STOCKBROKING INTERMEDIARIES

Stockbrokers and investment banks (IBs) continued to meet their respective minimum capital adequacy requirements (capital adequacy ratio (CAR) of 1.20 times; risk weighted capital ratio (RWCR) of 8.00%). As at December 2022, stockbrokers' average CAR was at 13.47 times, increasing from 12.82 times in 2021 while the IBs' average RWCR increased to 38.76% (as at December 2022) from 37.35% in 2021.

Stockbroking intermediaries' risk management controls were sufficiently robust to manage credit risk exposures arising from margin financing. The collateral coverage ratio as at December 2022 stood at 3.28 times (2021: 3.53 times), relative to the minimum required level of 1.30 times.

Overall, stockbroking intermediaries managed their respective liquidity positions prudently and adequately.

PLCs[4]

Generally, Malaysian PLCs showed signs of continued recovery as at Q3 2022, with most sectors recording higher earnings as compared to the corresponding period in 2021. The top sectors with significantly better earnings were transport (+RM63.27 billion, 205.15%), financial services (+RM7.00 billion, 36.53%), consumer services and retail (+RM3.67 billion, 152.74%), manufacturing (+RM2.82 billion, 15.62%) and utilities (+RM2.26 billion, 50.51%). Apart from the transport sector which has better-reported earnings mainly due to an exceptional item on a writeback of provision upon completion of the debt restructuring by an airline PLC, other sectors' improved performance was reflective of the normalisation of economic activities as the country moved towards endemicity and reopening of international borders. It is also observed that 60% of the PLCs have exhibited earnings improvement as at Q3 2022 compared to the corresponding period in 2021.

Apart from the healthcare (glove) manufacturing sector which recorded significantly lower cumulative earnings as at Q3 2022 compared to Q3 2021, the energy sector also reported weaker earnings. The energy sector was impacted mainly due to significant impairments recorded by an upstream oil and gas PLC as well as two petroleum refinery PLCs which were affected by lower sales margins from the pricing difference of crude oil and refined petroleum products. In addition, the reported earnings of the property and construction sectors remain weak and have yet to recover to pre-pandemic levels. These sectors' slow recovery is caused by the spill-over effects of the COVID-19, higher cost of materials and cautious property market sentiment.

The escalating external challenges may also continue to exacerbate PLCs' liquidity risk, potentially impacting the capital market moving forward. Notwithstanding this, based on the SC's assessment of PLCs' financials, including sectors with the largest debt size, i.e. utilities sector with a debt size totalling RM185.67 billion and consumer services and retail sector with a debt size totalling RM135.08 billion, there are no alarming signs of deteriorating credit health which may pose a significant risk to the capital market.

Another challenge faced by the PLCs in 2022 was the strengthening of the US dollar against ringgit, which impacted PLCs with US dollar denominated borrowings. Based on the assessment, the exposure to volatility in the US dollar was moderated by PLCs' hedging policies in managing their US dollar exposures or naturally hedged for PLCs with revenue denominated in US dollars.

Overall, notwithstanding the improved performance of the PLCs as at Q3 2022, Malaysia's growth trajectory continues to face challenges on continued interest rate hikes and the risk of prolonged geopolitical tensions disrupting the global supply chains leading to higher inflation. Furthermore, persisting inflationary pressures could dampen household spending and investment activities.

4 The write-up on the assessment of PLCs' earnings was based on the latest available financials up to Q3 2022.