

### STRATEGY – MALAYSIA

#### Digital Banking Licence Awardees

**BNM has awarded five digital banking licences. We reckon that this could give rise to a short-term share price uptrend for the awardees especially, the smaller listed companies. However, for potential equity value accretion of the stocks under our coverage, RHB Bank and Axiata are only expected to see 0.8% and 1.5% of their respective market caps. Maintain BUY on RHB Bank and HOLD on Axiata.**

#### WHAT'S NEW

- **Digital banking awardees.** Bank Negara Malaysia (BNM) has awarded the digital banking licences to the following consortiums: a) Boost Holdings-RHB Bank, b) Grab Singtel-Kuok Brothers, c) Sea-YTL Digital Capital, d) Aeon Financial Services Co-AEON Credit, and d) consortium led by KAF Investment Bank.
- **Marginal near-term value accretion.** As shown in the table on RHS, we estimate a marginal potential equity value accretion of between 0.80-1.30% and 1.5% to RHB Bank's and Axiata's current market capitalisations respectively, based on their respective stakes in the consortium. This assumes an ascribed price to sales multiple of 3.0x-5.0x, in line with regional peers. In terms of revenue assumption metrics, we assumed that the digital banks will derive 80% of their income from net interest income with an estimated NIM of 5%, which is slightly over 2x that of conventional banks in Malaysia coupled with a total asset cap of RM3.0b and loans to deposit ratio of 75%.
- **No major threats to conventional banks.** We believe the five digital bank licence winners are unlikely to pose a major threat and will be able to co-exist harmoniously with the conventional banks. Firstly, the primary role of the digital banks is to address market gaps in the underserved and unserved segments, which to begin with are not the key focus of the traditional banks. Secondly, the assets of the five combined digital banking licensees (RM15b) may shave away only <1% share of system loans, which is insignificant; we estimate every 1% slowdown in loans growth could reduce sector earnings by 0.3%. Thirdly, conventional banks have already equipped themselves digitally by embarking in digital transformation projects. Considering traditional banks' bigger balance sheet, they have more budget capacity on an absolute monetary basis to spend and innovate vs digital banks.

#### ACTION

- **Short-term share price boost could be short-lived.** We reckon that there could be a short-term share price uptrend of the awardees in view of the potential additional income sources for the companies. Having said that, we do not expect an immediate earnings impact to the companies given an expected 2-3 years gestation period for the digital banks to turn profitable. Given the marginal near- to medium-term value accretion coupled with an expected 2-3 years gestation period (average period for digital banks in South Korea and China to be profitable was 2-3 years), we think that any near-term spike in share prices could be short-lived.
- **RHB Bank: Maintain BUY and target price of RM6.90 (10.1% ROE FY22/23, 0.90x 2022/23F P/B).** We estimate that RHB's 40% stake in the Axiata-RHB digital banking consortium translates to only a maximum asset accretion of RM1.2b or 0.35% of its total group asset. This translates to a potential revenue enhancement of only 0.7% and equity value enhancement of 0.8-1.3% assuming a price/sales valuation peg of 3.0x-5.0x. We continue to like RHBANK for its: a) highest CET of 16.8%, which could provide scope for upside surprise in dividends, b) attractive valuations, and c) above industry loans growth.

#### STOCK PICKS

Company	Ticker	Rec	Mkt Cap (US\$m)	Price 5 Apr 22 (RM)	Target Price (RM)	PE (x)		P/B (x)		Div Yield (%)	
						2022F	2023F	2022F	2023F	2022F	2023F
Axiata	AXIATA MK	HOLD	32,210.6	3.51	4.00	32.4	26.2	1.8	1.8	2.7	2.0
RHB Bank	RHBBANK MK	BUY	25,893.2	6.25	6.90	8.4	8.7	0.9	0.8	6.4	6.0

Source: Bloomberg, UOB Kay Hian

#### ESTIMATED VALUE ACCRETION FOR THE AWARDEES

Company	Potential value accretion	Comments
RHB Bank	+0.7% Revenue +0.8%-1.3% market capitalisation	Negligible. RHB's 40% stake in the Axiata-RHB digital banking consortium translates to only a maximum asset size of RM1.2b or 0.35% of its total group asset.
Axiata	add RM500m to market cap (or 1.5%)	Marginal 1.5% value accretion to Axiata.

Source: UOB Kay Hian

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- Axiata: Maintain HOLD and target price of RM4.00.** Our back-of-the-envelope calculations suggest that winning the DBL can potentially add RM500m to market cap (or 1.5%) based on 5x price/sales of Axiata's 60% stake in the Axiata-RHB consortium. Boost wallet will remain the distribution platform and investments will be required for development of back-end infrastructure. Maintain HOLD with a target price of RM4.00. The stock offers a 2.6% to 5.0% dividend yield for 2022-24.

### ESSENTIALS

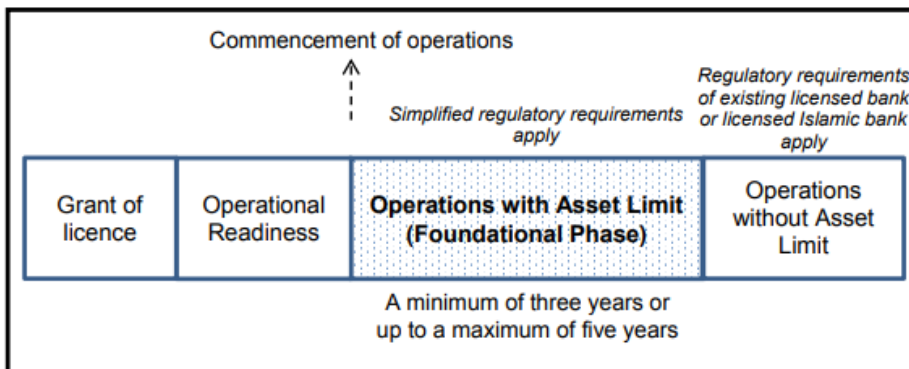
- Business model should focus on serving underserved market.** The combined assets of the five digital banks will be capped at RM15b (RM3b each) for the first 3-5 years of commencement of operations (known as the foundation phase), and applicants must maintain a minimum total capital ratio of 8% and minimum paid-up capital of RM100m, and they will also be subjected to the same level of stringent requirements of full-fledged banks after the foundation phase.
- What happens after the foundation phase?** A licensed digital bank may after three years from the commencement of its operations submit an application to the Bank for the foundational phase to end and for the business limitation to be uplifted. The digital bank would also need to achieve a minimum amount of capital funds of RM300m unimpaired by losses and shown satisfactory progress in achieving the committed value propositions as described in its business plan. By the end of the fifth year from the commencement of its operations, a licensed digital bank shall comply with all regulatory requirements applicable to an existing licensed bank or licensed Islamic bank.
- BNM has the right to revoke the digital banking licences.** A licensed digital bank that fails to fulfil the requirements of: a) achieving a minimum amount of capital funds of RM300m unimpaired by losses, and b) shown satisfactory progress in achieving the committed value propositions as described in its business plan by the end of the fifth year from the commencement of its operation shall implement its exit plan. BNM can take enforcement actions against the digital bank including the revocation of the digital bank's licence. Even after the end of the foundation phase, the licensed digital bank shall still serve the underserved or unserved segments as part of its business operations.

### KEY REGULATORY REQUIREMENTS FOR DIGITAL BANKS

	Foundational Phase (3-5 years)	Post Foundational period: Operations without Asset Limit
Minimum Paid-up capital	RM 100m	RM300m
Total Asset size caps	RM3.0b	n.a.
Capital & liquidity rule	Total Capital Ratio (TRC) : 8% Same capital requirements as full fledge banks	
Business Activities & Presence	<ul style="list-style-type: none"> <li>- Focus on the underserved market</li> <li>- Permitted to establish physical offices for administrative purposes</li> <li>- Not allowed to establish a branch ie a fixed place of business to facilitate customer transactions</li> <li>- A licensed digital bank may participate in the Shared ATM Network and any other cash-out services of the traditional banks</li> </ul>	

Source: BNM, UOB Kay Hian

### TIMELINE OF THE OPERATIONAL PROGRESSION OF LICENSED DIGITAL BANK



Source: BNM

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