Banking

NEUTRAL (Maintain)

Consumer Credit Bill: Towards Twin Peaks

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HIGHLIGHTS

- **Purpose: Sharing some highlights from our recent sharing session with the Consumer Credit Oversight Board Task Force on the proposed Consumer Credit Bill**
- **The intention is to impose tighter regulation on the rapidly growing non-bank lending industry, which typically deals with borrowers of lower credit-worthiness**
- **Impact: Zero to minimal impact on banks. But non-bank lenders such as Aeon Credit (Not rated), ELK-DESA (Not rated) and RCE Capital (Not rated) could see some of the new regulations as being restrictive to profit-generating ability**
- **Maintain NEUTRAL call: The banking sector serves as a viable haven. Given the lack of industry-wide tailwinds, we advocate a bottom-up approach to stock selection, preferring defensive picks**

Our Verdict	**The weaker global economic outlook still sours the outlook of banking fundamentals, though conditions have improved over the last month. Valuations remain attractive but we do not foresee a meaningful rebound until more convincing signs of improvement in the global economic and geopolitical situation are seen.**
Core Themes	1. ▲ Dividend yields remain especially attractive. 2. ► Mixed view on retail loans: Hire purchase and unsecured loans may take centre stage, but their viability is limited. 3. ► NOII outlook is muted, especially on fee income side. 4. ► NIM outlook is less optimistic, particularly on loan yield side. 5. ▼ Expect higher provisioning costs and lower likelihood of large overlay writebacks. 6. ▼ Poor business loan growth outlook – especially in the already overcompetitive SME/Commercial segment. 7. ▼ Geopolitical risks and poor economic outlook to keep valuations depressed in near future.

MIDF recently hosted a sharing session with Assistant Governor, Abu Hassan Alshari Yahaya, Head of the Consumer Credit Oversight Board (CCOB) Task Force. Insights on the Consumer Credit Bill and Buy Now Pay Later (BNPL) Development in Malaysia were shared. The CCOB Task Force, led by the Ministry of Finance, BNM and SC, is driving the Consumer Credit Bill (CCB) and preparing to establish the Consumer Credit Commission.

What is the Consumer Credit Bill (CCB) and what purpose does it serve? The CCB introduces a comprehensive framework aimed at strengthening the credit landscape in Malaysia, largely focusing on non-bank lenders. Currently, a large proportion of credit providers and credit service providers are not regulated under any law. The rise in consumer credit in Malaysia has brought about a host of challenges, including rising levels of indebtedness, predatory lending practices, and insufficient consumer understanding of credit terms.

COMPANY *IN FOCUS*

Public Bank

Maintain BUY | Target Price: RM4.77
Price @ 15 May 2025: RM4.51

- Defensive pick, given its excellent asset quality and NCC.
- The group is always retail-led, hence less dependent on business loans.
- Solid dividend yields, with payout expected to increase over time.

