

Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

3QFY23 Results: Adequate Liquidity to Drive Loan Growth

Maintain NEUTRAL
Unchanged Target Price: RM9.28

KEY INVESTMENT HIGHLIGHTS

- 9MFY23's Core NP of RM6,962m was *Within/Within* our/*street* forecasts: **76%/75%** of full-year forecasts
- Management's tone: **Neutral**
- Core themes: (a) Loan momentum to persist, (b) NIMs to remain flattish, (c) NOII volatility
- Forecasts unchanged
- Maintain **NEUTRAL** with unchanged TP of **RM9.28**, based on an unchanged FY24F P/BV of **1.21x**

Verdict: No convincing earnings drivers, though dividend yields remain attractive.

Yays	1. Dividend yields remain among best in the sector. 2. Strong overseas contributions drive Maybank's above-sector level of loan growth.
Nays	1. Elevated OPEX and CIR to persist in next few years.
OKs	1. Asset quality seems under control, with a high LLC to boot.

Results in a nutshell:

▲ **9MFY23's Core net profit (NP) of RM6,962m up by +24%oyoy.** This was driven primarily by improvements in NOII and provisions, offsetting weaker NII and higher OPEX charges (amid multiple Collective Agreement (CA) one-offs).

► **3QFY23's Core NP of RM2,358m flattish, growing by +1%qoq.** The decline mainly came from a normalised NOII (following 2QFY23's bumper non-fee gains), offset by normalised OPEX, and lower provisioning and tax costs.

▲ **Balance sheet growth saw strong pickup.** Loan growth posted strong +1.8%qoq growth, bolstered by a positive rebound in the local corporate segment. Deposits saw solid +1.1%qoq growth after previous quarters were crimped by FD paring exercises. While the overseas segment saw a good pick-up, local deposits were flat, with solid CASA growth offset declines in other deposits.

Have a look at:

▲ **Frontloading of liquidity may have cut into NIMs but preserved strong loan growth momentum in 4QFY23 while ensuring flattish NIM.** Management has anticipated this uptick in demand, having gathered sufficient liquidity in previous quarters. Do note that this features a sharp sequential quarter increase in pricier corporate deposits, which management taps into when it is unable to source adequate retail deposits.

RETURN STATISTICS

Price @ 22 November 2023 (RM)	9.10
Expected share price return (%)	+2.0
Expected dividend yield (%)	+7.2
Expected total return (%)	+9.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	0.2
3 months	3.6	0.7
12 months	6.7	5.5

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	9,196	9,828	10,649
CNP growth (%)	12	7	8
Div yield (%)	6.8	7.2	7.8
Gross DPS (sen)	61.5	65.7	71.2
P/BV (x)	1.3	1.3	1.3
BVPS (RM)	7.4	7.7	8.0
ROE (%)	10.5	10.9	11.4
MIDF/Street CNP (%)	99	101	105

KEY STATISTICS

FBM KLCI	1,455.89
Issue shares (m)	12,054.1
Estimated free float (%)	36.6
Market Capitalisation (RM'm)	109,868.8
52-wk price range	RM8.26 - RM9.2
3-mth avg daily volume (m)	8.6
3-mth avg daily value (RM'm)	76.8
Top Shareholders (%)	
Amanah Saham Nasional Bhd	37.2
EPF Board	13.5
Yayasan Pelaburan Bumiputra	6.8

Analyst

Samuel Woo
samuel.woo@midf.com.my

This may have which could have contributed to the sequential NIM decline (MY attributed 4bps out of the 5bps 3QFY23 decline). The good news is that having acquired a sufficient level of liquidity, management will be taking it easier in 4QFY23. Hence regardless of deposit competition, management seems confident in hitting its FY23 NIM target while maintaining a strong level of loan growth, which implies a flattish quarterly NIM movement in 4QFY23.

While there seems to be a bit of concern on the local front, with loan growth outstripping deposit growth and L/D ratio at a high 91.7%, management has stated that it is willing to keep L/D ratio flexible to accommodate this heightened loan growth.

▶ **Little clarity on RWA approach change, but RWA optimisation will persist for now.** Malaysia will be converting to Basel III standardised approach for credit risk in 2025. This will be phased over a couple of years. SG and IND are already practising the approach. Regardless, management believes there is still room for further RWA optimisation in its current Internal ratings-based (IRB) approach and will be continuing with it. The capital effects from the translation from IRB to standardised approach effect remain uncertain.

▶ **Further clarity on provisions.** FY23 NCC is guided to come in at lower bound of 30-35bps target. More interesting are non-loan provisions which are not factored into FY23 NCC guidance. We have seen notable writebacks in 1QFY23 and 3QFY23. Management states that we should not expect further non-loan writebacks until much later, given lag effects.

▼ **Some volatility in NOII end.** Non-fee balances saw a huge decline from 2QFY23's bumper quarter, partially due to unrealised losses on derivatives and unrealised losses coming from its insurance business unit. Fee income saw benefit from improved loan growth and services. Persistent macro headwinds make future NOII outlook hard to decipher.

Forecasts unchanged. We make no changes to forecasts.

Key downside risks. (1) Steeper-than-expected NIM compression, (2) Further NOII decline, (3) Higher-than-expected provisions.


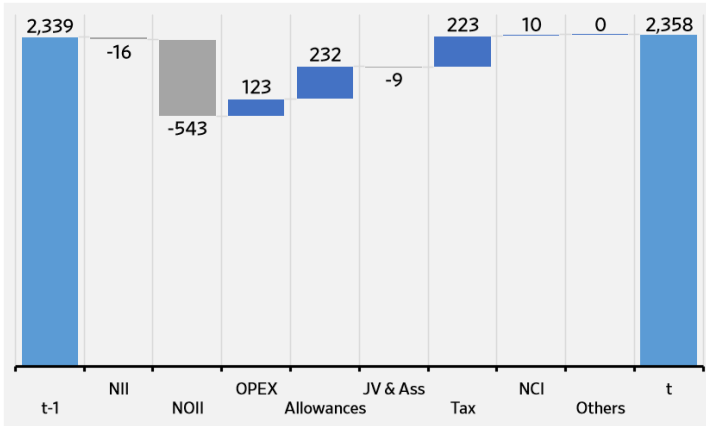
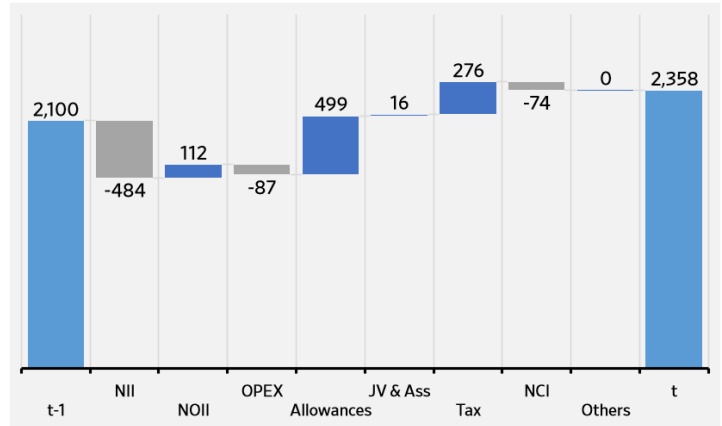
Maintain NEUTRAL call: Unchanged GGM-TP of RM 9.28. The TP is based on an unchanged FY24F P/BV of 1.21x. (GGM assumptions: FY24F ROE of 10.9%, LTG of 3.0% & COE of 9.5%) 

Fig 1: QoQ P/L walk (Quarterly results)



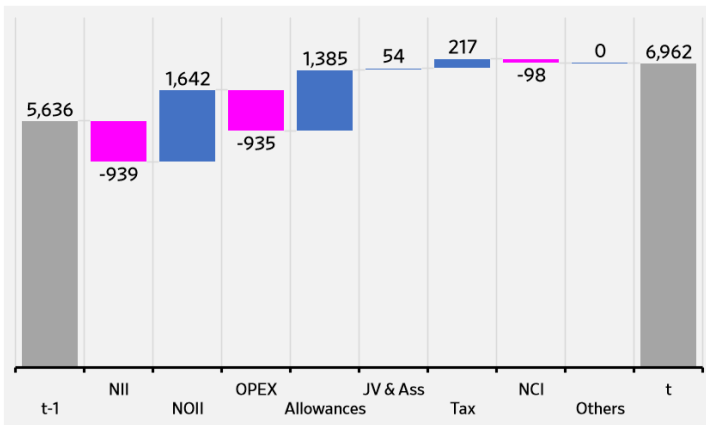
Source: Maybank, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: Maybank, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: Maybank, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	3,167	3,208	3,463	-9	-1	9,603	10,301	-7
Islamic banking inc.	1,877	1,851	1,996	-6	1	5,519	5,432	2
Non-interest inc.	1,706	2,251	1,662	3	-24	5,262	3,948	33
Net income	6,750	7,310	7,122	-5	-8	20,384	19,681	4
OPEX	(3,297)	(3,420)	(3,210)	3	-4	(9,770)	(8,834)	11
PPOP	3,453	3,889	3,911	-12	-11	10,614	10,846	-2
Loan provisions	(440)	(562)	(600)	-27	-22	(1,362)	(1,881)	-28
Other provisions	98	(13)	(242)	-141	<-500	152	(714)	-121
JV & Associates	46	55	30	54	-17	177	123	44
PBT	3,156	3,370	3,100	2	-6	9,582	8,375	14
Tax	(750)	(972)	(1,025)	-27	-23	(2,445)	(2,662)	-8
NCI	(48)	(59)	26	-289	-18	(175)	(76)	129
Reported NP	2,358	2,339	2,100	12	1	6,962	5,636	24
Core NP	2,358	2,339	2,100	12	1	6,962	5,636	24
Total NII	4,809	4,825	5,292	-9	-0	14,430	15,369	-6
Total NOII	1,941	2,485	1,829	6	-22	5,954	4,312	38
Gross DPS (sen)	-	29.0	-	n.m.	n.m.	29.0	28.0	n.m.
Core EPS (sen)	19.6	19.4	17.6	11	1	57.8	47.2	22
Gross loans	616,964	605,835	587,119	5.1	1.8			
Gross impaired loans	8,813	8,912	9,989	-11.8	-1.1			
Customer deposits	636,701	628,070	613,671	3.8	1.4			
CASA	233,207	223,037	258,076	-9.6	4.6			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	10.4	10.4	10.0	0.4	-0.0	10.2	8.9	1.3
NIM (Reported)	2.09	2.14	2.42	-0.33	-0.05	2.14	2.39	-0.25
NOII/Net income	28.8	34.0	25.7	3.1	-5.2	29.2	21.9	7.3
Cost/Income	48.8	46.8	45.1	3.8	2.1	47.9	44.9	3.0
NCC (Ann.) (bps)	29	38	42	-13	-9	30	44	-14
GIL ratio	1.43	1.47	1.70	-0.27	-0.04			
Loan loss coverage	123	126	117	5	-3			
CASA ratio	36.6	35.5	42.1	-5.4	1.1			
L/D ratio	95.2	94.7	93.8	1.4	0.5			
CET-1	15.4	15.2	13.8	1.6	0.2			

Source: Maybank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	2,358	Qtrly ROE	Qtr value	10.4%
	26% of FY CNP				
	Qoq	1%		t-1	10.4%
	Yoy	12%		t-4	10.0%
Cum Core NP	RM mil	6,962	Cum ROE	Cum value	10.2%
	Within our forecast				
	76% of FY CNP				
	Within consensus				
	75% of FY CNP				
Yoy	24%	t-1	8.9%		
NII	As expected		NIM	As expected	
				Qtr value	2.09
				Cum value	2.14
	Qtr (Qoq)	-0%		Qtr (Qoq)	-5bps
	Qtr (Yoy)	-9%		Qtr (Yoy)	-33bps
Cum (Yoy)	-6%	Cum (Yoy)	-25bps		
NOII	As expected		Qtr	% NII	71%
	Qtr (Qoq)	-22%		% NOII	29%
	Qtr (Yoy)	6%	Cum	% NII	71%
	Cum (Yoy)	38%		% NOII	29%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	48.8%
				Cum value	47.9%
	Qtr (Qoq)	-4%		Qtr (Qoq)	+2.1%
	Qtr (Yoy)	3%		Qtr (Yoy)	+3.8%
Cum (Yoy)	11%	Cum (Yoy)	+3.0%		

Notes (Cum = Cumulative, Qtr = Quarterly)

Coming in well within expectations.

Decline was largely attributable to local deposit competition, despite a huge uptick in CASA.

Recall last quarter's bumper quarter for non-fee income.

Normalisation after Collective Agreement alterations.

Source: Maybank, MIDFR

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					Loan growth remained strong, driven by solid overseas growth.
	Qoq	1.8%				
	Yoy	5.1%				
	YTD (FY)	5.1%				
Depo. growth	As expected		CASA growth	As expected		Following negative growth in last couple of quarters, deposits seem to be making a resurgence, though this was largely driven by overseas segments – MY figures were flattish on a quarter-on-quarter basis.
	Qoq	1.4%		Qoq	4.6%	
	Yoy	3.8%		Yoy	-9.6%	
	YTD (FY)	3.5%		YTD (FY)	-3.0%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	36.6%		Value now	95.2%	
	Qoq	+1.1%		Qoq	+0.5%	
	Yoy	-5.4%		Yoy	+1.4%	
GIL ratio	As expected		LLC ratio	As expected		Good control. Should not see many issues on this front.
	Value now	1.43%		Value now	123%	
	Qoq	-4bps		Qoq	-3%	
	Yoy	-27bps		Yoy	+5%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	29bps		Value now	30bps	
	t-1	38bps				
			t-4	44bps		
CET 1	Healthy level		Div payout	No divvy		Exceptional.
	As expected			As expected		
	Value now	15.4%		Payout	-	
	Qoq	0.2%				

Others:

Source: Maybank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	10.5-11.0	10.2 (10.7 as reported)	We feel the core downwards swing factor would be a lacklustre NOII performance and higher than expected OPEX. Elsewhere NIM and NCC should be well guided for.
CIR	<47.5	47.9	
NIM	-25bps from 2.39	2.14	Management is sticking to guidance, implying flattish NIMs.
NOII		38% (yoy)	
Loans		5.1 (YTD)	Strong loan growth expected to persist in 4QFY23.
Deposits		3.5 (YTD)	
% CASA		36.6	Management is vying to keep CASA ratio at present levels.
Loan/Depo		95.2	Current L/D ratio is quite stretched, but management says their comfortable with flexibility for now.
GIL ratio		1.43	
NCC (bps)	30-35	30	Likely to come in lower bound of guidance.
LLC		123	
CET 1		15.4	
Div payout	40-60	-	Final dividend could be fully cash as well.

Source: Maybank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	17,205	21,628	22,196	24,697	24,993
Interest expense	(5,171)	(7,793)	(8,250)	(9,820)	(9,820)
Net interest income	12,034	13,834	13,946	14,877	15,173
Islamic banking inc.	7,573	7,414	7,632	7,779	7,933
Other operating inc.	5,842	6,367	6,224	6,561	6,561
Net income	25,448	27,615	27,803	29,217	29,668
OPEX	(11,519)	(12,807)	(13,206)	(13,878)	(13,350)
PPOP	13,930	14,808	14,596	15,339	16,317
Loan allowances	(2,659)	(2,189)	(2,111)	(2,152)	(2,112)
Other allowances	(571)	(596)	(362)	(228)	(161)
JV & Associates	186	131	190	199	212
PBT	10,887	12,153	12,312	13,158	14,257
Tax & zakat	(2,565)	(3,780)	(2,832)	(3,026)	(3,279)
NCI	(225)	(138)	(284)	(304)	(329)
Reported NP	8,096	8,235	9,196	9,828	10,649
Core NP	8,096	8,235	9,196	9,828	10,649
Total NII	19,089	20,685	20,816	21,878	22,313
Total NOII	6,359	6,930	6,987	7,339	7,355

