

02 August 2021

Banking

June 2021 Statistics

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NEUTRAL



June 2021 system loan gained a 3.4% YoY improvement but only 0.1% MoM, as household loans saw its first MoM decline (-0.2%) since Apr 2020, likely stirred by the implementation of lockdown measures. Meanwhile, total business loans picked up by 0.5% MoM from better mining and manufacturing activities. Loan applications in the household sector also came off by 19% MoM with approvals decreasing by 18% MoM, which we opine should turn around when the lockdown is lifted. Overall system gross impaired loan (GIL) ratio continued to rise (1.62%, +3bps MoM) as the unforeseen spike in Covid-19 cases left a dent in business health-related and personal finances. Meanwhile, deposit balances remained strong (+4.3% YoY, +0.3% MoM) with CASA mix still toppish at 30.3%. At the moment, loans performance should still be hindered by stricter movement controls and a prolonged lull could also spell decline in asset health, but the six-month blanket moratorium could cushion this. That said, the progressive vaccination roll-outs should allow for a more sustainable reopening of the economy and therefore spur greater demand for loans, hopefully by the latter half of 2HCY21. We maintain NEUTRAL on the banking sector for now as sentiment is lacking. However, we believe MAYBANK (OP; TP: RM10.65) is a strong pick for those needing to stay invested. This is granted by their industry leading dividend yield and market leader position which could shelter against macro-economic headwinds.



Lockdown likely affected June 2021. YoY, system loans expanded by 3.4% backed by household loans (+5.2%) as consumers spent more on private vehicles and properties. Meanwhile, business loans only rose by 0.8% amidst restraints in the overall operating landscape. MoM, total loans growth was almost stagnant at 0.1% as household loans saw its first MoM decline in Apr 2020. This is likely due to the implementation of full lockdown measures with even tighter movement restrictions and activities. On the flipside, the 0.5% growth in business loans supported the month, arising from more cash needed to fund mining and manufacturing (likely technology-based) activities. With regards to overall loans disbursement, there was a MoM dip of 3.3%

while repayments came at -1.9%, both owing to softer number registered by households (refer to Table 1-3 for breakdown of system loans). At the moment, **we maintain our CY21 system loans growth expectation at 3-4%** as immediate struggles could be offset closer to the year-end as vaccination efforts allow for a wider scale reopening of the economy and loosening of movement controls. That said, we are cautious that any hiccups on this front and a prolonged economic lull could damage household income.

Loan applications have also taken a hit (-1% YoY, -12% MoM). Coinciding with the abovementioned lockdown, households are less able to apply for loans, with movement restrictions likely postponing the purchase of transport vehicles (-49% MoM) and residential properties (-18%). Meanwhile, the total application for business loans remained stagnant as businesses have limited operating capacity and are likely undertaking loans only for working capital purposes. Subsequently, **total loan approvals were flattish YoY but decline 8% MoM** (refer to Table 4-5 for breakdown of system loan applications).

Impairments continued to heighten. In June 2021, total impairments soared by 15% YoY, completely led by business loans (+17%) while household loans provided some buffer (-2%). On a MoM-basis, both household loans and business loans saw greater impairments by 6% and 2%, respectively. The lockdown measures implemented likely did not help these accounts from delinquency. In GIL terms, this led to the overall sector arriving at 1.62% (+3 bps MoM). That said, the loan loss coverage ratio for the month remained relatively stable at 111.8% (May 2021: 109.9%, June 2020: 92.9%) as banks continued to be guarded in anticipation of further provisions needed (refer to Table 6-7 for breakdown of system impaired loans).

CASA slightly easing. June 2021 deposits increased by 4.3% YoY but was somewhat stagnant from May 2021 (+0.3% MoM). However, the industry's CASA-to-deposit mix also experienced a MoM decline, very slightly to 30.3% (May 2021: 30.4%). While this could be blamed on the lockdown affecting consumers' propensity to save, it could appear that consumers are allocating more cash to non-traditional deposit accounts which might yield better returns. **For CY21, we anticipate deposits growth to ease to 3-4% with a CASA mix of c.30%** as withdrawals cum spending could pick up aggressively as the economy reopens. Meanwhile, system LDR is relatively unchanged at 86.6% with banks keeping a stable CET-1 ratio of 14.3% (+1 bps MoM) as they withhold dividend payments for the time being.

Maintain NEUTRAL on the banking sector. As expected, the full lockdown had further impeded the consumers' ability to spend and this could reflect poorly in the banks' books. With the six-month opt-in blanket moratorium (effective 7 Jul 2021) being introduced, affected businesses have more time to attempt staying afloat but this would lead to some modification losses by the banks. That said, most banks agree that the impact from modification losses this time around should be much less severe as the 2020 episode was granted on an automatic basis and financing terms are more flexible this time around. Still, the prospects of the banking sector will still be very much a reflection of the economy and any hurdles in achieving vaccination targets could be less favourable to the sentiment of the sector. For investors still seeking a position, we continue to advocate **MAYBANK (OP; TP: RM10.65)**. Its industry-leading dividend yield (7-8%) and dividend-to-ROE provide sizeable buffers for investors seeking a long-term play amidst ongoing macroeconomic uncertainties. Additionally, its GIL ratio is fairly within the industry average of c.2% which indicates the bank has sound asset quality measures despite being the market leader in domestic financing share.



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Appendix

Loan performance

Fig1: System Loan Growth

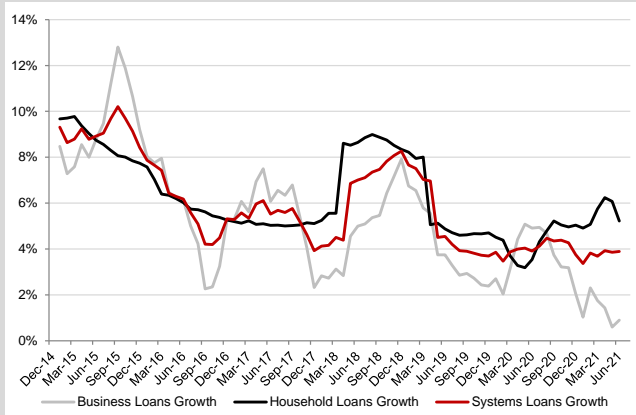
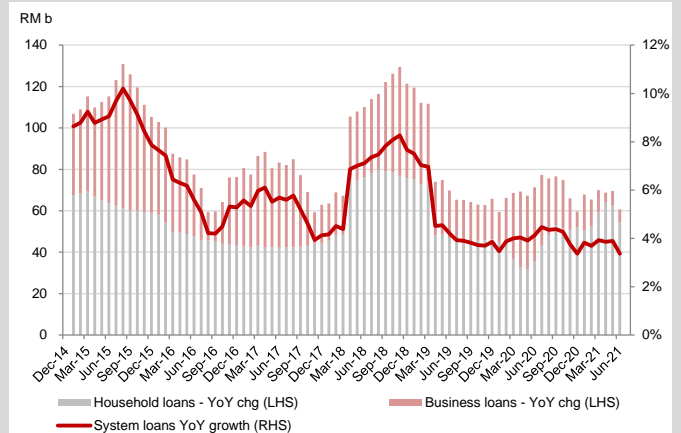


Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga Research

Table 1: Breakdown of System Loans

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	84,148	83,875	83,791	84,037	84,903	1.0%	5.1%
Purchase of transport vehicles	175,635	176,008	176,906	177,392	175,519	-1.1%	6.5%
Purchase of residential property	652,774	656,770	660,450	663,035	665,329	0.3%	7.0%
Purchase of non-residential property	228,376	228,421	228,047	228,067	228,252	0.1%	0.9%
Personal use	103,385	103,548	103,641	103,495	101,114	-2.3%	2.0%
Credit card	34,609	34,564	34,762	33,753	32,442	-3.9%	-8.9%
Construction	60,941	61,681	61,472	61,725	61,481	-0.4%	0.8%
Working capital	405,783	415,318	412,597	415,090	418,904	0.9%	2.0%
Others	94,490	93,431	92,201	92,214	92,581	0.4%	-7.1%
Total system loans	1,840,142	1,853,616	1,853,869	1,858,807	1,860,525	0.1%	3.4%
- Household loans	1,085,474	1,089,409	1,094,162	1,095,846	1,093,768	-0.2%	5.2%
- Business loans	754,668	764,207	759,707	762,961	766,757	0.5%	0.8%
o Primary agriculture	34,231	34,035	33,653	33,925	33,738	-0.5%	-3.8%
o Mining & quarrying	10,895	10,882	11,152	10,380	11,571	11.5%	9.4%
o Manufacturing	123,007	125,838	125,925	127,208	129,208	1.6%	3.7%
o Wholesale & retail trade, restaurants and hotels	141,113	142,341	141,530	142,861	143,795	0.7%	6.4%
o Construction	93,717	94,754	93,906	94,088	94,160	0.1%	2.6%
o Real estate	114,624	114,062	113,130	112,840	112,418	-0.4%	-3.9%
o Transport, storage and communication	39,008	40,491	39,970	39,672	40,004	0.8%	-3.3%
o Finance, insurance and business activities	116,101	118,397	117,794	117,547	118,057	0.4%	0.2%
o Others	81,973	83,408	82,647	84,441	83,806	-0.8%	-3.7%

Source: BNM, Kenanga Research

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Loan repayments roughly offsetting disbursements

Fig 3: LoansDisbursement Trends

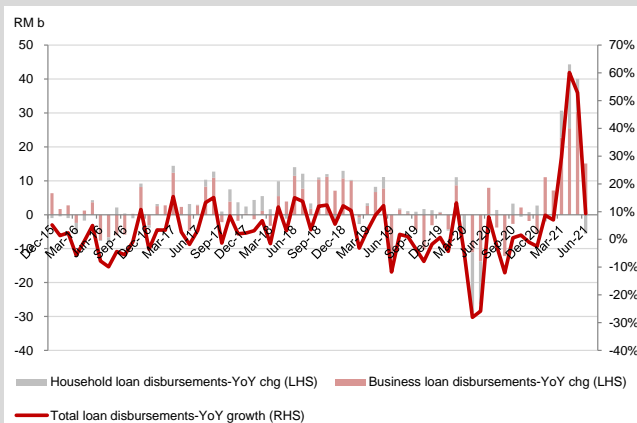
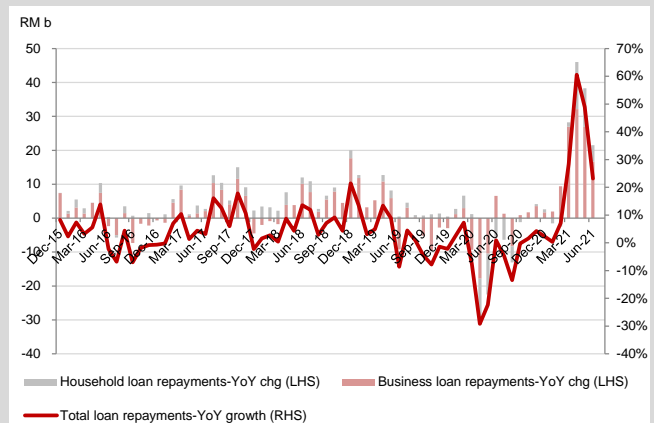


Fig 4: LoansRepayment Trend



Source: BNM, Kenanga Research

Table 2: Breakdown of System Loans Disbursement

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,658	4,157	3,220	2,685	2,681	-0.2%	-23.3%
Purchase of transport vehicles	3,741	5,278	5,325	4,698	1,700	-63.8%	-36.3%
Purchase of residential property	6,975	8,385	7,856	6,403	4,525	-29.3%	-33.4%
Purchase of non-residential property	3,027	4,103	2,919	3,195	3,149	-1.4%	2.6%
Personal use	2,692	2,833	2,863	2,330	2,346	0.7%	-1.8%
Credit card	10,179	12,876	12,303	11,444	9,429	-17.6%	-12.2%
Construction	2,008	3,150	2,524	2,170	3,213	48.1%	11.5%
Working capital	65,931	86,905	77,537	78,848	80,794	2.5%	24.4%
Others	3,739	6,643	3,515	4,127	4,269	3.4%	-23.6%
Total loans disbursed	101,951	134,330	118,061	115,900	112,105	-3.3%	9.3%
- Household loans	26,576	32,416	30,452	26,387	19,968	-24.3%	-21.8%
- Business loans	75,375	101,914	87,610	89,513	92,137	2.9%	19.6%

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,650	5,008	3,802	2,882	3,520	22.1%	11.1%
Purchase of transport vehicles	4,034	4,641	4,460	4,423	3,886	-12.1%	105.8%
Purchase of residential property	5,499	6,482	6,245	5,675	4,911	-13.5%	42.2%
Purchase of non-residential property	3,397	4,816	4,032	3,778	3,736	-1.1%	2.2%
Personal use	3,033	3,226	3,227	2,847	2,768	-2.8%	61.7%
Credit card	11,046	13,168	12,339	12,571	10,817	-14.0%	2.0%
Construction	2,534	2,628	2,756	2,194	3,449	57.2%	16.2%
Working capital	65,719	81,447	80,538	77,806	77,656	-0.2%	25.7%
Others	4,471	6,602	4,692	4,373	3,634	-16.9%	-1.1%
Total loans repaid	104,385	128,017	122,091	116,549	114,378	-1.9%	23.1%
- Household loans	27,606	31,456	29,183	27,689	24,841	-10.3%	24.0%
- Business loans	76,779	96,562	92,909	88,860	89,538	0.8%	22.9%

Source: BNM, Kenanga Research

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Household segment driving loan demand

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

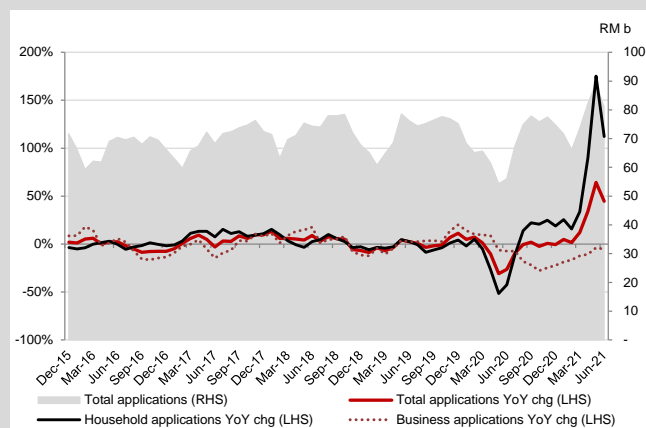
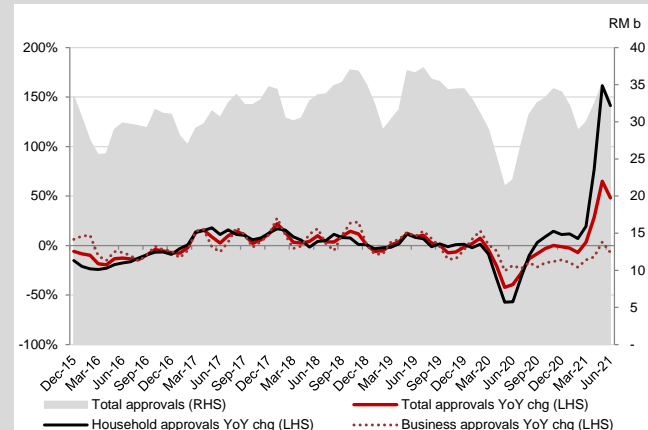


Fig 6: Loans Approval Trends (3-month MA)



Source: BNM, Kenanga Research

Table 4: Breakdown of System Loan Applications

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,653	4,035	3,015	2,654	4,585	73%	113%
Purchase of transport vehicles	5,866	10,773	10,905	7,593	3,890	-49%	-51%
Purchase of residential property	20,535	36,142	36,741	33,010	27,102	-18%	7%
Purchase of non-residential property	5,710	8,708	9,431	7,941	7,244	-9%	52%
Personal use	5,107	6,371	6,017	4,871	4,859	0%	11%
Credit card	2,241	2,997	2,934	2,618	2,619	0%	12%
Construction	3,414	3,970	4,238	3,578	2,274	-36%	31%
Working capital	11,324	16,745	16,452	14,176	14,941	5%	-18%
Others	2,481	4,497	3,886	3,183	2,438	-23%	-34%
Total system loan applications	59,331	94,237	93,618	79,626	69,952	-12%	-1%
- Household loans	35,996	59,839	59,821	50,849	41,178	-19%	-3%
- Business loans	23,335	34,399	33,797	28,777	28,774	0%	1%

Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	1,292	2,459	1,904	1,387	2,658	92%	41%
Purchase of transport vehicles	3,468	5,678	5,853	4,614	2,261	-51%	-44%
Purchase of residential property	8,295	10,872	12,573	12,019	10,545	-12%	69%
Purchase of non-residential property	2,076	3,032	3,119	2,654	2,510	-5%	125%
Personal use	1,990	2,415	2,079	1,744	1,766	1%	-1%
Credit card	591	883	920	731	675	-8%	4%
Construction	727	1,762	1,265	1,549	972	-37%	-26%
Working capital	5,093	7,937	6,452	7,048	6,450	-8%	-45%
Others	800	1,856	1,559	995	2,368	138%	51%
Total system loan approvals	24,333	36,893	35,723	32,741	30,206	-8%	0%
- Household loans	15,565	21,593	23,041	20,214	16,575	-18%	20%
- Business loans	8,768	15,300	12,682	12,527	13,631	9%	-17%

Source: BNM, Kenanga Research

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

Fig 7: GIL trends

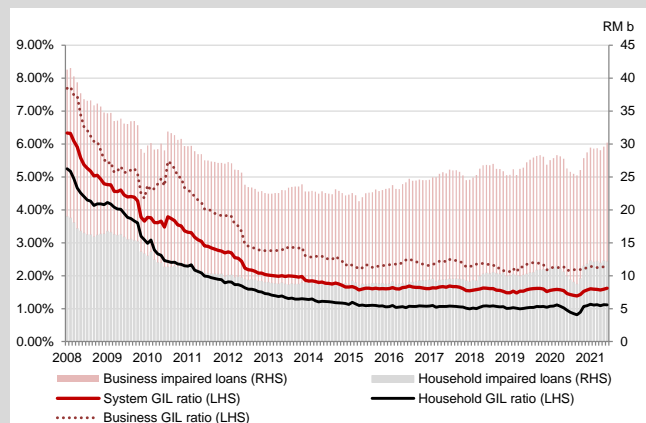
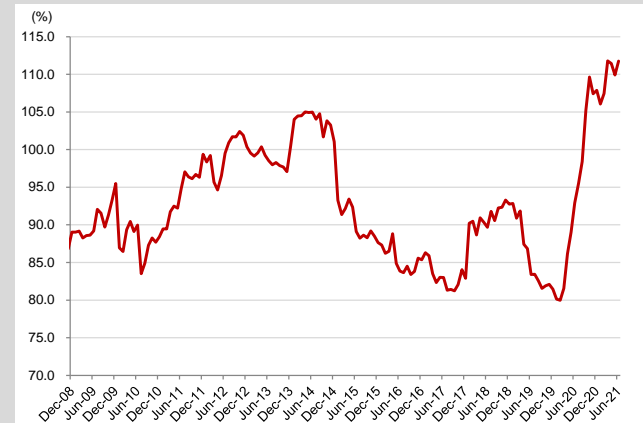


Fig 8: Loan Loss Coverage



Source: BNM, Kenanga Research

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

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	364	349	330	373	338	-9%	-14%
Purchase of transport vehicles	1,462	1,311	1,278	1,354	1,454	7%	57%
Purchase of residential property	7,899	8,209	8,035	8,208	8,161	-1%	22%
Purchase of non-residential property	3,425	3,392	3,396	3,499	3,386	-3%	8%
Personal use	2,115	2,133	2,077	2,092	2,042	-2%	37%
Credit card	359	354	354	342	332	-3%	27%
Construction	3,387	3,185	3,174	3,177	3,371	6%	-2%
Working capital	8,698	8,834	8,907	8,977	9,504	6%	12%
Others	1,584	1,583	1,508	1,576	1,615	2%	13%
Total system impaired loans	29,293	29,349	29,059	29,599	30,204	2%	15%
- Household impaired loans	3,387	3,185	3,174	3,177	3,371	6%	-2%
- Business impaired loan	25,906	26,164	25,886	26,422	26,833	2%	17%
GIL ratio							
Purchase of securities	0.43%	0.42%	0.39%	0.44%	0.40%		
Purchase of transport vehicles	0.83%	0.74%	0.72%	0.76%	0.83%		
Purchase of residential property	1.21%	1.25%	1.22%	1.24%	1.23%		
Purchase of non-residential property	1.50%	1.48%	1.49%	1.53%	1.48%		
Personal use	2.05%	2.06%	2.00%	2.02%	2.02%		
Credit card	1.04%	1.02%	1.02%	1.01%	1.02%		
Construction	5.56%	5.16%	5.16%	5.15%	5.48%		
Working capital	2.14%	2.13%	2.16%	2.16%	2.27%		
Others	1.68%	1.69%	1.64%	1.71%	1.74%		
System	1.59%	1.58%	1.57%	1.59%	1.62%		
- Household	1.11%	1.12%	1.09%	1.12%	1.11%		
- Business	2.28%	2.25%	2.26%	2.27%	2.35%		

Source: BNM, Kenanga Research

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

RM'm	Feb-21	Mar-21	Apr-21	May-21	Jun-21	MoM Growth (%)	YoY Growth (%)
Households	3,387	3,185	3,174	3,177	3,371	6%	-2%
Primary agriculture	364	349	330	373	338	-9%	-14%
Mining & quarrying	1,462	1,311	1,278	1,354	1,454	7%	57%
Manufacturing	1,000	860	829	897	997	11%	29%
Wholesale & retail trade, restaurants, and hotels	3,425	3,392	3,396	3,499	3,386	-3%	8%
Construction	252	248	242	275	280	2%	-11%
Transport, storage and communication	2,115	2,133	2,077	2,092	2,042	-2%	37%
Finance, insurance, and business activities	359	354	354	342	332	-3%	27%
Others	16,929	17,518	17,379	17,590	18,003	2%	16%
Total system impaired loans	29,293	29,349	29,059	29,599	30,204	2%	15%
GIL ratio							
Households	1.11%	1.12%	1.09%	1.12%	1.11%		
Primary agriculture	3.97%	4.01%	4.04%	4.03%	4.00%		
Mining & quarrying	1.34%	1.33%	1.29%	1.37%	2.15%		
Manufacturing	3.08%	3.05%	2.93%	3.04%	3.06%		
Wholesale & retail trade, restaurants and hotels	1.72%	1.73%	1.74%	1.72%	1.73%		
Construction	1.31%	1.19%	1.23%	1.24%	1.36%		
Transport, storage, and communication	5.57%	5.53%	5.56%	5.58%	5.47%		
Finance, insurance, and business activities	2.75%	2.74%	2.84%	2.84%	3.03%		
Others	1.71%	1.67%	1.65%	1.61%	1.70%		
Total system impaired loans	1.59%	1.58%	1.57%	1.59%	1.62%		

Source: BNM, Kenanga Research

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Liquidity and capital trends

Fig 9: Deposit Growth and Drivers

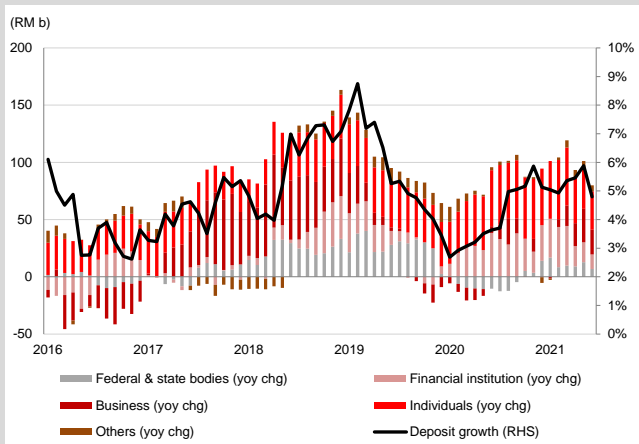


Fig 10: LDR and LCR trends

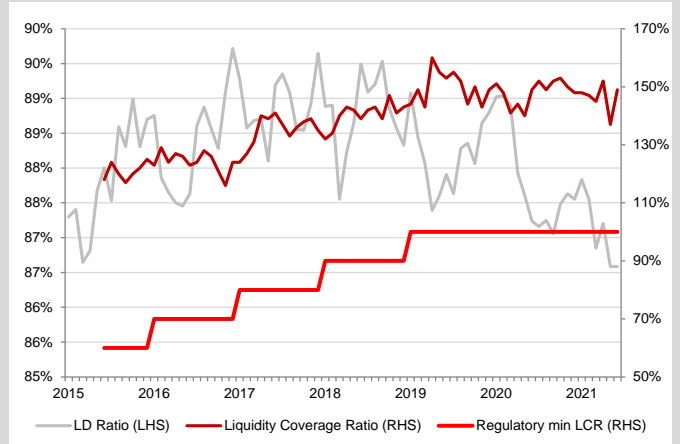


Fig 11: Outstanding Liquidity With BNM

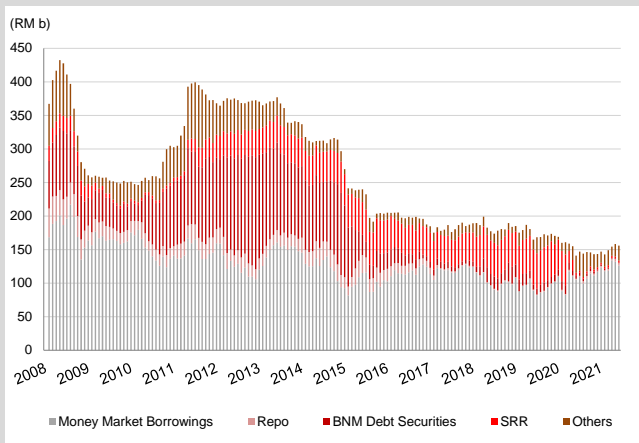
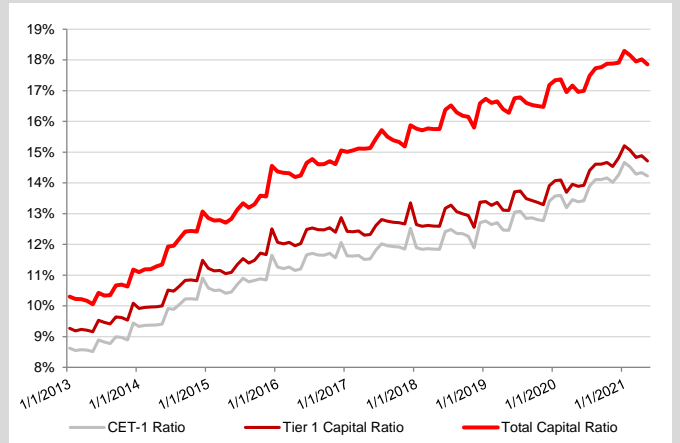


Fig 12: Capital Ratio Trends



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	1.67	3,547.2	N	12/2021	-7.8%	5.7%	44.2%	8.8%	15.1	10.5	9.6	0.4	0.4	3.4%	3.0%	1.30	UP	
ALLIANCE BANK MALAYSIA BHD	2.39	3,700.0	N	03/2022	-5.6%	1.0%	33.9%	8.3%	10.3	7.7	7.1	0.6	0.6	7.5%	3.8%	2.20	MP	
AMMB HOLDINGS BHD	2.85	9,444.9	N	03/2022	-4.2%	3.4%	27.4%	8.8%	9.1	7.9	7.2	0.6	0.6	7.9%	3.2%	2.85	MP	
BIMB HOLDINGS BHD	3.75	7,784.5	Y	12/2021	7.0%	1.9%	6.6%	2.6%	9.7	9.1	8.9	1.1	0.9	11.0%	3.7%	5.10	OP	
CIMB GROUP HOLDINGS BHD	4.45	44,563.1	N	12/2021	0.4%	2.4%	196.8%	28.8%	37.0	12.5	9.7	0.8	0.7	6.2%	2.9%	4.40	MP	
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	-6.6%	5.4%	14.3%	5.8%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	17.70	MP	
MALAYAN BANKING BHD	8.01	93,663.6	N	12/2022	-5.6%	1.8%	14.4%	12.8%	13.3	11.6	10.3	1.1	1.0	9.1%	7.0%	10.65	OP	
MALAYSIA BUILDING SOCIETY BHD	0.585	4,080.6	N	12/2021	61.4%	5.0%	128.6%	22.2%	14.8	6.5	5.3	0.4	0.4	6.8%	5.1%	0.600	MP	
PUBLIC BANK BHD	3.98	77,254.6	N	12/2021	-0.1%	3.4%	17.3%	1.7%	15.9	13.5	13.3	1.6	1.5	11.7%	3.5%	3.90	MP	
RHB BANK BHD	5.11	20,789.3	N	12/2021	-4.4%	6.5%	14.2%	12.0%	10.1	8.8	7.9	0.8	0.7	8.4%	4.5%	6.15	OP	
Simple Average					3.5%	3.7%	49.8%	11.2%	15.0	10.1	9.1	0.9	0.8	8.2%	3.9%			

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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