

Malaysia

**Overweight** (no change)

Highlighted Companies

**Hong Leong Bank**  
**ADD, TP RM23.30, RM20.62 close**  
 Hong Leong Bank (HLB) has one of the best asset qualities in the sector, making it one of the most defensive banks against credit risks from Covid-19. Earnings catalysts include a swift increase in associate contribution from Bank of Chengdu and above-industry loan growth.

**Public Bank Bhd**  
**ADD, TP RM5.07, RM4.41 close**  
 Public Bank is an Add because we believe it is the most defensive against Covid-19 credit risk. This is premised on its superior gross impaired loan ratio, which is consistently the lowest in the sector.

**RHB Bank Bhd**  
**ADD, TP RM7.70, RM5.72 close**  
 RHB Bank is our top pick for banks as its CY22F dividend yield of 5.8% is among the highest in the sector, while its CY22F P/E of 8.7x is attractive (vs. the sector's 12.1x). We also regard it as one of the biggest beneficiaries of OPR hikes.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Hong Leong Bank	13.55	12.03	11.11
Public Bank Bhd	14.68	11.49	11.06
RHB Bank Bhd	8.69	6.60	6.08

P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Hong Leong Bank	1.28	1.19	1.11
Public Bank Bhd	1.65	1.52	1.42
RHB Bank Bhd	0.73	0.68	0.63

Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Hong Leong Bank	2.95%	3.33%	3.60%
Public Bank Bhd	3.41%	4.35%	4.52%
RHB Bank Bhd	5.75%	7.58%	8.22%

Analyst(s)



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# Banks

## Riding on OPR upcycle

- On 6 Jul 2022, BNM raised OPR by another 25bp to 2.25%. Our economist expects another 25bp hike before end-22 with a total hike of 75bp in 2022.
- We estimate that every 25bp hike in OPR would increase banks' net profit by c. 2.1% (ranging from 1.3% for Public Bank to 7.1% for Bank Islam).
- We reiterate our Overweight call on banks as we expect banks' net interest margin to expand in 2H22 and 2023 amidst the OPR upcycle.

### Another 25bp hike in OPR

During the monetary policy committee (MPC) meeting on 6 Jul 2022, Bank Negara Malaysia (BNM) raised the overnight policy rate (OPR) by another 25bp to 2.25%, which was in line with our economist's expectation. This was the second 25bp hike in OPR YTD with a total increase of 50bp in OPR. Our economist expects another 25bp hike in OPR before end-2022. With this, OPR would be lifted by 75bp in 2022 to 2.5% by end-Dec 22.

### Benefitting from OPR hike

We expect the OPR hike to be positive for banks as their total floating rate loans are larger than their total fixed deposits (both of which would be repriced upward during the OPR hike). We have factored in a total hike of 50bp in 2022F in our earnings forecasts for banks. Every additional 25bp hike would increase our net profit forecasts for banks by an estimated 2.1% (for FY24F for HLB, AMMB and Alliance Bank, and FY23F for the rest).

### Bank Islam is the biggest beneficiary of the OPR hike

Based on our analysis, the OPR hike would have the largest positive impact on Bank Islam's FY23 net profit (7.1% for every 25bp hike) as its floating rate loan ratio of 91% in FY23F (projected by us) is the highest in the sector. Conversely, the OPR hike would have the smallest impact on Public Bank's FY23F net profit (1.3% for every 25bp hike) as its current and savings account (CASA) ratio of 24.3% in FY23F is among the lowest in the sector.

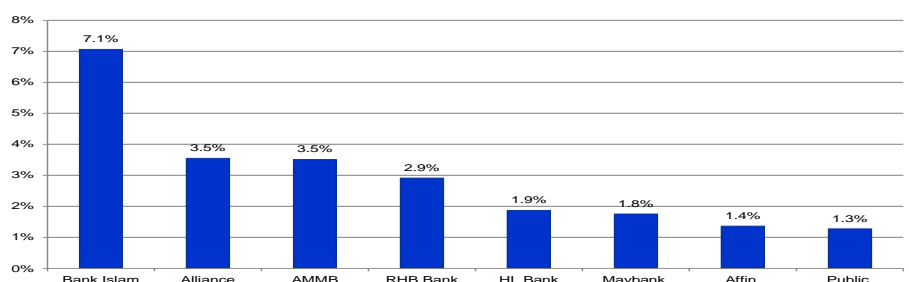
### Potentially negative for loan growth and asset quality

The interest rate hikes could be negative for banks' loan growth and asset quality as these spell higher borrowing costs and increased monthly loan repayment. However, we have factored in a deterioration for the above as reflected in (1) our projected loan growth of 4-5% for 2022 vs. 5% yoy at end-May 22, and (2) an increase in gross impaired loan ratio from 1.64% at end-May 22 to 1.8-2.0% at end-Dec 22.

### Reiterate Overweight on banks

The OPR upcycle and the expected decline in 2022 loan loss provisioning are the potential re-rating catalysts for our Overweight call on banks. For OPR hikes, we believe that their positive impact on banks' net interest margins would outweigh the potential negative impact on loan growth and asset quality. Our sector top picks are RHB Bank, Hong Leong Bank and Public Bank.

Figure 1: Impact of 25bp hike on banks' net profit



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS  
 NOTE: FY24F FOR HONG LEONG BANK, AMMB AND ALLIANCE BANK; FY23F FOR THE REST

**Figure 2: Sector comparison**

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			P/PPOPS (x)		Dividend Yield (%)	
						CY2021	CY2022F		CY2021	CY2022F	CY2021	CY2022F	CY2023F	CY2021	CY2022F	CY2021	CY2022F
DBS Group	DBS SP	Add	30.07	40.20	55,083	11.3	9.7	26.9%	1.40	1.30	12.8%	14.1%	15.7%	9.8	8.4	3.9%	4.8%
OCBC	OCBC SP	Add	11.36	14.20	36,342	10.5	9.4	21.0%	1.06	1.01	10.4%	11.0%	12.2%	8.9	8.2	4.7%	5.3%
United Overseas Bank	UOB SP	Add	26.62	35.60	31,730	11.5	10.0	21.9%	1.04	0.99	9.3%	10.2%	11.3%	8.1	7.5	4.5%	4.7%
<b>Singapore average</b>						<b>11.1</b>	<b>9.7</b>	<b>24.1%</b>	<b>1.19</b>	<b>1.11</b>	<b>11.0%</b>	<b>11.9%</b>	<b>13.3%</b>	<b>9.1</b>	<b>8.1</b>	<b>4.3%</b>	<b>4.9%</b>
Agricultural Bank of China	1288 HK	Add	2.96	4.40	155,971	3.9	3.6	9.2%	0.43	0.40	11.5%	11.5%	11.6%	1.9	1.8	8.2%	8.9%
Bank of China	3988 HK	Add	3.15	4.20	137,378	3.9	3.6	10.6%	0.42	0.38	11.2%	11.2%	11.3%	2.1	2.0	8.2%	8.9%
Bank of Communications	3328 HK	Add	4.84	5.30	50,769	3.8	3.4	10.0%	0.39	0.36	10.7%	10.9%	11.1%	1.9	1.8	8.6%	9.3%
China CITIC Bank	998 HK	Add	3.49	4.80	30,864	2.8	2.5	12.6%	0.29	0.26	10.8%	10.9%	11.4%	1.0	1.0	10.1%	11.1%
China Construction Bank	939 HK	Add	5.27	8.00	170,208	3.8	3.5	9.7%	0.45	0.41	12.5%	12.3%	12.3%	2.1	1.9	8.1%	8.7%
China Minsheng Bank	1988 HK	Hold	2.72	2.60	22,362	3.3	3.0	8.0%	0.21	0.20	6.6%	6.8%	7.5%	0.9	1.0	9.2%	9.9%
ICBC	1398 HK	Add	4.33	5.90	241,049	3.9	3.6	9.1%	0.45	0.42	12.2%	12.0%	12.1%	2.1	2.0	7.9%	8.5%
<b>Hong Kong average</b>						<b>3.8</b>	<b>3.5</b>	<b>9.7%</b>	<b>0.42</b>	<b>0.39</b>	<b>11.6%</b>	<b>11.5%</b>	<b>11.6%</b>	<b>1.9</b>	<b>1.8</b>	<b>8.2%</b>	<b>8.9%</b>
Bank Central Asia	BBCA IJ	Hold	7,250	8,100	59,607	28.4	24.5	16.1%	4.41	4.05	16.2%	17.3%	18.2%	18.4	17.3	1.8%	2.4%
Bank Danamon	BDMN IJ	Add	2,350	3,300	1,532	8.0	6.1	62.6%	0.48	0.46	6.5%	7.7%	8.4%	2.4	2.2	4.4%	5.7%
Bank Rakyat Indonesia	BBRI IJ	Add	4,090	5,000	41,342	18.1	14.7	30.6%	2.15	2.02	12.0%	14.2%	16.0%	8.3	8.0	4.3%	5.8%
Bank Tabungan Negara	BBTN IJ	Add	1,400	2,100	989	6.2	5.7	24.8%	0.69	0.63	na	na	12.4%	2.4	2.4	3.2%	3.5%
<b>Indonesia average</b>						<b>22.0</b>	<b>18.3</b>	<b>27.7%</b>	<b>2.77</b>	<b>2.58</b>	<b>na</b>	<b>na</b>	<b>16.0%</b>	<b>11.3</b>	<b>10.6</b>	<b>2.8%</b>	<b>3.8%</b>
Affin Bank Berhad	ABANK MK	Hold	1.94	2.19	932	7.7	8.3	22.7%	0.42	0.39	5.4%	5.0%	5.3%	4.6	4.6	6.4%	4.2%
Alliance Bank Malaysia Berhad	ABMB MK	Hold	3.27	3.45	1,145	9.7	7.0	28.3%	0.79	0.73	8.4%	11.0%	11.5%	4.9	4.3	4.7%	6.3%
AMMB Holdings	AMM MK	Add	3.80	4.28	2,847	8.7	7.7	12.9%	0.76	0.72	8.6%	9.8%	9.7%	4.8	4.6	1.0%	4.3%
Bank Islam Malaysia Bhd	BIMB MK	Add	2.63	3.48	1,283	10.6	10.9	7.4%	0.85	0.80	9.1%	7.7%	10.0%	6.2	5.0	4.2%	4.5%
Hong Leong Bank	HLBK MK	Add	20.62	23.30	10,114	15.2	13.5	8.8%	1.42	1.28	10.0%	10.1%	10.3%	13.1	12.4	2.6%	3.0%
Malayan Banking Bhd	MAY MK	Add	8.61	10.00	23,321	12.1	12.4	8.8%	1.19	1.06	9.7%	9.3%	9.6%	7.1	7.3	6.7%	4.9%
Public Bank Bhd	PBK MK	Add	4.41	5.07	19,370	15.0	14.7	10.8%	1.78	1.65	12.1%	11.9%	13.8%	10.0	8.9	3.4%	3.4%
RHB Bank Bhd	RHBBANK MK	Add	5.72	7.70	5,452	8.3	8.7	12.8%	0.85	0.73	10.2%	9.3%	10.7%	5.5	5.1	7.0%	5.8%
<b>Malaysia average</b>						<b>12.4</b>	<b>12.1</b>	<b>11.7%</b>	<b>1.22</b>	<b>1.10</b>	<b>10.0%</b>	<b>9.8%</b>	<b>10.6%</b>	<b>7.9</b>	<b>7.5</b>	<b>4.8%</b>	<b>4.2%</b>
Bangkok Bank	BBL TB	Add	131.5	164.0	7,000	9.3	8.2	24.4%	0.53	0.51	6.1%	6.2%	6.7%	4.3	4.0	3.0%	3.8%
Kasikornbank	KBANK TB	Add	147.5	170.0	9,745	10.0	8.9	11.7%	0.75	0.71	8.1%	8.2%	8.4%	3.9	3.7	2.0%	3.4%
Kiatnakin Phatra Bank	KKP TB	Hold	62.3	59.0	1,470	9.9	8.3	8.0%	1.11	1.08	11.9%	13.1%	13.6%	4.4	4.1	5.0%	6.8%
Krung Thai Bank	KTB TB	Hold	15.2	12.7	5,924	11.5	9.9	10.1%	0.59	0.57	5.4%	5.9%	5.9%	3.3	3.3	2.6%	3.6%
Tisco Financial Group	TISCO TB	Hold	87.0	101.0	1,942	10.6	9.9	5.9%	1.72	1.68	17.1%	17.1%	17.8%	6.4	6.3	7.8%	8.9%
<b>Thailand average</b>						<b>10.2</b>	<b>9.0</b>	<b>13.8%</b>	<b>0.68</b>	<b>0.64</b>	<b>7.1%</b>	<b>7.3%</b>	<b>7.6%</b>	<b>4.0</b>	<b>3.8</b>	<b>3.0%</b>	<b>4.2%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATE, COMPANY REPORTS, BLOOMBERG (AS AT 6 JUL 22)



## Riding on OPR upcycle

### **Potential downside risks** ▶

The key potential downside risks to our Overweight call on Malaysian banks include weaker-than-expected economic growth in 2022F, as this could cause banks to register higher-than-expected loan loss provisioning and softer loan growth. In addition, the heightened inflation and interest rate hikes would have a negative impact on banks' loan growth and asset quality.

Banks have started to unwind the repayment assistance offered to their borrowers amidst the reopening of the economy. The potential risk from this is a spike in banks' gross impaired loans, mainly from the borrowers whose financial positions have been severely impaired by the Covid-19 outbreak. Should the industry's gross impaired loan ratio increase significantly above our projected 1.8-2.0% by end-Dec 22F, banks would have to increase their loan loss provisioning in 2022-23.



## ESG in a nutshell

We assess the direct ESG risks for Malaysian banks to be low because: 1) they are not among the primary sources of environmental pollution in the country; and 2) most banks offer decent remuneration packages and employee benefits to their staff, while the well-being of most of their lower-paid staff is protected by unions. In addition, under the stringent supervision of BNM, all banks uphold high levels of governance in their operations. In fact, we think banks could contribute to improvements in the overall ESG standards of the country as they can act as enablers for a lot of companies' transition to higher ESG standards. Banks can achieve this by leveraging on their business (primarily lending) relationships with these companies to engage with them to formulate plans to improve their ESG standards.

In our view, one of the key areas that determines the ESG standard of a bank is its ESG disclosure. Although we see room for improvement for some banks in this aspect, we are encouraged that most banks have shown the commitment to elevate their standards of ESG disclosures. A notable development is the ESG briefings to investors hosted by four banks, i.e. Maybank, Hong Leong Bank, AMMB and Alliance Bank, since 2021. In addition, some banks have started to provide updates on their ESG developments in their quarterly results presentation slides.

<p><b>Keep your eye on</b></p> <p>Banks will have to address their exposure to sectors with high ESG risks, including plantation, oil and gas, and non-renewable energy sectors, as well as some manufacturing sub-sectors. Another area that banks need to provide more ESG information on is the risks from climate change.</p>	<p><b>Implications</b></p> <p>Some banks have started to work with their borrowers in the ESG-vulnerable sectors to improve their respective ESG standards. These banks even set ESG-related targets for certain borrowers to meet, followed by periodic reviews of their progress towards achieving these targets.</p>
<p><b>ESG highlights</b></p> <p>Our ESG pick for the sector is Maybank as: 1) it was among the first to introduce the well-articulated ESG Risk Acceptance Criteria (based on our observation), which are the ESG guidelines for its lending activities; 2) it has a dedicated task force (Scrum teams) to advise (and monitor) its clients on ESG-related matters, especially clients in sectors with high ESG risks; and 3) through its regional network, it has been implementing its ESG initiatives in various countries, widening the base of beneficiaries.</p>	<p><b>Implications</b></p> <p>We will monitor the progress of the banks in improving their ESG standards, especially in the areas of disclosure, and initiatives to mitigate the risks from their exposure to ESG-vulnerable sectors.</p> <p>Going forward, another area that banks will focus on in terms of ESG is the risks from climate change. We expect the central bank to introduce new regulations in the next few years to require banks to improve their analysis of the risks associated with climate change and provide more information on these risks. For instance, we understand that banks would have to conduct stress testing for the risks from climate change by 2024.</p>
<p><b>Trends</b></p> <p>To support the ESG development of the country, most banks have started to focus on growing their green financing, particularly for renewable energy projects, as well as other 'green' projects, like green buildings.</p>	<p><b>Implications</b></p> <p>We do not have the statistics on the size of green financing in the banking industry. However, based on what we have gathered from banks, we estimate that green financing makes up less than 1-2% of total loans for most banks. Most banks project swift expansion in their green financing in the next few years, but we think the proportion of green financing over gross loans for most banks will remain small, at below 2%, over the next 3-5 years.</p> <p>Several banks have disclosed their longer-term targets for the size of sustainable finance (i.e. RM50bn for Maybank and RM5bn for Alliance). The scope for sustainable finance is broader as apart from the financing of green projects, it also comprises certain consumer and SME loans (like the financing of the purchase of electric vehicles and installation of solar panels), and investments in green bonds, as well as ESG-compliant wealth and asset management products.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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### Recommendation Framework

#### Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.