

01 Apr 2016 | Sector update

BANKING – FEB 2016 BNM STATISTICS

Weaker loan demand and approvals

Maintain NEUTRAL

LOAN INDICATORS

- **Loan growth for the industry slowed down in Feb'16 to +7.4%yoy from +7.7%yoy in the preceding month.** Contributing to the moderation in banking system's loan growth in Feb'16 of +7.4%yoy was slower business and household loans. Momentum for business loans continued to lose traction, registering a lower growth of +7.1%yoy in Feb'16 vs. +7.3%yoy in Jan'16. Working capital loans growth was slower at +9.8%yoy as compared to +10.5%yoy in the previous month.

Household loan growth slipped further to +7.0%yoy in Feb'16 from +7.6%yoy in Jan'16.

Table 1: Loan breakdown by purpose (RM mil)

	Feb-15	Jan-16	Feb-16	% of total	%Mom	%Yoy
Purchase of securities	77,125	74,469	73,940	5.1%	-0.7%	-4.1%
Purchase of transport vehicles	166,963	169,818	169,364	11.7%	-0.3%	+1.4%
of which : purchase of passenger cars	157,592	160,905	160,462	11.1%	-0.3%	+1.8%
Purchase of residential property	398,355	440,906	443,625	30.6%	+0.6%	+11.4%
Purchase of non-residential property	180,199	197,900	198,519	13.7%	+0.3%	+10.2%
Purchase of fixed asset other than land & building	10,637	10,014	9,885	0.7%	-1.3%	-7.1%
Personal use	60,072	63,784	63,710	4.4%	-0.1%	+6.1%
Credit card	35,501	36,325	35,359	2.4%	-2.7%	-0.4%
Purchase of consumer durables	697	145	143	0.01%	-1.4%	-79.5%
Construction	40,516	43,000	43,774	3.0%	+1.8%	+8.0%
Working capital	317,581	347,542	348,610	24.0%	+0.3%	+9.8%
Other purpose	61,973	63,390	62,928	4.3%	-0.7%	+1.5%
Total	1,349,619	1,447,292	1,449,858	100.0%	+0.2%	+7.4%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Feb-15	Jan-16	Feb-16	% of total	%Mom	%Yoy
Primary agriculture	32,016	37,075	37,456	2.6%	+1.0%	+17.0%
Mining and quarrying	10,961	13,205	12,958	0.9%	-1.9%	+18.2%
Manufacturing (including agro based)	99,952	101,556	101,925	7.0%	+0.4%	+2.0%
Electricity, gas and water supply	10,849	11,461	10,457	0.7%	-8.8%	-3.6%
Wholesale, retail, restaurants & hotels	98,461	106,158	106,162	7.3%	+0.004%	+7.8%
Construction	57,937	62,905	63,560	4.4%	+1.0%	+9.7%
Real estate	87,046	99,078	99,715	6.9%	+0.6%	+14.6%
Transport, storage & communication	33,649	34,088	33,964	2.3%	-0.4%	+0.9%
Financing, insurance & business services	93,306	99,798	100,565	6.9%	+0.8%	+7.8%
Education, health & others	38,082	39,421	39,868	2.7%	+1.1%	+4.7%
Household sector	771,806	825,213	826,093	57.0%	+0.1%	+7.0%
Other sector	15,552	17,333	17,134	1.2%	-1.1%	+10.2%
Total	1,349,619	1,447,292	1,449,858	100.0%	+0.2%	+7.4%

Source: BNM

By business sectors, compared to the previous month, the slowdown in business loan growth on-year was mainly contributed by slower pace of loans to the real estate, finance, insurance & business services, transport, storage & communication sectors.

- **Household loans continued to moderate and the slowdown was broad-based.** Growth in personal loans and outstanding credit cards which picked up pace in the preceding month slowed down in Feb'16. Meanwhile, growth in loans for purchase of securities continued to moderate. In terms of mortgage loans, growth in loans for purchase of residential property continued to ease to +11.4%yoy while growth in loans for purchase of non-residential property was stable at +10.2%yoy.

In line with much slower vehicle sales, loans for purchase of passenger cars loans grew at a slower pace of +1.8%yoy.

Table 3: Loan applications by purpose (RM mil)

	Feb-16	% of total	Nov-15 (%Yoy)	Dec-15 (%Yoy)	Jan-16 (%Yoy)	Feb-16 (%Yoy)
Purchase of securities	1,830	3.6%	-48.6%	-45.5%	-33.6%	-54.3%
Purchase of transport vehicles	5,224	10.3%	+18.2%	-0.9%	-13.3%	-15.1%
of which : purchase of passenger cars	4,954	9.8%	+12.8%	+0.5%	-13.7%	-16.7%
Purchase of residential property	12,075	23.9%	-13.1%	-16.1%	-6.5%	+1.9%
Purchase of non-residential property	5,756	11.4%	-30.2%	-27.3%	-22.1%	-16.6%
Purchase of fixed asset other than land & building	307	0.6%	+55.8%	-13.1%	-35.5%	-45.2%
Personal use	4,549	9.0%	+33.5%	+27.4%	+38.5%	+36.6%
Credit card	2,468	4.9%	+61.3%	+61.6%	+61.7%	+38.6%
Purchase of consumer durables	21	0.0%	+11.4%	-82.3%	-52.8%	+126.6%
Construction	3,361	6.7%	-3.7%	-44.3%	-5.2%	+60.9%
Working capital	12,644	25.0%	+8.7%	+53.5%	+65.0%	+48.4%
Other purpose	2,275	4.5%	-44.8%	+9.0%	+60.0%	-7.6%
Total applied	50,510	100.0%	-5.4%	+0.7%	+9.3%	+6.0%

Source: BNM

- In line with a lower number of working days in Feb'16, loan demand was weaker.** The industry loan applications registered a slower growth of +6.0%yoy vs. +9.3%yoy growth in the preceding month. Household loan applications continued to record negative growth of -0.9%yoy in Feb'16 vs. -3.7%yoy in Jan'16. Meanwhile, demand for non-household loans did sustain its momentum after picking up pace in Jan'16 and registered a slower growth of +14.6%yoy in Feb'16.

By loan purpose, the slower demand for household loans was contributed by lower growth in applications for personal loans, credit cards, purchase of securities and loans for purchase of passenger vehicles while application of loans for purchase of non-residential and residential property remained soft. With a weaker consumer sentiment, higher inflation rate and slower economic growth, consumer's purchase of discretionary big ticket items continues to be slow. For non household loans, except for construction loans which we believe were due to awards of contracts, demand for working capital loans slipped, registering a lower growth of +48.4%yoy.

By sectors, the weaker loan demand was mainly due to slower growth in loan applications by the finance, insurance and business activities, primary agriculture, mining and quarrying as well as the household sectors.

Table 4: Loan approvals by purpose (RM mil)

	Feb-16	% of total	Nov-15 (%Yoy)	Dec-15 (%Yoy)	Jan-16 (%Yoy)	Feb-16 (%Yoy)
Purchase of securities	1,288	5.8%	-34.8%	-34.8%	-42.0%	-48.7%
Purchase of transport vehicles	2,862	12.9%	+3.6%	-1.9%	-5.1%	-28.6%
of which : purchase of passenger cars	2,736	12.3%	+3.9%	-0.6%	-11.9%	-29.5%
Purchase of residential property	5,116	23.0%	-21.9%	-25.3%	-34.0%	-21.6%
Purchase of non-residential property	1,901	8.5%	-44.7%	-50.4%	-44.3%	-27.0%
Purchase of fixed asset other than land & building	215	1.0%	-39.2%	-66.3%	-67.6%	-54.2%
Personal use	1,115	5.0%	+25.4%	+9.6%	-5.9%	+6.5%
Credit card	1,124	5.1%	+9.5%	+16.8%	+26.4%	+14.7%
Purchase of consumer durables	27	0.1%	-99.6%	-98.6%	-99.5%	+239.0%
Construction	1,065	4.8%	-32.3%	+96.3%	-3.3%	-44.6%
Working capital	6,319	28.4%	+9.5%	+34.5%	-16.1%	19.4%
Other purpose	1,219	5.5%	+10.9%	+89.0%	+256.1%	-11.8%
Total approved	22,250	100.0%	-11.0%	-0.6%	-14.0%	-16.8%

Source: BNM

- Loan approvals were also slower in Feb'16.** Loan approvals registered a higher negative growth of -16.8%yoy. This was contributed by a significantly slower approval of non-household loans with a growth of -7.5%yoy while household loan approvals registered a decline of -23.8%yoy. By loan purpose, the decline in loan approvals was mainly due to slower approvals for construction loans, loans for purchase of vehicles and mortgage loans. On household loans, approvals remained slow for mortgage loans, loans for purchase of passenger cars and loans for purchase of securities. Elsewhere, loan approvals for personal loans picked up pace while that for credit cards slipped to +14.7%yoy (Refer Table 4).
- Sector liquidity eased slightly in Feb'16 with a lower LD ratio of 88.0%, a drop of 100bp compared to the preceding month.** Growth in loan repayments gained pace to +6.8%yoy, higher than that of loan disbursements of +1.1%yoy. Industry LD ratio eased slightly to 88.0%. On the other liquidity metrics, loan to fund ratio and loans to fund and equity ratio also improved slightly to 82.3% and 73.8% respectively.

Growth of deposits (taking into consideration REPO) in the banking system improved slightly but remained slow at +1.2%yoy vs. +0.9%yoy in the previous month. Growth in CASA improved to +2.5%yoy vs. +2.1%yoy in the preceding month. CASA ratio inched higher to 26.1% in Feb'16. LCR ratios for Commercial Banks, Islamic Banks and Investments Banks continued to stay above 100% which is the requirement by 2019, standing at 129.0%, 112.0% and 117.0% respectively as at end of Jan'16. The banking sector's overall LCR was lower at 125.0% in Jan'16 compared to Dec'15.

LENDING AND DEPOSIT RATES

- **Interest spread continued to rise due to higher ALR.** The industry's average lending rate (ALR) remained rose by 3bp mom to 4.61% for Commercial Banks. BLR for Commercial Banks was 6.80% while Base Rate was higher by 2bp mom to 3.88%, reflecting the earlier increase in KLIBOR towards end of CY15. Except for higher FD rate for 6 tenure by 1bp mom to 3.19%, FD rates for Commercial Banks's other tenures of 1, 3, 9 and 12 months remain unchanged.

Interest spread (between the average lending rate and average deposit rate) continued to rise to 1.42% (+2bp).

ASSET QUALITY

- **GIL ratio stable at 1.6% while NIL ratio continues to hold at 1.2%.** 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)

	Feb-15	Jan-16	Feb-16	% of total	%Mom	%Yoy
Purchase of securities	381	373	334	1.4%	-10.5%	-12.3%
Purchase of transport vehicles	2,076	1,617	1,787	7.7%	+10.5%	-13.9%
of which : purchase of passenger cars	1,882	1,513	1,543	6.6%	+2.0%	-18.0%
Purchase of residential property	5,190	5,030	5,088	21.9%	+1.2%	-2.0%
Purchase of non-residential property	1,582	1,786	1,914	8.2%	+7.2%	+21.0%
Purchase of fixed asset other than land & building	183	175	182	0.8%	+4.0%	-0.5%
Personal use	1,054	1,192	1,206	5.2%	+1.2%	+14.4%
Credit card	456	480	489	2.1%	+1.9%	+7.2%
Purchase of consumer durables	10	1	2	0.01%	+100.0%	-80.0%
Construction	2,259	2,494	2,967	12.7%	+19.0%	+31.3%
Working capital	8,218	8,432	7,804	33.5%	-7.4%	-5.0%
Other purpose	1,149	1,522	1,507	6.5%	-1.0%	+31.2%
Total	22,558	23,103	23,279	100.0%	+0.8%	+3.2%

Source: BNM

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

	July-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Purchase of securities	0.4%	0.4%	0.5%	0.4%	0.4%	0.5%	0.4%	0.5%
Purchase of transport vehicles	1.1%	1.1%	1.0%	1.0%	1.1%	1.0%	1.1%	1.1%
of which : purchase of passenger cars	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%
Purchase of residential property	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%
Purchase of non-residential property	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%
Purchase of fixed asset other than land & building	1.6%	1.5%	1.5%	1.8%	1.7%	1.7%	1.8%	1.8%
Personal use	1.7%	1.7%	1.7%	1.7%	1.9%	1.9%	1.9%	1.9%
Credit card	1.3%	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%	1.4%
Purchase of consumer durables	1.2%	1.3%	1.4%	1.3%	1.2%	1.0%	1.0%	1.0%
Construction	7.7%	6.1%	6.0%	6.0%	6.0%	5.8%	6.9%	6.8%
Working capital	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%	2.2%	2.2%
Other purpose	2.1%	2.2%	2.1%	2.2%	2.2%	2.4%	2.4%	2.4%
Total	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

No change in trend, on absolute value basis, impaired loans continued to rise, increasing by +0.8% mom or RM176m to RM23.3b. Most loan segments continued to show stable GIL ratios compared to the previous month (see Table 6). With the rise in impaired loans, the sector's loan loss coverage ratio continued to ease to 92.8%. We expect some banks to raise their loan loss coverage ratio eventually with higher provisions.

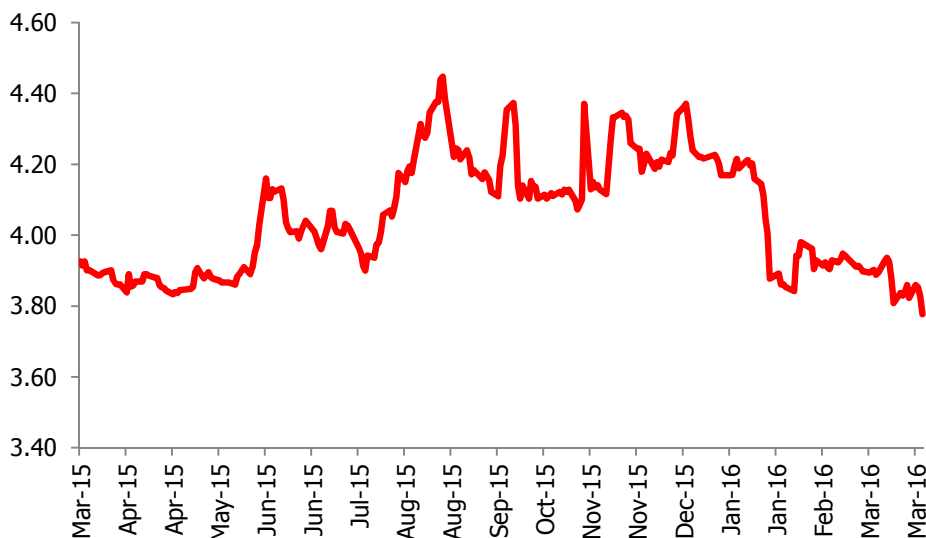
CAPITALISATION

- **Capital ratios eased due to dividend payments.** The sector's CET1 and Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) dropped to 12.7% (-20bp mom), 13.7% (-10bp mom) and 16.3% (-20bp mom) respectively due to dividend payments.

CALL ON SECTOR & STOCK PICKS

- **Yield on MGS remains stable** 10 year MGS continued to be less volatile and has been hovering around 3.8% in the last two weeks of Mar'16. Meanwhile, foreign holdings of MGS dropped slightly to 47.5% in Feb'16 vs. 47.9% as of end of Jan'16.

Trend of 10 year MGS yield



Source: Bloomberg

- **Improvement in capital market activities in Feb'16.** Net funds raised in the market by the private sector was higher at RM7.8b compared to -RM1.9b in Jan'16. Meanwhile, new PDS issuances also rose to RM11.1b vs. RM2.1b in the preceding month.
- **Valuation for the sector has improved and is now trading between 1.2 to 1.3x PBV.** With the return of foreign funds on a view of a more gradual increase in US Fed rate than before, we have seen increase in the foreign shareholdings of banks. Nevertheless, fundamentally, the challenges to banks continue to remain.

We continue to expect the sector's earnings growth for CY16 to improve modestly to +5.2%, coming from a low base and flat earnings growth in CY15 underpinned by: i) modest loan growth of 7-8% for the sector, ii) NIM compression of 7bp, iii) cost savings from initiatives implemented by banks such as the MSS exercises of CIMB and Hong Leong Bank and CTS exercise of RHB Cap leading to a lower CI ratio for the sector, partially offset by higher credit charge-off from lower recoveries and pressure on asset quality.

- **Maintain NEUTRAL on the sector; our top pick remains Maybank.** Our top pick is Maybank (TP: RM9.80) and we have TRADING BUY calls on CIMB and BIMB with TP of RM4.90 and RM4.22 respectively. As highlighted in our earlier report due to the recent surge in share price of CIMB, we are in the process of reviewing our call and TP for CIMB. Meanwhile, we remain NEUTRAL on Hong Leong Bank (TP: RM12.95), RHB Cap (TP: RM5.40), Public Bank (TP: RM19.30), AMMB (TP: RM4.80), AFG (TP: RM3.85) and Affin (TP: RM2.20).

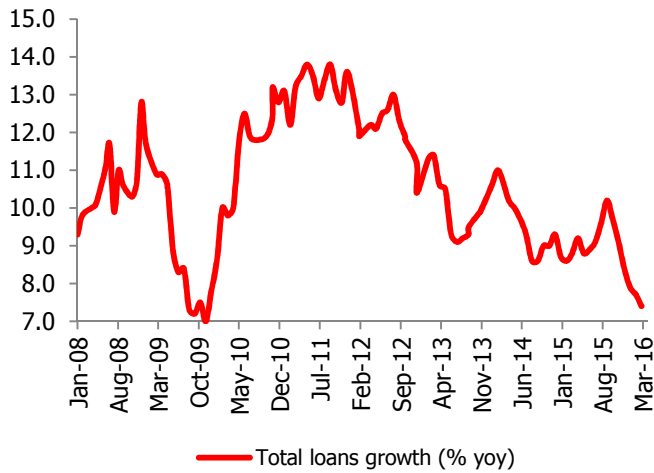
Table 7: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 31/3	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	NEUTRAL	4.60	4.80	43.0	45.0	10.7	10.2	19.0	20.0	4.1	4.3	5.0	5.3	0.9	0.9
Maybank	BUY	9.02	9.80	71.0	78.0	12.7	11.6	53.0	58.0	5.9	6.4	6.5	6.7	1.4	1.3
Public Bank	NEUTRAL	18.78	19.30	131.8	139.3	14.2	13.5	56.0	59.0	3.0	3.1	9.2	10.2	2.0	1.8
RHB Capital	NEUTRAL	5.90	5.40	50.0	55.0	n.m	n.m	15.0	16.0	n.m	n.m	5.5	6.0	n.m	n.m
Hong Leong	NEUTRAL	13.50	12.95	95.0	106.0	14.2	12.7	31.0	35.0	2.3	2.6	10.0	10.8	1.4	1.2
CIMB	TRADING BUY*	4.85	4.90*	46.0	53.0	10.5	9.2	19.0	21.0	3.9	4.3	5.1	5.5	0.9	0.9
AFG	NEUTRAL	4.15	3.85	34.0	36.0	12.2	11.5	15.0	16.0	3.6	3.9	3.1	3.3	1.3	1.2
BIMB	TRADING BUY	3.85	4.22	37.8	40.2	10.2	9.6	15.0	16.0	3.9	4.2	2.4	2.6	1.6	1.5
Affin	NEUTRAL	2.34	2.20	23.0	25.0	10.2	9.4	11.0	12.0	4.7	5.1	4.4	4.6	0.5	0.5
Average				59.1	64.2	11.9	11.0	26.0	28.1	3.9	4.2	5.7	6.1	1.3	1.2

*denotes under review

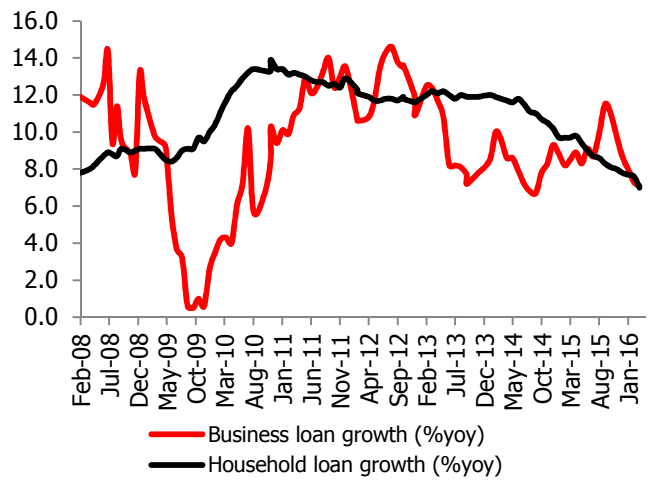
Kelvin Ong, CFA
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



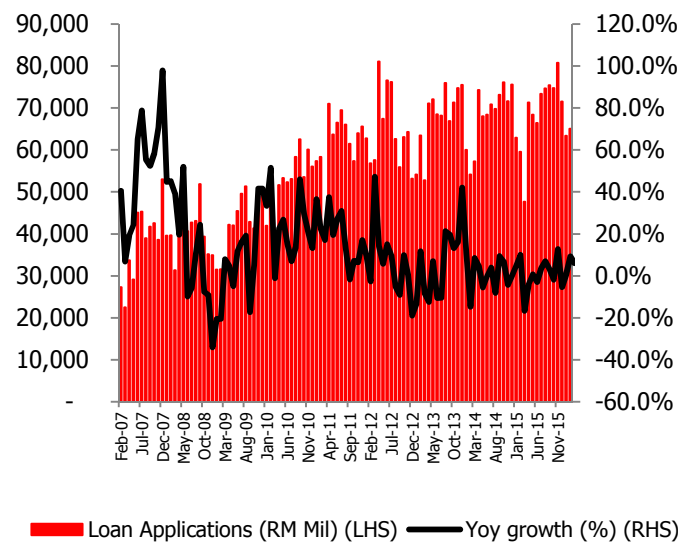
Source: BNM

Chart 2: Business and Household Loan Growth Rate



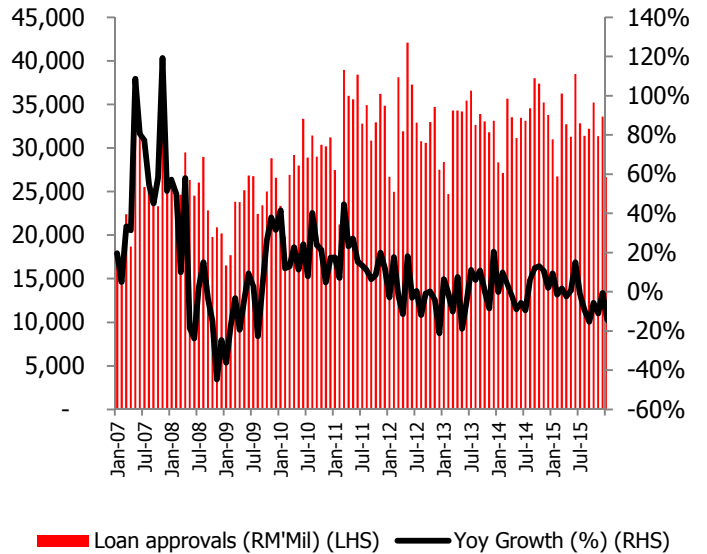
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

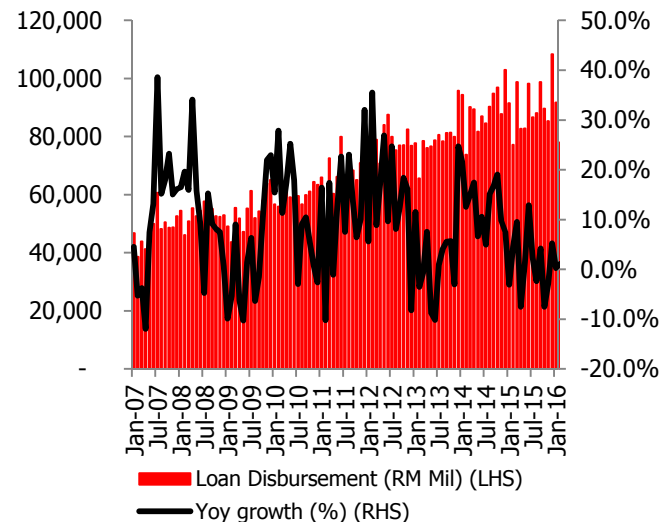


Chart 6: Interest Spread

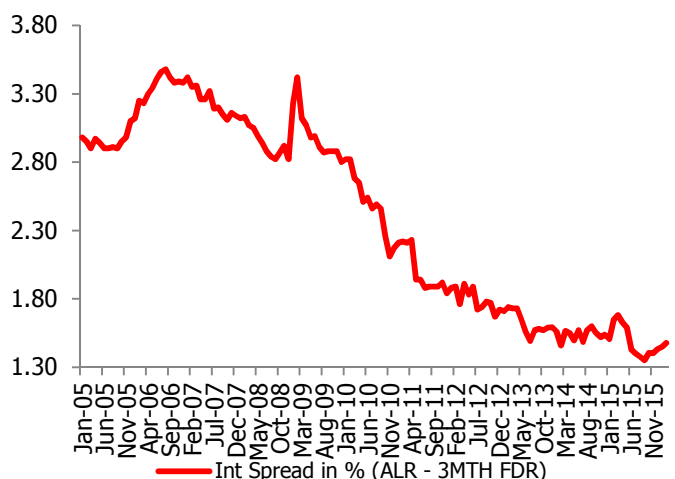
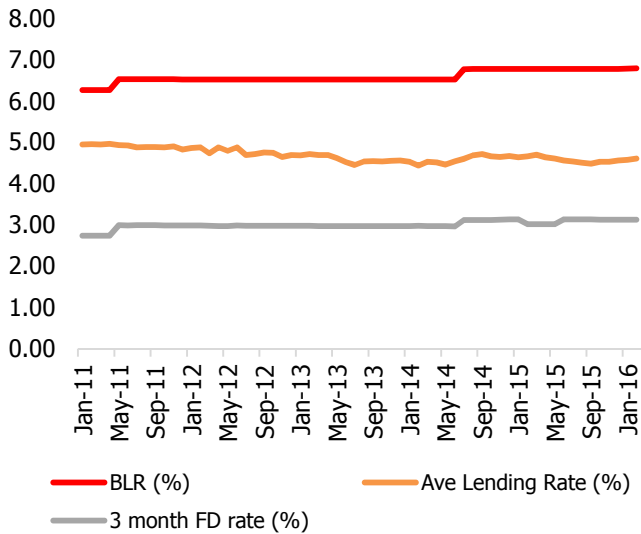
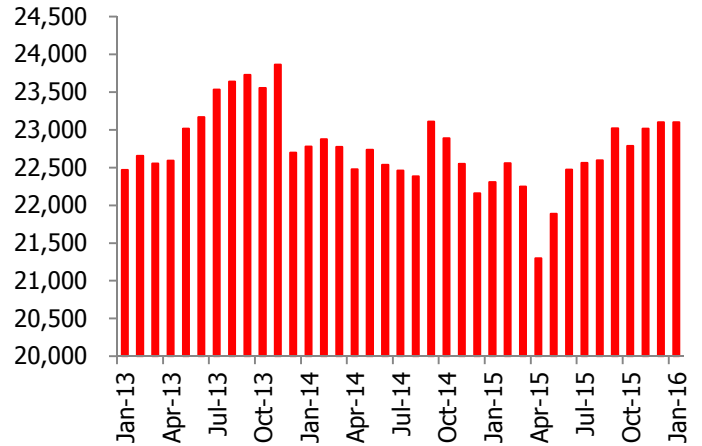


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



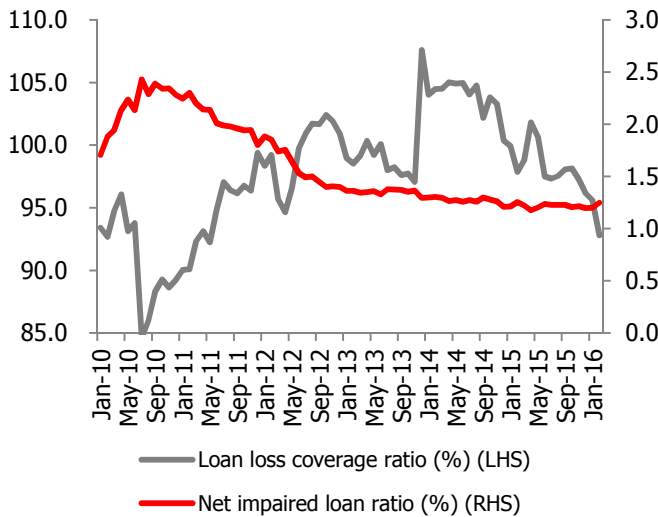
Source: BNM

Chart 8: Total Impaired Loans



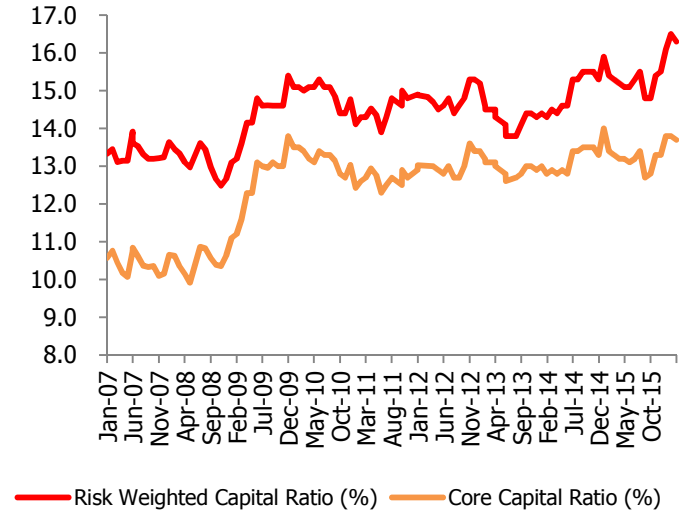
Source: BNM

Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage



Source: BNM

Chart 10: Core Capital and Risk Weighted Capital Ratio



Source: BNM

Chart 11: CET 1 Ratio

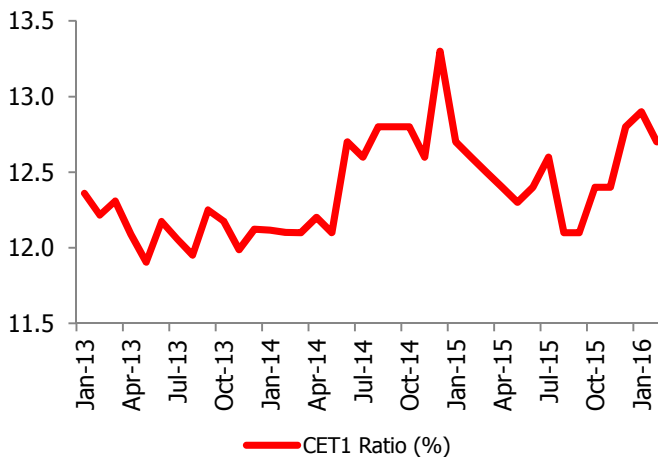
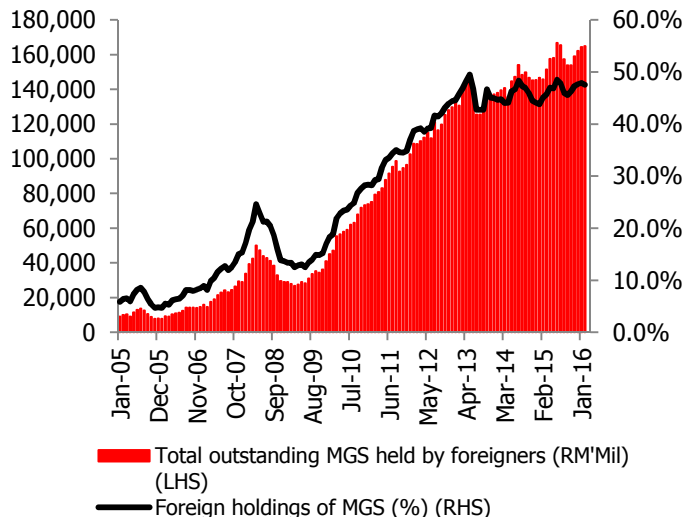


Chart 12: MGS Holdings by Foreigners



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.