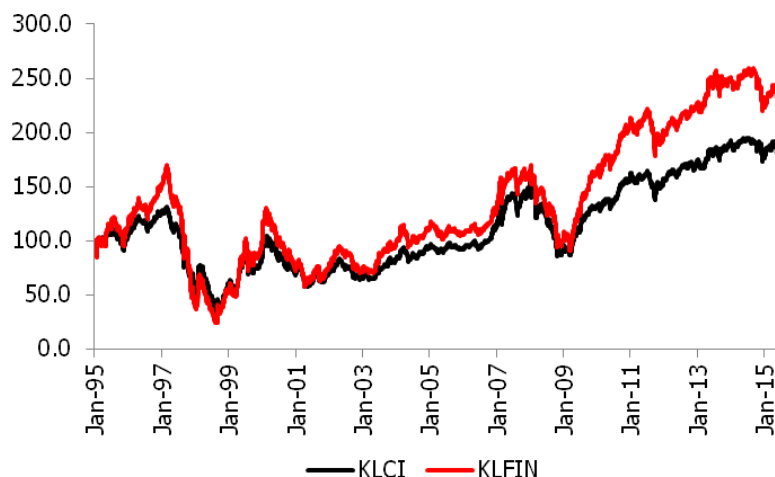


BANKING – Trading opportunities emerge on the back of deeper value

- Regional markets on Friday fell in reaction to the results of the EU referendum in UK. The official results were announced with the Brexit camp garnering 51.9% of total votes against 48.1% which voted for UK to remain in EU. With the local market taking cue from Wall Street, the financial market was impacted by the final results of the EU referendum, hence deeper value emerged for some of the local banking stocks which already traded well below the average rolling forward PB ratio.
- Our view is that the result of the Brexit will have a negative impact on the financial market in the near term due to weaker sentiment. Nevertheless, on fundamental basis, we view that Brexit will have minimal impact on our local economy. This is in view that the significance of the bilateral trade significance between Malaysia and UK has declined. Year-to-date, UK contributed only 1.1% to Malaysia’s total trade and was ranked 17th out of 240 trading partners.
- Hence, we see trading opportunities for stocks which are trading between 1 and 2 SD below average PB ratio as well as tock trading close to 2 SD below the average PB ratio as attractive for investment from the valuation perspective. Results of the Brexit added deeper value for some banks after the drop in foreign shareholdings seen in May’16.

Trend of KLCI, KLFIN Index



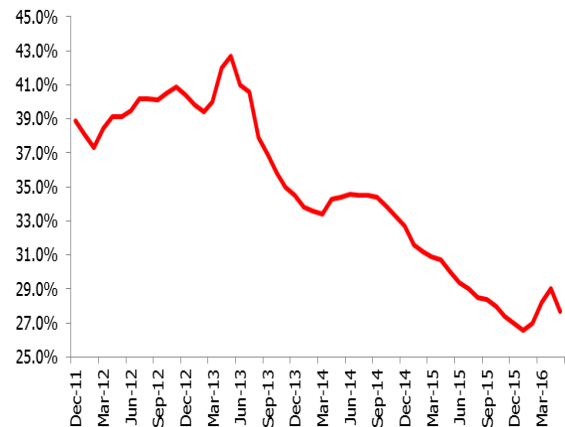
- Charts on page 2 and 3 shows the changes in foreign shareholdings of local banks. Based on our observation, foreign shareholdings of most banks slipped in May’16 after rising in Feb, Mar and Apr’16. This is based on Maybank, CIMB, RHB Cap, AFG and Affin which provide more frequent updates on their foreign shareholdings. The other banks, AMMB, Hong Leong Bank and Public Bank provide their foreign shareholdings data on a quarterly basis.
- Based on our observation, there was a drop in CIMB’s foreign shareholdings from 29.0% as at end Apr’16 to 27.7% as at end of May’16. Meanwhile, Maybank’s foreign shareholdings declined from 18.8% in 29th Apr’16 to 18.0% in 27th May’16. We believe that this has been contributed by the reduced weightage in MSCI of Malaysia stocks in the index to 3.09% from 3.43%, consequently reducing the weightage in Maybank and CIMB. Recall, in May’16, media announced MSCI’s reduced weightage of Malaysian stocks which took effect after market close on 31st May 2016.

- The charts below show that prior to 2013, major central banks around the world which implemented stimulus packages including the biggest monetary source from US through QE have caused an inflow of liquidity into emerging markets. Towards mid 2013, the impending rollback of the QE caused foreign funds to start to exit from equity markets in Asia. Since then, foreign shareholdings in local banks have fallen from the peak levels.

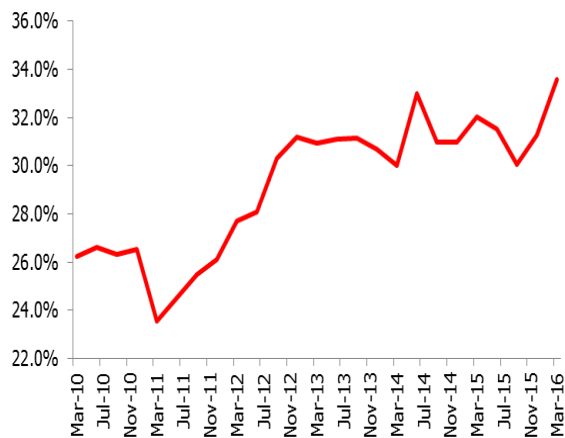
Maybank



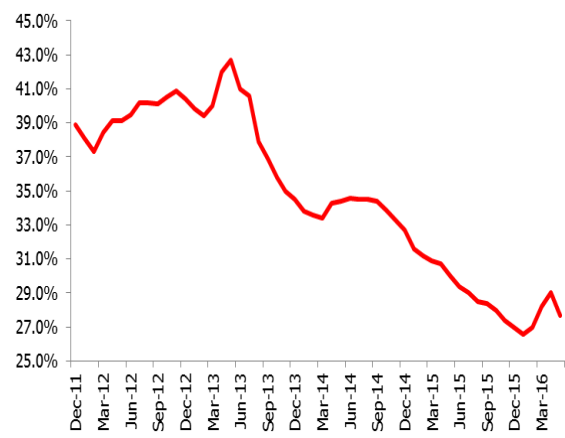
CIMB



Public Bank

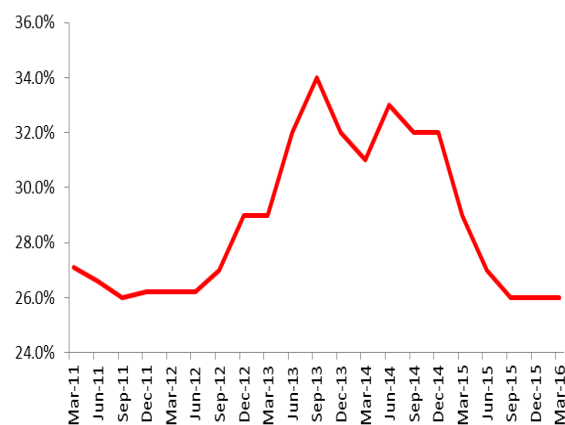


RHB Capital*



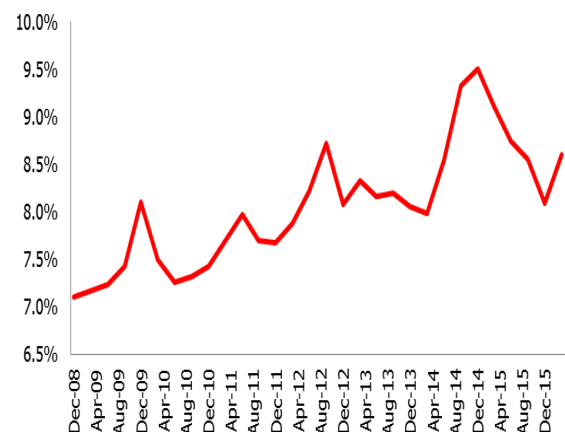
*excludes ADCB/Aabar's stake of 21.22%

AMMB**

