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**Rationale for report: Sector update**

## Investment Highlights

- Prime Minister Tan Sri Muhyiddin Yassin has announced that there will be no extension of the blanket automatic moratorium which took effect from 1 April to 30 September 2020 (6 months).
- However, there will be a new moratorium in the form of restructuring and rescheduling (R&R) to assist individual borrowers and companies in the vulnerable segments i.e. **targeted assistance** for these groups.
- For retail borrowers, the targeted assistance will focus on those who are unemployed. For the unemployed borrowers, the moratorium will be extended by another 3 months (1 October to 31 December 2020). Any further extension after 3 months will be at the discretion of individual banks. As for individuals who are still employed but have had their wages cut as a result of Covid-19, assistance will be provided by banks to restructure and reschedule loans for at least 6 months. This is to lower the instalment amount to commensurate with their reduced salaries.
- For all individual borrowers, SMEs and entrepreneurs, we understand that banks will assist them in restructuring and rescheduling their loans as well as look into granting exemptions until the borrowers' financial conditions have stabilised. Banks are expected to assess the long-term viability of businesses before acceding to any R&Rs.
- Also, banks will assist these borrowers to restructure and reschedule their hire purchase (HP) loans to appropriate instalment amounts in accordance to the HP Act 1967.
- We understand that for R&Rs of loans until 30 June 2021, there will be no deterioration in the staging of loan accounts to impaired status. The existing staging of loans under FRS 9 still applies.
- We expect the impact of the targeted assistance to be significantly lower on banks' earnings than the modification loss in 2Q20 from the earlier automatic loan moratorium.
- However, banks will need to set aside additional provisioning for the loans under R&Rs for the targeted assistance (management overlay). Provisions from the management overlay, coupled with that for macro overlay (changes in macro variables), are anticipated to cause banks credit costs to remain elevated.
- There remains pressure on interest margins in 2H2020 as we expect another OPR cut of 25bps to reduce the benchmark interest rate to 1.50%. We are also concerned about upticks in impairments of loans after the moratorium. **We remain NEUTRAL on the sector, and continue to have BUYS on Maybank (FV: RM8.40/share) and RHB Bank (FV: RM6.00/share).**

## EXHIBIT 1: VALUATION MATRIX

	Rec.	Target		Upside (%)	Mkt Cap (RM Mil)	EPS (sen)		PER		Net DPS		Net DivYield		BV		PBV	
		29-Jul	Price			20	21	20	21	20	21	20	21	20	21	20	21
AMMB	NR	2.99	-	-	8,998	44.6	37.6	6.7	8.0	13.3	14.6	4.4	4.9	6.2	6.3	0.5	0.5
Maybank	BUY	7.75	8.40	8.4%	87,121	58.6	65.2	13.2	11.9	45.1	50.2	5.8	6.5	7.5	7.9	1.0	1.0
Public Bank	HOLD	17.54	16.00	-8.8%	68,093	122.0	130.4	14.4	13.4	61.0	65.2	3.5	3.7	11.9	12.5	1.5	1.4
RHB Bank	BUY	5.00	6.00	20.0%	20,050	55.1	58.0	9.1	8.6	31.0	29.0	6.2	5.8	6.8	7.2	0.7	0.7
Hong Leong	HOLD	15.00	15.30	2.0%	32,516	124.3	125.9	12.1	11.9	49.8	50.4	3.3	3.4	13.5	14.4	1.1	1.0
CIMB	HOLD	3.60	3.30	-8.3%	35,723	28.6	33.7	12.6	10.7	15.3	18.1	4.3	5.0	6.0	6.2	0.6	0.6
ABMB	HOLD	2.14	2.00	-6.5%	3,313	27.4	23.2	7.8	9.2	6.0	11.1	2.8	5.2	3.9	3.9	0.6	0.6
BIMB	HOLD	3.53	3.60	2.0%	6,328	40.1	44.0	8.8	8.0	14.8	16.2	4.2	4.6	3.6	4.1	1.0	0.9
MBSB	BUY	0.53	0.62	17.0%	3,592	6.4	7.8	8.3	6.8	3.0	5.0	5.7	9.4	1.3	1.3	0.4	0.4
<b>Average</b>						<b>62.6</b>	<b>64.8</b>	<b>10.6</b>	<b>10.2</b>	<b>29.5</b>	<b>31.8</b>	<b>4.3</b>	<b>4.9</b>	<b>7.4</b>	<b>7.8</b>	<b>0.9</b>	<b>0.8</b>
Non-bank																	
HLFG	BUY	13.64	16.00	17.3%	15,621	158.3	152.5	8.6	8.9	38.2	36.8	2.8	2.7	18.0	19.3	0.8	0.7

Forecasts by AmInvestment Bank \*Hong Leong Bank has been downgraded from BUY to HOLD due to limited upside while MBSB has been upgraded to a BUY with unchanged FV of RM0.62/share after retracement of share price leading to an upside of 17.0%

Source: Bloomberg / Company / AmInvestment. Note: AMMB's estimates based on Bloomberg consensus forecasts. NR denotes Non-Rated

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