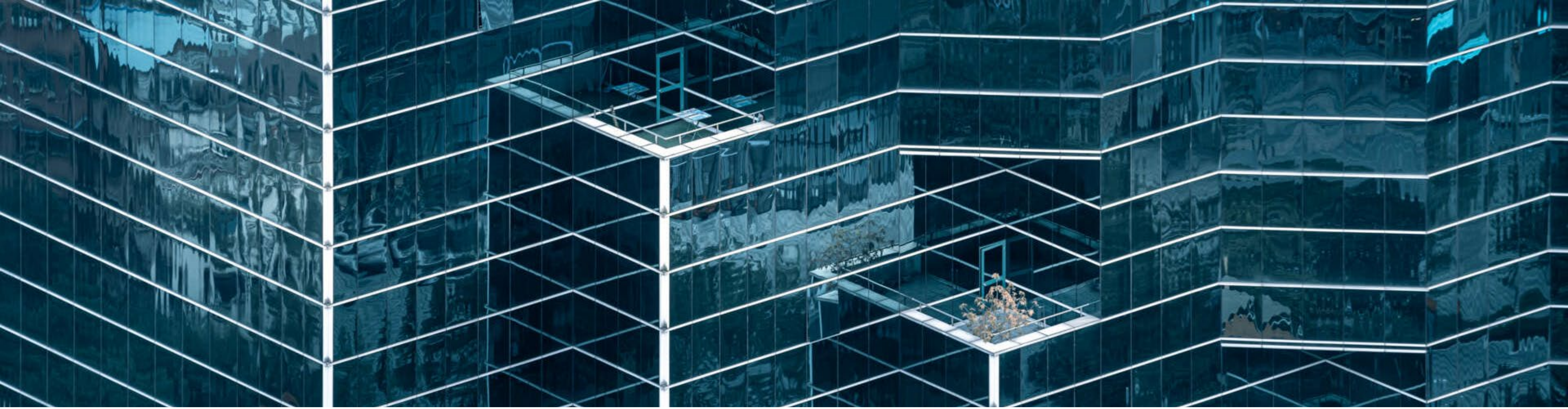


Malaysian Banking Sector Review

Standing Firm In The Face Of External Headwinds

Nikita Anand

April 22, 2024

S&P Global Ratings

This report does not constitute a rating action

Key Takeaways

- An increase in corporate demand, led by key infrastructure projects, may help push **credit growth** to **6%** in 2024 from **5%** in 2023.
- We expect **retail credit growth** to **remain strong**, and **funding and liquidity** conditions to **stabilize**.
- Strong labor market conditions and proactive write off policy should continue to help banks maintain low nonperforming loans ratios. **Restructured loans remain** manageable at **2.4%**.

Key Projections

Margins to **decline**
3-5 bps from year end

NPLs to remain **under 2%**

Credit costs will stay at **15-20 bps**

ROA to remain flat at **1.2%**

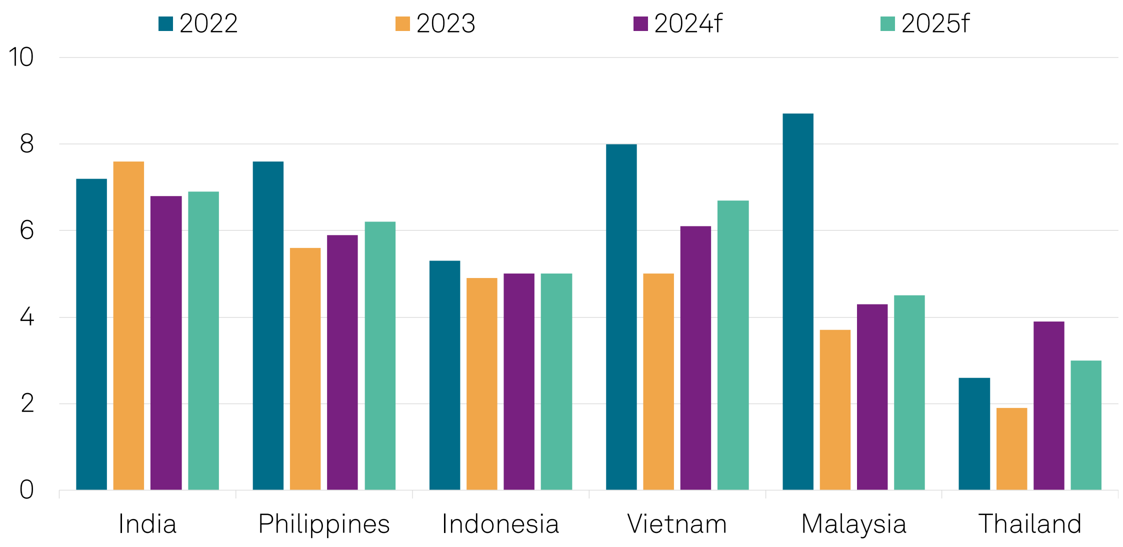
Bps--Basis points. NPLs--Nonperforming loans. ROA--Return on assets. Source: S&P Global Ratings.

Stable Economic Conditions Will Support Credit Demand

- Malaysia's economic growth is likely to improve slightly over the next two years. A slowdown in China will partly offset improving global trade and stable domestic demand.
- A pickup in corporate demand may help credit growth increase to 6%.

Malaysia's growth will improve slightly

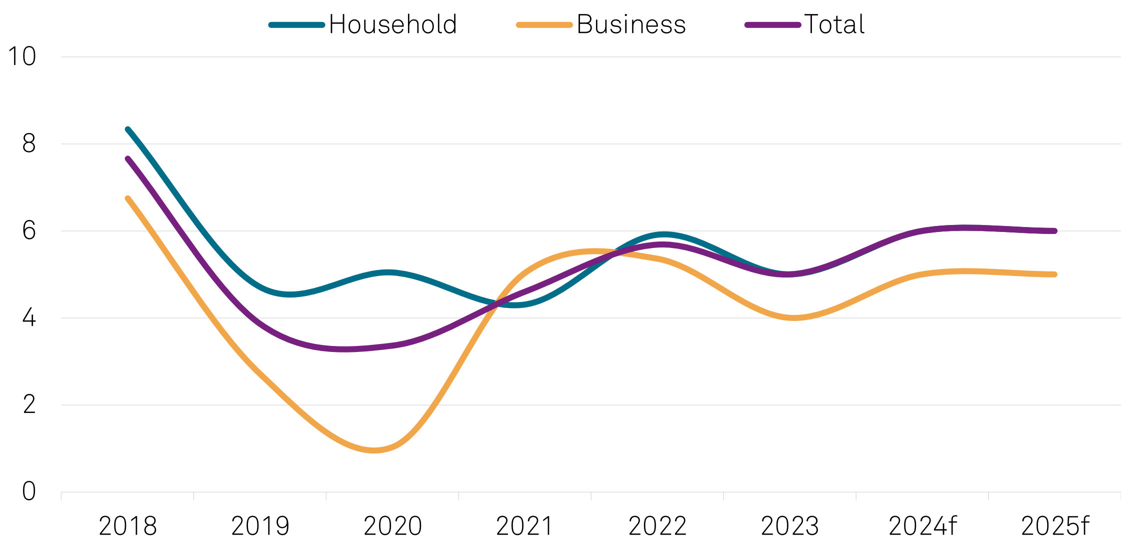
Real GDP growth (%)



f--Forecast. Source: S&P Global Ratings.

Retail credit growth should stay robust

Annual loan growth (%)



f--Forecast. Sources: BNM. S&P Global Ratings.

