

ASEAN Banks

NEUTRAL

[Downgrade]

Cycle-proof?

In a down-cycle, returns certainty is paramount

Banks are cyclical. The rising threat of recession could potentially tip ASEAN banks in to a growth down-cycle. While not the base-case, we downgrade the regional sector outlook to Neutral as uncertainty increases. In such a macro backdrop, we think banks that have solid track records of delivering the least volatile returns and the most consistent dividends plus the strongest balance sheets would outperform. Our screening shows MY, SG and ID banking sectors largely satisfy these factors. **Top picks: HLBK, RHB, OCBC, DBS, BMRI.**

M'sia, S'pore show the least volatile ops

To screen for stability thorough a cycle, we look at the standard deviation on return on assets of NII, Non-II and NPAT through the past 16-years across our coverage universe. Of the top-10 least volatile NII/assets generators, the MY banks feature prominently - esp. PBK, CIMB, RHB, Alliance. On the other end of the scale, the VN and TH banks tends to display significant volatility. In Non-II, the MY and SG banks (esp. DBS, UOB) display the least volatility despite undergoing the *GFC* and taper tantrum. This is likely supported by their focus on wealth management and limited proprietary trading exposure. Delivering returns through a cycle means dynamically managing provisions, so that negative asset quality surprises are minimized, while maximizing shareholder returns. We believe banks with the least divergent ROEs manage this best. SG ranks the best, while MY generates a 3.5ppt higher ROE for marginally higher volatility.

Region positioned for uncertainty

Balance sheet stability is equally important as earnings stability, in our view - especially as macro growth risks increase. We note that 2022E provisioning cover for NPLs are largely well above past historical highs regionally. ID and VN standout here with provisions 41-98ppts higher than in the past. Similarly, CAR levels are comparable to past cycle highs giving regional banks significant buffer to weather uncertainty.

Pick banks with the best visibility

While MIBG's macro team expects regional 2022E policy rates to rise 50-256bps YoY, NIMs are forecasted to rise 1bps-13bps YoY. This indicates significant upside surprise to margin revisions going forward, in our view. At the same time, we screen for banks that have delivered consistent DPS growth over the past decade. SG, ID and MY banks feature the most in the top-10 of strongest DPS growth CAGRs. We think increasing recession risks could heighten ROE volatility, especially for banks in higher growth markets. We appreciate that stronger balance sheets should offer some offset from downside risks. As a result, we lower our ASEAN banks outlook to NEUTRAL. In terms of preferred picks, we like to focus on banks that offer the least ROA volatility with the most dividend visibility. These include HKBK, RHB from rebounding PPOP and potential provisions write backs, OCBC and DBS from NIM upside due to low funding costs and improving North Asia outlook and BMRI from strong provisioning levels and recovering loan growth.

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Regional top picks

Stock	Ticker	Price (LCY)	Target Price (LCY)	Rating
Hong Leong Bank	HLBK MK	20.32	24.70	Buy
RHB Bank	RHBBANK MK	5.77	7.10	Buy
DBS	DBS SP	30.67	41.22	Buy
OCBC	OCBC SP	11.38	14.04	Buy
Bank Mandiri	BMRI IJ	7,900	9,500	Buy

