Sector Update | Thursday, 09 January 2025

BANKING

***Maintain* POSITIVE**

2025 Outlook: No Stress Expected

KEY INVESTMENT HIGHLIGHTS

- ▲ **(1) Stable asset quality, (2) Robust loans growth, (3) Solid dividend yields**
- ▼ **(1) OPEX could still see significant growth**
- ► **(1) NOII growth to normalise**
- **Maintain POSITIVE call: Solid, lasting fundamental outlook and excellent dividend yields – any profit-taking exercises should be an opportunity to accumulate**

Headed Where?	**A solid economic outlook will be good for growth and earnings outlook.**
Strategy	**Profit-taking exercises in the near term should present opportunity to accumulate. Solid dividend yields, and stable asset quality should moderate downside risk.**
Core Themes	1. ▲ Positive macroeconomic outlook and government projects drive credit growth. 2. ▲ Solid loan growth. 3. ▲ Dividend yields remain solid – with multiple banks actively pushing up the dividend payouts over time. 4. ▲ Asset quality continue to improve
Side Themes	1. ► Potential for deposit competition which need to be monitored. 2. ▼ OPEX growth figures to remain high.

Remain POSITIVE on robust earnings and stable asset quality. Looking into 2025, we remain **POSITIVE** on the banking sector as we expect earnings will continue to be robust support by solid gross loans growth and stable asset quality. Meanwhile, we believe CY25's dividend outlook remains very bright. Furthermore, we expect this dividend expectation and defensive feature of the banks will be a key proposition for the banks in CY25 given the possibility of the market to remain volatile next year.

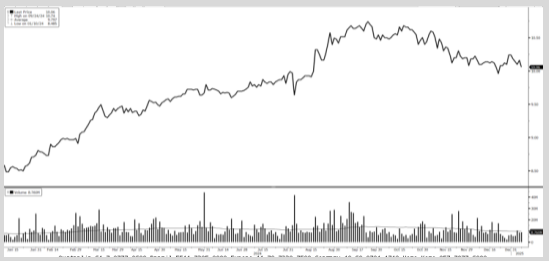
Banking sector situation as of Nov-24. Banking statistics as of Nov-24 released by Bank Negara Malaysia saw banking system loans grew +5.8%yoy to RM2.23t. This was a slight deceleration from +6.0%yoy growth that was posted in the previous month. However, all segments saw robust loans growth, with retail at +7.1%yoy (Oct-24: 7.2%yoy), business at +4.4%yoy (Oct-24: +4.6%yoy) and SMEs at +8.7%yoy (Oct-24: +8.8%yoy). We expect that the banking system loans to end close to our forecast of +6.0%yoy for CY24.

Meanwhile total deposits as of Nov-24 grew +5.2% to RM2.54t (Oct-24: +3.5%yoy) with CASA leading the growth at +5.2%yoy (Oct-24: +4.0%). On the hand, FD grew +3.7%yoy (Oct-24: +3.5%yoy). This suggest that deposits competition could be rather mild this year.

COMPANY IN FOCUS

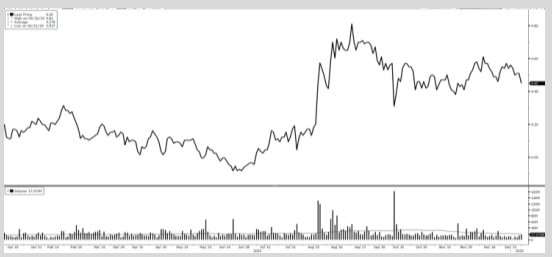
Maybank
Maintain **BUY** | Unchanged Target price: RM12.11
Price @ 8 January 2025: RM10.06
- Excellent dividend yields.
- Loan growth target of 7-8% is healthy.
- Strong NOII growth

Share price chart



Public Bank
Maintain **BUY** | Unchanged Target price: RM5.16
Price @ 8 January 2025: RM4.45
- Robust loans growth
- Deposits growth keeping pace with loans growth
- Improvement in NIM
- Asset quality remains robust and improving

Share price chart



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Direct beneficiary of economic growth. The earnings performance of the banking sector is closely tied to the performance of the economy, being its backbone. Economic activities create demand for financial services such as productive loans for businesses, consumptive loans and transactional deposits. Our economics team is projecting Malaysia's GDP to continue growing, albeit at more normalised level, at +4.6% next year. In general, we expect that; (i) NII growth will remain robust due to stable NIM and sturdy loans growth, (ii) normalisation of NOII growth, (iii) OPEX to come in at more contained level, and (iv) asset quality to continue improving with no stress expected. For CY25, we are expecting earnings of banks under our coverage to expand by +6.3%yoy.

NII will continue to be robust... In CY24, we observed that NII saw better performance as the prolonged deposit competition in CY23 waned. Going into CY25, we do not expect there will be significant changes from current trends. We expect that deposit competition (if any) will not be irrational. Therefore, we anticipate NIM to be fairly stable.

...with loans book to continue growing. With continuation or commencement of major infrastructure projects and robust industrial construction demand, we foresee business loan demand to remain strong in CY25. On the other hand, retail loans have already seen some tapering off, as indicated by Nov-24 banking stats. We do expect higher-yield unsecured loans to remain popular as a means of NIM optimisation, as asset quality concerns continue to fade.

We observed that there has been segmentation of banks i.e. banks focusing on different segments and not competing on a broad front. For example, some banks have reduced focus on residential mortgages as it is no longer as attractive due to razor thin margins. We opine that this somewhat allowed for NIM compression to be manageable thus far. Overall, we expect gross loans will continue growing due to robust economic activities, where we are forecasting system gross loans growth of +5% for CY25.

NOII growth will likely normalise. NOII in CY24 was lifted by both fee and non-fee contributions. We opine that the growth pace may not be repeatable in CY25. However, having said that, we do expect growth will continue albeit at more normalised level due to base effect.

More normalised OPEX, though be wary of elevated tech spend. CY24 saw tech spend and Collective Agreement adjustments continue to dominate the OPEX space, elevating personnel and establishment costs. In contrast, we believe that CY25 should see more of a muted uptick, given high base effects. This will support PPOP expansion with the normalisation of NOII growth.

Asset quality will be stable and improving barring any unforeseen circumstances. It seems that the worst is over (from an asset quality standpoint) based on our observation. System GIL ratio have been improving each month and was the best since Aug-23 at 1.51% as of Nov-24. We have seen this for the banking sector under our coerage as well. We expect to see a stable GIL ratio throughout CY25 with some gradual improvements. As a result, we anticipate lower provisioning charges, with the brunt of banks already having boosted their LLC to comfortable positions. Potentially there could be some writebacks but we are not imputing this as a source of earnings growth.

As before, dividend prospects remain as bright as ever. With several banks continue to maintain its intention to increase dividend payouts, and more banks offering full cash dividends (a sign of banks being happy with its capital builds), we believe CY25's dividend outlook remains very bright. This is coupled with the expectation of earnings growth. Furthermore, we expect this dividend expectation and defensive feature of the banks will be a key proposition for the banks in CY25 given the possibility of the market to remain volatile next year. Hence, our **POSITIVE** stance on the banking sector.

Top Picks are Maybank (BUY, TP: RM12.11) due to its excellent dividend yield, **Public Bank (BUY, TP: RM5.16) and Hong Leong Bank (BUY, TP: RM22.76)** for its solid asset quality and domestic focus.

PEER COMPARISON TABLE

Bank	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
MAY	BUY	10.06	12.11	20.4	121.3	12.5	11.6	1.2	1.2	10.1	10.6	6.4	6.9
CIMB	BUY	8.09	9.11	12.6	86.5	11.5	10.7	1.2	1.1	10.7	11.0	5.9	4.9
PBK	BUY	4.45	5.16	16.0	86.4	12.8	12.1	1.5	1.4	12.0	12.0	4.2	4.4
RHB	NEUTRAL	6.43	6.60	2.6	27.5	9.6	9.0	0.9	0.8	9.1	9.3	6.1	6.4
HLBK	BUY	20.38	22.76	11.7	41.8	9.3	8.6	1.0	1.0	11.6	11.6	3.8	4.1
HLFG	BUY	18.12	23.13	27.6	20.5	6.3	5.8	0.6	0.6	10.4	10.4	3.2	3.5
AMMB	NEUTRAL	5.51	5.18	-6.0	18.2	10.0	9.6	0.9	0.9	9.2	9.1	4.0	4.7
BIMB	BUY	2.45	3.06	24.9	5.5	9.2	8.6	0.7	0.7	8.0	8.3	6.2	6.3
AFFIN	SELL	2.90	2.35	-19.0	6.7	13.5	12.9	0.6	0.6	4.4	4.4	2.2	2.2
ABMB	NEUTRAL	5.04	4.64	-8.0	7.8	10.7	10.0	1.0	1.0	9.8	9.8	4.2	4.5
Simple avg (ex-HLFG)						**11.0**	**10.4**	**1.0**	**1.0**	**9.4**	**9.6**	**4.8**	**4.9**
Weighted avg (ex-HLFG)						**11.6**	**10.9**	**1.2**	**1.1**	**10.6**	**10.8**	**5.3**	**5.4**

**Closing prices from 08 Jan 2025.*
^AMMB, ABMB, HLBK & HLFG uses FY25F/26F values.

SYSTEM LOAN & CONSTITUENTS

Core Figures & Forecasts

	yoy Growth rates (%)				YTD Ann. (%)	mom Growth rates (%)			
	Nov-24	Oct-24	Sep-24	Aug-24		Nov-24	Oct-24	Sep-24	Aug-24
Total loans	**5.8**	**6.0**	**5.6**	**6.0**	**5.1**	**0.6**	**0.7**	**0.4**	**0.3**
Retail loans	7.1	7.2	7.4	7.6	6.9	0.5	0.6	0.6	0.7
Business loans	4.4	4.6	3.6	4.1	3.1	0.7	0.8	0.2	-0.2
SME*	8.7	8.8	8.8	9.4	7.7	0.8	0.6	0.5	0.6
Deposits + repo	**3.6**	**3.1**	**3.3**	**3.8**	**2.5**	**0.9**	**0.3**	**0.7**	**-0.3**
Total deposits	**4.0**	**3.5**	**3.5**	**4.0**	**2.7**	**0.9**	**0.5**	**0.3**	**-0.3**
CASA	5.2	4.0	5.2	4.8	3.7	1.9	-0.2	1.0	0.2
FD	3.7	3.5	2.8	3.3	3.9	0.2	0.2	0.2	-0.1
Total provisions	-6.8	-5.3	-5.9	-6.0	-5.5	-0.3	-0.2	-1.4	-1.2
Total GIL	-5.1	-5.1	-5.0	-5.9	-4.4	-0.4	-0.6	-1.8	0.3
Leading indicators									
3MA applications	2	-1	4	7	0	-3	-0	2	2
Retail	2	1	6	6	-3	-3	-4	-1	-1
Business	2	-4	2	7	16	-3	4	6	5
3MA approvals	-1	-3	4	7	0	-2	1	2	3
Retail	-3	-3	3	4	-12	-4	-4	-3	-1
Business	0	-2	4	10	2	-1	4	6	6

	Nov-24	Oct-24	Sep-24	Aug-24	Nov-23
Interest spread	2.55	2.62	2.60	2.63	2.77
Loan approval rate	53	53	54	52	57
SME approval rate*	60	48	46	51	55
GIL ratio	1.51	1.53	1.54	1.58	1.69
SME GIL ratio*	2.97	2.99	3.01	3.07	3.12
LLC ratio	91	91	91	91	93
CASA ratio	31.3	31.0	31.2	31.0	31.0
Loan/Deposit ratio	92.1	92.3	92.2	92.1	90.5
Liquidity coverage ratio	148	147	148	145	150
CET 1	14.4	14.4	14.5	14.6	14.5
Tier 1 Capital	14.9	14.9	15.0	15.1	15.0
Total Capital	17.9	18.0	18.2	18.2	18.1

	Period	Forecast	Formerly
Loan growth	CY25	5.0-5.5%	
GDP	CY25	4.6%	
OPR	CY25	3.00%	

Source: BNM, MIDFR

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	

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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 news flow.
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