

### SECTOR UPDATE

## Banking – Malaysia

### Loans Growth Momentum Slows

Loans growth edged downwards to 5.8% (Apr: 6.1%) on slower business loans growth. We anticipate a 5.5-6.0% system loans growth for 2024, implying a 1.15x loans to the GDP growth multiple which is in line with its 10-year mean. We find the sector's risk-reward to be well balanced in the absence of strong catalysts. The sector's 2024 earnings growth is expected to lag that of the broader equity market. Maintain MARKET WEIGHT with CIMB being our top pick within the sector.

### WHAT'S NEW

- **May 24 loan growth declined to +5.8% yoy**, down from +6.1% in April. This decrease was driven by a slowdown in the business (Biz) segment, which grew by +4.8% compared to +5.6% in April. Meanwhile, the household (HH) segment remained steady, with growth at +6.5%, slightly up from 6.4% in April. The moderation in business segment growth was primarily due to a slowdown in working capital lending. In contrast, the household segment's growth was supported by sustained demand for mortgage and auto loans.
- **Maintaining 2024 system loans growth assumption of 5.5-6.0%**. May 24 loans growth of 5.8% remains broadly within our full-year 2024 estimates of 5.5-6.0%. This represents a slight recovery from 2023's 5.3% growth, driven largely in anticipation of stronger business loans growth which is currently tracking 4.8% (2023: 4.6%) while household loans are expected to remain fairly stable.
- **Leading indicators showed a slowdown**, with loan applications increasing by only 3.7% yoy compared to +14.6% in April, while loan approvals declined by 4.7% (April: +15.9%). Loan application demand decelerated for both HH (+3.0% vs April: +13.3%) and Biz (+4.5% vs April: +16.4%). Additionally, banks have become more restrictive in their lending, with approvals for HH loans rising by just +1.7% (April: +10.0%) and Biz loan approvals dropping by -11.2% (April: +19.4%).
- **Deposit growth remained stable at +4.9% yoy**, compared to +5.0% in April, supported by strong current account savings account (CASA) and foreign currency deposits. Overall, the loan-to-deposit ratio in May held steady mom at 86%, compared to the peak of 89% in Feb 18. We observe that the fixed deposit (FD) competition remains reasonably rational.

### ACTIONS

- **Maintain MARKET WEIGHT.** The sector is currently trading at its historical mean P/B of 1.10x which we deem to be fair, considering the absence of new catalysts. Sector earnings growth of 6% is expected to lag the broader market's projected 11% rise in 2024 earnings. This is primarily due to factors such as: a) NIM remaining flattish with slight downside risk, b) anticipated slowdown in non-interest income growth, and c) absence of material credit cost tailwinds. Overall, sector dividend yields are attractive, surpassing 5%, and have stable asset quality.
- **Our top sector pick is CIMB Group.** Our preference for CIMB Group as the top pick is based on: a) its high beta, b) it having the highest foreign shareholding among the banks, and c) its strong ROE trajectory.
- **Asset quality remained stable**, with the gross impaired loans (GIL) ratio in May 24 remaining stable at 1.63%. Notably, HH GIL ratio improved by 3bp while the Biz segment saw a 3bp uptick mom.
- **Sufficient pre-emptive provisions set aside.** Going forward, we are still not particularly worried on any asset quality weakness as banks are better equipped vs prior slumps; the large loan loss allowances built up over the past three years act as a robust buffer to pad any short-term spike in GIL ratio that may potentially stem from global macro headwinds and tighter monetary policy.

## MARKETWEIGHT (Maintained)

### SECTOR PICKS

Company	Rec	Target Price (RM)	Share Price (RM)
Public Bank	BUY	5.10	4.02
CIMB Group	BUY	7.60	6.80

Source: UOB Kay Hian

### BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % chg
Affin Bank	2.49	35.3	19.7
CIMB Group	6.80	33.5	17.5
Bank Islam	2.49	28.4	12.7
Maybank	9.96	14.1	12.0
Alliance Bank	3.79	13.5	11.8
AMMB	4.29	17.5	7.0
HLFG	17.28	(2.2)	5.1
HL Bank	19.20	1.6	1.6
RHB Bank	5.51	1.7	1.1
Public Bank	4.02	3.9	(6.3)

Source: Bloomberg

### SUMMARY OF BANKING DATA

	yoy % chg		
	Mar-24	Apr-24	May-24
Loan Outstanding	6.0	6.1	5.8
- Business	5.5	5.6	4.8
- Household	6.4	6.5	6.5
Loan Applied	(12.6)	14.6	3.7
- Business	(14.9)	16.4	4.5
- Household	(10.9)	13.3	3.0
Loan Approved	(12.2)	15.9	(4.7)
- Business	(8.0)	23.0	(10.6)
- Household	(16.1)	9.9	1.5
Loan Disbursed	(5.2)	2.2	(47.8)
- Business	(7.1)	0.0	(2.8)
- Household	2.3	11.8	10.7
Loan Repaid	(6.4)	1.8	1.3
- Business	(7.9)	(0.2)	(0.5)
- Household	(0.5)	10.7	8.4
Impaired Loans	(1.7)	(2.9)	(4.2)
- Business	(7.0)	(4.9)	(4.1)
- Household	5.7	(0.2)	(4.4)

Source: BNM,

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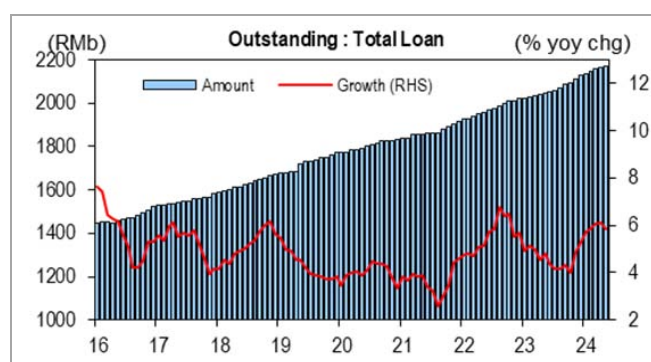
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### PEER COMPARISON

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Market Cap (US\$m)	PE (x)			ROE 2024F (%)	P/B 2024F (x)	Div 2024F (sen)	Div Yield (%)
						2023	2024F	2025F				
Public Bank	PBK MK	BUY	4.02	5.10	16,532.0	10.9	11.1	10.4	12.5	1.4	18.1	4.5
CIMB Group	CIMB MK	BUY	6.80	7.60	15,406.6	10.3	9.1	8.6	11.4	1.0	41.2	6.1
Maybank	MAY MK	HOLD	9.96	9.55	25,463.3	12.0	11.5	11.0	10.1	1.1	64.8	6.5
HL Bank	HLBK MK	HOLD	19.20	22.18	8,817.8	10.9	9.6	9.2	11.7	1.1	69.7	3.6
RHB Bank	RHBBANK MK	HOLD	5.51	5.88	5,089.1	7.9	8.1	7.3	8.7	0.7	37.3	6.8
HLFG	HLFG MK	HOLD	17.28	20.23	4,192.8	7.7	7.1	6.7	10.1	0.7	41.9	2.4
AMMB	AMM MK	HOLD	4.29	4.28	3,004.5	8.8	8.2	7.8	8.7	0.7	23.0	5.4
Affin Bank	ABANK MK	HOLD	2.49	2.05	1,266.4	12.0	10.0	9.1	4.3	0.4	11.2	4.5
Alliance Bank	ABMB MK	HOLD	3.79	4.10	1,243.1	8.5	8.0	7.7	10.0	0.8	23.7	6.3
Bank Islam	BIMB MK	HOLD	2.49	2.29	1,195.7	9.3	9.0	8.7	7.6	0.7	13.8	5.5

Source: UOB Kay Hian

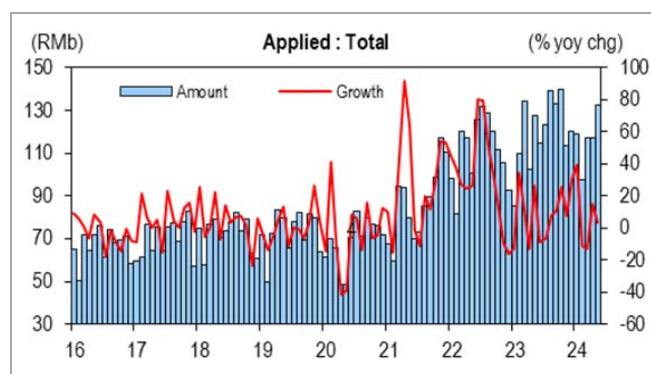
### TOTAL OUTSTANDING LOANS



Source: BNM

- May 24 loan growth declined to +5.8% yoy, down from +6.1% in April.
- This decrease was driven by a slowdown in the Biz segment, which grew by +4.8% compared to +5.6% in April. Meanwhile, the HH segment remained steady, with growth at +6.5%, slightly up from 6.4% in April.

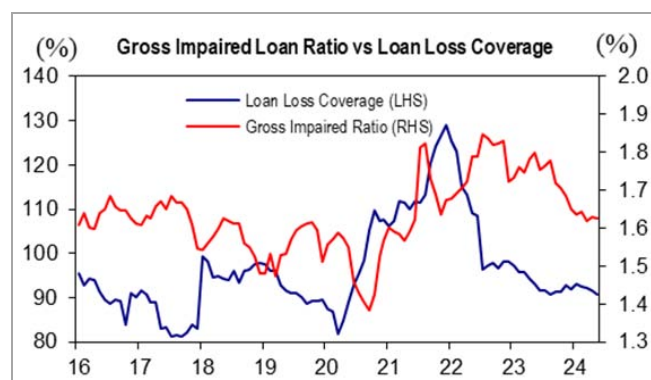
### TOTAL LOAN APPLICATION



Source: BNM

- Loan applications increased by only 3.7% yoy compared to +14.6% in April.
- Loan approvals declined by 4.7% (April: +15.9%). Loan application demand decelerated for both HH (+3.0% vs April: +13.3%) and Biz (+4.5% vs April: +16.4%).

### NET IMPAIRED LOAN RATIO VS LOAN LOSS COVERAGE



Source: BNM

- GIL ratio in May 24 remained stable at 1.63%.
- HH witnessed a 3bp mom decline while the Biz segment saw a 3bp uptick.

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