BANKING

***Maintain* POSITIVE**

2QCY22 Results: Solid quarter with low credit costs

KEY INVESTMENT HIGHLIGHTS

- **Most earnings came within consensus' expectations, except for BIMB**
- **Overall, the quarter was marked by NII benefiting from OPR hike, weak NOII, low NCC allocations and higher OPEX**
- **Several banks have adjusted their guidance to more positive outcomes**
- **Asset quality remains manageable, with positive outcomes from RA loan graduation**
- **Going forward, core earnings drivers include high loan growth, NII benefitting from OPR hikes**
- **Maintain POSITIVE call on sector**

1. **Steady yoy improvement.** Industry core net profit has seen a +1.3%yoy increase in 1H22. This was attributable to lower NCC as well as stronger NII and JV & Associate contributions offsetting weaker NOII, higher OPEX and tax expenses.

2. **Individual bank performance mixed.** Smaller banks did see the sharpest sequential year improvements in 2QCY22, given its low earnings base. It mostly rode on drastic reduction of NCC offsetting higher OPEX and tax rates.

   Bigger banks, on the other hand, saw more stable fluctuations, apart from Hong Leong Bank benefitting from sizeable Bank of Chengdu contributions.

3. **NIM riding on OPR hikes.** Industry NIM rose convincingly on a sequential quarter basis, spurred on rapid and sooner-than-expected OPR hikes and the unwinding of modification losses. Banks with exposure in Indonesia may continue to benefit from excess liquidity.

   As a result, several banks have revised its NIM guidance upwards, despite narrowing foreign spreads expected in 2HCY22.

4. **NOII still poor.** While trading and forex income remain exceptionally poor, core fee income did see improvement from last sequential quarter, spurred on by economic recovery boosting capital market activity.

5. **OPEX continues to normalise, but CIR ratio still volatile.** 2QCY22 Industry OPEX saw a sharp gain of +6.4%yoy on the back of higher admin, IT, and marketing costs, as the economy reopens. Banks should see even higher personnel costs, following union negotiations in 2H22.

   On the other hand, Industry CIR ratio remains volatile due to unpredictable NOII fluctuations. It did improve to 46.8% in 2QCY22.

COMPANY IN FOCUS

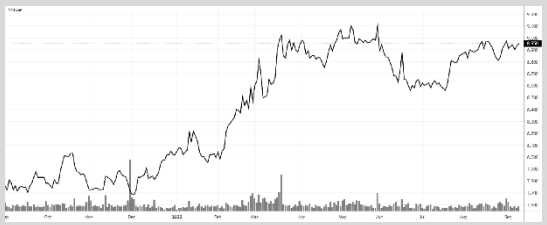
Maybank

Maintain **BUY** | Unchanged Target price: RM10.41

Price @ 8 September 2022: RM8.95

- Excellent FY22 dividend yield of 6.6%
- ESG industry leader, with presence in multiple regions
- FD paring exercises in foreign segments should result in lower cost of funds

Share price chart



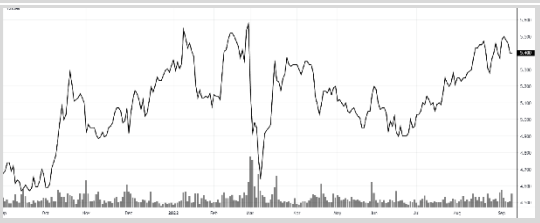
CIMB Group

Maintain **BUY** | Unchanged Target price: RM6.16

Price @ 8 September 2022: RM5.40

- Regional presence offers buffer to country-specific pressures
- Proxy to lucrative, funding-rich Indonesian market
- Thai and Indonesian commercial loan rundown close to end, removing loan contraction pressure

Share price chart



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6. **Excellent loan growth across the board.** Industry loan growth was reported to be +7.4%yoy in the quarter. Apart from the reopening of the economy, borrowers are likely trying to lock in on cheaper funding before OPR fully normalise.

   Foreign loans are growing much faster than domestic loans, even in saturated markets like Singapore.

7. **Deposit growth strong, funding not a major issue.** Deposit growth also rose by +7.4%yoy, with higher FD growth making up for more tepid CASA growth. With L/D rates spiking across banks, banks clearly have been utilising their accumulated funds.

   Nevertheless, banks have mentioned that funding is not such a major concern, given that FD buckets are still rationally priced due to the market being filled with excess liquidity.

8. **Asset quality manageable.** Industry GIL ratio has ticked upwards by +2bps qoq to 1.62%. So far, banks view RA loan graduations as positive, with delinquency and impairment rates within or better than management expectations.

9. **Low NCC, cumulative overlays used up.** Most banks reported low NCC in 2QCY22, though there was an uptick on sequential quarter basis. Several banks are expecting a heavier 2HCY22, as further management overlays are expected to take place following worsening economic outlook. A few banks have reduced its NCC guidance for the year.

   Generally cumulative overlays have been reduced from last quarter, given promising delinquency rates for RA loan graduation.

