

03 May 2016 | Sector Update

## BANKING – MAR 2016 BNM STATISTICS

*Maintain NEUTRAL*

*Loan repayments outpaced disbursements*

### LOAN INDICATORS

- Banking system loan growth continued to slide to +6.4%yoy from +7.4%yoy in the preceding month.** The moderation in banking system's loan growth in Mar'16 to +6.4%yoy was contributed largely by a significant slowdown in business loans as a result of stronger pace of loan repayments outpacing disbursements as well as due to further slowdown in household loans. Momentum for business loans continued to lose traction, registering a slower growth of +5.2%yoy in Mar'16 vs. +7.1%yoy in Feb'16. Growth in working capital loans continued to slide to +8.3%yoy vs. +9.8%yoy in the previous month.

Household loan growth continued to moderate to +6.4%yoy, down from +7.0%yoy in Feb'16.

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

	Mar-15	Feb-16	Mar-16	% of total	%Mom	%Yoy
Purchase of securities	77,311	73,940	71,554	4.9%	-3.2%	-7.4%
Purchase of transport vehicles	167,742	169,364	168,760	11.6%	-0.4%	+0.6%
of which : purchase of passenger cars	158,239	160,462	159,912	11.0%	-0.3%	+1.1%
Purchase of residential property	402,889	443,625	447,130	30.8%	+0.8%	+11.0%
Purchase of non-residential property	184,939	198,519	200,075	13.8%	+0.8%	+8.2%
Purchase of fixed asset other than land & building	10,719	9,885	9,632	0.7%	-2.6%	-10.1%
Personal use	59,770	63,710	64,037	4.4%	+0.5%	+7.1%
Credit card	35,588	35,359	34,965	2.4%	-1.1%	-1.8%
Purchase of consumer durables	730	143	142	0.01%	-0.7%	-80.5%
Construction	39,445	43,774	44,140	3.0%	+0.8%	+11.9%
Working capital	320,898	348,610	347,479	24.0%	-0.3%	+8.3%
Other purpose	61,876	62,928	61,566	4.2%	-2.2%	-0.5%
<b>Total</b>	<b>1,361,907</b>	<b>1,449,858</b>	<b>1,449,480</b>	<b>100.0%</b>	<b>-0.03%</b>	<b>+6.4%</b>

Source: BNM

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

	Mar-15	Feb-16	Mar-16	% of total	%Mom	%Yoy
Primary agriculture	32,586	37,456	35,778	2.5%	-4.5%	+9.8%
Mining and quarrying	11,447	12,958	13,139	0.9%	+1.4%	+14.8%
Manufacturing (including agro based)	99,769	101,925	100,454	6.9%	-1.4%	+0.7%
Electricity, gas and water supply	10,819	10,457	8,954	0.6%	-14.4%	-17.2%
Wholesale, retail, restaurants & hotels	99,579	106,162	106,578	7.4%	+0.4%	+7.0%
Construction	58,450	63,560	64,058	4.4%	+0.8%	+9.6%
Real estate	88,635	99,715	100,860	7.0%	+1.1%	+13.8%
Transport, storage & communication	34,009	33,964	33,577	2.3%	-1.1%	-1.3%
Financing, insurance & business services	92,511	100,565	100,666	6.9%	+0.1%	+8.8%
Education, health & others	38,991	39,868	40,989	2.8%	+2.8%	+5.1%
Household sector	778,271	826,093	828,071	57.1%	+0.2%	+6.4%
Other sector	16,840	17,134	16,355	1.1%	-4.5%	-2.9%
<b>Total</b>	<b>1,361,907</b>	<b>1,449,858</b>	<b>1,449,480</b>	<b>100.0%</b>	<b>-0.03%</b>	<b>+6.4%</b>

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 manufacturing, real estate, transport, storage & communication, wholesale, retail, restaurants and hotels as well as the primary agriculture sectors.

- **Except for personal loans, all other segments of household loans continue to moderate.** Growth in personal loans picked up pace in Mar'16. Meanwhile, growth in outstanding balances of credit cards and loans for purchase of securities continued to moderate. In regards to mortgage loans, due to the softer property market conditions, growth in loans for purchase of residential and non-residential property eased to +11.0%yoy and +8.2%yoy respectively.

