



AmInvestment Bank

Sector report
8 May 2019

BANKING SECTOR

Minimal impact from 25bps OPR cut on banks' earnings
OVERWEIGHT

(Maintained)

Kelvin Ong , CFA

kelvin-ong@ambankgroup.com

03-2036 2294

Rationale for report: Sector update

Investment Highlights

- **BNM announced a 25bps reduction on the overnight policy rate (OPR) to 3.00% from 3.25% which came in earlier than expected. For now, we expect the OPR to be maintained at 3.00% for the rest of 2019.** The OPR reduction of 25bps came in earlier than July 2019 that was expected by our economist. Domestically, 1Q19 GDP growth is expected to moderate due to the weaker export numbers. BNM sees a slowdown in global demand and growth of key trading partners as challenges to Malaysia's economic activity ahead.
- **No change to our base case GDP growth projection of 4.5% for 2019.** Despite the 25bps rate cut, we continue to project a base case GDP growth of 4.5% for this year. This will be supported by domestic activities, underpinned by a sustained expansion in the private sector activity. BNM has kept its baseline GDP projection for Malaysia unchanged at 4.3–4.8% for 2019. Nevertheless, the central bank hinted that there are downside risks to this projection. This is due to uncertainties in the global and domestic environment, unresolved trade tensions and weaknesses in commodity-related sectors.
- **Minimal impact on banks' earnings from the 25bps OPR cut with banks' quarterly NIMs expected to normalize after 3 to 6 months from the repricing of deposits.** Exhibit 2 shows that the 25bps reduction in the benchmark rate will have minimal impact on banks' earnings of 0.5–3.0% while NIMs will be impacted by 1–4bps. The impact of any OPR change will be short term (estimated 1 to 2 quarters) as the repricing of deposits will eventually catch up with the changes in lending rates. In any case, valuations of all banks will soon be rolled over to FY20 after the completion of the upcoming results review in May 2019. Hence, the rate cut will not significantly impact valuations of banks negatively. We would be more concerned on consecutive rate cuts of more than 50bps in 6 months which is a highly unlikely scenario.
- **Banks with recent hikes to base rate (BR)/base financing rate (BFR) are likely to be able to partially mitigate the impact of the rate cut.** Of late, several banks have raised their base rate/base financing rate upwards to offset the pressure from the rise in their funding cost. Both RHB Bank and Hong Leong Bank raised their BRs by 10bps on 5 Apr 2019 and Jan 2019 respectively while CIMB and BIMB increased their rates by 10bps and 13bps in Dec and Nov 2018 respectively. The rise in base rates are expected to be able to partially mitigate the impact of the interest rate reduction.
- **Loan growth projection for the banking sector maintained at 4.0–5.0% for 2019.** Our loan growth projection is maintained at 4.0–5.0% for 2019 which translates into a loan/GDP multiplier of circa 1.0x.
- **No change to our rating for banks.** The OPR cut will not change our ratings on banks but it will reduce our fair values for Maybank, Public Bank, RHB Bank, Alliance Bank and BIMB Holdings slightly as shown in Exhibit 2.
- **We maintain OVERWEIGHT on the banking sector.** Our top picks continue to be **Maybank** (FV: RM10.60/share), **RHB Bank** (FV: RM6.10/share) and **BIMB Holdings** (FV: RM4.90/share). We continue to see valuations of banks as compelling with the sector trading at average P/BV of 1.2x for FY19 and 1.1x for FY20. These valuations are close to the average P/BV ratios of Thailand and Singapore's banking sector and are less expensive than banks in Indonesia. Dividend yields of local banks, particularly Maybank and CIMB, are also turning attractive compared with the regional peers.

EXHIBIT 1 : VALUATION MATRIX

	Rec.	7-May	Target Price	EPS (sen)		PER		Net DPS		Net DivYield		BV	BV	PBV	PBV
				19	20	19	20	19	20	19	20	19	20	19	20
AMMB	NR	4.44	-	48.2	46.8	9.2	9.5	17.8	18.5	4.0	4.2	5.8	6.1	0.8	0.7
Maybank	BUY	8.99	10.60	75.7	81.6	11.9	11.0	58.3	62.8	6.5	7.0	7.1	7.2	1.3	1.2
Public Bank	BUY	22.48	24.80	143.6	150.5	15.7	14.9	68.9	72.2	3.1	3.2	11.1	11.8	2.0	1.9
RHB Bank	BUY	5.69	6.10	58.8	64.4	9.7	8.8	17.6	19.3	3.1	3.4	6.2	6.6	0.9	0.9
Hong Leong	HOLD	19.80	20.20	131.5	139.7	15.1	14.2	52.6	55.9	2.7	2.8	12.6	13.7	1.6	1.4
CIMB	BUY	5.20	5.80	52.1	55.6	10.0	9.4	26.9	28.7	5.2	5.5	5.8	6.0	0.9	0.9
ABMB	BUY	3.94	4.80	36.4	39.8	10.8	9.9	18.5	21.4	4.7	5.4	3.8	4.0	1.0	1.0
BIMB	BUY	4.58	4.90	40.9	45.8	11.2	10.0	15.1	16.9	3.3	3.7	3.2	3.6	1.4	1.3
MBSB	BUY	0.99	1.24	10.1	11.1	9.8	9.0	7.5	8.2	7.6	8.3	1.2	1.3	0.8	0.8
Average				66.4	70.6	11.5	10.7	31.5	33.8	4.4	4.8	6.3	6.7	1.2	1.1

Source: Bloomberg / Company / AmInvestment. Note: AMMB's estimates are based on Bloomberg consensus forecasts. NR denotes Non-Rated

EXHIBIT 2: IMPACT OF 25BPS OPR CUT ON NIM, NET PROFIT, ROE AND VALUATION OF BANKS

RM mil	Maybank	CIMB	Public Bank	Hong Leong	RHB Bank	ABMB	BIMB	MBSB
Financial Year End	Dec	Dec	Dec	June	Dec	Mar	Dec	Dec
Gross loans	540,614	363,605	331,580	134,250	177,322	44,862	49,259	36,580
% floating rate loans	71.6%	84.1%	77.6%	80.7%	85.7%	89.9%	91.0%	40.4%
% of domestic loan	58.8%	59.9%	92.7%	95.0%	89.1%	100.0%	100.0%	100.0%
Absolute amount of domestic floating rate loans	227,624	183,229	238,575	102,847	135,332	40,338	44,832	14,777
25bps impact of rate cut on interest income	381	307	400	43	227	92	75	25
Interest income estimate for FY19/20 (Before)	24,139	20,242	17,249	6,514	8,351	2,220	3,059	215
Interest income estimate for FY18/19 (After)	23,758	19,935	16,849	6,497	8,124	2,128	2,984	191
3 months lagged impact of repricing of domestic FD rates	237	191	248	0	141	68	47	15
Interest expense estimate for FY19/20 (Before)	-12,118	-10,654	-9,444	-3,659	-4,637	-1,175	-1,482	-23
Interest expense estimate for FY18/19 (After)	-11,882	-10,463	-9,196	-3,659	-4,496	-1,108	-1,436	-7
Net interest income estimate for FY19/20 (Before)	12,021	9,588	7,805	2,855	3,714	1,045	1,577	193
Net interest income estimate for FY19/20 (After)	11,876	9,472	7,654	2,838	3,628	1,020	1,548	183
Change (%)	-1.2%	-1.2%	-1.9%	-0.6%	-2.3%	-2.4%	-1.8%	-4.9%
Change (RM mil)	-145	-116	-151	-17	-86	-25	-28	-9
Assume tax savings	(35)	(28)	(36)	(4)	(21)	(6)	(7)	(2)
Net impact	-110	-88	-115	-13	-65	-19	-22	-7
FY19/20 Net profit after tax (Before)	8,333	4,966	5,689	2,707	2,423	635	745	655
FY19/20 Net profit after tax (After)	8,223	4,878	5,574	2,694	2,358	616	724	648
Change (%)	-1.3%	-1.8%	-2.0%	-0.5%	-2.7%	-3.0%	-2.9%	-1.1%
FY19/20 NIM (Before)	2.33%	2.42%	2.15%	1.90%	2.21%	2.34%	2.46%	3.05%
FY19/20 NIM (After)	2.31%	2.39%	2.11%	1.89%	2.17%	2.30%	2.42%	3.03%
Change (%)	-0.02%	-0.03%	-0.04%	-0.01%	-0.04%	-0.04%	-0.04%	-0.02%
FY19/20 ROE (Before)	11.0%	9.4%	13.5%	10.9%	10.0%	10.5%	13.9%	8.3%
FY19/20 ROE (After)	10.8%	9.3%	13.3%	10.8%	9.8%	10.2%	13.5%	8.2%
Change (%)	-0.2%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	-0.4%	-0.1%
Fair Value (RM/share) (Before)	10.70	5.80	25.00	20.20	6.30	5.15	5.10	1.24
Fair Value (RM/share) (After)	10.60	5.80	24.80	20.20	6.10	4.80	4.90	1.24
Change	-0.10	-	-0.20	0.00	-0.20	-0.35	-0.20	-

Source: Company, AmInvestment Bank Bhd

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.