

26 February 2021

Financial Services | Banks

## Malayan Banking (MAY MK)

**Buy** (Maintained)

### Big-Cap Proxy For Regional Recovery; BUY

- **BUY, unchanged TP MYR10.00 implies 24% upside, with 7% FY21F yield.** Malayan Banking's FY20 earnings beat our estimates, but are in line with that of the Street. A 38.5 sen final DPS was announced, implying a 91% payout ratio. Management is hopeful on the recovery in 2021, as the deployment of COVID-19 vaccines should widen across the region. This is despite near-term risks and the recovery being uneven. Our TP reflects 1.3x FY21F P/BV. Maybank remains our big-cap proxy for the regional recovery.
- **FY20 earnings beat estimates, 38.5 sen DPS announced.** Maybank recorded MYR6,481m in PATAMI during 2020 (-21% YoY). The earnings was 9% ahead of our forecast, but was in line with the consensus estimate. PIOP was 2.6% higher YoY, as the strength in non-II (+13% YoY) offset the weakness from NII (-5%), on rate cuts and modification losses (net impact: MYR227m). CIR improved to 45.4% (2019: 46.7%) due to the 3% lower opex. Full-year credit cost jumped to 88bps (vs guidance: 75-100bps; 2019: 44bps) as management booked in sizeable pre-emptive provisions (MYR1.2bn in management overlays and MYR950m in macro overlays). A 38.5 sen final DPS was announced (payout: c.91%) of which 21 sen is electable under the Dividend Reinvestment Plan. Reported ROE slipped to 8.1%, from 10.9% a year ago.
- **4Q20 earnings drivers.** PATAMI fell 21% QoQ or 37% YoY to MYR1,537m. PIOP grew slightly 1.4% QoQ, largely on 4% higher NII – NIM recovered 10bps QoQ to 2.15% on deposits re-pricing. Non-II was up 4% QoQ on higher fee income. Opex grew 7% QoQ on higher marketing (+26%) and administrative (+23%) expenses – CIR was higher at 45.8% vs 3Q20 44.5%. Credit cost was higher at 84bps vs 2Q20 62bps. Loan grew 0.4% QoQ while deposit shrank 2.4% QoQ. GIL ratio was lower at 2.23% (3Q20: 2.35%; 4Q19: 2.65%) due to the relief programmes. Reported LLC ratio climbed further to 106.3% from 97.6% a quarter ago.
- **2021 outlook & guidance.** Management expects to see a recovery in 2021, as vaccination drives gain traction around the region. The recovery is likely to be uneven, and pockets of near-term risks linger – Singapore's recovery will likely be faster, due to the earlier deployment of vaccines while Malaysia's second MCO will weigh on near-term earnings. As at 11 Feb, 20.8%, 15.7% and 6.2% of its Indonesia, Malaysia and Singapore loans are on various forms of relief programmes (Figures 3-6). Key 2021 targets are flat-to-slightly-better NIM, softer non-II, CIR: 46-47%, credit cost 70-80bps and ROE: 9%.
- **Earnings and TP.** We trim FY21F earnings slightly by c.3% to pencil in one benchmark rate cut in 1Q21, in line with RHB economists' view. Our unchanged GGM-derived TP of MYR10.00 is pegged to 1.3x FY21F P/BV.

Target Price (Return): MYR10.00 (+24%)  
 Price: MYR8.09  
 Market Cap: USD22,856m  
 Avg Daily Turnover (MYR/USD) 57.5m/14.2m

#### Analysts

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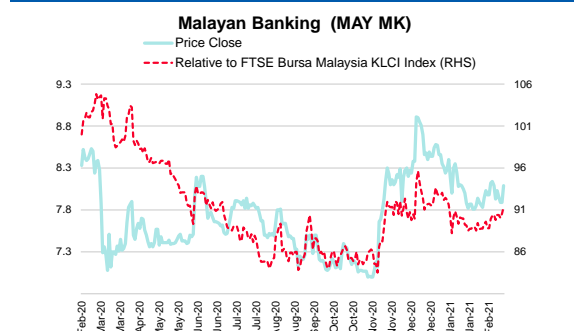


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.4)	2.7	(1.6)	8.0	(2.3)
Relative	(1.6)	2.4	(0.6)	6.3	(7.7)
52-wk Price low/high (MYR)				7.00 – 8.91	



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. It 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 the palm oil sector, and enhanced in 2019 to cover mining and quarrying, forestry and logging and oil & gas sectors. Disbursed MYR2.7bn financing for renewable energy projects in 2019.

##### 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 55% of total workforce comprising women – 47% in management and 33% of Board of Directors.

##### G: Excellent

Has not had any material data security or privacy issues over the past few years. Board of Directors comprises two Non-Independent Non-Executive Directors and nine Independent Non-Executive Directors. The Group CEO is a Non-Independent Executive Director.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (MYRm)	8,198	6,481	6,794	8,355	9,319
Net profit growth (%)	1.0	(20.9)	4.8	23.0	11.5
Recurring net profit (MYRm)	8,198	6,481	6,794	8,355	9,319
Recurring EPS (MYR)	0.73	0.58	0.60	0.74	0.83
BVPS (MYR)	7.26	7.51	7.56	7.69	7.87
DPS (MYR)	0.64	0.52	0.54	0.62	0.67
Recurring P/E (x)	11.01	14.03	13.39	10.88	9.76
P/B (x)	1.11	1.08	1.07	1.05	1.03
Dividend Yield (%)	7.9	6.4	6.6	7.7	8.2
Return on average equity (%)	10.4	7.8	8.0	9.7	10.7

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Malaysia	EPS	0.73	0.58	0.60	0.74	0.83
Financial Services	Recurring EPS	0.73	0.58	0.60	0.74	0.83
<b>Malayan Banking</b>	DPS	0.64	0.52	0.54	0.62	0.67
MAY MK	BVPS	7.26	7.51	7.56	7.69	7.87
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Our GGM assumptions include:	Recurring P/E (x)	11.01	14.03	13.39	10.88	9.76
i. COE of 7.6%;	P/B (x)	1.1	1.1	1.1	1.1	1.0
ii. ROE of 9.5%; and	Dividend Yield (%)	7.9	6.4	6.6	7.7	8.2
iii. 2% long-term growth.						
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Our FY20 forecasts are most sensitive to changes in:	Interest income	36,069	30,374	30,952	32,557	34,413
i. Loan impairment allowances;	Interest expense	(18,555)	(13,724)	(13,988)	(14,663)	(15,490)
ii. Net interest margin; and	<b>Net interest income</b>	<b>17,515</b>	<b>16,651</b>	<b>16,964</b>	<b>17,894</b>	<b>18,923</b>
iii. Gains or losses from investments.	Non interest income	7,226	8,113	7,981	8,606	9,283
	<b>Total operating income</b>	<b>24,741</b>	<b>24,763</b>	<b>24,945</b>	<b>26,500</b>	<b>28,206</b>
	Overheads	(11,562)	(11,245)	(11,644)	(12,179)	(12,715)
	<b>Pre-provision operating profit</b>	<b>13,179</b>	<b>13,518</b>	<b>13,302</b>	<b>14,321</b>	<b>15,491</b>
	Loan impairment allow ances	(2,287)	(4,599)	(4,288)	(3,176)	(3,045)
	Other impairment allow ances	(36)	(472)	(40)	(55)	(60)
	Income from associates	158	209	220	228	238
	<b>Pre-tax profit</b>	<b>11,014</b>	<b>8,657</b>	<b>9,194</b>	<b>11,318</b>	<b>12,624</b>
	Taxation	(2,538)	(1,938)	(2,161)	(2,660)	(2,967)
	Minority interests	(278)	(238)	(239)	(303)	(338)
	<b>Reported net profit</b>	<b>8,198</b>	<b>6,481</b>	<b>6,794</b>	<b>8,355</b>	<b>9,319</b>
	<b>Recurring net profit</b>	<b>8,198</b>	<b>6,481</b>	<b>6,794</b>	<b>8,355</b>	<b>9,319</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
The downside risks include:	Return on average assets (%)	1.0	0.8	0.8	0.9	1.0
i. Higher-than-expected credit costs;	Return on average equity (%)	10.4	7.8	8.0	9.7	10.7
ii. Weaker-than-expected NIMs;	Return on IEAs (%)	4.6	3.8	3.8	3.8	3.9
iii. Weaker-than-expected non-interest income; and	Cost of funds (%)	2.7	2.0	2.0	2.0	2.0
iv. Adverse foreign exchange movements.	Net interest spread (%)	1.9	1.8	1.8	1.8	1.8
	Net interest margin (%)	2.2	2.1	2.1	2.1	2.1
	Non-interest income / total income (%)	29.2	32.8	32.0	32.5	32.9
	Cost to income ratio (%)	46.7	45.4	46.7	46.0	45.1
	Credit cost (bps)	44.0	87.8	80.3	56.9	52.1
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Maybank is a fully integrated financial services group and the largest bank in Malaysia. The group's global network extends to 20 countries, including all 10 ASEAN countries. The three home markets – Malaysia, Singapore and Indonesia – contributes c.95% of total group pretax profits.	Total gross loans	523,487	523,724	544,673	571,906	597,642
	Other interest earning assets	267,032	286,744	293,532	302,901	312,613
	Total gross IEAs	790,519	810,468	838,205	874,807	910,255
	Total provisions	(10,068)	(11,513)	(14,924)	(16,871)	(18,697)
	Net loans to customers	513,420	512,210	529,749	555,035	578,945
	Total net IEAs	780,451	798,954	823,281	857,936	891,557
	Total non-IEAs	53,963	57,906	59,192	61,816	67,965
	Total assets	834,414	856,861	882,473	919,753	959,523
	Customer deposits	565,269	580,190	597,596	628,499	661,001
	Other interest-bearing liabilities	120,372	110,063	114,309	115,758	117,359
	Total IBLs	685,641	690,253	711,905	744,257	778,360
	Total non-IBLs	64,703	79,497	82,643	85,818	89,128
	Total liabilities	750,344	769,750	794,548	830,075	867,488
	Share capital	48,280	48,280	48,280	48,280	48,280
	Shareholders' equity	81,571	84,437	85,012	86,462	88,481
	Minority interests	2,499	2,674	2,913	3,216	3,554
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	2.6	2.2	3.1	3.4	3.4
	Total provisions / reported NPLs (%)	72.6	98.6	89.8	86.8	92.0
	CET-1 ratio (%)	15.7	15.3	15.2	14.7	14.5
	Tier-1 ratio (%)	16.5	16.0	15.9	15.4	15.1
	Total capital ratio (%)	19.4	18.7	18.7	18.1	17.8

Source: Company data, RHB

## Results At A Glance

Figure 1: Summary of Maybank's 4Q20 and FY20 results

FYE Dec (MYR'm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments – 4Q20 vs 3Q20
Net int income	4,519	4,128	4,338	5.1	-4.0	17,515	16,651	-4.9	Higher QoQ on NIM expansion. NIM expanded on deposit re-pricing.
NIM	2.29	2.05	2.15			2.27	2.08		
Non-int income	1,974	1,949	1,975	1.3	0.1	7,226	8,113	12.3	
Non-Int/Total income	30.4	32.1	31.3			29.2	32.8		
<b>Operating income</b>	<b>6,493</b>	<b>6,078</b>	<b>6,313</b>	3.9	-2.8	<b>24,741</b>	<b>24,763</b>	0.1	
Overheads	(2,969)	(2,704)	(2,892)	7.0	-2.6	(11,562)	(11,245)	-2.7	Higher QoQ on higher marketing and administrative expenses.
CIR	45.7	44.5	45.8			46.7	45.4		
<b>Pre-prov profit</b>	<b>3,524</b>	<b>3,373</b>	<b>3,420</b>	1.4	-2.9	<b>13,179</b>	<b>13,518</b>	2.6	
Impairment on other assets	35	(2)	(406)	>100	>100	(36)	(472)	>100	
Impairment on loans	(334)	(804)	(1,093)	35.9	>100	(2,287)	(4,599)	>100	Management made extra pre-emptive provisions.
Credit cost	25	62	84			45	90		Full-year credit cost came in within management's guidance.
<b>Operating profit</b>	<b>3,225</b>	<b>2,567</b>	<b>1,921</b>	-25.2	-40.4	<b>10,856</b>	<b>8,448</b>	-22.2	
Associates	39	44	71	62.4	83.9	158	209	32.1	
<b>Pre-tax profit</b>	<b>3,264</b>	<b>2,611</b>	<b>1,992</b>	-23.7	-39.0	<b>11,014</b>	<b>8,657</b>	-21.4	
Tax	(696)	(602)	(351)	-41.6	-49.5	(2,538)	(1,938)	-23.7	
ETR	21.3	23.0	17.6			23.0	22.4		
MI	(119)	(57)	(104)	81.1	-12.8	(278)	(238)	-14.3	
<b>PATAMI</b>	<b>2,449</b>	<b>1,952</b>	<b>1,537</b>	-21.3	-37.2	<b>8,198</b>	<b>6,481</b>	-20.9	
<b>Other key data and ratios</b>									
Gross loans	523,487	521,764	523,724	0.4	0.0				
Customer deposits	565,269	593,231	580,190	-2.2	2.6				
Gross impaired loans	13,858	12,239	11,674	-4.6	-15.8				
Total assets	834,413	872,213	856,860	-1.8	2.7				
Shareholders' funds	81,571	83,290	84,437	1.4	3.5				
ROAA	1.17	0.91	0.71			1.0	0.8		
ROAE	12.2	9.4	7.3			10.4	7.8		
LDR	90.8	86.1	88.3						
Gross impaired loan	2.65	2.35	2.23						
LLC	72.6	89.7	98.6						

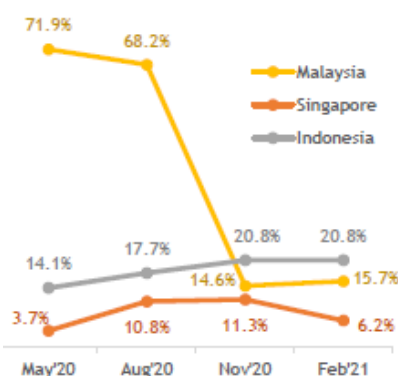
Source: Company data, RHB

Figure 2: Maybank – FY20 achievements and FY21F management guidance

	FY20 achievements	FY21 targets	Comments
NIM	2.10% (2.13% without mod loss)	Flat or slightly better YoY	<ul style="list-style-type: none"> <li>Maybank has completed most deposit re-pricing in 2020;</li> <li>No OPR cut is expected</li> </ul>
CIR	45.4%	46-47%	<ul style="list-style-type: none"> <li>Opex growth to resume after shrinking 2.7% in 2020.</li> </ul>
Credit cost	88bps	70-80bps	<ul style="list-style-type: none"> <li>Expect this to decrease YoY as regional economies recover, but to remain elevated as near-term risks linger (eg MCO 2.0).</li> </ul>
ROE	8.1%	c.9.0%	<ul style="list-style-type: none"> <li>Uplift mainly from YoY lower credit cost.</li> </ul>
Dividend payout	91.2%	40-60%	<ul style="list-style-type: none"> <li>No change in dividend payout policy.</li> </ul>

Source: Company data, RHB

Figure 3: Percentage of loans under various relief programmes



Source: Company data, RHB

Figure 4: Percentage of Malaysia loans under various relief programmes

% of Outstanding Loan Balance <sup>^</sup>	As at 12/11/20	As at 11/2/21
Mortgage	10.0%	14.6%
Auto Finance	4.1%	6.4%
Unit Trust	4.3%	9.7%
Other Retail Loans	6.3%	1.7%
SME*	23.8%	17.4%
Business Banking*	20.5%	11.2%
Corporate	28.4%	28.2%
<b>Total</b>	<b>14.6%</b>	<b>15.7%</b>

\* Includes Special Relief Facility loans

Source: Company data, RHB

Figure 5: Percentage of Singapore loans under various relief programmes

% of Outstanding Loan Balance <sup>^</sup>	As at 12/11/20	As at 11/2/21
Mortgage	10.6%	0.8%
SME*	35.6%	26.9%
Business Banking*	40.5%	28.0%
Corporate	7.2%	6.4%
<b>Total</b>	<b>11.3%</b>	<b>6.2%</b>

<sup>1</sup> Based on number of accounts

\* Includes Government relief loans

Source: Company data, RHB

Figure 6: Percentage of Singapore loans under various relief programmes

% of Outstanding Loan Balance <sup>^</sup>	As at 10/11/20	As at 11/2/21
Mortgage	17.0%	17.7%
Auto Finance*	16.6%	12.1%
Credit Cards & Personal Loans	10.7%	11.4%
RSME	26.8%	26.3%
SME+	15.9%	16.6%
Business Banking	15.5%	17.7%
Corporate	25.6%	24.7%
<b>Total</b>	<b>20.8%</b>	<b>20.8%</b>

\* Bank-only, not including subsidiaries i.e., WOM and Maybank Finance.

Source: Company data, RHB

26 February 2021

Financial Services | Banks

### Revisions in earnings forecast

We trim FY21F earnings by c.3% after imputing one rate cut in 1Q21 to align with the view of RHB economists. Our FY21F credit cost assumption of 80bps is at the top end of the guidance, suggesting a comfortable buffer.

Figure 7: Maybank – revisions to forecasts

FYE Dec	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	6,982	6,794	(2.7)	0.62	0.60	(2.7)	0.47	0.54	13.8
2022F	8,305	8,355	0.6	0.74	0.74	0.6	0.55	0.62	12.7
2023F	n.a.	9,319	n.m.	n.a.	0.83	n.m.	n.a.	0.67	n.m.

Source: RHB

### Valuation and TP

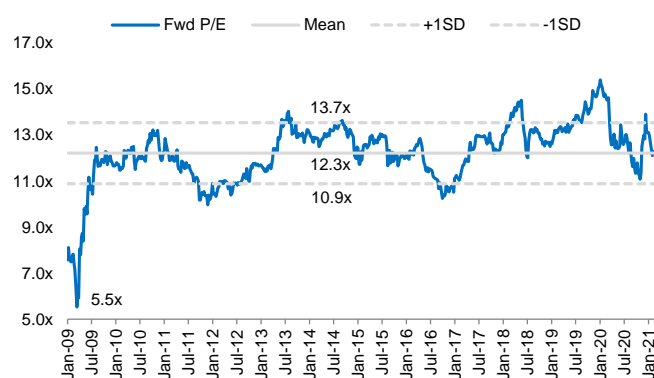
Our GGM-derived TP is unchanged at MYR10.00, which values Maybank at 1.3x FY21F P/BV against 9.5% ROE.

Figure 8: GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	9.5
Risk free rate (%)	2.9	COE (%)	7.6
Equity premium (%)	5.5	Long-term growth (g)	2.0
Beta (x)	0.9	Implied P/BV (x)	1.3
Cost of equity - CAPM (%)	7.6	BVPS – FY21F	MYR7.56
		Target price	MYR10.03
		<b>TP (rounded)</b>	<b>MYR10.00</b>

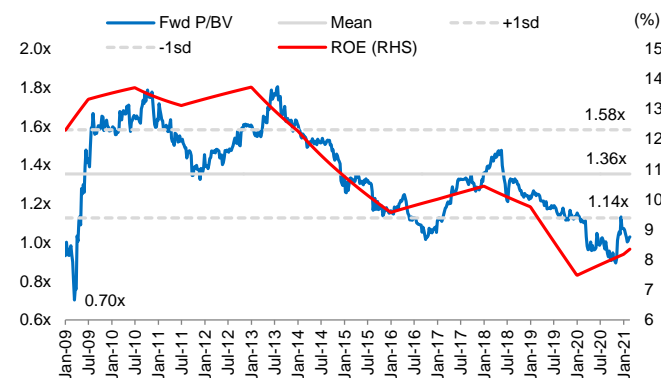
Source: Company data, RHB

Figure 9: Maybank's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 10: Maybank's 12-month forward consensus P/BV



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-16	Buy	10.0	8.8
2020-11-29	Buy	9.8	8.3
2020-08-28	Buy	9.4	7.3
2020-06-10	Buy	9.6	8.2
2020-05-22	Neutral	7.0	7.4
2020-03-31	Neutral	7.7	7.5
2020-02-28	Buy	9.6	8.4
2019-11-29	Neutral	9.2	8.5
2019-08-30	Neutral	8.5	8.7
2019-05-31	Neutral	9.5	9.0
2018-11-30	Buy	11.0	9.4

Source: RHB, Bloomberg



## RHB Guide to Investment Ratings

<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
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<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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