

05 May 2023

Banking

Surprise Tightening with OPR Hike

By Clement Chua | clement.chua@kenanga.com.my

OVERWEIGHT



BNM MPC's meeting on 3 May 2023 closed with a 25 bps OPR hike (to 3.00%), which was a surprise to us. While banks observe an indicative six months watchlist on troubled accounts after every change in the OPR, we had anticipated that BNM would allow more time in the event that inflationary pains may take longer than expected to be reflected in cash flows. That said, the rise in interest rates could temporarily halt interest margin pressures from the increasingly competitive deposits space, hence it is positive to the sector. The translated impact from this OPR increase appears to still be within previous corporate guidances of 1–3 bps net interest margin expansion with a marginal revision to earnings (<2% at most). There are no changes to our calls post-rate hike with no further rate hikes anticipated for the rest of the year.

We continue to maintain our OVERWEIGHT call on the sector with top picks being names with highly conservative fundamentals. In the wake of global banking meltdowns, investors may demand stronger safety nets from banks to consider them investible. With that, we recommend: (i) PBBANK (OP; TP: RM4.90) for its leading GIL ratio supported by highly collateralised books, and (ii) RHBBANK (OP; TP: RM7.10) for its leading CET-1 ratios in addition to now substantially more attractive dividend prospects (7%–8% yield).

Margins bump still welcomed. Similar to preceding 25 bps OPR hikes, the annualised impact from the recent move also appears to be a 1–3 bps increment to corporate net interest margins. This in turn translates to earnings upgrades of up to 2%. We note that ABMB (OP; TP: RM4.40); AMBANK (OP; TP: RM5.00) and HLBANK (OP; TP: RM23.35) are the least materially affected in their respective FY23F earnings, owing to their odd financial year-end.

Impact to NIM Assumptions from OPR Hike

Name	Previous NIM Assumptions		Updated NIM Assumptions		Earnings Revision	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
ABMB *	2.69%	2.60%	2.69%	2.62%	0.0%	1.2%
AMBANK *	2.16%	2.11%	2.16%	2.14%	0.0%	1.9%
BIMB	2.18%	2.19%	2.19%	2.20%	0.4%	0.4%
CIMB	2.61%	2.64%	2.62%	2.65%	0.4%	0.6%
HLBANK ~	2.00%	1.91%	2.00%	1.92%	0.2%	0.8%
MAYBANK	2.29%	2.13%	2.31%	2.15%	1.1%	1.3%
PBBANK	2.34%	2.32%	2.35%	2.33%	0.6%	0.9%
RHBBANK	2.20%	2.17%	2.22%	2.18%	1.3%	0.9%

Notes:

* Financial Year Ending March

~ Financial Year Ending June

Source: Kenanga Research

Maintain OVERWEIGHT on the banking sector. BNM had credited stronger economic deliveries fuelled by improving unemployment levels, supportive business climates and commencement of large infrastructure projects as the basis of its surprise hike as inflation rates require further suppression with monetary tightening being sought. We gather that the need to cool the economy could be paired with wider macro factors as underlying recessionary concerns may still be present. On the flipside, we still anticipate strong resilience from the banks as their sound capital and provisions management offers comfort in the event of an unexpected economic fallout (though we do not believe this could be as significant as Covid-19's lockdown).

For 2QCY23, we promote **PBBANK** as it is the leading bank in terms gross impaired loans reading at 0.4% (vs peer average: 1.5%) backed by a highly collateralised loan book thanks to a substantial mortgage portion (41% of total books). Meanwhile, its recent shares sell-down owing to uncertainties of its shareholder and ownership structure may see an inversion when clarity on the matter unfolds. We also like **RHBBANK** as we believe the relevancy of strong capital safety will be in the limelight once more. RHBBANK continues to lead with its CET-1 buffers (17% vs. peers' average of 14%). RHBBANK's dividend prospect is becoming more promising with targeted payouts of c.55% looking to generate yields of 7%–8%. Also, developments on its upcoming digital bank with Boost could support interest in the stock.

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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																	
ALLIANCE BANK MALAYSIA BHD	OP	3.36	4.40	31.0%	5,202	N	03/2023	44.7	50.0	20.9%	11.8%	7.5	6.7	0.8	10.5%	22.0	6.5%
AMMB HOLDINGS BHD	OP	3.64	5.00	37.4%	12,038	N	03/2023	51.0	55.8	12.0%	9.4%	7.1	6.5	0.7	9.7%	16.0	4.4%
BANK ISLAM MALAYSIA BHD	MP	2.03	2.30	13.3%	4,555	Y	12/2023	26.3	27.4	14.9%	4.2%	7.7	7.4	0.6	8.2%	15.5	7.6%
CIMB GROUP HOLDINGS BHD	OP	5.07	6.55	29.2%	54,072	N	12/2023	59.9	68.8	14.8%	15.0%	8.5	7.4	0.8	9.7%	30.0	5.9%
HONG LEONG BANK BHD	OP	20.28	23.35	15.1%	43,961	N	06/2023	197.3	201.2	22.9%	2.0%	10.3	10.1	1.2	12.5%	70.0	3.5%
MALAYAN BANKING BHD	OP	8.72	10.10	15.8%	105,112	N	12/2023	80.4	80.3	16.9%	-0.1%	10.8	10.9	1.2	11.1%	68.0	7.8%
PUBLIC BANK BHD	OP	3.91	4.90	25.3%	75,896	N	12/2023	36.1	37.4	14.5%	3.5%	10.8	10.5	1.4	13.5%	18.0	4.6%
RHB BANK BHD	OP	5.52	7.10	28.6%	23,446	N	12/2023	78.4	78.3	17.3%	-0.2%	7.0	7.1	0.7	10.8%	43.0	7.8%
SECTOR AGGREGATE					324,282					16.5%	4.5%	9.8	9.4	1.1	10.9%		6.0%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my