

Banking

Oct 2022 Statistics: Reopening Impact Still Present

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

OVERWEIGHT



October 2022 system loans grew by 6.5% YoY (+0.5% MoM) in line with our CY22 industry loans growth target of 6.0-6.5%. Broadly, more inflows are expected to be seen from businesses mainly on greater working capital needs as household demand for debt could wane on higher borrowing costs. Gross impaired loans are flattish, indicating that the current climate could be at equilibrium though corporates are reporting possibly higher delinquencies from rate-triggered inflation. In terms of deposits, industry growth of 6.9% YoY (+0.4% MoM) is also within our expectation (6.5-7.0% for CY22) with a budding interest on higher yielding deposits as product pricing are becoming more competitive. We anticipate one 25 bps OPR hike in the upcoming MPC meetings in 1QCY23. We maintain our OVERWEIGHT call on the sector, with top picks favouring optimal loans (high SME, low fixed rate financing) and deposit books (high CASA) with added merits. Our stock picks are CIMB (OP; TP: RM6.40), MAYBANK (OP; TP: RM10.40) and ABMB (OP; TP: RM4.20).



Recovery spillovers. In Oct 2022, system loans demonstrated a 6.5% YoY increase as both household (+6.3%) and business loans (+6.3%) regained strength from a better economic landscape. **This is within our expectations that industry loans growth would close at 6.0-6.5% at Dec 2022.** On a MoM basis, household loans (+0.5%) saw expansion from higher residential property demand and hire purchases with credit card spending seeing the highest sequential increase. Meanwhile, business loans (+0.9%) continued to be led by greater working capital requirements with logistics sectors being a key driver during the month. (Refer to Table 1-3 for breakdown of system loans).

Easing applications persisted (-7% MoM). Oct 2022 total application was up 13% YoY but continued to show a gradual reduction for the third consecutive month. Household loans are likely tapering off due to diminishing retail appetite as borrowing cost rises in the ongoing interest rate upcycle, especially on variable-rate housing loans. Business loans applications also reflect a monthly easing (refer to Table 4-5 for breakdown of system loan applications).

Stable reporting of asset quality. Total impaired loans rose by 15% YoY in line with the increase in overall loans base, but business loans contributed predominantly to the rise (+23%) due to these accounts being less collateralised as opposed to household loans. Meanwhile, there was a slight increase in households MoM as certain retail accounts may have not been able to financially recoup post-graduation from respective targeted repayment assistance programs. Broadly, industry gross impaired loans as of Oct 2022 came in at 1.82% (Sep 2022: 1.82%, Oct 2021: 1.69%). Industry loan loss coverage appears to be reducing at 96.7% (Sep 2022: 97.8%, Oct 2021: 111.7%) possibly as corporates begin to utilise and/or writeback provisions set in place. (refer to Table 6-7 for breakdown of system impaired loans).

Term deposits picking up. Industry deposits continued to show strength (+6.9% YoY, +0.4% MoM), **in line with our CY22 deposits growth expectations of 6.5-7.0%** as interest in higher yielding products could come in the remaining months, riding on more rewarding rates. The migration is slowly becoming apparent as CASA levels started to trickle at 29.5% (Sep 2022: 29.6%, Oct 2022: 30.2%). Competition for deposit will likely to worsen as banks seek to capture as much low-cost funds as possible ahead of further anticipated OPR hikes. Meanwhile, system LDR remained relatively stable at 85.9% (+0.2ppt MoM) as loans growth is also pacing together with deposits.

Maintain OVERWEIGHT on the banking sector. With OPR having seen four 25 bps hikes to 2.75%, we believe the banking sector will once again be in a highly competitive cycle as banks strive to optimise their funding yields. We anticipate one more rate hike in 1QCY23 before BNM may take a more observative approach. At present, we are assured that healthy domestic economic prospects will keep loans demand strong. Still, there are concerns arising from recessionary risks that could put a drag on asset quality as certain accounts are already showing signs of delinquency. Additionally, unforeseen shifts in global macros may stress overall business activities. With that in mind, we continue to make our picks selectively, skewing to names that have defensive angles and firm market positioning.

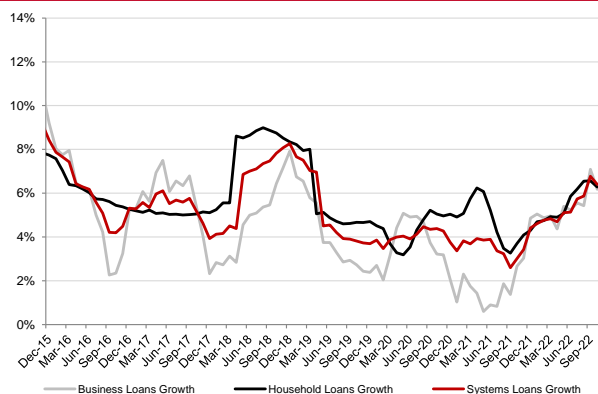
For the 4QCY22 season, we feature the following as our top picks :- (i) **CIMB (OP; TP: RM6.40)** for defensive NOII reporting as trading performances are supported by its regional entities. It also commands one of the highest CASA books amongst the large cap banks. Notably, we have awarded CIMB with a 4-star ESG rating for its sustainable financing efforts, (ii) **MAYBANK (OP; TP: RM10.40)** 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 economy 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%).



01 December 2022

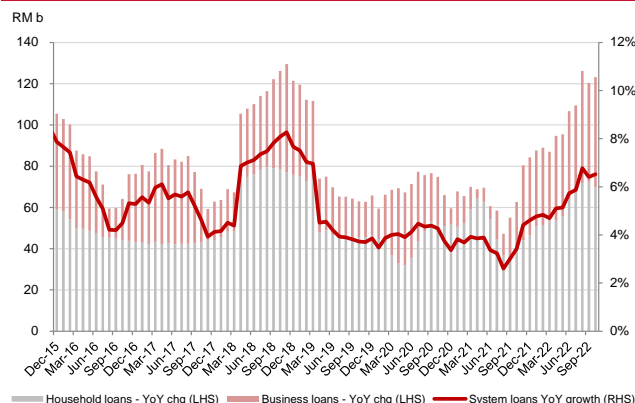
Appendix

Fig 1 : System Loan Growth



Source: BNM, Kenanga

Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga

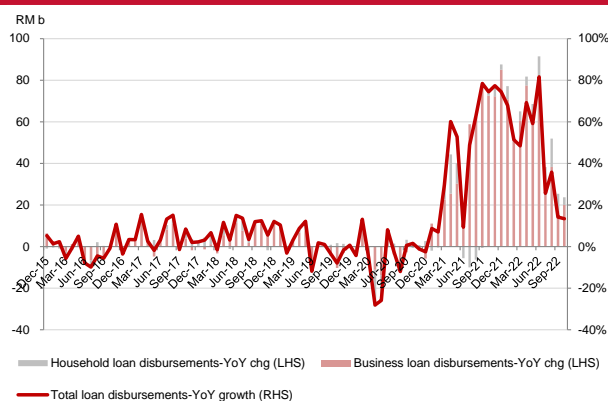
Table 1: Breakdown of System Loans

RM m	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	91,325	91,629	92,126	92,763	92,462	-0.3%	3.9%
Purchase of transport vehicles	184,936	185,882	187,300	188,823	189,841	0.5%	8.5%
Purchase of residential property	711,310	715,020	718,925	723,454	727,535	0.6%	7.3%
Purchase of non-residential property	234,669	235,025	235,729	236,514	238,058	0.7%	3.7%
Personal use	106,651	106,910	107,328	107,712	107,913	0.2%	3.3%
Credit card	36,787	37,534	37,997	38,447	39,039	1.5%	13.6%
Construction	58,064	58,910	58,919	59,454	59,842	0.7%	-0.5%
Working capital	449,042	446,765	455,376	455,779	460,930	1.1%	8.6%
Others	94,474	96,394	94,401	96,672	96,771	0.1%	2.8%
Total system loans	1,967,259	1,974,070	1,988,102	1,999,617	2,012,389	0.6%	6.5%
- Household loans	1,157,857	1,163,031	1,169,525	1,176,349	1,181,929	0.5%	6.3%
- Business loans	809,402	811,039	818,577	823,268	830,460	0.9%	6.9%
o Primary agriculture	36,162	35,270	37,700	36,821	37,137	0.9%	0.4%
o Mining & quarrying	10,332	10,597	10,981	11,156	10,713	-4.0%	-12.3%
o Manufacturing	133,308	131,610	130,018	129,647	129,292	-0.3%	4.4%
o Wholesale & retail trade, restaurants and hotels	158,227	161,206	162,066	163,104	163,170	0.0%	11.5%
o Construction	101,517	101,284	101,956	101,835	102,482	0.6%	0.4%
o Real estate	106,927	107,074	106,747	106,474	107,563	1.0%	1.0%
o Transport, storage and communication	50,107	50,086	51,135	50,323	52,429	4.2%	21.1%
o Finance, insurance and business activities	128,771	128,441	132,374	137,257	138,660	1.0%	9.2%
o Others	84,051	85,470	85,601	86,653	89,015	2.7%	12.6%

Source: BNM, Kenanga Research

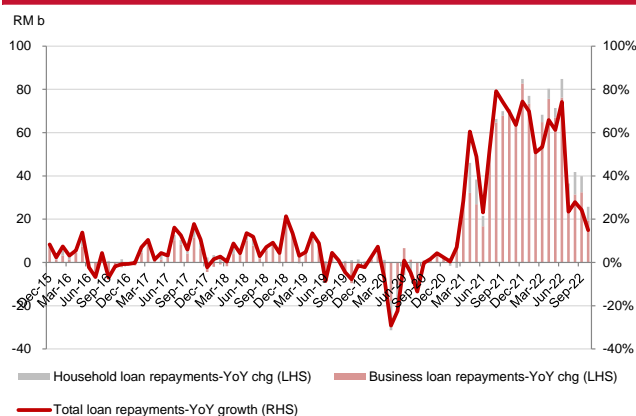
01 December 2022

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	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,506	2,933	2,845	3,042	2,143	-29.6%	-37.9%
Purchase of transport vehicles	5,611	4,976	5,542	5,612	5,098	-9.2%	8.9%
Purchase of residential property	10,181	9,528	10,160	10,731	9,747	-9.2%	5.8%
Purchase of non-residential property	4,588	4,139	4,865	4,706	5,408	14.9%	46.0%
Personal use	4,202	3,871	3,971	4,131	3,878	-6.1%	13.4%
Credit card	15,891	16,297	16,766	17,420	17,883	2.7%	26.7%
Construction	5,024	4,461	3,345	4,163	2,988	-28.2%	-1.6%
Working capital	145,617	129,962	140,951	143,357	142,207	-0.8%	12.6%
Others	9,972	10,947	8,559	10,815	11,040	2.1%	25.9%
Total loans disbursed	203,592	187,114	197,003	203,977	200,393	-1.8%	13.4%
- Household loans	35,777	34,364	36,761	37,842	36,446	-3.7%	11.4%
- Business loans	167,815	152,750	160,242	166,135	163,946	-1.3%	13.9%

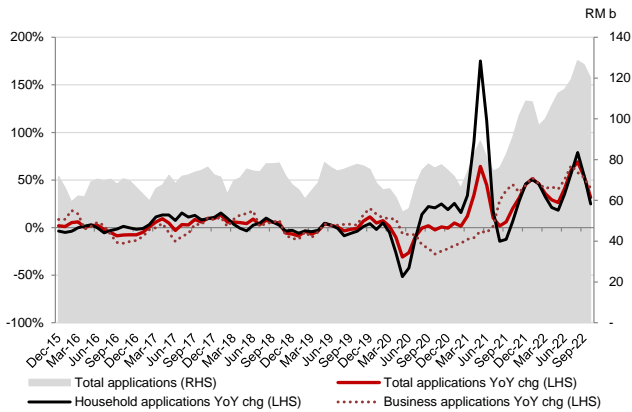
Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM m	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,931	2,913	2,592	2,903	2,851	-1.8%	-11.8%
Purchase of transport vehicles	4,571	4,558	4,665	4,608	4,613	0.1%	19.8%
Purchase of residential property	7,778	7,799	8,202	8,024	7,819	-2.6%	29.5%
Purchase of non-residential property	4,472	4,694	4,942	4,679	4,774	2.0%	20.9%
Personal use	4,336	4,166	4,178	4,312	4,194	-2.7%	21.1%
Credit card	16,045	17,773	17,455	17,114	17,472	2.1%	25.8%
Construction	5,147	4,261	4,003	4,630	2,871	-38.0%	-34.1%
Working capital	143,814	136,027	136,173	148,793	141,760	-4.7%	15.1%
Others	10,133	9,305	9,838	8,950	11,557	29.1%	12.5%
Total loans repaid	199,227	191,496	192,047	204,013	197,912	-3.0%	15.0%
- Household loans	33,545	33,680	34,864	34,546	34,762	0.6%	22.5%
- Business loans	165,682	157,816	157,184	169,467	163,150	-3.7%	13.5%

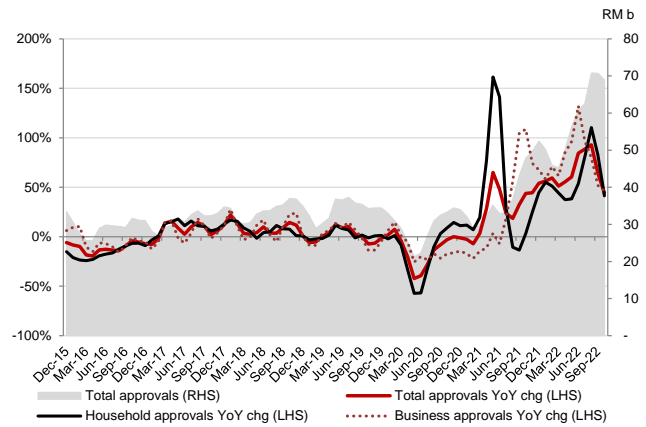
Source: BNM, Kenanga Research

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	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	5,502	3,117	2,986	4,068	3,688	-9%	1%
Purchase of transport vehicles	14,845	14,104	15,132	13,269	12,037	-9%	-7%
Purchase of residential property	46,671	39,633	41,784	35,885	33,525	-7%	-15%
Purchase of non-residential property	11,634	11,450	11,528	11,511	10,428	-9%	8%
Personal use	6,909	6,698	7,326	6,848	6,665	-3%	12%
Credit card	3,873	4,130	4,842	5,063	4,820	-5%	41%
Construction	6,859	13,561	11,436	6,983	4,475	-36%	52%
Working capital	24,868	34,133	27,125	28,685	29,285	2%	56%
Others	4,609	4,534	6,528	7,591	6,617	-13%	175%
Total system loan applications	125,770	131,361	128,687	119,905	111,539	-7%	13%
- Household loans	75,433	67,822	72,254	64,294	60,057	-7%	-7%
- Business loans	50,337	63,539	56,433	55,612	51,481	-7%	50%

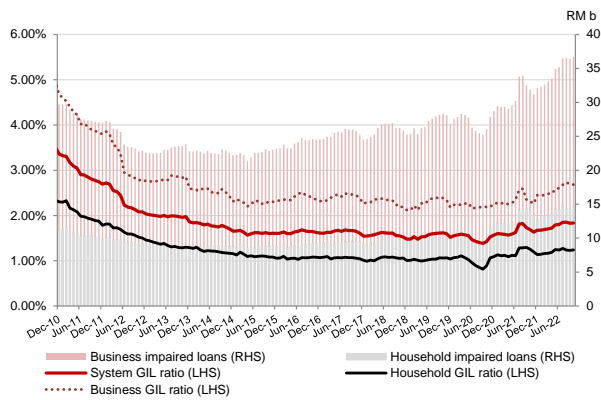
Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM m	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,182	2,441	2,329	1,738	3,468	100%	28%
Purchase of transport vehicles	9,608	9,868	11,355	9,296	8,868	-5%	8%
Purchase of residential property	18,970	17,014	17,427	14,880	13,798	-7%	-5%
Purchase of non-residential property	6,018	5,949	5,994	5,878	6,750	15%	70%
Personal use	2,400	2,456	2,695	2,460	2,377	-3%	20%
Credit card	1,512	1,531	1,863	1,897	1,773	-7%	31%
Construction	3,568	10,748	4,244	7,462	2,356	-68%	18%
Working capital	18,397	12,325	31,151	20,119	17,319	-14%	21%
Others	4,629	2,618	2,155	4,225	2,981	-29%	66%
Total system loan approvals	68,282	64,949	79,213	67,956	59,689	-12%	17%
- Household loans	33,172	31,792	33,482	29,090	27,010	-7%	3%
- Business loans	35,110	33,157	45,732	38,865	32,679	-16%	33%

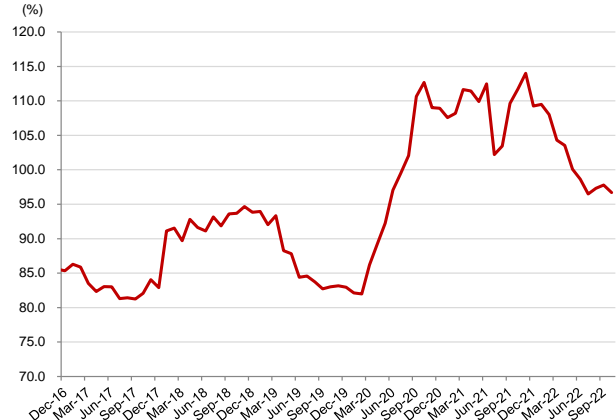
Source: BNM, Kenanga Research

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	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Purchase of securities	443	445	351	340	336	-1%	-3%
Purchase of transport vehicles	1,020	1,069	1,088	1,117	1,146	3%	-26%
Purchase of residential property	10,006	10,073	9,739	9,681	9,797	1%	8%
Purchase of non-residential property	3,988	4,020	4,136	4,284	4,359	2%	17%
Personal use	2,909	3,009	2,919	2,967	3,006	1%	9%
Credit card	321	326	338	346	376	9%	12%
Construction	4,454	4,625	4,622	4,604	4,631	1%	21%
Working capital	10,744	11,141	11,554	11,256	11,224	0%	32%
Others	1,732	1,737	1,788	1,804	1,800	0%	6%
Total system impaired loans	35,617	36,445	36,536	36,398	36,675	1%	15%
- Household impaired loans	14,262	14,765	14,379	14,373	14,588	1%	5%
- Business impaired loan	21,355	21,681	22,157	22,025	22,087	0%	23%
GIL ratio							
Purchase of securities	0.48%	0.49%	0.38%	0.37%	0.36%		
Purchase of transport vehicles	0.55%	0.57%	0.58%	0.59%	0.60%		
Purchase of residential property	1.41%	1.41%	1.35%	1.34%	1.35%		
Purchase of non-residential property	1.70%	1.71%	1.75%	1.81%	1.83%		
Personal use	2.73%	2.81%	2.72%	2.75%	2.79%		
Credit card	0.87%	0.87%	0.89%	0.90%	0.96%		
Construction	7.67%	7.85%	7.84%	7.74%	7.74%		
Working capital	2.39%	2.49%	2.54%	2.47%	2.44%		
Others	1.83%	1.80%	1.89%	1.87%	1.86%		
System	1.81%	1.85%	1.84%	1.82%	1.82%		
- Household	1.24%	1.28%	1.24%	1.23%	1.24%		
- Business	2.61%	2.68%	2.73%	2.69%	2.68%		

Source: BNM, Kenanga Research

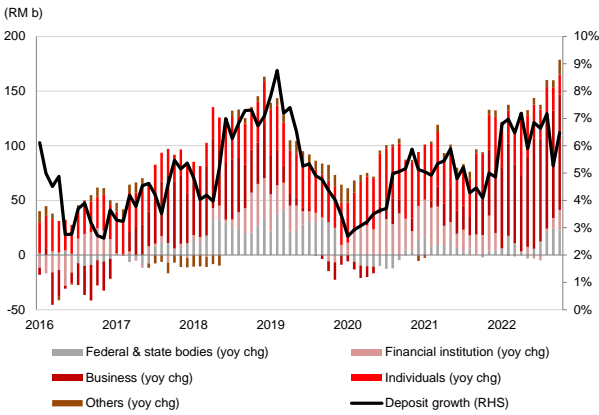
Table 7: Breakdown of System Impaired Loans and GIL Ratio by Sector

RM m	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	MoM Growth (%)	YoY Growth (%)
Households	14,262	14,765	14,379	14,373	14,588	1%	5%
Primary agriculture	1,479	1,498	1,513	1,445	1,478	2%	34%
Mining & quarrying	1,410	1,416	1,416	1,327	1,382	4%	897%
Manufacturing	2,896	2,963	2,853	3,003	2,996	0%	-8%
Wholesale & retail trade, restaurants, and hotels	1,912	2,868	3,005	3,018	3,044	1%	69%
Construction	4,166	4,818	4,922	5,074	5,100	1%	57%
Transport, storage and communication	2,736	2,764	2,755	2,711	2,652	-2%	-14%
Finance, insurance, and business activities	470	3,919	4,274	4,109	4,123	0%	2555%
Others	6,286	1,435	1,420	1,337	1,312	-2%	-75%
Total system impaired loans	35,617	36,445	36,536	36,398	36,675	1%	15%
GIL ratio							
Households	1.24%	1.28%	1.24%	1.23%	1.24%		
Primary agriculture	4.06%	4.14%	4.29%	3.83%	4.02%		
Mining & quarrying	13.19%	13.71%	13.36%	12.09%	12.38%		
Manufacturing	2.20%	2.22%	2.17%	2.31%	2.31%		
Wholesale & retail trade, restaurants and hotels	1.22%	1.81%	1.86%	1.86%	1.87%		
Construction	2.00%	2.31%	2.36%	2.43%	2.45%		
Transport, storage, and communication	5.59%	5.52%	5.50%	5.30%	5.27%		
Finance, insurance, and business activities	0.37%	3.04%	3.33%	3.10%	3.00%		
Others	1.64%	1.71%	1.66%	1.56%	1.51%		
Total system impaired loans	1.81%	1.85%	1.84%	1.82%	1.82%		

Source: BNM, Kenanga Research

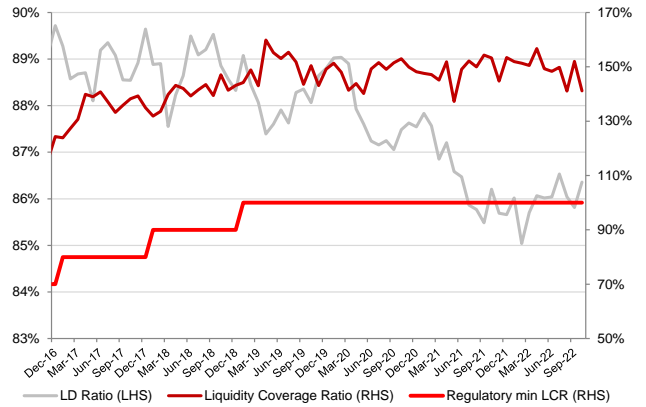
This section is intentionally left blank

Fig 9: Deposit Growth and Drivers



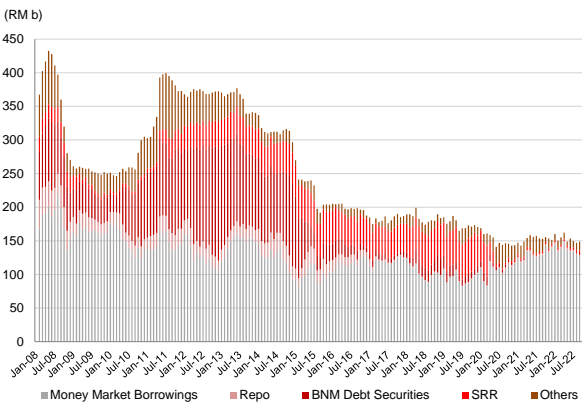
Source: BNM, Kenanga

Fig 10: LDR and LCR trends



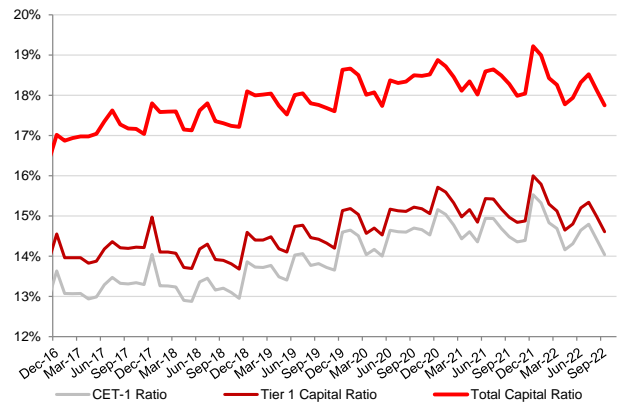
Source: BNM, Kenanga

Fig 11: Liquidity



Source: BNM, Kenanga

Fig 12: Capital Ratio Trends



Source: BNM, Kenanga

This section is intentionally left blank

01 December 2022

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	MP	2.15	2.25	4.7%	4,756.5	N	12/2022	12.9	25.1	-48.3%	94.6%	16.7	8.6	0.5	2.8%	29.1	13.5%	
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.20	8.5%	5,991.2	N	03/2023	45.5	52.1	22.9%	14.6%	8.5	7.4	0.9	10.7%	22.0	5.7%	
AMMB HOLDINGS BHD	OP	4.17	4.75	13.9%	13,810.0	N	03/2023	49.9	54.3	9.7%	8.7%	8.3	7.7	0.8	9.5%	16.0	3.8%	
BANK ISLAM MALAYSIA BHD	MP	2.56	2.45	-4.3%	5,517.5	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.0	10.5	0.9	7.4%	10.0	3.9%	
CIMB GROUP HOLDINGS BHD	OP	5.80	6.40	10.3%	61,857.6	N	12/2022	52.2	66.4	12.6%	27.1%	11.1	8.7	0.9	8.7%	26.0	4.5%	
HONG LEONG BANK BHD	OP	20.86	23.35	11.9%	45,218.6	N	06/2023	197.2	201.4	22.8%	2.1%	10.6	10.4	1.3	12.5%	70.0	3.4%	
MALAYAN BANKING BHD	OP	8.63	10.40	20.5%	104,027.1	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.9	1.1	9.9%	60.0	7.0%	
PUBLIC BANK BHD	MP	4.50	4.70	4.4%	87,348.1	N	12/2022	29.6	38.0	1.6%	28.4%	15.2	11.8	1.7	11.6%	15.5	3.4%	
RHB BANK BHD	OP	5.62	7.00	24.6%	23,870.2	N	12/2022	66.0	80.5	-4.6%	21.9%	8.5	7.0	0.8	9.3%	32.0	5.7%	
Simple Average										3.0%	28.2%	11.2	8.8	0.9	8.8%		5.7%	

Source: Kenanga Research

This section is intentionally left blank

01 December 2022

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my