

03 July 2018 | Briefing Note

Malayan Banking Berhad

Maybank Islamic - potential next growth area

Maintain BUY

Unchanged Target Price (TP): RM11.40

INVESTMENT HIGHLIGHTS

- **Met with CFO of the Group and CEO of Maybank Islamic**
- **Adopted "Islamic first" strategy awhile ago, resulting in strong growth over the years**
- **Opportunities from expected growth in Islamic finance**
- **Maybank Islamic is embedded and a part of the total growth of the Group**
- **No change to forecast**
- **Maintain BUY. Unchanged TP of RM11.40 based on pegging FY19 BVPS to PB multiple of 1.6x**

Briefing on Maybank Islamic. We met with the CFO of the Group, Dato' Amirul Feisal Wan Zahir and the CEO of Maybank Islamic Bhd yesterday, Dato' Mohamed Rafique Merican Mohd Wahiduddin Merican. The investor day was to brief on the direction and potential of Maybank Islamic. Below are the key take away from the meeting:

- Ambitious target to grow contribution to the Group's assets, funding and PBT to 50%, 50% and 40% respectively by the year 2020.
- Maybank Islamic have grown faster than conventional operation.
- Islamic banking and finance in general presents strong opportunity for growth.
- Not carving out Maybank Islamic as a separate entity.

Aspiration based on four pillars. The Group has adopted an Islamic-first strategy and aim to be a "Global Leader on Islamic Finance" by year 2020 (M2020 Aspiration). This will be premised on the four key pillars namely; (1) commendable financial performance and strong capitalisation, (2) global presence whereby it aspires to be a globally recognized leading Islamic Financial Institution, (3) developing innovative products and services, and (4) enhancement of centre of excellence through collaborations.

Ambitious target contribution to the Group. Maybank Islamic target to grow contribution to the Group's assets, funding and PBT to 50%, 50% and 40% respectively by the year 2020. We view this target to be very ambitious. As at end FY17, the contributions were 28.8%, 31.0% and 26.6% from 26.9%, 27.9% and 21.2% the previous year respectively. Assuming current run rate, we estimate that Maybank Islamic's contribution to the Group's asset and funding by 2020 may fall short of its target by 5 to 10ppt respectively. However, we believe that its PBT contribution target will be achievable.

RETURN STATS	
Price (2 July 2018)	RM8.96
Target Price	RM11.40
Expected Share Price Return	+27.2%
Expected Dividend Yield	+6.4%
Expected Total Return	+33.6%

STOCK INFO	
KLCI	1,685.05
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	10,990.8
Market cap. (RM'm)	97,939.6
Price over NA	1.4x
52-wk price Range	RM8.68 – RM11.08
Beta (against KLCI)	1.02
3-mth Avg Daily Vol	21.79m
3-mth Avg Daily Value	RM216.08m
Major Shareholders	
Skim ASB	34.58%
EPF	12.49%
PNB	7.25%

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

Strong headway for Maybank Islamic. While Maybank Islamic targets seem ambitious, we recognize that it has grown strongly over the years. For example, it had grown faster than conventional segment for the period FY10 to FY17. The CAGR for Maybank Islamic's financing, deposits (including investment accounts) and PBTZ for the period was +21.4%, +20.5% and +20.4% to RM163.7b, RM154.6b and RM2.36b respectively. Comparatively, excluding Maybank Islamic (i.e. conventional), these segments' CAGR was +8.0%, +7.9% and +6.1% to RM330.1b, RM371.9b and RM7.74b respectively. Meanwhile, the contributions to total Group for these segments increased from 16.3%, 14.6% and 10.0% to 33.1%, 29.4% and 23.4% respectively. From this, we determine that Maybank Islamic have been a very important feature to the Group.

Opportunities from expected growth in Islamic finance. Global Islamic finance market size are expected to grow at CAGR of +9.4% over a period between 2016 to 2022, to USD3.78t (source: "State of the Global Islamic Economy Report 2017/2018", Thomson Reuters). Meanwhile, global Islamic banking market assets are expected to grow at CAGR of +7.3% to USD2.44t over the same period. As for the domestic market, Bank Negara Malaysia expects Islamic financing will account for 40% of total financing by 2020 from 31% as at 2017. We believe that all of this represents a great opportunity for Maybank Islamic to continue its growth trajectory, especially as it is the top 5 largest Islamic bank globally by asset size and the only of non Gulf Co-operation Country bank.

Development of innovative product key. We believe that Maybank Islamic would require to continuously develop innovative product. We opine that its rent-to-own scheme, named #HouzKey, is an example of such product. This product is aimed at customers above RM5,000 income bracket but does not have the deposit to purchase a home. Also, we believe that focus to grow the Investment Account is a good move as it will assist in attracting funding.

Need to address funding cost. In our opinion, the factor for Maybank Islamic that management need to address is on its funding cost. For example, it needs to attract more CASA. Nevertheless, we understand that even as its depositors would like to migrate to Islamic CASA, have yet to do so due to inconvenience in relation to management of personal account such as standing instruction etc. In addition, the drawback to the Investment Account is that it has to offer higher rate of return given the risk associate (i.e. an investment).

Leverage model avoid confusion. With Maybank Islamic growing to be a sizeable entity, we would not be wrong to assume that it could be carved out to a separate entity. However, management indicated that there is no such plan as it leverages the Group such for branding, branches and funding. This allows it to operate at a more lean structure as it does not need to have separate branches for example. We believe that this could be the right strategic move as Maybank Islamic is embedded and a part of the total growth of the Group.

Separately, rewarding shareholder by switching to all cash dividend. On a separate note, the Group announced yesterday that it will not proceed with the implementation of the 16th Dividend Reinvestment Plan (DRP) given the current softer equities market which has also affected its share price. As such, shareholders will receive the entire final dividend of 32 sen in cash. We believe that this reward will be well received by shareholders. We opine that this will enhance the attractiveness of the stock given that expected dividend yield for FY18 is 6.4%.

FORECAST

No change to our forecasts.

VALUATION AND RECOMMENDATION

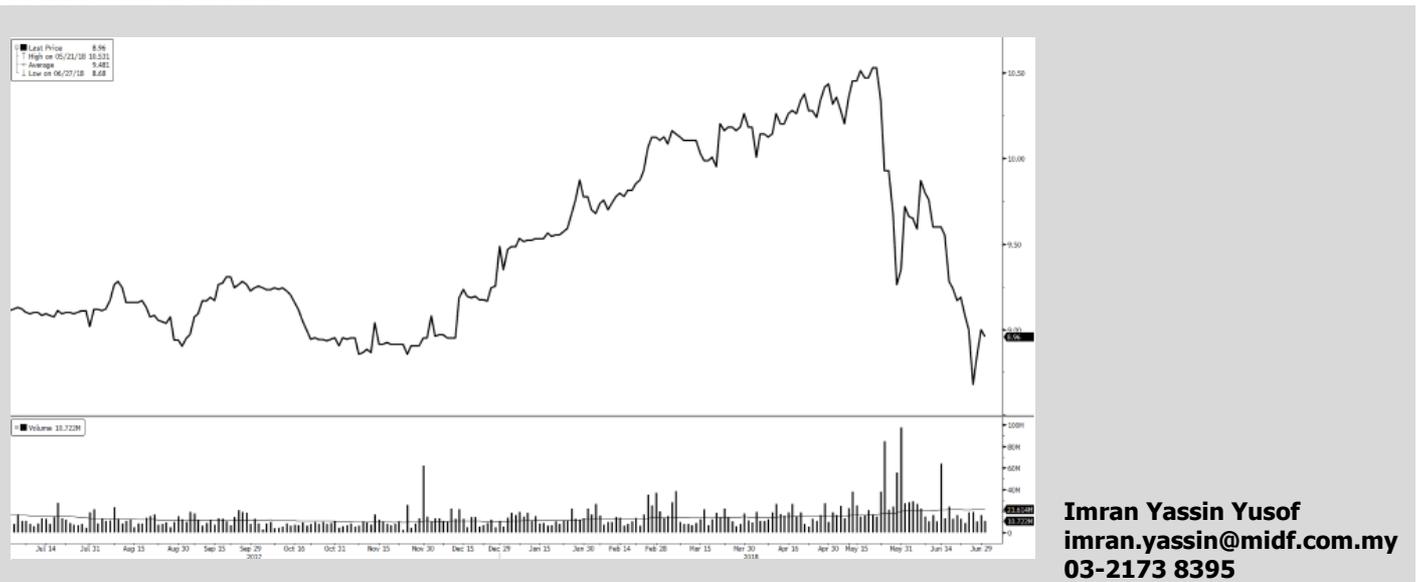
Maybank Islamic have grown strongly over the years and have become an essential part of the Group. We are optimistic of its future given the expected continuing growth for demand of shariah based financial products. We believe that Maybank Islamic will be in a good position to take advantage of this demand. Hence, we maintain our **BUY** call with unchanged TP of RM11.40, based on PB multiple of 1.6x. In addition, we expect to see some increased interest in the stock with the cancellation of 16th DRP and switching to all cash portion. There could be possibility that FY18 dividends will also be all cash. With an expected dividend yield of 6.4%, this will limit any downside risk for investors. 

INVESTMENT STATISTICS

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)	13.2	12.4	12.1	11.4
Net dividend (sen)	52	55	58	61
Net dividend yield (%)	5.8	6.1	6.4	6.8
Book value per share (RM)	6.72	6.77	6.90	7.15
PBV (x)	1.3	1.3	1.3	1.3
ROE (%)	10.6	10.3	10.6	10.8

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 >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.