

Malayan Banking Berhad

Maybank Indonesia's earnings saved by lower provisions

Maintain BUY

Unchanged Target Price (TP): RM11.20

INVESTMENT HIGHLIGHTS

- **Lower PATAMI moderated by lower provisions**
- **Better asset quality**
- **NII declined on possible pricing competition**
- **CASA led deposits growth moderated potential pressure on margins**
- **No change in our forecast for Maybank Group**
- **Maintain BUY with unchanged TP to RM11.20 based on PB multiple of 1.6x**

Lower provisions saved the day. Maybank Indonesia 1QFY18 net profit was -5.5%yoy lower on lower income and higher OPEX. However, the decline was moderated by lower provisions which fell -26.5%yoy to IDR263b.

Better asset quality. We are not surprised that provisions came in lower. This was due to the fact that asset quality continued to improve. Gross NPL stock fell -16.9%yoy to IDR3.41t, while gross NPL ratio improved -70bps yoy to 3.0%. We believe that this was due to continuing improvement in Indonesia and the Bank's move to focus on better quality asset.

Potential price competition affecting NII. We understand that the competition in loans pricing had intensified which we believe had affected NII. For 1QFY18, NII was flattish with -0.5%yoy decline as interest income fell -2.3%yoy. Besides tepid loans growth of +1.6%yoy to IDR109.8t, we believe it was also due to lower margins. However, the pressure on NII was moderated by lower interest expense which fell -4.2%yoy.

CASA led deposits growth, Islamic financing led loans growth. Deposits grew +2.7%yoy to IDR120.9t and was led by CASA, which grew +9.9%yoy to IDR48.0t. Time deposit fell -1.5%yoy to IDR72.9t. We opine that this contributed to the lower interest expense. Meanwhile, gross loans growth was led by Islamic financing which grew +41.5%yoy to IDR20.2t as corporate loans fell -9.4%yoy to IDR20.0t and SME loans flat at -0.1%yoy to IDR19.3t.

Higher OPEX a slight concern. OPEX grew +4.3%yoy due to higher admin & general expenses and more concerning, higher personnel cost (+5.8%yoy). Our concern is based on the worry of a runaway personnel cost. However, we do not believe that this is the case at this juncture.

| RETURN STATS | |
|------------------------------|--------------|
| Price (27 April 2018) | RM10.76 |
| Target Price | RM11.20 |
| Expected Share Price Return | +4.1% |
| Expected Dividend Yield | +5.5% |
| Expected Total Return | +9.6% |

| STOCK INFO | |
|-----------------------|--------------------|
| KLCI | 1,863.47 |
| Bursa / Bloomberg | 1155 / MAY MK |
| Board / Sector | Main / Finance |
| Syariah Compliant | No |
| Issued shares (mil) | 10,920.4 |
| Market cap. (RM'm) | 117,503.8 |
| Price over NA | 1.6x |
| 52-wk price Range | RM9.10 -RM10.84 |
| Beta (against KLCI) | 0.97 |
| 3-mth Avg Daily Vol | 15.43m |
| 3-mth Avg Daily Value | RM160.58m |
| Major Shareholders | |
| Skim Amanah Saham | 34.43% |
| EPF | 11.524% |
| PNB | 6.84% |


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
 PPOP = Pre-Provisioning Operating Profit
 LCR = Liquidity Coverage Ratio

FORECAST

Pending the announcement of the Group's 1QFY18 result, we make no change to our forecast for now.

VALUATION AND RECOMMENDATION

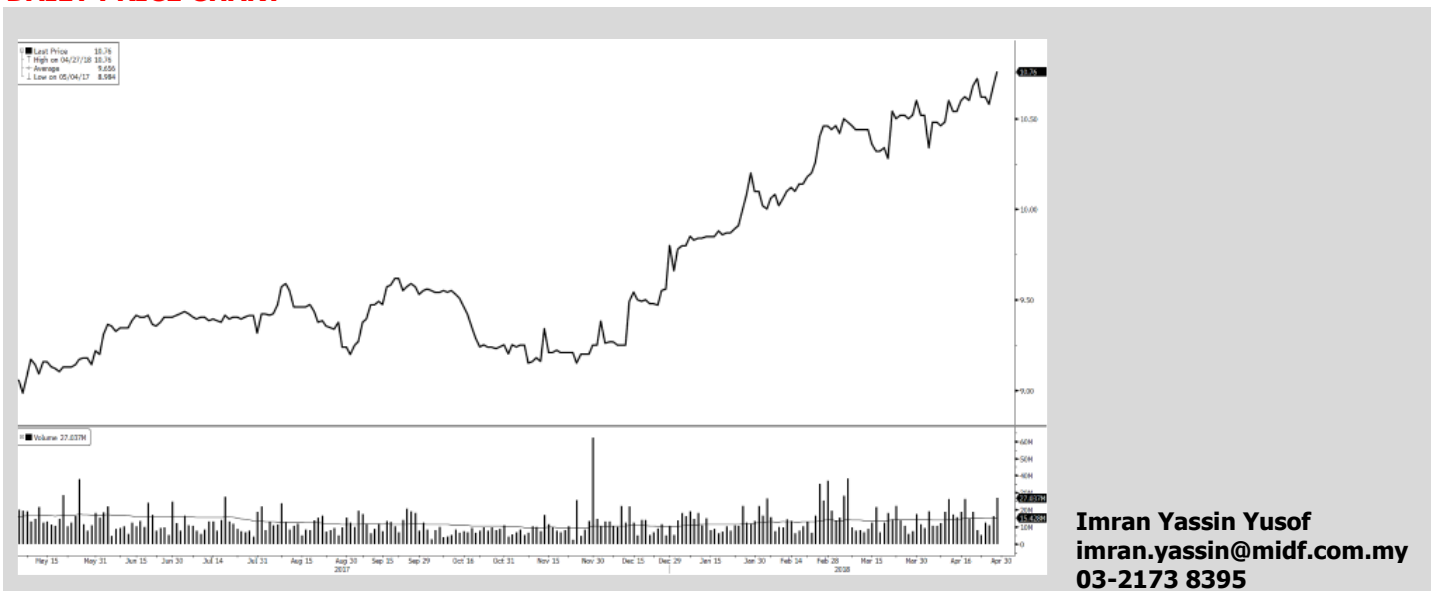
We are disappointed with the result posted by Maybank Indonesia as we had anticipated it to provide a boost to Group's earnings. However, we expect that its net profit growth should recover in the coming quarters due to active funding management, which may ease NIM compression pressures. In addition, we expect the Group's main driver will still be Malaysia and we do not believe that there is any indication that points towards stress in earnings growth. As such, we maintain our **BUY** call with unchanged **TP of RM11.20** as we peg FY18 BVPS to 1.6x. 

INVESTMENT STATISTICS OF MAYBANK GROUP

| 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) | 15.9 | 14.9 | 14.4 | 13.8 |
| Net dividend (sen) | 52 | 55 | 59 | 61 |
| Net dividend yield (%) | 4.8 | 5.1 | 5.5 | 5.7 |
| Book value per share (RM) | 6.72 | 6.77 | 7.11 | 7.38 |
| PBV (x) | 1.6 | 1.6 | 1.5 | 1.5 |
| ROE (%) | 10.6 | 10.1 | 10.3 | 10.4 |

Forecast by MIDFR

DAILY PRICE CHART



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RESULTS HIGHLIGHTS OF PT BANK MAYBANK INDONESIA

| Results | | | | | | Comments |
|-----------------------------|---------|---------|---------|----------|--------|--|
| FYE Dec (IDR b) | 1QFY18 | 4QFY17 | 1QFY17 | Yoy | Qoq | |
| Net interest Income | 1,890 | 1,975 | 1,900 | -0.5% | -4.3% | Interest income fell -2.3%yoy to IDR3.60t. Mitigated by lower interest expense (-4.2%yoy to IDR1.71t). |
| Non-interest income | 528 | 588 | 567 | -6.9% | -10.3% | Lower fee income and gains on forex (-11.5%yoy to IDR88b and -66.3%yoy to IDR24b respectively). Moderated by higher other fee income (+8.4%yoy to IDR402b) |
| Operating Income | 2,418 | 2,563 | 2,467 | -2.0% | -5.7% | |
| Overhead expenses | (1,515) | (1,256) | (1,452) | 4.3% | 20.6% | Higher general and admin cost (+3.5%yoy to IDR861b) and personnel cost (+5.8%yoy to IDR648b). |
| PPOP | 903 | 1,307 | 1,015 | -11.0% | -30.9% | |
| Provision expenses | (263) | (787) | (358) | -26.5% | -66.6% | |
| Pre-tax Profit (PBT) | 640 | 521 | 657 | -2.6% | 22.8% | |
| Net profit after tax and MI | 463 | 355 | 490 | -5.5% | 30.4% | |
| | | | | | | |
| Financial ratios | 1QFY18 | 4QFY17 | 1QFY17 | +/- ppts | | |
| | | | | Yoy | Qoq | |
| Cost to income ratio | 62.6% | 49.0% | 58.9% | 3.8 | 13.6 | On higher general and admin cost. |
| Loan to deposit ratio | 89.2% | 92.2% | 90.1% | -1.0 | -3.0 | |
| Gross NPL ratio | 3.00% | 2.81% | 3.70% | -0.70 | 0.2 | |
| CASA ratio | 39.7% | 40.0% | 37.1% | 2.60 | -0.3 | CASA increased +9.9%yoy to IDR48.0t. |

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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. |