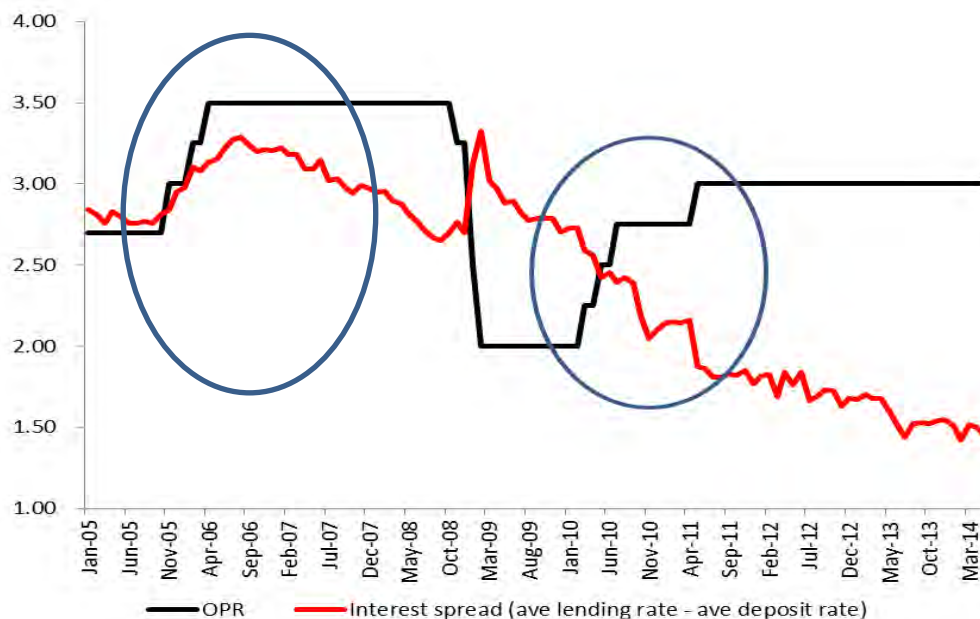


BANKING - Imminent rate hike and impact on the Banking Sector

We have earlier issued a report on 8 July on the potential rate hike and its implications on the stock market. Below are our brief expectations of the rate hike for the Banking Sector:

- Today will be BNM's MPC meeting. Our house is expecting a rise in OPR by 25bp in 2HCY14. Market seems to have priced in the rate hike. As at end-June, the 3-month KLIBOR was trading at 3.55% or 55bps above the OPR. This was higher than the normal 20bps that the 3-month KLIBOR would trade above the OPR. Hence, we imply that the interbank market participants have: (i) fully priced-in a 25bps OPR hike in the near future, and (ii) accorded a 40% possibility of another 25bps hike later.
- The previous OPR rate hikes were:
75bp (from 2.75% to 3.5%) between November 2005 to April 2006
and 75bp (from 2.00% to 2.75%) between March and July 2010.
- Looking at the past trend between the OPR and interest spread does suggest that the period for the positive interest spread following the OPR rise seems to have shortened in the later periods (refer to the chart below highlighted in circles). The later period does indicate a very short period of positive adjustment in the interest spread followed by a decline in the spread.



% of floating rate loans by banks

AMMB	MAY	AFG	HLBK	RHBC	CIMB	PBK	AHB
57.0%	68.4%	89.7%	73.6%	73.7%	76.0%	73.5%	60.6%

CASA Mix/ratio by banks

AMMB	MAY	AFG	HLBK	RHBC	CIMB	PBK	AHB
20.9%	35.8%	34.0%	26.0%	23.5%	35.8%	25.5%	21.9%

- Looking at the percentage of floating rate loans and CASA ratio by banks, we opine that AFG is the key beneficiary of the rate hike followed by CIMB and Maybank. Banks that would benefit the least will be AMMB and Affin Holdings.

- With the trend of narrower period of positive adjustments in interest spread, we retain our view that the 25bp hike in OPR will be mildly positive for banks. Firstly, the quantum of expected rate hike is smaller than that in the previous OPR hikes and earnings growth for banks for this year in circa 6% is much muted as compared to the past. Also, with a tighter liquidity for the sector with a higher average LDR of 85.4% for banks, we expect competition for deposits to be keen and this will exert pressure of banks cost of funds and NIM.
- We maintain NEUTRAL on the Banking Sector. 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: RM4.70), AHB (TP: RM3.80), AMMB (TP: RM8.00), Public Bank (TP: RM19.90) and CIMB (TP: RM7.80)

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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.