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	57,521	53,670	60,469	61,641	61,805
Investment securities	210,702	218,267	222,256	214,311	208,197
Net loans	541,888	575,387	607,149	635,351	661,602
Other IEAs	26,674	27,792	29,459	31,363	32,808
Non-IEAs	48,707	69,860	63,475	64,724	68,544
Total assets	885,491	944,976	982,809	1,007,390	1,032,957
Customer deposits	588,968	614,895	648,099	678,560	707,738
Other IBLs	133,568	146,912	154,280	159,515	165,001
Non-IBLs	73,896	94,039	88,934	74,580	61,649
Total liabilities	796,431	855,846	891,313	912,656	934,388
Share capital	53,156	54,619	55,297	56,027	56,814
Reserves	33,005	31,485	33,361	35,769	38,698
Shareholders' funds	86,162	86,104	88,658	91,796	95,512
NCI	2,898	3,026	2,837	2,937	3,056
Total equity	89,060	89,131	91,495	94,734	98,568
Total L&E	885,491	944,976	982,809	1,007,390	1,032,957
Total IEAs	836,784	875,116	919,334	942,665	964,413
Total IBLs	722,536	761,807	802,379	838,075	872,739
Gross loans	553,789	587,122	619,414	646,668	673,181
CASA	267,147	240,493	243,037	244,282	240,631

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.33	2.42	2.32	2.35	2.34
Return on IEAs	2.10	2.53	2.47	2.65	2.62
Cost of funds	0.73	1.05	1.05	1.20	1.15
Net interest spread	1.37	1.48	1.42	1.46	1.47
Profitability (%)					
ROE	9.5	9.6	10.5	10.9	11.4
ROA	0.9	0.9	1.0	1.0	1.0
NOII/Net income	25.0	25.1	25.1	25.1	24.8
Effective tax rate	23.6	31.1	23.0	23.0	23.0
Cost/Income	45.3	46.4	47.5	47.5	45.0
Liquidity (%)					
Loan/Deposit	92.0	93.6	93.7	93.6	93.5
CASA ratio	45.4	39.1	37.5	36.0	34.0
Asset Quality (%)					
GIL ratio	1.99	1.57	1.80	1.75	1.72
LLC ratio	108	127	110	100	100
LLC (w. reserves)	120	154	132	122	122
Net CC (bps)	49	38	35	34	32
Capital (%)					
CET 1	16.1	15.7	15.2	15.0	14.9
Tier 1 capital	16.8	16.4	15.9	15.7	15.6
Total capital	19.5	19.1	18.6	18.4	18.3
Growth (%)					
Total NII	14.6	8.4	0.6	5.1	2.0
Total NOII	(21.6)	9.0	0.8	5.0	0.2
Net income	2.8	8.5	0.7	5.1	1.5
OPEX	2.6	11.2	3.1	5.1	(3.8)
Core NP	24.9	1.7	11.7	6.9	8.3
Gross loans	5.7	6.0	5.5	4.4	4.1
Customer deposits	5.9	4.4	5.4	4.7	4.3
CASA	16.3	(10.0)	1.1	0.5	(1.5)
Valuation metrics					
Core EPS (sen)	67.6	68.8	76.8	82.1	89.0
Gross DPS (sen)	58.0	58.0	61.5	65.7	71.2
Div payout (%)	83	84	80	80	80
BVPS (RM)	7.2	7.2	7.4	7.7	8.0
Core P/E (x)	13.5	13.2	11.8	11.1	10.2
Div yield (%)	6.4	6.4	6.8	7.2	7.8
P/BV (x)	1.3	1.3	1.2	1.2	1.1

Source: Maybank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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	Total return is expected to be <-10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology