Banking

Bottoming Out, Attractive Value

OVERWEIGHT

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Easing monetary conditions supportive of continued growth not only help to stabilise asset quality, but also pushing loan growth and improving prospects of recoveries. These, coupled with the sector being undervalued, in our view, as the larger banks have largely underperformed year-to-date are reasons why we have maintained the sector at OVERWEIGHT. Valuations are attractive and undemanding with all banks under our coverage rated as OUTPERFORM except for HLBANK (MP, TP: RM17.30). While we expect a mild impact to top-lines (negative on NIM but positive on credit demand), bottom-lines are likely to be enhanced as impairment allowances are reduced. Our Top Picks are ABMB (OP, TP: RM3.45) and CIMB (OP, TP: RM6.45), which we believe are prime beneficiaries from M&As and tie-ups.

YTD, the KL Finance Index (KLFIN) has continued to underperform the FBMKLCI with negative returns of 10.7% versus FBMKLCI's -5.8% on recession worries exacerbated by the on-going trade tensions globally. The sector's underperformers were mix, led by ABMB (-23%), HLBANK (-20%) and PBBANK (-19%), on concerns of underperforming SMEs (ABMB) and China's slowdown (HLBANK). On a positive note, ease of concerns from its O&G portfolio and Aabar Investments reducing its stake in RHBBANK drove the bank to be the second best performer (+7%) behind BIMB (+11%) which proposed restructuring seemed to be dithering.

Lacking catalyst, the improving sector are masked by current concerns over tepid domestic loans growth, spread compression, volatile capital markets and an uncertain global environment, no thanks to trade-war related issues. While the prevailing sentiment is cautious due to a generally down-beat economic outlook globally, selective loans and approvals lend to a stable outlook that supports a moderate and stable credit charge for the industry. Banks with healthy asset quality (hence, low impairment allowances) will still be in favour for their defensive quality. We believe a more visible picture from Budget 2020 will give clarity and support for the domestic economy, supporting loans growth. The May 2019 OPR cut will support the banks' bottom-line as credit charge will likely be lower on account that probability of default will be lower with faster recovery rate as interest is reduced. From the OPR cut, we do not expect any significant impact on the top-line as we believe that the cut is only to necessitate demand for the banks to achieve their loan targets for 2019. In fact, we believe that the cut will support the banks' bottom-line as credit charge will likely be lower on account that probability of default will be lower with faster recovery rate as interest is reduced as mentioned earlier. Our industry loans' forecast for CY2019 is maintained at +4.9% on account clarity and certainty post budget 2020.

We could probably see the emergence of M&A talks in the banking sector as well, which may act as a major market catalyst. Prior to the consolidation of the banking sector in 2006/07, the valuations for the banking sector, as per the KLFIN Index, were trapped at ~16x PER or ~1.6x PBV. At the height of the banking consolidation activities, these valuations charged to >20x or ~2.5x respectively.

Valuations on the stocks in our banking universe are undemanding with all of the stocks at **OUTPERFORM** with the exception of HLBANK (TP: RM17.30) at MARKET PERFORM. With potential total returns at >17% we reiterate the sector at **OVERWEIGHT.**

Fig 1: KLFIN index performance against FBMKLCI

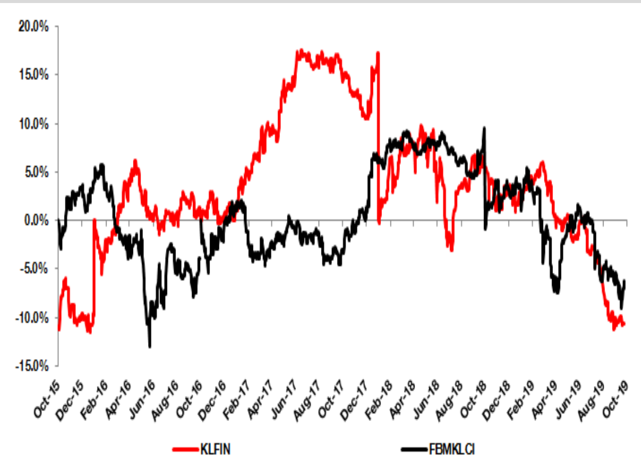
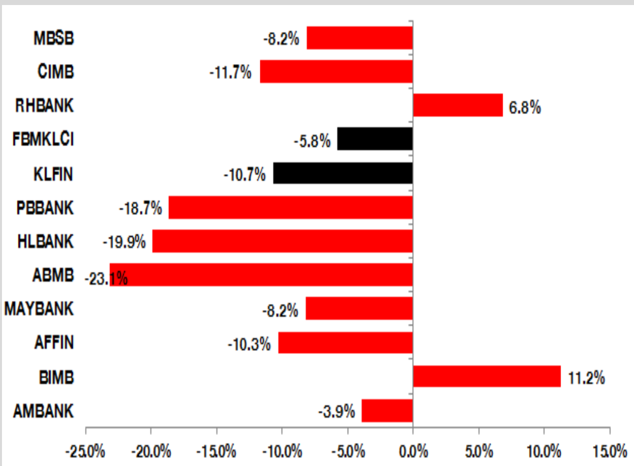


Fig 2: 2019 YTD share price returns for banks



Source: Bloomberg, Kenanga Research

A Recap on 2QCY19 Results

2Q19 results; mostly in line. Our banking universe saw 8 in-lines within estimates with the exception of ABMB and MBSB due to higher-than-expected provisioning. On a QoQ basis, CIMB and MBSB saw stellar earnings (+27% each) on account of: (i) lower provisioning for both, and (ii) divestments of RM236m for CIMB. In terms of topline revenue, the industry saw rebound both QoQ and YoY, at +1.2% and +4.0%, respectively. QoQ performance was led by AMBANK (+10.4%) while BIMB (+16.7%) led YoY growth. AMBANK's improved topline was led by higher NOII (+20.8%) while BIMB's YoY performance was driven by stellar growth from Takaful (+34.7%).

Earnings rebounded as provisioning grew modestly. QoQ and YoY earnings rebounded +4.3% and +9.1% as industry topline improved modestly at +1.2% QoQ but boosted by lower opex with pre-provisioning operating profit rebounding +2.7% QoQ. The better performance in earnings QoQ was supported by modest improvement in impairment allowances at +8.9% QoQ (vs 1Q19: +8.9% QoQ). Earnings were driven by CIMB (+27% QoQ) and MAYBANK (+7% QoQ) on account of lower provisioning for both (-29% QoQ and -27% QoQ respectively).

