Banking
3QCY20 Results Wrap

NEUTRAL
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The recent 3QCY20 reporting quarter saw a 42% QoQ uptick in sector CNP on a combination of healthy NII (due to absence of modification loss) and NOII with most banks broadly tracking our expectations. That said, asset quality is still opaque at this juncture with credit charge still elevated as further provisioning while necessary, fuelled more uncertainties as to the real extent of impaired loans. We keep our NEUTRAL sector call. Our preference is for banks with strong asset quality (PBK, HLBK) and solid capital (RHB). We also like BIMB as a laggard stock.

The recent 3QCY20 reporting quarter saw most banks meeting expectations, with the absence of Day 1 modification loss. Four of the banks in our banking universe i.e. Maybank (MP; TP: RM8.60), MBSB (OP, TP: 0.80), PBK (OP; TP: RM20.25) RHB (OP; TP: RM6.30) saw their results that seem to come in ahead of our/ consensus at over 80% of full-year estimates but due to revised credit costs guidance (PBK) and further loan loss provisioning expected in the 4Q, we consider them as broadly tracking expectations. Four banks i.e. AFFIN (OP; TP: RM1.60), ABMB (MP, TP: RM2.70), BIMB (OP, TP: RM4.95) and HLBK (OP; TP: RM18.50) posted results which were within our/consensus full-year estimates. AMMB's 1HFY21 CNP formed 52% of both our/consensus estimates but we consider it to be below given the revised credit cost guidance while CIMB's 9MFY20 make up just 57%/51% of our/consensus estimates due to impairments in its bond book.

ABMB and AMMB were expected to declare dividends (in conjunction with their interim results) but did not do so citing economic uncertainties. However, there were a couple of surprises; MAYBANK declared an interim DPS of 13.5 sen (instead of in the 2Q) attributed to improved earnings and capital levels. BIMB's declared dividend (normally declared only in 3Q) of 12.6 sen DPS implied the same payout (at 36%) as in FY19, suggesting it is comfortable with its capital ratios and that major deterioration in asset quality is unlikely ahead. We understand from MAYBANK that its interim payment is not indicative of the full-year payout which will depend on the outlook and regulator's approval.

Outlook still cautious. Loans saw an uptick QoQ albeit in low single-digit as the economy reopened under the RMCO. Despite the positive vaccine developments, most banks are still cautious on their outlook/targets ahead maintaining concerns on further CMCOs and the efficacious and logistics of the vaccines are still in question. So far going into end of Nov, the take-up rate for the **Targeted Repayment Assistance** (post 6-month moratorium) offered by the Banks are quite muted but the banks do not discount uptick ahead depending on the impact of the current CMCO. As previously guided, post moratorium assistance is expected for 10-15% of their loan book with most banks reporting such numbers so far. B40 exposure by the banks are relatively minimal with most reporting low teens exposure to their loans book; AMMB, CIMB and PBK reported c.10% or below while those in low teens are Maybank (13%) and PBK (12%) while RHB reported 14% under its retail loan book. Given the uncertain numbers, asset quality outlook still looks hazy. **Credit cost guidance raised by some banks -** We note that some banks raised their credit cost guidance during the reporting quarter, essentially due to management overlays and macro-economic overlays given the hazy outlook. We, however, do not discount further overlays in 4Q on concerns of repayment slippage given the prolonged CMCO. On a more positive note, this aggressive pre-emptive provisioning by the banks will give a much more optimistic credit costs level for 2021. A more positive note is that **NIMs are expected to improve** further due to the absence of further OPR cuts supported by repricing of deposits and unwinding of modification losses. Special Relief Facility (SRF) is another contributing factor in elevating NIMs. While there will be additional modification losses in 4Q, it will likely be minimal given it's a targeted 3-month moratorium. Some banks reported better CASA growth (in high single-digit) given the narrowing spread between FDs and CASA as depositors prefers to hold cash.

Maintain NEUTRAL sector call. We continue with our view that asset quality will likely be the key swing factor to earnings ahead. This recent reporting quarter shows further loans loss provisioning by the banks with earnings visibility still hazy. We maintain our preference for banks with solid asset quality such as HLBK (OP; TP: RM18.50) and PBK (OP; TP: RM20.25). Their smaller exposure to the corporate space would shield them from chunky loan impairments. We also like RHB (OP; TP: RM6.30) for its capital strength. BIMB (OP; TP: RM4.95) is our pick as a catch-up play offering a cheaper entry into Takaful Malaysia. Furthermore, its asset quality is in a solid position after PBK and HLBK. Near-term upside risk to our sector call is a liquidity fuelled rally, rotational plays into value/cyclicals as well as better-than-expected macro data. Near-term downside risk is further lockdown from further wave of rising Covid-19 infection.

