

06 March 2024

Banking

4QCY23 Report Card: Decent Showing

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OVERWEIGHT



Post the 4QCY23 earnings season, we maintain our OVERWEIGHT rating on the banking sector. 6 out of 10 reports met our expectations with deviations mostly led by misjudged NIMs. We expect: (i) NIMs pressure to be more subdued, (ii) loans growth to remain positive, albeit with some expecting moderation, (iii) asset quality to remain manageable. As we expect OPR to stay at 3% throughout CY24, we believe banks will face less competition from deposits and will instead focus on optimising financing rates. The sector's key concerns are the health of the local economy and weak consumer demand on sustained high inflation, increased taxes and the knock-on effect from subsidy rationalisation. Our sector picks for the time being are (i) RHBBANK (OP; TP: RM7.25) as the leading dividend contender and laggard interest, and (ii) ABMB (OP; TP: RM4.30) on solid fundamentals despite its smaller market cap and portfolio size.

Closed with some swings. 4QCY23 results season came in mostly within our expected earnings forecasts (6 results out of 10), with most of the deviations attributed to the smaller cap banks. **BIMB (MP; TP: RM2.25)** reported stronger-than-expected results on account of better NIM retention. Meanwhile, **AMBANK (OP; TP: RM4.80)** surprised us with lumpy provisions to cover its remaining repayment assistance profiles, while **AFFIN (UP; TP: RM1.80)** and **MBSB (UP; TP: RM0.59)** disappointed due to their diminishing margins no thanks to the intense deposits competition seen cumulatively during the year.

Market-wide, loans growth remained upheld by working capital needs, likely fuelled in anticipation of the early Chinese New Year season. The banks are still noticeably hurt by the higher personnel cost attributed by the reviewed collective agreements. Meanwhile, a notable trend of further IT investments were also seen during the year, as banks seek better capabilities to bolster its outreach and optimise operations.

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

Larger cap players taking the lead. Based on 4QCY23's domestic market share breakdown, the combined market share of our 10 listed local banks is unchanged QoQ at 81.8%. That said, there appears to be some notable shift in share, notably with **MAYBANK (OP; TP: RM11.00)** clinching on a greater proportion (18.2%, +36bps QoQ) likely from higher disbursements to mortgages and working capital accounts. **ABMB** (2.5%, +4 bps) and **AFFIN** (3.1%, +3bps) appear to be also notable market share gainers with significantly stronger-than-industry loans growth, albeit due to their relatively smaller portfolio. **AMBANK** (6.2%, -11bps) seemed to have faced the biggest brunt from competition with their moderately lower loans book expansion relative to peers.

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

Brighter sparks ahead. Looking into CY24, some banks are still expecting NIMs to face some pressure as deposit rates may take time to normalise while asset yields catch up. On the flipside, loans growth expectations for CY24 appears to be slightly more moderate with several banks eyeing potential softness from unfavourable domestic macros, namely a softer forex environment as well as possible inflationary pressures. That said, some support should be expected from greater funding needs by infrastructure projects and the rejuvenation of exporters that benefit from a weak MYR. On the other hand, asset quality concerns are likely to remain subdued given expectations for reporting to remain flattish, as certain banks with balance overlays are likely to opt on reallocating their buffers to non-pandemic related accounts.

(refer to the Fig. 4 for updates on corporate guidances post-4QCY23 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% until end-CY24, which could be viewed as providing 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.

With regards to our preferred picks, we choose to highlight: (i) **RHBBANK** as its dividend yield prospects are now encroaching c.8% territory, depending on entry level. Notwithstanding this, its CET-1 ratio of >16% is one of the highest amongst its large cap peers. Meanwhile, we reckon concerns on digital bank likely to drag profits could be overplayed, which could explain its laggardness against peers' share price performance. (ii) **ABMB** 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.

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Fig 1: Quarterly Results Performance

| | 4QCY23 | | | | | | 3QCY23 | | | | | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 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 | 6 | 3 | 0 | 7 | 2 | 1 | 7 | 2 | 1 | 7 | 1 |
| Total (%) | 10 | 60 | 30 | 0 | 78 | 22 | 10 | 70 | 20 | 11 | 78 | 11 |

Notes:

~ There are no consensus estimates for this stock

Source: Kenanga Research, Bloomberg

Fig 2: Domestic Loans Landscape

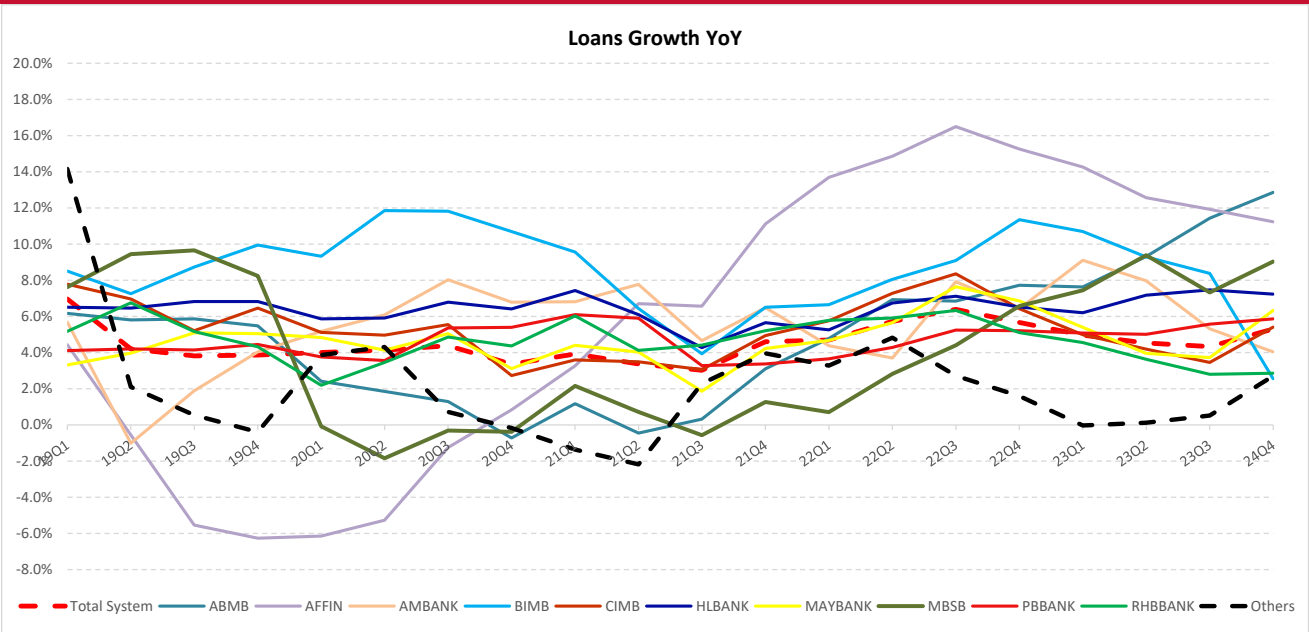
Market Share Breakdown as at 4QCY23

| Name | Domestic Loans | | | | Domestic Market Share | | | Total Group Loans (RM b) | Total Asset (RM b) | Total Equity (RM b) |
|--------------------------|----------------|----------------|----------------|----------------|-----------------------|---------------|---------------|--------------------------|--------------------|---------------------|
| | RM b | Proportion (%) | YoY Growth (%) | QoQ Growth (%) | (%) | YoY Chg (bps) | QoQ Chg (bps) | | | |
| MAYBANK | 387.1 | 60 | 6.3 | 4.2 | 18.2 | +18 | +36 | 640.8 | 1,027.7 | 94.6 |
| PBBANK | 372.7 | 93 | 5.9 | 1.5 | 17.5 | +9 | -12 | 399.0 | 510.6 | 54.7 |
| CIMB | 267.0 | 61 | 5.4 | 2.3 | 12.5 | +1 | +1 | 440.9 | 733.6 | 68.3 |
| RHBBANK | 186.3 | 84 | 2.9 | 1.1 | 8.7 | -21 | -9 | 222.4 | 328.7 | 30.9 |
| HLBANK | 171.5 | 93 | 7.2 | 1.8 | 8.0 | +14 | -3 | 185.2 | 285.1 | 35.5 |
| AMBANK ¹ | 131.2 | 100 | 4.0 | 0.4 | 6.2 | -7 | -11 | 131.3 | 194.0 | 19.2 |
| BIMB | 67.6 | 100 | 2.6 | 0.5 | 3.2 | -9 | -5 | 67.6 | 91.0 | 7.4 |
| AFFIN | 65.8 | 99 | 11.2 | 3.3 | 3.1 | +16 | +3 | 66.7 | 105.2 | 11.1 |
| ABMB | 53.4 | 100 | 12.9 | 3.7 | 2.5 | +17 | +4 | 53.4 | 73.3 | 7.0 |
| MBSB | 42.0 | 100 | 9.0 | 3.7 | 2.0 | +7 | +3 | 42.0 | 66.7 | 9.8 |
| Others ² | 386.9 | N.A. | 2.7 | 1.7 | 18.2 | -46 | -8 | N.A. | | |
| Total³ | 2,131.5 | | 5.3 | 2.2 | 100.0 | | | 2,249.3 | | |

Source: BNM, Companies, Kenanga Research

¹ Non-domestic loans make up an insignificant portion to group's overall books² Others include non-listed local and foreign financial institutions³ 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-4QCY23 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% (FY23: 10.3%) | | |
| AFFIN | Dec-24 | 8.0% (FY23: 12.3%) | | 1.60% (FY23: 1.42%) | 64.0% (FY23: 71.6%) | 20-30 bps (FY23: 13 bps) | | 1.90% (FY23: 1.90%) | |
| AMBANK | Mar-24 | 6.0% (FY23: 8.5%) | | c.1.79% from 1.90% (FY23: 1.94%) | | 35 bps (FY23: 34 bps) | >10.0% (FY23: 9.9%) | | |
| BIMB | Dec-24 | 7-8% (FY23: 2.6%) | | 2.1% (FY23: 2.12%) | | <30 bps (FY23: 26 bps) | 8% (FY23: 7.8%) | <1.1% (FY23: 0.92%) | |
| CIMB | Dec-24 | 5-7% (FY23: 8.3%) | | +5 bps (FY23: 2.22%) | <46.9% (FY23: 46.9%) | 30-40 bps (FY23: 32 bps) | 11.0-11.5% (FY23: 10.6%) | | |
| 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-24 | 6.-7% (FY23: 9.0%) | | -c.5 bps (FY23: 2.17%) | <49% (FY23: 48.9%) | 30 bps (FY23: 30 bps) | 11.0% (FY23: 10.3%) | | |
| MBSB | Dec-24 | 9% (FY23: 6.6%) | | 2.0% (FY23: 1.70%) | <50% (FY23: 51.1%) | | 5-6% (FY23: 1.5%) | 4-5% (FY23: 7.3%) | |
| PBBANK | Dec-24 | 5-6% (FY23: 6.0%) | 5-6% (FY23: 4.6%) | Low single digit compression (FY23: 2.19%) | | 5-10 bps (FY23: 4 bps) | -12% (FY23: 12.7%) | | |
| RHBBANK | Dec-24 | >4.5% (FY23: 4.8%) | | 1.80-1.90% (FY23: 1.92%) | | 20-25 bps (FY23: 16 bps) | >10% (FY23: 9.4%) | <1.70% (FY23: 1.74%) | 27-28% (FY23: 27.9%) |

Source: Companies, Kenanga Research

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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. | 1-Yr. Fwd. |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | | |
| AFFIN BANK BHD | UP | 2.63 | 1.80 | -31.6% | 6,171 | N | 12/2024 | 21.2 | 27.8 | 21.4% | 31.6% | 12.4 | 9.4 | 0.5 | 4.3% | 8.0 | 3.0% | |
| ALLIANCE BANK MALAYSIA BHD | OP | 3.61 | 4.30 | 19.1% | 5,589 | N | 03/2024 | 45.5 | 50.9 | 4.0% | 11.8% | 7.9 | 7.1 | 0.8 | 10.2% | 24.5 | 6.8% | |
| AMMB HOLDINGS BHD | OP | 4.20 | 4.80 | 14.3% | 13,894 | N | 03/2024 | 43.6 | 51.1 | -16.9% | 17.3% | 9.6 | 8.2 | 0.7 | 9.4% | 19.0 | 4.5% | |
| BANK ISLAM MALAYSIA BHD | MP | 2.57 | 2.25 | -12.5% | 5,825 | Y | 12/2024 | 25.6 | 29.3 | 5.1% | 14.1% | 10.0 | 8.8 | 0.8 | 7.8% | 17.0 | 6.6% | |
| CIMB GROUP HOLDINGS BHD | MP | 6.53 | 6.60 | 1.1% | 69,643 | N | 12/2024 | 67.1 | 69.8 | 2.6% | 3.9% | 9.7 | 9.4 | 1.0 | 10.3% | 44.0 | 6.7% | |
| HONG LEONG BANK BHD | OP | 19.42 | 24.20 | 24.6% | 42,097 | N | 06/2024 | 196.0 | 213.1 | 5.2% | 8.7% | 9.9 | 9.1 | 1.1 | 11.3% | 60.0 | 3.1% | |
| MALAYAN BANKING BHD | OP | 9.63 | 11.00 | 14.2% | 116,205 | N | 12/2024 | 80.7 | 82.9 | 4.1% | 2.8% | 11.9 | 11.6 | 1.2 | 10.2% | 62.0 | 6.4% | |
| MALAYSIA BUILDING SOCIETY | UP | 0.780 | 0.590 | -24.4% | 6,413 | Y | 12/2024 | 3.4 | 6.3 | 79.3% | 82.1% | 22.7 | 12.5 | 0.6 | 2.5% | 2.0 | 2.6% | |
| PUBLIC BANK BHD | OP | 4.32 | 5.10 | 18.1% | 83,854 | N | 12/2024 | 37.8 | 39.6 | 10.3% | 4.8% | 11.4 | 10.9 | 1.4 | 13.0% | 21.0 | 4.9% | |
| RHB BANK BHD | OP | 5.60 | 7.25 | 29.5% | 24,004 | N | 12/2024 | 72.8 | 76.4 | 11.5% | 4.8% | 7.7 | 7.3 | 0.7 | 9.9% | 44.0 | 7.9% | |
| SECTOR AGGREGATE | | | | | 373,695 | | | | | 5.2% | 6.2% | 10.7 | 10.1 | 1.1 | 10.0% | | 5.3% | |

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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