

01 March 2018 | 4QFY17 Results Review

## Malayan Banking Berhad

*Upper bound of expectations*

### INVESTMENT HIGHLIGHTS

- Earnings came in at the upper bound of expectations
- Net profit growth was due double digit NII expansion and lower provisions, but loans growth sluggish
- NIM improvement underpinned by CASA growth
- Asset quality dragged by Singapore but improved overall
- Dividend of 32 sen. Full year 55 sen
- Revision to FY18 forecast by +6.5% upwards
- Maintain BUY with revised TP of RM11.20 (from RM10.30), based on PB multiple of 1.6x

**Upper bound of expectations.** The Group posted FY17 net profit that was at the upper bound of expectations. Its earnings of RM7.52b were 103.6% and 104.0% of ours and consensus' full year estimates respectively. The strong +11.5%yoy earnings growth was driven by solid NII growth and lower provisions.

**Double digit NII growth.** NII grew +10.3%yoy due to the NIM improvement of +9bps yoy to 2.36%, while gross loans growth was sluggish at +1.7%yoy to RM493.8b. NIM improvement was mainly from the growth in CASA where it expanded +5.4%yoy to RM196.4b (normalised +7.2%yoy). CASA in Malaysia, Singapore and Indonesia grew +4.9%yoy to RM127.8b, +16.6%yoy to SGD14.6b and +5.2%yoy to IDR48.4t respectively.

**Boost from lower provisions.** We noted that CA and IA were lower by -24.0%yoy to RM836.4m and -23.4%yoy to RM1.83b respectively. We believe that this was due to higher provisioning in FY16 stemming from the Group heavy proactive R&R program. In addition, IA write back increased +182%yoy to RM326.1m.

**Malaysia loans growth moderated contraction overseas.** The sluggish gross loans growth was due to contraction in international segment where it fell -2.9%yoy to RM200.9b. However, Malaysia gross loans grew +5.0%yoy to RM285.5b. Main driver was mortgages (+7.6%yoy to RM80.7b), SME (+19.7%yoy to RM14.9b) and surprisingly auto finance (+5.3%yoy to RM80.7b).

**GIL ratio uptick due to Singapore.** GIL ratio as at 4QFY17 came in +6bps yoy higher to 2.34% due to some stress in Singapore. GIL ratio in Singapore went up +106bps yoy to 2.36%. The main weakness in Singapore was the retail SME and corporate segment mainly from the oil & gas sector. However, asset improved in Malaysia and Indonesia where the GIL ratio come down by -15bps to 1.91% and -80bps to 3.56% respectively. On a sequential quarter basis, Group GIL ratio came down by -16bps.

**Maintain BUY**

**Revised Target Price (TP): RM11.20**  
(from RM10.30)

RETURN STATS	
Price (28 February 2018)	RM10.46
Target Price	RM11.20
Expected Share Price Return	+7.1%
Expected Dividend Yield	+5.6%
<b>Expected Total Return</b>	<b>+12.7%</b>

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	10,843.8
Market cap. (RM'm)	113,425.8
Price over NA	1.5x
52-wk price Range	RM8.59 – RM10.58
Beta (against KLCI)	1.0
3-mth Avg Daily Vol	14.26m
3-mth Avg Daily Value	RM139.83m
Major Shareholders	
Skim ASB	35.67%
EPF	12.25%
PNB	6.94%

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

CA = Collective Impairment Allowance  
 CI = Cost-Income Ratio  
 CET1 = Common Equity Tier 1  
 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  
 R&R = Restructuring and Rescheduling

**Another solid year in FY18 can be expected.** For FY18, it seems that the Group may be looking at another solid year. We premised our view on the management's guidance of; (1) NIM expansion of +5bps which will result in continued NII growth, (2) net credit cost of 40-45bps inclusive of MFRS 9 which mean that provisions will not increase significantly from FY17 level and, (3) CI of circa 48% which is an improvement from this year level. In addition, we believe that loans growth will improve with Malaysia remaining steady driven by mortgages, and in Indonesia especially with government projects to support credit expansion.

## FORECAST

We are revising our FY18 forecast by +6.5% upwards to take into account the guidance from management.

## VALUATION AND RECOMMENDATION

The Group had a strong rebound in terms of its growth trajectory in FY17, driven by double digit NII growth and lower provisions. While loans growth was sluggish, we believe that it will improve in FY18. Also, asset quality seems to improve in general. With the expectation of continued earnings growth in FY18, we are maintaining our **BUY** recommendation. We are revising our TP to RM11.20 (from RM10.30) as we are according a higher PBV of 1.6x (from 1.4x) due to recovered earnings and reduction risk from MFRS 9 implementation.

