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Banking Sector

Overweight (↔)

Dec-24 Banking Stats: Considerable Improvement in Asset Quality

Executive Summary

- **Positives:** (1) Solid loan growth, (2) CASA balances continue experience strong sequential month growth, (3) Considerable improvement in system GIL ratio.
- **Negatives:** -
- **Other things of note:** (1) FD rates show slight uptick due to cyclical deposit competition, (2) Leading indicators have cooled, also due to cyclical effects, (3) ALR contraction is rather muted this time.
- **Maintain OVERWEIGHT call.** Top pick: Public Bank (BUY; FV: RM4.51) and Hong Leong Bank (BUY; FV: RM24.79).

▲ **Loan growth** +5.5%yoy / +0.8%mom

Loan growth remains resilient, with both retail and business loans stable.

- ▲ **Retail loans:** +6.9%yoy / +0.5%mom
 - *Extremely consistent, as per usual.*
- ▲ **Business loans:** +3.9%yoy / +1.0%mom
 - *Solid growth, especially on a sequential month basis.*

▶ **Leading indicators**

Applications have cooled over the last three months – non-concerning, as this is cyclical.

- **Approval rate:** 62%.

▲ **Deposits** +3.3%yoy / +0.9%mom

CASA continues to show impressive sequential quarter growth.

- ▲ **FD growth:** +3.9%yoy / +0.3%mom
- ▲ **CASA growth:** +4.7%yoy / +1.2%mom
- **LCR:** 161%.
- **Loan/Deposit ratio:** 92.0%.

▲ **GIL ratio** 1.44% / -7bps mom

Considerable improvement seen, likely due to end-year dressing activities.

- ▲ **Notable deteriorations, mom:** -
- ▼ **Notable improvements, mom:** Working capital -7bps, Construction -37bps, Personal financing -10bps, Credit cards -5bps.

Interest rates

There is a slight uptick in FD rates due to end-year deposit competition, though this is expected – and the increase is somewhat muted.

- ▶ **FD rates (Conv.):** Slight uptick.
- ▶ **FD rates (Isl.):** Slight uptick.
- ▶ **Lending rates:** ALR continues to compress, though by a more muted -2bps mom.

Keeping OVERWEIGHT stance. The banking sector's outlook remains bright, premised on robust loan growth, improving COF, ideal conditions for NOII, and significant recoveries expected in several banks. We are confident that most banks can reposition their loanbook growth strategies to counter compressing loan yields. Our top picks include **Public Bank (BUY; FV: RM4.51)** and **Hong Leong Bank (BUY; FV: RM24.79)**.

Peers Comparison

Bank	FYE	Rec	Share P* (RM)	Target P (RM)	Upside (%)	Mkt Cap (RM b)	P/E (x)		P/B (x)		ROE (%)		DivYield (%)		ESG Rating
							FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	
MAY	Dec	BUY	10.34	11.28	9.1	124.7	12.9	11.9	1.3	1.2	10.1	10.6	6.2	6.7	★★★★★
CIMB	Dec	BUY	8.02	9.28	15.7	85.8	10.9	10.3	1.2	1.1	11.3	11.3	6.3	5.1	★★★★★
PBK	Dec	BUY	4.31	5.13	19.0	83.7	11.8	11.2	1.4	1.4	12.6	12.5	4.5	4.7	★★★★
RHB	Dec	HOLD	6.43	6.92	7.6	27.5	9.4	8.9	0.9	0.8	9.3	9.5	6.3	6.5	★★★★
HLBK	Jun	BUY	20.20	24.79	22.7	41.4	9.2	8.5	1.0	1.0	11.6	11.6	3.8	4.1	★★★★★
AMMB	Mar	HOLD	5.64	5.57	-1.2	18.7	10.2	9.8	0.9	0.9	9.2	9.1	3.9	4.6	★★★★
BIMB	Dec	HOLD	2.45	2.76	12.7	5.5	10.5	9.2	0.7	0.7	7.0	7.8	5.4	5.9	★★★★
AFFIN	Dec	HOLD	2.81	2.71	-3.5	6.5	13.1	11.2	0.6	0.5	4.4	4.9	2.2	2.6	★★★★
ABMB	Mar	HOLD	5.20	5.00	-3.8	8.1	11.0	10.3	1.0	1.0	9.8	9.8	4.1	4.4	★★★★
Simple avg							11.0	10.1	1.0	1.0	9.5	9.7	4.7	5.0	
Weighted avg							11.4	10.7	1.2	1.1	10.8	11.0	5.4	5.5	

*Closing prices from 31 Jan 2025.

^AMMB, ABMB, HLBK uses FY25F/26F values.

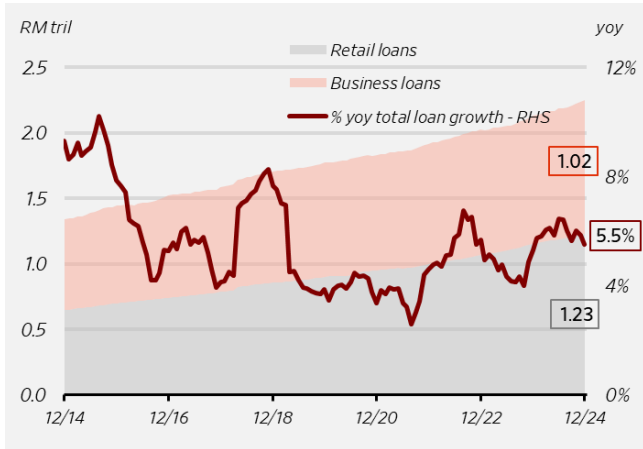
Fig 1: Core Figures and Forecasts

	yoy Growth rates (%)				YTD Ann. (%)	mom Growth rates (%)			
	Dec-24	Nov-24	Oct-24	Sep-24		Dec-24	Nov-24	Oct-24	Sep-24
Total loans	5.5	5.8	6.0	5.6	5.5	0.8	0.6	0.7	0.4
Retail loans	6.9	7.1	7.2	7.4	6.9	0.5	0.5	0.6	0.6
Business loans	3.9	4.4	4.6	3.6	3.9	1.0	0.7	0.8	0.2
SME*	-	8.7	8.6	8.8	7.9	-	0.9	0.4	0.5
Deposits + repo	3.0	3.6	3.1	3.3	3.0	0.7	0.9	0.3	0.7
Total deposits	3.3	4.0	3.5	3.5	3.3	0.9	0.9	0.5	0.3
CASA	4.7	5.2	4.0	5.2	4.7	1.2	1.9	-0.2	1.0
FD	3.9	3.7	3.5	2.8	3.9	0.3	0.2	0.2	0.2
Total provisions	-8.4	-6.8	-5.3	-5.9	-8.4	-3.6	-0.3	-0.2	-1.4
Total GIL	-7.7	-5.1	-5.1	-5.0	-7.7	-3.8	-0.4	-0.6	-1.8
Leading indicators									
3MA applications	1	2	-1	4	0	-4	-3	-0	2
Retail	-2	2	1	6	-2	1	-3	-4	-1
Business	4	2	-4	1	4	-9	-2	4	6
3MA approvals	-3	-1	-2	4	0	0	-2	1	2
Retail	-8	-3	-3	2	-8	3	-4	-4	-3
Business	0	0	-2	4	0	-2	-1	5	6
	Dec-24	Nov-24	Oct-24	Sep-24	Dec-23				
Interest spread	2.50	2.55	2.61	2.60	2.73				
Loan approval rate	62	53	54	54	63				
SME approval rate*	-	60	47	46	60				
GIL ratio	1.44	1.51	1.53	1.54	1.65				
SME GIL ratio*	-	2.97	2.99	3.01	3.07				
LLC ratio	91	91	91	91	92				
CASA ratio	31.4	31.3	31.0	31.2	31.0				
Loan/Deposit ratio	92.0	92.1	92.3	92.2	90.1				
Liquidity coverage ratio	161	148	147	147	161				
CET 1	14.3	14.4	14.4	14.5	15.4				
Tier 1 Capital	14.8	14.9	14.9	15.0	15.9				
Total Capital	17.8	17.9	18.1	18.2	19.0				

*SME data until Nov-24

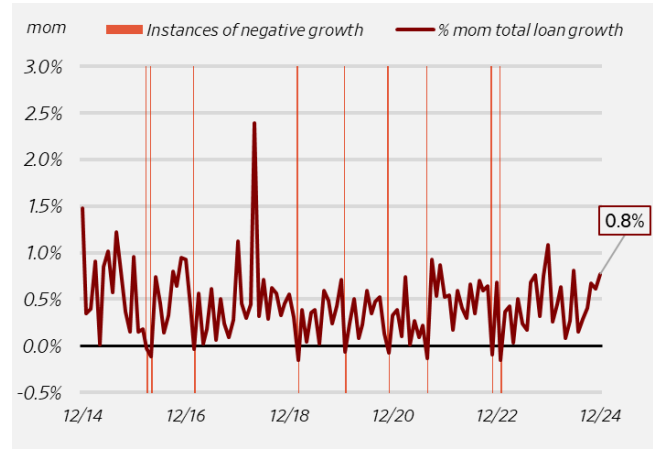
A. SYSTEM LOANS & CONSTITUENTS

Fig 2: yoy System loans



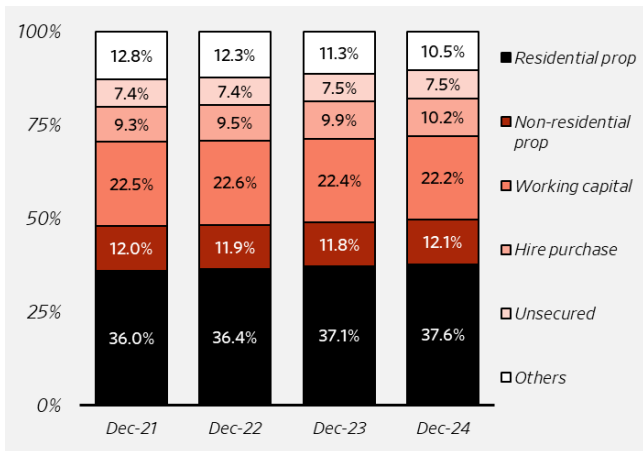
Source: BNM

Fig 3: mom System loans



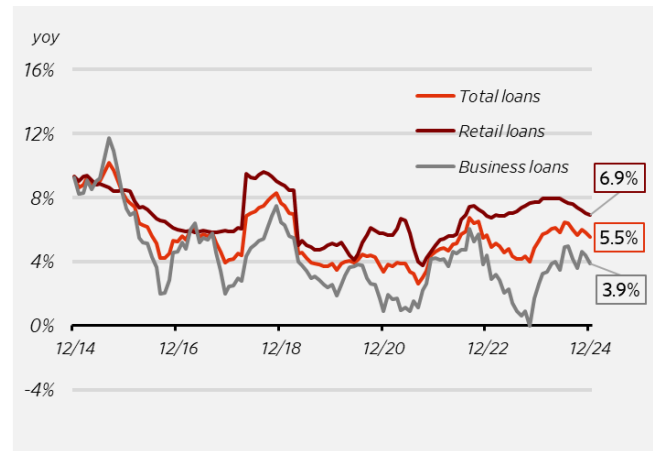
Source: BNM

Fig 4: Loan breakdown by type



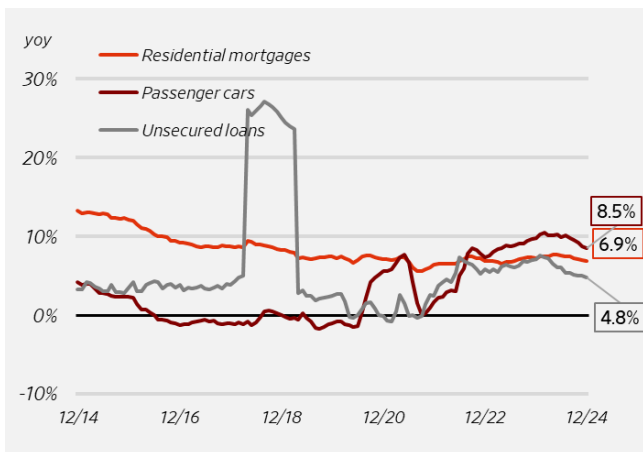
Source: BNM

Fig 5: Retail & business loan growth



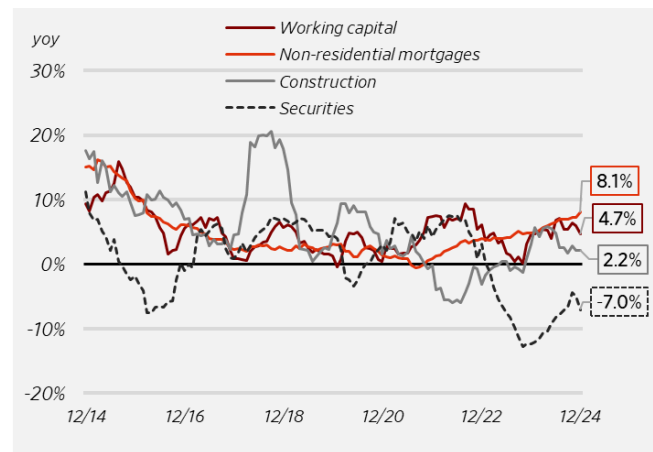
Source: BNM

Fig 6: Retail loan constituents



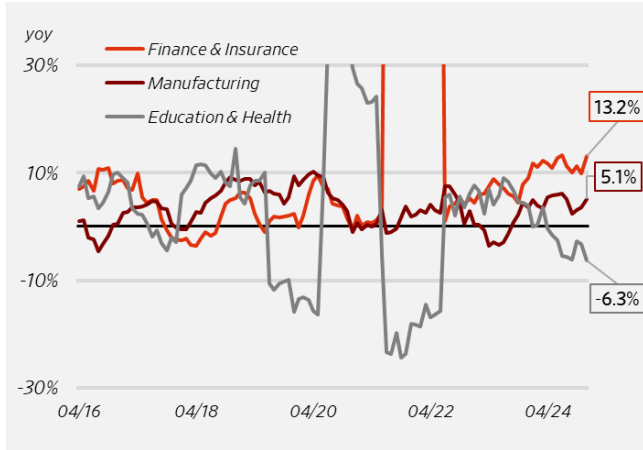
Source: BNM

Fig 7: Business loan constituents



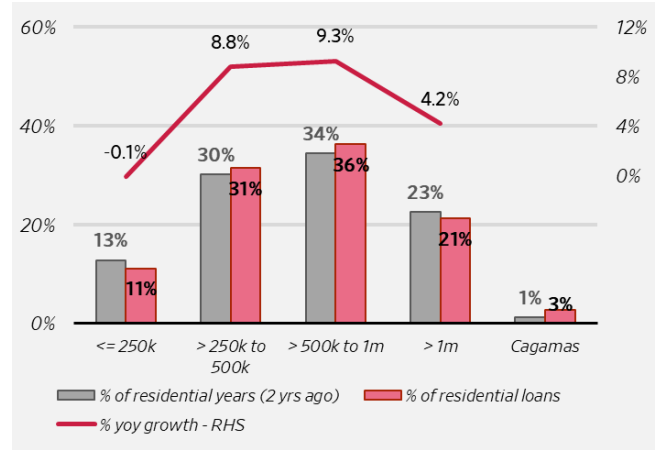
Source: BNM

Fig 8: Loan growth of other sectors



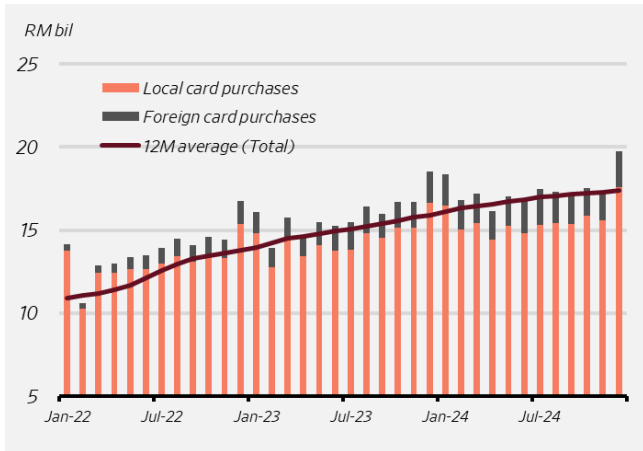
Source: BNM

Fig 9: Residential loans by segment



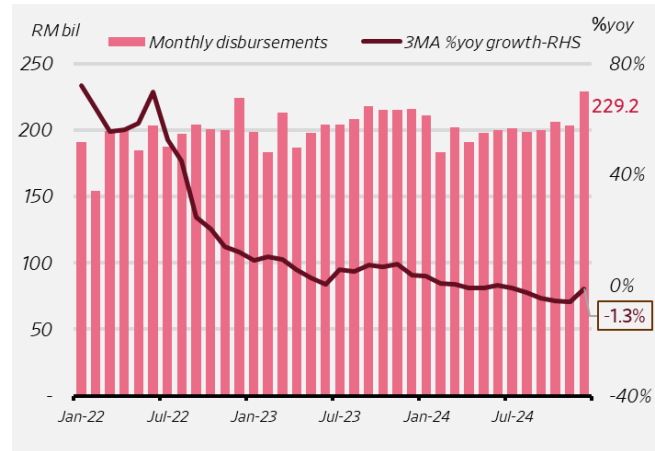
Source: BNM

Fig 10: Credit card purchases



Source: BNM

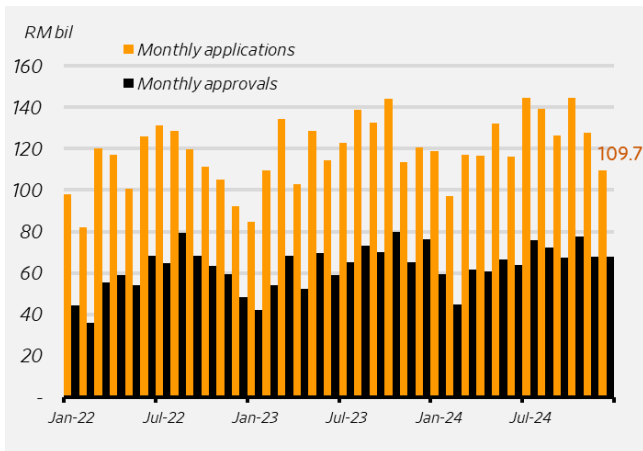
Fig 11: Monthly loan disbursements



Source: BNM

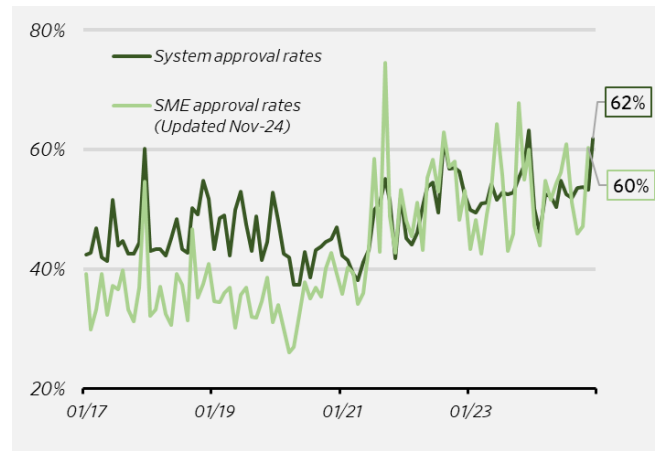
B. LEADING INDICATOR TRENDS

Fig 12: Monthly applications & approvals



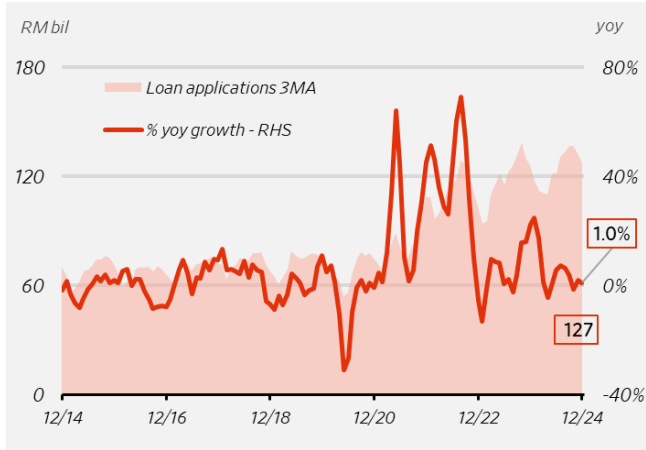
Source: BNM

Fig 13: System & SME approval rates



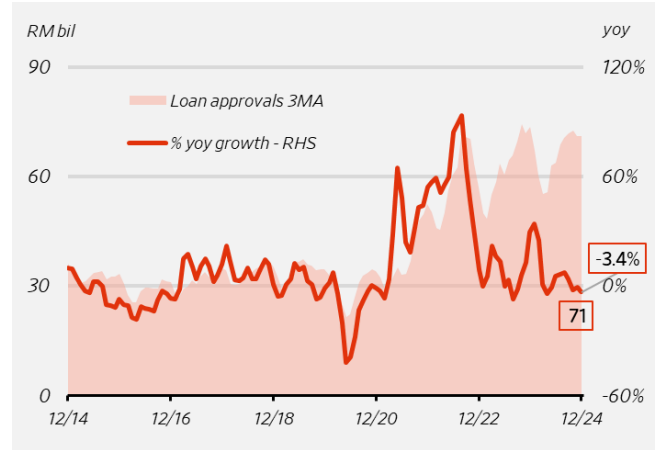
Source: BNM

Fig 14: Loan applications (3-mth average)



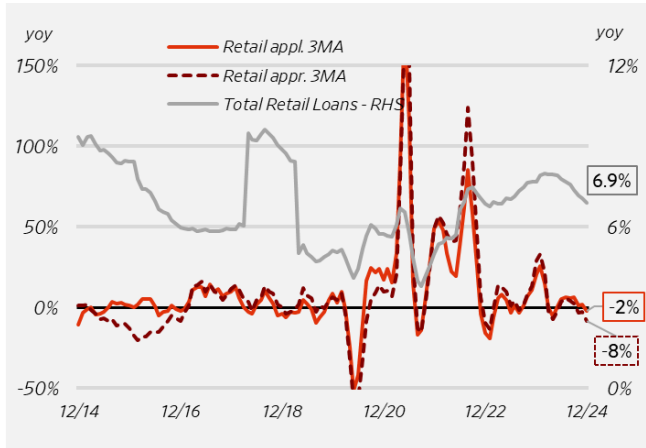
Source: BNM

Fig 15: Loan approvals (3-mth average)



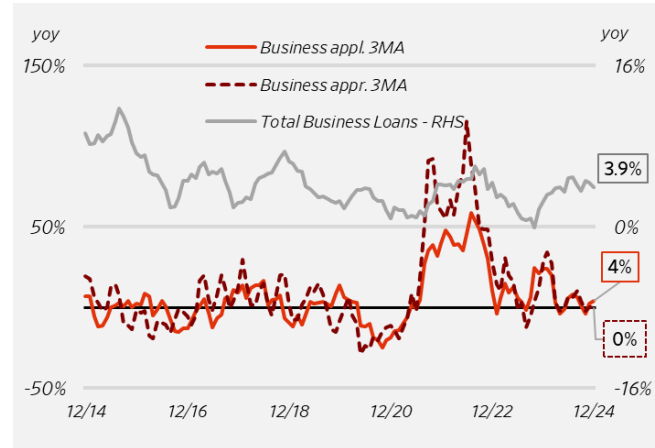
Source: BNM

Fig 16: Retail loan indicators



Source: BNM

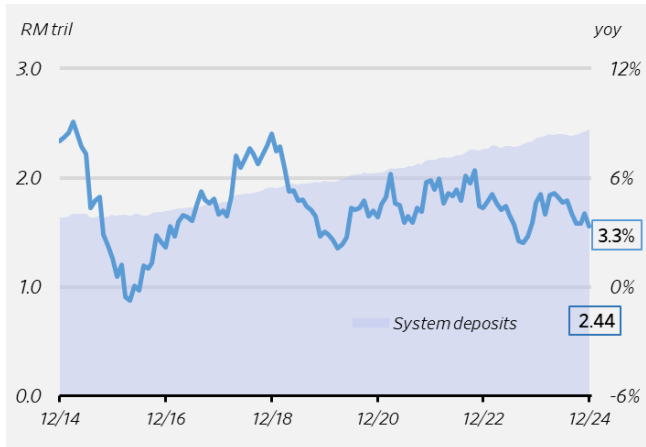
Fig 17: Business loan indicators



Source: BNM

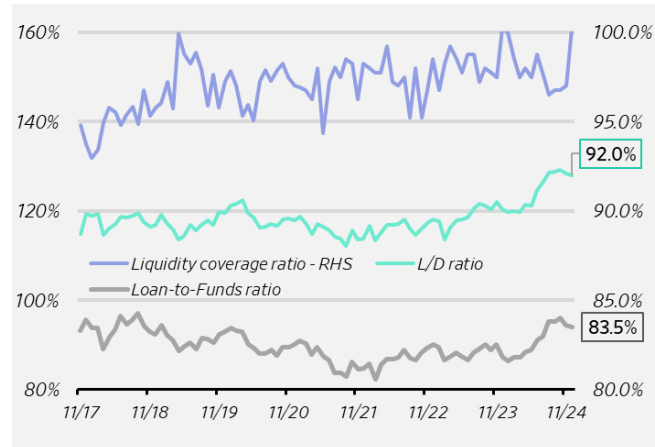
C. DEPOSITS & LIQUIDITY

Fig 18: yoy System deposits



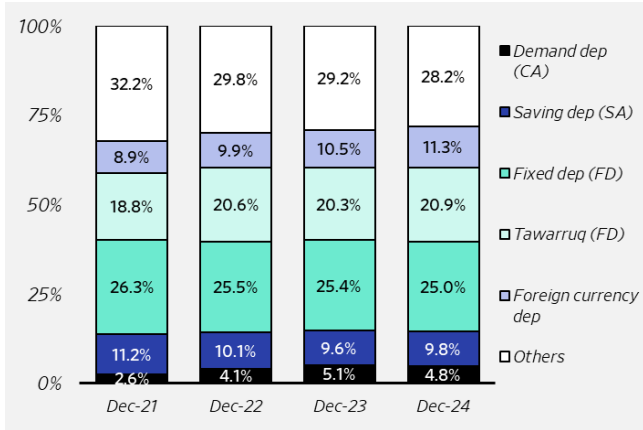
Source: BNM

Fig 19: mom LDR & LTF ratio



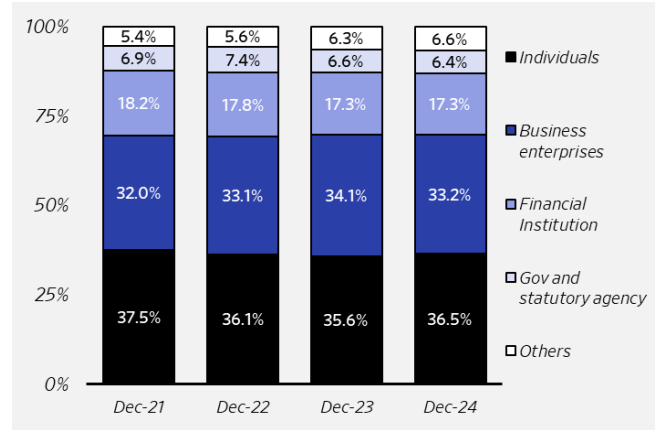
Source: BNM

Fig 20: Deposit breakdown by type



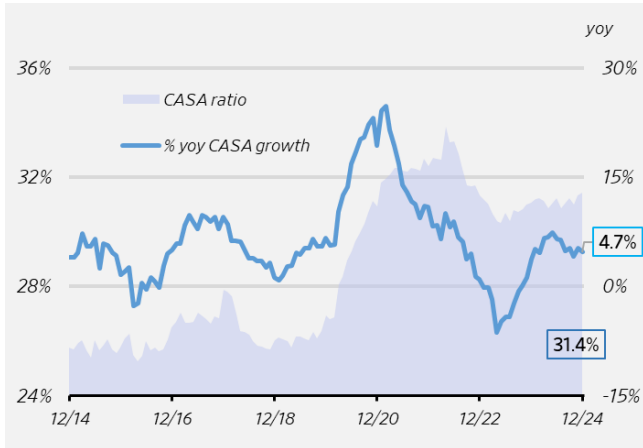
Source: BNM

Fig 21: Deposit breakdown by holder



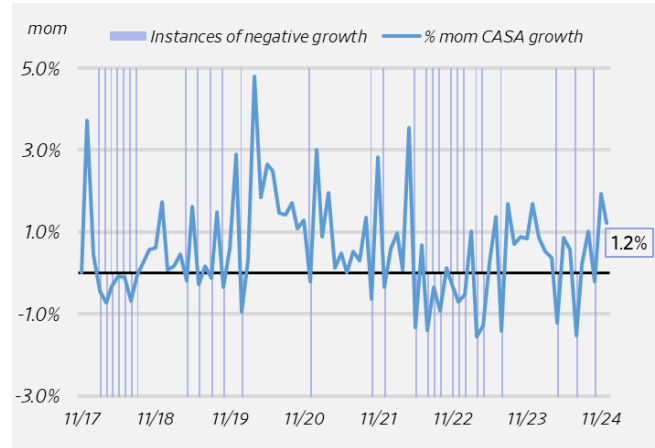
Source: BNM

Fig 22: CASA ratio and yoy growth



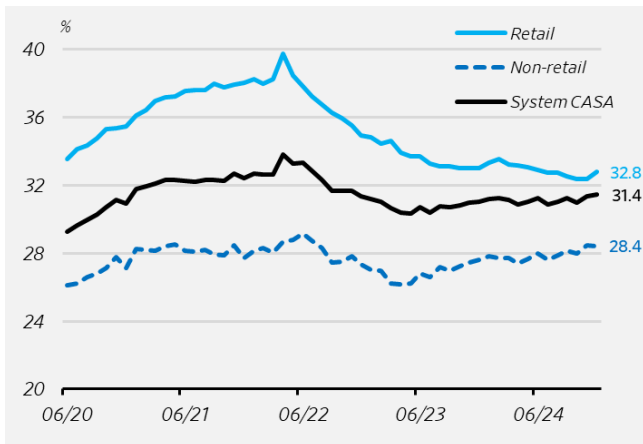
Source: BNM

Fig 23: mom CASA growth



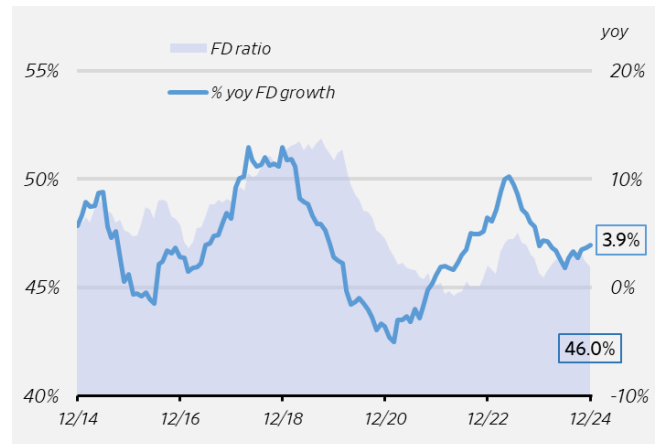
Source: BNM

Fig 24: CASA ratio by holder



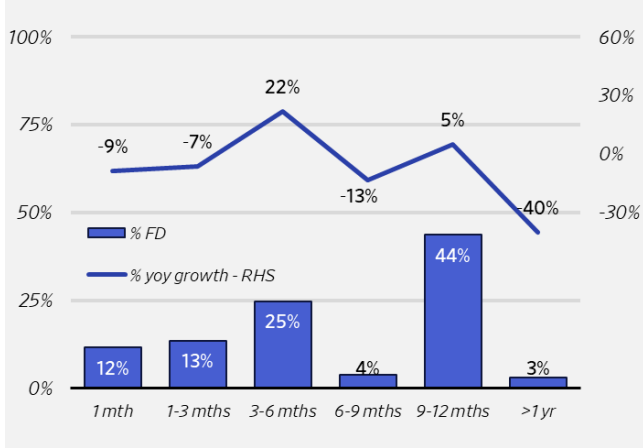
Source: BNM

Fig 25: FD ratio and yoy growth



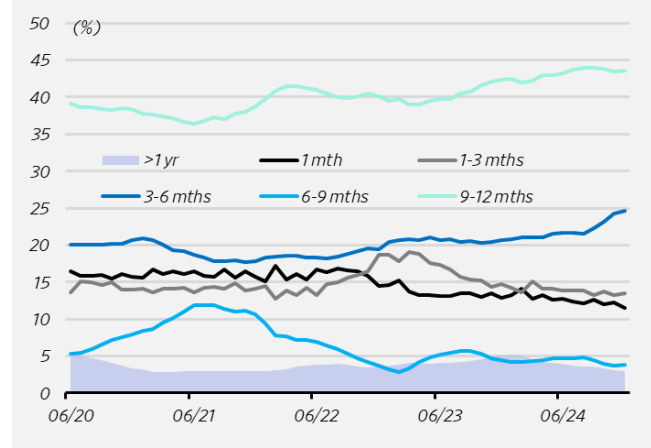
Source: BNM

Fig 26: FD by maturity brackets and yoy growth



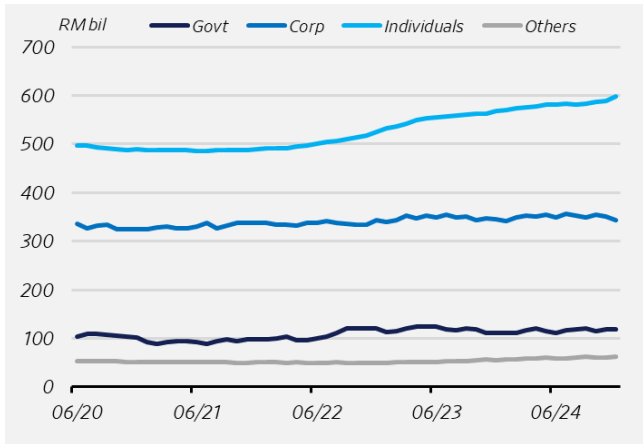
Source: BNM

Fig 27: FD by maturity brackets (% Proportion)



Source: BNM

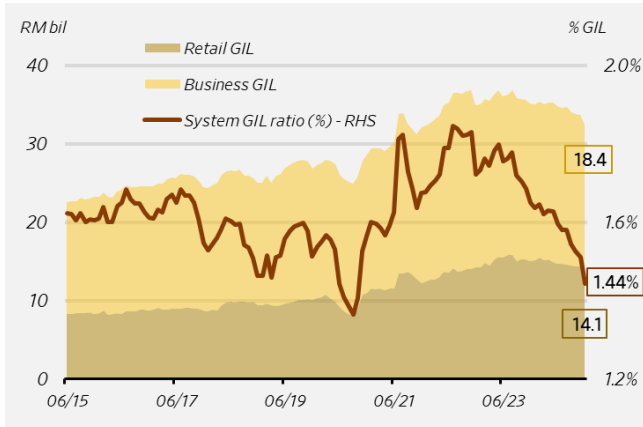
Fig 28: FD by depositor



Source: BNM

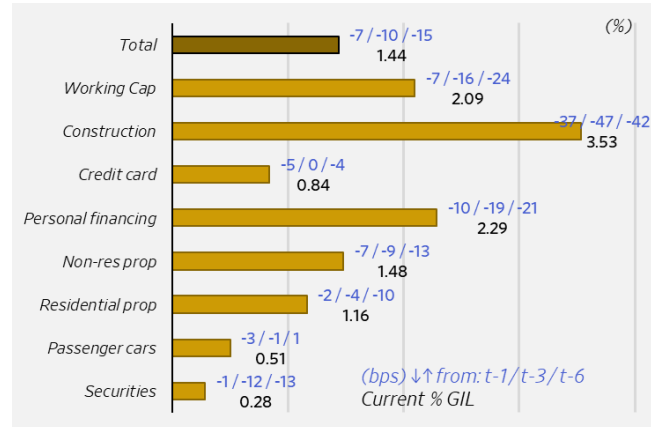
D. ASSET QUALITY & PROVISIONING

Fig 29: System gross impaired loans



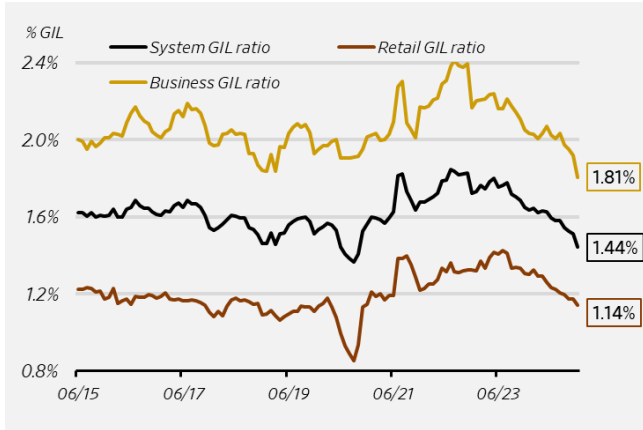
Source: BNM

Fig 30: Segmental GIL ratio changes



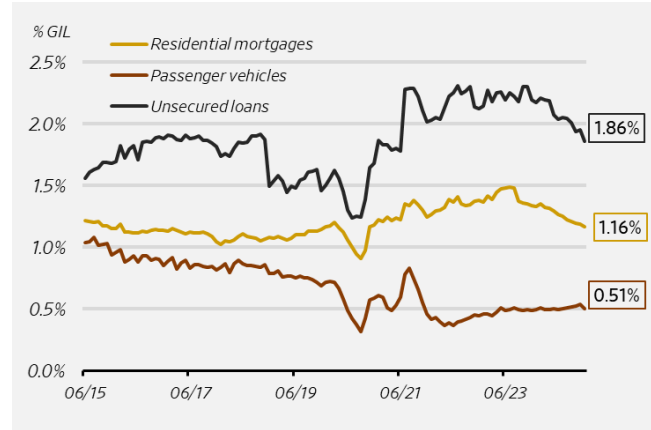
Source: BNM

Fig 31: System, Retail, Business GIL ratios



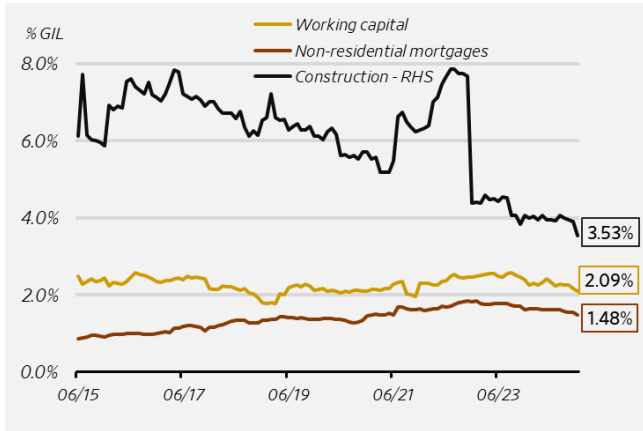
Source: BNM

Fig 32: Retail GIL ratios



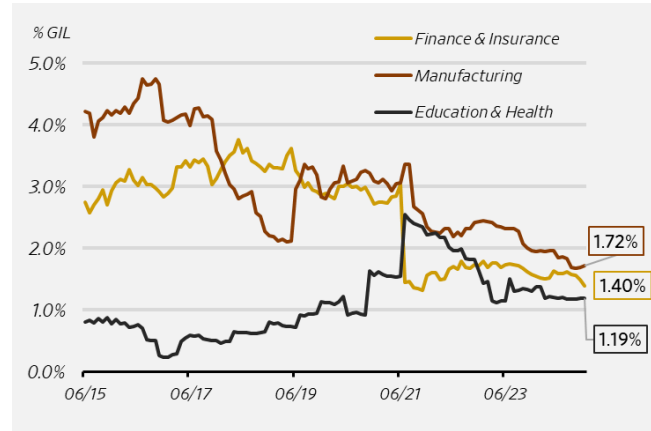
Source: BNM

Fig 33: Business GIL ratios



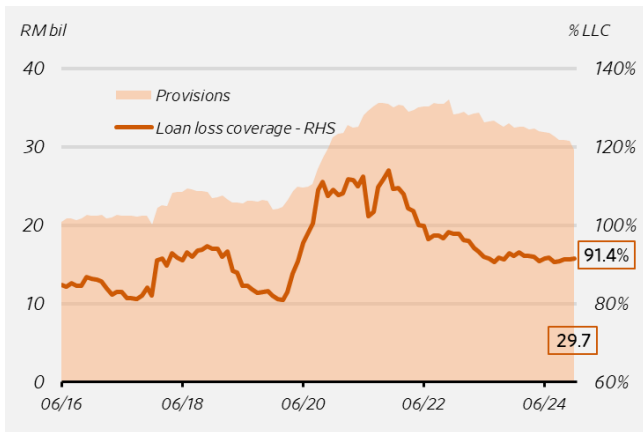
Source: BNM

Fig 34: GIL ratios of other sectors



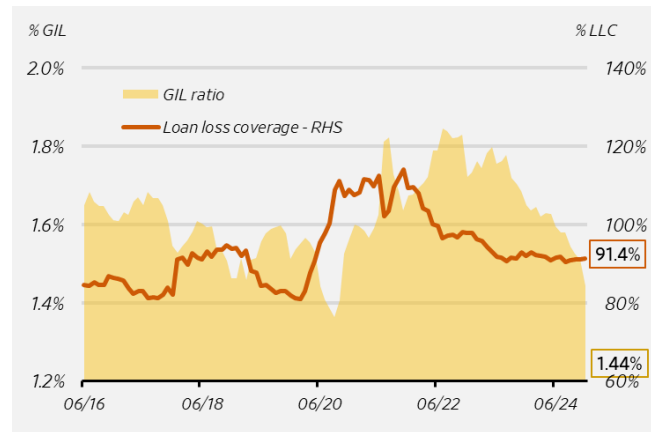
Source: BNM

Fig 35: Provisions & loan loss coverage



Source: BNM

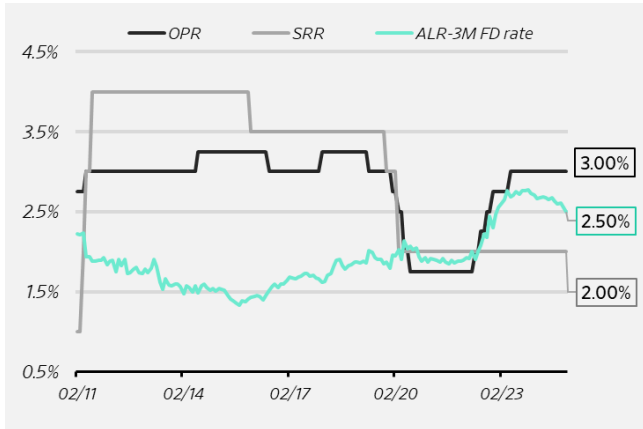
Fig 36: LLC & GIL ratio relationship



Source: BNM

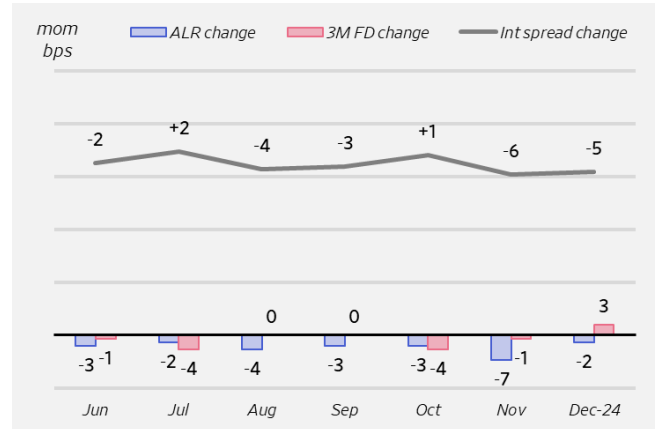
E. INTEREST SPREAD AND CAPITAL

Fig 37: Interest spread, OPR, SRR



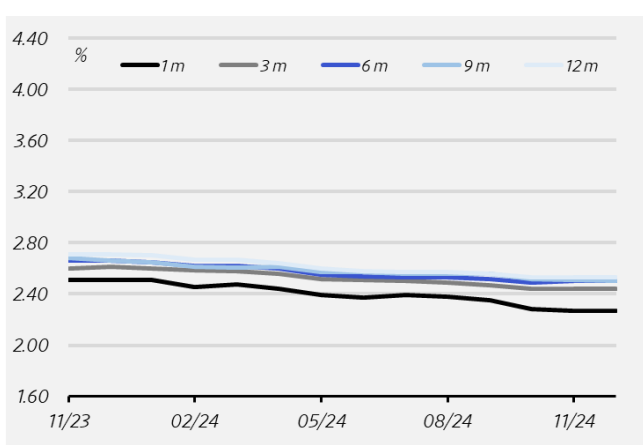
Source: BNM

Fig 38: mom Changes in Interest spreads



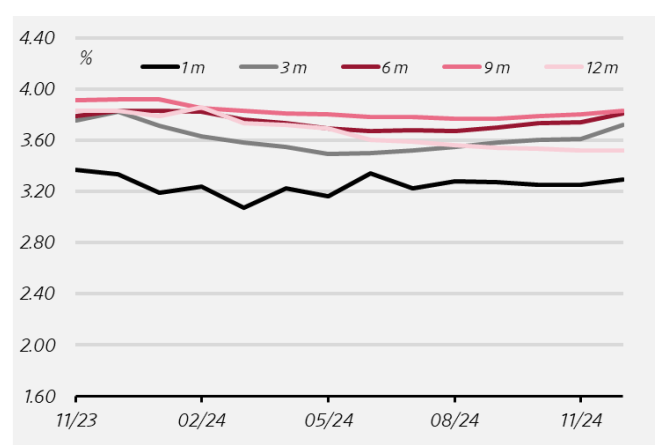
Source: BNM

Fig 39: Weighted avg Conv. FD rates by bracket



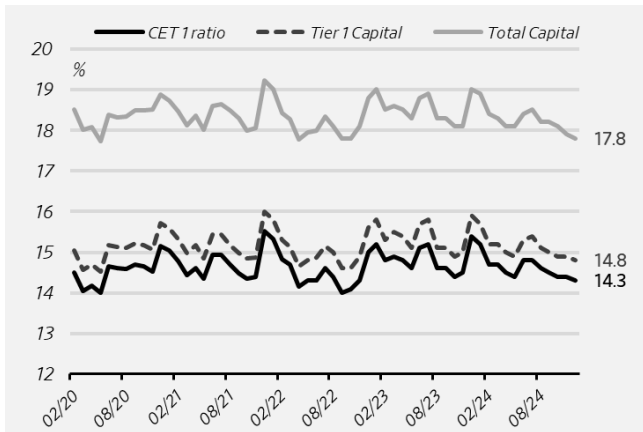
Source: BNM

Fig 40: Weighted avg Isl. FD rates by bracket



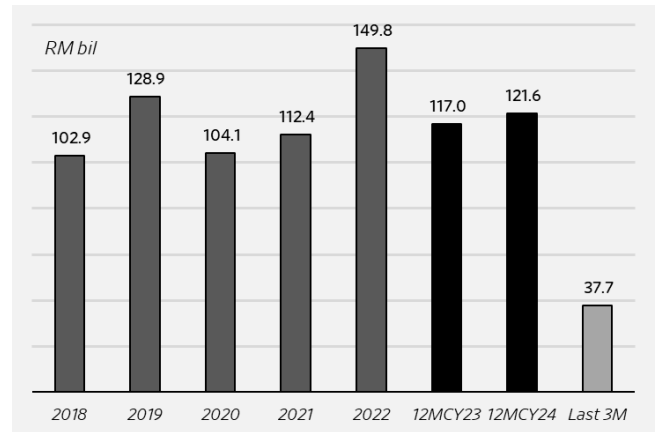
Source: BNM

Fig 41: Capital ratios



Source: BNM

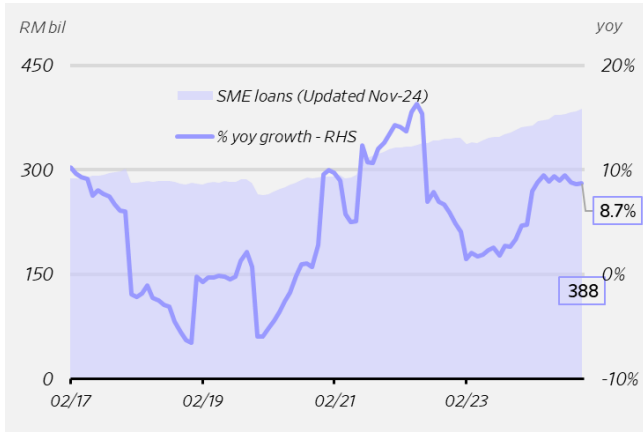
Fig 42: Bond/Sukuk issuances



Source: BNM

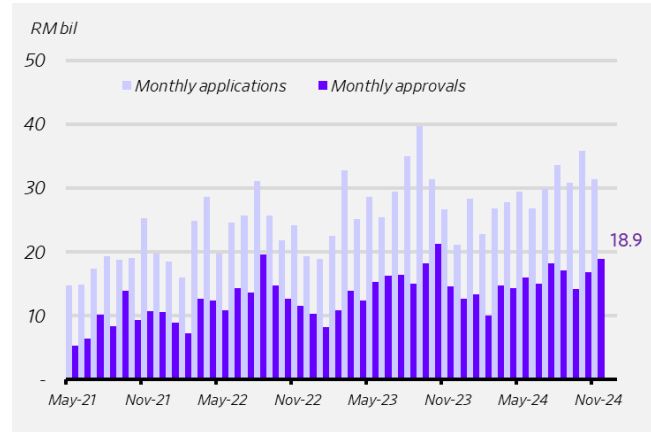
F. SME DATA

Fig 43: SME loans



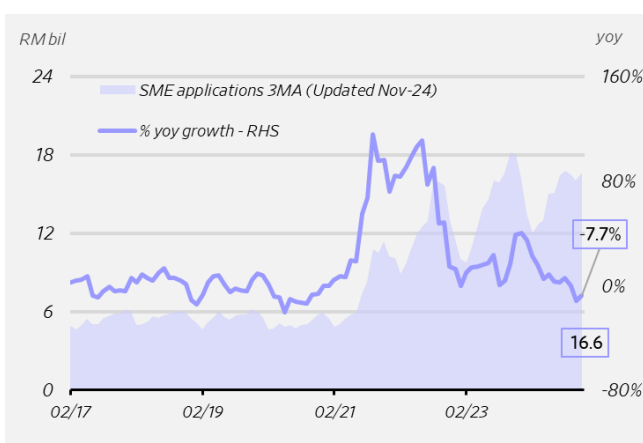
Source: BNM

Fig 44: SME Monthly leading indicators



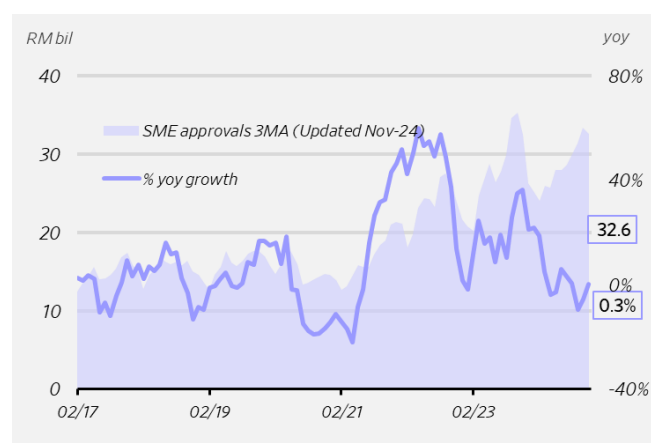
Source: BNM

Fig 45: SME applications (3-mth-average)



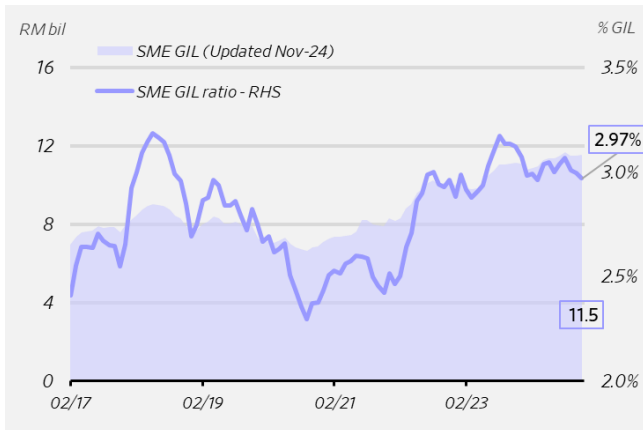
Source: BNM

Fig 46: SME approvals (3-mth-average)



Source: BNM

Fig 47: SME GILs



Source: BNM

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
