

BANKING

Maintain POSITIVE

2Q23 Results Preview: Scattered performance

KEY INVESTMENT HIGHLIGHTS

- Overall: Banks have employed a myriad of NIM preservation methods: Deposit frontloading, higher-yield loan accumulation, interest rate hedging mechanisms, paring down on pricier FDs. Coupled with varying asset quality pressures and NOII sources, we are expecting earnings performances to be scattered across the board, though skewed towards the negative
- Core themes: (1) NIMs to dip or improve slightly in this quarter, (2) NOII uplift should be the most significant driver to earnings, (3) Beware of asset quality issues among smaller banks, and surprise macroeconomic provisions, (4) Domestic loan growth figures to likely remain sluggish
- Performance expectations: CIMB > PBK > HLBK > AMMB = RHB > ABMB > AFFIN > BIMB > MAY
- Maintain POSITIVE call with the recent positive share repricing but we urge investors to be more selective with their picks

2Q23 Results: Expecting a lacklustre season due to NIM weakness, though this should be priced in. Potential credit cost and asset quality issues provide downside risk, possibly resulting in a weaker season than 1Q23 – and more scattered performances across the board. Also, be wary of possible loan growth target revisions.

What we will be looking at (Granular):

1. **NIM recovery will likely be more prolonged than initially thought (judging by BNM’s banking stats).** This time around, we expect minimal worsening or slight improvement in NIMs. We have seen NIM optimisation efforts underway: a slowdown in sequential growth of industry FDs (accompanied by positive quarter-on-quarter growth in CASA), stronger unsecured loan growth figures and banks turning to the bond market for funding.
2. **NOII uplift should be significant.** Local NOII exposure is intact: With ringgit volatility, improving market conditions and easing MGS yields likely to benefit treasury incomes. There has been a marked improvement in bond issuances and capital market activity, hopefully improving fee income outlook this quarter. Banks with more regional exposure could see a bit of difficulty on this end, as market conditions are less positive – regardless, some have opted for more tactical methods (e.g., interest rate swaps) to preserve NOII.
3. **Asset quality issues in smaller banks and possible macroeconomic provisions offer some downside to credit costs.** Do note that these should not breach the upper bound of credit cost guidance, given that guidance has been exceedingly conservative. This is even while factoring banks’ renewed preference to retain overlays (as opposed to writebacks). We are also cautious of potential macroeconomic provision allocations (especially during 2Q) considering the May-23 OPR hike amid ongoing headwinds.

COMPANY IN FOCUS

Public Bank

Maintain **BUY** | Unchanged Target price: RM4.76

Price @ 18 August 2023: RM4.13

- Great asset quality and provision writeback likely.
- Efforts to frontload deposits in 1QFY23 may provide upside to loan growth target.
- Unit trust contributions can finally improve following improved market conditions.

Share price chart



RHB Bank

Maintain **BUY** | Unchanged Target price: RM7.58

Price @ 18 August 2023: RM5.65

- High dividend yields.
- Capital ratios are very high.
- NOII recovery.
- NCC outlook is likely to be better than guided.

Share price chart



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- 4. Domestic loan growth figures are still sluggish.** Domestic loan growth grew by a sluggish +0.8%qoq, with growth in loan unsecured loans offsetting weakness in working cap figures. While we expect smaller banks to continue registering high growth figures, there may be a smaller possibility that larger banks may be revising its loan growth figures – especially if foreign growth figures remain lacklustre. Banks which have frontloaded deposits (PBK, HLBK) may have an easier time managing this.

Fig 1: Subsidiary Performance this Quarter

Notable Subsidiaries & Income sources	Net Profit in upcoming Qtr	Qoq growth (%)	Yoy growth (%)	% PBT in FY22/23
MAY				
Maybank Indonesia	IDR bil 394	-30	+394	6
CIMB				
CIMB Niaga (Indonesia)	IDR bil 1,652	+4	+23	24
CIMB Thai	THB mil 539	-35	-49	6

Source: Banks, MIDFR

Fig 2: Banks earnings season preview

Banks	2Q23 earnings outlook	Possible guidance revisions: (↑)(↓)(↑)(↓) What sounds promising, less promising, and what could go either way.
MAY	-2	NIM (↓) <ul style="list-style-type: none"> FY23F NIM will likely be negatively revised – Maybank’s higher exposure to SG also provides more downside potential to 2HCY23 NIM outlook than peers. Maybank Indonesia’s earnings have seen a disappointing -30%qoq decline. Maybank’s Premier Banking initiatives have been lacklustre – we observe less upside to NOII as opposed to peers.
CIMB	+1	<ul style="list-style-type: none"> CIMB has guided for stronger NOII this time around in their pre-blackout briefing – notably, CIMB Niaga posted sizeable uplift from NPL sales. Loan growth momentum should still be intact, driven by overseas wholesale drawdowns. CIMB Thai incurred a higher ECL charge for the quarter, dragging earnings.
PBK	+1	Loan growth (↑) (though very slim chance) <ul style="list-style-type: none"> Recall significant 1Q deposit growth of +2.3%qoq – management utilised a conservative approach of locking in funding, despite less favourable rates. Additional NIM pressure could persist as a result – but management’s NIM guidance is already conservative. The plus side to deposit frontloading is that PBK has more options: it can opt to either slow down on deposit accumulation or pursue a higher loan growth strategy. Market conditions have been improving – offering an upside possibility to unit trust contributions, which make up a sizeable portion of NOII.
RHB	-1	NIM (↓), CASA (↓) <ul style="list-style-type: none"> A higher chance of writebacks than peers, following two great quarters for provisions and stable asset quality. Negative revisions to NIM and CASA targets are extremely likely, as guided by mgmt. 1QFY23’s loan growth was especially weak – we will be looking as to whether this can pick up by this quarter, especially since RHB’s past strength was its rapid loan growth.
HLBK	0	<ul style="list-style-type: none"> Liquidity should be well buffered: Management seems confident that its intense business deposit accumulation in previous quarters should offset funding pressure. BOCD is no longer performing as well – apart from declining interest rate movements in China, concerning newsflow surrounding the property sector and state-mandated bank lending to LGFVs could spell asset quality and credit cost issues in future. Possible overlay writebacks – but as with PBK, likely delayed to CY24 given current macroeconomic headwinds.
AMMB		

Banks	2Q23 earnings outlook	Possible guidance revisions: (↑)(↓)(↑)(↓) What sounds promising, less promising, and what could go either way.
	-1	<ul style="list-style-type: none"> A lack of guidance offered last quarter makes AMMB's situation slightly harder to forecast – anyways, AMMB does not seem to have any distinct buffers to weather itself against industry pressures. AMMB did make a big deal about a sharp uptick in CASA following its promotion last quarter. We doubt it provides any significant effect on NIM preservation, seeing that these CASA effects are highly seasonal and do involve a fair amount of interest payments, like FDs.
BIMB	-1	NIM (↓), Cost/Income (↓) <ul style="list-style-type: none"> On OPEX: When we last spoke to management, they were still uncertain about their tech spend route (whether to opt for in-house infrastructure or to outsource) – which could determine the timing and scale of OPEX allocation this year. There was a sharp -5.6%qoq drop in deposits in 1QFY23 – we will be monitoring their funding situation closely. Very small likelihood of not reaching loan growth targets.
AFFIN	-1	NIM (↓), CASA (↓), Credit costs (↓), OPEX (↑) <ul style="list-style-type: none"> While management asserts that 2Q should be “alright”, 3Q is going to see some heavy provisions. NIM is guided to see further compression in 2Q. Affin will revise most of its targets downward – though we think the market has seen this coming. Especially when its app (which is supposed to drive CASA growth) has been delayed once more.
ABMB	-1	<ul style="list-style-type: none"> By far the most pertinent issue is asset quality: the possibility of credit cost downside is very real, but ABMB is generally well-managed and guided. Management has been guiding for sizeable OPEX one-offs pertaining to Collective Agreement adjustments.

Source: Banks, MIDFR

Fig 3: Sector themes, and how they affect each Bank

Themes	Impact / Bank's ability to manage	Core beneficiaries / Most affected
NIM compression	Notably well-managed	CIMB. Overall NIMs are guided to see minimal compression this quarter. Management is positive on IDN and TH's 2HFY23 outlook. SG exposure will be a bit of a drag.
	Notably less well-managed	MAY. Heavy SG exposure should see NIMs slide well into 2HFY23. HLBK/HLFG. BOCD should see further compression to NIMs following adverse interest rate movements in China. Management is more confident on a local end, having accumulated plenty of business deposit accounts in the last couple of quarters (which should fill up over the next 12 months, alleviating the burden to actively acquire funding).
NOII uplift	Sizeable upside	CIMB. IDN's strong NPL sales offset poorer trading and FX income. SG should also perform strongly, with the Group taking tactical interest rate swaps – effectively sacrificing NII for NOII. PBK & RHB. Asset management incomes have been underwhelming in the last couple of quarters – improved MTM conditions should provide a noticeable lift from weaker base effects.
	Minimal impact	HLBK/HLFG. Wealth management contributions have been weak as the department is being restructured – some improvement is expected as the brunt of the restructuring exercise is already finished.
	Possible disappointment	MAY. Maybank's Premier Banking segment has been a letdown so far: we are keeping our expectations low.

