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30 November 2018 | 3QFY18 Results Review

Malayan Banking Berhad

Lower net impairment losses

***Maintain* BUY**

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

INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Net profit growth from lower provisions**
- **NII cushioned the weaken NOII**
- **Loans growth robust**
- **Asset quality stable especially on consumer segment**
- **Tweaked FY19 forecast by -1.4%**
- **Maintain BUY with unchanged TP of RM11.40, based on PB multiple of 1.6x**

Met expectations. The Group 9MFY18 net profit was within expectations. It came at 71.7% and 73.7% of ours and consensus' full year estimates respectively. The earnings grew +7.4%yoy as provisions came in lower by -18.9%yoy.

NOII did a U-turn. NOII went from growth of +7.4%yoy in 1HFY18 to post a decline of -1.2%yoy in 9MFY18. This was due to NOII contracting by -15.3%yoy 3QFY18. The steep decline was attributable to +28.5%yoy increase in insurance related expenses, to RM1.57b (e.g. benefits and claims incurred, fee and commission expenses etc.).

NII cushioned the weaken NOII. NII went up by +1.6%yoy on continued loans growth in retail franchise and corporate segment across home markets. While NIM showed a compression of -7bps yoy in 9MFY18, it had actually improved slightly (by +3bps qoq) in 3QFY18. Most of the NIM compression could be traced back to 2QFY18 where the Group took in more deposits in an effort to manage liquidity.

Loans grew robustly. Gross loans grew +4.5%yoy to RM507.7b and on local currency basis, it grew +6.4%yoy. Malaysia, Singapore and Indonesia reported a gross loans increase of +4.9%yoy to RM292.5b, +7.1%yoy to SGD41.9b and +8.9%yoy to IDR136.1t respectively. Gross loans growth in Malaysia was led by mortgages (+8.2%yoy to RM85.5b), auto finance (+5.4%yoy to RM47.6b), unit trust (+7.0%yoy to RM28.3b) and SME segments (+14.8%yoy to RM16.5b).

Deposits growth led by Malaysia. Group deposits expanded +3.8%yoy to RM536.6b. This was mostly contributed by Malaysia as deposits rose +6.7%yoy to RM331.3b. Deposits in Singapore went up +1.7%yoy to RM44.9b, while in Indonesia deposits fell -7.2%yoy to RM110.8b. However, this could be due to effect of depreciated rupiah. **Provisions were considerably lower...**even accounting for provisions made for exposure for two Hyflux projects in 2QFY18. Total provisions declined -5.5%yoy in 3QFY18 due write backs in financial investments and financial assets of RM15.8m and RM15.4m respectively.

RETURN STATS	
Price (29 Nov. 2018)	RM9.45
Target Price	RM11.40
Expected Share Price Return	+20.6%
Expected Dividend Yield	+6.1%
Expected Total Return	**+26.7%**

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	11,035.2
Market cap. (RM'm)	104,283.0
Price over NA	1.4x
52-wk price Range	RM8.68 - RM11.08
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	9.59m
3-mth Avg Daily Value	RM91.17m
Major Shareholders	
Skim Amanah Saham	34.12%
EPF	12.99%
PNB	7.55%

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

Asset quality stabilized. We were relieved that asset quality did not deteriorate significantly further. GIL ratio as at 3QFY18 came in at 2.65% vs. 2.64% registered as at 2QFY18. There were an uptick in GIL ratio in the retail SME and corporate banking segment in Malaysia but overall consumer asset quality remained stable.

NIM may normalise in 4QFY18. We opine that NIM will likely normalise in 4QFY18 to come within the management's revised guidance which is flat to marginal compress NIM in FY18. Recall that the management indicated that for 2HFY18, it will be focusing on improving its NIM via releasing some of the more expensive deposits and maintain loan pricing discipline. We believe that deposit competition will ease due to the extension of observation period of the Net Stable Funding Ratio requirements.

FORECAST

We are maintaining our FY18 forecast but tweaking our FY19 forecast slightly by -1.4% to remain conservative in view of macroeconomic uncertainties.

VALUATION AND RECOMMENDATION

We caught by surprise by the weak NOII in 3QFY18. However, the Group's provisions were lower despite the issue with asset quality in Singapore. We understand that there could be potentially be a resolution to this issue in FY19, which could see its impairment being written back but it is too early for us to account for this. Despite all of this, we remain optimistic of the Group's prospects as we believe loans growth momentum could be carried into FY19. 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. In addition, its dividend yield of 6.1% should mitigate any downside risk.

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	11,568	12,147	12,699	12,769
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	25,540
Pretax profit (RM'm)	8,844	10,098	10,558	11,092
Net profit (RM'm)	6,743	7,521	8,071	8,587
Core net profit (RM'm)	6,743	7,521	8,071	8,587
Core EPS (sen)	67.8	72.0	74.1	77.3
PER (x)	13.9	13.1	12.8	12.2
Net dividend (sen)	52	55	58	60
Net dividend yield (%)	5.5	5.8	6.1	6.4
Book value per share (sen)	6.72	6.77	6.90	7.15
PBV (x)	1.4	1.4	1.4	1.3
ROE (%)	10.6	10.3	10.6	10.7

Forecast by MIDFR

DAILY PRICE CHART

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Table 1: Quarterly results based on reported financials

Quarterly results						Comments
FYE Dec (RM m)	**3QFY18**	**2QFY18**	**3QFY17**	**Yoy**	**Qoq**	
NII*	4,268.2	4,155.2	4,205.1	1.5%	2.7%	Supported by loans growth and improved NIM quarter-on-quarter
NOII*	1,425.6	1,668.7	1,683.6	-15.3%	-14.6%	Higher insurance related expenses
Net income	5,693.8	5,843.9	5,888.6	-3.3%	-2.6%	Lower establishment and admin & general expenses
OPEX	(2,698.8)	(2,704.3)	(2,877.4)	-6.2%	-0.2%	
PPOP	2,995.0	3,139.6	3,011.3	-0.5%	-4.6%	
Net impairment losses	(387.2)	(562.5)	(409.6)	-5.5%	-31.2%	Write backs of financial investments and assets
Pre-tax profit	2,639.5	2,609.6	2,678.4	-1.5%	1.1%	
Net Profit	1,956.9	1,959.0	2,027.2	-3.5%	-0.1%	
EPS (sen)	17.9	17.9	19.9	-10.1%	0.0%	

*Includes a portion of Islamic Banking income

Table 2: Financial ratios by quarter

Financial Ratios (%)	3QFY18	2QFY18	3QFY17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
CET1*	13.6	13.2	13.5	0.1	0.4	
Tier 1*	14.5	14.7	15.1	-0.6	-0.2	
Total Capital*	17.6	17.8	18.0	-0.4	-0.2	
GIL ratio	2.64	2.64	2.50	0.14	0.00	Stabilizing
Loan loss Coverage	79.6	80.7	71.7	7.9	-1.1	
Credit charge-off	0.34	0.47	0.32	0.02	-0.13	
NIM	2.30	2.27	2.35	-0.05	0.03	
CI	47.3	46.0	48.8	-1.5	1.3	
LD ratio	94.4	92.8	94	0.4	1.6	
ROEA	11.0	11.1	11.6	-0.6	-0.1	

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

Table 3: Cumulative results

Cumulative results				Comments
FYE Dec (RM m)	**9MFY18**	**9MFY17**	**Yoy**	
NII*	12,661.3	12,466.4	1.6%	Driven by continued loans growth in retail franchise across home markets
NOII*	4,667.5	4,724.8	-1.2%	Due to sharp decline in NOII in 3QFY18
Net income	17,328.7	17,191.3	0.8%	
OPEX	(8,145.2)	(8,413.6)	-3.2%	Lower establishment and admin & general expenses
PPOP	9,183.5	8,777.7	4.6%	
Net impairment losses	(1,450.6)	(1,788.1)	-18.9%	Due to write backs on financial investments and assets
Pre-tax profit	7,805.8	7,171.9	8.8%	
Net Profit	5,786.9	5,388.4	7.4%	
EPS (sen)	53.1	52.1	1.9%	
Ratios (%)				
	9MFY18	**9MFY17**	**Yoy +/- ppts**	
ROE	10.8	10.3	0.5	
NIM	2.32	2.39	-0.07	Due to deposits acquisition in 1HFY18
CI ratio	46.9	48.8	-1.9	
Credit charge off	0.41	0.48	-0.07	

*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)	**9MFY18**	**9MFY17**	**Yoy (+/- %)**	
Community Financial Services	4,312.3	3,857.6	11.8%	Mainly due to lower overhead expenses, lower allowances for impairment losses on loans, advances, financing and other debts and higher NII and income from IBS operations
Corporate Banking & Global Markets	3,411.7	3,464.9	-1.5%	Lower other operating income and lower share of profits in associates and joint ventures
Investment Banking	227.4	108.8	>100%	Lower OPEX and higher writeback of impairment losses on loans, advances, financing and other debts
Group Asset Management	(71.8)	72.2	<100%	Due to lower other operating income, higher net allowances for impairment losses on financial investments and other financial asset
Group Insurance & Takaful	451.0	592.6	-23.9%	Higher net insurance benefits and claims incurred, net fee and commission expenses, change in expense liabilities and taxation of life and takaful fund
PBT contribution by geographies (%)				
	9MFY18	**9MFY17**	**Yoy +/- ppts**	
Malaysia	70.7	70.6	0.1	
Indonesia	6.9	8.8	-1.9	
Singapore	11.5	9.6	1.9	
Others	10.9	11.0	-0.1	

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 *rise* 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	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.