



# MALAYAN BANKING BERHAD

# Outperform

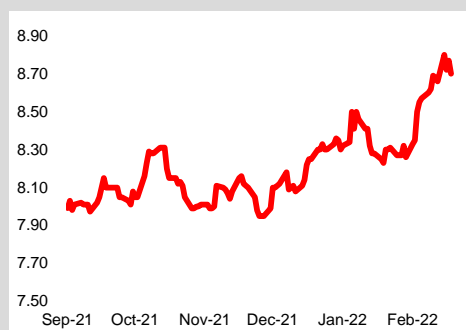
### DESCRIPTION

Malaysia's largest banking group by asset size

12-Month Target Price	RM9.70
Current Price	RM8.70
Expected Return	11.5%

Market	Main
Sector	Financials
Bursa Code	1155
Bloomberg Ticker	MAY MK
Shariah-Compliant	No

### SHARE PRICE CHART



52 Week Range (RM)	RM7.87 – RM8.80
3-Month Average Vol ('000)	7,693.3

### SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	5.9	7.5	20.4
Relative Returns	2.0	3.6	9.1

### KEY STOCK DATA

Market Capitalisation (RMm)	103,343
No. of Shares (m)	11,879

### MAJOR SHAREHOLDERS

	%
Amanah Saham Bumiputera	34.9
Employees Provident Fund	13.9

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## Momentum Gathering Pace

The Group finished off the 2021 financial year strongly, with a 4QFY21 net profit of RM2.06bn (+33.8% YoY, +22.1% QoQ). Cumulative 12MFY21 net profit of RM8.09bn (+24.9% YoY) is ahead of our expectations at 106% of full-year numbers, but within consensus at 103%. Margins improved sequentially, and for the year, which we had under-estimated. While a notable rise in impairments has been seen in its corporate book, we believe this to be sufficiently mitigated. We lift FY22/FY23 estimates by 3% on average as we adjust our margin assumptions. Near-term challenges notwithstanding, we continue to like the Group's prospects, underpinned by its M25 initiatives, and affirm our **Outperform** call with a higher dividend discount-based target price of RM9.70 (RM9.30 previously).

§ **Net fund based income** rose 14.6% YoY to RM19.1bn in FY21, benefitting from a notably healthy expansion in its loan book and much lower interest expense as Group CASA expanded by a robust +17.2% YoY (Group CASA ratio: 47.1%). Net interest margin (NIM) jumped 22bps for the year, as a result. Management is optimistic of a 5bps expansion for 2022

§ **Net fee based income** was lower by 21.6% YoY to RM6.36bn, weighed by lower investment and trading income (-68.5% YoY) and marked-to-market losses (RM1bn) at its insurance unit. For FY22, management aims to accelerate product rollouts on the Group's digital platform, while also leveraging on fee-based opportunities in its wealth management, global markets, investment banking, asset management and insurance divisions.

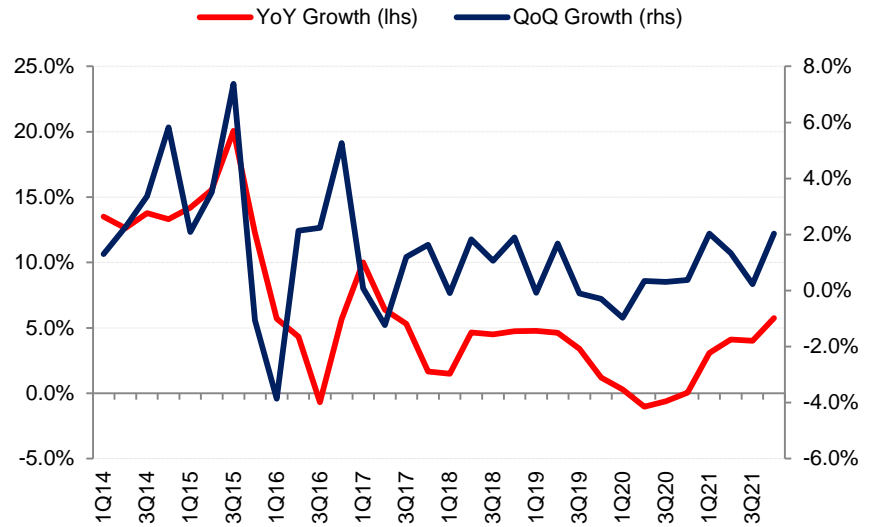
§ **Loans growth** (+5.7% YoY, +2.0% QoQ) was healthy, driven by expansion in its residential mortgage (+11.7% YoY) and working capital (+9.4% YoY) portfolios, both making up a cumulative 60% of its loans book. While management is optimistic over growth prospects in its 3 key operating markets (Malaysia, Singapore, Indonesia), it will remain selective as it prioritizes capital and liquidity conservation.

