Company Update | Friday, 28 October 2022

# Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

## Drastic change in ROE guidance

## *Downgrade to* NEUTRAL

*(Previously BUY)*

## *Revised* Target Price: RM8.83

*(Previously RM10.41)*

## KEY INVESTMENT HIGHLIGHTS

- **We reduce our FY22/23/24 forecast**
- **Core drivers: (1) Attractive dividend yield, (2) Status as regional ESG leader.**
- **Key risks: (1) High deposit competition, (2) Elevated tech spend, (3) Poor investment and forex income persist**
- **Downgrade to NEUTRAL call with reduced TP of RM8.83**

**Highlights from Maybank's M25+ strategy update:**

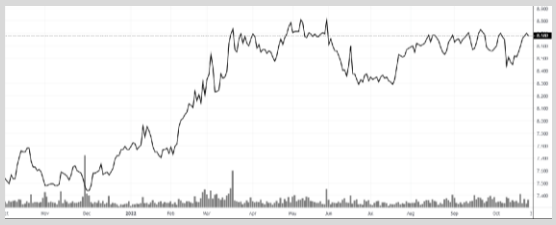
1. Maybank has reduced its FY25 sustainable ROE target from 13-15% to a far more mediocre 11-12%.
2. This was due overestimation of the contributions of previous ROE drivers.
3. Additionally, its loans growth target of 7% from FY21-25 is too ambitious without inorganic growth.
4. It has shifted its FY22-25 cost-to-income ratio forecasts upward to account for higher tech spend.
5. RM3.5-4.5b is allocated for tech spend in the next couple of years, 45-50% is expected to be recurring.
6. Forays into regional Islamic wealth management seems like a promising endeavour, though returns may be limited.
7. Maybank's regional approach may not be sufficient to maintain a suitable trajectory of growth unless active gain of market share is involved.
8. Indonesia remains a core strategic focus of Maybank's development.

**FINANCIAL SUMMARY**

| FYE Dec | FY20 | FY21 | FY22F | FY23F | FY24F |
|---|---|---|---|---|---|
| NII (RM m) | 16,651 | 19,089 | 20,546 | 21,422 | 22,437 |
| NOII (RM m) | 8,113 | 6,359 | 7,220 | 7,742 | 8,625 |
| Net income (RM m) | 24,763 | 25,448 | 27,766 | 29,165 | 31,063 |
| PPOP (RM m) | 13,541 | 13,930 | 15,132 | 15,311 | 16,308 |
| Core net profit (RM m) | 6,481 | 8,096 | 8,341 | 9,713 | 10,746 |
| Core EPS (sen) | 55.8 | 69.7 | 71.8 | 83.6 | 92.5 |
| Core P/E (x) | 15.6 | 12.5 | 12.1 | 10.4 | 9.4 |
| Gross DPS (sen) | 52.0 | 58.0 | 57.4 | 66.9 | 74.0 |
| Dividend yield (%) | 7.4 | 6.0 | 6.7 | 6.6 | 7.7 |
| BVPS (RM) | 7.3 | 7.4 | 7.5 | 7.7 | 8.0 |
| P/BV (x) | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 |
| ROE (%) | 7.8 | 9.5 | 9.7 | 11.0 | 11.8 |

| RETURN STATISTICS | |
|---|---|
| Price @ 27th Oct 2022 (RM) | 8.68 |
| Expected share price return (%) | +1.7 |
| Expected dividend yield (%) | +6.6 |
| **Expected total return (%)** | **+8.3** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 1.5 | -1.5 |
| 3 months | 1.4 | 0.0 |
| 12 months | 7.0 | 16.5 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,454.09 |
| Syariah compliant | No |
| F4GBM Index | Yes |
| ESG Grading Band (Star rating) | ☆☆☆☆ |
| Issue shares (m) | 11878.51 |
| Estimated free float (%) | 36.51 |
| Market Capitalisation (RM m) | 104,870.91 |
| 52-wk price range | RM7.87 - RM9.18 |
| Beta vs FBM KLCI (x) | 0.88 |
| 3-mth average daily volume (m) | 8.41 |
| 3-mth average daily value (RM m) | 73.64 |
| Top Shareholders (%) | |
| Amanah Saham Nasional | 38.40 |
| Employees Provident Fund Board | 12.95 |
| Yayasan Pelaburan Bumiputera | 7.21 |

**Analyst**
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

**Maybank held a briefing to announce its updated M25+ strategy plans.** Here are some highlights.

## A. Revised targets – ROE & loan growth

**Reduced ROE targets, previous ROE drivers were overestimated.** Maybank has reduced its ambitious 13-15% FY2025 ROE target to 11-12% (Exhibit 1,2). It has overestimated the contributions of its core ROE drivers mentioned in its M25 strategy (Exhibit 3). The drivers are now the priorities of nearly every local bank, chipping away its competitive advantage:

1) **SME space.** Local banks are seeing exceptional take-up in SME loans. This can be reflected by a 60% approval rate in SME loan approvals, the highest this figure has ever been. Note that high take-up is partially driven by government incentives and programmes for SMEs. This drives up the risk/reward trade-off positively, given that attractive yields commonly associated with the sector can be gained with minimal risk.

   However, the space has become extremely competitive. Note that certain brackets are vulnerable to asset quality issues. Additionally, the end of such government incentives could lead to a sharp tapering of the segment's loan growth.

2) **Sustainability-related opportunities.** Even in early stages, banks have seen excellent take-up in sustainable finance. However, its economic benefit and impact is less clear – the immense complexity associated with sustainable financing makes it unlikely to be considered a reliable source of income driver for now.

3) **Digitalisation.** Digitalisation and automation were previously seen as an easy way to cut down on OPEX. However, it has now shifted to being a pre-requisite in maintaining a bank's competitive edge.

   It makes a bank more agile: crucial given quicker product life cycles and the rapid rate of change and development. It also allows banks to breach and capture niche subsectors in saturated markets through hyper-personalisation. In Maybank's case, it could be its key to elevating its overseas market share – by being able to compete with more cost-efficient, established local players.

**New M25+ loan growth target is too ambitious.** We deem Maybank's FY21-25 targeted average loan growth of 7% nearly unachievable unless it opts to grow inorganically. Current YTD loan growth stands at +7.8%, while the average loan growth for FY17-21 was 3%. A full normalisation of OPR will likely slow loan growth further, and unfortunately its foreign segments are not established enough to draw this level of loans.

## B. Increased technology spending

**Significant tech expense allocation, 2022-2024 CIR raised above guided figures.** Maybank announced that it will invest a one-off RM3.5-4.5b for tech spend in the next 3-5 years (Exhibit 4). It targets >5% of revenue for tech expense in 2025 – significantly higher than the local average. This will temporarily elevate cost-to-income ratio from the ~45% range to 47-47.5% range in 2022-2024, before normalising in 2025 (Exhibit 5).

**Brunt of tech expenses will be non-recurring.** Tech expenses are divided into three parts: (1) Tech for tech, (2) Tech for business, (3) People and other investments. Recurring OPEX will come from people and other investments, as well as a portion of tech for business – we estimate roughly 40-50% of the spend will end up being recurring.

## C. Notable M25+ drivers

**Wealth management segment is also competitive…** M25+ has thrust wealth management into the spotlight as an ROE driver (Exhibit 6,7). Wealth management income makes up ~19% of FY21 operating income. However, recall that the local wealth management market is currently as competitive as that of the aforementioned M25 drivers – implying that Maybank could face similar disappointments in the future.

**…but regional Islamic foray is appealing.** Maybank intends to use a hub-and-spoke approach to develop its regional Islamic wealth management business. Singapore will be used as the hub, given that it is an established wealth management

centre. Middle east and ASEAN region act as spokes – Indonesia is a core focus. We like the development given Maybank's reputation as a pre-eminent Islamic Bank, and the higher lending yields associated with Islamic finance. However, the scope of growth on a regional level will likely remain limited, given that Maybank is not in the position to steal market share from better positioned local players.

**Regional plans – will they involve M&As to be effective?** Strategic programme 8 involves a redefining of Maybank's International footprint. It categorises the Group Portfolio into three archetypes, which dictates the way the Group approaches a specific country. We are wary of execution risk, given the sheer number of countries Maybank has a stake in.

Given Maybank's large earnings base, targeting niche segments offers the Group only small percentage returns, which we doubt is enough for a higher sustainable ROE level. It can opt to grow market share in the country – however, it will be at disadvantage compared to better-positioned local players. A remedy to that is via M&A – management has not discounted these out of the equation.

**Focus on Indonesia.** Maybank's presence in Indonesia is small, with a market share of 2%. It has no intention to grow this value. Instead, the Group aims to target strategic segments, given that competing directly against larger players is overly difficult: these include the SME and Islamic financing space (including Islamic wealth management). Note, however, that OJK may rescind incentives on SMEs in the coming year – elevating the risk associated with the segment.

## D. Ending statements

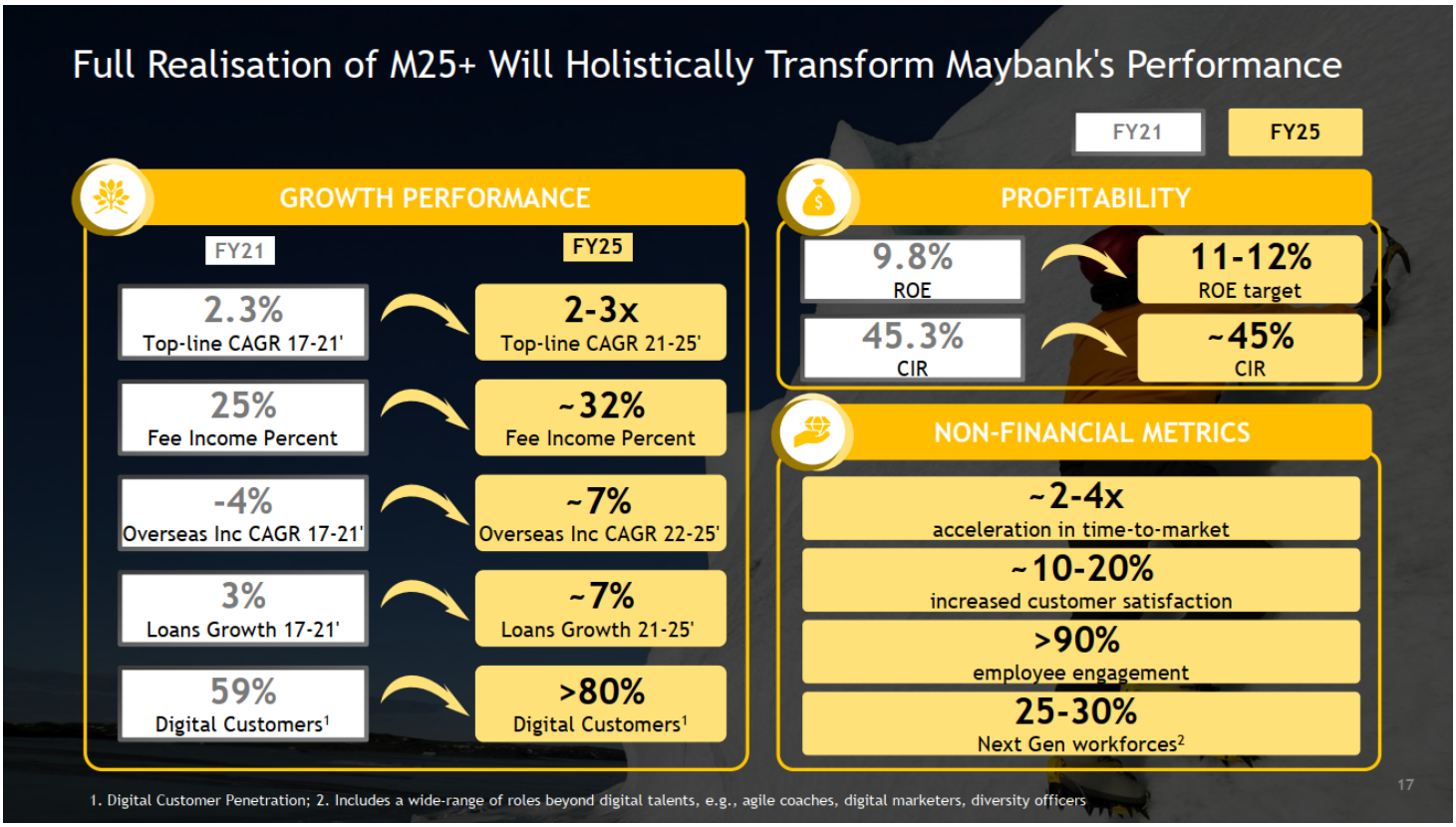
**Earnings revised.** We reduce our earnings forecast for FY22/FY23/FY24 by -7%/-8%/-6% to account for higher OPEX and less favourable non-interest income movements in the near-term.

**Key risks.** Key risks to earnings include (1) Higher-than-expected deposit competition, (2) Elevated technology expenses, (3) Poor investment and forex income persists.

**Valuation and recommendation.** We are less optimistic on Maybank's mid-term prospects, primarily due to changes to cost-to-income and ROE ratio guidance. We are not fully convinced that M25+'s strategic programmes are enough to maintain a sufficient growth trajectory without the Bank taking more aggressive steps. Nevertheless, the Group does maintain the appeal of attractive dividend yields and its status as a regional ESG leader.

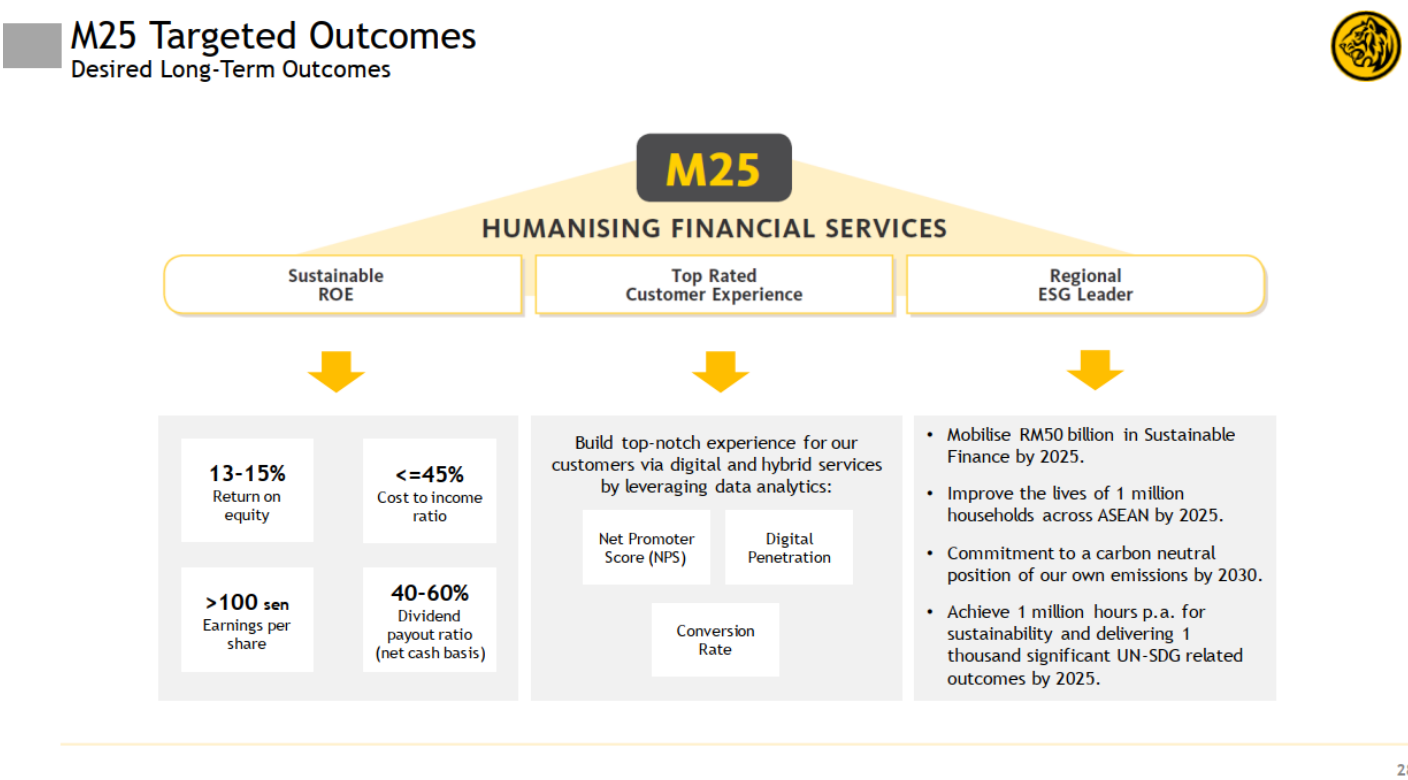
Thus, we downgrade our call from BUY to **NEUTRAL** with a reduced **TP of RM8.83** (previously RM10.41), as we peg its FY23 BVPS to a decreased P/BV of 1.15x (formerly 1.30x) to account for the reduced ROE guidance. (GGM assumptions: FY23 ROE of 11.0%, LTG of 3.0% and COE of 10.0%.)

## EXHIBIT 1: M25+ TARGETS




*Source: Maybank, MIDFR*

## EXHIBIT 2: ORIGINAL M25 TARGETS

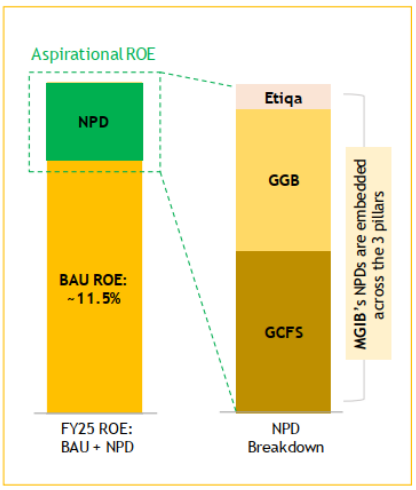



*Source: Maybank, MIDFR*

## EXHIBIT 3: ORIGINAL M25 ROE DRIVERS

### M25 Targeted Outcomes
Drivers behind ROE uplift

To improve a BAU potential ROE of around ~11.5% by 2025, we have identified New Profit Drivers (NPD) that will bring us closer towards achieving our aspirational ROE of between 13%-15% by 2025.



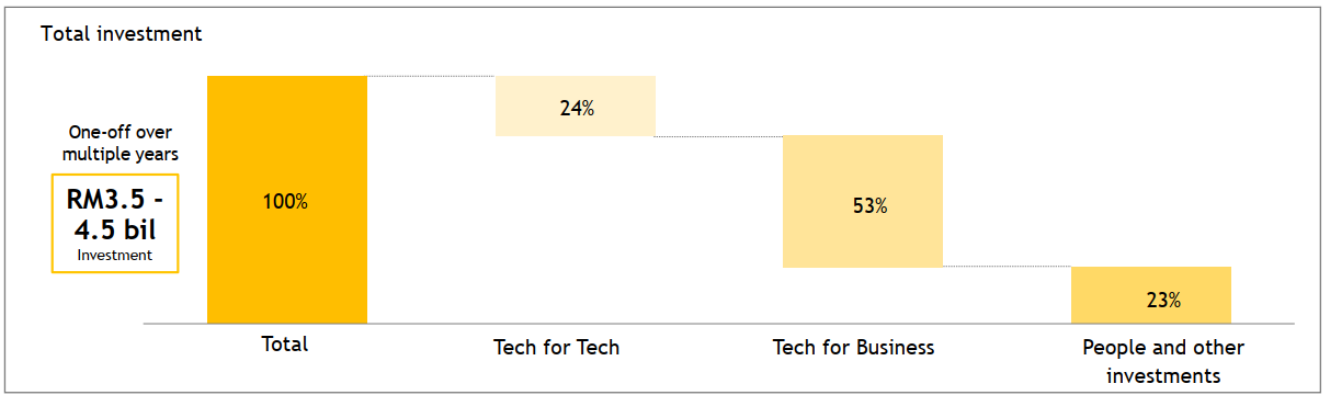

| | |
|---|---|
| **Group Community Financial Services (GCFS)** | • Digital: Continuously enhance STP capabilities, drive customer engagement & stickiness.<br>• Group Private Wealth: Leveraging regional platforms and targeting niche and neglected segments.<br>• SME: Digitise sales in home markets (i.e.: RSME loans) and enabling lateral connectivity to SME customers across our home markets. |
| **Group Global Banking (GGB)** | • IB & IM: Prime brokerage, investment and asset management ESG centric growth<br>• Capture cross border flows from SG-MY and ASEAN+ corridors.<br>• Automate end-to-end onboarding and credit processing.<br>• Optimise trade, treasury and cash platforms so flow business for GB & CFS clients remain relevant |
| **Group Islamic Banking (MGIB)** | • Expand role from an Islamic Bank to investment intermediation, to drive Islamic fee-based income contribution to Group.<br>• Develop Wealth Management business in home markets through product innovation and prioritising customer experience, as well as linking investors from Dubai and Brunei to our home markets. |
| **Group Insurance & Takaful (Etiqa)** | • Digitising sales to become No. 1 Digital Insurer of Choice in ASEAN.<br>• To become preferred banca partner leveraging digital tools.<br>• Expand Auto digital service offerings. |

27

*Source: Maybank, MIDFR*

## EXHIBIT 4: ADDITIONAL TECH SPEND

### In the Next Three to Five Years, We Will Invest RM3.5 - 4.5 bil to Accelerate the Development of New Capabilities for Long-Term Growth




**Potential areas for investments**

- Data platforms
- Channel integration
- Lean the core
- Hybrid cloud
- IT rationalisation
- Cybersecurity
- Straight-through-processing (STP)
- API layer

- **Consumer & SME**: CX[1] Journey E2E[2]
- **Wholesale TOM**[3]: Loan origination system
- **Regional wholesale**: Payment hub and trade
- **Islamic Banking**: Regional Islamic wealth platform
- **Insurance**: F2B transformation

