BANKING

***Maintain* NEUTRAL**

Resiliency to be unaffected post loan moratorium

KEY INVESTMENT HIGHLIGHTS

- **Banks facing headwinds in a position of strength due to build up of capital**
- **Impairment and NPL will increase and will likely peak in CY21**
- **Ample liquidity in the system**
- **Increased credit cost will not affect banks resiliency**
- **No blanket dividend restriction**
- **We maintain our NEUTRAL stance in the banking sector**
- **Downgrading calls on Maybank (NEUTRAL, TP: RM8.20) and Public Bank (NEUTRAL, TP: RM17.20)**

Discussions on financial stability. We had discussions yesterday with the regulators on the financial stability of the banking sector. Below are the key takeaways from the meeting:

- Banks are resilient and went into the current crisis in the position of strength.
- Expecting NPLs and credit cost to spike post moratorium; impairments to peak in CY21.
- Measures were to ensure banks continue to have the ability to lend.
- No blanket restriction on banks' dividends.

Build up of capital. Banks have built up a strong position over the years. We believe that this will ensure the banks withstand from the current headwinds the sector is facing. Indeed, as at end CY19, total capital ratio in the banking system improved to 18.3%. CET1 and Tier 1 capital ratios were 14.3% and 14.8% respectively. Although previously this accumulation of capital had led to lower ROEs than when compared in the past. Nevertheless, in our report, There's more than just downtrend in ROE, we have argued that lower ROE was not necessarily a disadvantage as this had led to lowering of risk. In current precarious situation, we underscore our consistent opinion that banks made the right decision to build up its capital buffers.

Impairments and NPLs will increase. We expect that we will observe a truer picture of the asset quality of the sector post loan moratorium. We are anticipating that NPLs and credit cost will increase. The regulators opine that impairments will peak in CY21.

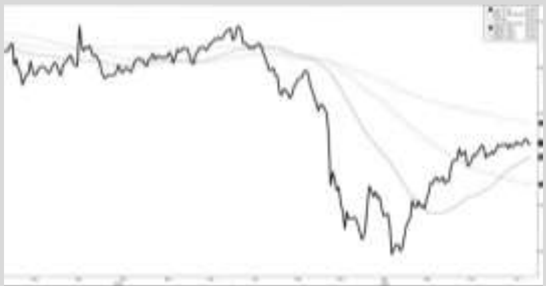
Household segment stable. Bank Negara Malaysia (BNM) believes that the household segment will be stable. While the household debt remains elevated, overall debt-servicing capacity of households continues to be supported by income growth and adequate financial buffers. Based on the BNM Financial Stability Review for 2HCY19, both outstanding household financial assets and liquid financial assets remained broadly stable at 2.2x and 1.4x of debt respectively. Also, household financial assets continued to outpace the growth in debt for the third consecutive year.

COMPANY IN FOCUS

BIMB Holdings Bhd
Maintain **BUY |** Unchanged Target price: RM4.25
Price @ 23rd July 2020: RM3.40

- Stable asset quality
- Stable borrowers' profile
- Strong loans growth

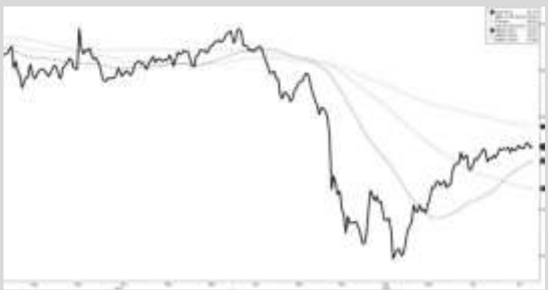
Share price chart



AMMB Holdings Bhd
Maintain **TRADING BUY |** Unchanged Target price: RM3.60
Price @ 23rd July 2020: RM3.08

- Improving financials
- Undemanding valuation
- Decent dividend yield

Share price chart



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Loan moratorium has no effect on liquidity. We understand that the loan moratorium does not withdraw liquidity in the banking system but merely a redistribution of the said liquidity. Although, there are no payments of loans, it remains in the banking system. This can be seen through the deposits growth. As at May CY20, the total system deposits grew at faster pace of +2.7%yoy from +2.3%yoy as at April CY20, suggesting ample liquidity. This was led by CASA which grew at faster pace of +13.7%yoy from +12.6%yoy the previous month. Meanwhile, fixed deposits contracted for the third consecutive month where it fell -1.3%yoy to RM984.3b.

Weakness may come from the business segment. We believe that the most likely source of stress to banks' asset quality could come from the business segment especially SMEs. This is due to the weaken financials of businesses as it is impacted by the movement control orders (MCO). However, we expect that it will gradually improve in 2HCY20 with the resumption of economic activities. Now, the concern will be on the pace and strength of the recovery which is fraught with downside risk.

Credit cost will not affect banks' resiliency. As mentioned, we expect that credit cost will increase post loan moratorium. Although, the banks have made additional provisions in the 1QCY20 due to the macroeconomic factors, we opine that it might not be sufficient. Nevertheless, due to low visibility of forward economic data, we understand that banks have to make judgement calls which have to be supported by economic realities, including the stimulus measures introduced by the Government and BNM. Also, banks will have focused its effort in restructuring & rescheduling (R&R) of potential troubled borrowers during the loan moratorium period. We understand that R&R will not be automatically classified as impaired as previously. However, MFRS9 triggers still apply in terms of staging. All-in, the expected increase in credit cost will not affect banks' resiliency.

Measures to ensure ability to lend are maintained. BNM have implemented a number of measures at the onset of the Covid-19 pandemic. These measures are to ensure that banks continue to have the ability to lend and support the economic recovery. Indeed, we have seen stable loans growth thus far. The banking system loans growth as at May CY20 continued to be stable at +3.9%yoy to RM1.789t as opposed to +4.0%yoy to RM1.785t as at April CY20. However, we recognize that banks may have reduced its appetite due to the uncertain situation. Having said that, we understand that there is a spike in approvals in June CY20 from purchase of residential properties and passenger vehicles.

No blanket restriction on dividends. We were pleased to be informed that BNM will not have blanket restrictions on banks' dividends as seen in other countries. It will be dependent on a case-by-case basis and financial strength of the individual banks. We opine that this will remove an uncertainty to banking stocks as we believe that its dividends are one of the attractions. However, we believe that dividends this year will be lower than last year as we are expecting earnings contraction.

Many headwinds but still stable. We maintain our **NEUTRAL** stance as we expect the various forms MCO will have an impact to the economy, which have yet to be fully manifest. This will have an impact to loans growth and asset quality. Also, we foresee that it will take some time for the situation to return to normal. However, we do not foresee exacerbated stress to the banking sector as it face current headwinds on a position of strength. Our top picks is **BIMB (BUY, TP: RM4.25)** due to its asset quality which we expect to be stable on account of its borrower's profile. A re-rating catalyst would be faster than expected recovery of the economy.

Downgrading our calls on Maybank and Public Bank. We are also taking this opportunity to downgrade our calls on Maybank and Public Bank from **BUY** to **NEUTRAL** respectively. However, we are maintaining the respective target prices:

Maybank (Downgrade to NEUTRAL, from BUY; Unchanged TP: RM8.20). Its share price has increased by +4.9% from our last report dated 22 May 2020. This now represents an upside of 4.1% and with the dividend yield of 4.6%, it is below our BUY threshold of 10%. While the Group managed to record a good performance in 1QFY20, this was before the declaration of Covid-19 as a pandemic and the implementation of the MCO. We recognize that there are headwinds this year and we expect credit cost will be bigger. There is also a question of asset quality in Indonesia. However, we believe that its financials will continue to be stable and its status as a D-SIB bank may mean that there will be support to ensure sustainability. Hence, the **NEUTRAL** call.

Public Bank (Downgrade to NEUTRAL, from BUY; Unchanged TP: RM17.20). Its share price has rebounded strongly by +17.4% since our last report dated 27 May 2020. As such, it has surpassed our target price. We recognize the fact that the Group's asset quality and conservative approach to its credit profile will mean that the Group will be able to weather any potential stress to the banking system better. However, we expect that provisions will continue to weigh down earnings this year. Our concern now is on its weak income which may not be able to moderate the increased credit cost. Total income declined -1.9%yoy to RM2.8b in 1QFY20. Considering this and the fact that we believe that all the positive have been priced in, we are downgrading our call to **NEUTRAL.**

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 23-Jul	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	NEUTRAL	7.88	8.20	61	66	13.0	11.9	36	43	4.6	5.5	7.36	7.50	1.1	1.1
Public Bank	Dec	NEUTRAL	17.92	17.20	127	141	14.1	12.7	74	73	4.1	4.1	11.75	12.27	1.5	1.5
CIMB	Dec	T. BUY	3.66	3.95	24	36	15.3	10.2	12	18	3.3	4.9	5.62	5.66	0.7	0.6
RHB Bank	Dec	BUY	5.00	5.25	54	64	9.3	7.8	22	25	4.4	5.0	6.42	6.56	0.8	0.8
Hong Leong Bank	Jun	NEUTRAL	15.04	13.60	126	132	11.9	11.4	48	49	3.2	3.3	12.89	12.96	1.2	1.2
AMMB	Mar	T. BUY	3.08	3.60	45	42	6.9	7.3	13	15	4.3	4.9	6.18	6.23	0.5	0.5
Affin Bank	Dec	NEUTRAL	1.58	1.65	24	24	6.6	6.6	5	5	3.2	3.2	4.66	4.79	0.3	0.3
Alliance	Mar	NEUTRAL	2.17	2.05	27	26	7.9	8.2	6	9	2.8	4.2	3.87	3.92	0.6	0.6
BIMB	Dec	BUY	3.40	4.25	43	44	8.0	7.8	19	20	5.6	5.9	3.73	3.88	0.9	0.9
Average					**59**	**64**	**10.3**	**9.3**	**26**	**29**	**3.9**	**4.5**	**6.94**	**7.09**	**0.8**	**0.8**

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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 *rise* 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 *fall* 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.