In line with the slower vehicle sales and industry wide expectation of lower TIV of new motor vehicles, loans for purchase of passenger cars loans continued to grow at a slower pace of +1.1%yoy.

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

	Mar-16	% of total	Dec-15 (%Yoy)	Jan-16 (%Yoy)	Feb-16 (%Yoy)	Mar-16 (%Yoy)
Purchase of securities	2,637	3.7%	-45.5%	-33.6%	-54.3%	-9.0%
Purchase of transport vehicles	7,381	10.2%	-0.9%	-13.3%	-15.1%	-17.1%
of which : purchase of passenger cars	6,916	9.6%	+0.5%	-13.7%	-16.7%	-16.5%
Purchase of residential property	19,182	26.6%	-16.1%	-6.5%	+1.9%	+5.6%
Purchase of non-residential property	6,802	9.4%	-27.3%	-22.1%	-16.6%	-15.7%
Purchase of fixed asset other than land & building	309	0.4%	-13.1%	-35.5%	-45.2%	-35.9%
Personal use	6,185	8.6%	+27.4%	+38.5%	+36.6%	+29.5%
Credit card	3,791	5.3%	+61.6%	+61.7%	+38.6%	+71.5%
Purchase of consumer durables	1	0.001%	-82.3%	-52.8%	+126.6%	-93.0%
Construction	3,476	4.8%	-44.3%	-5.2%	+60.9%	-12.4%
Working capital	19,082	26.5%	+53.5%	+65.0%	+48.4%	+5.8%
Other purpose	3,256	4.5%	+9.0%	+60.0%	-7.6%	-14.6%
<b>Total applied</b>	<b>72,103</b>	<b>100.0%</b>	<b>+0.7%</b>	<b>+9.3%</b>	<b>+6.0%</b>	<b>+1.1%</b>

Source: BNM

- Loan demand continued to be weak.** The industry loan applications registered a slower growth of +1.1%yoy vs. +6.0%yoy growth in the preceding month. Household loan applications picked up pace to a positive growth of 3.6%yoy vs. -0.9%yoy in Feb'16. Meanwhile, demand for non-household loans did sustain its momentum after picking up pace in Jan'16 and registered slower growth of +14.6%yoy and -1.7%yoy in Feb'16 and Mar'16 respectively.

By loan purpose, the improved demand for household loans was mainly contributed by higher growth in application of loans for purchase of residential property and credit cards. With a weaker consumer sentiment and slower economic growth, consumer's purchase of passenger vehicles continued to be slow. For non household loans, growth in applications for construction and working capital loans were 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, electricity, gas and water supply, wholesale, retail trade, restaurants and hotels and the transport, storage and communication sectors.

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

	Mar-16	% of total	Dec-15 (%Yoy)	Jan-16 (%Yoy)	Feb-16 (%Yoy)	Mar-16 (%Yoy)
Purchase of securities	1,305	4.7%	-34.8%	-42.0%	-48.7%	-42.2%
Purchase of transport vehicles	3,465	12.5%	-1.9%	-5.1%	-28.6%	-35.3%
of which : purchase of passenger cars	3,263	11.7%	-0.6%	-11.9%	-29.5%	-32.9%
Purchase of residential property	7,687	27.7%	-25.3%	-34.0%	-21.6%	-13.8%
Purchase of non-residential property	3,420	12.3%	-50.4%	-44.3%	-27.0%	-26.1%
Purchase of fixed asset other than land & building	177	0.6%	-66.3%	-67.6%	-54.2%	-77.5%
Personal use	1,511	5.4%	+9.6%	-5.9%	+6.5%	+5.8%
Credit card	1,442	5.2%	+16.8%	+26.4%	+14.7%	+21.0%
Purchase of consumer durables	0	0.0%	-98.6%	-99.5%	+239.0%	-98.3%
Construction	318	1.1%	+96.3%	-3.3%	-44.6%	-80.4%
Working capital	7,342	26.4%	+34.5%	-16.1%	19.4%	-7.4%
Other purpose	1,115	4.0%	+89.0%	+256.1%	-11.8%	-48.0%
<b>Total approved</b>	<b>27,781</b>	<b>100.0%</b>	<b>-0.6%</b>	<b>-14.0%</b>	<b>-16.8%</b>	<b>-23.4%</b>

Source: BNM

- Loan approvals continue to trend weaker in Mar'16.** Loan approvals continued to register negative growth, sliding to -23.4%yoy. This was contributed by a significantly slower approvals of non-household loans of -26.1%yoy vs. -7.5%yoy in the preceding month while household loan approvals remained slow, registering a growth of -21.0%yoy. By loan purpose, the decline in loan approvals was mainly due to slow approvals for construction, working capital loans, loans for purchase of vehicles, mortgage loans and loans for purchase of securities. On household loans, except for approvals for credit cards, approvals for other types of loans have been slow (Refer Table 4).
- Slight improvement in sector liquidity with a lower LD ratio of 87.7%, a drop of 30bp compared to the preceding month.** Growth in loan repayments of +2.7%yoy was higher than that of loan disbursements of -6.7%yoy. This has contributed to the decline in growth of business loans. Industry LD ratio eased slightly to 87.7% contributed by the slower loan growth. On the other liquidity metrics, loan to fund ratio and loans to fund and equity ratio remain stable at 82.4% and 73.9% respectively.

Growth of deposits (taking into consideration REPO) in the banking system eased to -0.9%yoy vs. +1.2%yoy in the previous month. CASA growth turned slower at -2.7%yoy vs. +2.5%yoy in the preceding month. This has caused the industry's CASA ratio to slip to 25.4% vs. 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 135.0%, 118.0% and 121.0% respectively as at end of Feb'16. The banking sector's overall LCR was higher at 131.0% in Feb'16 vs. 125.0% in Jan'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 base rate for Commercial Banks remained at 6.80% and 4.61% respectively. FD rates for Commercial Banks for tenures of 1, 3, 6, 9 and 12 months were similar to the preceding month.

The stable ALR has kept interest spread (between the average lending rate and average deposit rate) steady at 1.42%.

## 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)**

	Mar-15	Feb-16	Mar-16	% of total	%Mom	%Yoy
Purchase of securities	462	334	329	1.4%	-1.5%	-28.8%
Purchase of transport vehicles	1,902	1,787	1,658	7.1%	-7.2%	-12.8%
of which : purchase of passenger cars	1,719	1,543	1,411	6.1%	-8.6%	-17.9%
Purchase of residential property	5,059	5,088	5,045	21.7%	-0.8%	-0.3%
Purchase of non-residential property	1,554	1,914	1,956	8.4%	+2.2%	+25.9%
Purchase of fixed asset other than land & building	181	182	166	0.7%	-8.8%	-8.3%
Personal use	1,028	1,206	1,211	5.2%	+0.4%	+17.8%
Credit card	442	489	492	2.1%	+0.6%	+11.3%
Purchase of consumer durables	11	2	2	0.01%	-	-81.8%
Construction	2,266	2,967	3,009	12.9%	+1.4%	+32.8%
Working capital	8,166	7,804	8,086	34.8%	+3.6%	-1.0%
Other purpose	1,149	1,507	1,292	5.6%	-14.3%	+12.4%
<b>Total</b>	<b>22,220</b>	<b>23,279</b>	<b>23,245</b>	<b>100.0%</b>	<b>-0.1%</b>	<b>+4.6%</b>

Source: BNM

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

	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Purchase of securities	0.4%	0.5%	0.4%	0.4%	0.5%	0.4%	0.5%	0.5%
Purchase of transport vehicles	1.1%	1.0%	1.0%	1.1%	1.0%	1.1%	1.1%	1.0%
of which : purchase of passenger cars	1.1%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	0.9%
Purchase of residential property	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%
Purchase of non-residential property	0.9%	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%
Purchase of fixed asset other than land & building	1.5%	1.5%	1.8%	1.7%	1.7%	1.8%	1.8%	1.7%
Personal use	1.7%	1.7%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%
Credit card	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%	1.4%	1.4%
Purchase of consumer durables	1.3%	1.4%	1.3%	1.2%	1.0%	1.0%	1.0%	1.4%
Construction	6.1%	6.0%	6.0%	6.0%	5.8%	6.9%	6.8%	6.8%
Working capital	2.3%	2.4%	2.4%	2.4%	2.4%	2.2%	2.2%	2.3%
Other purpose	2.2%	2.1%	2.2%	2.2%	2.4%	2.4%	2.4%	2.1%
<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 declined marginally by -0.1% mom or RM34m to RM23.2b. Most loan segments continued to show stable GIL ratios (see Table 6). Thus far, asset quality remains stable despite of the wide industry expectations of higher impaired loans, consequently leading to higher provisions. The sector's loan loss coverage ratio improved to 94.3% vs. 92.8% in the preceding month.

## CAPITALISATION


- **Capital ratios strengthened post dividend payments in the preceding month.** The sector's CET1 and Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) rose to 13.0% (+30bp mom), 13.9% (+30bp mom) and 16.5% (+20bp mom) respectively.

## CALL ON SECTOR & STOCK PICKS

- **Markets business expected to remain volatile due to the divergence of the macro policies of developed and emerging economies.** Improvement in capital market activities seen in Feb'16 was short lived. Net funds raised in the market by the private sector in Mar'16 declined to RM0.8b (-87.2%yoy) vs. RM7.8b in the preceding month. Also, new PDS issuances drop to RM5.2b vs. to RM11.1b in the preceding month, registering a decline of -36.9%yoy.

- **Recent strengthening of Ringgit will cause negative translation impact to growth of banks' international operations loan and deposit growth.** Ringgit has recently recovered against the US Dollar on the dovish stance of US Fed in regard to the pace of interest rate hikes. This is expected to lower the loan and deposit growth of larger banks with foreign operations with the effect significantly larger in 1QCY16 than 2QCY16.
- **Fundamental challenges remain.** With the returning of foreign funds underpinned by a more dovish US Fed, we have seen some 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 and our top pick remains Maybank.** Our top pick is Maybank (TP: RM9.80) and we have BUY call on CIMB and TRADING BUY on BIMB with TP of RM5.50 and RM4.22 respectively. Meanwhile, we remain NEUTRAL on Hong Leong Bank (TP: RM12.95), RHB Cap (TP: RM5.85), Public Bank (TP: RM20.40), AMMB (TP: RM4.80), AFG (TP: RM3.85) and Affin (TP: RM2.20). 

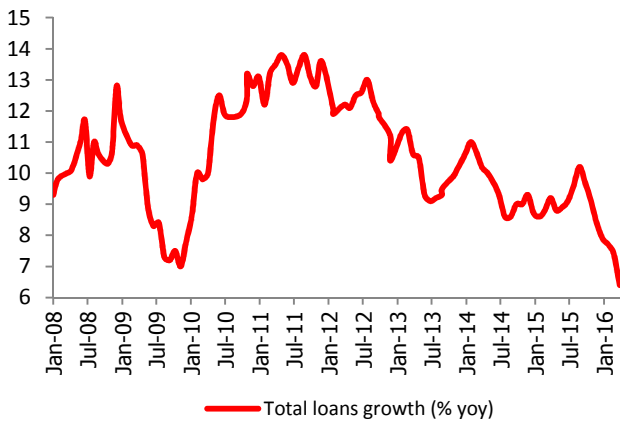
**Table 7: Peer comparison for Malaysian Banking Stocks**

	Rec.	Price @ 29/4	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	4.53	4.80	43.0	45.0	10.5	10.1	19.0	20.0	4.2	4.4	5.0	5.3	0.9	0.9
Maybank	BUY	8.93	9.80	71.0	78.0	12.6	11.4	53.0	58.0	5.9	6.5	6.5	6.7	1.4	1.3
Public Bank	NEUTRAL	18.70	20.40	131.8	139.3	14.2	13.4	56.0	59.0	3.0	3.2	9.2	10.2	2.0	1.8
RHB Capital	NEUTRAL	6.12	5.85	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	13.46	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	BUY	4.67	5.50	46.0	53.0	10.2	8.8	19.0	21.0	4.1	4.5	5.1	5.5	0.9	0.9
AFG	NEUTRAL	4.00	3.85	34.0	36.0	11.8	11.1	15.0	16.0	3.8	4.0	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	2.32	2.20	23.0	25.0	10.1	9.3	11.0	12.0	4.7	5.2	4.4	4.6	0.5	0.5
<b>Average</b>				<b>58.8</b>	<b>64.1</b>	<b>11.7</b>	<b>10.8</b>	<b>25.9</b>	<b>28.1</b>	<b>4.0</b>	<b>4.3</b>	<b>5.7</b>	<b>6.1</b>	<b>1.3</b>	<b>1.2</b>

