

# **MALAYSIAN BANKS** **Quarterly Review**

## Quarterly review of the banking sector



Kelvin Ong, CFA  
603-2173 8353  
kelvin.ong@midf.com.my

More challenging to achieve higher ROEs

Maintain NEUTRAL

- 4QCY13 witnessed a moderation in net profit growth and a lower net credit cost. 4QCY13 results of 6 banks (Public Bank, Maybank, CIMB, AMMB, Hong Leong Bank and AFG) came in within expectations. Meanwhile, results of Affin and RHB Cap were slightly ahead of our expectations. In the case of Affin, the Group recorded a write back in loan impairment in 4QCY13 while its credit cost came in lower than our expectation. RHB Cap results were above our forecast due to higher NOII and lower than anticipated provision for loan losses.

Growth of total operating income for 8 banks grew 1.5%qoq and 10.4%yoy to RM15.2b in 4QCY13. Aggregate net profit (PATAMI) for all banks (refer Table 1) for 4QCY13 grew -3.3%qoq and +7.4%yoy to RM5.52b. PATAMI in 4QCY13 moderated on both quarter on quarter and year on year basis.

On quarterly basis, the drop in aggregate PATAMI was mainly due to a moderation in net interest income (NII) and non interest income (NOII) growth partially offset by stronger momentum for Islamic Banking income. Loan growth picked up pace in 4QCY13 with a growth of 3.3%qoq and 11.8%yoy to RM1.19t. Nevertheless, banks' NII continued to be affected by NIM compression of 2bp qoq to 2.33% (see Table 7). Sector average annualised credit cost was lower at 16bp in 4QCY13 as compared to 20bp in 3QCY13. This was due to Maybank and Affin which reported net write backs in loan impairment in 4QCY13. Aggregate overhead expenses grew 2.6%qoq, faster pace compared to the growth in operating income growth of 1.5%qoq for banks. This led to an overall negative JAWs position for the sector in 4QCY13. Sector average CI ratio rose slightly to 46.2% in 4QCY13 (3QCY13: 46.0%). Meanwhile, average net LD ratio for 8 banks rose to 87.6% reflecting a tighter liquidity position. CASA ratio trended higher to 27.7% and signified a strong focus by banks to grow low cost deposits to manage NIM.

Chart 1: Sector Aggregate Earnings (RM'Mil)

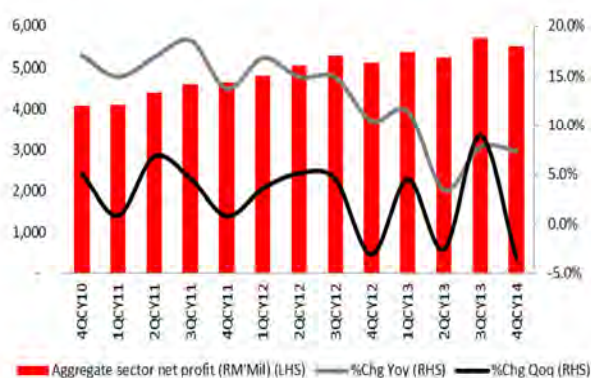
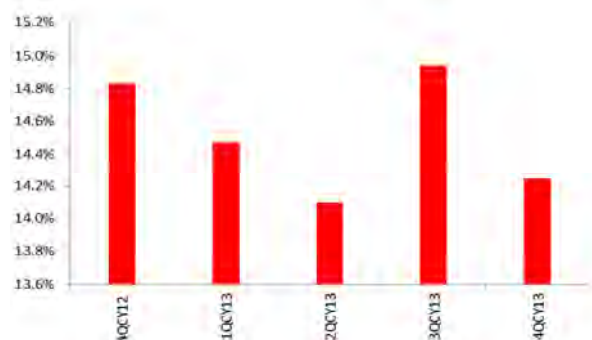


Chart 2: Sector annualised ROE by quarters\*



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

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

Bank	Dec-12 (4QCY12)	Mar-13 (1QCY13)	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)	%Qoq	%Yoy	FY14 ROE guidance
AMMB	393	406	468	441	423	-4.1%	+7.7%	14.0-14.5%
Maybank	1,460	1,506	1,568	1,746	1,732	-0.8%	+18.7%	15.0%
Public Bank	992	968	1,024	1,047	1,026	-2.1%	+3.3%	>20.0%
RHB Cap	408	357	410	559	505	-9.8%	+23.7%	>12.0%
Hong Leong	508	454	416	544	520	-4.4%	+2.4%	15.0-17.0%
CIMB	1,082	1,386	1,054	1,062	1,006	-5.3%	-7.0%	13.5-14.0%
AFG	133	139	138	131	137	+4.0%	+2.8%	14.0-16.0%
Affin	160	151	159	173	167	-3.5%	+4.1%	9.2%
<b>Total</b>	<b>5,136</b>	<b>5,368</b>	<b>5,237</b>	<b>5,704</b>	<b>5,515</b>	<b>-3.3%</b>	<b>+7.4%</b>	

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

- **Loan growth picked up pace in 4QCY13 led by strong surge in Maybank's international loan book.** Aggregate sector's gross loans grew 3.3%qoq and 11.8%yoy to RM1.19t.

The sector's stronger momentum in loan growth for 4QCY13 was contributed largely by acceleration in Maybank's international book. Maybank Singapore reported a strong loan growth in 4QCY13 attributed to the expansion of commercial loans. Meanwhile, BII's loans grew strongly for the quarter led by SME and consumer loans. This was in contrast to the loan growth of CIMB Niaga which was dampened by slower momentum for consumer and corporate banking loans. RHB Cap reported a deceleration in loans growth due to a large corporate loan repayment of RM2.6b in 4QCY13.

Generally, domestic loans continued to be stable as compared to the preceding quarter. Loans for purchase of residential property remained stable while that for purchase of non residential property and transport vehicles softened. We gather that AMMB and Affin have turned cautious against lending for purchase of commercial properties.

Table 2: Total Gross Loans (RM'bil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Change Yoy	FYE	FY14 loan growth guidance*
AMMB	83	85	86	86	87	+4.1%	Mar	7.0%
Maybank	318	322	332	340	361	+13.7%	Dec	13.0%
Public Bank	198	204	209	216	221	+11.8%	Dec	10.0-11.0%
RHB Cap	111	114	117	121	122	+9.2%	Dec	12.0%
Hong Leong	89	94	97	98	101	+8.2%	June	10.0%
CIMB	208	215	223	228	235	+12.6%	Dec	14.0%
AFG	27	28	29	30	31	+12.8%	Mar	13.0%
Affin	35	35	36	36	37	+7.9%	Dec	8.0-10.0%
<b>Total</b>	<b>1,069</b>	<b>1,097</b>	<b>1,130</b>	<b>1,156</b>	<b>1,195</b>	<b>+11.8%</b>		

Loan growth rates at Group level guided by management  
*Source: Companies*

Table 3: Growth in Gross Loans (%Yoy)

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	10.3%	9.2%	8.9%	7.5%	4.1%	4.1%
Maybank	11.4%	12.9%	12.9%	10.1%	12.0%	13.7%
Public Bank	11.6%	11.3%	11.9%	11.8%	11.8%	11.8%
RHB Cap	12.8%	14.6%	18.9%	12.8%	13.9%	9.2%
Hong Leong	7.5%	2.8%	7.7%	7.3%	7.1%	8.2%
CIMB	8.6%	8.9%	12.7%	11.4%	13.7%	12.6%
AFG	13.2%	12.4%	13.0%	11.5%	12.6%	12.8%
Affin	13.0%	11.7%	9.6%	8.7%	8.1%	7.9%
<b>Total</b>	<b>10.7%</b>	<b>10.8%</b>	<b>12.6%</b>	<b>10.6%</b>	<b>11.5%</b>	<b>11.8%</b>

Source: Companies, MIDFR

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

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	94.7%	96.6%	97.3%	96.4%	94.7%	96.8%
Maybank	90.0%	89.8%	89.0%	87.5%	88.2%	89.9%
Public Bank	86.8%	87.1%	86.9%	86.4%	86.5%	87.5%
RHB Cap	83.0%	79.1%	82.3%	84.4%	87.3%	86.8%
Hong Leong	72.8%	73.5%	75.0%	77.2%	77.0%	78.5%
CIMB	83.8%	82.9%	78.7%	83.8%	84.8%	86.9%
AFG	81.3%	85.3%	77.1%	79.4%	80.5%	96.6%
Affin	79.7%	79.6%	80.1%	82.0%	80.5%	77.9%
<b>Average</b>	<b>84.0%</b>	<b>84.2%</b>	<b>83.3%</b>	<b>84.6%</b>	<b>84.9%</b>	<b>87.6%</b>

Source: Companies, MIDFR

Chart 3: Sector Aggregate NII

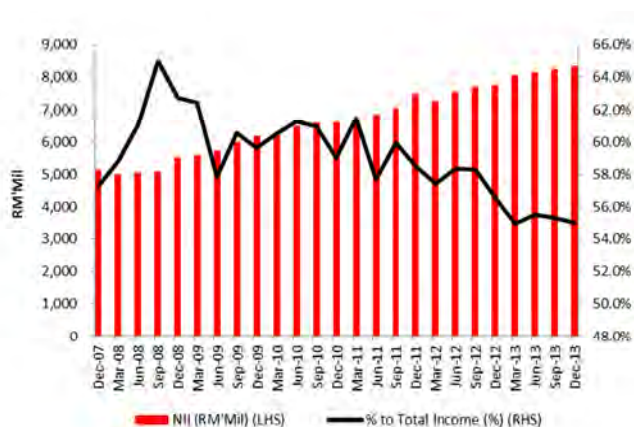
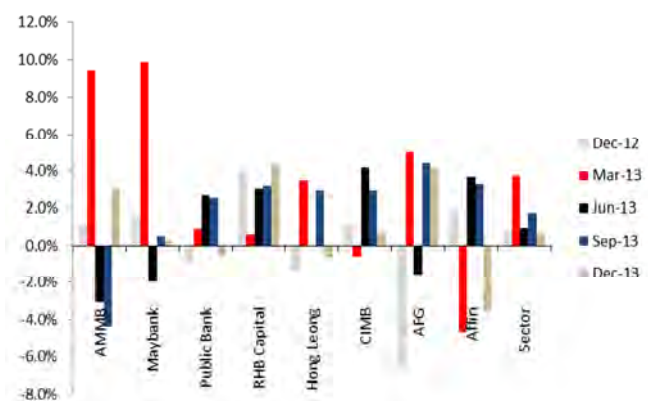


Chart 4: Growth in NII (%Qoq)



- Aggregate sector NII (excluding net funding income from Islamic banking) grew at a moderated pace in 4QCY13. Sector NII grew 0.7%qoq and 7.4%yoy to RM8.34b (3QCY13: 1.7%qoq and 7.5%yoy) supported by loan expansion while NIM continued to be under pressure. On a quarterly basis, NIM still contracted for most banks. This was due to pressures from asset yield as well as from bank's COF. NII to total income for the sector was slightly lower at 55.0% in 4QCY13 as compared to 55.4% in 3QCY13.

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

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	%Yoy
AMMB	524	574	556	531	548	+4.4%
Maybank	2,195	2,411	2,365	2,377	2,383	+8.6%
Public Bank	1,337	1,350	1,386	1,421	1,414	+5.7%
RHB Cap	774	779	803	828	864	+11.6%
Hong Leong	616	637	637	656	652	+5.9%
CIMB	1,908	1,897	1,976	2,034	2,048	+7.4%
AFG	178	187	184	193	201	+12.4%
Affin	232	221	230	237	229	-1.6%
<b>Total</b>	<b>7,765</b>	<b>8,056</b>	<b>8,136</b>	<b>8,277</b>	<b>8,338</b>	<b>+7.4%</b>
<b>% Change Qoq</b>						
AMMB	+1.1%	+9.4%	-3.1%	-4.4%	+3.0%	
Maybank	+1.7%	+9.9%	-1.9%	+0.5%	+0.3%	
Public Bank	-0.9%	+0.9%	+2.7%	+2.6%	-0.5%	
RHB Cap	+3.9%	+0.6%	+3.1%	+3.2%	+4.3%	
Hong Leong	-1.3%	+3.5%	-0.04%	+2.9%	-0.6%	
CIMB	+1.2%	-0.6%	+4.2%	+2.9%	+0.7%	
AFG	-6.4%	+5.0%	-1.6%	+4.4%	+4.1%	
Affin	1.9%	-4.7%	+3.7%	+3.3%	-3.6%	
<b>Total</b>	<b>+0.8%</b>	<b>+3.8%</b>	<b>+1.0%</b>	<b>+1.7%</b>	<b>+0.7%</b>	

Source: Companies

Table 6: NII to Total Income (%)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	48.6%	49.8%	46.4%	44.9%	44.6%
Maybank	51.9%	53.9%	49.1%	48.4%	50.9%
Public Bank	67.8%	68.2%	67.9%	68.5%	68.6%
RHB Cap	56.7%	57.2%	56.0%	54.0%	53.5%
Hong Leong	61.3%	62.2%	65.3%	63.7%	61.8%
CIMB	56.6%	48.1%	57.4%	58.4%	53.9%
AFG	55.8%	52.8%	50.7%	61.2%	61.0%
Affin	59.8%	59.5%	60.3%	60.6%	59.9%
<b>Average</b>	<b>56.6%</b>	<b>54.9%</b>	<b>55.5%</b>	<b>55.4%</b>	<b>55.0%</b>

Source: Companies, MIDFR

- NIM contracted in 4QCY13 and margin pressure is expected to persist moving into CY14. Table 7 shows overall sector's average NIM declining further to 2.33% in 4QCY13 from 2.35% in the preceding quarter. Compared to 4QCY12, NIM of banks in 4QCY13 contracted by 11bp. Moving into CY14, most banks continue to guide a margin compression of not exceeding 10bp. NIM will remain under pressure compression due to: i) run-offs of higher yielding cooperative loans, ii) rebalancing of loan book with new mortgage loans granted at lower rates and iii) competition pressure on customer deposits. Sector's CASA ratio continues to trend higher to 27.7% in 4QCY13 (3QCY13: 27.1%) signifying strong focus by banks to grow low cost deposits to support NIM.

**Table 7: Net Interest Margin (NIM)**

Bank	Dec-12 (4QCY12)	Mar-13 (1QCY13)	June-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)
AMMB	2.56%	2.70%	2.66%	2.52%	2.56%
Maybank	2.45%	2.47%	2.42%	2.39%	2.36%
Public Bank	2.43%	2.36%	2.36%	2.37%	2.32%
RHB Cap	2.35%	2.34%	2.33%	2.34%	2.33%
Hong Leong	2.12%	2.20%	2.06%	2.06%	2.03%
CIMB	3.03%	2.88%	2.89%	2.82%	2.80%
AFG	2.39%	2.36%	2.20%	2.20%	2.23%
Affin	2.17%	2.05%	2.07%	2.10%	2.00%
<b>Average</b>	<b>2.44%</b>	<b>2.42%</b>	<b>2.37%</b>	<b>2.35%</b>	<b>2.33%</b>

