15 August 2024

Financial Services | Banks

Banks

Neutral (Maintained)

2Q24 – What Is In Store For Earnings And Dividends?

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

- **Top Picks: CIMB, AMMB, Public Bank, Hong Leong Bank, and Alliance Bank Malaysia.** We think 2Q24 sector PATMI could be flattish QoQ (mid-single digit growth YoY) with NII a bright spot, dampened by softer trading and investment income. With the sector's earnings back to trend growth, this may not excite investors. Still, therein lies the possibility of a potential sector rotation to tide through market volatilities given its inexpensive valuations, attractive dividend yields plus expectations for foreign institutional investor inflows as the US Federal Reserve embarks on its rate cut cycle. NEUTRAL.
- **A recap of Jun 2024 banking system data.** System loans growth was a strong 6% YoY (+1% QoQ) vs +5% YoY deposits growth (flat QoQ). While the system average lending rate eased 5bps QoQ (YoY: -12bps), the 12-month fixed deposit (FD) rate fell 6bps QoQ (-10bps YoY) on the ongoing efforts to reduce funding cost pressures. Asset quality was sound, with the GIL ratio contracting 2bps QoQ (YoY: -11bps) to 1.60% – the lowest since May 2021, while LLC stood at 91.7% in Jun 2024 (Mar 2024: 92.1%; June 2023: 94.1%).
- **Sector income could weaken QoQ...** We are generally positive on 2Q sector NII. While some banks had guided for a possible slowdown in the pace of loan growth (eg NIM and capital preservation), system loan growth was healthy. 2Q NIM also tends to be seasonally stronger QoQ, and this would be further supported by ongoing efforts to reduce deposit costs. On a YoY comparison, though, we think sector NIM would still be lower or, at best, flat. On the other hand, we think non-II would be a dampener this quarter, mainly due to the high base enjoyed in 1Q24 and 2Q23 by some banks from the more opportunistic treasury income. Sector fee income, however, should stay well supported by loans and cards fees, wealth management and stockbroking.
- **...while impact to PATMI depends on opex control and credit cost (CoC).** Individual opex trends will likely be mixed. Some banks have begun accruing for the next collective agreement while for strategic investments, depending on their respective stages, some banks may need to catch up on spending while peak spending may be past for some. YoY opex growth, however, is expected to be back to single digit rise (1Q24: +12% YoY) due to base effect. On asset quality, we do not expect any major negative surprises but certain sectors (SMEs, lower-income households) are worth monitoring. Sector CoC, however, may continue to hover at the low 20bps levels – partly as the healthy loans growth would continue to require expected credit losses.
- **Dividends.** Several Dec- and Jun-FYE banks are expected to declare interim/ final dividends during the quarter, which would translate to dividend yields of 1.9-3%. While we think banks such as CIMB have the capacity for capital management initiatives, we think it would likely be in 4Q rather than 2Q.
- **We are looking out for the following in the upcoming results briefings**: i) Loans growth outlook given news flow on strong domestic and foreign investments; ii) deposit competition and room for banks to further reprice down deposit rates ahead; iii) asset quality updates and management overlay plans; and iv) further guidance on the impact from Basel 4.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Affin	Sell	1.65	(47.6)	14.3	0.6	4.4	2.8
Alliance Bank Malaysia	Buy	4.80	14.8	8.3	0.8	9.8	6.0
AMMB	Buy	5.50	18.0	8.1	0.7	9.2	5.5
BIMB	Neutral	2.45	(7.5)	9.4	0.8	8.3	6.4
CIMB	Buy	8.00	8.0	9.8	1.1	11.1	5.6
Hong Leong Bank	Buy	23.60	21.0	9.2	1.0	11.0	3.4
Malayan Banking	Neutral	10.60	3.9	11.9	1.2	10.5	6.5
Public Bank	Buy	4.80	13.7	11.3	1.3	12.2	5.0

Source: Company data, RHB

Top Picks	Target Price
CIMB (CIMB MK) – BUY	MYR8.00
AMMB (AMM MK) – BUY	MYR5.50
Public Bank (PBK MK) – BUY	MYR4.80
Hong Leong Bank (HLBK MK) – BUY	MYR23.60
Alliance Bank Malaysia (ABMB MK) – BUY	MYR4.80

