

**HLIB Research**

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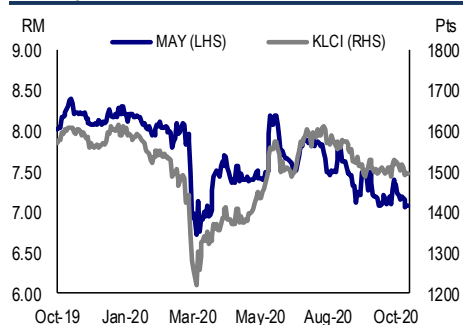
**HOLD** (Maintain)

**Target Price:** RM7.35  
**Previously:** RM7.35  
**Current Price:** RM7.08

Capital upside 3.8%  
Dividend yield 4.0%  
Expected total return 7.8%

**Sector coverage:** Banking

**Company description:** Maybank is the largest banking group (by assets) and it has a good footing in neighbouring countries, particularly Singapore and Indonesia.

**Share price**


Historical return (%) 1M 3M 12M  
Absolute 0.0 -9.8 -16.2  
Relative 1.0 -4.1 -12.0

**Stock information**

Bloomberg ticker MAY MK  
Bursa code 1155  
Issued shares (m) 11,241  
Market capitalisation (RM m) 79,589  
3-mth average volume ('000) 5,888  
SC Shariah compliant No

**Major shareholders**

Skim Amanah Saham 42.1%  
Employees Provident Fund 14.1%  
Permodalan Nasional 7.8%

**Earnings summary**

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core	8,198.1	6,328.2	7,223.7
EPS – core (sen)	73.5	56.2	63.2
P/E (x)	9.6	12.6	11.2

# Malayan Banking

## Uninspiring show at Indo

Maybank Indo saw net profit dropped 18% YoY in 3Q20, no thanks to tepid total income as loans growth, NIM, and fees contracted; that said, these were offset slightly by lower bad loan provision. Besides, NPL ratio improved sequentially due to proactive assistance given to troubled customers. Overall, results were largely within expectations and hence, forecasts were unchanged. In our view, the stock's risk-reward profile remains balanced as there are no compelling catalysts to re-rate the stock, given tough operating landscape. Keep HOLD and GGM-TP of RM7.35, based on 0.96x FY21 P/B.

**Largely in line.** Maybank Indonesia (79%-owned subsidiary) registered 3Q20 profit of IDR289b (+6% QoQ, -18% YoY), which brought 9M20 sum to IDR1,099b (-1% YoY). This was largely in line with both our and consensus expectations, making up 83-86% of respective full year forecasts (we believe loan loss provision will balloon in the final quarter due to impact of Covid-19 headwinds).

**QoQ.** The 6% rise in bottom-line was owing to lower loan loss allowances (-41%); this masked the overall weak performance as net interest and non-interest income (NOII) fell 12% and 7% respectively, because of loans contraction (-5%), net interest margin slippage (NIM, -32bp) and lower forex gains (-61%).

**YoY.** Net profit dipped 18% given tepid top-line (-21%); key culprits were shrinkage in loans growth (-17%), NIM (-28bp), and fees (-32%). That said, these were cushioned by the decline in bad loan provision (-30%).

**YTD.** Earnings ticked down slightly by 1% despite weak total income (-8%), thanks to lower allowance for impaired loans (-9%) and normalizing downward effective tax rate (-4ppt).

**Other key trends.** Net loans growth dropped 17.0% YoY (2Q20: -14.5%) but deposits did not follow suit and nudged up 1% YoY instead (2Q20: -15.5%). In turn, sequential net loan-to-deposit ratio improved 17ppt to 93%. As for asset quality, gross NPL ratio fell 69bp QoQ to 4.3% due to proactive assistance extended to troubled customers.

**Outlook.** We see the multiple interest rate cuts this year (4x so far, totalling to -100bp) to continue exert pressure on NIM. Also, their plan to switch to lower-yielding but safer assets will cap expansion; however, Maybank Indonesia's focus on discipline deposit pricing and better funding management could help to prevent a sharper NIM erosion. Besides, loans growth is expected to stay tepid, considering the confluence of events from Covid-19 headwinds. That said, pick-up in loan restructuring efforts would help to limit a significant deterioration in NPL ratio.

**Forecast.** Unchanged as Maybank Indonesia's 3Q20 results were largely in line with estimates; it contributes c.6-7% to group's PBT (immaterial).

