

MALAYSIAN BANKS **Quarterly Review**

Quarterly review of the banking sector



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Lower non interest income the key drag to 1QCY14 results

Maintain NEUTRAL

- A muted net profit growth in 1QCY14 and sector annualized ROE trended lower. 1QCY14 results of 8 banks (Public Bank, Maybank, CIMB, AMMB, Affin, RHB Cap, Hong Leong Bank and AFG) came in within expectations.

Net/total income for 8 banks grew -5.6%qoq and -2.4%yoy to RM14.3b in 1QCY14. Growth of aggregate net profit (PATAMI) for all banks (refer Table 1) for 1QCY14 was muted at -2.1%qoq and +0.6%yoy to RM5.4b. On year-on year basis, PATAMI in 1QCY14 continue to moderate while on quarter on quarter basis, aggregate net profit growth improved slightly albeit still negative.

On quarterly basis, the low aggregate PATAMI was mainly attributable to a moderation in non interest income (NOII). Other factors that also contributed to the decline were slower Islamic Banking income growth and higher provisions for loan losses. Net interest income (NII) growth was muted at 0.2%qoq. Loan growth was slower in 1QCY14 than 4QCY13 with a growth of 2.2%qoq and 11.3%yoy to RM1.22t. With exception of AMMB, CIMB and Hong Leong Bank which recorded improvement in NIM compared to the preceding quarter, the other banks' NIMs continued to be impacted by pressures on asset yield and cost of fund (COF) (see Table 7). Sector average annualised credit cost increased slightly to 17bp in 1QCY14 from 16bp in the preceding quarter contributed by AMMB and Maybank's higher allowance for loan impairment. Aggregate overhead expenses declined by 5.5%qoq and against a lower total income by 5.6%qoq for banks, the sector continue to record a slightly negative JAW position. With a higher decline in total income, sector average CI ratio inched higher to 46.7% from 46.2% in 4QCY13.

Meanwhile, average net LD ratio for 8 banks continues to rise to 86.5% reflecting tighter liquidity. CASA ratio inched higher to 27.9% with the continued focus of banks to grow low cost deposits to manage NIM. As liquidity tightens, looking ahead NIM will continue to be compressed with banks likely to grow deposits more aggressively to support asset growth. Sector annualised ROE has trended lower (see Chart 2) Looking ahead, capital conservation and potentially the need for a higher CET1 capital ratio for some banks are likely put pressure on the sector's ROE.

Chart 1: Sector Aggregate Earnings (RM'Mil)

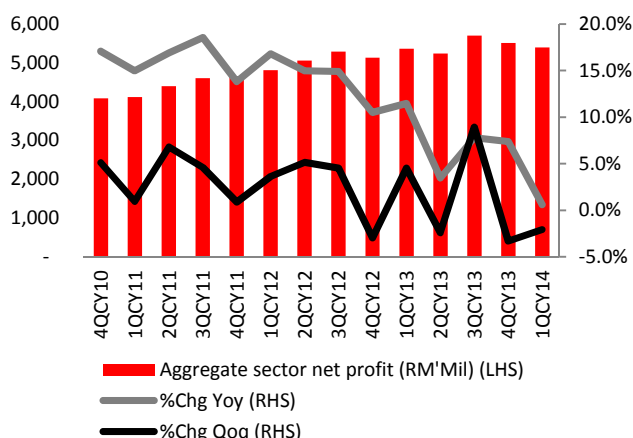
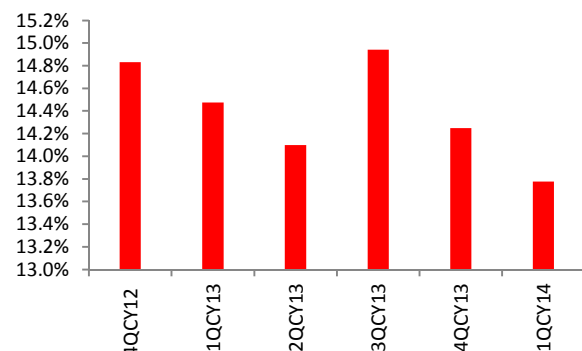


Chart 2: Sector annualised ROE by quarters*



*Based on average of 8 banks annualised ROEs. Source: Companies

Table 1: Net Profit (PATAMI) Comparison (RM'Mil)

Bank	Mar-13 (1QCY13)	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar-14 (1QCY14)	%Qoq	%Yoy	2014 ROE guidance
AMMB	406	468	441	423	464	+9.6%	+14.2%	14.2-14.5%
Maybank	1,506	1,568	1,746	1,732	1,602	-7.5%	+6.3%	15.0%
Public Bank	968	1,024	1,047	1,026	1,017	-0.8%	+5.0%	>20.0%
RHB Cap	357	410	559	505	451	-10.7%	+26.2%	>12.0%
Hong Leong	454	416	544	520	500	-3.9%	+10.1%	15.0-17.0%
CIMB	1,386	1,054	1,062	1,006	1,067	+6.0%	-23.1%	13.5-14.0%
AFG	139	138	131	137	158	+15.8%	+13.8%	14.0-16.0%
Affin	151	159	173	167	143	-14.5%	-5.4%	9.2%
Total	5,368	5,237	5,704	5,515	5,400	-2.1%	+0.6%	

Net profits shown above are as reported by the respective Banking Groups. *Source: Companies*

- **A slow pace of loan growth in 1QCY14.** Aggregate sector's gross loan growth was slower in 1QCY14 compared to the previous quarter with a growth of 2.2%qoq and 11.3%yoy to RM1.22t. Most banks reported a slower loan growth in 1QCY14 with exception of RHB Cap, AFG and Affin.

RHB Cap's loan growth picked up momentum in 1QCY14. The Group reported a strong growth in mortgage loans, loans for purchase of securities and a better traction in working capital loans. Elsewhere, AFG's loan growth continued to trend above industry rate underpinned by a commendable growth in mortgage loans albeit a slightly slower momentum seen for loans to purchase residential property as well as a pickup in growth of working capital loans.

In contrast, the larger cap banks, Maybank and CIMB reported a slower pace in loan growth. Maybank had a slowdown in business loans momentum for Malaysia and Indonesia. For CIMB, its decelerated loan growth was mainly attributable to a slower pace of expansion in Consumer and Corporate Banking loans. The LTV rulings in Indonesia continued to impact Niaga's consumer loan growth. Meanwhile, with the exception of Indonesia, the other key markets for CIMB (Malaysia, Singapore, Thailand) recorded slower growths in Corporate Banking loans.

Table 2: Total Gross Loans (RM'bil)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Change Yoy	FYE	2014 loan growth guidance*
AMMB	85	86	86	87	89	+5.3%	Mar	9.0%^
Maybank	322	332	340	361	366	+13.5%	Dec	13.0%
Public Bank	204	209	216	221	227	+11.3%	Dec	10.0-11.0%
RHB Cap	114	117	121	122	126	+11.2%	Dec	12.0%
Hong Leong	94	97	98	101	102	+7.6%	June	<10.0%**
CIMB	215	223	228	235	240	+11.9%	Dec	14.0%
AFG	28	29	30	31	32	+14.1%	Mar	10.0-11.0%^
Affin	35	36	36	37	38	+10.1%	Dec	8.0-10.0%
Total	1,097	1,130	1,156	1,195	1,221	+11.3%		

*Loan growth rates at Group level guided by management

^Loan growth from Apr'14 to Mar'15

**Loan growth from July'14 to Jun'15

Source: Companies

Table 3: Growth in Gross Loans (%Yoy)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	9.2%	8.9%	7.5%	4.1%	4.1%	5.3%
Maybank	12.9%	12.9%	10.1%	12.0%	13.7%	13.5%
Public Bank	11.3%	11.9%	11.8%	11.8%	11.8%	11.3%
RHB Cap	14.6%	18.9%	12.8%	13.9%	9.2%	11.2%
Hong Leong	2.8%	7.7%	7.3%	7.1%	8.2%	7.6%
CIMB	8.9%	12.7%	11.4%	13.7%	12.6%	11.9%
AFG	12.4%	13.0%	11.5%	12.6%	12.8%	14.1%
Affin	11.7%	9.6%	8.7%	8.1%	7.9%	10.1%
Total	10.8%	12.6%	10.6%	11.5%	11.8%	11.3%

Source: Companies, MIDFR

Table 4: Net LD Ratio (Net LDR) of Banks

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	96.6%	97.3%	96.4%	94.7%	96.8%	97.2%
Maybank	89.8%	89.0%	87.5%	88.2%	89.9%	91.0%
Public Bank	87.1%	86.9%	86.4%	86.5%	87.5%	86.8%
RHB Cap	79.1%	82.3%	84.4%	87.3%	86.8%	86.6%
Hong Leong	73.5%	75.0%	77.2%	77.0%	78.5%	78.4%
CIMB	82.9%	78.7%	83.8%	84.8%	86.9%	89.4%
AFG	85.3%	77.1%	79.4%	80.5%	82.5%	81.1%
Affin	79.6%	80.1%	82.0%	80.5%	77.9%	81.6%
Average	84.2%	83.3%	84.6%	84.9%	85.9%	86.5%

Source: Companies, MIDFR

Chart 3: Sector Aggregate NII

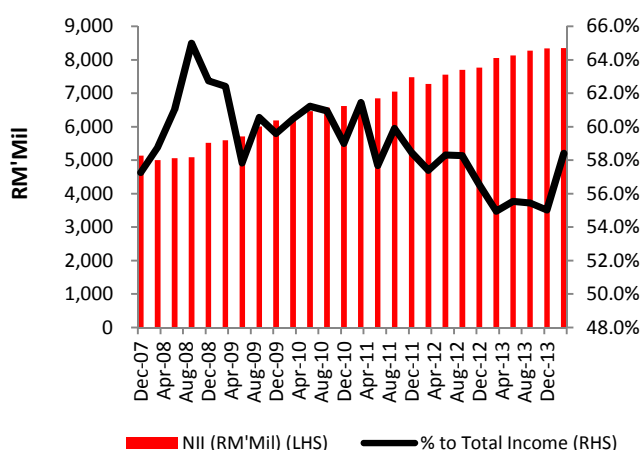
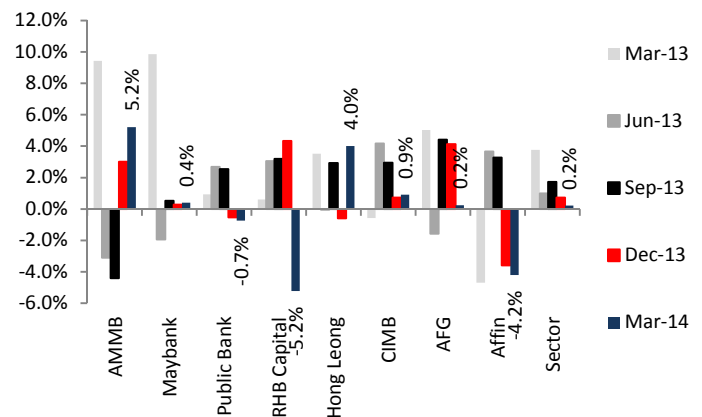


Chart 4: Growth in NII (%Qoq)



- Aggregate sector NII (excluding net funding income from Islamic banking) grew at a moderated pace in 1QCY14. Sector NII grew 0.2%qoq and 3.7%yoy to RM8.35b (4QCY13: 0.7%qoq and 7.4%yoy) supported by loan expansion while NIM was slightly higher on average. On a quarterly basis, except for AMMB, CIMB and Hong Leong Bank which reported improvement in NIM qoq, the other banks' NIMs continue to contract due to pressures from both asset yield and COF. NII to total income for the sector was higher at 58.4% in 1QCY14 as compared to 55.0% in the preceding quarter. This was due to a decline in the sector's NOII.

Table 5: Net Interest Income (NII) (RM'Mil)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	%Yoy
AMMB	574	556	531	548	576	+0.4%
Maybank	2,411	2,365	2,377	2,383	2,393	-0.8%
Public Bank	1,350	1,386	1,421	1,414	1,403	+3.9%
RHB Cap	779	803	828	864	819	+5.1%
Hong Leong	637	637	656	652	678	+6.4%
CIMB	1,897	1,976	2,034	2,048	2,067	+9.0%
AFG	187	184	193	201	201	+7.3%
Affin	221	230	237	229	219	-1.1%
Total	8,056	8,136	8,277	8,338	8,355	+3.7%
% Change Qoq						
AMMB	+9.4%	-3.1%	-4.4%	+3.0%	+5.2%	
Maybank	+9.9%	-1.9%	+0.5%	+0.3%	+0.4%	
Public Bank	+0.9%	+2.7%	+2.6%	-0.5%	-0.7%	
RHB Cap	+0.6%	+3.1%	+3.2%	+4.3%	-5.2%	
Hong Leong	+3.5%	-0.04%	+2.9%	-0.6%	+4.0%	
CIMB	-0.6%	+4.2%	+2.9%	+0.7%	+0.9%	
AFG	+5.0%	-1.6%	+4.4%	+4.1%	+0.2%	
Affin	-4.7%	+3.7%	+3.3%	-3.6%	-4.2%	
Total	+3.8%	+1.0%	+1.7%	+0.7%	+0.2%	

Source: Companies

Table 6: NII to Total Income (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	49.8%	46.4%	44.9%	44.6%	50.5%
Maybank	53.9%	49.1%	48.4%	50.9%	54.0%
Public Bank	68.2%	67.9%	68.5%	68.6%	68.0%
RHB Cap	57.2%	56.0%	54.0%	53.5%	55.8%
Hong Leong	62.2%	65.3%	63.7%	61.8%	71.5%
CIMB	48.1%	57.4%	58.4%	53.9%	58.4%
AFG	52.8%	50.7%	61.2%	61.0%	58.9%
Affin	59.5%	60.3%	60.6%	59.9%	59.0%
Average	54.9%	55.5%	55.4%	55.0%	58.4%

Source: Companies, MIDFR

- NIM rose slightly by 3bp qoq in 1QCY14. Nevertheless, there will still be pressures on banks' NIM moving forward. This is due tighter liquidity which is likely to result in stronger competition for deposits consequently raising banks' COF as well as pressures on asset yield. Table 7 shows overall sector's average NIM improving slightly to 2.36% in 1QCY14, up from 2.33% in the preceding quarter. Contributing to this uplift was the improved NIMs of AMMB, CIMB and Hong Leong Bank. Noticeably the stronger improvement was Hong Leong Bank's NIM, up by 12bp qoq. This was contributed by a one-off adjustment to the effective interest rate (EIR) for its fixed rate products (in circa 6bp of the increase). The reassessment of EIR takes place on the 1Q of each calendar year which is the 3Q of the bank's financial year end. In view that it is only a one off adjustment, NIM for Hong Leong Bank is likely to decline in subsequent quarters in the near term. Meanwhile, the improvement of AMMB's NIM quarter-

on-quarter was due to improved funding mix and rates. For CIMB, the improved NIM on quarter-on quarter was contributed by better NIMs for Malaysia, Indonesia and Thailand operations. The Sector's CASA ratio trended higher to 27.9% in 1QCY14 (4QCY13: 27.7%). CASA ratios for AMMB, RHB Cap and Affin improved slightly while those for the other banks were stable.

Table 7: Net Interest Margin (NIM)

Bank	Mar-13 (1QCY13)	June-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar'14 (1QCY14)
AMMB	2.70%	2.66%	2.52%	2.65%	2.77%
Maybank	2.47%	2.42%	2.39%	2.38%	2.37%
Public Bank	2.36%	2.36%	2.37%	2.32%	2.28%
RHB Cap	2.34%	2.33%	2.34%	2.33%	2.33%
Hong Leong	2.20%	2.06%	2.06%	2.03%	2.15%
CIMB	2.88%	2.89%	2.82%	2.80%	2.85%
AFG	2.36%	2.20%	2.20%	2.23%	2.18%
Affin	2.05%	2.07%	2.10%	2.00%	1.93%
Average	2.42%	2.37%	2.35%	2.33%	2.36%

Source: Companies, MIDFR own estimates

Table 8: CASA Ratio (%)

Bank	Mar-13 (1QCY13)	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar'14 (1QCY14)
AMMB	19.9%	20.6%	18.7%	19.7%	20.9%
Maybank	34.9%	34.2%	36.1%	36.1%	35.8%
Public Bank	25.2%	25.2%	25.1%	25.5%	25.5%
RHB Cap	22.3%	22.3%	22.4%	23.3%	23.5%
Hong Leong	24.9%	25.9%	26.3%	26.0%	26.0%
CIMB	33.7%	34.2%	34.9%	34.5%	35.8%
AFG	33.6%	35.8%	33.4%	35.2%	34.0%
Affin	20.7%	20.3%	19.8%	21.6%	21.9%
Average	26.9%	27.3%	27.1%	27.7%	27.9%

Source: Companies, MIDFR

- Sector aggregate NOII contracted in 1QCY14. Aggregate sector NOII grew at -17.3%qoq and -18.5%yoy in 1QCY14 (4QCY13: 0.8%qoq and 11.9%yoy). On a quarter on quarter and percentage basis, Hong Leong Bank, AMMB and Maybank recorded the largest decline in NOII. Underlying causes for the drop in NOII were a mix. While some banks reported a decline in fee income, the other banks showed a decline in net foreign exchange (FX) gain and investment and trading income. Hong Leong Bank reported a significant decline in NOII on a quarter-on-quarter basis. This was largely due to i) a lower FX gain and ii) adjustment of some RM42m cost related to credit cards from overhead expenses to its fee income. NOII to total income for the sector declined to 26.3% in 1QCY14 (4QCY13: 29.6%).

Chart 5: Sector Aggregate NOII

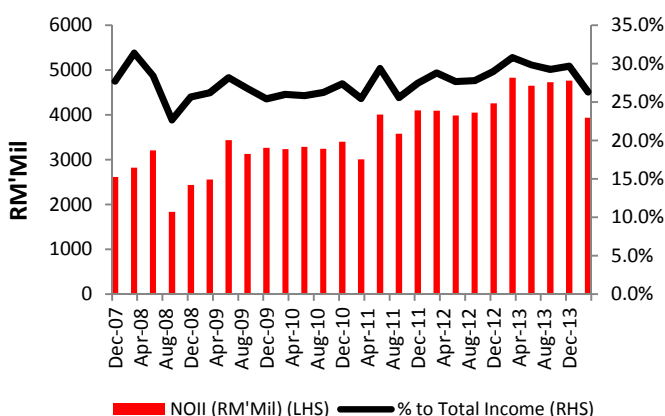


Chart 6: Growth in NII (%Qoq)

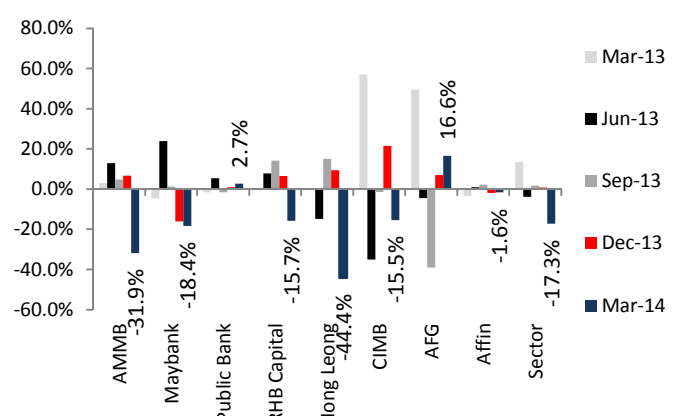


Table 9: Non Interest Income (NOII) (RM'Mil)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	%Yoy
AMMB	358	404	423	452	307	-14.1%
Maybank	1,439	1,783	1,804	1,512	1,234	-14.3%
Public Bank	423	446	439	443	455	+7.5%
RHB Cap	450	485	554	590	498	+10.6%
Hong Leong	271	231	266	290	162	-40.4%
CIMB	1,670*	1,084	1,068	1,299	1,097	-34.3%
AFG	121**	126^	70	75	88	-27.3%
Affin	96	97	99	97	95	-0.4%
Total	4,828	4,656	4,723	4,758	3,936	-18.5%
% Change Qoq						
AMMB	+3.0%	+13.0%	+4.7%	+6.7%	-31.9%	
Maybank	-4.6%	+23.9%	+1.2%	-16.2%	-18.4%	
Public Bank	-1.6%	+5.4%	-1.7%	+1.0%	+2.7%	
RHB Cap	-0.5%	+7.9%	+14.2%	+6.5%	-15.7%	
Hong Leong	+0.5%	-14.8%	+15.0%	+9.4%	-44.4%	
CIMB	+57.1%	-35.1%	-1.5%	+21.6%	-15.5%	
AFG	+49.5%	-4.5%	-39.0%	+7.1%	+16.6%	
Affin	-3.3%	+1.0%	+2.3%	-1.9%	-1.6%	
Total	+13.6%	-3.8%	+1.7%	+0.8%	-17.3%	

*Includes gains from sale of CIMB Aviva of RM515.0m

**Includes gains from sale of 30% stake in AIA-AFG Takaful of RM23.1m

^Includes one-off income of RM30.0 from AFG's tie up with Manulife for bancassurance

Source: Companies

Table 10: NOII to Total Income (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	31.0%	33.7%	35.8%	36.8%	26.9%
Maybank	32.2%	37.0%	36.7%	32.3%	27.8%
Public Bank	21.4%	21.8%	21.1%	21.5%	22.0%
RHB Cap	33.0%	33.9%	36.1%	36.5%	33.9%
Hong Leong	26.4%	23.7%	25.8%	27.5%	17.0%
CIMB	42.3%	31.5%	30.7%	34.2%	31.0%
AFG	34.0%	31.7%	22.4%	22.9%	25.7%
Affin	25.7%	25.4%	25.3%	25.4%	25.7%
Average	30.8%	29.8%	29.2%	29.6%	26.3%

Source: Companies, MIDFR

- Upticks in GIL ratio was evidenced only for Maybank. This was due to impairment charges for its corporate loan accounts in Malaysia and Indonesia. Elsewhere, GIL ratios for the other banks remained stable. On absolute value basis, loan loss provisions in 1QCY14 rose by 7.1%qoq, contributed by higher provisions of AMMB and Maybank. For AMMB, it was due to an increase in collective assessment (CA) impairment allowances while for Maybank, it was as result of a higher CA charge as well as due to individual assessment (IA) impairment charges for corporate loans in Malaysia and Indonesia. Locally, the impairment charges were related to the logistic and waste water management sectors while over in Indonesia, the impaired corporate loans were related to the coal and plantation sectors. The overall sector's GIL ratio remained stable at 1.78% in 1QCY14 as compared to 1.84% in 4QCY13. Average loan loss coverage (LLC) ratio for the 8 banks trended higher to 100.5% from 98.4% in 4QCY13.

Table 11: Gross Impaired Loan (GIL) Ratio (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	1.98%	1.88%	1.95%	1.98%	1.86%
Maybank	1.88%	1.86%	1.83%	1.48%	1.52%
Public Bank	0.68%	0.67%	0.69%	0.67%	0.66%
RHB Cap	2.95%	3.15%	2.92%	2.81%	2.54%
Hong Leong	1.41%	1.40%	1.36%	1.33%	1.24%
CIMB	3.75%	3.56%	3.39%	3.15%	3.07%
AFG	2.05%	1.94%	1.75%	1.53%	1.38%
Affin	2.22%	2.09%	2.03%	1.98%	1.92%
Average	2.12%	2.08%	2.01%	1.84%	1.78%

Table 12: Loan Loss Provisions (RM'Mil)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	(76)	20	11	(35)	(64)
Maybank	(85)	(428)	(280)	55	(210)
Public Bank	(81)	(76)	(103)	(90)	(85)
RHB Cap	(155)	(145)	(30)	(119)	(54)
Hong Leong	(41)	(28)	18	(21)	(25)
CIMB	(81)	(71)	(200)	(308)	(111)
AFG	(4)	(5)	5	(3)	18
Affin	13	18	5	31	6
Total	(510)	(716)	(576)	(491)	(526)
(% qoq growth)	+22.3%	+40.5%	-19.6%	-14.7%	+7.1%

() denotes provision expense

Source: Companies, MIDFR

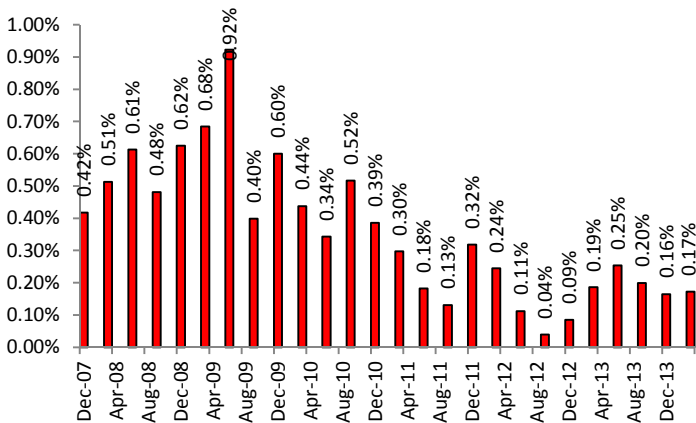
- Average annualized credit cost for the 8 banks increased slightly to 17bp in 1QCY14. Sector average annualized credit cost rose to 17bp in 1QCY14 as compared to 16bp in 4QCY13 (see Chart 7 and Table 13). AFG and Affin recorded a net write back in credit charge in 1QCY14. On average, the 8 banks' CA ratio was 1.19% slightly below BNM's minimum requirement of 1.2% by end 2015.

Table 13: Annualized Credit Cost (%)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	0.34%	0.36%	-0.09%	-0.05%	0.16%	0.29%
Maybank	0.20%	0.10%	0.52%	0.33%	-0.06%	0.23%
Public Bank	0.17%	0.16%	0.15%	0.19%	0.16%	0.15%
RHB Cap	0.35%	0.55%	0.49%	0.10%	0.39%	0.17%
Hong Leong	-0.06%	0.17%	0.12%	-0.07%	0.08%	0.10%
CIMB	0.10%	0.15%	0.13%	0.35%	0.53%	0.19%
AFG	-0.19%	0.06%	0.07%	-0.06%	0.04%	-0.22%
Affin	-0.23%	-0.15%	-0.20%	-0.05%	-0.33%	-0.07%
Average	0.09%	0.19%	0.25%	0.20%	0.16%	0.17%

Source: Companies, MIDFR

Chart 7: Sector Average Credit Cost



Source: Companies, MIDFR

Table 14: CA Ratio (%)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	2.44%	2.36%	2.34%	2.28%	2.20%	2.20%
Maybank	1.20%	1.17%	1.17%	1.20%	1.10%	1.14%
Public Bank	0.78%	0.76%	0.75%	0.73%	0.72%	0.71%
RHB Cap	1.41%	1.42%	1.31%	1.21%	1.14%	1.11%
Hong Leong	1.57%	1.52%	1.30%	1.25%	1.21%	1.11%
CIMB	1.71%	1.68%	1.58%	1.51%	1.48%	1.45%
AFG	1.32%	1.24%	1.19%	1.11%	1.07%	0.98%
Affin	0.96%	0.96%	0.94%	0.93%	0.83%	0.83%
Average	1.41%	1.39%	1.32%	1.26%	1.26%	1.19%

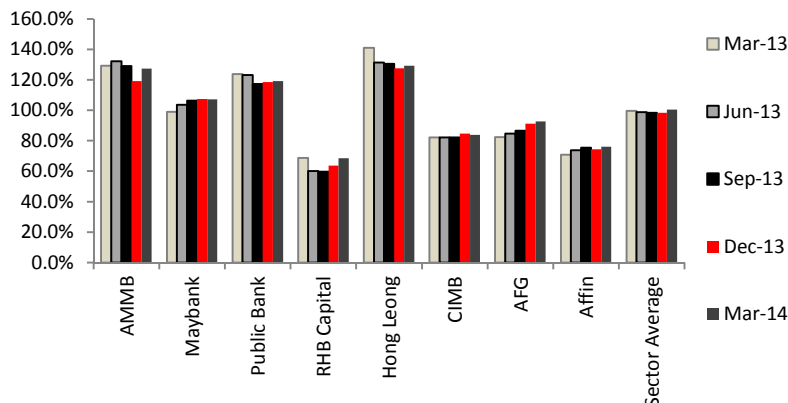
Source: Companies

Table 15: Loan loss coverage (%)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	123.5%	129.3%	132.2%	129.2%	119.3%	127.4%
Maybank	105.6%	99.0%	103.5%	106.3%	107.5%	107.2%
Public Bank	126.0%	123.9%	123.2%	117.3%	118.54%	119.13%
RHB Cap	66.0%	68.7%	60.2%	59.6%	63.7%	68.4%
Hong Leong	139.2%	141.1%	131.3%	130.4%	127.5%	129.3%
CIMB	82.8%	82.3%	82.1%	82.2%	84.8%	83.8%
AFG	83.8%	82.5%	84.7%	86.7%	91.2%	92.7%
Affin	71.0%	70.9%	73.7%	75.4%	74.4%	76.0%
Average	99.7%	99.7%	98.9%	98.4%	98.4%	100.5%

Source: Companies, MIDFR

Chart 8: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- **Slightly negative JAW position in 1QCY14, an improvement over 4QCY13.** The combined overhead expenses of the 8 banks for 1QCY14 contracted 5.5%qoq. Despite of the improvement, the sector continued to record a negative JAW due to a decline in total income. The lower total income led to a slightly higher CI ratio on average for the sector of 46.7% in 1QCY14 (4QCY13: 46.2%). Banks continue to invest in IT infrastructure to streamline processes and improve efficiency. Overall, overhead expenses for banks have been well controlled.

Table 16: Overhead Expenses (RM'Mil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	522	584	562	563	540	481
Maybank	2,137	2,297	2,329	2,305	2,334	2,168
Public Bank	581	632	630	612	630	656
RHB Cap	717	718	748	762	818	789
Hong Leong	452	458	495	455	460	411
CIMB	1,966	2,220	2,042	2,059	2,137	2,011
AFG	152	172	175	144	144	165
Affin	184	172	174	175	195	180
Sector	6,712	7,252	7,154	7,076	7,258	6,861
Sector (% qoq growth)	+5.3%	+8.0%	-1.3%	-1.1%	+2.6%	-5.5%

Source: Companies, MIDFR

Table 17: Net/Total Income (RM'Mil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	1,078	1,152	1,198	1,183	1,227	1,141
Maybank	4,231	4,470	4,813	4,916	4,685	4,435
Public Bank	1,973	1,980	2,042	2,076	2,060	2,064
RHB Cap	1,366	1,363	1,432	1,534	1,616	1,468
Hong Leong	1,004	1,025	975	1,029	1,055	948
CIMB	3,369	3,945	3,444	3,485	3,797	3,538
AFG	320	355	364	315	329	341
Affin	389	372	381	391	381	371
Sector	13,730	14,662	14,650	14,928	15,152	14,307
Sector (% qoq growth)	+1.3%	+6.8%	-0.1%	+1.9%	+1.5%	-5.6%

Source: Companies, MIDFR

Table 18: Cost to Income (CI) Ratio by quarters (%)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)
AMMB	48.4%	50.7%	46.9%	47.6%	44.0%	42.2%
Maybank	50.5%	51.4%	48.4%	46.9%	49.8%	48.9%
Public Bank	29.5%	31.9%	30.8%	29.5%	30.6%	31.8%
RHB Cap	52.5%	52.7%	52.2%	49.7%	50.6%	53.7%
Hong Leong	45.0%	44.7%	50.7%	44.2%	43.6%	43.3%
CIMB	58.3%	56.3%	59.3%	59.1%	56.3%	56.8%
AFG	47.6%	48.4%	48.0%	45.9%	43.7%	48.4%
Affin	47.5%	46.3%	45.6%	44.8%	51.2%	48.6%
Average	47.4%	47.8%	47.7%	46.0%	46.2%	46.7%

Source: Companies, MIDFR

Table 19: CET1, Core Capital and Risk Weighted Capital ratios as at end 1QCY14 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	9.7	11.2	15.5
Maybank	10.9 (fully loaded: 9.9)	12.5	15.3
Public Bank	8.5	10.1	13.3
RHB Cap**	10.2	10.7	12.8
Hong Leong	9.8 (fully loaded: 8.2)	11.2	13.6
CIMB	9.6	11.1	14.8
AFG	10.4	11.4	13.7
Affin^	11.8	11.8	12.7

**represent ratios at RHB Bank level. CET1 ratio of RHB Cap: 8.6% on fully loaded basis

^represent ratios at Affin Bank level

Source: Companies, MIDFR

Table 19 shows the capital ratios of banks above the regulatory requirements for Basel III.

- Keeping our NEUTRAL call on the sector.** Our GDP growth forecast for CY14 has revised upwards recently to 5.3% from 5.0% on the back of a strong 1Q GDP growth of 6.2%. Looking ahead in the subsequent quarters of CY14, we expect a steady growth in exports for our domestic economy. Hence, private sector investments are likely to gain traction ahead leading to financing requirements for CAPEX. This will bode well for SME and corporate loans moving forward. We think that there are still pockets of opportunities for banks to grow their SME and corporate loan portfolio.

Meanwhile, there is no change to our expectation for consumer loans growth. Consumer loan momentum will be slower in CY14 due to higher inflation and the tightened measures by BNM to manage household debts. Based on BNM statistic as of Apr'14, we have seen most household loans moderating in growth with exception of loans to financing the purchase of residential property which remained fairly stable. AMMB has reiterated its cautious stance on lending to the property sector while Affin as highlighted in our earlier report has been cautious on financing for purchase of commercial properties. In the recent results briefing, even AFG which has recorded a strong growth in mortgage loans has hinted of a slower growth ahead on its lending for purchase of properties.

Overall, it has been a slow start in 1QCY14 for banks loan growth but we expect a pick in business loan momentum in the quarters ahead based on a steady export growth scenario. We are starting to see loans to the manufacturing sector expanding gradually albeit still a marginal increase as of now. Hence, we maintain our CY14 loan growth expectation of 10-11% for the sector.

Regional capital markets business likely to continue to be tough. IB business for the larger cap banks continue to look challenging ahead looking at the slow execution of deals, in particularly the equity market. Elsewhere, regional brokerage business has also turned slower. Hence, NOII growth of banks will be challenged by the abovementioned factors.

With the sector liquidity tightened based on the rise in LD ratio, we continue to expect banks to compete for deposits. Arising from this, COF will likely rise and together with pressures on asset yield, NIM of banks will still be pressured moving into the remaining quarters of CY14. On credit cost, we continue to expect normalisation ahead with lower loan recoveries. As for potential interest hike, we now expect a rate hike only 25bp in 2HCY14 (previously 25bp in 2QCY14 and another 25bp rise in 2HCY14). This is expected to be marginally positive for banks.

Table 21 provides the snapshot of the banks in the region which we have been selected for comparison purposes. It shows the average PER and PBR of banks in Thailand, Indonesia and Singapore. Based on our comparison, valuations for banks in Malaysia remain richer comparatively based on FY15 PB Multiple.

Table 20: Sector growth in earnings

(RM'Mil)	FY12	FY13	FY14F	FY15F
AMMB	1,484	1,635	1,782	1,921
Maybank	5,745	6,552	6,849	7,447
Public Bank	3,869	4,065	4,401	4,774
RHB Capital	1,785	1,831	2,115	2,308
Hong Leong	1,648	1,856	2,030	2,204
CIMB	4,345	4,540	4,669	5,289
AFG	479	538	564	599
Affin	629	650	609	720
Sector	19,984	21,667	23,018	25,261
Sector (% growth)	16.1%	8.4%	6.2%	9.7%

Our BUY calls are on Maybank (TP: RM11.00), RHB Cap (TP: RM9.50) and Hong Leong Bank (TP: RM16.50). We remain NEUTRAL on AFG (TP: RM4.70), AHB (TP: RM3.80), AMMB (TP: RM8.00), Public Bank (TP: RM19.90) and CIMB (TP: RM7.80)

	Rec.	Price @ 6/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
				14	15	14	15	14	15	14	15	14	15		
AMMB	NEUTRAL	7.22	8.00	59.3	64.0	12.2	11.3	24.1	25.0	3.3	3.5	4.4	4.8	1.7	1.5
Maybank	BUY	9.84	11.00	77.0	84.0	12.8	11.7	46.0	50.0	4.7	5.1	5.6	6.1	1.8	1.6
Public Bank	NEUTRAL	20.78	19.90	113.0	123.0	18.4	16.9	51.0	55.0	2.5	2.6	7.2	7.8	2.9	2.7
RHB Capital	BUY	8.44	9.50	83.0	91.0	10.2	9.3	25.0	27.0	3.0	3.2	7.0	7.6	1.2	1.1
Hong Leong	BUY	13.84	16.50	108.0	117.0	12.8	11.8	36.0	39.0	2.6	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.21	7.80	56.0	63.0	12.9	11.4	22.0	25.0	3.1	3.5	4.5	4.9	1.6	1.5
AFG	NEUTRAL	4.69	4.70	37.2	39.0	12.6	12.0	29.5	23.0	6.3	4.9	2.8	3.0	1.7	1.6
Affin	NEUTRAL	3.60	3.80	32.0	37.0	11.3	9.7	16.0	19.0	4.4	5.3	3.5	3.7	1.0	1.0

Forecasts by MIDFR

Table 21: Snapshot of Regional Peers

Indonesia Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bank Mandiri	11.9	10.3	2.3	2.0	21.2	21.2
Bank Rakyat Indonesia	10.5	9.3	2.6	2.1	27.1	25.2
Bank CIMB Niaga	6.2	5.8	0.9	0.8	15.3	14.1
Bank Danamon Indonesia	10.5	9.1	1.2	1.1	12.4	12.7
Average	9.8	8.6	1.8	1.5	19.0	18.3

Based on consensus estimates

Source: Bloomberg

Thai Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bangkok Bank	9.6	8.7	1.1	1.1	12.3	12.6
Krungthai Card PLC	9.3	8.6	1.7	1.5	18.5	17.9
Siam Commercial Bank	10.7	9.6	2.0	1.8	19.9	19.5
KasikornBank	10.5	9.3	1.9	1.6	18.8	18.3
TMB Bank	13.6	12.0	1.6	1.4	11.6	12.6
Bank of Ayudha	15.9	13.3	1.9	1.7	12.5	13.1
CIMB Thai	28.4	22.4	1.8	1.7	6.6	7.8
Average	14.0	12.0	1.7	1.5	14.3	14.5

Based on consensus estimates

Source: Bloomberg

Singapore Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
DBS Group Holdings	10.8	9.8	1.1	1.1	10.9	11.3
OCBC	11.3	10.6	1.3	1.2	11.8	11.8
UOB	11.9	11.0	1.3	1.2	11.6	11.7
Average	11.3	10.5	1.2	1.2	11.4	11.6

Based on consensus estimates

Source: Bloomberg

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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	<i>Negative</i> total return is expected, by -15% or more, 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.