Dividend forecasting

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Malaysian banks bracing for a rebound post 2020's dividend frugality

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Key Implications

- Malaysian banking sector dividends (US$3.43 billion) are projected to increase by 26% in FY 2021 and 4.6% in FY 2022, supported by strong liquidity and capital buffers.
- Maybank and Public Bank will continue to be the top dividend contributors with a projected annual uptick of 14% for FY 2021.
- Banks from other Southeast Asia countries including Thailand, Singapore, and Indonesia are poised for steady growth for the new year.

The financial system in Malaysia: A peek

The financial system in Malaysia is composed of a diversified range of institutions set up to serve the needs of the domestic economy. Commercial banks, investment banks, and Islamic banks make up Malaysia's banking sector, which is the principal source of finance and funding for the country's economic activities. Having faced significant financial distress during the late 1990s, Malaysia responded by initiating far-reaching reforms of its financial system, supported by the restructuring and development of the sector, coupled with additional investments in financial markets infrastructure.

The growth trajectory of Tier 1 capital ratio has been upward sloping with a mean average growth rate of around 1.36% over the past three years. The aforesaid growth rate is positively skewed toward fiscal year 2022 as the capital ratio is expected to further strengthen by 2.37% on a year-on-year basis. When Bank Negara Malaysia (the Central Bank of Malaysia) added Mayank, CIMB Group, and Public Bank to the Domestic Systemically Important Banks (D-SIB) framework in 2020 to combat COVID-19-induced disruption to the economy, higher capital requirements were put in place for these banks. However, not much was expected to significantly impact the Malaysian banking industry as the banks were already equipped with sufficient capital and hence were not required to raise anything additional.

When compared with regional peers, asset quality has improved significantly owing to low cost-to-income ratios. The banking system, according to stress testing, is resilient to economic and market shocks in general. Domestic financial stability has been maintained by a resilient financial industry as of the first half of 2021. Amid the pandemic, banks increased provisions in 2020, allowing some headroom this year to reduce the

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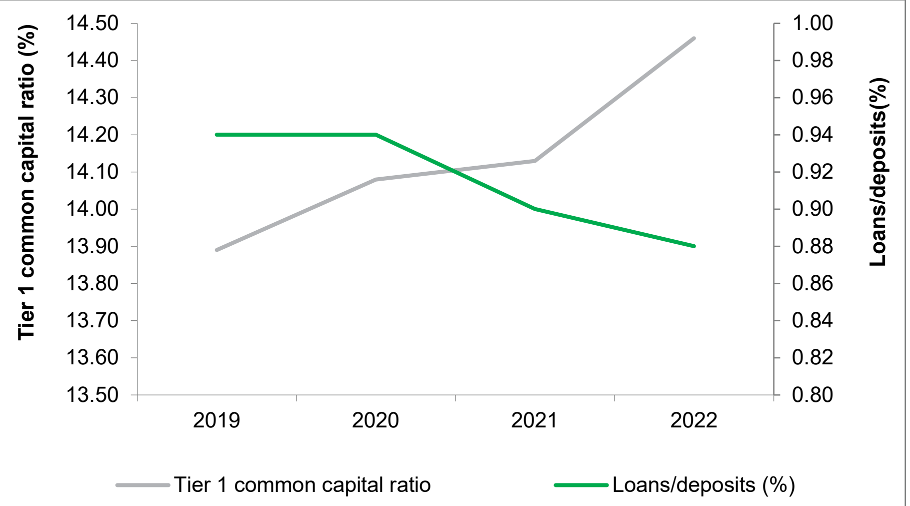
amount of further credit loss provisions set aside. The banking system's liquidity and financing conditions remained favorable for financial intermediation. The sector's total capital ratio was sustained at 18.4%. However, the re-imposition of harsher countrywide movement control orders (MCOs) toward the end of the second quarter of 2021 set back key financial improvements, with the overall proportion of small and medium sized enterprise (SME) loans under repayment assistance increasing to 21.6% of total SME loans in June 2021. These assistance initiatives have also helped these businesses better manage the difficult operating environment.

Nonetheless, the Malaysian economy is expected to grow progressively and is expected to strengthen between 5.5% and 6.5% in 2022, supported by improvement in global trade, stabilized commodity prices, and gradual improvement in consumer and business sentiments. However, the recovery prospects are projected to be unequal across sectors and remain unpredictable, given the global and local events around COVID-19. As repayment support programs are gradually unraveled, banks have continued to boost credit loss reserves in expectation of increased impairments. The loan loss coverage ratio has stayed at historically high levels of 129%, indicating that banks' provisioning methods have become more stringent.

Banks average capital and liquidity position by fiscal years



Note: 2021 includes estimated figures for banks with December ending fiscal.
Source: IHS Markit, Factset
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Average year on year loans and provisions growth (as of September 2021)

Segment	Change (%)
SME loans	11.0
Retail loans	8.0
Total gross loans and advances	9.0
Loan loss provisions	20.0

Source: IHS Markit
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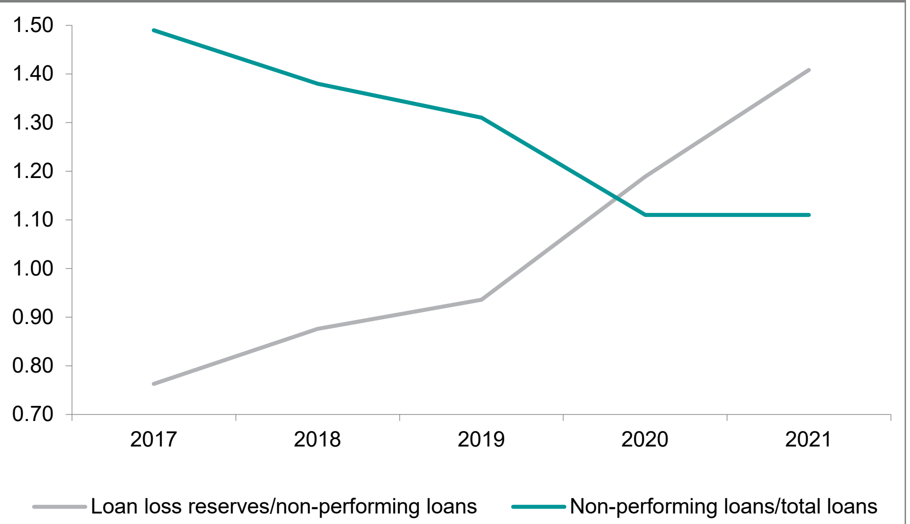
Asset quality ratios by fiscal years



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Source: IHS Markit, Factset
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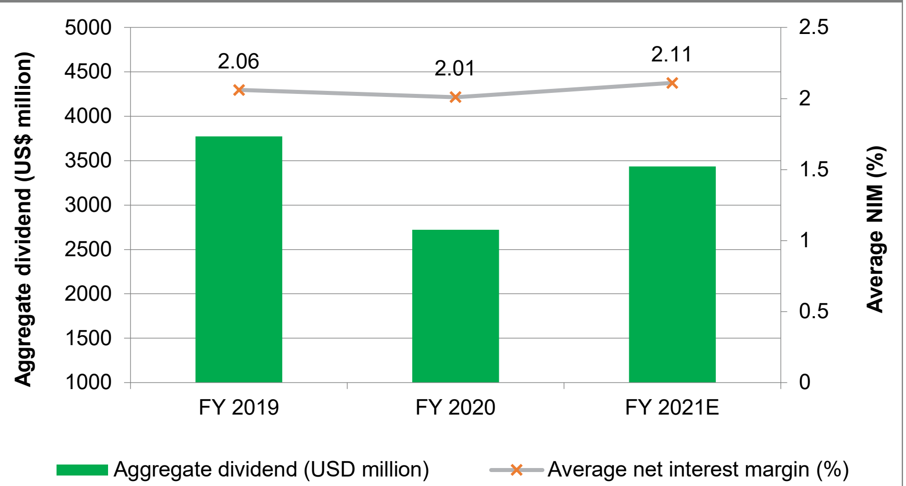
Pre- and post-COVID-19 era: The dividend perspective

In the past, Malaysian banks have been paying progressive dividends. When the pandemic hit the global economy, the banking sector's aggregate dividends (in US$ million) denominated in US dollars increased by 12.8% year-on-year in fiscal year ended 2019, before plummeting by 27.8% year-on-year in fiscal year ended 2020. Total loans disbursed by the banking sector were constant at levels greater than the monthly historical average in the pre-pandemic era. The net impaired loans ratio was reported to be as low as 1.0%, indicating that the asset quality was positive. Maybank and Public Bank retained their positions as the leading dividend contributors, with 20% and 41% contributions, respectively, from FY 2016 to FY 2019.

