

03 September 2018 | 2QFY18 Results Review

## Malayan Banking Berhad

*Solid earnings growth*

### INVESTMENT HIGHLIGHTS

- In line with expectations
- Net profit growth was due to combination of higher NOII, lower OPEX and provisions
- NIM compression due to liquidity management
- Loans growth matched deposits growth
- Asset quality stable except for issue in Singapore
- Dividend of 25 sen; cash 15 sen, DRP 10 sen
- No revision to FY17 and FY18 forecast
- Maintain BUY with unchanged TP of RM11.40, based on PB multiple of 1.6x

**In line with expectations.** The Group posted 1HFY18 that was within expectations at 47.5% and 47.9% of ours and consensus' full year estimates respectively. The earnings growth of +13.9%yoy was due to a combination of higher NOII and, lower OPEX and provisions.

**Income driven by NOII**, which grew +7.4%yoy. The robust NOII growth was due to higher net earned insurance premiums and fee income from Islamic operations which expanded +19.6%yoy to RM3.0b and +34.6%yoy to RM295m respectively. As with NOII growth, NII expansion was supported by Islamic Banking income as conventional NII -1.5%yoy to RM5.98b due to NIM compression.

**NIM compression partly deliberate.** NIM in 1HFY18 fell by -8bps(yoy) coming from -12bps(yoy) compression in 2QFY18. However, we understood that the NIM compression was partly deliberate as the management in an effort to manage liquidity, have taken in more deposits resulting in higher cost of fund. The Group deposits grew +5.5%yoy to RM511.7b. Deposits in Malaysia expanded +10.1%yoy to RM304.9b as fixed deposits grew +17.0%yoy to RM124.0b.

**Loans growth matched deposits growth.** Gross loans expanded +4.6%yoy to RM480.1b. Malaysia saw strong growth of +6.1%yoy to RM273.8b driven mortgage, consumer auto finance and SME. These segments rose +8.1%yoy to RM77.6b, +4.8%yoy to RM44.6b and +15.7%yoy to RM13.8b respectively.

**Asset quality affected by Hyflux in Singapore.** GIL ratio went up by +27bps(qoq) and +11bps(yoy) as a result of asset quality issue in Singapore. The GIL ratio there shot up to 3.68% as at 2QFY18 from 2.34% the preceding quarter. This was mostly due to loans relating to project financing of two Hyflux projects, where the Group had impaired all of its exposure of SGD658.6m (RM1.95b). However, we understand that the exposure is fully covered and we believe that the loans are still performing but impaired due to judgemental or obligatory triggers (IPL) as the IPL to gross loans ratio went up +24bps yoy to 0.61%.

**Reiterate BUY**

**Unchanged Target Price (TP): RM11.40**

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (30 August 2018)       | RM9.96        |
| Target Price                 | RM11.40       |
| Expected Share Price Return  | +14.5%        |
| Expected Dividend Yield      | +5.8%         |
| <b>Expected Total Return</b> | <b>+20.3%</b> |

| STOCK INFO            |                  |
|-----------------------|------------------|
| KLCI                  | 1,819.66         |
| Bursa / Bloomberg     | 1155 / MAY MK    |
| Board / Sector        | Main / Finance   |
| Syariah Compliant     | No               |
| Issued shares (mil)   | 10,930.8         |
| Market cap. (RM'm)    | 108,870.3        |
| Price over NA         | 1.5x             |
| 52-wk price Range     | RM8.68 - RM11.08 |
| Beta (against KLCI)   | 1.05             |
| 3-mth Avg Daily Vol   | 14.88m           |
| 3-mth Avg Daily Value | RM142.48m        |
| Major Shareholders    |                  |
| Skim Amanah Saham     | 34.09%           |
| EPF                   | 12.95%           |
| PNB                   | 7.70%            |

#### Some banking abbreviations used in this report:

CA = Collective Impairment Allowance  
 CI = Cost-Income Ratio  
 CET1 = Common Equity Tier 1  
 ECL = Expected Credit Losses  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds  
 IA = Individual Assessment Allowance  
 YTD = Year-to-date

**But otherwise asset quality was stable.** Beside the issue in Singapore, asset quality remained stable in Malaysia and Indonesia. The GILL ratio for these markets improved on a sequential quarter basis, by -9bps and -16bps to 2.13% and 4.05% respectively.

**Despite the asset quality issue in Singapore, provisions were manageable.** Provisions decreased -22.9%yoy as ECL was lower than the combined IA and CA in 1HFY17. This was despite the impairment for the Hyflux project loans, where the Group made provisions of RM315.1m. The loans provisioning from this were offset with recoveries.


**Dividend of 25 sen.** The Group announced an interim dividend of 25 sen where 15 sen will be in cash and 10 sen in the form of dividend reinvestment plan.

**Focus on improving NIM in 2HFY18.** The management indicated that for 2HFY18, it will be focusing on improving its NIM. This will be done by releasing some of the more expensive deposits and maintain loan pricing discipline. As such, the management had guided flat to marginal compress NIM in 2HFY18. However, we believe that the pressure from deposit competition may force NIM to compress further. Nevertheless, we do not believe that the compression will be severe.

## FORECAST

We are maintaining our FY18 and FY19 forecasts.

## VALUATION AND RECOMMENDATION

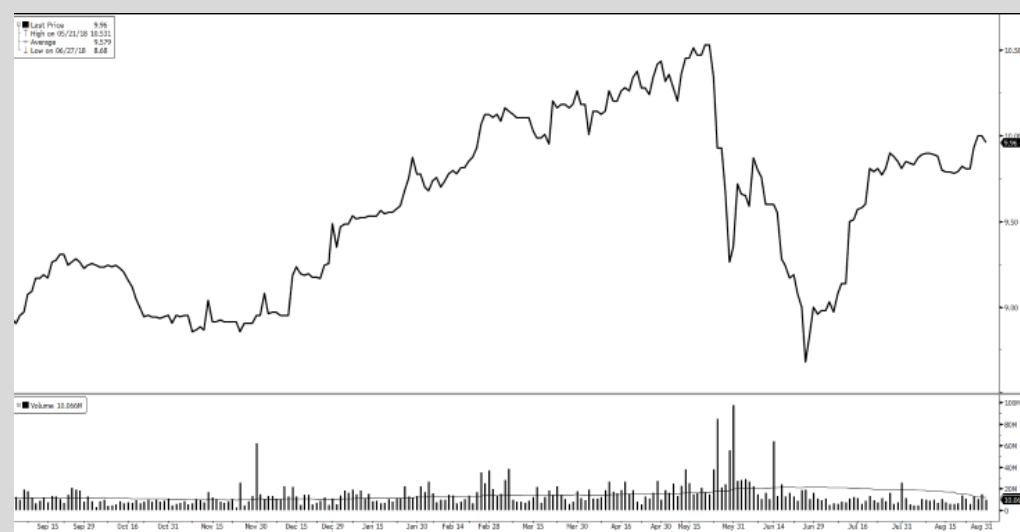
The Group still manage to post a robust set of result despite the issue with asset quality in Singapore. We believe that this earnings resilience is one of the key investment point of the Group. We believe that the share price should have already priced in the Group's exposure in Singapore. However, should there be any immediate negative reaction to this, we believe that it will be an opportunity for investors to accumulate on the stock. Therefore, we **reiterate** our **BUY** call with unchanged **TP of RM11.40**. We based our TP on pegging FY19 BVPS to PB of 1.6x. 

## INVESTMENT STATISTICS

| FYE Dec                       | FY16   | FY17   | FY18F  | FY19F  |
|-------------------------------|--------|--------|--------|--------|
| Net interest income (RM'm)    | 11,568 | 12,147 | 12,699 | 13,068 |
| Islamic banking income (RM'm) | 4,189  | 4,900  | 5,047  | 5,148  |
| Non-interest income (RM'm)    | 6,506  | 6,298  | 6,610  | 7,622  |
| Total income (RM'm)           | 22,263 | 23,345 | 24,356 | 25,838 |
| Pretax profit (RM'm)          | 8,844  | 10,098 | 10,558 | 11,255 |
| Net profit (RM'm)             | 6,743  | 7,521  | 8,071  | 8,713  |
| Core net profit (RM'm)        | 6,743  | 7,521  | 8,071  | 8,713  |
| Core EPS (sen)                | 67.8   | 72.0   | 74.1   | 78.4   |
| PER (x)                       | 14.7   | 13.8   | 13.4   | 12.7   |
| Net dividend (sen)            | 52     | 55     | 58     | 61     |
| Net dividend yield (%)        | 5.2    | 5.5    | 5.8    | 6.1    |
| Book value per share (sen)    | 6.72   | 6.77   | 6.90   | 7.15   |
| PBV (x)                       | 1.5    | 1.5    | 1.4    | 1.4    |
| ROE (%)                       | 10.6   | 10.3   | 10.6   | 10.8   |

Forecast by MIDFR

## DAILY PRICE CHART



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**Table 1: Quarterly results based on reported financials**

| FYE Dec (RM m)        | Quarterly results |           |           |        |       | Comments   |
|-----------------------|-------------------|-----------|-----------|--------|-------|--|
|                       | 2QFY18            | 1QFY18    | 2QFY17    | Yoy    | Qoq   |  |
| NII*                  | 4,155.2           | 4,237.9   | 4,143.5   | 0.3%   | -2.0% | NIM compression in 2QFY18 due to liquidity management  |
| NOII*                 | 1,668.7           | 1,589.9   | 1,640.8   | 1.7%   | 5.0%  | Higher net earned insurance premiums (+18.7% to RM1.49b)                                     |
| Net income            | 5,843.9           | 5,827.8   | 5,784.3   | 1.0%   | 0.3%  |  |
| OPEX                  | (2,704.3)         | (2,778.8) | (2,768.5) | -2.3%  | -2.7% | Lower establishment cost (-9.5%yoy to RM416.1m) and general expenses (-26.7%yoy to RM179.2m) |
| PPOP                  | 3,139.6           | 3,048.9   | 3,015.8   | 4.1%   | 3.0%  |  |
| Net impairment losses | (562.5)           | (500.8)   | (835.7)   | -32.7% | 12.3% | Lower ECL compared to IA and CA  |
| Pre-tax profit        | 2,609.6           | 2,556.7   | 2,244.5   | 16.3%  | 2.1%  |  |
| Taxation              | (614.6)           | (657.2)   | (520.3)   | 18.1%  | -6.5% |  |
| Net Profit            | 1,959.0           | 1,871.0   | 1,658.4   | 18.1%  | 4.7%  |  |
| EPS (sen)             | 17.9              | 17.3      | 16.1      | 11.2%  | 3.5%  |  |

\*Includes a portion of Islamic Banking income

**Table 2: Financial ratios by quarter**

| Financial Ratios (%) | 2QFY18 | 1QFY18 | 2QFY17 | Yoy (+/- ppts) | Qoq (+/- ppts) | Comments  |
|----------------------|--------|--------|--------|----------------|----------------|---|
| CET1*                | 13.2   | 13.7   | 13.6   | -0.4           | -0.6           |   |
| Tier 1*              | 14.7   | 15.4   | 15.4   | -0.7           | -0.6           |   |
| Total Capital*       | 17.8   | 18.5   | 19.0   | -1.2           | -0.7           |   |
| GIL ratio            | 2.64   | 2.37   | 2.53   | 0.11           | 0.27           | Deterioration in asset quality of an account in Singapore |
| Loan loss Coverage   | 80.7   | 87.8   | 70.1   | 10.6           | -7.1           |   |
| Credit charge-off    | 0.47   | 0.41   | 0.68   | -0.21          | 0.06           |   |
| NIM                  | 2.27   | 2.39   | 2.39   | -0.12          | -0.12          | Compression due to liquidity management                   |
| CI                   | 46.2   | 47.6   | 47.7   | -1.5           | -1.4           |   |
| LD ratio             | 92.8   | 92.5   | 93.8   | -1.0           | 0.3            |   |
| ROEA                 | 11.1   | 10.5   | 9.6    | 1.5            | 0.6            |   |

\*Group Capital Ratios based on 85% take up rate for DRP

**Table 3: Cumulative results**

| Cumulative results    |           |           |              | Comments  |
|-----------------------|-----------|-----------|--------------|---|
| FYE Dec (RM m)        | 1HFY18    | 1HFY17    | Yoy          |   |
| NII*                  | 8,393.1   | 8,261.4   | 1.6%         | Due to Islamic Banking net fund based income  |
| NOII*                 | 3,278.6   | 3,052.9   | 7.4%         | Higher net earned insurance premiums (+19.6%yoy to RM3.0b) and fee income from Islamic operations (+34.6%yoy to RM295m) |
| Net income            | 11,671.7  | 11,314.3  | 3.2%         |   |
| OPEX                  | (5,483.1) | (5,547.8) | -1.2%        | Lower establishment (-7.3%yoy to RM873.4m) and admin & general costs (-8.3%yoy to RM1.2b)                               |
| PPOP                  | 6,188.5   | 5,766.4   | 7.3%         |   |
| Net impairment losses | (1,063.3) | (1,378.5) | -22.9%       | Coming from impairment in project loans to Hyflux in Singapore but offset by recoveries                                 |
| Pre-tax profit        | 5,166.2   | 4,493.6   | 15.0%        |   |
| Taxation              | (1,271.8) | (1,024.2) | 24.2%        |   |
| Net Profit            | 3,830.0   | 3,361.2   | 13.9%        |   |
| EPS (sen)             | 35.2      | 32.8      | 7.3%         |   |
| Ratios (%)            |           |           |              |   |
|                       | 1HFY18    | 1HFY17    | Yoy +/- ppts |   |
| ROE                   | 10.8      | 9.7       | 1.1          |   |
| NIM                   | 2.33      | 2.41      | -0.08        | Due to liquidity management   |
| CI ratio              | 46.9      | 48.9      | -2.0         |   |
| Credit charge off     | 0.44      | 0.57      | -0.13        |   |

\*Includes a portion of Islamic Banking income

**Table 4: Contribution to PBT by business segments and ratios based on reported financials**

| Cumulative results                  |         |         |              | Comments  |
|-------------------------------------|---------|---------|--------------|---|
| PBT by business segments (RM m)     | 1HFY18  | 1HFY17  | Yoy (+/- %)  |   |
| Community Financial Services        | 3,005.7 | 2,347.2 | 28.1%        | Lower provisions and OPEX. Meanwhile, NII was higher as well as income from IBS operations and other operating income |
| Corporate Banking & Global Markets  | 2,004.9 | 2,172.2 | -7.7%        | Higher provisions and lower share of profits in associates and joint ventures   |
| Investment Banking                  | 208.5   | 96.1    | 117.1%       | Higher NII, NOI and write back, coupled with lower OPEX   |
| Group Asset Management              | (32.8)  | 63.3    | -151.9%      | Lower other operating income of RM106.0 million and higher impairments  |
| Group Insurance & Takaful           | 244.9   | 448.9   | -45.4%       | Lower other operating income and higher OPEX  |
| PBT contribution by geographies (%) |         |         |              |   |
|                                     | 1HFY18  | 1HFY17  | Yoy +/- ppts |   |
| Malaysia                            | 70.1    | 68.7    | 1.4          |   |
| Indonesia                           | 7.1     | 10.0    | -2.9         |   |
| Singapore                           | 11.5    | 9.7     | 1.8          |   |
| Others                              | 11.3    | 11.6    | -0.3         |   |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|              |  |
|--------------|--|
| BUY          | Total return is expected to be >10% over the next 12 months.   |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| SELL         | <i>Negative</i> total return is expected, by -10% or more, over the next 12 months.  |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

#### SECTOR RECOMMENDATIONS

|          |  |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL  | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |