

01 June 2023

## Banking

### Apr 2023 Statistics: Seasonal Softness

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

OVERWEIGHT



April 2023 system loans grew 4.5% YoY, within our 4.0%-4.5% target for the year as the month saw slower activities amidst Hari Raya festivities. While we do anticipate a pick-up going forward, it could be skewed towards business accounts as household spending may be more guarded, undermined by inflation.

Gross impaired loans (GIL) saw a slight increase to 1.78% but we see this level to be manageable. Banks continued to keep hefty provisions and overlays, even after some selective writebacks as long-term concerns could be waning. On the other hand, we see deposits experiencing a sequential decline, likely also attributed to more festive spending. Fixed deposits may continue to see more favour as rates are now more attractive. While the banks are seeking to moderate its offered rates, May 2023's surprise OPR hike provides room for banks to support margins further. We do not anticipate further OPR hikes for the rest of the year.

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 (c.8% yield).

**Slower activities in festive seasons.** In Apr 2023, system loans grew by 4.5% YoY on higher household (+5.2%) and business (+3.5%) accounts. **This is within our expectation of 4.0%-4.5% for CY23** with the month being induced by seasonal softness amidst Hari Raya festivities. On a MoM level, total system loans was flat as a result of slight increments in household lending (+0.2%) being offset by a small decline in business loans (-0.4%). We maintain our view that household income may be hurt by inflationary pressures, affecting household demand for loans and skewing large-ticket borrowings to more cash flows favourable options (i.e. property purchases to be secondary - market driven to minimise upfront downpayments). That said, healthy economic readings may present opportunities for businesses to expand operations in the medium term (*refer to Tables 1-3 for breakdown of system loans*).

**Softer application followed suit (-13% YoY, -24% MoM).** Coinciding with the seasonal softness, there are fewer applications entering the system. This could also be attributed to the comparatively higher borrowing rates arising from the interest rate upcycle, but we believe this could be mostly true at the household front. With May 2023 also experiencing an unexpected 25 bps hike, this could pause applications for another month. (*refer to Tables 4-5 for breakdown of system loan applications*).

**Slight uptick in GIL.** Apr 2023 GIL slightly rose to 1.78% (Mar 2023: 1.74%, Apr 2022: 1.72%). While this is deemed to still be within a "normal" range, the uptick could come as payments may have been purposefully delayed to support festive spending. Industry loan loss coverage continued to be utilised, now at 94.2% (Mar 2023: 95.8%, Apr 2022: 103.6%) as we gathered that most corporates have exercised gradual write-backs of pre-emptive provisions and economic overlays. Meanwhile, industry CET-1 readings are kept stable at 14.8% (Mar 2023: 14.9%, Apr 2022: 14.2%). (*Refer to Tables 6-7 for breakdown of system impaired loans*)

**Deposits growth is also seeing some easing (+6.4% YoY, -0.5% MoM),** registering the second consecutive month of decline. Still, we see the current base to be **within our CY23 deposits growth target of 5.0%-5.5%** with further moderation to be expected in the second half. CASA ratio continued to decline, to 29.0% (Mar 2023: 29.2%, Apr 2022: 31.3%) as termed deposits gained more favour as rates became more attractive. While we anticipate long-term rates to normalise, it may still pose as a more attractive alternative for cash-rich customers to migrate their savings.

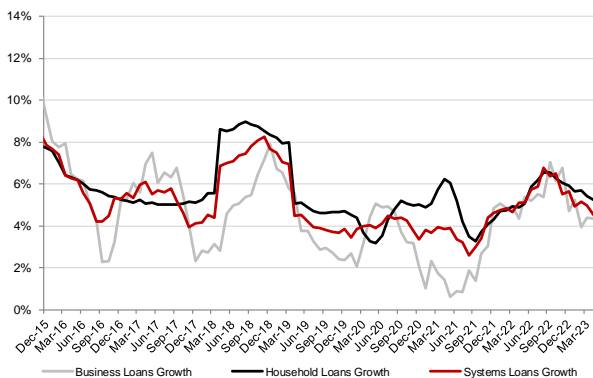
**Maintain OVERWEIGHT on the banking sector.** While the recent month's numbers indicate moderation, we believe the extent could be less severe on a full-year basis given the attached seasonal factors. Local economic macros still indicate a highly supportive operating environment to elevate household income and economic output, with 1QCY23 GDP registering at 5.6%. However, as headline inflation still appears to be troublesome at 3.3%, the net benefit could be muted. That said, the banks remain poised to ride on stronger economic prosperity as liquidity remains flushed. Meanwhile, most banks still maintain a sizeable amount of provisions and are not shy in topping up their overlays should recessionary concerns materialise. 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.

01 June 2023

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.

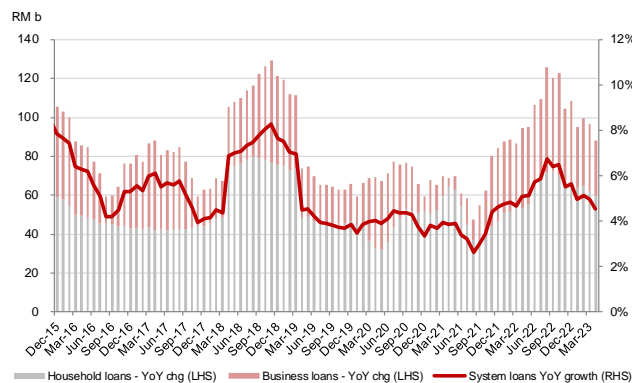
## Appendix

**Fig 1: System Loan Growth**



Source: BNM, Kenanga

**Fig 2: System Loan Growth Drivers**



Source: BNM, Kenanga

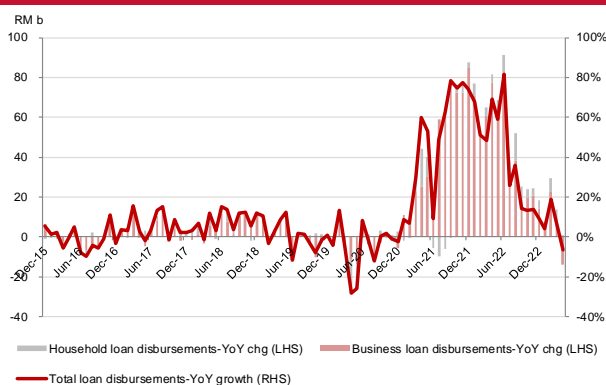
**Table 1: Breakdown of System Loans**

RM m	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	93,195	90,995	89,436	87,720	86,455	-1.4%	-5.3%
Purchase of transport vehicles	192,337	193,865	194,778	196,831	198,429	0.8%	8.4%
Purchase of residential property	736,921	741,092	744,266	748,227	749,984	0.2%	6.5%
Purchase of non-residential property	239,946	240,255	240,440	242,535	242,475	0.0%	4.0%
Personal use	107,984	107,934	108,413	108,617	109,132	0.5%	2.7%
Credit card	41,310	41,540	41,205	41,180	41,629	1.1%	16.7%
Construction	57,782	57,721	57,937	57,736	57,720	0.0%	-0.1%
Working capital	456,350	451,799	456,426	460,509	456,306	-0.9%	3.2%
Others	98,218	95,958	95,520	93,595	94,668	1.1%	-0.2%
<b>Total system loans</b>	<b>2,024,043</b>	<b>2,021,159</b>	<b>2,028,421</b>	<b>2,036,951</b>	<b>2,036,798</b>	<b>0.0%</b>	<b>4.5%</b>
- Household loans	1,195,923	1,199,126	1,201,771	1,204,981	1,207,923	0.2%	5.2%
- Business loans	828,120	822,033	826,649	831,969	828,875	-0.4%	3.5%
o Primary agriculture	36,137	37,101	37,059	36,922	36,561	-1.0%	3.3%
o Mining & quarrying	9,260	9,197	9,412	9,403	9,033	-3.9%	-14.6%
o Manufacturing	127,013	125,480	127,156	128,002	126,226	-1.4%	-3.8%
o Wholesale & retail trade, restaurants and hotels	162,503	161,214	162,025	162,518	162,147	-0.2%	4.3%
o Construction	103,722	103,470	102,952	103,462	101,456	-1.9%	-0.9%
o Real estate	107,295	106,615	106,817	108,198	107,473	-0.7%	0.8%
o Transport, storage and communication	53,180	53,004	53,929	54,515	54,638	0.2%	12.5%
o Finance, insurance and business activities	139,193	137,048	139,837	140,739	142,977	1.6%	12.5%
o Others	89,818	88,903	87,462	88,211	88,364	0.2%	6.1%

Source: BNM, Kenanga Research

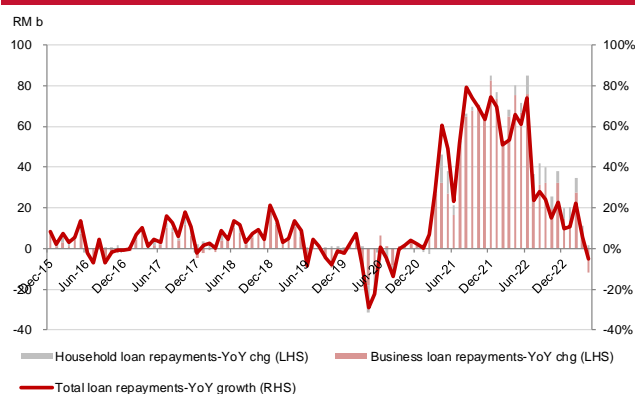
01 June 2023

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	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,850	2,461	2,675	3,922	1,923	-51.0%	-38.7%
Purchase of transport vehicles	5,419	5,602	4,848	6,497	5,567	-14.3%	-1.5%
Purchase of residential property	10,445	10,060	8,835	10,987	8,432	-23.3%	-10.8%
Purchase of non-residential property	5,267	4,238	4,329	6,205	3,970	-36.0%	-8.0%
Personal use	4,022	3,778	3,997	4,598	3,975	-13.6%	7.0%
Credit card	20,021	19,401	17,202	19,253	18,061	-6.2%	17.3%
Construction	4,664	3,700	2,689	3,758	3,318	-11.7%	-9.1%
Working capital	156,600	140,607	132,604	151,835	133,632	-12.0%	-3.9%
Others	13,324	8,633	6,274	6,280	7,818	24.5%	-49.3%
<b>Total loans disbursed</b>	<b>223,611</b>	<b>198,481</b>	<b>183,453</b>	<b>213,336</b>	<b>186,696</b>	<b>-12.5%</b>	<b>-6.6%</b>
- Household loans	39,781	38,583	35,271	41,289	35,330	-14.4%	1.9%
- Business loans	183,830	159,898	148,182	172,047	151,366	-12.0%	-8.3%

Source: BNM, Kenanga Research

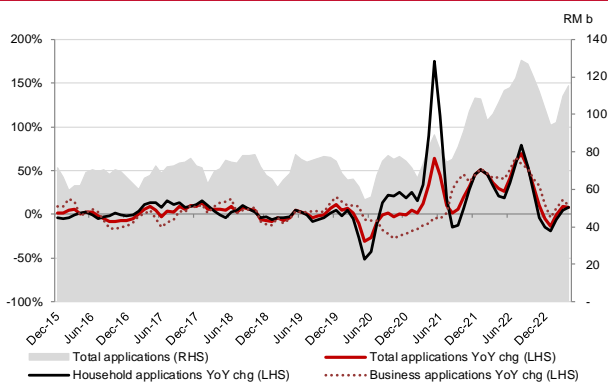
Table 3: Breakdown of System Loan Repayments

RM m	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,304	5,507	4,784	5,984	3,703	-38.1%	16.6%
Purchase of transport vehicles	4,692	4,610	4,509	4,973	4,523	-9.1%	-2.6%
Purchase of residential property	8,096	8,258	7,839	8,719	7,852	-9.9%	5.9%
Purchase of non-residential property	4,942	4,818	4,982	5,012	4,971	-0.8%	3.7%
Personal use	4,505	5,045	4,472	4,710	4,021	-14.6%	-5.8%
Credit card	18,792	19,126	17,680	19,321	17,690	-8.4%	8.1%
Construction	4,867	3,855	3,223	4,055	3,589	-11.5%	-18.3%
Working capital	158,878	146,180	137,207	146,308	138,748	-5.2%	-1.3%
Others	10,565	10,395	7,574	8,276	7,183	-13.2%	-57.1%
<b>Total loans repaid</b>	<b>218,641</b>	<b>207,794</b>	<b>192,270</b>	<b>207,358</b>	<b>192,280</b>	<b>-7.3%</b>	<b>-5.0%</b>
- Household loans	36,582	40,323	37,010	41,228	35,387	-14.2%	4.4%
- Business loans	182,059	167,472	155,259	166,130	156,893	-5.6%	-6.9%

Source: BNM, Kenanga Research

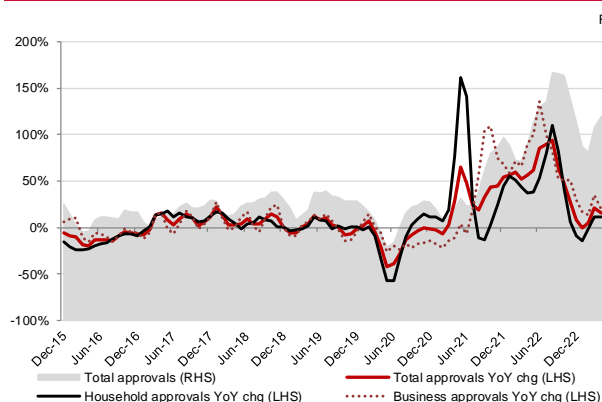
01 June 2023

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	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	2,578	2,877	2,871	3,588	2,448	-32%	-17%
Purchase of transport vehicles	12,471	12,004	14,183	16,529	12,340	-25%	-12%
Purchase of residential property	30,979	26,680	36,340	45,200	34,292	-24%	-16%
Purchase of non-residential property	8,883	8,149	12,967	14,513	11,715	-19%	5%
Personal use	6,319	6,135	6,801	7,758	6,090	-21%	7%
Credit card	4,597	4,444	4,430	4,999	4,197	-16%	6%
Construction	3,378	6,104	3,327	7,370	5,330	-28%	2%
Working capital	19,435	15,340	23,043	28,622	20,373	-29%	-28%
Others	3,784	3,156	5,486	5,622	5,492	-2%	9%
<b>Total system loan applications</b>	<b>92,424</b>	<b>84,890</b>	<b>109,448</b>	<b>134,200</b>	<b>102,278</b>	<b>-24%</b>	<b>-13%</b>
- Household loans	56,534	52,272	64,701	77,658	60,270	-22%	-10%
- Business loans	35,890	32,618	44,747	56,542	42,008	-26%	-16%

Source: BNM, Kenanga Research

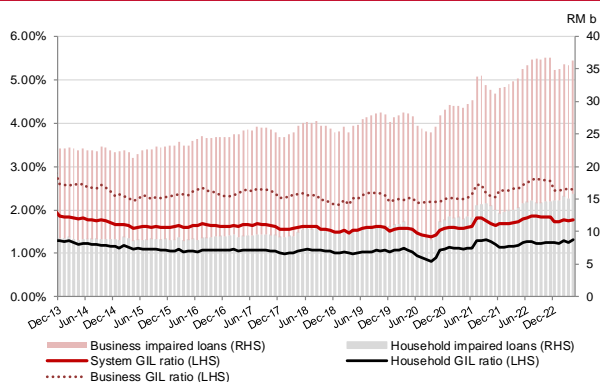
Table 5: Breakdown of System Loan Approvals

RM m	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	1,298	2,237	2,041	1,909	1,774	-7%	-12%
Purchase of transport vehicles	8,592	8,707	9,377	11,598	8,613	-26%	-9%
Purchase of residential property	12,701	10,751	14,059	19,351	15,186	-22%	-10%
Purchase of non-residential property	5,379	4,053	4,801	6,621	6,158	-7%	9%
Personal use	2,158	2,145	2,401	2,776	2,141	-23%	-3%
Credit card	1,709	1,540	1,499	1,804	1,726	-4%	10%
Construction	2,388	1,528	2,901	5,762	1,927	-67%	10%
Working capital	10,947	9,811	13,263	16,767	10,903	-35%	-39%
Others	3,142	1,597	3,815	3,094	3,405	10%	74%
<b>Total system loan approvals</b>	<b>48,315</b>	<b>42,371</b>	<b>54,157</b>	<b>69,682</b>	<b>51,833</b>	<b>-26%</b>	<b>-13%</b>
- Household loans	25,210	23,175	28,008	36,011	28,190	-22%	-8%
- Business loans	23,105	19,195	26,148	33,671	23,644	-30%	-18%

Source: BNM, Kenanga Research

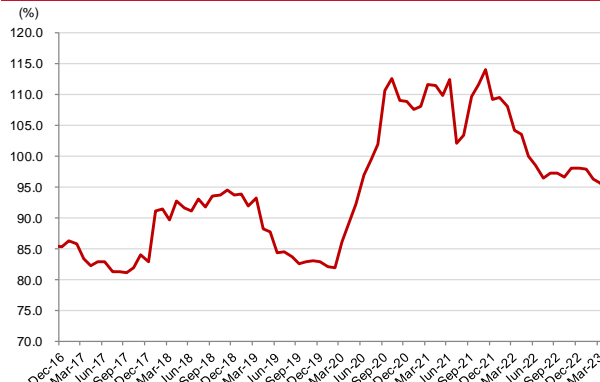
01 June 2023

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	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Purchase of securities	292	287	288	282	354	26%	-27%
Purchase of transport vehicles	1,195	1,229	1,224	1,190	1,254	5%	25%
Purchase of residential property	10,188	10,124	10,553	10,388	10,872	5%	17%
Purchase of non-residential property	4,392	4,424	4,284	4,253	4,280	1%	11%
Personal use	2,757	2,784	2,980	2,851	2,971	4%	9%
Credit card	406	420	422	416	419	1%	41%
Construction	2,538	2,537	2,542	2,646	2,584	-2%	-37%
Working capital	11,235	11,272	11,512	11,634	11,699	1%	18%
Others	1,861	1,927	1,940	1,870	1,864	0%	4%
<b>Total system impaired loans</b>	<b>34,864</b>	<b>35,004</b>	<b>35,745</b>	<b>35,529</b>	<b>36,298</b>	<b>2%</b>	<b>8%</b>
- Household impaired loans	14,775	14,770	15,398	15,025	15,804	5%	16%
- Business impaired loan	20,089	20,234	20,347	20,504	20,494	0%	3%
<b>GIL ratio</b>							
Purchase of securities	0.31%	0.31%	0.32%	0.32%	0.41%		
Purchase of transport vehicles	0.62%	0.63%	0.63%	0.60%	0.63%		
Purchase of residential property	1.38%	1.37%	1.42%	1.39%	1.45%		
Purchase of non-residential property	1.83%	1.84%	1.78%	1.75%	1.77%		
Personal use	2.55%	2.58%	2.75%	2.62%	2.72%		
Credit card	0.98%	1.01%	1.02%	1.01%	1.01%		
Construction	4.39%	4.40%	4.39%	4.58%	4.48%		
Working capital	2.46%	2.49%	2.52%	2.53%	2.56%		
Others	1.89%	2.01%	2.03%	2.00%	1.97%		
<b>System</b>	<b>1.72%</b>	<b>1.73%</b>	<b>1.76%</b>	<b>1.74%</b>	<b>1.78%</b>		
- Household	1.24%	1.24%	1.28%	1.25%	1.31%		
- Business	2.44%	2.44%	2.48%	2.48%	2.46%		

Source: BNM, Kenanga Research

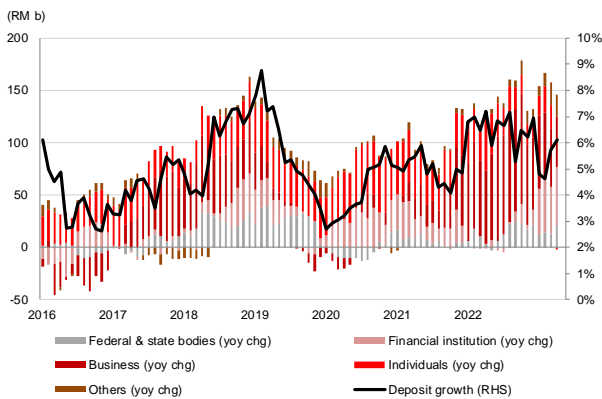
Table 7: Breakdown of System Impaired Loans and GIL Ratio by Sector

RM m	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	MoM Growth (%)	YoY Growth (%)
Households	14,775	14,770	15,398	15,025	15,804	5%	16%
Primary agriculture	1,411	1,376	1,449	1,435	1,455	1%	21%
Mining & quarrying	1,358	1,363	1,374	1,375	1,393	1%	0%
Manufacturing	3,086	3,068	3,094	3,097	2,981	-4%	-2%
Wholesale & retail trade, restaurants, and hotels	3,021	3,120	3,192	3,182	3,246	2%	20%
Construction	4,923	4,984	5,076	5,203	5,224	0%	39%
Transport, storage and communication	851	847	859	835	848	2%	-71%
Finance, insurance, and business activities	4,240	4,360	4,175	4,400	4,417	0%	26%
Others	1,200	1,114	1,127	975	930	-5%	-35%
<b>Total system impaired loans</b>	<b>34,864</b>	<b>35,004</b>	<b>35,745</b>	<b>35,529</b>	<b>36,298</b>	<b>2%</b>	<b>8%</b>
<b>GIL ratio</b>							
Households	1.24%	1.24%	1.28%	1.25%	1.31%		
Primary agriculture	3.84%	3.81%	3.90%	3.87%	3.94%		
Mining & quarrying	13.71%	14.72%	14.94%	14.61%	14.81%		
Manufacturing	2.44%	2.42%	2.47%	2.44%	2.33%		
Wholesale & retail trade, restaurants and hotels	1.87%	1.92%	1.98%	1.96%	2.00%		
Construction	2.36%	2.36%	2.42%	2.48%	2.47%		
Transport, storage, and communication	1.56%	1.59%	1.62%	1.55%	1.56%		
Finance, insurance, and business activities	3.08%	3.13%	3.05%	3.15%	3.14%		
Others	1.39%	1.24%	1.27%	1.12%	1.05%		
<b>Total system impaired loans</b>	<b>1.72%</b>	<b>1.73%</b>	<b>1.76%</b>	<b>1.74%</b>	<b>1.78%</b>		

Source: BNM, Kenanga Research

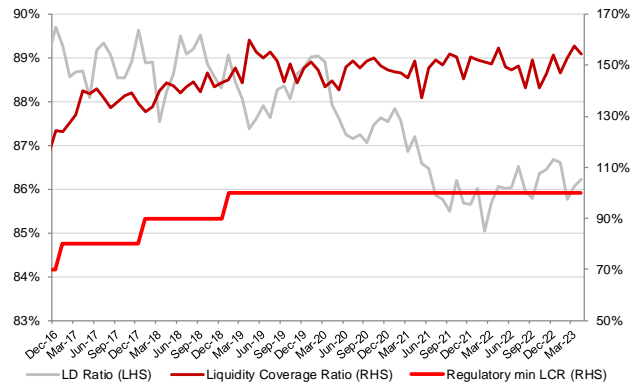
*This section is intentionally left blank*

**Fig 9: Deposit Growth and Drivers**



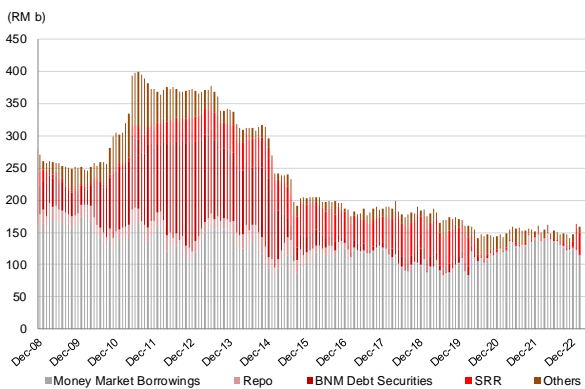
Source: BNM, Kenanga

**Fig 10: LDR and LCR trends**



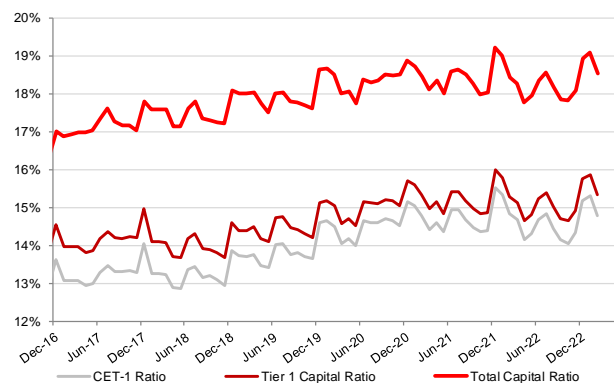
Source: BNM, Kenanga

**Fig 11: Liquidity**



Source: BNM, Kenanga

**Fig 12: Capital Ratio Trends**



Source: BNM, Kenanga

This section is intentionally left blank

01 June 2023

## 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. 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.
<b>Stocks Under Coverage</b>																	
ALLIANCE BANK MALAYSIA BHD	OP	3.45	4.40	27.5%	5,341	N	03/2024	48.8	52.9	11.3%	8.4%	7.1	6.5	0.7	10.9%	24.5	7.1%
AMMB HOLDINGS BHD	OP	3.64	5.05	38.7%	12,038	N	03/2024	56.3	62.0	7.4%	10.2%	6.5	5.9	0.6	9.9%	19.5	5.4%
BANK ISLAM MALAYSIA BHD	MP	1.85	2.25	21.6%	4,193	Y	12/2023	24.0	25.0	5.1%	4.1%	7.7	7.4	0.6	7.5%	15.5	8.4%
CIMB GROUP HOLDINGS BHD	OP	4.82	6.55	35.9%	51,406	N	12/2023	61.1	68.2	17.2%	11.5%	7.9	7.1	0.8	9.9%	30.0	6.2%
HONG LEONG BANK BHD	OP	19.36	25.00	29.1%	41,967	N	06/2023	193.0	201.5	20.2%	4.4%	10.0	9.6	1.2	12.3%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.65	10.10	16.8%	104,268	N	12/2023	80.3	80.0	16.8%	-0.5%	10.8	10.8	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.81	4.90	28.6%	73,955	N	12/2023	36.0	37.2	14.1%	3.3%	10.6	10.2	1.4	13.5%	18.0	4.7%
RHB BANK BHD	OP	5.35	7.10	32.7%	22,932	N	12/2023	77.5	77.7	15.9%	0.3%	6.9	6.9	0.7	10.7%	43.0	8.0%
<b>SECTOR AGGREGATE</b>					<b>316,100</b>					<b>15.7%</b>	<b>4.2%</b>	<b>9.5</b>	<b>9.1</b>	<b>1.0</b>	<b>10.9%</b>		<b>6.4%</b>

Source: Kenanga Research

This section is intentionally left blank



**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)