Malayan Banking Berhad

(1155 | MAY MK) Main | Financial Services

FTSE4Good | ESG 3 Stars

Corporate Update

Maintain BUY

Revised Target Price **RM12.27**
(from RM12.01)

MAHB Acquisition Better Cohesion

RETURN STATISTICS	
Price @ 3 August 2026 (RM)	10.84
Expected share price return (%)	+13.2
Expected dividend yield (%)	+6.0
Expected total return (%)	**+19.2**

Our Verdict

We like the acquisition: Aside from the immediate benefits to earnings and ROE, the reduction of operational overlap will improve OPEX over time. Etiqa as an insurer also has multiple competitive advantages that make it well worth the price tag, especially in an environment where banks divesting insurance business lines is the norm.

While MAY's CET 1 ratio shoulders a hit in the near-term, extracting higher dividends from subsidiaries is good for the long-term dividend prospects. We opine that other subsidiaries may undergo a similar capital streamlining process.

Valuations

A revised FY27F P/BV of 1.47x *(formerly 1.44x)*

Current P/BV of 1.45x is trading slightly above +1SD of the 10-year P/BV mean of 1.27x. However, we believe this is warranted given the Group's improved earnings and dividend prospects.

The company is currently trading at a forward FY27F P/BV of 1.30x with a +6.0% dividend yield.

Themes

1. ▲ Dividend yields remain one of the industry's best, backed up by sizeable capital reserves. There is still a possibility of dividend upside in the future.
2. ▲ Fee income is a core component of ROAR30's success. Main drivers are Wealth management and Islamic finance – their outlook is bright – especially with their planned acquisition of MAHB. However, expect non-fee income normalisation in FY26.
3. ► Management believes it can keep NIMs stable, though there is a rising threat from rising FD rates. Room for further asset/liability management exists, though be wary of potential headwinds from SG and MY.
4. ► Expect moderate loan growth figures, with a deeper focus on the SME segment. Management seems particularly confident about an Indonesian turnaround, while SG and MY outlooks are similarly positive.
5. ► Asset quality seems relatively benign for now, as the Group continues to undergo a "soft rerisking", but that is an issue for the future. FY26's NCC should come higher than last year's, especially since LLC has declined.
6. ▼ Negative on OPEX outlook, with higher ROAR30 tech spend inbound. This was the main downside to earnings growth in the next couple of years.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-1.8
3 months	2.0	-3.2
12 months	15.5	2.7

INVESTMENT STATISTICS			
FYE Dec	**FY26F**	**FY27F**	**FY28F**
Core NP (RM m)	**10,545**	**10,989**	**11,420**
CNP growth (%)	0	4	4
Div yield (%)	**5.8**	**6.0**	**6.3**
Gross DPS (sen)	62.8	65.4	67.9
P/BV (x)	**1.3**	**1.3**	**1.2**
BVPS (RM)	8.0	8.3	8.7
ROE (%)	**11.1**	**11.1**	**11.1**

KEY STATISTICS	
FBM KLCI	1,725.73
Issue shares (m)	12,081.1
Estimated free float (%)	58.0
Market Capitalisation (RM'm)	133,048.6
52-wk price range	RM9.39 – RM12.4
3-mth average daily volume (m)	12.2
3-mth average daily value (RM'm)	133.8
Top Shareholders (%)	
Amanah Saham Nasional Bhd	36.1
EPF Board	13.0
Yayasan Pelaburan Bumiputra	6.6

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Maybank is acquiring the remaining stake in Maybank Ageas Holdings Bhd (MAHB). MAY currently owns 69.05% of MAHB, the holding company of the Malaysian and Singaporean arms of Etiqa. It will be acquiring the remaining 30.95% stake from Belgian insurer Ageas SA for 100% ownership of the subsidiary. This is for a price tag of RM4.83b, which reflects a P/BV of 1.98x and P/E of 15.3x. The P/BV of 2.0x is much higher than what current listed peers are trading at (except LPI, though its valuations are elevated by the prospect of special dividends) – but we think its warranted given Etiqa's unique competitive advantages. This is also the largest purchase consideration for local insurance-related M&As since 2012, a transaction that involved AIA Group and ING Group NV.

