

SECTOR UPDATE

Banking – Malaysia

Digital Banks Ramping Up Deposit Competition?

As the five digital banks prepare to commence operations in the coming months, we anticipate a focus on deposit acquisition, potentially impacting sector NIM slightly. Sector valuations have risen to a historical mean P/B of 1.10x, which appears fair against forecasted ROE of 10% and earnings growth of only 6% vs our KLCI earnings growth assumption of 11%. We maintain our MARKET WEIGHT recommendation on the sector. CIMB remains our preferred choice.

WHAT'S NEW

- Digital banks gradually coming on stream.** To recap, Bank Negara Malaysia (BNM) granted digital banking licenses to five entities: a) Boost Bank (Axiata: 60%, RHB: 40%), b) GX Bank (GXS: 55.45%, Kuok Brothers: 44.55%, with GXS being a joint venture between Grab and Singtel), c) SEA-YTL Digital Bank (SEA: 60%, YTL: 40%), d) Aeon (M) Bank (AEON Financial Services: 50%, AEON Credit Services Malaysia: 50%), and e) KAF Islamic Digital Bank (KAF Investment Bank-Carsome-Jirnexu-Moneymatch JV). Among these, GX Bank has officially launched, while Boost Bank and Aeon Bank are still in alpha testing mode, offering services exclusively to a select group of customers before a full launch. SEA-YTL and KAF digital banks are yet to launch their services.
- GX Bank setting the bar high for deposit rates.** GX Bank has recently launched an attractive savings deposit campaign for the ongoing Hari Raya festive season, with a daily interest rate of 5% p.a. and with non-campaign rates at 3% p.a. In comparison, conventional banks are offering lower fixed deposit campaign rates of 3.60% to 4.10% for tenures of 3 to 12 months and non-campaign interest rates ranging from 2.65% to 2.70% for similar tenures.
- Could keep overall deposit competition elevated but not irrational.** As other digital banks commence full operations, we anticipate they will also offer competitive deposit interest rates calculated on a daily basis. This expectation is due to the importance of deposits in fuelling asset growth, particularly for new digital banks in their initial operational stages.
- Asset thresholds will help to partially maintain some form of discipline.** However, with digital banks required to maintain assets of less than RM3b and a minimum capital fund of RM100m, the total potential deposit pool amounts to only RM14.5b, representing less than 1% of the total banking system's deposit base. This limitation should help mitigate overly irrational competition for deposits among conventional banks.

ACTION

- Maintain MARKET WEIGHT.** The sector is currently trading at its historical mean P/B of 1.10x which we deem to be fair, considering the absence of strong catalysts. Sector earnings growth of 6% is expected to lag behind the broader market's projected 11% rise in 2024 earnings. This is primarily due to factors such as: a) NIM remaining flattish with slight downside risk, b) anticipated slowdown in non-interest income growth, and c) absence of material credit cost tailwinds. Overall, sector dividend yields are attractive (surpassing 5%) with stable asset quality.

PEER COMPARISON

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Market Cap (US\$m)	PE			ROE 2024F (%)	P/B 2024F (x)	Div 2024F (sen)	Div Yield (%)
						2023 (x)	2024F (x)	2025F (x)				
Public Bank	PBK MK	BUY	4.18	5.10	17,172	11.4	11.6	10.9	12.5	1.4	18.1	4.3
CIMB Group	CIMB MK	BUY	6.61	7.33	14,920	10.1	9.0	8.6	11.2	1.0	40.4	6.1
Maybank	MAY MK	HOLD	9.65	9.55	24,645	11.7	11.2	10.7	10.1	1.1	64.8	6.7
HL Bank	HLBK MK	HOLD	19.46	21.74	8,928	10.6	10.1	9.3	11.3	1.1	67.2	3.5
RHB Bank	RHBBANK MK	HOLD	5.77	6.18	5,235	8.2	8.0	7.3	9.2	0.7	39.4	6.8
HLFG	HLFG MK	HOLD	16.82	19.86	4,077	7.5	6.9	6.5	10.1	0.7	41.9	2.5
AMMB	AMM MK	HOLD	4.24	4.28	2,967	7.6	9.1	8.0	10.2	0.7	25.7	6.1
Affin Bank	ABANK MK	HOLD	2.54	2.25	1,262	12.3	9.3	8.7	4.8	0.4	12.3	4.8
Alliance Bank	ABMB MK	HOLD	3.77	3.80	1,235	8.7	8.9	8.2	9.5	0.8	21.2	5.6
Bank Islam	BIMB MK	HOLD	2.50	2.29	1,199	9.4	9.1	8.8	7.6	0.7	13.8	5.5

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

TOP SECTOR PICKS

Company	Rec	Share Price (lcy)	Target Price (lcy)
CIMB Group	BUY	7.73	6.61
Public Bank	BUY	5.10	4.18
Public Bank	BUY	5.10	4.22
CIMB Group	BUY	7.33	6.64

Source: UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % chg
Affin Bank	2.54	27	22.1
CIMB Group	6.61	25.7	13.2
Bank Islam	2.50	21.9	12.6
Alliance Bank	3.77	12.5	11.8
Maybank	9.65	10.9	8.2
RHB Bank	5.77	3.9	5.8
AMMB	4.24	14.6	5.2
HL Bank	19.46	(4.8)	4.3
HLFG	16.82	(7.6)	2.8
Public Bank	4.18	5.3	(2.3)

Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong

+603 2147 1981

keithwee@uobkayhian.com

- **Our top sector pick is CIMB Group**, closely followed by Public Bank (defensive). Our preference for CIMB Group as the top pick is based on: a) its high beta, b) having the highest foreign shareholding among the banks, and c) strong ROE trajectory. These factors position the stock favourably to capitalise on a growing risk-on investment environment.

ESSENTIALS

- **Flatness to slight compression in 2024 NIM.** Given the near-term deposit competition from digital banks coupled with competition among conventional banks in certain lending segments such as mortgages, we expect 2024 sector NIM to remain slightly challenged with a potential downside risk to our current flattish outlook. Overall, we project the sector's NIM at 2.05% in 2024 (2023: 2.05%), compared to pre-pandemic levels of 2.10%, even as the Overnight Policy Rate (OPR) has normalised to its pre-pandemic levels.
- **Sector performance has been mixed.** Despite the KL Finance index achieving a commendable 6% return ytd, it marginally lagged behind the FBMKLCI's 7% ytd return. With no distinct fundamental catalysts apparent, sentiment among various banks has been mixed, contributing to the sector's slight overall underperformance compared to the FBMKLCI. Noteworthy outperformers within the sector include: a) Affin (+21%), b) BIMB (+14%), c) CIMB (+13%), d) Alliance (+11%), and e) Maybank (+9%). Conversely, AMMB, RHB, HLBank, HLFG, and Public Bank experienced underperformance
- **Taking profit on strong winners: Affin and BIMB.** Affin and BIMB were among the top two performing banks ytd. Affin is currently trading at 0.45x 2024 P/B which we deemed to be fair against a projected ROE of 5%. The strong share price performance partly reflects the strong ROE aspirations of 7% set by management, (underpinned by lower credit cost, strong loans and CASA growth) vs our and consensus' 5% forecasts. However, we believe that our ROE forecast of 5% remains realistic, translating to a robust 30% earnings growth compared to the 95% earnings growth needed to achieve management's targeted 7% ROE. As for BIMB, its strong share price performance was driven by stabilisation of its asset quality and relatively attractive valuations. However, we note that the group's current loans loss coverage ratio (LLC) of 126% is much lower than the pre-pandemic average of 170%, despite GIL ratio of 0.96% being higher than its pre-pandemic level of 0.86%. This could pose potential upside risk to provisions moving forward.
- **CIMB remains attractive despite its strong share price performance.** Despite solid share price performance, risk-to-reward remains tilted to the upside given its promising ROE trajectory. Stock is expected to deliver ROE of 11.5% in 2024 (2019: 8%) vs sector ROE of only 10.5% while current valuations of 0.98x 2024 P/B is still lower than sector P/B of 1.10x.

OVERVIEW OF DIGITAL BANKS

Banks	Target Market	Products
GX Bank GXS:55.5% Kuak:44.6% (GXS:60:40 JV of Grab and Singtel)	Micro-SMEs and gig economy workers	Bite-sized loans, savings & innovative deposit products, cashback debit cards and attractive Grab Rewards points
Boost Bank Axiata:60% RHB:40%	Micro-SMEs and gig economy workers	Deposits, credit and insurance products
SEA-YTL SEA:60% YTL:40%	Retail and non-retail customers (Shopee sellers)	Based on Singapore experience: deposits, wealth management and SME loans
AEON Bank AEON Financial:50%, AEON Credit:50%	Capitalize on its existing retail network and ecosystem	Basic savings, current account as well as micro & short-term financing products
KAF Digital KAF, Carsome, Jirnexu, Moneymatch (stake breakdown NA)	Underbanked retail clients & small enterprises	Bite-sized loans to micro-SME and cash management products

Source: Respective companies, UOB Kay Hian

SECTOR PB



Source: UOB Kay Hian

CURRENT BANKS FIXED DEPOSIT CAMPIGNS

Bank	Fixed deposit rates (%)	Tenure (months)	Minimum (RM)	Maximum (RM)
Affin	Up to 3.60	Up to 12	20,000	200,000
Alliance	Up to 4.10	Up to 12	50,000	-
AMMB	Up to 3.80	Up to 12.	10,000	-
BIMB	Up to 3.86	Up to 6	10,000	-
CIMB	Up to 3.70	Up to 12	1,000	-
HLB	Up to 4.08	Up to 3	na	500,000
Maybank	Up to 3.70	Up to 6	1,000	-
Public	Up to 3.60	Up to 7	-	250,000
Rize Bank	Up to 3.80	Daily	-	-
GX Bank	Up to 5.00	Daily	-	-

Source: Respective companies, UOB Kay Hian

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