Company Update | Friday, 02 September 2022

Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

Maintain BUY

Sustainability is today's hot topic

***Unchanged* Target Price: RM10.41**

KEY INVESTMENT HIGHLIGHTS

- **We maintain our earnings forecast**
- **Core drivers: (1) High dividend yield, (2) Industry leader status in terms of ESG, (3) Solid loan growth in foreign segments, (4) FD paring exercises abroad resulting in lower COF**
- **Key risks: (1) Lower than expected NOII should adverse market conditions persist, (2) Higher NCC, (3) NIM contraction from foreign CASA parring**
- **Maintain BUY call with unchanged TP of RM10.41**

Highlights from Maybank's Sustainability briefing:

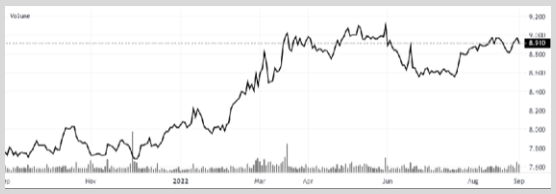
1. Stranded assets could put downside pressure on Group's financial outcomes.
2. A remedy to the issue is transitioning such customers into more ESG-friendly business models.
3. Maybank acknowledges that their current framework guidelines are still general and lack the specificity required for dealing with more complex scenarios.
4. Nonetheless, management is confident that this can be worked on over the course of time in multiple trailblazing efforts. This is something that feeds into Maybank's status as regional ESG leader.
5. Upon identifying its core emission-producing clients, Maybank will work towards transitioning them first.
6. ESG financing benefits include transitioning a client from a high risk, low reward to better risk, higher reward.

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 @ 1 September 2022 (RM)	8.91
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	1,491.95
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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Maybank unveils latest ESG developments. The Group touched on:

1. **Sustainable Product Framework,** which offers guidelines, checks-and-balance systems, scope determination and objectives in allowing Maybank to drive RM50b worth of sustainable finance in 2025.
2. **Financed Emissions Findings,** which pinpoints the specifics of lenders who are causing disproportionate levels of emissions – this provides active, easily visible targets which are ripe for transition initiatives.
3. **ESG Risk Governance Oversight,** which much like other risk management oversight systems, provides a layout of checks-and-balances in making effective ESG-related decisions.

Stranded assets. Stranded assets are assets that have suffered from premature devaluations and write-downs, usually as result of changing environmental pressures. Some examples include coal mines and gas power plants which have become stranded by the low carbon transition players.

In Maybank's case, the act of producing a stranded asset may affect the bank negatively from a financial perspective, via making its way into probability of loss given default or as an environmental risk component in the ECL. The most viable means to reduce such costs is through transitioning these clients into a more ESG-friendly business model, reducing the likelihood of creating a stranded asset.

Realistically, Maybank does expect stranded assets to build up at one point or another and may be forced to build a forward-looking prediction of this into their ECL predictions.

Pioneering complex ESG scenarios. Maybank's sustainability plans touch extensively on carbon emissions, which is easily quantifiable. However, a large proportion of ESG issues are less quantifiable: labour issues in plantations and factories, land reclamation, as well as certified practices holding no legitimacy in another region.

Maybank does acknowledge that their risk management guidelines are still general and very much black-and-white. Nonetheless, they believe that in time this methodology will be refined to more specific cases. This ties into Maybank's decision toward becoming a Regional ESG Leader, as it pioneers financing in more unfamiliar scenarios – examples and case-studies other banks can draw from in their individual ESG journeys.

Low hanging fruit. Maybank has identified <100 clients which contribute to ~70% of total emissions. Maybank prioritises these as core transition financing targets and will apply a more customer-specific approach in providing transition support. The brunt of these clients is from the 6 high ESG risk sectors that Maybank has identified.

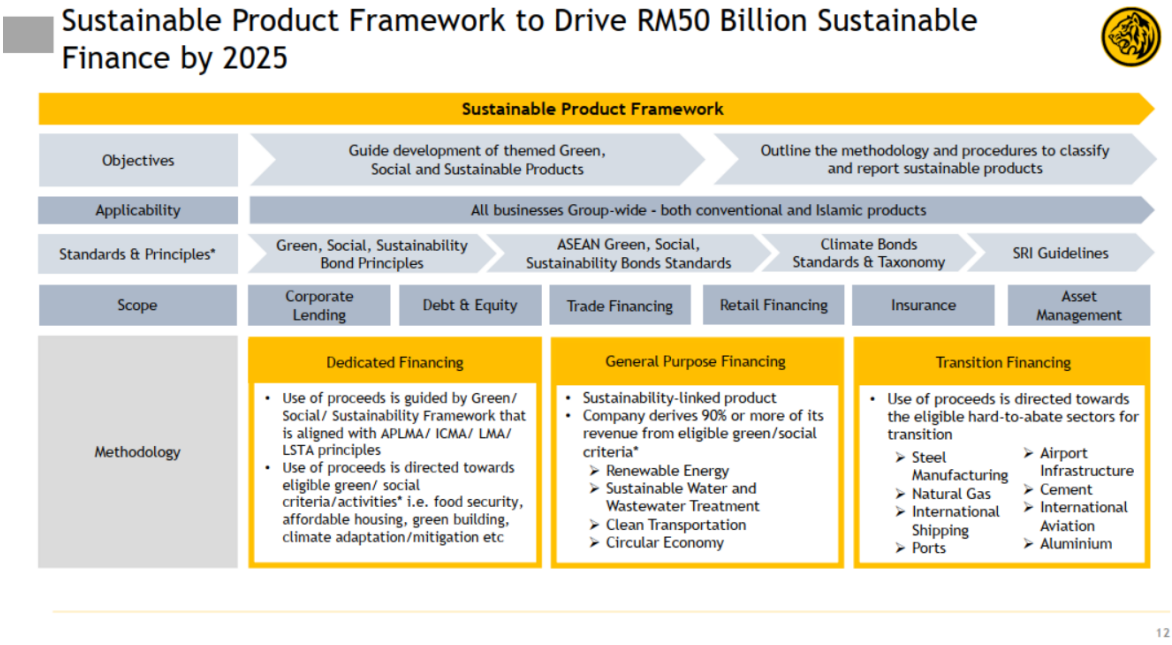
ESG financial returns. Management acknowledges difficulty in giving a straight answer, given the sheer number of moving parts. A suggestion given was that the sheer number of transition financing offering banks could render the process more competitive, driving down margins. Maybank, however, stipulates that transitioning activities do provide attractive opportunities for banks, given that companies undergoing this process are converted from high-risk, low-price companies to better risk, moderate price companies., which could result in outsized returns.

Earnings maintained. We make no changes to our earnings.

Valuation and recommendation. We are upbeat on Maybank's long-term prospects for several reasons: (1) Its high dividend payout ratio (2) It is the regional leader in terms of ESG initiatives, (3) Solid loan growth in its foreign segments, (4) Foreign FD paring exercises should result in lower COF.

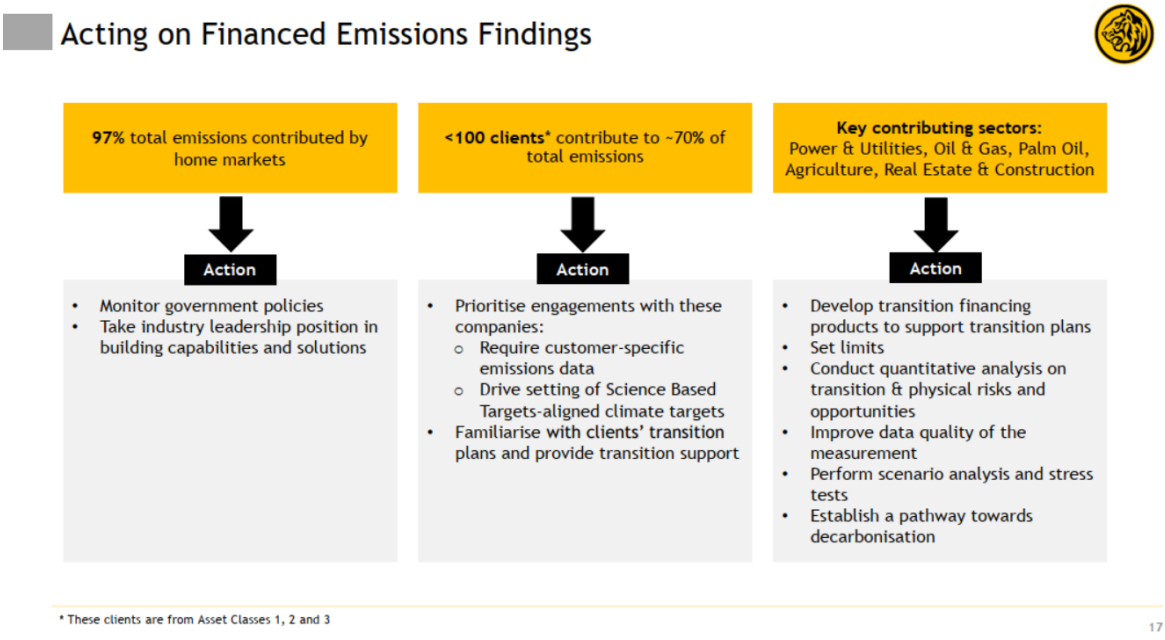
Thus, we maintain our **BUY** call with an unchanged **TP of RM10.41**, as we peg its FY23 BVPS to an unchanged P/BV of 1.30x. (GGM assumptions: FY23 ROE of 11.6%, LTG of 3.5% and COE of 9.7%.)

EXHIBIT 1: SUSTAINABLE PRODUCT FRAMEWORK



Source: Maybank, MIDFR

EXHIBIT 2: FINANCED EMISSIONS FINDINGS



Source: Maybank, 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