



BANKING - Further liberalisation of the financial sector

Additional measures to boost capital market activities and investments

In the 2014 Invest Malaysia conference, additional measures have been unveiled to further liberalise the financial sector. These measures aim to boost the capital market activities and foreign investments in unit trust industry and credit rating agencies. Below is a summary of measures introduced and our views.

	Measures	Our views
1	<ul style="list-style-type: none"> No mandatory requirement for credit ratings on bonds effective 1 Jan 2017 <p>International credit rating agencies with 100% foreign ownership are allowed to operate in Malaysia from 1 Jan 2017</p>	<ul style="list-style-type: none"> As these measures will only be effective from Jan 2017, there will be no immediate impact to the Malaysian debt capital market. Nonetheless, commencing 2017, we reckon the removal of mandatory credit rating requirements on bonds will benefit companies that are larger capitalized, reputable and with good track records. We expect these companies to issue bonds at a much faster pace through the bond market and at lower cost without the need for credit ratings. Meanwhile, this will not be the case for the less reputable companies lacking in track record. We think that investors will not be as comfortable investing in these bonds without credit ratings. Hence, these companies are likely to still require credit ratings on their bonds. We expect investment interest in unrated bonds to gravitate towards bonds issued by reputable companies. As without credit ratings to determine the quality of bonds in terms of credit, structure, terms and securities, we think that bonds issued by reputable companies will benefit from better demand/pricing in the market, hence affording a lower yield to investors. Moving forward, stability in sovereign rating will be much more important as this will impact investments in unrated bonds. We view that the move to allow localization of international credit rating agencies with a 100% equity ownership by foreign investors as positive. This will enhance the attraction of locally bonds abroad to be invested by foreign investors.
2	<ul style="list-style-type: none"> With immediate effect, foreign ownership in unit trust management companies will be raised from 70% to 100% 	<ul style="list-style-type: none"> We see minimal impact on this extra measure. This is in view that at the previous Investor Conference in 2009, more fundamental measures have already been introduced to liberalize the fund management industry.

	Barriers of entry for foreign owned unit management companies will be removed.	<ul style="list-style-type: none"> ▪ Prior to this, the following measures were already introduced: <ul style="list-style-type: none"> i. Ownership in wholesale segment of the fund management industry liberalized to allow 100% foreign equity while leading fund management companies were allowed to establish operations in Malaysia; and ii. Foreign equity ownership in retail fund management industry was raised from 49% to 70%. ▪ We view that a further rise in foreign equity in retail funds management industry from 70% to 100% will have a minimal impact. This is in view that the previous level of 70% equity ownership is already high enough to attract interested foreign investors.
3	<ul style="list-style-type: none"> ▪ Effective 1 Jan 2015, flexibility will be given to the credit rating and trading of unrated bonds and sukuk. 	<ul style="list-style-type: none"> ▪ We have yet to see the finer details of the flexibility accorded. Generally, this is positive to promote a more vibrant capital market with a rise in trading activity of unrated bonds and sukuk as well as easing the issuance of these securities.

We view the above as extensions to the measures introduced in 2009 to encourage greater foreign participation in the local financial sector, in line with the 10-year Financial Sector Blueprint 2011-2020. Recall in 2009, widespread measures were introduced to liberalise Investment Banking, Insurance and Takaful, Islamic Banking, Stock Broking and the Fund Management Industry. Meanwhile, foreign equity in Commercial Banks remained capped at 30% with exemptions to the restriction granted on a case to case basis.

Of the new measures introduced, the removal of mandatory credit rating requirements on bonds will bring a more significant impact. However, this measure will only come into effect commencing 1 Jan 2017 hence no impact is expected to banks' debt capital markets business performance in the near term.

We remain NEUTRAL on Banking Sector with an expectation of moderate earnings growth of banks in CY14. This is on the back of: i) a higher allowance for loan impairment for banks due to lower recoveries, ii) challenges to growth of non interest income from tougher regional capital markets business outlook, iii) tightening of sector liquidity with a rise in LD ratio resulting in a stronger competition for deposits, hence a higher cost of funds (COF) for banks. Higher COF and pressures on asset yield are likely to continue to compress banks' NIMs. There are no changes to our stock picks.

	Rec.	Price @ 10/6	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	7.20	8.00	59.3	64.0	12.1	11.3	24.1	25.0	3.3	3.5	4.4	4.8	1.7	1.5
Maybank	BUY	9.86	11.00	77.0	84.0	12.8	11.7	46.0	50.0	4.7	5.1	5.6	6.1	1.8	1.6
Public Bank	NEUTRAL	20.82	19.90	113.0	123.0	18.4	16.9	51.0	55.0	2.4	2.6	7.2	7.8	2.9	2.7
RHB Capital	BUY	8.38	9.50	83.0	91.0	10.1	9.2	25.0	27.0	3.0	3.2	7.0	7.6	1.2	1.1
Hong Leong	BUY	13.96	16.50	108.0	117.0	12.9	11.9	36.0	39.0	2.6	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.22	7.80	56.0	63.0	12.9	11.5	22.0	25.0	3.0	3.5	4.5	4.9	1.6	1.5
AFG	NEUTRAL	4.53	4.80	37.2	39.0	12.2	11.6	29.5	23.0	6.5	5.1	2.8	3.0	1.6	1.5
Affin	NEUTRAL	3.44	3.80	32.0	37.0	10.8	9.3	16.0	19.0	4.7	5.5	3.5	3.7	1.0	0.9

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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.