

Global Markets Research
Fixed Income Alert

Further update on EPF's liquidity position following the i-Lestari and i-Sinar withdrawal facilities

In view of the fluidity and dynamics of information; we provide a further update on the current and potential impact to EPF liquidity and local bond market following several withdrawal facilities that include the recent relaxation in withdrawal conditions for i-SINAR program. These were based and sourced from various news flows and articles of late.

EPF's contribution & withdrawal estimate update, March 2021

Updates on estimation on contributions, withdrawals, and investment income under the various programs which we originally penciled in our earlier report dated 23rd November 2020 and 24th February 2021 have been revised as per the table below:

RM (Billion)	HLBB Initial Projection	HLBB Current projection	Remarks/Assumptions
Gross contributions	76.0	83.0	
Withdrawals	(45.0)	(45.0)	Smaller drop in contribution expected for 2021
Net contributions	31.0	38.0	
i-Lestari withdrawals from Account 2 (Jan-Mar 21 only)	(15.5)	(5.0)	Projected remaining amount
i-Sinar withdrawals from Account 1 (Jan 21-Jun 21)	(40.8)	(45.0)	Current projection based on 50% take-up rate of revised target withdrawals of 90.0b; up from RM70.0b earlier
Employee contribution rate cut from 11% to 9% (Jan 21-Dec 21)	(7.4)		We have incorporated this into current gross contributions
Estimated Total Outflows/Reduction for 2021	(63.7)	(50.0)	
Revised net contributions before investment income	(32.7)	(12.0)	
Total Estimated Investment Income	16.5	40.0	Projection based on 4% investment as proven from past performances based on AUM @ RM1.0 trillion
Estimated Net Inflows	(16.2)	28.0	

Source: MOF, EPF, HLBB Global Markets Research

As mentioned in the table above, **we have revised the take-up rates to RM5.0b for i-Lestari and also revised to 50% of the unconditional withdrawals from i-Sinar via Account 1 of RM90.0b (up from RM70.0b) which is expected to raise our estimation to RM45b.** We opine that bulk of withdrawal interest will be forthcoming mainly by 2/3rd of total members estimated at 14.6m contributors that have balances of only RM50,000 and below. We have also incorporated investment returns @4.0% of total AUM estimated at RM1.0 trillion; amounting to RM40b especially from fixed income coupon payments, dividends from equities holdings, rental income from properties, capital gains etc. which will provide timely boost to cash-flows. **Hence, we arrive at a potential positive cash-flow of RM28.0b.**

Implications on liquidity conditions

EPF's prudent management in increasing its percentage holdings in **Money Market and short-term deposits** from the usual practice of 3.0% to almost 7.0% of its total AUM of ~RM1.0 trillion amounting to RM67b, puts it in good stead to meet its immediate withdrawal obligations. Whilst we take cognizance of concerns over EPF's current liquidity status, we opine that it is in a comfortable position to withstand ongoing withdrawals in 2021, based on the above-mentioned comments.

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