

Banks

Neutral (Maintained)

Inching Closer To The Start Of The Easing Cycle

- **Order of preference: Indonesia (IND)> Malaysia (MY)> Singapore (SG)> Thailand (TH).** The impending global monetary easing cycle should bring a welcome relief to regional banks under our coverage, on a net basis. IND banks will likely benefit from easing funding cost pressures, while TH banks could see asset quality strains alleviated. Bank Negara Malaysia (BNM) is expected to stand pat, and hence, MY banks appear largely neutral. For SG banks, as long as the easing in rates is gradual, there should be sufficient levers to help cushion NIM pressure. Still NEUTRAL.
- **Search for yields underpinned performance; expect decent 3Q from banks.** Amid an environment where sector earnings growth is moderating across the countries we cover, investors appear to have gravitated towards dividend yielders. With the upcoming 2Q reporting season coinciding with dividend payments by SG, TH, and MY Banks, we expect the yield theme to continue driving performance, leading to banks potentially offering a decent 3Q performance in terms of total returns. Fundamentally, NIM and asset quality will likely remain key areas of focus across the region in the upcoming results, especially in IND and TH. In MY and SG, non-II should be the key swing factor for sector earnings trends, while asset quality looks under control.
- **Placing bets ahead of easing cycle.** As we get closer to the onset of the US Federal Funds Rate (FFR) easing cycle and investors start looking ahead to 2025, IND stands out for growth and the unwinding of the earlier higher for longer trade, ie buy SG Banks/sell IND Banks. Conversely, after the strong YTD performance, we think SG Banks are ripe for a breather and recommend fading any further rallies. While SG and MY Banks will continue to offer investors decent yields, we prefer MY Banks on stronger growth and cheaper valuations. For TH banks, we await updates on the outlook for asset quality.
- **IND.** 5M24 bank-only figures suggest NIM stabilisation QoQ, while asset quality issues remain confined. In the near term, we see potential downgrades to NIM guidance (eg Bank Negara Indonesia (BNI)), cushioned by lower CoC guidance for some banks. Our preferences are Bank Rakyat Indonesia (BBRI), Bank Central Asia (BCA), and Bank Mandiri (BMR). We still like the long-term potential for the banks. The recent correction in valuations represents an attractive entry point.
- **MY.** Structural reforms, long-term themes, and economic masterplans are positives for the country. Near-term beneficiaries from these will continue to garner investor interest for now, although banks should also gradually benefit. Amid normalising sector earnings growth, we prefer stocks that offer above-average earnings and/or dividend growth, eg CIMB and AMMB.
- **SG.** We think the impact of a gradual easing cycle should be manageable with potentially stronger loan growth and wealth management activities, as well as a more benign environment for asset quality helping cushion NIM pressure. Earnings, however, will likely be muted, and hence, our preference for dividend growth and capital management potential. DBS is our pick.
- **TH.** Policy risk, NIM pressure, and elevated credit cost could keep valuations depressed. While policy rate cuts would pressure NIMs, this could be more than offset by easing asset quality concerns and credit cost, given elevated provision buffers. Until then, we prefer TMBThanachart Bank (TTB).

Stocks Covered 21
 Rating (Buy/Neutral/Sell): 15 / 5 / 1
 Last 12m Earnings Revision Trend: Negative

Top Picks

Company	Target Price
BBCA (BBCA IJ) – BUY	IDR11,100
BBRI (BBRI IJ) – BUY	IDR6,300
AMMB (AMM MK) – BUY	MYR5.50
CIMB (CIMB MK) – BUY	MYR7.60
DBS (DBS SP) – BUY	SGD41.20
TTB (TTB TB) – BUY	THB2.10

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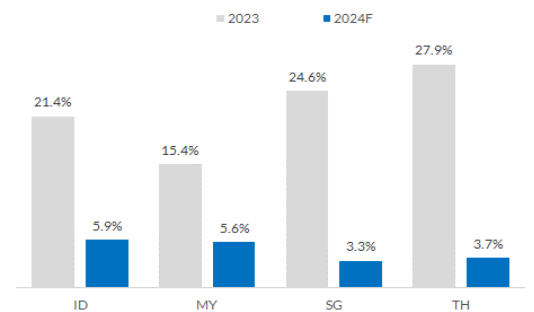


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Sector earnings growth is moderating in 2024F



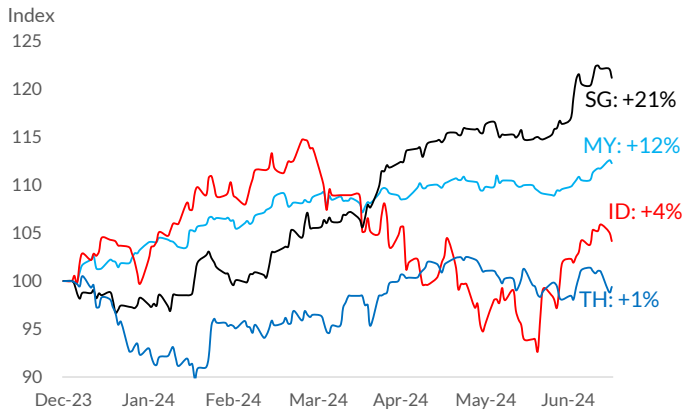
Source: Company data, RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AMMB	Buy	MYR5.50	24.7	8.2	0.7	9.3	5.5
Bank Central Asia	Buy	IDR11,100	13.3	22.6	4.6	21.2	3.0
Bank Rakyat Indonesia	Buy	IDR6,300	32.4	11.2	2.0	19.3	6.7
CIMB	Buy	MYR7.60	6.4	10.0	1.1	10.9	5.5
DBS	Buy	SGD41.20	10.5	10.2	1.6	16.2	6.0
TMBThanachart Bank	Buy	THB2.10	18.6	8.4	0.7	8.7	7.2

Source: Company data, RHB

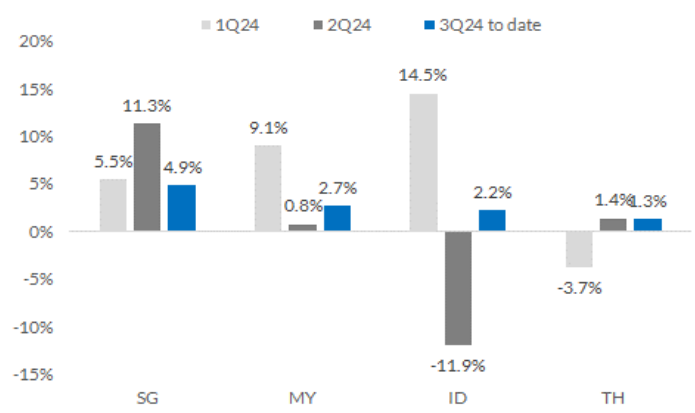
Share Price Performance

Figure 1: SG Banks have done well on a regional basis (total returns: +21%), benefitting from the delay in the onset of the rate cut cycle



Source: Bloomberg, RHB

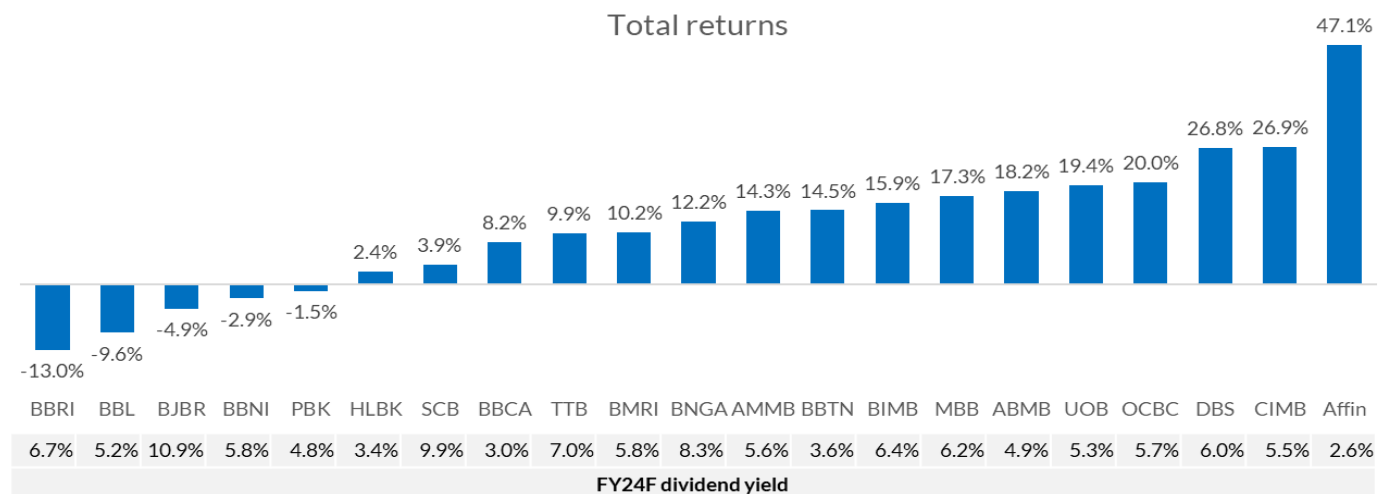
Figure 2: Conversely, IND Banks have seen greater volatility in 1H24 as subsequent NIM pressure and asset quality concerns dampened initial optimism post the election results



Source: Bloomberg, RHB

Amid a higher for longer rates environment, SG Banks emerged as outperformers YTD as their elevated earnings base provided support for attractive dividend yields. Conversely, IND Banks saw a correction on concerns over the IDR, NIM pressure from higher funding cost and asset quality – the latter two led to 2024F sector earnings growth being revised down from c. 10% at the start of the year to c. 5% currently.

Figure 3: With the exception of Affin and IND Banks, banks with attractive dividend yields have generally done well

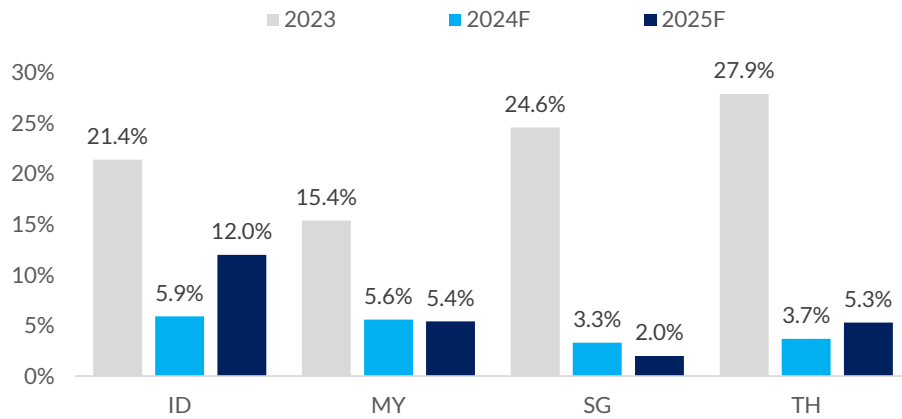


Source: Bloomberg, RHB

Diving into the individual stock returns YTD, Affin stands out. Its outperformance has been driven by expectations that the emergence of a new major shareholder will be a fundamental gamechanger for the group.

As for the other banks (and apart from IND), we observe that stocks that have done well in their respective markets have been the dividend yielders. We think this is not too surprising. Across the four markets under our coverage, sector earnings growth is expected to moderate to a low-mid single digit this year from double-digit growth in 2023 (Figure 4). With muted earnings growth, there has been a clear preference for dividend yielders. We also note that the next two stocks that have outperformed YTD are CIMB and DBS – yields are attractive but more importantly, we believe, both banking groups have exhibited their willingness to do more on capital returns and see room for further capital management initiatives ahead.

Figure 4: Sector PATMI is moderating in 2024; IND Banks should appeal to investors in search of growth next year

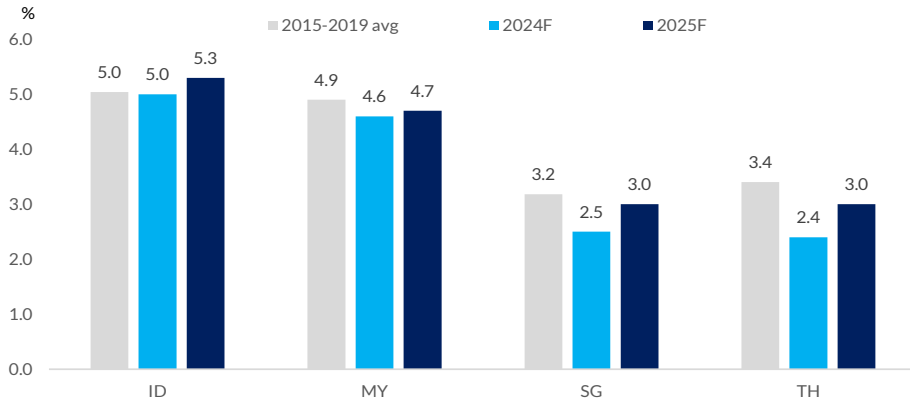


Source: Company data, RHB

- ◆ 2024F sector earnings growth is moderating across regional markets we cover due to higher funding cost – reflecting the higher cost of liquidity (IND) and catch up in deposit repricing (SG and TH), coupled with technical factors, ie normalising effective tax rate in MY
- ◆ With growth rates largely homogeneous, the search for yields has underpinned stock performance
- ◆ 2025 could offer investors a better spread of choices – growth (IND), yields with cheap valuation (MY and TH) and yields and FX safety (SG)

Focus Charts

Figure 5: GDP – We are optimistic on the region's growth prospects



Source: RHB Economics & Market Strategy

- ◆ Outlook for Malaysia and Singapore remains positive on the back of their sizeable manufacturing and semiconductor industries
- ◆ Inflationary pressures are more of a concern for Indonesia (high food prices) and Singapore (import-dependent) than Malaysia and Thailand
- ◆ 2025 should see a pickup in GDP growth mainly driven by lower policy rates

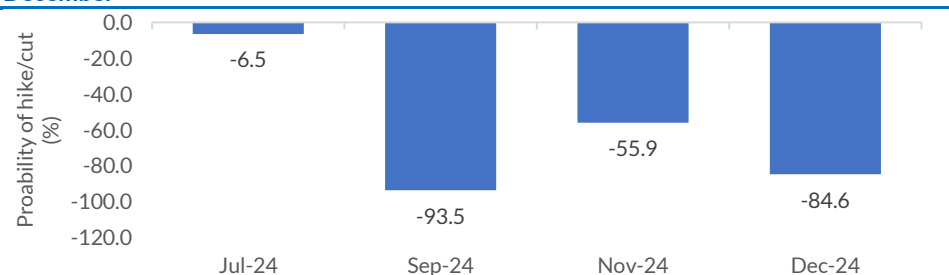
Figure 6: Policy rate outlook

%	2023	2024F	2025F
Indonesia	6.00	6.25	5.50
Malaysia	3.00	3.00	3.00
Thailand	2.50	2.50	2.50
US	5.50	5.00-5.25	4.25-4.50

Source: RHB Economics & Market Strategy

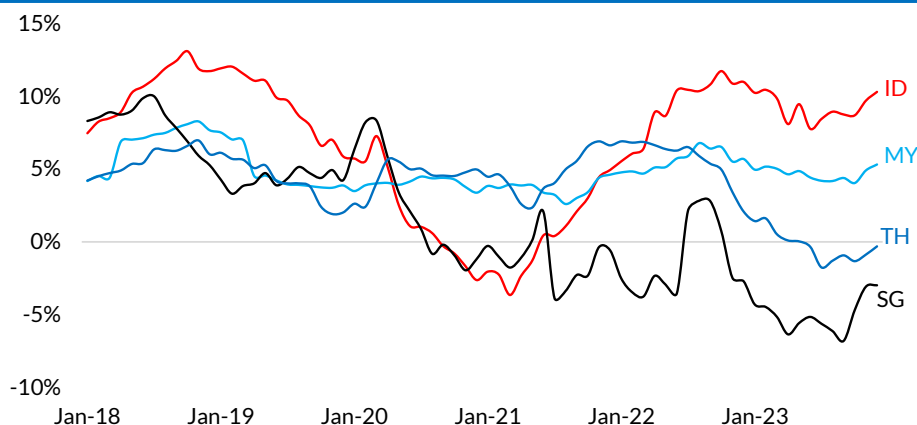
- ◆ Compared to consensus forecasting two rate cuts for the US, RHB Economics is expecting just one rate cut in 2024 (December); followed by three cuts in 2025

Figure 7: Markets currently pricing in two US FFR cuts this year – in September and December



Source: RHB Economics & Market Strategy

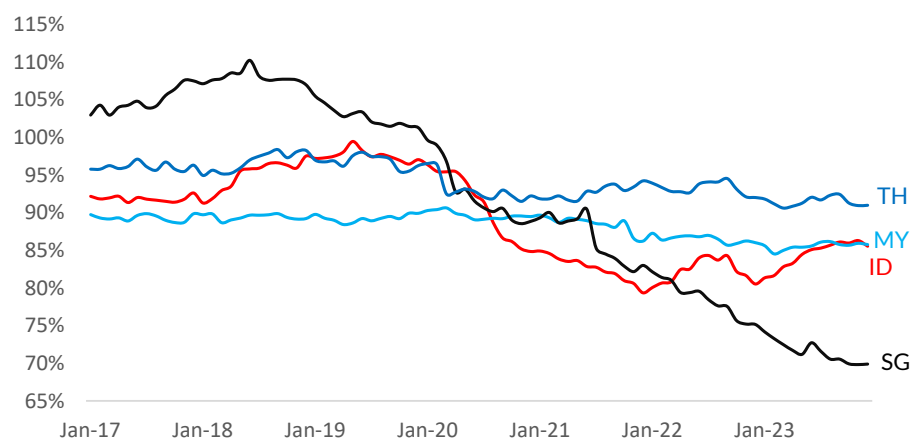
Figure 8: System loans growth – with the exception of the strong loan demand in IND, elsewhere, growth in MY is in line with past trends supported by household loan demand while growth has been soft in SG and TH