Themes	Impact / Bank's ability to manage	Core beneficiaries / Most affected
Asset quality and provisioning	Well-managed – higher possibility of overlay writeback	PBK & HLBK & RHB. These banks have seen a fair amount of stability in asset quality and an LLC that remains slightly elevated: the likelihood of overlay writebacks is high. Less certain is the timing of such writebacks, with banks withholding writebacks considering current adverse macroeconomic conditions.
	Neutral – Asset Quality is good but writebacks unlikely	MAY & AMMB & CIMB. These banks, while maintaining some level of stability in asset quality, would likely want to keep its LLC closer to present levels (and may have already guided so).
	Problematic – potential downside in coming quarters	<p>BIMB. We are still skittish on the retail portfolio – especially for Personal financing (both packaged and non-packaged) and for unpackaged residential mortgages. Unsecured loans also burn through LLC provisions faster than collateralised loans, adding a risk of heavy provisions in coming quarters.</p> <p>ABMB. While the +30dpd trend in 4QFY23 implies softer GIL formation in future quarters, the May-23 OPR hike may hit ABMB harder than its peers.</p> <p>AFFIN. Management has guided for heavy provisions in 3Q, while 2Q is “alright” – but we do urge investors to brace themselves for any potential surprises.</p>
Softer loan growth	Possible upside	PBK. PBK scored a huge deposit growth of +2.3%qoq in the last quarter, against its conservative loan target of 4-5%. The added liquidity provides options: it may opt to either cool off on deposit accumulation for now or push for loan growth levels above its target – further acquiring its favoured retail segment market share while its peers are chasing riskier, higher-yielding loans.
	Neutral	BIMB. BIMB has seen a weak +0.4%qoq growth in 1QFY23, while its loan growth target is maintained at 7-8%. While loan growth generally isn't considered a hard target for smaller banks, an especially sharp -5.6%qoq contraction in deposit figures within the last quarter has brought up some liquidity concerns.
	Disappointing	RHB. The bank recorded an especially weak +0.5%qoq growth in 1QFY23. Though its target of 4-5% (which is close to industry growth forecasts) is still achievable, we are disappointed that the likelihood of achieving past the upper bound remains uncertain, especially when one of RHB's strengths in past years was its strong foreign loan growth contribution.

Source: Banks, MIDFR

Fig 4: BNM Banking Stats: Quarterly figures

Qoq figures	t-4	t-3	t-2	t-1	2Q23
Growth (%qoq)					
Domestic loans	1.4	1.6	1.2	0.6	0.8
Res mortgages	1.5	1.7	1.9	1.5	1.5
Passenger cars	1.8	2.1	1.9	2.4	2.2
Credit cards	2.9	4.5	7.4	-0.3	2.1
Personal use	0.3	1.0	0.3	0.6	1.5
Working cap	2.3	1.5	0.2	0.9	-0.8
Non-res property	0.7	0.8	1.4	1.1	0.8
Construction	0.1	2.4	-2.8	-0.1	1.1
Domestic deposits	1.2	3.0	0.9	1.9	0.1
CASA	2.9	-2.7	-0.9	-1.1	0.3
FD	0.8	2.9	2.4	2.5	1.4
Retail FDs	1.7	1.9	3.0	2.9	2.7
Business FDs	0.9	-0.3	2.2	2.8	-1.1
LCR (%)	148	152	154	157	155
Approval rate (%)	53	56	55	50	53
Applications (RM m)	343	380	309	328	345
Approvals (RM m)	182	212	171	165	181
GIL ratios (%)					
Industry	1.79	1.82	1.72	1.74	1.76
Res mortgages	1.36	1.34	1.38	1.39	1.48
Passenger cars	0.37	0.41	0.45	0.44	0.49
Credit cards	0.87	0.90	0.98	1.01	1.05
Personal use	2.73	2.75	2.55	2.62	2.63
Working cap	2.38	2.47	2.46	2.53	2.48
Non-res property	1.68	1.81	1.83	1.75	1.77
Construction	7.68	7.74	4.39	4.58	4.42
LLC	100	98	98	96	92
Bond Issuance (RM b)	31	30	69	20	32

Source: Banks, MIDFR

NIM preservation measures in full swing.

Observe a leap in growth in the higher-yielding unsecured segment, while residential mortgages continue to languish. Observe a slowing down in FD growth rates, exacerbated by maturation of pricier FDs made during the height of deposit competition – especially for the business segment.

Loan growth is slow but observe rebound in riskier construction segment.

This time around, weakness in working capital loan growth is at least offset by the unsecured loan segment. Riskier construction loans have seen a decent recovery within the last quarter, following a recovery in construction demand and alleviating concern over asset quality (in larger banks, anyway).

Leading indicators have improved from last quarter but fluctuate from month to month. We are still cautious of weaker loan growth possibility in 2HCY23. Our forecast for CY23 remains 4.5-5.0%.

CASA balances increase as FDs mature.

Deposit competition, though having improved, persists. Various banks have announced their intention to cut FDs, willing to sacrifice liquidity in favour of NIM preservation.

Do note that retail FD growth remains intact, while business FDs have taken a tumble.

GILs see minimal increase, but there are notable movements within select segments.

Observe a particularly sharp uptick in residential mortgages and passenger cars – while write-offs continue for business GILs. Judging by the steep rate of decline in LLC, expect sizeable provision usage in the quarter.

Good recovery in capital market activity.

Bond issuances have normalised following last quarter's lull, as bond issuances have become a more viable source of funding (as opposed to deposit accumulation) – hopefully, we can see some uplift reflected as improved fee income.

Maintain POSITIVE call. As a sector, valuations are no longer as attractive following the recent share repricing. Outlook is also less positive than before, with NOII recovery remaining as core earnings driver. Tailwinds have softened, with NIM recovery more gradual than expected, less optimistic loan growth prospects and banks' decision to retain overlay provisions. For now, NOII recovery and high dividend yields remain earnings drivers: do note that, in the case of the banks with the healthiest asset quality and LLC levels, overlay writeback is still a possibility.

Top Picks: Public Bank (BUY, TP: RM4.76) and RHB Bank (BUY, TP: RM7.58).

Fig 5: Peer comparison table

 (Link to all our reports: <https://www.midf.com.my/reports?industry=66>)

Bank	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
MAY	BUY	9.00	9.28	3.1	107.7	11.7	11.0	1.2	1.2	10.5	10.9	6.8	7.3
CIMB	BUY	5.55	6.39	15.1	57.9	8.9	8.2	0.9	0.8	10.1	10.3	5.6	6.1
PBK	BUY	4.13	4.76	15.3	80.2	11.3	11.1	1.5	1.4	13.6	12.9	4.4	4.5
RHB	BUY	5.65	7.58	34.2	23.7	7.5	7.0	0.8	0.8	10.9	11.4	7.3	7.7
HLBK	BUY	19.90	24.91	25.2	40.8	10.6	9.6	1.2	1.1	11.9	11.9	3.3	3.6
HLFG	BUY	18.44	22.79	23.6	20.9	7.6	7.0	0.7	0.7	10.1	9.6	2.6	2.9
AMMB	BUY	3.86	3.98	3.1	16.2	9.1	8.5	0.8	0.8	9.5	9.4	4.9	5.2
BIMB	TRADING SELL	2.13	1.46	-31.5	5.1	9.8	8.9	0.7	0.7	7.4	7.7	6.4	6.8
AFFIN	NEUTRAL	1.95	1.82	-6.5	4.2	7.8	7.1	0.4	0.4	5.0	5.2	3.8	4.1
ABMB	BUY	3.58	4.00	11.9	5.5	7.5	7.0	0.8	0.7	10.6	10.6	6.7	7.2
Simple avg (ex-HLFG)						9.3	8.7	0.9	0.9	9.9	10.0	5.5	5.8
Weighted avg (ex-HLFG)						10.4	9.8	1.1	1.1	11.2	11.2	5.5	5.9

*Closing prices from 18 Aug 2023.

^AMMB & ABMB uses FY24F/25F values.

Source: Banks, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology