10 March 2025

Global Economics & Market Strategy

Stable Outlook on the Banking Sector Bonds/Sukuk

♦ **We have a Stable credit outlook on the banking sector.** The banking system's liquidity and capitalization remains robust and well above regulatory minimum levels. As of Jan-25, the aggregate Liquidity Coverage Ratio (LCR) stood at 157% while the Common Equity Tier-1 (CET1) ratio stood at 14.3%. Asset quality wise, Gross Impaired Loan (GIL) ratio improved to 1.46% at Jan-25 from 1.60% a year ago, driven by both higher loans and decline in GILs.

♦ **Loan growth should remain steady in 2025 with our projected GDP growth of 5.0%.** Loan growth in 2025 is underpinned by robust domestic consumption, rising FDIs, minimum wage hike, and incentives for first home purchase and EV adoption. The major projects such as the development of Johor-Singapore Special Economic Zone, National Energy Transition Roadmap, New Industrial Master Plan 2030 will also support loan demand.

♦ **We see value in Affin Bank (All tranches), Alliance Bank (All tranches), CIMB Group (subordinated), and UOB Malaysia (Senior).** These papers offer attractive relative value as well as decent liquidity. Given the sound banking system, strong regulatory environment, and the liquid debt market, we perceive non-call risks for subordinated and perpetual tranches to remain a very isolated risk.

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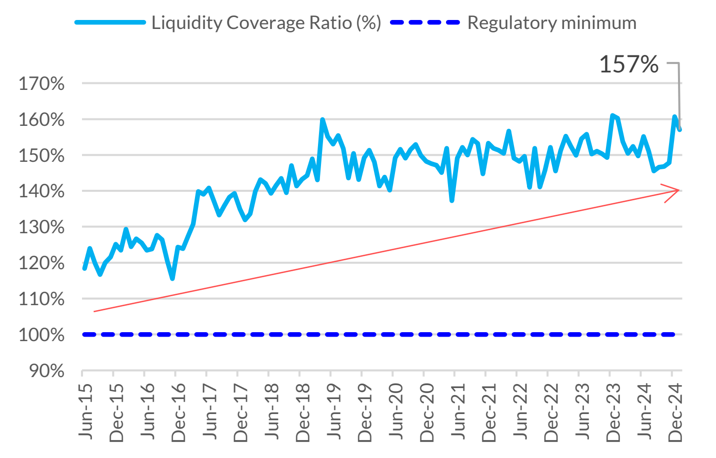
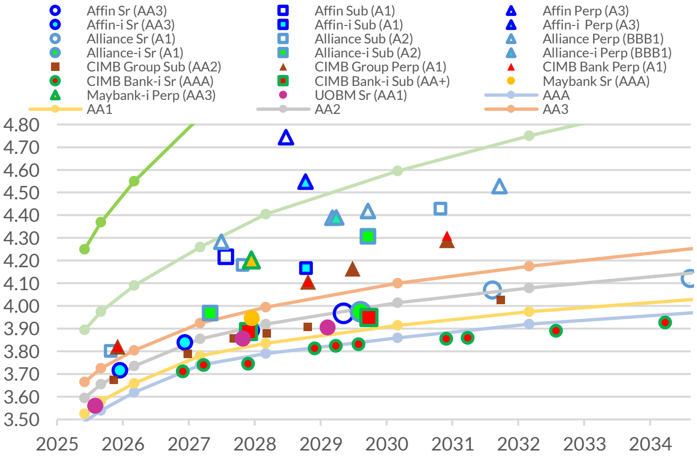
Figure 1: Banking system remain highly liquid



Source: BNM. RHB Economics & Market Strategy.

Figure 2: We see value in Affin, Alliance, CIMB (subordinated), and UOB Malaysia



Source: BPAM. RHB Economics & Market Strategy.

Banking Sector Credit Outlook

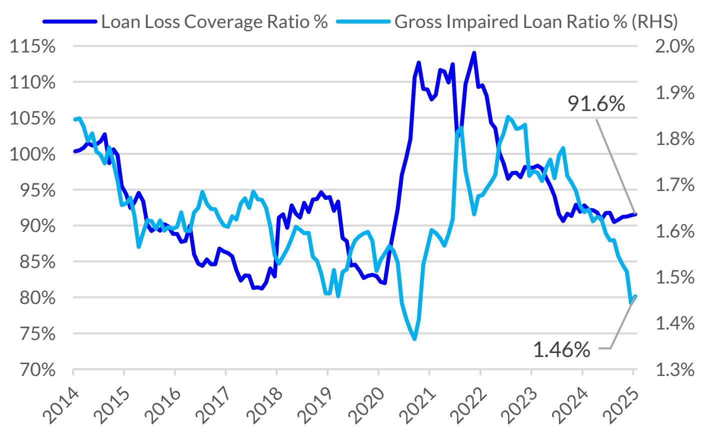
- **We have a Stable credit outlook on the banking sector.** Banking system's liquidity and capitalization remains robust and well above regulatory minimum levels. As of Dec-24, the aggregate Liquidity Coverage Ratio (LCR) stood at 161% (Regulatory minimum: 100%, Figure 7) while the Common Equity Tier-1 (CET1, Figure 8) ratio stood at 14.3% (Regulatory minimum: 4.5%). The bank's stable funding base was boosted in 2024 with the record issuance of debt securities amounting to MYR28.64bn, based on BPAM data. The implementation of Liquidity Risk Policy in Oct-2024 further enhances the management, monitoring, mitigation, transparency, and recovery of liquidity risks in banks.

- **We expect issuances to remain similar to 2024 or moderate slightly**. We think bank funding remain in demand as: (1) the rising loan growth relative to deposit growth has driven the Loan-to-Deposit (LDR) ratio higher to 87.7% in Jan-25 from 86.1% a year ago (Figure 9), indicating need for liquidity. The 3-month average deposit rate trended lower to 2.61% at Dec-24 from 2.72% a year ago while the average lending rate (ALR) fell to 5.1%, a 33bps YoY drop (Figure 10).

- **Asset quality outlook remain stable and saw improvement in 2024.** The continued improvement of the economy, indicated by rising income, declining unemployment rate, job market stability, growing consumption and investment, supports a stable asset quality outlook. In 2024, asset quality improved as loans classified as Stage 2 declined to MYR148bn in Dec-24, a YoY decline of MYR4.9bn or 3.2%. Loans under repayment assistance programmes declined to 2.0% of total loans as of Jun-24, while new rescheduled and restructured loans from borrowers facing financial strains remained small at 0.09% of banks' total loans. Similarly, banking system's Gross Impaired Loan (GIL) ratio also improved to 1.44% at Dec-24 from 1.65% a year ago, driven by both loan growth and decline in GILs. The management overlays accumulated during the pandemic has been gradually released, standing at around 25% of banks' provisions as of June-24, an improvement from 27% in Dec-23. Provisions remain adequate, with the Loan Loss Coverage (LLC) standing at 91.4% at Dec-24 versus 91.9% a year ago (Figure 3).

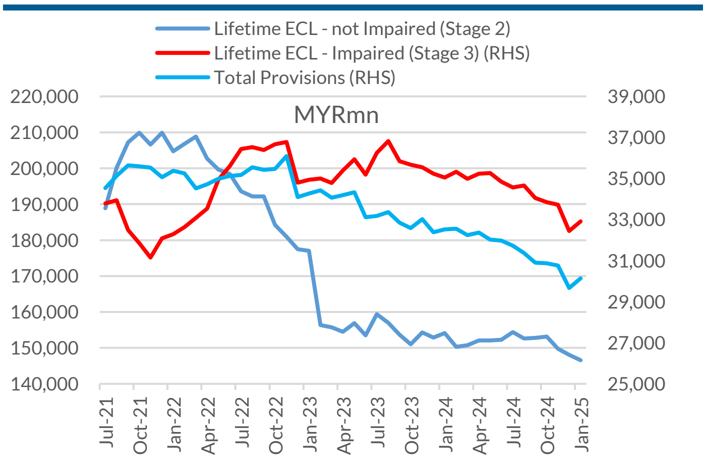
- **Loan growth should remain steady in 2025 with our projected GDP growth of 5.0%**. Strong domestic demand should continue to drive household and non-household loan demand in 2025. Private consumption is set to benefit from: minimum wage hike and salary adjustments for civil servants. Home and vehicle loan growth should benefit from the full stamp duty exemption for first home buyer until end-25 and import duty, excise duty and road tax exemption for EV car users until end-25. Investment activity is expected to gain momentum from ongoing multi-year projects and business-friendly policies and incentives targeting key sectors such as technology, tourism, and export-driven industries. Additionally, initiatives under the Economy MADANI framework, including major plans like the National Energy Transition Roadmap, New Industrial Master Plan 2030, and the Johor-Singapore Special Economic Zone are anticipated to support medium-term loan growth. However, loan growth could disappoint if the loan application and approvals remain soft - 2024 saw tepid loan application and approval growth of +3.0% YoY and +1.2% YoY, respectively.

Figure 3: Loan loss coverage ratio



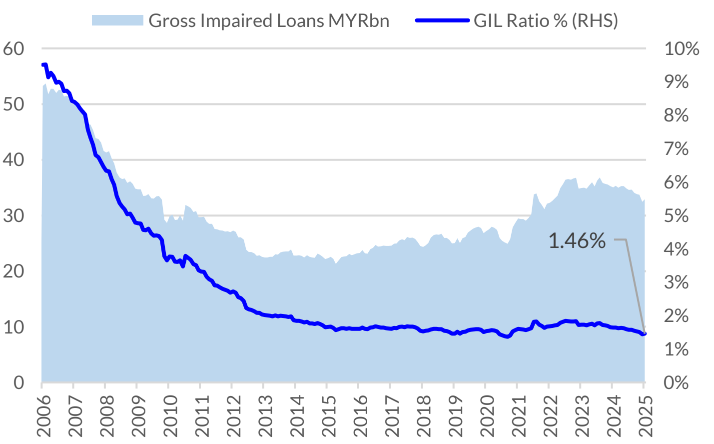
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 4: Provisioning are trending lower



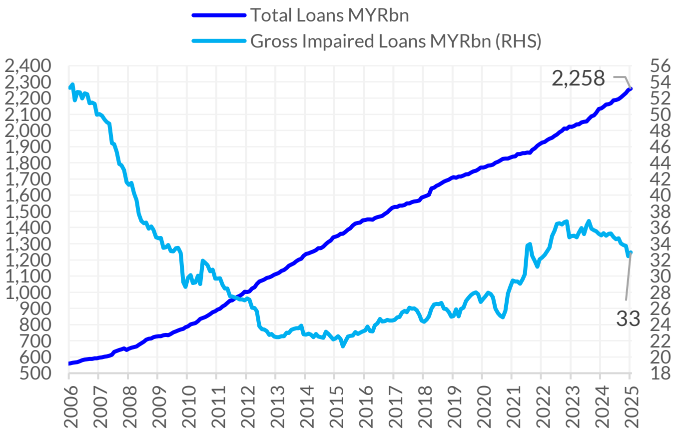
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 5: GIL ratio remain stable



