

Malayan Banking Berhad

(1155 | MAY MK) Financial Services | Finance

1QFY24 Results: Strong Loan Growth Seen

KEY INVESTMENT HIGHLIGHTS

- 3MFY24's Core NP of RM2,488m was *Within/Within* our/street forecasts: **26%/25%** of full-year forecasts
- Management's tone: **Mildly optimistic**
- Core themes: (a) **Strong loan growth**, (b) **NIM recovery expected**, (c) **Success in huge retail deposit campaign**
- Forecasts unchanged
- **Maintain NEUTRAL | Revised TP of RM10.03 | based on a revised FY25F P/BV of 1.21x (formerly 1.16x, from FY24F)**

Verdict: Excellent dividend yields, but little room for positive share repricing.

Yays	<ol style="list-style-type: none"> 1. Strong dividend yields – fully cash. 2. Successful launch of retail deposit campaigns offers space for options (pertaining to loan growth and NIM optimisation).
Nays	<ol style="list-style-type: none"> 1. Elevated OPEX as part of M25+.
OKs	<ol style="list-style-type: none"> 1. Asset quality and provisioning are healthy. 2. NIM target is lofty but achievable.

Results in a nutshell:

▲ **1QFY24's Core net profit (NP) of RM2,488m up by +10%yoy.** This was largely due to exceptional trading income offsetting elevated OPEX and provisioning.

► **1QFY24's Core NP of RM2,488m up by +4%qoq.** Again, this was largely due to impressive trading income offsetting provisioning increases. OPEX and NII saw only muted growth.

▲ **Gross loans grew by +2.7%qoq, coming up to +2.7%YTD.** Exceptional loan growth was mostly due to organic growth in residential mortgages: (1) Home 2U app, (2) Secondary market focus, (3) Increasing mortgage sales force, (4) doubling down on Johor and Kelantan markets.

▲ **Deposits grew by +1.5%qoq, coming up to +1.5%YTD.** Maybank captured an impressive retail deposit market share in 1QFY24 – which will likely help with NIMs, provided it can be retained.

▲ **GIL moved by -3bps to 1.32%, LLC currently at 121%.**

Have a look at:

► **Loan growth to slow down – but if COF is managed well, we could see positive upside.** Maybank reported an impressive +2.7%qoq growth this quarter but retained its FY24 guidance of 6-7%. This implies weaker loan growth in subsequent quarters, as there were large corporate one-off drawdowns. This prevents further NIM compression, as liquidity is already tight. Regardless, management mentions that several loan segments across three countries have room for further competitive pricing, should Maybank intend to capture market share.

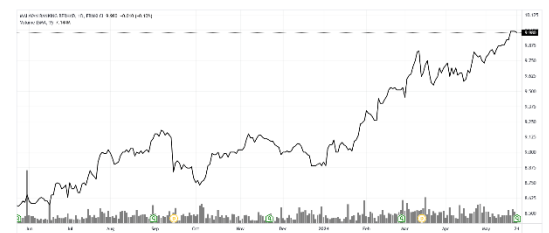
Maintain NEUTRAL

Revised Target Price: RM10.03
(Previously RM9.71)

RETURN STATISTICS

Price @ 24 May 2024 (RM)	9.98
Expected share price return (%)	+0.5
Expected dividend yield (%)	+6.9
Expected total return (%)	+7.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.5	-1.6
3 months	3.1	0.4
12 months	13.8	-0.1

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	9,694	10,451	10,854
CNP growth (%)	4	8	4
Div yield (%)	6.4	6.9	7.2
Gross DPS (sen)	64.3	69.3	72.0
P/BV (x)	1.2	1.2	1.2
BVPS (RM)	8.1	8.3	8.5
ROE (%)	10.1	10.6	10.7
MIDF/Street CNP (%)	99	102	100

KEY STATISTICS

FBM KLCI	1,619.40
Issue shares (m)	12,060.2
Estimated free float (%)	37.7
Market Capitalisation (RM'm)	120,548.9
52-wk price range	RM8.55 - RM10
3-mth avg daily volume (m)	12.4
3-mth avg daily value (RM'm)	119.9
Top Shareholders (%)	
Amanah Saham Nasional Bhd	37.8
EPF Board	12.6
Yayasan Pelaburan Bumiputra	6.2

Analyst

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These include MY’s mid-cap corporate and SME segment; IND’s small SME, two-wheel financing; SG: Mid-sized corporate segment. Note, however, that the Group is especially wary of SG, as FD rates there are pricey – hence expect possible loan growth constraints in the segment.

▲ **NIM to improve in subsequent quarters.** Maybank’s NIM fell by -6bps qoq, but FY24 target is retained. This implies that Maybank expects a tremendous improvement in NIMs, primarily in MY and SG markets. Levers to improve NIMs include: (1) Slower and more targeted loan growth, (2) (Potential) further cutting of MY FD rates, (3) MY has seen multiple retail deposit campaigns launched in 1QFY24 (large take-up in market share seen) and pared down on pricier deposits.

1QFY24’s NIM -6bps qoq decline can be split by geography: SG: -3bps, IND: -2bps, MY: -1bps.

▲ **ROE target still achievable.** Even with a boost from non-sustainable trading income this quarter, Maybank was only able to achieve an ROE of 10.8% (FY24 target: 11%). The sharp cost inflation is expected to persist as well. Regardless, Maybank is confident in other ROE drivers: (1) Improving the core fee component of NOII (due to better loan growth), (2) Recovering NIMs – with slower loan growth offering less liquidity pressure and MY’s successful deposit campaigns offering excellent positioning, (3) <30bps NCC – we could see bouts of lower provisioning in upcoming quarters.

Forecasts unchanged. We are not adjusting our earnings forecasts.

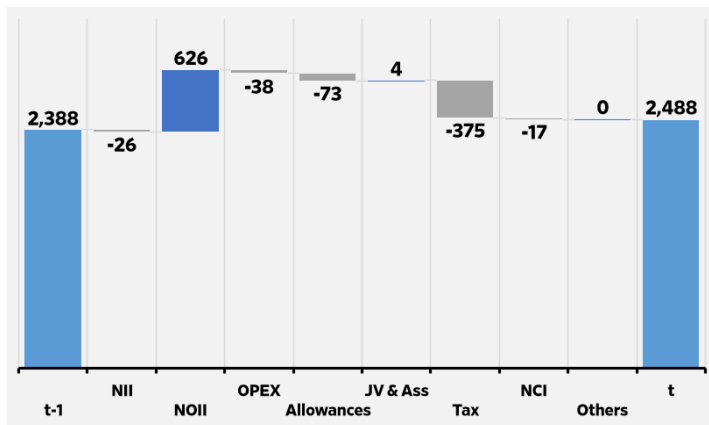
Key downside risks. (1) Weaker NOII performance, (2) Persistent asset quality issues, (3) Further NIM compression.

Maintain NEUTRAL call: Revised GGM-TP of RM 10.03 (from RM9.71). The TP is based on a revised FY25F P/BV of 1.21x (formerly 1.16x, rolled on from FY24F), to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY25F ROE of 10.6%, LTG of 3.0% & COE of 9.3%)

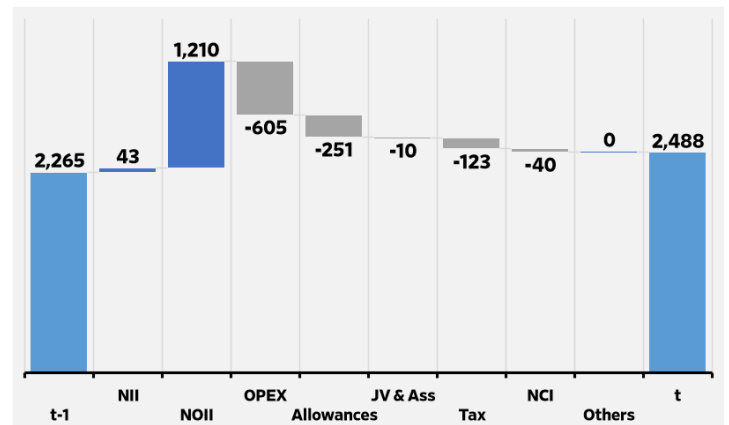


Fig 1: QoQ P/L walk (Quarterly results)



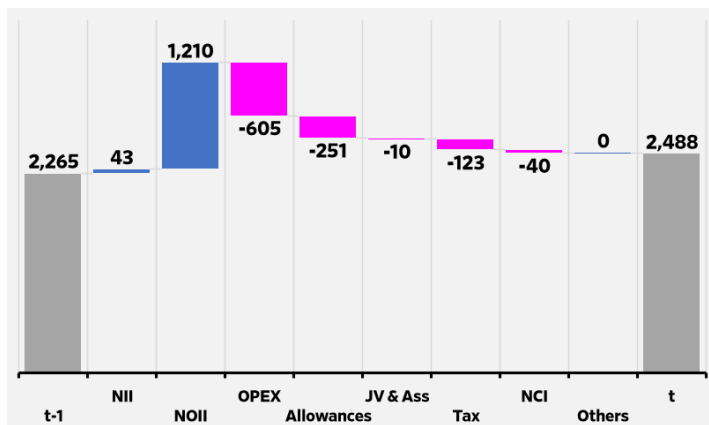
Source: Maybank, MIDFR

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)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	3,154	3,183	3,228	-2	-1	3,154	3,228	-2
Islamic banking inc.	2,090	2,058	1,791	17	2	2,090	1,791	17
Non-interest inc.	2,333	1,736	1,305	79	34	2,333	1,305	79
Net income	7,577	6,977	6,324	20	9	7,577	6,324	20
OPEX	(3,657)	(3,619)	(3,052)	20	1	(3,657)	(3,052)	20
PPOP	3,920	3,358	3,272	20	17	3,920	3,272	20
Loan provisions	(468)	(464)	(360)	30	1	(468)	(360)	30
Other provisions	(76)	(7)	67	-214	>500	(76)	67	-214
JV & Associates	67	63	77	-13	6	67	77	-13
PBT	3,442	2,950	3,056	13	17	3,442	3,056	13
Tax	(846)	(471)	(723)	17	80	(846)	(723)	17
NCI	(108)	(90)	(67)	60	19	(108)	(67)	60
Reported NP	2,488	2,388	2,265	10	4	2,488	2,265	10
Core NP	2,488	2,388	2,265	10	4	2,488	2,265	10
Total NII	4,840	4,865	4,797	1	-1	4,840	4,797	1
Total NOII	2,737	2,112	1,528	79	30	2,737	1,528	79
Gross DPS (sen)	-	31.0	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	20.6	19.8	18.8	10	4	20.6	18.8	10
Gross loans	657,819	640,750	591,714	11.2	2.7			
Gross impaired loans	8,653	8,600	8,895	-2.7	0.6			
Customer deposits	680,693	670,359	624,440	9.0	1.5			
CASA	240,364	233,895	231,396	3.9	2.8			
Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
ROE (Ann.)	10.6	10.1	10.1	0.5	0.5	10.6	10.1	0.5
NIM (Reported)	2.00	2.06	2.19	-0.19	-0.06	2.00	2.19	-0.19
NOII/Net income	36.1	30.3	24.2	12.0	5.9	36.1	24.2	12.0
Cost/Income	48.3	51.9	48.3	0.0	-3.6	48.3	48.3	0.0
NCC (Ann.) (bps)	30	30	25	5	-0	30	25	5
GIL ratio	1.32	1.34	1.50	-0.19	-0.03			
Loan loss coverage	121	120	129	-8	1			
CASA ratio	35.3	34.9	37.1	-1.7	0.4			
L/D ratio	95.1	94.0	92.9	2.2	1.1			
CET-1	14.9	16.2	15.1	-0.2	-1.3			

Source: Maybank, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric		Surprise? Qoq/Yoy		Metric		Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	2,488		Qtrly ROE	Qtr value	10.6%	
	26% of FY CNP						
	Qoq	4%			t-1	10.1%	
	Yoy	10%			t-4	10.1%	
Cum Core NP	RM mil	2,488		Cum ROE	Cum value	10.6%	
	Within our forecast						
	26% of FY CNP						
	Within consensus						
	25% of FY CNP						
Yoy	10%		t-1	10.1%			
NII	As expected		NIM	As expected			
				Qtr value	2.00		
				Cum value	2.00		
	Qtr (Qoq)	-1%		Qtr (Qoq)	-6bps		
	Qtr (Yoy)	1%		Qtr (Yoy)	-19bps		
Cum (Yoy)	1%		Cum (Yoy)	-19bps			
NOII	As expected		Qtr	% NII	64%		
	Qtr (Qoq)	30%		% NOII	36%		
	Qtr (Yoy)	79%		Cum	% NII	64%	
	Cum (Yoy)	79%			% NOII	36%	
OPEX	As expected		Cost/ Inc.	As expected			
				Qtr value	48.3%		
				Cum value	48.3%		
	Qtr (Qoq)	1%		Qtr (Qoq)	-3.6%		
	Qtr (Yoy)	20%		Qtr (Yoy)	+0.0%		
Cum (Yoy)	20%		Cum (Yoy)	+0.0%			

Source: Maybank, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

NIM decline was steep – but management is confident that of recovery potential

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

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	+ve surprise					
	Qoq	2.7%				
	Yoy	11.2%				
	YTD (FY)	2.7%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	1.5%		Qoq	2.8%	
	Yoy	9.0%		Yoy	3.9%	
	YTD (FY)	1.5%		YTD (FY)	2.8%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	35.3%		Value now	95.1%	
	Qoq	+0.4%		Qoq	+1.1%	
	Yoy	-1.7%		Yoy	+2.2%	
GIL ratio	As expected		LLC ratio	As expected		
	Value now	1.32%		Value now	121%	
	Qoq	-3bps		Qoq	+1%	
	Yoy	-19bps		Yoy	-8%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	30bps		Value now	30bps	
	t-1	30bps		t-4	25bps	
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	14.9%		Payout	-	
	Qoq	-1.3%				

Others:

Source: Maybank, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	11	10.6	
CIR	<49	48.3	OPEX growth of <10%.
NIM	-5bps from 2.12	2.00	
NOII		79% (yoy)	
Loans	6-7	2.7 (YTD)	Expect more muted growth for the remainder of FY24.
Deposits		1.5 (YTD)	
% CASA		35.3	
Loan/Depo		95.1	
GIL ratio		1.32	1.30-1.35% is the steady state.
NCC (bps)	<30	30	
LLC		121	
CET 1		14.9	
Div payout	40-60	-	

Source: Maybank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Net interest income	13,816	12,792	13,781	14,313	14,674
Islamic banking inc.	7,414	7,577	7,206	7,484	7,673
Other operating inc.	5,263	6,992	8,169	8,739	9,005
Net income	26,492	27,361	29,155	30,536	31,352
OPEX	(11,974)	(13,389)	(14,286)	(14,657)	(14,892)
PPOP	14,518	13,972	14,869	15,879	16,460
Loan allowances	(2,183)	(1,826)	(1,843)	(1,940)	(2,028)
Other allowances	(594)	145	(299)	(216)	(180)
JV & Associates	131	240	253	270	280
PBT	11,872	12,532	12,979	13,993	14,532
Tax & zakat	(3,896)	(2,917)	(2,985)	(3,218)	(3,342)
NCI	(15)	(265)	(300)	(323)	(336)
Reported NP	7,961	9,350	9,694	10,451	10,854
Core NP	7,961	9,350	9,694	10,451	10,854
Total NII	20,685	19,302	20,266	21,049	21,580
Total NOII	5,807	8,059	8,889	9,487	9,773

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	53,670	42,376	43,606	42,648	42,423
Investment securities	218,267	252,537	242,143	233,881	228,476
Net loans	573,766	628,923	666,325	699,641	728,326
Other IEAs	27,792	30,723	32,700	34,233	35,845
Non-IEAs	71,482	73,116	63,661	78,992	95,985
Total assets	944,976	1,027,675	1,048,436	1,089,395	1,131,055
Customer deposits	614,895	670,359	708,570	745,415	777,468
Other IBLs	146,912	163,138	168,208	173,517	179,076
Non-IBLs	94,039	96,529	71,494	67,287	68,213
Total liabilities	855,846	930,026	948,272	986,219	1,024,757
Share capital	54,619	54,674	54,674	54,674	54,674
Reserves	31,551	39,968	42,384	45,303	48,328
Shareholders' funds	86,170	94,642	97,057	99,977	103,002
NCI	2,960	3,007	3,106	3,199	3,296
Total equity	89,131	97,648	100,163	103,176	106,298
Total L&E	944,976	1,027,675	1,048,436	1,089,395	1,131,055
Total IEAs	873,494	954,558	984,775	1,010,403	1,035,070
Total IBLs	761,807	833,497	876,778	918,932	956,545
Gross loans	586,855	640,750	675,992	709,791	738,893
CASA	240,493	233,895	240,914	253,441	264,339

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.42	2.11	2.09	2.11	2.11
Return on IEAs	2.53	3.31	2.43	2.42	2.39
Cost of funds	1.05	2.19	1.15	1.09	1.05
Net interest spread	1.48	1.12	1.29	1.33	1.35
Profitability (%)					
ROE	9.2	10.3	10.1	10.6	10.7
ROA	0.9	0.9	0.9	1.0	1.0
NOII/Net income	21.9	29.5	30.5	31.1	31.2
Effective tax rate	32.8	23.3	23.0	23.0	23.0
Cost/Income	45.2	48.9	49.0	48.0	47.5
Liquidity (%)					
Loan/Deposit	93.3	93.8	94.0	93.9	93.7
CASA ratio	39.1	34.9	34.0	34.0	34.0
Asset Quality (%)					
GIL ratio	1.57	1.34	1.30	1.30	1.30
LLC ratio	127	120	110	110	110
LLC (w. reserves)	154	149	138	137	136
Net CC (bps)	38	30	28	28	28
Capital (%)					
CET 1	15.7	16.2	16.0	15.5	15.0
Tier 1 capital	16.4	16.8	16.7	16.2	14.7
Total capital	19.1	19.4	19.3	18.8	18.3
Growth (%)					
Total NII	8.4	(6.7)	5.0	3.9	2.5
Total NOII	(8.7)	38.8	10.3	6.7	3.0
Net income	4.1	3.3	6.6	4.7	2.7
OPEX	4.0	11.8	6.7	2.6	1.6
Core NP	(1.7)	17.5	3.7	7.8	3.9
Gross loans	6.0	9.2	5.5	5.0	4.1
Customer deposits	4.4	9.0	5.7	5.2	4.3
CASA	(10.0)	(2.7)	3.0	5.2	4.3
Valuation metrics					
Core EPS (sen)	66.0	77.6	80.4	86.7	90.0
Gross DPS (sen)	58.0	60.0	64.3	69.3	72.0
Div payout (%)	87	77	80	80	80
BVPS (RM)	7.1	7.9	8.1	8.3	8.5
Core P/E (x)	15.1	12.9	12.4	11.5	11.1
Div yield (%)	5.8	6.0	6.4	6.9	7.2
P/BV (x)	1.4	1.3	1.2	1.2	1.2

Source: Maybank, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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	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