



Company report

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MALAYAN BANKING

(MAY MK EQUITY, MBBM.KL)

22 May 2020

Earnings lifted by higher fee-based income

BUY

(Maintained)

Rationale for report: Company results/update

Price	RM7.51
Fair Value	RM8.30
52-week High/Low	RM9.10/RM7.00

Key Changes

Fair value	⬇️
EPS	⬇️

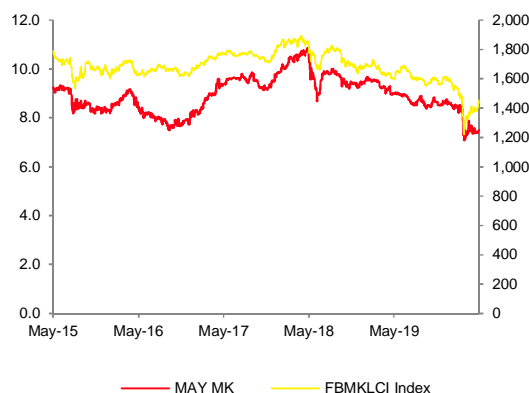
YE to Dec	FY19	FY20F	FY21F	FY22F
Total income (RM mil)	24,740.9	24,386.8	24,815.0	25,705.3
Core net profit (RM mil)	8,198.1	6,762.3	7,384.0	8,843.6
FD Core EPS (sen)	73.4	60.6	66.2	79.2
FD Core EPS growth (%)	(1.7)	(17.5)	9.2	19.8
Consensus Net Profit (RM mil)	-	7,656.0	8,013.0	8,752.0
DPS (sen)	64.0	46.7	50.9	61.0
BV/share (RM)	7.31	7.47	7.95	8.53
PE (x)	10.2	12.4	11.4	9.5
Div yield (%)	8.5	6.2	6.8	8.1
P/BV (x)	1.0	1.0	0.9	0.9
ROE (%)	10.4	8.2	8.6	9.6

Stock and Financial Data

Shares Outstanding (million)	11,241.4
Market Cap (RM mil)	84,422.6
Book Value (RM/share)	7.31
P/BV (x)	1.0
ROE (%)	10.5

Major Shareholders	Amanahraya Trustees Bhd - Skim Amanah Saham Bumiputera(36.6%) Employees Provident Fund (13.9%) Yayasan Pelaburan Bumiputra(7.8%)
Free Float	36.7
Avg Daily Value (RM mil)	92.3

Price performance	3mth	6mth	12mth
Absolute (%)	(10.7)	(13.1)	(16.5)
Relative (%)	(5.8)	(4.7)	(7.7)



Investment Highlights

- We maintain our BUY call on Malaysian Banking (Maybank) with a revised FV of RM8.30/share (previously RM8.50/share) based on an ROE of 8.2% leading to an FY20 P/BV of 1.1x. We lower our FY20/21 earnings by 12.3%/5.5% to reflect lower loan growth of 2%/2% and higher credit cost of 0.8%/0.7%. Also, we have fine-tuned our NOII estimates.
- Maybank's 1Q20 earnings of RM2.0bil registered an increase of 13.3% YoY with higher total income offset by a rise in opex and provisions.
- 1Q20 net profit was within expectations, making up 26.2% of our and 26.1% of consensus estimates respectively. The group delivered an ROE of 10.3%.
- Opex grew 4.8% YoY in 1Q20 due to higher personnel and establishment expenses. The group posted a positive JAWs of 10.0% YoY for 1Q20. 1Q20 CI ratio of 43.8% was lower than our FY20 estimate of 46.0%.
- Loan growth was tepid at 0.3% YoY with the expansion of loans in Malaysia offset by the contraction of international markets' (Singapore and Indonesia) loans.
- The group remained cautious on corporate loans in Singapore and Indonesia due to the weaker asset quality in these international markets.
- Group deposits contracted by 2.5% YoY contributed by the intentional release of expensive deposits (FDs in Malaysia and Indonesia).
- Net interest margin (NIM) fell 6bps QoQ to 2.23% in 1Q20 contributed by rate cuts of 25bps each in Jan and Mar 2020 in Malaysia. Also, interest margin in Indonesia was also compressed by a 50bps rate cut in 1Q20. NIM is expected to contract further in 2Q20 owing to the 50bps OPR reduction to 2.00% in May 2020.
- Group GIL ratio rose to 2.71% in the preceding quarter. 1Q20 credit cost increased to 0.74%, which is higher than our estimate of 0.60% for FY20 due to a conservative provisioning of RM600mil taken by the group despite no significant deterioration in asset quality as yet from Covid-19.

