Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

Sustainability targets easily achieved

***Maintain* BUY**

***Revised* Target Price: RM10.41**

(Previously RM9.52)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were below our expectation**
- **We reduce our FY22 earnings forecasts**
- **Core drivers: high dividend yield, industry leader status in terms of ESG, solid loan growth in foreign segments, FD paring exercises abroad resulting in lower COF**
- **Key risks: lower than expected NOII should adverse market conditions persist, higher NCC, NIM contraction from reductions in foreign CASA**
- **Maintain BUY call with upgraded TP of RM10.41 to reflect high ROE generating potential in FY23**

Highlights from Maybank's 2QFY22 quarterly results:

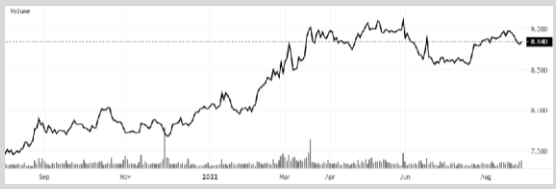
1. Quarterly earnings slipped despite higher net income, as result of higher provisioning.
2. FY22 earnings to be skewed towards 2HFY22, as result of lower provisioning.
3. Maybank has allocated one-off pre-emptive provisioning for the quarter due to bleak macroeconomic outlook. Full-year NCC forecasts maintained at 40-50bps.
4. Group GIL ratio has fallen to 1.81%, though there is a slight uptick in the Malaysian portfolio.
5. NIM widened by +7bps-qoq to 2.41% in the quarter as result of OPR hikes, repricing yet to occur.
6. Loan growth of +6.2%yoy driven by strong showings in foreign markets.
7. Maybank is paring down on foreign FD deposits to reduce COF.
8. OPEX sees an uptick due to higher IT and revenue spend as borders reopen.
9. Maybank breezes through its FY22 sustainability targets.
10. Dividend announced, translating to a payout ratio of 86%.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	16,651	19,089	20,546	21,603	22,627
NOII (RM m)	8,113	6,359	8,537	8,354	8,764
Total income (RM m)	24,763	25,448	29,438	29,835	31,299
PPOP (RM m)	13,541	13,930	16,102	16,409	17,215
Core net profit (RM m)	6,481	8,096	9,014	10,551	11,438
Core EPS (sen)	55.8	69.7	77.6	90.8	98.4
Core P/E (x)	15.9	12.7	11.4	9.7	9.0
Gross DPS (sen)	52.0	58.0	65.9	77.2	83.7
Dividend yield (%)	7.2	5.9	6.6	7.5	8.7
BVPS (RM)	7.3	7.4	7.7	8.0	8.5
P/BV (x)	1.2	1.2	1.2	1.1	1.0
ROE (%)	7.8	9.5	10.3	11.6	11.9

RETURN STATISTICS	
Price @ 25 August 2022 (RM)	8.84
Expected share price return (%)	+17.8
Expected dividend yield (%)	+6.6
Expected total return (%)	**+24.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.1	-0.1
3 months	2.7	2.7
12 months	6.0	12.1

KEY STATISTICS	
FBM KLCI	1,495.49
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	11878.51
Estimated free float (%)	35.72
Market Capitalisation (RM m)	105,575.52
52-wk price range	RM7.87 - RM9.18
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	0.00
Monthly volatility (%)	3.80
3-mth average daily volume (m)	6.69
3-mth average daily value (RM m)	58.86
Top Shareholders (%)	
Amanah Saham Nasional	39.34
Employees Provident Fund Board	13.02
Yayasan Pelaburan Bumiputera	6.95

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Below our expectations but within consensus'. Maybank's 1HFY22 core net profit of RM3.9b made up 39% and 45% of full-year forecasts respectively. The FY22 earnings is expected to be skewed towards the latter half of the year, with the effects of OPR hike, enhanced fee income and lower credit costs forecasted to be fully felt by then. Our previous NIM and loan growth projections may have been too optimistic, leading us to overestimate FY22's earnings.

YTD earnings slipped by -10%yoy due to weaker NOII, higher OPEX, provisioning and taxes offsetting the notable gains in NII.

Quarterly earnings of RM1.86b fell by -5.4%qoq, largely dragged by nearly twice as many provisions (both loan and non-loan) compared to the preceding quarter. It fell by -9.2%yoy despite a better NOII showing, due to higher provisions, OPEX and tax expenses.

Repayment assistance (RA) loans. As of Jul-22, Maybank has RM26.6b worth of RA loans from its Malaysian, Singapore, and Indonesian segments, translating to 4.9% of its global gross loans. Previously, in Apr-22, Maybank had RM34.4b worth of RA loans, which translated to 6.1% of its global gross loans.

In Malaysia, RA loan balances as of Jul-22 were 5.9% of portfolio [Apr-22: 7.6%]. Maybank saw good rundown of loans across all segments, most notable its business banking and mortgage segment. Roughly half of SME loans and corporate banking loans will commence payments by end-2022. Lender repayment ability seems resilient for now, with missed payments of SME and business banking RA portfolio ranging from 5-6%.

Indonesian RA loans saw a similar rundown, with loan balances of Jul-22 making up 9.5% of local portfolio [Apr-22: 11.6%], with retail portfolio showing a steeper rundown than corporate. In Singapore, RA levels were far stickier, and levels stayed flattish. This was likely due to levels being already at a low 3.2-3.3%.

Asset quality. The Group's GIL ratio is improving, falling to 1.81% (1QFY22: 1.95%, 2QFY21: 2.18%). The decline was largely driven exemplary improvements in Indonesian and Singaporean GIL ratio on a sequential quarter basis. This was offset by an uptick in Malaysian GIL ratio, which rose by +6bps-qoq to 1.28%.

Lines of businesses which saw notable upticks include Indonesian mortgages and retail SME segment, as well as the Malaysian corporate and retail SME portfolios.

The Group's LLC has currently risen to a comfortable 118%, with the Group making several pre-emptive provisions in the quarter.

Provisioning. Maybank has reported sizeable loan and non-loan provisions for the quarter, as it has provided a one-off forward-looking provision due to the worsening macroeconomic conditions. This translates to 10bps of the quarter's NCC of 60bps.

This brings up 1HFY22's NCC to 46bps. Management still deems their 40-50bps NCC guidance for FY22 as sufficient, with 2HFY22 unlikely to incur any pre-emptive provisions of a similar scale.

Current cumulative management overlay levels are stand at RM1.73b in the quarter, flattish from 1QFY22. Note that this figure are general provisions, and do not include borrower-specific allocations (which stand at roughly RM1.1b, also flattish).

NIM and NII. NIM widened by +7bps-qoq to 2.41% in 2QFY22 and averaged 2.38% in 1HFY22, up from 2.34% in 1HFY21. With 3 months necessary for a repricing tenure, the Group expects the positive effects of previous OPR hikes to wear out by the following quarter.

Maybank expects two further rate hikes in 2022, bringing the OPR up to 2.75%. As mentioned previously, every +25bps OPR hike will increase NIM by 1-2bps.

Management maintains their FY22 guidance of NIM being +5bps from FY22's 2.32%. This is largely driven by widening Malaysian and Singaporean spreads. Maybank is less optimistic on its Indonesian portfolio.

As result of the improvements in NIM, total quarterly NII rose by +5.9%qoq and +6.8%yoy.

NOII. 1HFY22 NOII was down -8.2%yoy due to weaker trading income, core fees, forex, and unrealised losses on financial assets. This offset gains from derivatives and financial liabilities.

Loan growth. Gross loans maintain their strong trajectory, expanding at a solid pace of +6.2%yoy. While Malaysian loans rose at a steady rate of +5.6%yoy, double-digit Singaporean and Indonesian corporate loan growth did wonders to further elevate the growth rate. Maybank cites the resumption of trade and business activities across three main markets as the core driver of growth.

In Malaysia, non-corporate loans served as the core earnings driver, growing by +6.9%yoy. In Singapore and Indonesia, corporate loans saw the fastest growth, growing by +15.9%yoy and +26.5%yoy respectively. Indonesia did see its non-corporate portfolio contract by -1.2%yoy.