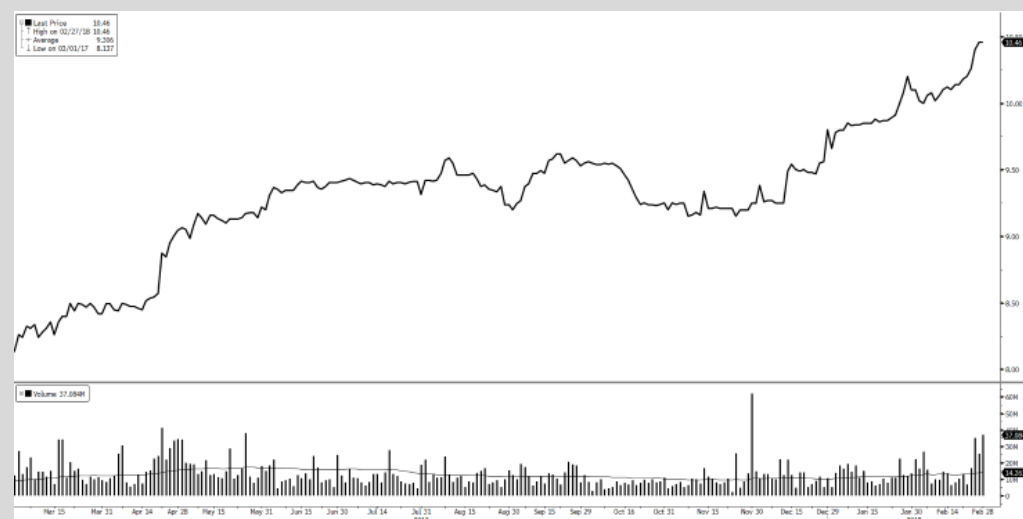


## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	11,568	12,147	12,699	13,117
Islamic banking income (RM'm)	4,189	4,900	4,634	5,097
Non-interest income (RM'm)	6,506	6,298	7,023	7,623
Total income (RM'm)	22,263	23,345	24,356	25,838
Pretax profit (RM'm)	8,844	10,098	10,558	11,251
Net profit (RM'm)	6,743	7,521	8,070	8,711
Core net profit (RM'm)	6,743	7,521	8,070	8,711
Core EPS (sen)	67.8	72.0	74.9	78.1
PER (x)	15.4	14.5	14.0	13.4
Net dividend (sen)	52	55	59	61
Net dividend yield (%)	5.0	5.3	5.6	5.8
Book value per share (sen)	6.72	6.77	7.11	7.38
PBV (x)	1.6	1.5	1.5	1.4
ROE (%)	10.6	10.1	10.3	10.4

Forecast by MIDFR

## DAILY PRICE CHART



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

Quarterly results					
FYE Dec (RM m)	4QFY17	3QFY17	4QFY16	Yoy	Qoq
NII*	4,161.3	4,205.1	3,917.9	6.2%	-1.0%
NOII*	1,895.2	1,720.0	2,123.4	-10.7%	10.2%
Net income	6,056.4	5,925.0	6,041.3	0.2%	2.2%
OPEX	(2,922.8)	(2,913.8)	(2,606.8)	12.1%	0.3%
PPOP	3,133.6	3,011.3	3,434.5	-8.8%	4.1%
Net impairment losses	(239.7)	(409.6)	(624.5)	-61.6%	-41.5%
Pre-tax profit	2,926.1	2,678.4	2,873.0	1.8%	9.2%
Taxation	(675.1)	(601.9)	(422.9)	59.6%	12.2%
Net Profit	2,132.1	2,027.2	2,360.6	-9.7%	5.2%
EPS (sen)	19.9	19.9	23.2	-14.2%	0.0%

\*Includes a portion of Islamic Banking income

**Table 2: Financial ratios by quarter**

Financial Ratios (%)	4QFY17	3QFY17	4QFY16	Yoy (+/- ppts)	Qoq (+/- ppts)
CET1*	14.2	13.5	13.6	0.6	0.7
Tier 1*	15.9	15.1	15.3	0.6	0.8
Total Capital*	18.8	18.0	18.9	-0.1	0.8
GIL ratio	2.34	2.50	2.28	0.06	-0.16
NIL ratio	1.58	1.63	1.60	-0.02	-0.05
Loan loss Coverage	71.5	71.7	72.0	-0.5	-0.2
Credit charge-off	0.16	0.32	0.54	-0.38	-0.16
NIM	2.30	2.35	2.32	-0.02	-0.05
CI	48.2	49.1	43.0	5.2	-0.9
LD ratio	93.8	94.0	93.9	-0.1	-0.2
ROEA	12.4	11.6	14.8	-2.4	0.8

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

**Table 3: Cumulative results**

Cumulative results			
FYE Dec (RM m)	FY17	FY16	Yoy
NII*	16,627.7	15,074.4	10.3%
NOII*	6,640.7	7,098.8	-6.5%
Net income	23,268.4	22,173.1	4.9%
OPEX	(11,357.1)	(10,487.2)	8.3%
PPOP	11,911.3	11,686.0	1.9%
Net impairment losses	(2,027.8)	(3,015.0)	-32.7%
Pre-tax profit	10,098.1	8,844.5	14.2%
Taxation	(2,301.2)	(1,880.6)	22.4%
Net Profit	7,520.5	6,743.0	11.5%
EPS (sen)	72.0	67.8	6.2%
Ratios (%)			
	FY17	FY16	Yoy +/- ppts
ROE	10.9	10.6	0.3
NIM	2.36	2.27	0.09
CI ratio	48.7	47.1	1.6
Credit charge off	0.40	0.62	-0.22

\*Includes a portion of Islamic Banking income

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

Cumulative results			
PBT by business segments (RM m)	FY17	FY16	Yoy (+/- %)
Community Financial Services	5,311.3	4,303.2	23.4%
Corporate Banking & Global Markets	488.5	4,524.5	-89.2%
Investment Banking	178.7	341.2	-47.6%
Group Asset Management	72.6	0.2	>100%
Group Insurance & Takaful	1,008.7	880.2	14.6%
PBT contribution by geographies (%)			
	FY17	FY16	Yoy +/- ppts
Malaysia	71.3	77.2	-5.9
Indonesia	8.6	8.9	-0.3
Singapore	9.4	9.9	-0.5
Others	10.7	4.0	6.7

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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.