

COMPANY RESULTS

Malayan Banking (MAY MK)

1Q23: Risk-to-reward Well Balanced

Maybank's 1Q23 net profit was in line, underpinned by the absence of the prosperity tax and lower provisions. Pre-provision operating profit contracted due to NIM compression and weaker insurance income. The stock is trading at -0.5SD from its historical mean P/B, which is fair. The minimal scope for credit cost writeback and weaker loans growth are offset by a relatively attractive dividend yield in excess of 6%. Maintain HOLD and target price of RM9.00 (1.15x 2023F P/B, 10.2% ROE).

RESULTS

- **In line.** Malayan Banking (Maybank) reported 1Q23 net profit of RM2,265.4m (+10.7% yoy, +4.5% qoq). 1Q23 earnings are in line, representing 25%/24% of our/consensus' full-year forecast.
- **1Q23 earnings rose 4.5% qoq**, boosted by lower tax expense in the absence of the one-off prosperity tax and lower net credit cost from loan recoveries. PBT contracted 7.6% qoq on the 4bp NIM compression and lower insurance income (-8.3% qoq) which was impacted by MFRS17 and higher contract liabilities due to lower bond yields.
- **1Q23 earnings expanded 10.7% yoy**, largely attributable to an 18% yoy decline in tax expense in the absence of the one-off prosperity tax. 1Q23 PBT was relatively flat with a 2.7% yoy growth. The group experienced negative operating JAWS with opex growth (+11.8% yoy) outpacing revenue growth of 1.1% yoy. However, the lower net credit cost (1Q23: 24bp vs 1Q22:48bp) was sufficient to offset the negative operating JAWS. 1Q23 revenue trend was flatish as stable net interest income and higher trading incomes (+35% yoy) were offset by weaker insurance income which swung to a net loss of RM414m from net loss of RM232m as lower bond yields led to higher contract liabilities.
- **NIM compression underway.** NIM declined 4bp qoq given prevailing deposit competition and declining CASA ratio. Management has retained its 2023 group NIM compression guidance of 5-8bp. Inherent in its guidance is for CASA ratio to normalise to pre-COVID-19 levels and no further changes in Overnight Policy Rate hike for the rest of 2023. Deposit competition remains elevated but management alluded that competition may have peaked and could gradually taper off in 2H23. We have pencilled in 7bp NIM slippage for 2023.
- **Loans growth continues to lose momentum.** Loans grew 5.3% yoy in 1Q23, which was a moderation from 2022's growth of 6.0%. Growth by its key geographical regions is as follows: Malaysia: +5.1% yoy, Indonesia: +7.2% yoy, Singapore: +5.4% yoy. We expect Maybank's total loans to grow 4.7% in 2023.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	12,034	13,834	13,696	13,984	14,425
Non-interest income	5,842	6,367	6,524	6,960	7,403
Net profit (rep./act.)	8,066	8,235	9,083	9,683	10,281
Net profit (adj.)	8,066	8,235	9,083	9,683	10,281
EPS (sen)	71.7	73.2	80.8	86.1	91.5
PE (x)	11.9	11.7	10.6	9.9	9.4
P/B (x)	1.1	1.1	1.1	1.0	1.0
Dividend yield (%)	6.8	6.8	7.1	7.5	8.0
Net int margin (%)	2.4	2.5	2.4	2.4	2.4
Cost/income (%)	45.3	46.4	49.0	49.5	49.7
Loan loss cover (%)	107.8	127.4	128.1	140.6	154.5
Consensus net profit	-	-	9,322	9,859	10,278
UOBKH/Consensus (x)	-	-	0.97	0.98	1.00

Source: Malayan Banking, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM8.56
Target Price	RM9.00
Upside	+5.1%

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):	12,054.1
Market cap (RMm):	103,183.3
Market cap (US\$m):	22,462.9
3-mth avg daily t'over (US\$m):	12.4

Price Performance (%)

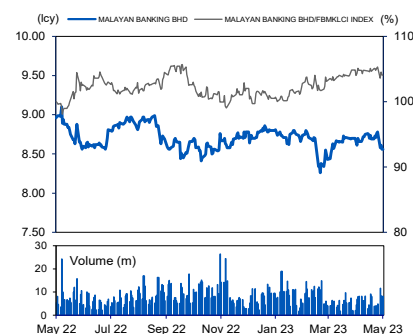
52-week high/low		RM9.12/RM7.95		
1mth	3mth	6mth	1yr	YTD
(1.6)	(2.1)	(2.3)	(4.5)	(1.6)

Major Shareholders

	%
AmanahRaya Trustees Berhad	38.5
Employees Provident Fund Board	13.7
Permodalan Nasional Berhad	6.9

FY22 NAV/Share (RM)	7.90
FY22 CAR Tier-1 (%)	17.56

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Asset quality stable with further improvement in repayment assistance level.** 1Q23 group GIL ratio edged downwards to 1.50% (4Q22: 1.57%) due to recoveries and write-offs in Indonesia and Singapore. Domestically, GIL ratio declined to 1.37% in 1Q23 from 1.38% in 4Q22. Loans under repayment assistance continued to improve across most of its key markets as at end-Apr 23: Malaysia: 0.9% (1.7% as at end-Jan 23), Indonesia: 7.9% (8.5% as at end-Jan 22), and Singapore to 2.7% (3.0% as at end-Jan 23).
- **Lower credit cost on recoveries.** Net credit cost came in at 25bp in 1Q23 vs 37bp in 4Q22 as the group benefitted from recoveries from its Indonesian and Singapore operations coupled with benign GIL formation. Management expects a slight improvement in net credit cost trend to 35-40bp (2022: 40bp). That said, management alluded that it does not intend to reverse out its current RM1.7b stock of pre-emptive provisions in the near term.
- **Opex remains elevated.** 1Q23 opex rose 11.8% yoy, mainly attributed to the 9.9% increase in personnel costs, which includes collective agreement adjustments for union staff (normalised growth: 7.0%). We expect this to normalise downwards as the group had started to provide for the adjustment from 2H22 onwards. All in all, we expect opex growth to remain elevated at 8% yoy in 2023.
- **Outlook.** Management has retained its 2023 guidance of: a) ROE: 10.5-11.0%, b) cost-to-income ratio of 45-46%, c) net credit cost range of 35-40bp, and d) 5-8bp NIM slippage.

EARNINGS REVISION

- Unchanged

VALUATION/RECOMMENDATION

- **Maintain HOLD with target price of RM9.00 (1.15x 2023F P/B, 10.2% ROE).** The stock is currently trading at -0.5SD from its historical mean P/B which we deem to be fair. The minimal scope for credit cost writeback in 2023 coupled with weaker insurance income and compression in NIM is offset by a relatively attractive dividend yield in excess of 6%.

1Q23 RESULTS

Profit & Loss (RMm)	1Q23	1Q22	yoy % chg	4Q22	qoq % chg	Comments
Net Interest Income	3,228.4	3,326.8	(3.0)	3,519.3	(8.3)	NIM compression on elevated deposit competition
Islamic Banking	1,791.2	1,670.5	7.2	1,981.9	(9.6)	
Fees & Commissions	803.5	801.8	0.2	831.2	(3.3)	
Net insurance income	(414.7)	232.4	(278.5)	(370.1)	12.1	
Net trading income	152.2	284.7	(49.3)	79.4	91.8	
Other Operating Income	763.8	(63.4)	(1,065.2)	855.5	(10.7)	Higher trading and forex income
Total Income	6,324.3	6,252.7	1.1	6,897.1	(8.3)	
Operating Expenses	(3,052.2)	(2,730.0)	11.8	(3,407.2)	(10.4)	
PPOP	3,272.1	3,522.7	(7.1)	3,490.0	(6.2)	
Provisions	(360.1)	(443.4)	(18.8)	(308.8)	16.6	Benefiting from write backs
Writeback/(Impairment)	67.2	(153.6)	(143.7)	117.8	(42.9)	
Associate	76.6	49.5	54.6	8.2	833.2	
PBT	3,055.8	2,975.2	2.7	3,307.2	(7.6)	
Net Profit	2,265.4	2,046.9	10.7	2,167.4	4.5	In line
Core Net Profit	2,265.4	2,046.9	10.7	2,167.4	4.5	
EPS (sen)	20.1	18.2	10.6	19.3	4.5	
DPS (sen)	0.0	0.0	n.a.	30.0	n.a	
BVPS (RM)	7.12	7.06	0.9	7.13	(0.1)	
Financial Ratios (%)	1Q23	1Q22	yoy chg (ppt)	4Q22	qoq chg (ppt)	
Loan Growth, yoy	0.8	1.5	(0.7)	(0.0)	0.8	
Deposit Growth, yoy	1.6	2.6	(1.1)	0.2	1.4	
Loan/Deposit Ratio	92.9	91.1	1.8	93.6	(0.7)	
Cost/Income Ratio	48.3	43.7	4.6	49.4	(1.1)	
ROE	10.5	9.7	0.9	10.2	0.4	
NPL Ratio	1.5	2.0	(0.5)	1.6	(0.1)	
Credit Costs (bp)	25.0	48.0	(23.7)	37.3	(13.0)	
CET-1 CAR	15.0	14.9	0.1	14.8	0.2	

