

Malayan Banking Berhad

NOII pressure in Indonesia

Maintain BUY

Unchanged Target Price (TP): RM11.40

INVESTMENT HIGHLIGHTS

- **PATAMI declined -4.6%yoy dragged by lower NOII.**
- **NII growth from lower interest expense.**
- **Loans growth was steady from SME and Shariah segment.**
- **Asset quality stable.**
- **No change in our forecast for Maybank Group**
- **Maintain BUY with unchanged TP to RM11.40 based on PB multiple of 1.6x.**

Dragged by lower NOII. Maybank Indonesia posted 1HFY18 PATAMI of IDR970.3b which was -4.6%yoy lower. The decline in PATAMI was due to lower NOII, which fell -27.2%yoy to IDR1,032b. The lower NOII was mostly due to decline in fees and commission, forex gains and other fee income. These fell -1.3%yoy, -58.5%yoy and -28.5%yoy to IDR186.1b, IDR45.6b and IDR800.7b respectively.

Resilient NII despite NIM compression pressure. Meanwhile, NII grew +2.5%yoy despite the compression pressure to NIM in Indonesia, stemming from the rate hikes. This was due to lower interest expense which fell -4.6%yoy to IDR3,383b. The decline was faster than the decline in interest income which contracted -0.9%yoy to IDR7,315b.

Lower OPEX and lower provisions moderated the decline. OPEX fell -5.5%yoy due to lower general and admin cost. This declined -7.1%yoy to IDR1,701b. Provisions were lower by -15.2%yoy to IDR676.3b.

Stable loans growth. Gross loans growth as at 2QFY17 came in at a decent +3.7%yoy to IDR114.1t. This was mainly contributed by growth in the SME and Shariah segment, where it grew +2.4%yoy to IDR19.6t and +64.3%yoy to IDR23.0t respectively. This moderated by decrease in auto (-22.6%yoy to IDR8.55t), mortgage (-25.0%yoy to IDR7.96t) and corporate (-6.2%yoy to IDR20.5t).

Asset quality improved. NPL fell by -19.1%yoy to IDR3.20t. This was mainly due to lower NPL in foreign currencies loan, which contracted -64.9%yoy to IDR623.4b.

Lower deposits. Total deposits contracted -4.9%yoy to IDR118.0t. On the bright side, this was due to -11.9%yoy decline in time deposits to IDR68.6t, which is more expensive. CASA increased +6.9%yoy to IDR49.4t, which partly explains the fall in interest expense.

RETURN STATS	
Price (30 July 2018)	RM9.85
Target Price	RM11.40
Expected Share Price Return	+15.7%
Expected Dividend Yield	+5.9%
Expected Total Return	+21.6%

STOCK INFO	
KLCI	1,770.26
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Shariah Compliant	No
Issued shares (mil)	10,930.8
Market cap. (RM'm)	107,667.9
Price over NA	1.5x
52-wk price Range	RM8.68 -RM11.08
Beta (against KLCI)	1.07
3-mth Avg Daily Vol	19.44m
3-mth Avg Daily Value	RM188.08m
Major Shareholders	
Skim Amanah Saham	34.61%
EPF	12.58%
PNB	7.30%

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 2QFY18 result, we make no change to our forecast for now.

VALUATION AND RECOMMENDATION

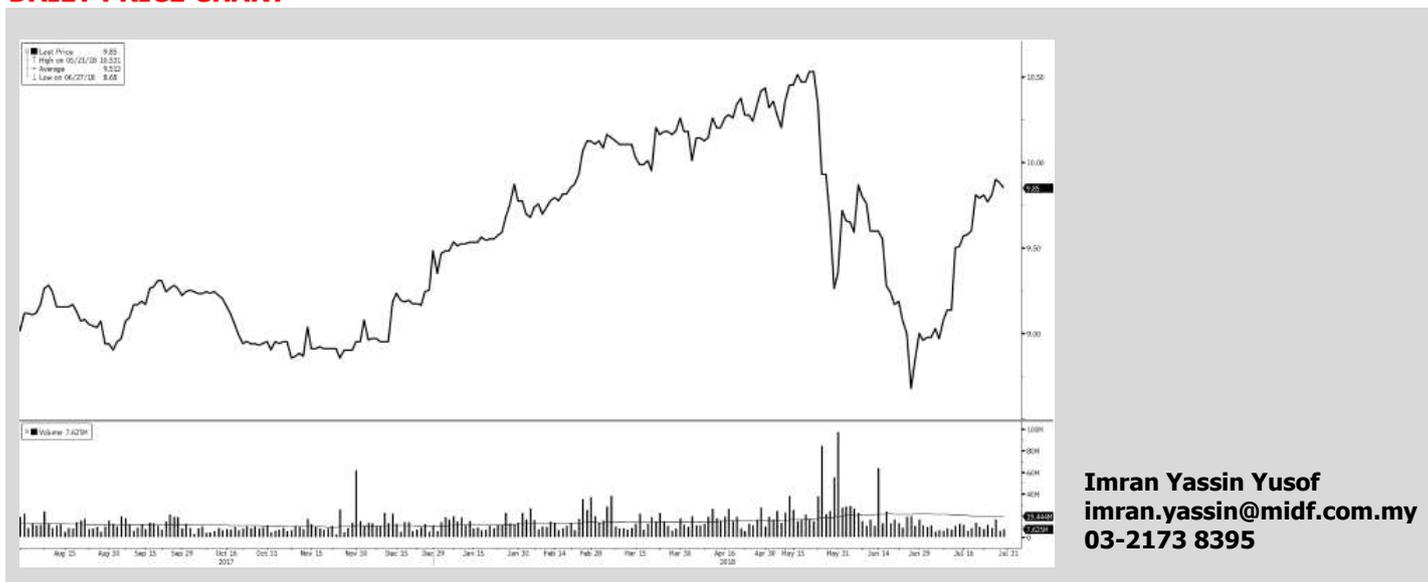
We believe that the result from Maybank Indonesia will not be a significant drag to the Group's overall 2QFY18 result. We believe that the fundamental of the Group remains intact. Although, we have seen possible headwinds in term of asset quality and NIM, coupled with the uncertainty in Malaysia following GE14, we believe that the Group will be able to maintain its earnings growth trajectory. Hence, we are maintaining our BUY call with unchanged TP to RM11.40 based on PB multiple of 1.6x. 

INVESTMENT STATISTICS OF MAYBANK GROUP

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	11,568	12,147	12,699	13,068
Islamic banking income (RM'm)	4,189	4,900	4,634	5,148
Non-interest income (RM'm)	6,506	6,298	7,023	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	8,070	8,713
Core net profit (RM'm)	6,743	7,521	8,070	8,713
Core EPS (sen)	67.8	72.0	74.9	78.4
PER (x)	14.5	13.7	13.3	12.6
Net dividend (sen)	52	55	58	61
Net dividend yield (%)	5.3	5.6	5.9	6.2
Book value per share (RM)	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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RESULTS HIGHLIGHTS OF PT BANK MAYBANK INDONESIA

Results				Comments
FYE Dec (IDR b)	1HFY17	1HFY16	Yoy	
Net interest Income	3,932	3,836	2.5%	Due to higher decline in interest expense, where it fell -4.6%yoy to IDR3,383b.
Non interest income	1,032	1,419	-27.2%	From lower forex gains (-58.5%yoy to RP45.6b) and lower other fee income (-28.5%yoy to IDR801.7b)
Operating Income	4,964	5,254	-5.5%	
Overhead expenses	(2,991)	(3,076)	-2.7%	Lower general and admin cost (-7.1%yoy to IDR1,701b) moderated the higher personnel cost (+4.3%yoy to IDR1,287b).
PPOP	1,973	2,179	-9.5%	
Provision expenses	(676)	(798)	-15.2%	
Pre-tax Profit (PBT)	1,296	1,381	-6.1%	
Net profit after tax and MI	970	1,017	-4.6%	
Financial ratios	1HFY17	1HFY16	+/- ppts	
Cost to income	60.3%	58.5%	1.7	On lower income.
Loan to deposit	96.7%	88.6%	8.0	Decline in total deposits.
Gross NPL	2.80%	3.60%	-0.80	Lower NPL from foreign currencies loans.
CASA	41.9%	37.3%	4.6	Lower growth in time deposits.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.