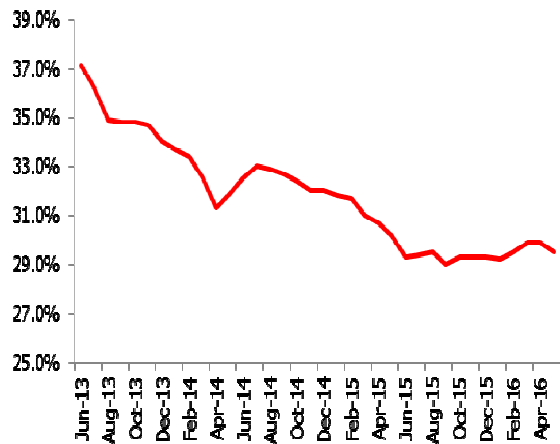


**excludes ANZ's 23.78% stake

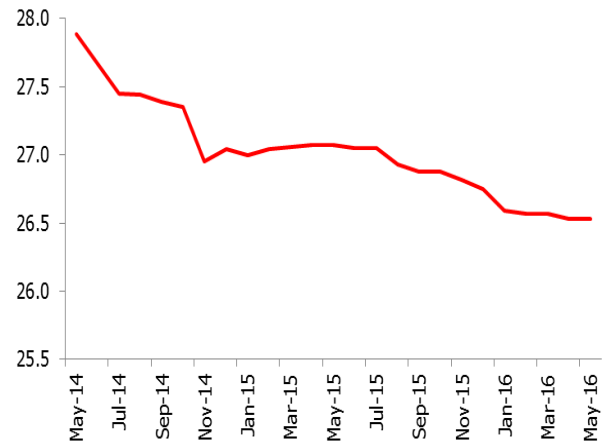
Hong Leong Bank



Alliance Financial Group



Affin



Source: Companies, MIDFR

Table 1: Foreign shareholding changes of banks

	Latest (3)	@ Mar'16 (2)	@ Dec'15 (1)	Change in ppts (3 – 2)	Change in ppts (2 – 1)
Maybank	16.76%**	18.67%	17.43%	-1.91	+1.24
CIMB	27.7%'	28.2%	27.0%	-0.5	+1.2
Public Bank	n.a*	33.6%	31.3%	n.m	+2.3
RHB Cap	9.66%	9.93%	9.78%	-0.27	+0.15
Hong Leong Bank	n.a*	8.60%	8.09%	n.m	+0.51
AMMB	n.a*	26.0%	26.0%	n.m	-
AFG	29.5%'	29.9%	29.3%	-0.4	+0.6
Affin	26.5%'	26.6%	26.8%	-0.1	-0.2

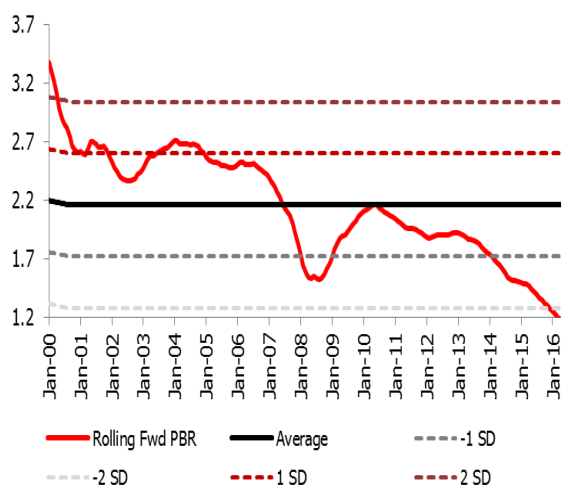
*latest foreign shareholdings yet to be available

