

29 September 2017 | Sector Update

BANKING

Maintain **POSITIVE**

NSFR is coming soon

INVESTMENT HIGHLIGHTS

- **Bank Negara Malaysia released an exposure draft regarding Net Stable Funding Ratio yesterday.**
- **Timeline for feedbacks is two months.**
- **Implementation will be no earlier than 1 January 2019.**
- **Additional requirement for banks to comply.**
- **Most banks are already complying.**
- **Possible impact of margin compression as banks fight for deposits.**
- **However, it is still early days. For now, we maintain our POSITIVE stance in the banking sector.**

Exposure draft on NSFR released. We attended a briefing by Bank Negara Malaysia (BNM) yesterday in regards to Net Stable Funding Ratio (NSFR). This was in conjunction with the release of its exposure draft on the matter. The exposure draft is for the period of two month in order to receive feedbacks from financial institutions and the public. We understand that the paper is expected to be finalized and released by end of this year.

To promote ongoing stable liquidity. We understand the implementation of the NSFR is to promote long term resilience of the banking sector. This is through ensuring that banks' asset portfolio is supported by stable funding on an ongoing basis. As a recap, the NSFR is calculated by dividing the available stable funding with required stable funding (ASF/RSF). A banking institution shall maintain a minimum NSFR of 100%. A banking institution shall also comply with the minimum NSFR level on an aggregated currency basis. All foreign currency exposures must be reported in Ringgit-equivalent terms based on the foreign exchange rates as at the reporting date.

Delayed implementation vs. Basel III suggestion. The implementation timeline is expected to be no earlier than 1 January 2019. We note that this is later than the Basel Committee for Banking Supervision suggestion of 1 January 2018 implementation. However, we understand that the later implementation is due to the fact that the NSFR implementation timeline across jurisdiction is still uncertain (please refer to Figure 1). We also believe that the later implementation is to ensure Malaysian banks will be ready to meet the NSFR standards comfortably with all banks complying with the regulatory minimum with sufficient buffer.

Most banks are already complying. According to BNM, as at end June 2017 more than 75% of banks have a NSFR of above 100% with the industry average at 107%. The NSFR, in combination with the Liquidity Coverage Ratio (LCR), should be the key measure for liquidity for banks going forward. We believe that this is a more robust measure than the loan-to-deposit ratio. As at end June 2017, the liquidity position in the banking system appears to be in a healthy condition with industry average for LCR at 141%, NSFR at 107%, Loan-To-Fund ratio at 83.3% and Loan-To-Fund and Equity at 73.5%.

FIGURE 1: IMPLEMENTATION TIMELINE OF OTHER JURISDICTION

Implementation date: 1 January 2018	Delayed	Unconfirmed Implementation Date
Australia	Canada	Philippines
Indonesia	EU	Thailand
Singapore	USA	China
Hong Kong		Korea
		Japan

Source: Bank Negara Malaysia

Added requirement may pressurize margin. In our opinion, the added regulatory requirement in the form of the NSFR may lead to competition in deposits especially CASA. This is due to the fact that banks may have to compete for funding which is 90% to 100% Available Stable Funding (ASF) factor in order to maximize the NSFR calculation. However, banks do not have to rely solely on deposits to ensure compliance. It could source ASF from various sources such as short term papers and interbank borrowing amongst others. Nevertheless, we believe that regardless of the source of funds, the new requirement may cause margin compression, either through competition driving up deposit rates or more expensive source of funds.

But could be a moderated impact. While there may be pressure on margins once NSFR is implemented, we expect any margin compression to be moderate. Our view is based on the fact that a majority of the banks are already above the 100% threshold which mean that the probability for competition to intensify is less. We opine that it is still early days to assess comprehensively the impact of the implementation of the NSFR requirement given that the exposure documents was just released.

Continue to be POSITIVE on short term catalyst. With an implementation set to be no earlier than 1 January 2019 and the fact that a majority of the banks have already comply with the requirement, we maintain our POSITIVE stance on the banking sector. The main short term catalyst is the improved economic conditions which will drive loans growth for CY17.


Maintain BUY calls for Maybank, Public Bank, Affin, BIMB and Alliance. Our BUY call continue to be Maybank (TP:10.30) due to the expectations of continued earnings recovery coupled with solid asset growth, Public Bank (TP: RM23.30) due to its good asset quality and sustained profitability, Affin (TP: RM3.30) which is premised on its turnaround program showing results, Alliance Bank Malaysia Bhd (TP: RM4.60) and BIMB (TP: RM5.00) where we expect its operations to continue to be robust. 

FIGURE 2: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 28/9 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				17	18	17	18	17	18	17	18	17	18	17	18
Maybank	BUY	9.80	10.30	69.8	70.3	14.0	13.9	55.0	55.0	5.6	5.6	6.8	7.1	1.4	1.4
Public Bank	BUY	20.58	23.30	137.9	141.1	14.9	14.6	58.0	60.0	2.8	2.9	9.3	9.7	2.2	2.1
CIMB	NEUTRAL	6.27	7.10	45.0	47.0	13.9	13.3	20.0	18.0	3.2	2.9	5.2	5.4	1.2	1.2
RHB Bank	NEUTRAL	5.03	5.20	48.3	48.1	10.4	10.5	12.0	13.0	2.4	2.6	5.6	5.8	0.9	0.9
Hong Leong	NEUTRAL	15.78	15.70	116.9	117.9	13.5	13.4	41.0	41.0	2.6	2.6	11.2	11.3	1.4	1.4
AMMB	NEUTRAL	4.31	4.50	46.9	49.3	9.2	8.7	17.6	17.0	4.1	3.9	5.6	5.8	0.8	0.7
Affin	BUY	2.58	3.30	29.0	30.0	8.9	8.6	3.0	12.0	1.2	4.7	4.5	4.7	0.6	0.5
Alliance	BUY	3.80	4.60	33.8	37.4	11.2	10.2	16.0	19.0	3.7	4.4	3.5	3.8	1.1	1.0
BIMB	BUY	4.35	4.90	38.9	41.4	11.2	10.5	13.0	14.4	3.0	3.3	2.7	3.0	1.6	1.5
Average				62.9	64.7	11.9	11.5	26.2	27.7	3.2	3.7	6.0	6.3	1.2	1.2

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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.