

8 September 2016 | Sector Update

BANKING - OPR unchanged at 3.0%

Maintain NEUTRAL

- **The Monetary Policy Committee (MPC) announced that OPR remained unchanged at 3.00%** yesterday. According to BNM, at current OPR level, the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid stable inflation, supported by continued healthy financial intermediation. As such, we believe that there will not be any immediate adjustment in BLR.
- **The announcement came as a surprise** as our economists had expected another round of OPR cut of 25bp to 2.75% in Sept'16 bringing a total interest rate cut to 50bp in 2HCY16. However, we believe that there will be a short term positive impact on the share price of banking stocks under our coverage. This is due to the fact that the unchanged OPR may give some breathing room for banks given that NIMs are expected to decline whenever there are cuts in OPR.
- **We anticipate any further decline in NIM of banks to be moderated.** We expect the earlier pressure on NIM from the July'16 cut in interest rate will eventually normalize as the rate of floating rate loans would have been adjusted downwards. However, we expect that 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.

Table 1: OPR and SRR Trend



Source: BNM

- **Our economists expect there will be another OPR cut of 25bp later this year,** with the next MPC meeting scheduled in November'16. In our previous report dated 14 July 2016, we have already simulated the impact of 50bp cut in OPR this year to the earnings estimates of banking stocks under our coverage.

- To recap, on average, 50bp cut in OPR will result in a decline of 2.1% in earnings** of banks; with the biggest impact on AFG as it has the highest floating rate loans compared to peers comprising 90.4% of its total loan book. Meanwhile, the least impacted will be Hong Leong Bank with an estimated impact of -0.4% on FY17 earnings (see Table 2 below). For the regional banks, namely 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 57.7% and 55.0% of their total loans respectively. With the expectation of a further rate cut later this year and having adjusted our earnings earlier to reflect this, we do not foresee the need to make any adjustment this time around.

Table 2: 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

- Maintain NEUTRAL on sector.** Given that NIM remained compressed, we maintain NEUTRAL on the sector. Our BUY recommendations are CIMB (TP: RM5.50) and AMMB (TP: RM5.10). For CIMB, we are positive on the recent development, i.e. it received an Operating License in Vietnam, and we also believe that valuation remains attractive with the stock trading at 0.9x to our FY17 BVPS.

Table 3: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 7/9	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				16	17	16	17	16	17	16	17	16	17		
AMMB	BUY	4.36	5.10	45.1	45.0	9.7	9.7	15.5	16.0	3.6	3.7	5.0	5.3	0.9	0.8
Maybank	NEUTRAL	7.90	8.70	66.0	76.0	12.0	10.4	49.0	57.0	6.2	7.2	6.5	6.7	1.2	1.2
Public Bank	NEUTRAL	19.92	20.40	131.8	139.3	15.1	14.3	56.0	59.0	2.8	3.0	9.2	10.2	2.2	2.0
RHB Bank	NEUTRAL	5.05	5.15	48.0	54.0	10.5	9.4	14.0	16.0	2.8	3.2	5.3	5.7	1.0	0.9
Hong Leong	NEUTRAL	13.20	14.10	95.0	106.0	13.9	12.5	31.0	35.0	2.3	2.7	10.0	10.8	1.3	1.2
CIMB	BUY	4.90	5.50	46.0	53.0	10.7	9.2	19.0	21.0	3.9	4.3	5.1	5.5	1.0	0.9
AFG	NEUTRAL	3.93	4.00	34.2	36.0	11.5	10.9	14.5	16.0	3.7	4.1	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	4.05	4.35	37.4	38.9	10.8	10.4	13.1	14.4	3.2	3.6	2.4	2.6	1.7	1.6
Affin	NEUTRAL	2.15	2.30	23.0	25.0	9.3	8.6	11.0	12.0	5.1	5.6	4.4	4.6	0.5	0.5
Average				58.5	63.7	11.5	10.6	24.8	27.4	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.