

COMPANY RESULTS

Malayan Banking (MAY MK)

3Q24: Supported By Strong Non-Interest Income Growth

Maybank's 3Q24 net profit was in line, supported by strong non-interest income and a turnaround in insurance net income. Looking ahead, we expect non-interest income growth to taper off while NIM could start to stabilise. We maintain HOLD on Maybank and target price of RM10.56 (1.18x FY25F P/B, 10.2% ROE). The stock is trading at mean PBV which we deem fair given its modest earnings growth forecast of 5% while current dividend yield of 6% is also comparable with historical levels.

RESULTS

- In line.** Malayan Banking (Maybank) reported a 3Q24 net profit of RM2,538.2m (+7.6% yoy, +6.3% qoq), bringing 9M24 earnings to RM7,556.4m (+8.5% yoy). The results are in line with expectations with 9M24 earnings representing 77%/76% of our/consensus 2024 forecasts.
- 9M24 earnings growth supported by non-interest income.** The 9% yoy growth in 9M24 earnings was driven by a 17% yoy increase in non-interest income, including a notable 73% yoy rise in treasury income and 12% growth in fee income. Net interest income grew modestly by 5% yoy as a relatively strong 8% yoy loan growth was partially offset by a 14bp NIM compression. In addition, 9M24's overall earnings growth was also partly capped by negative operating leverage (Jaws) of 2ppt.
- 3Q24 qoq earnings trend.** 3Q24 earnings grew 6.3% qoq, driven by positive operating Jaws of 2ppt, lower provisions and a 12% qoq rise in non-interest income, mainly due to stronger forex income. However, this was partially offset by lower trading income (-69%).
- 3Q24 yoy earnings trend.** 3Q24 earnings rose 7.6% yoy, supported by an 8% yoy jump in non-interest income, driven by a threefold growth in trading income. Additionally, net insurance income broke even in 3Q24, compared with a loss of RM158m in 3Q23, benefitting from reduced expenses on reinsurance contracts.
- Non-interest income expected to taper off in 2H24 and into 2025.** As anticipated, non-interest income growth in 3Q24 slowed to 8% yoy, compared with the 21% yoy growth in 1H24. Looking ahead to 2025, with bond yields having normalised to pre-pandemic levels and policy rates expected to remain steady, opportunities to achieve similarly strong gains are likely to be limited.
- NIM still compressing but expected to stabilise.** 3Q24 NIM declined 3bp qoq to 2.03%, bringing 9M24 NIM to 2.04% (-14bp yoy). Management expects NIM to remain fairly stable in 4Q24. The NIM contraction reflects intense mortgage yield competition domestically and overall yield pressure from Singapore. For 2025, we anticipate a stable NIM trend, as management is likely to adopt a more disciplined loan growth strategy to preserve margins.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net interest income	13,816	12,792	12,773	13,187	13,591
Non-interest income	5,263	6,992	7,732	7,951	8,202
Net profit (rep./act.)	7,961	9,350	9,837	10,324	10,643
Net profit (adj.)	7,961	9,350	9,837	10,324	10,643
EPS (sen)	70.8	83.2	87.5	91.8	94.7
PE (x)	15.3	13.1	12.4	11.8	11.5
P/B (x)	1.4	1.3	1.2	1.2	1.2
Dividend yield (%)	5.3	5.5	6.0	6.3	6.5
Net int margin (%)	2.5	2.2	2.1	2.1	2.1
Cost/income (%)	45.2	48.9	49.0	49.6	50.2
Loan loss cover (%)	127.4	120.1	140.6	138.4	140.7
Consensus net profit	-	-	9,908	10,326	10,897
UOBKH/Consensus (x)	-	-	0.99	1.00	0.98

Source: Malayan Banking, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM10.24
Target Price	RM10.56
Upside	3.1%

COMPANY DESCRIPTION

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MAY MK
Shares issued (m):	12,067.0
Market cap (RMm):	123,324.3
Market cap (US\$m):	30,165.3
3-mth avg daily t'over (US\$m):	27.6

Price Performance (%)

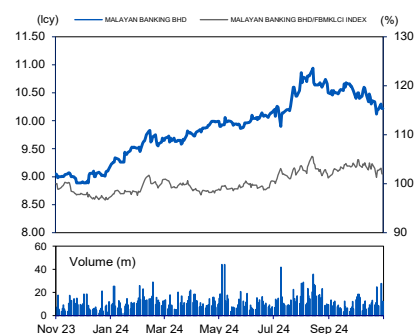
52-week high/low	RM10.86/RM8.73			
1mth	3mth	6mth	1yr	YTD
(0.3)	(3.0)	2.4	12.4	15.0

Major Shareholders

AmanahRaya Trustees Berhad	38.3
Employees Provident Fund Board	12.6
Yayasan Perlaburan Bumiputra	6.1

FY24 NAV/Share (RM)	8.96
FY24 CAR Tier-1 (%)	20.10

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Loan growth momentum slows down.** Group loan growth slowed from 10.4% yoy in 1H24 to 7.6% in 9M24, reflecting management's disciplined approach to prioritising NIM preservation. Full-year 2024 loan growth guidance stood at 7.5% vs our more conservative 6% growth assumption. Domestic loan growth rose 10.8%, driven by mortgages (+13%) and auto loans (+8%), while SME loan growth remained subdued at 4%.
- **Asset quality was relatively stable but there was an uptick in domestic GIL ratio.** The group's gross impaired loan (GIL) ratio improved slightly to 1.26% in 3Q24 (from 1.29% in 2Q24). While Malaysia's GIL ratio rose to 1.26% (from 1.19%), Singapore's GIL ratio improved significantly to 0.46% (from 0.68%), with the domestic uptick driven by retail SME and business banking portfolios. However, this was mitigated by the group's strong provisioning, reflected in a loan loss coverage ratio of 126%, well above the pre-pandemic average of 75%.
- **Net credit cost remained stable** at 23bp in 3Q24, aligning with the group's steady asset quality. This brought 9M24 net credit cost to 26bp, in line with our full-year estimate of 25bp. Management plans to maintain RM1.7b in management overlays, with 66% allocated to the retail SME sectors, to buffer against potential asset quality stress.
- **2024 outlook.** Management has maintained its key 2024 guidance on: a) ROE: 10%-11%, b) loan growth: 7.5%, and c) net credit cost below 30bp.

EARNINGS REVISION

- Unchanged.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM10.56 (1.18x FY25F P/B, 10.2% ROE).** The stock is currently trading at its historical mean P/B which we deem to be fair as ROE output is broadly in line with its historical mean levels. Current dividend yield of 6% is also comparable with its historical implied average yield of 6.5-6.8%.
- **Stretched valuations.** If the stock were to trade at +1 SD above its mean P/B (ie 1.33x), it could reach a stretched fair value of RM11.90. However, given the modest 5% two-year earnings CAGR and a flat ROE trajectory, we view the current fundamental risk-reward profile as fairly balanced.

3Q24 RESULTS

Profit & Loss (RMm)	3Q24	3Q23	yoy % chg	9M24	yoy % chg
Net Interest Income	3,108.3	3,172.6	(2.0)	9,454.8	(1.6)
Islamic Banking	2,109.4	1,876.9	12.4	6,329.5	14.7
Fees & Commissions	996.3	949.7	4.9	2,883.8	12.0
Net insurance income	9.3	(158.8)	(105.9)	(748.0)	(9.7)
Net trading income	281.5	71.1	296.1	2,435.7	72.7
Other Operating Income	724.4	838.6	(13.6)	1,794.7	(14.5)
Total Income	7,229.2	6,750.1	7.1	22,150.5	8.7
Operating Expenses	(3,521.8)	(3,297.2)	6.8	(10,772.8)	10.3
PPOP	3,707.4	3,452.9	7.4	11,377.7	7.2
Provisions	(376.6)	(440.2)	(14.4)	(1,225.7)	(10.0)
Writeback/(Impairment)	27.1	98.1	(72.4)	(48.0)	(131.5)
Associate	44.3	45.6	(2.9)	183.4	3.5
PBT	3,402.1	3,156.4	7.8	10,287.4	7.4
Net Profit	2,538.3	2,358.1	7.6	7,556.4	8.5
EPS (sen)	22.5	21.0	7.6	67.1	8.5
DPS (sen)	0.0	0.0	n.a.	29.0	0.0
Financial Ratios (%)	3Q24	3Q23	yoy chg (ppt)	2Q24	qoq chg (ppt)
Loan Growth, yoy	(0.8)	1.8	(2.6)	1.7	(2.4)
Loan/Deposit Ratio	96.3	95.2	1.1	96.9	(0.6)
Cost/Income Ratio	48.7	48.8	(0.1)	48.9	(0.2)
ROE	10.9	10.4	0.5	10.7	0.2
Gross Impairment Loan Ratio	1.3	1.4	(0.2)	1.3	(0.0)
Credit Costs (bp)	22.7	28.5	(5.8)	22.9	(0.1)

Source: Maybank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2024F	2025F	2026F
Loan Growth	6.0	6.5	6.5
Credit Cost (bp)	25.0	23.0	23.0
ROE	10.2	10.2	10.3

Source: Maybank, UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Green loan commitment. To provide RM50b in sustainable financing by 2025. - Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050. • Social <ul style="list-style-type: none"> - Board and upper management gender diversity. Maintained 25% female directors on the Board and 40% females in senior management. - Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities, especially the B40 consumers. • Governance <ul style="list-style-type: none"> - Composition of independent directors. Composition of Independent Directors (INED) – 75%.
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Source: Maybank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Interest income	30,231	31,671	33,365	35,223
Interest expense	(17,439)	(18,898)	(20,178)	(21,633)
Net interest income	12,792	12,773	13,187	13,591
Fees & commissions	3,514	3,865	4,020	4,221
Other income	3,479	3,867	3,931	3,981
Non-interest income	6,992	7,732	7,951	8,202
Income from islamic banking	7,577	8,259	9,002	9,813
Total income	27,361	28,764	30,141	31,605
Staff costs	(7,779)	(8,324)	(8,989)	(9,709)
Other operating expense	(5,610)	(5,782)	(5,960)	(6,144)
Pre-provision profit	13,972	14,659	15,191	15,752
Loan loss provision	(1,826)	(1,681)	(1,632)	(1,722)
Other provisions	145	0	0	0
Associated companies	240	255	270	286
Other non-operating income	0	0	0	0
Pre-tax profit	12,532	13,233	13,830	14,317
Tax	(2,917)	(3,123)	(3,219)	(3,379)
Minorities	(265)	(273)	(286)	(295)
Net profit	9,350	9,837	10,324	10,643
Net profit (adj.)	9,350	9,837	10,324	10,643

OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Tier-1 CAR	15.3	20.1	19.8	19.5
Total CAR	18.6	25.5	24.9	24.3
Total assets/equity (x)	10.8	11.0	11.3	11.5
Tangible assets/tangible common equity (x)	11.6	11.9	12.1	12.4
Asset Quality				
NPL ratio	1.3	1.4	1.4	1.4
Loan loss coverage	120.1	140.6	138.4	140.7
Loan loss reserve/gross loans	1.9	2.0	2.0	2.0
Increase in NPLs	(6.6)	8.9	7.6	4.5
Credit cost (bp)	28.6	25.0	23.0	23.0
Liquidity				
Loan/deposit ratio	90.3	89.7	89.7	89.7
Liquid assets/short-term liabilities	10.7	10.9	10.6	10.3
Liquid assets/total assets	7.8	7.9	7.7	7.5

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Cash with central bank	15,740	20,175	21,284	22,455
Govt treasury bills & securities	50,531	51,541	52,572	53,623
Interbank loans	13,472	13,606	13,742	13,880
Customer loans	628,923	659,319	695,529	733,682
Investment securities	215,385	230,536	246,728	264,033
Derivative receivables	21,648	21,648	21,648	21,648
Associates & JVs	2,106	2,106	2,106	2,106
Fixed assets (incl. prop.)	3,945	4,143	4,350	4,567
Other assets	75,927	80,405	85,288	90,624
Total assets	1,027,675	1,083,479	1,143,247	1,206,617
Interbank deposits	44,677	46,017	47,398	48,820
Customer deposits	696,835	735,161	775,594	818,252
Derivative payables	25,083	25,083	25,083	25,083
Debt equivalents	12,975	12,975	12,975	12,975
Other liabilities	150,457	163,309	177,836	193,603
Total liabilities	930,026	982,545	1,038,886	1,098,733
Shareholders' funds	94,642	97,654	100,794	104,021
Minority interest - accumulated	3,007	3,280	3,567	3,863
Total equity & liabilities	1,027,675	1,083,479	1,143,247	1,206,617

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	(7.4)	(0.1)	3.2	3.1
Fees & commissions, yoy chg	5.8	10.0	4.0	5.0
Pre-provision profit, yoy chg	(3.8)	4.9	3.6	3.7
Net profit, yoy chg	17.5	5.2	5.0	3.1
Net profit (adj.), yoy chg	17.5	5.2	5.0	3.1
Customer loans, yoy chg	9.6	4.8	5.5	5.5
Customer deposits, yoy chg	9.0	5.5	5.5	5.5
Profitability				
Net interest margin	2.2	2.1	2.1	2.1
Cost/income ratio	48.9	49.0	49.6	50.2
Adjusted ROA	1.0	0.9	0.9	0.9
Reported ROE	10.4	10.2	10.4	10.4
Adjusted ROE	10.4	10.2	10.4	10.4
Valuation				
P/BV (x)	1.3	1.2	1.2	1.2
P/NTA (x)	1.4	1.3	1.3	1.3
Adjusted P/E (x)	13.1	12.4	11.8	11.5
Dividend Yield	5.5	6.0	6.3	6.5
Payout ratio	72.1	75.0	75.0	75.0

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