Banking

August 2022 Statistics: Bumper Growth a Surprise

OVERWEIGHT
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August 2022 system loans grew by 6.8% YoY (+0.7% MoM), beating our expectations. Hence, we raise our CY22 industry growth target to 6.0-6.5%. While better business loans were expected, the continued support from household loans was unanticipated in a rising rate environment. Applications too were lofty but could taper off after approvals and disbursements are granted. GIL trends were at stable levels (1.84%, -1 bps MoM) indicating that the industry could have normalised post-repayment assistance programs. Meanwhile, deposits growth came in as expected (+6.6% YoY, in line with 6.5-7.0% expectations) but CASA ratios are likely to dilute. We anticipate two additional 25 bps OPR hikes each in upcoming MPC meetings. We maintain our OVERWEIGHT call on the sector, with top picks favouring optimal loans (high SME, low fixed rate financing) and deposit (high CASA) books with added merits. Our stock picks are CIMB (OP; TP: RM6.35), MAYBANK (OP; TP: RM11.05) and ABMB (OP; TP: RM4.20).

Stronger economic backbone driving loans. In Aug 2022, system loans reported a 6.8% YoY growth. Although the previous Aug 2021 was possibly softer due to the implementation of the second loan moratorium, a surge in MoM performance (+0.7% MoM) was driven by more business loans (+1.0% MoM) arising from broad growth across industries. Meanwhile, a 0.5% MoM increase in household loans was surprising to us as we had anticipated slower numbers in reaction to higher interest rates. With our in-house GDP expectations also being revised to 6.7% (from 5.7%) amidst stronger-than-expected economic traction, we believe it would be fair for us to also **increase our industry loans growth target to 6.0-6.5%** (from 5.5-6.0%) with some easing expected in 4QCY22. (*Refer to Table 1-3 for breakdown of system loans).*

Applications still buoyant (+52% YoY) but stepping back (-2% MoM). August 2022 total applications were higher save for the purchase of securities as investment appetite diminished. Despite new business applications coming off meaningfully (-11% MoM), it still stands at peakish levels (all-time highest for monthly reporting behind July 2022) but could be an indication of bottlenecks being cleared. New household loan applications (+7% MoM) appeared to be driven by higher transport vehicles purchases but residential properties still appear to be in favourable despite a rising rate environment *(refer to Table 4-5 for breakdown of system loan applications).*

Stable GIL brings assurance. Total impaired loans increase by 8% YoY. Although this could be attributed to the absence of active repayment assistance programs, we believe this could be rising in tandem with a higher loans base. August 2022 reported a steady GIL ratio at 1.84% (July 2022: 1.85%, August 2021: 1.82%) to also indicate as such. That said, banks are marking a slightly higher loan loss coverage at 97.3% (July 2022: 96.5%, August 2021: 103.4%) to build in more defensive bookings amidst inflationary spurred concerns on delinquencies *(refer to Table 6-7 for breakdown of system impaired loans).*

Non-CASA gaining prominence. Industry deposits continued to grow (+6.6% YoY, +1.4% MoM) **in line with our CY22 deposits growth expectations of 6.5-7.0%**. That said, the readthrough of August 2022 numbers show that CASA levels have remained flat but there is a growing proportion of higher interest yielding products. We opine that banks are becoming increasing competitive in securing lower funding costs ahead of their OPR hike projections. Meanwhile industry LDR is stable at 87%.

Maintain OVERWEIGHT on the banking sector. We are further encouraged by the strong loans growth performance, emboldening sector prospects. We continue to anticipate two more 25 bps OPR hikes in the subsequent BNM MPC meetings which could lift banking margins while allaying competitive pricing pressures. This would translate favourably on CY23 earnings, notwithstanding the lapse of CY22's prosperity tax in addition to higher possibilities of writebacks. For the 4QCY22 season, we feature the following as our top picks :- (i) **CIMB (OP; TP: RM6.35)** for defensive NOII reporting as trading performances are supported by its regional entities. It also commands on of the highest CASA books amongst the large cap banks. Notably, we have awarded CIMB with a 4-star ESG rating for its sustainable financing efforts; (ii) **MAYBANK (OP; TP: RM11.05)** which remains our dividend favourite (7-8% yield) and provide shelter for investors preferring more secured returns. As the market share leader in loans and deposits, MAYBANK would also be widely exposed to the benefits of economic reopening; and (iii) **ABMB (OP; TP: RM4.20)** from amongst the small cap banks for being the leader in SME loan proportions (30%) which is expected to be the highest growth segment as well as for its highest CASA mix (50%). The stock's fundamentals are also comparatively better than its larger cap peers in terms of ROE (10%) and dividend yields (6%).

Appendix

Fig 1 : System Loan Growth

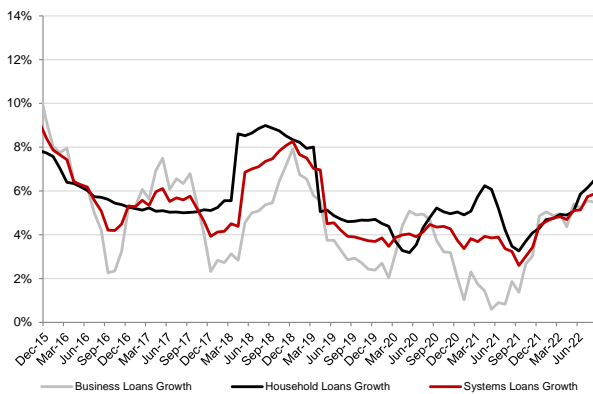

Source: BNM, Kenanga

Fig 2: System Loans Growth Drivers

Source: BNM, Kenanga
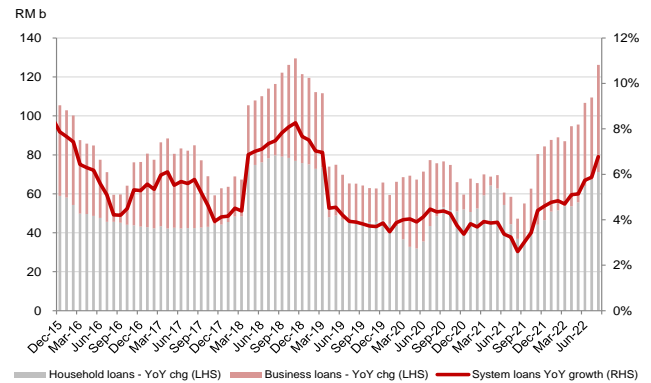
Table 1: Breakdown of System Loans

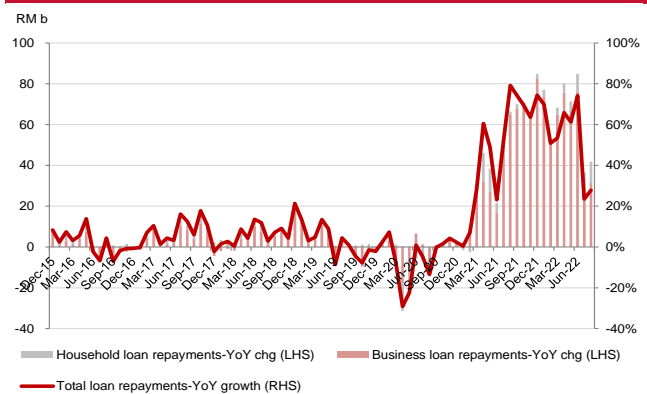| RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	91,311	91,425	91,325	91,629	92,129	*0.5%*	*6.8%*
Purchase of transport vehicles	182,986	183,411	184,936	185,882	187,299	*0.8%*	*8.1%*
Purchase of residential property	704,410	707,164	711,310	715,020	718,922	*0.5%*	*7.5%*
Purchase of non-residential property	233,300	233,845	234,669	235,025	235,729	*0.3%*	*3.8%*
Personal use	106,262	106,270	106,652	106,910	107,328	*0.4%*	*3.6%*
Credit card	35,673	35,945	36,789	37,537	38,000	*1.2%*	*16.3%*
Construction	57,760	57,756	58,064	58,910	58,919	*0.0%*	*-4.3%*
Working capital	442,031	443,922	449,045	446,767	455,378	*1.9%*	*9.4%*
Others	94,842	94,600	94,474	96,394	94,401	*-2.1%*	*2.5%*
Total system loans	**1,948,576**	**1,954,336**	**1,967,266**	**1,974,075**	**1,988,107**	***0.7%***	***6.8%***
- Household loans	*1,147,833*	*1,151,435*	*1,157,855*	*1,162,552*	*1,168,869*	*0.5%*	*6.5%*
- Business loans	*800,743*	*802,901*	*809,410*	*811,523*	*819,237*	*1.0%*	*7.2%*
○ *Primary agriculture*	*33,960*	*34,917*	*35,121*	*34,226*	*34,011*	*-0.6%*	*-5.9%*
○ *Mining & quarrying*	*10,138*	*10,255*	*9,892*	*10,154*	*10,543*	*3.8%*	*-14.0%*
○ *Manufacturing*	*130,999*	*131,466*	*133,058*	*131,328*	*129,748*	*-1.2%*	*7.4%*
○ *Wholesale & retail trade, restaurants and hotels*	*154,972*	*155,633*	*157,662*	*160,638*	*161,500*	*0.5%*	*13.4%*
○ *Construction*	*102,107*	*101,474*	*101,250*	*100,997*	*101,583*	*0.6%*	*-0.9%*
○ *Real estate*	*106,504*	*106,049*	*106,834*	*106,974*	*106,654*	*-0.3%*	*0.4%*
○ *Transport, storage and communication*	*48,608*	*48,845*	*50,055*	*50,029*	*51,029*	*2.0%*	*21.7%*
○ *Finance, insurance and business activities*	*126,985*	*126,903*	*128,717*	*128,363*	*132,228*	*3.0%*	*6.0%*
○ *Others*	*86,468*	*87,358*	*86,820*	*88,814*	*91,941*	*3.5%*	*19.0%*

Source: BNM, Kenanga Research

Fig 3: Loans Disbursement Trends
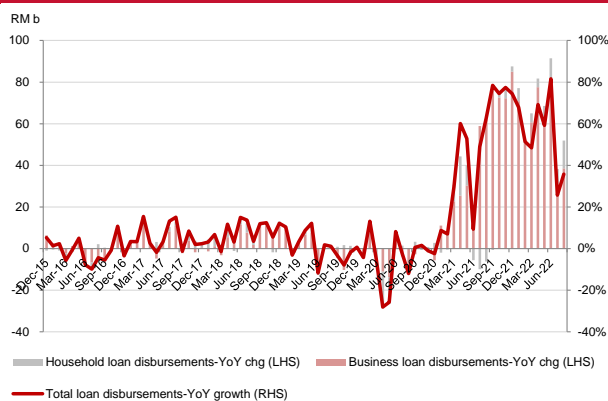
Source: BNM, Kenanga

Fig 4: Loans Repayment Trend

Source: BNM, Kenanga

Table 2: Breakdown of System Loans Disbursement

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,139	2,352	2,506	2,933	2,848	*-2.9%*	*-4.2%*
Purchase of transport vehicles	5,649	4,370	5,611	4,976	5,541	*11.4%*	*247.8%*
Purchase of residential property	9,453	8,204	10,181	9,528	10,157	*6.6%*	*56.9%*
Purchase of non-residential property	4,316	3,955	4,588	4,139	4,865	*17.5%*	*76.4%*
Personal use	3,714	3,201	4,202	3,871	3,971	*2.6%*	*59.2%*
Credit card	15,401	15,572	15,891	16,297	16,766	*2.9%*	*47.8%*
Construction	3,652	3,128	5,024	4,461	3,345	*-25.0%*	*25.0%*
Working capital	139,063	131,442	145,617	129,962	140,951	*8.5%*	*32.6%*
Others	15,432	12,253	9,972	10,947	8,559	*-21.8%*	*0.5%*
Total loans disbursed	**199,820**	**184,477**	**203,592**	**187,114**	**197,003**	***5.3%***	***35.8%***
- Household loans	*34,677*	*31,721*	*35,776*	*33,888*	*36,579*	*7.9%*	*57.9%*
- Business loans	*165,143*	*152,756*	*167,816*	*153,226*	*160,424*	*4.7%*	*31.6%*

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,179	2,543	2,931	2,913	2,592	*-11.0%*	*-9.1%*
Purchase of transport vehicles	4,646	4,451	4,571	4,558	4,665	*2.3%*	*32.7%*
Purchase of residential property	7,413	7,150	7,778	7,799	8,202	*5.2%*	*52.9%*
Purchase of non-residential property	4,795	4,156	4,472	4,694	4,942	*5.3%*	*52.5%*
Personal use	4,270	3,656	4,336	4,166	4,178	*0.3%*	*51.0%*
Credit card	16,370	16,389	16,045	17,773	17,455	*-1.8%*	*47.7%*
Construction	4,395	3,466	5,147	4,261	4,003	*-6.1%*	*25.0%*
Working capital	140,623	133,607	143,814	136,028	136,100	*0.1%*	*27.1%*
Others	16,744	12,539	10,133	9,305	9,838	*5.7%*	*-5.2%*
Total loans repaid	**202,435**	**187,959**	**199,228**	**191,497**	**191,976**	***0.2%***	***27.8%***
- Household loans	*33,888*	*32,227*	*33,545*	*33,678*	*34,855*	*3.5%*	*42.6%*
- Business loans	*168,546*	*155,732*	*165,683*	*157,820*	*157,121*	*-0.4%*	*25.0%*

Source: BNM, Kenanga Research

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

Source: BNM, Kenanga
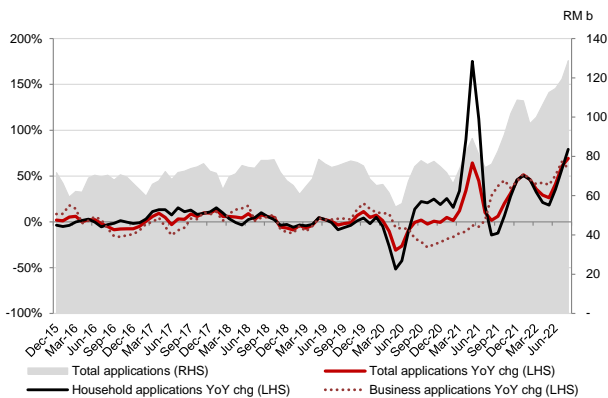
Fig 6: Loans Approval Trends (3-month MA)

Source: BNM, Kenanga
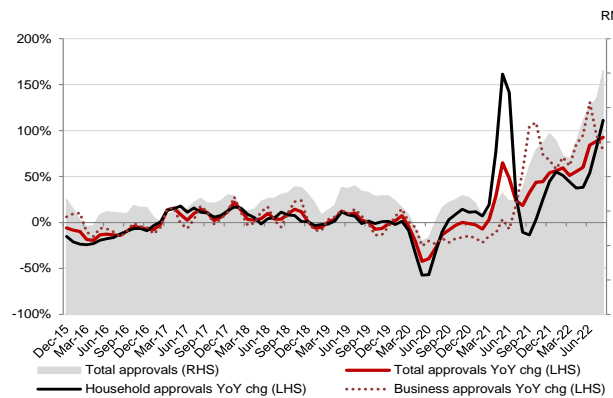
Table 4: Breakdown of System Loan Applications

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,964	2,711	5,555	3,112	2,986	-4%	-36%
Purchase of transport vehicles	13,997	12,747	14,852	14,107	15,145	7%	178%
Purchase of residential property	40,755	38,932	46,676	39,645	41,808	5%	63%
Purchase of non-residential property	11,148	9,192	11,671	11,416	11,563	1%	77%
Personal use	5,702	5,377	6,908	6,696	7,360	10%	76%
Credit card	3,975	3,661	3,873	4,131	4,856	18%	99%
Construction	5,238	3,776	6,861	13,728	11,471	-16%	192%
Working capital	28,391	20,790	24,978	33,995	27,283	-20%	13%
Others	5,019	3,315	4,604	4,536	6,529	44%	-19%
Total system loan applications	**117,188**	**100,501**	**125,979**	**131,367**	**129,002**	**-2%**	**52%**
- Household loans	*67,308*	*63,066*	*75,436*	*67,837*	*72,320*	*7%*	*81%*
- Business loans	*49,880*	*37,435*	*50,543*	*63,529*	*56,682*	*-11%*	*26%*

Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,023	1,877	3,182	2,442	2,381	-2%	-25%
Purchase of transport vehicles	9,585	8,747	9,829	10,074	11,419	13%	184%
Purchase of residential property	16,858	16,238	18,966	17,014	17,402	2%	94%
Purchase of non-residential property	5,632	4,560	6,012	5,813	5,865	1%	89%
Personal use	2,218	1,854	2,398	2,457	2,669	9%	105%
Credit card	1,569	1,441	1,510	1,528	1,855	21%	119%
Construction	1,713	2,809	3,568	10,859	4,123	-62%	129%
Working capital	17,838	12,893	18,388	12,144	30,822	154%	100%
Others	1,956	3,488	4,629	2,620	2,127	-19%	-55%
Total system loan approvals	**59,391**	**53,906**	**68,480**	**64,950**	**78,662**	**21%**	**81%**
- Household loans	*30,839*	*27,900*	*33,374*	*31,970*	*33,503*	*5%*	*114%*
- Business loans	*28,552*	*26,006*	*35,106*	*32,980*	*45,160*	*37%*	*63%*

Source: BNM, Kenanga Research

Fig 7: GIL trends
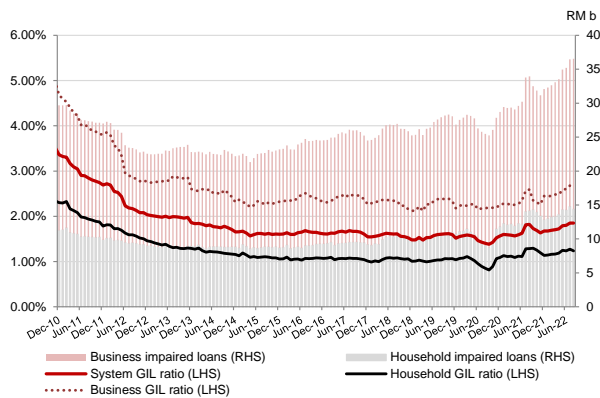
Source: BNM, Kenanga

Fig 8: Loan Loss Coverage

Source: BNM, Kenanga

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

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	485	468	443	445	351	-21%	-14%
Purchase of transport vehicles	1,005	1,048	1,019	1,069	1,088	2%	-41%
Purchase of residential property	9,336	9,801	9,709	10,073	9,739	-3%	9%
Purchase of non-residential property	3,850	3,993	3,943	4,020	4,136	3%	8%
Personal use	2,725	2,859	2,907	3,009	2,919	-3%	5%
Credit card	296	304	321	326	338	4%	2%
Construction	4,108	4,315	4,457	4,625	4,622	0%	11%
Working capital	9,948	10,408	10,691	11,143	11,556	4%	18%
Others	1,788	1,757	1,715	1,737	1,788	3%	-5%
Total system impaired loans	**33,540**	**34,953**	**35,204**	**36,447**	**36,538**	**0%**	**8%**
- Household impaired loans	*13,642*	*14,317*	*14,262*	*14,765*	*14,379*	*-3%*	*2%*
- Business impaired loan	*19,898*	*20,635*	*20,942*	*21,683*	*22,159*	*2%*	*12%*
GIL ratio							
Purchase of securities	0.53%	0.51%	0.48%	0.49%	0.38%		
Purchase of transport vehicles	0.55%	0.57%	0.55%	0.57%	0.58%		
Purchase of residential property	1.33%	1.39%	1.36%	1.41%	1.35%		
Purchase of non-residential property	1.65%	1.71%	1.68%	1.71%	1.75%		
Personal use	2.56%	2.69%	2.73%	2.81%	2.72%		
Credit card	0.83%	0.84%	0.87%	0.87%	0.89%		
Construction	7.11%	7.47%	7.68%	7.85%	7.84%		
Working capital	2.25%	2.34%	2.38%	2.49%	2.54%		
Others	1.88%	1.86%	1.82%	1.80%	1.89%		
System	**1.72%**	**1.79%**	**1.79%**	**1.85%**	**1.84%**		
- Household	*1.19%*	*1.25%*	*1.24%*	*1.28%*	*1.24%*		
- Business	*2.49%*	*2.58%*	*2.61%*	*2.68%*	*2.73%*		

Source: BNM, Kenanga Research

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

RM m	Apr-22	May-22	Jun-22	Jul-22	Aug-22	MoM Growth (%)	YoY Growth (%)
Households	13,642	14,317	14,262	14,765	14,379	-3%	2%
Primary agriculture	1,204	1,208	1,479	1,495	1,509	1%	13%
Mining & quarrying	1,386	1,407	1,410	1,416	1,416	0%	482%
Manufacturing	3,033	3,039	2,896	2,961	2,852	-4%	-30%
Wholesale & retail trade, restaurants, and hotels	1,837	1,944	1,912	2,864	3,001	5%	61%
Construction	3,760	3,990	4,166	4,817	4,922	2%	39%
Transport, storage and communication	2,866	2,820	2,736	2,748	2,739	0%	-13%
Finance, insurance, and business activities	319	338	470	3,920	4,275	9%	2538%
Others	5,492	5,889	5,873	1,462	1,446	-1%	-74%
Total system impaired loans	**33,540**	**34,953**	**35,204**	**36,447**	**36,538**	**0%**	**8%**
GIL ratio							
Households	1.19%	1.25%	1.24%	1.28%	1.24%		
Primary agriculture	*3.55%*	*3.56%*	*4.24%*	*4.26%*	*4.41%*		
Mining & quarrying	*13.67%*	*13.88%*	*13.75%*	*14.32%*	*13.94%*		
Manufacturing	*2.32%*	*2.32%*	*2.20%*	*2.23%*	*2.17%*		
Wholesale & retail trade, restaurants and hotels	*1.19%*	*1.25%*	*1.23%*	*1.82%*	*1.87%*		
Construction	*1.80%*	*1.91%*	*2.01%*	*2.31%*	*2.37%*		
Transport, storage, and communication	*5.90%*	*5.80%*	*5.60%*	*5.49%*	*5.48%*		
Finance, insurance, and business activities	0.25%	0.27%	0.37%	3.05%	3.33%		
Others	1.57%	1.63%	1.58%	1.68%	1.63%		
Total system impaired loans	**1.72%**	**1.79%**	**1.79%**	**1.85%**	**1.84%**		

Source: BNM, Kenanga Research
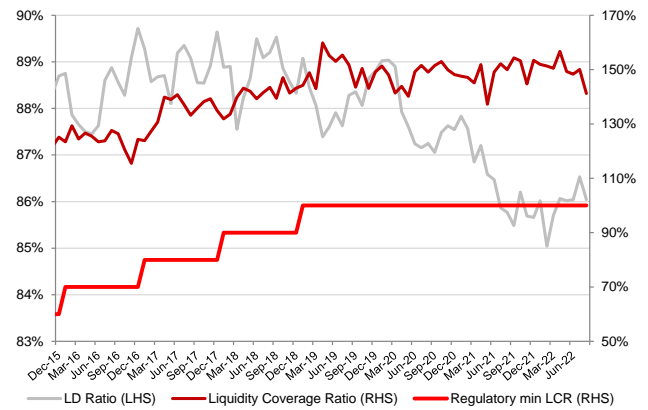
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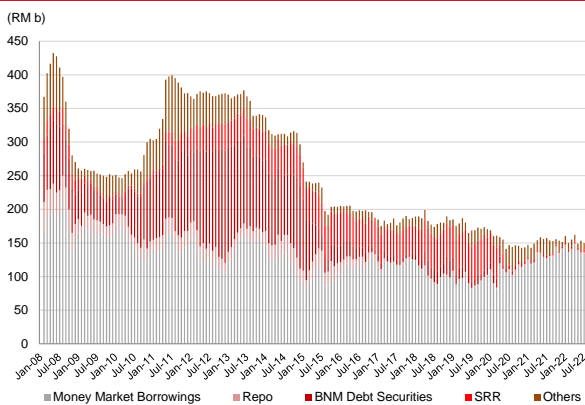**Fig 9: Deposit Growth and Drivers**
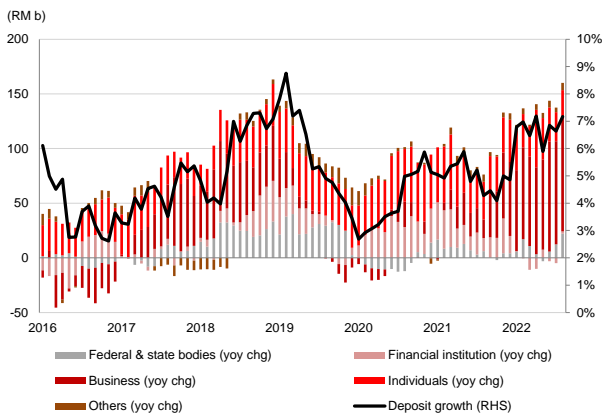
Source: BNM, Kenanga

Fig 10: LDR and LCR trends
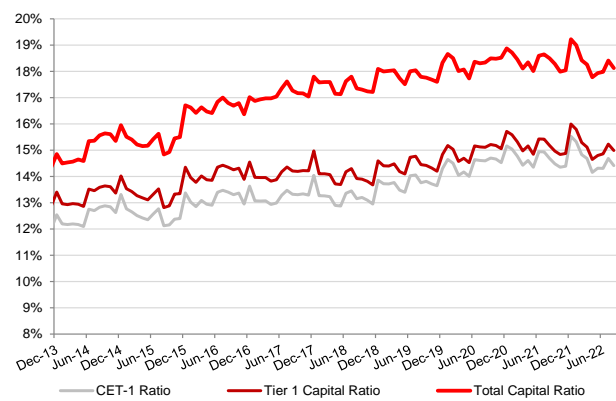

Source: BNM, Kenanga

Fig 11: Liquidity

Source: BNM, Kenanga

Fig 12: Capital Ratio Trends

Source: BNM, Kenanga

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	OP	1.99	2.45	23.1%	4,402.5	N	12/2022	28.0	35.7	12.3%	27.5%	7.1	5.6	0.4	5.9%	11.0	5.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.53	4.20	19.0%	5,464.8	N	03/2023	44.8	51.0	21.0%	13.8%	7.9	6.9	0.8	10.5%	22.0	6.2%
AMMB HOLDINGS BHD	OP	3.90	4.75	21.8%	12,915.8	N	03/2023	49.8	54.2	9.4%	8.8%	7.8	7.2	0.7	9.5%	16.0	4.1%
BANK ISLAM MALAYSIA BHD	MP	2.57	2.45	-4.7%	5,539.0	Y	12/2022	19.5	24.4	-9.2%	23.0%	13.2	10.5	0.9	7.3%	9.7	3.8%
CIMB GROUP HOLDINGS BHD	OP	5.13	6.35	23.8%	53,732.9	N	12/2022	52.2	65.9	12.6%	26.2%	9.8	7.8	0.8	8.7%	26.0	5.1%
HONG LEONG BANK BHD	OP	20.50	23.35	13.9%	44,438.2	N	06/2023	194.3	201.5	21.0%	3.7%	10.5	10.2	1.3	12.3%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.58	11.05	28.8%	102,756.2	N	12/2022	73.3	90.7	5.2%	23.7%	11.7	9.5	1.1	9.8%	60.0	7.0%
PUBLIC BANK BHD	MP	4.23	4.65	9.9%	82,107.2	N	12/2022	29.5	37.5	1.3%	26.9%	14.3	11.3	1.6	11.6%	15.5	3.7%
RHB BANK BHD	OP	5.56	7.00	25.9%	23,419.1	N	12/2022	65.4	78.7	-5.6%	20.3%	8.5	7.1	0.8	9.2%	32.0	5.8%
Simple Average										**8.4%**	**21.3%**	**9.9**	**8.2**	**0.9**	**9.1%**		**5.1%**

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.