

02 Mar 2016 | Sector update

## BANKING – JAN 2016 BNM STATISTICS

*Maintain* NEUTRAL

*Slower deposit growth resulting in tighter liquidity*

### LOAN INDICATORS

- **Industry started CY16 with a slower loan growth of +7.7%yoy contributed by slowdown in the pace of business and household loans.** Banking system's loan growth in Jan'16 continued to decelerate to +7.7%yoy vs. +7.9%yoy in the preceding month. Momentum for business loans was slower, registering a lower growth of +7.3%yoy in Jan'16 vs. +8.0%yoy in Dec'15. Working capital loan growth was stable at +10.5%yoy while construction loans grew +7.8%yoy.

Household loans continued to trend downward to +7.6%yoy in Jan'16 (Dec'15: +7.7%yoy).

**Table 1: Loan breakdown by purpose (RM mil)**

	Jan-15	Dec-15	Jan-16	% of total	%Mom	%Yoy
Purchase of securities	76,737	75,185	74,469	5.1%	-1.0%	-3.0%
Purchase of transport vehicles	166,392	169,810	169,818	11.7%	+0.005%	+2.1%
of which : purchase of passenger cars	156,782	160,682	160,905	11.1%	+0.1%	+2.6%
Purchase of residential property	394,255	437,035	440,906	30.5%	+0.9%	+11.8%
Purchase of non-residential property	179,814	196,991	197,900	13.7%	+0.5%	+10.1%
Purchase of fixed asset other than land & building	10,703	10,060	10,014	0.7%	-0.5%	-6.4%
Personal use	60,108	63,702	63,784	4.4%	+0.1%	+6.1%
Credit card	35,414	36,044	36,325	2.5%	+0.8%	+2.6%
Purchase of consumer durables	669	144	145	0.01%	+0.7%	-78.3%
Construction	39,885	42,656	43,000	3.0%	+0.8%	+7.8%
Working capital	314,635	349,173	347,542	24.0%	-0.5%	+10.5%
Other purpose	65,737	64,338	63,390	4.4%	-1.5%	-3.6%
<b>Total</b>	<b>1,344,350</b>	<b>1,445,139</b>	<b>1,447,292</b>	<b>100.0%</b>	<b>+0.1%</b>	<b>+7.7%</b>

Source: BNM

**Table 2: Loan breakdown by sector (RM mil)**

	Jan-15	Dec-15	Jan-16	% of total	%Mom	%Yoy
Primary agriculture	31,991	37,586	37,075	2.6%	-1.4%	+15.9%
Mining and quarrying	10,715	13,951	13,205	0.9%	-5.3%	+23.2%
Manufacturing (including agro based)	100,867	102,286	101,556	7.0%	-0.7%	+0.7%
Electricity, gas and water supply	12,983	11,500	11,461	0.8%	-0.3%	-11.7%
Wholesale, retail, restaurants & hotels	98,146	106,719	106,158	7.3%	-0.5%	+8.2%
Construction	57,505	62,782	62,905	4.3%	+0.2%	+9.4%
Real estate	85,679	97,864	99,078	6.8%	+1.2%	+15.6%
Transport, storage & communication	32,369	34,311	34,088	2.4%	-0.6%	+5.3%
Financing, insurance & business services	91,155	99,858	99,798	6.9%	-0.1%	+9.5%
Education, health & others	40,229	39,325	39,421	2.7%	+0.2%	-2.0%
Household sector	767,065	820,947	825,213	57.0%	+0.5%	+7.6%
Other sector	15,645	18,008	17,333	1.2%	-3.7%	+10.8%
<b>Total</b>	<b>1,344,350</b>	<b>1,445,139</b>	<b>1,447,292</b>	<b>100.0%</b>	<b>+0.1%</b>	<b>+7.7%</b>

Source: BNM

By business sectors, compared to the previous month, the slowdown in business loans on-year was mainly contributed by slower growth in loans to the primary agriculture, mining and quarrying, manufacturing as well as the education, health and others sectors.

- **Household loans continued to decelerate compared to the preceding month.** Growth in personal loans and outstanding in credit cards continued to pick up pace as some banks have been more aggressive in these segments to improve their loan portfolio yield. Meanwhile, a much slower growth was recorded for loans for purchase of securities, which we believe was due to the volatile market. In terms of mortgage loans, growth in loans for purchase of residential property eased slightly by 10bp to +11.8%yoy while that for purchase of non-residential property continued to decelerate to a slower growth of +10.1%yoy due to the slowdown in property market.

