



# HONG LEONG BANK

(HLBK MK EQUITY, HLBB.KL)

1 June 2020

*Gradually building up preemptive provisioning*

**BUY**

(Maintained)

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**Rationale for report: Company results/update**

<b>Price</b>	<b>RM13.60</b>
<b>Fair Value</b>	<b>RM15.60</b>
52-week High/Low	RM19.54/RM11.70

**Key Changes**

Fair value	⬇️
EPS	⬇️

<u>YE to Jun</u>	<u>FY19</u>	<u>FY20F</u>	<u>FY21F</u>	<u>FY22F</u>
Total income (RM mil)	4,725.8	4,828.8	5,008.9	5,030.4
Core net profit (RM mil)	2,548.5	2,543.7	2,685.1	2,804.7
FD Core EPS (sen)	124.6	124.3	131.2	137.1
FD Core EPS growth (%)	(1.7)	(0.2)	5.6	4.5
Consensus Net Profit (RM mil)	-	2,593.0	2,623.0	2,863.0
DPS (sen)	50.0	49.8	52.5	54.9
BV/share (RM)	12.45	13.46	14.44	15.47
PE (x)	10.9	10.9	10.4	9.9
Div yield (%)	3.7	3.7	3.9	4.0
P/BV (x)	1.1	1.0	0.9	0.9
ROE (%)	10.8	9.6	9.4	9.2

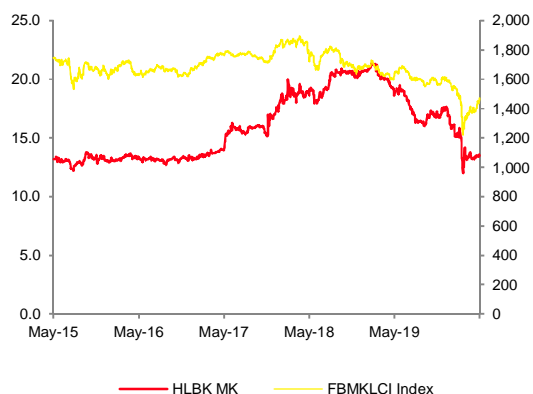
**Stock and Financial Data**

Shares Outstanding (million)	2,046.0
Market Cap (RM mil)	27,825.5
Book Value (RM/share)	12.45
P/BV (x)	1.1
ROE (%)	10.8

Major Shareholders	Hong Leong Financial Group (61.8%) Employees Provident Fund (10.5%)
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Free Float	27.6
Avg Daily Value (RM mil)	17.9

<u>Price performance</u>	<u>3mth</u>	<u>6mth</u>	<u>12mth</u>
Absolute (%)	(11.1)	(19.5)	(27.4)
Relative (%)	(10.5)	(14.7)	(18.6)



**Investment Highlights**

- We maintain our BUY call on Hong Leong Bank (HLBB) with a reduced FV of RM15.60/share from RM15.90/share. This is based on a lower FY21 ROE of 9.4%, leading to a P/BV of 1.1x. Our earnings estimates for FY20/21/22 have been trimmed by 4.6%/2.5%/5.2% to account for higher credit cost of 0.15% (previously 0.08%) in FY20 as well as our adjustment of higher CI ratios to 44.0%/43.0%/41.0%.
- 3QFY20 earnings of RM535mil declined 23.8% QoQ. Core earnings in 9MFY20 was flat at -0.7% YoY to RM1.93bil after excluding one-off gains of RM90mil from the partial divestment of its stake in a JV company, Sichuan Jincheng Consumer Finance Limited Company in 9MFY19. Cumulative profit came in within expectations, making up 71.6% of ours and 74.2% of consensus estimates.
- Loan growth decelerated to 6.6% YoY from 7.3% YoY in 2QFY20. Domestic loans grew 5.9% YoY and continued to outpace the industry which recorded a 4.0% YoY growth. Loan expansion for the group was mainly supported by mortgages (residential property), SMEs as well as overseas loans driven by Cambodia, Vietnam and Singapore.
- NIM in 3QFY20 fell by 20bps QoQ to 1.84% attributed to 2 rate cuts of 25bps each in Jan and Mar 2020.
- Opex remained well controlled with the marginal growth of 1.4% YoY resulting in a CI ratio of 44.2% for 9MFY20.
- 9MFY20 saw its 18.0% stake in Bank of Chengdu (BOC) and the remaining 12.0% in Sichuan Jincheng Consumer Finance Limited (now both associate companies) contributing a share of profit totalling RM478mil (+13.4% YoY) which accounted for 20.4% of the group's PBT.
- Gross impaired loans rose by 18.8% QoQ or RM221mil in 3QFY20. The group's GIL ratio increased to 0.98% from 0.84% in 2QFY20. Nevertheless, we understand that in 4QFY20, HLBB's GIL ratio will normalise to the percentage seen in 2QFY20. This is due the group's initiative to encourage borrowers to settle arrears for loans which are entitled to the moratorium.
- Credit cost rose to 0.35% in 3QFY20 due to a preemptive provisioning of RM65mil taken for the impact of Covid-19. This has resulted in a YTD net credit cost of 0.13%, higher than our estimate of 0.08% for FY20.

## EXHIBIT 1: SUMMARY OF RESULTS

Income Statement (RM m, FYE 30 Jun)	3Q19	2Q20	3Q20	% QoQ	% Yoy	9M19	9M20	% Yoy
Interest income	1,684	1,625	1,553	-4.5%	-7.8%	5,048	4,790	-5.1%
Interest expense	-993	-897	-873	-2.7%	-12.1%	-2,952	-2,677	-9.3%
<b>Net interest income</b>	<b>691</b>	<b>729</b>	<b>680</b>	<b>-6.7%</b>	<b>-1.6%</b>	<b>2,096</b>	<b>2,113</b>	<b>0.8%</b>
Islamic banking income	188	206	206	-0.1%	9.5%	532	612	15.1%
Non interest income	287	302	243	-19.7%	-15.5%	930	856	-7.9%
<b>Total income</b>	<b>1,167</b>	<b>1,238</b>	<b>1,129</b>	<b>-8.8%</b>	<b>-3.2%</b>	<b>3,558</b>	<b>3,582</b>	<b>0.7%</b>
Overhead expenses	-525	-527	-534	1.3%	1.5%	-1,562	-1,583	1.4%
Pre-provision profit	<b>641</b>	<b>711</b>	<b>595</b>	<b>-16.2%</b>	<b>-7.2%</b>	<b>1,996</b>	<b>1,999</b>	<b>0.1%</b>
Loan impairment allowances	-5	-19	-126	548.9%	2583.4%	35	-136	-493.2%
Other allowances	1	-2	2	na	na	0	0	0.3%
Associates and JV income	141	167	166	-1.1%	17.5%	421	478	13.4%
<b>Pretax profit</b>	<b>779</b>	<b>857</b>	<b>637</b>	<b>-25.6%</b>	<b>-18.2%</b>	<b>2,453</b>	<b>2,341</b>	<b>-4.6%</b>
Income tax	-145	-155	-102	-34.0%	-29.3%	-425	-416	-2.2%
Minority interest								
<b>Net profit</b>	<b>634</b>	<b>702</b>	<b>535</b>	<b>-23.8%</b>	<b>-15.6%</b>	<b>2,028</b>	<b>1,925</b>	<b>-5.1%</b>
<b>Core net profit</b>	<b>634</b>	<b>702</b>	<b>535</b>	<b>-23.8%</b>	<b>-15.6%</b>	<b>1,938</b>	<b>1,925</b>	<b>-0.7%</b>
Core EPS (sen)	31.0	34.3	26.1	-23.9%	-15.8%	94.7	94.1	-0.6%
<b>PBT by segments (RM m)</b>								
Personal financials services	276	309	200	-35.4%	-27.7%	846	853	0.9%
Business & corporate banking	178	208	201	-3.0%	13.4%	613	584	-4.7%
Global markets	113	126	136	8.1%	20.6%	268	406	51.2%
Overseas and international operations	14	4	-46	-1352.9%	-439.6%	28	-29	-202.9%
Others and intersegment elimination	58	44	-19	-144.4%	-133.6%	275	49	-82.4%
Share of profit from associates	141	167	166	-111.6%	17.5%	421	478	13.4%
Share of profit from JV	0	0	0	na	na	0	0	na
<b>Group pretax profit</b>	<b>779</b>	<b>857</b>	<b>637</b>	<b>-25.6%</b>	<b>-18.2%</b>	<b>2,453</b>	<b>2,341</b>	<b>-4.6%</b>
<b>Balance Sheet (RM m, FYE 30 Jun)</b>								
Gross loans and advances	133,590	141,273	142,406	0.8%	6.6%	133,590	142,406	6.6%
Net loans and advances	132,340	140,063	141,154	0.8%	6.7%	132,340	141,154	6.7%
Customer deposits	162,993	166,998	167,933	0.6%	3.0%	162,993	167,933	3.0%
Gross impaired loans	1,075	1,180	1,401	18.8%	30.4%	1,075	1,401	30.4%
Average shareholders funds	24,683	26,061	26,214	0.6%	6.2%	24,399	25,924	6.2%
<b>Ratios (%)</b>								
Net LD	81.2%	83.9%	84.1%			81.2%	84.1%	
CASA	24.3%	25.9%	26.4%			24.3%	26.4%	
Cost to income	45.0%	42.6%	47.3%			43.9%	44.2%	
Credit cost	0.01%	0.05%	0.35%			-0.03%	0.13%	
Loan loss coverage	116.4%	103.0%	90.5%			116.4%	90.5%	
Loan loss coverage (inclusive of regulatory reserves)	195.8%	183.1%	159.7%			195.8%	159.7%	
GIL/Gross NPL	0.80%	0.84%	0.98%			0.80%	0.98%	
NIM	2.00%	2.04%	1.84%			1.98%	1.97%	
ROE (based on core net profit)	10.3%	10.8%	8.2%			10.6%	9.9%	
CET1 capital	12.6%	13.1%	12.9%			12.6%	12.9%	
Tier 1 capital	13.6%	13.7%	13.5%			13.6%	13.5%	
Total capital	16.4%	15.9%	15.7%			16.4%	15.7%	

Source: Company, AmlInvestment Bank Bhd

## 9MFY20 CORE NET PROFIT WITHIN EXPECTATIONS

HLBB reported a 9MFY20 core net profit of RM1.93bil (-0.7% YoY after excluding a one-off gain of RM90mil from the sale of its stake in a JV company, Sichuan Jincheng Consumer Finance Ltd Company in 9MFY19. Cumulative core earnings were within expectations, making up 71.6% of ours and 74.2% of consensus estimates.

For 1QFY20, its associate, Bank of Chengdu's (BOC) operating income grew by 14.0% YoY while its profit after

tax rose by 12.0% YoY to RMB1.4bil. The associate company's ROE continued to be strong at 15.6% while its gross loans expanded by 13.0% YoY. BOC's loans comprised of 72.0% SME/corporate loans and 28.0% retail loans. Meanwhile, its GIL ratio continued to be stable at 1.43% with a high loan loss cover of 260.0%.

**LOAN GROWTH REMAINED ROBUST IN 3QFY20**

The group's loan growth slowed down in pace to 6.6% YoY from 7.3% YoY in 2QFY20. The expansion in its loan book was driven largely by retail loans (residential property loans), supported by a healthy pipeline of business banking loans led by community SME loans as well as overseas loans. SME loans grew by a decent 7.2% YoY after retagging in accordance to BNM's guidelines on the SME definition. The group's community SME banking loans posted a strong growth of 35.5% YoY in 3QFY20. Growth in HP loans and unsecured loans was flat. Outstanding receivables for credit cards continued to contract. HLBB has already approved RM1.64bil of loans for the SME Special Relief Facility.

Domestic loan slowed down to 5.9% YoY, but continued to outpace the industry's which recorded a 4.0% YoY growth. Overseas' loan growth jumped to 20.6% YoY (2Q20: 16.7% YoY) driven largely by the expansion of Cambodia, Vietnam and Singapore's loan book.

**CUSTOMER DEPOSIT CONTINUED TO GROW AT SLOWER PACE THAN LOANS**

Growth in customer deposits continued to be slow at 3.0% YoY. Individual deposits registered a higher growth of 9.1% YoY but this was dampened by a contraction in business enterprises' deposits of 0.7% YoY.

CASA continued to gain traction with a stronger growth rate of 11.8% YoY, supported by the availability of client cash management solutions. This lifted the group's CASA ratio to 26.4%.

With a slower deposit growth, gross LD ratio inched higher to 84.8% in 3QFY20. LCR stood at 130.0% while loans-to-fund and loans-to-fund and equity ratios rose slightly moderately to 88.0% and 76.0% respectively. The group's NSFR remained above 100.0%.

## EXHIBIT 2: BREAKDOWN OF LOANS

Loan by economic purposes (RM mil)	3Q19	4Q19	1Q20	2Q20	3Q20	%QoQ	%YoY
Purchase of Securities	711	809	855	832	647	-22.2%	-9.0%
Purchase of transport vehicles	17,096	17,489	17,307	17,376	17,292	-0.5%	1.1%
Purchase of landed prop:-							
Residential	65,913	67,438	69,025	70,647	71,758	1.6%	8.9%
Non-residential	15,922	16,369	16,544	16,678	16,825	0.9%	5.7%
<b>Total purchase of landed prop</b>	<b>81,835</b>	<b>83,807</b>	<b>85,569</b>	<b>87,325</b>	<b>88,583</b>	1.4%	8.2%
Purchase of fixed assets	872	988	1,046	1,019	1,080	6.0%	23.9%
Personal use	3,329	3,390	3,526	3,546	3,519	-0.8%	5.7%
Credit Card	3,552	3,598	3,535	3,596	3,345	-7.0%	-5.8%
Purchase of consumer durables	0	0	0	0	0	na	na
Construction	1,798	2,006	2,176	2,362	2,494	5.6%	38.7%
Working Capital	22,713	23,792	22,945	23,671	23,889	0.9%	5.2%
Others	1,371	1,375	1,421	1,380	1,381	0.1%	0.8%
M&A	312	312	315	166	175	5.1%	-44.0%
<b>Total gross loans</b>	<b>133,590</b>	<b>137,566</b>	<b>138,694</b>	<b>141,273</b>	<b>142,406</b>	<b>0.8%</b>	<b>6.6%</b>

Loan by customers (RM Mil)	3Q19	4Q19	1Q20	2Q20	3Q20	%QoQ	%YoY
Domestic bkg Fis							
Domestic non-bkg Fis	899	954	947	1,404	1,410	0.5%	56.9%
Domestic biz ent:-							
SMEs	20,863	21,504	21,759	20,782	21,223	2.1%	1.7%
Others	17,917	19,233	18,186	19,575	19,323	-1.3%	7.8%
<b>Total business ent loans</b>	<b>38,779</b>	<b>40,737</b>	<b>39,945</b>	<b>40,357</b>	<b>40,546</b>	0.5%	4.6%
Government and statutory bodies	14	2	2	2	2	-2.9%	-86.2%
Individuals	91,612	93,385	94,922	96,693	97,298	0.6%	6.2%
Other domestic entities	295	418	828	774	1,036	33.8%	251.1%
Foreign entities	1,992	2,070	2,050	2,043	2,114	3.5%	6.1%
<b>Total gross loans</b>	<b>133,590</b>	<b>137,566</b>	<b>138,694</b>	<b>141,273</b>	<b>142,406</b>	<b>0.8%</b>	<b>6.6%</b>

	3Q19	4Q19	1Q20	2Q20	3Q20
Growth of loans to SMEs (%QoQ)	-0.9%	3.1%	1.2%	-4.5%	2.1%
Growth of loans to SMEs (%YoY)	1.1%	5.0%	8.9%	-1.2%	1.7%
Growth of loans to Business Ent (%QoQ)	0.7%	5.0%	-1.9%	1.0%	0.5%
Growth of loans to Business Ent (%YoY)	11.4%	10.5%	9.9%	4.8%	4.6%
Growth of loans to Individuals (%QoQ)	1.6%	1.9%	1.6%	1.9%	0.6%
Growth of loans to Individuals (%YoY)	10.1%	10.6%	10.5%	7.2%	6.2%

Source: Company, AmlInvestment Bank Bhd estimates.

**EXHIBIT 3: BREAKDOWN OF DEPOSITS**

Deposit by Type (RM Mil)	3Q19	4Q19	1Q20	2Q20	3Q20	%QoQ	%YoY
Demand deposit	22,320	24,019	23,989	25,178	25,165	-0.1%	12.7%
Saving deposit	17,287	17,707	17,839	18,060	19,098	5.7%	10.5%
Time deposit	91,981	91,064	90,439	97,575	95,607	-2.0%	3.9%
Negotiable instruments of deposit	9,935	10,124	8,497	8,157	10,181	24.8%	2.5%
Short term corporate placement	17,558	17,161	20,706	16,048	16,004	-0.3%	-8.9%
Other	927	891	860	807	750	-7.1%	-19.1%
<b>Total deposits from customers</b>	<b>160,008</b>	<b>160,965</b>	<b>162,330</b>	<b>165,826</b>	<b>166,804</b>	<b>0.6%</b>	<b>4.2%</b>
Callable range accrual notes/structured deposits linked to interest rate deri	3,051	2,160	1,247	1,228	1,124	-8.5%	-63.2%
Callable inverse floater, at cost							
Fair value changes arising from adoption of FV option	-66	-55	-34	-56	5	-109.1%	-107.7%
<b>Total net deposits</b>	<b>162,993</b>	<b>163,070</b>	<b>163,543</b>	<b>166,998</b>	<b>167,933</b>	<b>0.6%</b>	<b>3.0%</b>
CASA ratio	24.3%	25.6%	25.6%	25.9%	26.4%		
CASA amount (RM mil)	39,607	41,725	41,828	43,239	44,263		
CASA growth (%QoQ)	-1.8%	5.3%	0.2%	3.4%	2.4%		
CASA growth (%YoY)	-3.6%	1.3%	5.5%	7.3%	11.8%		
Time deposit growth (%QoQ)	-0.6%	-1.0%	-0.7%	7.9%	-2.0%		
Time deposit growth (%YoY)	5.1%	3.2%	1.3%	5.4%	3.9%		

Source: Company, AmInvestment Bnk Bhd

### INTEREST MARGIN FELL DUE TO OPR CUTS IN JAN AND MAR 2020

NIM slipped 20bps QoQ to 1.84% in 3QFY20. The compression in NIM was contributed by OPR cuts of 25bps each in Jan and Mar 2020. For 4QFY20, management hinted that the group's NIM is likely to be close to 1.84% despite another 50bps cut in the OPR in May 2020. This is due to the maturity of FDs in the quarter, hence allowing an immediate repricing to ease the COF.

For 9MFY20, NIM was stable, declining only by 1bps to 1.97%. The impact on the 50bps OPR reduction to interest margin is 3bps and is likely to compress the NIM for the full FY20 to 1.94%. The group has already shortened the tenor of FDs, thus mitigating the pressure from interest rate cuts.

### HIGHER NOII FOR 9MFY20 CONTRIBUTED BY RISE IN INVESTMENT AND TRADING AS WELL AS WEALTH MANAGEMENT INCOME

9MFY20 core NOII (including Islamic banking income) excluding the gains from divestment in JV stake of RM90mil in 9MFY19 rose by 6.2% YoY to RM949mil. The improvement was contributed by a rise in wealth management income coupled with gains from the sale of securities under Treasury operations. However, these were partially offset by lower FX income (drop in FX franchise and volume) and a decline in credit cards fees due to the lower interchange fees. 9MFY20 NOII ratio of 26.5% was below the group's FY20 target of >27.0%.

**EXHIBIT 4: NON-INTEREST INCOME**

Other Operating Income (RM Mil)	3Q19	4Q19	1Q20	2Q20	3Q20
<b>Fee Income:-</b>					
Management Fees					
Commissions	37	44	46	41	39
Service Charges and Fees	13	12	10	13	11
Guarantee Fees	3	4	4	3	4
Credit card related fees	58	59	53	58	49
Corporate advisory fees	0	0	0	0	0
Commitment fees	8	8	8	8	8
Fee on loans, advances and financing	9	9	13	11	10
Other fee income	14	13	33	13	-6
<b>Total fee income</b>	<b>141</b>	<b>150</b>	<b>166</b>	<b>148</b>	<b>114</b>
<b>Gain/loss from sale of securities:-</b>					
Net gain from sale of Financial Assets at FVTPL & Derivatives	-78	28	45	-28	19
Net gain from sale of financial assets at FVTOCI	51	89	89	30	127
Net gain from sale of financial assets at amortised cost	16				0
	<b>-11</b>	<b>118</b>	<b>134</b>	<b>1</b>	<b>147</b>
<b>Gross dividend Income</b>					
Subsidiary companies					
Securities at FVTPL	67	69	64	61	66
Securities at FVTOCI	0	0	0	3	0
Securities at amortised cost					
	<b>67</b>	<b>69</b>	<b>64</b>	<b>65</b>	<b>66</b>
Unrealised gains/losses on revaluation of securities at FVTPL and derivatives	37	-50	-72	59	-127
Net Realised gains/losses on fair value arising fr fair value hedges	0	0	0	0	-1
Net Unrealised gains/(losses) on fair value arising fr fair value hedges	0	0	0	0	-1
<b>Total Investment and Trading Income</b>	<b>93</b>	<b>137</b>	<b>125</b>	<b>125</b>	<b>84</b>
<b>Other income:-</b>					
FOREX gain	46	28	12	22	33
Rental Income	3	3	3	4	4
Gain on disposal of PPE	0	1	0	0	4
Profit from takaful investments					
Net loss in dilution of investments in associate company	0	0	0	0	0
Others	4	5	4	4	4
<b>Total other income</b>	<b>53</b>	<b>38</b>	<b>19</b>	<b>29</b>	<b>44</b>
<b>TOTAL OTHER OPERATING INCOME</b>	<b>287</b>	<b>325</b>	<b>311</b>	<b>302</b>	<b>243</b>

## EXHIBIT 5: GROSS IMPAIRED LOAN RATIO

Gross impaired loans/NPL by purpose (RM Mil)	3Q19	4Q19	1Q20	2Q20	3Q20	%QoQ	%YoY
Purchase of securities	0	0	0	0	0	-8.7%	47.5%
Purchase of transport vehicles	128	122	116	111	133	19.7%	3.4%
Purchase of landed properties:-							
Residential	345	376	395	402	571	42.2%	65.4%
Non-residential	160	169	145	138	162	17.4%	1.5%
Purchase of fixed asset (excl landed properties)	5	5	5	5	5	-12.0%	-9.5%
Personal Use	110	44	45	121	54	-54.9%	-50.6%
Credit Card	35	33	30	30	39	27.0%	10.7%
Purchase of consumer durables	0	0	0	0	0	na	na
Construction	8	17	17	18	10	-43.7%	24.7%
Working Capital	278	299	307	291	360	23.7%	29.5%
Others	5	5	63	63	67	6.2%	1221.8%
<b>Total gross loans</b>	<b>1,075</b>	<b>1,071</b>	<b>1,124</b>	<b>1,180</b>	<b>1,401</b>	<b>18.8%</b>	<b>30.4%</b>

Gross NPL ratio by purpose (%)	3Q19	4Q19	1Q20	2Q20	3Q20
Purchase of securities	0.03%	0.01%	0.03%	0.04%	0.05%
Purchase of transport vehicles	0.7%	0.7%	0.7%	0.6%	0.8%
Purchase of landed properties:-					
Residential	0.5%	0.6%	0.6%	0.6%	0.8%
Non-residential	1.0%	1.0%	0.9%	0.8%	1.0%
Personal Use	3.3%	1.3%	1.3%	3.4%	1.5%
Credit Card	1.0%	0.9%	0.8%	0.8%	1.2%
Purchase of consumer durables	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	0.5%	0.9%	0.8%	0.8%	0.4%
Working Capital	1.2%	1.3%	1.3%	1.2%	1.5%
Others	0.4%	0.4%	4.4%	4.6%	4.9%
<b>Total Gross NPL ratio</b>	<b>0.80%</b>	<b>0.78%</b>	<b>0.81%</b>	<b>0.84%</b>	<b>0.98%</b>

Source: Company, AmInvestment Bank Bhd estimates.

## UPTICK IN GIL RATIO

Gross impaired loans rose by 18.8% QoQ or RM221mil in 3QFY20. This was contributed by upticks in impairments of loans for the purchase of transport vehicles, mortgages, credit cards and working capital loans. The group's GIL ratio increased to 0.98% from 0.84% in 2Q20. Nevertheless, we understand that in 4QFY20, group GIL will normalise to the percentage seen in 2QFY20. This is due the group's initiative to encourage borrowers to settle arrears for loans which are entitled to the moratorium.

By country, the GIL ratio for Malaysia's loans climbed to 0.97% from 0.82% in preceding quarter while the ratio for overseas loans increased to 1.24% from 1.07% in 2Q20.

Credit cost rose to 0.35% in 3QFY20 due to a preemptive provisioning of RM65mil taken for the potential impact of Covid-19. This has resulted in a YTD net credit cost of 0.13%, higher than our estimate of 0.08% for FY20.

Management has given a guidance for credit cost to rise to 0.10–0.13% on a base case scenario for Covid-19. This may require a provisioning of RM150–200mil of which RM65mil has already been set aside in 3QFY20. The group is likely to build up its provisioning buffers in the next 6 months towards the end of 2020.

In a stress scenario for the impact of the pandemic, credit cost could increase to 25bps, thus requiring provisions of RM250mil.

With the provisioning buffer of RM65mil, loan loss cover including regulatory reserves stood at 159.7% in 3QFY20.

## OTHER HIGHLIGHTS

The group is unlikely to utilise the temporary flexibility allowed by the regulators due to Covid-19 to release regulatory reserves to 0% to improve its capital ratios by 60bps for CET1 and 10bps for its total capital ratio.

We understand that of the loans which are not in arrears and are entitled to the moratorium, 30% have continued to be serviced by borrowers. Meanwhile, 7.0% or circa RM8.3bil of the individual and SME loan base have opted out of the moratorium.

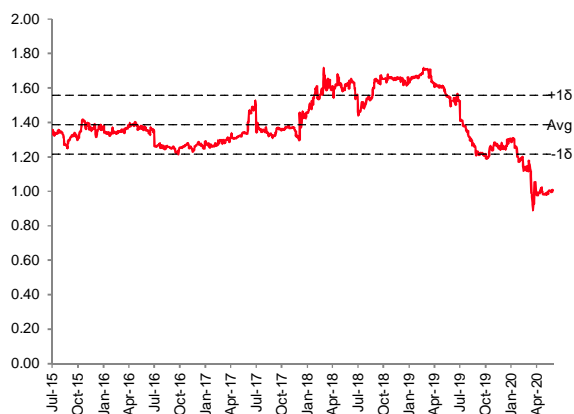
**REVISION TO NIM, CI RATIO AND ROE TARGETS / GUIDANCE FOR FY20**

- i. Loan growth revised to 6.0–6.5% (unchanged);
- ii. NIM of 1.9% (previously circa 2.0%);
- iii. Fee income ratio of more than 27.0% (unchanged);
- iv. Cost-to-income ratio of <45.0% (previously: 43.0%–43.5%)
- v. GIL ratio <1.0% (unchanged) and
- vi. ROE of 10.0% (previous guidance > 10.0%)

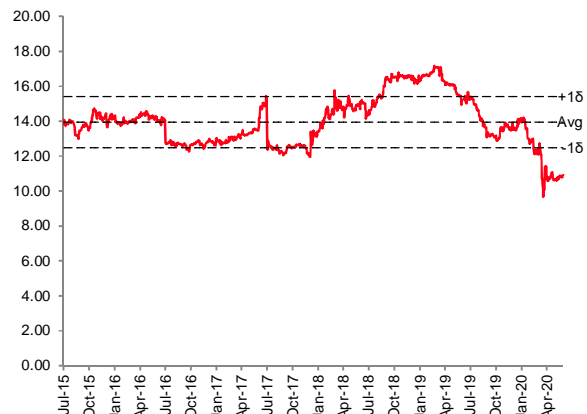
**MAINTAIN BUY**

The group continues to have a superior asset quality and lower provisions relative to most banks. With a shorter tenure of deposits, the group is expected to recover faster from NIM compressions due to OPR cuts.

**EXHIBIT 6: PB BAND CHART**



**EXHIBIT 7: PE BAND CHART**





## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Net interest income	2,893.1	2,764.2	2,623.6	2,761.7	2,797.3
Non-interest income	1,300.4	1,254.4	1,394.4	1,338.9	1,216.6
<b>Islamic banking income</b>	<b>646.1</b>	<b>707.3</b>	<b>810.8</b>	<b>908.4</b>	<b>1,016.5</b>
Total income	4,839.6	4,725.8	4,828.8	5,008.9	5,030.4
Overhead expenses	(2,060.4)	(2,091.6)	(2,124.7)	(2,128.8)	(2,062.5)
Pre-provision profit	2,779.1	2,634.3	2,704.1	2,880.1	2,967.9
Loan loss provisions	(76.7)	(12.3)	(216.5)	(267.2)	(278.9)
Impairment & others	7.1	1.0	-	-	-
<b>Associates</b>	<b>536.7</b>	<b>563.1</b>	<b>615.7</b>	<b>672.5</b>	<b>734.9</b>
Pretax profit	3,246.3	3,186.0	3,103.4	3,285.4	3,424.0
Tax	(608.2)	(521.5)	(558.6)	(598.4)	(616.3)
<b>Minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net profit	2,638.1	2,664.5	2,544.7	2,687.1	2,807.7
Core net profit	2,597.1	2,548.5	2,543.7	2,685.1	2,804.7
Balance Sheet (RMmil, YE30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Cash & deposits with FIs	6,472.4	4,855.5	4,787.1	8,241.6	6,858.2
<b>Marketable securities</b>	<b>55,066.2</b>	<b>52,430.2</b>	<b>55,268.6</b>	<b>54,671.8</b>	<b>58,804.2</b>
Total current assets	61,538.6	57,285.6	60,055.7	62,913.5	65,662.4
Net loans & advances	128,061.7	136,308.2	144,342.2	148,449.6	154,929.5
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,312.5	4,588.8	5,084.2	5,368.0	5,770.2
Fixed assets	1,415.0	1,382.6	1,362.7	1,345.9	1,323.9
Intangible assets	1,983.9	1,956.5	1,956.5	1,956.5	1,956.5
<b>Other long-term assets</b>	<b>5,690.0</b>	<b>5,847.6</b>	<b>6,275.6</b>	<b>5,908.8</b>	<b>6,375.7</b>
<b>Total LT assets</b>	<b>141,462.9</b>	<b>150,083.8</b>	<b>159,021.2</b>	<b>163,028.9</b>	<b>170,355.9</b>
Total assets	202,890.8	207,369.4	219,077.0	225,942.4	236,018.3
Customer deposits	157,414.1	163,070.3	170,408.5	175,520.7	183,068.1
Deposits of other FIs	7,237.4	7,358.4	8,521.6	8,993.6	9,662.0
Subordinated debts	2,902.9	1,502.3	1,188.1	884.7	679.0
Hybrid capital securities	1,767.6	1,327.5	1,163.0	939.4	810.2
<b>Other liabilities</b>	<b>9,676.5</b>	<b>8,636.5</b>	<b>10,247.2</b>	<b>10,050.5</b>	<b>10,152.4</b>
Total liabilities	178,998.5	181,895.0	191,528.4	196,389.0	204,371.6
Shareholders' funds	23,892.3	25,474.4	27,548.6	29,553.4	31,646.6
Minority interests	-	-	-	-	-
Key Ratios (YE30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Total income growth (%)	6.3	(2.4)	2.2	3.7	0.4
Pre-provision profit growth (%)	9.3	(5.2)	2.7	6.5	3.0
Core net profit growth (%)	15.6	(1.9)	(0.2)	5.6	4.5
Net interest margin (%)	1.9	1.9	1.8	1.8	1.8
Cost-to-income ratio (%)	42.6	44.3	44.0	42.5	41.0
Effective tax rate (%)	18.7	16.4	18.0	18.2	18.0
Dividend payout (%)	37.3	38.4	40.0	40.0	40.0
Key Assumptions (YE30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Loan growth (%)	3.1	6.6	6.0	3.0	4.5
Deposit growth (%)	1.4	3.6	4.5	3.0	4.3
Loan-deposit ratio (%)	81.3	83.2	85.0	85.6	85.7
Gross NPL (%)	0.9	0.8	1.0	1.0	1.0
Net NPL (%)	0.7	0.8	0.8	0.8	0.8
Credit charge-off rate (%)	0.1	-	0.2	0.2	0.2
Loan loss reserve (%)	89.5	117.8	106.7	116.2	129.0

Source: Company, AmInvestment Bank Bhd estimates

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