BANKING

***Maintain* POSITIVE**

3QCY23 Results Wrap: Guidance Turns More Positive

KEY INVESTMENT HIGHLIGHTS

- **3QCY23's I/S highlights: NIM uplift from OPR hike, Solid NOII returns from forex offering and stronger fee income, OPEX saw normalisation from elevated 1HCY23, NCC largely moderated with some writebacks**
- **B/S highlights: Domestic (and overseas) loan growth saw good recovery, system liquidity is tighter, but banks are well equipped for seasonal effects, while worst of asset quality concerns seem to be over**
- **Dividends: Outlook still bright – CET1 ratios are high, and banks are still making considerable effort to elevate dividend yields**
- **Guidance & Future Quarters: Expect strong loan growth to persist at least one more quarter, and banks to be well equipped to handle upcoming seasonal competition**
- **Maintain POSITIVE call: Certainty on deposit competition and asset quality should drive valuations**

Headed Where?	**We think the most major headwinds are in the past – currently looking to multiple upside possibilities.**
Strategy	**Clear picks include banks with obvious rerating drivers: Certainty in asset quality improvement and conscious effort to increase dividend yields.**
Core Themes	1. ▲ Further asset quality and NCC improvement expected – with high writeback possibility. 2. ▲ Post-CNY FD rate testing by banks – there is a possibility for further normalisation in rates, and subsequently upside to NIMs. 3. ▲ Industry dividend yields should continue growing more attractive. 4. ▲ Valuations are attractive, with multiple industry-wide uncertainties previously providing downside pressure. 5. ► Business loans should take centre stage, offsetting the weakening demand in retail loan take-up.
Side Themes	1. ▲ More relaxed CY24 OPEX growth, after an eventful CY23. 2. ► Regular deposit competition in 4QCY23, though banks are even more prepared from a liquidity standpoint than regular years (fearing a repeat of last year). 3. ▼ Long-term concern: Thinning residential mortgage margins should see banks escalate take-up of riskier unsecured or non-retail loans.

▲ Positive highlights from this quarter:

1. **Management guidance** has become a lot more positive.
2. Healthy **earnings** – no obvious sector-wide downside pressure to earnings, unlike in previous quarters
3. Post-election certainty drives domestic **loan growth** recovery.
4. Industry **NIMs** saw uplift from May-23 OPR hike.
5. Forex and loan-fee-related uplift keep **NOII** healthy.
6. **SME-related impairments** of loans exiting Repayment Assistance programmes occur (last quarter was dominated by RA-related residential mortgage impairments). But largely within expectations – and expect further GIL ratio improvements down the line.
7. Several banks voice its intentions to further improve **dividend yields** – most have an adequate CET1 level to back it up.
8. Fearing a repeat of last year, most banks are extremely well equipped to weather through 4QCY23's **seasonal competition**.

COMPANY IN FOCUS

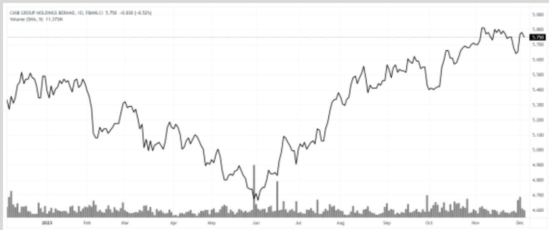
CIMB

Maintain **BUY |** Unchanged Target price: RM6.62

Price @ 5 December 2023: RM5.75

- Niaga's lucrative Indonesian market exposure.
- Digital offerings coming online, offering less drag to ROE.
- Still room for improvement in ROE restructuring – watch for further cost optimisation.

Share price chart



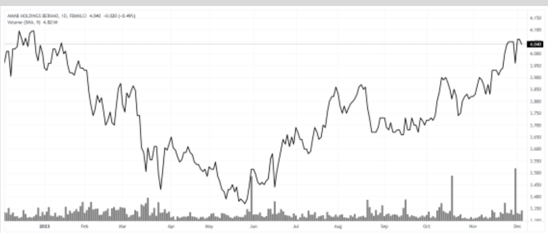
AMMB

Maintain **BUY |** Unchanged Target price: RM4.23

Price @ 5 December 2023: RM4.04

- Dividend payouts are likely to be revised upwards, on the back of stronger CET1 (which will come).
- Capital optimisation exercises to persist.
- Added possibilities with tax return – expect boosted LLC at the very least.

Share price chart



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▲ **Negative highlights from this quarter:**

1. **Mortgage rates** have become extremely thin.
2. **Affin's** outlook is a lot more negative than most peers.

▲ **Neutral highlights from this quarter:**

1. **OPEX** was more moderate, following a heavy 1HCY23, driven by Collective Agreement adjustments.
2. As a sector, **NCC** allocations were squarely in the neutral range, though there were some positive surprises.
3. **System liquidity** is tighter, but banks still boast strong liquidity profiles (as indicated by LCR).

Fig 1: Detailed Review

1. Forward guidance

▲▲▲▲▲▲ **Most banks have turned positive – or at least neutral. Only one bank is negative.**

3QCY23 confirms that initial worries were exaggerated. Industry guidance has turned incrementally positive, compared to the negative guidance given last quarter – largely due to (a) Seasonal competition shaping up to be typical, (b) Asset quality and provisioning outlook has improved, with the scale of 3QCY23's RA-related impairments coming in well within expectations. In more isolated cases, some banks were guiding for further strong NOII quarters ahead.

Retail loans may see slower loan growth and margin contraction. Certain banks have cited cooling hire purchase volumes, while residential mortgages also could see slowing growth several months ahead. The brunt of the discussion was dominated by razor-thin residential mortgage margins. The difficulty was the interconnectedness and cross-selling ability linked to residential mortgages – making it difficult for banks to quickly pivot away from the segment.

Notable exceptions: **Affin's** guidance is less reassuring. Unlike its peers, it may see further lumpy impairments and provisions. OPEX outlook isn't the best either.

2. Earnings

▲▲▲▲▲▲ **For most banks, the best quarter in the last 12 months – though a few had a rough time.**

No sources of major industry-wide downside pressure… Unlike previous quarters, which saw heavy provision allocations, sharp NIM compression or elevated personnel costs on an industry-wide scale, this quarter seemed relatively benign. Major downside earning threats were largely confined to specific banks. In the case of **RHB**, it was a sizeable provision, while **Affin** endured its Collective Agreement one-off in this quarter.

…while topline was lifted by sector-wide tailwinds. On the other hand, the entire sector's NIMs benefitted from May-23 OPR hike, plus tapering COF pressure (or they at least kept NIMs stable). MYR movements and recovery in domestic loan growth lifted NOII via elevated forex and loan-related fee income.

3. Net Interest Income/Net Interest Margins

▲▲▲▲▲▲ **NIM movements were largely neutral to positive, though there were two disappointments.**

May-23 OPR hike benefits asset yields. The full-quarter impact of NIM benefits on asset yields was felt in this quarter.

COF outlook is still not too bad for multiple reasons:

1. **Rational deposit competition.** Recall structural changes pertaining to OPR hikes and SRR compliance tightening contributing to last year's abnormal competition. While this year sees a much tighter market liquidity profile, this is more in line with normal years – banks seem optimistic this time around.
2. **Heavy interbank lending utilisation and bond.** Banks continue reporting elevated interbank lending positions, drawing heavily on repos and FI deposits. Bond refinancing and drawdowns remain popular.
3. **Wary of a possible repeat of last year, we expect pre-emptive liquidity hoarding.** As a result, we see less aggression in 4QCY23 from some players – especially if they've come close to fulfilling their loan quotas.

Post-CNY is the period to watch. Most banks should be experimenting with FD rate cuts during this period. We think there's a possibility that they may cut FD rates to more normalised values (CY23's rates never fully recovered even after CNY). We will be watching Islamic rates especially closely, to see if there's any possibility for the widened gap between Conventional and Islamic rates (that started in CY23) to narrow.

Best performers: **ABMB** saw a whopping +10bps qoq NIM uplift. Unwinding mod loss contributed to +2bps uplift. Aside from NIM optimisation measures, we believe that their heightened sensitivity to OPR hikes may have also contributed to the sharp uplift. It has, however, explicitly guided for weaker quarters ahead.

Worst performers: **Affin** recorded the steepest drop among peers for two consecutive quarters. We were expecting a sequential quarter uplift due to low base effects from last quarter, especially since the double counting of AT1 bond expenses would no longer be an issue in 3Q. We suspect its lofty loan growth (the highest in the industry) is forcing them to acquire liquidity at elevated costs.

Maybank. 4bps out of the 5bps qoq decline was attributable to Malaysia. We were slightly surprised by this, given that Maybank had undergone a notable FD paring exercise in the last quarter, resulting in a notable quarter-on-quarter contraction in deposits in 2QFY23.

4. Non-Interest Income

▲▲▲▲▲▲ Despite high base effects from a bumper 2QCY23, 3QCY23 held up well.

Better fee income and forex balances while MTM gains still do decent. Across the board, higher loan growth volumes were accompanied by higher loan-fee-related income. Fluctuations in MYR brought in higher forex incomes. MTM gains remained resilient. Most banks are guiding for a similarly strong 4QCY23.

Best performers: **ABMB** saw an uplift due to a one-off bancassurance payoff after renewing its deal with Manulife. Also, we are seeing benefits from them resolving the IRS unwinding drag in the previous quarter, which has removed downside pressure on their treasury gains. **Affin** showed even further non-fee improvement (even better than their already strong 2QCY23), driven by further MTM and forex gains.

5. OPEX

▲▲▲▲▲▲ Fairly neutral after Collective Agreement one-offs in 1HCY23 – with some notably negative cases.

Fairly quiet, after an aggressive 1HCY23. 3QCY23 seems relatively muted – tech spend was marginally lighter, while personnel expenses were more normalised after heavy Collective Agreement adjustments in the first half of the year.

Notable exceptions: **Affin** saw its Collective Agreement one-off in this quarter. **ABMB** has opted to frontload the brunt of its personnel expenses in the first half of its financial year.

6. Loan growth

▲▲▲▲▲▲ Excellent recovery throughout the sector.

Qoq growth was sector-wide, driven by a resurgence in business loans. This was driven by business loans, as post-election certainty led to increased drawdowns by corporate and SME players. This is expected to persist for the next couple of quarters, with 4QCY23 guided to be an exceptional quarter.

Retail loans are still stable, though signs of dwindling are showing. Hire-purchase loans are already seeing more muted growth. Residential mortgages remain buoyed by delayed disbursements, though growth rates too may slow in future, as multiple banks have voiced their intention to move away from the segment, citing thinner margins. Elsewhere, high-yield unsecured loans continue to be extremely popular – though we see some notable dwindling from **BIMB**.

7. Liquidity and Deposits

▲▲▲▲▲▲ While liquidity has tightened, most banks boast strong liquidity profiles.

Although Loan/Deposit ratios are more stretched, other liquidity ratios remain healthy. FD paring exercises and stronger loan growth within the quarter have led to elevated L/D ratios – especially when the next quarter should see loan growth outstrip deposit growth. Regardless, LCR values remain elevated. Most banks are comfortable with the L/D ratio elevation, deeming it temporary (**ABMB** mentions that it is more relaxed with the ratio in low competition periods – i.e. middle months).

CASA ratio shows some rebound, CASA balances not so much. Despite BNM stats suggesting a rebound, quarter-on-quarter CASA growth was unconvincing, though **Affin's** mobile app rollout and rolling in of **RHB's** MySiswa CASA balances should provide uplift for these two banks in the following quarter. Do note, however, that only a few banks saw a contraction of its CASA balances – suggesting that the industry-wide CASA attrition seems to be slowing. CASA ratio, on the other hand, some saw uplift due to FD paring exercises.

Still heavy reliance on interbank lending. Most banks continue to be in net lender positions, still relying on repo contracts and FI deposits. This phenomenon will likely persist unless BNM loosens its stance on market liquidity.

8. Asset Quality

▲▲▲▲▲▲ Good retention and control of impairments – apart from two isolated cases.

SME impairments flood in, but most banks handle it well. While the last quarter centred on residential mortgage and personal financing-related impairments, this quarter saw banks hit hard by SME-related impairments (in the form of non-residential mortgages and working capital loans), the majority of which with from RA programmes. These tend to be well collateralised or guaranteed, hence banks' muted reaction.

The worst is over – GIL ratios should show minimal further uptick. Multiple banks are claiming that GIL ratios should remain close to stable from now, on as the scale of impairments is expected to decline. Indeed, retail GILs have shown tremendous stability this quarter – we expect SME GILs to reflect a similar trend in the following quarter.

Worst performers: **RHB** was likely blindsided by the scale of SME impairments, especially in Thailand – so much so it revised its GIL ratio target upward (despite initial confidence of GILs peaking in the last quarter). **Affin's** increase was expected – we think some of these are corporate-related (possibly featured in newsflow as well). While **PBK** maintains an excellent 0.58% GIL ratio, this is well above its standard ~30% range – which could hinder positive investor sentiment. Also, the structure of PBK's repayment assistance programmes may cause a delay in impairment recognition compared to its peers, implying a further elevation of the GIL ratio in subsequent quarters.