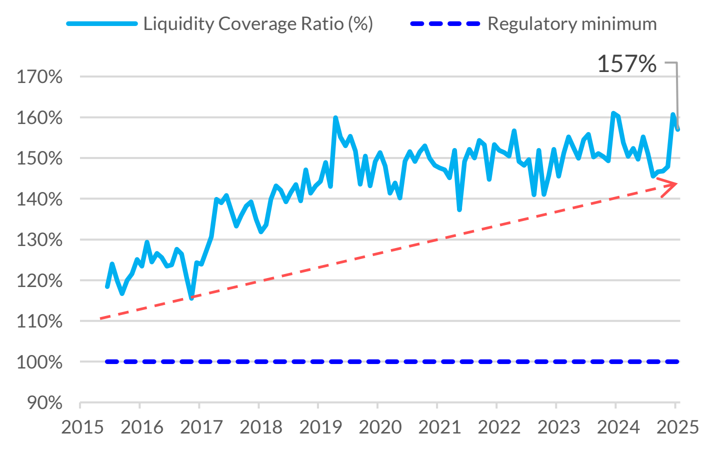
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 6: Total loan versus GILs



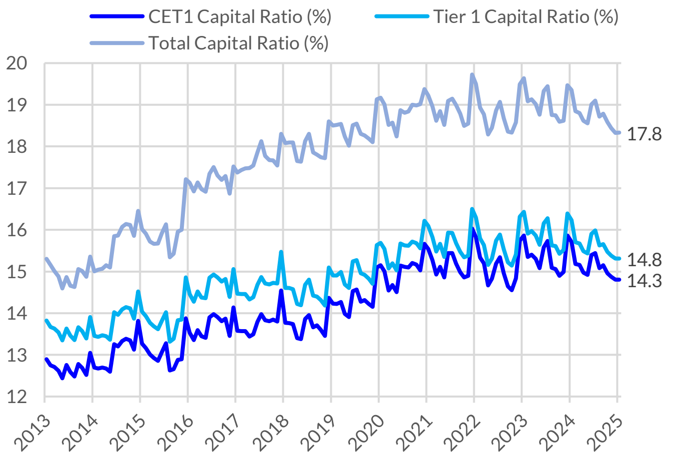
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 7: Liquidity remain high with liquid assets 157% of short-term liabilities



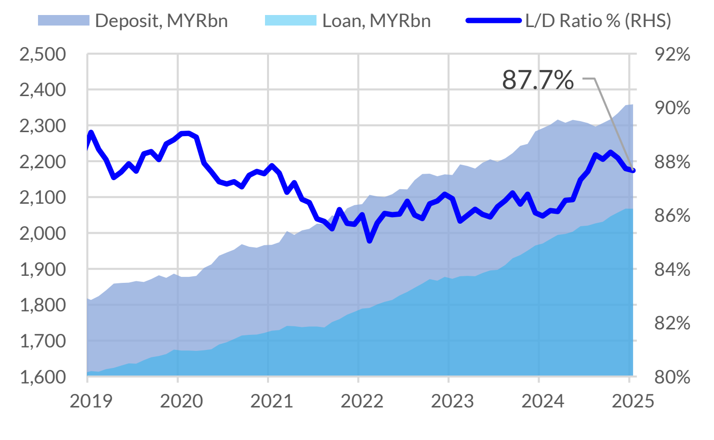
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 8: Banking system remain well capitalised



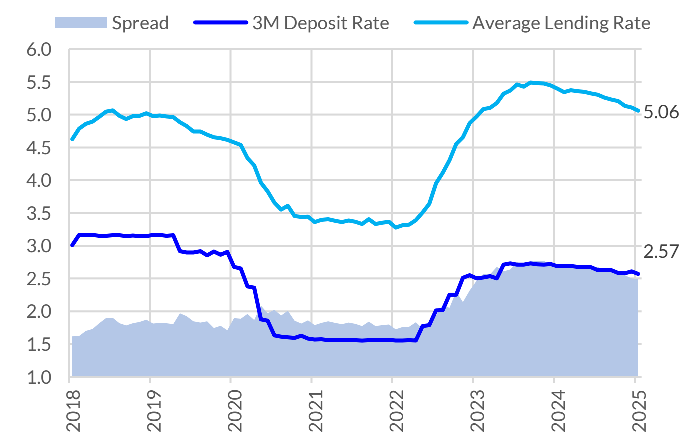
Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 9: System LDR stood at 87.7% in Jan-25



Source: BNM. RHB Economics & Market Strategy. Jan-25.

Figure 10: Deposit rate and lending rate



Source: BNM. RHB Economics & Market Strategy. Jan-25. Deposit rate derived from quoted rate.

Bond/Sukuk Recommendation

- **Overall, we are Outperform Affin Bank (All tranches), Alliance Bank (All tranches), UOB Malaysia (Senior) and CIMB Group (subordinated and perpetual).** Factors for our recommendation include credit stability, bond/sukuk liquidity as well as MTM yields.

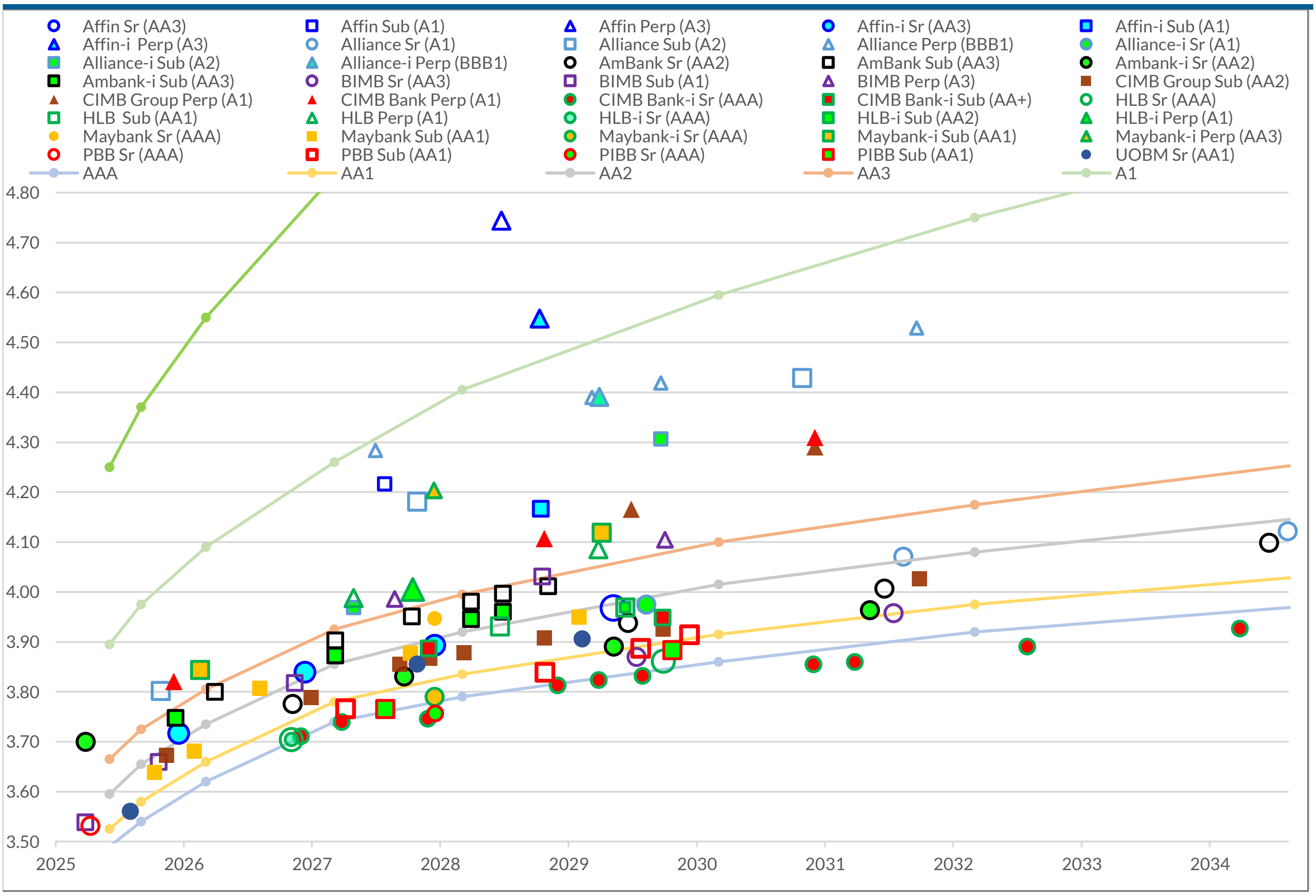
From a ranking perspective

- **Senior tranches:** Our top pick in the AAA issuer-level segment is **Maybank (AAA)**, given the elevated MTM yields. In the AA rated segment, we prefer **Affin** and **Affin Islamic (AA3)** as well as **UOBM (AA1)**, and both offer decent liquidity and pickup in relative terms. In the A segment we think **Alliance (A1)** offer decent yields.

- **Subordinated tranches:** Our top pick in the AAA issuer-level segment is **CIMB Group (AA1)**, given its choice of tenures, decent pickup and liquidity. In the AA rated segment, we prefer **Affin** and **Affin Islamic (AA3)**, given the healthy pickup, although tranches are limited to one for each bank. In the A segment, **Alliance and Alliance Islamic (A1)** offer decent yields of 4.18% (10/27) to 4.43% (10/30).

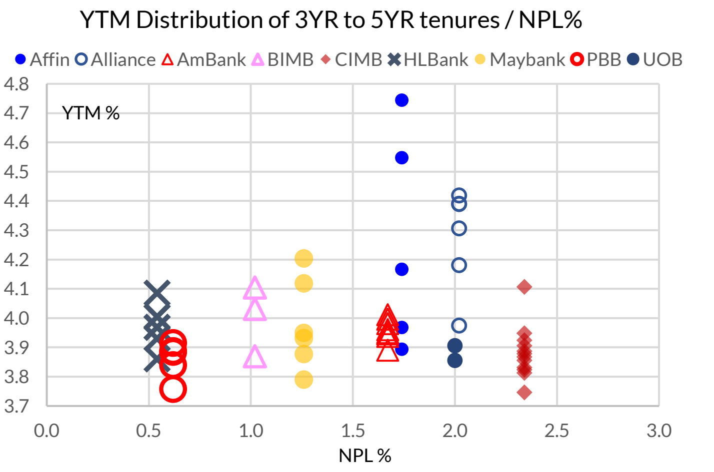
- **Perpetual/Additional Tier-1 tranches:** Our top pick in the AAA issuer-level segment is **CIMB Group (A1)**, given its decent yield of 4.17% (6/29) and 4.29% (12/30). In the AA rated segment, we prefer **Affin** and **Affin Islamic (AA3)**, given the healthy pickup, although tranches are limited to one for each bank. In the A segment, **Alliance (BBB1)** offer decent yields of 4.28% (6/27) to 4.53% (9/31).

