

# Malaysia Banking

# POSITIVE

[Unchanged]

## System liquidity is improving

### NIMs could surprise positively

System liquidity is improving, judging from trends in CASA deposits, the 3-month KLIBOR and LCRs at Islamic banks, paving the way for NIMs potentially surprising on the upside. An ideal situation would be for NIMs to return to pre-pandemic levels which could hypothetically pave the way for earnings upgrades of 1-16%. We maintain a POSITIVE on the sector, with BUYs on AMMB, CIMB, PBK, RHB, HLBK and HLFG.

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### NIM pressure has eased

Having contracted in 2023, net interest margins have held steady thus far this year and banks have generally been guiding for NIMs in 2024 to range between +/-5bps from 2023 levels. On an aggregate basis, we expect NIMs to be stable YoY this year, averaging about 2.07% for the banks in our coverage, and we have conservatively imputed a 2bps recovery in 2025E.

### System liquidity is improving

As a gauge of present banking system liquidity situations, we have looked at the trend in a) CASA deposits, b) the 3-month KLIBOR and c) liquidity coverage ratios (LCRs) at Islamic banks. What is encouraging is that all three indicators point to improving liquidity positions, which should aid in easing NIM pressure in the coming quarters. Having contracted YoY from Jan-Sep 2023, CASA has maintained positive momentum since (+6.4% YoY in Jul 2024). Due to tight liquidity, the 3-month KLIBOR rose from a low of around 3.45% in June 2023 to 3.77% in Dec 2023, but has trended back down since then, with the 3-month KLIBOR currently hovering around the 3.50% level. From a pre-pandemic average of about 152%, the average LCR for Islamic banks dipped to a low of about 127% in Oct 2022. Since then, the Islamic banks have built back their LCR to a more normalized level of 153%, which in fact, is now back on par with that of conventional commercial banks (150% in Jul 2024).

### Room for earnings upgrades?

With the exception of Public Bank, banks' NIMs have not returned to pre-pandemic (2019) levels, which variances ranging from 1bp (ABMB) to 21bps (RHB). If NIMs do return to pre-pandemic levels then hypothetically, we could see FY25/26E earnings upgrades ranging from 1-16%, with BIMB (+14%) and RHB (+16%) potentially the largest earnings revisions. Least impacted would be Public Bank (whose NIMs have already been restored to pre-pandemic levels) and ABMB (+1% earnings change).

Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	Upside (%)	PER (x) CY 24E	PER (x) CY 25E	P/B (x) CY 24E	P/B (x) CY 25E	ROAE (%) CY 24E	ROAE (%) CY 25E	Net yield CY 24E	Net yield CY 25E
Maybank *	NR	10.64	128,392	NR	NA	12.8	12.0	1.3	1.3	10.5	10.9	6.0	6.4
Public Bank	BUY	4.70	91,230	5.40	15%	13.0	12.3	1.6	1.5	12.6	12.7	4.5	4.9
CIMB	BUY	8.16	87,402	9.20	13%	11.3	10.6	1.2	1.2	11.1	11.2	5.7	5.1
HL Bank	BUY	21.20	45,956	24.30	15%	9.9	9.3	1.1	1.0	11.8	11.7	3.4	3.8
RHB Bank	BUY	6.30	27,465	6.80	8%	9.0	8.7	0.9	0.8	9.7	9.8	6.3	6.3
HLFG	BUY	19.30	22,147	22.70	18%	6.7	6.4	0.7	0.7	11.1	11.0	2.9	2.9
AMMB	BUY	5.17	17,134	5.95	15%	9.4	8.8	0.9	0.8	9.5	9.5	5.2	5.7
ABMB	HOLD	4.30	6,657	4.60	7%	9.3	8.8	0.9	0.9	9.9	9.9	5.4	5.7
BIMB	HOLD	2.63	5,961	2.75	5%	10.5	9.8	0.8	0.8	7.6	7.9	6.2	6.6
Simple avg			432,344			10.2	9.6	1.0	1.0	10.4	10.5	5.1	5.3
MC-wtd						11.4	10.8	1.2	1.2	11.1	11.2	5.2	5.3

