BANKING

***Maintain* NEUTRAL**

1QCY24 Results Preview: Balance Sheet Cooling on Several Fronts

KEY INVESTMENT HIGHLIGHTS

- **Despite a mixed NIM outlook, earnings should come in solid, driven by NOII**
- **Balance sheet growth outlook may be more moderate, based on BNM's stats**
- **Ranking banks based on expectation of upcoming performance: ABMB > MAY = CIMB = PBK = HLBK = AMMB = BIMB > RHB = AFFIN**
- **Maintain NEUTRAL call: Buying opportunities do exist, while dividend yields are solid as ever; Neutral on earnings outlook, while balance sheet growth will only likely pick up in 2HCY24**

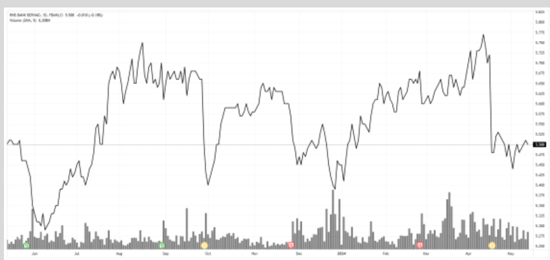
Headed Where?	**Earnings outlook is moderate, but balance sheet growth outlook is still solid – though this will likely only be seen in 2HCY24.**
Strategy	**Buying opportunities do exist, despite a lack of sector catalysts.**
Core Themes	1. ▲ Dividend yields are as attractive as ever. 2. ▲ Large-scale infrastructure projects to drive business loans in 2HCY24, while retail pipeline remains resilient – but 1HCY24 is shaping up to be mediocre. 3. ► Deposit growth also remains mediocre for now. 4. ► Asset quality and NCC are more normalised – less large-scale recoveries expected. 5. ► Mixed NIM outlook – banks with smaller deposit franchises may struggle, despite an abundance of liquidity. 6. ► Sector valuations are less attractive than last year, but buying opportunities exist.
Side Themes	1. ► OPEX outlook varies between banks – but tech costs continue to elevate CIR. 2. ► NOII outlook seems great for now – but less certain in the longer run.

COMPANY IN FOCUS

RHB Bank
Maintain **BUY** | Unchanged Target price: RM6.00
Price @ 14 May 2024: RM5.51

- Despite a mixed fundamental outlook, valuations are cheap.
- CASA should still see growth, providing a buffer for NIM shocks.
- Dividend yields among best in industry.

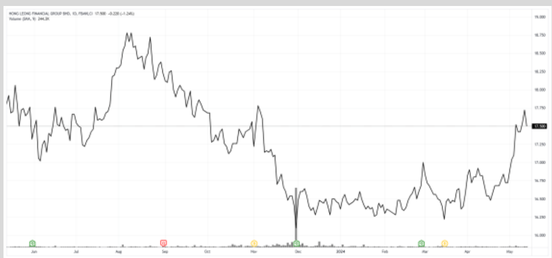
Share price chart



HL FG
Maintain **BUY** | Unchanged Target price: RM20.79
Price @ 14 May 2024: RM17.50

- Bank of Chengdu is still an excellent earnings driver.
- Negative China-related sentiment makes valuations very attractive.
- High profitability and cost efficient.

Share price chart



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Our expectations for this quarter

▲ Earnings should come in strong…

1. **▲▼ NII is mixed:** Deposit competition continues to alleviate. However, banks with weaker deposit franchises may still experience rising COF. Loan yields have yet to see significant compression within this quarter.
2. **▲ NOII is solid:** Forex volatility should continue to buoy non-fee income. Fee income should benefit from an improved market performance, despite weaker bond issuances in the quarter.
3. **► OPEX sees no surprises:** Nothing particularly jarring from the OPEX side.
4. **► Provisioning should come in moderate.** Positive: sector asset quality maintains an improvement trend. Negative: banks are guiding for less sizeable recoveries this quarter.

► …but balance sheet seems to have cooled for now.

1. **► Liquidity is plentiful… but deposit growth may be a different story:** Deposit competition is trending downward. But also, profitability remains an ongoing issue. There does not seem to be much incentive to hoard liquidity so early in the year, especially when loan growth remains relatively moderate for now.
2. **► Loan growth is more moderate.** Regardless, banks seem confident about a good retail pipeline and upsurge in business loans in 2HCY24.

Maintain NEUTRAL call. *(Our comprehensive list of sector drivers is on the first page).*

Top downside risks include:

1. Weaker-than-expected loan growth should GDP growth become lacklustre.
2. Steeper-than-expected NIM compression.
3. Further asset quality issues.

Top Picks: RHB Bank (BUY, TP: RM6.00) and **HL FG (BUY, TP: RM20.79).**

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)	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
MAY	NEUTRAL	9.88	9.71	-1.7	119.1	12.3	11.4	1.2	1.2	10.1	10.6	6.5	7.0
CIMB	BUY	6.79	7.17	5.6	72.6	9.7	9.0	1.0	0.9	10.7	10.8	5.5	5.8
PBK	NEUTRAL	4.17	4.48	7.4	80.9	11.9	11.3	1.4	1.3	12.0	12.0	4.4	4.7
RHB	BUY	5.50	6.00	9.1	23.5	8.0	7.6	0.7	0.7	9.4	9.5	7.4	7.6
HLBK	BUY	19.48	21.38	9.8	39.9	9.9	9.3	1.1	1.0	11.4	11.2	3.5	3.8
HLFG	BUY	17.50	20.79	18.8	19.8	7.1	6.6	0.7	0.6	10.0	10.0	2.8	3.0
AMMB	NEUTRAL	4.24	4.23	-0.2	17.7	10.4	9.3	0.9	0.8	9.0	9.4	4.2	4.7
BIMB	NEUTRAL	2.48	2.68	8.1	5.6	9.3	8.7	0.7	0.7	8.0	8.3	6.1	6.2
AFFIN	SELL	2.49	1.70	-31.8	5.7	11.6	11.1	0.5	0.5	4.4	4.4	2.5	2.6
ABMB	BUY	3.76	4.08	8.5	5.8	8.9	8.2	0.8	0.8	9.4	9.6	5.6	6.1
Simple avg (ex-HLFG)						**10.2**	**9.5**	**0.9**	**0.9**	**9.4**	**9.5**	**5.1**	**5.4**
Weighted avg (ex-HLFG)						**11.0**	**10.3**	**1.1**	**1.1**	**10.5**	**10.7**	**5.4**	**5.8**

**Closing prices from 14 May 2024.*

Source: Banks, MIDFR

Fig 2: BNM Banking Stats: Quarterly figures

Qoq figures	t-4	t-3	t-2	t-1	1Q24
Growth (%qoq)					
Domestic loans	**0.6**	**0.8**	**1.6**	**2.2**	**1.3**
Res mortgages	1.5	1.5	2.1	2.0	1.8
Passenger cars	2.4	2.2	2.4	2.5	2.7
Credit cards	-0.3	2.1	3.6	5.1	-0.6
Personal use	0.6	1.5	2.2	1.4	0.9
Working cap	0.9	-0.8	0.9	3.7	1.1
Non-res property	1.1	0.8	1.6	1.3	1.8
Construction	-0.1	1.1	1.1	1.0	2.2
Approval rate (%)	**50**	**53**	**53**	**52**	**49**
Applications (RM m)	328	345	395	374	333
Approvals (RM m)	165	181	208	194	165
Deposits + repo	**1.9**	**0.1**	**1.4**	**2.2**	**1.3**
Domestic deposits	**1.1**	**0.2**	**0.8**	**2.4**	**1.5**
CASA	-1.1	0.3	0.9	3.5	1.8
FD	2.5	1.4	0.3	-0.4	2.3
Retail FDs	2.9	2.7	0.8	1.5	1.4
Business FDs	2.8	-1.1	0.5	-1.9	2.5
LCR (%)	**157**	**155**	**152**	**161**	**150**
GIL ratios (%)					
Industry	**1.74**	**1.76**	**1.72**	**1.65**	**1.62**
Res mortgages	1.39	1.48	1.37	1.33	1.32
Passenger cars	0.44	0.49	0.50	0.49	0.49
Credit cards	1.01	1.05	1.07	0.99	0.90
Personal use	2.62	2.63	2.61	2.68	2.70
Working cap	2.53	2.48	2.58	2.40	2.27
Non-res property	1.75	1.77	1.74	1.63	1.64
Construction	4.58	4.42	4.06	4.07	3.95
LLC	**96**	**92**	**91**	**92**	**92**
Bond Issuance (RM b)	**20**	**32**	**32**	**33**	**22**

Source: BNM, MIDFR

► **Domestic loan growth slowed, but regardless a fairly strong quarter.** From the retail end, residential mortgages and hire purchase loans retained resilient growth – coming off a heavy festive 4QCY23, unsecured loans saw a slight drop (as per regular seasonal effects).

On the business end, working capital loans moderated after last quarter's exceptional performance. Fortunately, this weakness was offset by a resurgence of construction loans – as the construction sector continues to pick up steam.

► **Leading indicators have cooled – but there were high base effects.** Keep in mind the last two quarters saw the highest volume of applications/approvals ever recorded. Note that banks have been more selective with approvals, with the approval rate falling to >49% for the first time in over a year.

► **Deposits also cooled.** CASA growth saw some cooling this quarter, but regardless growth remains heavily positive. Retail FD growth was lacklustre, possibly due to FD rates having mostly normalised this year. More interesting was the return of business FD growth.

Also, observe that LCR has snapped back its lowest value in over a year – implying more room for NIM optimisation this quarter.

▲ **Asset quality maintains steady improvement.** Observe that while some sectors saw upticks in GIL ratio, these were minor at most. While recoveries and writebacks may still happen, banks have been guiding for fewer instances this quarter.

Fig 3: Banks earnings season preview

Banks / 1Q24 Earnings Grade	Possible guidance revisions (Or, if 4Q, likelihood of overshooting/outperforming target): (↑)(↓)(↑)(↓) ▲ Promising, ▼ Less promising, ► Neutral, ▲▼Could swing either way.
MAY ▲	▲ **Release of MMDs could provide upside to NIM.** Maybank's NIM guidance for the year is more negative than most peers. One reason is due to its heavy exposure to Singapore – which is seeing currently seeing adverse interest rate movements. As for upside possibility, recall a huge influx of pricey money market deposits (MMDs) last quarter to provide adequate funding for high loan growth – if Maybank releases these MMDs this quarter, it could alleviate funding pressure significantly.
CIMB ▲	▲ **Pre-blackout season briefing alluded to strong profitability outlook.** Recall that management was guiding for slight NIM expansion, solid NOII performance and no surprises in the asset quality/provisioning space. The Group was less optimistic about balance sheet growth, but there is no indication that we will observe any instances of weakness so early in the year.
PBK ▲	▲ **Expect solid fee income performance.** PBK's unit trust business should see a strong performance from recent positive market performances.
RHB ►	▼ **Thai impairments persist – and we don't expect LLC to go up anytime soon.** RHB was hit by unexpectedly voluminous overseas loan impairments, primarily in the Thai hospitality industry. Despite a low LLC, management does not seem too fazed, citing high collateralisation levels. Given RHB's lack of profitability drivers, we expect RHB to bank on recoveries to reduce GIL levels, as opposed to making heavy provision top-ups so soon.
HLBK ▲	▲ **Loan/Deposit ratio optimisation to provide loan growth upside?** HL Bank's measures are taking longer than expected (it was previously guided to be achieved by 2QFY24). Management guided that the paring down on pricier "global deposits" will not recur this quarter – implying that the optimisation route will be via growing further loans (likely business loans, as per its current strategy). Recall that its YTD loan growth is a low 1.9%, far from the FY24 target of 6-7%. ▲ **Progress on the NOII front?** Management talked about "low-hanging fruit" from an NOII perspective (essentially, better cross-selling). We opine that several measures will be centred around building a customer-centric franchise (as opposed to more straightforward trading income gains). We look forward to seeing the bank's progress on locking into this "one banking" direction. ► **Provisions shouldn't be anything significant.** While there is certainly room for higher provisioning in 2HFY24 (YTD NCC: -6bps), management mentions that the overall result will be far from the 10bps target set for FY24. Regardless, do not expect positive surprises – management has also warned not to be overly expectant on many recoveries in 2HFY24.
AMMB ▲	**NIM (↓), Loan growth (↓)** ▲ **Closing out the year strong, despite expected NIM decline.** We estimate this quarter's earnings to come close to the RM450-460m level, buoyed by strong cost control and NOII returns. Although we foresee rising COF to compress NIMs further this quarter (AMMB has had issues with its deposit franchising in the past), we think the overall profitability result will remain well above management's guidance of >RM1.6b (9MFY24: RM1.23b). ▼ **Not optimistic on loan growth outlook.** AMMB has continually disappointed on this front in the past three quarters. As management prioritises profitability over loan growth (and 4QFY24 will likely see a decline in NIMs), there is a high chance that loan growth may come in on the lower side.
BIMB ▲	▲▼ **Will BIMB reignite its loan growth?** BIMB reported a weak +2.6%yoy loan growth in FY23 (4QFY23: 0.5%qoq), far from its 5-6% target. FY24's target is a higher 7-8%. The main reason for such weak growth was NIM optimisation measures leading to weaker deposit growth (FY23: -2.8%yoy), putting a strain on liquidity. It remains to be seen whether BIMB will resume its higher rate of loan growth or continue to be bogged down by the same issues.
AFFIN ►	▼ **COF may still rise, despite large CASA inflows.** Affin is currently reaping the benefits of its mobile app rollout, which is expected to draw strong retail CASA balances. Unfortunately, we are still expecting a

Banks / 1Q24 Earnings Grade	Possible guidance revisions (Or, if 4Q, likelihood of overshooting/outperforming target): (↑)(↓)(↑)(↓) ▲ Promising, ▼ Less promising, ► Neutral, ▲▼Could swing either way.
	quarterly COF increase (and NIM decline) due to a combination of Affin's extremely high loan forcing the need for higher liquidity and franchising issues faced by most smaller banks. A more surefire catalyst of CASA growth (and subsequently, COF improvement) is completing the deal with the Sarawak government. Unfortunately, this has been delayed once again (likely till June). ▲ **Serious OPEX management initiatives may be announced.** Last quarter, management alluded to making drastic efforts to control OPEX. We believe that one of these will be shaving personnel costs (as Affin may have been overhiring over the last couple of years), the main source of cost inflation – specifically targeting employees with the lowest productivity scores.
ABMB ▲▲	▲ **Excellent 4QFY24 for several reasons.** In the last results briefing, ABMB was guiding for no dip in 4Q. Traditionally, 4Q will post a weaker result (roughly RM40-50m less) than the remaining quarters in the year. This year is different: (1) OPEX is frontloaded – ACCELER8's introduction has led to projects being initiated earlier on in the year, (2) Lag effect of loan interest income finally kicking in, (3) Ability to draw from overlay balance for year-end provisioning top-ups (as opposed to having include fresh provisioning balances), (4) Better NOII outlook (low base effects from 9MFY24's poor performance). In addition to this, large recoveries are probable (and not incorporated in FY24 ROE targets) – adding further upside to FY24 performance. ▼ **Deposit pinch as digital banks aggressively market.** GX Bank's aggressive FX campaign will likely hit ABMB worse than some of its peers, especially since ABMB (as a small bank) does not have as strong of a deposit franchise. Regardless, the market still seems flushed with liquidity. ABMB's closest listed peers have some degree of buffer: BIMB is fully Islamic (GX does not offer Islamic products yet) and Affin should still see heavy deposit inflows from the recent mobile app rollout. ▼ **Watch for negative dividend guidance (and maybe slower loan growth).** While dividend certainty this time around is assured, we are wary of announcements suggesting a negative outcome for subsequent quarters – given that high loan growth has been eroding ABMB's CET 1 ratio. We also expect some element of slowing down on loan growth, but dividend reduction will be the main means of capital management.

Source: Banks, MIDFR

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

Themes	Core beneficiaries / Most affected
Loan Growth	**Most banks.** Most banks claim that loan yield compression has not been too bad in the quarter – while deposit competition continues to clear up. Regardless, we expect loan growth to only pick up in 2HCY24, as business loan growth pickup seems to be relatively moderate. **AMMB and AFFIN.** We are not particularly confident about AMMB's loan growth outlook. The Group has seen issues with their deposit franchise in the past, and they will likely prioritise profitability over too sharp a drop in NIMs. AFFIN faces similar issues – despite ongoing CASA inflows from the recent mobile app rollout, we doubt this is sufficient to fuel its sharp loan growth without any drawback.
Liquidity	**Most banks with little regional exposure.** Deposit and CASA growth seems to have moderated in this quarter, in line with the muted loan growth figure reported. Banks with regional exposure will likely see growth coming in from overseas regions. **RHB and AFFIN.** Expect these to continue seeing solid CASA inflow. RHB: MySiswa balances. AFFIN: recent mobile app rollout.
Asset Quality and Provisioning	**Most banks.** Should not see many issues – but the status of large recoveries will vary from bank to bank. **RHB.** Still not out of the water – RHB still faces overseas impairments (primarily Thai tourism sector-related).

Themes	Core beneficiaries / Most affected
NIM and Deposit Competition	**Larger banks.** BNM stats and banking guidance imply that deposit competition, while still existing, has improved from 4QCY23 – while loan yields have yet to see any severe compression. Banks with more established deposit franchises should benefit. **Smaller banks.** Possible NIM compression is expected. While the market is still saturated with liquidity, COF will likely still increase as banks vie for higher loan growth targets – deposit competition has reduced but has not fully disappeared.
Non-Interest Income	**Most banks.** A solid quarter is expected. Strong loan growth and market conditions should buoy fee income, while non-fee income will benefit from forex volatility.
OPEX and costs	**Most banks.** Nothing out of the ordinary.

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	

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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 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