Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

Collective agreement puts pressure on OPEX

***Maintain* NEUTRAL**

***Revised* Target Price: RM8.94**

(Previously RM8.83)

KEY INVESTMENT HIGHLIGHTS

- **FY22's CNP of RM8.2b was within our forecast**
- **Lenient guidance with large potential upside – ROE target is very achievable, NCC may be below mgmt guidance**
- **Potential interest rate-related issues in SG – Its loan growth there is also limited by deposit growth**
- **Higher OPEX should offer downside pressure to CNP in next few years**
- **Maintain NEUTRAL | TP of RM8.94 | based on a revised FY23F P/BV of 1.18x**

Highlights from Maybank's 4QFY22 results:

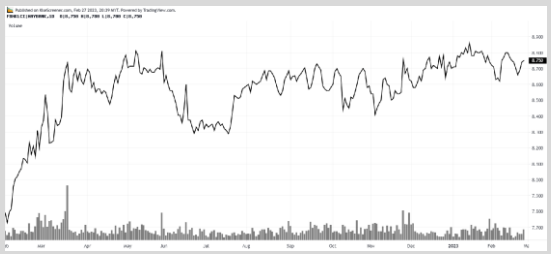
- **FY22 CNP:** Rose +2%yoy. Due to higher topline growth and lower provisions offsetting higher OPEX and tax.
- **4QFY22 CNP:** Flattish qoq.
- **4QFY22 NIM:** Worsened -3bps qoq. Expect further NIM compression in FY23.
- **FY22's NOII:** Rose by +9%yoy,
- **FY22's OPEX**: up by +11%yoy, CIR now at 46.3%. Effects of collective agreement adjustments. Expected to remain at 47.5% for the year, due to heavy tech spend.
- **Solid loan growth:** Gross loans grew by +6.0%yoy, +0.0%qoq, MY and SG portfolios.
- **Average deposit growth:** Deposits grew by +4.4%yoy – may see potential funding issues in SG, if interest rate rises any further.
- **GIL ratio improves:** Down -13bps qoq, due to heavy write-offs and recoveries.
- **Light NCC:** 4QFY22 NCC of 22bps, FY22 NCC averages 38bps. FY23: 35-40bps guidance.
- **Dividend announced:** 30.0 sen, payout of 83% for FY22.

Our thoughts. Mgmt guidance seems lenient, providing much leeway for earnings upside – (1) It does not incorporate overlay writebacks into NCC guidance, (2) NIM guidance is conservative, assuming CASA ratio reverting to pre-pandemic levels.

We are also a fan of Maybank's high dividend yields. However, heavy tech spend remains an issue, with cost/income ratio only slated to normalise back to the ~45% range in 2025. As a percentage of net income, tech spend is expected to exceed that of local peers. There are also potential asset quality and interest rate issues in SG.

RETURN STATISTICS	
Price @ 27 February 2023 (RM)	8.75
Expected share price return (%)	+2.2
Expected dividend yield (%)	+6.6
Expected total return (%)	**+8.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.5	1.0
3 months	0.5	0.2
12 months	0.7	9.4

KEY STATISTICS	
FBM KLCI	1,455.50
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	11,878.51
Estimated free float (%)	36.22
Market Capitalisation (RM m)	105,353.07
52-wk price range	RM8.38 - RM9.18
Beta vs FBM KLCI (x)	0.68
3-mth average daily volume (m)	8.66
3-mth average daily value (RM m)	75.40
Top Shareholders (%)	
Amanah Saham Nasional	38.26
Employees Provident Fund Board	13.71
Yayasan Pelaburan Bumiputera	6.87

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FY22's CNP of RM8.2b was with our and consensus expectations at 99% of respective of full-year forecasts.

FY22's CNP rose by +2%yoy due to topline growth and lower provisions offsetting higher OPEX and tax.

4QFY22's CNP of RM2.2b was flattish on a sequential-quarter basis due to weaker NOII contributions offsetting the improved provision level. Quarterly CNP rose by +5%yoy.

Guidance. FY23's ROE is expected to come in at 10.5-11.0% -- the guidance seems extremely feasible, given that Maybank would have already been able to achieve the result in FY22 without Prosperity Tax.

