

# Malayan Banking Bhd

(1155 | MAY MK) Financial Services | Finance

## Maybank Indonesia : Weighed by higher provisions

### KEY INVESTMENT HIGHLIGHTS

- **Lower earnings weighed by higher provisions**
- **Provisions was a proactive stance and mainly for the commercial segment**
- **Deposits contracted but it was due to the reversing earlier liquidity build up**
- **Being selective in loans**
- **No change to FY19 and FY20 earnings forecast**
- **Maintain BUY with unchanged TP of RM10.30**

**Earnings weighed by higher provisions.** Maybank Indonesia posted a -14.9%yoy decline in earnings. This was due to higher provisions which grew +35.9%yoy as it maintained a conservative stance. It set aside provision primarily in the commercial segment impacted by a challenged economic environment. Compared to last year, gross NPL level stood at 3.3% as at 4QFY19 vs. 2.6% as at 4QFY18.

**Net income growth led by NOII.** Operating income grew +3.9%yoy supported by the +15.0%yoy expansion in NOII attributable to Global Market related fees, bancassurance, investment, and e-channel transaction fees. Meanwhile, NII rose +0.8%yoy as interest expense grew +9.3%yoy to IDR7.31t vs. interest income growth of +4.7%yoy. NIM declined -17bp yoy to 5.07% which was due to the stockpiling of liquidity prior to the general elections.

**Release of higher cost deposits led to lower overall deposits.** Maybank Indonesia saw a decrease of -5.3%yoy to IDR110.6t in total customer deposits. This was due to the reversing of its earlier build-up in liquidity after the elections. Non CASA fell -3.1%yoy to IDR70.1t.

**Loans fell on conservative stance.** Total loans contracted -8.1%yoy to IDR122.6t. This was due to Maybank Indonesia's continued conservative stance in growing its asset selectively. It also took the decision to have an exit strategy for selected loans in the corporate and commercial segments. Putting into context, as at 4QFY19, Global Banking booked moderate loans growth of +3.4%yoy to IDR32.1t, while Community Financial Services (CFS) Non-Retail Loans was -17.1%yoy lower to IDR48.3t. Nevertheless, its LD ratio was at a healthy level of 94.1%, while its LCR stood at 145.2%.

**OPEX increase from incentives.** OPEX grew +6.2%yoy but can be considered under control. The rise was attributable to the incentives paid for mudharabah deposits which grew by +79.3%yoy. Discounting these incentives, the actual operating cost was flat.

**No change in earnings forecast.** No change to our earnings forecasts for now as the Group will be announcing its result later this month.

## Maintain BUY

**Unchanged Target Price: RM10.30**

### RETURN STATISTICS

Price @ 19 <sup>th</sup> Feb. 2020 (RM)	8.40
Expected share price return (%)	+22.6
Expected dividend yield (%)	+6.7
<b>Expected total return (%)</b>	<b>+29.3</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-2.3	1.2
3 months	-2.8	1.1
12 months	-11.8	-0.7

### KEY STATISTICS

FBM KLCI	1,534.16
Syariah compliant	No
Issue shares (m)	11049.68
Estimated free float (%)	32.09
Market Capitalisation (RM'm)	94,427.44
52-wk price range	RM8.35 - RM9.66
Beta vs FBM KLCI (x)	0.85
Monthly velocity (%)	23.84
Monthly volatility (%)	3.80
3-mth average daily volume (m)	6.79
3-mth average daily value (RM'm)	58.82
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	34.55
Employees Provident Fund Board	12.38
Yayasan Pelaburan Bumiputra	7.76

**Analyst**

**Imran** Yassin Yusof  
imran.yassin@midf.com.my  
03-2173 8395

**Valuation and recommendation.** We should highlight that Maybank Indonesia saw better operating profits despite the reduction in loans. It also saw a sequential quarter of results. Notwithstanding the result from Maybank Indonesia, we expect, the Group could see an improved performance in 4QFY19 continuing from 3QFY19. We opine that its operation in Malaysia remains solid and would provide a stable base for Group. There could also be potential improvement in FY20. Hence, we maintain our **BUY** call with unchanged **TP of RM10.30**. Our valuation is based on pegging its FY20 BVPS to 1.4x. We should note that its dividend yield of above 6% should provide a buffer from any downside risk. 

## INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Net interest income (RM'm)	12,147	12,073	12,278	12,631	13,397
Islamic banking income (RM'm)	4,900	5,612	6,229	6,603	6,933
Non-interest income (RM'm)	6,298	5,945	6,553	6,261	5,960
Total income (RM'm)	23,345	23,630	25,060	25,495	26,290
Pretax profit (RM'm)	10,098	10,901	10,817	11,225	11,806
Net profit	7,521	8,113	8,087	8,392	8,827
Core Net profit (RM'm)	7,521	8,113	8,087	8,392	8,827
Core EPS (sen)	72.0	74.2	71.6	71.6	73.0
PER (x)	11.7	11.3	11.7	11.7	11.5
Net Dividend (sen)	55	57	56	56	57
Net Dividend Yield (%)	6.5	6.8	6.7	6.7	6.8
Book value per share (sen)	6.77	6.82	7.12	7.34	7.55
PBV (x)	1.2	1.2	1.2	1.1	1.1
ROE (%)	10.9	11.4	9.8	9.6	9.5

Source: Company, MIDFR

**Table 1: Comparison of results**

FYE Dec (IDR b)	Quarterly results					Cumulative results		
	4QFY19	3QFY19	4QFY18	Yoy (+/- %)	Qoq (+/- %)	FY19	FY18	Yoy (+/- %)
NII	2,043	2,101	2,060	-0.8%	-2.8%	8,168	8,100	0.8%
NOII	734	708	763	-3.8%	3.7%	2,609	2,269	15.0%
Net income	2,777	2,809	2,823	-1.6%	-1.2%	10,777	10,369	3.9%
OPEX	(1,539)	(1,676)	(1,543)	-0.3%	-8.2%	(6,397)	(6,023)	6.2%
PPOP	1,238	1,134	1,280	-3.3%	9.2%	4,380	4,346	0.8%
Provision for loan losses	(188)	(619)	(311)	-39.7%	-69.7%	(1,781)	(1,311)	35.9%
Pre-tax profit	1,051	515	969	8.5%	>100%	2,599	3,036	-14.4%
Net Profit	766	377	717	6.8%	>100%	1,924	2,262	-14.9%
Net profit as reported	2,043	2,101	2,060	-0.8%	-2.8%	8,168	8,100	0.8%
EPS (IDR)	734	708	763	-3.8%	3.7%	2,609	2,269	15.0%

Source: Company

**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

Source: Company

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.