

# Malaysia Banking

# POSITIVE

[Unchanged]

## Room for provision write-backs?

### Sufficient buffers built into future earnings

While the macro outlook into 2023 remains challenging, we do think that we have factored in sufficient credit cost buffers into our earnings at this stage. There is room to surprise positively should pre-emptive provisions be gradually released. Moreover, we have baked in the margin impact of just one rate hike into our earnings thus far, on conservative grounds. We remain POSITIVE with BUYs on HLBK, RHB, AMMB, ABMB and HLFG.

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### Loans under RA have been declining

Since 1Q20, banks in our coverage have set aside an estimated MYR9.5b of pre-emptive provisions, accounting for as high as 73%/79% of total provisions for PBK/HLBK. Meanwhile, loans under Repayment Assistance (RA) have since fallen from a peak of about 25% (MYR440b) of total loans in Oct/Nov 2021 to about 8% (MYR142b) in Apr 2022.

### Write-backs would enhance earnings

In assessing the adequacy of provisions, our stress test (Fig 4) assumed a 20% default rate and a 30% loss given default rate on loans under RA. Under such a circumstance, loan loss coverage (pre-emptive provisions and regulatory reserves), would be comfortably above 100% for all banks in our coverage. Hypothetically assuming that banks wrote back 50% of their pre-emptive provisions in a single financial year, this could enhance their FY23E net profit by between 12% (HLBK) to 38% (ABMB). The write-back quantum would undoubtedly depend on final default levels.

### Challenging outlook baked into assumptions

The macro outlook into 2023 remains challenging - our Economics Team expects the CPI to hit 3.4% in 2022 and 4.1% in 2023, while the domestic GDP is expected to expand at a slower rate of 4% in 2023 versus 6% in 2022. We have been wary of these macro developments for a while now and on a calendarized basis, we have kept credit costs assumptions elevated at 37bps in 2022E and 34bps in 2023E, against a pre-COVID average of 28bps from FY17-FY19. In summary, we do think we have built in sufficient buffers into our earnings against slower economic growth in 2023 at this stage. There is room to surprise positively through provision write-backs should loans under RA continue to trend down and should asset quality prove to be more resilient than expected.

#### Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY 22E	PER (x) CY 23E	P/B (x) CY 22E	P/B (x) CY 23E	ROAE (%) CY 22E	ROAE (%) CY 23E	Net yield CY 22E	Net yield CY 23E
Maybank *	NR	8.56	102,822	NR	13.2	11.3	1.2	1.2	8.9	10.2	6.5	7.6
Public Bank	HOLD	4.39	84,825	4.80	15.4	12.8	1.7	1.6	11.2	12.7	3.5	4.1
CIMB	HOLD	5.08	51,952	5.70	9.6	8.1	0.9	0.8	8.7	9.8	4.9	5.7
HLB Bank	BUY	20.08	44,352	24.70	12.0	10.9	1.3	1.2	10.8	11.2	3.1	3.5
RHB Bank	BUY	5.67	23,756	7.10	9.6	8.0	0.8	0.8	8.6	9.8	5.2	6.2
HLFG	BUY	18.50	21,229	22.10	8.4	8.0	0.8	0.8	10.2	10.0	2.9	3.1
AMMB	BUY	3.86	12,760	4.40	8.8	8.0	0.7	0.6	8.4	8.0	3.0	3.8
BIMB	HOLD	2.64	5,776	3.00	12.0	9.9	0.8	0.8	7.2	8.3	3.3	3.9
ABMB	BUY	3.20	4,923	4.30	7.9	7.2	0.7	0.7	9.5	9.9	6.3	7.0
Simple avg			352,395		10.8	9.4	1.0	0.9	9.3	10.0	4.3	5.0
MC-wtd					12.3	10.5	1.2	1.1	9.7	10.7	4.6	5.4

\* Consensus estimates Source: Maybank IBG Research

## Almost MYR10b worth of pre-emptive provisions

Banks have been setting aside pre-emptive provisions since 1Q20 i.e. since the start of the COVID pandemic, and in totality, the banks in our coverage have set aside an estimated MYR9.5b of such provisions. The table below shows the level of pre-emptive provisions put through by each bank on a quarterly basis, both in MYR'm and in basis points.

