

MALAYSIAN BANKS **Quarterly Review**

Quarterly review of the banking sector



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Weaker earnings in 2QCY14 results impacted by lower NOII

Maintain NEUTRAL

- 2QCY14 aggregate net profit growth was subdued at 1.0%yoy after adjusting for one-off items. 2QCY14 results of 3 banks (CIMB, AMMB and Affin) came in below expectations while that of the other 5 banks (Public Bank, Maybank, RHB Cap, Hong Leong Bank and AFG) were in line with our forecasts. Banks reported aggregate PATAMI which grew 1.4%qoq and 4.6%yoy in 2QCY14 to RM5.47b. However, after stripping off the one-off items, ie. (i) AMMB's net disposal gain of RM208m from the sale of shares in AmLife and AmFamily Takaful to MetLife in 2QCY14 and (ii) AFG's RM30m one-off bancassurance fee from its tie up with Manulife in 2QCY13, aggregate PATAMI growth was subdued at -2.5%qoq and +1.0%yoy.

Aggregate reported net income grew +2.8%qoq and +0.4%yoy to RM14.7b in 2QCY14. Excluding one-offs, growth in core net income was flat at +0.1%qoq and -2.1%yoy. This was mainly due to a much lower than expected non interest income (NOII).

Meanwhile, growth in net interest income (NII) was modest at 1.2%qoq and 3.9%yoy in 2QCY14. This was on the back of pressure on NIM which has yet to abate and slower loan growth. Loan growth grew at a slower pace of 1.8%qoq and 10.0%yoy to RM1.24t. The trend in NIM was mixed with most banks reporting a lower NIM than the preceding quarter due to pressures on asset yield and cost of fund (COF), except for CIMB and Affin (see Table 8).

Sector annualised credit cost remained stable at 17bp. Based on reported numbers, aggregate overhead expenses rose by 3.0%qoq against a net income growth of 2.8%qoq, hence still negative JAWs while sector average CI ratio trended higher to 48.1%.

Sector liquidity remained tight with an average Net LD ratio of 86.5%. CASA ratio remained stable at 27.7%. The sector's annualised ROE continue to trend lower consecutively for the three quarters. Elsewhere, capital position of banks remained strong supportive of capital management plans.

Chart 1: Sector Aggregate Earnings (RM'Mil)

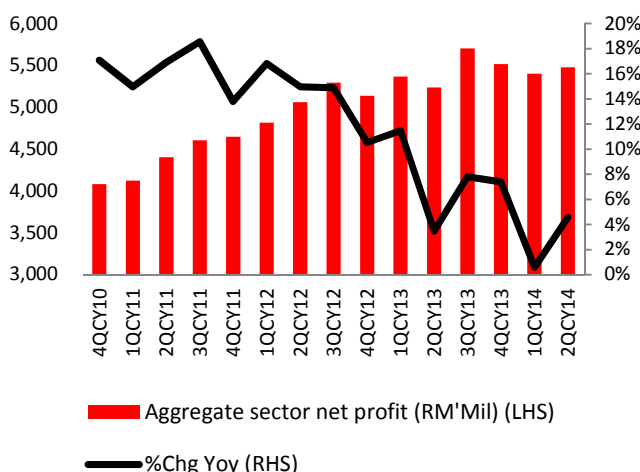
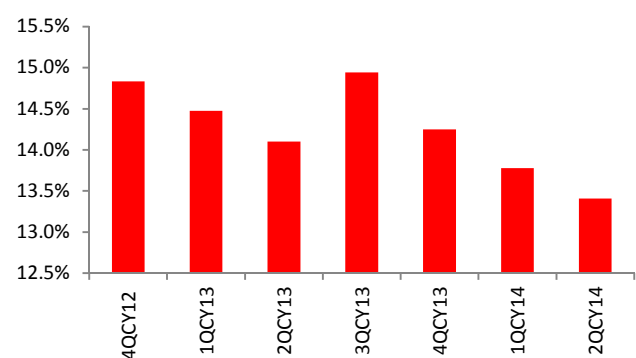


Chart 2: Sector annualised ROE by quarters*



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

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

Bank	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	%Qoq	%Yoy	2014 ROE guidance
AMMB	468	441	423	464	537	+15.8%	+14.8%	14.2-14.5%^
Maybank	1,568	1,746	1,732	1,602	1,576	-1.6%	0.5%	14.0%*
Public Bank	1,024	1,047	1,026	1,017	1,068	+5.0%	+4.3%	>20.0%
RHB Cap	410	559	505	451	562	24.7%	37.0%	>12.0%
Hong Leong	416	544	520	500	537	7.5%	29.1%	At least 14.0%^
CIMB	1,054	1,062	1,006	1,067	950	-10.9%	-9.9%	13.5-14.0%
AFG	138	131	137	158	131	-17.2%	-5.1%	14.0-16.0%^
Affin	159	173	167	143	115	-19.4%	-27.8%	9.2%
Total	5,237	5,704	5,515	5,400	5,476	+1.4%	+4.6%	

*ROE guidance for Public Bank trimmed to 18.0% post rights issue (previous guidance: >20.0%) while Maybank's ROE guidance has been reduced from 15.0% to 14.0% for FY14.

^represents ROE target for FY15

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

- **Loan growth continued to moderate and grew slower in 2QCY14.** Growth in aggregate sector's gross loan growth was slower at 1.8%qoq and 10.0%yoy in 2QCY14 compared to 2.2%qoq and 11.3%yoy in previous quarter. Compared to 1QCY14, most banks reported a slower loan growth in 2QCY14 except for Maybank, RHB Cap and Hong Leong Bank.

Maybank's loan growth picked up pace from a slow start in 1QCY14 contributed largely by the stronger momentum of its international loans. Loans for Maybank Singapore and BII were strong in 2QCY14. Also improved was Maybank's domestic loan growth contributed by better momentum of its Community Financial Services segment's loans which offset its weaker corporate loan growth in Malaysia. Meanwhile, RHB Cap's loan growth also picked up momentum in 2QCY14 supported by strong momentum in residential property loans, loans for purchase of securities and working capital loans. For Hong Leong Bank, loan growth gained traction with a robust growth in mortgage loans and better momentum for loans granted to business enterprises.

Table 2: Total Gross Loans (RM'bil)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun-14 (2QCY14)	Change Yoy	FYE	2014 loan growth guidance*
AMMB	86	86	87	89	88	+1.5%	Mar	7.0%^
Maybank	332	340	361	366	374	+12.6%	Dec	13.0%
Public Bank	209	216	221	227	232	+10.8%	Dec	10.0-11.0%
RHB Cap	117	121	122	126	132	+13.0%	Dec	12.0%
Hong Leong	97	98	101	102	104	+7.2%	June	Circa 10.0%**
CIMB	223	228	235	240	241	+8.1%	Dec	14.0%
AFG	29	30	31	32	33	+15.2%	Mar	11.0-12.0%^
Affin	36	36	37	38	38	+6.6%	Dec	8.0-10.0%
Total	1,130	1,156	1,195	1,221	1,243	+10.0%		

*Loan growth rates at Group level guided by management

^Loan growth from Apr'14 to Mar'15. Loan growth guidance for AMMB trimmed to 7.0% from 9.0% previously

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

Source: Companies

Table 3: Growth in Gross Loans (%Qoq)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	3.5%	1.8%	-0.6%	1.3%	2.8%	-1.9%
Maybank	1.5%	3.1%	2.3%	6.3%	1.3%	2.3%
Public Bank	3.0%	2.9%	2.9%	2.6%	2.5%	2.4%
RHB Cap	1.9%	3.3%	3.6%	0.3%	3.7%	4.9%
Hong Leong	5.7%	2.9%	1.1%	2.3%	1.1%	2.5%
CIMB	3.0%	3.7%	2.5%	2.7%	2.4%	0.2%
AFG	3.9%	2.1%	4.0%	2.3%	5.1%	3.1%
Affin	0.3%	3.3%	1.2%	2.9%	2.3%	0.0%
Total	2.6%	3.1%	2.3%	3.3%	2.2%	1.8%

Source: Companies, MIDFR

Table 4: Growth in Gross Loans (%YoY)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	11.4%	9.8%	6.2%	6.1%	5.3%	1.5%
Maybank	12.9%	10.1%	12.0%	13.7%	13.5%	12.6%
Public Bank	11.9%	11.8%	11.8%	11.8%	11.3%	10.8%
RHB Cap	18.9%	12.8%	13.9%	9.2%	11.2%	13.0%
Hong Leong	7.7%	7.3%	7.1%	12.5%	7.6%	7.2%
CIMB	12.7%	11.4%	13.7%	12.6%	11.9%	8.1%
AFG	13.0%	11.5%	12.6%	12.8%	14.1%	15.2%
Affin	9.6%	8.7%	8.1%	7.9%	10.1%	6.6%
Total	12.6%	10.6%	11.5%	11.8%	11.3%	10.0%

Table 5: Net LD Ratio (Net LDR) of Banks

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	97.3%	96.4%	94.7%	96.8%	97.2%	98.5%
Maybank	89.0%	87.5%	88.2%	89.9%	91.0%	90.6%
Public Bank	86.9%	86.4%	86.5%	87.5%	86.8%	87.1%
RHB Cap	82.3%	84.4%	87.3%	86.8%	86.6%	87.1%
Hong Leong	75.0%	77.2%	77.0%	78.5%	78.4%	78.8%
CIMB	78.7%	83.8%	84.8%	86.9%	89.4%	87.5%
AFG	77.1%	79.4%	80.5%	82.5%	81.1%	82.9%
Affin	80.1%	82.0%	80.5%	77.9%	81.6%	79.8%
Average	83.3%	84.6%	84.9%	85.9%	86.5%	86.5%

Source: Companies, MIDFR

Chart 3: Sector Aggregate NII

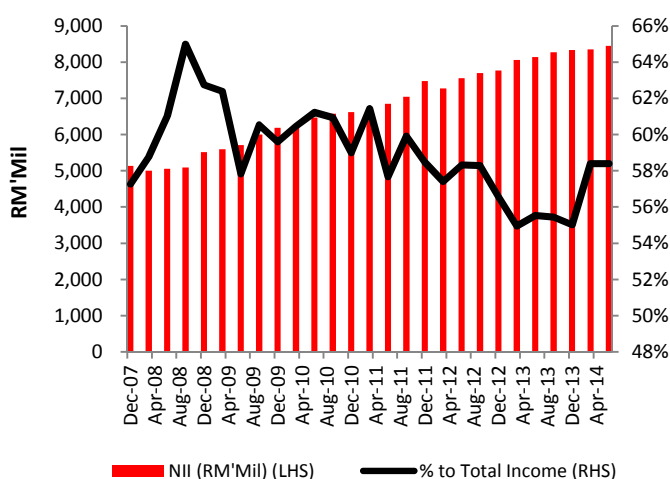
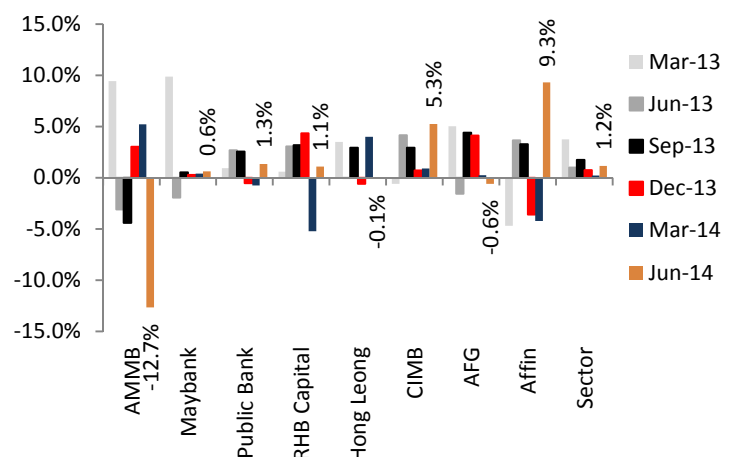


Chart 4: Growth in NII (%Qoq)



- **Aggregate sector NII (excluding net funding income from Islamic banking) improved in 2QCY14.** It grew stronger with a growth of 1.2%qoq and 3.9%yoy to RM8.45b (1QCY14: 0.2%qoq and 3.7%yoy). This was supported by loan expansion while NIM remained under pressure for most banks. Banks' NIM which compressed the most in the quarter was AMMB, down 32bp to 2.45%.

NII to total income for the sector was slightly lower at 57.5% in 2QCY14 as compared to 58.4% in the preceding quarter.

Table 6: Net Interest Income (NII) (RM'Mil)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	%Yoy
AMMB	556	531	548	576	503	-9.5%
Maybank	2,365	2,377	2,383	2,393	2,407	+1.8%
Public Bank	1,386	1,421	1,414	1,403	1,422	+2.6%
RHB Cap	803	828	864	819	828	+3.1%
Hong Leong	637	656	652	678	677	+6.3%
CIMB	1,976	2,034	2,048	2,067	2,175	+10.1%
AFG	184	193	201	201	200	+8.3%
Affin	230	237	229	219	239	+4.3%
Total	8,136	8,277	8,338	8,355	8,452	+3.9%
% Change Qoq						
AMMB	-3.1%	-4.4%	+3.0%	+5.2%	-12.7%	
Maybank	-1.9%	+0.5%	+0.3%	+0.4%	+0.6%	
Public Bank	+2.7%	+2.6%	-0.5%	-0.7%	+1.3%	
RHB Cap	+3.1%	+3.2%	+4.3%	-5.2%	+1.1%	
Hong Leong	-0.04%	+2.9%	-0.6%	+4.0%	-0.1%	
CIMB	+4.2%	+2.9%	+0.7%	+0.9%	+5.3%	
AFG	-1.6%	+4.4%	+4.1%	+0.2%	-0.6%	
Affin	+3.7%	+3.3%	-3.6%	-4.2%	+9.3%	
Total	+1.0%	+1.7%	+0.7%	+0.2%	+1.2%	

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

Table 7: NII to Total Income (%)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	46.4%	44.9%	44.6%	50.5%	34.4%
Maybank	49.1%	48.4%	50.9%	54.0%	53.7%
Public Bank	67.9%	68.5%	68.6%	68.0%	67.7%
RHB Cap	56.0%	54.0%	53.5%	55.8%	57.3%
Hong Leong	65.3%	63.7%	61.8%	71.5%	67.3%
CIMB	57.4%	58.4%	53.9%	58.4%	63.8%
AFG	50.7%	61.2%	61.0%	58.9%	59.3%
Affin	60.3%	60.6%	59.9%	59.0%	50.9%
Average	55.5%	55.4%	55.0%	58.4%	57.5%

Source: Companies, MIDFR

- **NIM declined by 5bp qoq in 2QCY14.** Except for CIMB and Affin which showed improvement in NIM on quarter-on-quarter basis, the rest of the other 6 banks continued to face pressure on NIMs. Contributing to the NIM decline was: i) pressure on asset yield and ii) pressure on COF due to tighter liquidity which continues to be impacted by strong competition for deposits. Average Net LD ratio remained high at 86.5% reflecting the sector's tight liquidity.

Table 8 showed the overall sector's average NIM continued to decline to 2.31% in 2QCY14 from 2.36% in 1QCY14.

The increase in CIMB's NIM was contributed by improvement in Niaga and CIMB Thai's NIM on a quarter-on-quarter basis. Meanwhile, Affin's improved NIM was due to consolidation of Hwang IB. Hong Leong Bank's NIM declined 6bp qoq in 2QCY14 after rising 12 bp qoq in 1QCY14. This was due to a one-off adjustment to the effective interest rate (EIR) for its fixed rate products in 1QCY14. The sector's CASA ratio remained stable at 27.7%. Maybank, CIMB and AFG remained as banks with higher CASA ratios.