Deposit growth. Group deposit growth remained stable at +5.3%yoy. Malaysian deposits saw the sharpest increase, rising by +9.3%yoy, largely driven by CASA growth. On the other hand, Singaporean deposits contracted by -4.5%, though this was expected as the Group pares down on foreign FDs to reduce its cost of funds (COF). Indonesian FDs saw a similar quantum of contraction, though in this case strong CASA growth offset the decline.

As a result of foreign FD reduction, Maybank's group CASA ratio has risen to 46.7% in the quarter [1HFY21: 45.4%].

In terms of funding outlook, Malaysia remains strong, given that the number of transactions is buoyed by strong economic activity. Indonesian outlook is similarly positive, as good traction of CASA generation is maintained given the lower banking penetration in the country, as well as the low interest rate environment. Singaporean markets are a little tied up, but the Group maintains that liquidity is not yet an issue.

Cost efficiency. Operating expenses (OPEX) rose by +4.6%yoy and +4.2%qoq in 2QFY22. Management maintains that the uptick is due to higher IT costs and revenue spend given the reopening of borders, rather than an uptick in fixed costs. Maybank does note a potential uptick in personnel costs for the latter half of the year, following union negotiations.

Maybank reported a weaker cost/income ratio (CIR) of 45.1% in 1HFY22, slipping from 44.2% in 1HFY21. This is still within management's FY22 guidance of 45-46%. Despite an uptick in costs expected in the following quarters, we expected stronger income to maintain the CIR within the guided bracket.

Capital ratios. The Group's CET-1 ratio (ex-dividend) rests at a comfortable 14.3%, close to pre-pandemic levels. Its Bank's ex-dividend CET-1 ratio also rests at a stable 13.0%. While management deems capital levels as satisfactory, ongoing risk-weighted asset (RWA) optimisation and asset monetisation exercises could see possible upside to the current CET-1 value in the coming quarters.

FY22 Sustainability targets. The Group is performing exceedingly well in this regard, having already achieved ¾ of its full-year Sustainability targets for FY22. Most notably, it has already achieved RM24b worth of sustainable financing thus far, which translates to 4% of its gross loans. A more comprehensive breakdown can be viewed in Exhibit 3.

Dividend announced. Maybank announced a dividend of 28 sen in the quarter, which translates to a dividend payout of 86%. We lower our FY22 gross DPS projections to 66 sen, which assumes a full-year dividend payout ratio of 85%.

Earnings revised. We reduce our FY22 earnings forecasts by -9% as our previous NIM, loan growth and NCC estimates for the year may have been a bit too optimistic. This offsets potential OPR-related gains, as we change our forecasts to incorporate two further OPR hikes in 2022 from our previous forecast of one.

Key risks. Key risks to earnings include (1) Lower-than-expected NOII, should the adverse market and bond yield conditions persist, (2) Higher-than-expected NCC, particularly to compensate for poor asset quality in Indonesian markets, (3) NIM contraction from an inability to sustain high CASA growth levels in foreign segments.

Valuation and recommendation. We are upbeat on Maybank's long-term prospects for several reasons: (1) Its high dividend payout ratio of 85% translates to FY22 dividend yield of 6.6%, (2) It is the industry leader in terms of ESG initiatives and efforts, utilising its regional presence to bring impact of a larger scale, (3) Solid loan growth in its foreign segments has boosted Maybank's gross loan growth above the industry average, (4) FD paring exercises in foreign segments should result in lower COF.

Thus, we maintain our **BUY** call with an upgraded **TP of RM10.41**, as we peg its FY23 BVPS to an increased PBV of 1.30x (previously 1.22x), which we feel more adequately reflects its high ROE generating potential in FY23. (GGM assumptions: FY23 ROE of 11.6%, LTG of 3.5% and COE of 9.7%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	2QFY22	1QFY22	2QFY21	Yoy (%)	Qoq (%)	1HFY22	1HFY21	Yoy (%)
Net interest income	3,520	3,327	3,020	16.6%	5.8%	6,847	5,927	15.5%
Islamic banking income	1,766	1,670	1,959	-9.9%	5.7%	3,436	3,843	-10.6%
Non-interest income	1,549	1,457	1,195	29.7%	6.3%	3,006	3,228	-6.9%
Net income	**6,835**	**6,454**	**6,174**	**10.7%**	**5.9%**	**13,289**	**12,999**	**2.2%**
OPEX	(3,056)	(2,934)	(2,921)	4.6%	4.2%	(5,990)	(5,742)	4.3%
PPOP	**3,779**	**3,520**	**3,253**	**16.2%**	**7.4%**	**7,299**	**7,256**	**0.6%**
Loan provisions	(838)	(443)	(525)	59.6%	88.9%	(1,281)	(1,375)	-6.8%
Other provisions	(319)	(154)	(42)	651.5%	107.4%	(472)	(61)	678.2%
JV & Associates	44	50	40	8.0%	-12.1%	93	77	21.0%
Profit before tax	**2,666**	**2,972**	**2,726**	**-2.2%**	**-10.3%**	**5,638**	**5,898**	**-4.4%**
Tax	(757)	(886)	(693)	9.2%	-14.6%	(1,642)	(1,437)	14.3%
NCI	(52)	(42)	(71)	-26.1%	25.0%	(94)	(106)	-11.7%
Reported net profit	**1,857**	**2,045**	**1,963**	**-5.4%**	**-9.2%**	**3,902**	**4,355**	**-10.4%**
Core net profit	**1,857**	**2,045**	**1,963**	**-5.4%**	**-9.2%**	**3,902**	**4,355**	**-10.4%**
Total NII	**5,183**	**4,894**	**4,853**	**6.8%**	**5.9%**	**10,077**	**9,501**	**6.1%**
Total NOII	**1,652**	**1,560**	**1,321**	**25.1%**	**5.9%**	**3,212**	**3,498**	**-8.2%**
Gross DPS (sen)	**28.0**	**-**	**28.0**	**n.m.**	**n.m.**	**28.0**	**28.0**	**n.m.**
Core EPS (sen)	**15.6**	**17.2**	**17.1**	**-8.7%**	**-9.5%**	**32.7**	**37.8**	**-13.5%**
Gross loans	575,332	561,280	541,516	6.2%	2.5%			
Gross impaired loans	10,425	10,953	11,826	-11.8%	-4.8%			
Customer deposits	608,155	604,547	579,487	4.9%	0.6%			
CASA	272,036	269,074	254,239	7.0%	1.1%			

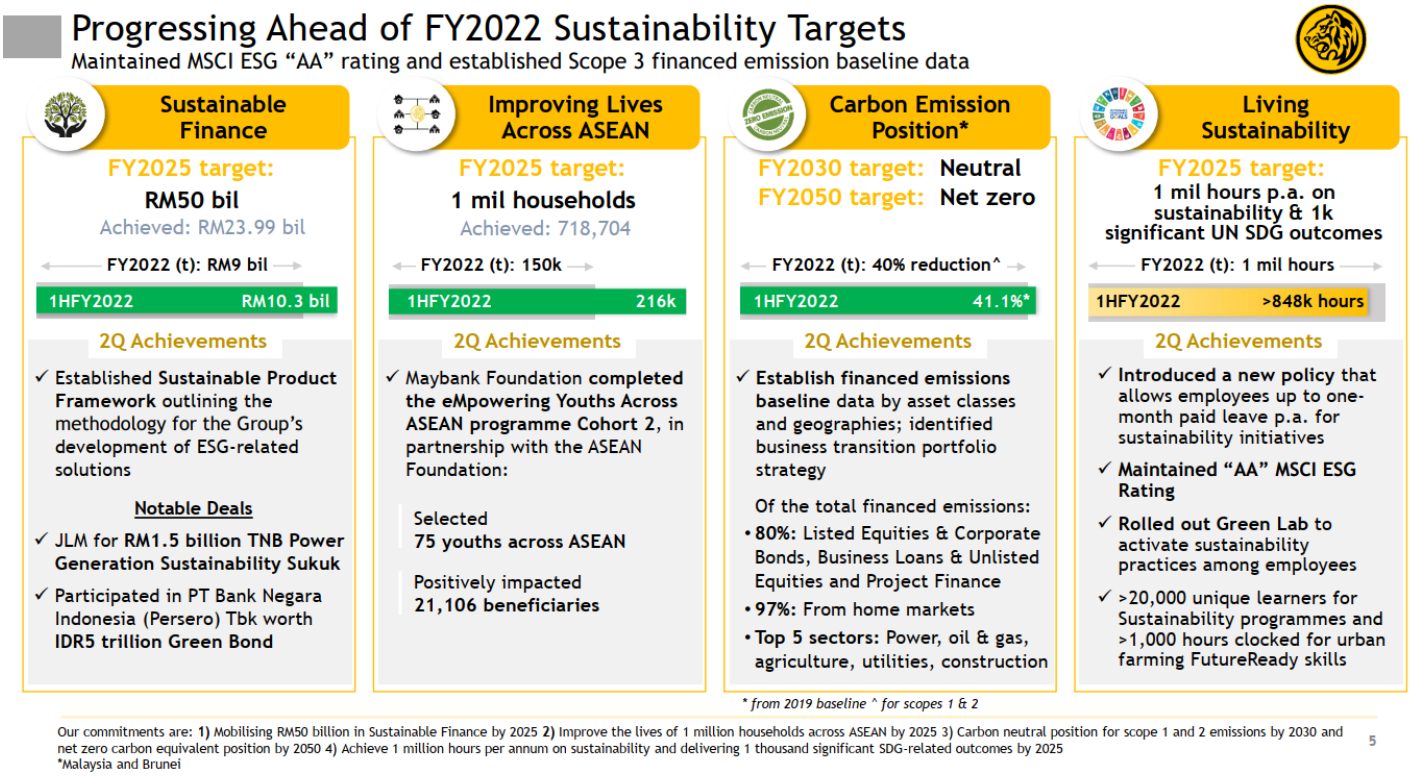
Source: Company, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY22	1QFY22	2QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	1HFY22	1HFY21	Yoy (+/- ppts)
NIM (Reported)	**2.41**	**2.34**	**2.37**	**0.04**	**0.07**	**2.38**	**2.34**	**0.04**
NOII/Total income	24.2	24.2	21.4	2.8	0.0	24.2	26.9	-2.7
ROE (Ann.)	8.8	9.8	9.3	-0.6	-1.0	9.2	10.3	-1.1
Cost-to-income ratio	44.7	45.5	47.3	-2.6	-0.7	45.1	44.2	0.9
Net credit costs (Ann.) (bps)	60	32	40	20	28	46	52	(6)
GIL ratio	1.81	1.95	2.18	-0.37	-0.14			
Loan loss coverage	118.6	101.6	111.1	7.5	17.0			
L/D ratio	92.6	91.0	91.2	1.4	1.6			
CET1	15.0	14.9	14.6	0.3	0.1			
Tier-1	15.7	15.6	15.3	0.3	0.0			
Total Capital	18.3	18.3	17.9	0.5	0.0			

Source: Company, MIDFR

EXHIBIT 3: FY22 SUSTAINABILITY TARGETS



Source: Company, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	19,351	17,205	19,971	21,620	23,720
Interest expense	(8,260)	(5,171)	(7,120)	(8,250)	(9,820)
Net interest income	**11,090**	**12,034**	**12,851**	**13,370**	**13,900**
Islamic banking income	6,136	7,573	8,549	9,148	9,697
Other operating income	7,537	5,842	8,037	7,317	7,703
Total income	**24,763**	**25,448**	**29,438**	**29,835**	**31,299**
OPEX	(11,222)	(11,519)	(13,335)	(13,426)	(14,085)
PPOP	**13,541**	**13,930**	**16,102**	**16,409**	**17,215**
Loan allowances	(4,599)	(2,659)	(2,515)	(2,293)	(2,143)
Other allowances	(495)	(571)	(636)	(325)	(113)
JV & Associates	209	186	216	220	231
Pretax profit	**8,657**	**10,887**	**13,167**	**14,011**	**15,188**
Taxation and zakat	(1,938)	(2,565)	(3,950)	(3,223)	(3,493)
NCI	(238)	(225)	(203)	(237)	(257)
Reported net profit	**6,481**	**8,096**	**9,014**	**10,551**	**11,438**
Core net profit	**6,481**	**8,096**	**9,014**	**10,551**	**11,438**
Total NII	16,651	19,089	20,546	21,603	22,627
Total NOII	8,113	6,359	8,537	8,354	8,764

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	54,014	57,521	60,404	62,062	64,320
Investment securities	201,158	210,702	218,475	227,840	240,640
Net loans	512,210	541,888	575,395	604,891	630,683
Other IEAs	31,572	26,674	28,274	30,442	32,573
Non-IEAs	57,905	51,388	43,747	54,289	55,524
Total assets	**856,860**	**888,172**	**926,294**	**979,525**	**1,023,741**
Customer & bank deposits	618,069	654,272	690,250	721,133	753,631
Other IBLs	72,184	68,264	67,858	73,253	77,375
Non-IBLs	79,497	77,084	76,286	89,093	90,693
Total liabilities	**769,750**	**799,620**	**834,395**	**883,479**	**921,698**
Share capital	48,280	53,156	53,156	53,156	53,156
Reserves & retained profit	36,156	32,655	35,893	39,911	45,723
Shareholders' funds	**84,437**	**85,811**	**89,050**	**93,068**	**98,879**
NCI	2,673	2,741	2,850	2,978	3,164
Total equity	**87,110**	**88,552**	**91,899**	**96,046**	**102,043**
Total liabilities & equity	**856,860**	**888,172**	**926,294**	**979,525**	**1,023,741**
Total IEAs	798,954	836,784	882,547	925,236	968,217
Total IBLs	690,253	722,536	758,109	794,387	831,005
Gross loans	523,724	553,789	589,231	617,791	643,002
CASA	229,794	267,147	273,058	272,908	281,095

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	2.11	2.33	2.39	2.39	2.39
Return on IEAs	2.45	2.10	2.32	2.39	2.51
Cost of funds	1.20	0.73	0.96	1.06	1.21
Net interest spread	1.25	1.37	1.36	1.33	1.30
Profitability (%)					
ROE	7.8	9.5	10.3	11.6	11.9
ROA	0.8	0.9	1.0	1.1	1.1
NOII/Total income	32.8	25.0	29.0	28.0	28.0
Effective tax rate	22.4	23.6	30.0	23.0	23.0
Liquidity & Efficiency (%)					
Cost-to-income ratio	45.3	45.3	45.3	45.0	45.0
Loan/Deposit ratio	92.1	92.0	93.0	94.4	95.1
CASA ratio	41.3	45.4	44.2	42.6	42.4
Asset Quality (%)					
GIL ratio	2.23	1.99	2.36	2.12	1.98
NIL ratio	1.07	0.85	1.10	0.99	0.95
LLC ratio	98.6	107.8	99.3	98.7	96.6
LLC (incl. reserves)	116.7	119.7	115.3	116.4	122.3
Gross credit cost (bps)	93	54	48	43	40
Net credit cost (bps)	88	49	44	38	34
% Floating rate loans	71.6	72.4	72.0	72.0	72.0
% Domestic loans	62.4	61.5	62.0	62.0	62.0
Capital (%)					
CET 1	15.7	15.7	15.9	15.9	15.9
Tier 1 capital	16.5	16.4	16.6	16.6	16.6
Total capital	19.3	19.2	19.4	19.4	19.4
Growth (%)					
Total NII	(4.9)	14.6	7.6	5.1	4.7
Total NOII	12.3	(21.6)	34.2	(2.1)	4.9
Core net profit	(20.9)	24.9	11.3	17.0	8.4
Gross loans	0.0	5.7	6.4	4.8	4.1
Customer deposits	2.2	5.9	5.0	3.6	3.5
CASA	22.6	16.3	2.2	(0.1)	3.0
Valuation metrics					
Core EPS (sen)	55.8	69.7	77.6	90.8	98.4
Gross DPS (sen)	52.0	58.0	65.9	77.2	83.7
Div payout ratio (%)	90.2	83.3	85.0	85.0	85.0
BVPS (RM)	7.3	7.4	7.7	8.0	8.5
Core P/E (x)	15.9	12.7	11.4	9.7	9.0
Dividend yield (%)	7.2	5.9	6.6	7.5	8.7
P/BV (x)	1.2	1.2	1.2	1.1	1.0

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology