Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

Maintain NEUTRAL

NIM compression in following quarter

Unchanged Target Price: RM8.83

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: Solid dividend yields, strong Islamic banking franchise, proxy to lucrative Indonesian market**
- **Downsides: Low sensitivity to OPR hikes, Elevated trading book exposure, lower-than average deposit growth capping funding**
- **Maintain NEUTRAL call with unchanged TP of RM8.83**

Highlights from Maybank's 3QFY22 quarterly results:

1. Maybank's YTD earnings showed flattish growth of +0.5%yoy, as higher OPEX and tax offset higher NII and NOII.
2. Malaysian RA loans down to 3.7% of local gross loans – good improvements in SME and mortgage loans.
3. GIL improved to 1.70%, foreign operations saw a slew of write-offs, while Malaysian GIL ticked upward mainly due to corporate related deterioration (likely LCS-related).
4. NCC of 42bps for the quarter – 44bps for 9MFY22. In line with mgmt guidance.
5. 3QFY22's NIM rose by +1bps qoq. 9MFY22's rose by +8bps yoy. Mgmt guides for NIM contraction in following quarter.
6. 3QFY22's NOII up by +29%qoq. Sharp improvements in forex and MTM holdings, while fee income was flattish. Interestingly, this was during a period of sharp rate hike.
7. +8% YTD loan growth: Funding issues should dampen 4QFY22.
8. Deposit growth low at +4.9%yoy – Singapore saw sharp qoq contraction.
9. 3QFY22's OPEX was up +10%qoq as result of higher personnel and marketing costs.

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
Total 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)	15.3	12.3	11.9	10.2	9.2
Gross DPS (sen)	52.0	58.0	57.4	66.9	74.0
Dividend yield (%)	7.5	6.1	6.8	6.7	7.8
BVPS (RM)	7.3	7.4	7.5	7.7	8.0
P/BV (x)	1.2	1.2	1.1	1.1	1.1
ROE (%)	7.8	9.5	9.7	11.0	11.8

RETURN STATISTICS	
Price @ 23 November 2022 (RM)	8.55
Expected share price return (%)	+3.2
Expected dividend yield (%)	+6.7
Expected total return (%)	**+9.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	-1.0
3 months	-0.5	-0.6
12 months	4.8	11.0

KEY STATISTICS	
FBM KLCI	1,443.50
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	11878.51
Estimated free float (%)	36.75
Market Capitalisation (RM m)	102,942.25
52-wk price range	RM7.87 - RM9.18
Beta vs FBM KLCI (x)	0.80
3-mth average daily volume (m)	9.49
3-mth average daily value (RM m)	82.24
Top Shareholders (%)	
Amanah Saham Nasional	38.31
Employees Provident Fund Board	12.79
Yayasan Pelaburan Bumiputera	7.21

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Within our and consensus expectations. Maybank's 9MFY22 core net profit of RM6.1b made up 73% and 74% of our and consensus full-year forecasts respectively.

YTD. Earnings experienced flattish +0.5%yoy growth. Higher tax and OPEX spend offset improvements in both NII and NOII income.

QoQ. Quarterly earnings of RM2.2b rose by +17%qoq. Improved NII, NOII and provisioning offset higher OPEX and tax costs.

Repayment assistance (RA) loans. As of Oct-22, Maybank's Malaysian RA loans improved to 3.7% of its gross loan portfolio. Previously, as of Jul-22, it was 5.9%% of its previous gross loans – SME and mortgage loans showed notable reductions. Both Singapore and Indonesian's percentage of RA loans remained flattish, at 3.3% and 9.2% respectively. Repayment trends remain well within expectations.

Asset quality. The Group's GIL ratio improved to 1.70% (2QFY22: 1.81%, 3QFY21: 1.93%). This follows a slew of write-offs in Singaporean and Indonesian offsetting GIL increases in local operations. Notable upticks have occurred in regional business banking and local corporate banking portfolios (likely involving LCS-related exposure). The Group's LLC is flattish from last quarter, remaining at 122%.

Provisioning. The Group incurred NCC of 42bps for the quarter, which averages to 44bps in 9MFY22. Management maintains its 40-50bps NCC guidance for FY22. The Group has increased its provisions for high-risk segment exposure (primarily O&G) to 90% (from 80% last quarter).

Cumulative overlays and writebacks. The Group's cumulative overlays stands at RM1.6b, slightly reduced from 2QFY22's RM1.73b. (38% are for retail and retail SME portfolios.) There are no provision writeback plans in the near future, given the poor economic outlook.

Lumpy financial investment provisioning. Note a significant RM246m worth of provisions for financial investments within the quarter (not factored into NCC calculations). This was merely a reclassification of borrower-specific provisions, following their removal from cumulative overlay levels in 2QFY22. The threats pertaining to these borrowers have yet to materialise.

NIM and NII. 3QFY22 NIM was flattish, expanding by +1bps qoq to 2.42%. It averaged 2.39% in 9MFY22, up from 2.31% in 9MFY21. Similarly, quarterly NII rose by +2%qoq and +12%yoy.

Mgmt guidance. Mgmt is guiding for FY22 NIM to be 0-5bps higher from FY21's 2.32%. As 9MFY22's is already above the range, expect compression in 4QFY22, driven by Malaysian and Singaporean NIM, as well as cyclical year-end deposit competition effects.

NOII. 3QFY22 NOII rose by +29%qoq. This is due to sharp improvements in forex profits and unrealised losses in MTM holdings. Fee income remained relatively flattish. 9MFY22's NOII rose by +8%yoy on the back of stronger forex and derivatives & financial liability income offsetting poorer fee income, as well as weaker investment and MTM gains. Overall, insurance contributions shrunk by 50%.

Loan growth. Gross loan growth maintained its strong momentum, expanding at a solid pace of +8.2%yoy, +8.0%YTD. Indonesian and local portfolios were prime contributors, though offset by lacklustre Singaporean performance. Expect Singapore to continue slower growth, given the higher cost of funding in 4QFY22 coupled with already high L/D ratio.

Local growth drivers. While growth was spread out relatively evenly, standouts were auto finance, credit card and SME segments. Notably, Maybank is growing market share in both auto finance and credit cards segments.

Deposit growth. Group deposit growth continues to taper, reporting a lacklustre +4.9%yoy and +4.7%YTD. While Malaysian and Indonesian performance was solid, Singapore saw a contraction in total deposits of -3.4%yoy, having experienced a sharp -18%yoy contraction in CASA. Maybank continues to pare down FDs in Indonesia to reduce cost of funding.

CASA and L/D ratios. CASA growth contracted to 42.1% from last quarter's 44.7%. Loan/Deposit ratio has crept up to 93.8%.

Cost efficiency. Quarterly OPEX rose by +11%qoq, +20%yoy in 3QFY22 and increased +10%yoy in 9MFY22. Core drivers include increased personnel, marketing, and admin expenses. Quarterly personnel costs saw a sharp increase of +10%qoq driven by higher bonus (topline-growth related), collective agreement with unions (one-off: RM200m – overall wage increase is expected to be in the high-single digit range) and inflationary wage effects. As a result, Maybank reported a weaker cost/income ratio (CIR) of 45.9% in 3QFY22. This averages to 45.4% in 9MFY22.

Capital ratios. The Group's CET-1 ratio has fallen to 13.8% (ex-div), from Dec-21's 16.1%. FVOCI book has been going into heavier negatives as of late. Nevertheless, management believes that further increases to OPR have been priced in and are thus able to withstand any further MTM loss for now. Management is expecting OPR to peak with one further +25bps hike in 1QCY23.

No dividend announced. Maybank typically divvies in the 2nd and 4th quarter.

Earnings maintained. As earnings were within expectations, we make no changes to our earnings forecast.

Key risks. Key risks to earnings include (1) Stronger-than-expected deposit competition, (2) Elevated OPEX, (3) Volatile investment and forex.

Valuation and recommendation. There are several upsides to Maybank: (1) Solid dividend yields, (2) Paring down of foreign FDs to reduce COF, (3) Regional ESG leader, (4) Strong Islamic banking franchise, (5) Exposure to lucrative Indonesian market, (6) Recovering NOII outlook. However, there are also downsides: (1) Lower-than-average deposit growth capping funding, (2) Elevated trading book exposure (17%), (3) Low sensitivity to OPR hikes. Its recent reduction of overlays through reclassification was also particularly disappointing. Additionally, M25+'s direction does not convince us that Maybank can maintain its current level of growth organically in the long term.

Thus, we maintain our **NEUTRAL** call with a unchanged **TP of RM8.83**, as we peg its FY23 BVPS to a unchanged P/BV of 1.15x to account for its ability to (GGM assumptions: FY23 ROE of 11.0%, LTG of 3.0% and COE of 10.0%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Net interest income	3,468	3,520	3,042	14.0%	-1.5%	10,315	8,969	15.0%
Islamic banking income	1,996	1,766	1,771	12.7%	13.1%	5,432	5,614	-3.2%
Non-interest income	1,950	1,549	1,337	45.8%	25.9%	4,956	4,565	8.6%
Net income	**7,414**	**6,835**	**6,150**	**20.6%**	**8.5%**	**20,703**	**19,149**	**8.1%**
OPEX	(3,394)	(3,056)	(2,821)	20.3%	11.1%	(9,385)	(8,564)	9.6%
PPOP	**4,020**	**3,779**	**3,329**	**20.8%**	**6.4%**	**11,318**	**10,585**	**6.9%**
Loan provisions	(600)	(838)	(1,126)	-46.8%	-28.4%	(1,881)	(2,501)	-24.8%
Other provisions	(242)	(319)	1	-26283.6%	-24.2%	(714)	(60)	1094.5%
JV & Associates	30	44	66	-54.8%	-31.9%	123	142	-13.9%
Profit before tax	**3,208**	**2,666**	**2,269**	**41.4%**	**20.3%**	**8,846**	**8,166**	**8.3%**
Tax	(1,039)	(757)	(531)	95.7%	37.3%	(2,681)	(1,967)	36.3%
NCI	(4)	(52)	(53)	-93.2%	-93.1%	(97)	(160)	-38.9%
Reported net profit	**2,166**	**1,857**	**1,685**	**28.5%**	**16.6%**	**6,068**	**6,039**	**0.5%**
Core net profit	**2,166**	**1,857**	**1,685**	**28.5%**	**16.6%**	**6,068**	**6,039**	**0.5%**
Total NII	**5,297**	**5,183**	**4,719**	**12.2%**	**2.2%**	**15,374**	**14,221**	**8.1%**
Total NOII	**2,117**	**1,652**	**1,431**	**48.0%**	**28.2%**	**5,329**	**4,928**	**8.1%**
Gross DPS (sen)	**-**	**28.0**	**-**	**n.m.**	**n.m.**	**28.0**	**28.0**	**n.m.**
Core EPS (sen)	**18.1**	**15.6**	**14.4**	**25.9%**	**16.4%**	**50.8**	**51.6**	**-1.6%**
Gross loans	587,119	575,332	541,776	8.4%	2.0%			
Gross impaired loans	9,989	10,425	10,450	-4.4%	-4.2%			
Customer deposits	613,671	608,155	584,192	5.0%	0.9%			
CASA	258,076	272,036	260,107	-0.8%	-5.1%			

Source: Maybank, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM (Reported)	**2.42**	**2.41**	**2.26**	**0.16**	**0.01**	**2.39**	**2.31**	**0.08**
NOII/Total income	28.6	24.2	23.3	5.3	4.4	25.7	25.7	0.0
ROE (Ann.)	**10.3**	**8.8**	**8.0**	**2.2**	**1.5**	**9.6**	**9.6**	**0.0**
Cost-to-income ratio	45.8	44.7	45.9	-0.1	1.1	45.3	44.7	0.6
Net credit costs (Ann.) (bps)	42	60	85	-42	-18	44	63	-18
GIL ratio	1.70	1.81	1.93	-0.23	-0.11			
Loan loss coverage	117.2	118.6	122.7	-5.5	-1.3			
CASA ratio	42.1	44.7	44.5	-2.5	-2.7			
L/D ratio	93.8	92.6	90.5	3.2	1.2			
CET1	13.8	15.0	14.2	-0.4	-1.1			
Tier-1	14.5	15.7	14.9	-0.4	-1.1			
Total Capital	17.2	18.3	18.2	-1.0	-1.2			

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)	15.3	12.3	11.9	10.2	9.2
Dividend yield (%)	7.5	6.1	6.8	6.7	7.8
P/BV (x)	1.2	1.2	1.1	1.1	1.1

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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