Banking

3QCY22 Results Review: Cautious Asset Outlook

OVERWEIGHT

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Post 3QCY22 earnings season, we maintain our OVERWEIGHT rating on the banking sector. Results were mostly as expected, with only one disappointment. Loans books continued to ride on the ongoing economic recovery with competitive pressures in deposit pricing being diluted by the interest rate upcycle. Weak trading sentiment still translated to soft investment gains, but should normalise in the coming period. Meanwhile, overall provisioning needs are mostly contained with roomy credit cost guidance possibly leaning to lumpier charges in 4QCY22. For now, we keep our Top Picks on stocks with defensive angles and firm market positioning. CIMB (OP; TP: RM6.40), MAYBANK (OP; TP: RM10.40) and ABMB (OP; TP: RM4.20) are our selected highlights. We also take this opportunity to upgrade AFFIN (TP: RM2.25) to OP (from MP) as we believe its post-earnings selldown is overdone.

Reported earnings mostly as predicted. 3QCY22 results season met most of our expectations (8 out of 9). We only saw disappointment from **AFFIN,** which saw a shift in earnings post-divestment of Affin Hwang Asset Management as well as kitchen-sinking of goodwill. It was also our sole change in TP from RM2.45 to RM2.25. Broadly speaking, the banks continued to demonstrate sustained momentum in loans growth while seeing net interest margins (NIMs) supported by OPR hikes. As at Sep 2022 YTD-reporting, three 25 bps hikes were in force. Non-interest income streams are still weak, albeit appearing to show sequential recoveries.

(refer to the overleaf for the performance breakdown between our forecast and consensus estimates)

Near-term views still intact... At least for those with financial years ending December, the final 4QCY22 is not expected to be fundamentally surprising given loans performance has already been cemented over the last nine months. That said, NIMs may see a shake-up as ongoing competition for deposits only appears to be intensifying. The biggest earnings risk may arise from unexpectedly high provisions on greater impairments and/or provisions, though most corporates are trailing behind their credit costs guidances, indicating a fair amount of room should the need arise.

…but medium-term outlook could be strained. CY23 GDP performance is expected to be relatively softer against CY22, which may translate to lower loans growth. In addition, a higher OPR of 3.00% (should we see another 25 bps hike during the Jan 2023 MPC meeting) may also quell the appetite for more mortgages. The shift in dependence from collateralised housing loans to more business-centric portfolios to stimulate growth may equate to broader exposure to credit risks in which gross impaired loan readings are presently low. Meanwhile, a longer observation period may be needed to fully assess repayment concerns. The abovementioned stress on NIMs is also likely to only worsen. On the flipside, the impairment buffers and management overlays are due to be utilised by the banks, if not refreshed for further provisioning. Though not being accounted as of yet, an overall net writeback situation would drive sequentially stronger reported earnings. This is on top of normalised tax rates with the lapse of prosperity tax would mean well for earnings.

(refer to the overleaf for updates on corporate guidances post-3QCY22 results)

Maintain OVERWEIGHT on the banking sector. Post results, we believe the banks' prospects will continue to stay sustainable and resilient as shifting fundamentals remain supportive of medium-term earnings. While recessionary concerns may arise, we do not see much pressing near-term risks given prudent asset quality management. Amidst our several OUTPERFORM calls, we continue to make our picks selectively, skewing to names that have defensive angles and firm market positioning. For the 4QCY22 season, we feature the following as our top picks:- (i) **CIMB (OP; TP: RM6.40)** for defensive NOII reporting as trading performances are supported by its regional entities. It also commands one of the highest CASA books amongst the large cap banks. Notably, we have awarded CIMB with a 4-star ESG rating for its sustainable financing efforts, (ii) **MAYBANK (OP; TP: RM10.40)** which remains our dividend favourite (7-8% yield) and provides shelter for investors preferring more secured returns. As the market share leader in loans and deposits, MAYBANK would also be widely exposed to the benefits of economy reopening, and (iii) **ABMB (OP; TP: RM4.20)** from amongst the small cap banks for being the leader in SME loan proportions (30%) which is expected to be the highest growth segment as well as for its highest CASA mix (50%). The stock's fundamentals are also comparatively better than its larger cap peers in terms of ROE (10%) and dividend yields (6%).

Though we had trimmed our TP for AFFIN and downgraded to MP in our 3QFY22 results note (29 November 2022), we believe the recent selldown from its earnings disappointment is overdone. The group aims to double its ROE to 10% in its FY25 with its proceeds from AHAM's disposal to fuel initiatives, ambitions which may entice risk-taking investors. To date, AFFIN commands the highest loans growth (17%) against its peers (average: 8%). Additionally, current price points have brought dividend yields to a more palatable level of c.6% excluding specials. **Hence, we revert our call for AFFIN back to OP (from MP) in this note.**

Quarterly Results Performance

	2QCY22						2QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ABMB		1			1			1			1	
AFFIN			1			1		1			1	
AMBANK		1			1			1			1	
BIMB		1			1				1			1
CIMB		1			1		1				1	
HLBANK		1			1		1				1	
MAYBANK		1			1			1			1	
PBBANK		1			1			1			1	
RHBBANK		1			1			1			1	
Total	**0**	**8**	**1**	**0**	**8**	**1**	**2**	**6**	**1**	**0**	**7**	**2**
Total (%)	**0**	**89**	**11**	**0**	**89**	**11**	**22**	**67**	**11**	**0**	**78**	**22**

Source: Kenanga Research, Bloomberg

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Updated corporate guidances post-3QCY22 results

Company	FYE	Loan growth	Deposit growth	Net interest margin	Cost-to-income ratio	Credit cost	Return on equity	Gross impaired loan	CASA Mix
ABMB	Mar-23	6-8% *(FY22: 4.6%)*		~2.50% *(FY22: 2.53%)*	<45% *(FY22: 44.1%)*	35-40 bps; from 40-45 bps *(FY22: 48 bps)*	>10.0% *(FY22: 9.0%)*		
AFFIN	Dec-22	12.0%) *(FY21: 11.1%)*		2.04% *(FY21: 1.97%)*	55% *(FY21: 60.7%)*	70 bps (from 30 bps) *(FY21: 41 bps)*	7.0% *(FY21: 5.4%)*	2.20% *(FY21: 2.54%)*	
AMBANK	Mar-23	7% *(FY22: 4.6%)*		2.05-2.10% *(FY22: 2.02%)*		35-40 bps *(FY22: 66 bps)*	> 10.0% *(FY22: 9.6%)*		
BIMB	Dec-22	8.0% *(FY21: 6.5%)*		>2.20% *(FY21: 2.38%)*		30-35 bps (from 25-30 bps) *(FY21: 34 bps)*	10% *(FY21: 8.4%)*		
CIMB	Dec-22	8-9%; from 7-8% *(FY21: 3.2%)*		+/- 5 bps (from -10 bps) *(FY21: 2.51%)*	<48.0% *(FY21:48.5%)*	50-60 bps *(FY21: 73 bps)*	8.0-9.0% *(FY21: 8.1%)*		
HLBANK	Jun-23	7.0-7.5% (from ~7%) *(FY22: 8.0%)*		~2.14% (from >2.10%) *(FY22: 2.14%)*	<38% (from <40%) *(FY22: 37.5%)*	~10 bps (from 10-15 bps) *(FY22: 10 bps)*	>12.0% (from ~11%) *(FY22: 10.9%)*	~0.60% (from <0.75%) *(FY22: 0.49%)*	>30% *(FY22: 34%)*
MAYBANK	Dec-22			+5 bps *(FY21: 2.32%)*	45-46% *(FY21: 45.3%)*	40-50 bps *(FY21: 49 bps)*	9.5-10% *(FY21: 9.5%)*		
PBBANK	Dec-22	+5% *(FY21: 3.6%)*	+5% *(FY21: 4.0%)*	+8-10 bps *(FY21: 2.22%)*		10 bps (from 10-15 bps) *(FY21: 34 bps)*	11-12% *(FY21: 11.9%)*		
RHBBANK	Dec-22	4-5% *(FY21: 6.7%)*		2.14% *(FY21: 2.14%)*		30 bps *(FY21: 30 bps)*	8.5% *(FY21: 9.6%)*	<1.70% *(FY21: 1.49%)*	30.0% *(FY21: 30.0%)*

Source: Companies, Kenanga Research

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.
<u>Stocks Under Coverage</u>																	
AFFIN BANK BHD	OP	2.05	2.25	9.8%	4,535.3	N	12/2022	12.9	25.1	-48.3%	94.6%	15.9	8.2	0.5	2.8%	29.1	14.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.74	4.20	12.3%	5,789.9	N	03/2023	45.5	52.1	22.9%	14.6%	8.2	7.2	0.9	10.7%	22.0	5.9%
AMMB HOLDINGS BHD	OP	4.16	4.75	14.2%	13,775.8	N	03/2023	49.9	54.3	9.7%	8.7%	8.3	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.57	2.45	-4.7%	5,539.0	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.1	10.5	0.9	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.64	6.40	13.5%	60,151.2	N	12/2022	52.2	66.4	12.6%	27.1%	10.8	8.5	0.9	8.7%	26.0	4.6%
HONG LEONG BANK BHD	OP	20.50	23.35	13.9%	44,438.2	N	06/2023	197.2	201.4	22.8%	2.1%	10.4	10.2	1.2	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.58	10.40	21.2%	103,424.4	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.8	1.1	9.9%	60.0	7.0%
PUBLIC BANK BHD	MP	4.44	4.70	5.9%	86,183.5	N	12/2022	29.6	38.0	1.6%	28.4%	15.0	11.7	1.7	11.6%	15.5	3.5%
RHB BANK BHD	OP	5.60	7.00	25.0%	23,785.3	N	12/2022	66.0	80.5	-4.6%	21.9%	8.5	7.0	0.8	9.3%	32.0	5.7%
Simple Average										**3.0%**	**28.2%**	**11.0**	**8.6**	**0.9**	**8.8%**		**5.8%**

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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