

Malaysia Banking

POSITIVE

[Unchanged]

1H21 Financial Stability Review

Sector fundamentals intact

The outlook remains challenging for banks, particularly with a higher percentage of household and SME loans under repayment assistance. Nevertheless, funding conditions remain stable with a Net Stable Funding Ratio and a Liquidity Coverage Ratio of >100% for all banks, as well as an aggregate loan loss coverage ratio (including regulatory reserves) of 129.2%. Sector POSITIVE maintained as we look to 2022 for a recovery in earnings, with BUYs on AMMB, PBK, BIMB, HLFG and RHB.

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Household debt/GDP still elevated

Household (HH) debt grew 5.5% YoY as at end-Jun 2021 (Dec 2020: 5.5%) and the household debt-to-GDP ratio was lower, albeit still elevated, at 89.6% from 93.2% end-Dec 2020, due to sluggish recovery in nominal GDP. Debt-service ratios of newly-approved and outstanding household loans were 41% and 35% respectively, while borrowers with a debt service ratio above 60% continue to be about 24% of total household borrowers.

Higher percentage of individuals under loan mora

As at end-Jun 2021, 16% of total household loans were under a repayment assistance plan (Dec 2020: 11.1%). Borrowers earning less than MYR5,000 monthly formed 2/3 of these loan accounts. However, as at end-Jul 2021, this percentage rose sharply to 30%, due to the commencement of a second loan moratorium.

Stable percentage of SME loans of higher credit risk

The banking system's share of non-SME loans under repayment assistance was 17.2% (17.7% end-Dec 2020) of total non-SME loans as at end-Jun 2021 while SME loans under assistance jumped to 21.6% of total SME loans from 15.3% end-Dec 2020. SME loans assessed by banks to be of higher credit risk, however, increased just moderately to 14.6% of total SME loans from 14.1% end-Dec 2020, with 70% of such loans being from the wholesale/retail, construction and manufacturing sectors.

Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY 21E	PER (x) CY 22E	P/B (x) CY 21E	P/B (x) CY 22E	ROAE (%) CY 21E	ROAE (%) CY 22E	Net yield CY 21E	Net yield CY 22E
ABMB	HOLD	2.57	3,979	2.90	10.0	8.3	0.6	0.6	6.3	7.2	2.5	3.0
AMMB	BUY	3.18	10,589	3.90	8.4	7.3	0.6	0.6	0.2	8.5	1.9	3.8
CIMB	HOLD	4.81	48,168	5.20	10.6	8.4	0.8	0.8	7.7	9.2	3.5	4.4
HL Bank	HOLD	18.78	40,710	20.90	12.6	11.5	1.3	1.2	10.3	10.5	2.6	2.6
Maybank *	NR	8.10	94,716	NR	12.1	11.0	1.1	1.0	8.9	9.5	6.7	7.4
Public Bank	BUY	4.10	79,584	4.70	14.0	12.6	1.6	1.5	11.8	12.3	3.7	3.9
RHB Bank	BUY	5.50	22,376	6.30	9.6	8.8	0.8	0.7	8.3	8.6	4.2	4.5
Simple avg			300,122		11.0	9.7	1.0	0.9	7.6	9.4	3.6	4.2
MC-wtd					12.1	10.8	1.2	1.1	9.3	10.2	4.4	4.9
BIMB	BUY	3.01	6,248	4.75	7.3	7.4	0.8	0.7	10.9	10.2	4.0	4.2
HLFG	BUY	18.20	20,885	20.70	9.1	8.7	0.9	0.8	10.0	9.7	2.7	3.4

* Consensus estimates Source: Maybank KE

Market risk - orderly financial market conditions

Non-resident outflows amounted to MYR4.5b in the first eight months from Jan 2021 to end-Aug 2021.

Retail investors continued to purchase the bulk of the sell-offs in the equity market, accounting for 34% of the total value traded in Aug 2021 (2020: 34%, 3-year average: 19%).

Household loans relating to the purchase of quoted shares was just 0.5% of total banking system loans, while loans to stockbroking and fund management firms was less than 1% of total banking system loans.

Non-resident inflows into the domestic government bond market was a larger MYR23.9b in 8M21 compared to MYR17.2b for the whole of 2020.

Non-resident holdings in the government bond market was higher at 25.2% end-Aug 2021 versus 24.2% in Dec 2020 (five-year average: 25.9%).

Gross corporate bond issuances increased in 7M21 to MYR63.8b compared to MYR45.6b in 7M20. More than half of the issuances were from the finance, insurance, real estate and business services sectors.

BNM estimates that an increase in bond yields of up to 89bps and higher resultant funding costs would reduce banks' aggregate pretax profits and total capital ratio by up to 11% and 1 ppt respectively.

A similar shock would have a larger impact to insurance companies, with the profitability of life and family funds as well as general funds declining by up to 85% and 29% respectively.

Credit risk (businesses) - SMEs more impacted

Business loan applications contracted at a similar pace to 2020 (1H21: -11.2%; 2020: -11.1%) while loan repayments surpassed pre-pandemic levels.

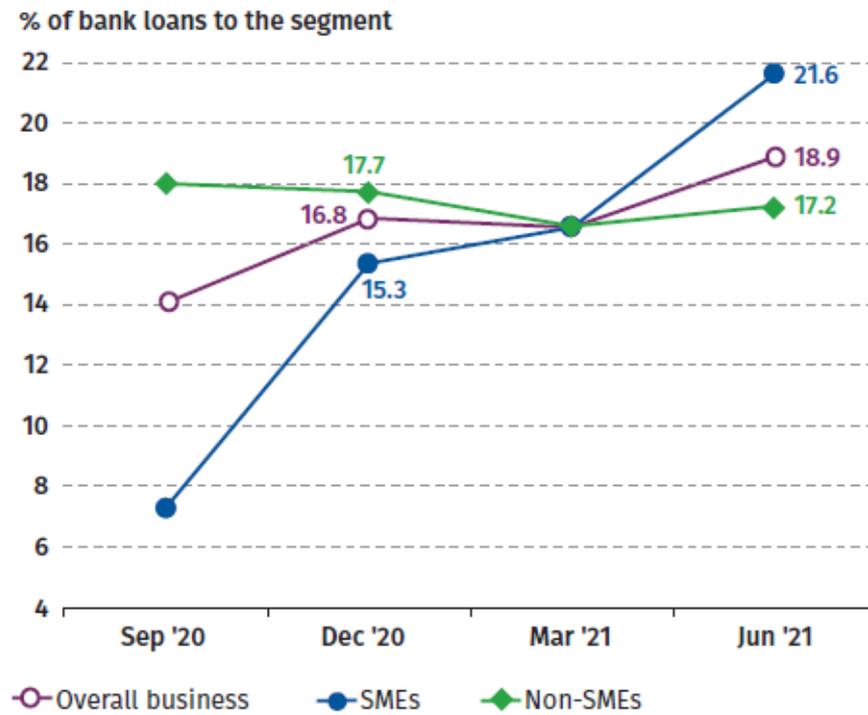
Net non-financial corporate (NFC) bond issuances moderated amid higher redemptions (7M21: MYR12.5b; 7M20: MYR16.9b). Larger NFCs however continued to take advantage of favourable funding conditions with sustained NFC bond issuances (7M21: MYR55.1b; 7M20: MYR56.8b).

The share of non-SME loans under repayment assistance and assessed to be of significantly higher risk (loans classified under Stage 2) declined to 17.2% and 16.8% of total non-SME loans respectively as at end-Jun 2021 from 17.7% and 17.2% respectively end-Dec 2020.

SMEs, however, were more impacted and the overall proportion of SME loans under repayment assistance jumped to 21.6% as at end-Jun 2021 from 15.3% in Dec 2020. This was driven by SMEs in the wholesale and retail, real estate, construction and manufacturing sectors.

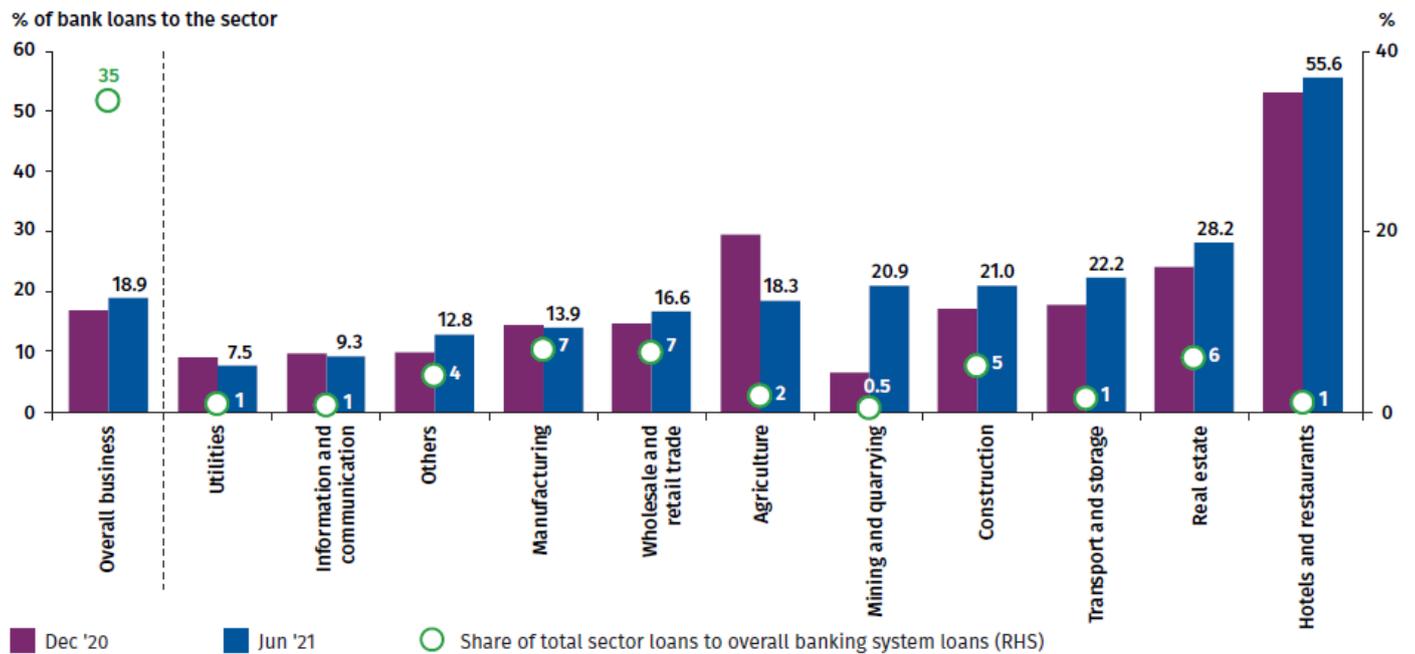
SME loans assessed by banks to be of higher credit risk, however, increased just moderately to 14.6% of total SME loans as at end-Jun 2021 from 14.1% end-Dec 2020. The wholesale/retail, construction and manufacturing sectors made up almost 70% of these loans.

Business sector: Share of R&R loans by segment



Source: BNM Financial Stability Report 1H21

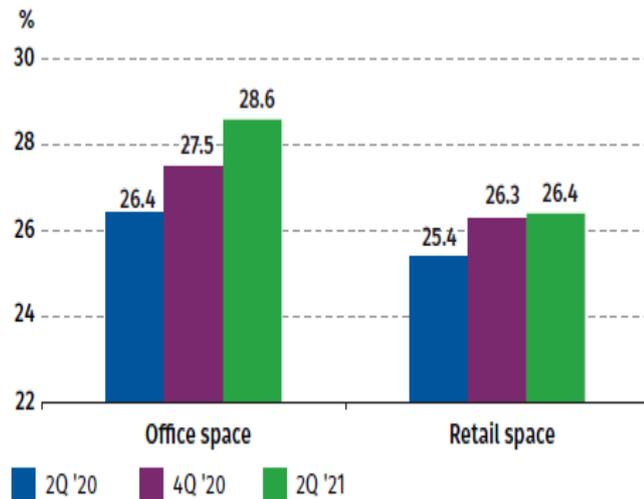
Business sector: Share of R&R loans by sector



Source: BNM Financial Stability Report 1H21

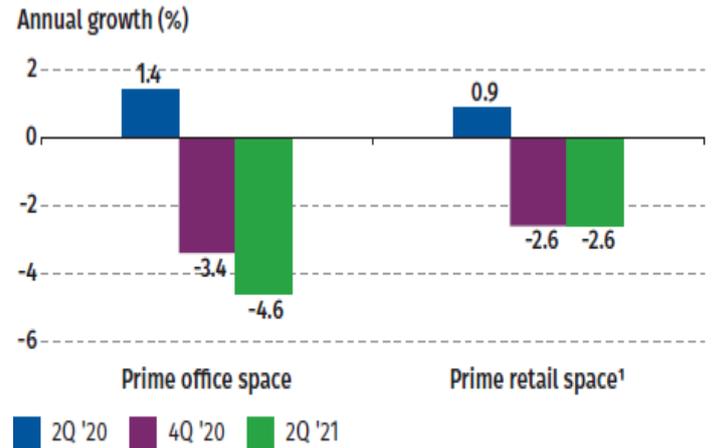
Occupancy and rental rates of shopping complexes and office space continued to face downward pressure in 1H21. Average rental rates for office and retail space in the Klang Valley have now declined for 4 consecutive quarters since 3Q20.

Vacancy rates for office and retail space in Klang Valley



Source: BNM Financial Stability Report 1H21

Rentals for prime office and retail space in Klang Valley



¹Average rents of the most prominent shops in major shopping complexes

Source: BNM Financial Stability Report 1H21

Banks continued to support the financing needs of SMEs. More than ¼ of approved SME loans in 1H21 were to first-time borrowers, while approved loans to young SMEs accounted for almost 20% of total volume.

Outstanding SME loans grew by 6% YoY in 1H21 (9.6% YoY in 2020), with approval rates improving to 77.3% from 73.3% end-Dec 2020 (5-year average: 82.8%).

Financing for working capital increased by 9.2% YoY (Dec 2020: 12.3% YoY), driven by the consumer-facing sectors such as wholesale/retail, hotels and restaurants and transportation sectors, which continued to face headwinds.

BNM's Fund for SMEs currently accounts for about 5% of outstanding financing to SMEs (pre-pandemic average of 2%).

Loans under credit guarantee schemes provided by Credit Guarantee Corporation Malaysia and Syarikat Jaminan Pembiayaan Perniagaan accounted for 7% of outstanding financing versus a pre-pandemic average of 4%.

Business sector ratios (%)

	2017	2018	2019	2020	1H21p
ROA	2.6	1.6	1.5	1.0	1.6
ROE	4.6	3.0	3.0	2.1	3.0
Debt/equity ratio	22.0	24.9	25.5	22.5	21.9
ICR (x)	6.7	4.9	4.8	4.4	5.4
Operating margin	6.8	5.6	5.7	5.1	6.3
Impaired loans ratio	2.6	2.4	2.5	2.6	2.7

Source: BNM Financial Stability Report 1H21

Credit risk (households) - Improvement in HH debt ratio

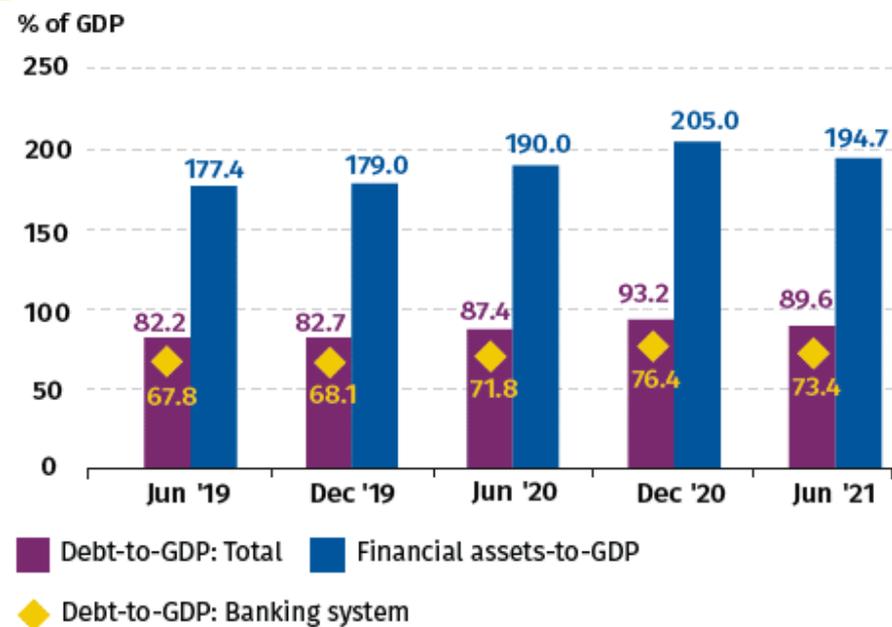
Household (HH) debt grew 5.5% YoY as at end-Jun 2021 (Dec 2020: 5.5%).

Around 70% of new banking system loans in 1H21 were channeled to middle- and high-income borrowers.

Debt-service ratios of newly-approved and outstanding household loans were 41% and 35% respectively as at end-Jun 2021, while borrowers with a debt service ratio above 60% continue to be about 24% of total household borrowers.

The household debt-to-GDP ratio improved to 89.6% as at end Jun 2021 from 93.2% end-Dec 2020, but remains elevated amid the sluggish recovery in nominal GDP.

Household sector: Key ratios



Source: BNM Financial Stability Report 1H21

Aggregate household financial assets declined by MYR3b between Dec 2020 and Jun 2021, driven by lower retirement savings due to the i-Sinar and i-Lestari programmes. BNM cautions that over the longer term, the drawdown of such savings could compound future difficulties for some households that are already faced with insufficient savings for retirement.

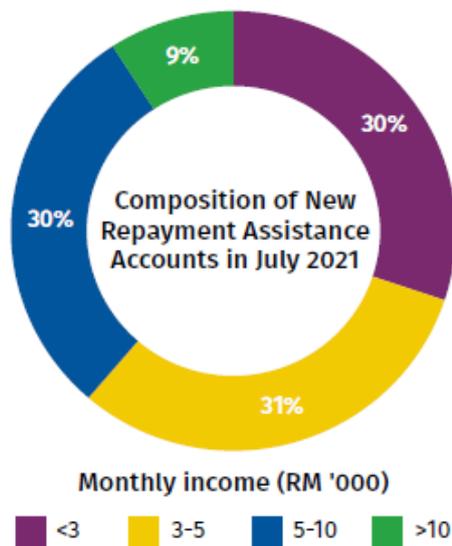
Conservative estimates by BNM suggest that the share of borrowers that would have to draw on pre-existing savings to meet their debt obligations and living expenses over the next 18 months in the event of assumed income and unemployment shocks would be between 11% and 15% of borrowers. Of these, those likely to deplete their cash or deposit buffers are estimated at a smaller 1.9% of household borrowers. About 65% of such at-risk borrowers comprise those earning less than MYR5,000 per month. Exposures of the banks to these most vulnerable borrowers are estimated to account for only 1.3% of banking system loans.

Banks' exposure to household investors (i.e. an individual borrower with more than one housing loan) was 13.7% of total banking system loans. The average loan-to-value ratio of outstanding loans by household investors remained low and stable at 54.8%.

As at end-Jun 2021, 12.8% of household loan accounts or 16% of total outstanding household loan exposures were under a repayment assistance plan (Dec 2020: 8.9% and 11.1% respectively). Borrowers earning less than MYR5,000 monthly formed 2/3 of these loan accounts.

However, as at end-Jul 2021, the share of household loan accounts and exposures under repayment assistance rose sharply to 25.4% and 30% of total household accounts and loan exposures respectively, due to the commencement of a second loan moratorium.

Household sector: New repayment assistance accounts by monthly income group



Source: BNM Financial Stability Report 1H21

Household debt ratios (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1H21p
HH debt (MYR'b)	694.2	782.3	877.4	952.7	1,023.2	1,080.5	1,133.8	1,186.7	1,251.8	1,320.6	1,335.4
Chg in HH debt	16.8%	12.7%	12.2%	8.6%	7.4%	5.6%	4.9%	4.7%	5.5%	5.5%	5.5%
HH fin assets (MYR'b)	1,520	1,712	1,905	2,015	2,119	2,232	2,421	2,544	2,709	2,904	2,906
HH debt/GDP	76.1	80.5	86.1	86.1	88.4	87.8	83.8	82.0	82.9	93.2	93.3
HH fin assets/HH debt	218.9	218.9	217.1	211.5	207.1	206.6	213.5	214.3	216.4	219.9	220.0
HH liquid fin assets/HH debt	154.7	156.3	155.7	148.7	143.4	141.4	145.7	143.4	143.2	145.3	145.5
Impaired loans ratio	na	na	2.2	1.7	1.5	1.5	1.4	1.2	1.2	1.1	1.1

Source: BNM Financial Stability Report 1H21

Financial institutions: Still resilient

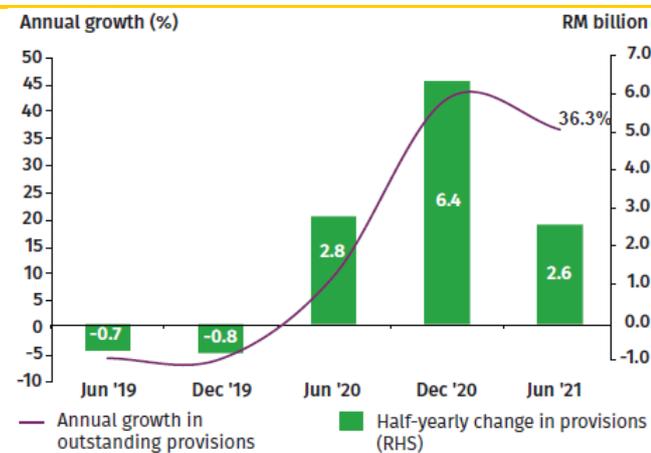
Funding conditions in the banking system remained stable with a Net Stable Funding Ratio (NSFR) of 116.4%, with all banks meeting the minimum NSFR requirement of 100% ahead of the 30 Sep 2021 deadline.

All banks recorded liquidity coverage ratios (LCR) above 100% with increased holdings of high-quality liquid assets.

Banks maintain MYR170.5b worth of foreign currency liquid assets, which are sufficient to cover up to 3.1x the current level of foreign currency external debt-at-risk.

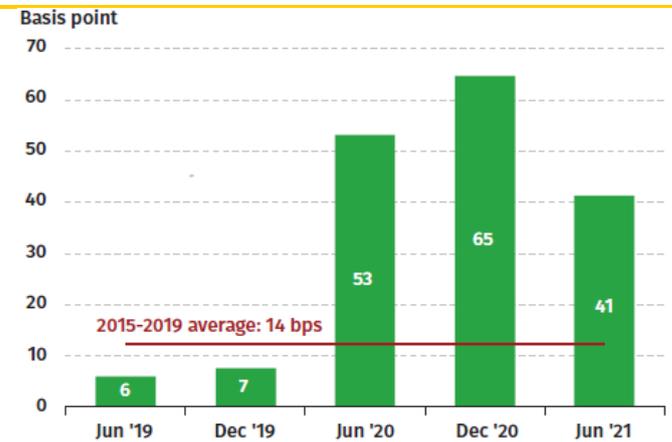
Total provisions are now 54% higher than the pre-pandemic level end-2019 and have risen further to 1.8% as a share of total loans end-June 2021 from 1.7% in Dec 2020. The loan loss coverage ratio (including regulatory reserves) has remained around historically high levels at 129.2%.

Banking system: Provisions



Source: BNM Financial Stability Report 1H21

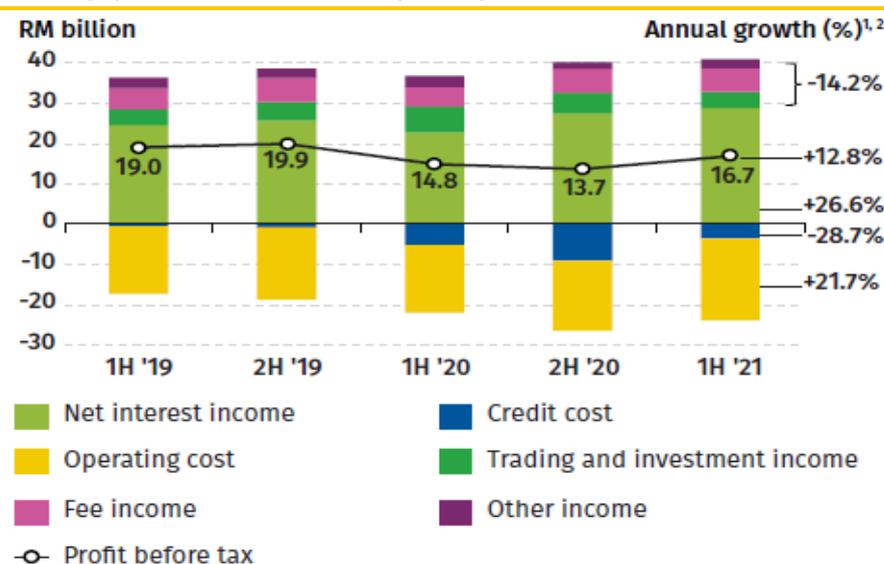
Banking system: Annualized credit cost ratios



Source: BNM Financial Stability Report 1H21

The banking system recorded an aggregate pretax profit growth of 12.8% in 1H21.

Banking system: Income, cost and pretax profit



Source: BNM Financial Stability Report 1H21

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