

05 July 2024

# Malayan Banking

## Insuring Its Potential

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We maintain our **OUTPERFORM** call and GGM-derived PBV TP of **RM11.00**. MAYBANK hosted an Investor Day with a focus on Etiqa, its group insurance and takaful division. It holds leading positions in all key insurance classes with a strong base supported by strong bancassurance channels with its principal. Going forward, it sees opportunities to widen its overseas presence and to adopt more sustainable frameworks. Maintain forecasts.

In FY23, it is noted that Etiqa contributed RM1.1b in pretax profits (c.9% of total group). Key takeaways are as follows:

- **Strong bancassurance focus.** Etiqa has a base of 4.2m customers of which 45% of them appear to have been acquired via bancassurance channels. It is also noted that MAYBANK has an overall portfolio of 12.3m customers, of which only 3.3m are also Etiqa customers (i.e. 79%). The group anticipates its bancassurance channel to continue to tap into the wider group's regional network, although we gather that most growth is attributed to life insurance products (see Exhibit 1).
- **Domestic market the lion's share.** From its FY23 gross premium of RM11.5b, 75% of its business originates in Malaysia with Singapore being its second largest market (18%). We see local markets likely to see the greatest support from its notable presence in motor class insurances, where the group prides themselves with a higher expense ratio in favour of well-compensating its panel vendors to strengthen customer experience. The group intends to widen its profit margins here by targeting higher value vehicles and tapping onto its auto finance centres to accelerate growth. Within the motor business, Etiqa appears to have the second largest market share, behind ALLIANZ. (see Exhibit 2).
- **Defending its turf.** While the group already holds a leading presence amongst its peers, it seeks to defend its position via new innovations to its ecosystem with more direct engagement with customers through its mobile app on air travel notifications, policy reminders and rebates for prolonged uses. Better ease of use could develop stickier relationships to the platform.

On the bancassurance space, the group sees opportunities open from the gradual utilisation of data analytics to ensure more effective targeting and offerings towards potential customers. Supplementing the growth of its general business, the group looks towards more holistic services to corporate clients with comprehensive risk advisory to ensure more relevant premium rates being underwritten.

- **Insurance can be sustainability focused too.** In line with MAYBANK's group-wide objective to achieve Net Zero Carbon Equivalent by 2050, Etiqa has moved to not underwrite any Greenfield Coal Power Generation Plants by 2025. It would also work with its partners and the wider supply chain to advocate more sustainable practices (possibly with regards to emissions management and adopting more renewable solutions) whilst offering green insurance products and services.

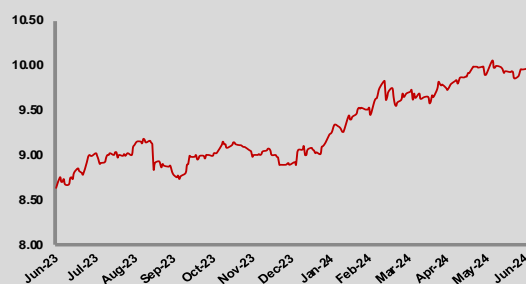
**Forecast.** Maintained.

**Maintain OUTPERFORM and TP at RM11.00**, based on an unchanged GGM-derived FY25F PBV of 1.34x (COE: 9.9%, TG: 3.5%, ROE: 12.0%). MAYBANK is expected to demonstrate operational resilience whilst sustaining its position as the leading bank in terms of market share. We believe in MAYBANK's ability to provide the most sustainable returns via its consistent market share albeit now with more moderate dividend yields (c.6%).

# OUTPERFORM ↔

Price : **RM10.10**  
Target Price : **RM11.00** ↔

### Share Price Performance



KLCI	1,616.75
YTD KLCI chg	11.1%
YTD stock price chg	13.6%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAY MK Equity
Market Cap (RM m)	121,876.2
Shares Outstanding	12,067.0
52-week range (H)	10.06
52-week range (L)	8.67
3-mth avg. daily vol.	11,819,680
Free Float	36%
Beta	0.8

### Major Shareholders

Amanah Saham Nasional	38.6%
Employees Provident Fund	12.9%
Yayasan Pelaburan Bumiputra	6.5%

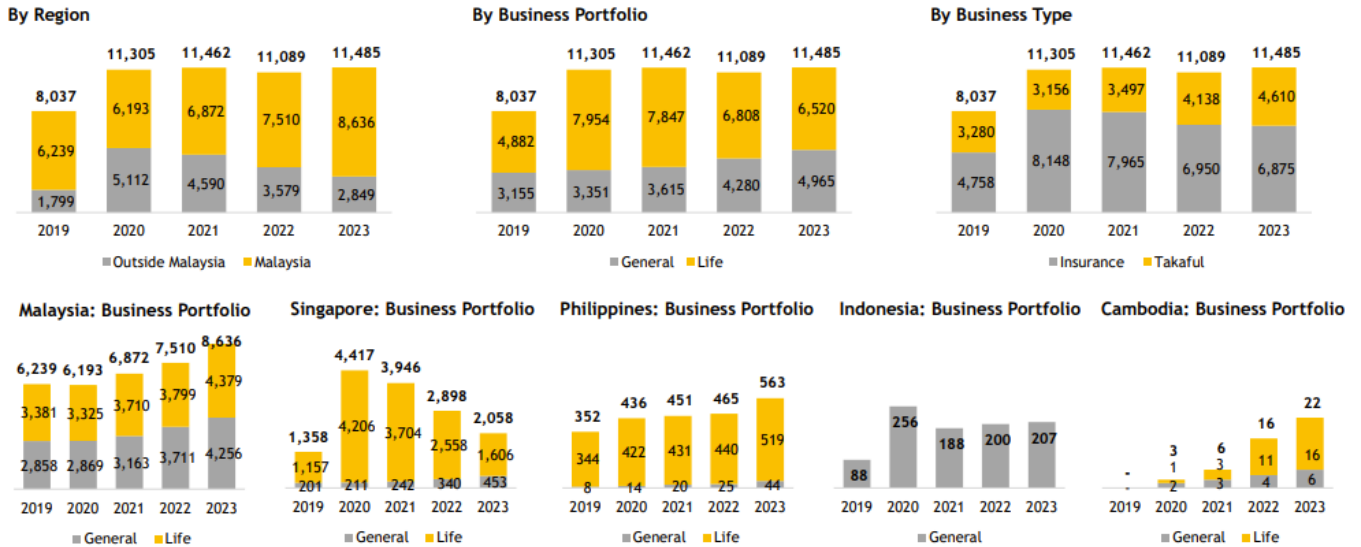
### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net Interest Income	20,369	21,715	22,178
Non-interest Income	7,988	7,197	7,325
<b>Total Income</b>	<b>28,357</b>	<b>28,911</b>	<b>29,504</b>
Operating Expenses	-13,389	-13,523	-14,199
<b>Loan Impairment</b>	<b>-1,681</b>	<b>-1,943</b>	<b>-1,595</b>
Pre-tax Profit	12,532	12,961	13,543
<b>Net Profit</b>	<b>9,350</b>	<b>9,653</b>	<b>10,087</b>
<b>Core Net Profit</b>	<b>9,350</b>	<b>9,653</b>	<b>10,087</b>
Consensus NP	-	9,825	10,326
Earnings Revision	-	-	-
Core EPS (RM)	0.78	0.80	0.84
EPS Growth (%)	17.5	3.2	4.5
NDPS (RM)	0.60	0.62	0.64
BV/share (RM)	7.85	8.03	8.22
NTA/share (RM)	7.2	7.4	7.6
ROE (%)	10.4	10.1	10.3
PER (x)	13.0	12.6	12.1
P/BV (x)	1.29	1.26	1.23
Net Div. Yield (%)	5.9	6.1	6.3

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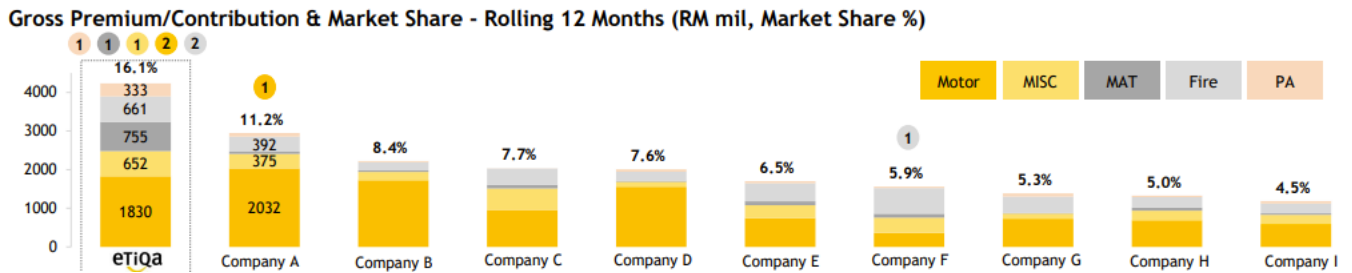
**Risks to our call include:** (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to the OPR.

Exhibit 1: Etiqa's FY23 Portfolio Breakdown



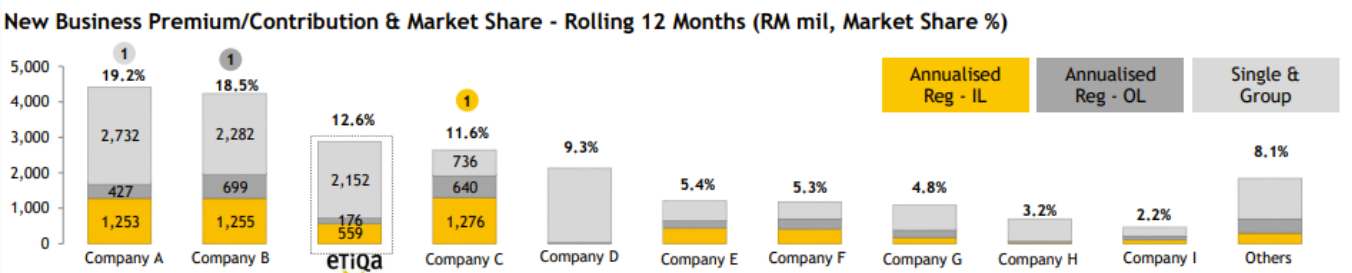
Source: Kenanga Research

Exhibit 2: Etiqa's Est. General Insurance Market Share and Position



Source: Kenanga Research

Exhibit 3: Etiqa's Est. Life and Family Takaful Market Share and Position



Source: Kenanga Research

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## Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Net interest income	19,607	21,229	20,369	21,715	22,178
Non-interest income	4,471	4,603	7,988	7,197	7,325
<b>Total income</b>	<b>24,077</b>	<b>25,833</b>	<b>28,357</b>	<b>28,911</b>	<b>29,504</b>
Operating expenses	-11,519	-11,974	-13,389	-13,523	-14,199
<b>PPOP</b>	<b>12,559</b>	<b>13,858</b>	<b>14,968</b>	<b>15,389</b>	<b>15,305</b>
Loan impairments	-2,659	-2,706	-1,646	-1,943	-1,595
Other impairments	-571	-71	-35	-53	-53
Associates	186	131	240	200	210
<b>Pre-tax profit</b>	<b>10,887</b>	<b>11,872</b>	<b>12,532</b>	<b>12,961</b>	<b>13,543</b>
Tax and zakat	-2,565	-3,896	-2,917	-3,111	-3,250
Minority interest	-225	-15	-265	-197	-206
<b>Net Profit</b>	<b>8,096</b>	<b>7,961</b>	<b>9,350</b>	<b>9,653</b>	<b>10,087</b>
<b>Core Net Profit</b>	<b>8,096</b>	<b>7,961</b>	<b>9,350</b>	<b>9,653</b>	<b>10,087</b>

## Balance Sheet

FY Dec (RM b)	2021A	2022A	2023A	2024F	2025F
Cash & ST funds	55.0	52.5	46.2	54.2	56.9
Investment securities	223.9	231.1	265.9	268.4	282.0
Loans and financing	541.9	573.8	628.9	682.8	717.6
Other assets	60.7	84.0	79.2	75.0	69.9
Intangible assets	6.7	6.7	7.4	7.4	7.4
<b>Total Assets</b>	<b>888.2</b>	<b>948.1</b>	<b>1,027.7</b>	<b>1,087.7</b>	<b>1,133.7</b>
Customer deposits	589.0	614.9	670.4	701.3	729.8
Deposits & placements	36.6	51.9	44.7	58.4	60.8
Borrowings	48.6	44.8	44.0	46.7	48.6
Other liabilities	125.5	147.9	171.0	181.5	192.4
<b>Total liabilities</b>	<b>799.6</b>	<b>859.5</b>	<b>930.0</b>	<b>987.9</b>	<b>1,031.6</b>
Share capital	53.2	54.6	54.7	54.7	54.7
Retained earnings	29.6	29.5	31.7	33.8	36.2
Regulatory reserves	2.1	2.5	2.5	2.5	2.5
Other reserves	0.9	(0.8)	5.8	5.8	5.8
<b>Shareholders' funds</b>	<b>85.8</b>	<b>85.7</b>	<b>94.6</b>	<b>96.8</b>	<b>99.2</b>
Minority interest	2.7	2.9	3.0	3.0	3.0
<b>Total liabilities and equity</b>	<b>888.2</b>	<b>948.1</b>	<b>1,027.7</b>	<b>1,087.7</b>	<b>1,133.7</b>

## Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Growth</b>					
Net interest income	13.8%	8.3%	-4.1%	6.6%	2.1%
Non-interest income	-38.8%	3.0%	73.5%	-9.9%	1.8%
Total income	-1.8%	7.3%	9.8%	2.0%	2.0%
Operating expenses	5.6%	4.0%	11.8%	1.0%	5.0%
PPOP	-7.8%	10.3%	8.0%	2.8%	-0.5%
Loan impairment	-42.2%	1.8%	-39.2%	18.1%	-17.9%
Pre-tax profit	25.8%	9.0%	5.6%	3.4%	4.5%
Net Profit	24.9%	-1.7%	17.5%	3.2%	4.5%
Core Net Profit	24.9%	-1.7%	17.5%	3.2%	4.5%
Gross loans	5.8%	5.9%	9.6%	8.6%	5.1%
Customer deposits	5.9%	4.4%	9.0%	4.6%	4.1%

## Operating metrics

Est. avg. asset yield	2.97%	3.57%	4.60%	4.73%	4.72%
Est. avg. funding cost	1.25%	1.52%	2.59%	3.17%	3.17%
Est NIM	2.35%	2.43%	2.17%	2.15%	2.08%
Cost-to-Income ratio	45.3%	45.2%	48.9%	47.8%	48.7%
Credit cost (bps)	50.4	39.1	30.4	29.6	22.8
Loan-to-deposit ratio	92.0%	93.3%	93.8%	97.4%	98.3%
GIL ratio	2.04%	1.60%	1.37%	1.37%	1.37%
LLC Ratio	107.8%	127.5%	120.1%	125.0%	125.0%
LLC Ratio(+reg reserves)	126.9%	154.3%	148.8%	151.5%	150.2%
ROA	0.9%	0.9%	0.9%	0.9%	0.9%
ROE	9.5%	9.3%	10.4%	10.1%	10.3%

## Valuations

EPS (RM)	0.67	0.66	0.78	0.80	0.84
PER (x)	15.05	15.30	13.03	12.62	12.08
Div yield (%)	5.7	5.7	5.9	6.1	6.3
BV/share (RM)	7.12	7.11	7.85	8.03	8.22
P/BV (x)	1.42	1.42	1.29	1.26	1.23

Source: Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen) 1-Yr.	Net Div Yld 1-Yr.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
AFFIN BANK BHD	UP	2.48	1.80	-27.4%	5,953.2	N	12/2024	21.0	27.7	20.4%	31.9%	11.8	9.0	0.5	4.3%	8.0	3.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.81	4.60	20.7%	5,898.3	N	03/2025	50.2	52.7	12.5%	5.2%	7.6	7.2	0.8	10.5%	25.0	6.6%
AMMB HOLDINGS BHD	OP	4.32	5.20	20.4%	14,280.4	N	03/2025	55.3	56.3	17.5%	1.8%	7.8	7.7	0.7	9.1%	22.0	5.1%
BANK ISLAM MALAYSIA BHD	MP	2.48	2.25	-9.3%	5,620.9	Y	12/2024	25.2	29.0	3.3%	14.9%	9.8	8.6	0.7	7.6%	17.0	6.9%
CIMB GROUP HOLDINGS BHD	OP	7.00	7.60	8.6%	74,878.9	N	12/2024	68.5	72.5	4.7%	5.8%	10.2	9.7	1.1	10.5%	44.0	6.3%
HONG LEONG BANK BHD	OP	19.26	26.20	36.0%	41,750.2	N	06/2024	199.6	215.2	7.1%	7.8%	9.7	9.0	1.1	11.5%	60.0	3.1%
MALAYAN BANKING BHD	OP	10.10	11.00	8.9%	121,876.2	N	12/2024	80.0	83.6	3.2%	4.5%	12.6	12.1	1.3	10.1%	62.0	6.1%
MALAYSIA BUILDING SOCIETY BHD	UP	0.825	0.590	-28.5%	6,783.4	Y	12/2024	3.9	6.6	104.4%	68.2%	21.1	12.5	0.6	2.8%	2.0	2.4%
PUBLIC BANK BHD	OP	4.05	5.10	25.9%	78,613.3	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.3	1.4	12.9%	21.0	5.2%
RHB BANK BHD	OP	5.52	7.25	31.3%	24,064.4	N	12/2024	70.8	73.5	8.3%	3.9%	7.8	7.5	0.7	9.7%	43.0	7.8%
<b>SECTOR AGGREGATE</b>					<b>379,719</b>							<b>10.8</b>	<b>10.1</b>	<b>1.1</b>	<b>10.0%</b>		<b>5.3%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	★		
	Financial Inclusion	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	★	☆
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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