



AmInvestment Bank

Sector report

2 June 2020

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# BANKING

Stable loan growth; higher provisions

**NEUTRAL**

(Maintained)

Rationale for report: Apr 2020 BNM statistics

## Investment Highlights

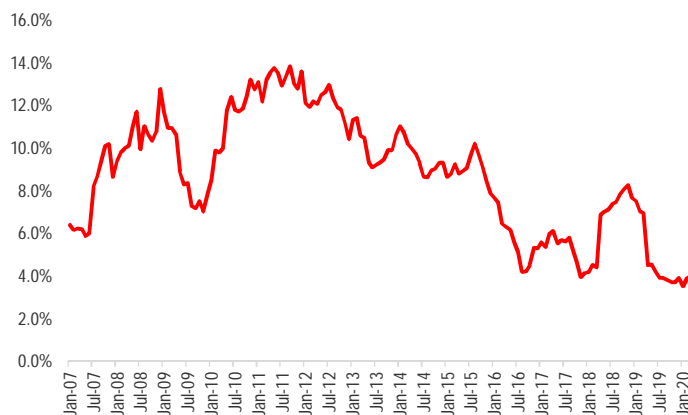
- **Industry loan growth was sustained at 4.0% YoY in Apr 2020 with higher non-household loans offset by a slowdown in household loans.** Growth in household loans slipped further to 3.3% YoY while non-household loan growth climbed to 5.1% YoY compared to 4.4% YoY in the preceding month. YTD loans grew by 2.4% annualised. We continue to expect a low single-digit loan growth of 2.0% for the sector in 2020. Apr 2020 saw lower disbursements and repayments for household and non-household loans due to the implementation of the movement control order and automatic moratorium for individual and SME loans.
- **Loan applications and approvals registered higher contraction YoY in Apr 2020.** Apr 2020 saw lower levels of household and non-household loan applications. On approvals, the level for the non-household sector increased compared to the preceding month while that of household loans declined. We believe that the increase for non-household sector has been contributed by the rise in approvals of SME relief loans to ease borrowers' cash flows.
- **Banks' interest income will be impacted by the 50bps OPR cut announced on 5 May 2020.** The sector's weighted base rate was sustained at 3.18% in Apr 2020 while the weighted average lending rate declined further by 11bps to 4.77% after the central bank announced a further reduction to the OPR by 25bps on 3 Mar 2020. The BLR was steady at 6.26%. The average deposit rate (the average rates for FDs of up to 1-year tenure) decreased to 2.45%. Interest spread (difference between weighted average lending rate and average FD rate) fell to 2.22%. NIMs of banks will be further compressed in 2Q20 owing to the recent 50bps reduction in benchmark interest rate on 5 May 2020. As of now, we do not see any signs of further cuts in OPR. The moratorium granted on loan repayments for 6 months (1 April to 30 Sept 2020) will result in a one-off day 1 modification loss adjustment to banks interest income in 2Q20 in line with MFRS 9. However, we believe that the impact will be manageable with the loss adjustment eventually reversing out as the loans progress towards the remaining tenor after the moratorium. Banks are still in discussions with the regulators and auditors to come up with a resolution for the modification loss.
- **Slight increase in deposit growth with a strong expansion of industry CASA.** Industry deposit growth rose slightly to 2.8% YoY due to a rise in individual deposit growth to 6.2% YoY. LD ratio for the sector eased to 88.4% from 88.7%.
- **Impaired loans declined MoM but provisions rose.** The industry's total GIL was sustained at 1.6% while NIL ratio was steady at 1.0%. Total provisions for the sector increased by 3.2% MoM or RM738mil which we believe was due to preemptive provisioning buffers set aside by banks for the potential impact of Covid-19. The sector's loan loss cover improved to 84.9%.
- **Retain our NEUTRAL stance on the sector. We continue to be selective on stocks with BUYs on Maybank (FV: RM8.30/share), RHB Bank (FV: RM5.80/share) and Hong Leong Bank (FV: RM15.60/share).**

## EXHIBIT 1: VALUATION MATRIX

	Rec.	1-Jun	Target Price	EPS (sen)		PER		Net DPS		Net DivYield		BV	BV	PBV	PBV
				20	21	20	21	20	21	20	21	20	21	20	21
AMMB	NR	3.03	-	48.1	48.8	6.3	6.2	21.1	22.1	7.0	7.3	6.1	6.3	0.5	0.5
Maybank	BUY	7.48	8.30	60.6	66.2	12.3	11.3	46.7	50.9	6.2	6.8	7.5	8.0	1.0	0.9
Public Bank	HOLD	14.58	15.50	128.0	134.5	11.4	10.8	64.0	67.3	4.4	4.6	11.9	12.6	1.2	1.2
RHB Bank	BUY	4.90	5.80	57.1	59.4	8.6	8.2	31.0	29.7	6.3	6.1	6.8	7.2	0.7	0.7
Hong Leong	BUY	13.70	15.60	124.3	131.2	11.0	10.4	49.8	52.5	3.6	3.8	13.5	14.4	1.0	0.9
CIMB	SELL	3.64	3.00	30.5	34.6	11.9	10.5	16.3	18.6	4.5	5.1	6.0	6.3	0.6	0.6
ABMB	HOLD	2.13	1.90	26.6	26.8	8.0	7.9	12.8	12.9	6.0	6.0	3.7	3.8	0.6	0.6
BIMB	BUY	3.50	3.90	43.6	46.3	8.0	7.6	16.1	17.1	4.6	4.9	3.6	4.1	1.0	0.9
MBSB	BUY	0.67	0.80	10.4	11.1	6.4	6.0	5.0	5.0	7.5	7.5	1.3	1.4	0.5	0.5
<b>Average</b>				<b>58.8</b>	<b>62.1</b>	<b>9.3</b>	<b>8.8</b>	<b>29.2</b>	<b>30.7</b>	<b>5.6</b>	<b>5.8</b>	<b>6.7</b>	<b>7.1</b>	<b>0.8</b>	<b>0.7</b>
Non-bank															
HLFG	BUY	13.20	16.50	158.3	166.5	8.3	7.9	38.2	40.1	2.9	3.0	18.0	19.5	0.7	0.7

Forecasts by AmInvestment Bank

## EXHIBIT 2: INDUSTRY LOAN GROWTH (% YOY)



Source: BNM, AmlInvestment Bank Bhd

### INDUSTRY LOAN GROWTH SUSTAINED AT 4.0% YOY

- *Industry loan growth stable at 4.0% YoY in Apr 2020. Non-household loan growth trended higher while non-household loan growth decreased. Working capital loans expanded at a faster pace*

Growth in household loans slipped further to 3.3% YoY while non-household loan growth climbed to 5.1% YoY vs. 4.4% YoY in the preceding month with slower repayments than disbursements.

Apr 2020 saw lower levels of loan disbursements for most segments for non-household and household loans due to the full month's impact from the implementation of the movement control order (MCO).

- *Non-household loan growth continued to climb higher in Apr 2020*

The increase in non-household loan growth was contributed largely by a pickup in the pace of loans to the agriculture, manufacturing, utilities, wholesale, retail, restaurants and hotels, construction transportation, storage and communication and the finance, insurance and business activities sectors.

- *Slowdown in household loan growth for most segments with the exception of personal loans*

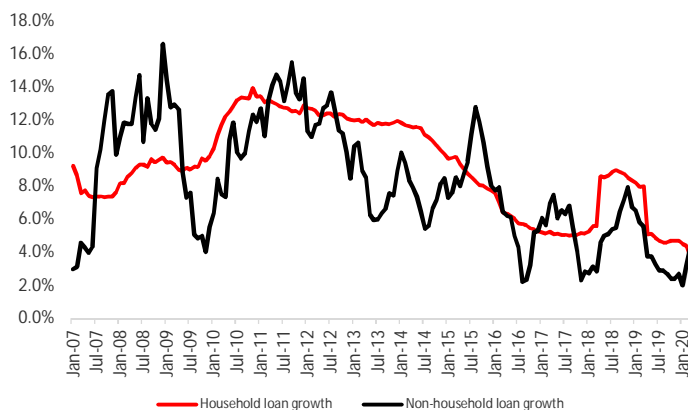
Household loan growth fell further to 3.3% YoY in Apr 2020 vs. 3.7% YoY in Mar 2020. This was due to the slower pace of loans most segments except personal loans. This is likely to be due to Covid-19 and the MCO where consumer spending has decreased. For household loans, disbursements contracted at a faster pace compared to repayments.

## EXHIBIT 3: GROWTH IN LOANS, APPLICATIONS AND APPROVALS (% YOY)

	Outstanding Loans (%YoY)			Loans Applied (%YoY)			Loans Approved (%YoY)			Loans Disbursed (%YoY)			Loan Repayments (%YoY)		
	Total	Household	Business	Total	Household	Business	Total	Household	Business	Total	Household	Business	Total	Household	Business
Jan-16	7.7%	7.6%	7.7%	10.7%	-3.7%	33.7%	-13.9%	-27.7%	9.9%	2.2%	-1.0%	3.5%	2.3%	3.4%	2.0%
Feb-16	7.4%	7.0%	7.9%	4.5%	-0.8%	11.1%	-17.4%	-23.5%	-9.4%	2.2%	-4.5%	5.1%	7.4%	11.6%	5.8%
Mar-16	6.4%	6.4%	6.5%	3.3%	3.7%	2.8%	-20.8%	-20.7%	-21.0%	-5.7%	-11.1%	-3.5%	3.2%	6.3%	2.0%
Apr-16	6.3%	6.3%	6.2%	-6.2%	0.7%	-14.4%	-17.3%	-23.9%	-7.8%	-0.5%	-6.8%	2.2%	5.5%	0.0%	7.7%
May-16	6.2%	6.2%	6.1%	10.0%	4.7%	15.8%	4.9%	-12.0%	26.5%	8.7%	2.6%	11.1%	13.8%	13.7%	13.9%
Jun-16	5.6%	6.0%	5.0%	3.8%	-6.0%	15.2%	-21.7%	-15.9%	-27.8%	-8.7%	-4.3%	-10.2%	-2.3%	1.5%	-3.6%
Jul-16	5.1%	5.7%	4.3%	-17.8%	-14.1%	-21.6%	-18.6%	-20.6%	-16.2%	-10.2%	-8.9%	-10.8%	-6.8%	-3.2%	-8.1%
Aug-16	4.2%	5.7%	2.2%	-1.0%	11.2%	-12.7%	1.2%	-0.3%	3.0%	-5.4%	5.0%	-9.3%	4.4%	9.2%	2.6%
Sep-16	4.2%	5.6%	2.3%	-7.0%	-1.7%	-12.5%	-5.6%	-6.5%	-4.4%	-6.4%	-1.9%	-7.9%	-7.0%	3.2%	-10.3%
Oct-16	4.5%	5.5%	3.2%	-14.5%	-4.8%	-23.6%	-3.9%	-12.3%	5.7%	-1.9%	-7.4%	0.4%	-1.8%	0.4%	-2.6%
Nov-16	5.3%	5.4%	5.2%	0.0%	6.3%	-6.2%	-3.8%	0.2%	-8.3%	9.6%	0.4%	13.4%	-0.8%	6.7%	-3.3%
Dec-16	5.3%	5.3%	5.3%	-7.3%	-6.5%	-8.2%	-12.8%	-14.3%	-11.5%	-4.4%	-6.1%	-3.8%	-0.7%	-0.1%	-0.9%
Jan-17	5.6%	5.2%	6.1%	-8.1%	-3.1%	-13.8%	-4.4%	5.1%	-15.2%	3.4%	2.4%	3.8%	-0.2%	4.8%	-2.0%
Feb-17	5.3%	5.1%	5.6%	22.1%	24.0%	20.1%	17.3%	15.5%	19.4%	3.3%	-0.7%	4.9%	7.0%	4.8%	7.9%
Mar-17	6.0%	5.2%	6.9%	7.3%	15.2%	-2.1%	32.0%	19.1%	48.4%	15.5%	8.0%	18.3%	10.4%	4.9%	12.5%
Apr-17	6.1%	5.1%	7.5%	1.5%	3.8%	-1.7%	1.9%	11.0%	-9.0%	2.6%	-0.6%	3.9%	1.3%	2.1%	1.0%
May-17	5.5%	5.1%	6.1%	5.1%	21.1%	-10.8%	-1.8%	23.4%	-24.1%	-1.8%	13.1%	-7.3%	4.4%	9.7%	2.3%
Jun-17	5.7%	5.1%	6.5%	-14.8%	-1.8%	-27.2%	11.6%	0.0%	25.5%	3.2%	0.6%	4.2%	3.1%	2.7%	3.3%
Jul-17	5.6%	5.1%	6.3%	22.9%	28.6%	16.6%	24.8%	26.4%	23.1%	13.2%	9.1%	15.0%	16.1%	10.6%	18.2%
Aug-17	5.8%	5.0%	6.8%	4.1%	9.0%	-1.9%	9.9%	9.2%	10.7%	15.1%	7.2%	18.5%	12.6%	8.6%	14.2%
Sep-17	5.2%	5.0%	5.4%	0.5%	3.1%	-2.6%	-1.4%	-2.2%	-0.4%	-1.3%	3.9%	-3.2%	6.0%	4.8%	6.4%
Oct-17	4.6%	5.1%	4.0%	12.8%	12.2%	13.5%	-2.2%	9.9%	-13.6%	8.5%	14.8%	6.0%	17.8%	14.9%	18.9%
Nov-17	3.9%	5.2%	2.3%	15.8%	12.6%	19.5%	22.3%	15.2%	31.2%	2.0%	14.2%	-2.6%	10.6%	10.9%	10.5%
Dec-17	4.1%	5.1%	2.8%	-2.1%	6.8%	-12.5%	17.4%	12.6%	21.5%	2.3%	8.0%	0.4%	-2.3%	9.7%	-6.1%
Jan-18	4.2%	5.3%	2.7%	25.4%	26.3%	24.3%	26.9%	22.7%	32.8%	3.2%	16.4%	-1.9%	1.5%	13.6%	-2.9%
Feb-18	4.5%	5.6%	3.1%	-5.8%	-4.5%	-7.2%	-4.4%	10.7%	-20.5%	6.7%	19.6%	1.9%	2.7%	13.5%	-1.4%
Mar-18	4.4%	5.6%	2.8%	0.0%	-8.0%	11.2%	-7.6%	-3.5%	-11.8%	-1.5%	5.9%	-4.1%	0.4%	8.1%	-2.3%
Apr-18	6.9%	8.6%	4.6%	22.0%	10.7%	38.2%	22.7%	10.7%	40.1%	11.7%	18.7%	9.0%	8.7%	16.0%	6.1%
May-18	7.0%	8.5%	5.0%	-6.8%	-11.1%	-1.0%	1.7%	-10.2%	18.9%	3.1%	-4.3%	6.4%	4.3%	6.2%	6.2%
Jun-18	7.1%	8.6%	5.1%	14.2%	10.3%	19.3%	7.1%	13.7%	0.7%	15.0%	10.4%	16.7%	13.5%	8.1%	15.5%
Jul-18	7.4%	8.9%	5.4%	3.4%	15.7%	-11.9%	2.1%	13.0%	-10.3%	13.7%	17.5%	12.2%	11.9%	13.1%	11.4%
Aug-18	7.5%	9.0%	5.5%	6.4%	4.6%	8.8%	1.5%	7.9%	-6.2%	3.5%	5.8%	2.5%	2.9%	3.2%	2.8%
Sep-18	7.8%	8.9%	6.5%	7.3%	-3.4%	20.5%	26.5%	3.1%	54.8%	12.0%	2.3%	15.7%	7.2%	4.6%	8.1%
Oct-18	8.1%	8.8%	7.2%	1.6%	6.0%	-3.5%	17.4%	11.4%	24.7%	12.4%	2.8%	16.3%	9.1%	4.7%	10.7%
Nov-18	8.3%	8.5%	7.9%	-23.4%	-13.6%	-33.7%	-5.2%	-10.0%	0.0%	5.5%	-6.1%	10.6%	4.4%	-1.4%	6.5%
Dec-18	7.7%	8.3%	6.8%	6.0%	0.1%	14.4%	-8.8%	1.9%	-17.4%	12.1%	8.0%	13.6%	21.4%	9.4%	25.9%
Jan-19	7.5%	8.2%	6.6%	-3.8%	-2.9%	-5.1%	-3.3%	-0.2%	-7.2%	10.4%	0.8%	14.8%	13.5%	3.2%	18.0%
Feb-19	7.0%	7.9%	5.8%	-13.6%	-7.9%	-20.3%	-3.0%	-8.9%	5.8%	-3.1%	-6.9%	-1.5%	3.1%	-1.7%	5.2%
Mar-19	7.0%	8.0%	5.6%	-5.3%	-3.0%	-8.0%	6.9%	2.8%	11.4%	3.2%	2.7%	3.4%	4.9%	-1.0%	7.2%
Apr-19	4.5%	5.1%	3.8%	5.4%	1.0%	10.5%	5.7%	9.6%	1.2%	8.7%	5.6%	10.0%	13.4%	7.1%	16.0%
May-19	4.5%	5.1%	3.7%	13.3%	16.7%	9.1%	25.4%	23.2%	27.7%	12.2%	12.8%	11.9%	8.3%	8.8%	8.1%
Jun-19	4.2%	4.9%	3.3%	-11.7%	-10.2%	-13.4%	-3.3%	-6.3%	-0.1%	-11.8%	-5.8%	-13.8%	-8.6%	2.0%	-12.2%
Jul-19	3.9%	4.7%	2.9%	0.5%	-7.5%	13.5%	10.6%	5.5%	19.3%	1.8%	0.9%	2.2%	4.5%	5.4%	4.1%
Aug-19	3.9%	4.6%	2.9%	-0.3%	-8.9%	10.9%	0.2%	-2.8%	8.0%	1.0%	2.1%	0.6%	0.9%	2.7%	0.2%
Sep-19	3.8%	4.6%	2.7%	-6.1%	-0.8%	-11.3%	-8.7%	3.0%	-18.1%	-1.7%	13.0%	-6.6%	-4.5%	3.2%	-7.2%
Oct-19	3.7%	4.7%	2.4%	3.2%	-1.2%	8.8%	-12.8%	-3.0%	-23.2%	-7.9%	5.9%	-12.9%	-7.8%	4.1%	-11.8%
Nov-19	3.7%	4.7%	2.4%	26.4%	5.7%	55.0%	2.8%	3.3%	2.4%	-1.7%	4.8%	-4.2%	-1.4%	5.3%	-3.7%
Dec-19	3.9%	4.7%	2.7%	5.5%	9.7%	0.3%	7.6%	4.6%	10.5%	0.5%	0.8%	0.4%	-2.2%	1.7%	-3.4%
Jan-20	3.5%	4.5%	2.0%	-14.6%	-18.3%	-9.5%	-4.9%	-13.2%	6.6%	-4.3%	-1.1%	-5.6%	2.5%	5.3%	1.5%
Feb-20	3.9%	4.4%	3.2%	40.7%	32.8%	51.5%	23.2%	16.8%	31.3%	13.2%	9.7%	14.6%	7.3%	13.7%	4.6%
Mar-20	4.0%	3.7%	4.4%	-9.8%	-18.1%	0.4%	-22.5%	-61.0%	-21.8%	-5.2%	-18.4%	-0.2%	-7.5%	4.2%	-11.8%
Apr-20	4.0%	3.3%	5.1%	-41.4%	-74.2%	-6.7%	-48.4%	-77.9%	-11.5%	-28.1%	-60.4%	-15.2%	-29.2%	-46.8%	-22.7%

Source: BNM, Am Investment Bank Bhd

## EXHIBIT 4: NON-HOUSEHOLD AND HOUSEHOLD LOAN GROWTH



Source: BNM, AmInvestment Bank Bhd

## EXHIBIT 5: LOAN BREAKDOWN BY PURPOSE (RM MIL)

	Apr-19	Mar-20	Apr-20	% of total	%MoM	%YoY
Purchase of securities	81,983	79,390	79,964	4.5%	0.7%	-2.5%
Purchase of transport vehicles	167,924	165,990	165,165	9.3%	-0.5%	-1.6%
of which : purchase of passenger cars	159,195	157,421	157,140	8.8%	-0.2%	-1.3%
Purchase of residential property	575,263	612,954	615,072	34.5%	0.3%	6.9%
Purchase of non-residential property	221,063	225,624	225,704	12.6%	0.0%	2.1%
Purchase of fixed asset other than land & building	10,886	12,608	12,609	0.7%	0.0%	15.8%
Personal use	94,577	97,927	98,200	5.5%	0.3%	3.8%
Credit card	38,999	38,325	35,501	2.0%	-7.4%	-9.0%
Purchase of consumer durables	97	84	85	0.005%	1.2%	-12.4%
Construction	56,662	60,454	60,936	3.4%	0.8%	7.5%
Working capital	386,218	404,652	404,963	22.7%	0.1%	4.9%
Other purpose	82,044	85,580	86,817	4.9%	1.4%	5.8%
<b>Total</b>	<b>1,715,716</b>	<b>1,783,588</b>	<b>1,785,016</b>	<b>100.0%</b>	<b>0.1%</b>	<b>4.0%</b>

Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 6: LOAN BREAKDOWN BY SECTOR (RM MIL)**

	Apr-19	Mar-20	Apr-20	% of total	%MoM	%YoY
Primary agriculture	34,741	36,385	36,197	2.0%	-0.5%	4.2%
Mining and quarrying	9,044	9,968	9,989	0.6%	0.2%	10.4%
Manufacturing (including agro based)	114,075	124,131	124,614	7.0%	0.4%	9.2%
Electricity, gas and water supply	12,610	17,840	18,368	1.0%	3.0%	45.7%
Wholesale, retail, restaurants & hotels	126,553	131,778	133,108	7.5%	1.0%	5.2%
Construction	89,562	92,569	92,233	5.2%	-0.4%	3.0%
Real estate	115,705	115,028	114,984	6.4%	0.0%	-0.6%
Transport, storage & communication	38,288	41,214	41,037	2.3%	-0.4%	7.2%
Financing, insurance & business services	111,782	119,779	119,368	6.7%	-0.3%	6.8%
Education, health & others	42,249	42,675	42,668	2.4%	0.0%	1.0%
Household sector	997,095	1,030,204	1,029,857	57.7%	0.0%	3.3%
Other sector	24,010	22,018	22,591	1.3%	2.6%	-5.9%
<b>Total</b>	<b>1,715,716</b>	<b>1,783,588</b>	<b>1,785,016</b>	<b>100.0%</b>	<b>0.1%</b>	<b>4.0%</b>

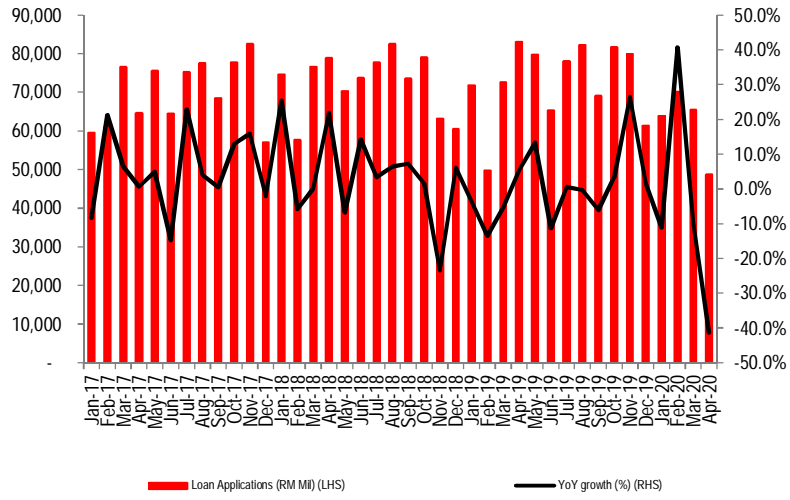
Source: BNM, AmlInvestment Bank Bhd

**LOAN APPLICATIONS**

❑ **Lower level of household and non-household loan applications**

In Apr 2020, growth of industry loan applications slid to -41.4% YoY vs. -9.8% YoY in Mar 2020. Both the levels of household and non-household loan applications fell compared to the preceding month. Apr 2020 saw a lower level of applications from the construction, real estate, transport, storage and communication as well as the household sectors.

**EXHIBIT 7: LOAN APPLICATIONS (RM MIL)**



Source: BNM, AmInvestment Bank Bhd

## EXHIBIT 8: LOAN APPLICATIONS BY PURPOSE (RM MIL)

	Apr-20	% of total	Nov-19 (%YoY)	Dec-19 (%YoY)	Jan-20 (%YoY)	Feb-20 (%YoY)	Mar-20 (%YoY)	Apr-20 (%YoY)
Purchase of securities	1,176	2.4%	18.2%	-54.4%	-39.2%	-15.3%	-54.7%	-68.0%
Purchase of transport vehicles	683	1.4%	32.7%	29.9%	-9.9%	44.1%	-10.3%	-89.0%
of which : purchase of passenger cars	643	1.3%	34.0%	30.5%	-9.5%	45.5%	-9.9%	-89.3%
Purchase of residential property	6,666	13.7%	8.3%	15.1%	-19.6%	40.4%	-19.2%	-72.1%
Purchase of non-residential property	1,894	3.9%	14.2%	5.1%	-27.1%	34.5%	-20.7%	-78.0%
Purchase of fixed asset other than land & building	259	0.5%	189.3%	-9.7%	-58.3%	111.5%	11.3%	-87.1%
Personal use	1,657	3.4%	7.4%	5.2%	-9.4%	32.4%	-11.3%	-70.3%
Credit card	1,271	2.6%	7.2%	0.6%	-0.8%	24.0%	-12.4%	-65.2%
Purchase of consumer durables	0	0.0%	83341.7%	-97.2%	57.1%	-100.0%	-100.0%	-75.0%
Construction	2,353	4.8%	90.6%	50.1%	-30.4%	68.8%	-29.2%	-43.4%
Working capital	29,695	60.9%	40.1%	12.3%	13.3%	75.9%	32.0%	67.0%
Other purpose	3,083	6.3%	89.8%	-39.2%	-17.4%	-9.5%	-44.9%	-59.6%
<b>Total applied</b>	<b>48,736</b>	<b>100.0%</b>	<b>26.4%</b>	<b>5.5%</b>	<b>-14.6%</b>	<b>40.7%</b>	<b>-9.8%</b>	<b>-41.4%</b>

Source: BNM, AmInvestment Bank Bhd

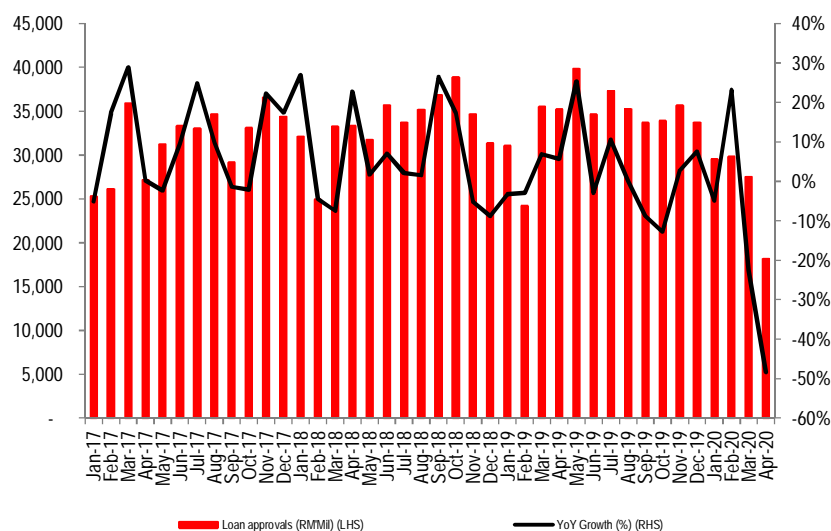
## LOAN APPROVALS

### □ Household loan approval levels continued to decline

Growth in industry loan approvals decreased to -48.4% YoY in Apr 2020 vs. -22.5% YoY in Mar 2020 driven largely by a steeper decline in household loan approvals. In contrast, the level of non-household loan approvals climbed, and we believe that this was due to approvals of the relief funding, including BNM's special relief facilities to alleviate the cash flow constraints of SMEs impacted by the Covid-19 pandemic. Compared to Mar 2020, the level

of approvals rose for loans to the wholesale & retail trade, and restaurants & hotels sector. This is deemed to be one of sectors directly impacted by the outbreak of the virus.

## EXHIBIT 9: LOAN APPROVALS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

#### □ Slight increase in deposit growth

Industry deposit growth rose marginally to 2.8% YoY from 2.7% YoY in Mar 2020 due to a rise in individual deposit growth to 6.2% YoY. Meanwhile, business deposits continued to contract by 1.6% YoY. Competition for deposits is expected to remain minimal in the near term due to the muted outlook of loan growth for the industry.

LD ratio for the sector eased to 88.4% from 88.7%. The sector's loan-to-fund ratio and the loan-to-fund and equity ratio decreased marginally to 82.5% and 71.8% respectively.

Industry CASA growth continued to surge to 12.6% YoY compared to 10.3% YoY in Mar 2020, lifting the CASA ratio to 27.9%.

Sector LCR rose 300bps to 144.0%. This was contributed by the higher LCR of commercial and Islamic banks of 143% and 142% respectively while LCR for investment banks was sustained at 181%.

#### LENDING AND DEPOSIT RATES

##### □ Weighted average lending will decline further after 50bps OPR cut in May 2020

The sector's weighted base rate sustained at 3.18% in Apr 2020 while the weighted average lending rate slipped further by 11bps to 4.77% after the central bank announced a further reduction to the OPR by 25bps on 3 Mar 2020. The BLR was steady at 6.26%.



## EXHIBIT 10: LOAN APPROVALS BY PURPOSE (RM MIL)

	Apr-20	% of total	Nov-19 (%YoY)	Dec-19 (%YoY)	Jan-20 (%YoY)	Feb-20 (%YoY)	Mar-20 (%YoY)	Apr-20 (%YoY)
Purchase of securities	720	4.0%	16.4%	-1.2%	-36.5%	2.1%	-19.6%	-79.7%
Purchase of transport vehicles	230	1.3%	19.1%	20.0%	-1.9%	22.5%	-25.2%	-94.0%
of which : purchase of passenger cars	197	1.1%	20.2%	20.5%	-1.2%	22.0%	-23.0%	-94.7%
Purchase of residential property	2,496	13.7%	3.8%	8.5%	-14.2%	18.1%	-27.3%	-75.7%
Purchase of non-residential property	1,795	9.9%	-3.6%	23.5%	-13.0%	-2.6%	-56.7%	-47.2%
Purchase of fixed asset other than land & building	189	1.0%	19.7%	-27.8%	8.4%	269.0%	4.5%	-30.3%
Personal use	660	3.6%	12.5%	9.0%	2.9%	44.6%	-1.8%	-66.3%
Credit card	280	1.5%	28.7%	20.0%	13.5%	38.4%	-9.7%	-80.9%
Purchase of consumer durables	0	0.0%	8.3%	na	175.0%	-100.0%	-100.0%	-83.3%
Construction	584	3.2%	50.0%	59.5%	54.9%	-14.4%	-36.1%	-34.7%
Working capital	9,386	51.6%	25.8%	-14.5%	-1.0%	24.4%	4.7%	37.6%
Other purpose	1,853	10.2%	-59.2%	46.8%	-3.7%	83.3%	-37.1%	-32.8%
<b>Total approved</b>	<b>18,192</b>	<b>100.0%</b>	<b>2.8%</b>	<b>7.6%</b>	<b>-4.9%</b>	<b>23.2%</b>	<b>-22.5%</b>	<b>-48.4%</b>

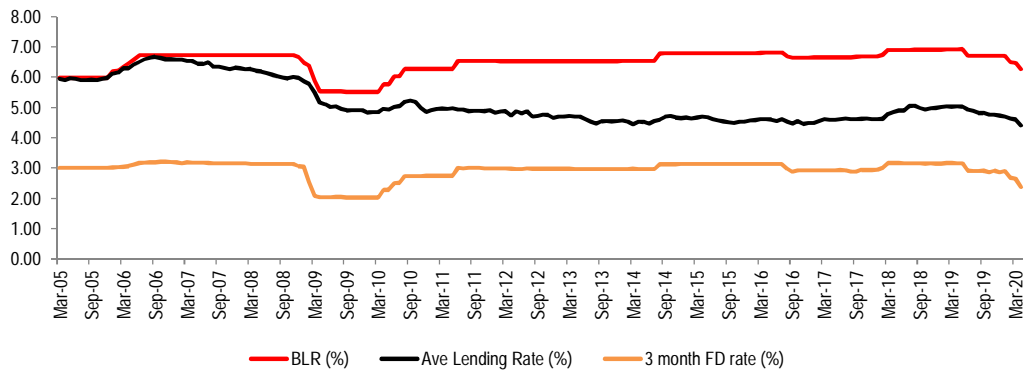
Source: BNM, AmInvestment Bank Bhd

In May 2020, the base lending rate, weighted base rate and average rate will decline further as BNM lowered the OPR by another 50bps to 2.00%. As of now, we do not see any signs for further cuts in OPR.

The average deposit rate (the average rates for FDs of up to 1-year tenure) decreased slightly to 2.44%. Interest spread (difference between weighted average lending rate and average FD rate) fell to 2.22%. NIMs of banks will be further compressed in 2Q20 owing to the recent 50bps reduction in benchmark interest rate on 5 May 2020.

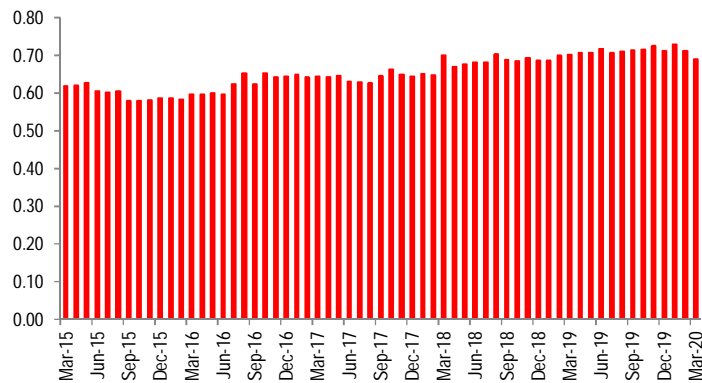
Inflation remained low with a CPI of -2.9% in Apr 2020, contributed by the drop in transport inflation due to the lower oil prices as well as the six-month discount on electricity tariff commencing 1 April.

**EXHIBIT 11: TREND OF BLR, AVERAGE LENDING RATE AND 3-MONTH FD RATE**



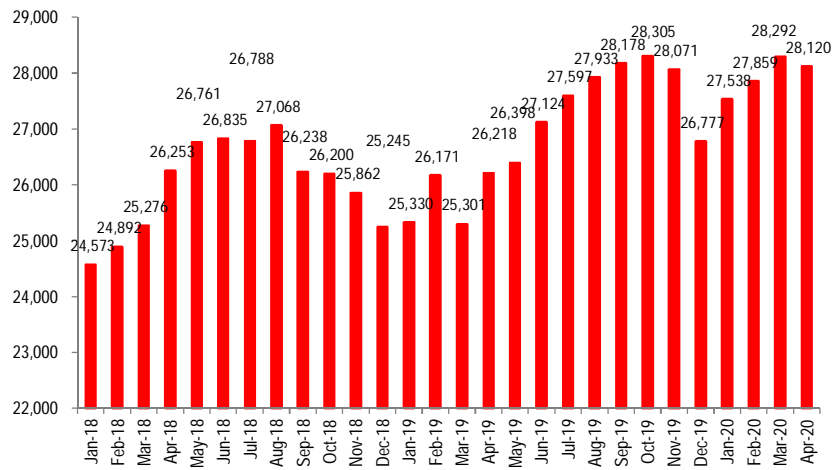
Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 12: DIFFERENCE IN BANKS' BASE RATE AND AVERAGE FD RATE**



Source: BNM, AmInvestment Bank Bhd

### EXHIBIT 13: GROSS IMPAIRED LOANS (RM MIL)



Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 14: GROSS IMPAIRED LOANS BY PURPOSE (RM MIL)**

	Apr-19	Mar-20	Apr-20	% of total	%MoM	%YoY
Purchase of securities	289	274	339	1.2%	23.7%	17.3%
Purchase of transport vehicles	1,559	1,303	1,212	4.3%	-7.0%	-22.3%
of which : purchase of passenger cars	1,218	1,128	1,045	3.7%	-7.4%	-14.2%
Purchase of residential property	6,212	7,460	7,254	25.8%	-2.8%	16.8%
Purchase of non-residential property	3,245	3,190	3,188	11.3%	-0.1%	-1.8%
Purchase of fixed asset other than land & building	261	384	389	1.4%	1.3%	49.0%
Personal use	1,597	1,823	1,722	6.1%	-5.5%	7.8%
Credit card	346	391	366	1.3%	-6.4%	5.8%
Purchase of consumer durables	7	2	1	0.00%	-50.0%	-85.7%
Construction	3,664	3,747	3,841	13.7%	2.5%	4.8%
Working capital	7,946	8,619	8,705	31.0%	1.0%	9.6%
Other purpose	1,090	1,099	1,102	3.9%	0.3%	1.1%
<b>Total</b>	<b>26,218</b>	<b>28,292</b>	<b>28,120</b>	<b>100.0%</b>	<b>-0.6%</b>	<b>7.3%</b>

Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 15: GROSS IMPAIRED LOAN RATIOS BY LOAN PURPOSE (%)**

	Sept-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Purchase of securities	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%
Purchase of transport vehicles	1.0%	1.0%	1.0%	0.8%	0.8%	0.8%	0.8%	0.7%
of which : purchase of passenger cars	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Purchase of residential property	1.2%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Purchase of fixed asset other than land & building	2.5%	2.5%	2.4%	2.2%	2.6%	2.6%	3.0%	3.1%
Personal use	1.9%	1.9%	1.9%	1.7%	1.8%	1.8%	1.9%	1.8%
Credit card	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%
Purchase of consumer durables	1.6%	2.0%	2.0%	8.2%	1.8%	1.8%	1.9%	1.6%
Construction	6.3%	6.3%	6.3%	6.0%	6.1%	6.0%	6.2%	6.3%
Working capital	2.2%	2.3%	2.2%	2.1%	2.2%	2.2%	2.1%	2.1%
Other purpose	1.5%	1.5%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%
<b>Total</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>

Source: BNM, AmlInvestment Bank Bhd

**EXHIBIT 16: GROSS IMPAIRED LOAN RATIOS BY SECTOR (%)**

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Primary agriculture	3.4%	3.4%	3.5%	3.5%	3.3%	3.2%	3.2%	3.3%	3.0%	3.0%	3.3%	3.4%	3.4%
Mining and quarrying	6.0%	5.9%	6.0%	5.8%	5.6%	5.1%	4.6%	4.7%	4.3%	4.4%	2.8%	2.7%	2.6%
Manufacturing (including agro-based)	2.1%	2.2%	2.9%	3.2%	3.4%	3.4%	3.4%	3.2%	2.9%	2.9%	3.0%	3.1%	3.1%
Electricity, gas and water supply	0.9%	0.9%	1.1%	1.1%	1.3%	1.2%	1.2%	1.1%	0.9%	0.8%	0.8%	0.7%	0.7%
Wholesale & retail trade, and restaurants & hotels	1.9%	1.8%	1.8%	1.7%	1.8%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%
Construction	2.8%	2.6%	2.6%	2.7%	2.7%	2.7%	2.9%	2.9%	2.9%	3.1%	3.0%	2.9%	2.9%
Transport, storage and communication	5.9%	6.1%	6.1%	6.0%	5.7%	5.7%	5.7%	5.5%	4.7%	4.9%	5.2%	4.9%	4.9%
Finance, insurance and business activities	3.3%	3.5%	3.2%	3.1%	2.9%	3.0%	2.9%	2.8%	2.6%	2.8%	2.7%	2.7%	2.9%
Education, health & others	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%
Household sector 2	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%
Other sector n.e.c	2.9%	2.9%	2.9%	3.0%	2.9%	2.5%	2.8%	2.5%	2.4%	2.4%	2.5%	2.6%	2.6%
<b>Total non-performing/impaird loans</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>

Source: BNM, AmlInvestment Bank Bhd

## EXHIBIT 17: PROVISIONS AND LOAN LOSS COVERAGE FOR THE SECTOR

	Impaired Loans (RM Mil)	Increase or Decrease in impairments MoM (RM Mil)	Change MoM (%)	Total Provisions (RM Mil)	Increase or Decrease in provisions MoM (RM Mil)	Change MoM (%)	Loan loss coverage (%)
Jan-18	24,573.3			23,752.1			96.7%
Feb-18	24,892.5	319.1	1.3%	24,169.1	417.0	1.8%	97.1%
Mar-18	25,276.3	383.8	1.5%	23,985.4	-183.7	-0.8%	94.9%
Apr-18	26,253.2	977.0	3.9%	25,435.6	1,450.2	6.0%	96.9%
May-18	26,761.0	507.8	1.9%	25,800.8	365.2	1.4%	96.4%
Jun-18	26,834.8	73.8	0.3%	25,789.3	-11.5	0.0%	96.1%
Jul-18	26,787.5	-47.3	-0.2%	26,328.2	538.8	2.1%	98.3%
Aug-18	26,966.0	178.5	0.7%	26,186.8	-141.4	-0.5%	97.1%
Sep-18	26,238.1	-727.9	-2.7%	25,804.2	-382.6	-1.5%	98.3%
Oct-18	26,199.8	-38.3	-0.1%	25,775.1	-29.1	-0.1%	98.4%
Nov-18	25,861.5	-338.2	-1.3%	25,747.2	-27.9	-0.1%	99.6%
Dec-18	25,245.0	-616.5	-2.4%	25,006.1	-741.0	-2.9%	99.1%
Jan-19	25,329.8	84.8	0.3%	24,980.2	-26.0	-0.1%	98.6%
Feb-19	26,170.9	841.1	3.3%	25,225.2	245.0	1.0%	96.4%
Mar-19	25,300.9	-870.1	-3.3%	24,904.7	-320.5	-1.3%	98.4%
Apr-19	26,217.5	916.6	3.6%	24,854.6	-50.0	-0.2%	94.8%
May-19	26,398.4	180.9	0.7%	24,841.2	-13.5	-0.1%	94.1%
Jun-19	27,165.6	767.2	2.9%	24,749.2	-91.9	-0.4%	91.1%
Jul-19	27,596.6	431.0	1.6%	25,109.6	360.4	1.5%	91.0%
Aug-19	27,933.5	336.9	1.2%	25,219.8	110.2	0.4%	90.3%
Sep-19	28,177.8	244.4	0.9%	25,052.0	-167.8	-0.7%	88.9%
Oct-19	28,304.9	127.1	0.5%	25,231.9	180.0	0.7%	89.1%
Nov-19	28,071.0	-233.9	-0.8%	25,095.7	-136.3	-0.5%	89.4%
Dec-19	26,777.2	-1,293.8	-4.6%	24,003.0	-1,092.7	-4.4%	89.6%
Jan-20	27,538.3	761.1	2.8%	24,076.3	73.4	0.3%	87.4%
Feb-20	27,859.4	321.1	1.2%	24,193.9	117.6	0.5%	86.8%
Mar-20	28,291.5	432.1	1.6%	23,127.3	-1,066.6	-4.4%	81.7%
Apr-20	28,119.7	-171.8	-0.6%	23,865.1	737.8	3.2%	84.9%

Source: BNM, AmlInvestment Bank Bhd

## ASSET QUALITY

❑ **Impaired loans declined MoM and sector GIL ratio remained stable at 1.6%**

The industry's outstanding impaired loans in Apr 2020 declined by 0.6% MoM or RM172mil. By loan purpose, the decrease was largely driven by lower impairments of HP loans, mortgages, personal loans, credit cards. Meanwhile, impairments of loans for construction, working capital and purchase of securities rose MoM.

The industry's total GIL was sustained at 1.6% while NIL ratio was steady at 1.0%. Total provisions for the sector increased by 3.2% MoM or RM738mil which we believe is due to preemptive provisioning buffers set aside by banks for the potential impact of Covid-19. The sector's loan loss cover improved to 84.9% vs. 81.7% in Mar 2020 attributed to the decrease in impaired loans.

Recall, that an automatic moratorium (6 months) has been granted by banks for borrowers (individuals and SMEs) affected by Covid-19 to defer repayments from 1 April to 30 Sept 2020. Banks are also likely to proactively restructure or reschedule loans to prevent financing impacted by the Covid-19 outbreak from falling into the impaired status. The moratorium is expected to keep banks' asset quality stable for the next 6 months as well as prevent provisions of banks from rising substantially.

Should Covid-19 play out longer than 6 months, we expect higher credit losses and the need for further increase in banks' provisioning.

## CAPITAL RATIO

❑ **Improvement in capital ratios**

The sector's CET1, Tier 1 and total capital ratios rose to 14.1%, 14.7% and 18.0% respectively.

## OTHER TRENDS

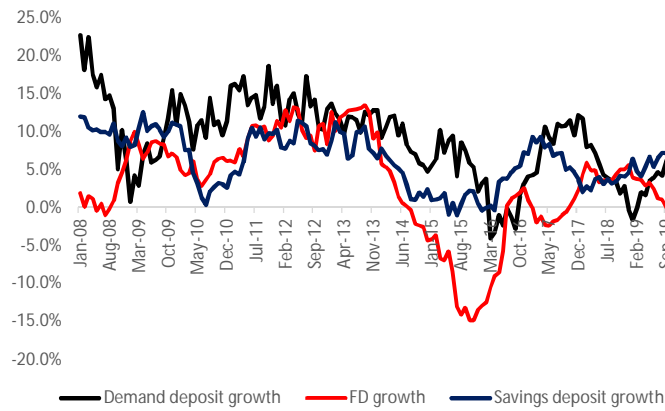
❑ **10-year MGS yield declined 49.2bps MoM**

The market indicative yield for the 10-year MGS declined 49.2bps MoM to 2.86% in Apr 2020. We believe that this has been contributed by liquidity measures announced by the central bank. These included the recent announcement to recognise banks' and principal dealers' holdings of MGS and MGII as part of the SRR compliance for the short term. The yield for 10-year MGS reversed from Mar 2020 as foreign investors disposed of securities due to Covid-19 and the collapse in oil prices, causing the yield to surge to 3.36%.

❑ **Lower new Issuance of bonds/sukuks in Apr 2020**

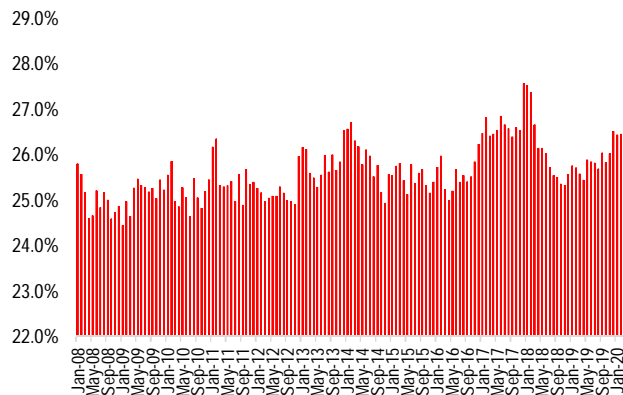
YTD net funds raised in the market by the private sector were RM7.3bil, registering a decline of 65.4% YoY. For the first 4 months of 2020, net issuance for bonds/sukuks declined 39.2% YoY to RM7.1bil while equity capital market activities remained soft.

**EXHIBIT 18: DEPOSIT GROWTH (% YOY)**



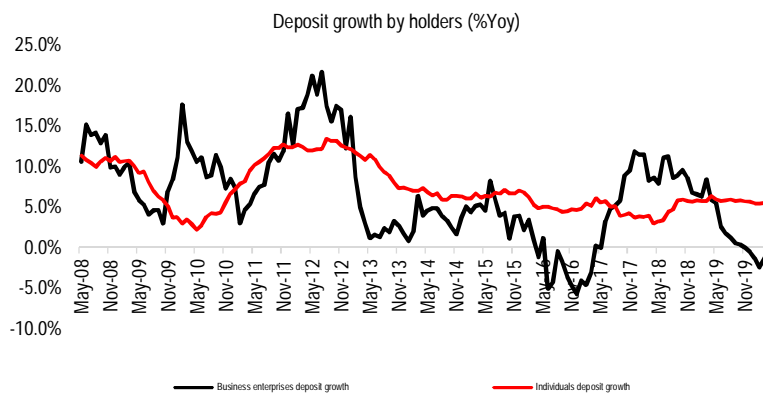
Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 19: CASA RATIO (%)**



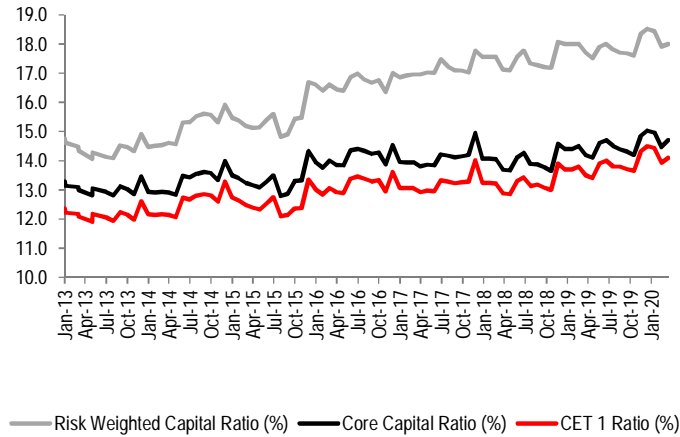
Source: BNM, AmInvestment Bank Bhd

**EXHIBIT 20: DEPOSIT GROWTH BY HOLDER (% YOY)**



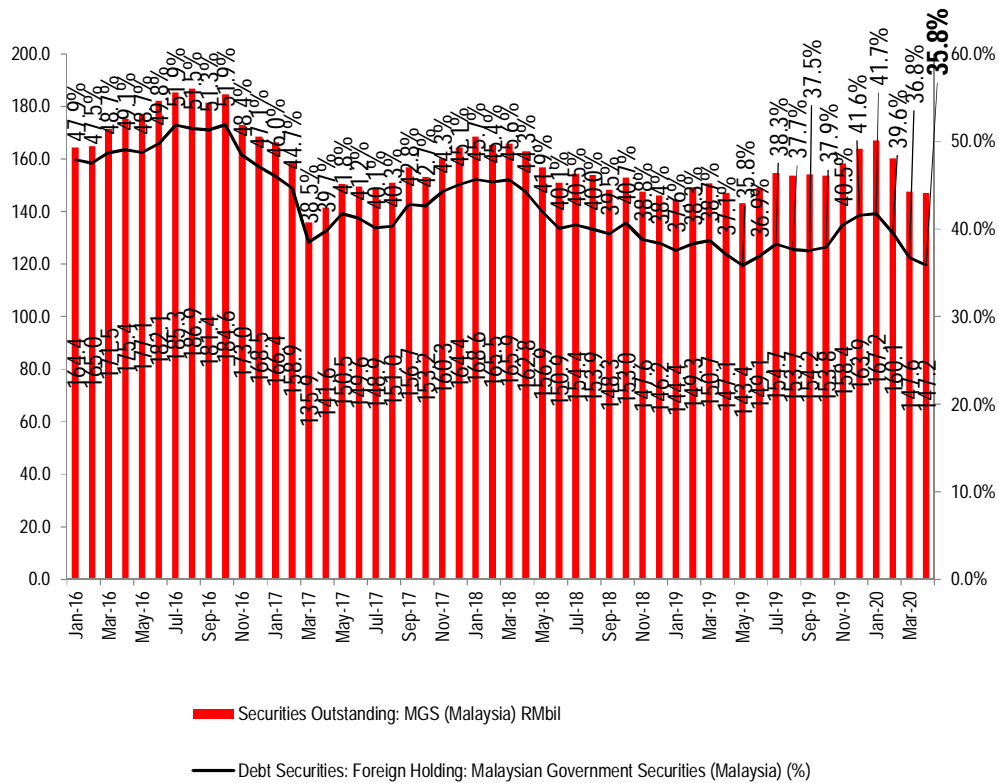
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 21: CAPITAL RATIOS



Source: BNM, AmInvestment Bank Bhd

EXHIBIT 22: FOREIGN HOLDINGS OF MGS



Source: BNM, AmInvestment Bank Bhd



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