Growth in loans for purchase of passenger cars loans was slightly softer at +2.6%yoy compared to the previous month.

**Table 3: Loan applications by purpose (RM mil)**

	Jan-16	% of total	Oct-15 (%Yoy)	Nov-15 (%Yoy)	Dec-15 (%Yoy)	Jan-16 (%Yoy)
Purchase of securities	2,728	4.2%	-30.8%	-48.6%	-45.5%	-33.6%
Purchase of transport vehicles	7,169	11.0%	-3.8%	+18.2%	-0.9%	-13.3%
of which : purchase of passenger cars	6,820	10.5%	+12.0%	+12.8%	+0.5%	-13.7%
Purchase of residential property	15,269	23.5%	-9.5%	-13.1%	-16.1%	-6.5%
Purchase of non-residential property	6,420	9.9%	-20.7%	-30.2%	-27.3%	-22.1%
Purchase of fixed asset other than land & building	367	0.6%	-16.2%	+55.8%	-13.1%	-35.5%
Personal use	5,989	9.2%	+63.8%	+33.5%	+27.4%	+38.5%
Credit card	3,220	5.0%	+73.0%	+61.3%	+61.6%	+61.7%
Purchase of consumer durables	6	0.01%	-85.2%	+11.4%	-82.3%	-52.8%
Construction	2,587	4.0%	-27.2%	-3.7%	-44.3%	-5.2%
Working capital	17,679	27.2%	+29.3%	+8.7%	+53.5%	+65.0%
Other purpose	3,609	5.5%	+187.8%	-44.8%	+9.0%	+60.0%
<b>Total applied</b>	<b>65,043</b>	<b>100.0%</b>	<b>+12.8%</b>	<b>-5.4%</b>	<b>+0.7%</b>	<b>+9.3%</b>

Source: BNM

- On the positives, loan demand picked up pace.** The industry loan applications registered a stronger growth of +9.3%yoy vs. a flat +0.7%yoy growth in the preceding month. Household loan applications reported a lower negative growth of -3.7%yoy in Jan'16 vs. -6.3%yoy in Dec'15. Meanwhile, demand for non-household loans gained momentum with a higher growth of +29.1% compared to +9.9%yoy in the previous month.

By loan purpose, the improved demand for household loans was contributed by higher growth in applications for personal loans and credit cards. Meanwhile, applications for loans for purchase of securities, loans for purchase of passenger vehicles, loans for purchase of non-residential and residential property remained soft, in particularly a slowdown in demand for auto finance loans. For non-household loans, demand was seen improving for working capital loans with a higher growth of +65.0%yoy compared to the preceding month.

By sectors, the stronger loan demand was mainly due to higher growth in loan applications by the construction, finance, insurance and business activities, transportation, storage and communication, electricity, gas and water supply sectors.

**Table 4: Loan approvals by purpose (RM mil)**

	Jan-16	% of total	Oct-15 (%Yoy)	Nov-15 (%Yoy)	Dec-15 (%Yoy)	Jan-16 (%Yoy)
Purchase of securities	1,664	6.2%	-49.8%	-34.8%	-34.8%	-42.0%
Purchase of transport vehicles	4,331	16.2%	+3.2%	+3.6%	-1.9%	-5.1%
of which : purchase of passenger cars	3,791	14.2%	+4.5%	+3.9%	-0.6%	-11.9%
Purchase of residential property	5,854	22.0%	-20.4%	-21.9%	-25.3%	-34.0%
Purchase of non-residential property	2,345	8.8%	-34.3%	-44.7%	-50.4%	-44.3%
Purchase of fixed asset other than land & building	221	0.8%	-17.2%	-39.2%	-66.3%	-67.6%
Personal use	1,259	4.7%	+21.9%	+25.4%	+9.6%	-5.9%
Credit card	1,436	5.4%	+33.7%	+9.5%	+16.8%	+26.4%
Purchase of consumer durables	0	0.0%	-99.7%	-99.6%	-98.6%	-99.5%
Construction	919	3.4%	-2.7%	-32.3%	+96.3%	-3.3%
Working capital	4,325	16.2%	+11.4%	+9.5%	+34.5%	-16.1%
Other purpose	4,314	16.2%	258.3%	+10.9%	+89.0%	+256.1%
<b>Total approved</b>	<b>26,668</b>	<b>100.0%</b>	<b>-5.7%</b>	<b>-11.0%</b>	<b>-0.6%</b>	<b>-14.0%</b>

Source: BNM

- Loan approvals continued to be slow, reflection of a more conservative risk stance.** Growth in loan approvals remained in negative of -14.0%yoy, higher than the previous month. This contributed by slower pace in approvals of household and non-household loans with growth of -27.9%yoy and +9.8%yoy respectively. By loan purpose, the decline in loan approvals was due to slower approvals for working capital and construction loans. On household loans, approvals remained slow for mortgage loans, loans for purchase of passenger cars and loans for purchase of securities while we noticed an improvement in approvals of credit cards to a higher growth rate of +26.4%yoy (Refer Table 4).
- Sector liquidity was tighter in Jan'16 with a higher LD ratio of 89.0%, higher by 30bp compared to the preceding month.** Growth in loan repayments was slower at +1.8%yoy that of loan disbursements was +0.3%yoy. Industry LD ratio rose slightly to 89.0%. Since the announcement of SRR ratio cut by 50bp to 3.50%, interbank rates (KLIBOR) have eased.

Growth of deposits (taking into consideration REPO) in the banking system continued to decelerate to +0.9%yoy from 1.8%yoy in the previous month. Industry CASA growth improved to +2.1%yoy vs. +1.6%yoy in the preceding month. CASA ratio remained stable at 25.9% in Jan'16. LCR ratio for Commercial Banks, Islamic Banks and Investments Banks were all above 100% which is the requirement by 2019, standing at 135.0%, 113.0% and 117.0% respectively as at end of Dec'15. The banking sector's overall LCR was 130.0% in 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 1bp-mom to 4.58% for Commercial Banks. BLR for Commercial Banks remained at 6.79% while Base Rate was steady at 3.86%. FD rates for Commercial Banks of up to 12 months tenure remain unchanged.

Interest spread (between the average lending rate and average deposit rate) rose slightly to 1.40% (+2bp).

## ASSET QUALITY

- **Overall GIL ratio stable at 1.6% but impaired loans on an absolute basis continued to trend upwards.** 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)**

	Jan-15	Dec-15	Jan-16	% of total	%Mom	%Yoy
Purchase of securities	254	373	334	1.4%	-10.5%	+31.5%
Purchase of transport vehicles	2,011	1,617	1,787	7.7%	+10.5%	-11.1%
of which : purchase of passenger cars	1,820	1,513	1,543	6.6%	+2.0%	-15.2%
Purchase of residential property	4,949	5,030	5,088	21.9%	+1.2%	+2.8%
Purchase of non-residential property	1,587	1,786	1,914	8.2%	+7.2%	+20.6%
Purchase of fixed asset other than land & building	183	175	182	0.8%	+4.0%	-0.5%
Personal use	1,037	1,192	1,206	5.2%	+1.2%	+16.3%
Credit card	435	480	489	2.1%	+1.9%	+12.4%
Purchase of consumer durables	8	1	2	0.01%	+100.0%	-75.0%
Construction	2,253	2,494	2,967	12.7%	+19.0%	+31.7%
Working capital	8,448	8,432	7,804	33.5%	-7.4%	-7.6%
Other purpose	1,144	1,522	1,507	6.5%	-1.0%	+31.7%
<b>Total</b>	<b>22,309</b>	<b>23,103</b>	<b>23,279</b>	<b>100.0%</b>	<b>+0.8%</b>	<b>+4.3%</b>

Source: BNM

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

	Jun-15	July-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16
Purchase of securities	0.5%	0.4%	0.4%	0.5%	0.4%	0.4%	0.5%	0.4%
Purchase of transport vehicles	1.1%	1.1%	1.1%	1.0%	1.0%	1.1%	1.0%	1.1%
of which : purchase of passenger cars	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	1.0%
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	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	1.0%
Purchase of fixed asset other than land & building	1.6%	1.6%	1.5%	1.5%	1.8%	1.7%	1.7%	1.8%
Personal use	1.6%	1.7%	1.7%	1.7%	1.7%	1.9%	1.9%	1.9%
Credit card	1.3%	1.3%	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%
Purchase of consumer durables	1.4%	1.2%	1.3%	1.4%	1.3%	1.2%	1.0%	1.0%
Construction	6.1%	7.7%	6.1%	6.0%	6.0%	6.0%	5.8%	6.9%
Working capital	2.5%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%	2.2%
Other purpose	2.2%	2.1%	2.2%	2.1%	2.2%	2.2%	2.4%	2.4%
<b>Total</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>

Source: BNM

On absolute value basis, impaired loans continued to rise, increasing by +0.8%mom or RM176m to RM23.3b. Higher GIL ratios were evidenced for construction loans and loans for purchase of fixed assets, other than land and building while the other loan segments showed stable GIL ratios (see Table 6). With the rise in impaired loans, the sector's loan loss coverage ratio continued to ease to 95.6%. A rising trend in impaired loans continues to be expected ahead for the sector amidst higher inflation, rise in unemployment, and slower global economic growth with weak commodity prices. Most banks are guiding for a rise in GIL ratio with higher provisions for loan impairment expected in CY16, largely from higher Individual Assessment Allowances (IAs) and lower recoveries.

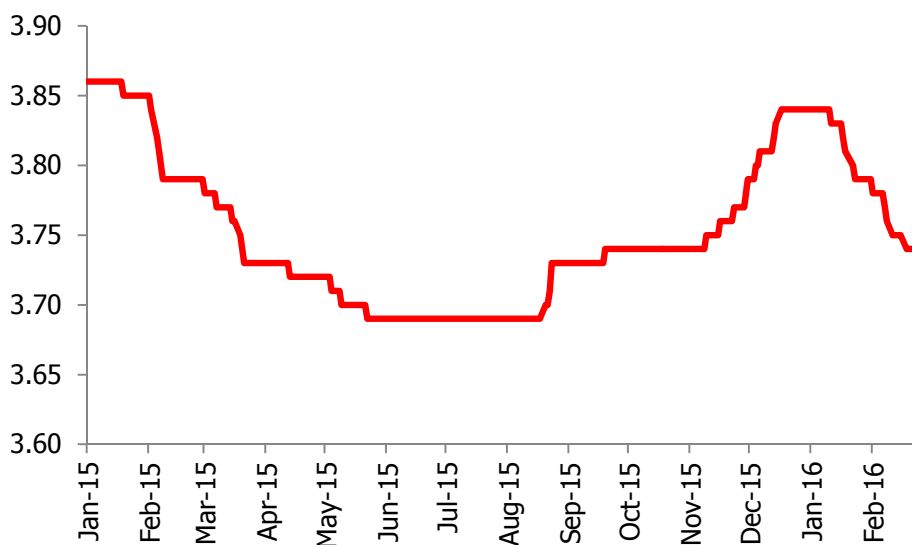
## CAPITALISATION

- Capital position continued to improve.** The sector's CET1 and Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) improved to 13.0% (+20bp-mom), 13.9% (+10bp-mom) and 16.6% (+50bp-mom) respectively contributed partly by lower RWA as seen in Maybank and CIMB which sold off some loans while continuing to focus on optimizing their RWAs.

## CALL ON SECTOR & STOCK PICKS

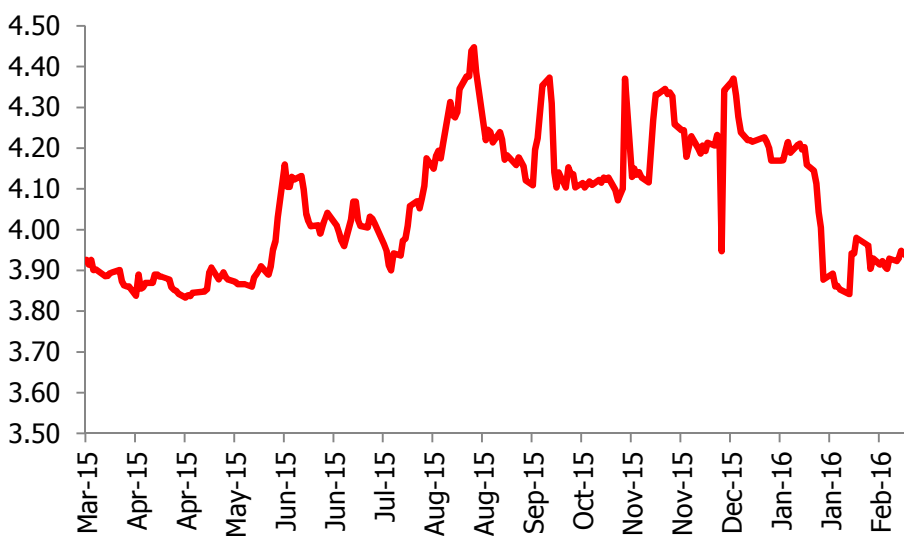
- Lower KLIBOR after BNM announced the cut in SRR ratio by 50bp to 3.50% to be effective 1<sup>st</sup> Feb'16 but FD rates are expected to remain high due to stiff competition for deposits.** While there has been improvement in the 3 month KLIBOR rate as seen below, FD rates for banks have not come down. We continue to expect competition for deposits to remain intense, particularly CASA.

### Trend of 3 month KLIBOR rate



Source: Bloomberg

### Trend of 10 year MGS yield



Source: Bloomberg

- Yield on MGS more stable** 10-year MGS tend to be less volatile and stayed lower in the beginning of CY16 than 2HCY15. Foreign holdings of MGS have risen to 47.9% as of end of Jan'16.
- Markets business weaker in Jan'16.** Net funds raised in the market by the private sector was low at -1.9b in Jan'16 while growth in new PDS issuances has dropped significantly to +6.9%yoy compared to the preceding month.

- **Risk on asset quality still persists.** 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 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 remain NEUTRAL on the sector.
- **Our top pick is Maybank while we have TRADING BUY calls on CIMB and BIMB 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 higher dividend yield than peers. We have TRADING BUY calls on CIMB and BIMB with TP of RM4.90 and RM4.22 respectively on valuation grounds. We are NEUTRAL on Hong Leong Bank (TP: RM12.95), RHB Cap (TP: RM5.40), Public Bank (TP: RM19.30), AMMB (TP: RM4.80) and AFG (TP: RM3.85). Maintain our SELL call on Affin (TP: RM1.98) due to it's weaker than expected NOII, higher OPEX and provisions. 

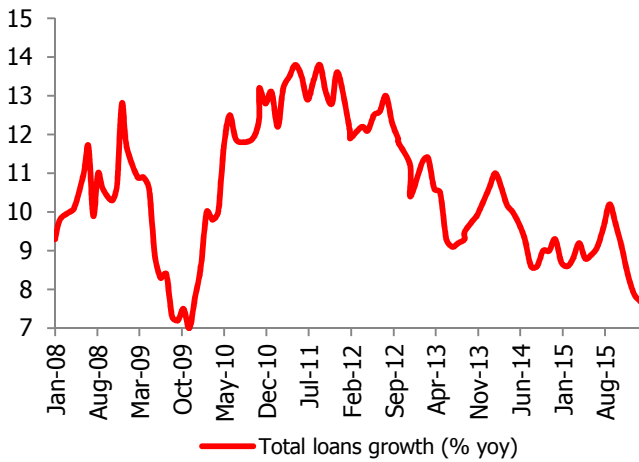
**Table 7: Peer comparison for Malaysian Banking Stocks**

	Rec.	Price @ 1/3	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	4.47	4.80	43.0	45.0	10.4	9.9	19.0	20.0	4.3	4.5	5.0	5.3	0.9	0.8
Maybank	BUY	8.64	9.80	71.0	78.0	12.2	11.1	53.0	58.0	6.1	6.7	6.5	6.7	1.3	1.3
Public Bank	NEUTRAL	18.52	19.30	131.8	139.3	14.1	13.3	56.0	59.0	3.0	3.2	9.2	10.2	2.0	1.8
RHB Capital	NEUTRAL	5.40	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	13.10	12.95	95.0	106.0	13.8	12.4	31.0	35.0	2.4	2.7	10.0	10.8	1.3	1.2
CIMB	TRADING BUY	4.57	4.90	46.0	53.0	9.9	8.6	19.0	21.0	4.2	4.6	5.1	5.5	0.9	0.8
AFG	NEUTRAL	3.65	3.85	34.0	36.0	10.7	10.1	15.0	16.0	4.1	4.4	3.1	3.3	1.2	1.1
BIMB	TRADING BUY	3.66	4.22	37.8	40.2	9.7	9.1	15.0	16.0	4.1	4.4	2.4	2.6	1.5	1.4
Affin	SELL	2.15	1.98	20.0	23.0	10.8	9.3	10.0	12.0	4.7	5.6	4.4	4.6	0.5	0.5
<b>Average</b>				<b>58.7</b>	<b>63.9</b>	<b>11.4</b>	<b>10.5</b>	<b>25.9</b>	<b>28.1</b>	<b>4.1</b>	<b>4.5</b>	<b>5.7</b>	<b>6.1</b>	<b>1.2</b>	<b>1.1</b>

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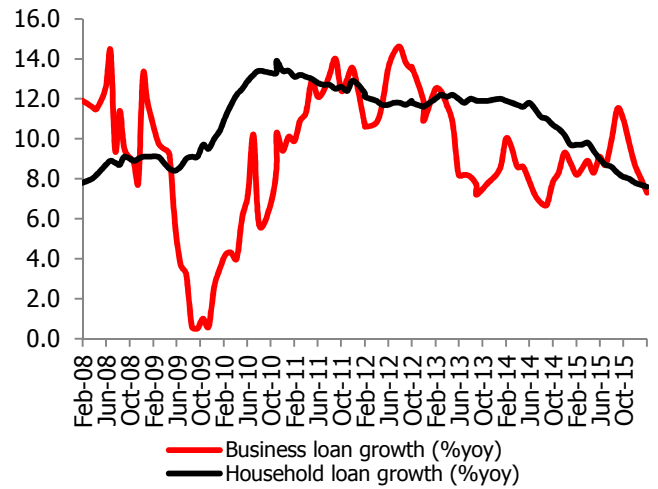


**Chart 1: Total Loan Growth Rate**



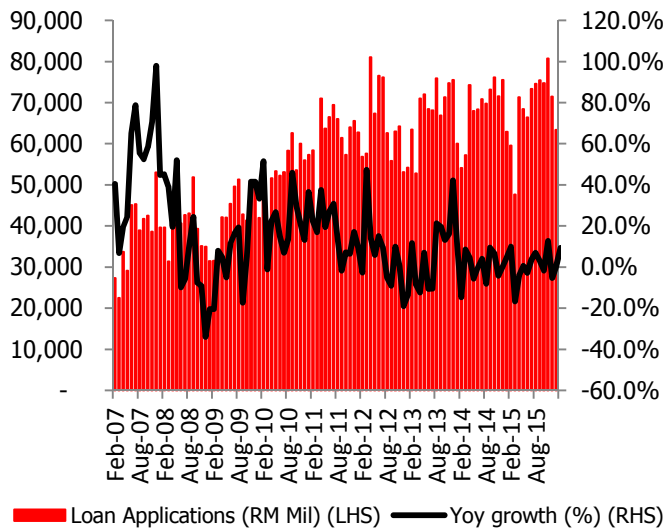
Source: BNM

**Chart 2: Business and Household Loan Growth Rate**



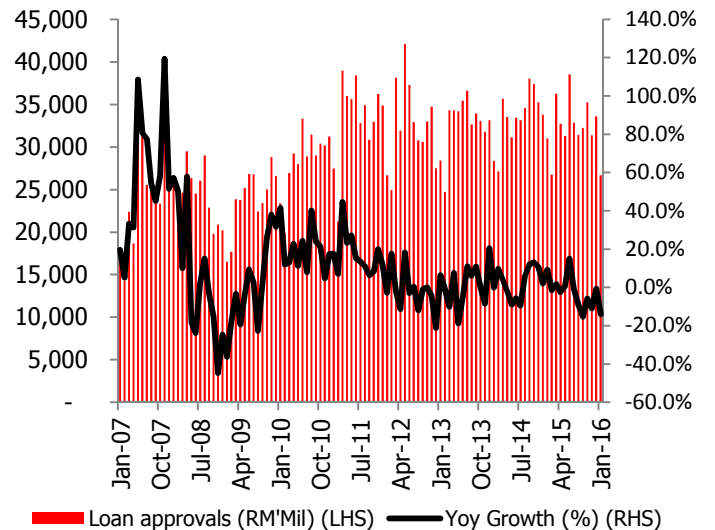
Source: BNM

**Chart 3: Loan Application**



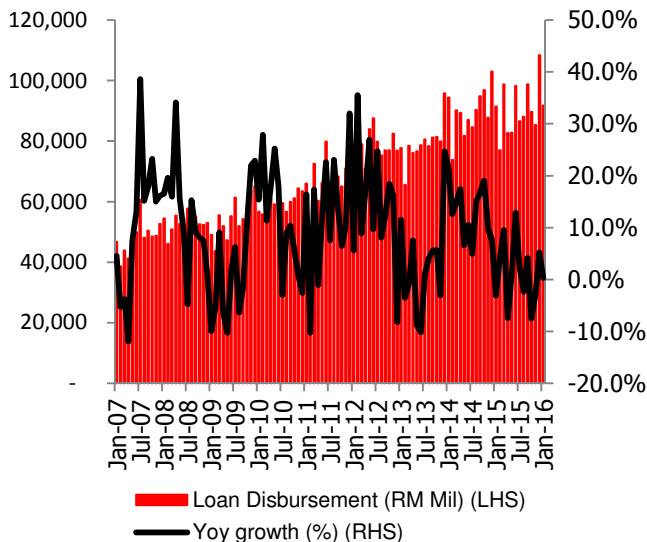
Source: BNM

**Chart 4: Loan Approvals**

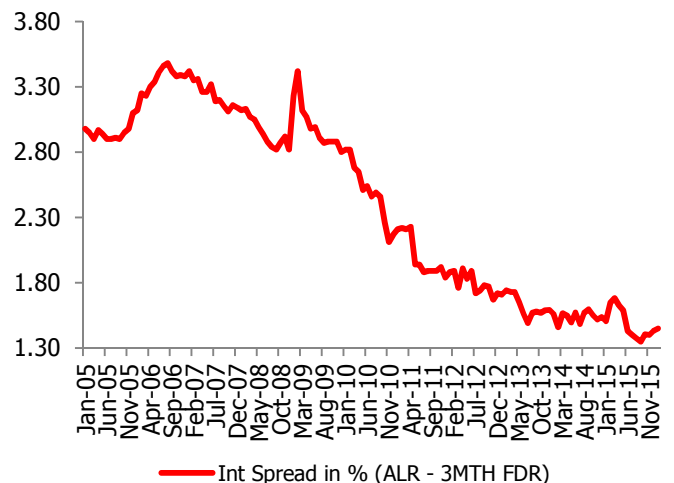


Source: BNM

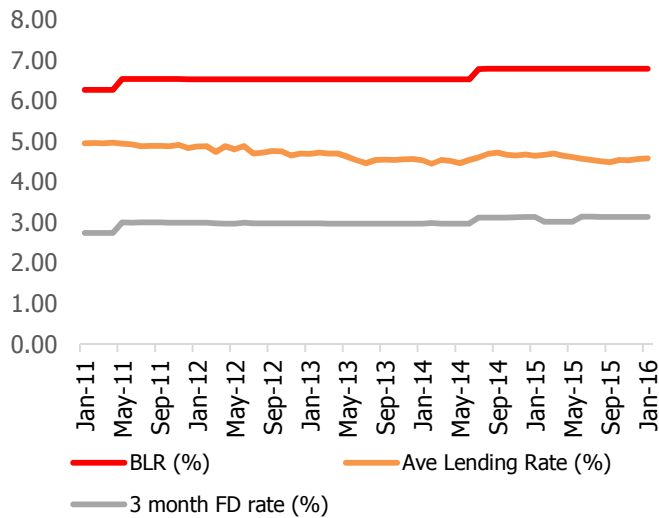
**Chart 5: Loan Disbursement**



**Chart 6: Interest Spread**

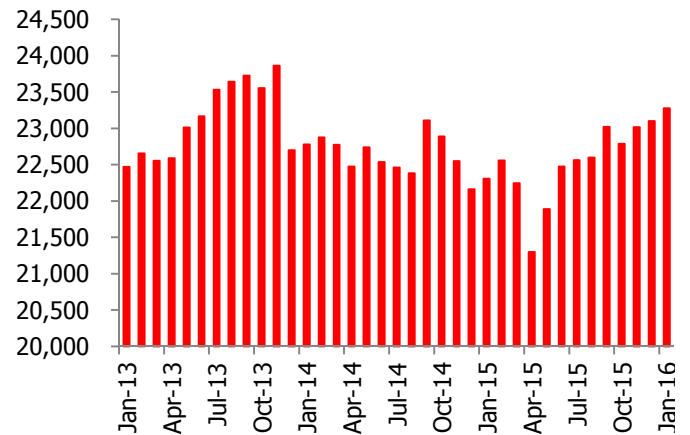


**Chart 7: Trend of BLR, ALR & 3 mth FD Rate**



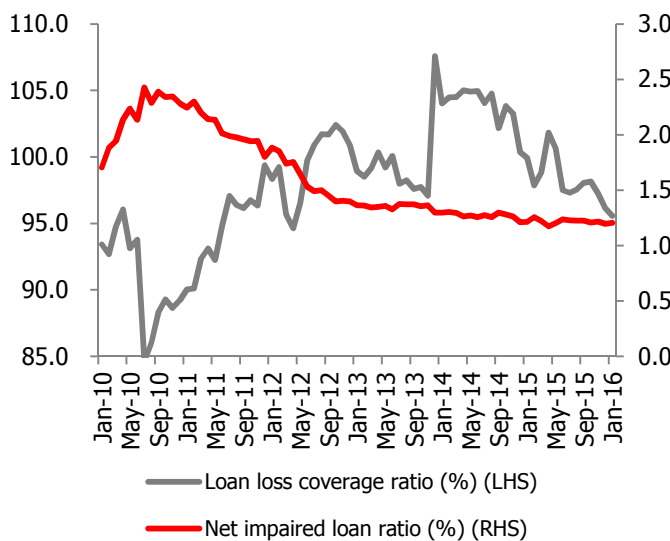
Source: BNM

**Chart 8: Total Impaired Loans**



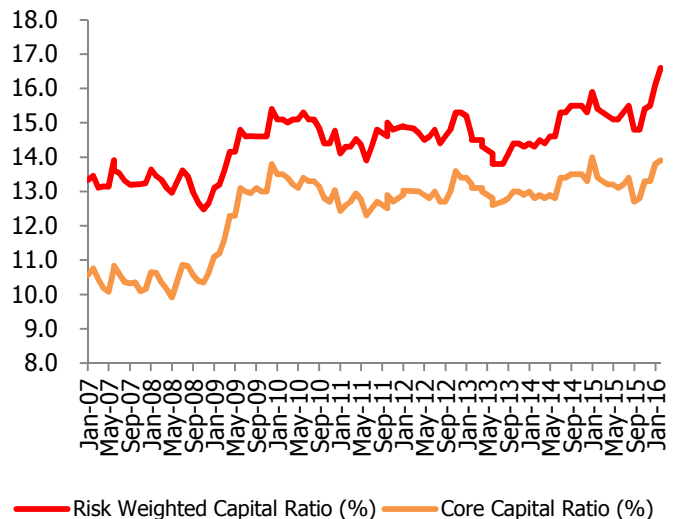
Source: BNM

**Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage**



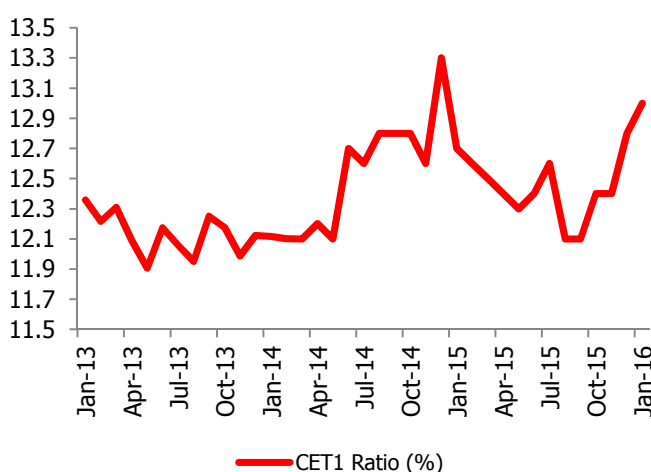
Source: BNM

**Chart 10: Core Capital and Risk Weighted Capital Ratio**



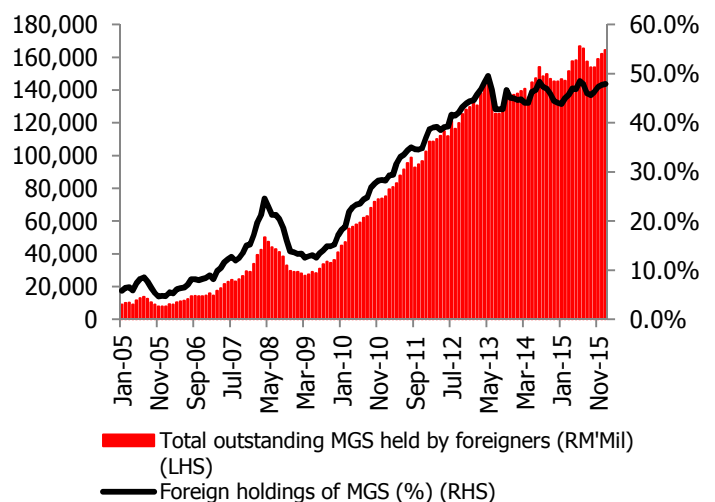
Source: BNM

**Chart 11: CET 1 Ratio**



Source: BNM

**Chart 12: MGS Holdings by Foreigners**



Source: BNM

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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.