**Retain HOLD and GGM-TP of RM7.35,** based on 0.96x FY21 P/B with assumptions of 8.5% ROE, 8.7% COE, and 3.0% LTG. This is beneath its 5-year mean of 1.21x but ahead of the sector's 0.74x. The discount is fair as its ROE output is 2ppt below the 5-year average while the premium to peers is warranted given its regional exposure and leadership position. In our opinion, Maybank's risk-reward profile is balanced as there are no compelling catalysts to re-rate the stock, given tough operating landscape.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash & ST funds	71,558.2	74,201.4	74,134.7	76,496.8	71,725.9
Invest securities	177,952.1	192,830.2	202,471.7	212,595.3	223,225.0
Net loans	507,083.8	513,419.7	520,501.5	529,223.2	544,538.9
Intangible assets	6,718.3	6,836.5	6,730.4	6,618.6	6,501.1
Other assets	43,679.2	47,125.3	49,509.9	49,975.7	50,428.4
<b>Assets</b>	<b>806,991.7</b>	<b>834,413.0</b>	<b>853,348.2</b>	<b>874,909.6</b>	<b>896,419.3</b>
Cust. & bank deposits	600,148.3	608,825.8	625,783.8	643,250.6	661,241.5
Debt securities	71,594.8	76,815.2	76,815.2	76,815.2	76,815.2
Other liabilities	57,511.3	64,702.8	64,702.8	64,702.8	64,702.8
<b>Liabilities</b>	<b>729,254.4</b>	<b>750,343.8</b>	<b>767,301.8</b>	<b>784,768.6</b>	<b>802,759.5</b>
Shareholder's equity	75,330.1	81,570.9	83,379.3	87,281.3	90,586.6
Minority interest	2,407.1	2,498.3	2,667.0	2,859.7	3,073.2
<b>Equity</b>	<b>77,737.3</b>	<b>84,069.2</b>	<b>86,046.4</b>	<b>90,140.9</b>	<b>93,659.9</b>

### Financial Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
<b>Operational (%)</b>					
Avg. lending yield	4.46	4.46	4.30	4.33	4.36
Avg. cost of funds	2.53	2.64	2.62	2.58	2.63
Net interest margin	2.20	2.13	1.99	2.05	2.04
Cost/ income	47.5	46.7	46.5	46.7	47.3
<b>Profitability (%)</b>					
ROE	10.94	10.45	7.67	8.47	9.01
ROA	1.03	1.00	0.75	0.84	0.90
<b>Liquidity (%)</b>					
Loan/ deposit	93.0	92.6	91.7	90.8	90.8
<b>Asset quality (%)</b>					
Gross impaired loans	2.41	2.65	2.82	2.83	2.74
Loan loss coverage	82.1	72.6	89.5	99.9	107.1
Net credit cost (bp)	31.5	44.0	94.9	74.0	55.0
<b>Capital adequacy (%)</b>					
CET 1 capital	15.0	15.7	15.2	15.6	15.8
Tier 1	16.0	16.5	15.9	16.5	16.6
Total capital	19.0	19.4	18.8	19.3	19.4

### Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
<b>Net interest income</b>	<b>12,072.9</b>	<b>12,095.0</b>	<b>11,593.5</b>	<b>12,257.8</b>	<b>12,523.7</b>
Islamic operations	5,611.7	5,979.6	6,033.2	6,314.0	6,439.6
Non-interest income	5,977.1	6,666.3	7,250.2	6,724.4	6,795.1
<b>Total income</b>	<b>23,661.7</b>	<b>24,740.9</b>	<b>24,876.8</b>	<b>25,296.2</b>	<b>25,758.5</b>
Overhead expenses	(11,245.7)	(11,561.9)	(11,571.0)	(11,822.2)	(12,188.3)
Loan loss provision	(1,591.3)	(2,287.5)	(5,018.2)	(3,992.3)	(3,041.6)
Others	76.6	122.4	150.0	150.0	150.0
<b>Pre-tax profit</b>	<b>10,901.3</b>	<b>11,013.9</b>	<b>8,437.6</b>	<b>9,631.7</b>	<b>10,678.7</b>
Taxation	(2,545.4)	(2,538.2)	(1,940.6)	(2,215.3)	(2,456.1)
Minority interest	(242.7)	(277.6)	(168.8)	(192.6)	(213.6)
<b>Net profit</b>	<b>8,113.3</b>	<b>8,198.1</b>	<b>6,328.2</b>	<b>7,223.7</b>	<b>8,009.0</b>
Exceptionals	-	-	-	-	-
<b>Core net profit</b>	<b>8,113.3</b>	<b>8,198.1</b>	<b>6,328.2</b>	<b>7,223.7</b>	<b>8,009.0</b>
HLIB/ Consensus			104%	104%	96%

### Valuation Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	74.2	73.5	56.2	63.2	68.9
P/E (x)	9.5	9.6	12.6	11.2	10.3
BVPS (RM)	6.89	7.31	7.41	7.64	7.80
P/B (x)	1.03	0.97	0.96	0.93	0.91
DPS (sen)	57.0	64.0	28.4	50.1	54.7
Dividend yield (%)	8.1	9.0	4.0	7.1	7.7
Payout ratio (%)	76.9	87.4	50.0	78.0	78.0

### Growth

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
<b>Income statement (%)</b>					
Net interest income	(0.6)	0.2	(4.1)	5.7	2.2
Total income	1.7	4.6	0.5	1.7	1.8
Pre-tax profit	8.0	1.0	(23.4)	14.2	10.9
Net profit	7.9	1.0	(22.8)	14.2	10.9
Core net profit	7.9	1.0	(22.8)	14.2	10.9
<b>Balance sheet (%)</b>					
Gross loans	4.8	1.2	2.0	2.0	3.0
Customer deposits	6.1	2.2	3.0	3.0	3.0

**Figure #1** Quarterly results comparison

FYE Dec (IDR b)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
<b>Net interest income</b>	<b>2,101.0</b>	<b>1,912.0</b>	<b>1,676.7</b>	<b>-12.3%</b>	<b>-20.2%</b>	<b>6,125.0</b>	<b>5,612.7</b>	<b>-8.4%</b>
Islamic banking	0.0	0.0	0.0	<i>n.m.</i>	<i>n.m.</i>	0.0	0.0	<i>n.m.</i>
Non-interest income	695.0	586.0	545.8	-6.9%	-21.5%	1,862.0	1,729.8	-7.1%
<b>Total income</b>	<b>2,796.0</b>	<b>2,498.0</b>	<b>2,222.5</b>	<b>-11.0%</b>	<b>-20.5%</b>	<b>7,987.0</b>	<b>7,342.5</b>	<b>-8.1%</b>
Operating expenses	-1,673.0	-1,432.0	-1,381.4	-3.5%	-17.4%	-4,856.0	-4,417.4	-9.0%
<b>Pre-provision profit</b>	<b>1,123.0</b>	<b>1,066.0</b>	<b>841.1</b>	<b>-21.1%</b>	<b>-25.1%</b>	<b>3,131.0</b>	<b>2,925.1</b>	<b>-6.6%</b>
Loan loss provisions	-619.0	-731.0	-434.8	-40.5%	-29.8%	-1,594.0	-1,445.8	-9.3%
<b>Operating profit</b>	<b>504.0</b>	<b>335.0</b>	<b>406.4</b>	<b>21.3%</b>	<b>-19.4%</b>	<b>1,537.0</b>	<b>1,479.4</b>	<b>-3.8%</b>
Others	2.0	-4.0	-18.9	<i>n.m.</i>	<i>n.m.</i>	11.0	-25.9	<i>n.m.</i>
<b>Pre-tax profit</b>	<b>506.0</b>	<b>331.0</b>	<b>387.5</b>	<b>17.1%</b>	<b>-23.4%</b>	<b>1,548.0</b>	<b>1,453.5</b>	<b>-6.1%</b>
Tax & minority interest	-154.0	-59.0	-98.3	66.7%	-36.1%	-439.0	-354.3	-19.3%
<b>Net Profit</b>	<b>352.0</b>	<b>272.0</b>	<b>289.1</b>	<b>6.3%</b>	<b>-17.9%</b>	<b>1,109.0</b>	<b>1,099.1</b>	<b>-0.9%</b>
<b>EPS (IDR)</b>	<b>4.6</b>	<b>3.6</b>	<b>3.8</b>	<b>6.3%</b>	<b>-17.9%</b>	<b>14.6</b>	<b>14.4</b>	<b>-0.9%</b>
<b>Book value/share (IDR)</b>	<b>339</b>	<b>344</b>	<b>350</b>	<b>1.5%</b>	<b>3.0%</b>	<b>339</b>	<b>350</b>	<b>3.0%</b>

Bursa, HLIB Research

- QoQ & YoY decline in net interest income was due to contraction in loans growth & NIM.
- QoQ drop in 3Q NOI came on the back of lower forex gains while YoY fell given lower fees.
- 3Q opex was down QoQ & YoY on lower personnel, general & administrative costs.

**Figure #2** Financial ratios

FYE Dec (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Net interest margin	5.24	4.81	4.83	4.97	5.07	4.96	5.01	4.69
Cost / income ratio	54.7	62.1	60.5	59.8	55.7	61.2	57.3	62.2
Return on equity	12.0	6.8	5.5	5.5	11.4	8.3	4.2	4.4
Net loans growth, yoy	6.4	10.9	6.7	-1.0	-8.2	-9.4	-14.5	-17.0
Deposits growth, yoy	-3.7	6.1	10.1	4.3	-5.2	-8.8	-15.5	0.8
Net loan / deposit ratio	114.2	105.8	108.2	112.3	110.7	105.0	109.5	92.5
Gross NPL ratio	2.59	2.89	3.06	2.63	3.33	3.65	4.99	4.30
Loan loss coverage	66.8	62.8	65.9	88.1	63.4	79.6	69.3	70.5
Net credit cost (bp)	96.8	121.7	171.4	185.3	57.4	87.7	238.2	148.3
Tier 1 capital ratio	16.9	16.7	17.1	18.2	19.5	18.9	20.4	21.9

Bursa, HLIB Research

- Loans growth contracted as management opted to grow selectively and took the decision to exit selected corporate and commercial loans, which were not in line to its risk appetite. Also, the Covid-19 pandemic contributed to the decline.
- Gross NPL ratio fell 69bp QoQ to 4.3% due to proactive assistance extended to troubled customers.

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## Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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