SHARE PRICE CHART



HL Bank

Maintain BUY | Target Price: RM22.10
Price @ 15 May 2025: RM20.28

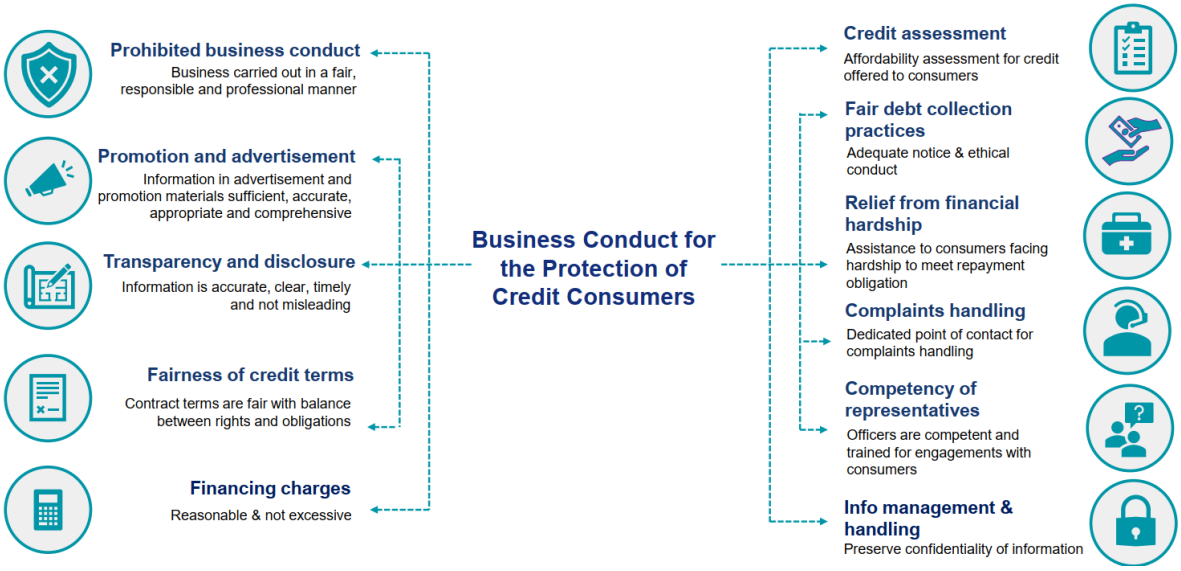
- Defensive pick.
- We see an extremely high rate of income growth being maintained.
- Rising dividend yields expected.

SHARE PRICE CHART



The CCB aims to promote and regulate non-bank credit providers, a fast-growing industry. Non-bank credit providers deal with borrowers of lower creditworthiness, usually with individuals and businesses that do not meet the tight underwriting standards of banks. The lack of standard business practices and regulations imposed on non-bank credit providers allows them to implement more predatory lending practices on a more vulnerable population subset. CCB intends to rectify this: Closing the gap between the "wild-west" regulatory landscape of non-bank credit providers with the risk-averse, highly scrutinised nature of banks.

FIG 1: Conduct Regulations for the Protection of Credit Consumers

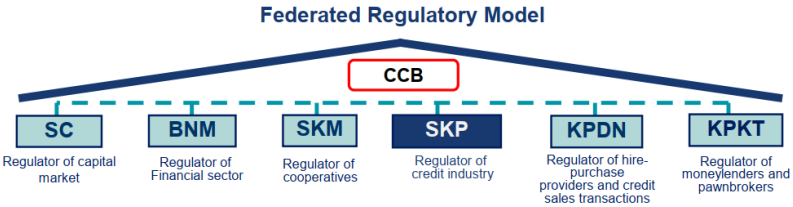


Source: CCOB, MIDFR

A multi-phase approach. Implementation of CCB will happen throughout 3 phases, beginning from 2025. Banks will only start getting involved in Phase 3, which takes place post-2030.

The intention is to implement a Twin Peaks Model of financial regulation. A Twin Peaks Model is characterised by having separate regulators for prudential supervision and market conduct, as both these functions can sometimes be in tension. Countries such as the UK (Bank of England and Financial Conduct Authority) and Australia (Reserve Bank of Australia and Australian Securities and Investment Commission) have already implemented this model. Currently, Malaysia does not function this way, with BNM performing both duties.

FIG 2: CCB's proposed structure



- **In phase 1, the SKP will be set up to regulate credit businesses and credit service businesses** that are unregulated by any authority.
- **CCB as an overarching Act** is applicable to all Regulatory and Supervisory Authorities (RSA) to promote effective & consistent standards of protection for credit consumers.
  - RSA are encouraged to align their regulations on credit consumer protection to the standards proposed by SKP
  - CCB empowers RSAs with wide supervision and enforcement capabilities to address breaches of conduct by their regulatees
  - CCB empowers RSAs to issue guidelines including on new financing products such as Islamic financing and Islamic pawnbroking
  - Complementary to the CCB, the Hire Purchase Act 1967 will be modernised to align with current operating conditions and regulatory developments

Source: CCOB, MIDFR

FIG 3: Phase 1 (2025-2027)

SKP will regulate **credit providers and credit service providers that are currently unregulated** by any authority as follows:

Credit Provider	Credit Service Provider
• Buy Now Pay Later (BNPL) • Factoring • Leasing	• Impaired loan buyers • Debt collection agencies[1] • Debt counselling and management agencies

- Under the CCB, **the regulations for Shariah-compliant financing and pawn broking (Ar-Rahnu) will be carried out by KPKT.**
- **KPDN is seeking to amend several provisions of the Hire Purchase Act 1967 [*Act 212*]** to be fairer and more equitable to consumers, as well as to facilitate the acceptance of digitalisation in hire purchase activities.

Source: CCOB, MIDFR

FIG 4: Phase 2 (2028-2030)

- Transfer of regulatory function of consumer credit activities under KPDN and KPKT to SKP.

KPDN	KPKT
• Hire Purchase • Islamic Hire Purchase • Credit Sales • Repossession agents	• Moneylenders • Shariah-compliant financing providers • Pawnbrokers • Islamic Pawnbrokers (Ar-Rahnu)

Source: CCOB, MIDFR

FIG 5: Phase 3 (Beyond 2030)

- Centralisation of conduct regulation for financial market activities in Malaysia. However, this matter is still being studied.

Source: CCOB, MIDFR

This bill will largely affect non-bank lenders, while banks to see zero to minimal impact. We expect this to negatively affect non-bank lenders such as **Aeon Credit (Not rated), RCE Capital (Not rated),** and **ELK-DESA (Not rated).** While one of the CCB's core aims is to promote non-bank credit, limitations brought about by conduct regulations should negatively impact these companies, as restrictions on recovery methods, advertising, and financing charges will affect the bottom line.

On the other hand, we don't expect much impact on Malaysian banks. BNM already has already been very diligent in enforcing fair and responsible market practices of banks for quite some time. Any impact will only take place in Phase 3 (Beyond 2030).

Maintain NEUTRAL call. (Our comprehensive list of sector drivers is on the first page.)

Top downside risks include:

1. Economic downturn reduces growth prospects.
2. Worse-than-expected asset quality deterioration.

Top Picks: Public Bank (BUY, TP: RM4.77) and **HL Bank (BUY, TP: RM22.10).**

PEER COMPARISON

Bank	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
MAY	NEUTRAL	10.10	10.20	1.0	121.8	11.7	11.5	1.3	1.2	10.9	10.7	6.8	6.9
CIMB	BUY	7.16	8.10	13.1	76.6	9.9	9.7	1.1	1.0	11.0	10.8	5.5	5.6
PBK	BUY	4.51	4.77	5.8	87.5	11.9	11.3	1.4	1.4	12.4	12.3	4.5	4.9
RHB	NEUTRAL	6.69	6.70	0.1	28.6	9.3	8.8	0.8	0.8	9.3	9.5	6.3	6.6
HLBK	BUY	20.28	22.10	9.0	41.6	9.5	9.2	1.0	1.0	11.3	10.8	3.7	3.8
AMMB	NEUTRAL	5.50	5.33	-3.1	18.2	9.3	9.3	0.9	0.8	9.8	9.3	4.5	4.9
BIMB	NEUTRAL	2.46	2.43	-1.2	5.5	9.5	9.1	0.7	0.7	7.7	7.8	6.3	6.5
AFFIN	NEUTRAL	2.67	2.46	-7.7	6.7	11.2	10.5	0.6	0.5	5.0	5.1	2.7	2.8
ABMB	NEUTRAL	4.43	4.57	3.2	6.9	9.1	9.0	0.9	0.8	10.1	9.6	4.4	4.5
Simple avg (ex-HLFG)						**10.2**	**9.8**	**1.0**	**0.9**	**9.7**	**9.6**	**5.0**	**5.2**
Weighted avg (ex-HLFG)						**10.8**	**10.5**	**1.2**	**1.1**	**11.0**	**10.8**	**5.4**	**5.6**

**Closing prices from 15 May 2025.*

Source: MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology