Malaysia Sector Update

11 December 2023

Financial Services | Banks

Banks

Neutral (Maintained)

A Quarter Of Stability

Stocks Covered	8
Rating (Buy/Neutral/Sell):	4 / 4 / 0
Last 12m Earnings Revision Trend:	Negative

- **Top Picks in order of preference: CIMB, AMMB, Hong Leong Bank (HL Bank) and Alliance Bank Malaysia (ABMB).** The banking sector reported decent 3Q23 numbers. NIM and asset quality stabilisation helped to cushion the impact from softer non-II on a sequential basis. Amid a backdrop of normalising earnings growth in 2024, we believe stock-picking will be all the more important. We like counters with better growth prospects in terms of earnings and dividends, but are trading at reasonable valuations. We remain NEUTRAL on the sector.
- **3Q23 results in line...** Of the eight banks under our coverage, five posted results that met our estimates. ABMB's results beat expectations on stronger-than-expected non-II, while CIMB's headline numbers looked to be a beat as well, on milder-than-expected credit cost. Affin, however, missed estimates due to severe NIM compression. Against consensus forecasts, six results were in line, CIMB was a beat, and Affin came in below expectations.
- **...with net profit up 4% QoQ** (+9% YoY) on a lower effective tax rate. Otherwise, pre-tax profit was flat QoQ and YoY. 3Q23 PIOP eased 2% QoQ (-8% YoY) mainly due to lower non-II (-10% QoQ, +15% YoY) with trading and markets income lower sequentially, cushioned by NII inching up 2% QoQ (-8% YoY) on loan growth. Loans grew 2% QoQ (+6% YoY), roughly matched by the 1% QoQ (+6% YoY) deposit growth. Asset quality was stable, with GIL and LLC staying flat sequentially at 1.63% and 109%.
- **Briefing highlights.** For the near term, the seasonal competition for deposits has begun but the banks were in agreement that rates had not deteriorated to the levels recorded back in 4Q22 and 1Q23. Nevertheless, NIM looks likely to soften sequentially in 4Q23. As for asset quality, some banks commented that GIL and delinquencies may have peaked but, on the whole, the sector continued to retain the bulk of overlay buffers. Affin lowered its 2023 ROE guidance on a downgrade in NIM expectations, while BIMB guided for more moderate loan growth. On the other hand, CIMB toned down its credit cost guidance for 2023. On the whole, though, ROE guidance for 2023 was largely retained. Few insights on 2024 were provided.
- **FY23-25F sector core net profit was relatively unchanged.** Earnings for ABMB (FY24-FY26F) and BIMB (FY23-25F) were bumped up by 5-6% (higher Non-II) and 2-6% (better net profit margins), while we cut Affin's FY23-25F net profit by 14-15% on softer NIM assumptions. In terms of recommendations, we upgraded ABMB to BUY from Neutral as, aside from the earnings upgrade, ABMB believes GILs have passed the peak – one of our main concerns previously. On the other hand, we downgraded Affin to NEUTRAL from Buy on concerns over funding costs and NIM pressures.
- **...FY24F bottomline growth at 5-6%**, supported by stable loan growth (c. 5%) and NIM, together with a small improvement in credit cost to 27bps from 29bps in 2023F. We think the overlays that the banks plan to carry over into 2024 should help to shield earnings, in the event that their asset quality turns out to be worse than expected.

Top Picks

Top Picks	Target Price
CIMB (CIMB MK) – BUY	MYR6.88
AMMB (AMM MK) – BUY	MYR4.70
Hong Leong Bank (HLBK MK) – BUY	MYR23.20
ABMB (ABMB MK) – BUY	MYR4.00

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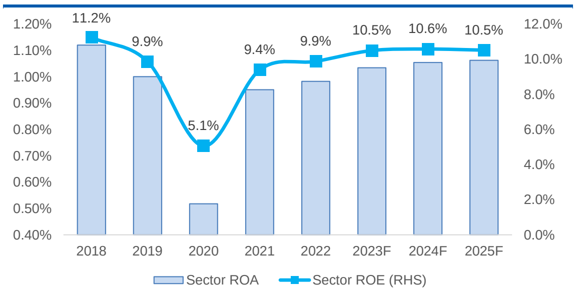
Sector ROA and ROE trend



Source: Company data, RHB

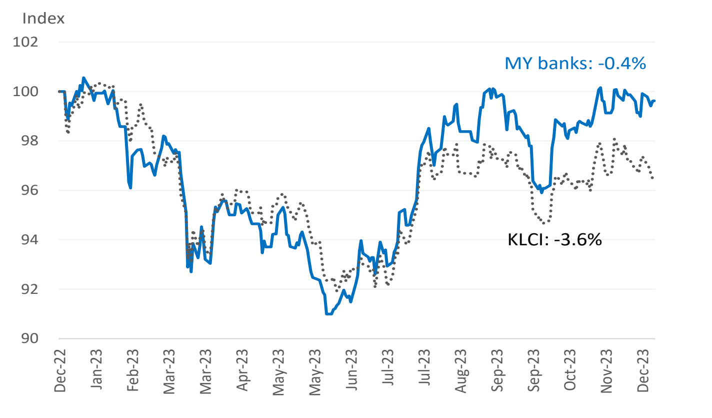
Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%)	Yield (%) Dec-24F
Affin	Neutral	1.90	(5.9)	8.7	0.4	4.7	5.7
Alliance Bank Malaysia	Buy	4.00	14.6	7.6	0.7	9.9	6.6
AMMB	Buy	4.70	16.9	7.5	0.6	9.3	5.4
BIMB	Neutral	2.25	(2.6)	8.4	0.6	7.7	7.2
CIMB	Buy	6.88	19.4	8.8	0.9	10.3	6.3
Hong Leong Bank	Buy	23.20	21.1	9.4	1.0	11.3	3.3
Malayan Banking	Neutral	9.80	8.4	11.1	1.2	10.9	7.0
Public Bank	Neutral	4.40	3.8	11.8	1.4	12.5	4.5

Source: Company data, RHB

Market Dateline / PP 19489/05/2019 (035080)

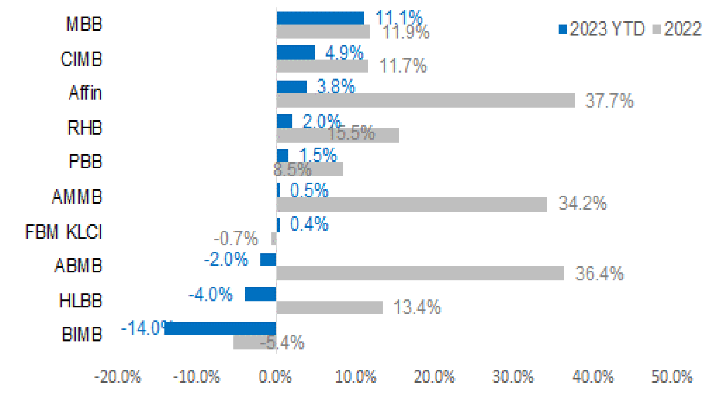
Share Price Performance And Valuations

Figure 1: MY banks have done relatively better than the FBM KLCI on price performance …



Note: MY Banks refer to the Malaysia banking stocks under our coverage
Source: Bloomberg, RHB

Figure 2: …while total returns were even better, thanks to attractive dividend yields

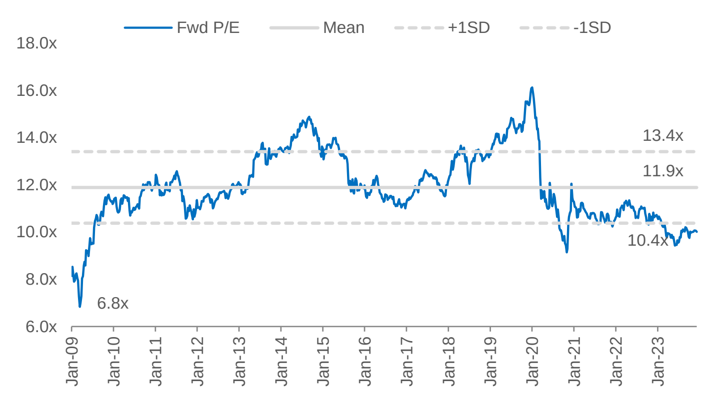


Source: Bloomberg, RHB

The sector has rallied by 8% since end-1H23 and by 10% since the 1Q23 results season vs 5% and 7% respectively for the FBM KLCI. We believe this was amid easing concerns over NIM pressure, banks' earnings holding up relatively better vs the broader market, and improved market sentiment on expectations that policy rates have peaked or are close to peaking. Also, the declaration of interim dividends during the 2Q23 reporting quarter in August helped further support share prices, in our view. Since September, however, the sector's performance has been sideways as the YoY earnings momentum started to slow down. On a total return basis, BIMB remains a laggard, with much of its underperformance in 1Q23 due to earnings concerns. At the other end of the spectrum, Malayan Banking (Maybank) was the best performer – thanks, we believe, to its attractive dividend yield.

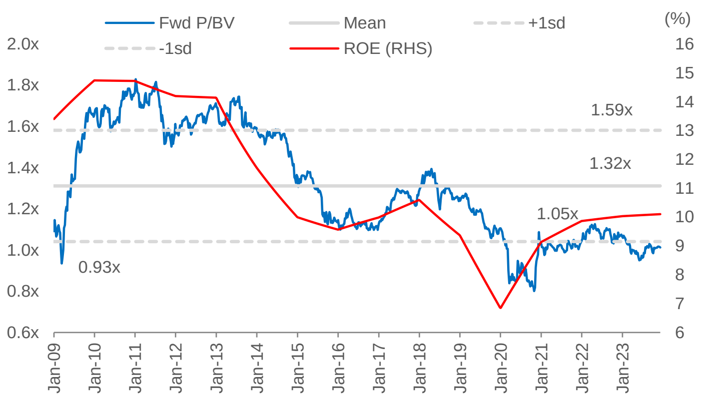
Sector valuation

Figure 3: MY Banks' 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: MY Banks' 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Figure 5: Summary of MY Banks' valuations

	Rec	Price	TP	Mkt Cap	EPS chg (%)		P/E(x)		P/B(x)		ROE (%)		Div yield (%)	
		(MYR/s)	(MYR/s)	(MYRm)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
CIMB	Buy	5.76	6.88	61,431	7.9	6.0	8.8	8.3	0.89	0.82	10.3	10.2	6.3	6.6
AMMB^	Buy	4.02	4.70	13,323	11.8	5.8	7.3	6.9	0.61	0.56	8.7	8.4	5.5	5.9
HL Bank^	Buy	19.16	23.20	41,533	5.2	4.4	9.2	8.8	0.99	0.92	11.2	10.8	3.4	3.5
ABMB^	Buy	3.49	4.00	5,403	7.8	8.3	7.5	6.9	0.73	0.69	9.9	10.2	6.7	7.2
Maybank	Neutral	9.04	9.80	108,969	5.9	4.7	11.1	10.6	1.19	1.14	10.9	11.0	7.0	7.3
Public Bank	Neutral	4.24	4.40	82,301	4.7	3.7	11.8	11.4	1.43	1.35	12.5	12.2	4.5	4.7
Affin	Neutral	2.02	1.90	3,925	14.9	14.0	8.7	7.7	0.41	0.39	4.7	5.2	5.7	6.5
BIMB	Neutral	2.31	2.25	4,979	1.2	5.1	8.4	7.9	0.63	0.60	7.7	7.8	7.2	7.5
Sector Avg					**6.2**	**4.9**	**10.3**	**9.8**	**1.12**	**1.06**	**11.0**	**10.9**	**5.7**	**6.0**

Note: ^ FY24F-25F refers to FY25F-26F
Source: Bloomberg, RHB

Sector earnings to rise by 11% YoY in FY23, then moderate to 6% YoY in FY24

Figure 6: MY Banks – sector earnings and key assumptions

(MYRm)	2021	2022	2023F	2024F	2025F
Net interest income	**56,024**	**60,850**	**58,741**	**61,631**	**64,102**
NII growth (%)	*12.9%*	*8.6%*	*-3.5%*	*4.9%*	*4.0%*
Loan growth (%)	*5.0%*	*7.0%*	*5.8%*	*4.9%*	*4.6%*
Net interest margin (%)	*2.30%*	*2.37%*	*2.16%*	*2.16%*	*2.15%*
Fee income	9,714	9,278	10,351	11,053	11,628
Other income	7,798	7,164	9,603	10,056	10,925
Non-interest income	**16,371**	**16,442**	**19,955**	**21,108**	**22,553**
Non-II growth (%)	*-17.1%*	*0.4%*	*21.4%*	*5.8%*	*6.8%*
Total operating income	**72,395**	**77,292**	**78,695**	**82,740**	**86,656**
Operating income growth (%)	*4.4%*	*6.8%*	*1.8%*	*5.1%*	*4.7%*
Non-II/Total income (%)	*22.6%*	*21.3%*	*25.4%*	*25.5%*	*26.0%*
Operating expenses	**(32,174)**	**(34,123)**	**(35,835)**	**(37,593)**	**(39,289)**
Opex growth (%)	*1.9%*	*6.1%*	*5.0%*	*4.9%*	*4.5%*
CIR (%)	*44.4%*	*44.1%*	*45.5%*	*45.4%*	*45.3%*
PIOP	**40,221**	**43,169**	**42,860**	**45,147**	**47,366**
PIOP growth (%)	*6.5%*	*7.3%*	*-0.7%*	*5.3%*	*4.9%*
Loan impairment charges	(7,866)	(5,729)	(5,496)	(5,358)	(5,742)
Other impairment charges	(893)	(771)	(173)	(228)	(228)
Total impairment charges	**(8,759)**	**(6,499)**	**(5,668)**	**(5,586)**	**(5,970)**
Credit charge-off (bps)	*47*	*32*	*29*	*27*	*28*
GIL ratio (%)	*1.77%*	*1.63%*	*1.62%*	*1.57%*	*1.52%*
Loan loss coverage (%)	*117.3%*	*118.6%*	*121.4%*	*126.2%*	*133.1%*
Associates & others	1,369	1,546	1,833	1,979	2,138
Pre-tax profit	**32,831**	**38,215**	**39,025**	**41,540**	**43,534**
Taxation	(7,491)	(11,183)	(8,878)	(9,469)	(9,850)
Minority interests	(542)	(307)	(398)	(425)	(443)
Net profit	**24,799**	**26,725**	**29,748**	**31,646**	**33,241**
Net profit growth (%)	*41.7%*	*7.8%*	*11.3%*	*6.4%*	*5.0%*

Source: Company data, RHB

Looking ahead to 2024F, we have pencilled in NIM stabilising after a 21bps YoY drop in 2023F and, together with stable loan growth, these should help NII recover from the decline in 2023F. We have also assumed that credit cost will ease by another 2bps to 27bps in 2024. However, we also expect sector non-II growth to moderate to 6% YoY, with fees helping pick up some of the slack from non-fee income.

Upside risks to earnings estimates would come in the form of:

i. Better-than-expected NIM, should the competition for deposits pan out to be milder than expected;

ii. Stronger-than-expected credit demand, should economic activities pick up significantly;

iii. Lower-than-expected credit cost, should delinquencies moderate and asset quality improve, which could allow banks to write back some of the overlays built up.

Downside risks would stem from weaker-than-expected NIM and/or non-II. Higher-than-expected opex from an inflationary environment, business expansion and technology spending could also lead to weaker-than-expected bottomlines.