A) Sector profits

EXHIBIT 1: SECTOR CUMULATIVE CORE EARNINGS

Sector I/S (RM m)	2Q22	1Q22	2Q21	Yoy (%)	Qoq (%)	1H22	1H21	Yoy (%)
Total NII	16,354	15,576	15,437	5.9%	5.0%	31,929	30,345	5.2%
Total NOII	4,650	4,536	4,760	-2.3%	2.5%	9,187	10,498	-12.5%
Net income	**21,000**	**20,102**	**20,055**	**4.7%**	**4.5%**	**41,102**	**40,696**	**1.0%**
OPEX	(9,253)	(8,999)	(8,966)	3.2%	2.8%	(18,251)	(17,837)	2.3%
PPOP	**11,747**	**11,104**	**11,089**	**5.9%**	**5.8%**	**22,851**	**22,859**	**0.0%**
Loan provisions	(1,537)	(920)	(2,362)	-34.9%	67.1%	(2,457)	(4,875)	-49.6%
Other provisions	(366)	(579)	(100)	267.1%	-36.8%	(945)	(4,045)	-76.6%
JV & Associates	375	335	323	15.9%	12.0%	709	590	20.3%
Profit before tax	**10,220**	**9,939**	**8,951**	**14.2%**	**2.8%**	**20,159**	**14,529**	**38.8%**
Tax	(3,119)	(2,834)	(2,159)	44.5%	10.1%	(5,954)	(4,277)	39.2%
NCI	(107)	(106)	(125)	-13.9%	1.0%	(214)	(199)	7.7%
Reported NP	**6,993**	**6,999**	**6,667**	**4.9%**	**-0.1%**	**13,992**	**10,053**	**39.2%**
Core NP	**7,019**	**7,027**	**6,835**	**2.7%**	**-0.1%**	**14,046**	**13,865**	**1.3%**

Source: Companies, MIDFR

Sequential year observations. The 2QCY22 results season was a mixed bag. The industry saw quarterly core net profit rise by a muted +2.7%yoy largely as result of:

1. **Softer net credit costs (NCC):** Despite some degree of overlay allocation as a buffer for further interest rates hikes, NCC saw a steep decline as promising graduations trends in RA loans show low pre-NPL and NPL figures. GIL ratios have crept up over the course of several quarters but remain well within or better-than management expectations.

2. **Stronger NII**: Stronger NIM as result of recent OPR hike in May-22 and unwinding of modification loss contributed to the better NII performance. Additionally, loan growth has shot up during the quarter as both retail and corporate borrowers seek to lock in cheaper funding before interest rates fully normalise.

This largely offset the negatives:

1. **Lackluster NOII:** Most banks saw dramatic reductions in both core fees and other forms of NOII. Rising bond yields and volatile market conditions weighed heavily on stockbroking and MTM gains.
2. **Higher OPEX:** Higher technology spend, personnel and marketing costs were due to reopening of economic activity and are expected to persist for the remainder of the year.
3. **Higher tax expenses:** Most banks are feeling the toll of Cukai Makmur.

1HCY22's results largely moved in a similar direction, affected by similar factors. One additional point of note was a dramatic +20%yoy increase in JV & Associate contributions, largely brought about by Hong Leong Bank's Bank of Chengdu contributions.

Sequential quarter observations. Quarterly earnings declined by -0.1%qoq, though 2QCY22 did boast a stronger PBT. Most encouraging was an improvement in NOII income, as higher market activity and strong foreign contributions pushed up overall fee income. Sharp increases in NCC provided most of the downward pressure, thought this was largely expected given the low loan provisioning in 1Q22.

EXHIBIT 2: CORE NET PROFIT BY INDIVIDUAL BANK

Sector core NP (RM m)	2Q22	1Q22	2Q21	Yoy (%)	Qoq (%)	1H22	1H21	Yoy (%)	Ours	Consensus
Maybank	1,857	2,045	1,963	-5.4%	-9.2%	3,902	4,355	-10.4%	Below	Within
CIMB	1,325	1,472	1,280	3.5%	-10.0%	2,797	2,616	6.9%	Above	Within
Public Bk	1,417	1,399	1,384	2.4%	1.3%	2,816	2,914	-3.4%	Within	Within
RHB	635	600	701	-9.5%	5.8%	1,235	1,352	-8.6%	Below	Within
HL Bank	908	785	689	31.6%	15.7%	1,692	1,461	15.8%	Within	Within
AMMB	419	392	387	8.4%	7.0%	811	482	68.3%	Within	Within
BIMB	117	106	194	-39.7%	10.6%	223	353	-36.8%	Below	Below
Affin Bk	129	126	90	43.0%	2.7%	255	137	86.2%	Within	Within
ABMB	212	103	146	45.3%	105.9%	315	196	60.7%	Within	Within
Sector total	**7,019**	**7,027**	**6,835**	**2.7%**	**-0.1%**	**14,046**	**13,865**	**1.3%**		

Source: Companies, MIDFR

Sharp growth amongst smaller banks. In 1HCY22, Affin Bank, AMMB and ABMB saw sharp double-digit growth on a sequential quarter basis, assisted by their smaller earnings base. Most of these were due to drastic reductions in NCC, though Affin Bank had the added benefit of +12.0%yoy loans growth to NII as it utilises the proceeds from various divestments.

As for decliners, BIMB saw the sharpest decline in 1HCY22, as it experienced a sizeable loan provision in 1QCY22 and a steeper fall in NOII relative to other banks, as well as failing to capitalise on the positive effects of the May-22 OPR hike. Maybank similarly saw reduced earnings, due to sizeable provisions and higher tax rates.

