

# BANKING

**Maintain POSITIVE**

## Higher requirements for D-SIBs already been met

### KEY INVESTMENT HIGHLIGHTS

- **Bank Negara Malaysia issued policy document of Domestic Systemically Important Banks (D-SIB)**
- **Maybank, CIMB and Public Bank listed as D-SIB in the inaugural list**
- **Additional requirements for D-SIB depending on bucket classification**
- **However, all have already met the additional capital requirement**
- **We maintain our POSITIVE stance in the banking sector**

**BNM announced inaugural D-SIB list.** Bank Negara Malaysia (BNM) issued the policy document on Domestic Systemically Important Banks (D-SIB) Framework and with it the inaugural list D-SIBs. These are; (1) Maybank, (2) CIMB, and (3) Public Bank.

**Definition of D-SIB.** D-SIBs are banks which are well tied to the economy and the financial system. As such, its distress or failure has the potential to cause considerable disruption to the stability of the domestic financial system and the wider economy.

**Additional requirements for D-SIBs.** Being classified as a D-SIB requires a bank to maintain higher capital buffers to meet regulatory capital requirements that include a Higher Loss Absorbency (HLA) requirement. This will increase a D-SIB's capacity to absorb losses. Thus, it will ensure that the bank will be able to reduce its probability of distress or failure during periods of stress. The higher capital requirements introduced will complement the regulatory framework in place. In turn, this will ensure a more resilient Malaysian financial system. The additional requirements are above the minimum CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio requirements and are as follows:

Bucket	HLA requirement (as % of risk-weighted assets)
3	2.0%
2	1.0%
1	0.5%

Source: BNM

**Requirements already been met.** Although, the additional capital requirements suggest that D-SIB would have to increase its capital. Nevertheless, we should note that all of the listed D-SIB are already been met as highlighted below:

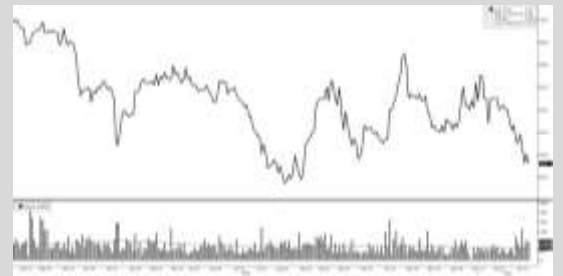
### COMPANY IN FOCUS

#### Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM10.30  
Price @ 5<sup>th</sup> February 2020: RM8.36

- Earnings started to improve in 3QFY19
- Low exposure to floating rate which should moderate OPR cut impact
- It has scale and size
- Attractive dividend yield of circa 6%

#### Share price chart



#### CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM6.30  
Price @ 5<sup>th</sup> February 2020: RM4.98

- Earning recovery in Indonesia and Thailand
- Net interest margin recovered
- Robust net income
- Relatively undemanding valuation
- Decent dividend yield of circa 5%

#### Share price chart




Non-DSIB Tier 1 Capital Requirement	Non-DSIB Total Capital Requirement	Banks	Bucket	D-SIB Tier 1 Capital Requirement	D-SIB Total Capital Requirement	Tier 1 Capital Ratio as at end 3QFY19	Total Capital Ratio as at end 3QFY19
4.5%	8.0%	Maybank	2	5.5%	9.0%	14.5%	18.5%
4.5%	8.0%	CIMB	2	5.5%	9.0%	12.6%	17.3%
4.5%	8.0%	Public	1	5.0%	8.5%	13.1%	16.3%

Source: Company, MIDFR

**Higher capital affected ROE but lower the risk.** While in our opinion the D-SIB does not have to increase its capital further, we recognize the fact that the exiting high capital is a weight to ROE. However, the other consequence in the increased capital is the reduction of risk relating to the solvency of the banks in general. While it is understood that there is only a few good alternative to ROE as a measure for banks, we must be cognizant that this metric does not factor risk sufficiently. We believe that it needs to be considered with valuation as a whole and other factor such as asset quality, liquidity and asset growth should be evaluated together with ROE. We opine that this is the new normal environment that banks have to operate in. However, we must be aware that this equity is far less risky than what it was before.

**No direct impact to novel coronavirus.** On a side note, we opine that the novel coronavirus (n-cov) does not have a direct impact to the banking sector. Any impact will be indirect and due to the possible disruption to trade and consumer spending patterns. This might have an effect to businesses' asset quality. However, we believe that it is too early to be overly concern as it is still unclear on how long the outbreak will last. Nevertheless, we will monitor the situation accordingly.

**Banks continue to be undervalued.** We view that banking stocks in general are relatively undervalued. Majority of the banks are trading below its 3-year historical average. We believe that the recent price weakness is mostly sentiment driven associated by the n-cov outbreak. The fact that the banks comply to even the additional D-SIB requirements suggest that banks will be able to withstand any major shocks. The banks have thus far managed to navigate the headwinds the sector faced and we believe will continue to do so.

**Cautiously optimistic, maintain POSITIVE.** Based on the ability of banks in general to navigate the headwinds it faced, , we are cautiously optimistic and maintain our POSITIVE stance at the moment. However, we are cognizant of the potential headwinds this year coming from the risk to asset quality. Not to mention the increase volatility of share price performance. Therefore, our top picks for this sector will banks with scale and size or the potential to maintain its earnings momentum. These are **Maybank (BUY, TP: RM10.30)**, **CIMB (BUY, TP: RM6.30)** and **RHB Bank (BUY, TP: RM6.35)**. Good dividends yields will be an added bonus. 

## PEER COMPARISON TABLE

	FYE	Rec.	Price @ 5/2/20	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
					19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21
Maybank	Dec	BUY	8.36	10.30	74.1	73.9	11.3	11.3	58.0	58.0	6.9	6.9	7.1	7.4	1.2	1.1
Public Bank	Dec	BUY	18.00	24.00	145.6	148.7	12.4	12.1	72.0	73.0	4.0	4.1	11.3	12.0	1.6	1.5
CIMB	Dec	BUY	4.98	6.30	50.0	49.0	10.0	10.2	26.0	26.0	5.2	5.2	5.6	5.7	0.9	0.9
RHB Bank	Dec	BUY	5.70	6.35	62.4	67.7	9.1	8.4	25.0	27.0	4.4	4.7	6.3	6.5	0.9	0.9
Hong Leong	Jun	NEUTRAL	15.98	17.70	130.0	143.1	12.3	11.2	50.0	50.0	3.1	3.1	12.5	13.0	1.3	1.2
AMMB	Mar	T. BUY	3.83	4.20	50.0	46.6	7.7	8.2	20.0	20.0	5.2	5.2	5.9	6.1	0.7	0.6
Affin	Dec	NEUTRAL	1.82	2.10	29.0	29.0	6.3	6.3	5.0	7.0	2.7	3.8	4.7	4.7	0.4	0.4
Alliance	Mar	T. BUY	2.41	3.35	34.7	32.6	6.9	7.4	16.7	14.5	6.9	6.0	3.7	3.7	0.7	0.7
BIMB	Dec	BUY	3.86	5.05	43.7	44.0	8.8	8.8	16.0	18.0	4.1	4.7	3.2	3.5	1.2	1.1
<b>Average</b>					<b>68.8</b>	<b>70.5</b>	<b>9.4</b>	<b>9.3</b>	<b>32.1</b>	<b>32.6</b>	<b>4.7</b>	<b>4.9</b>	<b>6.7</b>	<b>7.0</b>	<b>1.0</b>	<b>0.9</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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