Banking

3QCY23 Report Card: Margins Mostly Intact

OVERWEIGHT

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

Post 3QCY23 earnings season, we maintain our OVERWEIGHT rating on the banking sector. 7 out of 10 reports met our expectations with deviations being attributed to misjudged NIMs and poorer investment performances. Coverage-wide, constants were made up of: (i) larger YoY books, and (ii) higher personnel costs from collective agreements. We observe varying credit cost readings due to different write-back practices between the banks. Going forward, NIMs should not be as strained as deposit rates are likely at more relaxed levels. That said, we opine banks may compete in the financing front to gain share. We believe OPR may be steady-state at 3.00% throughout CY24 which bring about stable business conditions for the sector. For our sector picks, we continue to recommend: (i) CIMB (OP; TP: RM6.30) for its leading earnings growth prospects, (ii) AMBANK (OP; TP: RM4.80) for its revitalised earnings and strong strides in the SME space, and (iii) ABMB (OP; TP: RM4.30) on stellar fundamentals despite its small market cap.

A few surprises. 3QCY23 results season came in mostly within our expected earnings forecasts (7 results out of 10). We saw a stronger-than-anticipated results from **RHBBANK (OP; TP: RM7.15)** thanks to successful retention of NIMs amidst previous concerns of further worsening. On the other hand, we had disappointments from **AFFIN (MP; TP: RM1.90)** and **MBSB (UP; TP: RM0.63)**, with the former seeing prolonged margin stress as it continued to be aggressive to capture market share while the latter booked a less favourable performance on its investment portfolios. Market-wide, most banks have seen the worst being over with regards to NIM erosion on a QoQ level, instigated by intense competition for deposits since Dec 2022. Meanwhile, YoY loans growth still appear encouraging but certain banks may see hurdles in building its books on a QoQ basis which may indicate that competition has shifted towards financing products. Unanimously, the banks continued to see rising personnel cost stemming from the recently reviewed union collective agreements.

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

Diminishing presence from non-key players. Based on 3QCY23's market breakdown, our 10 listed local banks continued to build a stronger foothold at the expense of the non-listed ones at a combined market share of 81.8% (+69 bps YoY). We reckon this is owing to foreign banks consciously diverting focus back to their respective home markets. **MAYBANK (OP; TP: RM9.95)** continued to hold the top spot (17.8%) but at a narrower gap against **PBBANK (OP; TP: RM4.75)** which is at second place (17.6%). This could be due to PBBANK's prominent retail portfolio which benefits from the rising demand for affordable homes while MAYBANK has a more diverse mix that includes corporate books. Aside from PBBANK, we gathered that **HLBANK (OP; TP: RM24.20)** and **AFFIN** were also notable gainers in market share at 8.1% (+24 bps) and 3.1% (+21 bps), respectively, again likely coming from foreign banks' customers.

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

Hopeful for better results to come. In the coming quarters, we believe the banks will report better earnings with some banks already seeing net interest income expansion as they had weathered through the toughest product margin conditions. While this may not fully translate in the upcoming 4QCY23 as seasonal deposits competition is bound to occur, there is still more reason to anticipate that CY24 would hold up better than CY23's reporting so far. That said, we reckon non-interest income performance could be less buoyant as the market and investment landscape seems to err towards stability, offering fewer opportunities for volatile trading. Banks would have to depend on higher fees to make up for this potential shortfall. At the meantime, asset quality risks do appear to be well contained with some of the larger banks still holding on to their pre-emptive provisions tightly and some smaller banks already writing back provisions which are viewed to be in excess. Barring unforeseen macro developments, we may see better if not stable credit cost readings in the near term as more write-backs could counteract pending impairments.

(refer to the Fig. 4 for updates on corporate guidances post-3QCY23 results)

Maintain OVERWEIGHT on the banking sector. Post results, we believe investors may continue to see opportunities in the sector as its earnings resilience remains highly supported. Concerns appear to be more muted as compared to past years, albeit with some smaller banks still appearing to be navigating through challenges. We subscribe to flattish OPR at 3.00% until end-CY24, which could be viewed as more stability for the industry as well as banks in the near-term. Aside from that, dividend yields of 6%-7% could still be offered by certain names with sustainable ROEs to boot.

For now and into 1QCY24, we highlight the following names as our preferred picks: **(i) CIMB** for its possibly leading earnings growth against its peers, fuelled by stronger regional expansion and effective cost saving initiatives leading to certain ventures breaking even in the near-term, **(ii) AMBANK** as its rejuvenated fundamentals and high SME profile could see accelerated performance in anticipation of stronger economic activities to come, and **(iii) ABMB** which continues to outperform its large cap peers with regards to dividend yields and ROEs. The bank's high CASA mix could also aid in optimising its margins against future shifts in interest rate dynamics.

Fig 1: Quarterly Results Performance

	3QCY23						2QCY23					
	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	
MBSB			1		~				1		~	
PBBANK		1			1			1			1	
RHBBANK	1				1			1			1	
Total	**1**	**7**	**2**	**1**	**7**	**1**	**0**	**8**	**2**	**0**	**8**	**1**
Total (%)	**10**	**70**	**20**	**11**	**78**	**11**	**0**	**80**	**20**	**0**	**89**	**11**

Notes:

** We had not reported on these quarterly reports*

~ There are no consensus estimates for this stock

Source: Kenanga Research, Bloomberg

Fig 2: Domestic Loans Landscape

Market Share Breakdown as at 3QCY23

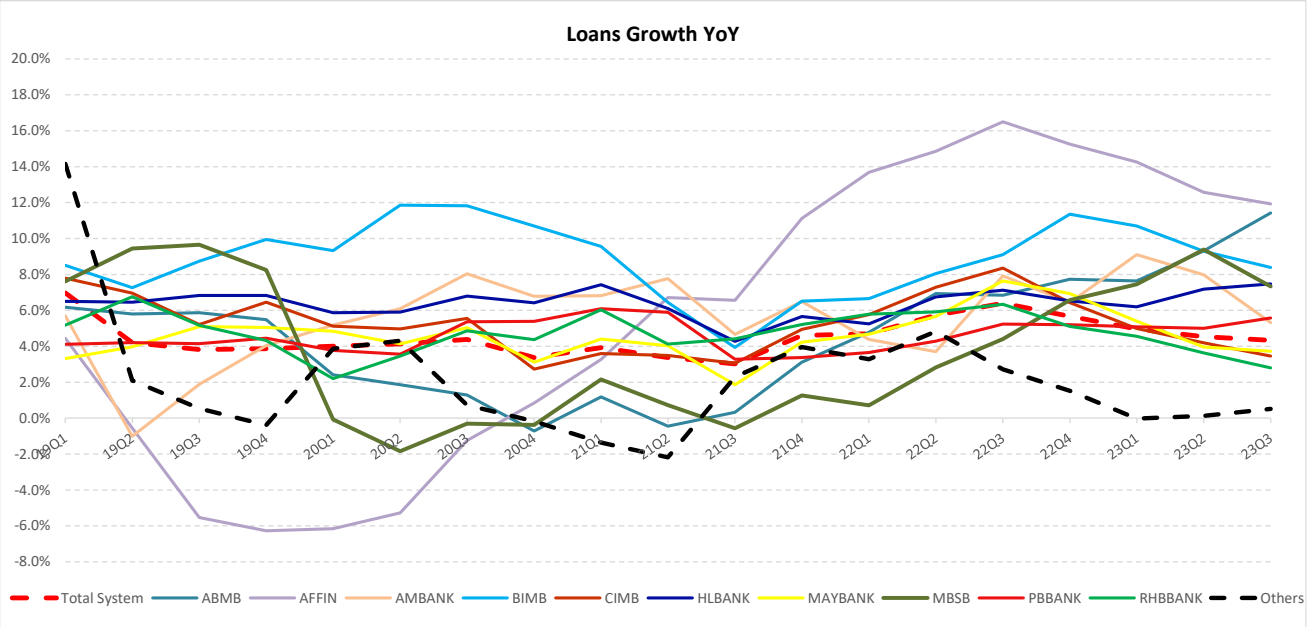
	Domestic Loans		Domestic Market Share			Total Group Loans	Total Asset	Total Equity
Name	RM m	Proportion (%)	(%)	YoY Chg (ppt)	QoQ Chg (ppt)	(RM m)	(RM m)	(RM m)
MAYBANK	371,306	60%	17.8	- 0.11	+ 0.11	615,757	1,001,416	91,071
PBBANK	367,170	93%	17.6	+ 0.21	+ 0.05	393,580	508,203	53,211
CIMB	261,070	60%	12.5	- 0.11	- 0.02	431,802	736,943	68,204
RHBBANK	184,234	84%	8.8	- 0.13	- 0.02	219,395	322,745	29,910
HLBANK	168,444	93%	8.1	+ 0.24	- 0.08	181,726	282,574	34,189
AMBANK	130,636	100%	6.3	+ 0.06	+ 0.00	130,828	194,465	18,526
BIMB	67,295	100%	3.2	+ 0.12	- 0.00	67,295	88,072	7,455
AFFIN	63,685	99%	3.1	+ 0.21	+ 0.04	64,290	102,149	11,000
ABMB	51,460	100%	2.5	+ 0.16	+ 0.05	51,460	70,128	6,915
MBSB	40,543	100%	1.9	+ 0.05	- 0.02	40,543	57,633	8,664
Others[1]	380,301	N.A.	18.2	- 0.69	- 0.12	N.A.		
Total [2]	**2,086,144**		**100.0**			**2,196,675**		

Source: BNM, Companies, Kenanga Research

[1] Others include non-listed local and foreign financial institutions

[2] Total domestic loans refer to total system loans during the period as reported by BNM

Fig 3: Domestic Loans Growth Performance



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

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Fig 4: Updated Corporate Guidances Post-3QCY23 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%)*		2.45-2.50% *(FY23: 2.71%)*	<48% *(FY23: 45.9%)*	30-35 bps *(FY23: 32 bps)*	~10.5% *(FY23: 10.3%)*		
AFFIN	Dec-23	12.0% *(FY22: 15.4%)*		1.45-1.50% From 1.86% *(FY22: 2.15%)*	65.0% From 60.0% *(FY22: 64%)*	30 bps *(FY22: 51 bps)*		<2.00% (FY22: 1.97%)	
AMBANK	Mar-24	6.0% *(FY23: 8.5%)*		1.90% *(FY23: 1.94%)*		35 bps *(FY23: 34 bps)*	>10.0% *(FY23: 9.9%)*		
BIMB	Dec-23	4-5% From 7-8% *(FY22: 11.4%)*		>2.20% *(FY22: 2.80%)*		30-40 bps *(FY22: 23 bps)*	7-8% *(FY22: 7.5%)*		
CIMB	Dec-23	6-7% *(FY22: 7.8%)*		-15-20 bps *(FY22: 2.57%)*	<46.5% *(FY22: 46.5%)*	35-45 bps From 40-50 bps *(FY22: 51 bps)*	10.2-11.0% *(FY22: 9.0%)*		
HLBANK	Jun-24	6.-7% *(FY23: 8.0%)*		1.8-1.9% *(FY23: 1.85%)*	<40% *(FY23: 39.3%)*	~10 bps *(FY23: 6.6 bps)*	~12.0% *(FY23: 11.8%)*	<0.70% *(FY23: 0.57%)*	>30% *(FY23: 31%)*
MAYBANK	Dec-23			-c.25 bps *(FY22: 2.43%)*	47.5% *(FY22: 46.3%)*	30-35 bps *(FY22: 37 bps)*	10.5-11.0% *(FY22: 9.6%)*		
MBSB	Dec-23	7-8% *(FY22: 6.6%)*		2.0-2.1% *(FY22: 2.78%)*	<50% *(FY22: 44.5%)*	30-35 bps *(FY22: 32 bps)*	5-6% *(FY22: 5.2%)*	4-5% *(FY22: 6.8%)*	
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	5.0-5.5% From 4-5% *(FY22: 6.9%)*		1.80-1.90% From 2.22-2.25% *(FY22: 2.26%)*		25-30 bps *(FY22: 15 bps)*	>10% From >11% *(FY22: 9.5%)*	1.70-1.80% From <1.50% *(FY22: 1.55%)*	30.0% *(FY22: 29.2%)*

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.
Stocks Under Coverage																	
AFFIN BANK BHD	MP	2.05	1.90	-7.3%	4,810	N	12/2023	22.1	25.3	-60.5%	14.7%	9.3	8.1	0.4	4.3%	11.0	5.4%
ALLIANCE BANK MALAYSIA BHD	OP	3.43	4.30	25.4%	5,310	N	03/2024	47.1	51.0	7.6%	8.4%	7.3	6.7	0.7	10.5%	24.5	7.1%
AMMB HOLDINGS BHD	OP	3.96	4.80	21.2%	13,104	N	03/2024	47.7	54.2	-9.0%	13.7%	8.3	7.3	0.7	8.5%	19.0	4.8%
BANK ISLAM MALAYSIA BHD	MP	2.28	2.15	-5.7%	5,168	Y	12/2023	23.4	24.3	2.5%	3.9%	9.7	9.4	0.7	7.3%	14.5	6.4%
CIMB GROUP HOLDINGS BHD	OP	5.65	6.30	11.5%	60,258	N	12/2023	64.2	66.6	23.0%	3.7%	8.8	8.5	0.9	10.5%	35.0	6.2%
HONG LEONG BANK BHD	OP	19.00	24.20	27.4%	41,187	N	06/2024	197.9	210.9	6.1%	6.6%	9.6	9.0	1.1	11.4%	60.0	3.2%
MALAYAN BANKING BHD	OP	8.98	9.95	10.8%	108,301	N	12/2023	77.4	79.6	12.4%	2.9%	11.6	11.3	1.2	10.7%	65.0	7.2%
MALAYSIA BUILDING SOCIETY	UP	0.705	0.630	-10.6%	5,797	Y	12/2023	3.2	4.6	-43.0%	42.7%	22.1	15.5	0.6	2.9%	1.5	2.1%
PUBLIC BANK BHD	OP	4.27	4.75	11.2%	82,884	N	12/2023	34.6	38.2	9.7%	10.4%	12.3	11.2	1.6	13.0%	18.0	4.2%
RHB BANK BHD	OP	5.45	7.15	31.2%	23,361	N	12/2023	70.7	78.3	5.7%	10.8%	7.7	7.0	0.7	9.8%	41.0	7.5%
SECTOR AGGREGATE					**350,178**					**7.3%**	**6.8%**	**10.6**	**9.9**	**1.1**	**10.2%**		**5.4%**

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