

01 Jun 2016 | Sector update

BANKING – APR 2016 BNM STATISTICS

Maintain NEUTRAL

Loan demand moderated further

LOAN INDICATORS

- Loan momentum remained slow with weaker business and household loan growth compared to the preceding month.** Banking system's loan growth continued to moderate to +6.3%yoy, down 10bp from +6.4%yoy in Mar'16. This was contributed by a further deceleration in business and household loans. Pace of loan repayments continued to outpace disbursements. Momentum for business loans continued slipping, registering slower growth of +5.0%yoy in Apr'16 vs. +5.2%yoy in the preceding month. In terms of loans by purpose, pace of growth in working capital and construction loans moderated to +8.2%yoy and +9.9%yoy respectively.

The slippage in household loan growth continues, registering slower growth of +6.3%yoy, down 10bp from Mar'16.

Table 1: Loan breakdown by purpose (RM mil)

	Apr-15	Mar-16	Apr-16	% of total	%Mom	%Yoy
Purchase of securities	76,297	71,554	70,616	4.9%	-1.3%	-7.4%
Purchase of transport vehicles	167,750	168,760	168,481	11.6%	-0.2%	+0.4%
of which : purchase of passenger cars	158,090	159,912	159,713	11.0%	-0.1%	+1.0%
Purchase of residential property	406,642	447,130	450,480	31.1%	+0.7%	+10.8%
Purchase of non-residential property	186,595	200,075	200,944	13.9%	+0.4%	+7.7%
Purchase of fixed asset other than land & building	10,608	9,632	9,668	0.7%	+0.4%	-8.9%
Personal use	60,269	64,037	64,372	4.4%	+0.5%	+6.8%
Credit card	34,584	34,965	35,009	2.4%	+0.1%	+1.2%
Purchase of consumer durables	770	142	141	0.01%	-0.7%	-81.7%
Construction	39,884	44,140	43,830	3.0%	-0.7%	+9.9%
Working capital	317,006	347,479	342,945	23.7%	-1.3%	+8.2%
Other purpose	61,677	61,566	61,359	4.2%	-0.3%	-0.5%
Total	1,362,081	1,449,480	1,447,844	100.0%	-0.1%	+6.3%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Apr-15	Mar-16	Apr-16	% of total	%Mom	%Yoy
Primary agriculture	32,523	35,778	35,594	2.5%	-0.5%	+9.4%
Mining and quarrying	11,127	13,139	12,476	0.9%	-5.0%	+12.1%
Manufacturing (including agro based)	98,788	100,454	99,314	6.9%	-1.1%	+0.5%
Electricity, gas and water supply	10,238	8,954	9,027	0.6%	+0.8%	-11.8%
Wholesale, retail, restaurants & hotels	100,330	106,578	106,677	7.4%	+0.1%	+6.3%
Construction	58,371	64,058	63,804	4.4%	-0.4%	+9.3%
Real estate	87,891	100,860	101,163	7.0%	+0.3%	+15.1%
Transport, storage & communication	34,034	33,577	33,190	2.3%	-1.2%	-2.5%
Financing, insurance & business services	91,677	100,666	97,931	6.8%	-2.7%	+6.8%
Education, health & others	38,431	40,989	41,090	2.8%	+0.2%	+6.9%
Household sector	781,979	828,071	831,585	57.4%	+0.4%	+6.3%
Other sector	16,692	16,355	15,994	1.1%	-2.2%	-4.2%
Total	1,362,081	1,449,480	1,447,844	100.0%	-0.1%	+6.3%

Source: BNM

By business sectors, compared to the previous month, the slowdown in business loan growth on-year was predominantly due to slower pace of loans to the manufacturing, finance, insurance and business activities, wholesale, restaurants and hotels, construction and household sectors.

- **Slower growth of mortgage loans was the key factor behind the further moderation in pace of household loans.** Growth in personal loans eased 30bp-mom to +6.8%yoy in Apr'16. Meanwhile, growth in outstanding balances of credit cards picked up pace to +1.2%yoy while growth in loans for purchase of securities remain subdued at -7.4%yoy. In regards to mortgage loans, with the continued weakness in the property market new sales, growth in loans for purchase of residential and non residential property eased further to +10.8%yoy and +7.7%yoy respectively. Banks such as AMMB has been cautious on financing commercial properties due to the high vacancy rates of commercial properties.

Growth in loans for purchase of passenger cars loans remain flat at +1.0%yoy.

Table 3: Loan applications by purpose (RM mil)

	Apr-16	% of total	Jan-16 (%Yoy)	Feb-16 (%Yoy)	Mar-16 (%Yoy)	Apr-16 (%Yoy)
Purchase of securities	1,900	3.0%	-33.6%	-54.3%	-9.0%	-34.4%
Purchase of transport vehicles	6,745	10.5%	-13.3%	-15.1%	-17.1%	-2.3%
of which : purchase of passenger cars	6,362	9.9%	-13.7%	-16.7%	-16.5%	-3.4%
Purchase of residential property	18,225	28.3%	-6.5%	+1.9%	+5.6%	-3.1%
Purchase of non-residential property	6,348	9.9%	-22.1%	-16.6%	-15.7%	-36.8%
Purchase of fixed asset other than land & building	505	0.8%	-35.5%	-45.2%	-35.9%	-30.7%
Personal use	5,624	8.7%	+38.5%	+36.6%	+29.5%	+14.6%
Credit card	3,890	6.0%	+61.7%	+38.6%	+71.5%	+49.9%
Purchase of consumer durables	1	0.001%	-52.8%	+126.6%	-93.0%	-96.1%
Construction	1,551	2.4%	-5.2%	+60.9%	-12.4%	-60.2%
Working capital	14,873	23.1%	+65.0%	+48.4%	+5.8%	-2.3%
Other purpose	4,645	7.2%	+60.0%	-7.6%	-14.6%	+92.3%
Total applied	64,307	100.0%	+9.3%	+6.0%	+1.1%	-6.0%

Source: BNM

- Loan demand weakened further as reflected by the drop in the pace of loan applications.** The industry loan applications continued to be slow with a growth of -6.0%yoy vs. +1.1%yoy growth in the preceding month. Growth in household loan applications moderated to +0.6%yoy vs. +3.6%yoy in Mar'16. Meanwhile, demand for non-household loans continued to slide to a slower growth of -13.7%yoy from -1.7%yoy in Mar'16.

By loan purpose, the weaker loan demand for household loans was broad based, contributed by weaker loan applications for purchase of residential, non residential property, loans for purchase of securities, personal loans and credit cards. For non household loans, loan demand for construction and working capital loans was slower compared to the preceding month.

By sectors comparing to the previous month, the weaker loan demand was mainly due to slower growth in loan applications by the manufacturing, real estate, construction, finance, insurance and business activities as well as the household sectors.

Table 4: Loan approvals by purpose (RM mil)

	Apr-16	% of total	Jan-16 (%Yoy)	Feb-16 (%Yoy)	Mar-16 (%Yoy)	Apr-16 (%Yoy)
Purchase of securities	1,374	5.1%	-42.0%	-48.7%	-42.2%	-24.4%
Purchase of transport vehicles	3,483	12.9%	-5.1%	-28.6%	-35.3%	-16.2%
of which : purchase of passenger cars	3,084	11.4%	-11.9%	-29.5%	-32.9%	-21.8%
Purchase of residential property	7,311	27.0%	-34.0%	-21.6%	-13.8%	-25.7%
Purchase of non-residential property	2,331	8.6%	-44.3%	-27.0%	-26.1%	-41.6%
Purchase of fixed asset other than land & building	258	1.0%	-67.6%	-54.2%	-77.5%	-29.3%
Personal use	1,351	5.0%	-5.9%	+6.5%	+5.8%	-10.0%
Credit card	1,407	5.2%	+26.4%	+14.7%	+21.0%	+5.3%
Purchase of consumer durables	0	-	-99.5%	+239.0%	-98.3%	-99.4%
Construction	1,052	3.9%	-3.3%	-44.6%	-80.4%	-55.3%
Working capital	7,110	26.2%	-16.1%	19.4%	-7.4%	+11.7%
Other purpose	1,427	5.3%	+256.1%	-11.1%	-48.0%	+43.0%
Total approved	27,104	100.0%	-14.0%	-16.8%	-23.4%	-17.2%

