Banking

1QCY23 Results Review: Resilient Showing

OVERWEIGHT
↔

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

Post 1QCY23 earnings season, we maintain our OVERWEIGHT rating on the banking sector. Most industry-wide trends seen were already largely expected, being: (i) net interest margin (NIM) compression from tight deposit competition; (ii) sequentially lower credit cost; and (iii) uplift in earnings from the lapse of prosperity tax. These factors are likely to persist for the remainder of CY23, with NIMs likely to ease from any hikes to OPR. Credit cost may see mixed signals as banks may be separately exposed to high-risk accounts and industries, but could overall exercise writing back their overlays should macros appear much more favourable. Fundamentals aside, sector valuations appear to be diminishing given concerns of slowing economic outlook with inflationary concerns still very much at the helm. That said, depressed share prices are giving rise to highly attractive dividend yields with an industry average of c.6%. However, given prevailing macro risks with a volatile Ringgit, we lean towards stocks with more fundamental backing for our recommendations, which are: (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 (c.8% yield).

Smooth reading for bigger players. 1QCY23 results season came in mostly within our forecasts (7 out of 8). The only miss came from **BIMB (OP; TP: RM2.25)** for which we believe we had under accounted for future cost pressure from its digitalisation plans. However, given that its sell-down was due to a shifting preference to higher capitalisation peers, we see the risk-reward ratio for the stock to be mostly favourable and upgraded it to OUTPERFORM after the results review. Market-wide, most banks saw a moderation of NIMs on a QoQ basis, although a few such as **ABMB (OP; TP: RM4.40)** and PBBANK registered YoY increments, defended by better product mix and pricing. Amidst the OPR up-cycle, CASA levels thinned as depositors seek higher yielding alternatives. Although deposits competition is likely to subside, the impact to NIMs will likely protract till the end of the year unless OPR moves further.

(refer to the Fig 1 for the performance breakdown between our forecast and consensus estimates)

Fund-based income moderation to arise. Consolidating the respective corporates' tone during their respective briefings, most are expecting loans demand to soften as the cost of borrowing rises with economic signals appearing positive but less upbeat. Mortgages remain the lion's share of retail loans with a higher inclination to affordable housing transactions, leading to lower ticket size and comparable growth. For the time being, the banks intend to show no bias towards business segments, although they note that property sectors may only offer low growth opportunities. SMEs continue to be a key target as new businesses offer opportunities for new CASA openings as well. We note that ABMB is the only bank guiding for higher loans growth, likely due to their heavier SME concentration in their portfolio, albeit possessing one of the smallest overall loans book. That said, with the abovementioned challenges in cost of funds, NIMs will likely be strained.

On the flipside, treasury and investment returns are demonstrating recovery on higher trading returns from CY22's softness. This may mitigate slower traction in investment banking segments and challenge the wealth management space. Cost-wise, the respective banks appear keen to maintain operating expenses with only selected expansionary strategy in tow. What could move the needle more is further improvements in credit cost. While the banks are seeing upticks in their gross impaired loans, these are mostly attributed to the return of past Repayment Assistance accounts which struggled to cope from the higher inflationary environment. If all else remains stable, we may see substantial write-backs which could flow into the bottom-line for the year. Consequently, the lapse of prosperity tax is a relief to earnings, particularly for the larger-scaled banks. Hence, **in spite of the visible challenges in core financing business, bottom-line growth is still substantiated.** Corporate guidances for the year are largely unchanged.

(refer to the Fig 4 for updates on corporate guidances post-4QCY22 results)

Local listed banks at the helm. The dominant domestic market share of local listed banks continued to expand, now at 76.8% in 1QCY23 (vs. 76.2% in 1QCY22). Between the Big 3, only MAYBANK (17.9%, +0.1ppt) gained whereas CIMB (12.5%) and PBBANK (17.5%) maintained their position. RHBBANK appears to suffer a slight loss of share (8.9%, -0.1ppt) despite a commendable 6.0% growth as its peers outpaced. For the overall industry, we do anticipate a tapering of loans in CY23 and project systems growth to report at 4.0%-4.5% (from 5.7% in CY22). This easing is backed by our in-house CY23 GDP forecast of 4.7% (CY22: 8.7%).

(refer to the Fig 2 and Fig 3 for the breakdown of domestic market share and domestic loans growth)

Maintain OVERWEIGHT on the banking sector. Post results, we believe the uninspiring market sentiment provides entry opportunities into the highly resilient banking sector. Threats to the overall markets would derive from severe drags in asset quality from heightened inflationary pressures or further slowdown in domestic and global markets. Not helping either is the present weakening of the Ringgit elevating import costs. On top of its sticky earnings, the dividend yields for the banking sector have risen to an average of c.6%, which could be a meaningful consideration to long-term yield seekers.

Subject to further consideration for our upcoming 3QCY23 investment strategy, we maintain our top picks to be: **(i) PBBANK** as it is the leading bank in terms of GIL readings at 0.4% (vs. peer average of 1.5%) backed by a highly collateralised loans book thanks to a substantial mortgage portion (41% of total books). Meanwhile, its recent shares' sell-down owing to uncertainties of its shareholding and ownership structure may see an inversion when clarity on the matter unfolds. We also like **(ii) 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%). On the other hand, RHBBANK's dividend prospect is become more promising with targeted payouts of c.55% looking to generate yield of 7%−8%. Also, developments on its upcoming digital bank with Boost could support interest in the stock.

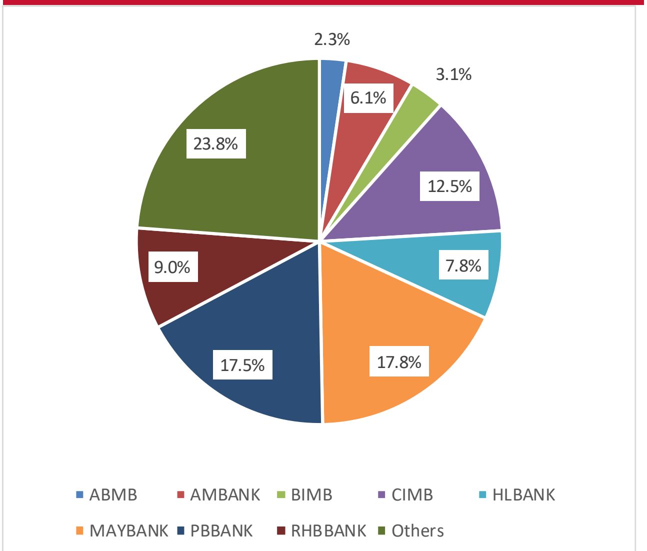
Fig 1: Quarterly Results Performance

	1QCY23						4QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ABMB		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**	**7**	**1**	**0**	**7**	**1**	**1**	**7**	**0**	**0**	**8**	**0**
Total (%)	**0**	**88**	**12**	**0**	**88**	**12**	**12**	**88**	**0**	**0**	**100**	**0**