Source: Bank Indonesia (BI), BNM, Bank of Thailand (BoT), Monetary Authority of Singapore (MAS), RHB

- ◆ IND Banks have enjoyed robust loan demand thus far, but loan growth could moderate in 2H if liquidity and asset quality concerns linger
- ◆ In TH, weak loan growth due to general economic softness and TH Banks' cautiousness on lending in order to preserve asset quality
- ◆ System loans growth has been weak in SG with mixed feedback obtained from SG Banks

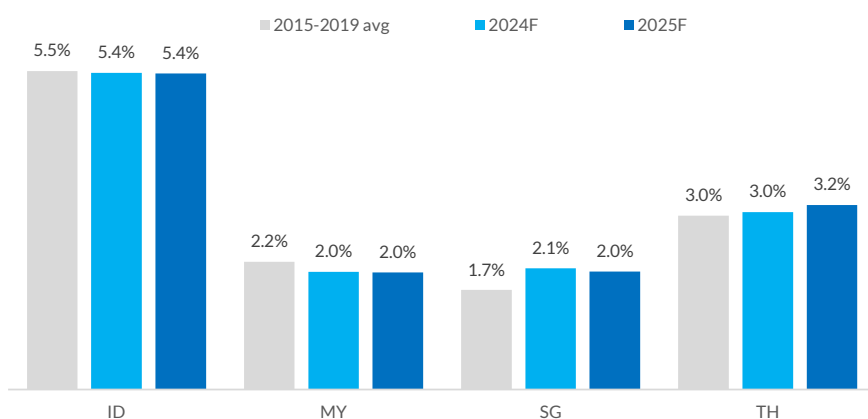
Figure 9: System LDR – SG stands out for being flushed with liquidity while in the other markets, LDR is in line with past trend range



Source: BI, BNM, BoT, MAS, RHB

- ◆ SG banks are flushed with liquidity, thanks partly to wealth inflows and soft loans growth. Amid a liquid balance sheet, SG banks will be in a good position to take advantage of any potential pick up in loans growth and conversion of deposits to wealth management products when the rate cut cycle begins
- ◆ Conversely, the cost of liquidity has jumped in IND despite LDR staying below pre-COVID-19 levels. We see IND Banks as the main beneficiary from the global monetary easing cycle as improved liquidity coupled with policy rate cuts and, potentially, the lowering of SRR, should all ease funding cost pressures

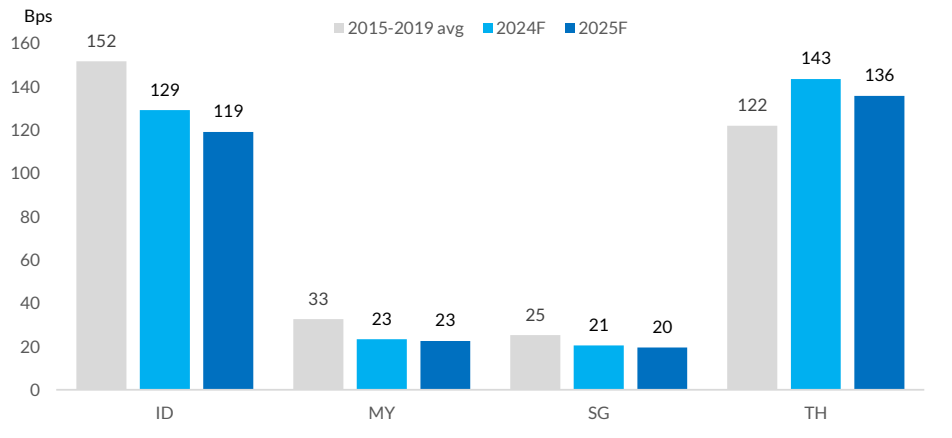
Figure 10: Sector NIM – normalisation of NIM appears to have overshot in MY while in SG and TH, there is room for NIM to fall as monetary policy easing takes hold



Source: Company data, RHB

- ◆ NIM outlook – we are positive on the outlook for IND Banks' NIM given potential policy actions while SG and TH Banks' NIMs have room to catch down now that the rates cycle has peaked
- ◆ MY Banks' NIMs are still below pre-COVID-19 levels due to higher cost of deposits. Efforts to manage down funding cost are ongoing and remains to be seen how much more room MY Banks have to lower funding costs

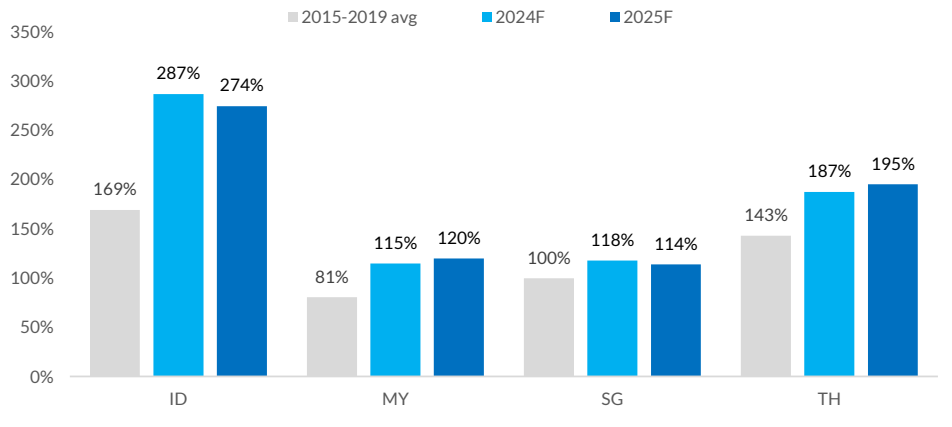
Figure 11: Sector CoC – asset quality appears to be under control in IND, MY and SG mainly as corporate asset quality has been sound...



- ◆ Except for TH Banks, CoC is already milder than pre- COVID-19 levels
- ◆ TH Banks continue to remain cautious on asset quality and have been conservative in terms of provisioning
- ◆ Potential BoT rate cuts – while negative for NIMs, could help to alleviate some of the asset quality stress leading to lower credit cost

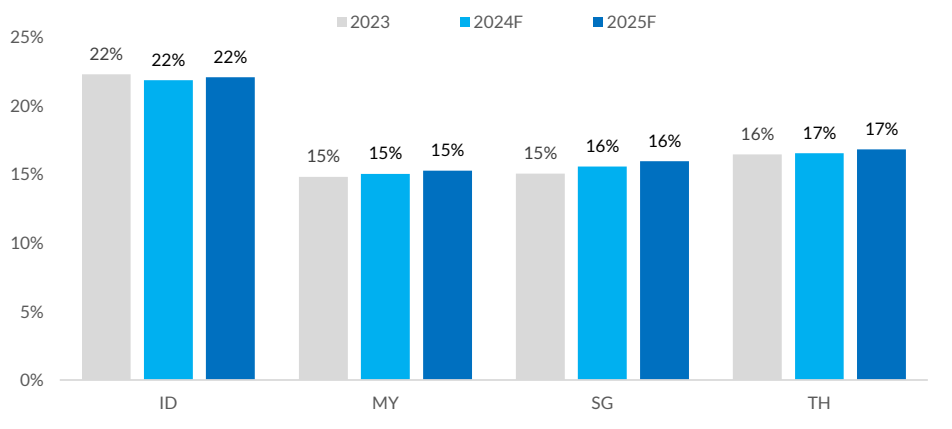
Source: Company data, RHB

Figure 12: Sector LLC – ... while for exposures to retail/SME/micro loans, banks continue to hold on to provision buffers, which will help cushion potential asset quality issues



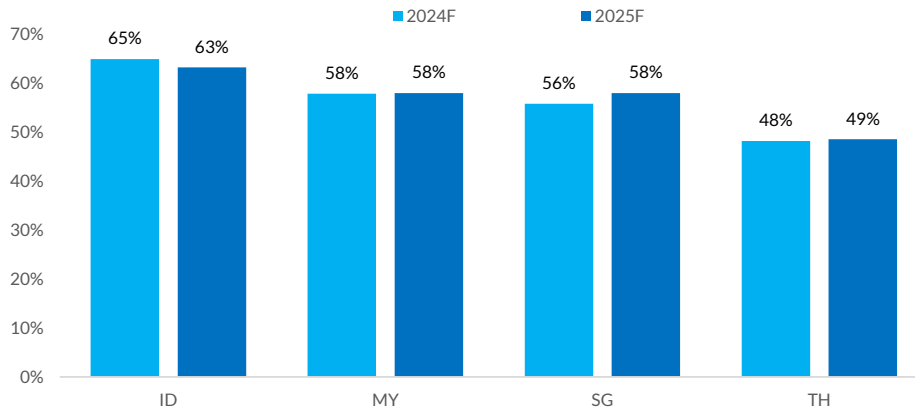
Source: Company data, RHB

Figure 13: Sector CET-1 – banks are well capitalised across the region



Source: Company data, RHB

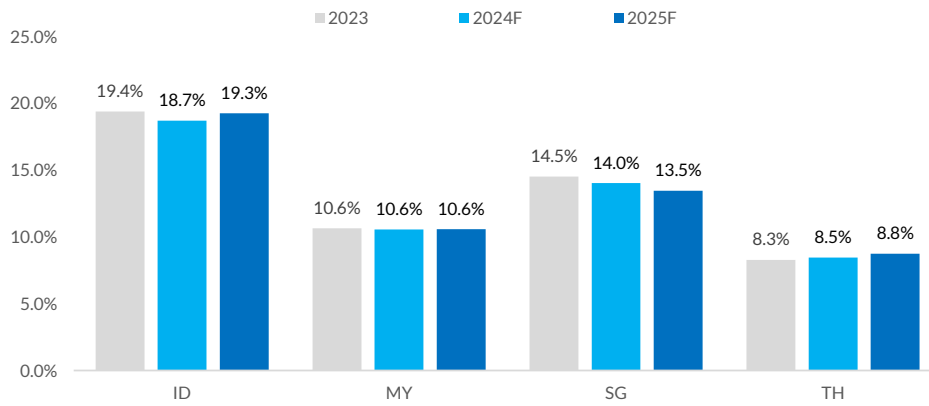
Figure 14: Sector dividend payout – We stay conservative with respect to payouts and have not factored in potential special dividends and capital management initiatives



◆ Key beneficiaries from the capital management theme are CIMB and DBS – management of these banks have exhibited the willingness to do more on capital returns

Source: Company data, RHB

Figure 15: Sector ROE – IND is our preferred market as we expect ROE to resume its uptrend when monetary easing starts



Source: Company data, RHB

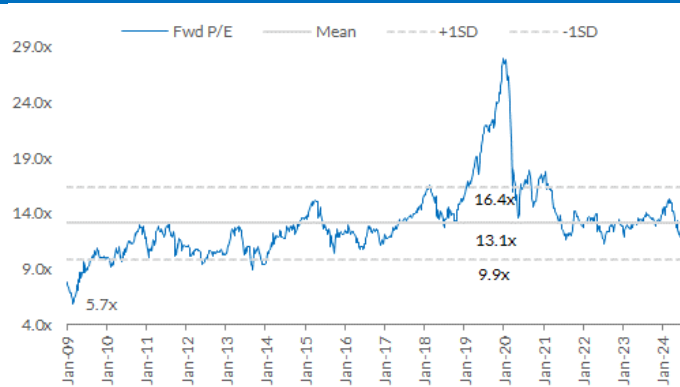
Sector Valuation

Figure 16: Summary of banks' valuations

	Rec	Price	TP	Mkt cap	EPS chg (%)		P/E(x)		P/BV(x)		ROE (%)		Div yield (%)	
		(LC/s)	(LC/s)	(USDm)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Indonesia														
BBRI	Buy	4,760	6,300	44,604	5.8	14.0	11.2	9.9	2.05	1.96	19.3	20.3	6.7	7.1
BBCA	Buy	9,800	11,100	74,694	10.1	7.8	22.6	20.9	4.59	4.23	21.2	21.0	3.0	3.3
BMRI	Buy	6,450	8,160	37,220	3.6	13.9	10.5	9.3	2.11	1.91	20.9	21.6	5.7	6.5
BBNI	Buy	5,000	5,730	11,530	3.2	12.3	8.6	7.7	1.17	1.08	14.1	14.6	5.8	6.5
BNGA	Buy	1,780	2,300	2,749	8.1	5.1	6.3	6.0	0.85	0.80	13.8	12.0	8.3	9.0
BBTN	Buy	1,415	1,570	1,228	(11.5)	17.2	6.0	5.1	0.55	0.48	9.7	10.0	3.5	3.3
BJBR	Neutral	1,015	920	660	(6.7)	16.0	6.7	5.7	0.62	0.59	9.4	10.6	10.8	9.0
Sector wtd avg					6.9	11.1	15.7	14.3	3.07	2.84	19.9	20.3	4.8	5.3
Malaysia														
CIMB	Buy	7.14	7.60	16,292	9.0	6.2	10.0	9.4	1.07	0.98	10.9	10.9	5.5	5.8
AMMB	Buy	4.41	5.50	3,127	3.9	7.2	8.1	7.6	0.72	0.68	9.0	9.2	5.6	5.9
PBK	Buy	4.17	4.80	17,318	4.1	4.6	11.7	11.2	1.40	1.32	12.3	12.2	4.8	5.0
HLBK	Buy	19.04	23.60	8,830	5.3	4.4	9.2	8.8	0.99	0.92	11.2	10.8	3.4	3.6
ABMB	Buy	4.01	4.40	1,328	6.2	8.0	8.5	7.8	0.79	0.75	9.8	9.8	4.8	5.1
Maybank	Neutral	10.08	10.60	25,996	5.5	4.8	12.3	11.8	1.26	1.21	10.3	10.5	6.3	6.5
BIMB	Neutral	2.52	2.45	1,162	10.6	6.1	9.4	8.9	0.76	0.73	8.1	8.3	6.4	6.7
Affin	Sell	2.98	1.65	1,239	13.6	11.5	15.1	13.5	0.60	0.58	4.1	4.4	2.7	3.0
Sector wtd avg					6.0	5.3	11.1	10.5	1.17	1.10	10.8	10.8	5.3	5.6
Singapore														
DBS	Buy	37.28	41.20	78,803	3.4	1.6	10.2	10.0	1.59	1.51	16.2	15.5	6.0	6.6
OCBC	Neutral	15.22	14.80	50,844	3.4	1.2	9.4	9.3	1.19	1.12	13.0	12.4	5.7	5.7
UOB	Neutral	32.96	30.10	41,004	3.0	3.6	9.4	9.1	1.12	1.06	12.3	12.0	5.4	5.5
Sector weighted avg					3.3	2.0	9.7	9.6	1.36	1.28	14.3	13.7	5.7	6.1
Thailand														
TTB	Buy	1.77	2.10	4,765	11.0	7.3	8.4	7.8	0.72	0.72	8.7	9.2	7.2	7.7
SCBX	Buy	103	126	9,682	3.3	6.2	7.7	7.2	0.71	0.70	9.3	9.7	10.2	10.7
BBL	Buy	135	164	7,170	0.7	3.3	6.1	5.9	0.46	0.44	7.7	7.6	5.2	5.6
Sector weighted avg					4.1	5.5	7.5	7.1	0.65	0.63	8.7	8.9	7.7	8.1

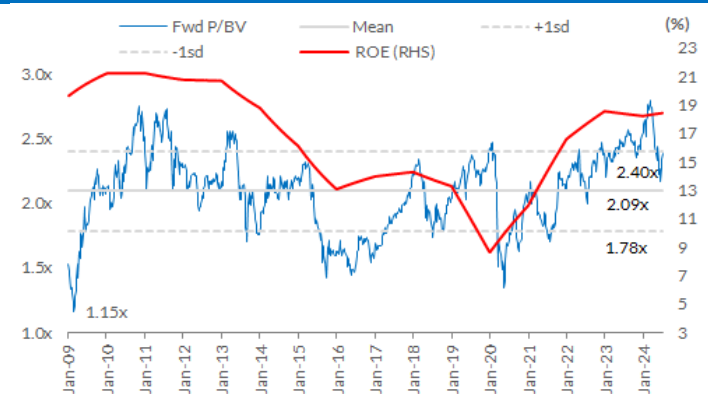
Source: Bloomberg, RHB

Figure 17: IND Banks' 12-month forward P/E



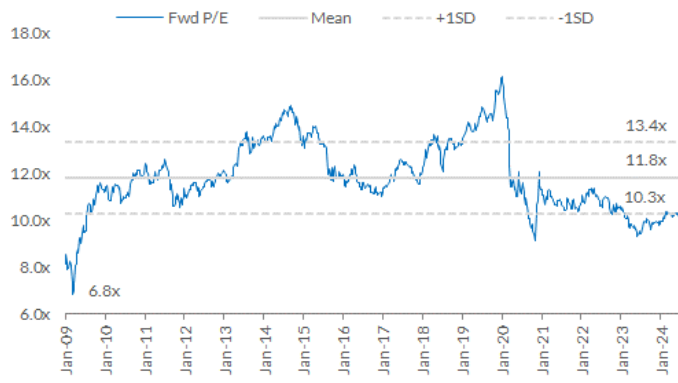
Source: Bloomberg, RHB

Figure 18: IND Banks' 12-month forward P/BV vs ROE



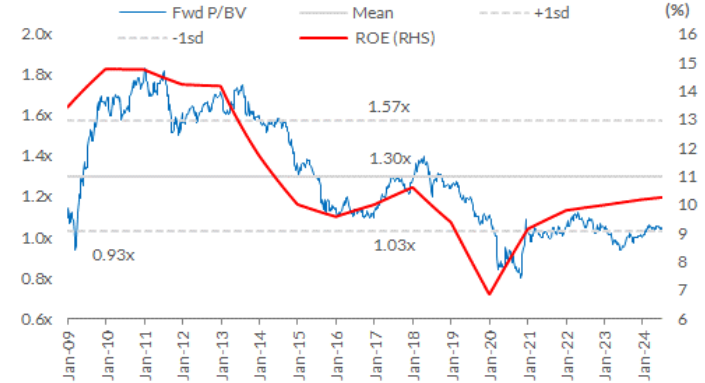
Source: Bloomberg, RHB

Figure 19: MY Banks' 12-month forward P/E



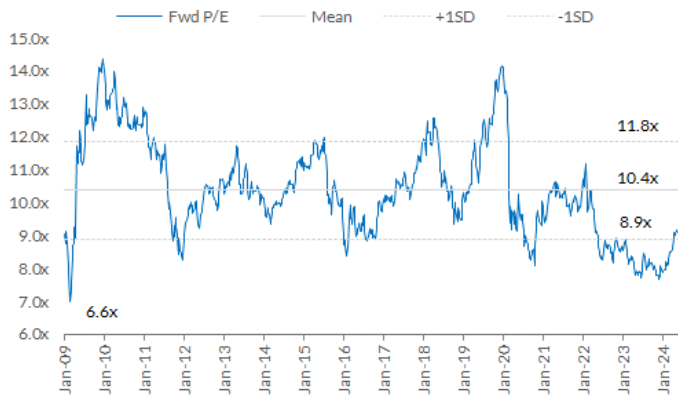
Source: Bloomberg, RHB

Figure 20: MY Banks' 12-month forward P/BV vs ROE



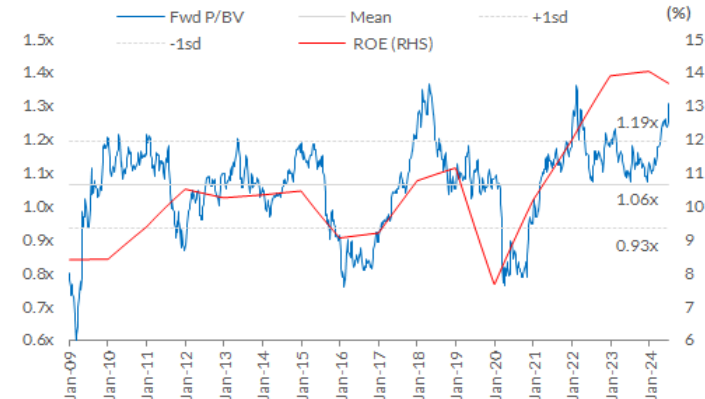
Source: Bloomberg, RHB

Figure 21: SG Banks' 12-month forward P/E



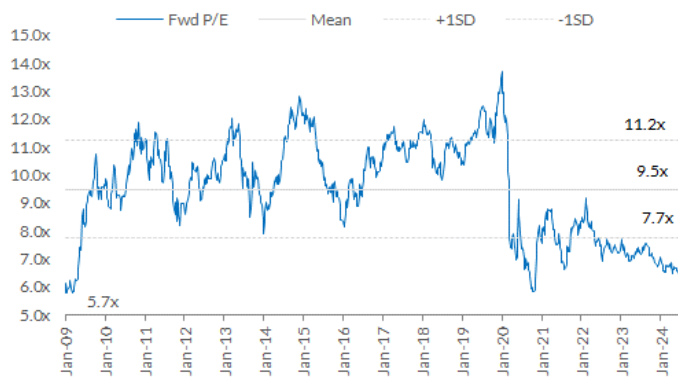
Source: Bloomberg, RHB

Figure 22: SG Banks' 12-month forward P/BV vs ROE



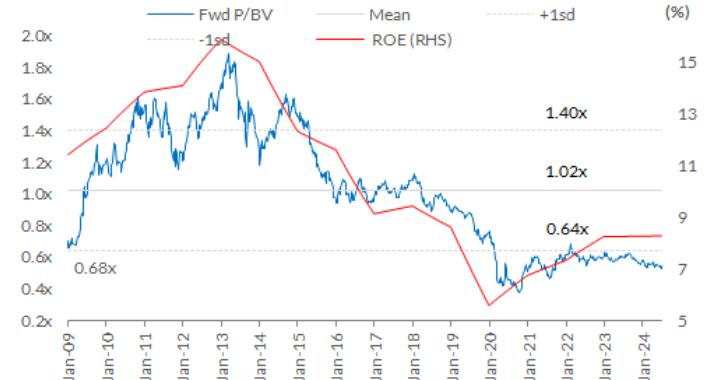
Source: Bloomberg, RHB

Figure 23: TH Banks' 12-month forward P/E



Source: Bloomberg, RHB

Figure 24: TH Banks' 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Indonesia Banks

OVERWEIGHT

Policy Rate Cuts – Just a Matter Of Time

Sector investment thesis. Sector earnings growth is expected to take a breather this year. Sector loan demand has been robust but the higher cost of liquidity coupled with softness in the low-mid segment will dampen earnings. That said, we see these issues as cyclical rather than structural, and the correction in share prices appears to have largely captured these concerns. While there could be some near-term speed bumps, we believe IND banks are best positioned to play the upcoming global monetary easing cycle. Bank Indonesia's (BI) policy rate cuts and, possibly, relaxation to the statutory reserve requirements, should help ease funding cost pressures. Provision buffers remain ample while capital levels are elevated – all of which means IND Banks will continue to be a good proxy to the country's growth prospects. Our pecking order is BBRI > BBKA > BMRI.

2Q24 and YTD banks' performance review. After having had a strong start to the year in terms of share price performance, IND Banks fell to the red in 2Q24 on the back of a muted set of 1Q24 results, which saw downgrades to guidance on NIM, loans growth and credit cost. This was further exacerbated by the shift in expectations to a higher for longer rates environment, which was negative for foreign institutional investor (FII) flows/IDR and prompted BI to raise the policy rate – negative for funding cost and pushed back investor expectations for rate cut reliefs. YTD, BBRI was the worst performer among the Big-4 banks on asset quality concerns while BBKA outperformed due to its defensiveness.

2Q24 reporting quarter – what are we watching out for? 1H24 results are likely to be broadly in line with faster-than-expected loans growth partly offset by NIM pressure. Asset quality looks broadly intact, based on most banks' credit cost that have been trending below FY24 guidance. Based on 5M24 results (Bank only) compared to FY24 guidance (consolidated), most banks under our coverage reported greater loans growth, with the exception of Bank CIMB Niaga (BNGA), which has been more cautious in lending since early 2024. As for NIMs, with the exception of BBKA, the majority of IND Banks reported 5M24 NIM that was lower than the FY24 guidance. BBRI's consolidated NIM may be higher than its Bank-only numbers, due to higher yielding loans that sit at its subsidiaries, Permodalan Nasional Madani (PNM) and Pegadaian. Also, most banks, with the exception of BBKA and BBRI, reported lower 5M24 credit cost than FY24 guidance.

Watch out for some near-term speed bumps, but longer-term prospects remain intact. Near-term, we think IND banks could face some speed bumps and continued volatility. While we expect the upcoming 2Q24 results to broadly meet expectations, we expect investors to be tracking banks' updated guidance closely, especially on NIM and credit cost. Also, during this political transition period, we think there could be continued uncertainties surrounding policies and investors will also be keeping an eye out for potential SOE management changes, which in the case for banks, could lead to kitchen sinking exercises. Apart from that, a weaker IDR (RHB Economics projects the IDR to weaken to IDR16,850/USD in 3Q24 before strengthening to IDR16,200 in 4Q24) will likely be negative for FII flows. Notwithstanding the above, we expect the start of the rate cut cycle to bring some much-welcomed relief to funding cost pressures that banks have been facing while the long-term growth prospects remain largely intact, underpinned by sustained strong loan demand. As such, we advocate investors take advantage of any dips ahead to accumulate fundamentally robust banking stocks.

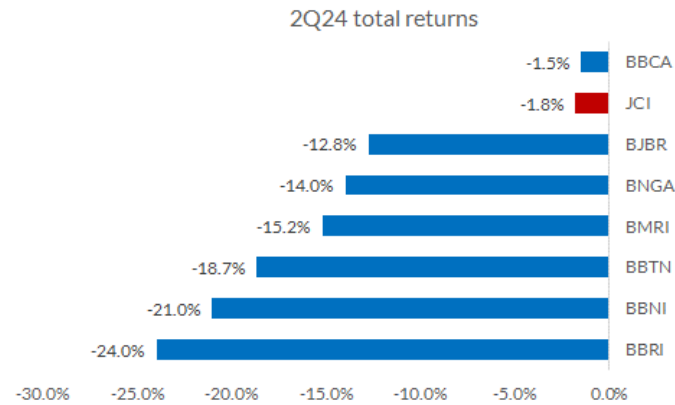
Earnings forecasts. We project sector earnings growth to moderate to 6% YoY in 2024F as a combination of NIM squeeze and higher credit cost bite. However, we expect double-digit growth to resume in 2025F on the back of continued loan growth and easing credit cost.

Maintain sector OVERWEIGHT, from a country perspective. Given the potential speed bumps near term, we recommend a barbell strategy. BBRI is our pick to play the earnings recovery anticipated in 2025F given its earnings growth prospects coupled while the correction in share price in recent months means valuation is more palatable. BBKA anchors our defensive end of the barbell. Its strong deposit franchise and asset quality means the stock is well positioned to weather through near-term uncertainties. BMRI rounds up our preferred picks for the sector.

Sector risks. Key downside risks are around weaker-than-expected NIM and asset quality.

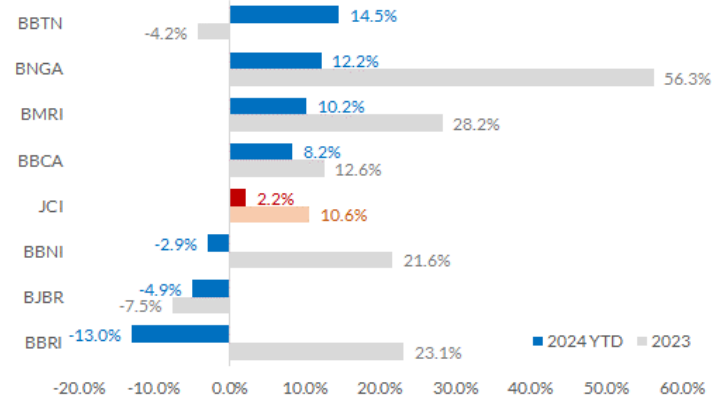
Focus Charts

Figure 25: IND Banks had a weak 2Q performance amid the shift in rates expectations plus earnings downgrades



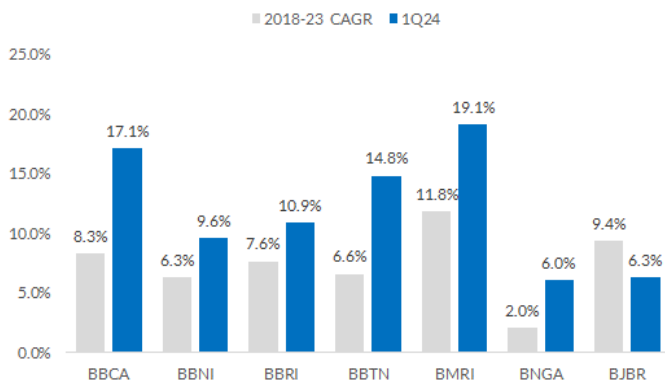
Source: Bloomberg, RHB

Figure 26: YTD, performance has been mixed with BBRI a laggard on asset quality concerns



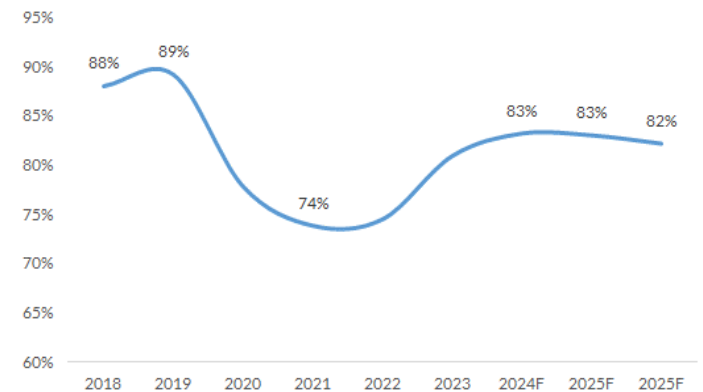
Source: Bloomberg, RHB

Figure 27: Loans growth for IND Banks has been robust



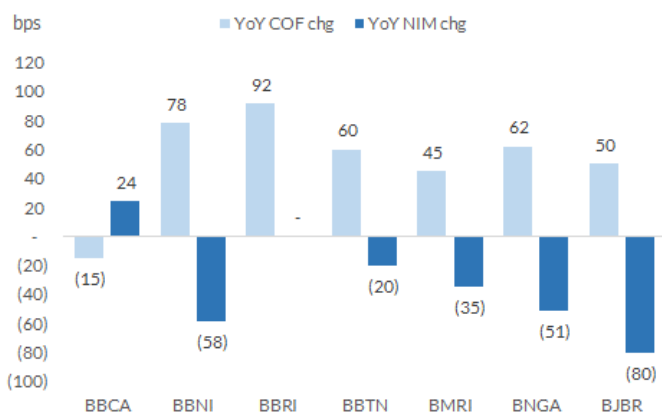
Source: Company data, RHB

Figure 28: LDR for the sector has not reached pre-COVID-19 levels but with loans growth outpacing deposit growth, the cost of liquidity has jumped significantly thus far this year for IND Banks ...



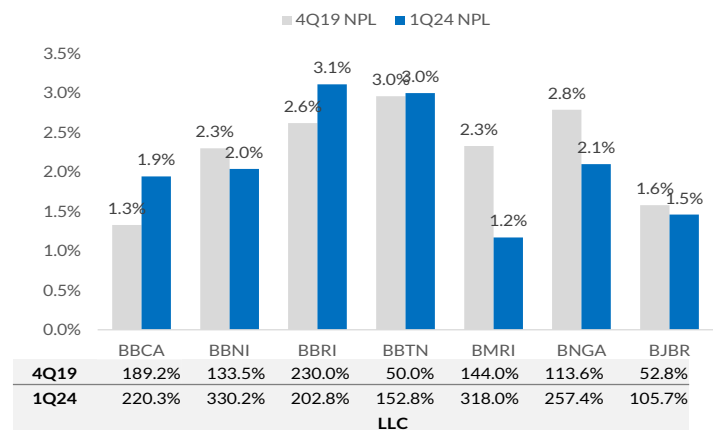
Source: Company data, RHB

Figure 29: ... leading to NIM squeeze in 1Q24. Stronger deposit growth and policy rate cuts should help lift funding cost pressures



Source: Company data, RHB

Figure 30: Asset quality issues to date have been confined to the low-mid end consumer and SME/micro segments, which is not a major exposure for most large banks (except for BBRI)



Source: Company data, RHB

Sector Earnings Forecasts

Figure 31: IND Banks – sector earnings and key forecasts and assumptions

(IDRbn)	2022	2023	2024F	2025F	2026F
NII	354,846	381,561	407,768	439,767	474,981
<i>NII growth (%)</i>	12.3%	7.5%	6.9%	7.8%	8.0%
<i>Loan growth (%)</i>	11.1%	12.3%	13.8%	10.1%	9.7%
<i>NIM (%)</i>	6.20%	6.25%	6.07%	5.85%	5.83%
Fee income	70,924	77,903	83,705	89,273	95,599
Other income	67,298	69,706	75,108	80,458	86,308
Non-II	138,223	147,609	158,813	169,731	181,906
<i>Non-II growth (%)</i>	11.4%	6.8%	7.6%	6.9%	7.2%
Total operating income	493,068	529,169	566,582	609,498	656,887
<i>Operating income growth (%)</i>	12.1%	7.3%	7.1%	7.6%	7.8%
<i>Non-II/Total income (%)</i>	28.0%	27.9%	28.0%	27.8%	27.7%
Opex	(219,411)	(218,643)	(223,382)	(229,867)	(238,033)
<i>Opex growth (%)</i>	8.1%	-0.3%	2.2%	2.9%	3.6%
<i>CIR (%)</i>	44.5%	41.3%	39.4%	37.7%	36.2%
PIOP	273,658	310,527	343,200	379,631	418,855
<i>PIOP growth (%)</i>	15.5%	13.5%	10.5%	10.6%	10.3%
Loan impairment charges	(67,157)	(58,399)	(72,863)	(73,869)	(80,727)
Other impairment charges	543	342	376	414	455
Total impairment charges	(66,614)	(58,057)	(72,486)	(73,455)	(80,272)
<i>Credit charge-off (bps)</i>	166	130	143	130	129
<i>GIL ratio (%)</i>	2.47%	2.08%	1.80%	1.74%	1.71%
<i>Loan loss coverage (%)</i>	227.0%	227.8%	233.8%	224.0%	218.7%
Associates & others	375	(672)	(567)	(605)	(690)
Pre-tax profit	207,419	251,798	270,146	305,571	337,893
Taxation	(41,434)	(49,823)	(54,108)	(61,187)	(67,674)
Minority interests	(4,323)	(5,707)	(8,217)	(11,575)	(12,828)
Net profit	161,662	196,268	207,821	232,808	257,391
<i>Net profit growth (%)</i>	47.5%	21.4%	5.9%	12.0%	10.6%

Source: Company data, RHB

2024 guidance and outlook

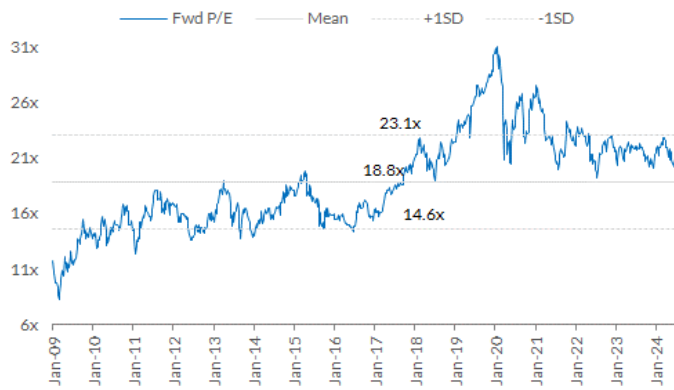
Figure 32: FY24 guidance by IND Banks

	Loans growth (%)		NIM (%)		Credit cost (bps)	
	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F
BBCA	17.1	8 - 10	5.6	5.5 - 5.6	40	30 - 40
BBNI	9.6	9 - 11	4.0	≥4.5	100	<140
BBRI	10.9	10 - 12	7.8	7.6 - 8.0	383	Max 300
BMRI	19.1	13 - 15	5.1	5.0 - 5.3	105	100 - 120
BNGA	6.0	5 - 7	4.2	4.2 - 4.4	82	100 - 110
BBTN	14.8	10 - 11	3.3	≥4.0	80	110 - 120
BJBR	6.3	6 - 8	4.0	≥4.0	60	60 - 100

Source: Company data, RHB

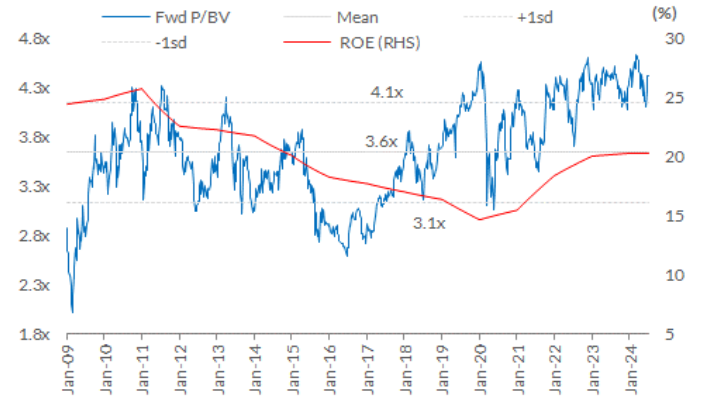
Valuation

Figure 33: BBCA's 12-month forward consensus P/E



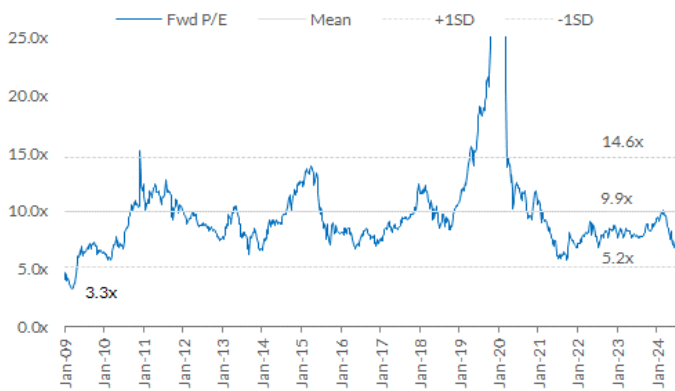
Source: Bloomberg, RHB

Figure 34: BBCA's 12-month forward consensus P/BV



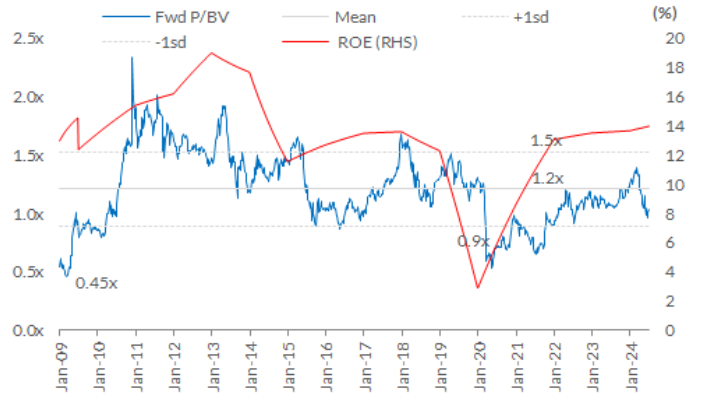
Source: Bloomberg, RHB

Figure 35: BBNI's 12-month forward consensus P/E



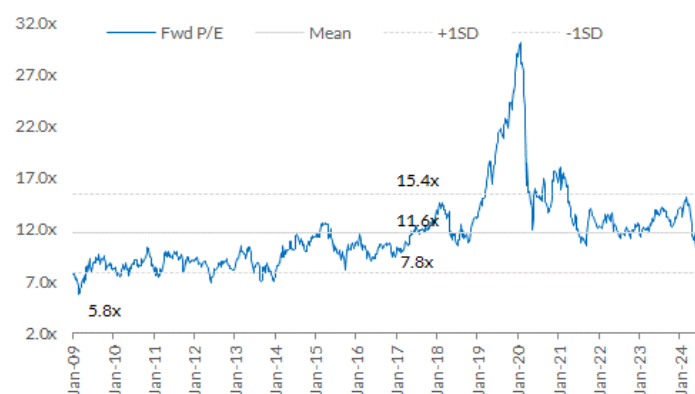
Source: Bloomberg, RHB

Figure 36: BBNI's 12-month forward consensus P/BV



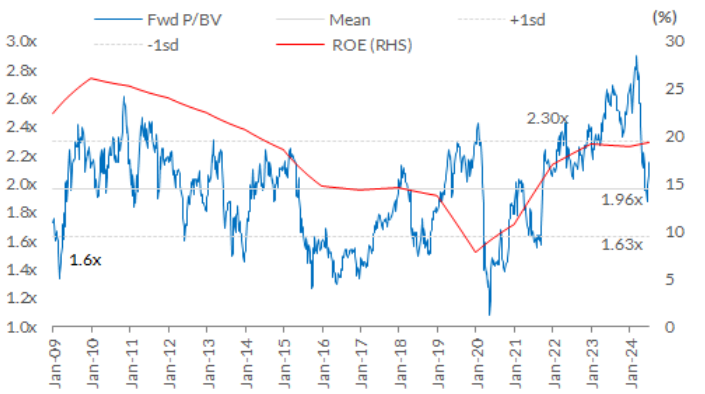
Source: Bloomberg, RHB

Figure 37: BBRI's 12-month forward consensus P/E



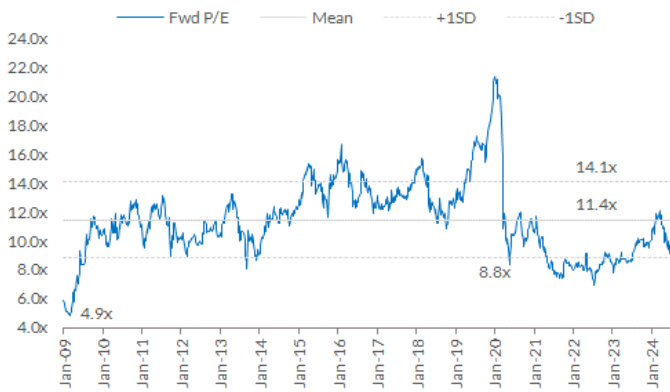
Source: Bloomberg, RHB

Figure 38: BBRI's 12-month forward consensus P/BV



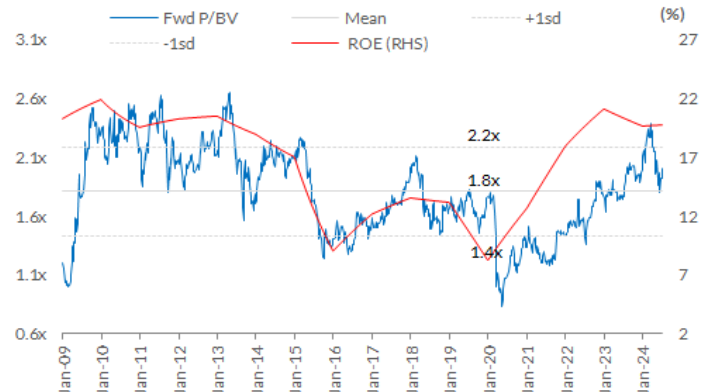
Source: Bloomberg, RHB

Figure 39: BMRI's 12-month forward consensus P/E



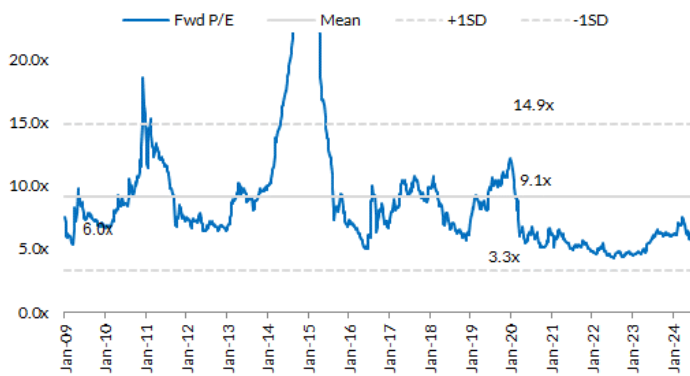
Source: Bloomberg, RHB

Figure 40: BMRI's 12-month forward consensus P/BV



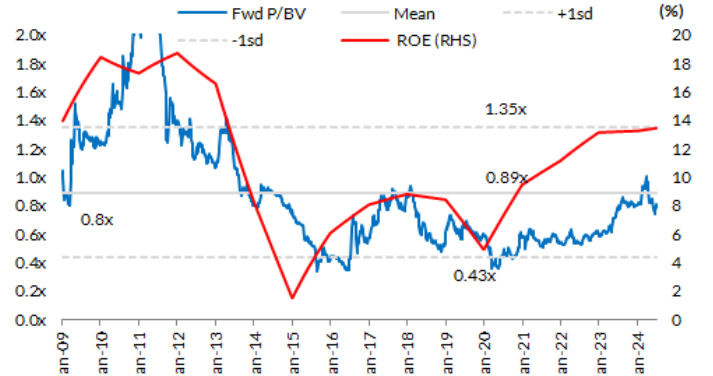
Source: Bloomberg, RHB

Figure 41: BNGA's 12-month forward consensus P/E



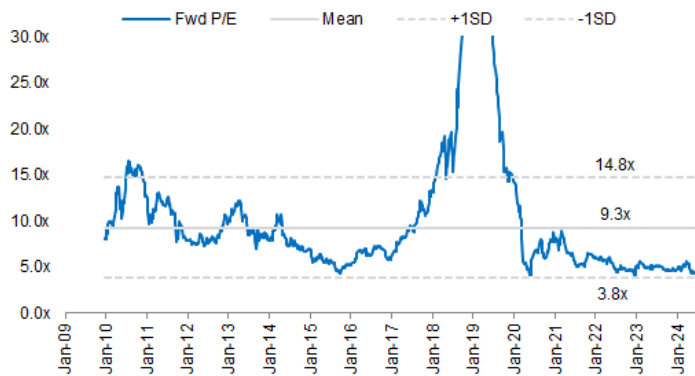
Source: Bloomberg, RHB

Figure 42: BNGA's 12-month forward consensus P/BV



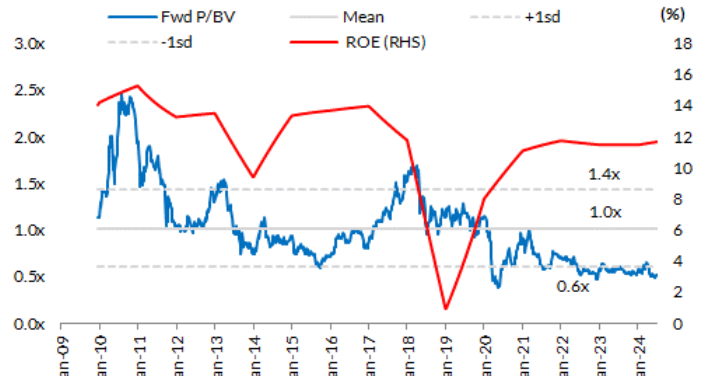
Source: Bloomberg, RHB

Figure 43: BBTN's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 44: BBTN's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Malaysia Banks

NEUTRAL

Three Potential Catalysts For 2H24

Sector investment thesis. Structural reforms and themes, plus the implementation of various economic masterplans are all positives for the country. Banks will be beneficiaries from the resulting improved economic activities, but over time. In the short term, we believe investors' point of focus will continue to be on the immediate and near-term beneficiaries from the abovementioned reforms and themes. Also, the sector's earnings growth is normalising and with a growth rate of 5-6% in FY24F and FY25F, may not excite. We see dividend yields and capital management driving total returns for banking stocks and prefer stocks that offer above average earnings and/or dividend growth, ie CIMB and AMMB.

2Q24 and YTD banks' performance review. Banking stocks' performance took a breather in 2Q24, despite having reported a very decent set of 1Q24 numbers. The two banks that outperformed the FBM KLCI in 2Q24 - AMMB and Alliance Bank Malaysia (ABMB) - were likely due to dividend payments. YTD, the sector's total return of 12% is close to that for the FBM KLCI. Outperformers were Affin, on expectations that the emergence of a new major shareholder will be a fundamental gamechanger for the group, and CIMB, on earnings momentum and potential capital management initiatives. On the other hand, notable laggards have been the defensive banks - Public Bank (PBK) and Hong Leong Bank (HLBK), whose yields are also below the sector average.

2QCY24 reporting quarter - what are we watching out for? We expect decent QoQ and YoY sector NII growth, largely led by loan volume coupled with some NIM recovery as banks continue with efforts to lower funding cost and improve asset yields. We think fee income should stay healthy while overhead pressure (1Q24: +12% YoY) looks likely to moderate on base effect. We see credit cost staying muted and would not be surprised if banks narrowed credit cost guidance to the lower end of earlier guided range or even lower overall guidance. The above positive trends, however, could be dampened by trading and investment income, where some banks enjoyed chunky realised and revaluation gains last quarter.

Three potential catalysts for 2H24: i) Interim dividends. 1Q has been a good start and 2Q earnings should be healthy as well. Although we are not expecting any special dividends for this quarter, we think underlying earnings should be supportive of decent dividends; ii) a rise in volatility. Geopolitics, upcoming US presidential elections and expectations surrounding US FFR cuts, among others, are all potential sources of increased volatility ahead. Banks could provide investors a shelter to hide out, given attractive valuations, decent yields and laggard status YTD. Defensive, liquid laggards such as PBK is our key pick in such a scenario; and iii) FII inflows. FIIs have been net sellers, albeit marginal, in the equity market this year but the onset of the FFR cut cycle could see a reversal in FII flows. Liquid, large cap banks could be beneficiaries.

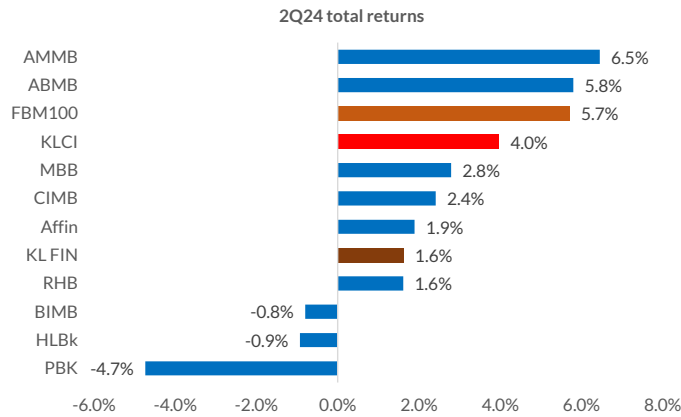
Earnings forecasts. We project the sector to post net profit growth of 5-6% in FY24F-25F on the back of a rebound in NII. We have pencilled in NIMs stabilising in 2024 after a 25bps YoY drop in 2023 and, despite a mild moderation in loan growth, these should help NII recover. We have also assumed stable credit cost at c. 22-23bps ahead. For now, despite the strong start to non-II, we continue to assume a moderation in sector non-II growth to 6% YoY (2023: +30%), with fees helping to pick up some of the modest growth from non-fee income.

Maintain sector NEUTRAL, from a country perspective. We continue to advocate stocks with better growth prospects - earnings and/or dividends. Our sector preferred picks are CIMB (above average earnings growth plus potential for capital management) and AMMB (DPS growth and visibility given management's target to double absolute DPS by FY29). We also believe there is room for YTD laggard stocks such as PBK and HLBK. These stocks are defensive with domestic-driven earnings to shield against external volatilities. We also like ABMB on valuation and dividend grounds.

Sector risks. Upside risks to earnings estimates could come from: i) Better-than-expected NIM, should competition for deposits pan out to be milder than expected; ii) stronger-than-expected credit demand, should economic activities pick up significantly; and iii) lower-than-expected credit cost, should delinquencies moderate and asset quality improve, which could allow banks to write back some of the built-up overlays. Downside risks stem from weaker-than-expected NIM and/or non-II. Higher-than-expected opex from an inflationary environment, business expansion, and technology spending could also lead to weaker-than-expected bottomline.

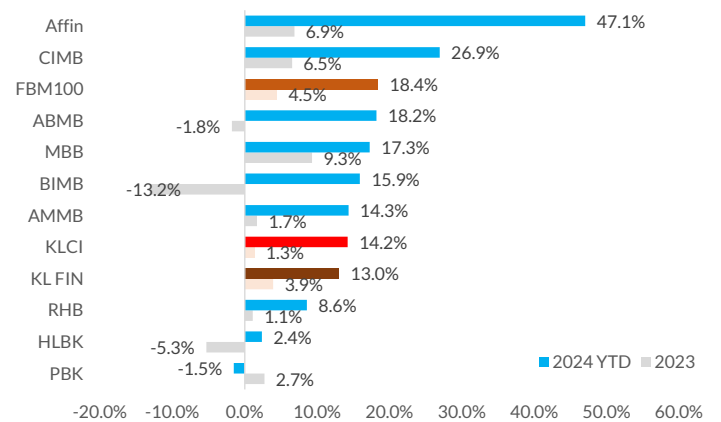
Focus Charts

Figure 45: 2Q24 total returns from MY banks were relatively muted despite the sector posting a decent set of 1Q results



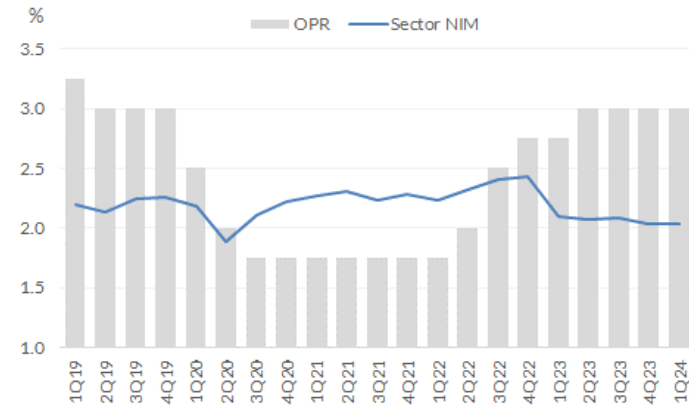
Source: Bloomberg, RHB

Figure 46: YTD, Affin outperformed on news flow while defensive banks lagged



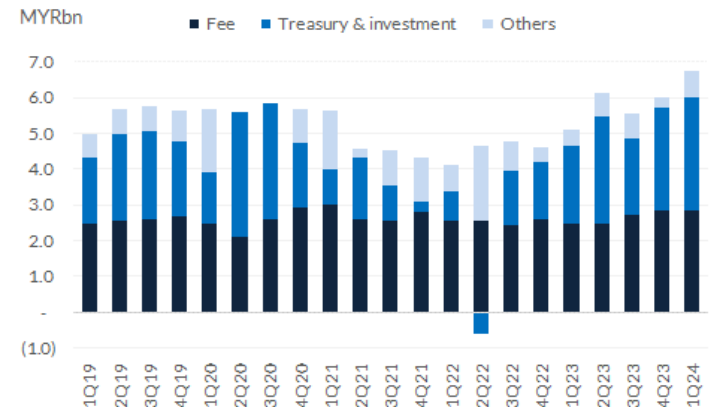
Source: Bloomberg, RHB

Figure 47: Sector NIMs are currently 20-30 bps below the pre-COVID-19 level due to higher CoF; ongoing efforts to lower deposit costs can have a near-term impact



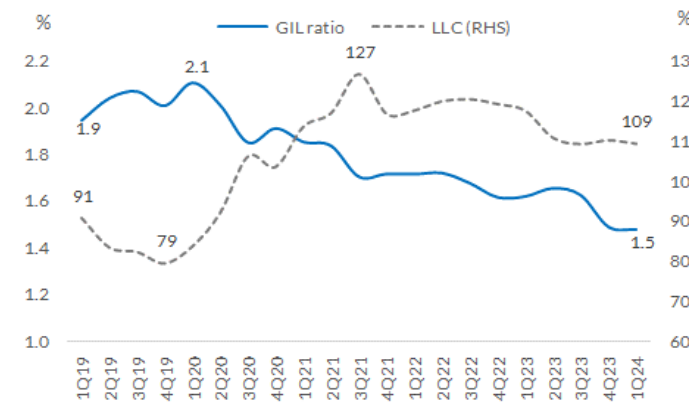
Source: Company, RHB

Figure 48: Treasury & Investment income are close to record levels posted during COVID-19, which has helped cushion NIM pressure – can this be sustained?



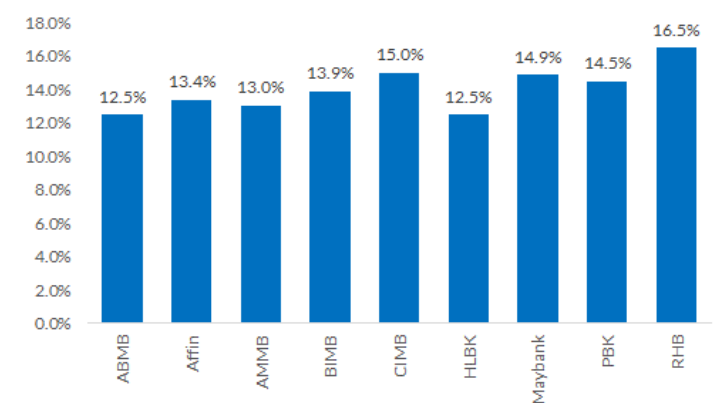
Source: Company, RHB

Figure 49: As long as corporate asset quality holds up, we think credit cost should be under control given provision buffers



Source: Company, RHB

Figure 50: Healthy CET-1 ratios will continue to support dividend payouts; some banks have the capacity to do more either with ordinary payouts or capital management



Source: Company, RHB

18 July 2024

Financial Services | Banks

Sector Earnings Forecasts

Figure 51: MY Banks – sector earnings and key forecasts and assumptions

(MYRm)	2021	2022	2023	2024F	2025F
NII	56,024	60,736	58,309	61,759	64,634
NII growth (%)	12.9%	8.4%	-4.0%	5.9%	4.7%
Loan growth (%)	5.0%	7.0%	7.3%	6.1%	5.3%
NIM (%)	2.30%	2.37%	2.12%	2.12%	2.11%
Fee income	9,714	9,256	9,682	10,323	10,907
Other income	7,798	6,177	10,283	10,901	11,419
Non-II	16,371	15,433	19,966	21,224	22,326
Non-II growth (%)	-17.1%	-5.7%	29.4%	6.3%	5.2%
Total operating income	72,395	76,169	78,275	82,983	86,960
Operating income growth (%)	4.4%	5.2%	2.8%	6.0%	4.8%
Non-II/Total income (%)	22.6%	20.3%	25.5%	25.6%	25.7%
Opex	(32,174)	(33,290)	(35,880)	(37,973)	(39,701)
Opex growth (%)	1.9%	3.5%	7.8%	5.8%	4.6%
CIR (%)	44.4%	43.7%	45.8%	45.8%	45.7%
PIOP	40,221	42,879	42,395	45,010	47,259
PIOP growth (%)	6.5%	6.6%	-1.1%	6.2%	5.0%
Loan impairment charges	(7,866)	(5,722)	(4,552)	(4,585)	(4,753)
Other impairment charges	(893)	(769)	(302)	(222)	(222)
Total impairment charges	(8,759)	(6,491)	(4,854)	(4,807)	(4,975)
Credit charge-off (bps)	47	32	24	23	22
GIL ratio (%)	1.77%	1.63%	1.46%	1.45%	1.40%
Loan loss coverage (%)	117.3%	118.6%	114.8%	114.7%	119.8%
Associates & others	1,369	1,546	1,788	1,886	2,054
Pre-tax profit	32,831	37,934	39,329	42,090	44,338
Taxation	(7,491)	(11,298)	(8,327)	(9,484)	(9,987)
Minority interests	(542)	(184)	(477)	(360)	(380)
Net profit	24,799	26,451	30,525	32,245	33,971
Net profit growth (%)	41.7%	6.7%	15.4%	5.6%	5.4%

Source: Company data, RHB

2024 guidance and outlook

Figure 52: FY24 and FY25 guidance of MY banks

	YoY loans growth (%)		NIM (%)		CIR (%)		Opex growth (%)		Credit cost (bps)		ROE (%)		Div payout (%)	
	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F	1Q24A	FY24F
Affin	11.2	8.0	1.44	1.60	75.1	64.0	14.8	8 - 9	(14)	10 - 15	3.95	7.0	n.a.	50
ABMB*	13.6	8 - 10	2.48	2.4 - 2.45	48.2	c.48.0	10.5	Slower growth vs FY24	26	30 - 35	10.2	>10.0	50	40 - 50
AMMB*	3.0	Mid-single digit	1.79	Higher than FY24	44.2	n/a	(2.3)	n/a	27	<30	10.0	na	40	na
BIMB	2.4	7-8	2.14	>2.1	63.0	n/a	4.1	n/a	25	<30	7.0	>8	n.a.	60
CIMB	7.0	5-7	2.18	Stable-to-5bps expansion	45.3	<46.9	9.0	Mid-single digit	35	30-40	11.4	11-11.5	n.a.	55
HL Bank^	7.8	6-7	1.85	1.8 - 1.9	39.8	<40.0	3.9	n.a.	(7)	c. 10	12	c. 12	n.a.	n.a.
Maybank	11.2	6-7	2.00	5bps compression	48.3	<49	20.0	<10	29	<30	10.8	11.0	n.a.	Similar level (FY23: 77%)
Public Bank	6.2	5-6	2.21	Stable-to-single digit compression	35.4	35.0	9.5	5-6	6	5-10	12.3	12.0	n.a.	50-60

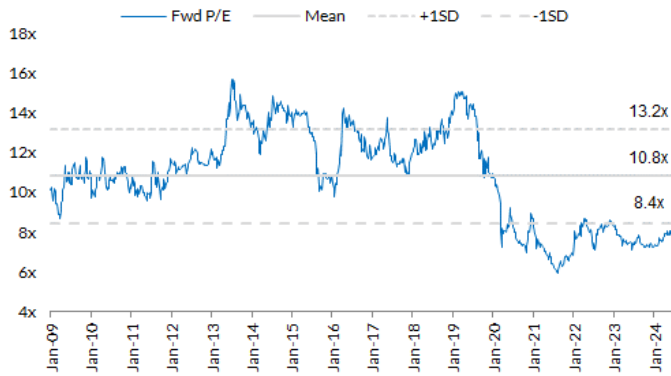
Note 1: *1Q24A and FY24F refers to FY24A and FY25F

Note 2: ^ 1Q24A refers to 9MFY24A

Source: Company data, RHB

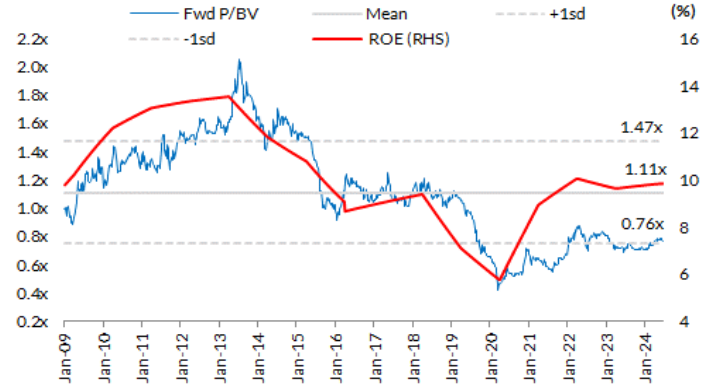
Valuations

Figure 53: ABMB's 12-month forward P/E



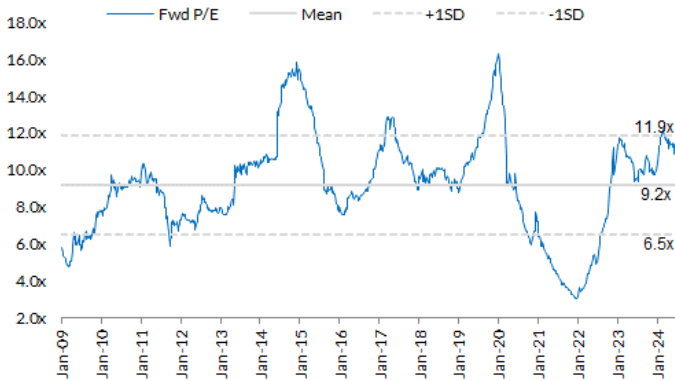
Source: Bloomberg, RHB

Figure 54: ABMB's 12-month forward P/BV vs ROE



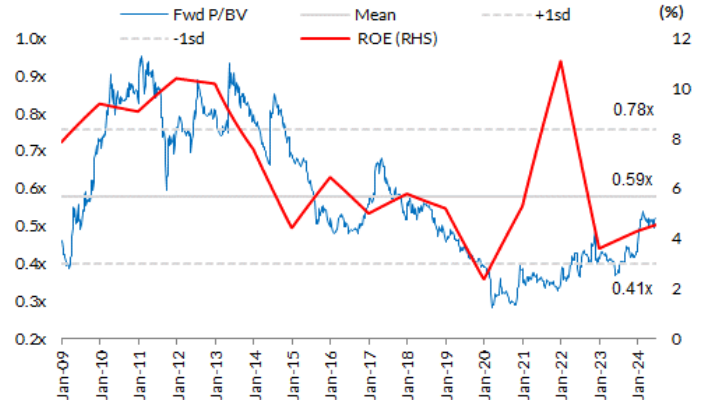
Source: Bloomberg, RHB

Figure 55: Affin's 12-month forward P/E



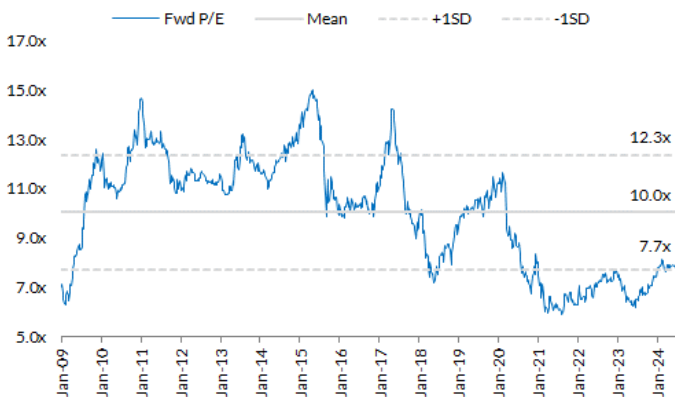
Source: Bloomberg, RHB

Figure 56: Affin's 12-month forward P/BV vs ROE



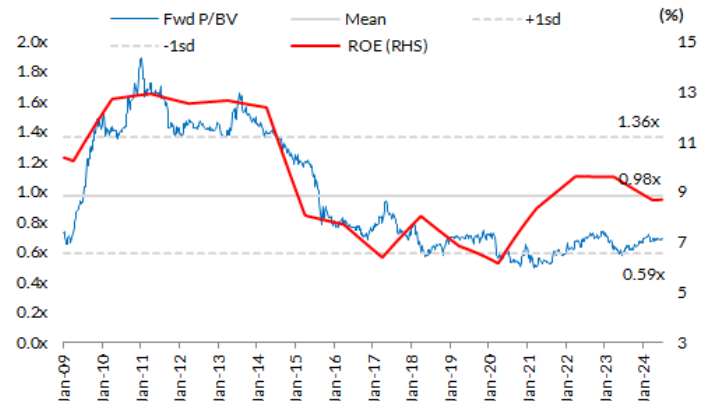
Source: Bloomberg, RHB

Figure 57: AMMB's 12-month forward P/E



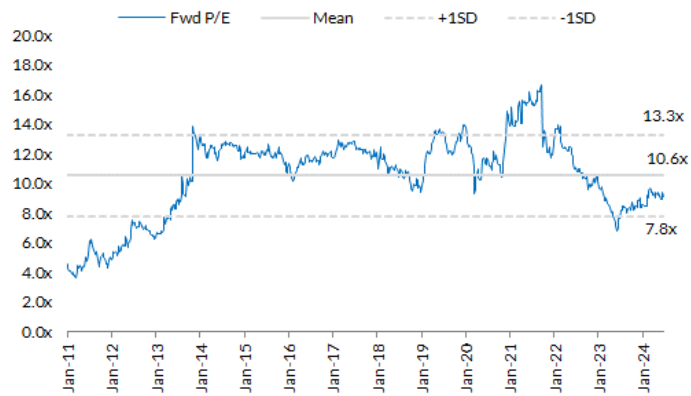
Source: Bloomberg, RHB

Figure 58: AMMB's 12-month forward P/BV vs ROE



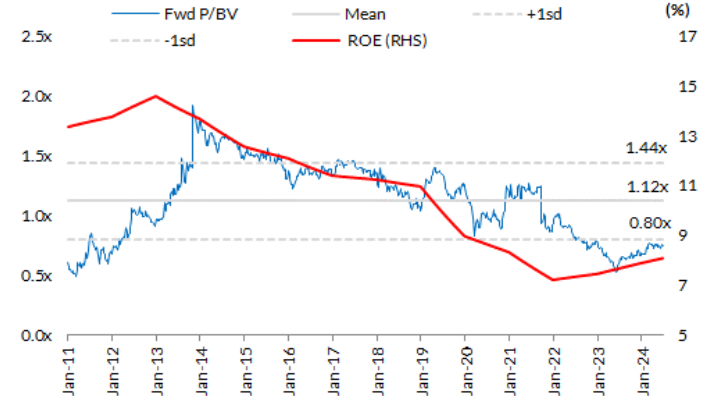
Source: Bloomberg, RHB

Figure 59: BIMB's 12-month forward P/E



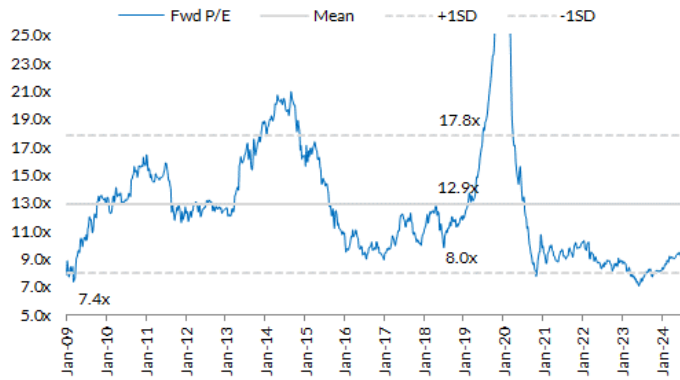
Source: Bloomberg, RHB

Figure 60: BIMB's 12-month forward P/BV vs ROE



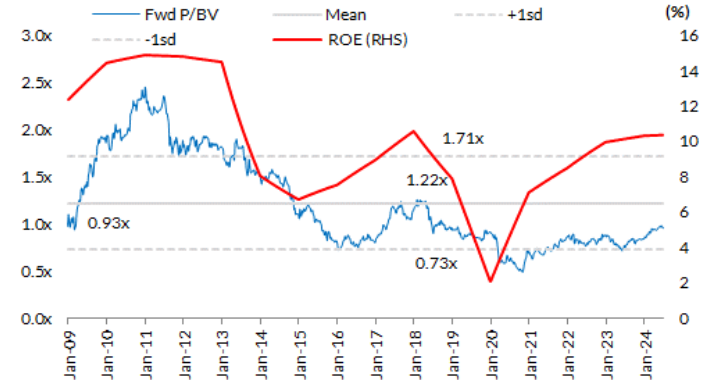
Source: Bloomberg, RHB

Figure 61: CIMB's 12-month forward P/E



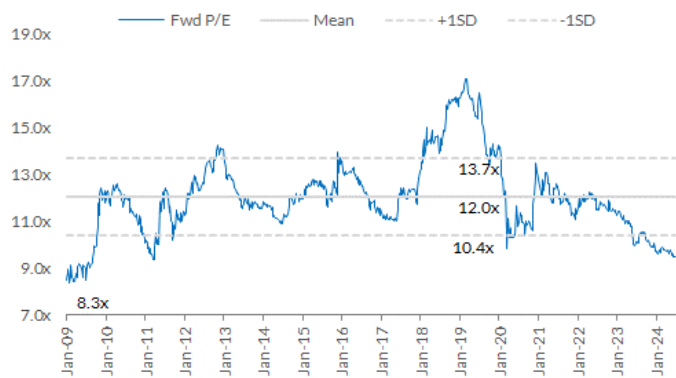
Source: Bloomberg, RHB

Figure 62: CIMB's 12-month forward P/BV vs ROE



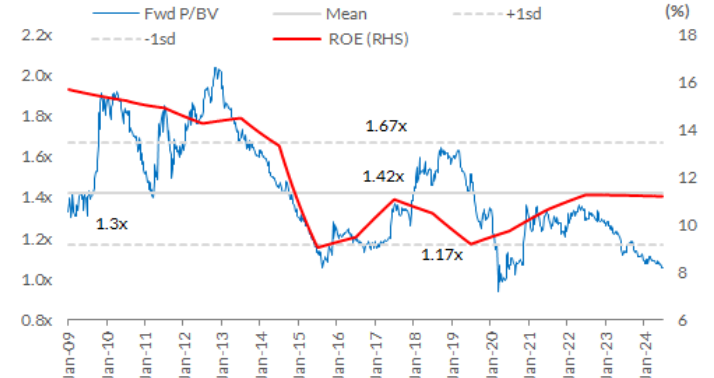
Source: Bloomberg, RHB

Figure 63: HLBK's 12-month forward P/E



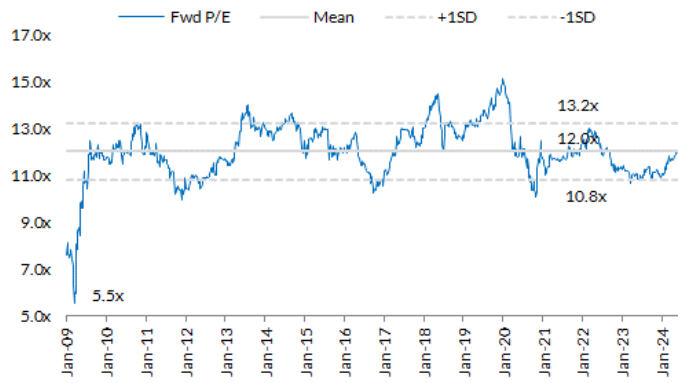
Source: Bloomberg, RHB

Figure 64: HLBK's 12-month forward P/BV vs ROE



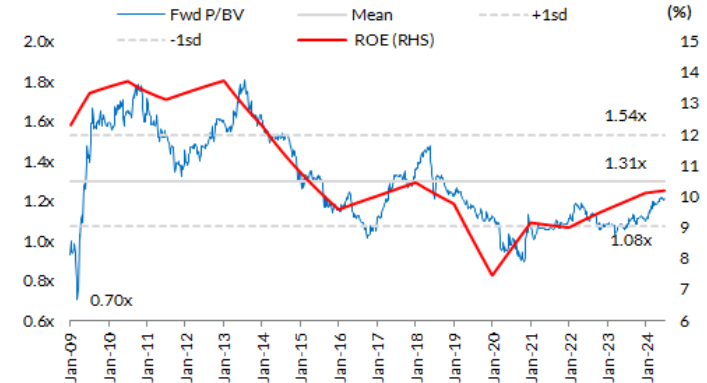
Source: Bloomberg, RHB

Figure 65: Maybank's 12-month forward P/E



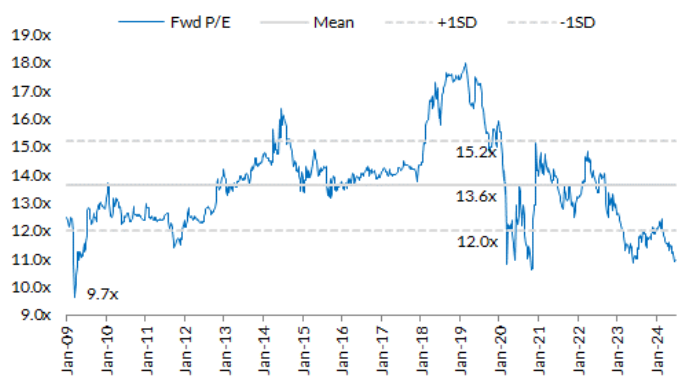
Source: Bloomberg, RHB

Figure 66: Maybank's 12-month forward P/BV vs ROE



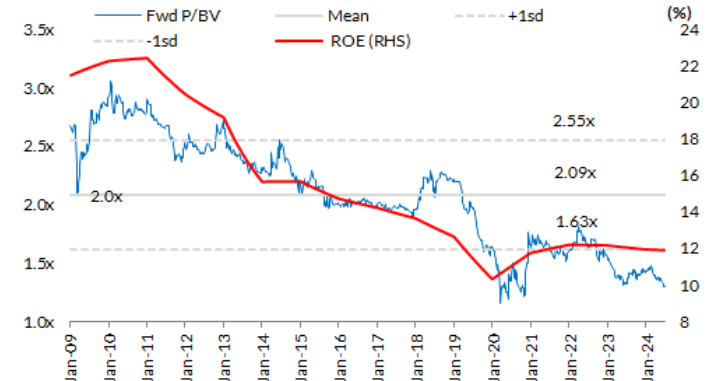
Source: Bloomberg, RHB

Figure 67: Public Bank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 68: Public Bank's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Singapore Banks

NEUTRAL

Poised For a Breather?

Sector investment thesis. Barring a recessionary-driven series of sharp rate cuts, we think the impact of a gradual easing cycle should be manageable for SG Banks. Although NIMs will be under pressure, this could be cushioned by a potential combination of a pickup in loans growth, improved wealth management activities and an easing in asset quality pressures. Nevertheless, forward earnings will likely be muted and as such, our preference for stocks that can offer dividend growth and capital management potential. DBS is our Top Pick to ride through the rates downcycle.

Beyond that, we are positive on the regional platforms that the SG Banks had built up over the years, which means SG Banks are well poised to capture trade, investment and wealth flows within Asia in the coming years.

2Q24 and YTD banks' performance review. SG Banks posted strong 2Q share price performance, buoyed by expectations that the FFR cut will be pushed back, leading to fewer cuts for this year (positive for NII and bottomline), as well as a good set of 1Q24 results. DBS was the best performer thanks to its attractive dividend yield and robust results. On the other hand, United Overseas Bank (UOB) was a laggard, albeit marginally underperforming OCBC, Bank (OCBC) as reported earnings growth was relatively more muted.

2Q24 reporting quarter – what are we watching out for? 2Q NII could be flattish QoQ. 2Q loans growth momentum appears to be mixed, with one bank citing broad-based growth, while another bank suggested growth was muted. Also, we think there could be mixed factors at play for NIM – where efforts by banks to manage down deposit cost coupled with the repricing of fixed rate assets are positives for NIM, while the deposit mix shift to fixed deposits from CASA could pressure funding cost. Over on the non-II front, fees growth is expected to continue at a healthy clip but the biggest question mark, in our view, is the strength for trading and investment (T&I) income. SG Banks enjoyed a strong 1Q, part of which was opportunistic and may not be sustained in 2Q. As for asset quality, we understand this has remained under control, but if loans growth stays healthy, this could necessitate some GP to be set aside. All in, we think 2Q could be decent, but unlikely to excite.

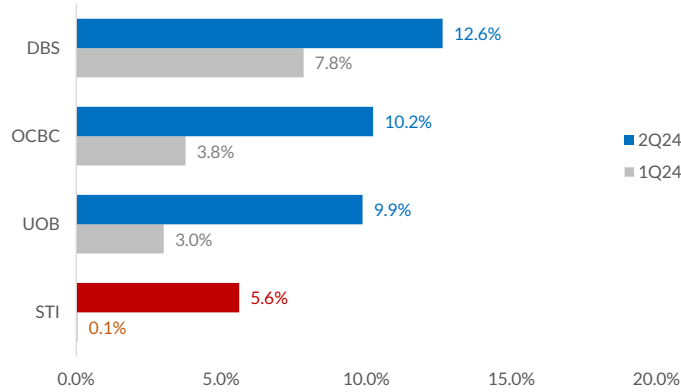
Earnings forecasts. We expect sector 2024F PATMI to inch up 3% YoY, down from the +25% YoY in 2023 but an improvement from the previously expected YoY dip. The moderation in growth is mainly due a more modest +4% YoY operating income growth projection (2023: +21% YoY) on a 3bps NIM squeeze and slower non-II growth. Further out, we currently project PATMI growth of 1-2% in FY25F-26F – reflecting modest NIM pressure amid a normalising rates cycle.

Maintain sector NEUTRAL, from a country perspective. With the sector's earnings outlook likely to remain muted, we believe dividend growth will continue as the main driver for banks' share price performance. DBS is best positioned to deliver on this. We would also keep an eye out for OCBC's bid to take Great Eastern (GE SP, NR) private. If successful, this would cost OCBC 60bps in CET-1 capital. If not, we think it is possible OCBC could opt to dividend up a portion of the 60bps (31 SG cents per share). At the close of the offer period, OCBC's stake in GE had reached 93.5% (up from 88.7% pre-offer) but GE shareholders who have not accepted the offer can still require OCBC to acquire their shares within a certain time frame.

Sector risks. Upside risks to earnings estimates could come from: i) Better-than-expected NIM should rates hold up higher for longer; ii) stronger-than-expected treasury and markets income; and iii) lower-than-expected credit cost, should asset quality stay benign. Downside risks would likely be around operating income, ie NIM and non-II, and worse-than-expected asset quality.

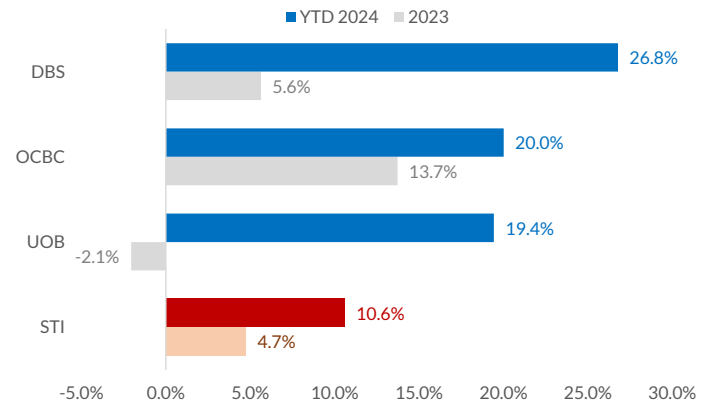
Focus Charts

Figure 69: Higher for longer rates environment, coupled with good results, has helped lift SG banks 2Q24 performance



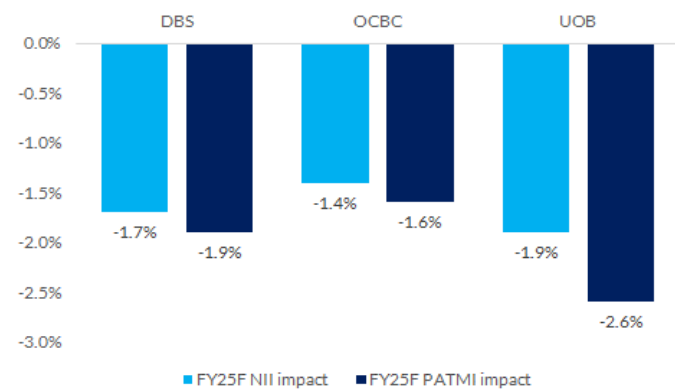
Source: Bloomberg, RHB

Figure 70: With the rate cut cycle approaching, we think the performance gap between the banks and broader market will start to narrow



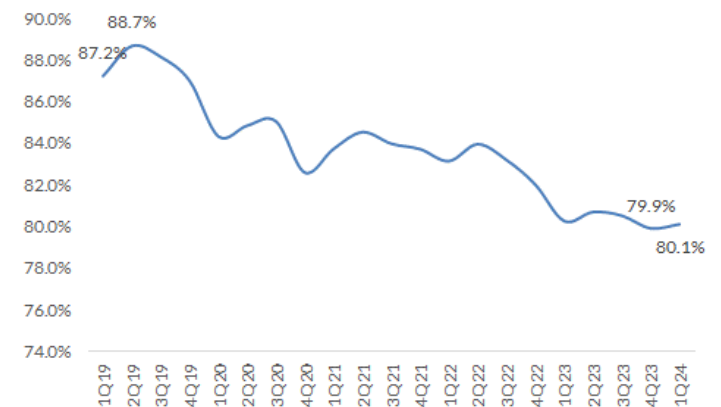
Source: Bloomberg, RHB

Figure 71: SG Banks' sensitivity to 25bps cut in interest rates



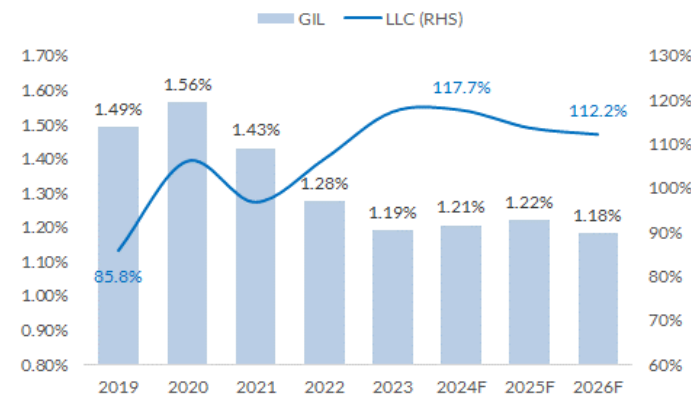
Source: Company data, RHB

Figure 72: Sector LDR – SG Banks are flushed with liquidity and well positioned for a pickup in loans growth, conversion to wealth management products and/or for liquidity management to cushion NIM pressures ahead



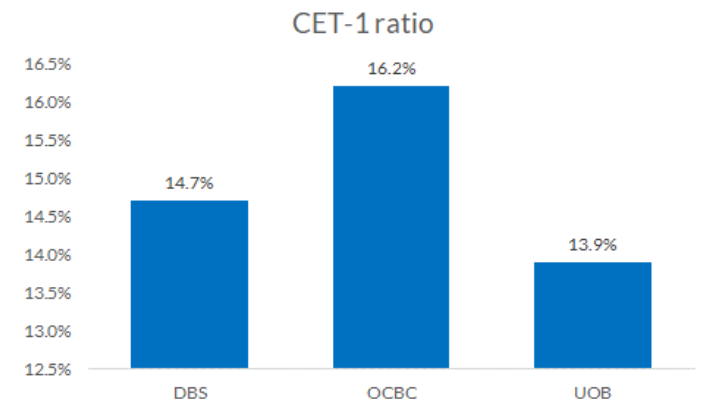
Source: Company data, RHB

Figure 73: Barring a recessionary driven rate cut cycle, SG Banks' credit cost should be well under control



Source: Company data, RHB

Figure 74: DBS and OCBC have the capacity to do more for dividend payouts and capital management, but only DBS has exhibited the willingness to do so



Source: Company data, RHB

Sector Earnings Forecasts

Figure 75: SG Banks – sector earnings and key forecasts and assumptions

(SGDm)	2022	2023	2024F	2025F	2026F
NII	26,972	32,966	33,499	34,000	34,427
NII growth (%)	30.4%	22.2%	1.6%	1.5%	1.3%
Loan growth (%)	1.9%	0.5%	3.7%	4.4%	4.1%
NIM (%)	1.85%	2.17%	2.14%	2.08%	2.03%
Fee income	7,085	7,405	8,282	8,813	9,332
Other income	5,306	7,230	7,814	8,191	8,658
Non-II	12,391	14,635	16,096	17,005	17,990
Non-II growth (%)	-10.8%	18.1%	10.0%	5.6%	5.8%
Total operating income	39,363	47,601	49,596	51,004	52,417
Operating income growth (%)	13.9%	20.9%	4.2%	2.8%	2.8%
Non-II/Total income (%)	31.5%	30.7%	32.5%	33.3%	34.3%
Opex	(17,209)	(19,731)	(20,645)	(21,571)	(22,466)
Opex growth (%)	10.0%	14.7%	4.6%	4.5%	4.1%
CIR (%)	43.7%	41.5%	41.6%	42.3%	42.9%
PIOP	22,154	27,870	28,951	29,433	29,951
PIOP growth (%)	17.0%	25.8%	3.9%	1.7%	1.8%
Loan impairment charges	(1,370)	(2,036)	(2,221)	(2,198)	(2,156)
Other impairment charges	(161)	(344)	(220)	(216)	(214)
Total impairment charges	(1,531)	(2,380)	(2,441)	(2,414)	(2,370)
Credit charge-off (bps)	13	20	21	20	19
GIL ratio (%)	1.28%	1.19%	1.21%	1.22%	1.18%
Loan loss coverage (%)	106.5%	117.3%	117.7%	113.7%	112.2%
Associates & others	1,214	1,260	1,336	1,415	1,498
Pre-tax profit	21,837	26,750	27,846	28,434	29,079
Taxation	(3,421)	(3,797)	(4,132)	(4,245)	(4,507)
Minority interests	(124)	(159)	(163)	(167)	(168)
Net profit	18,292	22,794	23,551	24,022	24,404
Net profit growth (%)	16.2%	24.6%	3.3%	2.0%	1.6%

Source: Company data, RHB

2024 guidance and outlook

Figure 76: FY24 guidance by SG Banks

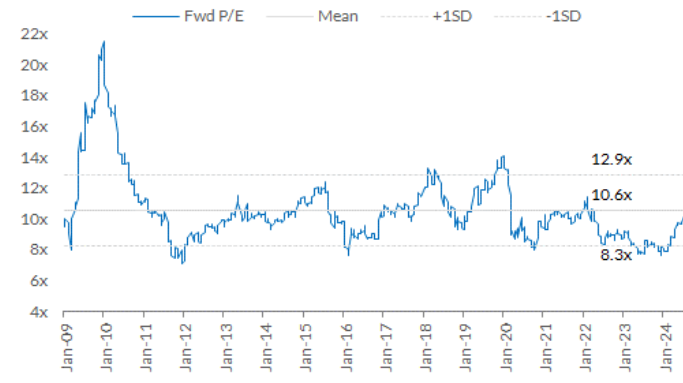
	Loan growth (%)		NIM (%)		Credit cost (bps)		ROE (%)		DPS / Div payout (%)	
	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F
DBS	+2	Low single digit	2.14	< 2023 exit NIM of 2.13%	10*	17-20*	19.4	15-17	54 cents	n.a.
OCBC	+2	Low single digit	2.27	2.2-2.25	16	20-25	14.7	13-14.0	-	50%
UOB	+2	Low single digit	2.02	c. 2.0	23	25-30	12.7	n.a.	-	50%

Note: *refers to SP/loans

Source: Company data, RHB

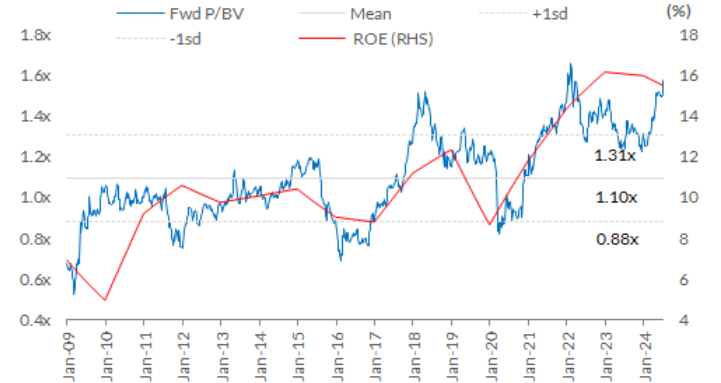
Valuations

Figure 77: DBS' 12-month forward P/E



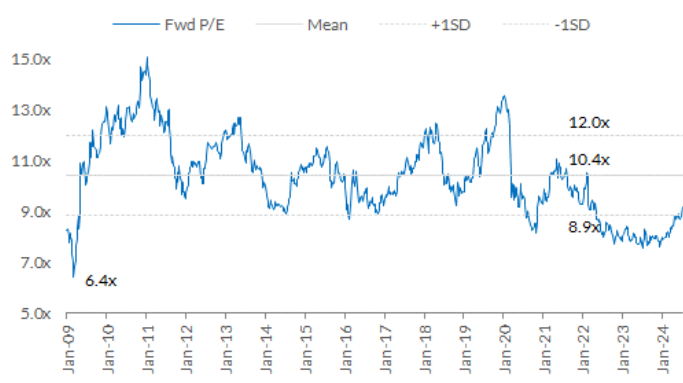
Source: Bloomberg, RHB

Figure 78: DBS' 12-month forward P/BV vs ROE



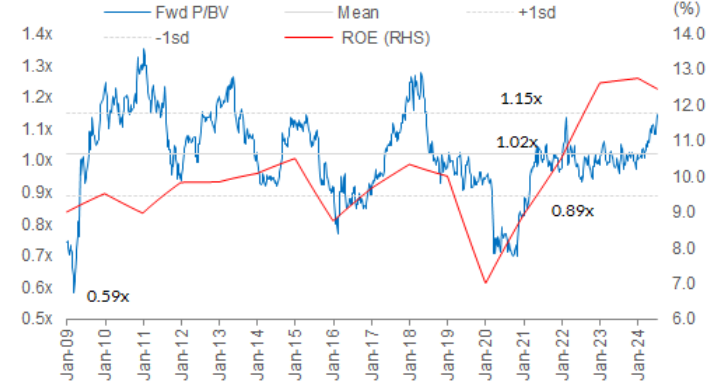
Source: Bloomberg, RHB

Figure 79: OCBC's 12-month forward P/E



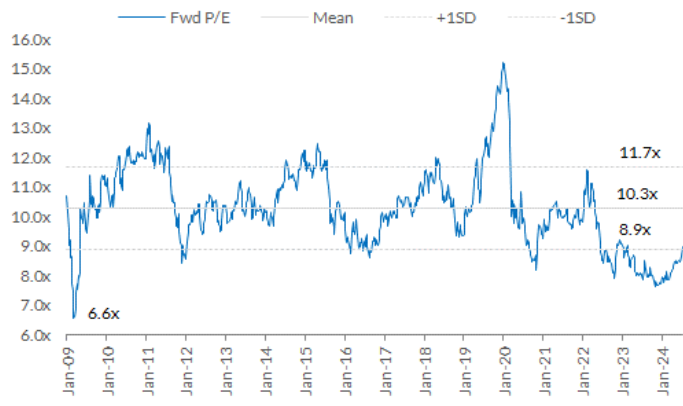
Source: Bloomberg, RHB

Figure 80: OCBC's 12-month forward P/BV vs ROE



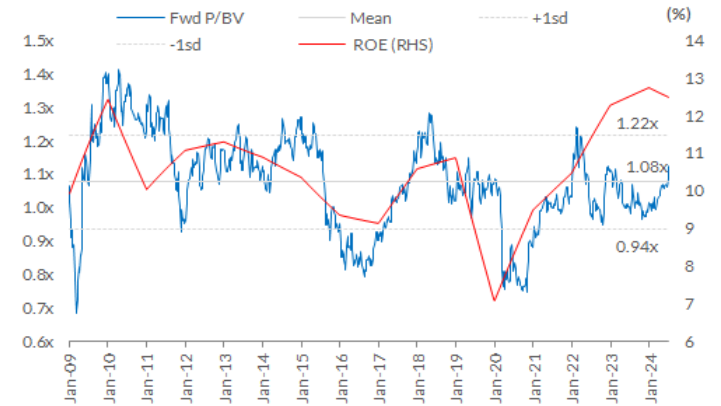
Source: Bloomberg, RHB

Figure 81: UOB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 82: UOB's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Thailand Banks

NEUTRAL

Wait For Selective Accumulation

Selective accumulation; Top Pick: TMBThanachart Bank (TTB). Muted 2Q/FY24F earnings, lingering asset quality challenges, and lower ROE vs regional peers for banks we cover (TH Banks) are potential factors capping a rerating. While such concerns (and a political overhang) should be partially priced in, we advise waiting for further potential price weakness for selective accumulation, as political uncertainties have prolonged to 3Q24. Solid dividend yield (c.6%) and deep discounted valuations (P/BV and P/E below the -1SD level from the historical mean) are primary share price support for TH Banks. Maintain NEUTRAL.

Share price and earnings performance review. TH Banks posted weak share price performance in 1H24 (1H24: -8.3%, 1Q24: -2.8%, 2Q24: -5.7%) and lagged regional financials. However, high dividend plays, especially TTB (1H24: +2.4%) and SCBX (SCB) (-2.8%), outperformed the sector (-8.3%). TH Banks' weak performance can be attributed to: i) Lower-than-expected economic growth (Thailand's GDP growth for 2024 has been lowered to c.2.5% vs c.3.2% earlier this year), ii) lingering concerns on asset quality, and iii) prolonging political uncertainties, with Prime Minister Srettha Thavisin facing legal scrutiny. These were despite fairly decent 1Q24 results (+10% YoY, +29% QoQ), which beat Street estimates by 5% partly on higher gains on investment.

Muted 2Q24F earnings outlook. We expect muted 2Q24 net profit (flat YoY, -5% QoQ) on weakened non-II and NIM and remaining high credit cost – TTB is the likely best performer (+17% YoY, flat QoQ). Key risk: Higher-than-expected NPLs, given pressures from slow economic growth and high household debt, this should impact the vulnerable small SME and lower income retail segments. Note: TISCO Financial Group (TISCO TB, NR), which already announced its 2Q24 results, continued to report higher NPLs – we believe there will be negative implications on the asset quality outlook for the other banks.

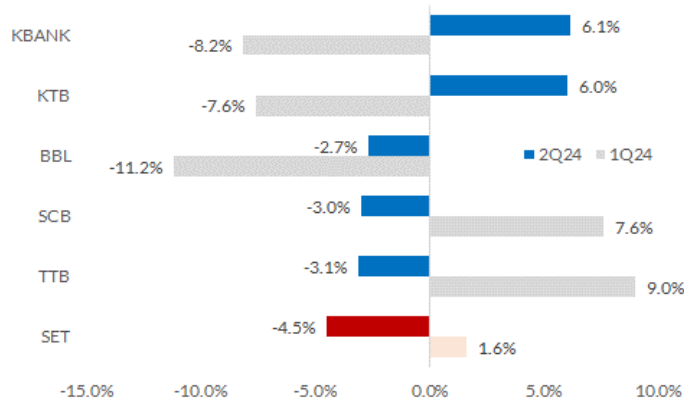
Earnings forecasts. We expect modest earnings growth for TH Banks at c.4-5% for 2024-2025 vs +18% in 2023. The modest growth is mainly dragged by NIM squeeze, weak non-II, and slow loan growth at c.2-3% (c.1x of GDP growth), as banks prioritise asset quality control rather than growth. Credit cost should stay at a high level in 2024 and see a slight decline in 2025, given lingering asset quality pressure, but should remain manageable on TH Banks' proactive balance sheet clean ups and high reserve cushions. We expect the 2H24 economic outlook to improve vs 1H24, mainly from the acceleration of fiscal budget disbursements for FY24-25 – this should help ease banks' asset quality.

Maintain sector NEUTRAL, from a country perspective. The sector's outlook remains dull on muted earnings and lingering asset quality pressure. We see banks' solid dividend yield (c.6%) and deep discounted valuations (P/BV and P/E below the -1SD level from the historical mean) as the main factors to support share price amidst prolonged political overhang till 3Q. Top Pick: TTB – it is best positioned to handle challenges as well as to post outstanding earnings growth (12% in FY24F vs peers: c.4%) and solid dividend yield (c.3-3.5% for 1H24F and c.7% for FY24 vs peers: 1-2% and 6%) vs peers, thanks to its huge tax benefit cushion. We also like BBL as a value and high reserve cushion play. While in the short term, SCB (top dividend play; c.10% yield) could face overhang from: i) The impaired loss (c.TH2bn) from the termination of its Robinhood food delivery application service, though we see this decision as positive for the long term; and ii) higher asset quality risk, especially on the case of Energy Absolute (EA TB, NR).

Sector risks. Upside risk would likely be on better-than-expected NIM for the case of no/lesser policy rate cuts. Downside risks would stem from: i) Higher-than-expected credit cost arising from higher asset quality risk given lingering pressures from high household debt and uneven economic growth; ii) roll over risk of low graded corporate bonds; and iii) the prolonging political uncertainties which could post downside risk to economic growth and investor confidence.

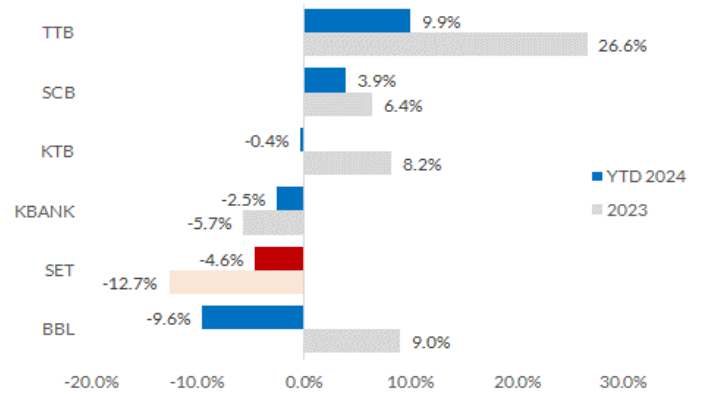
Focus Charts

Figure 83: TH Banks had a mixed 2Q performance



Source: Bloomberg, RHB

Figure 84: Dividend yielders – TTB and SCB have done well, while similar to the experience in other markets, defensive BBL has lagged



Source: Bloomberg, RHB

Figure 85: 1Q24 earnings wrap

Ticker	BB Consensus	% surprise	Net Profit (THBm)			% Growth	
			1Q24F	vs Consensus	1Q24	4Q23	1Q23
TISCO	1,768	-2%	1,733	1,782	1,793	-3%	-3%
BBL	11,151	-6%	10,524	8,863	10,129	19%	4%
KBANK	11,173	21%	13,486	9,388	10,741	44%	26%
KKP	991	52%	1,506	670	2,085	125%	-28%
KTB	10,543	5%	11,079	6,111	10,067	81%	10%
SCB	11,578	-3%	11,281	10,995	10,995	3%	3%
TTB	5,180	3%	5,334	4,866	4,295	10%	24%
Total	52,384	5%	54,942	42,674	50,104	29%	10%

Source: Company data, RHB

Figure 86: 2Q24F earnings preview

Ticker	Net Profit (THBm)			% Growth	
	2Q24F	1Q24	2Q23	QoQ	YoY
TISCO**	1,749	1,733	1,854	1%	-6%
BBL	10,789	10,524	11,294	3%	-4%
KBANK*	12,094	13,486	10,994	-10%	10%
KKP*	1,228	1,506	1,408	-18%	-13%
KTB*	10,604	11,079	10,156	-4%	4%
SCB	10,642	11,281	11,868	-6%	-10%
TTB	5,340	5,334	4,566	0%	17%
Total	52,445	54,942	52,141	-5%	0.6%

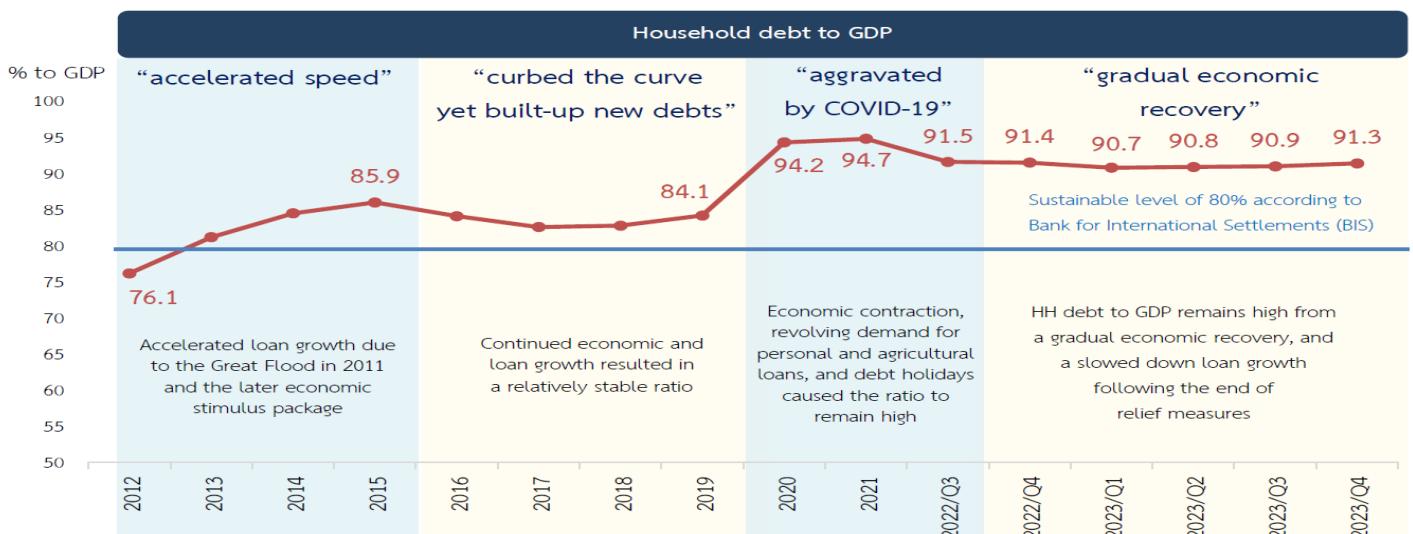
Note: *Bloomberg consensus (9 Jul 2024)

Note 2: ** TISCO 2Q24 figure was actual results

Note 3: BBL, SCB, and TTB 2Q24F figures are based on RHB forecasts

Source: Bloomberg, Company data, RHB

Figure 87: Thailand's household debt to GDP



Source: BoT and The Office of the National Economic and Social Development Council (NESDC)

Sector Earnings Forecasts

Figure 88: TH Banks* – sector earnings and key forecasts and assumptions

(THBm)	2022	2023	2024F	2025F	2026F
NII	261,705	312,751	311,026	314,121	319,757
NII growth (%)	14.6%	19.5%	-0.6%	1.0%	1.8%
Loan growth (%)	2.8%	-0.1%	2.3%	3.1%	3.6%
NIM (%)	2.95%	3.44%	3.39%	3.37%	3.36%
Fee income	75,047	70,319	70,917	72,641	75,014
Other income	22,415	26,482	26,442	28,371	29,477
Non-II	97,462	96,802	97,359	101,011	104,491
Non-II growth (%)	-20.2%	-0.7%	0.6%	3.8%	3.4%
Total operating income	359,167	409,552	408,386	415,132	424,248
Operating income growth (%)	2.5%	14.0%	-0.3%	1.7%	2.2%
Non-II/Total income (%)	27.1%	23.6%	23.8%	24.3%	24.6%
Opex	(168,844)	(184,835)	(185,467)	(187,901)	(188,951)
Opex growth (%)	4.2%	9.5%	0.3%	1.3%	0.6%
CIR (%)	47.0%	45.1%	45.4%	45.3%	44.5%
PIOP	190,322	224,717	222,919	227,231	235,297
PIOP growth (%)	1.0%	18.1%	-0.8%	1.9%	3.5%
Loan impairment charges	(84,829)	(99,466)	(94,311)	(91,969)	(91,920)
Other impairment charges	-	-	-	-	-
Total impairment charges	(84,829)	(99,466)	(94,311)	(91,969)	(91,920)
Credit charge-off (bps)	134	155	145	138	133
GIL ratio (%)	3.64%	3.48%	3.68%	3.68%	3.62%
Loan loss coverage (%)	190.6%	215.8%	210.6%	213.5%	217.9%
Associates & others	-	-	-	-	-
Pre-tax profit	105,493	125,251	128,607	135,262	143,377
Taxation	(24,428)	(20,968)	(20,505)	(21,441)	(22,589)
Minority interests	(19)	(664)	(649)	(640)	(635)
Net profit	81,046	103,619	107,453	113,182	120,152
Net profit growth (%)	11.7%	27.9%	3.7%	5.3%	6.2%

Note: *Based on stocks under RHB coverage

Source: Company data, RHB

2024 guidance and outlook

Figure 89: FY24 guidance by TH Banks

	Loan growth (%)		NIM (%)		Net fee income growth (%)		CIR (%)		Credit cost (bps)		NPL ratio (%)		Div payout (%)
	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	1Q24	FY24F	FY24F
BBL	3.6	3-5	3.1	c.2.8**	-2.7	Low single-digit	47.1	High-40s	128	90-100	3.00	c.3.0	c.30-40
KTB	1.4	c. 3.0	3.3	3.0-3.3	8.5	Low to mid single-digit	43.6	Low to mid-40s	123	120-130	3.14	<3.25	c.30-40
KBANK	-0.1	3-5	3.7	Maintain FY23:3.66	2.3	Mid to high single-digit	41.3	Low to mid-40s	189	175-195	3.19	<3.25	c.30-40
SCB	2.1	3-5	3.8	3.7-3.9	-11.4	Low to mid single-digit	42.1	43-45	168	160-180	3.52	n.a.	c.80
TTB	-3.2	Flat	3.2	3.1-3.25	-2.8	Low single-digit*	42.8	Mid-40s	156	125-135	2.56	<=2.9	c.55-65

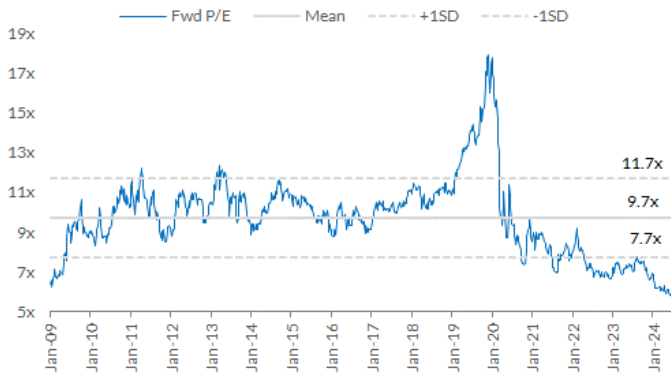
Note: *Non-II growth target

Note 2: **In case of the potential of policy rate cut in 2H24F

Source: Company data, RHB

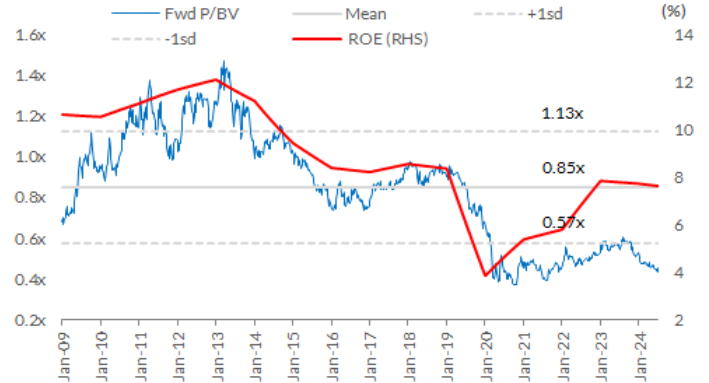
Valuations

Figure 90: BBL 12-month forward P/E



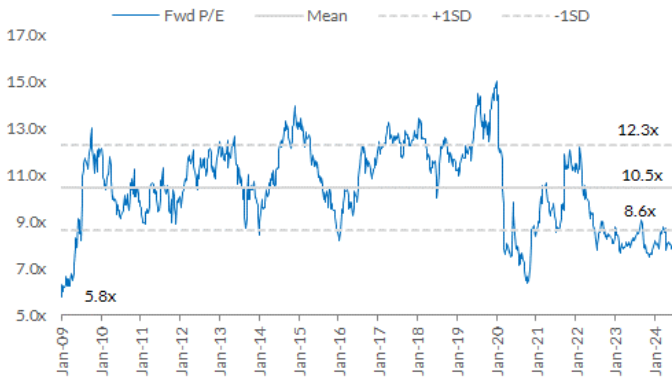
Source: Bloomberg, RHB

Figure 91: BBL 12-month forward P/BV vs ROE



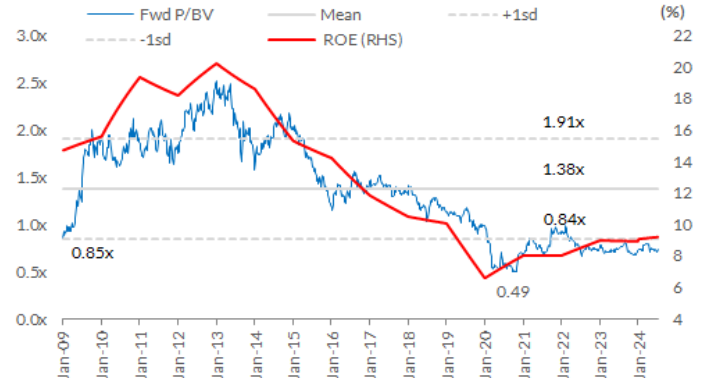
Source: Bloomberg, RHB

Figure 92: SCB 12-month forward P/E



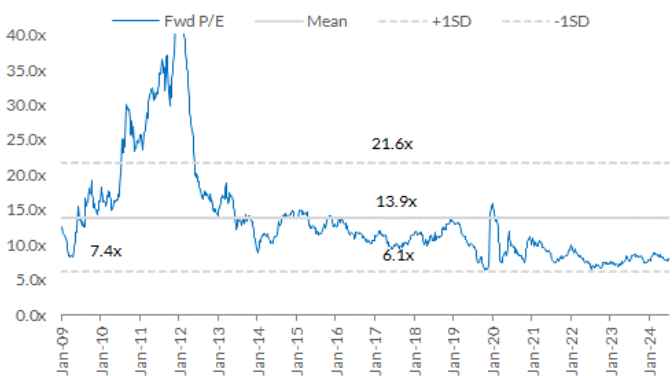
Source: Bloomberg, RHB

Figure 93: SCB 12-month forward P/BV vs ROE



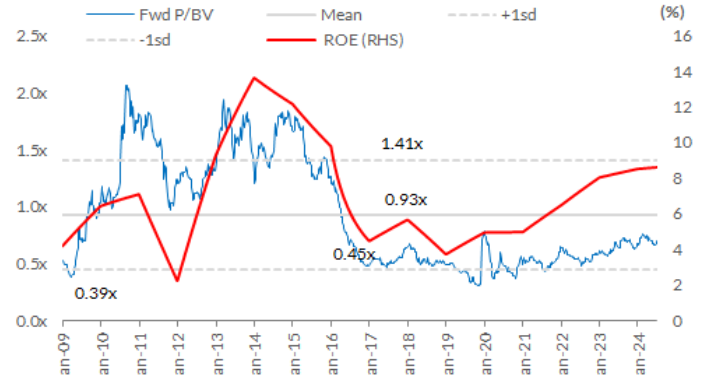
Source: Bloomberg, RHB

Figure 94: TTB 12-month forward P/E



Source: Bloomberg, RHB

Figure 95: TTB 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Regional Top Picks

Bank Rakyat Indonesia (BBRI IJ, BUY, TP: IDR6,300): Our beta pick for 2025's earnings rebound

We like BBRI primarily because of the significant growth potential in the micro-loan sector, where BBRI is the market leader. In Indonesia, there is a notable gap between the financing needs of MSMEs and the available supply, presenting an opportunity in the ultra-micro (UMi) segment. We anticipate that the cost of credit (CoC) may ease in the coming quarters since BBRI has proactively allocated higher credit cost in 1Q24 due to potential risks associated with lower credit quality for micro loans. Despite rising cost of funds (CoF), a better loan mix from the Indonesian Government's market-based rural small credit programme (Kupedes) loans has kept NIM stable. BBRI also has the potential to reduce operational costs by enhancing its digital infrastructure and agent banking capacities, thereby increasing branch network efficiencies.

In 5M24, BBRI's PPOP increased 16.8% YoY, marking the fastest growth in the industry, despite a narrowed NIM. Solid loan growth and higher non-II boosted operational income. BBRI's earnings for 5M24 reached up 8.8% YoY, the second highest in the industry, and faster than the previous month (4M24 earnings grew 4.5% YoY). BBRI maintained a high CoC, likely anticipating an increased risk of NPLs, especially in the micro-loan segment.

We estimate BBRI to post a PATMI growth of 6% in FY24F and 14% in FY25F, driven by loans growth of 11-13% and a high credit cost allocation in 2024. Our TP of IDR6,300 is based on a GGM-derived P/BV of 2.6x (COE: 12.4%, ROE: 21.5%) and includes a 6% ESG premium.

Bank Central Asia (BBCA IJ, BUY, TP: IDR11,100): Defensive option to stay invested in IND Banks

We believe BBCA is the best option for investors looking to stay invested in IND Banks amid the current uncertainties and volatility, and should the higher-for-longer rates environment continue to drag on. This is thanks mainly to its strong deposit franchise, which has helped shield the group from funding cost pressures faced by peers, and solid borrower quality, which has allowed BBCA to pass on a larger portion of the policy rate hike (positive for NIMs) while at the same time, helped keep asset quality intact. The above combination has allowed BBCA to post double-digit earnings growth in its 5M24 (Bank only) interim numbers – the only IND bank under our coverage, and is well on track to sustain the growth rate for the remainder of the year.

We project BBCA to post FY24F-25F PATMI growth of 10% and 8% with key drivers being loans growth of 9-10% and operating leverage effects now that it has caught up with its IT and network spending that was deferred due to COVID-19, as well as largely being done with its investment in personnel. Our IDR11,100 TP is based on a GGM-derived P/BV of 5.0x (COE: 8.2%, ROE: 21%) and includes a 4% ESG premium.

AMMB (AMM MK, BUY, TP: MYR5.50): Strong capital position to help kick start rising shareholder returns

With the announcement of its new 5-year strategy plan dubbed "Winning Together", AMMB has committed to doubling its absolute DPS to c.45 sen by FY29 (Mar) from 23 sen in FY24, implying a 15% 5-year DPS CAGR. This will be supported by an 8% net profit CAGR during the same period, implying that management intends to raise its dividend payout ratios to above 40% (c.55% by FY29F). The transition to the F-IRB framework and disposal of its life insurance arm, AmMetLife, when combined, should lift CET-1 to c.14% upon completion, implying that capital levels are adequate to support greater payouts.

While execution of its strategies will undoubtedly be challenging, AMMB's commitment to raising absolute DPS should provide investors with some certainty of returns. However, should the group be able to execute its strategies and demonstrate steady progress towards its earnings targets, we think a re-rating could be on the cards. In the meantime, we think its current 0.7x P/BV still looks undemanding against our c.9% ROE forecast, and even more so against its 11-12% target ROE under its "Winning Together" strategy. Our MYR5.50 TP is based on a GGM-derived P/BV of 0.82x (COE: 10.7%, ROE: 9.4%) and includes a 4% ESG premium.

CIMB (CIMB MK, BUY, TP: MYR7.60): Best of both worlds – growth plus dividends/capital management

CIMB has executed well its “FY23+” strategy, with the key outcomes being, among others: i) BNGA’s ROE improving to 15% in FY23 from 9.4% in FY19 on the back of better cost efficiencies and credit quality; ii) meaningful rise in CASA deposits, with CASA mix at 41.8% at end-2023 from 34.8% in 2019, aided by a well-received digital product offering (especially in IND); iii) stronger loan provision coverage buffer, with LLC rising to 98% at end-2023 from 80.7% in 4Q19; and iv) CET-1 capital ratio improving to 15% in 1Q24 from 12.9% at end-4Q19, placing CIMB as one of the best capitalised MY bank. As a result, 1Q24 group ROE stood at 11.4%, just shy of the original 11.5-12.5% ROE target under F23+, with the slight miss mainly caused by the drag from a higher capitalisation level. Assuming a CET-1 ratio of 13.5%, as per the original target, 1Q24 ROE would have been 12.4%.

Looking ahead, BNGA will likely face some near-term growth headwinds from the higher cost of liquidity in IND as well as efforts to continue protecting asset quality, but we believe there is sufficient traction from ongoing efforts to improve domestic NIM, non-II (both fees and trading & FX) as well as contribution from SG to more than offset BNGA’s moderating growth.

We expect CIMB to post FY24F PATMI growth of 9% – above the 5-6% growth expected for the sector thanks to better NII and non-II plus a slight improvement in cost efficiency. For FY25F, we project PATMI growth of 6% – at the top end of the sector growth range. As mentioned above, with a CET-1 ratio of 15%, we think there is room for further capital management as part of efforts to manage ROEs. Similar to FY23, we think this will likely take the form of special dividends. Our MYR7.60 TP is based on a GGM-derived P/BV of 1.07x (COE: 10.3%, ROE: 10.8%) and includes a 6% ESG premium.

DBS (DBS SP, BUY, TP: SGD41.20): All about dividends, for now

With the sector’s earnings outlook likely to stay muted, we see dividend yields and growth as the main driver for SG Banks’ share price performance. We think DBS is best positioned to deliver on this. It has committed to increase DPS by 24 SG cents pa and management expects to sustain this commitment over the next 2-3 years. This translates to FY24F-26F DPS CAGR of 10% vs EPS CAGR of 1% and dividend yields of 6.0% in FY24F, rising to 7.3% in FY26F.

The above commitment excludes further initiatives to return excess capital to shareholders, given that its CET-1 ratio will move up by 2 pts (transitional basis) when the Basel IV regime kicks in later this year.

Beyond the rates easing cycle, management is guiding for ROE to normalised around 15-17%. This takes into account a normalised FFR level and compares favourably vs pre-COVID-19 ROEs of 9.5-12.8%.

We project FY24F-25F PATMI growth of 4% and 2%, with loan growth and non-II CAGR of 4% and 10%, largely offset by NIM squeeze of 3bps in 2024F, accelerating to 6bps in 2025F. We assume credit cost remains largely under control at 15-17bps vs 2023: 14bps. Our SGD41.20 TP is based on a GGM-derived P/BV of 1.69x (COE: 11%, ROE: 16.5%) and incorporates a 2% ESG premium.

TMBThanachart Bank (TTB TB, BUY, TP: THB2.10): Outstanding growth and dividend yield main appeals

TMBThanachart Bank is our Top Pick for TH Banks from: i) Its outstanding dividend yield (c.3-3.5% for 1H24F and c.7% for FY24 vs peers: 1-2% and 6%) and earnings growth (12% in FY24F vs peers: c.4%); ii) stronger risk absorption capabilities and reserve cushion, and iii) earnings cushion – thanks to a huge tax benefit (THB14.1bn as of 1Q24) to be recognised as a tax reversal by 2028. This advantage will enable the bank to be in a better position to manage asset quality risk and any impending challenges vs peers. In additions, we expect TTB to be the top performer for the upcoming 2Q24 results (+17% YoY, flat QoQ vs peers: flat YoY, -5% QoQ) and to have minimal impact from the lending to EA (about less than -1% to its FY24 earnings) given its relatively small exposure of c.TH400m. Its valuation remains inexpensive, with its P/BV still below -0.5SD from the historical mean. Our TP includes a 2% ESG discount based on TTB’s ESG score of 3.1.

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