**represents foreign shareholdings as at 10 Jun 2016

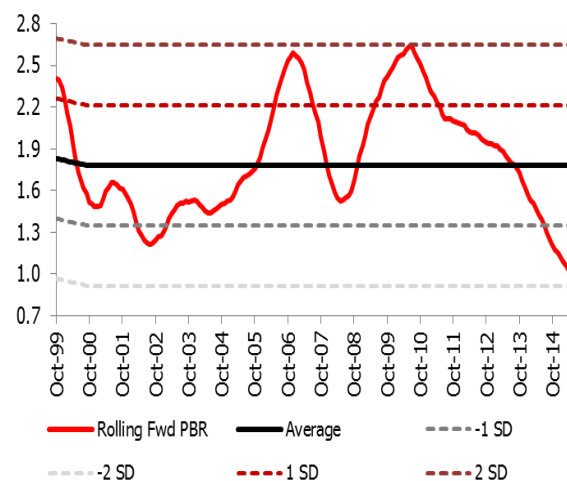
'represents foreign shareholdings as at end May 2016

Rolling forward PB ratio of banks

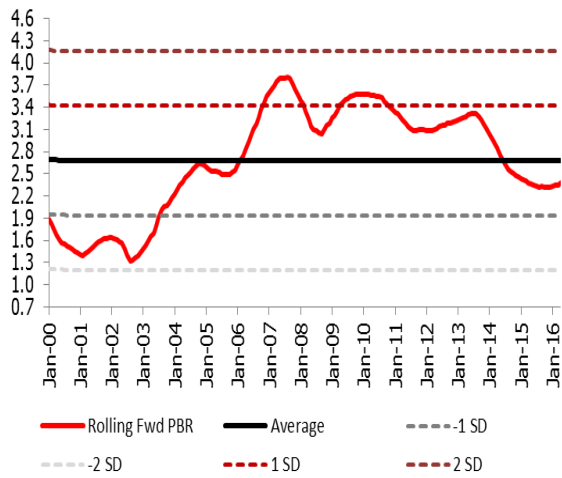
Maybank



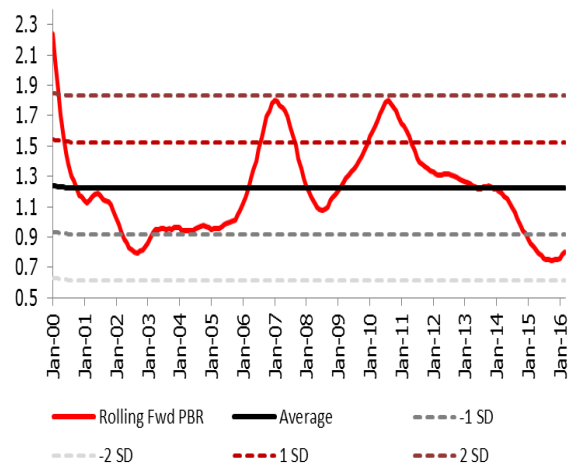
CIMB



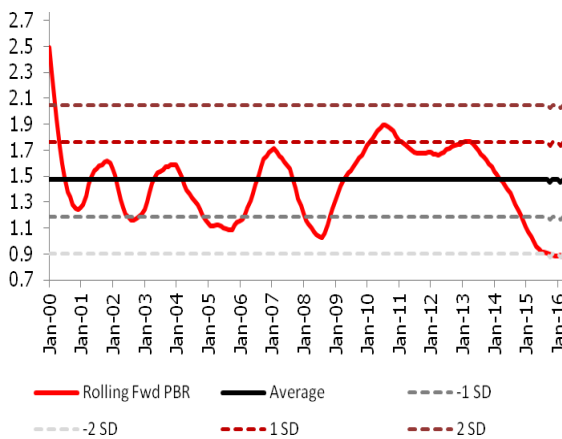
Public Bank



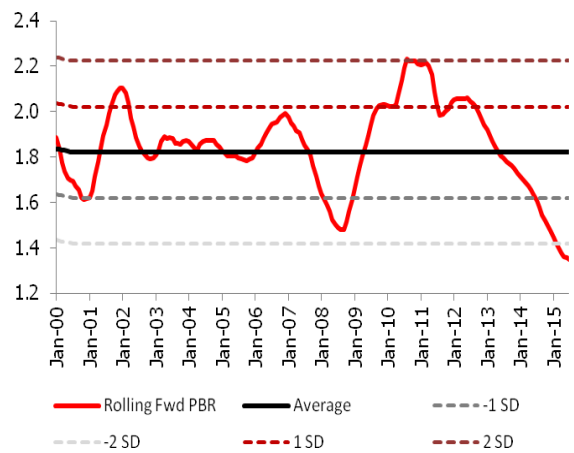
RHB Capital



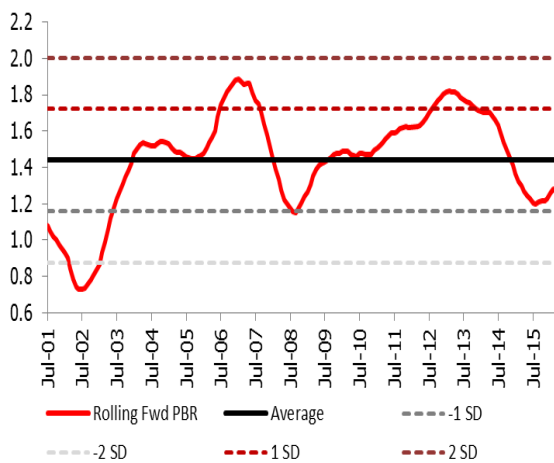
AMMB



Hong Leong Bank



Alliance Financial Group



Affin

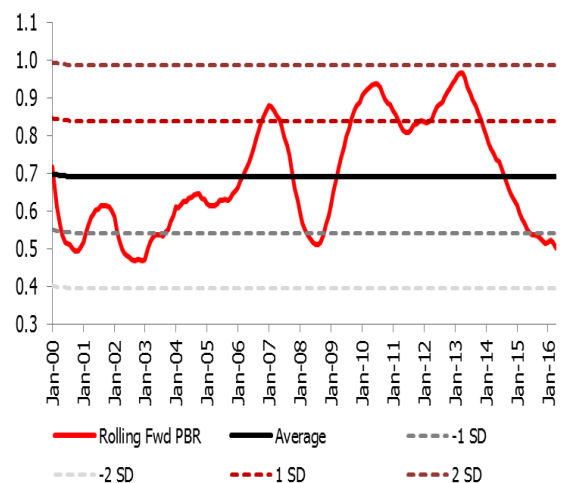


Table 2: PB ratio of banks

	As of 24/6/16	Average	-1SD	-2SD	+1SD	+2SD
Maybank	1.2x	2.2x	1.7x	1.3x	2.6x	3.0x
CIMB	0.8x	1.8x	1.3x	0.9x	2.2x	2.6x
Public Bank	2.0x	2.7x	1.9x	1.2x	3.4x	4.2x
RHB Cap	0.8x	1.2x	0.9x	0.6x	1.5x	1.8x
Hong Leong Bank	1.3x	1.8x	1.6x	1.4x	2.0x	2.2x
AMMB	0.8x	1.5x	1.2x	0.9x	1.8x	2.0x
AFG	1.2x	1.4x	1.2x	0.9x	1.7x	2.0x
Affin	0.5x	0.7x	0.5x	0.4x	0.8x	1.0x

- The market is expected to continue to be volatile on the back of uncertainties in the timing of further US Fed rate increase, volatility in oil prices and negative sentiments in the near term from the results of BREXIT.
- These have resulted in the decline in foreign shareholdings of various banks as shown in Table 1 above.
- Table 2 above shows the PB ratios of all 8 banks based on closing market prices as at 24th June 2016 which are compared against the average PB ratio as well as against 1 and 2 SDs below and above the average of the rolling forward PB ratio.
- We see deeper values emerging for stocks which are trading between 1 and 2 SD below and well as stocks trading close to 2 SD below the average PB ratio.
- AMMB and CIMB are trading close to 2 SD below the average PB ratio. Hence, we reiterate our BUY recommendation on these two banking stocks on attractive valuation.
- With market reacting negatively to the results of Brexit, we expect a recovery in the share prices of Maybank and Hong Leong Bank in the near term. Maybank and Hong Leong Bank are both trading below the average PB ratio as well as 2 SD below the average PB ratio.
- For the Banking Sector, we continue to maintain our NEUTRAL rating. Our BUY calls are only CIMB (TP: RM5.50) and AMMB (TP: RM5.10). We are NEUTRAL on Hong Leong Bank (TP: RM14.10), RHB Cap (TP: RM6.30), Public Bank (TP: RM20.40), Maybank (TP: RM8.70), AFG (TP: RM4.00), BMB (TP: RM4.22) and Affin (TP: RM2.30).
- We continue to expect overall loan momentum to be slower for CY16 on the back of weaker household spending and cautious business sentiment. Nevertheless, loan growth could pick up pace in 2HCY16 from the low levels in 1QCY16 and 2QCY16 supported by gradual improvement in consumption spending from government measures to improve disposable income and implementation of infrastructure projects.
- Arising from way the liquidity coverage ratio (LCR) is computed which accounts for lower run-offs for retail deposits, we expect competition for deposits, in particularly retail deposits to remain stiff. The contraction in deposit growth in the system which reflected liquidity outflow is expected to cause funding cost to remain high as banks continue to offer high deposit rates to protect their

deposit base.

- Pressure on NIM will still persist, largely due to high funding cost.
- Fee income from capital market activities remain subdued while deterioration in asset quality is expected ahead, resulting in upticks in credit cost aside from lower recoveries.
- On the positives, we are seeing operating expenses more contained with cost initiatives showing benefits. Cost savings from initiatives implemented such as CIMB's IB restructuring, MSS exercises of CIMB and Hong Leong Bank and RHB Caps' CTS exercise will flow through earnings.
- Growth in total income of banks remains challenging amidst weaker loan demand resulting in slower asset growth, commodity prices and rates remaining volatile, slowdown in China's economy and the rise of inflation rate domestically. Also, the potential OPR cut by 25bp to 3.00% will have negative impact on banks' interest income. This could occur in 3QCY16.

	Rec.	Price @ 24/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				16	17	16	17	16	17	16	17	16	17	16	17
AMMB	BUY	4.37	5.10	45.1	45.0	9.7	9.7	15.5	16.0	3.5	3.7	5.0	5.3	0.9	0.8
Maybank	NEUTRAL	8.20	8.70	66.0	76.0	12.4	10.8	49.0	57.0	6.0	7.0	6.5	6.7	1.3	1.2
Public Bank	NEUTRAL	19.20	20.40	131.8	139.3	14.6	13.8	56.0	59.0	2.9	3.1	9.2	10.2	2.1	1.9
RHB Capital	NEUTRAL	6.10	6.30	48.0	54.0	n.m	n.m	14.0	16.0	n.m	n.m	5.3	5.7	n.m	n.m
Hong Leong	NEUTRAL	13.26	14.10	95.0	106.0	14.0	12.5	31.0	35.0	2.3	2.6	10.0	10.8	1.3	1.2
CIMB	BUY	4.31	5.50	46.0	53.0	9.4	8.1	19.0	21.0	4.4	4.9	5.1	5.5	0.8	0.8
AFG	NEUTRAL	4.09	4.00	34.2	36.0	12.0	11.4	14.5	16.0	3.5	3.9	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	3.97	4.22	37.4	40.0	10.6	9.9	12.5	13.4	3.1	3.4	2.4	2.6	1.7	1.5
Affin	NEUTRAL	2.11	2.30	23.0	25.0	9.2	8.4	11.0	12.0	5.2	5.7	4.4	4.6	0.5	0.5
Average				58.5	63.8	11.5	10.6	24.7	27.3	3.9	4.3	5.7	6.1	1.2	1.1

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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.