

Maybank (MAY MK) : HOLD

Mkt. Cap: US\$22,666m | **3m Avg. Daily Val:** US\$14.5m

Last Traded Price (27 Feb 2020): RM8.52

Price Target 12-mth: RM8.40 (1% downside) (Prev RM8.60)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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An exception, not a norm

- FY19 above expectations from higher-than-expected non-interest income; 88% dividend payout was a positive surprise
- Revenue mainly driven by non-interest income; margin erosion impacted net fund-based income
- Trimmed FY20-21F earnings forecast by 2% after imputing a rate cut
- Maintain HOLD with lower RM8.40 TP

Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Pre-prov. Profit	13,179	12,511	13,035	13,605
Net Profit	8,198	7,779	8,207	8,688
Net Pft (Pre Ex.)	8,198	7,779	8,207	8,688
Net Pft Gth (Pre-ex) (%)	1.0	(5.1)	5.5	5.9
EPS (sen)	73.6	68.5	70.9	73.7
EPS Pre Ex. (sen)	73.6	68.5	70.9	73.7
EPS Gth Pre Ex (%)	(1)	(7)	4	4
Diluted EPS (sen)	72.9	67.9	70.3	73.0
PE Pre Ex. (X)	11.6	12.4	12.0	11.6
Net DPS (sen)	64.0	52.9	54.8	56.9
Div Yield (%)	7.5	6.2	6.4	6.7
ROAE Pre Ex. (%)	10.4	9.4	9.6	9.8
ROAE (%)	10.4	9.4	9.6	9.8
ROA (%)	1.0	0.9	1.0	1.0
BV Per Share (sen)	726	730	746	762
P/Book Value (x)	1.2	1.2	1.1	1.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

FY19 above expectations. Maybank's (MAY) 4Q19 net profit was 5% higher y-o-y (+23% q-o-q), driven by middling revenue growth of 3% (flat q-o-q) and lower expenses of -3% (flat q-o-q). This was partially offset by higher net provisions amid an uptick in gross impaired loans (GILs). The group's quoted return on equity (ROE) was flat y-o-y at 13%. On a full year basis, ROE slid by 50bps to 10.9%. MAY's FY19 beat our and consensus expectations at 106% and 103% of FY19F earnings respectively. The positive surprise stemmed from larger-than-expected non-interest income. A final dividend of 39 sen per share was declared, bringing the total dividend payout to a high of 88%, all of which is to be paid in cash.

Margin erosion weighed on fund-based income. Net fund-based income was only 1% higher y-o-y in 4Q19, as a solid 5% growth in average interest earning assets was almost completely offset by margin erosion across MAY's main markets. Net interest margin (NIM) shrunk by 9bps y-o-y, largely impacted by diverging policy rate movements in Malaysia from 2018 to 2019. Loans growth was fairly thin at 1% y-o-y (flat q-o-q), dragged by its regional markets – MAY's Singapore and Indonesia operations saw their respective loan books contract by 4% and 8% respectively. Domestically, the group fared better at 5% y-o-y, with 7% growth across both consumer and SME & Business Banking lines. Residential mortgages (+12% y-o-y; +4% q-o-q) accounted for the largest portion of growth, followed by



Live more, Bank less

Flash Note

hire purchase (HP) loans (+4% y-o-y; +1% q-o-q) and the Small Medium Enterprise (SME) segment (+12% q-o-q; +4% q-o-q).

Non-interest income drove revenue. Like the rest of the sector, MAY benefited from the compressed bond yield environment. Investment and trading income in 4Q19 was significantly higher at RM207m compared to a negative position a year ago of -RM335m. Service charges, commission and fees were also 16% higher y-o-y. However, net insurance income slid by 34% y-o-y due to higher claims and higher contract liability obligations. Altogether, MAY's net fee-based income grew by 6% y-o-y (flat q-o-q). Separately, the group had trimmed its personnel costs by 9% y-o-y, resulting in a 3% decline in overheads and an improved cost-to-income ratio of 46% (4Q18: 49%).

Higher credit costs on GILs. Annualised net credit costs during the quarter rose to 26bps compared to 6bps in the previous year, largely due to higher stage 3 expected credit loss (ECL) allowances booked. This was in line with increased impaired loans in MAY's main markets. The gross impaired loans (GIL) ratio rose to 2.65% from 2.41% in 4Q18, with absolute GILs growing by 11% over the same period.

Outlook

Risks still remain under the current macroenvironment. MAY is guiding for ROE to hover between 10% and 11% in FY20, with 5bps in NIM compression (factoring two rate cuts of 50bps total), 46-47% cost-to-income ratio and net credit costs of up to 45bps, depending on the extent of damage caused by the COVID-19 outbreak. We understand that the group has identified its exposure at 3% of its total gross loans. With the challenging macroenvironment against a backdrop of slowing economic growth, asset quality will continue to be a concern for MAY, especially given its exposure to lumpy corporate loans. Loan loss coverage is also fairly low at 91% (including the regulatory reserve). We trim our FY20F/21F earnings forecast by 2% respectively

after imputing further margin pressure from an additional rate cut.

Valuation and recommendation

Maintain HOLD with lower RM8.40 TP. We reduced our target price (TP) to RM8.40 after reflecting the earnings revision and changing our ROE assumption under the Gordon Growth Model to 10.1% (from 10.3% previously). The group's dividend payout trend should return to normal after FY19's extraordinarily high dividend, which is unsustainable in the longer term.

Flash Note

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Net Interest Income	3,108	3,160	3,084	(0.8)	(2.4)
Islamic Income	1,500	1,495	1,585	5.7	5.7
Non-Interest Income	1,693	1,844	1,824	7.7	(1.1)
Operating Income	6,301	6,498	6,493	3.0	(0.1)
Operating Expenses	(3,068)	(2,964)	(2,969)	(3.2)	0.2
Pre-Provision Profit	3,232	3,535	3,524	9.0	(0.3)
Provisions	(162)	(935)	(299)	84.1	(68.0)
Associates	25.5	48.5	38.7	52.0	(20.3)
Exceptionals	0.0	0.0	0.0	nm	nm
Pretax Profit	3,096	2,648	3,264	5.4	23.2
Taxation	(645)	(603)	(696)	7.9	15.3
Minority Interests	(124)	(46.1)	(119)	4.6	157.7
Net Profit	2,326	1,999	2,449	5.3	22.5

Growth (%)

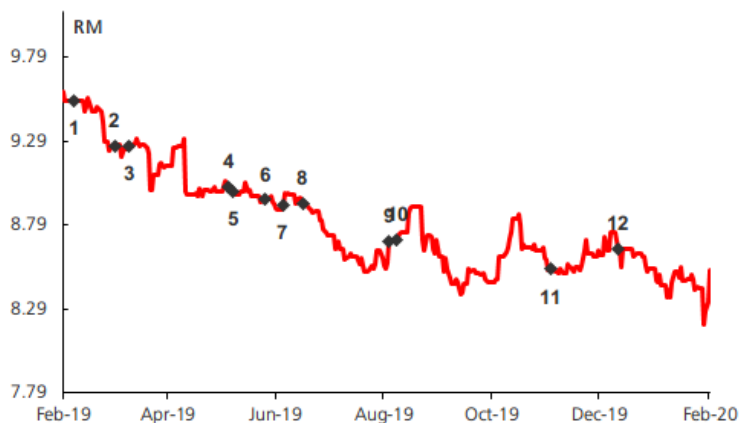
Net Interest Income Gth	4.1	9.1	(2.4)
Net Profit Gth	18.9	3.0	22.5

Key ratio (%)

NIM	2.5	2.4	2.4
NPL ratio	2.4	2.7	2.6
Loan-to deposit	91.2	90.9	2,475.8
Cost-to-income	48.7	45.6	45.7
Total CAR	19.0	18.1	18.2

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Mar 19	9.53	10.05	BUY
2:	28 Mar 19	9.26	10.05	BUY
3:	05 Apr 19	9.26	10.05	BUY
4:	31 May 19	9.02	10.05	BUY
5:	03 Jun 19	8.99	10.05	BUY
6:	21 Jun 19	8.94	10.05	BUY
7:	01 Jul 19	8.91	10.05	BUY
8:	12 Jul 19	8.92	10.05	BUY
9:	30 Aug 19	8.69	9.90	BUY
10:	03 Sep 19	8.70	9.90	BUY
11:	29 Nov 19	8.53	9.90	BUY
12:	06 Jan 20	8.65	8.60	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: CHIN Jin Han, CFA

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AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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