Source: Companies, MIDFR own estimates

**Table 8: CASA Ratio (%)**

Bank	Dec-12 (4QCY12)	Mar-13 (1QCY13)	Jun-13 (2QCY13)	Sep-13 (3QCY13)	Dec-13 (4QCY13)
AMMB	18.6%	19.9%	20.6%	18.7%	19.7%
Maybank	35.2%	34.9%	34.2%	36.1%	36.1%
Public Bank	25.0%	25.2%	25.2%	25.1%	25.5%
RHB Cap	21.3%	22.3%	22.3%	22.4%	23.3%
Hong Leong	24.7%	24.9%	25.9%	26.3%	26.0%
CIMB	35.1%	33.7%	34.2%	34.9%	34.5%
AFG	38.3%	33.6%	35.8%	33.4%	35.2%
Affin	21.1%	20.7%	20.3%	19.8%	21.6%
<b>Average</b>	<b>27.4%</b>	<b>26.9%</b>	<b>27.3%</b>	<b>27.1%</b>	<b>27.7%</b>

Source: Companies, MIDFR

- Sector aggregate growth in NOII also grew modestly in 4QCY13. Aggregate sector NOII grew 0.8%qoq and 11.9%yoy in 4QCY13 (3QCY13: 1.7%qoq and 16.8%yoy). On a quarter on quarter basis, the sector's NOII grew moderately as banks' growth in fee income was dampened by lower investment and trading income. Generally, investment and trading income fell due to lower gains from sale of securities as a result of the volatile market. This was evidenced for the larger capitalized banks (Maybank, CIMB and Public Bank) as well as for RHB Cap and Affin. Most banks continue to focus on driving NOII higher and NOII to total income for the sector trended higher to 29.6% in 4QCY13 (3QCY13: 29.2%)

Chart 5: Sector Aggregate NOII

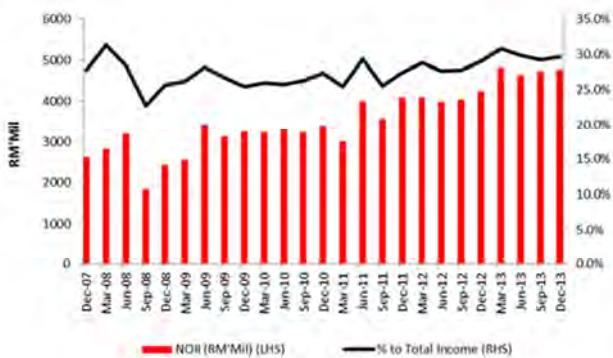
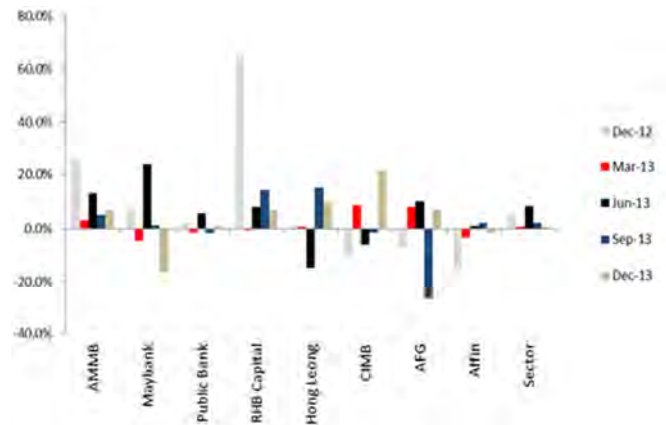


Chart 6: Growth in NII (%Qoq)



Source: Companies, MIDFR

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

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)	%Yoy
AMMB	347	358	404	423	452	+30.1%
Maybank	1,510	1,439	1,783	1,804	1,512	+0.2%
Public Bank	430	423	446	439	443	+3.0%
RHB Cap	452	450	485	554	590	+30.6%
Hong Leong	270	271	231	266	290	+7.7%
CIMB	1,064	1,670*	1,084	1,068	1,299	+22.1%
AFG	81	121**	126^	70	75	-6.7%
Affin	99	96	97	99	97	-2.0%
<b>Total</b>	<b>4,252</b>	<b>4,828</b>	<b>4,656</b>	<b>4,723</b>	<b>4,758</b>	<b>+11.9%</b>
<b>% Change Qoq</b>						
AMMB	+26.1%	+3.0%	+13.0%	+4.7%	+6.7%	
Maybank	+7.3%	-4.6%	+23.9%	+1.2%	-16.2%	
Public Bank	+1.7%	-1.6%	+5.4%	-1.7%	+1.0%	
RHB Cap	+65.1%	-0.5%	+7.9%	+14.2%	+6.5%	
Hong Leong	+1.1%	+0.5%	-14.8%	+15.0%	+9.4%	
CIMB	-11.0%	+57.1%	-35.1%	-1.5%	+21.6%	
AFG	-7.1%	+49.5%	-4.5%	-39.0%	+7.1%	
Affin	-15.0%	-3.3%	+1.0%	+2.3%	-1.9%	
<b>Total</b>	<b>+5.1%</b>	<b>+13.6%</b>	<b>-3.8%</b>	<b>+1.7%</b>	<b>+0.8%</b>	