EXHIBIT 1: RESULTS COMPARISON

Income Statement (RM Mil, FYE 31 Dec)	1Q19	4Q19	1Q20	% QoQ	% YoY
Interest income	6,034	5,916	5,551	-6.2%	-8.0%
Interest expense	-3,081	-2,832	-2,639	-6.8%	-14.3%
Net interest income	2,954	3,084	2,911	-5.6%	-1.4%
Islamic banking income	1,497	1,585	1,621	2.2%	8.3%
Non interest income	1,410	1,824	2,192	20.2%	55.5%
Total income	5,860	6,493	6,724	3.6%	14.7%
Overhead expenses	-2,808	-2,969	-2,942	-0.9%	4.8%
Pre-provision profit	3,052	3,524	3,782	7.3%	23.9%
Loan impairment allowances	-604	-334	-962	188.0%	59.2%
Other allowances	-33	35	-63	-279.2%	87.9%
Associates and JV income	35	39	40	3.0%	13.0%
Pretax profit	2,450	3,264	2,798	-14.3%	14.2%
Income tax	-576	-696	-756	8.6%	31.3%
Minority interest	-66	-119	8	-106.5%	-111.8%
Net profit	1,809	2,449	2,050	-16.3%	13.3%
Core net profit	1,809	2,449	2,050	-16.3%	13.3%
Core EPS (sen)	16.4	21.8	18.2	-16.3%	11.4%
Profit by segments (RM Mil)					
Group community financial services	1,541	1,869	1,208	-35.3%	-21.6%
Group corporate banking and global markets	932	1,130	1,268	12.3%	36.1%
Group investment banking	-2	96	26	-73.1%	-1700.4%
Group asset management	-4	10	-6	-156.2%	55.8%
Group insurance and takaful	246	328	54	-83.6%	-78.1%
Head office and others	-264	-170	247	-245.5%	-193.5%
Group profit before taxation	2,450	3,264	2,798	-14.3%	14.2%
Balance Sheet (RM Mil, FYE 31 Dec)					
Gross loans and advances	516,888	523,487	518,423	-1.0%	0.3%
Net loans and advances	506,733	513,420	507,638	-1.1%	0.2%
Customer deposits (excluding investment account)	534,764	544,531	519,267	-4.6%	-2.9%
Gross impaired loans	12,819	13,858	14,070	1.5%	9.8%
Average shareholders funds	76,766	80,436	79,778	-0.8%	3.9%
Ratios (%)					
LD	92.7%	92.6%	95.3%		
CASA	34.5%	35.5%	38.4%		
Cost to income	47.9%	45.7%	43.8%		
Credit cost	0.47%	0.26%	0.74%		
Loan loss coverage	82.6%	77.3%	81.5%		
Loan loss coverage (including regulatory reserves)	94.1%	90.8%	89.5%		
GIL/Gross NPL	2.48%	2.65%	2.71%		
NIM	2.30%	2.29%	2.23%		
ROE	9.4%	12.2%	10.3%		
CET1 capital	14.6%	14.6%	14.8%		
Tier 1 capital	15.5%	15.3%	15.6%		
Total capital	19.0%	18.2%	18.5%		

Source: Company, AmInvestment Bank Bhd estimates.

1Q20 EARNINGS WITHIN EXPECTATION

Maybank's 1Q20 earnings of RM2.0bil registered an increase of 13.3% YoY with higher total income offset by a rise in opex and provisions. 1Q20 net profit was within expectations, making up 26.2% of our and 26.1% of consensus estimates respectively.

EXHIBIT 2: BREAKDOWN OF LOANS

<u>Loan by economic purpose (RM mil)</u>	<u>1Q19</u>	<u>2Q19</u>	<u>3Q19</u>	<u>4Q19</u>	<u>1Q20</u>	<u>QoQ</u>	<u>YoY</u>
Purchase of securities	36,169	35,883	36,537	35,999	33,651	-6.5%	-7.0%
Purchase of transport vehicles	66,848	67,851	67,983	68,240	67,257	-1.4%	0.6%
Purchase of landed property:-							
Residential	115,916	118,853	120,044	122,875	124,408	1.2%	7.3%
Non-residential	39,562	40,517	40,413	40,553	41,300	1.8%	4.4%
Purchase of Fix. Assets excl land & bldg	4,711	4,493	4,281	4,164	4,182	0.4%	-11.2%
Personal Use	10,650	10,728	10,733	10,890	10,910	0.2%	2.4%
Credit Card	9,250	9,323	9,431	9,745	8,942	-8.2%	-3.3%
Purchase of durable goods	11	10	10	10	10	-1.3%	-8.2%
Merger and acquisition	1,807	2,122	1,701	1,677	1,542	-8.1%	-14.7%
Construction	15,733	16,857	17,296	17,381	16,682	-4.0%	6.0%
Working Capital	167,885	172,124	170,140	168,020	166,141	-1.1%	-1.0%
Others	48,348	46,818	46,464	43,933	43,399	-1.2%	-10.2%
Total gross loans	516,888	525,578	525,033	523,487	518,423	-1.0%	0.3%
% of loans by economic purpose	1Q19	2Q19	3Q19	4Q19	1Q20		
Purchase of securities	7.0%	6.8%	7.0%	6.9%	6.5%		
Purchase of transport vehicles	12.9%	12.9%	12.9%	13.0%	13.0%		
Purchase of landed property:-							
Residential	22.4%	22.6%	22.9%	23.5%	24.0%		
Non-residential	7.7%	7.7%	7.7%	7.7%	8.0%		
Purchase of Fix. Assets excl land & bldg	0.9%	0.9%	0.8%	0.8%	0.8%		
Personal Use	2.1%	2.0%	2.0%	2.1%	2.1%		
Credit Card	1.8%	1.8%	1.8%	1.9%	1.7%		
Purchase of durable goods	0.0%	0.0%	0.0%	0.0%	0.0%		
Merger and acquisition	0.3%	0.4%	0.3%	0.3%	0.3%		
Construction	3.0%	3.2%	3.3%	3.3%	3.2%		
Working Capital	32.5%	32.7%	32.4%	32.1%	32.0%		
Others	9.4%	8.9%	8.8%	8.4%	8.4%		
	100%	100%	100%	100%	100%		
QoQ growth (%)	1Q19	2Q19	3Q19	4Q19	1Q20		
Purchase of securities	1.8%	-0.8%	1.8%	-1.5%	-6.5%		
Purchase of transport vehicles	0.4%	1.5%	0.2%	0.4%	-1.4%		
Purchase of landed property:-							
Residential	1.4%	2.5%	1.0%	2.4%	1.2%		
Non-residential	0.9%	2.4%	-0.3%	0.3%	1.8%		
Purchase of Fix. Assets excl land & bldg	-2.2%	-4.6%	-4.7%	-2.7%	0.4%		
Personal Use	-1.6%	0.7%	0.0%	1.5%	0.2%		
Credit Card	-3.0%	0.8%	1.2%	3.3%	-8.2%		
Purchase of durable goods	-2.3%	-5.5%	-1.8%	0.2%	-1.3%		
Merger and acquisition	17.2%	17.4%	-19.9%	-1.4%	-8.1%		
Construction	-2.1%	7.1%	2.6%	0.5%	-4.0%		
Working Capital	-1.5%	2.5%	-1.2%	-1.2%	-1.1%		
Others	0.1%	-3.2%	-0.8%	-5.4%	-1.2%		
Total gross loans	-0.1%	1.7%	-0.1%	-0.3%	-1.0%		
Total net loans	-0.1%	1.7%	-0.1%	-0.3%	-1.1%		
YoY growth (%)	1Q19	2Q19	3Q19	4Q19	1Q20		
Purchase of securities	4.8%	2.3%	3.0%	1.3%	-7.0%		
Purchase of transport vehicles	4.5%	4.3%	2.3%	2.5%	0.6%		
Purchase of landed property:-							
Residential	7.6%	8.0%	6.9%	7.4%	7.3%		
Non-residential	-2.3%	4.3%	3.0%	3.4%	4.4%		
Purchase of Fix. Assets excl land & bldg	-18.7%	-16.9%	-21.6%	-13.6%	-11.2%		
Personal Use	2.0%	1.3%	-0.3%	0.6%	2.4%		
Credit Card	3.4%	2.9%	2.1%	2.2%	-3.3%		
Purchase of durable goods	8.7%	1.1%	0.7%	-9.1%	-8.2%		
Merger and acquisition	119.2%	108.6%	25.8%	8.7%	-14.7%		
Construction	-1.7%	2.3%	9.2%	8.1%	6.0%		
Working Capital	6.3%	4.9%	3.9%	-1.4%	-1.0%		
Others	3.3%	0.4%	-3.0%	-9.1%	-10.2%		
Total gross loans	4.8%	4.6%	3.4%	1.2%	0.3%		
Total net loans	4.9%	4.8%	3.5%	1.2%	0.2%		

Source: Company, AmInvestment Bank Bhd estimates.

SUBDUED LOAN GROWTH AS LOAN EXPANSION IN MALAYSIA WAS OFFSET BY CONTRACTION OF SINGAPORE AND INDONESIA'S LOANS

The group's loan grew modestly at 0.3% YoY. Loans in Malaysia expanded 5.0% YoY, higher than the industry growth of 4.0% YoY. Nevertheless, this was dampened by the contraction of international loans (Singapore and Indonesia). Internationals markets' loans fell by 5.7% YoY. Loan expansion in Malaysia was largely supported by the growth in community financial services loans (mortgages, auto financing and SME loans). Meanwhile, corporate loans in Malaysia grew marginally by 1.5% YoY. In Malaysia, the group has approved RM2.1bil of the BNM's special relief facilities to SMEs with a 77.0% approval rate.

The slowdown in loan growth for Singapore was attributed to the moderation of both the community financial services and global banking loans. We understand that S\$1.2bil government relief loans have been granted to ease business loan borrowers' cash flows. In Indonesia, community financial services loans slowed down in pace while global banking loans grew tepidly. The group remained cautious on corporate loans in Singapore and Indonesia.

DEPOSITS CONTRACTED IN ALL KEY MARKETS (MALAYSIA, INDONESIA AND SINGAPORE)

Group deposits contracted by 2.5% YoY largely due to the intentional release of expensive deposits (FDs in Malaysia and Indonesia). Also, market money deposits contracted. In Indonesia while deposits continued to decline in balances after the presidential election.

The group's CASA grew strongly by 8.6% YoY in 1Q20. Group CASA ratio rose to 38.4% vs. 35.5% in the preceding quarter. With the contraction in deposits, the group's gross LD ratio climbed to 95.3%. Group LCR eased further to 138.2% with the deceleration in deposit growth and continuation to reduce the group's excess liquidity in Indonesia. Meanwhile, Maybank's loan-to-fund and loan-to-fund-and-equity ratios rose to 95.2% and 86.5% respectively.

NIM DECLINED 6BPS QOQ DUE TO RATE CUTS IN MALAYSIA AND INDONESIA

Net interest margin (NIM) fell 6bps QoQ to 2.23% in 1Q20 attributed to rate cuts of 25bps each in Jan and Mar 2020 in Malaysia. Also, interest margins in Indonesia were also impacted by rate cuts totalling 50bps in 1Q20. NIM is expected to contract further in 2Q20 owing to the 50bps OPR reduction to 2.00% in May 2020. 2Q20 is likely to see the full impact of the rate cuts on the group's interest margin.

Management is now guiding for its FY20 NIM to be compressed by up to 15bps which has not taken into

account any further rate cuts in the key home markets as well as the day 1 modification loss for the loan moratorium in Malaysia. The revised guidance is based on the 50bps OPR reduction in May 2020 and the 2 rate cuts totalling 50bps in Indonesia in 1Q20.

