



AmInvestment Bank

Sector report

5 Dec 2022

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BANKING

Higher non-household loan growth; lower provisions

OVERWEIGHT

(Maintained)

Rationale for report: Oct 2022 BNM statistics

Investment Highlights

- **Industry loan growth improved slightly to 6.5% YoY in Oct 2022 from 6.4% YoY in Sept 2022. Household loans growth moderated to 6.3% YoY with repayments outpacing loan disbursements. In contrast, non-household loans expanded at a faster pace of 6.9% YoY in Oct 2022.** Lending for working capital loans increased marginally to 8.6% YoY vs. 8.5% YoY in the preceding month. YTD, the industry's annualised loans have grown by 6%, within our expectation of 5–6% growth for 2022. For 2023, we expect a slower loan growth of 4-5%.
- **Loan applications and approvals slowed down further in Oct 2022.** Both the levels of household and non-household loan applications continued to trend lower.
- **Expect another 25bps OPR hike to 3.00% in Jan 2023.** This will raise the benchmark interest rate to 3.00% (pre-pandemic level).
- **Slight pickup in CASA growth to 4.5% YoY. CASA ratio holding up at 30.5%.** We continue to expect CASA to grow modestly amid the reopening of the economy with higher interest rates which will shift deposits towards FDs with the more attractive time deposit rates offered through the recent campaigns. The stronger deposit competition is likely to persist at least until the end of 2022 looking at the stronger loan growth of banks and year-end deposit campaigns. LD ratio for the sector inched higher to 85.9% following the increase in loan growth. Correspondingly, the sector's loan-to-fund ratio rose slightly to 82% while the loan-to-fund and equity ratio increased marginally to 71.6%. The sector's LCR slipped to 141% from 152% in the preceding month, contributed by the decrease in LCRs of commercial, Islamic and investment banks.
- **Uptick in loan impairments of 0.8% MoM or RM278mil in Oct 2022.** The sector GIL ratio remained steady at 1.8% while NIL ratio was sustained at 1.1%.
- **Total provisions for the sector declined by 0.3% MoM or RM124mil in Oct 2022.** Owing to higher loan impairments, the loan loss coverage ratio including regulatory reserves for the sector slipped to 114.2%.
- **Foreign holdings of MGS declined further to 34.8% in Oct 2022 vs. 35.9% in Sept 2022.**
- **Retain our OVERWEIGHT stance on the sector with top BUYs on RHB Bank (fair value RM7.40/share), CIMB Group (fair value: RM6.70/share) and Bank Islam (fair value: RM3.20/share).** Replacing Maybank with Bank Islam as our top pick given its higher upside potential.

