BANKING

***Maintain* POSITIVE**

3Q23 Results Preview: Undramatic

KEY INVESTMENT HIGHLIGHTS

- **Central focus: Looking at loan growth as the central driver, while keeping eye on liquidity profiles**
- **Side focus: More predictable topline, and lesser asset quality/provisioning and OPEX concerns**
- **Core themes: (1) Business loan recovery, (2) Questionable liquidity outlook, (3) Rational deposit competition, (4) OPEX, NIM, NOII and asset quality take back seat**
- **Ranking banks by upcoming performance: PBK=CIMB>AMMB=MAY>ABMB=BIMB>RHB=HLBK>AFFIN**
- **Maintain POSITIVE call: loan growth recovery and dividend outlook, other upside and downside drivers are relatively benign**

3Q23 Results: Expecting an undramatic season, with little surprises – nothing as dramatic or noteworthy as past quarters.

Central focus:

1. **Loan growth recovers.** 1HCY23 was a weak period for balance sheet growth - largely dragged by weak corporate drawdowns. Retail growth was constant (driven by delayed drawdowns of residential mortgages and hire purchases, as well as exceptional unsecured loan take-up). Bank loan growth targets have been disappointing in certain cases, but all banks seem highly confident in 2HCY23 corporate pipeline. It's reflected in BNM's monthly stats too – working loan applications posted staggering growth post-election.
2. **Liquidity may have tightened but still comfortable, deposit competition should remain rational.** Weaker quarterly deposit growth and BNM's major issuance of bills and bonds should mop up some market liquidity. Thankfully CASA balances have seen a more convincing rebound in the quarter (with even retail CASA tapering lessening), while FD uptake remains weak.
   Regardless, repo growth is the strongest as it has ever been, with money markets currently a cheaper alternative to promo FDs. Regardless of tighter liquidity, banks have guided that deposit competition this time should remain rational (several one-offs contributed to last year's atypical phenomenon).

Side focus:

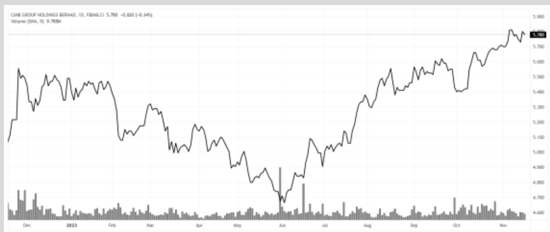
1. **Benign NIMs.** After dramatic movements in 1HCY23, this quarter should see muted stable-to-slight decline movements, with depositor demand still decent despite FD rate cuts made in June/July. There is the possibility of seeing notable improvement in BIMB and Affin, but these are due to low base effects (their NIMs were in a lower standing than their peers). As deposit competition is slated to remain rational this time around, we think NIMs would warrant a closer look somewhere after the CNY festive season, when we believe banks will experiment with further rate cuts – possibly vying for FD rates even lower than that of 2023's values.

COMPANY IN FOCUS

CIMB
Maintain **BUY |** Unchanged Target price: RM6.43
Price @ 16 November 2023: RM5.78

- Lucrative exposure to Indonesian (and other regional) markets
- Improving dividend outlook
- Digital asset and loan restructuring drag should end soon

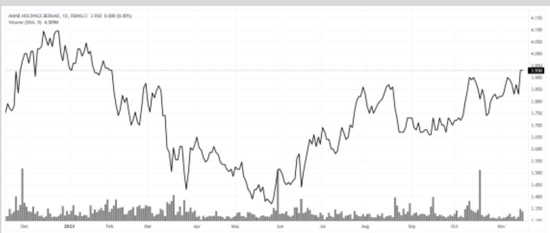
Share price chart



AMMB
Maintain **BUY |** Unchanged Target price: RM3.98*
Price @ 16 November 2023: RM3.93
**We will likely reprice AMMB upward after results*

- Capital rebuild bolsters dividend certainty and profitability
- Excellent OPEX control

Share price chart



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2. **NOII should see normalisation…** Favourable interest rate movements (and in the case of CIMB, huge NPL sales) led to a bumper 2QCY23. While MYR movements should drive forex income, we think NOII contributions should be a lot more normalised this time around.
3. **…and OPEX too.** Banks are guiding for more "Normalised" figures, with most Collective Agreement adjustments having been finalised in 1HCY23. And as with most "Normalised" 2Hs, expect seasonal competition related marketing costs and bonus allocations. Higher-than-expected tech spend may throw a wrench into an otherwise smooth quarter.
4. **GILs kept well under control, overlay writebacks delayed.** While SME-related delinquencies from repayment assistance (RA) programmes are expected to see marked increase (especially in an inflationary environment), BNM stats show that other GIL segments have been well accounted for, with numerous recoveries and write-downs keeping GIL levels well-contained. This is in line with most banks' guidance of 2QCY23 GIL ratio being close to the peak. NCC allocations have been well guided for – we doubt there will be many surprises, except maybe in the case of Affin. There is little excitement pertaining to writebacks in the short term – banks have either opted to retain overlays as company-specific provisions, or delay writeback to CY24.

Maintain POSITIVE call. Core drivers for now are loan growth and improving dividend outlook (especially after several banks have increased payout and opted for full cash dividends upon completing respective capital build operations). From a capital gains perspective, we urge investors to be selective with their picks – the lack of foreign participation incentives could damper popular large/mid-sized banks rerating opportunities in the near term, despite solid fundamentals.

A soft victory is that major downside risks (asset quality, repeat of atypical deposit competition) seem unlikely in the short term – apart from a few select names. HLBK has added pressure from poor China macro-outlook. Liquidity may be an issue down the road but is buoyed by elevated interbank lending for now.

Top Picks: CIMB (BUY, TP: RM6.43) and **AMMB (BUY, TP: RM3.98).**

Fig 1: 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	NEUTRAL	9.14	9.28	1.5	109.4	11.9	11.1	1.2	1.2	10.5	10.9	6.7	7.2
CIMB	BUY	5.78	6.43	11.2	60.3	9.3	8.5	0.9	0.9	10.1	10.3	5.9	5.9
PBK	BUY	4.24	4.76	12.3	82.3	11.6	11.4	1.5	1.4	13.6	12.9	4.3	4.4
RHB	BUY	5.63	6.66	18.3	23.6	8.1	7.5	0.8	0.7	9.9	10.1	6.8	7.2
HLBK	BUY	19.32	22.96	18.8	39.6	9.8	9.3	1.1	1.0	11.3	11.0	3.6	3.8
HLFG	BUY	17.10	23.71	38.7	19.4	6.9	6.4	0.7	0.6	10.0	10.0	2.9	3.1
AMMB	BUY	3.93	3.98	1.3	16.5	9.2	8.7	0.9	0.8	9.5	9.5	4.8	5.1
BIMB	NEUTRAL	2.21	2.04	-7.7	5.3	10.2	9.2	0.7	0.7	7.4	7.7	6.2	6.5
AFFIN	NEUTRAL	2.06	1.71	-17.0	4.5	10.0	7.8	0.4	0.4	4.1	5.1	3.0	3.7
ABMB	BUY	3.38	3.90	15.5	5.2	7.5	6.9	0.7	0.7	10.0	10.2	6.7	7.2
Simple avg (ex-HLFG)						**9.7**	**8.9**	**0.9**	**0.9**	**9.6**	**9.7**	**5.3**	**5.7**
Weighted avg (ex-HLFG)						**10.6**	**10.0**	**1.1**	**1.1**	**11.1**	**11.0**	**5.5**	**5.7**

**Closing prices from 16 Nov 2023.*
^AMMB, ABMB, HLBK & HLFG uses FY24F/25F values.

Source: Banks, MIDFR

Fig 2: Subsidiary performance

Notable Subsidiaries & Income sources	Net Profit in upcoming Qtr		Qoq growth (%)	Yoy growth (%)	% PBT in FY22/23
MAY					
Maybank Indonesia	IDR bil	330	-16	-19	6
CIMB					
CIMB Niaga (Indonesia)	IDR bil	1,669	+1	+28	24
CIMB Thai	THB mil	367	-32	-47	6
HLBK					
Bank of Chengdu	RMB mil	2,580	-15	+12	24

Source: Banks, MIDFR

Fig 3: Banks earnings season preview

Banks	3Q23 earnings outlook	Possible guidance revisions: (↑) (↓) (↑) (↓) What sounds promising, less promising, and what is neutral or could go either way.
MAY	0 +1	• Mgmt is guiding for a more normalised OPEX in 2HFY23, following the heavy CA one-offs incurred in 1H. • While no official loan growth target given, SG is expected to continue its (surprisingly) strong level of growth experienced in 1HFY23 – this could elevate overall loan growth to >6%yoy (above sector growth forecasts), assuming a similar run rate in the latter half.
CIMB	+1	• A bright spot is a strong quarter for provisions, with guidance having been revised downward in 2Q – Niaga's 3QFY23 NCC was exceptionally low. • Stable NIMs on a sequential quarter basis are guided for. • NOII to be sequentially weaker than 2Q's bumper result. • OPEX costs are guided to be higher in 2HFY23. • Loan growth has more downside possibility, given that lumpier disbursements were concentrated in 1H.
PBK	+1	**Loan growth (↑)** • We believe that PBK will continue posting phenomenal balance sheet growth figures and strong market share acquisition, after 1HFY23's loan and deposit figures smashed predictions. • We do highlight the possibility of higher NCC in 2HFY23, given that 1HFY23's value is well below guidance – but we think this will remain well in the healthy range. • Some unpredictability in NOII expected – market conditions have been suboptimal.
RHB	-1	**NIM (↓), CIR (↓), CASA (↓)** • High provisioning guided for 2HFY23 (1HFY23 saw net writebacks) – the greatest threat to current ROE target. • Possible further erosion of NIM margins also guided in 3Q, despite conscious deposit rebalancing efforts persisting. • RHB's CASA target remains optimistic, regardless of their efforts to pare down FD balances and run student-oriented campaigns in 2HFY23. • Softer OPEX guided for the latter half. • Loan growth target of 4-5% is likely to be met, driven by Singaporean corporate segment and a pickup in consumer lending. Mgmt is wary of lending too much to SME segment (which has seen higher growth in 1H). Unfortunately, 4-5% is an underwhelming figure, given that RHB's selling point in the past has been its higher-

		than-industry growth figures.
HLBK	-1	**NIM (↑)** • BOCD posted a weaker 3QCY23 result, falling -15%qoq. • We aren't too thrilled with the higher CIR guidance – but it's unlikely to expect that sizeable of a OPEX leap within the first full quarter of the new CEO's tenure. • NIM outlook is hard to gauge: HLBK managed to positively buck the trend of falling NIMs in the last quarter with effective FD strategies – it is unsure whether they can repeat it. Regardless, their NIM guidance is way too conservative, we think it will be raised in subsequent quarters.
AMMB	+1	• NCC to be lower than 1QFY23's elevated figure. • NOII uplift is also guided for 2QFY23. • OPEX to remain stable/lower than 1QFY23's. • Potential AML-related bonus dividends? Unlikely but we won't completely write it off. Regular dividend figures should come in as guided. • Better loan growth expected in 2HCY23's, after the previous quarter's disappointing contraction – but we aren't expecting too much.
BIMB	0	**Loan growth (↓)** • NIM should continue seeing qoq improvement, following low base effects. • Our main concern is financing growth and whether liquidity is sufficient. 1HFY23's YTD growth figure has been flattish (far from FY23's 7-8%) targets, while their sharp FD paring down strategy is expected to continue… and the Group is not willing to disclose the latest LCR figure.
AFFIN	-2	**ROE (↓), NIM (↓), CASA ratio (↓), NCC (↑)** • Heavy provisioning previously guided for in 3QFY23 (a questioned dodged in the latest results briefing), which we think are for impairments affiliated certain companies making newsflow. • 1HFY23 OPEX was relatively muted compared to FY23's guided value – is there going to be a backloading of costs? • NIM should see a slight rebound, but still be markedly reduced following the heavy -43bps qoq drop experienced last quarter (observe a drastic increase in corporate accounts in the last quarter).
ABMB	0	• Expecting some NOII uplift, mgmt has been guiding for better treasury incomes. Less downward pressure, IRS unwinding is no longer an issue. • Main concern is negative surprises to provisioning, given that 1QFY23's provisioning figure was slightly below guidance. But mgmt asserts that previous GIL ratio should be close to peak.

Source: Banks, MIDFR

Fig 4: Sector themes, and how they affect each Bank

Themes	Impact / Bank's ability to manage	Core beneficiaries / Most affected
NIM movements	**Improvement, but from a low base**	**BIMB & AFFIN.** We expect BIMB to see improvement, but keep in mind this is due to low base effects, following steep declines in NIM over the last year (while other banks managed their margins a lot better). Affin should see improvement, no longer double paying of AT1 interest charges. However, keep in mind that Affin's NIM fell by a whopping -43bps qoq in 2Q (we doubt that AT1 double charges would contribute to more than -15bps of the NIM decline) – still leaving its NIM in a much more unfavourable position than its peers.
	Decline	**RHB & AMMB.** Both mid-sized banks have seen liquidity constraints in the past quarter, resulting in the highest COFs within the big/mid-sized ban category. RHB has already guided NIMs to decline in this quarter – we think AMMB could follow a similar trajectory.
OPEX	**Well-managed**	**AMMB.** Mgmt is very confident it can keep OPEX like if not lower than FY22's amount. Mgmt is guiding for further quarters to see stable/lower OPEX than 1QFY23's amount. **RHB & MAY.** Collective agreement agreements have led to elevated 1HFY23 figures. Mgmt of both banks guide that the latter half will not be as intense. In Maybank's case, the allocated budget for M25+ may not be fully utilised within the year, leaving an upside for OPEX.
	Heavy 2H	**AFFIN.** Affin's 1HFY23 OPEX growth of 7% is still below their FY23 >10%yoy guidance. They've also highlighted ambitious sending plans in Sarawak – an OPEX-heavy 2H expected? **CIMB.** As guided by mgmt, increases in marketing and admin & general expenses should offset normalisation in personnel costs.
Loan growth	**Disappointing target / May not meet target**	**RHB.** RHB's target of 4-5%yoy growth is likely to be met, but this is in line with sector growth expectations – disappointing for a bank whose pull has been above-average loan growth figures. **BIMB.** BIMB's FY23 target of 7-8% seems a bit of a stretch – especially when the Group has only registered +0.6% YTD growth so far.
Asset quality and provisioning	**Heavy provisioning**	**RHB.** With net writebacks in 1HFY23, expect to see a heavy 2HFY23. (18-19bps for FY23, factoring in overlays – 1HFY23's total: -5bps.) **AFFIN.** Mgmt previously guided for a heavy 3Q (though question was dodged in 2QFY23's result briefing). This could be potentially linked to certain companies that have been featured in the news.

