

# Cash calls by banks to slow down in 2016

Analysts say banks have sufficient capital buffers under Basel III

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**PETALING JAYA:** The momentum for cash calls by banks are expected to slow down by next year after a flurry of capital raising exercises over the past three years.

Although the move to shore up capital would depend on various factors like the strength of the economy, growth and expansion plans of banking groups, analysts felt the pace of capital raising would be slower next year as banks have sufficient capital buffers under the Basel III ruling.

CIMB Research analyst Winson Ng said there was no need for the smaller banking groups like AMMB Holdings Bhd, Alliance Financial Group, Affin Holdings Bhd and BMB Holdings Bhd to issue fresh equity capital as their common equity Tier 1 (CET-1) capital ratios were above the 11% level.

However, he did not discount the possibility of capital raising by these smaller banking groups as the health of the financial sector was still under the purview of Bank Negara.

"Even if the smaller banks come to the market for a cash call, the magnitude will be smaller compared with the bigger banks which have either completed or announced capital raising.

"On this score, we think that the momentum of the fund-raising spree in the banking sector will subside from next year onwards, if it does not dissipate completely. So, the dilution on banks' earnings per share from equity capital-raising will be smaller from 2016 onwards compared to that in 2012-14," Ng said.

The research house recently upgraded Malaysian banks from "underweight" to "overweight" premised on attractive valuations and better earnings growth for next year.

Concurring with Ng, AllianceDBS Research in responding to queries from *StarBiz* said it did not expect any more major capital raising activities for banks that are trading above the industry average CET-1 level of 11% (post-rights issue for the banks that are still pending on their rights issue).

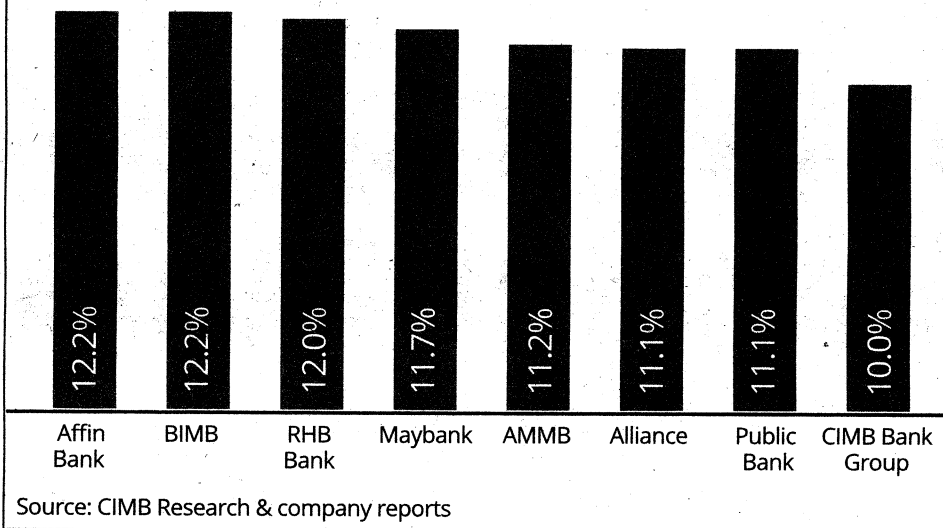
"The minimum CET-1 ratio set by Bank Negara for the Basel III ruling is 4.5% as of 2015. Based on rules that will apply by 2019, the minimum will be 7%. If we were to include the counter cyclical buffer of 2.5%, the minimum ratio will then be 9.5% by 2019," it added.

RAM Ratings co-head of financial institution ratings Wong Yin Ching expected equity raising exercises to taper off given that most of the larger banking groups had either completed or are already in the middle of the capital-raising exercise.

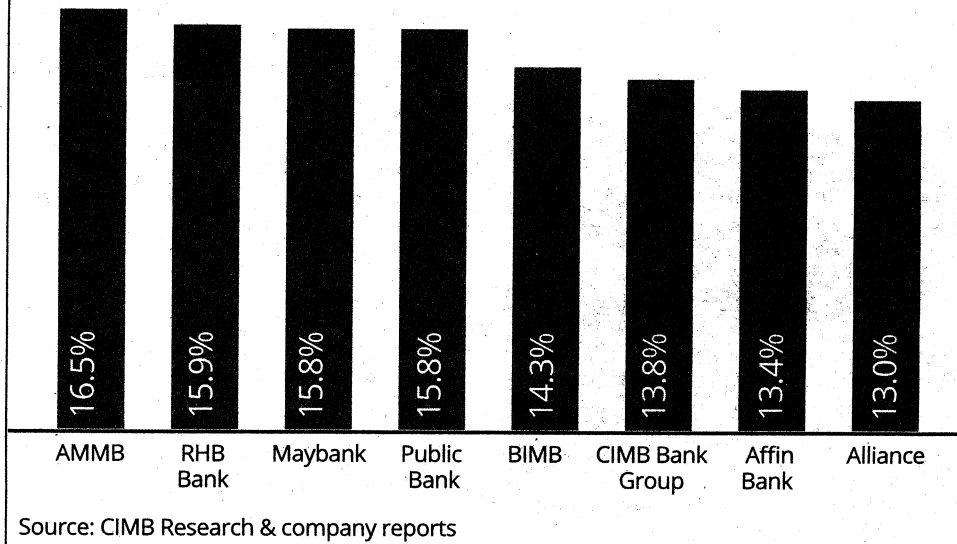
Dividend reinvestment plans had also proven to be an effective capital management tool for some of these big banks, she said, adding that the smaller domestic banks generally have robust capitalisation ratios and do not require capital calls.

Wong said: "Malaysian banks' capitalisation is healthy. Although the capitalisation indicators are lower relative to regional peers, they are viewed to be sound from the

## Banks' CET-1 capital ratios as of end-June



## Banks' total capital ratios as of end-June



perspective of the system's low gross impaired loan ratio of 1.6% and almost full reserve coverage (i.e. loan loss reserve coverage at close to 100%) as of end-September.

"Malaysian banks' profit performance is likely to be more muted next year, in line with the slower loan growth projections and continued margin compression. Nonetheless, we have reiterated our stable outlook on the Malaysian banking industry. Banks' credit fundamentals are anticipated to remain intact despite the more challenging environment, on account of their healthy loan quality metrics and capitalisation."

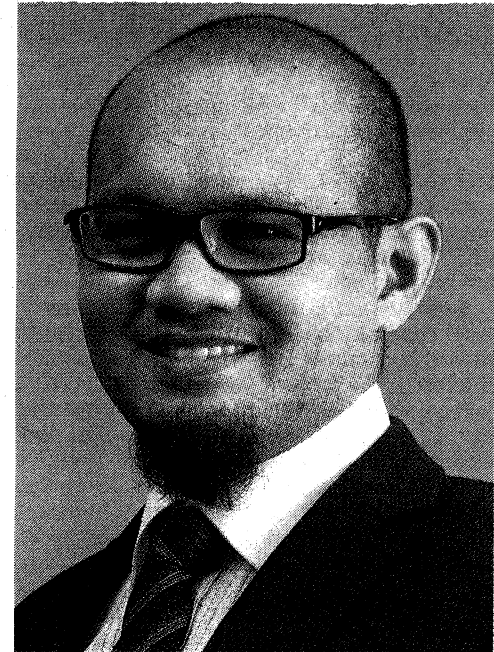
Malaysian banks started embracing the Basel III accord in January 2013 and the deadline for its full compliance is in 2019. So far the top three lenders in terms of assets –

Malayan Banking Bhd (Maybank), CIMB Group Holdings Bhd and Public Bank Bhd had completed their capital raising exercise.

Based on CIMB Research latest note this month, post its capital raising exercises, Maybank, CIMB Group and Public Bank's CET-1 capital ratios as at end-June this year stood at 11.7%, 10% and 11% respectively (see tables).

Maybank had completed a RM3.7bil cash call in October 2012 via a private placement while Public Bank carried out a RM4.8bil rights issue in August last year as well as CIMB undertook a RM3.6bil private placement early last year.

This year, the country's fourth and fifth largest banks – RHB Capital Bhd and Hong Leong Bank Bhd – had announced their equi-



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ty capital raising plans.

Nomura Research estimates RHB Capital's proposed RM2.5bil rights issue would take its CET-1 ratio to above 11% while Hong Leong Bank's cash call of about RM3bil would raise its CET-1 ratio to nearly 12% from 9.5% currently.

The CET-1 is the measurement of a bank's core equity capital compared with its total risk-weighted assets and illustrates a bank's financial strength.

Meanwhile, Malaysian Rating Corp Bhd head of banking Sharidan Salleh felt that the pace of capital raising would continue next year as had been in recent years given the need to replace their non-Basel III-complaint instruments which currently stood at about 10% to 20% of total capital base.

The route, however, he said would be through the debt market.

"Banks are required to gradually phase-out their non-Basel III instruments by 10% each year until 2019 to comply with the central bank's capital adequacy framework. But for equity capital, we see less pressure on banks to raise equity capital next year as the banking system's CET-1 remained strong at 12.1% at end-September (2015). In the last three years, banks have raised equities via right issues, dividend reinvestments as well as private placements which have supported their core capital position," he noted.

Sharidan said the rating agency was maintaining a stable outlook on the banking system mainly due its strong capital position which would mitigate asset quality concerns. With the banking system's CET-1 of 12.1% and total capital adequacy ratio of 14.8%, there is strong buffer for any unexpected losses, he said.