

# Moratorium: “Cleaner slate” for banks to move forward

30 July 2020

KUALA LUMPUR, July 30 -- The targeted moratorium paves the way for banks to move ahead on a cleaner slate although it is difficult to gauge the adequacy of loan provisions or the need for higher expected credit losses at this juncture, said Kenanga Investment Bank Bhd.

“We believe these measures will serve to keep asset quality in check in the near term, visibility further out remains cloudy and thus, it is difficult to gauge the adequacy of loan provisions at this juncture.

“We also do not discount the possibility that these loans may also require higher expected credit loss (ECL) reserves, leading to upside risk to 2020 financial year credit cost guidance,” its chief financial advisor David Chong said in a research note entitled “Targeted Assistance for Affected Borrowers” today.

Overall, the announcement yesterday does not change the bank’s investment thesis for the sector and “neutral” sector call, it said.

Prime Minister Tan Sri Muhyiddin Yassin announced yesterday afternoon that banks will continue to assist borrowers post-Sept 30, 2020, but with a more focused and targeted approach catering to individuals and Small and Medium Enterprises (SMEs) that continue to be affected by the pandemic.

Likewise, Public Investment Bank also made a “neutral” call on the sector saying that it continues to have a positive bias given its lagging valuations relative to the broader market.

Banks will undoubtedly find the going tough in 2020 and possibly the first half of 2021 from the effects of interest rate cuts and asset quality degradation, it said.

“We expect the current low rate environment to spark credit expansion in the coming months however, on account of gradual economic recovery as it did in 2009/2010.

“Recovery also bodes well for repayment capabilities and, by extension, asset quality, and would also lead to interest rate normalisation, leading to margin expansions.

“These factors could possibly spark life over the medium term into a sector yet to recover to pre-COVID price levels, though near-term caution is suggested given economic uncertainties,” it said.

The financial impact of this latest extension will be less pronounced given the targeted nature of this current aid.

The initial moratorium was a blanket (and automatic) move involving all individuals and SMEs, and has been estimated by Finance Minister Tengku Datuk Seri Zafrul Aziz to hit the banking sector to the tune of about RM6.4 billion.

“While we can’t be certain how many have had their salaries cut during this particular period, the incremental number of unemployed up to May 2020 only totals 318,000 as per the Department of Statistics data,” it added.

As of July 20, the deferred loan/financing repayments under the moratorium are estimated to have reached RM59 billion, benefiting some 7.7 million Malaysians, comprising 93 per cent of individual borrowers.

AmlInvestment Bank Bhd believes the impact of the targeted assistance to be significantly lower on banks’ earnings than the modification loss in the second quarter of 2020 (Q2 2020) from the earlier automatic loan moratorium.

However, it said, banks would need to set aside additional provisioning for the loans under rescheduling and restructuring (R&R) facilities for the targeted assistance (management overlay).

"Provisions from the management overlay, coupled with that for macro overlay (changes in macro variables), are anticipated to cause banks’ credit costs to remain elevated," it said.

The research house said there remains pressure on interest margins in the second half of 2020 as it expects another Overnight Policy Rate (OPR) cut of 25 basis points to reduce the benchmark interest rate to 1.50 per cent.

"We are also concerned about upticks in impairments of loans after the moratorium," it added.

At 11.05 am, five out of six of the banking stocks listed on the benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) were in the red, while the Financial Services Index on Bursa Malaysia fell 85.22 points to 13,251.28.

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