Source: FactSet, Maybank IBG Research

Regional Banking Sector Views

Fig 1: Regional banks outlook summary

	Relative Regional Weighting	Sector Analysts View	Top Picks
Indonesia	N	Our view that loan quality is under good control and that buffer against pandemic-driven risk is more than sufficient remain unchanged. We expect margin to remain relatively stable as any risk of funding competition should be offset by acceleration in loan growth. Note that by 1H22, the credit expansion has reached 7.1% YTD (10.7% YoY) which is already above our FY22E target of 7.0% YoY). Recent share price correction also provides opportunities to collect names that based on our estimate will outperform under current economic backdrop. We continue to like BMRI, BBNI, and BJBR.	BMRI, BBNI, BJBR
Malaysia	OW	Common themes across banks in 1Q22 included interest margin pressure, lower NOII and negative JAWS which impacted cumulative core operating profit (-5% YoY). However, with lower credit costs, 1Q22 cumulative core pretax profit rose 8% YoY, only to be offset by Cukai Makmur, leading to no change in net profit. This scenario is expected to play out in 2Q as well, but the outlook is a lot brighter moving into 2H22 and 2023. NIMs are expected to expand amid further rate hikes (we expect one more 25bp hike this year and 2 more into 2023), while investment income is likely to stabilise, since bond yields appear to already fully reflect these hikes. On expectations of better margins and stable NOII into 2023, we expect cumulative 2023 operating profit to expand 6% YoY, while cumulative net profit is projected to rebound 18% YoY in the absence of Cukai Makmur, as credit costs continue to taper off. Yet again, we have not factored in any rate hike into 2023 (our Economics Team expects a 75bp hike in 2023), while the potential writeback in pre-emptive provisions provides room for positive earnings surprise. We expect ROAE to bounce back to 10.5% in 2023 (from 9.4% in 2022E; 9.6% in 2021).	HLBK, RHB, AMMB, ABMB and HILFG
Philippines	N	Lending recovery was already apparent in 1Q, and we expect stronger growth in the coming quarters, which will continue to be corporate-led. We also expect consumer to start seeing growth as well, particularly mortgage and credit cards, as mobility improves driving more consumer spend; auto growth, meanwhile, will continue to remain challenged. We expect banks under coverage to post growth of 4-12% YoY (average of 8% YoY). With the new government being more open to public-private partnerships, we expect increased debt requirement from the infrastructure sector over the medium term as there are still several unfinished projects in the Build, build, build pipeline. The rate hikes are also positive for the sector, especially for the top banks BDO, BPI and MBT, given their high CA/SA percentages and >70% variable-rate loans to total loans ratio. There is typically a six-month lag before policy rate hikes translate to an expansion of corporate loan yields so we expect NIMs to expand by 1Q23. On the asset-quality side, we expect NPLs to remain manageable despite rate hikes as the banks have already classified as NPL accounts in vulnerable industries in the past two years. Moreover, the current policy rate is still below the pre-pandemic rate at 4.0%; hence, we expect firms to still be able to absorb the higher rates.	BDO, BPI, and UBP
Singapore	OW	The banks have de-rated YTD on fears of slowing regional growth affecting loan demand. We believe loans could see recovery as re-opening drives capacity additions and responses to supply chain bottlenecks. Importantly, a hawkish Fed and regional central banks battling inflation should drive higher benchmark rates supporting NIMs. +13bps YoY in 2022E, +12bps 2023E with risks on the upside. With 2022E provisioning coverage should be 97% and asset quality should remain benign. We expect credit charges to remain low, even in a recessionary backdrop. This should support strong dividend certainty, especially with CET1 levels at -14%. The sector offers -6% 2023E dividend yield.	OCBC, DBS
Thailand	N	Despite perceived macro headwinds, we maintain our positive sector view and expect earnings to grow 16% YoY in 2022E, thanks to a lower credit cost. We expect banking sector to outperform the SET due to improving earnings in 2022. Big banks are likely to benefit from the interest rate uptrend in 2H22 and 2023. Top picks are KBANK, KTB and KKP. We see upside risk to our earnings forecast on KKP and KTB as their 1H22 earnings accounted for 58-59% of our full year forecast. SCB may outperform in near term as results eases market fear in 2Q. Its share price drop 24% YTD on market fears of mark-to-market losses from the SCB10x investment. SCB's valuation looks attractive at 8x FY22E PE, in line with KBANK's PER.	KBANK, KTB and KKP (for 12 months view) and SCB for (1-2 months view)
Vietnam	N	We remain bullish about VN banking sector in view of stronger credit growth, rising fee incomes, stabilized & easing provision, which will underpin its rising ROA to sustainable levels of 1.8-2%. In addition, reasonable capital regulations allow VN banks to maintain decent balance sheet leverage of 8-10x, which means they can generate robust ROEs (= ROA * BS leverage) of around 18-20% (vs. regional peers' avg. 10-12%) over the next 4 years. VN's leading banks are still trading near their 5-Y average P/BV, while their ROEs have improved to 5-Y high. We expect VN banks to maintain steady profit growth of c.25% on average in FY22E, with momentum to accelerate in 2H when provisioning will ease thanks to improved operating environment and also due to low-base effect (i.e. profit base was depressed in 3Q and 4Q21). Other key drivers include: (i) steady credit growth thanks to robust demand post-Covid recovery, (ii) stabilized NIM, and (iii) stronger fee income growth (i.e. 30-40%). In the 1Q22, VN banks delivered 32% YoY profit growth, and preliminary results of 2Q indicated another strong quarter of above 30% YoY profit growth. VCB, MBB, and VPB will likely deliver better-than-expected growth, in our view. This is sufficient for them to maintain very robust ROEs of 18-25%.	VCB, MBB, VPB