Kelvin Ong, CFA

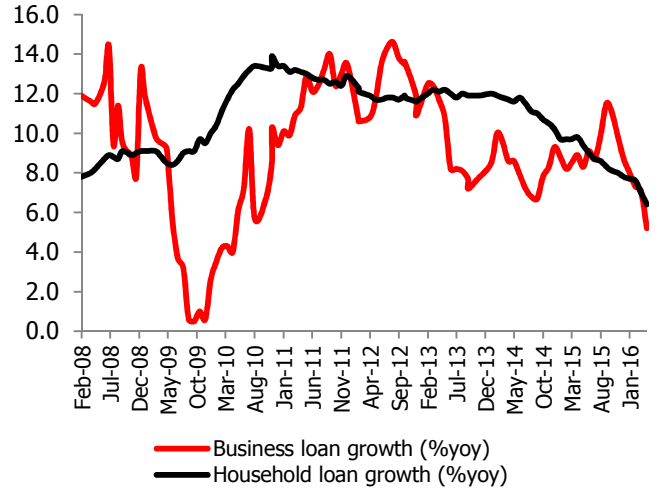
kelvin.ong@midf.com.my / 03-21738353

**Chart 1: Total Loan Growth Rate**



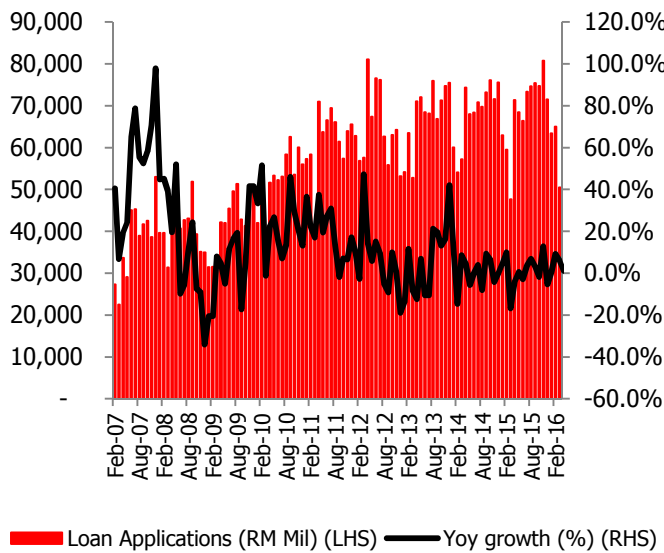
Source: BNM

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



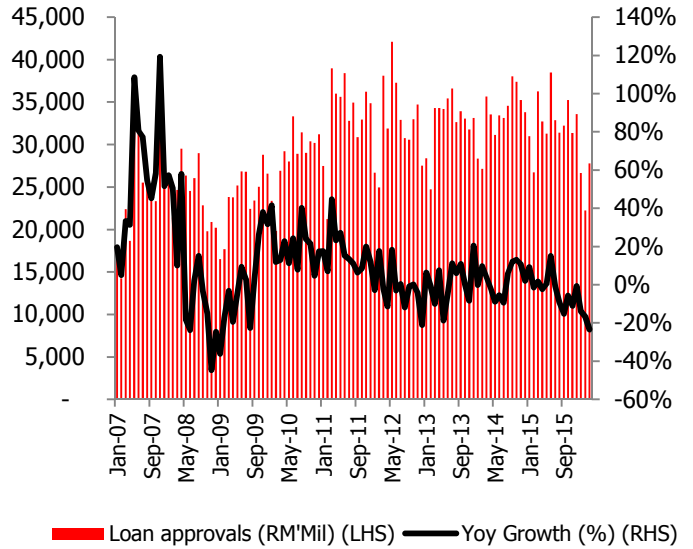
Source: BNM

**Chart 3: Loan Application**



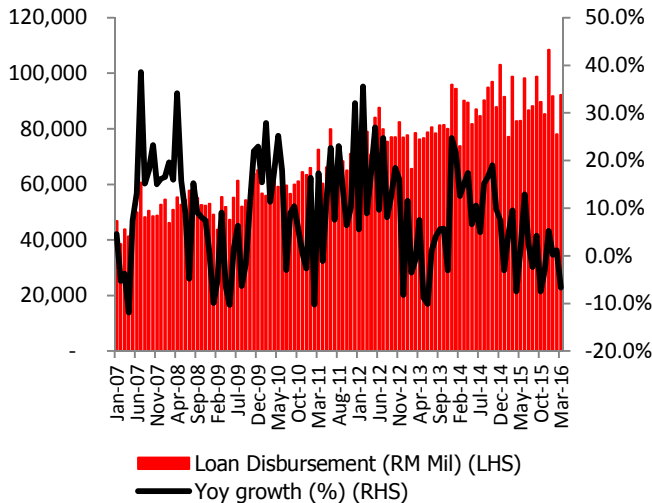
