# Banking
# Needs Catalyst but Growth Prevails

**OVERWEIGHT**

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**Easing monetary conditions supportive of continued growth will not only help to stabilise asset quality, but also boost loan growth and improve prospects of recoveries. These coupled with the sector being undervalued in our view, as the larger banks have largely underperformed in 2019, are reasons why we have maintained the sector at OVERWEIGHT. Valuations are attractive and undemanding with all banks under our coverage rated as OUTPERFORM except for BIMB (MP, TP: RM4.70) and RHBBANK (MP, TP: RM6.05) due to demanding valuations. Top-lines will be underpinned by Households supported by accommodative interest rates and a stable economy. Our Top Picks are CIMB (OP, TP: RM6.45) and MAYBANK (OP, TP: RM9.70), which we believe are prime beneficiaries from resilient Household spending and fiscal push.**


**Growth prevails.** The sector is plagued by concerns of tepid domestic loans growth, spread compression, volatile capital markets and an uncertain global environment, no thanks to the US-China trade-war related issues. While the prevailing sentiment is cautious due to a generally down-beat economic outlook globally, selective loans and approvals lend to a stable outlook that supports a moderate and stable credit charge for the industry. Banks with healthy asset quality (hence, low impairment allowances) will still be in favour for their defensive quality. The lack of further clarity from Budget 2020 and the protracted trade war further had compounded the Banks' performance in 4QCY19. Despite the underperforming KL Financial Index, banks continued to be resilient, showing growth as top-lines continued to grow QoQ and YoY as credit demand remained on an uptick on accommodative interest rates. Despite capital market activities continuing to slumber, fee-based income remained resilient on better treasury gains from investment securities. Earnings, however, continued to be volatile on account of volatile credit costs on concerns of slowing business environment. Asset quality deterioration saw a slight uptick but mostly from Business while Households saw stability underpinned by the banks' prudent asset selection and accommodative interest rates. Further confidence in the banks' asset quality are highlighted by the trending down of the banks' loan loss provisions QoQ and YoY supporting the view that credit charge will be benign ahead.

The current monetary policy seemed poised for a fiscal impetus. The low inflation environment speaks volume for benign interest rates that will prompt credit demand from both Households and Business. A more aggressive fiscal policy will certainly support credit demand especially from Corporates. We see a pickup in 2HCY20 on easing trade tension, global demand for technology and resurgent of mega projects on account of accommodative interest rates and fiscal push. This will easily translate into a stable and resilient economy coupled with low unemployment. We expect the domestic loans for 2020 to grow at +5.2 to +5.5% underpinned by Household spending and also likely to be supported by Business especially in 2HCY20. Our industry loans' forecast for CY2020 is maintained at +6% vs CY2019E of <+5%.

We could probably see the emergence of M&A talks in the banking sector as well, which may act as a major market catalyst. Prior to the consolidation of the banking sector in 2006/07, the valuations for the banking sector, as per the KLFIN Index, were trapped at ~16x PER or ~1.6x PBV. At the height of the banking consolidation activities, these valuations charged up to >20x or ~2.5x respectively. Coming to the tail-end of a 10-year cycle, the long-anticipated recession fear is likely over with accommodative rates prompting a fiscal push. With such undemanding valuations, renewed interest in banking stocks are likely to return to investors' radars.

Most of the stocks' valuations in our banking universe are still undemanding; hence, most are rated at **OUTPERFORM** with only BIMB and RHBANK at **MARKET PERFORM.** Valuations are undemanding as most of the stocks in our banking universe are trading at below their 5-year mean PBV. We reduced **BIMB and RHBBANK to MARKET PERFORM** given the recent clarity and timing of its restructuring plans (BIMB) and share price appreciation (RHBBANK). **Our Top Pick for the sector is CIMB and MAYBANK.** We like CIMB due to: (i) its potential corporate loan traction both in Malaysia and Indonesia given the impetus of fiscal spending ahead, and (ii) its stable asset quality motivating higher appetite or riskier loans. For MAYBANK, being the largest bank, it will be the biggest beneficiary of resilient household spending on a pickup in the domestic economy.

As of 20 Dec, the KL Finance Index (KLFIN) had continued to underperform the FBMKLCI with negative returns of 10% versus FBMKLCI's -5% on concerns of the protracted trade war undermining business performance and deterioration of asset quality. Only two banks performed positively, BIMB – as investors reacted positively on its restructuring plans and RHBANK as risk concerns on its assets receded.

**Fig 1: KLFIN index performance against FBMKLCI**

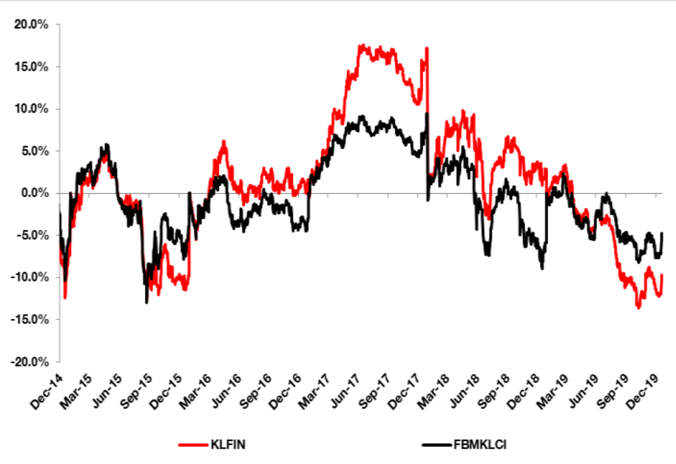
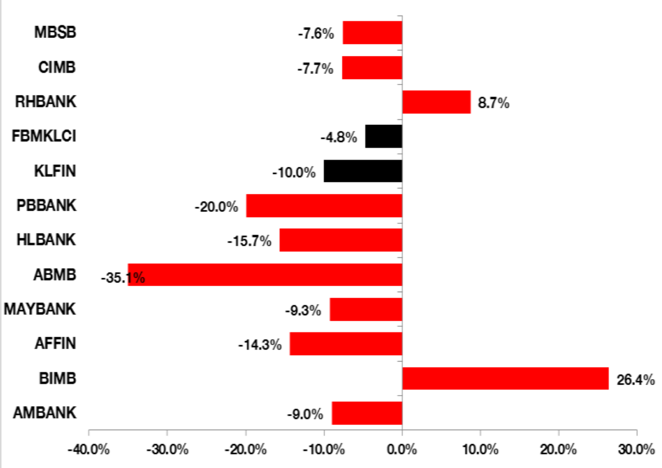



**Fig 2: 2019 YTD share price returns for banks**




*Source: Bloomberg, Kenanga Research*

**A Recap on 3QCY19 Results**

**3QCY19 results largely in line**. On a 12-month basis, the quarter saw largely expected results – 6 in line, 2 below and only CIMB performed above expectations YoY. Both ABMB and AFFIN were below on account of higher provisioning (ABMB) and shrinking loan book on account of portfolio rebalancing (AFFIN) while CIMB was above on account of resilient loans and improved fee-based income on better treasury market activities.

**Sequentially, earnings** saw a decline (-6% vs 2QCY19:+4%) to RM6.56b led by CIMB (-33% or RM498m). Others that saw decline in earnings were AFFIN (-54% to RM72m), AMBANK (-18% to RM320m) while the remainder saw improved income for the quarter with MBSB (+60% to RM170m) and MAYBANK (+3% to RM1,999m) leading the way. MBSB's resurgent earnings were on account of lower provisioning and opex whilst MAYBANK saw broad-based top-line growth. However, CIMB was dragged by higher provisioning and opex.

**Fig 3: Quarterly earnings trend (RM'm)**

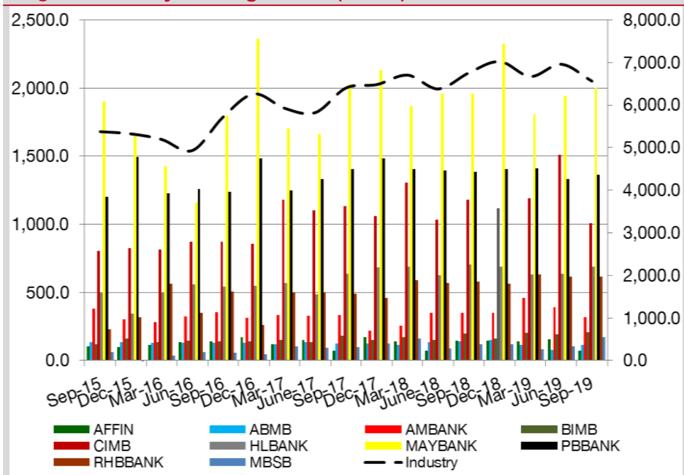



**Table 1: Quarterly earnings trend (RM'm)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 144.6 | 143.8 | 138.1 | 156.0 | 72.4 |
| ABMB | 140.5 | 148.9 | 111.8 | 76.7 | 115.5 |
| AMBANK | 348.2 | 349.9 | 459.7 | 391.5 | 319.6 |
| BIMB | 198.6 | 161.3 | 202.5 | 195.2 | 208.4 |
| CIMB | 1,179.7 | 1,117.1 | 1,192.0 | 1,508.6 | 1,010.3 |
| HLBANK | 706.9 | 687.2 | 633.9 | 636.4 | 688.6 |
| MAYBANK | 1,957.2 | 2,326.4 | 1,809.3 | 1,940.9 | 1,998.8 |
| MBSB | 122.0 | 118.0 | 83.8 | 106.2 | 170.1 |
| PBBANK | 1,383.7 | 1,405.4 | 1,410.1 | 1,332.9 | 1,362.6 |
| RHBBANK | 578.7 | 565.4 | 630.2 | 615.4 | 615.8 |
| **Industry** | **6,760.0** | **7,023.4** | **6,671.4** | **6,959.8** | **6,562.0** |
| **QoQ (%)** | **6.0%** | **3.9%** | **-5.0%** | **4.3%** | **-5.7%** |
| **YoY (%)** | **5.6%** | **8.4%** | **-0.5%** | **9.1%** | **-2.9%** |

*Source: Bloomberg, Kenanga Research*

**Top-line saw continued improvement** in 3Q after a negative blip in 2Q improving further by +6% to RM20b. All saw top-line improvement with the exception of AFFIN (-5% to RM474m) and RHBBANK (-2% to RM1.74b) on account of declining income from Islamic banking and NOII - due to its strategic move of not to actively engage in treasury market activities in anticipation of another OPR cut. Top-line growth was led by CIMB and MAYBANK at +10% each to RM4.6b and RM6.5b, respectively. Both saw broad-based growth as loans were resilient (above the system's +1.1% QoQ coupled with resilient overseas performance), improved NIM (as re-pricing of FDs was faster than industry) and better performance seen from both NOIIs. On a more positive note, both Islamic Banking continued to surge at +9% QoQ and +21% YoY - for CIMB with MAYBANK at +6% for both QoQ and YoY as both their Islamic financing surged higher than the domestic system (+2% QoQ and +8% YoY).

**Fig 4: Quarterly Topline trend (RM'm)**

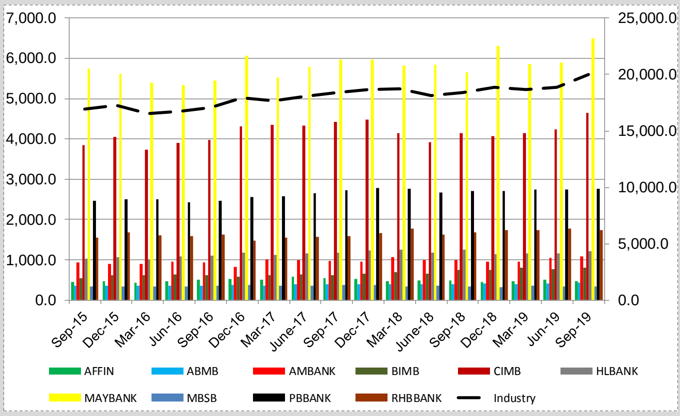



**Table 2: Quarterly Topline trend (RM'm)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 496.2 | 453.6 | 472.5 | 497.9 | 474.3 |
| ABMB | 399.2 | 418.4 | 403.4 | 406.9 | 429.3 |
| AMBANK | 1,000.5 | 950.8 | 952.9 | 1,051.8 | 1,076.9 |
| BIMB | 748.4 | 747.2 | 804.8 | 773.6 | 810.4 |
| CIMB | 4,140.5 | 4,074.8 | 4,150.3 | 4,232.7 | 4,638.4 |
| HLBANK | 1,249.0 | 1,142.2 | 1,166.8 | 1,167.8 | 1,215.1 |
| MAYBANK | 5,657.4 | 6,300.9 | 5,860.1 | 5,889.8 | 6,498.2 |
| MBSB | 341.5 | 328.5 | 365.0 | 336.3 | 343.1 |
| PBBANK | 2,698.8 | 2,710.6 | 2,739.1 | 2,754.3 | 2,758.7 |
| RHBBANK | 1,685.3 | 1,732.6 | 1,742.4 | 1,776.6 | 1,741.1 |
| **Industry** | **18,416** | **18,859** | **18,657** | **18,887** | **19,985** |
| **QoQ (%)** | ***1.5%*** | ***2.4%*** | ***-1.1%*** | ***1.2%*** | ***5.8%*** |
| **YoY (%)** | ***0.0%*** | ***1.0%*** | ***-0.5%*** | ***4.0%*** | ***8.5%*** |

*Source: Bloomberg, Kenanga Research*

**Loans** YoY and QoQ saw moderation at +4.3% and +0.7%, respectively. The slight moderation QoQ was dragged by AFFIN (-2%) and MAYBANK (-0.1%) offset by rebound in loans from ABMB and AMBANK at +1.3% and +1.1%, respectively, and a spike in loans from BIMB (+3.8%). Both ABMB and AMBANK saw improvement from SME's at +3.3% and +2.6%, respectively, (vs the industry of +0.6%) while BIMB's improvement was underpinned by Corporates/Commercial at +11.2% and Personal Financing (PF) at +2.6%.

**Fig 5: Quarterly loans growth trend (RMm)**

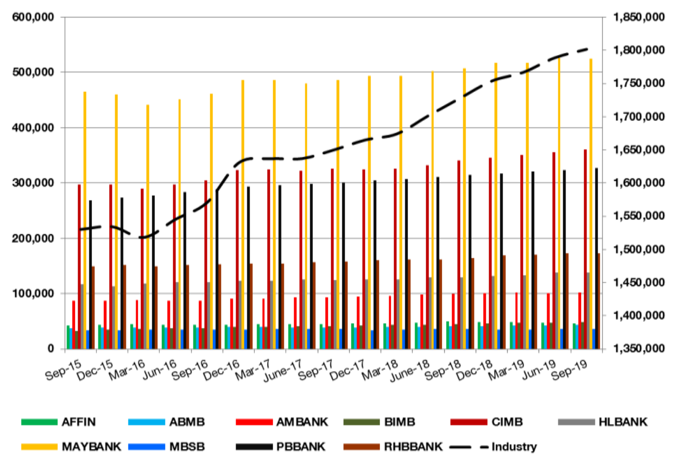



**Table 3: Quarterly loans growth trend (RMm)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 49,233 | 48,973 | 48,510 | 47,618 | 46,615 |
| ABMB | 40,972 | 41,410 | 42,730 | 42,687 | 43,233 |
| AMBANK | 99,939 | 100,360 | 101,845 | 100,834 | 101,977 |
| BIMB | 45,034 | 46,470 | 46,807 | 47,184 | 48,967 |
| CIMB | 340,648 | 346,291 | 350,684 | 355,277 | 360,699 |
| HLBANK | 129,835 | 131,628 | 133,590 | 137,566 | 138,694 |
| MAYBANK | 507,719 | 517,334 | 516,888 | 525,579 | 525,033 |
| MBSB | 35,852 | 35,173 | 35,443 | 36,237 | 36,498 |
| PBBANK | 314,474 | 317,302 | 320,422 | 323,693 | 327,238 |
| RHBBANK | 164,314 | 168,879 | 170,056 | 172,346 | 172,759 |
| **Industry** | **1,728,019** | **1,753,817** | **1,766,976** | **1,789,021** | **1,801,713** |
| **QoQ (%)** | ***1.54%*** | ***1.49%*** | ***0.75%*** | ***1.25%*** | ***0.71%*** |
| **YoY (%)** | ***4.73%*** | ***5.34%*** | ***5.54%*** | ***5.13%*** | ***4.26%*** |

*Source: Bloomberg, Kenanga Research*

**QoQ, NIM** which was under pressure in 2Q (-5bps) saw a rebound (+9bps to 2.33%) on account of considerable amount of re-pricing of deposits in 3Q. Both CIMB and MAYBANK led the way in terms of NIM improvement (at 14.8bps and 14.2bps, respectively) as a large bulk of their deposits were re-priced faster than most (vs industry average of 2-3 quarters). Contributing further to the NIM enhancement was moderate demand for deposits which saw deposits competition subsiding and lower demand for loans which mitigated asset pricing. With Net Stability Funding Ratio (NSFR) complied and moderate demand for loans ahead, asset pricing looks likely to be subdued compounding a stable NIM. Adding to the stable NIM is the industry's Loan to Deposit Ratio (LDR) and Loan-to-Fund Ratio (LTF) at 94% and 79%, respectively, indicating that liquidity is still adequate in the system. The excess CET1 ratio that banks currently enjoyed could also be a further boost to liquidity for each respective bank.

**Fig 6: Quarterly net interest margin trend (%)**

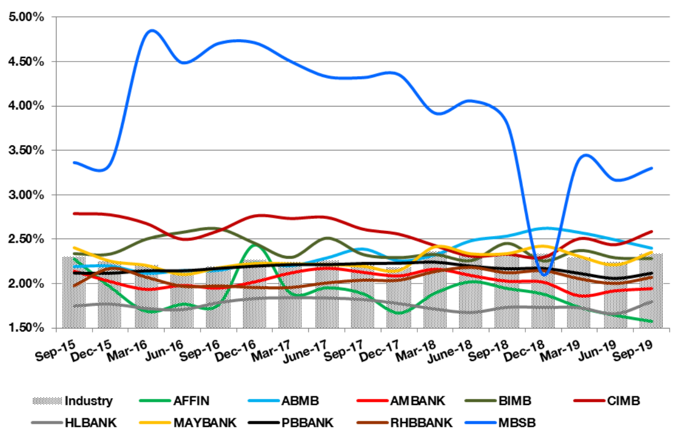



**Table 4: Quarterly net interest margin trend (%)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 1.95% | 1.88% | 1.73% | 1.64% | 1.58% |
| ABMB | 2.54% | 2.62% | 2.58% | 2.49% | 2.40% |
| AMBANK | 2.03% | 2.02% | 1.86% | 1.92% | 1.94% |
| BIMB | 2.45% | 2.26% | 2.37% | 2.29% | 2.28% |
| CIMB | 2.33% | 2.30% | 2.51% | 2.44% | 2.59% |
| HLBANK | 1.73% | 1.73% | 1.73% | 1.66% | 1.80% |
| MAYBANK | 2.34% | 2.42% | 2.31% | 2.21% | 2.35% |
| MBSB | 3.80% | 2.10% | 3.40% | 3.17% | 3.30% |
| PBBANK | 2.17% | 2.17% | 2.12% | 2.06% | 2.12% |
| RHBBANK | 2.12% | 2.15% | 2.06% | 2.00% | 2.07% |
| **Industry** | **2.33%** | **2.34%** | **2.30%** | **2.25%** | **2.33%** |
| **QoQ (bps)** | **-0.7** | **1.3** | **-4.4** | **-5.0** | **8.9** |
| **YoY (bps)** | **9.9** | **15.9** | **-7.2** | **-8.8** | **0.8** |

*Source: Bloomberg, Kenanga Research*

**Fee-based income (NOII**) have showed resilience still, growing +17% YoY and +6% QoQ despite the weak capital activities on account of the protracted US-China trade war and global uncertainties. Although NOII moderated by 330bps in 3Q, this large quantum was underpinned by a higher base in 2Q, as most banks saw MTM (mark-to market) gains on account of the May 2019 OPR cut. Nevertheless, half of the banks saw improvement QoQ, on account from better fee income, insurance income and further realised & unrealised gains coming from investment securities. Notably, we saw double-digit improvement for CIMB and MAYBANK at +13% and +16% QoQ, respectively, as both benefitted from stronger investment & trading income.

**Fig 7: Quarterly non-interest income trend (RM'm)**

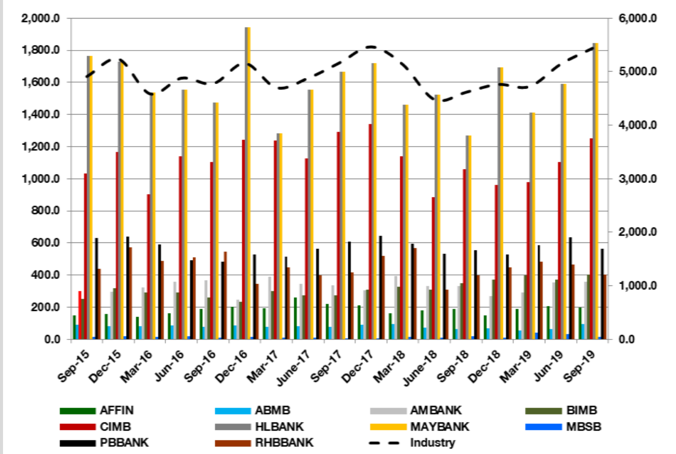



**Table 5: Quarterly non-interest income trend (RM'm)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 187.5 | 148.2 | 186.7 | 206.2 | 195.5 |
| ABMB | 64.4 | 68.9 | 56.5 | 65.8 | 95.6 |
| AMBANK | 333.5 | 269.9 | 292.6 | 353.5 | 357.9 |
| BIMB | 350.7 | 369.6 | 400.3 | 373.5 | 401.4 |
| CIMB | 1,059.4 | 960.6 | 979.9 | 1,102.7 | 1,250.1 |
| HLBANK | 379.7 | 263.1 | 287.0 | 324.6 | 311.0 |
| MAYBANK | 1,268.7 | 1,692.8 | 1,409.9 | 1,589.3 | 1,843.6 |
| MBSB | 18.2 | 11.8 | 42.0 | 30.5 | 15.4 |
| PBBANK | 556.2 | 529.8 | 585.1 | 634.5 | 562.9 |
| RHBBANK | 398.0 | 448.3 | 481.2 | 464.4 | 405.0 |
| **Industry** | **4,616.3** | **4,763.1** | **4,721.3** | **5,145.0** | **5,438.5** |
| **QoQ (%)** | ***3.1%*** | ***3.2%*** | ***-0.9%*** | ***9.0%*** | ***5.7%*** |
| **YoY (%)** | **-10.7%** | **-12.8%** | **-8.0%** | **14.9%** | **17.8%** |

*Source: Bloomberg, Kenanga Research*

**Fig 8: Quarterly Investment Securities trend (RMmil)**

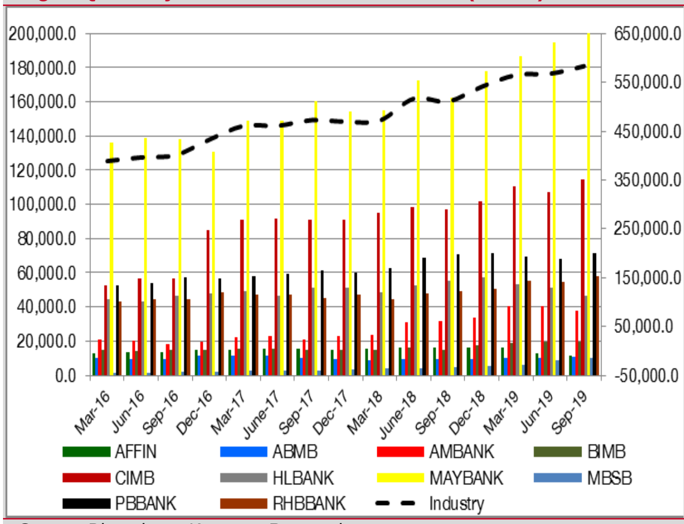



**Table 6: Quarterly Investment Securities trend (RMmil)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 15,864 | 16,131 | 16,003 | 13,089 | 11,329 |
| ABMB | 9,351 | 9,365 | 9,945 | 10,295 | 10,824 |
| AMBANK | 31,862 | 33,796 | 40,222 | 40,290 | 37,855 |
| BIMB | 14,671 | 17,439 | 18,576 | 19,605 | 19,243 |
| CIMB | 96,857 | 101,640 | 110,556 | 107,045 | 114,828 |
| HLBANK | 55,313 | 57,483 | 53,035 | 51,139 | 46,575 |
| MAYBANK | 162,380 | 177,952 | 186,452 | 194,932 | 202,450 |
| MBSB | 4,485 | 5,117 | 6,106 | 8,709 | 10,242 |
| PBBANK | 70,681 | 71,741 | 69,079 | 68,018 | 71,638 |
| RHBBANK | 49,385 | 50,469 | 54,980 | 54,597 | 58,152 |
| **Industry** | **510,848** | **541,134** | **564,952** | **567,719** | **583,136** |
| **QoQ (bps)** | ***9.6%*** | ***-1.1%*** | ***5.9%*** | ***4.4%*** | ***0.5%*** |
| **YoY (bps)** | ***12.1%*** | ***8.1%*** | ***15.2%*** | ***19.8%*** | ***9.9%*** |

*Source: Bloomberg, Kenanga Research*

**The industry Cost to Income Ratio (CIR**) remained resilient at an average of 48% below its 5-year peak of 51% in Dec 2015, underpinned by strong cost discipline of MBSB (23%) and PBBANK (34%). Although we see above-average CIR from AFFIN (67%) and CIMB (60%), this was attributed to its Strategic/Transformation Initiatives pushing OPEX up (despite soft top-line) as the banks invest heavily in facing new challenges i.e. disrupters, regulatory & compliance issues and challenging operating landscape. Despite incurring further investments mostly for personnel and digital technology, the banks have showed cost discipline and we opined that such investments will continue to rise but only to the point of each individual bank's CIR target.

**Fig 9: Quarterly cost-to-income ratio trend (%)**

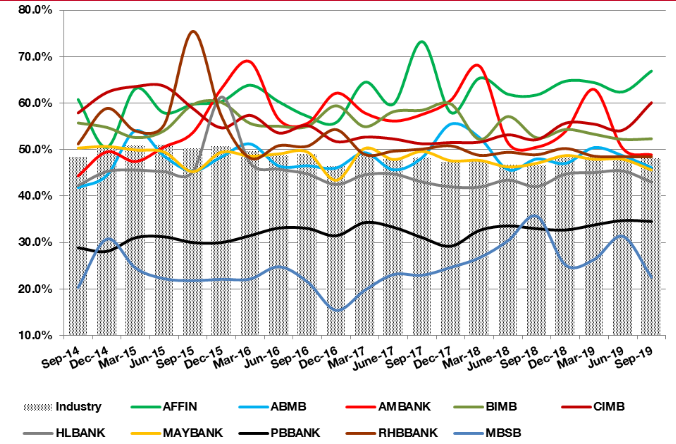



**Table 7: Quarterly cost-to-income ratio trend (%)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 61.8% | 64.7% | 64.4% | 62.4% | 66.9% |
| ABMB | 48.0% | 47.0% | 50.4% | 48.7% | 46.1% |
| AMBANK | 50.5% | 53.9% | 63.0% | 50.3% | 48.9% |
| BIMB | 52.5% | 54.3% | 53.3% | 52.2% | 52.3% |
| CIMB | 52.1% | 55.7% | 55.5% | 54.2% | 60.1% |
| HLBANK | 42.0% | 44.7% | 45.0% | 45.4% | 43.0% |
| MAYBANK | 47.1% | 48.7% | 47.9% | 47.9% | 45.6% |
| MBSB | 35.7% | 25.2% | 26.3% | 31.3% | 22.6% |
| PBBANK | 33.0% | 32.7% | 33.8% | 34.7% | 34.5% |
| RHBBANK | 48.9% | 50.2% | 48.6% | 48.5% | 48.4% |
| **Industry** | **46.6%** | **48.2%** | **48.5%** | **47.7%** | **48.1%** |
| **QoQ (bps)** | **-19.0** | **165.6** | **21.8** | **-75.0** | **39.0** |
| **YoY (bps)** | **-169.1** | **97.2** | **91.2** | **93.4** | **151.4** |

*Source: Bloomberg, Kenanga Research*

**The industry GIL** has seen an uptrend since March 2019 above the 2% level to 2.15% but still below its 5-year peak level of 2.22% in Sep 2017. The 10-year Peak was at 3.94% (in Mar 2010) The uptrend in the last three quarters were mostly from corporates/business as the US-China trade friction gathered steam undermining business confidence and performance. It is not unreasonable to expect impaired loans to rise in tandem with loans growth and vice-versa; thus, impaired loans moderated faster by 430bps to +2.1% QoQ in Sep 2019 in tandem with loans moderating, albeit slower by 54bps to 0.71% reflecting the banks discipline in selective asset quality.

**Fig 10: Quarterly gross impaired loans ratio trend (%)**

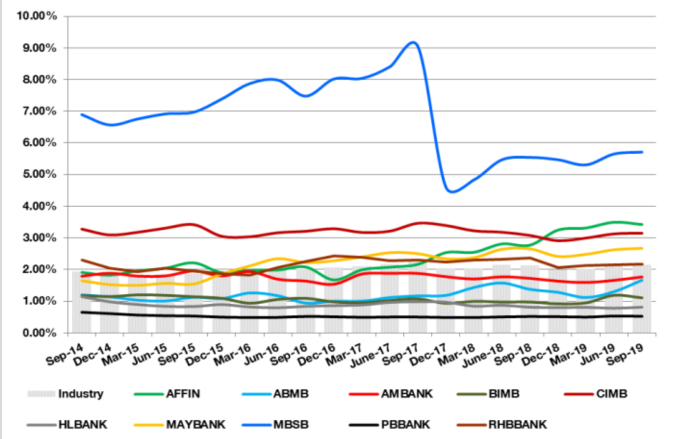


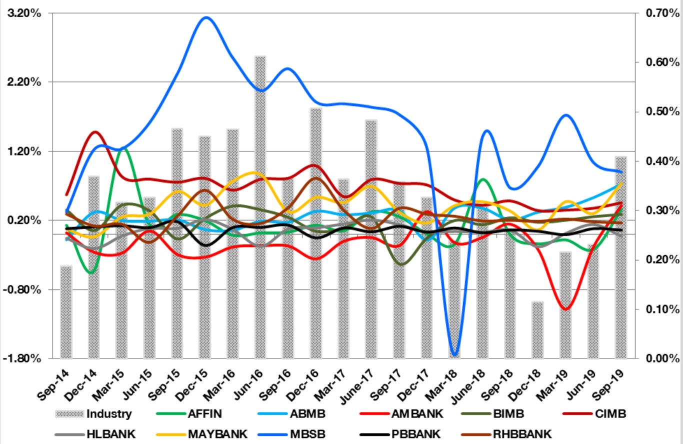

**Table 8: Quarterly gross impaired loans ratio trend (%)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 2.77% | 3.25% | 3.31% | 3.49% | 3.42% |
| ABMB | 1.37% | 1.28% | 1.12% | 1.30% | 1.66% |
| AMBANK | 1.72% | 1.63% | 1.59% | 1.66% | 1.77% |
| BIMB | 0.97% | 0.92% | 0.95% | 1.19% | 1.11% |
| CIMB | 3.08% | 2.91% | 2.99% | 3.13% | 3.15% |
| HLBANK | 0.81% | 0.80% | 0.80% | 0.78% | 0.81% |
| MAYBANK | 2.65% | 2.41% | 2.48% | 2.62% | 2.67% |
| MBSB | 5.54% | 5.47% | 5.30% | 5.65% | 5.71% |
| PBBANK | 0.52% | 0.51% | 0.50% | 0.53% | 0.52% |
| RHBBANK | 2.37% | 2.06% | 2.12% | 2.15% | 2.16% |
| **Industry** | **2.12%** | **1.99%** | **2.02%** | **2.12%** | **2.15%** |
| **QoQ (bps)** | **-1.9** | **-13.2** | **3.0** | **10.2** | **2.9** |
| **YoY (bps)** | **-10.6** | **-6.2** | **-1.4** | **-1.9** | **2.9** |

*Source: Bloomberg, Kenanga Research*

**Credit charge** saw a +18bps uptick for the quarter underpinned by rise in impairment allowances mostly from ABMB (+20bps), MAYBANK (+44bps) and AMBANK (+60bps), coming mainly from corporates/business with MAYBANK seeing more impairment allowances increase from its overseas markets. However, on a positive note, loan loss provisions in the industry are charting a downtrend for the last four quarters QoQ. Provisioning saw a 5-year and 10-year peak in Sep 2018 at RM32.5b but had since then headed downwards with Sep 2019 decelerating at -2% QoQ and -7% YoY. This indicated banks' forward view of moderate and stable economy and coupled with their selective asset policy, it will translate to a stable and resilient asset quality ahead. In Sep 2011, the GIL for the industry was at 3.21% but slowly moderated to a peak low of 1.78% by Mar 2015 in tandem with upswing in the domestic economy.

**Fig 11: Quarterly credit charge ratio trend (%)**

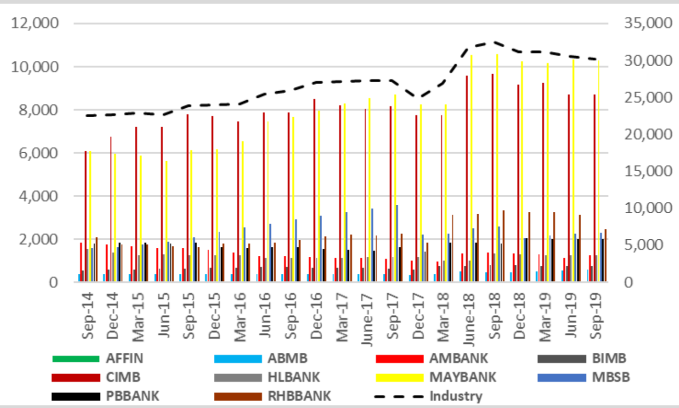



Source: Bloomberg, Kenanga Research

**Table 9: Quarterly credit charge ratio trend (%)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | -0.01% | -0.14% | -0.08% | -0.22% | 0.36% |
| ABMB | 0.21% | 0.32% | 0.39% | 0.53% | 0.73% |
| AMBANK | 0.15% | -0.22% | -1.08% | -0.18% | 0.42% |
| BIMB | 0.24% | 0.17% | 0.20% | 0.26% | 0.29% |
| CIMB | 0.48% | 0.34% | 0.35% | 0.38% | 0.46% |
| HLBANK | 0.06% | -0.18% | 0.01% | 0.14% | -0.03% |
| MAYBANK | 0.34% | 0.06% | 0.47% | 0.30% | 0.74% |
| MBSB | 0.67% | 0.98% | 1.72% | 1.04% | 0.90% |
| PBBANK | 0.06% | 0.04% | 0.00% | 0.08% | 0.06% |
| RHBBANK | 0.20% | 0.19% | 0.22% | 0.18% | 0.17% |
| **Industry** | **0.26%** | **0.11%** | **0.21%** | **0.23%** | **0.41%** |
| **QoQ (bps)** | **-4.6** | **-14.7** | **10.0** | **1.6** | **17.7** |
| **YoY (bps)** | **-9.5** | **-21.2** | **-2.3** | **-7.7** | **14.6** |

**Fig 12: Loan Loss Provisions trend (RM mil)**




Source: Bloomberg, Kenanga Research

**Table 10: Loan Loss Provisions trend (RM mil)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 609 | 581 | 579 | 554 | 566 |
| ABMB | 476 | 481 | 503 | 529 | 573 |
| AMBANK | 1,371 | 1,338 | 1,301 | 1,137 | 1,239 |
| BIMB | 778 | 790 | 757 | 753 | 759 |
| CIMB | 9,648 | 9,172 | 9,258 | 8,690 | 8,708 |
| HLBANK | 1,348 | 1,275 | 1,251 | 1,262 | 1,233 |
| MAYBANK | 10,574 | 10,250 | 10,155 | 10,317 | 10,284 |
| MBSB | 2,568 | 2,039 | 2,152 | 2,239 | 2,309 |
| PBBANK | 1,787 | 2,042 | 1,984 | 1,993 | 2,005 |
| RHBBANK | 3,336 | 3,252 | 3,250 | 3,146 | 2,459 |
| **Industry** | **32,494** | **31,221** | **31,188** | **30,619** | **30,135** |
| **QoQ (bps)** | ***2.2%*** | ***-3.9%*** | ***-0.1%*** | ***-1.8%*** | ***-1.6%*** |
| **YoY (bps)** | ***19.0%*** | ***25.6%*** | ***15.9%*** | ***-3.7%*** | ***-7.3%*** |

Source: Bloomberg, Kenanga Research

Overall the banks' **CET1 ratios** are still comfortably above the regulatory requirements of 7% (4.5% equity capital + 2.5% capital conservation buffer. MBSB leads the way in having a CET1 ratio of 15.2% with BIMB is still at the lowest at 12.2%. From BNM's 1H19 Financial Stability Report, the central bank seems satisfied with the improving asset quality, current CET1 and Capital (industry capital ratio at ~17%) ratios. We opined that the central bank does not see any major shock in the system in the short term thus, is satisfied with the present Capital Adequacy Ratios. The excess CET1 ratio that banks currently enjoyed could also be a further boost to liquidity/investment securities for each respective bank.

**Fig 13: Quarterly CET1 ratio (%)**

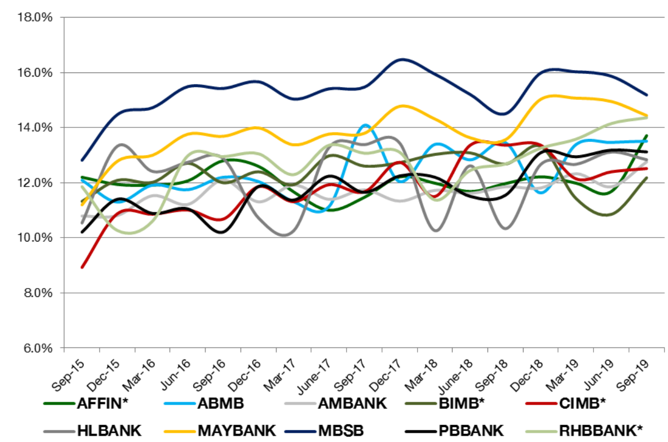



**Table 11: Quarterly CET1 ratio (%)**

| Banks | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|---|---|---|---|---|---|
| AFFIN | 12.0% | 12.2% | 12.0% | 11.7% | 13.7% |
| ABMB | 13.5% | 11.6% | 13.4% | 13.5% | 13.5% |
| AMBANK | 11.9% | 11.8% | 12.3% | 11.9% | 12.8% |
| BIMB | 12.7% | 13.3% | 11.4% | 10.9% | 12.2% |
| CIMB | 13.4% | 13.4% | 12.1% | 12.4% | 12.5% |
| HLBANK | 10.3% | 12.7% | 12.7% | 13.1% | 12.8% |
| MAYBANK | 13.6% | 15.0% | 15.1% | 14.9% | 14.4% |
| MBSB | 14.5% | 16.0% | 16.0% | 15.9% | 15.2% |
| PBBANK | 11.6% | 13.1% | 12.9% | 13.2% | 13.1% |
| RHBBANK | 12.7% | 13.3% | 13.6% | 14.1% | 14.4% |

Source: Bloomberg, Kenanga Research
** At the Bank level*

### Looking ahead

Looking ahead into 2020, we believe loans growth will be underpinned by Households with Business loans looking likely to pick up in 2H20 as fiscal impetus kicks in. The stable and resilient economy (expected GDP: +4.5% to +4.8%) will translate into a healthy Business and employment environment with accommodative interest rates, While household spending was cautious in 2HCY19, we expect renewed optimism and demand into 2020 coupled with the expected rate cut in 1QCY20. Household credit demand has been resilient at ~+5% YoY (Nov 19) while applications have been picking up since Jul 2019 (June 2019: -11% YoY) ending at +12% YoY in Nov 2019. On a positive note, the banking systems' loan loss coverage seemed to be on a downtrend (Dec 2018: 99.1% vs Nov 2019: 89.4%) with loan loss provisioning on a downward trend (Dec 2018: +16.2% YoY vs Nov 2019: -10.2%) – banks tend to estimate for a lower credit risk hence reducing non-discretionary loans loss provisions indicating that the banks see economic stability and growth ahead. The banks' incentive to grant new loans therefore is reinforced since lending costs are under-stated. We expect system loans to grow at +5.2 to +5.5% for 2020 (2019E: +~4%) underpinned by Households (+7%-+7.5% YoY) with Business at +3%-+3.5% YoY.

While there will be uptick in loans, we are still cautious on fee-based income given the prevailing noises on the global trade front. However, given the investment in treasury activities in recent months by the banks plus another expected rate cut in 1QCY20, fee-based income will still be resilient plus the possibility of income being boosted as capital market activities pick up in tandem with fiscal impetus. The banks' bottom-line will also be supported by a benign credit charge (given the tapering of loan loss provisions) as asset quality stays stable given the stable economy and selective asset selection beforehand. We expect the banks to report in muted/normalised credit charge ahead with a few surprises i.e. credit recoveries/write-backs coming from: (i) sale of NPLs, and (ii) receding risk concerns.

On house-keeping issues, we tweaked our CY20E industry earnings upwards (by 50bps) to +5.4% YoY on account of revision of earnings from AMBANK (+3.0% from -0.4% YoY previously) and CIMB (+2.1% to +4.6% YoY). Improved assumptions for AMBANK include: (i) stronger Islamic banking (+3% YoY vs +2% previously) and (ii) lower CIR (Cost to Income Ratio) by 80bps to 50.2% on account of lower opex while for CIMB, its CIR is lowered by 70bps to 53.2% on declining opex. Our CY20E earnings will be driven by: (i) loans at +5.8% YoY), (ii) credit charge at 0.26%, (iii) Non-interest income (NOII) at +2% YoY (coming from conservative assumption that capital activities will still be mild, and (iv) Islamic banking improving at +5.8% YoY.

**Table 12: Kenanga's forecasts**

| Banks | New earnings estimates (RM'm) | | | Previous earnings estimates (RM'm) | | | Difference (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY18A | FY19E | FY20E | FY18A | FY19E | FY20E | FY19E | FY20E |
| AFFIN | 503.1 | 565.9 | 651.0 | 503.1 | 578.7 | 670.4 | -2.2% | -2.9% |
| ABMB | 493.2 | 537.6 | 486.9 | 493.2 | 537.6 | 493.1 | 0.0% | -1.2% |
| AMBANK | 1,132.1 | 1,505.3 | 1,550.6 | 1,132.1 | 1,505.3 | 1,499.9 | 0.0% | 3.4% |
| BIMB | 682.0 | 734.1 | 834.0 | 682.0 | 734.1 | 834.0 | 0.0% | 0.0% |
| CIMB | 5,583.5 | 4,701.6 | 4,894.8 | 5,583.5 | 4,679.3 | 4,801.4 | 0.5% | 1.9% |
| HLBANK | 2,638.1 | 2,664.5 | 2,679.6 | 2,638.1 | 2,664.5 | 2,677.9 | 0.0% | 0.1% |
| MAYBANK | 8,113.3 | 7,934.1 | 8,303.6 | 8,113.3 | 7,933.6 | 8,303.7 | 0.0% | 0.0% |
| MBSB | 642.4 | 528.3 | 573.7 | 642.4 | 528.3 | 573.7 | 0.0% | 0.0% |
| PBBANK | 5,590.6 | 5,583.7 | 5,776.0 | 5,590.6 | 5,584.1 | 5,776.9 | 0.0% | 0.0% |
| RHBBANK | 2,305.2 | 2,398.9 | 2,536.1 | 2,305.2 | 2,391.3 | 2,528.3 | 0.3% | 0.3% |
| **Industry (FY)** | **27,683.5** | **27,153.9** | **28,286.4** | **26,840.2** | **26,253.5** | **27,178.7** | **3.4%** | **4.1%** |
| **Industry (CY)** | **27,595.5** | **26,827.6** | **28,282.9** | **26,752.2** | **25,927.1** | **27,209.4** | **3.5%** | **3.9%** |
| **Growth (%)** | **13.1%** | **-2.8%** | **5.4%** | **7.8%** | **-3.1%** | **4.9%** | | |

*Source: Bloomberg, Kenanga Research*

It is likely that the long-anticipated recession fear is over given the benign interest rates streaming in domestically, regionally and globally. Accommodative interest rates are poised to act as a monetary impetus to stimulate the economy. As in 2010, 2011 and in 2012 (before the 13th GE), the KLFIN performed admirably benefitting from the fiscal push implemented in those years. Given the 10-year cycle that is coming to an end coupled with accommodative interest rates, renewed interest in banking stocks are likely to return to investors' radars.

**Fig 13: KLFIN index performance against FBMKLCI (2010-2014)**

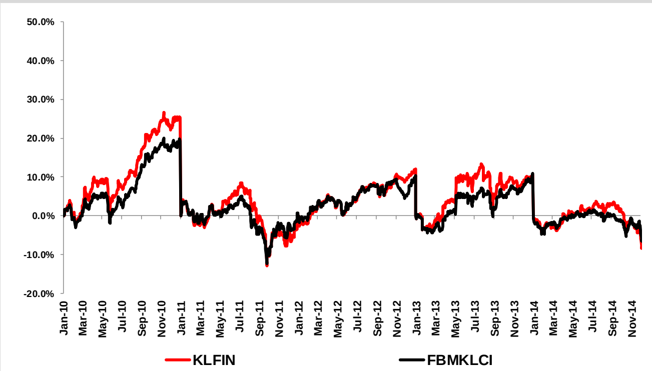
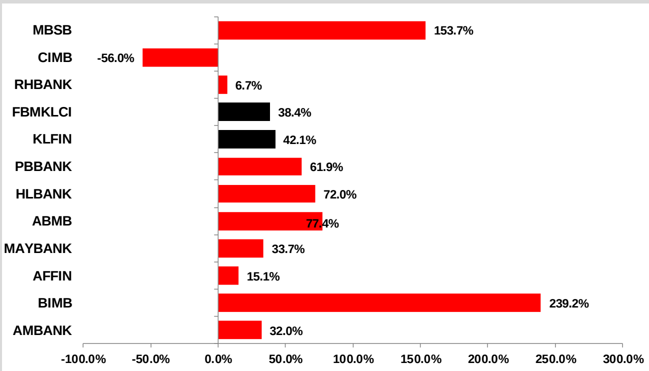



**Fig 14: 2010-2014 share price returns for banks**




*Source: Bloomberg, Kenanga Research*

## Recommendation

Our Top Picks for this year are CIMB **(TP: RM6.45)** and MAYBANK **(TP: RM9.70)**

**CIMB**'s domestic loans have consistently outperformed the domestic banking system (at high single-digit) and we expect its domestic and Indonesian loans to gain traction going into 2020 supported by revival of mega projects (in Malaysia) and the expected infra/fiscal spending ahead (in Indonesia). Its CASA ratio (35%) is the highest among the banking stocks with NIM compression likely mitigated by the influx of SME and Corporate loans coming on stream in 2020. With its share of investment securities, the banks will be significant beneficiary of MTM gains should there be another OPR cut in 1QCY20. While GIL is still a concern, credit costs are looking stable and normalized. Coupled with accommodative interest rate, we believe CIMB will have a higher risk appetite ahead. TP is at RM6.45 ascribing a target PBV of 1.06x implying a 5-year mean. Valuations are undemanding coupled with a decent dividend yield of >4.0% provide a potential total upside >25%.

Like CIMB, **MAYBANK**'s domestic loans have consistently outperformed the domestic banking system (at high single-digit) and we expect its domestic loans to continue to gain traction going into 2020 given the prevailing accommodative interest rate. Given its large and far-reaching tentacles in the domestic banking system, it will be the prime beneficiary of á pickup in the economy. Its credit charge has remained largely stable and resilient and given the risks of its single infra account in Singapore looking likely to be resolved and its low risk appetite for its Indonesian operations credit charge looks likely to be benign ahead. TP is at RM9.70 on FY20 PBV of 1.2x (implying a 1SD below mean - to reflect the on-going uncertainties domestically and externally, coupled with on-going issue from an overseas account). Valuations are undemanding coupled with a dividend yield that is the most attractive in our banking universe at ~7.0%, giving a potential total upside of ~20%.

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**Fig 12: Fwd PBV Band (AFFIN)**

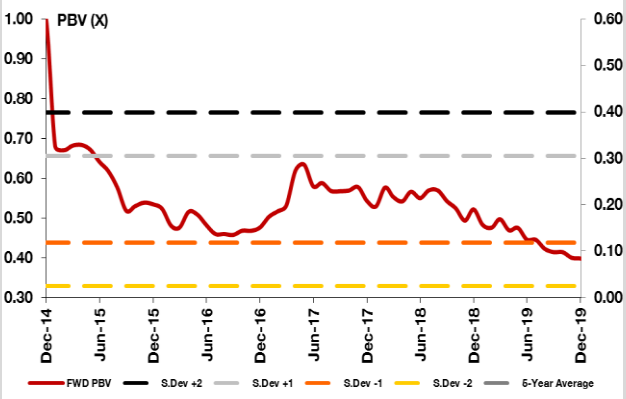
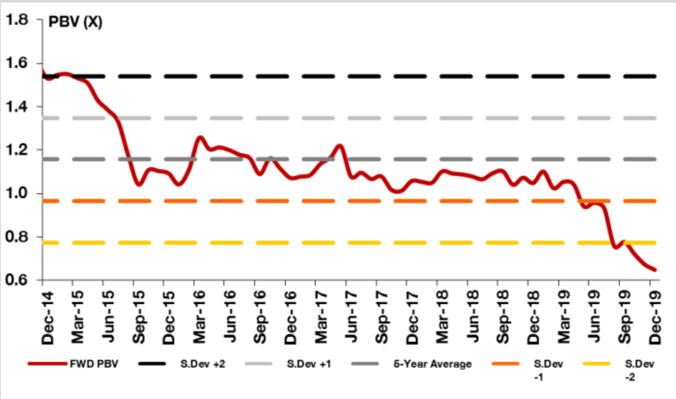



**Fig 13: Fwd PBV Band (ABMB)**




*Source: Bloomberg, Kenanga Research*

**Fig 14: Fwd PBV Band (AMBANK)**

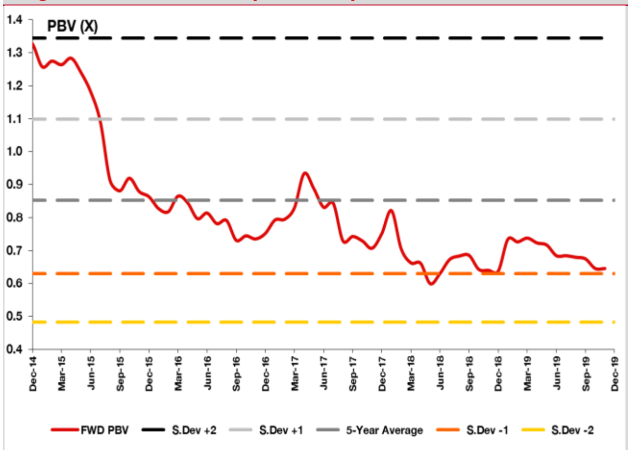
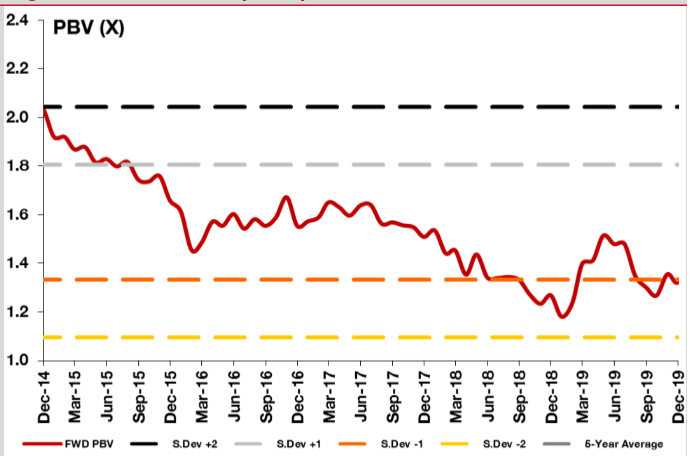



**Fig 15: Fwd PBV Band (BIMB)**




*Source: Bloomberg, Kenanga Research*

**Fig 16: Fwd PBV Band (CIMB)**

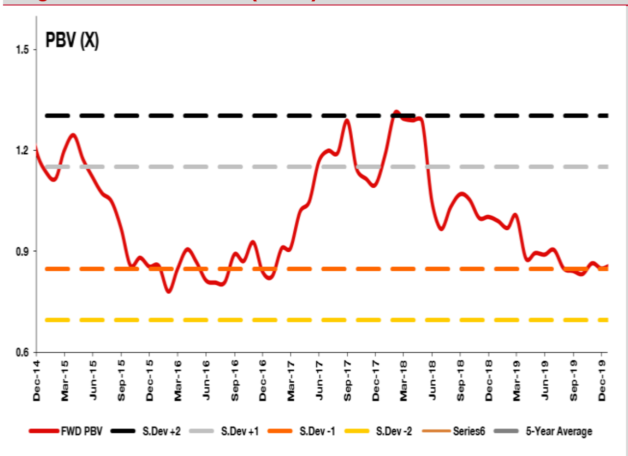
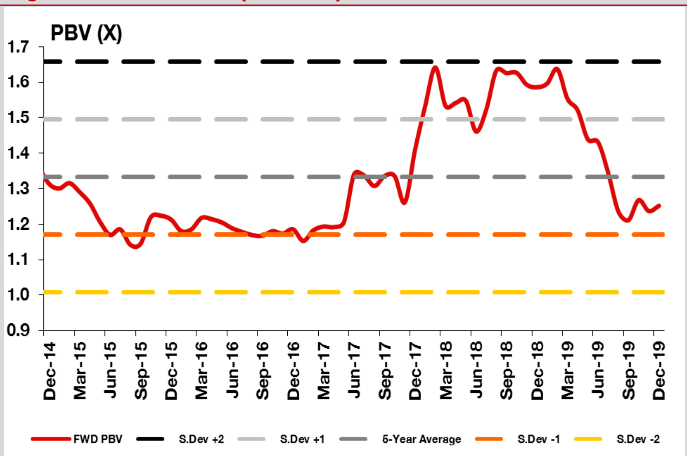



**Fig 17: Fwd PBV Band (HLBANK)**




*Source: Bloomberg, Kenanga Research*

**Fig 18: Fwd PBV Band (MAYBANK)**

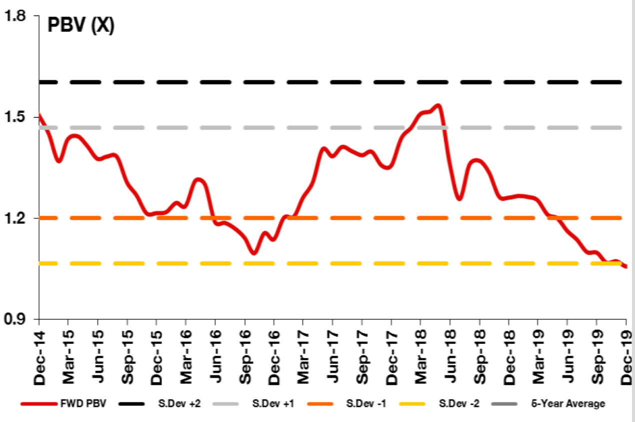
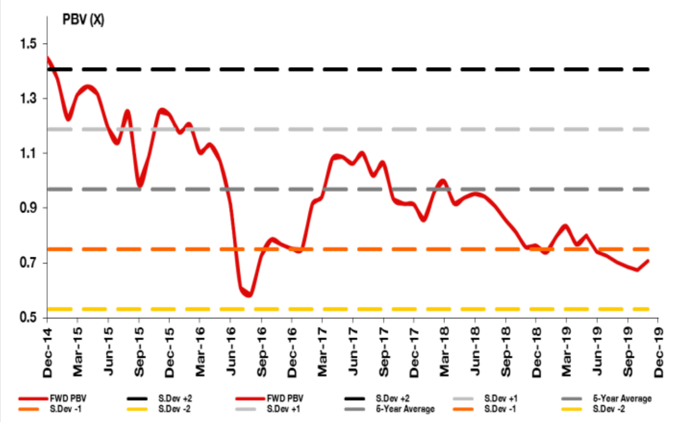



**Fig 19: Fwd PBV Band (MBSB)**




Source: Bloomberg, Kenanga Research

**Fig 20: Fwd PBV Band (PBBANK)**

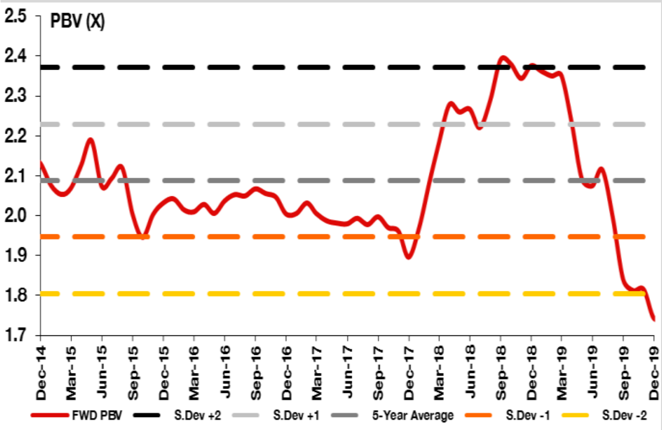
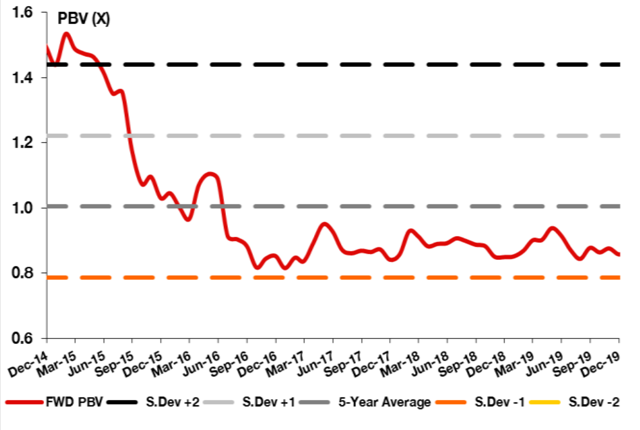



**Fig 21: Fwd PBV Band (RHBBANK)**




Source: Bloomberg, Kenanga Research

## Peer Comparison

| Name | Last Price (20 Dec '19) (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth 1-Yr. Fwd. | Revenue Growth 2-Yr. Fwd. | Core Earnings Growth 1-Yr. Fwd. | Core Earnings Growth 2-Yr. Fwd. | PER (x) - Core Earnings Hist. | PER (x) - Core Earnings 1-Yr. Fwd. | PER (x) - Core Earnings 2-Yr. Fwd. | PBV (x) Hist. | PBV (x) 1-Yr. Fwd. | ROE (%) 1-Yr. Fwd. | Net Div Yld (%) 1-Yr. Fwd. | Target Price (RM) | Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BANKING** | | | | | | | | | | | | | | | | | |
| AFFIN BANK BHD | 1.91 | 3,793.3 | N | 12/2019 | 5.7% | 3.0% | 12.5% | 15.0% | 7.5 | 6.7 | 5.8 | 0.4 | 0.4 | 6.4% | 2.9% | 2.45 | OP |
| ALLIANCE BANK MALAYSIA BHD | 2.61 | 4,040.6 | N | 03/2020 | 5.6% | 8.6% | -9.4% | 19.0% | 8.2 | 7.5 | 8.3 | 0.7 | 0.7 | 8.3% | 6.4% | 3.45 | OP |
| AMMB HOLDINGS BHD | 3.95 | 11,901.1 | N | 03/2020 | 10.6% | 4.6% | 3.0% | 1.5% | 7.9 | 7.7 | 7.6 | 0.6 | 0.6 | 8.1% | 5.1% | 4.75 | OP |
| BIMB HOLDINGS BHD | 4.50 | 7,939.3 | Y | 12/2019 | 10.0% | 6.6% | 7.6% | 13.6% | 11.6 | 11.2 | 10.3 | 1.6 | 1.5 | 14.0% | 3.6% | 4.70 | MP |
| CIMB GROUP HOLDINGS BHD | 5.27 | 52,294.0 | N | 12/2019 | 4.6% | 5.0% | -15.8% | 4.1% | 8.8 | 10.8 | 10.8 | 0.9 | 0.9 | 8.6% | 4.3% | 6.45 | OP |
| HONG LEONG BANK BERHAD | 17.20 | 37,284.7 | N | 06/2020 | 4.1% | 5.1% | 1.0% | 0.6% | 13.3 | 13.2 | 13.1 | 1.5 | 1.4 | 10.8% | 2.9% | 18.90 | OP |
| MALAYAN BANKING BHD | 8.62 | 96,900.5 | N | 12/2019 | 3.8% | 4.3% | -2.2% | 4.7% | 11.7 | 12.0 | 11.5 | 1.2 | 1.1 | 9.7% | 6.5% | 9.70 | OP |
| MALAYSIA BUILDING SOCIETY | 0.85 | 5,706.4 | N | 12/2019 | -4.2% | 4.5% | -17.8% | 8.6% | 8.5 | 10.3 | 9.9 | 0.7 | 0.7 | 6.7% | 5.9% | 1.10 | OP |
| PUBLIC BANK BERHAD | 19.82 | 76,944.0 | N | 12/2019 | 3.9% | 5.2% | -0.1% | 3.4% | 13.7 | 13.7 | 13.3 | 1.9 | 1.9 | 13.7% | 3.5% | 22.10 | OP |
| RHB BANK BHD | 5.75 | 23,057.8 | N | 12/2019 | 6.0% | 4.8% | 4.1% | 5.7% | 10.0 | 9.6 | 9.1 | 1.0 | 0.9 | 9.9% | 3.7% | 6.05 | MP |
| **Simple Average** | | | | | **5.0%** | **5.2%** | **-1.7%** | **7.6%** | **10.1** | **10.3** | **10.0** | **1.1** | **1.0** | **9.6%** | **4.5%** | | |

*Source: Bloomberg, Kenanga Research*

## Stock Ratings are defined as follows:

**Stock Recommendations**

| | |
|---|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

**Sector Recommendations*****

| | |
|---|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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