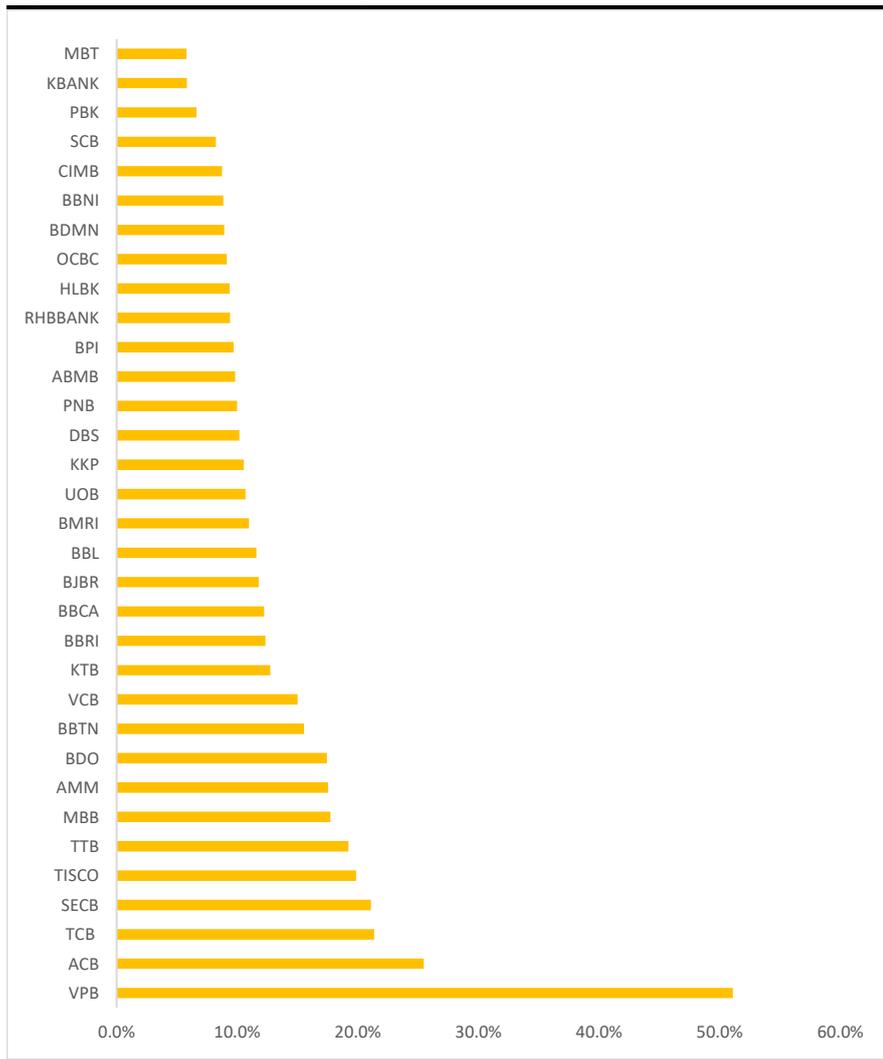
Source: Maybank IBG Research

M'sia, S'pore show the least volatile ops

To screen for stability thorough a cycle, we measure the standard deviation on average return on assets of NII, Non-II and NPAT through the past 16-years across our coverage universe. We express this as a percentage of Standard Deviation/Long term average ROA. The lower the percentage, the lower the volatility.

Of the top-10 least volatile NII/assets generators, the MY banks feature prominently - esp. PBK, CIMB, RHB, Alliance. On the other end of the scale, the VN and TH banks tends to display significant volatility.

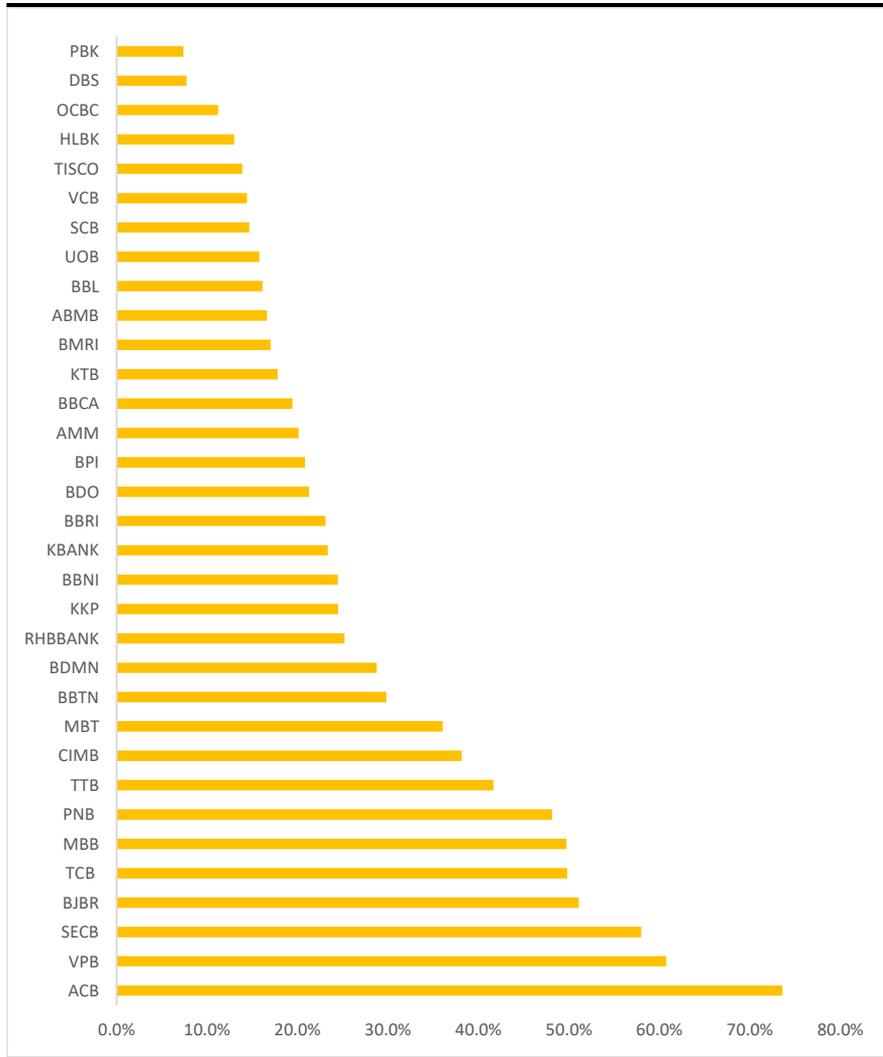
Fig 2: Standard deviation of 16-year net interest income/assets (%)



Source: Company data, Maybank IBG Research

In Non-II, the MY and SG banks (esp. DBS, UOB) display the least volatility despite undergoing the GFC and taper tantrum. This is likely supported by their focus on wealth management and limited proprietary trading exposure.

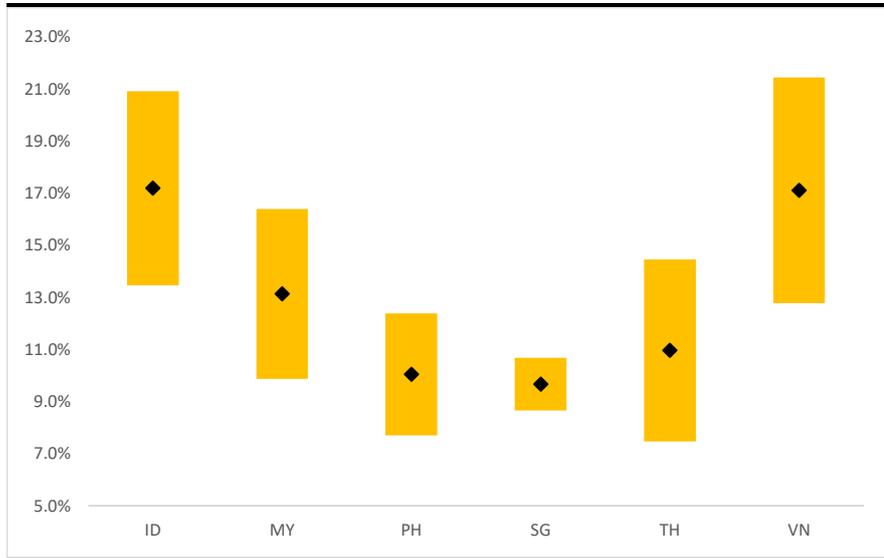
Fig 3: Standard deviation of 16-year non-interest income/assets (%)



Source: Company data, Maybank IBG Research

Delivering returns through a cycle means dynamically managing provisions, so that negative asset quality surprises are minimized, while maximizing shareholder returns.

Fig 4: Long term average ROE vs. range of standard deviation (%)



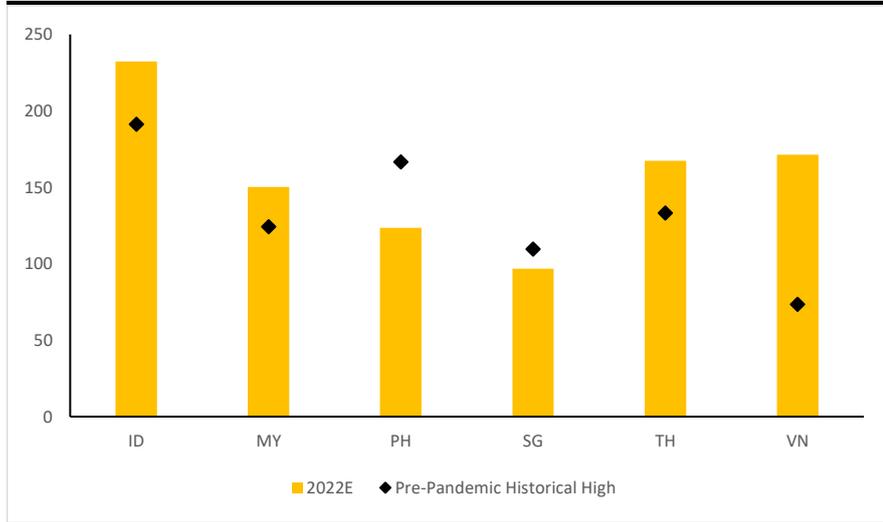
Source: Company data, Maybank IBG Research

We believe banks with the least volatile ROEs manage this best. SG has the lowest ROE volatility, while MY generates a 3.5ppt higher ROE for marginally higher volatility.

Region positioned for uncertainty

Balance sheet stability is equally important as earnings stability, in our view - especially as macro growth risks increase. We note that 2022E provisioning cover for NPLs are largely well above past historical highs regionally. ID and VN standout here with provisions 41-98ppts higher than in the past.

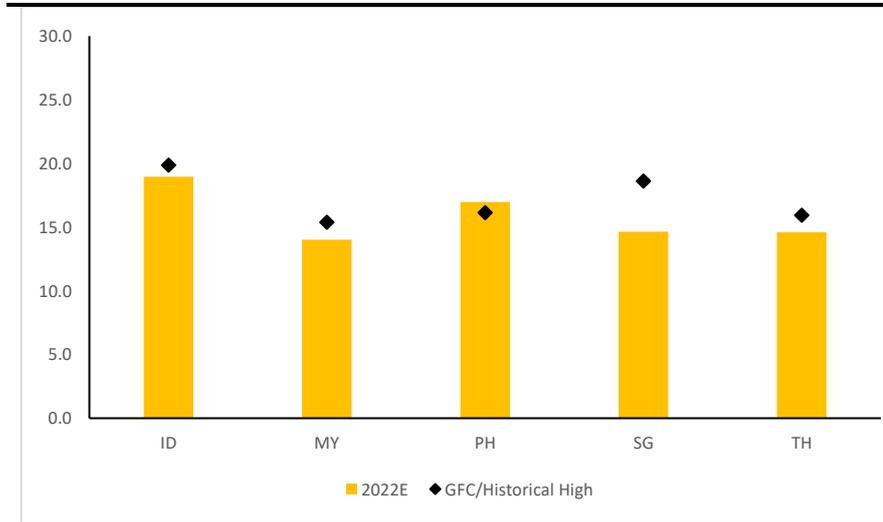
Fig 5: 2022E average provision cover vs. last historical high (%)



Source: Company data, Maybank IBG Research

Similarly, CAR levels are comparable to past cycle highs giving regional banks significant buffer to weather uncertainty.

Fig 6: 2022E average CAR vs. last historical high (%)



Source: Company data, Maybank IBG Research

Pick banks with the best visibility

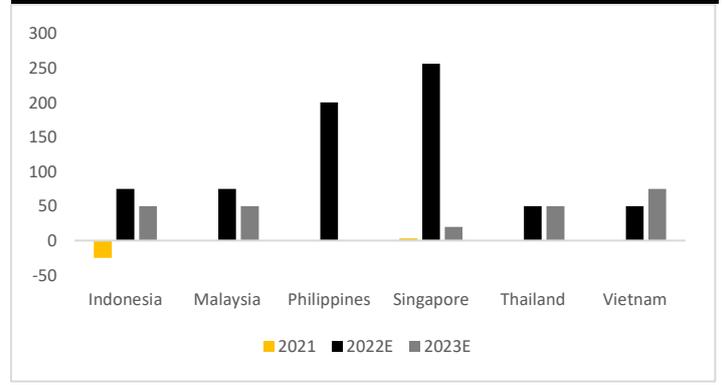
While MIBG’s macro team expects regional 2022E policy rates to rise 50-256bps YoY, NIMs are forecasted to rise 1-13bps YoY. This indicates significant upside surprise to margin revisions going forward, in our view.

Fig 7: Sector NIM growth YoY (bps)



Source: Company data, Maybank IBG Research

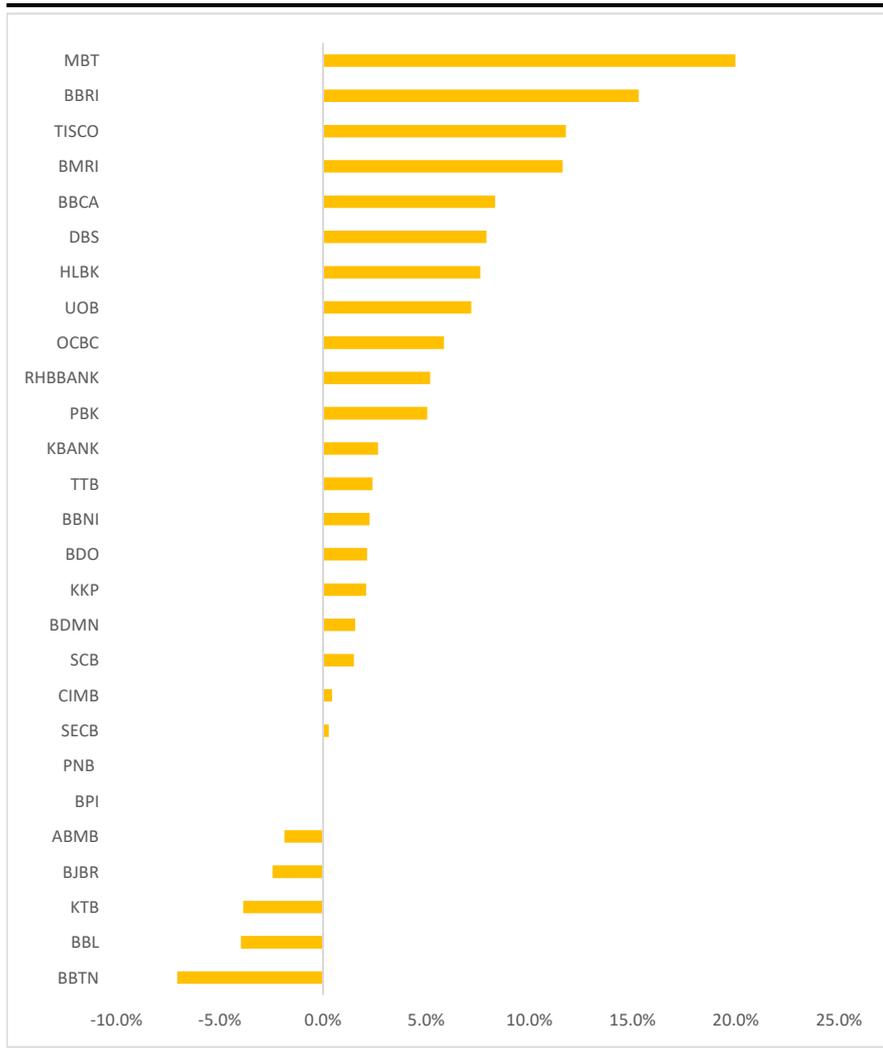
Fig 8: Policy rate growth YoY (bps)



Source: Factset, Maybank IBG Research

At the same time, we screen for banks that have delivered consistent DPS growth over the past decade.

Fig 9: 2011-2021 DPS CAGR (%)

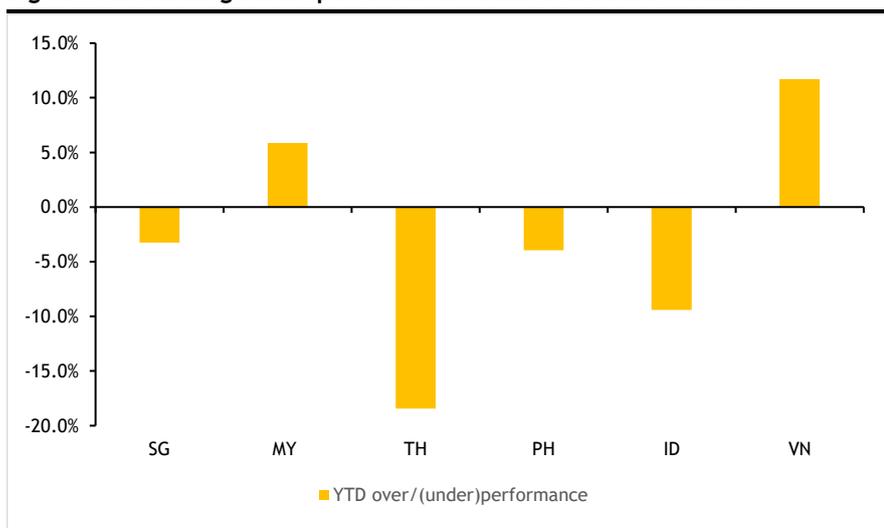


Source: Company data, Maybank IBG Research

SG, ID and MY banks feature the most in the top-10 of strongest DPS growth CAGRs.

We think increasing recession risks could heighten ROE volatility, especially for banks in higher growth markets. This has led banks as a sector to underperform their home indexes in most SE Asian markets except for MY and VN. Their stronger balance sheets this time around should offer some offset from downside risks. Overall, we lower our ASEAN banks outlook to NEUTRAL to take in to account slower growth going forward as well as potentially higher earnings volatility in TH, PH, VN and ID (for the smaller banks).

Fig 10: YTD banking sector performance relative to home indexes



Source: Factset, Maybank IBG Research

In terms of preferred picks, we like to focus on banks that offer the least ROA volatility with the most dividend visibility.

These include HKBK, RHB from rebounding PPOP and potential provisions write backs, OCBC and DBS from NIM upside due to low funding costs and improving North Asia outlook and BMRI from strong provisioning levels and recovering loan growth

Fig 11: Regional top picks

Stock	Ticker	Price (LCY)	Target Price (LCY)	Rating	PE (x)		PB (x)		Dividend Yield (%)		ROE (%)	
					2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Hong Leong Bank	HLBK MK	20.32	24.70	Buy	13.1	11.3	1.4	1.3	2.9	3.3	10.4	11.3
RHB Bank	RHBBANK MK	5.77	7.10	Buy	9.7	8.2	0.8	0.8	5.1	6.1	8.6	9.8
DBS	DBS SP	30.67	41.22	Buy	10.1	8.9	1.3	1.2	4.9	5.4	13.2	13.8
OCBC	OCBC SP	11.38	14.04	Buy	9.3	8.1	0.9	0.9	5.3	6.1	10.1	10.8
Bank Mandiri	BMRI IJ	7,900	9,500	Buy	10.9	9.4	1.7	1.6	5.0	5.7	15.5	16.7

Source: FactSet, Maybank IBG Research

Appendix

Fig 12: Regional banks coverage

Stock	Ticker	Price (LCY)	Target Price (LCY)	Rating	PE (x)		PB (x)		Dividend Yield (%)	
					2022E	2023E	2022E	2023E	2022E	2023E
Indonesia										
Bank Central Asia	BBCA IJ	7,400	6,400	Sell	25.4	22.4	4.2	3.9	2.0	2.3
Bank Rakyat Indonesia	BBRI IJ	4,310	4,600	Hold	16.2	13.3	2.2	2.1	3.9	4.4
Bank Mandiri	BMRI IJ	7,900	9,500	Buy	10.9	9.4	1.7	1.6	5.0	5.7
Bank Negara Indonesia	BBNI IJ	7,725	9,600	Buy	9.7	7.5	1.1	1.0	2.3	3.0
Bank Danamon	BDMN IJ	2,510	2,700	Buy	11.1	8.6	0.5	0.5	2.8	3.7
Bank BJB	BJBR IJ	1,325	2,100	Buy	5.7	5.3	0.9	0.8	6.8	7.0
Bank Tabungan Negara	BBTN IJ	1,470	1,800	Hold	6.2	5.3	0.7	0.6	1.4	1.7
Average					12.2	10.3	1.6	1.5	3.5	4.0
Malaysia										
Alliance Bank	ABMB MK	3.33	4.30	Buy	10.2	8.0	0.9	0.7	4.9	6.2
AMMB	AMM MK	3.87	4.40	Buy	9.8	8.4	0.7	0.6	1.3	3.6
CIMB	CIMB MK	5.16	5.70	Hold	9.8	8.2	0.9	0.9	4.8	5.6
Hong Leong Bank	HLBK MK	20.32	24.70	Buy	13.1	11.3	1.4	1.3	2.9	3.3
Public Bank	PBK MK	4.44	4.80	Hold	15.6	12.9	1.7	1.6	3.4	4.1
RHB Bank	RHBBANK MK	5.77	7.10	Buy	9.7	8.2	0.8	0.8	5.1	6.1
BIMB	BIMB MK	2.63	3.00	Hold	11.9	9.9	0.8	0.8	3.7	4.5
Average					11.5	9.6	1.0	1.0	3.8	4.8
Philippines										
BDO Unibank	BDO PM	121.00	157.00	Buy	11.1	9.5	1.2	1.0	1.7	1.0
Metropolitan Bank & Trust	MBT PM	46.40	55.00	Hold	7.3	6.1	0.6	0.6	6.5	3.4
Bank of the Philippine Islands	BPI PM	89.00	113.00	Buy	11.9	10.0	1.3	1.1	2.0	2.0
Security Bank (Philippines)	SECB PM	90.00	123.00	Buy	6.5	5.2	0.5	0.5	4.4	3.3
Philippine National Bank	PNB PM	17.98	26.00	Buy	2.5	2.6	0.2	0.2	0.0	0.0
Average					7.9	6.7	0.7	0.7	2.9	2.0
Singapore										
DBS	DBS SP	30.67	41.22	Buy	10.1	8.9	1.3	1.2	4.9	5.4
OCBC	OCBC SP	11.38	14.04	Buy	9.3	8.1	0.9	0.9	5.3	6.1
UOB	UOB SP	27.10	34.62	Buy	9.8	8.5	1.0	1.0	5.1	5.9
Average					9.7	8.5	1.1	1.0	5.1	5.8
Thailand										
Bangkok Bank	BBL TB	130.50	165.00	Buy	8.1	7.5	0.5	0.5	3.8	4.6
Kasikornbank	KBANK TB	140.50	185.00	Buy	7.9	7.4	0.7	0.6	3.6	3.9
Kiatnakin Bank	KKP TB	63.00	88.00	Buy	7.5	6.9	1.0	0.9	5.6	6.3
Krung Thai Bank	KTB TB	15.00	18.00	Buy	7.2	6.8	0.5	0.5	4.8	5.1
Siam Comm. Bk	SCB TB	94.00	140.00	Buy	8.1	7.4	0.7	0.6	4.8	5.3
TISCO Financial	TISCO TB	88.25	105.00	Buy	9.8	9.8	1.7	1.6	8.8	9.1
TMBThanachart Bank	TTB TB	1.18	1.45	Buy	8.6	7.8	0.5	0.5	4.2	5.1
Average					8.2	7.7	0.8	0.7	5.1	5.6
Vietnam										
Asia Commercial Bank	ACB VN	24,650	30,720	Hold	6.8	5.8	1.4	1.2	0.0	0.0
MB Bank	MBB VN	25,600	35,400	Buy	6.6	5.5	1.3	1.1	0.0	0.0
Vietcombank	VCB VN	72,500	115,000	Buy	13.7	11.6	2.5	2.1	0.0	0.0
VP Bank	VPB VN	28,200	50,000	Buy	8.5	7.0	1.3	1.1	0.0	0.0
Techcombank	TCB VN	36,850	82,200	Buy	5.7	4.7	1.1	0.9	0.0	0.0
Average					8.3	7.0	1.5	1.3	0.0	0.0

Source: FactSet, Maybank IBG Research

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