Table 8: Net Interest Margin (NIM)

Bank	June-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	2.66%	2.52%	2.65%	2.77%	2.45%
Maybank	2.42%	2.39%	2.38%	2.37%	2.35%
Public Bank	2.36%	2.37%	2.32%	2.28%	2.20%
RHB Cap	2.33%	2.34%	2.33%	2.33%	2.29%
Hong Leong	2.06%	2.06%	2.03%	2.15%	2.09%
CIMB	2.89%	2.82%	2.80%	2.85%	2.90%
AFG	2.20%	2.20%	2.23%	2.18%	2.11%
Affin	2.07%	2.10%	2.00%	1.93%	2.09%
Average	2.37%	2.35%	2.33%	2.36%	2.31%

Source: Companies, MIDFR own estimates

Table 9: CASA Ratio (%)

Bank	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	20.6%	18.7%	19.7%	20.9%	21.6%
Maybank	34.2%	36.1%	36.1%	35.8%	35.7%
Public Bank	25.2%	25.1%	25.5%	25.5%	25.2%
RHB Cap	22.3%	22.4%	23.3%	23.5%	23.3%
Hong Leong	25.9%	26.3%	26.0%	26.0%	26.2%
CIMB	34.2%	34.9%	34.5%	35.8%	34.7%
AFG	35.8%	33.4%	35.2%	34.0%	34.7%
Affin	20.3%	19.8%	21.6%	21.9%	19.9%
Average	27.3%	27.1%	27.7%	27.9%	27.7%

Source: Companies, MIDFR

- Stripping out the one-off divestment gain of AMMB, sector aggregate NOII contracted in 2QCY14 was flat compared to 1QCY14. Aggregate sector NOII based on reported financials jumped 8.6%qoq to RM4.27b in 2QCY14 contributing by a gross gain of RM390m from AMMB's divestment of shares in AmLife and AmFamily Takaful to Metlife. Stripping out AMMB's divestment gain, growth in the sector NOII was subdued at -1.3%qoq. On year-on-year basis, growth in core NOII declined significantly by 16.4%yoy contributed largely by slips in CIMB and Maybank's NOII as a result of weaker capital and treasury markets.

Chart 5: Sector Aggregate NOII

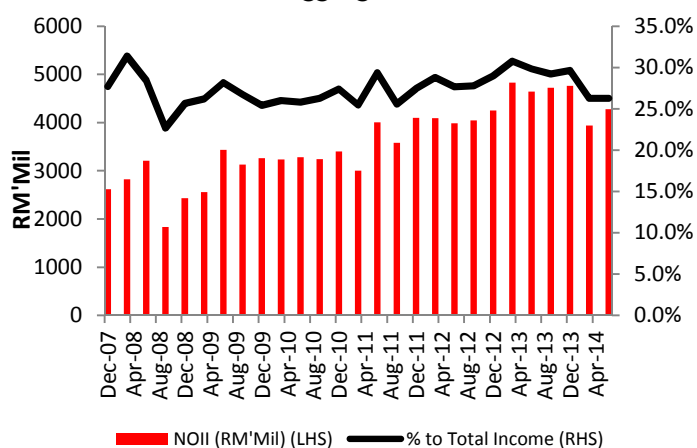


Chart 6: Growth in NOII (%Qoq)

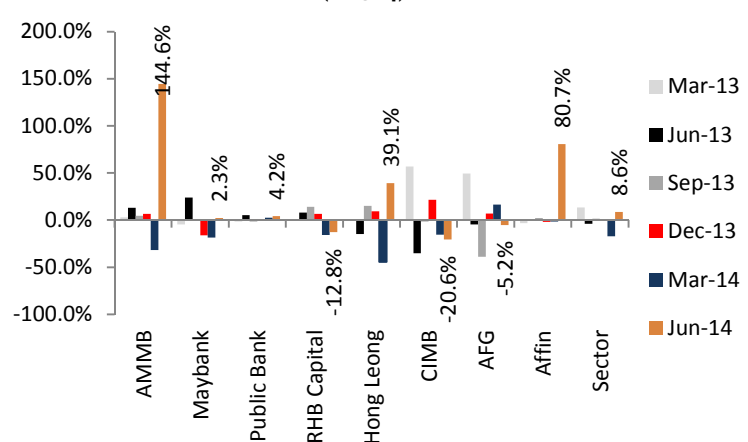


Table 10: Non Interest Income (NOII) (RM'Mil)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	%Yoy
AMMB	404	423	452	307	752*	+86.0%
Maybank	1,783	1,804	1,512	1,234	1,263	-29.2%
Public Bank	446	439	443	455	474	+6.3%
RHB Cap	485	554	590	498	434	-10.6%
Hong Leong	231	266	290	162	225	-2.6%
CIMB	1,084	1,068	1,299	1,097	871	-19.7%
AFG	126^	70	75	88	83	-27.8%
Affin	97	99	97	95	172	+78.3%
Total	4,656	4,723	4,758	3,936	4,274	-8.0%
% Change Qoq						
AMMB	+13.0%	+4.7%	+6.7%	-31.9%	+144.6%	
Maybank	+23.9%	+1.2%	-16.2%	-18.4%	+2.3%	
Public Bank	+5.4%	-1.7%	+1.0%	+2.7%	+4.2%	
RHB Cap	+7.9%	+14.2%	+6.5%	-15.7%	-12.8%	
Hong Leong	-14.8%	+15.0%	+9.4%	-44.4%	+39.1%	
CIMB	-35.1%	-1.5%	+21.6%	-15.5%	-20.6%	
AFG	-4.5%	-39.0%	+7.1%	+16.6%	-5.2%	
Affin	+1.0%	+2.3%	-1.9%	-1.6%	+80.7%	
Total	-3.8%	+1.7%	+0.8%	-17.3%	+8.6%	

*Includes gross gain of RM390m from the sale of shares in AmLife and AmFamily Takaful to Metlife

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

Based on reported financials of companies. Source: Companies

Table 11: NOII to Total Income (%)

Bank	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	33.7%	35.8%	36.8%	26.9%	51.4%
Maybank	37.0%	36.7%	32.3%	27.8%	28.2%
Public Bank	21.8%	21.1%	21.5%	22.0%	22.6%
RHB Cap	33.9%	36.1%	36.5%	33.9%	30.0%
Hong Leong	23.7%	25.8%	27.5%	17.0%	22.3%
CIMB	31.5%	30.7%	34.2%	31.0%	25.6%
AFG	31.7%	22.4%	22.9%	25.7%	24.7%
Affin	25.4%	25.3%	25.4%	25.7%	36.6%
Average	29.8%	29.2%	29.6%	26.3%	29.1%

Source: Companies, MIDFR

- **GIL ratio for most banks remained stable.** On absolute value basis, loan loss provisions in 2QCY14 declined by 1.3%qoq. AMMB and CIMB reported higher provisions for loans losses in 2QCY14 compared to 1QCY14. The higher provisions for loan losses for the former were contributed by lower recoveries while that of the latter was contributed by the rise in loan impairment for CIMB Niaga (Niaga) and the high provisions of CIMB Thai. Asset qualities for Niaga and Maybank's operations in Indonesia were weaker in the quarter. Niaga's Gross NPL ratio for commercial loans jump 200bp qoq to 4.2% with a rise in NPLs from its lending to the oil & gas, hotels, power plant, transportation & printing sectors. Meanwhile, for BII, provisions for loan losses rose due to restructuring of its Structured Trade and Commodity Finance (STCF) portfolio as well as due to challenges encountered by some borrowers in the oil & gas and mining sectors coupled with the business slowdown experienced by certain loan customers from the export ban

imposed in Indonesia on certain materials. Overall sector's GIL ratio remained stable at 1.76% in 2QCY14. Average loan loss coverage (LLC) ratio for the 8 banks stayed healthy at 98.3%.

Table 12: Gross Impaired Loan (GIL) Ratio (%)

Bank	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	1.88%	1.95%	1.98%	1.86%	1.87%
Maybank	1.86%	1.83%	1.48%	1.52%	1.50%
Public Bank	0.67%	0.69%	0.67%	0.66%	0.65%
RHB Cap	3.15%	2.92%	2.81%	2.54%	2.45%
Hong Leong	1.40%	1.36%	1.33%	1.24%	1.18%
CIMB	3.56%	3.39%	3.15%	3.07%	3.12%
AFG	1.94%	1.75%	1.53%	1.38%	1.36%
Affin	2.09%	2.03%	1.98%	1.92%	1.91%
Average	2.08%	2.01%	1.84%	1.78%	1.76%

Source: Companies, MIDFR

Table 13: Loan Loss Provisions (RM'Mil)

Bank	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	20	11	(35)	(64)	(81)
Maybank	(428)	(280)	55	(210)	(154)
Public Bank	(76)	(103)	(90)	(85)	(65)
RHB Cap	(145)	(30)	(119)	(54)	(17)
Hong Leong	(28)	18	(21)	(25)	(24)
CIMB	(71)	(200)	(308)	(111)	(147)
AFG	(5)	5	(3)	18	(1)
Affin	18	5	31	6	(29)
Total	(716)	(576)	(491)	(526)	(519)
(% qoq growth)	+40.5%	-19.6%	-14.7%	+7.1%	-1.3%

() denotes provision expense

Source: Companies, MIDFR

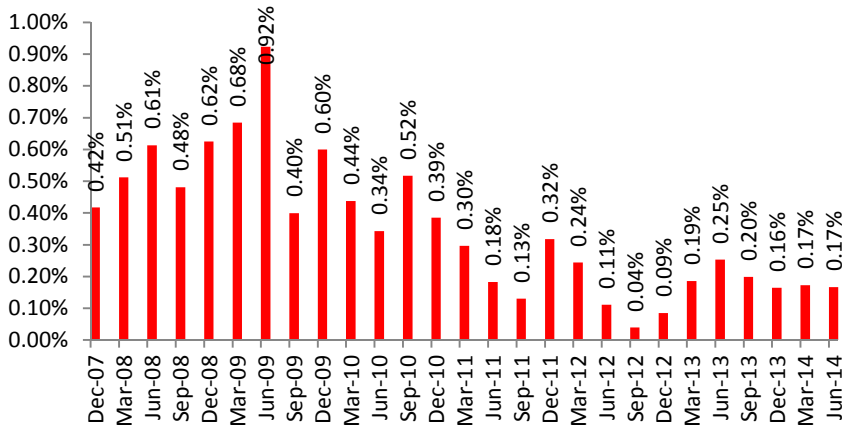
- **Sector annualized credit cost remained stable at 17bp in 2QCY14.** Sector average annualized credit cost remained at 17bp (see Chart 7 and Table 14). On average, the 8 banks' CA ratio slip to 1.14% as compared to 1.19% in the preceding quarter and remained slightly below BNM's minimum requirement of 1.2% by end 2015.

Table 14: Annualized Credit Cost (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	0.36%	-0.09%	-0.05%	0.16%	0.29%	0.37%
Maybank	0.10%	0.52%	0.33%	-0.06%	0.23%	0.16%
Public Bank	0.16%	0.15%	0.19%	0.16%	0.15%	0.11%
RHB Cap	0.55%	0.49%	0.10%	0.39%	0.17%	0.05%
Hong Leong	0.17%	0.12%	-0.07%	0.08%	0.10%	0.09%
CIMB	0.15%	0.13%	0.35%	0.53%	0.19%	0.24%
AFG	0.06%	0.07%	-0.06%	0.04%	-0.22%	0.01%
Affin	-0.15%	-0.20%	-0.05%	-0.33%	-0.07%	0.30%
Sector	0.19%	0.25%	0.20%	0.16%	0.17%	0.17%

Source: Companies, MIDFR

Chart 7: Sector Average Credit Cost



Source: Companies, MIDFR

Table 15: CA Ratio (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	2.36%	2.34%	2.28%	2.20%	2.20%	2.03%
Maybank	1.17%	1.17%	1.20%	1.10%	1.14%	1.12%
Public Bank	0.76%	0.75%	0.73%	0.72%	0.71%	0.71%
RHB Cap	1.42%	1.31%	1.21%	1.14%	1.11%	1.05%
Hong Leong	1.52%	1.30%	1.25%	1.21%	1.11%	1.04%
CIMB	1.68%	1.58%	1.51%	1.48%	1.45%	1.40%
AFG	1.24%	1.19%	1.11%	1.07%	0.98%	0.95%
Affin	0.96%	0.94%	0.93%	0.83%	0.83%	0.82%
Average	1.39%	1.32%	1.26%	1.26%	1.19%	1.14%

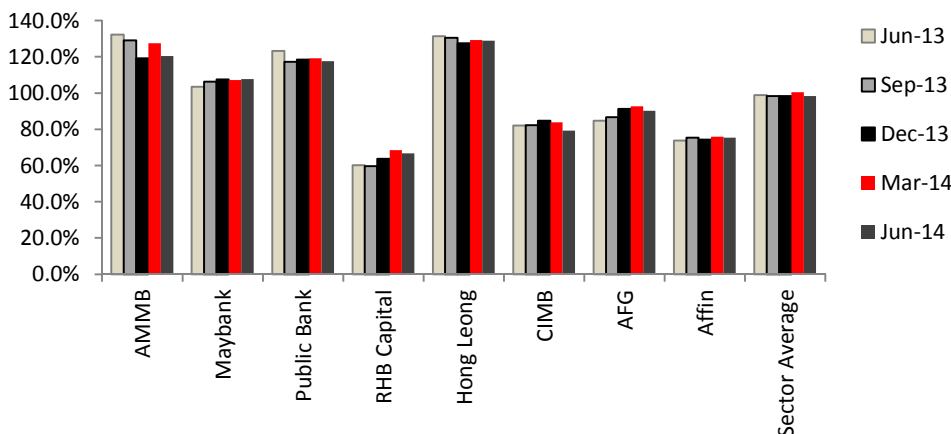
Source: Companies

Table 16: Loan loss coverage (%)

Bank	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	129.3%	132.2%	129.2%	119.3%	127.4%	120.5%
Maybank	99.0%	103.5%	106.3%	107.5%	107.2%	107.7%
Public Bank	123.9%	123.2%	117.3%	118.54%	119.13%	117.62%
RHB Cap	68.7%	60.2%	59.6%	63.7%	68.4%	66.7%
Hong Leong	141.1%	131.3%	130.4%	127.5%	129.3%	128.9%
CIMB	82.3%	82.1%	82.2%	84.8%	83.8%	79.2%
AFG	82.5%	84.7%	86.7%	91.2%	92.7%	90.2%
Affin	70.9%	73.7%	75.4%	74.4%	76.0%	75.3%
Average	99.7%	98.9%	98.4%	98.4%	100.5%	98.3%

Source: Companies, MIDFR

Chart 8: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- **CI ratio edged up to 48.1% and negative JAWs remain.** The combined overhead expenses of the 8 banks for 2QCY14 increase by 3.0%qoq contributed largely by the AMMB, RHB Cap and Affin's higher expenses. AMMB's increase was due to its ongoing expenses (mainly IT investments) to optimize efficiency and to deliver growth in the future. Elsewhere, RHB Cap's rise in operating expenses was due to higher personnel cost with additional headcounts as well as due to recruitment of new key management employees while that of Affin was due to consolidation of Hwang IB. JAWs position remained negative with growth in overhead expenses slightly ahead of that of net income. CI ratio on average for the sector edged up to 48.1% in 2QCY14 from 46.7% in 1QCY14.

Table 17: Overhead Expenses (RM'Mil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	522	584	562	563	540	481	624
Maybank	2,137	2,297	2,329	2,305	2,334	2,168	2,086
Public Bank	581	632	630	612	630	656	666
RHB Cap	717	718	748	762	818	789	797
Hong Leong	452	458	495	455	460	411	467
CIMB	1,966	2,220	2,042	2,059	2,137	2,011	2,008
AFG	152	172	175	144	144	165	162
Affin	184	172	174	175	195	180	260
Sector	6,712	7,252	7,154	7,076	7,258	6,861	7,070
Sector (%qoq growth)	+5.3%	+8.0%	-1.3%	-1.1%	+2.6%	-5.5%	+3.0%

Source: Companies, MIDFR

Table 18: Net/Total Income (RM'Mil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)
AMMB	1,078	1,152	1,198	1,183	1,227	1,141	1,462
Maybank	4,231	4,470	4,813	4,916	4,685	4,435	4,479
Public Bank	1,973	1,980	2,042	2,076	2,060	2,064	2,100
RHB Cap	1,366	1,363	1,432	1,534	1,616	1,468	1,445
Hong Leong	1,004	1,025	975	1,029	1,055	948	1,006
CIMB	3,369	3,945	3,444	3,485	3,797	3,538	3,407
AFG	320	355	364	315	329	341	337
Affin	389	372	381	391	381	371	470
Sector	13,730	14,662	14,650	14,928	15,152	14,307	14,707
Sector (%qoq growth)	+1.3%	+6.8%	-0.1%	+1.9%	+1.5%	-5.6%	+2.8%

Source: Companies, MIDFR

Table 19: 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)	Jun'14 (2QCY14)
AMMB	48.4%	50.7%	46.9%	47.6%	44.0%	42.2%	42.6%
Maybank	50.5%	51.4%	48.4%	46.9%	49.8%	48.9%	46.6%
Public Bank	29.5%	31.9%	30.8%	29.5%	30.6%	31.8%	31.7%
RHB Cap	52.5%	52.7%	52.2%	49.7%	50.6%	53.7%	55.2%
Hong Leong	45.0%	44.7%	50.7%	44.2%	43.6%	43.3%	46.4%
CIMB	58.3%	56.3%	59.3%	59.1%	56.3%	56.8%	58.9%
AFG	47.6%	48.4%	48.0%	45.9%	43.7%	48.4%	48.0%
Affin	47.5%	46.3%	45.6%	44.8%	51.2%	48.6%	55.3%
Average	47.4%	47.8%	47.7%	46.0%	46.2%	46.7%	48.1%

Source: Companies, MIDFR

Table 20: CET1, Core Capital and Risk Weighted Capital ratios as at end 2QCY14 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	10.3	11.8	16.1
Maybank	11.4 (fully loaded: 10.7)	12.9	15.9
Public Bank	8.9	10.4	13.8
RHB Cap	10.3	10.7	14.0
Hong Leong	10.5	11.9	14.6
CIMB	9.5	11.0	14.7
AFG	10.0	11.1	13.2
Affin^	11.8	11.8	12.7

^represent ratios at Affin Bank level
Source: Companies, MIDFR

Table 20 shows the capital ratios of banks continued to be above the regulatory requirements for Basel III.

- Still challenges ahead and we remain NEUTRAL on Banking Sector.** 2QCY14 Real GDP growth came in stronger than expected at 6.4% ahead of consensus expectation underpinned by strong exports and domestic demand. With a strong GDP numbers in 1HCY14, we have revised our GDP growth expectation from 5.3% to 5.5% for full CY14. We had earlier expected business loan growth to pick up pace with the strong export numbers. However, domestic business loan continued to lose momentum and trended lower to 6.8%yoy in July'14 from 8.5%yoy in Dec'13 impacted by loan repayments. Up until July'14, corporate loan growth continued to remain soft locally. This has been evidenced by the slow growth in CIMB and Maybank's domestic corporate loans.

Locally, export growth was still positive at 0.6%yoy in July'14. Nevertheless, the growth has moderated since May'14. Our economist is now expecting a lower GDP growth in 2HCY14 as growth in both exports and domestic demand are likely to taper moving forward. Growth in exports is expected to decline in subsequent quarters of CY14 due to: i) high base effect factor and ii) import growth which we did not see surging to support a stronger export momentum ahead. Meanwhile, slower domestic demand is also expected on back of further adjustments in prices of controlled items in line with further cutback in fiscal spending.

In tandem with a slower GDP growth in 2HCY14 due to slower growth in exports and domestic demand, we expect growth for both household and business loans to be softer in CY14 than CY13 (Our previous expectation: business loan growth to pick up pace on stronger exports but offset by a moderation in household loan growth). We have lowered our CY14 loan growth expectation for the sector to 9-10% from 10-11% earlier. At this juncture, we maintain our CY14 loan growth projection at 9-10% (CY13 actual domestic industry loan growth: 10.6%yoy).

Locally, PDS issuance has risen by 77.0%yoy in July'14 and by 26.1%yoy for the 1st 7 months of 2014. Hence, reflects a healthy issuance. Elsewhere, for ASEAN capital market, equity offerings have been slower in 1HCY14 than 1HCY13. While it is hopeful that equity capital activities may pick up pace in the subsequent quarters, the slow equity capital market activities in 1HCY14 is likely to result in NOII growth for the full CY14 to turn out to be weaker than CY13. We have trimmed our NOII expectations for CIMB, Maybank and AMMB which have consequently lowered our net profit forecast for these banks in CY14.

As a result of the weaker results in 2QCY14 largely due to lower than expected NOII, we have made further revisions to our earnings growth estimate to 3.0% for 2014 and 10.2% for 2015 (previously: 6.2% and 9.7% respectively).

Stronger earnings are expected in 2015 due to:

- The drop in our expectation for earnings growth in 2014;
- Hikes in interest rates which are expected provide some uplift in net interest income of banks as the rise is expected to partially offset pressures on COF. Hence, NIM contraction is likely to be lower in

2015 than 2014. General guidance from management on banks NIM contraction is between 10-15bp for 2014;

- iii. Expectation of better momentum for capital market activities with the deferment of some key IPOs to 2015. This is likely to support NOII of banks and
- iv. Greater operating efficiencies of banks after the completion of integration works on IT systems. Cost to income ratios likely to trend lower moving forward as most of the expenses are likely to have already been incurred to achieve higher cost efficiency in the future.

Sector liquidity remained tight and intense competition for deposits is likely to continue. Hence, pressure on banks' COF is likely to remain. On credit cost, we continue to expect normalisation ahead with lower loan recoveries.

Table 22 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 on FY15 PB Multiple are on par with Indonesia's Banks, richer than Singapore Banks but attractive compared to Banks in Thailand.

Table 21: Sector growth based on core earnings

(RM'Mil)	2013	2014F	2015F
AMMB	1,782	1,840	2,049
Maybank	6,552	6,418	7,035
Public Bank	4,065	4,187	4,544
RHB Capital	1,831	2,115	2,307
Hong Leong	1,856	2,102	2,229
CIMB	4,189	4,321	4,907
AFG	564	572	651
Affin	650	590	690
Sector	21,489	22,144	24,414
Sector (% growth)	6.5%	3.0%	10.2%

*Companies, MIDF forecast. Earnings adjusted for one-off items

We reiterate our BUY calls on Maybank (TP: RM11.50), RHB Cap (TP: RM10.70) and Hong Leong Bank (TP: RM16.30). We remain NEUTRAL on AFG (TP: RM4.70), AHB (TP: RM3.70), AMMB (TP: RM7.60), Public Bank (TP: RM19.60) and CIMB (TP: RM8.00).

	Rec.	Price @ 8/9	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	Neutral	7.01	7.60	59.3	61.0	11.8	11.5	24.1	24.0	3.4	3.4	4.4	4.7	1.6	1.5
Maybank	Buy	10.12	11.50	72.0	79.0	14.1	12.8	43.0	48.0	4.2	4.7	5.6	6.0	1.8	1.7
Public Bank	Neutral	19.20	19.60	108.0	117.0	17.8	16.4	49.0	53.0	2.6	2.8	7.1	7.7	2.7	2.5
RHB Capital	Buy	9.10	10.70	83.0	91.0	11.0	10.0	25.0	27.0	2.7	3.0	7.0	7.6	1.3	1.2
Hong Leong	Buy	14.82	16.30	112.0	119.0	13.2	12.5	35.0	39.0	2.4	2.6	7.7	8.6	1.9	1.7
CIMB	Neutral	7.25	8.00	52.0	59.0	13.9	12.3	21.0	24.0	2.9	3.3	4.5	4.9	1.6	1.5
AFG	Neutral	5.01	4.70	36.0	37.0	13.9	13.5	19.0	22.0	3.8	4.4	2.8	2.9	1.8	1.7
Affin	Neutral	3.43	3.70	30.0	35.0	11.4	9.8	15.0	18.0	4.4	5.2	3.5	3.7	1.0	0.9
Average						13.4	12.4							1.7	1.5

Forecasts by MIDFR

Table 22: Snapshot of Regional Peers

Indonesia Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bank Mandiri	12.2	10.6	2.4	2.1	21.2	21.3
Bank Rakyat Indonesia	11.3	10.0	2.8	2.3	27.1	25.4
Bank CIMB Niaga	6.2	5.8	0.8	0.7	14.8	13.7
Bank Danamon Indonesia	11.0	9.1	1.1	1.0	10.3	11.2
Average	10.2	8.9	1.8	1.5	18.4	17.9

Based on consensus estimates

Source: Bloomberg

Thai Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bangkok Bank	11.0	9.9	1.3	1.2	12.2	12.4
Krungthai Card PLC	13.6	12.5	2.7	2.4	20.7	19.9
Siam Commercial Bank	12.1	10.9	2.3	2.0	20.3	19.7
KasikornBank	12.6	11.1	2.3	1.9	19.1	18.7
TMB Bank	17.0	15.0	2.0	1.8	12.4	13.0
Bank of Ayudha	20.9	17.8	2.4	2.2	12.0	12.8
CIMB Thai	43.6	28.7	2.0	1.9	5.7	6.7
Average	18.7	15.1	2.1	1.9	14.6	14.7

Based on consensus estimates

Source: Bloomberg

Singapore Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
DBS Group Holdings	11.5	10.5	1.2	1.1	11.2	11.2
OCBC	11.1	10.7	1.3	1.2	12.4	11.9
UOB	12.1	11.3	1.4	1.3	11.5	11.4
Average	11.6	10.8	1.3	1.2	11.7	11.5

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.