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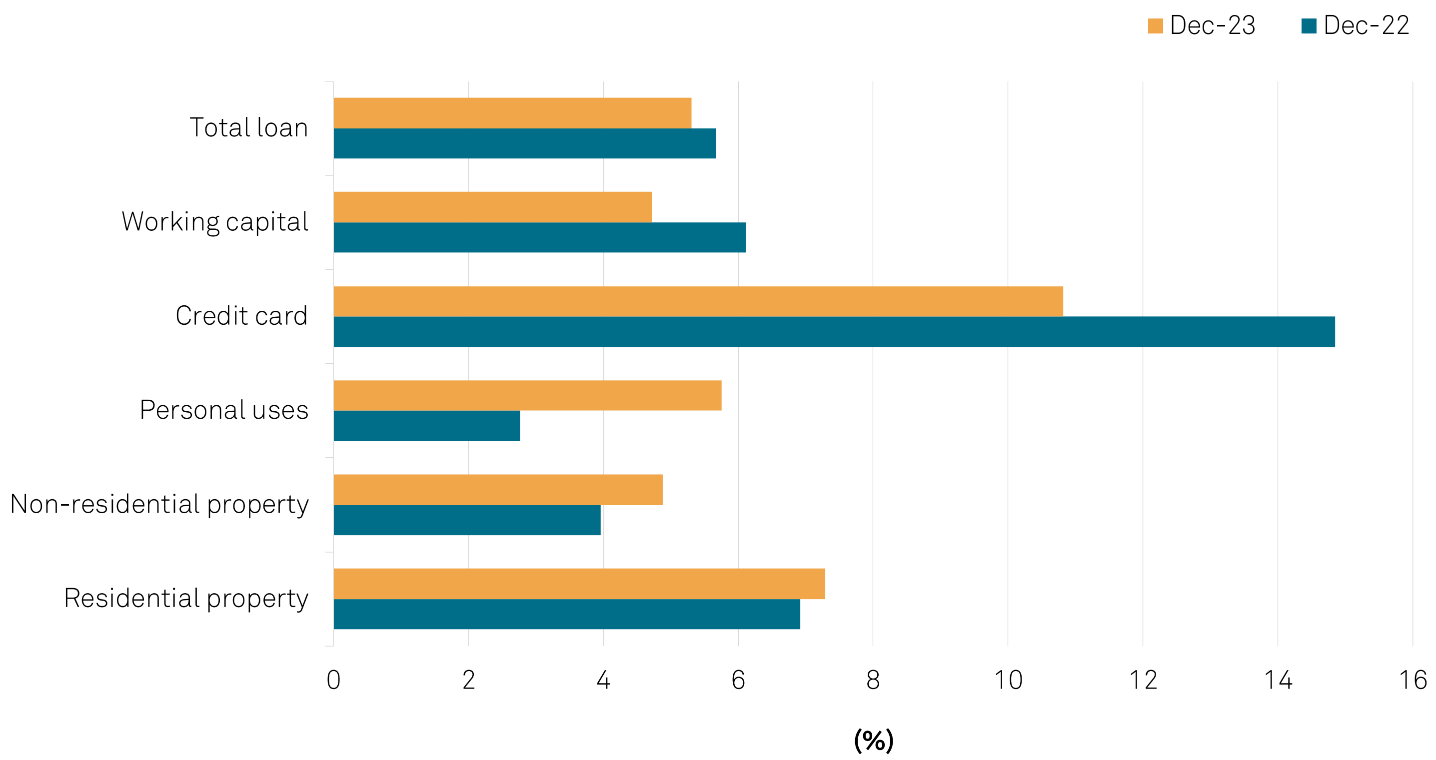
Corporate Credit Growth Could Revive

Infrastructure projects could prop up corporate sector growth

Working capital saw a slowdown in 2023

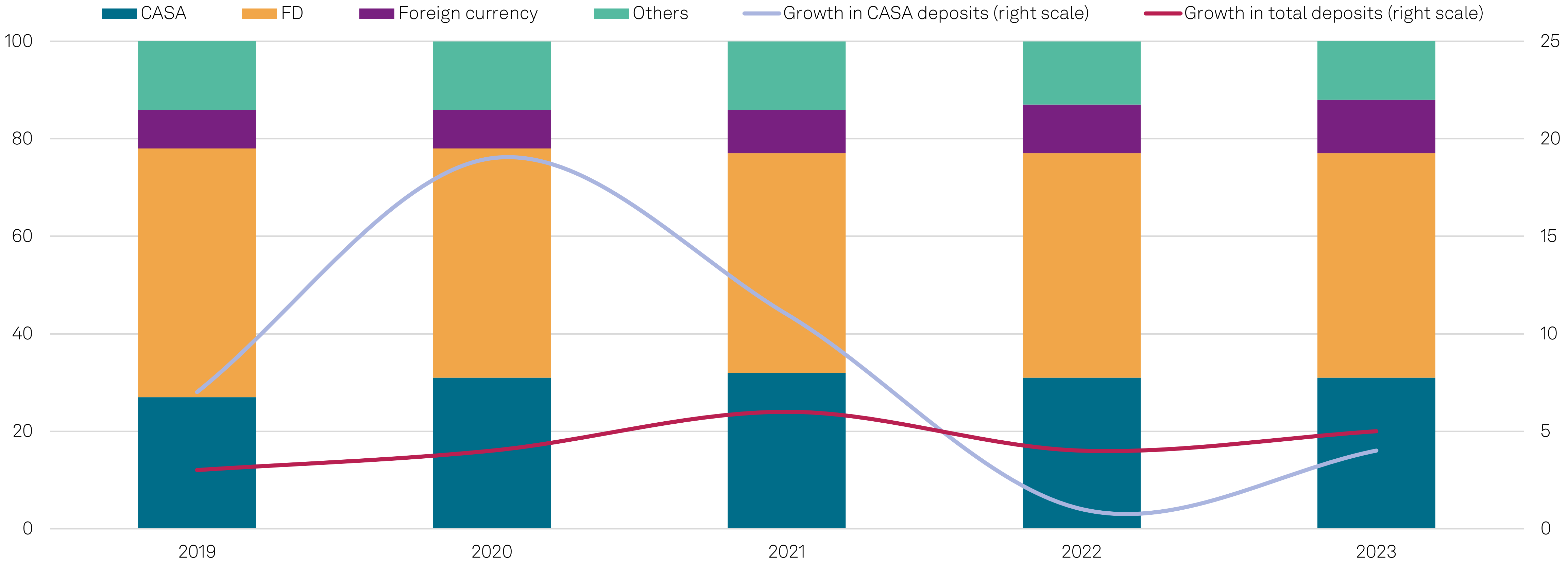


Source: BNM.

- Construction, agriculture, and trade drove a slowdown in corporate loans.
- Loan growth among large corporates was muted as they tapped the bond markets, given the narrowing bond spreads for high quality issuers.
- Retail growth was robust, with continued higher-than-average growth in unsecured loans (15.5% of total household loans).
- Growth in 2024 is likely to be broad based. Implementation of key infrastructure projects could revive corporate loan growth.

Funding And Liquidity Conditions Should Stabilize

High share of fixed deposits has led to rapid rise in funding costs and price competition for such deposits (%)



CASA--Current and savings accounts. It includes demand and savings deposits. FD--Fixed deposits including Tawarruq deposits. Sources: BNM. S&P Global Ratings.

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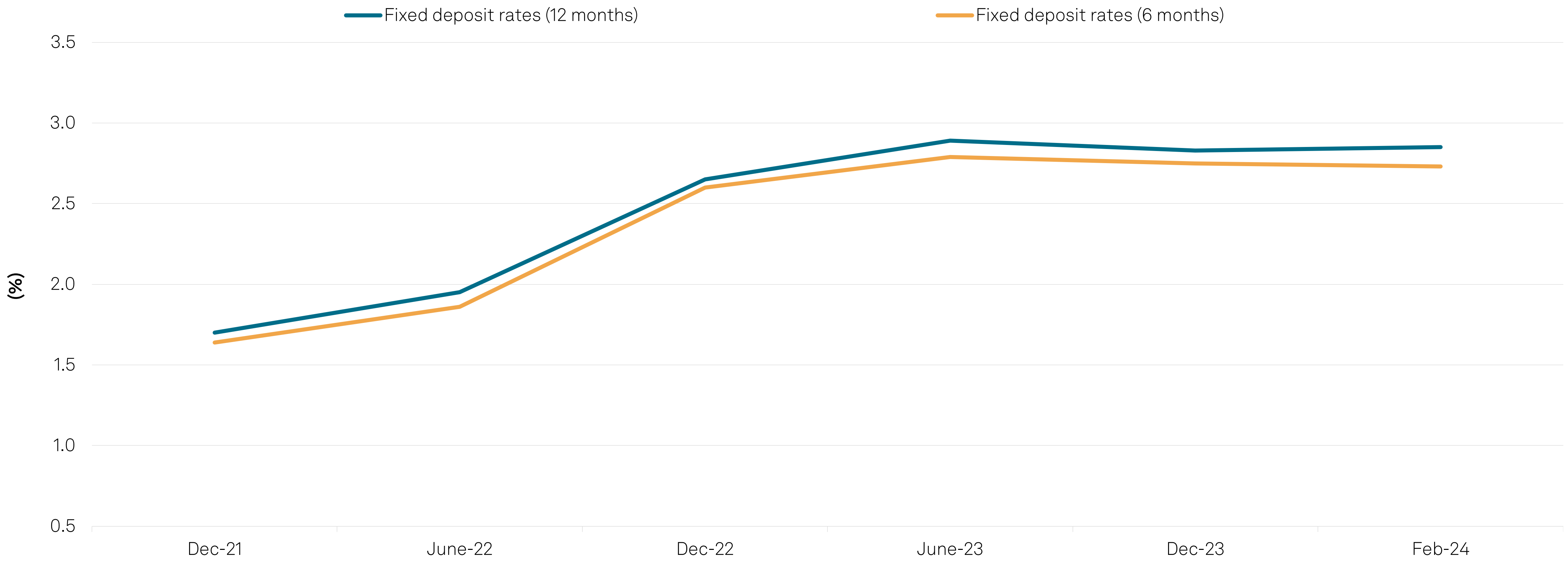
Deposit Price Competition Should Subside

Fixed deposit rates appear to have peaked

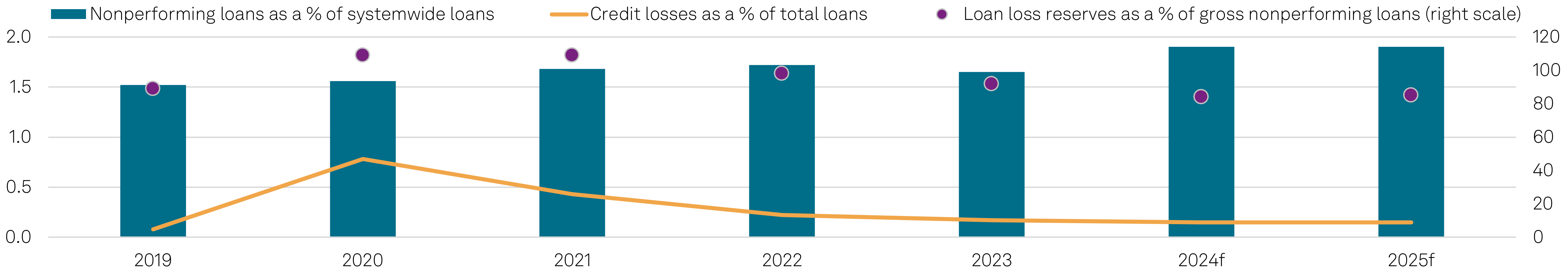


Sources: BNM. S&P Global Ratings.

Credit Losses To Stay Flat

- Strong labor market conditions and proactive write off policy should continue to help banks maintain low nonperforming loans (NPL) ratios. Restructured loans remain manageable at 2.4%.
- We expect a moderate 25-30 bps rise in NPLs. This could come from restructured loans, especially low-income households and small to midsize enterprises.
- Sustained currency depreciation could affect import-reliant sectors (manufacturing, construction, and agriculture).
- Credit costs should stay at 15-20 bps, similar levels to the pre-pandemic average, given adequate provisioning levels.

NPLs to rise modestly



f--Forecast. Sources: BNM. S&P Global Ratings.

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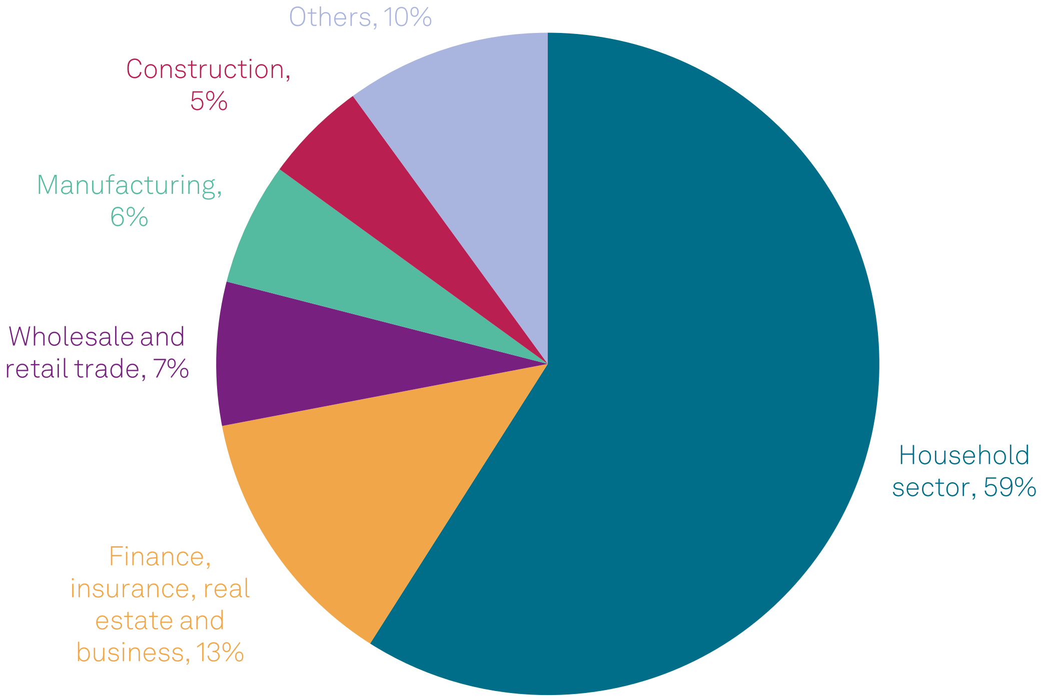
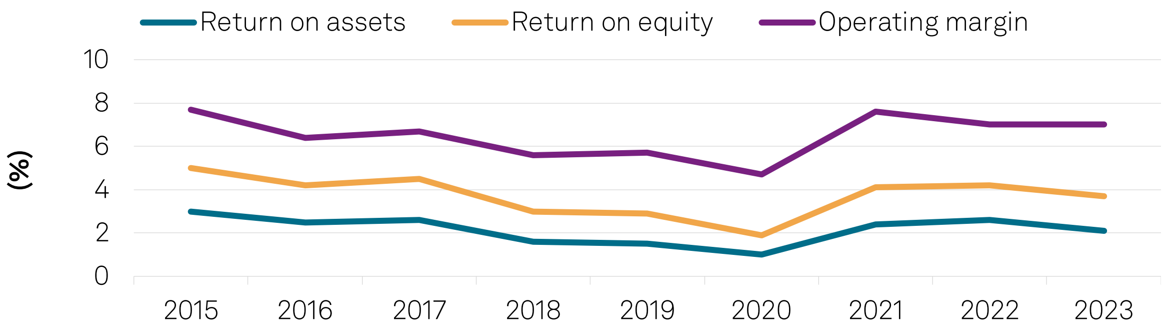
Corporate Sector Balance Sheets Are Robust

Corporate portfolio forms about 40% of total bank loans



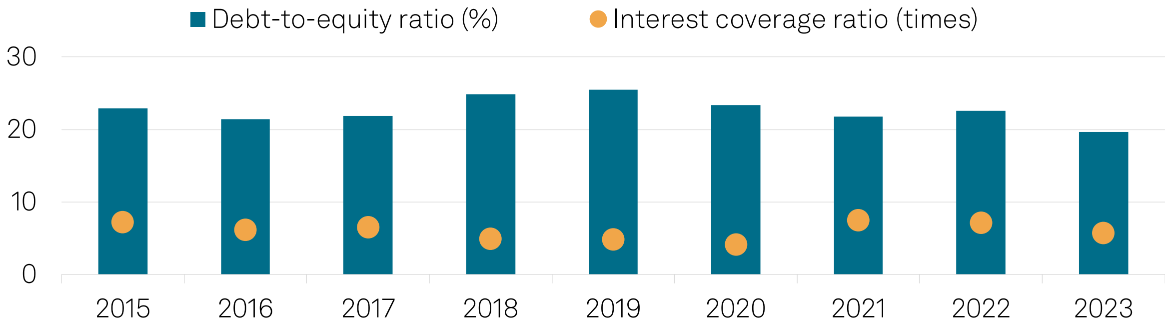
Data as of December 2023. Sources: BNM. S&P Global Ratings.

Corporate profitability to moderate with elevated input costs



Sources: BNM. S&P Global Ratings.

Interest coverage is healthy for Malaysian corporates



Sources: BNM. S&P Global Ratings.

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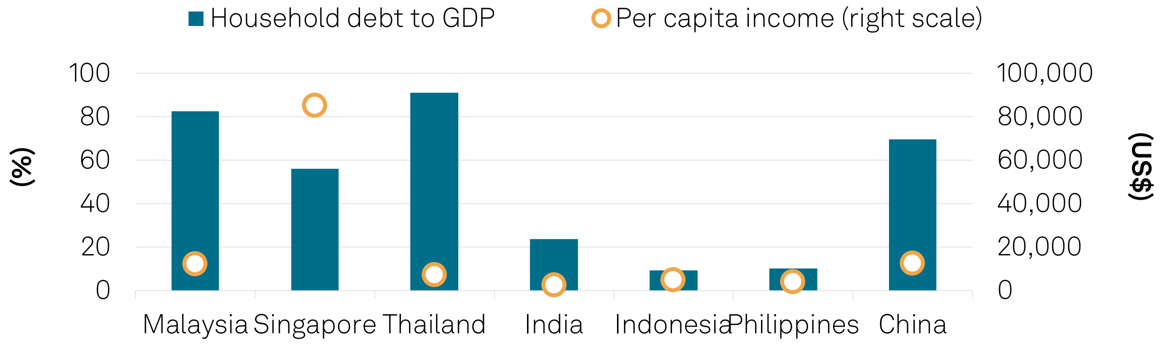
Stable Labor Markets And Financial Assets Support Household Sector

High household leverage poses some risk



Source: S&P Global Ratings.

Household sector NPLs stay low

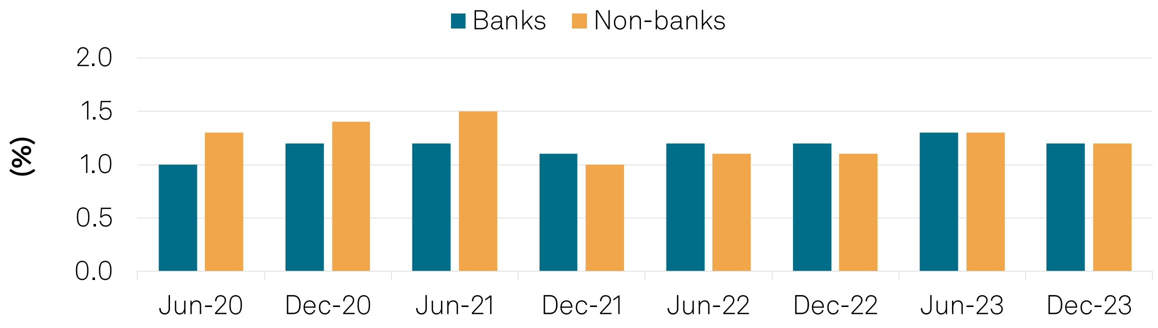
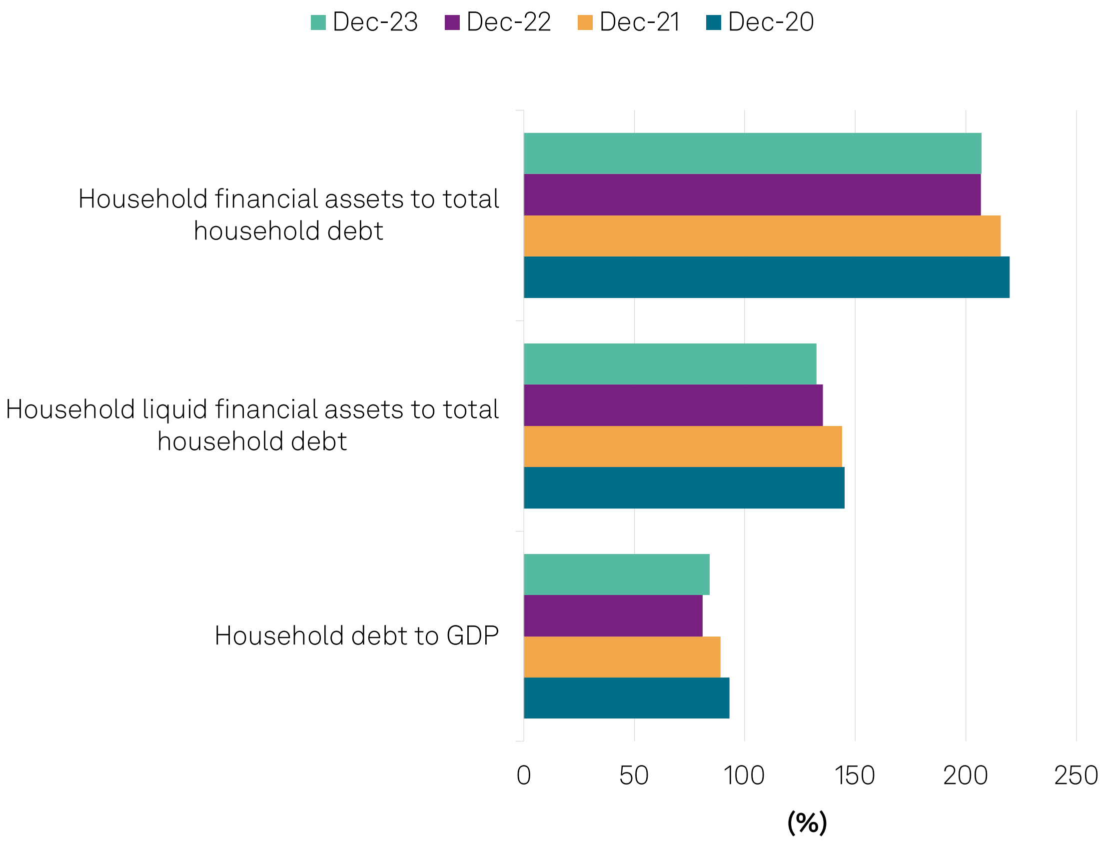


Chart reflects impaired loans ratio. Sources: BNM. S&P Global Ratings.

Household financial assets are more than 2x household debt

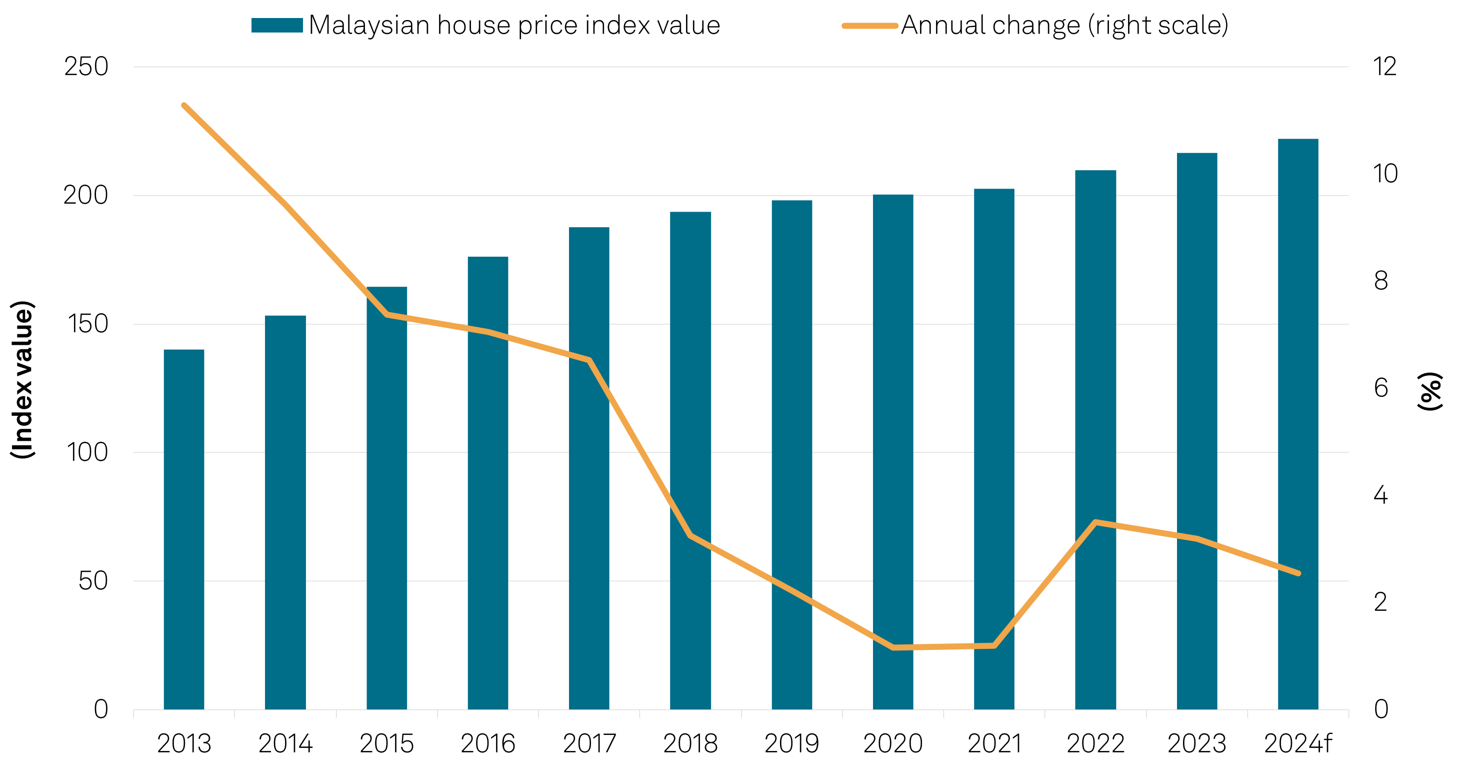


Sources: BNM. S&P Global Ratings.

The Moderate Growth In House Prices Contains Imbalances

Affordable mass market segment (RM500,000 and below) continue to drive housing demand

Malaysian house prices have steadily crept higher



RM--Malaysian ringgit. Sources: National Property Information Centre for 2010-2022. S&P Global Ratings.

- Domestic demand for residential properties will likely stay robust, particularly in the affordable housing segment. This reflects stable economic conditions and low unemployment.
- Stamp duty discounts should continue to sustain sales momentum.
- Unsold properties, especially at the higher end of the market, remain a challenge. Home-ownership campaigns can potentially help to clear some stock, but the process will remain gradual.

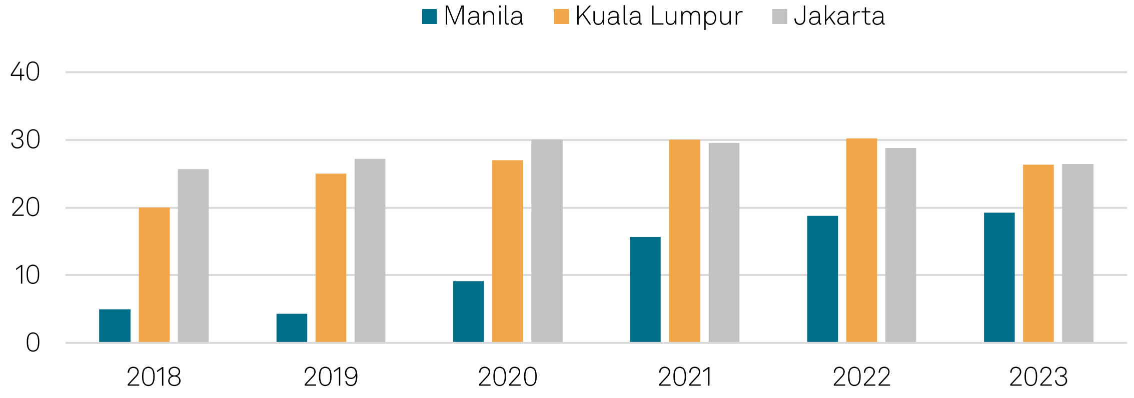
Commercial Real Estate Sector Continues To Grapple With Oversupply

CRE exposure is material but on a gradual declining trend

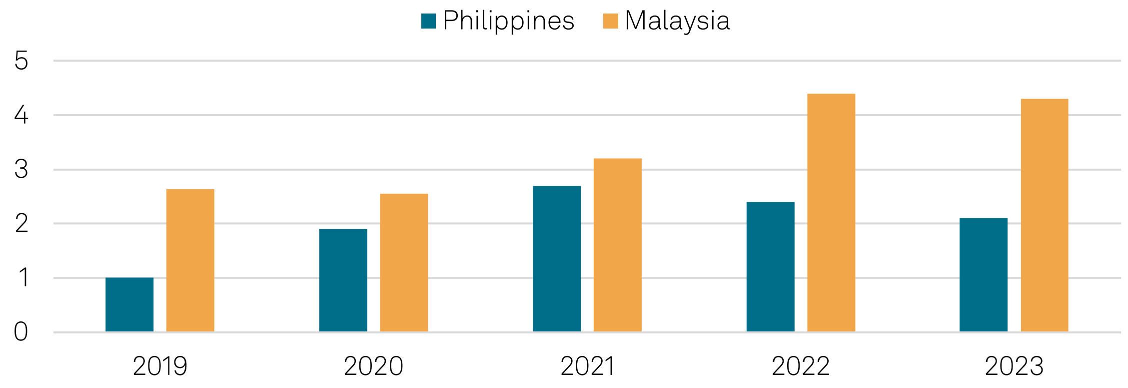
Real estate development and construction loans as % of total loans

CRE--Commercial real estate. Sources: Central bank data. Cushman and Wakefield. Colliers. S&P Global Ratings.

Office vacancy rates remain elevated (%)



CRE NPLs in Malaysia could rise further (%)



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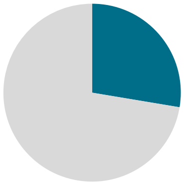
Currency Depreciation Risks Are Manageable

Foreign currency debt



27.9% of total non-financial corporate debt

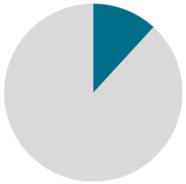
Corporates with unhedged external borrowings

1.8% of total non-financial corporate debt

Corporates with unhedged external borrowings

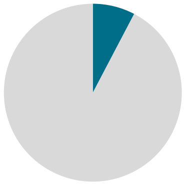
0.5% of banking sector loans

Sectors affected by higher import prices*



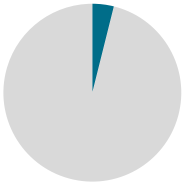
11.8% of total domestic banking loans

Banks' external debt



8.3% of total funding

Banks' foreign exchange net open position

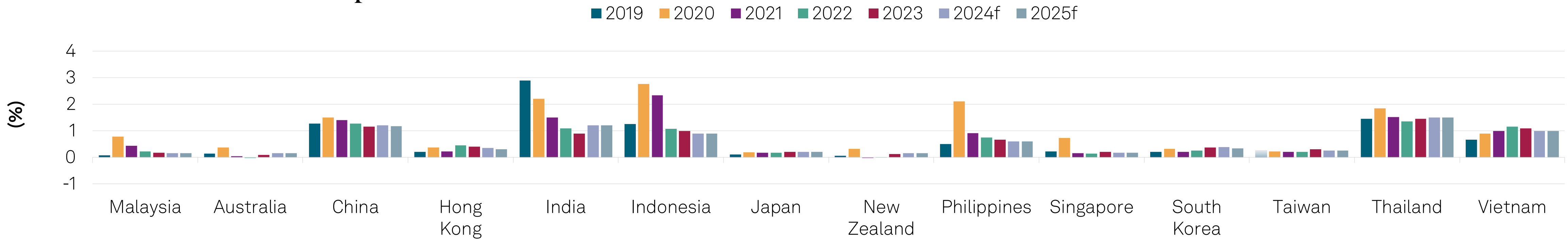


3.9% of total capital

*Manufacturing, construction, and agriculture sectors. Sources: BNM. S&P Global Ratings

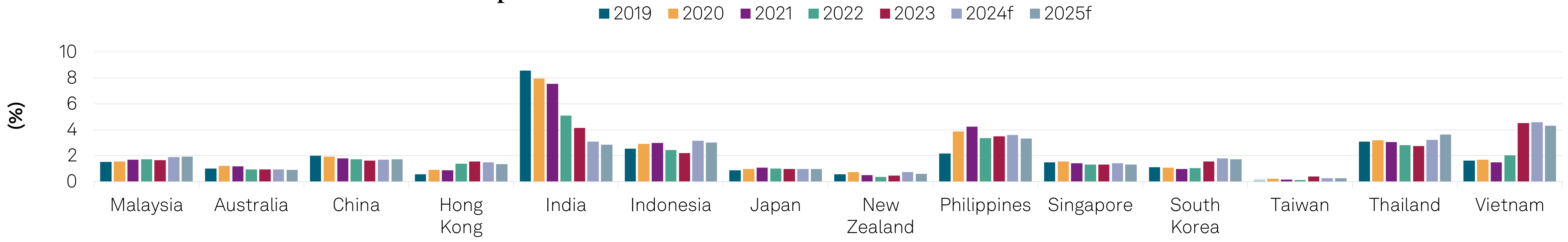
Asset Quality Of Malaysian Banks Will Stay Stronger Than Peers'

Credit losses are lower than peers'



Note: Credit losses as a % of gross customer loans. 2022 data is estimated in case of actual data not available. For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. Source: S&P Global Ratings.

NPLs are lower than most Asia-Pacific peers'

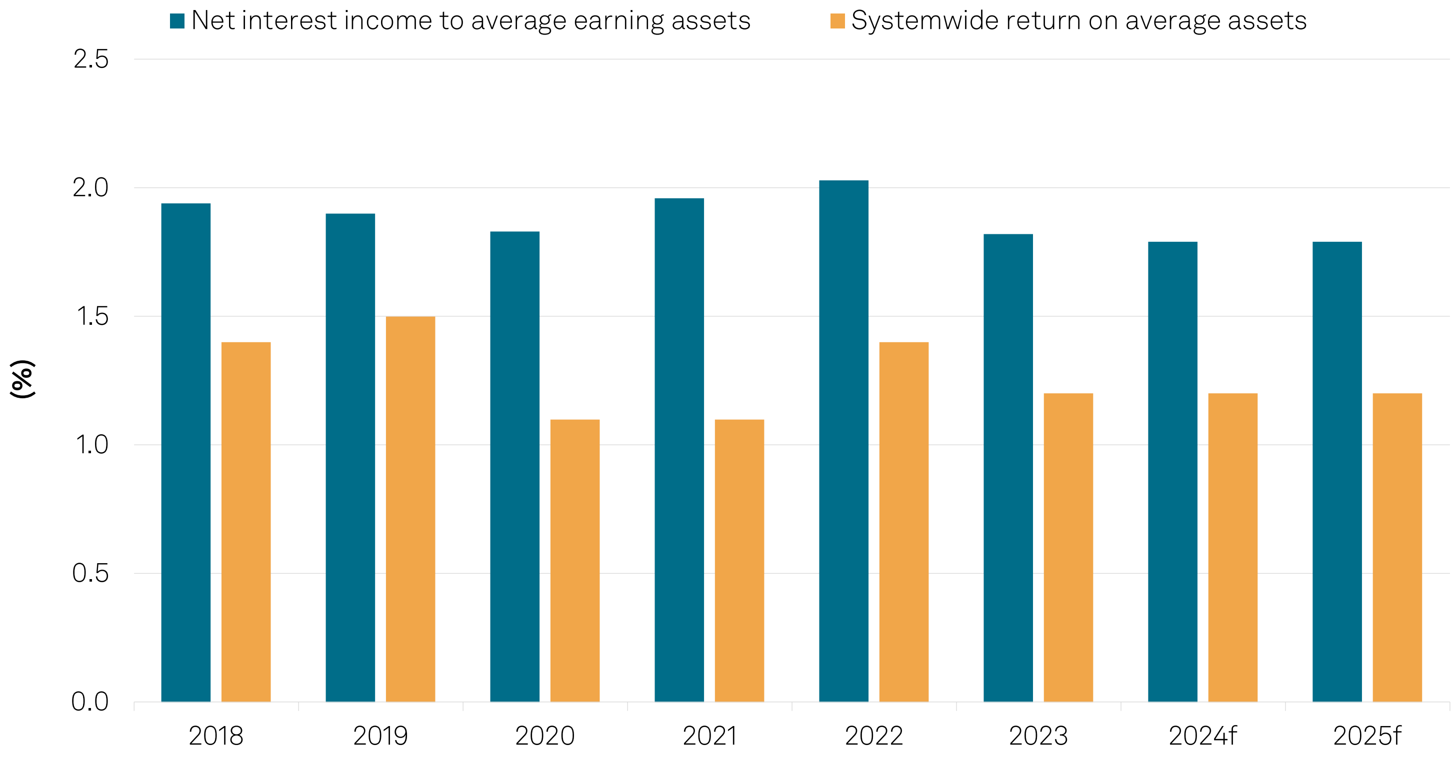


Nonperforming assets as a % of systemwide loans (year-end). For India and Japan, 2020 refers to fiscal year ended March 31, 2021. 2022 data is estimated in case of actual data not available. f--Forecast. Source: S&P Global Ratings.

Limited Upside To Profitability

Banking sector's profitability declined due to steep margin compression

Margins could continue to decline in 2024

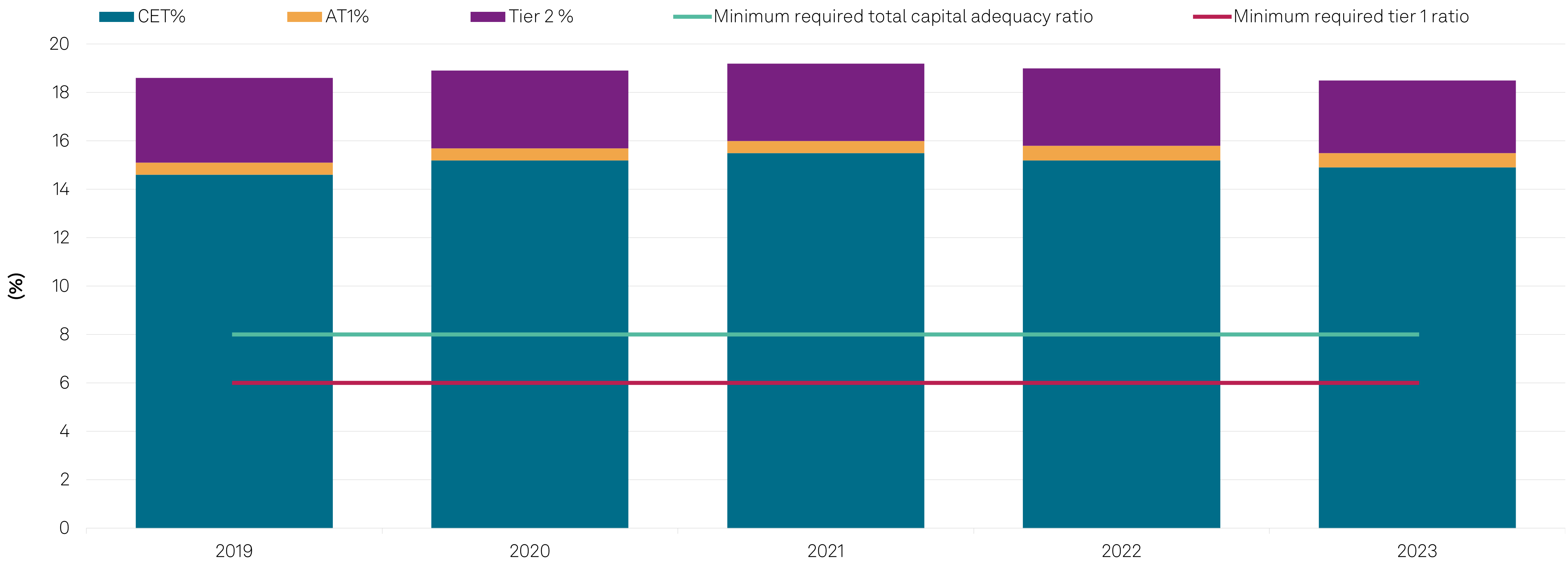


Sources: BNM. S&P Global Ratings.

- We think another 3-5 bps compression in margins is likely in 2024. This is because price competition for deposits could rise as credit growth picks up. We also note that competition in home loans is intensifying, putting pressure on margins.
- A potential 25 bps rate cut in the second half of 2024 could also translate to lower loan yields, given that most of the lending happens on a floating-rate basis.
- Higher credit growth and lower credit costs could offset margin pressure.
- Some large banks still maintain sizable pandemic-related provisions, which they could write back in 2024 especially if repayment trends remain promising.

Capital Position Is Healthy

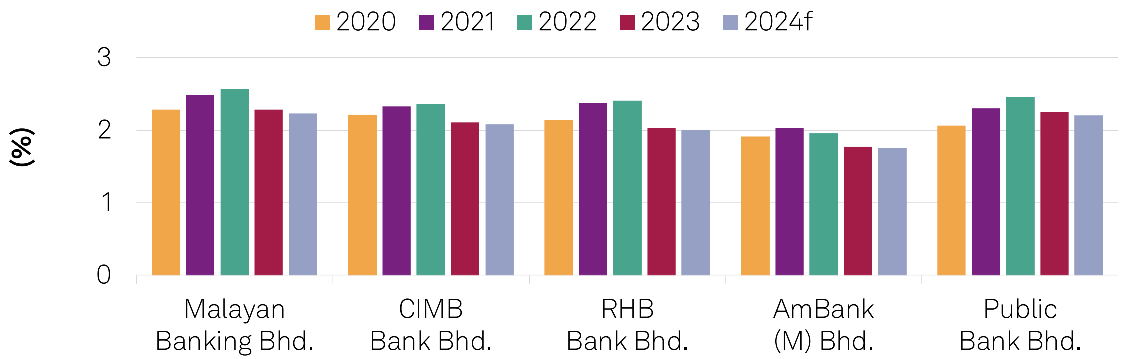
Moderate growth and dividends support capitalization



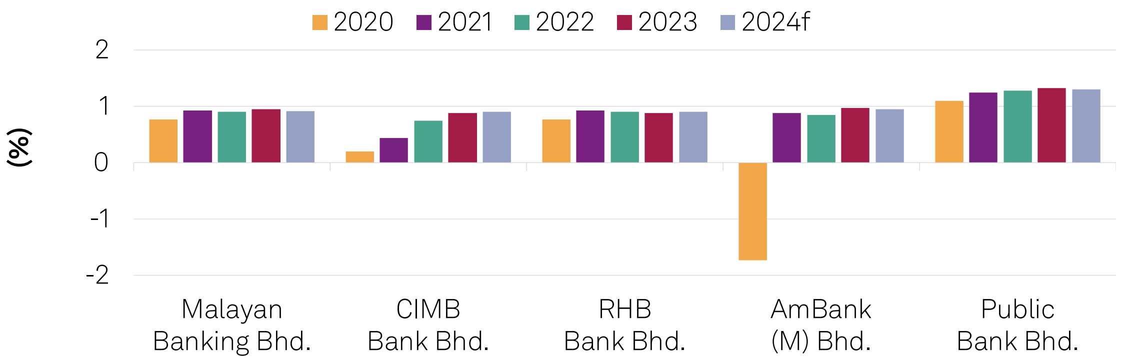
Source: BNM.

Rated Malaysian Banks Report Card

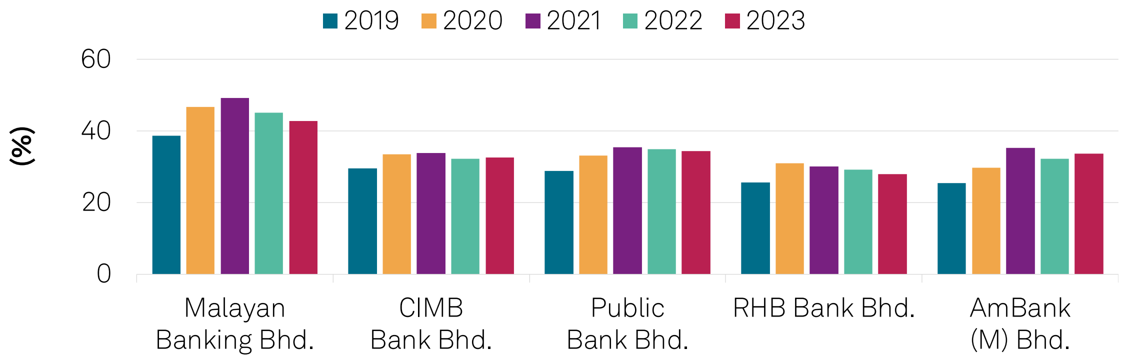
Margins have contracted due to higher deposit costs



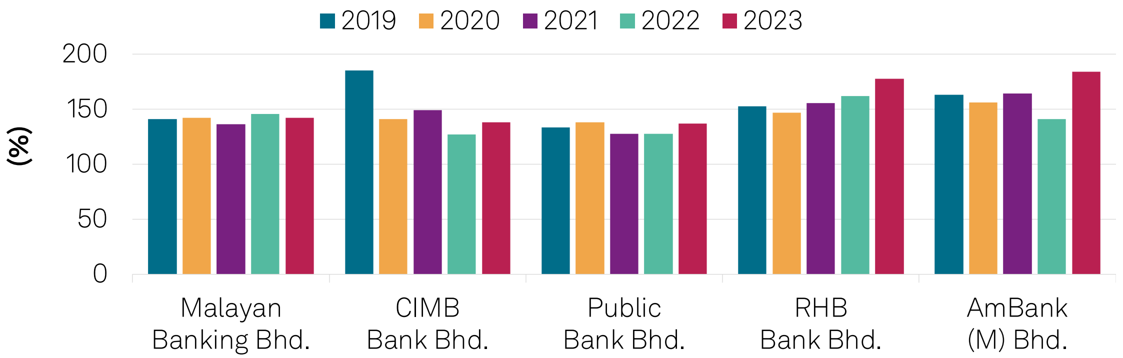
Profitability was flattish due to tax rate normalization



CASA ratios declining from high levels



Liquidity coverage ratios remain healthy

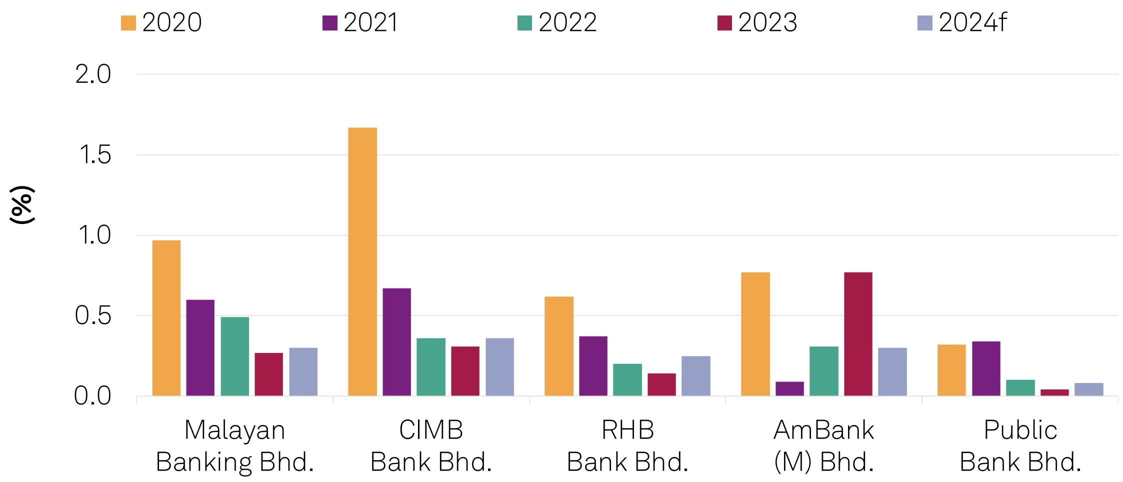


Current and savings account (CASA) ratios are for Malaysia operations. For RHB, CASA ratio is for the group. For AmBank, fiscal year ends March 31. Source: S&P Global Ratings.

Asset Quality Risks Are Contained For Rated Banks

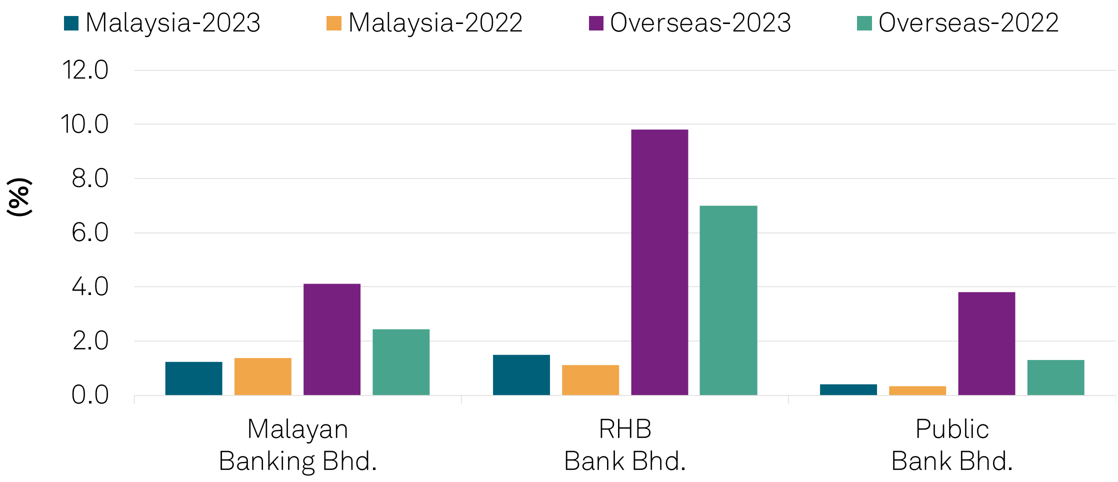
- Rated banks reported a moderate increase in NPLs in 2023 or an improvement due to proactive write-off policies. Overseas loans saw sharper increase in NPLs reflecting economic slowdown and property market weakness in Cambodia, Hong Kong and Vietnam.
- Credit costs for banks with higher exposure to markets with greater economic risk could stay elevated. However, the share of these portfolios remain small at 2%-5%.

Credit losses declined for most banks



For AmBank, fiscal year ends March 31. Source: S&P Global Ratings.

Overseas NPLs rose more sharply in 2023



Overseas refers to Cambodia loan portfolio for Maybank and RHB Bank and Hong Kong loan portfolio for Public Bank.
Sources: Bank financials. S&P Global Ratings.

Ratings Profile: Malaysian Banks

	Issuer credit rating/ outlook	Anchor	Business position	Capital & Earnings	Risk position	Funding and liquidity	SACP	Comparable rating analysis	No. of notches of support	Additional factor adjustment
AmBank (M) Bhd.	BBB+/ Stable	bbb	Adequate	Adequate	Adequate	Adequate/ Adequate	bbb	0	+1	0
CIMB Bank Bhd.	A-/ Stable	bbb	Strong	Adequate	Adequate	Strong/ Strong	a-	0	0	0
Malayan Banking Bhd.	A-/ Stable	bbb	Strong	Adequate	Adequate	Strong/ Strong	a-	0	0	0
Public Bank Bhd.	A-/ Stable	bbb	Strong	Strong	Strong	Strong/ Strong	a	-1	0	-1
RHB Bank Bhd.	BBB+/ Stable	bbb	Adequate	Adequate	Adequate	Adequate/ Adequate	bbb	0	+1	0

Data as of March 31, 2023. Source: S&P Global Ratings.

Asia-Pacific | Banking Industry And Country Risks Comparison

Country	BICRA group	Economic risk trend	Industry risk trend	Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	Systemwide funding
Australia	2	Stable	Stable	VL	H	L	VL	L	I
Bangladesh	9	Stable	Negative	VH	I	EH	EH	EH	I
Brunei	6	Stable	Stable	I	L	H	EH	I	L
Cambodia	9	Stable	Stable	VH	H	EH	EH	H	VH
China	6	Stable	Stable	I	H	VH	H	H	VL
Hong Kong	2	Stable	Stable	L	I	I	VL	L	VL
India	5	Stable	Stable	H	L	VH	H	H	L
Indonesia	6	Stable	Stable	H	L	VH	H	H	I
Japan	3	Stable	Stable	L	VL	I	I	H	VL
Korea	3	Stable	Stable	L	L	I	I	I	L
Macao	5	Stable	Stable	I	I	H	VH	I	L
Malaysia	4	Stable	Stable	H	L	H	I	H	L
Mongolia	9	Stable	Stable	VH	H	EH	EH	H	VH
New Zealand	4	Stable	Stable	VL	H	I	I	L	H
Philippines	5	Stable	Stable	VH	L	H	H	I	I
Singapore	2	Stable	Stable	VL	I	I	VL	L	L
Taiwan	4	Stable	Stable	L	L	I	I	VH	VL
Thailand	7	Stable	Stable	H	H	VH	VH	H	L
Vietnam	9	Stable	Stable	VH	H	EH	EH	VH	I

Positive economic or industry risk trend	Stable economic or industry risk trend	Negative economic or industry risk trend

Very low risk (VL)	Low risk (L)	Intermediate risk (I)	High risk (H)	Very high risk (VH)	Extremely high risk (EH)

We classify Malaysia's banking sector in group '4' under our Banking Industry Country Risk Assessment (BICRA). Economic and industry risk trends are on stable.

According to our methodology, BICRAs fall into groups from '1' to '10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10').

Data as of April 3, 2024.

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Related Research

- Economic Research: Economic Outlook Asia-Pacific Q2 2024: APAC Bides Its Time On Monetary Policy Easing, March 25, 2024
- Malaysian Bank Profitability To Hold Up Amid Margin Squeeze, Dec. 4, 2023
- Global Banks Country-By-Country Outlook 2024: Forewarned Is Forearmed, Nov. 16, 2023

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