Malaysia Banking

Improved fundamentals from a stronger economy

POSITIVE *[Unchanged]*

Analyst

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POSITIVE maintained

BNM's 1H24 Financial Stability Review (FSR) highlights the improved fundamentals of the banking system amid more robust economic activity this year. Business credit risk is improving while household debt-to-GDP has moderated further to 83.8% end-June 2024 from 84.2% end-Dec 2023. We maintain a POSITIVE on the sector with BUYs on AMMB, CIMB, PBK, RHB, HLBK and HLFG.

Business credit risk improving

Amid more buoyant economic activity in 1H24, the operating environment for businesses have improved, though there are still cost pressures in certain industries such as wholesale/retail, primary-related manufacturing sectors and construction. Nevertheless, interest coverage ratios have improved, contributing to fewer firms-at-risk. BNM expects business resilience to improve further in 2H24 amid a sustained expansion in economic activity.

Marginally lower HH debt-to-GDP ratio of 83.8%

The household debt-to-GDP ratio was 83.8% end-June 2024 (84.2% as at end-Dec 2023). Household financial assets continued to outweigh household debt by 2.1x, expanding at a faster pace of 8.6%, driven mainly by a) higher EPF balances and deposits on the back of favourable market conditions and b) higher valuations of domestic equity holdings. With better income conditions, the share of borrowers with high DSR (>60%) declined to 24.1% end-June 2024 from 25.0% end-Dec 2023.

Manageable risk in OSSC sub-segment

Within the non-residential property (NRP) segment, the office space and shopping complex (OSSC) subsegment, which is deemed to be of higher risk, accounts for just 2.6% of total banking system loans. The impairment ratio for the OSSC subsegment of 2.1% is higher than the overall NRP segment's 1.6%, but is manageable, and the median loan-to-value ratio on such financing is prudent at 59%. Indirect NRP exposures e.g. bridging loans and working capital loans to businesses in the construction sector and selected real estate services is just 4.3% of banking system loans.

Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px	Mkt cap	TP	Upside	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield	Net yield
		(MYR)	(MYR m)	(MYR)	(%)	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Maybank *	NR	10.54	127,186	NR	NA	12.7	11.9	1.3	1.3	10.5	10.9	6.1	6.5
Public Bank	BUY	4.57	88,707	5.40	18%	12.6	12.0	1.6	1.5	12.6	12.7	4.6	5.0
CIMB	BUY	7.99	85,608	9.20	15%	11.0	10.4	1.2	1.1	11.1	11.2	5.9	5.3
HL Bank	BUY	21.30	46,172	24.30	14%	10.0	9.3	1.1	1.0	11.8	11.7	3.4	3.8
RHB Bank	BUY	6.15	26,811	6.80	11%	8.8	8.5	0.8	0.8	9.7	9.8	6.5	6.5
HLFG	BUY	19.06	21,872	22.70	19%	6.6	6.3	0.7	0.7	11.1	11.0	2.9	2.9
AMMB	BUY	4.99	16,538	5.95	19%	9.0	8.5	0.8	0.8	9.5	9.5	5.4	5.9
ABMB	HOLD	4.31	6,672	4.60	7%	9.3	8.9	0.9	0.9	9.9	9.9	5.4	5.6
BIMB	HOLD	2.73	6,187	2.75	1%	10.9	10.2	0.8	0.8	7.6	7.9	6.0	6.4
Simple avg			**425,753**			**10.1**	**9.5**	**1.0**	**1.0**	**10.4**	**10.5**	**5.1**	**5.3**
MC-wtd						**11.3**	**10.6**	**1.2**	**1.2**	**11.1**	**11.2**	**5.3**	**5.4**

** Consensus estimates   Source: Maybank IBG Research*

1. A summary of key points from FSR 1H24

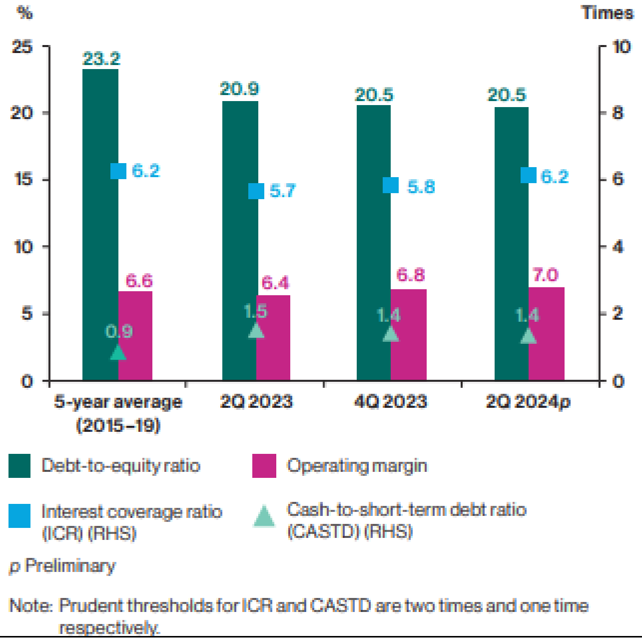
1.1 Credit risk - businesses

Business activities improved in 1H24, supported by the recovery in exports and firm domestic demand conditions.

Firms continued to face general cost pressures such as higher logistical and compliance costs amid ongoing geopolitical tensions, the rationalization of diesel subsidies and the implementation of e-invoicing. These however, were partially offset by mitigating measures such as the availability of diesel fleet cards for key business segments.

Businesses in the wholesale and retail, and primary-related manufacturing sectors recorded lower profit margins in 1H24. Smaller firms in the construction sector were also affected by fewer new project starts.

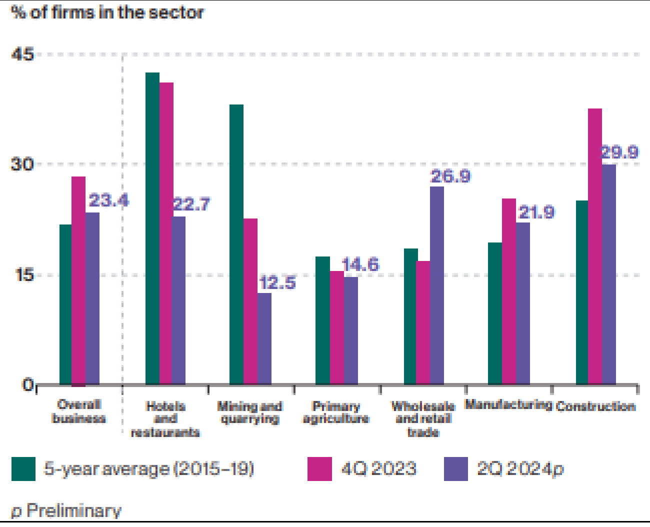
Business sector: Key financial performance indicators



Source: BNM Financial Stability Report 1H24

Cumulatively though, stronger economic activity has led to improved overall interest coverage ratios (ICRs) and contributed to fewer firms-at-risk (i.e. firms with ICR below 2x) compared to 4Q23.

Business sector: Firms-at-risk for selected sectors



Source: BNM Financial Stability Report 1H24

Credit quality remains sound with a stable business loan impairment ratio of 2.6%.

On the SME front, SME loans under repayment assistance trended lower to 4.7% of total SME loans from 5.4% end-Dec 2023, or 0.8% of total banking system and development financial institution (DFI) loans.

The median ICR for the top 50 percentile of listed companies by asset size, was comfortably above the prudent threshold of 2x, at 6.2x (5.8x end-Dec 2023).

Business loans grew 5.7% YoY end-June 2024, driven by higher growth in both investment-related and working capital loans.

Looking forward, business resilience is expected to improve further in 2H24 amid a sustained expansion in economic activity.

Business sector ratios (%)

	1H22	2H22	1H23	2H23	1H24p
Return on assets	2.8	2.5	2.4	2.4	2.4
Return on equity	4.7	4.6	3.8	4.0	4.0
Debt-to-equity Ratio	22.2	22.6	20.9	20.5	20.5
Interest cover (x)	8.2	7.4	5.7	5.8	6.2
Operating margin	7.7	7.0	6.4	6.8	7.0
Impaired loans ratio	3.0	2.8	2.8	2.7	2.6

Source: BNM Financial Stability Report 1H24

1.2 Developments in the non-residential property market

51% of banks' non-residential property (NRP) market exposure takes the form of end-financing for the purchase of NRP.

As at end-June 2024, direct end-financing exposures to NRP accounted for 11.9% of total banking system loans, of which 56% is for the purchase of land and shophouses, which is deemed to be of lower risk.

Banks typically apply conservative practices for the purchase of land, with a median outstanding LTV ratio of 37% (overall NRP financing: 52%).

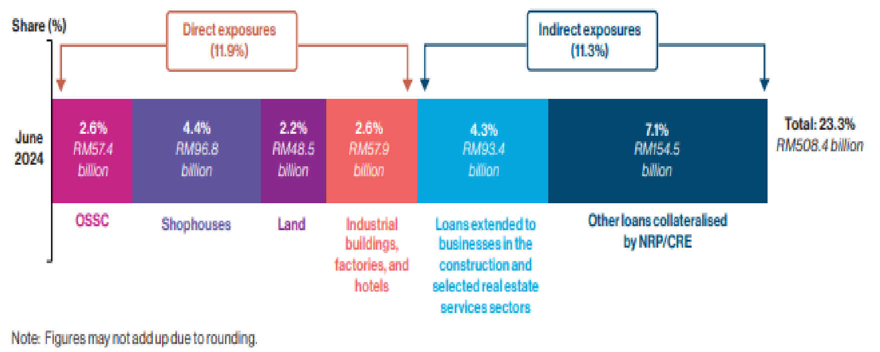
The office space and shopping complex (OSSC) subsegment, which is of higher risk, accounts for just 2.6% of total banking system loans. The impairment ratio for the OSSC subsegment of 2.1% is higher than the overall NRP segment's (1.6%).

The median LTV ratio on outstanding NRP financing is prudent at 52% and it is 59% for the OSSC subsegment.

Indirect NRP exposures e.g. bridging loans and working capital loans to businesses in the construction sector and selected real estate services is just 4.3% of total banking system loans.

A more significant exposure would be loans for other purposes (typically working capital) collateralized by NRP. These account for 7.1% of outstanding banking system loans. Nevertheless, the performance of these loans is driven primarily by the financials of the businesses.

Business sector: Key financial performance indicators



Source: BNM Financial Stability Report 1H24

1.3 Credit risk - households

The household debt-to-GDP ratio was 83.8% end-June 2024 (84.2% as at end-Dec 2023).

Unsecured financing i.e. credit cards and personal financing, was stable at 15.2% of total loans end-June 2024 (15.5% end-Dec 2023).

Buy now pay later (BNPL) schemes continue to gain traction. There were 4.3m active users end-June 2024, up 27.6% from end-Dec 2023.

Outstanding BNPL exposure as a share of overall household debt is still small at over 0.1% end-June 2024, with overdue BNPL financing at 2.6% of total exposure (3.4% end-Dec 2023).

Household financial assets continued to outweigh household debt by 2.1x, expanding at a faster pace of 8.6%, driven mainly by a) higher EPF balances and deposits on the back of favourable market conditions and b) higher valuations of domestic equity holdings.

As of July 2024, household retirement accounts were bolstered by MYR5.6b, while MYR12.6b was placed in flexible accounts that can be drawn upon by households when needed, following the one-time permitted transfers effected by members.

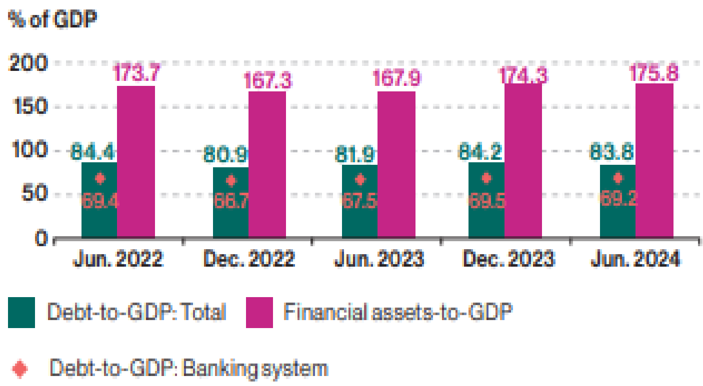
Higher income borrowers (>MYR5k per month) were the primary contributors to household debt growth, accounting for 72.1% of total outstanding household debt.

Debt service ratios (DSR) for newly approved and outstanding household loans were 41% and 35% respectively end-June 2024.

With better income conditions, the share of borrowers with high DSR (>60%) declined to 24.1% end-June 2024 from 25.0% end-Dec 2023.

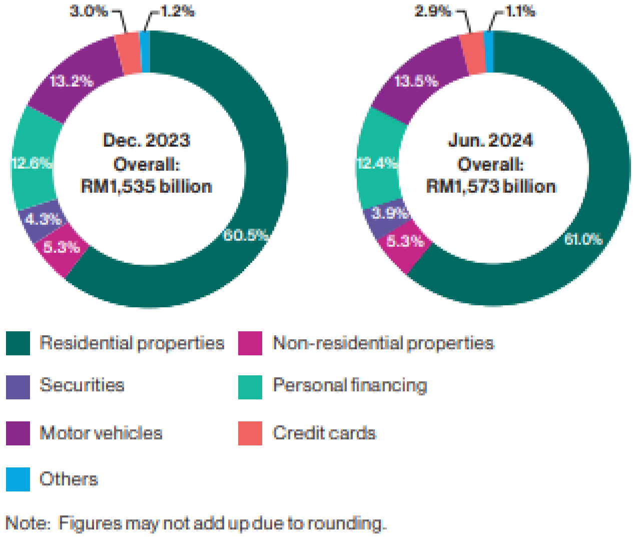
More than 2/3 of high DSR debt is held by middle- and high-income borrowers and the value of loans with 3 or more months in arrears declined to 2.4% end-June 2024 from 2.9% in Dec 2023.

Household sector: Key ratios



Source: BNM Financial Stability Report 1H24

Household sector: Composition of debt by purpose



Source: *BNM Financial Stability Report 1H24*

Household debt ratios (%)

	2015	2016	2017	2018	2019	2020	2021	2022	1H23	2H23	1H24p
HH debt (MYR'b)	1,023.2	1,080.5	1,133.8	1,186.7	1,251.8	1,320.6	1,376.4	1,451.4	1,481.8	1,534.1	1,573.6
Chg in HH debt	*7.4%*	*5.6%*	*4.9%*	*4.7%*	*5.5%*	*5.5%*	*4.2%*	*5.5%*	*5.2%*	*5.7%*	*6.2%*
HH fin assets (MYR'b)	2,119	2,232	2,421	2,544	2,709	2,901	2,971	3,002	3,039	3,177	3,300.1
HH debt/GDP	88.4	87.8	83.8	82.0	82.9	93.1	89.1	80.9	81.9	84.2	83.8
HH fin assets/HH debt	207.1	206.6	213.5	214.3	216.4	219.7	215.9	206.8	205.1	207.0	209.7
HH liquid fin assets/HH debt	143.4	141.4	145.7	143.4	143.2	145.2	144.0	135.4	133.3	132.3	135.2
Impaired loans ratio	1.5	1.5	1.4	1.2	1.2	1.2	1.1	1.2	1.3	1.2	1.2

Source: *BNM Financial Stability Report 1H24*

1.4 Developments in the residential property market

The mass market segment (houses priced MYR500k and below) accounted for almost 80% of total transactions in 1H24, supported by stamp duty exemptions under the Malaysian Home Ownership Initiative (i-Miliki), that is in place for first-time home buyers for houses MYR500k and below, until end-2025.

Over 60% of new launches in 2023 were in the MYR500k and below category.

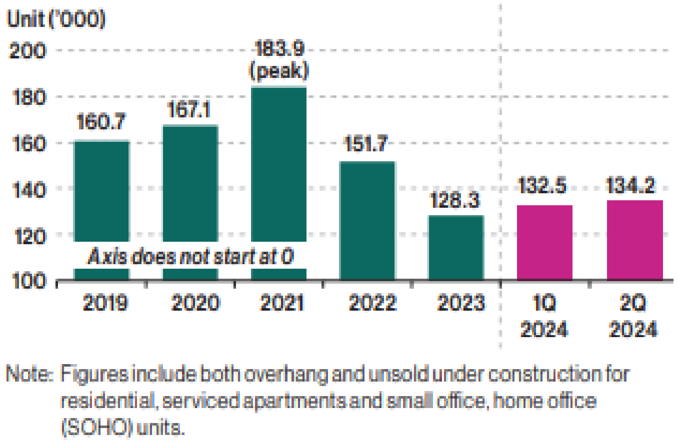
The stock of unsold housing units inched upwards to 134,170 units in June 2024 from a 2015-2019 average of 130,210 units, reflecting a pick-up in new launches post-pandemic.

House prices expanded 3.5% in 1Q24 (3.8% in 4Q23), driven by higher prices for landed properties.

Properties in the high-rise segment continued to exhibit weaker and more volatile price movements.

The serviced apartment segment remains small at 6% of total dwelling stock as compared to traditional high-rise properties (28.7% of total dwelling stock).

Property market: Volume of unsold housing units



Source: BNM Financial Stability Report 1H24

Outstanding housing loan growth (+7.5% YoY end-June 2024) continued to be driven by owner-occupiers (76% of the increase in outstanding loans over the past year).

Share of new loans associated with investment purchases (proxied by borrowers with 2 or more housing loans) was 24% end-June 2024.

Borrowers with 3 or more housing loans account for just 2.9% of all housing loan borrowers.

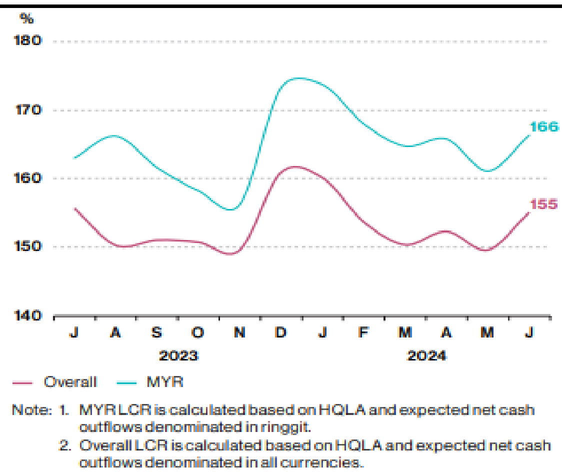
The median LTV ratio for outstanding housing loans remains prudent at 68.9% end-June 2024.

2. Financial institution soundness and resilience

2.1 The banking sector

The aggregate Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained healthy and were well above regulatory minima, at 155.1% and 115.5% respectively as at end-June 2024 (Dec 2023: 161% and 118.2% respectively). Banks' holdings of high-quality liquid assets (HQLA) increased further to MYR762.7b from MYR758.2b end-Dec 2023, mostly in the form of central bank placements and government bonds.

Banking system: Liquidity coverage ratios

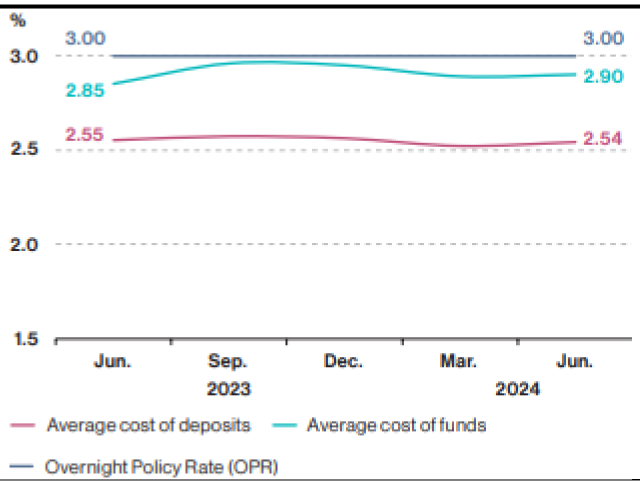


Source: BNM Financial Stability Report 1H24

The average cost of funds moderated 6bps to 2.90% between Dec 2023 and June 2024.

Bank lending to households and businesses continued to expand at a healthy rate (+6.4%; Dec 2023: +5.3%). The weighted average lending rates for new business and retail loans have also remained broadly stable (-4 bps and -1 bp from Dec 2023 to June 2024 respectively) amid healthy competition observed among banks.

Banking system: Average cost of deposits, average cost of funds and OPR



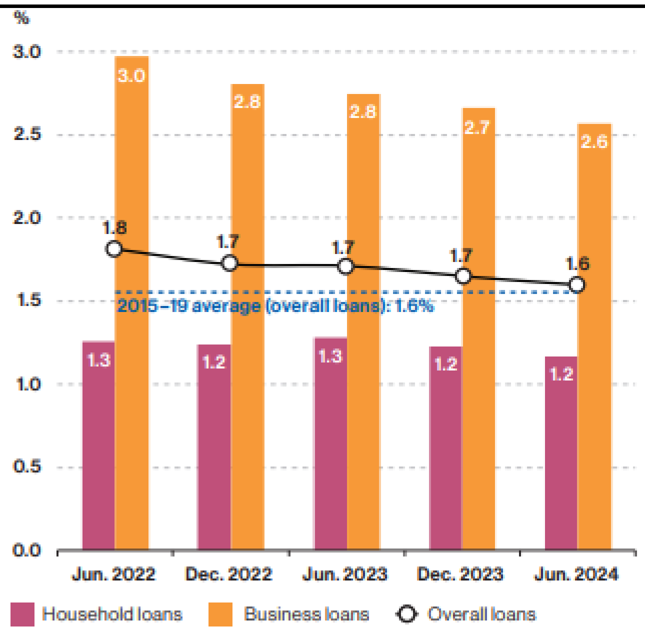
Source: BNM Financial Stability Report 1H24

The bulk of total banking system external debt exposures (78.4%; Dec 2023: 78.6%) are with related counterparties or in the form of long-term, stable debt, thereby limiting rollover or withdrawal risks. Banks maintained sizeable foreign currency (FCY) liquid asset buffers, sufficient to cover up to 2.5x (Dec 2023: 2.4x) of total FCY external debt-at-risk.

Total loans under repayment assistance programmes improved to 2.0% of total banking system loans (Dec 2023: 2.4%) amid a steady recovery in borrowers' repayment capacity.

New requests for restructuring and rescheduling from borrowers facing financial strains remained small at 0.09% of banks' total loans (Dec 2023: 0.16%).

Banking system: Gross impaired loans ratio

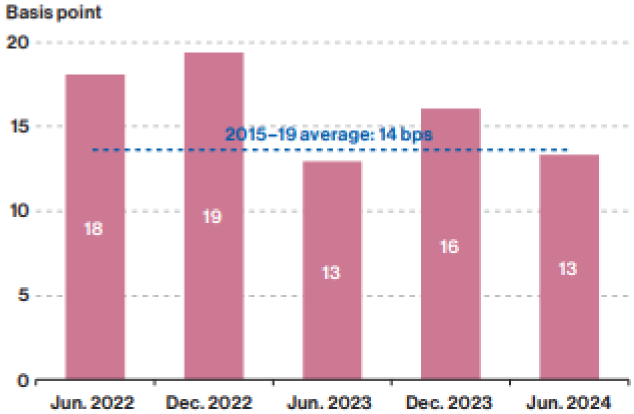


Source: BNM Financial Stability Report 1H24

As of June 2024, management overlays stood at around 25% of banks' expected credit loss (ECL) provisions for loans, a decline from 27% end-Dec 2023.

The banking system loan loss coverage ratio (including regulatory reserves) was sustained at a high level of 124.2% (Dec 2023: 119.2%). Annualized credit costs remain stable around the pre-pandemic historical average.

Banking system: Annualised credit cost



Source: BNM Financial Stability Report 1H24

Net interest margins averaged 1.96% in 1H24 versus 1.97% in 2023 and a 2015-19 average of 2.11%.

Banks' cost/income ratio decreased to 46.9% in 1H24 from 48.5% in 2023.

In line with the higher earnings, returns on asset and equity of the banking system improved to 1.3% and 12% respectively from 1.2% and 11.2% in Dec 2023.

The banking system total capital ratio remained strong (18.4%; Dec 2023: 18.5%), with capital buffers of MYR136.1b in excess of the regulatory minimum (Dec 2023: MYR143.4b).

Risk statement

Upside risks: (i) Stronger-than-expected GDP growth, which would contribute to stronger loan growth and lower credit risks; as well as (ii) improved liquidity, which would help to sustain interest margins.
Downside risks: (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset quality issues; (ii) marked-to-market investment losses if bond yields rise further; and (iii) a further slowdown in CASA growth, which could exacerbate deposit competition. Present downside risks include a) inflationary pressure and its negative impact on consumption and spending power; b) global instability amid a Russia-Ukraine war; c) further defaults in corporate debt; and d) higher-than-expected defaults on RA loans.

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