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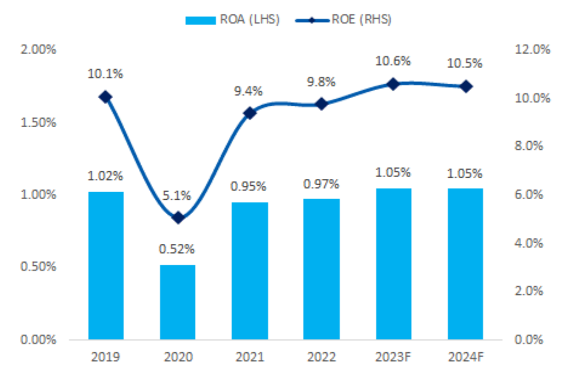
ROA and ROE trends



Source: Company data, RHB

Figure 1: FY24F management guidance

	Loans growth (%)		NIM %)		CIR (%)		Opex growth (%)		Credit costs (bps)		ROE (%)		Div payout (%)	
	FY23A	FY24F	FY23A	FY24F	FY23A	FY24F	FY23A	FY24F	FY23A	FY24F	FY23A	FY24F	FY23A	FY24F
Affin	12.3	8.0	1.44	1.60	71.6	64.0	7.9	6-8	18	20-30	3.7	7.0	34	50
ABMB*	13.6	8-10	2.48	3-8bps compression	48.2	c.48	10.5	<10.5	26	30-35	10.2	>10	50	40-50
AMMB*	3.0	Mid-single digit	1.79	>1.79	44.2	<45	(2.3)	na	27	<30	10.0	>10	40	>40
BIMB	2.6	7-8	2.12	>2.1	60.9	na	9.3	na	26	<30	7.8	>8	69	60
CIMB	8.3	5-7	2.22	Stable-to-5bps expansion	46.9	<46.9	5.6	Mid-single digit	36	30-40	10.7	11-11.5	55	55
Maybank	9.1	6-7	2.12	5bps compression	48.9	<49	11.8	<10	31	<30	10.8	11.0	77	Similar level
Public Bank	5.9	5-6	2.20	Stable-to-single digit compression	33.5	35.0	4.3	5-6	4	5-10	13.0	12.0	55	50-60

*Note: *FY23-24F refers to FY24F-25F*
Source: Company data, RHB

Figure 2: Hong Leong Bank - management guidance and financial targets for FY06/24

	FY23 achieved	9MFY24 achieved	FY24 targets	Comments
Reported ROE	11.8%	12%	c. 12%	
Gross loan growth	8%	7.8%	6-7%	Loan growth drivers are unchanged, ie SME, commercial banking, retail and overseas. Management thinks full-year loan growth will likely end up at the upper end of the guided range.
NIM	1.98%	1.85%	1.8-1.9%	Expected to further improve in 4Q24.
CIR	39.3%	39.8%	<40%	
GIL	0.57%	0.57%	<0.7%	No major concerns despite the QoQ uptick in GIL as HLBK continues to reap the efforts of more stringent credit underwriting standards put in place earlier.
Net credit cost	7bps	-7bps (annualised)	c. 10bps	Management remains comfortable with asset quality and given the net writeback in 9M24, HLBK thinks full-year credit cost should be comfortably below guidance. Overlays unchanged at MYR574m, which will be retained for FY24 but will need to be reallocated in FY25.
CASA mix	30.8%	30.6%	>30%	

Source: Company data, RHB

Figure 3: Interim dividend expectations

	1H23 DPS (sen)	1H23 payout	1H24 DPS (sen)	1H24 payout	Comments
Affin	Nil	n.a.	Nil	n.a.	Dividends tend to be declared in 4Q.
BIMB	Nil	n.a.	Nil	n.a.	Dividends tend to be declared in 3Q and 4Q.
CIMB	17.5	55%	19.5	54%	Full cash DPS expected. Our FY24F DPS of 39.3 sen does not factor in any special dividends.
HLBK*	38 (FY23: 59 sen)	44% (FY23: 32%)	37 (FY24F: 62 sen)	40% (FY24F: 31%)	
MAY	29	76%	31	76%	Full cash DPS expected.
PBK	9	52%	9.5	54%	

*Note: *1H23 and 1H24 DPS for HLBK refers to 2HFY06/23 and 2HFY06/24*
Source: Company data, RHB

Sector Earnings Forecasts

Sector earnings growth to moderate to 5-6% YoY in FY24F-FY25F

Figure 4: Malaysian 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-II	**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

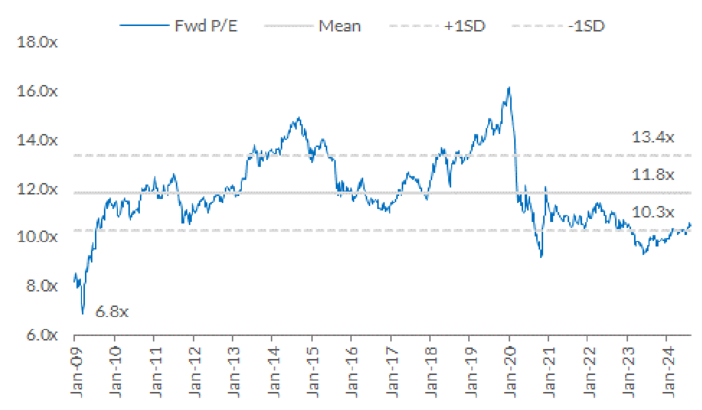
Sector Valuation

Figure 5: Summary of Malaysian banks' valuations

	Rec	Price	TP	Mkt Cap	EPS chg (%)		P/E(x)		P/BV(x)		ROE (%)		Div yield (%)	
		(MYR/s)	(MYR/s)	(MYRm)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
CIMB	Buy	7.41	8.00	79,028	9.0	6.2	10.4	9.8	1.11	1.02	10.9	10.9	5.3	5.6
AMMB^	Buy	4.66	5.50	15,444	3.9	7.2	8.6	8.0	0.76	0.72	9.0	9.2	5.3	5.6
Public Bank	Buy	4.22	4.80	81,913	4.1	4.6	11.8	11.3	1.42	1.34	12.3	12.2	4.7	5.0
HL Bank^	Buy	19.50	23.60	42,271	5.3	4.4	9.4	9.0	1.01	0.94	11.2	10.8	3.3	3.5
ABMB^	Buy	4.18	4.80	6,471	6.2	8.0	8.8	8.2	0.83	0.78	9.8	9.8	4.6	4.9
Maybank	Neutral	10.20	10.60	122,952	5.5	4.8	12.5	11.9	1.27	1.22	10.3	10.5	6.2	6.5
BIMB	Neutral	2.65	2.45	5,711	10.6	6.1	9.9	9.4	0.80	0.76	8.1	8.3	6.0	6.4
Affin	Sell	3.15	1.65	6,120	13.6	11.5	15.9	14.3	0.64	0.61	4.1	4.4	2.5	2.8
Sector Avg					**6.1**	**5.3**	**11.3**	**10.7**	**1.19**	**1.13**	**10.8**	**10.8**	**5.2**	**5.5**

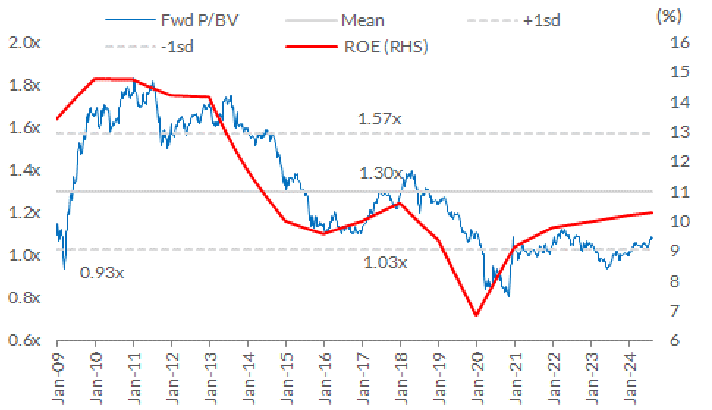
Note: ^FY24F-25F refers to FY25F-26F. MY Banks refer only to the banking stocks under our coverage
Source: Bloomberg, RHB

Figure 6: Malaysian banks' 12-month forward P/E



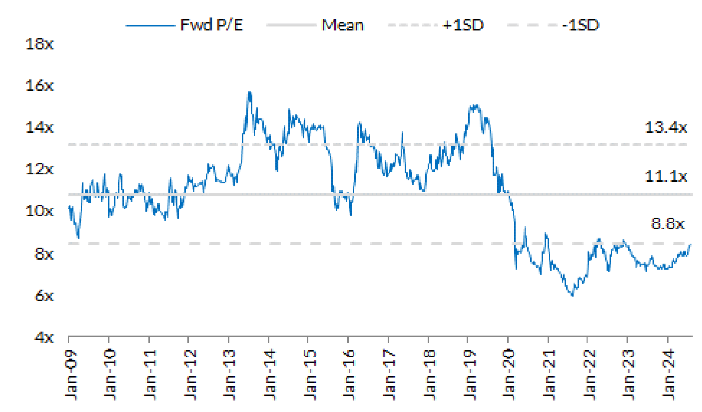
Source: Bloomberg, RHB

Figure 7: Malaysian banks' 12-month forward P/BV vs ROE



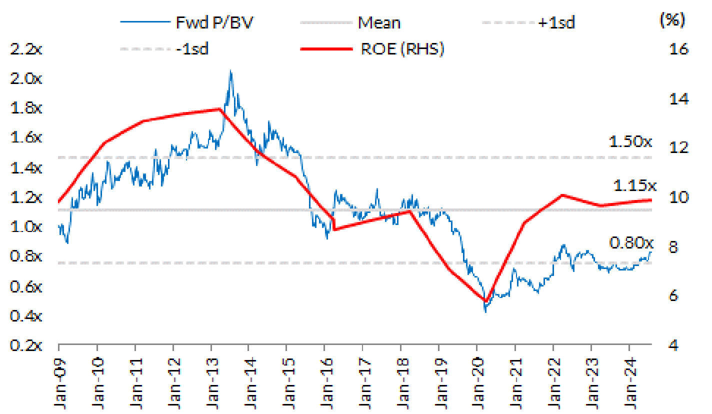
Source: Bloomberg, RHB

Figure 8: ABMB's 12-month forward P/E



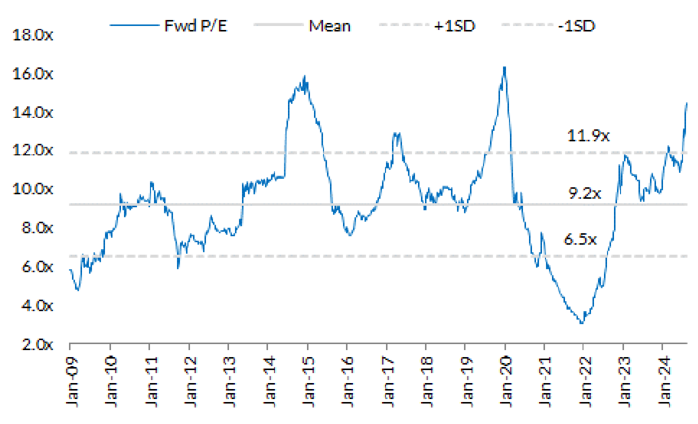
Source: Bloomberg, RHB

Figure 9: ABMB's 12-month forward P/BV vs ROE



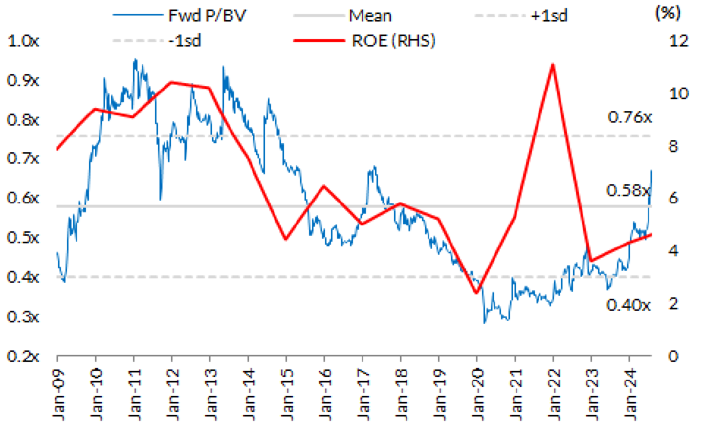
Source: Bloomberg, RHB

Figure 10: Affin's 12-month forward P/E



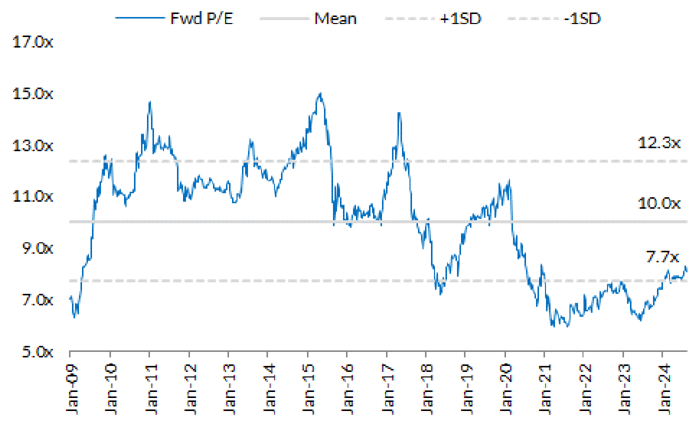
Source: Bloomberg, RHB

Figure 11: Affin's 12-month forward P/BV vs ROE



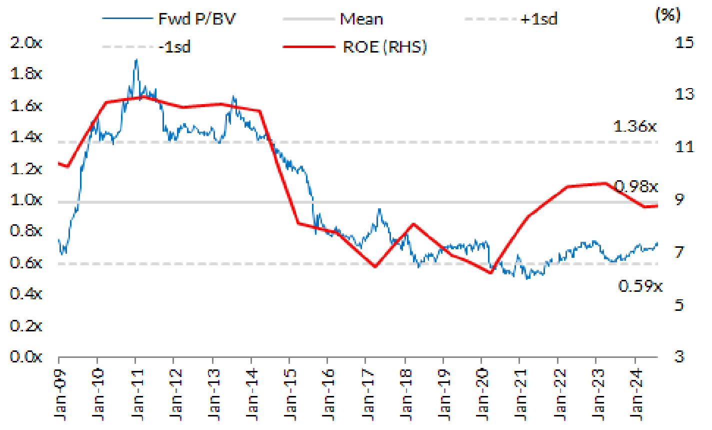
Source: Bloomberg, RHB

Figure 12: AMMB's 12-month forward P/E



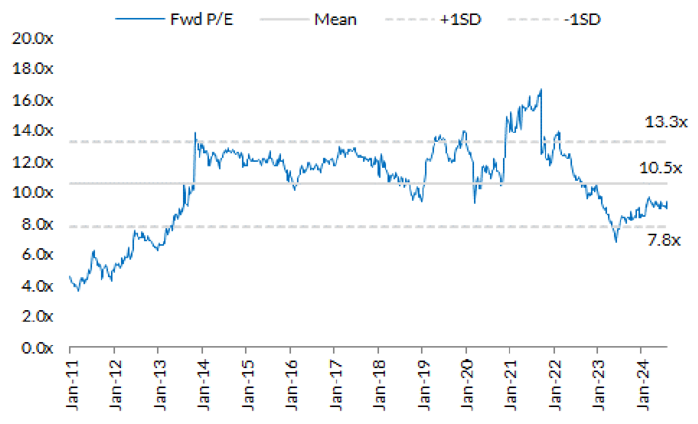
Source: Bloomberg, RHB

Figure 13: AMMB's 12-month forward P/BV vs ROE



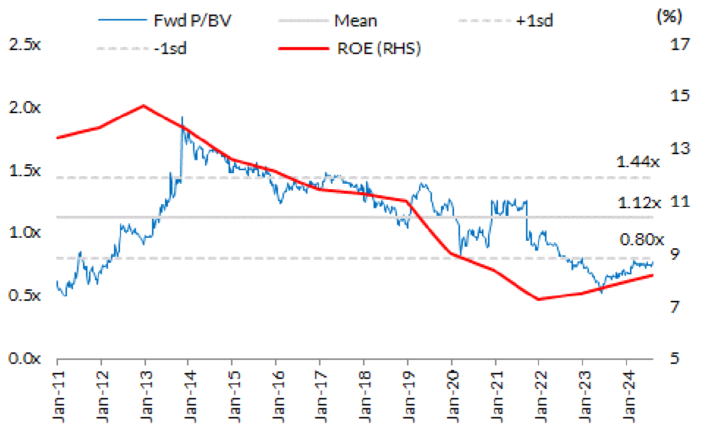
Source: Bloomberg, RHB

Figure 14: BIMB's 12-month forward P/E



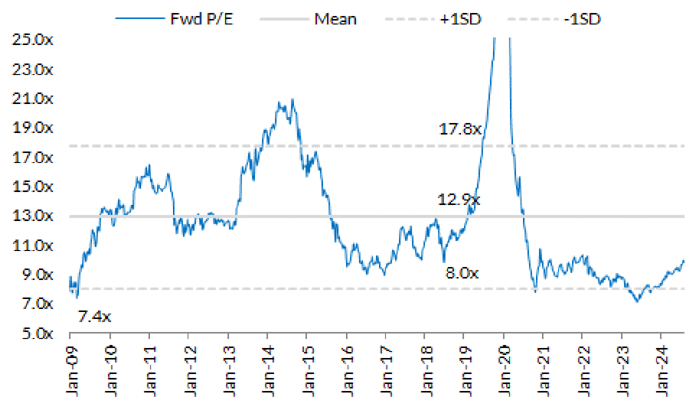
Source: Bloomberg, RHB

Figure 15: BIMB's 12-month forward P/BV vs ROE



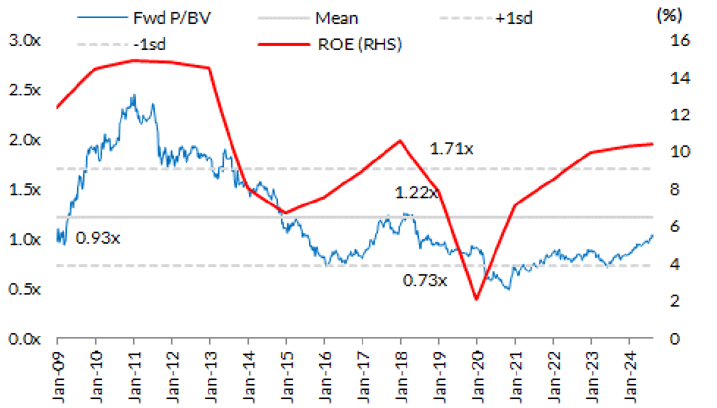
Source: Bloomberg, RHB

Figure 16: CIMB's 12-month forward P/E



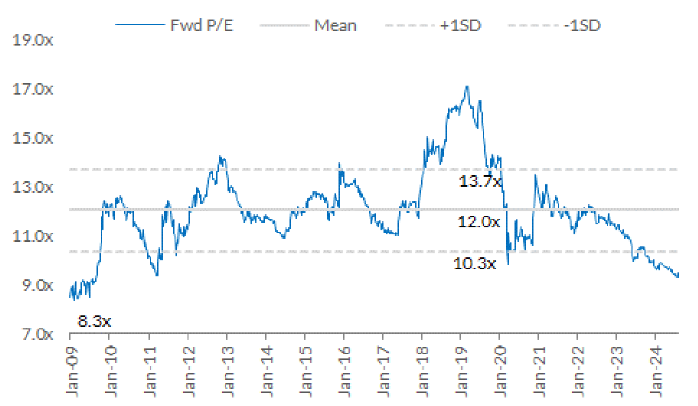
Source: Bloomberg, RHB

Figure 17: CIMB's 12-month forward P/BV vs ROE



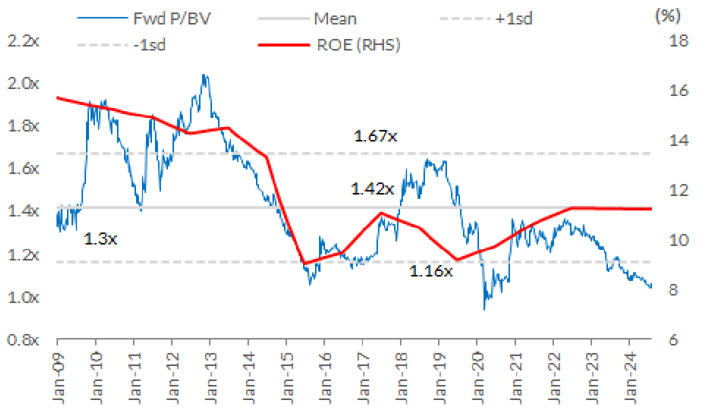
Source: Bloomberg, RHB

Figure 18: HLBK's 12-month forward P/E



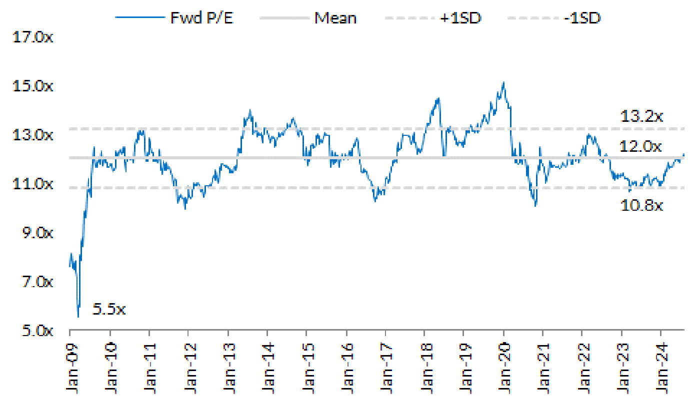
Source: Bloomberg, RHB

Figure 19: HLBK's 12-month forward P/BV vs ROE



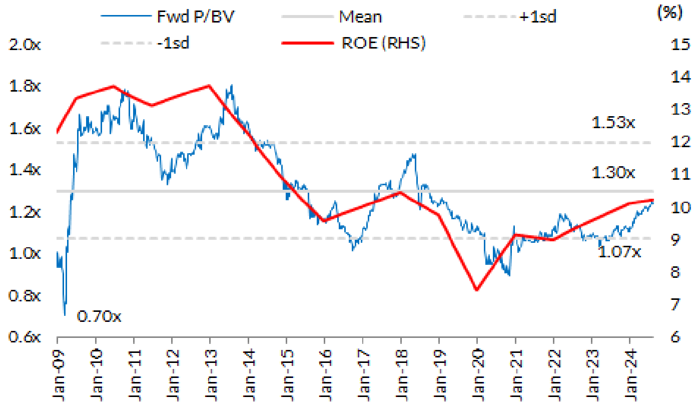
Source: Bloomberg, RHB

Figure 20: Maybank's 12-month forward P/E



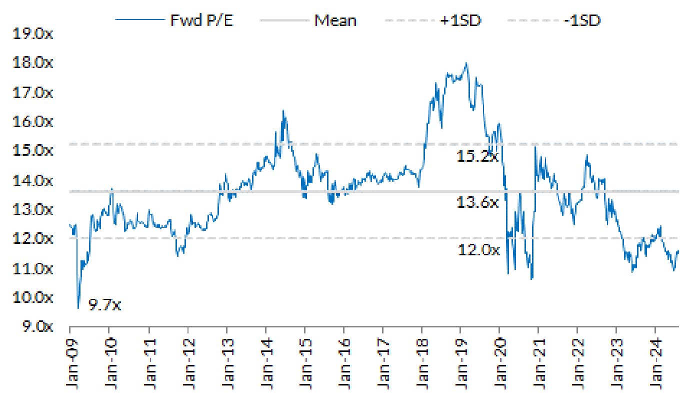
Source: Bloomberg, RHB

Figure 21: Maybank's 12-month forward P/BV vs ROE



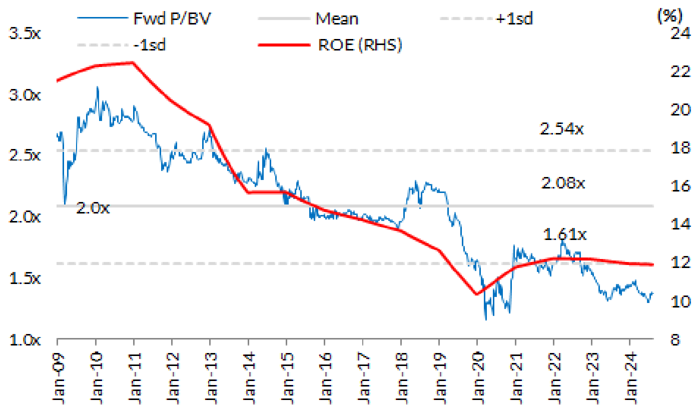
Source: Bloomberg, RHB

Figure 22: Public Bank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 23: Public Bank's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

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