BANKING

***Maintain* NEUTRAL**

FSR 2H23: Resilient Business Segment

KEY INVESTMENT HIGHLIGHTS

- **Business segment: Overall Interest Coverage ratio remains resilient, while loans at risk generally trend downward (though this varies from sector to sector)**
- **Household segment: Household loans to GDP ratio continues to rise, as loan growth continues to outstrip financial asset growth**
- **Banking sector resilient: Still pretty resilient, with good improvement in GIL ratio, while capital ratios remain highly elevated**
- **Stress test: Scenario 1 test for deep but temporary shock; Scenario 2 tests for prolonged economic downturn**
- **Maintain NEUTRAL call: Sector is mostly priced in by now, but dividend yields remain attractive**

Headed Where?	**Sector is largely priced in, but dividend yields remain excellent. Balance sheet growth outlook is great – profitability outlook, more mixed.**
Strategy	**Look to dividend yields, no immediate positive share rerating drivers in the near term.**
Core Themes	1. ▲ Dividend yields remain attractive, though sometimes a bit patchy due to Basel III implementation concerns. 2. ▲ Large-scale infrastructure projects to drive business loans, while retail loan demand still seems resilient. 3. ► Asset quality and NCC outlook are much more normalised now. Heavy writebacks are concentrated in only a few banks – with others looking to top up further. 4. ► Mixed NIM outlook: Deposit competition shows signs of easing but worry more about competitive loan yields. 5. ▼ Valuations are not as attractive as before.
Side Themes	1. ► OPEX outlook varies between banks – but CIR targets remain elevated across the board. 2. ► NOII outlook also uncertain – unlikely to repeat huge non-fee income performance seen in CY23

► Business segment: Resilient Interest Coverage Ratio (ICR). This remains relatively flattish at 5.7x (from 2QCY23's 5.6x). Generally, there was some level of improvement in overall firms-at-risk. While manufacturing and construction segments saw improvement on this front, wholesale and retail trade, real estate and hotels and restaurants segments saw some deterioration.

▲ Household (HH) segment: Overall credit risk is contained, with HH debt growing at a faster pace amid improvements in the labour market and economic activity. Overall debt was driven largely by housing and car loans, reflecting general improvement in residential property market activity. Promotional campaigns and new model launches helped drive higher car sales figures.

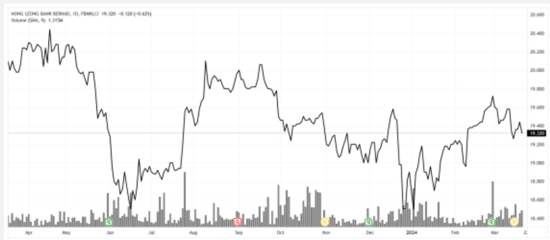
While unsecured loans did see pretty strong growth, unsecured debt, as a share of overall household debt has, however, remained broadly unchanged. Overall HH debt-to-GDP remains elevated, seeing increase to 84.2% (from 82.0% in Jun-23), as HH debt continues to outstrip financial asset growth. Overall median debt-to-income ratio remained relatively unchanged at 1.4x (2018-2019 average: 1.5x).

COMPANY IN FOCUS

HL Bank
Maintain **BUY |** Unchanged Target Price: RM21.38
Price @ 20 March 2024: RM19.32

- Excellent asset quality and NCC outlook
- BOCD remains strong profitability driver
- Good cost control, though CIR expected to remain elevated these few years.

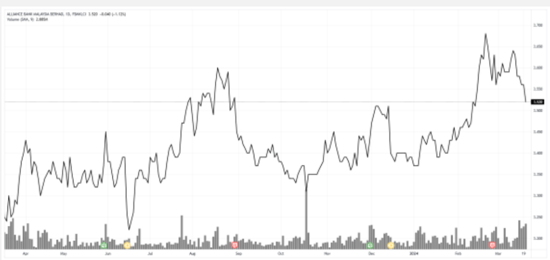
Share price chart



ABMB
Maintain **BUY |** Unchanged Target Price: RM4.08
Price @ 20 March 2024: RM3.52

- Worst of asset quality woes already over, can look to large recoveries in coming quarters
- Excellent loan growth
- NOII has seen some weakness but should normalise in coming quarters.

Share price chart



Analyst
Samuel Woo
samuel.woo@midf.com.my

► **Stress testing highlights.** Scenario 1 tests for temporary but deep shock in economic conditions, while Scenario 2 tests for a persistently challenging operating environment.

Fig 1: Stress test assumptions

Table 2.1: Macro Stress Test – Key Assumptions and Shock Parameters Applied Under Assumed Adverse Scenarios

Key Assumptions	AS1	AS2
Annual domestic real GDP growth	Up to -6.0%	Up to -3.5%
Annual unemployment rate	Up to 5.4%	Up to 6.0%
Market risk shocks - Increase in 10Y MGS yield - Increase in 10Y AAA corporate bond yield - Decline in FBM KLCI	 Up to 296 basis points Up to 422 basis points Up to 32%	 Up to 266 basis points Up to 369 basis points Up to 31%
OPR hike[a]	Up to 100 basis points	Up to 100 basis points
MYR depreciation against USD	Up to 31%	Up to 22%

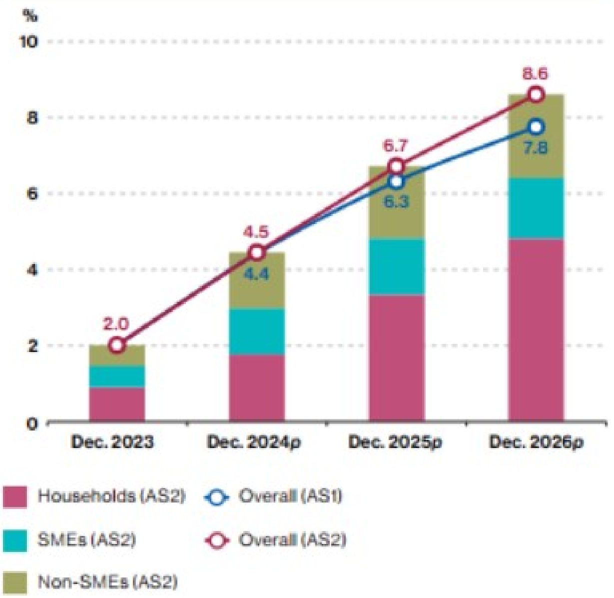
Note: [a] The assumption of an OPR hike may not, in certain circumtances, be consistent with the broader macroeconomic scenarios but is assumed by design to account for potential downside risks.

Source: Bank Negara Malaysia

Source: BNM

Fig 2: Impaired loans under Adverse Scenarios

Chart 2.28: Macro Stress Test: Banking System – Impaired Loans Ratio Under Adverse Scenarios 1 and 2



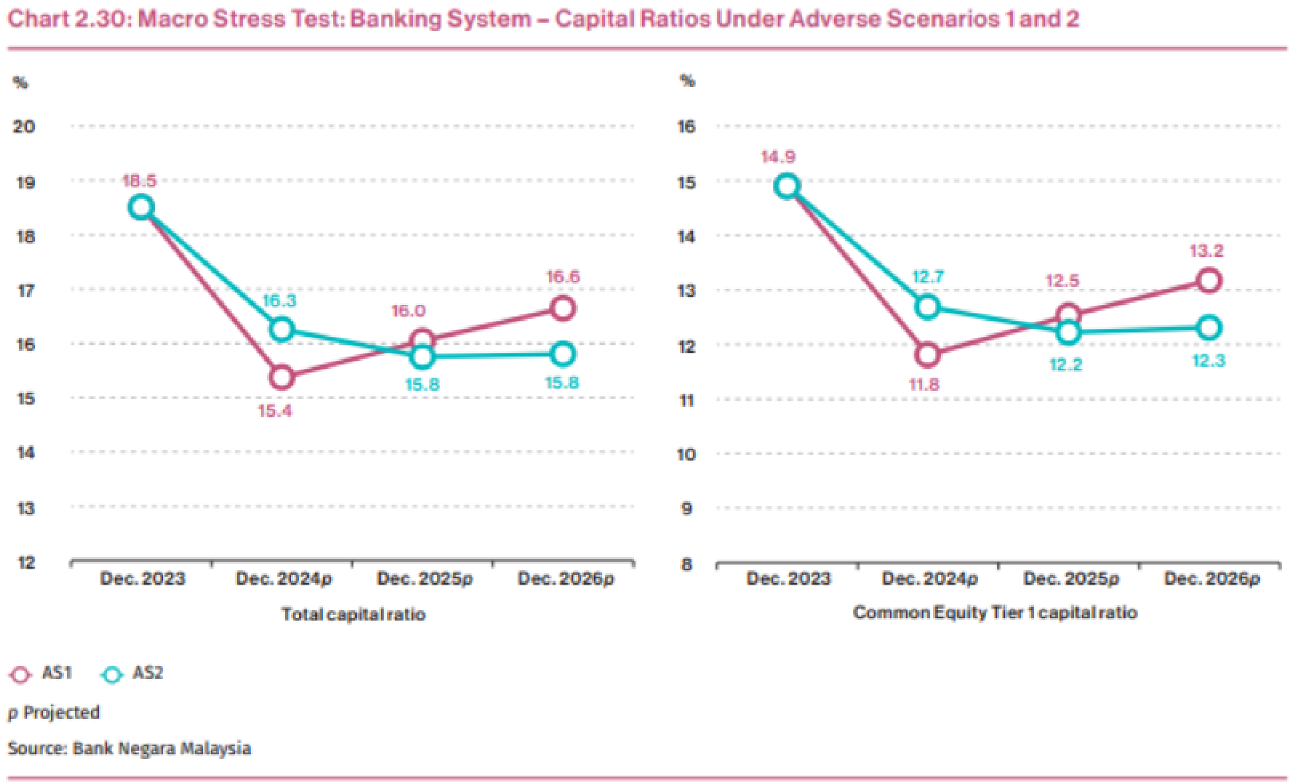
p Projected

Note: Impairment figures are inclusive of exposures from selected DBGs' overseas operations.

Source: Bank Negara Malaysia

Source: BNM

Fig 3: Capital ratios under Adverse Scenarios



Source: BNM

Maintain NEUTRAL call. *(Our comprehensive list of sector drivers is on the first page).*

Top downside risks include:

1. Slowdown in economic activity slows down loan growth.
2. Further bouts of loan delinquencies and impairments.
3. Weaker NOII environment.

Top Picks: HL Bank (BUY, TP: RM21.38) and **ABMB (BUY, TP: RM4.08).**

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

DISCLOSURES AND DISCLAIMER

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