

05 May 2022

## Banking

### Digital Banks: Here Are Your Winners!

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## OVERWEIGHT



On 29<sup>th</sup> April 2022, BNM duly awarded digital banking licenses to five consortiums led by:-

- Boost Holdings Sdn Bhd / RHBBANK;
- GXS Bank Pte. Ltd. / Kuok Brothers Sdn Bhd;
- Sea Limited / YTL Digital Capital Sdn Bhd;
- AEON Financial Service Co., Ltd. / AEONCR / MoneyLion Inc. (Islamic license); and
- KAF Investment Bank Sdn Bhd (Islamic license)

As expected, the winners were skewed towards prevailing e-wallet/e-money players as their existing captive user-base and well-tested expertise could smoothen the implementation and adoption of new digital banking services. To recap, the key initiatives for digital banks are to enhance financial inclusion of un(der)banked and un(der)served communities and increase overall accessibility to financial services. With this award, the new licensees are subject to the condition that their respective proposed digital bank units shall commence operations within 24 months. We maintain our OVERWEIGHT call on the banking sector for now, as the new digital banks are not expected to result in any immediate competitive impact to the banking space. That said, we believe RHBBANK (OP; TP: RM6.95) could see boosted interest with investors keenly monitoring the development of its new digital banking unit. HLBANK (OP; TP: RM22.70) is also a favoured pick for asset quality safety.



**Winners mostly as expected, with some surprises.** We had advocated for e-wallet/e-money players to be strong candidates in the bid for the digital banking licenses. Aside from well-established capabilities to offer digital financial solutions, their pre-existing brand equity and consumer trust could better enable customers to seamlessly partake in budding digital banking offerings. Hence, we were not surprised to see Boost, GXS Bank (Grab-Singtel's digital banking entity) and AEONCR amongst the awardees. That said, the inclusion of Kuok Brothers was a surprise albeit a pleasant one as backing from the conglomerate could provide comfort on the consortium's medium-term financial sustainability. *(Please refer to the overleaf for a refresher on the concept of Digital Banks and timeline.)*

KAF's inclusion was an unexpected twist as information regarding the investment bank's application and details of its consortium partners are scarce. We were also surprised to see

MoneyLion joining hands with the AEON Group as they were thought to be a separate applicant, suggesting that BNM could have called for more partnerships to enhance the skillsets and longevity within each consortium.






**Thorough assessment conducted.** In identifying the five best fit (out of 29 applications received) to be awarded the license, BNM had perused an intensive assessment criteria in determining the character and integrity of applicants, nature and sufficiency of financial resources, soundness and feasibility of business and technology plans as well as ability to meaningfully address financial inclusion gaps. Based on what available information that was publicly assessible, we gathered that all applicants had their own capabilities, unique value propositions and captive users to present as strong pitches to BNM. That said, we reckon that one of BNM's main concern would be the survivability of infant banks as potential failures could disrupt the stability and confidence in our national financial industry. According to past findings, in 2020 only 5% of global digital banks have broken even with an average horizon of 5 years required among them. *(Please refer to the overleaf for further details on the list of winners and BNM's assessment criteria.)*

**Maintain OVERWEIGHT on the Banking Sector.** We welcome the inclusion of digital banks into the financial sector as while it will likely stir the operating landscape of traditional banks in the long term, it is a necessary step in developing our national maturity in accepting new evolutions (and improvements) in collusion with global standards. That said, we do not believe they would undermine the investment sentiment of the existing banks as the digital banks would first need to launch into the market. According to the licensee conditions, the consortiums have up to 24 months to commence operations of the proposed digital banking units. Additionally, their eventual scale of operations would still fall shy in comparison to conventional banks given a total asset cap of RM3.0b during their 3-5 years foundational phase upon launch. The upliftment of the foundational terms is subject to BNM's subsequent review. At the meantime, our Top Pick selection of **RHBBANK (OP; TP: RM6.95)** remains intact with its successful bid for the license. We also advocate **HLBANK (OP; TP: RM22.70)** as a solid pick for safety given its exemplary improvements in asset quality (outpacing its pre-Covid performance level).