B) Management Guidance

EXHIBIT 3: MANAGEMENT GUIDANCE SUMMARY

Bank	Mgmt Guidance	ROE	NIM	Loan growth	Deposit growth	CASA ratio	GIL ratio	NCC (bps)	Cost/ Income ratio	LLC ratio
Maybank	FY22F	9.5-10.0%	+5bps (from Stable)					40-50	45-46%	
	FY21A	9.4%	2.32%					49	45.3%	
CIMB	FY22F	8-9% (from 7.5-8.0%)	+/-5bps	6-7% (from 5-6%)				50-60 (from 60-70)	<48% (from <49%)	
	FY21A	7.7%	2.45%	3.3%				70	51.3%	
Public Bk	FY22F	11-12%	+8-10bps (from Stable)	5.0%	5-6%			10-15 (from <20)		
	FY21A	11.7%	2.22%	3.6%	4.0%			34		
RHB	FY22F	8.5%	+3-4bps	4-5%		30%	<1.70%	30	<45%	
	FY21A	9.9%	2.11%	6.7%		30%	1.49%	30	45.2%	
HL Bank	FY23F	>10.5	>2.10%	6-7%		30%	<0.80%	10	<40%	
	FY22A	10.6%	2.14%	8.0%		34%	0.49%	7	37.5%	
AMMB	FY23F	>10.0% (from 9.3-10.0%)	2.05-2.10%	7.0%				35-40		
	FY22A	9.0%	2.05%	4.6%				34		
BIMB	FY22F	10.0%	>2.30%	8.0%			<1.50%	30-35	58.0%	
	FY21A	8.3%	2.32%	6.5%			0.96%	33	57.0%	
Affin Bk	FY22F	7.0%	+5bps	12.0%			2.20%	30	55.0%	90%
	FY21A	4.9%	1.97%	11.1%			2.54%	34	61.1%	68%
ABMB	FY23F	>10%	-3bps	6-8%				35-40 (from 40-50)	<45%	
	FY22A	8.9%	2.53%	4.6%				48	44.1%	

Source: Companies, MIDFR

As observed in the table above, several banks have revised its guidance upwards. Areas of improvement are largely centred about:

1. **Lower NCC:** Following better-than-expected repayment rates of graduated RA loans. Note that even banks that have not officially revised guidance are alluding to actual NCC likely to end up on the lower-end or better than management guidance.
2. **Higher NIM:** Following promising economic data, the BNM seems geared towards raising OPR rates far faster and rapidly than previously anticipated.

C) NII and NIM

EXHIBIT 4: NET INTEREST MARGINS (INCL. MODIFICATION LOSS)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	2.31%	2.37%	2.26%	2.32%	2.34%	2.41%	3	2.32%	+5bps	Stable
CIMB	2.48%	2.51%	2.40%	2.41%	2.45%	2.47%	2	2.45%	+/-5bps	
Public Bk	2.28%	2.26%	2.15%	2.18%	2.24%	2.29%	4	2.22%	+8-10bps	Stable
RHB	2.16%	2.15%	1.98%	2.21%	2.16%	2.23%	6	2.11%	+3-4bps	
HL Bank	2.20%	2.20%	2.13%	2.19%	2.15%	2.10%	8	2.14%	>2.10%	
AMMB	2.08%	2.08%	2.03%	2.09%	2.00%	2.12%	7	2.05%	2.05-2.10%	
BIMB	2.47%	2.41%	2.36%	2.30%	2.30%	2.29%	4	2.32%	>2.30%	
Affin Bk	1.90%	1.94%	1.95%	2.05%	1.92%	1.99%	9	1.97%	+5bps	
ABMB	2.41%	2.50%	2.47%	2.66%	2.50%	2.57%	1	2.53%	-3bps	
Average	**2.25%**	**2.27%**	**2.19%**	**2.27%**	**2.23%**	**2.27%**				

Source: Companies, MIDFR

Overall, the industry largely benefitted from the May-22 OPR hike, as evidenced by NIM rising across the board in 2QCY22. The exceptions to the rule were BIMB and Hong Leong Bank:

1. **BIMB** continues to attribute the decline to holding low-risk, low-yield short-term papers, though we believe there is an additional factor causing the NIM suppression.
2. **Hong Leong Bank** has attributed it to locking in long-term FDs at lower rates in the beginning of the year, in anticipation of future rate increases, as well as the expiry of several higher-yield financial instruments (which is has yet to replenish).

Management expectations. Going forward, guidance is mostly positive for the following quarters, with two banks revising their FY22 guidance upwards. The core contributors are further OPR hikes in the coming quarters. In terms of foreign segments, strong CASA growth in Indonesia is expected to maintain NIM spreads, while other regions can expect NIM contractions in 2H22, as deposit rates catch up with lending rates.

Unwinding of modification loss. Most banks will impose lengthy watch periods surrounding RA loan graduations. Upon the bank being satisfied with how loan repayment is progressing, it will then unwind the modification loss in a mechanical fashion. Unwinding is thus expected to be gradual and in small volumes rather than being lumpy in nature, taking place over the course of several years. Unwinding amounts will be less and less material farther into the future.

Possible Statutory Reserve Requirement (SRR) hikes. The SRR has been reduced to 2% from 3% since May-20. The guideline ends in Dec-22 – banks may have to resume storing more of their cash in BNM reserves. As a result, they will be unable to place it in higher yielding securities, resulting in slight NIM compression in CY23.

