

Banking

Oct 2021 Statistics

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NEUTRAL



Oct 2021 system loan rose by 3.3% YoY with a MoM increase of 0.5%, which was expected in lieu of reinvigorated economic activity. We anticipate CY21 to close with a loans growth of 3-4%. Loans disbursement saw a sequential decline, but this is owing to lumpy distributions in Sept 2021 from clearing its backlog. Loan repayments, applications and approvals all registered better YoY and MoM growth, as expected as well. In terms of gross impaired loans (GIL), it came in at 1.52% (-5bps MoM) as both household and business loan borrowers are slowly regaining their financial health and paying more promptly. Meanwhile, total deposits saw a MoM decline with CASA-to-deposit mix easing slightly (-9bps) which could be due to corporate withdrawals. We expect withdrawals to be heavier in the remaining months, in line with our 3-4% YoY deposits growth expectation. We are NEUTRAL on the banking sector still as fresh uncertainties have been brought by new Covid-19 variants which could trigger another round of tightened movement controls, erasing the economic progress made so far. Having closed the 3QCY21 earnings report card, we still believe our picks of: (i) MAYBANK (OP; TP: RM10.55); and (ii) RHBBANK (OP; TP: RM6.50) make solid picks for capital safety and dividend buffers against potential downside.



Oct 2021 keeping the momentum going. YoY, system loans rose by 3.3% on the back of both household (+3.7%) and business (+2.9%) loan accounts. The less restrictive environment during the month has allowed for more liberal spending and greater investment confidence. This is also reflected on a MoM basis with a 0.5% overall increase, with households at +0.7% and businesses at +0.2%. On the flipside, loan disbursement fell by 3.3% MoM but this is likely due to the clearing of backlog from Sep 2021, having just exited tighter controls in Aug 2021. Loan repayments trended positively (+18.7% YoY, +3.1% MoM) as income streams are now more predictable (refer to Table 1-3 for breakdown of system loans). **We maintain our CY21 system loans growth target of 3-4%** with continuing traction expected to be seen in Dec 2021 on year-end festivities and pent up spending.

Loan applications increasing (+4% YoY, +7% MoM) as households are likely more inclined to make big ticket purchases (i.e. residential properties, vehicles) in a healthier financial environment. On the flipside, business loan applications decline by 8% YoY and MoM, but we believe that this is due to the same backlog of prior applications yet to be cleared, given that the current climate is more business-friendly. (refer to Table 4-5 for breakdown of system loan applications).

Impairments continue to ease. Oct 2021 total impairment was 10% higher YoY but saw a sequential improvement of 3% MoM. GIL ratio came in at 1.52% (-5 bps MoM) as the ongoing recovery is likely to improve the staging of previously troubled accounts. Ongoing repayment assistance programs could play a role in deferring the deterioration of certain accounts, until a time when a more meaningful recovery is seen to face debt again. That said, an industry loan loss coverage of 124.3% (Sep 2021: 120.8%, Oct 2020: 109.6%) is reflective of the general prudence still exercised by the banks, as it is still early days into our economic recovery (refer to Table 6-7 for breakdown of system impaired loans).

Deposits still lofty. As of Oct 2021, total deposits was 4.9% higher YoY but was 0.3% softer MoM. CASA-to-deposit ratio also tapered down slightly to 30.2% (-9 bps). We continue to anticipate withdrawals to flush the remaining two months of the year as households call for greater spending, especially during the year-end holiday window and festive seasonality. **Our CY21 expectations remains for deposit growth to come in at 3-4% YoY.** The high deposits mix also keep system LDR relatively favourable for the banks, clocking at 87.2% in Oct 2021 (Sept 2021: 86.4%, Oct 2020: 88.2%). Industry CET-1 ratio fell slightly at 14.42% (-6 bps) as banks are likely still committing to their dividends and other payments.

Maintain NEUTRAL on the banking sector. The recent 3QCY21 report card came in quite well with only one disappointment (MBSB) and 4 positive surprises (ABMB, AFFIN, CIMB, RHBBANK). The banks in general are likely to book precautionary provisions ahead of URUS applications (which opened mid-Nov) but do not expect significant impact from the interest waiver as its eligibility criteria is rather strict. That said, industry loans growth and asset health will be very much carried by the stability and rejuvenation of economic activities, which at this moment could be under threat should the new Covid-19 variant led to further containment measures. For the time being, we continue to advocate safety, which we find to be reasonable in **MAYBANK (OP; TP: RM10.55)** and **RHBBANK (OP; TP: RM6.50)**. On top of high dividend yield propositions (6-8%), capital management capabilities is crucial to navigate through uncertainties which we believe these banks are not shy of.



01 December 2021

Appendix

Loan performance

Fig1: System Loan Growth

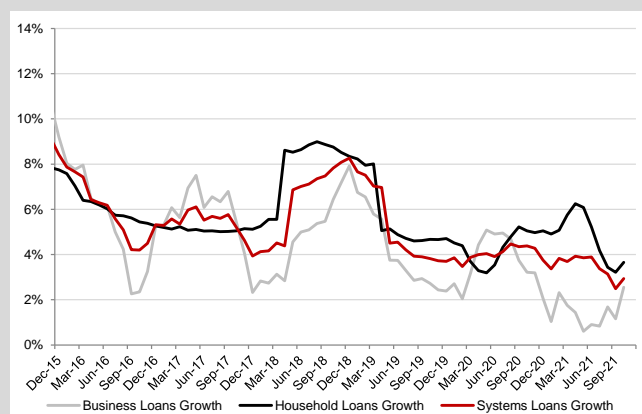
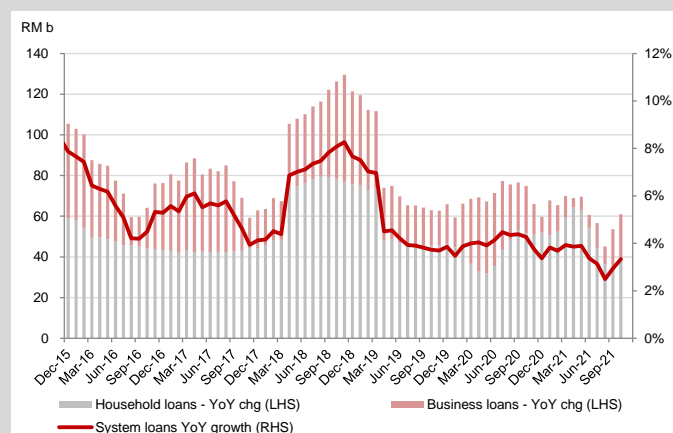


Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga Research

Table 1: Breakdown of System Loans

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	84,903	85,617	85,992	88,087	88,670	0.7%	4.3%
Purchase of transport vehicles	175,519	173,611	172,089	172,490	173,833	0.8%	-0.4%
Purchase of residential property	665,329	669,503	672,100	676,549	681,234	0.7%	6.5%
Purchase of non-residential property	228,252	227,412	227,695	229,423	229,823	0.2%	0.2%
Personal use	101,114	100,218	100,572	100,810	101,158	0.3%	-2.2%
Credit card	32,442	32,076	32,333	32,921	33,982	3.2%	-3.3%
Construction	61,481	61,929	61,459	60,881	59,973	-1.5%	-1.0%
Working capital	418,904	419,117	415,663	420,393	424,047	0.9%	5.1%
Others	92,581	93,291	91,923	96,214	94,774	-1.5%	-0.7%
Total system loans	1,860,525	1,862,773	1,859,824	1,877,768	1,887,493	0.5%	3.3%
- Household loans	1,093,768	1,094,884	1,097,165	1,103,316	1,111,497	0.7%	3.7%
- Business loans	766,757	767,889	762,660	774,452	775,996	0.2%	2.9%
o Primary agriculture	33,738	33,858	33,989	35,230	34,832	-1.1%	0.9%
o Mining & quarrying	11,571	11,748	11,279	11,403	11,683	2.5%	4.5%
o Manufacturing	129,208	130,093	130,525	132,304	133,264	0.7%	9.5%
o Wholesale & retail trade, restaurants and hotels	143,795	144,059	144,982	146,090	149,179	2.1%	8.8%
o Construction	94,160	91,630	88,659	89,335	88,843	-0.6%	-4.6%
o Real estate	112,418	111,473	111,742	111,841	111,503	-0.3%	-4.1%
o Transport, storage and communication	40,004	39,413	38,503	39,573	39,851	0.7%	-0.9%
o Finance, insurance and business activities	118,057	121,017	119,010	123,102	122,477	-0.5%	5.2%
o Others	83,806	84,599	83,970	85,575	84,364	-1.4%	0.7%

Source: BNM, Kenanga Research

01 December 2021

Loan repayments and disbursements

Fig 3: Loans Disbursement Trends

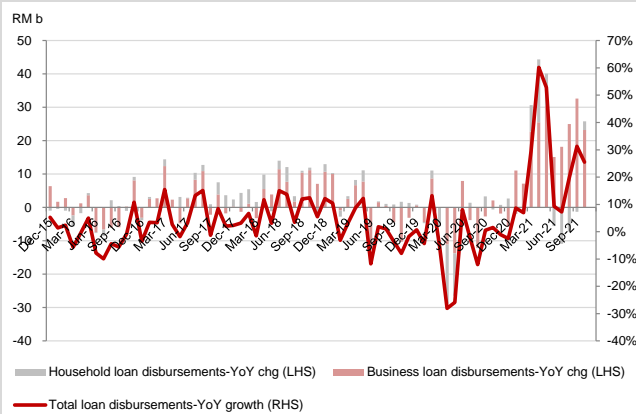
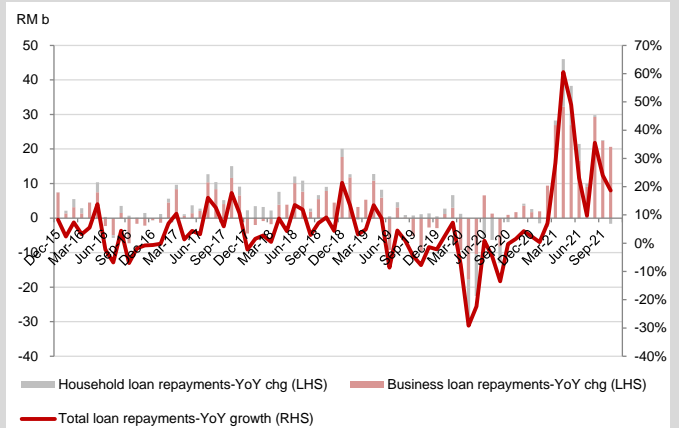


Fig 4: Loans Repayment Trend



Source: BNM, Kenanga Research

Table 2: Breakdown of System Loans Disbursement

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,681	4,042	2,741	4,917	3,316	-32.6%	-27.2%
Purchase of transport vehicles	1,700	1,282	1,715	3,652	4,765	30.5%	0.7%
Purchase of residential property	4,525	4,201	5,640	8,096	8,665	7.0%	7.1%
Purchase of non-residential property	3,149	2,076	2,588	4,354	3,427	-21.3%	20.0%
Personal use	2,346	2,032	1,890	2,426	2,615	7.8%	-19.1%
Credit card	9,429	10,218	10,976	12,388	14,140	14.1%	27.6%
Construction	3,213	3,246	1,937	3,100	2,356	-24.0%	22.9%
Working capital	80,794	75,766	75,761	83,858	83,259	-0.7%	34.4%
Others	4,269	4,409	3,783	8,566	4,499	-47.5%	57.6%
Total loans disbursed	112,105	107,272	107,031	131,357	127,043	-3.3%	25.5%
- Household loans	19,968	20,065	22,218	28,904	32,470	12.3%	8.7%
- Business loans	92,137	87,207	84,813	102,453	94,573	-7.7%	32.5%

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,520	3,486	2,621	3,007	2,853	-5.1%	-29.5%
Purchase of transport vehicles	3,886	3,607	3,546	3,573	3,840	7.5%	-5.9%
Purchase of residential property	4,911	4,819	4,880	5,130	5,516	7.5%	-6.1%
Purchase of non-residential property	3,736	3,321	3,015	3,144	3,686	17.2%	-4.7%
Personal use	2,768	2,489	2,188	2,352	2,557	8.7%	-15.0%
Credit card	10,817	10,717	11,009	12,022	13,260	10.3%	8.7%
Construction	3,449	3,123	2,482	3,390	3,616	6.6%	41.1%
Working capital	77,656	76,559	78,358	79,868	79,188	-0.9%	28.7%
Others	3,634	3,765	5,543	4,381	6,030	37.6%	37.1%
Total loans repaid	114,378	111,885	113,643	116,867	120,545	3.1%	18.7%
- Household loans	24,841	23,677	23,301	25,189	26,911	6.8%	-5.8%
- Business loans	89,538	88,208	90,342	91,678	93,634	2.1%	28.2%

Source: BNM, Kenanga Research

01 December 2021

Household segment driving loan demand

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

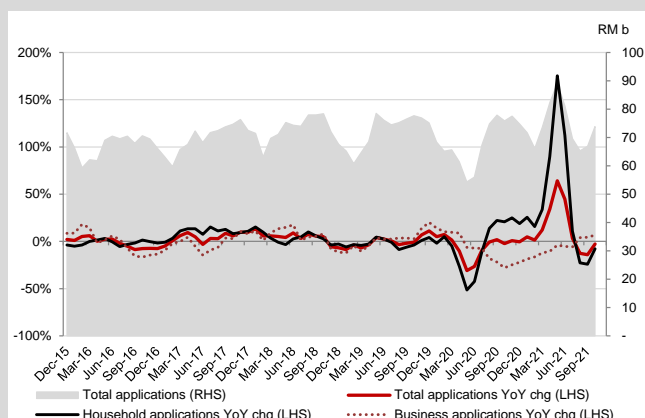
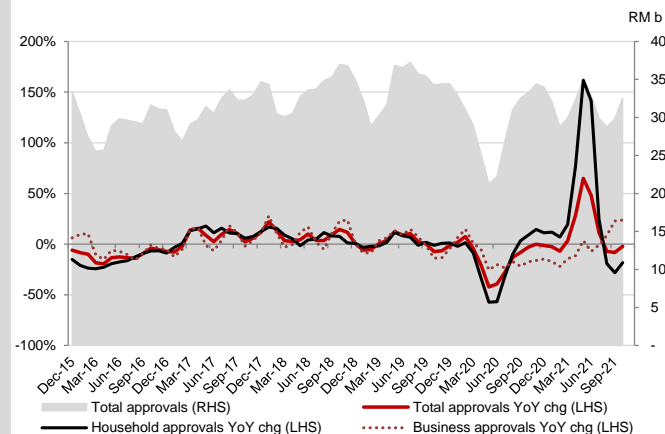


Fig 6: Loans Approval Trends (3-month MA)



Source: BNM, Kenanga Research

Table 4: Breakdown of System Loan Applications

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,585	2,956	3,685	2,603	3,579	37%	25%
Purchase of transport vehicles	3,890	2,692	4,116	7,810	10,289	32%	35%
Purchase of residential property	27,102	19,663	20,769	27,120	31,892	18%	10%
Purchase of non-residential property	7,244	6,065	6,056	7,348	8,405	14%	24%
Personal use	4,859	4,030	4,074	4,777	5,553	16%	-6%
Credit card	2,619	2,980	3,879	4,248	2,967	-30%	3%
Construction	2,274	2,558	2,249	2,500	2,366	-5%	-24%
Working capital	14,941	12,925	17,399	15,248	13,379	-12%	-17%
Others	2,438	5,398	4,425	3,302	1,438	-56%	-40%
Total system loan applications	69,952	59,267	66,652	74,955	79,869	7%	4%
- Household loans	41,178	32,037	35,552	46,849	54,051	15%	11%
- Business loans	28,774	27,230	31,100	28,106	25,818	-8%	-8%

Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,658	1,601	1,877	2,978	1,999	-33%	0%
Purchase of transport vehicles	2,261	1,538	2,239	4,445	5,149	16%	1%
Purchase of residential property	10,545	7,940	7,261	8,811	10,274	17%	-6%
Purchase of non-residential property	2,510	2,888	2,319	3,508	2,798	-20%	18%
Personal use	1,766	1,403	1,390	1,711	2,090	22%	-14%
Credit card	675	631	612	734	1,098	50%	24%
Construction	972	2,185	1,030	1,682	1,356	-19%	-5%
Working capital	6,450	6,525	7,785	7,533	8,575	14%	13%
Others	2,368	2,088	4,833	1,972	1,607	-19%	12%
Total system loan approvals	30,206	26,799	29,346	33,373	34,945	5%	2%
- Household loans	16,575	12,673	13,069	17,107	19,996	17%	-5%
- Business loans	13,631	14,126	16,277	16,266	14,949	-8%	14%

Source: BNM, Kenanga Research

01 December 2021

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

Fig 7: GIL trends

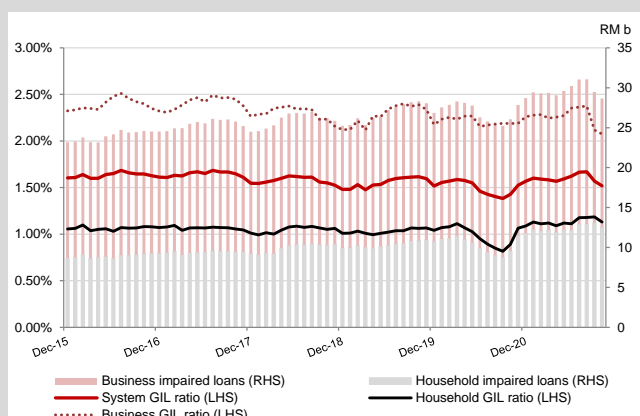
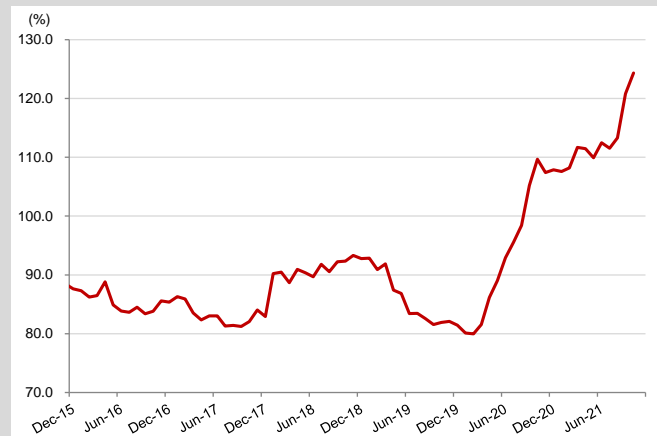


Fig 8: Loan Loss Coverage



Source: BNM, Kenanga Research

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

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Purchase of securities	338	347	402	371	333	-10%	-6%
Purchase of transport vehicles	1,454	1,756	1,812	1,661	1,527	-8%	78%
Purchase of residential property	8,161	8,499	8,466	8,735	8,553	-2%	35%
Purchase of non-residential property	3,386	3,486	3,487	3,407	3,357	-1%	9%
Personal use	2,042	2,086	2,074	2,082	1,938	-7%	23%
Credit card	332	328	320	325	319	-2%	-6%
Construction	3,371	3,396	3,435	3,256	3,181	-2%	-5%
Working capital	9,504	9,446	9,390	8,113	7,961	-2%	-8%
Others	1,615	1,688	1,677	1,528	1,492	-2%	-4%
Total system impaired loans	30,204	31,032	31,063	29,477	28,662	-3%	10%
- Household impaired loans	12,162	12,889	12,946	13,077	12,553	-4%	31%
- Business impaired loan	18,042	18,143	18,117	16,400	16,108	-2%	-2%
GIL ratio							
Purchase of securities	0.40%	0.40%	0.47%	0.42%	0.38%		
Purchase of transport vehicles	0.83%	1.01%	1.05%	0.96%	0.88%		
Purchase of residential property	1.23%	1.27%	1.26%	1.29%	1.26%		
Purchase of non-residential property	1.48%	1.53%	1.53%	1.48%	1.46%		
Personal use	2.02%	2.08%	2.06%	2.07%	1.92%		
Credit card	1.02%	1.02%	0.99%	0.99%	0.94%		
Construction	5.48%	5.48%	5.59%	5.35%	5.30%		
Working capital	2.27%	2.25%	2.26%	1.93%	1.88%		
Others	1.74%	1.81%	1.82%	1.59%	1.57%		
System	1.62%	1.67%	1.67%	1.57%	1.52%		
- Household	1.11%	1.18%	1.18%	1.19%	1.13%		
- Business	2.35%	2.36%	2.38%	2.12%	2.08%		

Source: BNM, Kenanga Research

01 December 2021

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

RM'm	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	MoM Growth (%)	YoY Growth (%)
Households	12,162	12,889	12,946	13,077	12,553	-4%	31%
Primary agriculture	1,351	1,360	1,349	1,121	1,111	-1%	-20%
Mining & quarrying	248	237	275	171	128	-25%	-3%
Manufacturing	3,959	4,013	3,981	3,243	3,110	-4%	-22%
Wholesale & retail trade, restaurants, and hotels	2,486	2,634	2,718	2,653	2,640	0%	23%
Construction	2,804	2,772	2,733	2,532	2,556	1%	7%
Transport, storage and communication	2,190	2,172	2,103	2,054	2,025	-1%	12%
Finance, insurance, and business activities	3,579	3,586	3,592	3,238	3,243	0%	-8%
Others	1,425	1,368	1,364	1,386	1,295	-7%	20%
Total system impaired loans	30,204	31,032	31,063	29,477	28,662	-3%	10%
GIL ratio							
Households	1.11%	1.18%	1.18%	1.19%	1.13%		
Primary agriculture	4.00%	4.02%	3.97%	3.18%	3.19%		
Mining & quarrying	2.15%	2.02%	2.44%	1.50%	1.10%		
Manufacturing	3.06%	3.08%	3.05%	2.45%	2.33%		
Wholesale & retail trade, restaurants and hotels	1.73%	1.83%	1.87%	1.82%	1.77%		
Construction	1.36%	1.36%	1.36%	1.26%	1.28%		
Transport, storage, and communication	5.47%	5.51%	5.46%	5.19%	5.08%		
Finance, insurance, and business activities	3.03%	2.96%	3.02%	2.63%	2.65%		
Others	1.70%	1.62%	1.62%	1.62%	1.53%		
Total system impaired loans	1.62%	1.67%	1.67%	1.57%	1.52%		

Source: BNM, Kenanga Research

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Liquidity and capital trends

Fig 9: Deposit Growth and Drivers

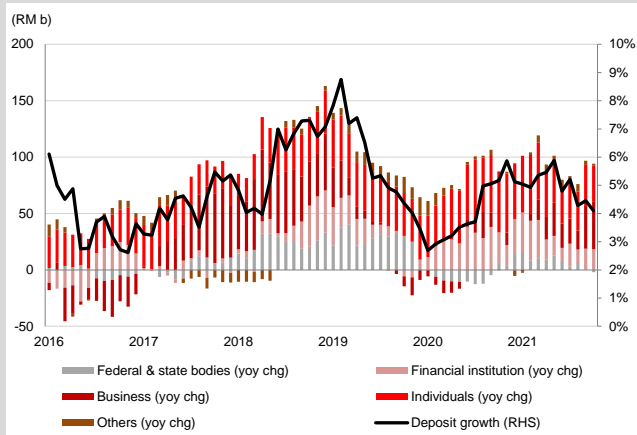


Fig 10: LDR and LCR trends

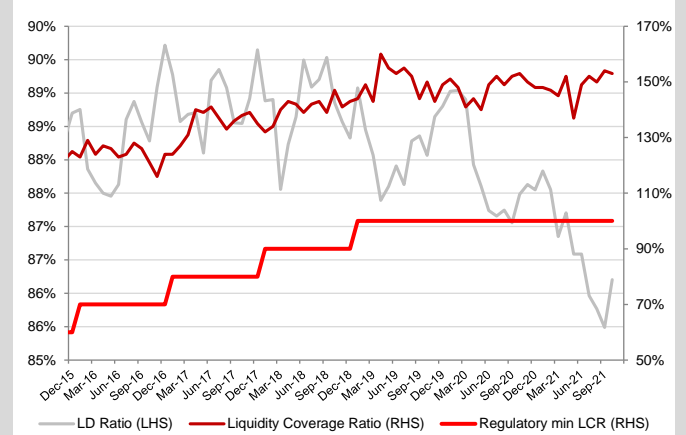


Fig 11: Liquidity

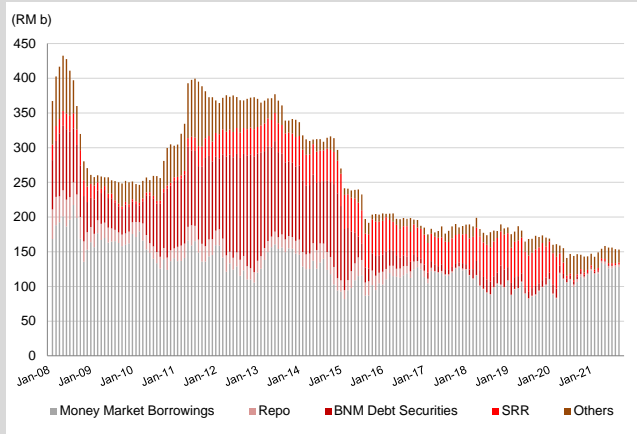
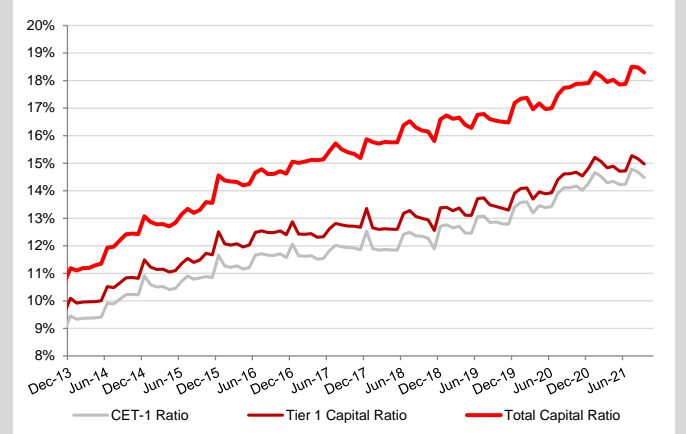


Fig 12: Capital Ratio Trends



Source: BNM, Kenanga Research

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01 December 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	1.67	3,547.2	N	12/2021	-13.1%	5.5%	80.4%	6.5%	15.1	8.4	7.8	0.4	0.4	4.3%	3.0%	1.55	MP	
ALLIANCE BANK MALAYSIA BHD	2.88	4,458.5	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.4	8.1	7.7	0.7	0.7	8.5%	4.9%	2.65	MP	
AMMB HOLDINGS BHD	3.16	10,468.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	10.1	8.5	7.7	0.7	0.7	8.1%	2.8%	3.15	MP	
BIMB HOLDINGS BHD	2.93	6,082.3	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.5	12.6	13.6	1.2	1.1	9.0%	4.8%	3.20	OP	
CIMB GROUP HOLDINGS BHD	5.18	52,947.1	N	12/2021	-1.0%	2.1%	318.0%	2.0%	43.2	10.3	10.1	0.9	0.9	8.7%	4.1%	5.25	MP	
HONG LEONG BANK BHD	18.08	39,192.3	N	06/2022	0.7%	5.1%	-3.1%	9.2%	12.9	13.4	12.2	1.3	1.2	9.2%	3.0%	18.20	MP	
MALAYAN BANKING BHD	7.98	94,747.8	N	12/2021	-8.5%	3.2%	19.4%	2.2%	13.8	11.6	11.4	1.1	1.0	9.1%	7.0%	10.55	OP	
MALAYSIA BUILDING SOCIETY BHD	0.590	4,231.2	N	12/2021	55.4%	6.8%	94.0%	25.9%	14.9	7.7	6.1	0.5	0.4	5.8%	4.1%	0.540	UP	
PUBLIC BANK BHD	3.94	76,478.1	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.7	13.7	13.8	1.6	1.5	11.4%	3.6%	3.85	MP	
RHB BANK BHD	5.28	21,874.6	N	12/2021	-5.2%	5.8%	18.0%	-0.2%	9.2	7.8	7.8	0.8	0.7	9.8%	5.9%	6.50	OP	
Simple Average					1.4%	3.1%	63.9%	5.4%	16.2	10.2	9.8	0.9	0.9	8.4%	4.3%			

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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