§ **Asset quality** remains encouraging despite a slightly worrisome jump in new corporate loan impairments. Management has maintained a prudent provisioning stance nonetheless, with the RM2.66bn charge comprising of RM746m in management overlay for loans under repayment assistance and model changes, and top-ups for new and existing impaired accounts. Loan loss coverage is 111.9% (FY20: 106.3%) while the Group's gross impairment loans ratio (GIL) is at 1.99% (FY20: 2.23%). Credit charge-off rate of between 40bps and 50bps (FY21: 51bps) is expected for FY22 on better macroeconomic outlook.

### KEY FORECAST TABLE

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Operating Income	24,763.2	25,448.4	27,298.0	28,820.6	30,374.5	5.2%
Operating Profit	13,518.0	13,929.9	15,433.9	16,600.6	17,787.9	7.1%
Pre-tax Profit	8,657.0	10,886.6	12,134.6	13,034.5	13,906.6	12.6%
Net Profit	6,481.2	8,096.2	8,192.0	9,633.9	10,235.3	12.1%
EPS (Sen)	57.7	72.0	72.9	85.7	91.1	12.1%
P/E (x)	15.1	12.1	11.9	10.2	9.6	
DPS (Sen)	52.6	67.6	43.7	51.4	54.6	
Dividend Yield (%)	6.0	7.8	5.0	5.9	6.3	

Source: Company, PublicInvest Research estimates

**Figure 1: Loans Growth Momentum**


Source: Company, PublicInvest Research

**Table 1: Loans by Economic Purpose, 4Q2021 (y-o-y and q-o-q growth)**

Economic Purpose	% of Portfolio	as at 4Q21	4Q21				
			y-o-y	1Q21	2Q21	3Q21	4Q21
Securities	7.0%	38,584.7	6.2%	-2.3%	12.6%	-6.3%	3.0%
Transport vehicles	12.4%	68,721.4	0.3%	-0.5%	0.2%	-2.3%	3.0%
Residential – landed	27.1%	149,867.1	11.7%	4.0%	2.8%	1.8%	2.6%
Residential – non landed	7.1%	39,236.8	-2.5%	0.6%	0.0%	-0.6%	-2.6%
Fixed assets	0.6%	3,425.4	-2.7%	0.1%	-3.4%	9.5%	-8.1%
Personal use	1.7%	9,426.1	-18.3%	-6.6%	-10.6%	-1.5%	-0.7%
Credit cards	1.6%	8,987.4	3.3%	-2.6%	-5.4%	3.4%	8.5%
Consumer durables	0.0%	6.0	-37.9%	-33.2%	-5.6%	4.6%	-5.9%
Construction	3.2%	17,481.1	6.1%	0.0%	-3.7%	11.2%	-0.9%
Mergers & Acquisition	0.3%	1,679.1	14.5%	13.4%	-25.9%	43.0%	-4.8%
Working capital	32.3%	179,145.9	9.4%	3.1%	0.0%	2.5%	3.4%
Others	6.7%	37,227.4	-4.3%	4.8%	3.4%	-9.5%	-2.5%
<b>Gross Loans</b>		<b>553,788.6</b>	<b>5.7%</b>	<b>2.0%</b>	<b>1.3%</b>	<b>0.2%</b>	<b>2.0%</b>

Source: Company, PublicInvest Research

**Table 2: Loans Under Moratorium, Relief, R+R\* Programmes**

% of Outstanding Loans	Malaysia (as at 11 Feb, 2022)
Mortgage	15.6% (12 Nov: 32.7%)
Auto Finance	9.6% (12 Nov: 29.2%)
Unit Trust	12.0% (12 Nov: 24.4%)
Other Retail Loans	5.2% (12 Nov: 4.7%)
SME	39.1% (12 Nov: 39.8%)
Business Banking	29.4% (12 Nov: 30.1%)
% of Outstanding Loans	Singapore (as at 11 Feb, 2022)
Mortgage	0.0% (12 Nov: 0.9%)
SME	40.6% (12 Nov: 40.0%)
Business Banking	22.3% (12 Nov: 22.3%)
% of Outstanding Loans	Indonesia (as at 11 Feb, 2022)
Mortgage	14.5% (12 Nov: 14.8%)
Auto Finance	1.8% (12 Nov: 2.9%)
Credit Card + Personal Loans	2.9% (12 Nov: 10.8%)
Retail SME	18.3% (12 Nov: 20.0%)
SME +	18.9% (12 Nov: 20.3%)
Business Banking	16.9% (12 Nov: 17.8%)

Source: Company, PublicInvest Research Note: \* Reschedule+Restructure

Malaysia – loans growth to pick up pace in line with economic recovery, while NIM should expand if benchmark rates are hiked

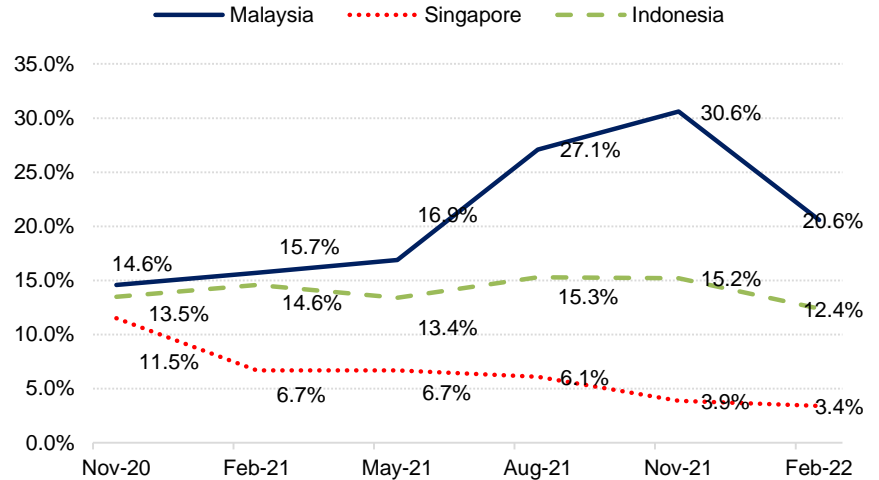
Singapore – loans growth supported by accelerating vaccinations and regional border re-openings. Rising interest rates also likely to drive NIM expansion

Indonesia – loans growth expected from higher demand for working capital and investment as the economy re-opens

