



AmInvestment Bank

Sector report

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BANKING

Improvement in household loan applications

NEUTRAL

(Maintained)

Rationale for report: June 2020 BNM statistics

Investment Highlights

- **Industry loan growth rose to 4.1% YoY in June 2020 attributed to stronger household loan growth.** Growth in household loans gained traction to 3.5% YoY from higher levels of mortgages and loans for purchase of securities through stronger disbursements. Meanwhile, non-household loan growth was unchanged at 4.9% YoY. YTD loans growth improved to 3.2% annualised. With the easing of MCO restrictions starting on 4 May 2020, loan disbursements have improved from the low levels in April and May 2020.
- **Loan applications and approvals improved in June 2020.** In June 2020, industry loan applications rebounded and registered a positive growth of 8.0% YoY vs. -39.0% YoY in May 2020. The level of household applications surged while that for non-household loan applications continued to slid. June 2020 saw higher level of applications for purchase of passenger cars, residential property loans, credit cards and personal loans. Growth in industry loan approvals improved with a lower contraction of 12.7% YoY vs. -54.4% YoY in May 2020, contributed by higher levels of household and non-household loan approvals.
- **Further decline in weighted average lending rate while the base rate was steady.** June 2020 saw the sector's weighted average lending rate slipping by 8bps to 4.25% while the weighted base rate was stable at 2.68%. The BLR fell 3bps MoM to 5.75%. Interest spread (difference between weighted average lending rate and average FD rate) stood at 2.31%. With the dovish statement by BNM in the recent MPC statement, we are expecting another OPR cut of 25bps in 2H2020 to reduce the rate further to 1.50%.
- **Stronger deposit growth while industry CASA growth leapt.** Industry deposit growth rose to 4.4% YoY while CASA continued to expand strongly at 16.8% YoY leading to a higher CASA ratio of 28.9%. The LD ratio for the sector improved moderately to 88.0%. Sector LCR increased to 149.0% from 140.0% in May 2020, contributed by the shift in wholesale funding to deposits.
- **Impaired loans and provisions declined MoM.** The industry's outstanding impaired loans in June 2020 declined by 5.3% MoM or RM1.5bil. By loan purpose, the decrease was largely driven by lower impairments of loans for construction, working capital and most segments of household loans MoM. The industry's total GIL improved slightly to 1.5% while NIL ratio held up at 0.9%. The sector's loan loss cover improved to 92.9%. Excess capital buffer remained healthy at RM120bil to withstand any shocks/losses.
- **Stable capital ratios.** The sector's CET1, Tier 1 and total capital ratios were stable at 14.0%, 14.5% and 17.7% respectively.
- **Retain our NEUTRAL stance on the sector on concerns of upticks in impairments of loans after the blanket automatic moratorium ends on Sept 2020.** Our top picks for the sector remain **Maybank (FV: RM8.40/share)** and **RHB Bank (FV: RM6.00/share)**.

EXHIBIT 1: VALUATION MATRIX

	Rec.	30-Jul	Target Price	Upside (%)	Mkt Cap (RM Mil)	EPS (sen)		PER		Net DPS		Net DivYield		BV 20	BV 21	PBV 20	PBV 21
AMMB	NR	2.90	-	-	8,788	44.6	37.6	6.5	7.7	13.3	14.6	4.6	5.0	6.2	6.3	0.5	0.5
Maybank	BUY	7.67	8.40	9.5%	85,547	58.6	65.2	13.1	11.8	45.1	50.2	5.9	6.5	7.5	7.9	1.0	1.0
Public Bank	HOLD	17.00	16.00	-5.9%	65,065	122.0	130.4	13.9	13.0	61.0	65.2	3.6	3.8	11.9	12.5	1.4	1.4
RHB Bank	BUY	5.02	6.00	19.5%	19,890	55.1	58.0	9.1	8.7	31.0	29.0	6.2	5.8	6.8	7.2	0.7	0.7
Hong Leong	HOLD	15.00	15.30	2.0%	31,215	124.3	125.9	12.1	11.9	49.8	50.4	3.3	3.4	13.5	14.4	1.1	1.0
CIMB	HOLD	3.59	3.30	-8.1%	34,830	28.6	33.7	12.5	10.6	15.3	18.1	4.3	5.0	6.0	6.2	0.6	0.6
ABMB	HOLD	2.14	2.00	-6.5%	3,282	27.4	23.2	7.8	9.2	6.0	11.1	2.8	5.2	3.9	3.9	0.6	0.6
BIMB	HOLD	3.40	3.60	5.9%	6,095	40.1	44.0	8.5	7.7	14.8	16.2	4.4	4.8	3.6	4.1	1.0	0.8
MBSB	BUY	0.54	0.62	15.9%	3,525	6.4	7.8	8.4	6.9	3.0	5.0	5.6	9.3	1.3	1.3	0.4	0.4
Average						62.6	64.8	10.4	10.1	29.5	31.8	4.4	4.9	7.4	7.8	0.9	0.8
Non-bank																	
HLFG	BUY	13.44	16.00	19.0%	15,391	158.3	152.5	8.5	8.8	38.2	36.8	2.8	2.7	18.0	19.3	0.7	0.7

Forecasts by AmInvestment Bank

EXHIBIT 2: INDUSTRY LOAN GROWTH (% YOY)



Source: BNM, AmInvestment Bank Bhd

INDUSTRY LOAN GROWTH ROSE TO 4.1%YOY

- **Industry loan growth accelerated to 4.1% YoY in June 2020 due to stronger household loan growth while growth in non-household loans was unchanged**

Growth in household loans picked up pace to 3.5% YoY while non-household loan growth was unchanged at 4.9% YoY. June 2020 saw higher disbursements of loans compared to repayments. The levels of disbursed household and non-household loans were higher than that of the preceding month. With the easing of MCO restrictions starting on 4 May 2020, loan disbursements have improved from the low levels in April and May 2020.

- **Non-household loan growth unchanged**

Outstanding loans for mining, real estate, education, health and other sectors rose but was offset by a decline in pace of loans for the other segments.

- **Pick-up in pace of household loans**

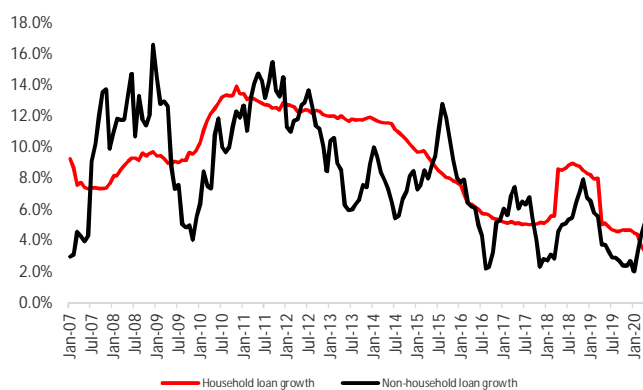
Household loan growth accelerated to 3.5% YoY in June 2020 vs. 3.2% YoY in May 2020. This was contributed by higher levels of mortgages and loans for purchase of securities through stronger disbursements.

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%	-0.2%	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%
May-20	3.9%	3.2%	4.9%	-39.0%	-59.7%	-12.1%	-54.4%	-67.7%	-40.3%	-25.8%	-43.2%	-18.9%	-22.3%	-42.5%	-14.4%
Jun-20	4.1%	3.5%	4.9%	8.0%	16.4%	-2.4%	-12.7%	-20.1%	-5.2%	8.1%	-0.9%	11.5%	0.9%	-22.4%	10.0%

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)

	Jun-19	May-20	Jun-20	% of total	%MoM	%YoY
Purchase of securities	82,970	80,027	80,815	4.5%	1.0%	-2.6%
Purchase of transport vehicles	167,914	165,163	164,811	9.2%	-0.2%	-1.8%
of which : purchase of passenger cars	159,339	157,141	157,054	8.7%	-0.1%	-1.4%
Purchase of residential property	581,746	617,543	622,076	34.6%	0.7%	6.9%
Purchase of non-residential property	223,121	226,151	226,138	12.6%	-0.01%	1.4%
Purchase of fixed asset other than land & building	11,166	12,664	13,033	0.7%	2.9%	16.7%
Personal use	96,075	98,667	99,143	5.5%	0.5%	3.2%
Credit card	38,153	35,302	35,599	2.0%	0.8%	-6.7%
Purchase of consumer durables	97	83	83	0.005%	0.0%	-14.4%
Construction	56,636	61,327	60,978	3.4%	-0.6%	7.7%
Working capital	391,257	407,107	410,630	22.8%	0.9%	5.0%
Other purpose	79,303	85,130	86,531	4.8%	1.6%	9.1%
Total	1,728,437	1,789,165	1,799,837	100.0%	0.6%	4.1%

ce: BNM, AmInvestment Bank Bhd

EXHIBIT 6: LOAN BREAKDOWN BY SECTOR (RM MIL)

	Jun-19	May-20	Jun-20	% of total	%MoM	%YoY
Primary agriculture	35,642	35,821	35,076	1.9%	-2.1%	-1.6%
Mining and quarrying	8,712	10,465	10,574	0.6%	1.0%	21.4%
Manufacturing (including agro based)	114,731	125,364	124,608	6.9%	-0.6%	8.6%
Electricity, gas and water supply	12,855	17,452	17,374	1.0%	-0.4%	35.2%
Wholesale, retail, restaurants & hotels	126,666	134,883	135,156	7.5%	0.2%	6.7%
Construction	93,339	92,104	91,762	5.1%	-0.4%	-1.7%
Real estate	117,426	115,910	116,975	6.5%	0.9%	-0.4%
Transport, storage & communication	38,403	41,593	41,366	2.3%	-0.5%	7.7%
Financing, insurance & business services	109,343	118,341	117,823	6.5%	-0.4%	7.8%
Education, health & others	42,710	42,471	46,496	2.6%	9.5%	8.9%
Household sector	1,003,894	1,033,038	1,039,439	57.8%	0.6%	3.5%
Other sector	24,716	21,723	23,188	1.3%	6.7%	-6.2%
Total	1,728,437	1,789,165	1,799,837	100.0%	0.6%	4.1%

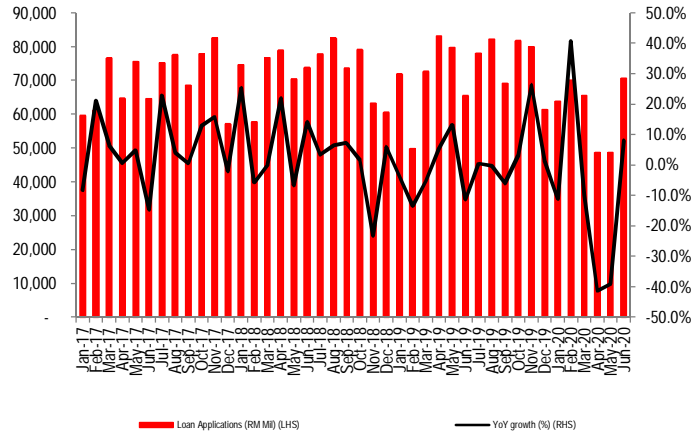
Source: BNM, AmInvestment Bank Bhd

LOAN APPLICATIONS

□ **Levels of applications improved in June**

In June 2020, industry loan applications rebounded and registered a positive growth of 8.0% YoY vs. -39.0% YoY in May 2020. The level of household applications surged while that for non-household loan applications continued to slid. June 2020 saw higher level of applications for most segments of household loans. This included applications for purchase of passenger cars, residential property loans, credit cards and personal loans.

EXHIBIT 7: LOAN APPLICATIONS (RM MIL)



Source: BNM, AmInvestment Bank Bhd

EXHIBIT 8: LOAN APPLICATIONS BY PURPOSE (RM MIL)

	Jun-20	% of total	Jan-20 (%YoY)	Feb-20 (%YoY)	Mar-20 (%YoY)	Apr-20 (%YoY)	May-20 (%YoY)	Jun-20 (%YoY)
Purchase of securities	2,154	3.0%	-39.2%	-15.3%	-54.7%	-68.0%	-29.6%	-20.1%
Purchase of transport vehicles	7,985	11.3%	-9.9%	44.1%	-10.3%	-89.0%	-58.0%	65.4%
of which : purchase of passenger cars	7,628	10.8%	-9.5%	45.5%	-9.9%	-89.3%	-58.8%	66.1%
Purchase of residential property	25,429	36.0%	-19.6%	40.4%	-19.2%	-72.1%	-59.5%	20.0%
Purchase of non-residential property	4,776	6.8%	-27.1%	34.5%	-20.7%	-78.0%	-68.9%	-33.3%
Purchase of fixed asset other than land & building	853	1.2%	-58.3%	111.5%	11.3%	-87.1%	-54.9%	-13.4%
Personal use	4,397	6.2%	-9.4%	32.4%	-11.3%	-70.3%	-63.7%	-3.4%
Credit card	2,330	3.3%	-0.8%	24.0%	-12.4%	-65.2%	-67.6%	-18.8%
Purchase of consumer durables	0	0.0%	57.1%	-100.0%	-100.0%	-75.0%	-100.0%	60.0%
Construction	1,738	2.5%	-30.4%	68.8%	-29.2%	-43.4%	-24.6%	-45.7%
Working capital	18,159	25.7%	13.3%	75.9%	32.0%	67.0%	25.9%	31.5%
Other purpose	2,848	4.0%	-17.4%	-9.5%	-44.9%	-59.6%	-46.5%	-30.8%
Total applied	70,669	100.0%	-14.6%	40.7%	-9.8%	-41.4%	-39.0%	8.0%

Source: BNM, AmInvestment Bank Bhd

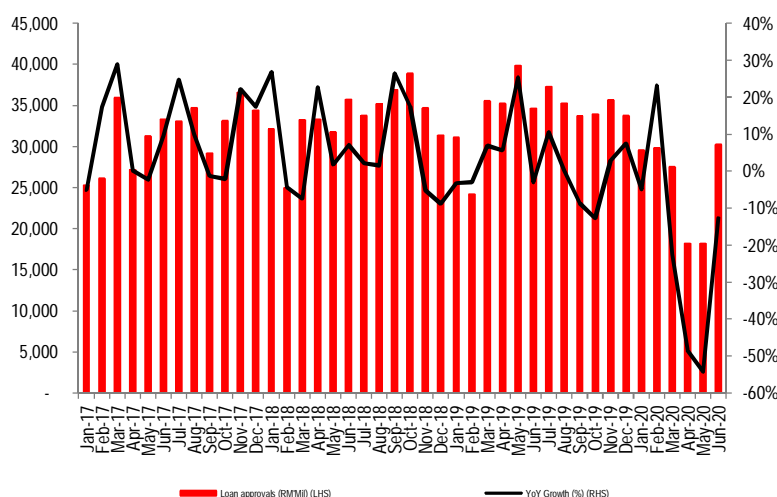
LOAN APPROVALS

- *Loan approvals continued to contract but at a slower rate compared to May 2020*

Growth in industry loan approvals improved to a lower contraction of 12.7% YoY vs. -54.4% YoY in May 2020 contributed by higher levels of household and non-household loan approvals. Compared to May 2020, the level of approvals of loans increased for loans to the manufacturing, utilities, construction, real estate, finance,

insurance and business activities, education, health and the household sectors.

EXHIBIT 9: LOAN APPROVALS (RM MIL)



Source: BNM, AmInvestment Bank Bhd

Stronger deposit growth with CASA ratio continuing to ascend

Industry deposit growth surged to 4.4% YoY in June 2020 at 2.8% YoY. Individual deposit growth improved further to 6.7% YoY while business deposits registered a mild positive growth of 0.9% YoY vs. -0.9% YoY in the previous month. Competition for deposits is expected to remain minimal in the near term due to the muted outlook of loan growth for the industry.

The LD ratio for the sector improved moderately to 88.0% arising from the stronger deposit growth. Correspondingly, the sector's loan-to-fund ratio and the loan-to-fund and equity ratio decreased marginally to 82.1% and 71.5% respectively.

Strong traction continued to be seen for industry CASA which expanded by 16.8% YoY vs. 13.7% YoY in May

2020, lifting the CASA ratio further to 28.9%. Nevertheless, we expect industry CASA ratio to drop in 4Q20 once the automatic blanket moratorium ends on 30 September 2020.

Sector LCR increased to 149.0% from 140.0% in May 2020, contributed by the shift in wholesale funding to deposits. LCR of commercial, Islamic and investment banks rose to 151%, 141% and 181% respectively.

LENDING AND DEPOSIT RATES

Weighted average lending declined further after OPR cut of 50bps in May 2020

June 2020 saw the sector's weighted average lending rate slipping by 8bps to 4.25% while the weighted base rate was stable at 2.68%. The BLR fell 3bps MoM to 5.75%.

EXHIBIT 10: LOAN APPROVALS BY PURPOSE (RM MIL)

	Jun-20	% of total	Jan-20 (%YoY)	Feb-20 (%YoY)	Mar-20 (%YoY)	Apr-20 (%YoY)	May-20 (%YoY)	Jun-20 (%YoY)
Purchase of securities	1,891	6.3%	-36.5%	2.1%	-19.6%	-79.7%	-67.7%	-38.6%
Purchase of transport vehicles	4,008	13.3%	-1.9%	22.5%	-25.2%	-94.0%	-66.8%	29.5%
of which : purchase of passenger cars	3,828	12.7%	-1.2%	22.0%	-23.0%	-94.7%	-66.7%	29.5%
Purchase of residential property	6,253	20.7%	-14.2%	18.1%	-27.3%	-75.7%	-68.6%	-35.1%
Purchase of non-residential property	1,118	3.7%	-13.0%	-2.6%	-56.7%	-47.2%	-73.1%	-64.2%
Purchase of fixed asset other than land & building	214	0.7%	8.4%	269.0%	4.5%	-30.3%	-86.0%	-63.1%
Personal use	1,778	5.9%	2.9%	44.6%	-1.8%	-66.3%	-57.4%	9.1%
Credit card	648	2.1%	13.5%	38.4%	-9.7%	-80.9%	-80.8%	-51.3%
Purchase of consumer durables	0	0.0%	175.0%	-100.0%	-100.0%	-83.3%	-100.0%	-20.0%
Construction	1,306	4.3%	54.9%	-14.4%	-36.1%	-34.7%	-51.0%	-1.9%
Working capital	11,673	38.6%	-1.0%	24.4%	4.7%	37.6%	-8.0%	39.0%
Other purpose	1,354	4.5%	-3.7%	83.3%	-37.1%	-32.8%	-74.5%	-44.3%
Total approved	30,244	100.0%	-4.9%	23.2%	-22.5%	-48.4%	-54.4%	-12.7%

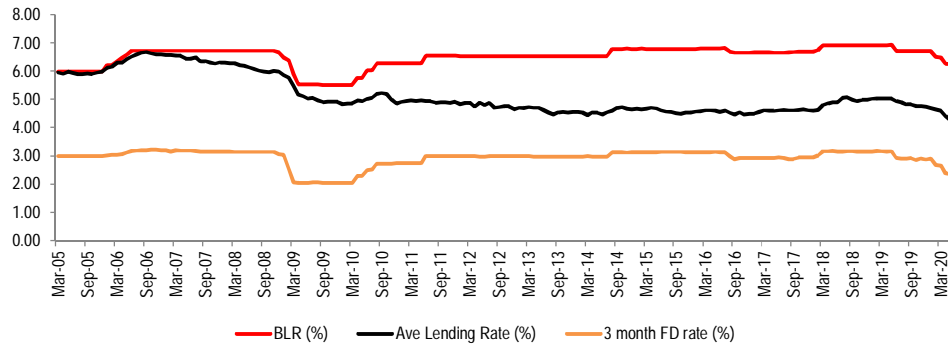
Source: BNM, AmlInvestment Bank Bhd

With another OPR cut of 25bps reducing the benchmark rate to 1.75% in July 2020, the BLR, weighted base and average lending rates will trend lower. Based on the dovish statement by BNM in the recent MPC statement, we are expecting another OPR cut of 25bps in 2H2020 to reduce the interest rate further to 1.50%.

The average deposit rate (the average rates for FDs of up to 1-year tenure) was sustained at 1.94%. Interest spread (difference between weighted average lending rate and average FD rate) stood at 2.31%. NIMs of banks will be further compressed in 3Q20 owing to the recent 25bps reduction in benchmark interest rate on 7 July 2020, and potentially another 25bps rate cut which could come in as early as Sept 2020.

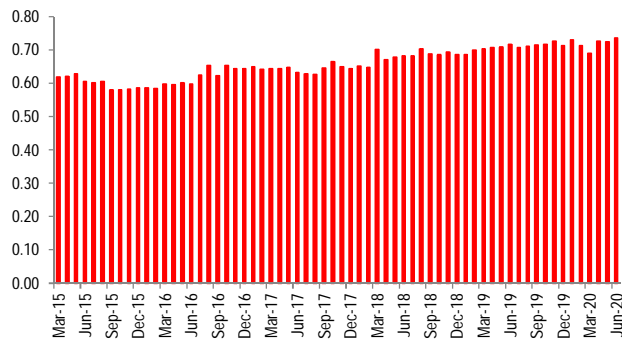
Inflation remained low with the CPI recording a lower contraction of 1.9% in June 2020 owing to a rise in domestic retail fuel prices.

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



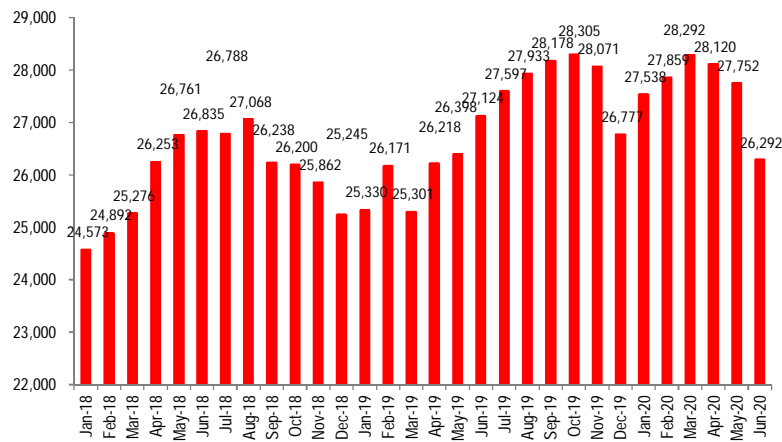
Source: BNM, AmInvestment Bank Bhd

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)

	Jun-19	May-20	Jun-20	% of total	%MoM	%YoY
Purchase of securities	233	491	393	1.5%	-20.0%	68.7%
Purchase of transport vehicles	1,739	1,076	929	3.5%	-13.7%	-46.6%
of which : purchase of passenger cars	1,218	916	770	2.9%	-15.9%	-36.8%
Purchase of residential property	6,555	7,054	6,689	25.4%	-5.2%	2.0%
Purchase of non-residential property	3,189	3,190	3,146	12.0%	-1.4%	-1.3%
Purchase of fixed asset other than land & building	309	397	314	1.2%	-20.9%	1.6%
Personal use	1,728	1,626	1,495	5.7%	-8.1%	-13.5%
Credit card	366	318	262	1.0%	-17.6%	-28.4%
Purchase of consumer durables	2	2	1	0.01%	-50.0%	-50.0%
Construction	3,567	3,773	3,428	13.0%	-9.1%	-3.9%
Working capital	8,783	8,647	8,518	32.4%	-1.5%	-3.0%
Other purpose	1,125	1,178	1,116	4.2%	-5.3%	-0.8%
Total	27,597	27,752	26,292	100.0%	-5.3%	-4.7%

Source: BNM, AmInvestment Bank Bhd

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

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Purchase of securities	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.6%	0.5%
Purchase of transport vehicles	1.0%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.6%
of which : purchase of passenger cars	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.5%
Purchase of residential property	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%
Purchase of non-residential property	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Purchase of fixed asset other than land & building	2.4%	2.2%	2.6%	2.6%	3.0%	3.1%	3.1%	2.4%
Personal use	1.9%	1.7%	1.8%	1.8%	1.9%	1.8%	1.6%	1.5%
Credit card	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.7%
Purchase of consumer durables	2.0%	8.2%	1.8%	1.8%	1.9%	1.6%	1.9%	1.8%
Construction	6.3%	6.0%	6.1%	6.0%	6.2%	6.3%	6.2%	5.6%
Working capital	2.2%	2.1%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%
Other purpose	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.4%	1.3%
Total	1.6%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%

Source: BNM, AmlInvestment Bank Bhd

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

	Jan-19	Feb-19	Mar-19	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	May-20	Jun-20
Primary agriculture	0.7%	0.9%	0.7%	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%	3.5%	3.5%
Mining and quarrying	5.2%	6.4%	6.8%	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%	2.5%	2.5%
Manufacturing (including agro-based)	2.2%	2.2%	2.2%	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%	3.4%	3.1%
Electricity, gas and water supply	0.8%	0.9%	0.9%	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%	0.7%	0.6%
Wholesale & retail trade, and restaurants & hotels	1.9%	1.9%	1.9%	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%	1.7%	1.7%
Construction	2.8%	3.4%	2.8%	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%	2.8%	2.6%
Transport, storage and communication	5.7%	5.7%	5.6%	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%	4.2%	4.4%
Finance, insurance and business activities	3.2%	3.2%	3.1%	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%	2.9%	2.9%
Education, health & others	1.2%	1.2%	1.1%	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%	1.5%	1.3%
Household sector 2	1.0%	1.0%	1.0%	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%	1.0%	1.0%
Other sector n.e.c	3.1%	3.1%	2.9%	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%	2.7%	1.7%
Total non-performing/impaird loans	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%

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%
May-20	27,752.4	-367.3	-1.3%	24,709.0	843.9	3.5%	89.0%
Jun-20	26,291.7	-1,460.7	-5.3%	24,429.5	-279.5	-1.1%	92.9%

Source: BNM, AmlInvestment Bank Bhd

ASSET QUALITY

Impaired loans and provisions declined MoM

The industry's outstanding impaired loans in June 2020 declined by 5.3% MoM or RM1.5bil. By loan purpose, the decrease was largely driven by lower impairments of loans for construction, working capital and most segments of household loans MoM. This was not surprising given that a substantial portion of consumer and SME loan borrowers have opted for the automatic moratorium.

The industry's total GIL improved slightly to 1.5% while NIL ratio held up at 0.9%. Total provisions for the sector, which increased consecutively the last 2 months, fell by 1.1% MoM or RM280mil in June 2020. The sector's loan loss cover improved further to 92.9% vs. 89.0% in May 2020 attributed to the decrease in impaired loans.

The blanket automatic loan moratorium, which will expire on 30 Sept 2020, is expected to keep banks' asset quality stable until 3Q2020. Prime Minister Tan Sri Muhyiddin Yassin has announced that after 30 Sept 2020, payment assistance will only be a targeted one, largely through restructuring and rescheduling of loans while only the unemployed are eligible for an extension of the moratorium for another 3 months from 1 Oct 2020 until 31 Dec 2020. We remain concerned on the potential upticks in loan impairments after the loan moratorium.

CAPITAL RATIO

Stable capital ratios

The sector's CET1, Tier 1 and total capital ratios were stable at 14.0%, 14.5% and 17.7% respectively. Excess capital buffer remained healthy at RM120bil to withstand any shocks/losses.

OTHER TRENDS

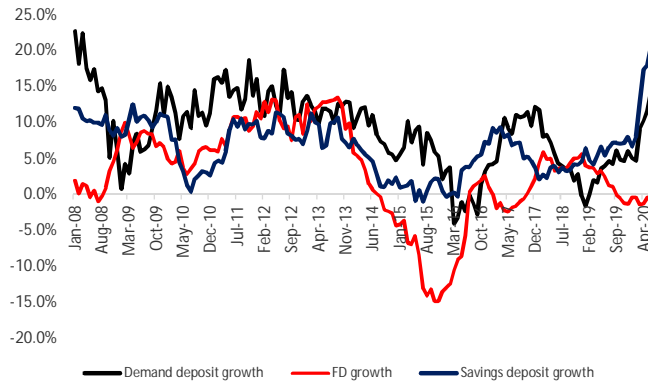
10-year MGS yield rose 6bps MoM

The market indicative yield for the 10-year MGS increased 6bps MoM to 2.87% in June 2020 in tandem with the trend of the regional bond markets. Nevertheless, there was some support from foreign buying which led to the increase in the yield by only 6bps. Foreign holdings of MGS and MGII climbed to 37.3% and 5.8% respectively in June 2020.

Lower new Issuance of bonds/sukuks in June 2020

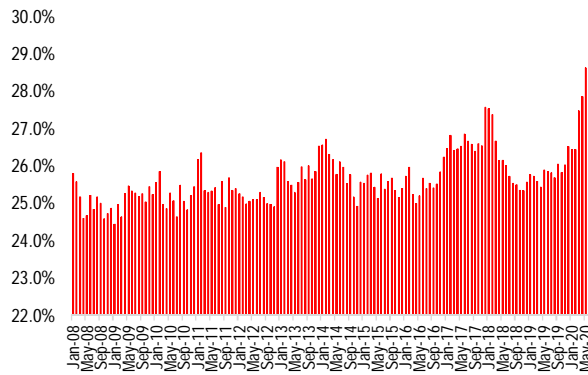
YTD net funds raised in the market by the private sector were RM13.0bil, registering a decline of 72.7% YoY. For the first 6 months of 2020, net issuance for bonds/sukuks slumped by 70.0% YoY to RM12.8bil while equity capital market activities remained soft.

EXHIBIT 18: DEPOSIT GROWTH (% YOY)



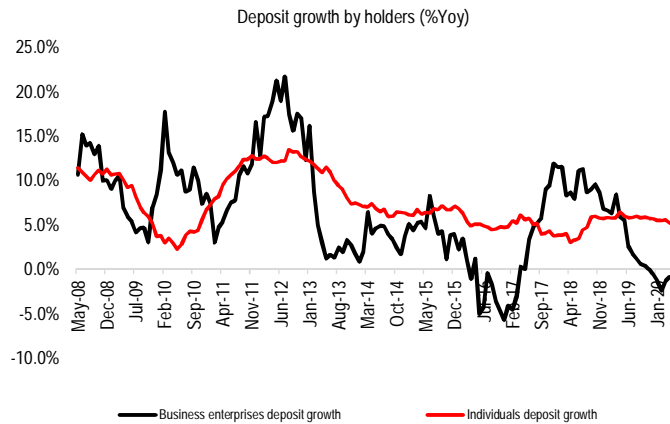
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 19: CASA RATIO (%)



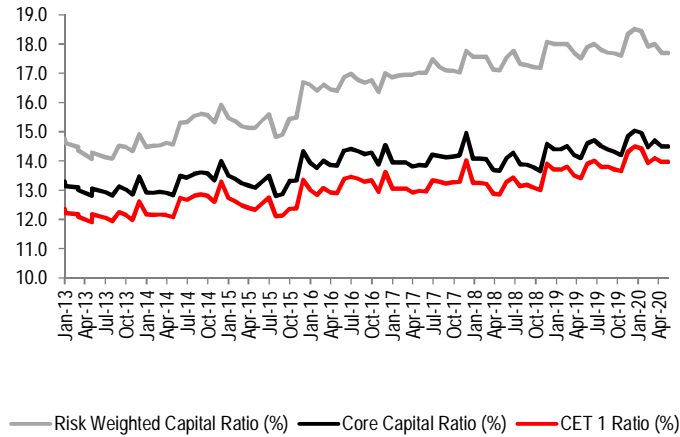
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 20: DEPOSIT GROWTH BY HOLDER (% YOY)



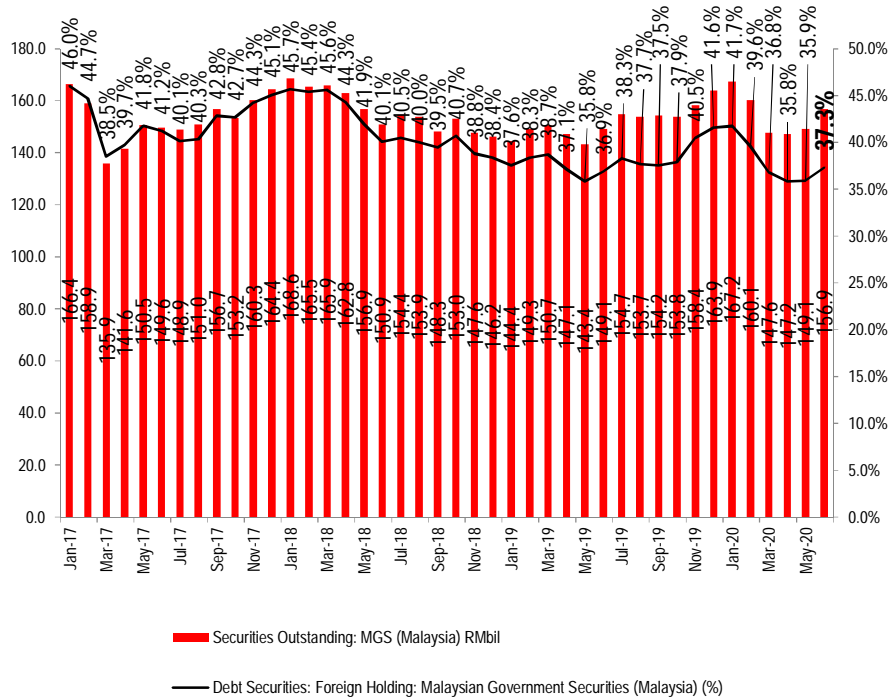
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 21: CAPITAL RATIOS



Source: BNM, AmInvestment Bank Bhd

EXHIBIT 22: FOREIGN HOLDINGS OF MGS



Source: BNM, AmInvestment Bank Bhd

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