

14 July 2016 | Sector Update

BANKING - Cut in OPR by 25bp to 3.0%

Maintain NEUTRAL

- The Monetary Policy Committee (MPC) announced a cut in OPR by 25bp to 3.00% yesterday. This is due to heightened global risk which is expected to result in global demand weakening. The rate cut came in surprising many which had expected for MPC to maintain OPR at 3.25% in the recent meeting. The reduction in OPR will see an immediate adjustment in BLR downwards by 25bp.
- With this announcement, we expect a short term negative impact on the share price of banking stocks. We anticipate NIM of banks to decline, negating the recent positive improvement in loan yield from hikes in Base Rate, BLR and upward repricing of auto and mortgage loans as well as from a more aggressive growth in loans with stronger focus on higher RAR loans in the case on AFG. This will leave banks' NIM to continue to be compressed by high cost of funds from intense deposit competition while loan growth is expected to moderate ahead while the sector's liquidity remains tight. Overall, this will lead to a wider compression in NIM than our earlier expectation.

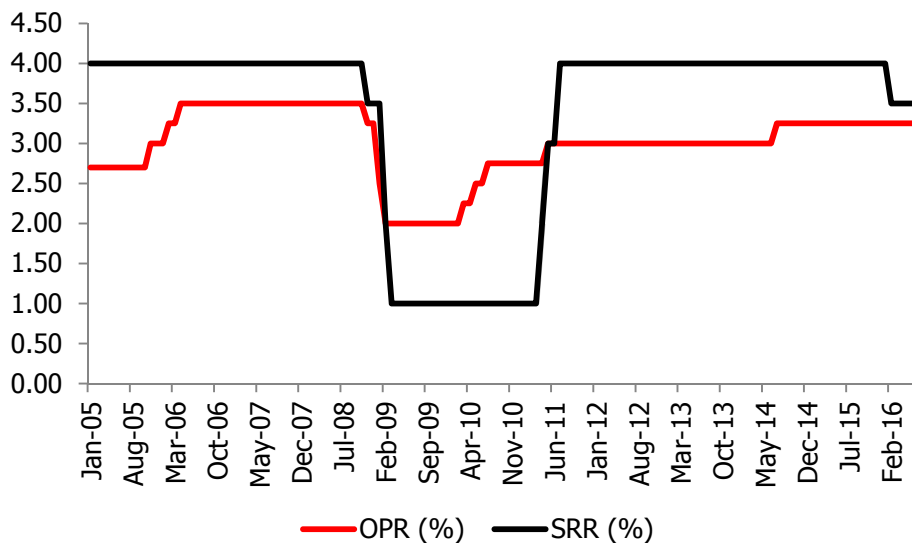
Table 1: Percentage of floating rate loans, CASA and LD ratio of banks

Banks	% floating rate loans	CASA ratio (%)	LD ratio (%)
Maybank	69.3%	33.3%	89.9%
CIMB	83.2%	37.0%	90.6%
AMMB	65.0%	20.7%	91.7%
RHB Bank	80.0%	24.1%	95.0%
Public Bank	76.1%	22.6%	90.0%
Affin	62.9%	17.7%	88.4%
AFG	90.4%	32.1%	84.2%
Hong Leong Bank	76.5%	23.4%	81.1%

Source: Companies, MIDFR

- NIMs of banks are expected to decline whenever there are cuts in OPR. However, we expect the pressure on NIM from the recent cut in interest rate to be temporary with the NIM eventually normalizing back up thereafter. This is due to adjustment in the rate of floating rate loans downwards first before deposits rates, particularly FD rates which have been contracted before the OPR cut get adjusted downwards. Our expectation is that there will be a lagging impact on the adjustment of deposits rates over a period of 2-3 quarters.
- Our economics team expects another round of OPR cut of 25bp to 2.75% in Sept'16 bringing a total interest rate cut to 50bp in 2HCY16.

Table 2: OPR and SRR Trend



Source: BNM

- We expect the rate cut to have the biggest impact on AFG as the Group has the highest floating rate loans compared to peers comprising of 90.4% of its total loan book. The impact of a 50bp cut in OPR is expected to result in a decline in AFG's FY17 earnings by 4.5% while the least impacted will be Hong Leong Bank with an estimated impact of -0.4% on FY17 earnings (see Table 3 below). For the regional banks, Maybank and CIMB, the impact on earnings will be -1.3% and -1.4% respectively as their loan exposure are more diversified with domestic loans comprising of 59.5% and 55.9% of their total loans. On average, a 50bp cut in OPR will result in a decline of 2.1% in earnings of banks.

Table 3: Estimated impact of 50bp cut in interest rate on FY16/17 earnings of banks

	Maybank ^	CIMB [^]	AMMB*	RHB [^]	Public Bank [^]	Affin [^]	AFG*	Hong Leong Bank*
FY16/17 Net profit before (RM'm)	6,403	3,955	1,350	1,924	5,117	437	553	2,297
FY16/17 Net profit after (RM'm)	6,320	3,899	1,318	1,882	5,003	428	528	2,289
Change	-1.3%	-1.4%	-2.4%	-2.2%	-2.2%	-2.1%	-4.5%	-0.4%

*denotes impact on FY17 earnings of banks as FYs of these banks end on Mar/June while ^ denotes impact on FY16 earnings of banks

Source: MIDFR


- We maintain NEUTRAL on the sector. RHB Bank took over the listing status of RHB Cap. With the resumption of trading, the share price of RHB Bank provides an attractive valuation, providing a total return of >15% based on our TP of RM6.30. Hence, we upgrade our call on the stock from NEUTRAL to BUY. Our BUY recommendations are CIMB (TP: RM5.50), RHB Bank (TP: RM6.30) and AMMB (TP: RM5.10) 

Table 4: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 13/7	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				16	17	16	17	16	17	16	17	16	17	16	17
AMMB	BUY	4.44	5.10	45.1	45.0	9.8	9.9	15.5	16.0	3.5	3.6	5.0	5.3	0.9	0.8
Maybank	NEUTRAL	8.12	8.70	66.0	76.0	12.3	10.7	49.0	57.0	6.0	7.0	6.5	6.7	1.2	1.2
Public Bank	NEUTRAL	19.40	20.40	131.8	139.3	14.7	13.9	56.0	59.0	2.9	3.0	9.2	10.2	2.1	1.9
RHB Bank	BUY	5.16	6.30	48.0	54.0	10.8	9.6	14.0	16.0	2.7	3.1	5.3	5.7	1.0	0.9
Hong Leong	NEUTRAL	13.24	14.10	95.0	106.0	13.9	12.5	31.0	35.0	2.3	2.6	10.0	10.8	1.3	1.2
CIMB	BUY	4.32	5.50	46.0	53.0	9.4	8.2	19.0	21.0	4.4	4.9	5.1	5.5	0.8	0.8
AFG	NEUTRAL	4.13	4.00	34.2	36.0	12.1	11.5	14.5	16.0	3.5	3.9	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	4.09	4.22	37.4	40.0	10.9	10.2	12.5	13.4	3.1	3.3	2.4	2.6	1.7	1.6
Affin	NEUTRAL	2.13	2.30	23.0	25.0	9.3	8.5	11.0	12.0	5.2	5.6	4.4	4.6	0.5	0.5
Average				58.5	63.8	11.5	10.5	24.7	27.3	3.7	4.1	5.7	6.1	1.2	1.1

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.