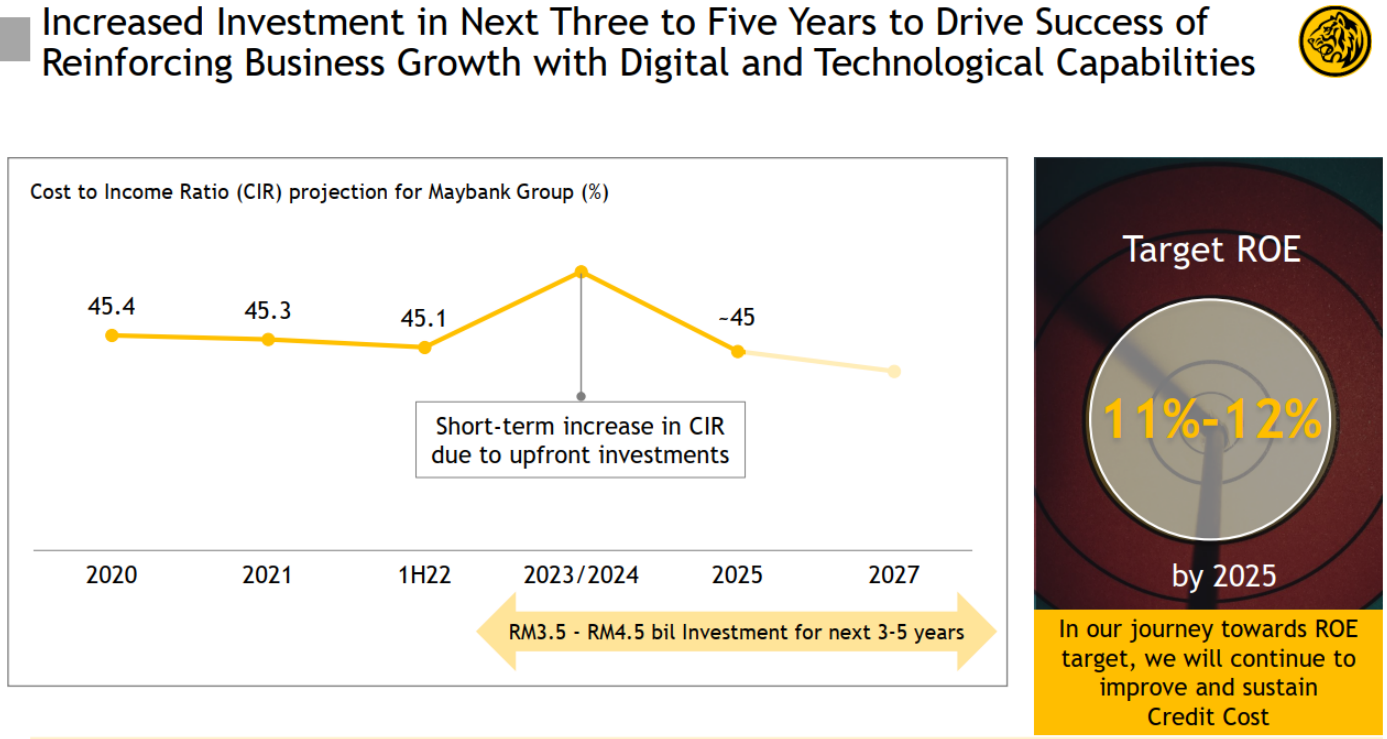
- Talent investments
- Expert resources
- Marketing costs

1. Customer Experience (CX); 2. End-to-end (E2E); 3. Target operating model (TOM)

10

*Source: Maybank, MIDFR*

## EXHIBIT 5: CHANGES TO COST-TO-INCOME RATIO




*Source: Maybank, MIDFR*

## EXHIBIT 6: STRATEGIC PROGRAMMES, PART 1




*Source: Maybank, MIDFR*

## EXHIBIT 7: STRATEGIC PROGRAMMES, PART 2




*Source: Maybank, MIDFR*

# INVESTMENT STATISTICS

## INCOME STATEMENT

| FYE Dec (RM m) | FY20 | FY21 | FY22F | FY23F | FY24F |
|---|---|---|---|---|---|
| Interest income | 19,351 | 17,205 | 20,064 | 21,746 | 23,956 |
| Interest expense | (8,260) | (5,171) | (7,120) | (8,250) | (9,820) |
| **Net interest income** | **11,090** | **12,034** | **12,944** | **13,496** | **14,136** |
| Islamic banking income | 6,136 | 7,573 | 8,447 | 8,807 | 9,224 |
| Other operating income | 7,537 | 5,842 | 6,375 | 6,862 | 7,703 |
| **Net income** | **24,763** | **25,448** | **27,766** | **29,165** | **31,063** |
| OPEX | (11,222) | (11,519) | (12,633) | (13,853) | (14,755) |
| **PPOP** | **13,541** | **13,930** | **15,132** | **15,311** | **16,308** |
| Loan allowances | (4,599) | (2,659) | (2,515) | (2,293) | (2,143) |
| Other allowances | (495) | (571) | (636) | (325) | (113) |
| JV & Associates | 209 | 186 | 203 | 205 | 219 |
| **Pretax profit** | **8,657** | **10,887** | **12,184** | **12,898** | **14,270** |
| Taxation and zakat | (1,938) | (2,565) | (3,655) | (2,967) | (3,282) |
| NCI | (238) | (225) | (188) | (218) | (242) |
| **Reported net profit** | **6,481** | **8,096** | **8,341** | **9,713** | **10,746** |
| **Core net profit** | **6,481** | **8,096** | **8,341** | **9,713** | **10,746** |
| | | | | | |
| Total NII | 16,651 | 19,089 | 20,546 | 21,422 | 22,437 |
| Total NOII | 8,113 | 6,359 | 7,220 | 7,742 | 8,625 |