Key Trends In 3Q23

3Q23 sector results in line

Figure 7: Malaysia banks' 3Q23 results – most met expectations on stabilising NIM and asset quality

Net profit (MYRm)	3Q22	2Q23	3Q23	*QoQ (%)*	*YoY (%)*	9M22	9M23	YoY (%)	Reported 9M23 PATMI vs consensus
Affin*	153	113	100	*(11)*	*(35)*	387	363	*(6)*	Below. 9M23 at 72% of consensus FY23F
ABMB	158	151	185	*23*	*17*	474	466	*(2)*	In line. 1HFY24 at 50% of FY24F
AMMB	469	378	470	*24*	*0*	1,221	1,276	*5*	In line. 1HFY24 at 49% of FY24F
BIMB	143	136	141	*3*	*(2)*	366	395	*8*	In line. 9M23 at 77% of FY23F
CIMB	1,413	1,773	1,848	*4*	*31*	4,210	5,266	*25*	Above. 9M23 at 80% of FY23F
HL Bank	981	865	1,030	*19*	*5*	2,674	2,824	*6*	In line. 1QFY24 at 25% of FY24F
Maybank	2,100	2,339	2,358	*1*	*12*	5,755	6,962	*21*	In line. 9M23 at 75% of FY23F
Public Bank	1,590	1,619	1,701	*5*	*7*	4,406	5,034	*14*	In line. 9M23 at 75% of FY23F
RHB Bank	767	809	650	*(20)*	*(15)*	2,050	2,220	*8*	In line. 9M23 at 77% of FY23F
Sector	**7,776**	**8,182**	**8,483**	***4***	***9***	**21,542**	**24,806**	***15***	

*Note: *Ex-discontinued operations.*
Source: Company data, RHB

The 3Q23 reporting quarter was a decent one for banks, as NIM and asset quality stabilisation helped cushion the impact from lower Non-II on a sequential basis.

Of the eight banks under our coverage, five posted results that met our expectations. ABMB's results beat expectations on stronger-than-expected Non-II, while CIMB's headline numbers looked to be a beat as well on milder-than-expected credit cost. Affin, however, missed estimates due to severe NIM compression. Against consensus' forecasts, six results were in line, CIMB was a beat, and Affin came in below expectations.

PIOP – From non-II led to non-II drag

Figure 8: 3Q23 sector PIOP – Softer non-II a dampener

PIOP (MYRm)	3Q22	2Q23	3Q23	*QoQ (%)*	*YoY (%)*	9M22	9M23	*YoY (%)*
Affin	183	188	126	*(33)*	*(31)*	531	479	*(10)*
ABMB	272	236	281	*19*	*3*	768	745	*(3)*
AMMB	704	633	613	*(3)*	*(13)*	1,818	1,816	*(0)*
BIMB	246	246	238	*(3)*	*(3)*	661	707	*7*
CIMB	2,723	2,929	2,816	*(4)*	*3*	7,779	8,399	*8*
HL Bank	959	716	838	*17*	*(13)*	2,727	2,390	*(12)*
Maybank	3,911	3,889	3,453	*(11)*	*(12)*	10,846	10,614	*(2)*
Public Bank	2,384	2,113	2,197	*4*	*(8)*	6,593	6,519	*(1)*
RHB Bank	1,298	936	1,051	*12*	*(19)*	3,442	3,038	*(12)*
Sector	**12,681**	**11,887**	**11,614**	***(2)***	***(8)***	**35,165**	**34,708**	***(1)***

Source: Company data, RHB

3Q23 sector PIOP eased 2% QoQ (-8% YoY) with the key drag being non-II (-10% QoQ; +15% YoY). This was cushioned by better NII (+2% QoQ; -8% YoY) while opex was stable on a sequential basis. Among the banks, Affin posted the sharpest PIOP drop for the quarter mainly due to NIM compression whereas ABMB saw PIOP rise by 19% QoQ, thanks to higher NII and non-II.

NII – Continued loan growth underpinned NII improvement sequentially

Figure 9: NII – Lower margins still a drag on YoY trends

NII (MYRm)	3Q22	2Q23	3Q23	*QoQ (%)*	*YoY (%)*	9M22	9M23	*YoY (%)*
Affin	457	348	314	*(10)*	*(31)*	1,259	1,050	*(17)*
ABMB	427	405	438	*8*	*3*	1,195	1,253	*5*
AMMB	913	809	846	*5*	*(7)*	2,589	2,478	*(4)*
BIMB	520	483	501	*4*	*(4)*	1,453	1,459	*0*
CIMB	3,901	3,646	3,757	*3*	*(4)*	11,125	10,925	*(2)*
HL Bank	1,241	1,123	1,152	*3*	*(7)*	3,581	3,330	*(7)*
Maybank	5,292	4,826	4,809	*(0)*	*(9)*	15,369	14,431	*(6)*
Public Bank	2,836	2,606	2,696	*3*	*(5)*	7,974	7,959	*(0)*
RHB Bank	1,629	1,346	1,388	*3*	*(15)*	4,662	4,107	*(12)*
Sector	**17,216**	**15,591**	**15,900**	***2***	***(8)***	**49,206**	**46,992**	***(4)***

Source: Company data, RHB

3Q23 sector NII growth momentum improved to +2% QoQ (-8% YoY), compared to 2Q23 when NII was flattish sequentially. This was due to a combination of continued loan volume growth while we estimate sector NIM stabilised.

Affin's 10% QoQ drop in NII was largely due to further NIM compression from 2Q levels (-9bps QoQ), while ABMB reported the strongest QoQ growth in NII. Its NIM expanded by 10bps on pricing discipline on new loans, while it allowed high-cost fixed deposits to roll off its books (LDR of 97.2%, from 93.9% in the previous quarter). Also, loan growth was robust at +3% QoQ.

Figure 10: NIM – expect an uneven recovery ahead

NIM (%)	3Q22	2Q23	3Q23	*QoQ (bps)*	*YoY (bps)*	9M22	9M23	*YoY (bps)*
Affin	2.01	1.33	1.24	*(9)*	*(77)*	2.01	1.46	*(55)*
ABMB	2.70	2.43	2.53	*10*	*(17)*	2.64	2.48	*(16)*
AMMB	2.12	1.76	1.82	*6*	*(30)*	2.17	1.79	*(38)*
BIMB	2.49	2.20	2.34	*14*	*(15)*	2.36	2.24	*(12)*
CIMB	2.55	2.24	2.25	*1*	*(30)*	2.49	2.25	*(24)*
HL Bank	2.18	1.83	1.84	*1*	*(34)*	2.18	1.84	*(34)*
Maybank	2.42	2.14	2.09	*(5)*	*(33)*	2.39	2.14	*(25)*
Public Bank	2.42	2.18	2.21	*3*	*(21)*	2.32	2.22	*(10)*
RHB Bank	2.27	1.82	1.85	*3*	*(42)*	2.24	1.85	*(39)*
Sector	**2.40**	**2.07**	**2.08**	***1***	***(32)***	**2.27**	**2.09**	***(23)***

Source: Company data, RHB

Banks' NIMs in 3Q23 showed a glimmer of hope that the metric may have bottomed out, with sector NIM inching up 1bp QoQ (-32bps YoY). By our estimate, average asset yield for the sector rose 11bps QoQ, aided by May's 25bps overnight policy rate (OPR) hike. While 3Q23 average funding cost rose by an estimated 13bp QoQ, this was partly offset by liquidity management efforts, with sector LDR rising by 60bps QoQ to 91.1% as banks sought to trim costlier deposits in order to cushion rising funding cost pressures.

Affin reported the largest sequential NIM compression in 3Q, which we believe reflects the continued pressures it faces both on the asset side (as it traded asset yields for growth), and funding cost (to support its robust loan growth). Nevertheless, its near-term focus is to manage funding costs – which it expects to benefit from an increasing CASA uptake following the launch of its maiden mobile banking app recently. At the other end of the spectrum, BIMB's NIM was up by an estimated 14bps QoQ on liquidity management. Its deposits have declined 5% YTD, reflecting the roll-off of higher cost fixed deposits.

Figure 11: NIM guidance - YTD was NIM broadly in line with guidance

NIM (%)	2022A / FY23A	9M23A / YTD FY24A	*NIM chg (bps)*	NIM guidance	Comments
Affin	2.01	1.46	*(55)*	1.45-1.5	Stable NIM
ABMB	2.64	2.48	*(16)*	2.45-2.50	Stable NIM
AMMB	2.07	1.79	*(28)*	c. 1.8	Stable NIM
BIMB	2.37	2.24	*(13)*	>2	2.2% NIM target in 4Q23 (3Q23 reported: 2.17%).
CIMB	2.51	2.25	*(26)*	15-20bps compression	Potentially weaker 4Q NIM
HL Bank	1.98	1.84	*(14)*	1.8% - 1.9%	Stable NIM
Maybank	2.39	2.14	*(25)*	25bps compression	Sequential NIM improvement
Public Bank	2.39	2.22	*(17)*	<20bps compression	Potentially weaker 4Q NIM
RHB Bank	2.24	1.85	*(39)*	1.8 – 1.9%	Stable

Source: Company data, RHB

Looking ahead, the seasonal deposit competition has begun but the banks were in agreement that rates had not deteriorated to levels seen in 4Q22 and 1Q23. Nevertheless, NIM looks likely to soften sequentially in 4Q23 and possibly into 1Q24 as well as, apart from the seasonal deposit competition, we expect May's OPR hike to increasingly filter through to and be reflected in deposit rates.

The only bank that lowered its NIM guidance was Affin, due to the lower-than-expected 9M figure.

Figure 12: Pace of sequential loan growth was sustained, with overseas segments being a driver

Gross loans (MYRbn)	3Q22	2Q23	3Q23	*QoQ (%)*	*YoY (%)*	*YTD (%)*
Affin	57.2	62.5	64.3	*3*	*12*	*8*
ABMB	46.9	49.9	51.6	*3*	*10*	*9*
AMMB	124.4	129.0	130.8	*1*	*5*	*4*
BIMB	62.1	66.3	67.3	*1*	*8*	*2*
CIMB	406.0	427.0	431.8	*1*	*6*	*6*
HL Bank	169.5	181.7	181.7	*0*	*7*	*5*
Maybank	587.1	605.8	617.0	*2*	*5*	*5*
Public Bank	373.6	387.2	393.6	*2*	*5*	*4*
RHB Bank	209.6	214.1	219.3	*2*	*5*	*3*
Sector	**2,036.3**	**2,123.4**	**2,157.4**	***2***	***6***	***5***

Source: Company data, RHB

QoQ loan growth was sustained at 2%. For smaller banks like Affin and ABMB, sequential growth was driven by retail and SME loans, which includes consumption-related, auto, residential and non-residential mortgages. For the larger banks, growth was generally underpinned by overseas operations, particularly Singapore. The consumer segment was a key driver of domestic loans for most banks, thanks to stable drawdowns from mortgage pipelines, while the auto segment enjoyed brisk sales. However, the domestic corporate segment was more muted due to slower drawdowns – largely a reflection of macroeconomic conditions (eg softening exports), we believe.

The majority of banks retained their loan growth guidance. The bigger banks generally see loan growth around the mid-single digit range in 2023, while the smaller banks are targeting growth at a faster clip. BIMB toned down its 2023 loan growth expectation to around 4-5% from 7-8% previously, as its 9M annualised growth has been somewhat sluggish at 3%. This reflects a shift in focus from growth towards NIM and asset quality management – as evidenced by the QoQ NIM expansion mentioned above and improvement in asset quality, with 3Q23 GIL contracting 6bps QoQ.

Figure 13: Deposit growth kept pace

Deposits (MYRbn)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	YTD (%)
Affin	64.0	71.5	71.6	*0*	*12*	*10*
ABMB	49.1	51.8	51.8	*0*	*6*	*6*
AMMB	121.0	130.3	135.3	*4*	*12*	*9*
BIMB	72.3	72.3	73.9	*2*	*2*	*(2)*
CIMB	437.7	471.4	474.0	*1*	*8*	*6*
HL Bank	199.7	213.9	211.3	*(1)*	*6*	*5*
Maybank	639.4	654.8	661.8	*1*	*4*	*4*
Public Bank	393.3	406.5	408.6	*1*	*4*	*4*
RHB Bank	226.9	230.1	236.7	*3*	*4*	*4*
Sector	**2,203.4**	**2,302.5**	**2,325.2**	***1***	***6***	***5***

Source: Company data, RHB

Sector deposit growth of 1% QoQ or 6% YoY was broadly stable vs that of 2Q23 (+2% QoQ, +5% YoY), and kept pace with loan growth. Notably, CASA growth momentum improved to +2% QoQ (-3% YoY) compared to 2Q23 (-7% QoQ, flat YoY) while fixed deposits were up 1% QoQ (+15% YoY). AMMB reported CASA growth of +10% QoQ (+9% YoY), which it said was due to the wholesale banking segment while Maybank's CASA deposits rose 4% QoQ on broad-based growth across its home markets. As a result, AMMB's CASA ratio rose to 32.2% from 30.4% a quarter ago while Maybank's CASA ratio improved to 36.6% in 3Q23 from 35.5% in June 2023. Overall sector CASA ratio was 30bps higher QoQ at 33.5%, and above the pre-pandemic mix of 29-30%.

Figure 14: LDR ticked up as some banks released costlier deposits to help bolster NIMs

LDR (%)	2Q22	2Q23	3Q23	QoQ (ppt)	YoY (ppt)
Affin	87.7	85.4	87.7	*2.3*	*0.0*
ABMB	93.2	93.9	97.2	*3.3*	*4.0*
AMMB	101.2	97.4	95.3	*(2.1)*	*(6.0)*
BIMB	84.5	90.6	89.9	*(0.7)*	*5.4*
CIMB	89.5	87.8	88.3	*0.5*	*(1.2)*
HL Bank	84.0	84.1	85.2	*1.1*	*1.2*
Maybank	90.0	90.8	91.6	*0.8*	*1.6*
Public Bank	93.9	94.2	95.3	*1.1*	*1.4*
RHB Bank	90.6	91.8	91.4	*(0.4)*	*0.7*
Sector	**90.6**	**90.5**	**91.1**	***0.6***	***0.6***

Source: Company data, RHB

Non-II normalised but still at elevated levels

Figure 15: Markets-related non-II softened, cushioned by healthy fee income

Non-II (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Affin	78	157	186	*19*	*>100*	229	450	*97*
ABMB	54	61	90	*48*	*69*	211	210	*(0)*
AMMB	239	332	260	*(22)*	*9*	699	893	*28*
BIMB	65	99	92	*(7)*	*41*	153	296	*94*
CIMB	1,096	1,688	1,551	*(8)*	*42*	3,493	4,714	*35*
HL Bank	259	180	242	*34*	*(6)*	765	763	*(0)*
Maybank	1,829	2,484	1,941	*(22)*	*6*	4,312	5,953	*38*
Public Bank	626	605	622	*3*	*(1)*	1,813	1,874	*3*
RHB Bank	601	534	571	*7*	*(5)*	1,402	1,640	*17*
Sector	**4,847**	**6,141**	**5,556**	***(10)***	***15***	**13,077**	**16,793**	***28***

Source: Company data, RHB

Sector 3Q23 non-II slipped 10% QoQ (+15% YoY), although the sequential drop was not overly surprising given the strength of 2Q23 non-II, which was aided by robust contribution from treasury and markets. For banks such as Maybank, CIMB and AMMB, the decline in non-II reflects the drop in contribution from treasury and markets income this quarter as well as lower gains from NPL sales for CIMB. On the other hand, ABMB saw non-II surge 48% QoQ (+69% YoY) thanks in part to fees from the extension of its exclusive banca partnership with Manulife (which may be lumpy) and higher marked-to-market gains while HL BANK saw Non-II rise 34% QoQ (-6% YoY) on higher fees and trading, investment and forex income.

Due to the weaker non-II, sector operating income softened slightly QoQ (-1% QoQ, -3% YoY).

Figure 16: Good uptick in fees for most banks helped to cushion the weakening in other non-II

Fees (MYRm)	**3Q22**	**2Q23**	**3Q23**	***QoQ (%)***	***YoY (%)***	**9M22**	**9M23**	***YoY (%)***
Affin	56	65	57	*(13)*	*2*	177	188	*6*
ABMB	23	35	42	*22*	*87*	97	103	*5*
AMMB	137	156	149	*(4)*	*9*	413	465	*12*
BIMB	65	61	64	*5*	*(2)*	184	181	*(2)*
CIMB	534	523	559	*7*	*5*	1,652	1,596	*(3)*
HL Bank	156	147	160	*9*	*3*	464	454	*(2)*
Maybank	781	823	950	*15*	*22*	2,454	2,576	*5*
Public Bank	463	478	502	*5*	*8*	1,442	1,462	*1*
RHB Bank	227	203	223	*10*	*(2)*	660	629	*(5)*
Sector	**2,441**	**2,490**	**2,706**	***9***	***11***	**7,543**	**7,654**	***1***

Source: Company data, RHB

Sector fee income rebounded strongly in 3Q23, up 9% QoQ or 11% YoY. ABMB's fee income improved QoQ, helped by banca fees, as mentioned above, while Maybank's fee income jumped 15% QoQ (+22% YoY) on stronger cards and loan-related fees, among others.

Opex stabilised sequentially

Figure 17: YoY opex increase was mainly pressured by higher personnel costs

Opex (MYRm)	**3Q22**	**2Q23**	**3Q23**	***QoQ (%)***	***YoY (%)***	**9M22**	**9M23**	***YoY (%)***
Affin	352	316	374	*18*	*6*	957	1,021	*7*
ABMB	208	230	247	*7*	*19*	638	718	*13*
AMMB	448	508	493	*(3)*	*10*	1,470	1,556	*6*
BIMB	339	337	355	*5*	*5*	945	1,048	*11*
CIMB	2,274	2,405	2,492	*4*	*10*	6,839	7,240	*6*
HL Bank	541	587	556	*(5)*	*3*	1,619	1,703	*5*
Maybank	3,210	3,420	3,297	*(4)*	*3*	8,834	9,770	*11*
Public Bank	1,078	1,098	1,121	*2*	*4*	3,194	3,313	*4*
RHB Bank	932	943	908	*(4)*	*(3)*	2,623	2,708	*3*
Sector	**9,382**	**9,845**	**9,843**	***(0)***	***5***	**27,118**	**29,077**	***7***

Source: Company data, RHB

Sector opex stabilised sequentially, but is still somewhat elevated. Recall that 2Q23 opex inflation was led by some banks having to make adjustments to facilitate the newly agreed-upon personnel costs relating to the union collective agreements. Hence, for banks such as HL Bank and Maybank, the absence of such top-up provisions led to the QoQ decline in opex. Conversely, Affin incurred adjustments for the collective agreement whereas ABMB's cost escalation was due to an increase in headcount to bolster sales and essential support functions. Heading into 4Q, some banks had earlier mentioned about the need to catch up on business-as-usual spending in 2H23, which could see opex stay elevated.

Given the slight softening in operating income, sector CIR rose by 60bps QoQ to 45.9% (3Q22: 42.5%).

Figure 18: CIR ticked up on a slight softening in operating income

CIR (%)	3Q22	2Q23	3Q23	*QoQ (ppt)*	*YoY (ppt)*	9M22	9M23	*YoY (ppt)*
Affin	65.8	62.7	74.8	*12.1*	*9.0*	64.3	68.1	*3.7*
ABMB	43.3	49.3	46.7	*(2.6)*	*3.4*	45.3	49.1	*3.7*
AMMB	38.9	44.5	44.6	*0.1*	*5.7*	44.7	46.1	*1.4*
BIMB	58.0	57.8	59.9	*2.1*	*1.9*	58.8	59.7	*0.9*
CIMB	45.5	45.1	46.9	*1.9*	*1.4*	46.8	46.3	*(0.5)*
HL Bank	36.0	45.1	39.9	*(5.2)*	*3.9*	37.2	41.6	*4.4*
Maybank	45.1	46.8	48.8	*2.1*	*3.8*	44.9	47.9	*3.0*
Public Bank	31.1	34.2	33.8	*(0.4)*	*2.6*	32.6	33.7	*1.1*
RHB Bank	41.8	50.2	46.4	*(3.8)*	*4.6*	43.2	47.1	*3.9*
Sector	**42.5**	**45.3**	**45.9**	***0.6***	***3.4***	**43.5**	**45.6**	***2.0***

Source: Company data, RHB

Credit cost improved as asset quality stabilised

Figure 19: Credit cost coming in well within guidance

Credit cost (bps)	3Q22	2Q23	3Q23	*QoQ (bps)*	*YoY (bps)*	9M22	9M23	*YoY (bps)*
Affin	166	33	17	*(16)*	*(149)*	12	15	*2*
ABMB	64	28	31	*3*	*(33)*	39	37	*(2)*
AMMB	24	51	17	*(34)*	*(7)*	(12)	33	*45*
BIMB	16	37	25	*(12)*	*8*	23	35	*12*
CIMB	49	53	28	*(25)*	*(21)*	45	39	*(7)*
HL Bank	9	3	(11)	*(14)*	*(20)*	10	0	*(10)*
Maybank	41	38	29	*(9)*	*(12)*	45	31	*(14)*
Public Bank	10	3	3	*1*	*(7)*	10	2	*(8)*
RHB Bank	40	(19)	31	*50*	*(10)*	25	7	*(18)*
Sector	**37**	**23**	**21**	***(2)***	***(16)***	**29**	**22**	***(7)***

Source: Company data, RHB

Figure 20: Sector GIL was stable as GIL formation eased

Gross impaired loans (MYRm)	3Q22	2Q23	3Q23	*QoQ (%)*	*YoY (%)*	*GIL ratio (%)*
Affin	1,091	1,112	1,186	*7*	*9*	1.84
ABMB	876	1,307	1,291	*(1)*	*47*	2.50
AMMB	1,892	2,139	2,164	*1*	*14*	1.65
BIMB	748	682	654	*(4)*	*(13)*	0.97
CIMB	14,163	14,284	13,713	*(4)*	*(3)*	3.18
HL Bank	837	1,042	1,030	*(1)*	*23*	0.57
Maybank	9,989	8,912	8,813	*(1)*	*(12)*	1.43
Public Bank	1,251	2,148	2,282	*6*	*82*	0.58
RHB Bank	3,297	3,512	3,931	*12*	*19*	1.79
Sector	**34,145**	**35,137**	**35,063**	***(0)***	***3***	**1.63**

Source: Company data, RHB

Figure 21: LLC dipped as banks continued to draw down on reserves

Loan loss coverage (%)	3Q22	2Q23	3Q23	*QoQ (ppts)*	*YoY (ppts)*
Affin	108.8	128.2	123.9	*(4.4)*	*15.1*
ABMB	128.4	97.2	94.3	*(3.0)*	*(34.1)*
AMMB	97.1	96.8	87.4	*(9.3)*	*(9.7)*
BIMB	137.1	122.1	126.6	*4.5*	*(10.5)*
CIMB	100.9	92.2	96.0	*3.8*	*(4.9)*
HL Bank	214.0	168.8	164.6	*(4.3)*	*(49.4)*
Maybank	117.2	125.7	122.7	*(3.0)*	*5.4*
Public Bank	339.5	199.1	186.7	*(12.4)*	*(152.7)*
RHB Bank	118.1	82.5	75.0	*(7.5)*	*(43.1)*
Sector	**120.4**	**110.7**	**109.2**	***(1.5)***	***(11.2)***

Source: Company data, RHB

Sector net loan provisions fell 7% QoQ (-31% YoY) as asset quality held stable with net GIL formation improving to 62bps in 3Q23 from 87bps in 2Q23 (3Q22: 70bps). In addition, for most banks, loans that turn impaired mainly relates to loans from repayment assistance programmes as well as the more vulnerable segment, where provision buffers had been built up previously. Also, HL Bank saw a net writeback in loan allowances as its asset quality was stable and loan book was flat QoQ. Thus, sector credit cost for the quarter was lower at 21bps (-2bps QoQ, -16bps YoY) while sector LLC dipped to 109% from 111% in 2Q23 (3Q22: 120%).

There were no major changes on banks' asset quality outlook. Banks remain watchful of accounts that had taken multiple repayment assistance programmes and the SME segment, given the recent softness in macroeconomic data. YTD credit cost for banks are on track to meet targets, and the banks continue to retain a substantial portion of overlays in the books. For the reporting quarter, only CIMB revised its 2023 credit cost guidance, which now stands at 35-45bps from 40-50bps previously. Its Malaysia consumer segment has been holding up well and delinquencies appear to be stabilising, which should help keep credit cost in check. For AMMB, a one-off tax credit receipt of MYR538m in 3QFY24 (Mar) could offer an opportunity for the bank to top-up provisions on the household side without severe impact to the bottomline, although no decision has been made for now.

Capital management should be a recurring theme

Figure 22: CET-1 ratios remain comfortable

CET-1 ratio (%)	3Q22	2Q23	3Q23	*QoQ (bps)*	*YoY (bps)*
Affin	16.3	14.7	14.4	*(30)*	*(190)*
ABMB	14.1	13.3	12.9	*(40)*	*(120)*
AMMB	12.2	12.6	12.7	*7*	*49*
BIMB	13.9	13.9	14.4	*43*	*48*
CIMB	14.1	14.2	14.4	*20*	*30*
HL Bank	12.9	12.8	12.6	*(20)*	*(30)*
Maybank	13.8	15.2	15.4	*23*	*157*
Public Bank	14.0	14.7	14.5	*(20)*	*50*
RHB Bank	16.4	16.7	16.2	*(50)*	*(20)*

Source: Company data, RHB

With capital ratios being healthy, we expect banks to stay generous on dividends. During the reporting quarter, ABMB declared an interim dividend representing a 50% payout ratio, in line with our full-year payout expectations. On the other hand, while AMMB's interim DPS represented a payout of 23%, we expect a catch-up in 4QFY24 to bring the full year payout to our assumption of 30%. Furthermore, its capital build is complete and with further room for capital enhancement when it adopts the Foundation Internal Ratings-Based (F-IRB) approach and ongoing negotiations for the sale of its life insurance asset, there is much scope for its payout to rise to the 40-60% range of its larger peers. Finally, BIMB declared a higher-than-expected DPS as it kept to the 60% payout ratio in 2022 (vs our initial 40% assumption). Note that this was an all-cash interim dividend, vs that of a year ago where the dividend reinvestment plan applied to the entire DPS declared.

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