



AmInvestment Bank

Sector report  
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Kelvin Ong, CFA  
kelvin-ong@ambankgroup.com  
03-2036 2294

# BANKING

Manageable impact from 3-month interest payment waiver

**OVERWEIGHT**

(Maintained)

Rationale for report: Sector update

## Investment Highlights

- According to media reports, the Ministry of Finance has instructed banks to work on the exemption of interest payments for 3 months (October to December 2021) on loans where borrowers have opted in for moratorium.
- The waiver of interest payments will only be applicable to borrowers in the bottom 50% in terms of income who have applied for the moratorium. These are expected to include borrowers in the B40 segment as well as a portion of lower income borrowers in the M40 group.
- Generally, based on our channel checks, loans to the B40 segment account for circa 10.0% of banks' retail loans. Meanwhile, loans to the M40 and T20 segments make up the remaining 20.0% and 70.0% respectively.
- Recall that the Pemulihan moratorium for 6 months announced earlier commenced on 7 July 2021.
- With this announcement, interest for loans under the moratorium will continue to accrue from 7 July to 30 September 2021. However, from 1 October to end-December 2021, interest payments on these loans will be waived.
- Details on the reported changes remain sketchy for now with finer details yet to be announced.
- The changes are expected to result in a drop in interest income and net interest margin (NIM) of banks in 4Q21. This will be in addition to the modification loss (mod loss) that banks will report in 3Q21 results for deferment in timing of repayments for loans under moratorium.
- Our preliminary assessment is that the impact of the 3-month interest waiver is manageable for banks. This is in view of the fact that the waiver only applies to borrowers in the lower income bracket whose loans are much smaller in ticket size compared to that of the higher income borrowers in the M40 and T20 segments.
- We estimate that the interest payment waivers for the 7 banks that we cover amount to RM562mil in 4Q21. The impact to banks' net profit ranges from 1.4% to 5.8% (Exhibit 2).
- Our valuation for banks remains unchanged as it is already based on FY22 numbers.
- We view the retracement in the share price of banking stocks from the announcement of this news yesterday as a knee-jerk reaction. This presents opportunities to accumulate banking stocks on the dip as the fundamentals of banks remain intact.

## EXHIBIT 1: VALUATION MATRIX

	Rec.	14-Sep	Target	EPS (sen)		PER		Net DPS		Net DivYield		BV	BV	PBV	PBV
			Price	21	22	21	22	21	22	21	22	21	22	21	22
AMMB	NR	3.13	-	-127.2	40.3	-2.5	7.8	0.0	9.2	0.0	2.9	4.9	5.1	0.6	0.6
Maybank	BUY	8.29	9.90	68.3	74.4	12.1	11.1	53.3	58.0	6.4	7.0	7.5	7.6	1.1	1.1
Public Bank	HOLD	4.00	4.40	28.5	32.5	14.0	12.3	14.5	16.6	3.6	4.2	2.6	2.7	1.6	1.5
RHB Bank	BUY	5.35	6.80	63.9	73.8	8.4	7.2	25.6	36.9	4.8	6.9	7.1	7.6	0.8	0.7
Hong Leong	BUY	18.46	21.10	139.8	161.8	13.2	11.4	50.0	58.2	2.7	3.2	14.4	15.4	1.3	1.2
CIMB	BUY	4.78	5.80	48.1	57.5	9.9	8.3	24.1	28.8	5.0	6.0	5.9	6.2	0.8	0.8
ABMB	BUY	2.53	2.90	23.2	31.5	10.9	8.0	5.8	15.1	2.3	6.0	4.0	4.1	0.6	0.6
BIMB*	BUY	3.98	4.50	39.7	-	10.0	-	12.4	-	3.1	-	3.5	-	1.1	-
MBSB	BUY	0.62	1.08	11.3	12.4	5.5	5.0	4.7	4.7	7.6	7.6	1.3	1.4	0.5	0.5
<b>Average</b>				<b>35.5</b>	<b>67.4</b>	<b>9.5</b>	<b>9.5</b>	<b>23.2</b>	<b>31.8</b>	<b>3.5</b>	<b>5.2</b>	<b>6.2</b>	<b>7.0</b>	<b>1.0</b>	<b>0.9</b>

Non-bank

HLFG	BUY	18.30	20.60	199.8	216.9	9.2	8.4	40.0	49.9	2.2	2.7	20.1	21.8	0.9	0.8
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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 4Q2021

- We maintain our **OVERWEIGHT** stance on the sector and top picks are **CIMB (fair value RM5.80)**, **RHB Bank (FV RM6.80)** and **Maybank (FV RM9.90)**. We favour banks with expected improvement in their regional performance from the gradual economic recovery and banks with undemanding valuations.

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**EXHIBIT 1: ESTIMATED IMPACT TO INTEREST INCOME FOR BANKS IN 4Q21 FROM WAIVER OF INTEREST**


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Banks	Total retail loans under moratorium (RM'bil)	Total gross fund based income per annum (RM'bil)	Estimated interest payments to be waived for 4Q21 (RM'Mil)	Bank's forecasted net profit (RM'Mil)	Impact as % of banks' net profit
Maybank	42.1	28.9	112	7,825	1.4%
Public Bank	49.1	16.8	117	5,533	2.1%
RHB Bank	30.4	10.1	81	2,564	3.1%
Hong Leong	24.2	7.0	54	3,311	1.6%
CIMB	39.4	22.6	121	4,777	2.5%
ABMB	9.8	2.5	28	488	5.7%
BIMB	18.1	3.0	48	829	5.8%
<b>Total</b>			<b>562</b>		

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Source: Company, AmInvestment Bank Bhd

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