Banking

February 2021 Statistics

OVERWEIGHT

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By Clement Chua I clement.chua@kenanga.com.my

In February 2021, system loans grew 3.7% YoY but plateaued at +0.1% MoM, mainly derived from household loans. The flattening of loan demand could be due to the implementation of MCO 2.0 coinciding with a muted CNY 2021. Loan disbursements and repayments were in the red, possibly being withheld by the above. At the same time, new loan applications (-15% YoY) and approvals (-18% YoY) continued to diminish from newly injected uncertainties with fear of prolonged movement restrictions. On the flipside, overall system gross impaired loan (GIL) ratio marginally recovered to 1.59% (-1bps MoM), thanks to lower delinquencies amongst the households. CASA deposits still made up c.30% of total deposits given the lack of spending opportunities during the month. Correspondingly, February's loan-to-deposit ratio (LDR) dipped to 84.1% (-38 bps MoM). Despite the hiccups seen from the short-term measures to curb the pandemic, we are still optimistic on the medium-term recovery prospects of the banking sector, underpinned by strong economic rebound with vaccination efforts along the way. Additionally, we expect impairments during the year to be less damaging backed by heavy frontloading of provisions during the 4QCY20 period. We also believe it is unlikely that further OPR cuts would be implemented, with our house-view that we would remain at 1.75% throughout the year. Any rate hikes would be viewed positively. Our favourite stocks are: (i) MAYBANK (OP; TP: RM9.10) for its dividend yield potential and entrenched market leading position, and (ii) RHBBANK (OP; TP: RM6.40) for its industry-leading CET-1 reserves which provides strong capital safety in the event further tightening is needed. Maintain OVERWEIGHT on the Banking sector.

February 2021 approaching a speed bump, as system loans growth posted a 3.7% YoY increase but continued to come in flattish MoM (+0.1%). Household loans persist as the main driver (+5.1% YoY) but registered an almost stagnant performance (+0.1% MoM) as compared to Jan 2021 likely owing to the implementation of MCO 2.0 which also inhibited CNY 2021 celebrations. Business loans also saw the same 0.1% MoM growth. Loan disbursements continued to deteriorate (-10.3% MoM), indicating moderate levels of over-borrowing. Possibly due to cashflows being hindered by the above, overall repayments suffered (-5.3% MoM) in both household (-6.7% MoM) and business (-4.8% MoM) accounts. Sector-wise, only utilities (electricity, gas and water supply) saw strong recovery in repayments (+99.9% MoM) while all other segments were affected by the softening of the economy *(refer to Tables 1-3 for breakdown of system loans).*

Fewer loan applications were registered (-15% YoY, -12% MoM). While there is strong demand for household loans to finance residential properties (+2% YoY), the steep MoM decline of 21% could be caused by the same factors mentioned above. Lower overall business loan applications (-27% YoY) is still hard pressed compared against a pre-Covid period (Feb 2020) but interestingly came in almost stagnant compared to Jan 2021. In tandem with ongoing tight credit control procedures, **loans approval continued to contract (-18% YoY, -15% MoM).** We opine that lenders will remain cautious as long as immediate risk to further economic disruption exists. In Feb 2021, approved household loans fell by 9% MoM while business loans fell by 23% MoM *(refer to Tables 4-5 for breakdown of system loan applications).*

Impairments present but could be moderating. Feb 2021 saw greater impairments by 5% YoY owing to business loans (+7% YoY) but was eased by better household loans (-6% YoY). Loan defaults were mainly attributed to poorer performance by the mining, retails and logistics and communications sectors. Overall, GIL reduced slightly to 1.59% (-1bps MoM) but this could be cushioned by extensions in assisted repayment programs to affected households until Jun 2021. Loan loss coverage ratio in Feb 2021 still appears adequate at 107.4% (Jan 2021: 106.0%, Feb 2020: 80.0%). *(refer to Table 6-7 for breakdown of system impaired loans)*

Cash is still preferred. Total deposits for Feb 2021 grew by 5.0% YoY, 0.5% MoM with CASA surging 24.8% YoY as depositors grow cautious on 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 (-5.4% YoY, +0.5% MoM). System LDR is still well sustained at 84.1% (Jan 2021: 84.5%) while system CET-1 stayed closely at 15.3% (-10 bps MoM) with most banks announcing some form of dividends.

Maintain OVERWEIGHT on the banking sector. While near-term prospects appear dim, we believe sentiment would encounter a knee-jerk effect when decent economic recovery is underway. The rolling out of vaccination efforts would ultimately translate to less restrictive movement controls progressing until we reach total free movement. Additionally, we do not expect further OPR cuts for the year but welcome any hikes as it would enable better pricing opportunities for banks and also boost sentiment. Additionally, we do not anticipate further provisioning to be worrisome given most banks have frontloaded their books during 4QCY20. In terms of stock picks, we like **MAYBANK (OP; TP: RM9.10)** for its industry-leading yield (7-8%) and high dividend-to-ROE spread amongst its peers. On the note of economic recovery, being the market share leader in domestic loans, MAYBANK could be poised to experience accelerated loans growth given its brand equity and outreach. Meanwhile, we also like **RHBBANK (OP; TP: RM6.40)** for its leading CET-1 ratio of 16.2%. This should enable enables greater allowance to implement capital

management strategies. Additionally, RHBBANK offers the next best dividend returns of 4-5% amongst the rest of its conventional peers (2-4%).

Appendix

Loan performance

Fig1: System Loan Growth

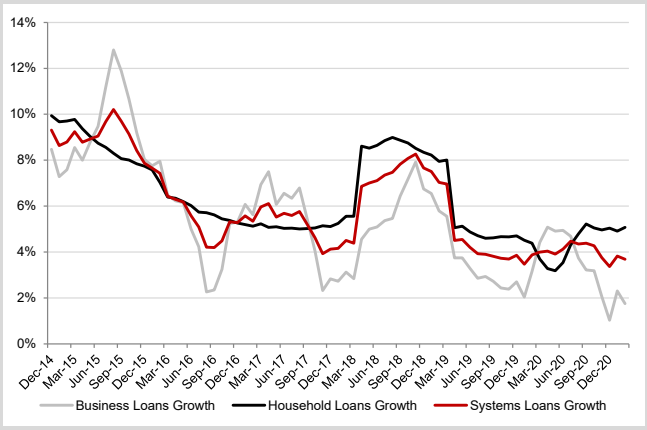
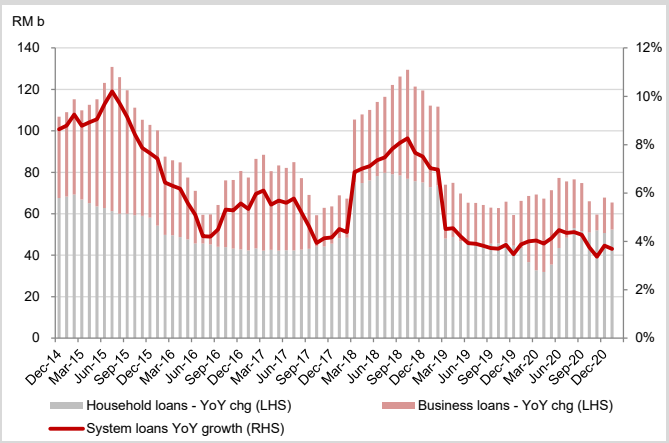


Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga Research

Table 1: Breakdown of System Loans

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	85,006	85,529	85,897	85,016	84,148	*-1.0%*	*1.9%*
Purchase of transport vehicles	174,484	175,112	175,622	175,790	175,635	*-0.1%*	*5.3%*
Purchase of residential property	639,722	642,935	646,757	650,158	652,774	*0.4%*	*6.9%*
Purchase of non-residential property	229,262	228,897	228,887	228,358	228,376	*0.0%*	*1.2%*
Personal use	103,426	103,417	103,409	103,287	103,385	*0.1%*	*6.0%*
Credit card	35,139	35,131	36,056	35,467	34,609	*-2.4%*	*-13.7%*
Construction	60,559	60,702	60,260	61,598	60,941	*-1.1%*	*1.6%*
Working capital	403,495	399,619	399,464	403,436	405,783	*0.6%*	*2.6%*
Others	95,463	93,818	94,884	95,161	94,490	*-0.7%*	*-1.7%*
Total system loans	**1,826,556**	**1,825,158**	**1,831,235**	**1,838,271**	**1,840,142**	***0.1%***	***3.7%***
- Household loans	*1,072,329*	*1,076,542*	*1,082,415*	*1,084,137*	*1,085,474*	*0.1%*	*5.1%*
- Business loans	*754,227*	*748,617*	*748,820*	*754,134*	*754,668*	*0.1%*	*1.8%*

Source: BNM, Kenanga Research

Loan repayments roughly offsetting disbursements

Fig 3: LoansDisbursement Trends

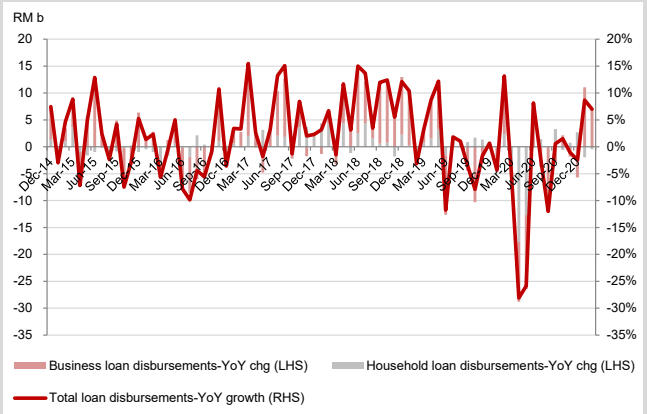
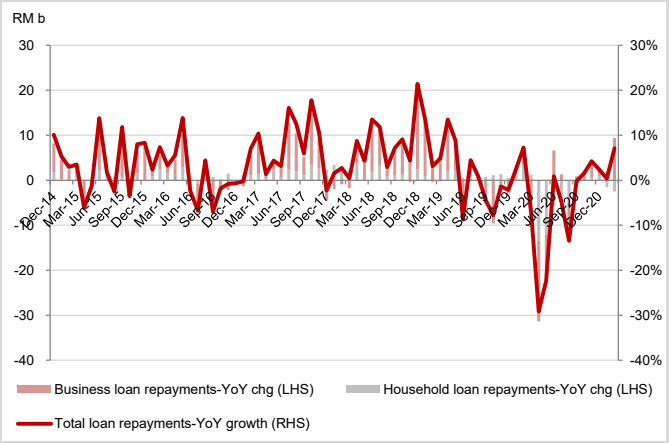


Fig 4: LoansRepayment Trend



Source: BNM, Kenanga Research

Table 2: Breakdown of System Loans Disbursement

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,558	4,550	4,313	4,113	3,658	-11.1%	28.6%
Purchase of transport vehicles	4,732	4,527	4,691	4,194	3,741	-10.8%	13.0%
Purchase of residential property	8,094	7,656	8,401	7,787	6,975	-10.4%	-6.4%
Purchase of non-residential property	2,855	2,976	3,360	2,885	3,027	4.9%	-5.4%
Personal use	3,231	2,980	3,086	2,663	2,692	1.1%	-10.8%
Credit card	11,078	11,206	13,527	11,559	10,179	-11.9%	-11.2%
Construction	1,918	2,386	3,054	3,499	2,008	-42.6%	-7.5%
Working capital	61,933	59,065	71,158	72,415	65,931	-9.0%	13.6%
Others	2,855	3,517	6,133	4,532	3,739	-17.5%	-1.4%
Total loans disbursed	**101,253**	**98,863**	**117,722**	**113,647**	**101,951**	**-10.3%**	**7.0%**
- Household loans	*29,869*	*29,693*	*33,145*	*28,843*	*26,576*	-7.9%	-1.7%
- Business loans	*71,384*	*69,169*	*84,577*	*84,805*	*75,375*	-11.1%	10.5%

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,049	4,410	4,177	5,070	4,650	-8.3%	-2.0%
Purchase of transport vehicles	4,083	4,108	4,182	4,265	4,034	-5.4%	-4.1%
Purchase of residential property	5,875	5,455	5,734	5,732	5,499	-4.1%	-7.1%
Purchase of non-residential property	3,869	3,904	3,811	4,027	3,397	-15.6%	-9.2%
Personal use	3,008	3,298	3,388	3,246	3,033	-6.6%	-5.0%
Credit card	12,203	11,390	12,879	12,385	11,046	-10.8%	-12.7%
Construction	2,563	2,235	3,438	2,370	2,534	6.9%	16.3%
Working capital	61,531	62,141	71,562	68,881	65,719	-4.6%	15.1%
Others	4,398	5,014	4,845	4,272	4,471	4.7%	19.0%
Total loans repaid	**101,580**	**101,954**	**114,017**	**110,249**	**104,385**	**-5.3%**	**7.1%**
- Household loans	*28,564*	*27,603*	*29,293*	*29,599*	*27,606*	-6.7%	-8.3%
- Business loans	*73,016*	*74,351*	*84,724*	*80,650*	*76,779*	-4.8%	13.9%

Source: BNM, Kenanga Research

Household segment driving loan demand

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

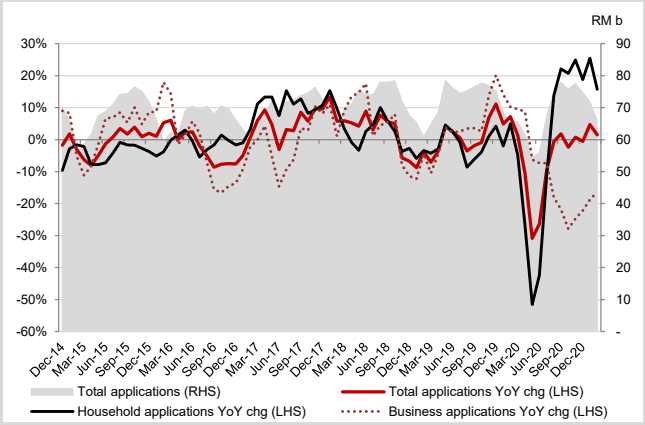
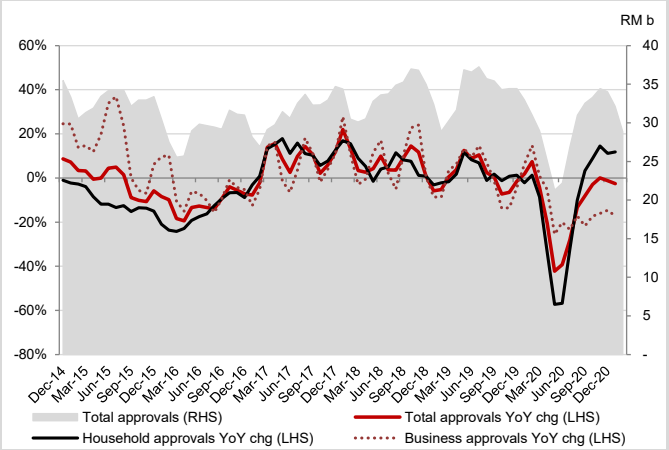


Fig 6: LoansApproval Trends (3-month MA)



Source: BNM, Kenanga Research

Table 4: Breakdown of System Loan Applications

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,857	3,775	2,087	2,583	2,653	*3%*	*-3%*
Purchase of transport vehicles	7,603	8,628	8,480	6,984	5,866	*-16%*	*-16%*
Purchase of residential property	29,062	26,349	26,290	25,894	20,535	*-21%*	*2%*
Purchase of non-residential property	6,769	6,656	6,770	6,901	5,710	*-17%*	*-25%*
Personal use	5,935	5,737	5,680	5,507	5,107	*-7%*	*-8%*
Credit card	2,868	3,071	3,123	2,676	2,241	*-16%*	*-28%*
Construction	3,129	4,812	3,964	1,819	3,414	*88%*	*31%*
Working capital	16,058	14,664	11,627	11,952	11,324	*-5%*	*-37%*
Others	2,403	2,255	3,686	3,035	2,481	*-18%*	*-29%*
Total system loan applications	**76,685**	**75,948**	**71,708**	**67,350**	**59,331**	***-12%***	***-15%***
- Household loans	*48,578*	*47,081*	*45,909*	*44,001*	*35,996*	*-18%*	*-6%*
- Business loans	*28,106*	*28,867*	*25,799*	*23,349*	*23,335*	*0%*	*-27%*

Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

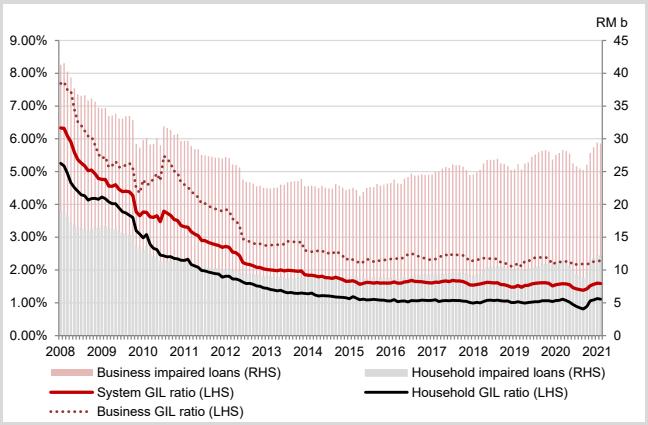
RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,005	1,862	1,498	1,325	1,292	*-2%*	*-32%*
Purchase of transport vehicles	5,105	5,120	4,830	4,267	3,468	*-19%*	*-7%*
Purchase of residential property	10,936	10,308	9,270	8,885	8,295	*-7%*	*15%*
Purchase of non-residential property	2,365	2,207	2,344	2,395	2,076	*-13%*	*-1%*
Personal use	2,433	2,305	2,300	2,033	1,990	*-2%*	*-9%*
Credit card	886	895	972	772	591	*-23%*	*-55%*
Construction	1,425	1,855	1,644	1,962	727	*-63%*	*-51%*
Working capital	7,605	7,851	7,785	5,159	5,093	*-1%*	*-22%*
Others	1,434	1,758	3,050	1,712	800	*-53%*	*-76%*
Total system loan approvals	**34,194**	**34,161**	**33,693**	**28,511**	**24,333**	***-15%***	***-18%***
- Household loans	*21,072*	*19,995*	*18,559*	*17,130*	*15,565*	*-9%*	*-2%*
- Business loans	*13,122*	*14,167*	*15,134*	*11,381*	*8,768*	*-23%*	*-37%*

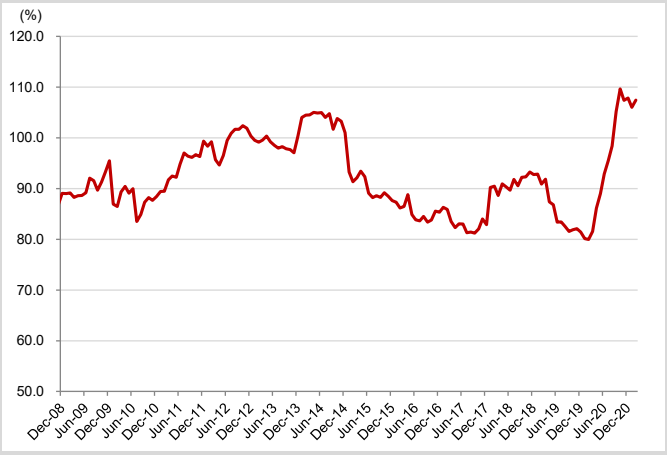
Source: BNM, Kenanga Research

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

Fig 7: GIL trends

Fig 8: Loan Loss Coverage





Source: BNM, Kenanga Research

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

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	354	399	484	399	364	*-9%*	*56%*
Purchase of transport vehicles	856	1,108	1,439	1,479	1,462	*-1%*	*12%*
Purchase of residential property	6,315	7,509	7,646	7,987	7,899	*-1%*	*9%*
Purchase of non-residential property	3,068	3,104	3,368	3,407	3,425	*1%*	*7%*
Personal use	1,576	1,907	1,955	2,177	2,115	*-3%*	*19%*
Credit card	337	344	359	370	359	*-3%*	*-1%*
Construction	3,351	3,437	3,487	3,381	3,387	*0%*	*-6%*
Working capital	8,642	8,440	8,403	8,722	8,698	*0%*	*0%*
Others	1,556	1,597	1,571	1,512	1,584	*5%*	*12%*
Total system impaired loans	**26,055**	**27,845**	**28,712**	**29,434**	**29,293**	***0%***	***5%***
- Household impaired loans	*3,351*	*3,437*	*3,487*	*3,381*	*3,387*	*0%*	*-6%*
- Business impaired loan	*22,703*	*24,408*	*25,225*	*26,053*	*25,906*	*-1%*	*7%*
GIL ratio							
Purchase of securities	0.42%	0.47%	0.56%	0.47%	0.43%		
Purchase of transport vehicles	0.49%	0.63%	0.82%	0.84%	0.83%		
Purchase of residential property	0.99%	1.17%	1.18%	1.23%	1.21%		
Purchase of non-residential property	1.34%	1.36%	1.47%	1.49%	1.50%		
Personal use	1.52%	1.84%	1.89%	2.11%	2.05%		
Credit card	0.96%	0.98%	1.00%	1.04%	1.04%		
Construction	5.53%	5.66%	5.79%	5.49%	5.56%		
Working capital	2.14%	2.11%	2.10%	2.16%	2.14%		
Others	1.63%	1.70%	1.66%	1.59%	1.68%		
System	**1.43%**	**1.53%**	**1.57%**	**1.60%**	**1.59%**		
- Household	*0.89%*	*1.06%*	*1.09%*	*1.13%*	*1.11%*		
- Business	*2.19%*	*2.19%*	*2.26%*	*2.28%*	*2.28%*		

Source: BNM, Kenanga Research

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

RM'm	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	MoM Growth (%)	YoY Growth (%)
Households	3,351	3,437	3,487	3,381	3,387	*0%*	*-6%*
Primary agriculture	354	399	484	399	364	*-9%*	*56%*
Mining & quarrying	856	1,108	1,439	1,479	1,462	*-1%*	*12%*
Manufacturing	700	956	985	1,021	1,000	*-2%*	*-13%*
Wholesale & retail trade, restaurants, and hotels	3,068	3,104	3,368	3,407	3,425	*1%*	*7%*
Construction	282	291	255	255	252	*-1%*	*-22%*
Transport, storage and communication	1,576	1,907	1,955	2,177	2,115	*-3%*	*19%*
Finance, insurance, and business activities	337	344	359	370	359	*-3%*	*-1%*
Others	15,531	16,299	16,380	16,946	16,929	*0%*	*7%*
Total system impaired loans	**26,055**	**27,845**	**28,712**	**29,434**	**29,293**	***0%***	***5%***
GIL ratio							
Households	0.89%	1.06%	1.09%	1.13%	1.11%		
Primary agriculture	*4.01%*	*3.98%*	*3.96%*	*4.01%*	*3.97%*		
Mining & quarrying	*1.18%*	*1.24%*	*1.42%*	*1.40%*	*1.34%*		
Manufacturing	*3.29%*	*3.22%*	*3.08%*	*3.06%*	*3.08%*		
Wholesale & retail trade, restaurants and hotels	*1.57%*	*1.58%*	*1.63%*	*1.75%*	*1.72%*		
Construction	*1.14%*	*1.08%*	*1.29%*	*1.30%*	*1.31%*		
Transport, storage, and communication	*4.51%*	*4.65%*	*5.53%*	*5.59%*	*5.57%*		
Finance, insurance, and business activities	3.04%	2.86%	2.72%	2.75%	2.75%		
Others	1.29%	1.81%	1.78%	1.68%	1.71%		
Total system impaired loans	**1.43%**	**1.53%**	**1.57%**	**1.60%**	**1.59%**		

Source: BNM, Kenanga Research

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Liquidity and capital trends

Fig 9: Deposit Growth and Drivers

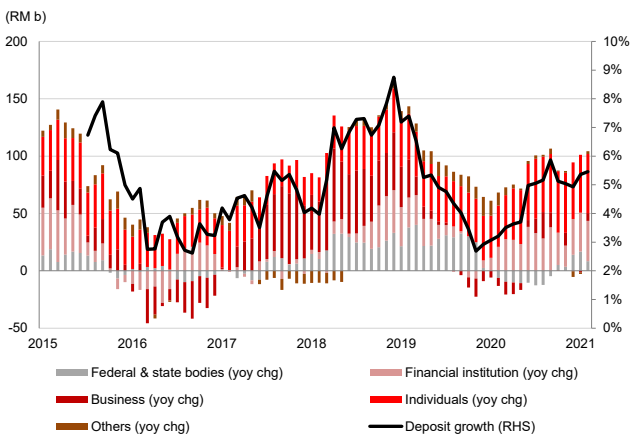


Fig 10: LDR and LCR trends

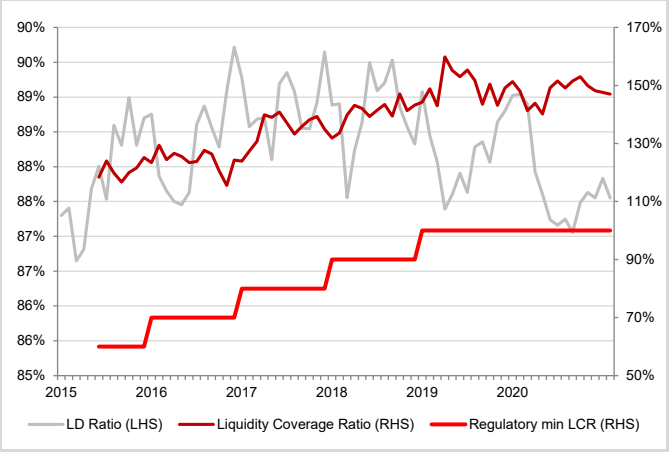


Fig 11: Outstanding Liquidity With BNM

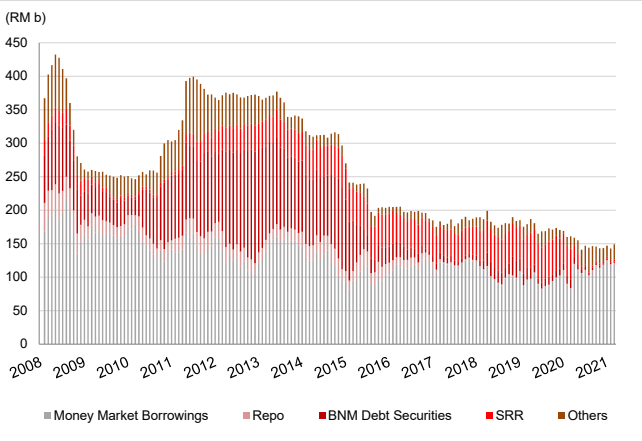
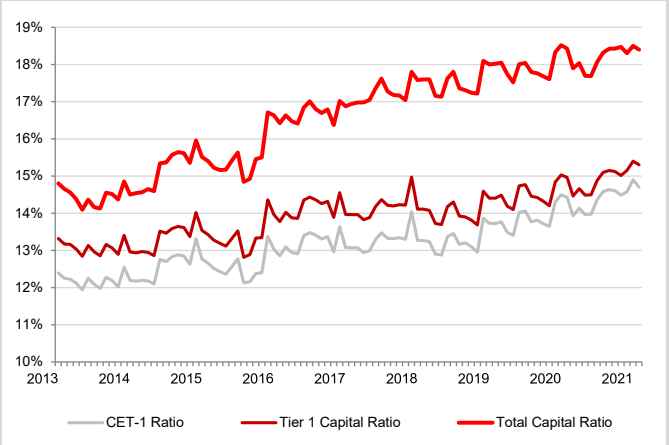


Fig 12: Capital Ratio Trends



Source: BNM, Kenanga Research

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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	1.73	3,598.0	N	12/2021	-4.6%	2.7%	46.5%	11.2%	15.6	10.7	9.6	0.4	0.4	3.5%	2.9%	1.40	UP
ALLIANCE BANK MALAYSIA BHD	2.65	4,102.5	N	03/2021	-10.1%	-6.4%	-14.7%	34.8%	9.7	11.3	8.4	0.7	0.7	5.9%	2.3%	2.50	MP
AMMB HOLDINGS BHD	2.93	8,813.8	N	03/2021	-10.9%	4.6%	-205.4%	190.0%	6.6	N.A.	6.9	0.5	0.5	-7.9%	0.0%	3.05	MP
BIMB HOLDINGS BHD	4.23	7,840.9	Y	12/2021	7.6%	3.9%	6.1%	0.8%	11.0	10.3	10.3	1.2	1.1	11.5%	3.3%	5.25	OP
CIMB GROUP HOLDINGS BHD	4.34	43,065.7	N	12/2021	-9.3%	-0.3%	-73.8%	176.0%	9.4	36.1	13.1	0.8	0.8	2.1%	1.1%	3.60	UP
HONG LEONG BANK BHD	18.70	40,536.3	N	06/2021	14.8%	9.6%	14.3%	6.3%	15.3	13.4	12.6	1.4	1.3	10.1%	1.9%	18.50	MP
MALAYAN BANKING BHD	8.25	94,165.5	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.6	12.5	10.5	1.1	1.1	8.7%	6.8%	9.10	OP
MALAYSIA BUILDING SOCIETY BHD	0.660	4,603.8	N	12/2021	66.6%	3.0%	173.9%	14.4%	16.7	6.1	5.3	0.5	0.5	8.1%	4.5%	0.820	OP
PUBLIC BANK BHD	4.20	81,524.9	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.7	14.5	14.0	1.7	1.6	11.6%	3.3%	4.55	OP
RHB BANK BHD	5.37	21,533.9	N	12/2021	-6.6%	-2.6%	-18.1%	16.0%	8.7	10.6	9.1	0.8	0.8	7.7%	3.3%	6.40	OP
Simple Average					**4.4%**	**2.0%**	**-4.7%**	**47.2%**	**12.3**	**13.9**	**10.0**	**0.9**	**0.9**	**6.1%**	**2.9%**		

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, JalanTunRazak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my