

Uniquely

RHB 

REGIONAL THEMATIC | MARCH 2024

MARKET DATELINE
PP19489/04/2022 (035080)

BANKS IN PURSUIT OF NET ZERO



22 March 2024

Financial Services | Banks

Banks

In Pursuit Of Net Zero

- 2050 draws ever nearer.** With net-zero and carbon-neutral commitments on the rise, banks today can no longer downplay the importance of ESG. Instead, through the allocation of capital and supporting their clients, banks will need to step up and take a leading role to facilitate an effective transition to a lower-carbon global economy. In fact, having high ESG standards may become a bank's "license to operate" in the coming years. Our sector Top Picks are as below, and our country preference order is Indonesia, Malaysia, Singapore then Thailand.
- The ESG journey continues ...** This journey is ever evolving and, given the improvement the banks have exhibited in recent years with respect to their sustainability reporting, we have taken the opportunity to revisit our ESG scoring methodology for the sector. From the initial three pillars ("E", "S" and "G") and nine factors-based scorecard approach, our updated scorecard for the banks now encompasses 12 factors, with four factors per pillar. The overall weightage is unchanged, ie 50% ascribed to the "E" pillar, with the remainder split equally between the "S" and "G" pillars. With this exercise, we hope to better identify the leaders and laggards in ESG. We believe the leaders will be in a better position to take advantage of opportunities for developing new businesses, better understand and engage with clients, and ultimately, build a sustainable competitive advantage.
- Highlights from scorecards.** Indonesia emerged as the country with the best scores for the "E" pillar. This is no surprise, as all five banks present comprehensive emissions disclosures, with Bank Negara Indonesia (BBNI) and Bank Rakyat Indonesia (BBRI) both reporting financed emissions as well. Malaysia banks fared decently under the "S" pillar, due to the numerous financial inclusion initiatives across the sector. For the "G" pillar, we note that most banks across the four countries scored expectedly well, whereas lower scores were mostly assigned to those with less Board independence and/or no sustainability-linked performance indicators.
- Impact on banks scores.** BBRI remains the highest-ESG scoring bank under our coverage, with its ESG score maintained at 3.4. CIMB Group was a top winner from our recalibrating exercise, posting a higher ESG score of 3.3 from 2.9 previously. This takes into account its ESG leadership among banks in Malaysia and the region, and its early disclosure of financed emissions as a stepping stone for guiding its higher-ESG-risk customers on their sustainability transition. Banks such as DBS, BBNI and Bank Mandiri (BMRI) also chalked higher ESG scores. On the other hand, BIMP, Affin and SCBX saw their scores reduced, due to less comprehensive emissions disclosures.
- Where do we go from here?** In the years to come, we expect to see more and more banks disclosing financed emissions and more detailed breakdowns of their loans/investments portfolio based on ESG risk. This, we believe, is a crucial step towards developing actionable mitigation plans for said risk. Elsewhere, we look forward to the banks introducing new and innovative ways to propel their financial inclusion and digitalisation agendas forward, while maintaining already-exemplary governance standards.

Actionable Ideas

CIMB (CIMB MK) – BUY
 BBRI (BBRI IJ) – BUY
 DBS (DBS SP) – BUY
 SCBX (SCB TB) – BUY

Target Price

MYR7.60
 IDR7,000
 SGD36.70
 THB126.00

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Regional banks – new ESG scorers



Source: RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AMMB	Buy	MYR5.00	22.5	7.6	0.6	9.0	5.3
Bangkok Bank	Buy	THB184	32.9	6.0	0.5	8.0	5.1
Bank CIMB Niaga	Buy	IDR2,500	22.5	6.9	1.0	14.5	7.3
Bank Mandiri	Buy	IDR8,240	16.9	11.2	2.3	21.4	5.0
Bank Negara Indonesia	Buy	IDR6,500	10.6	9.5	1.4	15.0	5.3
Bank Rakyat Indonesia	Buy	IDR7,000	14.8	13.1	2.6	20.9	5.2
CIMB	Buy	MYR7.60	17.3	9.1	1.0	10.9	6.1
DBS	Buy	SGD36.70	5.0	9.2	1.4	15.2	6.2
SCBX	Buy	THB126	9.6	8.6	0.8	9.3	9.1

Source: Company data, RHB

Preface And Purpose

2050 draws ever nearer

The current scenario. 2050 draws ever nearer with each passing day. This is the year in which the world, according to the Intergovernmental Panel on Climate Change (IPCC), should achieve net-zero greenhouse gas emissions, in order to limit global warming to below 1.5°C from pre-industrial levels. In the years following the Paris Agreement of 2015, countries and corporations alike have come together to declare their climate change goals and transition strategies (referred to as nationally-determined contributions to the United Nations) to reach net-zero emissions.

Figure 1: Nationally determined contributions of ASEAN countries

Country	Net-zero targets
Brunei	Net zero by 2050, 20% lower GHG emissions compared to BAU level by 2030.
Cambodia	Carbon-neutral by 2050, 41.7% lower GHG emissions vs BAU by 2030.
Indonesia	Net zero by 2060, 32% lower GHG emissions vs BAU by 2030 (43% with conditional support).
Laos	Net zero by 2050, unconditional reduction in GHG emissions by 60% by 2030 vs BAU.
Malaysia	Net zero by 2050, 45% reduction in carbon intensity against GDP compared to 2005 level by 2030.
Singapore	Net zero by 2050, 60 MtCO ₂ e in emissions by 2030.
Thailand	Carbon-neutral by 2050 and net-zero by 2065, 30% reduction in GHG emissions vs BAU by 2030 (40% with conditional support).
Vietnam	Net zero by 2050, 16% reduction in GHG emissions vs BAU by 2030 (44% with conditional support).
Myanmar	Net zero from land use, land use change and forestry by 2040.
Philippines	No explicit net-zero target, 75% reduction and/or avoidance of carbon emissions between 2020 and 2030.

Source: Energy Asia, United Nations Framework Convention on Climate Change

However, while the pursuit of environmental sustainability is ongoing, the Social and Governance pillars must also not be ignored. It can even be argued that the three pillars work hand in hand with each other. As the world moves from high-polluting sectors to low-polluting ones, employees within the former will need to be upskilled and retrained, or risk falling into unemployment. The right policies and frameworks will need to be put in place to facilitate and smoothen the job transition required from declining sectors (due to the green transition) to new green sectors. Proper governance, on the other hand, ensures that any environmental and social policies are aligned to globally recognised guidance and best practices, and are implemented thoroughly and effectively.

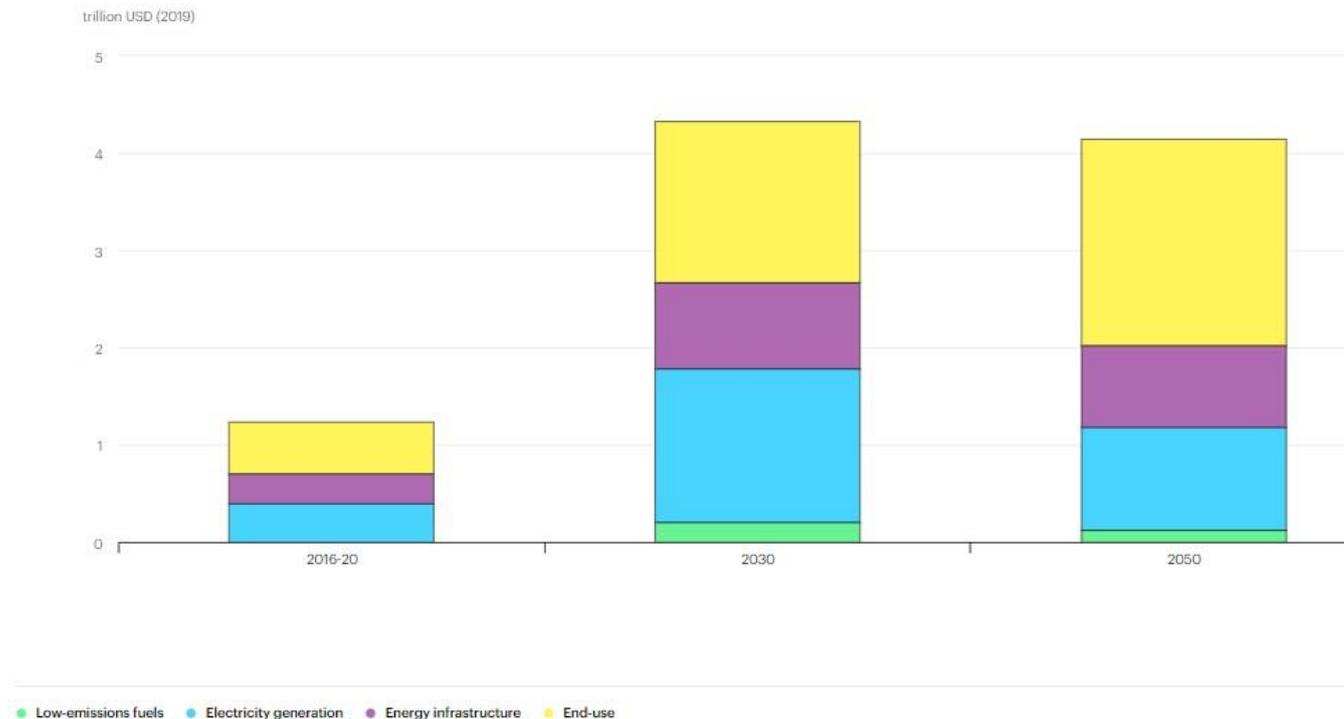
Closer to home, our regional banks are presently in varying stages of their respective sustainability transition journeys. We have seen some banks begin tracking and disclosing emissions estimates from their lending customers (ie financed emissions), and develop appropriate transition plans to ensure these companies will not be stranded in the race towards sustainability. At the same time, some other banks are still in the process of determining baselines for their own operational emissions tracking.

While we note that implementing ESG-related changes is an intricate and difficult task requiring a large amount of resources, a study by the Official Monetary and Financial Institutions Forum (OMFIF) and the European Central Bank (ECB) suggests that the cost of transitioning to net zero for financial institutions is outweighed by the benefits that may arise from the transition. Similarly, failure of the banks to transition successfully could prove to be costly in the long term.

Opportunities from the net-zero transition

Banks as the central movers of capital. The net-zero transition will require capital to be reallocated from high-polluting assets to those that are low-polluting or even negative-polluting (ie carbon-removing). A study by the International Energy Agency (IEA) found that approximately USD4-5trn in annual investments in clean energy solutions – more than triple the annual average between 2016 and 2020 – will be required globally by 2030 to fund the transition. Most of this amount is expected to be contributed by private capital providers, ie banks, institutional investors, asset managers and private equity firms.

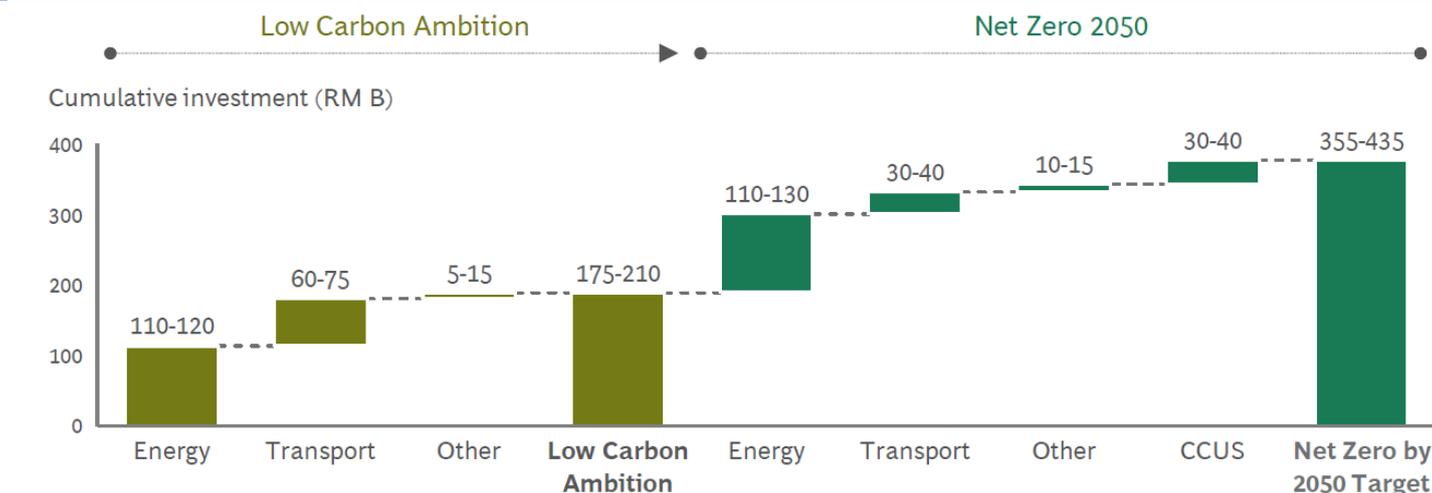
Figure 2: Timeline of average annual investments required in clean energy solutions



Source: IEA

Closer to home, a World Wildlife Fund (WWF) and Boston Consulting Group (BCG) study estimates that Malaysia requires MYR355-435bn of investments over a 30-year period (equivalent to USD3bn pa) with c. 80% of these investments related to the energy and transportation sectors. Meanwhile, Indonesia would require USD20bn pa in investments over 30 years, as estimated by the Institute for Essential Services Reform.

Figure 3: Cumulative investments (2021-2050) required to achieve Malaysia's "net zero by 2050" target



Source: WWF-BCG

Sectors related to the development and use of green and sustainable energy, together with the accompanying infrastructure, are expected to grow up to 2050. A 2022 McKinsey study estimates that the net-zero transition will result in a net increase of 15m jobs globally. This presents a valuable opportunity for the banks to deploy capital – in terms of project financing and working capital financing, among others – towards purposes aligned with the sustainability initiative.

New non-II opportunities. Advisory roles for the banks could also be expanded to include ESG-related projects. For example, we could see (and, in fact, have already seen) banks taking on advisory roles for customers looking to undertake carbon credit development projects. These roles could be linked to any, if not all, of the stages involved in the process, from project development (inclusive of financing), to obtaining verification and the eventual introduction of the credits to any of the global carbon markets.

The increasing popularity of carbon credits as a trading instrument could also be leveraged on by the banks. Carbon markets worldwide are increasing in vibrancy, with more and more carbon credits introduced by the day. The ever-changing cost of carbon and carbon offsets, as such, presents an interesting trading opportunity should the banks possess carbon offset instruments in excess of their internal needs.

The bottomline. Overall, the opportunities for banks arising from the net-zero transition are abundant, and will only grow with time. Research by consultancy firm Alvarez & Marsal suggests that the global annual revenue pool for banks related to ESG services could reach USD295-300bn by 2030. We believe the banks that will fare well leading up to the end of the decade are the ones that are alert to such opportunities, and are quick to snap them up.

Risks from non-alignment

Physical risk. Arguably the most obvious and direct impact of an ill-managed sustainability transition comes in the form of physical risk. It needs no elaboration that climate change has the potential to wipe out entire geographies, which presents significant risks to banks with exposures to such areas. The role of banks in stewarding customers towards a net-zero transition, hence, becomes much more evident in such a scenario.

Transition and reputational risk. The net-zero transition ultimately involves a phasing out of capital from high-polluting to low-polluting sectors. Banks with material exposures to the former are inadvertently subject to transition risk. In balancing between maintaining client relationships and supporting the net-zero agenda, banks will need to develop the relevant transition plans for its customers within those sectors to ensure they are not left behind in the pursuit of net zero.

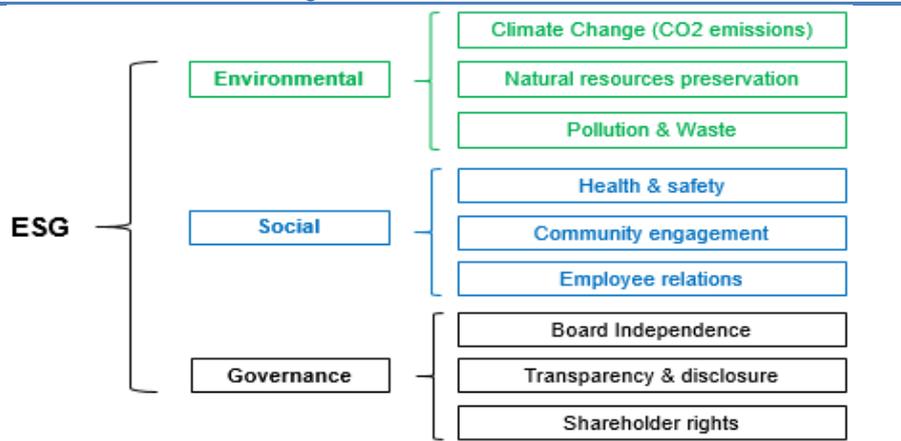
On a separate note, given the increasing focus on ESG from stakeholders, banks as some of the most important actors in the sustainability race will come under pressure to first embrace ESG in its operations, and then to advocate for their customers to do the same. Indirectly, banks that have matured on their sustainability journey might be seen as those that are better equipped to stand the test of climate change, and would be preferred by investors and customers, to some extent, vs the sustainability laggards.

For now, we understand that ASEAN countries have not yet imposed penalties for non-compliance to the net-zero initiative. However, we do believe it is a possibility that cannot be ruled out, especially as we move closer to 2050. This, on top of potential additional capital requirements that may arise from central banks' climate risk stress-testing exercises, could subject the banks to not only financial, but also reputational, risk.

Purpose and preparation of the report

Our own ESG journey. RHB Research incorporates ESG considerations into our investment recommendations by ascribing an ESG premium/discount to companies based on a proprietary scoring methodology (as laid out in our Oct 2020 thematic report, [Envisioning a Better Future](#)). The initial methodology used nine factors across the equally-weighted “E”, “S” and “G” pillars to assign companies with an ESG score, with the ESG premium/discount to be derived from that score (as laid out in our Sep 2021 thematic report, [Integrating ESG Scores Into Valuations](#)).

Figure 4: Our initial nine building blocks



Source: RHB

Figure 5: Definitions of our initial ESG pillars and factors

ESG pillar	What we look for
Environmental	Composite of climate Change, natural resources preservation, and pollution & waste
Climate Change (CO2 emissions)	Our aim is to establish a benchmark against which to measure future reductions. Emissions are usually referred to in terms of carbon dioxide (CO2) or simply “carbon”. Emissions fall into direct emissions (the easiest to identify) and indirect emissions (which come from the energy a company buys and consumes, employees commuting, and business travel, etc.) We will try to assess the environmental impact of the company’s products or services and evaluate policies implemented to manage the environmental performance of the company.
Natural resources preservation	Natural resources: Water waste, land use, and raw material sourcing are all commonly found in this category. Are there policies in place to ensure raw materials are extracted in an environmentally sensitive manner? Are firms taking proactive steps to use water more efficiently (in addition to straining community resources, water scarcity poses a huge challenge to businesses in industries from agriculture to textile manufacturing).
Pollution & Waste	Regarding the previous point, when a company uses water, does it leave it polluted or potable? This category looks at how a company deals with waste. Responsible waste disposal can prevent harmful substances from ending up in communities. This category rewards companies that take steps to mitigate pollution.
Social	Composite of health & safety, community engagement, and employee relations
Health & safety	Does the company aim to prevent workplace accidents, ensure the safety and health of employees, and form and promote a comfortable working environment?
Community engagement	We try to assess whether there is a mutually beneficial relationship between a business and the community, to combat issues of inequality. From customers to communities, this factor captures the quality and safety of products/services and level of customer satisfaction, as well as the access to products/services for all communities.
Employee relations	Here we try to assess labour relations, diversity and inclusion. We examine whether companies have policies in place to ensure that workers are treated fairly across the entire supply chain.
Governance	Composite of board independence, transparency & disclosure, and shareholder rights
Board Independence	Are at least 50% of the directors on board independent, and who makes up the voice of the minority shareholders? We try to assess whether the independent directors are skilled, experienced, have no links to the company, and are able to step up when things go wrong.
Transparency & disclosure	Captures the level of transparency and disclosure of critical information about the business activities. We try to assess whether the company has a track record of providing timely, consistent and accurate information to shareholders and the public regarding financial performance, liabilities, control and ownership, and corporate governance issues.
Shareholder rights	We analyse whether the company offers a toolkit of shareholder rights (eg having the right to speak at an AGM), whether a company address its shareholders' concerns, etc.
ESG overall score	As determined from our quantitative model
	We assign scores from 1 (for poor) to 4 (for excellent) to the nine factors above, and calculate/quantify an overall ESG score. We further analyse the evolution of a company over time and its trajectory towards sustainability. We will try to see, for instance, how a low ESG score that does not improve over time may impact the company’s profitability, capex, ROE and, ultimately, its EPS growth and TP.

Source: RHB

In the May 2023 publication [Envisioning a Better Future: Change In Methodology](#), we updated our methodology to assign a stronger 50% weight to the “E” pillar (from 33%), with the “S” and “G” pillars assigned a weightage of 25% each (previously 33% each).

Our new banks-specific ESG scoresheet. As another addendum to our continually evolving methodology, we unveil our new ESG scoresheet specific to the banking sector in this report, and detail the new line items under the three ESG pillars that we consider to be the most crucial to the sector for the time being. Our sector scoresheet utilises 12 factors across the “E”, “S” and “G” pillars instead of nine, which we lay out in further detail below.

In alignment with our proprietary ESG scoring methodology, the individual banks’ scores will still be compared against the country medians to determine the ESG premium/discount to be assigned. For now, the scope of our scoring covers 18 of the largest banks across our four markets – eight banks from Malaysia, three from Singapore, five from Indonesia and two from Thailand.

Development of the new scoresheet involved consultations with several industry experts from within the financial sector to ensure we are aligned with industry expectations and best practices. To limit any instance of prejudice, the scoresheet utilises quantitative assessments wherever possible. In our preparation of this report and scoring of the banks, we referred to the latest publicly available company data, sourced from company presentations, annual and sustainability reports, and material announcements. We also referred to news articles and social media posts for evidence of ESG-related news, such as instances of human rights non-compliance and technological failures. Examples mentioned in this report are non-exhaustive.

It is our hope that our research and comparison of the regional banks’ sustainability efforts will aid readers in making their own assessments of the banks’ ESG adoption. We also hope that investors will consider these factors when ultimately making investment decisions.

Environment Pillar

Figure 6: Environment – key indicators assessed under our new scoresheet

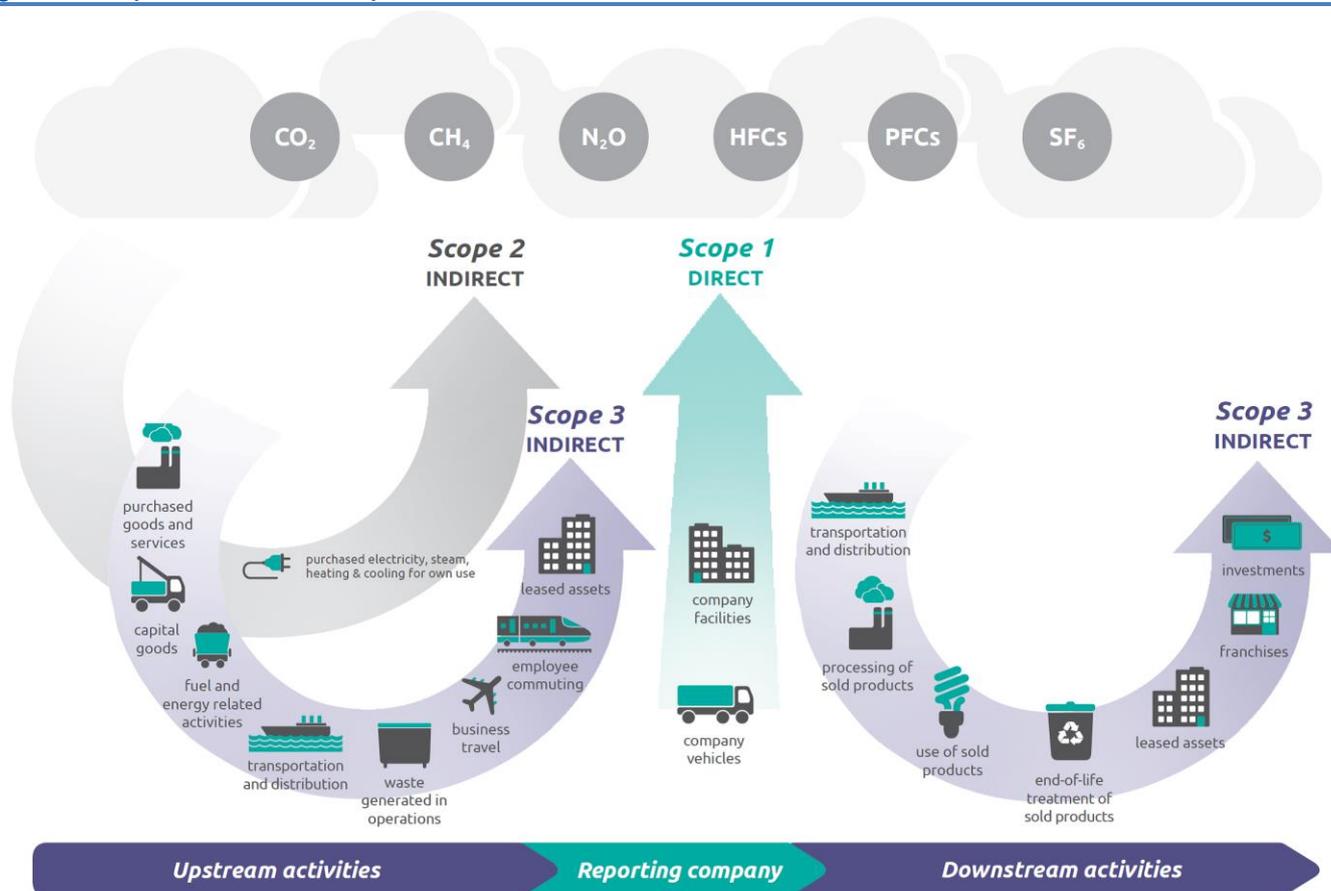
Pillar	Matter	Description	Score			
			1	2	3	4
E	Operational emissions management	Has the bank demonstrated a decrease in operational emissions (Scope 1, 2 and 3 (including carbon offsets, excluding financed emissions)) compared to the baseline year of 2019?				
	Financed emissions	Does the bank disclose its Scope 3 financed emissions, or has it committed to calculating the baseline for Scope 3 financed emissions? Have sectoral transition plans been developed?				
	Sustainable financing	What percentage of total gross loans falls under sustainable financing, and what sectors/facilities are eligible for sustainable financing?				
	Policy guidance and assurance	Does the company have a sustainability policy? Are the sustainability policy and annual sustainability reports/statements assured by an external party?				

Source: RHB

Greenhouse gas (GHG) emissions

Operational emissions. Most banks under our coverage have begun reporting internal or operational Scope 1, 2 and 3 carbon emissions. These are estimates of the banks' emissions from its own internal operations, whether it be direct or indirect emissions. Scope 1 covers direct emissions, most notably from petrol and diesel consumption of company-owned vehicles. Scope 2 and 3, on the other hand, cover indirect emissions such as those generated by power suppliers and estimates from employee commutes and business travels.

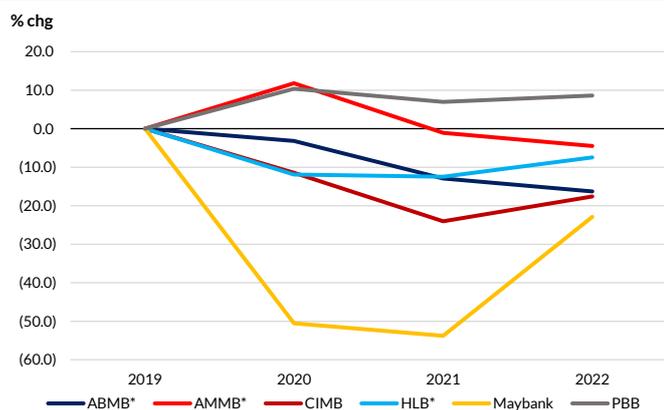
Figure 7: Recap of GHG Protocol scopes and emissions



Source: US Environmental Protection Agency

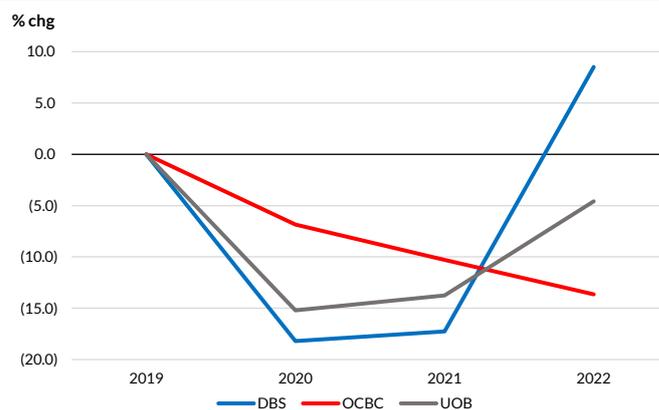
For benchmarking purposes, we chose 2019 as our baseline year, similar to most banks. We note that most banks reported a decline in total emissions in 2022 vs 2019 (or latest FY vs FY-3 for non-Dec FY banks), from a combination of: i) Lower energy utilisation due to hybrid working arrangements, ii) increased usage of internally generated solar energy for branch operations, and ii) purchase and retirement of carbon offset instruments such as carbon credits and renewable energy (RE) certificates. However, we also acknowledge that since 2019, most banks' emissions scopes have expanded to include emissions data from more buildings and markets – the historical data may or may not have been retrospectively adjusted and, in the latter case, could lead to comparisons being less meaningful.

Figure 8: Malaysia banks' gross total emissions trend (2019-2022)



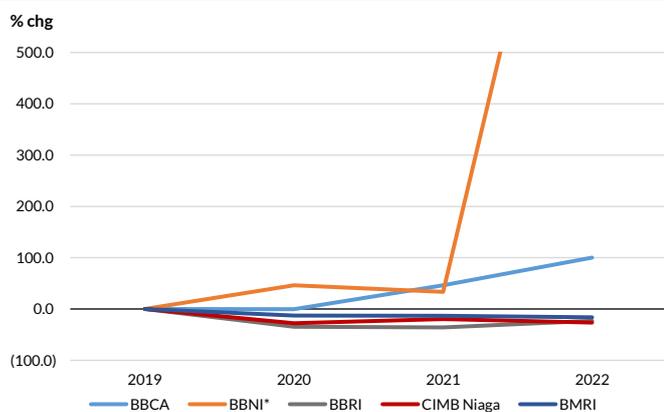
Note: We used FY23 vs FY20 comparisons for ABMB, AMMB and HLB (FYE Mar, Mar and Jun respectively). Data is absent for BIMB and Affin Bank
Source: Company data, RHB

Figure 9: Singapore banks' gross total emissions trend (2019-2022)



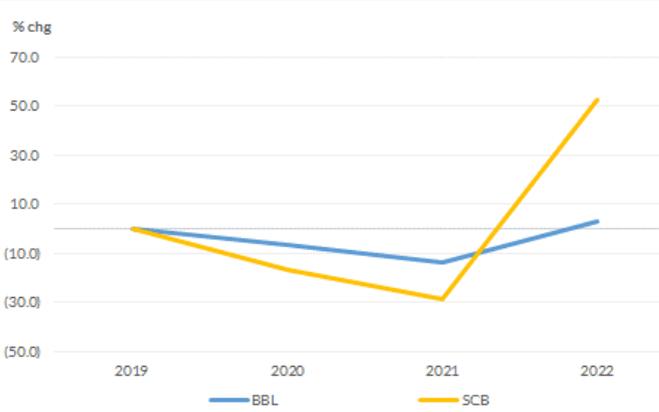
Source: Company data, RHB

Figure 10: Indonesia banks' gross total emissions trend (2019-2022)



Note: BBNI's 2022 emissions data includes an expansion of scope
Source: Company data, RHB

Figure 11: Thailand banks' gross total emissions trend (2019-2022)



Source: Company data, RHB

Some notable changes in gross total emissions trend are as below:

- i. Maybank – 2022 carbon offsets amounting to 51.1 ktCO₂e were excluded from calculations. Including these offsets would result in a 58% drop for 2022 vs 2019 levels.
- ii. DBS – DBS' rise in emissions in 2022 vs 2019 was due to an increase in its Scope 2 emissions, which the bank offsets by purchasing RE certificates in several of its operating markets. Including these offsets, DBS would book negative carbon emissions.
- iii. BBNI – In 2022, BBNI expanded its Scope 2 emissions to include electricity use in all its offices, vs just its main offices previously. BBNI has also included its Scope 3 emissions data from 2022, which covers ground and air service travel.

- iv. SCBX – SCBX has a target to reduce Scope 1 and 2 emissions by 50% in 2027 from 2023 levels, and to net zero in 2030. Efforts and measures taken to manage GHG emissions include modifying machinery to increase energy efficiency, transitioning to air conditioners that do not use refrigerants as well as increasing the use of EVs and generating clean energy.

Financed emissions. On top of minimising operational emissions, managing financed emissions (also referred to as Scope 3 financed emissions) is also critical for a transition to net zero. Financed emissions are emissions from the bank's lending, financing and/or investment portfolios, and form >95% of banks' total emissions (based on banks that have disclosed financed emissions data).

Apart from forming the largest portion of banks' GHG emissions, measuring and reporting financed emissions also help banks understand better the impact of their lending and investment activities. This, in turn, allows the bank to identify potential climate risks associated with high-emissions industries, and align business activities and portfolios with decarbonisation pathways for better risk management. Ultimately, how banks address financed emissions and allocate capital away from carbon-emitting businesses towards financing the decarbonisation of the economy can make a difference.

As per data from 2022 annual reports, the four banks that had begun disclosing financed emissions data adopted the Partnership of Carbon Accounting Financials (PCAF) methodology. This methodology provides comprehensive guidance for banks and financial institutions to measure and disclose GHG emissions associated with lending, financing and/or investment activities. The standard also provides guidance on the treatment of emissions removal for listed equities and corporate bonds, business loans and unlisted equities, and project finance. PCAF has over 400 members globally.

Figure 12: Financed emissions and emissions intensity to gross loans

Sector	Financed emissions (tCO2e)				Emissions intensity (tCO2e/USDm)			
	Maybank	CIMB	BBNI	BBRI	Maybank	CIMB	BBNI	BBRI
Non-households								
Agriculture	3,515,342	1,120,000	-	222,456	659	207	-	23
Cement	-	2,783,000	-	-	-	5,151	-	-
Coal	-	1,302,000	-	-	-	3,713	-	-
Iron, steel, aluminium	-	30,000	-	-	-	50	-	-
Oil & gas	4,789,814	3,070,000	-	1,027,462	1,453	1,724	-	1,053
Power	8,933,912	1,958,000	-	7,141,849	2,073	1,268	-	2,918
Real estate & construction	314,896	435,000	-	230,668	19	12	-	7
Transport	-	218,000	-	4,103	-	203	-	3
Finance & insurance	-	-	-	1,744	-	-	-	2
Manufacturing	-	-	-	2,487,438	-	-	-	368
Total	17,553,964	10,916,000	na	11,115,720	595	550	na	448
Households								
Mortgages	1,199,146	1,398,000	-	-	31	50	-	-
Hire purchase loans	3,729,869	1,497,000	-	-	216	245	-	-
Total	4,929,015	2,895,000	na	na	89	85	na	na
Grand total	22,482,979	13,811,000	13,392,779	11,115,720	264	255	308	448

Note: We used the following average exchange rates for the year: 2021: MYR1 = USD0.24; 2022: MYR2 = USD 0.23, IDR1,000 = USD0.07
Source: Company data, Bloomberg, RHB

Sustainable financing

An urgent need for capital deployment towards ESG-aligned purposes. There are numerous research publications that state varying investment requirements to reach net-zero emissions by 2050. However, the consensus is clear – a significant ramp-up in investments towards clean energy sources is needed for the transition to be successful. As such, banks – as financial intermediaries and mobilisers of capital – play an important role in extending financing towards sustainable projects, companies and purposes with ESG-aligned values.

Most banks under our coverage have shared their sustainable financing targets, most commonly in terms of amount mobilised/disbursed or as a percentage of total gross loans. Financing purposes that qualify as sustainable financing commonly include the following:

- i. Financing of green energy projects such as solar and hydro power;
- ii. Consumer financing for the purchase of affordable homes;
- iii. Consumer financing for the purchase of home-use solar panels;
- iv. Financing of property development projects that have obtained some form of green certification;
- v. Hire-purchase financing for battery, hybrid and plug-in hybrid EVs;
- vi. SME financing.

As we understand, there is currently no widely-recognised framework that sets the criteria for financing purposes to qualify as sustainable financing. For now, we rely on external sustainability assurance providers to ensure that the banks' sustainable financing policies comply with the industry best practices.

Figure 13: Sustainable financing targets of banks under RHB coverage

Bank	Sustainable financing targets
Affin Bank	ESG financing to form 15% of outstanding loan book by FY25.
Alliance Bank	MYR10bn in new sustainable banking business by FY25 (Mar).
AMMB	N/A.
BIMB	Double <i>shariah</i> -ESG assets by FY25 (from c.MYR4.5bn in FY23).
CIMB	MYR100bn in ESG financing mobilised by FY24.
HL Bank	Approve MYR4bn in RE financing by FY25 (Jun).
Maybank	MYR80bn in ESG financing mobilised by FY25.
Public Bank	MYR48bn in ESG-friendly financing by FY25, including MYR15bn for affordable homes.
DBS	Achieved SGD70bn in sustainable financing in FY23 (ahead of SGD50bn target).
OCBC	Commit SGD50bn in sustainable financing in loans and bonds by FY25.
UOB	SGD30bn in sustainable financing by FY25.
BBCA	8% YoY increase in sustainable financing portfolio in FY24 (FY23: IDR203trn).
BBNI	N/A.
BBRI	N/A.
Bank Mandiri	Increase sustainable financing share to 25% of gross loans by FY23.
CIMB Niaga	N/A – at CIMB Group level.
Bangkok Bank	N/A.
SCBX	THB100bn in sustainable financing by FY25.

Source: Company data, Various news, RHB

Policy guidance and assurance

Assurance as a benchmarking measure. For our scoring purposes, we look at the banks' sustainability policies, and whether said policies as well as the sustainability report/statement have obtained any form of assurance. To ensure that banks remain on the straight and narrow, we look towards external assurance from sustainability consultants (among others). In our view, external assurance guarantees that any data disclosed comes from verifiable sources, and that the banks' sustainability policies and endeavours are continually benchmarked against the best practices in the industry. This, to us, limits any potential for "green-washing" within the industry. We note that some banks have committed to obtaining third-party assurance in the near term, and we expect most banks to do the same too.

Given the importance of comparable data in evaluating the banks' ESG performance, we have placed policy guidance and assurance under the "E" pillar to assign it a double weight.

Social Pillar

Figure 14: Social – key indicators assessed under our new scoresheet

Pillar	Matter	Description	Score			
			1	2	3	4
S	Financial inclusion	Is the bank involved in initiatives to promote financial inclusion? What special lending schemes does the bank have for lower-income customers and SMEs? Is the bank involved in ESG capacity-building initiatives for customers?				
	Cybersecurity	Has the company been involved in any material cybersecurity issues (data leaks, hacks, etc) in the last 12 months?				
	Systems and technology	Have there been instances of system outages during peak hours and/or major system faults that led to widespread customer inconvenience in the last 12 months?				
	Human rights, diversity and employee well-being	How robust are the company's policies on human rights? Is the company's workforce well-diversified with decent employee satisfaction?				

Source: RHB

Financial inclusion

Financial services for all. Financial inclusion refers to the extension of financial services towards the unserved and underserved customer segments – typically, these comprise new-to-bank customers with no deposit accounts, customers with no-to-low credit scores for lending products, and micro-SMEs. These customer segments are largely untapped by incumbent banks – likely due to a mismatch in risk profiles – but form a sizeable chunk of the bankable population.

We have seen governments and central banks push hard for financial institutions to participate in the financial inclusion agenda. For instance, in Indonesia, the Otoritas Jasa Keuangan (OJK) pilots the Smart Digital Indonesia mobile application aimed at improving public digital financial literacy with a particular focus on students. Elsewhere, banks in Malaysia are incentivised to provide lending to SMEs through government-backed guarantee schemes.

Banks as the guiding light. In recent years, we have also seen banks with heavy SME presence extending non-financial support to SMEs to assist them on their sustainability journey. In our view, non-financial assistance (eg capacity-building initiatives and assistance with emissions baseline setting and tracking) are as essential to the transition process as financial support. In this regard, we highlight Alliance Bank Malaysia and AMMB as playing instrumental roles in ESG advocacy for SMEs.

Cybersecurity, technology and systems

No surprises is good news. Cybersecurity is an area of increasing concern for banks, given the far-reaching negative implications that potential breaches could have. In recent publications of annual reports, we have seen banks disclose important cybersecurity metrics such as the number of cybersecurity breaches within the year and the percentage of staff trained on cybersecurity best practices.

Separately, the ever-digitalising world of financial services has brought more attention to banks' technological capabilities. Convenience is king, and the user experience is becoming an increasingly important driver of business. In a similar vein, unplanned system outages – especially during waking hours – are considered unacceptable in the eyes of users. In extreme cases, this can also lead to severe financial consequences.

Figure 15: Technology and systems – a case study on DBS

On the back of various disruptions to DBS' banking services in 2023, the Monetary Authority of Singapore (MAS) on 5 May 2023 imposed additional capital requirements on the bank. Specifically, the MAS raised DBS' operational risk-weighted assets multiplier to 1.8x (from 1.5x), translating to additional regulatory capital of approximately SGD1.6bn. This led to the CET-1 ratio being cut by 30bps, which could potentially affect dividend payouts and redistribution of excess capital. Further direct impact could also stem from higher opex (compliance cost, tech spend) and capex, impeding bottomline growth. On 1 Nov 2023, DBS was further hit by a mandatory 6-month pause on non-essential IT changes to ensure the bank keeps its focus on restoring the integrity of its banking services. DBS was also prohibited from undertaking any acquisitions during this time. Its share price stayed more or less flat between the beginning and end of 2023.

Source: Company data, Various news reports, RHB

For our scoring purposes, we looked at whether the banks were involved in any material cybersecurity issues over a 12-month horizon. Separately, we also referred to news articles and social media posts for any unplanned system outages during waking hours experienced by customers over the same period of time.

Human rights, diversity and employee well-being

Embracing good social values in the workforce. In evaluating the banks' social scores, we look at the banks' policies for upholding the values of human rights, diversity, and employee well-being. In the case of human rights, instances of non-compliance towards set regulations could lead to hefty penalties being imposed, which in turn directly damages the banks' financial and reputational status. Diversity and employee well-being are also crucial to the banks' performances, and are important value-adds. In evaluating diversity and employee well-being, we take into consideration indicators such as gender/race/age split at the group, senior management and board levels, average training hours per employee, as well as attrition rates.

Governance Pillar

Figure 16: Governance – key indicators assessed under our new scoresheet

Pillar	Matter	Description	Score			
			1	2	3	4
G	Partnerships and associations	Is the bank a signatory/member of, partnered with, or associated with any organisations dedicated to sustainability matters?				
	Board and sustainability oversight	What is the mix between the Board's independent and non-independent directors? Does the group have a dedicated sustainability committee?				
	Sustainability-linked remuneration	Are sustainability matters embedded in staff's annual performance evaluation?				
	Anti-bribery and corruption, anti-money laundering and counter-financing of terrorism	Has the company been involved in any bribery/corruption/money laundering/terrorism financing cases in the last 10 years?				

Source: RHB

Board and sustainability oversight

Board backing is crucial for implementing big changes. It is our view that good governance has to start at the Board level. Similarly, implementing organisational changes throughout the group requires unwavering support from the Board, especially changes as big as embracing ESG in the group's operations. In evaluating this particular line item, we looked at the Board's split of independent to non-independent directors, and whether the group has a dedicated sustainability officer, committee or department to steer the group on its ESG journey.

In a separate line item, we also looked at the banks' ESG-linked remuneration frameworks, if any, and at what levels these are being implemented at.

Anti-bribery and corruption, anti-money laundering and counter financing of terrorism

Major threat to financial and reputational status. A major Governance area of concern when it comes to banks comes in the three-pronged form of bribery and corruption, money laundering, and financing of terrorism. While different in definition, non-compliance with any of these aspects pose similar financial and reputational risks to the bank.

Figure 17: Anti-bribery and corruption – a case study on AMMB

AMMB, in early 2021, was fined a hefty MYR2.8bn to settle claims relating to the bank's involvement in the 1 Malaysia Development Bhd (1MDB) scandal. As a result, the group incurred a loss of MYR3.5bn in FYE Mar 2021, and the CET-1 and total capital ratios were both reduced by 2.5ppts due to the settlement. The group did not pay out any dividends for the FY, having last paid out dividends for FY20. In fact, its shareholders would have to wait until mid-2022 before dividend payouts were resumed.

AMMB would spend that time on a "capital rebuilding exercise" of preserving reserves and disposing non-core assets. As at 31 Dec 2023, the group's CET-1 ratio had yet to recover to the initial pre-settlement level of 13.5%. Investors were quick to punish the group, with the intraday share price retreating to a low of 10% below the previous close on the day after the fine announcement. While valuations have since recovered, we believe the lessons learned from AMMB's case will be a mainstay in the industry.

Source: Company data, Various news reports, RHB

Partnerships and associations

Local partnerships. All banks under our coverage are members of their respective central banks'/private sector's sustainability working groups – these would be the Joint Committee on Climate Change (JC3) for Malaysia, the Indonesia Sustainable Finance Initiative (ISFI) for Indonesia, the Thailand Business Council for Sustainable Development (TBCSD) for Thailand, and the Green Finance Industry Taskforce (GFIT) for Singapore. These organisations provide a platform for the banks to deliberate the way forward with regards to the domestic financial system's/private sector's ESG ambitions.

International organisations. Globally, there are several notable organisations that our banks are partners with, such as the Taskforce for Climate-related Financial Disclosures, and the United Nations' Net Zero Banking Alliance (NZBA). Participants of these organisations agree to specific climate goals (eg net-zero GHG emissions in all operations by 2050 for the NZBA), and/or are provided tools, frameworks and guidance to set and execute credible climate targets specific to their banks.

We recognise the importance of alliances and partnerships for the banks, given that the sustainability journey is a collective commitment across the globe. The tools, frameworks and guidance provided by these organisations combine to form the industry best practices, and hence, partnerships are a vital part of a bank's sustainability progress.

Figure 18: Notable examples of domestic, regional and global sustainability organisations (non-exhaustive)

Organisation	Reach
UNEP FI Net-Zero Banking Alliance	Global
Equator Principles	Global
Taskforce for Climate-related Financial Disclosures	Global
Partnership for Carbon Accounting Financials	Global
United Nations Global Compact Malaysia & Brunei	Malaysia, Brunei
Joint Committee on Climate Change	Malaysia
Green Finance Industry Taskforce	Singapore
Indonesia Sustainable Finance Initiative	Indonesia
Thailand Business Council for Sustainable Development	Thailand

Source: Annual reports, RHB

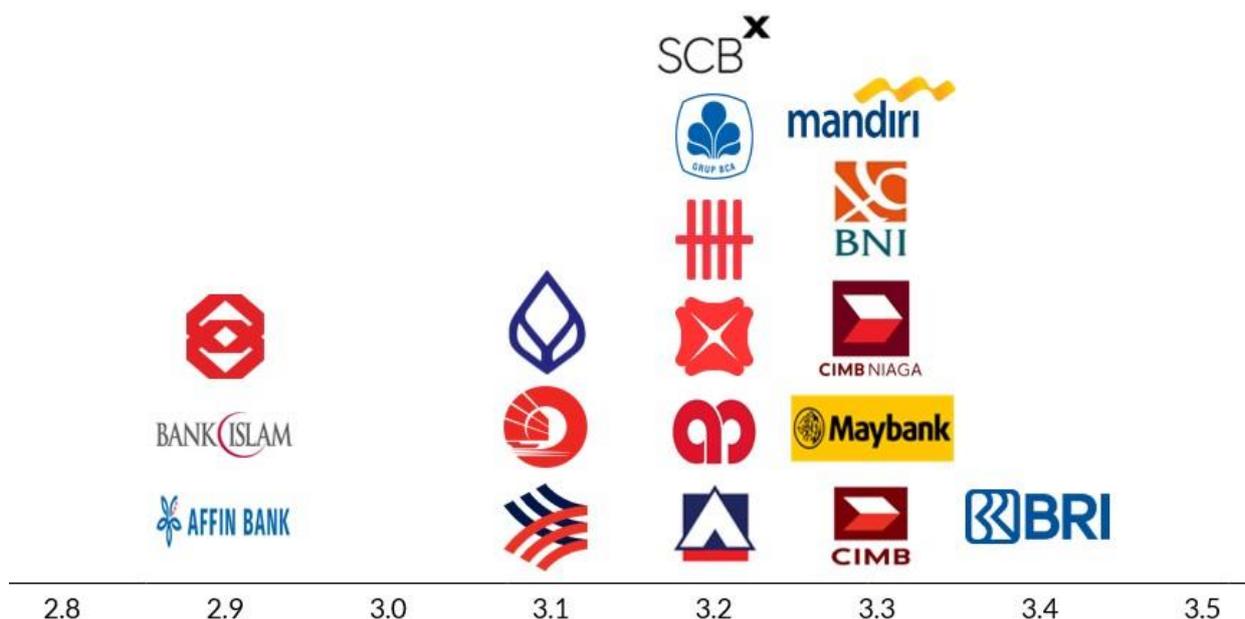
Updated ESG Scoresheet

Figure 19: RHB's full new ESG scoresheet for Banks

Pillar	Matter	Description	Score			
			1	2	3	4
E	Internal emissions management	Has the bank demonstrated a decrease in internal emissions (scope 1, 2 and 3 (including carbon offsets, excluding financed emissions)) compared to the baseline year of 2019?				
	Financed emissions	Does the bank disclose its Scope 3 financed emissions, or has it committed to calculating the baseline for Scope 3 financed emissions? Have sectoral transition plans been developed?				
	Sustainable financing	What percentage of total gross loans fall under sustainable financing, and what sectors/facilities are eligible for sustainable financing?				
	Policy guidance and assurance	Does the company have a sustainability policy? Are the sustainability policy and annual sustainability reports/statements assured by an external party?				
S	Financial inclusion	Is the bank involved in initiatives to promote financial inclusion? What special lending schemes does the bank have for lower-income customers and SMEs?				
	Cybersecurity	Has the company been involved in any material cybersecurity issues (data leaks, hacks, etc) and/or outages in the last 12 months?				
	Systems and technology	Have there been instances of system outages during peak hours/major system faults that led to widespread customer inconvenience in the last 12 months?				
	Human rights, diversity and employee well-being	How robust are the company's policies on human rights? Is the company's workforce well-diversified with decent employee satisfaction?				
G	Partnerships and associations	Is the bank a signatory/member of, partnered with, or associated with any organisations dedicated to sustainability matters?				
	Board and sustainability oversight	What is the mix between the Board's independent/non-independent directors? Does the group have a dedicated sustainability committee?				
	Sustainability-linked remuneration	Are sustainability matters embedded in staff's annual performance evaluation?				
	Anti-bribery and corruption, anti-money laundering and counter-financing of terrorism	Has the company been involved in any bribery/corruption/money laundering/terrorism financing cases in the last 10 years?				

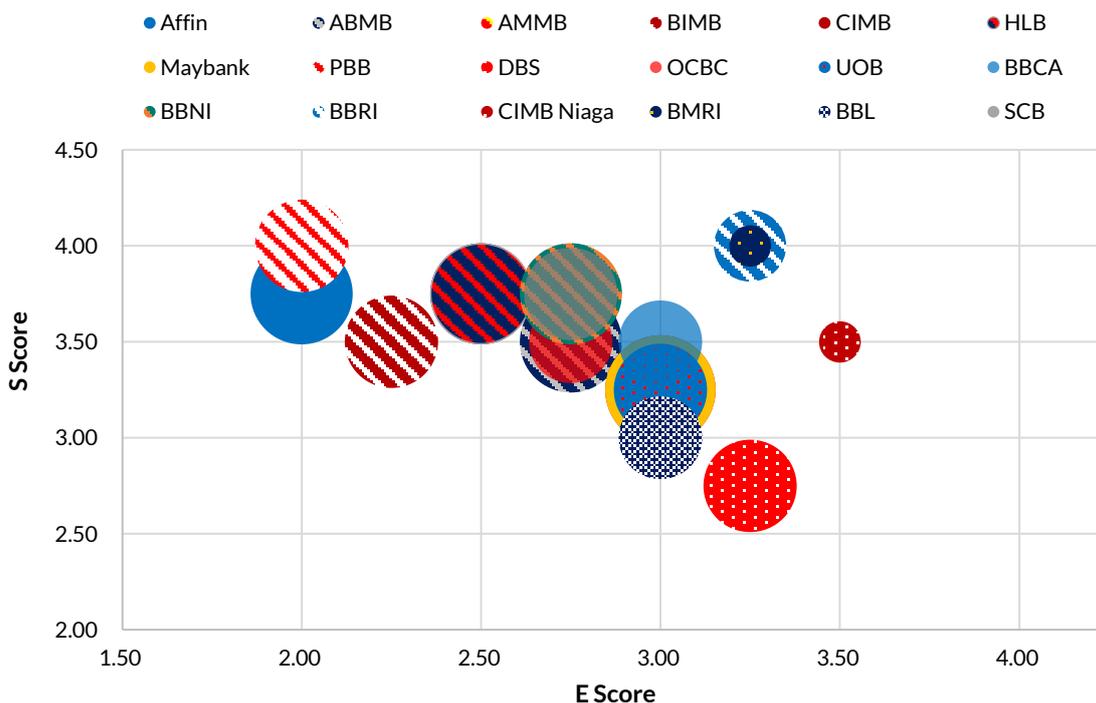
Source: RHB

Figure 20: New ESG scores for banks under RHB coverage



Source: RHB

Figure 21: Bubble chart breakdown of banks' "E", "S" and "G" scores*



Note: "G" scores are represented by the bubble sizes

Note 2: Overlapping data points (i.e. these banks have identical E, S and G scores): AMMB and SCB, and CIMB and Maybank

Source: RHB

Figure 22: RHB Banks' ESG scores, premiums/discounts, TPs and stock recommendations pre- and post-scoresheet change

Bank	Country median	Previous				New			
		ESG score	Premium/ (Discount)	TP (LCY)	Rating	ESG score	Premium/ (Discount)	TP (LCY)	Rating
Malaysia									
Affin	3.0	3.1	2%	1.70	Sell	2.9	-2%	1.65	SELL
Alliance Bank	3.0	3.3	6%	4.30	Buy	3.2	4%	4.20	BUY
AMMB	3.0	3.0	0%	4.80	Buy	3.2	4%	5.00	BUY
BIMB	3.0	3.0	0%	2.50	Neutral	2.9	-2%	2.45	NEUTRAL
CIMB	3.0	2.9	-2%	7.35	Buy	3.3	6%	7.60	BUY
Hong Leong Bank	3.0	3.0	0%	23.20	Buy	3.1	2%	23.60	BUY
Maybank	3.0	3.1	2%	10.20	Neutral	3.3	6%	10.60	NEUTRAL
Public Bank	3.0	2.8	-4%	4.65	Neutral	2.9	-2%	4.70	NEUTRAL
Singapore									
DBS	3.1	3.1	0%	36.10	Buy	3.2	2%	36.70	BUY
OCBC	3.1	3.1	0%	13.10	Neutral	3.1	0%	13.10	NEUTRAL
UOB	3.1	3.2	2%	29.00	Neutral	3.2	2%	29.00	NEUTRAL
Indonesia									
BBCA	3.0	3.2	4%	11,100	Buy	3.2	4%	11,100	BUY
BBNI	3.0	3.2	4%	6,400	Buy	3.3	6%	6,500	BUY
BBRI	3.0	3.4	8%	7,000	Buy	3.4	8%	7,000	BUY
BMRI	3.0	3.0	0%	7,770	Buy	3.3	6%	8,240	BUY
CIMB Niaga	3.0	3.3	6%	2,500	Buy	3.3	6%	2,500	BUY
Thailand									
Bangkok Bank	3.2	3.1	-2%	184.00	Buy	3.1	-2%	184.00	BUY
SCBX	3.2	3.3	2%	128.00	Buy	3.2	0%	126.00	BUY

Source: RHB

Figure 23: Notable changes in ESG scores

Bank	ESG Score Previous	ESG Score New	Comments
Affin	3.1	2.9	Disclosures on emissions are lacking – Affin is the only MY bank that has yet to report operational Scope 1 and 2 emissions.
AMMB	3.0	3.2	AMMB's improvements arose from the "E" and "S" pillars – the former due to the bank's good progress in managing its internal operational emissions, and the latter due to its active participation in financial inclusion initiatives, including several self-initiated programmes.
CIMB	2.9	3.3	Over the past few years, CIMB has taken on a leadership role in ESG among banks in MY and ASEAN. CIMB was the first Malaysian bank to develop and publish sector-specific transition plans based on Scope 3 financed emissions data. The group has also made commendable progress in improving its digital reliability – an area of major concern previously – measured via platform availability and unscheduled downtimes.
Maybank	3.1	3.3	Maybank is one of the first MY banks to track and disclose Scope 3 financed emissions, which carries a big weight in our ESG scoring. Additionally, the bank's efforts at managing its own internal operational emissions are also bearing fruit, with and without the assistance of carbon offset mechanisms.
DBS	3.1	3.2	Improvement in the "E" pillar, thanks to efforts and commitments towards net-zero emissions from its lending portfolio by 2050 for each of its priority sectors.
BBNI	3.2	3.3	ESG score tweaked up. It is one of two Indonesia banks that have disclosed Scope 3 financed emissions, albeit on totality and lacks details at this juncture.
BMRI	3.0	3.3	Improvement in scoring on both the "E" (reduction in GHG emissions, growing its green portfolio) as well as "S" pillars (eg good diversity in workforce, low attrition rate).
SCBX	3.3	3.2	The change is mainly on the "E" pillar, where we think the Thai banks lag behind regional peers in terms of disclosures such as financed emissions and sustainable financing. Having said that, among the Thai banks, we still view SCBX as one of the ESG leaders.

Source: Companies data, RHB

Actionable Ideas

CIMB (CIMB MK, BUY; TP: MYR7.60); ESG score: 3.3

CIMB recorded a 18% reduction in its (operational) Scope 1, 2 and 3 carbon emissions between FY22 and FY19. It is also one of two Malaysia banks to have begun reporting Scope 3 financed emissions. CIMB also has comprehensive transition plans for its higher-ESG risk customers from the thermal coal-mining and cement sectors. In its last ESG Corporate Day event in Sep 2023, it raised its 2024 sustainable financing target to MYR100bn from MYR60bn, having already achieved the initial target ahead of time. CIMB also announced a new advisory product for its corporate customers that are looking to develop carbon credit projects and issue carbon credits on the Bursa Malaysia Carbon Exchange.

CIMB remains as one of our preferred picks. Its earnings growth momentum has been positive on the back of factors such as improving asset quality, good non-II traction and Bank CIMB Niaga's ROE rerating. We expect to see a continued outperformance from the stock, driven by a combination of above-average earnings growth and a rerating in valuations. Potential further capital returns from capital optimisation initiatives would be the icing on the cake.

Bank Rakyat Indonesia (BBRI IJ, BUY; TP: IDR7,000); ESG score: 3.4

BBRI is the leader in ultra microfinance in Indonesia. Its commitment to inclusive growth can be seen via its Ultra Micro Holding initiative, which includes BBRI and its subsidiaries Pegadaian and Permodalan Nasional Madani (PNM). The initiative seeks to reduce the number of businesses without financial access and to empower women entrepreneurs in the ultra-micro segment, among others, and will add new revenue streams to the group. As at end-2023, the bank has 1,018 (+0.5% YoY) SenyuM co-locations (integrated services across BRI, Pegadaian, and PNM) throughout Indonesia, as well as over 741,000 BRILink agents. Meanwhile, BBRI's total sustainable financing reached IDR777.3trn as at end-2023 (or 67.11% of BBRI's entire credit and corporate bond investment portfolio). Credit distribution to environmentally friendly economic activity sectors (KUBL) has totalled IDR82.3trn.

We remain positive on the prospects for the ultra micro portfolio. Although still relatively small (9% of total loans), the portfolio's growth is outpacing that of the overall group loan growth and is expected to be the main driver of growth going forward.

DBS (DBS SP, BUY; TP: SGD36.7); ESG score: 3.2

DBS has reduced its total emissions (without carbon offsets) by 18% between FY23 and FY19, thanks to the purchase of RE certificates. DBS accelerated its climate agenda when it published its "Our Path to Net Zero" report and announced interim 2030 and 2050 net-zero targets. It had earlier set a target to commit SGD50bn of sustainable financing loans by 2024 but, as at end-2023, SGD70bn had already been committed. Also notable was that, in 2023, DBS provided SGD100m in opex as part of its commitment of up to SGD1bn over the next 10 years to improve lives and livelihoods of the low-income and underprivileged segments.

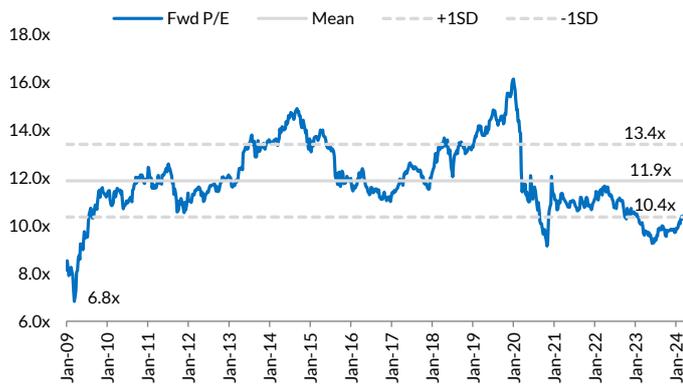
Amid a scenario of flattish earnings as the interest rate cycle turns, DBS' commitment to increase DPS by 24 cents pa means its absolute DPS will continue to grow, and investors will have a good line of sight as to its trajectory. Management expects to sustain this commitment over the next 2-3 years. A reduced rates leverage and ample general provision buffers are added positives we see for the stock.

SCBX (SCB TB, BUY; TP: THB126); ESG score: 3.2

SCBX recorded a 7% reduction in its (operational) Scope 1 and 2 carbon emissions between FY23 and FY19. SCB adopts best practices in its sustainability agenda by collaborating with national and global initiatives. Some of the key international memberships are the UN Global Compact, Equator Principles, Task Force for Climate-related Financial Disclosures (TCFD) and Science Based Targets.

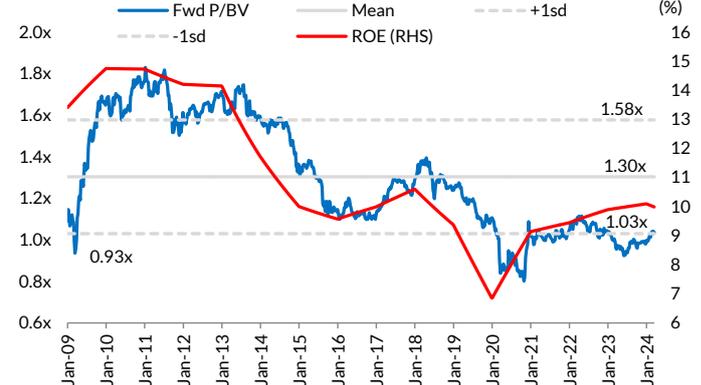
Notwithstanding the downgrade in ESG score, we still find SCBX attractive in terms of: i) It being the top dividend play stock in the sector with an impressive 9-10% dividend yield; ii) its stronger ROE vs that of peers; and iii) attractive valuations – its P/BV remains below -1SD from the historical mean. We also view SCBX's recent move to acquire Home Credit Vietnam positively, as this would further bolster its regional presence in the long term.

Figure 24: Malaysia banks' 12-month forward P/E



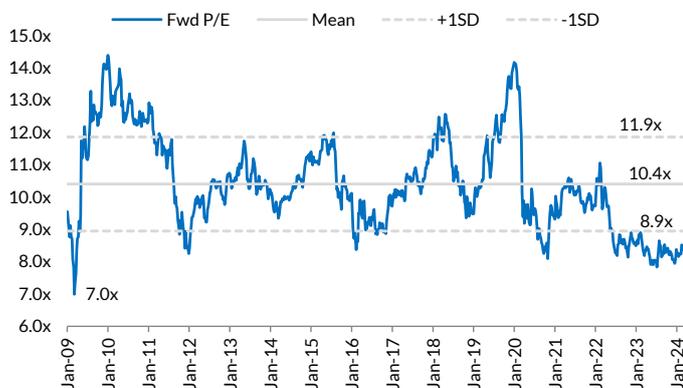
Source: Company data, Bloomberg, RHB

Figure 25: Malaysia banks' 12-month forward P/BV vs ROE



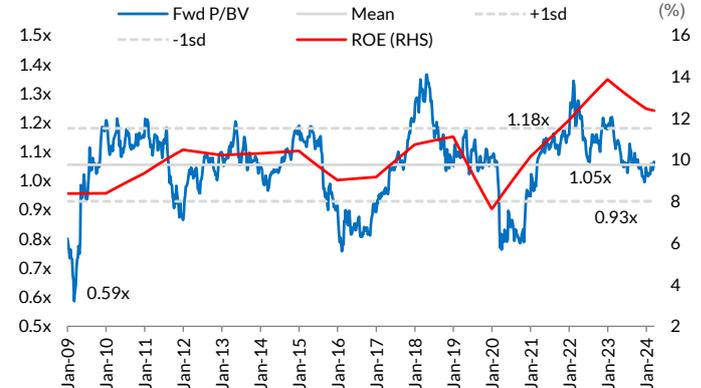
Source: Company data, Bloomberg, RHB

Figure 26: Singapore banks' 12-month forward P/E



Source: Company data, Bloomberg, RHB

Figure 27: Singapore banks' 12-month forward P/BV vs ROE



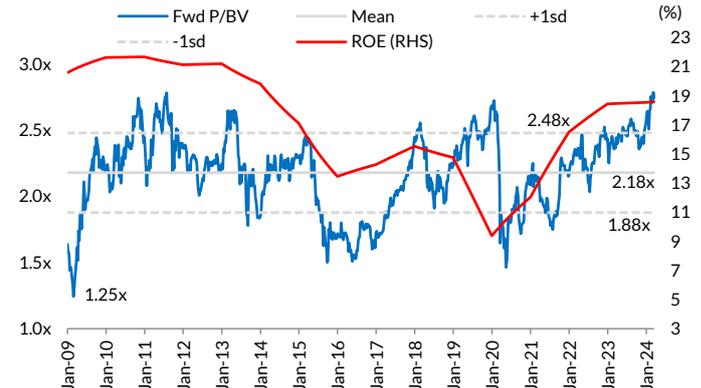
Source: Company data, Bloomberg, RHB

Figure 28: Indonesia banks' 12-month forward P/E



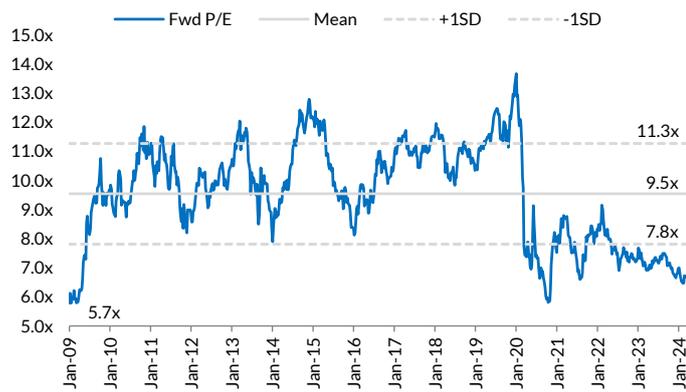
Source: Company data, Bloomberg, RHB

Figure 29: Indonesia banks' 12-month forward P/BV vs ROE



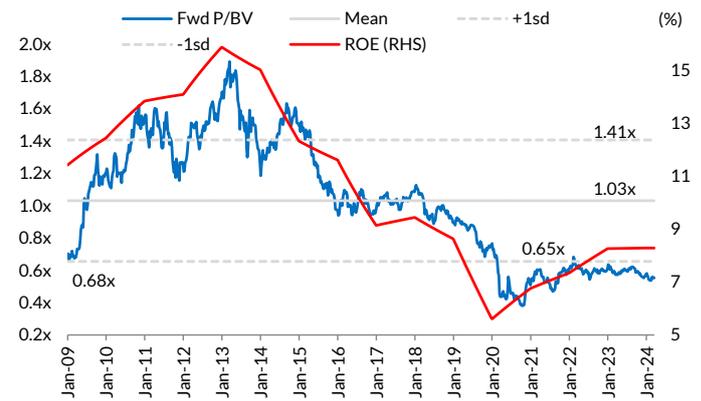
Source: Company data, Bloomberg, RHB

Figure 30: Thailand banks' 12-month forward P/E



Source: Company data, Bloomberg, RHB

Figure 31: Thailand banks' 12-month forward P/BV vs ROE



Source: Company data, Bloomberg, RHB

22 March 2024

Financial Services | Banks

Bank Central Asia (BCA IJ)

Buy (Maintained)

Improving Disclosures Bode Well For ESG Direction

- **Maintain BUY and IDR11,100 TP, 10% upside with c.3% FY24F yield.** Post-updates to our ESG scoresheet for the banking sector (refer to our thematic paper titled [Banks: In Pursuit Of Net Zero](#)), Bank Central Asia's ESG score of 3.2 has been retained. Accordingly, there is no change to our IDR11,100 TP, which includes an ESG premium of 4% applied to the stock's intrinsic value of IDR10,702.
- **The positives.** Although BCA's reported total emissions have been on the rise, this was mainly due to a wider scope of data collection. For example, total emissions more than doubled YoY in 2023 but this reflects an expanded data coverage – especially for Scope 3 emissions, which now include purchased goods and services, capital goods and upstream leased assets, among others, vs just water generated in operations and business travel previously. BCA's total sustainable financing portfolio grew 11% YoY in 2023 and now makes up 25% of its total financing portfolio. Of the total sustainable financing portfolio, 43% is related to green financing while the balance of its portfolio comprises financing for MSMEs. Finally, through its digital transformation, 99.7% of total transaction volume is now conducted via digital channels.
- **Areas for improvement?** BCA has not disclosed its financing emissions in its Sustainability Report 2023. That said, the bank had previously said that it intends to include disclosures on greenhouse gas emissions from investment activities by 2025. We also await more details on its net-zero emissions roadmap, as well as its commitment on the path towards net-zero emissions. These fall under its 2026-2030 Climate Change Strategy Roadmap.
- **Focus on fundamentals.** Post-updates to our sector ESG scoresheet, BCA's ESG score of 3.2 remains put. Fundamentally, with a solid and liquid balance sheet, healthy capital levels, as well as management's proven ability to tap new growth opportunities, we continue to like it as a proxy to the broader economic growth momentum.

Target Price (Return): IDR11,100 (+10%)
 Price (Market Cap): IDR10,125 (USD79,541m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (IDR/USD) 668,044m/40.7m

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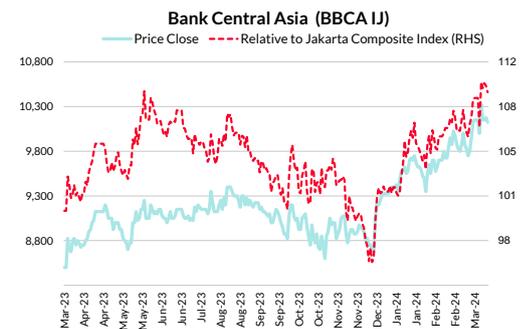


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.7	1.0	8.9	10.7	20.5
Relative	6.9	1.3	7.4	6.1	9.6
52-wk Price low/high (IDR)	8,600 – 10,325				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	40,736	48,639	53,565	57,722	62,026
Net profit growth (%)	29.6	19.4	10.1	7.8	7.5
Recurring net profit (IDRb)	40,736	48,639	53,565	57,722	62,026
Recurring EPS (IDR)	330.45	394.56	434.52	468.24	503.15
BVPS (IDR)	1,792.89	1,965.98	2,050.11	2,218.95	2,399.53
DPS (IDR)	205.00	270.00	283.00	305.00	327.00
Recurring P/E (x)	30.64	25.66	23.30	21.62	20.12
P/B (x)	5.65	5.15	4.94	4.56	4.22
Dividend Yield (%)	2.0	2.7	2.8	3.0	3.2
Return on average equity (%)	19.2	21.0	21.6	21.9	21.8

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

BCA has set out ESG policies for five sectors and begun integrating ESG risk assessments into financing for them. These sectors are palm oil, coal mining, toll road development, wood and forest products, as well as the cement and basic steel industry sectors. In 2023, sustainable business financing made up 25% of its total loan portfolio.

S: EXCELLENT

BCA embraces gender diversity, with women making up 61% of the total workforce as well as managerial positions, and 16.7% of its Board of Directors. It is actively involved in financial literacy education, the provision of scholarships and gives assistance to schools.

G: EXCELLENT

It has not had any material data security or privacy issues over the past few years. BCA actively provides education related to sustainability to stakeholders. Its Board of Directors comprises 12 directors, while the Board of Commissioners comprises a president commissioner, one commissioner and three independent commissioners.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	330.45	394.56	434.52	468.24	503.15
Financial Services	Recurring EPS	330.45	394.56	434.52	468.24	503.15
Bank Central Asia	DPS	205.00	270.00	283.00	305.00	327.00
BBCA IJ	BVPS	1,792.89	1,965.98	2,050.11	2,218.95	2,399.53
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	30.64	25.66	23.30	21.62	20.12
	P/B (x)	5.6	5.2	4.9	4.6	4.2
	Dividend Yield (%)	2.0	2.7	2.8	3.0	3.2
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	72,459	87,722	93,571	96,686	99,614
	Interest expense	(8,315)	(12,353)	(12,258)	(9,469)	(6,163)
	Net interest income	64,143	75,369	81,313	87,216	93,451
	Non interest income	22,673	23,911	25,290	26,828	28,460
	Total operating income	86,817	99,280	106,603	114,044	121,911
	Overheads	(31,851)	(36,675)	(37,408)	(39,508)	(41,735)
	Pre-provision operating profit	54,966	62,605	69,195	74,537	80,176
	Loan impairment allowances	(4,527)	(2,263)	(2,988)	(3,276)	(3,569)
	Other exceptional items	56	(325)	60	60	-
	Pre-tax profit	50,467	60,180	66,238	71,290	76,607
	Taxation	(9,711)	(11,522)	(12,651)	(13,545)	(14,555)
	Minority interests	(20)	(19)	(21)	(23)	(25)
	Reported net profit	40,736	48,639	53,565	57,722	62,026
	Recurring net profit	40,736	48,639	53,565	57,722	62,026
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	3.2	3.6	3.7	3.7	3.6
	Return on average equity (%)	19.2	21.0	21.6	21.9	21.8
	Return on IEAs (%)	5.9	6.7	6.6	6.3	6.0
	Cost of funds (%)	0.8	1.1	1.0	0.7	0.4
	Net interest spread (%)	5.1	5.6	5.6	5.6	5.6
	Net interest margin (%)	5.2	5.7	5.7	5.7	5.6
	Non-interest income / total income (%)	26.1	24.1	23.7	23.5	23.3
	Cost to income ratio (%)	36.7	36.9	35.1	34.6	34.2
	Credit cost (bps)	67.9	30.1	35.4	35.4	35.4
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	843,808	904,673	995,799	1,083,705	1,181,600
	Other interest earning assets	573,669	557,680	590,959	627,328	675,979
	Total gross IEAs	1,277,232	1,358,918	1,477,016	1,592,834	1,728,126
	Total provisions	(35,462)	(34,899)	(42,083)	(35,415)	(36,271)
	Net loans to customers	668,722	767,178	844,843	930,990	1,016,775
	Total net IEAs	1,241,769	1,324,019	1,434,933	1,557,419	1,691,855
	Total non-IEAs	72,962	84,088	74,104	77,636	81,701
	Total assets	1,314,732	1,408,107	1,509,037	1,635,055	1,773,557
	Customer deposits	1,039,718	1,101,673	1,188,785	1,290,039	1,399,946
	Other interest-bearing liabilities	53,832	63,897	67,351	71,290	77,605
	Total IBLs	1,093,550	1,165,569	1,256,136	1,361,329	1,477,551
	Total liabilities	1,093,550	1,165,569	1,256,136	1,361,329	1,477,551
	Share capital	7,090	7,090	7,090	7,090	7,090
	Shareholders' equity	221,019	242,356	252,728	273,542	295,802
	Minority interests	163	181	173	185	204
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.7	1.6	1.5	1.4	1.4
	Total provisions / reported NPLs (%)	279.5	259.6	252.7	252.6	237.6
	CET-1 ratio (%)	24.5	23.1	22.7	22.5	22.3
	Tier-1 ratio (%)	24.5	23.1	22.7	22.5	22.3
	Total capital ratio (%)	25.5	24.1	23.7	23.5	23.3

Source: Company data, RHB

Emissions And ESG

Trend analysis

The increase in BBCA's total emissions reflects the broadening in calculation scope for various emissions over the years, ie the number of its branches and Scope 3 emissions.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	401	806	4,840
Scope 2	102,516	137,019	143,260
Scope 3	1,538	4,918	160,924
Total emissions	104,455	142,743	309,024

Source: Company data, RHB

Latest ESG-Related Developments

- **Developed Sustainable Finance Action Plan Phase 2 for 2024-2028, which includes three priority areas:** i) Continued sustainable financing growth; ii) internal capacity building; and iii) organisation-wide improvement in efficiency and effectiveness for the implementation of sustainable finance.
- **Expanding emission calculations:** BBCA intends to include greenhouse gases in calculating emissions from investment activities by 2025.
- **Climate resilience:** As part of its 2026-2030 roadmap, BBCA plans to develop a climate change risk management framework.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-25	Buy	11,100	9,500
2023-10-20	Buy	10,900	8,975
2023-04-27	Buy	10,700	9,150
2023-01-27	Buy	9,800	8,700
2022-10-21	Buy	9,800	8,650
2022-07-28	Buy	9,000	7,350
2022-04-22	Buy	9,000	7,875
2021-10-22	Buy	8,700	7,525
2021-04-23	Buy	7,600	6,390
2021-02-09	Neutral	7,600	6,980
2020-12-02	Buy	7,600	6,450
2020-07-28	Neutral	6,700	6,185
2020-05-28	Buy	6,380	5,295
2020-04-16	Buy	6,500	5,240
2020-03-10	Buy	7,200	5,925

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Bank CIMB Niaga (BNGA IJ)

Buy (Maintained)

Top ESG Performer With Solid Growth Potential

Target Price (Return): IDR2,500 (+23%)
 Price (Market Cap): IDR2,040 (USD3,236m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (IDR/USD) 20,555m/1.21m

- **Maintain BUY and TP of IDR2,500, 23% upside with c.8% FY25F yield.** We maintain CIMB Niaga's ESG score at 3.3. Our TP includes a 6% premium applied to its intrinsic value, as its ESG score is higher than the country median. BNGA is dedicated to incorporating and harmonising ESG actors into its business operations, as well as supporting the Sustainable Development Goals (SDGs). We regard BNGA as one of the industry's ESG leaders, and the bank remains a Top Pick among the small- and mid-cap banks.
- **The positives.** In 2023, BNGA achieved several milestones, including a 24% reduction in Scope 1 and 2 greenhouse gas (GHG) emissions compared to the 2019 GHG baseline, while also actively supporting climate change mitigation efforts, such as the use of renewable energy (RE) through the purchase of Renewable Energy Certificates (REC), the purchase of carbon units on the Indonesia Carbon Exchange (IDXCarbon), and the installation of solar panels. Furthermore, the bank's sustainable palm oil financing portfolio grew by an impressive 17%, ie above the 5% target. BNGA continues to carry out previously created sustainable financial product/programme efforts, such as the Mapan iB Savings Programme with *Waqf*, green mortgages, and solar panel financing.
- **Areas for improvement?** To speed up the implementation of ESG in Indonesia, the Financial Services Authority (OJK) has completed Phase II of the Sustainable Finance Roadmap (2021-2025). This expedited aim allows BNGA to significantly implement sustainable finance in numerous sectors that benefit the environment and society, including RE, clean energy, and carbon efficiency, while also leveraging climate financing and nature-based solutions. In accordance with the Green Social Sustainability Impact Products & Services (GSSIPS) framework, BNGA has committed to disbursing IDR8.22trn for sustainable financing by 2024.
- **One of the top ESG performers among Indonesian banks.** We maintain BNGA's ESG score at 3.3, which is above the median. We believe BNGA warrants a re-rating, as we expect its ROE to increase to 15% this year from 11% in 2022. The stock is trading at 1x and 0.9x FY24-25F P/BV, with a 15% ROE.

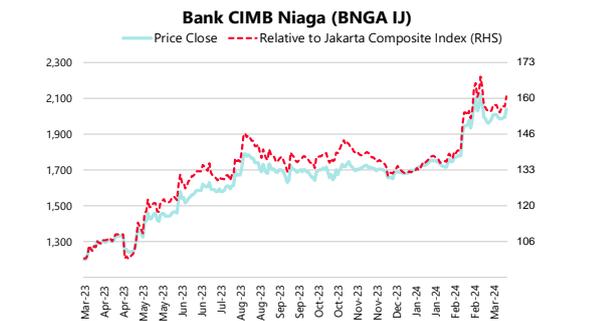
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.4	3.0	20.7	20.4	69.3
Relative	19.6	3.3	19.2	15.8	58.4
52-wk Price low/high (IDR)				1,225	-2,120



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	5,042	6,474	7,414	8,248	10,776
Net profit growth (%)	23.0	28.4	14.5	11.2	30.7
Recurring net profit (IDRb)	5,042	6,474	7,414	8,248	10,776
Recurring EPS (IDR)	202.21	259.66	297.35	330.79	432.20
BVPS (IDR)	1,812.50	1,972.96	2,119.82	2,278.52	2,519.53
DPS (IDR)	94.08	115.18	147.90	169.37	188.42
Recurring P/E (x)	10.09	7.86	6.86	6.17	4.72
P/B (x)	1.13	1.03	0.96	0.90	0.81
Dividend Yield (%)	4.6	5.6	7.3	8.3	9.2
Return on average equity (%)	11.4	13.7	14.5	15.0	18.0

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

CIMB Niaga supports environmental preservation and the improvement of people's welfare. Although its business is not directly related to nature, financing provided to businesses can have a direct impact on the environment, and it is important that it encourages sustainable businesses. Its environmental efforts are also implemented within its own operations, in terms of managing the paper and energy used in its banking activities.

S: EXCELLENT

As a company engaged in the banking industry, its CSR involves delivering financial literacy and inclusion.

G: EXCELLENT

The bank has included climate change and its mitigation measures in the job description for its GCG & Sustainability Unit, supervised by the Director responsible for sustainability. The unit responsible for implementing sustainability activities also ensures the implementation of climate change initiatives/studies and carries out mitigation actions.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	202.21	259.66	297.35	330.79	432.20
Financial Services	Recurring EPS	202.21	259.66	297.35	330.79	432.20
Bank CIMB Niaga	DPS	94.08	115.18	147.90	169.37	188.42
BNGA IJ	BVPS	1,812.50	1,972.96	2,119.82	2,278.52	2,519.53
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	10.09	7.86	6.86	6.17	4.72
P/BV backed by GGM. Assumptions include:	P/B (x)	1.1	1.0	1.0	0.9	0.8
i. COE of 10.5%;	Dividend Yield (%)	4.6	5.6	7.3	8.3	9.2
ii. ROE of 12.0%;						
iii. 3% long-term growth.						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	19,114	22,306	24,797	26,329	32,752
i. Promising CASA outlook for better CoF;	Interest expense	(5,638)	(8,954)	(9,854)	(10,129)	(12,569)
ii. Higher NIM trend;	Net interest income	13,476	13,352	14,943	16,200	20,183
iii. Improving asset quality.	Non interest income	5,390	5,433	5,433	5,433	5,433
	Total operating income	18,866	18,786	20,376	21,633	25,616
	Overheads	(8,484)	(8,584)	(8,584)	(8,584)	(8,584)
Key risks	Pre-provision operating profit	10,382	10,202	11,792	13,050	17,032
i. Lower-than-expected loan growth;	Loan impairment allowances	(3,814)	(2,007)	(2,216)	(2,379)	(3,065)
ii. Deteriorating asset quality;	Other exceptional items	11	162	162	162	162
iii. Higher-than-expected cost of funds (CoF).	Pre-tax profit	6,579	8,357	9,739	10,833	14,129
	Taxation	(1,483)	(1,806)	(2,240)	(2,492)	(3,250)
	Minority interests	(55)	(77)	(85)	(93)	(103)
	Reported net profit	5,042	6,474	7,414	8,248	10,776
	Recurring net profit	5,042	6,474	7,414	8,248	10,776
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Return on average assets (%)	1.6	2.0	2.2	2.3	2.6
Bank CIMB Niaga is majority-owned by Malaysia-based CIMB Group (91.5% stake). Its loan book largely comprises corporate and consumer loans. The bank is ramping up the development of its digital channels to improve efficiency.	Return on average equity (%)	11.4	13.7	14.5	15.0	18.0
	Return on IEAs (%)	6.5	7.3	7.7	8.1	18.2
	Cost of funds (%)	2.3	3.5	3.6	3.6	3.8
	Net interest spread (%)	4.3	3.8	4.1	4.4	14.4
	Net interest margin (%)	4.6	4.4	4.7	5.0	11.2
	Non-interest income / total income (%)	28.6	28.9	26.7	25.1	21.2
	Cost to income ratio (%)	45.0	45.7	42.1	39.7	33.5
	Credit cost (bps)	207	101	101	99	96
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	190,692	205,917	231,265	250,928	388,750
	Other interest earning assets	98,069	113,038	92,276	77,073	(356,062)
	Total gross IEAs	288,761	318,954	323,540	328,000	32,688
	Total provisions	(13,225)	(12,095)	(9,838)	(7,418)	385,168
	Net loans to customers	177,605	194,011	221,640	243,750	774,188
	Total net IEAs	275,536	306,859	313,702	320,583	417,856
	Total non-IEAs	31,218	27,511	31,539	36,160	41,460
	Total assets	306,754	334,369	345,241	356,743	459,315
	Customer deposits	227,189	235,862	244,041	252,533	350,024
	Other interest-bearing liabilities	13,927	30,929	30,311	29,704	29,110
	Total IBLs	241,116	266,791	274,351	282,237	379,134
	Total non-IBLs	20,362	18,241	17,876	17,519	17,168
	Total liabilities	261,478	285,032	292,228	299,756	396,302
	Share capital	8,646	8,681	8,681	8,681	8,681
	Shareholders' equity	45,192	49,193	52,854	56,811	62,821
	Minority interests	84	145	159	175	193
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	2.8	2.0	2.7	2.7	302.7
	Total provisions / reported NPLs (%)	245.1	295.5	0.0	0.0	0.0
	CET-1 ratio (%)	20.0	21.8	17.8	17.6	6.8
	Tier-1 ratio (%)	20.0	21.8	17.8	17.6	6.8
	Total capital ratio (%)	21.4	23.1	19.1	18.9	8.0

Source: Company data, RHB

Emissions And ESG

Trend analysis

CIMB Niaga is committed to integrating and harmonising ESG factors into its business activities, as well as promoting the Sustainable Development Goals (SDGs). Total gas emissions under Scope 1, 2, and 3 fell 16% YoY in 2023.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	39,091	36,507	30,004
Scope 2	na	na	na
Scope 3	635	1,017	1,476
Total emissions	39,726	37,524	31,481

Source: Company data, RHB

Latest ESG-Related Developments

- It achieved a c.18% YoY reduction in total Scope 1 and 2 greenhouse gas emissions in 2023.
- As of 2023, BNGA's sustainable finance portfolio reached IDR55.45trn, or nearly 26% of its total financing portfolio.
- The management of BNGA's sustainable financial portfolio aligns with the Green Social Sustainability Impact Product Services (GSSIPS) framework established by CIMB Group.
- Results of the debtor identification process according to the Indonesian Green Taxonomy (THI) showed that 18% of BNGA's top 450 debtors are classified as green or yellow, based on their loans outstanding.
- BNGA continues to implement its sustainable financial product and programme initiatives developed previously, such as the Mapan iB Savings Programme with *Waqf*, Green Mortgage, and solar panel financing.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-27	Buy	2,500	2,120
2023-08-01	Buy	1,950	1,670
2023-02-19	Buy	1,450	1,235
2023-01-30	Buy	1,450	1,180
2022-10-27	Buy	1,270	1,140
2021-10-28	Buy	1,270	1,030
2021-04-30	Buy	1,200	1,005
2021-02-22	Neutral	950	970
2020-11-08	Neutral	825	785
2020-08-02	Buy	1,030	770
2020-05-11	Neutral	700	640
2020-04-16	Neutral	710	700
2020-02-20	Buy	1,240	870
2020-02-20	Buy	1,240	870
2019-11-01	Buy	1,380	975

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Bank Mandiri (BMRI IJ)

Buy (Maintained)

Going From Strength To Strength

- **BUY, new IDR8,240 TP from IDR7,770, 17% upside with c.5% FY24F yield.** Post-updates to the ESG scoresheet of the banks under our coverage (see our thematic paper, [Banks: In Pursuit Of Net Zero](#)), we lift Bank Mandiri's ESG score to 3.3 from 3.0. The change is mainly on the "E" pillar, where we note BMRI's continued commitment towards lowering its emissions from operations, while it has also begun reporting its financed emissions from the wholesale segment. Accordingly, we increase our TP after ascribing an ESG premium of 6% to the intrinsic value of IDR7,771 (vs 0% premium/discount previously).
- **The positives.** BMRI recorded a 19% reduction in its (internal) Scope 1, 2 and 3 carbon emissions (ex-financed emissions) between FY23 and FY19 as a result of various energy-saving efforts and as part of its goal to achieve net-zero emissions for its operations by 2030. It also began reporting Scope 3 financed emissions in 2023, which stood at 18.07mtCO₂e. It believes that digitalisation will play a key role in achieving its ESG objectives, eg reduction of paper usage, expansion of financial services to the socially, geographically and economically "non-bankable" segments. BMRI is a leader in the digital space, via digital platforms such as LIVIN and KOPRA. It has in place a roadmap in line with the Financial Services Authority or OJK's Sustainable Finance Roadmap. Split into two phases, Phase I (2015-2019) saw BMRI implement the Sustainable Finance Action Plan (SFAP) while Phase 2 (2020-2027) sees BMRI moving towards carbon neutrality through strengthening ecosystems and green taxonomy. Finally, BMRI has in place ESG policies for identified priority sectors under the SFAP, which includes sectors such as oil palm plantations, energy, coal-mining, and oil & gas.
- **Areas for improvement?** BMRI has not yet revealed a net zero pathway for the sectors of its loan portfolio that are associated with high greenhouse gas emissions.
- **Above-trend valuation multiples well-supported by multi-year high ROEs.** Following the upgrade to BMRI's ESG score, its ESG score of 3.3 is now at the upper end of the 3.2-3.4 score range for the big Indonesian banks. Fundamentally, management's key targets in 2024 are above-industry loan growth and ROE of >20%. We think its value chain ecosystem focus to drive growth still has legs, and note that its digital initiatives are gaining traction. Earnings growth momentum in recent quarters has been strong, supporting multi-year high ROEs and above-trend valuations.

Target Price (Return): IDR8,240 (+17%)
 Price (Market Cap): IDR7,050 (USD41,932m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (IDR/USD) 594,220m/35.8m

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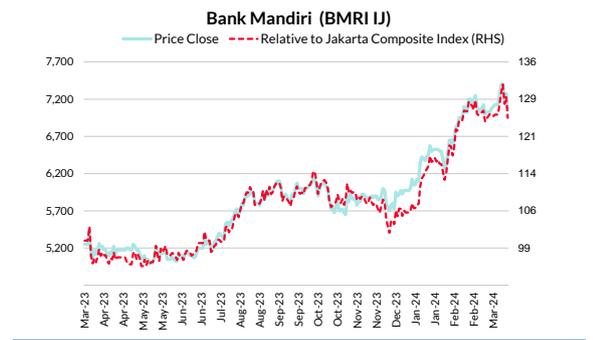


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.5	(1.4)	19.0	16.0	41.0
Relative	15.7	(1.1)	17.5	11.4	30.1
52-wk Price low/high (IDR)	4,990 – 7,400				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	41,171	55,060	58,664	66,340	73,787
Net profit growth (%)	46.9	33.7	6.5	13.1	11.2
Recurring net profit (IDRb)	41,171	55,060	58,664	66,340	73,787
Recurring EPS (IDR)	441.12	589.94	628.55	710.80	790.59
BVPS (IDR)	2,460.88	2,794.89	3,069.97	3,403.67	3,767.82
DPS (IDR)	180.18	264.65	353.93	377.09	426.44
Recurring P/E (x)	15.98	11.95	11.22	9.92	8.92
P/B (x)	2.86	2.52	2.30	2.07	1.87
Dividend Yield (%)	2.6	3.8	5.0	5.3	6.0
Return on average equity (%)	19.0	22.4	21.4	22.0	22.0

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

BMRI is committed to achieving net-zero emissions in its operations by 2030, and in financing by 2060. In sustainable banking, BMRI has five prioritised sectors – oil palm plantations, construction & infrastructure, energy & water, metal mining, and F&B. Total sustainable business financing stood at IDR264trn or 24% of loans (bank-only).

S: EXCELLENT

The bank implemented several CSR programmes with a focus on community empowerment and the environment. It also developed branchless banking to introduce retail products to the underbanked, and distribute micro business credit and/or people's business credit to four commodity sectors.

G: EXCELLENT

BMRI actively provides education related to sustainability to stakeholders. The bank's composition of board of commissioners and board of directors is in line with the recommendations of the Financial Services Authority.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	441.12	589.94	628.55	710.80	790.59
Financial Services	Recurring EPS	441.12	589.94	628.55	710.80	790.59
Bank Mandiri	DPS	180.18	264.65	353.93	377.09	426.44
BMRI IJ	BVPS	2,460.88	2,794.89	3,069.97	3,403.67	3,767.82
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	15.98	11.95	11.22	9.92	8.92
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions:	P/B (x)	2.9	2.5	2.3	2.1	1.9
i. COE of 11.6%;	Dividend Yield (%)	2.6	3.8	5.0	5.3	6.0
ii. ROE of 21%;						
iii. 5.5% long-term growth.						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	112,382	132,544	145,849	160,943	177,126
Our earnings are most sensitive to changes in:	Interest expense	(24,479)	(36,658)	(40,403)	(43,299)	(47,629)
i. Net interest margin;	Net interest income	87,903	95,887	105,446	117,645	129,497
ii. Credit cost;	Non interest income	37,779	42,879	46,094	48,878	51,831
iii. Non-interest income growth.	Total operating income	125,682	138,765	151,541	166,523	181,327
	Overheads	(53,673)	(53,889)	(56,584)	(59,413)	(62,384)
	Pre-provision operating profit	72,009	84,876	94,957	107,110	118,944
	Loan impairment allowances	(15,841)	(10,234)	(14,815)	(16,481)	(18,142)
	Other exceptional items	210	43	-	-	-
	Pre-tax profit	56,378	74,685	80,142	90,629	100,802
	Taxation	(11,425)	(14,633)	(16,028)	(18,126)	(20,160)
	Minority interests	(3,782)	(4,992)	(5,450)	(6,163)	(6,855)
	Reported net profit	41,171	55,060	58,664	66,340	73,787
	Recurring net profit	41,171	55,060	58,664	66,340	73,787
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Return on average assets (%)	2.2	2.6	2.6	2.7	2.7
Bank Mandiri is Indonesia's second-largest bank by assets. It has a diversified loan book with lending to the corporate (state-owned enterprises (SOEs) and non-SOEs), SME, retail, and micro segments. The company was established in 1998 as an effort to restructure the national banking sector, with four state-owned banks (Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia, and Bank Pembangunan Indonesia) merged into Bank Mandiri in 1999.	Return on average equity (%)	19.0	22.4	21.4	22.0	22.0
	Return on IEAs (%)	6.9	7.2	7.1	7.1	7.2
	Cost of funds (%)	1.6	2.1	2.2	2.1	2.1
	Net interest spread (%)	5.3	5.1	5.0	5.0	5.1
	Net interest margin (%)	5.4	5.2	5.2	5.2	5.2
	Non-interest income / total income (%)	30.1	30.9	30.4	29.4	28.6
	Cost to income ratio (%)	42.7	38.8	37.3	35.7	34.4
	Credit cost (bps)	141	79	99	98	98
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	1,202,230	1,398,071	1,599,947	1,769,247	1,939,307
	Other interest earning assets	527,263	529,272	559,382	596,164	635,666
	Total gross IEAs	1,729,493	1,927,343	2,159,329	2,365,411	2,574,973
	Total provisions	(67,163)	(55,716)	(57,932)	(60,490)	(64,091)
	Net loans to customers	1,136,868	1,344,189	1,543,949	1,710,767	1,877,305
	Total net IEAs	1,662,330	1,871,627	2,101,397	2,304,922	2,510,882
	Total non-IEAs	330,214	302,593	267,500	265,893	284,854
	Total assets	1,992,545	2,174,219	2,368,898	2,570,815	2,795,737
	Customer deposits	1,490,845	1,576,950	1,750,414	1,925,455	2,118,001
	Other interest-bearing liabilities	163,222	217,824	213,253	230,750	250,111
	Total IBLs	1,654,066	1,794,773	1,963,667	2,156,205	2,368,112
	Total non-IBLs	86,233	91,951	90,463	67,286	44,831
	Total liabilities	1,740,299	1,886,724	2,054,131	2,223,491	2,412,943
	Share capital	29,310	29,310	29,310	29,310	29,310
	Shareholders' equity	229,679	260,853	286,526	317,672	351,659
	Minority interests	22,567	26,642	28,241	29,653	31,135
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.9	1.2	1.1	1.0	1.0
	Total provisions / reported NPLs (%)	291.3	334.5	333.7	329.7	334.4
	CET-1 ratio (%)	16.6	17.9	18.1	18.3	18.6
	Tier-1 ratio (%)	18.1	19.3	19.4	19.4	19.7
	Total capital ratio (%)	19.0	20.3	20.4	20.4	20.7

Source: Company data, RHB

Emissions And ESG

Trend analysis

BMRI's total emissions (ex-financed emissions) decreased by 19% in 2023 from the baseline period of 2019. This was the result of various energy-saving efforts and as part of BMRI's goal to achieve net-zero emissions for its operations by 2030.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	64,319	42,698	43,077
Scope 2	249,938	260,082	252,636
Scope 3	1,278	1,007	-
Total emissions	315,535	303,787	295,713

Source: Company data, RHB

Latest ESG-Related Developments

- **2024-2028 strategy is underpinned by three pillars:** i) Sustainable banking, ii) sustainable operations, and iii) sustainability beyond banking.
- **Focus in 2024:** Developing a sustainable financing framework, enhancing its ESG credit policy and establishing a climate risk stress test.
- **Financed emissions:** BMRI started reporting its Scope 3 financed emissions in 2023, which stood at 18.07mtCO2e.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-31	Buy	7,770	6,650
2023-10-30	Buy	6,970	5,725
2023-08-01	Buy	6,600	5,650
2023-04-25	Buy	6,200	5,175
2023-02-01	Buy	12,200	4,850
2022-10-27	Buy	11,450	5,100
2022-07-29	Buy	10,000	4,138
2022-04-28	Buy	9,800	4,475
2022-01-28	Buy	9,130	3,825
2021-10-29	Buy	8,700	3,588
2021-07-30	Buy	8,200	2,850
2021-04-28	Buy	8,200	3,100
2021-01-29	Buy	7,900	3,288
2020-12-07	Buy	7,800	3,350
2020-10-27	Buy	7,100	2,888

Source: RHB, Bloomberg

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Financial Services | Banks

Bank Negara Indonesia (BBNI IJ)

Buy (Maintained)

Improving ESG Disclosures

- **Stay BUY, TP rises to IDR6,500 from IDR6,400, 11% upside with c.5% FY24F yield.** Post-updates to our ESG scoresheet for the banks under our coverage (refer to our thematic note titled [Banks: In Pursuit Of Net Zero](#)), we upgrade BBNI's ESG score to 3.3 from 3.2. Our TP is raised accordingly, after ascribing an ESG premium of 6% to the intrinsic value of IDR6,117 (vs a 4% ESG premium previously). We view BBNI as one of the ESG leaders among the Indonesian banks, and it remains a sector preferred pick.
- **The positives.** BBNI continues to broaden its scope on the calculation of emissions and, in 2023, its Scope 3 greenhouse gas emissions data from financing activities covers 90% of its corporate debtors. Additionally, BBNI utilises its "BNI Agen46, Laku Pandai" – branchless financial services and digital to reach out to customers in remote and rural areas. Via BNI Agen46, various banking transactions can be performed, eg savings, cash withdrawals, electricity bill payments and other banking services. There were about 186k BNI Agen46 network units throughout the country in 2023 and its services have spread to over 8,771 sub-districts and 36,522 villages across Indonesia. Finally, the recently acquired Bank Mayora has been turned into a digital bank, Bank Hibank, which focuses on the MSME segment.
- **Areas for improvement?** BBNI is currently in the process of establishing the short-, mid-, and long-term net-zero emissions roadmap as its commitment to the path towards net-zero emissions.
- **A leader in sustainability.** Post-updates to our sector ESG scoresheet, BBNI emerged as one of the top ESG scorers in the industry (ESG scores for the large Indonesia banks range from 3.2 to 3.4). The stock trades at an undemanding 1.4x 2024F P/BV against an ROE of 15%, making it the cheapest among the big-4 Indonesia banks. As such, we see good headroom for valuations to undergo a re-rating.

Target Price (Return): IDR6,500 (+11%)
 Price (Market Cap): IDR5,875 (USD13,964m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (IDR/USD) 258,054m/15.5m

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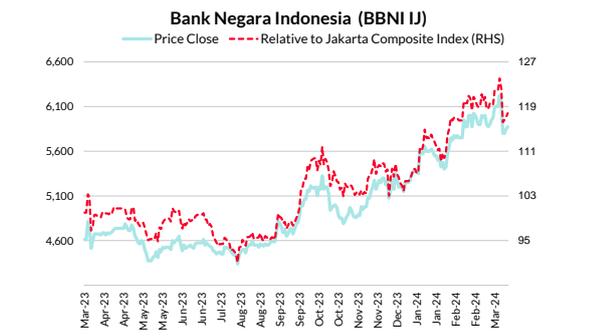


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.3	(2.5)	13.0	22.7	30.6
Relative	8.5	(2.2)	11.5	18.1	19.7
52-wk Price low/high (IDR)				4,338	-6,225



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	18,312	20,909	23,036	25,367	28,495
Net profit growth (%)	68.0	14.2	10.2	10.1	12.3
Recurring net profit (IDRb)	18,312	20,909	23,036	25,367	28,495
Recurring EPS (IDR)	490.98	560.62	617.64	680.14	763.98
BVPS (IDR)	3,580.92	3,964.74	4,266.86	4,643.54	5,067.45
DPS (IDR)	196.39	280.31	308.82	340.07	381.99
Recurring P/E (x)	11.97	10.48	9.51	8.64	7.69
P/B (x)	1.64	1.48	1.38	1.27	1.16
Dividend Yield (%)	3.3	4.8	5.3	5.8	6.5
Return on average equity (%)	14.4	14.9	15.0	15.3	15.7

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: GOOD

BBNI has a 5-pillar comprehensive sustainability strategy that supports the achievement of the goals of sustainable development. It targets to achieve net-zero emissions in operations by 2028 and in financing by 2060. Outstanding loans to eco-friendly business activities was IDR68trn, ie 9.8% of total loans at end-2023.

S: EXCELLENT

The bank is active in its support of the Government's People's Business Credit or KUR, which forms 39% of outstanding MSME loans. The bank believes in employee diversity, with women accounting for 52% of its total workforce and 30% of top management.

G: EXCELLENT

BBNI actively provides education related to sustainability and governance to stakeholders. Six out of 11 of its Board of Commissioners are independent commissioners.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	490.98	560.62	617.64	680.14	763.98
Financial Services	Recurring EPS	490.98	560.62	617.64	680.14	763.98
Bank Negara Indonesia	DPS	196.39	280.31	308.82	340.07	381.99
BBNI IJ	BVPS	3,580.92	3,964.74	4,266.86	4,643.54	5,067.45
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.97	10.48	9.51	8.64	7.69
GGM with the following key assumptions:	P/B (x)	1.6	1.5	1.4	1.3	1.2
i. COE of 12.2%;	Dividend Yield (%)	3.3	4.8	5.3	5.8	6.5
ii. ROE of 15%;						
iii. Long-term growth of 5.5%.						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	54,659	61,472	65,560	69,073	71,957
Our forecasts are most sensitive to changes in:	Interest expense	(13,338)	(20,196)	(22,452)	(22,551)	(21,318)
i. Provision charges;	Net interest income	41,321	41,276	43,108	46,521	50,639
ii. Net interest margin;	Non interest income	20,151	21,472	23,257	24,757	26,470
iii. Loan growth.	Total operating income	61,472	62,747	66,365	71,278	77,109
	Overheads	(27,362)	(27,611)	(28,025)	(29,550)	(31,027)
Key risks	Pre-provision operating profit	34,110	35,137	38,340	41,728	46,082
Key downside risks are:	Loan impairment allowances	(11,211)	(9,363)	(9,853)	(10,387)	(10,886)
i. Sharply higher inflation impacting loan growth and asset quality;	Other exceptional items	(212)	(134)	(142)	(141)	(155)
ii. NIM pressure from competition and higher cost of funds	Pre-tax profit	22,687	25,640	28,345	31,200	35,040
	Taxation	(4,205)	(4,534)	(5,102)	(5,616)	(6,307)
	Minority interests	(170)	(197)	(207)	(217)	(239)
	Reported net profit	18,312	20,909	23,036	25,367	28,495
	Recurring net profit	18,312	20,909	23,036	25,367	28,495
Company Profile						
Bank Negara Indonesia is Indonesia's fourth largest bank by asset, and is majority controlled by the Government. The bank has strong exposure in corporate and SME banking, particularly towards SOE-linked infrastructure projects.	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.8	2.0	2.0	2.1	2.2
	Return on average equity (%)	14.4	14.9	15.0	15.3	15.7
	Return on IEAs (%)	5.6	6.0	6.0	5.9	5.7
	Cost of funds (%)	1.6	2.3	2.4	2.3	2.0
	Net interest spread (%)	4.0	3.6	3.6	3.7	3.7
	Net interest margin (%)	4.2	4.0	4.0	4.0	4.0
	Non-interest income / total income (%)	32.8	34.2	35.0	34.7	34.3
	Cost to income ratio (%)	44.5	44.0	42.2	41.5	40.2
	Credit cost (bps)	182	140	135	130	125
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	796,602	839,158	914,300	988,560	1,069,212
	Other interest earning assets	362,559	358,350	357,119	374,015	391,767
	Total gross IEAs	1,008,747	1,053,435	1,121,712	1,207,422	1,300,181
	Total provisions	(51,535)	(48,503)	(39,966)	(40,353)	(22,192)
	Net loans to customers	595,854	647,927	725,971	794,398	887,565
	Total net IEAs	957,212	1,004,932	1,081,746	1,167,069	1,277,988
	Total non-IEAs	72,625	81,732	88,610	80,157	80,019
	Total assets	1,029,837	1,086,664	1,170,356	1,247,225	1,358,007
	Customer deposits	769,269	810,730	879,642	932,421	1,016,339
	Other interest-bearing liabilities	82,135	78,340	79,930	85,298	91,209
	Total IBLs	851,404	889,070	959,573	1,017,719	1,107,547
	Total non-IBLs	38,235	42,861	44,576	49,033	53,937
	Total liabilities	889,639	931,931	1,004,148	1,066,752	1,161,484
	Share capital	26,065	26,325	26,325	26,325	26,325
	Shareholders' equity	133,559	147,874	159,142	173,191	189,002
	Minority interests	6,639	6,859	7,065	7,282	7,521
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	2.8	2.2	2.0	1.9	1.7
	Total provisions / reported NPLs (%)	164.4	174.1	150.2	151.5	163.5
	CET-1 ratio (%)	18.4	20.8	20.3	20.4	20.8
	Tier-1 ratio (%)	18.4	20.8	20.3	20.4	20.8
	Total capital ratio (%)	19.5	22.0	21.4	21.6	21.9

Source: Company data, RHB

Emissions And ESG

Trend analysis

BBNI has made improvements in its emissions data over the years, which includes adjusting the calculation methodology in terms of the classification of emission sources. Its Scope 2 emissions included electricity use in all BBNI offices from 2022 onwards.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,171	122	18,600
Scope 2	28,339	295,209	170,760
Scope 3	-	2,903	7,180
Total emissions	29,510	298,234	196,540

Source: Company data, RHB

Latest ESG-Related Developments

- **Net-zero roadmap:** BBNI is in the process of establishing short-, mid- and long-term net-zero emissions roadmaps, as its commitment to the path towards net-zero emissions.
- **Financed emissions:** BBNI's Scope 3 GHG emissions from financing activities encompass 90% of debtors from the corporate segment, and it adopts the Partnership for Carbon Accounting Financials (PCAF) method.
- **Financing sectors with high sustainability risk:** BBNI applies ESG risks assessment criteria on four sectors that have been identified as high ESG risk, ie oil palm plantations, mining, construction and energy.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-28	Buy	6,400	5,425
2023-10-31	Buy	6,250	4,790
2023-10-16	Buy	6,250	5,200
2023-04-25	Buy	11,700	4,738
2023-01-25	Buy	12,000	4,538
2022-10-25	Buy	11,600	4,713
2022-08-01	Buy	10,400	3,975
2022-04-26	Buy	11,300	4,800
2022-01-27	Buy	9,000	3,600
2021-10-25	Buy	9,000	3,675
2021-08-17	Buy	7,883	2,575
2021-04-26	Buy	8,050	2,863
2021-03-29	Buy	8,050	3,025
2021-02-01	Buy	8,050	2,925
2020-12-10	Buy	8,400	3,300

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Bank Rakyat Indonesia (BBRI IJ)

Buy (Maintained)

ESG Leader In Social Microfinance

Target Price (Return): IDR7,000 (+15%)
 Price (Market Cap): IDR6,100 (USD58,916m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (IDR/USD) 699,114m/43.1m

- **Maintain BUY and IDR7,000 TP, 15% upside with c.6% FY25F dividend yield.** We maintain Bank Rakyat Indonesia's ESG score at 3.4. Our TP includes a 8% premium on its intrinsic value, due to its ESG score being higher than the country median. BBRI implemented an ESG financing policy, encouraging customers to engage in business activities that support sustainability. We consider BBRI an ESG industry leader, notably in social ultra-microfinance.

- **The positives.** BBRI launched an Ultra Micro (UMi) holding alongside state-owned pawnbroker Pegadaian and Permodalan Nasional Madani (PNM) to focus on financial inclusion and new revenue streams. Up to 2023, the bank has 1,018 (+0.5% YoY) SenyuM co-locations (integrated services across BBRI, Pegadaian, and PNM) throughout Indonesia, as well as over 741,000 BRILink agents. As of Dec 2023, BBRI's total sustainable financing activities amounted to IDR777.28trn (or 67.11% of BBRI's entire credit and corporate bond investment portfolio). Meanwhile, its contribution to empowering women through micro-lending PNM Mekaar products, particularly lending to poor women, would have reached 15.1m (+8.2% YoY) consumers in Indonesia, with loans totalling IDR42trn (+8.2% YoY) last year. Credit distribution to environmentally friendly sectors (KUBL) has amounted to IDR82.3trn.

- **Areas for improvement?** BBRI has begun calculating greenhouse gas (GHG) emissions from its operational and business activities under Scope 1, 2, and 3 emissions – focusing on emissions related to its commercial activities. This policy is expected to lower BBRI's GHG emissions. Furthermore, it needs to develop its technology-based business ecosystem in order to enhance digital platform integration across the bank's many platforms, including the BRImo super app, BRISPOT, and BRILink Mobile.

- **Leading in social UMi finance, better asset quality.** Following changes to our banks' ESG scoresheets, BBRI is one among the industry's top ESG scorers, thanks to its strong score under the "Social" pillar as the leader in ultra-microfinance. The majority of its loans are given to SMEs. Its asset quality has improved, with LAR falling to 12.5% by the end of 2023, from 16.5% at the end of 2022. BBRI is going to be more proactive about writing off restructured COVID-19 loans as well, but management has guided for a somewhat lower CoC, due to the bank's already-high NPL coverage ratio.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.6	(3.2)	9.9	13.5	25.0
Relative	5.8	(2.9)	8.4	8.9	14.1
52-wk Price low/high (IDR)	4,730 – 6,400				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	51,170	60,100	69,755	75,800	84,232
Net profit growth (%)	66.4	17.5	16.1	8.7	11.1
Recurring net profit (IDRb)	50,939	60,415	70,086	76,147	84,597
Recurring EPS (IDR)	355.99	401.96	464.72	504.05	559.98
BVPS (IDR)	1,994.72	2,068.08	2,363.57	2,457.06	2,599.93
DPS (IDR)	233.33	373.02	318.26	369.39	401.40
Recurring P/E (x)	17.14	15.18	13.13	12.10	10.89
P/B (x)	3.06	2.95	2.58	2.48	2.35
Dividend Yield (%)	3.8	6.1	5.2	6.1	6.6
Return on average equity (%)	17.4	19.7	20.9	20.8	22.1

Source: Company data, RHB

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

BBRI has calculated its greenhouse gas (GHG) emissions and determined its emissions baseline determination. Its Peduli-Indonesia Lestari initiative also aims to support marine sustainability via initiatives like the re-planting mangrove seeds. BBRI has also re-engineered its credit card application process to make it paperless. To accelerate the revitalisation of rivers, its Clean the River CSR programme was carried out in 19 rivers at 19 regional offices.

S: EXCELLENT

BBRI implements labour rights in accordance with local laws. It also continuously monitors for labour issues like the use of children and/or forced labour in the workforce. The bank strives for freedom of association and gender equality while fighting against discrimination. It carries out community empowerment activities such as education and training activities on green businesses.

G: EXCELLENT

As the first mover in the implementation of sustainable finance, BBRI continues to strengthen its sustainability governance structure. This is under the purview of the Director of Risk Management, who is responsible for the implementation of sustainable finance.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	357.61	399.87	462.52	501.75	557.57
Financial Services	Recurring EPS	355.99	401.96	464.72	504.05	559.98
Bank Rakyat Indonesia	DPS	233.33	373.02	318.26	369.39	401.40
BBRI IJ	BVPS	1,994.72	2,068.08	2,363.57	2,457.06	2,599.93
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	17.14	15.18	13.13	12.10	10.89
	P/B (x)	3.1	2.9	2.6	2.5	2.3
	Dividend Yield (%)	3.8	6.1	5.2	6.1	6.6
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	151,875	178,996	194,650	209,779	227,468
	Interest expense	(27,278)	(43,813)	(49,615)	(56,193)	(63,778)
	Net interest income	124,597	135,183	145,035	153,586	163,690
	Non interest income	48,880	48,107	52,701	57,755	63,315
	Total operating income	173,477	183,290	197,736	211,341	227,005
	Overheads	(82,192)	(76,782)	(74,107)	(73,265)	(73,709)
	Pre-provision operating profit	91,285	106,508	123,629	138,076	153,296
	Loan impairment allowances	(27,522)	(30,021)	(32,065)	(35,592)	(39,508)
	Other impairment allowances	543	342	376	414	455
	Other exceptional items	291	(399)	(419)	(440)	(462)
	Pre-tax profit	64,597	76,430	91,521	102,458	113,782
	Taxation	(13,188)	(16,005)	(19,165)	(21,455)	(23,826)
	Minority interests	(238)	(325)	(2,601)	(5,203)	(5,723)
	Reported net profit	51,170	60,100	69,755	75,800	84,232
	Recurring net profit	50,939	60,415	70,086	76,147	84,597
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	2.9	3.1	3.3	3.2	3.2
	Return on average equity (%)	17.4	19.7	20.9	20.8	22.1
	Return on IEAs (%)	11.4	13.8	13.5	12.2	12.4
	Cost of funds (%)	2.2	3.3	3.4	3.4	3.3
	Net interest spread (%)	9.2	10.5	10.2	8.9	9.1
	Net interest margin (%)	9.4	10.4	10.1	9.0	9.0
	Non-interest income / total income (%)	28.2	26.2	26.7	27.3	27.9
	Cost to income ratio (%)	47.4	41.9	37.5	34.7	32.5
	Credit cost (bps)	263	261	245	240	240
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	1,089,789	1,211,421	1,405,704	1,560,331	1,731,968
	Other interest earning assets	295,871	-	259,238	203,029	159,007
	Total gross IEAs	1,385,660	1,211,421	1,664,942	1,763,360	1,890,975
	Total provisions	(89,610)	(81,018)	(66,328)	(69,709)	(75,362)
	Net loans to customers	1,000,179	1,130,403	1,339,376	1,490,623	1,656,605
	Total net IEAs	1,296,050	1,130,403	1,598,614	1,693,651	1,815,612
	Total non-IEAs	569,589	834,604	619,439	776,568	951,061
	Total assets	1,865,639	1,965,007	2,218,053	2,470,220	2,766,673
	Customer deposits	1,307,884	1,358,329	1,543,102	1,753,010	1,991,472
	Other interest-bearing liabilities	9,335	11,958	19,144	30,648	49,065
	Total IBLs	1,317,219	1,370,287	1,562,246	1,783,659	2,040,538
	Total non-IBLs	245,025	278,248	293,121	309,189	326,562
	Total liabilities	1,562,244	1,648,535	1,855,367	2,092,848	2,367,099
	Share capital	7,578	7,578	7,578	7,578	7,578
	Shareholders' equity	299,294	311,364	357,066	371,190	392,774
	Minority interests	4,101	5,109	5,619	6,181	6,800
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	2.7	2.7	2.6	2.6	2.6
	Total provisions / reported NPLs (%)	210.2	197.3	183.2	173.7	165.1
	CET-1 ratio (%)	25.1	24.2	24.7	24.3	24.3
	Tier-1 ratio (%)	26.0	25.0	25.5	25.2	25.1
	Total capital ratio (%)	27.1	26.1	26.6	26.3	26.2

Source: Company data, RHB

Emissions And ESG

Trend analysis

BBRI decreased its Scope 1, 2 and 3 emissions by 6% YoY overall in 2023.

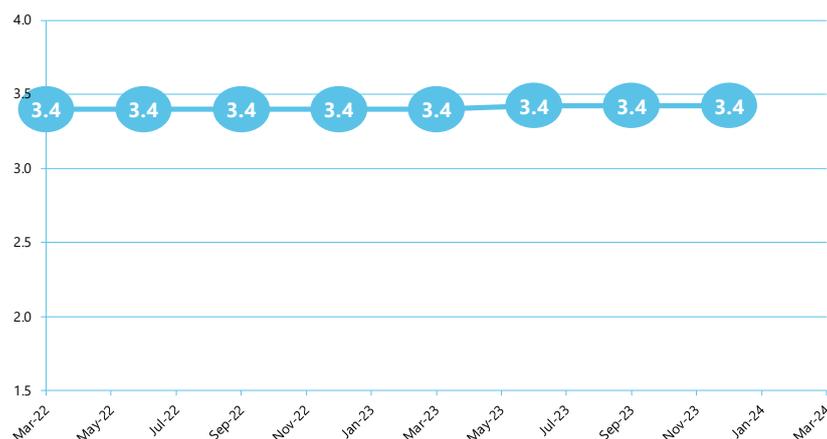
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	133,727	132,235	130,529
Scope 2	320,066	360,135	355,742
Scope 3	na	11,134,854	10,434,550
Total emissions	453,792	11,627,224	10,920,821

Source: Company data, RHB

Latest ESG-Related Developments

- As of Dec 2023, BBRI's total sustainable financing activities amounted to IDR777.28trn (equivalent to 67.11% of the bank's total credit and corporate bond investment portfolio).
- BBRI has assessed, managed, and disclosed climate-related risks and opportunities in accordance with the IFRS S2 Climate-Related Disclosure standards. In line with this, the bank has set a net-zero emissions target that is currently in the Science-Based Targets initiative (SBTi) validation process.
- By the end of 2023, BBRI operated 118 EVs and 150 electric motorbikes. The bank also has a public EV charging station located at its head office. In addition, as many as 93 BBRI work units have used solar panels as a form of renewable energy electricity use.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-20	Buy	7,000	6,100
2023-12-07	Buy	6,450	5,475
2023-06-09	Buy	6,450	5,425
2023-02-09	Buy	5,800	4,810
2022-11-17	Buy	5,800	4,670
2022-10-10	Buy	5,800	4,370
2022-08-24	Buy	5,800	4,290
2022-07-28	Buy	5,500	4,360
2022-04-14	Buy	5,500	4,540
2022-01-09	Buy	4,800	4,190
2021-10-28	Buy	4,800	4,240
2021-02-01	Buy	4,790	4,400
2020-12-10	Buy	5,100	4,330
2020-11-12	Neutral	4,000	3,950
2020-08-23	Neutral	3,700	3,560

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Buy (Maintained)

A Guiding Light For SMEs; Stay BUY

Target Price (Return): MYR4.20 (+19%)
 Price (Market Cap): MYR3.52 (USD1,142m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.09m/0.76m

- **Stay BUY, new MYR4.20 TP from MYR4.30, 19% upside with c.7% FY25F (Mar) yield.** After updating the ESG scoresheet for the banks under our coverage (refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), we lower our ESG score for Alliance Bank Malaysia to 3.2 from 3.3 – and adjust our TP accordingly. However, we still view ABMB as an ESG leader in the sector, and remain excited by the bank leveraging on its strength in the SME space to advocate for ESG adoption, especially in terms of providing non-financial policy support.
- **The positives.** ABMB leverages on its position as a SME financing giant to empower such enterprises to adopt sustainable practices through financial and non-financial support – the latter, we believe, is slightly lacking at present. The bank is also a member of the United Nations Global Compact (UNGC) Network Malaysia & Brunei, with which it is collaborating to create an ESG sectoral playbook to assist SMEs with the ESG transition. Separately, ABMB has recorded a 16% reduction in its internal emissions against the baseline level of FY20. Moving forward, the bank is looking into investments in carbon offset mechanisms to further lower its emissions.
- **Areas for improvement?** ABMB's FY23 sustainability statement was not subject to any assurance process – we understand the group will seek external assurance for the FY24 edition of its statement. ABMB has also yet to disclose its Scope 3 financed emissions, but we acknowledge the difficulty in generating a baseline, given the bank's sizeable SME loan franchise. Encouragingly, it intends to quantify its Scope 3 financed emissions, and we look forward to its disclosure in future editions of the sustainability statement.
- **A guiding light for SMEs.** Post-updates to our sector ESG scoresheet, ABMB now has a new ESG score of 3.2 (from 3.3). Despite the drop in its ESG score, the bank remains one of the highest-scoring banks within our coverage. We think ABMB is one of the sustainability champions within the banking industry, especially among the smaller banks. At the same time, we acknowledge that its strong advocacy for ESG adoption among the SME community is a big step forward. No changes were made to our forecasts.

Analysts

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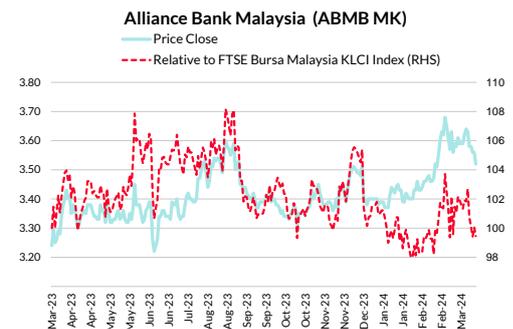


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.8	(3.0)	3.5	3.8	8.3
Relative	(1.8)	(1.7)	(1.4)	(2.0)	(1.3)
52-wk Price low/high (MYR)	3.22 – 3.68				



Source: Bloomberg

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Reported net profit (MYRm)	573	678	668	719	779
Net profit growth (%)	59.7	18.3	(1.5)	7.8	8.3
Recurring net profit (MYRm)	573	678	668	719	779
Recurring EPS (MYR)	0.37	0.44	0.43	0.46	0.50
BVPS (MYR)	4.14	4.36	4.55	4.80	5.07
DPS (MYR)	0.19	0.22	0.22	0.23	0.25
Recurring P/E (x)	9.51	8.04	8.16	7.57	7.00
P/B (x)	0.85	0.81	0.77	0.73	0.69
Dividend Yield (%)	5.3	6.3	6.2	6.6	7.2
Return on average equity (%)	9.0	10.3	9.7	9.9	10.2

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

ABMB's Scope 1, 2 and 3 operational emissions in FY23 marked a 16% reduction vs FY20 levels. As at Dec 2023, the group had achieved MYR12.3bn in new sustainable banking business, close to its target of MYR15bn by FY27 (Mar) – this target may likely be revised upwards.

S: EXCELLENT

ABMB supports its SME customers on their sustainability transition through financial support, industry roundtable discussions, and capacity building programmes, among others. The bank also boasts decent diversity and employee training credentials.

G: EXCELLENT

ABMB has 80% Board independence, while group-wide sustainability oversight is provided by a dedicated committee. Senior management personnel are also subject to ESG-linked remuneration packages.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (MYR)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Malaysia	EPS	0.37	0.44	0.43	0.46	0.50
Financial Services	Recurring EPS	0.37	0.44	0.43	0.46	0.50
Alliance Bank Malaysia	DPS	0.19	0.22	0.22	0.23	0.25
ABMB MK	BVPS	4.14	4.36	4.55	4.80	5.07
Buy						
	Valuation metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Recurring P/E (x)	9.51	8.04	8.16	7.57	7.00
	P/B (x)	0.8	0.8	0.8	0.7	0.7
	Dividend Yield (%)	5.3	6.3	6.2	6.6	7.2
	Income statement (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Interest income	2,082	2,429	2,859	3,088	3,326
	Interest expense	(563)	(746)	(1,158)	(1,235)	(1,321)
	Net interest income	1,519	1,683	1,700	1,853	2,005
	Non interest income	349	237	292	310	341
	Total operating income	1,868	1,920	1,993	2,163	2,346
	Overheads	(823)	(881)	(949)	(1,031)	(1,122)
	Pre-provision operating profit	1,045	1,038	1,044	1,131	1,224
	Loan impairment allowances	(217)	(152)	(163)	(182)	(196)
	Other impairment allowances	(0)	0	(3)	(3)	(3)
	Income from associates	0	0	0	0	0
	Pre-tax profit	827	887	878	947	1,025
	Taxation	(255)	(209)	(211)	(227)	(246)
	Reported net profit	573	678	668	719	779
	Recurring net profit	573	678	668	719	779
	Profitability ratios	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Return on average assets (%)	0.9	1.1	1.0	1.0	1.0
	Return on average equity (%)	9.0	10.3	9.7	9.9	10.2
	Return on IEAs (%)	3.4	3.8	4.2	4.2	4.3
	Cost of funds (%)	1.1	1.4	2.0	2.0	2.1
	Net interest spread (%)	2.3	2.5	2.2	2.2	2.2
	Net interest margin (%)	2.5	2.7	2.5	2.5	2.6
	Non-interest income / total income (%)	18.7	12.3	14.7	14.3	14.5
	Cost to income ratio (%)	44.1	45.9	47.6	47.7	47.8
	Credit cost (bps)	48.0	31.9	31.7	32.6	32.6
	Balance sheet (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Total gross loans	46,284	49,193	53,605	57,880	62,496
	Other interest earning assets	15,243	15,807	16,617	17,469	18,364
	Total gross IEAs	61,526	65,001	70,222	75,349	80,861
	Total provisions	(1,160)	(1,267)	(1,287)	(1,326)	(1,379)
	Net loans to customers	45,455	48,498	52,863	57,082	61,639
	Total net IEAs	60,366	63,733	68,935	74,022	79,481
	Total non-IEAs	1,481	2,577	1,096	23	(1,161)
	Total assets	61,848	66,311	70,031	74,045	78,320
	Customer deposits	48,186	50,849	53,900	57,134	60,562
	Other interest-bearing liabilities	4,153	4,654	4,775	4,913	5,069
	Total IBLs	52,340	55,503	58,675	62,047	65,631
	Total non-IBLs	3,091	4,061	4,304	4,563	4,836
	Total liabilities	55,431	59,564	62,979	66,610	70,467
	Share capital	1,548	1,548	1,548	1,548	1,548
	Shareholders' equity	6,417	6,747	7,052	7,436	7,853
	Asset quality and capital	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Reported NPLs / gross cust loans (%)	1.8	2.5	2.3	2.1	2.0
	Total provisions / reported NPLs (%)	135.9	102.8	104.4	109.1	110.4
	CET-1 ratio (%)	16.4	14.9	14.8	14.8	14.8

Source: Company data, RHB

Emissions And ESG

Trend analysis

ABMB's internal Scope 1, 2 and 3 emissions have been on a downtrend for three consecutive years, mainly due to improvements in its Scope 2 emissions. ABMB's greenhouse gas reduction strategy involves lowering flow space, improving energy efficiency in offices and branches, and potential investments in carbon offset instruments.

Emissions (tCO2e)	Mar-21	Mar-22	Mar-23
Scope 1	16	24	32
Scope 2	7,996	7,112	6,700
Scope 3	565	577	686
Total emissions	8,577	7,714	7,418

Source: Company data, RHB

Latest ESG-Related Developments

- Acquires new head office building:** ABMB's new head office building on Jalan Ampang, Kuala Lumpur is a green-certified building, and should further aid the group in its emissions reduction initiatives.
- Empowering SMEs for sustainability:** ABMB announced a collaboration with SME Corp Malaysia to assist SMEs to adopt ESG practices through relevant financing and non-financing solutions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-28	Buy	4.30	3.63
2023-12-01	Buy	4.00	3.47
2023-08-30	Neutral	3.50	3.45
2023-05-31	Neutral	3.50	3.45
2023-04-02	Neutral	3.50	3.40
2023-02-28	Neutral	3.75	3.48
2022-11-29	Buy	4.40	3.79
2022-08-31	Buy	4.20	3.53
2022-07-19	Buy	4.00	3.18
2022-06-01	Buy	4.20	3.55
2022-03-01	Buy	4.00	3.60
2021-11-28	Buy	3.10	2.76
2021-08-29	Buy	2.90	2.53
2021-06-01	Neutral	2.70	2.60
2021-02-28	Neutral	2.80	2.65

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Affin (ABANK MK)

Sell (Maintained)

A Continuous Work In Progress

- **SELL, new MYR1.65 TP from MYR1.70, 34% downside.** After updating our ESG scoresheet for the banks under our coverage (refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), we lower Affin's ESG score to 2.9 from 3.1, and trim our TP accordingly. Affin could greatly benefit from having more comprehensive ESG-related disclosures, especially for those related to greenhouse gas emissions. However, we note its strong commitment to achieving its sustainable financing and financial inclusion targets.
- **The positives.** As at Dec 2023, about 9% of Affin's total gross loans were related to ESG financing. The group has a target of raising this percentage to 25% by FY28 – this is one of the more ambitious targets (of its ilk) among the banks under our coverage. Additionally, Affin actively participates in financial inclusion, and has multiple programmes – including its award-winning SME Colony application – to support the growth of SMEs and the underserved segments. From a governance perspective, 70% of Affin's board of directors are independent members. Also, boardmembers and senior management are subject to ESG-linked key performance indicators.
- **Areas for improvement?** At the time of the release of its latest annual report, Affin is the only Malaysian bank that has yet to disclose its operational Scope 1, 2 and 3 emissions. However, we do note the decrease shown in the other environmental indicators, eg water and energy consumption. We believe that the bank could also benefit from obtaining external-party assurance for its annual sustainability statement, to ensure the integrity of the disclosures.
- **A continuous work in progress.** Post-updates to our ESG scoresheet for the banking sector, Affin's ESG score was lowered to 2.9 from 3.1. As a result, our TP drops to MYR1.65 from MYR1.70, and now includes a 2% ESG discount to its intrinsic value (in place of the 2% premium we applied previously). We maintain our SELL call on the stock, mainly on valuation grounds. No changes were made to our forecasts.

Target Price (Return): MYR1.65 (-34%)
 Price (Market Cap): MYR2.51 (USD1,234m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 7.53m/1.68m

Analysts

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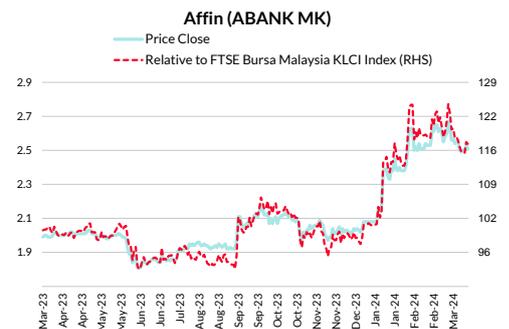


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.7	(3.8)	23.0	18.4	26.1
Relative	15.1	(2.5)	18.1	12.6	16.5
52-wk Price low/high (MYR)	1.81 – 2.67				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	1,179	402	464	517	608
Net profit growth (%)	210.0	(65.9)	15.3	11.5	17.6
Recurring net profit (MYRm)	432	402	464	517	608
Recurring EPS (MYR)	0.20	0.17	0.20	0.22	0.26
BVPS (MYR)	4.73	4.73	4.93	5.13	5.30
DPS (MYR)	0.12	0.06	0.08	0.09	0.10
Recurring P/E (x)	12.78	14.42	12.70	11.39	9.68
P/B (x)	0.53	0.53	0.51	0.49	0.47
Dividend Yield (%)	4.9	2.3	3.2	3.5	4.1
Return on average equity (%)	11.4	3.7	4.1	4.4	5.0

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: MODERATE

Affin's emissions disclosures - particularly operational emissions - are lacking and lagging behind that of its peers. Its sustainable financing targets, however, are ambitious, ie a long-term target for 25% of its loan portfolio to come from sustainable facilities by FY28.

S: EXCELLENT

Affin's financial inclusion initiatives include the BizDana/BizDana-I Start-Up financing scheme in collaboration with the Credit Guarantee Corp. The bank is also fairly diverse (61% of employees are women), and employees receive a decent 14-18 hours of training pa on average.

G: EXCELLENT

We do not note any material involvement from the bank in major corruption, money-laundering or terrorism financing cases over the past 10 years. Additionally, board members and senior management are subject to ESG-linked key performance indicators.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.54	0.17	0.20	0.22	0.26
Financial Services	Recurring EPS	0.20	0.17	0.20	0.22	0.26
Affin	DPS	0.12	0.06	0.08	0.09	0.10
ABANK MK	BVPS	4.73	4.73	4.93	5.13	5.30
Sell						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	12.78	14.42	12.70	11.39	9.68
	P/B (x)	0.5	0.5	0.5	0.5	0.5
	Dividend Yield (%)	4.9	2.3	3.2	3.5	4.1
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	3,400	4,387	4,723	4,908	5,320
	Interest expense	(1,690)	(3,008)	(3,133)	(3,181)	(3,392)
	Net interest income	1,711	1,379	1,589	1,726	1,928
	Non interest income	344	607	614	658	691
	Total operating income	2,055	1,986	2,204	2,384	2,619
	Overheads	(1,317)	(1,421)	(1,513)	(1,604)	(1,691)
	Pre-provision operating profit	738	565	691	780	929
	Loan impairment allowances	(439)	(75)	(118)	(147)	(186)
	Other impairment allowances	(69)	(3)	(2)	(2)	(2)
	Income from associates	9	36	40	50	60
	Other exceptional items	1,125				
	Pre-tax profit	1,365	523	610	681	800
	Taxation	(161)	(121)	(146)	(163)	(192)
	Minority interests	(25)	-	-	-	-
	Reported net profit	1,179	402	464	517	608
	Recurring net profit	432	402	464	517	608
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.4	0.4	0.4	0.5	0.6
	Return on average equity (%)	11.4	3.7	4.1	4.4	5.0
	Return on IEAs (%)	4.3	4.8	4.9	4.9	5.0
	Cost of funds (%)	2.4	3.6	3.5	3.5	3.6
	Net interest spread (%)	1.9	1.2	1.4	1.4	1.4
	Net interest margin (%)	2.1	1.5	1.6	1.7	1.8
	Non-interest income / total income (%)	16.7	30.6	27.9	27.6	26.4
	Cost to income ratio (%)	64.1	71.6	68.7	67.3	64.5
	Credit cost (bps)	80.7	12.2	18.0	21.0	24.2
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	58,105	65,225	66,077	73,987	79,800
	Other interest earning assets	26,881	34,193	28,965	29,793	30,650
	Total gross IEAs	84,985	99,418	95,043	103,779	110,450
	Total provisions	(1,411)	(1,438)	(1,626)	(1,841)	(2,094)
	Net loans to customers	56,694	63,787	64,451	72,145	77,707
	Total net IEAs	83,575	97,980	93,417	101,938	108,357
	Total non-IEAs	6,676	7,268	7,585	4,591	3,939
	Total assets	90,251	105,248	101,002	106,529	112,296
	Customer deposits	64,995	70,834	75,084	79,589	84,365
	Other interest-bearing liabilities	11,817	21,288	12,248	12,734	13,254
	Total IBLs	76,812	92,122	87,332	92,323	97,618
	Total non-IBLs	2,688	2,017	2,101	2,172	2,245
	Total liabilities	79,500	94,139	89,433	94,495	99,863
	Share capital	5,245	5,371	5,505	5,643	5,643
	Shareholders' equity	10,751	11,109	11,568	12,034	12,432
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	2.0	1.9	2.0	1.9	1.9
	Total provisions / reported NPLs (%)	120.5	113.6	123.2	127.8	134.6

Source: Company data, RHB

Emissions And ESG

Trend analysis

Affin does not disclose its emissions for now. However, other disclosed environmental indicators, such as water and paper consumption decreased in 2022.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	na
Scope 2	-	-	na
Scope 3	-	-	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Solar panel financing for homeowners:** Affin recently launched its Solar Financing-I product to assist homeowners with transitioning to solar-powered electricity for domestic use, and the bank has also partnered with 14 solar panel providers under this initiative.
- Exclusive partnership with Pro-Net:** Affin announced a collaboration with Proton New Energy Technology (Pro-Net), a subsidiary of Proton focused on smart EVs, to become its exclusive financing partner.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-01	Sell	1.70	2.60
2024-02-19	Sell	1.90	2.61
2023-11-20	Neutral	1.90	1.99
2023-08-28	Buy	2.20	1.92
2023-05-28	Buy	2.30	2.00
2023-02-28	Buy	2.50	2.08
2022-11-29	Buy	2.80	2.48
2022-09-22	Trading Buy	2.45	2.07
2022-08-25	Neutral	2.25	2.09
2022-03-02	Neutral	2.00	1.86
2022-03-01	Neutral	1.80	1.89
2021-11-23	Neutral	1.65	1.70
2021-11-21	Sell	1.48	1.68
2021-08-26	Sell	1.48	1.74
2021-02-28	Sell	1.48	1.76

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

AMMB (AMM MK)

Buy (Maintained)

ESG Leader Among Mid-Cap Banks; Stay BUY

Target Price (Return): MYR5.00 (+23%)
 Price (Market Cap): MYR4.08 (USD2,828m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 28.0m/2.00m

- **Stay BUY, new MYR5 TP from MYR4.80, 23% upside with c.5% FY25F (Mar) yield.** Post updating our ESG scoresheet for the banks under our coverage (refer to our thematic paper titled [Banks: In Pursuit Of Net Zero](#), our TP increases accordingly. In our view, AMMB is one of the ESG leaders – especially among the smaller-to-mid-sized banks – given its active financing of green property development projects, as well as its robust efforts to encourage ESG adoption among SMEs.
- **The positives.** AMMB's internal decarbonisation efforts have borne fruit – FY23 total emissions fell by 30% against its FY19 baseline, and this is excluding its carbon offsets through renewable energy (RE) certificates and solar energy generation. The group is also an active financier of green property projects, having inked partnerships with multiple real estate developers to finance projects that have obtained green certification. The bank is also involved in capacity building programmes for SMEs, including being the official banker for Kossan Rubber Industries' (KRI MK, BUY, TP: MYR2.20) Greening Value Chain programme designed to assist SMEs in adopting ESG practices through financial and non-financial assistance.
- **Areas for improvement?** AMMB has yet to report its Scope 3 financed emissions. Given the group's sizeable corporate banking franchise (c.20% of outstanding loan book), we believe that tracking its customers' emissions is a necessary step towards developing appropriate transition plans. Separately, AMMB also has the smallest sustainable financing portion of total loan book among its peers, although the bank is likely to unveil more ambitious targets in its upcoming mid-term strategy refresh following the end of its current Focus 8 roadmap.
- **ESG leader among mid-cap banks.** Post-updates to our Banks' ESG scoresheet, AMMB emerged as the joint-highest scorer among the smaller-to-mid-sized banks, with a new ESG score of 3.2 (from 3.0). We commend AMMB for its solid progress in improving its internal carbon footprint, and look forward to future announcements of its strategies to address its customers' carbon footprint as well. No changes were made to our forecasts.

Analysts

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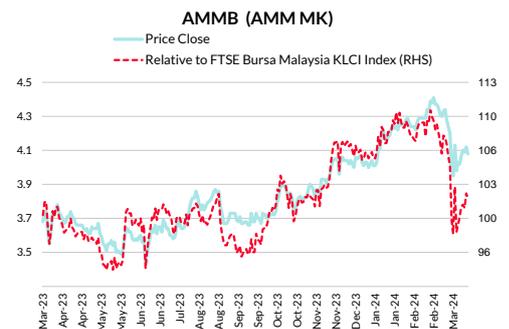


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.7	(7.5)	1.2	9.4	10.9
Relative	(3.9)	(6.2)	(3.7)	3.6	1.3
52-wk Price low/high (MYR)	3.44 – 4.41				



Source: Bloomberg

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Reported net profit (MYRm)	1,503	1,801	1,862	1,782	1,885
Net profit growth (%)	-	19.9	3.4	(4.3)	5.8
Recurring net profit (MYRm)	1,503	1,735	1,727	1,782	1,885
Recurring EPS (MYR)	0.46	0.52	0.52	0.54	0.57
BVPS (MYR)	5.06	5.47	5.94	6.48	7.05
DPS (MYR)	0.05	0.18	0.20	0.22	0.24
Recurring P/E (x)	8.96	7.78	7.82	7.58	7.17
P/B (x)	0.81	0.75	0.69	0.63	0.58
Dividend Yield (%)	1.2	4.5	4.9	5.4	5.8
Return on average equity (%)	9.6	10.3	9.8	8.7	8.4

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

AMMB's operational emissions declined 30% in FY23 vs its baseline year of FY19 before including carbon offsets amounting to 13ktCO₂e. Its commitment and disclosures on sustainable financing initiatives are sparse.

S: EXCELLENT

AMMB is engaged in numerous programmes to assist MSMEs with capacity building and digitalisation. The bank's employees are decently diverse (62% are women) and well-trained (average of >30 training hours pa).

G: EXCELLENT

AMMB has 78% independence at the Board level, with its sustainability direction overseen by a dedicated Group Sustainability Council. The Group CEO and his direct reportees are also assessed on sustainability-linked performance indicators, among others.

Emissions And ESG

Trend analysis

AMMB's FY23 (Mar) emissions declined significantly against its FY19 baseline, through the use of carbon offset instruments such as RE certificates (amounting to c.13,000 tCO2e offset). Stripping off the offsets would still result in a 30% decline against the baseline year, which we view as commendable.

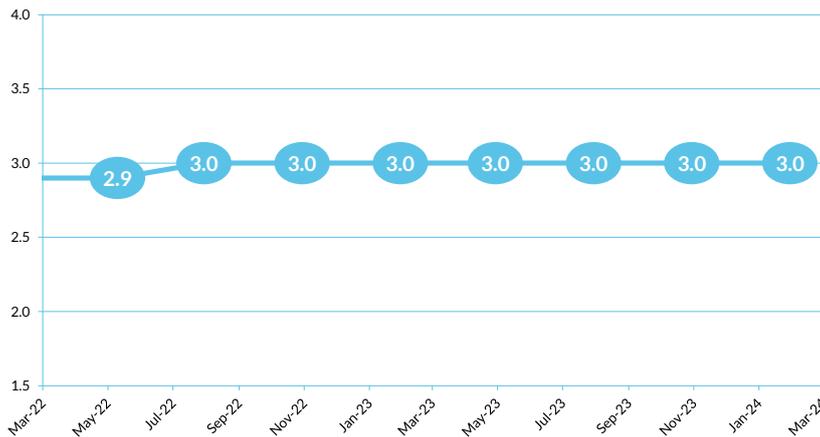
Emissions (tCO2e)	Mar-21	Mar-22	Mar-23
Scope 1	58	41	70
Scope 2	18,094	16,013	2,196
Scope 3	26	34	262
Total emissions	18,178	16,088	2,528

Source: Company data, RHB

Latest ESG-Related Developments

- Ramping up financing of green property:** AMMB recently announced partnerships with several developers of green-certified development projects - including a MYR450m facility to Eastern & Oriental (EAST MK, BUY, TP: MYR1.08) as well as a MYR130m facility to Avaland (AVALAND MK, NR).
- GVC Programme:** AMMB is the official banker for Kossan Rubber Industries' Greening Value Chain (GVC) programme, which assists SMEs in implementing ESG-related changes to their operations, including helping out in climate reporting.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-27	Buy	4.80	4.30
2023-11-23	Buy	4.70	4.00
2023-08-22	Buy	4.20	3.73
2023-05-30	Buy	4.50	3.57
2023-02-24	Buy	4.60	3.91
2022-12-01	Buy	4.80	4.20
2022-08-18	Buy	4.60	4.07
2022-06-01	Buy	4.40	3.72
2022-02-27	Buy	4.00	3.43
2021-11-28	Buy	3.90	3.15
2021-08-31	Buy	3.50	3.03
2021-06-01	Buy	3.30	2.86
2021-03-11	Buy	3.40	3.01
2021-03-01	Neutral	3.40	3.16
2020-12-16	Buy	4.20	3.66

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

BIMB (BIMB MK)

Neutral (Maintained)

Unique Initiatives, But Lacks Important Disclosures

Target Price (Return): MYR2.45 (-4%)
 Price (Market Cap): MYR2.54 (USD1,207m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.91m/0.56m

- **Keep NEUTRAL, new MYR2.45 TP from MYR2.50, 4% downside with c.6% FY24F yield.** Post-updates to our Banks' ESG scoresheet (refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), we downgrade BIMB's ESG score to 2.9 from 3.0 – our TP decreases accordingly after we ascribed an ESG discount of 2% to its intrinsic value of MYR2.50. We believe that BIMB's ESG efforts are lagging behind that of its peers for now, but are encouraged by its unique initiatives in financial inclusion.
- **The positives.** BIMB has many initiatives that promote financial inclusion. One of these is Sadaqa House which seeks to extend financing solutions to at-risk individuals and MSMEs through alternative funding channels such as *zakat* receipts. As at Jul 2023, Sadaqa House collections had reached MYR10.8m. BIMB is also stepping up its digitalisation efforts, and uses its digital bank, BeU, to explore less traditional financing opportunities (eg financing for gig economy workers and new-to-credit customers) using alternative credit scoring models. If these opportunities and models turn out to be successful, the bank will consider adopting them at the group level.
- **Areas for improvement?** BIMB's ESG-related disclosures are lagging behind the industry's – particularly, it has yet to report operational and financed Scope 3 emissions, but we acknowledge that financed emissions are harder to estimate accurately for households, which account for 75% of the group's financing book. We think that the bank could also benefit from having third-party assurance on its sustainability operations to ensure the integrity of sustainability data. Additionally, BIMB's *shariah*-ESG financing assets of MYR4.5bn (<10% of Dec 2023 total financing) also appear soft compared to the rest of the industry's, but it has a target of doubling this figure by FY25.
- **Playing catch up.** BIMB's new ESG score of 2.9 is below the country median of 3.0 – as such, per our proprietary ESG scoring methodology, we ascribe a 2% discount (from 0%) to its intrinsic value. Our TP is lowered to MYR2.45 (from MYR2.50) as a result. We retain our NEUTRAL stance on BIMB, and prefer banks with stronger business banking franchises to take advantage of an expected stronger business banking environment in 2024. We make no changes to our estimates.

Analysts

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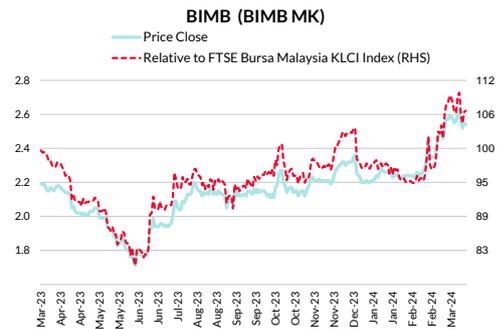


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.9	8.1	13.9	17.6	14.4
Relative	9.3	9.4	9.0	11.8	4.8
52-wk Price low/high (MYR)	1.71 – 2.62				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	492	553	603	640	676
Net profit growth (%)	(8.0)	12.5	9.0	6.1	5.7
Recurring net profit (MYRm)	492	553	603	640	676
Recurring EPS (MYR)	0.23	0.24	0.27	0.28	0.30
BVPS (MYR)	3.15	3.27	3.32	3.47	3.71
DPS (MYR)	0.13	0.16	0.16	0.17	0.18
Recurring P/E (x)	11.13	10.41	9.55	9.00	8.51
P/B (x)	0.81	0.78	0.76	0.73	0.68
Dividend Yield (%)	5.3	6.4	6.3	6.7	7.0
Return on average equity (%)	7.5	7.8	8.1	8.3	8.3

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: GOOD

BIMB only discloses Scope 1 and 2 operational emissions and is lagging behind industry trends. The bank's *shariah*-ESG financing base also forms less than 10% of its total financing portfolio for now, but it targets to double the *shariah*-ESG base by FY25.

S: EXCELLENT

BIMB operates a standalone digital bank, BeU, to explore alternative financing opportunities such as to gig economy workers and new-to-credit customers. The bank has not reported any material data leaks, cybersecurity issues, or major unplanned system outages over the past 12 months.

G: EXCELLENT

80% of Board members are independent directors. BIMB has not been involved in bribery, corruption, money laundering and/or terrorism financing cases over the past 10 years. Anti-bribery and corruption, anti-money laundering and counter-terrorism financing training is made mandatory for all staff.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.23	0.24	0.27	0.28	0.30
Financial Services	Recurring EPS	0.23	0.24	0.27	0.28	0.30
BIMB	DPS	0.13	0.16	0.16	0.17	0.18
BIMB MK	BVPS	3.15	3.27	3.32	3.47	3.71
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	11.13	10.41	9.55	9.00	8.51
	P/B (x)	0.8	0.8	0.8	0.7	0.7
	Dividend Yield (%)	5.3	6.4	6.3	6.7	7.0
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	3,345	4,123	4,346	4,616	4,852
	Interest expense	(1,374)	(2,164)	(2,269)	(2,420)	(2,559)
	Net interest income	1,972	1,959	2,076	2,196	2,294
	Non interest income	231	407	413	428	452
	Total operating income	2,203	2,366	2,489	2,624	2,746
	Overheads	(1,317)	(1,440)	(1,484)	(1,534)	(1,598)
	Pre-provision operating profit	886	926	1,005	1,090	1,148
	Loan impairment allowances	(140)	(175)	(191)	(226)	(235)
	Other impairment allowances	1	(4)	-	-	-
	Other exceptional items	0	0	1	1	1
	Pre-tax profit	747	747	814	864	914
	Taxation	(255)	(194)	(212)	(225)	(238)
	Reported net profit	492	553	603	640	676
	Recurring net profit	492	553	603	640	676
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	0.6	0.6	0.6	0.7	0.7
	Return on average equity (%)	7.5	7.8	8.1	8.3	8.3
	Return on IEAs (%)	4.0	4.6	4.7	4.7	4.8
	Cost of funds (%)	1.8	2.7	2.7	2.8	2.8
	Net interest spread (%)	2.2	2.0	2.0	2.0	2.0
	Net interest margin (%)	2.3	2.2	2.3	2.3	2.2
	Non-interest income / total income (%)	10.5	17.2	16.6	16.3	16.5
	Cost to income ratio (%)	59.8	60.9	59.6	58.5	58.2
	Credit cost (bps)	22.4	26.2	27.2	30.2	29.9
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	65,942	67,625	73,035	76,687	80,521
	Other interest earning assets	22,593	21,571	22,289	23,037	23,815
	Total gross IEAs	88,535	89,195	95,324	99,724	104,336
	Total provisions	(1,040)	(808)	(985)	(1,179)	(1,382)
	Net loans to customers	64,902	66,817	72,050	75,508	79,138
	Total net IEAs	87,495	88,388	94,339	98,545	102,954
	Total non-IEAs	2,357	2,574	1,333	2,108	2,508
	Total assets	89,852	90,962	95,671	100,652	105,462
	Customer deposits	75,169	76,089	81,074	85,759	90,047
	Other interest-bearing liabilities	5,457	4,736	4,259	4,138	4,021
	Total IBLs	80,626	80,825	85,333	89,897	94,068
	Total non-IBLs	2,429	2,736	2,807	2,890	2,976
	Total liabilities	83,055	83,562	88,140	92,787	97,044
	Share capital	3,645	3,889	3,889	4,083	4,287
	Shareholders' equity	6,796	7,400	7,531	7,865	8,418
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.3	0.9	0.9	0.9	0.9
	Total provisions / reported NPLs (%)	124.5	130.2	157.6	178.0	194.6
	CET-1 ratio (%)	13.6	14.1	14.1	14.2	14.8
	Tier-1 ratio (%)	13.6	14.1	14.1	14.2	14.8
	Total capital ratio (%)	19.4	19.9	19.8	19.9	20.5

Source: Company data, RHB

Emissions And ESG

Trend analysis

BIMB's total Scope 1 and 2 emissions increased YoY, largely due to the reopening of the economy post-pandemic. Moving forward, the bank will expand its reporting scope to include Scope 3 emissions.

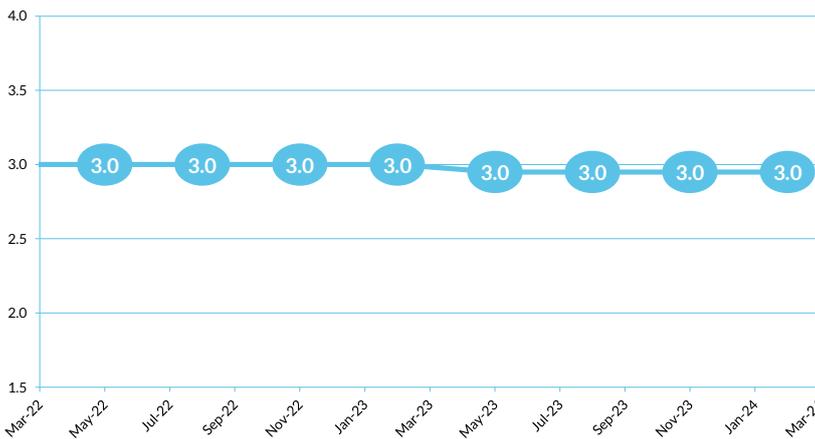
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6	5	na
Scope 2	7,251	7,479	na
Scope 3	na	na	na
Total emissions	7,258	7,485	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Sadaqah House:** BIMB operates Sadaqah House, a platform for raising funds through charity and *zakat* contributions, with funds disbursed to the underserved community.
- **Digital bank to target new segments:** BIMB leverages on its digital bank, BeU, to explore alternative financing opportunities, such as financing to gig economy workers and new-to-credit customers.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-04	Neutral	2.50	2.57
2024-02-29	Neutral	2.40	2.46
2023-11-29	Neutral	2.25	2.27
2023-08-31	Neutral	2.10	2.09
2023-05-31	Neutral	2.00	1.85
2023-02-28	Neutral	2.30	2.27
2023-01-29	Neutral	2.60	2.47
2022-09-01	Neutral	2.60	2.60
2022-06-01	Neutral	2.80	2.91
2022-03-01	Neutral	3.30	3.04
2022-03-01	Buy	3.70	3.04
2021-12-01	Buy	3.70	2.92
2021-05-28	Buy	5.40	2.87
2021-03-01	Buy	5.20	3.05
2020-12-16	Buy	5.00	3.29

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

CIMB (CIMB MK)

Buy (Maintained)

Leading The Charge Towards a Cooler Earth; BUY

Target Price (Return): MYR7.60 (+17%)
 Price (Market Cap): MYR6.48 (USD14,485m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 113m/20.0m

- **Keep BUY, new MYR7.60 TP from MYR7.35, 17% upside with c.6% FY24F yield.** Post-updates to our ESG scoresheet for the banks under our coverage (refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), we upgrade CIMB's ESG score to 3.3 from 2.9. As such, we raise our TP after ascribing a new ESG premium of 6% (formerly a 2% discount) to its intrinsic value of MYR7.15. We view CIMB as one of the ESG leaders in the industry, and the bank remains a sector Top Pick.
- **The positives.** CIMB recorded a 18% reduction in its (internal) Scope 1, 2 and 3 carbon emissions between FY22 and FY19. It is also one of two banks to have begun reporting Scope 3 financed emissions. CIMB also has comprehensive transition plans for its higher-ESG risk customers from the thermal coal-mining and cement sectors. During its recent ESG Corporate Day event, it raised its 2024 sustainable financing target to MYR100bn from MYR60bn, having already achieved the initial target ahead of time. CIMB also announced a new advisory product for its corporate customers that are looking to develop carbon credit projects and issue carbon credits on the Bursa Malaysia Carbon Exchange.
- **Areas for improvement?** CIMB's customers often express dissatisfaction with the CIMB Clicks mobile application. On top of that, the bank has a history of being involved in major technological mishaps, including the double-crediting error affecting c.11,000 retail deposit accounts in early 2022. In Aug 2023, it was reported that CIMB was one of the banks affected by a major money laundering case in Singapore involving over SGD1bn in assets – although we note that CIMB was reported to have self-flagged the suspicious transactions to the relevant authorities in light of the incident.
- **Leading the sustainability charge.** Post-updates to our Banks' ESG scoresheet, CIMB emerged as one of the top ESG scorers in the industry. Our new ESG score of 3.3 for the bank (previously 2.9) is the joint-highest in the country. CIMB remains a sector Top Pick – we see room for its share price momentum to continue on the back of consensus earnings upgrades, improving asset quality, and potential further capital returns from capital optimisation initiatives. No changes were made to our forecasts.

Analysts

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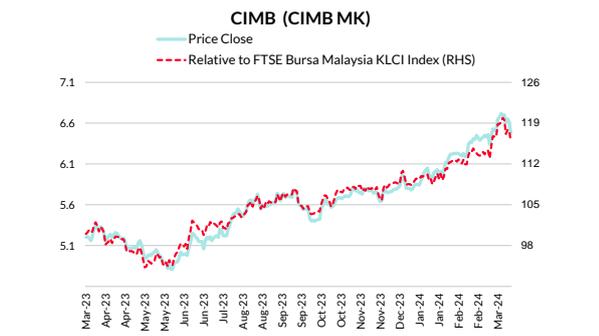


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.8	0.5	9.8	15.3	25.8
Relative	5.2	1.8	4.9	9.5	16.2
52-wk Price low/high (MYR)	4.81 – 6.72				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	5,440	6,981	7,608	8,078	8,459
Net profit growth (%)	26.6	28.3	9.0	6.2	4.7
Recurring net profit (MYRm)	5,440	6,981	7,608	8,078	8,459
Recurring EPS (MYR)	0.52	0.65	0.71	0.76	0.78
BVPS (MYR)	5.86	6.41	6.67	7.23	7.38
DPS (MYR)	0.26	0.36	0.39	0.42	0.42
Recurring P/E (x)	12.44	9.90	9.08	8.56	8.30
P/B (x)	1.11	1.01	0.97	0.90	0.88
Dividend Yield (%)	4.0	5.6	6.1	6.4	6.5
Return on average equity (%)	9.0	10.7	10.9	10.9	10.7

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: GOOD

In FY22, the group achieved 18% reduction in operational emissions vs the baseline year of FY19. CIMB was also the first Malaysian bank to report Scope 3 financed emissions, and has developed transition plans for high-risk customers in the cement and thermal coal-mining sectors.

S: EXCELLENT

CIMB is involved in several financial inclusion initiatives for low-income, new-to-credit individuals and SMEs in its multiple markets. Employees also receive an average of over 80 hours of training pa, ie the highest among MY banks. In early 2022, a processing error related to a third-party remittance service led to over 11,000 CIMB customers receiving double credits. The bank made provisions of MYR281m for the double credits.

G: EXCELLENT

The Board comprises six independent directors, two non-executive directors and the group CEO is an executive director. Top management is subject to sustainability-linked remuneration.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.52	0.65	0.71	0.76	0.78
Financial Services	Recurring EPS	0.52	0.65	0.71	0.76	0.78
CIMB	DPS	0.26	0.36	0.39	0.42	0.42
CIMB MK	BVPS	5.86	6.41	6.67	7.23	7.38
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	12.44	9.90	9.08	8.56	8.30
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.1	1.0	1.0	0.9	0.9
i. COE of 10.3%;	Dividend Yield (%)	4.0	5.6	6.1	6.4	6.5
ii. ROE of 10.75%;						
iii. 3.5% long-term growth.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	25,085	33,815	36,479	38,204	39,761
Our earnings are most sensitivity to changes in:	Interest expense	(9,927)	(19,189)	(20,660)	(21,708)	(22,653)
i. Credit cost;	Net interest income	15,158	14,626	15,819	16,496	17,107
ii. Net interest margin;	Non interest income	4,680	6,388	6,779	7,155	7,551
iii. Non-interest income growth.	Total operating income	19,838	21,014	22,598	23,651	24,658
	Overheads	(9,346)	(9,865)	(10,495)	(11,046)	(11,543)
Key risks	Pre-provision operating profit	10,492	11,149	12,103	12,605	13,115
The downside risks include:	Loan impairment allowances	(1,983)	(1,360)	(1,482)	(1,340)	(1,376)
i. Deterioration in asset quality resulting in higher-than-expected credit costs;	Other impairment allowances	(178)	(232)	(200)	(200)	(150)
ii. Higher-than-expected NIM compression;	Income from associates	40	(17)	(18)	(19)	(21)
iii. Weaker-than-expected recovery in economic activities.	Pre-tax profit	8,371	9,541	10,403	11,046	11,568
	Taxation	(2,778)	(2,379)	(2,601)	(2,762)	(2,892)
	Minority interests	(153)	(181)	(195)	(207)	(217)
	Reported net profit	5,440	6,981	7,608	8,078	8,459
	Recurring net profit	5,440	6,981	7,608	8,078	8,459
Company Profile						
CIMB is a fully integrated financial services group and the second largest domestic bank in Malaysia. The group's core markets are Malaysia, Indonesia, Singapore and Thailand.						
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	0.8	1.0	1.0	1.0	1.0
	Return on average equity (%)	9.0	10.7	10.9	10.9	10.7
	Return on IEAs (%)	4.1	5.2	5.2	5.2	5.1
	Cost of funds (%)	1.8	3.3	3.3	3.3	3.3
	Net interest spread (%)	2.3	1.9	1.9	1.8	1.8
	Net interest margin (%)	2.5	2.2	2.2	2.2	2.2
	Non-interest income / total income (%)	23.6	30.4	30.0	30.3	30.6
	Cost to income ratio (%)	47.1	46.9	46.4	46.7	46.8
	Credit cost (bps)	50.5	32.1	32.6	28.0	27.5
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	406,958	440,863	467,071	490,230	509,683
	Other interest earning assets	213,267	246,532	257,272	268,502	280,245
	Total gross IEAs	620,225	687,396	724,344	758,732	789,928
	Total provisions	(12,401)	(11,413)	(12,766)	(14,237)	(16,120)
	Net loans to customers	394,557	429,450	454,305	475,993	493,563
	Total net IEAs	607,824	675,982	711,578	744,495	773,808
	Total non-IEAs	58,897	57,590	56,679	58,573	58,306
	Total assets	666,721	733,572	768,257	803,067	832,114
	Customer deposits	446,635	482,426	511,277	536,941	558,735
	Other interest-bearing liabilities	101,963	129,164	131,172	133,244	135,381
	Total IBLs	548,598	611,590	642,449	670,185	694,117
	Total non-IBLs	54,340	52,143	52,966	53,835	54,753
	Total liabilities	602,937	663,733	695,414	724,020	748,870
	Share capital	29,095	29,095	29,095	31,334	31,334
	Shareholders' equity	62,491	68,327	71,135	77,133	81,113
	Minority interests	1,093	1,312	1,507	1,714	1,931
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	3.3	2.7	2.6	2.4	2.2
	CET-1 ratio (%)	14.5	14.5	14.4	15.1	16.3
	Tier-1 ratio (%)	15.4	15.1	15.0	15.7	16.9
	Total capital ratio (%)	18.5	18.2	17.9	18.4	19.5

Source: Company data, RHB

Emissions And ESG

Trend analysis

CIMB's emissions are trending lower mainly due to the decline in its Scope 2 emissions. We believe the rationalisation of the group's branch footprint has aided in contributing to the improvement.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	5,024	2,620	na
Scope 2	66,941	71,416	na
Scope 3	189	4,242	na
Total emissions	72,154	78,278	na

Source: Company data, RHB

Latest ESG-Related Developments

- Committed to implementing Task Force on Climate-related Financial Disclosures (TCFD) recommendations:** CIMB has implemented the majority of the Financial Stability Board's TCFD recommendations, and is committed to disclosing all TCFD recommendations by 2024.
- Climate-related KPIs:** CIMB utilises its scorecards to mobilise and orientate group-wide efforts and contributions towards a set of common sustainability and climate goals, which include reductions in Scope 1 and 2 greenhouse gas emissions and green financing for retail and non-retail clients.
- Establishing interim climate targets:** It published the first round of 2030 climate targets for thermal coal-mining and cement sectors in 2022 with the goal of halving exposure to thermal coal-mining sector by 2030 (and to phase out by 2040), while decreasing the physical intensity of financing clients in the cement sector by 36% by 2030.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-01	Buy	7.35	6.34
2023-10-24	Buy	6.88	5.68
2023-08-31	Buy	6.88	5.63
2023-06-01	Buy	6.00	4.86
2023-04-27	Buy	6.10	5.07
2023-03-08	Buy	6.40	5.57
2022-12-01	Buy	7.00	5.62
2022-08-31	Buy	7.00	5.75
2022-03-01	Buy	6.50	5.37
2021-12-01	Buy	6.40	5.29
2021-10-20	Buy	6.30	5.03
2021-08-31	Buy	6.30	5.41
2021-02-28	Buy	5.70	4.91
2020-12-16	Buy	5.20	4.33
2020-12-16	Buy	5.10	4.50

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Hong Leong Bank (HLBK MK)

Buy (Maintained)

To Achieve ROE Growth Sustainably

- **Stay BUY, new MYR23.60 TP from MYR23.20, 22% upside with c.3% FY25F (Jun) yield.** After updating our ESG scoresheet for the banks under coverage (refer to the thematic titled [Banks: In Pursuit Of Net Zero](#)), we upgrade Hong Leong Bank's ESG score to 3.1 from 3.0, and raise our TP accordingly. Under its new 3-5 year strategy, HL Bank's focus on ROE growth is also supported by an emphasis on sustainability, with carbon footprint management being a key pillar – which is positive for the bank's ESG trajectory.
- **The positives.** HL Bank's total greenhouse gas emissions across its Malaysia, Hong Kong and Singapore operations fell by 16% in FY23 against its baseline year of FY19. The bank also leverages on its strengths in the hire purchase and property financing space to offer attractive lending rates for battery, hybrid and plug-in hybrid EVs, as well as green buildings and townships for property developers, and affordable homes for homebuyers. It is also involved in numerous financial inclusion initiatives, including a micro-financing programme dedicated to aspiring entrepreneurs with low to no credit scores.
- **Areas for improvement?** HL Bank has yet to disclose its Scope 3 financed emissions, but we note it has categorised its SME and corporate customers according to Bank Negara Malaysia's Climate Change and Principles-Based Taxonomy classifications – this will assist the bank with identifying which customers require more support and engagement in their sustainability transition journeys. Separately, we believe that the bank's sustainable financing offerings could be widened, eg through sustainability-linked loans for its SME and corporate customers. However, we acknowledge that HL Bank has MYR261m outstanding from a green bond issuance to be allocated towards large-scale solar photovoltaic projects.
- **Low profile, high performance.** Post-updates to our ESG scoresheet for the banking sector, HL Bank now has a new ESG score of 3.1 (previously 3.0). We increase our TP accordingly, after ascribing a 2% premium (from 0%) to its unchanged intrinsic value of MYR23.21. We continue to like HL Bank as a preferred defensive pick, given its robust asset quality even while it aims to achieve above-industry average loan growth and ROE. No changes were made to our forecasts.

Target Price (Return): MYR23.60 (+22%)
 Price (Market Cap): MYR19.3 (USD8,778m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 16.7m/3.14m

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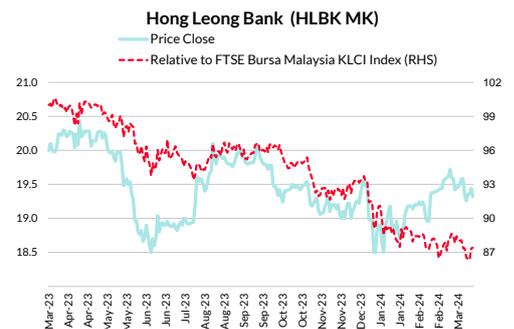


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	(0.5)	(0.7)	(2.6)	(3.9)
Relative	(3.4)	0.8	(5.6)	(8.4)	(13.5)
52-wk Price low/high (MYR)	18.5 – 20.4				



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Reported net profit (MYRm)	3,289	3,818	4,041	4,255	4,445
Net profit growth (%)	15.0	16.1	5.8	5.3	4.5
Recurring net profit (MYRm)	3,289	3,818	4,041	4,255	4,445
Recurring EPS (MYR)	1.61	1.86	1.97	2.08	2.17
BVPS (MYR)	15.13	16.59	17.81	19.29	20.80
DPS (MYR)	0.55	0.59	0.62	0.65	0.68
Recurring P/E (x)	12.03	10.37	9.80	9.30	8.91
P/B (x)	1.28	1.16	1.08	1.00	0.93
Dividend Yield (%)	2.8	3.1	3.2	3.4	3.5
Return on average equity (%)	10.9	11.8	11.5	11.2	10.8

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

HL Bank is committed to reducing its greenhouse gas emissions by 15-25% by 2026, achieve net zero for Scope 1 and 2 emissions by 2030, and be carbon-neutral by 2050. Being a retail-focused bank, its lending exposures to the commodities and oil & gas sectors are insignificant. It targets to approve MYR4bn in RE financing by FY25 (FY23: MYR3.2bn) while, by FY23, it had exceeded its MYR12bn green and affordable mortgages target by MYR1.2bn.

S: EXCELLENT

HL Bank embraces gender diversity, with 41% of women in senior management and 43% of women in the Board of Directors. Employee diversity, retention and training metrics are also decent.

G: EXCELLENT

Five out of the eight Board members are independent directors. Senior management members are assessed against objectives that are aligned with the bank's sustainability and climate-related targets and strategy.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	EPS	1.61	1.86	1.97	2.08	2.17
Financial Services	Recurring EPS	1.61	1.86	1.97	2.08	2.17
Hong Leong Bank	DPS	0.55	0.59	0.62	0.65	0.68
HLBK MK	BVPS	15.13	16.59	17.81	19.29	20.80
Buy						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	12.03	10.37	9.80	9.30	8.91
GGM derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.3	1.2	1.1	1.0	0.9
i. Cost of equity of 9.5%;	Dividend Yield (%)	2.8	3.1	3.2	3.4	3.5
ii. ROE of 11.0%;						
iii. Long-term growth of 3.5%.						
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key drivers	Interest income	7,327	9,708	10,983	11,428	11,888
Our earnings forecasts are most sensitive to changes in:	Interest expense	(2,709)	(5,155)	(6,329)	(6,634)	(6,962)
i. Net interest margin;	Net interest income	4,618	4,552	4,655	4,794	4,926
ii. Loan impairment allowances;	Non interest income	979	1,133	1,224	1,323	1,407
iii. Contributions from associates.	Total operating income	5,597	5,686	5,879	6,117	6,333
	Overheads	(2,098)	(2,233)	(2,325)	(2,417)	(2,511)
	Pre-provision operating profit	3,499	3,452	3,555	3,700	3,823
	Loan impairment allowances	(164)	(115)	(172)	(178)	(203)
Key risks	Other impairment allowances	1	0	1	1	1
The downside risks include:	Income from associates	1,030	1,289	1,418	1,525	1,639
i. Weaker-than-expected loan growth;	Pre-tax profit	4,367	4,627	4,802	5,048	5,260
ii. Softer-than-expected NIMs;	Taxation	(1,078)	(808)	(761)	(793)	(815)
iii. Lower-than-expected non-interest income;	Reported net profit	3,289	3,818	4,041	4,255	4,445
iv. Lower-than-expected profits from Bank of Chengdu.	Recurring net profit	3,289	3,818	4,041	4,255	4,445
	Profitability ratios	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Company Profile	Return on average assets (%)	1.3	1.4	1.4	1.4	1.4
Hong Leong Bank is involved in the provision of conventional and Islamic banking services. The group's operations span across Malaysia, Singapore, Hong Kong, Vietnam, Cambodia and China, via its strategic shareholding in Bank of Chengdu.	Return on average equity (%)	10.9	11.8	11.5	11.2	10.8
	Return on IEAs (%)	3.1	3.9	4.1	4.1	4.1
	Cost of funds (%)	1.3	2.3	2.6	2.6	2.7
	Net interest spread (%)	1.8	1.6	1.5	1.5	1.4
	Net interest margin (%)	2.0	1.8	1.7	1.7	1.7
	Non-interest income / total income (%)	17.5	19.9	20.8	21.6	22.2
	Cost to income ratio (%)	37.5	39.3	39.5	39.5	39.6
	Credit cost (bps)	10.1	6.6	9.2	9.1	9.9
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total gross loans	168,224	181,662	190,305	199,820	208,812
	Other interest earning assets	72,736	79,379	82,521	85,813	89,265
	Total gross IEAs	240,960	261,041	272,825	285,633	298,076
	Total provisions	(1,736)	(1,759)	(2,036)	(2,138)	(2,235)
	Net loans to customers	166,488	179,903	188,268	197,682	206,576
	Total net IEAs	239,224	259,282	270,789	283,495	295,841
	Total non-IEAs	15,107	20,568	20,581	21,347	21,952
	Total assets	254,331	279,850	291,370	304,842	317,793
	Customer deposits	199,961	213,902	226,736	238,073	248,787
	Other interest-bearing liabilities	13,753	23,398	19,815	19,228	18,665
	Total IBLs	213,714	237,301	246,551	257,301	267,451
	Total non-IBLs	9,629	8,563	8,333	8,007	7,695
	Total liabilities	223,342	245,864	254,884	265,309	275,146
	Share capital	2,168	2,168	2,168	2,168	2,168
	Shareholders' equity	30,989	33,987	36,486	39,533	42,647
	Asset quality and capital	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Reported NPLs / gross cust loans (%)	0.5	0.6	0.6	0.6	0.6
	Total provisions / reported NPLs (%)	211.8	168.8	178.3	181.3	175.3
	CET-1 ratio (%)	17.1	13.0	14.2	15.2	16.2
	Tier-1 ratio (%)	18.2	14.1	15.2	16.2	17.2
	Total capital ratio (%)	20.3	16.2	17.2	18.1	19.0

Source: Company data, RHB

Emissions And ESG

Trend analysis

HL Bank's GHG emissions disclosures include emissions data from its Malaysia, Singapore and Hong Kong operations. In FY23 (Jun), the group recorded a 19% reduction in total emissions across the three markets.

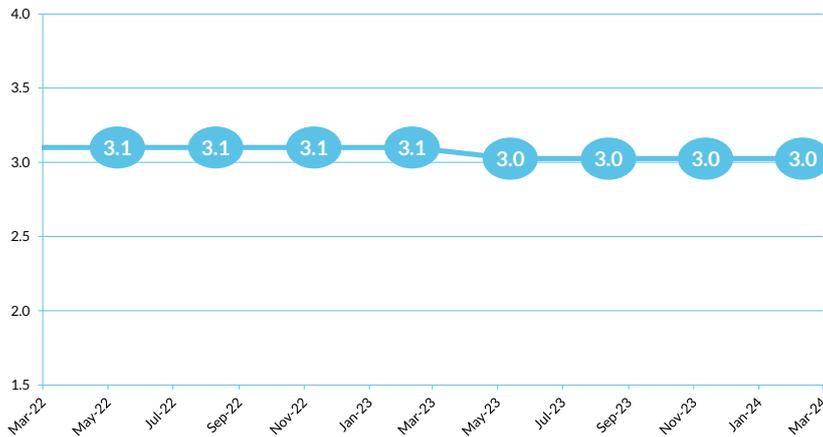
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	146	97	130
Scope 2	30,436	28,575	27,699
Scope 3	7,691	9,360	12,384
Total emissions	38,273	38,032	40,213

Source: Company data, RHB

Latest ESG-Related Developments

- Launches e-payment programme in rural Selangor:** HL Bank recently launched the e-Duit Desa programme in Sabak Bernam, Selangor, providing residents with access to e-payments and other financial solutions as part of its financial inclusion agenda.
- ESG awards:** HL Bank was recently awarded the Bank of the Year - ESG Leadership Award at the 2023 Sustainability & CSR Malaysia Awards ceremony, ie its first win in an ESG category.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-19	Buy	23.2	19.4
2023-12-01	Buy	23.2	19.1
2023-09-01	Buy	23.2	20.0
2023-05-31	Buy	22.6	19.4
2023-03-08	Buy	23.1	20.6
2022-11-30	Buy	24.6	20.9
2022-08-31	Buy	23.9	20.9
2022-05-30	Buy	23.7	21.1
2022-03-01	Buy	23.5	20.4
2021-11-30	Buy	23.1	18.1
2021-08-31	Buy	21.7	19.2
2021-05-27	Buy	22.5	18.3
2021-02-28	Buy	21.9	18.0
2020-12-16	Buy	21.9	18.7
2020-11-29	Buy	19.6	17.0

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Malayan Banking (MAY MK)

Neutral (Maintained)

In Pole Position

Target Price (Return): MYR10.60 (+11%)
 Price (Market Cap): MYR9.57 (USD24,205m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 93.5m/16.0m

- **Keep NEUTRAL, new MYR10.60 TP from MYR10.20, 11% upside with c.7% FY24F yield.** After updating our ESG scoresheet for the banks under our coverage (refer to the thematic note titled [Banks: In Pursuit Of Net Zero](#)), we raise Malayan Banking's ESG score to 3.3 from 3.1. This makes it the joint-highest-ranked bank for the metric, among the Malaysia-listed banks under our coverage. Subsequently, we raise our TP after ascribing a higher ESG premium of 6% (from 2%) to the counter's intrinsic value of MYR10.04.
- **The positives.** Maybank recorded a significant 58% reduction in Scope 1, 2 and 3 carbon emissions in FY22 vs the baseline year of FY19. Excluding carbon offsets from Malaysia Renewable Energy Certificates (mRECs), the reduction was 23% – which is still impressive, in our view. The group is one of only two Malaysia-listed banks that have begun reporting Scope 3 financed emissions. It intends to prioritise engagements with clients in identified high-risk sectors and provide the necessary transition support. Maybank is also one of two Malaysia banks that have memberships with the United Nations' Net-Zero Banking Alliance, and has a goal of achieving a carbon-neutral position by 2030.
- **Areas for improvement?** Maybank has been guilty of reliability issues as its online banking apps have suffered multiple temporary outages in the past year, with the most recent occurrence on 7 Aug 2023 lasting between the peak hours of 3pm and 5pm. We also view the bank's target of mobilising MYR80bn in sustainable finance as being rather modest when compared to peers, especially given Maybank's size and international presence. Lastly, with Scope 3 financed emissions now tracked and disclosed, we look forward to seeing its action plans translate to a downtrend in Scope 3 financed emissions.
- **In pole position.** Post-updates to our Banks' ESG scoresheet, Maybank has emerged as the joint-highest scorer among the Malaysia banks under our coverage, with a new ESG score of 3.3 (from 3.1). However, the upside to our TP has narrowed over the past year, which rationalises our NEUTRAL rating on the stock. Its dividend yields of 6-7% should appeal to yield seekers, though. We make no changes to our forecasts.

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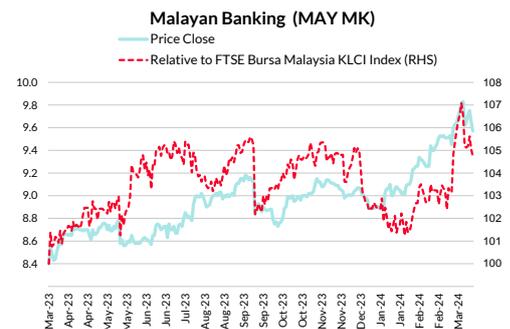


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.6	0.6	6.7	8.0	14.7
Relative	2.0	1.9	1.8	2.2	5.1
52-wk Price low/high (MYR)	8.43 – 9.83				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	7,961	9,350	9,860	10,330	10,809
Net profit growth (%)	(1.7)	17.5	5.5	4.8	4.6
Recurring net profit (MYRm)	7,961	9,350	9,860	10,330	10,809
Recurring EPS (MYR)	0.67	0.78	0.82	0.86	0.90
BVPS (MYR)	7.13	7.85	8.03	8.33	8.69
DPS (MYR)	0.58	0.60	0.63	0.66	0.69
Recurring P/E (x)	14.39	12.34	11.70	11.17	10.67
P/B (x)	1.34	1.22	1.19	1.15	1.10
Dividend Yield (%)	6.0	6.3	6.6	6.9	7.2
Return on average equity (%)	9.3	10.4	10.3	10.5	10.5

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: GOOD

Maybank's emissions in FY22 declined 23% from the FY19 baseline level before including carbon offsets. Maybank is one of two Malaysia banks that have begun reporting Scope 3 financed emissions, although these pointed to a YoY increase in FY22.

S: EXCELLENT

It actively provides financing to MSMEs, low-carbon solutions, and supports home ownership. Maybank invests in education programmes to help develop young talent. It also embraces gender diversity with 56% of its total workforce comprising women, who also account for 41% of management and 33% of its board of directors.

G: EXCELLENT

75% of the Board comprise independent directors. The group's sustainability direction is determined and overseen by a dedicated sustainability team. Maybank is also a member of the United Nations' Net Zero Banking Alliance, with a commitment to disclose interim climate-related targets for 2030.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.67	0.78	0.82	0.86	0.90
Financial Services	Recurring EPS	0.67	0.78	0.82	0.86	0.90
Malayan Banking	DPS	0.58	0.60	0.63	0.66	0.69
MAY MK	BVPS	7.13	7.85	8.03	8.33	8.69
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	14.39	12.34	11.70	11.17	10.67
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.3	1.2	1.2	1.1	1.1
i. COE of 9.1%;	Dividend Yield (%)	6.0	6.3	6.6	6.9	7.2
ii. ROE of 10.5%;						
iii. 3.5% long-term growth.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	32,768	43,899	46,827	48,951	51,003
Our earnings are most sensitive to changes in:	Interest expense	(12,101)	(24,597)	(26,480)	(27,685)	(28,883)
i. Loan impairment allowances;	Net interest income	20,667	19,302	20,346	21,266	22,120
ii. NIM;	Non interest income	5,826	8,059	8,451	8,833	9,225
iii. Gains or losses from investments.	Total operating income	26,492	27,361	28,797	30,099	31,346
	Overheads	(11,974)	(13,389)	(14,253)	(14,830)	(15,429)
	Pre-provision operating profit	14,518	13,972	14,544	15,269	15,917
	Loan impairment allowances	(2,183)	(1,826)	(1,800)	(1,946)	(2,009)
	Other impairment allowances	(594)	145	-	-	-
	Income from associates	131	240	276	318	366
	Pre-tax profit	11,872	12,532	13,020	13,641	14,273
	Taxation	(3,896)	(2,917)	(2,995)	(3,137)	(3,283)
	Minority interests	(15)	(265)	(165)	(173)	(181)
	Reported net profit	7,961	9,350	9,860	10,330	10,809
	Recurring net profit	7,961	9,350	9,860	10,330	10,809
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Return on average assets (%)	0.9	0.9	0.9	0.9	1.0
The downside risks include:	Return on average equity (%)	9.3	10.4	10.3	10.5	10.5
i. Higher-than-expected credit costs;	Return on IEAs (%)	3.8	4.7	4.7	4.7	4.7
ii. Weaker-than-expected NIMs;	Cost of funds (%)	1.6	3.1	3.1	3.1	3.1
iii. Weaker-than-expected non-II;	Net interest spread (%)	2.1	1.7	1.6	1.6	1.6
iv. Adverse FX movements.	Net interest margin (%)	2.4	2.1	2.0	2.0	2.0
	Non-interest income / total income (%)	22.0	29.5	29.3	29.3	29.4
	Cost to income ratio (%)	45.2	48.9	49.5	49.3	49.2
	Credit cost (bps)	38.3	29.7	27.3	28.0	27.6
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Total gross loans	587,122	640,750	679,195	713,155	741,681
Malayan Banking is a fully integrated financial services group and the largest bank in Malaysia. The group's global network extends to 20 countries, including all 10 ASEAN countries. The three home markets - Malaysia, Singapore and Indonesia - account for c.95% of total group pre-tax profits.	Other interest earning assets	299,729	325,636	340,250	354,011	368,466
	Total gross IEAs	886,850	966,386	1,019,445	1,067,166	1,110,147
	Total provisions	(11,734)	(10,328)	(10,027)	(9,893)	(9,518)
	Net loans to customers	575,387	630,422	669,168	703,262	732,164
	Total net IEAs	875,116	956,058	1,009,418	1,057,274	1,100,629
	Total non-IEAs	72,698	71,618	60,767	55,187	53,106
	Total assets	947,814	1,027,676	1,070,185	1,112,461	1,153,736
	Customer deposits	639,396	696,835	731,412	764,188	794,755
	Other interest-bearing liabilities	122,411	136,662	140,557	144,293	148,306
	Total IBLs	761,807	833,497	871,968	908,480	943,061
	Total non-IBLs	97,089	96,529	98,295	100,219	102,347
	Total liabilities	858,896	930,026	970,264	1,008,699	1,045,408
	Share capital	54,619	54,674	54,621	54,621	54,621
	Shareholders' equity	85,957	94,642	96,748	100,415	104,800
	Minority interests	2,961	3,008	3,173	3,346	3,528
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.6	1.3	1.4	1.4	1.3
	Total provisions / reported NPLs (%)	127.5	120.1	105.5	102.8	102.7
	CET-1 ratio (%)	15.7	16.2	15.9	15.8	15.7
	Tier-1 ratio (%)	16.4	16.8	16.5	16.4	16.3
	Total capital ratio (%)	19.2	19.6	19.0	18.7	18.4

Source: Company data, RHB

Emissions And ESG

Trend analysis

Maybank's total emissions fell by 58% in FY22, against its baseline year of FY19, aided by purchases of mRECs. Excluding the mRECs, we estimate the reduction to be around 23%, which is still impressive.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	845	10,111	na
Scope 2	60,793	38,887	na
Scope 3	6,363	13,313	na
Total emissions	68,001	62,311	na

Source: Company data, RHB

Latest ESG-Related Developments

- Enhanced ESG research insights:** Maybank launched its Enhanced ESG Research initiative in Jul 2023, with the aim of providing actionable ESG insights on corporates in Malaysia.
- Developing ESG talents:** Maybank, in collaboration with the United Nations Global Compact Malaysia & Brunei, will develop a Sustainability Practitioner Certification Programme, in hopes of addressing the shortage of ESG expertise in the job market.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-29	Neutral	10.2	9.5
2024-02-19	Neutral	9.8	9.5
2023-11-22	Neutral	9.8	9.1
2023-08-31	Neutral	9.8	9.1
2023-05-25	Buy	9.5	8.6
2023-03-08	Buy	9.7	8.7
2023-02-28	Buy	10.2	8.8
2022-11-24	Buy	10.2	8.8
2022-08-25	Buy	10.6	8.8
2022-02-25	Buy	10.4	8.9
2021-11-25	Buy	10.6	8.1
2021-08-26	Buy	10.3	8.5
2021-05-27	Buy	10.7	8.3
2021-02-26	Buy	10.0	8.0
2020-12-16	Buy	10.0	8.8

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Public Bank (PBK MK)

Neutral (Maintained)

More Work To Be Done

- Maintain NEUTRAL, new MYR4.70 TP from MYR4.65, 11% upside with c.5% FY24F yield.** After updating the ESG scoresheet for the banks under our coverage (refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), Public Bank's ESG score ticks up to 2.9 from 2.8. We raise our TP for the group accordingly, but maintain our NEUTRAL call, given the limited upside. While Public Bank has strong credentials under the "Social" and "Governance" pillars, we believe there is potential for the bank to do more on the environmental front.
- The positives.** Public Bank excels under the "Social" pillar – the bank is the largest financier of domestic SMEs, with an estimated market share of c.19% as at Dec 2023. It is also a participant of numerous government-backed SME financing programmes including the latest Government Guarantee Scheme Madani (GGSM), focused on the sectors of high technology, agriculture, manufacturing and tourism. The bank also has the lowest employee attrition rate among the Malaysia banks under our coverage, and its employees received over 70 hours of training on average in 2022 (one of the highest in the industry).
- Areas for improvement?** Based on our new scoresheet, Public Bank lags behind its peers under the "Environment" pillar. It is the only large-cap bank to record an increase in greenhouse gas emissions between FY19 and FY22. The bank has also yet to report its Scope 3 financed emissions, and does not disclose data related to ESG-risk classifications of its customers. However, we do note that Public Bank has a very small portion of financing tagged as having high ESG risk, with less than 2% of total loans coming from high-ESG-risk sectors. This is unsurprising, given its stronger presence in the household and SME space. On the flip side – given Public Bank's sheer presence in SME financing – we believe more can be done in terms of extending non-financial support, eg programmes for capacity-building and training on emissions tracking and reporting.
- More work to be done.** Post-updates to our Banks' ESG scoresheet, we raise Public Bank's ESG score to 2.9 (from 2.8). The ESG discount to TP, as such, decreases to 2% from 4%, and our TP rises to MYR4.70, as a result. While we have no major concerns on the bank's performance, we prefer its peers with larger overseas operations to drive growth. No changes were made to our forecasts.

Target Price (Return): MYR4.70 (+11%)
 Price (Market Cap): MYR4.24 (USD17,250m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 74.5m/13.4m

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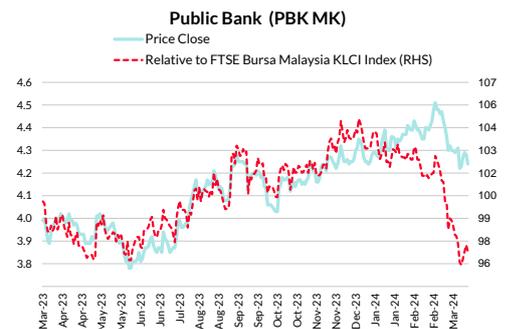


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	(5.4)	(1.9)	1.2	7.3
Relative	(6.8)	(4.1)	(6.8)	(4.6)	(2.3)
52-wk Price low/high (MYR)	3.78 – 4.51				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	6,007	6,749	6,936	7,214	7,459
Net profit growth (%)	8.5	12.4	2.8	4.0	3.4
Recurring net profit (MYRm)	6,007	6,749	6,936	7,214	7,459
Recurring EPS (MYR)	0.31	0.35	0.36	0.37	0.38
BVPS (MYR)	2.59	2.82	2.98	3.15	3.32
DPS (MYR)	0.17	0.19	0.20	0.21	0.22
Recurring P/E (x)	13.70	12.19	11.87	11.41	11.03
P/B (x)	1.64	1.51	1.42	1.35	1.28
Dividend Yield (%)	4.0	4.5	4.7	5.0	5.2
Return on average equity (%)	12.2	12.9	12.3	12.1	11.9

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: MODERATE

Public Bank's total emissions rose 2% YoY in 2022, due to the enhancement of its Scope 3 disclosures to include employee commuting. Public Bank's commitments include achieving a carbon-neutral position for Scope 1 and 2 emissions by 2030, and net-zero carbon by 2050. Financing targets include: To mobilise MYR48bn in ESG-friendly financing (including MYR15bn for affordable home financing) and MYR33bn financing for energy-efficient vehicles by 2025.

S: EXCELLENT

Public Bank offers affordable rates to first-time homebuyers under its PB First Home Loan initiative. It embraces gender diversity with 49% of women in management, c. 50% in top management and 38% of women in the Board of Directors. It has a sector-low staff attrition rate of 8%.

G: EXCELLENT

The Board of Directors is decently diverse, with well-defined roles and responsibilities for each member. Board members, senior management, and employees undergo training on matters of compliance, good governance and banking best practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.31	0.35	0.36	0.37	0.38
Financial Services	Recurring EPS	0.31	0.35	0.36	0.37	0.38
Public Bank	DPS	0.17	0.19	0.20	0.21	0.22
PBK MK	BVPS	2.59	2.82	2.98	3.15	3.32
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	13.70	12.19	11.87	11.41	11.03
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.6	1.5	1.4	1.3	1.3
i. COE of 9.0%,	Dividend Yield (%)	4.0	4.5	4.7	5.0	5.2
ii. ROE of 12.5%,						
iii. 3.5% long-term growth.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	18,117	21,830	22,683	23,759	24,744
Our earnings are most sensitive to changes in:	Interest expense	(7,205)	(11,113)	(11,699)	(12,376)	(12,981)
i. Net interest margin;	Net interest income	10,911	10,717	10,984	11,383	11,763
ii. Credit cost;	Non interest income	2,414	2,476	2,690	2,851	2,994
iii. Non-interest income growth.	Total operating income	13,326	13,193	13,674	14,234	14,757
	Overheads	(4,235)	(4,415)	(4,591)	(4,775)	(4,966)
	Pre-provision operating profit	9,090	8,778	9,083	9,459	9,791
	Loan impairment allowances	(366)	(157)	(210)	(230)	(248)
	Other impairment allowances	(13)	(1)	-	-	-
	Income from associates	7	19	20	20	20
	Pre-tax profit	8,718	8,639	8,893	9,249	9,563
	Taxation	(2,661)	(1,884)	(1,956)	(2,035)	(2,104)
	Minority interests	(50)	(6)	-	-	-
	Reported net profit	6,007	6,749	6,936	7,214	7,459
	Recurring net profit	6,007	6,749	6,936	7,214	7,459
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Downside risks include:	Return on average assets (%)	1.3	1.3	1.3	1.3	1.3
i. Weaker-than-expected NIMs;	Return on average equity (%)	12.2	12.9	12.3	12.1	11.9
ii. Sharper-than-expected deterioration in asset quality;	Return on IEAs (%)	3.9	4.5	4.4	4.4	4.4
iii. Weaker-than-expected non-interest income.	Cost of funds (%)	1.7	2.6	2.6	2.6	2.6
	Net interest spread (%)	2.1	1.9	1.8	1.8	1.8
	Net interest margin (%)	2.3	2.2	2.2	2.1	2.1
	Non-interest income / total income (%)	18.1	18.8	19.7	20.0	20.3
	Cost to income ratio (%)	31.8	33.5	33.6	33.5	33.7
	Credit cost (bps)	9.95	4.04	5.12	5.31	5.47
The converse represents upside risks.						
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Company Profile	Total gross loans	376,892	398,997	422,630	443,507	463,235
Public Bank is Malaysia's third largest banking group by assets. The group also has overseas operations in Cambodia, Vietnam, Laos and Hong Kong.	Other interest earning assets	103,158	97,860	101,991	106,301	110,799
	Total gross IEAs	480,050	496,856	524,621	549,808	574,034
	Total provisions	(4,309)	(4,247)	(4,314)	(4,407)	(4,524)
	Net loans to customers	372,583	394,750	418,317	439,100	458,711
	Total net IEAs	475,741	492,610	520,307	545,401	569,510
	Total non-IEAs	17,522	17,988	16,837	17,439	17,698
	Total assets	493,263	510,598	537,144	562,840	587,208
	Customer deposits	394,719	412,897	435,606	457,387	477,969
	Other interest-bearing liabilities	32,889	26,956	27,184	27,384	27,478
	Total IBLs	427,608	439,853	462,790	484,771	505,447
	Total non-IBLs	14,129	14,365	14,788	15,233	15,700
	Total liabilities	441,737	454,218	477,578	500,003	521,148
	Share capital	9,418	9,418	9,418	9,418	9,418
	Shareholders' equity	50,179	54,674	57,861	61,131	64,355
	Minority interests	1,347	1,706	1,706	1,706	1,706
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	0.4	0.6	0.6	0.6	0.6
	Total provisions / reported NPLs (%)	272.0	181.8	170.1	165.6	169.8
	CET-1 ratio (%)	14.7	14.7	15.2	15.4	15.6
	Tier-1 ratio (%)	14.8	14.7	15.2	15.4	15.6
	Total capital ratio (%)	17.8	17.6	18.0	18.0	18.2

Source: Company data, RHB

Emissions And ESG

Trend analysis

Public Bank's greenhouse gas emissions have ticked up slightly YoY, although we note this is likely due to the low base effect from the full reopening of the economy.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	483	589	na
Scope 2	26,507	26,341	na
Scope 3	1,398	1,901	na
Total emissions	28,388	28,831	na

Source: Company data, RHB

Latest ESG-Related Developments

- New sustainability commitments:** Public Bank recently set a new target of achieving MYR48bn in sustainable finance by 2025 (from MYR25bn), including MYR15bn in financing for affordable homes.
- Government Guarantee Scheme Madani:** Public Bank is a participant of the Government's Government Guarantee Scheme Madani (GGSM), a scheme for extending government-guaranteed financing to SMEs with a focus on the high technology, agriculture, manufacturing and tourism sectors.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-29	Neutral	4.65	4.40
2024-02-19	Neutral	4.40	4.43
2023-11-29	Neutral	4.40	4.24
2023-08-29	Neutral	4.40	4.14
2023-05-26	Neutral	4.25	3.90
2023-03-08	Neutral	4.50	4.11
2023-02-28	Buy	5.00	4.13
2023-01-04	Buy	5.00	4.28
2022-08-29	Neutral	5.00	4.63
2022-07-25	Neutral	5.00	4.62
2022-05-30	Neutral	4.90	4.59
2022-02-27	Neutral	4.70	4.37
2021-11-29	Neutral	4.30	3.96
2021-08-29	Neutral	4.30	4.18
2021-05-12	Neutral	4.50	4.14

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

Moving In The Right Direction Towards Sustainability

- **Stay BUY, new SGD36.70 TP from SGD36.10, 5% upside and c.6% FY24F yield.** After updating our sector ESG scoresheet (please refer to our thematic report titled [Banks: In Pursuit Of Net Zero](#)), we upgraded DBS' ESG score to 3.2 from 3.1. Our TP also rises accordingly, as we now ascribe an ESG premium of 2% (vs 0% previously) to its intrinsic value of SGD36.10.
- **The positives.** DBS has reduced its total emissions (without carbon offsets) by 18% between FY23 and FY19, thanks to the purchase of RE certificates. DBS accelerated its climate agenda when it published its "Our Path to Net Zero" and announced interim 2030 and 2050 net-zero targets. It had earlier set a target to commit SGD50bn of sustainable financing loans by 2024 but, as at end-2023, SGD70bn had already been committed. Also notable was that in 2023, DBS provided SGD100m in opex as part of its commitment of up to SGD1bn over the next 10 years to improve the lives and livelihoods of the low-income and underprivileged.
- **Areas for improvement?** DBS has yet to set out Scope 3 financed emissions for its entire portfolio. That said, we note that, in 2022, it established two sets of targets as part of its 2050 net-zero financed emissions plan. The first set consists of seven Scope 3 emissions reduction targets, while the second set is made up of two data coverage targets. Apart from that, Singapore banks have been affected by digital disruptions to banking services. In Nov 2023, the Monetary Authority of Singapore took further action against DBS following various incidences of digital banking outages. These include a 6-month pause on DBS' non-essential IT changes, and barring the bank from reducing its local branch and ATM network, as well as undertaking acquisitions for the next six months. Finally, there is a well-publicised, money laundering case under investigation at the moment. We consider the above issues such as system availability, cybersecurity and anti-money laundering as part of the "S" and "G" pillars. Banks that address these areas effectively can avoid potential legal repercussions, financial penalties and reputational damages.
- **Digital service disruption issues a dampener.** Post-updates to our sector ESG scoresheet and release of DBS' 2023 Sustainability Report, we raise its ESG score to 3.2 from 3.1. While we have penalised DBS for its digital service disruptions and being one of the Singapore banks mentioned in the ongoing money laundering case, we also recognise the group's efforts and progress in its sustainability strategy - eg its 10-year, SGD1bn commitment to foster a more inclusive society.
- **Our Top Pick for Singapore bank stocks.** Amid a scenario of flattish earnings as the interest rate cycle turns, DBS' commitment to increase DPS by 24 SG cents pa means its absolute DPS will continue to grow, and investors will have a good line of sight as to its trajectory. Management expects to sustain this commitment over the next 2-3 years.

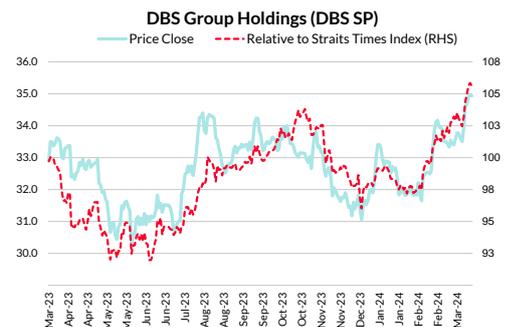
Target Price (Return):	SGD36.70 (+5%)
Price (Market Cap):	SGD34.9 (USD66,995m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	126m/91.8m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.6	2.3	10.8	3.7	8.4
Relative	6.5	4.4	8.6	5.7	7.2
52-wk Price low/high (SGD)	30.3 - 35.0				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	8,193	10,062	9,778	9,924	10,010
Net profit growth (%)	20.4	22.8	(2.8)	1.5	0.9
Recurring net profit (SGDm)	8,193	10,286	9,778	9,924	10,010
Recurring EPS (SGD)	3.19	3.99	3.79	3.85	3.88
BVPS (SGD)	22.10	24.06	25.70	27.26	28.62
DPS (SGD)	2.00	1.92	2.16	2.40	2.64
Recurring P/E (x)	10.96	8.75	9.22	9.08	9.00
P/B (x)	1.58	1.45	1.36	1.28	1.22
Dividend Yield (%)	5.7	5.5	6.2	6.9	7.6
Return on average equity (%)	14.3	16.9	15.2	14.5	13.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

DBS' sustainability agenda is centred around three pillars – responsible banking, responsible business practices, and creating social impact. It has set science-informed decarbonisation pathways for each of its priority sectors. As at end-2023, progress for the majority of the identified sectors is tracking well against the set pathways.

S: GOOD

DBS has a comprehensive approach to talent management and retention. In 2023, women accounted for 50% of total employees, 41% of senior management and 20% of the Board. DBS has initiatives to on-board the underbanked, nurture healthy savings and investment habits, and provide financing to underserved businesses and customers.

G: EXCELLENT

70% of its board members are independent. A Board Sustainability Committee was established in Feb 2022, and chaired by the group CEO. There is a much publicised ongoing money laundering case in Singapore, where DBS is one of several banks mentioned in relation to the case.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	3.19	3.91	3.79	3.85	3.88
Financial Services	Recurring EPS	3.19	3.99	3.79	3.85	3.88
DBS	DPS	2.00	1.92	2.16	2.40	2.64
DBS SP	BVPS	22.10	24.06	25.70	27.26	28.62
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	10.96	8.75	9.22	9.08	9.00
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.6	1.5	1.4	1.3	1.2
i. 16.2% ROE;	Dividend Yield (%)	5.7	5.5	6.2	6.9	7.6
ii. 12.1% COE;						
iii. 3.0% long term growth.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	15,927	27,862	27,877	27,180	26,340
Key earnings drivers are:	Interest expense	(4,986)	(14,220)	(14,286)	(13,444)	(12,548)
i. Credit cost;	Net interest income	10,941	13,642	13,591	13,736	13,793
ii. NIM;	Non interest income	5,561	6,744	6,772	7,150	7,587
iii. Fee income growth;	Total operating income	16,502	20,386	20,363	20,885	21,380
iv. Loan growth.	Overheads	(7,090)	(8,291)	(8,673)	(9,056)	(9,384)
	Pre-provision operating profit	9,412	12,095	11,690	11,829	11,996
Key risks	Loan impairment allowances	(237)	(590)	(750)	(675)	(630)
Key risks are:	Other impairment allowances	-	(9)	-	-	-
i. Higher-than-expected credit cost	Income from associates	207	214	235	254	275
ii. Weaker-than-expected NIM;	Other exceptional items	-	(224)	-	-	-
iii. Execution risks related to integration of newly acquired assets.	Pre-tax profit	9,382	11,486	11,176	11,408	11,641
	Taxation	(1,188)	(1,423)	(1,397)	(1,483)	(1,630)
	Minority interests	(1)	(1)	(1)	(1)	(1)
	Reported net profit	8,193	10,062	9,778	9,924	10,010
	Recurring net profit	8,193	10,286	9,778	9,924	10,010
Company Profile						
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.						
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.1	1.4	1.3	1.3	1.2
	Return on average equity (%)	14.3	16.9	15.2	14.5	13.9
	Return on IEAs (%)	2.4	4.1	3.9	3.7	3.5
	Cost of funds (%)	0.8	2.3	2.2	2.0	1.8
	Net interest spread (%)	1.6	1.8	1.7	1.7	1.6
	Net interest margin (%)	1.7	2.0	1.9	1.9	1.8
	Non-interest income / total income (%)	33.7	33.1	33.3	34.2	35.5
	Cost to income ratio (%)	43.0	40.7	42.6	43.4	43.9
	Credit cost (bps)	5.67	14.01	17.42	15.07	13.53
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	420,284	422,152	439,038	456,600	474,864
	Other interest earning assets	254,753	269,974	281,693	292,440	302,319
	Total gross IEAs	675,037	692,126	720,731	749,039	777,182
	Total provisions	(5,765)	(5,989)	(6,450)	(6,450)	(6,500)
	Net loans to customers	414,519	416,163	432,588	450,150	468,364
	Total net IEAs	669,272	686,137	714,281	742,589	770,682
	Total non-IEAs	74,096	53,164	50,277	48,551	48,622
	Total assets	743,368	739,301	764,558	791,141	819,304
	Customer deposits	527,000	535,103	556,507	578,767	601,918
	Other interest-bearing liabilities	91,284	96,102	95,747	96,025	97,526
	Total IBLs	618,284	631,205	652,254	674,792	699,444
	Total non-IBLs	68,012	45,849	45,849	45,849	45,849
	Total liabilities	686,296	677,054	698,103	720,641	745,293
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	56,887	62,065	66,272	70,315	73,826
	Minority interests	185	182	183	184	185
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.1	1.1	1.1	1.1	1.1
	Total provisions / reported NPLs (%)	121.1	127.5	130.0	127.3	127.9
	CET-1 ratio (%)	14.6	14.6	15.2	15.7	16.0
	Tier-1 ratio (%)	15.2	15.3	15.8	16.3	16.6
	Total capital ratio (%)	15.2	16.1	16.6	17.1	17.3

Source: Company data, RHB

Emissions And ESG

Trend analysis

DBS' total emissions declined by 18% vs 2019 levels, thanks to the purchase of RE certificates in Hong Kong, China, Taiwan, India and Indonesia.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	757	318	582
Scope 2	31,207	16,824	19,712
Scope 3	17,482	24,427	33,152
Total emissions	49,446	41,569	53,446

Source: Company data, RHB

Latest ESG-Related Developments

- **Published climate agenda in 2022:** DBS published its science-informed decarbonisation pathways and set interim 2030 decarbonisation targets for a large number of sectors, as well as a 2050 net-zero target.
- Its sustainable financing commitments (for loans and trade finance), net of payments, was SGD70bn as at Dec 2023. DBS also facilitated c.SGD18bn of ESG bond issuances in 2023.
- Based on its latest disclosure, five out of seven sectors are tracking well against the relevant science-informed decarbonisation pathways, while steel and shipping may require broader ecosystem partnerships across the public and private sectors.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-07	Buy	36.1	32.5
2023-11-01	Neutral	34.7	33.0
2023-08-03	Neutral	36.3	33.8
2023-06-22	Neutral	33.0	31.8
2023-05-02	Neutral	35.7	33.0
2023-04-02	Buy	39.8	33.0
2023-02-13	Buy	42.0	35.3
2022-11-04	Buy	41.1	34.5
2022-08-05	Buy	37.6	32.8
2022-05-03	Buy	38.1	33.9
2022-02-14	Buy	42.7	37.2
2021-11-07	Buy	40.4	32.3
2021-08-05	Buy	35.5	30.8
2021-05-02	Buy	34.0	29.9
2021-03-30	Buy	33.0	29.0

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

OCBC Bank (OCBC SP)

Neutral (Maintained)

Bar For Improvement Is Low

Target Price (Return): SGD13.10 (-2%)
 Price (Market Cap): SGD13.4 (USD44,649m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 62.6m/43.1m

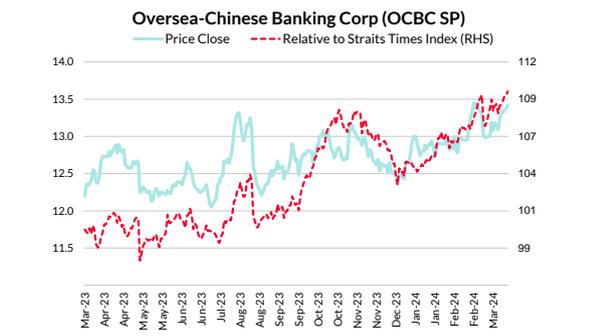
- **Stay NEUTRAL with an unchanged SGD13.10 TP, 2% downside with c.6% FY24F yield.** Post-updates to our ESG scoresheet for banks under our coverage (refer to our thematic note, [Banks: In Pursuit Of Net Zero](#)), we maintain OCBC's ESG score at 3.1. Hence, there is no change to the 0% ESG premium/discount that we attach to OCBC Bank's intrinsic value. That said, we see room for the ESG score to improve, on improved disclosures in its upcoming 2023 Sustainability Report – eg OCBC unveiled its decarbonisation targets for six sectors last year.
- **The positives.** OCBC recorded a 16% reduction in its Scope 2 carbon emissions between FY22 and FY19 through various environmental initiatives to increase energy efficiency and reduce consumption. In 2021, it outlined a 5-year Climate Strategy roadmap to become a regional leader in sustainable and responsible banking for a low-carbon economy by 2026. As a signatory to the Net-Zero Banking Alliance (NZBA), it is committed to an orderly transition towards a net-zero economy for itself and customers. As such, OCBC has embarked on its journey towards achieving net zero by 2050, with an interim target of 2030 or sooner. It has committed to invest more than SGD25m to increase the use of RE in its energy mix for operations over four years to reduce its carbon footprint in Singapore, Malaysia and Greater China. OCBC has also set a target of SGD50bn by 2025 for its sustainable financing portfolio – this was surpassed in end-2023, when its sustainable financing commitment reached SGD56bn.
- **Areas for improvement?** OCBC did not disclose its financed emissions in its 2022 Sustainability Report, but had committed to developing baseline emissions for clients in priority sectors and setting decarbonisation strategies. In 1H23, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping. 42% of OCBC's corporate and commercial banking loan portfolio fall within the scope of the targets. Apart from that, Singapore banks have been affected by disruptions to banking services – especially digital services – over the past year. In addition, there is a well-publicised, money laundering case under investigation at the moment. We consider issues such as system availability, cybersecurity and anti-money laundering as part of the “S” and “G” pillars. Banks that address these areas effectively can avoid potential legal repercussions, financial penalties and reputational damages.
- **Overall ESG score maintained.** In our view, OCBC remains fundamentally solid, backed by healthy asset quality and capital buffers. Consequently, expectations are high for the banking group to do more on the capital returns front. Management is looking at potentially improving the capital structures at its subsidiaries but will only be able to share more at a later stage.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.2	(0.2)	7.8	5.8	11.1
Relative	5.1	1.9	5.6	7.8	9.9
52-wk Price low/high (SGD)	12.1 – 13.5				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

As a signatory to the NZBA, OCBC is committed to aligning lending and investment portfolios with net-zero emissions by 2050. It also aims to build a sustainable finance portfolio of SGD50bn by 2025 (SGD56bn committed as at end-2023) and had achieved carbon neutrality on operational emissions for 2022.

S: EXCELLENT

OCBC aims to maintain a balanced gender mix across its workforce, with 42% of women in leadership positions by 2025. In 2022, women accounted for 57% of total employees, as well as 40% of leadership positions, and 44% of the board of directors. OCBC is active in talent management, and places the health, safety and wellbeing of staff at the top of its priorities as an employer.

G: EXCELLENT

70% of its board members are independent directors. OCBC is proactive in its approach to ensure resilience against risks of cyber-attacks, data breaches, fraud and money laundering. That said, there is a much publicised ongoing money laundering case in Singapore, where OCBC is one of several banks mentioned in relation to the case.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Net profit growth (%)	13.8	27.1	(1.5)	1.1	1.1
Recurring net profit (SGDm)	5,526	7,021	6,917	6,995	7,074
Recurring EPS (SGD)	1.24	1.57	1.55	1.56	1.58
BVPS (SGD)	11.37	12.05	12.77	13.51	14.24
DPS (SGD)	0.68	0.82	0.82	0.82	0.84
Recurring P/E (x)	10.86	8.55	8.68	8.58	8.49
P/B (x)	1.18	1.11	1.05	0.99	0.94
Dividend Yield (%)	5.1	6.1	6.1	6.1	6.3
Return on average equity (%)	10.6	13.3	12.4	11.8	11.3

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	1.24	1.57	1.55	1.56	1.58
Financial Services	Recurring EPS	1.24	1.57	1.55	1.56	1.58
OCBC Bank	DPS	0.68	0.82	0.82	0.82	0.84
OCBC SP	BVPS	11.37	12.05	12.77	13.51	14.24
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	10.86	8.55	8.68	8.58	8.49
	P/B (x)	1.2	1.1	1.1	1.0	0.9
	Dividend Yield (%)	5.1	6.1	6.1	6.1	6.3
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	11,590	20,867	21,159	20,952	20,732
	Interest expense	(3,902)	(11,222)	(11,353)	(11,003)	(10,592)
	Net interest income	7,688	9,645	9,806	9,950	10,140
	Non interest income	3,598	3,862	3,988	4,188	4,355
	Total operating income	11,286	13,507	13,794	14,137	14,495
	Overheads	(4,942)	(5,326)	(5,642)	(5,938)	(6,250)
	Pre-provision operating profit	6,344	8,181	8,152	8,199	8,245
	Loan impairment allowances	(505)	(663)	(730)	(732)	(735)
	Other impairment allowances	(79)	(70)	(70)	(70)	(70)
	Income from associates	910	953	1,001	1,051	1,103
	Pre-tax profit	6,670	8,401	8,353	8,447	8,543
	Taxation	(1,031)	(1,236)	(1,295)	(1,309)	(1,324)
	Minority interests	(113)	(144)	(141)	(143)	(144)
	Reported net profit	5,526	7,021	6,917	6,995	7,074
	Recurring net profit	5,526	7,021	6,917	6,995	7,074
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.0	1.2	1.2	1.1	1.1
	Return on average equity (%)	10.6	13.3	12.4	11.8	11.3
	Return on IEAs (%)	3.0	5.2	5.1	4.8	4.6
	Cost of funds (%)	1.1	3.1	3.0	2.7	2.5
	Net interest spread (%)	1.9	2.1	2.1	2.1	2.1
	Net interest margin (%)	2.0	2.4	2.3	2.3	2.2
	Non-interest income / total income (%)	31.9	28.6	28.9	29.6	30.0
	Cost to income ratio (%)	43.8	39.4	40.9	42.0	43.1
	Credit cost (bps)	17.3	22.4	24.1	23.2	22.3
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	294,980	296,653	308,519	322,402	336,911
	Other interest earning assets	101,064	114,068	118,229	123,315	128,060
	Total gross IEAs	396,044	410,721	426,748	445,717	464,970
	Total provisions	(3,991)	(4,382)	(4,550)	(4,700)	(4,500)
	Net loans to customers	290,989	292,271	303,969	317,702	332,411
	Total net IEAs	392,053	406,339	422,198	441,017	460,470
	Total non-IEAs	164,871	175,085	185,526	197,408	208,026
	Total assets	556,924	581,424	607,724	638,425	668,496
	Customer deposits	350,081	363,770	381,959	402,966	423,115
	Other interest-bearing liabilities	10,046	10,884	11,319	11,772	12,243
	Total IBLs	360,127	374,654	393,278	414,738	435,358
	Total non-IBLs	144,372	151,216	155,519	161,307	167,314
	Total liabilities	504,499	525,870	548,797	576,045	602,672
	Share capital	19,744	19,293	19,293	19,293	19,293
	Shareholders' equity	51,117	54,170	57,402	60,712	64,012
	Minority interests	1,308	1,384	1,525	1,668	1,812
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.1	0.9	1.0	1.1	1.1
	Total provisions / reported NPLs (%)	118.0	156.2	147.5	132.5	127.2
	CET-1 ratio (%)	15.9	16.5	15.4	15.7	15.9
	Tier-1 ratio (%)	15.9	16.5	15.4	15.7	15.9
	Total capital ratio (%)	17.7	18.1	17.0	17.1	17.2

Source: Company data, RHB

Emissions And ESG

Trend analysis

OCBC recorded a 16% reduction in its Scope 2 carbon emissions between FY22 and FY19, via a suite of environmental initiatives to increase energy efficiency and reduce consumption.

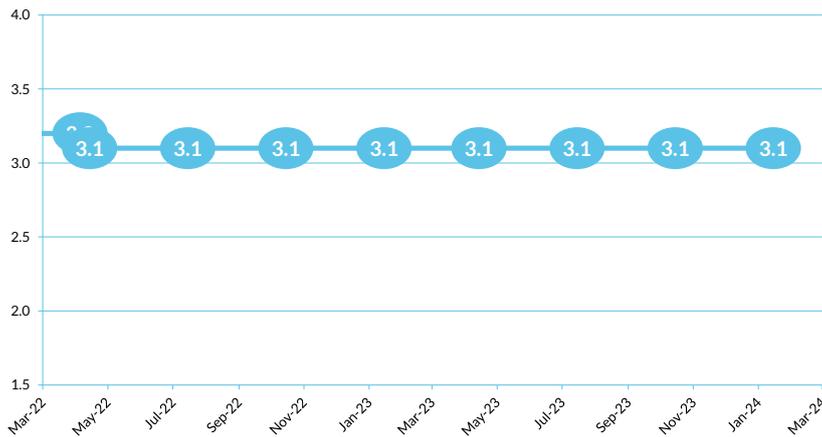
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	237	160	na
Scope 2	63,496	59,941	na
Scope 3	278	1,517	na
Total emissions	64,011	61,618	na

Source: Company data, RHB

Latest ESG-Related Developments

- **5-year climate strategy:** Unveiled in 2021, this outlines OCBC's strategy to become a regional leader in sustainable and responsible banking for a low-carbon economy by 2026.
- **Maintain carbon neutrality:** OCBC targets to maintain carbon neutrality for its banking operational emissions in 2023.
- **Unveiled decarbonisation targets:** In 1H23, OCBC unveiled decarbonisation targets for six sectors – power, oil & gas, real estate, steel, aviation and shipping. These formed 42% of its corporate and commercial banking portfolio.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-28	Neutral	13.1	13.0
2024-01-28	Neutral	13.4	13.0
2023-11-13	Neutral	13.7	13.0
2023-08-06	Neutral	13.7	12.9
2023-07-04	Neutral	13.2	12.4
2023-05-10	Buy	14.0	12.3
2023-02-26	Buy	14.8	12.7
2022-11-07	Buy	15.0	12.1
2022-08-03	Buy	13.9	12.0
2022-05-03	Buy	13.9	12.4
2022-02-24	Buy	14.4	12.0
2022-01-24	Buy	14.8	12.3
2021-11-04	Buy	15.1	11.9
2021-08-05	Buy	14.3	12.4
2021-05-09	Buy	14.3	12.6

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

United Overseas Bank (UOB SP)

Neutral (Maintained)

Forging Ahead To a Net-Zero Future

Target Price (Return): SGD29.00 (+0%)
 Price (Market Cap): SGD28.90 (USD35,955m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 71.2m/47.8m

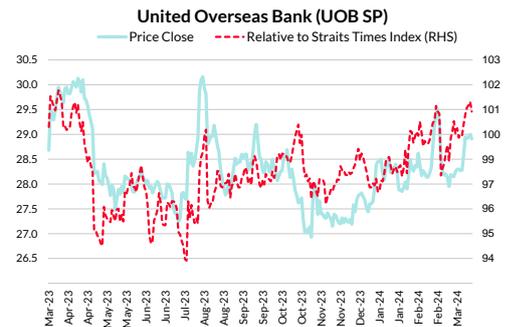
- **Maintain NEUTRAL and SGD29.00 TP, 0% upside with c.6% FY24F yield.** Post-updates to our ESG scoresheet for the banking sector (refer to the thematic note [Banks: In Pursuit Of Net Zero](#)), we keep United Overseas Bank's ESG score at 3.2. As such, we continue to ascribe a 2% ESG premium to UOB's intrinsic value. While its valuation appears decent, we note that it lags peers on asset quality and capital metrics – which means potentially higher earnings risks if economic conditions turn out to be worse than expected on top of relatively lower headroom for capital return initiatives.
- **The positives.** UOB has reduced its total emissions (without carbon offsets) by 87% between FY22 and FY19 on the back of ongoing efforts to reduce energy consumption and use RE sources, supplemented by the use of RE certificates. UOB launched its UOB Transition Finance Framework in 2022, which aims to help companies in carbon-intensive sectors with their transition plans. Six focus sectors have been identified – these are power, automotive, oil & gas, real estate, construction and steel. These sectors collectively made up 60% of UOB's corporate lending portfolio. Apart from that, UOB has committed to exit financing for the thermal coal sector by 2039, and to cease new financing for upstream oil and gas projects approved for development after 2022. It targets to achieve a sustainable finance portfolio of SGD30bn by 2025. As at 2022, the portfolio stood at SGD25bn. Finally, UOB has channelled SGD10bn in assets under management to ESG-focused investments.
- **Areas for improvement?** Singapore banks have been affected by disruptions to banking services, especially digital services, over the past year. In addition, there is a well-publicised money laundering case under investigation at the moment. We consider issues such as system availability, cybersecurity and AML as part of the "S" and "G" pillars. Banks that address these areas effectively can avoid potential legal repercussions, financial penalties and reputational damages.
- **Overall ESG score maintained.** Post-updates to our banks' ESG scoresheet, UOB has a joint top ranking among the three Singaporean banks under our coverage.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.6	(2.0)	5.1	1.4	2.5
Relative	3.5	0.1	2.9	3.4	1.3
52-wk Price low/high (SGD)	26.9 – 30.2				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	4,573	5,711	5,876	6,089	6,266
Net profit growth (%)	12.2	24.9	2.9	3.6	2.9
Recurring net profit (SGDm)	4,819	6,061	6,045	6,089	6,266
Recurring EPS (SGD)	2.88	3.62	3.61	3.64	3.75
BVPS (SGD)	25.86	27.64	29.43	31.24	33.16
DPS (SGD)	1.35	1.71	1.76	1.81	1.86
Recurring P/E (x)	10.05	7.99	8.00	7.94	7.72
P/B (x)	1.12	1.05	0.98	0.93	0.87
Dividend Yield (%)	4.7	5.9	6.1	6.3	6.5
Return on average equity (%)	10.6	12.7	12.3	12.0	11.6

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

In 2022, UOB purchased and retired 10,906 carbon offsets to address its Scope 1, residual Scope 2 and Scope 3 (business air travel) emissions. It has made a net zero commitment for six sectors by 2050 while aiming to build a sustainable finance portfolio of SGD50bn by 2025 (2022: SGD25bn). Meanwhile, about SGD10bn in total assets under management were in ESG-focused investments.

S: EXCELLENT

UOB embraces gender diversity, with women accounting for 61% of permanent staff at end-2022 – 37% in senior management roles. It launched TMRW, ASEAN's first mobile-only digital bank, to improve financial inclusion in Thailand and Indonesia.

G: EXCELLENT

UOB has a comprehensive framework of policies, processes, methodologies and tools for effective risk management. In 2022, no material fine, penalty or sanction was imposed on UOB for non-compliance in relation to any laws and regulations. There is a much publicised ongoing money laundering case in Singapore, where UOB is one of several banks mentioned in relation to the case.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	2.73	3.41	3.51	3.64	3.75
Financial Services	Recurring EPS	2.88	3.62	3.61	3.64	3.75
United Overseas Bank	DPS	1.35	1.71	1.76	1.81	1.86
UOB SP	BVPS	25.86	27.64	29.43	31.24	33.16
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	10.05	7.99	8.00	7.94	7.72
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.1	1.0	1.0	0.9	0.9
i. COE of 12.5%;	Dividend Yield (%)	4.7	5.9	6.1	6.3	6.5
ii. ROE of 12.5%;						
iii. 3.0% long-term growth.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	12,862	22,242	22,457	22,324	22,211
Our net profit forecasts is most sensitive to changes in:	Interest expense	(4,519)	(12,563)	(12,719)	(12,389)	(12,110)
i. Impairment charges;	Net interest income	8,343	9,679	9,738	9,936	10,100
ii. NIM;	Non interest income	3,232	4,253	4,428	4,722	5,054
iii. Non-II growth.	Total operating income	11,575	13,932	14,166	14,658	15,155
	Overheads	(4,971)	(5,797)	(5,987)	(6,431)	(6,678)
Key risks	Pre-provision operating profit	6,604	8,135	8,179	8,226	8,477
Key risks include:	Loan impairment allowances	(628)	(783)	(800)	(850)	(850)
i. Weaker-than-expected NIM;	Other impairment allowances	22	(162)	(45)	(41)	(40)
ii. Sharper-than-expected deterioration in asset quality;	Income from associates	97	93	100	110	120
iii. Challenges related to integration of Citi's consumer assets.	Other exceptional items	(310)	(420)	(208)	-	-
	Pre-tax profit	5,785	6,863	7,226	7,445	7,707
Company Profile	Taxation	(1,202)	(1,138)	(1,337)	(1,340)	(1,426)
United Overseas Bank is the third largest Singapore bank by asset size. It also has significant operations in Malaysia, Thailand and Indonesia.	Minority interests	(10)	(14)	(14)	(16)	(15)
	Reported net profit	4,573	5,711	5,876	6,089	6,266
	Recurring net profit	4,819	6,061	6,045	6,089	6,266
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	0.9	1.1	1.1	1.1	1.1
	Return on average equity (%)	10.6	12.7	12.3	12.0	11.6
	Return on IEAs (%)	3.0	5.0	4.9	4.7	4.5
	Cost of funds (%)	1.1	2.8	2.8	2.6	2.4
	Net interest spread (%)	2.0	2.2	2.2	2.1	2.1
	Net interest margin (%)	2.0	2.2	2.1	2.1	2.1
	Non-interest income / total income (%)	27.9	30.5	31.3	32.2	33.4
	Cost to income ratio (%)	42.9	41.6	42.3	43.9	44.1
	Credit cost (bps)	19.9	24.4	24.5	25.1	24.0
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	319,663	321,150	330,785	347,324	361,217
	Other interest earning assets	116,707	125,723	130,670	135,313	139,868
	Total gross IEAs	436,370	446,873	461,455	482,637	501,084
	Total provisions	(4,308)	(4,145)	(4,317)	(4,469)	(4,546)
	Net loans to customers	315,355	317,005	326,468	342,855	356,671
	Total net IEAs	432,062	442,728	457,138	478,168	496,538
	Total non-IEAs	72,198	80,792	83,790	89,271	98,390
	Total assets	504,260	523,520	540,928	567,439	594,928
	Customer deposits	368,553	385,469	397,033	416,885	437,729
	Other interest-bearing liabilities	65,918	69,551	71,293	73,747	75,952
	Total IBLs	434,471	455,020	468,326	490,632	513,681
	Total non-IBLs	26,183	22,032	23,134	24,290	25,505
	Total liabilities	460,654	477,052	491,459	514,922	539,186
	Share capital	7,855	7,752	7,752	7,752	7,752
	Shareholders' equity	43,366	46,226	49,212	52,245	55,456
	Minority interests	240	242	256	272	287
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.6	1.5	1.5	1.5	1.5
	Total provisions / reported NPLs (%)	85.1	85.1	87.0	87.2	86.8
	CET-1 ratio (%)	14.4	14.4	15.0	15.1	15.3
	Tier-1 ratio (%)	14.4	14.4	15.0	15.1	15.3
	Total capital ratio (%)	16.7	16.6	17.0	17.1	17.2

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2022, UOB purchased and redeemed a total of 133,300 solar and wind RE credits (RECs) from Mainland China, Hong Kong, Indonesia, Malaysia, Thailand and Vietnam to address 100% of electricity consumption in all key markets.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,300	5,800	na
Scope 2	1,000	1,100	na
Scope 3	600	4,000	na
Total emissions	5,900	10,900	na

Source: Company data, RHB

Latest ESG-Related Developments

- **UOB Transition Finance Framework:** This was launched in 2022 to help companies in carbon-intensive sectors with their net-zero transition plans.
- **Sustainable targets:** Sustainable finance portfolio of SGD30bn by 2025 and net zero for six sectors (currently 60% of corporate lending portfolio) by 2050.
- **Signatory to the Equator Principles (EP):** EP requirements are integrated into UOB Group's Responsible Financing Policy.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-22	Neutral	29.0	28.5
2024-01-21	Neutral	29.1	27.9
2023-10-26	Neutral	29.7	27.3
2023-09-17	Neutral	31.7	29.2
2023-07-27	Buy	31.7	28.9
2023-05-30	Buy	32.3	28.1
2023-02-23	Buy	34.9	29.6
2022-12-16	Buy	34.9	30.7
2022-10-30	Buy	31.4	27.1
2022-07-31	Neutral	29.3	27.6
2022-05-03	Neutral	32.7	30.0
2022-02-16	Buy	38.1	32.8
2021-11-04	Buy	33.5	27.2
2021-08-05	Buy	30.2	26.5
2021-05-06	Buy	30.2	26.0

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

Bangkok Bank (BBL TB)

Buy (Maintained)

Room For Improvement In Sustainability Efforts

Target Price (Return): THB184.00 (+33%)
 Price (Market Cap): THB139.00 (USD7,341m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (THB/USD) 1,163m/35.6m

- **Maintain BUY and THB184.00 TP, 33% upside with c.5% FY24F yield.** Post-updates to our sector ESG scoresheet (for more details, please refer to our thematic titled [Banks: In Pursuit Of Net Zero](#)), we make no change to Bangkok Bank's ESG score of 3.1. As a result, the ESG discount ascribed to BBL's intrinsic value stays at 2%.
- **The positives.** BBL scored well in the Social pillar of our updated ESG scoresheet. The bank leverages on its niche in the corporate segment to tailor special loan products for SMEs, such as revolving credit with special interest rates to suppliers of corporate clients. BBL's cybersecurity and IT system are robust, with no cases of outage or breach reported.
- **Areas for improvement?** BBL reported a 2% rise in emissions between FY19 and FY23, on increased use of diesel engine automobiles but, relative to FY22, there was a 2% decline in emissions. The bank has not shared information on its sustainable finance target. Independent directors make up 33% of BBL's Board of Directors, which is low when compared against that of its peers.
- **Still a preferred pick among the Thai banking stocks we cover.** We still like BBL for its defensiveness, backed by ample loan provision buffers. This should enable it to maintain earnings growth and weather any potential asset quality headwinds that may arise amid a milder economic growth environment. In addition, this counter is trading at just 0.5x 2024F P/BV and 6.1x P/E, which are below -1SD from the mean levels - so we regard these market valuations as attractive.

Analysts

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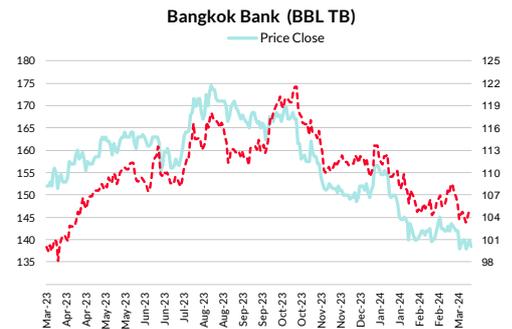


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.5)	(2.5)	(8.3)	(16.8)	(8.0)
Relative	(8.5)	(1.9)	(6.3)	(7.9)	3.7
52-wk Price low/high (THB)	138 - 175				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (THBm)	29,305	41,636	43,721	46,359	48,929
Net profit growth (%)	10.6	42.1	5.0	6.0	5.5
Recurring net profit (THBm)	29,305	41,636	43,721	46,359	48,929
Recurring EPS (THB)	15.35	21.81	22.90	24.29	25.63
BVPS (THB)	264.74	277.12	292.83	309.44	326.92
DPS (THB)	4.50	7.00	7.00	7.50	8.00
Recurring P/E (x)	9.02	6.35	6.05	5.70	5.40
P/B (x)	0.52	0.50	0.47	0.45	0.42
Dividend Yield (%)	3.2	5.1	5.1	5.4	5.8
Return on average equity (%)	5.9	8.1	8.0	8.1	8.1

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

BBL has in place a responsible lending policy that entails the setting up of an exclusion list while considering ESG issues such as deforestation and climate change (among others) that are deemed to have an impact on business activities. It has strict guidelines when it comes to project financing for sectors such as mining, power plants and infrastructure development. It applies the Equator Principles in the credit underwriting process.

S: GOOD

BBL's promotion of inclusive finance focuses on the aged society, SMEs and farmers as well as vulnerable groups. The bank encourages its employees to participate in social activities of their preference so that they can take pride in their contribution to the community and feel further inspired to do their best in their duties.

G: EXCELLENT

BBL is committed to the highest ethical and corporate governance standards, in accordance with local and international regulatory rules.

Financial Exhibits

Asia	Financial summary (THB)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Thailand	EPS	15.35	21.81	22.90	24.29	25.63
Financial Services	Recurring EPS	15.35	21.81	22.90	24.29	25.63
Bangkok Bank	DPS	4.50	7.00	7.00	7.50	8.00
BBL TB	BVPS	264.74	277.12	292.83	309.44	326.92
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	9.02	6.35	6.05	5.70	5.40
Our GGM assumptions include:	P/B (x)	0.5	0.5	0.5	0.4	0.4
i. COE of 10.8%	Dividend Yield (%)	3.2	5.1	5.1	5.4	5.8
ii. ROE of 8%;						
iii. 3.0% long term growth.						
Key drivers	Income statement (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our forecasts are most sensitive to changes in:	Interest income	139,088	194,365	206,216	209,368	214,482
i. Asset quality and impairment charges;	Interest expense	(36,865)	(63,504)	(76,517)	(76,961)	(78,527)
ii. Changes in policy rates and NIM.	Net interest income	102,223	130,860	129,699	132,407	135,955
	Non interest income	36,672	36,627	36,538	36,974	38,396
	Total operating income	138,895	167,487	166,237	169,381	174,351
	Overheads	(69,019)	(81,775)	(80,886)	(82,626)	(83,223)
	Pre-provision operating profit	69,876	85,712	85,351	86,755	91,128
	Loan impairment allowances	(32,647)	(33,667)	(30,163)	(28,254)	(29,397)
	Pre-tax profit	37,229	52,046	55,188	58,501	61,731
	Taxation	(7,484)	(9,993)	(11,038)	(11,700)	(12,346)
	Minority interests	(440)	(417)	(430)	(443)	(456)
	Reported net profit	29,305	41,636	43,721	46,359	48,929
	Recurring net profit	29,305	41,636	43,721	46,359	48,929
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	0.7	0.9	1.0	1.0	1.0
	Return on average equity (%)	5.9	8.1	8.0	8.1	8.1
	Return on IEAs (%)	3.2	4.4	4.6	4.5	4.6
	Cost of funds (%)	1.0	1.7	2.0	2.0	2.0
	Net interest spread (%)	2.2	2.7	2.5	2.5	2.5
	Net interest margin (%)	2.4	3.0	2.9	2.9	2.9
	Non-interest income / total income (%)	26.4	21.9	22.0	21.8	22.0
	Cost to income ratio (%)	49.7	48.8	48.7	48.8	47.7
	Credit cost (bps)	124	126	111	101	102
	Balance sheet (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	2,682,691	2,671,964	2,742,123	2,825,355	2,939,671
	Other interest earning assets	1,691,261	1,818,385	1,826,991	1,826,781	1,819,595
	Total gross IEAs	4,373,952	4,490,349	4,569,114	4,652,136	4,759,266
	Total provisions	(243,474)	(270,539)	(286,452)	(299,706)	(314,103)
	Net loans to customers	2,439,217	2,401,425	2,455,671	2,525,649	2,625,568
	Total net IEAs	4,130,479	4,219,810	4,282,662	4,352,430	4,445,163
	Total non-IEAs	291,273	294,675	297,547	303,275	307,828
	Total assets	4,421,752	4,514,484	4,580,209	4,655,705	4,752,992
	Customer deposits	3,210,896	3,184,283	3,214,534	3,272,396	3,370,568
	Other interest-bearing liabilities	450,823	546,724	561,310	555,697	529,294
	Total IBLs	3,661,719	3,731,007	3,775,844	3,828,092	3,899,862
	Total non-IBLs	252,891	252,647	243,457	234,899	226,950
	Total liabilities	3,914,610	3,983,654	4,019,301	4,062,992	4,126,812
	Share capital	19,088	19,088	19,088	19,088	19,088
	Shareholders' equity	505,346	528,975	558,960	590,668	624,032
	Minority interests	1,796	1,855	1,948	2,045	2,148
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	3.6	3.2	3.5	3.5	3.4
	Total provisions / reported NPLs (%)	250.5	314.7	301.2	304.6	312.2
	CET-1 ratio (%)	14.9	15.4	15.8	16.0	16.4
	Tier-1 ratio (%)	15.7	16.2	16.5	16.7	17.0
	Total capital ratio (%)	19.1	19.6	19.8	19.8	20.1

Source: Company data, RHB

Emissions And ESG

Trend analysis

Against FY19, BBL's FY23 emissions rose by 2%. This was largely due to the increase in diesel engine automobiles used by the bank. However, there has been a slight improvement in emissions relative to FY22.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	11,619	21,771	20,845
Scope 2	57,674	60,633	59,278
Scope 3	1,306	1,512	1,940
Total emissions	70,599	83,916	82,063

Source: Company data, RHB

Latest ESG-Related Developments

- Signed the Thai Bankers' Association's ESG Declaration:** This strengthens BBL's commitment in six areas, as the declaration is in line with Bank of Thailand's direction for the banking industry to facilitate the kingdom's transition towards more sustainable growth.
- Member of the Sustainability Disclosure Community (SDC):** In 2022, BBL became a member of the SDC, which was founded by the Thaipat Institute, whose committee aims to encourage listed companies to realise the importance of disclosure of ESG undertakings.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-15	Buy	184	140
2024-01-19	Buy	192	145
2023-12-18	Buy	192	152
2022-02-03	Neutral	148	137
2022-01-23	Neutral	131	130
2021-11-03	Neutral	131	125
2021-10-24	Neutral	131	122
2021-07-30	Buy	129	103
2021-02-07	Buy	153	123
2021-01-24	Buy	138	122
2020-12-17	Buy	160	129
2020-10-28	Buy	119	96
2020-08-05	Buy	132	102
2020-04-22	Buy	138	105
2019-12-19	Buy	205	159

Source: RHB, Bloomberg

22 March 2024

Financial Services | Banks

SCBX (SCB TB)

Buy (Maintained)

Still An ESG Leader Among The Thai Banks

- **Keep BUY, new THB126.00 TP from THB128.00, 10% upside with c.9% FY24F dividend yield.** Post-updates to our ESG scoresheet for the banks under our coverage (refer to the thematic titled [Banks: In Pursuit Of Net Zero](#)), we tweak SCBX's ESG score to 3.2 from 3.3, resulting in a lower TP of THB126. The change is mainly on the "E" pillar, where we think the Thai banks lag behind regional peers in terms of disclosures on financed emissions and sustainable financing. Having said that, among the Thai banks, we still view SCBX as one of the ESG leaders.
- **The positives.** SCBX recorded a 7% reduction in its (internal) Scope 1 and 2 carbon emissions between FY23 and FY19. It also calculated that, in 2021, the financed emissions for its wholesale banking business and SME clients was 7.3m tCO₂, 56% of which came from the power sector. SCBX adopts best practices in its sustainability agenda by collaborating with national and global initiatives. Some of the key international memberships are the UN Global Compact, Equator Principles, Task Force for Climate-related Financial Disclosures (TCFD) and Science-Based Targets.
- **Areas for improvement?** While the disclosure of its 2021 financed emissions is commendable, we await further details on the group's decarbonisation plans. SCBX intends to communicate its net-zero strategy and sectoral pathway to decarbonise GHG emissions from lending and investment sometime this year. Meanwhile, SCBX aims to achieve THB200bn in sustainable funding by 2030. Still, reported sustainable finance is at a low c. <4% of total loans at end-2023.
- **ESG score lowered.** Post-updates to our sector ESG scoresheet, SCBX's ESG score dips to 3.2 (from 3.3), resulting in a lower TP of THB126. The lower score is mainly due to the "E" pillar where the decrease in Scope 1 and Scope 2 emissions vs FY19 levels is <10% while its sustainable financing portfolio is equivalent to less than 20% of total loans. As the new ESG score is in line with country median, no discount or premium is applied.
- **Still a preferred pick among the Thai banking stocks.** Notwithstanding the downgrade in ESG score, we still find SCB attractive in terms of: i) It being the top dividend play stock in the sector, with a handsome 9-10% yield; ii) its stronger ROE vs that of peers; and iii) attractive valuations - its P/BV remains below -1SD from the historical mean. We also view SCBX's recent move to acquire Home Credit Vietnam as a positive, as this would further bolster its regional presence over the long term.

Target Price (Return): THB126.00 (+10%)
 Price (Market Cap): THB115.00 (USD10,752m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (THB/USD) 934m/26.0m

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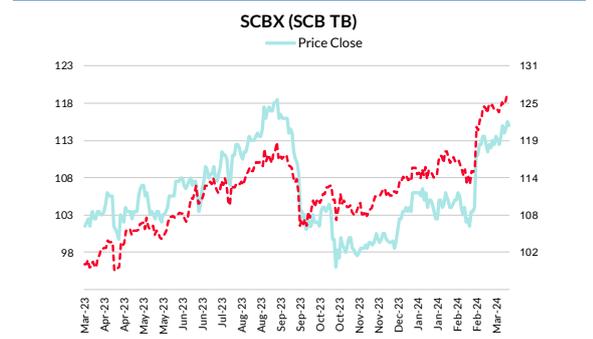


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.5	10.6	11.1	4.5	14.4
Relative	11.5	11.2	13.1	13.4	26.1
52-wk Price low/high (THB)	96.0 - 119				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (THBm)	37,546	43,521	44,936	47,717	51,128
Net profit growth (%)	5.5	15.9	3.3	6.2	7.1
Recurring net profit (THBm)	37,546	43,521	44,936	47,717	51,128
Recurring EPS (THB)	11.05	12.93	13.35	14.17	15.18
BVPS (THB)	136.98	141.99	144.53	147.41	150.80
DPS (THB)	6.69	10.34	10.50	11.00	11.50
Recurring P/E (x)	10.41	8.90	8.62	8.11	7.57
P/B (x)	0.84	0.81	0.80	0.78	0.76
Dividend Yield (%)	5.8	9.0	9.1	9.6	10.0
Return on average equity (%)	8.3	9.3	9.3	9.7	10.2

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

By 2025, SCBX aims to provide THB100bn in financing for a low-carbon, net-zero transition and sustainable development - this is to increase to THB200bn in 2030. It also plans to mitigate operational emissions by 50% by 2027 from 2023 levels, and to achieve operational net zero by 2030 and net-zero finance emissions by 2050.

S: EXCELLENT

In financial empowerment, SCBX supports SMEs, low-income earners and the self-employed via its digital and innovative financial products and services. Its commercial bank has not encountered any material cyber-security issues or system outages in the past 12 months.

G: GOOD

SCBX is a member of the United Nations Global Compact. Independent directors make up 47% of its Board. SCBX's sustainability policy and strategic framework are under the purview of the management committee, which reports to the Board.

22 March 2024

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (THB)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Thailand	EPS	11.05	12.93	13.35	14.17	15.18
Financial Services	Recurring EPS	11.05	12.93	13.35	14.17	15.18
SCBX	DPS	6.69	10.34	10.50	11.00	11.50
SCB TB	BVPS	136.98	141.99	144.53	147.41	150.80
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	10.41	8.90	8.62	8.11	7.57
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	Dividend Yield (%)	5.8	9.0	9.1	9.6	10.0
	Income statement (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Interest income	126,993	161,121	170,018	172,025	177,382
	Interest expense	(19,128)	(36,439)	(43,269)	(42,139)	(44,116)
	Net interest income	107,865	124,682	126,749	129,886	133,265
	Non interest income	46,555	46,421	46,538	48,676	50,416
	Total operating income	154,420	171,103	173,287	178,562	183,681
	Overheads	(69,874)	(71,781)	(73,710)	(75,268)	(77,031)
	Pre-provision operating profit	84,546	99,323	99,577	103,294	106,650
	Loan impairment allowances	(33,829)	(43,600)	(43,102)	(43,339)	(42,421)
	Pre-tax profit	50,718	55,723	56,476	59,955	64,229
	Taxation	(13,592)	(11,955)	(11,295)	(11,991)	(12,846)
	Minority interests	421	(247)	(245)	(247)	(254)
	Reported net profit	37,546	43,521	44,936	47,717	51,128
	Recurring net profit	37,546	43,521	44,936	47,717	51,128
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.1	1.3	1.3	1.3	1.4
	Return on average equity (%)	8.3	9.3	9.3	9.7	10.2
	Return on IEAs (%)	3.9	4.8	5.0	5.0	5.0
	Cost of funds (%)	0.7	1.3	1.5	1.5	1.5
	Net interest spread (%)	3.2	3.5	3.5	3.5	3.5
	Net interest margin (%)	3.3	3.7	3.8	3.8	3.7
	Non-interest income / total income (%)	30.1	27.1	26.9	27.3	27.4
	Cost to income ratio (%)	45.2	42.0	42.5	42.2	41.9
	Credit cost (bps)	145	182	175	170	160
	Balance sheet (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	2,377,214	2,426,563	2,499,359	2,599,334	2,703,307
	Other interest earning assets	975,053	915,494	906,769	908,576	936,140
	Total gross IEAs	3,352,267	3,342,056	3,406,128	3,507,910	3,639,447
	Total provisions	(148,889)	(148,985)	(154,097)	(161,045)	(164,809)
	Net loans to customers	2,231,660	2,277,578	2,345,263	2,438,289	2,538,498
	Total net IEAs	3,203,378	3,193,071	3,252,032	3,346,865	3,474,638
	Total non-IEAs	251,074	245,651	252,524	240,656	237,084
	Total assets	3,454,452	3,438,722	3,504,556	3,587,521	3,711,722
	Customer deposits	2,555,800	2,442,860	2,484,388	2,563,889	2,681,828
	Other interest-bearing liabilities	264,773	331,369	337,942	323,316	309,270
	Total IBLs	2,820,573	2,774,229	2,822,331	2,887,205	2,991,098
	Total non-IBLs	167,268	180,759	189,797	197,922	206,520
	Total liabilities	2,987,840	2,954,989	3,012,128	3,085,126	3,197,619
	Share capital	33,671	33,671	33,671	33,671	33,671
	Shareholders' equity	461,232	478,082	486,663	496,342	507,749
	Minority interests	5,380	5,651	5,764	6,052	6,355
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	4.0	4.0	4.0	4.1	4.0
	CET-1 ratio (%)	17.7	17.6	17.5	17.4	17.2
	Tier-1 ratio (%)	17.7	17.7	17.6	17.4	17.3
	Total capital ratio (%)	18.9	18.8	18.8	18.6	18.4

Source: Company data, RHB

Emissions And ESG

Trend analysis

In FY23, SCBX's Scope 1 and Scope 2 emissions declined 7% vs FY19 and FY22 levels, with the reduction coming mainly from the decrease in Scope 2 emissions. Its definition of Scope 3 emissions, meanwhile, has broadened.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	8,039	7,514	11,518
Scope 2	42,430	62,643	53,866
Scope 3	na	37,341	32,622
Total emissions	50,469	107,498	98,006

Source: Company data, RHB

Latest ESG-Related Developments

- SCBX was the first Thai bank to join the Equator Principles (EP) association in Jan 2022.
- To align its underwriting procedures, SCBX required financing for every project to be thoroughly assessed. It also determined a management approach for environmental and social risks before financing applications are approved.
- In 2024, SCBX plans to complete its net-zero strategy and sectoral pathway to decarbonise greenhouse gas emissions from lending and investment, and set out industry-level plans.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-29	Buy	128	113
2024-01-29	Buy	123	105
2022-01-24	Buy	150	123
2021-10-25	Buy	150	124
2021-09-23	Buy	147	130
2021-07-22	Neutral	100	95
2021-04-22	Neutral	107	107
2021-04-21	Buy	107	106
2021-01-22	Buy	107	95
2020-12-17	Buy	107	91
2020-10-21	Buy	73	65
2020-07-22	Buy	87	73
2020-04-20	Buy	92	72
2020-01-20	Buy	140	102
2019-10-24	Buy	140	107

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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