

# Malayan Banking Bhd

*A done deal, finally*

**NEUTRAL** Maintained

**RM6.90** Target: RM8.60

Mkt.Cap: RM33,680m/US\$9,744m

Banks

MAY MK / MBBM.KL

Winson Ng Gia Yann CFA +60(3) 2084 9686 – winson.ng@cimb.com

## Acquiring BII at lower price

**Deal concluded with a rebate on 30 Sep.** After extensive discussions with Temasek's Fullerton Financial Holdings over the past 3-4 days, Maybank finally completed the acquisition of a 55.6% stake in Bank Internasional Indonesia (BII) (BNII IJ, Trading Buy) from Fullerton and Kookmin Bank on 30 Sep. Both vendors agreed to a combined rebate of S\$315.2m (RM758.9m), which reduces the purchase price for the 55.6% stake from RM5bn (Rp510/share) to RM4.26bn (Rp433/share). However, the tender offer, which will be carried out in Oct/Nov 08, will still be conducted at Rp510/share.

## Comments

**Clearing the air.** The latest development essentially seals the deal, removing uncertainty over whether it would go through. Early this week, it was still unclear whether the deal would go through as Bank Negara had instructed Maybank to seek an extension and renegotiate for a lower pricing for BII last Friday (26 Sep 08), the original deadline for completion.

**Fast-paced renegotiation.** Maybank took a shorter-than-expected time to renegotiate and conclude the deal. It was reported that the bank requested a 1-month extension until 26 Oct but was able to reach agreement with the sellers on 30 Sep 08. However, we think the final price is still above market expectations as the RM758.9m rebate is not that much higher than the RM570m that the sellers reportedly offered last Friday. Furthermore, Maybank has to pay the steep original price of Rp510/share for the remaining shares in the upcoming tender offer.

**A giant step in Indonesia.** The completion of this deal marks a quantum leap in Maybank's Indonesian operations. We reiterate our positive stance on this acquisition as we believe there is stronger growth potential in Indonesia, which has a huge population of 224.8m and an under-penetrated financial services market. Indonesia has one of the lowest loan-to-GDP ratios of only 24% vs. 102% for Malaysia, 100% for Singapore and 75% for Thailand. In addition, the net interest margin in Indonesia is one of the highest in the region at 5-6% vs. only 2-3% for Malaysia.

**Valuation remains high.** The rebate reduces the total cost of 100% of BII from RM9bn to RM8.25bn. Maybank's average cost per share will still be high at an estimated Rp467.2 based on a cost per share of Rp433 for the 55.6% stake from Temasek/Kookmin Bank and Rp510 for the tender offer. The reduced cost of Rp467.2 is 50.7% above BII's current market price of Rp310 and translates into an FY09 P/E of 26x (29x based on original cost of Rp510) and FY08 P/BV of 3.8x (4.1x). As the maximum loss from the subsequent selldown of BII is capped at 10% of the total cost, the reduction in the total cost from RM9bn to RM8.25bn will cut the maximum loss from RM900m to RM825m. This is still a high figure and would be a blow to Maybank's future earnings.

## Valuation and recommendation

**Retaining earnings forecasts and target price.** As the offer price for BII is much higher than the market price, we expect a high take-up of the tender offer. Acquiring 100% of BII at RM8.25bn would dilute Maybank's FY09 net earnings by less than 5% but should be earnings-accretive from FY10 onwards. We will factor in contributions from BII when the deal progresses. For now, we retain our earnings forecasts and

target price of RM8.60, still pegged to a 20% discount to the DDM valuation. The key DDM parameters include a cost of equity of 11.3% and dividend growth rates of 7.3% for the interim growth phase and 6% for the long-term growth phase.

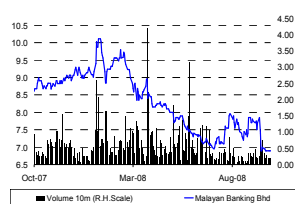
**We remain positive.** Despite all the obstacles in its path in the past 2-3 months, Maybank has wrapped up the acquisition of a majority stake in BII. We stick to our contrarian view of the acquisition as we expect Maybank's expansion in Indonesia to support its long-term growth prospects, along with other overseas businesses, including its Singapore unit, Pakistan's MCB Bank and Vietnam's An Binh Bank, which have superior growth prospects than its operations in Malaysia. However, the market is likely to react negatively to the consummation of the BII deal as investors are uneasy about the high pricing for BII, even after the rebate.

**Remain NEUTRAL.** While we are positive about the completion of the purchase and the favourable growth prospects in Indonesia, we are wary about the potential losses arising from the required sell-down of BII to 80% as well as high regulatory risks in Indonesia. Furthermore, the global economic slowdown will drag the growth of Indonesia's financial sector. In view of this, we maintain our NEUTRAL call on the stock. We still prefer Public Bank (PBK MK, Outperform) for exposure to the sector.

#### Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Net interest income (RM m)	5,132.9	5,426.8	5,580.0	5,990.5	6,486.3
Non-interest income (RM m)	3,720.7	4,203.5	3,146.4	3,466.3	3,790.2
Total income (RM m)	8,853.6	9,630.3	9,969.2	10,810.5	11,745.8
Loan loss provisions (RM m)	(694.5)	(804.4)	(999.5)	(1,152.0)	(1,280.5)
Pretax profit (RM m)	4,363.7	4,086.1	4,708.7	5,070.3	5,521.5
Net profit (RM m)	3,178.4	2,928.2	3,422.8	3,679.4	3,988.7
EPS (sen)	66.1	60.1	70.1	75.4	81.7
EPS growth (%)	12%	(9%)	17%	7%	8%
P/E (x)	10.4	11.5	9.8	9.2	8.4
Core EPS (sen)	60.8	64.5	70.1	75.4	81.7
Core EPS growth (%)	3%	6%	9%	7%	8%
Core P/E (x)	11.4	10.7	9.8	9.2	8.4
Gross DPS (sen)	64.7	49.1	46.0	50.0	65.4
Dividend yield (%)	9.4%	7.1%	6.7%	7.2%	9.5%
P/BV (x)	1.7	1.7	1.5	1.4	1.3
ROE (%)	17.6%	15.2%	16.5%	15.8%	15.7%
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.03	1.03	1.05

#### Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

## DISCLAIMER

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the "Restrictions on Distributions" set out below). Any failure to comply with these limitations may constitute a violation of law.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term "CIMB" shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd's affiliates, subsidiaries and related companies.

- (i) As of 3 October 2008, CIMB has a proprietary position in the following securities in this report:
  - (a) Malayan Banking, Malayan Banking CW, Public Bank, Public Bank CW.
- (ii) As of 3 October 2008, the analyst, Winsong Ng Gia Yann who prepared this report, has an interest in the securities in the following company or companies covered or recommended in this report:
  - (a) -.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

**Australia:** Despite anything in this report to the contrary, this research is provided in Australia by CIMB-GK Research Pte. Ltd. ("CIMB-GK") and CIMB-GK notifies each recipient and each recipient acknowledges that CIMB-GK is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to the recipient. CIMB-GK is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cwlth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

**France:** Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

**Hong Kong:** This report is issued and distributed in Hong Kong by CIMB-GK Securities (HK) Limited ("CGHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB-GK Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CGHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CGHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CGHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong).

**Indonesia:** This report is issued and distributed by PT CIMB-GK Securities Indonesia ("CIMB-GKI"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB-GKI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB-GKI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB-GKI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

**Malaysia:** This report is issued and distributed by CIMB Investment Bank Berhad ("CIMB"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

**New Zealand:** In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the

purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

**Singapore:** This report is issued and distributed by CIMB-GK Research Pte Ltd ("CIMB-GKR"). Recipients of this report are to contact CIMB-GKR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB-GKR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMB-GKR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB-GKR.

As of 3 October 2008 CIMB-GK Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

**Sweden:** This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

**Taiwan:** This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

**Thailand:** This report is issued and distributed by CIMB-GK Securities (Thailand) Ltd ("CIMB-GKT"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB-GKT has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB-GKT. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB-GKT.

**United Arab Emirates:** The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom:** This report is being distributed by CIMB-GK Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

**United States:** This research report is distributed in the United States of America by CIMB-GK Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB-GK Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB-GK Securities (USA) Inc.

**Other jurisdictions:** In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

## RECOMMENDATION FRAMEWORK #1\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange.

## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

\*\* This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange.