17 December 2020

Financial Services | Banks

Banks

Overweight (Maintained)

Nothing Changes, Yet Everything Is Different; O/W

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

- **Reiterate OVERWEIGHT; Top Picks: Maybank, Hong Leong Bank, AMMB and CIMB (upgrade to BUY).** We expect banks to outperform the market in 2021 as the economy recovers and general availability of COVID-19 vaccines beginning 2H21. We forecast sector PATAMI to rebound 27% in 2021 (2020: -30%). Sporadic resurgence in cases and lockdowns are the downside risks but the eventual recovery is still very much the focus. ESG issues will gain more traction and be one of the key focus areas by banks.
- **2021 strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since Nov 2020. With recovery on its way and the arrival of effective vaccines in just a matter of time, sector re-rating (ahead of actual ROE recovery) will gain more traction in 2021 as investors rotate to cyclical sectors.
- **Nothing changes, yet everything has.** Despite the recently concluded and rather unexciting results season, bank stocks have rallied 37% since the start of November. This echoes our OVERWEIGHT thesis highlighted in the previous report (*Banks : Crossing The Rubicon; U/G To OVERWEIGHT*) – investors will disregard the near-term uncertainties and instead focus on the expectation of a vaccine-induced recovery.
- **Faint heart never won fair maiden.** We offer a two-pronged stock selection approach. HL Bank is our defensive picks for investors who want exposure to the sector but still stick to the safer route. We downgrade Pubic Bank to NEUTRAL largely on grounds of valuation. Maybank and AMMB are our recovery picks, both should benefit more from the normalisation of credit cost (ie recovery). We also upgrade CIMB to BUY – the extremely low base in 2020 will pave the way for a stronger rebound while its current valuation is still >30% below big-cap peers.
- **Back to the future.** We forecast sector PATAMI to recover 27% in 2021 – although still c.12% below the per-COVID level – after dipping 30% in 2020. The uplift in earnings is mainly on the YoY lower (still somewhat elevated) credit cost, as we expect most banks to bring forward much of their respective provisions to 2020. Asset quality will again be the focal point after months of delay caused by various debt repayment relief programmes.
- **ESG very much in focus, if not more.** ESG-investing will only gain further traction and move closer to the center stage of investment in 2021, in our view. While most banks demonstrate strong corporate governance practices, areas such as responsible lending and better corporate social responsibility will very much be under the spotlight. We expect more banks to announce their respective ESG frameworks and strategies in 2021.
- **Key risk.** The biggest risk to our OVERWEIGHT call is any setback, delay or even failure in vaccine development. Should such an extreme situation materialise – which our healthcare team deems unlikely – the banking sector would suffer another round of heavy de-rating.

Top Picks	Target Price
Malayan Banking (MAY MK) – BUY	MYR10.00
CIMB (CIMB MK) – BUY	MYR5.10
Hong Leong Bank (HLBK MK) – BUY	MYR21.90
AMMB (AMM MK) – BUY	MYR4.20

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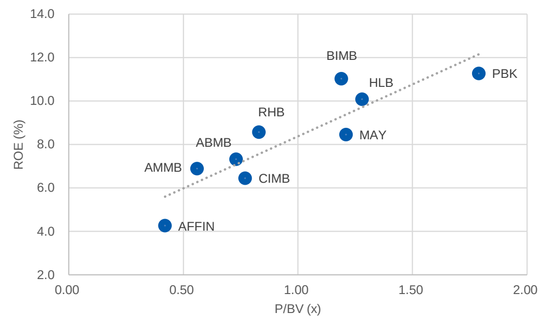
Banks' P/BV vs ROE



Source: Company data, RHB

Company Name	Rating	Target Price(MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
AMMB	BUY	MYR4.20	14.8	8.9	0.5	3.4
BIMB	BUY	MYR5.00	13.6	12.5	1.2	2.8
CIMB	BUY	MYR5.10	13.3	12.6	0.7	3.3
Hong Leong Bank	BUY	MYR21.90	17.1	13.2	1.3	2.6
Malayan Banking	BUY	MYR10.00	13.5	14.2	1.2	5.3
Alliance Bank Malaysia	NEUTRAL	MYR2.90	(3.0)	10.7	0.7	3.0
Public Bank	NEUTRAL	MYR21.60	(1.3)	15.9	1.7	2.7
Affin	SELL	MYR1.30	(31.9)	14.6	0.4	1.6

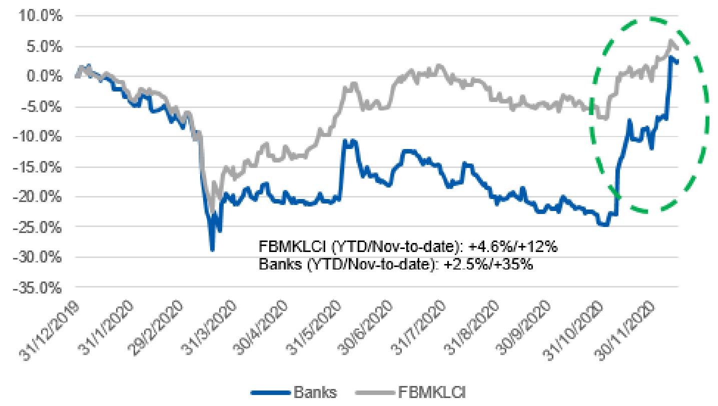
Source: Company data, RHB

Nothing Changes, Yet Everything Is Different

Share prices rallied… Bank stocks staged a remarkable rally since the release of favourable COVID-19 vaccine test results by Pfizer in early Nov 2020. The sector has so far outperformed FBMKLCI by 23ppts (Banks: +35% vs FBMKLCI: +12%) as investors have started positioning for the "recovery" theme by rotating into cyclical sectors.

Moreover, two more drug companies, namely Moderna and AstraZeneca have also published promising test results, signalling the availability of any effective vaccines is almost virtually certain and just a matter of time before the world can return to normalcy.

Figure 1: Sector relative performance



Source: Bloomberg, RHB

Figure 2: Return performance by each bank

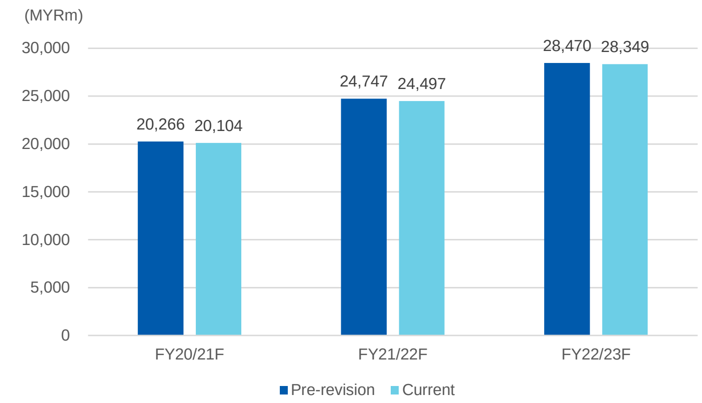
	Market cap 1/1/ 20 (MYRbn)	Market cap 2/11/ 20 (MYRbn)	Market cap 15/12/20 (MYRbn)	YTD return (%)	Since-Nov return (%)
MAY	97.13	78.80	99.49	2.4	26.2
PBK	75.47	57.92	84.16	11.5	45.3
CIMB	51.10	28.78	44.65	(12.6)	55.2
HLB	37.50	32.04	40.84	8.9	27.5
RHB	23.18	17.36	22.82	(1.6)	31.4
AMMB	11.78	8.43	11.01	(6.5)	30.7
BIMB	7.76	5.61	7.89	1.6	40.6
ABMB	4.07	3.37	4.63	13.7	37.2
AFFIN	3.77	2.81	4.01	6.4	43.0
Sector	**311.76**	**235.12**	**319.51**	**2.5**	**35.9**

Source: Bloomberg, RHB

…despite unexciting 3Q20 results and uncertain near-term outlook. That said, the recently concluded 3Q20 results season did not see any major improvement in either the reported results or forward-looking guidance by banks in our view. Most banks' managements still sounded cautious over the near-term outlook especially on asset quality.

NIM surprised on the upside thanks to lower-than-expected cost of funds (aggressive deposit re-pricing and higher CASA mix) and non-II also bolstered overall bottomline through higher realised investment gains. However, all banks have either maintained the elevated credit cost guidance or raised it (Public Bank, CIMB and AMMB) and alluded to more pre-emptive provisions in the coming quarters.

Figure 3: Consensus' sector earnings revisions



Source: Bloomberg, RHB

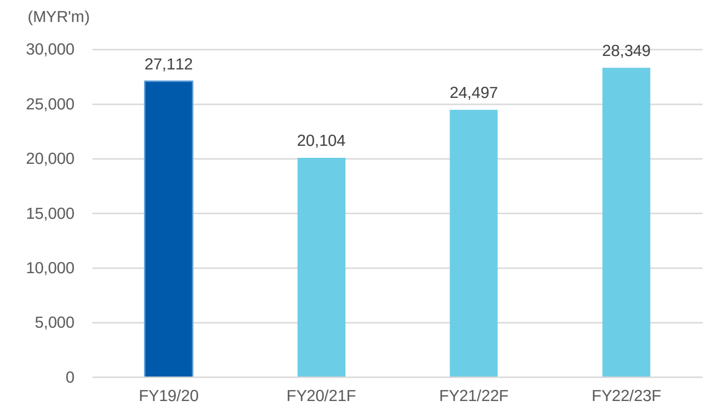
Figure 4: Credit cost guidance

	Pre-COVID guidance	1st revision	2nd revision	3rd revision
Maybank	45-50	75-100	75-100	75-100
CIMB	45-50	100-120	120-140	140-150
PBK	n.a.	15	20-25	30-35
HLBk	5	10-15	10-15	15-20
RHB	18-19	30-35	40	45-50
AMMB	10-12	28-47b	28-47	85-100
BIMB	17-18	22-25	30-40	n.a.
Affin	15-20	~50	>50	>50
ABMB	40-45	<100	<100	<100

Source: Company data, RHB

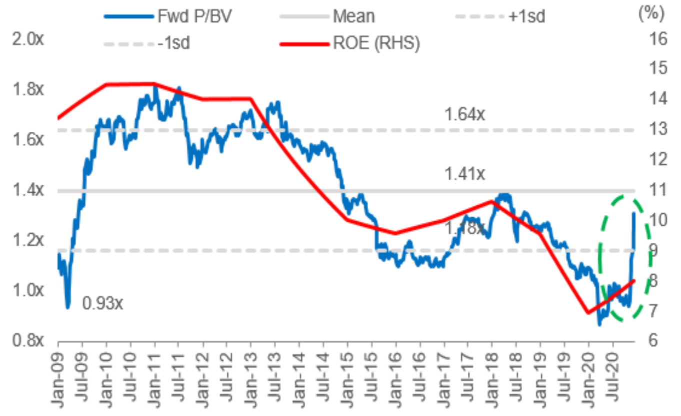
Divergence between "what-has-been" and "what-will-be"? There appears to be a disconnection between the "what-has-been" (fundamentals) and "what-will-be" (valuation). The recent strength in share prices is almost entirely driven by P/BV multiple expansion (valuation rerating) while there has been little to no changes in sector fundamentals – outlook remains uncertain, with provisions still elevated. This naturally begs questions such as "is there an asset bubble forming in the banking sector?" or "is the valuation sustainable?"

Figure 5: Consensus' sector earnings projections



Source: Bloomberg, RHB

Figure 6: Sector's 12-month forward consensus P/BV



Source: Bloomberg, Company data, RHB

***Alea iacta est* – the die has been cast.** Our answer to these questions is simple: We believe investors will focus on the eventual recovery thereby ignoring the near-term earnings hiccups. As highlighted in our sector-rating-upgrade report published on 17 Nov (*Banks : Crossing The Rubicon; U/G To OVERWEIGHT*), our OVERWEIGHT call is mainly premised on a vaccine-induced valuation multiple (P/BV) re-rating rather than earnings/ROE recovery (fundamentals) which could take years, due to the time lag between the approval and wide deployment of vaccines.

Overall share prices hardly retraced after 3Q20 results season despite the generally cautious tone by management teams. We believe investors have long gone past the point of no return (ie crossing the Rubicon) where now forward looking and recovery completely trumps the near-term sedated earnings and uncertainties surrounding asset quality.

As such, we believe the rotation-to-cyclical will gain more traction in 2021 as investor confidence improves along with the economic recovery. The rotational play will likely be at full force when a vaccine is finally approved and mass deployment begins, in our view.

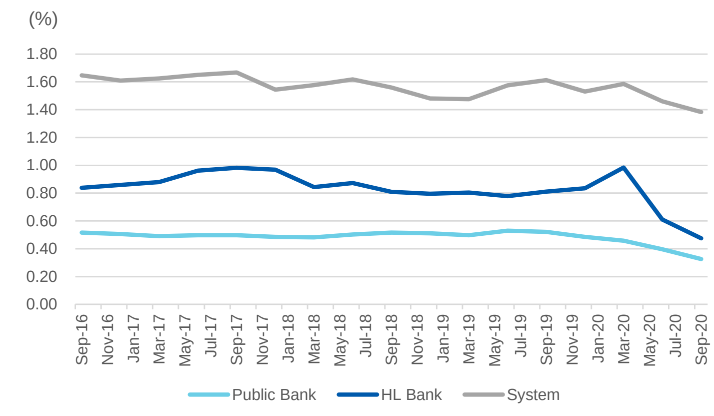
Faint Heart Never Won Fair Maiden

Something for everyone and the best of both worlds. We offer a two-pronged stock selection approach for investors – defensive for those who prefer to play it safe, and recovery for those who take a longer-term view.

Discretion is the better part of valour. We like HL Bank and as our defensive pick, with it is the preferred choice. For investors who want exposure to the banking sector but are still concerned with near-term uncertainties, HL Bank's solid asset quality and prudent LLC buffers should provide investors with more assurance and minimise the occurrence of negative surprises.

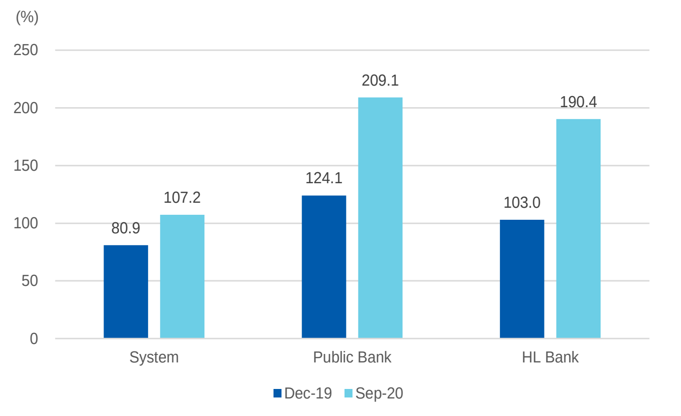
We downgrade Public Bank to NEUTRAL despite its solid fundamentals and defensive nature. While we advocate for defensive picks during the early phase of an upcycle, Public Bank's share price has outperformed peers (partly turbocharged by the 4-for-1 bonus issue announcement) and P/BV is trading at a wide premium to the sector now, which suggests the recovery prospects are well priced in by the market, in our view.

Figure 7: Sector leading asset quality…



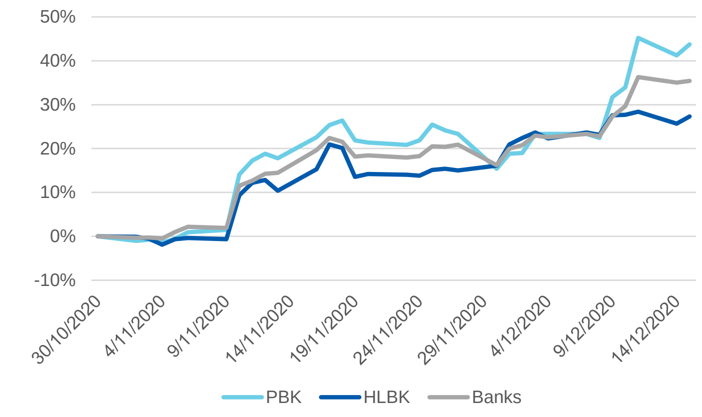
Source: BNM, Company data, RHB

Figure 8: …and strong LLC buffer as cushion…



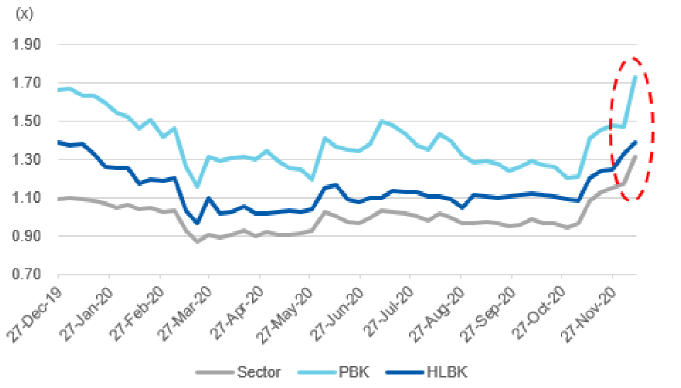
Source: BNM, Company data, RHB

Figure 9: …but Public Bank's share price grossly outperformed…



Source: BNM, Company data, RHB

Figure 10: …and P/BV trading at a high premium



Source: BNM, Company data, RHB

Fortune favours the bold. For investors with a longer-term view and want to position for the recovery, Maybank, CIMB (upgraded to BUY) and AMMB are our big- and mid-cap recovery picks.

Maybank is our preferred big-cap recovery pick. We believe it has multiple levers to deliver earnings, which include a wide base of fee income and sizeable fair value through other comprehensive income (FVOCI) reserves (c.MYR4.7bn). The bank has also set aside more than MYR2bn in pre-emptive provisions during 9M20 (MYR580m macroeconomic variable adjustment and MYR1.5bn management overlays) and alluded to more in the coming quarters. Although still looking at an elevated credit cost in 2021, Maybank has so far been able to defend its 75-100bps credit cost guidance. Moreover, the lender announced an interim DPS of MYR0.135 (a positive surprise) with the option of dividend-reinvestment plan.

AMMB has shown tremendous improvement in the past four years since the then-new management came on board. With the new four-year plan, we believe AMMB's 10%-ROE target by FY24 looks attainable. Although AMMB surprised the market with a significantly higher credit cost guidance of 85-100bps, a large part of it is either due to changes in macroeconomic variables (to be reversed in the next financial year), or general sectorial provisions for the sake of prudence. Hence, we believe management has brought forward most provisions to FY21F (Mar), thus paving a cleaner recovery for FY22F onwards.

We upgraded CIMB to BUY as well, in line with our recovery theme. CIMB is expected to be the worst performer in terms of PATAMI and ROE decline amongst big-cap peers. We expect its FY20F PATAMI to fall 76% YoY while ROE collapse to c.2.0% (FY19: 9.3%). That said, we also expect CIMB to register the strongest YoY recovery amongst peers, at c.+220%. The recovery stems mainly from the YoY lower (albeit still elevated) credit cost assumption. We believe the group has brought forward a significant portion of provisions to 2020, which paves the way this recovery. Separately, the new group CEO has also unveiled a detailed plan to revive its ROE – there are some low hanging fruits, which will likely improve ROE imminently.

Punishment will come but later. Investors in 2021 will still be forgiving enough to swallow the near-term lacklustre results and focus on the recovery, in our view. That said, we foresee their patience starting to wear thin in late-2021 – banks that disappoint or underperform in recovering will likely be punished by investors.

Back To The Future

At last, a recovery... We expect 2021 to be a recovery year for the banking sector after a tumultuous 2020 – banks suffered two heavy blows in 2020, namely the modification and significantly higher credit cost. We expect the sector's profitability to recover 27% YoY after dipping 30% in 2020. The earnings uplift is largely driven by better NII (absence and unwinding of modification losses) and lower (but still elevated) credit cost assumption.

…although earnings downside risk still lingers. Although we believe most banks would have brought forward the provisions to 2020, we are mindful of the risk that 2021's actual credit cost could still come in higher than what we are expecting.

As explained earlier, the time lag between approval and wide deployment of COVID-19 vaccines means sporadic resurgence of infection and the re-imposition of lockdowns will weigh on earnings through higher credit cost.

But look forward, we must. Having highlighted the risks, we think investors should look past these short-term speed bumps on the recovery road, and instead focus on the better sector outlook. As we previously stated, investor sentiment towards bank stocks should improve markedly once the approval of an effective vaccine is certain, as this would present the long-awaited green light for the cyclical sectors.

Figure 11: Sector core earnings forecasts and key assumptions

(MYRm)	2017	2018	2019	2020F	2021F
Net interest income	**47,008**	**47,760**	**49,131**	**48,675**	**51,083**
NII growth (%)	*8.0%*	*1.6%*	*2.9%*	*-0.9%*	*4.9%*
Loan growth (%)	*2.0%*	*5.6%*	*3.8%*	*2.2%*	*4.0%*
Net interest margin (%)	*2.35%*	*2.26%*	*2.20%*	*2.08%*	*2.09%*
Fee income	10,042	9,650	9,295	8,624	9,115
Other income	8,932	8,418	10,823	12,634	11,437
Non-interest income	**18,974**	**18,069**	**20,118**	**21,258**	**20,552**
Non-II growth (%)	*9.1%*	*-4.8%*	*11.3%*	*5.7%*	*-3.3%*
Total operating income	**65,983**	**65,829**	**69,249**	**69,933**	**71,635**
Operating income growth (%)	*8.3%*	*-0.2%*	*5.2%*	*1.0%*	*2.4%*
Non-II/Total income (%)	*28.8%*	*27.4%*	*29.1%*	*30.4%*	*28.7%*
Operating expenses	**(31,491)**	**(31,243)**	**(32,887)**	**(32,932)**	**(34,162)**
Operating expense growth (%)	*7.6%*	*-0.8%*	*5.3%*	*0.1%*	*3.7%*
CIR (%)	*47.7%*	*47.5%*	*47.5%*	*47.1%*	*47.7%*
PIOP	**34,492**	**34,586**	**36,363**	**37,000**	**37,473**
PIOP growth (%)	*9.0%*	*0.3%*	*5.1%*	*1.8%*	*1.3%*
Loan impairment charges	(4,625)	(3,153)	(5,097)	(14,682)	(9,604)
Other impairment charges	(245)	(192)	(207)	(452)	(323)
Total impairment charges	**(4,870)**	**(3,346)**	**(5,304)**	**(15,134)**	**(9,927)**
Credit charge-off (bps)	*32*	*21*	*32*	*91*	*58*
GIL ratio (%)	*1.96%*	*1.88%*	*2.00%*	*2.07%*	*2.45%*
Loan loss coverage (%)	*71.1%*	*88.2%*	*79.8%*	*104.9%*	*101.8%*
Associates & others	770	769	862	1,024	1,064
Pre-tax profit	**30,392**	**32,009**	**31,921**	**22,891**	**28,610**
Taxation	(6,858)	(7,119)	(6,925)	(5,380)	(6,438)
Minority interests	(698)	(638)	(530)	(456)	(570)
Net profit	**22,836**	**24,252**	**24,466**	**17,055**	**21,603**
Net profit growth (%)	*15.7%*	*6.2%*	*0.9%*	*-30.3%*	*26.7%*

Source: Company data, RHB

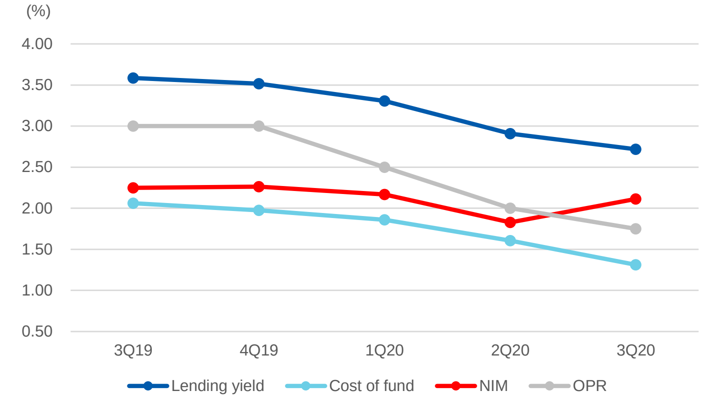
Asset quality and credit cost still the focus. After months of non-staging and non-impairment – first on the blanket moratorium, and subsequently the Targeted Repayment Assistance (TRA) – the true asset quality will start to show in mid-2021, upon the expiry of the 3-month extended non-repayment.

Banks have front-loaded much of the provisions in 2020, in anticipation of the rise in GILs. While GILs are expected to rise, and a realistic peak-GIL assessment remains difficult, we do not foresee any cliff effect in asset quality, based on the preliminary results seen in the months following the blanket moratorium. Secondly, most troubled borrowers will receive various degrees of relief with the TRA programme in place.

NIM taking a breather. Almost all banks saw better QoQ NIM performance in the September quarterly results, partly due to deposit re-pricing and higher CASA mix. With Bank Negara Malaysia (BNM) keeping the overnight policy rate (OPR) steady in Nov 2020's Monetary Committee Policy (MPC) meeting, we believe the rate-cut cycle has taken a pause for the time being, as the monetary policy is already accommodative enough. This is also in line with RHB economists' view that the OPR will stay steady in 2021. In addition, sector NIM should also get a lift from the unwinding of modification losses.

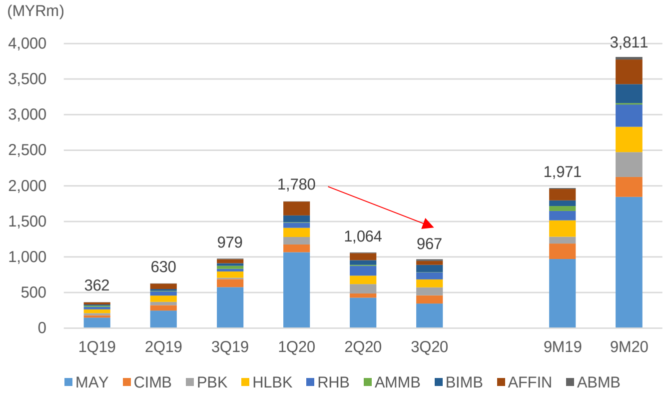
Non-II: Some ups and downs. We expect sector non-II to somewhat normalise from the high seen in 2020, which has been largely driven by extremely strong realised FVOCI investment gains. As the central bank takes a break from rate-cutting, we think bond yields could be bottoming, and further yield compression is unlikely. Separately, although brokerage income could still sustain at elevated levels, YoY growth is unlikely to be as exciting as 2020. That said, we expect fee income to pick up as more economic activities are expected to resume in 2021, which will help to mitigate the YoY lower realised gains.

Figure 12: Yield, cost of funds, NIM and OPR



Source: BNM, Company data, RHB

Figure 13: Realised FVOCI gains



Source: Company data, RHB

Opex spending to remain stringent. With most banks having lowered spending in 2020, on tighter cost controls and lower business activities (given the Movement Control Order (MCO)), we expect opex to resume growth, albeit, moderately. We believe lenders are still cautious in spending, to avoid upsetting bottomline growth and ROE.

ESG

ESG very much in focus, if not more. We expect ESG-investing to gain further traction, and move closer to the center stage of investment in 2021. This, would in turn, act as a push factor for banks to foster better ESG framework. Malaysian banks generally do not have any major ESG concerns, in our view. That said, areas such as responsible lending, carbon emission, and corporate social responsibility, can always be improved further.

Responsible lending for a better future. Banks are often one of, if not, the largest source of financing for businesses. By adopting responsible lending, banks can directly influence their borrowers and steer them towards the right direction. For instance, although it is not possible to immediately cut off ties with fossil fuel or plantation companies, the lenders can incentivise and encourage these borrowers to adopt industry best practices (eg more renewable energy or being certified by Malaysian Palm Oil Certification Council).

People friendly capitalism. In light of the country's economy being dealt with a huge blow by the pandemic and MCO, both BNM and various financial institutions have been working together to lend support to the affected borrowers. Unprecedented forbearance such as the 6-month blanket moratorium and TRA programme is put in place for this purpose.

Key Risks

A world without vaccine? As our OVERWEIGHT sector call is essentially premised on an effective vaccine, naturally the biggest risk of all to our call, although a very remote one, is the failure in developing an effective vaccine by any one pharmaceutical company.

Our healthcare team deems this scenario as highly unlikely. However, should this unlikely scenario take place, we believe the banking sector will suffer another round of de-rating. Investors will again shun the sector, given the lack of any certainties in terms of a recovery.

Malaysia Company Update

17 December 2020

Financial Services | Banks

Malayan Banking (MAY MK)

Buy (Maintained)

Big-Cap Recovery Pick; Keep BUY

Target Price (Return):	MYR10.00 (+14%)
Price:	MYR8.81
Market Cap:	USD24,438m
Avg Daily Turnover (MYR/USD)	58.3m/14.1m

- **Keep BUY with new MYR10.00 TP from MYR9.80, 14% upside and c.5% yield.** Malayan Banking is one of our large-cap recovery picks, given its wide fee income base and sizeable fair value through other comprehensive income (FVOCI) reserves (c.MYR4.7bn). The bank has also brought forward >MYR2bn in pre-emptive provisions during 9M20, ahead of the likely 2H21 rise in GILs. A surprise interim DPS signals that the prospect for a final DPS is now brighter.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performances since November. With a recovery on its way and the arrival of effective vaccines just a matter of time, a sector re-rating (ahead of an actual ROE recovery) will gain more traction in 2021, as investors rotate to cyclical sectors.
- **Large-cap proxy to the recovery theme.** Maybank is our preferred big-cap recovery pick. We believe the bank has multiple levers to deliver earnings, which include a wide fee income base and sizeable FVOCI reserves (c.MYR4.7bn). Also, with its interim DPS announced in November, we believe the final dividend outlook for it is now brighter.
- **Building up a pre-emptive provision buffer.** The bank has also set aside >MYR2bn in pre-emptive provisions during 9M20 – MYR580m in macroeconomic variable adjustments and MYR1.5bn in management overlays – and alluded to more in the coming quarters. Although still looking at an elevated credit cost in 2021, Maybank has, so far, been able to defend its 75-100bps credit cost guidance.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR10.00 as a result of the lower risk premium. We value Maybank at 1.3x FY21F P/BV, slightly below its historical mean.

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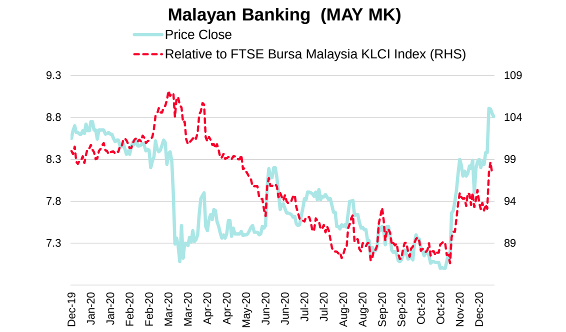
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.0	8.2	17.5	13.5	3.4
Relative	(3.4)	3.6	8.2	3.2	(3.3)
52-wk Price low/high (MYR)					7.00 – 8.91



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (MYRm)	8,113	8,198	5,956	6,982	8,305
Net profit growth (%)	7.9	1.0	(27.3)	17.2	18.9
Recurring net profit (MYRm)	8,113	8,198	5,956	6,982	8,305
Recurring EPS (MYR)	0.74	0.73	0.53	0.62	0.74
BVPS (MYR)	6.82	7.26	7.32	7.51	7.75
DPS (MYR)	0.57	0.64	0.39	0.47	0.55
Recurring P/E (x)	11.87	11.99	16.63	14.18	11.93
P/B (x)	1.29	1.21	1.20	1.17	1.14
Dividend Yield (%)	6.5	7.3	4.4	5.3	6.2
Return on average equity (%)	10.9	10.4	7.3	8.4	9.7

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
Malayan Banking
MAY MK
Buy

Valuation basis

Our GGM assumptions include:
i. COE of 7.65%;
ii. ROE of 9.0%;
iii. 3.5% long-term growth.

Key drivers

Our FY20 forecasts are most sensitive to changes in:
i. Loan impairment allowances;
ii. NIM;
iii. Gains or losses from investments.

Key risks

The downside risks include:
i. Higher-than-expected credit costs;
ii. Weaker-than-expected NIMs;
iii. Weaker-than-expected non-II;
iv. Adverse foreign exchange movements.

Company Profile

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, i.e. Malaysia, Singapore and Indonesia, contributes c.95% of total group pretax profit.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EPS	0.74	0.73	0.53	0.62	0.74
Recurring EPS	0.74	0.73	0.53	0.62	0.74
DPS	0.57	0.64	0.39	0.47	0.55
BVPS	6.82	7.26	7.32	7.51	7.75

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	11.87	11.99	16.63	14.18	11.93
P/B (x)	1.3	1.2	1.2	1.2	1.1
Dividend Yield (%)	6.5	7.3	4.4	5.3	6.2

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Interest income	34,229	36,069	30,395	31,783	33,435
Interest expense	(17,093)	(18,555)	(13,569)	(14,320)	(15,160)
Net interest income	**17,136**	**17,515**	**16,826**	**17,462**	**18,275**
Non interest income	6,526	7,226	7,840	7,768	8,345
Total operating income	**23,662**	**24,741**	**24,666**	**25,230**	**26,620**
Overheads	(11,246)	(11,562)	(11,224)	(11,622)	(12,155)
Pre-provision operating profit	**12,416**	**13,179**	**13,442**	**13,608**	**14,465**
Loan impairment allowances	(1,591)	(2,287)	(5,143)	(4,301)	(3,355)
Other impairment allowances	(22)	(36)	(70)	(55)	(65)
Income from associates	98	158	187	196	204
Pre-tax profit	**10,901**	**11,014**	**8,416**	**9,448**	**11,249**
Taxation	(2,545)	(2,538)	(2,269)	(2,220)	(2,644)
Minority interests	(243)	(278)	(191)	(246)	(301)
Reported net profit	**8,113**	**8,198**	**5,956**	**6,982**	**8,305**
Recurring net profit	**8,113**	**8,198**	**5,956**	**6,982**	**8,305**

Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Return on average assets (%)	1.0	1.0	0.7	0.8	0.9
Return on average equity (%)	10.9	10.4	7.3	8.4	9.7
Return on IEAs (%)	4.6	4.6	3.8	3.8	3.8
Cost of funds (%)	2.6	2.7	1.9	2.0	2.0
Net interest spread (%)	2.0	1.9	1.8	1.8	1.8
Net interest margin (%)	2.3	2.2	2.1	2.1	2.1
Non-interest income / total income (%)	27.6	29.2	31.8	30.8	31.3
Cost to income ratio (%)	47.5	46.7	45.5	46.1	45.7
Credit cost (bps)	31.5	44.0	98.1	80.3	59.9

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total gross loans	517,334	523,487	525,300	546,300	573,615
Other interest earning assets	249,510	267,032	302,600	310,980	324,423
Total gross IEAs	766,844	790,519	827,900	857,280	898,038
Total provisions	(10,250)	(10,068)	(13,468)	(16,893)	(19,019)
Net loans to customers	507,084	513,420	511,832	529,407	554,596
Total net IEAs	756,594	780,451	814,432	840,387	879,019
Total non-IEAs	50,399	53,963	65,769	68,751	69,763
Total assets	806,993	834,414	880,201	909,138	948,782
Customer deposits	556,298	565,269	604,400	630,680	663,301
Other interest-bearing liabilities	115,445	120,372	109,600	109,830	110,766
Total IBLs	671,743	685,641	714,000	740,510	774,067
Total non-IBLs	57,511	64,703	81,260	81,238	84,332
Total liabilities	729,254	750,344	795,260	821,748	858,400
Share capital	46,747	48,280	48,280	48,280	48,280
Shareholders' equity	75,330	81,571	82,251	84,455	87,145
Minority interests	2,408	2,499	2,690	2,936	3,237

Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported NPLs / gross cust loans (%)	2.4	2.6	2.4	3.1	3.4
Total provisions / reported NPLs (%)	82.1	72.6	106.8	101.4	97.5
CET-1 ratio (%)	15.0	15.7	15.3	14.5	14.3
Tier-1 ratio (%)	16.0	16.5	16.0	15.2	15.0
Total capital ratio (%)	19.0	19.4	18.8	17.9	17.6

Source: Company data, RHB

Valuation

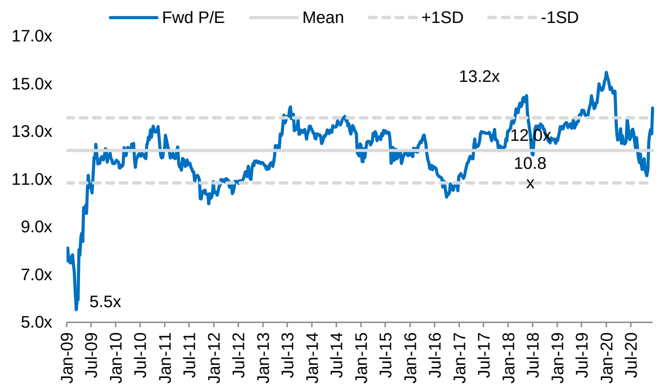
Our GGM-derived TP is raised to MYR10.00 from MYR9.80 as a result of a lower risk premium assumption. We value Maybank at 1.3x FY21F P/BV, which is slightly below its historical mean.

Figure 1: Maybank's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	9.0
Risk free rate (%)	2.6	COE (%)	7.7
Equity premium (%)	5.8	Long-term growth (g)	3.5
Beta (x)	0.9	Implied P/BV (x)	1.33
Cost of equity - CAPM (%)	7.7	BVPS – FY21F	MYR 7.51
		TP	MYR 9.96
		TP (rounded)	**MYR 10.00**

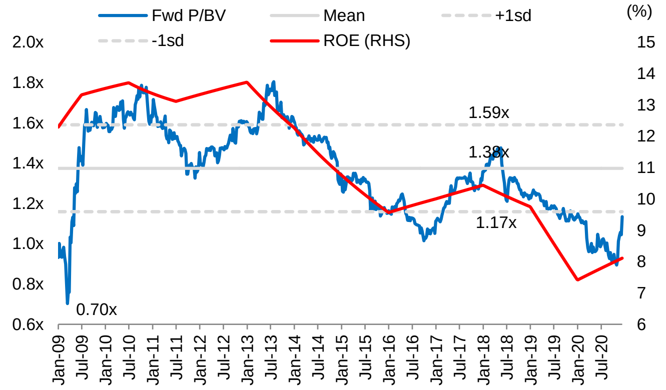
Source: Company data, RHB

Figure 2: Maybank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: Maybank's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-29	Buy	9.8	8.3
2020-08-28	Buy	9.4	7.3
2020-06-10	Buy	9.6	8.2
2020-05-22	Neutral	7.0	7.4
2020-03-31	Neutral	7.7	7.5
2020-02-28	Buy	9.6	8.4
2019-11-29	Neutral	9.2	8.5
2019-08-30	Neutral	8.5	8.7
2019-05-31	Neutral	9.5	9.0
2018-10-03	Buy	11.0	9.7

Source: RHB, Bloomberg

17 December 2020

Financial Services | Banks

CIMB (CIMB MK)

Buy (from Neutral)

Rising From The Ashes; Upgrade To BUY

Target Price (Return):	MYR5.10 (+13%)
Price:	MYR4.50
Market Cap:	USD11,019m
Avg Daily Turnover (MYR/USD)	65.8m/16.0m

- **Upgrade to BUY from Neutral with new MYR5.10 TP from MYR3.90, 13% upside and c.3% yield.** We expect CIMB to post the strongest recovery in FY21 after a tumultuous FY20. Credit cost is expected to triple this year, as management books in both general pre-emptive provisions and specific top-ups for a few corporate borrowers. With a new group CEO now on board and strategic plan to revive ROE, we believe valuation will continue to re-rate. Our TP values CIMB at 0.8x FY21F P/BV.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since November. With recovery on its way and the arrival of effective vaccines just a matter of time, a sector re-rating – ahead of actual ROE recovery – will gain more traction in 2021, in our view, as investors rotate to cyclical sectors.
- **For every action...** CIMB is expected to be the worst performer in terms of PATAMI and ROE declines amongst its big-cap peers. We expect FY20F PATAMI to fall 76% YoY, while ROE collapses to c.2% (FY19: 9.3%). The massive underperformance was almost entirely attributable to its markedly higher credit cost – management raised the FY20F credit cost outlook to 140-150bps vs FY19's c.46bps. In addition, we believe there has been some degree of kitchen-sinking ever since the group welcomed new group CEO Dato' Abdul Rahman Ahmad on-board a few months back.
- **...there is an opposite reaction.** That said, we also expect CIMB to register the strongest YoY recovery amongst peers at c.+220%. The recovery stems mainly from the YoY lower (albeit still elevated) credit cost assumption. We believe the group has brought forward a significant portion of provisions to 2020, which paves the way this recovery. Separately, the new group CEO has also unveiled a detailed plan to revive CIMB's ROE – there are some low-hanging fruits that are likely to improve ROEs imminently.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR5.10 – mainly on lower risk premium assumption. Our TP values CIMB at 0.8x FY21F P/BV, which is still below -1SD from its mean.

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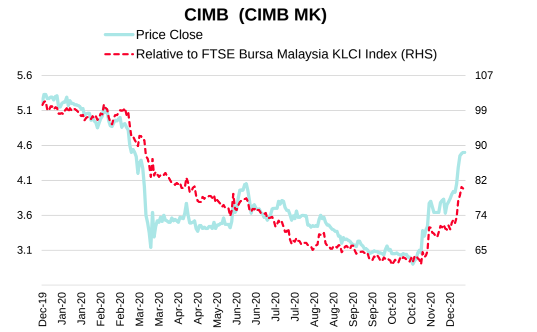
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.6)	19.4	39.3	20.6	(14.5)
Relative	(18.0)	14.8	30.0	10.3	(21.2)
52-wk Price low/high (MYR)					2.90 – 5.33



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (MYRm)	5,584	4,560	1,333	3,533	4,696
Net profit growth (%)	24.8	(18.3)	(70.8)	165.0	32.9
Recurring net profit (MYRm)	4,656	5,015	1,333	3,533	4,696
Recurring EPS (MYR)	0.50	0.53	0.14	0.36	0.47
BVPS (MYR)	5.37	5.67	5.89	6.02	6.42
DPS (MYR)	0.25	0.26	0.05	0.15	0.21
Recurring P/E (x)	9.04	8.55	33.12	12.64	9.51
P/B (x)	0.84	0.79	0.76	0.75	0.70
Dividend Yield (%)	5.6	5.8	1.1	3.3	4.7
Return on average equity (%)	11.2	8.5	2.3	6.0	7.6

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
CIMB
CIMB MK
Buy

Valuation basis

Our GGM assumptions are:
i. COE of 8.6%;
ii. ROE of 7.5%;
iii. 2% long-term growth.

Key drivers

Our FY20F earnings are most sensitivity to changes in:
i. credit cost;
ii. NIM;
iii. Non-II growth.

Key risks

The downside risks include:
i. Resilience in asset quality resulting in lower-than-expected credit costs;
ii. Smaller-than-expected NIM compression;
iii. Faster-than-expected recovery in economic activities.

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.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EPS	0.60	0.48	0.14	0.36	0.47
Recurring EPS	0.50	0.53	0.14	0.36	0.47
DPS	0.25	0.26	0.05	0.15	0.21
BVPS	5.37	5.67	5.89	6.02	6.42

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	9.04	8.55	33.12	12.64	9.51
P/B (x)	0.8	0.8	0.8	0.7	0.7
Dividend Yield (%)	5.6	5.8	1.1	3.3	4.7

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Interest income	24,615	26,337	23,374	25,355	27,392
Interest expense	(12,711)	(13,678)	(10,566)	(12,039)	(13,562)
Net interest income	**11,904**	**12,659**	**12,808**	**13,315**	**13,830**
Non interest income	5,478	5,137	4,390	4,385	4,623
Total operating income	**17,382**	**17,796**	**17,198**	**17,701**	**18,453**
Overheads	(8,656)	(9,873)	(9,360)	(9,843)	(10,201)
Pre-provision operating profit	**8,726**	**7,923**	**7,838**	**7,858**	**8,253**
Loan impairment allowances	(1,425)	(1,627)	(5,857)	(3,060)	(1,990)
Other impairment allowances	(135)	(352)	(350)	(250)	(180)
Income from associates	34	31	110	116	122
Pre-tax profit	**7,201**	**5,975**	**1,741**	**4,664**	**6,205**
Taxation	(1,537)	(1,520)	(449)	(1,166)	(1,539)
Minority interests	(80)	104	41	35	30
Reported net profit	**5,584**	**4,560**	**1,333**	**3,533**	**4,696**
Recurring net profit	**4,656**	**5,015**	**1,333**	**3,533**	**4,696**

Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Return on average assets (%)	1.1	0.8	0.2	0.6	0.7
Return on average equity (%)	11.2	8.5	2.3	6.0	7.6
Return on IEAs (%)	5.1	5.1	4.2	4.4	4.6
Cost of funds (%)	2.9	2.9	2.1	2.3	2.5
Net interest spread (%)	2.2	2.2	2.1	2.0	2.0
Net interest margin (%)	2.5	2.5	2.3	2.3	2.3
Non-interest income / total income (%)	31.5	28.9	25.5	24.8	25.1
Cost to income ratio (%)	49.8	55.5	54.4	55.6	55.3
Credit cost (bps)	42.5	45.5	158.6	81.2	50.7

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total gross loans	346,321	369,500	369,189	383,995	401,279
Other interest earning assets	152,819	163,324	203,000	205,075	210,606
Total gross IEAs	499,140	532,824	572,189	589,070	611,885
Total provisions	(9,172)	(9,160)	(12,391)	(14,180)	(13,558)
Net loans to customers	337,148	360,340	356,798	369,815	387,721
Total net IEAs	489,967	523,664	559,798	574,890	598,327
Total non-IEAs	44,122	49,582	45,760	51,146	50,400
Total assets	534,089	573,246	605,559	626,036	648,726
Customer deposits	371,962	395,798	412,890	431,542	453,135
Other interest-bearing liabilities	79,633	87,286	92,505	91,552	89,906
Total IBLs	451,595	483,084	505,395	523,094	543,040
Total non-IBLs	29,906	32,692	40,468	41,992	40,835
Total liabilities	481,501	515,777	545,863	565,086	583,875
Share capital	24,132	25,844	25,844	26,166	27,491
Shareholders' equity	51,374	56,237	58,471	59,760	63,691
Minority interests	1,014	1,032	1,025	990	960

Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported NPLs / gross cust loans (%)	2.9	3.1	3.9	4.1	3.8
Total provisions / reported NPLs (%)	91.0	80.7	86.1	89.0	87.8
CET-1 ratio (%)	0.0	12.9	12.7	12.5	12.3
Tier-1 ratio (%)	0.0	14.0	13.8	13.5	13.3
Total capital ratio (%)	0.0	16.8	16.3	15.9	15.6

Source: Company data, RHB

Valuation

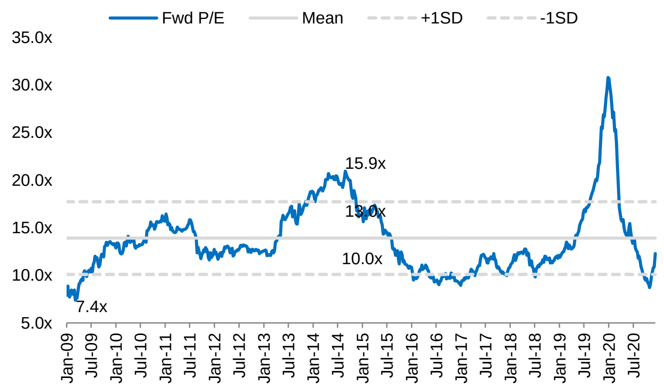
Our GGM-derived TP is raised to MYR5.10 after imputing a lower risk premium. Our TP values CIMB at 0.8x FY21F P/BV.

Figure 1: CIMB's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.5
Risk free rate (%)	2.9	COE (%)	8.6
Equity premium (%)	5.7	Long-term growth (g)	2.0
Beta (x)	1.0	Implied P/BV (x)	0.8
Cost of equity - CAPM (%)	8.6	BVPS – FY21F	MYR 6.04
		TP	MYR 5.06
		TP (rounded)	**MYR 5.10**

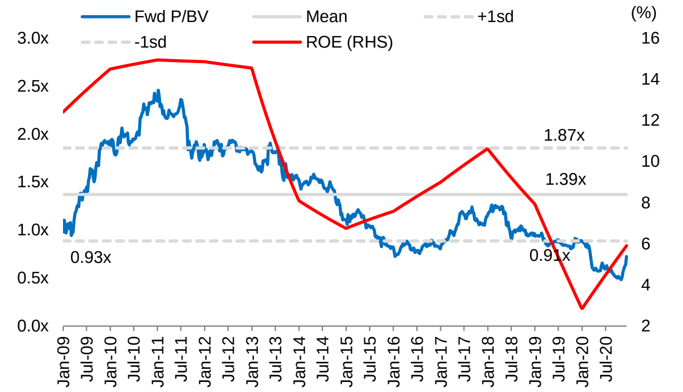
Source: Company data, RHB

Figure 2: CIMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: CIMB's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-29	Neutral	3.90	3.83
2020-10-18	Neutral	3.30	3.05
2020-08-31	Neutral	3.50	3.30
2020-07-17	Neutral	3.90	3.61
2020-06-10	Neutral	4.20	4.05
2020-05-26	Sell	2.80	3.47
2020-04-28	Sell	3.00	3.41
2020-03-31	Neutral	3.80	3.60
2020-03-01	Buy	5.60	4.82
2019-11-25	Buy	6.10	5.34
2019-08-30	Buy	5.60	5.06

Source: RHB, Bloomberg

Malaysia Company Update

17 December 2020

Financial Services | Banks

Hong Leong Bank (HLBK MK)

Buy (Maintained)

The Preferred Defensive Pick; Stay BUY

Target Price (Return):	MYR21.90 (+17%)
Price:	MYR18.70
Market Cap:	USD10,003m
Avg Daily Turnover (MYR/USD)	17.3m/4.23m

- **Keep BUY with new MYR21.90 TP from MYR19.60, 17% upside and c.3% yield.** Hong Leong Bank remains our preferred defensive pick within the sector. Its solid asset quality and prudent LLC buffer suggest that a cliff effect in asset quality is unlikely, and the current provision level should be able to cushion asset quality slippages. HL Bank's valuation – c.1.3x FY21F (Jun) P/BV – is also relatively more attractive vis-à-vis Public Bank (PBK MK, NEUTRAL, TP: MYR21.60).
- **2021 strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performances since November. With recovery on its way and the arrival of effective vaccines just a matter of time, we believe a sector re-rating ahead of actual ROE recovery will gain more traction in 2021, as investors rotate to cyclical sectors.
- **The preferred defensive pick.** HL Bank is our sole defensive pick within the sector after we downgrade Public Bank. Despite the decent showing in share price, its current valuation of <1.3x P/BV is still more palatable than Public Bank's 1.7x P/BV. This presents a more attractive alternative to investors who want exposure to the banking sector but prefer to "play it safe" for the time being.
- **Defensive only at a slight premium.** HL Bank's credit cost guidance is one of the lowest in the sector at 15-20bps. Management has already booked in MYR539m worth of pre-emptive provisions so far, although the GIL ratio improved to an all-time low of 0.48%. The higher provisions and lower GIL ratio resulted in the comfortable 190% LLC ratio. The stock is currently trading at a slight premium to the sector multiple of 1.3x P/BV only despite the very solid asset quality and prudent provisions.
- **Earnings and TP.** We make no changes to our earnings forecasts. We raise our GGM-derived TP to MYR21.90 as a result of a lower risk premium assumption. We value HL Bank at 1.45x FY22F P/BV.

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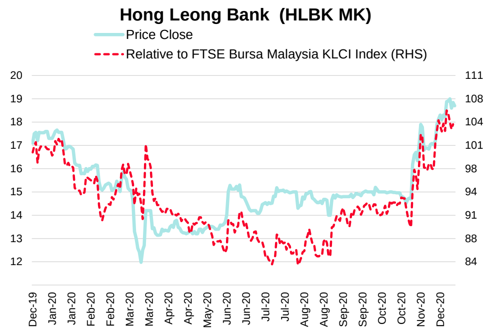
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.1	9.6	26.4	26.5	10.1
Relative	2.7	5.0	17.1	16.2	3.4
52-wk Price low/high (MYR)					12.0 – 19.0



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Reported net profit (MYRm)	2,665	2,495	2,745	3,073	3,370
Net profit growth (%)	1.0	(6.4)	10.0	12.0	9.7
Recurring net profit (MYRm)	2,665	2,495	2,745	3,073	3,370
Recurring EPS (MYR)	1.30	1.22	1.34	1.50	1.65
BVPS (MYR)	12.45	13.31	14.48	15.09	16.23
DPS (MYR)	0.50	0.36	0.45	0.51	0.61
Recurring P/E (x)	14.36	15.34	13.94	12.45	11.36
P/B (x)	1.50	1.40	1.29	1.24	1.15
Dividend Yield (%)	2.7	1.9	2.4	2.7	3.3
Return on average equity (%)	10.8	9.5	9.7	10.2	10.5

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
Hong Leong Bank
HLBK MK
Buy

Valuation basis

Our GGM assumes:
i. Cost of equity of 7.8%;
ii. ROE of 10%;
iii. Long-term growth of 3.0%.

Key drivers

Our earnings forecasts are most sensitive to changes in:
i. NIM;
ii. Loan impairment allowances;
iii. Contribution from associates.

Key risks

The downside risks include:
i. Weaker-than-expected loan growth;
ii. Softer-than-expected NIMs;
iii. Lower-than-expected non-II;
iv. Lower-than-expected profits from Bank of Chengdu.

Company Profile

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.

Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
EPS	1.30	1.22	1.34	1.50	1.65
Recurring EPS	1.30	1.22	1.34	1.50	1.65
DPS	0.50	0.36	0.45	0.51	0.61
BVPS	12.45	13.31	14.48	15.09	16.23

Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Recurring P/E (x)	14.36	15.34	13.94	12.45	11.36
P/B (x)	1.5	1.4	1.3	1.2	1.2
Dividend Yield (%)	2.7	1.9	2.4	2.7	3.3

Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Interest income	8,235	7,775	8,351	9,241	10,179
Interest expense	(4,843)	(4,370)	(4,533)	(5,196)	(5,911)
Net interest income	**3,392**	**3,406**	**3,818**	**4,045**	**4,268**
Non interest income	1,334	1,373	1,323	1,517	1,625
Total operating income	**4,726**	**4,778**	**5,142**	**5,562**	**5,893**
Overheads	(2,092)	(2,104)	(2,183)	(2,276)	(2,377)
Pre-provision operating profit	**2,634**	**2,675**	**2,959**	**3,286**	**3,517**
Loan impairment allowances	(12)	(328)	(326)	(280)	(220)
Other impairment allowances	1	0	-	-	-
Income from associates	563	642	665	698	733
Pre-tax profit	**3,186**	**2,989**	**3,298**	**3,704**	**4,029**
Taxation	(522)	(495)	(553)	(631)	(659)
Reported net profit	**2,665**	**2,495**	**2,745**	**3,073**	**3,370**
Recurring net profit	**2,665**	**2,495**	**2,745**	**3,073**	**3,370**

Profitability ratios	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Return on average assets (%)	1.3	1.2	1.2	1.3	1.4
Return on average equity (%)	10.8	9.5	9.7	10.2	10.5
Return on IEAs (%)	4.3	3.8	3.9	4.1	4.4
Cost of funds (%)	2.8	2.4	2.4	2.6	2.9
Net interest spread (%)	1.5	1.4	1.5	1.5	1.5
Net interest margin (%)	1.8	1.7	1.8	1.8	1.8
Non-interest income / total income (%)	28.2	28.7	25.7	27.3	27.6
Cost to income ratio (%)	44.3	44.0	42.5	40.9	40.3
Credit cost (bps)	0.92	23.11	21.73	17.77	13.41

Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total gross loans	137,570	145,954	153,982	160,911	167,347
Other interest earning assets	57,286	65,068	65,997	67,415	70,073
Total gross IEAs	194,855	211,022	219,979	228,325	237,420
Total provisions	(1,262)	(1,259)	(1,586)	(1,722)	(1,841)
Net loans to customers	136,308	144,695	152,396	159,189	165,506
Total net IEAs	193,594	209,763	218,393	226,604	235,579
Total non-IEAs	13,776	11,515	12,163	12,935	13,352
Total assets	207,369	221,278	230,556	239,538	248,932
Customer deposits	163,073	173,849	182,542	190,756	198,386
Other interest-bearing liabilities	12,906	12,068	11,069	10,954	10,660
Total IBLs	175,979	185,917	193,610	201,710	209,046
Total non-IBLs	5,916	8,127	7,323	6,946	6,676
Total liabilities	181,895	194,044	200,933	208,656	215,721
Share capital	7,739	7,739	7,739	7,739	7,739
Shareholders' equity	25,474	27,234	29,623	30,883	33,210

Asset quality and capital	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Reported NPLs / gross cust loans (%)	0.8	0.6	0.7	0.8	0.8
Total provisions / reported NPLs (%)	117.8	141.5	143.5	141.1	139.0
CET-1 ratio (%)	11.7	12.8	12.5	12.6	12.0
Tier-1 ratio (%)	12.6	13.4	13.1	13.1	12.4
Total capital ratio (%)	14.9	15.6	15.2	15.0	14.1

Source: Company data, RHB

Valuation

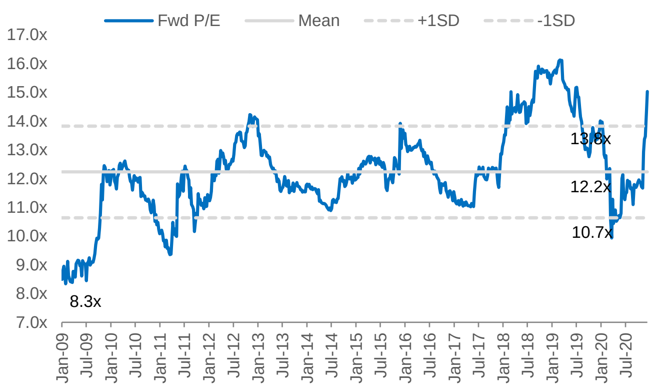
Our GGM-derived TP is raised to MYR21.90 as a result of lower risk premium assumption. We value HL Bank at 1.45x FY22F P/BV, which is slightly below its historical mean.

Figure 1: HL Bank's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	10.0
Risk free rate (%)	2.7	COE (%)	7.83
Equity premium (%)	5.7	Long-term growth (g)	3.0
Beta (x)	0.9	Implied P/BV (x)	1.45
Cost of equity - CAPM (%)	7.8	BVPS – FY22F	MYR 15.09
		TP	MYR 21.85
		TP (rounded)	**MYR 21.90**

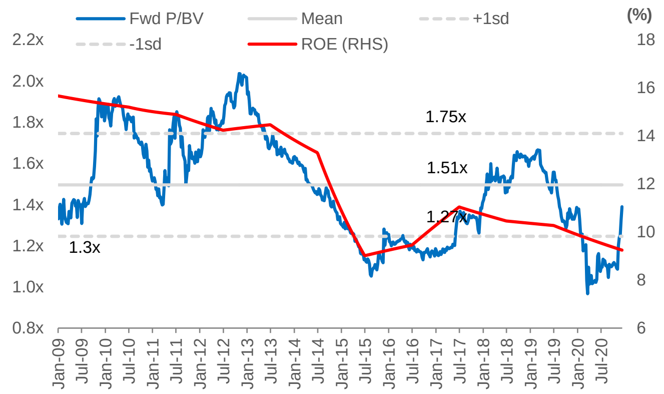
Source: Company data, RHB

Figure 2: HL Bank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: HL Bank's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-16	Buy	19.6	17.1
2020-08-31	Buy	18.3	14.0
2020-06-10	Buy	18.2	15.2
2020-05-31	Buy	15.8	13.6
2020-03-31	Buy	16.2	13.5
2020-02-27	Buy	17.6	15.5
2019-11-28	Buy	19.2	17.3
2019-08-29	Buy	18.7	16.5
2019-05-29	Neutral	20.0	18.6
2018-10-09	Neutral	19.5	20.6

Source: RHB, Bloomberg

17 December 2020

Financial Services | Banks

AMMB (AMM MK)

Buy (Maintained)

Prudent Provisions And Ambitious Plan; Keep BUY

Target Price (Return):	MYR4.20 (+15%)
Price:	MYR3.66
Market Cap:	USD2,718m
Avg Daily Turnover (MYR/USD)	11.1m/2.66m

- **Maintain BUY with new TP MYR4.20 from MYR3.80, 15% upside and c.4% yield.** We believe AMMB will bring forward much of the provisions to FY21F (Mar) thus paving a cleaner path for a recovery in FY22F. A new strategic plan has also been put in place to drive ROE, a continuation of the impressive progress made in the past four years. We raised our TP after imputing a lower risk premium assumption which values AMMB at 0.6x FY22F P/BV.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since Nov 2020. With recovery on its way and the arrival of effective vaccines just a matter of time, sector re-rating (ahead of actual ROE recovery) should gain more traction in 2021 as investors rotate to cyclical sectors.
- **AMMB: Higher credit cost, mostly a prudent measure.** We noticed that AMMB share price underperformed its peers after results announcement. We believe the negative reaction by market participants was mainly due to its higher-than-expected FY21F credit cost guidance of 85-100bps. We learned that most of the provisions are pre-emptive in nature, reflecting management's prudent stance. This, in our view, should pave a cleaner recovery in FY22F since most provisions will be brought forward to FY21F.
- **New plan to drive ROE.** Management has also laid out the new four-year plan with the ultimate goal of achieving a 10% ROE by FY24F. This will be achieved through deeper penetration to AMMB's target segment (especially SMEs), digitalisation (long-term CIR target: <45%) and the potential venture of digital bank.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR4.20 mainly on lower risk premium assumption. Our TP values AMMB at 0.6x FY22F P/BV, which is still below -1SD from its mean.

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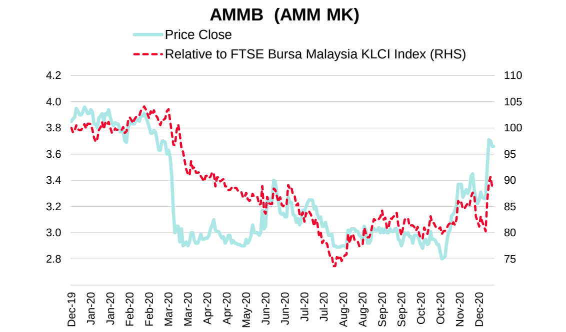
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.4)	8.6	22.0	16.6	(3.7)
Relative	(11.8)	4.0	12.7	6.3	(10.4)
52-wk Price low/high (MYR)					2.80 – 3.96



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Reported net profit (MYRm)	1,505	1,341	904	1,351	1,463
Net profit growth (%)	33.0	(10.9)	(32.5)	49.3	8.3
Recurring net profit (MYRm)	1,273	1,341	904	1,351	1,463
Recurring EPS (MYR)	0.42	0.45	0.30	0.45	0.49
BVPS (MYR)	5.87	6.16	6.51	6.85	7.21
DPS (MYR)	0.20	0.13	0.08	0.14	0.19
Recurring P/E (x)	8.65	8.21	12.17	8.15	7.53
P/B (x)	0.62	0.59	0.56	0.53	0.51
Dividend Yield (%)	5.5	3.6	2.2	3.8	5.1
Return on average equity (%)	8.8	7.4	4.7	6.7	6.9

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
AMMB
AMM MK
Buy

Valuation basis

Our GGM assumptions are:

i. COE of 8.7%;
ii. ROE assumption of 6.1%; and
iii. 2.0% long-term growth.

Key drivers

Our FY21 earnings are most sensitive to changes in:

i. NIM;
ii. Loan impairment allowances;
iii. Non-II.

Key risks

The downside risks include:

i. Weaker-than-expected NIM;
ii. Lower-than-expected non-II;
iii. Higher-than-expected credit costs.

Company Profile

AMMB Holdings provides a wide range of financial products and services. Its business divisions covers retail banking, business banking, transaction banking, corporate and institutional banking, investment banking including funds management and stockbroking, markets, general insurance, life assurance and Takaful. These business divisions offer both Conventional and Islamic financial services.

Financial summary (MYR)	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
EPS	0.50	0.45	0.30	0.45	0.49
Recurring EPS	0.42	0.45	0.30	0.45	0.49
DPS	0.20	0.13	0.08	0.14	0.19
BVPS	5.87	6.16	6.51	6.85	7.21

Valuation metrics	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
Recurring P/E (x)	8.65	8.21	12.17	8.15	7.53
P/B (x)	0.6	0.6	0.6	0.5	0.5
Dividend Yield (%)	5.5	3.6	2.2	3.8	5.1

Income statement (MYRm)	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
Interest income	6,970	6,950	6,188	6,481	6,766
Interest expense	(4,389)	(4,176)	(3,379)	(3,547)	(3,697)
Net interest income	**2,580**	**2,774**	**2,809**	**2,934**	**3,069**
Non interest income	1,015	1,456	1,600	1,551	1,602
Total operating income	**3,595**	**4,230**	**4,409**	**4,485**	**4,670**
Overheads	(2,131)	(2,108)	(2,177)	(2,239)	(2,322)
Pre-provision operating profit	**1,464**	**2,122**	**2,233**	**2,246**	**2,348**
Loan impairment allowances	316	(290)	(985)	(356)	(301)
Other impairment allowances	(12)	(47)	(5)	(10)	(10)
Income from associates	20	(3)	30	20	20
Other exceptional items	307				
Pre-tax profit	**2,095**	**1,783**	**1,273**	**1,900**	**2,057**
Taxation	(492)	(330)	(299)	(446)	(483)
Minority interests	(98)	(112)	(69)	(102)	(111)
Reported net profit	**1,505**	**1,341**	**904**	**1,351**	**1,463**
Recurring net profit	**1,273**	**1,341**	**904**	**1,351**	**1,463**

Profitability ratios	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
Return on average assets (%)	1.0	0.8	0.5	0.8	0.8
Return on average equity (%)	8.8	7.4	4.7	6.7	6.9
Return on IEAs (%)	5.0	4.5	3.8	3.8	3.8
Cost of funds (%)	3.5	3.0	2.3	2.4	2.4
Net interest spread (%)	1.5	1.4	1.4	1.4	1.4
Net interest margin (%)	1.9	1.8	1.7	1.7	1.7
Non-interest income / total income (%)	28.2	34.4	36.3	34.6	34.3
Cost to income ratio (%)	59.3	49.8	49.4	49.9	49.7
Credit cost (bps)	(31.9)	27.7	90.4	31.6	25.6

Balance sheet (MYRm)	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
Total gross loans	101,845	107,219	110,514	114,988	120,191
Other interest earning assets	48,256	54,909	57,255	59,912	62,697
Total gross IEAs	150,100	162,128	167,769	174,900	182,888
Total provisions	(1,301)	(1,268)	(1,993)	(2,146)	(2,264)
Net loans to customers	100,544	105,951	108,520	112,842	117,927
Total net IEAs	148,800	160,860	165,775	172,754	180,624
Total non-IEAs	9,994	8,343	7,263	5,360	4,526
Total assets	158,793	169,203	173,038	178,114	185,151
Customer deposits	107,269	113,175	115,460	118,945	124,317
Other interest-bearing liabilities	26,600	29,953	30,522	31,066	31,645
Total IBLs	133,869	143,128	145,982	150,010	155,962
Total non-IBLs	6,234	6,515	6,400	6,298	6,209
Total liabilities	140,103	149,643	152,382	156,308	162,171
Share capital	5,752	5,852	5,852	5,852	5,852
Shareholders' equity	17,691	18,581	19,608	20,654	21,718
Minority interests	999	979	1,049	1,151	1,262

Asset quality and capital	**Mar-19**	**Mar-20**	**Mar-21F**	**Mar-22F**	**Mar-23F**
Reported NPLs / gross cust loans (%)	1.6	1.7	1.8	1.7	1.7
Total provisions / reported NPLs (%)	80.2	68.4	100.2	109.8	114.1
CET-1 ratio (%)	12.3	12.6	12.6	13.1	0.0
Tier-1 ratio (%)	12.3	12.6	12.6	13.1	0.0
Total capital ratio (%)	15.9	16.0	16.6	17.1	0.0

Source: Company data, RHB

Valuation

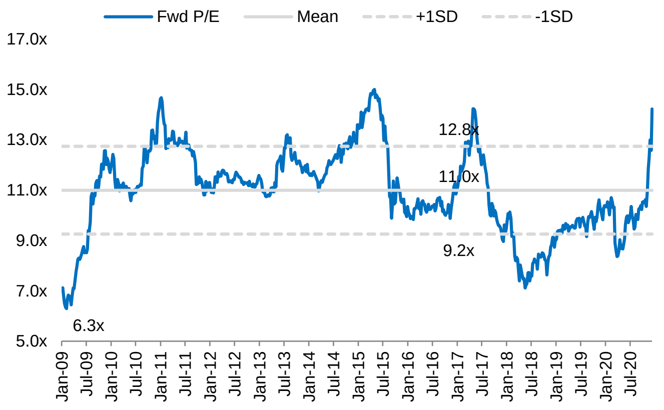
Our GGM-derived TP is raised to MYR4.20 from MYR3.80 mainly due to a lower risk premium assumption. We value AMMB at 0.6x FY22F P/BV, which is below -1SD from its mean.

Figure 1: AMMB's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	6.1
Risk free rate (%)	2.9	COE (%)	8.7
Equity premium (%)	5.5	Long-term growth (g)	2.0
Beta (x)	1.05	Implied P/BV (x)	0.6
Cost of equity - CAPM (%)	8.7	BVPS – FY22F	MYR 6.85
		Target price	MYR 4.22
		TP (rounded)	**MYR 4.20**

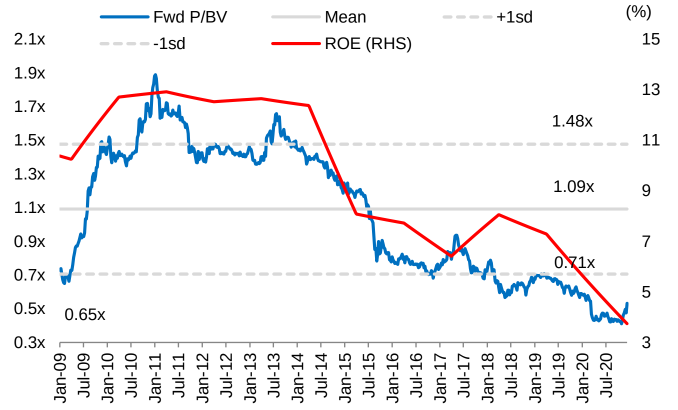
Source: Company data, RHB

Figure 2: AMMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: AMMB's 12-month forward P/BV



Source: Bloomberg, RHB

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Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-30	Buy	3.80	3.32
2020-06-29	Buy	3.70	3.08
2020-03-19	Neutral	3.30	2.93
2020-02-28	Neutral	4.00	3.70
2020-01-22	Neutral	4.20	3.82
2019-12-02	Neutral	4.30	3.94
2019-08-23	Neutral	4.45	4.13
2019-05-29	Neutral	4.65	4.36
2019-01-30	Neutral	4.50	4.41
2018-11-23	Buy	4.73	4.22

Source: RHB, Bloomberg

17 December 2020

Financial Services | Banks

BIMB (BIMB MK)

Buy (Maintained)

Recovery And Restructuring; Keep BUY

Target Price (Return):	MYR5.00 (+14%)
Price:	MYR4.40
Market Cap:	USD1,946m
Avg Daily Turnover (MYR/USD)	1.73m/0.42m

- **Keep BUY with new TP MYR5.00 from MYR4.30, 14% upside and c.3% yield.** We continue to like BIMB for its defensive portfolio, which comprises largely household borrowers (mostly civil servants). On top of that, the latest announcement on its group restructuring plan has also removed investors' overhang on the progress as well. We raise our TP after pencilling in a lower risk premium assumption and value it at 1.3x FY21F P/BV.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since Nov 2020. With recovery on its way and the arrival of effective vaccines just a matter of time, sector re-rating (ahead of actual ROE recovery) should gain more traction in 2021 as investors rotate to cyclical sectors.
- **Group restructuring, a unique catalyst.** The group has recently announced that both Bank Negara Malaysia (BNM) and the Minister of Finance have grated their respective approvals in relations to the proposed placement and internal reorganisation. The approvals finally came after one year since BIMB officially announced its restructuring plan. This should clear the uncertainties previously surrounding its restructuring plan. To recap, BIMB investors will be rewarded shares in Bank Islam and Syarikat Takaful Malaysia Keluarga (STMB MK; BUY; TP: MYR5.60).
- ***Shariah* compliant and defensive portfolio.** BIMB is the only listed *shariah* compliant lender in the country. This would continue to attract *shariah* funds that want exposure to the banking sector for the recovery pick. Besides, BIMB's high exposure to household borrowers, mostly civil servants, also better safeguards its asset quality.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR5.00 mainly on lower risk premium assumption. Our TP values BIMB at 1.3x FY21F P/BV, which is above its mean, taking into account the planned group restructuring.

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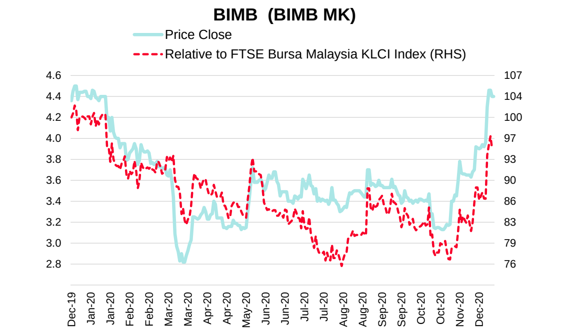
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	22.2	24.6	26.1	(0.9)
Relative	(5.4)	17.6	15.3	15.8	(7.6)
52-wk Price low/high (MYR)					2.82 – 4.50



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (MYRm)	682	787	648	621	773
Net profit growth (%)	10.0	15.4	(17.7)	(4.1)	24.6
Recurring net profit (MYRm)	682	787	648	621	773
Recurring EPS (MYR)	0.40	0.45	0.37	0.35	0.44
BVPS (MYR)	2.97	3.35	3.52	3.68	4.03
DPS (MYR)	0.16	0.16	0.13	0.13	0.16
Recurring P/E (x)	10.93	9.83	11.95	12.46	10.01
P/B (x)	1.48	1.31	1.25	1.20	1.09
Dividend Yield (%)	3.5	3.6	2.8	2.8	3.5
Return on average equity (%)	14.3	14.4	10.7	9.8	11.4

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
BIMB
BIMB MK
Buy

Valuation basis

Our GGM assumptions are:
i. COE of 8.4%;
ii. ROE assumption of 10.6%;
iii. 2% long-term growth.

Key drivers

Our FY20 are most sensitive to changes in:
i. NIM;
ii. Credit cost;
iii. Non-II growth.

Key risks

Downside risks to our call include:
i. Lower-than-expected net financing margin;
ii. Weaker-than-expect *takaful* income;
iii. Higher-than-expected credit cost.

Company Profile

BIMB Holdings provides all aspects of Islamic banking services. Through its subsidiaries, the Company underwrites family and general *takaful* (Islamic insurance) and provides stock broking and other related services. BIMB Holdings also has operation in unit trust management, provides training and consultancy services, and leases fixed assets to related companies.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EPS	0.40	0.45	0.37	0.35	0.44
Recurring EPS	0.40	0.45	0.37	0.35	0.44
DPS	0.16	0.16	0.13	0.13	0.16
BVPS	2.97	3.35	3.52	3.68	4.03

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	10.93	9.83	11.95	12.46	10.01
P/B (x)	1.5	1.3	1.2	1.2	1.1
Dividend Yield (%)	3.5	3.6	2.8	2.8	3.5

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Interest income	3,021	3,227	2,910	3,041	3,200
Interest expense	(1,503)	(1,663)	(1,379)	(1,434)	(1,502)
Net interest income	**1,518**	**1,564**	**1,531**	**1,607**	**1,697**
Non interest income	1,181	1,489	1,605	1,452	1,533
Total operating income	**2,699**	**3,053**	**3,136**	**3,058**	**3,230**
Overheads	(1,553)	(1,761)	(1,747)	(1,804)	(1,870)
Pre-provision operating profit	**1,146**	**1,292**	**1,389**	**1,255**	**1,360**
Loan impairment allowances	(81)	(84)	(344)	(224)	(131)
Other impairment allowances	-	(4)	-	-	-
Other exceptional items	0	0	1	1	1
Pre-tax profit	**1,065**	**1,205**	**1,046**	**1,032**	**1,230**
Taxation	(264)	(270)	(241)	(237)	(283)
Minority interests	(119)	(148)	(158)	(174)	(174)
Reported net profit	**682**	**787**	**648**	**621**	**773**
Recurring net profit	**682**	**787**	**648**	**621**	**773**

Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Return on average assets (%)	1.0	1.1	0.8	0.8	0.9
Return on average equity (%)	14.3	14.4	10.7	9.8	11.4
Return on IEAs (%)	4.5	4.4	3.8	3.8	3.8
Cost of funds (%)	2.4	2.5	2.0	2.0	2.0
Net interest spread (%)	2.1	2.0	1.8	1.8	1.8
Net interest margin (%)	2.3	2.1	2.0	2.0	2.0
Non-interest income / total income (%)	43.8	48.8	51.2	47.5	47.4
Cost to income ratio (%)	57.5	57.7	55.7	59.0	57.9
Credit cost (bps)	18.3	17.3	65.8	40.4	22.6

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total gross loans	46,473	50,224	54,242	56,412	59,514
Other interest earning assets	23,865	24,939	24,264	25,138	26,086
Total gross IEAs	70,339	75,163	78,506	81,550	85,600
Total provisions	(793)	(751)	(1,070)	(1,142)	(1,187)
Net loans to customers	45,681	49,473	53,172	55,270	58,327
Total net IEAs	69,546	74,411	77,436	80,408	84,413
Total non-IEAs	2,843	2,852	2,354	2,414	2,442
Total assets	72,389	77,263	79,790	82,822	86,855
Customer deposits	54,471	56,550	58,510	61,083	64,262
Other interest-bearing liabilities	11,103	11,924	12,146	12,293	12,450
Total IBLs	65,575	68,474	70,656	73,375	76,712
Total non-IBLs	1,319	2,371	2,408	2,428	2,505
Total liabilities	66,894	70,845	73,064	75,804	79,217
Share capital	4,083	4,308	4,308	4,308	4,308
Shareholders' equity	5,026	5,894	6,193	6,470	7,088
Minority interests	469	524	533	549	549

Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported NPLs / gross cust loans (%)	0.9	0.9	0.6	1.2	1.1
Total provisions / reported NPLs (%)	189.4	187.7	236.7	120.5	125.8
CET-1 ratio (%)	10.9	12.7	12.3	12.7	13.4
Tier-1 ratio (%)	10.9	12.7	12.3	12.7	13.4
Total capital ratio (%)	15.4	17.1	16.9	17.3	17.8

Source: Company data, RHB

Valuation

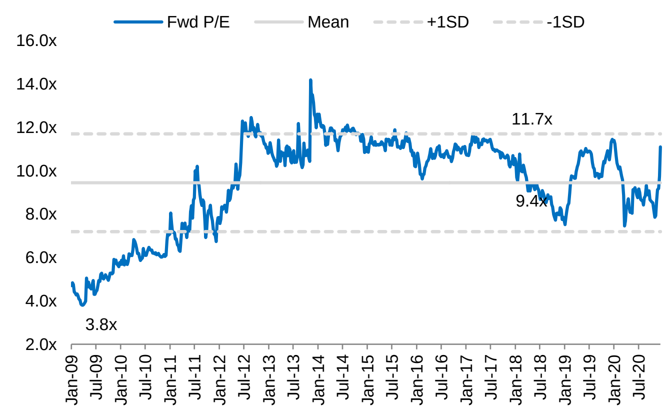
Our GGM-derived TP is raised to MYR5.00 from MYR4.30 and values BIMB at 1.3x FY21F P/BV which is above from its mean.

Figure 1: BIMB's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	10.6
Risk free rate (%)	2.9	COE (%)	8.4
Equity premium (%)	5.5	Long-term growth (g)	2.0
Beta (x)	1.0	Implied P/BV (x)	1.3
Cost of equity - CAPM (%)	8.4	BVPS – FY21F	MYR 3.68
		Target price	MYR 4.96
		TP (rounded)	**MYR 5.00**

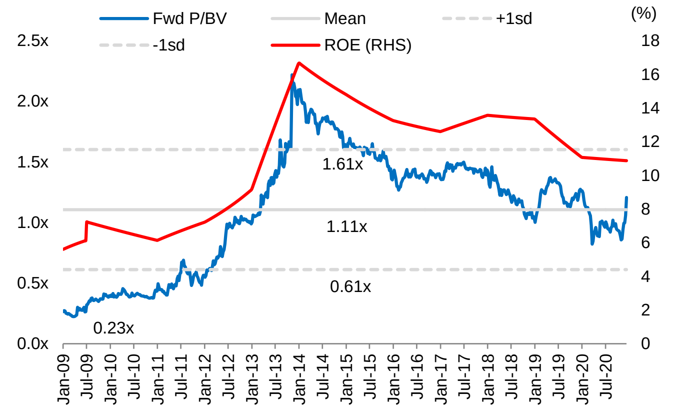
Source: Company data, RHB

Figure 2: BIMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: BIMB's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-01	Buy	4.30	3.92
2020-08-27	Buy	4.00	3.44
2020-06-10	Buy	4.30	3.68
2020-05-31	Neutral	3.70	3.58
2020-03-31	Buy	3.90	3.25
2020-02-28	Buy	4.70	3.78
2020-01-30	Buy	5.15	3.95
2019-12-02	Buy	5.10	4.18
2019-08-29	Buy	5.00	4.07
2019-05-24	Buy	5.40	4.59
2019-03-04	Buy	5.15	4.30

Source: RHB, Bloomberg

17 December 2020

Financial Services | Banks

Public Bank (PBK MK)

Neutral (from Buy)

Defensive But At a Premium; D/G To NEUTRAL

Target Price (Return):	MYR21.60 (-1%)
Price:	MYR21.90
Market Cap:	USD20,960m
Avg Daily Turnover (MYR/USD)	95.7m/23.1m

- **Downgrade to NEUTRAL from Buy with unchanged MYR21.60 TP, 1% downside.** Public Bank's resilient profile has made it the second-best share price performer both YTD and November-to-date. While we like its defensive portfolio, the recent share price rally has seen its P/BV expand to 1.7x (sector: 1.3x FY21F), suggesting the recovery is largely priced in. We prefer Hong Leong Bank (HLBK MK, BUY, TP: MYR21.90) for defensive pick. With the 4-for-1 bonus issue announced recently, our ex-bonus issue TP is MYR4.32.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performances since November. With recovery on its way and arrival of effective vaccines just a matter of time, a sector re-rating – ahead of actual ROE recovery – will gain more traction in 2021, as investors rotate to cyclical sectors.
- **Defensive book well known...** We favour Public Bank for its defensive portfolio and extremely prudent management – evidenced by the sector-low GIL and sector-high LLC ratios – for an early upcycle pick when the level of uncertainties surrounding asset quality remain high. The counter has rallied 32% since late August.
- **…but rich post-rally valuation.** Public Bank is currently trading at 1.7x FY21F P/BV after the strong share price performance. It is also trading at a premium to the sector average P/BV of 1.3x. The stellar share price performance was also turbocharged by the 4-for-1 bonus issue. We deem the current valuation as fair, and the risk-reward appears balanced right now. This prompts us to downgrade Public Bank to NEUTRAL, largely on the valuation basis.
- **Earnings and TP.** We make no changes to our earnings forecasts and TP.

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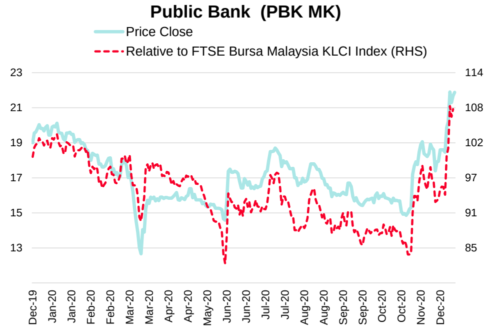
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.6	18.4	31.0	33.3	16.1
Relative	7.2	13.8	21.7	23.0	9.4
52-wk Price low/high (MYR)					12.7 – 21.9



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (MYRm)	5,608	5,530	4,734	5,340	5,940
Net profit growth (%)	2.2	(1.4)	(14.4)	12.8	11.2
Recurring net profit (MYRm)	5,608	5,530	4,734	5,340	5,940
Recurring EPS (MYR)	1.45	1.43	1.22	1.38	1.53
BVPS (MYR)	10.55	11.23	12.16	13.05	13.66
DPS (MYR)	0.69	0.73	0.50	0.60	0.72
Recurring P/E (x)	15.11	15.32	17.90	15.87	14.27
P/B (x)	2.07	1.95	1.80	1.68	1.60
Dividend Yield (%)	3.2	3.3	2.3	2.7	3.3
Return on average equity (%)	14.3	13.1	10.4	10.9	11.5

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
Public Bank
PBK MK
Neutral

Valuation basis

Our GGM assumes:
i. COE of 7.83%;
ii. ROE of 11.0%;
iii. 3.0% long-term growth.

Key drivers

Our FY20 earnings are most sensitive to changes in:
i. NIM;
ii. Credit cost;
iii. Non-II growth.

Key risks

Downside risks include:
i. Weaker-than-expected NIMs;
ii. Sharper-than-expected deterioration in asset quality;
iii. Weaker-than-expected non-II.
The converse represents upside risks.

Company Profile

Public Bank is Malaysia's third largest banking group by assets. The group also has overseas operations in Cambodia, Vietnam, Laos and Hong Kong.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EPS	1.45	1.43	1.22	1.38	1.53
Recurring EPS	1.45	1.43	1.22	1.38	1.53
DPS	0.69	0.73	0.50	0.60	0.72
BVPS	10.55	11.23	12.16	13.05	13.66

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	15.11	15.32	17.90	15.87	14.27
P/B (x)	2.1	1.9	1.8	1.7	1.6
Dividend Yield (%)	3.2	3.3	2.3	2.7	3.3

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Interest income	19,038	19,365	16,993	18,969	20,873
Interest expense	(10,391)	(10,645)	(8,558)	(9,878)	(11,320)
Net interest income	**8,646**	**8,720**	**8,435**	**9,091**	**9,553**
Non interest income	2,215	2,401	2,772	2,764	2,925
Total operating income	**10,861**	**11,121**	**11,207**	**11,855**	**12,478**
Overheads	(3,573)	(3,819)	(3,895)	(4,065)	(4,241)
Pre-provision operating profit	**7,288**	**7,301**	**7,312**	**7,790**	**8,237**
Loan impairment allowances	(169)	(154)	(1,182)	(870)	(544)
Other impairment allowances	(5)	2	(12)	(8)	(6)
Income from associates	5	3	6	6	7
Pre-tax profit	**7,119**	**7,153**	**6,124**	**6,918**	**7,694**
Taxation	(1,436)	(1,555)	(1,329)	(1,508)	(1,677)
Minority interests	(74)	(68)	(61)	(70)	(77)
Reported net profit	**5,608**	**5,530**	**4,734**	**5,340**	**5,940**
Recurring net profit	**5,608**	**5,530**	**4,734**	**5,340**	**5,940**

Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Return on average assets (%)	1.4	1.3	1.1	1.2	1.2
Return on average equity (%)	14.3	13.1	10.4	10.9	11.5
Return on IEAs (%)	4.9	4.7	3.9	4.2	4.4
Cost of funds (%)	2.9	2.9	2.2	2.5	2.7
Net interest spread (%)	1.9	1.8	1.7	1.7	1.7
Net interest margin (%)	2.2	2.1	2.0	2.0	2.0
Non-interest income / total income (%)	20.4	21.6	24.7	23.3	23.4
Cost to income ratio (%)	32.9	34.3	34.8	34.3	34.0
Credit cost (bps)	5.44	4.77	34.98	24.73	14.86

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total gross loans	317,302	330,468	345,000	358,325	373,953
Other interest earning assets	86,682	86,086	101,334	107,706	112,708
Total gross IEAs	403,984	416,554	446,334	466,031	486,661
Total provisions	(2,042)	(1,992)	(3,300)	(4,249)	(4,591)
Net loans to customers	315,259	328,476	341,700	354,076	369,362
Total net IEAs	401,941	414,562	443,033	461,782	482,070
Total non-IEAs	17,752	18,268	10,971	11,408	12,456
Total assets	419,693	432,831	454,005	473,191	494,526
Customer deposits	339,160	353,340	366,680	383,100	402,255
Other interest-bearing liabilities	27,180	22,017	24,835	24,590	24,838
Total IBLs	366,340	375,357	391,515	407,690	427,093
Total non-IBLs	11,257	12,727	14,050	13,557	13,010
Total liabilities	377,597	388,084	405,565	421,247	440,103
Share capital	9,418	9,418	9,418	9,418	9,418
Shareholders' equity	40,973	43,594	47,210	50,644	53,047
Minority interests	1,123	1,152	1,230	1,300	1,377

Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported NPLs / gross cust loans (%)	0.5	0.5	0.5	0.6	0.6
Total provisions / reported NPLs (%)	126.0	124.1	212.6	197.6	223.2
CET-1 ratio (%)	12.3	12.7	13.1	13.4	14.0
Tier-1 ratio (%)	13.0	12.7	13.2	13.5	14.0
Total capital ratio (%)	15.5	16.0	16.8	17.4	17.9

Source: Company data, RHB

Valuation

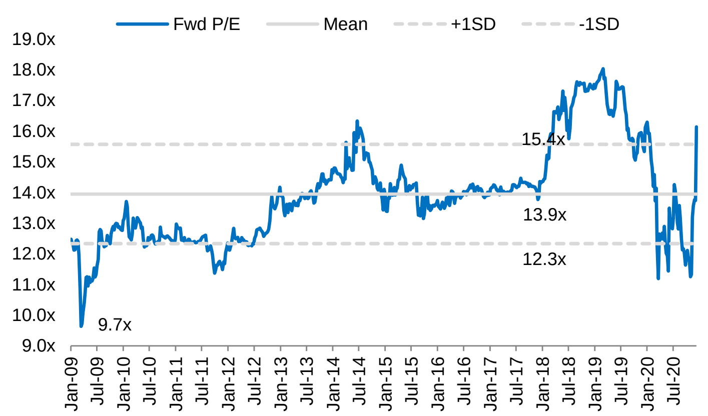
Our GGM-derived TP is unchanged at MYR21.60, which values Public Bank at 1.7x FY21F P/BV. Our ex-bonus issue TP would be adjusted to MYR4.32.

Figure 1: Public Bank's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	11.0
Risk free rate (%)	2.7	COE (%)	7.8
Equity premium (%)	5.7	Long-term growth (g)	3.0
Beta (x)	0.9	Implied P/BV (x)	1.7
Cost of equity - CAPM (%)	7.8	BVPS – FY21F	MYR 13.05
		Target price	MYR 21.59
		TP (rounded)	**MYR 21.60**

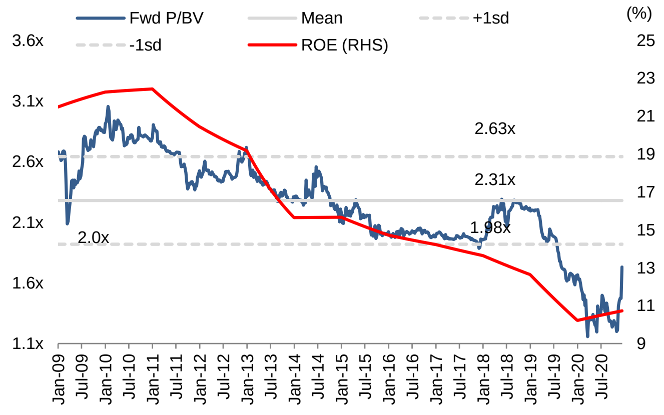
Source: Company data, RHB

Figure 2: Public Bank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: Public Bank's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-30	Buy	21.6	17.4
2020-11-16	Buy	20.6	18.5
2020-08-31	Buy	18.4	16.4
2020-06-10	Neutral	18.6	17.3
2020-05-25	Buy	17.4	15.3
2020-03-29	Buy	17.9	15.9
2020-02-27	Neutral	18.5	17.3
2019-11-08	Neutral	21.1	19.9
2019-08-15	Neutral	22.1	20.8
2019-04-30	Neutral	24.6	22.5
2019-02-21	Neutral	25.7	25.0
2018-08-16	Neutral	26.3	24.5

Source: RHB, Bloomberg

17 December 2020

Financial Services | Banks

Alliance Bank Malaysia (ABMB MK)

Neutral (Maintained)

An In-The-Price Recovery; NEUTRAL

Target Price (Return):	MYR2.90 (-3%)
Price:	MYR2.99
Market Cap:	USD1,142m
Avg Daily Turnover (MYR/USD)	4.45m/1.08m

- **Maintain NEUTRAL with new TP MYR2.90 from MYR2.60, 3% downside.** Management has alluded to more pre-emptive provisions in the coming quarters, which should help to pave a cleaner recovery path in FY22F (Mar) although we are wary of its relatively riskier portfolio. While we reiterate our OVERWEIGHT call on the banking sector, we believe Alliance Bank's current valuation of 0.7x FY22F P/BV has largely priced in the recovery prospects; its share price is the best performer YTD.
- **2021 sector strategy: Revenge of the cyclicals.** We stay OVERWEIGHT on the banking sector despite the strong share price performance since Nov 2020. With recovery on its way and the arrival of effective vaccines in just a matter of time, sector re-rating (ahead of actual ROE recovery) will gain more traction in 2021 as investors rotate to cyclical sectors.
- **Beefing up provisions for the rainy days.** Management maintained FY21F credit cost guidance of <100bps and alluded to more pre-emptive provisions in the coming quarters. Although ABMB has been able to defend the target so far, we remain cautious on its asset quality outlook, especially the Alliance One Account (AOA) borrowers.
- **Valuation suggests recovery priced in.** ABMB's share price is the best performer YTD. The stock is trading at c.0.7x FY22F P/BV, which suggests the recovery outlook has largely been priced in by now.
- **Earnings and TP.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to MYR2.90, mainly on lower risk premium assumption. Our TP values ABMB at 0.7x FY22F P/BV, below -1SD from its mean. We believe the current valuation has largely priced in the recovery and risk-reward appears balanced.

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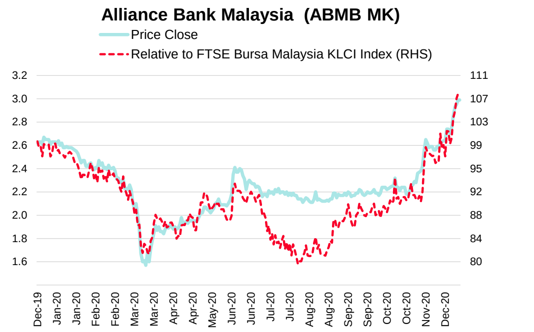
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.7	16.8	37.8	31.1	15.9
Relative	8.3	12.2	28.5	20.8	9.2
52-wk Price low/high (MYR)					1.57 – 2.99



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Reported net profit (MYRm)	538	424	404	443	519
Net profit growth (%)	9.0	(21.1)	(4.9)	9.8	17.1
Recurring net profit (MYRm)	538	424	404	443	519
Recurring EPS (MYR)	0.35	0.27	0.26	0.29	0.34
BVPS (MYR)	3.70	3.87	4.07	4.30	4.54
DPS (MYR)	0.17	0.06	0.06	0.10	0.13
Recurring P/E (x)	8.61	10.91	11.47	10.44	8.92
P/B (x)	0.81	0.77	0.73	0.70	0.66
Dividend Yield (%)	5.6	2.0	1.8	3.3	4.3
Return on average equity (%)	9.6	7.2	6.6	6.8	7.6

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Financial Services
Alliance Bank Malaysia
ABMB MK
Neutral

Valuation basis

Our GGM assumptions are:
i. COE of 9.5%;
ii. ROE assumption of 7.0%;
iii. 2.0% long-term growth.

Key drivers

Our FY21F earnings are most sensitive to changes in:
i. Credit cost;
ii. NIM;
iii. Costs related to its new strategic initiatives;
iv. Non-II.

Key risks

Key downside risks are:
i. Higher-than-expected impairment allowances;
ii. Lower-than-expected NIM;
iii. Weaker-than-expected non-II.
The converse represents upside risks.

Company Profile

Alliance Bank Malaysia is an integrated banking group with operations in consumer banking, SME banking, wholesale banking, Islamic banking, investment banking and stock broking.

Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
EPS	0.35	0.27	0.26	0.29	0.34
Recurring EPS	0.35	0.27	0.26	0.29	0.34
DPS	0.17	0.06	0.06	0.10	0.13
BVPS	3.70	3.87	4.07	4.30	4.54

Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring P/E (x)	8.61	10.91	11.47	10.44	8.92
P/B (x)	0.8	0.8	0.7	0.7	0.7
Dividend Yield (%)	5.6	2.0	1.8	3.3	4.3

Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Interest income	2,370	2,448	2,367	2,415	2,520
Interest expense	(1,013)	(1,089)	(1,004)	(1,021)	(1,065)
Net interest income	**1,357**	**1,359**	**1,363**	**1,394**	**1,455**
Non interest income	265	331	411	297	312
Total operating income	**1,622**	**1,689**	**1,774**	**1,691**	**1,766**
Overheads	(775)	(807)	(799)	(827)	(863)
Pre-provision operating profit	**847**	**882**	**975**	**864**	**904**
Loan impairment allowances	(131)	(278)	(444)	(280)	(221)
Other impairment allowances	(8)	(37)	-	-	-
Income from associates	0	0	0	0	0
Pre-tax profit	**708**	**568**	**531**	**583**	**683**
Taxation	(170)	(144)	(127)	(140)	(164)
Reported net profit	**538**	**424**	**404**	**443**	**519**
Recurring net profit	**538**	**424**	**404**	**443**	**519**

Profitability ratios	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Return on average assets (%)	1.0	0.7	0.7	0.7	0.8
Return on average equity (%)	9.6	7.2	6.6	6.8	7.6
Return on IEAs (%)	4.4	4.3	3.9	3.9	3.9
Cost of funds (%)	2.1	2.2	1.9	1.9	1.9
Net interest spread (%)	2.3	2.1	2.1	2.0	2.0
Net interest margin (%)	2.5	2.4	2.3	2.2	2.2
Non-interest income / total income (%)	16.3	19.6	23.2	17.6	17.6
Cost to income ratio (%)	47.8	47.8	45.0	48.9	48.8
Credit cost (bps)	31.5	64.1	100.4	61.8	47.0

Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total gross loans	42,823	43,769	44,661	46,009	47,849
Other interest earning assets	11,827	15,486	16,508	17,372	18,266
Total gross IEAs	54,650	59,256	61,169	63,381	66,115
Total provisions	(503)	(659)	(970)	(1,112)	(1,182)
Net loans to customers	42,538	43,403	43,845	45,057	46,827
Total net IEAs	54,147	58,596	60,198	62,269	64,932
Total non-IEAs	2,374	2,379	2,581	2,608	2,628
Total assets	56,521	60,975	62,779	64,877	67,561
Customer deposits	45,018	48,426	49,636	51,126	53,171
Other interest-bearing liabilities	3,248	4,606	4,742	4,867	5,008
Total IBLs	48,266	53,031	54,379	55,993	58,179
Total non-IBLs	2,522	1,955	2,101	2,227	2,360
Total liabilities	50,788	54,986	56,480	58,219	60,538
Share capital	1,548	1,548	1,548	1,548	1,548
Shareholders' equity	5,733	5,989	6,300	6,658	7,022

Asset quality and capital	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Reported NPLs / gross cust loans (%)	1.1	2.0	1.8	3.3	3.0
Total provisions / reported NPLs (%)	105.5	75.7	120.7	73.2	82.4
CET-1 ratio (%)	13.7	13.8	14.3	14.7	15.0

Source: Company data, RHB

Valuation

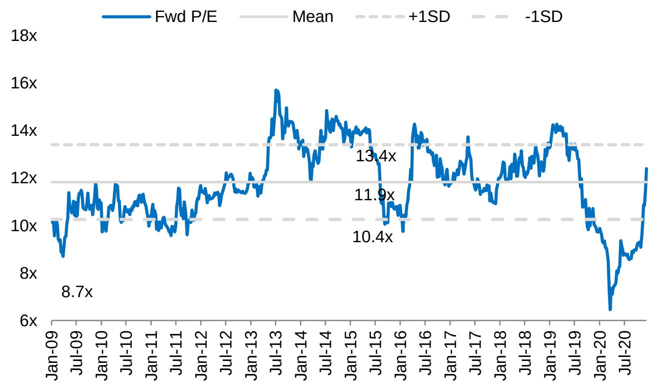
Our GGM-derived TP is raised to MYR2.90 from MYR2.60 mainly due to a lower risk premium assumption. We value ABMB at 0.7x FY22F P/BV, which is below -1SD from its mean.

Figure 1: ABMB's GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.0
Risk free rate (%)	2.9	COE (%)	9.5
Equity premium (%)	6.0	Long-term growth (g)	2.0
Beta (x)	1.1	Implied P/BV (x)	0.7
Cost of equity - CAPM (%)	9.5	BVPS – FY22F	MYR 4.30
		Target price	MYR 2.86
		TP (rounded)	**MYR 2.90**

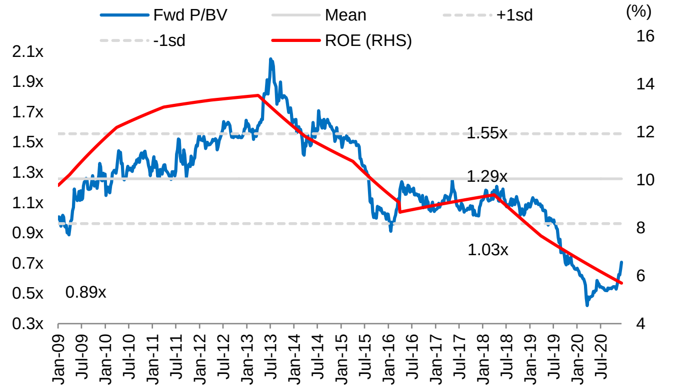
Source: Company data, RHB

Figure 2: ABMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: ABMB's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-29	Neutral	2.60	2.58
2020-08-31	Neutral	2.20	2.19
2020-06-26	Neutral	2.40	2.20
2020-03-23	Buy	2.10	1.60
2020-03-01	Buy	2.70	2.31
2020-01-21	Buy	2.90	2.53
2019-11-28	Neutral	2.90	2.65
2019-08-28	Neutral	3.10	3.02
2019-08-13	Buy	4.20	3.30
2018-09-03	Buy	4.80	4.12

Source: RHB, Bloomberg

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