Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

Robust end to the year

***Maintain* BUY**

***Revised* Target Price: RM9.55**

(from RM10.30)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within expectations; strong end to the year**
- **Robust NOII growth the main driver, moderating higher provisions**
- **Group gross loans and deposits growth were led by Malaysia**
- **Final dividend of 39sen/share, bringing total dividends to 64/sen; higher than expected**
- **Expecting short term stress but fundamentals intact**
- **Adjustments to FY21 earnings forecast downwards by -3.5%**
- **Maintain BUY with revised TP of RM9.55 (from RM10.30)**

Met expectations. The Group posted FY19 earnings met ours and consensus' expectations. Its RM8.2b net profit came in at 101.4% and 102.8% of ours and consensus' full year estimates respectively.

Earnings ended the year strongly. Net profit for the Group grew strongly in 4QFY19, by +5.3%yoy and +22.5%qoq. As a result, FY19 net profit expanded +1.0%yoy. Main driver for the earnings growth was the +4.6%yoy rise in net income and containment of OPEX (+2.8%yoy).

Strong NOII growth. NOII grew 10.7%yoy, led by investment & trading income (>100%yoy to RM1.69b) and unrealized gains on financial assets (>100%yoy to RM1.37b). This had supported NII which expanded a decent +2.2%yoy. Full year NIM had compressed -6bp yoy due to the OPR cut in May-19. However, as we noted in our 3QFY19 result review, NIM had recovered.

Credit cost within guidance. Net credit cost improved in 4QFY19 to 26bp. As a result, FY19 net credit cost came in at 44bp which was within the management's guidance. Bulk of the impairments came in 3QFY19, which was mostly due to new provisions for several chunky accounts in Singapore and Indonesia following weaken external environment. We were not surprised that this included trade related industry given the ongoing US-China trade spat.

Comparing from last quarter, GIL ratio slightly better. GIL ratio as at 4QFY19 was -2bp qoq better. This was due to improvement in asset quality in Malaysia and Indonesia where it was lower by -12bp qoq to 1.95% and -57bp qoq to 4.48% respectively. This was moderated by the uptick in Singapore, where the GIL ratio rose +48bp qoq to 3.87%. Main pressure was from the SME, business and corporate segment.

Malaysian operation supported loans growth. Group gross loans growth was tepid at +1.2%yoy to RM523.5b. This was due to contraction of the Group's loans book at the international segment (-4.2%yoy to RM203.0b. However, its Malaysia loans book expanded +4.9%yoy to RM314.1b led by both consumer and business segment. Retail mortgage and auto finance grew +11.6%yoy to RM97.6b and +4.2%yoy to RM49.9b respectively, while SME segment went up +11.6%yoy to RM19.1b.

RETURN STATISTICS	
Price @ 27th Feb. 2020 (RM)	8.52
Expected share price return (%)	+12.1
Expected dividend yield (%)	+6.6
Expected total return (%)	**+18.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-0.1	4.3
3 months	-1.4	4.7
12 months	-11.1	1.2

KEY STATISTICS	
FBM KLCI	1,505.59
Syariah compliant	No
Issue shares (m)	11241.36
Estimated free float (%)	31.94
Market Capitalisation (RM'm)	95,776.40
52-wk price range	RM8.18 - RM9.66
Beta vs FBM KLCI (x)	0.85
Monthly velocity (%)	23.84
Monthly volatility (%)	3.80
3-mth average daily volume (m)	7.33
3-mth average daily value (RM'm)	63.12
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	34.57
Employees Provident Fund Board	12.51
Yayasan Pelaburan Bumiputra	7.76

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Deposits growth outpacing loans growth slightly. Group deposits increased +1.6%yoy to RM565.3b. Malaysia deposits grew +2.2%yoy to RM351.5b driven by FD growth of +6.3%yoy to RM133.8b. However, there were also CASA growth of +2.2%yoy to RM136.0b. Indonesia saw a drop in deposits which fell -5.3%yoy to IDR110.9t coming from both FD and CASA. However, we should note that some of this decline was due to the Group releasing the FD which it had accumulated earlier in the year for the purpose of building a buffer prior to the elections there.

Higher than expected dividends, and all cash too. The Group announced a final dividend of 39sen/share, bringing total dividends to 64sen/share or 87.8% payout ratio. This is higher than we had expected where we were anticipating a total dividend of 56sen/share for FY19. As an added sweetener, the dividends will be all cash, i.e. 100% cash component.

Expecting some short term stress in a tough operating environment. We recognize that there some headwinds this year, namely the Covid-19 outbreak, lower interest rate environment, domestic political and geopolitical issues. We expect that this may give some stress to the Group's asset quality. However, the Group also took proactive steps to mitigate potential stress such as restructuring and rescheduling of accounts. Also, we opine that the recently announced Economic Stimulus Package may moderate some of the pressure.

Adjustment to earnings forecast. We are revising our earnings forecast for FY21 by -3.5% downward on some book keeping adjustments.

Valuation and recommendation. As we had expected, the Group's performance had improved in 2HFY19. Income was particularly robust. Although there could be some stress to asset quality, we believe that the Group's fundamentals remain intact. Moreover, we believe that the Group's dividend is very attractive at current juncture with the possibility of all cash portion to be continued for now. We should note that its dividend yield of above 6% should provide a buffer from any downside risk. Hence, we maintain our **BUY** call with revised **TP of RM9.55** (from RM10.30). Our valuation is based on lowering our PBV 1.3x to take into account the current challenging climate.

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	12,631	13,397	13,037
Islamic banking income (RM'm)	5,612	5,980	6,603	6,933	7,280
Non-interest income (RM'm)	5,945	6,666	6,261	5,960	6,283
Total income (RM'm)	23,630	24,741	25,495	26,290	26,600
Pretax profit (RM'm)	10,901	11,014	11,225	11,514	11,879
Net profit	8,113	8,198	8,392	8,608	8,882
Core Net profit (RM'm)	8,113	8,198	8,392	8,608	8,882
Core EPS (sen)	74.2	73.5	71.6	71.2	71.3
PER (x)	11.5	11.6	11.9	12.0	12.0
Net Dividend (sen)	57	64	56	56	56
Net Dividend Yield (%)	6.7	7.5	6.6	6.5	6.5
Book value per share (sen)	6.82	7.26	7.34	7.55	7.75
PBV (x)	1.2	1.2	1.2	1.1	1.1
ROE (%)	11.4	10.9	9.6	9.3	9.1

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 & Cumulative results (base on reported financials)

FYE Dec (RM m)	Quarterly results					Cumulative results		
	4QFY19	3QFY19	4QFY18	Yoy	Qoq	FY19	FY18	Yoy
NII*	4,518.9	4,522.2	4,474.6	1.0%	-0.1%	17,514.8	17,135.9	2.2%
NOII*	1,974.0	1,976.0	1,858.0	6.2%	-0.1%	7,226.1	6,525.8	10.7%
Net income	6,492.9	6,498.2	6,332.6	2.5%	-0.1%	24,740.9	23,661.7	4.6%
OPEX	(2,969.1)	(2,963.6)	(3,100.1)	-4.2%	0.2%	(11,561.9)	(11,245.7)	2.8%
PPOP	3,523.8	3,534.6	3,232.5	9.0%	-0.3%	13,178.9	12,416.0	6.1%
Net impairment losses	(298.9)	(934.9)	(162.3)	84.2%	-68.0%	(2,323.4)	(1,612.9)	44.1%
Pre-tax profit	3,263.6	2,648.3	3,095.6	5.4%	23.2%	11,013.9	10,901.3	1.0%
Net Profit	2,449.1	1,998.8	2,326.4	5.3%	22.5%	8,198.1	8,113.3	1.0%
EPS (sen)	21.8	17.8	21.1	3.3%	22.5%	73.5	74.2	-0.9%

*Includes a portion of Islamic Banking income

Table 2: Financial Ratios

Financial Ratios (%)	4QFY19	3QFY19	4QFY18	Yoy (+/- ppts)	Qoq (+/- ppts)	FY19	FY18	Yoy (+/- ppts)
CET1*	14.6	14.4	14.5	0.1	0.1	14.6	14.5	0.1
Tier 1*	15.3	15.2	15.5	-0.2	0.1	15.3	15.5	-0.2
Total Capital*	18.2	18.1	18.5	-0.3	0.2	18.2	18.5	-0.3
GIL ratio	2.65	2.67	2.41	0.24	-0.02	2.65	2.41	0.24
Loan loss Coverage	77.3	76.7	83.6	-6.3	0.6	77.3	83.6	-6.3
Credit charge-off	0.26	0.74	0.07	0.19	-0.48	0.44	0.32	0.12
NIM	2.29	2.32	2.38	-0.09	-0.03	2.27	2.33	-0.06
CI	45.7	45.6	48.9	-3.2	0.1	46.7	47.5	-0.8
LD ratio	92.4	92.5	92.7	-0.3	-0.1	92.4	92.7	-0.3
ROEA	13.0	10.5	13.0	0.0	2.5	10.9	11.4	-0.5

**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)	**FY19**	**FY18**	**Yoy (+/- %)**
Community Financial Services	6,490.3	5,569.2	16.5%
Corporate Banking & Global Markets	4,195.8	5,223.8	-19.7%
Investment Banking	89.2	255.0	-65.0%
Group Asset Management	51.6	(86.5)	-159.6%
Group Insurance & Takaful	944.4	796.0	18.6%
PBT contribution by geographies (%)			
	FY19	**FY18**	**Yoy +/- ppts**
Malaysia	86.4	70.1	16.3
Indonesia	6.0	6.9	-0.9
Singapore	0.7	12.2	-11.5
Others	6.9	10.8	-3.9

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.