Malayan Banking Bhd

(1155 | MAY MK) Financial Services | Finance

Trading gains saves the day

***Maintain* BUY**

***Revised* Target Price: RM8.20**

(from RM8.00)

KEY INVESTMENT HIGHLIGHTS

- **Earnings came in within expectations**
- **Robust net profit growth was due to strong NOII expansion**
- **NOII expansion were driven by realized trading gains and mark-to-market gains on derivatives**
- **NII growth was decent considering tepid loans growth and NIM compression. Deposits growth was led by CASA**
- **Management took advantage of trading gains to book in more provisions. A prudent move**
- **Maintain BUY with revised TP of RM8.20 (from RM8.00) as we rollover valuation to FY21**

In-line with expectations. The Group posted 1QFY20 earnings of RM2.05b which was within expectations. This was 27.4% and 27.5% of ours and consensus' full year estimates respectively.

Earnings boosted by NOII. The net profit for 1QFY20 grew +13.3%yoy despite the difficult environment. This was due to very strong growth in NOII, where it expanded +53.2%yoy. Main drivers was investment & trading income where it came to RM769m vs RM206m in 1QFY19, and mark-to-market derivatives revaluation gains to RM1.06b from loss –RM156m in 1QFY19.

Decent NII growth given environment. NII grew +0.9%yoy as group gross loans growth was almost flat of +0.3%yoy to RM518.4b. However, this was decent considering there was NIM compression of -7bp yoy to 2.23% due to rate cuts in its home markets. For example, Malaysia had cut -50bp to its OPR while Indonesia had saw -50bp to its rate. Going forward, the management expects further weakness in NII with a NIM compression of -15bp from the full effect of the rate cut. Also, there will be a Day-One modification loss for fixed rate financing assumptions due to the moratorium of hire purchase loans in Malaysia which could amount to circa RM1b. However, the management indicated that it is discussing this matter with authorities on its treatment.

Focus on CASA. The NII weakness was moderated by the solid expansion in group CASA where it rose +8.6%yoy to RM209.0b. All home markets saw CASA expansion, with +13.8%yoy to RM146.6b, +1.0%yoy to SGD14.4b and +7.5%yoy to IDR43.7t in Malaysia, Singapore and Indonesia respectively. However, total group deposits contracted -2.5%yoy to RM543.8b but this was due to -2.4%yoy lower in fixed deposits, to RM274.6b. We believe that the Group were managing its NIM on the expectations of the rate cuts.

Malaysian operation supported loans growth. The almost flat group gross loans growth was due to being more selective in light of the risk. Malaysia loans book expanded +5.0%yoy to RM314.3b led by both consumer and business segment. Retail mortgage and auto finance grew +12.1%yoy to RM100.5b and +2.6%yoy to RM49.4b respectively, while SME segment went up +10.6%yoy to RM19.0b. This restricted the contraction of -5.7%yoy to SGD40.2b and -8.8%yoy to IDR128.1t in Singapore and Indonesia respectively.

RETURN STATISTICS	
Price @ 21st May 2020 (RM)	7.51
Expected share price return (%)	+9.2
Expected dividend yield (%)	+4.9
Expected total return (%)	**+14.1**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	0.1	-4.7
3 months	0.8	-5.8
12 months	-16.5	-7.7

KEY STATISTICS	
FBM KLCI	1452.11
Syariah compliant	No
Issue shares (m)	11241.36
Estimated free float (%)	21.84
Market Capitalisation (RM'm)	84422.63
52-wk price range	RM7 - RM9.1
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	0.00
Monthly volatility (%)	3.80
3-mth average daily volume (m)	11.91
3-mth average daily value (RM'm)	92.26
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	36.58
Employees Provident Fund Board	13.89
Yayasan Pelaburan Bumiputra	7.76

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Taking advantage by increasing provisioning. Provisions went up +60.7%yoy with provisions for loans losses increasing by +59.2%yoy to RM961.7m. However, we should note here that the management took advantage of the strong PPOP result in the quarter to absorb more provisions. We understand that circa RM600m from the provisions for loan losses was additional, with RM400m on forward looking assessment based on weakening macro-economic factors and RM200m on retail portfolio slippage. We view these additional provisioning as a prudent move given that the strong trading income and the heighten risk. In fact, it is a global banking trend we had recently observed. We expect provisions may increase further especially after the loan moratorium ends. As such, the management is guiding a credit cost of between 75bp to 100bp at current juncture.

Dividends depending on performance. We understand that the Group will be maintaining its dividend policy of 40-60%. We believe that this will be maintained at current juncture and do not foresee a cut in the dividends given the Group's strong capital position. Having said that, we believe that the dividends will be dependent on performance, which might still be decent.

Adjustment to earnings forecast. We are tweaking downwards our FY20, FY21 and FY22 earnings forecast by -6.2%, -6.6% and -2.2% to reflect the credit cost guidance. Previously, we have only imputed a credit cost of 70bp.

Valuation and recommendation. As we had expected, the Group manage to record a good performance in 1QFY20. However, this was before the declaration of Covid-19 as a pandemic and the implementation of the movement control order. We recognize that there are headwinds this year but we believe that the Group's fundamentals remain intact. We saw trading income came in strong as expected while NII was slightly better than we had anticipated given the rate cuts in the quarter. Credit cost will be bigger but we have to bear in mind that it will be partly deliberate as the Group manage its coverage levels. All in, we are positive on the prudent actions of the Group. Given its size, status as a D-SIB bank, conservatism and intact fundamentals, we maintain our **BUY** call. We roll forward our valuation to FY21, and as a result revise our **TP to RM8.20** (from RM8.00). Our valuation is based on PBV 1.1x which take into account the current challenging climate. Dividend yield of circa 4.8% will also moderate any downside risk.

INVESTMENT STATISTICS

Financial year ending 31 Dec (in RM'm, unless otherwise stated)	**2018A**	**2019A**	**2020E**	**2021F**	**2022F**
Net interest income (RM'm)	12,073	12,095	11,445	11,655	11,587
Islamic banking income (RM'm)	5,612	5,980	6,572	6,867	7,005
Non-interest income (RM'm)	5,945	6,666	7,528	7,401	7,643
Total income (RM'm)	23,630	24,741	25,544	25,923	26,236
Pretax profit (RM'm)	10,901	11,014	9,373	10,222	11,523
Net profit	8,113	8,198	7,008	7,642	8,615
Core Net profit (RM'm)	8,113	8,198	7,008	7,642	8,615
Core EPS (sen)	74.2	73.5	60.7	66.2	74.6
PER (x)	10.1	10.2	12.4	11.3	10.1
Net Dividend (sen)	57	64	36	43	49
Net Dividend Yield (%)	7.6	8.5	4.9	5.7	6.5
Book value per share (sen)	6.82	7.26	7.36	7.50	7.76
PBV (x)	1.1	1.0	1.0	1.0	1.0
ROE (%)	11.4	10.9	8.2	8.8	9.6

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
LD = Loan-Deposit
NII = Net Interest Income
NOII = Non-interest income
NIM = Net Interest margin
CASA = Current and Savings Accounts
COF = Cost of Funds
IB = Investment Banking
LLC = Loan Loss Coverage
PPOP = Pre-Provisioning Operating Profit
FVTPL = Fair Value Through Profit Or Loss
OPEX = Operating Expenses
OPR = Overnight Policy Rate

Table 1: Quarterly results (based on reported financials)

FYE Dec (RM m)	Quarterly results				
	1QFY20	4QFY19	1QFY19	Yoy	Qoq
NII*	4,344.5	4,518.9	4,306.9	0.9%	-3.9%
NOII*	2,379.7	1,974.0	1,553.1	53.2%	20.6%
Net income	6,724.2	6,492.9	5,860.0	14.7%	3.6%
OPEX	(2,942.0)	(2,969.1)	(2,807.6)	4.8%	-0.9%
PPOP	3,782.2	3,523.8	3,052.5	23.9%	7.3%
Net impairment losses	(1,024.3)	(298.9)	(637.3)	60.7%	242.7%
Pre-tax profit	2,797.8	3,263.6	2,450.5	14.2%	-14.3%
Net Profit	2,049.7	2,449.1	1,809.3	13.3%	-16.3%
EPS (sen)	18.2	21.8	16.4	11.0%	-16.5%

*Includes a portion of Islamic Banking income

Table 2: Financial Ratios

Financial Ratios (%)	1QFY20	4QFY19	1QFY19	Yoy (+/- ppts)	Qoq (+/- ppts)
CET1*	14.8	14.6	14.6	0.2	0.2
Tier 1*	15.6	15.3	15.5	0.1	0.2
Total Capital*	18.5	18.2	19.0	-0.5	0.3
GIL ratio	2.71	2.65	2.48	0.23	0.06
Loan loss Coverage	81.5	77.3	82.6	-1.1	4.2
Credit charge-off	0.73	0.26	0.47	0.26	0.47
NIM	2.23	2.29	2.30	-0.07	-0.06
CI	43.7	45.7	47.9	-4.2	-2.0
LD ratio	95.2	92.4	92.4	2.8	2.8
ROEA	10.6	13.0	9.7	0.9	-2.4

**Group Capital Ratios after dividends*

Table 3: Contribution to PBT by business segments and ratios based on reported financials

Cumulative results			
PBT by business segments (RM m)	**1QFY20**	**1QFY19**	**Yoy (+/- %)**
Community Financial Services	1,208.4	1,541.3	-21.6%
Corporate Banking & Global Markets	1,268.5	932.3	36.1%
Investment Banking	25.9	(1.6)	>100%
Group Asset Management	(5.7)	(3.7)	55.8%
Group Insurance & Takaful	53.8	245.9	-78.1%
Head Office & Others	246.7	(263.8)	>100%
PBT contribution by geographies (%)			
	1QFY20	**1QFY19**	**Yoy +/- ppts**
Malaysia	74.7	83.6	-8.9
Indonesia	10.4	7.2	3.2
Singapore	6.1	-	6.1
Others	8.8	9.2	-0.4

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.