MARC: Corporate loan growth slowing down

Firms being cautious, focusing on firming balance sheets

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KUALA LUMPUR: Corporate loan growth is slowing down, a signal that companies are taking a more cautious outlook, focusing instead on measures to strengthen their balance sheets.

"The pace of growth in borrowings has come down," said Malaysian Rating Corp Bhd (MARC) chief rating officer Rajan Paramesran.

"Historically, in 2013, it was growing at double digits and now it is at 5%. So the pace of growth has tapered down," he said at a press conference yesterday.

He said this bodes well for overall credit profiles of the companies involved.

Some of these companies, he said, had also taken active measures to strengthen their balance sheets including through asset monetisation, asset sales, equity divestments, corporate restructuring and rights issuance.

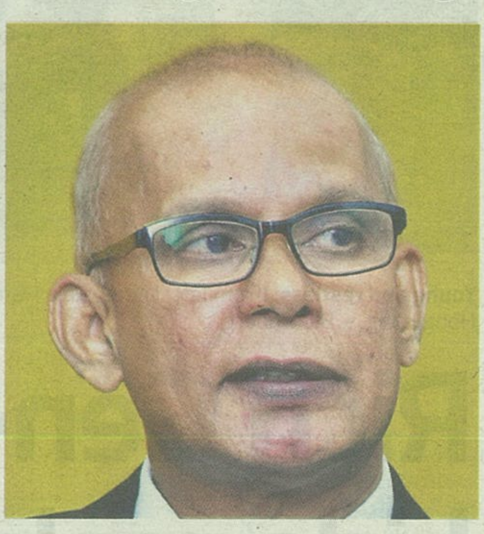
Meanwhile, he said industries with improving growth prospects moving forward included the palm oil, infrastructure and construction, and power.

"Crude palm oil price could sustain at around RM2,600 per tonne while the scale of the government-initiated projects will sustain interest in the infrastructure and construction sectors.

"And the power sector is due to the steady electricity demand and improving reserve margins, and new projects that are being announced bodes well for this sector," Rajan said.

On the other end of the spectrum, Rajan said sectors that were considered challenging included oil and gas, high-end property and automotive industries.

"The build-up in inventory and higher regulatory guidelines will continue to bear on the high-end property sector. In the automotive space, the decline in prices of foreign makes will continue to affect the sales performance of domestic cars. Weak consumer sentiments and tighter lending guidelines will also affect sales," he said.



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He said the automotive industry faced a double-digit drop in sales in 2016 due to declines in loan application and approval rates, adding that there was also increased price competition.

"The oil and gas sector is still challenging. In MARC's universe of companies, some companies are facing uncertainties in the replenishment of their order book.

"The performance of some of our companies are affected by impairment charges against the backdrop of replenishment of contracts. Liquidity is key for firms that are currently facing cash burn and debt obligations," Rajan added.

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Nor Zahidi Alias

On the outlook for the ringgit, MARC chief economist Nor Zahidi Alias said the local currency has so far weakened by some 15% against the country's major trading partners compared to 2010. "At this level, the probability of it going up is higher than the probability of it going down further.

"If it is against the US dollar, we have seen the strength of the US dollar, that is why we are dwindling at 4.4-4.5 against the US dollar.

"There is a high chance that the ringgit could strengthen to 4-4.2 per US dollar in the near future if trends change," he said.

In its statement, MARC said that from a sovereign rating perspective, many of Malaysia's median marcoeconomic parameters remained well in line with its single-A peers.

"These include Malaysia's real gross domestic product (GDP) growth, per capita GDP in PPP (purchasing power parity) terms and the amount of gross international reserves in US dollar terms.

"But there is room for improvement in terms of the country's current account balance, government revenue and debt levels," Marc said.