

15 January 2020

Financial Services | Banks

Banks

Overcast By Economic Uncertainties

Stocks Covered 32
 Ratings (Buy/Neutral/Sell): 17 / 11 / 4
 Last 12m Earnings Negative

- 2020 prospects subdued.** The signing of a first-stage trade accord between the US and China should bring some relieve to markets. Still, we believe the constant unpredictability of “what happens next” over the past 18 months of bitter battle is unlikely to go away quickly. For now, we continue to expect the moderation in economic growth to weigh on prospects of ASEAN-4 Banks. Indonesia banks is our only **OVERWEIGHT** – strongest earnings growth within our regional coverage, and reasonable valuations despite its outperformance in 2019.
- Key trends.** ASEAN-4 Banks, consisting of our coverage of banks in Indonesia (IND Banks), Malaysia (MY Banks), Singapore (SG Banks) and Thailand (TH Banks), are heading into 2020 faced with the following key issues: weak loan demand; NIM pressures on possibility of further rate cuts; falling non-II on muted capital markets and digital disruptions; and elevated credit cost on pockets of asset quality stress and adoption of International Financial Reporting Standard 9 (IFRS 9) in Indonesia and Thailand.
- IND Banks – OVERWEIGHT.** IND Banks’ projected net profit growth of 11% in 2020 is the strongest among ASEAN-4 Banks. We prefer the large banks given their strong liquidity and ability to drive loan growth to mitigate margin pressures. Adoption of IFRS 9 would be well absorbed although we may see some volatility in credit costs. Our preferred picks are Bank Central Asia (BBCA IJ, BUY, TP: IDR40,000) and Bank Mandiri (BMRI IJ, BUY, TP: IDR9,300).
- MY Banks – NEUTRAL.** MY Banks are going into 2020 with little to excite investors. Sector ROE should remain on a downward trajectory, albeit mild, given a modest 4% rise in 2020F earnings. Still, with share prices down 10% in 2019, sector risk return appears more favourable at 1.2x 2020F P/BV for 10.2% ROE, while dividend yields of 5-6% would also provide share price support. Our preferred BUYs are CIMB (CIMB MK, BUY, TP: MYR6.10) and Hong Leong Bank (HL Bank) (HLBK MK, BUY, TP: MYR19.20).
- SG Banks – NEUTRAL.** Earnings growth of 1% in 2020 is the weakest vs regional peers. Strength in wealth management business would be negated by the sharp slowdown in loan growth, NIM compression and higher loan provisions for Hong Kong exposures. United Overseas Bank (UOB SP, BUY, TP: SGD29.50) is our only BUY – NII to grow further as loan growth would offset softening SIBOR, and lowest exposure to China vs peers.
- TH Banks – NEUTRAL.** With economic headwinds building up since 2H19, we see downside risk to our projected net profit growth of 7% that is lifted mainly by lower impairment charges. PIOP is expected to dip 2% as the Bank of Thailand (BoT)-led initiatives to lower fees charged for online and mobile transactions should hurt non-II. Investments on digital strategies is also likely to keep CIR elevated. Our picks: Bangkok Bank (BBL) (BBL TB, BUY, TP: THB205.00) and Siam Commercial Bank (SCB) (SCB TB, BUY, TP: THB140.00).

Analysts

Fiona Leong
 +603 9280 8886
fiona.leong@rhbgroup.com



Christopher Andre Benas
 +6221 5093 9847
christopher.benas@rhbgroup.com



Liew Wai Hoong
 +603 9280 8859
liew.wai.hoong@rhbgroup.com



Leng Seng Choon
 +65 6232 3890
leng.seng.choon@rhbgroup.com



Kasamapon Hamnilrat
 +66 2088 9739
kasamapon.ha@rhbgroup.com



Company Name	Rating	TP (LCY)	% Upside (Downside)	P/E (x) Dec-20F	P/BV (x) Dec-20F	Yield (%) Dec-20F
Bank Central Asia	BUY	40,000	17.7	25.3	4.2	0.9
Bank Mandiri	BUY	9,300	20.4	11.0	1.7	3.5
CIMB	BUY	6.10	18.2	9.8	0.9	5.4
Hong Leong Bank	BUY	19.20	14.0	12.2	1.2	3.2
UOB	BUY	29.50	9.3	10.5	1.2	5.2
Bangkok Bank	BUY	205.00	34.4	7.5	0.6	4.8
SCB	BUY	140.00	22.3	8.7	0.9	5.4

Source: RHB

Investment Summary

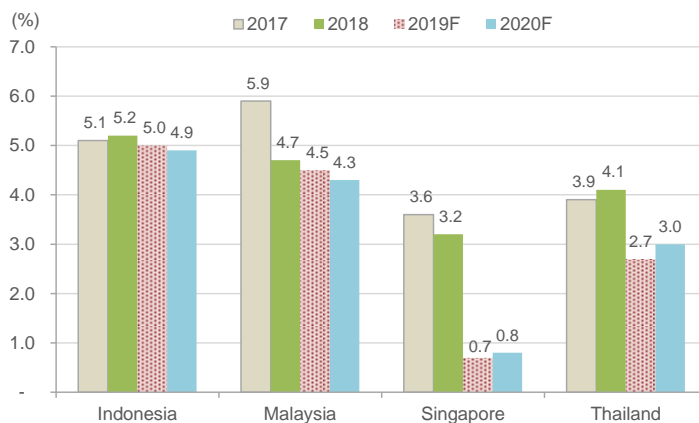
Economic backdrop to remain subdued

Across ASEAN-4, real GDP growth for 2020 is not expected to be much different from the past year. RHB economist projected a modest uptick in economic growth for Singapore and Thailand, both of which had experienced a sharp deceleration in 2019 (Figure 1). The Indonesian and Malaysian economies are forecasted to remain in contraction in 2020, with Indonesia likely to be more resilient.

Within the region, Singapore would see the slowest growth at 0.8% in 2020F impacted mainly by external developments and the weak prospects of its trading partners. Indonesia is likely to post the strongest expansion at 4.9%, with higher investments expected to mitigate a softening in household consumption.

RHB economist expects the central banks of Indonesia and Malaysia – Bank Indonesia (BI) and Bank Negara Malaysia (BNM) – to lower policy rates by 50bps and 25bps in 2020. BoT should keep interest rates stable as the 1-day repurchase rate is already at a record low of 1.25%.

Figure 1: ASEAN-4 – real GDP growth, 2017-2020F



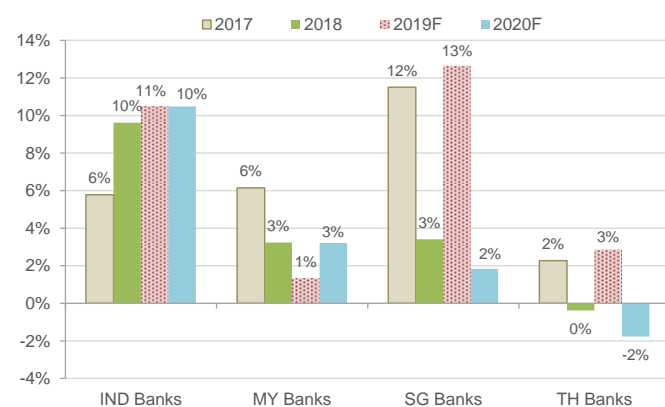
Source: Bank Indonesia, BNM, MAS, BoT, RHB

Banks' 2020 earnings to mirror economic prospects

Reflecting the GDP growth projections, IND Banks are expected to sustained net profit growth at 11% in 2020F while SG Banks' earnings are forecasted to slump to +1%.

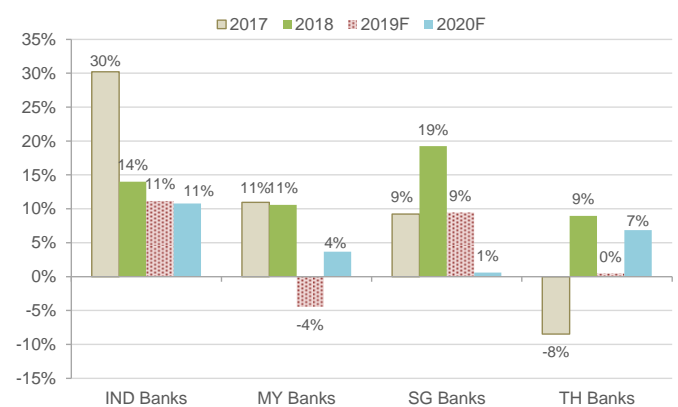
MY Banks' earnings are projected to recover from -1% in 2019F to +4% in 2020F, helped mainly by a modest rise in operating income and stable impairment charges. TH Banks' stronger 7% rebound in 2020F earnings would come mainly from lower credit costs following the sharp uplift in loan provision buffers in 2019 ahead of Thai Financial Reporting Standard 9 (IFRS 9) adoption effective Jan 2020. At PIOP level, only TH Banks are expected to report lower profits.

Figure 2: ASEAN-4 Banks – PIOP growth, 2017-2020F



Source: Banks' financial statements, RHB

Figure 3: ASEAN-4 Banks – net profit growth, 2017-2020F



Source: Banks' financial statements, RHB

Share price performances mixed in 2019

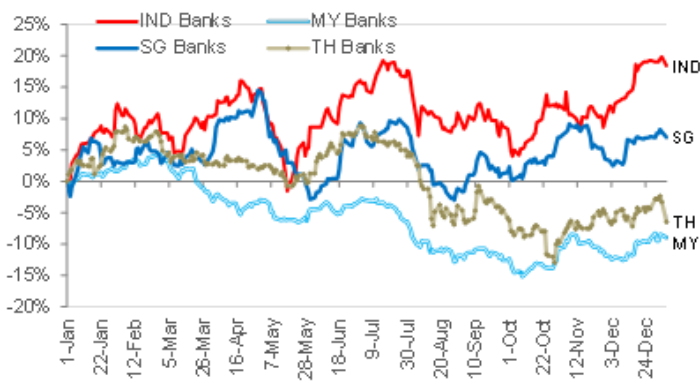
IND Banks ended 2019 with a 19% YoY gain that can be attributed to President Joko Widodo's re-election win in Indonesia's Presidential Election 2019, the banks' stronger earnings growth vs regional peers, and the IDR's 4% YoY rise. This was a sharp recovery from the 4% YoY decline in 2018.

SG Banks' shares went through periods of volatility in 2019, but ended the year with an 8% YoY gain – a good rebound from -8% YoY in 2018. Share prices were buoyed by the 9% YoY improvement in sector net earnings and decent dividend yields that mitigated concerns over the US-China trade dispute and Hong Kong exposure.

TH Banks started 2019 well and was in positive territory in 1H19. Share prices, however, went on a downtrend since August as macroeconomic challenges led to policy rate cuts. This marked TH Banks' second consecutive year of decline, a modest -3% YoY in 2019 only because the THB appreciated 12.5% YoY. In local currency terms, TH Banks fell 11% YoY – the sharpest among ASEAN 4-Banks.

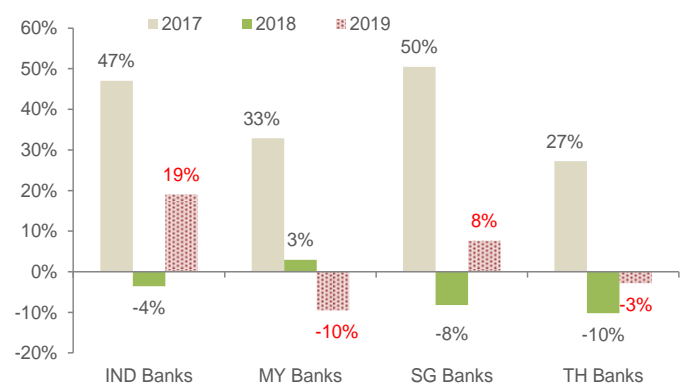
MY Banks was the worst performer among ASEAN-4 Banks, down 10% YoY in 2019. The slide in share prices can be attributed to concerns over slowing economic growth, uncertainties in domestic politics, and impact from the Overnight Policy Rate (OPR) cut.

Figure 4: ASEAN 4-Banks – comparative price performance (USD terms), Jan 2019-2020 YTD



Source: Bloomberg, RHB

Figure 5: ASEAN 4-Banks – annual price performance (USD terms), 2017-2019



Source: Bloomberg, RHB

Regional view: We favour IND Banks

IND Banks is our preferred pick among ASEAN-4 Banks. With the presidential election done and dusted last year, Indonesia offers investors political stability and a positive structural growth story.

IND Banks continues to stand out against peers for its stronger earnings growth of 11% for 2020. Valuations remain reasonable at 2.8x 2020F P/BV for ROE of 16.9%, just a little higher than historical average of 2.6x, notwithstanding the strong 19% gain in share prices last year. Our preferred stock picks for IND Banks are BBKA and BMRI.

MY Banks over SG Banks. For the remaining three countries, where we have NEUTRAL ratings, we prefer MY Banks over SG Banks.

MY Banks' risk return has turned more favourable at 1.2x 2020F P/BV for ROE of 10.2%, following last year's 10% retreat in share prices. While SG Banks' valuations (1.2x P/BV; ROE of 11.9%) are slight more attractive, MY Banks pips SG Banks for its higher dividend yields, prospects of relatively stronger currency in 2020F and negligible exposure to Hong Kong's troubled economy. Our top BUYs for MY Banks are CIMB and HL Bank.

TH Banks rank last. TH Banks have seen a sharp valuation de-rating over the past year. Current valuations of 0.8x 2020F P/BV for ROE of 9.9% is below -1SD from the historical mean. But with macroeconomic headwinds having gained pace in 2H19, there are rising concerns that risk to 2020 GDP growth is now tilted to the downside. This, coupled with the Government's desire to rein in the THB to lift growth for the export reliant nation, should keep investors at bay. We believe the adoption of IFRS 9 will be well absorbed, given high levels of provisions buffers (2020F: 153%). Our Top Picks are BBL and SCB.

Longer term, we are concerned that BoT-led initiatives to lower fees charged for online and mobile transactions could result in a structural decline in ROEs.

Figure 6: Big-4 IND banks' 12-month forward consensus P/E

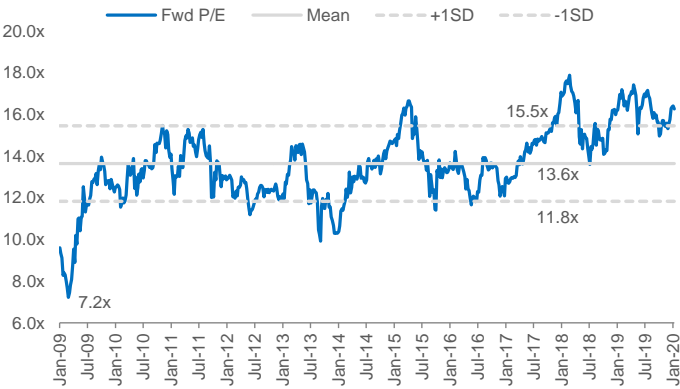


Figure 7: Big-4 IND banks' 12-month forward consensus P/BV

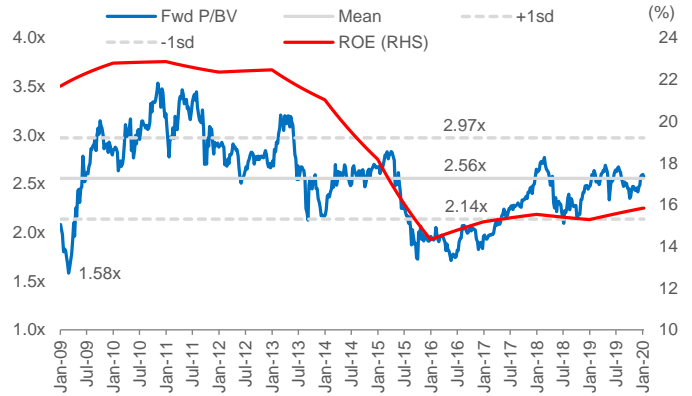


Figure 8: MY Banks' 12-month forward consensus P/E

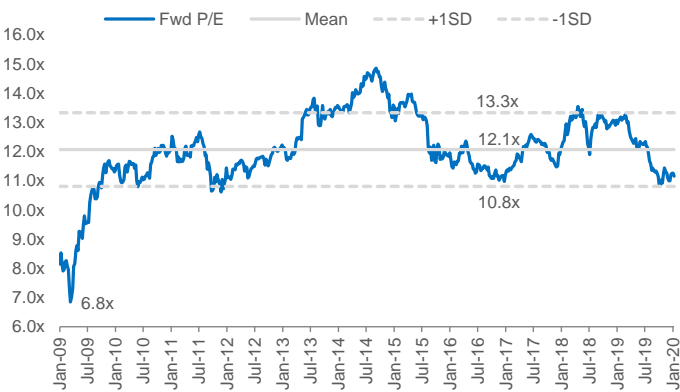


Figure 9: MY Banks' 12-month forward consensus P/BV

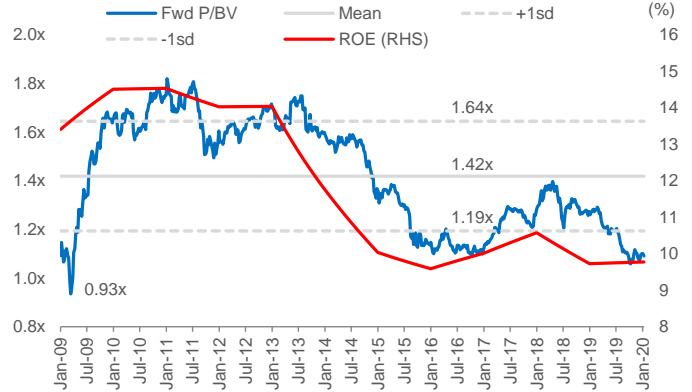


Figure 10: SG Banks' 12-month forward consensus P/E

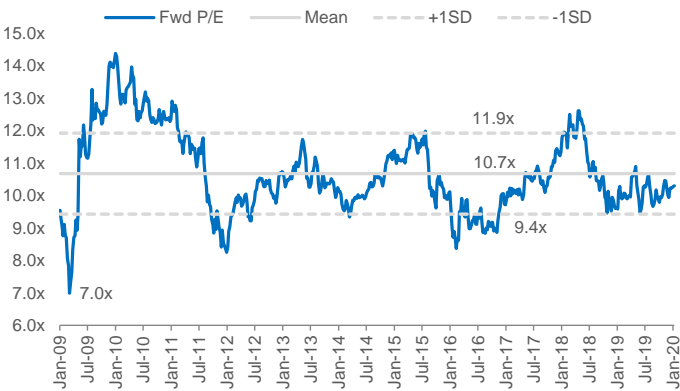


Figure 11: SG Banks' 12-month forward consensus P/BV

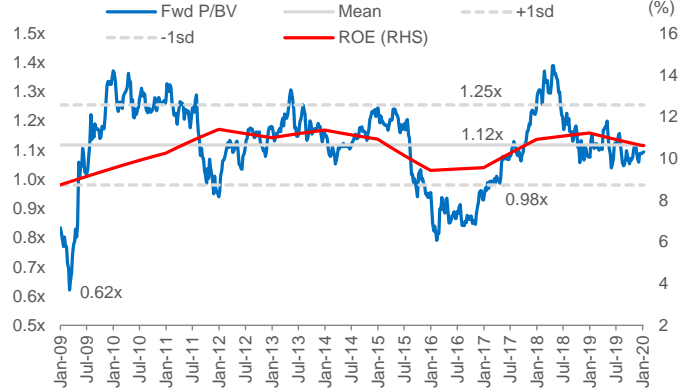


Figure 12: TH Banks' 12-month forward consensus P/E

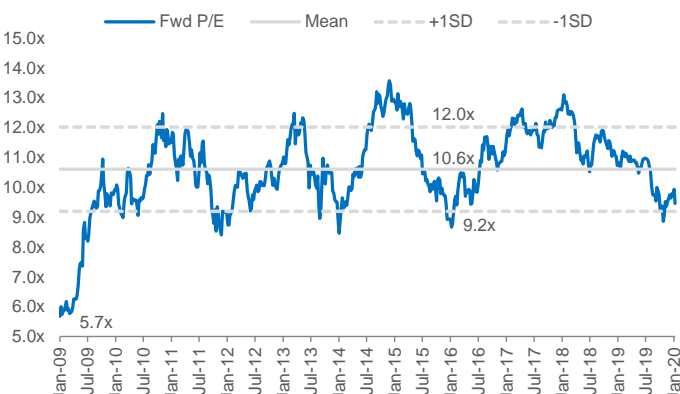
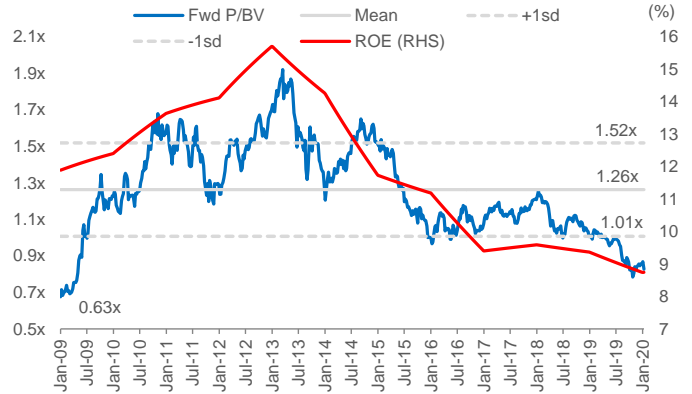


Figure 13: TH Banks' 12-month forward consensus P/BV



Source: Bloomberg, RHB

Source: Bloomberg, RHB

COUNTRY VIEWS & STOCK PICKS

Indonesia – Liquidity Is Key

Decelerating loan growth as GDP and export contracted

We believe the sluggish loan demand seen in 2019 was mainly due to slow global growth as a result of the trade war. Working capital loans, which accounted for 46% of total loans, only grew by 4.1% YoY in Oct 2019, the lowest in three years. This has contributed to slower consumption loan growth of only 6.5% YoY. However, we still see higher growth in investment loans (+11.2% YoY), which brought total loan growth to 6.5% YoY as of Oct 2019. The Financial Services Authority (OJK) forecasted loan growth at only c.8-9% YoY for 2020 (2019: +8-10%), in the absence of significant catalysts. Among the banks under our coverage, we expect Bank Rakyat Indonesia (BBRI IJ, BUY, TP: IDR5,000) to post the strongest loan growth at 12.4% YoY, driven by its focus on the micro and small & medium enterprise (SME) segments.

