Banking

Seeking Guarded Positions

OVERWEIGHT

↔

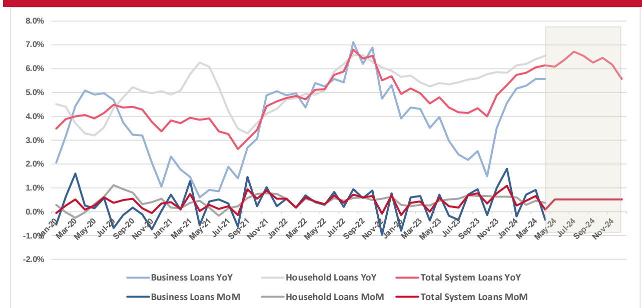
By Clement Chua l clement.chua@kenanga.com.my

We maintain our OVERWEIGHT call on the banking sector. Loans growth is projected to be solid at 5.5%-6.0% in CY24 and could outweigh our in-house GDP forecast of 4.5%-5.0%. Amidst mixed expectations on US Fed rates, we retain our stance of a 3% OPR throughout CY24 as uncertainties towards inflation may be more pronounced in 2HCY24. Corporate guidances lean towards similar sentiment with banks seeming looking to uphold conservative targets in spite of strong deliveries in 1QCY24's report card with NIMs recovering and loans growth still appearing encouraging. For 3QCY24, our Top Picks are: (i) CIMB (OP; TP: RM7.60) for its stronger ROE trajectory and more attractive dividend proposition in the larger-cap space, (ii) RHBBANK (OP; TP: RM7.25) as the new dividend leader while supported by a sizeable CET-1 balance, and (iii) ABMB (OP; TP: RM4.60) for its notable SME exposure with fundamentals outpacing certain larger-cap peers.

CY24 loans growth to still hold (5.5%-6.0%) amidst rising concerns. Headlines caution higher inflation numbers and possibly dents to overall productivity stemming from recent diesel subsidy rationalisation where input and transportation costs may rise excessively. We believe that stresses from here may likely materialises in the medium-term and could still be subject to revisions in implementation. At the meantime, the progressive loading up of household loans from sustained mortgage demand could persist thanks to more affordably-priced units launched.

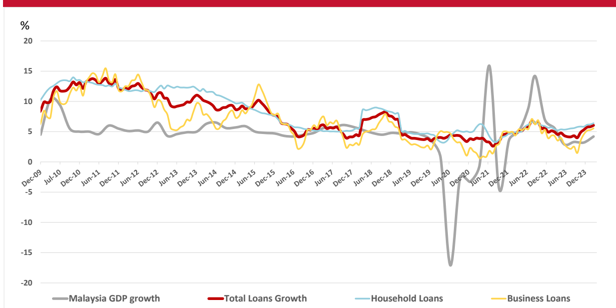
On the flipside, our in-house GDP expectation of 4.5%-5.0% for CY24 will be supported by rising construction and infrastructure projects. We also anticipate export-oriented businesses to do well by capitalising on the weak MYR, though this may be offset by a strained operating environment for those with a higher net-import exposure.

YoY and MoM Loans Growth and Projection



Source: Kenanga Research

GDP and Loans Growth Trajectory



Source: Kenanga Research

More sense to keep OPR flat. We maintain our expectations for OPR to be unchanged at 3% throughout CY24. We believe BNM may approach monetary policies with greater scrutiny as the gravity of spillovers from the abovementioned diesel subsidy rationalisation remain unclear. On the other hand, the recent 2ppts increase in selected SST categories is also muddled into upcoming inflation reports. That said, BNM is required to balance interest rates as keeping them lofty could be essential in supporting the already soft MYR as lowering it may spur institutions to adopt outflow positions from the country.

On the corporate side of things, we reckon the banks could do better in a stable OPR environment as past mistiming had greatly pinned down their management of funding costs which have mostly showed recoveries in the past quarters. In addition, the banks are due to benefit from heightened investment market activities where jeopardising it could translate to softer non-interest income performances in 2HCY24.

Maintain OVERWEIGHT on the banking sector. Amidst mix prospects in the broader macro climate, we anticipate the banking sector's resilience to be mostly unchallenged following extensive efforts in fortifying its risk exposures post-pandemic and better perspectives in targeting strong quality assets while maintaining profits.

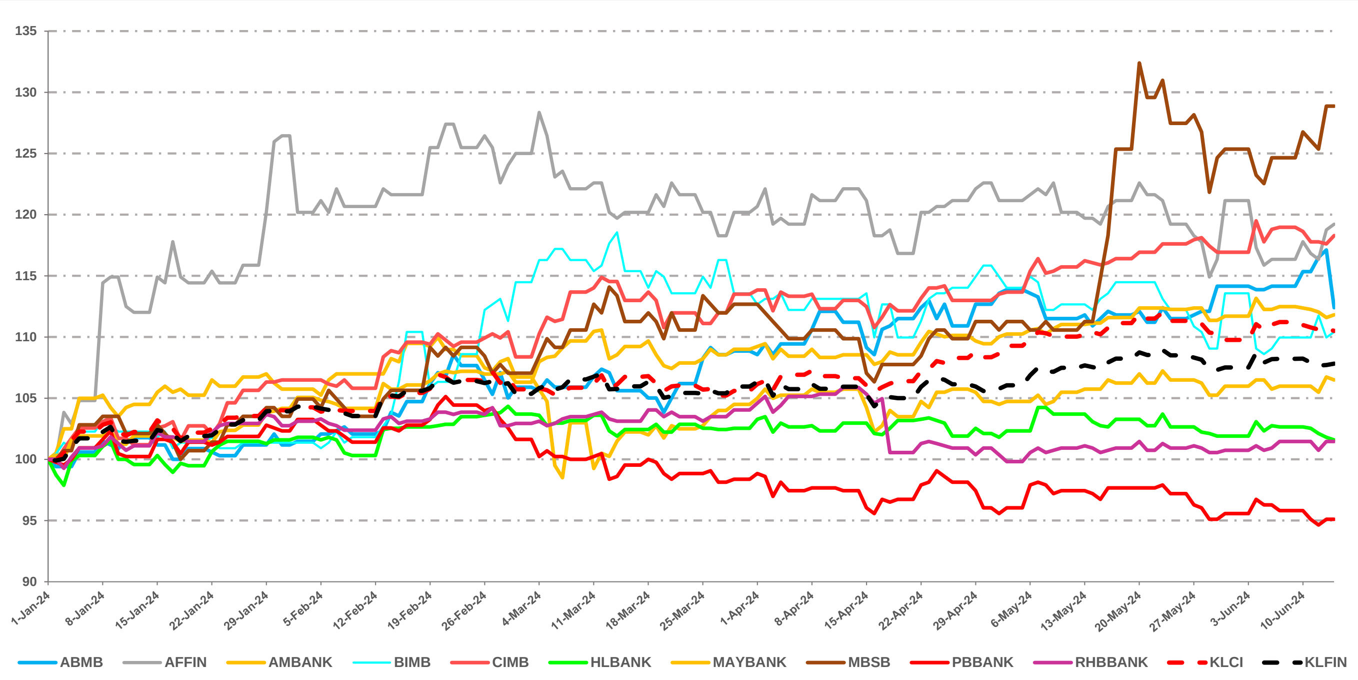
Our sector top picks for 3QCY24 include **CIMB** which has been able to reach new grounds in its ROE at c.11% which the group looks to sustain into the long term thanks to strengthening presence in both home and regional markets. Additionally, its dividend yield is creeping well into the mid-6% levels at current price points, which is the highest amongst the top three banks. **RHBBANK** is also favoured for its dividends which we project to be the leader (7%-8%) amongst its peers. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term. As for small cap banks, **ABMB** remains our favourite for its solid fundamentals which are comparable to its large cap peers. Additionally, its leading CASA level may provide the group nimbleness to balance its interest margins with market share acquisition strategies.

Appendix

Laggards remain challenged. As of our cut-off date of 16 Jun 2024, we note that only **PBBANK (OP; TP: RM5.20)** is performing below its CY24 start. In spite of its sound earnings delivery and high ROE prospects, we opine that investors may be more interested in positioning with banks with a higher corporate exposure to fuel potential profit growth on the bank of several macro themes (i.e. data centre, infrastructure projects) which left the stocks falling behind. **RHBBANK** and **HLBANK (OP; TP: RM26.20)** were mostly flattish from fully anticipated results.

On the flipside, **MBSB (UP; TP: RM0.59)** saw the greatest capital appreciation thanks to its better-than-expected earnings report in spite of its ROE remaining lacking. Between the larger cap names, **CIMB** led with its continuous ROE expansion and rising dividend prospects as hinted by the group. Meanwhile, the other heavyweight **MAYBANK (OP; TP: RM11.00)** saw only slight support in its share price on lowered expectations for dividend payouts.

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

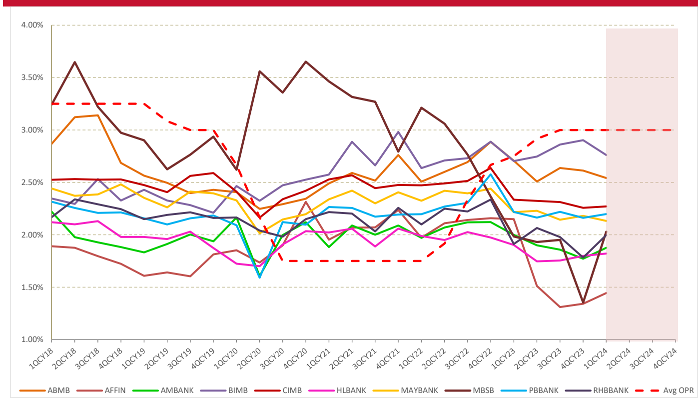


Source: Bloomberg

More ups in margin. From 1QCY24 reporting, most banks are back to regaining NIMs following heavy funding cost pressures in CY23. That said, certain banks are cautioning that cost of funds are likely to continue weighing down on profitability with higher asset yields being chief in keeping NIMs stable with few room for upside.

We note that **MAYBANK** and **ABMB** demonstrated some headwinds during the quarter on stickier higher rate deposits.

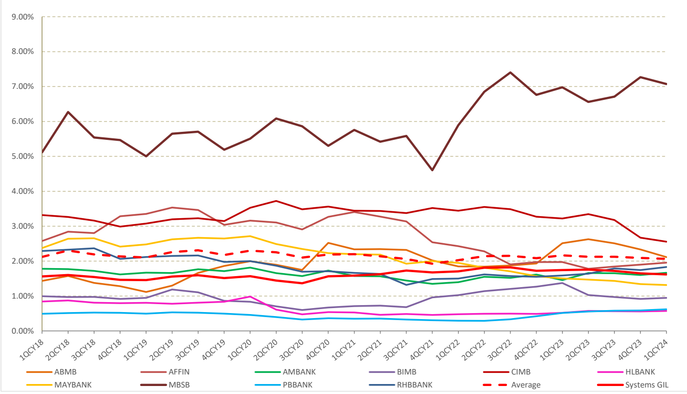
Est. Annualised NIMs



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

Unshaken GIL. Overall industry GIL remained smooth with banks reporting gradual improvements to respective readings. While we anticipate some slight uptick in 2QCY24 in lieu of frontloaded festive spending, we opine that it would still remain confined as the banks had mostly ironed out their books with pre-emptive provisions being allocated to troubled accounts. Both **PBBANK** and **HLBANK** remain uncontested with regards to asset quality at 0.6% each.

Est. GIL Trends



Source: Kenanga Research

This section is intentionally left blank

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	2.46	1.80	-26.8%	5,905	N	12/2024	21.0	27.7	20.4%	31.9%	11.7	8.9	0.5	4.3%	8.0	3.3%
Alliance Bank Malaysia Bhd	OP	3.74	4.60	23.0%	5,790	N	03/2025	50.2	52.7	12.5%	5.2%	7.5	7.1	0.8	10.5%	25.0	6.7%
AMMB Holdings Bhd	OP	4.32	5.20	20.4%	14,280	N	03/2025	55.3	56.3	17.5%	1.8%	7.8	7.7	0.7	9.1%	22.0	5.1%
Bank Islam Malaysia Bhd	MP	2.49	2.25	-9.6%	5,644	Y	12/2024	25.2	29.0	3.3%	14.9%	9.9	8.6	0.7	7.6%	17.0	6.8%
CIMB Group Holdings Bhd	OP	6.76	7.60	12.4%	72,292	N	12/2024	68.5	72.5	4.7%	5.8%	9.9	9.3	1.0	10.5%	44.0	6.5%
Hong Leong Bank Bhd	OP	19.28	26.20	35.9%	41,794	N	06/2024	199.6	215.2	7.1%	7.8%	9.7	9.0	1.1	11.5%	60.0	3.1%
Malayan Banking Bhd	OP	9.96	11.00	10.4%	120,187	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.9	1.2	10.1%	62.0	6.2%
Malaysia Building Society Bhd	UP	0.830	0.590	-28.9%	6,825	Y	12/2024	3.9	6.6	104.4%	68.2%	21.2	12.6	0.6	2.8%	2.0	2.4%
Public Bank Bhd	OP	4.01	5.10	27.2%	77,837	N	12/2024	37.3	39.3	9.0%	5.4%	10.7	10.2	1.3	12.9%	21.0	5.2%
RHB Bank Bhd	OP	5.49	7.25	32.1%	23,934	N	12/2024	70.8	73.5	8.3%	3.9%	7.8	7.5	0.7	9.7%	43.0	7.8%
Sector Aggregate					**374,486**					**7.1%**	**6.2%**	**10.6**	**10.0**	**1.1**	**10.0%**		**5.3%**

Source: Kenanga Research

GordonGrowth 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	UP	
Alliance Bank Malaysia Bhd	3.0	10.0	11.2	0.86	4.60	OP	+5% ESG Premium
AMMB Holdings Bhd	4.25	9.0	10.2	0.80	5.20	OP	
Bank Islam Malaysia Bhd	3.5	8.0	10.5	0.64	2.25	MP	
CIMB Group Holdings Bhd	3.5	11.5	11.2	1.05	7.60	OP	+5% ESG Premium
Hong Leong Bank Bhd	2.5	12.0	9.9	1.29	26.20	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:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, JalanTunRazak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my