Source: BNM

- Loan approvals remain weak.** Loan approvals continued to be weak with a growth of -17.2%yoy. This was contributed by the continued slow momentum in loan approvals of non-household loans at -7.4%yoy while household loan approvals registered a higher negative growth rate of -24.1%yoy vs -21.0%yoy in the previous month. By loan purpose, the decline in loan approvals was mainly due to slower approval of mortgage loans, personal loans, credit cards as well as constructions loans which continued to register negative growth of -55.3%yoy (Refer Table 4).
- No change to sector liquidity with a LD ratio of 87.7%.** Loan repayments continued to outpace loan disbursements with a growth of +3.8%yoy vs. the latter's -1.8%yoy. Industry LD ratio remain stable at 87.7%, contributed by slower loan growth. On the other liquidity metrics, loan to fund ratio and loans to fund and equity ratio remain stable at 82.5% and 73.9% respectively.

Growth of deposits (taking into consideration REPO) in the banking system eased further to -1.1%yoy vs. -0.9%yoy in the previous month. The outflow in liquidity from the system was contributed by business enterprises and financial institutions. CASA growth continued to be slow at -2.3%yoy with CASA ratio slipping further to 25.2%. LCR ratios for Commercial Banks, Islamic Banks and Investments Banks remain above 100% which is the requirement by 2019 but the ratios were lower in Mar'16 than in Feb'16 standing at 130.0%, 113.0% and 115.0% respectively as at end of Mar'16. The banking sector's overall LCR was lower at 126.0% in Mar'16 vs. 131.0% in Feb'16.

LENDING AND DEPOSIT RATES

- **Interest spread remains stable.** The industry's average lending rate (ALR) remains unchanged at 4.61% for Commercial Banks. Both BLR and weighted base rate for Commercial Banks remained at 6.80% and 3.79% respectively. FD rates for Commercial Banks for tenures of 1, 6, 9 and 12 months remain unchanged from the previous month while the rate for 3 month FD tenure inched up slightly to 3.14%.

The stable ALR and average deposit rate has kept the interest spread steady at 1.41%.

ASSET QUALITY

- **GIL and NIL ratio stable at 1.6% and 1.2% respectively.** Overall Industry's Gross Impaired Loan (GIL) ratio and net impaired loan (NIL) ratio remain at 1.6% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	Apr-15	Mar-16	Apr-16	% of total	%Mom	%Yoy
Purchase of securities	229	329	418	1.8%	+27.1%	+82.5%
Purchase of transport vehicles	1,897	1,658	1,727	7.4%	+4.2%	-9.0%
of which : purchase of passenger cars	1,715	1,411	1,483	6.4%	+5.1%	-13.5%
Purchase of residential property	4,954	5,045	5,120	22.0%	+1.5%	+3.4%
Purchase of non-residential property	1,526	1,956	1,990	8.6%	+1.7%	+30.4%
Purchase of fixed asset other than land & building	192	166	127	0.5%	-23.5%	-33.9%
Personal use	960	1,211	1,236	5.3%	+2.1%	+28.8%
Credit card	437	492	490	2.1%	-0.4%	+12.1%
Purchase of consumer durables	12	2	2	0.01%	-	-83.3%
Construction	2,268	3,009	3,005	12.9%	-0.1%	+32.5%
Working capital	7,521	8,086	7,830	33.7%	-3.2%	+4.1%
Other purpose	1,305	1,292	1,291	5.6%	-0.1%	-1.1%
Total	21,300	23,245	23,237	100.0%	-0.03%	+9.1%

Source: BNM

Table 6: Gross impaired loan/ NPL ratio (%)

	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Purchase of securities	0.5%	0.4%	0.4%	0.5%	0.4%	0.5%	0.5%	0.6%
Purchase of transport vehicles	1.0%	1.0%	1.1%	1.0%	1.1%	1.1%	1.0%	1.0%
of which : purchase of passenger cars	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	0.9%	0.9%
Purchase of residential property	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%
Purchase of non-residential property	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
Purchase of fixed asset other than land & building	1.5%	1.8%	1.7%	1.7%	1.8%	1.8%	1.7%	1.3%
Personal use	1.7%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Credit card	1.4%	1.4%	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%
Purchase of consumer durables	1.4%	1.3%	1.2%	1.0%	1.0%	1.0%	1.4%	1.1%
Construction	6.0%	6.0%	6.0%	5.8%	6.9%	6.8%	6.8%	6.9%
Working capital	2.4%	2.4%	2.4%	2.4%	2.2%	2.2%	2.3%	2.3%
Other purpose	2.1%	2.2%	2.2%	2.4%	2.4%	2.4%	2.1%	2.1%
Total	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value, impaired loans declined marginally by -0.3%mom or RM8m to RM23.2b. Except for upticks in GIL ratios for loans for purchase of securities and loans for construction, the other loan segments continued to show stable GIL ratios (see Table 6). With a lower CA than the previous month, the sector's loan loss coverage ratio declined slightly to 93.9% from 94.3% in the preceding month.

CAPITALISATION

- **Capital ratios eased slightly from the preceding month.** The sector's CET1 and Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) eased to 12.9% (-10bp-mom), 13.8% (-10bp-mom) and 16.4% (-10bp-mom) respectively.

CALL ON SECTOR & STOCK PICKS

- **Capital market activities remain subdued.** Growth in net funds raised in the market by the private sector was flat at +0.1%yoy vs. -87.2%yoy in the preceding month. Meanwhile, for PDS, growth in new issuances continued to be in negative rate of -27.7%yoy vs. -36.9%yoy in the preceding month.
- **Asset quality of domestic retails still stable but impaired business loans locally are starting to show up.** We continue to expect weaknesses in asset quality to cause provisions to rise. Thus far, to our

surprise retail loan's asset quality is still stable for now but we are starting to see higher impairment of business loans as in the case of AMMB which reported new impaired but well secured corporate loan while Maybank reported impairment of Corporate and Business Banking loans domestically in recent results of banks ended 1QCY16.


- **To keep an eye on the impairment of overseas loans.** With the low commodity prices and slow down in China's economy, overseas loans are expected to contribute more to the rise in impairment of loans than domestic loans. Recently, impairment of Singapore loans has risen significantly. Generally, Banks are cautious of the economic conditions in Singapore and Thailand which are expected to be closely monitored. Meanwhile in HK and China, impaired loans have also increased due to the slowdown of China's economy.
- **Deposit growth in the system continues to contract reflecting liquidity outflow.** Deposit which includes CASA remained slow in the industry. The continued negative growth rate in deposits has reflected an outflow of liquidity in the system. This is expected to cause banks to continue to offer high deposit rates to protect its deposit base. We have seen some banks repricing their deposit rates upwards to be closer to its peers to defend its liquidity. While deposits in the system have contracted in growth, the liquidity position of the sector has not further deteriorated as seen from a stable LD ratio. This is due to the slowdown in the asset growth across most markets which banks operate in. All of the aforementioned are expected to still cause pressure on banks' NIM. Nevertheless, with the repricing of auto and mortgage rates up and the adjustments of the base rates and BLRs of Hong Leong Bank and Public Bank higher, we expect these adjustments in asset yield to partially offset the impact of higher COF.
- **Maintain NEUTRAL on the sector with our BUY calls on CIMB and AMMB.** We have BUY calls on CIMB and AMMB with TP of RM5.50 and RM5.10 respectively mainly on attractive valuations. We have recently upgraded our call on AMMB from NEUTRAL to BUY on valuation grounds while downgraded MAYBANK to NEUTRAL from BUY due to expectation of provisions to remain elevated as well as due to its NOII which came in weaker than expected in its 1QFY16 results as capital market activities continue to be subdued. Also, we have reverted BIMB to NEUTRAL from TRADING BUY with unchanged TP of RM4.22 as share price has rebounded closer to our target price. We are NEUTRAL on Hong Leong Bank (TP: RM14.10), RHB Cap (TP: RM6.30), Public Bank (TP: RM20.40), Maybank (TP: RM8.70), AFG (TP: RM4.00) and Affin (TP: RM2.30). 

Table 7: Peer comparison for Malaysian Banking Stocks

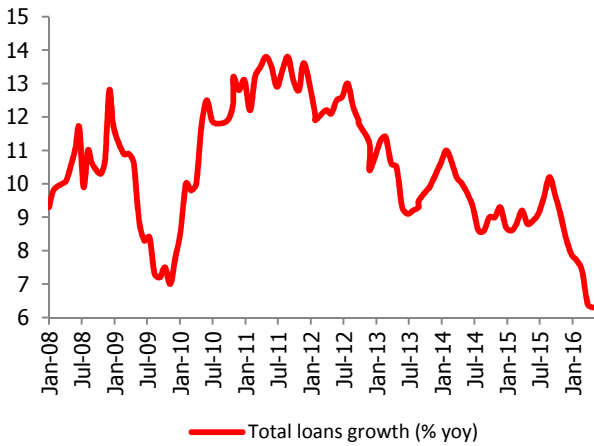
	Rec.	Price @ 31/5	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				16	17	16	17	16	17	16	17	16	17	16	17
AMMB	BUY	4.31	5.10	45.1	45.0	9.6	9.6	15.5	16.0	3.6	3.7	5.0	5.3	0.9	0.8
Maybank	NEUTRAL	8.16	8.70	66.0	76.0	12.4	10.7	49.0	57.0	6.0	7.0	6.5	6.7	1.3	1.2
Public Bank	NEUTRAL	19.12	20.40	131.8	139.3	14.5	13.7	56.0	59.0	2.9	3.1	9.2	10.2	2.1	1.9
RHB Capital	NEUTRAL	*	6.30	48.0	54.0	n.m	n.m	14.0	16.0	n.m	n.m	5.3	5.7	n.m	n.m
Hong Leong	NEUTRAL	13.36	14.10	95.0	106.0	14.1	12.6	31.0	35.0	2.3	2.6	10.0	10.8	1.3	1.2
CIMB	BUY	4.39	5.50	46.0	53.0	9.5	8.3	19.0	21.0	4.3	4.8	5.1	5.5	0.9	0.8
AFG	NEUTRAL	4.05	4.00	34.2	36.0	11.8	11.3	14.5	16.0	3.6	4.0	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	4.01	4.22	37.4	40.0	10.7	10.0	12.5	13.4	3.1	3.3	2.4	2.6	1.7	1.6
Affin	NEUTRAL	2.21	2.30	23.0	25.0	9.6	8.8	11.0	12.0	5.0	5.4	4.4	4.6	0.5	0.5
Average				58.5	63.8	11.5	10.6	24.7	27.3	3.9	4.2	5.7	6.1	1.2	1.1

*denotes suspended to facilitate implementation of distribution of RHB Bank shares and capital repayment

Kelvin Ong, CFA

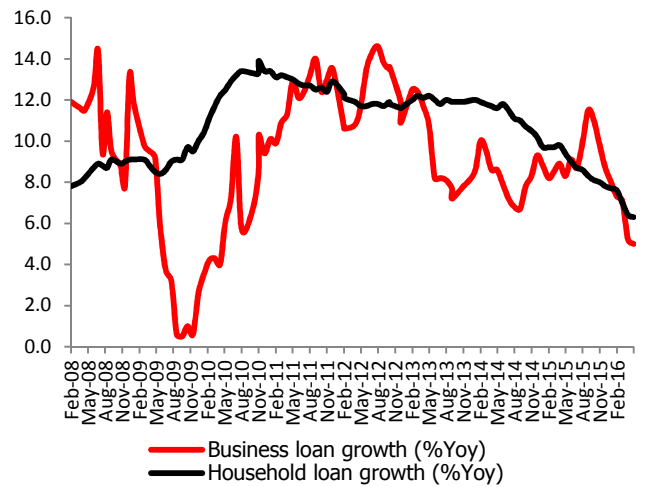
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



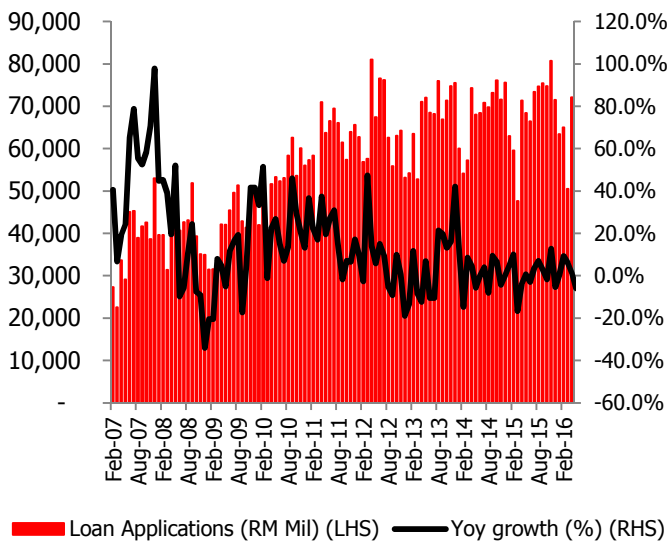
Source: BNM

Chart 2: Business and Household Loan Growth Rate



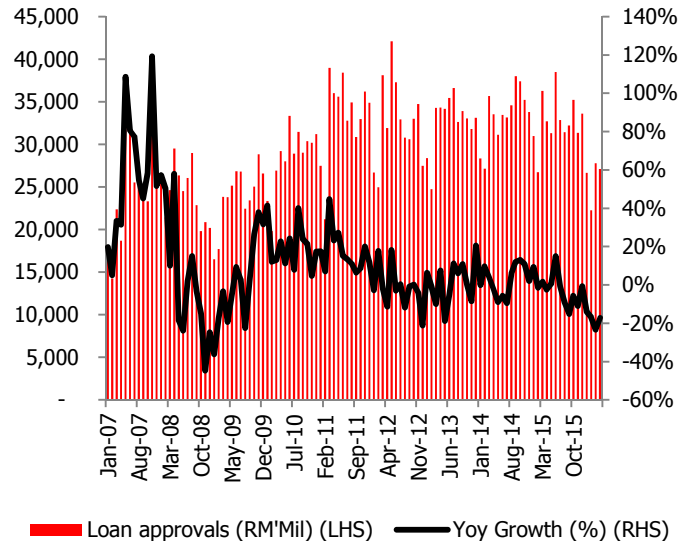
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

