6 June 2024

Banks

Neutral (Maintained)

1Q24 Results Quarter: Off To a Good Start

Stocks Covered	8
Rating (Buy/Neutral/Sell):	5 / 2 / 1
Last 12m Earnings Revision Trend:	Positive

- **Top Picks (in order of preference): CIMB, AMMB, Hong Leong Bank (HL Bank), Alliance Bank Malaysia (ABMB), and Public Bank (PBK).** Malaysia banks had a good start to the year, thanks to operating income strength – underpinned by both NII and non-II – while asset quality held up. We remain NEUTRAL on the sector amid moderating earnings growth prospects, and continue to prefer growth stocks with reasonable valuations.
- **1Q24 results met expectations...** Of the eight banks under our coverage, seven posted results that met our expectations. BIMB was the sole disappointment due to weaker-than-expected non-financing income. Compared against consensus figures, five results were in line, AMMB was a beat, while both Affin and BIMB came in below Street expectations. AMMB's interim DPS was above expectations, as the completion of its capital build-up allowed it to raise its FY24 dividend payout ratio to 40%, from 35% in FY23.
- **... with operating income strength and stable asset quality as key positives.** 1Q24 sector PATMI rose 7% YoY (+5% QoQ) on the back of an 11% YoY (+5% QoQ) operating income growth. NII rose 4% YoY (+2% QoQ) mainly due to healthy loan growth of 7% YoY (+1% QoQ) – partly offset by a NIM squeeze of 7bps YoY (-1bps QoQ). Meanwhile, non-II jumped 32% YoY (+12% QoQ) from stronger treasury and markets income (flows as well as trading gains). Fee income also grew by a decent 15% YoY (flat QoQ), with both retail and markets-related fee income having had a good start to the year. Despite the strong operating income growth, CIR was stable YoY at 45.8% (4Q23: 47.8%) as opex rose 12% YoY (flat QoQ) on cost inflation and the impact of salary revisions for unionised employees. Consequently, sector PIOP was up 11% YoY (+9% QoQ). Credit cost was slightly higher at 22bps (1Q23: 20bps; 4Q23: 30bps) although sector GIL was broadly stable QoQ and YoY. Sector GIL ratio stood at 1.48%, while sector LLC was at 109%.
- **Briefing highlights.** Banks continue to appear guarded with respect to the macroeconomic outlook, citing factors such as geopolitical uncertainties, a higher-for-longer global interest rate environment, inflationary pressures and, domestically, the normalisation of interest rates, among others. That said, we note optimism on NIMs ahead as banks continue with efforts to lower funding cost and improve asset yields. As for loans, demand remains supported by retail loans, SMEs, and the rollout of infrastructure projects, but some banks could pare back growth in the quarters ahead to conserve capital and if margins are too thin. Also, some banks mentioned that capital markets-related fee income and trading gains are harder to forecast, as these depend on market opportunities – implying that 1Q24 non-II may be challenging to repeat. Finally, while there were upticks in GIL for the retail and SME portfolios, overall asset quality continues to hold up. This, coupled with overlay buffers in banks' books, should help keep credit cost in check.
- **FY24-25F sector net profit relatively unchanged.** We still expect the sector to post 5-6% YoY net profit growth in FY24 and FY25 (FY23: +15%) on the back of a NII rebound from stabilising NIM and continued loan growth. We assume credit cost stays broadly stable but, despite the strong start to non-II, also expect a moderation in growth to 6% YoY (2023: +30%).

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Affin	Sell	1.65	(31.5)	12.2	0.5	4.1	3.3
Alliance Bank Malaysia	Buy	4.40	14.0	8.3	0.8	9.8	4.9
AMMB	Buy	4.90	14.8	8.1	0.7	9.1	5.2
BIMB	Neutral	2.45	2.1	9.0	0.7	8.1	6.7
CIMB	Buy	7.60	10.3	9.7	1.0	10.9	5.7
Hong Leong Bank	Buy	23.60	22.0	9.5	1.0	11.3	3.3
Malayan Banking	Neutral	10.60	6.2	12.2	1.2	10.3	6.3
Public Bank	Buy	4.80	16.2	11.6	1.4	12.3	4.8

Source: Company data, RHB

Top Picks	**Target Price**
CIMB (CIMB MK) – BUY	MYR7.60
AMMB (AMMB MK) – BUY	MYR4.90
Hong Leong Bank (HLBK MK) – BUY	MYR23.60
Alliance Bank Malaysia (ABMB MK) – BUY	MYR4.40
Public Bank (PBK MK) – BUY	MYR4.80

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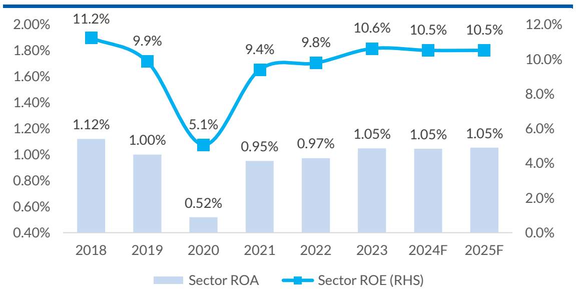
Sector ROA and ROE trends



Source: Company data, RHB

Key Highlights From 1Q24

1Q24 sector results in line

Figure 1: Malaysia banks' 1Q24 results – mostly in line

Net profit (MYRm)	1Q23	4Q23	1Q24	*QoQ (%)*	*YoY (%)*	Reported 1Q24 PATMI
Affin	149	40	110	*>100*	*(26)*	In line/below our/consensus estimates, at 24%/22% of our/consensus FY24F PATMI
ABMB	130	177	178	*0*	*37*	In line. FY24 PATMI at 103% of our and consensus estimates.
AMMB	428	543	477	*(12)*	*11*	In line/above our/consensus estimates. FY24 PATMI at 100%/107% of our/consensus FY24F PATMI
BIMB	118	148	129	*(13)*	*9*	Below our and consensus forecasts. 1Q24 at 21-22% of our/consensus FY24F figure.
CIMB	1,645	1,715	1,936	*13*	*18*	In line. 1Q24 at 25-26% of our and consensus FY24F figure.
HL Bank	930	1,088	1,044	*(4)*	*12*	In line. 9MFY24 at 78% of our and consensus FY24F figure.
Malayan Banking	2,265	2,388	2,488	*4*	*10*	In line. 1Q24 at 25% of our and consensus FY24F figure.
Public Bank	1,714	1,615	1,653	*2*	*(4)*	In line. 1Q24 at 23-24% of our and consensus FY24F figure.
RHB Bank	762	586	730	*25*	*(4)*	In line. 1Q24 at 25-26% of consensus FY24F figure.
Sector	**8,141**	**8,300**	**8,746**	**5**	**7**	

Source: Company data, RHB

Banks had a good start to the year, thanks to operating income strength – underpinned by both NII and non-II – while asset quality held up. However, there was also a YoY jump in opex which, otherwise, would have been an even stronger quarter for the banks.

Of the eight banks under our coverage, seven posted results that met our expectations. BIMB was the sole disappointment due to weaker-than-expected non-financing income. Compared against consensus, five results were in line, AMMB was a beat, while both Affin and BIMB came in below Street expectations.

With respect to dividends declared, AMMB's interim DPS was above expectations as the completion of its capital build allowed it to raise its FY24 dividend payout ratio to 40% from 35% in FY23. ABMB's dividend was in line with expectations.

2024 guidance and outlook

Figure 2: FY24 and FY25 guidance of MY banks

	YoY loan growth (%)		NIM %)		CIR (%)		Opex growth (%)		Credit costs (bps)		ROE (%)		Div payout (%)	
	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F
Affin	11.2	8.0	1.44	1.60	75.1	64.0	14.8	8 – 9	(14)	10 - 15	3.95	7.0	n.a.	50
ABMB*	13.6	8 - 10	2.48	2.4 – 2.45	48.2	c. 48.0	10.5	Slower growth vs FY24	26	30 - 35	10.2	>10.0	50	40 – 50
AMMB*	3.0	Mid-single digit	1.79	Higher than FY24	44.2	n/a	(2.3)	n/a	27	<30	10.0	na	40	na
BIMB	2.4	7-8	2.14	>2.1	63.0	n/a	4.1	n/a	25	<30	7.0	>8	n.a.	60
CIMB	7.0	5-7	2.18	Stable-to-5bps expansion	45.3	<46.9	9.0	Mid-single digit	35	30-40	11.4	11-11.5	n.a.	55
HL Bank^	7.8	6-7	1.85	1.8 – 1.9	39.8	<40.0	3.9		(7)	c. 10	12	c. 12	n.a.	n.a.
Maybank	11.2	6-7	2.00	5bps compression	48.3	<49	20.0	<10	29	<30	10.8	11.0	n.a.	Similar level (FY23: 77%)
Public Bank	6.2	5-6	2.21	Stable-to-single digit compression	35.4	35.0	9.5	5-6	6	5-10	12.3	12.0	n.a.	50-60

*Note 1: *1Q24A and FY24F refers to FY24A and FY25F*
Note 2: ^1Q24A refers to 9MFY24A
Source: Company data, RHB

Banks continue to appear guarded with respect to the macroeconomic outlook, citing factors such as geopolitical uncertainties, a higher-for-longer global interest rate environment, inflationary pressures and, domestically, the normalisation of interest rates, among others. That said, we note the optimism on NIMs ahead as banks continue with efforts to lower funding cost (eg reducing fixed deposit rates, CASA initiatives) and improve asset yields (eg growing higher yielding loans).

As for loans, demand remains supported by retail loans, SMEs, and the rollout of infrastructure projects, However, after having posted a strong start to loan growth – which, for a number of banks, growth is tracking above guidance – there is scope for banks to be more selective and to pare back growth so as to protect NIMs and to conserve capital.

Also, some banks mentioned that capital markets-related fee income and trading gains are harder to predict, as these depend on market opportunities – implying that 1Q24 non-II may be challenging to repeat.

On asset quality, while there were upticks in GIL for the retail and SME portfolios, overall asset quality continues to hold up. This, coupled with overlay buffers from the pandemic era, should help keep credit costs in check.

Overall, there were no changes to guidance, albeit it was still early days.

Sector Earnings Forecasts

Sector earnings growth to moderate to 5-6% YoY in FY24

Figure 3: MY Banks – sector earnings and key assumptions

(MYRm)	2021	2022	2023	2024F	2025F
NII	**56,024**	**60,736**	**58,309**	**61,695**	**64,497**
NII growth (%)	*12.9%*	*8.4%*	*-4.0%*	*5.8%*	*4.5%*
Loan growth (%)	*5.0%*	*7.0%*	*7.3%*	*6.0%*	*5.3%*
NIM (%)	*2.30%*	*2.37%*	*2.12%*	*2.12%*	*2.11%*
Fee income	9,714	9,256	9,682	10,323	10,907
Other income	7,798	6,177	10,283	10,901	11,419
Non-interest income	**16,371**	**15,433**	**19,966**	**21,224**	**22,326**
Non-II growth (%)	*-17.1%*	*-5.7%*	*29.4%*	*6.3%*	*5.2%*
Total operating income	**72,395**	**76,169**	**78,275**	**82,920**	**86,823**
Operating income growth (%)	*4.4%*	*5.2%*	*2.8%*	*5.9%*	*4.7%*
Non-II/Total income (%)	*22.6%*	*20.3%*	*25.5%*	*25.6%*	*25.7%*
Operating expenses	**(32,174)**	**(33,290)**	**(35,880)**	**(37,973)**	**(39,701)**
Opex growth (%)	*1.9%*	*3.5%*	*7.8%*	*5.8%*	*4.6%*
CIR (%)	*44.4%*	*43.7%*	*45.8%*	*45.8%*	*45.7%*
PIOP	**40,221**	**42,879**	**42,395**	**44,947**	**47,122**
PIOP growth (%)	*6.5%*	*6.6%*	*-1.1%*	*6.0%*	*4.8%*
Loan impairment charges	(7,866)	(5,722)	(4,552)	(4,582)	(4,745)
Other impairment charges	(893)	(769)	(302)	(222)	(222)
Total impairment charges	**(8,759)**	**(6,491)**	**(4,854)**	**(4,804)**	**(4,967)**
Credit charge-off (bps)	*47*	*32*	*24*	*23*	*22*
GIL ratio (%)	*1.77%*	*1.63%*	*1.46%*	*1.45%*	*1.40%*
Loan loss coverage (%)	*117.3%*	*118.6%*	*114.8%*	*114.7%*	*119.9%*
Associates & others	1,369	1,546	1,788	1,886	2,054
Pre-tax profit	**32,831**	**37,934**	**39,329**	**42,029**	**44,209**
Taxation	(7,491)	(11,298)	(8,327)	(9,469)	(9,956)
Minority interests	(542)	(184)	(477)	(360)	(380)
Net profit	**24,799**	**26,451**	**30,525**	**32,199**	**33,872**
Net profit growth (%)	*41.7%*	*6.7%*	*15.4%*	*5.5%*	*5.2%*

Source: Company data, RHB

Our FY24-25F sector PATMI remains relatively unchanged, with minor tweaks made to some individual banks' forecasts. There were also no recommendation changes made during the reporting quarter. We continue to expect the sector to post net profit growth of 5-6% in FY24 and FY25 on the back of a rebound in NII. We have pencilled in NIMs stabilising in 2024 after a 25bps YoY drop in 2023 and, despite a mild moderation in loan growth, these should help NII recover from the decline in 2023. We have also assumed that credit cost will ease by another 1bp to 23bps in 2024. For now, despite the strong start to non-II, we continue to assume a moderation in sector non-II growth to 6% YoY (2023: +30%), with fees helping to pick up some of the moderation in growth 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.

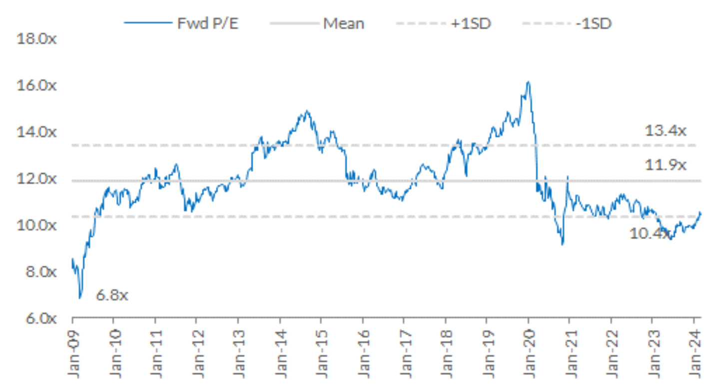
Sector Valuation

Figure 4: 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	6.89	7.60	73,483	9.0	6.2	9.7	9.1	1.03	0.95	10.9	10.9	5.7	6.1
AMMB^	Buy	4.27	4.90	14,152	1.2	4.4	8.1	7.7	0.69	0.66	8.8	8.8	5.2	5.6
HL Bank^	Buy	19.34	23.60	41,924	5.3	4.4	9.3	8.9	1.00	0.93	11.2	10.8	3.4	3.5
ABMB^	Buy	3.86	4.40	5,976	6.2	8.0	8.2	7.5	0.76	0.72	9.8	9.8	5.0	5.3
Public Bank	Buy	4.13	4.80	80,166	4.1	4.6	11.6	11.1	1.39	1.31	12.3	12.2	4.8	5.1
Maybank	Neutral	9.98	10.60	120,300	5.5	4.8	12.2	11.6	1.24	1.20	10.3	10.5	6.3	6.6
BIMB	Neutral	2.40	2.45	5,173	10.6	6.1	9.0	8.5	0.72	0.69	8.1	8.3	6.7	7.1
Affin	Sell	2.41	1.65	4,683	13.6	11.5	12.2	10.9	0.49	0.47	4.1	4.4	3.3	3.7
Sector Avg					**5.9**	**5.1**	**10.9**	**10.4**	**1.15**	**1.09**	**10.8**	**10.8**	**5.4**	**5.7**

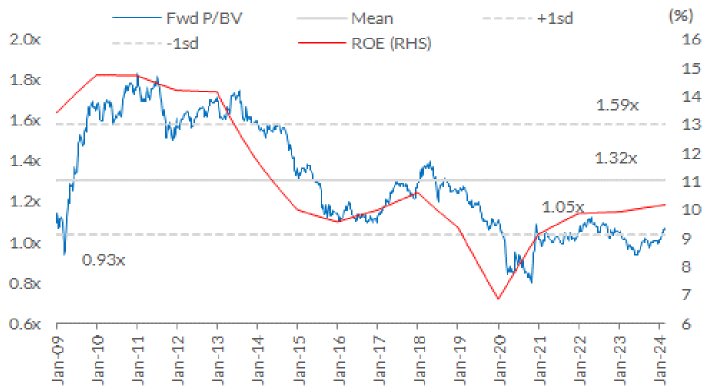
Note: ^FY24F-25F refers to FY25F-26F. MY Banks refer only to the banking stocks under our coverage
Source: Bloomberg, RHB

Figure 5: MY Banks' 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: MY Banks' 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Key Trends In 1Q24

PIOP – Operating income growth lifts PIOP

Figure 7: 1Q24 sector PIOP mainly driven by higher non-II

PIOP (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	164	86	126	46	(24)
ABMB	228	262	267	2	17
AMMB	569	645	613	(5)	8
BIMB	223	219	218	(0)	(2)
CIMB	2,654	2,750	3,077	12	16
HL Bank	837	887	859	(3)	3
Maybank	3,272	3,358	3,920	17	20
Public Bank	2,209	2,158	2,182	1	(1)
RHB Bank	1,051	1,043	1,129	8	7
Sector	**11,207**	**11,409**	**12,391**	**9**	**11**

Source: Company data, RHB

1Q24 sector PIOP rose 11% YoY (+9% QoQ) thanks to a combination of stronger operating income (YoY and QoQ) and positive jaws (QoQ basis). YoY, operating income was up 11% on the back of 4% NII growth and a 32% jump in non-II while QoQ, operating income rose 5% with NII rising 2% and non-II up 12%. Opex, meanwhile, rose 12% YoY – partly due to the base effect from the salary revision for unionised employees while QoQ, opex was stable.

Among the banks, Malayan Banking (Maybank) posted the strongest YoY growth, thanks mainly to a boost from non-II while Affin recorded the sharpest YoY PIOP decline on the back of NIM and opex pressure. On the other hand, Affin enjoyed the swiftest recovery in PIOP QoQ as NIM stabilised and opex was lower, while AMMB's PIOP fell 5% QoQ on softer treasury and markets income.

NII – Good start to the year

Figure 8: NII – Loan growth positive while signs of NIM recovering a bonus

NII (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	388	329	362	10	(7)
ABMB	410	449	457	2	12
AMMB	824	827	823	(0)	(0)
BIMB	475	500	501	0	5
CIMB	3,522	3,701	3,792	2	8
HL Bank	1,056	1,191	1,223	3	16
Maybank	4,797	4,865	4,840	(1)	1
Public Bank	2,657	2,658	2,731	3	3
RHB Bank	1,374	1,344	1,386	3	1
Sector	**15,501**	**15,864**	**16,115**	**2**	**4**

Source: Company data, RHB

1Q24 sector NII had a good start to the year – up 4% YoY and 2% QoQ, with loan growth as the main driver while NIM stabilised. HL Bank reported a 16% YoY rise in NII on a combination of above-industry loan growth of 7.8% YoY while NIM expanded by 5bps YoY on efforts to manage down deposit costs plus asset/liability management initiatives. Meanwhile, Affin posted a 7% YoY contraction in NII mainly due to NIM compression, although its 10% QoQ NII growth reflects its efforts to turnaround NIM are bearing fruit.

Figure 9: NIM – brighter days ahead?

NIM (%)	1Q23	4Q23	1Q24	QoQ (bps)	YoY (bps)
Affin	1.76	1.44	1.44	-	(32)
ABMB	2.52	2.49	2.45	(4)	(7)
AMMB	1.84	1.79	1.79	-	(5)
BIMB	2.06	2.13	2.14	1	8
CIMB	2.26	2.15	2.18	3	(8)
HL Bank	1.82	1.85	1.87	2	5
Maybank	2.19	2.06	2.00	(6)	(19)
Public Bank	2.26	2.15	2.21	6	(5)
RHB Bank	1.90	1.77	1.83	6	(7)
Sector	**2.10**	**2.04**	**2.03**	**(1)**	**(7)**

Source: Company data, RHB

1Q24 saw NIM ease 1bp QoQ but, given that 1Q tends to be a seasonally shorter period, this was commendable. By our estimates, average cost of funds for the sector eased in 1Q24 post the seasonal deposit competition in 4Q23 and the repricing of high cost deposits brought in during 4Q22/1Q23, when deposit competition was at its peak. NIM, however, was still down YoY and ongoing efforts to manage down funding cost (eg reprice down fixed deposit rates, grow CASA) should help narrow the YoY differential.

Generally, NIMs for the majority of the banks are still lower YoY. The two banks whose NIMs are up YoY are BIMB (weak loan growth allowed the group to aggressively shed costlier deposits) and HL Bank (deposit cost and asset/liability management). Maybank's and Affin's NIMs were most adversely impacted due to their need to fund strong loan growth and, likely, loan mix for Maybank given the strong loan growth it enjoyed in Singapore. QoQ, most banks saw NIM expand, or at least, stabilise. Maybank's NIM slipped 6bps QoQ while ABMB's NIM was down 4bps QoQ – both likely due to the need to fund their strong loan demand.

The majority of the banks under our coverage guided for NIM improvement sequentially on the back of the abovementioned reasons on managing down funding cost, as well as a focus on growing higher-yielding loans.

Figure 10: Pace of YoY loan growth was sustained, with overseas segments being a driver for the larger banks

Gross loans (MYRbn)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	61.2	66.7	68.0	2	11
ABMB	49.2	53.5	55.9	4	14
AMMB	130.2	131.3	126.7	(4)	(3)
BIMB	66.2	67.6	67.8	0	2
CIMB	413.2	441.0	442.3	0	7
HL Bank	174.2	185.2	187.8	(1)	8
Maybank	591.7	640.8	657.8	3	11
Public Bank	381.6	399.0	405.3	2	6
RHB Bank	213.3	222.3	224.8	1	5
Sector	**2,080.8**	**2,207.4**	**2,236.4**	**1**	**7**

Source: Company data, RHB

YoY loan growth was sustained at 7%. For most banks, the consumer segment was a key driver of domestic loans, thanks to stable drawdowns from mortgage pipelines, while the auto segment continued to enjoy healthy sales. For banks with regional operations, their Singapore operations were a key driver.

Loans growth guidance for FY24 was unchanged but, with 1Q24 YoY growth trending ahead of guidance for some banks, these banks had guided for a slowdown in the quarters ahead. Reasons include to protect NIM (given competitive pressures for loans and funding – especially overseas), and to preserve capital.

Figure 11: Deposit growth broadly kept pace with loan growth

Deposits (MYRbn)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	65.9	70.8	71.8	*1*	*9*
ABMB	50.8	54.4	57.4	*5*	*13*
AMMB	130.3	135.9	142.4	*5*	*9*
BIMB	77.8	76.1	76.4	*0*	*(2)*
CIMB	453.3	482.4	490.0	*2*	*8*
HL Bank	205.8	213.3	214.9	*1*	*4*
Maybank	651.3	696.8	709.0	*2*	*9*
Public Bank	403.7	412.9	420.2	*2*	*4*
RHB Bank	227.4	245.6	243.5	*(1)*	*7*
Sector	**2,266.3**	**2,388.3**	**2,425.5**	***2***	***7***

Source: Company data, RHB

Sector deposit growth of 2% QoQ (+7% YoY) broadly kept pace with loan growth and, hence, the LDR was stable at 90-91%. CASA growth was in line with overall deposit growth – as such, the sector CASA ratio was broadly unchanged, at around 34%. Amid continued efforts to manage funding cost, expect CASA growth to continue to be a focus for banks. As for fixed deposits, a number of banks, especially the large banks, have commented that efforts are still ongoing to reprice down fixed deposit rates, which would be supportive for NIM ahead.

Figure 12: LDR stable at 90-91% range

LDR (%)	1Q23	4Q23	1Q24	QoQ (ppts)	YoY (ppts)
Affin	90.7	92.1	93.0	*0.9*	*2.2*
ABMB	94.3	96.2	95.3	*(0.8)*	*1.1*
AMMB	98.4	95.0	87.5	*(7.5)*	*(10.9)*
BIMB	83.7	87.8	87.7	*(0.1)*	*4.0*
CIMB	88.4	89.0	87.9	*(1.1)*	*(0.4)*
HL Bank	83.8	86.0	86.6	*0.6*	*2.8*
Maybank	89.1	90.5	91.3	*0.8*	*2.2*
Public Bank	93.5	95.6	95.4	*(0.2)*	*2.0*
RHB Bank	92.2	89.4	91.2	*1.8*	*(1.0)*
Sector	**90.1**	**90.9**	**90.7**	***(0.2)***	***0.7***

Source: Company data, RHB

Non-II up on both fee and treasury and markets

Figure 13: Regional banks generally enjoyed strong treasury and markets income

Non-II (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	107	158	143	*(10)*	*34*
ABMB	59	61	59	*(3)*	*(0)*
AMMB	301	340	319	*(6)*	*6*
BIMB	105	111	89	*(20)*	*(16)*
CIMB	1,475	1,674	1,837	*10*	*25*
HL Bank	341	273	212	*(22)*	*(38)*
Maybank	1,528	2,112	2,737	*30*	*79*
Public Bank	647	602	650	*8*	*0*
RHB Bank	534	680	703	*3*	*32*
Sector	**5,096**	**6,010**	**6,748**	***12***	***32***

Source: Company data, RHB

1Q24 sector non-II rose 32% YoY (+12% QoQ), with treasury and FX jumping 45% YoY (+11% QoQ) while fees were up 15% YoY (flat QoQ). Banks that enjoyed strong treasury and FX income were mainly the bigger regional banks, whereas the domestic-centric banks saw fewer trading opportunities. Similarly, banks that did well QoQ were the larger regional banks, thanks to treasury and FX. Public Bank's sequential non-II growth was supported by stronger fees while HL Bank's softer YoY and QoQ non-II was dragged by weaker trading gains.

Figure 14: Good uptick in fees from both retail and capital markets-related fees

Fees (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	66	62	81	*30*	*23*
ABMB	26	41	29	*(28)*	*15*
AMMB	159	173	175	*1*	*10*
BIMB	57	73	64	*(12)*	*13*
CIMB	515	660	588	*(11)*	*14*
HL Bank	147	168	168	*0*	*14*
Maybank	803	938	947	*1*	*18*
Public Bank	482	487	534	*10*	*11*
RHB Bank	202	237	241	*1*	*19*
Sector	**2,458**	**2,839**	**2,828**	***(0)***	***15***

Source: Company data, RHB

Sector fee income was decent, up 15% YoY (flat QoQ). YoY growth was well-supported by loan-related fee income while capital markets fees such as unit trust, brokerage and investment banking (IB) fees were also healthy in 1Q. Affin did well on fees thanks to its IB with both stockbroking and advisory fees enjoying robust growth.

Figure 15: Operating income had a good quarter, thanks mainly to non-II

Operating income(MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	494	486	505	*4*	*2*
ABMB	469	510	516	*1*	*10*
AMMB	1,125	1,166	1,142	*(2)*	*2*
BIMB	580	611	590	*(3)*	*2*
CIMB	4,997	5,375	5,629	*5*	*13*
HL Bank	1,396	1,465	1,436	*(2)*	*3*
Maybank	6,324	6,977	7,577	*9*	*20*
Public Bank	3,303	3,260	3,380	*4*	*2*
RHB Bank	1,908	2,024	2,088	*3*	*9*
Sector	**20,597**	**21,874**	**22,863**	***5***	***11***

Source: Company data, RHB

Opex up on personnel costs

Figure 16: YoY opex increase was pressured by higher personnel costs post-collective agreement adjustments

Opex (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Affin	330	400	379	*(5)*	*15*
ABMB	241	248	249	*1*	*3*
AMMB	556	522	530	*2*	*(5)*
BIMB	357	392	371	*(5)*	*4*
CIMB	2,344	2,625	2,552	*(3)*	*9*
HL Bank	559	578	577	*(0)*	*3*
Maybank	3,052	3,619	3,657	*1*	*20*
Public Bank	1,094	1,102	1,198	*9*	*10*
RHB Bank	857	981	959	*(2)*	*12*
Sector	**9,389**	**10,466**	**10,473**	***0***	***12***

Source: Company data, RHB

Sector opex was expectedly higher YoY, due to higher personnel costs post-collective agreement adjustments and provisions for new upcoming union salary revisions. We would suspect some banks took advantage of the strong operating income growth to frontload some opex into 1Q, eg Maybank. Apart from personnel cost, Maybank's YoY opex growth was attributed to higher IT and revenue-related expenses, as well as higher credit-card-related fees on increased billings and merchant volume.

On the flip side, some banks such as ABMB and Affin are expecting IT-related expenses to subside, as these were intensified in the previous few quarters.

Notwithstanding the double-digit YoY rise in opex, sector CIR was stable YoY at 45.8%, thanks to the strong operating income growth while, QoQ, the sector enjoyed positive jaws leading to the 2ppt improvement in CIR.

Figure 17: CIR stable YoY thanks to strong operating income growth

CIR (%)	1Q23	4Q23	1Q24	*QoQ (ppts)*	*YoY (ppts)*
Affin	66.8	82.4	75.1	*(7.3)*	*8.3*
ABMB	51.4	48.6	48.3	*(0.3)*	*(3.1)*
AMMB	49.4	44.7	46.4	*1.6*	*(3.0)*
BIMB	61.5	64.2	63.0	*(1.2)*	*1.5*
CIMB	46.9	48.8	45.3	*(3.5)*	*(1.6)*
HL Bank	40.1	39.4	40.2	*0.7*	*0.1*
Maybank	48.3	51.9	48.3	*(3.6)*	*0.0*
Public Bank	33.1	33.8	35.4	*1.7*	*2.3*
RHB Bank	44.9	48.5	45.9	*(2.5)*	*1.0*
Sector	**45.6**	**47.8**	**45.8**	***(2.0)***	***0.2***

Source: Company data, RHB

Credit costs looks in check

Figure 18: Credit costs mostly tracking guidance or were lower than guidance

Credit cost (bps)	1Q23	4Q23	1Q24	*QoQ (bps)*	*YoY (bps)*
Affin	(9)	7	(14)	*(20)*	*(5)*
ABMB	48	19	26	*7*	*(22)*
AMMB	26	133	12	*(121)*	*(14)*
BIMB	38	12	25	*13*	*(13)*
CIMB	30	34	37	*2*	*7*
HL Bank	9	(1)	(6)	*(4)*	*(14)*
Maybank	24	30	29	*(1)*	*4*
Public Bank	0	10	6	*(3)*	*6*
RHB Bank	10	44	38	*(6)*	*28*
Sector	**20**	**30**	**22**	***(8)***	***2***

Source: Company data, RHB

Figure 19: Sector GIL was stable despite 1Q festivities

Gross impaired loans (MYRm)	1Q23	4Q23	1Q24	*QoQ (%)*	*YoY (%)*	*GIL ratio (%)*
Affin	1,201	1,265	1,330	*5*	*11*	1.96
ABMB	1,233	1,246	1,178	*(5)*	*(4)*	2.11
AMMB	1,896	2,103	2,236	*6*	*18*	1.77
BIMB	908	636	642	*1*	*(29)*	0.95
CIMB	13,310	11,770	11,296	*(4)*	*(15)*	2.55
HL Bank	904	1,033	1,074	*4*	*19*	0.57
Maybank	8,895	8,600	8,653	*1*	*(3)*	1.32
Public Bank	1,968	2,335	2,512	*8*	*28*	0.62
RHB Bank	3,389	3,879	4,115	*6*	*21*	1.83
Sector	**33,704**	**32,868**	**33,036**	***1***	***(2)***	**1.48**

Source: Company data, RHB

Figure 20: LLC remains intact

Loan loss coverage (%)	1Q23	4Q23	1Q24	QoQ (ppts)	YoY (ppts)
Affin	117.1	113.6	99.6	(14.0)	(17.5)
ABMB	102.8	96.3	100.6	4.3	(2.2)
AMMB	104.6	102.0	90.7	(11.3)	(13.9)
BIMB	117.7	128.6	125.0	(3.6)	7.2
CIMB	94.8	98.1	101.6	3.5	6.8
HL Bank	196.6	163.4	154.4	(9.0)	(42.1)
Maybank	129.1	120.1	121.3	1.2	(7.9)
Public Bank	217.8	181.8	168.7	(13.1)	(49.1)
RHB Bank	109.4	71.7	70.1	(1.6)	(39.2)
Sector	**117.5**	**110.1**	**109.2**	**(0.9)**	**(8.2)**

Source: Company data, RHB

Sector net loan provisions in 1Q24 was sequentially lower on the absence of chunky provision top-ups (recall that, in the Dec 2023 quarter, CIMB and PBK incurred additional provisions for isolated cases in Thailand and Hong Kong, while AMMB added pre-emptive provisions for its retail book), although banks such as ABMB and BIMB saw credit costs return to normalised levels from the abnormally low charges during the Dec 2023 quarter. On the flip side, HL Bank saw a third consecutive quarter of net impairment write-backs owing to its stable asset quality metrics, while Affin's net write-back was due to a reversal of provisions for a corporate account after a recovery was made.

Sector GIL saw a sequential uptick, mostly coming from the domestic SME and retail space. We also suspect some of the sequential uptick could be attributable to seasonality factors. YoY, however, sector GIL was down 2% with most of the decline contributed by CIMB. Sector LLC remains healthy at 109%, and most of the banks under our coverage have committed to maintaining coverage levels near or around the 100% mark.

Capital management should be a recurring theme

Figure 21: CET-1 ratios remain comfortable

CET-1 ratio (%)	1Q23	4Q23	1Q24	QoQ (bps)	YoY (bps)
Affin	14.0	13.8	13.4	(36)	(61)
ABMB	13.8	12.8	12.5	(30)	(130)
AMMB	12.1	13.4	13.0	(36)	94
BIMB	15.1	14.1	13.9	(22)	(123)
CIMB	14.3	14.5	15.0	50	70
HL Bank	12.9	12.9	12.5	(40)	(40)
Maybank	15.1	15.3	14.9	(40)	(19)
Public Bank	14.7	14.7	14.5	(20)	(20)
RHB Bank	16.9	16.7	16.5	(20)	(40)

Source: Company data, RHB

With capital ratios being healthy, we expect banks to stay generous on dividends. During the reporting quarter, ABMB and AMMB declared second interim dividends that surprised on the upside – the former on slightly better-than-expected earnings, and the latter on a greater-than-expected payout (40% vs our 36% forecast). ABMB toned down its dividend guidance to a 40-50% payout as part of its capital optimisation plans for FY25F, while AMMB did not declare any guidance. However, we note that management's intention is to gradually increase payouts over time from the 40% level, especially as its capital rebuild initiatives (non-core asset disposals, adoption of F-IRB) are largely completed.

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