\*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	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	32.2%	31.0%	33.7%	35.8%	36.8%
Maybank	35.7%	32.2%	37.0%	36.7%	32.3%
Public Bank	21.8%	21.4%	21.8%	21.1%	21.5%
RHB Cap	33.1%	33.0%	33.9%	36.1%	36.5%
Hong Leong	26.9%	26.4%	23.7%	25.8%	27.5%
CIMB	31.6%	42.3%	31.5%	30.7%	34.2%
AFG	25.3%	34.0%	31.7%	22.4%	22.9%
Affin	25.5%	25.7%	25.4%	25.3%	25.4%
<b>Average</b>	<b>29.0%</b>	<b>30.8%</b>	<b>29.8%</b>	<b>29.2%</b>	<b>29.6%</b>

Source: Companies, MIDFR

- **Upticks in impaired HP loans but overall GIL ratios for banks remained stable.** On absolute value basis, in 4QCY13 there were upticks in some loan segments of banks, most noticeably was the increase in impaired loans for purchase of transport vehicles. On the international front, GIL ratio of BII trended higher with the weak and volatile economic conditions in Indonesia and provisioning were made for several corporate loan accounts.

Nevertheless, the overall sector's GIL ratio remained stable at 1.84% in 4QCY13 as compared to 2.01% in 3QCY13. RHB Cap's which recorded high GIL ratio of 3.2% in 2QCY13 due to an impaired corporate loan related to the steel sector has improved to 2.81% in 4QCY13. We gather that despite the loan was well collateralized, provision for loan losses of RM126m was made on the loan account in 4QCY13. Average loan loss coverage (LLC) ratio for the 8 banks remained at 98.4% as in the case of 3QCY13.

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

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	2.07%	1.98%	1.88%	1.95%	1.98%
Maybank	1.78%	1.88%	1.86%	1.83%	1.48%
Public Bank	0.69%	0.68%	0.67%	0.69%	0.67%
RHB Cap	2.99%	2.95%	3.15%	2.92%	2.81%
Hong Leong	1.55%	1.41%	1.40%	1.36%	1.33%
CIMB	3.81%	3.75%	3.56%	3.39%	3.15%
AFG	2.11%	2.05%	1.94%	1.75%	1.53%
Affin	2.28%	2.22%	2.09%	2.03%	1.98%
<b>Average</b>	<b>2.16%</b>	<b>2.12%</b>	<b>2.08%</b>	<b>2.01%</b>	<b>1.84%</b>

Source: Companies

Table 12: Loan Loss Provisions (RM'Mil)

Bank	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sept'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	(69)	(76)	20	11	(35)
Maybank	(160)	(85)	(428)	(280)	55
Public Bank	(84)	(81)	(76)	(103)	(90)
RHB Cap	(97)	(155)	(145)	(30)	(119)
Hong Leong	13	(41)	(28)	18	(21)
CIMB	(52)	(81)	(71)	(200)	(308)
AFG	13	(4)	(5)	5	(3)
Affin	20	13	18	5	31
<b>Total</b>	<b>(417)</b>	<b>(510)</b>	<b>(716)</b>	<b>(576)</b>	<b>(491)</b>
<b>(% qoq growth)</b>	<b>+90.9%</b>	<b>+22.3%</b>	<b>+40.5%</b>	<b>-19.6%</b>	<b>-14.7%</b>

( ) denotes provision expense

Source: Companies, MIDFR



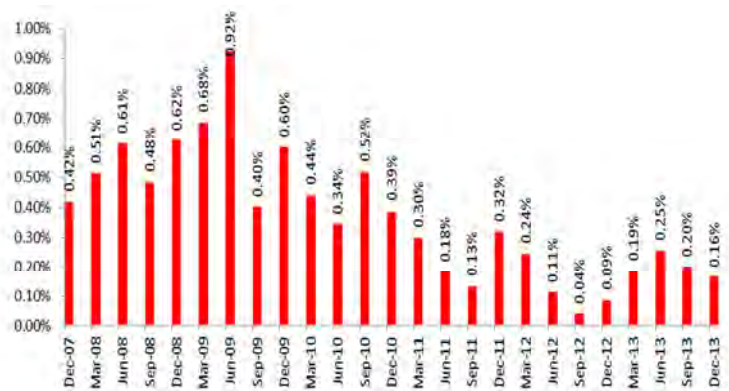
- Average annualized credit cost for the 8 banks improved sequentially with net write backs in loan impairment for Maybank and Affin in 4QCY13. Sector average annualized credit cost improved to 16bp in 4QCY13 as compared to 20bp in 3QCY13 (see Chart 7 and Table 12). Loan loss provisioning declined 14.7%qoq to RM491.0m for the sector in 4QCY13. This was largely contributed by the net write backs in loan impairment for Maybank and Affin for the quarter. For Maybank, there was a debt settlement by its corporate loan borrower of between RM90-100m in 4QCY13. On average, the 8 banks' CA ratio was 1.26% above BNM's minimum requirement of 1.2% by end 2015.

Table 13: Annualized Credit Cost (%)

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	0.06%	0.34%	0.36%	-0.09%	-0.05%	0.16%
Maybank	0.12%	0.20%	0.10%	0.52%	0.33%	-0.06%
Public Bank	0.17%	0.17%	0.16%	0.15%	0.19%	0.16%
RHB Cap	-0.12%	0.35%	0.55%	0.49%	0.10%	0.39%
Hong Leong	-0.06%	-0.06%	0.17%	0.12%	-0.07%	0.08%
CIMB	0.16%	0.10%	0.15%	0.13%	0.35%	0.53%
AFG	-0.11%	-0.19%	0.06%	0.07%	-0.06%	0.04%
Affin	0.09%	-0.23%	-0.15%	-0.20%	-0.05%	-0.33%
<b>Average</b>	<b>0.04%</b>	<b>0.09%</b>	<b>0.19%</b>	<b>0.25%</b>	<b>0.20%</b>	<b>0.16%</b>

Source: Companies, MIDFR

Chart 7: Sector Average Credit Cost



Source: Companies, MIDFR

Table 14: CA Ratio (%)

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	2.44%	2.36%	2.34%	2.28%	2.20%	2.44%
Maybank	1.20%	1.17%	1.17%	1.20%	1.10%	1.20%
Public Bank	0.79%	0.78%	0.76%	0.75%	0.73%	0.72%
RHB Cap	1.54%	1.41%	1.42%	1.31%	1.21%	1.14%
Hong Leong	1.63%	1.57%	1.52%	1.30%	1.25%	1.21%
CIMB	1.94%	1.71%	1.68%	1.58%	1.51%	1.48%
AFG	1.39%	1.32%	1.24%	1.19%	1.11%	1.07%
Affin	1.11%	0.96%	0.96%	0.94%	0.93%	0.83%
<b>Average</b>	<b>1.51%</b>	<b>1.41%</b>	<b>1.39%</b>	<b>1.32%</b>	<b>1.26%</b>	<b>1.26%</b>

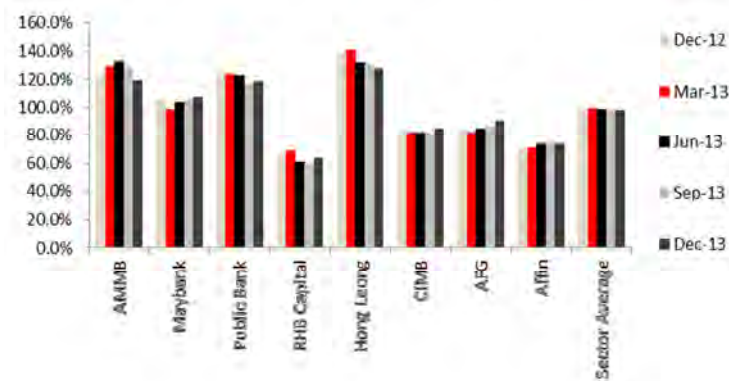
Source: Companies

Table 15: Loan loss coverage (%)

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	121.8%	123.5%	129.3%	132.2%	129.2%	119.3%
Maybank	104.7%	105.6%	99.0%	103.5%	106.3%	107.5%
Public Bank	124.5%	126.0%	123.9%	123.2%	117.3%	118.54%
RHB Cap	70.3%	66.0%	68.7%	60.2%	59.6%	63.7%
Hong Leong	134.3%	139.2%	141.1%	131.3%	130.4%	127.5%
CIMB	84.0%	82.8%	82.3%	82.1%	82.2%	84.8%
AFG	86.4%	83.8%	82.5%	84.7%	86.7%	91.2%
Affin	70.7%	71.0%	70.9%	73.7%	75.4%	74.4%
<b>Average</b>	<b>99.6%</b>	<b>99.7%</b>	<b>99.7%</b>	<b>98.9%</b>	<b>98.4%</b>	<b>98.4%</b>

Source: Companies, MIDFR

Chart 8: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- **Overhead expenses grew at a faster pace than that of total income in 4QCY13 resulting in an overall negative JAWs position.** Growth of the combined overhead expenses of the 8 banks for 4QCY13 grew 2.6%qoq and compared to -1.1%qoq in 3QCY13. With exception of RHB Cap and CIMB, the other banks' overhead expenses have been well contained. RHB Cap incurred higher overhead expenses due to higher marketing expenses for the Group's 100 years celebration as well as due to higher cost post OSK IB and RHB IB merger with additional headcounts. Meanwhile, the rise in overhead expenses for CIMB in 4QCY13 as compared to the preceding quarter was due to additional expenses for its mutual separation scheme (MSS). Overhead expenses on average for the 8 banks grew at a faster pace than that of total operating income in 4QCY13. This has resulted in a negative JAWs position in the quarter. CI ratio on average for the sector was slightly higher at 46.2% in 4QCY13 (3QCY13: 46.0%).

Table 16: Overhead Expenses (RM'Mil)

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	439	522	584	562	563	540
Maybank	2,044	2,137	2,297	2,329	2,305	2,334
Public Bank	592	581	632	630	612	630
RHB Cap	526	717	718	748	762	818
Hong Leong	443	452	458	495	455	460
CIMB	2,007	1,966	2,220	2,042	2,059	2,137
AFG	154	152	172	175	144	144
Affin	170	184	172	174	175	195
<b>Sector</b>	<b>6,375</b>	<b>6,712</b>	<b>7,252</b>	<b>7,154</b>	<b>7,076</b>	<b>7,258</b>
<b>Sector (% qoq growth)</b>	<b>+2.8%</b>	<b>+5.3%</b>	<b>+8.0%</b>	<b>-1.3%</b>	<b>-1.1%</b>	<b>+2.6%</b>

Source: Companies, MIDFR

**Table 17: Total Income / Operating Income (RM'Mil)**

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	1,002	1,078	1,152	1,198	1,183	1,227
Maybank	4,135	4,231	4,470	4,813	4,916	4,685
Public Bank	1,987	1,973	1,980	2,042	2,076	2,060
RHB Cap	1,146	1,366	1,363	1,432	1,534	1,616
Hong Leong	1,003	1,004	1,025	975	1,029	1,055
CIMB	3,544	3,369	3,945	3,444	3,485	3,797
AFG	339	320	355	364	315	329
Affin	396	389	372	381	391	381
<b>Sector</b>	<b>13,551</b>	<b>13,730</b>	<b>14,662</b>	<b>14,650</b>	<b>14,928</b>	<b>15,152</b>
<b>Sector (% qoq growth)</b>	<b>+1.7%</b>	<b>+1.3%</b>	<b>+6.8%</b>	<b>-0.1%</b>	<b>+1.9%</b>	<b>+1.5%</b>

Source: Companies, MIDFR

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

Bank	Sep'12 (3QCY12)	Dec'12 (4QCY12)	Mar'13 (1QCY13)	Jun'13 (2QCY13)	Sep'13 (3QCY13)	Dec'13 (4QCY13)
AMMB	43.8%	48.4%	50.7%	46.9%	47.6%	44.0%
Maybank	49.4%	50.5%	51.4%	48.4%	46.9%	49.8%
Public Bank	29.8%	29.5%	31.9%	30.8%	29.5%	30.6%
RHB Cap	46.0%	52.5%	52.7%	52.2%	49.7%	50.6%
Hong Leong	44.2%	45.0%	44.7%	50.7%	44.2%	43.6%
CIMB	56.6%	58.3%	56.3%	59.3%	59.1%	56.3%
AFG	45.5%	47.6%	48.4%	48.0%	45.9%	43.7%
Affin	43.0%	47.5%	46.3%	45.6%	44.8%	51.2%
<b>Average</b>	<b>44.8%</b>	<b>47.4%</b>	<b>47.8%</b>	<b>47.7%</b>	<b>46.0%</b>	<b>46.2%</b>

Source: Companies, MIDFR

**Table 19: CET1, Core Capital and Risk Weighted Capital ratios as at end 4QCY13 (%)**

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	9.5	11.2	15.2
Maybank	11.0	12.8	15.4
Public Bank	8.8	10.5	13.8
RHB Cap**	11.1	11.6	14.0
Hong Leong	10.2	11.8	14.4
CIMB	8.0	9.7	13.7
AFG	10.4	11.8	14.4
Affin^	11.3	11.3	12.9

\*\*represent ratios at RHB Bank level. CET1 ratio of RHB Cap: 9.0%

^represent ratios at Affin Bank level

Source: Companies, MIDFR

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

- Maintain NEUTRAL on sector.** We maintain our CY14 loan growth expectation of 10-11% on the back of a GDP growth forecast of 5.0%. Exports and private sector investments have been seen gaining traction. We continue to expect business loan growth to trend higher than CY13 on the back of improvement in external trade of Malaysia. We are also seeing better traction for SME loans which we believe will benefit

from the improved trading activities of the larger corporates moving forward. We gather that banks such as AMMB and Affin are now more eager to tap on to the SME market than before.

Meanwhile, we continue to expect consumer loans growth to moderate in CY14 due to higher inflation and the tightened measures by BNM to manage household debts. Also, property measures announced in the Budget which took effect this year to cool down the property market are also expected to moderate consumer loan growth. Based on the recent briefings which we attended, we gather that some banks have turned more cautious on lending for purchase of commercial properties.

Uncertainties continue to linger for capital markets. Although US economy has shown progress, recovery is still uneven. Adding to that, downside risk in the Euro zone still remains while China's growth has slowed down based on recent economic data. Whilst the capital market deal flows are healthy, timing of executing these deals remain uncertain. Potentially, there could be delays in the deals execution as in the case of Malakoff of which its IPO will be delayed into CY15.

Our earlier expectation was that NIM compression for banks will be milder for this year. However, generally, banks continue to guide NIM contraction of up to 10bp for CY14. With the sector liquidity tightened based on the rise in LD ratio, we expect banks to still compete for deposits. Also, competition will be stiff for CASA to manage banks' NIMs. There has been some pressure on COFs on Islamic Banks of Banking Groups with the recently implemented IFSA. The IFSA treated mudharabah deposits as investments. Hence, this has caused Islamic Banks to resort to commodity murabahah deposits for funding which raised their COFs.

There were net write backs in loan impairment for some banks in CY13. In CY14, we expect credit cost to normalise with lower recoveries. Also moving forward, credit cost is also likely to trend higher as the collective impairment allowance of some banks are likely to rise due to the new minimum CA ratio requirement by BNM of 1.2%. Some stress on asset quality on certain loan sectors are expected due to the higher inflation rate locally coupled with the slowdown in economic growth of some countries in the Asian region. Nevertheless, we expect the sector's overall asset quality to remain stable.

Moving forward, higher ROEs are harder to be realised? We think so. This is in view of some banks which have turned more conservative on dividend payouts in anticipation of the countercyclical buffer for capital ratios under Basel III. This is to ensure higher capitalisation. Meanwhile, the other banks have continued to employ dividend reinvestment plans to retain equity capital. Hence, with a focus on achieving higher equity capital, we believe that this will cause achieving higher ROEs to be more challenging than the past.

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, we deduce that valuations for banks in Malaysia are richer comparatively.

**Table 20: Sector growth in earnings**

(RM'Mil)	FY12	FY13	FY14F	FY15F
AMMB	1,484	1,635	1,818	1,977
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	1,990	2,205
CIMB	4,345	4,540	4,854	5,628
AFG	479	538	551	602
Affin	629	650	609	720
<b>Sector</b>	<b>19,984</b>	<b>21,668</b>	<b>23,187</b>	<b>25,660</b>
<b>Sector (% growth)</b>	<b>16.1%</b>	<b>8.4%</b>	<b>7.0%</b>	<b>10.7%</b>

Our BUY calls are on Maybank (TP: RM11.00), RHB Cap (TP: RM9.50) and Hong Leong Bank (TP: RM16.50). We are NEUTRAL on AFG (TP: RM4.80), AHB (TP: RM4.00), AMMB (TP: RM8.00), Public Bank (TP: RM18.60) and CIMB (TP: RM8.10)

	Rec.	Price @ 7/3	Target Price	EPS (sen)		PER		Net DPS		Net DivYield		BV	BV	PBV	PBV
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	NEUTRAL	7.18	8.00	60.0	66.0	12.0	10.9	24.0	26.0	3.3	3.6	4.3	4.7	1.7	1.5
Maybank	BUY	9.74	11.00	77.0	84.0	12.6	11.6	46.0	50.0	4.7	5.1	5.6	6.1	1.7	1.6
Public Bank	NEUTRAL	19.08	18.60	125.0	135.0	15.3	14.1	60.0	65.0	3.1	3.4	6.4	7.1	3.0	2.7
RHB Capital	BUY	8.08	9.50	83.0	91.0	9.7	8.9	25.0	27.0	3.1	3.3	7.0	7.6	1.2	1.1
Hong Leong	BUY	14.18	16.50	106.0	117.0	13.4	12.1	35.0	39.0	2.5	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.07	8.10	60.0	69.0	11.8	10.2	24.0	28.0	3.4	4.0	4.7	5.2	1.5	1.4
AFG	NEUTRAL	4.46	4.80	36.0	39.0	12.4	11.4	19.0	20.0	4.3	4.5	2.8	3.0	1.6	1.5
Affin	NEUTRAL	4.03	4.00	41.0	48.0	9.8	8.4	15.0	18.0	3.7	4.5	4.3	4.5	0.9	0.9

Forecasts by MIDFR

Table 21: Snapshot of Regional Peers

### Indonesia Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bank Mandiri	11.3	9.6	2.2	1.9	21.2	20.9
Bank Rakyat Indonesia	10.1	8.9	2.4	2.0	24.3	24.4
Bank CIMB Niaga	5.9	5.5	0.8	0.7	14.1	14.1
Bank Danamon Indonesia	10.1	8.7	1.2	1.1	13.1	13.1
<b>Average</b>	<b>9.3</b>	<b>8.2</b>	<b>1.7</b>	<b>1.4</b>	<b>18.2</b>	<b>18.1</b>

Based on consensus estimates

Source: Bloomberg

### Thai Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
Bangkok Bank	8.8	7.9	1.1	1.0	12.4	12.8
Krungthai Card PLC	4.8	4.3	1.2	1.1	13.4	12.6
Siam Commercial Bank	10.0	8.9	1.9	1.7	20.3	20.1
KasikornBank	9.3	8.1	1.6	1.4	19.0	18.7
TMB Bank	14.3	12.2	1.7	1.5	12.0	13.0
Bank of Ayudha	12.9	10.9	1.6	1.5	13.0	13.5
CIMB Thai	26.7	21.0	1.7	1.6	6.6	7.8
<b>Average</b>	<b>12.4</b>	<b>10.5</b>	<b>1.5</b>	<b>1.4</b>	<b>13.8</b>	<b>14.1</b>

Based on consensus estimates

Source: Bloomberg

### Singapore Banks

Banks	PER 14	PER15	PBR14	PBR15	ROE14	ROE15
DBS Group Holdings	10.6	9.4	1.1	1.2	10.8	11.2
OCBC	11.5	10.4	1.3	1.2	11.3	11.6
UOB	11.0	10.1	1.2	1.1	11.5	11.5
<b>Average</b>	<b>11.0</b>	<b>10.0</b>	<b>1.2</b>	<b>1.2</b>	<b>11.2</b>	<b>11.4</b>

Based on consensus estimates

Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

#### 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.