NIM. 4QFY22's NIM of 2.39% worsened by -3bps qoq due to NIM compression in IDN and SG.

FY22's NIM averaged 2.39%, improving +7bps yoy due to the recent OPR hikes.

Guidance. Mgmt guides of FY23 being 5-8bps lower than FY22 – note that this implies a full normalisation of CASA ratios to pre-pandemic values of ~35% (which is extremely conservative). MY and IDN are expected to be core drivers of the NIM decline.

MY and IDN interest rate environment expectations are fairly stable: Further +25bps OPR hike in MY, another +25bps hike in IDN. Mgmt sees more upside risk in SG – forecasting it to reach 4.80% (currently 4.19%).

NOII. FY22's NOII rose by +9%yoy, due to investment gains offsetting weaker fee and insurance income.

Guidance. Mgmt is optimistic about FY23's prospects – apart from recovery in market sentiment and activity, Insurance and FVOCI yields should recover significantly.

Operating expenses. 4QFY22's CIR worsened to 49.4%, with OPEX up by +15%yoy and flattish on a sequential-quarter basis, largely as result of collective labour agreements (which were guided for) elevating labour costs.

FY22's CIR worsened to 46.3%, with its OPEX up by +11%yoy – costs saw growth in all segments, but it was elevated by collective agreement adjustments and one-off card gift points redemption. Factoring out the listed adjustments, mgmt would have achieved its FY22 45-46% target.

Guidance. FY23's CIR: 47.5%.

Loans. Gross loans grew by +6.0%yoy but were flattish on a sequential-quarter basis. Core drivers were MY and SG portfolios.

Guidance. MY: ~5%yoy, IDN: 6-7%, SG: Low-to-mid single digit (May be limited by expensive funding, given more upside risk to interest – but focus on SG has always been more on wealth management anyway). Mgmt believes there's still opportunity to be aggressive in targeted segments (Mortgages, RSME, SME+).

Deposits. Deposits grew by +4.4%yoy, +0.2%qoq.

Loan/Deposit ratio stands at 93.6%, falling from previous quarter's 93.8%, given the surge in FDs.

CASA. CASA contracted by -6.8%qoq. CASA ratio stands at 39.1%, falling from previous quarter's 42.1%.

Asset quality. Current GIL ratio stands at 1.57%, improving -13bps qoq due to huge write-offs and recoveries in SG and MY.

Current LLC stands at 127% rising from previous quarter's 117%.

Repayment assistance (RA) loans. There were notable reductions in MY portfolio (Jan-23: 1.7% of MY loans – 3 months ago: 3.7%) and IDN (Jan-23: 8.5% of IDN loans – 3 months ago: 9.2%).

Repayment trends are still within mgmt expectations.

Guidance. Further GIL upticks would likely result from MY portfolio (given the expiry for RA loans in 2023). SG RA programmes are more extended. In IDN's case, OJKA's relaxation policy has been extended.

Provisioning. 4QFY22's NCC stood at 22bps, falling from previous quarter's 42bps.

FY22's NCC averaged 38bps falling from previous period's 49bps – on the low side of mgmt's FY22 guidance. Brunt of which will be allocated to MY portfolio (due to its larger loan book).

Cumulative overlays. The current balance stands flattish at RM1.7b.

Guidance. FY23: 35-40bps. Note that the guidance is exceedingly conservative – it does not account for any writebacks of the current overlay RM1.7b balance.

Capital ratios. Current CET-1 ratio is 15.7%. The Group tries to maintain at least 13% in CET 1 ratio to be comfortable with dividend payouts.

The Group posted a conservative RWA growth of 1% against gross loans growth of 6% for FY23 – mostly due to portfolio mix efficiency which has good credit.

MFRS 17. With MFRS 17 having taken place since 1 Jan 2023, we will observe updates in 1QCY23 for more updates on the pro-forma impact for insurance and group accounts.

Dividend announced. The Group announced a dividend of 30.0 sen in the quarter, bringing FY22's total to 58.0 sen (Payout: 83%). Cash component: 88%.

Key downside risks. (1) Above-forecasted OPEX, (2) Asset quality issues across the board, (3) Above-forecasted NIM compression.

Forecasts revised: FY23F/24F CNP adjusted by +1%/+1%. To reflect FY23 guidance offered by Maybank – most notably increase fee and insurance income.

Maintain NEUTRAL call: Revised GGM-TP of RM 8.94 *(from RM8.83)*. The TP is based on a revised FY23F P/BV of 1.18x *(formerly 1.15x)*, to reflect improved earnings prospects and ROE-based valuations.

*(**GGM assumptions:** FY23F ROE of 11.0%, LTG of 3.0% and COE of 9.7%.)*

Exhibit 1: Quarterly results

FYE Dec (RM m)	4Q FY23	3Q FY22	4Q FY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest inc.	3,519	3,468	3,065	15	1	13,834	12,034	15
Islamic banking inc.	1,982	1,996	1,958	1	-1	7,414	7,573	-2
Non-interest inc.	1,396	1,950	1,276	9	-28	6,352	5,842	9
Net income	**6,897**	**7,414**	**6,300**	**9**	**-7**	**27,600**	**25,448**	**8**
OPEX	(3,407)	(3,394)	(2,955)	15	0	(12,792)	(11,519)	11
PPOP	**3,490**	**4,020**	**3,345**	**4**	**-13**	**14,808**	**13,930**	**6**
Loan provisions	(309)	(600)	(157)	96	-49	(2,189)	(2,659)	-18
Other provisions	117	(242)	(511)	-123	-148	(597)	(571)	5
JV & Associates	8	30	44	-81	-72	131	186	-30
PBT	**3,306**	**3,208**	**2,720**	**22**	**3**	**12,153**	**10,887**	**12**
Tax	(1,099)	(1,039)	(598)	84	6	(3,780)	(2,565)	47
NCI	(41)	(4)	(66)	n.m.	n.m.	(138)	(225)	n.m.
Reported NP	**2,167**	**2,166**	**2,057**	**5**	**0**	**8,234**	**8,096**	**2**
Core NP	**2,167**	**2,166**	**2,057**	**5**	**0**	**8,234**	**8,096**	**2**
Total NII	5,312	5,297	4,869	9	0	20,685	19,089	8
Total NOII	1,586	2,117	1,431	11	-25	6,915	6,359	9
Gross DPS (sen)	**30.0**	**-**	**30.0**	**n.m.**	**n.m.**	**58.0**	**58.0**	**n.m.**
Core EPS (sen)	18.1	18.1	17.3	5	-0	68.8	68.2	1
Gross loans	587,122	587,119	553,789	6.0	0.0			
Gross impaired loans	9,205	9,989	11,044	-16.6	-7.9			
Customer deposits	614,895	613,671	588,968	4.4	0.2			
CASA	240,493	258,076	267,147	-10.0	-6.8			

Source: Maybank, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	4Q FY23	3Q FY22	4Q FY21	Yoy (ppts)	QoQ (ppts)	FY22	FY21	Yoy (ppts)
ROE (Ann.)	**10.1**	**10.3**	**9.6**	**0.5**	**-0.2**	**9.6**	**9.4**	**0.1**
NIM (Reported)	**2.39**	**2.42**	**2.32**	**0.07**	**-0.03**	**2.39**	**2.32**	**0.07**
NOII/Net income	23.0	28.6	22.7	0.3	-5.6	25.1	25.0	0.1
Cost/Income	49.4	45.8	46.9	2.5	3.6	46.3	45.3	1.1
NCC (Ann.) (bps)	22	42	12	10	-21	38	49	-11
GIL ratio	1.57	1.70	1.99	-0.43	-0.13			
Loan loss coverage	127	117	108	20	10			
CASA ratio	39.1	42.1	45.4	-6.2	-2.9			
L/D ratio	93.6	93.8	92.0	1.6	-0.2			
CET-1	15.7	13.8	16.1	-0.4	1.8			