Uptick in loans QoQ but moderation YoY. QoQ there was an improvement in loans, up by 50bps to +1.25%. Slight moderation YoY, falling 42bps to +5.13%. QoQ, industry loans were driven by CIMB and MAYBANK at +1.3% and +1.7%, respectively. For CIMB, loans were driven by SMEs (+4.4% QoQ while for MAYBANK it was mostly from Business Enterprises (excluding SMEs) at +18.6% QoQ. AFFIN's declining loans were mainly due to decline in corporates and SMEs coupled with repayments outpacing disbursements while AMBANK's decline was broad-based.

Margin squeezed. Our banking universe saw margin compression QoQ at 7bps but a 4bps enhancement YoY. QoQ margin compression was partly due to the OPR cut in May 2019. The margin pressure QoQ was also due to loans moderating with average cost funds which outpaced average lending yields (+7.2bps vs -13.4bps). AMBANK was the only bank that saw NIM enhancement (+8bps) due to its timely reduction of its excess liquidity (in the absence of credit demand) and better asset pricing.

Improved fee-based income. Overall the capital market was weak but our banking universe saw improved performance in both QoQ (+9.0%) and YoY (+14.9%). Banks with insurance businesses perform better in their fee-based income i.e AMBANK and MAYBANK. MTM (Mark-to-Market) gains also supported fee-based income in AMBANK, CIMB, PBANK and RHBBANK. QoQ, the improved industry fee-based income was driven by CIMB (+12.5%) and MAYBANK (+12.7%) as they were supported by their and investment & trading income at >+100% (CIMB) and +36.9% (MAYBANK). Looking ahead at the upward trend in investment securities by the banks, fee-based income will be further enhanced by more MTM in the event of another round of OPR cut at the end of the year.

Asset quality continues to be resilient. Overall asset quality in our banking universe remained stable although there was a 10bps uptick QoQ to 2.12%. There was a uptick in all banks with the exception of HLBANK which saw its GIL improving by 2bps to 0.78%. Deterioration in the asset quality was mostly from individual accounts and not broad-based notably from AFFIN, ABMB and MAYBANK. Some of the upticks were also caused by banks taking the prudent approach; restructuring & rescheduling their impaired loans and performing loans impaired based on their own individual risk assessments.

Provisioning benign. QoQ, gross credit charge in our banking universe saw a slight uptick (+2bps) but a 8bps decline in credit charge YoY. MAYBANK and MBSB saw falling credit charge. Although Expected Credit Loss (ECL) fell 11% QoQ and 18% YoY, the slight uptick QoQ are also attributed to lower credit recoveries falling 37% QoQ and 7% YoY. Loans loss provisioning by the banks continued to decline at 1.8% QoQ and 3.7% YoY, a testament to the banks selective asset and the stable economy. On a positive note we do not see much movement in impairment allowances as Stage 3 (S3) provisioning are fairly stable with no significant uptick. CIMB led the way as S3 impairments fell 9%. The only exception was MAYBANK (+7% QoQ, likely due to its single overseas account) and ABMB (+14% QoQ due higher provisioning from its SME space). We conclude that the fairly stable provisioning to: (i) economy will be fairly stable ahead, (ii) much of the banks loans portfolio will not be significantly affected by the current trade friction, and (iii) accommodative interest rates and stable employment are reducing risks among the banks' household loans portfolio.

Disciplined in spending. Despite the investments in new personnel, new technology and retraining, Cost-to-Income ratio (CIR) remained disciplined with most banks reporting CIR as guided. CIR declined 75bps QoQ to 47.7% with better cost discipline coming from AFFIN, ABMB and AMBANK with AMBANK's reduction in CIR due to cost discipline as opex fell 12% QoQ vs +10% growth in topline. AFFIN's lower CIR was due to the tapering of its AFFINITY TRANSFORMATION PROGRAM. While cost-discipline might be prevailing for 2019, we do not discount upside pressure on CIR into 2020 (as banks ramp up expenses in tandem with their strategic initiatives programmes i.e. **Forward23** (CIMB) and **FIT22** (RHBBANK).

Fig 3: Quarterly earnings trend (RM'm)

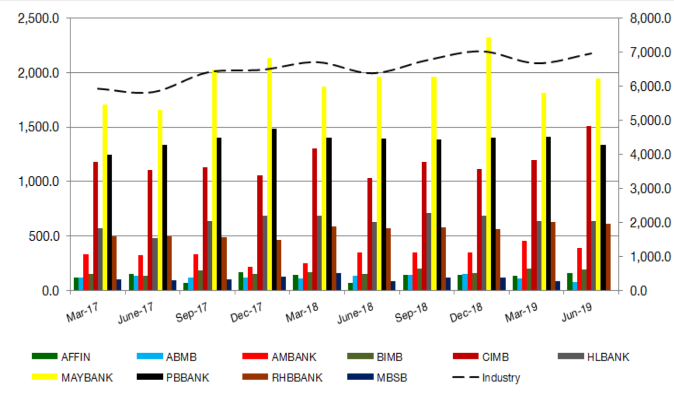


Table 1: Quarterly earnings trend (RM'm)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	73.3	144.6	143.8	138.1	156.0
ABMB	136.4	140.5	148.9	111.8	76.7
AMBANK	347.6	348.2	349.9	459.7	391.5
BIMB	149.9	198.6	161.3	202.5	195.2
CIMB	1,034.8	1,179.7	1,117.1	1,192.0	1,508.6
HLBANK	626.0	706.9	687.2	633.9	636.4
MAYBANK	1,959.0	1,957.2	2,326.4	1,809.3	1,940.9
MBSB	85.7	122.0	118.0	83.8	106.2
PBBANK	1,396.2	1,383.7	1,405.4	1,410.1	1,332.9
RHBBANK	570.3	578.7	565.4	630.2	615.4
Industry	**6,379.1**	**6,760.0**	**7,023.4**	**6,671.4**	**6,959.8**
QoQ (%)	**-4.9%**	**6.0%**	**3.9%**	**-5.0%**	**4.3%**
YoY (%)	**9.5%**	**5.6%**	**8.4%**	**-0.5%**	**9.1%**

Source: Bloomberg, Kenanga Research

Fig 4: Quarterly loans growth trend (RMm)

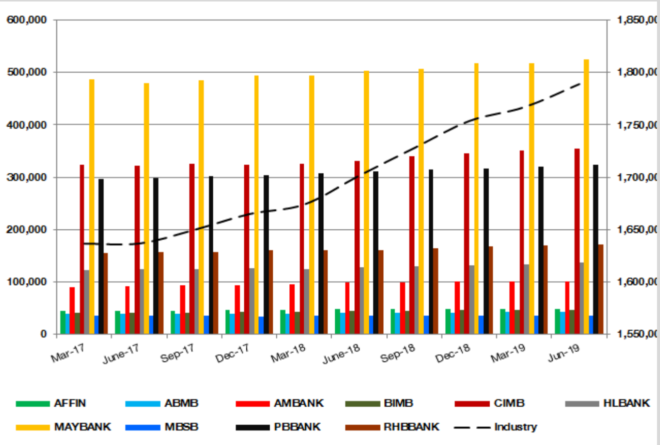


Table 2: Quarterly loans growth trend (RMm)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	47,801	49,233	48,973	48,510	47,618
ABMB	40,471	40,972	41,410	42,730	42,687
AMBANK	98,394	99,939	100,360	101,845	100,834
BIMB	43,990	45,034	46,470	46,807	47,184
CIMB	331,989	340,648	346,291	350,684	355,277
HLBANK	129,069	129,835	131,628	133,590	137,566
MAYBANK	502,398	507,719	517,334	516,888	525,579
MBSB	35,610	35,852	35,173	35,443	36,237
PBBANK	310,658	314,474	317,302	320,422	323,693
RHBBANK	161,361	164,314	168,879	170,056	172,346
Industry	**1,701,740**	**1,728,019**	**1,753,817**	**1,766,976**	**1,789,021**
QoQ (%)	***1.65%***	***1.54%***	***1.49%***	***0.75%***	***1.25%***
YoY (%)	***3.96%***	***4.73%***	***5.34%***	***5.54%***	***5.13%***

Source: Bloomberg, Kenanga Research

Fig 5: Quarterly Net interest margin trend (%)

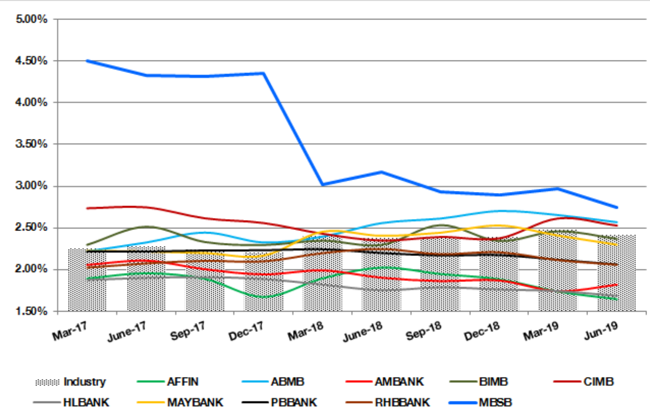


Table 3: Quarterly Net interest margin trend (%)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	2.02%	1.95%	1.88%	1.73%	1.64%
ABMB	2.56%	2.61%	2.70%	2.65%	2.57%
AMBANK	1.90%	1.86%	1.87%	1.74%	1.82%
BIMB	2.29%	2.53%	2.34%	2.46%	2.37%
CIMB	2.35%	2.39%	2.37%	2.61%	2.53%
HLBANK	1.75%	1.79%	1.76%	1.74%	1.68%
MAYBANK	2.40%	2.44%	2.53%	2.41%	2.30%
MBSB	3.17%	2.94%	2.89%	2.97%	2.74%
PBBANK	2.20%	2.17%	2.17%	2.12%	2.06%
RHBBANK	2.25%	2.18%	2.21%	2.11%	2.06%
Industry	**2.38%**	**2.38%**	**2.39%**	**2.48%**	**2.42%**
QoQ (bps)	**-2.0**	**0.0**	**1.0**	**9.2**	**-6.7**
YoY (bps)	**10.4**	**13.6**	**18.5**	**8.3**	**3.6**

Source: Bloomberg, Kenanga Research

Fig 6: Quarterly Non-Interest Income trend (RMmil)

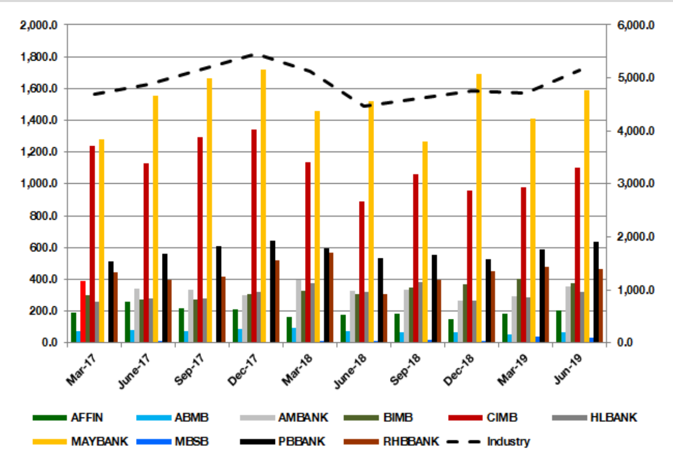


Table 4: Quarterly Non-Interest Income trend (RMmil)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	179.0	187.5	148.2	186.7	206.2
ABMB	74.3	64.4	68.9	56.5	65.8
AMBANK	329.8	333.5	269.9	292.6	353.5
BIMB	308.9	350.7	369.6	400.3	373.5
CIMB	886.7	1,059.4	960.6	979.9	1,102.7
HLBANK	323.2	379.7	263.1	287.0	324.6
MAYBANK	1,523.8	1,268.7	1,692.8	1,409.9	1,589.3
MBSB	10.2	18.2	11.8	42.0	30.5
PBBANK	533.9	556.2	529.8	585.1	634.5
RHBBANK	309.2	398.0	448.3	481.2	464.4
Industry	**4,478.8**	**4,616.3**	**4,763.1**	**4,721.3**	**5,145.0**
QoQ (bps)	**-12.7%**	**3.1%**	**3.2%**	**-0.9%**	**9.0%**
YoY (bps)	**-8.2%**	**-10.7%**	**-12.8%**	**-8.0%**	**14.9%**

Source: Bloomberg, Kenanga Research

Fig 7: Quarterly Investment Securities trend (RMmil)

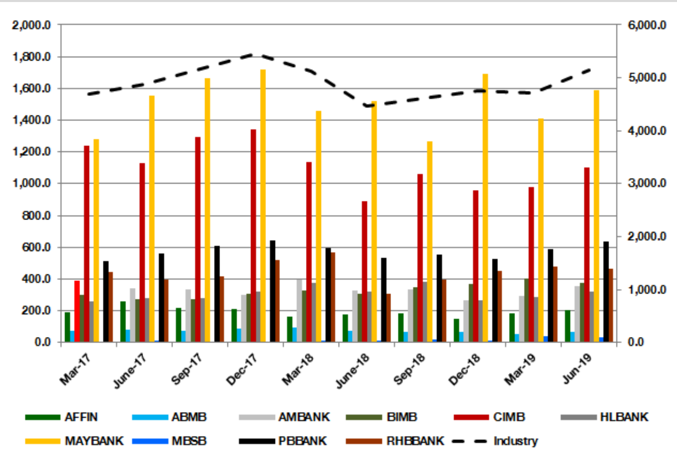


Table 5: Quarterly Investment Securities trend (RMmil)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	15,873	15,864	16,131	16,003	13,089
ABMB	9,366	9,351	9,365	9,945	10,295
AMBANK	31,228	31,862	33,796	40,222	40,290
BIMB	16,098	14,671	17,439	18,576	19,605
CIMB	98,139	96,857	101,640	110,556	107,045
HLBANK	52,270	55,313	57,483	53,035	51,139
MAYBANK	172,371	162,380	177,952	186,452	194,932
MBSB	4,368	4,485	5,117	6,106	8,709
PBBANK	69,063	70,681	71,741	69,079	68,018
RHBBANK	47,977	49,385	50,469	54,980	54,597
Industry	**516,752**	**510,848**	**541,134**	**564,952**	**567,719**
QoQ (bps)	***9.6%***	***-1.1%***	***5.9%***	***4.4%***	***0.5%***
YoY (bps)	***12.1%***	***8.1%***	***15.2%***	***19.8%***	***9.9%***

