

SECTOR UPDATE

Banking – Malaysia

CASA Reversal To Pressure NIM

The banking sector continues to register a weak set of leading loans growth indicators and declining CASA ratio. This will place pressure on both loans growth and NIM in 2023, ultimately translating into an unexciting 4% earnings growth in 2023 (ex-Cukai Makmur). As such, we are maintaining our MARKET WEIGHT recommendation. Public Bank remains our top sector pick for its defensive qualities.

WHAT'S NEW

- **Loans growth: Commendable finishing to 2022.** System loans growth came in at 5.7% for 2022 which is higher than our forecasted range of 5.0-5.5%. This was fuelled by stronger-than-expected auto loans growth which came in at 7.4% (2021: 1.7%) as consumers were front loading their auto purchasers before the Sales and Service Tax (SST) exemption ended (Jun 22).
- **But moderating loans growth outlook imminent for 2023.** Given the effects of higher interest rates and the end of the SST exemption for auto loans, we expect system loans growth to moderate downwards to 4.5-5.0% in 2023. This is evident in the 12% yoy and 14% qoq decline in auto loans application in 4Q22. Assuming auto loans were to grow at a normalised run rate of 2% in the absence of an SST exemption, system loans growth for 2022 would have come in at a lower 5.2% vs 5.7% (actual).
- **Weakening leading loans growth indicators.** Loan applications contracted 16.1% yoy (Nov: -9.8%), dragged down by both the household (-19.1%) and business (-11.0%) segments. Similarly, loans approval was also weak, contracting 16.1% yoy (vs Nov 22: +19.9% yoy) due to reversal in business loans approval trend.
- **GIL ratio remains manageable.** System gross impaired loans (GIL) ratio declined to 1.72% (Nov 22: 1.83%) which could be attributed to lumpy recoveries from business loans where GIL ratio declined 27bp to 2.49% in Dec 22. That said, we still expect system GIL ratio to continue edging upwards towards the 2.0-2.3% level over the course of 2023 as repayment assistance continues to unwind. However, we think that banks have made sufficient pre-emptive provisions which should help keep sector net credit cost stable at 34bp in 2023 (2022: 35bp).
- **CASA reversal continues.** Although overall deposit growth was stable at 5.9%, CASA growth continued to decline to +0.9% yoy (Nov: +1.3% yoy) while fixed deposit registered a growth of 6.5% yoy (Nov: +5.2% yoy). System CASA balance peaked in Jun 22 and has continued to register a mom contraction since then. We expect CASA balance to continue its downward reversal trend as Dec 22 CASA ratio of 30% remains well above pre-COVID-19 average levels of 26%. Coupled with our in-house economist's expectation of only one Overnight Policy Rate (OPR) hike in 2023 and the re-pricing of fixed deposits, we have pencilled in a 2-3bp NIM compression for 2023 (vs 2022: +2 to +3bp expansion).

ACTIONS

- **Maintain MARKET WEIGHT.** Although current valuations of -0.5SD to historical P/B is not particularly rich, we think that upside will be capped as sector earnings growth is likely to moderate downwards in 2023 by: a) slight compression in NIM, b) moderating loans growth and c) potential top-ups in macroeconomic variables. However, downside support will be underpinned by the sector's healthy CET1 ratio of 14.3% and relatively manageable asset quality trends. As such, we think that current risk to reward is balanced which helps to justify our MARKET WEIGHT call.

PEER COMPARISON

			Share	Target	Market	PE (x)			ROE	P/B	Div	
			Price	Price	Cap				2023F	2023F	2023F	Div Yield
Company	Ticker	Rec	(RM)	(RM)	(US\$m)	2022	2023F	2024F	(%)	(x)	(sen)	(%)
Public Bank	PBK MK	BUY	4.24	5.10	19,285	14.2	12.4	11.7	12.9	1.6	17.1	4.0
CIMB Group	CIMB MK	BUY	5.75	6.50	14,369	11.2	9.5	8.6	9.8	0.9	30.3	5.3
RHB Bank	RHBBANK MK	BUY	5.75	6.40	5,723	9.1	7.9	7.0	9.6	0.7	40.0	7.0
Alliance Bank	ABMB MK	BUY	3.59	4.30	1,302	9.8	8.3	7.8	10.2	0.8	21.7	6.0
Maybank	MAY MK	HOLD	8.74	9.00	24,686	12.9	11.7	11.5	10.0	1.2	55.9	6.4
HL Bank	HLBK MK	HOLD	20.52	23.30	10,423	13.0	11.3	10.7	11.7	1.3	63.3	3.1
HLFG	HLFG MK	HOLD	18.50	21.30	4,965	8.7	7.6	7.2	11.0	0.8	47.5	2.6
AMMB	AMM MK	HOLD	4.08	4.00	3,164	8.1	8.5	8.2	9.2	0.8	18.5	4.5
Bank Islam	BIMB MK	HOLD	2.45	2.40	1,288	10.6	9.3	8.6	8.1	0.7	11.9	4.9
Affin	ABANK MK	HOLD	2.12	2.05	1,130	15.3	9.2	8.7	4.1	0.4	6.9	3.3

Source: UOB Kay Hian

MARKET WEIGHT (Maintained)

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Public Bank	BUY	4.24	5.10
CIMB Group	BUY	5.75	6.50
RHB Bank	BUY	5.75	6.40
Alliance Bank	BUY	3.59	4.30

Source: UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % chg
Affin	2.12	28.7	4.4
Maybank	8.74	5.7	0.5
HL Bank	20.52	5.8	(0.2)
HLFG	18.50	1.6	(0.5)
RHB Bank	5.75	3.4	(0.7)
CIMB Group	5.75	10.6	(0.9)
AMMB	4.08	25.2	(1.4)
Public Bank	4.24	0.7	(1.9)
Alliance Bank	3.59	8.8	(2.2)
Bank Islam	2.45	(22.2)	(10.3)

Source: Bloomberg

SUMMARY OF BANKING DATA

	Oct-22	Nov-22	Dec-22
Loan Outstanding	6.5	5.5	5.7
- Business	6.9	4.7	5.3
- Household	6.3	6.0	5.9
Loan Applied	12.7	(9.8)	(16.1)
- Business	49.8	4.0	(11.0)
- Household	(7.0)	(18.4)	(19.1)
Loan Approved	17.5	19.9	(16.1)
- Business	33.4	70.7	(16.1)
- Household	2.7	(13.0)	(16.0)
Loan Disbursed	13.4	13.8	(46.7)
- Business	13.9	14.8	8.5
- Household	11.4	9.7	11.1
Loan Repaid	15.0	22.7	10.0
- Business	13.5	23.5	8.8
- Household	22.5	19.1	16.3
Impaired Loans	15.1	18.0	8.6
- Business	23.2	24.5	4.2
- Household	4.7	9.4	15.2

Source: BNM,

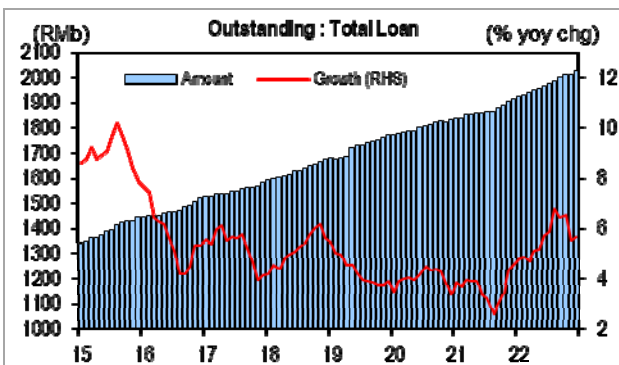
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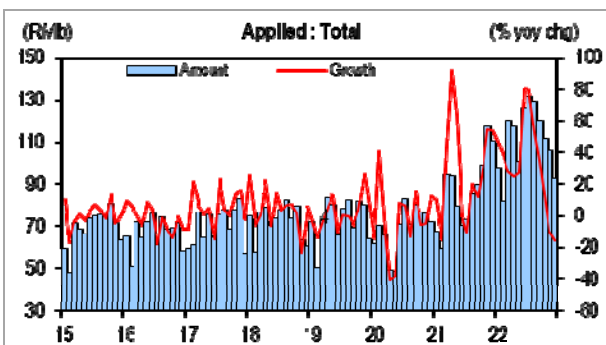
TOTAL OUTSTANDING LOANS



Source: BNM

- System loans growth came in at 5.7% for 2022 which is higher than our forecasted range of 5.0-5.5%.
- This was fuelled by stronger-than-expected auto loans growth which came in at 7.4% (2021: 1.7%) as consumers were front loading their auto purchases before the SST exemption ended (Jun 22).

TOTAL LOAN APPLICATIONS



Source: BNM

- Loan applications contracted 16.1% yoy (Nov: -9.8%), dragged down by both the household (-19.1%) and business (-11.0%) segments.
- Loans approval was also weak, contracting 16.1% yoy (vs Nov 22: +19.9% yoy) due to reversal in business loans approval trend.

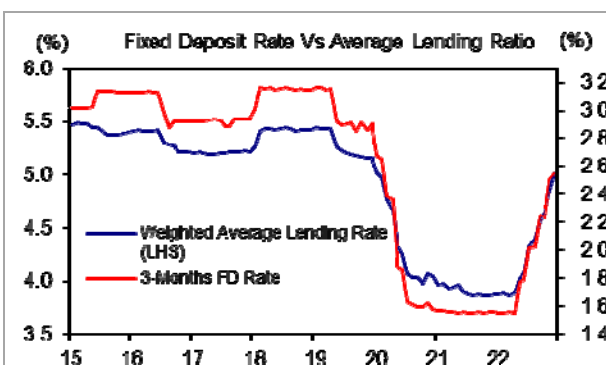
NET IMPAIRED LOAN RATIO VS LOAN LOSS COVERAGE



Source: BNM

- System GIL ratio declined to 1.72% (Nov 22: 1.83%) which could be attributed to lumpy recoveries from business loans where GIL ratio declined 27bp to 2.49% in Dec 22

FIXED DEPOSIT RATE VS AVERAGE LENDING RATIO



Source: BNM

- ALR edged upwards to 5.01% from 4.96% in Nov 22 on the back of the recent OPR hikes
- Despite the four OPR hikes in 2022, we have built in a rather conservative 2-3bp NIM expansion for the sector in 2022 due to intense deposit competition and lower CASA mix.

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