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16 July 2015 | Sector update ***Maintain* NEUTRAL**

BANKING - DETAILS ON THE COMPUTATION OF WEIGHTED AVERAGE COUNTERCYCLICAL CAPITAL BUFFER REQUIREMENTS FOR BANKS ANNOUNCED

BNM has issued a concept paper on 15th July 2015 which sets out the central bank's proposals to detail out the computation of weighted average countercyclical capital buffer (CCyB) requirements for banks.

Proposals from BNM's earlier discussion paper issued on 23rd October 2014 on Capital Adequacy Framework for Financial Holding Companies (Banking Groups) have been incorporated into this concept paper.

Table 1: Gradual Phase-in of Capital Conservation Buffer requirements above the minimum CET 1 Capital, Tier 1 Capital and Total Capital Ratios

	2016	2017	2018	2019
Min CET1 Capital Ratio	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer (CCB)	0.625%	1.25%	1.875%	2.5%
Min CET1 Capital Ratio + CBB	5.125%	5.75%	6.375%	7.0%
Min Tier 1 Capital Ratio	6.0%	6.0%	6.0%	6.0%
Capital Conservation Buffer (CCB)	0.625%	1.25%	1.875%	2.5%
Min Tier 1 Capital Ratio + CBB	6.625%	7.25%	7.875%	8.5%
Min Total Capital Ratio	8.0%	8.0%	8.0%	8.0%
Capital Conservation Buffer (CCB)	0.625%	1.25%	1.875%	2.5%
Min Total Capital Ratio + CBB	8.625%	9.25%	9.875%	10.5%

Source: BNM

Recall that the capital conservation capital buffer (CCB) of 2.5% will be gradually phased in from 2016 to 2019 as in shown in Table 1.

In addition to the CCB, CCyB will also be required on banks capital above the minimum CET1 Capital, Tier 1 Capital and Total Capital Ratios. The following scaling factors will be applied in determining the CCyB requirement on banks:

Table 2: Scaling factor to be applied for determining CCyB requirements for banks

	2016	**2017**	**2018**	**2019**
Scaling factor	25%	50%	75%	100%

Source: BNM

In BNM's earlier discussion paper issued on 23rd October 2014, the paper outlined that CCyB will range from 0% to 2.5% of the total risk weighted assets (RWA) which will be determined based on the weighted average of the prevailing counter cyclical capital buffer requirements applied in jurisdictions/countries in which a banking group has credit exposures in.

In the latest concept paper, finer details have been announced in which financial institution shall compute the CCyB as follows:

$$\frac{\Sigma c\,(RWAc \times CCyBc)}{\Sigma RWAc}$$

RWAc will be the sum of RWA in respect of private sector credit exposure in jurisdiction c and the RWA in respect of trading book charges for specific risk, incremental risk charges (such as default and migration risk) and securitisation risk in jurisdiction/country c. RWAs and CCyB rates of all jurisdictions in which a banking group has credit exposures in are required to be taken into account for the computation.

CCyBc will be the prevailing CCyB rate applicable in each jurisdiction/country at the time the banking group computes the minimum capital requirements.

We understand that for computation of the private sector credit exposure, the financial institution is required to use an ultimate risk basis where possible. This means that credit exposure will be based on where the risk ultimately lies and not based on the location where the exposure has been booked in.

In the scenario where the prevailing CCyB rate to be applied to a jurisdiction/country outside Malaysia is more than 2.5%, we understand that the CCyB rate for that jurisdiction will be capped at 2.5% unless otherwise specified by BNM.

In addition, where the relevant authority in jurisdiction outside Malaysia has yet to announce the CCyB rate, we understand the rate will be deemed as 0% for the computation of capital requirements on banks. On banks which greater regional exposure, the CCyB required will depend on the extent of which jurisdiction the group has highest credit exposure in and the applicable CCyB rate which will be determined by the authority of that jurisdiction.

At this juncture it is still premature to assess the CCyB required on all banking groups until authorities in all relevant jurisdictions outside Malaysia have finalised and announced their CCyB rates as well as until all proposals in the concept paper have been adopted. The above highlighted capital requirements with transitional arrangement will be effective for banking institutions on 1 January 2016 while the capital requirements for financial holding company which be effective 1 January 2019.

Table 3: Composition of banks loan portfolio

	AMMB	Maybank	Public Bank	RHB Cap	Hong Leong	CIMB	AFG	BIMB	Affin
Domestic loans (%)	99.0%	58.9%	93.0%	87.5%	96.6%	57.6%	100%	100%	99.1%
International loans (%)	1.0%	41.1%	7.0%	12.5%	3.4%	42.4%	-	-	0.9%

Source: Companies, MIDFR

Table 4: CET1, Core Capital and Risk Weighted Capital ratios as at end of 1QCY15 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	10.5	11.8	15.8
Maybank	11.2 (fully diluted: 10.63)	12.9	15.4
Public Bank	10.5	11.7	15.2
RHB Cap*	10.8	11.2	14.1
Hong Leong	9.9 (fully loaded: 8.7)	11.1	13.6
CIMB	10.0	11.2	14.3
AFG	10.9	10.9	12.9
BIMB	12.0	12.0	13.1
Affin^	12.3	12.3	13.6

^represent ratios at Affin Bank level
*represent ratios of RHB Bank.
Source: Companies, MIDFR

Maintain NEUTRAL on the sector as we continue to see challenges to banks earnings from: i) slower loan growth, ii) persistent NIM pressure, iii) market volatility impacting treasury and IB income and iv) lower ROEs reflecting softer market conditions.

There are no changes to our calls and TPs for banking stocks except for the revision in our TP for AMMB. Following the recent analyst briefing for AMMB, loan growth for the Group is expected to remain subdued with a slowdown in consumer loans post GST implementation and higher inflation as well as slower momentum in corporate loans. Top line growth for AMMB is expected remain unexciting in view of the ongoing derisking of its auto loan book and rebalancing of loan portfolio towards higher quality assets which will impact both loan growth and NIM. We are revising our TP for AMMB to RM6.20 (previously RM7.10) by ascribing a lower forward PB multiple of 1.2x (previously 1.4x) to FY16 BVPS. Our revised TP of RM6.20 implies FY16 PER of 11.0x. We maintain our BUY calls on Hong Leong Bank (TP: RM15.60), Maybank (TP: RM10.30) and RHB Cap (RM8.90). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 2.95), AMMB (TP: RM6.20), AFG (TP: RM4.70), CIMB (TP: RM6.10) and BIMB (TP: RM3.96).

	Rec.	Price @ 15/7	Target Price	EPS (sen) 15	EPS (sen) 16	PER 15	PER 16	Net DPS 15	Net DPS 16	Net Div Yield 15	Net Div Yield 16	BV 15	BV 16	PBV 15	PBV 16
AMMB	NEUTRAL	5.92	6.20	54.4	56.0	10.9	10.6	27.3	23.0	4.6	3.9	4.8	5.1	1.2	1.2
Maybank	BUY	9.20	10.30	75.0	82.0	12.3	11.2	45.0	49.0	4.9	5.3	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	19.00	19.50	121.0	131.0	15.7	14.5	56.0	60.0	2.9	3.2	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.50	8.90	82.0	95.0	9.1	7.9	10.0	12.0	1.3	1.6	8.1	9.0	0.9	0.8
Hong Leong	BUY	13.48	15.60	115.0	122.0	11.7	11.0	38.0	40.0	2.8	3.0	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	5.35	6.10	44.0	50.0	12.2	10.7	18.0	20.0	3.4	3.7	4.7	5.0	1.1	1.1
AFG	NEUTRAL	4.31	4.70	34.7	36.0	12.4	12.0	15.4	16.0	3.6	3.7	2.9	3.2	1.5	1.4
BIMB	NEUTRAL	4.16	3.96	37.5	40.2	11.1	10.3	15.0	16.1	3.6	3.9	2.2	2.4	1.9	1.7
Affin	NEUTRAL	2.61	2.95	25.0	33.0	10.4	7.9	12.0	16.0	4.6	6.1	4.2	4.3	0.6	0.6
Average				**65.4**	**71.7**	**11.8**	**10.7**	**26.3**	**28.0**	**3.5**	**3.8**	**5.5**	**6.0**	**1.4**	**1.3**

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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 *rise* 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	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.
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.