Maybank Investment Bank

Banks

Malaysia

Malaysia Banking

2022 banking outlook

POSITIVE [Unchanged]

Looking beyond *Cukai Makmur*

While we expect aggregate net profit growth to be flat (+2%) in 2022, i) *Cukai Makmur* is one-off and we expect earnings to rebound 18% in 2023, ii) there is positive upside if credit costs are lower than our elevated assumptions, and iii) dividend yields are decent. POSITIVE maintained on the sector, with BUYs on HLBK, AMMB, ABMB, HLFG, BIMB and RHB.

2022 earnings expected to be flat…

Unlike the hefty NIM expansion (+21bps) which supported operating profit growth of 6% in 2021, we expect NIMs to flatten/slightly contract in 2022 amid slower CASA growth and increased deposit competition. Having conservatively factored in lower non-interest income (from further marked-to-market investment losses as bond yields rise), and slightly faster expense growth, we expect the sector's operating profit growth to be muted (+2%) in 2022. We expect higher tax under *Cukai Makmur* to offset lower credit costs and project a slight 1% contraction in cumulative core net profit. Positively though, dividend payout ratios are normalizing with upside surprises if they return to pre-COVID levels (Fig 55).

…but look to 2023 for 18% net profit rebound

Investors should look to 2023, where we project an 18% net profit rebound on lower provisions and the absence of *Cukai Makmur*. Excluding the impact of *Cukai Makmur*, we expect cumulative core net profit to expand 7% in 2022E and 8% in 2023E. There is room for upside surprises should interest rates rise further (we impute only one rate hike in 4Q22) and/or credit costs (which we have kept elevated) fall much faster. We expect ROAE to bounce back to 10.2% in 2023 (from 9.1% in 2022; 9.6% in 2021).

Reduced asset quality risk

Loans under Repayment Assistance (RA) for our banks have since dropped 54% from MYR440b to MYR202b or from 25% of total loans in Oct/Nov 2021 to 14% in Jan/Feb 2022. Banks in our coverage have set aside about MYR11.4b worth of management overlays since 1Q20 against RA loans. Hypothetically assuming a default rate of 20% and a loss given default (LGD) rate of 30%, current provision levels appear sufficient, with loan loss coverage ranging from 89% to 237% (Fig 45). On grounds of prudence, we have kept our credit cost assumptions elevated at 43/38bps in 2022/23E, against a pre-COVID average of 28bps from FY17-FY19 (Fig 48).

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Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY22E	PER (x) CY23E	P/B (x) CY22E	P/B (x) CY23E	ROAE (%) CY22E	ROAE (%) CY23E	Net yield CY22E	Net yield CY23E
Maybank *	NR	9.00	106,907	NR	13.8	11.9	1.2	1.2	8.9	10.2	6.2	7.2
Public Bank	HOLD	4.42	85,795	4.80	15.5	12.9	1.7	1.6	11.2	12.7	3.4	4.1
CIMB	HOLD	5.07	51,823	5.60	11.4	9.4	0.9	0.9	7.4	8.5	4.1	4.9
HL Bank	BUY	20.40	44,221	24.70	12.2	11.1	1.3	1.2	10.8	11.2	3.1	3.4
RHB Bank	BUY	5.85	24,236	6.60	9.9	8.3	0.8	0.8	8.6	9.8	5.1	6.0
HLFG	BUY	19.68	22,583	22.10	9.3	8.5	0.9	0.8	9.8	10.0	2.8	3.1
AMMB	BUY	3.44	11,401	4.05	9.0	8.1	0.7	0.6	7.8	7.8	3.2	3.7
BIMB	BUY	3.00	6,466	3.40	11.5	9.2	1.0	0.9	8.6	10.0	3.4	4.2
ABMB	BUY	3.59	5,558	4.00	8.9	8.1	0.8	0.8	9.4	9.7	4.5	4.9
Simple avg			**358,990**		**11.3**	**9.7**	**1.0**	**1.0**	**9.2**	**10.0**	**4.0**	**4.6**
MC-wtd					**12.9**	**11.0**	**1.2**	**1.2**	**9.5**	**10.6**	**4.4**	**5.1**

** Consensus estimates   Source: Maybank IBG Research*

Stock picks

Fig 1: Recommendations & Target Prices

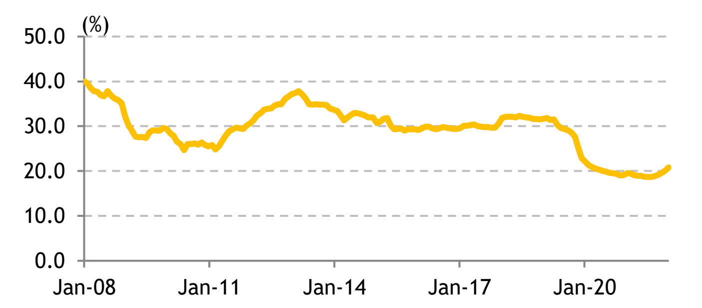
	ABMB	AMMB	BIMB	CIMB	HLBK	HLFG	MAY *	PBK	RHB
Share price (MYR)	3.59	3.44	3.00	5.07	20.40	19.68	9.00	4.42	5.85
Market cap (MYR'm)	5,558	11,401	6,466	51,823	44,221	22,583	106,907	85,795	24,236
RECOMMENDATION	**BUY**	**BUY**	**BUY**	**HOLD**	**BUY**	**BUY**	**NR**	**HOLD**	**BUY**
Calendar 2023 BV (MYR)	4.69	5.56	3.33	5.93	17.05	23.63	7.42	2.79	7.38
Calendar 2023 ROE	9.7%	7.8%	10.0%	8.5%	11.2%	10.0%	10.2%	12.7%	9.8%
2-yr (FY21-23E) profit CAGR	10%	12%	15%	8%	14%	7%	7%	8%	2%
Target price									
Target P/BV (x)	0.9	0.7	1.0	0.9	1.4	0.9	-	1.7	0.9
Target price (MYR):	4.00	4.05	3.40	5.60	24.70	22.10	-	4.80	6.60
Upside	11.4%	17.7%	13.3%	10.5%	21.1%	12.3%	-	8.6%	12.8%
CY22E div yield	4.5%	3.2%	3.4%	4.1%	3.1%	2.8%	6.2%	3.4%	5.1%

Source: Maybank IBG Research ** Based on consensus* *NR: Not Rated*

Bank	Recommend	Quick notes
ABMB	BUY	SMEs have been more resilient than anticipated. One of the larger beneficiaries if interest rates rise (3-4bps addition to NIM for every 25bps). Only 2% of investments classified as FVTPL, so less risk of marked-to-market (MTM) losses on its investments should bond yields rise further.
AMMB	BUY	Nice build-up in capital after the MYR2.83b Global Settlement in FY20. CET1 expected to reach 12.2% end-Mar 2022, paving the way for dividend reinstatement. Decently priced - stock trades at a CY23 PBV of just 0.6x for a prospective ROE of 7.8%. Potential upside to earnings and TP if credit costs lower than our elevated assumptions (65bps in FY23 vs 72bps in FY22).
BIMB	BUY	2-year net profit CAGR of 15%, driven by the absence of a lumpy O&G corporate provision in FY21. 40% of financing under Repayment Assistance but low default expected, as most borrowers are on salary deduction schemes. Expect ROEs to return to 10% in FY23.
CIMB	HOLD	Lacking catalysts for now, as previous ROE targets appear ambitious. Management guides for possible NIM compression of up to 10bps in FY22 and elevated provision levels, on grounds of prudence. Plans to achieve first quartile ASEAN average ROEs by FY24 seem a bit ambitious at this stage.
HLBK	BUY	Impeccable fundamentals and we forecast a 2-year net profit CAGR of 14%. Robust earnings growth from 18%-owned Bank of Chengdu, China. Seems to be the most comfortably provisioned, based on our internal stress test (*Fig 44*), paving the way for more aggressive provision write-backs in the future. Second highest ROE (>11%) behind Public Bank.
HLFG	BUY	Proxy to HLBK, with added exposure to one of the top five largest life insurers in the country by new business regular premiums.
PBK	HOLD	Stable fundamentals with highest ROEs (>12%) but priced in, in our view, with the stock trading at a FY23 PBV of 1.6x. Likely to be least impacted by MTM losses, with FVTPL investments accounting for just 1% of total investments. Prefer HL Bank for exposure to retail banking.
RHB	BUY	Strongest CET 1 ratio among banks (17.2% at group level vs 14% for peers) places it in strong position to capitalize on growth. FY22 dividend yield of >5% (highest ex-Maybank) is based on a dividend payout of just 50% and could be higher if management matches its FY21 payout ratio of 63%.

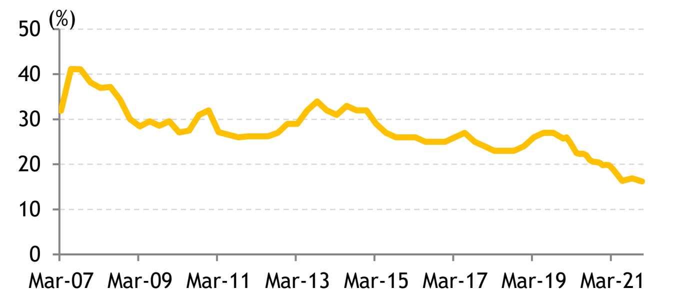
Foreign shareholdings

Fig 2: Alliance Bank (20.82% end-Jan 2022)



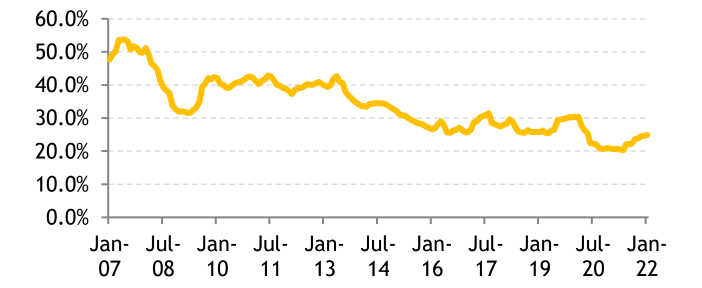
Source: Bank

Fig 3: AMMB Holdings (16.2% end-Dec 2021)



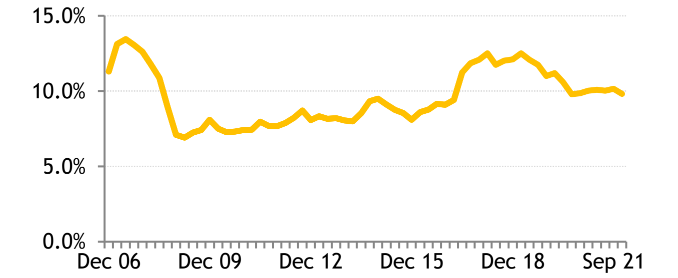
Source: Bank

Fig 4: CIMB Group (25.1% end-Feb 2022)



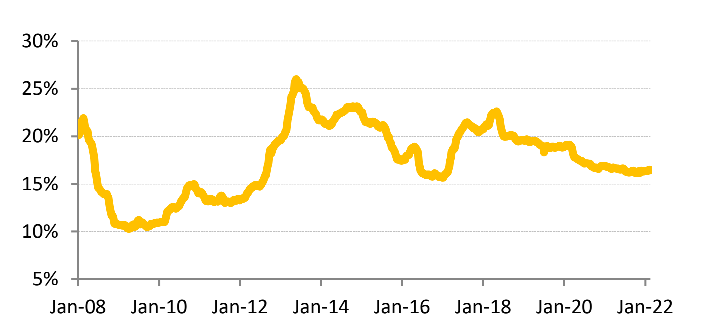
Source: Bank

Fig 5: HL Bank (9.8% end-Dec 2021)



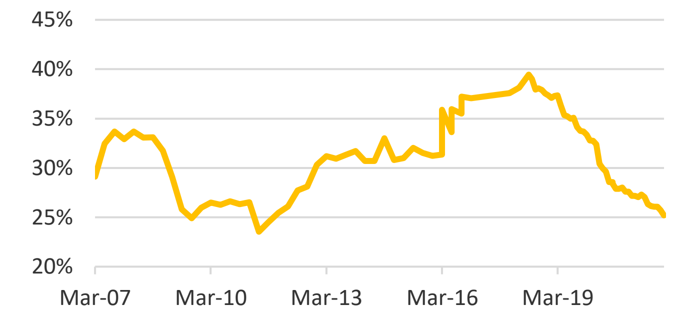
Source: Bank

Fig 6: Maybank (16.4% on 18 Feb 2022)



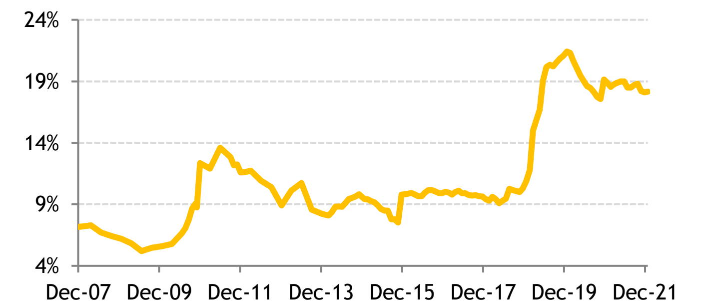
Source: Bank

Fig 7: Public Bank (25.5% end-Jan 2022)



Source: Bank

Fig 8: RHB Bank (18.2% end-Jan 2022)



Source: Bank

A decent 2021 despite challenges

Having had to contend with Movement Control Order (MCO) 3.0 that commenced on 1 June 2021, a second 6-month blanket loan moratorium (on an opt-in basis) across all consumer loans under the PEMULIH package (announced 28th June 2021) and the Financial Management and Resilience Programme (URUS) that was announced on 13 Oct 2021, 9M21 was quite a challenging period for banks.

The pressures have nevertheless eased since 4Q21 with the end to the MCO and the opening up of the economy, which allowed for pent-up demand for loans to be addressed and financial activity to return to normalcy.

Percentage loans under RA halves

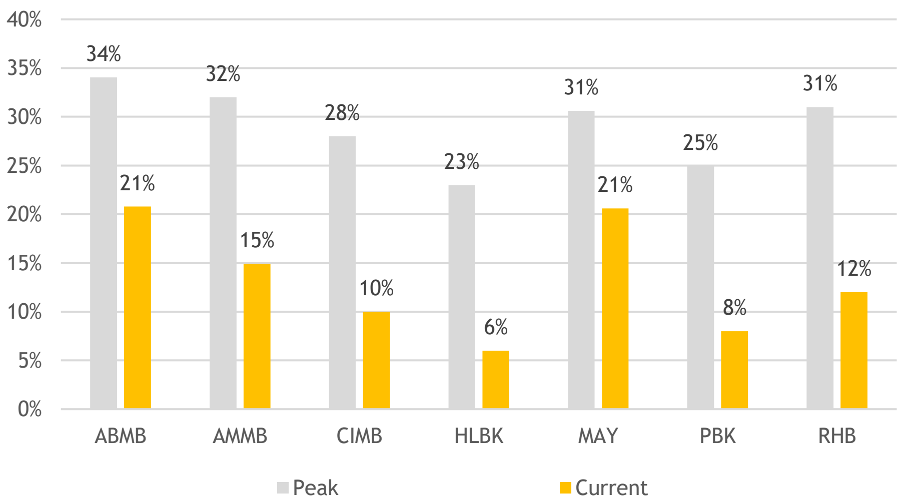
In June 2021, the Government announced a second blanket moratorium for six months starting 7th July. The difference between this moratorium and the first one from Apr-Sep 2020 was that 1) it was on an opt-in basis, and 2) interested borrowers were required to sign revised terms to the loan agreement.

Total loans under Repayment Assistance (RA) for the banks in our coverage jumped to 25% of total loans in Oct/Nov 2021 from 14% end-Dec 2020. In absolute terms, this was an 89% increase from about MYR233b end-Dec 2020 to MYR440b in Oct/Nov 2021. In Dec 2021, the Finance Minister announced that the take-up rate had totaled MYR453b for the entire banking industry, encompassing 2.6m borrowers.

The application deadline for this PEMULIH programme was end-Dec 2021 and a sizeable number of borrowers have normalized loan repayments since then. As a result, the percentage of RA loans in Jan/Feb 2022 has declined and averaged MYR202b, down 54% from MYR440b in Oct/Nov 2021, accounting for just about 14% of total loans, from 25% in Oct/Nov 2021.

The URUS programme is still open for application until end-Mar 2022, but take-up rates have been very low, given the more stringent requirements of having to prove unemployment/salary cuts, tagging on the Central Credit Reference Information System (CCRIS) for affected borrowers as well as the need to undergo financial counselling with the Credit Counselling and Debt Management Agency (AKPK).

Fig 9: Percentage loans under RA by bank (Oct/Nov 2021 vs Jan/Feb 2022)



Source: Banks

More positive earnings surprises

With the full resumption of economic activity, there were more positive earnings surprises in 4Q21, predominantly on lower-than-expected credit costs, as in the case of ABMB, Maybank and RHB. HL Bank's earnings surprised on the back of better NIMs and stronger contributions from 18%-owned Bank of Chengdu. Public Bank and CIMB's results were within expectations, while AMMB and BIMB's results disappointed on the back of lumpy O&G-related corporate provisions.

2021 core net profit up 30% YoY

The earnings table below strips out exceptional gains/losses and net modification gains/losses across the banks, which we deem to be one-off in nature.

4Q21 cumulative core operating profit declined 4% YoY, predominantly on lower non-interest income, led by lower investment/trading income/forex profits and lower stockbroking/asset management fees. However, with loan loss allowances dropping 63% YoY, cumulative core net profit bounced 37% YoY in 4Q21.

All in, cumulative 2021 core operating profit rose 6%, supported by NIM expansion and muted expense growth, while cumulative net profit jumped 30% YoY on lower provisions.

Fig 10: Cumulative core earnings for seven banks (stripping out large exceptionals)

		Quarterly				*Cumulative*		
Year end: Dec (MYR'm)	**4Q21**	**4Q20**	**YoY chg**	**3Q21**	**QoQ chg**	**2021**	**2020**	**YoY chg**
Interest income	16,133	16,352	*(1)*	15,986	*1*	64,261	70,074	*(8)*
Interest expense	(5,496)	(6,289)	*(13)*	(5,416)	*1*	(22,031)	(30,696)	*(28)*
Net interest income	**10,637**	**10,062**	**6**	10,570	**1**	**42,230**	**39,378**	***7***
Islamic banking income	4,386	3,962	11	4,256	3	17,280	14,374	20
Non-interest income	3,757	5,155	*(27)*	4,002	*(6)*	16,860	19,520	*(14)*
Operating income	**18,780**	**19,180**	***(2)***	18,828	***(0)***	**76,371**	**73,272**	***4***
Operating expenses	(8,370)	(8,377)	*(0)*	(8,143)	*3*	(33,063)	(32,459)	2
Operating profit	**10,410**	**10,802**	***(4)***	**10,685**	***(3)***	**43,308**	**40,813**	***6***
Loan loss allowance	(1,587)	(4,233)	*(63)*	(2,475)	*(36)*	(8,957)	(14,132)	*(37)*
Other provisions	(987)	(1,365)	*(28)*	34	*(2,984)*	(1,071)	(2,037)	*(47)*
Associate contributions	299	288	*4*	296	*1*	1,161	1,016	*14*
Pretax profit	**8,135**	**5,492**	***48***	**8,541**	***(5)***	**34,441**	**25,660**	***34***
Taxation	(2,004)	(995)	*102*	(1,908)	*5*	(8,091)	(5,424)	*49*
Minority interest	(124)	(122)	*2*	(117)	*6*	(490)	(367)	*33*
Net profit	**6,007**	**4,376**	***37***	**6,516**	***(8)***	**25,859**	**19,869**	***30***
Recurring net profit	6,008	4,376	*37*	6,516	*(8)*	25,860	19,869	*30*

Sources: Banks, Maybank IBG Research
The table above sums up earnings for seven banks: ABMB, AMMB, CIMB, HL Bank, Maybank, Public Bank and RHB Bank.

CIMB's core net profit jumps

The table below breaks down the earnings performance of each bank, having stripped out one-off gains/losses (including mod losses/gains) during the period and from comparative quarters.

At the operating profit level HL Bank and CIMB outperformed peers in 2021. HL Bank's operating profit growth expanded 10% YoY on the back of robust loan growth and NIM expansion while CIMB's NOII expanded YoY, which was counter-trend. Operating profit growth was muted for Maybank and ABMB at just 1% YoY, largely on account of a larger contraction in NOII.

At the core net profit level, CIMB's net profit more than tripled in the absence of the heavy bond provisions that it put through in 2020. Underperforming was AMMB, whose core net profit contracted 17% in 2021 as a result of higher provisions.

Fig 11: Cumulative calendarised CORE earnings for the seven banks (stripping out large exceptionals)

		Quarterly				*Cumulative*		
Year end: Dec (MYR'm)	**4Q21**	**4Q20**	***YoY chg***	**3Q21**	***QoQ chg***	**2021**	**2020**	***YoY chg***
Operating income								
Maybank	6,300	6,313	(0%)	6,255	1%	25,553	25,077	2%
CIMB	4,490	4,763	(6%)	4,406	2%	18,367	17,372	6%
Public Bk	3,053	3,029	1%	3,071	(1%)	12,544	11,811	6%
AMMB	1,132	1,146	(1%)	1,090	4%	4,514	4,415	2%
HL Bank	1,371	1,400	(2%)	1,422	(4%)	5,511	5,217	6%
RHB	1,954	2,053	(5%)	2,113	(8%)	7,999	7,579	6%
ABMB	480	476	1%	472	2%	1,881	1,801	4%
	18,780	**19,180**	**(2%)**	**18,828**	**(0%)**	**76,371**	**73,272**	**4%**
Operating profit								
Maybank	3,345	3,444	(3%)	3,433	(3%)	14,035	13,855	1%
CIMB	2,202	2,384	(8%)	2,139	3%	9,253	8,395	10%
Public Bk	2,092	2,038	3%	2,095	(0%)	8,579	7,901	9%
AMMB	603	601	0%	577	5%	2,474	2,306	7%
HL Bank	858	888	(3%)	915	(6%)	3,446	3,129	10%
RHB	1,044	1,163	(10%)	1,251	(16%)	4,477	4,193	7%
ABMB	265	285	(7%)	276	(4%)	1,045	1,032	1%
	10,410	**10,802**	**(4%)**	**10,685**	**(3%)**	**43,308**	**40,813**	**6%**
Core pretax profit								
Maybank	2,720	1,992	37%	2,374	15%	10,991	8,971	23%
CIMB	1,055	163	548%	1,665	(37%)	6,344	1,713	270%
Public Bk	1,806	1,475	22%	1,766	2%	7,367	6,783	9%
AMMB	269	354	(24%)	408	(34%)	1,309	1,483	(12%)
HL Bank	1,077	815	32%	1,084	(1%)	3,926	3,133	25%
RHB	958	559	71%	1,001	(4%)	3,739	3,038	23%
ABMB	250	134	87%	243	3%	765	537	42%
	8,135	**5,492**	**48%**	**8,541**	**(5%)**	**34,441**	**25,660**	**34%**
Core net profit								
Maybank	2,057	1,537	34%	1,790	15%	8,201	6,720	22%
CIMB	811	212	283%	1,221	(34%)	4,648	1,430	225%
Public Bk	1,381	1,148	20%	1,361	1%	5,657	5,250	8%
AMMB	211	249	(15%)	296	(29%)	947	1,135	(17%)
HL Bank	739	671	10%	890	(17%)	3,090	2,612	18%
RHB	658	458	44%	766	(14%)	2,779	2,316	20%
ABMB	151	100	50%	191	(21%)	539	407	32%
	6,008	**4,376**	**37%**	**6,516**	**(8%)**	**25,860**	**19,869**	**30%**

Sources: Banks, Maybank IBG Research

Domestic loan growth picked up in 4Q21

Cumulative domestic gross loans for the banks in our coverage picked up momentum in 4Q21, driven by pent-up demand following the opening up of the economy. Gross domestic loans rose 4.2% YoY and was comparable to the industry loan growth of 4.5%. Total gross loans (domestic and overseas) increased at a faster pace of 5% YoY.

Maybank's loan book in Malaysia and Singapore expanded 4.1% and 8.7% respectively end-2021, mitigating a 3.2% contraction in the Indonesian loan book. Group loans rose 5.7% YoY.

Excluding any forex impact, CIMB's loan book expanded 4.1%, 3.9% and 4.6% in Malaysia, Indonesia and Singapore respectively, offsetting a loan contraction of 6.3% in Thailand, where it had scaled back its commercial banking operations.

Fig 12: Total loans – YoY growth

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	(0.6%)	0.0%	3.1%	4.1%	4.0%	5.7%
CIMB	1.6%	(0.3%)	0.4%	(0.2%)	1.6%	3.3%
Public	4.6%	4.6%	5.1%	5.2%	3.3%	3.6%
AMMB	8.4%	7.0%	7.0%	7.6%	4.5%	6.6%
HL Bank	6.8%	6.2%	7.3%	6.8%	5.2%	6.7%
RHB	5.6%	5.6%	6.8%	5.7%	6.7%	6.7%
ABMB	1.2%	(0.8%)	1.1%	(0.5%)	0.2%	3.0%
Total	**2.7%**	**2.2%**	**3.9%**	**3.9%**	**3.7%**	**5.0%**

Source: Banks

Fig 13: Domestic loans – YoY growth

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	5.3%	4.0%	4.9%	4.7%	2.2%	4.1%
CIMB	5.9%	2.9%	3.5%	3.8%	2.5%	2.9%
Public	5.4%	5.4%	6.1%	5.9%	3.3%	3.4%
AMMB	8.4%	7.0%	7.0%	7.6%	4.5%	6.6%
HL Bank	6.9%	6.4%	7.4%	6.2%	4.5%	6.0%
RHB	4.9%	4.4%	6.0%	4.1%	4.4%	5.2%
ABMB	1.2%	-0.8%	1.1%	(0.5%)	0.2%	3.0%
Total	**5.6%**	**4.5%**	**5.4%**	**5.0%**	**3.2%**	**4.2%**

Source: Banks

CASA growth moderates

Total deposits rose 5.5% end-2021, slightly outpacing loan growth of 5.0%. CASA growth, while still robust, has begun to slow, with YoY growth tapering off to just 13% from 23% YoY end-Dec 2020. Nevertheless, as CASA growth continued to outpace fixed deposit growth, the average CASA ratio for our banks improved further to 37.8% end-2021 from 35.5% end-Dec 2020.

Fig 14: Customer deposits YoY growth

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	4.8%	2.6%	10.3%	5.5%	2.8%	5.9%
CIMB	6.6%	2.5%	3.5%	0.2%	5.2%	5.9%
Public Bk	4.8%	3.5%	3.8%	4.2%	4.2%	3.2%
AMMB	12.0%	12.6%	6.6%	(0.2%)	0.7%	3.9%
HL Bank	7.1%	5.5%	7.6%	6.1%	5.3%	7.0%
RHB	7.5%	6.8%	12.4%	8.1%	9.0%	8.1%
ABMB	5.7%	(1.2%)	0.1%	(4.7%)	(4.9%)	1.1%
Average	**6.1%**	**4.0%**	**7.0%**	**3.8%**	**4.1%**	**5.5%**

Source: Banks

Fig 15: CASA YoY growth

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	26.3%	22.6%	29.2%	18.7%	12.0%	16.3%
CIMB	23.6%	22.6%	19.8%	8.7%	9.6%	10.3%
Public Bk	17.2%	18.9%	22.5%	15.3%	11.4%	11.7%
AMMB	45.9%	35.2%	24.0%	11.4%	4.4%	11.8%
HL Bank	7.7%	21.5%	27.4%	22.5%	16.9%	18.6%
RHB	32.6%	28.3%	25.5%	10.8%	4.8%	4.5%
ABMB	16.6%	17.5%	25.7%	25.0%	14.1%	13.1%
Average	**23.6%**	**22.8%**	**24.9%**	**15.0%**	**10.7%**	**12.8%**

Source: Banks

Fig 16: CASA ratios

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	39.1%	39.6%	41.1%	42.0%	42.7%	43.2%
CIMB	40.3%	41.6%	42.7%	42.1%	42.1%	43.0%
Public Bk	28.5%	28.9%	30.0%	29.7%	30.4%	31.0%
AMMB	29.6%	28.1%	29.6%	29.9%	30.7%	29.9%
HL Bank	28.9%	29.7%	31.0%	32.3%	32.3%	33.1%
RHB	31.3%	30.9%	30.6%	29.3%	30.1%	29.9%
ABMB	41.3%	44.6%	47.0%	49.4%	49.6%	50.0%
Average	**35.1%**	**35.5%**	**36.7%**	**36.8%**	**37.3%**	**37.8%**

Source: Banks

NIMs expanded 21bps in 2021

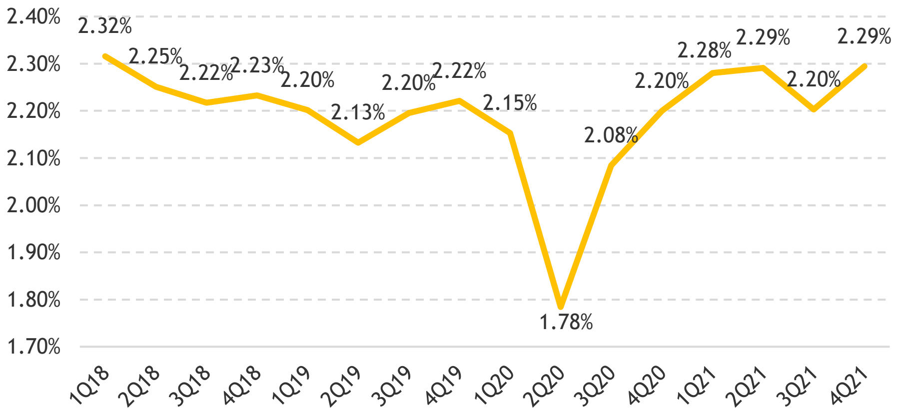
Aggregate NIMs of banks in our coverage rose further QoQ in 4Q21. NIMs averaged 2.27% in 2021, expanding a sizeable 21bps from 2.06% in 2020 amid a) modification (mod) gains/lower mod losses, b) strong growth in CASA and c) the repricing of deposits in 1H21 from the rate cuts in 2020.

Fig 17: Net interest margins - quarterly (including mod loss/gain)

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	2.31%	2.37%	2.26%	2.32%	2.10%	2.32%
CIMB	2.52%	2.48%	2.40%	2.41%	2.32%	2.45%
Public Bk	2.28%	2.26%	2.15%	2.18%	1.94%	2.22%
AMMB	2.08%	2.08%	2.03%	2.09%	1.87%	2.07%
HL Bank	2.20%	2.20%	2.19%	2.19%	1.90%	2.18%
RHB	2.16%	2.15%	1.98%	2.21%	1.97%	2.13%
ABMB	2.41%	2.50%	2.47%	2.66%	2.29%	2.51%
Average	**2.28%**	**2.29%**	**2.21%**	**2.29%**	**2.06%**	**2.27%**

Source: Banks

Fig 18: Quarterly NIM (1Q18 - 4Q21)



Source: Banks, Maybank IBG Research

Fig 19: NIM in 2Q20-4Q21 with/without mod loss/gain

	ABMB	AMMB	BIMB	CIMB	HLBK	MAY	PBK	RHB
Without mod loss/gain								
2Q20	2.21%	1.74%	2.30%	2.35%	1.92%	2.11%	1.98%	2.05%
3Q20	2.23%	1.86%	2.33%	2.24%	2.00%	2.05%	2.01%	1.99%
4Q20	2.26%	1.95%	2.49%	2.31%	2.15%	2.15%	2.10%	2.15%
1Q21	2.41%	2.52%	2.47%	2.52%	2.20%	2.31%	2.28%	2.17%
2Q21	2.50%	1.99%	2.41%	2.51%	2.20%	2.37%	2.26%	2.15%
3Q21	2.51%	1.94%	2.36%	2.46%	2.21%	2.33%	2.15%	2.10%
4Q21	2.66%	1.96%	2.30%	2.40%	2.19%	2.32%	2.18%	2.16%
With mod loss/gain								
2Q20	2.21%	1.59%	1.84%	2.15%	1.62%	1.95%	1.57%	1.40%
3Q20	2.23%	1.92%	2.36%	2.31%	2.00%	2.05%	2.09%	1.99%
4Q20	2.26%	2.03%	2.42%	2.37%	2.15%	2.15%	2.06%	2.38%
1Q21	2.41%	2.52%	2.48%	2.52%	2.20%	2.31%	2.28%	2.16%
2Q21	2.50%	2.08%	2.46%	2.48%	2.20%	2.37%	2.26%	2.15%
3Q21	2.47%	2.03%	2.11%	2.40%	2.13%	2.26%	2.15%	1.98%
4Q21	2.66%	2.09	2.35%	2.41%	2.19%	2.32%	2.18%	2.21%

Source: Banks

Fee income recovered in 2021

The recovery in fee income in 1H21 was rapid, driven by higher stockbroking, unit trust/fund management and other wealth management income. However, with lockdowns back in place in 3Q21, a more subdued stock market and disruptions to insurance sales, fee income growth stalled in 2H21. Overall, however, cumulative fee income eked out a 10% YoY growth in 2021.

Fig 20: Fee income growth (YoY chg)

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	23%	26%	4%	(14%)	(2%)	8%
CIMB	16%	38%	5%	19%	(21%)	18%
Public Bk	35%	23%	(4%)	(2%)	11%	11%
AMMB	(4%)	33%	(4%)	5%	0%	7%
HL Bank	18%	62%	1%	9%	(19%)	19%
RHB	33%	27%	(10%)	(15%)	12%	6%
ABMB	3%	13%	(35%)	(29%)	8%	(14%)
Average	**23%**	**30%**	**(1%)**	**(4%)**	**(3%)**	**10%**

Source: Banks

Other NOII contracted YoY

Other non-interest income (NOII) contracted 36% YoY in 2021, against an expansion of 18% in 2020. This was largely a function of lower investment gains, unrealized investment losses amid higher bond yields, and reduced forex profits.

Fig 21: Other non-interest income growth (YoY chg)

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	(26%)	(70%)	(48%)	(53%)	29%	(47%)
CIMB	124%	(2%)	(45%)	(53%)	4%	(18%)
Public Bk	(29%)	(41%)	(50%)	(71%)	35%	(47%)
AMMB	308%	(37%)	(26%)	(5%)	(8%)	(2%)
HL Bank	8%	(85%)	(44%)	(85%)	12%	(56%)
RHB	(23%)	(51%)	3%	(46%)	21%	(33%)
ABMB	(23%)	26%	(28%)	(47%)	101%	(23%)
Average	**4%**	**(48%)**	**(40%)**	**(52%)**	**18%**	**(36%)**

Source: Banks

Total NOII (including fee income) accounted for a lower 22%% of total income in 2021 (27% in 2020).

Fig 22: Total NOII as % of total income

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	29.8%	19.3%	21.4%	20.3%	30.1%	22.9%
CIMB	25.0%	21.0%	18.7%	21.0%	23.2%	21.5%
Public Bk	22.3%	21.4%	20.7%	18.9%	23.9%	20.9%
AMMB	31.0%	31.0%	29.0%	27.7%	31.9%	29.6%
HL Bank	19.8%	13.7%	17.8%	13.0%	21.8%	19.5%
RHB	22.7%	25.0%	26.0%	19.9%	28.9%	23.5%
ABMB	18.1%	21.2%	18.5%	16.4%	22.3%	20.4%
Average	**25.8%**	**21.1%**	**21.3%**	**20.0%**	**26.7%**	**22.4%**

Source: Banks

Positive JAWS across most banks

Operating expenses have started to normalize with the reopening of the economy, particularly with a pick-up in marketing costs and digital spend. Operating expenses rose 2% YoY in 2021, after having contracted 3% in 2020. Against operating income growth of 4%, the sector reported positive JAWS in 2021 and this was the case across all banks in our basket, except for Mayban. The overall cost/income ratio (CIR) averaged a lower 43% in 2021 against 44% in 2020.

Fig 23: Operating expense growth (YoY chg)

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	(4%)	8%	4%	3%	(3%)	3%
CIMB	1%	5%	5%	(4%)	(6%)	2%
Public Bk	3%	3%	3%	(3%)	2%	1%
AMMB	1%	(8%)	(2%)	(3%)	(4%)	(3%)
HL Bank	(4%)	2%	(3%)	0%	(1%)	(1%)
RHB	8%	5%	1%	2%	(1%)	4%
ABMB	16%	4%	3%	12%	(5%)	9%
Average	**0%**	**5%**	**3%**	**(0%)**	**(3%)**	**2%**

Source: Banks

Fig 24: Cost/income ratios

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	41.3%	47.3%	45.1%	46.9%	44.8%	45.1%
CIMB	48.7%	47.6%	51.4%	51.0%	51.7%	50.0%
Public Bk	31.8%	31.3%	31.8%	31.5%	33.1%	31.6%
AMMB	44.9%	42.3%	47.1%	46.7%	47.1%	45.0%
HL Bank	37.0%	40.0%	35.7%	37.4%	40.4%	37.3%
RHB	46.0%	43.1%	40.8%	46.6%	44.7%	44.0%
ABMB	52.1%	40.0%	41.5%	44.8%	45.0%	43.5%
Average	42.2%	43.2%	43.2%	44.6%	44.4%	43.3%

Source: Banks

Asset quality improved marginally

Absolute gross impaired loans (GILs) declined 4% YoY but yet again, we stress that these numbers are not representative because consumer and SME credit scores for loans under the RA programmes are still frozen at this stage. Moreover, corporate restructured & rescheduled (R&R) loans did not need to be classified as impaired.

The actual GIL situation will become more apparent over the next few months into June 2022, as the PEMULIH loans under moratorium unwind. Borrowers have until end-March to cart over to the URUS programme if they need to do so, but we expect the take-up rate for URUS to be relatively low and manageable.

Fig 25: Gross impaired loans (MYR'm)

	1Q21	2Q21	3Q21	4Q21	YoY chg
Maybank	11,754	11,826	10,450	11,044	(5%)
CIMB	12,611	12,693	12,575	13,293	2%
Public Bk	1,228	1,242	1,157	1,102	(12%)
AMMB	1,770	1,808	1,668	1,608	(17%)
HL Bank	808	717	755	732	(9%)
RHB	3,127	3,120	2,565	2,951	(7%)
ABMB	1,032	1,012	1,018	899	(18%)
Total	**32,331**	**32,419**	**30,188**	**31,627**	**(4%)**

Source: Banks

The average GIL ratio was a lower 1.7% end-2021 versus 1.9% end-2020, and compares against 2.1% in 1Q20, i.e. before the start of the loan moratorium.

Fig 26: Gross impaired loans ratios

	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	2.23%	2.20%	2.18%	1.93%	1.99%
CIMB	3.56%	3.44%	3.44%	3.38%	3.52%
Public Bk	0.36%	0.35%	0.35%	0.33%	0.31%
AMMB	1.73%	1.54%	1.56%	1.44%	1.35%
HL Bank	0.54%	0.53%	0.46%	0.48%	0.46%
RHB	1.71%	1.66%	1.63%	1.32%	1.49%
ABMB	2.52%	2.34%	2.34%	2.32%	2.02%
Average	**1.91%**	**1.85%**	**1.83%**	**1.70%**	**1.75%**

Source: Banks

Credit costs still elevated in 2021

Pre-emptive provisioning continued throughout the first 9 months of 2021, but tapered off in 4Q21, except for CIMB and AMMB.

CIMB set aside about MYR281m of provisions against the processing error made by its third-party financial remittance service, in which customers transferring funds received duplicate credits into their accounts. It also set aside other provisions of about MYR150m against debt instruments pertaining to an O&G account. AMMB set aside additional provisions of about MYR280m against an O&G account that had been classified as impaired.

Fig 27: Credit charges

	1Q21	2Q21	3Q21	4Q21	2020	2021
Maybank	0.64%	0.39%	0.83%	0.11%	0.88%	0.86%
CIMB	0.78%	0.68%	0.57%	0.76%	1.46%	1.39%
Public Bk	0.23%	0.45%	0.37%	0.32%	0.33%	0.36%
AMMB	1.61%	0.66%	0.57%	1.01%	0.79%	1.00%
HL Bank	0.30%	0.50%	0.13%	0.08%	0.45%	0.44%
RHB	0.37%	0.48%	0.52%	0.18%	0.59%	0.60%
ABMB	1.25%	0.87%	0.31%	0.14%	1.14%	1.22%
Average	**0.61%**	**0.51%**	**0.56%**	**0.35%**	**0.83%**	**0.83%**

Source: Banks

Higher loan loss coverage

Loan loss coverage averaged 100% and above for all banks. Including regulatory reserves, the loan loss coverage ranged from 101% for CIMB to a sizeable 383% for Public Bank.

Fig 28: Loan loss coverage without regulatory reserves

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	90%	99%	109%	111%	123%	108%
CIMB	94%	92%	102%	102%	105%	100%
Public Bk	209%	228%	247%	275%	321%	361%
AMMB	96%	97%	129%	131%	150%	153%
HL Bank	190%	193%	205%	247%	239%	251%
RHB	108%	120%	120%	118%	148%	122%
ABMB	107%	87%	98%	105%	106%	122%
Average	**100%**	**105%**	**116%**	**118%**	**129%**	**121%**

Source: Banks

Fig 29: Loan loss coverage including regulatory reserves

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Maybank	107%	116%	122%	124%	138%	114%
CIMB	94%	93%	103%	102%	105%	101%
Public Bk	362%	325%	338%	332%	358%	383%
AMMB	96%	100%	129%	131%	150%	154%
HL Bank	297%	264%	275%	306%	296%	318%
RHB	115%	121%	122%	119%	150%	133%
ABMB	110%	101%	106%	110%	111%	127%
Average	**115%**	**118%**	**128%**	**129%**	**139%**	**129%**

Source: Banks

A look at pre-emptive provisions

Aside from business-as-usual (BAU) provisions, banks have proactively set aside pre-emptive provisions against potential asset quality issues since 1Q20. The table below shows the level of pre-emptive provisions put through by each bank, both in MYR'm and in basis points. In totality, the banks in our coverage have set aside a total of MYR11.4b worth of pre-emptive provisions since 1Q20.

Fig 30: Pre-emptive provisions

ABMB									
MYR'm	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**3Q21**	**Total**
Pre-emptive	35	59	151	15	89	65	21	32	467
BAU	64	36	-	136	47	30	13	(17)	309
Total	**98**	**95**	**151**	**151**	**137**	**95**	**34**	**15**	**775**
bps	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	
Pre-emptive	32	54	138	14	79	60	19	27	
BAU	58	34	-	125	42	28	11	(14)	
Total	**91**	**87**	**138**	**140**	**120**	**87**	**30**	**13**	

AMMB									
MYR'm	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**Total**
Pre-emptive	167	10	205	60	304	87	68	45	945
BAU	28	32	157	198	152	102	96	317	1,081
Total	**195**	**43**	**361**	**258**	**455**	**189**	**163**	**362**	**2,026**
bps	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	
Pre-emptive	64	4	75	22	107	30	24	13	
BAU	10	12	58	71	54	35	33	88	
Total	**74**	**16**	**133**	**93**	**161**	**65**	**57**	**101**	

CIMB									
MYR'm	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**Total**
Pre-emptive	146	602	730	880	203	188	453	486	3,688
BAU	822	868	790	504	513	464	76	231	4,268
Total	**968**	**1,470**	**1,520**	**1,384**	**716**	**652**	**529**	**717**	**7,956**
bps	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	
Pre-emptive	16	65	79	96	22	20	53	57	
BAU	90	94	86	55	56	48	9	27	
Total	**106**	**159**	**165**	**151**	**78**	**68**	**62**	**84**	

HL Bank									
MYR'm	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**Total**
Pre-emptive	-	301	238	61	55	157	23	38	873
BAU	126	(110)	(134)	180	59	37	26	(5)	180
Total	**126**	**191**	**104**	**241**	**114**	**194**	**49**	**33**	**1,053**
bps	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	
Pre-emptive	-	84	65	17	14	40	6	9	
BAU	35	(31)	(37)	48	16	10	7	(1)	
Total	**35**	**53**	**28**	**65**	**30**	**50**	**13**	**8**	

Source: Banks

Fig 30: Pre-emptive provisions continued…

Maybank									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	Total
Pre-emptive	600	900	580	70	200	240	547	(241)	2,896
BAU	362	839	224	1,023	650	285	579	399	4,361
Total	**962**	**1,739**	**804**	**1,093**	**850**	**525**	**1,126**	**158**	**7,257**
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	
Pre-emptive	46	69	44	5	15	18	40	(18)	
BAU	27	64	17	79	49	21	43	29	
Total	**73**	**133**	**61**	**84**	**64**	**39**	**83**	**11**	
Public Bank									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	Total
Pre-emptive	18	111	284	334	-	470	300	230	1,747
BAU	44	43	50	223	198	(74)	24	52	560
Total	**61**	**154**	**335**	**557**	**198**	**396**	**324**	**282**	**2,307**
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	
Pre-emptive	2	13	34	39	-	53	34	28	
BAU	5	5	6	26	23	(8)	3	6	
Total	**7**	**18**	**40**	**65**	**23**	**45**	**37**	**34**	
RHB Bank									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	Total
Pre-emptive	50	200	192	114	94	236	234	(302)	818
BAU	101	7	(24)	435	86	(17)	252	(8)	832
Total	**151**	**207**	**168**	**549**	**180**	**219**	**486**	**(310)**	**1,650**
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	
Pre-emptive	11	44	42	25	20	50	25	(15)	
BAU	23	2	(5)	93	19	(4)	26	(0)	
Total	**34**	**46**	**37**	**118**	**39**	**46**	**51**	**(15)**	
TOTAL									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	Total
Pre-emptive	1,016	2,183	2,379	1,534	945	1,443	1,646	288	11,434
BAU	1,546	1,716	1,063	2,698	1,706	827	1,065	970	11,591
Total	**2,561**	**3,899**	**3,443**	**4,232**	**2,651**	**2,270**	**2,711**	**1,258**	**23,024**

Source: Banks

Comfortable CET1 ratios

Group CET1 ratios are comfortable for all banks. Even AMMB, which saw a plunge in its CET1 ratio to 10.4% in 1Q21 following the Global Settlement provision of MYR2.83b, has steadily rebuilt its CET1 to 11.9% end-Dec 2021 and management expects it to average over 12% by end-Mar 2022. The divestment of AmGeneral Insurance will accrete another 25bps (partially offset by *Cukai Makmur*) while in FY23, the adoption of the Internal Risk Based framework could add a further 80bps.

Fig 31: Group CET1 ratios (%)

	31.12.20	31.3.21	30.6.21	30.9.21	31.12.21
Maybank	14.7	14.8	14.6	14.2	16.1
CIMB	13.3	12.9	13.4	13.9	14.5
Public Bk	14.0	13.8	14.3	14.1	14.5
AMMB	13.5	10.4	11.3	11.6	11.9
HL Bank	13.8	13.0	13.6	13.0	13.1
RHB	16.2	15.6	16.8	16.8	17.2
ABMB	15.3	15.0	15.5	16.0	16.5

Source: Banks

Fig 32: Commercial bank CET1 ratios (%)

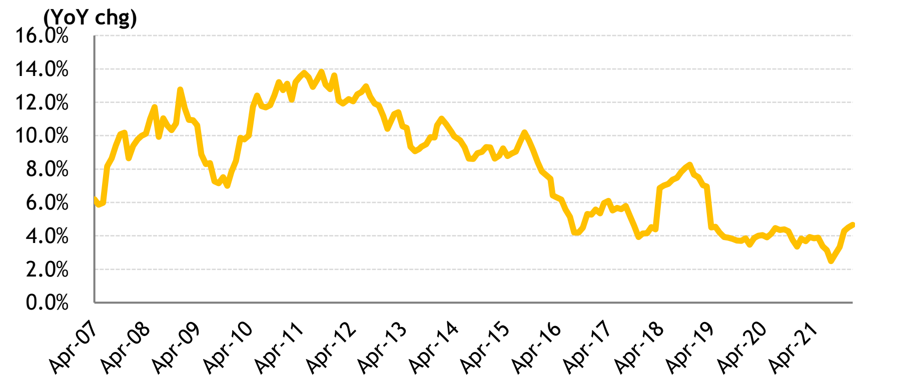
	31.12.20	31.3.21	30.6.21	30.9.21	31.12.21
Maybank	14.6	14.8	14.6	13.0	15.5
CIMB	13.1	13.1	13.1	13.1	14.5
Public Bk	12.6	13.8	13.1	13.0	13.3
AMMB	12.6	10.4	11.2	11.4	11.5
HL Bank	13.9	13.2	13.3	12.9	13.3
RHB	14.6	14.3	15.8	15.7	15.2
ABMB	14.5	14.3	14.8	15.0	14.6

Source: Banks

Looking ahead …

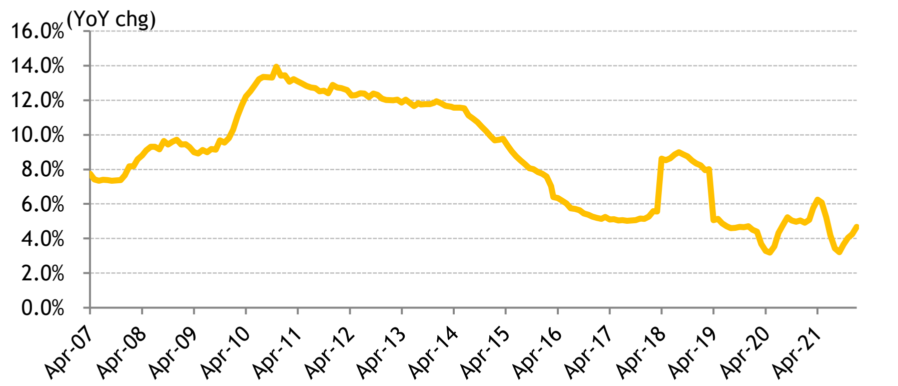
Industry loan growth was marginally faster at 4.7% YoY in Jan 2022, as compared to 4.5% in 2021, driven by pent-up demand following the re-opening of the economy. Household loan growth was 4.7% YoY while non-HH loan growth was 4.6% YoY. Including private debt securities issuances, total credit growth was 5.2% in Jan 2022.

Fig 33: Total industry YoY loan growth (Apr 2007 – Jan 2022)



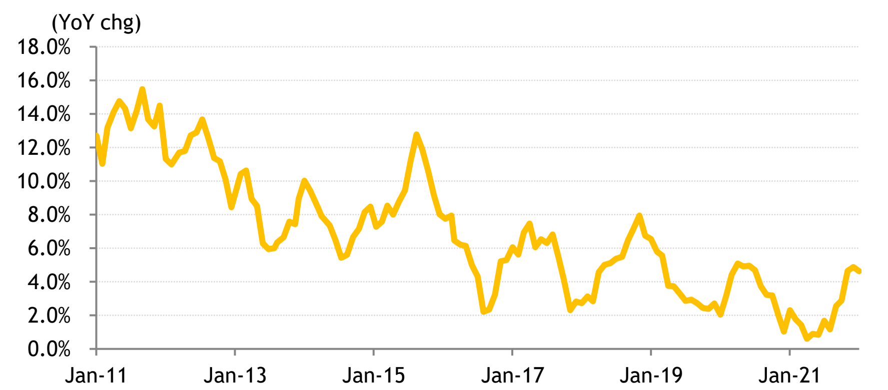
Source: BNM

Fig 34: YoY household loan growth (Apr 2007 – Jan 2022)



Source: BNM

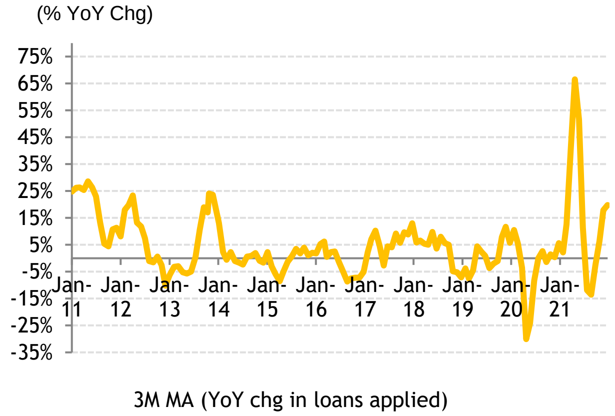
Fig 35: YoY non-household loan growth (Jan 2011 – Dec 2021)



Source: BNM

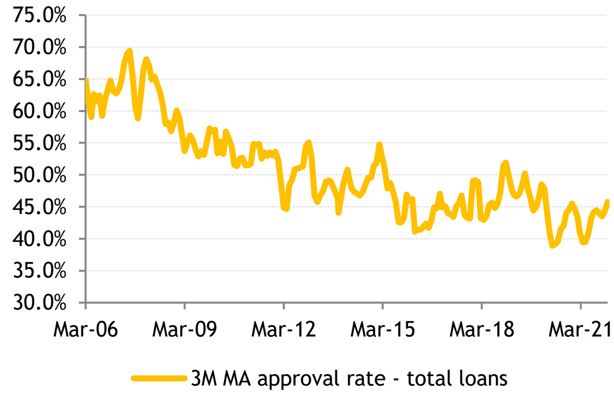
Loan applications rose 10% YoY in Jan 2022, this being the 4th consecutive month of positive growth. The charts below show the movement in loan applications on a 3-month moving average basis and the average approval rates. Positively, working capital loan applications on a 3M MA basis sustained positive momentum, rising 29% YoY versus a growth of 21% YoY in Dec 2021.

Fig 36: 3M MA (YoY chg in total loan applications)



Source: BNM, Maybank IBG Research

Fig 37: 3M MA (total loans approval rate)



Source: BNM, Maybank IBG Research

Forecast domestic loan growth of 4.9%

For our basket of banks, we project total loan (including overseas loans) growth of 4.9%, in line with our domestic industry loan growth forecast of 4.9%. As Fig 38 would indicate, our FY22 loan growth assumptions are at the lower end of guidance for most banks, as we remain wary of the impact of inflationary pressures on domestic consumption demand.

Fig 38: MIBG's loan growth estimates versus banks' guidance

	FY21A	FY22E mgt guidance	FY22E	FY23E
ABMB ^	1.1%	3-4%	2.5%	2.5%
AMMB ^	7.0%	5.0%	4.9%	4.5%
BIMB	6.5%	8.0%	5.0%	4.0%
CIMB	3.3%	5-6%	5.1%	4.5%
HL Bank @	6.8%	6-7%	6.4%	5.0%
Maybank	5.7%	NA	NA	NA
Public Bk	3.6%	4-5%	4.7%	4.5%
RHB	6.7%	4-5%	4.4%	4.0%

Source: Banks, Maybank IBG Research

^ FYE3/21A - FY3/23E　　　*@ FYE6/21A-FYE6/23E*

Stable NIMs expected into 2022

The table below sets out the estimated impact to banks' NIMs for every 25bps OPR hike.

Fig 39: Estimated positive impact to NIM from a 25bps OPR hike (bps chg)

	bps		bps
ABMB	3-4	HL Bank	1-2
AMMB	2-3	Maybank	1-2
BIMB	3-4	Public Bank	3-4
CIMB	2-3	RHB	3-4

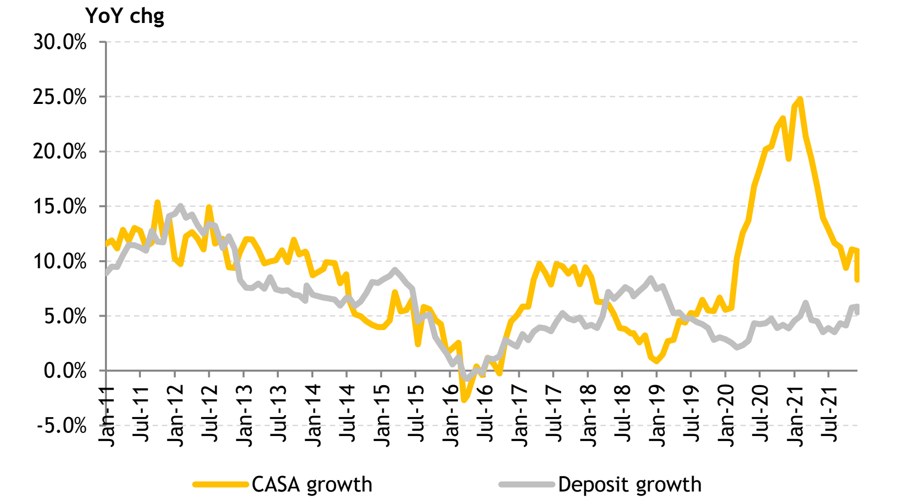
Source: Banks

Maybank IBG Research's internal Economics Team, along with most other banks, are projecting just one rate hike of 25bps in 2H22.

As such, most banks are guiding for stable NIMs with the possibility of some contraction. This has been our stance as well, in light of i) slower CASA growth and ii) a pick-up in fixed deposit competition, offset by i) higher asset utilization as loan growth picks up, and ii) reduced mod losses.

As Fig 40 would indicate, CASA growth is tapering and eased to less than 10% (8.3% YoY) in Jan 2022, from the red-hot pace set in in 2020 and 2021.

Figure 40: Total deposits vs CASA growth (Sep 2010 – Jan 2021)



Source: BNM

To note in Fig 41 below, Maybank, Public Bank and RHB are guiding for stable NIMs in FY22. CIMB, meanwhile, is looking at possibly a NIM contraction of up to 10bps – up to 10 bps in Malaysia and Singapore, and up to 20bps in Indonesia. CIMB Niaga is targeting better quality, lower yielding loans, to protect asset quality as a whole. Into FY23, we have factored in marginal NIM expansion on the back of the one rate hike in 4Q22.

Fig 41: MIBG's NIM estimates versus banks' guidance

	FY21A	FY22E mgt guidance	FY22E	FY23E
ABMB *	2.30%	>2.50%	2.50%	2.45%
AMMB *	1.90%	2.04-2.05%	2.05%	2.03%
BIMB	2.35%	2.40%	2.39%	2.42%
CIMB	2.45%	2.35-2.45%	2.40%	2.40%
HL Bank @	2.14%	>2.10%	2.17%	2.14%
Maybank	2.32%	stable	NA	NA
Public Bk	2.22%	stable	2.21%	2.24%
RHB	2.11%	2.11%	2.12%	2.15%

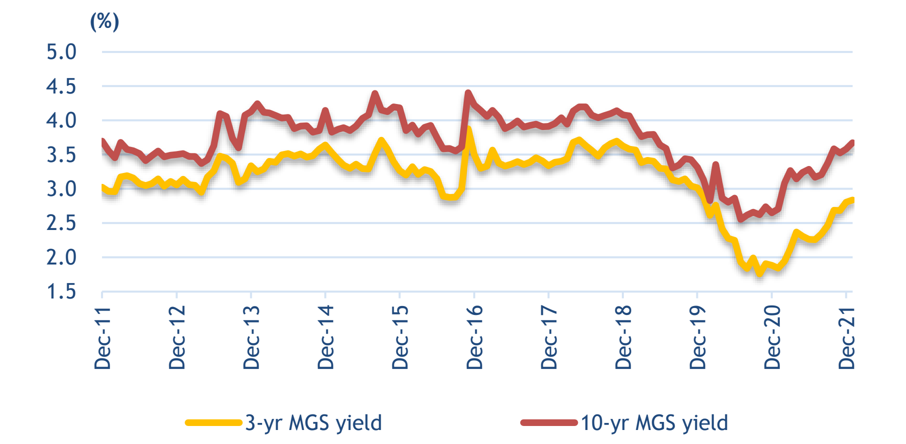
Source: Banks, Maybank IBG Research

** FYE3/21A - FY3/23E* *@ FYE6/21A-FYE6/23E*

Steepening of the yield curve

Alongside the 125bps cut in the OPR, the yields on Malaysian Government Securities (MGS) trended down in 2020, but have been on the rise since. In 2021, the 3-year MGS yield rose about 92bps while the 10-year was 93bps higher by Dec 2021.

Fig 42: 3-year & 10-year MGS yields (Dec 2011 – present)



Source: BNM

The risk to banks' earnings would be of further strength in bond yields, that would contribute to marked-to-market losses and/or lower realized gains. We have generally been cautious on this front and have factored in lower NOII in 2022 for the banks in our coverage.

Banks that could see a larger MTM loss if bond yields rise, would be those that have a larger percentage of financial assets (FA) at fair value through profit or loss (FVTPL), as unrealized marked-to-market gains/losses on these financial instruments are taken directly to the P&L, while unrealized MTM gains/losses on financial assets at fair value through other comprehensive income (FVOCI) are reflected as movements in the shareholders' funds.

This being the case, Public Bank, ABMB and RHB could weather through higher bond yields better than the other banks, for only 1%/2% and 4% of their respective financial assets are classified under FVTPL. CIMB and AMMB could see larger hits, given their larger proportion of FVTPL investments of 26% and 30% respectively.

Fig 43: Financial assets according to classification

	ABMB	AMMB	BIMB	CIMB	HLBK	MAY	PBK	RHB
FA @ FVTPL	263	11,227	1,582	40,279	8,648	27,775	1,016	2,778
FA @ FVOCI	8,927	19,122	12,604	60,443	30,283	122,394	53,269	41,141
FA @ cost	2,220	6,779	1,349	56,006	28,417	60,532	26,146	17,962
	11,410	37,128	15,536	156,728	67,348	210,702	80,431	61,881
FA @ FVTPL	2%	30%	10%	26%	13%	13%	1%	4%
FA @ FVOCI	78%	52%	81%	39%	45%	58%	66%	66%
FA @ cost	19%	18%	9%	36%	42%	29%	33%	29%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Banks

Asset quality risk from loans under RA…

Impaired loans declined 6% YoY in absolute terms, in Jan 2022. YoY declines were notable in auto (-31% YoY), personal (-16%) and credit card (-16%) financing. Housing GILs rose but at a marginal pace of 3% YoY. The industry's gross impaired loans (GIL) ratio was stable at 1.45%.

Figure 44: GIL ratios by segment

	Jan 22	Dec 21	Nov 21	Oct 21	Sep 21
Securities	0.50%	0.50%	0.39%	0.38%	0.42%
Transport vehicles	0.63%	0.67%	0.77%	0.88%	0.96%
Passenger vehicles	*0.41%*	*0.45%*	*0.55%*	*0.66%*	*0.74%*
Residential property	1.18%	1.17%	1.21%	1.26%	1.29%
Non-residential prop	1.42%	1.46%	1.45%	1.46%	1.48%
Fixed assets	1.82%	1.84%	1.92%	2.08%	2.12%
Personal use	1.78%	1.75%	1.86%	1.92%	2.07%
Credit card	0.85%	0.89%	0.91%	0.94%	0.99%
Consumer durables	3.28%	3.42%	3.55%	2.93%	2.87%
Construction	5.03%	5.21%	5.19%	5.30%	5.35%
Working capital	1.89%	1.85%	1.84%	1.88%	1.93%
Other purposes	1.45%	1.44%	1.46%	1.49%	1.51%
Total	**1.45%**	**1.44%**	**1.47%**	**1.52%**	**1.57%**

Source: BNM. Maybank IBG Research

Applications for the PEMULIH programme ended in Dec 2021. However, asset quality issues, if any, will only be more apparent in 2Q22, when borrowers resume normal repayments. Applications for the URUS programme extend to March 2022, but the take-up rate has thus far been lower and manageable. All in, the actual default position on loans under TRA would only be clearer towards 2Q22.

…but are provisions sufficient to cover defaults on RA loans?

We think they are at this stage. In our stress test, we have assumed the following:

- That total pre-emptive provisions set aside todate and remaining balances in regulatory reserves, go towards covering potential defaults on repayment assistance (RA) loans.
- A default rate of 20% and a loss given default (LGD) rate of 30%. We think a default rate of 20% on the entire RA book is reasonably prudent at this stage, in light of the re-opening of the economy. We also think that an LGD of 30% is comfortable, given that anecdotal evidence suggests it averages about 20% for consumer loans (bulk of such loans comprise mortgages) and about 40% for SME loans. These percentages will vary from bank to bank.

From the table below, it would appear that current provision levels are sufficient, especially since the percentage of loans under RA is likely to trend down further in the coming months. Loan loss coverage on potential RA defaults range from 89% for AMMB to 237% for HL Bank.

Fig 45: Loan loss coverage on RA loans - a hypothetical scenario

(MYR'm)	ABMB	AMMB	CIMB	HLBK	MAY	PBK	RHB
Pre-emptive provisions	467	945	2,225	873	2,896	1,747	818
Regulatory reserves	48	8	129	493	1,315	248	328
Pre-emptive provisions	**515**	**953**	**3,817**	**1,366**	**4,211**	**1,995**	**1,146**
Total RA loans	9,300	17,800	23,800	9,600	70,100	26,900	21,300
Assumed LGD	30%	30%	30%	30%	30%	30%	30%
Assumed default rate	20%	20%	20%	20%	20%	20%	20%
Loss on default	558	1,068	1,428	576	4,206	1,614	1,278
Loan loss coverage	**92%**	**89%**	**165%**	**237%**	**100%**	**124%**	**90%**

Source: Banks, Maybank IBG Research

Keeping credit cost assumptions elevated

Banks have generally started to lower/write back some of the management overlays that had been put through over the past two years. Our credit cost assumptions for FY22 largely mirror the credit cost guidance of the various banks.

Fig 46: MIBG's credit cost estimates versus banks' guidance

	FY21A	FY22E mgt guidance	FY22E	FY23E
ABMB *	1.21%	<0.55%	0.55%	0.45%
AMMB *	1.01%	0.72%	0.72%	0.65%
BIMB	0.35%	0.35%	0.25%	0.20%
CIMB	0.73%	0.70%	0.70%	0.60%
HL Bank @	0.43%	0.10%	0.10%	0.10%
Maybank	0.49%	0.4-0.5%	NA	NA
Public Bk	0.34%	<0.20%	0.20%	0.15%
RHB	0.38%	0.30%	0.40%	0.40%

Source: Banks, Maybank IBG Research
** FYE3/21A - FY3/23E @ FYE6/21A-FYE6/23E*

Fig 47 below shows our credit cost estimates relative to the 3-year pre-COVID credit cost averages from FY17 to FY19. What it does indicate is that we have chosen to keep credit cost assumptions elevated into FY23 on grounds of prudence, given prevailing global and domestic uncertainties still.

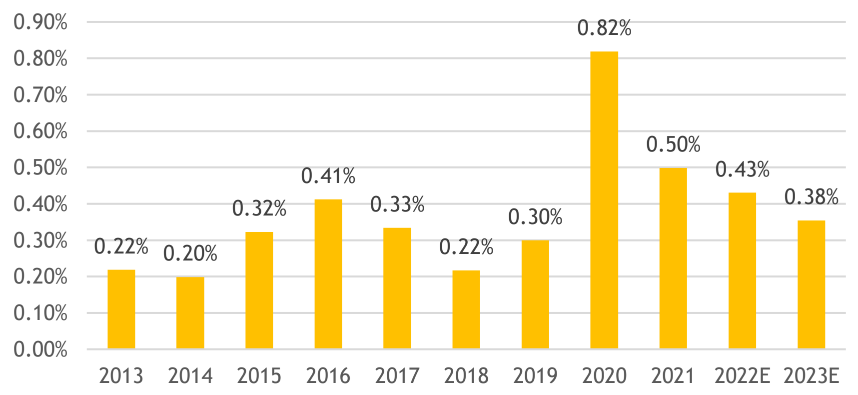
Fig 47: Credit cost estimates relative to pre-COVID averages

	FY17-19	FY20-21	FY22E	FY23E
ABMB *	0.26%	0.92%	0.55%	0.45%
AMMB *	(0.17%)	0.66%	0.72%	0.65%
BIMB	0.11%	0.36%	0.25%	0.20%
CIMB	0.54%	1.07%	0.70%	0.60%
HL Bank @	0.07%	0.33%	0.10%	0.10%
Maybank	0.38%	0.69%	NA	NA
Public Bk	0.06%	0.33%	0.20%	0.15%
RHB	0.21%	0.49%	0.40%	0.40%

Source: Banks, Maybank IBG Research
^ FYE3/21A - FY3/23E @ FYE6/21A-FYE6/23E

On a calendarized basis, we project credit costs to average 43bps in 2022E and 37bps in 2023E, against a pre-COVID average of 28bps from FY17-FY19.

Fig 48: Average credit cost (2013-2023E)



Source: Maybank IBG Research

Earnings outlook

2% operating profit growth in 2022E, +5% in 2023E

We project cumulative operating profit to be flat (+2%) in 2022. While loan growth is expected to be moderately faster, we expect:

- NIMs to be stable/slightly compressed as a result of slower CASA growth, fixed deposit competition;
- Lower NOII on the back of possible investment losses/lower investment gains; and
- Faster expansion in operating expense, with the recovery in economic activity and higher digital spend, especially as the new digital banking licenses are expected to be awarded soon.

Cumulative operating profit is projected to expand 5% in 2023 predominantly on moderately improved interest margins and the resumption in NOII growth.

Fig 49: Operating profit (calendarized)

	2019	2020	2021	2022E	2023E	2-yr CAGR 2021-23E
ABMB	874	983	1,069	1,077	1,111	
Growth	*3.9%*	*12.6%*	*8.7%*	*0.7%*	*3.1%*	*1.9%*
AMMB	1,976	2,372	2,554	2,623	2,713	
Growth	*26.4%*	*20.0%*	*7.7%*	*2.7%*	*3.4%*	*3.1%*
BIMB	748	939	599	902	1,024	
Growth	*29.4%*	*25.5%*	*(36.2%)*	*50.7%*	*13.5%*	*30.8%*
CIMB	8,043	8,398	9,179	9,207	9,694	
Growth	*5.3%*	*4.4%*	*9.3%*	*0.3%*	*5.3%*	*2.8%*
HL Bank	2,680	3,103	3,514	3,704	3,840	
Growth	*1.5%*	*15.8%*	*13.2%*	*5.4%*	*3.7%*	*4.5%*
Maybank	13,179	13,832	14,035	14,072	14,867	
Growth	*6.1%*	*5.0%*	*1.5%*	*0.3%*	*5.7%*	*2.9%*
Public Bank	7,283	7,901	8,579	8,658	9,211	
Growth	*0.2%*	*8.5%*	*8.6%*	*0.9%*	*6.4%*	*3.6%*
RHB	3,670	4,192	4,477	4,470	4,690	
Growth	*6.4%*	*14.2%*	*6.8%*	*(0.1%)*	*4.9%*	*2.4%*
Total	**38,453**	**41,721**	**44,005**	**44,714**	**47,150**	
Growth	***5.7%***	***8.5%***	***5.5%***	***1.6%***	***5.4%***	***3.5%***

Source: Banks, Consensus estimates for Maybank, Maybank IBG Research

Cukai Makmur impact in 2022, 18% earnings growth in 2023

Cukai Makmur (Prosperity Tax) calls for a one-time tax of 33% (against a normal corporate tax rate of 24%) on chargeable income above MYR100m. We have already factored *Cukai Makmur* into our earnings, which is we expect cumulative core net profit for our banks to come in flat (-1.3%) in 2022 despite lower credit cost assumptions. On the back of the 5% expansion in operating profit and lower credit costs, we expect cumulative core net profit to rebound 18% YoY in 2023.

Fig 50: Recurring net profit (calendarized)

	2019	2020	2021	2022E	2023E	3-yr CAGR
ABMB	453	375	519	627	683	
Growth	*(15.7%)*	*(17.1%)*	*38.3%*	*20.9%*	*8.9%*	*14.7%*
AMMB	1,324	1,095	1,115	1,257	1,402	
Growth	*5.4%*	*(17.3%)*	*1.8%*	*12.7%*	*11.5%*	*12.1%*
BIMB	628	669	561	572	736	
Growth	*5.7%*	*6.5%*	*(16.1%)*	*2.0%*	*28.6%*	*14.5%*
CIMB	4,762	1,430	4,648	4,455	5,391	
Growth	*6.0%*	*(70.0%)*	*225.1%*	*(4.1%)*	*21.0%*	*7.7%*
HL Bank	2,588	2,732	3,015	3,429	3,774	
Growth	*0.1%*	*5.5%*	*10.4%*	*13.8%*	*10.1%*	*11.9%*
Maybank	8,198	6,720	8,201	7,820	9,350	
Growth	*1.0%*	*(18.0%)*	*22.0%*	*(4.7%)*	*19.6%*	*6.8%*
Public Bank	5,512	5,250	5,657	5,532	6,659	
0Growth	*(1.4%)*	*(4.7%)*	*7.7%*	*(2.2%)*	*20.4%*	*8.5%*
RHB	2,527	2,316	2,805	2,452	2,919	
Growth	*9.6%*	*(8.4%)*	*21.1%*	*(12.6%)*	*19.1%*	*2.0%*
Total	**25,991**	**20,586**	**26,520**	**26,144**	**30,914**	
Growth	*2.0%*	*(20.8%)*	*28.8%*	*(1.4%)*	*18.2%*	*8.0%*

Source: Banks, Consensus estimates for Maybank, Maybank IBG Research

7-8% core net profit growth excluding Cukai Makmur

The table below shows the earnings growth of banks in our coverage, with and without Cukai Makmur, on a **calendarized** basis. Excluding the impact of Cukai Makmur, we expect cumulative core net profit for our banks to expand 7% in 2022E and 8% in 2023E.

Fig 51: Calendarized net profit growth with and without Cukai Makmur

	With Cukai Makmur		Without Cukai Makmur	
	2022E	2023E	2022E	2023E
ABMB	21%	9%	15%	7%
AMMB	13%	12%	6%	9%
BIMB	6%	24%	29%	7%
CIMB	(4%)	21%	4%	12%
HLBK	14%	10%	13%	5%
MAY	(5%)	20%	5%	8%
PBK	(2%)	20%	9%	8%
RHB	(10%)	19%	(1%)	8%
Total	**(1%)**	**18%**	**7%**	**8%**

Source: Consensus for Maybank, Maybank IBG Research

ROAEs to improve in 2023

Our ROAE forecasts for FY22 are broadly at the lower end of management's guidance for most banks. We expect the average ROAE for our banks to decline to 9.1% in 2022 from 9.6% in 2021, largely because of *Cukai Makmur,* before rebounding to 10.2% in 2023, taking the aggregate ROAE ratio back to pre-COVID levels.

Fig 52: MIBG's ROE estimates versus banks' guidance

	FY21A	FY22E mgt guidance	FY22E	FY23E
ABMB *	5.9%	>8%	8.9%	9.6%
AMMB *	-23.0%	9.0%	8.9%	7.5%
BIMB	8.4%	NA	8.9%	10.1%
CIMB	7.5%	7.5-8%	7.4%	8.5%
HL Bank @	10.1%	>10.5%	10.3%	11.3%
Maybank	9.5%	9.5-10%	NA	NA
Public Bk	11.9%	11-12%	11.2%	12.7%
RHB	9.5%	8.5%	8.6%	9.8%

Source: Banks, Maybank IBG Research

^ FYE3/21A - FY3/23E @ FYE6/21A-FYE6/23E

Fig 53: ROAE forecasts (calendarized)

	2019	2020	2021	2022F	2023F
ABMB	7.8%	6.2%	8.2%	9.4%	9.7%
AMMB	7.7%	(15.4%)	0.9%	7.8%	7.8%
BIMB	11.4%	9.4%	8.4%	8.9%	10.1%
CIMB	8.5%	2.1%	7.5%	7.4%	8.5%
HL Bank	10.1%	9.8%	10.2%	10.8%	11.2%
Maybank	10.4%	7.8%	9.5%	NA	NA
Public Bk	13.0%	10.7%	11.9%	11.2%	12.7%
RHB	10.1%	7.7%	9.5%	8.6%	9.8%
Average	**10.2%**	**7.6%**	**9.6%**	**9.1%**	**10.2%**

Source: Banks, Consensus for Maybank, Maybank IBG Research

Fig 54: ROAA forecasts (calendarized)

	2019	2020	2021	2022F	2023F
ABMB	0.8%	0.6%	0.8%	1.0%	1.1%
AMMB	0.9%	(1.5%)	0.0%	0.7%	0.7%
BIMB	1.0%	0.8%	0.7%	0.7%	0.9%
CIMB	0.8%	0.2%	0.7%	0.7%	0.8%
HL Bank	1.2%	1.2%	1.3%	1.4%	1.4%
Maybank	1.0%	0.8%	0.9%	NA	NA
Public Bk	1.3%	1.1%	1.2%	1.2%	1.3%
RHB	1.0%	0.8%	0.9%	0.8%	0.9%
Average	**1.0%**	**0.8%**	**1.0%**	**0.9%**	**1.0%**

Source: Banks, Consensus for Maybank, Maybank IBG Research

Dividend payouts normalizing

Against relatively suppressed dividend payouts in FY20 and FY21 as banks took a more prudent stance towards conserving/preserving capital, dividend payout ratios are normalizing and there is room for upside surprise against our forecasts if they return to pre-COVID levels in FY22.

RHB recently surprised with a hefty dividend payout of 62.9% in FY21, but we have conservatively assumed that it normalizes back to its FY19 level of 50%, in FY22/23E. With the higher CET1 ratio among peers, RHB's dividend payout ratio still has room to surprise positively.

Fig 55: Payout ratios

	FY19	FY20	FY21	FY22E	FY23E
ABMB	48.1%	21.9%	25.0%	40.0%	40.0%
AMMB	40.0%	29.9%	0.0%	20.0%	30.0%
BIMB	49.8%	49.8%	42.5%	45.0%	45.0%
CIMB	51.9%	40.0%	54.2%	50.0%	50.0%
HLBK	38.4%	29.5%	35.8%	38.0%	38.0%
MAY	87.8%	91.2%	84.5%	NA	NA
PBK	51.4%	51.8%	52.2%	53.5%	52.0%
RHB	50.1%	34.8%	62.9%	50.0%	50.0%

Source: Banks, Consensus for Maybank, Maybank IBG Research

Fig 56: DPS and dividend yields

	Sh price (MYR)	DPS FY22E	DPS FY23E	Yield FY22E	Yield FY23E
ABMB	3.59	14.8	16.7	4.1%	4.7%
AMMB	3.44	8.8	11.7	2.6%	3.4%
BIMB	3.00	11.6	14.3	3.9%	4.8%
CIMB	5.07	21.0	25.0	4.1%	4.9%
HLBK	20.40	58.0	68.0	2.8%	3.3%
MAY	9.00	56.0	65.0	6.2%	7.2%
PBK	4.42	15.2	18.0	3.4%	4.1%
RHB	5.85	29.6	35.2	5.1%	6.0%

Source: Banks, Consensus for Maybank, Maybank IBG Research

Risk statement

Upside risks: (i) Stronger-than-expected GDP growth, which would contribute to stronger loan growth and lower credit risks; as well as (ii) improved liquidity, which would help to sustain interest margins.

Downside risks: (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset- quality issues; (ii) marked-to-market investment losses if bond yields rise; and (iii) a slowdown in CASA growth, which could exacerbate deposit competition.

Present downside risks include a) inflationary pressure and its negative impact on consumption and spending power, b) global instability amid a Russia-Ukraine war, c) further defaults in corporate debt and d) a higher-than-expected default rate on RA loans.

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