelaburan Bumiputra	7.2%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	17,226	17,819	16,941
Non-interest income	7,299	6,457	6,739
Total income	24,525	24,276	23,679
Operating expenses	-10,931	-10,711	-10,925
Loan impairment	-5,070	-3,713	-1,506
Pre-tax profit	8,657	10,258	11,684
PATAMI	6,481	7,741	7,909
Core PATAMI	6,481	7,741	7,909
Consensus NP		7,824	8,692
Earnings revision		-0.2%	0.2%
Core EPS (RM)	0.58	0.69	0.70
EPS growth	-21%	19%	2%
NDPS (RM)	0.52	0.56	0.61
BV/share (RM)	7.5	7.6	7.7
NTA/share (RM)	6.9	7.0	7.1
ROE (%)	7.8	9.1	9.2
PER (x)	14.1	11.8	11.6
P/BV (x)	1.08	1.06	1.05
Net Div. Yield (%)	6.4	6.9	7.5

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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, (v) adverse currency fluctuations, and (vi) changes in OPR.

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	4,813	4,979	-3.3%	4,288	12.2%	14,584	12,769	14.2%
Non-interest income	1,337	1,195	11.9%	1,790	-25.3%	4,565	5,681	-19.6%
Total income	6,150	6,174	-0.4%	6,078	1.2%	19,149	18,451	3.8%
Operating expenses	-2,821	-2,921	-3.4%	-2,704	4.3%	-8,564	-8,353	2.5%
Pre-impairment profit	3,329	3,253	2.3%	3,373	-1.3%	10,585	10,098	4.8%
(Allowances)/ write-backs	-1,126	-525	114.6%	-804	40.0%	-2,501	-3,505	-28.6%
(Allowances)/ write-backs on other assets	1	-42	-102.2%	-2	-160.4%	-124	-66	88.7%
Operating profit	2,203	2,686	-18.0%	2,567	-14.2%	7,960	6,527	22.0%
Non-operating gains / (losses)	66	40	62.8%	44	49.6%	142	138	3.2%
Profit before tax	2,269	2,726	-16.8%	2,611	-13.1%	8,102	6,665	21.6%
Taxation	-531	-693	-23.4%	-602	-11.8%	-1,967	-1,587	24.0%
Minority interest	-53	-71	-24.4%	-57	-6.8%	-160	-134	18.8%
Net PATAMI	1,685	1,963	-14.2%	1,952	-13.7%	6,039	4,944	22.2%
Core PATAMI	1,685	1,963	-14.2%	1,952	-13.7%	6,039	4,944	22.2%
Gross loans	542,754	541,516	0.2%	521,764	4.0%	542,754	521,764	4.0%
Gross impaired loans	10,450	11,826	-11.6%	12,239	-14.6%	10,450	12,239	-14.6%
Customer deposits	584,192	579,487	0.8%	593,231	-1.5%	584,192	593,231	-1.5%
Current and savings account (CASA)	260,107	254,239	2.3%	232,148	12.0%	260,107	232,148	12.0%
Total assets	890,642	879,353	1.3%	872,213	2.1%	890,642	872,213	2.1%
Shareholders' equity	83,886	84,210	-0.4%	83,290	0.7%	83,886	83,290	0.7%
Est. annualised NIM	2.30%	2.42%		2.09%		2.33%	2.10%	
Cost-to-income ratio	45.9%	47.3%		44.5%		44.7%	45.3%	
Annualised credit cost (bps)	83.1	39.0		61.8		62.5	89.4	
Effective tax rate	23.4%	25.4%		23.0%		24.3%	23.8%	
Annualised ROA	0.8%	0.9%		0.9%		0.9%	0.8%	
Annualised ROE	8.0%	9.3%		9.4%		9.6%	8.0%	
Gross impaired loans ratio	1.9%	2.2%		2.3%		1.9%	2.3%	
Loan loss coverage ratio (LLC)	122.8%	111.1%		89.7%		122.8%	89.7%	
LLC plus regulatory reserves	143.0%	128.9%		107.0%		143.0%	107.0%	
Loan-to-deposit ratio	90.5%	91.0%		87.0%		90.5%	87.0%	
CASA-to-deposit ratio	44.5%	43.9%		40.7%		44.5%	40.7%	
CET-1 capital (Group level)	14.2%	14.6%		15.3%		14.2%	15.3%	

Source: Company, Kenanga Research

Management Guidance		
	FY21 Targets	FY20 Performance
Net interest margin	+ 10-15 bps	2.14% (-19 bps)
Credit cost	70 – 80 bps	88 bps
Cost-to-Income Ratio	45-46%	45.4%
Return on Equity	~9.0%	7.8%

Source: Company, Kenanga Research

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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	1.70	3,610.9	N	12/2021	-13.1%	5.5%	80.4%	6.5%	15.4	8.5	8.0	0.4	0.4	4.3%	2.9%	1.55	MP	
ALLIANCE BANK MALAYSIA BHD	2.75	4,257.3	N	03/2022	-6.6%	0.6%	33.0%	2.6%	11.9	8.9	8.7	0.7	0.6	7.4%	3.3%	2.35	UP	
AMMB HOLDINGS BHD	3.23	10,700.7	N	03/2022	-3.3%	2.0%	29.9%	12.2%	10.4	8.8	7.8	0.7	0.7	8.1%	2.8%	3.15	MP	
BIMB HOLDINGS BHD	2.95	6,123.8	Y	12/2021	7.0%	1.9%	6.6%	2.6%	7.6	7.2	7.0	0.8	0.7	11.0%	4.7%	3.55	OP	
CIMB GROUP HOLDINGS BHD	5.17	52,844.9	N	12/2021	-1.0%	2.1%	257.5%	8.1%	43.1	12.1	11.2	0.9	0.9	7.4%	4.1%	4.75	MP	
HONG LEONG BANK BHD	18.32	39,712.6	N	06/2022	4.4%	2.2%	-3.6%	10.6%	13.1	13.6	12.3	1.3	1.2	9.1%	3.1%	18.20	MP	
MALAYAN BANKING BHD	8.11	96,291.3	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.1	11.8	11.5	1.1	1.1	9.1%	6.9%	10.55	OP	
MALAYSIA BUILDING SOCIETY BHD	0.620	4,446.3	N	12/2021	60.2%	5.9%	156.8%	3.3%	15.7	6.1	5.9	0.5	0.5	7.6%	4.8%	0.605	MP	
PUBLIC BANK BHD	4.02	78,031.0	N	12/2021	-3.1%	3.1%	14.3%	-4.3%	16.0	14.0	14.6	1.7	1.6	11.4%	3.5%	3.80	MP	
RHB BANK BHD	5.33	22,081.8	N	12/2021	-6.4%	7.2%	14.2%	0.7%	10.5	9.2	9.1	0.8	0.8	8.4%	5.6%	6.10	OP	
Simple Average					3.0%	3.4%	60.9%	4.5%	15.8	10.0	9.6	0.9	0.8	8.4%	4.2%			

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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