OCBC Bank

Asia Credit Research

Earnings Review: Malayan Banking Berhad ("Maybank")

Issuer Profile: Neutral (3)

Ticker: **MAYMK**

Background

Malayan Banking Berhad ('Maybank') is the largest financial services group in Malaysia and 4th largest in ASEAN. It is organized into three operating segments: Group Community Financial Services, Group Global Banking and Group Insurance and Takaful. As at 31 March 2018, it had total assets of MYR769.6bn. It is owned both directly and indirectly by the Malaysian government.

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Recommendation

- Maybank's consumer and SME business continues to support overall earnings as corporate banking & global markets along with other segments face some challenges.
- Still overall earnings are expected to remain resilient from Maybank's dominant market positions, diversified business segments and the constructive outlook for Malaysia's economy following May's general election. We retain our Neutral (3) Issuer Profile on Maybank.
- With the MAYMK 6.0 PERPc18 approaching call, we think investors can look to our Monthly Credit View for June for switch recommendations. Depending on preference for tenor and structure, we have a number of corporate perpetuals and bank capital instruments on Overweight.

Relative Value:

Bond	Maturity / Call date	CET1 Ratio	Ask Yield	Spread
MAYMK 6.0 PERPc18 (AT1)	11/08/2018	14.3%	N/A	N/A
BAERVX 5.75 PERPc22 (AT1)	20/04/2022	13.3%	4.88%	260
FHREIT 4.45% PERPc21	12/05/2021	33.1%*	4.41%	224
FPLSP 4.88% PERPc19	24/09/2019	51.6%^	4.01%	210

*Indicative prices as at 8 June 2018 Source: Bloomberg Common Equity Tier 1 (CET1) Ratio * Aggregate leverage ^Gross debt / total capitalization based on latest available quarter N/A = Not Applicable*

Key Considerations

- **Other segments driving earnings**: Maybank reported its 1Q2018 results with total operating income up 3.9% y/y to MYR7.18bn as marginally lower net interest income (-0.5% y/y due to lower net interest margin y/y by 4bps to 2.9%) and lower other operating income (-7.4% y/y) was more than compensated for by higher income from Islamic Banking Scheme operations (+11% y/y) and net earned insurance premiums (+20.5% y/y). This is a slight contrast to FY2017 performance with total operating income up 7.8% y/y due to broad based growth across net interest income (+6.9% y/y to MYR12.1bn), income from Islamic banking operations (+17% to MYR4.9bn) and net earned insurance premiums (+18.2% to MYR5.3bn). Key drivers for FY2017 performance include improved net interest margin (+9bps y/y to 2.36%) while higher net earned insurance premiums, higher other operating income and higher net interest income drove insurance performance. Other operating income was marginally softer however (-4.2% y/y) as lower investment income and lower unrealized mark-to-market gain on revaluation of financial assets / liabilities at FVTPL and derivatives overshadowed disposal gains and higher realized gains on derivatives.

- **Expenses remain under control and improved the bottom line:** Overhead expenses were flat y/y with lower administration and general expenses and lower establishment costs balanced by higher personnel and marketing expenses. Overall allowances for impairment losses fell 7.7% y/y as a result of implementation of MFRS9 from 1 Jan 2018 with lower expected credit loss of MYR550.6mn in 1Q2018 compared to higher individual and collective allowances of MYR601.8mn in 1Q2017. Given the cost performance, Maybank's profit before tax and zakat (PBT) rose 13.7% y/y. This is broadly similar to FY2017 PBT performance which improved 14.2% y/y to MYR10.1bn as the better operating income performance offset by higher overhead expenses from higher personnel expenses and higher general and admin expenses. Going forward for the remainder of FY2018, Maybank has guided that earnings performance will depend on loan growth, maintaining pricing discipline and gaining cheaper funding sources given the implementation of MFRS9 is expected to lead to higher impaired loans allowances.

- **Consumer segment holding up results**: Overall 1Q2018 PBT performance was supported by Community Financial Services ('CFS') with reported PBT up 15.7% y/y to MYR1.4bn from both higher net interest and other income and lower overhead expenses and impairment losses and contributing just over half of consolidated PBT. Conversely, Corporate Banking & Global Markets' PBT (approx. 40% of consolidated PBT) was 11.6% lower y/y from opposite trends to CFS with lower income and higher expenses and impairment losses. Other segment performance (Investment Banking, Asset Management, Insurance and Takaful) contributed around 8% to consolidated PBT and had mixed y/y performance. Segment trends are expected to persist for the rest of FY2018.

- **Loan growth in core markets with loan quality upbeat:** Maybank reported gross loan growth of 1.5% y/y, though it dipped 0.1% q/q. Y/y growth was concentrated in key markets Malaysia (+6.7% y/y), Singapore (+5.5% y/y) and Indonesia (+2.9% y/y) while in other markets and investment banking, loans contracted by 7.0% and 3.6% respectively y/y. Intra-country loan growth trends In Singapore and Indonesia show divergence with CFS loans growing 9.0% y/y in Singapore while Global Banking loans grew 2.6% y/y. In contrast, Global Banking loans grew 8.6% y/y in Indonesia while CFS loans grew 1.3% y/y. This is in line with Maybank's strategic intent to grow SME, consumer financing and corporate lending in Singapore and corporate lending in Indonesia. Maybank's reported gross impaired loans ratio improved y/y to 2.37% from 2.40% but was slightly higher q/q (4Q2017: 2.34%) due to implementation of MFRS9 from 1 Jan 2018 (excluding this impact, the gross impaired loans ratio would have improved to 2.26%). MFRS9 however resulted in loan loss coverage ratios improving both y/y and q/q due to the release of excess regulatory reserves.

- **Capital ratios weaker but still above minimum requirements:** As a result of MFRS9, Maybank's capital ratios weakened with CET1/CAR ratios (before proposed dividend) at 14.3%/19.1% as at 31 Mar 2018 against 14.8%/19.4% for FY2017. Excluding the impact of MFRS9, Maybank's CET1 ratio fell 7bps from 14.4% as at 1 Jan 2018. These remain well above minimum CET1/CAR requirements of 6.375%/9.875% which includes the phased in Capital Conservation Buffer (but excludes any countercyclical capital buffer requirement). Of note is that total group risk weighted assets ('RWA') fell 3.7% y/y and 1.2% q/q despite gross loans growth of 1.5% y/y and -0.1% q/q. This was driven entirely by a 5.4% y/y and 2.3% q/q fall in credit RWA.

- **No change in outlook:** Maybank are maintaining their economic forecasts for Malaysia on the back of the recent election results with potential improvements in consumer spending balanced by a likely slowdown in business investment until the new government's policies become clearer. Malaysia's 1Q2018 GDP growth print of 5.4% y/y was slightly above our forecast of 5.3% y/y and our OCBC Economist for Malaysia is maintaining the full year GDP growth forecast of 5.5% y/y on the expectation that private consumption growth has the potential to strengthen in 2018 and investment should pick up later in the year as confidence in the Malaysian economy will still be strong.

OCBC Global Treasury

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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