The targeted completion date is late 3QFY26.

It allows for more efficient capital streamlining (though no increase in Group dividend payout yet) – expect similar instances in other subsidiaries. The Group intends to increase MAHB's dividend payouts to 50-60% from the current 30-35% range, which is closer to the Group's payout levels of ~70%. Note that the final payout is subject to RBC 2.0 implementation, which may alter the capital ratios of insurers. The Group will not be making any changes to its current ~70% range for now – but this change puts a lot less pressure to achieve the payout level. MAY will reintroduce the DRP for FY26 to help fund the arrangement, but this will likely be a one-off. Management hints that it will do the same thing with more of its subsidiaries.

It allows for better cohesion with Etiqa's other geographical segments, as well as with the larger bank. The Group wants more control over Etiqa, as it identifies it as a core growth driver in the ROAR30 plan. Part of the original JV structure was because MAY was new to the insurance market and wanted assistance from more established players. 25 years on, MAY feels that there is no further need for such guidance.

Note that MAHB is only in charge of Etiqa's Malaysian and Singaporean arms. Etiqa's Indonesian, Filipino and Cambodian units are under Etiqa International Holdings (EIH) – a subsidiary owned 100% by MAY. The intention is to form a single, cohesive unit from both MAHB and EIH, which reduces operational overlap. It is not just Etiqa as a unit: The Group wants better alignment with the overall bank. The example management give is better coordination of sales incentives and bancassurance channels.

Against the grain, but Etiqa is a special case. The trend in recent years is banks disposing their insurance units, given the added complexity and burden on capital that insurance business lines are usually associated with. A notable exception was PBK's acquisition of LPI – but this was more due to legacy issues rather than purely strategic needs. So, MAY acquiring MAHB also bucks the trend, especially when the recent obsession among local banks is the efficient management of capital.

But then again, Etiqa as an insurer has multiple competitive advantages that other insurers lack:

1. It has a **Takaful license**, which is difficult to attain. This gives it access to the lucrative Takaful space, which is far less competitive than the Conventional space, allowing for easier growth ramp-up.
2. It has a **market-leading (or close) position in various segments.** It can utilise its economies of scale advantage, which allows it to keep its expense ratios low while maintaining a sizeable distribution network. This positions Etiqa to acquire market share and improve customer retention better by giving room for higher-than-regular claims payouts. ALLZ General has used its economies of scale to its advantage, allowing for aggressive capture of market share from smaller, more cost-pressured competition – Etiqa should function similarly.
3. In the case of MAHB, **exposure to the lucrative SG market.** Note that SG gross premiums are mostly life/family in nature, though general has an increasing presence there.

The finalised transaction will have a negative impact of ~0.90% on the CET 1 ratio. The purchase consideration is worth RM4.8b, which implies a -1.97% hit to CET 1 ratio. However, this blow to capital will be softened by **two offsets**, the first of which is RM800m worth of pre-completion dividends. However, MAHB will only receive RM552m, +0.23% to CET 1; Ageas will receive the remaining RM248m. The second offset is "Expected capital release via reorganisation of franchises", which will provide a RM2.1b boost (+0.86% to CET 1 ratio). This largely comes from Tier 2 instruments, which the Group will deploy shortly.

After factoring these two offsets, the final CET 1 ratio is estimated to be roughly 13.04% – implying a ~0.90% hit to CET 1 ratio. This translates to a roughly RM2.2b capital gap, which will be plugged up by the time ROAR30 ends via a combination of BAU earnings accretion and external funding.

The transaction will be immediately PATAMI, EPS and ROE accretive for the Group. MAY's FY25 PATAMI will see an instant accretion of +1.69%, its EPS by +0.81%, and its ROE by +0.37%. While initial ROAR30 targets did not factor in this acquisition, the Group will not be making any changes to its ROAR30 targets. It will not be tweaking any of FY26 figures as well. We think further financial benefits will follow suit, as the Group can reduce costs by reducing overlap instances.

Forecasts revised: FY26F/FY27F/FY28F Core NP adjusted by +1.7%/+1.7%/+1.7%. To reflect the increased insurance contribution, lower capital levels and a DRP one-off.
Key downside risks. *(1) Weak NOII performance, (2) Weaker-than-expected loan growth, (3) Higher-than-expected NCC.*

Maintain BUY call: Revised GGM-TP of RM 12.27 ***(from RM12.01).*** The TP is based on a revised FY27F P/BV of 1.47x *(formerly 1.44x)*, to reflect altered earnings prospects and ROE-based valuations.
(GGM assumptions: *FY27F ROE of 11.1%, LTG of 3.0% & COE of 8.5%)*

FIG 1: Previous Life/Composite Insurer M&As

Life/ Composite Insurer	Acquiror	Acquiree	Stake acquired (%)	Transaction (RM m)	Implied P/B (x)
2010	Mitsui Sumitomo Insurance	Hong Leong Assurance	30	940	6.5
2011	Zurich Insurance	Malaysian Assurance Alliance	100	344	1.4
2012	AIA Group	ING Group NV	100	5,300	2.2
2012	MetLife Intl Holdings	AmLife Insurance & AmFamily Takaful	50	812	3.0
2013	Sun Life Financial Inc	CIMB Group and Aviva PLC	50	1,800	3.2
2014	Prudential Insurance co (70%) & BSN (30%)	UniAsia Capital	100	518	1.4
2016	Zurich Insurance	MAA Takaful	100	525	4.8
2022	Generali Asia	MPI Capital	51	508	1.4
2026	Maybank	Maybank Ageas Holdings	31	4,830	2.0

	Other Insurer's Valuations	Current P/B(x)
	LPI	2.50
	ALLZ	0.60
	STMB	1.17
	MNRB	0.55

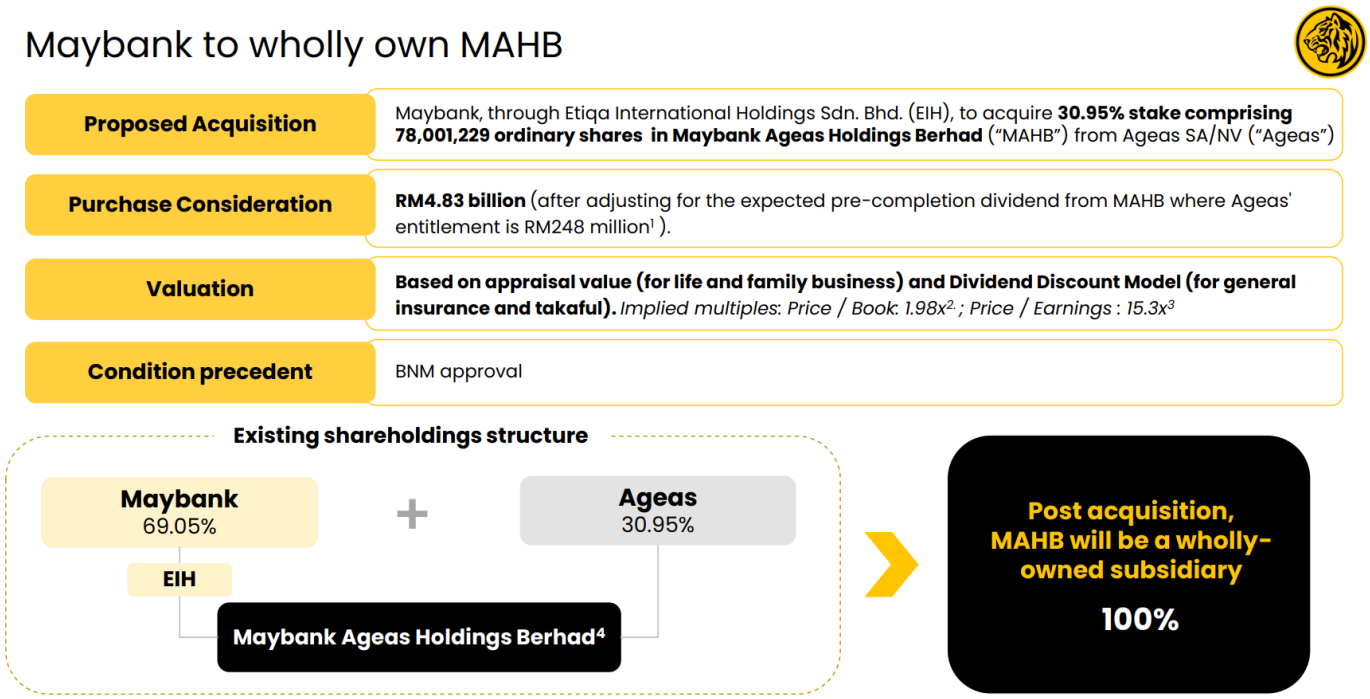
Source: Company, MBSBR

FIG 2: MAHB's 2030 Targets

Banca contribution: 50% (from 40%)
GWP growth: 15% CAGR
ROE: Mid-teens (Currently 12.3%)
>10% CAGR for Banca customers
>2 product holdings ratio (Currently ~1.6)

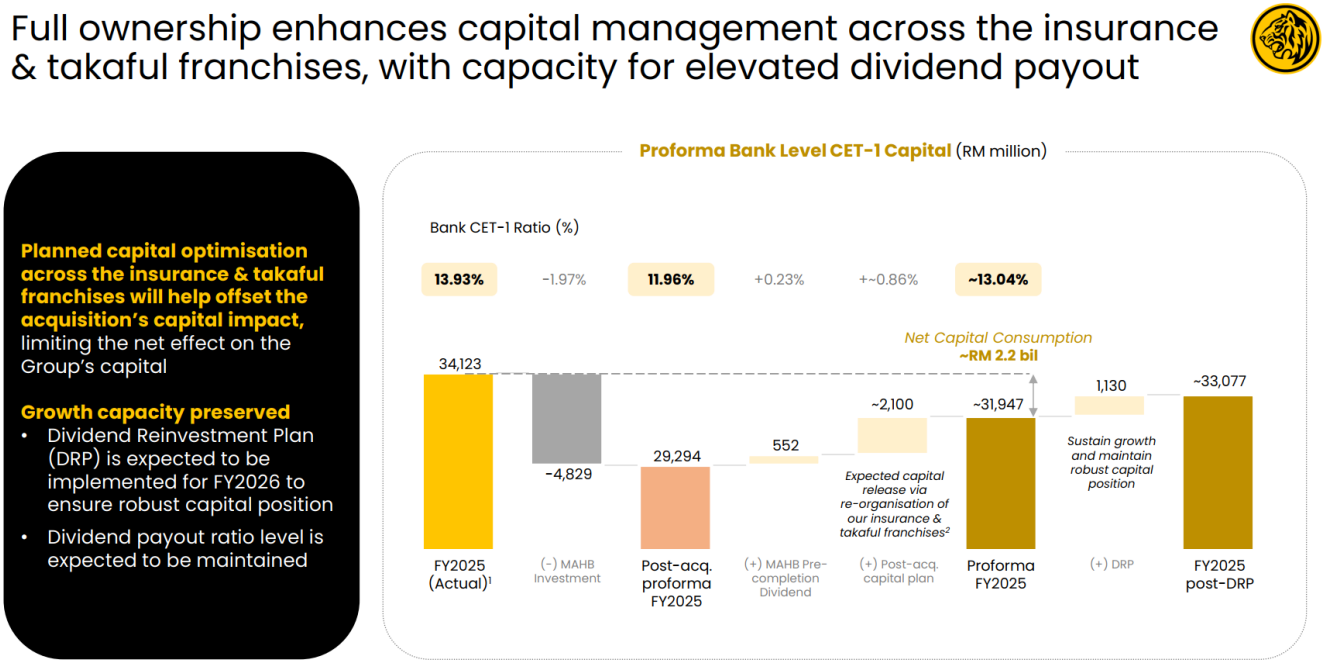
Source: Company, MBSBR

FIG 3: Details of the M&A (1)



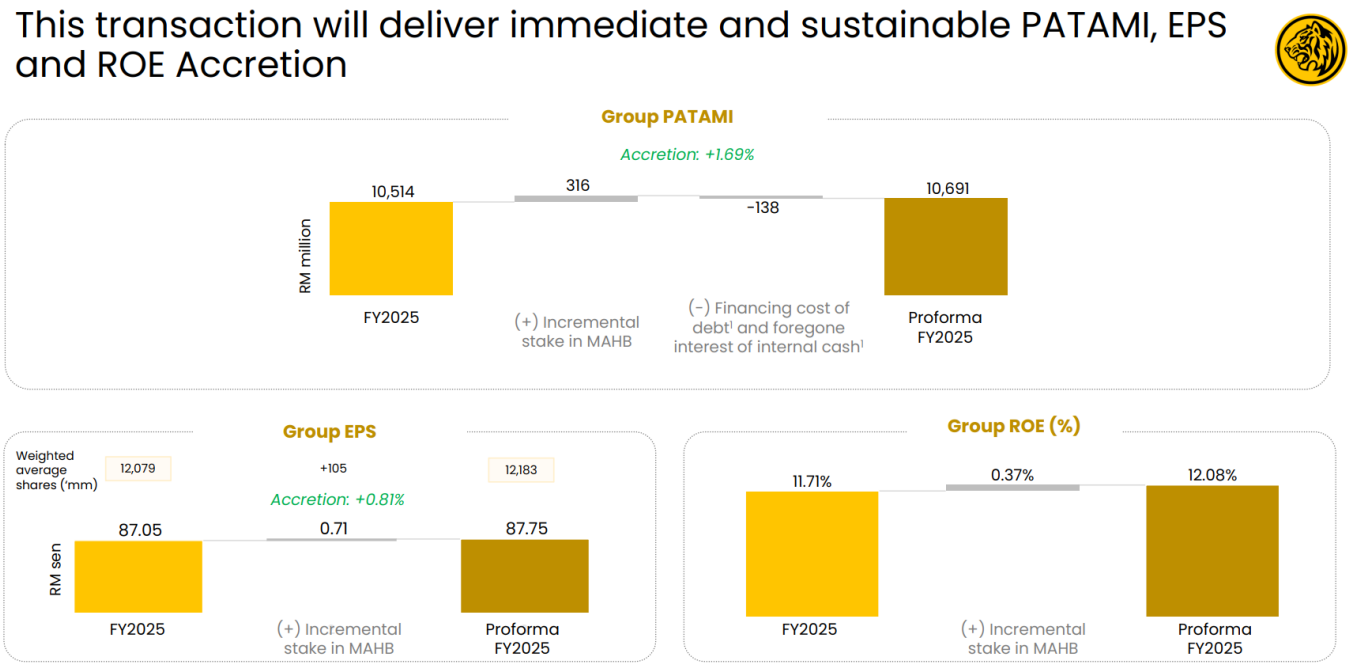
Source: Company, MBSBR

FIG 4: Details of the M&A (2)



Source: Company, MBSBR

FIG 5: Details of the M&A (3)



Source: Company, MBSBR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Net interest income	**12,807**	**13,157**	**13,907**	**14,472**	**14,983**
Islamic banking inc.	8,346	8,653	8,965	9,329	9,659
Other operating inc.	8,419	8,569	7,709	8,046	8,440
Net income	**29,573**	**30,380**	**30,581**	**31,847**	**33,082**
OPEX	(14,460)	(14,839)	(14,832)	(15,446)	(16,045)
PPOP	**15,112**	**15,540**	**15,749**	**16,401**	**17,037**
Loan allowances	(1,671)	(562)	(1,401)	(1,457)	(1,515)
Other allowances	24	(919)	(328)	(333)	(339)
JV & Associates	236	274	283	295	307
PBT	**13,702**	**14,334**	**14,304**	**14,907**	**15,490**
Tax & zakat	(3,195)	(3,502)	(3,433)	(3,578)	(3,718)
NCI	(418)	(317)	(326)	(340)	(353)
Reported NP	**10,089**	**10,514**	**10,545**	**10,989**	**11,420**
Core NP	**10,089**	**10,514**	**10,545**	**10,989**	**11,420**
Total NII	19,693	20,232	20,452	21,283	22,034
Total NOII	9,880	10,148	10,130	10,565	11,048

BALANCE SHEET

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & ST funds	62,798	42,359	42,499	42,641	42,784
Investment securities	240,829	243,817	250,324	257,009	263,879
Net loans	662,741	676,981	704,729	732,918	762,234
Other IEAs	29,564	21,718	22,634	23,593	24,598
Non-IEAs	79,390	68,708	50,982	51,885	52,827
Total assets	**1,075,322**	**1,053,584**	**1,071,167**	**1,108,046**	**1,146,322**
Customer deposits	712,915	698,210	726,139	755,184	785,392
Other IBLs	163,018	156,543	161,863	167,440	173,289
Non-IBLs	102,182	101,989	82,949	81,272	79,412
Total liabilities	**978,115**	**956,742**	**970,950**	**1,003,896**	**1,038,093**
Share capital	54,736	54,882	54,882	54,882	54,882
Reserves	39,234	38,562	42,227	46,038	49,991
Shareholders' funds	**93,971**	**93,445**	**97,110**	**100,920**	**104,873**
NCI	3,237	3,397	3,108	3,229	3,356
Total equity	**97,207**	**96,842**	**100,217**	**104,150**	**108,229**
Total L&E	**1,075,322**	**1,053,584**	**1,071,167**	**1,108,046**	**1,146,322**
Total IEAs	995,932	984,875	1,020,185	1,056,161	1,093,496
Total IBLs	875,933	854,753	888,001	922,624	958,680
Gross loans	674,969	686,549	714,011	742,571	772,274
CASA	245,485	267,912	275,933	286,970	298,449

FINANCIAL RATIOS

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Interest (%)					
NIM	2.01	2.02	2.04	2.05	2.05
Return on IEAs	3.36	2.96	2.98	2.94	2.88
Cost of funds	2.34	1.87	1.84	1.77	1.70
Net interest spread	1.02	1.09	1.15	1.17	1.18
Profitability (%)					
ROE	**10.7**	**11.2**	**11.1**	**11.1**	**11.1**
ROA	1.0	1.0	1.0	1.0	1.0
NOII/Net income	33.4	33.4	33.1	33.2	33.4
Effective tax rate	23.3	24.4	24.0	24.0	24.0
Cost/Income	48.9	48.8	48.5	48.5	48.5
Liquidity (%)					
Loan/Deposit	93.0	97.0	97.1	97.1	97.1
CASA ratio	34.4	38.4	38.0	38.0	38.0
Asset Quality (%)					
GIL ratio	1.23	1.28	1.30	1.30	1.30
LLC ratio	122	98	100	100	100
LLC (w. reserves)	157	122	123	122	121
Net CC (bps)	25	8	20	20	20
Capital (%)					
CET 1	15.8	16.0	13.3	13.5	13.7
Tier 1 capital	16.1	16.4	13.7	13.9	14.1
Total capital	18.9	20.0	17.3	17.6	17.9
Growth (%)					
Total NII	2.0	2.7	1.1	4.1	3.5
Total NOII	22.6	2.7	-0.2	4.3	4.6
Net income	8.1	2.7	0.7	4.1	3.9
OPEX	8.0	2.6	-0.0	4.1	3.9
Core NP	7.9	4.2	0.3	4.2	3.9
Gross loans	5.3	1.7	4.0	4.0	4.0
Customer deposits	6.3	-2.1	4.0	4.0	4.0
CASA	5.0	9.1	3.0	4.0	4.0
Valuation metrics					
Core EPS (sen)	83.4	87.0	87.2	90.9	94.4
Gross DPS (sen)	61.0	63.0	62.8	65.4	67.9
Div payout (%)	73	72	72	72	72
BVPS (RM)	7.8	7.7	8.0	8.3	8.7
Core P/E (x)	13.0	12.5	12.4	11.9	11.5
Div yield (%)	**5.6**	**5.8**	**5.8**	**6.0**	**6.3**
P/BV (x)	1.4	1.4	1.3	1.3	1.2

Source: Company, MBSBR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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