Source: BNM

**Chart 4: Loan Approvals**

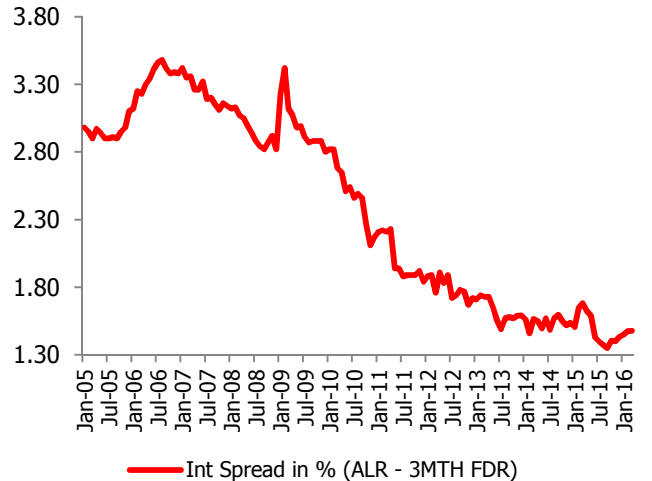


Source: BNM

**Chart 5: Loan Disbursement**

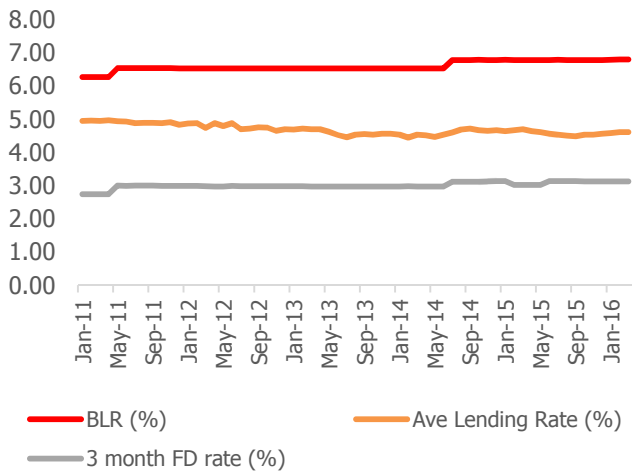


**Chart 6: Interest Spread**



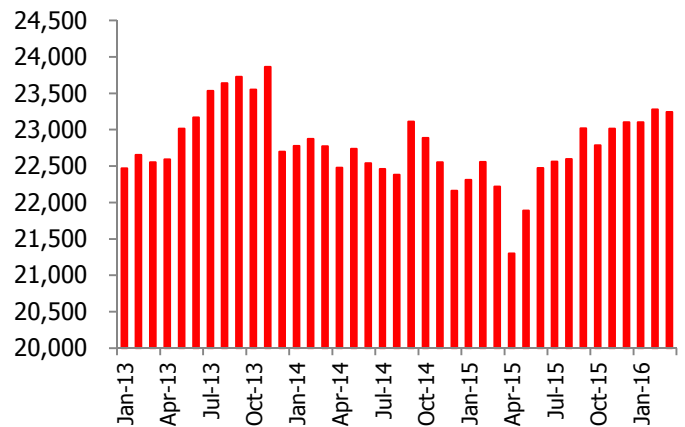


**Chart 7: Trend of BLR, ALR & 3 mth FD Rate**



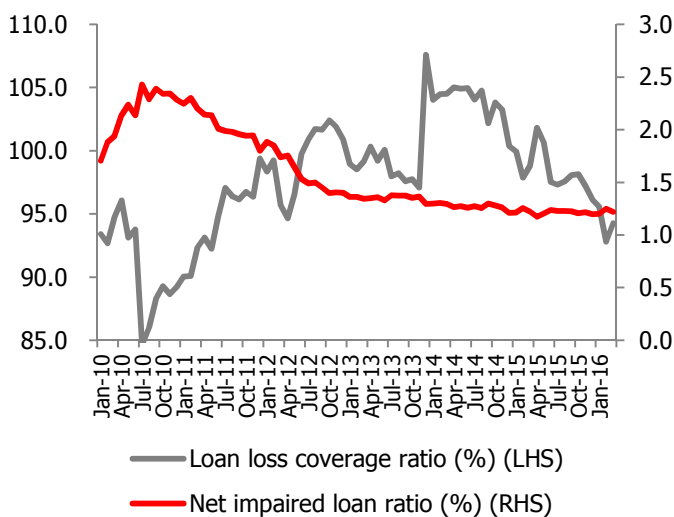
Source: BNM

**Chart 8: Total Impaired Loans**



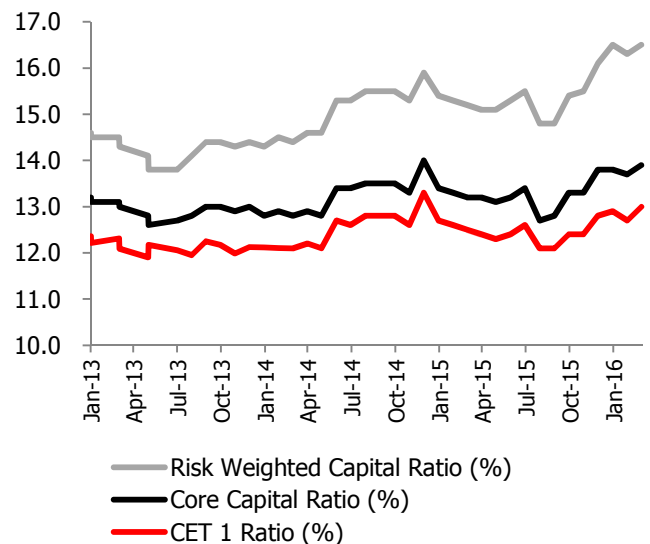
Source: BNM

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



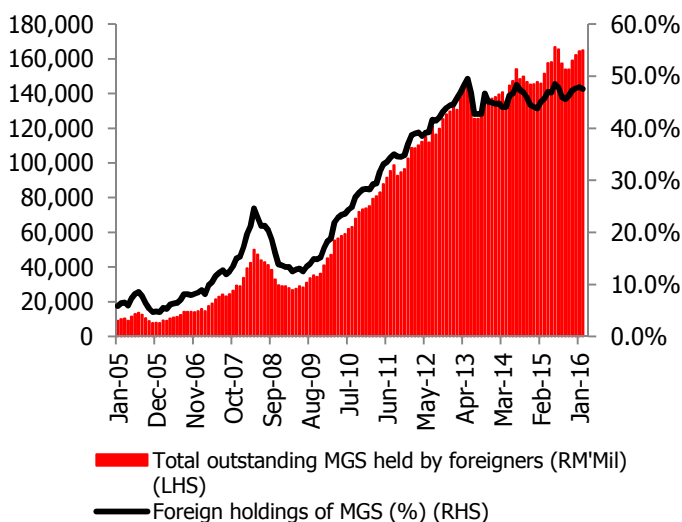
Source: BNM

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



Source: BNM

**Chart 11: MGS Holdings by Foreigner**



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.