Banking

Third 25 bps OPR Hike, One More Expected

OVERWEIGHT

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BNM has raised the OPR by another 25 bps for the third time this year, bringing it to 2.50% as of yesterday. This is well expected, as inflationary pressures persist globally, albeit to a lesser extent locally. We anticipate BNM would introduce another 25 bps hike during its November 2022 MPC meeting, with the possibility of another in 1QCY23 to close at 3.00%. The impact to corporate earnings is well guided with higher interest rates offloading competitive pressures on the deposits front. This translates to an increase in NIMs of 2-4 bps on an annualised basis (except MBSB which is expected to see compression from its unfavourably high fixed-rate loans mix). All our stock calls within the sector are unchanged, save for a few nudges to TP. Maintain OVERWEIGHT on the sector, with greater favour towards prominent dividend yielders for buffers against recessionary concerns. Our highlights remain to be MAYBANK (OP; TP: RM11.05) and AFFIN (OP; TP: RM2.45) for now.

More interest repricing to carry earnings. The guided impact from the OPR hike remains unchanged from corporates in spite of having undergone two 25 bps hikes previously. Incorporating the new rate to our assumptions, the impact to the FYE Dec counters are expectedly more muted as the new 2.50% level only implicates the last four months of the year. EPS improvements on an annualised basis ranges from 1-2% whereas MBSB is expected to see further earnings erosion owing to their high proportion of fixed-rate financing relative to deposits.

Impact to NIM Assumptions from OPR Hike

Name	Previous NIM Assumptions		Updated NIM Assumptions		Earnings Revision	
	FY22F/FY23F	FY23F/FY24F	FY22F/FY23F	FY23F/FY24F	FY22F/FY23F	FY23F/FY24F
ABMB *	2.69%	2.60%	2.70%	2.62%	0.6%	1.3%
AFFIN	2.07%	1.98%	2.07%	2.01%	0.2%	2.3%
AMBANK *	2.10%	2.10%	2.11%	2.13%	0.7%	2.2%
BIMB	2.84%	2.81%	2.85%	2.84%	0.2%	1.0%
CIMB	2.51%	2.46%	2.52%	2.49%	0.6%	1.9%
HLBANK ~	1.96%	1.90%	1.97%	1.92%	0.6%	0.9%
MAYBANK	2.19%	2.19%	2.20%	2.21%	0.1%	1.4%
MBSB	3.01%	3.08%	3.00%	3.06%	-0.4%	-1.2%
PBBANK	2.30%	2.33%	2.30%	2.35%	0.1%	1.1%
RHBBANK	2.16%	2.16%	2.17%	2.19%	0.1%	1.7%

Notes:

** Financial Year Ending March*

~ Financial Year Ending June

Source: Kenanga Research

Post update, all our stock calls remain unchanged, although there were minor upticks in **HLBANK (OP; TP: RM23.35)** and **MBSB (UP; TP: RM0.505)'s** target prices. *(refer to the overleaf)*

Maintain OVERWEIGHT on the Banking Sector. We continue to overweight the banking sector which will be resilient particularly in an interest rate up-cycle environment, as economic activity remains supportive. In the near term, the banks are expected to demonstrate earnings bumps from the normalisation of credit cost post-Covid provisions and eventual writebacks from overlays. Further, the lapse of prosperity tax in the coming year could provide a meaningful bump-up to earnings and possibly shareholder returns. On the flipside, market sentiment is still showing signs of tepidness as recessionary-pulled concerns still arise from global macros, with recurring Covid lockdowns in China not inspiring confidence. With that, we keep our recommendation to side with banks that could provide solid dividend cushions in the near to medium-term. For the larger cap banks, our Top Picks are **MAYBANK (OP; TP: RM11.05)** which we highlight for stellar dividend returns (7-8%) paired to its commendable asset quality readings (GIL: <1.9%, below listed peers' average of 2.0%) in spite of being the leader in loans and deposits. For the smaller cap banks, we believe **AFFIN (OP; TP: RM2.45)** presents opportunities with the return of earnings growth prospects, thanks to its AIM22 initiatives. Prospective special dividends from the disposal of AHAM could further boost its decent yield of 5-6%.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	OP	2.12	2.45	15.6%	4,690.1	N	12/2022	28.0	35.7	12.3%	27.5%	7.6	5.9	0.4	5.9%	11.0	5.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.72	4.20	12.9%	5,759.0	N	03/2023	44.8	51.0	21.0%	13.8%	8.3	7.3	0.9	10.5%	22.0	5.9%
AMMB HOLDINGS BHD	OP	4.05	4.75	17.3%	13,412.5	N	03/2023	49.8	54.2	9.4%	8.8%	8.1	7.5	0.7	9.5%	16.0	4.0%
BANK ISLAM MALAYSIA BHD	MP	2.58	2.45	-5.0%	5,560.6	Y	12/2022	19.5	24.4	-9.2%	23.0%	13.2	10.6	1.0	7.3%	9.7	3.8%
CIMB GROUP HOLDINGS BHD	OP	5.40	6.05	12.0%	56,561.0	N	12/2022	52.2	65.9	12.6%	26.2%	10.3	8.2	0.9	8.7%	26.0	4.8%
HONG LEONG BANK BHD	OP	20.86	23.35	11.9%	45,218.6	N	06/2023	194.3	201.5	21.0%	3.7%	10.7	10.4	1.3	12.3%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.95	11.05	23.5%	107,131.6	N	12/2022	73.3	90.7	5.2%	23.7%	12.2	9.9	1.2	9.8%	60.0	6.7%
MALAYSIA BUILDING SOCIETY BHD	UP	0.595	0.505	-15.1%	4,267.0	N	12/2022	7.1	9.9	16.5%	39.3%	8.4	6.0	0.5	5.8%	3.5	5.9%
PUBLIC BANK BHD	MP	4.64	4.65	0.2%	90,065.6	N	12/2022	29.5	37.5	1.3%	26.9%	15.7	12.4	1.8	11.6%	15.5	3.3%
RHB BANK BHD	OP	5.77	7.00	21.3%	24,303.7	N	12/2022	65.4	78.7	-5.6%	20.3%	8.8	7.3	0.8	9.2%	32.0	5.5%
Simple Average										**8.4%**	**21.3%**	**10.3**	**8.5**	**0.9**	**9.1%**		**4.8%**

Source: Kenanga Research

Changes in Target Price and Call Post-Update

Name	Cost of Equity (%)	Terminal growth (%)	Sustainable ROE (%)	Fair value P/BV (x)	Applied CY23E BVPS (RM)	Previous TP (RM)	Updated TP (RM)	Previous Call	Updated Call
ABMB	11.0	3.00	10.0	0.88	4.57	4.20	4.20	OP	OP
AFFIN	11.3	3.00	7.0	0.48	5.08	2.45	2.45	OP	OP
AMBANK	10.7	3.50	9.5	0.84	5.69	4.75	4.75	OP	OP
BIMB	10.0	3.00	9.0	0.85	2.88	2.45	2.45	MP	MP
CIMB	11.0	3.00	10.5	0.94	6.47	6.05	6.05	OP	OP
HLBANK	9.7	3.50	12.0	1.37	17.02	23.30	23.35	OP	OP
MAYBANK	9.7	3.25	12.5	1.43	7.70	11.05	11.05	OP	OP
MBSB	12.0	3.00	6.5	0.39	1.30	0.51	0.505	UP	UP
PBBANK	9.7	4.00	13.0	1.58	2.82	4.65	4.65	MP	MP
RHBBANK	10.7	3.00	10.0	0.91	7.67	7.00	7.00	OP	OP

Source: 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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