Source: Maybank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	4.7	5.0	5.2
Credit Cost (bp)	37.0	32.0	30.0
ROE	10.2	10.6	11.0

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 %
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Source: Maybank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	21,628	22,665	23,803	25,091
Interest expense	(7,793)	(8,969)	(9,819)	(10,666)
Net interest income	13,834	13,696	13,984	14,425
Fees & commissions	3,343	3,543	3,685	3,795
Other income	3,024	2,981	3,275	3,607
Non-interest income	6,367	6,524	6,960	7,403
Income from Islamic banking	7,414	7,933	8,647	9,425
Total income	27,615	28,154	29,591	31,253
Staff costs	(7,504)	(8,329)	(8,995)	(9,715)
Other operating expense	(5,304)	(5,474)	(5,645)	(5,821)
Pre-provision profit	14,808	14,351	14,950	15,717
Loan loss provision	(2,189)	(2,277)	(2,071)	(2,049)
Other provisions	(596)	0	0	0
Associated companies	131	139	147	156
Other non-operating income	0	0	0	0
Pre-tax profit	12,153	12,213	13,026	13,824
Tax	(3,780)	(2,878)	(3,074)	(3,257)
Minorities	(138)	(252)	(269)	(285)
Net profit	8,235	9,083	9,683	10,281
Net profit (adj.)	8,235	9,083	9,683	10,281

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	13,777	18,459	19,419	20,487
Govt treasury bills & securities	49,540	50,531	51,541	52,572
Interbank loans	16,096	16,257	16,420	16,584
Customer loans	575,387	600,147	630,927	665,333
Investment securities	181,550	194,701	208,761	223,793
Derivative receivables	24,687	24,687	24,687	24,687
Associates & JVs	2,207	2,207	2,207	2,207
Fixed assets (incl. prop.)	3,319	3,485	3,659	3,842
Other assets	81,249	85,717	90,565	95,839
Total assets	947,813	996,190	1,048,185	1,105,343
Interbank deposits	51,894	53,451	55,054	56,706
Customer deposits	639,396	672,645	709,640	748,670
Derivative payables	27,874	27,874	27,874	27,874
Debt equivalents	13,067	13,067	13,067	13,067
Other liabilities	126,664	137,161	147,311	160,368
Total liabilities	858,896	904,198	952,947	1,006,685
Shareholders' funds	85,957	88,780	91,756	94,891
Minority interest - accumulated	2,960	3,213	3,482	3,767
Total equity & liabilities	947,813	996,190	1,048,185	1,105,344

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	15.5	17.6	16.7	15.8
Total CAR	15.2	23.6	23.1	22.5
Total assets/equity (x)	10.9	11.1	11.3	11.6
Tangible assets/tangible common equity (x)	11.8	12.0	12.2	12.4
Asset Quality				
NPL ratio	1.6	1.9	1.8	1.7
Loan loss coverage	127.4	128.1	140.6	154.5
Loan loss reserve/gross loans	2.3	2.5	2.5	2.6
Increase in NPLs	(16.6)	28.5	(1.6)	(2.4)
Credit cost (bp)	37.3	37.0	32.0	30.0
Liquidity				
Loan/deposit ratio	90.0	89.2	88.9	88.9
Liquid assets/short-term liabilities	11.5	11.7	11.4	11.1
Liquid assets/total assets	8.4	8.6	8.4	8.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	15.0	(1.0)	2.1	3.2
Fees & commissions, yoy chg	(8.1)	6.0	4.0	3.0
Pre-provision profit, yoy chg	6.3	(3.1)	4.2	5.1
Net profit, yoy chg	2.1	10.3	6.6	6.2
Net profit (adj.), yoy chg	2.1	10.3	6.6	6.2
Customer loans, yoy chg	6.2	4.3	5.1	5.5
Customer deposits, yoy chg	3.5	5.2	5.5	5.5
Profitability				
Net interest margin	2.5	2.4	2.4	2.4
Cost/income ratio	46.4	49.0	49.5	49.7
Adjusted ROA	0.9	0.9	1.0	1.0
Reported ROE	9.6	10.4	10.7	11.0
Adjusted ROE	9.6	10.4	10.7	11.0
Valuation				
P/BV (x)	1.1	1.1	1.1	1.0
P/NTA (x)	1.2	1.2	1.1	1.1
Adjusted P/E (x)	11.7	10.6	9.9	9.4
Dividend Yield	6.8	7.1	7.5	8.0
Payout ratio	79.2	75.0	75.0	75.0

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