Banking

Still Room for Value

OVERWEIGHT

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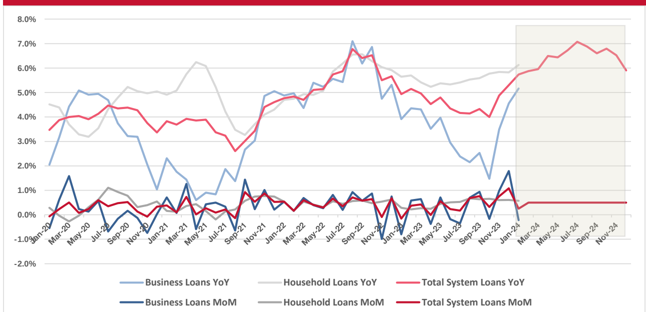
We maintain our OVERWEIGHT call on the banking sector. We project a loans growth range of 5.5%-6.0% in CY24, surpassing our in-house GDP forecast of 4.5%-5.0% as household loans could stay buoyant. OPR is expected to be steady-state at 3.00% throughout CY24 with looming macros possibly inclining to downside adjustments, if any. With loans growth intact (albeit with moderating guidances), NIM pressures are expected to ease and with credit costs not to be a large concern, investors may further flock into the sector, particularly into large caps with sustainable yields. For 2QCY24, our Top Picks are: (i) PBBANK (OP; TP: RM5.10) with a highest perceived resilience against headwinds with brighter expectations for write-backs, (ii) RHBBANK (OP; TP: RM7.25) as the new dividend leader while supported by a sizeable CET-1 balance, and (iii) ABMB (OP; TP: RM4.30) for its leading yet sustainable fundamentals which outpace certain larger-cap names, despite being the smallest listed bank.

Expected industry loans growth of 5.5%-6.0% to outpace GDP. Leading out from CY23's strong momentum, we project CY24's loans growth to range between 5.5%-6.0% (CY23: 5.3%). This is above our in-house GDP expectation of 4.5%-5.0%. So far, Jan 2024's 5.7% increment is viewed to be encouraging albeit could be frontloaded in lieu of Feb 2024's Chinese New Year festivities.

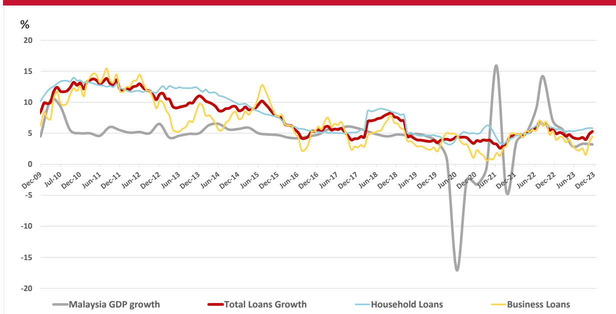
Our in-house GDP expectation for CY24 stands at 4.7% which seems to fall behind our projected system loans growth target. The widening disparity is attributed by sustained mortgages stacked up from prior building of loans books, though we expect a stronger emphasis on business loans in the near-term. Housing transactions are possibly skewing towards affordable homes as opposed to higher value sub-sale transactions. Meanwhile, a persistently soft MYR will likely leave a mixed impact on net importing or net exporting businesses. That said, we suspect the largest support would come from construction and infrastructure projects progressing well.

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

GDP and Loans Growth Trajectory



Source: Kenanga Research

Finding a sweet spot from stable OPR. We continue to expect OPR to be steady-state at 3.00% throughout CY24 with a greater downside-bias directionally should BNM opt for an adjustment. This is owing to the abovementioned weak MYR possibly being a strain to the domestic supply chain. In addition, tighter monetary controls may be unwarranted with the recent 2ppt increase in SST for selected categories, an upcoming implementation of luxury taxes as well as targeted fuel subsidies likely to pose inflationary pressures to the country. Triggers for an earlier-than-expected rate cut could stem from US Fed movements.

Having been hurt by past rate hikes which inflated cost of funds, the banks look to revitalise interest margins by down-pricing deposits and to prioritise on higher-yielding loan books going forward (partially attributing to lower financing growth guidance). That said, the market will likely remain competitive throughout as market share maintenance may not be fully sidelined in the name of higher margin. Hence, certain corporates are anticipating continued compression in NIMs before we can see NIMs rise to more sustainable levels.

With regards to our calls, we take this opportunity to downgrade **BIMB (TP: RM2.25)** to **Underperform** from **Market Perform.** While the bank is expected to experience sustainable NIMs and well-contained asset quality, its misalignments on its financing growth expectations may leave some concerns. Additionally, its below-industry average ROE (8% vs 10%) are keeping valuation prospects more modest.

Maintain OVERWEIGHT on the banking sector. Market tailwinds (i.e. persistent loans growth and GDP, better margin retention) are expected to continue outweighing industry headwinds (i.e. inflationary pressures, weaker MYR), which we believe may lead to fewer tests to the sector's resiliency. The sector should be of interest with dividend yields still appearing attractive (6%-7%) on most names on top of lower embedded sector volatility as compared to other industries. We had seen meaningful moves in share prices with the inflow of foreign investors looking to accumulate sector heavyweights.

On that note, we note that there are opportunities presented in the form of a few laggards, likely awaiting encouraging earnings reports to affirm the translation of share price. With that, we seek to align our Top Picks to **PBBANK, RHBBANK** and **ABMB:**

(i) **PBBANK** – Thanks to its heavy retail mortgage mix, we view the group to be the most resilient amongst the names paired by its leading GIL records. The group may also benefit from an upcoming write back of its pandemic-related overlays which could translate to surprise special payouts to shareholders. PBBANK had previously experimented to pay beyond its biannual window and we believe this could serve as a means.

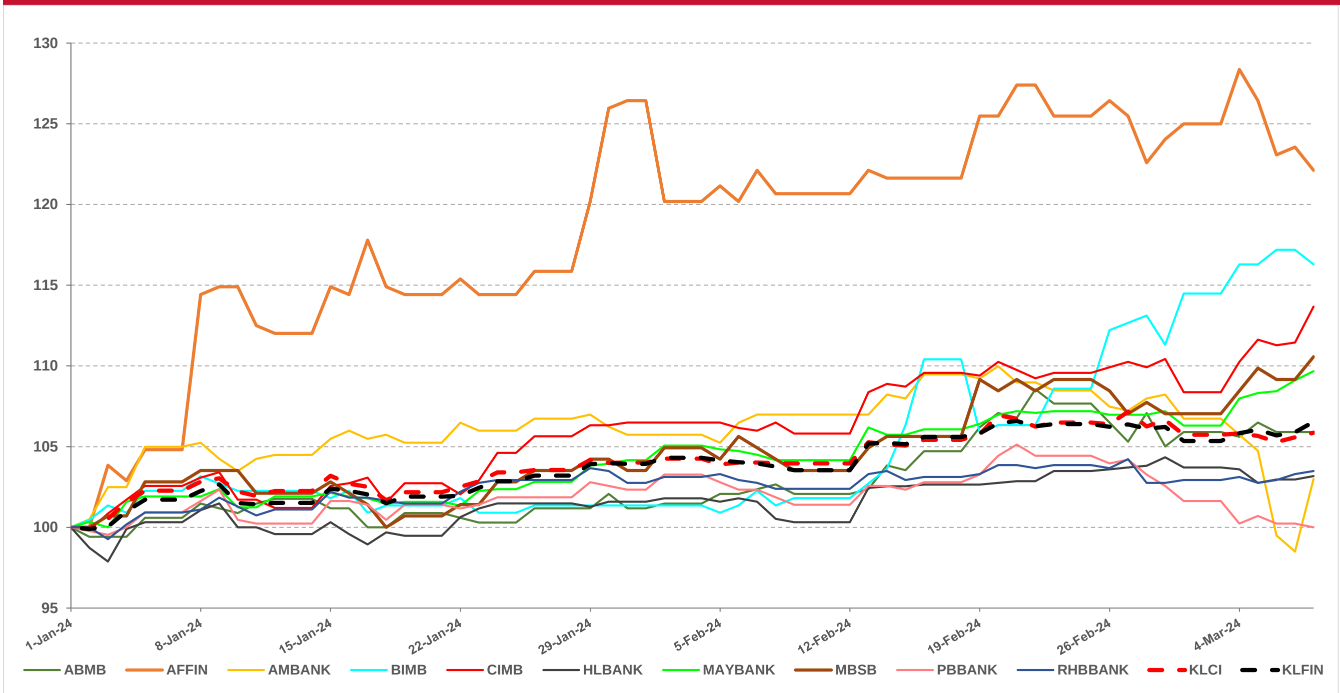
(ii) **RHBBANK** – RHBBANK now stands as the bank with the highest dividend potential, stretching close to c.8% in spite of modest growth expectations. Its sizeable CET-1 chest of >16% may further keep payouts sustainable, with a likely lower emphasis on provision management as pandemic concerns have alleviated. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term.

(iii) **ABMB** – Between the smaller cap banks, we continue to like ABMB as it offers solid fundamentals which are comparable to its larger cap peers, with dividend yields of c.7% (sector average: 5%) and ROEs of c.11% (sector average: 10%). The group also possesses the largest proportion of SMEs to its books which could drive its near-term growth. Leading in terms of CASA as well, it offers ABMB greater flexibility when it comes to margin retention.

Appendix

Smaller caps show highest appreciation. As of our cut-off date of 8 Mar 2024, most banks registered higher share prices since the commencement of CY24. We noted that **AFFIN (UP; TP: RM1.80)** and **BIMB** were the strongest outperformers against the FBM KLCI whereby **AFFIN's** sentiment was fuelled by a tightening relationship with the Sarawak State Government while **BIMB** benefited from its better-than-expected results. **CIMB (MP; TP: RM6.60)** followed thanks to the encouraging performance of its regional units alongside growing dividend prospects. On the flipside, **PBBANK** appeared to stay flattish, likely as investors may be recalibrating their positions to banks with higher loans growth prospects.

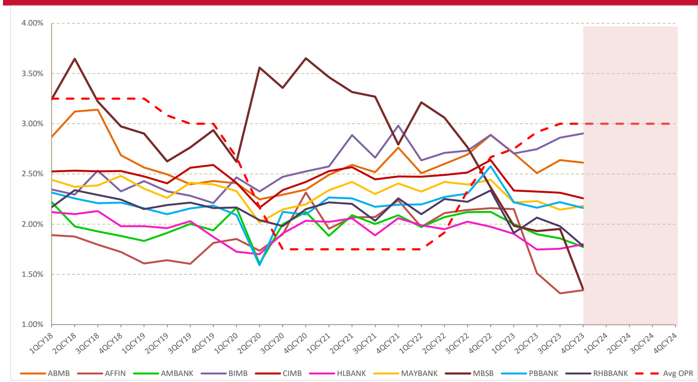
YTD CY24 Performance of Banking Stocks against the FBM KLCI and Bursa Finance Index (KLFIN)



Source: Bloomberg

Another run down. From 4QCY23's reporting, the banks were strained by seasonal deposit price pressures with year-end campaigns seeking to lock in cheap funds. While some banks appear to suffer from continued compression, there were a few notable names such as **BIMB** and **HLBANK (OP; TP: RM24.20)** which were notable outliers in retaining YTD NIMs on the back of sharper portfolio management to uplift asset yields. **MBSB (UP; TP: RM0.59)** starkly suffered the worst drop to margins due to their portfolio of unfavourable fixed rate products.

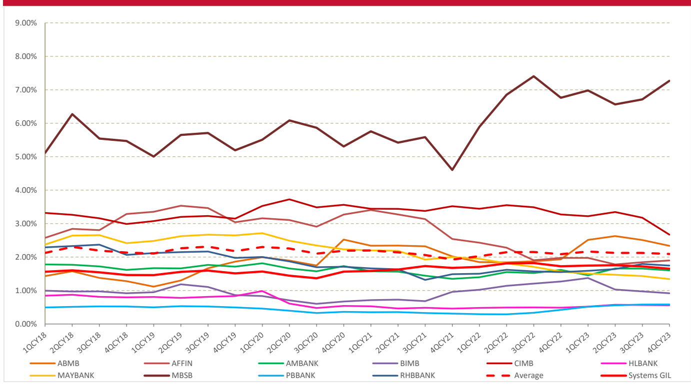
Est. Annualised NIMs



Note:
- Orange bar indicates our in-house OPR expectations in the coming periods
Source: Kenanga Research

Peachy GIL. Industry GIL stayed relieved, albeit with some hiccups attributed by top ups to cover remaining repayment assistance. That said, **MBSB** persists to be the most stressed partly due to the undertaking of EPF's i-ihsan programs which allowed for the utilisation of Account 2 as collateral. **PBBANK** and **HLBANK** continued to be the benchmark with regards to asset quality, only coming in at 0.6% each. CY24 could possibly see further tapering as remaining provisions are utilised.

Est. GIL Trends



Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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	UP	2.53	1.80	-28.9%	5,936.6	N	12/2024	21.2	27.8	21.4%	31.6%	12.0	9.1	0.5	4.3%	8.0	3.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.60	4.30	19.4%	5,573.2	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	4.11	4.80	16.8%	13,591.1	N	03/2024	43.6	51.1	-16.9%	17.3%	9.4	8.0	0.7	9.4%	19.0	4.6%
BANK ISLAM MALAYSIA BHD	UP	2.51	2.25	-10.4%	5,688.8	Y	12/2024	25.6	29.3	5.1%	14.1%	9.8	8.6	0.7	7.8%	17.0	6.8%
CIMB GROUP HOLDINGS BHD	MP	6.55	6.60	0.8%	69,856.4	N	12/2024	67.1	69.8	2.6%	3.9%	9.8	9.4	1.0	10.3%	44.0	6.7%
HONG LEONG BANK BHD	OP	19.44	24.20	24.5%	42,140.4	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	9.59	11.00	14.7%	115,722.1	N	12/2024	80.7	82.9	4.1%	2.8%	11.9	11.6	1.2	10.2%	62.0	6.5%
MALAYSIA BUILDING SOCIETY BHD	UP	0.785	0.590	-24.8%	6,454.5	Y	12/2024	3.4	6.3	79.3%	82.1%	22.9	12.6	0.6	2.5%	2.0	2.5%
PUBLIC BANK BHD	OP	4.24	5.10	20.3%	82,301.3	N	12/2024	37.8	39.6	10.3%	4.8%	11.2	10.7	1.4	13.0%	21.0	5.0%
RHB BANK BHD	OP	5.64	7.25	28.5%	24,175.0	N	12/2024	72.8	76.4	11.5%	4.8%	7.7	7.4	0.8	9.9%	44.0	7.8%
Sector Aggregate					**371,440**					**5.2%**	**6.2%**	**10.7**	**10.0**	**1.1**	**10.0%**		**5.3%**

Source: Kenanga Research

Gordon Growth Model Inputs

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
AFFIN BANK BHD	3.0	6.0	11.5	0.35	1.80	MP	
ALLIANCE BANK MALAYSIA BHD	3.0	10.0	11.2	0.86	4.30	OP	+5% ESG Premium
AMMB HOLDINGS BHD	4.25	9.0	10.2	0.80	4.80	OP	
BANK ISLAM MALAYSIA BHD	3.5	8.0	10.5	0.64	2.25	**UP (from MP)**	
CIMB GROUP HOLDINGS BHD	3.5	10.5	11.2	0.92	6.60	OP	+5% ESG Premium
HONG LEONG BANK BHD	2.5	12.0	9.9	1.29	24.20	OP	
MALAYAN BANKING BHD	3.5	12.0	9.9	1.34	11.00	OP	
MALAYSIA BUILDING SOCIETY BHD	2.0	5.0	9.2	0.42	0.59	UP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	5.10	OP	+5% ESG Premium
RHB BANK BHD	3.0	10.0	10.5	0.93	7.25	OP	

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:

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