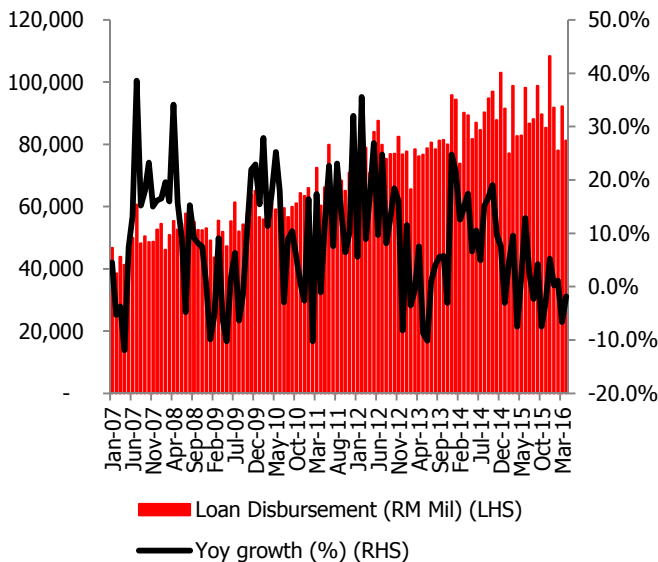


Chart 6: Interest Spread

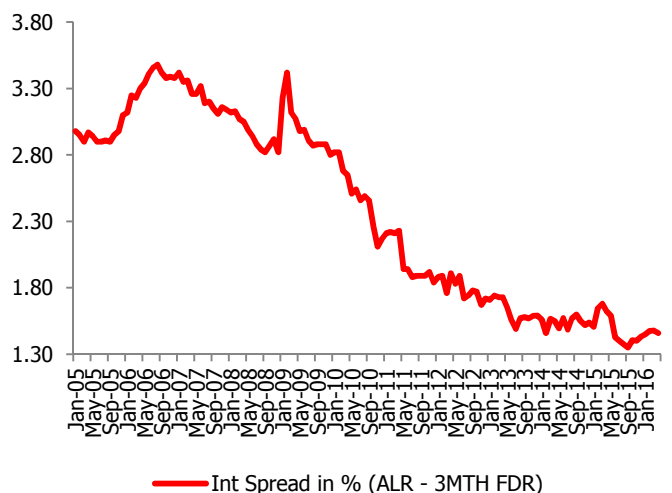
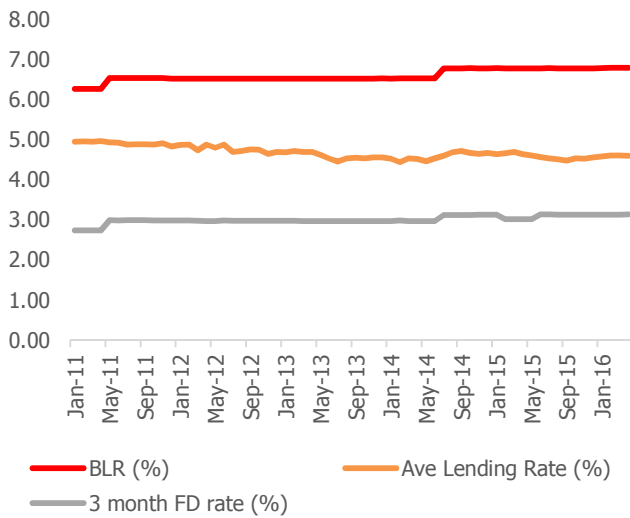
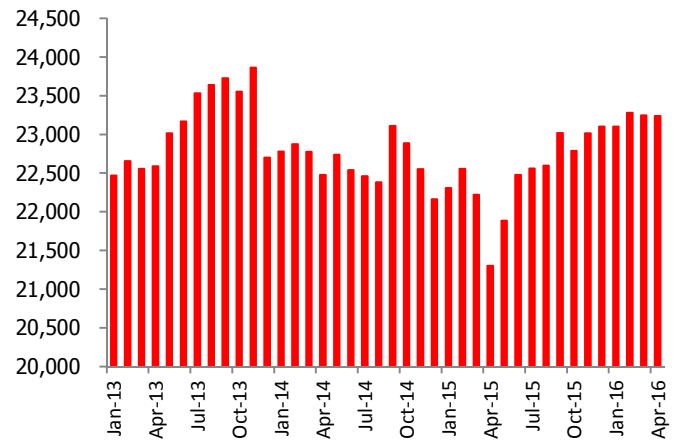


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



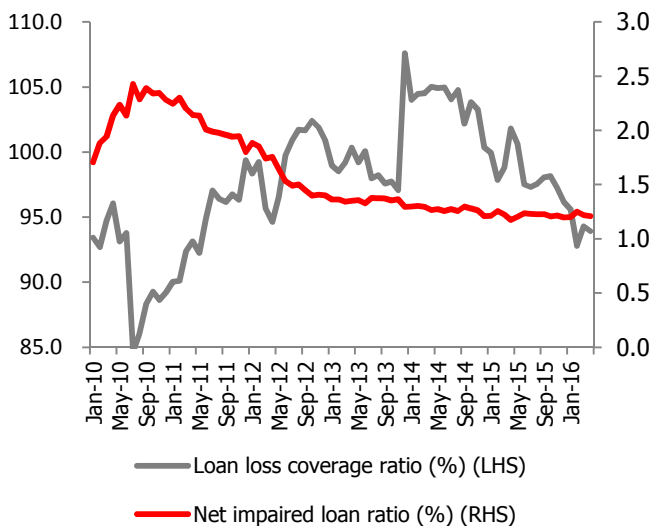
Source: BNM

Chart 8: Total Impaired Loans



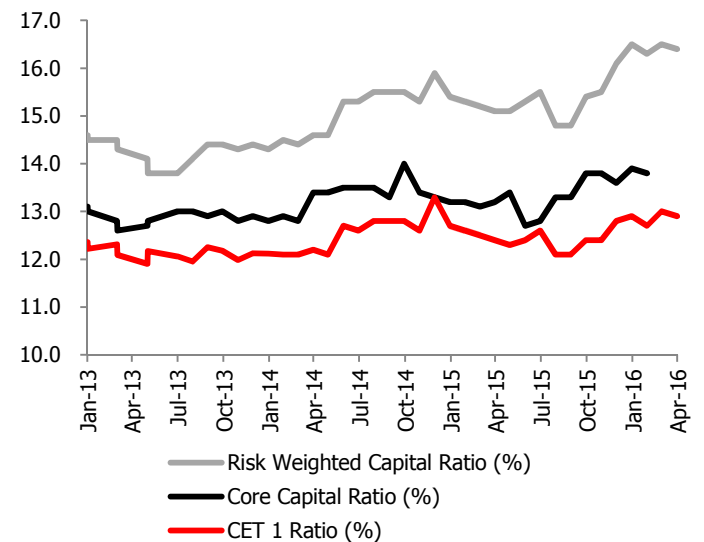
Source: BNM

Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage



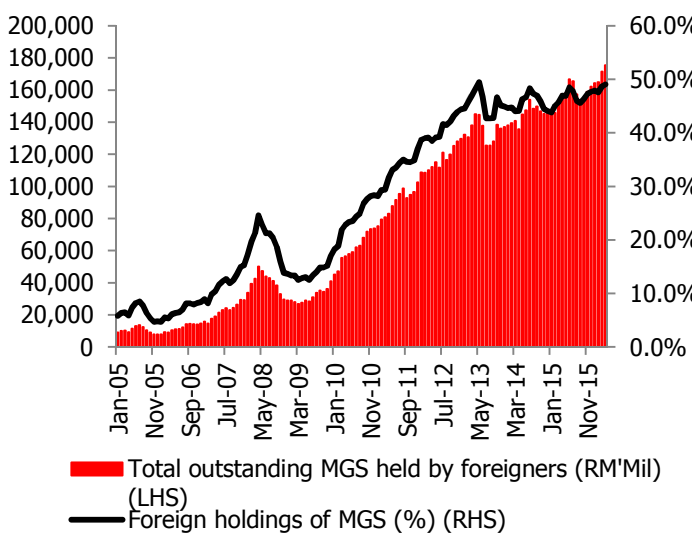
Source: BNM

Chart 10: CET 1, Core Capital and Risk Weighted Capital Ratios



Source: BNM

Chart 11: MGS Holdings by Foreigner



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

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.