Source: Maybank, MIDFR

Exhibit 3: FY23 Guidance

Income Growth	• Focus on growth opportunities across consumer and business segments within ASEAN franchise: o Double down on CFS franchise business i.e.: mortgage, RSME and SME+ across universal markets o Deepening account planning across segments, products and countries for Global Banking o Expand regional wealth management penetration and strengthen Islamic wealth management proposition in home markets o Deploy sustainable financing and decarbonisation solutions to customers
Balance Sheet Management	• Maintain strong liquidity position to support asset growth. Continue RWA optimisation initiatives to maintain robust capital levels • Defend CASA balances amidst rising rate environment, increased deposit competition and pick-up in asset growth • Potential NIM compression of between 5 bps and 8 bps
Investment/ Cost Expenditure	• Strategic investments to enhance IT capabilities, integrate ecosystems within and beyond banking, and drive regional cross-selling synergies aligned to M25+ • Group CIR to potentially increase up to 47.5%
Asset Quality Management	• Monitor health of residual loans under repayment assistance programmes across key markets • Focus on asset quality recovery efforts and enhanced asset quality management towards achieving a sustained lower net credit charge off rate • Net credit charge off guidance of between 35 bps and 40 bps FY2023
Sustainable Shareholder Returns	• Group ROE guidance of between 10.5% and 11% in FY2023 • Maintaining our 40%-60% dividend payout policy while prioritising higher cash component to reward shareholders and optimise capital

Source: Maybank, MIDFR

Exhibit 4: Macroeconomic context

Malaysia

	2022	2023 (f)
GDP	8.7%	4.0%
System loan	5.7%	4.8%
OPR	2.75%	2.75% - 3.00%
USD/MYR^	4.40	4.00
Inflation average	3.3%	3.0%

Economic outlook
- Economic growth is expected to moderate as external trade growth slows. Domestic demand is set to soften as pent-up spending dissipates
- Growth will be supported by recovery in international tourism, economic re-opening in China and positive FDI inflows
- OPR could potentially return to pre-pandemic levels

Banking outlook
- Loan growth is anticipated to moderate alongside slower economic growth
- NIM may come under pressure from deposit repricing and increased competition

Singapore

	2022	2023 (f)
GDP	3.6%	1.7%
System loan	(2.1)%*	1.0%*
3M SIBOR	4.25%	4.80%
USD/SGD^	1.34	1.29
Inflation average	6.1%	6.0%

Economic outlook
- Economic growth will likely be slower on weakening external demand in major advanced economies
- Growth from sectors such as hospitality, aviation, retail, recreation and construction to help cushion the slowdown
- Core inflation to remain elevated and potential tightening of monetary policy in 2023

Banking outlook
- Moderate loan growth supported by North Asia's reopening and higher mortgage drawdowns
- NIM to continue rising, albeit at a slower rate. Asset yields expected to outpace funding costs following interest rate hikes

Indonesia

	2022	2023 (f)
GDP	5.3%	5.0%
System loan	11.0%	9.5%
Reference Rate	5.50%	5.75%
USD/IDR^	15,573	14,200
Inflation average	4.2%	4.2%

Economic outlook
- Economic growth to remain stable supported by steady domestic demand
- Inflation is anticipated to remain elevated on higher transport costs
- Bank Indonesia to focus on supporting growth

Banking outlook
- Loan growth to be driven by higher demand for working capital and investment
- NIM pressure may persist on higher funding costs and increased competition

Source: Maybank, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest income	19,351	17,205	21,628	21,735	23,854
Interest expense	(8,260)	(5,171)	(7,793)	(8,250)	(9,820)
Net interest income	**11,090**	**12,034**	**13,834**	**13,485**	**14,034**
Islamic banking inc.	6,136	7,573	7,414	8,800	9,158
Other operating inc.	7,537	5,842	6,367	7,089	8,027
Net income	**24,763**	**25,448**	**27,615**	**29,374**	**31,220**
OPEX	(11,222)	(11,519)	(12,807)	(13,953)	(14,829)
PPOP	**13,541**	**13,930**	**14,808**	**15,422**	**16,390**
Loan allowances	(4,599)	(2,659)	(2,189)	(2,288)	(2,134)
Other allowances	(495)	(571)	(596)	(279)	(87)
JV & Associates	209	186	131	207	220
PBT	**8,657**	**10,887**	**12,153**	**13,061**	**14,389**
Tax & zakat	(1,938)	(2,565)	(3,780)	(3,004)	(3,309)
NCI	(238)	(225)	(138)	(251)	(277)
Reported NP	**6,481**	**8,096**	**8,235**	**9,806**	**10,802**
Core NP	**6,481**	**8,096**	**8,235**	**9,806**	**10,802**
Total NII	16,651	19,089	20,685	21,405	22,276
Total NOII	8,113	6,359	6,930	7,969	8,943

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash & ST funds	54,014	57,521	53,670	62,232	64,322
Investment securities	201,158	210,702	218,267	217,903	226,946
Net loans	512,210	541,888	575,387	601,150	627,567
Other IEAs	31,572	26,674	27,792	30,929	33,094
Non-IEAs	57,905	51,388	72,697	54,245	59,591
Total assets	**856,860**	**888,172**	**947,813**	**966,459**	**1,011,518**
Cust. & FI deposits	618,069	654,272	691,290	726,601	767,820
Other IBLs	72,184	68,264	70,517	79,542	84,019
Non-IBLs	79,497	77,084	97,089	66,749	62,470
Total liabilities	**769,750**	**799,620**	**858,896**	**872,893**	**914,309**
Share capital	48,280	53,156	54,619	53,156	53,156
Reserves	36,156	32,655	31,338	37,509	41,039
Shareholders' funds	**84,437**	**85,811**	**85,957**	**90,665**	**94,195**
NCI	2,673	2,741	2,960	2,901	3,014
Total equity	**87,110**	**88,552**	**88,917**	**93,567**	**97,210**
Total L&E	**856,860**	**888,172**	**947,813**	**966,459**	**1,011,518**
Total IEAs	798,954	836,784	875,116	912,214	951,928
Total IBLs	690,253	722,536	761,807	806,143	851,839
Gross loans	523,724	553,789	587,122	615,157	640,262
CASA	229,794	267,147	240,493	243,501	245,216

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Interest (%)					
NIM	2.11	2.33	2.42	2.39	2.39
Return on IEAs	2.45	2.10	2.53	2.43	2.56
Cost of funds	1.20	0.73	1.05	1.05	1.18
Net interest spread	1.25	1.37	1.48	1.38	1.37
Profitability (%)					
ROE	**7.8**	**9.5**	**9.6**	**11.0**	**11.7**
ROA	0.8	0.9	0.9	1.0	1.1
NOII/Net income	32.8	25.0	25.1	27.1	28.6
Effective tax rate	22.4	23.6	31.1	23.0	23.0
Cost/Income ratio	45.3	45.3	46.4	47.5	47.5
Liquidity (%)					
Loan/Deposit ratio	92.1	92.0	93.6	92.6	92.1
CASA ratio	41.3	45.4	39.1	37.5	36.0
Asset Quality (%)					
GIL ratio	2.23	1.99	1.57	2.07	1.98
LLC ratio	99	108	127	110	100
LLC (w. reserves)	117	120	154	121	126
Net CC (bps)	88	49	38	38	34
Capital (%)					
CET 1	15.7	16.1	15.7	15.9	15.9
Tier 1 capital	16.5	16.8	16.4	16.6	16.6
Total capital	19.3	19.5	19.1	19.4	19.4
Growth (%)					
Total NII	(4.9)	14.6	8.4	14.6	7.4
Total NOII	12.3	(21.6)	9.0	(21.6)	15.3
Net income	0.1	2.8	8.5	2.8	9.4
OPEX	(2.9)	2.6	11.2	2.6	10.0
Core NP	(20.9)	24.9	1.7	24.9	3.7
Gross loans	0.0	5.7	6.0	5.7	6.4
Cust. & FI deposits	1.5	5.9	5.7	5.9	5.5
CASA	22.6	16.3	(10.0)	16.3	(4.2)
Valuation metrics					
Core EPS (sen)	54.2	67.6	68.8	81.9	90.3
Gross DPS (sen)	52.0	58.0	58.0	67.5	74.4
Div payout ratio (%)	90	83	84	80	80
BVPS (RM)	7.1	7.2	7.2	7.6	7.9
Core P/E (x)	16.2	12.9	12.7	10.7	9.7
Dividend yield (%)	**7.3**	**5.9**	**6.6**	**6.6**	**7.7**
P/BV (x)	1.2	1.2	1.2	1.2	1.1

Source: Maybank, MIDFR

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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