Figure 11: Property and property related issuer YTM



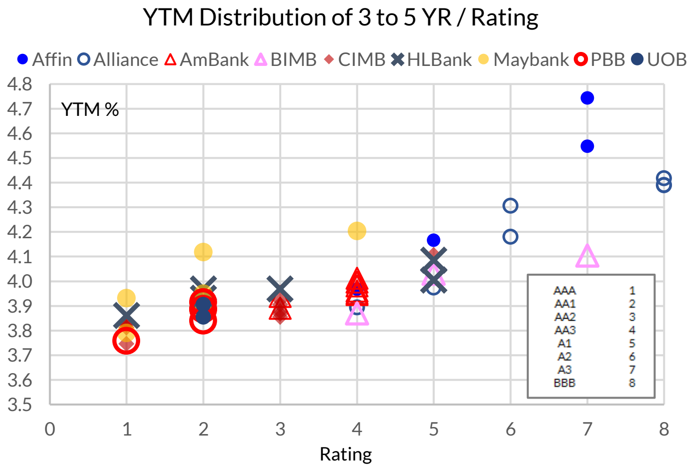
Source: BPAM, Bloomberg, RHB Economics & Market Strategy.

Figure 12: YTM distribution of 3YR- 5YR per unit of NPL



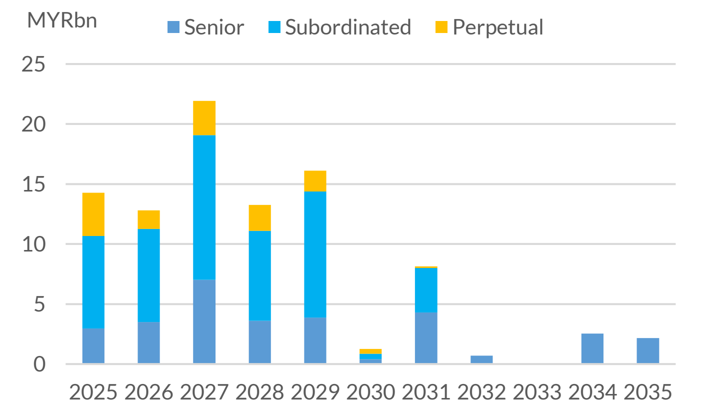
Source: BPAM. RHB Economics & Market Strategy.

Figure 13: YTM distribution of 3YR- 5YR per rating



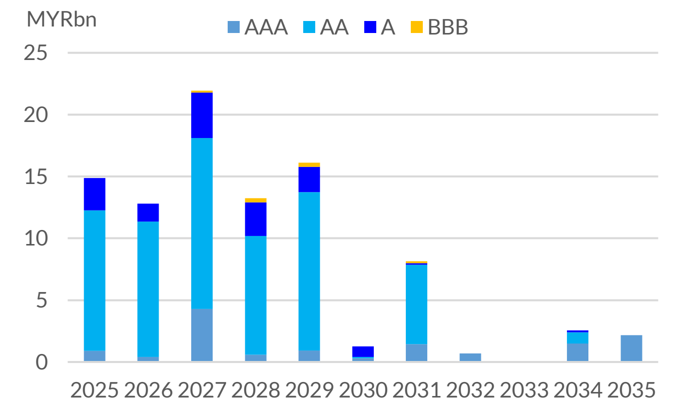
Source: BPAM. RHB Economics & Market Strategy.

Figure 14: Commercial bank maturity by rank



Source: BPAM. RHB Economics & Market Strategy. 5 Mar 2025.

Figure 15: Commercial bank maturity by rating



Source: BPAM. RHB Economics & Market Strategy. 5 Mar 2025.

- **Banking papers remain the largest outstanding sector in the corporate ringgit bond/sukuk space, comprising 17.3% of total non-government guaranteed corporate bond outstanding as of end-24**. In general, yields on Islamic concept banks are lower compared to its conventional counterpart. In addition, senior tranches are generally richly valued given the relative scarcity, particularly at the AAA issuer-level. Perpetual yields are typically priced just one notch above its subordinated tranche. In terms of supply, subordinated remain the preferred issuance channel for banks, given the outsized share of outstanding subordinated tranches.

- **In terms of pickup opportunities, we see smaller banks offering better pickup, given the embedded perceived risk premiums**. In terms of non-call risks, we think the likelihood of non-renewal of subordinated tranches due remain remote due to the sound banking system and healthy liquidity in the bond market. We use Bond Pricing Association Malaysia's (BPAM) liquidity score to assess trading liquidity.

Our views from individual issuer perspective

- **Affin Bank**: Average active bond liquidity score: **2.25**
  - **Senior** (AA3): YTM are fair at one notch lower at AA2 levels. Islamic bank's papers are similarly priced.
  - **Subordinated** (A1): Attractive, with YTM only slightly below A1 benchmark. Islamic bank's yields are lower, closer to AA3.
  - **Perpetual** (A3): Conventional bank attractive in between A1 and A2 benchmark. Islamic bank's yields are lower, closer to A1 levels.

- **Alliance Bank**: Average active bond liquidity score: **2.35**
  - **Senior** (A1): Fairly priced with YTM two notch lower near AA2 levels. Islamic bank sukuk are priced slightly below AA2.
  - **Subordinated** (A2): Attractive with YTM trading at one notch lower in between A1 and AA3. Islamic bank yields are slightly compressed relatively.
  - **Perpetual** (BBB1): Fairly priced, YTM at three notch higher in the A1 range. Given the only marginal premium over the A2 papers, we prefer the subordinated tranches.

- **AmBank**: Average active bond liquidity score: **2.25**
  - **Senior** (AA2): Fairly priced with YTM below AA2 curve. Islamic bank yields are slightly lower.
  - **Subordinated (AA3):** Fairly priced with YTM slightly below the AA3 curve. Islamic bank yields are slightly lower.

- **Bank Islam**: Average active bond liquidity score: **2.26**
  - **Senior** (AA-): YTMs rich at two notch below at AA1 levels.
  - **Subordinated** (A1): Fairly priced as YTMs are one or two notch lower at around AA2 and AA3 levels.
  - **Perpetual** (A3): Fairly priced as yields are only slight premium to subordinated levels.

- **CIMB Bank/Group**: Average active bond liquidity score: **1.95**
  - **Senior**: CIMB conventional (AAA) and Islamic bank (AAA) are fairly valued, with MTM at slightly below the AAA curve.
  - **Subordinated**: Islamic bank (AA+) offers slight pickup from the AA1 curve as well as compared to Group's AA2.
  - **Perpetual**: Group's (A1) tranche offer attractive with yields above the AA3 curve.

- **Hong Leong Bank**: Average active bond liquidity score: **1.97**
  - **Senior**: Both conventional (AAA) and Islamic (AAA) fairly valued as yields near AAA curve.
  - **Subordinated** (AA1/AA2): Hong Leong Islamic (AA2) are fairly valued, trading near AA2 levels. While Hong Leong (AA1) offer slightly more pickup as it's trading near AA2 levels.
  - **Perpetual** (A1): Markets price both Hong Leong (A1) and Hong Leong Islamic (A1) one notch lower at AA3 levels.

- **Malayan Banking**: Average active bond liquidity score: **2.35**.
    - Yields are relatively attractive versus other AAA rated peers, however, the Islamic bank's zero liquidity score could affect price discovery. Subordinated and perpetual are relatively liquid.
    - **Senior (AAA)**: Maybank Islamic fairly priced, YTM valued at the AAA curve. Maybank's floating rate attractive at AA2.
    - **Subordinated (AA1)**: Maybank Islamic attractive as it yields above the AA3 curve while conventional YTM fair yields at around the AA2 curve.
    - **Perpetual (AA3)**: Both Islamic and conventional bank notes are attractively priced, notably higher than the AA3, with 4.00% yields for one year and longer.

- **Public Bank –** Average active bond liquidity score: **2.19**
    - **Senior (AAA)**: Likely low liquidity as only 1 tranche each for Islamic and conventional banks. Trading at rich valuation.
    - **Subordinated (AA1)**: At fair-to-rich levels, MTM at between AAA and AA1 levels.

- **UOB Malaysia**: Average active bond liquidity score: **3.0**
    - **Senior (AA1)**: Attractive MTM yields at slightly above AA1.

Bank Issuer Outlook

Affin Bank Berhad (Issuer Rating: AA3, Stable)

- **We are Outperform on Affin Bank Berhad (Affin) given its decent pickup across its tranches.** The bank's assets size stood at RM111.8 billion as at Dec-24. The bank recorded a loan book growth of 8% YoY to MYR72.0bn. A slight uptick in GIL ratio was recorded largely due to an impaired corporate account from the property sector (FY24: 1.94%; FY23: 1.90%), we understand this exposure was over-collateralised hence minimises risk. Pre-tax profit of MYR701mn was largely supported by net write back of MYR170mn. NIM declined to 2.54% during the same period. The bank's LDR stood at 96.7% given its relatively high loan growth rate. Capitalisation level recorded a slight decline with CET1 and total capital ratios stood at 13.2% and 17.1% in FY24.

- **Affin is guided by its new four-year strategy, launched in February 2024. Key initiatives include focus on expanding its private banking services by targeting high-net-worth clients to boost fee income**. The bank is also prioritizing growth in Sarawak, following the state government's increased stake to 31% through SG Assetfin Holdings Berhad's purchase of shares from LTAT and Boustead Holdings in September 2024. This development opens up opportunities for growth in direct lending, advisory services, and capital market fundraising.

Affin Bank Berhad

MYRmn (FYE Dec)	FY20	FY21	FY22	FY23	FY24
Revenue	3,469	2,591	3,061	3,675	2,170
Interest Income	1,807	1,676	2,053	2,650	3,002
Interest Expense	1,035	776	1,031	1,867	2,175
Non-Interest Income	1,662	916	1,008	1,025	1,248
Pre Tax Income	394	529	239	523	701
Total Assets	69,537	78,429	90,121	105,248	111,842
Gross Loans	46,273	51,417	59,343	66,663	72,045
Gross Impaired Loans	1,629	1,306	1,171	1,265	1,398
Cash Balances	5,615	7,633	6,456	6,483	3,155
Total Deposits	49,887	58,796	64,996	70,834	74,501
Total Debt	7,066	6,169	5,894	7,279	8,893
Total Equity	9,637	9,934	10,629	11,109	11,601
ROA %	0.33	0.71	1.40	0.41	0.46
NIM %	1.66	1.97	2.01	1.42	1.34
Cost of funds %	1.69	1.27	1.52	2.51	2.69
GIL Ratio %	3.52	2.54	1.97	1.90	1.94
Loan/Deposit %	92.8	87.5	91.3	94.1	96.7
CET1 %	14.5	14.4	15.7	14.3	13.2
Total Capital %	22.2	21.3	19.5	18.3	17.1

Source: Bloomberg. RHB Economics & Market Strategy

Alliance Bank Malaysia Berhad (Issuer Rating: A1, Positive)

- **We are Outperfrom Alliance Bank Malaysia Berhad (Alliance) given its decent pickup across subordinated and perpetual tranches.** For 9MFY25, the bank's financial results are in line with management and is optimistic on achieving most of its guidance. Alliance loan book grew by 14% YoY to MYR60.9bn and is likely to surpass the growth of 8-10%. The GIL ratio remains on a declining trend at 1.97% (FY24: 2.11%). Pre-tax profit rose 7.3% YoY to MYR730mn during the period while NIM declined to 2.46% (FY24: 2.68%) although remained above the full year target of 2.40%-2.45%. The bank's ROA stood at 0.68% in 9MFY25. Its LDR stood at 98.9% while its capitalisation level remained healthy as at Dec-24.

- **The current business plan is set to guide the bank until FY27 that revolves around its aim of revitalising consumer banking segments while further enhancing the SME portfolio**. A few of the initiatives include offering wealth management services for high-net-worth customers and enhancing marketing of bank services to young professional. Alliance Bank also aims to broaden its corporate banking offerings as part of its strategy to support SMEs clientele. The plan to increase number of branches in Sarawak, Penang and Johor should provide an upside for Alliance Bank's growth potential.

Alliance Bank Malaysia Berhad

MYRmn (FYE Mar)	FY21	FY22	FY23	FY24	9MFY25
Revenue	2,706	2,534	2,770	3,306	2,382
Interest Income	2,042	1,842	2,066	2,608	2,126
Interest Expense	777	563	746	1,156	1,046
Non-Interest Income	664	691	704	698	256
Pre-Tax Income	484	827	887	911	730
Total Assets	60,721	61,848	66,311	76,946	81,405
Gross Loans	44,147	46,189	49,068	55,740	60,956
Gross Impaired Loans	1,032	853	1,233	1,178	1,203
Cash Balances	3,218	3,496	4,639	5,722	3,809
Total Deposits	48,489	48,186	50,849	57,397	61,659
Total Debt	2,965	3,262	3,291	3,983	3,962
Total Equity	6,258	6,417	6,747	7,175	7,423
ROA %	0.59	0.93	1.06	0.96	0.68
NIM %	2.49	2.30	2.53	2.64	2.46
Cost of funds %	2.34	1.84	2.26	2.99	1.65
GIL Ratio %	2.34	1.85	2.51	2.11	1.97
Loan/Deposit %	91.0	95.9	96.5	97.1	98.9
CET1 %	16.5	16.4	14.9	13.3	12.4
Total Capital %	21.8	21.4	19.7	17.6	17.0

Source: Bloomberg. RHB Economics & Market Strategy

AMMB Holdings Berhad (Issuer Rating: AA2, Stable)

- **Marketperform on AMMB Holdings Berhad (Ambank) as yields are fairly priced, in our opinion.** The group's total assets amounted to MYR197.5bn with loan portfolio to 69.4% of the assets. Its latest GIL ratio was unchanged at 1.67% (FY24: 1.67%). Ambank's pre-tax profit stood at MYR1.9bn with an ROA of 1.00%. The group's NIM was recorded at 1.94%, matching the revised NIM target for FY25. LDR stood high at 99.0%. We view that the group's capital buffer to be adequate in supporting growth and mitigate credit risk.

- **Ambank is one of the prominent domestic banking group which offers a comprehensive range of banking and financial services as well as life and general insurance**. The group is guided by its current five-year strategic plan which aims to enhance profitability, drive growth, and deliver value to shareholders by FY29. Key financial metrics target under plan are ROE around 11%-12%, ROA of 1.1% and increase dividend payout ratio to 50%-60% from the current level of 40%. Under the plan, the group has laid out a few initiatives to reach its goals such as enhancing retail banking via wealth-management solutions offering, among others, as well as improving operational efficiency by reducing the cost-to-income ratio (CIR) to 40%.

AMMB Holdings Bhd

MYRmn(FYE Mar)	FY21	FY22	FY23	FY24	9MFY25
Revenue	6,377	6,121	7,224	8,448	6,427
Interest Income	4,192	4,102	5,005	6,110	4,675
Interest Expense	2,064	1,770	2,695	3,934	2,853
Non-Interest Income	2,186	2,019	2,219	2,338	1,752
Pre Tax Income	-3,483	1,805	2,229	1,694	1,931
Total Assets	170,178	174,859	197,430	196,764	197,512
Gross Loans	112,692	119,993	130,227	134,130	137,059
Gross Impaired Loans	1,770	1,676	1,896	2,236	2,284
Cash Balances	19,338	14,899	11,145	9,106	7,945
Total Deposits	120,543	122,593	130,315	142,381	138,416
Total Debt	23,241	24,545	27,945	23,227	25,114
Total Equity	15,590	17,959	18,025	19,442	20,072
ROA %	-2.26	0.87	0.92	0.95	1.00
NIM %	1.90	2.05	2.07	1.79	1.94
Cost of funds %	1.52	1.22	1.77	2.43	1.73
GIL Ratio %	1.57	1.40	1.46	1.67	1.67
Loan/Deposit %	93.5	97.9	99.9	94.2	99.0
CET1 %	11.3	12.3	12.8	13.7	13.7
Total Capital %	14.5	15.5	16.0	16.9	16.9

Source: Bloomberg. RHB Economics & Market Strategy

Bank Islam Malaysia Berhad (Issuer Rating: AA3, Stable)

- **We are Market Perform on Bank Islam Malaysia Berhad (BIMB) as we think its debt securities are rich.** The bank is the largest standalone Islamic bank in Malaysia with an assets size of MYR96.8bn in FY24. Financing book grew to MYR70.2bn (FY23: MYR67.6bn). Asset quality was relatively healthy with NPF ratio standing at 1.06%. Pre-tax profit stood at MYR773mn while NIM was stable at 2.13% (FY23: 2.12%). Bank Islam's LDR was relatively low compared to peers at 86.4%. the Bank's CET1 and total capital ratio stood relatively high at 13.8% and 20.0%.

- **BIMB current business plan aims at propelling the bank to become a leading provider of Shariah-compliant financial solutions that incorporate ESG**. Under the plan, the bank also would focus on to increase its fee-based income via wealth management and bancassurance products, enhance the digital offerings as well as improving cost efficiency. The bank targets to grow its assets size to MYR100bn by FY25. The growth focus would largely revolve around green financing as well as enterprise and wholesale banking segments.

Bank Islam Malaysia Berhad

MYRmn (FYE Dec)	FY20	FY21	FY22	FY23	FY24
Revenue	3,120	3,008	3,382	4,179	4,700
Profit Income	2,504	2,227	3,128	3,784	4,340
Profit Expense	1,006	819	1,072	1,702	1,715
Non-Profit Income	616	781	254	395	360
Pre Tax Income	728	704	747	747	773
Total Assets	74,637	80,156	89,852	90,962	96,803
Gross Financing	55,599	59,218	65,942	67,625	70,232
Gross Impaired Financing	373	568	835	636	742
Cash Balances	5,409	5,487	8,096	5,704	5,337
Total Deposits	51,077	67,792	75,169	76,441	81,268
Total Debt	3,244	2,035	2,245	2,339	3,896
Total Equity	6,286	6,400	6,796	7,400	7,656
ROA %	0.79	0.69	0.58	0.61	0.61
NIM %	2.41	2.32	2.28	2.12	2.13
Cost of funds %	1.85	1.32	1.46	2.18	2.09
GIF Ratio %	0.67	0.96	1.27	0.94	1.06
Loan/Deposit %	108.9	87.4	87.7	88.5	86.4
CET1 %	14.7	13.2	13.6	14.1	13.8
Total Capital %	19.8	18.6	19.4	19.9	20.0

Source: Bloomberg. RHB Economics & Market Strategy

CIMB Group Holdings Berhad (Issuer Rating: AA1, Stable)

- **We are Outperform on on CIMB Group Holdings Berhad (CIMB Group), the fifth largest banking group in ASEAN by asset size, as its subordinated and perpetual securities are attractive.** CIMB Group's FY24 results were in line. Loan book stood at MYR452.2bn with the GIL ratio on a downward trend. Domestic portfolio is expected to support the group's target loan expansion of 5-7%. This was partly from the group's concern towards geopolitical uncertainties and tough operating conditions in Indonesia. CIMB Group's pre-tax profit rose 9.0% YoY to MYR10.4bn while NIM was largely stable at 2.21%. Its capitalisation levels remained relatively high and above the regulatory requirement.
- **The group has launched a new business strategic plan which sets to guide its operation till FY2030. The strategic plan would drive the group to maintain a competitive position among regional banks, with aspirations to achieve the top quartile ROE among regional peers.** CIMB Group will focus on cost optimisation as well as reinforcing its presence in ASEAN region. The new strategy will revolve around four levers namely, capital optimisation, deposit growth, cross-selling and enhanced service capabilities. CIMB Group has set out key target indicators under the plan namely, CASA ratio of 45%, NOII ratio around 33%-34% and CIR of around 40%.

CIMB Group Holdings Berhad

MYRmn (FYE Dec)	FY20	FY21	FY22	FY23	FY24
Revenue	24,891	24,734	26,854	35,041	37,564
Interest Income	18,032	16,218	18,690	25,182	26,707
Interest Expense	7,702	5,221	7,016	14,027	15,263
Non-Interest Income	6,859	8,516	8,163	9,859	10,857
Pre Tax Income	1,530	5,789	8,371	9,541	10,396
Total Assets	602,355	621,907	666,721	733,572	755,131
Gross Loans	365,851	378,008	406,957	440,862	452,241
Gross Impaired Loans	13,027	13,293	13,321	11,770	9,575
Cash Balances	54,370	60,845	67,762	59,199	56,306
Total Deposits	403,051	422,418	432,950	463,442	471,951
Total Debt	69,580	63,316	64,037	78,024	87,653
Total Equity	57,174	60,109	63,784	69,839	70,839
ROA %	0.20	0.70	0.84	1.00	1.04
NIM %	2.27	2.45	2.51	2.22	2.21
Cost of funds %	1.70	1.09	1.43	2.70	2.77
GIL Ratio %	3.56	3.52	3.27	2.67	2.12
Loan/Deposit %	90.8	89.5	94.0	95.1	95.8
CET1 %	13.2	14.2	14.5	14.5	14.6
Total Capital %	17.5	18.0	18.5	18.2	18.3

Source: Bloomberg. RHB Economics & Market Strategy

Hong Leong Bank Berhad (Issuer Rating: AAA, Stable)

- **Market perform on Hong Leong Bank Berhad (Hong Leong) (AAA) as we think its debt securities are fairly valued.** The bank has a total assets size of MYR296.3bn as at Dec-24. Loan book has been steadily growing over the few financial periods and amounting to MYR199.4bn. GIL ratio has remained below 1.0% within the range of 0.5%-0.6%, indicating exceptional asset quality. Pre-tax profit stood at MYR2.7bn in 6MFY25 while NIM expanded to 1.91% (FY24: 1.86%). ROA was higher compared to peers at 1.49%. Its LDR of 87.9% was low compared to its commercial bank peers. We deemed that capitalization level is healthy with CET1 and total capital ratio standing at 13.3% and 16.2%.
- **Hong Leong operations span across Malaysia, Singapore, Hong Kong, Vietnam, Cambodia and China, via its strategic shareholding in Bank of Chengdu**. It has a relatively healthy balance sheet supported by conservative lending practices and prudent risk management framework. Key objectives under its current 3 to 5-year strategic plan include 8% annual loan growth with emphasis in growing SME loan portfolio, triple the non-interest income proportion, promoting operational efficiency with target CIR of around 40%, increasing CASA ratio to 35% of funding mix and further regional expansion. With the initiatives, the bank expects to rank itself among the top three banks by ROE, exceeding 12.5% within the next three years.

Hong Leong Bank Berhad

MYRmn(FYE Jun)	FY21	FY22	FY23	FY24	6MFY25
Revenue	7,566	7,565	9,532	10,732	5,586
Interest Income	5,679	5,824	7,622	8,833	4,492
Interest Expense	2,099	1,968	3,847	4,961	2,469
Non-Interest Income	1,887	1,741	1,910	1,899	1,094
Pre Tax Income	3,471	4,367	4,627	5,134	2,740
Total Assets	237,129	254,331	279,850	297,789	296,252
Gross Loans	155,840	168,224	181,662	194,918	199,364
Gross Impaired Loans	717	820	1,042	1,041	1,092
Cash Balances	4,447	7,458	12,041	9,666	11,319
Total Deposits	183,290	197,292	211,652	220,433	226,734
Total Debt	14,666	9,448	14,068	16,698	14,906
Total Equity	29,459	30,989	33,987	37,294	38,054
ROA %	1.25	1.34	1.43	1.45	1.49
NIM %	2.14	2.14	1.98	1.86	1.91
Cost of funds %	1.13	0.97	1.78	2.14	1.03
GIL Ratio %	0.46	0.49	0.57	0.53	0.55
Loan/Deposit %	85.0	85.3	85.8	88.4	87.9
CET1 %	14.0	11.2	13.3	13.9	13.3
Total Capital %	16.7	15.1	16.4	16.8	16.2

Source: Bloomberg. RHB Economics & Market Strategy

Malayan Banking Berhad (Issuer rating: AAA, Stable)

- **We are Market Perform on Malayan Banking Berhad (Maybank) (AAA), the fourth largest bank in ASEAN by asset size, as its yield returns are similar to its AAA peers.** Maybank financial performance were robust in FY24. Loan book grew 5% YoY to MYR675.0bn supported by consumer and business banking segments in Malaysia and Indonesia. Asset quality was relatively with GIL at 1.23%. Maybank also recorded higher pre-tax profit of MYR13.7bn with ROA stood at 0.96%. NIM tapered to 2.05% on the back of deposit competition. Capitalization levels remained healthy with CET1 and total capital ratios standing at 15.8% and 18.9%, respectively.

- **Management guided for more moderate loan growth in 2025 after charting 5.3% in 2024**. The bank guided for: (1) loan growth of 5-6%, (2) CIR of ≤49%, (3) ROE of ≥11.3%, and (4) net credit charge off of ≤30bps. The bank's current strategic plan (ending FY25) revolves around five key thrusts: customer centricity, accelerating digital transformation and technological modernisation, expanding its international presence, advancing sustainability efforts, and positioning itself as a global leader in Islamic banking. The bank expects the realisation of the strategic plan would enable it to achieve the target key financial metrics of loan growth of 7% YoY, ROE of 11-12% and CIR of around 45%.

Malayan Banking Berhad

MYRmn (FYE Dec)	FY20	FY21	FY22	FY23	FY24
Revenue	33,024	30,620	34,286	44,800	49,535
Interest Income	20,221	16,368	21,795	30,441	33,064
Interest Expense	8,260	5,171	7,793	17,439	19,962
Non-Interest Income	12,803	14,252	12,490	14,360	16,471
Pre Tax Income	8,657	10,887	11,872	12,532	13,702
Total Assets	856,860	888,172	948,130	1,027,675	1,075,322
Gross Loans	523,724	553,789	586,855	640,750	674,969
Gross Impaired Loans	11,674	11,044	9,205	8,600	8,326
Cash Balances	79,026	78,527	82,416	75,460	96,595
Total Deposits	556,349	588,968	614,895	670,359	712,915
Total Debt	87,772	85,199	96,697	88,690	88,046
Total Equity	87,110	88,552	88,612	97,648	97,207
ROA %	0.77	0.93	0.87	0.95	0.96
NIM %	2.10	2.36	2.44	2.15	2.05
Cost of funds %	1.28	0.78	1.12	2.37	2.56
GIL Ratio %	2.23	1.99	1.57	1.34	1.23
Loan/Deposit %	94.1	94.0	95.4	95.6	94.7
CET1 %	15.3	16.1	15.7	16.2	15.8
Total Capital %	18.7	19.5	19.1	19.4	18.9

Source: Bloomberg. RHB Economics & Market Strategy

Public Bank Berhad (Issuer Rating: AAA, Stable)

- **We are Marketperform on Public Bank Berhad (Public Bank) (AAA), the third largest banking group in Malaysia and one of the bank designated as D-SIB, given its rich bond/sukuk valuations.** Public Bank's assets size stood at MYR542.9bn with total loans contributed to 78.1% of the assets, equivalent to MYR424.1bn. GIL ratio improved to 0.52% largely settlement of syndicated loan in Hong Kong. Pre-tax profit rose to MYR8.9bn (FY23: MYR8.5bn) during the year. LDR stood at 97.9% while capitalisation level remained above its requirement as a D-SIB.

- **Public Bank is known for the resilience in its financial performance.** The bank, which is largely renowned for its retail banking products, has maintained its prudent business strategy throughout the years in terms of loan disbursement and asset quality management. It has established an enhanced collection and recovery process which supported a proactive recovery strategy. The bank's loan portfolio is relatively of a high quality with significant proportion of its book is secured with assets. Public Bank also has a relatively efficient operating model with CIR at around 30% which enables the bank to derive a stable profitability and healthy balance sheet.

Public Bank Berhad

MYRmn (FYE Dec)	FY20	FY21	FY22	FY23	FY24
Revenue	19,100	18,586	20,157	23,097	24,645
Interest Income	14,188	13,480	14,937	18,045	18,912
Interest Expense	7,004	5,160	5,765	8,985	9,420
Non-Interest Income	4,912	5,106	5,220	5,052	5,733
Pre Tax Income	6,285	7,367	8,831	8,539	8,932
Total Assets	451,257	462,739	493,263	510,598	542,863
Gross Loans	345,651	358,027	376,892	398,997	424,141
Gross Impaired Loans	1,251	1,102	1,584	2,335	2,225
Cash Balances	21,036	18,753	28,653	18,655	15,475
Total Deposits	365,871	380,394	394,719	412,897	433,264
Total Debt	27,515	24,588	30,898	28,846	29,472
Total Equity	48,427	49,425	51,526	56,380	59,647
ROA %	1.10	1.24	1.28	1.32	1.36
NIM %	1.95	2.22	2.39	2.20	2.21
Cost of funds %	1.84	1.29	1.39	2.07	2.08
GIL Ratio %	0.36	0.31	0.42	0.59	0.52
Loan/Deposit %	94.5	94.1	95.5	96.6	97.9
CET1 %	14.0	15.0	14.9	14.7	14.8
Total Capital %	17.1	18.2	17.9	17.6	17.7

Source: Bloomberg. RHB Economics & Market Strategy

UOB Malaysia Berhad (Issuer Rating: AA1, Stable)

- **We are Outperform on UOB Malaysia Berhad (UOB Malaysia) given its senior tranche's pickup over the AA1 curve**. UOB Malaysia is the largest foreign-owned commercial bank in Malaysia by assets size. As at 9MFY24, the bank is considered as an established domestic franchise and ranked seventh largest bank with total assets of MYR158.8bn. The loan portfolio stood at MYR107.6bn in 9MFY24. Its above-industry GIL ratio of 2.51% was partly due to its prudent borrower impairment criteria and GIL reclassification policy. Impaired borrowers are reclassified to performing only when all arrears are repaid. The bank recorded pre-tax profit of MYR1.9bn during the period. Capitalisation level remained high and we take comfort in the strong linkages its parent entity and we perceive that strategic, financial and operational support would be forthcoming if needed.

- **UOB Malaysia is a wholly-owned subsidiary of Singapore-based banking group United Overseas Bank Limited (UOB)**. The latter is ranked third largest banking group by assets size in ASEAN and recognized as a D-SIB in Singapore; The group is ranked second in terms of market share for SGD deposits. UOB Malaysia is a highly strategic subsidiary to UOB being the largest profit contributor to the group, and supports UOB's regional growth ambitions as well as cross-border opportunities. The bank's strategy is aligned to its parent given its linkages with current initiatives includes enhancing cross border business collaboration, continuing support for SMEs and strengthen digital banking platform.

