



AmInvestment Bank

Sector Report
8 June 2021

BANKING

1Q21 earnings review: Stronger top line but partially offset by additional provisions

OVERWEIGHT
(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **Banks' 3M21 core calendarised earnings growth after stripping out unwinding of modification losses and CIMB's revaluation gains of RM1.15bil from the deconsolidation of Touch 'n Go Digital rose by 23.0% YoY. The improvement was supported by higher total income. Net interest income (NII) was stronger, underpinned by a pick-up in the pace of loan growth and improved interest margins (NIM). Besides, underlying non-interest income (NOII) was higher YoY. 1Q21 saw most banks continuing to conservatively book in provisions in the form of management overlay. Nevertheless, on a QoQ basis, provisions for loan losses were significantly lower by 38.0%. The results of banks were mostly within expectations. Earnings of Maybank, Public Bank, RHB Bank, Hong Leong Bank, CIMB and BIMB Holdings were within our expectations. Meanwhile, Alliance Bank's core earnings were above our forecast largely due to stronger-than-anticipated NOII.**
- **Accelerated loan growth in 1Q21 for most banks. Maybank reported a pick-up in loan growth from stronger expansion of consumer loans in Malaysia and Singapore. Meanwhile, 1Q21 saw CIMB reporting a marginally positive loan growth supported by an expansion of financing in Malaysia while loans in Indonesia and Thailand contracted due to a reduction in commercial loans. Public Bank, RHB and Hong Leong Bank reported a strong domestic loan growth of 6.1% YoY, 6.0% YoY and 7.4% YoY respectively, ahead of the industry's 3.9% YoY growth.**
- **The sector's underlying net interest margin (NIM) expanded by 9bps QoQ or 10bps YoY to 2.29% in 1Q21, supported by the continued reprising of liabilities post-OPR cuts and the optimisation of deposit mix which lowered funding cost. The robust CASA growth for banks of 6.2% QoQ or 23.5% YoY contributed to the decrease in banks' cost of funds. CASA ratio (based on our stock universe) rose to 36.7% in 1Q21 vs. 31.6% in 1Q20. We maintain our OPR projection for 2021 of 1.75%.**
- **Underlying sector's NOII rose by 12.6% YoY in 1Q21, driven largely by CIMB's higher wealth management income under its consumer banking business and stronger trading income of its wholesale banking. 1Q21 saw a mixed trend for investment and trading income. Maybank and RHB reported lower treasury income YoY due to a decline in disposal gains of securities and the marked-to-market impact on securities/derivatives. In contrast, CIMB recorded stronger trading income under its wholesale banking YoY on the improved performance in Jan and Feb 2021 compared to the weaker 1Q20. Public Bank posted stronger NOII YoY in 1Q21 from higher unit trust, brokerage, fees and commission income. 1Q21 also saw higher fee, commission and service charges YoY for Maybank, CIMB and RHB Bank.**

EXHIBIT 1: VALUATION MATRIX

	Rec.	4-Jun	Target	EPS (sen)		PER		Net DPS		Net DivYield		BV		PBV	
			Price	21	22	21	22	21	22	21	22	21	22	21	22
AMMB	NR	2.92	-	-127.2	40.4	-2.3	7.2	0.0	9.2	0.0	3.2	4.9	5.2	0.6	0.6
Maybank	BUY	8.17	10.40	73.1	80.6	11.2	10.1	57.0	62.9	7.0	7.7	7.6	7.8	1.1	1.0
Public Bank	HOLD	4.20	4.40	30.1	32.8	14.0	12.8	15.3	16.7	3.6	4.0	2.6	2.7	1.6	1.5
RHB Bank	BUY	5.41	6.90	68.7	75.7	7.9	7.1	27.5	37.8	5.1	7.0	7.1	7.6	0.8	0.7
Hong Leong	BUY	18.54	20.30	141.2	159.6	13.1	11.6	42.4	47.9	2.3	2.6	14.4	15.6	1.3	1.2
CIMB	BUY	4.45	5.60	46.0	56.3	9.7	7.9	23.0	28.1	5.2	6.3	5.9	6.2	0.8	0.7
ABMB	BUY	2.58	2.90	23.2	31.5	11.1	8.2	5.8	15.1	2.2	5.9	4.0	4.1	0.6	0.6
BIMB*	BUY	3.85	4.60	49.2	-	7.8	-	15.3	-	4.0	-	4.1	-	0.9	-
MBSB	BUY	0.63	1.05	11.9	12.3	5.3	5.1	4.8	4.8	7.7	7.7	1.3	1.4	0.5	0.5
Average				38.0	68.1	9.1	9.3	23.3	31.1	3.7	5.2	6.3	7.0	1.0	0.9
Non-bank															
HFLG	BUY	17.86	20.60	189.2	213.9	9.4	8.3	43.5	49.2	2.4	2.8	20.1	22.1	0.9	0.8

Forecasts by AmInvestment Bank * The listing of BIMB will eventually be taken over by Bank Islam through the completion of corporate restructuring expected to be in 3Q2020

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

	1Q20	4Q20	1Q21	Chg QoQ	Chg YoY	Results vs. our estimates (Above/Within/Below)
Maybank	2,050	1,537	2,392	55.6%	16.7%	Within
Public Bank	1,329	1,148	1,530	33.3%	15.1%	Within
RHB Bank	580	329	653	98.7%	12.6%	Within
Hong Leong	535	671	771	15.0%	44.3%	Within
CIMB	508	155	1,298	737.9%	155.6%	Within
ABMB	98	100	50	-50.2%	-48.9%	Above
BIMB Holdings	209	252	202	-19.5%	-3.2%	Within
Total	5,684	4,487	6,992	55.8%	23.0%	

Source: AmInvestment Bank Bhd

EXHIBIT 3: REVISION IN SECTOR CORE EARNINGS

	Revised forecast (RM Mil)					Previous forecast (RM Mil)					Change (%)				
	CY18	CY19	CY20	CY21	CY22	CY18	CY19	CY20	CY21	CY22	CY18	CY19	CY20	CY21	CY22
AMMB	1,276	1,167	1,322	1,444	1,340	1,276	1,167	1,322	721	-816	0.0%	0.0%	0.0%	100.2%	264.3%
Maybank	8,113	8,198	6,654	8,215	9,062	8,113	8,198	6,654	7,857	8,704	0.0%	0.0%	0.0%	4.5%	4.1%
Public Bank	5,591	5,512	5,167	5,836	6,359	5,591	5,512	5,167	5,604	6,411	0.0%	0.0%	0.0%	4.2%	-0.8%
RHB Bank	2,305	2,482	2,186	2,755	3,028	2,305	2,482	2,186	2,611	2,949	0.0%	0.0%	0.0%	5.5%	2.7%
Hong Leong	2,422	2,573	2,593	2,764	3,078	2,422	2,573	2,593	2,764	3,078	0.0%	0.0%	0.0%	0.0%	0.0%
CIMB	4,492	4,773	1,277	4,564	5,585	4,492	4,773	1,277	4,344	5,364	0.0%	0.0%	0.0%	5.1%	4.1%
ABMB	507	504	509	408	391	507	504	509	390	339	0.0%	0.0%	0.0%	4.6%	15.4%
BIMB Holdings	682	787	720	881	820	682	787	720	986	986	0.0%	0.0%	0.0%	-10.6%	-16.9%
Sector (Calendarised)	25,389	25,995	20,428	26,866	29,663	25,389	25,995	20,428	25,276	27,017	0.0%	0.0%	0.0%	6.3%	9.8%
Calendarised sector earnings growth	6.8%	2.4%	-21.4%	31.5%	10.4%	6.8%	2.4%	-21.4%	23.7%	6.9%					

Forecast for AMMB based on consensus estimates from Bloomberg
Earnings estimates have been calendarised

Source: Companies, AmInvestment Bank Bhd

FVOCI reserves of banks were lower in 1Q21 due to the surge in MGS yields in the quarter which in turn lowered banks' capital ratios QoQ. We expect improvement in FVOCI reserves of banks in 2Q21 as MGS yields have eased though not to the level seen in 4Q20 before the surge in 1Q21.

- **GIL ratio for the sector (based on stocks under our coverage) fell to 1.81% (4Q20: 1.87%). In 1Q21, credit cost for the sector was 0.59% (1Q20: 0.60%) as banks continued to be conservative, topping up further provisions. QoQ, credit cost was much lower compared to 4Q20's 0.96%. Excluding AMMB's RM304mil macro provisions, Maybank's RM200mil provisions as management overlay, RHB's RM94mil additional pre-emptive provisions for potential impact of Covid-19 effects, CIMB's RM103mil overlay for its Indonesia consumer loan portfolio, Alliance Bank's RM89.1mil overlay and Hong Leong Bank's pre-emptive provisions of RM55mil, 1Q21 credit cost will be lower at 0.40%.**
- **The sector's calendarised core earnings growth for 2021 is now revised to 31.5% from 23.5% largely after adjusting our assumptions for NIM higher based on the more positive interest margin guidance from banks (Maybank: +10–15bps; CIMB: +10–20bps; Public Bank: at least +20bps; Hong Leong Bank: NIM >2.05%; Alliance Bank: FY22 + 5bps YoY). For 2022, we are projecting a core earnings growth of 10.4%, supported by higher total income and lower provisions. We continue to see improvement in interest margins driving banks' NII higher, stronger core fees and commissions for NOI while operating expenses are expected to remain tightly managed resulting in positive JAWs.**
- **Retain our OVERWEIGHT stance on the sector with our top BUYs on RHB Bank (fair value RM6.90/share), Maybank (FV RM10.40/share) and CIMB Group (RM5.60/share). We favour banks with expected improvement in regional performance from the gradual economic recovery and banks with undemanding valuations.**

OTHER OBSERVATIONS IN 1Q21

- The sector's net LD ratio improved to 89.6% (4Q20: 90.4%) attributed to stronger deposit growth;
- Sector loan loss cover (including regulatory reserves) in 1Q21 increased to 179.4% from 171.4% in 4Q20, contributed by lower impaired loans and banks' further top-up in pre-emptive provisions and

- iii. Generally, improvement has been seen in the percentage of banks' loan portfolio on a group basis that required repayment assistance (RA). This was despite 1Q21 still seeing some modest increase in the percentage of Malaysia's loan book that required RA for Maybank, CIMB and Public Bank on QoQ basis. Meanwhile, for overseas operations, the percentage of loans in Singapore and Indonesia that required RAs has declined QoQ.

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