



AmInvestment Bank

## Company report

## MALAYAN BANKING

(MAY MK EQUITY, MBBM.KL)

28 Oct 2022

Short term investments to drive future growth

BUY

(Maintained)

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Rationale for report: Company update

Price	RM8.68
Fair Value	RM9.60
52-week High/Low	RM9.18/RM7.87

## Key Changes

Fair value	⬇️
EPS	⬇️

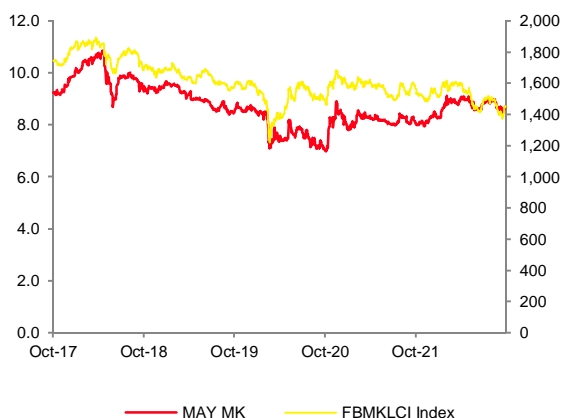
YE to Dec	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	25,448.4	26,605.6	27,610.0	29,253.1
Core net profit (RM mil)	8,204.2	9,192.1	9,320.6	10,026.9
FD Core EPS (sen)	70.6	79.1	80.2	86.3
FD Core EPS growth (%)	19.3	12.0	1.4	7.6
Consensus Net Profit (RM mil)	-	8,382.0	9,844.0	10,503.0
DPS (sen)	58.0	56.0	62.6	67.3
BV/share (RM)	7.38	7.49	7.65	7.83
PE (x)	12.3	11.0	10.8	10.1
Div yield (%)	6.7	6.5	7.2	7.8
P/BV (x)	1.2	1.2	1.1	1.1
ROE (%)	9.5	9.9	10.6	11.1

## Stock and Financial Data

Shares Outstanding (million)	11,878.5
Market Cap (RMmil)	103,105.0
Book Value (RM/share)	7.38
P/BV (x)	1.2
ROE (%)	9.5

Major Shareholders	Amanah Saham Nasional (38.4%) Employees Provident Fund (13.0%) Yayasan Pelaburan Bumiputra (7.2%)
Free Float	41.4
Avg Daily Value (RMmil)	73.6

Price performance	3mth	6mth	12mth
Absolute (%)	(1.4)	(3.3)	6.8
Relative (%)	(0.2)	5.4	16.2



## Investment Highlights

- We maintain our BUY call on Malayan Banking (Maybank) with a lower fair value (FV) of RM9.60/share (from RM10.30/share previously), pegging the stock to an FY23F P/BV of 1.2x supported by ROE of 10.6%. Our FV has taken into account a premium of 3.0% based on an unchanged 4-star ESG rating.
- We lowered our FY23F/F24F earnings by 4.4%/2.4% to account for higher CI ratio assumptions. This is in view that the group will increase its investments to drive business growth with enhanced digital and technological capabilities under the refined strategy M25+.
- The group held a briefing yesterday to update on its new M25+ growth strategy.
- Expanding on the foundation of the strategy M25 which was unveiled in April 2021, M25+ incorporates the agile way of working. It strengthens the drive for differentiation and focusses on the following 5 strategic thrusts:
  - I) Intensify customer centricity - to adopt a fully agile and iterative minimum viable product (MWP) approach through customer journeys;
  - II) Accelerate digitalisation and IT modernisation - Develop end-to-end straight-through-processing (STP) platform that integrates with ecosystems. This will require tech-for-tech and tech-for-business investments with application programming interface (API) layer;
  - III) Strengthening Maybank's position outside of Malaysia - through regionalisation of business, product solutions, technology platforms and applications;
  - IV) To drive leadership in sustainability by adopting ethical banking principles and implementing decarbonisation strategy; and
  - V) To be global leader in Islamic Banking - focussing on Islamic wealth management with Singapore as a hub and Middle East/ASEAN countries as spokes.
- To support the 5 strategic thrusts, Maybank will roll out 12 strategic programmes (SPs).

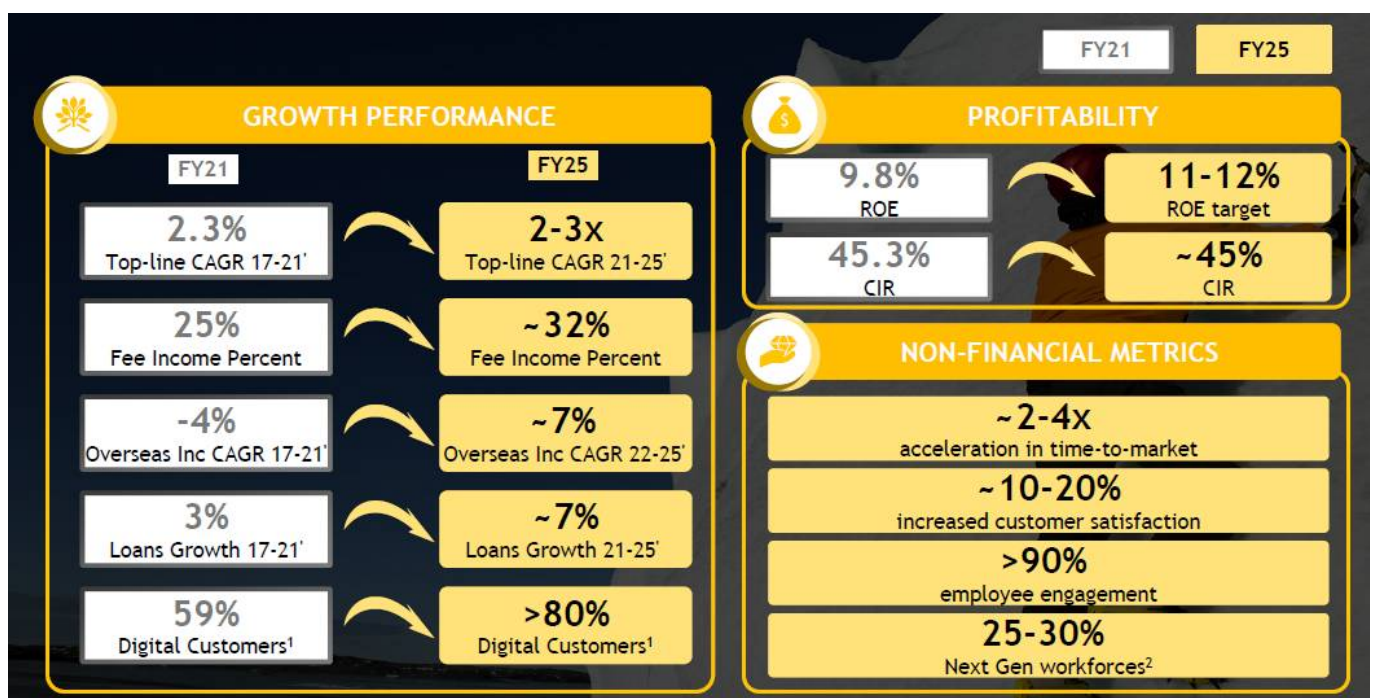
- We gathered that the following 12 SPs will be implemented by FY23F:
  - i. To reshape wholesale target operating model. This includes enhancing the group-wide coverage model, customer segment and product strategy. Also, the group intends to stimulate its regional sales productivity, reassess the end-to-end onboarding and credit processes as well as to deepen sector expertise and offer customised sector solutions;
  - ii. To build regional transaction banking by developing cross-country target operating models for regional trade, financial supply chain management, cash management and payments;
  - iii. To reassess the consumer banking customer journey with Maybank offering products/services within the digital ecosystem;
  - iv. To reassess the SME banking customer journey with Maybank offering products/services within the digital ecosystem;
  - v. To become the global leader in Islamic Banking by establishing Islamic wealth management hubs through Singapore and Dubai;
  - vi. Becoming the regional leader in insurance by improving life coverage in Malaysia and Singapore (key markets) and to leverage on a platform built to scale and expand regionally;
  - vii. To boost Indonesian operations by strengthening fundamentals as well as differentiate and grow through digital SME and Islamic Banking offerings;
  - viii. Redefining regional footprints based on 3 archetypes (Exhibit 1);
  - ix. To become a sustainability leader in Southeast Asia;
  - x. Focussing on employee talent development (next generation/digital talents);
  - xi. Driving customisation for customers through the usage of advanced analytics; and
  - xii. Building the next generation technological capabilities by building a digital-ready architecture and inculcating a workforce culture that steers towards a digital culture.
- We understand that over the next 3-5 years, the group will invest RM3.5-4.5bil to speed up the development of new capabilities for its longer-term growth. Of the total investments planned, 24% will be allocated for tech-for-tech investments such as cloud, cybersecurity, API layer and data platforms. 53% will be expensed on tech for business covering loan origination platforms, payment hub, trade and regional Islamic banking platform. Meanwhile, the remaining 23% will be spent on people (talent investments), expert resources and marketing cost.
- Maybank's IT spend as percentage of revenue stood at 2.5%. The group targets to raise it to >5% in 2025 to be on par with the regional peers of 5.2%-7.4%.
- Owing to the need to invest over the next 3 to 5 years to enhance digital capabilities as well as to drive the future growth of business, the group's CI ratio is likely to rise to 47%-47.5% in FY23F/FY24F from 45.1% in 6MFY22. Thereafter, in FY25F, investments would taper, and Maybank's CI ratio will normalise to 45-45.5%.
- Through the redefined M25+ strategy, the group targets to achieve a ROE of 11-12%, CI ratio of 45%, loan growth of 7%, topline CAGR (2021-2025) growth of 2-3x, overseas income growth of 7% by FY25.
- The stock is trading at a compelling 1.1x FY23 P/BV, below the 5-year historical average of 1.3x. Maybank is one of our top picks for ESG and offers an attractive dividend yield of 7%.

EXHIBIT 1: REDIFINING REGIONAL PORTFOLIO BASED ON 3 ARCHETYPES



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: TARGET PERFORMANCE BASED ON THE REFINED STRATEGY M25+

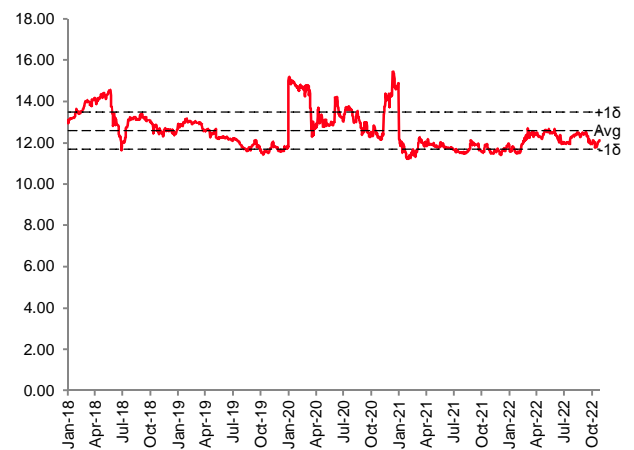


Source: Company, AmlInvestment Bank Bhd

**EXHIBIT 3: PB BAND CHART**



**EXHIBIT 4: PE BAND CHART**



**EXHIBIT 5: ESG RATING**

<b>Overall</b>	★	★	★	★	
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Earnings quality	★	★	★		
Balance sheet strength	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	11,090.4	12,034.0	12,341.8	12,556.1	13,188.1
Non-interest income	7,537.3	5,841.8	5,742.0	5,512.9	5,891.0
Islamic banking income	6,135.6	7,572.6	8,521.8	9,541.0	10,174.0
<b>Total income</b>	<b>24,763.2</b>	<b>25,448.4</b>	<b>26,605.6</b>	<b>27,610.0</b>	<b>29,253.1</b>
Overhead expenses	(11,245.2)	(11,518.5)	(11,972.5)	(12,976.7)	(13,456.4)
<b>Pre-provision profit</b>	<b>13,518.0</b>	<b>13,929.9</b>	<b>14,633.1</b>	<b>14,633.3</b>	<b>15,796.7</b>
Loan loss provisions	(4,598.6)	(2,658.5)	(2,641.6)	(2,477.2)	(2,675.4)
Impairment & others	(471.7)	(570.9)	-	-	-
Associates	209.1	186.2	201.9	199.5	165.2
<b>Pretax profit</b>	<b>8,657.0</b>	<b>10,886.6</b>	<b>12,193.4</b>	<b>12,355.6</b>	<b>13,286.6</b>
Tax	(1,937.9)	(2,565.1)	(3,658.0)	(2,841.8)	(3,055.9)
Minority interests	(237.9)	(225.3)	(186.2)	(193.3)	(204.8)
Net profit	6,481.2	8,096.2	8,349.1	9,320.6	10,026.9
<b>Core net profit</b>	<b>6,654.2</b>	<b>8,204.2</b>	<b>9,192.1</b>	<b>9,320.6</b>	<b>10,026.9</b>
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	43,884.7	41,483.9	44,791.1	31,646.1	24,491.0
Marketable securities	262,767.3	266,169.8	272,413.6	281,635.0	300,818.6
Total current assets	306,652.1	307,653.7	317,204.7	313,281.0	325,309.6
<b>Net loans &amp; advances</b>	<b>512,210.1</b>	<b>541,887.9</b>	<b>572,473.6</b>	<b>602,282.3</b>	<b>649,151.1</b>
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	7,468.2	7,514.1	5,309.0	3,764.0	3,002.3
Fixed assets	3,148.4	3,105.0	3,037.0	2,974.7	2,926.3
Intangible assets	6,648.5	6,683.5	6,648.5	6,648.5	6,648.5
Other long-term assets	20,732.2	21,328.2	21,612.4	40,851.0	48,431.9
<b>Total LT assets</b>	<b>550,207.5</b>	<b>580,518.7</b>	<b>609,080.4</b>	<b>656,520.5</b>	<b>710,160.0</b>
Total assets	856,859.5	888,172.4	926,285.1	969,801.5	1,035,469.6
<b>Customer deposits</b>	<b>580,190.2</b>	<b>617,688.4</b>	<b>654,725.6</b>	<b>696,283.8</b>	<b>753,709.7</b>
Deposits of other FIs	37,878.9	36,583.1	33,526.7	30,752.4	28,708.4
Subordinated debts	8,967.8	10,239.3	10,731.7	11,242.6	12,113.4
Hybrid capital securities	30,311.3	24,413.1	24,079.9	23,069.6	24,622.3
Other liabilities	112,401.7	110,696.1	113,252.2	116,532.8	122,156.6
<b>Total liabilities</b>	<b>769,749.9</b>	<b>799,620.0</b>	<b>836,316.0</b>	<b>877,881.3</b>	<b>941,310.4</b>
<b>Shareholders' funds</b>	<b>84,436.6</b>	<b>85,811.4</b>	<b>87,098.0</b>	<b>88,944.6</b>	<b>91,059.0</b>
Minority interests	2,673.0	2,741.0	2,871.1	2,975.5	3,100.2
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	0.1	2.8	4.5	3.8	6.0
Pre-provision profit growth (%)	2.6	3.0	5.0	-	8.0
Core net profit growth (%)	(20.9)	23.3	12.0	1.4	7.6
Net interest margin (%)	2.1	2.3	2.4	2.4	2.5
Cost-to-income ratio (%)	45.4	45.3	45.0	47.0	46.0
Effective tax rate (%)	22.4	23.6	30.0	23.0	23.0
Dividend payout (%)	90.2	83.3	78.0	78.0	78.0
Key Assumptions (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	-	5.7	6.0	5.5	8.0
Deposit growth (%)	2.6	6.5	6.0	6.3	8.2
Loan-deposit ratio (%)	88.3	87.7	87.4	86.5	86.1
Gross NPL (%)	2.2	2.0	2.3	2.0	2.0
Net NPL (%)	1.3	1.1	0.7	0.5	0.5
Credit charge-off rate (%)	0.9	0.5	0.5	0.4	0.4
Loan loss reserve (%)	98.6	107.8	107.7	137.4	147.2

Source: Company, AmlInvestment Bank Bhd estimates

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