Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

1QFY23 Results

***Upgrade to* BUY**

(Previously NEUTRAL)

***Revised* Target Price: RM9.28**

(Previously RM8.94)

KEY INVESTMENT HIGHLIGHTS

- **3MFY23's Core NP of RM2,265m was within our and street forecasts: *23%/24%* of respective full-year forecasts**
- **Core themes: Sharp NIM and CASA downturn, MFRS introduction, Regional asset quality issues, Additional overlays taken, Underwhelming foreign loan uptake**
- **Forecasts revised: FY23F/24F Core NP adjusted by -6%/-9%**
- **Upgrade to BUY | Revised TP of RM9.28 | based on a revised FY24F P/BV of 1.21x *(formerly 1.18x, from FY23F)***

Decent quarter – we expected worse. Core net profit (NP) grew +5%qoq due to better cost control and normalisation of tax rates. However, 4QFY22 was not adjusted for MFRS, making quarter-on-quarter comparisons more difficult.

Downside pressure in several forms: we saw weaker NIMs affect NII, while poorer insurance contributions dragged NOII. Management also issued overlay provisions, in fear of R&R graduate loan repayment trends.

Loan-wise and CASA-wise, we saw a lot of downward pressure from foreign operations.

Have a look at:

MFRS 17 adoption effects: Possibly more consistent insurance contributions in future. This is via the recognition of OPEX being more spread out and aligned with revenue. In the future, OPEX should be cancelled off with insurance revenue. Hence, we would see reductions on both sides.

Separately, there are also changes to insurance revenue recognition timings – but varying effects on different products seem to cancel each other out, minimising potential changes to P&L statement.

Verdict: +ve risk/reward – Defensive pick for dividend yields and resilient share price valuation.

Yays	1. Maybank's RWA optimisation provides potential upside to dividend yields. 2. Credit costs likely to be revised positively in 2HCY23. Also, current guidance does not factor in overlay writebacks.
Nays	1. Funding constraints in SG may put pressure on loan growth (though NOII is more of a priority there).
OKs	1. Valuations are not spectacular. 2. NOII recovery story – but hasn't seemed to click yet. 3. Tech costs to weigh in on the remainder of FY23F/FY24F – difficult to discern if potential surprises would be geared towards +ve or -ve. But mgmt suggests that FY23F's OPEX would be the lighter of the two years.

RETURN STATISTICS	
Price @ 24 May 2023 (RM)	8.56
Expected share price return (%)	+8.4
Expected dividend yield (%)	+8.4
Expected total return (%)	**+16.1**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.6	-0.1
3 months	0.9	2.5
12 months	-3.7	5.0

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**9,208**	**9,828**	**10,649**
CNP growth (%)	12	7	8
Div yield (%)	**7.2**	**7.7**	**8.3**
Gross DPS (sen)	61.5	65.7	71.2
P/BV (x)	**1.2**	**1.1**	**1.1**
BVPS (RM)	7.4	7.7	8.0
ROE (%)	**10.5**	**10.9**	**11.4**
MIDF/Street CNP (%)	**99**	**100**	**103**

KEY STATISTICS

FBM KLCI	1,409.62
Issue shares (m)	12,054.1
Estimated free float (%)	35.0
Market Capitalisation (RM'm)	104,268.2
52-wk price range	RM8.26 - RM9.1
3-mth avg daily volume (m)	6.6
3-mth avg daily value (RM'm)	56.8
Top Shareholders (%)	
Amanah Saham Nasional Bhd	38.5
EPF Board	13.7
Yayasan Pelaburan Bumiputra	6.9

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Forecasts revised: FY23F/24F Core NP adjusted downwards by -6%/-9%. To reflect higher "Other provisions" and NCI losses, as well as more conservative NIM and NOII levels. Our previous forecast already assumes a 3.00% OPR level.

Key downside risks. *(1) Poor cost control, (2) Asset quality issues (esp. amongst SME segment), (3) Above-forecasted CASA rundown.*

Upgrade to BUY call: Revised GGM-TP of RM9.28 *(from RM8.94)*. The TP is based on a revised FY24F P/BV of 1.21x *(formerly 1.18x, rolled on from FY23F)*, to reflect altered earnings prospects and ROE-based valuations. Our P/BV is discounted to account for poor global banking sentiment. *(GGM assumptions: FY24F ROE of 10.9%, LTG of 3.0% & COE of 9.5%)*

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest inc.	3,228	3,519	3,327	-3	-8	3,228	3,327	-3
Islamic banking inc.	1,791	1,982	1,670	7	-10	1,791	1,670	7
Non-interest inc.	1,305	1,396	1,255	4	-7	1,305	1,255	4
Net income	**6,324**	**6,897**	**6,253**	**1**	**-8**	**6,324**	**6,253**	**1**
OPEX	(3,052)	(3,407)	(2,730)	12	-10	(3,052)	(2,730)	12
PPOP	**3,272**	**3,490**	**3,523**	**-7**	**-6**	**3,272**	**3,523**	**-7**
Loan provisions	(360)	(309)	(443)	-19	17	(360)	(443)	-19
Other provisions	67	117	(154)	-144	-43	67	(154)	-144
JV & Associates	77	8	50	55	833	77	50	55
PBT	**3,056**	**3,306**	**2,975**	**3**	**-8**	**3,056**	**2,975**	**3**
Tax	(723)	(1,099)	(886)	-18	-34	(723)	(886)	-18
NCI	(67)	(41)	(43)	58	65	(67)	(43)	58
Reported NP	**2,265**	**2,167**	**2,047**	**11**	**5**	**2,265**	**2,047**	**11**
Core NP	**2,265**	**2,167**	**2,047**	**11**	**5**	**2,265**	**2,047**	**11**
Total NII	4,797	5,312	4,894	-2	-10	4,797	4,894	-2
Total NOII	1,528	1,586	1,359	12	-4	1,528	1,359	12
Gross DPS (sen)	**-**	**30.0**	**-**	***n.m.***	***n.m.***	**-**	**-**	***n.m.***
Core EPS (sen)	18.8	18.1	17.2	9	4	18.8	17.2	9
Gross loans	591,714	586,862	561,280	5.4	0.8			
Gross impaired loans	8,895	9,205	10,953	-18.8	-3.4			
Customer deposits	624,440	614,895	604,547	3.3	1.6			
CASA	231,396	240,493	269,074	-14.0	-3.8			

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**10.1**	**10.1**	**9.8**	**0.4**	**0.1**	**10.1**	**9.8**	**0.4**
NIM (Reported)	**2.19**	**2.39**	**2.34**	**-0.15**	**-0.20**	**2.19**	**2.34**	**-0.15**
NOII/Net income	24.2	23.0	21.7	2.4	1.2	24.2	21.7	2.4
Cost/Income	48.3	49.4	43.7	4.6	-1.1	48.3	43.7	4.6
NCC (Ann.) (bps)	25	22	32	-7	3	25	32	-7
GIL ratio	1.50	1.57	1.95	-0.45	-0.07			
Loan loss coverage	129	127	102	28	2			
CASA ratio	37.1	39.1	44.5	-7.5	-2.1			
L/D ratio	92.9	93.5	91.0	1.9	-0.6			
CET-1	15.1	15.7	14.9	0.2	-0.6			

Source: Maybank, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***2,265***	**Qtrly ROE**	Qtr value	***10.1%***	**Pretty decent quarter, despite sharp net income compression.**
	28% of FY CNP					**However, note the lack of 4QCY22 results restated under MFSR 17 – which may lead to qoq comparisons being slightly off, most notably in the OPEX and NOII segments.**
	Qoq	*5%*		t-1	*10.1%*	
	Yoy	*11%*		t-4	*9.8%*	
Cum Core NP	RM mil	***2,265***	**Cum ROE**	Cum value	***10.1%***	On a qoq basis, most segments performed markedly worse – Weaker NII & NOII and higher provisions. Lower tax expenses and better cost management offset the weaknesses.
	Within our forecast					
	23% of FY CNP					
	Within consensus					
	24% of FY CNP					
	Yoy	*11%*		t-1	*9.8%*	
NII	As expected		**NIM**	As expected		**Sharp qoq NIM compression was expected – mgmt is still confident it can meet its targets.**
				Qtr value	***2.19***	As guided, MY and SG were core drivers of the NIM compression.
				Cum value	***2.19***	
	Qtr (Qoq)	*-10%*		Qtr (Qoq)	*-20bps*	+25bps OPR hike to affect NIM by a low 1-2bps.
	Qtr (Yoy)	*-2%*		Qtr (Yoy)	*-15bps*	
	Cum (Yoy)	*-2%*		Cum (Yoy)	*-15bps*	
NOII	As expected		**Qtr**	% NII	***76%***	**Qoq dragged by weaker insurance contribution.**
	Qtr (Qoq)	*-4%*		% NOII	***24%***	Note that the difference between 1QFY23's NOII of current and former regime would be up to 10%.
	Qtr (Yoy)	*12%*	**Cum**	% NII	***76%***	No major impact from the one-off accounting change on P&L statement.
	Cum (Yoy)	*12%*		% NOII	***24%***	
OPEX	As expected		**Cost/ Inc.**	As expected		**Difficult to gauge OPEX trajectory without IFSR-adjusted 4QFY22 values.**
				Qtr value	***48.3%***	There was a good qoq improvement, though note several one-offs in the higher 4QFY22. Heavier tech-spend may weigh down subsequent quarters.
				Cum value	***48.3%***	
	Qtr (Qoq)	*-10%*		Qtr (Qoq)	*-1.1%*	
	Qtr (Yoy)	*12%*		Qtr (Yoy)	*+4.6%*	
	Cum (Yoy)	*12%*		Cum (Yoy)	*+4.6%*	

Source: Maybank, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	As expected					**Fairly slow qoq – even without much funding constraint.**
	Qoq	*0.8%*				**IND** loans saw sharp contraction quarter-on-quarter on the global banking end – sounds like they want to do away with their low-yield state-owned enterprise segment for a better deal.
	Yoy	*5.4%*				
	YTD (FY)	*0.8%*				**SG** reported growth of +0.4%qoq, driven by corporate banking -- note that its retail offerings contracted -1.2%qoq.
Depo. grwth	As expected		**CASA grwth**	As expected		**Sharp CASA downturn.**
	Qoq	*1.6%*		Qoq	*-3.8%*	SG CASA saw sharp downturn – peers' corporate rates were way too competitive.
	Yoy	*3.3%*		Yoy	*-14.0%*	
	YTD (FY)	*1.6%*		YTD (FY)	*-3.8%*	There was a conscious effort to rely less on expensive corporate deposits – management is gunning for far cheaper SME deposits, especially in MY.
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***37.1%***		Value now	***92.9%***	
	Qoq	*-2.1%*		Qoq	*-0.6%*	
	Yoy	*-7.5%*		Yoy	*+1.9%*	
GIL ratio	+ve surprise		**LLC ratio**	As expected		**Great improvement in GIL ratio, with write-offs and recoveries in the quarter – though note the NPL component has gone up by +3bps qoq.**
	Value now	***1.50%***		Value now	***129%***	**NCC is still below guidance.**
	Qoq	*-7bps*		Qoq	*+2%*	
	Yoy	*-45bps*		Yoy	*+28%*	SG GIL ratio should remain close to current level – main worry is IND's SME R&R, which is still problematic. SME segment in all countries is under watch – 10.2% of MY SME R&R graduates have missed payments.
Qtrly Net CC	As expected		**Cum Net CC**	As expected		
	Decent provision			Decent provision		
	Value now	***25bps***		Value now	***25bps***	**Overlay taken within the quarter** – management was concerned about payment behaviour and collections in 1QFY23. Note that this was not part of the RM1.7b general overlays made at the beginning of the pandemic, hence overlays remain at RM1.7b level.
	t-1	*22bps*				
	t-4	*32bps*		t-4	*32bps*	
CET 1	Healthy level		**Div payout**	No divvy		**CET 1 still v healthy.**
	As expected			As expected		Group will continue with RWA optimisation – don't expect improvement to be of similar quantum to FY22's though.
	Value now	***15.1%***		**Payout**	*-*	No decision on whether next dividends will be full cash dividend, given that CET 1 ratios are high enough.
	Qoq	*-0.6%*				
Others:						

Source: Maybank, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	**Notes** (Blue: New guidance, ~~Strikethrough: former guidance is no longer pertinent~~)
ROE	10.5-11.0	10.1	Pretty achievable target -- but be wary of OPEX & CIR pressure.
CIR	<47.5	48.3	**CIR to be temporarily elevated to 47-48% range in 2023/2024.** One-off RM3.5-4.5b tech spread out.
NIM	-5-8bps from 2.39	2.19	**Assumes: MY & IDN: +25bps OPR hike, SG: up to 4.80%,** and CASA fully normalised to pre-pandemic values.
NOII		12% (yoy)	
Loans		0.8 (YTD)	**MY: ~5%yoy / IDN: 6-7% / SG: Low-to-mid single-digit growth.**
Deposits		1.6 (YTD)	
CASA		37.1	
Loan/Depo		92.9	
GIL ratio		1.50	
NCC (bps)	35-40	25	**Management likely to positively review in 2HFY23.** Conservative -- no writebacks of RM1.7b overlay factored in.
LLC		129	
CET 1		15.1	>13% is comfortable.
Div payout		64	No word yet on if next dividends will be fully cash.

Source: Maybank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	17,205	21,628	22,435	24,697	24,993
Interest expense	(5,171)	(7,793)	(8,250)	(9,820)	(9,820)
Net interest income	**12,034**	**13,834**	**14,185**	**14,877**	**15,173**
Islamic banking inc.	7,573	7,414	7,763	7,779	7,933
Other operating inc.	5,842	6,367	6,224	6,561	6,561
Net income	**25,448**	**27,615**	**28,172**	**29,217**	**29,668**
OPEX	(11,519)	(12,807)	(13,381)	(13,878)	(13,350)
PPOP	**13,930**	**14,808**	**14,790**	**15,339**	**16,317**
Loan allowances	(2,659)	(2,189)	(2,292)	(2,152)	(2,112)
Other allowances	(571)	(596)	(362)	(228)	(161)
JV & Associates	186	131	192	199	212
PBT	**10,887**	**12,153**	**12,328**	**13,158**	**14,257**
Tax & zakat	(2,565)	(3,780)	(2,835)	(3,026)	(3,279)
NCI	(225)	(138)	(285)	(304)	(329)
Reported NP	**8,096**	**8,235**	**9,208**	**9,828**	**10,649**
Core NP	**8,096**	**8,235**	**9,208**	**9,828**	**10,649**
Total NII	19,089	20,685	21,171	21,878	22,313
Total NOII	6,359	6,930	7,000	7,339	7,355

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	57,521	53,670	60,469	61,641	61,805
Investment securities	210,702	218,267	222,256	214,311	208,197
Net loans	541,632	575,127	607,149	635,351	661,602
Other IEAs	26,674	27,792	29,459	31,363	32,808
Non-IEAs	48,963	70,120	63,475	64,724	68,547
Total assets	**885,491**	**944,976**	**982,809**	**1,007,390**	**1,032,960**
Customer deposits	588,968	614,895	648,099	678,560	707,738
Other IBLs	133,568	146,912	154,280	159,515	165,001
Non-IBLs	73,896	94,039	88,931	74,577	61,649
Total liabilities	**796,431**	**855,846**	**891,311**	**912,653**	**934,388**
Share capital	53,156	54,619	55,297	56,028	56,815
Reserves	33,005	31,485	33,363	35,771	38,700
Shareholders' funds	**86,162**	**86,104**	**88,661**	**91,800**	**95,515**
NCI	2,898	3,026	2,837	2,938	3,056
Total equity	**89,060**	**89,131**	**91,498**	**94,737**	**98,571**
Total L&E	**885,491**	**944,976**	**982,809**	**1,007,390**	**1,032,960**
Total IEAs	836,528	874,856	919,334	942,665	964,413
Total IBLs	722,536	761,807	802,379	838,075	872,739
Gross loans	553,789	587,122	619,414	646,668	673,181
CASA	267,147	240,493	243,037	244,282	240,631

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.33	2.42	2.36	2.35	2.34
Return on IEAs	2.10	2.53	2.50	2.65	2.62
Cost of funds	0.73	1.05	1.05	1.20	1.15
Net interest spread	1.37	1.48	1.45	1.46	1.47
Profitability (%)					
ROE	**9.5**	**9.6**	**10.5**	**10.9**	**11.4**
ROA	0.9	0.9	1.0	1.0	1.0
NOII/Net income	25.0	25.1	24.8	25.1	24.8
Effective tax rate	23.6	31.1	23.0	23.0	23.0
Cost/Income	45.3	46.4	47.5	47.5	45.0
Liquidity (%)					
Loan/Deposit	92.0	93.5	93.7	93.6	93.5
CASA ratio	45.4	39.1	37.5	36.0	34.0
Asset Quality (%)					
GIL ratio	1.99	1.57	1.80	1.75	1.72
LLC ratio	108	127	110	100	100
LLC (w. reserves)	120	154	132	122	122
Net CC (bps)	49	38	38	34	32
Capital (%)					
CET 1	16.1	15.7	15.2	15.0	14.9
Tier 1 capital	16.8	16.4	15.9	15.7	15.6
Total capital	19.5	19.1	18.6	18.4	18.3
Growth (%)					
Total NII	14.6	8.4	2.4	3.3	2.0
Total NOII	(21.6)	9.0	1.0	4.8	0.2
Net income	2.8	8.5	2.0	3.7	1.5
OPEX	2.6	11.2	4.5	3.7	(3.8)
Core NP	24.9	1.7	11.8	6.7	8.3
Gross loans	5.7	6.0	5.5	4.4	4.1
Customer deposits	5.9	4.4	5.4	4.7	4.3
CASA	16.3	(10.0)	1.1	0.5	(1.5)
Valuation metrics					
Core EPS (sen)	67.6	68.8	76.9	82.1	89.0
Gross DPS (sen)	58.0	58.0	61.5	65.7	71.2
Div payout (%)	83	84	80	80	80
BVPS (RM)	7.2	7.2	7.4	7.7	8.0
Core P/E (x)	12.7	12.4	11.1	10.4	9.6
Div yield (%)	**6.8**	**6.8**	**7.2**	**7.7**	**8.3**
P/BV (x)	1.2	1.2	1.2	1.1	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