

26 January 2018

Financial Services | Banks

Banks

Overweight (Maintained)

Earlier-Than-Expected OPR Hike

Bank Negara Malaysia raised the OPR by 25bps to 3.25% during yesterday's policy meeting. Our sensitivity analysis points to a 4bps improvement in sector average NIM, and a 2.5% uplift in sector net profit. Although the enhancements are modest, they are positive and contribute towards the gradual uptrend in sector earnings and ROEs. We reiterate our **OVERWEIGHT** sector stance with **BUYs** on CIMB, Maybank and BMB.

BNM raised OPR by 25bps. During yesterday's Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) decided to raise the Overnight Policy Rate (OPR) by 25bps to 3.0%. Although our RHB economist had forecast that the interest rate would be increased once, by 25bps, in 2018, the hike happened sooner-than-expected. Nevertheless, our economist is sticking with the forecast for just one rate hike of 25bps this year. The last change in the OPR was in Jun 2016, when BNM cut its policy rate by 25bps to 3.0%.

Banks to benefit from rate hike. Generally, a rate hike tends to be positive for banks as interest rate-sensitive assets are re-priced quicker than liabilities. Banks with higher variable rate loans to total loans would benefit more, given that a higher proportion of assets would be re-priced faster.

Apart from the above, CASA deposits as a percentage of total deposits (ie CASA ratio) is another determining factor. Banks with a higher CASA ratio would benefit more, as CASA rates, unlike fixed deposit rates, are not expected to be adjusted by the same magnitude as the hike in the OPR.

Earnings uplift of 2-5%. Our analysis points to a full-year enhancement of up to 3.0% for net interest income (NII) and a boost of up to 6bps in net interest margins (NIM) for the individual banks under our coverage. In terms of net profit, we estimate an enhancement of between 2-5% for full-year earnings.

Alliance Bank Malaysia Bhd (ABMB) and Malayan Banking (Maybank) would be the biggest beneficiaries from the rate hike, helped by their high proportion of variable rate loans and high CASA ratios.

OPR hike unlikely to hurt loan growth or asset quality. We do not expect the 25bps rise in policy rate to adversely impact loan growth or asset quality. Interest rates at the current levels are still low, while positive spillovers from the external sector to the domestic economy would underpin favourable income and labour market conditions.

This would enable borrowers to absorb a higher interest rate, in our view. Barring a series of sustained hikes in the policy rate, loan growth and asset quality are expected to remain intact.

We retain our OVERWEIGHT rating on the sector. CIMB Group and Maybank are our Top Picks in the sector, while BMB Holdings (BMB) offers exposure to *Shariah*-compliant financials.

Stocks Covered: 8
Ratings (Buy/Neutral/Sell): 4 / 4 / 0
Last 12m Earnings Revision Trend: Negative

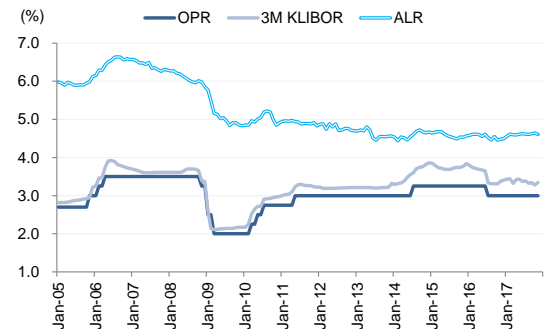
Top Picks

CIMB Group (CIMB MK) – BUY
Maybank (MAY MK) – BUY
BMB Holdings (BMB MK) - BUY

Target Price

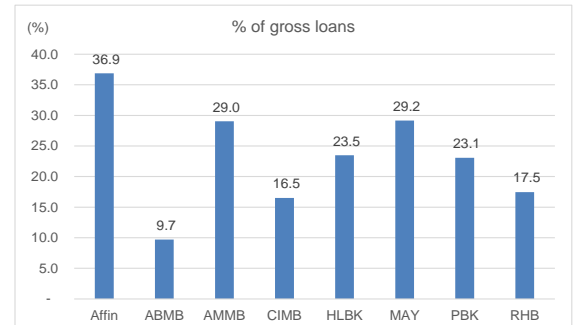
MYR7.50
MYR10.50
MYR4.90

OPR vs 3-mth KLIBOR and average lending rate



Source: BNM

Banks' fixed rate loans as % of gross loans



Source: Company data

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-18F	P/B (x) Dec-18F	Yield (%) Dec-18F
BMB Holdings	BUY	MYR4.06	MYR4.90	20.7	10.5	1.5	-
CIMB Group Holdings	BUY	MYR7.02	MYR7.50	6.8	13.2	1.3	3.4
Hong Leong Bank	BUY	MYR18.14	MYR17.16	(5.4)	14.0	1.5	2.9
Malayan Banking	BUY	MYR10.00	MYR10.50	5.0	13.7	1.4	5.8
Affin Holdings	NEUTRAL	MYR2.53	MYR2.45	(3.2)	9.6	0.5	3.6
Alliance Bank Malaysia Bhd	NEUTRAL	MYR4.26	MYR4.00	(6.1)	12.3	1.2	3.8
AMMB Holdings	NEUTRAL	MYR4.80	MYR4.50	(6.3)	10.5	0.8	3.7
Public Bank	NEUTRAL	MYR21.20	MYR22.00	3.8	15.0	2.0	2.9

Source: Company data, RHB

Analysts

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



Stephanie Cheah
+603 9280 8859
stephanie.cheah@rhbgroup.com



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OPR Hike Overall Positive For Banks

Generally, a rate hike tends to be positive for Malaysian banks as interest rate-sensitive assets are re-priced quicker than liabilities. Banks with higher variable rate loans to total loans would benefit more, given that a higher proportion of assets would be re-priced faster. In addition, the higher the loan-to-deposit ratio (LDR), the higher the positive impact, given that a larger amount of assets would be re-priced with liabilities.

Apart from the above, CASA deposits as a percentage of total deposits, ie the CASA ratio, is another determining factor. Banks with a higher CASA ratio would benefit more, as CASA rates, unlike fixed deposit rates, are not expected to be adjusted by the same magnitude as the hike in OPR.

Figure 1: Balance sheet profiles as at 30 Sep 2017

	Affin	ABMB	AMMB	BIMB	CIMB	HL Bank	Maybank	Public Bank
Loan mix by interest rate sensitivity:								
- Fixed rate (% share)	36.9	9.7	29.0	12.1	16.5	23.5	29.2	23.1
- Variable rate (% share)	63.1	90.3	71.0	87.9	83.5	76.5	70.8	76.9
LDR (%)	86.8	90.3	98.1	88.0	91.7	81.0	92.3	93.0
CASA ratio (%)	17.0	37.3	20.8	30.4	36.2	26.8	35.0	25.5
Loan as a % of total assets	63.1	71.2	68.9	67.4	64.1	63.4	63.4	76.5
IEA as a % of total assets	92.6	96.0	92.5	95.3	91.0	93.4	93.2	95.7

Source: Company data, RHB estimates

We set out in Figure 2 the estimated impact of a 25bps OPR hike on the banks' performance. Our assumptions (and caveats) include:

- Data with respect to the periods in which the respective banks' financial instruments are either re-priced or mature, is based on financial years ended 31 Dec 2016 and 31 Mar 2017. This is historical data and the composition and mix may have changed since then, especially if interest rate expectations have changed as well;
- We have used the group figures in our analysis. For banks with sizeable overseas operations, the actual impact is likely to be lower than what our estimates indicate;
- The hike in OPR would result in a parallel shift in lending and money market deposit rates but only half the increase in CASA rates.

Our sensitivity analysis of a 25bps OPR hike suggests:

- A full-year impact of an OPR hike could enhance the NII by up to 3% and provide an uplift to NIMs by up to 6bps for the individual banks under our coverage;
- The impact to net profit would be modest, ie between 2-5% on a full-year basis for the individual banks under our coverage;
- Our analysis suggests that ABMB and Maybank would to be the biggest beneficiaries, helped by their high proportion of variable rate loans and high CASA ratios; and
- BIMB appears to be most negatively affected by the changes. The bank has more interest-rate sensitive assets in the longer-term maturity bucket, as compared to interest-rate sensitive liabilities. However, as mentioned above, our analysis is based on data at a fixed point in time, ie at 31 Dec 2016, and the compositions for the various maturity buckets could have changed since then. The use of derivatives may also help BIMB manage its interest rate risk. According to management, BIMB would see a 10-12bps improvement in NIM with a 25bps rise in interest rates.

We have not included AMMB in this exercise, since the group does not provide the composition of its various maturity buckets for interest rate risk – as this is not a required disclosure for reporting purposes. However, management had said that the balance sheet has been positioned in a manner that a rate hike would have a neutral effect on group earnings.

While the exercise below suggests that a 25bps OPR hike tends to be mildly positive for banks' earnings, competitive pressures may mute the impact of a rate hike. For instance, we expect competition for deposits to remain keen over the next 12 months. This could drive deposit costs up and negate some of the positive impact from the rate hike.

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Figure 2: Estimated impact of 25bps OPR hike (12-month impact)

		Affin	ABMB*	BIMB	CIMB	HL Bank	Maybank	Public Bank
Net assets/(liabilities) by periods for which the financial instruments are repriced/mature								
Up to 1 Month	MYRm	8,246	12,465	(15,914)	59,879	39,412	109,270	80,234
1-3 Months	MYRm	(9,037)	(2,878)	(9,283)	(50,260)	(23,998)	(23,843)	(29,670)
>3-12 Months	MYRm	(10,653)	(9,129)	(2,450)	(44,624)	(30,100)	(47,166)	(46,072)
Impact of a 25bps hike in OPR on net interest income (FY18F)								
Up to 1 Month	MYRm	28.8	49.2	(11.0)	277.2	135.8	422.8	274.8
1-3 Months	MYRm	(18.7)	(5.1)	(16.8)	(111.2)	(47.0)	(33.7)	(61.0)
>3-12 Months	MYRm	(7.8)	(6.7)	(1.7)	(34.1)	(23.2)	(28.5)	(34.2)
Impact on net interest income	MYRm	1.7	28.4	(22.4)	100.3	49.9	274.1	136.5
<i>Change (%)</i>	%	<i>0.2</i>	<i>2.9</i>	<i>(2.0)</i>	<i>1.0</i>	<i>1.8</i>	<i>2.1</i>	<i>2.1</i>
Impact on NIM (FY18F)								
NIM forecast – pre-OPR hike	%	1.87	2.26	2.23	2.58	1.88	2.34	2.21
NIM forecast – post-OPR hike	%	1.88	2.32	2.18	2.61	1.91	2.39	2.25
<i>Change (%)</i>	<i>bps</i>	<i>0</i>	<i>6</i>	<i>-4</i>	<i>3</i>	<i>3</i>	<i>5</i>	<i>5</i>
Impact on net profit (FY18F)								
Net profit – pre-OPR hike	MYRm	510	536	634	4,994	2,726	7,910	5,459
Net profit – post-OPR hike	MYRm	511	564	611	5,094	2,776	8,184	5,596
<i>Change (%)</i>	%	<i>0.3</i>	<i>5.3</i>	<i>(3.5)</i>	<i>2.0</i>	<i>1.8</i>	<i>3.5</i>	<i>2.5</i>

Note: *FY18F refers to FY19F.

Source: Company data, RHB

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799