**Fig 1: Preemptive provisions**

<b>ABMB</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	35	59	151	15	89	65	21	32	20
BAU	64	36	-	136	47	30	13	(17)	53
<b>Total</b>	<b>98</b>	<b>95</b>	<b>151</b>	<b>151</b>	<b>137</b>	<b>95</b>	<b>34</b>	<b>15</b>	<b>73</b>
Bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Preemptive	32	54	138	14	79	60	19	27	13
BAU	58	34	-	125	42	28	11	(14)	35
<b>Total</b>	<b>91</b>	<b>87</b>	<b>138</b>	<b>140</b>	<b>120</b>	<b>87</b>	<b>30</b>	<b>13</b>	<b>48</b>

<b>AMMB</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	167	10	205	60	304	87	68	45	(552)
BAU	28	32	157	198	152	102	96	317	795
<b>Total</b>	<b>195</b>	<b>43</b>	<b>361</b>	<b>258</b>	<b>455</b>	<b>189</b>	<b>163</b>	<b>362</b>	<b>244</b>
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	64	4	75	22	107	30	24	13	(147)
BAU	10	12	58	71	54	35	33	88	212
<b>Total</b>	<b>74</b>	<b>16</b>	<b>133</b>	<b>93</b>	<b>161</b>	<b>65</b>	<b>57</b>	<b>101</b>	<b>65</b>

<b>CIMB</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	146	602	730	880	203	188	453	486	(25)
BAU	822	868	790	504	513	464	76	231	312
<b>Total</b>	<b>968</b>	<b>1,470</b>	<b>1,520</b>	<b>1,384</b>	<b>716</b>	<b>652</b>	<b>529</b>	<b>717</b>	<b>287</b>
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	16	65	79	96	22	20	53	57	(3)
BAU	90	94	86	55	56	48	9	27	37
<b>Total</b>	<b>106</b>	<b>159</b>	<b>165</b>	<b>151</b>	<b>78</b>	<b>68</b>	<b>62</b>	<b>84</b>	<b>34</b>

<b>HL Bank</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	-	301	238	61	55	157	23	38	0
BAU	126	(110)	(134)	180	59	37	26	(5)	51
<b>Total</b>	<b>126</b>	<b>191</b>	<b>104</b>	<b>241</b>	<b>114</b>	<b>194</b>	<b>49</b>	<b>33</b>	<b>51</b>
bps	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	-	84	65	17	14	40	6	9	0
BAU	35	(31)	(37)	48	16	10	7	(1)	13
<b>Total</b>	<b>35</b>	<b>53</b>	<b>28</b>	<b>65</b>	<b>30</b>	<b>50</b>	<b>13</b>	<b>8</b>	<b>13</b>

Source: Banks, Maybank IBG Research

Fig 1: Pre-emptive provisions continued...

<b>Maybank</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	600	900	580	70	200	240	547	(241)	0
BAU	362	839	224	1,023	650	285	579	399	443
<b>Total</b>	<b>962</b>	<b>1,739</b>	<b>804</b>	<b>1,093</b>	<b>850</b>	<b>525</b>	<b>1,126</b>	<b>158</b>	<b>443</b>
<b>bps</b>									
Pre-emptive	46	69	44	5	15	18	40	(18)	0
BAU	27	64	17	79	49	21	43	29	32
<b>Total</b>	<b>73</b>	<b>133</b>	<b>61</b>	<b>84</b>	<b>64</b>	<b>39</b>	<b>83</b>	<b>11</b>	<b>32</b>
<b>Public Bank</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	18	111	284	334	-	470	300	230	0
BAU	44	43	50	223	198	(74)	24	52	100
<b>Total</b>	<b>61</b>	<b>154</b>	<b>335</b>	<b>557</b>	<b>198</b>	<b>396</b>	<b>324</b>	<b>282</b>	<b>100</b>
<b>bps</b>									
Pre-emptive	2	13	34	39	-	53	34	28	0
BAU	5	5	6	26	23	(8)	3	6	11
<b>Total</b>	<b>7</b>	<b>18</b>	<b>40</b>	<b>65</b>	<b>23</b>	<b>45</b>	<b>37</b>	<b>34</b>	<b>11</b>
<b>RHB Bank</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	50	200	192	114	94	236	234	(302)	90
BAU	101	7	(24)	435	86	(17)	252	(8)	56
<b>Total</b>	<b>151</b>	<b>207</b>	<b>168</b>	<b>549</b>	<b>180</b>	<b>219</b>	<b>486</b>	<b>(310)</b>	<b>146</b>
<b>bps</b>									
Pre-emptive	11	44	42	25	20	50	25	(15)	18
BAU	23	2	(5)	93	19	(4)	26	(0)	11
<b>Total</b>	<b>34</b>	<b>46</b>	<b>37</b>	<b>118</b>	<b>39</b>	<b>46</b>	<b>51</b>	<b>(15)</b>	<b>29</b>
<b>TOTAL</b>									
MYR'm	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Pre-emptive	1,016	2,183	2,379	1,534	945	1,443	1,599	(7)	(467)
BAU	1,546	1,716	1,063	2,698	1,706	827	878	1,499	1,811
<b>Total</b>	<b>2,561</b>	<b>3,899</b>	<b>3,443</b>	<b>4,232</b>	<b>2,651</b>	<b>2,270</b>	<b>2,477</b>	<b>1,492</b>	<b>1,344</b>

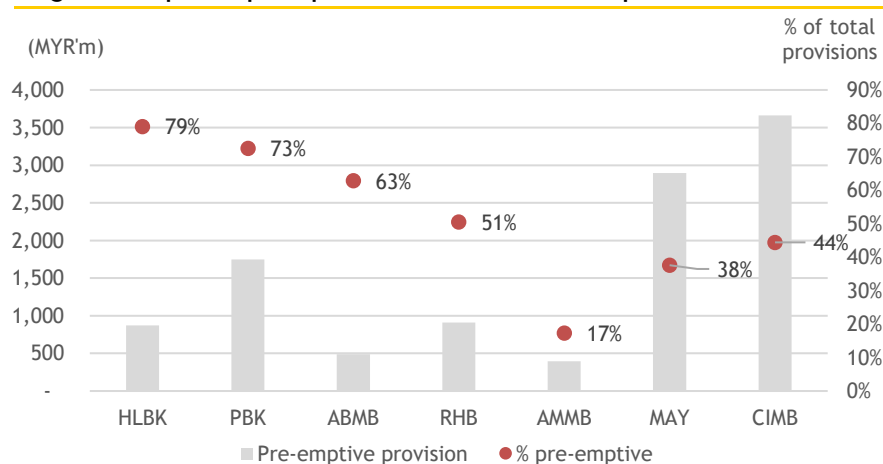
Source: Banks, Maybank IBG Research

## Pre-emptive provisions account for 45% of total provisions

Cumulative pre-emptive provisions since 1Q20 to 1Q22 have accounted for as high as 73% and 79% of total provisions for Public Bank and HL Bank, while at the low end is AMMB at 17%. The latter, however, may be attributed to management’s decision to write back MYR552m worth of pre-emptive provisions in 1Q22, which if we include back in the computation, would have taken the percentage of pre-emptive provisions to 42% of total provisions for AMMB.

The pre-emptive provisions percentages are lower at 38% and 44% for Maybank and CIMB respectively, given the need to set aside more BAU provisions against problematic corporate loans over this period of time.