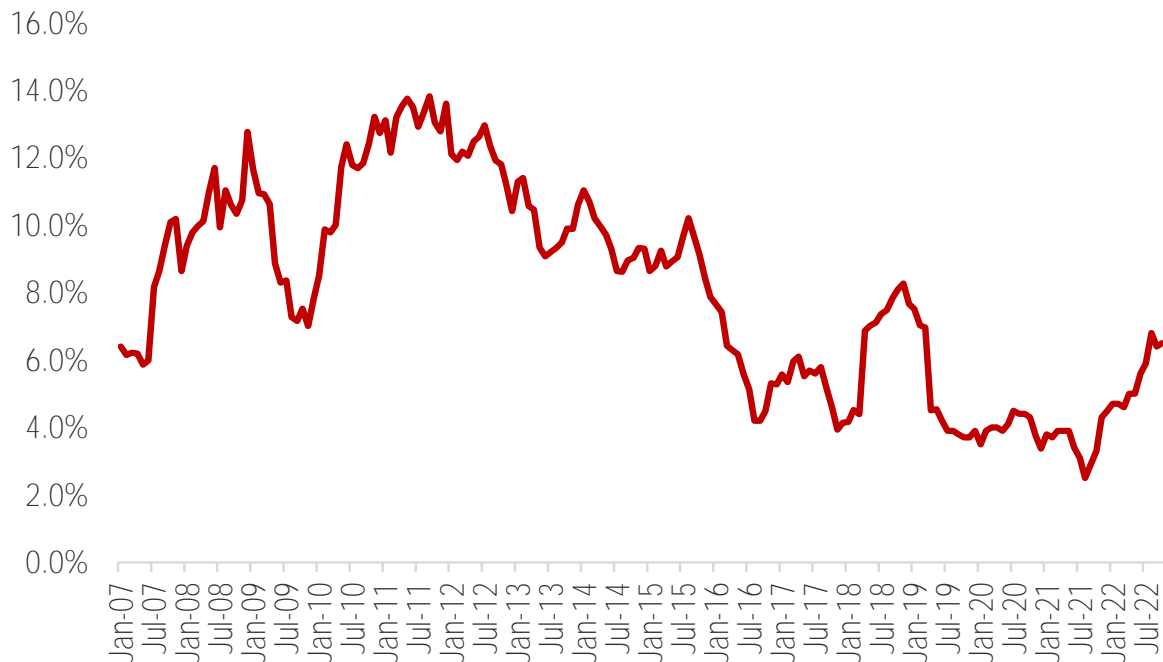
EXHIBIT 1: VALUATION MATRIX

		2 Dec (RM/share)	Target Price (RM/share)	EPS (sen)		PER (x)		Net DPS (sen/share)		Net DivYield (%)		BV (RM/share)	BV (RM/share)	PBV (x)	PBV (x)
	Rec.			FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
AMMB	NR	4.20	-	45.5	48.7	9.2	8.6	5.0	16.1	1.2	3.8	5.1	5.5	0.8	0.8
Maybank	BUY	8.58	9.50	78.5	79.6	10.9	10.8	56.1	62.1	6.5	7.2	7.9	7.7	1.1	1.1
Public Bank	HOLD	4.41	4.70	32.9	36.6	13.4	12.0	14.8	18.3	3.4	4.1	2.6	2.8	1.7	1.6
RHB Bank	BUY	5.57	7.40	76.6	82.0	7.3	6.8	34.8	41.0	6.2	7.4	7.1	7.5	0.8	0.7
Hong Leong	BUY	20.64	23.20	175.6	182.5	11.8	11.3	55.0	73.0	2.7	3.5	15.1	16.1	1.4	1.3
CIMB	BUY	5.64	6.70	58.7	64.1	9.6	8.8	25.9	32.0	4.6	4.8	6.1	6.4	0.9	0.9
ABMB	BUY	3.79	4.40	40.8	46.6	9.3	8.1	18.5	22.3	4.9	5.9	4.1	4.3	0.9	0.9
Bank Islam	BUY	2.59	3.20	21.9	26.5	11.8	9.8	11.3	15.6	4.4	6.0	3.1	3.3	0.8	0.8
MBSB	BUY	0.60	0.73	7.9	9.0	7.6	6.7	3.0	3.4	5.0	5.7	1.2	1.3	0.5	0.5
Average				59.8	64.0	10.1	9.5	24.9	31.5	4.3	5.4	5.8	6.1	1.0	0.9
Non-bank															
HLFG	BUY	18.80	22.10	234.2	243.8	8.0	7.7	46.0	56.2	2.4	3.0	21.4	24.0	0.9	0.8

Forecasts by AmInvestment Bank

Source: Bloomberg / Company / AmInvestment. Note: AMMB's estimates are based on Bloomberg consensus forecasts. NR denotes Non-Rated

EXHIBIT 2: INDUSTRY LOAN GROWTH (% YOY)



Source: BNM, AmInvestment Bank Bhd

INDUSTRY LOAN GROWTH TO 6.5% YOY DUE TO A FASTER PACE OF NON-HOUSEHOLD LOANS

- Household loan growth moderated slightly to 6.3% YoY in Oct 2022 from 6.6% YoY in the preceding month while non-household loans expanded at a faster pace of 6.9% YoY

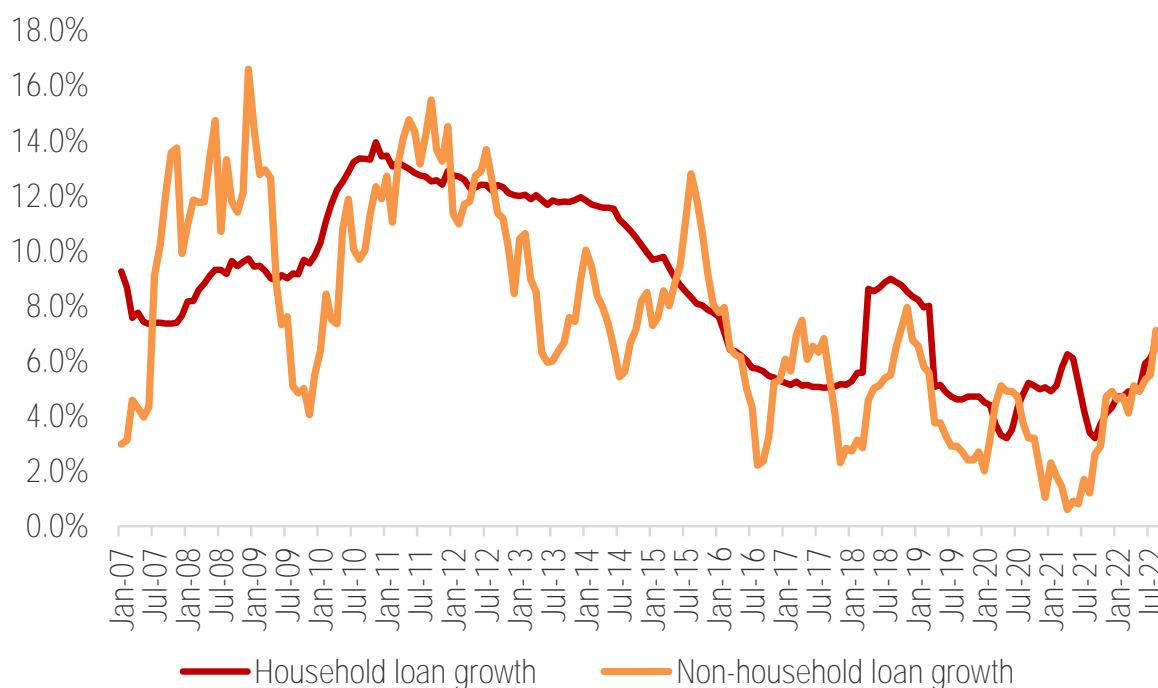
Growth in household loans moderated across most purposes. This included easing growth rates of mortgage, HP, personal loan, outstanding credit card receivables and loans for purchase of securities.

Repayments outpaced disbursements for household loans.

- Working capital loan growth increased modestly to 8.6% YoY in Oct 2022

Oct 2022 saw a pickup in pace of loans to the agriculture, utilities, construction, real estate, transport, storage, communication, financing, insurance and business services sectors.

EXHIBIT 3: NON-HOUSEHOLD AND HOUSEHOLD LOAN GROWTH (% YOY)



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 4: LOAN BREAKDOWN BY PURPOSE (RM MIL)

	Oct-21	Sep-22	Oct-22	% of total	%MoM	%YoY
Purchase of securities	92,763	92,763	92,462	4.6%	-0.3%	-0.3%
Purchase of transport vehicles	188,823	188,823	189,841	9.4%	0.5%	0.5%
of which : purchase of passenger cars	179,496	179,496	180,439	9.0%	0.5%	0.5%
Purchase of residential property	723,454	723,454	727,535	36.2%	0.6%	0.6%
Purchase of non-residential property	236,514	236,514	238,058	11.8%	0.7%	0.7%
Purchase of fixed asset other than land & building	14,413	14,413	14,479	0.7%	0.5%	0.5%
Personal use	107,613	107,613	107,807	5.4%	0.2%	0.2%
Credit card	38,447	38,447	39,039	1.9%	1.5%	1.5%
Purchase of consumer durables	99	99	106	0.0%	7.2%	7.2%
Construction	59,454	59,454	59,842	3.0%	0.7%	0.7%
Working capital	455,779	455,702	460,930	22.9%	1.1%	1.1%
Other purpose	82,260	82,260	82,292	4.1%	0.0%	0.0%
Total	1,999,617	1,999,540	2,012,389	100.0%	0.6%	0.6%

Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 5: LOAN BREAKDOWN BY SECTOR (RM MIL)

	Oct-21	Sep-22	Oct-22	% of total	%MoM	%YoY
Primary agriculture	36,981	36,821	37,137	1.8%	0.9%	0.4%
Mining and quarrying	12,223	11,156	10,713	0.5%	-4.0%	-12.3%
Manufacturing (including agro based)	123,788	129,647	129,292	6.4%	-0.3%	4.4%
Electricity, gas and water supply	15,061	19,821	22,524	1.1%	13.6%	49.6%
Wholesale, retail, restaurants & hotels	126,424	143,281	143,361	7.1%	0.1%	13.4%
Construction	102,052	101,835	102,482	5.1%	0.6%	0.4%
Real estate	106,453	106,474	107,563	5.3%	1.0%	1.0%
Transport, storage & communication	43,308	50,323	52,429	2.6%	4.2%	21.1%
Financing, insurance & business services	149,846	160,468	161,910	8.0%	0.9%	8.1%
Education, health & others	41,665	44,769	43,975	2.2%	-1.8%	5.5%
Household sector	1,112,080	1,176,349	1,181,929	58.7%	0.5%	6.3%
Other sector	19,303	18,673	19,075	0.9%	2.2%	-1.2%
Total	1,889,185	1,999,617	2,012,389	100.0%	0.6%	6.5%

Source: BNM, AmlInvestment Bank Bhd

LOAN APPLICATIONS

□ Slowdown in loan applications

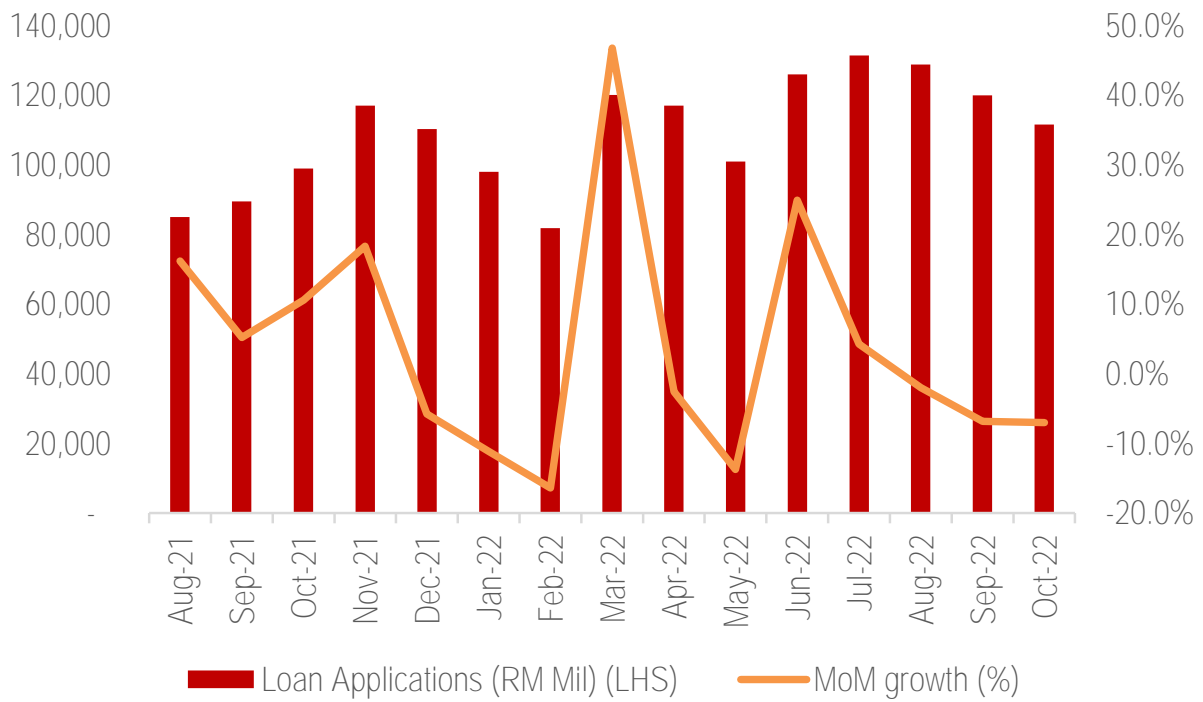
In Oct 2022, overall loan applications growth fell to 13% YoY from 34% YoY in the preceding month. Both the levels of household and non-household loan applications were lower.

LOAN APPROVALS

□ Loan approvals declined in Oct 2022

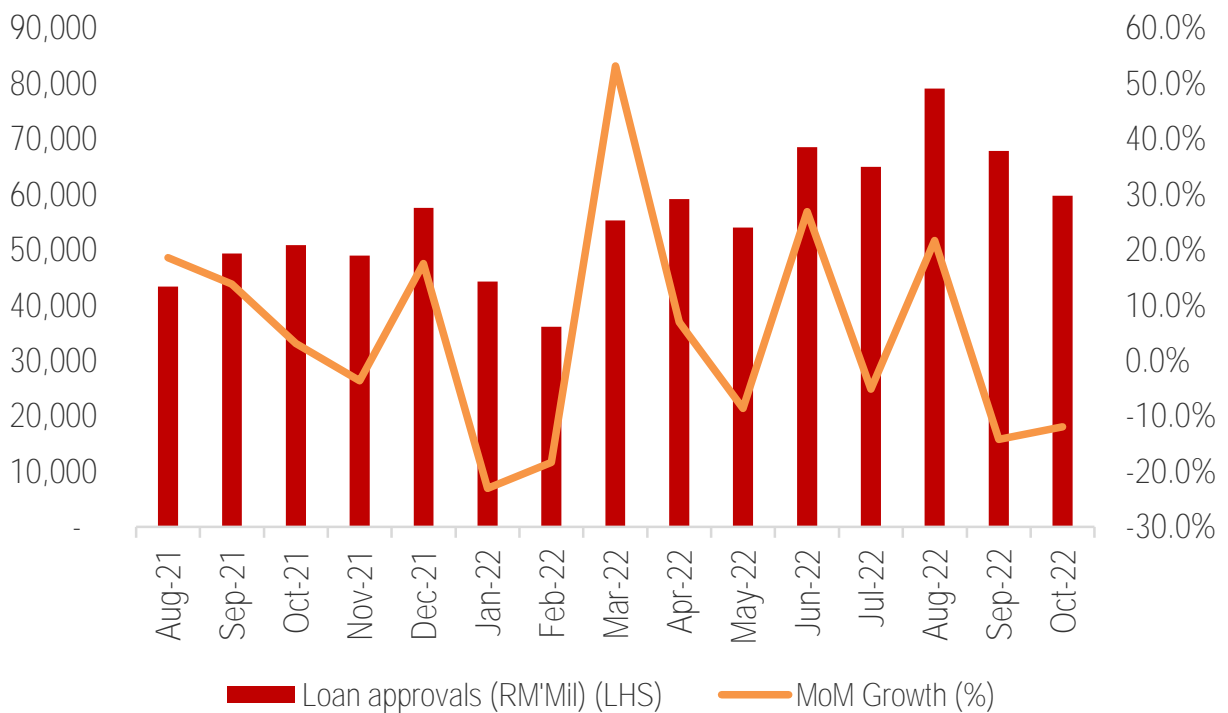
The levels and growth of household and non-household loans approved were also lower in Oct 2022 compared to the preceding month. Growth of overall approved loan applications declined to 18% YoY in Oct 2022 vs. 38% YoY in Sept 2022.

EXHIBIT 6: LOAN APPLICATIONS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 7: LOAN APPROVALS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

LENDING AND DEPOSIT RATES

Higher weighted average lending rate while average base rate remained stable

The sector's weighted average lending rate increased further by 8bps MoM to 4.65% while the average base rate remained stable at 2.85%.

CASA ratio holding up with a slight pickup in growth of low-cost deposits

Deposit growth rose to 8.3% YoY in Oct 2022 vs. 7.4% YoY in Sept 2022.

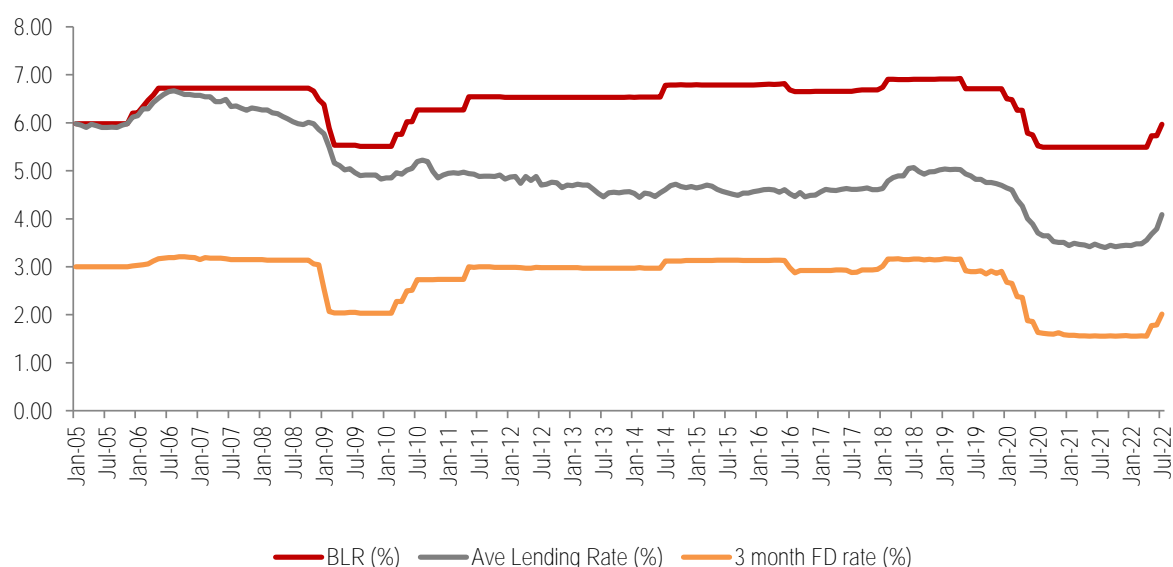
LD ratio for the sector inched higher to 85.9% following the increase in loan growth. Correspondingly, the sector's loan-to-fund ratio increased slightly to 82% while the loan-to-fund and equity ratio increased marginally to 71.6%. The sector's LCR slipped to 141% from 152% in the preceding month. This was contributed by the decrease in LCRs of commercial, Islamic and investment banks.

CASA growth picked up pace slightly to 4.5% YoY in Oct 2022 vs. 3.7% YoY in Sept 2022. The banking system's CASA ratio remained stable at 30.5%.

The average deposit rate (average rates for FDs of up to 1-year tenure) stood 2.3% in Oct 2022. Interest spread (differential between the weighted average lending rate and average FD rate) widened to 2.4%. This was contributed by the increase in lending rate.

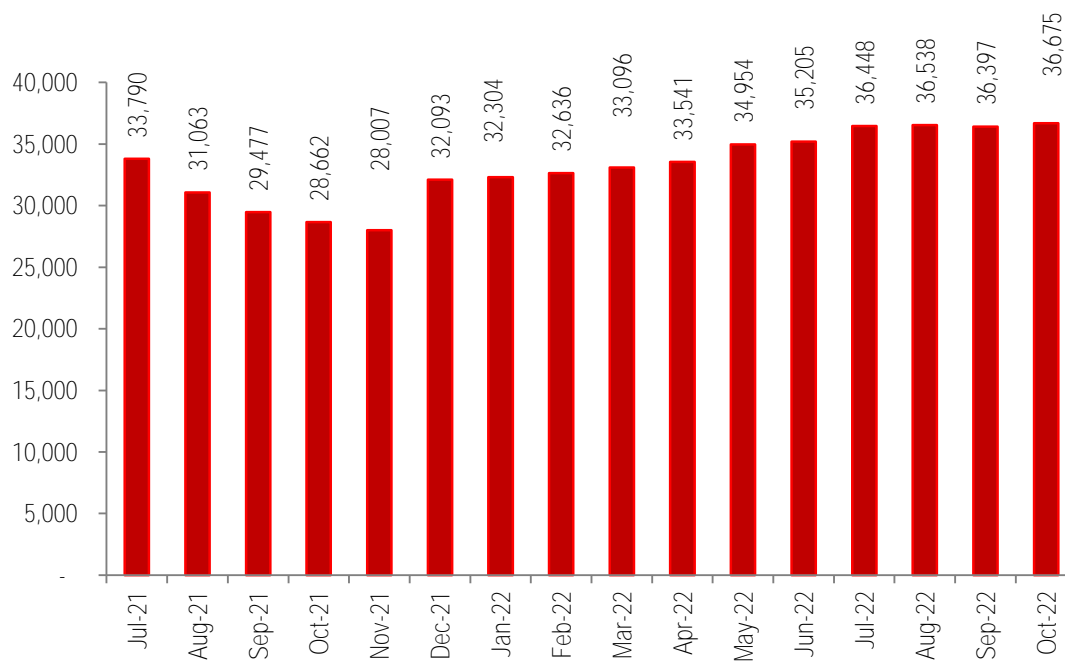
Headline inflation based on the CPI eased to 4%. Core inflation rose marginally to 4.1% in Oct 2022 driven by higher inflation for food-related services and goods.

EXHIBIT 8: TREND OF BLR, AVERAGE LENDING RATE AND 3-MONTH FD RATE



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 9: GROSS IMPAIRED LOANS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 10: GROSS IMPAIRED LOANS BY PURPOSE (RM MIL)

	Oct-21	Sep-22	Oct-22	% of total	%MoM	%YoY
Purchase of securities	333	340	336	0.9%	-1.2%	0.8%
Purchase of transport vehicles	1,527	1,117	1,146	3.1%	2.6%	-24.9%
of which : purchase of passenger cars	1,088	743	774	2.1%	4.2%	-28.8%
Purchase of residential property	8,553	9,681	9,797	26.7%	1.2%	14.5%
Purchase of non-residential property	3,357	4,284	4,359	11.9%	1.8%	29.8%
Purchase of fixed asset other than land & building	265	230	233	0.6%	1.5%	-12.0%
Personal use	1,938	2,965	3,004	8.2%	1.3%	55.0%
Credit card	319	346	376	1.0%	8.7%	18.0%
Purchase of consumer durables	2	2	2	0.01%	2.0%	14.9%
Construction	3,181	4,604	4,631	12.6%	0.6%	45.6%
Working capital	7,961	11,255	11,224	30.6%	-0.3%	41.0%
Other purpose	1,225	1,574	1,567	4.3%	-0.4%	27.9%
Total	28,662	36,397	36,675	100.0%	0.8%	28.0%

Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 11: GROSS IMPAIRED LOAN RATIOS BY LOAN PURPOSE (%)

	Jan-21	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Purchase of securities	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%
Purchase of transport vehicles	0.6%	0.6%	0.6%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
of which : purchase of passenger cars	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%
Purchase of non-residential property	1.6%	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%	1.8%
Purchase of fixed asset other than land & building	1.7%	1.7%	1.7%	1.7%	1.8%	0.7%	1.6%	1.6%	1.6%	1.6%
Personal use	2.4%	2.4%	2.4%	2.6%	2.7%	2.7%	2.8%	2.7%	2.8%	2.8%
Credit card	0.9%	0.9%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%
Purchase of consumer durables	3.1%	3.0%	3.5%	3.2%	3.1%	3.0%	3.1%	2.7%	2.3%	2.2%
Construction	6.3%	6.4%	7.0%	7.1%	7.5%	7.7%	7.8%	7.8%	7.7%	7.7%
Working capital	2.3%	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%	2.5%	2.5%	2.4%
Other purpose	1.6%	1.7%	1.9%	2.0%	1.9%	2.1%	1.9%	2.0%	1.9%	1.9%
Total	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 12: GROSS IMPAIRED LOAN RATIOS BY SECTOR (%)

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Primary agriculture	3.2%	3.2%	3.7%	3.5%	3.5%	4.2%	4.4%	4.4%	4.1%	4.0%
Mining and quarrying	11.1%	11.6%	13.2%	13.7%	13.7%	14.3%	14.0%	13.4%	12.4%	12.9%
Manufacturing (including agro-based)	2.3%	2.3%	2.2%	2.3%	2.3%	2.2%	2.3%	2.2%	2.3%	2.3%
Electricity, gas and water supply	1.0%	0.9%	1.7%	1.6%	2.2%	2.1%	2.1%	1.5%	1.3%	1.1%
Wholesale & retail trade, and restaurants & hotels	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%
Construction	3.2%	3.3%	3.7%	3.7%	3.9%	4.1%	4.8%	4.8%	5.0%	5.0%
Transport, storage and communication	6.1%	6.1%	5.9%	5.9%	5.8%	5.5%	5.5%	5.4%	5.4%	5.1%
Finance, insurance and business activities	3.1%	3.1%	2.9%	3.0%	3.2%	3.3%	3.2%	3.4%	3.2%	3.1%
Education, health & others	2.2%	2.3%	2.2%	2.2%	2.0%	2.0%	2.0%	2.0%	1.8%	1.8%
Household sector 2	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.2%	1.2%	1.2%
Other sector n.e.c	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.8%	1.0%	0.9%
Total non-performing/impaired loans	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 13: IMPAIRED LOANS, PROVISIONS AND LOAN LOSS COVERAGE FOR THE SECTOR

	Impaired Loans (RM Mil)	Increase or Decrease in impairments MoM (RM Mil)	Change MoM (%)	Total Provisions (RM Mil)	Increase or Decrease in provisions MoM (RM Mil)	Change MoM (%)	Loan loss coverage (%)
Aug-21	33,955.9	165.5	0.5%	35,191.7	577.3	1.7%	103.6%
Sep-21	32,502.4	-1,453.5	-4.3%	35,518.5	326.8	0.9%	109.3%
Oct-21	31,860.8	-641.6	-2.0%	35,632.3	113.8	0.3%	111.8%
Nov-21	31,162.5	-698.3	-2.2%	35,491.8	-140.5	-0.4%	113.9%
Dec-21	32,092.7	930.2	3.0%	35,573.0	81.2	0.2%	110.8%
Jan-22	32,303.8	211.1	0.7%	35,372.7	-200.3	-0.6%	109.5%
Feb-22	32,636.4	332.5	1.0%	35,251.3	-121.3	-0.3%	108.0%
Mar-22	33,095.9	459.5	1.4%	34,579.6	-671.7	-1.9%	104.5%
Apr-22	33,540.7	444.8	1.3%	34,721.9	142.3	0.4%	103.5%
May-22	34,953.6	1,412.9	4.2%	34,983.2	261.3	0.8%	100.1%
Jun-22	35,205.2	251.6	0.7%	35,206.4	223.2	0.6%	100.0%
Jul-22	36,447.6	1,242.4	3.5%	35,165.5	-41.0	-0.1%	96.5%
Aug-22	36,538.2	90.6	0.2%	35,549.8	384.3	1.1%	97.3%
Sep-22	36,397.2	-141.0	-0.4%	35,586.8	37.1	0.1%	97.8%
Oct-22	36,675.3	278.1	0.8%	35,462.5	-124.4	-0.3%	96.7%

Source: BNM, AmlInvestment Bank Bhd

ASSET QUALITY

□ *Uptick in loan impairments but provisions declined in Oct 2022*

The industry's outstanding impaired loans increased by 0.8% MoM or RM278mil in Oct 2022. The uptick in impairments were across most sectors except the manufacturing, transport, storage, communication, education, health and other sectors.

The industry's GIL ratio remained stable at 1.8% in Oct 2022 while NIL ratio continued to hold up at 1.1%.

Total provisions for the sector declined by 0.3% MoM or RM124mil in Oct 2022.

The sector's loan loss cover (LLC) slipped to 96.7% in Oct 2022 due to the higher loan impairments. Including regulatory reserves, LLC fell to 114.2% compared to 115.2% the previous month.

CAPITAL RATIO

□ *Slight increase in capital ratios*

The sector's CET1 increased slightly by 10bps MoM to 14.1% due higher retained earnings and banks' issuance of new capital instruments. Meanwhile, the banking system's Tier 1 capital ratio remained at 14.6%. Total capital ratio was unchanged at 17.8%.

OTHER TRENDS

□ *10-year MGS yield declined in Oct 2022*

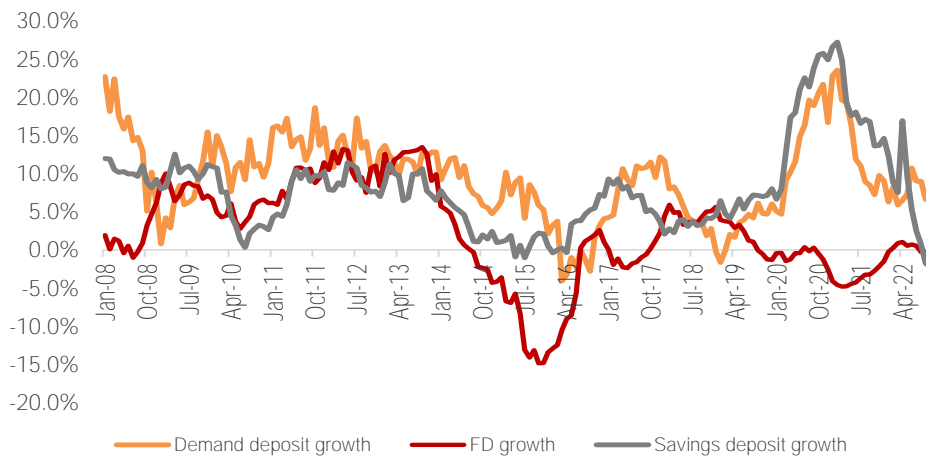
The market indicative yield for 10-year MGS fell by 10bps MoM to 4.36% in Oct 2022. Moving ahead with the weaker economic data in US, we expect US Treasury yields to taper with the expectation of a lower quantum of Fed rate hikes ahead. This should put less pressure on the MGS yield.

□ *Higher net issuance of bonds and sukuk in Oct 2022*

In Oct 2022, net funds raised in the market by the private sector rose by RM6.4bil. This was largely attributed to higher new issuances which more than offset redemptions of bonds and sukuk.

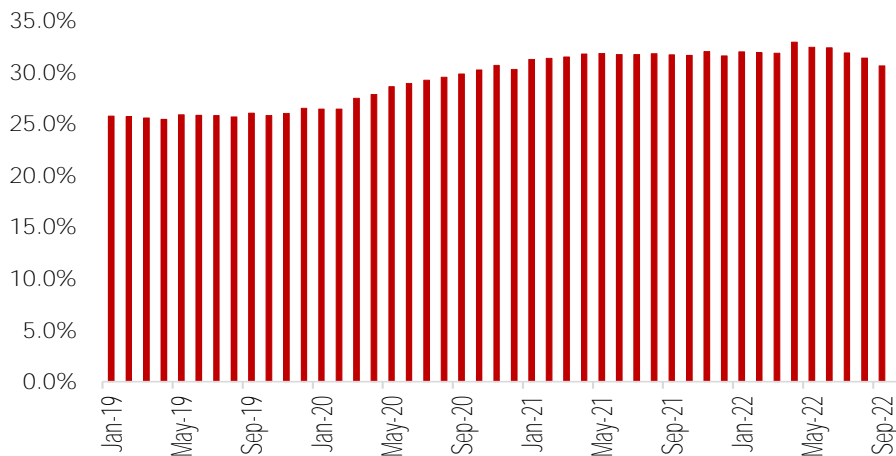
Meanwhile, activities in the equity capital market was muted in Oct 2022. YTD, net funds raised in the capital market by the private sector of RM22.8bil have cumulatively shrunk by 32% YoY.

EXHIBIT 14: DEPOSIT GROWTH (% YOY)



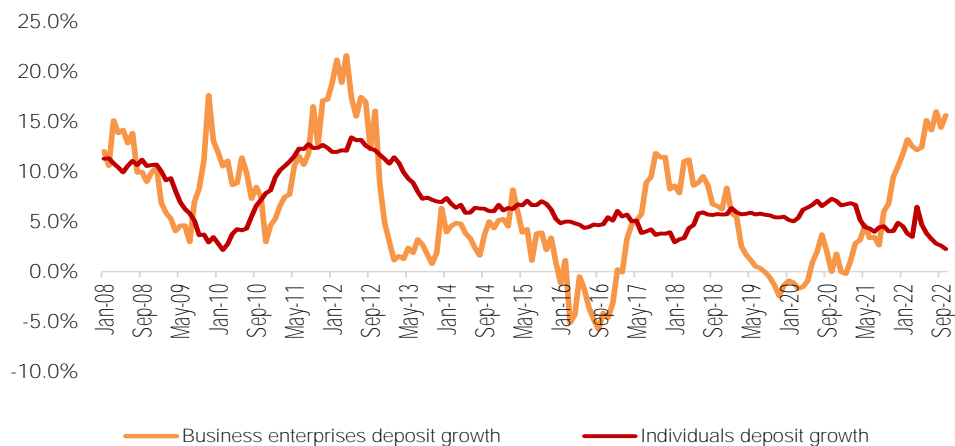
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 15: CASA RATIO (%)



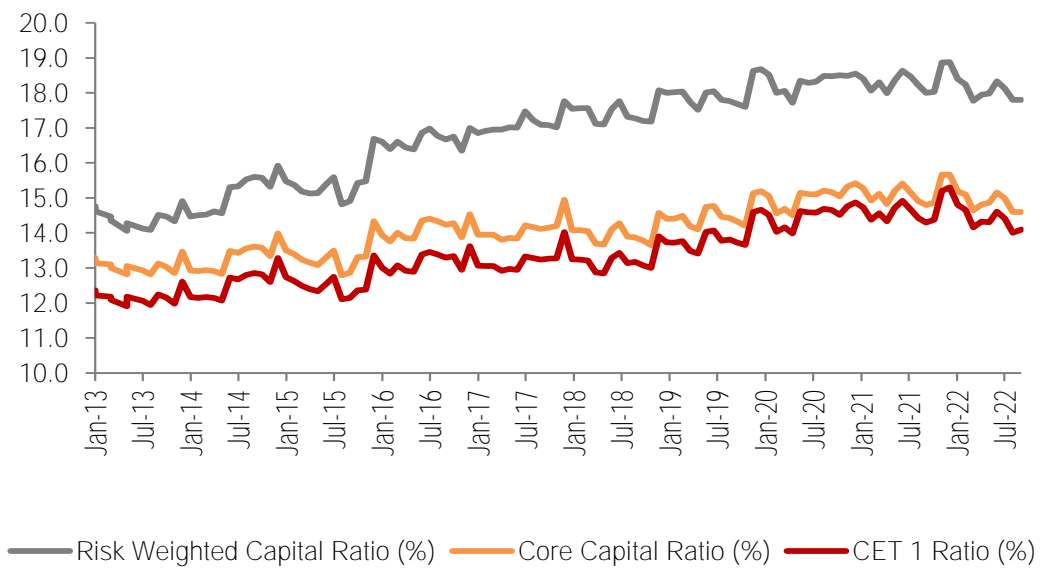
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 16: DEPOSIT GROWTH BY HOLDER (% YOY)



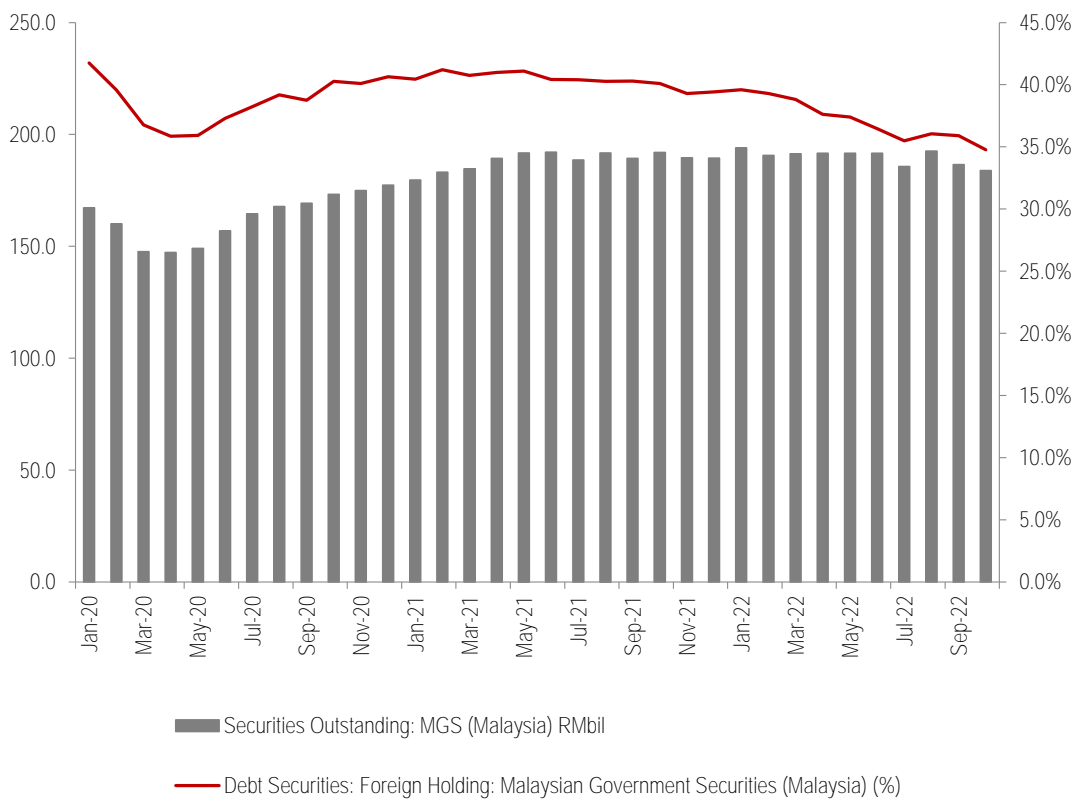
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 17: CAPITAL RATIOS (%)



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 18: FOREIGN HOLDINGS OF MGS



Source: BNM, AmlInvestment Bank Bhd

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