## 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 | 77,781 | 91,586 | 94,190 |
| **Total liabilities** | **769,750** | **799,620** | **835,890** | **885,972** | **925,196** |
| Share capital | 48,280 | 53,156 | 53,156 | 53,156 | 53,156 |
| Reserves & retained profit | 36,156 | 32,655 | 33,486 | 36,038 | 40,346 |
| **Shareholders' funds** | **84,437** | **85,811** | **86,643** | **89,194** | **93,502** |
| NCI | 2,673 | 2,741 | 2,773 | 2,854 | 2,992 |
| **Total equity** | **87,110** | **88,552** | **89,415** | **92,049** | **96,494** |
| **Total liabilities & equity** | **856,860** | **888,172** | **925,305** | **978,021** | **1,021,690** |
| | | | | | |
| 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 | 255,893 | 250,256 | 247,754 |

**FINANCIAL RATIOS**

| FYE Dec (RM m) | FY20 | FY21 | FY22F | FY23F | FY24F |
|---|---|---|---|---|---|
| **Interest (%)** | | | | | |
| NIM | 2.11 | 2.33 | 2.39 | 2.37 | 2.37 |
| Return on IEAs | 2.45 | 2.10 | 2.33 | 2.41 | 2.53 |
| Cost of funds | 1.20 | 0.73 | 0.96 | 1.06 | 1.21 |
| Net interest spread | 1.25 | 1.37 | 1.37 | 1.34 | 1.32 |
| | | | | | |
| **Profitability (%)** | | | | | |
| ROE | 7.8 | 9.5 | 9.7 | 11.0 | 11.8 |
| ROA | 0.8 | 0.9 | 0.9 | 1.0 | 1.1 |
| NOII/Total income | 32.8 | 25.0 | 26.0 | 26.5 | 27.8 |
| Effective tax rate | 22.4 | 23.6 | 30.0 | 23.0 | 23.0 |
| | | | | | |
| **Liquidity & Efficiency (%)** | | | | | |
| Cost-to-income ratio | 45.3 | 45.3 | 45.5 | 47.5 | 47.5 |
| Loan/Deposit ratio | 92.1 | 92.0 | 93.0 | 94.4 | 95.1 |
| CASA ratio | 41.3 | 45.4 | 41.4 | 39.1 | 37.4 |
| | | | | | |
| **Asset Quality (%)** | | | | | |
| GIL ratio | 2.23 | 1.99 | 2.36 | 2.12 | 1.98 |
| 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 |
| Net credit cost (bps) | 88 | 49 | 44 | 38 | 34 |
| | | | | | |
| **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 | 4.3 | 4.7 |
| Total NOII | 12.3 | (21.6) | 13.5 | 7.2 | 11.4 |
| Core net profit | (20.9) | 24.9 | 3.0 | 16.5 | 10.6 |
| 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 | (4.2) | (2.2) | (1.0) |
| | | | | | |
| **Valuation metrics** | | | | | |
| Core EPS (sen) | 55.8 | 69.7 | 71.8 | 83.6 | 92.5 |
| Gross DPS (sen) | 52.0 | 58.0 | 57.4 | 66.9 | 74.0 |
| Div payout ratio (%) | 90.2 | 83.3 | 80.0 | 80.0 | 80.0 |
| BVPS (RM) | 7.3 | 7.4 | 7.5 | 7.7 | 8.0 |
| | | | | | |
| Core P/E (x) | 15.6 | 12.5 | 12.1 | 10.4 | 9.4 |
| Dividend yield (%) | 7.4 | 6.0 | 6.7 | 6.6 | 7.7 |
| P/BV (x) | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 |

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

# DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

| **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