\* Consensus estimates Source: Maybank IBG Research

# 1. Interest margin trends

## 1.1 Margins have declined over the years

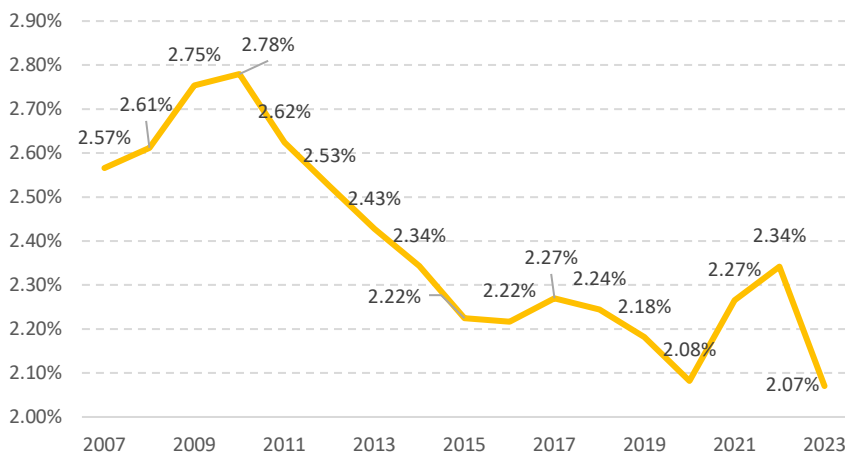
Alongside the maturing of the Malaysian economy and its banking system, banks have had to compete more intensely for deposits, and this has led to a compression in net interest margins (NIMs) over time.

Fig 1 shows the average NIMs of banks within our coverage. What it indicates is that since peaking at an average of about 2.78% in 2010, NIMs have markedly declined in the subsequent years, culminating in a sharp contraction in 2020, exacerbated by interest rate moves during the COVID pandemic.

Fig 2 shows the movement in NIMs on a quarterly basis. From an average of 2.22% in 4Q19, NIMs dropped to a low of 1.78% in 2Q20, i.e. plunging by a hefty 44bps. This contraction was led by:

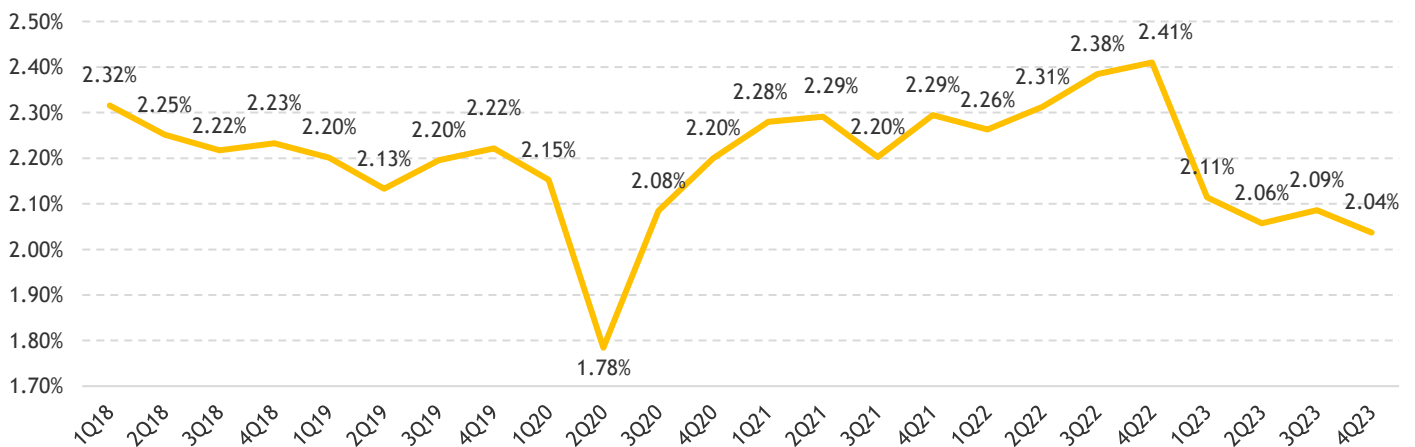
- a) Five interest rate cuts to the tune of 125bps in 2020, which took the OPR down to a low of 1.75%; and
- b) Modification losses brought about by the waiver of loan interest.