Source: Kenanga Research, Bloomberg

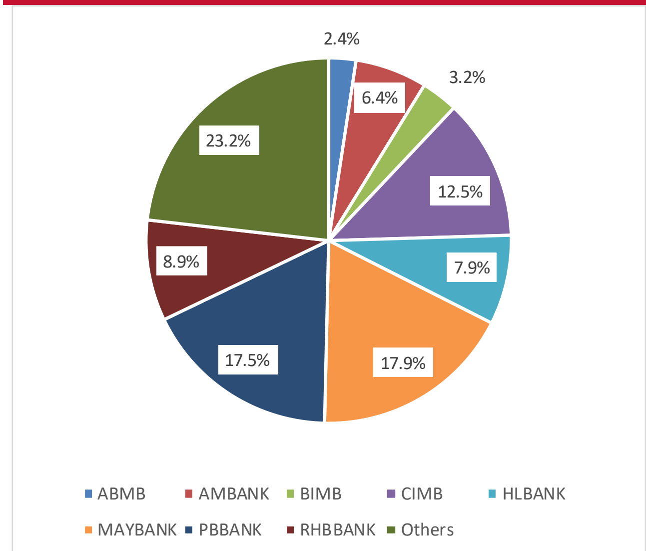
Fig 2: Domestic Loans Landscape

Market Share Breakdown as at 1QCY22



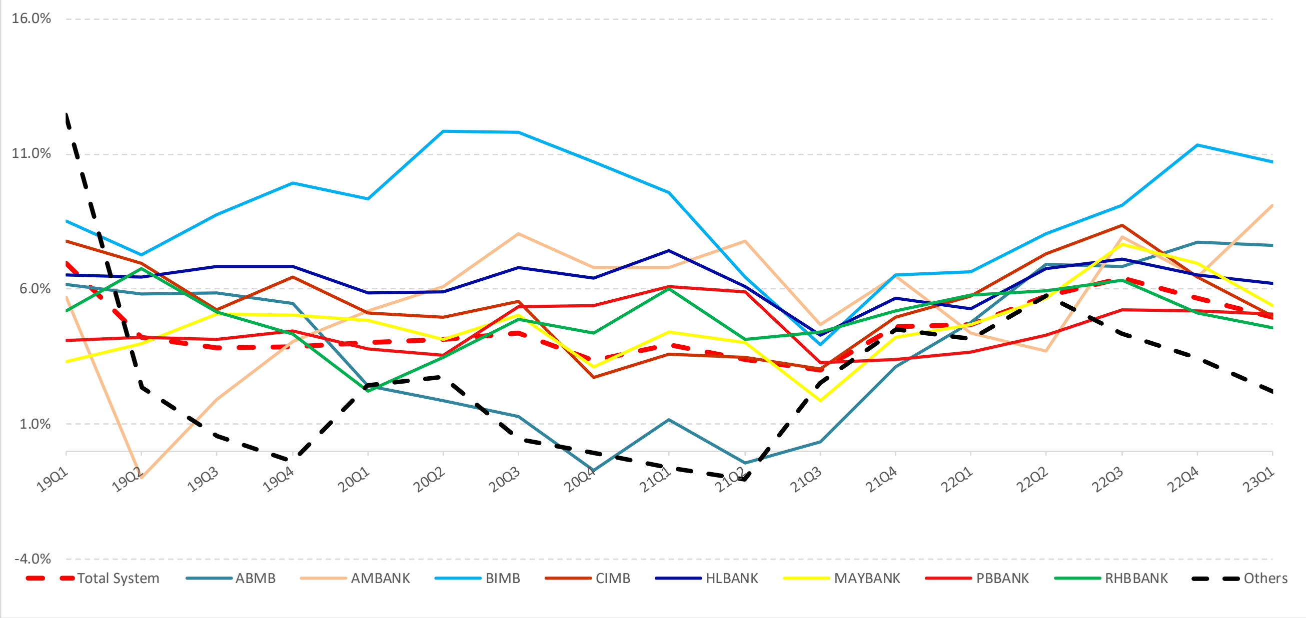
Source: BNM, Companies, Kenanga Research
** Others include non-listed local and foreign financial institutions*

Market Share Breakdown as at 1QCY23



Source: BNM, Companies, Kenanga Research

Fig 3: Domestic Loans Growth Performance



Source: BNM, Companies, Kenanga Research
** Others include non-listed local and foreign financial institutions*

This section is intentionally left blank

Fig 4: Updated corporate guidances post-1QCY23 results

Company	FYE	Loan growth	Deposit growth	NIM	Cost-to-income ratio	Credit cost	Return on equity	Gross impaired loan	CASA Mix
ABMB	Mar-24	8-10% *(FY23: 6.2%)*		2.50-2.55% *(FY23: 2.71%)*	<48% *(FY23: 45.9%)*	30-35 bps *(FY23: 32 bps)*	~10.5% *(FY23: 10.3%)*		
AMBANK	Mar-24				*Pending further clarity in 2QCY23*				
BIMB	Dec-23	7-8% *(FY22: 11.6%)*		>2.20% *(FY22: 2.80%)*		33 bps *(FY22: 23 bps)*	12% on PBT *(FY22: 7.5%)*		
CIMB	Dec-23	5-6% *(FY22: 7.8%)*		- 5-10 bps *(FY22: 2.57%)*	<46.5% *(FY22: 46.5%)*	45-55 bps *(FY22: 51 bps)*	10.2-11.0% *(FY22: 9.0%)*		
HLBANK	Jun-23	7.0-7.5% *(FY22: 8.0%)*		~2.14% *(FY22: 2.14%)*	<38% *(FY22: 37.5%)*	~10 bps *(FY22: 10 bps)*	>12.0% *(FY22: 10.9%)*	~0.60% *(FY22: 0.49%)*	>30% *(FY22: 34%)*
MAYBANK	Dec-23			- 5-8 bps *(FY22: 2.43%)*	47.5% *(FY22: 46.3%)*	35-40 bps *(FY22: 37 bps)*	10.5-11.0% *(FY22: 9.6%)*		
PBBANK	Dec-23	4-5% *(FY22: 5.3%)*	4-5% *(FY22: 4.2%)*	Double digit compression *(FY22: 2.37%)*		<10 bps *(FY22: 10 bps)*	12.0-13.0% *(FY22: 12.4%)*		
RHBBANK	Dec-23	4-5% *(FY22: 6.9%)*		2.22-2.25% *(FY22: 2.26%)*		25-30 bps *(FY22: 15 bps)*	>11.0% *(FY22: 9.5%)*	<1.50% *(FY22: 1.55%)*	30.0% *(FY22: 29.2%)*

Source: Companies, Kenanga Research

This section is intentionally left blank

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	3.38	4.40	30.2%	5,233	N	03/2024	48.8	52.9	11.3%	8.4%	6.9	6.4	0.7	10.9%	24.5	7.2%
AMMB HOLDINGS BHD	OP	3.62	5.05	39.5%	11,972	N	03/2024	56.3	62.0	7.4%	10.2%	6.4	5.8	0.6	9.9%	19.5	5.4%
BANK ISLAM MALAYSIA BHD	OP	1.80	2.25	25.0%	4,080	Y	12/2023	24.0	25.0	5.1%	4.1%	7.5	7.2	0.6	7.5%	15.5	8.6%
CIMB GROUP HOLDINGS BHD	OP	4.81	6.55	36.2%	51,299	N	12/2023	61.1	68.2	17.2%	11.5%	7.9	7.1	0.8	9.9%	30.0	6.2%
HONG LEONG BANK BHD	OP	18.96	25.00	31.9%	41,100	N	06/2023	193.0	201.5	20.2%	4.4%	9.8	9.4	1.2	12.3%	70.0	3.7%
MALAYAN BANKING BHD	OP	8.58	10.10	17.7%	103,424	N	12/2023	80.3	80.0	16.8%	-0.5%	10.7	10.7	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.78	4.90	29.6%	73,372	N	12/2023	36.0	37.2	14.1%	3.3%	10.5	10.2	1.4	13.5%	18.0	4.8%
RHB BANK BHD	OP	5.31	7.10	33.7%	22,761	N	12/2023	77.5	77.7	15.9%	0.3%	6.9	6.8	0.7	10.7%	43.0	8.1%
SECTOR AGGREGATE					**313,240**					**15.7%**	**4.2%**	**9.4**	**9.1**	**1.0**	**10.9%**		**6.5%**

Source: Kenanga Research

Gordon Growth Model Inputs

Name	Cost of Equity (%)	Terminal growth (%)	Sustainable ROE (%)	Fair value P/BV (x)	Applied BVPS (RM)	Call	Target Price (RM)	Remarks
ALLIANCE BANK MALAYSIA BHD	11.0	3.0	10.0	0.88	4.78	OP	4.40	+5% ESG Premium
AMMB HOLDINGS BHD	10.7	4.0	9.5	0.82	6.05	OP	5.00	
BANK ISLAM MALAYSIA BHD	10.4	3.0	8.0	0.68	3.38	OP	2.30	
CIMB GROUP HOLDINGS BHD	11.0	3.0	10.5	0.94	6.63	OP	6.55	+5% ESG Premium
HONG LEONG BANK BHD	9.7	3.5	12.0	1.37	18.25	OP	25.00	
MALAYAN BANKING BHD	9.7	3.25	12.0	1.36	7.44	OP	10.10	
PUBLIC BANK BHD	9.7	4.0	13.0	1.58	2.94	OP	4.90	+5% ESG Premium
RHB BANK BHD	10.7	3.0	10.0	0.91	7.79	OP	7.10	

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.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, JalanTunRazak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my