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## Appendix

Digital Banking License Winners	
Consortium	Remarks
<b>Boost Holdings Sdn Bhd (60%) / RHBANK (40%)</b> 	<p>A strong candidate of which we had hope for their successful tender since news of their application began. RHBANK is the fifth largest listed traditional bank with a reported asset size of RM290b with a cash pool of RM20b. Meanwhile, besides already possessing a large captive user base via its e-wallet platform, Boost also currently offers lending products via Boost Credit which is estimated to have a total disbursement gross transaction value of c.RM130m in 4QFY21.</p>
<b>GXS Bank Pte. Ltd. (55.45%) / Kuok Brothers Sdn Bhd (44.55%)</b> 	<p>Another solid pick with Grab and Singtel jointly managing GXS Bank. The Grab platform is a highly familiar name amongst Malaysian consumers for its integrated offerings. It also helps the consortium's case that GXS Bank is a current digital banking license holder in Singapore, where we believe infrastructure sharing could be prominent in accelerating the roll out of its Malaysian digital bank. However, we are surprised to see the Kuok Group in the mix as past reports have not mentioned their participation in the license race, more so with GXS. Still, the conglomerate could possibly provide a substantial backing that if not financially, then through resources and outreach available in its diversified fields of industry.</p>
<b>Sea Limited / YTL Digital Capital Sdn Bhd</b> 	<p>Sea-YTL's award was also well anticipated as like GXS Bank, Sea Limited too is a holder of one of the four digital banking license in Singapore. Furthermore, Sea Limited is the parent company of Shopee Pte. Ltd., a well-adopted e-commerce platform in Malaysia. Uniquely in this case, we believe lending and deposit facilities could be integrated into the Shopee app which should offer high ease of access and penetration to existing Shopee users. Not much is known about YTL Digital Capital's specific proposition to the group, but we reckon the YTL Group's immense resources could propel the roll out of their digital banking body, much like with the Kouk Group above.</p>
<b>AEON Financial Service Co., Ltd. (45%) / AEONCR (45%) / MoneyLion Inc. (10%)</b> 	<p>The AEON Group was thought to be a worthy contender, mainly due to AEONCR's e-wallet ecosystem and exposure in non-conventional financing. Meanwhile, its parent company will likely contribute expertise and know-how from AEON Group's well-rooted banking arm in Japan. We were surprised to see MoneyLion in partnership, especially with a comparatively small stake in relation to the AEON Group. It was earlier thought that MoneyLion was a standalone applicant, so its entry here could indicate that BNM had called for more collaborations to solidify the expertise at hand for the digital banks. MoneyLion is principally involved in the provision of mobile banking and financial membership platform, with banking, borrowing and investment solutions for its customers in the United States. It is listed in the New York Stock Exchange.</p>
<b>KAF Investment Bank Sdn Bhd</b> 	<p>Perhaps the biggest outlier of the batch, KAF's application was rather elusive and its award of the Islamic digital banking license was a surprise as little is known on the structure of its consortium or whether it would steer the development of its new banking unit on its own. Compared to the other winners, KAF lacks a firm presence in contemporary digital and financial solutions with gaps in captive clients requiring further effort in customer acquisition. That said, the investment bank is known to be a matured financial institution with a well-diversified plate of financial services. We opine that the group not have any complications in securing partners along the way to ensure the rolling out of its digital banking unit.</p>

Source: Companies

**Snapshot: Concept of a Digital Bank Concepts vs Traditional Banks**

Comparison	Digital Banks	Traditional Banks
Platform	Digital but may be supported by agent banking	Physical bank branches located across Malaysia
Customer focus	Un(der)served segments - reach rural areas and low income segments denied loans over lack of credit history	Customers with access to the nearest physical branch and credit track record
Transaction costs	Lower expected due to data analytics facilitated by alternative credit scoring system	Higher due to relatively manual processes with longer turnaround time
Physical branches	Not allowed but may participate in the Shared ATM Network or enter into arrangements with traditional banks	Physical branches to facilitate customer transactions
Minimum capital funds	Foundational phase: RM100 million Post-foundational phase: RM300 million	Locally incorporated: RM300 million Not locally incorporated: RM2 billion Investment banks: RM500 million
Asset size	Foundational phase: RM3 billion Post-foundational phase: No limitation	In comparison, Malaysia's smallest bank, Alliance Bank Malaysia Berhad has an asset size RM60 billion

Source: Kenanga Digital Strategy Team, The Edge, Bank Negara Malaysia

**Assessment Criteria for License Applications**

**Factors for consideration in assessing licence applications**

1. Character and integrity of the applicant
2. The business to be authorised is not detrimental to its future depositors, or the public generally
3. Soundness and feasibility of the plans
4. Nature and sufficiency of the financial resources
5. Business record and experience
6. To be operated responsibly by persons with competence and experience
7. Application will be in the best interest of Malaysia
  - a) Impact to economic activity in Malaysia
  - b) Contribution to trade and investment linkages between Malaysia and other countries
  - c) Effect on financial stability
  - d) Participation of Malaysians in the financial sector
8. Nature, scale and activity of corporate group will not impede effective regulation and supervision
9. (IFSA) Business will not involve any element contrary to Shariah and possesses a robust Shariah governance framework

**Overview of Assessment Criteria**



**Prudential**

Soundness and feasibility of business plan, Sufficiency of financial resources, Business track record and experience, Supervisability of group, Character and integrity of shareholders, Business plan is not contrary to Shariah (IFSA only), Robustness of exit plan.



**Technology**

Robustness of underlying technology in supporting digital strategy, Technology and cyber risk management capabilities, Competency and track record of successful digital business, Cloud strategy and cloud risk management plans, Business continuity plans.



