

01 April 2024

Banking

Feb 2024 Statistics: Businesses Pick Up

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OVERWEIGHT



Feb 2024 system loans rose by 5.8%, within our 5.5%-6.0% expectation for CY24. While household trajectories are still held by a growing mortgage and hire purchase book, we note that businesses are seeing encouraging inflows that may be in support of better economic prospects. Industry GIL of 1.64% is steady state and will likely not remain a concern in the immediate term.

Meanwhile, deposits growth (4.8%) appears to be lagging but we opine higher bank-ins may occur progressively, possibly lifting CASA readings as fixed deposit interests are expected to taper off. We anticipate OPR to remain at 3% throughout CY24, with any change likely to have a downside bias to reflect the tone set by regional monetary policies.

We maintain our OVERWEIGHT call on the sector, with its resilience to be emboldened by better economic prospects fuelled by infrastructure projects and investments. For 2QCY24, we highlight: (i) PBBANK (OP; TP: RM5.10) for sustainable performances from its mortgage books, (ii) RHBBANK (OP; TP: RM7.25) for its leading dividend prospects, and (ii) ABMB (OP; TP: RM4.30) as a small cap favourite given its largely comparable fundamentals which beats certain large caps.

Bigger load up. In Feb 2024, system loans grew by 5.8% YoY which is within our projected 5.5%-6.0% target for CY24. Households (+6.2%) continued to see residential properties and hire purchase being the major contributor following past months' season injection. On the business front (+5.3%), retail and financial services led in terms of segmental performances. We note that on a MoM basis, business loans (+0.7%) overtook household loans (+0.3%) in terms of growth as we had expected a faster pacing to meet upcoming Raya festivities. (refer to Tables 1-3 for breakdown of system loans).

Scaling down applications from front-loaded signing. Following Jan 2024 lumpy applications, we saw a meaningful easing in both household loans (-15%) and business loans (-6%) on a YoY basis. The difference was more stark on a MoM basis (-18%) but also stood at the lowest levels of <RM100m since Jan 23 but this is reflective of the earlier months being seasonally softest. (refer to Tables 4-5 for breakdown of system loan applications).

Asset quality staying still. Industry GIL maintained at 1.64% (Jan 2024: 1.64%, Feb 2023: 1.76%) with industry loan loss coverage setting in at 92.4% (Jan 2024: 93.0%, Feb 2023: 96.3%). We opine that past pandemic concerns are not likely to remain in the market as we look towards a return to sustainable business environments. Previously troubled sectors such as construction and hospitality are expected to be rejuvenated with stronger infrastructure project flows as well as higher tourist arrivals. That said, we do expect a final leg of impairments from retail accounts which clinched on much extended assistance programs following pending expiration. (refer to Tables 6-7 for breakdown of system impaired loans).

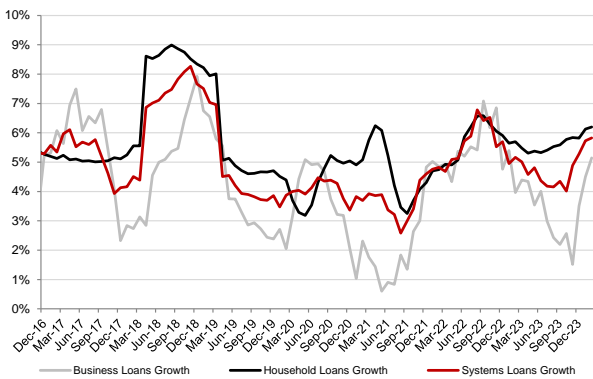
Cash balances healthy. We saw system deposits growing at 4.0% YoY (+0.53% MoM), which appears to be below our 5.5%-6.0% growth expectation for CY24. That said, we opt to consider higher seasonal spending to have taken place and hence expect a pick-up as the year progresses. CASA levels remained relatively stable at 28.7% (Jan 2024: 28.7%, Feb 2023: 28.6%) and may rise in the coming months as banks seek to readjust termed deposit rates to less generous levels.

Maintain OVERWEIGHT on the banking sector. Market tailwinds (i.e. persistent loans growth and GDP, better margin retention) are expected to continue outweighing industry headwinds (i.e. inflationary pressures, weaker MYR), which we believe may lead to fewer tests to the sector's resiliency. The sector should be of interest with dividend yields still appearing attractive (6%-7%) on most names on top of lower embedded sector volatility as compared to other industries. We had seen meaningful moves in share prices with the inflow of foreign investors looking to accumulate sector heavyweights.

Our sector top picks for 2QCY24 include **PBBANK** which could see better leverage on its heavy retail mortgage mix in a stable OPR environment. We also see its possible overlay write-backs to be a catalyst for more generous dividend payouts which may mirror more frequent payouts during the year. **RHBBANK** is also favoured for its dividends which we project to be the leader (7%-8%) amongst its peers. Its sizeable CET-1 chest of >16% may further keep pay-outs sustainable, with a likely lower emphasis on provision management as pandemic concerns have alleviated. Meanwhile, its associate Boost Bank may soon enter the public domain which could garner greater interest in the near-term. As for small cap banks, **ABMB** remains our favourite for its solid fundamentals which are comparable to its large cap peers. Additionally, its leading CASA level may provide the group nimbleness to balance its interest margins with market share acquisition strategies.

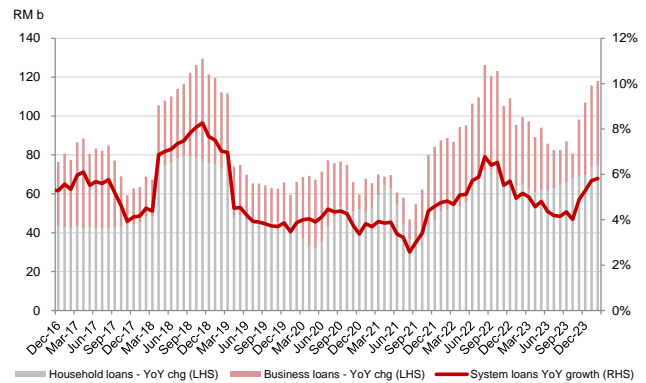
Appendix

Fig 1: System Loan Growth



Source: BNM, Kenanga

Fig 2: System Loan Growth Drivers



Source: BNM, Kenanga

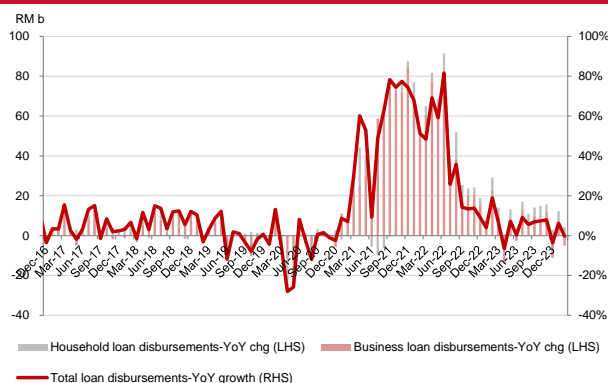
Table 1: Breakdown of System Loans

RM m	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	80,670	80,915	81,716	80,058	79,165	-1.1%	-11.5%
Purchase of transport vehicles	207,714	209,568	210,976	213,587	215,026	0.7%	10.4%
Purchase of residential property	781,285	785,981	790,631	796,125	799,980	0.5%	7.5%
Purchase of non-residential property	249,266	250,498	251,653	252,371	252,982	0.2%	5.2%
Personal use	113,123	113,512	114,200	114,665	114,940	0.2%	6.0%
Credit card	43,763	44,507	45,779	46,141	45,634	-1.1%	10.7%
Construction	59,084	59,835	59,601	61,042	60,417	-1.0%	4.3%
Working capital	461,954	467,184	477,971	473,005	479,556	1.4%	5.1%
Others	95,965	96,625	98,967	99,942	98,835	-1.1%	3.5%
Total system loans	2,092,824	2,108,625	2,131,494	2,136,935	2,146,534	0.4%	5.8%
- Household loans	1,250,145	1,257,694	1,265,330	1,272,621	1,276,235	0.3%	6.2%
- Business loans	842,678	850,930	866,164	864,315	870,298	0.7%	5.3%
o Primary agriculture	35,424	34,799	35,056	35,369	35,266	-0.3%	-5.0%
o Mining & quarrying	9,570	9,582	10,055	10,004	10,267	2.6%	9.1%
o Manufacturing	131,894	132,145	131,180	131,265	131,775	0.4%	3.6%
o Wholesale & retail trade, restaurants and hotels	169,070	170,367	172,094	173,397	176,138	1.6%	8.7%
o Construction	101,580	101,260	102,589	102,253	103,174	0.9%	0.2%
o Real estate	110,985	111,744	112,314	112,890	112,033	-0.8%	4.8%
o Transport, storage and communication	51,382	54,119	54,268	52,681	53,984	2.5%	2.1%
o Finance, insurance and business activities	145,486	148,696	155,041	155,977	158,553	1.7%	13.1%
o Others	87,287	88,218	93,566	90,479	89,109	-1.5%	1.3%

Source: BNM, Kenanga Research

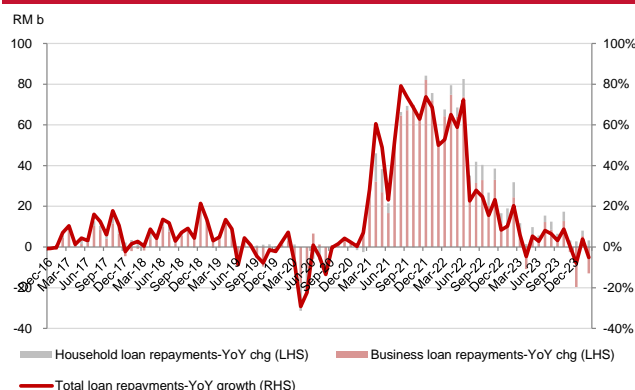
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Fig 3: Loan Disbursement Trends



Source: BNM, Kenanga

Fig 4: Loan Repayment Trends



Source: BNM, Kenanga

Table 2: Breakdown of System Loan Disbursements

RM m	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	3,170	3,134	3,920	4,481	3,258	-27.3%	21.8%
Purchase of transport vehicles	6,240	6,134	5,822	7,074	5,685	-19.6%	17.3%
Purchase of residential property	12,251	10,631	10,616	11,846	9,868	-16.7%	11.7%
Purchase of non-residential property	5,474	5,554	5,738	5,572	4,710	-15.5%	8.8%
Personal use	4,468	4,338	4,746	4,587	4,177	-8.9%	4.5%
Credit card	19,927	20,081	21,856	21,534	19,910	-7.5%	15.7%
Construction	3,909	4,070	4,625	4,263	2,792	-34.5%	3.8%
Working capital	149,219	151,754	145,420	141,103	123,850	-12.2%	-6.6%
Others	10,613	9,583	13,167	10,391	8,628	-17.0%	37.5%
Total loans disbursed	215,271	215,280	215,911	210,852	182,878	-13.3%	-0.3%
- Household loans	42,951	41,039	42,540	45,912	39,710	-13.5%	12.6%
- Business loans	172,320	174,241	173,371	164,940	143,168	-13.2%	-3.4%

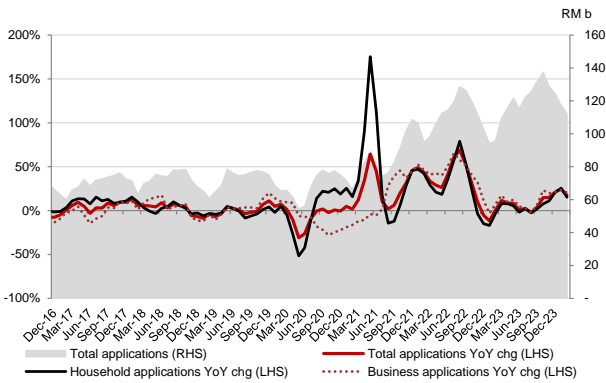
Source: BNM, Kenanga Research

Table 3: Breakdown of System Loan Repayments

RM m	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	5,286	3,150	3,446	6,254	4,543	-27.4%	-5.0%
Purchase of transport vehicles	5,033	4,879	4,969	5,102	4,878	-4.4%	8.2%
Purchase of residential property	8,962	8,473	8,496	9,064	8,559	-5.6%	9.2%
Purchase of non-residential property	5,518	5,164	5,497	5,779	4,942	-14.5%	-0.8%
Personal use	4,532	4,389	4,425	4,748	4,395	-7.4%	-1.7%
Credit card	19,959	19,808	21,049	21,203	20,417	-3.7%	15.5%
Construction	4,452	3,706	4,751	3,330	3,242	-2.6%	0.6%
Working capital	149,041	146,096	135,050	146,547	118,097	-19.4%	-11.4%
Others	12,436	9,722	10,200	10,951	9,626	-12.1%	27.1%
Total loans repaid	215,220	205,387	197,883	212,977	178,698	-16.1%	-5.2%
- Household loans	39,310	37,950	39,296	43,007	40,254	-6.4%	8.8%
- Business loans	175,910	167,437	158,587	169,970	138,443	-18.5%	-8.6%

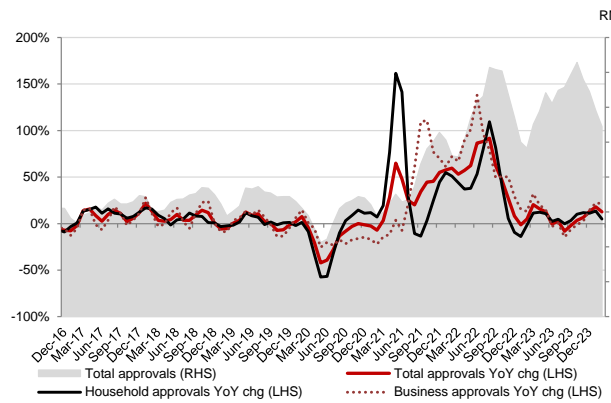
Source: BNM, Kenanga Research

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	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	4,386	3,546	4,975	5,097	2,334	-54%	-19%
Purchase of transport vehicles	15,544	15,044	14,739	17,368	13,473	-22%	-5%
Purchase of residential property	39,933	35,176	34,380	37,500	28,450	-24%	-22%
Purchase of non-residential property	14,090	13,370	10,309	13,548	11,683	-14%	-11%
Personal use	8,970	7,860	17,781	8,224	7,119	-13%	5%
Credit card	4,304	4,029	3,679	3,930	3,192	-19%	-28%
Construction	5,859	4,814	4,216	5,881	5,267	-10%	63%
Working capital	32,044	24,891	20,864	22,487	18,283	-19%	-21%
Others	14,933	4,573	9,268	4,725	7,487	58%	36%
Total system loan applications	140,064	113,302	120,211	118,760	97,288	-18%	-11%
- Household loans	72,745	65,603	73,304	71,175	55,175	-22%	-15%
- Business loans	67,318	47,699	46,907	47,585	42,113	-11%	-6%

Source: BNM, Kenanga Research

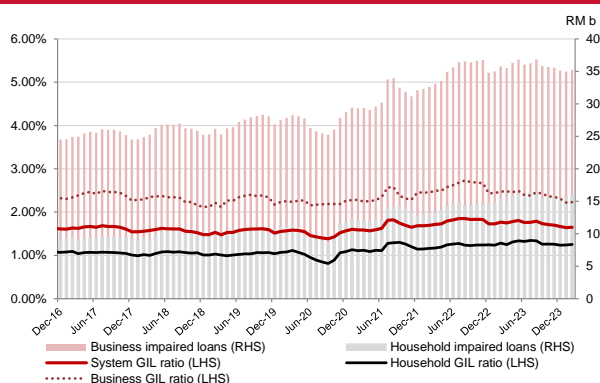
Table 5: Breakdown of System Loan Approvals

RM m	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	6,900	2,520	2,840	3,901	1,381	-65%	-32%
Purchase of transport vehicles	10,783	9,899	9,688	11,250	8,328	-26%	-10%
Purchase of residential property	17,165	14,529	12,573	14,352	11,595	-19%	-18%
Purchase of non-residential property	6,789	6,029	5,191	6,044	5,836	-3%	21%
Personal use	2,896	2,929	2,166	2,755	2,464	-11%	3%
Credit card	1,980	1,068	819	1,655	1,311	-21%	-13%
Construction	4,001	3,379	2,788	4,098	2,375	-42%	-18%
Working capital	19,013	13,424	17,594	12,823	9,031	-30%	-32%
Others	6,160	4,127	6,359	2,312	1,954	-15%	-49%
Total system loan approvals	75,686	57,903	60,017	59,191	44,275	-25%	-18%
- Household loans	33,062	28,582	25,232	30,573	24,338	-20%	-13%
- Business loans	42,625	29,321	34,785	28,618	19,937	-30%	-24%

Source: BNM, Kenanga Research

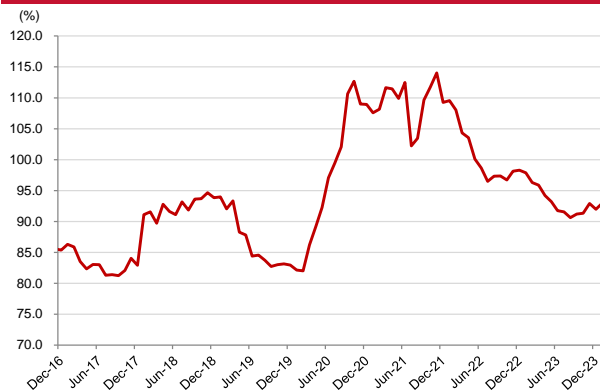
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Fig 7: GIL trends



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	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Purchase of securities	323	322	280	407	375	-8%	30%
Purchase of transport vehicles	1,052	1,082	1,067	1,104	1,126	2%	-8%
Purchase of residential property	10,631	10,603	10,549	10,608	10,785	2%	2%
Purchase of non-residential property	4,293	4,268	4,097	4,133	4,167	1%	-3%
Personal use	3,120	3,139	3,061	3,044	3,122	3%	5%
Credit card	484	499	451	446	417	-7%	-1%
Construction	2,398	2,298	2,426	2,439	2,439	0%	-4%
Working capital	11,569	11,549	11,452	10,677	10,693	0%	-7%
Others	1,808	1,788	1,775	2,113	2,120	0%	9%
Total system impaired loans	35,678	35,547	35,158	34,972	35,245	1%	-1%
- Household impaired loans	15,703	15,727	15,526	15,711	15,974	2%	4%
- Business impaired loan	19,975	19,820	19,632	19,261	19,270	0%	-5%
GIL ratio							
Purchase of securities	0.40%	0.40%	0.34%	0.51%	0.47%		
Purchase of transport vehicles	0.51%	0.52%	0.51%	0.52%	0.52%		
Purchase of residential property	1.36%	1.35%	1.33%	1.33%	1.35%		
Purchase of non-residential property	1.72%	1.70%	1.63%	1.64%	1.65%		
Personal use	2.76%	2.77%	2.68%	2.65%	2.72%		
Credit card	1.11%	1.12%	0.99%	0.97%	0.91%		
Construction	4.06%	3.84%	4.07%	4.00%	4.04%		
Working capital	2.50%	2.47%	2.40%	2.26%	2.23%		
Others	1.88%	1.85%	1.79%	2.11%	2.15%		
System	1.70%	1.69%	1.65%	1.64%	1.64%		
- Household	1.26%	1.26%	1.23%	1.24%	1.26%		
- Business	2.37%	2.35%	2.31%	2.22%	2.23%		

Source: BNM, Kenanga Research

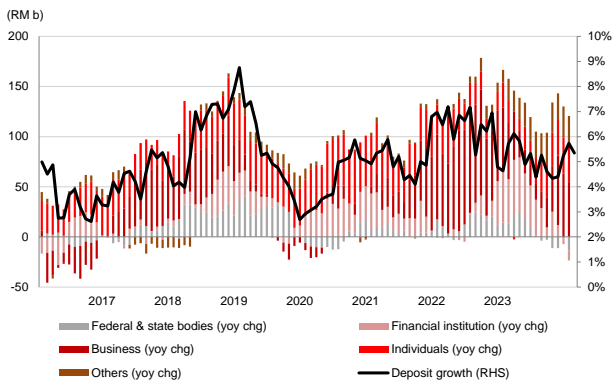
Table 7: Breakdown of System Impaired Loans and GIL Ratio by Sector

RM m	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	MoM Growth	YoY Growth
Households	15,703	15,727	15,526	15,711	15,974	2%	4%
Primary agriculture	684	672	662	185	188	1%	-87%
Mining & quarrying	1,380	1,380	1,368	1,372	1,361	-1%	-1%
Manufacturing	2,734	2,658	2,587	2,560	2,600	2%	-16%
Wholesale & retail trade, restaurants, and hotels	3,965	4,015	4,043	4,131	4,267	3%	34%
Construction	4,966	4,878	4,693	4,715	4,803	2%	-5%
Transport, storage and communication	1,011	1,051	1,124	1,135	965	-15%	12%
Finance, insurance, and business activities	4,318	4,267	4,248	4,227	4,150	-2%	-1%
Others	918	899	907	935	935	0%	-17%
Total system impaired loans	35,678	35,547	35,158	34,972	35,245	1%	-1%
GIL ratio							
Households	1.26%	1.26%	1.23%	1.24%	1.26%		
Primary agriculture	1.98%	1.90%	1.90%	0.53%	0.53%		
Mining & quarrying	14.68%	14.42%	14.27%	13.65%	13.60%		
Manufacturing	2.09%	2.02%	1.96%	1.95%	1.98%		
Wholesale & retail trade, restaurants and hotels	2.36%	2.37%	2.37%	2.40%	2.46%		
Construction	2.33%	2.29%	2.20%	2.19%	2.23%		
Transport, storage, and communication	1.87%	2.04%	2.08%	2.09%	1.83%		
Finance, insurance, and business activities	2.96%	2.93%	2.86%	2.73%	2.66%		
Others	1.04%	1.03%	1.03%	1.00%	1.03%		
Total system impaired loans	1.70%	1.69%	1.65%	1.64%	1.64%		

Source: BNM, Kenanga Research

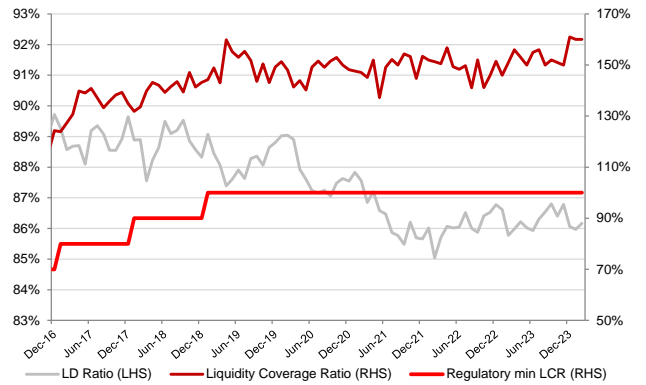
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Fig 9: Deposit Growth and Drivers



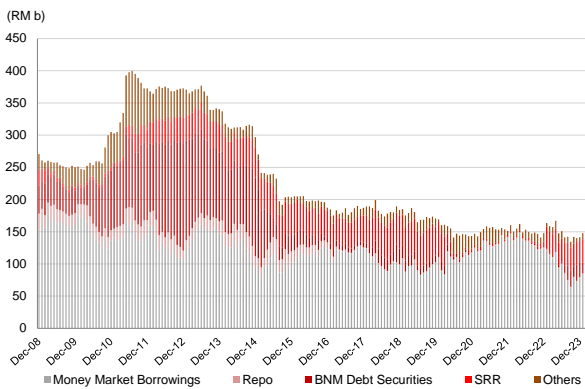
Source: BNM, Kenanga

Fig 10: LDR and LCR trends



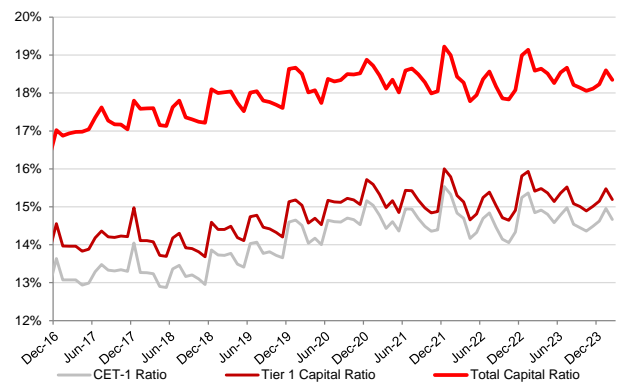
Source: BNM, Kenanga

Fig 11: Liquidity



Source: BNM, Kenanga

Fig 12: Capital Ratio Trends



Source: BNM, Kenanga

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01 April 2024

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	UP	2.50	1.80	-28.0%	5,866	N	12/2024	21.2	27.8	21.4%	31.6%	11.8	9.0	0.5	4.3%	8.0	3.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.69	4.30	16.5%	5,713	N	03/2024	45.5	50.9	4.0%	11.8%	8.1	7.2	0.8	10.2%	24.5	6.6%
AMMB HOLDINGS BHD	OP	4.19	4.80	14.6%	13,856	N	03/2024	43.6	51.1	-16.9%	17.3%	9.6	8.2	0.7	9.4%	19.0	4.5%
BANK ISLAM MALAYSIA BHD	UP	2.51	2.25	-10.4%	5,689	Y	12/2024	25.6	29.3	5.1%	14.1%	9.8	8.6	0.7	7.8%	17.0	6.8%
CIMB GROUP HOLDINGS BHD	MP	6.64	6.60	-0.6%	70,816	N	12/2024	67.1	69.8	2.6%	3.9%	9.9	9.5	1.0	10.3%	44.0	6.6%
HONG LEONG BANK BHD	OP	19.38	24.20	24.9%	42,010	N	06/2024	196.0	213.1	5.2%	8.7%	9.9	9.1	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.69	11.00	13.5%	116,929	N	12/2024	80.7	82.9	4.1%	2.8%	12.0	11.7	1.2	10.2%	62.0	6.4%
MALAYSIA BUILDING SOCIETY	UP	0.800	0.590	-26.3%	6,578	Y	12/2024	3.4	6.3	79.3%	82.1%	23.3	12.8	0.6	2.5%	2.0	2.5%
PUBLIC BANK BHD	OP	4.22	5.10	20.9%	81,913	N	12/2024	37.8	39.6	10.3%	4.8%	11.2	10.7	1.4	13.0%	21.0	5.0%
RHB BANK BHD	OP	5.67	7.25	27.9%	24,304	N	12/2024	72.8	76.4	11.5%	4.8%	7.8	7.4	0.8	9.9%	44.0	7.8%
SECTOR AGGREGATE					373,673					5.2%	6.2%	10.7	10.1	1.1	10.0%		5.3%

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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