However, in 2020, when COVID-19 infected the Malaysian economy, things took a dramatic turn. Even though Bank Negara Malaysia did not impose a blanket restriction on dividend payments, the banking sector's operating environment in the first half of 2020 was set to become more difficult because of the overnight policy rate (OPR) cuts, which were reduced from 2.75% to 1.75% in 2020. As a result, banks' net interest margins and profitability were squeezed. Management decided to be more conservative with capital management and preservation, as well as postpone non-essential initiatives to save funds. RHB Bank, Maybank, and Public Bank have a history of paying out incremental dividends despite underlying profit volatility, as indicated by the banks' declaration of stable payouts during the 2007–08 financial crisis. The pandemic, however, left an economic void, with all three major banks deferring their first-half payouts in 2020. This came as a shock but was soon compensated by the banks as they opted to pay either an additional second interim dividend or a higher final dividend.

There was a mixed picture for dividends in 2021 as the half-yearly banking sector aggregate dividends increased by 6.6% year-on-year. In terms of year-end dividends, the total payouts for Hong Leong Bank, Hong Leong Financial Group, and AMMB Holdings fell by 2.4% year-on-year, brought down mostly by AMMB, which decided to hold dividend payouts until the end of the year owing to cautious capital management. On average, we expect final dividends to climb by 14% year-on-year for the fiscal year ending December 2021. The uptick is majorly driven by CIMB Group Holdings owing to a lower base as it decreased its 2020 final dividend by as much as 60% year-on-year.

Aggregate dividend with average NIM(%)



Note: 2021 includes estimated figures for banks with December ending fiscal.
NIM = net interest margin.
Source: IHS Markit, Factset

Banking sector outlook 2022: Preparing for a vibrant cycle

Drivers of a stable outlook

GDP projected to expand in the range of 5.5–6.5% in 2022, with the expectation of economic activity returning to pre-pandemic levels, with more job opportunities and higher wages.

Efforts to boost productivity gains via digitalization and upskilling, particularly in lower-paid industries, are likely to result in higher employee remuneration, enhancing borrowers' borrowing ability.

Banks continue to be prudent in loan loss provisioning, supported by healthy capital and liquidity level coupled with resilient asset quality.

Gradual increase in interest rates likely to improve net interest margins and profitability of banks.

What could change outlook to positive

Increase in the level of projected economic activities would drive stronger loan demand, rise in profitability and banks' capital replenishment in 2022.

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With the expectation that the financial market would stay robust, monetary policy is projected to remain accommodating of economic recovery. The Capital Market Master Plan 3 (CMP3) and Blueprint 3.06 initiatives, as well as continued stimulus measures under the 12th Malaysia Plan (2021–25), will support the upbeat outlook.

What could cause a bleak outlook

Uncertainties surrounding the COVID-19 pandemic can further downgrade demand and limit employment opportunities, thereby decreasing the income level of borrowers, which in turn might strain banks' profitability levels.

Natural disasters, such as the Malaysian floods of 2021, can have a negative impact on the banking system, with affected businesses, primarily SMEs and microenterprises, seeking debt moratoria.

