



MALAYAN BANKING BHD (“MAYBANK”) – Regional Champion in the Making

Recommendation: Buy

Share Price: RM9.80

FINANCIAL SUMMARY

FYE 31 Dec (RM mil)	2011*	2012	2013F	2014F
Total Operating Income	7,827	16,603	18,004	19,326
Pre-provision Profit	3,885	8,445	9,438	10,247
Pre-tax Profit	3,563	7,894	8,608	9,332
Net Profit	2,676	5,744	6,262	6,789
EPS (sen)	34.4	72.7	74.2	80.4
DPS (sen)	27.0	52.5	52.0	49.0
PER (x)	28.5	13.5	13.2	12.2
Dividend Yield (%)	2.8	5.4	5.3	5.0
Net Interest Margin (%)	2.64	2.48	2.39	2.34

*6-month period due to change in FYE. EPS growth, PER & ROE figures are based on annualised figures

OTHER KEY DATA

Listing	Main Board
Issued Cap. (mil, RM1.00 par)	8,726
Market Cap. (RM mil)	85,516
52 Week Low/High (RM)	8.221/ 10.563
ROE (%)	14.5
P/BV (x)	1.88
BV/share (RM)	5.22

Major Shareholders

	(%)
Skim Amanah Saham Bumiputra	38.9
EPF	12.2
Yayasan Pelaburan Bumiputra	5.1

Source: Company, Bloomberg & PCM estimates

Among the quoted blue chips, MAYBANK has the most compelling valuation with PER of 13.2x for FY2013F while offering investors 1) exposure to the thriving ASEAN banking sectors, 2) strong domestic loan growth to be driven by ETP related revenue and 3) highest dividend yield among the Malaysian banking stocks.

Its share price has recently corrected by 7.2% from its all-time high on concerns of its top executives departure, in which we think have minimum impact. Recent share price weakness provides a good opportunity to accumulate the banking stock and hence, we recommend with a **BUY** call on MAYBANK.

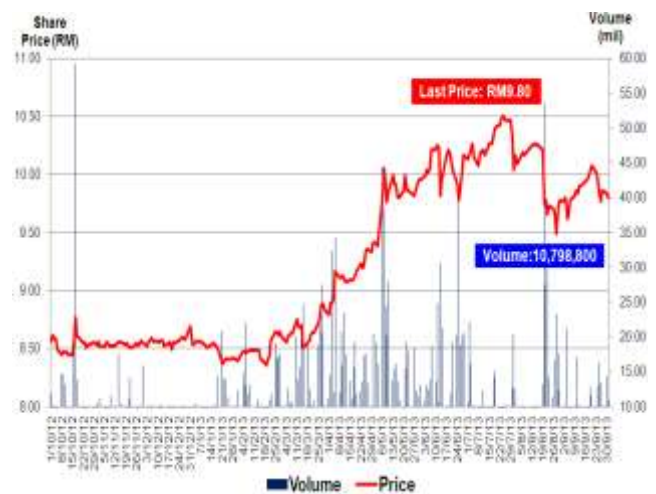
Highlights:

Background – MAYBANK is the largest Malaysian banking group by market capitalisation, assets, loans, deposit and branch network. It has comprehensive regional presence in Southeast Asia with over 2,200 branches, offices in 19 countries, more than 22mil customers and securities network in Singapore, Indonesia, Philippines, Thailand and Vietnam. It is also ranked top 5 in ASEAN by market capitalisation, assets, loans and deposits.

2QFY2013 results within consensus estimates – MAYBANK’s 2QFY2013 net profit of RM1.57bil (+4.1% q-o-q, +9% y-o-y) came in line or accounted for 48.3% of consensus estimate and lifted 1HFY2013 net profit to RM3.07bil (+10% y-o-y). Though 1HFY2013 ROE was behind KPI but management is confident of meeting the target with optimism premised on the 1) q-o-q pick-up in loan growth, 2) improved traction out of Indonesia where management believes there will be an increase in loan interest rates later which will compensate for the recent rise in costs of deposits and 3) expectations that some of the financing of the ETP projects will filter through later during the year.

A major regional investment banking player – Since the acquisition of Kim Eng, MAYBANK has extended its product range across the countries which enables Maybank Kim Eng to proffer its clients with additional products ranging from debt offerings, futures broking to regional online trading. Maybank Kim Eng is now a leading regional investment bank and broking house with presence in 10 locations. It has also been the No. 1 broker in Thailand for the past 11 years. MAYBANK has also gained significant industry recognition with Maybank Kim Eng having lead role in key deals (see **Table 2**).

Price Chart of MAYBANK (Oct’12 – Oct’13)



Source: Bloomberg

Table 1: MAYBANK FY2013 Key KPIs

FY2013 Key KPIs	Targets
Return on Equity (ROE)	15.0%
Group loans growth	12.0%
- Malaysia	12.0%
- Singapore	11.0%
- Indonesia	22.0%
Group deposits growth	12.0%

Source: Company

Table 2: Malaysia league table for Mergers & Acquisition

Ranking	1H2013		2012		2011	
	Advisor	Market Share	Advisor	Market Share	Advisor	Market Share
1	CIMB	41.6%	Maybank	36.6%	CIMB	45.1%
2	Maybank	38.4%	CIMB	30.7%	Maybank	31.8%
3	Morgan Stanley	26.4%	Goldman Sachs	27.0%	RHB	24.5%
4	Goldman Sachs	20.7%	Morgan Stanley	20.2%	Goldman Sachs	22.4%
5	ING	20.7%	BoA Merrill Lynch	14.0%	AmlInvestment	13.0%

Source: Companies

Aiming to be undisputed no. 1 retail financial provider in Malaysia by 2015 – In the consumer market, MAYBANK has been experiencing consistent market share growth and still seeing opportunities for growth (see **Table 3**). We think this is possible given MAYBANK's strength in its established network of 405 branches and management rigorous endeavour, particularly in year 2012, where it embarked its internal transformation which created the Community Financial Service (CFS).

MAYBANK's operations are segregated into 4 pillars i.e. 1) CFS, 2) Global Wholesale Banking, 3) International Banking and 4) Insurance & Takaful. The CFS encompasses the group's consumer, SME and commercial/ business banking clients which accounted about 37.5% of its 1HFY2013 pre-tax profit. Management has always reiterated its focus to persistently grow all key segments in CFS such as mortgages, auto financing, credit cards, unit trust and SME. This is will be supported by the group's initiatives in branch network expansion and improve service quality by segmenting its customer base where it eventually intends to become a leader in retail financial services in Malaysia by 2015. Notably, MAYBANK remains the undisputed insurance/ takaful leader in Malaysia (see **Table 3**). Aside this, as the Economic Transformation Programme (ETP) has moved to the next stage, we are anticipating a sturdy flow of loan growth together with equity and debt market. Since the group has strong corporate presence, this means MAYBANK would be one of the key beneficiaries from the rollout of the ETP.

Table 3: MAYBANK's market share

MAYBANK	Jun 2013	Rank
LOANS		
Consumer/ Household	17.1%	2
Auto	20.5%	2
Mortgage (housing & shophouses)	13.3%	2
Credit Cards - Receivables	15.4%	2
Credit Cards - Cardbase, billings & merchant sales		
Unit trust	57.6%	1
DEPOSITS		
Retail Deposits	18.3%	2
Retail CASA	23.1%	1
Retail Fixed Deposit	15.4%	2
INSURANCE/ TAKAFUL		
Life/ family - new business	16.1%	2
General insurance & takaful	13.3%	1

Chart 1: MAYBANK asset quality



Riding ASEAN growth via its regional presence – International operations contributed about 31.5% to the group 1HFY2013 pre-tax profit and management is targeting a 40% contribution by 2015. Management does not rule out the possibility of M&A for its regional expansion where the group still lacks scale in Thailand. Besides that, proceeds from the last private placement amounted to RM3.7bil will go towards supporting the organic growth of its regional operations. Moving forward, the contribution from Indonesia is expected to grow from 7% at present to 15%. In fact, its Indonesia operation via Bank Internasional Indonesia (BII) recorded an 81% gain in its FY2012 net profit to RM360mil invigorated by 33% increase in net interest income on the back of strong loans growth of 20%. The sterling earnings growth pushed up BII's ROE from 9.2% in FY2011 to 15.8% in FY2012. Its gross NPL ratio improved from 2.29% in Dec 2011 to 2.19% in Dec 2012 while its net interest margin upped by 51bps to 5.73% for the year. All in, BII is targeting 1) loans growth of 22% for FY2013, 2) market share of at least 5% (2.6% for Dec 2012), 3) ROE expansion to 17% - 18% over 3 years and 4) to have 450 branches (current 422 branches) by 2014. Interestingly, MAYBANK remains keen on the local incorporation in Singapore, in which management believes that it could benefit substantially from the ability to establish more branches & ATMs. The group is still in discussion with the Monetary Authority of Singapore.

Table 4: Malaysian banks net dividend yield (%)

Latest FY	Net div. yield (%)
Maybank	5.2
CIMB	4.1
AFG	3.5
AMMB	3.0
Public Bank	2.9
RHB Cap	2.9
Affin Bank	2.8
Hong Leong Bank	2.3
Average	3.3

Source: Companies, PCM

Good asset quality and high dividend yielding banking stock – MAYBANK continues to chart significant improvement in its asset quality (see **Chart 1**) MAYBANK will continue to retain its dividend reinvestment plan for capital preservation purposes while allowing the group to declare a higher payout ratio (74.7% to 79.9% over the last 4 financial years) as the take-up rate has been encouraging with 86% - 91% so far. In fact, MAYBANK provides the highest dividend yield in the banking sector (see **Table 4**).

Recommendation:-

We favour MAYBANK for its strong loans growth to be steered by the fruition of its CFS due to its internal makeover and ETP related revenue. More importantly, the stock offers investors to ride on the group's exposure to the robust ASEAN banking sectors with 13.2x FY2013F PER, one of the most compelling blue chips listed on the KLSE coupled with the highest dividend yield among the Malaysian banking stocks. Its share price has recently corrected by 7.2% from its all-time high of RM10.56 due to concern on the departure of its several top management executives. We think this will not have any material impact on the overall operations of the bank as over the years MAYBANK has managed to establish itself with a firm operating structure which leads to its outstanding performance among its banking peers. Hence, we view the recent share price weakness provides good opportunity for investors to accumulate the stock.

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For Phillip Capital Management Sdn Bhd
Nona Saleh
Nona Saleh
Executive Chairperson

**APPENDIX
LIST OF STOCKS RECOMMENDED SINCE 2011**

Our Picks – 2011/12/13						
No	Stock	Date	Price*	Price @ 01/10/13	% Change	Comments
1	CIMB	9 Mar 11	RM 7.582	RM7.50	-1.1	Buy/Hold. Earnings from Indonesia affected by weak Rupiah.
2	TRC	20 Apr 11	RM0.581	RM0.57	-1.9	Avoid. Another accident at LRT construction will affect chances of new jobs.
3	Bstead	4 Aug 11	RM4.005	RM5.15	28.6	Buy/Hold. Likely to consolidate its plantation business for eventual relisting.
4	Dialog	19 Aug 11	RM2.354	RM2.60	10.5	Hold. Delay in Pengarang RAPID project is negative for Dialog
5	Yinson	13 Sep 11	RM1.104	RM4.82	336.6	Hold. Likely to call for another rights issue soon.
6	Eng Kah	18 Nov 11	RM 2.965	RM2.70	-8.9	Hold. Technically weak as earnings gets weaker.
7	Prestariang	14 Dec 11	RM0.51	RM2.02	296.1	Buy/Hold. Has developed another in-house training program for English.
8	Padini	21 Mar 12	RM1.365	RM1.75	28.2	Buy. Px has weakened to its support of RM1.75.
9	Magnum (formerly MPHB)	27 April 12	RM1.425	RM3.24	127.4	Buy/Hold. Magnum is another yield play stock as growth is limited.
10	Top Glove	17 May 12	RM4.20	RM6.22	48.1	Buy/Hold. More competition ahead although will benefit from weaker ringgit
11	Genting	30 May 12	RM9.965	RM10.40	4.4	Hold. Co believes there is slim chance of a gaming tax hike in coming budget.
12	Airport	8 June 12	RM5.56	RM7.59	36.5	Hold. Strong increase in traffic will boost its growth.
13	RHB Cap	31 July 12	RM7.15	RM7.57	5.9	Buy. News of taking RHB Cap private has subsided.
14	OCK	6 Aug 12	RM0.43	RM0.71	64.0	Buy/Hold. Secured RM150m sukuk facility to buy more telco tower from private companies.
15	Pantech	18 Aug 12	RM0.616	RM0.98	59.1	Buy/Hold. Trading between RM0.9 and RM1.10, valuation is reasonable.
16	POS	19 Oct 12	RM3.005	RM5.40	79.7	Buy/Hold. To expand its Ar-Rahnu pawn business from 50 to 100 outlets by 2014
17	DRB	30 Nov 12	RM2.315	RM2.66	14.9	Medium-Term Buy. Propose disposal of UniAsia will reduce its gearing further.
18	Telekom	7 Dec 12	RM5.242	RM5.27	0.5	Buy/Hold. Trading at the lower of RM5.50 and RM5.20.
19	MBSB	24 Jan 13	RM1.98	RM2.83	42.9	Buy.3Q loan disbursement will continue to be strong but big drop in 4Q.
20	REDtone	20 Mar 13	RM0.395	RM0.71	79.7	Buy. Px surged in May and now consolidate at RM0.70
21	Daya	22 Mar 13	RM0.208	RM0.33	56.3	Buy. Managed to secure 2 bare boat charter contracts from Technip.

22	TUNE Ins	12 April 13	RM1.43	RM2.02	41.3	Buy. Recent weak ringgit and rising crude oil px affected AirAsia but not Tune Ins.
23	BIMB	28 Aug 13	RM4.245	RM4.65	9.5	Buy. Not affected by BNM cap on 10 yr personal loan.

**Price adjusted for dividend, bonus and rights*