

27 May 2024

Financial Services | Banks

## Malayan Banking (MAY MK)

## Neutral (Maintained)

### Strong Operating Income Helped Drive 1Q24 Earnings

- **Maintain NEUTRAL and MYR10.60 TP, 6% upside.** Malayan Banking's 1Q24 results are in line, with reported ROE of 10.8% tracking the 11% guidance for 2024. While 1Q24 headline PATMI growth looks strong, Maybank thinks loans growth and non-II will moderate ahead – as such, it left its 2024 targets and guidance unchanged. In our view, the yield compression theme has largely been played out. The stock is up 12% YTD, and this has compressed its FY24F dividend yield to 6.3% currently from 7.3% at the start of the year.
- **1Q24 results met expectations**, with net profit of MYR2.5bn (+4% QoQ, +10% YoY) at c.25% of our and consensus FY24F PATMI. 1Q24 PATMI growth was underpinned by operating income (+9% QoQ; +20% YoY). Non-II was robust (+79% YoY; +30% QoQ) thanks to treasury and markets income (+124% YoY; +69% QoQ) on realised and unrealised gains, as well as FX sales. Meanwhile, loans growth was healthy (+11% YoY; +3% QoQ) but NII was flattish due to NIM squeeze. Despite the strong operating income performance, this was partly offset by a broad-base rise in opex (+20% YoY; +1% QoQ) and higher non-loan impairments. 1Q24 credit cost rose 5bps YoY to 29bps (4Q23: 30bps) mainly due to Stage 1 expected credit loss or ECL writebacks in 1Q23.
- **NIM fell 6bps QoQ** (YoY: -19bps) to 2.0% – mainly due to Singapore (SG) whereas Malaysia (MY) and Indonesia (IND) NIM was down 1-2bps QoQ. It retained its 2024 NIM guidance of up to 5bps squeeze (2023: 2.12%), which implies better NIMs ahead. This includes continued efforts to manage down domestic deposit funding cost (eg growing CASA and retail deposits) and slowing down loans growth in SG if funding is too costly.
- **Gross loans expanded 2.7% QoQ (+11.2% YoY)**, with overseas markets up 4.3% QoQ (+16.5% YoY) while domestic loans rose 1.7% QoQ (+8.2% YoY), thanks to retail. Annualised growth was 11% (domestic: +6.6%; SG: 14.7%; IND: 24.3%). While this is ahead of Maybank's expected 6-7% growth, management did not think the pace in 1Q would be sustained on expectations that the corporate segment could moderate ahead and efforts to protect NIM (as above). Meanwhile, total deposits rose 1.7% QoQ (+8.9% YoY). Annualised growth was 7%, with CASA up 12.5% and fixed deposit growing 8.7%. As such, group CASA ratio ticked up QoQ to 37.3% from 36.9% in Dec 2023 (Mar 2023: 39.1%) while LDR inched up further to 91.3% (2023: 90.5%).
- **Asset quality stable.** Absolute GIL was stable QoQ (-3% YoY) but with the continued loan growth, the GIL ratio eased lower 2bps QoQ to 1.32% (1Q23: 1.5%). Maybank saw an uptick in the GIL ratios for its domestic RSME and auto portfolios, which it attributed to inflation and cost pressures, plus RSME names that required further repayment assistance, but this was compensated by improvement in SG GIL. LLC improved to 127% (4Q23: 125%). Overlays remains at MYR1.7bn with 67% allocated for its retail and RSME portfolios.
- **Forecasts and TP retained.** Our MYR10.60 TP includes a 6% ESG premium.

Target Price (Return):	MYR10.6 (+6%)
Price (Market Cap):	MYR9.98 (USD25,602m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (MYR/USD)	112m/23.9m

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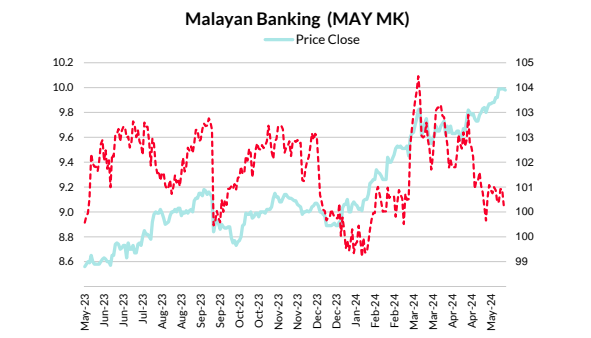


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.3	1.8	4.7	9.8	16.6
Relative	0.3	(1.9)	(0.5)	(2.3)	1.0
52-wk Price low/high (MYR)	8.57 – 9.99				



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

Maybank monitors and reports on carbon emissions of its Malaysian and selected Singaporean operations. Established Responsible Lending Guidelines in 2015 and subsequently expanded in 2018 to form the ESG Policy. ESG risks are integrated into lending assessments, with Risk Acceptance Criteria finalised in 2018 for palm oil sector and enhanced in 2019 to cover mining and quarrying, forestry and logging and oil & gas sectors. Reported an 9% YoY decline in total emissions in 2023.

##### S: EXCELLENT

Actively provides financing to micro SMEs, low-carbon solutions, and supports home ownership. Maybank invests in education programmes to help develop young talent. Embraces gender diversity with 56% of total workforce comprised of women, 49% in management and 36% of its board of directors.

##### G: EXCELLENT

Has not had any material data security or privacy issues over the past few years. Board of directors comprises a non-independent executive director (group CEO), two non-independent non-executive directors and eight independent non-executive directors.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	7,961	9,350	9,860	10,330	10,809
Net profit growth (%)	(1.7)	17.5	5.5	4.8	4.6
Recurring net profit (MYRm)	7,961	9,350	9,860	10,330	10,809
Recurring EPS (MYR)	0.67	0.78	0.82	0.86	0.90
BVPS (MYR)	7.13	7.85	8.03	8.33	8.69
DPS (MYR)	0.58	0.60	0.63	0.66	0.69
Recurring P/E (x)	15.00	12.87	12.20	11.65	11.13
P/B (x)	1.40	1.27	1.24	1.20	1.15
Dividend Yield (%)	5.8	6.0	6.3	6.6	6.9
Return on average equity (%)	9.3	10.4	10.3	10.5	10.5

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.67	0.78	0.82	0.86	0.90
Financial Services	Recurring EPS	0.67	0.78	0.82	0.86	0.90
<b>Malayan Banking</b>	DPS	0.58	0.60	0.63	0.66	0.69
MAY MK	BVPS	7.13	7.85	8.03	8.33	8.69
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	15.00	12.87	12.20	11.65	11.13
	P/B (x)	1.4	1.3	1.2	1.2	1.1
	Dividend Yield (%)	5.8	6.0	6.3	6.6	6.9
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	32,768	43,899	46,827	48,951	51,003
	Interest expense	(12,101)	(24,597)	(26,480)	(27,685)	(28,883)
	<b>Net interest income</b>	<b>20,667</b>	<b>19,302</b>	<b>20,346</b>	<b>21,266</b>	<b>22,120</b>
	Non interest income	5,826	8,059	8,451	8,833	9,225
	<b>Total operating income</b>	<b>26,492</b>	<b>27,361</b>	<b>28,797</b>	<b>30,099</b>	<b>31,346</b>
	Overheads	(11,974)	(13,389)	(14,253)	(14,830)	(15,429)
	<b>Pre-provision operating profit</b>	<b>14,518</b>	<b>13,972</b>	<b>14,544</b>	<b>15,269</b>	<b>15,917</b>
	Loan impairment allowances	(2,183)	(1,826)	(1,800)	(1,946)	(2,009)
	Other impairment allowances	(594)	145	-	-	-
	Income from associates	131	240	276	318	366
	<b>Pre-tax profit</b>	<b>11,872</b>	<b>12,532</b>	<b>13,020</b>	<b>13,641</b>	<b>14,273</b>
	Taxation	(3,896)	(2,917)	(2,995)	(3,137)	(3,283)
	Minority interests	(15)	(265)	(165)	(173)	(181)
	<b>Reported net profit</b>	<b>7,961</b>	<b>9,350</b>	<b>9,860</b>	<b>10,330</b>	<b>10,809</b>
	<b>Recurring net profit</b>	<b>7,961</b>	<b>9,350</b>	<b>9,860</b>	<b>10,330</b>	<b>10,809</b>
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	0.9	0.9	0.9	0.9	1.0
	Return on average equity (%)	9.3	10.4	10.3	10.5	10.5
	Return on IEAs (%)	3.8	4.7	4.7	4.7	4.7
	Cost of funds (%)	1.6	3.1	3.1	3.1	3.1
	Net interest spread (%)	2.1	1.7	1.6	1.6	1.6
	Net interest margin (%)	2.4	2.1	2.0	2.0	2.0
	Non-interest income / total income (%)	22.0	29.5	29.3	29.3	29.4
	Cost to income ratio (%)	45.2	48.9	49.5	49.3	49.2
	Credit cost (bps)	38.3	29.7	27.3	28.0	27.6
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	587,122	640,750	679,195	713,155	741,681
	Other interest earning assets	299,729	325,636	340,250	354,011	368,466
	Total gross IEAs	886,850	966,386	1,019,445	1,067,166	1,110,147
	Total provisions	(11,734)	(10,328)	(10,027)	(9,893)	(9,518)
	Net loans to customers	575,387	630,422	669,168	703,262	732,164
	Total net IEAs	875,116	956,058	1,009,418	1,057,274	1,100,629
	Total non-IEAs	72,698	71,618	60,767	55,187	53,106
	Total assets	947,814	1,027,676	1,070,185	1,112,461	1,153,736
	Customer deposits	639,396	696,835	731,412	764,188	794,755
	Other interest-bearing liabilities	122,411	136,662	140,557	144,293	148,306
	Total IBLs	761,807	833,497	871,968	908,480	943,061
	Total non-IBLs	97,089	96,529	98,295	100,219	102,347
	Total liabilities	858,896	930,026	970,264	1,008,699	1,045,408
	Share capital	54,619	54,674	54,621	54,621	54,621
	Shareholders' equity	85,957	94,642	96,748	100,415	104,800
	Minority interests	2,961	3,008	3,173	3,346	3,528
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.6	1.3	1.4	1.4	1.3
	Total provisions / reported NPLs (%)	127.5	120.1	105.5	102.8	102.7
	CET-1 ratio (%)	15.7	16.2	15.9	15.8	15.7
	Tier-1 ratio (%)	16.4	16.8	16.5	16.4	16.3
	Total capital ratio (%)	19.2	19.6	19.0	18.7	18.4

Source: Company data, RHB

## Results At a Glance

Figure 1: Maybank – summary of 1Q24 results

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments:
Net fund based income	4,797	4,865	4,840	-1	1	Muted performance despite strong loan growth due to NIM compression
<i>NIM (%) - reported</i>	2.19	2.06	2.00			
Net fee based income	1,528	2,112	2,737	30	79	Driven by higher treasury and markets income +124% YoY (+69% QoQ) from realised gains on bond disposals due to favourable yield curve movements, better FX sales and unrealised gains
<i>Non-II/Total income (%)</i>	24.2	30.3	36.1			
<b>Operating income</b>	<b>6,324</b>	<b>6,977</b>	<b>7,577</b>	9	20	
Overhead expenses	(3,052)	(3,619)	(3,657)	1	20	Increase was across the board, which included provisions for unionised staff, higher IT and revenue-related expenses as well as higher credit card-related fees on increased billings and merchant volume
<i>CIR (%)</i>	48.3	51.9	48.3			M25+ related spending was RM87m, of which, 27% relates to capex. Excluding M25+ opex, CIR was 47.4%
<b>PIOP</b>	<b>3,272</b>	<b>3,358</b>	<b>3,920</b>	17	20	
Impairments on financial assets	67	(7)	(76)	>100	>100	
Impairments losses on loans	(360)	(464)	(468)	1	30	Stage 1 allowance of MYR72m in 1Q24 vs MYR87m writeback in 1Q23 (4Q23 allowance of MYR26m)
						Stage 2 and 3 ECL of MYR563m in 1Q24 vs MYR577m in 1Q23 (4Q23: MYR647m)
<i>Annualised credit cost (bps)</i>	24	30	29			Within management's up to 30bps guidance for FY24
<b>Operating profit</b>	<b>2,979</b>	<b>2,886</b>	<b>3,376</b>	17	13	
Associates	77	63	67	6	-13	
<b>Pretax profit</b>	<b>3,056</b>	<b>2,950</b>	<b>3,442</b>	17	13	Malaysia operations contributed to 69% of PBT in 1Q24
Tax	(723)	(471)	(846)	80	17	
<i>Effective tax rate (%)</i>	23.7	16.0	24.6			
Minorities	(67)	(90)	(108)	19	60	
<b>Net profit</b>	<b>2,265</b>	<b>2,388</b>	<b>2,488</b>	4	10	
<b>Other key data and ratios</b>						
Gross loans	591,714	640,750	657,819	3	11	11% annualised growth, with domestic community financial services up 7% and global banking rising 2% while overseas rose 17% (SG: +15%; ID: +24%)
Customer deposits	651,269	696,835	708,970	2	9	7% annualised growth with domestic deposits up 10% and overseas up 2%. Group CASA deposits rose by an annualised pace of 13% leading to CASA ratio improving to 37.3% (2023: 36.9%). Group fixed deposits were up 9%, annualised
Gross impaired loans	8,895	8,600	8,653	1	-3	
Total assets	960,141	1,027,675	1,057,399	3	10	
Shareholders' funds	85,879	94,642	93,766	-1	9	
ROAA (%) - calculated	0.95	0.94	0.95			
ROAE (%) - calculated	10.5	10.3	10.6			
LDR (%)	89.1	90.5	91.3			
GIL ratio (%)	1.50	1.34	1.32			
Loan loss coverage (%)	133.6	120.1	125.8			
CET-1 ratio (%)	15.1	15.3	14.9			

Source: Company data, RHB

Management guidance

Figure 2: Management guidance and financial targets

	2023 actual	1Q24 achieved	2024 targets	Comments
Reported ROE	10.8%	10.8%	11%	
NIM	-27bps YoY (2.12%)	-12bps vs FY23 (2.00%)	5bps NIM squeeze	Efforts to improve NIM in the coming quarters include: i) ongoing efforts to lower deposit cost in MY, which includes growing CASA and lowering deposit rates; ii) focus on better yielding loan segments; and iii) scaling back overseas loan growth, particularly in markets where funding is too costly
CIR	48.9%	48.3%	<49%	We suspect Maybank may have taken advantage of the strong 1Q24 operating income growth to front load some opex. As such, we are not expecting a 20% YoY growth run rate in the coming quarters
Credit cost	31bps	29	Up to 30bps	MYR1.7bn in overlays remain in the books. Management thinks credit cost could potentially stay mild if asset quality continues to hold up well

Source: Company data, RHB

Valuation and TP

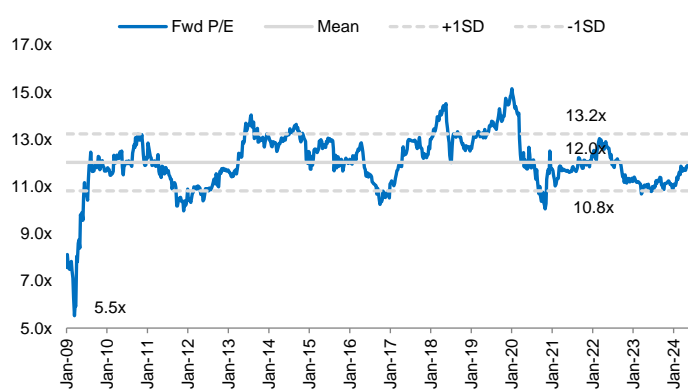
We make no change to our MYR10.60 TP, which is based on an intrinsic value of MYR10.04. The intrinsic value has been derived from our GGM-based P/BV of 1.25x and includes an unchanged 6% ESG premium applied to our intrinsic value – this is as Maybank’s ESG score of 3.3 out of 4 is above the country median of 3.0.

Figure 3: Maybank – GGM valuation with ESG overlay

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	10.5
Risk free rate (%)	4.0	COE (%)	9.1
Equity premium (%)	5.1	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.25
Cost of equity - CAPM (%)	9.1	BVPS - 12-mth rolling forward	MYR8.03
		Intrinsic value	MYR10.04
ESG premium/(discount) (%)	6.0	ESG premium/(discount)	MYR0.60
		<b>TP (rounded)</b>	<b>MYR10.60</b>

