Banking

OVERWEIGHT

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3QCY24 Report Card: Eyeing a Decent Close

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

Post 3QCY24 earnings season, we maintain our OVERWEIGHT rating on the banking sector where one bank reported a positive surprise while another disappointed. The upcoming 4QCY24 season is expected to be bogged down by market-wide deposits competition as banks shore up liquidity for next year. We do not find asset quality to be a major issue across the sector on tighter credit screenings and better overall economic landscape. In the medium term, we expect a shift in appetite between banking systems in the region as our anticipated stable OPR of 3% throughout CY25 could be outshined by new stances in regional monetary policy. Our sector picks for the time being are: (i) HLBANK (OP; TP: RM27.40) on promising headway in earnings growth ex-BOCD, where the latter has been a long-standing contributor to growth for the group, and (ii) AMBANK (OP; TP: RM6.40) for its swelling ROE prospects and growing dividend yield potentials which may set it apart from other high yielders. Among the large cap banks, we like MAYBANK (OP; TP: RM11.95) as despite its leading market share, it holds better-than-industry asset quality with earnings growth expected to outpace its counterparts.

Good set by large caps. 3QCY24 results season were encouraging, with 8 results out of 10 banks reporting within expectations with **MBSB** surprising positively on the back of stronger NOII performance. On the flipside, **BIMB** disappointed as its financing growth trajectory was hampered by early redemptions while also being unfavourably impacted by forex volatility, being an outlier of the sector.

Market-wide, we saw most banks showing NIMs reverting positively, notably with **PBBANK** reversing its negative guidance towards a positive note, being between a stable rate to 1-2 bps increase in the year-end. Meanwhile, **AFFIN, BIMB** and **MAYBANK** continued to experience compressed NIMs which were mostly driven by funding costs still being tight, and a concentration to lower yielding assets (i.e. mortgages) did not help.

NOII was mostly affected by greater volatility in forex and bond rates, with stock-broking activities also picking up on greater participation from retail investors and foreign investors. With regards to asset quality, we see credit costs coasting at relatively stable levels albeit with several banks sequentially topping up provisions on specific accounts for safety, namely **ABMB** and **HLBANK.**

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

Market share gap widens. Based on 3QCY24's domestic market share breakdown, the combined market share of our 10 listed local banks came in at 82.4% (+49 bps QoQ). Market leader MAYBANK continued to tighten its grip with a share of 18.6% (+85 bps YoY, +20 bps QoQ) from strong gains in its mortgage book in recent quarters. PBBANK also widened its slice to 17.6% (+10 bps YoY, +15 bps QoQ) similarly with its hire purchase books also gaining good traction. BIMB had the softest performance (-12 bps YoY, -1 bps QoQ) but this was attributed to early redemption from several corporate accounts. While AMBANK and CIMB appeared to lag in their respective loans growth, these are conscious decisions as they focus on acquiring higher margin portfolios in the SME space.

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

Closing the year in better shape. Eyeing 4QCY24, the banks are unanimously anticipating funding cost to be pressured by seasonal year-end deposits competition. However, this should not overly undermine the banks' earnings with ROE guidances eyeing for stronger outcomes than FY23. We opine most of the uncertainties will come from NOII volatility, especially from MYR strength, and bond yields still exhibiting moderate fluctuations. At least for now, we are growing more confident to put asset quality issues behind the sector, as provisioning needs are lukewarm with only a select few pain points existing (i.e. ABMB's AOA portfolio, MBSB's legacy books, RHBBANK's Thailand assets).

Meanwhile, CET-1 accumulations for some banks have reached new levels. Noteworthy are **AMBANK** and **CIMB** (to c.15%) following the former's transition to FIRB standards and the latter from strong earnings accretion. The banks guided that this would improve dividend payment capacity and would be gradual in nature. This serves as a relief to the sector especially given that dividend yields have been diluted following the recent run-up in share prices.

(refer to the Fig. 4 for updates on corporate guidances post-1QCY24 results)

Maintain OVERWEIGHT on the banking sector. Post results, we believe the sector's earnings resilience is well-tested but may be less merited by investors as regional markets may echo policy shifts in the US; thereby, interest in the sector is subsiding amid possible shifts in monetary policies mirroring expectations on monetary, undermining our expectations for OPR to remain stable at 3% throughout CY25. Additionally, following the buying rally over the last quarter, sector dividend yields have eroded from an average of c.6% to just over 5%, urging investors to be more selective with their picks going forward. Having this in mind, we rotate our favourites to banks.

We highlight **HLBANK** which has successfully reinforced its domestic operations to outpace its associate, BOCD in term of earnings growth. This would gradually reduce concerns about over-reliance on BOCD for sustaining earnings growth while mitigating the negative implications of HLBANK monetizing its 19.4% stake in the company. We also like **AMBANK** on the back of a more solid ROE backbone as the group focuses on stronger earnings drivers as opposed to gaining market share in less profitable segments. Following its recent transition into FIRB, the group's new acquired CET-1 levels of c.15% could lead to more generous dividend payouts and make AMBANK one of the leaders in yield prospects (c.6%). This is premised on our anticipated dividend pay-out of 50% against the group's more gradual step-up of 45% (from 40%). Among the large cap banks, we like **MAYBANK** as despite its leading market share, it holds better-than-industry asset quality with earnings growth expected to outpace its counterparts.

Appendix

Fig 3: Quarterly Results Performance

	3QCY24						2QCY24					
	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				1				1
PBBANK		1			1			1			1	
RHBBANK		1			1			1			1	
Total	**1**	**8**	**1**	**1**	**8**	**1**	**0**	**10**	**0**	**0**	**9**	**1**
Total (%)	**10**	**80**	**10**	**10**	**80**	**10**	**0**	**100**	**0**	**0**	**90**	**10**

Source: Kenanga Research, Bloomberg

Fig 4: Domestic Loans Landscape

Market Share Breakdown as at 2QCY24

	Domestic Loans				Domestic Market Share					
Name	RM b	Proportion (%)	YoY Growth (%)	QoQ Growth (%)	(%)	YoY Chg (bps)	QoQ Chg (bps)	Total Group Loans (RM b)	Total Asset (RM b)	Total Equity (RM b)
MAYBANK	411.0	62	10.7	1.9	18.6	+ 85	+ 20	663.8	1,050.6	90.6
PBBANK	390.1	94	6.2	1.7	17.6	+ 10	+ 15	414.5	526.8	55.5
CIMB	272.3	62	4.3	1.1	12.3	- 16	+ 3	437.0	745.0	66.8
RHBBANK	193.1	85	4.8	1.5	8.7	- 7	+ 6	227.5	337.9	31.7
HLBANK	181.2	93	7.6	0.1	8.2	+ 15	- 6	194.9	297.8	37.3
AMBANK	134.1	100	2.6	1.2	6.1	- 18	+ 2	134.5	196.9	20.0
AFFIN	69.7	99	9.4	1.6	3.2	+ 11	+ 2	70.6	112.1	11.5
BIMB	68.5	100	1.7	0.5	3.1	- 12	- 1	68.5	93.8	7.8
ABMB	59.1	100	14.8	3.5	2.7	+ 21	+ 7	59.1	81.0	7.4
MBSB	42.4	98	4.6	1.2	1.9	- 2	+ 1	43.1	62.5	9.9
Others	389.8	N.A.	0.5	-1.9	17.6	- 88	- 49	N.A.		
Total	**2,211.1**		**5.6**	**0.8**	**100.0**			**2,313.5**		

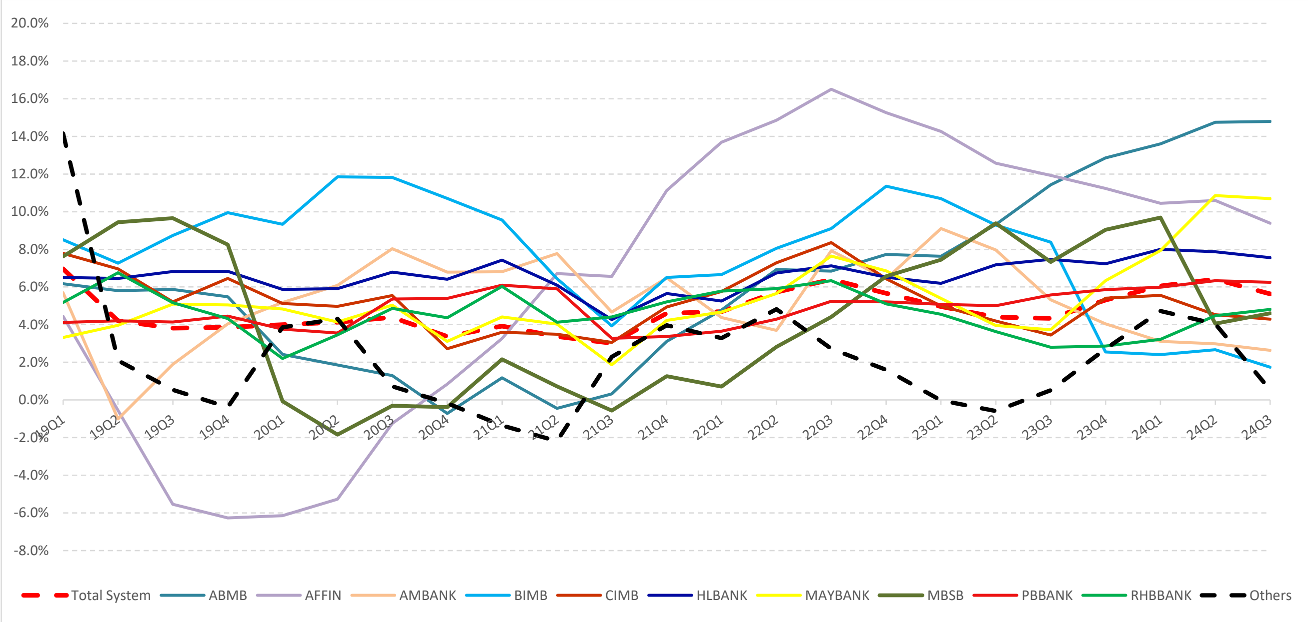
Source: BNM, Companies, Kenanga Research

[1] Non-domestic loans make up an insignificant portion to group's overall books

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

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

Fig 5: Domestic Loans Growth Performance



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

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Fig 6: Updated Corporate Guidances Post-3QCY24 Results

Company	FYE	Loan growth	Deposit growth	NIM	Cost-to-income ratio	Credit cost	Return on equity	Gross impaired loan	CASA Mix
ABMB	Mar-25	8-10% *(FY24: 13.6%)*		2.40-2.45% *(FY24: 2.5%)*	<48% *(FY24: 48.2%)*	30-35 bps *(FY24: 26 bps)*	>10% *(FY24: 10%)*		
AFFIN	Dec-24	8.0% *(FY23: 12.3%)*		1.40%; **from 1.60%** *(FY23: 1.42%)*	74.0% ; **from 64.0%** *(FY23: 71.6%)*	10-15 bps; **from 20-30 bps** *(FY23: 13 bps)*	5%; **from 7%** *(FY23: 3.7%)*	1.90% (FY23: 1.90%)	
AMBANK	Mar-25	3%-6% *(FY24: 3.0%)*		Stable *(FY24: 1.82%)*		<30 bps *(FY24: 51 bps)*	>10.0% *(FY24: 8.1%)*		
BIMB	Dec-24	3%-4%; **from 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% *(FY24: 7.3%)*		1.85-1.95% *(FY24: 1.86%)*	~41% *(FY24: 40.5%)*	<10 bps *(FY24: -6 bps)*	~12.0% *(FY24: 11.8%)*	<0.65% *(FY24: 0.53%)*	>32% *(FY24: 33%)*
MAYBANK	Dec-24	7-8% ; *(FY23: 9.0%)*		-c.10 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%)*	Stable; **From low single digit compression** *(FY23: 2.19%)*		5-10 bps *(FY23: 4 bps)*	>12.5% *(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

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.
<u>Stocks Under Coverage</u>																	
AFFIN BANK BHD	UP	2.92	2.20	-24.7%	7,009	N	12/2024	20.9	26.7	19.7%	27.9%	14.0	10.9	0.6	4.3%	8.0	2.7%
ALLIANCE BANK MALAYSIA BHD	MP	4.80	5.00	4.2%	7,431	N	03/2025	48.9	52.9	9.7%	8.2%	9.8	9.1	1.0	10.3%	25.0	5.2%
AMMB HOLDINGS BHD	OP	5.33	6.40	20.1%	17,645	N	03/2025	58.2	64.8	23.6%	11.5%	9.2	8.2	0.9	9.7%	29.0	5.4%
BANK ISLAM MALAYSIA BHD	UP	2.52	2.30	-8.7%	5,712	Y	12/2024	23.1	28.1	-5.2%	21.6%	10.9	9.0	0.8	7.0%	16.5	6.5%
CIMB GROUP HOLDINGS BHD	MP	8.21	7.60	-7.4%	88,025	N	12/2024	70.8	74.1	8.1%	4.7%	11.6	11.1	1.2	10.8%	49.0	6.0%
HONG LEONG BANK BHD	OP	20.48	27.40	33.8%	44,395	N	06/2025	215.1	225.0	5.0%	4.6%	9.5	9.1	1.0	11.4%	71.0	3.5%
MALAYAN BANKING BHD	OP	10.18	11.95	17.4%	122,842	N	12/2024	81.2	90.3	4.7%	11.2%	12.5	11.3	1.3	10.2%	62.0	6.1%
MBSB BHD	UP	0.755	0.600	-20.5%	6,208	Y	12/2024	4.9	6.8	157.3%	37.9%	15.3	11.1	0.5	3.6%	2.0	2.6%
PUBLIC BANK BHD	OP	4.51	5.10	13.1%	87,542	N	12/2024	37.0	39.0	8.0%	5.4%	12.2	11.6	1.5	12.8%	21.0	4.7%
RHB BANK BHD	OP	6.52	7.55	15.8%	28,424	N	12/2024	70.6	72.8	8.1%	3.0%	9.2	9.0	0.9	9.6%	42.5	6.5%
SECTOR AGGREGATE					**415,232**					**8.1%**	**7.8%**	**11.5**	**10.7**	**1.2**	**10.2%**		**4.9%**

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