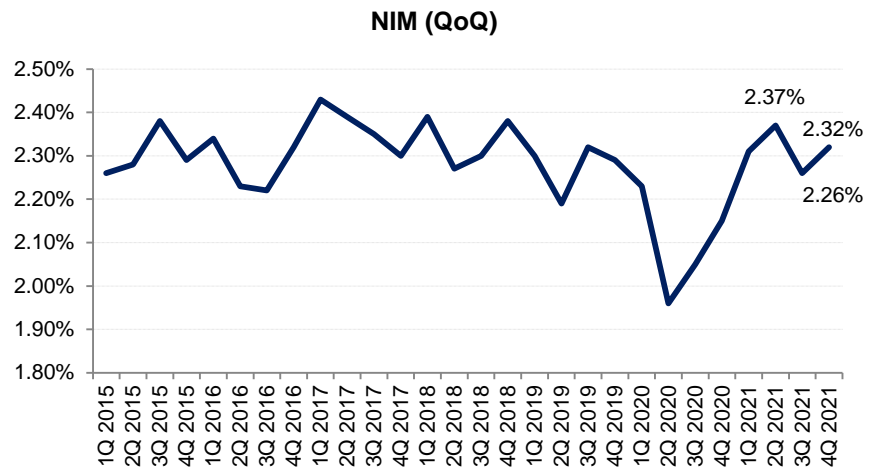
Malaysia seeing notable improvement, particularly in retail book. Financing support to customers (total) – May 2021: 16.9%, Aug 2021: 27.1%, Nov 2021: 30.6%, Feb 2022: 20.6%

Gradual improvement in Singapore (May 2021: 6.7%, Aug 2021: 6.1%, Nov 2021: 3.9%, Feb 2022: 3.4%)

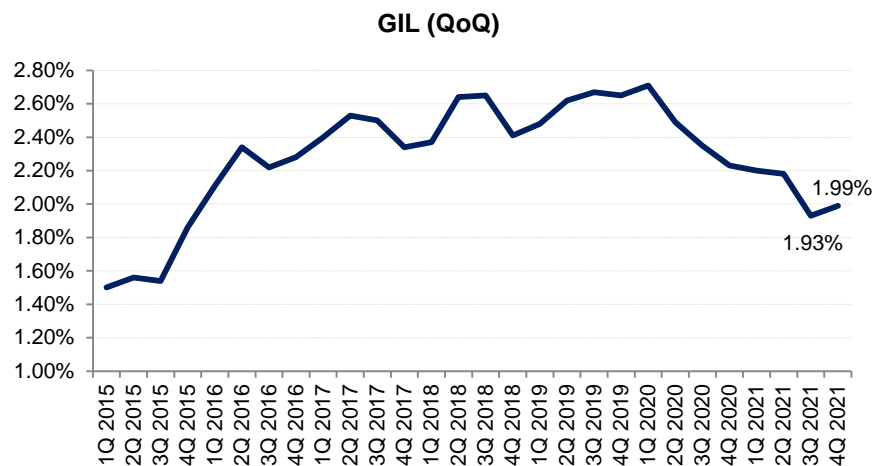
Gradual in Indonesia as well (May 2021: 13.4%, Aug 2021: 15.3%, Nov 2021: 15.2%, Feb 2022: 12.4%)

**Figure 2: % of Loans Under Repayment Assistance Trends**


Source: Company, PublicInvest Research estimates

**Figure 3: Net interest margin (QoQ)**


Source: Company, PublicInvest Research estimates

**Figure 4: Gross Impaired Loans (QoQ)**


Source: Company, PublicInvest Research

NIM expansion of 5bps is anticipated in 2022

Gross impaired loans:

**Malaysia**

4QFY21: 1.19%  
 3QFY21: 1.33%  
 2QFY21: 1.49%  
 1QFY21: 1.53%  
 4QFY20: 1.54%  
 3QFY20: 1.57%  
 2QFY20: 1.68%  
 1QFY20: 1.96%

**Singapore**

4QFY21: 1.68%  
 3QFY21: 2.29%  
 2QFY21: 2.94%  
 1QFY21: 2.98%  
 4QFY20: 3.15%  
 3QFY20: 3.36%  
 2QFY20: 3.41%  
 1QFY20: 4.04%

**Indonesia**

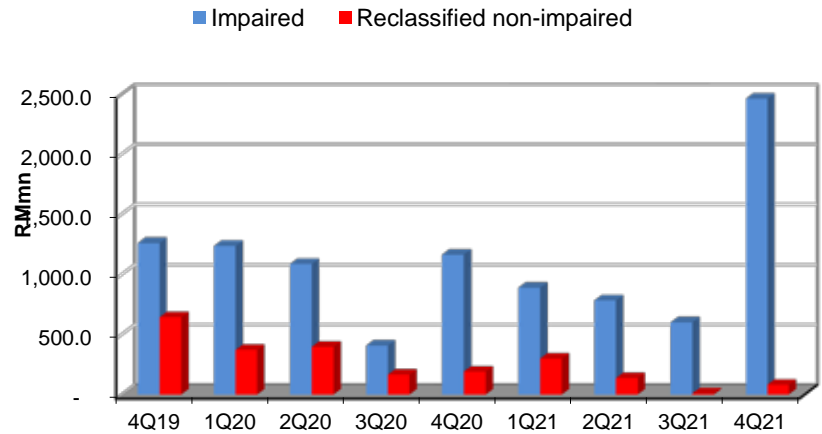
4QFY21: 5.14%  
 3QFY21: 6.09%  
 2QFY21: 6.18%  
 1QFY21: 5.57%  
 4QFY20: 5.10%  
 3QFY20: 5.59%  
 2QFY20: 6.17%  
 1QFY20: 4.93%  
 4QFY19: 4.48%

Spike in new impaired loans (in corporate book)

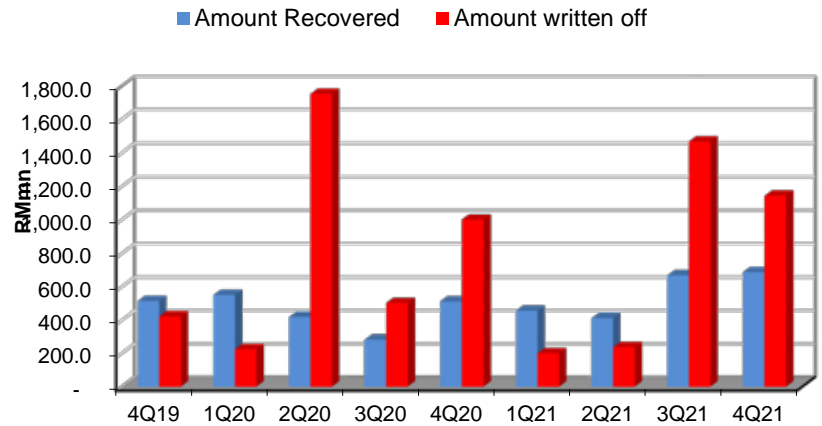
**Table 3: Gross Impaired Loans (GIL) Composition Ratio**

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Non-performing Loan	1.93%	2.02%	1.98%	1.92%	1.63%	1.28%
Restructured + Rescheduled	0.09%	0.05%	0.07%	0.06%	0.05%	0.05%
Impaired due to obligatory triggers (IPL)	0.33%	0.16%	0.15%	0.20%	0.25%	0.66%
<b>GIL Ratio</b>	<b>2.35%</b>	<b>2.23%</b>	<b>2.20%</b>	<b>2.18%</b>	<b>1.93%</b>	<b>1.99%</b>

Source: Company, PublicInvest Research

**Figure 5: Movement in Non-Performing Loans (4Q FY19 - 4Q FY21)**


Source: Company, PublicInvest Research

**Figure 6: Movement In Recoveries and Writeoffs (4QFY19 – 4QFY21)**


Source: Company, PublicInvest Research

*Stress in working capital loans*

**Table 4: Gross Impaired Loans Composition by Economic Purpose**

	<b>4Q 2020</b> RM'm	<b>1Q 2021</b> RM'm	<b>2Q 2021</b> RM'm	<b>3Q 2021</b> RM'm	<b>4Q 2021</b> RM'm
Transport vehicles	543.6	529.9	530.1	503.6	386.3
Residential	1,178.9	1,129.9	1,071.0	1,026.5	933.7
Non-Residential	515.6	509.4	503.2	459.1	415.1
Construction	950.2	947.9	1,083.1	1,268.1	1,361.8
Working Capital	5,606.9	5,830.2	5,935.2	5,188.2	6,752.5
Others	2,879.3	2,806.4	2,703.2	2,004.0	1,194.1
	<b>11,674.5</b>	<b>11,753.8</b>	<b>11,825.8</b>	<b>10,449.6</b>	<b>11,043.5</b>
<b>Composition</b>					
Transport vehicles	4.7%	4.5%	4.5%	4.8%	3.5%
Residential	10.1%	9.6%	9.1%	9.8%	8.5%
Non-Residential	4.4%	4.3%	4.3%	4.4%	3.8%
Construction	8.1%	8.1%	9.2%	12.1%	12.3%
Working Capital	48.0%	49.6%	50.2%	49.6%	61.1%
Others	24.7%	23.9%	22.9%	19.2%	10.8%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company, PublicInvest Research

**Table 5: Results Summary**

<u>FY Dec (RM m)</u>	<u>3Q</u> <u>FY21</u>	<u>3Q</u> <u>FY20</u>	<u>2Q</u> <u>FY21</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>9M</u> <u>FY21</u>	<u>9M</u> <u>FY20</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Interest income	4,294.7	4,370.4	4,262.5	-1.7	0.8	17,205.3	19,350.8	-11.1	
Interest expense	-1,230.0	-1,586.9	-1,220.4	-22.5	0.8	-5,171.2	-8,260.4	-37.4	Strong CASA growth (+17.2% YoY)
<b>Net Int. Income</b>	<b>3,064.7</b>	<b>2,783.5</b>	<b>3,042.1</b>	<b>10.1</b>	<b>0.7</b>	<b>12,034.0</b>	<b>11,090.4</b>	<b>8.5</b>	
Islamic Banking	1,958.4	1,673.2	1,770.7	17.0	10.6	7,572.6	6,135.6	23.4	
Insurance income	2,167.6	2,782.8	1,983.4	-22.1	9.3	8,846.8	9,458.9	-6.5	
Other income	992.6	1,502.2	1,312.8	-33.9	-24.4	4,470.7	7,299.2	-38.8	MTM losses in fixed income portfolio (insurance arm)
<b>Net Income</b>	<b>8,183.3</b>	<b>8,741.6</b>	<b>8,109.1</b>	<b>-6.4</b>	<b>0.9</b>	<b>32,924.1</b>	<b>33,984.0</b>	<b>-3.1</b>	
Insurance liabilities	-1,883.7	-2,428.9	-1,959.2	-22.4	-3.9	-7,475.7	-9,220.8	-18.9	
Operating expense	-2,954.8	-2,869.2	-2,821.3	3.0	4.7	-11,518.5	-11,221.9	2.6	
<b>Operating profit</b>	<b>3,344.9</b>	<b>3,443.6</b>	<b>3,328.6</b>	<b>-2.9</b>	<b>0.5</b>	<b>13,929.9</b>	<b>13,541.3</b>	<b>2.9</b>	
Impairments	-668.4	-1,522.6	-1,125.3	-56.1	-40.6	-3,229.4	-5,093.5	-36.6	Additional macro overlays undertaken (RM746m)
Associates	43.7	71.2	65.6	-38.6	-33.3	186.2	209.1	-11.0	
<b>Pre-tax profit</b>	<b>2,720.2</b>	<b>1,992.1</b>	<b>2,268.8</b>	<b>36.5</b>	<b>19.9</b>	<b>10,886.6</b>	<b>8,657.0</b>	<b>25.8</b>	
Income tax	-597.6	-351.2	-530.9	70.2	12.6	-2,565.1	-1,937.9	32.4	
Minorities	-65.7	-103.5	-53.3	-36.5	23.3	-225.3	-237.9	-5.3	
<b>Net profit</b>	<b>2,056.9</b>	<b>1,537.4</b>	<b>1,684.7</b>	<b>33.8</b>	<b>22.1</b>	<b>8,096.2</b>	<b>6,481.2</b>	<b>24.9</b>	

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Net Interest Income	11,090.4	12,034.0	13,283.9	14,182.5	15,081.2
Total Operating Income	24,763.2	25,448.4	27,298.0	28,820.6	30,374.5
Operating Expenses	-11,245.2	-11,518.5	-11,864.1	-12,220.0	-12,586.6
Operating Profit	13,518.0	13,929.9	15,433.9	16,600.6	17,787.9
Impairments	-5,070.2	-3,229.4	-3,494.8	-3,771.4	-4,096.8
Associates	209.1	186.2	195.5	205.3	215.5
Pre-tax Profit	8,657.0	10,886.6	12,134.6	13,034.5	13,906.6
Income Tax	-1,937.9	-2,565.1	-3,672.2	-3,076.1	-3,281.9
Effective Tax Rate (%)	22.4	23.6	30.3	23.6	23.6
Minorities	-237.9	-225.3	-270.3	-324.4	-389.3
<b>Net Profit</b>	<b>6,481.2</b>	<b>8,096.2</b>	<b>8,192.0</b>	<b>9,633.9</b>	<b>10,235.3</b>

**Growth (%)**

Operating Income	0.1	2.8	7.3	5.6	5.4
Gross Operating Profit	-21.4	25.8	11.5	7.4	6.7
Net Profit	-20.9	24.9	1.2	17.6	6.2

Source: Company, PublicInvest Research estimates

**BALANCE SHEET DATA**

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Customer Loans (net of provisions)	512,210.1	541,887.9	570,104.3	597,753.3	629,938.2
Trading and Investment Assets	201,158.4	210,701.6	214,216.2	226,413.0	240,441.8
Goodwill and Intangible Assets	6,648.5	6,683.5	6,958.5	6,958.5	6,958.5
Other Assets	136,842.5	128,899.4	136,239.9	141,085.5	145,366.2
<b>Total Assets</b>	<b>856,859.5</b>	<b>888,172.4</b>	<b>927,518.8</b>	<b>972,210.3</b>	<b>1,022,704.6</b>
Customer Deposits	556,349.4	588,967.6	612,082.1	645,746.6	684,491.4
Interest-bearing Debt	49,892.8	48,615.5	53,487.7	53,487.7	53,487.7
Other Liabilities	160,834.7	159,295.9	164,987.9	171,111.0	177,586.5
Minority Interests	2,673.0	2,741.0	3,011.3	3,335.8	3,725.0
<b>Total Liabilities</b>	<b>769,749.9</b>	<b>799,620.0</b>	<b>833,569.0</b>	<b>873,681.0</b>	<b>919,290.6</b>
Shareholders' Equity	84,436.6	85,811.4	90,938.5	95,193.5	99,689.0
<b>Total Equity and Liabilities</b>	<b>856,859.5</b>	<b>888,172.4</b>	<b>927,518.8</b>	<b>972,210.3</b>	<b>1,022,704.6</b>

Source: Company, PublicInvest Research estimates

**PER SHARE DATAS AND RATIOS**

FYE Dec	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	7.51	7.63	8.09	8.47	8.87
NTA Per Share	6.92	7.04	7.47	7.85	8.25
EPS (Sen)	57.7	72.0	72.9	85.7	91.1
DPS (Sen)	52.6	67.6	43.7	51.4	54.6
Payout Ratio (%)	91.2	93.9	60.0	60.0	60.0
ROA (%)	0.8	0.9	0.9	1.0	1.0
ROE (%)	7.7	9.4	9.0	10.1	10.3

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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