**Financial Inclusion**

Relevance of identified unserved and underserved (U/US) target segments, Ability to serve the needs of U/US, Experience and commitment in provision of financial services for financial inclusion objectives, Adoption of innovative technology/data, Effectiveness of delivery channels

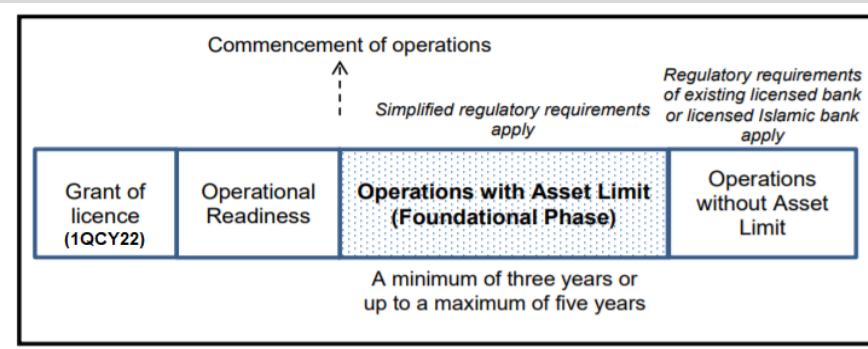


**Best Interest of Malaysia**

Effect on stability of financial system, Effect of the investment on the level and nature of economic activity in Malaysia.

Source: BNM

## Timeline and Operational Progression



- i) During the foundational phase, a licensed digital bank shall:
  - maintain at all times a minimum amount of capital funds of RM100m unimpaired by losses;
  - be subject to the business limitation of not exceeding a total asset size of RM3b at all times during the foundational phase; and
  - other regulatory framework as described in the “Licensing Framework for Digital Banks”
- ii) From the minimum of 3 years to the maximum of 5 years of operations, a licensed digital bank will apply to end its foundational phase to uplift its business limitations. Bank Negara’s approval depends on the digital bank:
  - complied with all applicable laws and regulatory requirements;
  - achieved a minimum amount of capital funds of RM300 million unimpaired by losses; and
  - shown satisfactory progress in achieving the committed value propositions as described in its business plan.
- iii) Failure to graduate from its foundational phase in the fifth year, a licensed digital bank will have to implement an exit plan which could lead to the revocation of its license

Source:BNM

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## 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.			
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	2.10	4,460.5	N	12/2022	7.4%	2.4%	8.4%	19.3%	8.4	7.8	6.5	0.4	0.4	5.7%	5.2%	2.40	OP	
ALLIANCE BANK MALAYSIA BHD	3.78	5,851.8	N	03/2022	-6.2%	-0.5%	60.4%	14.8%	16.3	10.2	8.9	0.9	0.9	8.9%	4.0%	4.10	OP	
AMMB HOLDINGS BHD	3.69	12,228.4	N	03/2022	-0.1%	3.2%	46.3%	9.4%	11.8	8.9	8.1	0.8	0.8	9.1%	2.4%	4.05	OP	
BIMB HOLDINGS BHD	2.90	6,250.3	Y	12/2022	-7.7%	0.2%	-3.3%	14.4%	13.5	14.0	12.0	1.1	1.1	7.8%	3.6%	2.85	MP	
CIMB GROUP HOLDINGS BHD	5.20	54,466.1	N	12/2022	3.0%	4.1%	-5.7%	31.0%	11.2	11.9	9.1	0.9	0.9	7.3%	4.4%	5.65	OP	
HONG LEONG BANK BHD	20.98	45,478.7	N	06/2022	3.2%	4.3%	5.8%	19.6%	15.0	14.2	11.9	1.5	1.4	10.0%	2.7%	22.70	OP	
MALAYAN BANKING BHD	9.07	108,568.0	N	12/2022	1.1%	5.1%	3.0%	20.9%	13.0	12.6	10.5	1.2	1.2	9.6%	6.6%	11.00	OP	
MALAYSIA BUILDING SOCIETY BHD	0.640	4,589.7	N	12/2022	64.3%	4.0%	26.9%	29.5%	10.5	8.2	6.4	0.5	0.5	6.3%	5.5%	0.520	UP	
PUBLIC BANK BHD	4.69	91,036.1	N	12/2022	4.6%	4.3%	-1.8%	25.0%	16.1	16.4	13.1	1.9	1.8	11.2%	3.3%	4.35	MP	
RHB BANK BHD	6.25	25,893.2	N	12/2022	3.3%	2.1%	-5.6%	13.0%	9.0	9.6	8.5	0.9	0.9	9.2%	5.1%	6.95	OP	
<b>Simple Average</b>					<b>7.3%</b>	<b>2.9%</b>	<b>13.4%</b>	<b>19.7%</b>	<b>12.5</b>	<b>11.4</b>	<b>9.5</b>	<b>1.0</b>	<b>1.0</b>	<b>8.5%</b>	<b>4.3%</b>			

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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