

02 Feb 2016 | Sector Update

BANKING – DEC 2015 BNM STATISTICS

Maintain NEUTRAL

Slowdown in loan growth for the full CY15 within expectation

LOAN INDICATORS

- **Industry loan growth ended CY15 softer at 7.9%yoy, slower than CY14's 8.7%yoy and was within our expectation of 7-8% growth.** Banking system's loan growth in Dec'15 decelerated to +7.9%yoy, down from +8.4%yoy in the preceding month. Business loans slowed down further to +8.0%yoy in Dec'15 vs. +8.7%yoy and +8.8%yoy in Nov'15 and Dec'14 respectively. Compared to the previous month, construction and working capital loans registered slower growth of +7.6%yoy (-200bp) and +10.4%yoy (-160bp) respectively.

Also contributing to the slow down in banking system loan growth was slower household loans of +7.7%yoy in Dec'15 (Nov'15: +7.8%yoy and Dec'14: +9.7%yoy).

Table 1: Loan breakdown by purpose (RM mil)

	Dec-14	Nov-15	Dec-15	% of total	%Mom	%Yoy
Purchase of securities	76,655	74,744	75,185	5.2%	+0.6%	-1.9%
Purchase of transport vehicles	165,986	169,692	169,810	11.8%	+0.1%	+2.3%
of which : purchase of passenger cars	156,409	160,467	160,682	11.1%	+0.1%	+2.7%
Purchase of residential property	390,419	432,836	437,035	30.2%	+1.0%	+11.9%
Purchase of non-residential property	178,050	195,825	196,991	13.6%	+0.6%	+10.6%
Purchase of fixed asset other than land & building	10,507	10,226	10,060	0.7%	-1.6%	-4.3%
Personal use	60,169	63,402	63,702	4.4%	+0.5%	+5.9%
Credit card	35,604	35,344	36,044	2.5%	+2.0%	+1.2%
Purchase of consumer durables	636	144	144	0.01%	-	-77.4%
Construction	39,625	42,376	42,656	3.0%	+0.7%	+7.6%
Working capital	316,157	343,963	349,173	24.2%	+1.5%	+10.4%
Other purpose	65,909	62,870	64,338	4.5%	+2.3%	-2.4%
Total	1,339,718	1,431,421	1,445,139	100.0%	+1.0%	+7.9%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Dec-14	Nov-15	Dec-15	% of total	%Mom	%Yoy
Primary agriculture	31,490	37,548	37,586	2.6%	+0.1%	+19.4%
Mining and quarrying	9,441	13,119	13,951	1.0%	+6.3%	+47.8%
Manufacturing (including agro based)	100,902	101,266	102,286	7.1%	+1.0%	+1.4%
Electricity, gas and water supply	12,947	10,424	11,500	0.8%	+10.3%	-11.2%
Wholesale, retail, restaurants & hotels	98,644	105,994	106,719	7.4%	+0.7%	+8.2%
Construction	57,826	61,028	62,782	4.3%	+2.9%	+8.6%
Real estate	85,422	96,333	97,864	6.8%	+1.6%	+14.6%
Transport, storage & communication	32,845	35,387	34,311	2.4%	-3.0%	+4.5%
Financing, insurance & business services	93,905	98,424	99,858	6.9%	+1.5%	+6.3%
Education, health & others	37,006	38,972	39,325	2.7%	+0.9%	+6.3%
Household sector	761,951	814,959	820,947	56.8%	+0.7%	+7.7%
Other sector	17,339	17,967	18,008	1.2%	+0.2%	+3.9%
Total	1,339,718	1,431,421	1,445,139	100.0%	+1.0%	+7.9%

Source: BNM

By business sectors, relative to the previous month, the slowdown in business loans on-year was mainly contributed by slower growth of loans to the financing, insurance and business services, real estate and transport, storage and communication sectors.

- **Marginally slower growth for household loans compared to preceding month.** With exception of the growth in personal loans and outstanding in credit card picking up pace slightly in Dec'15 which we believe was due to the festive season, growth was slower across most other household loan segments. Growth in loans for purchase of residential property eased 30bp to +11.9%yoy while that for purchase of non-residential property continued to slide 120bp from the preceding month to a growth of +10.6%yoy.

Growth in loans for purchase of passenger cars loans moderated slightly to +2.7%yoy. Meanwhile, with the volatile markets, growth in loans for purchase of securities continued to be negative at -1.9%yoy.

Table 3: Loan applications by purpose (RM mil)

	Dec-15	% of total	Sept-15 (%Yoy)	Oct-15 (%Yoy)	Nov-15 (%Yoy)	Dec-15 (%Yoy)
Purchase of securities	1,553	2.5%	-11.5%	-30.8%	-48.6%	-45.5%
Purchase of transport vehicles	7,404	11.7%	+0.2%	-3.8%	+18.2%	-0.9%
of which : purchase of passenger cars	7,173	11.3%	-2.1%	+12.0%	+12.8%	+0.5%
Purchase of residential property	14,878	23.5%	-7.9%	-9.5%	-13.1%	-16.1%
Purchase of non-residential property	5,833	9.2%	-10.4%	-20.7%	-30.2%	-27.3%
Purchase of fixed asset other than land & building	518	0.8%	+538.2%	-16.2%	+55.8%	-13.1%
Personal use	5,958	9.4%	+38.4%	+63.8%	+33.5%	+27.4%
Credit card	3,333	5.3%	+66.8%	+73.0%	+61.3%	+61.6%
Purchase of consumer durables	3	0.005%	-71.4%	-85.2%	+11.4%	-82.3%
Construction	2,412	3.8%	-18.3%	-27.2%	-3.7%	-44.3%
Working capital	17,067	26.9%	-26.0%	+29.3%	+8.7%	+53.5%
Other purpose	4,425	7.0%	+62.8%	+187.8%	-44.8%	+9.0%
Total applied	63,386	100.0%	-1.8%	+12.8%	-5.4%	+0.7%

Source: BNM

- Loan demand stayed weak with slower household loan applications.** The industry loan applications registered a flattish growth of +0.7%yoy in Dec'15. Household loan applications decelerated to -6.3%yoy in Dec'15 from -1.9%yoy in Nov'15 while we observed a pick in non-household loan applications to growth of +9.9%yoy from -8.5%yoy in the preceding month.

By loan purpose, weaker demand for household loans was contributed by slowdown in applications for loans for purchase of securities, loans for purchase of passenger vehicles, loans for purchase of non-residential property and residential property as well as personal loans. For non household loans, loan applications for construction registered a higher negative growth of -44.3%yoy while demand for working capital loans picked up momentum, registering a higher growth of +53.5%yoy.

By sectors, the weaker loan demand was mainly due to slower applications by the finance, insurance and business activities, wholesale and retail trade, and restaurants and hotels, construction and household sectors. Meanwhile, real estate and manufacturing sectors also recorded negative growth in loan application compared to the preceding month.

Table 4: Loan approvals by purpose (RM mil)

	Dec-15	% of total	Sept-15 (%Yoy)	Oct-15 (%Yoy)	Nov-15 (%Yoy)	Dec-15 (%Yoy)
Purchase of securities	1,150	3.4%	-55.4%	-49.8%	-34.8%	-34.8%
Purchase of transport vehicles	4,186	12.5%	+5.0%	+3.2%	+3.6%	-1.9%
of which : purchase of passenger cars	4,006	11.9%	+6.6%	+4.5%	+3.9%	-0.6%
Purchase of residential property	7,349	21.9%	-19.0%	-20.4%	-21.9%	-25.3%
Purchase of non-residential property	2,250	6.7%	-34.6%	-34.3%	-44.7%	-50.4%
Purchase of fixed asset other than land & building	149	0.4%	+75.4%	-17.2%	-39.2%	-66.3%
Personal use	1,672	5.0%	+12.2%	+21.9%	+25.4%	+9.6%
Credit card	1,472	4.4%	+21.5%	+33.7%	+9.5%	+16.8%
Purchase of consumer durables	0	0.0%	-99.2%	-99.7%	-99.6%	-98.6%
Construction	2,323	6.9%	-21.4%	-2.7%	-32.3%	+96.3%
Working capital	9,617	28.6%	-1.1%	+11.4%	+9.5%	+34.5%
Other purpose	3,429	10.2%	-28.5%	258.3%	+10.9%	+89.0%
Total approved	33,596	100.0%	-15.2%	-5.7%	-11.0%	-0.6%

Source: BNM

- Loan approvals continued to be slow with slowdown in growth rate of household loan approvals.** Growth in loan approvals remain in negative, contributed by slower pace in approvals of household loans. In Dec'15, growth in total loan approvals was -0.6%yoy. Approvals for non household loans picked up momentum with an improved growth rate of +25.1%yoy with stronger approvals of construction and working capital loans. Meanwhile, approvals for household loans continued to be weak registering a higher negative growth of -19.3%yoy vs. -15.9%yoy in the previous month. By loan purpose, the decline in loan approvals for household loans was mainly due to the slowdown in approvals of mortgage loans, loans for purchase of passenger cars and personal loans. (Refer Table 4).
- Sector liquidity remain tight with a LD ratio of 88.7%.** In Dec'15, growth in loan repayments (+7.5%yoy) continued to outpace that of disbursements (+5.2%yoy) leading to the industry LD ratio edging up slightly to 88.7% from 88.3% in the preceding month. Effective 1 February 2016, the SRR ratio will be cut by 50bp to 3.50% and this should inject liquidity of circa RM6.18b based on our estimates into the banking system. We expect the additional liquidity to improve the sector's LD ratio slightly.

Growth of deposits (excluding REPO) in the banking system further decelerated to +1.1%yoy as compared to +1.8%yoy in the preceding month. Industry CASA growth slipped to +1.6%yoy from +4.2%yoy in the preceding month. CASA ratio remain stable at 25.9% in Dec'15.

LENDING AND DEPOSIT RATES

- **Interest spread rose due to higher ALR in Dec'15.** The industry's average lending rate (ALR) remained rose by 4bp mom to 4.57% for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate inched higher at 3.86% from 3.85% in the preceding month due to the rise in 3 month KLIBOR rate which banks' Base Rate were benchmarked on. As result of the requirement for stable funding, competition persist among banks for deposits with higher deposit rates offered leading to higher funding cost. Nevertheless, moving ahead, we expect a slight improvement in banks' funding cost from the recently announced reduction in SRR ratio which will release liquidity into the banking system albeit small based on our estimates compared to the total deposits in the banking system.

Interest spread (between the average lending rate and average deposit rate) rose slightly to 1.38% (+3bp).

ASSET QUALITY

- **Asset quality still holding up but may turn weaker ahead to due to higher unemployment rate, rise in inflation and the global economic slowdown.** Overall Industry's Gross Impaired Loan (GIL) ratio and net impaired loan (NIL) ratio continue to hold up at 1.6% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	Dec-14	Nov-15	Dec-15	% of total	%Mom	%Yoy
Purchase of securities	337	330	373	1.6%	+13.0%	+10.7%
Purchase of transport vehicles	2,064	1,789	1,617	7.0%	-9.6%	-21.7%
of which : purchase of passenger cars	1,870	1,668	1,513	6.5%	-9.3%	-19.1%
Purchase of residential property	5,012	5,095	5,030	21.8%	-1.3%	+0.4%
Purchase of non-residential property	1,335	1,832	1,786	7.7%	-2.5%	+33.8%
Purchase of fixed asset other than land & building	181	174	175	0.8%	+0.6%	-3.3%
Personal use	1,023	1,187	1,192	5.2%	+0.4%	+16.5%
Credit card	431	476	480	2.1%	+0.8%	+11.4%
Purchase of consumer durables	7	2	1	0.01%	-50.0%	-85.7%
Construction	2,236	2,521	2,494	10.8%	-1.1%	+11.5%
Working capital	8,412	8,198	8,432	36.5%	+2.9%	+0.2%
Other purpose	1,125	1,412	1,522	6.6%	+7.8%	+35.3%
Total	22,161	23,017	23,103	100.0%	+0.4%	+4.3%

Source: BNM

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

	May-15	Jun-15	July-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15
Purchase of securities	0.3%	0.5%	0.4%	0.4%	0.5%	0.4%	0.4%	0.5%
Purchase of transport vehicles	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	1.1%	1.0%
of which : purchase of passenger cars	1.1%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%
Purchase of residential property	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%
Purchase of fixed asset other than land & building	1.6%	1.6%	1.6%	1.5%	1.5%	1.8%	1.7%	1.7%
Personal use	1.7%	1.6%	1.7%	1.7%	1.7%	1.7%	1.9%	1.9%
Credit card	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%	1.3%	1.3%
Purchase of consumer durables	1.6%	1.4%	1.2%	1.3%	1.4%	1.3%	1.2%	1.0%
Construction	6.0%	6.1%	7.7%	6.1%	6.0%	6.0%	6.0%	5.8%
Working capital	2.4%	2.5%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%
Other purpose	2.3%	2.2%	2.1%	2.2%	2.1%	2.2%	2.2%	2.4%
Total	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value basis, impaired loans continue to rise, increasing by +0.4% mom or RM85m to RM23.1b. GIL ratios for key loan segments remain stable (see Table 6). With the rise in impaired loans, the sector's loan loss coverage ratio drop slightly to 96.2% from 97.2% in the preceding month.

CAPITALISATION

- **Improved capital position.** The sector's CET1 and Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) improved to 12.8% (+40bp mom), 13.3% (+50bp mom) and 15.8% (+60bp mom) respectively.

CALL ON SECTOR & STOCK PICKS

- **Maintain our 7-8% expectation for the sector's loan growth for CY16.** For CY15, the banking system loan ended with growth of 7.9%. For CY16, we maintain our expectation of a loan growth for the sector of 7-8%. Nevertheless, with our revised GDP growth now to 4.4% as compared to 5.0% previously,

we are now expecting the banking sector loan growth to be at the lower end of our estimate of 7-8% for CY16.

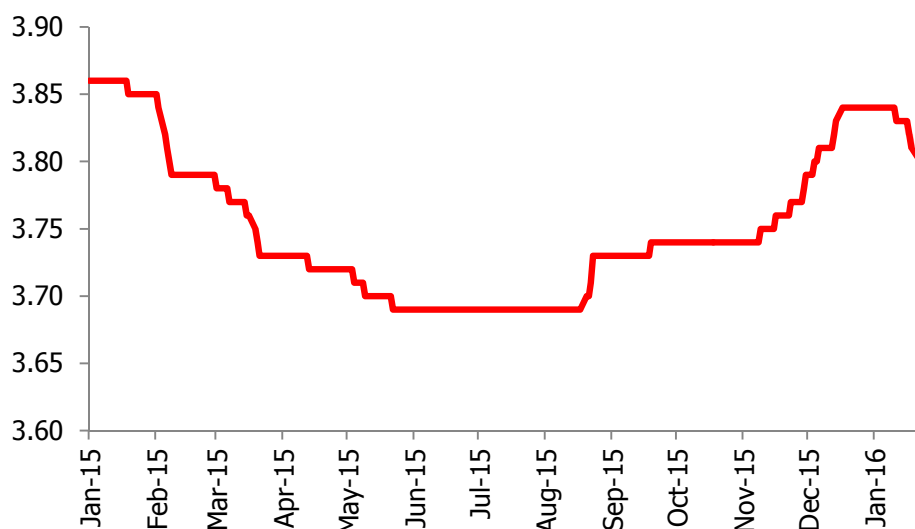
Slight improvement in COF after the cut in SRR ratio by 50bp to 3.50%. BNM announced the cut in SRR ratio by 50bp to 3.50% to be effective 1st Feb'16 while maintained the OPR at 3.25% on 18th January 2016 after the recent MPC meeting. As highlighted in our earlier note, the reduction of SRR ratio will release additional liquidity into the banking system of circa RM6.18b based on our estimates. In our opinion, the additional liquidity to be released is small, representing only 0.37% of the total deposits in the banking system.

Since the reduction in SRR ratio, we have seen some improvement in the interbank rate as shown in the chart below of the trend in 3-month Klibor rate (3MKB). The 3MKB has eased 4bp to 3.79% as at 28th January 2016 vs. 3.83% as at 18th January 2016.

We expect this to slightly improve banks' COF, hence easing the pressure on NIM. Nevertheless, pressure on banks' NIM is still expected to continue.

Our stance on OPR is that we expect the rate to maintain at 3.25% in 1HCY16 and that there remains downward pressure on the OPR in 2HCY16 should the domestic demand turns out to be much weaker than anticipated to support the local economy.

Trend of 3 month KLIBOR rate

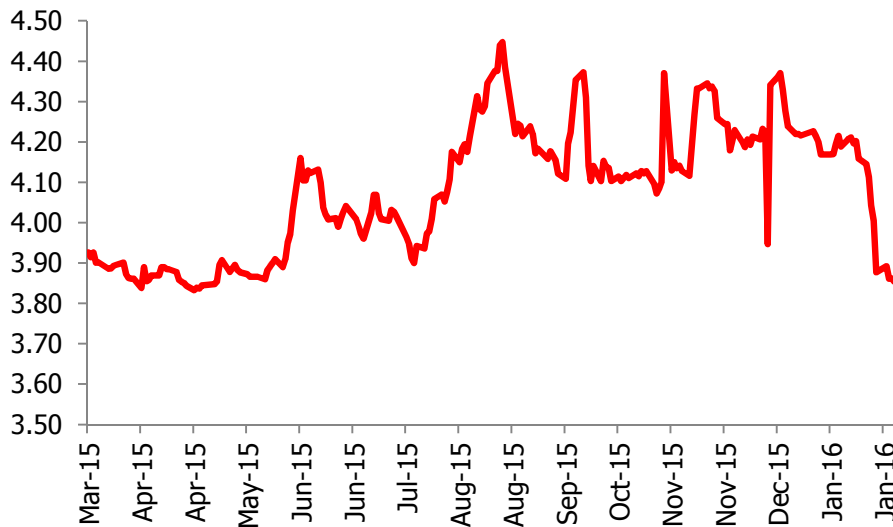


Source: Bloomberg

Foreign holdings in MGS has been rising, reflecting buying interest from foreign investors which lowered the MGS yield. Based on our tracking of foreign holdings of MGS, the percentage of MGS held by foreigners has risen to 47.7% as at end Dec'15 as compared to 45.6% as at end Sept'15.

This has driven the 10 year MGS yield downwards to 3.86% as at end 28th January 2016 from the beginning of the year of 4.17%. We view this as positive for bank's holdings of investment securities as well as a more favourable position to the AFS reserves of banks, albeit this would largely depend on the cost the securities held.

Trend of 10 year MGS yield



Source: Bloomberg

- **Improved sentiment as foreigners have turned net buyers of equities in local bourse last week.** We are seeing a foreign investors turning net buyers of equities in local bourse last week and improvement in the share performance of banks' such as CIMB, RHB Cap, AMMB and AFG with high foreigner shareholdings and had steeper fall in share price earlier compared to peers from disposals by foreign investors.
- **Risk on asset quality still persist.** As mentioned above, we are seeing signs of some improvement in COF, lower MGS yield and stronger domestic currency as a result of the rebound in oil price and the recede of negative sentiments on Malaysia's political conditions.

Nevertheless, we expect the risk on banks' asset quality to still persist, in particularly of the potentially higher impaired loans for banks' domestic loans. This is based on the expectation of higher inflation of 2.9% and unemployment rate this year coupled with the global economic slowdown. We continue to hold on to our view that despite of that our banking's sector GIL ratio has been holding up at 1.6%, reflecting resilience thus far, moving ahead we expect upticks in the ratio due to weaknesses in asset quality from the aforementioned reasons. Hence, we maintain our NEUTRAL stance on the sector.


- **Our top pick is Maybank while we have a TRADING BUY call on CIMB on valuation grounds.** Our top pick is Maybank (TP: RM9.80) for its lower Base Rate which reflects a competitive advantage compared to peers on COF, diversified earnings and attractive dividend yield. We have recently upgraded our call on CIMB to TRADING BUY from NEUTRAL with a revised TP of RM4.80 on valuation grounds. We are NEUTRAL on Hong Leong Bank (TP: RM13.70), RHB Cap (TP: RM6.20), Public Bank (TP: RM18.80), AMMB (TP: RM5.10), AFG (TP: RM3.80) and BIMB (TP: RM4.22). Maintain our SELL call on Affin (TP: RM1.90) due to it's weaker than expected NOII, higher OPEX and provisions. 

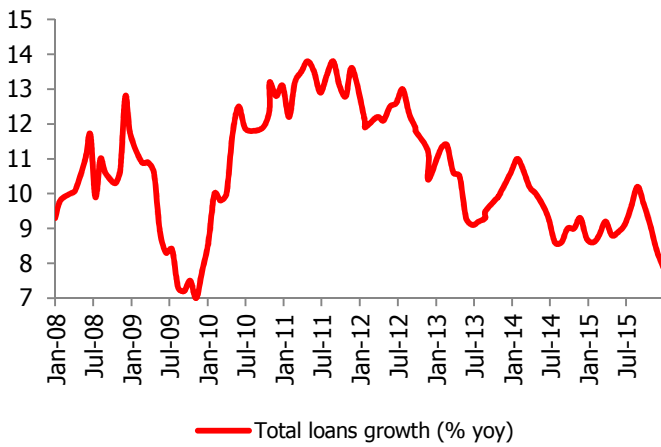
Table 7: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 29/1	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	4.36	5.10	54.4	49.0	8.0	8.9	27.3	22.0	6.3	5.0	4.8	5.1	0.9	0.9
Maybank	BUY	8.58	9.80	68.0	75.0	12.6	11.4	41.0	45.0	4.8	5.2	6.1	6.5	1.4	1.3
Public Bank	NEUTRAL	18.40	18.80	121.0	129.0	15.2	14.3	56.0	59.0	3.0	3.2	7.9	8.6	2.3	2.1
RHB Capital	NEUTRAL	5.45	6.20	59.0	54.0	9.2	n.m	8.0	6.9	1.5	n.m	7.6	5.7	0.7	n.m
Hong Leong	NEUTRAL	13.08	13.70	123.8	102.0	10.6	12.8	41.0	34.0	3.1	2.6	9.5	10.3	1.4	1.3
CIMB	TRADING BUY	4.15	4.80	40.0	44.0	10.4	9.4	16.0	18.0	3.9	4.3	4.7	5.0	0.9	0.8
AFG	NEUTRAL	3.41	3.80	34.7	34.0	9.8	10.0	15.4	15.0	4.5	4.4	2.9	3.1	1.2	1.1
BIMB	NEUTRAL	3.49	4.22	36.4	38.9	9.6	9.0	15.0	16.0	4.3	4.6	2.2	2.4	1.6	1.5
Affin	SELL	2.16	1.90	19.0	25.0	11.4	8.6	10.0	12.0	4.6	5.6	4.1	4.3	0.5	0.5
Average				61.8	61.8	10.8	10.5	25.5	25.4	4.0	4.4	5.5	5.7	1.2	1.2

*Under review

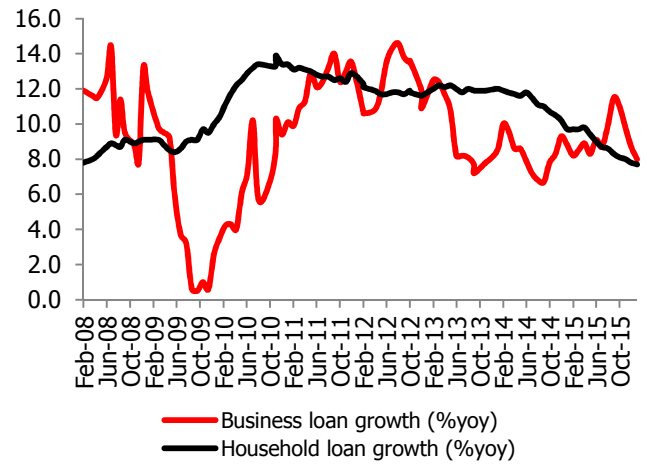
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Chart 1: Total Loan Growth Rate



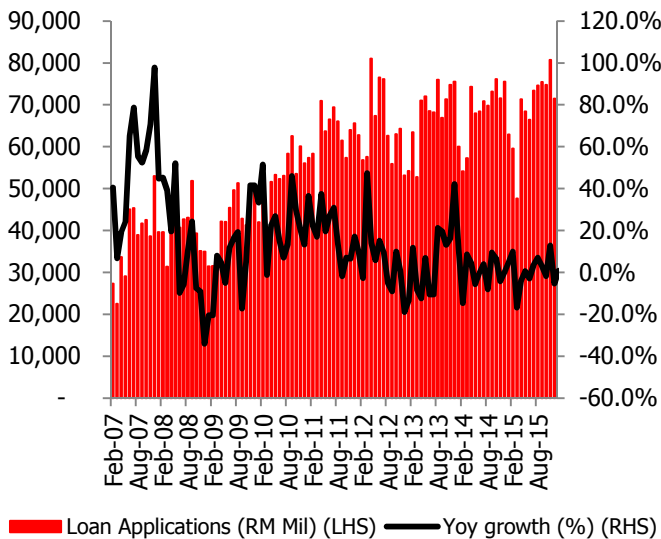
Source: BNM

Chart 2: Business and Household Loan Growth Rate



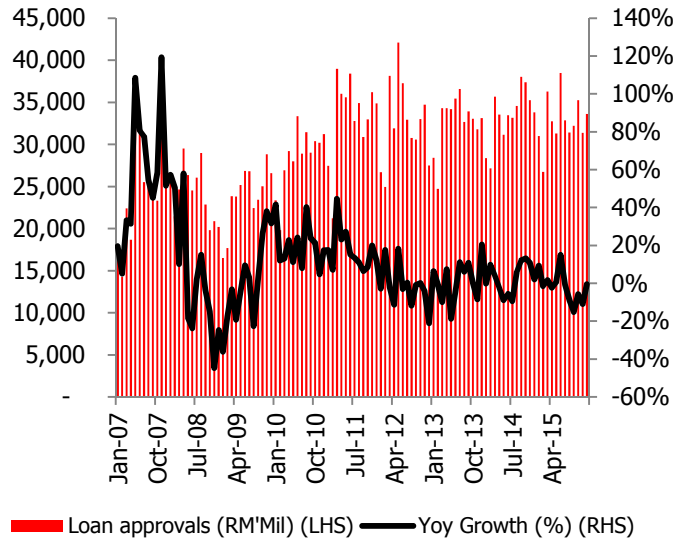
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

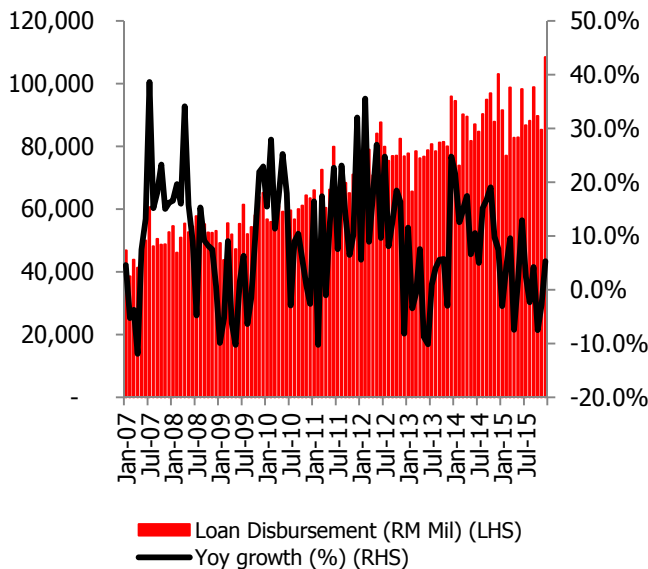


Chart 6: Interest Spread

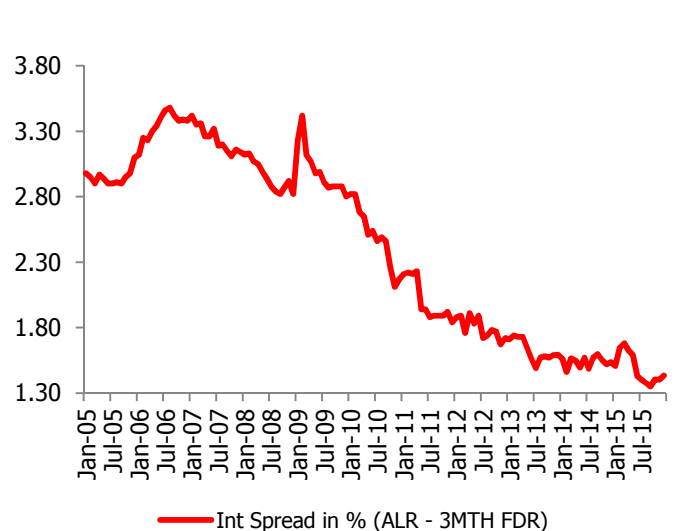
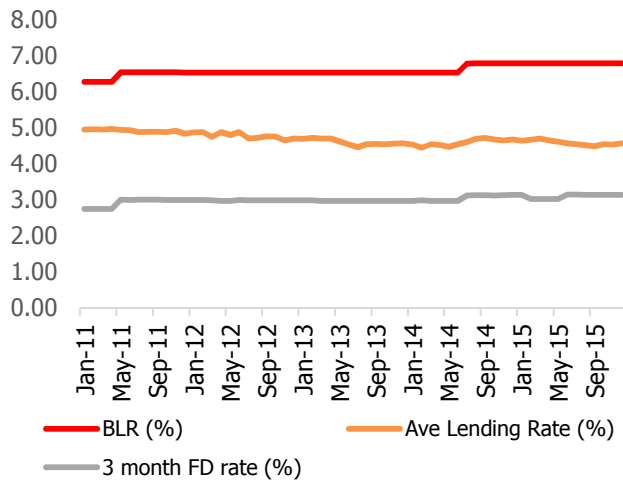
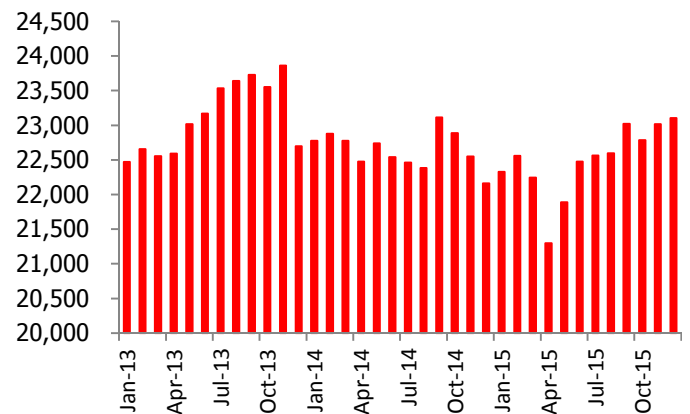


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



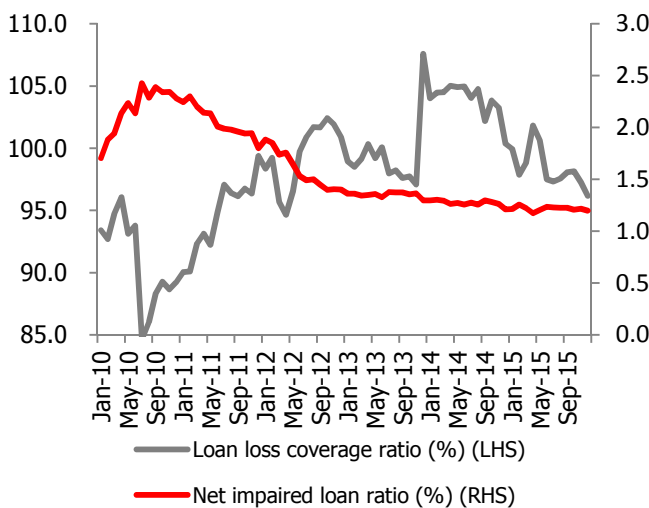
Source: BNM

Chart 8: Total Impaired Loans



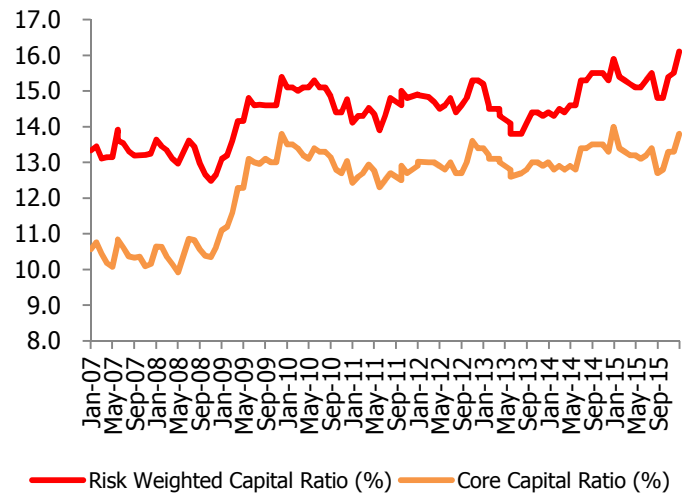
Source: BNM

Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage



Source: BNM

Chart 10: Core Capital and Risk Weighted Capital Ratio



Source: BNM

Chart 11: CET 1 Ratio

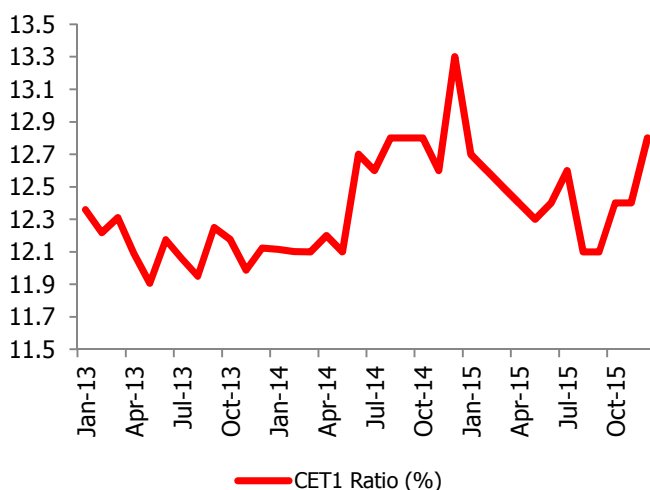
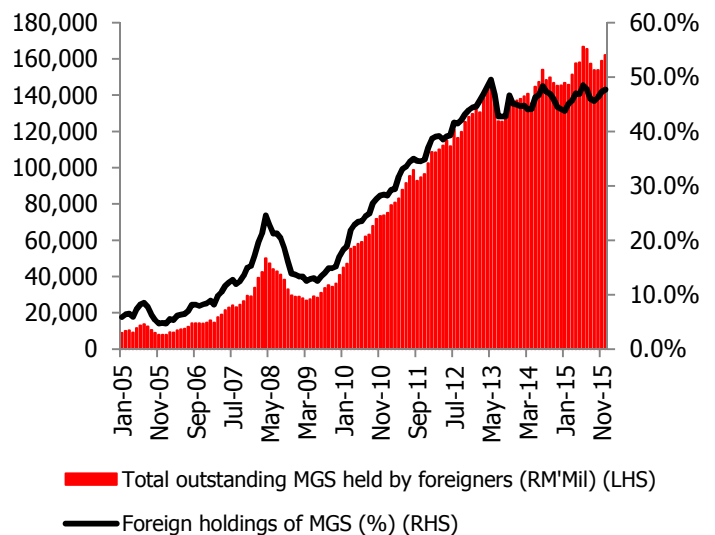


Chart 12: MGS Holdings by Foreigners



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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.