

02 May 2023

Banking

Mar 2023 Statistics: Decent Showings Persist

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OVERWEIGHT



March 2023 system loan growth came in at 5.0% YoY growth, within our 4.0%–4.5% target as economic activities could taper down in 2HCY23 from suppressive inflationary pressures. In the meantime, strong readings are supported by seasonal factors condensed in recent months and more primary market home purchases.

Gross impaired loans (GIL) stayed firm at 1.75% which we see as palatable amidst comparatively better operating conditions with banks still maintaining ample provisions against unexpected shocks (loan loss coverage: 95.8%). On the flipside, deposits appear to be temporarily affected by seasonal factors, which led to periodically higher CASA and a pause to monthly accumulation. We continue to believe that BNM could keep OPR stable at 2.75% for the rest of the year, in line with its “conditional pause” as macro uncertainties remain.

We maintain our OVERWEIGHT call on the sector with top picks being names with highly conservative fundamentals. In the wake of global banking meltdowns, investors may demand stronger safety nets from banks to consider them investible. With that, we recommend: (i) PBBANK (OP; TP: RM4.90) for its leading GIL ratio supported by highly collateralised books, and (ii) RHBBANK (OP; TP: RM7.10) for its leading CET-1 ratios in addition to now substantially more attractive dividend prospects (7%–8% yield).

Market conditions still supportive. In Mar 2023, system loans grew by 5.0% YoY, lifted by both household (+5.4%) and business accounts (+4.4%). **We deem this to still be within our expectation of 4.0%–4.5% for CY23** because while market conditions are expected to still be favourable in the near term, it may soften as inflationary pressures become more prevalent in the latter half of the year. For the time being, we anticipate household demand for loans to be mostly held by more primary market property purchases as commitments into secondary market transactions become costlier to cash flow. Meanwhile, wholesale & retail businesses appear to lead in demand for working capital with some pick-up seen in financial services as well. On a MoM basis, both segments were likely aided by an increase in funds required ahead of Hari Raya festivities (*refer to Tables 1–3 for breakdown of system loans*).

Applications continue to pour in (+12% YoY, 23% MoM). We see a sustained in flow of both household and business loans, likely spurred by the upcoming Hari Raya seasonality in Apr 2023. Key contributors continued to be residential properties (+5% YoY, +24% MoM) with transport vehicles also picking up (+17% YoY, +17% MoM) perhaps in line with new model releases. We note that construction activities saw a significant rise (+96% YoY, +120% MoM) as contractors may be planning to roll out projects post-Hari Raya festivities. Meanwhile, loan approvals also increased (+23% YoY, +28% MoM) in tandem with the growth in applications (*refer to Tables 4–5 for breakdown of system loan applications*).

Asset quality manageable. Mar 2023 GIL was stable at 1.75% (Feb 2023: 1.76%, Mar 2022: 1.70%). We gather that this is in spite of the banks may be slightly less restrictive with credit screening concerns as Covid-19 risks dissipate. Industry loan loss coverage continued to linger below 100% at 95.8% (Feb 2023: 96.3%, Mar 2022: 104.3%) from the gradual consumption of provisions, although we note that listed institutions are maintaining reserves above this level. On the flipside, industry CET-1 ratios were relatively stable at 14.8% (Feb 2023: 14.8%, Mar 2022: 14.7%). (*Refer to Tables 6–7 for breakdown of system impaired loans*)

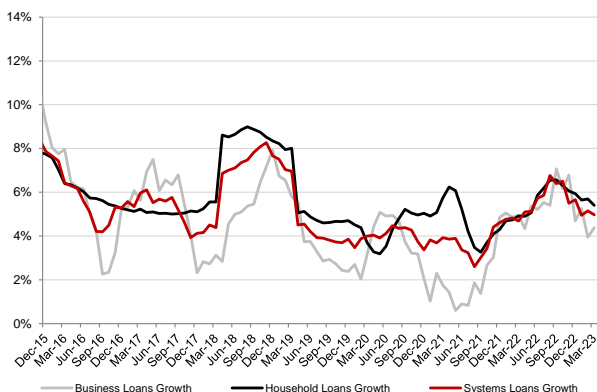
More cash for seasonal spending. Deposits saw its first MoM decline (-0.1%) in five months although this still registered as a lofty 7.0% YoY growth. Similar to our loan growth expectations, **we anticipate moderation in the latter half of the year to meet our 5.0%–5.5% CY23 deposit growth target.** CASA ratio also saw a sequential rise to 29.2% (Feb 2023: 28.6%, Mar 2022: 30.3%) as depositors were likely prioritising liquidity during the festive season. We expect CASA levels to erode further in the medium term as termed deposit rates are growing more attractive.

Maintain OVERWEIGHT on the banking sector. Recent readings paint a more upbeat outlook with loans and deposits picking up steadily while supported by manageable risk levels. However, we believe subsequent periods may not see similar strengths with expectations that higher inflation and uncertain macro factors may suppress overall activities. In spite of this, we continue to believe that banks will stay resilient as any shocks would be sufficiently buffered by their respectively high capital reserves as well as excess overlays and Covid provisions which could either be consumed or written back if conditions are more favourable. That said, we are cognizant of the depressed state of banking stocks amidst recent fall-outs of several high-profile foreign financial institutions. Hence we recommend selective names that offer greater safety nets amongst peers while avoiding banks with higher non-interest income exposure as investors may also view this space with greater caution.

For 2QCY23, we promote: **(i) PBBANK** as it is the leading bank in terms of GIL readings at 0.4% (vs peer average: 1.5%) backed by a highly collateralised loans book thanks to a substantial mortgage portion (41% of total books). Meanwhile, its recent shares' sell-down owing to uncertainties of its shareholder and ownership structure may see an inversion when clarity on the matter unfolds. We also like **(ii) RHBBANK** as we believe the relevancy of strong capital safety will be in the limelight once more. RHBBANK continues to lead with its CET-1 buffers (17% vs. peers' average of 14%). On the other hand, RHBBANK's dividend prospect is become more promising with targeted payouts of c.55% looking to generate yields of 7%–8%. Also, developments on its upcoming digital bank with Boost could support interest in the stock.

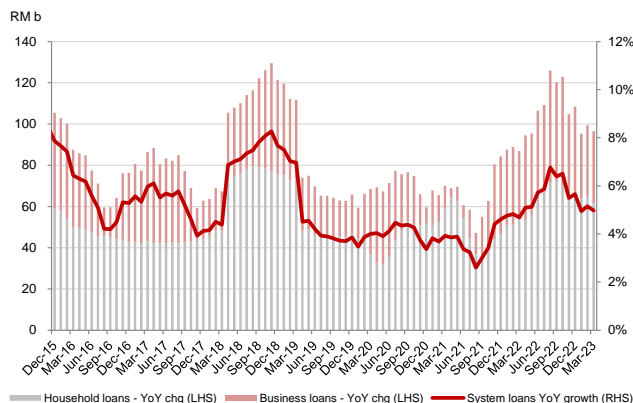
Appendix

Fig 1: System Loan Growth



Source: BNM, Kenanga

Fig 2: System Loan Growth Drivers



Source: BNM, Kenanga

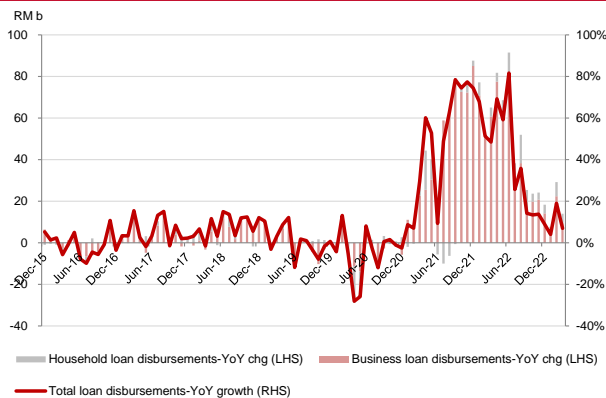
Table 1: Breakdown of System Loans

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	92,253	93,195	90,995	89,436	87,720	-1.9%	-3.6%
Purchase of transport vehicles	191,116	192,337	193,865	194,778	196,875	1.1%	8.5%
Purchase of residential property	732,301	736,922	741,092	744,266	748,227	0.5%	6.8%
Purchase of non-residential property	238,766	239,946	240,255	240,440	242,543	0.9%	4.1%
Personal use	107,778	107,984	107,934	108,413	108,634	0.2%	2.2%
Credit card	39,863	41,310	41,540	41,205	41,180	-0.1%	15.2%
Construction	59,334	57,782	57,721	57,937	57,736	-0.3%	-0.5%
Working capital	453,091	456,349	451,799	456,426	460,484	0.9%	4.9%
Others	95,914	98,218	95,958	95,520	93,594	-2.0%	-1.9%
Total system loans	2,010,417	2,024,044	2,021,159	2,028,420	2,036,994	0.4%	5.0%
- Household loans	1,188,567	1,195,984	1,199,127	1,201,773	1,204,867	0.3%	5.4%
- Business loans	821,850	828,060	822,031	826,648	832,126	0.7%	4.4%
o Primary agriculture	36,771	36,137	37,101	37,048	36,924	-0.3%	3.8%
o Mining & quarrying	9,903	9,260	9,197	9,412	9,404	-0.1%	-13.9%
o Manufacturing	126,486	126,928	125,438	127,104	128,029	0.7%	-0.8%
o Wholesale & retail trade, restaurants and hotels	161,475	162,563	161,241	162,073	162,591	0.3%	5.6%
o Construction	102,665	103,705	103,454	102,936	103,402	0.5%	0.5%
o Real estate	105,766	107,230	106,546	106,748	108,128	1.3%	1.4%
o Transport, storage and communication	54,627	53,217	53,069	54,000	54,596	1.1%	12.6%
o Finance, insurance and business activities	137,645	139,182	137,040	139,829	140,765	0.7%	9.4%
o Others	86,512	89,838	88,946	87,497	88,288	0.9%	8.7%

Source: BNM, Kenanga Research

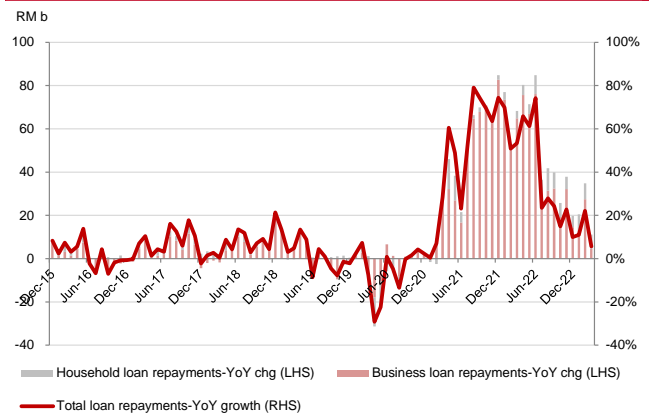
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Fig 3: Loan Disbursement Trends



Source: BNM, Kenanga

Fig 4: Loan Repayment Trends



Source: BNM, Kenanga

Table 2: Breakdown of System Loan Disbursements

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,405	3,850	2,461	2,675	3,922	46.6%	2.3%
Purchase of transport vehicles	5,270	5,419	5,602	4,848	6,497	34.0%	17.8%
Purchase of residential property	10,329	10,445	10,060	8,835	10,987	24.4%	5.8%
Purchase of non-residential property	4,816	5,267	4,238	4,329	6,213	43.5%	22.5%
Personal use	3,868	4,022	3,778	3,997	4,598	15.0%	12.6%
Credit card	17,772	20,021	19,401	17,202	19,253	11.9%	24.5%
Construction	2,817	4,664	3,700	2,689	3,758	39.8%	-5.6%
Working capital	143,027	156,599	140,607	132,604	151,817	14.5%	8.4%
Others	9,251	13,324	8,633	6,274	6,280	0.1%	-43.1%
Total loans disbursed	199,556	223,610	198,481	183,453	213,325	16.3%	7.0%
- Household loans	37,404	39,852	38,583	35,271	41,288	17.1%	12.2%
- Business loans	162,152	183,758	159,898	148,182	172,037	16.1%	5.8%

Source: BNM, Kenanga Research

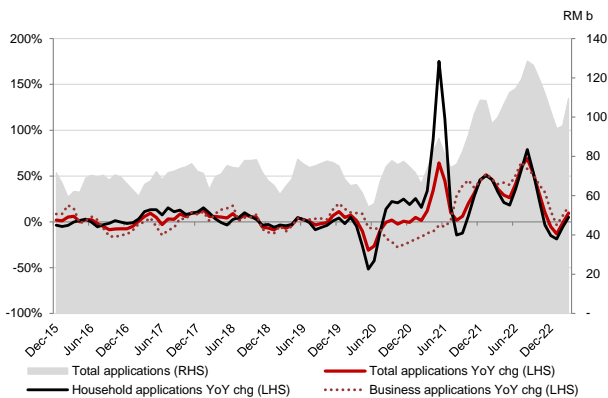
Table 3: Breakdown of System Loan Repayments

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,744	3,304	5,507	4,784	5,984	25.1%	58.8%
Purchase of transport vehicles	4,521	4,692	4,610	4,509	4,975	10.3%	7.0%
Purchase of residential property	7,820	8,096	8,258	7,839	8,719	11.2%	13.8%
Purchase of non-residential property	4,827	4,942	4,818	4,982	5,012	0.6%	15.2%
Personal use	4,546	4,505	5,045	4,472	4,710	5.3%	12.4%
Credit card	17,110	18,792	19,126	17,680	19,321	9.3%	17.5%
Construction	3,291	4,867	3,855	3,223	4,055	25.8%	-5.5%
Working capital	150,465	158,878	146,180	137,207	146,308	6.6%	4.0%
Others	9,344	10,565	10,395	7,574	8,276	9.3%	-19.6%
Total loans repaid	204,667	218,641	207,794	192,270	207,361	7.8%	5.6%
- Household loans	34,833	36,686	40,323	37,010	41,230	11.4%	18.4%
- Business loans	169,834	181,954	167,472	155,259	166,130	7.0%	2.9%

Source: BNM, Kenanga Research

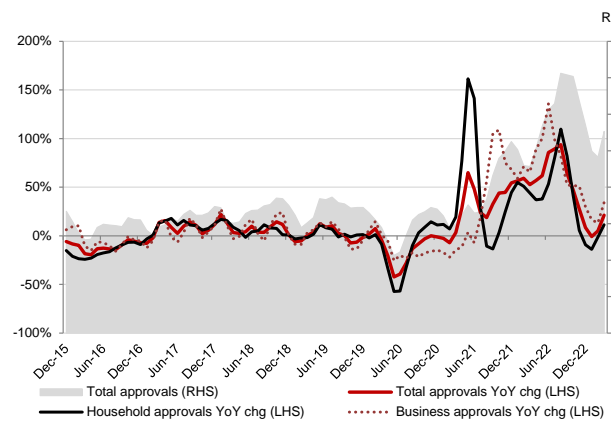
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Fig 5: Loan Application Trends (3-month MA)



Source: BNM, Kenanga

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



Source: BNM, Kenanga

Table 4: Breakdown of System Loan Applications

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,152	2,578	2,877	2,871	3,588	25%	-8%
Purchase of transport vehicles	11,957	12,472	12,001	14,188	16,537	17%	17%
Purchase of residential property	32,542	30,975	26,681	36,346	45,219	24%	5%
Purchase of non-residential property	10,079	8,891	8,083	12,975	14,513	12%	34%
Personal use	6,537	6,319	6,135	6,800	7,770	14%	14%
Credit card	4,624	4,599	4,444	4,430	5,013	13%	30%
Construction	3,210	3,379	6,084	3,328	7,319	120%	96%
Working capital	24,630	19,441	15,411	23,031	28,742	25%	0%
Others	7,435	3,782	3,153	5,482	5,543	1%	8%
Total system loan applications	105,167	92,435	84,868	109,450	134,245	23%	12%
- Household loans	58,739	56,532	52,273	64,711	77,706	20%	9%
- Business loans	46,429	35,903	32,595	44,739	56,539	26%	16%

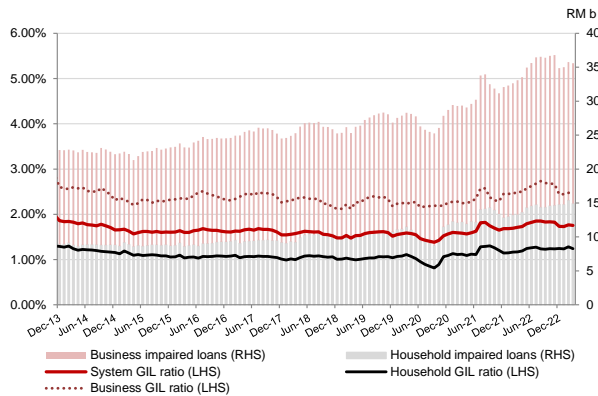
Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,830	1,298	2,237	2,040	1,909	-6%	-28%
Purchase of transport vehicles	8,759	8,600	8,736	9,419	11,622	23%	23%
Purchase of residential property	13,184	12,672	10,736	14,034	19,260	37%	15%
Purchase of non-residential property	4,960	5,372	4,054	4,777	6,566	37%	29%
Personal use	2,270	2,157	2,146	2,400	2,769	15%	13%
Credit card	1,743	1,708	1,540	1,498	1,797	20%	27%
Construction	3,352	2,387	1,460	2,901	5,757	98%	139%
Working capital	19,240	10,956	9,782	13,241	16,887	28%	24%
Others	2,740	3,135	1,597	3,845	2,893	-25%	4%
Total system loan approvals	59,079	48,287	42,288	54,155	69,460	28%	23%
- Household loans	25,928	25,191	23,188	28,013	35,957	28%	17%
- Business loans	33,151	23,095	19,100	26,141	33,503	28%	30%

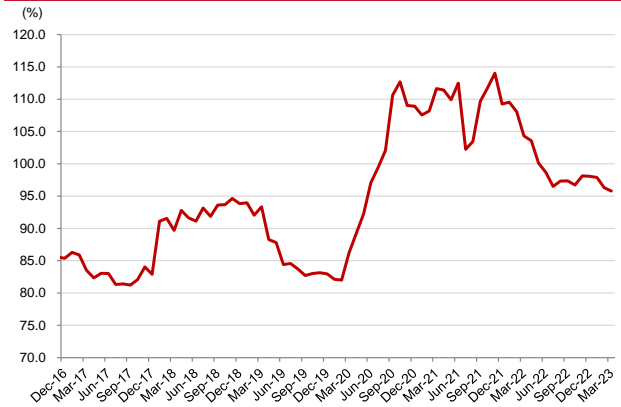
Source: BNM, Kenanga Research

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	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	324	292	287	288	282	-2%	-40%
Purchase of transport vehicles	1,199	1,195	1,229	1,224	1,234	1%	18%
Purchase of residential property	10,078	10,188	10,124	10,553	10,388	-2%	14%
Purchase of non-residential property	4,423	4,392	4,424	4,284	4,253	-1%	12%
Personal use	2,751	2,757	2,784	2,980	2,868	-4%	11%
Credit card	399	406	420	422	416	-1%	39%
Construction	4,545	2,538	2,537	2,542	2,646	4%	-35%
Working capital	11,198	11,235	11,272	11,512	11,627	1%	17%
Others	1,859	1,861	1,927	1,940	1,870	-4%	8%
Total system impaired loans	36,777	34,864	35,004	35,745	35,583	0%	8%
- Household impaired loans	14,642	14,775	14,770	15,398	14,910	-3%	12%
- Business impaired loan	22,135	20,089	20,234	20,347	20,672	2%	4%
GIL ratio							
Purchase of securities	0.35%	0.31%	0.31%	0.32%	0.32%		
Purchase of transport vehicles	0.63%	0.62%	0.63%	0.63%	0.63%		
Purchase of residential property	1.38%	1.38%	1.37%	1.42%	1.39%		
Purchase of non-residential property	1.85%	1.83%	1.84%	1.78%	1.75%		
Personal use	2.55%	2.55%	2.58%	2.75%	2.64%		
Credit card	1.00%	0.98%	1.01%	1.02%	1.01%		
Construction	7.66%	4.39%	4.40%	4.39%	4.58%		
Working capital	2.47%	2.46%	2.49%	2.52%	2.52%		
Others	1.94%	1.89%	2.01%	2.03%	2.00%		
System	1.83%	1.72%	1.73%	1.76%	1.75%		
- Household	1.24%	1.24%	1.23%	1.28%	1.24%		
- Business	2.67%	2.44%	2.44%	2.48%	2.50%		

Source: BNM, Kenanga Research

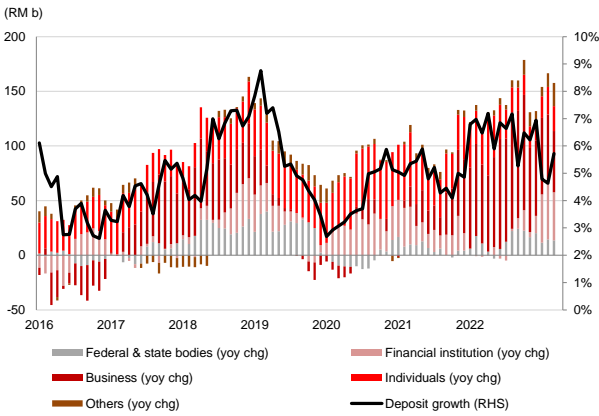
Table 7: Breakdown of System Impaired Loans and GIL Ratio by Sector

RM m	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	MoM Growth (%)	YoY Growth (%)
Households	14,642	14,775	14,770	15,398	14,910	-3%	12%
Primary agriculture	1,425	1,411	1,376	1,449	1,448	0%	15%
Mining & quarrying	1,381	1,358	1,363	1,374	1,377	0%	-1%
Manufacturing	3,077	3,086	3,068	3,094	3,167	2%	9%
Wholesale & retail trade, restaurants, and hotels	3,015	3,022	3,121	3,193	3,178	0%	20%
Construction	5,088	4,923	4,984	5,076	5,159	2%	38%
Transport, storage and communication	2,655	851	847	859	863	1%	-70%
Finance, insurance, and business activities	4,221	4,240	4,360	4,175	4,447	7%	27%
Others	1,273	1,199	1,113	1,127	1,032	-8%	-29%
Total system impaired loans	36,777	34,864	35,004	35,745	35,583	0%	8%
GIL ratio							
Households	1.24%	1.24%	1.23%	1.28%	1.24%		
Primary agriculture	3.82%	3.84%	3.81%	3.90%	3.91%		
Mining & quarrying	12.87%	13.71%	14.72%	14.94%	14.63%		
Manufacturing	2.39%	2.44%	2.42%	2.47%	2.49%		
Wholesale & retail trade, restaurants and hotels	1.85%	1.87%	1.92%	1.98%	1.96%		
Construction	2.42%	2.36%	2.36%	2.42%	2.46%		
Transport, storage, and communication	5.07%	1.56%	1.59%	1.62%	1.60%		
Finance, insurance, and business activities	3.05%	3.08%	3.13%	3.05%	3.18%		
Others	1.43%	1.39%	1.24%	1.27%	1.18%		
Total system impaired loans	1.83%	1.72%	1.73%	1.76%	1.75%		

Source: BNM, Kenanga Research

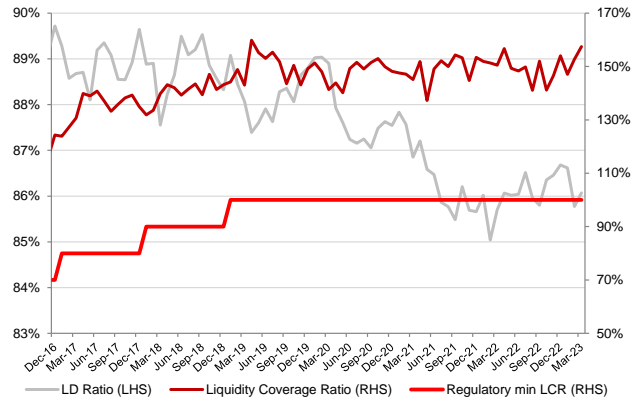
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Fig 9: Deposit Growth and Drivers



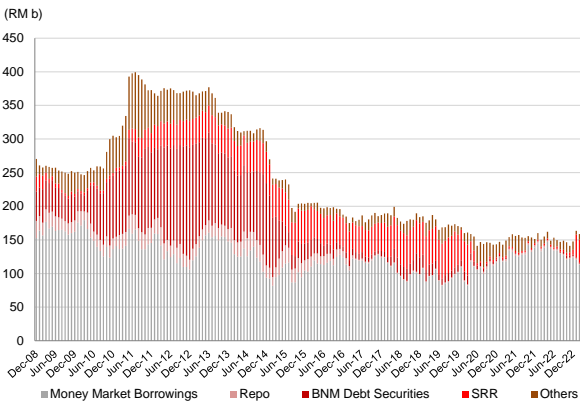
Source: BNM, Kenanga

Fig 10: LDR and LCR trends



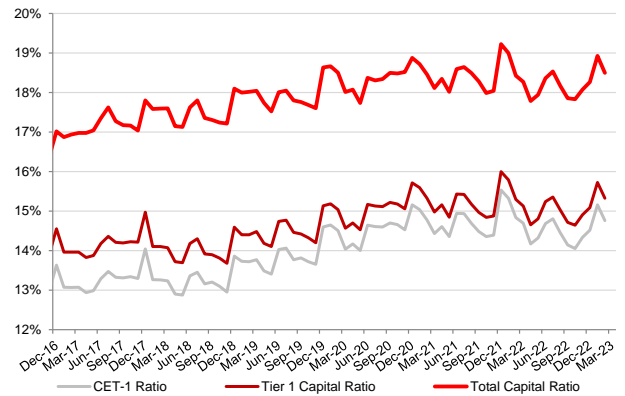
Source: BNM, Kenanga

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																	
ALLIANCE BANK MALAYSIA BHD	OP	3.33	4.40	32.1%	5,155	N	03/2023	44.7	49.4	20.9%	10.4%	7.4	6.7	0.8	10.5%	22.0	6.6%
AMMB HOLDINGS BHD	OP	3.61	5.00	38.5%	11,939	N	03/2023	51.0	54.8	12.0%	7.4%	7.1	6.6	0.7	9.7%	16.0	4.4%
BANK ISLAM MALAYSIA BHD	MP	2.01	2.30	14.4%	4,510	Y	12/2023	26.2	27.2	14.4%	4.2%	7.7	7.4	0.6	8.1%	15.5	7.7%
CIMB GROUP HOLDINGS BHD	OP	5.06	6.55	29.4%	53,965	N	12/2023	59.7	68.4	14.3%	14.7%	8.5	7.4	0.8	9.7%	30.0	5.9%
HONG LEONG BANK BHD	OP	20.14	23.35	15.9%	43,658	N	06/2023	197.0	199.7	22.7%	1.4%	10.2	10.1	1.2	12.5%	70.0	3.5%
MALAYAN BANKING BHD	OP	8.66	10.10	16.6%	104,389	N	12/2023	79.6	79.3	15.7%	-0.3%	10.9	10.9	1.2	11.0%	68.0	7.9%
PUBLIC BANK BHD	OP	3.89	4.90	26.0%	75,508	N	12/2023	35.9	37.0	13.8%	3.2%	10.8	10.5	1.4	13.4%	18.0	4.6%
RHB BANK BHD	OP	5.48	7.10	29.6%	23,276	N	12/2023	77.4	77.6	15.8%	0.2%	7.1	7.1	0.7	10.7%	43.0	7.8%
SECTOR AGGREGATE					322,399					15.7%	4.2%	9.8	9.4	1.1	10.9%		6.1%

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.**

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