**Fig 1: Average interest margins (2007-2023)**



Source: Banks, Maybank IBG Research

**Fig2: Quarterly NIM (1Q18 - 2Q24)**



Source: Banks, Maybank IBG Research

## 1.2 NIMs surged in 2021/2022...

The sharp decline was followed by a sharp rebound and NIMs surged in 2021 and 2022, to above pre-pandemic levels.

This rebound in 2021/22 was led by:

- a) The absence of or lower modification losses in the subsequent years;
- b) Interest rate hikes, as BNM put through a series of 4 rate hikes in 2022 to the tune of 100bps, taking the OPR to 2.75%; and
- c) A surge in CASA, driven by factors such as the conversion of fixed deposits to CASA amid falling interest rates, permitted EPF withdrawals to tide consumers over, and the flow of Government aid into the accounts of consumers/SMEs.

## 1.3 ...but dived again in 2023

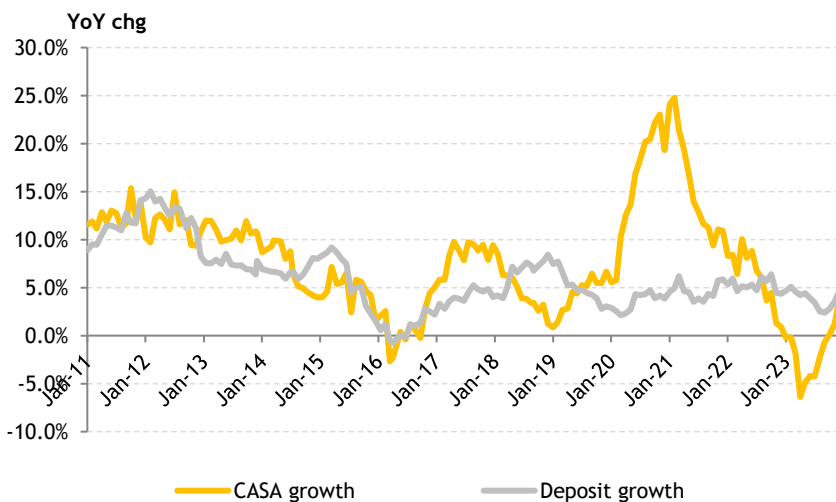
The rebound, however, was short-lived and NIMs contracted yet again in 2023, even though BNM raised the OPR by 25bps to 3.00% in May 2023.

While higher interest rates typically benefit banks' margins in the short term, intense and irrational competition over the past year has effectively negated any positives.

In our view, contributory factors to this competition included: a) the sizeable drop-off in cheaper cost CASA, b) the restoration of the Statutory Requirement Rate (SRR) which lowered investment yields and contributed to the rush to replenish liquidity through fixed deposits, c) aggressive deposit gathering in attempts at locking in longer-term fixed deposits ahead of expectations of future rate rises, d) increased competition from the likes of financial institutions such as Malaysia Building Society (MBSB MK; Not Rated), that has been more aggressive in its deposit campaigns, now that it is a commercial bank (as opposed to its building society status before, with limited deposit-taking abilities), e) earlier pressures on inter-bank rates and f) intense competition on lending rates, particularly for mortgages.

NIMs averaged 2.07% in 2023, down 27bps from 2.34% in 2022, and was 1bp lower than the pre-pandemic average of 2.08% in 2019.

**Fig 3: CASA started declining in 2021 - 2023**

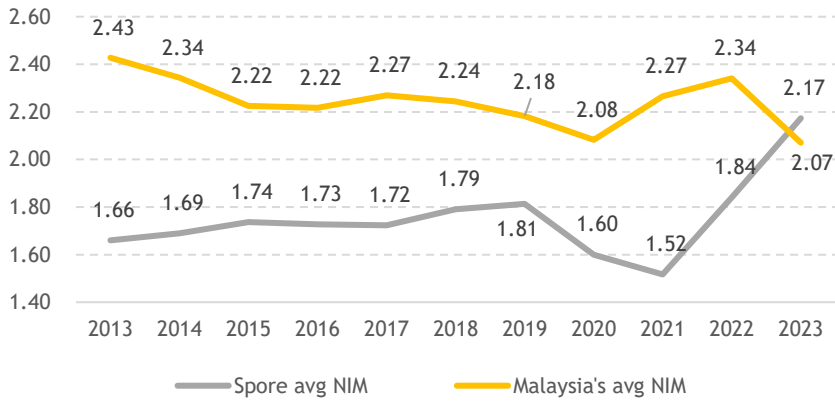


Source: BNM

### 1.4 NIMs are now lower in Malaysia than in Singapore

Given the pause in OPR hikes by BNM (while Singapore rates continued to rise in tandem with the Fed Fund Rate), and the intense competition that set in, average NIMs for Malaysian banks were lower than Singapore NIMs for the first time ever.

**Fig 4: Average NIMs in Malaysia vs Singapore**



Source: Banks, Maybank IBG Research

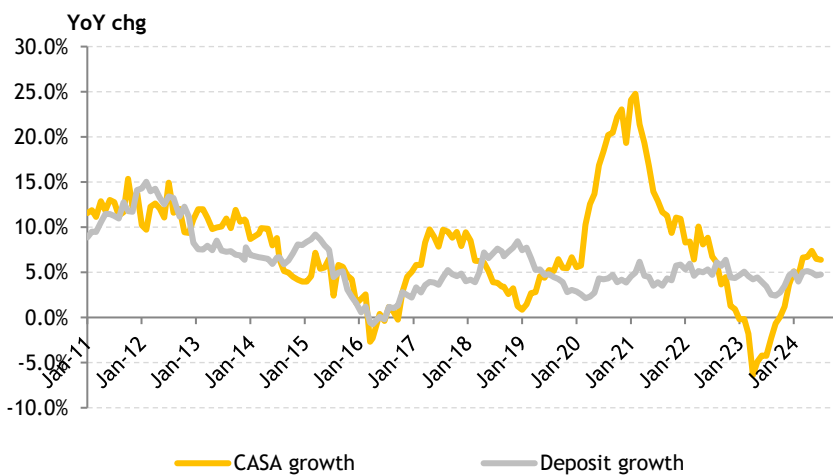
## 2. Liquidity positions are stabilizing

As a gauge of present liquidity situations, we have looked at the trend in a) CASA deposits, b) the 3-month KLIBOR and c) liquidity coverage ratios (LCRs) at Islamic banks. What is encouraging is that both indicators point to improving liquidity positions, which should aid in easing NIM pressure in the coming quarters. Moreover, some of the banks have pledged to scale back on their mortgage price competition, which should ease pressure on lending yields.

### 2.1 CASA continues to grow

Having contracted YoY over nine consecutive months from Jan 2023 to Sep 2023, CASA resumed growth in Oct 2023 and has maintained positive momentum since, expanding 6.4% YoY in July 2024, against total system deposit growth of just 4.8%. This is positive, for it should allow banks to rebalance their deposit mix for improved funding costs.

**Fig 5: Total industry deposit growth vs CASA growth**

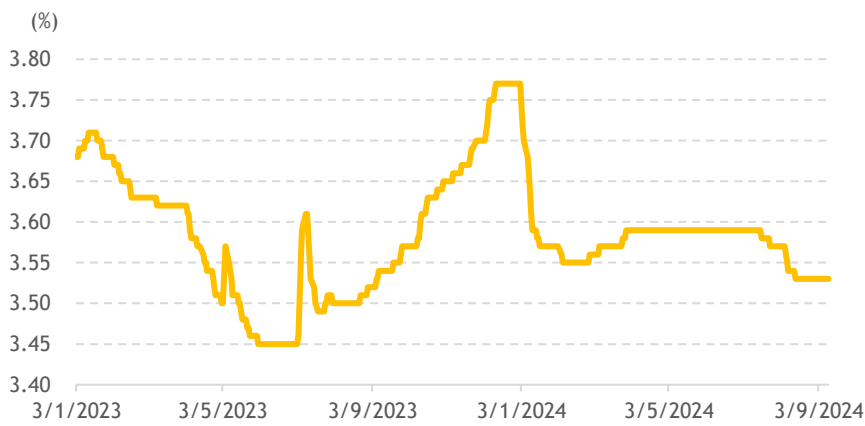


Source: BNM

### 2.2 KLIBOR rates are easing

Also a compass for funding costs, in our opinion, are KLIBOR rates. As per Fig 6, the 3-month KLIBOR trended upwards in 2H23, rising from a low of around 3.45% in June 2023 to 3.77% in Dec 2023. This was, in our opinion, a function of tightening liquidity within the system during this period. Positively, however, the trend has reversed and KLIBOR rates have trended back down, with the 3-month KLIBOR currently hovering around the 3.50% level, which does imply an easing of liquidity positions.

**Fig 6: 3-month KLIBOR trend (Jan 2023 - Sep 2024)**

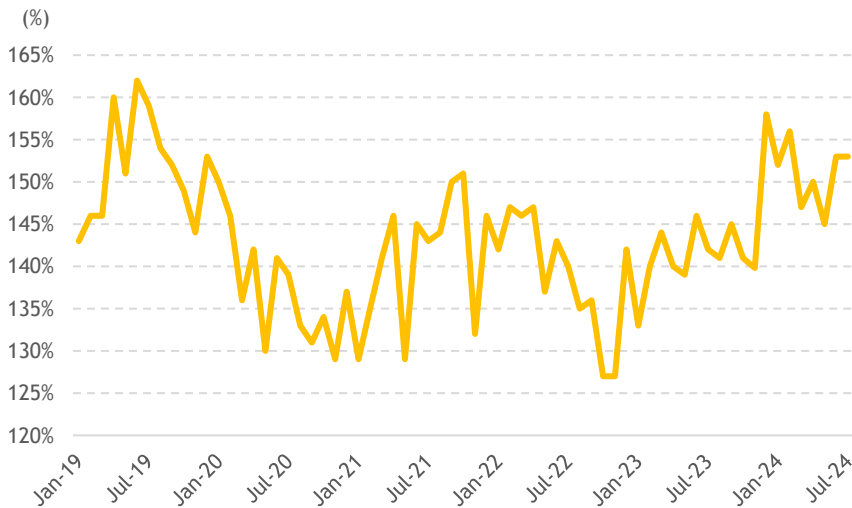


Source: BNM

### 2.3 LCRs at Islamic banks have improved

What we find positive as well is that the average liquidity coverage ratio (LCR) for Islamic banks has improved, and this should also contribute to lower funding pressure in the near future. From a pre-pandemic average of about 152%, the average LCR for Islamic banks dipped to a low of about 127% in Oct 2022. Since then, the Islamic banks have built back their LCR to a more normalized level of 153%, which in fact, is now back on par with that of conventional commercial banks (150% in Jul 2024).

**Fig 7: LCRs for Islamic banks have improved (Jan 2019 - Jul 2024)**



Source: BNM

### 3. Current NIM expectations

#### 3.1 Current expectations

As Fig 8 would indicate, banks have generally been guiding for NIMs in 2024 to range between +/-5bps from 2023 levels.

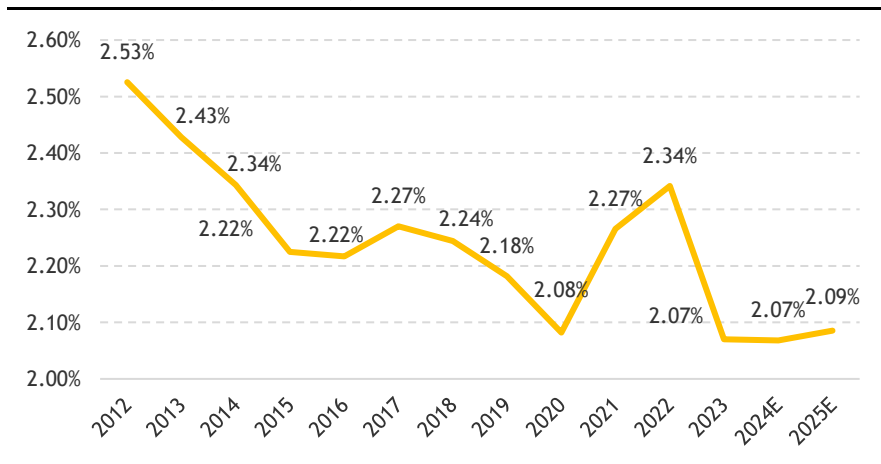
**Fig 8: MIBG’s NIM estimates versus banks’ guidance**

	Actual FY23	Latest	FY24E mgt guidance	MIBG FY24E	MIBG FY25E
ABMB *	2.48%	2.45%	2.40-2.45%	2.43%	2.39%
AMMB *	1.79%	1.89%	>1.80%	1.85%	1.88%
BIMB	2.12%	2.17%	>2.10%	2.20%	2.23%
CIMB	2.22%	2.20%	2.22-2.27%	2.22%	2.26%
HL Bank @	1.86%	1.86%	1.85-1.95%	1.90%	1.91%
Maybank	2.12%	2.01%	2.02%	NA	NA
Public Bk	2.20%	2.20%	2.15-2.20%	2.18%	2.19%
RHB	1.82%	1.86%	1.88-1.90%	1.89%	1.91%

^ FYE3/24A - FY3/26E (FYE3/25E mgt guidance)  
 @ FYE6/24A-FYE6/25E (FYE6/25E mgt guidance)  
 Source: Banks, Maybank IBG Research

On an aggregate basis, we expect NIMs to be stable YoY this year at an average of about 2.07% for the banks in our coverage, and we have conservatively imputed a 2bps recovery in 2025E.

**Fig 9: NIM trends (2012-2025E)**



Source: Banks, Maybank IBG Research

## 4. What if NIMs return to pre-pandemic levels?

### 4.1 Room for NIMs to surprise positively

With improving liquidity conditions and easing price competition ahead, we think there is room for NIMs to surprise positively into 2025.

### 4.2 Current NIMs versus pre-pandemic NIMs

What would be ideal, in our view, is that NIMs return to pre-pandemic levels. Fig 8 lays out our forecast NIMs for FY25/26E versus actual NIMs in FY19/20E. The variance is particularly large for BIMB and RHB, which have seen sizeable NIM compression over the past two years, such that the variance between the NIM that we are forecasting for FY25 and actual NIMs in FY19 is still quite large at 12 and 21 bps respectively. Only Public Bank's NIMs have been fully restored and are forecasted to be higher in FY25E at 2.19% than its pre-pandemic level of 2.15%.

Fig 10: MIBG's NIM estimates versus banks' guidance

	MIBG FY25E	FY19 NIM	Variance
ABMB <sup>^</sup>	2.39%	2.40%	0.01%
AMMB <sup>^</sup>	1.88%	1.94%	0.06%
BIMB	2.36%	2.48%	0.12%
CIMB #	2.08%	2.17%	0.09%
HL Bank @	1.91%	1.96%	0.05%
Maybank	NA	2.27%	NA
Public Bk	2.19%	2.15%	(0.04%)
RHB	1.91%	2.12%	0.21%

<sup>^</sup> FYE3/26E and FY20A @ FYE6/26E and FY19A

# Estimated ex-CIMB Niaga

Source: Banks, Maybank IBG Research

### 4.3 Impact to earnings?

If NIMs return to pre-pandemic (2019 levels) then hypothetically, we could see FY25/26E earnings upgrades ranging from 1-16%, with BIMB and RHB potentially the largest earnings revisions, given the broad disparity between where their NIMs are now, relative to pre-pandemic levels. Least impacted would be Public Bank (whose NIMs have already been restored to pre-pandemic levels) and ABMB (+1% earnings change).

**Fig 11: Hypothetical revisions in net profit and ROE if NIMs revert to pre-pandemic levels**

	FY25E	Revised	Change	FY25E	Revised
	Net profit	Net profit		ROE	ROE
ABMB *	761	770	1.2%	9.9%	10.0%
AMMB *	1,985	2,073	4.4%	9.5%	9.9%
BIMB	607	692	14.0%	7.9%	9.0%
CIMB	8,211	8,690	5.8%	11.2%	11.9%
HL Bank @	4,838	4,949	2.3%	11.6%	11.8%
Maybank	10,653	NA	-	11.0%	NA
Public Bk	7,406	-	-	12.7%	-
RHB	3,222	3,740	16.1%	9.8%	11.3%

<sup>^</sup> FYE3/24A - FY3/26E (FYE3/25E mgt guidance)

<sup>@</sup> FYE6/24A-FYE6/25E (FYE6/25E mgt guidance)

Source: Banks, Maybank IBG Research

## 5. Risk statement

### 5.1 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.

### 5.2 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 further; and (iii) a further 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) higher-than-expected defaults on RA loans.

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