Management indicated that the day 1 modification loss (inclusive of the impact on fixed rate HP loans both conventional and syariah) due to the moratorium is around RM1bil. The impact will be one-off on 2Q20 financials which will affect the reported interest income in the coming quarter. We understand that the loss was due to an accounting treatment to factor in the time value of money. The modification loss will be recognised due to the difference between the PV of modified cash flows and the PV of cash flows when the fixed rate HP loans was contracted. On a comforting note, the loss will be gradually reversed out when the HP loan borrowers commence their repayments from 1 Oct 2020 after the end of the 6-month moratorium. The group hinted that discussion is ongoing with the authorities for a resolution to the reporting of the modification loss. A greater clarity on the modification loss will be provided in the coming quarter's briefing.

EXHIBIT 3: DOMESTIC LOANS UNDER MORATORIUM, RELIEF AND R&R

% of outstanding loan balance	Malaysia as at 8 May
Mortgage	89.2%
Auto Finance	94.8%
Unit Trust	96.9%
Other retail loans	56.0%
SME	93.6%*
Busines Banking	82.9%
Corporate	26.4%

*includes loans for relief funds

Source: Company

EXHIBIT 4: BREAKDOWN OF DEPOSITS

Customer deposit by type	1Q19	2Q19	3Q19	4Q19	1Q20	%QoQ	%YoY
Demand deposits	107,591	108,253	108,387	109,469	110,109	0.6%	2.3%
Savings deposits	73,112	74,755	75,465	78,030	80,757	3.5%	10.5%
Money Market deposits	27,282	25,192	21,086	20,769	11,758	-43.4%	-56.9%
Structured deposits	0	0	0	0	0		
Fixed deposits and negotiable instruments of deposits:							
i) One year or less	320,059	322,637	333,675	328,019	308,635	-5.9%	-3.6%
ii) More than one year	6,720	8,419	7,415	8,243	8,007	-2.9%	19.2%
Investment account	22,800	21,653	20,139	20,738	24,500	18.1%	7.5%
Total customer deposit	557,564	560,908	566,166	565,269	543,767	-3.8%	-2.5%
% of deposit by type	1Q19	2Q19	3Q19	4Q19	1Q20		
Demand deposits	19.30%	19.30%	19.14%	19.37%	20.25%		
Savings deposits	13.11%	13.33%	13.33%	13.80%	14.85%		
Money Market deposits	4.89%	4.49%	3.72%	3.67%	2.16%		
Structured deposits	0.00%	0.00%	0.00%	0.00%	0.00%		
Fixed deposits and NID:							
i) One year or less	57.40%	57.52%	58.94%	58.03%	56.76%		
ii) More than one year	1.21%	1.50%	1.31%	1.46%	1.47%		
Investment account	4.09%	3.86%	3.56%	3.67%	4.51%		
	100.00%	100.00%	100.00%	100.00%	100.00%		
CASA composition/CASA ratio (%)	34.5%	34.9%	34.6%	35.5%	38.4%		

Source: Company, AmInvestment Bank Bhd estimates.

EXHIBIT 5: NON-INTEREST INCOME EXCLUDING INCOME FROM INSURANCE

Non Interest Income (RM Mil)	1Q19	2Q19	3Q19	4Q19	1Q20
Fee income:					
Commission	301	328	391	372	347
Service charges and fees	332	339	331	385	312
Underwriting fees	20	10	23	4	4
Brokerage income	81	66	83	79	113
Fees on loans, advances and financing	39	63	54	70	44
Total fee income	773	805	882	910	820
Investment income:					
Net gain on disposal of financial assets at FVTPL	38	161	231	109	-324
Net gain on disposal of financial investments FVTOCI	149	246	575	167	1,067
Net (loss)/gain on redemption of financial investments HTM			0	0	
Other gain on disposals				68	
Net loss on liquidation of subsidiary	2			-159	
Net gain from sale of subsidiary/associate company			-1	0	
	189	407	806	185	743
Gross dividend from financial investments portfolio	18	31	28	21	26
Unrealised (loss)/gain on revaluation of financial assets/investments at FVTPL	567	474	328	13	-1,351
Unrealised (loss)/gain on revaluation of financial liabilities at FVTPL	-455	-363	-158	447	-437
Derivatives	161	36	-97	45	1,506
Loans, advances and financing at FVTPL	-2	1	-10	0	-1
Total investment and trading income	477	586	897	712	486
Other income:					
Foreign exchange gain, net	211	221	132	168	-52
Rental income	9	9	8	10	10
Gain on disposal of property, plant and equipment	2	0	1	3	11
Gain on disposal of foreclosed properties	2	-1	-1	18	0
Gain on sale and leaseback transaction				2	
Realised gain on derivatives	138	266	148	-197	-6
Realised loss on financial liabilities at FVTPL				-283	
Sale of development properties					
Others	65	93	81	128	63
Total other income	428	588	370	-151	27
Total non interest income	1,678	1,980	2,149	1,471	1,333

Source: Company, AmInvestment Bank Bhd estimates.

HIGHER NON-FUND-BASED INCOME CONTRIBUTED BY DISPOSAL GAINS FROM FINANCIAL INVESTMENTS (FVTOCI SECURITIES) AND UNRELIAS GAINS FROM REVALUATION OF DERIVATIVES

Non-fund-based income (non-interest income including Islamic banking income) surged by 53.2% YoY to RM2.4bil in 1Q20 contributed largely by disposal gains from securities and marked-to-market derivatives gains. Elsewhere, fee income from insurance dropped 72.4% YoY to RM64mil despite a strong premium growth from Etiqa insurance. This was due to the marked-to-market (MTM) impact from the lower prices for fixed income and equities securities held by Etiqa.

EXHIBIT 6: GROSS IMPAIRED LOAN DATA

NPL/impaired loans by economic purpose (RM Mil)	1Q19	2Q19	3Q19	4Q19	1Q20	%QoQ	%YoY
Purchase of securities	171	177	182	172	176	2.4%	2.7%
Purchase of transport vehicles	492	492	484	435	471	8.1%	-4.3%
Purchase of landed property:-							
Residential	1,067	1,046	1,063	999	1,048	4.9%	-1.8%
Non-Residential	1,084	687	487	556	572	2.9%	-47.3%
Purchase of Fix. Assets excl land & bldg	1,302	1,323	1,396	1,766	1,805	2.2%	38.7%
Personal Use	221	193	218	235	249	5.7%	12.4%
Credit Card	79	73	72	74	78	5.9%	-0.8%
Purchase of consumer durables	6	6	6	6	6	-0.1%	4.0%
Construction	1,739	1,762	1,783	1,790	1,641	-8.3%	-5.6%
Working Capital	4,677	5,808	6,091	5,968	6,096	2.1%	30.3%
Others	1,981	2,221	2,230	1,857	1,929	3.9%	-2.6%
Total Gross NPL/Gross Impaired Loans	12,819	13,789	14,012	13,858	14,070	1.5%	9.8%
% Gross impaired loan/NPL ratio by economic purpose	1Q19	2Q19	3Q19	4Q19	1Q20		
Purchase of securities	0.5%	0.5%	0.5%	0.5%	0.5%		
Purchase of transport vehicles	0.7%	0.7%	0.7%	0.6%	0.7%		
Purchase of landed property:-							
Residential	0.9%	0.9%	0.9%	0.8%	0.8%		
Non-Residential	2.7%	1.7%	1.2%	1.4%	1.4%		
Purchase of Fix. Assets excl land & bldg	27.6%	29.5%	32.6%	42.4%	43.2%		
Personal Use	2.1%	1.8%	2.0%	2.2%	2.3%		
Credit Card	0.9%	0.8%	0.8%	0.8%	0.9%		
Purchase of consumer durables	58.19%	62.15%	64.67%	65.14%	65.94%		
Construction	11.1%	10.5%	10.3%	10.3%	9.8%		
Working Capital	2.8%	3.4%	3.6%	3.6%	3.7%		
Others	4.1%	4.7%	4.8%	4.2%	4.4%		
Total gross NPL/impaired loan ratio	2.48%	2.62%	2.67%	2.65%	2.71%		

Source: Company, AmlInvestment Bank Bhd estimates.

UPTICKS IN GIL RATIO WITH CONSERVATIVE PROVISIONING OF RM600MIL IN 1Q20

Gross impaired loans rose by 1.5% QoQ or RM212mil to RM14.1bil in 1Q20. GIL ratio for Singapore and Indonesia increased to 4.04% and 4.93% respectively while that of Malaysia was stable at 1.96%. Weakness continued to be seen in corporate banking loans in Singapore while in Indonesia, the uptick in impairments was due to the adoption of FRS 9 effective 1 Jan 2020.

The percentage of NPLs and the ratio of R&R loans remained stable at 2.20% and 0.6% in 1Q20 respectively. Nevertheless, the group's GIL ratio increased to 2.71% in 1Q20 vs. 2.65% in 4Q19 with more performing loans classified as impaired due to judgmental triggers. The percentage of oil & gas loans under its watch list and special mention rose to 15.0% and 6.0% respectively in 1Q20 compared to the preceding quarter due to the weakness in the asset quality of this sector's loans in Singapore. Meanwhile, the GIL ratio for oil & gas loans was sustained at 17.0%. On a comforting note, the group's loan loss cover for Singapore oil & gas loans stood at 69.0% while that for the group was 66.0%. Management hinted that the group has been actively engaging with oil & gas borrowers that are tight in cash flows. The group remains cautious on loans to the oil & gas sector with the outstanding exposure (both funded and non-funded) continue to decline 2.73%.

It does not have any exposure to airlines.

Net impairment allowances on loans surged by 188.0% QoQ in 1Q20 to RM961.7mil (4Q19: RM333.9mil). Circa 62.4% of the allowances were due to conservative provisioning taken by the group despite no significant deterioration in asset quality yet from Covid-19. 1Q20 saw an increase in RM400mil additional provisions based on a forward-looking approach arising from the changes in macro-economic variables and a RM200mil provision for retail loans due to weaker asset quality. Net credit cost for the group rose to 0.74% in 1Q20 vs. 0.26% in 4Q19. For FY20, management is now guiding for a higher credit cost of 75–100bps.

Arising from the conservative provisioning, loan loss cover climbed to 81.5% in 1Q20 (89.5% if include regulatory reserves).

GUIDANCE FOR FY20

- Likely to be lower than the earlier ROE guidance of 10.0–11.0% as management is reviewing it due to the weaker macro environment
- Cost-to-income ratio: 46.0-47.0%
- NIM to be compressed by up to 15bps
- Credit cost: 75–100bps (previous guidance: 45–50bps)

- v. Dividend policy of 40–60% is unchanged (dividend payments will depend on the profit for the year and regulatory approvals)

MAINTAIN BUY

Maintain BUY as valuation remains compelling with the stock trading at a low 1.0x FY20 BV/share. The group still has large FVTOCI reserves of RM2.75bil which enables it to partially monetize gains from disposal of securities to mitigate the temporary weakness in interest income from rate reductions and higher provisions.

EXHIBIT 7: PB BAND CHART

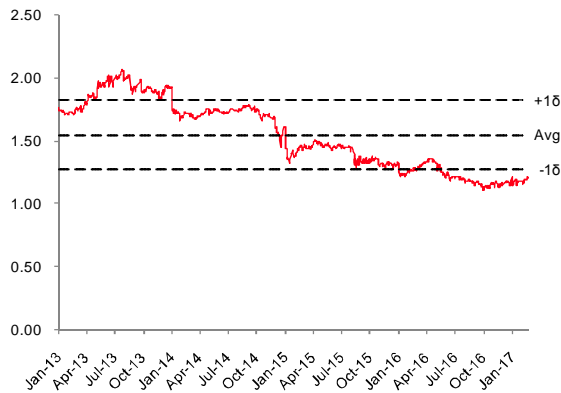


EXHIBIT 8: PE BAND CHART

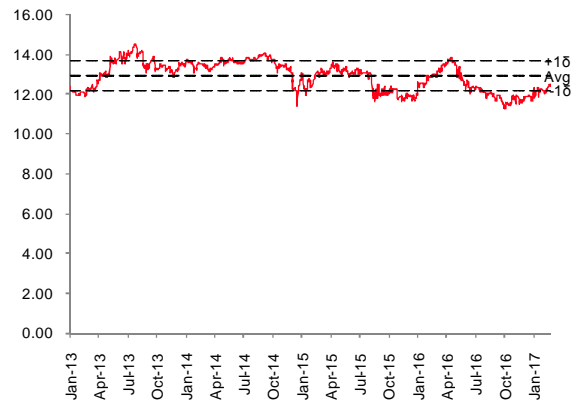


EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Net interest income	12,072.9	12,095.0	10,742.7	11,052.1	11,469.5
Non-interest income	5,945.0	6,666.3	7,038.7	6,739.8	6,776.9
Islamic banking income	5,611.7	5,979.6	6,605.4	7,023.0	7,458.9
Total income	23,629.6	24,740.9	24,386.8	24,815.0	25,705.3
Overhead expenses	(11,213.7)	(11,561.9)	(11,217.9)	(11,414.9)	(11,567.4)
Pre-provision profit	12,416.0	13,178.9	13,168.9	13,400.1	14,137.9
Loan loss provisions	(1,591.3)	(2,287.5)	(4,271.7)	(3,812.5)	(2,718.8)
Impairment & others	(21.7)	(35.9)	(25.5)	(27.1)	(23.0)
Associates	98.3	158.4	201.0	254.6	322.8
Pretax profit	10,901.3	11,013.9	9,072.8	9,815.1	11,718.8
Tax	(2,545.4)	(2,538.2)	(2,139.7)	(2,257.5)	(2,695.3)
Minority interests	(242.7)	(277.6)	(170.7)	(173.7)	(179.9)
Net profit	8,113.3	8,198.1	6,762.3	7,384.0	8,843.6
Core net profit	8,113.3	8,198.1	6,762.3	7,384.0	8,843.6
Balance Sheet (RMmil, YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Cash & deposits with FIs	55,025.1	46,469.1	55,640.9	48,394.6	32,877.7
Marketable securities	201,448.7	230,898.1	227,268.9	252,873.5	290,407.6
Total current assets	256,473.9	277,367.2	282,909.8	301,268.1	323,285.3
Net loans & advances	507,083.8	513,419.7	519,617.8	526,484.5	545,551.1
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	16,264.8	15,052.8	14,883.4	14,717.7	14,552.9
Fixed assets	3,391.6	3,257.3	3,218.2	3,197.5	3,195.4
Intangible assets	6,718.3	6,836.5	6,836.5	6,836.5	6,836.5
Other long-term assets	17,059.2	18,479.6	23,380.5	27,786.0	39,793.2
Total LT assets	550,517.8	557,045.8	567,936.4	579,022.1	609,929.1
Total assets	806,991.7	834,413.0	850,846.1	880,290.2	933,214.3
Customer deposits	556,297.7	565,268.6	572,573.3	580,242.7	610,557.5
Deposits of other FIs	43,850.6	43,557.2	44,044.8	44,532.9	45,028.9
Subordinated debts	10,717.0	9,321.1	8,222.2	7,261.9	6,409.7
Hybrid capital securities	19,924.4	20,531.1	22,096.6	26,148.0	30,671.1
Other liabilities	98,464.8	111,665.8	117,895.1	130,588.4	142,529.1
Total liabilities	729,254.4	750,343.8	764,832.1	788,773.9	835,196.3
Shareholders' funds	75,330.1	81,570.9	83,406.8	88,756.6	95,166.2
Minority interests	2,407.1	2,498.3	2,607.3	2,759.7	2,851.8
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Total income growth (%)	1.6	4.7	(1.4)	1.8	3.6
Pre-provision profit growth (%)	4.2	6.1	(0.1)	1.8	5.5
Core net profit growth (%)	7.9	1.0	(17.5)	9.2	19.8
Net interest margin (%)	2.3	2.3	2.2	2.2	2.2
Cost-to-income ratio (%)	47.5	46.7	46.0	46.0	45.0
Effective tax rate (%)	23.3	23.0	23.6	23.0	23.0
Dividend payout (%)	76.8	87.1	77.0	77.0	77.0
Key Assumptions (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Loan growth (%)	4.8	1.2	2.0	2.0	4.0
Deposit growth (%)	5.6	1.6	1.3	1.3	5.2
Loan-deposit ratio (%)	91.2	90.8	90.8	90.7	89.4
Gross NPL (%)	2.4	2.6	2.8	3.0	2.7
Net NPL (%)	1.2	1.4	1.3	1.1	0.7
Credit charge-off rate (%)	0.3	0.4	0.8	0.7	0.5
Loan loss reserve (%)	82.1	72.6	95.9	111.1	136.5

Source: Company, AmlInvestment Bank Bhd estimates

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