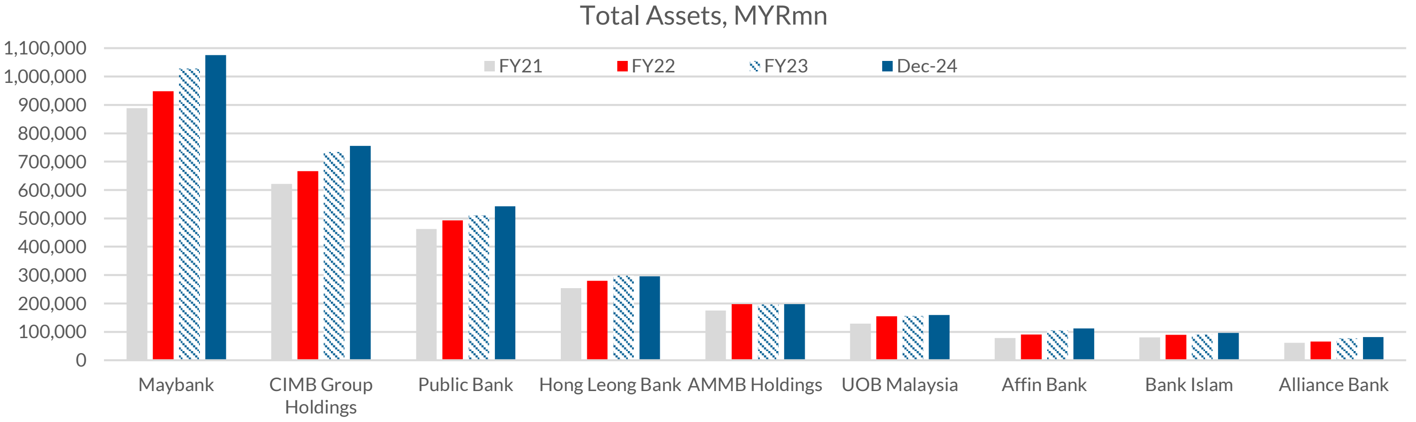
UOB Malaysia Berhad

MYRmn(FYE Dec)	FY20	FY21	FY22	FY23	9MFY24
Revenue	5,457	4,886	5,890	8,367	6,435
Interest Income	4,449	3,927	4,693	6,808	5,110
Interest Expense	2,248	1,538	2,033	3,766	2,915
Non-Interest Income	1,008	958	1,197	1,559	1,325
Pre Tax Income	1,347	1,511	1,317	1,901	1,867
Total Assets	127,712	128,995	154,845	155,738	158,845
Gross Loans	87,459	89,964	105,678	107,140	107,591
Gross Impaired Loans	1,678	2,395	2,833	2,832	2,697
Cash Balances	8,586	10,322	9,840	7,264	9,231
Total Deposits	93,590	97,074	110,885	116,034	114,802
Total Debt	18,326	16,708	18,685	15,765	15,105
Total Equity	11,460	11,788	12,307	14,102	14,777
ROA %	0.83	0.89	0.45	1.00	1.22
NIM %	2.33	2.53	2.54	2.67	2.54
Cost of funds %	2.67	1.83	2.21	3.77	3.99
GIL Ratio %	1.92	2.66	2.68	2.64	2.51
Loan/Deposit %	93.4	92.7	95.3	92.3	93.7
CET1 %	18.4	17.7	14.7	15.9	15.9
Total Capital %	21.4	20.5	18.6	18.9	19.3

Source: Bloomberg. RHB Economics & Market Strategy

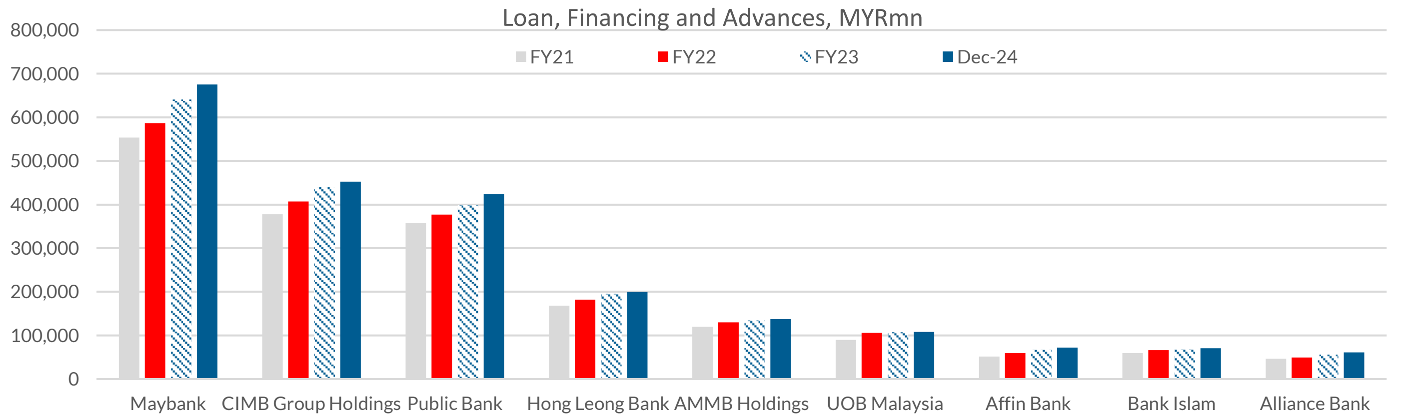
Key Highlights - Charts

Figure 16: Total assets



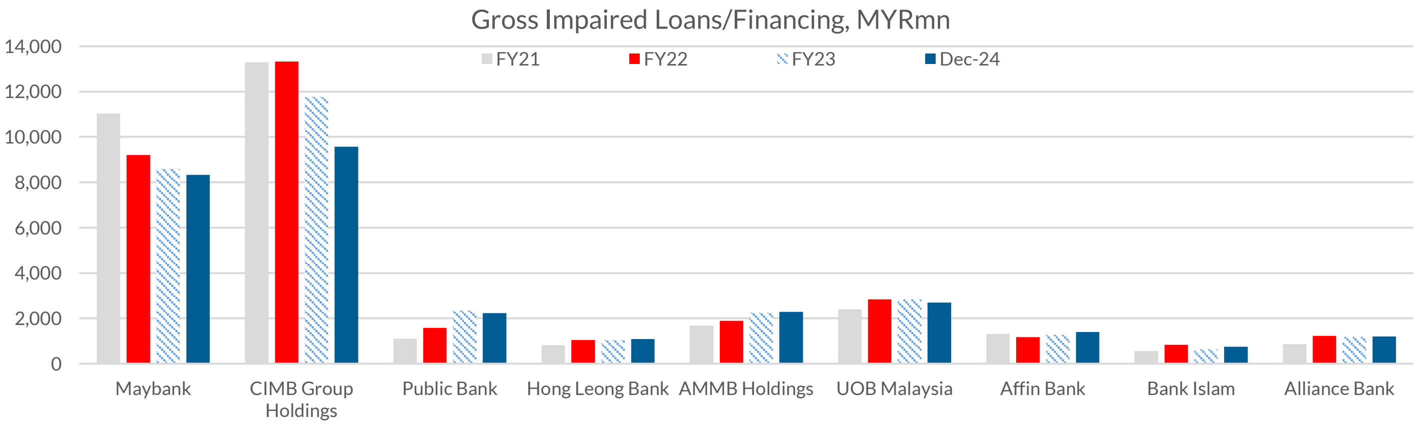
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 17: Loan, financing and advances portfolio



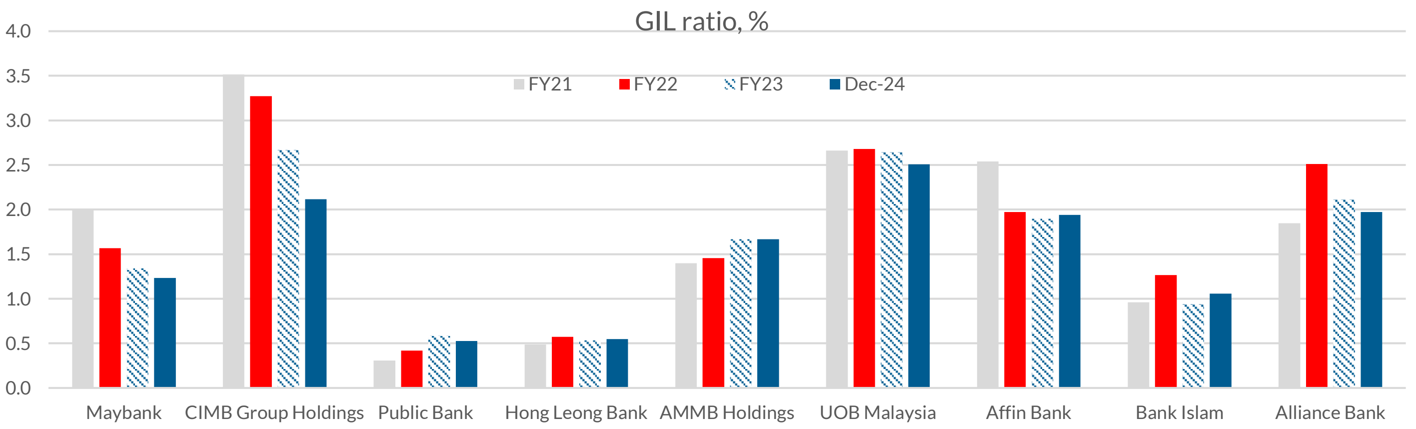
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 18: Gross impaired loans/financing, in MYR



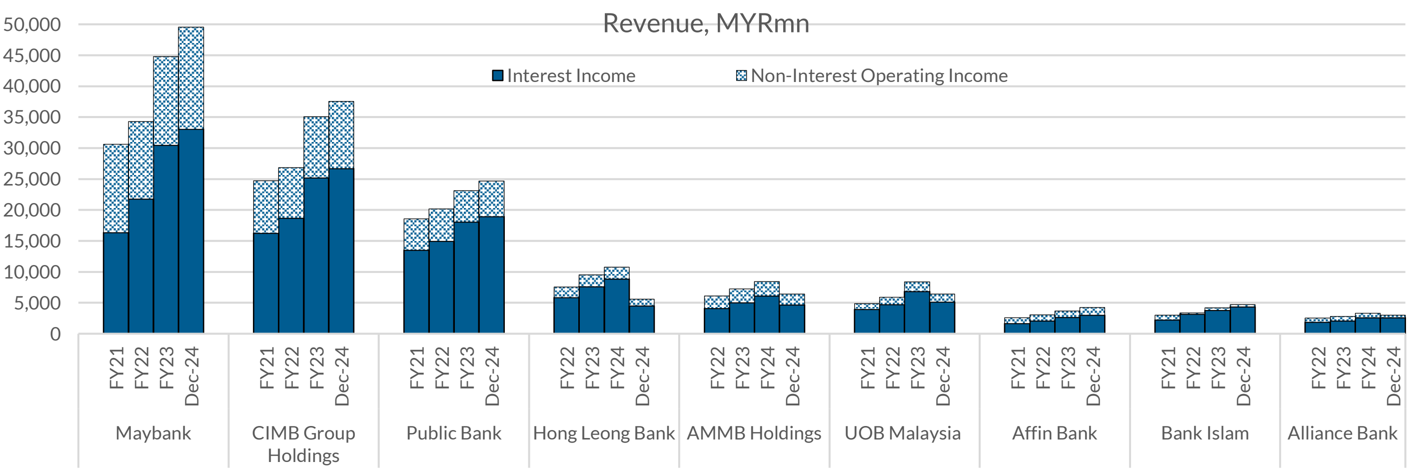
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 19: Gross impaired loans/financing, in %



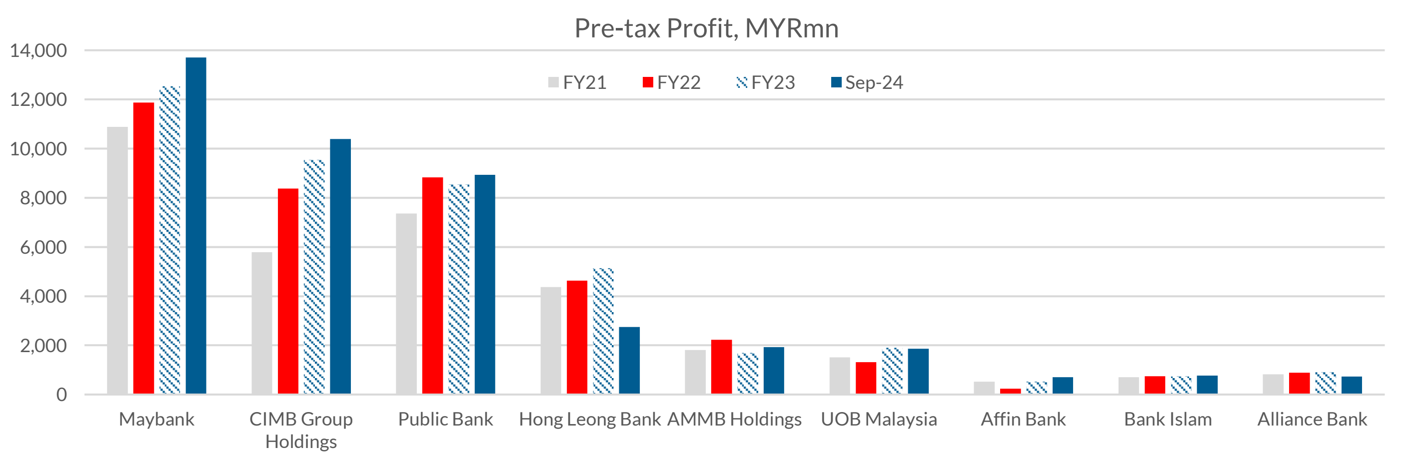
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 20: Revenue trend



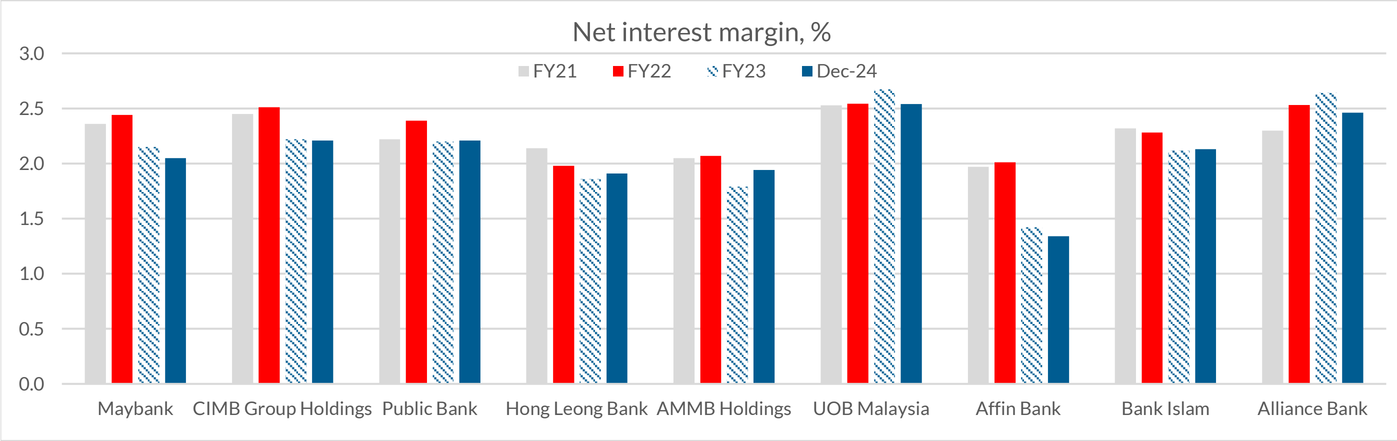
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 21: Pre-tax Profit trend from 2021 to Sep-24



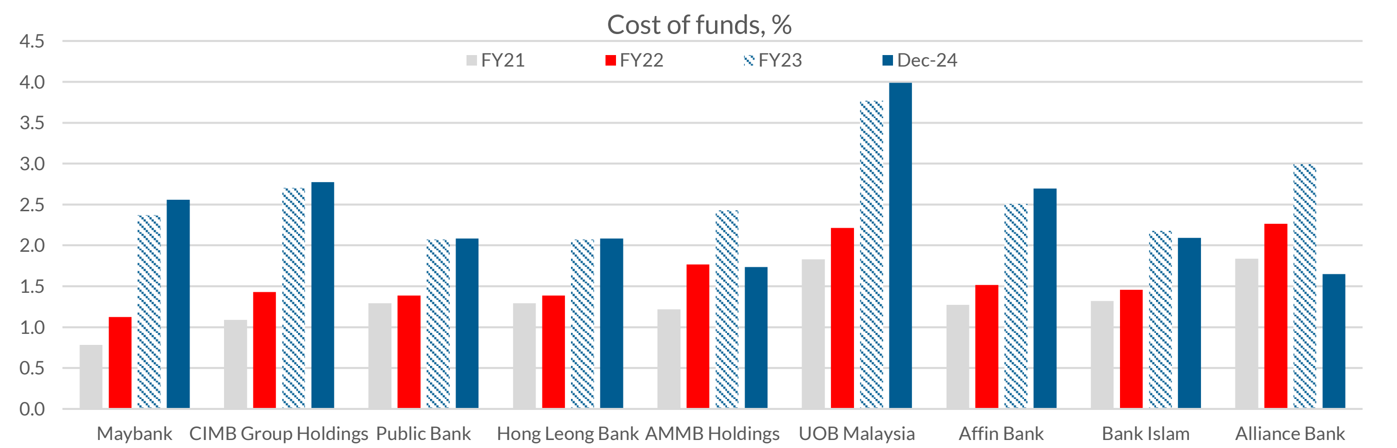
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 22: NIM trend from 2021 to Sep-24



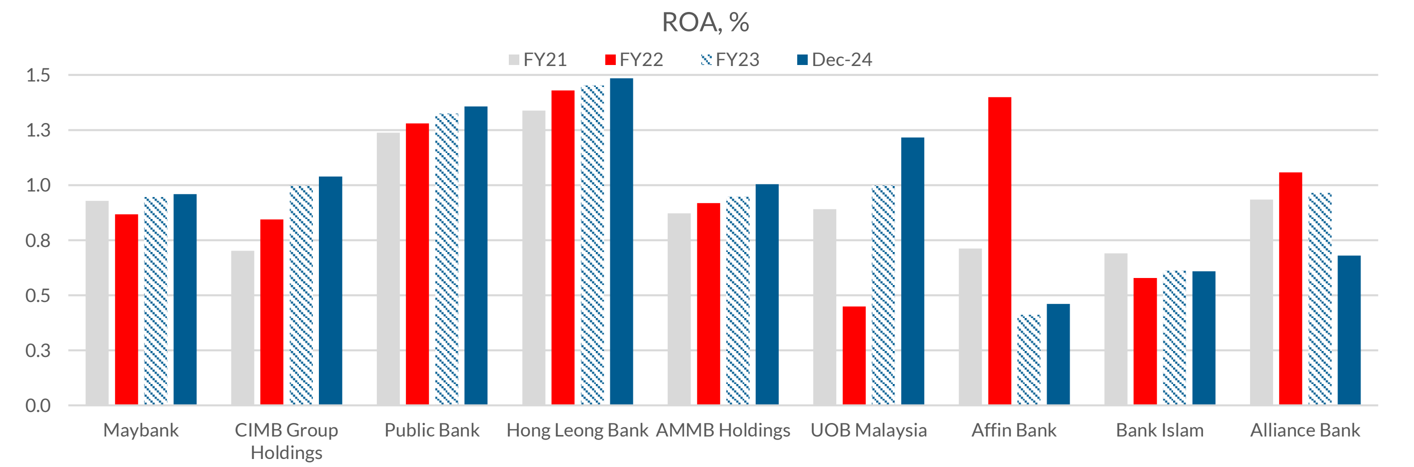
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 23: Cost of funds trend from 2021 to Sep-24.



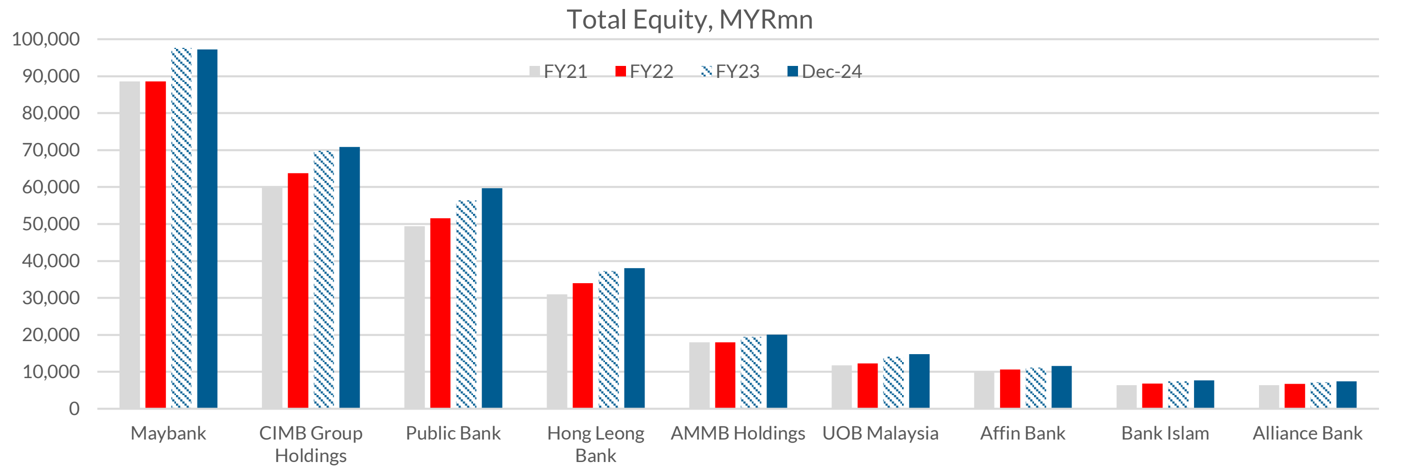
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 24: ROA



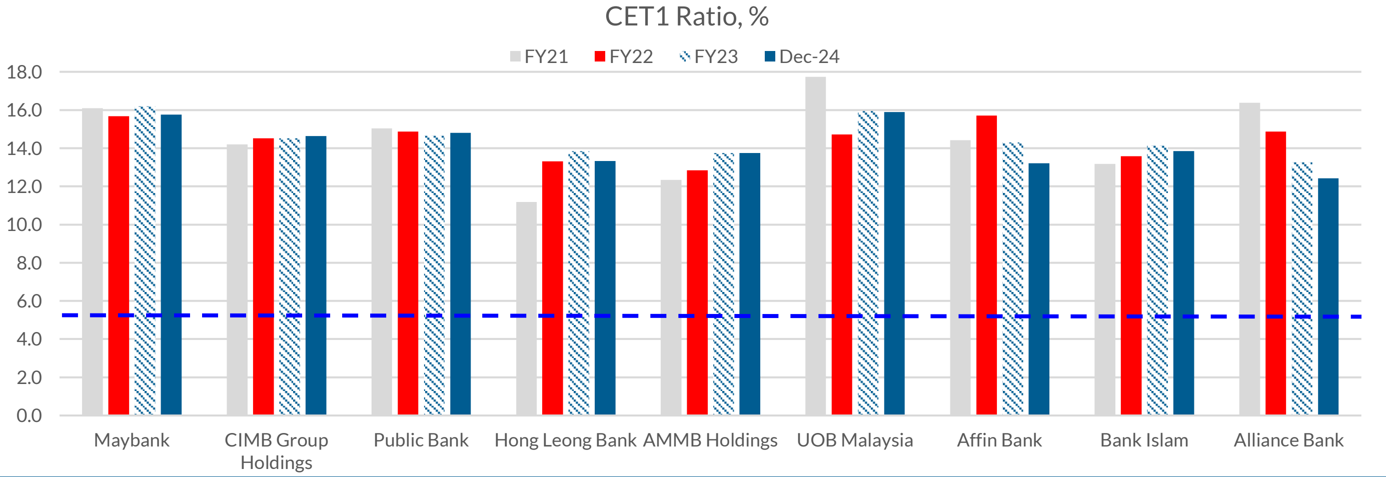
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 25: Equity trend from 2021 to Sep-24



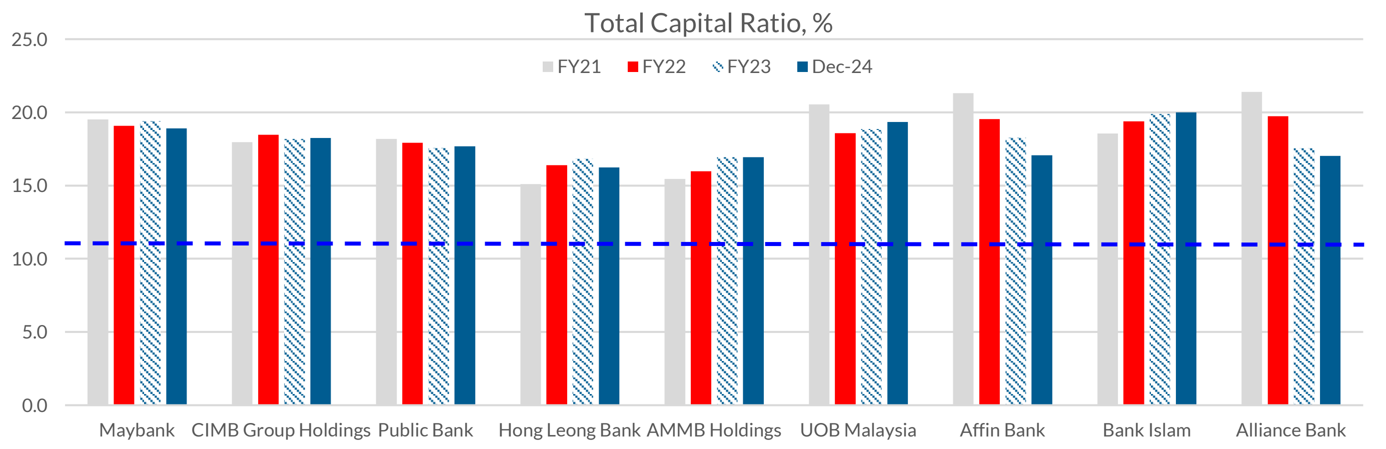
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 26: CET1 ratio trend from 2021 to Sep-24



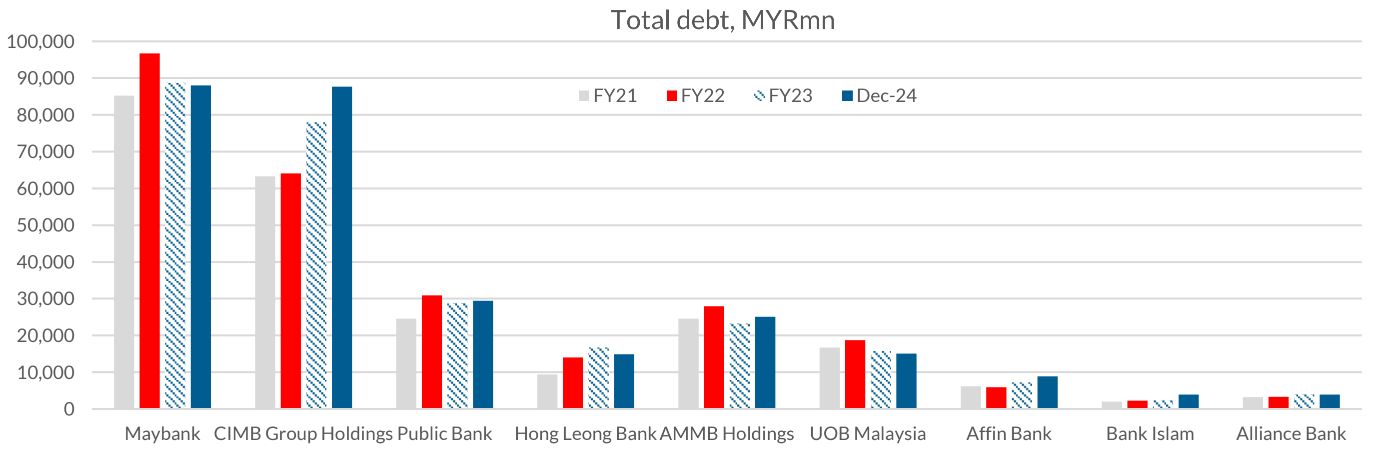
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 27: Total capital ratio trend from 2021 to Sep-24



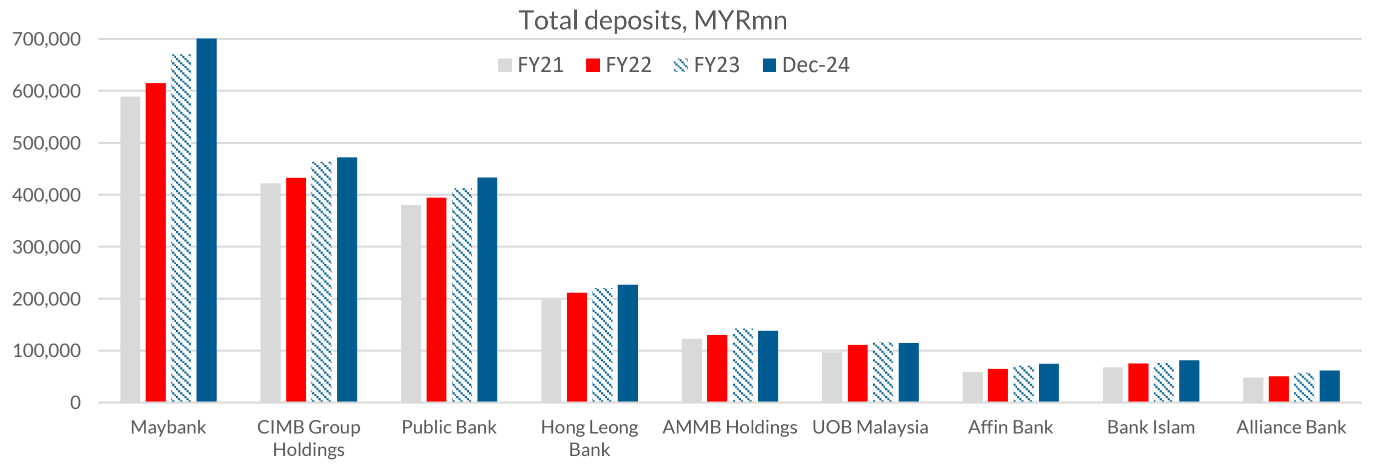
Source: Bloomberg, RHB Economics & Market Strategy.

Figure 28: Total debt



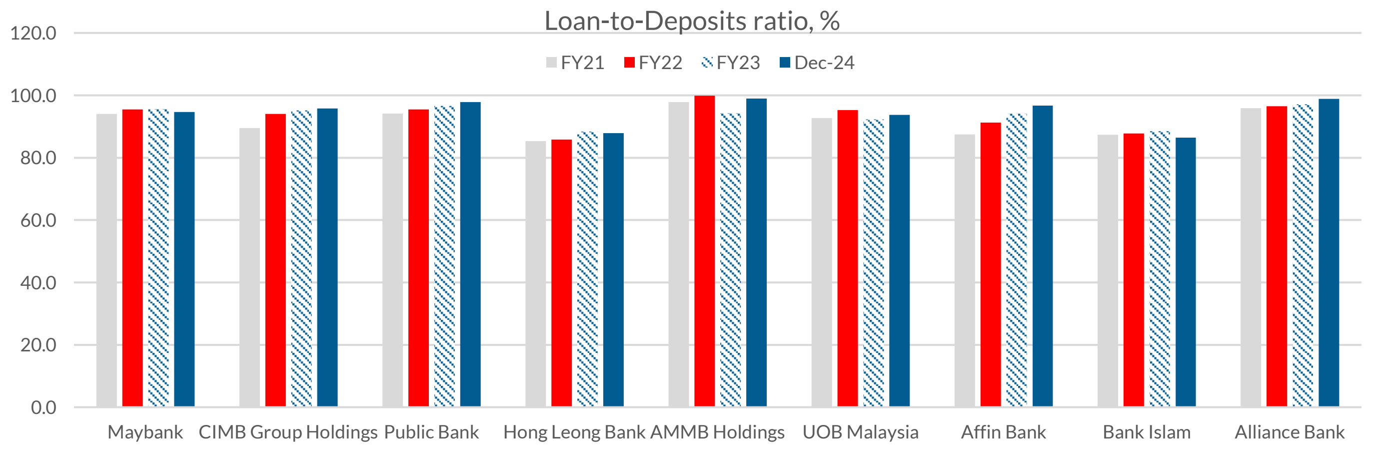
Source: Bloomberg, RHB Economics & Market Strategy. FYE.

Figure 29: Total Deposits



Source: Bloomberg, RHB Economics & Market Strategy. FYE.

Figure 30: Loan-to-deposit ratio



Source: Bloomberg, RHB Economics & Market Strategy. FYE.

RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a defined reference (i.e. AA3 peers or a corporate bond index)
Market Perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

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