

13 January 2017 | Corporate Update

Malayan Banking Berhad

Maybank Indonesia divesting stake in WOM Finance

INVESTMENT HIGHLIGHTS

- **The Group's subsidiary is divesting entire stake (68.55%) in WOM Finance for IDR673.8b (approx. RM229.1m).**
- **WOM Finance provides financing for new and used motorcycles in Indonesia.**
- **We are NEUTRAL on the news as the divestment will have no significant impact to Group's bottom line or book value.**
- **For 9MFY16, we estimate WOM contributes only 2.9% to Maybank Indonesia's PBT.**
- **WOM's asset quality seems to be deteriorating with gross NPL ratio climbing 89 basis points to 3.84% as at 3QFY16. Hence, could be a positive move.**
- **Reward to the Group's shareholders unlikely given sale is at Maybank Indonesia's level.**
- **Maintain NEUTRAL with unchanged TP to RM8.10 based on PB multiple of 1.2x.**

Subsidiary divesting a subsidiary. The Group announced yesterday that its subsidiary, Maybank Indonesia, is divesting its entire equity interest of 68.55% in WOM Finance. The divestment is for a total cash consideration of approximately IDR673.8b (approximately RM229.1m), plus the difference between the book value of WOM Finance as at end FY16 and end FY15 in proportion to Maybank Indonesia's 68.55% stake. Completion is expected to occur by 1QFY17.

Provider of motorcycle financing. WOM Finance provides financing for new and used motorcycles, with the majority of consumer financing granted for well-established motorcycle brands. WOM Finance is listed on the Indonesia Stock Exchange. Maybank Indonesia's first involvement with WOM Finance started in 2004.

NEUTRAL on the news but there is a positive. We are NEUTRAL on the proposed divestment of WOM Finance given that there is no significant impact to the Group's bottom line or book value. We estimate that for 9MFY16, WOM Finance contributes only 2.9% to Maybank's Indonesia's PBT. The announcement stated that the rationale for the divestment is as part of Maybank Indonesia's strategic initiative to maximise its capital use and streamline its customer segmentation. We note that WOM Finance's asset quality seems to be on a deteriorating trend. Gross NPL ratio climbed by +89bps yoy to 3.84% as at 3QFY16. Hence, we believe that the divestment could have a positive to Maybank Indonesia.

Maintain NEUTRAL

Unchanged Target Price (TP): RM8.10

RETURN STATS	
Price (12 Jan 2017)	RM8.31
Target Price	RM8.10
Expected Share Price Return	-2.5%
Expected Dividend Yield	+6.6%
Expected Total Return	+4.1%

STOCK INFO	
KLCI	1,677.76
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	10,193.2
Par Value (RM)	1.00
Market cap. (RM'm)	84,705.5
Price over NA	1.3x
52-wk price Range	RM7.50 - RM9.20
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	11.986m
3-mth Avg Daily Value	RM99.684m
Major Shareholders	
Skim Amanah Saham	35.54%
EPF	14.77%
PNB	6.48%

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

Additional reward unlikely. We do not believe that the expected cash consideration will be distributed to shareholders as the proposed divestment is at Maybank Indonesia's level. Therefore, we make no adjustment to our dividend expectations.

FORECAST

We make no change to our forecast.

VALUATION AND RECOMMENDATION

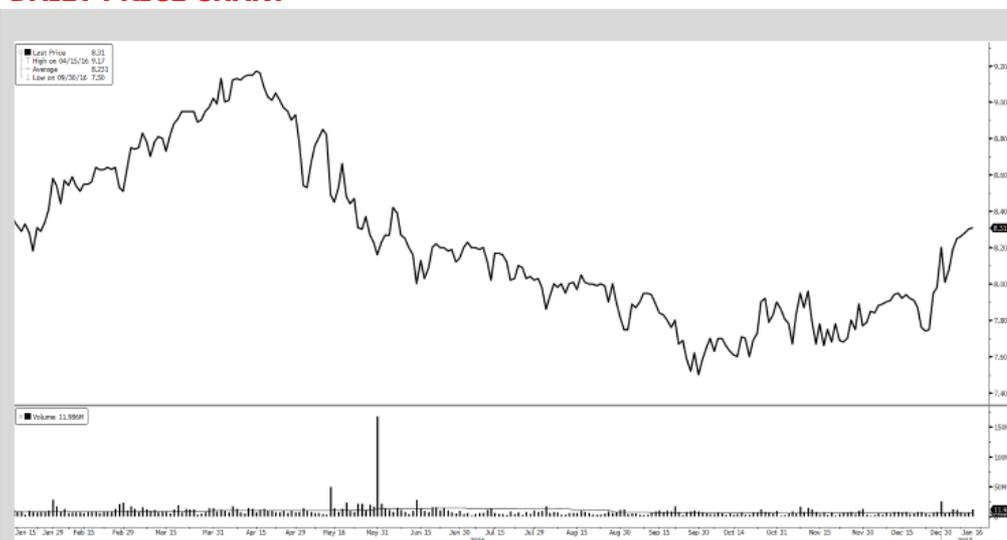
All-in-all, we are NEUTRAL on the proposed divestment as we do not believe that there will be a significant impact. For the Group going forward, we expect that NIM will continue to be under pressure and loans growth may remain sluggish in FY17. Therefore, we are maintaining our NEUTRAL call on the stock. Our unchanged TP of RM8.10 is based on PB multiple of 1.2x. 

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F
Net interest income (RM'm)	9,704	11,114	11,842	12,671
Islamic banking income (RM'm)	3,271	3,939	4,017	4,431
Non-interest income (RM'm)	5,556	6,185	6,091	6,535
Total income (RM'm)	18,531	21,238	21,951	23,637
Pretax profit (RM'm)	9,112	9,152	8,359	9,652
Net profit (RM'm)	6,716	6,836	6,081	7,156
Core net profit (RM'm)	6,716	6,639	6,081	7,156
Core EPS (sen)	74.2	70.0	62.2	72.9
PER (x)	11.2	11.9	13.4	11.4
Net dividend (sen)	57	54	47	55
Net dividend yield (%)	6.9	6.5	5.6	6.6
Book value per share (RM)	5.68	6.32	6.49	6.68
PBV (x)	1.5	1.3	1.3	1.2
ROE (%)	13.8	12.2	9.6	10.9

Forecast by MIDFR

DAILY PRICE CHART



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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.

