

Banking

January 2021 Statistics

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OVERWEIGHT



In January 2021, system loans grew (+4.9% YoY, +0.4% MoM) on the back of more household and business loans. However, new applications (+10% YoY) may not see the light of day yet as tighter credit control procedures may undermine loan approvals further in the near future (-3% YoY, -15% MoM). This precaution is warranted as asset quality concerns are more prevalent with overall system gross impaired loan (GIL) ratio extending further to 1.60% (+3bps MoM) but mainly owing to more delinquent business accounts post-moratorium in September. CASA deposits continued to gain (+3.0% MoM) in favour of low interest yield fixed deposits (-0.8% MoM) with loan-to-deposit ratio (LDR) coming in at 84.5% (+10 bps MoM). Troubled accounts will likely to be stressed as long as movement controls are restrictive and disrupt business activity. We reckon that targeted repayment assistance programs may only delay the inevitable until we see a more meaningful economic recovery. That said, coming out of the 4QCY20 results season, we are upbeat on the potential of certain banks to weather through the unprecedented times on the back of steady asset yield management, operating efficiency gains and prudent asset quality controls. Having ride out the storm so far, we believe certain banks could shed away the past notion to conserve cash and be more dividend-yielding. We highlight **RHBBANK (OP; TP: RM6.40)**, **MAYBANK (OP; TP: RM9.10)** and **PBBANK (OP; TP: RM4.55)** as our large cap favourites with **BIMB (OP; TP: RM5.25)** and **MBSB (OP; TP: RM0.820)** being worthy of consideration. Maintain **OVERWEIGHT** on the Banking sector.



Although still navigating through a Covid-19 economy, January 2021 posted system loans growth at 3.8% YoY supported by both household (+4.9% YoY) and business loans (+2.3% YoY). MoM momentum was much muted (+0.4%) but still positive with business loans (+0.7% MoM) outpacing household loans (+0.2% MoM). Robustness in household financing is indicative that borrowers are making use of the low interest rate environment while the sequential improvement for business loans reflects a healing economic landscape. However, household loan disbursement was stifled (-13% MoM) suggesting that over-borrowing could be at hand. Meanwhile, overall repayments were stagnant (+0.4% YoY) as household repayments (-5.0% YoY) likely suffered from borrowers undertaking repayment assistance measures offered banks through

deferments and/or reduction of instalments. This was mitigated by business (+2.5%) making good on their repayments as most economic sectors were revitalised (save for some such as tourism and retail-related sectors). (refer to Tables 1-3 for breakdown of system loans)

New loan applications grew by 10% YoY with a 31% increase in household loans stemming from greater demand for residential properties. Meanwhile, there were fewer applications for business purposes (-16% YoY, -9% MoM) underpinned by continuing softness in real estate (-47% YoY, as WFH arrangements became common place) and finance-based businesses (-25% YoY). On the flipside, wholesale trades saw stronger demand for financing (+19% YoY) as the landscape grew friendly. That said, **loan approvals are discouraging (-3% YoY, -15% MoM)** as lenders grow more guarded with their credit control procedures. Signs of poor asset quality could emerge on existing accounts as the extension of loan moratorium phases out in June. In Jan 2021, approved household loans fell by 8% MoM while business loans fell by 25% MoM (refer to Tables 4-5 for breakdown of system loan applications).

Asset quality stills a concern. Jan 2021 registered higher impairments (+7% YoY, +3% MoM) with an overall GIL ratio of 1.60% (+3bps MoM). While the household segment posted improvement (-7% YoY, -3% MoM), a higher GIL ratio of 1.13% (+4bps MoM) could be due to certain accounts not making past the lapse of the moratorium. Based on channel checks, the majority of these accounts are made up of the M40 segments. Impairments of business loans continued to extend (+9% YoY, +3% MoM) as the economy recovery could still be far from ideal given the on-going movement controls. Loan loss coverage ratio in Jan 2021 still appears adequate at 106.0% (Dec 2020: 107.9%, Jan 2020: 80.1%). (refer to Table 6-7 for breakdown of system impaired loans)

Cash liquidity in greater demand. Total deposits for Jan 2021 grew by 5.0% YoY, 3.0% MoM with CASA gaining upwards of 24.1% YoY as depositors grow cautious from the uncertainties brought by a potentially prolonged MCO 2.0. The low interest rate environment also gives less incentive for money to be kept in fixed deposits (-5.8% YoY, -0.8% MoM). System LDR is still well sustained at 84.5% (Dec 2020: 84.0%) while system CET-1 tipped to 14.90% (+32 bps MoM).

Maintain OVERWEIGHT on the banking sector. While economic conditions may appear pressing, well-managed financial institutions are still successful in gaining headways in balancing market prudence and profitability. As we have also seen, OPR cuts do not necessarily translate poorly to the overall books of certain banks that are able to re-price their accounts fluidly. The current trying times also bring out solutions in achieving better cost efficiency particularly with displaced physical connections with their clientele. Though provisioning are expected to continue, we believe keeping a medium-term projection of the banking sector's sustainability could present opportunities for an early entry to solid economic proxies. Post 4QCY20 results season, we have adjusted our calls for several banks and would like to highlight **RHBBANK (OP; TP: RM6.40)**, **PBBANK (OP; TP: RM4.55)** and **MAYBANK (OP; TP: RM9.10)** as our preference within the large cap space. The Islamic financial institutions **BIMB (OP; TP: RM5.25)** and **MBSB (OP; TP: RM0.820)** also offer considerable returns for those looking to deleverage from the conventional markets. While we have an Outperform call for **AMBANK (TP: RM3.70)**, we wait for material updates in the upcoming results release today in lieu of the recent settlement of RM2.83b to the Malaysian government.



Appendix

Loan performance: +4% YoY (Household: +5% YoY/Business: +2% YoY)

Fig1: Dec System Loan Growth

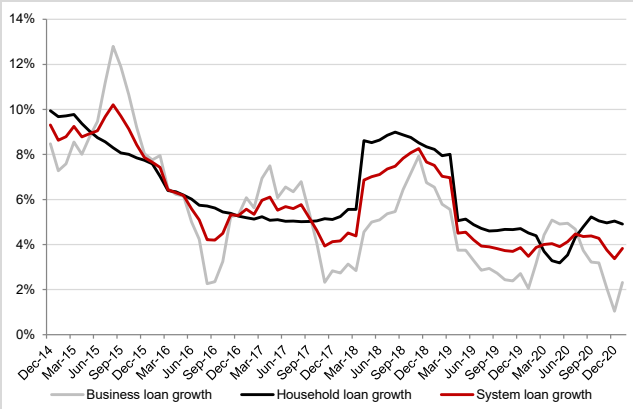
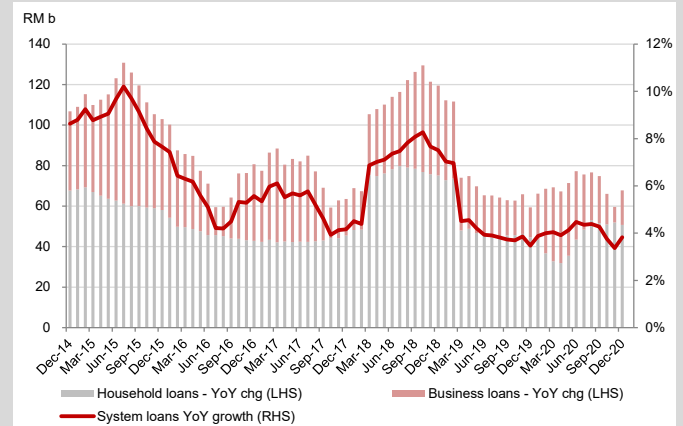


Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga Research

Table 1: Breakdown of System Loans

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	83,606	85,006	85,529	85,897	85,016	-1.0%	1.0%
Purchase of transport vehicles	173,616	174,484	175,112	175,622	175,790	0.1%	5.1%
Purchase of residential property	636,500	639,722	642,935	646,757	650,158	0.5%	7.0%
Purchase of non-residential property	229,838	229,262	228,897	228,887	228,358	-0.2%	1.3%
Personal use	102,925	103,426	103,417	103,409	103,287	-0.1%	6.1%
Credit card	36,121	35,139	35,131	36,056	35,467	-1.6%	-13.7%
Construction	60,968	60,559	60,702	60,260	61,598	2.2%	3.3%
Working capital	403,808	403,495	399,619	399,464	403,436	1.0%	2.8%
Others	96,751	95,463	93,818	94,884	95,161	0.3%	-0.3%
Total system loans	1,824,132	1,826,556	1,825,158	1,831,235	1,838,271	0.4%	3.8%
- Household loans	1,068,960	1,072,329	1,076,542	1,082,415	1,084,137	0.2%	4.9%
- Business loans	755,172	754,227	748,617	748,820	754,134	0.7%	2.3%

Source: BNM, Kenanga Research

Loan repayments roughly offsetting disbursements

Fig 3: Loans Disbursement Trends

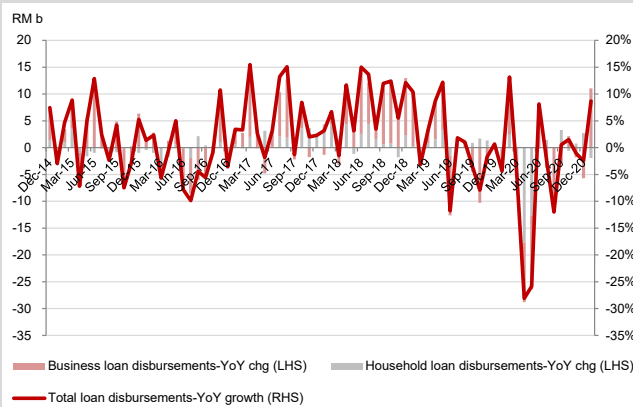
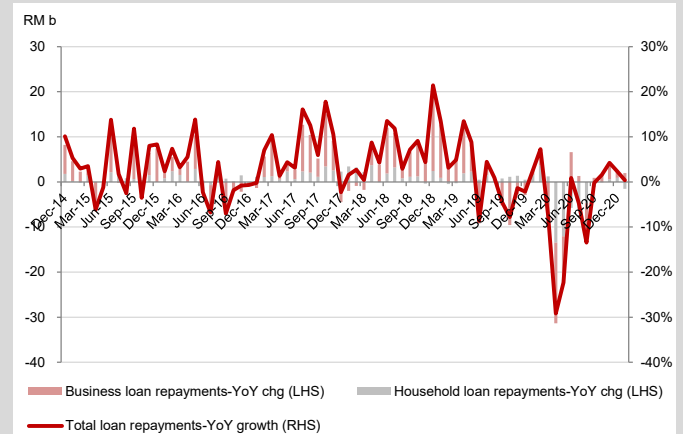


Fig 4: Loans Repayment Trend



Source: BNM, Kenanga Research

01 March 2021

Table 2: Breakdown of System Loans Disbursement

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,101	4,558	4,550	4,313	4,113	-4.6%	3.3%
Purchase of transport vehicles	4,469	4,732	4,527	4,691	4,194	-10.6%	3.5%
Purchase of residential property	7,863	8,094	7,656	8,401	7,787	-7.3%	0.6%
Purchase of non-residential property	3,458	2,855	2,976	3,360	2,885	-14.1%	-30.9%
Personal use	2,999	3,231	2,980	3,086	2,663	-13.7%	-11.2%
Credit card	11,890	11,078	11,206	13,527	11,559	-14.5%	-14.5%
Construction	2,628	1,918	2,386	3,054	3,499	14.6%	18.5%
Working capital	57,616	61,933	59,065	71,158	72,415	1.8%	19.3%
Others	5,058	2,855	3,517	6,133	4,532	-26.1%	2.5%
Total loans disbursed	100,082	101,253	98,863	117,722	113,647	-3.5%	8.7%
- Household loans	30,236	29,869	29,693	33,145	28,843	-13.0%	-6.3%
- Business loans	69,847	71,384	69,169	84,577	84,805	0.3%	15.0%

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,091	4,049	4,410	4,177	5,070	21.4%	16.0%
Purchase of transport vehicles	2,026	4,083	4,108	4,182	4,265	2.0%	-4.1%
Purchase of residential property	5,272	5,875	5,455	5,734	5,732	0.0%	-7.5%
Purchase of non-residential property	2,773	3,869	3,904	3,811	4,027	5.7%	-14.1%
Personal use	2,169	3,008	3,298	3,388	3,246	-4.2%	-4.4%
Credit card	12,409	12,203	11,390	12,879	12,385	-3.8%	-12.3%
Construction	2,617	2,563	2,235	3,438	2,370	-31.1%	-18.2%
Working capital	56,873	61,531	62,141	71,562	68,881	-3.7%	4.6%
Others	6,015	4,398	5,014	4,845	4,272	-11.8%	10.8%
Total loans repaid	94,244	101,580	101,954	114,017	110,249	-3.3%	0.4%
- Household loans	25,008	28,564	27,603	29,293	29,599	1.0%	-5.0%
- Business loans	69,236	73,016	74,351	84,724	80,650	-4.8%	2.5%

Source: BNM, Kenanga Research

Household segment driving loan demand

Fig 5: Loans Application Trends (3-month MA)

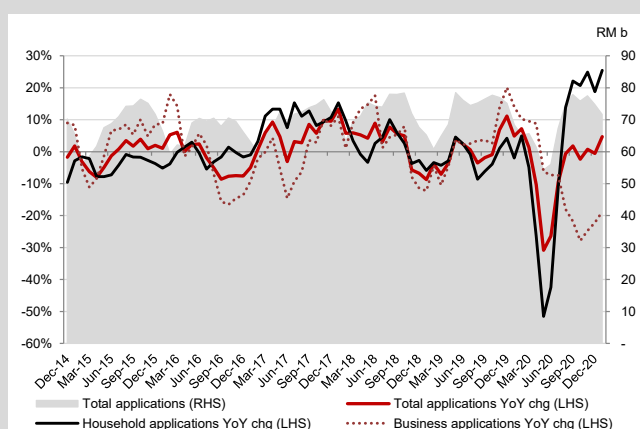
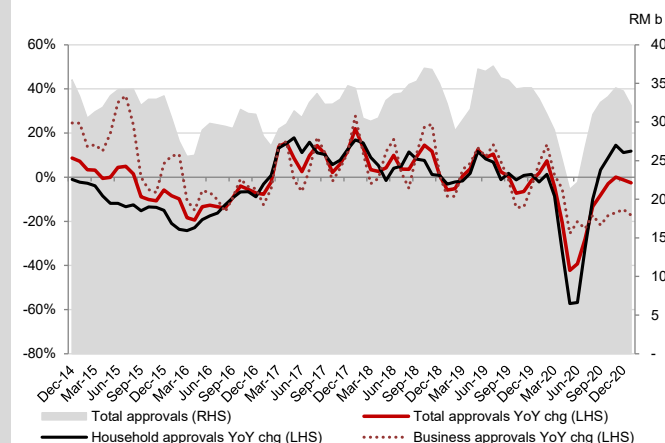


Fig 6: Loans Approval Trends (3-month MA)



Source: BNM, Kenanga Research

01 March 2021

Table 4: Breakdown of System Loan Applications

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,327	2,857	3,775	2,087	2,583	24%	-15%
Purchase of transport vehicles	8,977	7,603	8,628	8,480	6,984	-18%	10%
Purchase of residential property	30,849	29,062	26,349	26,290	25,894	-2%	62%
Purchase of non-residential property	6,523	6,769	6,656	6,770	6,901	2%	4%
Personal use	6,223	5,935	5,737	5,680	5,507	-3%	1%
Credit card	3,314	2,868	3,071	3,123	2,676	-14%	-23%
Construction	2,540	3,129	4,812	3,964	1,819	-54%	-39%
Working capital	15,200	16,058	14,664	11,627	11,952	3%	-15%
Others	2,982	2,403	2,255	3,686	3,035	-18%	-9%
Total system loan applications	79,935	76,685	75,948	71,708	67,350	-6%	10%
- Household loans	52,513	48,578	47,081	45,909	44,001	-4%	31%
- Business loans	27,422	28,106	28,867	25,799	23,349	-9%	-16%

Source: BNM, Kenanga Research

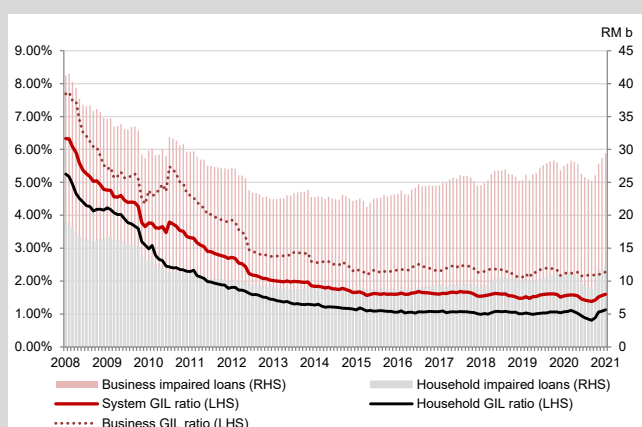
Table 5: Breakdown of System Loan Approvals

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	1,723	2,005	1,862	1,498	1,325	-12%	-17%
Purchase of transport vehicles	5,173	5,105	5,120	4,830	4,267	-12%	6%
Purchase of residential property	10,767	10,936	10,308	9,270	8,885	-4%	26%
Purchase of non-residential property	2,223	2,365	2,207	2,344	2,395	2%	10%
Personal use	2,503	2,433	2,305	2,300	2,033	-12%	6%
Credit card	1,033	886	895	972	772	-21%	-49%
Construction	1,013	1,425	1,855	1,644	1,962	19%	-15%
Working capital	9,596	7,605	7,851	7,785	5,159	-34%	-27%
Others	887	1,434	1,758	3,050	1,712	-44%	-9%
Total system loan approvals	34,917	34,194	34,161	33,693	28,511	-15%	-3%
- Household loans	21,126	21,072	19,995	18,559	17,130	-8%	9%
- Business loans	13,791	13,122	14,167	15,134	11,381	-25%	-18%

Source: BNM, Kenanga Research

Higher GIL + pre-emptive provisions = Higher loan loss coverage

Fig 7: GIL trends



Source: BNM, Kenanga Research

Fig 8: Loan Loss Coverage

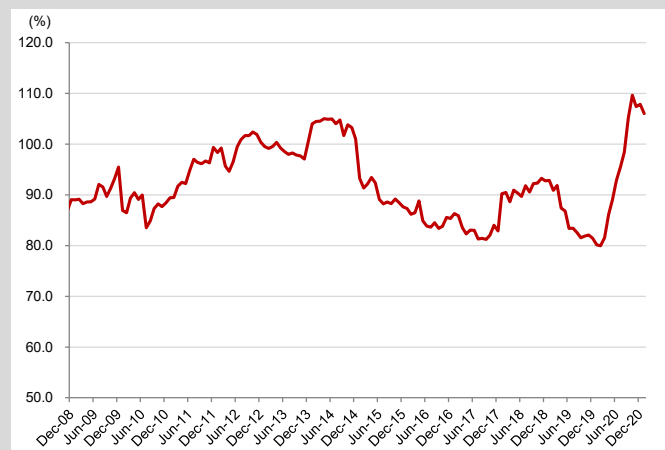


Table 6: Breakdown of System Impaired Loans and GIL Ratio By Purpose

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	321	354	399	484	399	-17%	80%
Purchase of transport vehicles	675	856	1,108	1,439	1,479	3%	11%
Purchase of residential property	5,880	6,315	7,509	7,646	7,987	4%	11%
Purchase of non-residential property	3,004	3,068	3,104	3,368	3,407	1%	7%
Personal use	1,409	1,576	1,907	1,955	2,177	11%	26%
Credit card	320	337	344	359	370	3%	3%
Construction	3,431	3,351	3,437	3,487	3,381	-3%	-7%
Working capital	8,642	8,642	8,440	8,403	8,722	4%	3%
Others	1,560	1,556	1,597	1,571	1,512	-4%	8%
Total system impaired loans	25,242	26,055	27,845	28,712	29,434	3%	7%
- Household impaired loans	3,431	3,351	3,437	3,487	3,381	-3%	-7%
- Business impaired loan	21,811	22,703	24,408	25,225	26,053	3%	9%
GIL ratio							
Purchase of securities	0.38%	0.42%	0.47%	0.56%	0.47%		
Purchase of transport vehicles	0.39%	0.49%	0.63%	0.82%	0.84%		
Purchase of residential property	0.92%	0.99%	1.17%	1.18%	1.23%		
Purchase of non-residential property	1.31%	1.34%	1.36%	1.47%	1.49%		
Personal use	1.37%	1.52%	1.84%	1.89%	2.11%		
Credit card	0.89%	0.96%	0.98%	1.00%	1.04%		
Construction	5.63%	5.53%	5.66%	5.79%	5.49%		
Working capital	2.14%	2.14%	2.11%	2.10%	2.16%		
Others	1.61%	1.63%	1.70%	1.66%	1.59%		
System	1.38%	1.43%	1.53%	1.57%	1.60%		
- Household	0.82%	0.89%	1.06%	1.09%	1.13%		
- Business	2.19%	2.19%	2.19%	2.26%	2.28%		

Source: BNM, Kenanga Research

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01 March 2021

Table 7: Breakdown of System Impaired Loans and GIL Ratio by Sector

RM'm	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	MoM Growth (%)	YoY Growth (%)
Households	3,431	3,351	3,437	3,487	3,381	-3%	-7%
Primary agriculture	321	354	399	484	399	-17%	21%
Mining & quarrying	675	856	1,108	1,439	1,479	3%	-72%
Manufacturing	527	700	956	985	1,021	4%	2%
Wholesale & retail trade, restaurants, and hotels	3,004	3,068	3,104	3,368	3,407	1%	-10%
Construction	287	282	291	255	255	0%	-12%
Transport, storage and communication	1,409	1,576	1,907	1,955	2,177	11%	-19%
Finance, insurance, and business activities	320	337	344	359	370	3%	8%
Others	15,269	15,531	16,299	16,380	16,946	3%	-18%
Total system impaired loans	25,242	26,055	27,845	28,712	29,434	3%	7%
GIL ratio							
Households	0.82%	0.89%	1.06%	1.09%	1.13%		
Primary agriculture	3.95%	4.01%	3.98%	3.96%	4.01%		
Mining & quarrying	2.24%	1.18%	1.24%	1.42%	1.40%		
Manufacturing	3.25%	3.29%	3.22%	3.08%	3.06%		
Wholesale & retail trade, restaurants and hotels	1.56%	1.57%	1.58%	1.63%	1.75%		
Construction	1.14%	1.14%	1.08%	1.29%	1.30%		
Transport, storage, and communication	4.70%	4.51%	4.65%	5.53%	5.59%		
Finance, insurance, and business activities	3.00%	3.04%	2.86%	2.72%	2.75%		
Others	1.20%	1.29%	1.81%	1.78%	1.68%		
Total system impaired loans	1.38%	1.43%	1.53%	1.57%	1.60%		

Source: BNM, Kenanga Research

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Liquidity and capital trends

Fig 9: Deposit Growth and Drivers

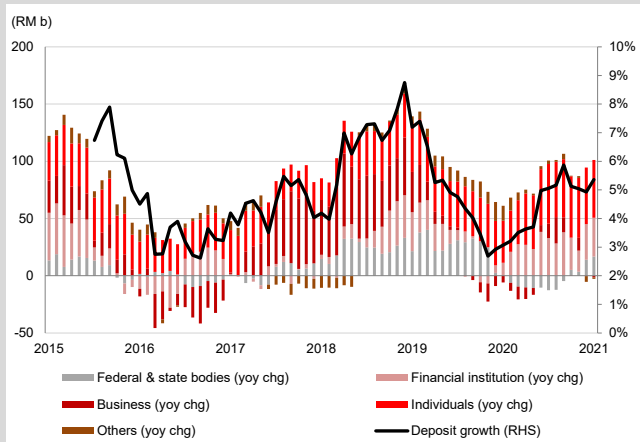


Fig 10: LDR and LCR trends

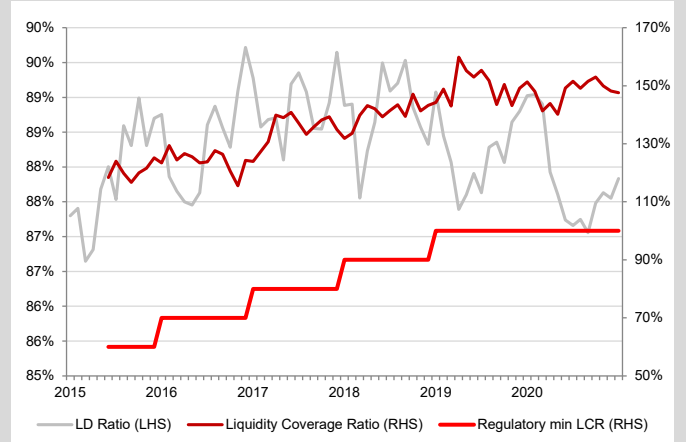


Fig 11: Outstanding Liquidity With BNM

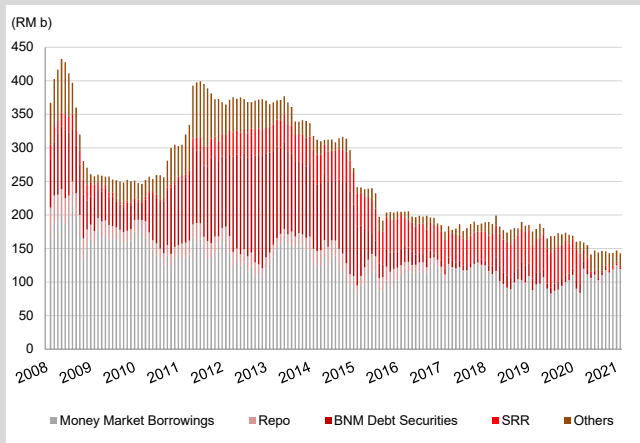
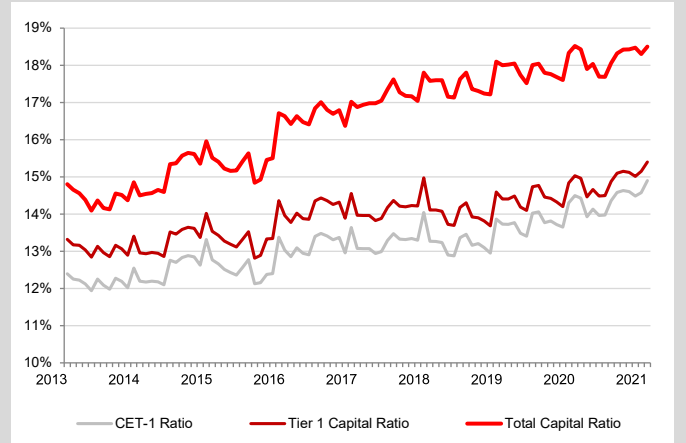


Fig 12: Capital Ratio Trends



Source: BNM, Kenanga Research

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01 March 2021

Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																		
AFFIN BANK BHD	1.76	3,660.4	N	12/2021	-2.6%	3.0%	46.1%	9.8%	15.9	10.9	9.9	0.4	0.4	3.5%	2.8%	1.40	UP	
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	2.4%	2.9%	-15.5%	35.1%	9.7	11.4	8.5	0.7	0.7	5.9%	2.4%	2.50	MP	
AMMB HOLDINGS BHD	3.16	9,510.4	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.1	9.8	7.2	0.5	0.5	5.1%	3.6%	3.70	OP	
BIMB HOLDINGS BHD	4.06	7,525.8	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.5	9.9	9.8	1.2	1.1	11.5%	3.4%	5.25	OP	
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.0	13.0	0.8	0.8	2.1%	1.1%	3.60	UP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	18.50	MP	
MALAYAN BANKING BHD	8.03	91,654.4	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.3	12.2	10.2	1.1	1.1	8.7%	7.0%	9.10	OP	
MALAYSIA BUILDING SOCIETY BHD	0.675	4,708.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.1	6.2	5.5	0.5	0.5	8.1%	4.4%	0.820	OP	
PUBLIC BANK BHD	4.16	80,748.5	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.3	13.9	1.7	1.6	11.6%	3.4%	4.55	OP	
RHB BANK BHD	5.42	21,734.4	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.8	10.7	9.2	0.8	0.8	7.7%	3.3%	6.40	OP	
Simple Average					7.0%	2.9%	13.0%	31.6%	12.3	13.4	9.9	0.9	0.9	7.4%	3.3%			

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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