Banking

Unhindered by Change in Investor Mix

OVERWEIGHT

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Despite the consensus for economic outlook being skewed towards some degree of recovery, we noted that year-to-date, institutional investors have taken a cautious stance on the financial sector and have been reducing such positions. Foreign investors have also showed less favour in our banks but this has been a prevailing trend since 2019 possibly as Malaysia is perceived to be a dicier bet on bureaucratic factors as well as Covid-19 impact. That said, we believe there is little cause of concern as share prices and valuation levels for the sector have remained relatively stable that could help propel a stronger upward trajectory when these investors return. To recap, our optimistic outlook for the banking sector is anchored by: (i) our in-house view for 2021 GDP growth of 6.5%, (ii) no further downside to OPR, (iii) easing credit cost from heavy pre-emptive provisioning in 2020, and (iv) a potentially extended low CIR environment. Hence, maintain OVERWEIGHT with our top picks being: (i) MAYBANK (OP; TP: RM10.60) for dividend prospects (7-8% yield), and (ii) RHBBANK (OP; TP: RM6.25) for capital safety.

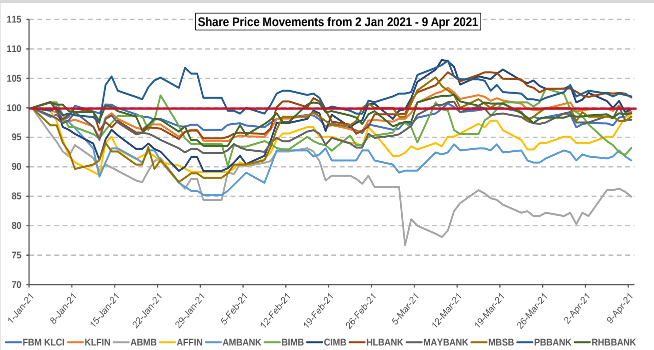
(Refer to overleaf for charts retrieved from the Dibots analytics platform and our Beta findings)

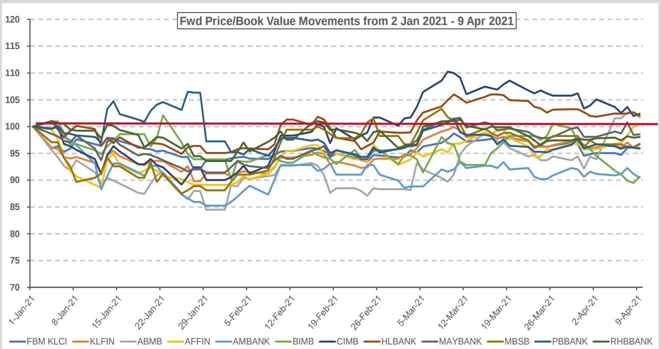
Some offloading at hand. From 2019-2020, institutional investors had been accumulating stocks in the financial services industry and added RM8.7b worth to their portfolios, albeit some hiccups were seen during the Covid-19 induced MCO. However, recent findings from Dibots pointed out that the same basket of stocks was being de-institutionalised with YTD net selling of RM1.4b. We suspect that funds could be closing some favourable positions made during 4QCY20. It could also be argued that this is spurred by the softening confidence in economic recovery due to the MCO 2.0 from mid-Jan 2021, driving the need to de-leverage from the sector. On the flipside, we gather that foreign investors have constantly been net sellers which was truly market-wide at the height of the US-China trade tensions during the Trump Presidency and added by uncertainties in the domestic political climate.

The abovementioned recent trends could have led to the rise in Beta levels for the banking stocks within our coverage. The highest amongst them would be PBBANK but this could be viewed with some discretion as it saw high trading volatility from its 4:1 bonus issue. That said, **we do not think that this should be a cause for concern for the sector.**

In spite of these indicators, we highlight that the banking sector has been relatively stable YTD. Both price and valuation levels have remained somewhat flattish, suggesting that investors' support are still mostly intact. To offer a brighter perspective, the deleveraging of institutions within the sector could allow for stronger upward bias price momentum if funds were to reposition. The higher retail investor mix currently is also great for liquidity to spur further participation into the sector.

Movements in Share Price and Fwd PBV



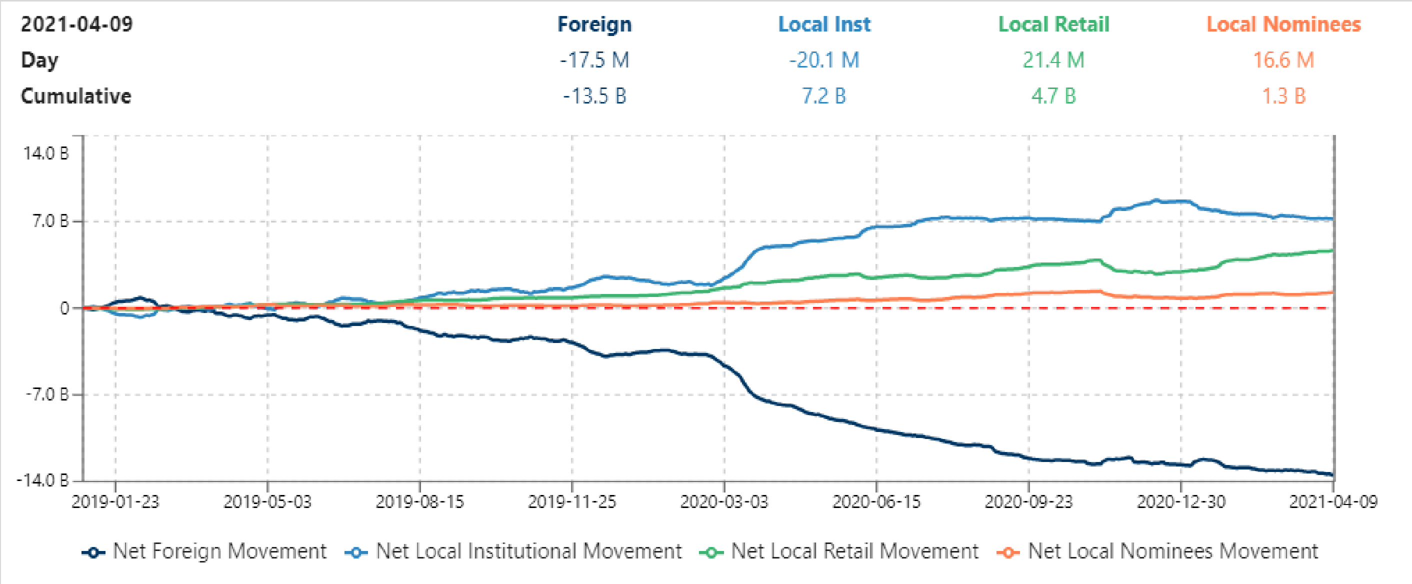


Source: Bloomberg, Kenanga Research

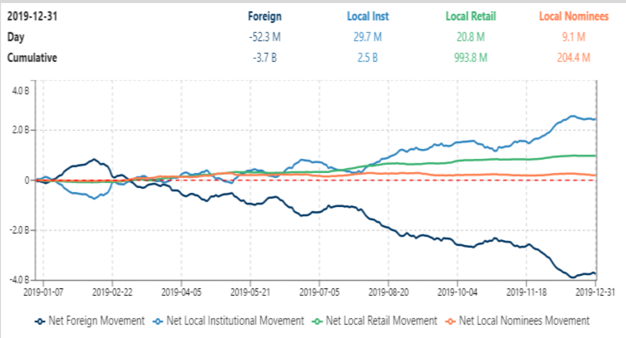
Maintain OVERWEIGHT on the Banking Sector. We continue to view the sector positively as a sound proxy of the impending economic recovery as business and spending outlook normalises with the rolling out of vaccination efforts. Our in-house view for 2021 GDP growth of 6.5% is in line with BNM's forecast of 6.0-7.5%. Even if loans and net interest income growths remain tepid and vaccination progress is slower-than-expected, we believe banks could continue to yield earnings growth having implemented leaner cost structures amidst the tight operating environments during the height of the MCO. Plus, with most impairments being frontloaded in 4QCY20, we anticipate any further provisioning during CY21 to be milder. Our Top Picks are **MAYBANK (OP),** which we upgraded its **TP** to **RM10.60** (from RM8.75), is favoured for its strong dividend yield potential (7-8%) and ROE prospects, and **RHBBANK (OP; TP: RM6.25)** which commands an industry leading CET-1 reserve of 16.2% which enables greater allowance to implement capital management strategies.

Capital Flows for Financial Service Stocks

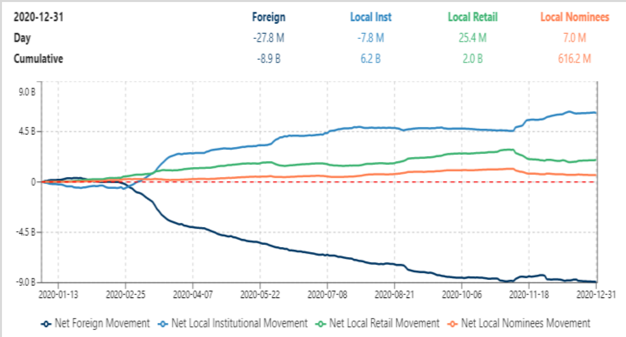
1-Jan-19 to 9-Apr-21



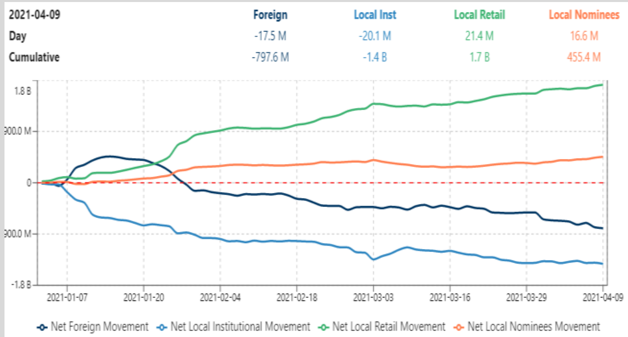
1-Jan-19 to 31-Dec-19



1-Jan-20 to 31-Dec-20



1-Jan-21 to 9-Apr-21



Source: Dibots

Betas for our Banking Coverage

Stock	2-Year Beta, as of: 9-Apr-20	9-Apr-21
ABMB	1.17	1.17
AFFIN	0.89	1.09
AMBANK	1.12	1.08
BIMB	0.90	0.95
CIMB	1.12	1.17
HLBANK	1.08	1.16
MAYBANK	0.81	0.94
MBSB	1.06	1.15
PBBANK	1.16	1.39
RHBBANK	0.93	1.12
Average Beta	**1.02**	**1.12**

Source: Bloomberg, Kenanga Research

Peer Table 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 DivYld (%)	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.		
Stocks Under Coverage																	
AFFIN BANK BHD	1.82	3,785.2	N	12/2021	-4.6%	2.7%	46.5%	11.2%	16.4	11.2	10.1	0.4	0.4	3.5%	2.7%	1.35	UP
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	-10.1%	-6.4%	-14.7%	34.8%	9.7	11.3	8.4	0.7	0.7	5.9%	2.3%	2.30	UP
AMMB HOLDINGS BHD	3.10	9,325.2	N	03/2021	-10.9%	4.6%	-205.4%	190.0%	7.0	N.A.	8.1	0.5	0.5	-7.9%	0.0%	2.40	UP
BIMB HOLDINGS BHD	3.97	7,359.0	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.3	9.7	9.6	1.2	1.1	11.5%	3.5%	5.15	OP
CIMB GROUP HOLDINGS BHD	4.29	42,569.5	N	12/2021	-0.3%	4.5%	176.0%	35.0%	35.6	12.9	9.6	0.8	0.7	5.8%	3.0%	3.50	UP
HONG LEONG BANK BHD	18.52	40,146.1	N	06/2021	14.8%	9.6%	14.3%	6.3%	15.2	13.3	12.5	1.4	1.3	10.1%	1.9%	17.40	MP
MALAYAN BANKING BHD	8.29	94,622.0	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.7	12.6	10.5	1.1	1.1	8.7%	6.8%	10.60	OP
MALAYSIA BUILDING SOCIETY BHD	0.665	4,638.6	N	12/2021	66.6%	3.0%	173.9%	14.4%	16.8	6.1	5.4	0.5	0.5	8.1%	4.5%	0.720	OP
PUBLIC BANK BHD	4.20	81,524.9	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.7	14.5	14.0	1.7	1.6	11.6%	3.3%	4.40	MP
RHB BANK BHD	5.40	21,654.2	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.7	10.7	9.2	0.8	0.8	7.7%	3.3%	6.25	OP
Simple Average					**5.3%**	**2.4%**	**20.3%**	**33.1%**	**15.0**	**11.4**	**9.7**	**0.9**	**0.9**	**6.5%**	**3.1%**		

Source: Kenanga Research

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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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