

BANKING

Maintain POSITIVE

Some breathing space for everyone

KEY INVESTMENT HIGHLIGHTS

- **Bank Negara Malaysia announced a slew of measures to support individual and SME borrowers**
- **Basically we opine that the measures by BNM are to support two areas in the real economy; (i) give respite to current borrowers, (ii) encourage lending**
- **We could breakdown these measures into two categories, (i) ensuring stable asset quality, (ii) providing ample liquidity**
- **We opine that the measures give breathing room not just for the borrowers but for the banks as well**
- **We expect that all this should cushion the banks' asset quality from deteriorating extensively**
- **Measures are positive for banks. We maintain our POSITIVE stance in the banking sector**

Measures to alleviate cash flow of SMEs and individuals. Bank Negara Malaysia (BNM) announced yesterday several measures to support the banking sector in its efforts to assist individuals and SMEs impacted by the Covid-19 pandemic. It provides flexibilities for banks to respond swiftly given the large financial buffers that have been built up over the years.

Measures to support real economy. Basically we opine that the measures by BNM are to support two areas in the real economy; (i) give respite to current borrowers, (ii) encourage lending. By giving respite to borrowers, the measure indirectly will ensure that asset quality of banks remains stable. As a result this should also encourage lending activities given that banks do not have to worry about delinquencies and impairment affecting their P&Ls and capital. Lending will also be encouraged through the providing ample liquidity to the system. We could breakdown these measures into two categories, (i) ensuring stable asset quality, (ii) providing ample liquidity.

Ensuring stable asset quality. We opine the measures which will ensure stable asset quality are as follows:

- Automatic moratorium to all loans (principal and interest) to individuals and SME for a period of 6 month from 1 April 2020 as long as not in arrears for 90 days and loans denominated in RM.
- For outstanding credit card balances, banks shall offer borrowers to convert to term loan. Financing tenure not more than 3 years and effective interest rate of not more than 13% per annum. For individuals unable to meet monthly repayments for the last 3 consecutive months, banks shall convert the balance into terms loans automatically.
- Banks are strongly encouraged to facilitate request for a moratorium to viable corporations

Possible leniency in treatment. We believe that the moratorium will not considered restructuring and rescheduling. Also, we expect that banks will be given some leniency in the treatment of provisions under MFRS9.

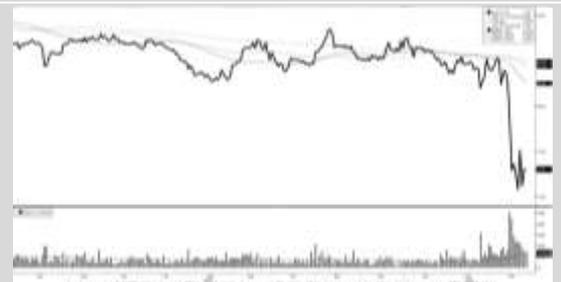
COMPANY IN FOCUS

Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM9.55
Price @ 25th March 2020: RM7.30

- Likelihood of stable asset quality and credit cost
- Scale and size
- D-SIB bank means support
- Attractive dividend yield of circa above 7%

Share price chart



CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM5.70
Price @ 25th March 2020: RM3.52

- Likelihood of stable asset quality and credit cost
- Scale and size
- D-SIB bank means support
- Relatively undemanding valuation as it is trading below 1x PBV
- Decent dividend yield of circa above 7%

Share price chart



Breathing room for banks as well. We opine that the moratorium and the subsequent treatment of such accounts give breathing room not just for the borrowers but for the banks as well. We view that the payment deferment can affect banks in two ways, through revenue and provisions. Payment deferment will have an effect to banks net interest income but we should not view this as revenue lost. We should expect to see weakened net interest income in the quarters where payment deferment is in place. Furthermore, interest is still accrued.

No significant spike in credit cost. We believe that the second impact will be on provisions as previously; the accounts under moratorium will likely be classified as rescheduled & restructured (R&R) accounts which will have to classify as impair. This will hit banks' P&L via provisions. However, we believe that BNM will have given leniency to the banks as moratorium accounts will likely not be considered R&R, ensuring that credit cost will not spike up. We expect that all this should cushion the banks' asset quality from deteriorating extensively.

Providing ample liquidity. In terms of providing liquidity, we opine the measures are as follows:

- BNM shall provide daily ringgit liquidity through open market operations.
- Drawdown of capital conversation buffer of 2.5%
- Banks can operate liquidity coverage ratio (LCR) below 100%
- Utilize regulatory reserves
- Net Stable Funding Ratio requirement lowered to 80%
- Banks have until 30 September 2021 to restore regulatory buffers

Lending will be encouraged with ample liquidity in the financial system. With ample liquidity, banks will be encouraged to lend and it is hoped that this will keep economic activities running. Also, we opine that banks are encouraged to lend as means of refinancing or rollover of debts by companies and individuals. Liquidity will be provided by BNM directly and from the relaxation of several regulatory requirements. In our view, the most notable is that banks can operate its LCR and NSFR below previously required threshold. This should ease pressure on banks to source for funding in order to keep up with its lending activities.

Another impact; stable cost of fund. We expect that another impact will be on cost of funds, which we believe will be stable. This is due to the fact that banks do have to compete aggressively for deposits to meet the regulatory requirements.

Overall POSITIVE. All in, we believe that these measures are positive for the banking sector as it addresses the issue of asset quality and liquidity, and to certain extent cost of fund. It provides much breathing space for the banks. We believe that this will ensure banks profitability to remain intact despite the current headwinds. Therefore, we maintain our **POSITIVE** stance on the sector. Our top picks are the three D-SIB banks due to its solid fundamental, scale and size. Also, being systematically important banks will ensure support should there be any stress to asset quality. Hence, we favour **Maybank (BUY, TP: RM9.55)**, **CIMB (BUY, TP: RM5.70)** and **Public Bank (TRADING BUY, TP: RM19.00)**. Additionally, attractive dividend yield will also cushion any downside risk. 

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 25-Mar	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV (RM)		PBV	
					20	21	20	21	20	21	20	21	20	21	20	21
Maybank	Dec	BUY	7.3	9.6	71.6	71.2	10.2	10.3	56.0	56.0	7.7	7.7	7.34	7.55	1.0	1.0
Public Bank	Dec	T. BUY	15.7	19.0	144.3	146.5	10.9	10.7	73.0	73.0	4.6	4.6	11.92	12.51	1.3	1.3
CIMB	Dec	BUY	3.5	5.7	51.0	52.0	6.9	6.8	26.0	26.0	7.4	7.4	5.70	5.85	0.6	0.6
RHB Bank	Dec	BUY	4.9	6.3	66.1	69.8	7.4	7.0	31.0	31.0	6.3	6.3	6.45	6.60	0.8	0.7
Hong Leong Bank	Jun	BUY	14.2	17.0	136.6	143.9	10.4	9.9	52.0	54.0	3.7	3.8	12.94	13.20	1.1	1.1
AMMB	Mar	T. BUY	2.9	4.2	46.6	48.5	6.3	6.0	22.0	24.0	7.5	8.2	6.04	6.14	0.5	0.5
Affin Bank	Dec	NEUTRAL	1.4	1.9	27.0	27.0	5.2	5.2	7.0	8.0	5.0	5.7	4.71	4.79	0.3	0.3
Alliance	Mar	T. BUY	1.8	2.7	28.6	34.3	6.2	5.2	14.5	17.0	8.1	9.6	3.85	3.92	0.5	0.5
BIMB	Dec	BUY	2.9	5.1	50.5	51.3	5.7	5.6	18.0	18.0	6.3	6.3	3.62	3.96	0.8	0.7
Average					69.1	71.6	7.7	7.4	33.3	34.1	6.3	6.6	6.95	7.17	0.8	0.7

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.