**Fig 2: Total pre-emptive provisions and as % of total provisions**



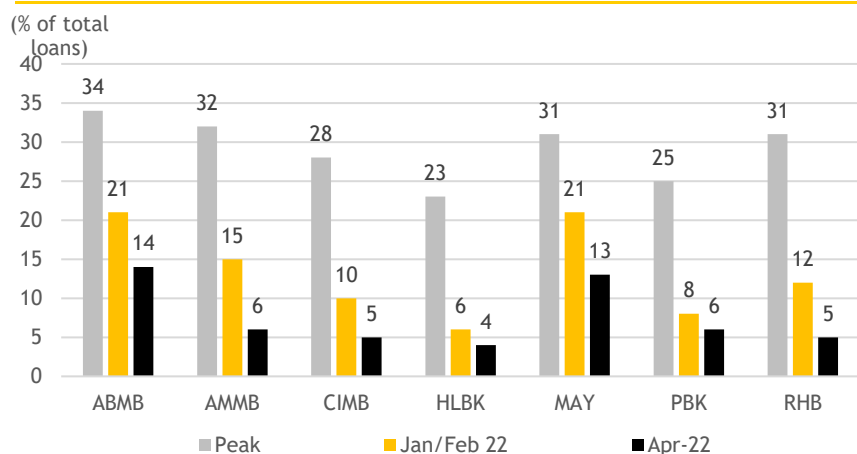
Source: Banks, Maybank IBG Research

## Loans under RA have been declining

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, or MYR440b in absolute terms. 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. The percentage of RA loans has since declined to about MYR142b for the banks in our coverage, averaging about 8% of total loans.

Application for the URUS programme closed 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 3: % loans under RA by bank (Apr 2022 vs Jan/Feb 2022 and peak)**


Source: Banks

## Pre-emptive provision levels appear adequate

In determining the sufficiency of pre-emptive provisions today, our stress test assumed the following:

- That total pre-emptive provisions set aside today 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.

As indicated in Fig 4 below, loan loss coverage (LLC) without regulatory reserves, under our stress scenario, would be comfortably above 100% for all banks except AMMB and Maybank, the coverage for which would be above 100% as well, if we include regulatory reserves, at 125% and 102% respectively. As it stands, Maybank's percentage of RA loans of 13% is higher than that of most of its peers of 5-6%. Further reductions to this percentage would undoubtedly contribute to much improved coverage ratios.

**Fig 4: Sensitivity analysis on the sufficiency of pre-emptive provisions**

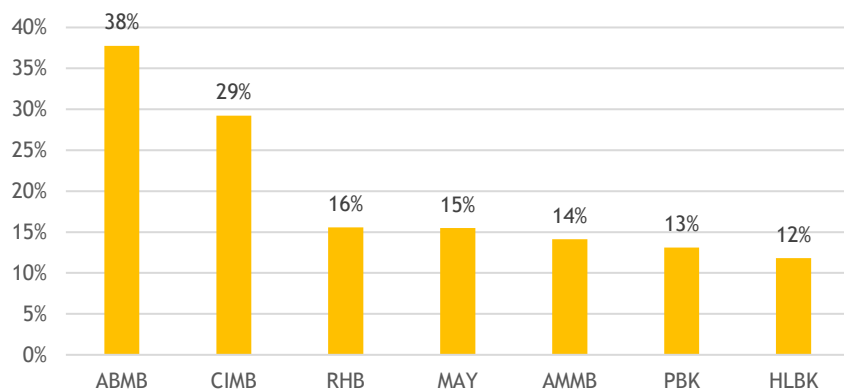
(MYR'm)	ABMB	AMMB	CIMB	HLBK	MAY	PBK	RHB
Pre-emptive provisions	487	394	2,200	873	2,896	1,747	908
Regulatory reserves	48	103	301	560	1,667	177	363
Total pre-emptive provs	<b>534</b>	<b>497</b>	<b>2,501</b>	<b>1,433</b>	<b>4,563</b>	<b>1,924</b>	<b>1,271</b>
Total RA loans	6,280	6,600	19,235	6,100	74,900	20,100	9,200
Total loans	46,189	119,993	384,721	162,494	562,047	362,732	201,348
% RA loans	14%	6%	5%	4%	13%	6%	5%
Assumed LGD	30%	30%	30%	30%	30%	30%	30%
Assumed default rate	20%	20%	20%	20%	20%	20%	20%
Loss on default	377	396	1,154	366	4,494	1,206	552
LLC without reg reserves	129%	99%	191%	239%	64%	145%	164%
LLC with reg reserves	142%	125%	217%	391%	102%	160%	230%

Source: Maybank IBG Research

## If banks wrote back 50% of their pre-emptive provisions

Hypothetically, on the assumption that banks wrote back 50% of their pre-emptive provisions in a single financial year, this could enhance their FY23E net profit by between 12% (HL Bank) to 38% (Alliance Bank). The write-back quantum would undoubtedly depend on the final default levels, which may not be that apparent until the end of this year, in our view, given that some of the loans under moratorium have rolled off into either the URUS programme or the banks' own financial assistance programmes.

**Fig 5: Impact of a 50% writeback in preemptive provisions on FY23E profit**



Source: Maybank IBG Research

## Keeping credit cost assumptions elevated

Banks have started to lower/write back some of the management overlays that had been put through over the past two years. However, general indications are that banks remain cautious over the outlook this year, and preliminarily into next year as well.

Our credit cost assumptions for FY22 largely mirror the credit cost guidance of the various banks.

**Fig 6: MIBG's credit cost estimates versus banks' guidance**

	FY21A	FY22E mgt guidance	FY22E	FY23E
ABMB *	1.21%	0.40-0.45%	0.45%	0.40%
AMMB *	1.01%	0.35-0.40%	0.50%	0.50%
BIMB	0.35%	0.35%	0.25%	0.20%
CIMB	0.73%	0.70%	0.50%	0.45%
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

\* FYE3/22A - FY3/24E

@ FYE6/21A-FYE6/23E

The macro outlook into 2023 remains challenging - inflationary pressures abound and our Economics Team forecasts the CPI to hit 3.4% in 2022 and 4.1% in 2023, while the domestic GDP is expected to expand at a slower rate of 4% in 2023 versus 6% in 2022.

We have been wary of these macro developments for a while now. Fig 7 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.

**Fig 7: Credit cost estimates relative to pre-COVID averages**

	FY17-19	FY20-21	FY22E	FY23E
ABMB *	0.26%	0.92%	0.45%	0.40%
AMMB *	(0.17%)	0.66%	0.50%	0.50%
BIMB	0.11%	0.36%	0.25%	0.20%
CIMB	0.54%	1.07%	0.50%	0.45%
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%

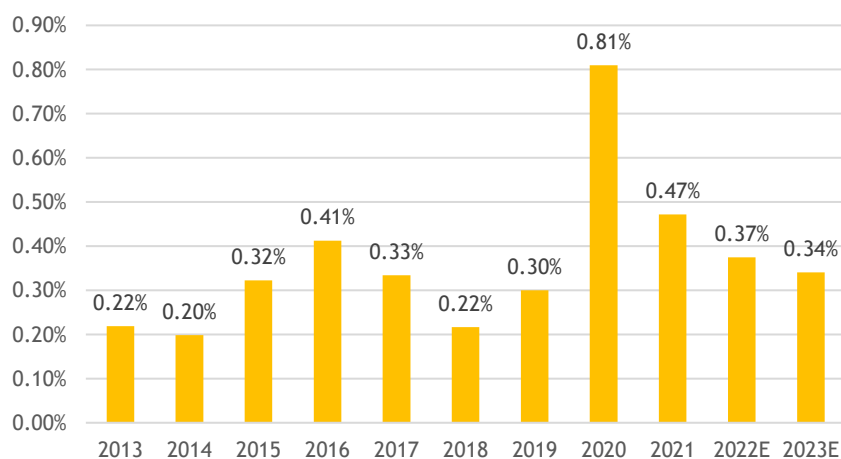
Source: Banks, Maybank IBG Research

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

On a calendarized basis, we project credit costs to average 37bps in 2022E and 34bps in 2023E, against a pre-COVID average of 28bps from FY17-FY19. In summary, we do think we have built in sufficient buffers into our earnings against slower economic growth in 2023 at this stage.

We would hope that banks maintain elevated credit costs into 2023 to buffer against such uncertainties, but there is undoubtedly room to surprise positively through provision write-backs should loans under RA continue to trend down and should asset quality prove to be more resilient than expected.

**Fig 8: Average credit cost (2013-2023E)**



Source: Maybank IBG Research

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