Liquidity likely improve

As at end Oct 2019, total deposits grew moderately by 5.6% YoY, as liquidity tightened up. However, entering 4Q19, we saw some improvement in liquidity as it recovered from bottoming out in May 2019, with the LDR at above 95%. We expect Hyundai's commitment to enter Indonesia with foreign direct investments (FDIs) of USD1.55bn until 2030 to help ease liquidity in the system. We think FDI will continue to be a key liquidity factor in the coming years.

Margin compression to persist

BI cut its benchmark rate by 100bps, to 5.0% in 2019. Our economist expects the central bank to lower interest rates by a further 50bps in 2020, as it tries to stimulate growth by easing the monetary policy. This should translate to lower asset yields as customers look for lower borrowing rates, but not all banks will be able to re-price their deposit rates due to still-keen competition for third-party funding.

To offset NIM pressures, banks may have to drive loan volumes. We believe only the Big-4 banks will be able to ramp up loan growth, as their lower funding cost structure enhances the banks' re-pricing power. Overall, we expect stable NIMs for large banks and some margin slippage for mid- to small-cap banks.

Implementation of IFRS9

Indonesian banks have adopted IFRS 9, which took effect on 1 Jan. Based on what happened in Singapore and Malaysia, the new accounting standard would result in an increase in LLC ratios. Most banks are likely to offset the Day 1 impact for higher provisions via a transfer from retained earnings. While this should mitigate the impact on earnings, it will also reduce capital adequacy ratios (CAR) by an estimated 100-250bps.

Banks with already conservative LLC, namely BBKA (BBKA IJ, BUY, TP: IDR40,000) and BRI with LLC ratios of 164% and 160% respectively, should be less impacted. On the flip side, Bank Tabungan Negara (BBTN) (BBTN IJ, SELL, TP: IDR1,500) may be the most adversely affected, in our view. Management is guiding for LLC ratio to rise to 120%, from only 52.7% currently.

Risks

Downside risks to our call remains slower-than-expected loan growth that may come from a further deceleration in the global economy. Worsening asset quality also poses as a risk to banks, if any surprise downgrades surface.

Expect a softening, but still profitable

We expect banks to deliver earnings growth of 10.8% YoY in 2020 – a slight moderation from an estimated +11.2% YoY in 2019, but still very decent given the challenging macroeconomic backdrop. Key drivers of 2020F earnings:

- i. A 9.4% increase in NII against slower loan growth. We expect NIM to remain stable with impact from expected rate cuts mitigated by rising FDI inflows that will improve system liquidity;
- ii. Non-II growth of 9.8% YoY;
- iii. A mild 4% YoY rise in total impairment charges with loan credit cost projected at 1.4%. Credit cost is likely to be more volatile this year as banks fine-tune provisioning models in the first year of IFRS9 adoption.

Stay OVERWEIGHT, prefer Big-4 banks

We maintain our OVERWEIGHT rating on the sector, as it remains the backbone of Indonesia's equity market. While we are not extremely bullish on the sector's 2020 outlook, due to our expectations of softer GDP growth, the tight liquidity situation should ease as FDIs are already flowing into Indonesia. We believe Hyundai's commitment to invest USD1.55bn over the next 10 years will help ease liquidity in the system – especially if its supply chain and other companies follow suit. In our view, FDIs will continue to be a key liquidity factor in the coming years.

Another factor to watch is in the adoption of IFRS 9. Banks with high LLC ratios should outperform, as evidenced by what was experienced by Malaysian bank stocks. We maintain our preference on Big-4 banks, over mid- to small-cap banks, given their more liquid balance sheets and higher provision buffers.

Our Top BUYs:

BBCA – Our top Buy is BBCA as we like its defensive qualities. Its solid financial performance is backed by ample liquidity, with a LDR of 80.6% (the lowest among big banks) and strong CASA franchise (c.75% CASA ratio). Being the main transaction bank for most of its customers helps boost BBCA's non-II. This should also help in customer retention as most fintech firms partner with BBCA for top-ups of their payment apps. BBCA booked strong PIOP growth of 19% YoY in 9M19, and we believe the stellar performance will continue into 2020.

BMRI – Bank Mandiri (BMRI) (BMRI IJ, BUY, TP: IDR9,300) have shown promising asset quality improvement over the course of Kartika Wirjoatmodjo's appointment as CEO. Its credit cost has improved to c.1.5% (from 4% in 2016) and should normalise at this level, as we believe the bank is unlikely to undertake another round of kitchen-sinking under its newly-appointed CEO, Royke Tumilaar (formerly director of its corporate banking unit, the core business of BMRI). We expect the bank's FY20F earnings to grow by 17% YoY, driven by lower CoF, lower loan-to-fund ratios, as well as continued asset quality improvements contributing to lower credit cost.

For small/mid-sized banks we like:

Bank Jatim – We like Bank Pembangunan Daerah Jawa Timur (Bank Jatim) (BJTM IJ, BUY, TP: IDR820) for its robust loan growth coming into 2020F, improved asset quality as well as superior dividend yield of c.7%. For 9M19, its loan growth accelerated to 14% YoY as pension loans are now disbursed solely by Bank Jatim (previously through several banks). In 2020, the bank plans to also disburse micro subsidised loans (KUR), which should further accelerate the expansion of its loan portfolio. Being a key source of revenue for the East Java Province Government, its major shareholder with a 51% stake, Bank Jatim's dividend payout is consistently above 50% of earnings, translating to an attractive yield of 7-9%.

Bank Tabungan Pensiunan Nasional Syariah (BTPS) (BTPS IJ, BUY, TP: IDR4,150) is a *shariah* bank with a unique group-based lending business model that has fixed lending rates. The bank enjoys robust financing growth of 27% YoY, while its fixed rate financing translates to an unparalleled *net imbalan* of 31.2% (*shariah*'s NIM equivalent). BTPS is also a key beneficiary of the declining interest rate environment. Although valuation is a high 4.9x FY20F P/BV, this is supported by superior ROE of 27%.

Our Top SELL:

BBTN – BBTN's 9M19 performance was hurt by tightening liquidity (LDR of 111%) and the deterioration in asset quality (NPL ratio of 3.5%). The bank's recent appointment of Pahala Mansury as the new CEO would likely see the bank undertake a kitchen-sinking exercise, considering its current asset quality. With liquidity expected to remain a challenge, it is guiding for softer loan growth of 5-7% YoY for 2020 – a significant slowdown from past loan growth of 15-20%. This should also keep CoF high and NIM at a sector-low of 3.4%.

15 January 2020

Financial Services | Banks

Figure 8: IND Banks – valuation summary

Company	Rating	Price (IDR)	TP (IDR)	Mkt Cap (USDm)	EPS Chg (%)		PER (x)		P/BV (x)		ROE (%)		NDY (%)	
					FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Bank Central Asia (BBCA IJ)	Buy	33,975	40,000	61,205	13.8	12.4	28.5	25.3	4.8	4.2	18.0	17.6	0.8	0.9
Bank Rakyat Indonesia (BBRI IJ)	Buy	4,570	5,000	41,187	14.5	13.2	15.1	13.3	2.6	2.4	18.8	18.8	2.3	2.7
Bank Mandiri (BMRI IJ)	Buy	7,725	9,300	26,341	12.2	17.1	12.8	11.0	1.8	1.7	14.8	15.8	3.1	3.5
Bank Negara Indonesia (BNI IJ)	Buy	7,725	9,125	10,526	6.5	21.9	9.0	7.4	1.3	1.1	14.7	16.4	3.6	3.9
Bank Permata (BNLI IJ)	Buy	1,275	1,490	2,612	57.0	9.7	25.3	23.0	1.5	1.5	6.1	6.6	0.0	0.0
Bank BTPN (BTPN IJ)	Buy	3,180	4,200	1,893	28.7	12.6	7.2	6.4	0.6	0.6	10.5	9.1	3.2	4.2
Bank CIMB Niaga (BNGA IJ)	Buy	970	1,380	1,781	1.2	8.6	6.9	6.3	0.6	0.5	8.6	8.7	2.9	2.9
Bank Jawa Timur (BJTM IJ)	Buy	670	820	734	9.5	33.0	7.3	5.5	1.1	1.0	15.6	18.9	6.8	7.4
BTPN Syariah	Buy	4,360	4,150	2,454	34.9	22.0	25.8	21.2	6.3	5.2	27.9	27.1	0.0	1.6
Bank Danamon (BDMN IJ)	Trading Buy	4,070	5,300	2,907	29.3	-20.4	7.7	9.7	0.8	0.8	11.5	8.3	3.5	4.5
Bank Panin Indonesia (PNBN IJ)	Neutral	1,285	1,400	2,262	2.3	7.8	9.7	9.0	0.7	0.7	8.1	8.0	0.0	0.0
Bank Tabungan Negara (BBTN IJ)	Sell	2,140	1,500	1,656	-65.5	97.3	23.4	11.8	1.0	1.1	4.2	8.7	2.5	0.9
Bank Jabar	Sell	1,150	1,400	827	-3.0	6.1	7.4	7.0	0.9	0.9	13.0	13.1	7.9	8.1
Weighted average					13.5	14.4	19.5	17.1	3.2	2.8	16.8	16.9	1.9	2.2
Big-4 banks					13.2	14.2	20.1	17.7	3.3	2.9	17.4	17.5	1.9	2.1
Mid- smaller banks					16.2	15.6	14.6	12.5	1.7	1.5	11.7	11.6	2.2	2.5

Note: Prices are as at 14 Jan 2020

Source: Bloomberg, RHB

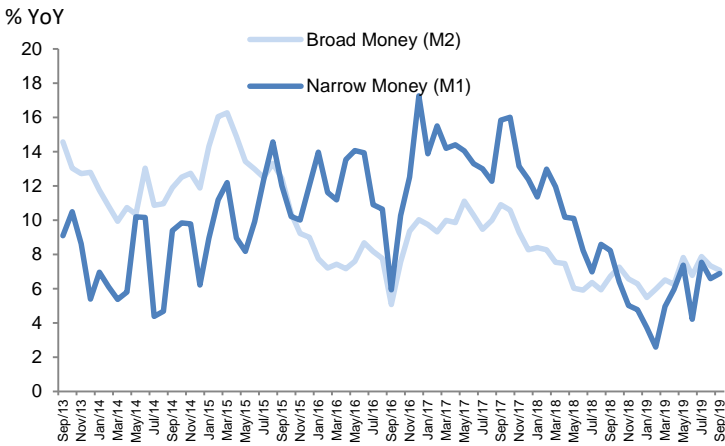
Figure 9: IND Banks – Key assumptions and forecasts of core earnings

(IDRbn)	2017	2018	2019F	2020F	2021F
Net interest income	270,114	286,113	311,298	340,428	378,476
Net-II growth (%)	5.7%	5.9%	8.8%	9.4%	11.2%
Loan growth (%)	9.7%	12.5%	14.6%	9.4%	10.6%
Net interest margin (%)	6.18%	5.90%	5.81%	5.77%	5.84%
Fee income	53,213	62,568	69,576	76,657	83,623
Other income	35,781	40,158	48,180	52,539	57,236
Non-II	88,994	102,726	117,756	129,195	140,858
Non-II growth (%)	6.6%	15.4%	14.6%	9.7%	9.0%
Total operating income	359,108	388,838	429,055	469,623	519,335
Op income growth (%)	5.9%	8.3%	10.3%	9.5%	10.6%
Non-II/Total income (%)	24.8%	26.4%	27.4%	27.5%	27.1%
Operating costs	(166,097)	(177,257)	(195,243)	(211,296)	(227,458)
Op cost growth (%)	6.0%	6.7%	10.1%	8.2%	7.6%
CIR (%)	46.3%	45.6%	45.5%	45.0%	43.8%
PIOP	193,010	211,581	233,812	258,327	291,877
PIOP growth (%)	5.8%	9.6%	10.5%	10.5%	13.0%
Loan impairments	(58,480)	(55,790)	(62,709)	(65,043)	(70,971)
Other impairments	(965)	(714)	(764)	(817)	(879)
Total impairment charges	(59,445)	(56,504)	(63,474)	(65,860)	(71,850)
Credit costs (%)	189	162	161	149	148
NPL ratio (%)	2.40%	2.17%	1.96%	1.78%	1.73%
Loan loss coverage (%)	155%	156%	173%	191%	192%
Associates & others	325	755	2,460	855	937
Pre-tax profit	133,890	155,832	172,799	193,323	220,963
Taxation	(29,239)	(36,242)	(39,684)	(45,870)	(52,195)
Minority interests	(961)	(1,373)	(1,704)	(1,866)	(2,037)
Net profit	103,691	118,217	131,411	145,587	166,730
Net profit growth (%)	30.2%	14.0%	11.2%	10.8%	14.5%

Source: Banks' financial statements, RHB

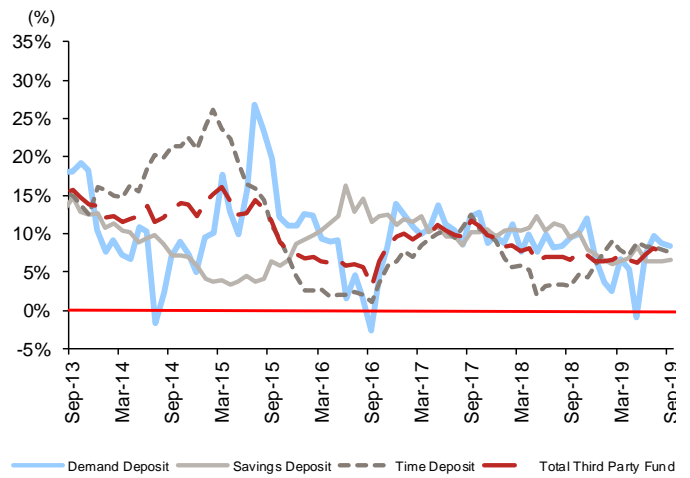
Focus Charts

Figure 16: M1 and M2 supply



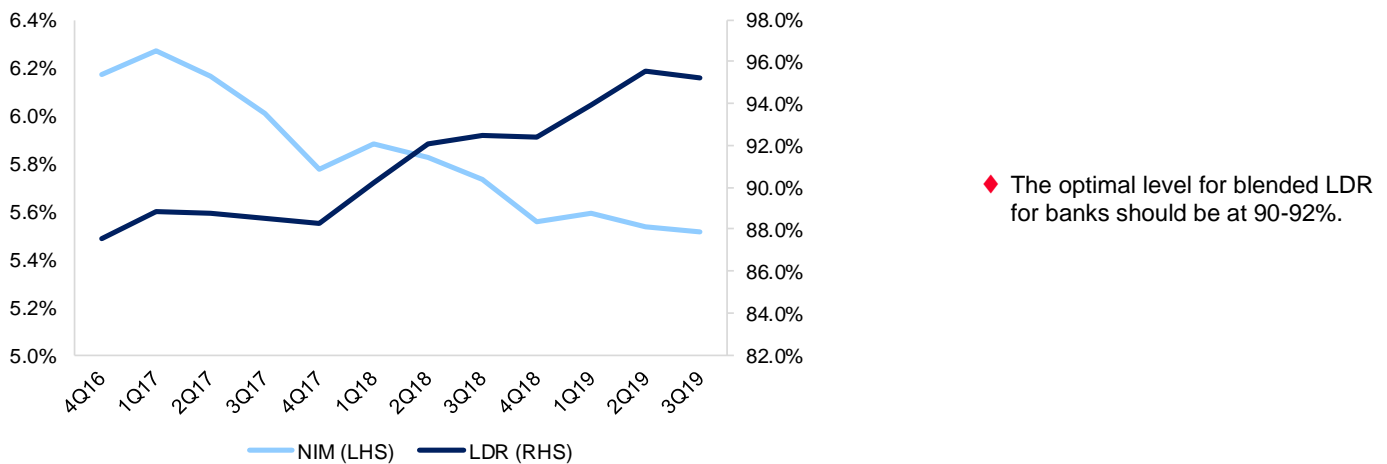
Source: Bank Indonesia, RHB

Figure 17: Combined deposit growth YoY (%)



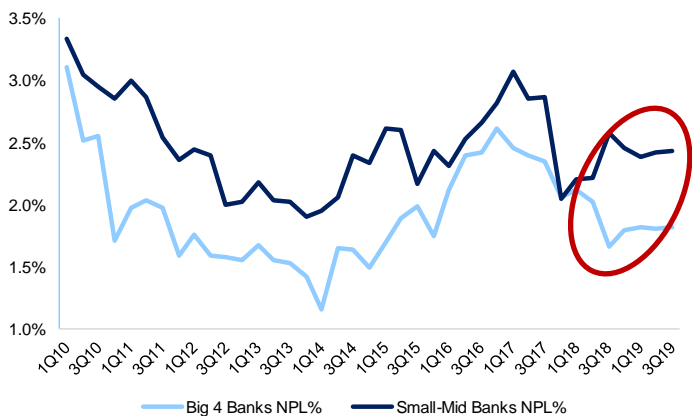
Source: OJK, RHB

Figure 18: Blended NIM and LDR of banks under our coverage



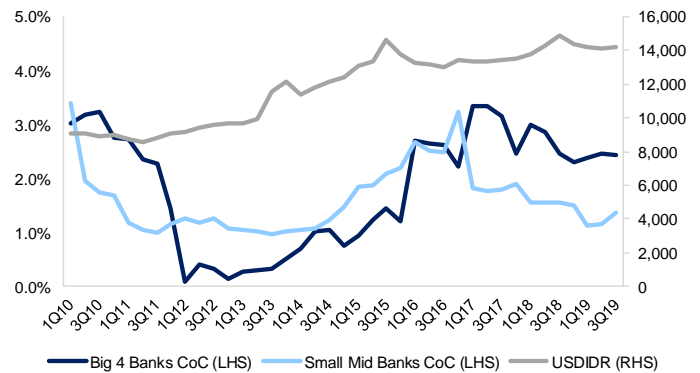
Source: Banks' financial statements, RHB

Figure 19: Blended NPL



Source: Banks' financial statements, RHB

Figure 20: Credit cost trend



Source: Banks' financial statements, RHB

Malaysia – Dull Outlook Unlikely To Excite

Weak economic outlook

RHB economists expect Malaysia's real GDP growth to moderate to 4.3% in 2020, from an estimated 4.5% in 2019. This is softer than the Government's official forecast of 4.8%. We are less sanguine as we expect weaker growth in private consumption and exports.

Geopolitical tensions, policy uncertainty, and unresolved trade disputes remain the major headwinds for global growth outlook. There is also evidence that the weak global trade is beginning to affect domestic demand, particularly investment activity.

BNM cut the OPR by 25bps in May 2019, and subsequently lowered the statutory reserve requirement to 3% from 3.5% in Nov 2019. With the subdued economic outlook expected to extend into 2020, RHB economist expect another rate cut of 25bps early this year.

Modest earnings recovery in 2020

We expect bank earnings to recover 4% YoY in 2020, from a 1.1% YoY dip in 2019. Operating income is projected to grow a modest 2.4%, mainly on higher net fund-based income, while opex growth would be a subdued 1.2% YoY in 2020. Credit cost is expected to be stable, allowing for the 3.4% YoY PIOP growth to filter down to net profit.

Within the sector, we expect Alliance Bank Malaysia (ABMB) (ABMB MK, NEUTRAL, TP: MYR2.90) to deliver a healthy 21% rebound in FY21F (Mar) net profit, followed by a 7.7% growth for FY21F (Jun) for HL Bank. Among the large banks, Maybank (MAY MK, NEUTRAL, TP: MYR9.20) is expected to post the strongest growth at 4.1% YoY.

NIM pressure, a downside risk

Malaysia's interest rate direction will be keenly watched. A reduction in OPR – an attempt to bolster economy – would hurt NIMs. A lower interest rate is unlikely to result in stronger loan growth that would sufficiently offset the compression in loan yields, in our view.

Furthermore, we believe banks have less headroom to reduce funding costs after having released excess liquidity and more expensive deposits post-May 2019 rate cut.

We expect mid-single digit NIMs compression in 2020. ABMB would likely see the sharpest fall in NIM due to higher proportion of variable rate loans (83% of total), and high CASA ratio (37%). Maybank, CIMB, and HL Bank have lower sensitivity to OPR changes.

Moderate loan growth

Headwinds seen in 2019 are likely to persist into 2020. Given this overhang on sentiment, businesses are expected to remain cautious in their investment plans. While BNM has been pro-growth, lower lending rates and easier access to financing alone would unlikely change business sentiment.

We forecast system loan growth to be sustained at 4% YoY in 2020 (Nov 2019: +3.7% YoY). ABMB, BMB (BMB MK, BUY, TP: MYR5.10), and HL Bank are expected to chalk up loan growth that is slightly above the industry average.

Sizeable fair value through other comprehensive income (FVOCI) reserves to prop up non-II

Malaysia's equity market recorded a lacklustre 2019 – total value traded on Bursa Malaysia Securities in Jan-Oct 2019 dropped 15.6% YoY. Banks expect another year of weak core fee income on sluggish capital market-related activities and muted loan-related fees.

That said, we believe banks may be able to sustain non-II at levels seen in 2018. The slide in bond yields since early 2019 has boosted unrealised gains on banks' bond portfolios, and these can be realised to prop up non-II in 2020.

Managing asset quality will remain a priority

Banking system impaired loans were up 11% YTD-Nov 2019, with much of the increase coming from the manufacturing (+52% YTD) and agriculture (+585% YTD) sectors. The household sector saw a manageable increase of 10.2% YTD. As a result, system GIL ratio rose to 1.60% (Dec 2018: 1.48%).

Softening domestic economy and slowing trade flows will continue to weigh on asset quality but BNM's relaxation on rescheduled & restructured (R&R) SME loans should help relieve some strain. Baring mass layoffs, we believe the rise in impaired residential mortgages will be moderate, with provisions well-absorbed by banks.

We believe LLC will stay close to the 90% level by end-2019, as the rise in impaired loans moderate. Among the listed banks, sector LLC ratio (including regulatory reserves) was at a comfortable 105.8% in Sep 2019 (Dec 2018: 113.4%). Given the still-challenging operating environment, proactive asset quality management would remain a priority in 2020.

BNM's relaxation on R&R SME loans and further rate cuts in 2020 should provide some reprieve for borrowers. That said, we expect sector credit cost to stay at 29bps (flat YoY) in 2020, given the anticipated uptick in GILs in the months ahead.

Hopeful of higher dividend payouts

Capital positions of most banks are strong, with CET-1 ratios >12% at end Sep 2019. This, coupled with the slow expansion in asset base, suggest that banks have room for capital management in 2020. Upward adjustment in dividend payouts should help stem the slide in ROEs. Based on our projected sector earnings growth of 4% for 2020, sector ROE would slip to 9.6% from an estimated 10% in 2019 (2018: 10.8%).

NEUTRAL rating on absence of growth catalysts

Based on our assumptions, Malaysian banking sector PATAMI is projected to recover by a modest 4% YoY in 2020, compared to a 1.1% YoY dip in 2019 (2018: +6.2% YoY). Sector valuation multiples have been on a downward slide since early 2019. The sector's 12-month forward consensus P/BV has de-rated to 1.1x at end-2019 vs. 1.26x in early 2019, while sector consensus P/E is at 11x vs 13.1x. At these levels, sector valuation is close to the low seen during the collapse in oil prices in early 2016.

Sector risk return appears undemanding at 1.2x FY20F P/BV for ROE of 10.2%. We believe the downside risk to share prices has narrowed. That said, we do not see any catalyst for a positive re-rating in the near term, with favourable dividend yields being the main support to share prices. Hence, we accord a NEUTRAL call for the sector.

Sector Picks: CIMB, HL Bank, and BIMB

CIMB (BUY, TP: MYR6.10) – Offers favourable valuation. CIMB's 9M19 results beat expectations, on strong non-IL, and lower credit costs of 38bps vs guidance of 40-50bps. We expect core PATAMI to be sustained at MYR5,330m (+0.6% YoY) after rising by a robust 13.8% YoY in FY19. At the current price, the stock is trading at an undemanding 0.9x FY20F P/BV for ROE of 9.2%. Our MYR6.10 TP is based on a GGM-derived P/BV of 1.08x, which is at -1SD from its historical mean.

HL Bank (BUY, TP: MYR19.20) – Stands out on defensive qualities. We like HL Bank for its solid asset quality. GIL ratio is at a low 0.81% in 3Q19, the lowest after Public Bank's 0.52%, while LLC (including regulatory reserves) ratio was at a high 195.9%. Management guided for ROE of 10.5-11% for FY20, but is hopeful that FY19's 10.8% can be maintained. We forecast net profit to dip 1.9% in FY20, but it should rebound by 7.7% in FY21. Our MYR19.20 TP is based on a GGM-derived P/BV of 1.45x, which is lower than its historical average of 1.5x.

BIMB (BUY, TP: MYR5.10) – Group restructuring is on its way. The group's restructuring plan awards its shareholders one share in the soon-to-be-listed Bank Islam and yet-to-be-determined number of shares in Syarikat Takaful Malaysia Keluarga (STMB MK; BUY; TP: MYR8.00). BIMB looks set to achieve most of FY19's targets despite credit cost possibly coming in slightly higher than its 20bps guidance. Robust *takaful* income contribution should help offset softness in banking operations. We project c.18% and 4% growth in net earnings for FY19F-20F. Our MYR5.10 TP values BIMB at a GGM-derived 1.49x FY20F P/BV.

15 January 2020

Financial Services | Banks

Figure 21: MY Banks – valuation summary

Company	Rating	Price (MYR)	TP (MYR)	Mkt Cap (MYR'm)	EPS Chg (%)		PER (x)		P/BV (x)		ROE (%)		NDY (%)	
					FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
CIMB Group (CIMB MK)	Buy	5.18	6.10	52,509	10.5	(4.6)	9.4	9.9	0.9	0.9	9.3	9.2	5.2	5.4
HL Bank^(HLBK MK)	Buy	16.84	19.20	43,408	7.7	9.3	12.2	11.2	1.2	1.1	10.1	10.3	3.2	3.3
BIMB Holdings (BIMB MK)	Buy	4.40	5.10	7,516	12.7	3.9	9.7	9.3	1.4	1.3	14.9	14.1	3.6	3.9
Maybank (MAY MK)	Neutral	8.65	9.20	105,276	(6.1)	2.0	12.4	12.2	1.2	1.1	9.7	9.2	6.6	6.8
Public Bank (PBK MK)	Neutral	19.14	21.10	95,268	(1.4)	0.9	13.5	13.3	1.7	1.6	13.0	12.2	3.7	3.7
AMMB^(AMMMK)	Neutral	3.85	4.30	13,624	(1.0)	6.5	8.3	7.8	0.6	0.6	7.3	7.5	5.3	5.8
Alliance Bank^(ABMB MK)	Neutral	2.58	2.90	6,518	21.1	14.4	7.9	6.9	0.6	0.6	8.4	9.1	6.0	7.0
Affin Bank (ABANK MK)	Sell	1.90	1.60	4,588	(4.8)	(17.5)	7.7	9.3	0.4	0.4	5.4	4.3	2.6	2.6
Weighted average					1.0	2.2	11.7	11.5	1.2	1.2	10.5	10.2	4.8	5.0

Note: Prices are as at 14 Jan 2020

Source: Bloomberg, RHB

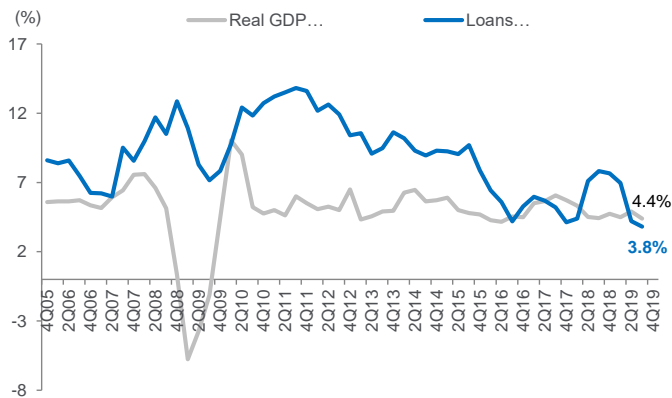
Figure 22: MY Banks – sector core earnings forecasts and key assumptions

(MYRm)	2016	2017	2018	2019F	2020F
Net interest income	43,520	47,008	47,787	49,035	50,665
Net-II growth (%)	5.1%	8.0%	1.7%	2.6%	3.3%
Loan growth (%)	6.2%	2.0%	5.6%	3.8%	4.6%
Net interest margin (%)	2.26%	2.35%	2.26%	2.19%	2.17%
Fee income	9,740	10,042	9,650	9,290	9,766
Other income	7,647	8,932	8,360	10,683	10,216
Non-II	17,387	18,974	18,010	19,974	19,981
Non-II growth (%)	-0.4%	9.1%	-5.1%	10.9%	0.0%
Total operating income	60,907	65,983	65,797	69,008	70,646
Op income growth (%)	3.5%	8.3%	-0.3%	4.9%	2.4%
Non-II/Total income (%)	28.5%	28.8%	27.4%	28.9%	28.3%
Operating costs	(29,273)	(31,491)	(31,211)	(33,091)	(33,502)
Op cost growth (%)	1.2%	7.6%	-0.9%	6.0%	1.2%
CIR (%)	48.1%	47.7%	47.4%	48.0%	47.4%
PIOP	31,635	34,492	34,586	35,918	37,145
PIOP growth (%)	5.7%	9.0%	0.3%	3.9%	3.4%
Loan impairments	(5,730)	(4,625)	(3,153)	(4,595)	(4,684)
Other impairments	(301)	(245)	(192)	(138)	(183)
Total impairment charges	(6,031)	(4,870)	(3,346)	(4,733)	(4,867)
Credit costs (bps)	41	32	21	29	29
NPL ratio (%)	1.91%	1.96%	1.88%	2.03%	2.02%
Loan loss coverage (%)	78.8%	71.1%	88.2%	80.8%	81.5%
Associates & others	607	770	769	838	887
Pre-tax profit	26,211	30,392	32,009	32,023	33,164
Taxation	(5,961)	(6,858)	(7,119)	(7,477)	(7,623)
Minority interests	(505)	(698)	(638)	(559)	(602)
Net profit	19,744	22,836	24,252	23,987	24,940
Net profit growth (%)	1.2%	15.7%	6.2%	-1.1%	4.0%

Source: Banks' financial statements, RHB

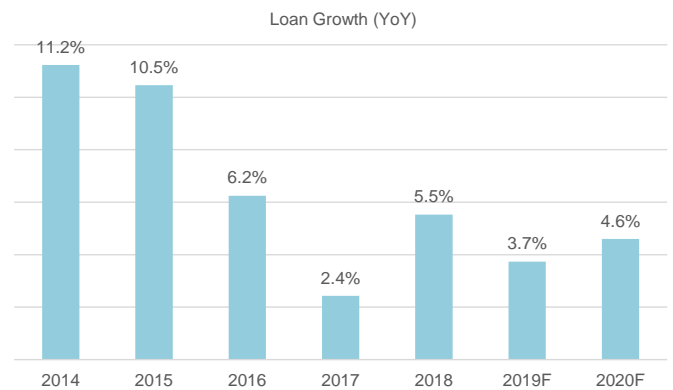
Focus Charts

Figure 23: Loan demand moderated on softening growth



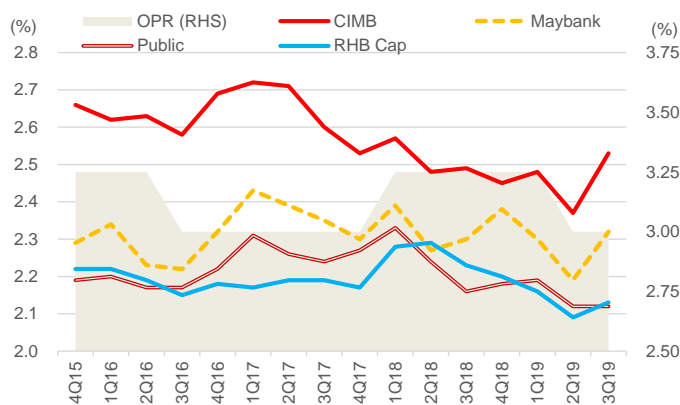
Source: BNM, RHB

Figure 24: Sector loan growth trend, 2014-2020F



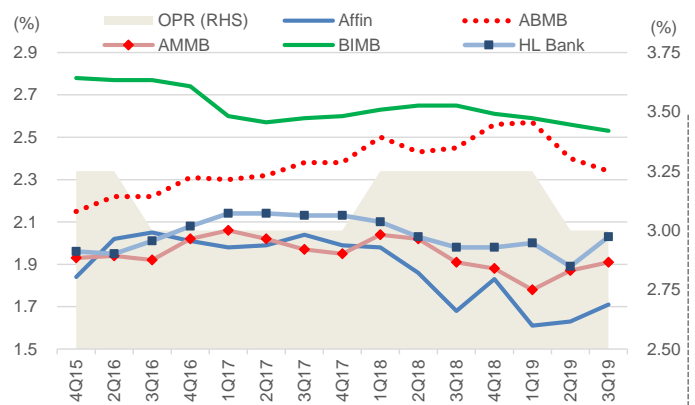
Source: Banks' financial statements, RHB

Figure 25: Large banks saw good NIM recovery in 3Q19



Source: Banks' financial statements, RHB

Figure 26: Smaller banks had mixed NIM trends in 3Q19



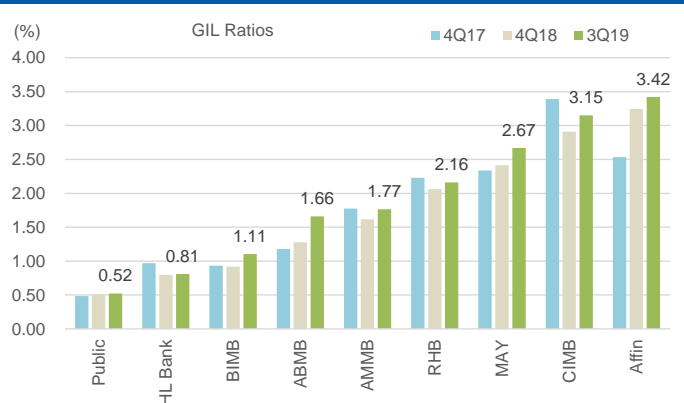
Source: Banks' financial statements, RHB

Figure 27: FVOCI reserves

(MYRm)	4Q18	3Q19	(%) YTD
Maybank	457.0	3,179.2	596
Public Bank - other reserves	1,431.4	1,797.6	26
RHB	376.1	1,430.8	280
HL Bank - other reserves	711.3	823.0	16
AMMB	406.7	685.5	69
Affin	110.4	291.8	164
CIMB	(288.3)	257.4	nm
ABMB	23.9	167.8	603

Source: Banks' financial statements, RHB

Figure 28: Public and HL Bank have the best asset quality



Source: Banks' financial statements, RHB

Singapore – Expect Flat 2020 Earnings

Expect more downside for SIBOR

RHB economists expect the Singapore economy to grow by 0.8% YoY in 2020, slightly higher than the 0.5% estimated for 2019. Expectations are for the 3-month SIBOR to trend down further in 2020, on the back of another cut in the US federal funds rate (FFR).

Mild 2020 loan growth anticipated

We expect moderate loan growth in the mid-single digits in 2020. The three Singapore banks averaged 3Q19 loan growth of c.5% YoY, with business loans driving the expansion, while home mortgages showed weakness.

In Nov 2019, the management of the three Singapore banks guided for mid-single digit loan expansion in 2020, factoring in global economic uncertainties. We forecast an average of 3.5% loan expansion for the three banks for the year.

2020 NIM squeeze already factored into market forecasts

Given the high correlation between the US FFR and the 3-month SIBOR, FFR cuts in 2019 and further expected cuts in 2020 could lead to more declines in the 3-month SIBOR. From the current 1.77%, RHB economist expects the 3-month SIBOR to fall to 1.6% by end-2020.

We expect 2020 NIM squeeze for the three Singapore banks (vs 2019). The management of the three banks have guided for 2020 NIM to be narrower than 2019, a consequence of the falling interest rate environment. We forecast 2020 NIM squeeze between 4bps and 7bps for the three banks – this factors in a falling SIBOR as well as recent competitive home mortgage rates that will lower the lending yields for the banks.

Wealth management holds promise

The 3Q19 results of the three banks point to strength in the wealth management business:

- i. DBS reported 3Q19 wealth management fees jumping 22% YoY (and accounting for 9% of total income);
- ii. OCBC recorded a strong 3Q19 11% YoY increase in wealth management fees (which accounted for 10% share of total income);
- iii. UOB's 3Q19 wealth management fees surged 38% YoY (which accounted for 7% share of total income).

We are optimistic on the wealth management businesses continuing to expand through 2020, on the back of the growing franchises and inflow of foreign funds (including from Greater China).

Asset quality remains high

The three banks recorded sequentially stable NPL ratios in 3Q19. While all three banks have loan exposure to Hong Kong (which is likely to experience GDP contraction), their Hong Kong loan book remained stable. Loan quality for other geographical locations remained high.

We expect some marginal rise in NPLs going forward into 2020. However, this should not impact banks' earnings significantly.

Risks

Upside risks. We are NEUTRAL weighted on Singapore banks. If the US-China trade war resolves smoothly and within a short timeframe, there would be increasing expectations of stronger Singaporean economic growth, and banks' earnings could rise sharply.

Downside risks. If the US-China trade war worsens, weakening global growth could raise non-performing assets for Singapore banks.

Flat 2020 banks' earnings forecasted

We forecast SG banks to show muted earnings in 2020. Earnings drivers include stronger fee income, particularly coming from the wealth management space. On the other hand, NII is seen to soften, due to NIM squeeze and unexciting single-digit loan expansion:

- i. Given the headwinds from falling interest rates, with partial offsetting effects from mild 2020 loan expansion, we forecast the three banks to record a combined 2020 NII contraction of 0.4%.
- ii. Fee and commission income is seen to be the strength in 2020, and we forecast an expansion of 12% YoY.
- iii. We forecast 2020 provisions to rise a mild 4% YoY. There is the risk of higher provisions if economic conditions deteriorate.
- iv. Total 2020F net profit for the three banks is expected to rise by a modest 0.6% YoY (based on RHB forecasts).

Stay NEUTRAL; UOB is our only BUY

We maintain our NEUTRAL stance on SG banks. Our forecast of flat 2020 combined net profit of the three banks (vs 2019) points to a NEUTRAL stance.

Our Top BUY is UOB – SGD29.50 TP based on GGM-derived 1.26x 2020F P/BV. 3Q19's ROE of 11.8% was higher than 2018's 11.3%. Our valuation for UOB is based on a long-term ROE assumption of 12.7%. This yields a 2020F target P/BV of 1.26x, from which we derive our TP of SGD29.50. UOB is attractive as its current 2020F P/BV of c.1.1x is lower than the 6-year average of 1.22x.

NEUTRAL on Oversea-Chinese Banking Corp (OCBC) (second pick within sector) – SGD11.50 TP based on GGM-derived 1.08x 2020F P/BV. 9M19's ROE of 11.6% was lower than 9M18's 12.3%. Our valuation for OCBC is based on long-term ROE assumption of 11.7% – which yields a 2020F target P/BV of 1.08x, -1SD from its 6-year average of 1.23x. OCBC's scrip dividend scheme keeps its capital position high but lowers forward ROE.

NEUTRAL on DBS – TP of SGD25.80 based on GGM-derived 1.28x 2020F P/BV. Our valuation for DBS is based on long-term ROE assumption of 13.3%. This yields a 2020F target P/BV of 1.28x, which is ahead of the 6-year average of 1.21x – we believe the slight P/BV premium is justified on the back of expected strength in fee and commission income. However, concerns on potential increases in loan loss provisioning for DBS' Greater China operations could dampen interest for DBS shares, and hence we maintain NEUTRAL.

Figure 29: SG Banks – valuation summary

Company	Rating	Price (SGD)	TP (SGD)	Mkt Cap (USDbn)	EPS Chg (%)		PER (x)		P/BV (x)		ROE (%)		NDY (%)	
					FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
United Overseas Bank (UOB SP)	Buy	26.98	29.50	33,406	10.3	-0.2	10.5	10.5	1.21	1.15	11.9	11.7	4.8	5.2
DBS Group (DBS SP)	Neutral	26.36	25.80	49,986	14.8	-0.2	10.6	10.6	1.40	1.31	13.1	12.5	4.6	4.9
Overseas Chinese Banking Corp (OCBC SP)	Neutral	11.11	11.50	36,296	0.8	-1.7	10.4	10.5	1.10	1.04	11.7	11.0	4.5	4.6
Weighted average					9.3	-0.6	10.5	10.5	1.25	1.19	12.3	11.9	4.6	4.9

Note: Prices as at 14 Jan 2020

Source: Bloomberg, RHB

Figure 30: SG Banks – key assumptions and forecasts of core earnings

(SGDm)	2017	2018	2019F	2020F	2021F
Net interest income	18,742	21,065	22,580	22,500	22,833
Net-II growth (%)	8.0%	12.4%	7.2%	-0.4%	1.5%
Loan growth (%)	6.6%	8.5%	3.8%	3.6%	4.0%
Net interest margin (%)	1.73%	1.80%	1.83%	1.77%	1.75%
Fee income	6,448	6,778	7,300	8,144	8,571
Other income	5,174	4,158	5,733	6,006	6,444
Non-II	11,622	10,936	13,033	14,150	15,015
Non-II growth (%)	8.7%	-5.9%	19.2%	8.6%	6.1%
Total operating income	30,364	32,001	35,613	36,650	37,848
Op income growth (%)	8.3%	5.4%	11.3%	2.9%	3.3%
Non-II/Total income (%)	38.3%	34.2%	36.6%	38.6%	39.7%
Operating costs	(12,987)	(14,031)	(15,371)	(16,036)	(17,027)
Op cost growth (%)	4.3%	8.0%	9.6%	4.3%	6.2%
CIR (%)	42.8%	43.8%	43.2%	43.8%	45.0%
PIOP	17,377	17,970	20,242	20,614	20,821
PIOP growth (%)	11.5%	3.4%	12.6%	1.8%	1.0%
Loan impairments	(3,292)	(1,391)	(2,291)	(2,385)	(2,143)
Other impairments					
Total impairment charges	(3,292)	(1,391)	(2,291)	(2,385)	(2,143)
Credit costs (bps)	42	17	26	26	22
NPL ratio (%)	1.74%	1.59%	1.65%	1.67%	1.67%
Loan loss coverage (%)	85%	84%	84%	87%	89%
Associates & others	395	459	568	616	662
Pre-tax profit	14,480	17,038	18,519	18,845	19,340
Taxation	(2,274)	(2,688)	(2,927)	(3,103)	(3,202)
Minority interests	(400)	(272)	(180)	(237)	(295)
Net profit	11,806	14,078	15,412	15,505	15,843
Net profit growth (%)	9.2%	19.2%	9.5%	0.6%	2.2%

Source: Banks' financial statements, RHB

Focus Charts

Figure 31: We forecast NIM squeeze ahead

Net Interest Margin	DBS	OCBC	UOB
FY16	1.80%	1.67%	1.71%
FY17	1.75%	1.65%	1.77%
FY18	1.85%	1.70%	1.82%
1Q19	1.88%	1.76%	1.79%
2Q19	1.91%	1.79%	1.81%
3Q19	1.90%	1.77%	1.77%
FY19F	1.88%	1.77%	1.79%
FY20F	1.81%	1.73%	1.73%
FY21F	1.79%	1.72%	1.72%

Source: Banks' financial statements, RHB

Figure 32: Banks guided for mild 2020 loan growth

Loan Growth (YoY%)	DBS	OCBC	UOB
FY16	6.4%	4.1%	8.9%
FY17	7.2%	8.0%	4.7%
FY18	6.8%	9.0%	11.4%
3Q19	3.8%	2.5%	8.0%
FY19F	3.3%	2.2%	5.3%
FY20F	3.5%	2.5%	4.5%
FY21F	3.6%	4.0%	4.5%

Source: Banks' financial statements, RHB

Figure 33: DBS has the highest percentage Greater China loan exposure

3Q19 Loan breakdown by geography (%)	DBS	OCBC	UOB
Singapore	47.0%	41.6%	51.4%
South & SEA	8.3%	NA	NA
South-east Asia	NA	NA	NA
- Malaysia	NA	11.0%	10.7%
- Thailand	NA	NA	6.9%
- Indonesia	NA	7.7%	4.3%
Greater China	30.4%	24.5%	16.3%
- HK	15.9%	12.9%	NA
Others	14.4%	15.1%	10.4%
Total	100.0%	100.0%	100.0%

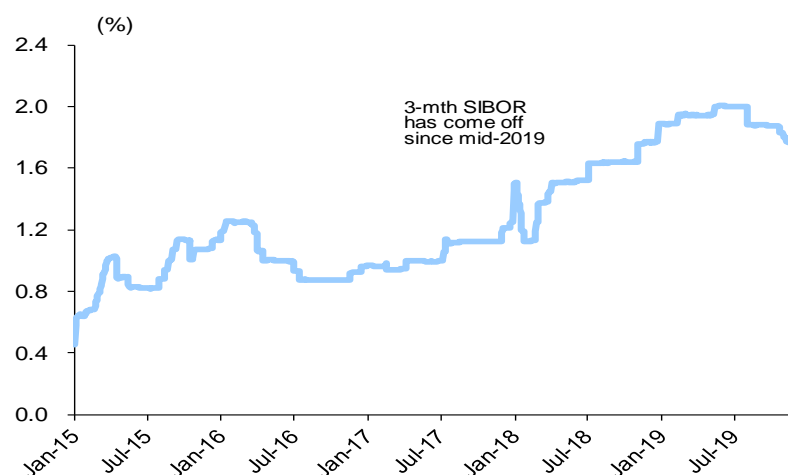
Source: Banks' financial statements

Figure 34: OCBC has the highest CAR

	DBS	OCBC	UOB
FY17 CET1 CAR	14.3%	13.9%	15.1%
FY17 Tier 1 CAR	15.1%	15.0%	16.2%
FY18 CET1 CAR	13.9%	14.0%	13.9%
FY18 Tier 1 CAR	15.1%	14.8%	14.9%
3Q19 CET1 CAR	13.8%	14.5%	13.7%
3Q19 Tier 1 CAR	14.7%	15.2%	15.0%

Source: Banks' financial statements

Figure 35: SIBOR has softened following FFR cuts



Source: Bloomberg

- ◆ There is a historical correlation between the US FFR and 3-month SIBOR. The recent cuts in FFR has led to 3-month SIBOR softening since mid-2019.

Thailand – Clouded By Subpar GDP Growth

Slight strengthening in loan growth prospects

The Thai Government is planning to launch new stimulus measures and speed up public investments to spur domestic consumption and investments to mitigate potential impact from global trade uncertainties. We expect loan growth of 3.5% in 2020, a slight improvement from the 2.8% YoY rise projected for 2019. Lending activity would be driven mainly by the consumer and corporate sectors. Growth in SME loans is likely to be subdued as banks are expected to remain cautious due to asset quality concerns.

Loan demand was lacklustre in 2019, dampened by slowing economic growth and stricter lending criteria. Loans grew a paltry 0.6% YoY as at end Sep 2019 vs a 2.5% rise a year earlier. Although lending activities are likely to increase in 4Q19 due to seasonally higher demand on a pick-up in consumption spending and export activities, full-year 2019 growth would be sharply lower than increases of 4.5-5.1% in 2017-2018.

Asset quality concerns linger

TH Banks are expected to end 2019 with a 7% increase in NPLs, up from the 5% YoY rise in Sep 2019. That said, growth in impaired loans would likely moderate to c.5-6% pa in 2020F-2021F, which compares favourably against the spikes of 10-20% in 2015-2017.

Still, we believe banks would continue to tighten lending criteria to prevent new NPLs given the soft economy and the country's heavy reliance on international trade. We believe the consumer and SME segments remain vulnerable due to their weaker balance sheets. On the flipside, Thai corporates are weathering the economic uncertainties better, helped by their sound fundamentals.

We expect sector NPL ratio to tick up slightly to 4.0% in 2020F from 3.9% in 2019F. The LLC ratio is projected to be higher at 153.1% in 2020F from 151.4% in 2019F given additional provisions to be set aside.

With the high LLC, banks are well prepared for the adoption of TFRS 9 effective Jan 2020. That said, we do not expect any reversal of impairment allowance that would boost earnings as we believe most banks prefer to maintain the provision buffers, at least in the first year of adoption of the new accounting standard.

Lower interest rates remain a possibility

BoT lowered its policy rate to a record low of 1.25% in 2019 following two cuts of 25bps each in Aug and Nov 2019. RHB economist believes BoT would maintain the 1-day repurchase rate at 1.25% in 2020 as the policy rate is already lower than in the US and other ASEAN countries, which impacts its effectiveness to curb speculative inflows while too-low interest rates could also fuel imbalances in Thailand. We believe the central bank would assess the impact from stimulus packages introduced at end-2019 before deciding if more monetary policy support is necessary.

We expect the interest rate cuts in 2H19 to compress loan yields and erode NIMs in 4Q19F and 2020F. Our estimates suggest that sector NIM would narrow by 6bps to 3.06% in 2019F and another 2bps to 2.98% in 2020F. Large banks are likely to see a sharper fall in NIM as the bulk of their loans are on variable rates, while smaller banks have a larger portion of fixed rate loans. Should there be further rate cuts in 2020, NIM slippage would be wider than the current forecast, particularly if banks are unable to lower deposit rates to mitigate the fall in asset yields.

IT investments to weigh on CIR

To support the digital economy and promote more banking transactions via online banking services, Thai banks implemented the PromptPay scheme in 1Q17. This was followed by the elimination of fees for online transactions in 1Q18. As a result, banks' net fee income fell 4% YoY in 2018 (2017: +10%) and would likely decline a further 2% YoY in 2019F. While the drag on fee income from technology disruptions would taper in 2020, we believe new digital offerings by banks will not immediately contribute to higher revenues. Instead, it will enhance banks' ability to analyse consumer data for improved risk management and better customer service.

15 January 2020

Among TH Banks, Kasikornbank (KBANK TB, BUY, TP: THB173.00) and SCB (SCB TB, BUY, TP: THB140.00) are the leaders in digital banking services. Both banks have the largest number of online users and are usually leaders in the introduction of new financial products. Krungthai Bank (KTB TB, NEUTRAL, TP: THB17.50) lags peer banks in digital banking development, and is likely to see higher IT investments hitting its CIR in the next few years. This compares to forecasts of stable CIRs for BBL (BBL TB, BUY, TP: THB205.00), KBANK, and SCB. We believe small and mid-sized banks would have smaller IT budgets given their much smaller consumer base. Overall, we expect sector CIR to increase to 47.3% in 2020F from 45.9% in 2019F (2018: 44.9%).

Moderate rebound in 2020F earnings

Banks are projected to post a 7% YoY growth in 2020F net profit. Earnings uplift would come mainly from:

- i. Higher NII on stronger loan growth; and
- ii. Lower impairment charges, led mainly by BBL, KBANK, and SCB, which have high levels of excess loan provisions.

Nevertheless, banks' average ROE is expected to dip further to 9.4% in 2020, from 9.6% in 2019F (2018: 10.4%), as sector leverage continues to trend lower. We believe the banks would prefer to maintain a high level of capitalisation given the ongoing economic uncertainties.

For 2019, sector net profit is forecast to rise a modest 1% YoY despite expectations for a 12% YoY jump in 4Q19F earnings on higher investment gains and net fee income. The sluggish 2019 performance can be attributed to higher overhead expenses and muted fee income.

Thai banks are well capitalised

Thai banks are well capitalised, with capital ratios substantially higher than the Basel III minimum requirements. Total capital ratio (TCR) and Tier-1 capital ratio stood at 18.8% and 15.6% respectively in Sep 2019. We expect the banks' capital ratios to remain solid at 18.9% for TCR and 16% for Tier-1 in Dec 2020 – well above the Basel III minimum requirement (after conservation and D-SIB buffers) of 12% (TCR) and 9.5% (Tier-1).

Maintain NEUTRAL; BBL and SCB are Top Picks

TH Banks underperformed the broader market with an average decline of 8% in 2019 on concerns over weak growth prospects and NIM pressures. At current levels, the sector is trading at 1.0x 2020F P/BV. Although this is at -1.5SD from the historical mean, we believe the multiple de-ratings reflect the structural downtrend in ROEs. We reiterate our NEUTRAL call for the sector as we see downside risks to earnings given the still-soft economic backdrop, which may result in further rate cuts. In Dec 2019, BoT cut its GDP forecast for 2020 to 2.8% from the +3.3% projected in Sep 2019. We prefer banks with solid balance sheets and attractive dividend yields – BBL and SCB.

BBL – Our THB205.00 TP is based on GGM-derived 0.84x 2020F P/BV. Earnings are expected to grow a moderate 4-6% in 2019F-2021F on efficient cost management. Fundamentals are solid, while high provision buffers should enable the banks to comfortably absorb impact from TFRS 9. We believe BBL would be a key beneficiary of infrastructure investments, which would result in stronger loan growth in the future.

SCB – Our THB140 TP is based on GGM-derived 1.11x 2020F P/BV. With its business transformation near completion, growth in operating expenses is expected moderate. The resulting improvement in CIR would help sustain earnings growth in the longer term. With CET-1 at 16.9% post the divestment of SCB Life Insurance, SCB has the capacity to increase dividend payout. This would further boost its already attractive yields of c.5%.

15 January 2020

Financial Services | Banks

Figure 36: TH Banks – valuation summary

Company	Rating	Price (THB)	TP (THB)	Mkt Cap (USDM)	EPS Chg (%)		PER (x)		P/BV (x)		ROE (%)		NDY (%)	
					FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Siam Commercial Bank (SCB TB)	Buy	114.50	140.00	12,852.3	10.5	0.5	8.8	8.7	1.0	0.9	11.3	10.7	5.2	5.4
Kasikombank (KBANK TB)	Buy	133.50	173.00	10,522.1	-1.2	1.4	8.4	8.3	0.8	0.7	9.7	9.2	3.6	3.6
Bangkok Bank (BBL TB)	Buy	152.50	205.00	9,622.8	4.3	5.7	7.9	7.5	0.7	0.6	8.6	8.6	4.5	4.8
Krungthai Bank (KTB TB)	NEUTRAL	16.10	17.50	7,438.3	-1.7	0.8	8.0	8.0	0.7	0.6	8.7	8.1	5.5	5.5
TMB Bank (TMB TB)	NEUTRAL	1.58	1.66	5,213.4	-36.2	0.8	9.4	9.3	0.8	0.7	5.0	8.2	4.8	4.3
Tisco Financial Group (TISCO TB)	NEUTRAL	102.00	108.00	2,699.6	5.2	4.2	11.1	10.6	2.1	2.0	19.2	19.2	7.2	7.5
Thanachart Capital (TCAP TB)	NEUTRAL	52.00	56.00	1,802.5	2.8	-2.1	7.5	7.7	0.9	0.8	12.0	11.1	12.6	4.9
Kiatnakin Bank (KKP TB)	Sell	68.25	56.00	1,910.4	-4.5	-3.4	10.0	10.4	1.3	1.3	13.4	12.4	6.5	6.3
Weighted average					-0.5	1.7	8.6	8.5	0.9	0.8	10.0	9.9	5.2	5.0
Big-4 banks					3.7	2.0	8.3	8.2	0.8	0.7	9.8	9.3	4.7	4.8
Mid-small					-15.3	0.5	9.6	9.5	1.2	1.1	10.8	11.9	6.9	5.5

Note: Prices are as at 14 Jan 2020

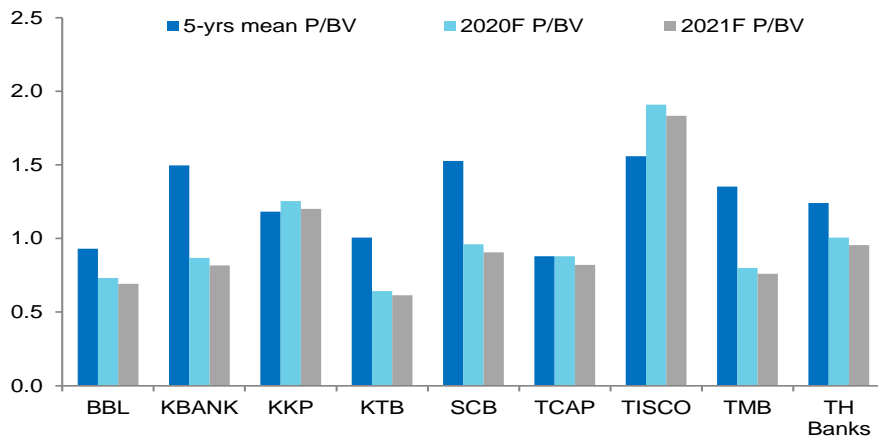
Source: Bloomberg, RHB

Figure 37: TH Banks – sector core earnings forecasts and key assumptions

(THBm)	2017	2018	2019F	2020F	2021F
Net interest income	416,058	429,112	447,102	477,328	486,009
Net-II growth (%)	3.1%	3.1%	4.2%	6.8%	1.8%
Loan growth (%)	4.5%	5.1%	10.5%	3.7%	3.7%
Net interest margin (%)	3.10%	3.06%	3.00%	2.98%	2.90%
Fee income	187,133	189,501	189,742	205,165	213,684
Other income	40,062	43,832	56,453	17,312	15,862
Non-II	227,195	233,333	246,195	222,477	229,545
Non-II growth (%)	1.7%	2.7%	5.5%	-9.6%	3.2%
Total operating income	643,253	662,445	693,298	699,805	715,555
Op income growth (%)	2.6%	3.0%	4.7%	0.9%	2.3%
Non-II/Total income (%)	35.3%	35.2%	35.5%	31.8%	32.1%
Operating costs	(277,121)	(297,679)	(318,100)	(331,235)	(337,725)
Op cost growth (%)	3.0%	7.4%	6.9%	4.1%	2.0%
CIR (%)	43.1%	44.9%	45.9%	47.3%	47.2%
PIOP	366,132	364,766	375,197	368,570	377,830
PIOP growth (%)	2.3%	-0.4%	2.9%	-1.8%	2.5%
Loan impairments	(153,073)	(129,546)	(130,061)	(117,355)	(114,260)
Other impairments	-	-	-	-	-
Total impairment charges	(153,073)	(129,546)	(130,061)	(117,355)	(114,260)
Credit costs (bps)	163	132	123	104	97
NPL ratio (%)	3.94%	3.86%	3.90%	3.98%	4.00%
Loan loss coverage (%)	140.5%	151.3%	151.4%	153.1%	156.8%
Associates & others	-	-	-	-	-
Pre-tax profit	213,059	235,219	245,136	251,215	263,570
Taxation	(37,788)	(43,746)	(53,691)	(47,421)	(49,748)
Minority interests	(14,818)	(16,631)	(15,812)	(16,130)	(16,464)
Net profit	160,453	174,843	175,634	187,664	197,359
Net profit growth (%)	-8.5%	9.0%	0.5%	6.8%	5.2%

Source: Banks' financial statements, RHB

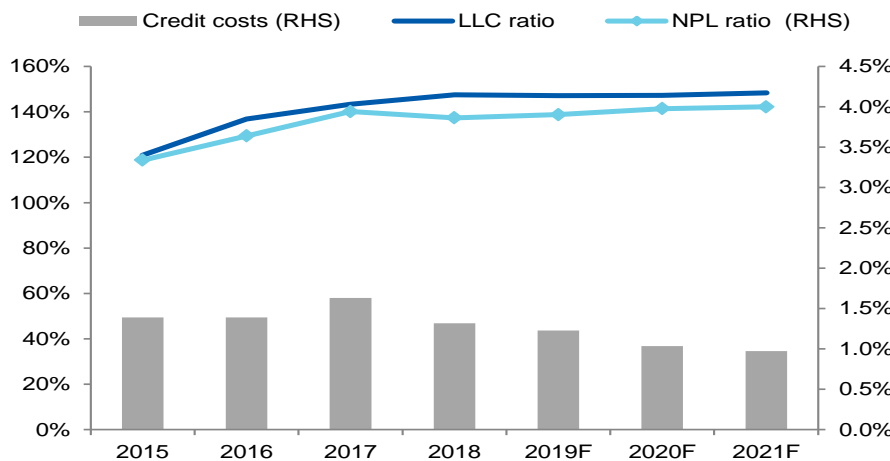
Figure 38: All large banks are trading below their average 5-year historical P/BVs



◆ TH Banks' valuations are undemanding, trading at consensus FY20F P/BV of 0.8x (below -1SD historical mean), compared with their historical mean of 1.26x

Source: Banks' financial statements, RHB

Figure 39: TH Banks' NPL ratio and LLC ratio trends

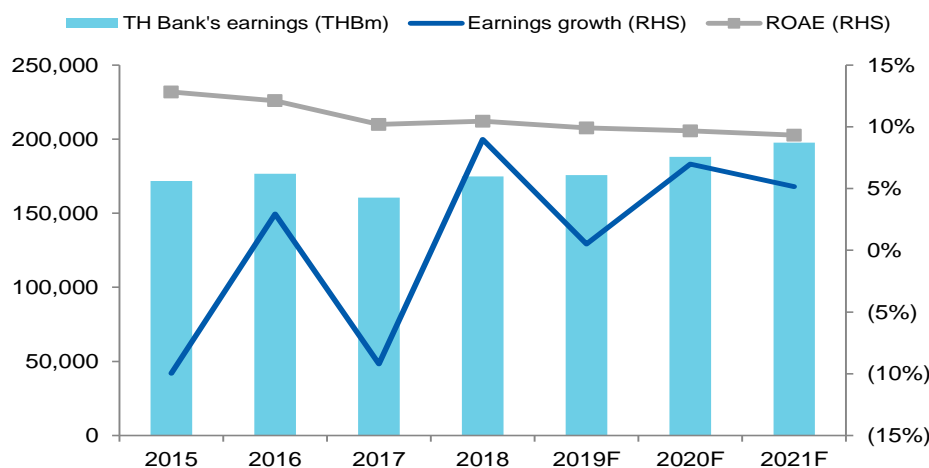


◆ TH Banks' NPL ratio is likely to trend higher as the slowing economy impacts customers' ability to repay debts

◆ Banks are well prepared for TFRS 9, with high excess reserves. Average LLC ratio remains high at 153% in 2020

Source: Banks' financial statements, RHB

Figure 40: TH Banks' earnings and ROE trends



◆ TH Banks' earnings are forecast to improve 7% YoY in 2020F (2019F: +1%). But sector ROE is expected to be a lower 9.7% in 2020F vs. 10% in 2019F as banks are likely to maintain high capital ratios to withstand economic uncertainties

Source: Banks' financial statements, RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211

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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

การเปิดเผยการประเมินดัชนีชี้วัดความคืบหน้าการป้องกันกรมีส่วนเกี่ยวข้องกับการทุจริตคอร์รัปชัน (Anti-Corruption Progress Indicators) ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยที่จัดทำโดยสถาบันที่เกี่ยวข้องซึ่งมีการเปิดเผยโดยสำนักงานคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์นี้เป็นการดำเนินการตามนโยบายและตามแผนพัฒนาความยั่งยืนสำหรับบริษัทจดทะเบียนโดยผลการประเมินดังกล่าว สถาบันที่เกี่ยวข้องอาศัยข้อมูลที่ได้รับจากบริษัทจดทะเบียนตามบริษัทจดทะเบียนได้ระบุในแบบแสดงข้อมูลเพื่อการประเมิน Anti-Corruption ซึ่งอ้างอิงข้อมูลมาจากแบบแสดงรายงานข้อมูลประจำปี แบบ (56-1) รายงานประจำปีแบบ (56-2) หรือในเอกสารหรือรายงานอื่นที่เกี่ยวข้องซึ่งเป็นบุคคลภายนอก โดยมีได้เป็นการประเมินการปฏิบัติของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยและมิได้ใช้ข้อมูลภายในเพื่อการประเมิน เนื่องจากผลการประเมินดังกล่าวเป็นเพียงผลการประเมิน ณ วันที่ ปรากฏในผลการประเมินเท่านั้น ดังนั้นผลการประเมินจึงอาจเปลี่ยนแปลงได้ภายหลังวันดังกล่าว หรือรับรองความถูกต้องครบถ้วนของผลประเมินดังกล่าวได้อย่างใด