

SECTOR UPDATE

Banking – Malaysia

Finely Balanced – Focus On Laggards

We expect sector earnings growth to ease to 7% in 2025 (from 9% in 2024) due to slower non-interest income growth. While earnings resilience and attractive dividends support the investment case, valuations at +0.5SD above mean and foreign shareholding that is near a five-year high may limit upside. We maintain a MARKET WEIGHT stance, favouring laggards RHB, Hong Leong Bank, and Public Bank for their better risk-reward, while adding AMMB for potential capital management upside.

WHAT'S NEW

- Foreign shareholding remains high by historical standards.** The KL Finance Index has declined 4% ytd, outperforming the FBMKLCI which is down 8%, by 5ppt. However, foreign shareholding in the sector remains high at 24.2%, near its five-year peak of 25.9% (five-year low: 18.2%). Given this elevated foreign ownership and uncertainties surrounding a potential global slowdown due to Donald Trump's trade policies which continue to unfold, we see further near-term downside risks.
- Stick to more defensive names.** While the sector is well-positioned to withstand a potential economic slowdown, supported by stronger provision buffers - reflected in an average loan-loss coverage ratio of 110% vs the pre-COVID-19 average of 80 - we believe investors should focus on relatively more defensive names within the sector, given the aforementioned risks.
- Public Bank, Hong Leong Bank, RHB and Maybank stand out.** Amid heightened risk aversion, we have screened banks based on key defensive traits, including low foreign shareholding, below-mean P/B, above-peer average CET1 ratios, high dividend yields, and solid loan-loss coverage. Public Bank, Maybank, Hong Leong Bank, and RHB met most criteria (5 of 8). We maintain BUY calls on Public Bank, Hong Leong Bank, and RHB, while Maybank remains a HOLD on valuation grounds.
- Awaiting lower entry points for CIMB.** CIMB's valuation has eased to 1.07x P/B, attractive vs the sector's 1.13x P/B, given its higher forecasted ROE of 11.5% (sector: 10.5%). However, its high beta, strong 2024 share price rally, and elevated foreign shareholding could drive further downside. We see a more highly attractive entry point at RM6.80–7.00 (near 1.0x P/B), as the stock still trades at +1SD above its historical mean P/B despite the recent selling.

ACTION

- Maintain MARKET WEIGHT.** Foreign outflows (ytd: RM7.1b) have lowered sector valuations to +0.5SD (1.15x P/B) from a recent high of +1SD (1.22x P/B). While valuations remain attractive, supported by strong provision buffers and a 5.6% dividend yield, sector P/B fell to -1SD in 2023 amid NIM compression, despite lower foreign shareholding. With risks and fundamentals balanced, we maintain a MARKET WEIGHT stance.
- Top sector picks a combination of defensiveness and capital management upside.** Amid external uncertainties, we favour banks with: a) attractive valuations, b) high provision buffers, and c) capital management potential for added defensiveness. Our top picks are RHB Bank, Hong Leong Bank, Public Bank, and AMMB. RHB Bank and AMMB stand out for capital management due to their strong CET1 ratios, while Hong Leong Bank and Public Bank trade below mean P/B and benefit from potential credit cost tailwinds supported by solid provision buffers.

PEER COMPARISON

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Market Cap (US\$m)	PE (x)			ROE 2025F (%)	P/B 2025F (x)	Div 2025F (sen)	Div Yield (%)
						2024	2025F	2026F				
Public Bank	PBK MK	BUY	4.48	5.35	19,630	12.2	11.6	11.0	12.7	1.5	23.2	5.2
HL Bank	HLBK MK	BUY	20.3	23.6	9,933	10.3	9.3	8.5	11.4	1.1	76.6	3.8
RHB Bank	RHBBANK MK	BUY	6.83	7.66	6,721	9.6	8.9	8.4	10.0	0.9	50.1	7.3
HLFG	HLFG MK	BUY	17.26	21.4	4,462	6.5	5.7	5.3	10.6	0.6	53.1	3.1
AMMB	AMM MK	BUY	5.59	6.33	4,169	9.0	9.5	8.9	9.5	0.9	32.2	5.8
Maybank	MAY MK	HOLD	10.3	10.56	28,056	11.5	11.1	10.8	10.7	1.2	69.4	6.7
CIMB Group	CIMB MK	HOLD	7.25	8.12	17,564	10.1	9.4	8.7	11.6	1.1	41.7	5.8
Alliance Bank	ABMB MK	HOLD	5.05	4.84	1,765	11.4	10.5	9.9	9.8	1.0	21.6	4.3
Bank Islam	BIMB MK	HOLD	2.42	2.38	1,238	8.8	9.0	8.6	7.0	0.6	13.4	5.5
Affin Bank	ABANK MK	SELL	2.71	2.39	1,468	10.3	9.9	8.1	4.5	0.4	8.2	3.0

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

TOP SECTOR PICKS

Company	Rec	Target Price (RM)	Share Price (RM)
Public Bank	BUY	5.35	4.48
HL Bank	BUY	23.60	20.30
RHB Bank	BUY	7.66	6.83
AMMB	BUY	6.33	5.59

Source: UOB Kay Hian

BANKS' 4Q23 RESULTS CORE NET PROFIT

Company	4Q24 (RMm)	yoy % chg	qoq % chg	Results
Affin	145	241.7	(7.4)	Above
Alliance	186.7	5.5	(1.7)	In-line
AMMB	486.5	146.6	(2.8)	In-line
BIMB	172.6	9.8	32.4	In-line
CIMB Group	2,030.6	4.9	(11.2)	In-line
HL Bank	1,148.2	5.5	5.4	In-line
Maybank	2,532.1	6.1	(0.2)	In-line
Public Bank	1,799.4	11.4	(6.6)	In-line
RHB Bank	834.5	(42.4)	0.2	In-line

Source: Bloomberg, UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % chg
RHB Bank	6.83	21.3	5.4
Alliance Bank	5.05	39.1	4.3
AMMB	5.59	39.1	2.0
Maybank	10.3	7.1	0.6
HL Bank	20.3	5.0	(1.3)
Public Bank	4.48	6.2	(1.8)
Bank Islam	2.42	(6.9)	(2.0)
HLFG	17.26	5.2	(6.7)
Affin Bank	2.71	8.4	(6.9)
CIMB Group	7.25	10.3	(11.6)

Source: Bloomberg

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ESSENTIALS

- 4Q24 sector earnings broadly in line.** Malaysian banks' results were largely in line with expectations, with eight of the nine banks meeting forecasts. Affin was the only exception, reporting earnings above expectations due to a one-off provision writeback. However, its pre-provision operating profit fell short due to a spike in operating expenses.
- Yoy: Boosted by lower provisions and positive JAWS.** 4Q24 sector earnings rose 9.5% yoy, driven by a 2ppt positive operating JAWS and a 45% yoy drop in provisions, in the absence of lumpy management overlays from AMMB while banks like Public Bank and Affin saw write-backs. Top performers were Affin (+241% yoy), RHB (+42% yoy), and Public Bank (+12% yoy). Public Bank and RHB benefitted from NIM expansion, lower provisions, and strong non-interest income, while Affin saw a boost from a significant provision write-back.
- Qoq: Contracts on NIM compression and weaker non-interest income.** 4Q24 sector earnings fell 3% qoq, driven by a 6bp NIM compression and a 12% decline in non-interest income. NIM was pressured by seasonal year-end deposit competition, while weaker brokerage and wealth management fees, amid subdued capital markets, weighed on non-interest income. Most banks saw qoq earnings contraction due to these factors.
- Expecting a slight moderation in 2025 sector earnings growth.** We expect sector earnings growth to ease slightly to 7% in 2025 from 9% in 2024, driven by slower non-interest income growth from a high base. However, stable NIM and a rebound in loan growth should help offset some of the impact. Upside risks include more aggressive write-backs of excess pre-emptive provisions, while downside risks stem from weaker-than-expected NIM.

BANKS KEY METRICS

	Foreign shareholding	PBV to mean	Beta	Dividend yield	CET1	LLC	2024 share price pef
Maybank	19.5%	+1SD	0.92	6.60%	14.9%	127.4%	15.1%
CIMB Group	35.4%	+1SD	1.60	5.50%	14.6%	105.3%	39.9%
Public Bank	26.7%	-1SD	1.00	5.10%	14.3%	170.7%	4.2%
HLBank	12.1%	-0.5SD	0.96	3.70%	13.0%	139.0%	8.7%
AMMB	31.2%	+1SD	1.02	5.70%	15.3%	85.3%	36.3%
RHB Bank	17.2%	+0.5SD	0.81	7.20%	16.4%	78.6%	18.7%
Alliance	23.5%	+0.5SD	1.48	4.20%	12.4%	103.6%	45.5%
Affin	28.0%	+1SD	1.14	2.90%	13.2%	83.0%	39.5%
BIMB	8.0%	-1.5SD	1.05	5.20%	13.8%	99.3%	11.7%
Sector	24.0%	+1SD	1.05	5.10%	14.2%	110.0%	17.6%

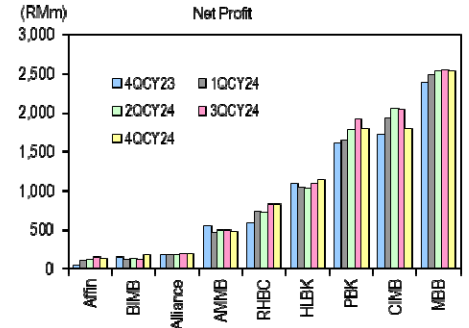
Source: Bloomberg, UOB Kay Hian

DEFENSIVE SCREEN OF BANKS

	Low foreign shareholding	Foreign shareholding significantly below 5 year high	Share price laggard in 2024	PBV below mean	Low beta	High Dividend yield	High CET1	High LLC
Maybank	✓		✓	✓	✓	✓	✓	✓
CIMB Group						✓	✓	
Public Bank		✓	✓	✓	✓		✓	✓
HLBank	✓		✓	✓	✓			✓
AMMB				✓	✓	✓	✓	
RHB Bank	✓	✓	✓	✓	✓	✓	✓	
Alliance								
Affin								
BIMB	✓		✓	✓				

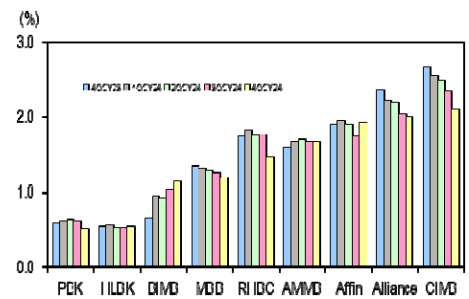
Source: Bloomberg, UOB Kay Hian

BANKS' NET PROFIT TREND



Source: Respective companies, UOB Kay Hian

BANKS' NIM



Source: Respective companies, UOB Kay Hian

FOREIGN SHAREHOLDING

	Latest*	5-year low	5-year high
Affin	28.0%	25.9%	28.7%
Alliance	23.5%	18.7%	23.9%
AMMB	31.2%	16.2%	31.2%
CIMB Group	35.4%	20.3%	36.1%
HLB	12.1%	9.8%	12.1%
Maybank	19.5%	16.7%	20.7%
Public Bank	26.7%	24.3%	32.7%
RHB Bank	17.2%	13.9%	21.5%

*As at end January 2025

Source: Respective companies, UOB Kay Hian

SECTOR P/B



Source: Respective companies, UOB Kay Hian

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