

SECTOR UPDATE

Banking – Malaysia

Loans Growth Momentum Continues

System loans growth traction continued to gain momentum, finishing 2021 with a relatively commendable 4.5% growth vs our initial 4.0% expectation. Our positive view on the sector is premised on: a) attractive valuations of -1SD to historical mean P/B, b) potential NIM upside surprise given early stages of interest rate upcycle, c) continued credit cost improvement well into 2023, and d) attractive sector 2022/23 average dividend yields of 5%. Maintain OVERWEIGHT. CIMB is our top sector pick.

WHAT'S NEW

- Loans growth continues to gain momentum.** Loans growth accelerated further to 4.5% in Dec 21 (Nov 21: 4.3%). The continued recovery in Dec 21 loans growth was underpinned by both household and business segments which registered growths of 4.3% (Nov 21: 4.1%) and 5.0% (Nov 21: 4.8%) respectively. Household loans growth was supported by residential property loans growth of 6.9%, while auto loans was flattish. Business loans growth was driven by stronger working capital of 7.4% (Nov 21: 7.3%). Overall system loans growth of 4.5% for 2021 came in at the upper end of our 4.0-4.5% estimates. The stronger economic growth outlook in 2022 could lend support to a continued loans growth traction where we now expect system 2022 loans growth to come in closer to 5.0% vs our initial estimates of 4.5%.
- Solid leading growth indicators.** Loans application expanded 27.9% yoy in Dec 21 (Nov 21: 21.5%) with strong growth across both household loans application (+25.4%) and business loans application (+32.4% yoy). Loans approval was up 27.0% yoy (Nov 21: 15.3% yoy) again fuelled by both household (24.8% yoy) and business (29.8% yoy).
- Ample liquidity.** Deposit growth continued to outstrip loans growth, coming in at 6.3% yoy vs loans growth of 4.5% yoy. This led to a further improvement in loans-to-deposit ratio to 86.1% in Dec 21 vs 86.5% in Nov 21. As such, deposit competition remained benign which was evident in a continued contraction in fixed deposit (-1.5% yoy) while CASA growth remained healthy at +10.9% yoy.
- Stable GIL ratio due to targeted assistance.** System gross impaired loans (GIL) ratio declined to 1.44% in Dec 21 (Nov 21: 1.47%) due to the masking effects of the ongoing loans moratorium. Given the front-loading of hefty pre-emptive provisions in 2020-21 coupled with the ongoing economic reopening, sector net credit cost is expected to continue declining to 45bp and 35bp in 2022 and 2023 respectively vs 65bp and 80bp in 2021 and 2020 respectively.

ACTIONS

- Maintain OVERWEIGHT.** We remain positive on the sector is premised on the following key reasons: a) the sector is still trading at a relatively attractive valuation of -1.0SD below its historical five-year mean P/B, b) the sector remains the best positioned to benefit from the rising interest rate cycle which is only at its early stages, providing positive surprises to NIM and c) hefty pre-emptive provisions coupled with the ongoing economic re-opening will lend support to continued improvement in provisions well into 2023 which will help fuel double-digit earnings growth.

PEER COMPARISON

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Market Cap (US\$m)	PE (x)			ROE 2021F (%)	P/B 2021F (x)	Div 2020F (sen)	Div Yield (%)
						2020	2021F	2022F				
Maybank	MAY MK	BUY	8.27	9.20	23,468	12.2	11.7	9.6	8.9	1.0	53.1	6.4
Public Bank	PBK MK	BUY	4.21	4.60	19,522	14.7	15.0	12.9	10.8	1.6	14.0	3.3
CIMB Group	CIMB MK	BUY	5.20	5.95	12,697	11.1	10.4	8.5	7.8	0.8	20.0	3.8
HL Bank	HLBK MK	BUY	19.40	22.30	10,046	14.1	13.3	10.9	10.0	1.3	51.1	2.6
RHB Bank	RHBBANK MK	BUY	5.56	6.90	5,503	7.8	7.8	6.7	9.7	0.7	31.9	5.7
HLFG	HLFG MK	BUY	18.20	20.75	4,979	9.2	9.6	8.1	9.2	0.9	38.1	2.1
Alliance Bank	ABMB MK	BUY	3.30	3.80	1,220	14.3	10.9	8.9	7.4	0.8	9.1	2.8
AMMB	AMM MK	HOLD	3.26	2.90	2,579	10.5	9.4	7.2	7.4	0.7	9.5	2.9
Bank Islam	BIMB MK	HOLD	3.15	3.02	1,622	10.2	10.3	8.8	8.8	0.9	12.2	3.9
Affin	ABANK MK	HOLD	1.78	1.80	903	8.2	8.3	7.2	4.3	0.3	6.5	3.6

Source: UOB Kay Hian

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Target Price (RM)	Share Price (RM)
Maybank	BUY	9.20	8.27
CIMB	BUY	5.95	5.20
RHB Bank	BUY	6.90	5.56
HL Bank	BUY	22.30	19.40
Public Bank	BUY	4.60	4.21
Alliance Bank	BUY	3.80	3.20

Source: UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % chg
Alliance Bank	3.30	33.1	15.4
Bank Islam	3.15	5.2	5.0
HLFG	18.20	11.2	5.0
HL Bank	19.40	12.4	4.2
RHB Bank	5.56	9.0	3.5
Affin	1.78	8.5	2.9
AMMB	3.26	5.8	2.8
Public Bank	4.21	0.5	1.2
Maybank	8.27	5.9	(0.4)

Source: Bloomberg

SUMMARY OF BANKING DATA

	yoy % chg		
	Oct 21	Nov 21	Dec 21
Loan Outstanding	3.3	4.3	4.5
- Business	2.9	4.7	4.9
- Household	3.7	4.1	4.3
Loan Applied	4.2	21.5	27.9
- Business	(8.1)	14.7	32.4
- Household	11.3	25.7	25.4
Loan Approved	2.2	15.3	27.0
- Business	13.9	17.8	29.8
- Household	(5.1)	13.6	24.8
Loan Disbursed	32.7	35.9	14.1
- Business	42.8	47.3	20.5
- Household	8.5	9.2	(2.2)
Loan Repaid	18.7	16.4	23.3
- Business	28.2	22.5	31.0
- Household	(5.8)	0.0	1.2
Impaired Loans	10.0	0.6	(4.0)
- Business	(2.4)	(2.9)	(5.5)
- Household	31.4	5.5	(1.8)

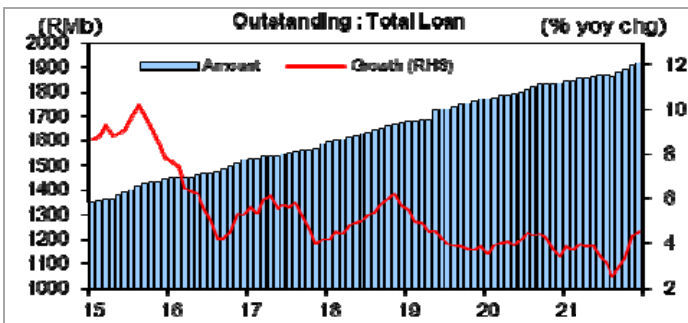
Source: BNM

ANALYST(S)

Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

- **Top picks:** As the recovery theme remains in its early stage, our top picks have skewed to the higher beta banking names with strong earnings recovery growth potential. In this respect, we continue to like CIMB and RHB Bank. As for Affin, we are maintaining our HOLD call as the monetisation of its asset management unit will be offset by the absence of an important group earnings contributor post disposal.

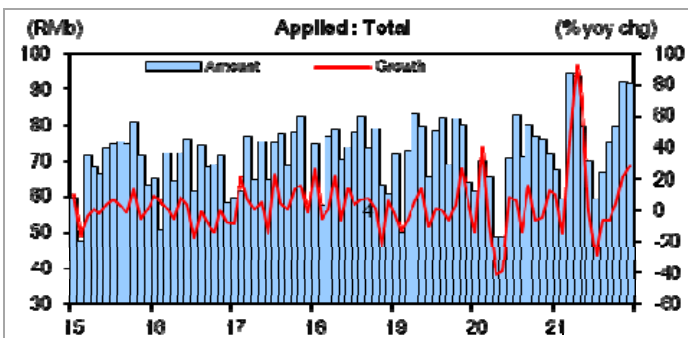
TOTAL OUTSTANDING LOANS



Source: BNM

- Loans growth accelerated further to 4.5% in Dec 21 (Nov 21: 4.3%).
- The continued recovery in Dec 21 loans growth was underpinned by both household and business segments which registered growths of 4.3% (Nov 21: 4.1%) and 5.0% (Nov 21: 4.8%) respectively.

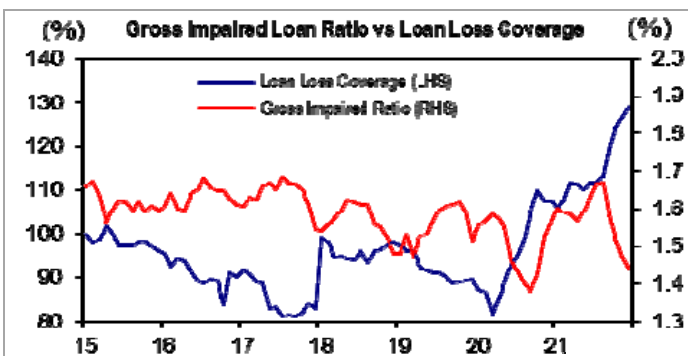
TOTAL LOAN APPLICATION



Source: BNM

- Loans application expanded 27.9% yoy in Dec 21 (Nov 21: 21.5%) with strong growth across both household loans application (+25.4%) and business loans application (+32.4% yoy).
- Loans approval was up 27.0% yoy (Nov 21: 15.3% yoy) again fuelled by both household (24.8% yoy) and business (29.8% yoy).

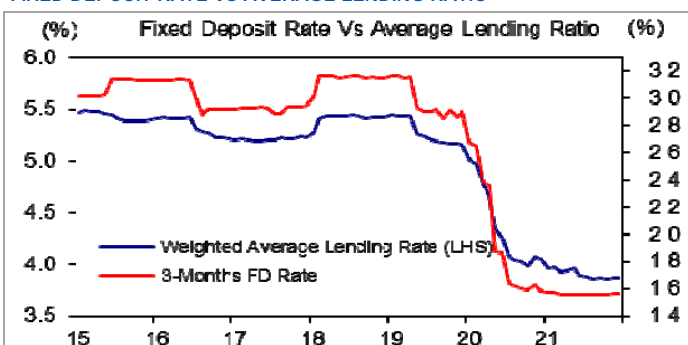
NET IMPAIRED LOAN RATIO VS LOAN LOSS COVERAGE



Source: BNM

- System gross impaired loans (GIL) ratio declined to 1.44% in Dec 21 (Nov 21: 1.47%) due to the masking effects of the ongoing loans moratorium.

FIXED DEPOSIT RATE VS AVERAGE LENDING RATIO



Source: BNM

- ALR remained relatively stable at 3.86% in Dec 21.
- We have pencilled in a single OPR cut in 2H2022 translating into a potential 1-2bp NIM expansion.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W