Source: Banks, MIDFR

Fig 5: BNM Banking Stats: Quarterly figures

Qoq figures	t-4	t-3	t-2	t-1	3Q23
Growth (%qoq)					
Domestic loans	**1.6**	**1.2**	**0.6**	**0.8**	**1.6**
Res mortgages	1.7	1.9	1.5	1.5	2.1
Passenger cars	2.1	1.9	2.4	2.2	2.4
Credit cards	4.5	7.4	-0.3	2.1	3.6
Personal use	1.0	0.3	0.6	1.5	2.2
Working cap	1.5	0.2	0.9	-0.8	0.9
Non-res property	0.8	1.4	1.1	0.8	1.6
Construction	2.4	-2.8	-0.1	1.1	1.1
Approval rate (%)	**56**	**55**	**50**	**53**	**53**
Applications (RM m)	380	309	328	345	395
Approvals (RM m)	212	171	165	181	208
Deposits + repo	**3.0**	**0.9**	**1.9**	**0.1**	**1.4**
Domestic deposits	**2.3**	**0.2**	**1.1**	**0.2**	**0.8**
CASA	-2.7	-0.9	-1.1	0.3	0.9
FD	2.9	2.4	2.5	1.4	0.3
Retail FDs	1.9	3.0	2.9	2.7	0.8
Business FDs	-0.3	2.2	2.8	-1.1	0.5
LCR (%)	**152**	**154**	**157**	**155**	**152**
GIL ratios (%)					
Industry	**1.82**	**1.72**	**1.74**	**1.76**	**1.72**
Res mortgages	1.34	1.38	1.39	1.48	1.37
Passenger cars	0.41	0.45	0.44	0.49	0.50
Credit cards	0.90	0.98	1.01	1.05	1.07
Personal use	2.75	2.55	2.62	2.63	2.61
Working cap	2.47	2.46	2.53	2.48	2.58
Non-res property	1.81	1.83	1.75	1.77	1.74
Construction	7.74	4.39	4.58	4.42	4.06
LLC	**98**	**98**	**96**	**92**	**91**
Bond Issuance (RM b)	**30**	**69**	**20**	**32**	**32**

Source: Banks, MIDFR

Loan growth stages a recovery, especially business loans. Most major loan categories saw a convincing return to form – most notably in business loans (as guided by banks), bolstered by post-election certainty. Retail loans remain robust, driven by delayed drawdowns in both hire purchases and residential mortgages. Higher yield credit cards and personal use loans have only grown in popularity, following heightened COF pressures amid tightening liquidity concerns.

Leading indicators see amazing take-up, post-election. Two consecutive months posted the highest quantity of approvals/applications ever. As expected, business loan applications (working capital, construction, non-residential property) leaped immediately post-election (in August), while the retail side saw good take-up as well.

Deposit growth is still lacklustre, though high interbank lending keeps liquidity afloat. One positive was a rebound in retail CASA balances, joining non-retail balances' inflection point.

FDs, on the other hand, saw a much weaker performance, with retail FD uptake falling dramatically. We think this should pick up in the following quarter, with seasonal deposit competition coming into play.

Tail end of asset quality woes, though working capital impairments sees marked increase. We think a lot of it will manifest in the form of rising impairments in SME repayment assisted (RA) loan graduates. Fears in rising RA mortgages impairments seem to be largely contained. Apart from the increased scale of writeoffs, banks have been guiding for several large recoveries.

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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 *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive news flow.
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 *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative news flow.
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