



AmInvestment Bank

Sector Report

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BANKING

2Q20 earnings review: Higher credit cost

NEUTRAL

(Maintained)

Rationale for report: Sector update

Investment Highlights

- **Banks' 6M20 core calendarised earnings growth slipped 13.4% YoY due to lower interest income from consecutive OPR cuts and higher provision. This was despite a higher investment and trading income lifting banks' non-interest income (NOII) in 6M20.** Earnings of Maybank, Public Bank, RHB Bank, Hong Leong Bank, Alliance Bank and BIMB were within our expectations while that of CIMB were below our estimate largely due to higher provisions. Meanwhile, AMMB core earnings were above consensus projection.
- **Still a low single-digit loan growth of 2.9% YoY for the sector. Domestic loans of Maybank and CIMB's grew higher than the industry's credit growth but was partially offset by a slowdown in international markets' loans. Public Bank's domestic loan continued to grow slower the industry's while its international loans moderated due to a contraction in Hong Kong and China's financing.** We expect the industry loan growth to be 3.0–4.0% in 2020, underpinned by potentially further disbursements for special relief facilities for SMEs and a slightly better household loan growth in 2H20 than 1H20 after the easing of MCO restrictions.
- **Modification loss came in significantly lower than market expectations in 2Q20.** Total net modification loss for banks under our coverage came in at RM1.78bil (see Exhibit 8) vs. RM4.4bil reported by the media. Maybank and Public Bank, with relatively larger HP portfolio, reported net modification loss of RM314mil and RM498mil respectively.
- **The sector's underlying net interest margin (NIM) fell 11bps QoQ in 2Q20 due to the OPR cut of 50bps in May 2020.** Our banks' earnings have already factored in 150bps of rate reduction for this year, which includes another 25bps cut expected in the next MPC meeting on 10 Sept 2020. For 2020, we expect the sector's NIM to be compressed by 14bps while a flat interest margin on average is expected for 2021.
- **The sector's NOII rose by 3.8% YoY in 6M20 largely due to gains from disposals and marked-to market revaluation of securities.** 2Q20 saw favourable movement in yields compared to 1Q20, resulting in marked-to-market gains from revaluation of securities while most banks including Maybank, RHB and Public Bank disposed of a portion of the securities to realise gains. Additionally, FVTOCI reserves of banks surged. Brokerage income was stronger for most banks in 6M20 due to the stronger equity market performance in 2Q20.
- **GIL ratio for the sector (based on stocks under coverage) in 2Q20 declined to 1.99% with most banks recording lower impaired loans QoQ as a large percentage of retail and SME loans still under the loan moratorium.** For 2Q20, credit cost for the sector surged to 0.89% (1Q20: 0.60%) with banks continuing to increase provisions due to management overlay. Besides, banks have factored in weaker macroeconomic data, resulting in higher expected credit losses (ECL), and hence the need for provisions to increase. For 6M20, credit cost climbed to 0.74% vs. 0.20% in 6M19. We are now projecting an average credit cost of 0.48% for both 2020 and 2021.
- **The sector's calendarised core earnings growth for 2020 is now revised to -21.6% from -17.9% largely after adjusting our assumptions for higher credit cost. For 2021, we project a recovery in earnings to +11.6% (earlier: +7.7%) based on expectation of lower pressure on interest margins while credit cost remains elevated. Maintain NEUTRAL as uncertainties on the asset quality and credit cost post-moratorium continue to cloud the sector. Our top picks are Hong Leong Bank, RHB Bank and Maybank.**

EXHIBIT 1: VALUATION MATRIX

	Rec.	7-Sep Price	Target	Upside (%)	Mkt Cap (RM Mii)	EPS (sen)		PER		Net DPS		Net DivYield		BV	BV	PBV	PBV
						20	21	20	21	20	21	20	21	20	21	20	21
AMMB	NR	3.02	-	-	9,089	44.6	36.9	6.8	8.2	13.3	13.6	4.4	4.5	6.2	6.4	0.5	0.5
Maybank	BUY	7.26	8.40	15.7%	81,612	58.6	65.2	12.4	11.1	45.1	50.2	6.2	6.9	7.5	7.9	1.0	0.9
Public Bank	HOLD	16.06	16.00	-0.4%	62,347	120.5	131.1	13.3	12.3	60.3	65.5	3.8	4.1	11.9	12.5	1.4	1.3
RHB Bank	BUY	4.69	5.70	21.5%	18,807	51.8	58.0	9.1	8.1	31.0	29.0	6.6	6.2	6.8	7.1	0.7	0.7
Hong Leong	BUY	14.82	16.50	11.3%	32,126	128.8	133.9	11.5	11.1	36.0	40.2	2.4	2.7	13.3	14.3	1.1	1.0
CIMB	HOLD	3.24	3.10	-4.3%	32,150	20.5	29.6	15.8	10.9	11.0	15.8	3.4	4.9	6.0	6.2	0.5	0.5
ABMB	HOLD	2.17	2.00	-7.8%	3,359	27.4	23.2	7.9	9.4	6.0	11.1	2.8	5.1	3.9	3.9	0.6	0.6
BIMB	HOLD	3.55	3.60	1.4%	6,364	40.0	45.0	8.9	7.9	14.8	16.6	4.2	4.7	3.6	4.1	1.0	0.9
MBSB	BUY	0.56	0.78	39.3%	3,906	7.7	9.4	7.3	6.0	4.9	4.9	8.8	8.8	1.3	1.3	0.4	0.4
Average						61.5	65.4	10.7	9.9	27.2	30.3	4.2	4.9	7.4	7.8	0.8	0.8
Non-bank																	
HLFG	BUY	13.84	17.20	24.3%	15,850	174.9	179.6	7.9	7.7	38.0	41.3	2.7	3.0	18.3	20.0	0.8	0.7

Forecasts by AmInvestment Bank

EXHIBIT 2: CALENDARISED CORE EARNINGS OF BANKS (RM MIL)

	2Q19	1Q20	2Q20	Chg QoQ	Chg YoY	6M19	6M20	Chg YoY	Results vs. our estimates (Above/Within/Below)
AMMB	391	375	417	11.2%	6.5%	619	792	27.9%	Above consensus projection
Maybank	1,941	2,050	1,256	-38.7%	-35.3%	3750	3,305	-11.9%	Within
Public Bank	1,333	1,329	1,381	3.9%	3.6%	2743	2,710	-1.2%	Within
RHB Bank	615	571	687	20.3%	11.6%	1246	1,258	1.0%	Within
Hong Leong	636	535	712	33.1%	11.9%	1270	1,247	-1.9%	Within
CIMB	1,272	508	489	-3.7%	-61.5%	2449	997	-59.3%	Below
ABMB	77	98	104	6.4%	36.0%	188	202	7.4%	Within
BIMB Holdings	195	209	251	19.9%	28.5%	398	460	15.7%	Within
Total	6,461	5,675	5,297	-6.7%	-18.0%	12,663	10,971	-13.4%	

Source: AmlInvestment Bank Bhd

LOWER 2Q20 EARNINGS ATTRIBUTED TO DECLINE INTEREST INCOME FROM MARGIN COMPRESSION AND FURTHER INCREASE IN PROVISIONS

2Q20 sector core calendarised earnings slipped 6.7% QoQ or -18.0% YoY. QoQ, earnings were weighed down by another OPR cut of 50bps and higher provisions with banks continuing to build up their buffer for allowances on potential loans losses.

Salient points of 2Q20 results:

- i) Overall loan growth remained modest YoY in 2Q20. The larger banks, Maybank and CIMB, recorded domestic loan growth which was faster than the industry's. However, this was offset by a slowdown in international markets' loans. Meanwhile, Public Bank recorded slower domestic loans, below the industry growth and a slower pace in international loans led by the contraction in Hong Kong and China's loans;
- ii) The sector's net LD ratio declined to 90.1% with supported by the faster deposit growth of the larger cap banks (Maybank, CIMB, Public Bank) as well as RHB Bank and BIMB;
- iii) CASA ratio climbed higher to 32.6% with banks recording strong traction in low-cost deposits;
- iv) Total net modification loss for banks under our coverage was RM1.78bil (see Exhibit 8). It was significantly lower than market expectation, in particularly, Maybank and Public Bank which have relatively larger HP portfolio;
- v) Average underlying NIM, excluding the modification loss for the sector, fell by 11bps QoQ to 2.07% largely due to a further OPR reduction of 50bps in May 2020 to 1.75% as well the decline in benchmark interest rates regionally in Indonesia, Thailand and Singapore;
- vi) NOII was still higher for banks due to stronger investment and trading income derived from gains through the disposal of securities and marked-to-market revaluation of investment securities with MGS yields trending lower vs. the high in Mar 2020.

Also, brokerage income was better for certain banks like RHB.

- vii) For 2Q20, credit cost for the sector surged to 0.89% (1Q20: 0.60%) as banks continued to increase provisions due to management overlay. Besides, banks have factored in weaker macroeconomic data, resulting in higher ECL, and hence the need for provisions to increase. For 6M20, credit cost climbed to 0.74% vs. 0.20% in 6M19;
- viii) The sector's GIL ratio (based on the banks that are under our coverage) decreased to 1.99% in 2Q20 from 2.08% in 1Q20 with all banks recording lower impaired loans QoQ except for CIMB with the latter reporting a rise in impairments regionally (Singapore, Indonesia and Thailand). The decline in the formation of new impaired loans for most banks was due to the bulk of retail and SME loans which are still under the automatic blanket moratorium (Apr to Sept 2020); and
- ix) Sector loan loss cover (including regulatory reserves) in 2Q20 rose to 154.0% in 2Q20 from 134.3% in 1Q20. This was contributed by additional provisions ahead of the potential impact from Covid-19 while impaired loans fell QoQ.

EXHIBIT 3: TOTAL GROSS LOANS (RM BIL) BY QUARTER

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	101	102	105	107	107
Maybank	526	525	523	518	520
Public Bank	324	327	330	333	335
RHB Bank	172	173	176	176	181
Hong Leong	138	139	141	142	146
CIMB	355	361	369	364	370
ABMB	43'	43'	44'	44'	43'
BIMB Holdings	47	49	50	51	53
Total	1,705	1,719	1,739	1,736	1,755

EXHIBIT 4: GROSS LOAN GROWTH (% CHG QoQ)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	-1.0%	1.1%	2.5%	2.6%	0.2%
Maybank	1.7%	-0.1%	-0.3%	-1.0%	0.3%
Public Bank	1.0%	1.1%	1.0%	0.7%	0.5%
RHB Bank	1.3%	0.2%	2.0%	0.0%	2.6%
Hong Leong	3.0%	0.8%	1.9%	0.8%	2.5%
CIMB	1.5%	1.3%	2.4%	-1.5%	1.6%
ABMB	-0.1%	1.3%	0.7%	0.3%	-0.6%
BIMB Holdings	0.7%	3.9%	2.6%	1.9%	3.1%
Sector	1.4%	0.8%	1.2%	-0.2%	1.1%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 5: GROSS LOAN GROWTH (% CHG YoY)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	2.5%	2.0%	4.2%	5.3%	6.5%
Maybank	4.6%	3.4%	1.2%	0.3%	-1.0%
Public Bank	4.2%	4.1%	4.1%	3.9%	3.4%
RHB Bank	6.8%	5.1%	4.3%	3.6%	4.9%
Hong Leong	6.6%	6.8%	7.3%	6.6%	6.1%
CIMB	6.9%	5.6%	6.7%	3.8%	3.9%
ABMB	5.5%	5.5%	5.2%	2.2%	1.7%
BIMB Holdings	7.2%	8.7%	8.1%	9.3%	11.9%
Sector	5.3%	4.6%	4.2%	3.1%	2.9%

Source: Companies, AmlInvestment Bank Bhd

STILL A LOW SINGLE-DIGIT GROWTH FOR LOANS

Aggregate sector gross loans continued to be muted 2.9% YoY in 2Q20 compared to 3.1% YoY in 1Q20. For Maybank, loan growth remained subdued at -0.1% YoY with expansion of loans in Malaysia offset by the contraction of international markets' (Singapore and Indonesia) loans. Meanwhile, for CIMB, the group's gross loans remained modest at 3.9% YoY with domestic loans at 4.8% YoY, expanding above the industry's 4.1% YoY while loans in Indonesia and Thailand eased and that in Singapore was flattish. CIMB continued to be cautious on commercial loans in Indonesia and Thailand.

Meanwhile, for Public Bank, domestic loan growth continued to be slow at 3.6% YoY, growing below the

industry's 4.1% YoY while international loans moderated to 1.0% YoY due to a contraction of financing in Hong Kong and China.

EXHIBIT 6: NET LD RATIO (%)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	97.0%	98.1%	97.8%	94.0%	92.9%
Maybank	95.6%	94.3%	94.3%	97.8%	92.5%
Public Bank	92.2%	92.8%	93.0%	93.2%	92.4%
RHB Capital	91.5%	92.7%	90.9%	89.3%	89.1%
Hong Leong	83.6%	84.1%	83.9%	84.1%	83.4%
CIMB	91.4%	91.4%	91.8%	91.2%	87.6%
ABMB	93.0%	92.8%	92.2%	88.4%	87.2%
BIMB Holdings	86.0%	87.6%	87.5%	92.6%	90.6%
Sector	92.3%	92.3%	92.2%	92.7%	90.1%

Note: LD ratio includes placements under investment accounts. Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 7: REPORTED NET INTEREST INCOME (NII) (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20	6M19	6M20
AMMB	468	473	505	492	444	891	937
Maybank	2,898	3,160	3,084	2,911	2,698	5,851	5,609
Public Bank	1,851	1,896	1,945	1,836	1,499	3,731	3,335
RHB Bank	881	917	931	894	497	1,761	1,392
Hong Leong	668	704	729	680	651	1,360	1,331
CIMB	2,377	2,568	2,678	2,573	2,480	4,838	5,053
ABMB	248	242	242	254	241	501	496
BIMB Holdings	400	409	404	457	343	805	800
Total	9,791	10,369	10,518	10,099	8,854	19,738	18,952
% over total/net income							
AMMB	44.0%	44.2%	45.7%	49.8%	40.7%	44.1%	45.0%
Maybank	49.2%	48.6%	47.5%	43.3%	47.8%	49.8%	45.3%
Public Bank	67.2%	68.7%	68.3%	65.7%	62.5%	67.9%	64.2%
RHB Bank	49.6%	52.7%	50.6%	51.3%	31.6%	50.0%	41.9%
Hong Leong	57.2%	58.0%	58.9%	60.2%	54.4%	58.2%	57.2%
CIMB	53.2%	55.4%	59.2%	62.1%	64.2%	56.0%	63.1%
ABMB	61.0%	56.3%	57.1%	58.6%	57.2%	61.9%	57.9%
BIMB Holdings	54.4%	53.0%	50.4%	56.1%	51.9%	53.2%	54.2%
Average	53.6%	54.2%	54.6%	53.8%	52.5%	54.7%	53.2%
Growth %YoY							
AMMB	8.6%	9.6%	15.1%	16.5%	-5.1%	na	5.1%
Maybank	-2.1%	5.9%	-0.8%	-1.4%	-6.9%	na	-4.1%
Public Bank	-1.5%	1.0%	1.9%	-2.3%	-19.1%	na	-10.6%
RHB Bank	-6.0%	3.0%	3.7%	1.6%	-43.5%	na	-21.0%
Hong Leong	-3.2%	0.9%	3.2%	-1.6%	-2.6%	na	-2.1%
CIMB	0.4%	6.4%	10.0%	4.5%	4.3%	na	4.4%
ABMB	1.7%	-2.0%	-5.0%	0.4%	-2.7%	na	-1.1%
BIMB Holdings	12.9%	2.9%	7.1%	12.9%	-14.3%	na	-0.6%
Sector	-0.7%	4.3%	3.9%	1.5%	-9.6%	na	-4.0%
Growth %QoQ							
AMMB	10.8%	1.0%	6.8%	-2.5%	-9.8%	na	na
Maybank	-1.9%	9.1%	-2.4%	-5.6%	-7.3%	na	na
Public Bank	-1.5%	2.4%	2.6%	-5.6%	-18.4%	na	na
RHB Bank	0.07%	4.13%	1.53%	-3.9%	-44.38%	na	na
Hong Leong	-3.3%	5.4%	3.5%	-6.7%	-4.3%	na	na
CIMB	-3.4%	8.0%	4.3%	-3.9%	-3.6%	na	na
ABMB	-2.1%	-2.5%	0.1%	5.1%	-5.2%	na	na
BIMB Holdings	-1.1%	2.3%	-1.3%	13.2%	-25.0%	na	na
Sector	-1.6%	5.9%	1.4%	-4.0%	-12.3%	na	na

Source: Companies, AmlInvestment Bank Bhd

REPORTED NII IMPACTED BY OPR CUTS AND MODIFICATION LOSS

The sector's NII growth fell to 4.0% YoY 6M20 attributed to consecutive rate cuts of 100bps and as well as modification loss from the loan moratorium. The reported medication loss by banks was way lower than

market expectations. Moving forward, another modification loss is expected to occur in 4Q20 but the amount is expected to be substantially lower than 2Q20. We see modification loss to be behind us now as it is no longer an uncertainty overhanging the sector. The percentage of net interest income to total income for the sector decreased to 52.5% in 6M20. We expect another OPR cut of 25bps as early as the next MPC meeting on 10 September 2020, reducing the benchmark interest rate further to 1.50%.

With further OPR cuts resulting in the decline in MGS, we continue to expect banks' NOII to benefit from gains through the disposal of securities and marked-to-market revaluation for bonds. This will mitigate the drop in interest income from the reductions in OPR.

NIM CONTRACTED 34BPS QoQ IN 2Q20

The sector's average NIM in 2Q20 dropped by 34bps QoQ to 1.84%. BIMB recorded the steepest interest margin compression followed by Public Bank due to the latter's high modification loss of RM498.4mil. Margin compression based on underlying NIM, excluding the modification loss, was 11bps QoQ to an average 2.07%.

EXHIBIT 8: NET MODIFICATION LOSS OF BANKS

Banks	Modification loss (RM Mil)
AMMB	58
Maybank	314
Public Bank	498
RHB Bank	392
Hong Leong	142
CIMB	281
ABMB	0
BIMB Holdings	98
Total	1,784

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 9: REPORTED NIM BY QUARTER (%) WITH MODIFICATION LOSS

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	1.87%	1.91%	2.02%	1.95%	1.59%
Maybank	2.19%	2.32%	2.29%	2.23%	1.95%
Public Bank	2.12%	2.12%	2.17%	2.08%	1.57%
RHB Bank	2.09%	2.13%	2.14%	2.11%	1.82%
Hong Leong	1.89%	2.03%	2.04%	1.84%	1.62%
CIMB	2.37%	2.52%	2.53%	2.44%	2.15%
ABMB	2.43%	2.34%	2.39%	2.46%	2.21%
BIMB Holdings	2.55%	2.44%	2.49%	2.38%	1.84%
Average	2.19%	2.23%	2.26%	2.19%	1.84%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 10: UNDERLYING NIM BY QUARTER (%) EXCLUDING MODIFICATION LOSS

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	1.87%	1.91%	2.02%	1.95%	1.74%
Maybank	2.19%	2.32%	2.29%	2.23%	2.03%
Public Bank	2.12%	2.12%	2.17%	2.08%	1.98%
RHB Bank	2.09%	2.13%	2.14%	2.11%	2.05%
Hong Leong	1.89%	2.03%	2.04%	1.84%	1.92%
CIMB	2.37%	2.52%	2.53%	2.44%	2.35%
ABMB	2.43%	2.34%	2.39%	2.46%	2.21%
BIMB Holdings	2.55%	2.44%	2.49%	2.38%	2.30%
Average	2.19%	2.23%	2.26%	2.19%	2.07%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 11: CASA RATIO (%)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	22.5%	22.8%	23.4%	25.5%	26.8%
Maybank	34.9%	34.6%	35.5%	38.4%	40.2%
Public Bank	25.3%	25.4%	25.1%	25.4%	26.9%
RHB Bank	26.6%	25.4%	25.7%	27.4%	28.6%
Hong Leong	25.6%	25.6%	25.9%	26.4%	27.9%
CIMB	34.4%	34.3%	34.4%	36.5%	36.5%
ABMB	35.1%	37.4%	37.5%	37.4%	37.6%
BIMB Holdings	31.5%	31.2%	32.8%	35.9%	36.2%
Average	29.5%	29.6%	30.0%	31.6%	32.6%

Source: Companies, AmInvestment Bank Bhd

EXHIBIT 12: CASA GROWTH (% QoQ)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	-7.2%	1.3%	5.9%	16.5%	6.2%
Maybank	1.3%	0.5%	2.0%	1.8%	12.2%
Public Bank	0.9%	0.1%	0.5%	1.5%	7.3%
RHB Bank	7.6%	-5.6%	5.4%	8.7%	7.1%
Hong Leong	5.3%	0.2%	3.4%	2.4%	9.3%
CIMB	6.2%	0.9%	2.3%	5.3%	10.5%
ABMB	-0.1%	8.3%	1.3%	3.7%	1.9%
BIMB Holdings	-3.9%	1.4%	8.9%	2.6%	3.9%
Average	1.3%	0.9%	3.7%	5.3%	7.3%

Source: Companies, AmInvestment Bank Bhd

EXHIBIT 13: CASA GROWTH (% YoY)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	11.0%	6.2%	12.0%	15.9%	32.7%
Maybank	2.1%	3.0%	0.3%	5.6%	17.0%
Public Bank	4.6%	3.4%	2.0%	3.2%	9.6%
RHB Bank	2.2%	0.6%	5.5%	16.4%	15.8%
Hong Leong	1.3%	5.5%	7.3%	11.8%	15.9%
CIMB	6.0%	12.6%	11.2%	15.5%	20.2%
ABMB	1.6%	7.7%	7.7%	13.6%	15.9%
BIMB Holdings	-3.5%	4.1%	3.7%	8.8%	17.6%
Average	3.2%	5.4%	6.2%	11.3%	18.1%

Source: Companies, AmInvestment Bank Bhd

HIGHER NOII FOR SECTOR IN 2Q20

2Q20 saw higher NOII QoQ for Public Bank, RHB and Hong Leong Bank. Public Bank's higher NOII was contributed largely by higher gains from the sale of securities and unrealised gains on revaluation of securities/investments. Meanwhile, RHB recorded an improved NOII from stronger brokerage income and higher treasury income (gains from sale of FVTPL and FVTOCI securities) as well as marked-to-market gains on FVTPL securities with the decline in MGS yields compared to that in Mar 2020. Hong Leong also registered higher NOII QoQ supported by gains from the sale of securities and higher unrealised gains from securities and derivatives in the quarter.

Maybank's NOII fell QoQ due to lower fee income with the drop in business activities during the MCO, a decline in investment and trading income and the recognition of marked-to-market losses on derivatives compared to gains in 1Q20.

EXHIBIT 14: REPORTED NON-INTEREST INCOME (NOI) (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20	6M19	6M20
AMMB	366	350	386	166	468	661	634
Maybank	1,589	1,844	1,824	2,192	1,699	2,999	3,891
Public Bank	635	563	618	618	701	1,220	1,319
RHB Bank	464	405	526	404	682	946	1,085
Hong Leong	325	311	302	243	311	612	554
CIMB	1,339	1,250	1,087	778	861	2,335	1,639
ABMB	66	96	81	88	85	122	173
BIMB Holdings	373	401	398	392	343	774	735
Total	5,157	5,220	5,223	4,881	5,150	9,667	10,031
% over total/ net income							
AMMB	34.4%	32.7%	35.0%	16.8%	42.8%	32.7%	30.5%
Maybank	27.0%	28.4%	28.1%	32.6%	30.1%	25.5%	31.5%
Public Bank	23.0%	20.4%	21.7%	22.1%	29.2%	22.2%	25.4%
RHB Bank	26.1%	23.3%	28.6%	23.1%	43.3%	26.9%	32.7%
Hong Leong	27.8%	25.6%	24.4%	21.5%	26.0%	26.2%	23.8%
CIMB	30.0%	27.0%	24.0%	18.8%	22.3%	27.0%	20.5%
ABMB	16.2%	22.3%	19.2%	20.2%	20.2%	15.1%	20.2%
BIMB Holdings	50.8%	52.0%	49.7%	48.1%	52.0%	51.1%	49.8%
Average	28.2%	27.3%	27.1%	26.0%	30.6%	26.8%	28.2%
Growth %YoY							
AMMB	6.0%	2.9%	45.2%	-43.4%	27.7%	na	-4.0%
Maybank	4.3%	41.2%	7.7%	55.5%	6.9%	na	29.7%
Public Bank	18.9%	1.2%	16.7%	5.7%	10.5%	na	8.2%
RHB Bank	50.2%	1.8%	17.4%	-16.1%	46.8%	na	14.8%
Hong Leong	0.4%	-18.1%	14.9%	-15.5%	-4.0%	na	-9.4%
CIMB	-26.6%	18.0%	13.1%	-21.9%	-35.7%	na	-29.8%
ABMB	-11.5%	48.4%	17.9%	55.7%	29.8%	na	41.7%
BIMB Holdings	20.9%	14.4%	7.8%	-2.2%	-8.1%	na	-5.1%
Sector	-1.7%	17.2%	13.6%	8.2%	-0.1%	na	3.8%
Growth %QoQ							
AMMB	24.5%	-4.5%	10.4%	-56.9%	181.0%	na	na
Maybank	12.7%	16.0%	-1.1%	20.2%	-22.5%	na	na
Public Bank	8.4%	-11.3%	9.8%	0.0%	13.4%	na	na
RHB Bank	-3.5%	-12.8%	29.9%	-23.3%	68.9%	na	na
Hong Leong	13.1%	-4.2%	-2.8%	-19.7%	28.4%	na	na
CIMB	34.5%	-6.6%	-13.1%	-28.4%	10.7%	na	na
ABMB	16.5%	45.4%	-15.0%	8.1%	-2.9%	na	na
BIMB Holdings	-6.7%	7.5%	-0.8%	-1.7%	-12.4%	na	na
Sector	14.3%	1.2%	0.1%	-6.5%	5.5%	na	na

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 15: REPORTED ISLAMIC BANKING INCOME (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20	6M19	6M20
AMMB	230	246	213	330	180	468	510
Maybank	1,403	1,495	1,585	1,621	1,252	2,900	2,872
Public Bank	269	300	286	341	200	543	541
RHB Bank	431	419	383	447	395	812	842
Hong Leong	175	200	206	206	234	363	440
CIMB	753	821	758	792	524	1,462	1,316
ABMB	93	92	101	92	95	187	187
BIMB Holdings	na	na	na	na	na	0	0
Total	3,354	3,571	3,534	3,830	2,880	6,735	6,710
% over total/net income							
AMMB	21.6%	23.0%	19.3%	33.4%	16.5%	23.2%	24.5%
Maybank	23.8%	23.0%	24.4%	24.1%	22.2%	24.7%	23.2%
Public Bank	9.7%	10.9%	10.0%	12.2%	8.3%	9.9%	10.4%
RHB Bank	24.3%	24.1%	20.8%	25.6%	25.1%	23.1%	25.4%
Hong Leong	15.0%	16.4%	16.7%	18.3%	19.6%	15.6%	18.9%
CIMB	16.9%	17.7%	16.8%	19.1%	13.6%	16.9%	16.4%
ABMB	22.9%	21.4%	23.8%	21.2%	22.5%	23.0%	21.9%
BIMB Holdings	na	na	na	na	na	na	na
Average	18.4%	18.7%	18.3%	20.4%	17.1%	18.7%	18.8%
Growth %YoY							
AMMB	-2.80%	4.45%	-11.89%	38.95%	-21.67%	na	9.13%
Maybank	3.1%	6.5%	5.7%	8.3%	-10.8%	na	-0.94%
Public Bank	2.3%	13.0%	5.1%	24.3%	-25.5%	na	-0.32%
RHB Bank	16.2%	5.6%	-0.9%	17.4%	-8.5%	na	3.62%
Hong Leong	7.5%	16.8%	19.5%	9.5%	33.8%	na	21.16%
CIMB	12.2%	22.9%	11.4%	11.8%	-30.4%	na	-9.95%
ABMB	12.4%	4.4%	6.7%	-1.7%	2.1%	na	0.17%
BIMB Holdings	na	na	na	na	na	na	na
Average	6.6%	10.6%	5.5%	13.3%	-14.1%	na	-0.37%
Growth %QoQ							
AMMB	-3.2%	7.0%	-13.3%	54.7%	-45.4%	na	na
Maybank	-6.3%	6.5%	6.1%	2.2%	-22.8%	na	na
Public Bank	-2.3%	11.5%	-4.4%	19.2%	-41.4%	na	na
RHB Bank	13.2%	-2.9%	-8.5%	16.6%	-11.7%	na	na
Hong Leong	-7.2%	14.2%	3.3%	-0.1%	13.5%	na	na
CIMB	6.3%	8.9%	-7.6%	4.5%	-33.8%	na	na
ABMB	-0.6%	-1.3%	9.8%	-8.8%	3.3%	na	na
BIMB Holdings	na	na	na	na	na	na	na
Sector	-0.8%	6.5%	-1.0%	8.4%	-24.8%	na	na

Source: Companies, AmInvestment Bank Bhd

EXHIBIT 16: GROSS IMPAIRED LOAN (GIL) RATIO BY QUARTER (%)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	1.66%	1.77%	1.71%	1.73%	1.66%
Maybank	2.62%	2.67%	2.65%	2.71%	2.49%
Public Bank	0.53%	0.52%	0.49%	0.46%	0.40%
RHB Bank	2.15%	2.16%	1.97%	2.00%	1.87%
Hong Leong	0.78%	0.81%	0.84%	0.98%	0.61%
CIMB	3.12%	3.15%	3.07%	3.43%	3.61%
ABMB	1.30%	1.66%	1.86%	2.00%	1.89%
BIMB Holdings	1.19%	1.11%	0.86%	0.83%	0.70%
Sector	2.00%	2.04%	1.98%	2.08%	1.99%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 17: LOAN LOSS PROVISIONS (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20	6M19	6M20
AMMB	45	-105	-68	-195	-43	316	-238
Maybank	-392	-958	-334	-962	-1,739	-996	-2,701
Public Bank	-65	-49	-43	-61	-154	-62	-215
RHB Bank	-74	-71	-68	-151	-204	-147	-355
Hong Leong	-47	9	-19	-126	-191	-52	-317
CIMB	-329	-404	-606	-968	-1,470	-629	-2,437
ABMB	-56	-77	-42	-98	-95	-96	-193
BIMB Holdings	-30	-34	3	-31	-26	-53	-57
Total	-947	-1,689	-1,177	-2,592	-3,922	-1,717	-6,514
%QoQ growth	23.0%	78.3%	-30.3%	120.3%	51.3%	na	na
%YoY growth	-9.0%	60.9%	189.1%	236.7%	314.0%	na	279.3%

Source: Companies, AmlInvestment Bank Bhd

SECTOR GIL DECLINED WITH MOST CONSUMER AND SME LOANS STILL UNDER MORATORIUM

The sector's GIL ratio declined to 1.99% in 2Q20 from 2.08% in 1Q20. Most banks recorded lower impaired loans QoQ with the exception of CIMB with a rise in regional loan impairments (Singapore, Indonesia and Thailand) in the latest quarterly results. 2Q20 coincided with the commencement of the 6-month automatic blanket moratorium (1 Apr to 30 Sept 2020) which saw a large percentage of banks' total domestic consumers and SME loans in the loan moratorium, thus deferring repayments.

CIMB's impaired loans rose by 6.9% QoQ or RM866mil to RM13.4bil in 2Q20 with an increase in the impairment of loans in Singapore, Indonesia and Thailand while that of Malaysia decreased. We believe that the rise in loan impairments in Singapore was driven largely by the impairment of loans of another oil trader in Singapore, and this is likely to be Hin Leong.

In Indonesia, pressure on the asset quality for CIMB Niaga's consumer loans seen in 1Q20 has eased in 2Q20 through restructuring and rescheduling (R&R) initiatives. Nevertheless, pressure on NPLs is rising for commercial and corporate loans in Indonesia. The group's GIL ratio continued to rise to 3.61% in 2Q20 from 3.43% in 1Q20.

CREDIT COST ROSE DUE TO BANKS CONTINUED BUILD-UP OF PRE-EMPTIVE PROVISIONS, IN ADDITION TO ALLOWANCES ON LOAN LOSSES BASED ON ECL THROUGH ADJUSTMENTS IN MEVS

2Q20 saw the sector's provisions for loan impairments rising by 51.3% QoQ or RM1.33bil largely due to: i) the increase in provisioning by banks as a result of management overlay; and ii) banks factoring in the weaker macroeconomic data, resulting in higher ECL, and hence the need for higher provisions.

At Maybank, additional provisions of RM500mil were taken based on higher ECL through the adjustments of macroeconomic variables (MEVs) as well as RM1bil provisions (management overlay) on certain specific loan borrowers in 2Q20.

Meanwhile, for CIMB, further provisions were set aside for the group (RM500mil for another defaulted oil trader's loan in Singapore under its wholesale banking which we believe to be Hin Leong, RM470mil from changes in the ECL model through revisions to MEVs coupled with RM98mil for the Covid-19 impact).

EXHIBIT 18: ANNUALISED CREDIT COST BY QUARTER (%)

	2Q19	3Q19	4Q19	1Q20	2Q20	6M19	6M20
AMMB	-0.18%	0.41%	0.26%	0.73%	0.16%	-0.63%	0.44%
Maybank	0.30%	0.73%	0.26%	0.74%	1.34%	0.38%	1.04%
Public Bank	0.08%	0.06%	0.05%	0.07%	0.18%	0.04%	0.13%
RHB Bank	0.17%	0.16%	0.15%	0.34%	0.45%	0.17%	0.39%
Hong Leong	0.14%	-0.03%	0.05%	0.35%	0.52%	0.08%	0.43%
CIMB	0.37%	0.45%	0.66%	1.06%	1.59%	0.35%	1.32%
ABMB	0.52%	0.71%	0.38%	0.90%	0.88%	0.45%	0.89%
BIMB Holdings	0.25%	0.28%	-0.03%	0.24%	0.20%	0.22%	0.21%
Sector	0.22%	0.39%	0.27%	0.60%	0.89%	0.20%	0.74%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 19: LOAN LOSS COVERAGE (%)

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	111.5%	107.0%	105.2%	93.4%	97.0%
Maybank	90.2%	89.1%	90.8%	89.5%	99.2%
Public Bank	226.5%	230.5%	249.8%	261.7%	301.7%
RHB Bank	106.1%	105.8%	107.9%	107.6%	107.7%
Hong Leong	197.9%	195.9%	183.1%	159.7%	236.9%
CIMB	96.7%	94.8%	99.6%	75.9%	81.9%
ABMB	128.2%	105.0%	101.6%	101.4%	102.6%
BIMB Holdings	134.6%	140.2%	179.3%	184.8%	205.2%
Sector Average	136.5%	133.5%	139.6%	134.3%	154.0%

Source: Companies, AmlInvestment Bank Bhd

For 2Q20, credit cost for the sector surged to 0.89% (1Q20: 0.60%). For 6M20, credit cost climbed to 0.74% vs. 0.20% in 6M19.

LOAN LOSS COVER INCREASED WITH ADDITIONAL PROVISIONS AHEAD OF POTENTIAL IMPACT ON ASSET QUALITY FROM COVID-19

Sector loan loss cover (including regulatory reserves) in 2Q20 rose to 154.0% in 2Q20 from 134.3% in 1Q20.

EXHIBIT 20: REPORTED OPERATING INCOME (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20		6M19		6M20
AMMB	1,065	1,069	1,105	989	1,092	▲	2,019	▲	2,081
Maybank	5,890	6,498	6,493	6,724	5,649	▲	11,750	▲	12,373
Public Bank	2,754	2,759	2,850	2,796	2,400	▲	5,493	▲	5,196
RHB Bank	1,777	1,741	1,841	1,745	1,574	▲	3,519	▲	3,319
Hong Leong	1,168	1,215	1,238	1,129	1,197	▲	2,335	▲	2,326
CIMB	4,469	4,638	4,522	4,143	3,865	▲	8,635	▲	8,008
ABMB	407	429	424	434	422	▲	810	▲	856
BIMB Holdings	735	772	801	815	660	▲	1,514	▲	1,475
Total	18,264	19,122	19,274	18,776	16,858		36,075		35,634
%QoQ growth	2.5%	4.7%	0.8%	-2.6%	-10.2%		na		na
%YoY growth	0.2%	8.7%	6.8%	5.4%	-7.7%		na		-1.2%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 21: REPORTED OVERHEAD EXPENSES (RM MIL)

	2Q19	3Q19	4Q19	1Q20	2Q20		6M19		6M20
AMMB	529	526	552	501	539	▲	1,129	▲	1,040
Maybank	2,822	2,964	2,969	2,942	2,706	▲	5,629	▲	5,648
Public Bank	957	953	985	1,000	970	▲	1,881	▲	1,970
RHB Bank	861	843	921	841	846	▲	1,708	▲	1,688
Hong Leong	530	522	527	534	521	▲	1,056	▲	1,055
CIMB	2,294	2,786	2,490	2,318	2,124	▲	4,596	▲	4,443
ABMB	198	198	211	205	187	▲	402	▲	392
BIMB Holdings	400	420	500	458	373	▲	825	▲	830
Total	8,590	9,212	9,156	8,799	8,266		17,225		17,065
%QoQ growth	-0.5%	7.2%	-0.6%	-3.9%	-6.1%		na		na
%YoY growth	6.4%	12.6%	4.8%	1.9%	-3.8%		na		-0.9%

Source: Companies, AmlInvestment Bank Bhd

EXHIBIT 22: COST-TO-INCOME (CI) RATIO (%)

	2Q19	3Q19	4Q19	1Q20	2Q20		6M19		6M20
AMMB	49.7%	49.2%	50.0%	50.7%	49.3%		55.9%		50.0%
Maybank	47.9%	45.6%	45.7%	43.8%	47.9%		47.9%		45.7%
Public Bank	34.7%	34.5%	34.6%	35.7%	40.4%		34.2%		37.9%
RHB Bank	48.5%	48.4%	50.0%	48.2%	53.8%		48.5%		50.8%
Hong Leong	45.4%	43.0%	42.6%	47.3%	43.5%		45.2%		45.3%
CIMB	51.3%	60.1%	55.1%	56.0%	55.0%		53.2%		55.5%
ABMB	48.7%	46.1%	49.8%	47.3%	44.3%		49.5%		45.8%
BIMB Holdings	54.6%	54.7%	65.7%	56.7%	57.6%		55.1%		57.1%
Total	47.0%	48.2%	47.5%	46.9%	49.0%		47.7%		47.9%
% Chg QoQ	-1.5%	1.1%	-0.7%	-0.6%	2.2%				
Average	46.6%	46.7%	46.8%	47.0%	47.7%				

Source: Companies, AmlInvestment Bank Bhd

STABLE CI RATIO

The sector's CI ratio based on reported numbers remained stable at 47.9% for 6M20. Growth in operating expenses (opex) was well controlled at -0.9% YoY in 6M20.

EXHIBIT 23: ANNUALISED ROE BY QUARTER

	2Q19	3Q19	4Q19	1Q20	2Q20
AMMB	8.7%	6.7%	8.4%	5.4%	7.7%
Maybank	9.4%	10.1%	12.2%	10.3%	4.7%
Public Bank	12.8%	12.8%	13.0%	12.2%	9.1%
RHB Bank	10.0%	9.7%	9.6%	8.8%	6.1%
Hong Leong	10.1%	10.7%	10.8%	8.2%	8.5%
CIMB	9.5%	7.3%	6.0%	3.7%	2.0%
ABMB	5.4%	8.0%	9.1%	6.6%	6.8%
BIMB Holdings	14.0%	14.2%	12.2%	14.0%	9.8%
Sector Average	10.0%	9.9%	10.2%	8.6%	6.8%

Source: Companies, AmInvestment Bank Bhd

EXHIBIT 24: REVISION IN SECTOR CORE EARNINGS

	CY18	CY19	CY20	CY21	CY18	CY19	CY20	CY21	CY18	CY19	CY20	CY21
	Revised forecast (RM Mil)				Previous forecast (RM Mil)				Change (%)			
AMMB	1,276	1,167	1,290	1,287	1,276	1,167	1,290	1,289	0.0%	0.0%	0.0%	-0.1%
Maybank	8,113	8,198	6,539	7,275	8,113	8,198	6,539	7,275	0.0%	0.0%	0.0%	0.0%
Public Bank	5,591	5,512	4,679	5,088	5,591	5,512	4,737	5,064	0.0%	0.0%	-1.2%	0.5%
RHB Bank	2,305	2,482	2,078	2,326	2,305	2,482	2,211	2,326	0.0%	0.0%	-6.0%	0.0%
Hong Leong	2,422	2,573	2,593	2,689	2,422	2,573	2,547	2,561	0.0%	0.0%	1.8%	5.0%
CIMB	4,492	4,773	1,989	2,873	4,492	4,773	2,776	3,275	0.0%	0.0%	-28.4%	-12.3%
ABMB	507	504	509	408	507	504	509	408	0.0%	0.0%	0.0%	0.0%
BIMB Holdings	682	787	706	793	682	787	726	786	0.0%	0.0%	-2.8%	0.9%
Sector (Calendarised)	25,389	25,995	20,382	22,740	25,389	25,995	21,336	22,984	0.0%	0.0%	-4.5%	-1.1%
Calendarised sector earnings growth	6.8%	2.4%	-21.6%	11.6%	6.8%	2.4%	-17.9%	7.7%				

Forecast for AMMB based on consensus estimates from Bloomberg

Source: Companies, AmInvestment Bank Bhd

MAINTAIN NEUTRAL ON SECTOR

The uncertainty overhanging the asset quality of banks after the loan moratorium remains a concern. It is yet to be ascertained if the provisions taken so far by banks ahead of the potential rise in impaired loans for the Covid-19 impact after the moratorium are sufficient.

In line with FRS 9 where provisions had to be taken ahead of expectations of credit losses, banks have been building up their provision buffers ahead of the potential uptick in impaired loans. The rise in impaired loans will be more pronounced moving into CY21 given that: i) the moratorium for the unemployed has been extended for a further 3 months (Oct–Dec 2020) after the 6-month blanket moratorium ends in Sept 2020; and ii) the offer to restructure and reschedule (R&R) loans by banks for at least 6 months which will provide further breathing space to distressed borrowers with tighter cash flows. We continue to expect credit cost for the sector to remain elevated moving into next year.

In the near term, the lack of clarity on asset quality and provisions has also led to the deferrals in interim dividends by banks.

Our **tops picks** are **Hong Leong Bank, Maybank, RHB Bank**.

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