Look at: **ABMB** and **BIMB** were both linked with impairment-related uncertainty in past quarters – but recent performance confirms that the worst of asset quality woes are likely behind them. This may be a positive rerating catalyst.

9. Provisioning

▲▲▲▲▲▲ **Mostly neutral, with some positive surprises. One bank had previously guided for a hefty provision.**

Last quarter was a lot heavier. Most banks made larger provisions in the last quarter, in anticipation of further SME and retail RA loan graduation. The only bank which posted a hefty provision this time around was **RHB**, but this was already guided for. This quarter, a good reduction in retail impairments led to writebacks in this segment, though some banks did try to offset it with higher commercial provisioning. We may see a few names post higher figures in 4QCY23, but we think overall it should remain broadly within expectations.

10. Capital & Dividends

▲▲▲▲▲▲ **Capital levels remain very strong, while dividend payout outlook improves.**

Capital buildings are mostly finished, and levels are very healthy. Most banks continue to maintain CET1 ratios at the ~14% level. This includes **AMMB** if you include the sizeable gain from upcoming tax credit and conversion to IRB approach to RWA recognition. No indication from BNM as to when banks are to revert to more normalised levels.

Notable exceptions: **HLBK's** CET1 ratio has fallen to 12.6%, though management is confident this will rise to the >13% range by end-FY24. Further funding for BOCD may continue keeping the value suppressed, preventing further discussions on increasing dividend yields – especially since HLBK has among the lowest yields in the sector.

ABMB's CET1 ratio has fallen to 12.9% (12 months ago: 14.1%), though this has been guided for. Their pickup in loan growth rate (especially in end financing) has led to capital growth lagging behind RWA growth. Regardless, management has confirmed dividend certainty in FY24.

Maintain POSITIVE call. Outlook for the sector remains positive on added certainty for asset quality outlook. Dividend yields remain very attractive. *(Our comprehensive list of sector drivers is on the first page).*

Top downside risks include:

1. Economic conditions worsen, leading to further loan growth contraction and asset quality uptick,
2. Liquidity situation doesn't improve, and downward pressure on NIMs remain,
3. Fee income shows a lacklustre pickup, while non-fee income conditions are not ideal.

Top Picks: CIMB (BUY, TP: RM6.62) and **AMMB (BUY, TP: RM4.23).** *(Our comprehensive list of sector picks is below).*

Fig 2: Peer comparison table

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

Bank	Rec	Share P* (RM)	Target P (RM)	Upside (%)	Mkt Cap (RM b)	P/E (x) FY23	P/E (x) FY24	P/B (x) FY23	P/B (x) FY24	ROE (%) FY23	ROE (%) FY24	Div Yield (%) FY23	Div Yield (%) FY24
MAY	NEUTRAL	9.01	9.28	3.0	107.8	11.7	11.0	1.2	1.2	10.5	10.9	6.8	7.3
CIMB	BUY	5.75	6.62	15.1	59.9	8.8	8.3	0.9	0.9	10.6	10.6	6.3	6.6
PBK	BUY	4.25	4.69	10.4	82.5	11.9	11.5	1.5	1.4	13.3	12.8	4.4	4.6
RHB	BUY	5.48	6.50	18.6	22.9	8.0	7.6	0.8	0.7	9.7	9.7	6.8	7.1
HLBK	BUY	19.22	21.38	11.3	39.4	9.8	9.2	1.1	1.0	11.4	11.2	3.6	3.8
HLFG	BUY	16.60	20.65	24.4	18.8	6.7	6.2	0.6	0.6	10.0	10.0	3.0	3.2
AMMB	BUY	4.04	4.23	4.7	16.9	10.0	8.8	0.9	0.8	9.0	9.4	4.4	5.0
BIMB	NEUTRAL	2.32	2.29	-1.3	5.6	10.7	9.3	0.8	0.7	7.4	8.0	6.4	6.5
AFFIN	SELL	2.02	1.71	-15.4	4.4	9.8	7.6	0.4	0.4	4.1	5.1	3.0	3.8
ABMB	BUY	3.51	4.08	16.2	5.4	8.3	7.6	0.8	0.7	9.4	9.6	6.0	6.6
Simple avg (ex-HLFG)						**9.9**	**9.0**	**0.9**	**0.9**	**9.5**	**9.7**	**5.3**	**5.7**
Weighted avg (ex-HLFG)						**10.6**	**10.0**	**1.1**	**1.1**	**11.0**	**11.0**	**5.6**	**5.9**

**Closing prices from 05 Dec 2023.*
^AMMB, ABMB, HLBK & HLFG uses FY24F/25F values.

Source: Banks, MIDFR

Fig 3: Sector picks

Pick	Bank	Call	Target P	GGM Valuation		ROE	LTG	COE	Catalysts, concerns, and other notes
TOP Pick	CIMB	BUY	RM 6.62	0.98x	FY24F	10.6%	3.5%	10.7%	There's still a lot to look forward to: (1) Digital offerings are to come online soon, reducing ROE drag, (2) Niaga remains a solid driver of growth, (3) Further cost optimisation in FY24, (4) With asset quality well under control and provisioning buffers adequate, we could see base NCC remain lower than initial Forward23+ targets, (5) Enhanced dividend payout and resultant ROE optimisation effects.
TOP Pick	AMMB	BUY	RM 4.23	0.84x	FY25F	9.4%	3.5%	10.5%	There's also a lot to look forward to: (1) Management is actively looking to increase dividend payouts – with capital build complete, this could be a reality soon, (2) Proceeds from tax credit one-off in 3QFY24 should elevate LLC to a more comfortable tier, (3) Possible bond profit taking in 2HFY24, (4) Possible further non-core business exit to further optimise ROE.
GOOD Pick	ABMB	BUY	RM 4.08	0.83x	FY25F	9.6%	5.0%	10.6%	With the worst of asset quality issues likely over, we think downside rerating pressure should subside. Aside from that 2HFY24's OPEX outlook is solid (having frontloaded most costs in 1H) and loan growth is to maintain its excellent pace, with disbursements in the next few quarters having been locked in. We are wary of two things: (1) Management is certain of further NIM compression, (2) CET1 ratio to stay compressed, though dividend certainty is assured.
DECENT Pick	HLBK	BUY	RM 21.38	1.11x	FY25F	11.2%	4.0%	10.5%	Defensive pick. Also, BOCD and sizeable overlay writebacks remain convincing earning growth drivers. L/D accretion offers room for NIM upside – optimisation to happen in next quarter. There are some negatives: (1) China-related downward rerating sentiment, (2) Dividend payout discussions are out of the question, even while HLBK's yields are among lowest in industry, (3) Elevated OPEX in the next couple of years. Possible BOCD stake paring expected.
DECENT Pick	RHB	BUY	RM 6.50	0.86x	FY24F	9.7%	4.0%	10.7%	While RHB saw a rough quarter, we are bullish on: (1) A rebound in loan growth – especially in overseas and corporate contributions, (2) High dividend yields, combined with an extremely high CET1 ratio ensuring dividend certainty, coupled with possible upside, (3) Sizeable CASA inflows in 4QFY23 to buffer NIM outlook. Regardless, be wary of further quarters of high provisioning charges (given its low LLC) and further digital banking losses until breaking even.
DECENT Pick	PBK	BUY	RM 4.69	1.58x	FY24F	12.8%	3.5%	9.4%	Defensive pick, though its current GIL ratio of 0.58% is high above the standard ~30%, a possible downside to investor sentiment. We are also wary of possible lower loan growth in subsequent quarters, to lower its exposure to thinner residential mortgage margins (these drive the brunt of PBK's growth). Regardless, look forward to sizeable overlay writebacks in FY24 and gradual dividend payout increases – the payout ratio has been creeping up consistently.
NEUTRAL	BIMB	NEUTRAL	RM 2.29	0.72x	FY24F	8.0%	4.5%	9.4%	We like BIMB's excellent dividend yields, and the worst is over for asset quality woes (an upwards rerating catalyst). However, its FY24 loan growth outlook isn't the best, with Islamic FD rates still heavily elevated. OPEX growth and CIR are expected to remain on the high end. Mortgages, a core driver of growth, have increasingly narrow margins. We have difficulty in gauging NIM trajectories, as BIMB uses a different NIM basis than most banks.
NEUTRAL	MAY	NEUTRAL	RM 9.28	1.21x	FY24F	10.9%	3.0%	9.5%	Strong overseas contributions have been driving Maybank's above-sector level of loan growth, while dividend yields remain among the best. However, it must contend with elevated OPEX and CIR in the next couple of years (largely tech-spend related). Also, with most of the sector catching up on dividend yields, we wonder if Maybank's expensive valuation is still justified.
AVOID for now	AFFIN	SELL	RM 1.71	0.32x	FY24F	5.1%	4.5%	6.2%	We are wary of Affin's outlook for: (1) Possible lumpy provisions in quarters ahead, as asset quality woes may not be over, (2) Questionable NIM outlook due to high loan growth targets exacerbating liquidity constraints (it has sorely underperformed in the last two quarters). It still has not resolved its OPEX issues, and its NOII build needs more time to come online. One positive is that its mobile app has finally been rolled out, enabling retail CASA accumulation.

Source: Banks, MIDFR

A. RETROSPECTIVE SUMMARY AND FUTURE GUIDANCE

Fig 4: Quarterly results summary

What went down								Changes to our forecasts			
Bank	Qtr	Earnings vs		Mgmt's tone	Qtrly Core NP growth		Last 5 quarters	Call	Target Price	Current FY Core NP revision	
		Ours	Street		Qoq (%)	Yoy (%)					
MAY	3Q23	WITHIN	WITHIN	Neutral	0.8	12.3		↔	↔	↔	
CIMB	3Q23	ABOVE	ABOVE	+ve	4.2	30.8		↔	↑	↑	+5%
PBK	3Q23	BELOW	WITHIN	Neutral	5.1	7.0		↔	↓	↓	-3%
RHB	3Q23	WITHIN	WITHIN	Cautiously +ve	-19.6	-7.4		↔	↓	↓	-2%
HLBK	1Q24	WITHIN	WITHIN	+ve	14.6	4.9		↔	↓ (Rollover)	↔	
AMMB	2Q24	WITHIN	WITHIN	+ve	33.4	0.2		↔	↑	↓	-5%
BIMB	3Q23	WITHIN	WITHIN	+ve	3.2	-1.6		↔	↑	↔	
AFFIN	3Q23	WITHIN	BELOW	-ve	-11.3	-151.9		↓	↔	↔	
ABMB	2Q24	BELOW	WITHIN	Neutral	23.1	17.0		↔	↑	↓	-6%

Source: Banks, MIDFR

Fig 5: Income Statement stats, Summarised

This Qtr's Stats	Quarterly					Cumulative (by FY)				
	ROE (Ann.) (%)	ROA (Ann.) (%)	Cost-to-Income (%)	NIM (%)	NOII / Income (%)	ROE (Ann.) (%)	ROA (Ann.) (%)	Cost-to-Income (%)	NIM (%)	NOII / Income (%)
MAY	10.4	0.94	48.8	2.09	29	10.2	0.93	47.9	2.14	29
CIMB	10.8	1.03	46.9	2.25	29	10.1	0.97	46.3	2.25	30
PBK	12.8	1.30	33.8	2.21	19	12.6	1.32	33.7	2.22	20
RHB	8.7	0.81	46.4	1.85	29	9.9	0.92	47.1	1.85	29
HLBK	12.6	1.46	39.9	1.84	19	12.6	1.46	39.9	1.84	19
AMMB	10.1	0.97	44.6	1.82	25	8.9	0.85	44.5	1.63	27
BIMB	7.5	0.62	59.9	2.17	15	7.1	0.60	59.7	2.11	17
AFFIN	3.7	0.39	74.8	1.24	37	4.4	0.47	68.1	1.46	30
ABMB	10.7	0.56	46.7	2.53	19	9.7	0.96	48.0	2.48	16

Source: Banks, MIDFR

Fig 6: Balance Sheet stats, Summarised

This Qtr's Stats	Loan yoy (%)	Loan qoq (%)	Deposit yoy (%)	Deposit qoq (%)	CASA ratio (%)	Loan/ Deposit (%)	GIL ratio (%)	Net Credit Cost (Ann.) (bps)	CET ratio (%)	RWA/ Assets (%)
MAY	5.1	1.8	3.8	1.4	36.6	95.2	1.43	29	15.4	43
CIMB	6.4	1.1	6.8	0.4	41.8	91.9	3.17	28	13.9	51
PBK	5.4	1.7	3.9	0.5	28.5	95.3	0.58	4	14.5	64
RHB	4.6	2.4	1.5	1.3	26.9	91.6	1.79	31	16.2	48
HLBK	7.2	0.0	6.0	-1.2	29.6	86.1	0.57	-12	12.6	58
AMMB	5.2	1.4	11.8	3.9	32.2	95.3	1.65	18	12.7	64
BIMB	8.4	1.4	-0.3	1.6	32.3	114.7	0.97	26	14.4	56
AFFIN	12.3	2.9	12.0	0.2	23.2	87.7	1.84	13	13.8	64
ABMB	10.0	3.4	5.6	0.1	44.2	97.2	2.51	32	12.9	63

Source: Banks, MIDFR

Fig 7: Management guidance

	P/L Statement				Balance Sheet			Asset quality		
Bank	**ROE**	**NIM**	**OPEX growth**	**Cost/Inc. ratio**	**Loan growth**	**Deposit growth**	**Div payout**	**CASA ratio**	**GIL ratio**	**Net CC (bps)**
MAY	10.5-11.0	-25bps from 2.39		<47.5			40-60			30-35
CIMB	10.2-11.0	-15-20bps from 2.51	Mid-single digits	<46.5	6-7		55			35-45 ~~40-50~~
PBK	12-13	-10-20bps from 2.39	Mid-single digits		4-5	4-5	>50			<10
RHB	>10 ~~>11~~	1.8-1.9 from 2.24		47-47.5 ~~<44.6~~	5.0-5.5 ~~4-5~~			27-28 ~~30~~	1.7-1.8 ~~<1.5~~	20-25 ~~25-30~~ (X overlay)
HLBK	12	1.8-1.9 from 1.98		<40	6-7			>30	<0.7	10
AMMB	9-10 >RM1.6b	Close to 1.80 ~~1.76~~	<RM2.1b		3-4 ~~4-5~~		35-40	30 (Unofficial)		35-40
BIMB	7-8	>2.0 from 2.31	9-10%	58	5-6 ~~7-8~~		60		<1.5	30-40
AFFIN	4.5 ~~5.8~~	1.45-1.50 ~~1.86~~ from 2.01	<10%	<65 ~~<60~~	12			25	2.0	18-20
ABMB	>10	2.45-2.50 from 2.64	6-7%	<48	8-10		50	>40 (Unofficial)	<3.0	30-35

**Red tabs = Ambitious, Green tabs = Overly conservative, Red font = New guidance, Strikethrough font = Redundant former guidance.*

Source: Banks, MIDFR

▼ **As expected, RHB and Affin revised most of their guidance negatively.** Both had guided for revisions at least two quarters ago. The one that took us surprise (and possibly the Bank themselves) was the upward revision to RHB's upward GIL ratio target – we think that the scale of foreign and SME-related impairments within 3QFY23 was greater than anticipated.

▲▼ **AMMB's loan growth forecast might be too conservative… but not BIMB.** AMMB's figures may be skewed toward the conservative, given that it trails economic forecasts – management is confident it will reach the upper bound of guidance. On the other hand, BIMB's YTD growth of 2.1% implies a lot of catchups required in 4QFY23 – even though its loans (in past instances) tend to be backloaded during the period (4QFY22's loan growth: ~6%qoq). On the flip side, it is encouraging to see RHB's overseas unit see a good rebound, inspiring a positive revision in this category.

▲ **Improved GIL outlook leads to lower NCC guidance revisions.** Most banks gave conservative NCC estimates to start the year with – it was unsure of the scale of SME and retail-related impairments in the latter half of the year. This quarter has proven reassuring, with several banks believing that the worst is over – the improved NCC revisions suggest that the scale of further impairments should be reduced.

Fig 8: Our forecasts

Our forecasts (Simple average)	2021	2022	Current estimates 2023F	Current estimates 2024F	Former estimates 2023F	Former estimates 2024F
Growth (%)						
NII	13.0	9.1	-1.7	6.1	-0.4	4.9
NOII	-8.4	-5.6	10.2	7.3	10.1	7.9
Net Income	**6.8**	**5.4**	**0.9**	**6.4**	**1.9**	**5.7**
OPEX	2.3	6.1	2.9	5.7	3.2	5.1
Operating profit	**10.6**	**4.9**	**-0.6**	**6.9**	**1.0**	**6.1**
Core NP	**36.4**	**7.6**	**13.6**	**6.2**	**13.8**	**6.2**
Financial ratios (%)						
ROE	**8.8**	**9.0**	**9.6**	**9.7**	**9.7**	**9.8**
Net interest margin	2.21	2.28	1.80	1.86	2.14	2.18
Cost-to-income ratio	46.1	46.8	48.1	47.4	47.6	47.1
Loan growth	**6.0**	**8.3**	**6.8**	**5.6**	**6.8**	**5.6**
Deposit growth	**6.8**	**5.3**	**6.1**	**5.9**	**6.6**	**5.7**
Net credit cost (bps)	43	29	24	24	26	25
Loan loss coverage	157	140	123	117	121	113
GIL ratio	1.63	1.60	1.62	1.51	1.54	1.43

Source: Banks, MIDFR

Fig 9: Dividend yields

Bank	Dividend payout (%) FY20	FY21	FY22	FY23F	FY24F	Dividend yield (%) FY23F	FY24F	Share Price (RM)	CET 1 (%)
MAY	52	58	58	80	80	6.8	7.3	9.01	15.4
CIMB	40	54	50	55	55	6.3	6.6	5.75	13.9
PBK	52	52	54	52	53	4.4	4.6	4.25	14.5
RHB	35	57	62	55	55	6.8	7.1	5.48	16.2
HLBK	36	36	31	35	35	3.6	3.8	19.22	12.6
AMMB	-	11	35	35	35	4.4	5.0	4.04	12.7
BIMB	40	42	60	65	60	6.4	6.5	2.32	14.4
AFFIN	31	50	38	30	30	3.0	3.8	2.02	13.8
ABMB	25	50	50	50	50	6.0	6.6	3.51	12.9
AVERAGE	**34**	**46**	**49**	**51**	**50**	**5.3**	**5.7**		

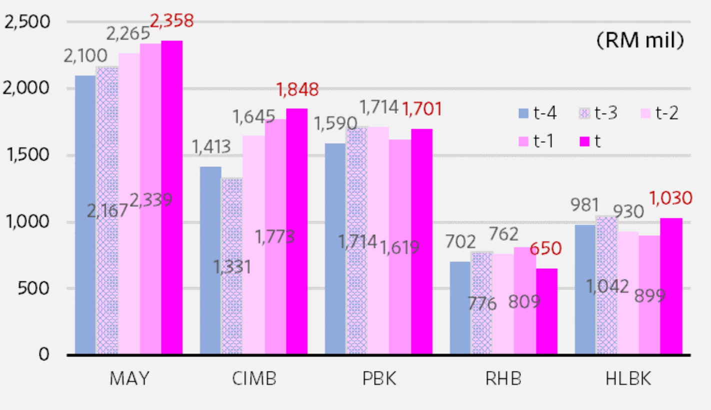
**For HLBK, AMMB & HLBK, assume FY +1 values*

Source: Banks, MIDFR

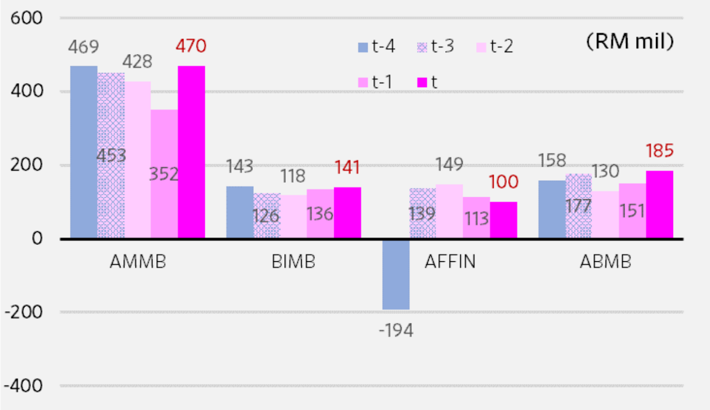
B. EARNINGS WALKTHROUGH

Fig 10: Quarterly Net Profit: Big 5 | **Fig 11: Quarterly Net Profit: Small 4**

It was a good quarter for earnings, with: (1) NIM uplift from May-23 OPR hike, (2) Moderate NCC (and some writebacks), (3) Strong NOII (driven by forex and better loan-related fee income, (d) Moderate OPEX.



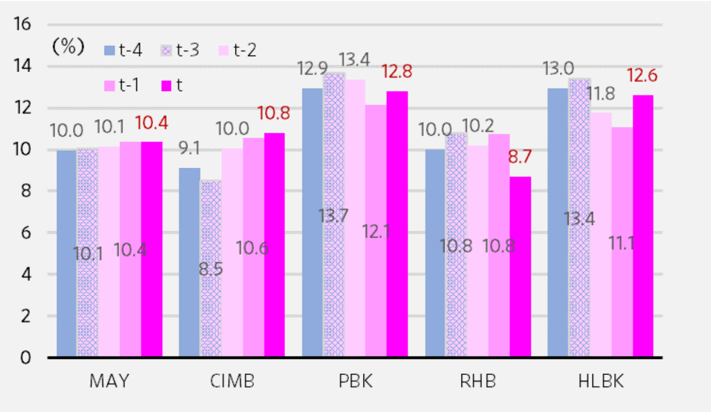
Source: Banks, MIDFR



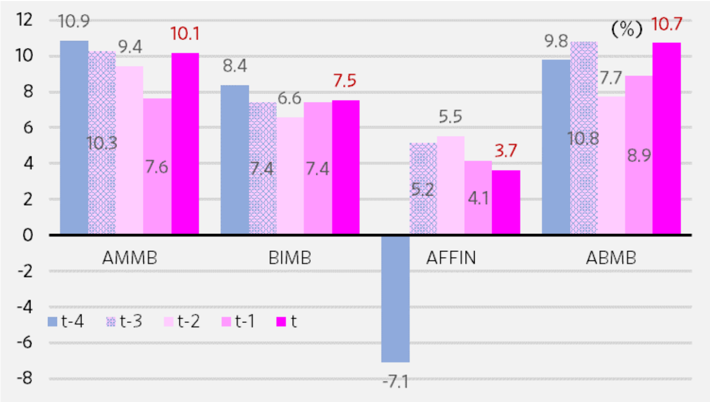
Source: Banks, MIDFR

Fig 12: Quarterly ROEs: Big 5 | **Fig 13: Quarterly ROEs: Small 4**

Only two banks truly disappointed – RHB and Affin – but this was already guided for.



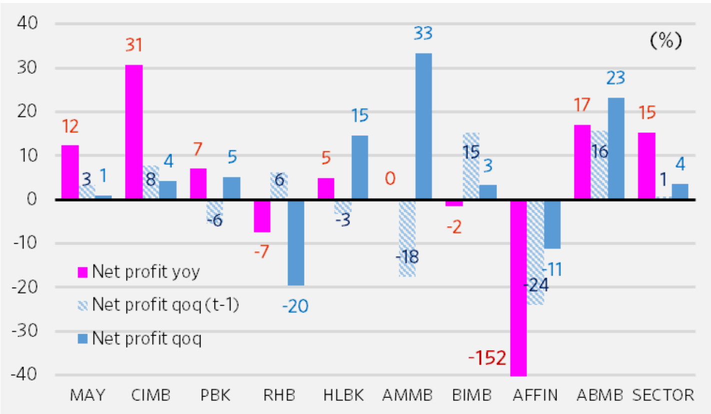
Source: Banks, MIDFR



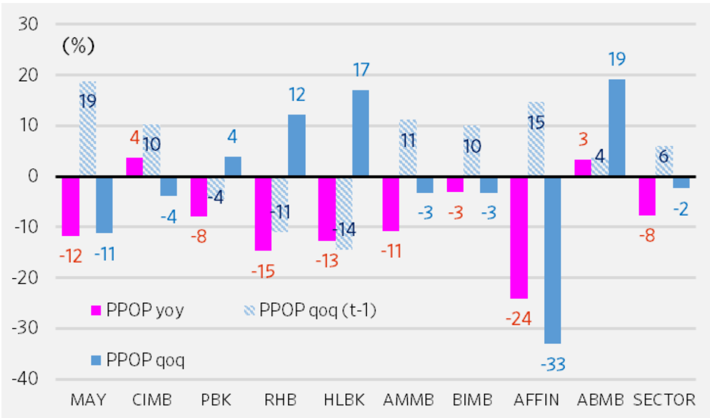
Source: Banks, MIDFR

Fig 14: Quarterly Net Profit Growth | **Fig 15: Quarterly Operating Profit growth**

As observed, while most banks reported better Core NP than last quarter, PPOP performance was more split.



Source: Banks, MIDFR



Source: Banks, MIDFR

Fig 16: QoQ walk (Quarterly NP): Big/mid-sized banks

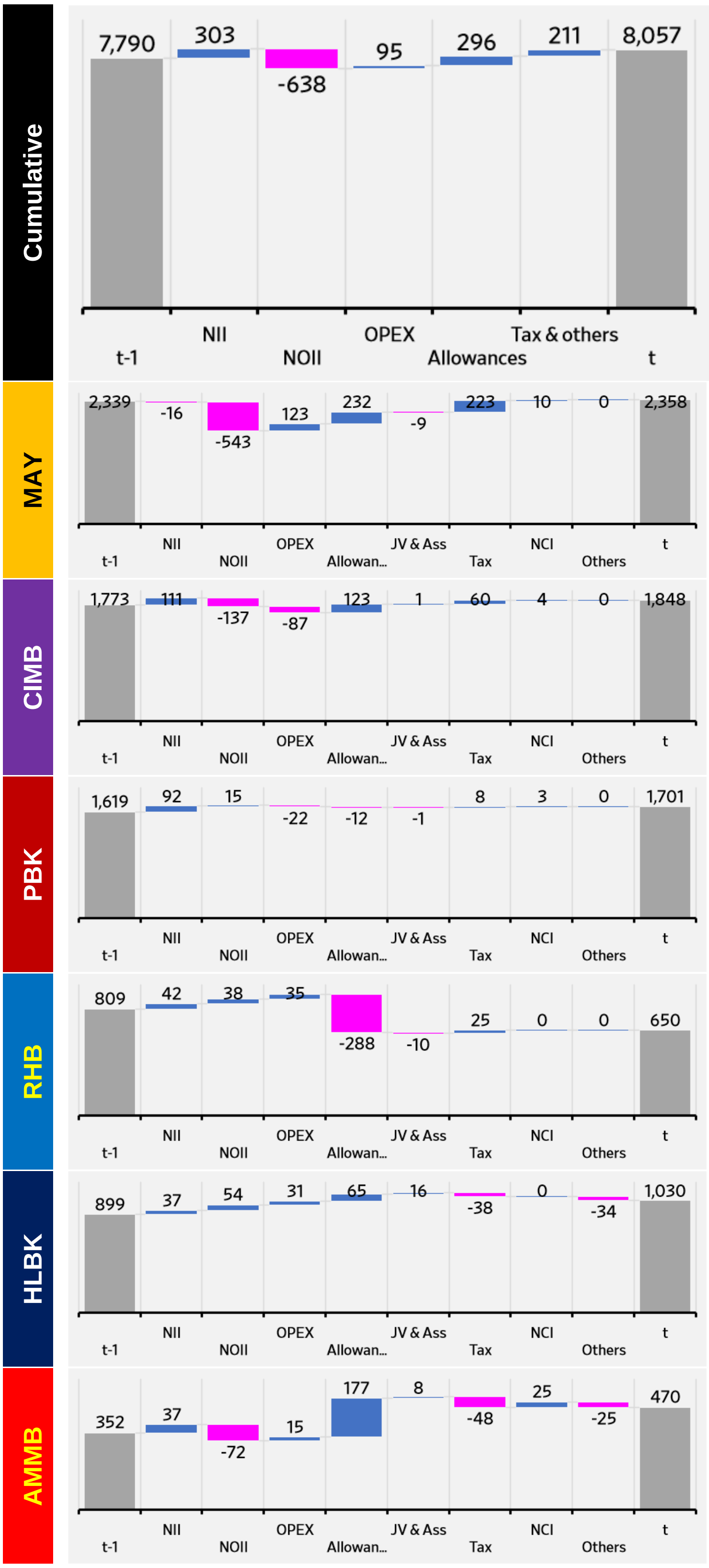
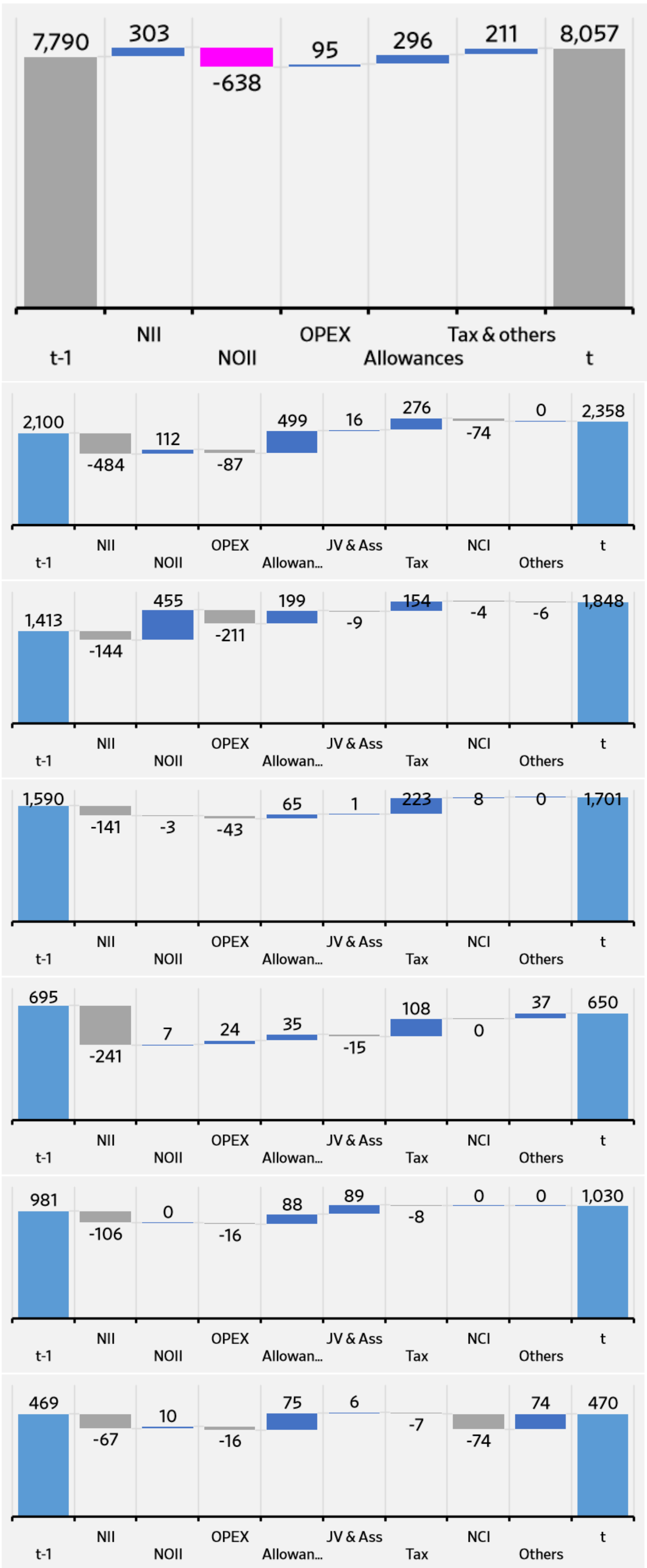


Fig 17: Yoy walk (Quarterly NP): Big/mid-sized banks



Source: Banks, MIDFR

Fig 18: QoQ walk (Quarterly NP): Small banks

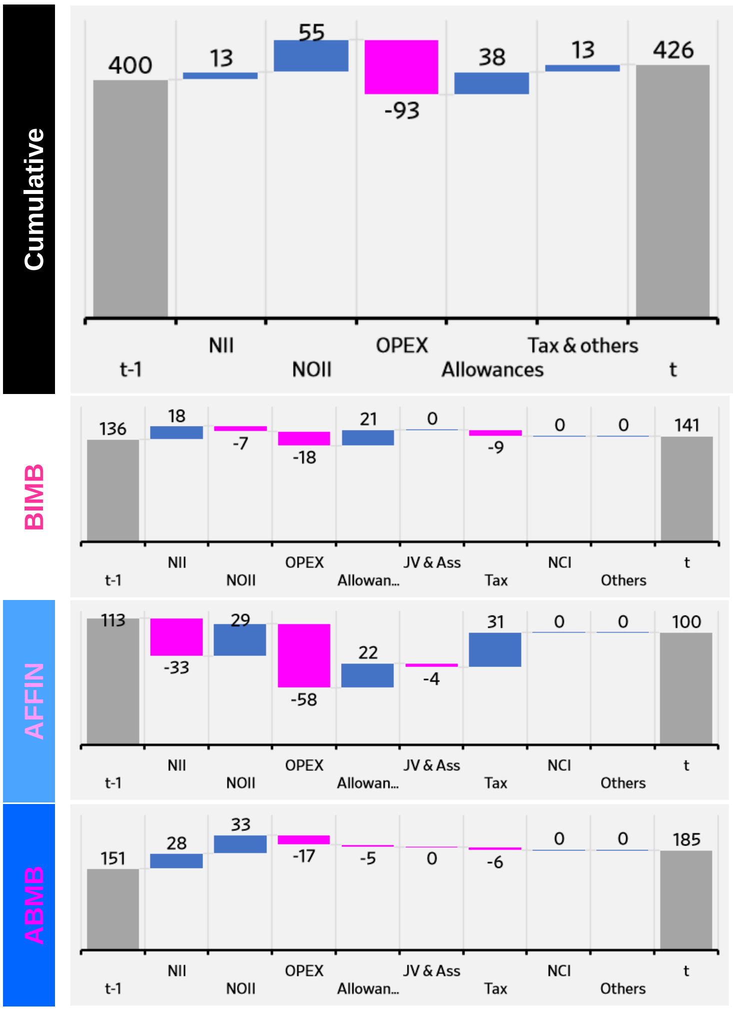


Fig 19: Yoy walk (Quarterly NP): Small banks

Source: Banks, MIDFR

<u>QoQ walkthrough:</u>

► **Muted NII improvements.** Most banks were able to keep stable or improve on NIM levels in the quarter (except for two).

▲ **NOII takes a tumble but remains strong.** There were high base effects, given last quarter's bumper MTM gains. Regardless, banks managed to hold their own via improved fee income (driven by larger loan-related fees) and forex trading activity. Some banks were able to record a decent MTM contribution as well.

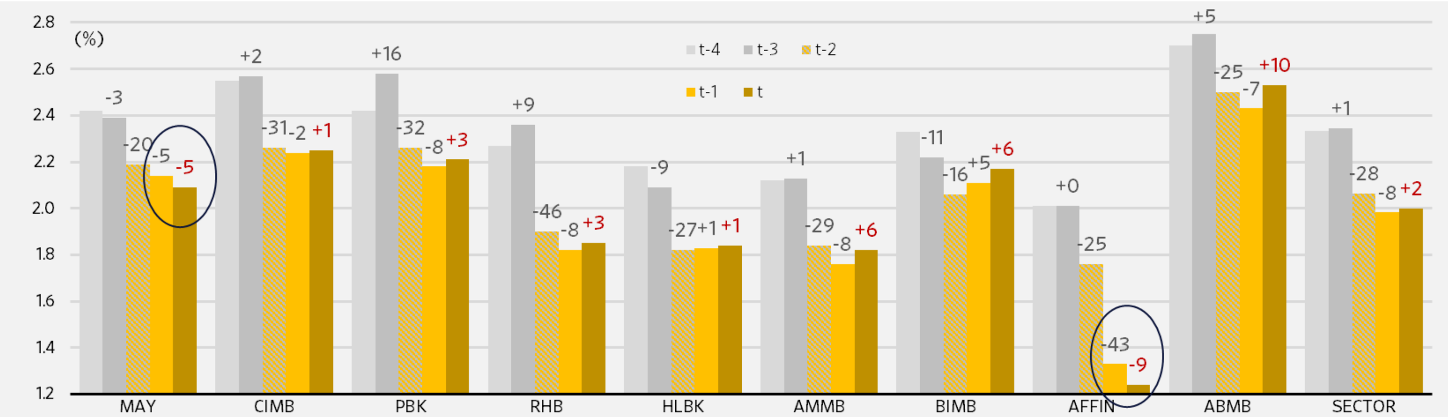
▲▼ **OPEX showed scattered performance.** This was largely a reflection of one-off Collective Agreement adjustment timings.

▲ **Lower provisions.** Provisions were largely as guided or very muted – and continued to be skewed towards the lower bound of guidance. Some of it was due to the scale of impairments being lower than expected, with good consumer book recovery. The outlook in 4QCY23 is expected to be similar, though a few banks (Affin, ABMB) are guiding for heavy quarters.

C. NII (NIM, ASSET YIELDS, COST OF FUNDS)

Fig 20: Sector NIMs

NIM movements were generally stable or skewed towards the positive – except for Maybank and Affin.

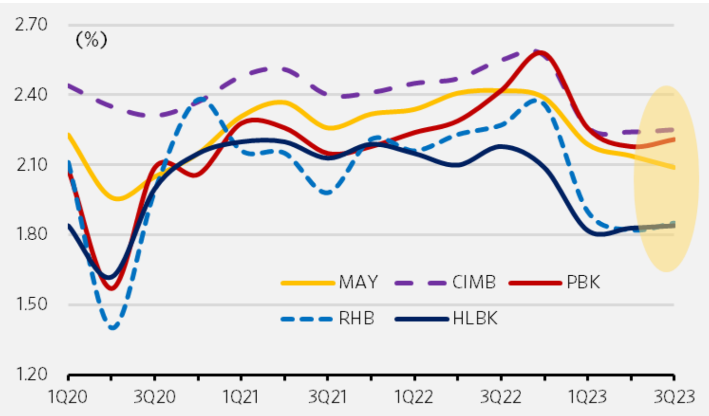


	MAY	CIMB	PBK	RHB	HLBK	AMMB	BIMB	AFFIN	ABMB	SECTOR
t-4	2.42	2.55	2.42	2.27	2.18	2.12	2.33	2.01	2.70	2.33
t-3	2.39	2.57	2.58	2.36	2.09	2.13	2.22	2.01	2.75	2.34
t-2	2.19	2.26	2.26	1.90	1.82	1.84	2.06	1.76	2.50	2.07
t-1	2.14	2.24	2.18	1.82	1.83	1.76	2.11	1.33	2.43	1.98
t	2.09	2.25	2.21	1.85	1.84	1.82	2.17	1.24	2.53	2.00

Source: Banks, MIDFR

Fig 21: NIM trends: Big 5

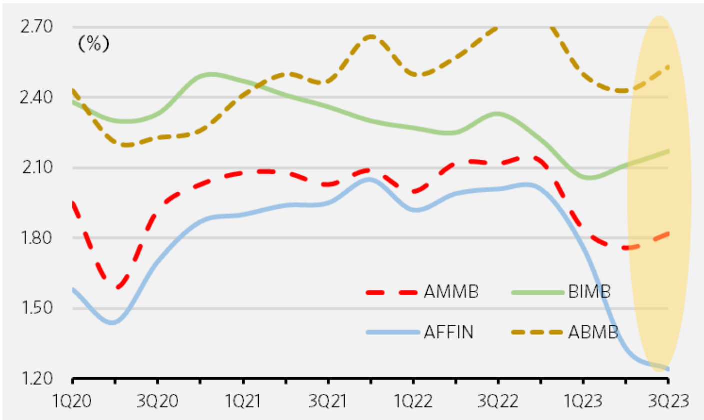
Larger banks were better at maintaining stable NIMs…



Source: Banks, MIDFR

Fig 22: NIM trends: Small 4

....while smaller banks saw a lot more volatile movement.

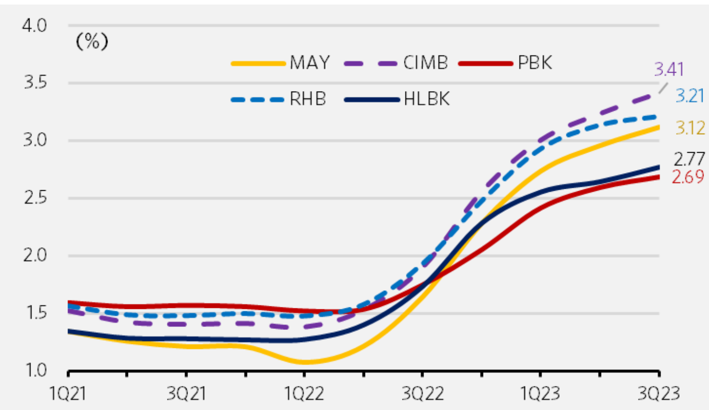


Source: Banks, MIDFR

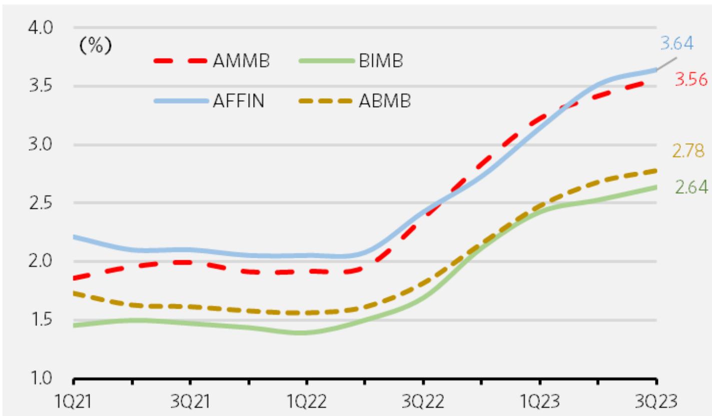
Fig 23: Cost of Funds trends: Big 5

Fig 24: Cost of Funds trends: Small 4

COF continues to show an increase, but delta has tapered… large banks with overseas exposure (Maybank & CIMB) show a marked increase.



Source: Banks, MIDFR



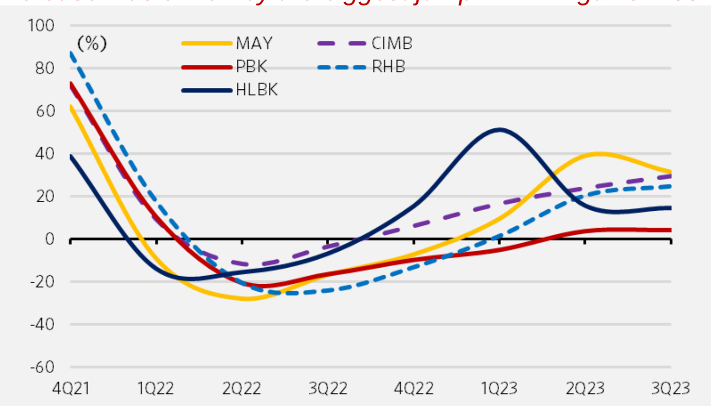
Source: Banks, MIDFR

D. NOII (FEE & NON-FEE)

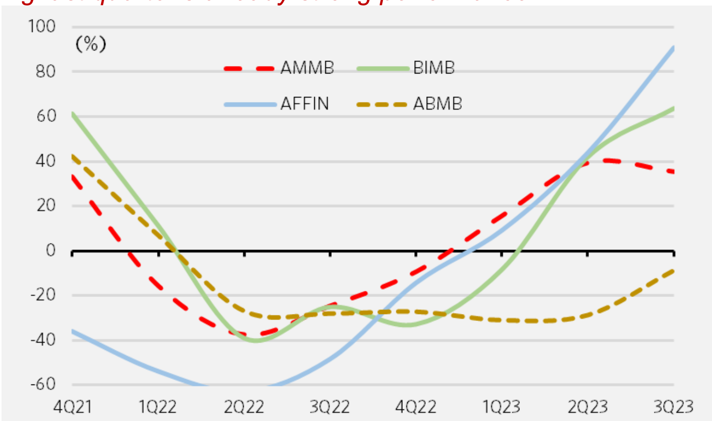
Fig 25: NOII Trailing 12M trend: Big 5

Fig 26: NOII Trailing 12M trend: Small 4

Banks posted surprisingly resilient NOII results, even after last quarter's bumper quarter driven by MTM gains. Affin's sharp increase was driven by the biggest jump in MTM gains – eclipsing last quarter's already strong performance.



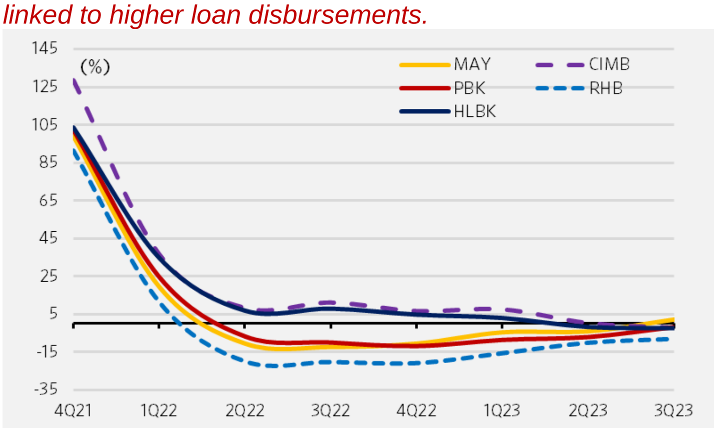
Source: Banks, MIDFR



Source: Banks, MIDFR

Fig 27: Fee income Trailing 12M trend: Big 5

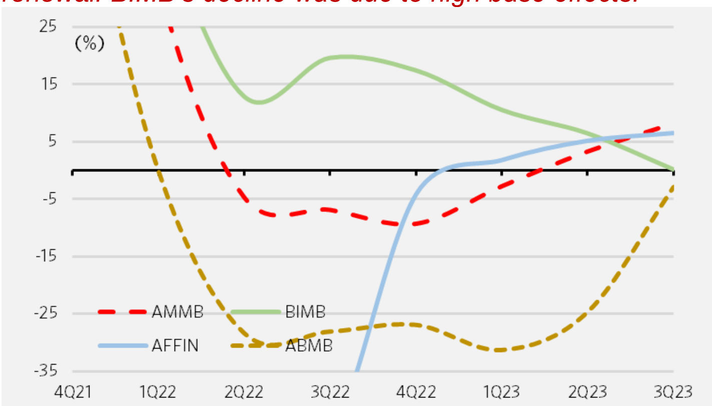
Some uplift was seen, driven by higher loan-related fees linked to higher loan disbursements.



Source: Banks, MIDFR

Fig 28: Fee income Trailing 12M trend: Small 4

ABMB's sharp one-off gain was from a bancassurance deal renewal. BIMB's decline was due to high base effects.

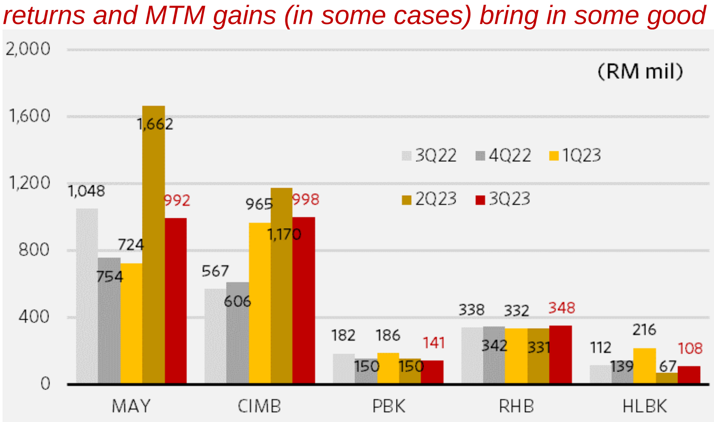


Source: Banks, MIDFR

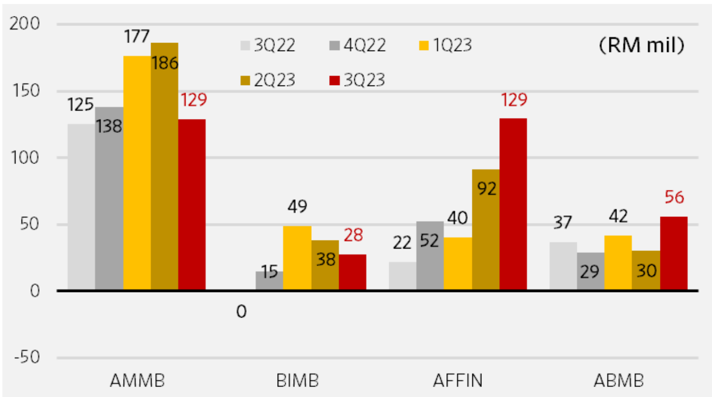
Fig 29: Non-fee Income (Quarterly): Big 5

Fig 30: Non-fee Income (Quarterly): Small 4

As expected, non-fee income was a lot more muted after 2QCY23's bumper MTM gains. Regardless, healthy forex-related returns and MTM gains (in some cases) bring in some good results.



Source: Banks, MIDFR

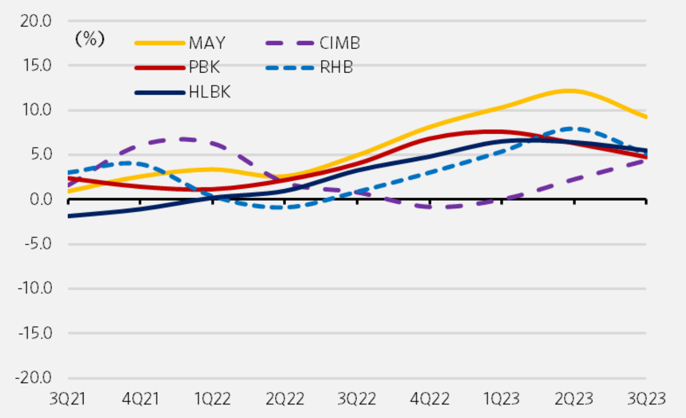


Source: Banks, MIDFR

E. OPEX

Fig 31: OPEX Trailing 12M trend: Big 5

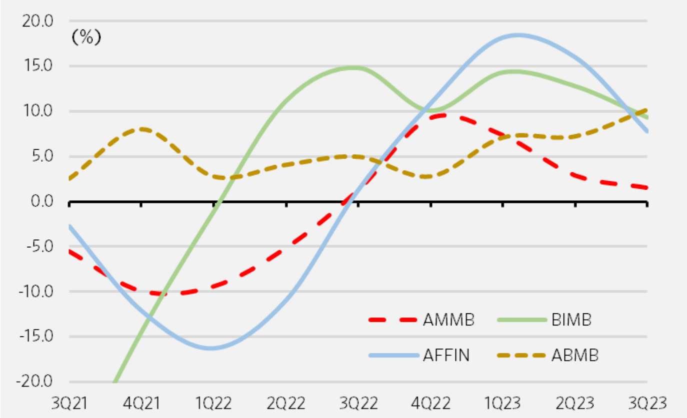
Generally, a softer quarter following 1HCY23's heavy CA adjustments.



Source: Banks, MIDFR

Fig 32: OPEX Trailing 12M trend: Small 4

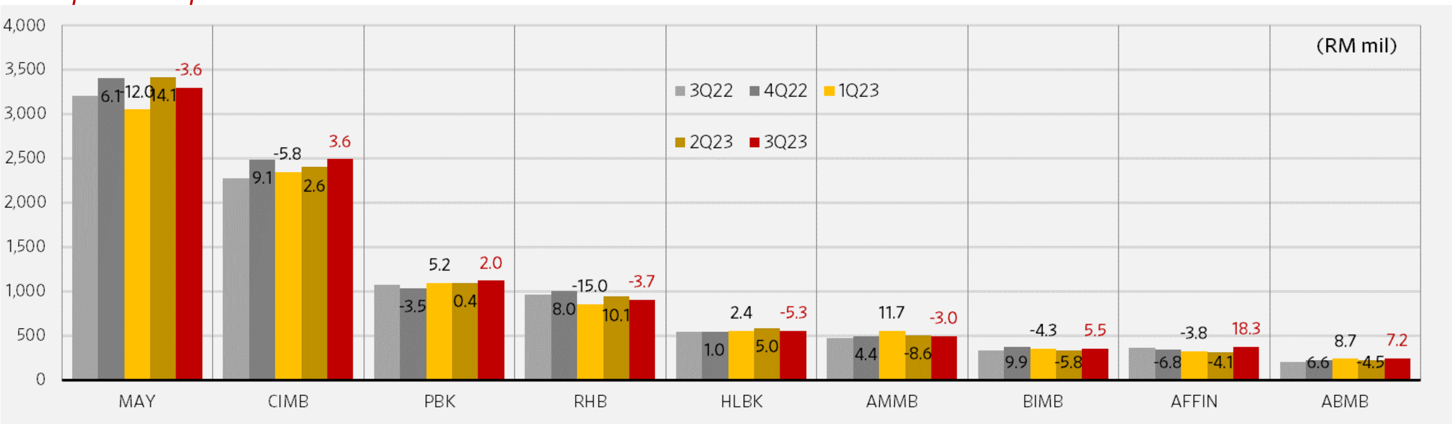
ABMB saw some uptick, as it intended to frontload personnel costs into 1HFY24.



Source: Banks, MIDFR

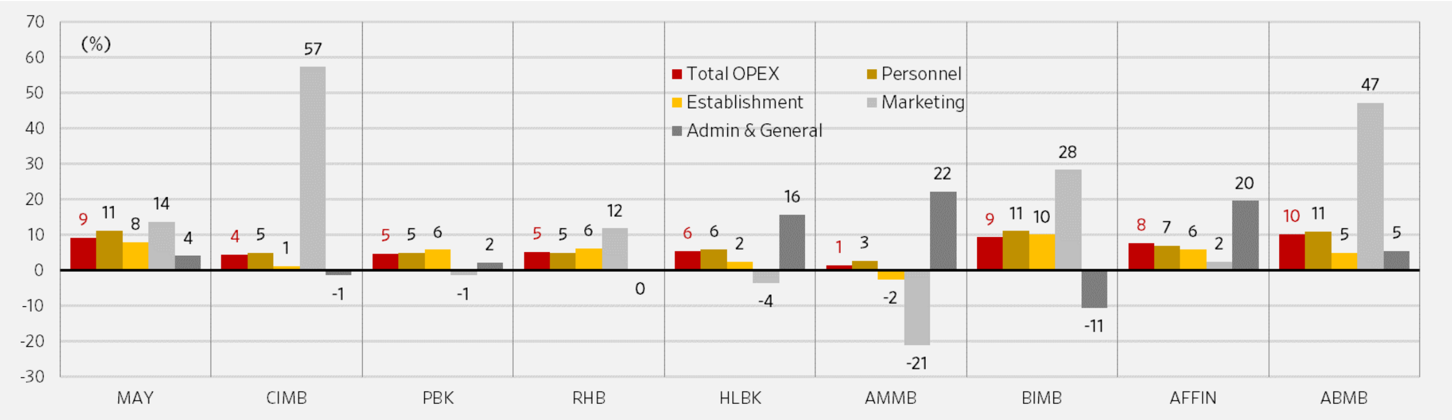
Fig 33: Quarterly OPEX and qoq growth rates

Sequential quarter growth trend was mixed across the board – one of the big determinants was which quarter Collective Agreement adjustments were made. Notable qoq declines were due to normalising OPEX following CA adjustments made in the previous quarter.



Source: Banks, MIDFR

Fig 34: OPEX Trailing 12M yoy growth by Component



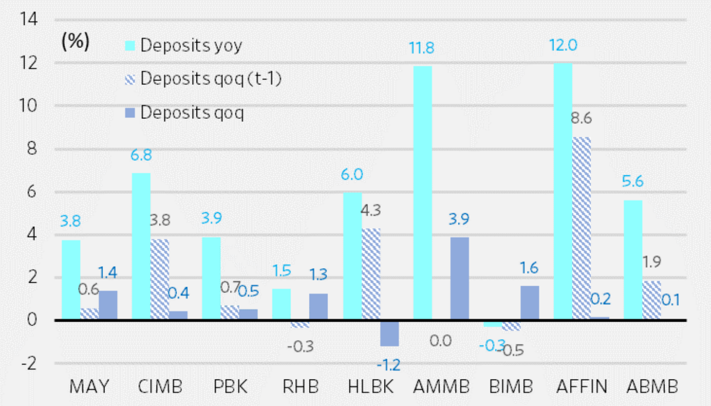
Source: Banks, MIDFR

F. DEPOSITS & LIQUIDITY

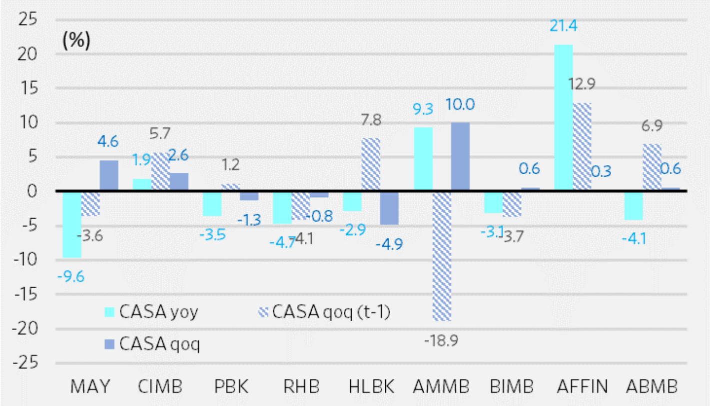
Fig 35: Deposit growth

Fig 36: CASA growth

This varied tremendously between banks – a reflection of the different liquidity approaches undertaken in the year. As a rule of thumb, banks which saw good gain last quarter saw less promising growth figures this time… and vice versa.



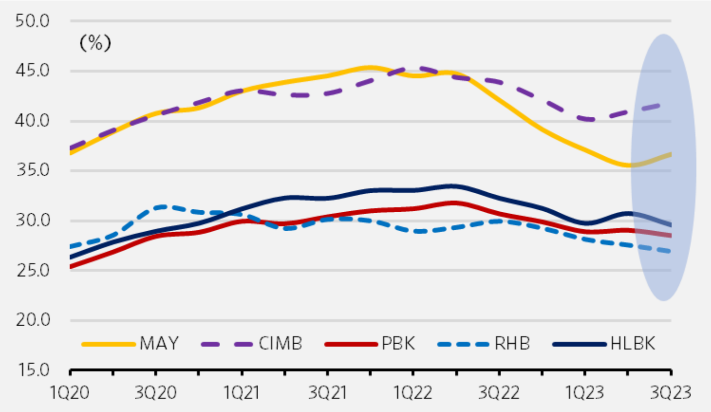
Source: Banks, MIDFR



Source: Banks, MIDFR

Fig 37: CASA ratio trend: Big 5

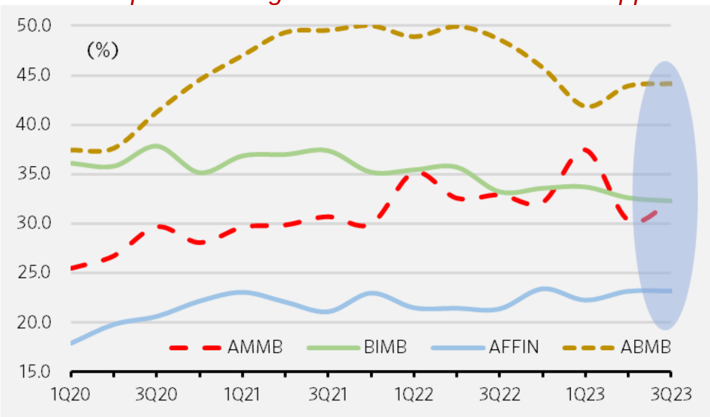
Banks with regional exposure posted strong rebounds.



Source: Banks, MIDFR

Fig 38: CASA ratio trend: Small 4

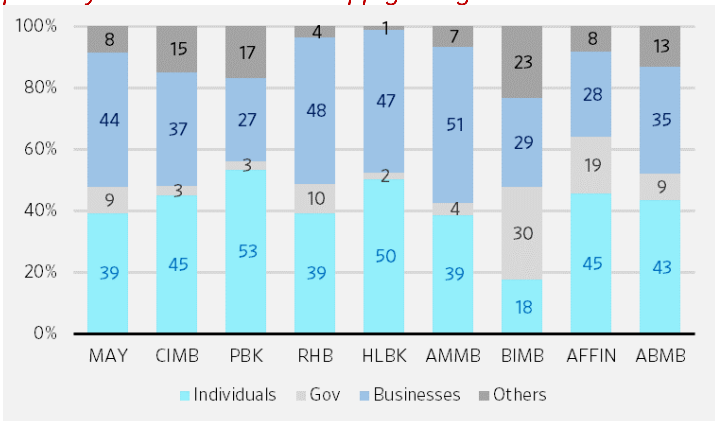
AMMB continues to see tremendous volatility on this front. Affin saw uplift following the release of their mobile app.



Source: Banks, MIDFR

Fig 39: Depositor breakdown

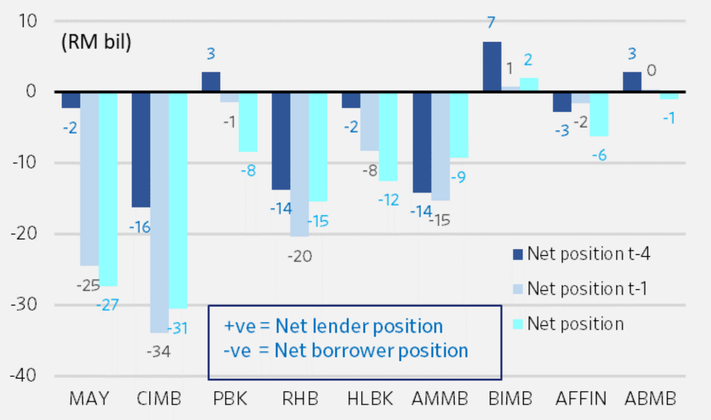
Affin's mix has skewed more towards retail balances, possibly due to their mobile app gaining traction.



Source: Banks, MIDFR

Fig 40: Interbank Lending positions

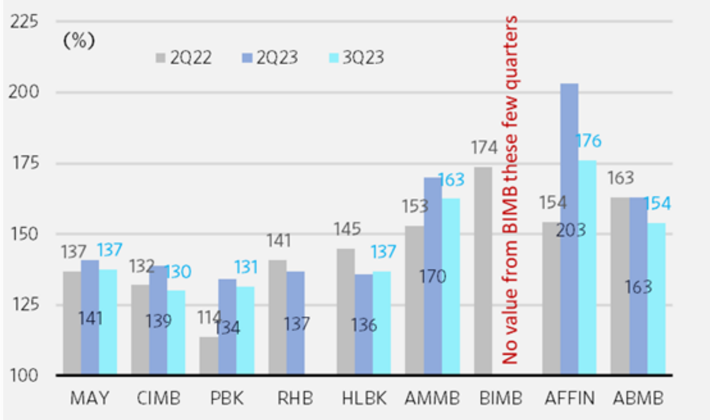
Banks have remained reliant on repos and FI deposits ever since BNM mopped system liquidity in 2QCY23.



Source: Banks, MIDFR

Fig 41: Liquidity coverage ratio (LCR)

Finally, LCR sees a convincing qoq decline (except for HLBK, preserved by this quarter's sharp paring).

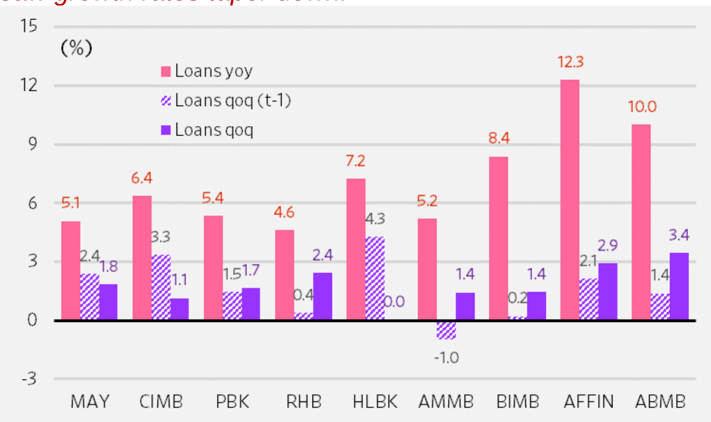


Source: Banks, MIDFR

G. LOANS

Fig 42: Loan growth

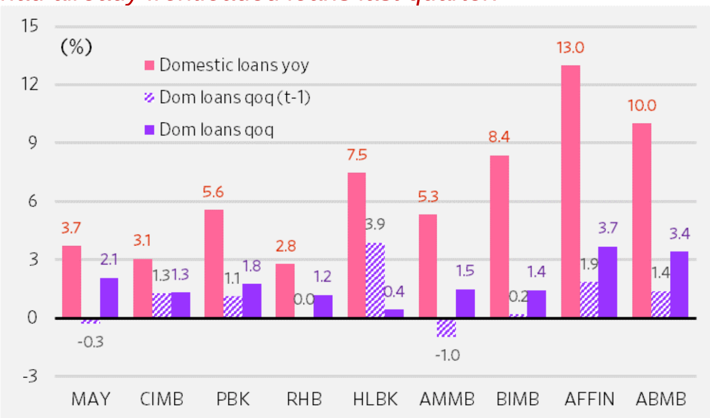
Qoq loan growth has seen good improvement across the board – though some banks with heavy regional presence saw growth rates taper down.



Source: Banks, MIDFR

Fig 43: Domestic loan growth

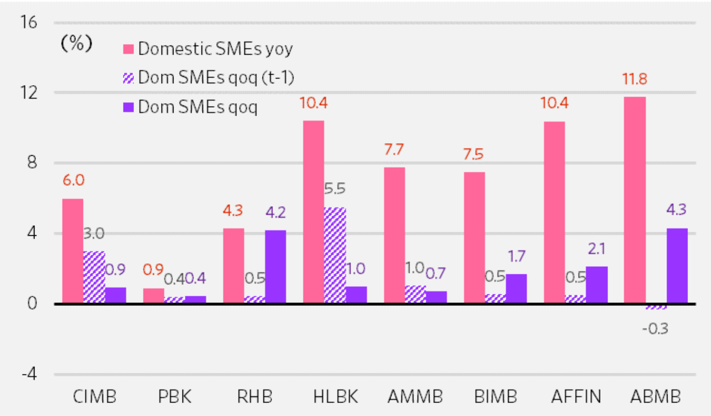
Stripping out overseas contributions, growth rates saw clear post-election uplift. HLBK saw more modest growth, but it had already frontloaded loans last quarter.



Source: Banks, MIDFR

Fig 44: Domestic SME loan growth

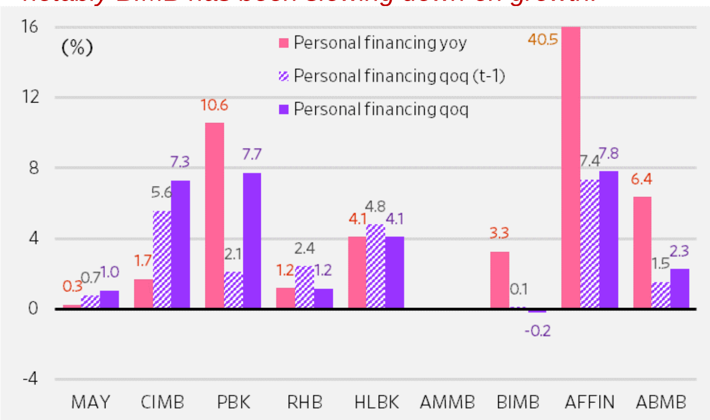
This category saw good pickup post-election.



Source: Banks, MIDFR

Fig 45: Personal financing loan growth

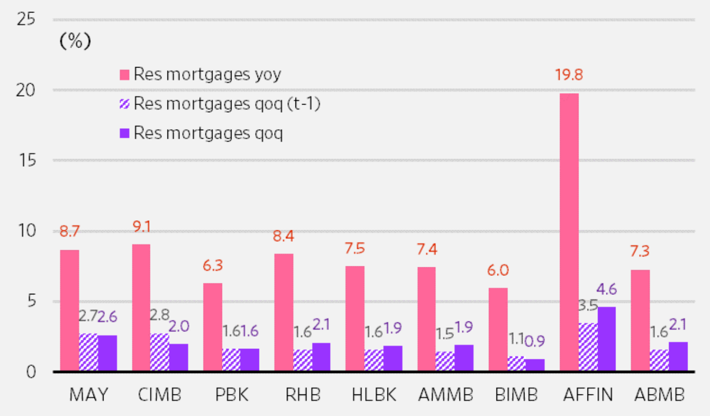
This category continues to be popular, given its high yields – notably BIMB has been slowing down on growth.



Source: Banks, MIDFR

Fig 46: Residential mortgages loan growth

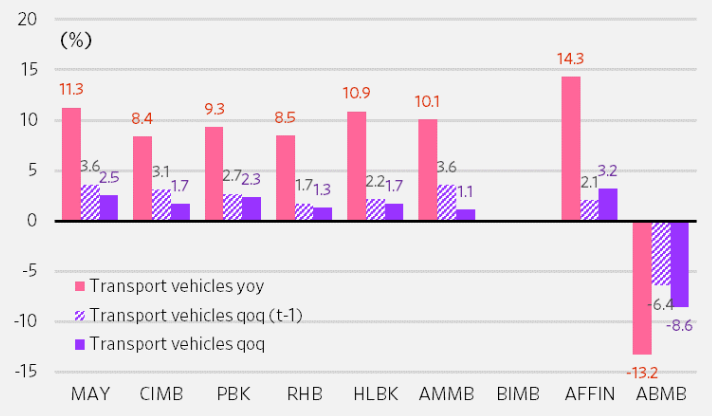
Multiple banks have noted thinner margins, and voiced intentions to move away from the segment – but delayed disbursements keep loan growth strong in 3QCY23.



Source: Banks, MIDFR

Fig 47: Hire purchase loan growth

Unlike residential mortgages, this segment has shown a marked weakening of growth this quarter. ABMB continues to shift its focus towards end-financing mortgages.

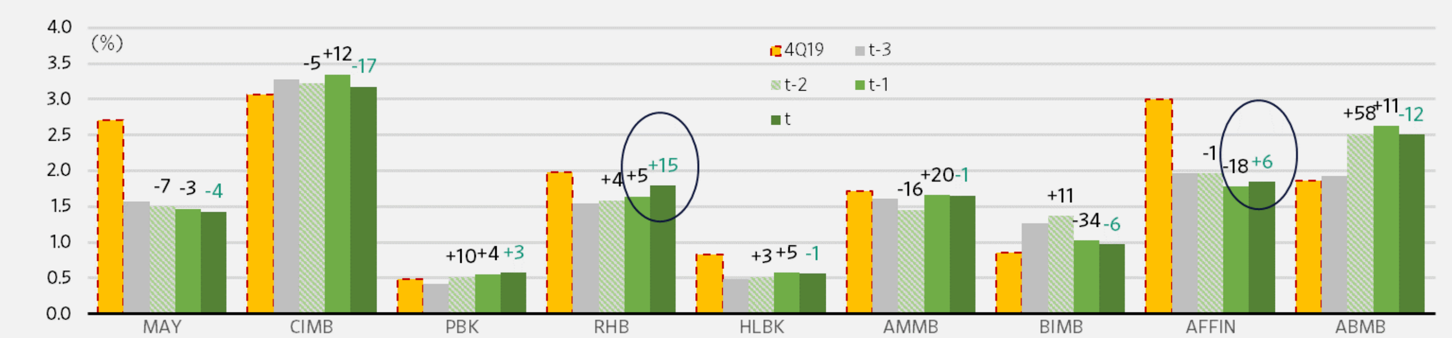


Source: Banks, MIDFR

H. ASSET QUALITY & PROVISIONING

Fig 48: Sector GILs

GIL ratios were largely kept under control (as guided by banks) – after last month's retail (more specifically RA graduating mortgages) uptick, 3QCY23 saw a slew of SME-related impairments. The only disappointments were Affin and RHB. Notably, PBK's position as the industry's healthiest GIL ratio bank has been overtaken by HLBK.

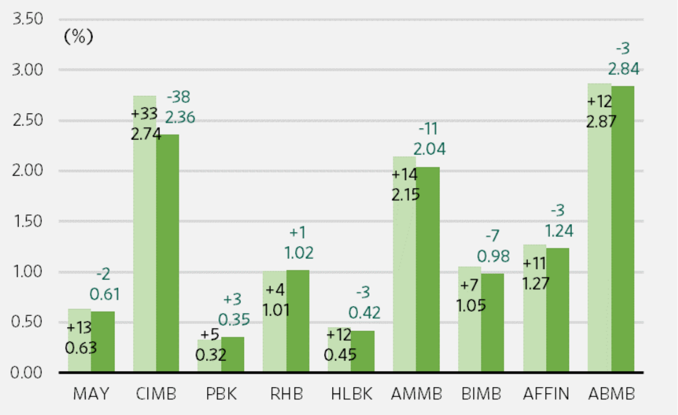


	MAY	CIMB	PBK	RHB	HLBK	AMMB	BIMB	AFFIN	ABMB
4Q19	2.71	3.07	0.49	1.97	0.84	1.71	0.86	3.00	1.86
t-3	1.57	3.27	0.42	1.55	0.49	1.62	1.27	1.97	1.93
t-2	1.50	3.22	0.52	1.59	0.52	1.46	1.37	1.96	2.51
t-1	1.47	3.35	0.55	1.64	0.57	1.66	1.03	1.78	2.63
t	1.43	3.17	0.58	1.79	0.57	1.65	0.97	1.84	2.51

Source: Banks, MIDFR

Fig 49: Residential Mortgage GILs

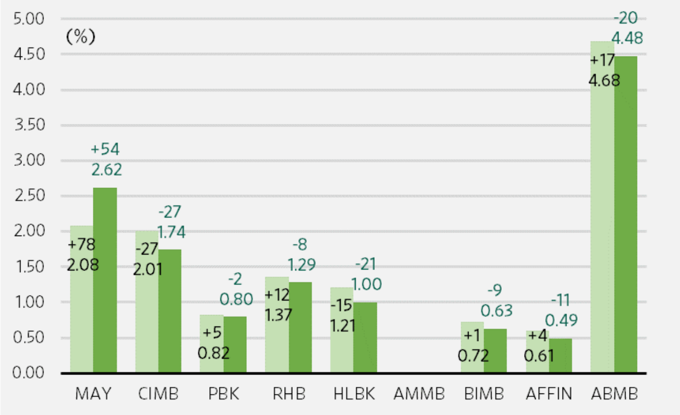
The largest driver of GILs last quarter, these seem to be well under control this quarter.



Source: Banks, MIDFR

Fig 50: Personal Financing GILs

Personal financing is under good control, except for Maybank (which has negligible exposure anyway).

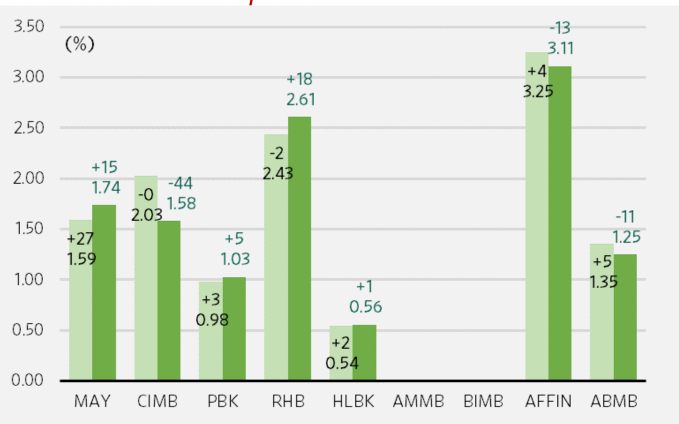


Source: Banks, MIDFR

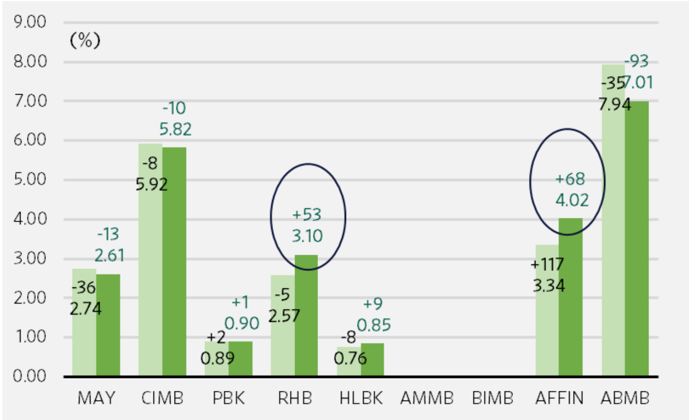
Fig 51: Non-residential Mortgage GILs

Fig 52: Working Capital GILs

**As proxy to SME GIL ratios. Observe huge upticks in both Affin and RHB, which both saw the most notable GIL ratio deteriorations in the quarter.*



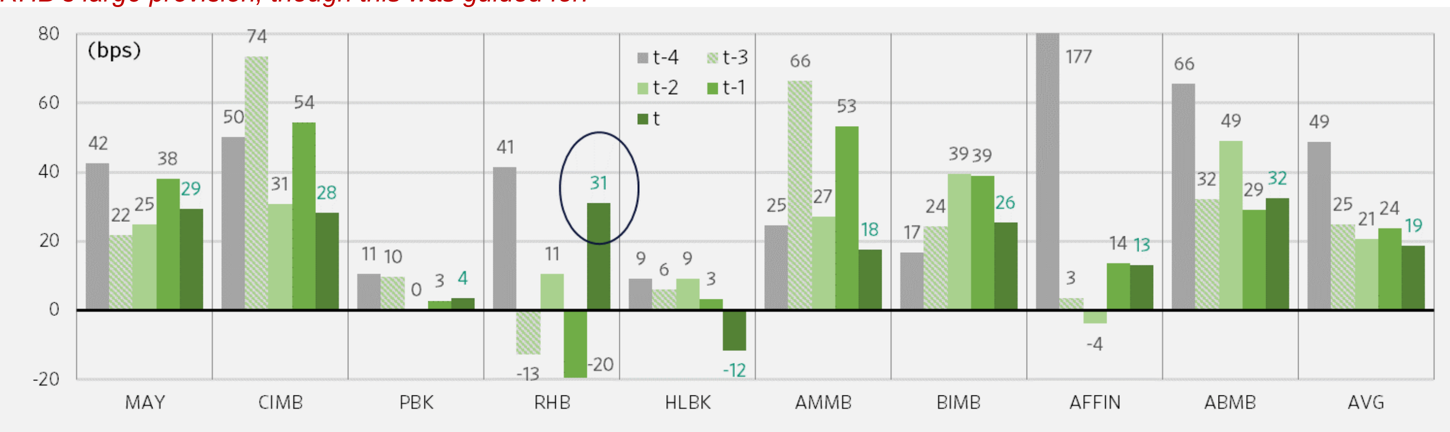
Source: Banks, MIDFR



Source: Banks, MIDFR

Fig 53: Sector quarterly Net Credit Costs (NCC)

Credit cost levels were either neutral or skewed toward the positive (compared to last quarter) – the only exception was RHB's large provision, though this was guided for.

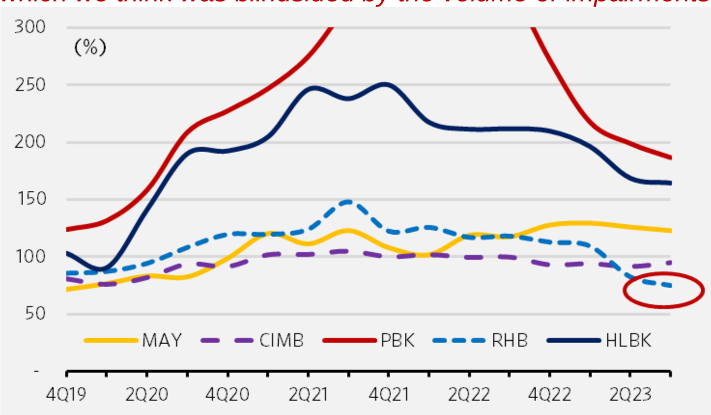


Source: Banks, MIDFR

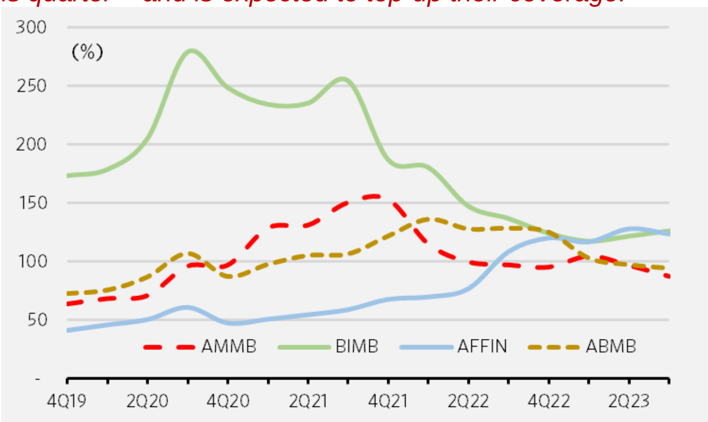
Fig 54: Loan loss coverage (no reserves): Big 5

Fig 55: Loan loss coverage (no reserves): Small 4

LLC remain either flattish or decline further, with most banks happy with their current positions – the only exception is RHB, which we think was blindsided by the volume of impairments this quarter – and is expected to top-up their coverage.



Source: Banks, MIDFR

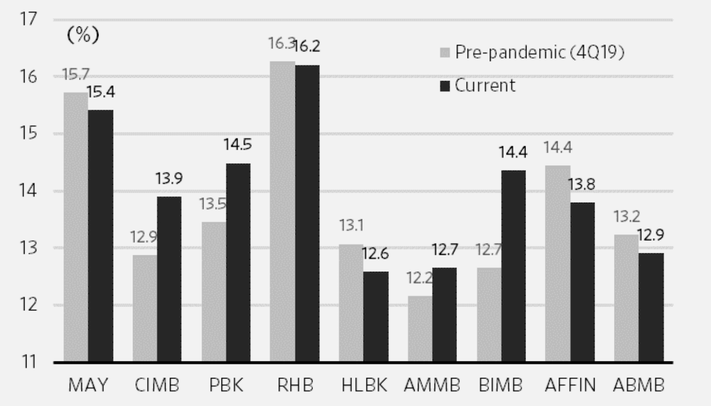


Source: Banks, MIDFR

I. CAPITAL, RISK-WEIGHTED ASSETS, AND INVESTMENT BOOK

Fig 56: Industry CET 1 ratios

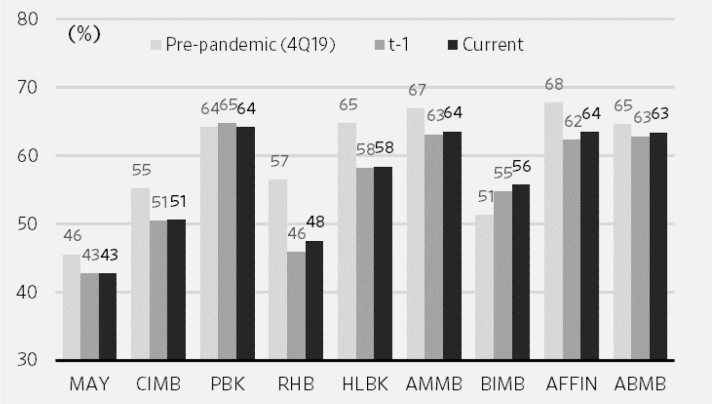
Watch HLBK and ABMB, which are on the lower end. AMMB should see a huge uplift to CET1 very soon.



Source: Banks, MIDFR

Fig 57: RWA efficiency (RWA / Total assets)

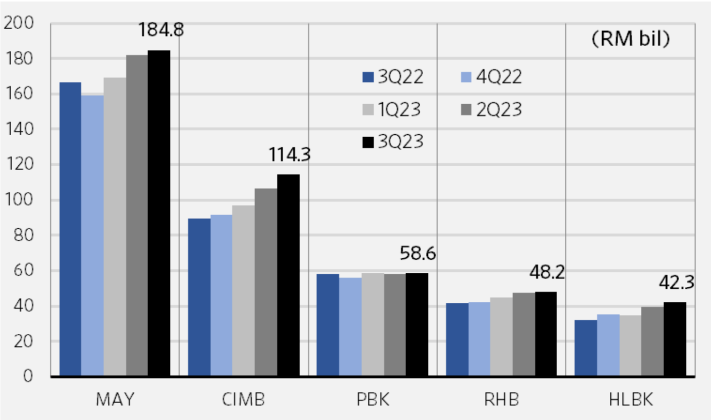
Note upward movements by RHB, BIMB and Affin – possibly driven by further risky asset intake.



Source: Banks, MIDFR

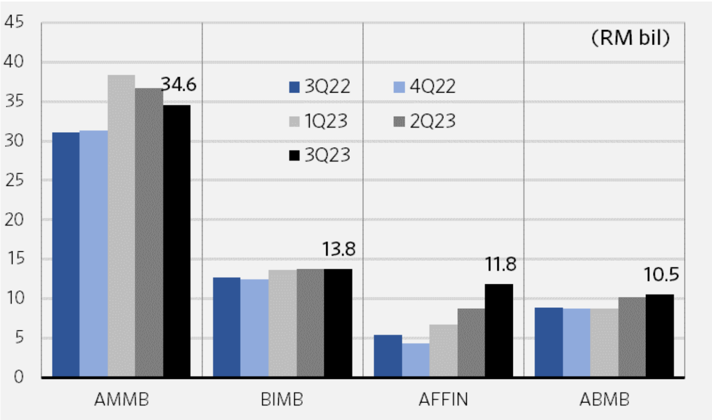
Fig 58: Total FVTPL+FVOCI: Big 5

The majority of banks have topped up their trading book.



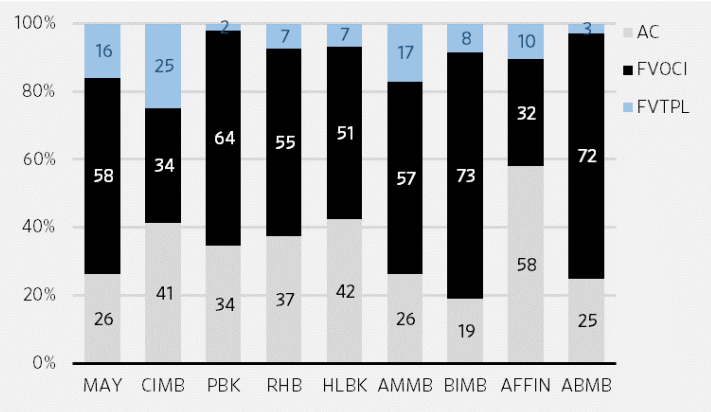
Source: Banks, MIDFR

Fig 59: Total FVTPL+FVOCI: Small 4



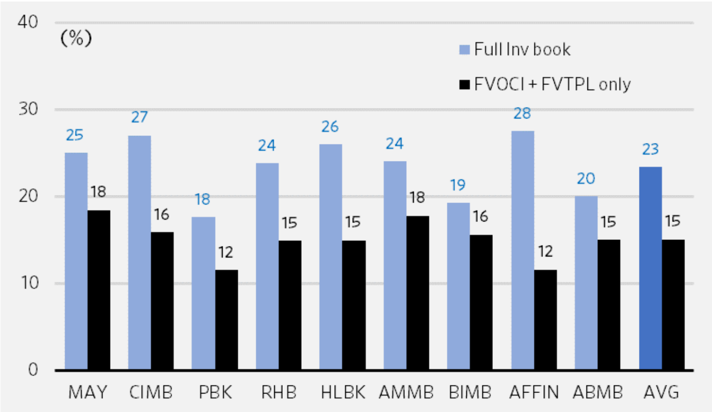
Source: Banks, MIDFR

Fig 60: Bond book % breakdown



Source: Banks, MIDFR

Fig 61: Bond book as % of total assets

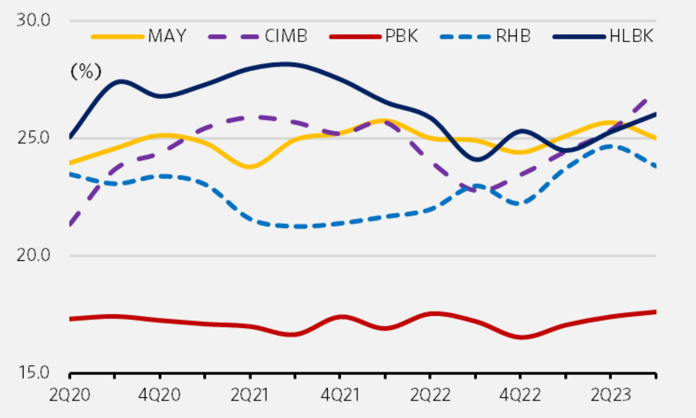


Source: Banks, MIDFR

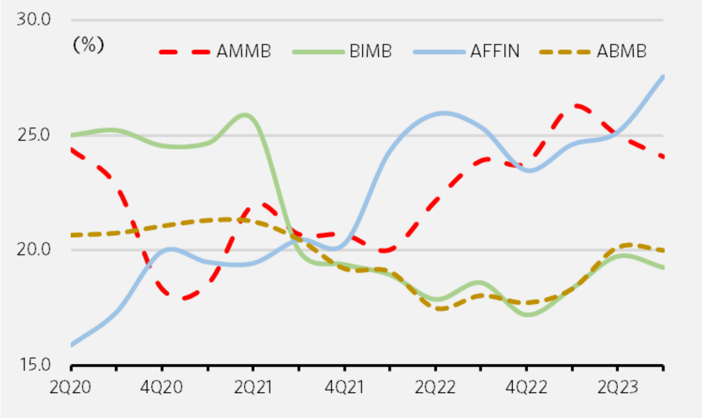
Fig 62: Bond book as % total assets trend: Big 5

Fig 63: Bond book as % total assets trend: Small 4

Varying approaches to bond holdings, as opposed to last quarter's uniform buying. We do note we saw mostly FVTPL paring this quarter, while FVOCI levels were slightly skewed towards the uptrend.



Source: Banks, MIDFR



Source: Banks, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

DISCLOSURES AND DISCLAIMER

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 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 *fall* 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