Source: Bloomberg, Kenanga Research

Fig 8: Quarterly Gross Impaired Loans ratio trend (%)

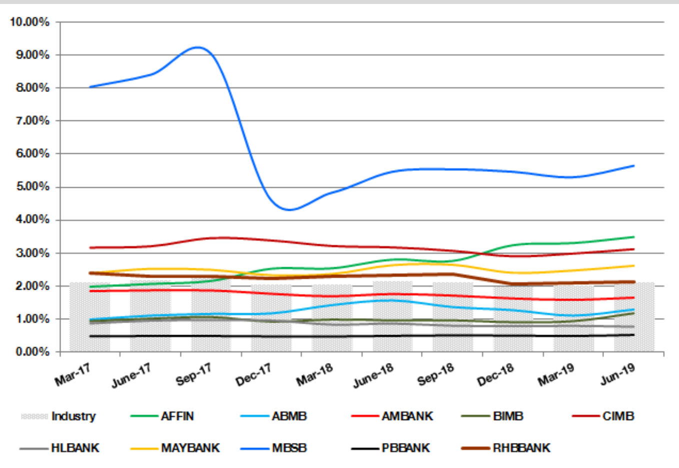


Table 6: Quarterly Gross Impaired Loans ratio trend (%)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	2.81%	2.77%	3.25%	3.31%	3.49%
ABMB	1.57%	1.37%	1.28%	1.12%	1.30%
AMBANK	1.77%	1.72%	1.63%	1.59%	1.66%
BIMB	0.97%	0.97%	0.92%	0.95%	1.19%
CIMB	3.18%	3.08%	2.91%	2.99%	3.13%
HLBANK	0.87%	0.81%	0.80%	0.80%	0.78%
MAYBANK	2.64%	2.65%	2.41%	2.48%	2.62%
MBSB	5.47%	5.54%	5.47%	5.30%	5.65%
PBBANK	0.50%	0.52%	0.51%	0.50%	0.53%
RHBBANK	2.33%	2.37%	2.06%	2.12%	2.15%
Industry	**2.14%**	**2.12%**	**1.99%**	**2.02%**	**2.12%**
QoQ (bps)	**10.7**	**-1.9**	**-13.2**	**3.0**	**10.2**
YoY (bps)	**-2.3**	**-10.6**	**-6.2**	**-1.4**	**-1.9**

Source: Bloomberg, Kenanga Research

Fig 9: Quarterly credit charge ratio trend (%)

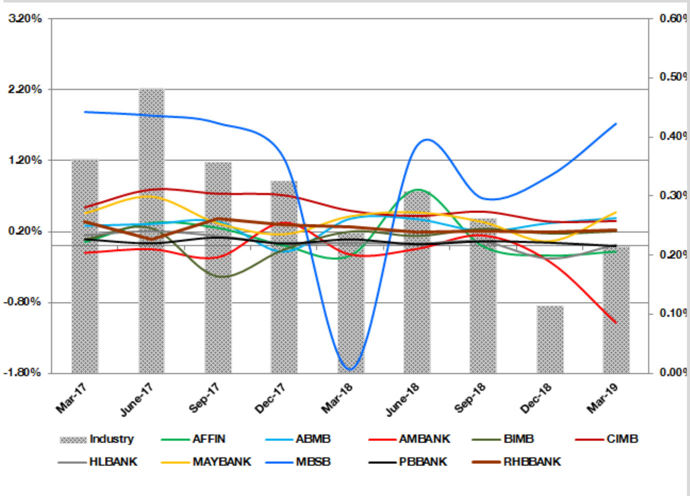


Table 7: Quarterly credit charge ratio trend (%)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	0.79%	-0.01%	-0.14%	-0.08%	-0.22%
ABMB	0.38%	0.21%	0.32%	0.39%	0.53%
AMBANK	-0.04%	0.15%	-0.22%	-1.08%	-0.18%
BIMB	0.14%	0.24%	0.17%	0.20%	0.26%
CIMB	0.42%	0.48%	0.34%	0.35%	0.38%
HLBANK	0.03%	0.06%	-0.18%	0.01%	0.14%
MAYBANK	0.47%	0.34%	0.06%	0.47%	0.30%
MBSB	1.41%	0.67%	0.98%	1.72%	1.04%
PBBANK	0.02%	0.06%	0.04%	0.00%	0.08%
RHBBANK	0.19%	0.20%	0.19%	0.22%	0.18%
Industry	**0.31%**	**0.26%**	**0.11%**	**0.21%**	**0.23%**
QoQ (bps)	**7.1**	**-4.6**	**-14.7**	**10.0**	**1.6**
YoY (bps)	**-17.4**	**-9.5**	**-21.2**	**-2.3**	**-7.7**

Source: Bloomberg, Kenanga Research

Fig 10: Quarterly Gross Impairment Allowances-ECL/(Writebacks) trend) -RMmil

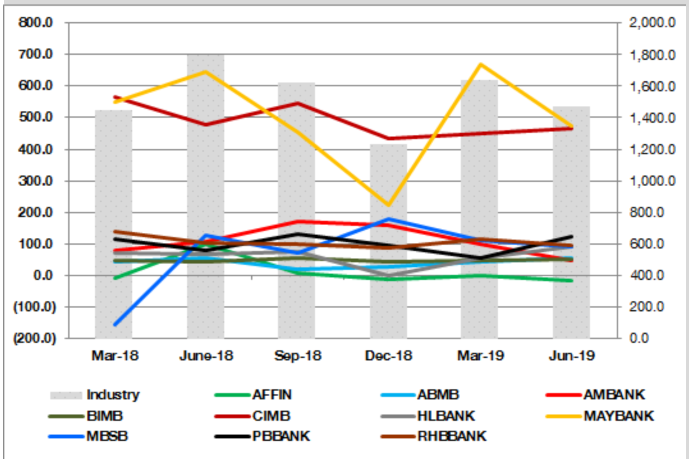


Table 8: Quarterly Gross Impairment Allowances-ECL/(Writebacks) trend- RMmil

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	99.6	7.0	(13.9)	(1.7)	(18.0)
ABMB	57.0	20.3	26.9	43.0	53.9
AMBANK	106.3	169.8	160.5	99.6	47.6
BIMB	41.3	53.3	44.0	47.3	51.2
CIMB	479.0	544.3	433.0	449.7	466.2
HLBANK	66.3	75.6	(1.7)	55.1	92.3
MAYBANK	646.0	453.8	224.6	667.2	474.5
MBSB	125.9	69.4	179.6	112.7	92.2
PBBANK	78.1	130.0	96.3	54.2	121.4
RHBBANK	102.4	99.4	86.6	116.6	94.2
Industry	**1,801.9**	**1,622.9**	**1,235.8**	**1,643.6**	**1,475.6**
QoQ (%)	*24.4%*	*-9.9%*	*-23.9%*	*33.0%*	*-10.2%*
YoY (%)	*N.a*	*N.a*	*N.a*	*14%*	*-18%*

Source: Bloomberg, Kenanga Research

Table 9: Movement in Impairment Allowances - Loan Loss provisions (RMmil)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	597	609	581	579	554
ABMB	508	144	481	503	529
AMBANK	1,334	1,371	1,338	1,301	1,137
BIMB	760	778	790	757	753
CIMB	9,576	9,648	9,172	9,258	8,690
HLBANK	1,007	1,348	1,275	1,251	1,262
MAYBANK	10,539	10,574	10,250	10,155	10,317
MBSB	2,498	2,568	2,039	2,152	2,239
PBBANK	1,829	1,787	2,042	1,984	1,993
RHBBANK	3,161	3,336	3,252	3,250	3,146
Industry	**31,809**	**32,162**	**31,221**	**31,188**	**30,619**

Table 10: Movement in Impairment Allowances – S3 (RMmil)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	295	316	339	340	339
ABMB	245	205	216	217	247
AMBANK	199	216	214	402	364
BIMB	96	97	87	111	103
CIMB	5,575	5,817	5,544	5,787	5,283
HLBANK	*N.a*	431	414	402	394
MAYBANK	6,300	6,471	6,077	6,267	6,728
MBSB	*N.a*	*N.a*	1,130	1,178	1,237
PBBANK	513	395	410	391	406
RHBBANK	1,668	1,853	1,665	1,656	1,646
Industry	***N.a***	***N.a***	**16,096**	**16,750**	**16,745**

Source: Bloomberg, Kenanga Research

Fig 11: Quarterly Cost-to-Income ratio trend (%)

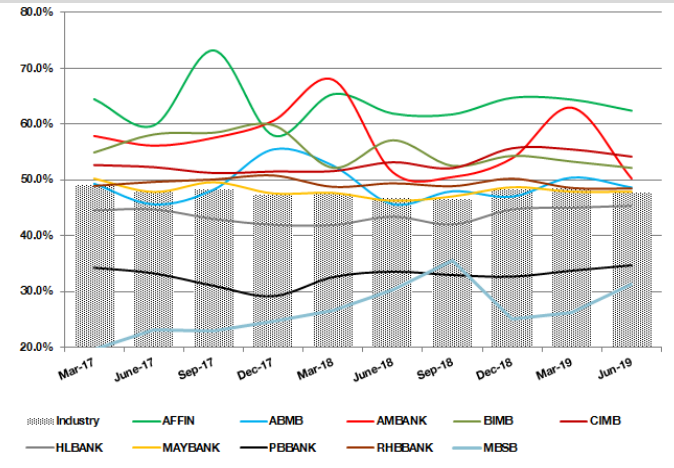


Table 11: Quarterly Cost-to-Income ratio trend (%)

Banks	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
AFFIN	61.9%	61.8%	64.7%	64.4%	62.4%
ABMB	45.7%	48.0%	47.0%	50.4%	48.7%
AMBANK	51.4%	50.5%	53.9%	63.0%	50.3%
BIMB	57.1%	52.5%	54.3%	53.3%	52.2%
CIMB	53.2%	52.1%	55.7%	55.5%	54.2%
HLBANK	43.4%	42.0%	44.7%	45.0%	45.4%
MAYBANK	46.3%	47.1%	48.7%	47.9%	47.9%
MBSB	30.4%	35.7%	25.2%	26.3%	31.3%
PBBANK	33.6%	33.0%	32.7%	33.8%	34.7%
RHBBANK	49.4%	48.9%	50.2%	48.6%	48.5%
Industry	**46.8%**	**46.6%**	**48.2%**	**48.5%**	**47.7%**
QoQ (bps)	**-77.2**	**-19.0**	**165.6**	**21.8**	**-75.0**
YoY (bps)	**-113.2**	**-169.1**	**97.2**	**91.2**	**93.4**

Source: Bloomberg, Kenanga Research

Looking ahead

Looking ahead for 2019, loans growth will still be tight given that the banks will be selective on their assets given the current prevailing situation. The May 2019 OPR cut saw loans application at its strongest since May 2018; approval growth and application have been trending up since May with Business outpacing Households in Jul 2019 (+19.8% YoY vs +3.6% YoY). On a positive note, loan disbursements are picking up pace (despite the blip in Jun) mostly coming from Business, indicating that confidence from the domestic sector is encouraging. No changes in system loans growth of 4.5%-4.8% for 2019 and industry, loans growth maintained at +4.9% on account of better traction from the Business segment. We expect a clearer picture from the Government from Budget 2020. Despite the Banks CET1 and Capital Adequacy Ratio well above the regulatory requirements, we do not discount extra measures to be undertaken by the Government to encourage lending by the banks i.e. further guarantees from CAGAMAS and contingency & recapitalization plans from DANAMODAL.

While loans and fee-based income will be moderate, we do expect bottomline to be supported by improving credit charge i.e. lower impairment allowances. Gross impairment allowances among the banks are receding, supported by stable credit recoveries. The uptick in MAYBANK's impairments was due to a single account, while we see a sharp uptick in AMBANK credit recoveries, due to sale of its legacy NPLs. We expect most banks to report in muted or normalize credit charge ahead due to the stable economy with a few surprises likely i.e. jump in credit recoveries/writebacks coming from: (i) sale of NPLs, and (ii) risk concerns receding.

On house-keeping issues, we tweaked our CY19E earnings estimates downwards (from our last strategy report**)**, by 240bps to -2.8% YoY on account of revised earnings from both MBSB (-8% YoY) and MAYBANK (-2% YoY) due to further NIM compression (MBSB as PF space is reduced) with higher credit charge and further NIM compression (MAYBANK). Our CY19E earnings will be driven by: (i) credit charge at 0.28% (from 0.31% previously) as credit charge normalise and improves, write-backs/recoveries from the banks, and (ii) NOII at +3.6% (from +1.3%) due to MTM gains (likely further enhanced in Nov) and to take into account mild positive capital market activities at the end of the year due to clarity after Budget 2020 and easing of geo-political tensions. Our outlook for loans growth is maintained at <5% (~4.9%) based on guidance and a moderating but stable economic outlook.

Table 12: Kenanga's forecasts

Banks	New earnings estimates (RM'm)			Previous earnings estimates (RM'm)			Difference (%)	
	FY18A	FY19E	FY20E	FY18A	FY19E	FY20E	FY19E	FY20E
AFFIN	503.1	578.7	670.4	503.1	549.7	637.0	5.3%	5.2%
ABMB	493.2	537.6	529.5	493.2	537.6	576.2	0.0%	-8.1%
AMBANK	1,132.1	1,505.3	1,499.9	1,132.1	1,505.3	1,439.2	0.0%	4.2%
BIMB	682.0	734.1	834.0	682.0	734.0	834.0	0.0%	0.0%
CIMB	5,583.5	4,679.3	4,801.4	5,583.5	4,683.7	4,640.9	-0.1%	3.5%
HLBANK	2,638.1	2,664.5	2,677.9	2,638.1	2,689.7	2,931.8	-0.9%	-8.7%
MAYBANK	8,113.3	7,933.6	8,303.7	8,113.3	8,070.8	8,328.1	-1.7%	-0.3%
MBSB	642.4	528.3	573.7	642.4	573.6	631.8	-7.90%	-9.20%
PBBANK	5,590.6	5,584.1	5,776.9	5,590.6	5,584.1	5,776.9	0.0%	0.0%
RHBBANK	2,305.2	2,391.3	2,528.3	2,305.2	2,391.3	2,477.5	0.0%	2.1%
Industry (FY)	**27,683.5**	**27,136.9**	**28,195.7**	**27,683.5**	**26,436.7**	**27,292.7**	**2.6%**	**3.3%**
Industry (CY)	**27,595.5**	**26,810.5**	**28,199.2**	**27,595.5**	**26,534.9**	**27,669.7**	**1.0%**	**1.9%**
Growth (%)	**13.1%**	**-2.8%**	**5.2%**	**13.1%**	**-0.4%**	**4.3%**		

Source: Bloomberg, Kenanga Research

Revision in TP. Our TP for the banking stocks are mixed with 5 lowered, 3 revised higher with only BIMB and RHBBANK maintained. The higher revisions are for AFFIN, CIMB, and PBBANK to reflect; (i) lower NIM compression and better Islamic banking income (AFFIN), (ii) corporate loans gaining traction (CIMB), and (iii) operational efficiency with downside risks of asset quality receding (PBBANK).

We based our valuations on the banks 5-year average P/BV but with variance of between -0.5 to -1.5 SD to reflect: (i) moderate loans growth owing to selective asset growth, (ii) trade and geo-political risk prevailing, and (iii) concerns on further NIM compression (despite the recent OPR cut).

Despite the revised TP, there are still pockets of undemanding valuations for some of the banking stocks in our universe trading below their 5-year average with AFFIN, ABMB, CIMB, MBSB, PBBANK and RHBBANK trading at rock bottom/almost at their 5-year PBV level. Even from the various adverse loss scenarios; (i) total loss of current impaired loans, (ii) BNM's adverse scenario 1 – 100bps loss from CET1, and (iii) BNM's adverse scenario 2 – 300bps loss from CET1, most of the banks in our universe are trading at these adverse scenarios valuations justifying our view of prices bottoming out - hence undemanding valuations .

All the stocks in our banking universe are at OUTPERFORM with the exception of HLBANK (at MARKET PERFORM, TP: RM17.30. We raised our rating for BIMB and PBBANK to OUTPERFORM (at the conclusion of the 2QCY19 Results - as the prolonged restructuring case will enable BIMB to redeem its SUKUK liabilities debt via internally generated funds (and not issuance of shares) and PBBANK due to its strong operational efficiency with downside risks of asset quality receding given the current accommodative interest rates. Given that we believe that the current low interest rate environment will spur infra/fiscal spending ahead to mitigate the effect of global economic slowdown coupled with total returns at >15%, we reiterate the sector at **OVERWEIGHT.**

Table 13: Change in TP and calls

Banks	New TP (RM)	Old TP (RM)	TP revision	Rating	Rating revision	Valuation basis
AFFIN	2.45	2.40	↑	OP	↔	Unchanged: 0.5x FY20E Target PBV
ABMB	3.45	4.25	↓	OP	↔	New: 0.89x FY20E Target PBV Old: 1.1x FY20E Target PBV
AMBANK	4.75	5.10	↓	OP	↔	New: 0.77x FY21E Target PBV Old: 0.83x FY20E Target PBV
BIMB	4.8	4.8	↔	OP	↑	Unchanged: 1.5x FY20E Target PBV
CIMB	6.45	6.25	↑	OP	↔	New: 1.06x FY20E Target PBV Old: 1.03x FY20E Target PBV
HLBANK	17.3	20.05	↓	MP	↔	New: 1.3x FY20E Target PBV Old: 1.5x FY20E Target PBV
MAYBANK	9.7	10.35	↓	OP	↔	New: 1.2x FY20E Target PBV Old: 1.28x FY20E Target PBV
MBSB	1.1	1.15	↓	OP	↔	Unchanged : 0.9x FY20E Target PBV
PBBANK	25.2	24.1	↑	OP	↑	New: 2.2x FY20E Target PBV Old: 2.2x FY19E Target PBV
RHBBANK	6.05	6.05	↔	OP	↔	New: 0.92x FY20E Target PBV Old: 0.9x FY20E Target PBV

Source: Bloomberg, Kenanga Research

Table 14: Valuation at Various Adverse Scenarios

	TPBV(x)	GIL (RMmil)	CET1 (RMmil)	TP (RM) (after total loss from current GIL)	TP (RM) (after ADS1)	TP (RM) (after ADS2)
AFFIN	0.5	1,664	6,169	1.91	2.21	1.96
ABMB	0.89	554	4904	2.97	3.07	2.66
AMBANK	0.77	1,673	12,222	4.22	4.39	3.86
BIMB	1.53	559	4,242	3.81	4.65	3.97
CIMB	1.06	11,107	38,937	4.79	5.66	4.97
HLBANK	1.3	1,071	18,468	15.51	14.88	13.16
MAYBANK	1.2	13,789	58,225	7.09	8.16	7.32
MBSB	0.9	2,047	7,510	0.85	1.08	0.95
PBBANK	2.2	1,718	37,612	23.06	21.74	18.62
RHBBANK	0.92	3,699	23,697	4.85	5.43	4.89

Source: Bloomberg, Kenanga Research

Recommendation

Our Top Picks for the upcoming quarter are **ABMB (TP: RM3.45)** and **CIMB (TP: RM6.45): -**

Although our TP is reduced to RM3.45 from RM4.25 (based on a 0.8x FY21E PBV target) we feel its valuations are undemanding and ripe for M&A exercise. One of the advantages of **ABMB** is its SME loan book which represents 4% of the industry market share. Given that ABMB is trading at the bottom of its PBV 5-year mean, we feel it is decently priced and ripe for M&A play especially with a bigger bank that has the appetite for riskier loans and ambition to increase its SME market share.

CIMB's domestic loans have consistently outperformed the industry (in high single-digit) and we expect its domestic and Indonesian loans to gain traction in 2H19; post Budget 2020 (Malaysia) and with the conclusion of the Indonesian Presidential election which will influence infra/fiscal spending ahead. CASA ratio is the highest among the banking stocks with NIM compression likely mitigated by the influx of SME and Corporate loans coming on stream by end of 2019. With its share of investment securities, the banks will be significant beneficiary of MTM gains should there be another OPR cut by the end of the year. While GIL is still a concern, credit costs are looking stable and normalized. Coupled with accommodative interest rate, we believe CIMB will have a higher risk appetite ahead. TP is at RM6.45 ascribing a target PBV of 1.06x implying a 5-year mean. Valuations are undemanding coupled with a decent dividend yield of >4.0% giving a total upside >30%.

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Fig 15: Fwd PBV Band (AFFIN)

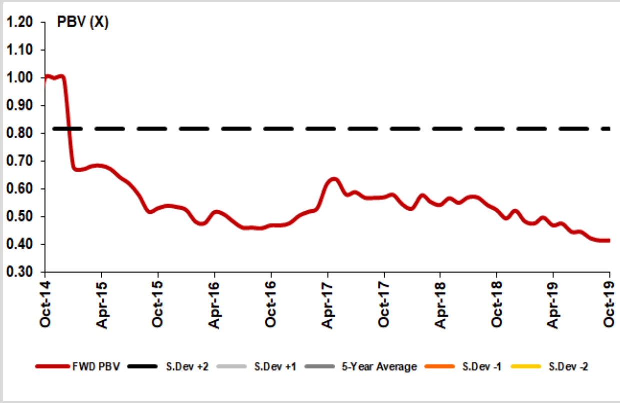
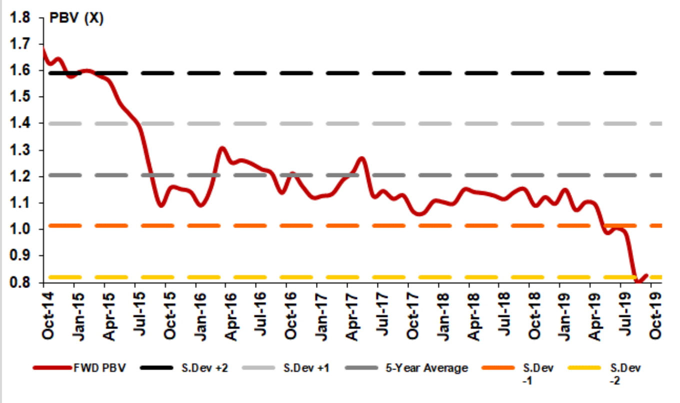


Fig 16: Fwd PBV Band (ABMB)



Source: Bloomberg, Kenanga Research

Fig 17: Fwd PBV Band (AMBANK)

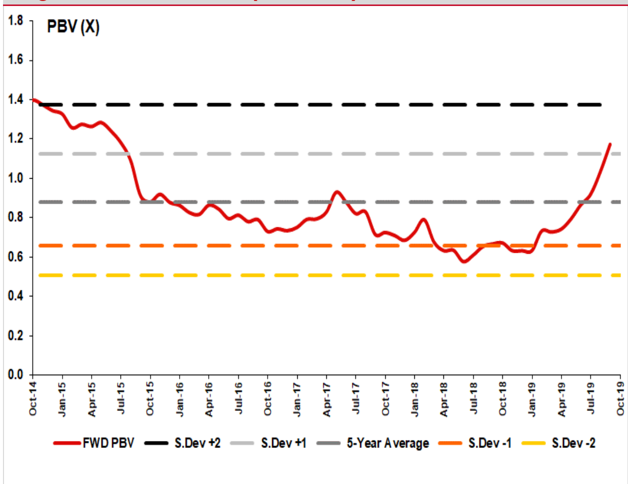
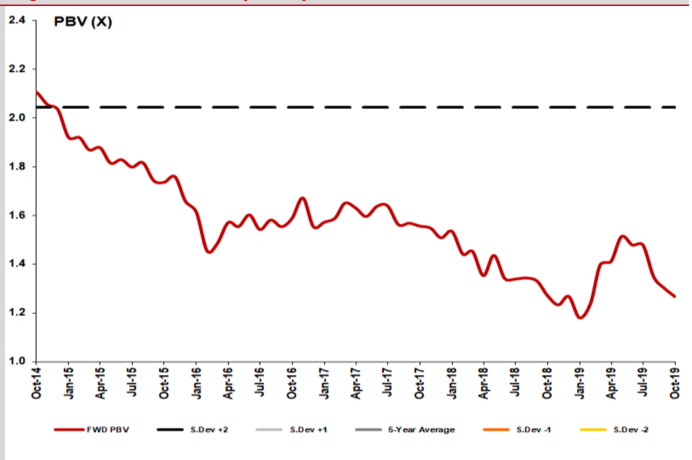


Fig 18: Fwd PBV Band (BIMB)



Source: Bloomberg, Kenanga Research

Fig 19: Fwd PBV Band (CIMB)

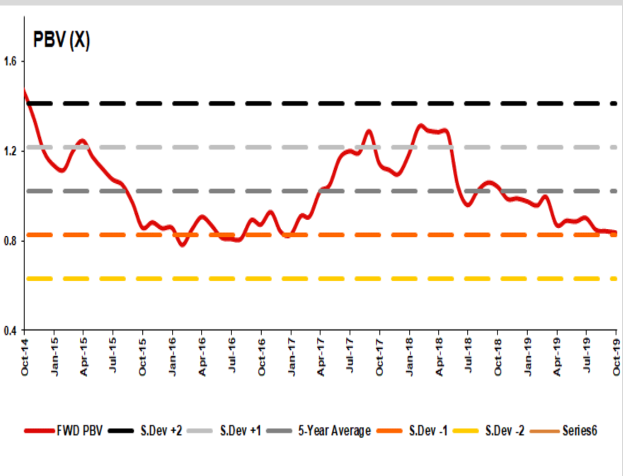
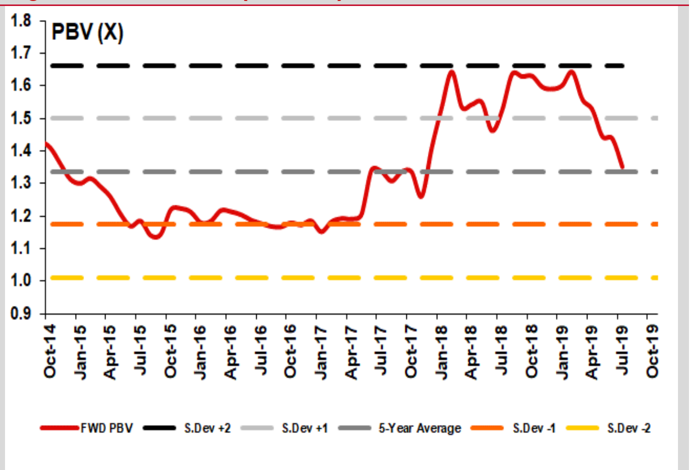


Fig 20: Fwd PBV Band (HLBANK)



Source: Bloomberg, Kenanga Research

Fig 21: Fwd PBV Band (MAYBANK)

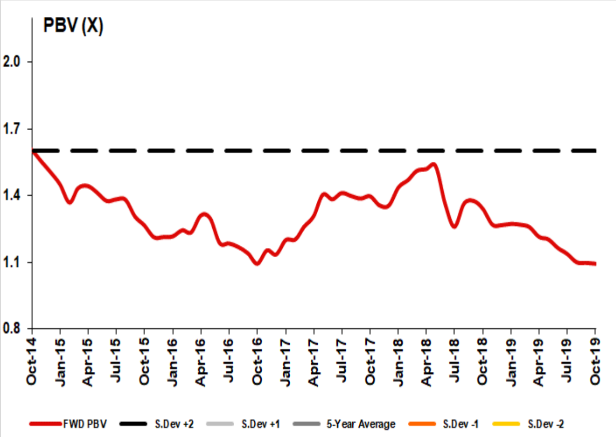
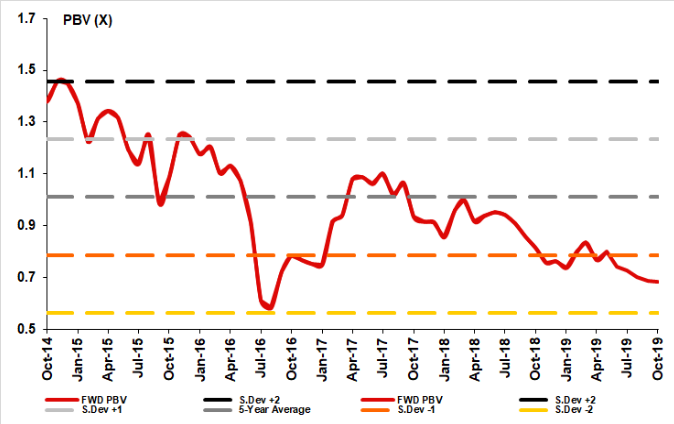


Fig 22: Fwd PBV Band (MBSB)



Source: Bloomberg, Kenanga Research

Fig 23: Fwd PBV Band (PBBANK)

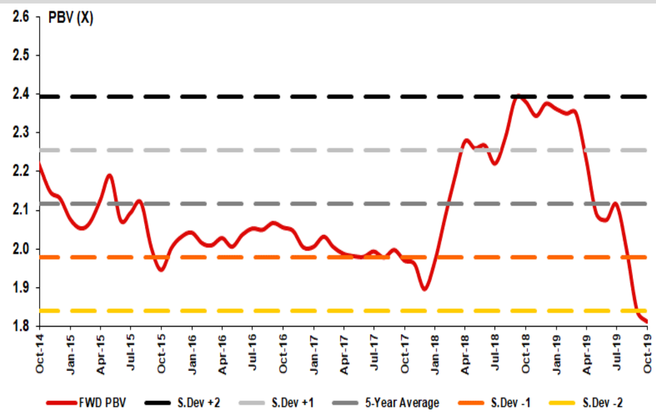
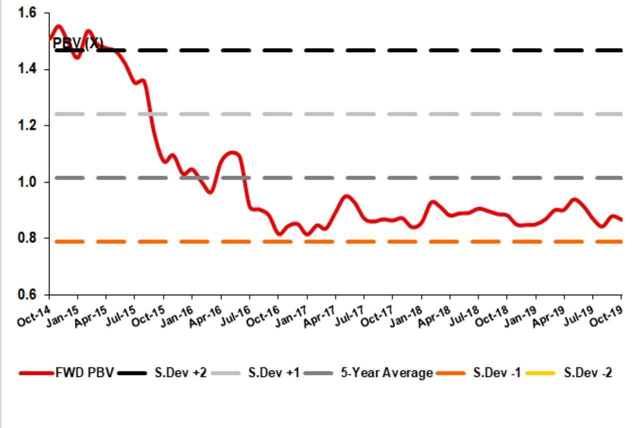


Fig 24: Fwd PBV Band (RHBBANK)



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
BANKING																	
AFFIN BANK BHD	1.98	3,932.3	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.8	6.8	5.8	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.87	4,443.1	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.3	8.4	7.6	0.8	0.7	9.0%	5.7%	3.45	OP
AMMB HOLDINGS BHD	4.14	12,478.7	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.3	8.3	8.1	0.7	0.6	7.8%	4.8%	4.75	OP
BIMB HOLDINGS BHD	3.98	7,021.8	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.2	9.9	9.1	1.4	1.3	14.0%	4.0%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.05	49,123.5	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.4	10.5	0.9	0.8	8.5%	4.5%	6.45	OP
HONG LEONG BANK BERHAD	16.40	35,550.6	N	06/2020	4.1%	5.1%	1.0%	0.5%	12.7	12.6	12.5	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.59	96,563.3	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.7	12.0	11.4	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.83	5,538.6	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.2	10.0	9.6	0.7	0.7	6.7%	6.1%	1.10	OP
PUBLIC BANK BERHAD	20.00	77,642.8	N	12/2019	3.9%	5.2%	-0.1%	3.5%	13.8	13.8	13.4	1.9	1.9	13.7%	3.4%	25.20	OP
RHB BANK BHD	5.71	22,897.4	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.9	9.6	9.1	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					**4.9%**	**5.0%**	**-1.1%**	**6.9%**	**9.9**	**10.2**	**9.7**	**1.0**	**1.0**	**9.7%**	**4.5%**		

Source: Bloomberg, 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.***

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