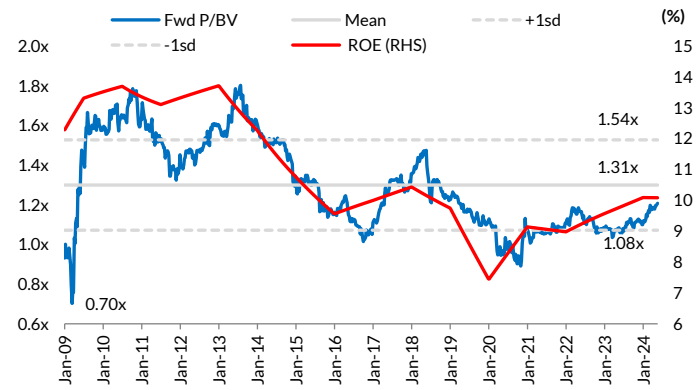
Source: Company data, RHB

Figure 4: Maybank’s 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 5: Maybank’s 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

Total emissions recorded a 52% drop against the group's baseline year of FY19, aided by purchases of Malaysia Renewable Energy Certificates (mRECs) and carbon credits from Bursa Malaysia.

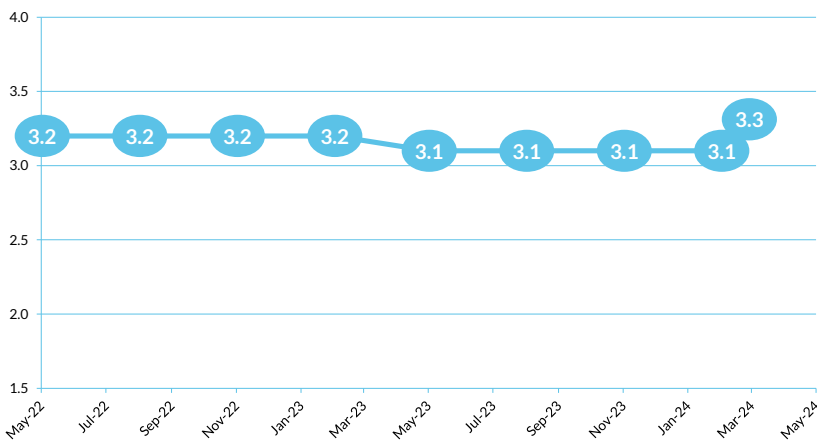
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	845	10,116	10,997
Scope 2	60,793	64,093	46,764
Scope 3	6,363	14,264	22,588
Total emissions	68,001	88,473	80,349

Source: Company data, RHB

## Latest ESG-Related Developments

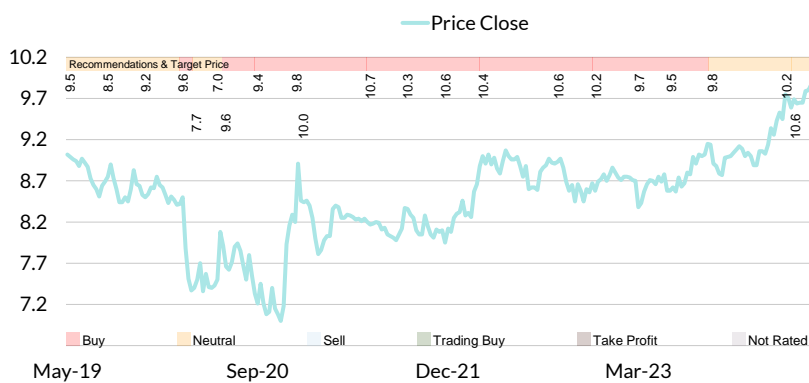
- **Enhanced ESG research insights:** Maybank launched its Enhanced ESG Research initiative in Jul 2023, with the aim of providing actionable ESG insights on corporates in Malaysia.
- **Developing ESG talents:** Maybank, in collaboration with the United Nations Global Compact Malaysia & Brunei, will develop a Sustainability Practitioner Certification Programme, in hopes of addressing the shortage of ESG expertise in the job market.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-21	Neutral	10.6	9.6
2024-02-29	Neutral	10.2	9.5
2024-02-19	Neutral	9.8	9.5
2023-11-22	Neutral	9.8	9.1
2023-08-31	Neutral	9.8	9.1
2023-05-25	Buy	9.5	8.6
2023-03-08	Buy	9.7	8.7
2023-02-28	Buy	10.2	8.8
2022-11-24	Buy	10.2	8.8
2022-08-25	Buy	10.6	8.8
2022-02-25	Buy	10.4	8.9
2021-11-25	Buy	10.6	8.1
2021-08-26	Buy	10.3	8.5
2021-05-27	Buy	10.7	8.3
2021-02-26	Buy	10.0	8.0

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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