EXHIBIT 5: NET INTEREST MARGINS (EXCL. MODIFICATION LOSS)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	2.31%	2.37%	2.26%	2.32%	2.34%	2.41%	3
CIMB	2.48%	2.51%	2.40%	2.41%	2.45%	2.47%	2
Public Bk	2.28%	2.26%	2.15%	2.18%	2.24%	2.29%	4
RHB	2.16%	2.15%	1.98%	2.21%	2.16%	2.23%	6
HL Bank	2.20%	2.20%	2.13%	2.19%	2.15%	2.10%	8
AMMB	2.08%	2.08%	2.03%	2.09%	2.00%	2.12%	7
BIMB	2.36%	2.36%	2.36%	2.30%	2.30%	2.29%	4
Affin Bk	1.90%	1.94%	1.95%	2.05%	1.92%	1.99%	9
ABMB	2.41%	2.50%	2.47%	2.66%	2.50%	2.57%	1
Average	**2.23%**	**2.25%**	**2.19%**	**2.27%**	**2.23%**	**2.27%**	

Source: Companies, MIDFR

D) NOII

EXHIBIT 6: FEE INCOME GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	23%	0%	4%	-14%	-22%	-6%	5
CIMB	16%	38%	5%	19%	-7%	20%	1
Public Bk	35%	23%	0%	-2%	-16%	-7%	6
RHB	33%	27%	-10%	-15%	-30%	-24%	8
HL Bank	31%	46%	1%	9%	3%	16%	3
AMMB	27%	33%	-4%	5%	-12%	-11%	7
BIMB			-1%	13%	25%	16%	2
Affin Bk			9%	-16%	-15%	-2%	4
ABMB	3%	13%	-35%	-29%	-22%	-28%	9
Average	**24%**	**26%**	**-3%**	**-3%**	**-11%**	**-3%**	

Source: Companies, MIDFR

Expected to improve in 2HCY22. Fee income performance remained lacklustre, as adverse market conditions continue to cause reduced stockbroking, unit trust and investment banking related activities. In 2QCY22, core fee income did rise by +2.0%qoq, with the recovery in economic activities boosting capital market activities. This trend is expected to continue in the latter half of the year.

Winners. CIMB recorded an exceptionally impressive +20%yoy growth in 2QCY22, attributable to stronger regional contributions. BIMB and Hong Leong Bank also recorded strong growth. In BIMB's case, it has been building up its restricted investment accounts, which, due to their accounting treatment, feed straight into fee income. This is a means to build up its fee income contributions.

We are banking on Public Bank to show an impressive turnaround in fee income as capital market conditions improve, following its steady accumulation in retail unit trust market share during the pandemic.

EXHIBIT 7: OTHER NON-INTEREST INCOME GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	-25%	-54%	-47%	-43%	-34%	90%	2
CIMB	75%	21%	-40%	-44%	-14%	-10%	3
Public Bk	-12%	-41%	-57%	-72%	-17%	-60%	8
RHB	-4%	-39%	18%	17%	-6%	-41%	6
HL Bank	-20%	-82%	-47%	-77%	-77%	215%	1
AMMB	-3%	-27%	-34%	-28%	3%	-40%	5
BIMB			-77%	-193%	-151%	-128%	9
Affin Bk	-84%	-85%	-113%	164%	-82%	-58%	7
ABMB	-19%	35%	-27%	-39%	25%	-33%	4
Average	**-11%**	**-34%**	**-47%**	**-35%**	**-39%**	**-7%**	

Source: Companies, MIDFR

Poor across the board, with few outliers. Sizeable MTM investment losses and weaker forex profits continue to push down other NOII growth. The exceptions were Maybank and Hong Leong Bank.

1. **Maybank** recorded lower claims in its insurance arm.
2. **Hong Leong Bank** reported RM240m of MTM gains on its holdings in Bank of Chengdu's convertible bonds. Looking at the recent developments in Chengdu, we could be seeing a potential reversal in the profits should the lockdown persist over an extended period of time.

EXHIBIT 8: TOTAL NOII AS % OF NET INCOME

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	31.9%	21.4%	23.3%	22.7%	24.2%	24.2%	3
CIMB	28.0%	25.7%	21.3%	23.1%	25.1%	24.8%	2
Public Bk	24.3%	22.6%	21.5%	19.3%	20.9%	17.7%	6
RHB	28.2%	28.6%	32.0%	29.3%	22.7%	19.7%	5
HL Bank	20.9%	14.4%	18.8%	14.2%	13.8%	22.7%	4
AMMB	28.9%	33.9%	28.6%	28.6%	27.7%	25.7%	1
BIMB	14.1%	20.4%	16.8%	14.0%	9.1%	8.2%	9
Affin Bk	28.1%	23.6%	33.6%	29.4%	15.9%	15.8%	8
ABMB	25.1%	24.5%	22.7%	21.4%	20.8%	17.3%	7
Average	**25.5%**	**23.9%**	**24.3%**	**22.4%**	**20.0%**	**19.5%**	

Source: Companies, MIDFR

Declines across the board. Most banks recorded a lower %NOII due to higher NII returns amid still-weak NOII contributions. However, sector %NOII did not see a significant decline, as result of supernormal profits from Hong Leong Bank offsetting the reductions.

E) Operating expenses and efficiency

EXHIBIT 9: OPERATING EXPENSES GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	-4.1%	7.9%	4.3%	3.0%	4.0%	4.6%	3
CIMB	-1.2%	13.1%	5.2%	7.9%	-0.6%	-4.3%	1
Public Bk	2.8%	3.2%	2.9%	-3.1%	1.5%	7.2%	5
RHB	5.2%	4.6%	1.0%	2.4%	-3.0%	2.8%	2
HL Bank	-3.9%	2.2%	-2.7%	0.2%	1.1%	5.2%	4
AMMB	4.7%	-8.2%	-1.9%	-3.0%	6.2%	9.9%	8
BIMB			3.0%	23.0%	3.2%	13.6%	9
Affin Bk	-12.0%	-26.4%	-31.4%	-2.1%	1.3%	9.8%	7
ABMB	13.0%	3.5%	2.6%	12.4%	-5.6%	8.9%	6
Average	**0.6%**	**0.0%**	**-1.9%**	**4.5%**	**0.9%**	**6.4%**	

Source: Companies, MIDFR

OPEX sees sharp increase. OPEX has largely started to normalise with the reopening of the economy, as admin and marketing costs begin to ramp up. Additionally, most banks have increased IT spend to automate processes and increase their number of customer touchpoints. Personnel expenses have risen +6%yoy in 2Q22 attributable to salary increases to combat cost-of-living upticks, as well as personnel hiring for further marketing efforts. Personnel costs are expected to increase further 2H22, following union negotiations (every 3 years).

CIMB is an outlier. CIMB did see an improvement in OPEX in 2QFY22, with the effects of its kitchen-sinking exercise finally bearing fruit.

BIMB sees sharpest increase. BIMB has recorded an increase in 1HFY22 personnel expenses worth +10%, far outstripping any of its peers.

EXHIBIT 10: COST/INCOME RATIO

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	41.3%	47.3%	45.9%	46.9%	45.5%	44.7%	4	45%	45-46%	
CIMB	48.2%	52.0%	51.6%	53.5%	48.1%	47.1%	7	51%	<48%	<49%
Public Bk	31.8%	31.3%	31.8%	31.5%	33.2%	33.8%	1	32%		
RHB	46.0%	44.5%	44.5%	45.2%	45.1%	45.4%	5	45%	<45%	
HL Bank	37.0%	40.0%	36.8%	37.4%	38.4%	37.4%	2	37%	<40%	
AMMB	46.7%	40.8%	46.0%	44.8%	50.0%	46.9%	6	45%		
BIMB	55.7%	48.3%	59.5%	65.2%	58.9%	59.7%	8	57%	58%	
Affin Bk	65.3%	60.7%	59.1%	59.9%	65.9%	61.4%	9	61%	55%	
ABMB	52.1%	40.0%	43.2%	44.8%	48.5%	44.4%	3	44%	<45%	
Average	**47.1%**	**45.0%**	**46.5%**	**47.7%**	**48.2%**	**46.8%**				

Source: Companies, MIDFR

Cost/Income ratio improves. 2Q22's CIR was affected by higher OPEX, though stronger NII contributions did much to offset the increase. CIR continues to be a volatile metric simply due to the unpredictability of NOII volume. Overall, most banks experienced negative JAWS during the quarter.

F) Loan growth

EXHIBIT 11: GROSS LOAN GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	3.3%	4.1%	4.0%	5.9%	5.0%	6.2%	7	5.9%		
CIMB	0.6%	-0.2%	1.6%	3.3%	5.1%	6.8%	5	3.3%	6-7%	5-6%
Public Bk	5.1%	5.2%	3.3%	3.6%	3.7%	4.5%	8	3.6%	5.0%	
RHB	6.8%	5.7%	6.7%	6.7%	7.0%	7.3%	4	6.7%	4-5%	
HL Bank	7.3%	6.8%	5.2%	6.7%	6.3%	8.0%	3	8.0%	6-7%	
AMMB	7.0%	7.6%	4.5%	6.6%	4.6%	3.9%	9	4.6%	7.0%	
BIMB	9.6%	6.4%	3.9%	6.5%	6.7%	8.0%	2	6.5%	8.0%	
Affin Bk	3.3%	7.1%	6.9%	11.1%	13.8%	15.0%	1	11.1%	12.0%	
ABMB	1.1%	-0.5%	0.2%	3.0%	4.6%	6.7%	6	4.6%	6-8%	
Average	**4.9%**	**4.7%**	**4.0%**	**5.9%**	**6.3%**	**7.4%**				

Source: Companies, MIDFR

Exceptional loan growth. Banks recorded exceptional loan growth, despite not much change made to loan underwriting standards. While the reopening of the economy is central reason for such strong growth, we believe that there are a few additional factors:

1. Under the expectation further OPR hikes are coming fast, borrowers lock in on cheaper funding. This is expected to persist until interest rates fully normalise at the 3.25-3.50% level.
2. A subset of borrowers observes the May-22 OPR hike as the true indicator of a return to normalcy, rather than the mere removal of movement restrictions (which, after all, have been known to relapse).

Both retail and business loans have shown exceptionally strong growth, despite the expiry of SST exemptions and home ownership programmes.

Foreign loans growing faster than domestic loans. Excluding FX fluctuations, a lot of banks recorded high single-digit to double-digit growth in foreign segments, primarily in Indonesian markets (given that funding there is still exceptionally cheap). Even saturated markets like Singapore saw marked growth, especially in targeted segments.

EXHIBIT 12: DOMESTIC LOAN GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	4.4%	4.0%	1.9%	4.2%	4.7%	5.7%	7
CIMB	2.9%	2.0%	2.7%	3.9%	5.1%	6.2%	5
Public Bk	6.1%	5.9%	3.3%	3.4%	3.7%	4.3%	9
RHB	6.0%	4.1%	4.4%	5.2%	5.8%	5.9%	6
HL Bank	7.4%	6.1%	4.3%	5.7%	5.3%	6.7%	3
AMMB	6.8%	7.8%	4.7%	6.5%	4.4%	4.4%	8
BIMB	9.6%	6.4%	3.9%	6.5%	6.7%	8.0%	2
Affin Bk	3.3%	6.7%	6.6%	11.1%	13.7%	14.9%	1
ABMB	1.1%	-0.5%	0.2%	3.0%	4.6%	6.7%	4
Average	**5.3%**	**4.7%**	**3.5%**	**5.5%**	**6.0%**	**7.0%**	

Source: Companies, MIDFR

G) Deposit growth

EXHIBIT 13: CUSTOMER DEPOSIT GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	10.5%	5.2%	2.5%	5.9%	5.4%	4.9%	5	5.9%		
CIMB	3.9%	-1.7%	4.1%	4.8%	4.3%	4.4%	7	4.8%		
Public Bk	3.8%	4.2%	4.2%	4.0%	4.4%	3.5%	9	4.0%	5.0%	
RHB	12.4%	8.1%	8.8%	7.5%	3.9%	4.8%	6	7.5%		
HL Bank	6.8%	5.1%	5.5%	6.6%	5.2%	7.3%	3	7.3%		
AMMB	6.7%	-0.2%	0.9%	4.8%	1.7%	6.4%	4	1.7%		
BIMB	12.1%	5.8%	12.1%	12.3%	10.2%	11.6%	2	12.3%		
Affin Bk	-0.6%	11.4%	16.1%	17.9%	22.9%	19.8%	1	17.9%		
ABMB	0.1%	-4.7%	-4.9%	0.7%	-0.6%	4.0%	8	-0.6%		
Average	**6.2%**	**3.7%**	**5.5%**	**7.1%**	**6.4%**	**7.4%**				

Source: Companies, MIDFR

Strong FD growth. Higher FD growth in the quarter offset tepid CASA growth, as depositors took advantage of rising interest rates. Several banks are trying to lock in long-term FDs as soon as possible to secure cheaper funding. Banks with exposure to Indonesian markets still have notable CASA generating potential, given the untapped potential within the region.

EXHIBIT 14: CASA GROWTH (YOY)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	29.2%	18.7%	12.0%	16.3%	9.1%	7.0%	7
CIMB	19.8%	8.7%	9.6%	10.3%	9.7%	7.2%	6
Public Bk	22.5%	15.3%	11.4%	11.7%	8.8%	10.8%	4
RHB	25.5%	10.7%	4.8%	4.5%	-1.7%	5.2%	9
HL Bank	27.4%	22.5%	16.9%	18.6%	11.7%	11.5%	3
AMMB	24.0%	11.4%	4.4%	11.8%	20.6%	16.0%	2
BIMB	13.5%	9.3%	10.7%	13.4%	6.8%	7.8%	5
Affin Bk	28.0%	24.1%	18.7%	22.2%	14.6%	16.4%	1
ABMB	25.7%	25.0%	14.1%	13.1%	3.4%	5.3%	8
Average	**24.0%**	**16.2%**	**11.4%**	**13.5%**	**9.2%**	**9.7%**	

Source: Companies, MIDFR

EXHIBIT 15: CASA RATIO

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	43.0%	43.9%	44.5%	45.4%	44.5%	44.7%	2	45.4%		
CIMB	43.0%	43.2%	42.8%	44.0%	45.3%	44.4%	3	44.0%		
Public Bk	30.0%	29.7%	30.4%	31.0%	31.2%	31.8%	7	31.0%		
RHB	30.6%	29.2%	30.1%	30.0%	29.0%	29.3%	8	30.0%	30.0%	
HL Bank	31.4%	32.6%	32.3%	33.3%	33.4%	33.8%	5	33.8%	30.0%	
AMMB	29.7%	29.9%	30.7%	30.0%	35.2%	32.6%	6	35.2%		
BIMB	36.6%	37.0%	37.4%	35.2%	35.4%	35.7%	4	35.2%		
Affin Bk	23.1%	22.1%	21.1%	23.0%	21.5%	21.5%	9	23.0%		
ABMB	47.0%	49.4%	49.6%	50.0%	48.9%	50.0%	1	48.9%		
Average	**34.9%**	**35.2%**	**35.4%**	**35.8%**	**36.1%**	**36.0%**				

Source: Companies, MIDFR

EXHIBIT 16: LOAN/DEPOSIT RATIO

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	90.7%	91.2%	90.5%	92.0%	91.0%	92.6%	5
CIMB	87.7%	88.4%	84.3%	86.3%	88.2%	90.3%	4
Public Bk	94.1%	92.9%	92.3%	93.1%	93.2%	93.7%	7
RHB	84.6%	86.8%	89.2%	89.1%	87.2%	88.9%	3
HL Bank	84.3%	84.7%	84.0%	84.7%	81.7%	85.3%	2
AMMB	93.3%	99.2%	97.6%	93.7%	96.3%	97.4%	8
BIMB	110.2%	112.3%	109.5%	101.4%	106.5%	108.7%	9
Affin Bk	91.2%	88.0%	83.9%	85.9%	84.5%	84.5%	1
ABMB	89.2%	90.3%	92.5%	93.7%	93.6%	92.7%	6
Average	**91.7%**	**92.6%**	**91.5%**	**91.1%**	**91.4%**	**92.7%**	

Source: Companies, MIDFR

L/D ratios ticks upwards. Banks have clearly been utilising their accumulated funds, given the elevated loan growth rates in the quarter. Nevertheless, most banks are not too concerned with additional funding. It believe that FD buckets are still rationally priced for now, given that the market is still flushed with excess liquidity.

Banks with high L/D ratios. We do note BIMB's L/D ratio is well above the rest, with the bank boasting both high loan and deposit growth rates of +8.0%yoy in the quarter. In maintaining its voracious loan appetite, BIMB may run into the issue of having to secure higher-cost funding following further interest rate hikes.

Both Public Bank and AMMB also suffer from elevated L/D ratios, though their loan growth is a lot more moderate than BIMB's. In AMMB's case it can look to cash contributions and gains from its upcoming AmGen disposal to secure funding.

H) Asset quality and Provisioning

EXHIBIT 17: GROSS IMPAIRED LOANS RATIO

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	2.20%	2.18%	1.93%	1.99%	1.95%	1.81%	6	1.99%		
CIMB	3.44%	3.44%	3.38%	3.52%	3.44%	3.55%	9	3.52%		
Public Bk	0.35%	0.35%	0.33%	0.31%	0.29%	0.29%	1	0.31%		
RHB	1.66%	1.63%	1.32%	1.49%	1.50%	1.62%	5	1.49%	<1.70%	
HL Bank	0.53%	0.46%	0.48%	0.46%	0.48%	0.49%	2	0.49%	<0.80%	
AMMB	1.54%	1.56%	1.44%	1.35%	1.40%	1.55%	4	1.40%		
BIMB	0.71%	0.72%	0.68%	0.96%	1.02%	1.14%	3	0.96%	<1.50%	
Affin Bk	3.41%	3.27%	3.14%	2.54%	2.43%	2.28%	8	2.54%	2.20%	
ABMB	2.34%	2.34%	2.32%	2.02%	1.85%	1.84%	7	1.85%		
Average	**1.80%**	**1.77%**	**1.67%**	**1.63%**	**1.60%**	**1.62%**				

Source: Companies, MIDFR

Slight uptick. RA loan graduations thus far have been performing within- or better-than-management expectations, with delinquency rates within the low-to-mid single digit category and actual impaired loans even lower. The majority are banks are well insulated against these controlled GIL upticks, given their still-sizeable cumulative provisions.

Problem loans. Among the high-risk sectors during the pandemic, the construction sector and lenders impacted by supply-chain disruptions continue the plague banks' asset quality. O&G clients, while still problematic, have benefitted from favourable commodity fluctuations and have largely been provided for banks, in comparison to previous quarters.

BIMB has shown the sharpest uptrend over the last couple of quarters, given notable deteriorations in its commercial and corporate portfolio. Nonetheless, management is still confident on its prospects, given how a sizeable chunk of its retail portfolio is secured by auto salary-deduction. It does not expect GIL ratio to exceed 1.5% by end-2022.

Affin Bank has seen notable improvement in GIL ratio, though we caution that it may be due to dilution through +12.0%yoy loan growth, rather than more organic means.

EXHIBIT 18: ANNUALISED NET CREDIT COSTS (BPS)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	65	40	85	12	32	60	9	49	40-50	
CIMB	78	71	57	77	31	48	8	70	50-60	60-70
Public Bk	23	46	37	32	11	9	3	34	10-15	<20
RHB	39	43	46	30	30	17	4	30	30	
HL Bank	31	52	13	9	13	7	2	7	10	
AMMB	91	68	58	102	-83	20	5	34	35-40	
BIMB	9	25	24	77	30	23	6	33	30-35	
Affin Bk	46	50	40	6	16	30	7	34	30	
ABMB	124	88	31	14	65	-15	1	48	35-40	40-45
Average	**56**	**53**	**43**	**40**	**16**	**22**				

Source: Companies, MIDFR

NCC still low, possibly skewed to 2HCY22. NCC have moved upwards on a sequential quarter basis, though still considerably better than previous year. Most banks have reported NCC well below full-year management guidance, with a couple revising their initial guidance to one that is even more positive. The exception was Maybank, which provided a one-off forward-looking provision due to worsening macroeconomic conditions.

Due to the low provisions in 1HCY22, we may see a sizeable uptick in NCC during 2HCY22 push up cumulative NCC to values closer to management guidance. Several banks, such as AMMB, have guided for further macroeconomic-related provisions made during 4QCY22.

EXHIBIT 19: CUMULATIVE OVERLAYS (RM M)

Bank	1Q22	2Q22	Rank
Maybank	1732	1732	3
CIMB	2200	2359	1
Public Bk	1747	1747	2
RHB	908	813	4
HL Bank	873	629	5
AMMB	394	424	6
BIMB	327	181	9
Affin Bk	313	300	8
ABMB	487	408	7
Total	**8981**	**8593**	

Source: Companies, MIDFR

Cumulative overlays generally down. Most banks have opted to either maintain or pare down on its cumulative overlays as RA loan graduation is going better than expected. The exceptions are AMMB and CIMB.

AMMB topped up RM30m in 2QCY22 for construction sector exposures, given the major headwinds faced by industry players.

CIMB topped up its cumulative overlays, given management's intention to further improve on its LLC ratio.

EXHIBIT 20: LOAN LOSS COVERAGE RATIO (W/O REGULATORY RESERVES)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank	FY21/22	FY22/23 Guidance	Revised from
Maybank	120%	111%	123%	108%	102%	119%	5	108%		
CIMB	102%	102%	105%	100%	102%	100%	8	100%		
Public Bk	247%	275%	321%	361%	383%	389%	1	361%		
RHB	120%	124%	148%	122%	126%	117%	6	122%		
HL Bank	205%	247%	239%	251%	218%	212%	2	212%		
AMMB	129%	131%	150%	153%	115%	100%	7	115%		
BIMB	234%	235%	255%	187%	181%	148%	3	187%		
Affin Bk	51%	55%	59%	68%	70%	77%	9	68%	90%	
ABMB	98%	105%	106%	122%	136%	128%	4	136%		
Average	**145%**	**154%**	**167%**	**164%**	**159%**	**154%**				

Source: Companies, MIDFR

LLC treatment mixed. Banks were split on LLC treatment: some banks topped up its LLC, adding overlays in view of lacklustre macroeconomic conditions. Others pared down on its LLC holdings as it make sizeable loan write-offs, refusing to top-up riding on a more positive outlook.

EXHIBIT 21: LOAN LOSS COVERAGE RATIO (WITH REGULATORY RESERVES)

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	138%	129%	143%	120%	117%	139%	4
CIMB	103%	102%	105%	101%	104%	102%	9
Public Bk	338%	332%	358%	383%	403%	407%	1
RHB	122%	126%	150%	133%	138%	130%	6
HL Bank	275%	306%	296%	318%	290%	292%	2
AMMB	129%	131%	151%	154%	121%	107%	8
BIMB	234%	235%	255%	187%	181%	153%	3
Affin Bk	96%	101%	107%	126%	126%	127%	7
ABMB	106%	110%	111%	127%	142%	133%	5
Average	**171%**	**175%**	**186%**	**183%**	**180%**	**177%**	

Source: Companies, MIDFR

I) Capital ratios

EXHIBIT 22: CET 1 RATIO

Bank	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Rank
Maybank	15.3%	14.6%	14.2%	16.1%	14.9%	15.0%	3
CIMB	12.9%	13.0%	13.1%	14.5%	14.5%	13.9%	5
Public Bk	13.8%	14.3%	14.1%	14.5%	14.3%	14.1%	4
RHB	15.6%	16.8%	16.8%	17.2%	16.8%	16.6%	1
HL Bank	13.0%	13.6%	13.0%	13.1%	12.7%	13.4%	8
AMMB	11.3%	12.3%	12.7%	13.0%	12.2%	12.4%	9
BIMB	0.0%	14.5%	14.8%	13.2%	14.0%	13.8%	6
Affin Bk	13.8%	14.1%	13.6%	14.2%	13.7%	13.4%	7
ABMB	16.2%	16.9%	17.1%	16.5%	16.0%	15.4%	2
Average	**12.4%**	**14.4%**	**14.4%**	**14.7%**	**14.3%**	**14.2%**	

Source: Companies, MIDFR

RHB Bank maintains a high CET 1 ratio of 16.6%. Management has expressed its desire to pare it down, offering possible upside to dividend yields. We expect this to happen over the course of the next few years, in attempt to reach its TWP24 ROE targets.

AMMB has a low CET 1 ratio of 12.4%, though this is expected to improve by +0.25% through its upcoming AmGen disposal proceeds. This would elevate AMMB's CET 1 ratio to a pre-settlement range.

J) Verdict

Maintain POSITIVE. We are positive on the outlook of the banking sector, riding on high loan growth and future OPR hikes benefits to NII. With low delinquency rates for graduated RA loans so far, we are not expecting asset quality issues to pose any major threats in the immediate future. While funding issues may become a cause for concern in subsequent quarters, so far FDs seem to be rationally priced, given the excess liquidity still inherent within the market. Our top picks for the sector are **Maybank (BUY, TP: 10.41)** and **CIMB Group (BUY, TP: RM6.16).**

PEER COMPARISON TABLE

Company	Rec.	Share P*	Target P	Upside	Mkt Cap	PER (x)		P/B (x)		ROE (%)		Net Div Yield (%)	
		(RM)	(RM)	(%)	(RM 'b)	FY22/23	FY23/24	FY22/23	FY23/24	FY22/23	FY23/24	FY22/23	FY23/24
Maybank	BUY	8.95	10.41	16.3	104.02	11.5	9.9	1.2	1.1	10.3	11.4	7.4	8.6
CIMB	BUY	5.40	6.16	14.1	54.12	10.5	8.9	0.9	0.8	7.7	9.4	4.8	5.6
Public Bk	BUY	4.64	5.67	22.3	90.07	15.3	13.3	1.8	1.6	11.7	12.6	3.3	3.8
RHB	BUY	5.77	6.94	20.3	23.37	8.7	7.1	0.8	0.7	10.1	10.5	5.7	7.0
HL Bank	BUY	20.86	23.96	14.8	45.22	11.7	10.8	1.3	1.2	10.5	11.0	3.0	3.2
HL FG	BUY	19.14	23.51	22.8	21.70	7.8	7.3	1.2	1.1	10.3	11.2	2.9	3.2
AMMB	BUY	4.05	4.56	12.6	13.36	8.3	7.6	0.8	0.7	8.6	8.7	4.2	4.6
BIMB	NEUTRAL	2.58	2.66	3.0	6.30	13.1	10.5	0.9	0.9	7.8	8.3	3.8	4.7
Affin Bk	BUY	2.12	2.55	20.2	4.48	8.1	6.6	0.4	0.4	5.5	6.4	7.4	4.6
ABMB	BUY	3.72	4.58	23.0	5.76	8.4	7.9	0.8	0.8	10.0	9.8	5.9	6.3
Simple avg						**10.4**	**9.0**	**1.0**	**1.0**	**9.3**	**9.9**	**4.8**	**5.2**

**Closing prices from 8th September 2022*

Source: Companies, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology