

Lacklustre outlook for Malaysian banks

It cut its earnings forecast for banks this year by an average of 23 per cent and expects non-performing loans to rise.

"Our earnings cuts are primarily predicated on higher credit costs and net interest margin squeeze from a potential 75 basis point Overnight Policy Rate (OPR) cut," Julian Chua and two other banking analysts wrote in a report yesterday.

Citi downgraded its recommendation on shares of Bumiputra-Commerce Holdings, RHB Capital and Hong Leong Bank to "sell" from "buy" previously; and maintained "sell" calls on Malayan Banking (Maybank) and Public Bank.

It, however, likes AMMB Holding as, unlike most other banks, it stands to benefit from lower interest rates.

This is because more than half of its loans, or 56 per cent, are fixed-rate loans and so, any lowering of interest rates in response to the weakening economy would be positive for AMMB.

It has a "buy" call on AMMB shares, with a target price of RM3.11. The stock ended unchanged at RM2.53 yesterday.

Citi said consumer loans will be a greater risk for domestic banks, with unemployment expected to rise sharply over the next three to four quarters. Mortgages account for 27 per cent of consumer loans, followed by vehicle loans (14 per cent) and credit cards and personal loans (7 per cent).

Meanwhile, it said Maybank, Public and RHB Capital could very well consider raising funds to shore up their capital this year. This may involve equity issues to the tune of RM10 billion.