The recent 3QCY20 reporting quarter saw most banks meeting expectations, with the absence of Day 1 modification loss. Four of the banks in our banking universe i.e. Maybank (MP; TP: RM8.60), MBSB (OP, TP: 0.80), PBK (OP; TP: RM20.25) and RHB (OP; TP: RM6.30) saw their results seemingly coming ahead of our/consensus full-year estimates but due to revised credit costs guidance (PBK) and further loan loss provisioning expected in the 4Q, we consider them as broadly tracking expectations. Four banks i.e. AFFIN (OP; TP: RM1.60), ABMB (MP, TP: RM2.70), BIMB (OP, TP: RM4.95) and HLBK (OP; TP: RM18.500) posted results which were within our/consensus full-year estimates. AMMB's 1HFY21 CNP formed 52% of both our/consensus estimates but we consider it to be below given the revised credit cost guidance while CIMB's 9MFY20 make up just 57%/51% of our/consensus estimates due to impairments in its bond book.

Dividends were not expected to be declared in this quarter except by ABMB and AMMB, which however, were not declared citing economic uncertainties. However, there were a couple of surprises; MAYBANK declared an interim DPS of 13.5 sen (instead of in the 2Q) attributed to improved earnings and capital levels. BIMB's declared dividend (normally declared only in 3Q) of 12.6 sen DPS implied the same payout (at 36%) as in FY19 suggesting it is comfortable with its capital ratios and that major deterioration in asset quality is unlikely ahead. We understand from MAYBANK that its interim payment is not indicative of the full-year payout which will depend on outlook and regulator's approval.

Sector 3QCY20 PATAMI improved 45% QoQ (-14% YoY) with majority of the banks posting stronger QoQ results due to a combination of healthy NII and NOII.

i) **Net interest income (3QCY20: -2% YoY, +6% QoQ).** Excluding the modification losses of c.RM2.4b in 2QCY20, sector net interest income would have been up by 41%. Loans saw a slight uptick (+1% QoQ) as the economy reopened under the RMCO. BNM statistics points to a higher loan disbursement (+15% QoQ vs loans demand: +13% QoQ) underpinned by disbursement in Household loans (+54% QoQ) while Business disbursements fell 12% QoQ during this period. Not surprisingly, banks that focus on Retail chalks up higher loans QoQ; BIMB (+4% QoQ), AMMB (+3% QoQ), AFFIN, PBK and MBSB (+2% QoQ). Net interest margin (NIM) – ex-modification losses saw improvement by 20bps essentially due to repricing of deposits with 3QCY20 funding costs shedding 38bps by our estimates. Improvement in NIM was also supported by higher CASA ratio which moved 2ppt to 34%.

ii) **Non-interest income (3QCY20: +7% QoQ, +9% YoY).** NOII showed sequential improvement thanks to buoyant capital market activities. Core banking fee rebounded 22% QoQ but trading and investment gains fell 23% QoQ. Notable gains for the quarter were AFFIN (+22% QoQ), ABMB (+49% QoQ) and CIMB (+29% QoQ), largely driven by their core banking fee (ABMB and CIMB).

iii) **Overheads (3QCY20: +3% QoQ, -7% YoY).** In tandem with improving earnings, we find a slight increase in opex with spending mostly for administrative and marketing purposes. The easing of movement restriction allowed banks to top-up their marketing as well as other discretionary opex during the quarter. Nevertheless, we expect further uptick in the coming quarters (in tandem with improvement in earnings) as some opex were merely deferred and will need to be incurred down the road. Positive Jaw for most banks saw CIR improving by 3ppts to 44%.

iv) **Loan impairment allowances (3QCY20: -3% QoQ, >100% YoY).** Loan impairment allowances remained elevated during the quarter due further management and macro overlays, as well as CIMB setting aside a further RM250m in impairments relating to its bond book (O&G space). In terms of credit cost, sector credit cost was relatively flat at 90bps with HLBK, MAYBANK and RHB reported lower credit costs due to a combination of better loan recoveries and absence of further overlays. Banks that reported significant upticks from the previous quarter include AFFIN (51bps to 99bps) AMMB (118bps to 134bps) and BIMB (99bps to 119bps) due primarily for further macro and management overlays. In terms of asset quality, sector GIL actually fell by 16bps to 1.93% as the loan moratorium allowed some borrowers to regularise their accounts. Together with the higher allowances set aside, sector LLC jumped 12ppt QoQ to >100%.

Table 1: Sector 3QCY20 aggregate results

Y/E: Dec (RM m)	3Q20	2Q20	QoQ (%)	3Q19	YoY (%)	9M20	9M19	YoY (%)
Net interest income	10,352	9,767	*6%*	10,589	*-2%*	30,422	30,780	-1.2%
NIM	2.2%	2.0%		2.3%		2.1%	2.3%	
Non-interest Income	5,907	5,563	*6%*	5,438	*9%*	16,746	15,305	*9%*
NoII/Total income	28.9%	30.1%		27.2%		28.5%	26.6%	
Total income	20,440	18,473	*11%*	19,986	*2%*	58,729	57,531	*2%*
Operating expenses	(8,958)	(8,733)	*3%*	(9,611)	*-7%*	(26,914)	(27,660)	*-3%*
CIR	44%	47%		48%		46%	48%	
Pre-impairment profit	11,483	9,740	*18%*	10,374	*11%*	31,815	29,870	*7%*
(Allowances) / write-backs on other assets	(343)	(185)	*85%*	(131)	*162%*	(677)	(143)	*375%*
Loan (allowances) / write-backs	(3,763)	(3,926)	*-4%*	(1,813)	*108%*	(10,689)	(3,762)	*184%*
Credit cost	0.90%	0.90%		0.44%		0.83%	0.29%	
Operating profit	7,861	5,277	*49%*	8,600	*-9%*	20,901	26,782	*-22%*
Non-operating gains / (losses)	21	15	*38%*	35	*-39%*	22	44	*-50%*
Pre-tax profit	7,369	4,599	*60%*	8,924	*-17%*	19,148	26,612	*-28%*
Taxation	(1,770)	(745)	*138%*	(1,970)	*-10%*	(4,285)	(6,030)	*-29%*
Effective tax rate (%)	24%	16%		22%		22%	23%	
Minorities	(142)	(170)	*-17%*	(124)	*14%*	(374)	(421)	*-11%*
PATAMI	5,675	3,905	*45%*	6,562	*-14%*	15,177	20,192	*-25%*
CNP	5,675	3,905	*45%*	6,562	*-14%*	15,177	20,192	*-25%*
Gross loans	1,852,441	1,835,645	*0.9%*	1,801,713	*3%*	1,852,441	1,801,713	*3%*
Gross impaired loans	35,793	38,419	*-6.8%*	38,671	*-7%*	35,793	38,671	*-7%*
Customer deposits	2,034,817	2,010,495	*1.2%*	1,933,064	*5%*	2,034,817	1,933,064	*5%*
Total assets	2,836,315	2,792,546	*1.6%*	2,721,834	*4%*	2,836,315	2,721,834	*4%*
Shareholders' equity	290,518	286,466	*1.4%*	277,486	*5%*	290,518	277,486	*5%*
Annualised ROA	0.8%	0.6%		1.0%		0.7%	1.0%	*-28%*
Annualised ROE	8.0%	5.6%		9.7%		7.1%	10.0%	*-29%*
Gross impaired loans ratio	1.9%	2.1%		2.1%		1.9%	2.1%	*-10%*
Loan loss coverage (LLC)	100.4%	88.1%		77.3%		100.4%	77.3%	*30%*
Loan-to-deposit ratio	91.0%	91.3%		93.2%		91.0%	93.2%	*-2%*

Source: Company, Kenanga Research

Table 2: Net interest income – improved with the absence of Modification loss

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	**(RM m)**	*(%)*	**(RM m)**	*(%)*
Affin	193	157	22.6%	181	6.8%
ABMB	255	241	5.7%	242	5.4%
AMMB	532	444	19.7%	473	12.4%
BIMB	477	440	8.4%	409	16.7%
CIMB	2,559	2,692	-5.0%	2,568	-0.3%
HLBK	796	651	22.3%	704	13.1%
Maybank	2,698	2,698	0.0%	3,160	-14.6%
MBSB	28	54	-48.3%	39	-29.0%
PBK	1,909	1,499	27.4%	1,896	0.7%
RHB	906	890	1.8%	917	-1.3%
Sector	10,352	9,767	6.0%	10,589	-2.2%

Table 3: Loan growth – soft as Business activities are slow to pick up.

	3Q20	2Q20	QoQ	3Q19	YoY
	(RMb)	**(RMb)**	*(%)*	**(RMb)**	*(%)*
Affin	46	45	2.0%	47	-1.5%
ABMB	44	43	0.8%	43	1.2%
AMMB	111	107	2.9%	102	8.4%
BIMB	55	53	3.8%	49	11.8%
CIMB	366	370	-1.0%	361	1.6%
HLBK	148	146	1.5%	139	6.8%
Maybank	522	520	0.3%	525	-0.6%
MBSB	36	36	2.3%	36	-0.3%
PBK	342	335	2.3%	327	4.6%
RHB	182	181	0.9%	173	5.6%
Sector	**1,852**	**1,836**	0.9%	**1,802**	2.8%

Source: Kenanga Research

Table 4: Deposit growth healthy, driven by CASA deposits

	3Q20	2Q20	QoQ	3Q19	YoY
	(RMb)	(RMb)	(%)	(RMb)	(%)
Affin	50	48	2.5%	57	-13.0%
ABMB	49	49	-0.7%	46	5.7%
AMMB	115	114	0.4%	103	11.8%
BIMB	46	46	-2.0%	48	-4.2%
CIMB	409	410	-0.1%	385	6.3%
HLBK	175	173	0.7%	164	6.8%
Maybank	593	573	3.5%	566	4.8%
MBSB	26	25	2.9%	27	-4.1%
PBK	364	360	1.1%	347	4.8%
RHB	197	199	-1.3%	183	7.5%
Sector	**2,022**	**2,000**	1.1%	**1,926**	5.0%

Table 5: LDR suggests no major concerns for liquidity

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(%)	(bps)	(%)	(bps)
Affin	93%	93%	-44	82%	1128
ABMB	90%	88%	134	94%	-529
AMMB	96%	94%	234	99%	-531
BIMB	95%	92%	270	89%	296
CIMB	90%	90%	-74	94%	-342
HLBK	85%	84%	68	85%	-69
Maybank	88%	91%	-278	93%	-200
MBSB	140%	140%	-86	134%	622
PBK	94%	93%	114	94%	-129
RHB	93%	91%	205	94%	-369
Sector	**91%**	**91%**	**-27**	**93%**	**-190**

Source: Kenanga Research

Table 6: NIM improvement expected in 4Q as deposits are repriced and absence of additional OPR cuts

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(bps)	(bps)	(%)	(bps)
Affin	1.90%	1.68%	22	1.58%	32
ABMB	2.33%	2.29%	4	2.40%	-7
AMMB	1.88%	1.61%	27	1.79%	9
BIMB	2.47%	2.33%	15	2.28%	19
CIMB	2.41%	2.32%	9	2.55%	-14
HLBK	1.94%	1.73%	21	1.80%	14
Maybank	2.09%	1.94%	15	2.35%	-26
MBSB	3.31%	3.42%	-12	2.89%	41
PBK	2.08%	1.55%	53	2.12%	-4
RHB	2.00%	2.06%	-6	2.21%	-21
Sector	**2.20%**	**2.01%**	**19**	**2.33%**	**-12**

Table 7: NoII – Markets-related income remain healthy buoyed by surging stock market

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(%)	(%)	(RM m)	(%)
Affin	388	318	22.1%	196	98.6%
ABMB	127	85	48.8%	96	32.8%
AMMB	381	445	-14.4%	358	6.5%
BIMB	262	214	22.3%	283	-7.6%
CIMB	1109	861	28.7%	1250	-11.3%
HLBK	334	311	7.2%	311	7.4%
Maybank	1790	1699	5.3%	1844	-2.9%
MBSB	372	359	3.8%	289	29.0%
PBK	780	701	11.3%	563	38.6%
RHB	569	682	-16.5%	405	40.5%
Sector	**6112**	**5675**	7.7%	**5594**	9.3%

Source: Kenanga Research

Table 8: Overheads – Tightly capped as this is controllable by banks

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(%)	(%)	(RM m)	(%)
Affin	476	383	24.3%	317	50.0%
ABMB	191	187	2.1%	198	-3.7%
AMMB	524	539	-2.7%	526	-0.5%
BIMB	422	353	19.6%	424	-0.4%
CIMB	2,205	2,124	3.8%	2,786	-20.9%
HLBK	521	521	0.0%	522	-0.2%
Maybank	2,704	2,706	-0.1%	2,964	-8.7%
MBSB	113	104	7.8%	77	45.6%
PBK	948	970	-2.2%	953	-0.5%
RHB	854	846	0.9%	843	1.2%
Sector	**8,958**	**8,733**	2.6%	**9,611**	-6.8%

Table 9: CIR lower on positive JAWS

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(bps)	(bps)	(%)	(bps)
Affin	69%	65%	396	67%	164
ABMB	40%	44%	-412	46%	-595
AMMB	45%	50%	-505	49%	-356
BIMB	49%	45%	431	52%	-294
CIMB	49%	55%	-557	60%	-1068
HLBK	39%	44%	-490	43%	-435
Maybank	44%	48%	-342	46%	-111
MBSB	25%	20%	525	23%	241
PBK	31%	40%	-971	35%	-382
RHB	47%	43%	362	48%	-178
Sector	**44%**	**47%**	**-345**	**48%**	**-427**

Source: Kenanga Research

Table 10: Pre-impairment operating profit – improving given the healthy NII and NOII

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(%)	(%)	(RM m)	(%)
Affin	218	130	*67.7%*	157	*39.1%*
ABMB	284	235	*20.9%*	231	*22.7%*
AMMB	632	554	*14.2%*	551	*14.8%*
BIMB	433	333	*30.2%*	386	*12.0%*
CIMB	2,272	1,953	*16.3%*	1,852	*22.6%*
HLBK	828	676	*22.5%*	693	*19.5%*
Maybank	3,373	2,942	*14.7%*	3,535	*-4.6%*
MBSB	339	425	*-20.4%*	266	*27.4%*
PBK	2,139	1,429	*49.7%*	1,806	*18.5%*
RHB	976	728	*34.2%*	898	*8.7%*
Sector	**11,495**	**9,405**	*22.2%*	**10,374**	*10.8%*

Table 11: GIL improved given the Moratorium

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(RM m)	(%)	(RM m)	(%)
Affin	1,312	1,376	*-4.7%*	1,595	*-17.7%*
ABMB	764	823	*-7.1%*	719	*6.3%*
AMMB	1,738	1,780	*-2.3%*	1,801	*-3.4%*
BIMB	329	372	*-11.5%*	541	*-39.3%*
CIMB	12,366	13,366	*-7.5%*	11,354	*8.9%*
HLBK	705	890	*-20.8%*	1,124	*-37.3%*
Maybank	12,239	12,945	*-5.5%*	14,012	*-12.7%*
MBSB	2,134	2,164	*-1.4%*	2,083	*2.4%*
PBK	1,115	1,327	*-16.0%*	1,705	*-34.6%*
RHB	3,091	3,377	*-8.5%*	3,737	*-17.3%*
Sector	**35,793**	**38,419**	*-6.8%*	**38,671**	*-7.4%*

Source: Kenanga Research

Table 12: GIL ratio looking to head north post motarium

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(%)	(bps)	(%)	(bps)
Affin	2.9%	3.1%	*-20*	3.4%	-57
ABMB	1.7%	1.9%	*-15*	1.7%	*8*
AMMB	1.6%	1.7%	*-8*	1.8%	*-19*
BIMB	0.6%	0.7%	*-10*	1.1%	*-51*
CIMB	3.4%	3.6%	*-24*	3.1%	*23*
HLBK	0.5%	0.6%	*-13*	0.8%	*-33*
Maybank	2.3%	2.5%	*-14*	2.7%	*-32*
MBSB	5.9%	6.1%	*-22*	5.7%	*16*
PBK	0.3%	0.4%	*-7*	0.5%	*-20*
RHB	1.7%	1.9%	*-17*	2.2%	*-47*
Sector	**1.9%**	**2.1%**	***-16***	**2.1%**	***-21***

Table 13: LLC improvement on continued build up in reserves

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(%)	(bps)	(%)	(bps)
Affin	61%	51%	*1037*	36%	*2576*
ABMB	107%	87%	*1999*	80%	*2720*
AMMB	96%	71%	*2512*	69%	*2729*
BIMB	279%	205%	*7387*	140%	*13889*
CIMB	94%	82%	*1191*	77%	*1710*
HLBK	190%	142%	*4889*	110%	*8066*
Maybank	90%	83%	*662*	73%	*1635*
MBSB	102%	98%	*350*	111%	*-899*
PBK	209%	159%	*5031*	118%	*9142*
RHB	108%	94%	*1399*	66%	*4248*
Sector	**100%**	**88%**	***1229***	**77%**	***2308***

Source: Kenanga Research

Table 14: Loan impairments continues to remain elevated rise on pre-emptive provisions

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(%)	(%)	(RM m)	(%)
Affin	112	54	*>100%*	43	*>100%*
ABMB	151	95	*58%*	77	*95%*
AMMB	361	43	*>100%*	105	*>100%*
BIMB	212	57	*>100%*	34	*>100%*
CIMB	1,520	1,470	*3%*	404	*>100%*
HLBK	104	191	*-45%*	(9)	*N.a*
Maybank	804	1,739	*-54%*	958	*-16%*
MBSB	52	(54)	*N.a*	81	*-35%*
PBK	335	154	*>100%*	49	*>100%*
RHB	168	208	*-19%*	71	*>100%*
Sector	**3,820**	**3,957**	***-3%***	**1,813**	***111%***

Table 15: Credit cost – To stay elevated ?

	3Q20	2Q20	QoQ	3Q19	YoY
	(bps)	(bps)	(bps)	(bps)	(bps)
Affin	0.99%	0.47%	*51*	0.36%	*63*
ABMB	1.38%	0.87%	*51*	0.73%	*65*
AMMB	1.34%	0.16%	*118*	0.42%	*93*
BIMB	1.19%	0.20%	*99*	0.29%	*90*
CIMB	1.66%	1.61%	*5*	0.46%	*120*
HLBK	0.29%	0.54%	*-25*	-0.03%	*32*
Maybank	0.62%	1.33%	*-72*	0.74%	*-12*
MBSB	0.58%	-0.61%	*119*	0.90%	*-32*
PBK	0.40%	0.19%	*21*	0.06%	*34*
RHB	0.38%	0.47%	*-10*	0.17%	*21*
Sector	**0.90%**	**0.90%**	***-1***	**0.44%**	***46***

Source: Kenanga Research

Table 16: CNP brightened by strong NII and NOII

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(%)	(%)	(RM m)	(%)
Affin	49	67	-28%	72	-33%
ABMB	104	104	0%	116	-10%
AMMB	237	402	-41%	320	-26%
BIMB	136	153	-11%	208	-35%
CIMB	194	277	-30%	1,010	-81%
HLBK	729	569	28%	689	6%
Maybank	1,952	942	107%	1,999	-2%
MBSB	258	(13)	-2165%	170	52%
PBK	1,393	1,002	39%	1,363	2%
RHB	622	401	55%	616	1%
Sector	**5,675**	**3,905**	**45%**	**6,562**	**-14%**

Table 17: CET-1 ratios still healthy as banks deferred dividends

	3Q20	2Q20	QoQ	3Q19	YoY
	(%)	(%)	(bps)	(%)	(bps)
Affin	15.0%	14.7%	29	13.7%	130
ABMB	15.4%	14.5%	87	13.8%	162
AMMB	13.4%	12.5%	86	12.8%	65
BIMB	13.0%	12.7%	36	12.2%	84
CIMB	12.9%	12.8%	12	12.5%	36
HLBK	13.8%	13.9%	-18	13.3%	43
Maybank	15.3%	15.4%	-9	14.4%	90
MBSB	19.5%	19.5%	-6	18.2%	129
PBK	13.6%	14.0%	-37	13.1%	48
RHB	16.4%	16.6%	**-18**	20.3%	**-387**

Source: Kenanga Research

Table 19: Regulatory reserves – Banks drew down on reserves as higher loan allowances were made

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(RM m)	(%)	(RM m)	(%)
Affin	443	602	-26.4%	948	-53.2%
ABMB	21	130	-83.8%	183	-88.5%
AMMB	-	382	N.A.	590	N.A.
BIMB	-	-	N.A.	10	N.A.
CIMB	15	-	N.A.	2,071	-99.3%
HLBK	751	848	-11.4%	969	-22.4%
Maybank	2,116	2,117	0.0%	2,660	-20.5%
MBSB	N.A.	N.A.	N.A.	N.A.	N.A.
PBK	1,705	1,897	-10.1%	1,924	-11.4%
RHB	207	543	-61.8%	779	-73.4%

Source: Kenanga Research

Table 20: FVOCI reserves – Maybank and RHB have decent unrealised gains

	3Q20	2Q20	QoQ	3Q19	YoY
	(RM m)	(RM m)	(%)	(RM m)	(%)
Affin	268	181	47.9%	292	-8.1%
ABMB	358	292	22.7%	168	>100%
AMMB	985	877	12.4%	686	43.7%
BIMB	243	227	7.0%	237	2.6%
CIMB	(77)	(227)	-66.0%	35	N.A.
HLBK	N.A.	N.A.	N.A.	N.A.	N.A.
Maybank	4,712	4,217	11.7%	3,179	48.2%
MBSB	306	255	19.8%	172	77.4%
PBK	N.A.	N.A.	N.A.	N.A.	N.A.
RHB	2,083	1,727	20.6%	1,431	45.6%

**Not disclosed*

Key Highlights and Outlook:

Outlook still cautious. Loans saw an uptick but QoQ albeit in low single digits as the economy reopens under the RMCO. Of note, both BIMB and MBSB saw better performances at +3.8% and +2.3% respectively driven by their PF. We believe BIMB's drive is mostly strategic to compensate for NIM compression (from OPR cuts & Modification loss) while for MBSB the drive coming from its M-Prihatin Financing Programme. Despite the positive Vaccine developments most banks are still cautious on their outlook/targets ahead maintaining concerns on further CMCOs as the efficacious and logistics of the vaccines are still in question.

Updates on the Targeted Assistance post Moratorium. So far going into end of Nov, take-up rate for the Targeted Repayment Assistance (post 6-month Moratorium) offered by the Banks are quite muted but the banks do not discount uptick ahead depending on the impact of the current CMCO. As previously guided post Moratorium assistance are within 10-15% of their loan book. Maybank reported the highest exposure in Targeted Repayment Assistance Programmes (Targeted Assistance & R&R) which we estimated at 14% of total group loans - <10% are domestic. CIMB saw its Targeted Assistance & R&R) at c.6% of its group loan book with domestic at <10%. HLBANK's Payment Relief Assistance Plans amounted to RM12b (or 8% of loans/financing) of which 78% are for retail customers. PBK shared that the take-up rate for the targeted repayment assistance programme stood at 9%. RHB had earlier estimated that c.23% of the corporate book may require assistance but currently R&R loans formed 10% of the domestic loan book. AMMB is seeing 11% of total loans under the Post Moratorium & Targeted Assistance. B40 exposure by the Banks are relatively minimal with most reporting in the low teens of their loans book; AMMB, CIMB and PBK reported c.10% or under while those in low teens are Maybank (13%), PBK (12%) while RHB reported 14% under its retail loan book. Asset quality outlook still looks hazy given the prolonged CMCO thus impact on asset quality and provision is still uncertain. BNM statistics in Oct shows uptick in GIL ratio led by Households.

Credit cost guidance raised by some. We note that some banks raised their credit cost guidance during the reporting quarter. Among them; AMMB (85-100bps from 50bps), CIMB (from 120-140bps to 140bps-150bps), PBK (20-25bps to 30-35bps) and RHB (from 40bps to 45-50bps). Same reason as before which is essentially due to management overlays but for CIMB and AMMB is primarily due to macro-economic overlays and early signs of repayment slippage (AMMB). We however do not discount of further overlays ahead in 4Q due to concerns of repayment given the prolonged CMCO. On a more positive note, this aggressive pre-emptive provisioning by the banks will give a much more optimistic credit costs level for 2021.

NIM is expected to improve further due to the absence of further OPR cuts supported by repricing of deposits and unwinding of modification losses. ABMB and HLBNK reported the Special Relief Facility (SRF) contributed to mute the impact of Day 1 Modification losses further improving their NIMs. While there will be additional Modification losses in 4Q but it will likely be minimal given it's a Targeted 3-month moratorium. Some banks reported better CASA growth (in high single digits) given the narrowing spread between FDs and CASA plus depositors prefers to hold cash in a buoyant stock market.

Healthier FVOCI. We saw LLC for the banks jumped >123ppts which banks drew down further their regulatory reserves to cushion the higher credit charges on capital. CET1 ratios for most bank saw slight uptick helped by this drawdown. While regulatory reserves have dwindled significantly in this reporting quarter, the banks saw healthier FVOCI reserves from the preceding quarter whereby they can book in further trading and investment gains to provide support to earnings and/or capital.

Forecasts

Post the reporting quarter, we have lowered sector CY20E PATMI by 3% mainly due to the earnings revisions for AMBANK (-16%) and CIMB (-11) while we nudged up CY21E sector PATMI by 2%. A summary of the earnings revisions is as per Table 24 below.

Table 24: Forecasts changes post 2QCY20 results

Banks	New earnings estimates (RM m)		Previous earnings estimates (RM m)		Difference (%)	
	FY20/21E	FY21/22E	FY20/21E	FY21/22E	FY20/21E	FY21/22E
AFFIN	365	395	351	395	*-4%*	*0%*
ABMB	359	488	359	488	*0%*	*0%*
AMMB	1,155	1,298	973	1,316	*-16%*	*1%*
BIMB	720	750	682	758	*-5%*	*1%*
CIMB	1,727	3,407	1,533	3,483	*-11%*	*2%*
HLBK	2,852	3,032	2,852	3,032	*0%*	*0%*
Maybank	6,514	7,113	6,163	7,306	*-5%*	*3%*
MBSB	128	673	128	673	*0%*	*0%*
PBK	4,586	5,074	4,593	5,364	*0%*	*6%*
RHB	1,941	2,128	1,934	2,120	*0%*	*0%*
Industry (FY)	**20,347**	**24,358**	**19,568**	**24,935**	***-4%***	***2%***
Industry (CY)	**20,230**	**24,245**	**19,660**	**24,849**	***-3%***	***2%***

Source: Kenanga Research

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	1.90	3,951.6	N	12/2020	-4.5%	-0.6%	-28.1%	12.5%	7.7	11.2	10.0	0.4	0.4	3.7%	2.6%	1.50	MP
ALLIANCE BANK MALAYSIA BHD	2.93	4,536.0	N	03/2021	2.4%	2.9%	-15.1%	36.2%	10.7	12.7	9.3	0.8	0.7	5.9%	2.2%	2.70	MP
AMMB HOLDINGS BHD	3.71	11,165.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	8.3	11.5	8.5	0.6	0.6	5.1%	3.0%	3.70	MP
BIMB HOLDINGS BHD	4.46	7,995.3	Y	12/2020	1.2%	6.2%	-13.3%	11.1%	10.3	12.4	11.6	1.4	1.3	11.2%	4.6%	4.95	OP
CIMB GROUP HOLDINGS BHD	4.45	44,157.2	N	12/2020	-10.8%	7.0%	-67.9%	127.2%	9.7	28.8	13.1	0.8	0.8	2.7%	1.4%	3.90	MP
HONG LEONG BANK BERHAD	19.00	41,186.6	N	06/2021	14.8%	9.6%	14.3%	6.3%	15.6	13.6	12.8	1.4	1.3	10.1%	1.9%	18.50	OP
MALAYAN BANKING BHD	8.91	100,160.5	N	12/2020	-1.8%	2.5%	-24.8%	18.5%	12.2	16.3	13.9	1.2	1.2	7.5%	2.5%	8.60	MP
MALAYSIA BUILDING SOCIETY	0.74	5,161.8	N	12/2020	21.4%	-12.0%	-82.2%	415.1%	6.8	40.2	7.8	0.6	0.6	8.0%	0.0%	0.80	OP
PUBLIC BANK BERHAD	21.90	85,018.8	N	12/2020	-8.8%	4.4%	-16.7%	16.8%	15.4	18.5	15.8	2.0	1.8	10.2%	2.2%	20.25	OP
RHB BANK BHD	5.85	23,458.8	N	12/2020	-2.1%	4.3%	-22.1%	9.6%	9.4	12.1	11.1	0.9	0.9	7.4%	3.3%	6.30	OP
Simple Average					**1.2%**	**2.9%**	**-28.3%**	**68.9%**	**10.6**	**17.7**	**11.4**	**1.0**	**1.0**	**7.2%**	**2.4%**		

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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