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COMPANY ALERT

Malayan Banking

Gaining some traction post results

Company Review

Buy

Reuters:MBBM.KL Exchange:KLS Ticker:MBBM

Price (MYR)	11.30
Price target (MYR)	12.80
52-week range (MYR)	11.70 - 10.40
Market cap (USDm)	11,677
Shares outstanding (m)	3,768
NPL/total loans (%)	6.1
Price/book (x)	2.4

FYE 6/30	2006A	2007E	2008E
Provisioning (MYRm)	883.4	824.1	738.2
Pre-prov profit (MYRm)	4,915	5,325	5,652
EPS (MYR)	0.77	0.81	0.89
PER (x)	14.0	13.9	12.7
Yield (net) (%)	5.5	5.0	5.1

Highlights from recent discussions. We maintain our Buy call on Maybank. This stock appears to be gaining some traction post results. Latest sell side calls in IBES shows 11 Buys, 10 Holds and 3 Sells.

Provisions: Write-down of collateral value for 5-7 yr NPLs will likely stay at 60% in FY07. Note that not many of their peers have made adjustments for 5-7 yr NPLs. Recovery rate for this category of NPLs is about 40%. Full year provisions could stay at around FY06 level, in line with DB forecast. If Maybank starts to sell some legacy NPLs, write-backs can be material because these NPLs have been written off and fully provided for.

Capital management: GP is at 1.8% of loans. Capital ratios are close to optimum levels (Gp Tier-1 9.31%, RWCR 13.28%; Bank 8.96%, 11.89%; after dividends). Capital management has not been derailed, in our opinion. Sustainable net div payout is 60% but, to achieve 18% ROE, they may need to pay out more. They have capacity to raise US\$500-600m (RM4.5-5bn) of hybrid tier-1 and RM3bn of Tier-2 debt. There is also ESOS which will increase their capital base.

Non-interest income: Growth drivers are insurance, investment banking and cards (they recently bought Amex's Malaysian operations). CEO Datuk Amirsham was quoted in The Edge saying that Maybank is ready to make that quantum leap into insurance and investment banking. In insurance, earnings contribution to group profits is expected to balloon to RM500m in 2-3 years time, from RM200m in FY06. They are rationalising insurance (which involves integrating MNI into Maybank's insurance operations). This will result in just two insurance licences - takaful and composite, and three excess licenses (which in our opinion could be up for sale).

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