

COMPANY RESULTS

Malayan Banking (MAY MK)

2Q22: Upgrade To BUY: Attractive Valuations And Dividend Yield

Maybank's 2Q22 net profit was in line, underpinned by NIM expansion, strong insurance income contribution and solid opex discipline helping to offset the plunge in non-interest income. The group declared an interim dividend of 28 sen/share (vs our 26 sen estimates), representing an 85% payout ratio. Upgrade to BUY with a target price of RM9.45 (1.17x FY22/23 PBV, 9.8% ROE) given its attractive valuations following recent share price retracement and attractive dividend yield of 7%.

RESULTS

- In line.** Malayan Banking (Maybank) reported 2Q22 net profit of RM1,857.2m (-5.4% yoy, -0.6% qoq). 2Q22 earnings were in line, with 1H22 earnings representing 49%/47% of our and consensus full-year forecasts.
- Qoq.** 2Q22 earnings declined 9.1% qoq as loans loss provision rose 93% qoq as 1Q22 net credit cost of 32bp benefitted from recoveries coupled with further top-ups in O&G provisions in 2Q22. The group had experienced a positive qoq operating Jaws with overall revenue expanding 6% qoq vs a 4% qoq opex growth. Revenue growth was underpinned by: a) a 7bp qoq expansion in NIM, b) a 125% qoq rise in insurance income on lower net claims, and c) 6% net fee income growth but partially offset by marked to market treasury losses due to rising bond yields.
- Yoy.** 2Q22 earnings declined 5.4% yoy, partly attributable to the impact of the prosperity tax. Group profit before tax contracted by a milder 2.2% yoy as higher provisions were partly offset by positive operating Jaws. Pre-provision operating profit expanded 16% yoy as revenue growth of 11% yoy outpaced opex growth of 5% yoy. Revenue growth was fueled by a 6% net interest income growth on the back of a 4bp NIM expansion and strong net insurance income growth on a 48% yoy decline in net claims. These were more than sufficient to offset a 68% yoy decline in non-interest income that was impacted by marked to market treasury losses.
- Loans growth momentum gains traction.** Loans growth momentum gains traction with 2Q21 loans expanding 2.4% qoq, bringing 1H22 group loans growth to 6.2% yoy (1Q22: 5.2% yoy). Growth was led by Singapore: 8.1% yoy and Indonesia 8.2% yoy. Domestically, loans growth of 5.6% yoy was held up by mortgages (6.5% yoy) and SME (9.5% yoy).
- NIM tailwind.** NIM trended up 7bp qoq to 2.41% underpinned by the 25bp policy rate hike. Management has retained its 5bp NIM expansion in 2022 driven by the expectations of three overnight policy rate (OPR) hikes in Malaysia but to be partly offset by downward normalisation in CASA ratio. We have taken a more conservative view, pencilling in a more modest 2bp NIM expansion for 2022.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net interest income	11,090	12,034	12,488	13,226	13,943
Non-interest income	7,537	5,842	5,479	5,658	6,199
Net profit (rep./act.)	6,481	8,066	7,977	9,438	9,863
Net profit (adj.)	6,481	8,066	7,977	9,438	9,863
EPS (sen)	57.7	71.7	73.3	85.3	87.7
PE (x)	15.3	12.3	12.1	10.4	10.1
P/B (x)	1.2	1.2	1.1	1.1	1.1
Dividend yield (%)	5.9	6.6	6.2	7.2	7.4
Net int margin (%)	2.2	2.4	2.4	2.4	2.5
Cost/income (%)	45.4	45.3	46.3	45.7	44.1
Loan loss cover (%)	98.6	107.8	86.0	93.6	98.4
Consensus net profit	-	-	8,479	10,932	10,498
UOBKH/Consensus (x)	-	-	0.94	0.86	0.94

Source: Malayan Banking, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM8.84
Target Price	RM9.45
Upside	+6.9%

COMPANY DESCRIPTION

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MAY MK
Shares issued (m):	11,970.0
Market cap (RMm):	105,815.9
Market cap (US\$m):	23,668.5
3-mth avg daily t'over (US\$m):	13.3

Price Performance (%)

52-week high/low RM9.12RM7.95

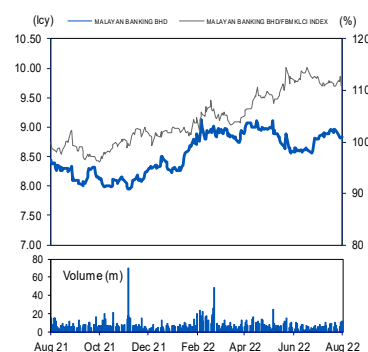
1mth	3mth	6mth	1yr	YTD
0.5	(1.3)	(0.5)	6.1	6.5

Major Shareholders

	%
Amanah Saham Nasioanl	39.9
EPF	13.0
Yayasan Pelaburan Bumiputra	7.0

FY22 NAV/Share (RM)	8.12
FY22 CAR Tier-1 (%)	17.48

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Non-interest income declined 68% yoy** in 2Q22 due to RM1.1b in marked to market treasury losses vs RM630m gains in 2Q22. We note that 2Q22 was an extremely challenging period for fixed income securities with 10-year Malaysian Government Securities having risen by an average of 60bp qoq in 2Q22. However, it has since eased off by 40bp in Jul-Aug 22. As such, overall non-interest income trend should improve qoq in 3Q22.
- **Operating cost discipline remains strong.** The group has managed to retain overall opex growth at a respectable 4.3% yoy in 1H22 vs our full-year opex growth assumptions of 6% yoy, despite the rising inflationary pressure. Benign staff cost (+2.5% yoy) had helped to underpin overall opex growth and with only marketing expenses (+8.5% yoy) experiencing a strong uptick which is expected, in tandem with the economic reopening.
- **Asset quality stable.** 2Q22 group GIL ratio edged downwards to 1.81% (1Q22: 1.95%) due to recoveries in Indonesia and Singapore operations. Domestically, GIL ratio as expected, edged up by a manageable 6bp to 1.28% with the unwinding of the loans moratorium. Loans under repayment assistance continued to improve across all its key markets as at end-Jul 22: Malaysia: 5.9% (7.6% end-Apr 22), Singapore: 3.2% (3.3% end-Apr 22) and Indonesia: 9.5% (11.6% end-Apr 22).
- **Retaining net credit cost guidance with sufficient pre-emptive provision buffers.** Net credit cost came in at 58bp in 2Q22, bringing 1H22 net credit cost to 46bp which is in line with our 45bp 2022 assumptions and management's 40-50bp guidance. The rise in 2Q22 net credit cost was partly attributable to additional O&G provision top-ups which management expects to taper off in 2H22. Loans loss coverage ratio inclusive of regulatory reserves remains healthy at 132% in 2Q22, rising further from 111% in 1Q22.
- **Outlook.** Management has retained its 2022 key guidance of: a) ROE: 9.5%-10.0%, b) cost-to-income ratio of 45-46%, c) net credit cost range of 40-50bp, and d) 5bp NIM expansion.

EARNINGS REVISION/RISK

- Unchanged.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with an unchanged target price of RM9.45 (1.17x FY22/23 PBV, 9.8% ROE).** The recent share price retracement coupled with attractive dividend yield of 7% has prompted us to upgrade our recommendation to a BUY (total return 14% inclusive of dividend yield). The stock is trading at -1.0SD from its five-year historical mean PBV which is attractive and further supported by industry-leading dividend yield of 7% (2023).

2022 RESULTS

Profit & Loss (RMm)	2022	2021	yoy % chg	1H22	yoy % chg	Remarks
Net Interest Income	3,520.2	3,019.9	16.6	6,847.0	15.5	Supported by NIM expansion and steady loans growth
Islamic Banking	1,765.5	1,959.3	(9.9)	3,436.0	(10.6)	
Fees & Commissions	847.5	898.5	(5.7)	1,649.3	(14.3)	Lower net claims
Net insurance income	1,182.1	44.4	>100	1,707.3	60.6	
Net trading income	(1,135.5)	634.5	n.a.	(942.2)	n.a.	Higher bond yields
Other Operating Income	654.9	(382.9)	n.a.	591.5	(382.4)	
Total Income	6,834.8	6,173.7	10.7	13,288.8	2.2	
Operating Expenses	(3,056.1)	(2,920.8)	4.6	(5,990.2)	4.3	
PPOP	3,778.7	3,253.0	16.2	7,298.5	0.6	
Provisions	(837.5)	(524.8)	59.6	(1,281.0)	(6.8)	
Writeback/(Impairment)	(318.7)	(42.4)	651.5	(472.4)	678.2	
Associate	43.5	40.3	8.0	93.0	21.0	
PBT	2,665.9	2,726.1	(2.2)	5,638.2	(4.4)	In line
Net Profit	1,857.2	1,962.5	(5.4)	3,902.1	(10.4)	
EPS (sen)	16.5	17.5	(5.4)	34.7	(10.4)	
DPS (sen)	28.0	28.0	0.0	28.0	0.0	
BVPS (RM)	7.08	7.20	(1.7)	7.08	(1.7)	
Financial Ratios (%)	2022	2021	yoy chg (ppt)	1Q22	qoq chg (ppt)	
NIM	2.41	2.37	0.04	2.34	0.07	
Loan Growth, yoy	2.4	1.3	1.0	1.5	0.9	
Deposit Growth, yoy	0.6	1.0	(0.4)	2.6	(2.0)	
Loan/Deposit Ratio	92.6	91.2	1.4	91.1	1.4	
Cost/Income Ratio	44.7	47.3	(2.6)	45.5	(0.7)	
ROE	8.8	9.3	(0.5)	9.6	(0.8)	
NPL Ratio	1.8	2.2	(0.4)	1.9	(0.1)	
Credit Costs (bp)	58.2	38.8	19.5	31.6	26.7	
Loan Loss Coverage	131.5	124.3	7.2	110.9	20.6	
CET-1 CAR	15.0	14.6	0.4	14.9	0.1	

Source: Maybank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2022F	2023F	2024F
Loan Growth	5.0	5.5	5.2
Credit Cost (bp)	45.0	40.0	38.0
ROE	9.0	10.3	10.5

Source: Maybank, UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Green loan commitment. To provide RM50b in sustainable financing by 2025 - Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050 • Social <ul style="list-style-type: none"> - Board and upper management gender diversity. Maintained 25% female directors on the Board and 40% female senior management - Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers • Governance <ul style="list-style-type: none"> - Composition of independent directors. Composition of Independent Directors (INED) – 75 %

Source: Maybank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Interest income	17,205	27,020	28,787	30,407
Interest expense	(5,171)	(14,531)	(15,560)	(16,464)
Net interest income	12,034	12,488	13,226	13,943
Fees & commissions	3,638	3,456	3,664	3,993
Other income	2,204	2,023	1,995	2,206
Non-interest income	5,842	5,479	5,658	6,199
Income from Islamic banking	7,573	8,254	8,832	9,627
Total income	25,448	26,221	27,716	29,769
Staff costs	(6,808)	(7,217)	(7,578)	(7,881)
Other operating expense	(4,710)	(4,923)	(5,081)	(5,239)
Pre-provision profit	13,930	14,082	15,058	16,649
Loan loss provision	(2,659)	(2,617)	(2,577)	(2,452)
Other provisions	(571)	0	0	0
Associated companies	186	197	209	222
Other non-operating income	0	0	0	0
Pre-tax profit	10,887	11,662	12,690	14,418
Tax	(2,565)	(3,464)	(2,990)	(4,282)
Minorities	(255)	(221)	(262)	(274)
Net profit	8,066	7,977	9,438	9,863
Net profit (adj.)	8,066	7,977	9,438	9,863

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Cash with central bank	7,514	17,444	18,404	19,361
Govt treasury bills & securities	48,568	49,540	50,531	51,541
Interbank loans	16,037	16,197	16,359	16,523
Customer loans	541,888	567,816	598,076	628,379
Investment securities	175,315	187,759	201,048	215,240
Derivative receivables	12,757	12,757	12,757	12,757
Associates & JVs	2,491	2,491	2,491	2,491
Fixed assets (incl. prop.)	3,301	3,466	3,639	3,821
Other assets	80,300	84,425	88,869	93,666
Total assets	888,172	941,896	992,174	1,043,780
Interbank deposits	36,583	37,681	38,811	39,975
Customer deposits	617,688	648,573	684,244	721,878
Derivative payables	12,638	12,638	12,638	12,638
Debt equivalents	13,067	13,067	13,067	13,067
Other liabilities	119,643	138,631	148,944	158,467
Total liabilities	799,620	850,590	897,705	946,025
Shareholders' funds	85,811	88,343	91,244	94,256
Minority interest - accumulated	2,741	2,963	3,225	3,499
Total equity & liabilities	888,172	941,896	992,174	1,043,780

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	16.2	17.5	16.7	16.0
Total CAR	18.8	23.3	22.8	22.3
Total assets/equity (x)	10.3	10.6	10.8	11.0
Tangible assets/tangible common equity (x)	11.0	11.4	11.6	11.8
Asset Quality				
NPL ratio	2.0	2.7	2.7	2.7
Loan loss coverage	107.8	86.0	93.6	98.4
Loan loss reserve/gross loans	2.1	2.3	2.5	2.6
Increase in NPLs	(5.4)	43.8	3.5	4.9
Credit cost (bp)	48.0	45.0	42.0	38.0
Liquidity				
Loan/deposit ratio	87.7	87.5	87.4	87.0
Liquid assets/short-term liabilities	11.0	12.1	11.8	11.4
Liquid assets/total assets	8.2	8.9	8.7	8.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	8.5	3.8	5.9	5.4
Fees & commissions, yoy chg	7.8	(5.0)	6.0	9.0
Pre-provision profit, yoy chg	3.0	1.1	6.9	10.6
Net profit, yoy chg	24.5	(1.1)	18.3	4.5
Net profit (adj.), yoy chg	24.5	(1.1)	18.3	4.5
Customer loans, yoy chg	5.8	4.8	5.3	5.1
Customer deposits, yoy chg	6.5	5.0	5.5	5.5
Profitability				
Net interest margin	2.4	2.4	2.4	2.5
Cost/income ratio	45.3	46.3	45.7	44.1
Adjusted ROA	0.9	0.9	1.0	1.0
Reported ROE	9.5	9.2	10.5	10.6
Adjusted ROE	9.5	9.2	10.5	10.6
Valuation				
P/BV (x)	1.2	1.1	1.1	1.1
P/NTA (x)	1.3	1.2	1.2	1.1
Adjusted P/E (x)	12.3	12.0	10.3	10.0
Dividend Yield	6.6	6.2	7.3	7.5
Payout ratio	80.8	75.0	75.0	75.0

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