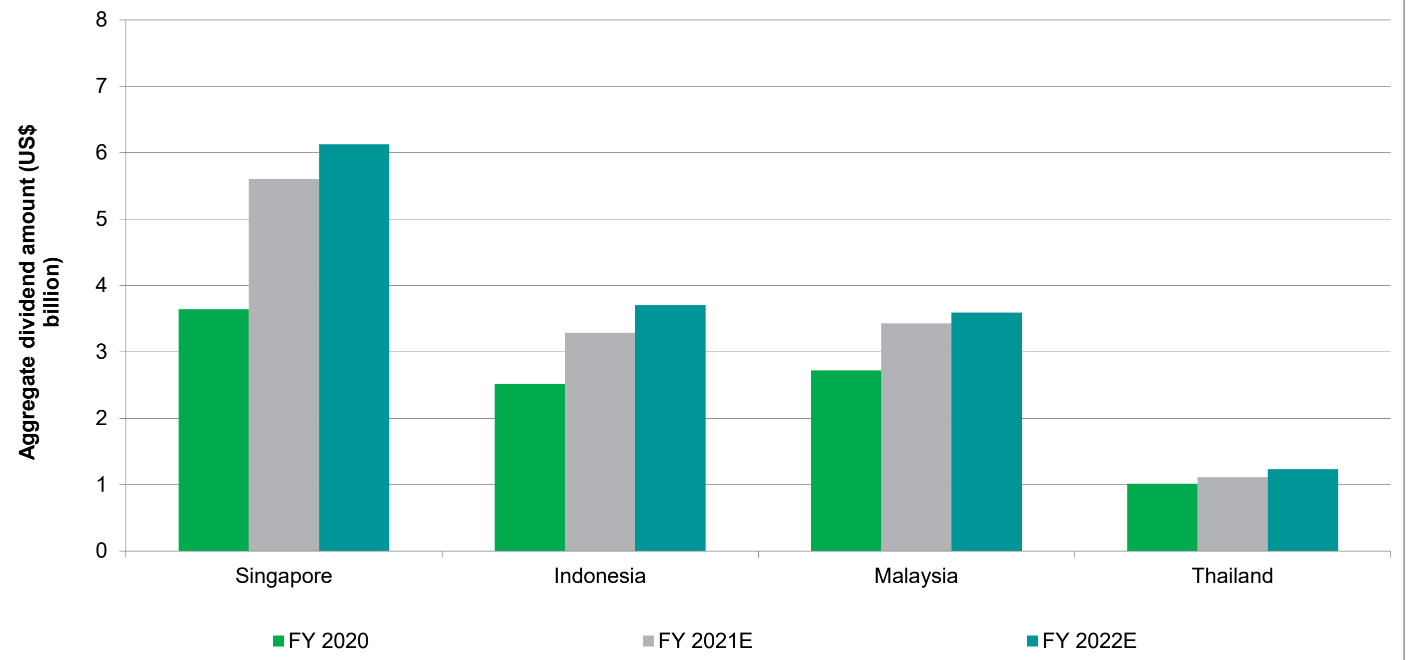
Prolonged supply chain disruptions would cut into profits, but it would be less of an issue for banks with higher loan growth.

Malaysia's banking system remains strong, with ample liquidity and capital buffers. Furthermore, the accommodating and expansionary policy stance will continue to support the economy. Economic activity returning to pre-pandemic levels, adequate capital buffers, and solid loan-loss provisioning will all help restore credit profiles. The banking system's liquidity coverage ratio (LCR) remained solid as of the end of October 2021. (October: 153.3%; September: 154.4%). Furthermore, banks continue to be conservative when it comes to loan loss provisioning. The overall provision for probable credit losses in the banking sector is 1.9% of total loans.

Southeast Asia banks dividends: What lies ahead?

Global disruption from the pandemic, uneven economic recovery, and varying creditworthiness of most banks in the region has led to some banks recovering at a faster pace than others. Moreover, a low interest rate environment globally along with banks' large reserves for loan losses impacted dividend payouts across Southeast Asia. Although the economic recovery is bound to be dependent on the scale of re-opening and functioning as per the pre-pandemic norms, as well as the speed of vaccination rollout in countries, solid bank profitability levels may reduce the impact of asset quality deterioration. The following graph provides an insight of the trend observed in dividend payouts ever since the onset of the pandemic in 2020.

Southeast Asia banking sector trend



Note: 2021 includes estimated figures for banks with December ending fiscal.
Source: IHS Markit

Although the Monetary Authority of Singapore and the Bank of Thailand imposed restrictions on banking sector dividends for FY 2020, no such blanket restriction was put in place by either Bank of Indonesia or Bank Negara Malaysia. On a year-on-year basis, banks in Singapore, Malaysia, and Indonesia led the overall dividend trend in FY 2021 with an uptick of around 54%, 26%, and 31%, respectively, on a year-on-year basis. The continuing increase in capital ratios and reduction in allowances, owing to prompt payment collection, benefited Singapore banks. Non-interest revenue from other sources, such as trade and insurance, aided in the achievement of beneficial outcomes. On the back of robust liquidity buffers and a sound capital position, Malaysia and Thailand have and will continue to reward their shareholders with increasing or steady dividends. The majority of banks in the region have a high capacity to resist financial shocks. Tangible common equity as a percentage of risk-weighted assets and liquid banking assets/tangible banking assets are both robust ratios. In FY 2021 and FY 2022, Indonesian banks profits are expected to increase, owing to favorable outcomes from broad-based credit growth across all loan types, capital ratio improvement, and low non-performing loans. Banking dividends for all four markets are expected to rise by 9.25% on average in FY 2022.

Forecasts for upcoming dividend of Malaysian banks

Stock name	Upcoming DPS (in MYR)	Upcoming ex-dividend date	Comments
Maybank	0.28	26 May 2022	We expect Maybank to pay a final dividend of 0.3 ringgit per share for the fiscal year ended December 2021. The annual dividend amounts to 0.58 ringgit per share, reflecting about 85% of the median consensus earnings forecast, which is expected to rebound by 18% year on year, owing to the 0.28 ringgit per share announced in the first half of FY 2021. For FY 2019, the pre-pandemic dividend growth rate was 12%, and we expect the annual dividend to rise at the similar pace in FY 2021. We have kept the payout ratio for FY 2022 at the same level as for FY 2021, and we expect the yearly dividend to climb by 3% year on year as consensus earnings deteriorate at the same pace.
Public Bank	0.075	10 March 2022	We expect Public Bank to pay a final dividend of 0.075 ringgit per share, which will be unchanged from the FY 2021 interim dividend. The annual dividend of 0.15 ringgit per share reflects a 15% year-on-year increase, while the median consensus earnings projection is expected to increase at the same pace. The estimated annual payout ratio is 52%, which is close to the level seen over the previous three years. Because profits are likely to stay unchanged in FY 2022, we expect the semi-annual dividends to remain flat, with the payout ratio remaining at the same level as in FY 2021.
CIMB Group	0.107	24 March 2022	We expect CIMB to pay a second interim dividend of 0.107 ringgit per share for FY 2021. With the historical interim dividend of 0.1044 ringgit per share, the expected annual payout ratio stands at 45%, in proximity with the average level maintained in preceding years. The median consensus earnings estimate for FY 2022 is predicted to increase by 5% year on year, and we expect a comparable increase in our annual dividend forecast. The interim and second interim dividend estimates are 0.109 ringgit and 0.113 ringgit per share, respectively. The yearly dividend payout ratio is estimated to be 45%.
Hong Leong Bank	0.16	14 March 2022	We expect Hong Leong Bank to pay an annual dividend of 0.53 ringgit per share in FY 2022, marking a 6% year-on-year increase as the median consensus earnings projection rises by 5%. The annual dividend payout ratio is estimated to be 36%, which is in line with the most recent level. The dividend cover is 2.77x, which also, is in line with historical figures.
RHB Bank	0.081	9 June 2022	We expect RHB Bank to pay a final dividend of 0.081 ringgit per share for FY 2021. When combined with the historical interim dividend of 0.15 ringgit per share, the annual dividend payment ratio is estimated to be 35% which is in line with previous levels. Following an actual loss of 18% year on year last fiscal, the median consensus earnings projection is expected to rebound by 28% year on year this fiscal. However, because the consensus expects a 2% year-on-year drop in FY 2022, we forecast an annual dividend of 0.221 ringgit per share to align the expected payment ratios at 35% of the consensus earnings. This reflects a year-on-year decrease of about 4%.
Hong Leong Financial	0.12	11 March 2022	Historically, Hong Leong Financial Group has paid semi-annual dividends. When the pandemic first hit the Malaysian economy in 2020, the company withheld its second interim payout, but eventually paid a final dividend to compensate shareholders and preserve its dividend trend. In 2021, the same pattern was seen, and in November of last year, the firm halted its fiscal year ending June 2022 interim dividend as a cautious capital management strategy. As a result, we anticipate the group paying a second interim and final dividend of 0.12 ringgit and 0.31 ringgit per share, respectively. The estimated annual dividend payment ratio is 23%, which is consistent with previous levels
AMMB Holdings	0.073	14 July 2022	AMMB had resolved to hold off on paying any dividends until December 2021, as evidenced by the fact that distributions have been delayed since November 2020. Considering this, we expect a final dividend of 0.073 ringgit per share to be paid in 2022, which will be unchanged from the last paid dividend due to the lack of historical precedent. Considering the ongoing uncertainty surrounding the pandemic, we believe the group might want to be more cautious in managing its capital and costs, thus we've given our FY 2022 dividend projection a low confidence level.

Note: Commentary based on 2022-02-08; DPS stands for dividend per share

Source: IHS Markit

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