

04 Jan 2016 | Sector Update

BANKING – NOV 2015 BNM STATISTICS

Maintain NEUTRAL

Weaker loan demand with lower loan applications from businesses and households

LOAN INDICATORS

- **Industry loan growth continued to decline for the 3rd consecutive month to +8.4%yoy due to slowdown in both business and household loans.** Banking system's loan growth in Nov'15 moderated to +8.4%yoy (Oct'15: +9.1%yoy). Business and household loans continued to grow at slower pace. Business loans registered a slower growth of +8.7%yoy in Nov'15 as compared to 9.8%yoy in the preceding month. Growth in working capital loans eased further to +12.0%yoy, a drop of 90bp while growth in construction loans was stable at +9.6%yoy relative to the previous month.

Loans to households continued to register a slower growth of +7.8%yoy in Nov'15 (Oct'15: +8.0%yoy).

Table 1: Loan breakdown by purpose (RM mil)

	Nov-14	Oct-15	Nov-15	% of total	%Mom	%Yoy
Purchase of securities	76,630	74,813	74,744	5.2%	-0.1%	-2.5%
Purchase of transport vehicles	165,649	169,526	169,692	11.9%	+0.1%	+2.4%
of which : purchase of passenger cars	156,151	160,233	160,467	11.2%	+0.1%	+2.8%
Purchase of residential property	385,762	429,006	432,836	30.2%	+0.9%	+12.2%
Purchase of non-residential property	175,226	196,115	195,825	13.7%	-0.1%	+11.8%
Purchase of fixed asset other than land & building	10,578	10,624	10,226	0.7%	-3.7%	-3.3%
Personal use	60,312	62,880	63,402	4.4%	+0.8%	+5.1%
Credit card	35,270	34,745	35,344	2.5%	+1.7%	+0.2%
Purchase of consumer durables	603	143	144	0.01%	+0.7%	-76.1%
Construction	38,655	41,513	42,376	3.0%	+2.1%	+9.6%
Working capital	307,191	345,454	343,963	24.0%	-0.4%	+12.0%
Other purpose	64,318	64,386	62,870	4.4%	-2.4%	-2.3%
Total	1,320,195	1,429,206	1,431,421	100.0%	+0.2%	+8.4%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Nov-14	Oct-15	Nov-15	% of total	%Mom	%Yoy
Primary agriculture	31,097	37,788	37,548	2.6%	-0.6%	+20.7%
Mining and quarrying	8,532	13,106	13,119	0.9%	+0.1%	+53.8%
Manufacturing (including agro based)	100,793	101,962	101,266	7.1%	-0.7%	+0.5%
Electricity, gas and water supply	12,681	11,689	10,424	0.7%	-10.8%	-17.8%
Wholesale, retail, restaurants & hotels	98,545	105,725	105,994	7.4%	+0.3%	+7.6%
Construction	55,444	60,033	61,028	4.3%	+1.7%	+10.1%
Real estate	82,705	96,120	96,333	6.7%	+0.2%	+16.5%
Transport, storage & communication	32,521	36,303	35,387	2.5%	-2.5%	+8.8%
Financing, insurance & business services	88,691	94,205	98,424	6.9%	+4.5%	+11.0%
Education, health & others	36,671	41,243	38,972	2.7%	-5.5%	+6.3%
Household sector	755,669	809,527	814,959	56.9%	+0.7%	+7.8%
Other sector	16,845	21,504	17,967	1.3%	-16.4%	+6.7%
Total	1,320,195	1,429,206	1,431,421	100.0%	+0.2%	+8.4%

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 electricity, gas and water supply, real estate, wholesale, retail, restaurants and hotels and the transport, storage & communication sectors.

- **Household loan growth continued to lose momentum.** Growth in loans for purchase of residential property remained stable at +12.2%yoy while that for purchase of non-residential property continued to drop to +11.8%yoy.

Growth in loans for purchase of passenger cars loans picked up pace slightly to +2.8%yoy. We believe that this was due the higher purchase of cars as a result of the impending increase in car prices following the depreciation of domestic currency against USD. Growth in outstanding balances for credit cards slipped to +0.2%yoy. Meanwhile with the volatile markets, growth in loans for purchase of securities continued to decline to -2.5%yoy. We believe that the decline was partly contributed by the slowdown in ASB loans. On the other segments, personal loans remained stable with a growth +5.1%yoy.

Table 3: Loan applications by purpose (RM mil)

	Nov-15	% of total	Aug-15 (%Yoy)	Sept-15 (%Yoy)	Oct-15 (%Yoy)	Nov-15 (%Yoy)
Purchase of securities	2,455	3.4%	-42.9%	-11.5%	-30.8%	-48.6%
Purchase of transport vehicles	8,086	11.3%	-9.6%	+0.2%	-3.8%	+18.2%
of which : purchase of passenger cars	7,334	10.3%	-0.1%	-2.1%	+12.0%	+12.8%
Purchase of residential property	16,016	22.4%	-6.4%	-7.9%	-9.5%	-13.1%
Purchase of non-residential property	6,199	8.7%	-23.1%	-10.4%	-20.7%	-30.2%
Purchase of fixed asset other than land & building	927	1.3%	-45.0%	+538.2%	-16.2%	+55.8%
Personal use	5,895	8.2%	+53.0%	+38.4%	+63.8%	+33.5%
Credit card	3,239	4.5%	+55.2%	+66.8%	+73.0%	+61.3%
Purchase of consumer durables	12	0.02%	-77.0%	-71.4%	-85.2%	+11.4%
Construction	2,802	3.9%	+15.0%	-18.3%	-27.2%	-3.7%
Working capital	22,657	31.7%	+17.7%	-26.0%	+29.3%	+8.7%
Other purpose	3,222	4.5%	+28.2%	+62.8%	+187.8%	-44.8%
Total applied	71,509	100.0%	+3.1%	-1.8%	+12.8%	-5.4%

Source: BNM

- Weaker loan demand from non-household and households in Nov'15.** The rebound in industry loan applications to +12.8%yoy in Oct'15 was short lived as it subsequently slipped to -5.4%yoy in Nov'15. This was attributed to by slower growths in non-household and household loan applications of -8.5%yoy and -1.9%yoy respectively.

By loan purpose, weaker demand for household loans was contributed by slowdown in applications for loans for purchase of securities, loans for purchase of non-residential property, personal loans and credit cards. For non-household loans, loan applications for construction remain in negative growth of -3.7%yoy while demand for working capital loans slowed down significantly, registering a lower growth of +8.7%yoy.

By sectors, the weaker loan demand was mainly due to slower applications by the manufacturing, electricity, gas and water supply, finance, insurance and business activities and household sectors. Also, contributing to the decline was the transport, storage and communication sector which registered a growth in loan applications of -51.9%yoy.

Table 4: Loan approvals by purpose (RM mil)

	Nov-15	% of total	Aug-15 (%Yoy)	Sept-15 (%Yoy)	Oct-15 (%Yoy)	Nov-15 (%Yoy)
Purchase of securities	1,499	4.8%	-46.3%	-55.4%	-49.8%	-34.8%
Purchase of transport vehicles	3,909	12.5%	-7.5%	+5.0%	+3.2%	+3.6%
of which : purchase of passenger cars	3,737	11.9%	-6.7%	+6.6%	+4.5%	+3.9%
Purchase of residential property	7,937	25.3%	-17.5%	-19.0%	-20.4%	-21.9%
Purchase of non-residential property	2,249	7.2%	-28.8%	-34.6%	-34.3%	-44.7%
Purchase of fixed asset other than land & building	517	1.6%	-41.0%	+75.4%	-17.2%	-39.2%
Personal use	1,757	5.6%	+16.8%	+12.2%	+21.9%	+25.4%
Credit card	1,378	4.4%	+17.1%	+21.5%	+33.7%	+9.5%
Purchase of consumer durables	0	0.0%	-97.7%	-99.2%	-99.7%	-99.6%
Construction	669	2.1%	-8.0%	-21.4%	-2.7%	-32.3%
Working capital	8,208	26.2%	+17.9%	-1.1%	+11.4%	+9.5%
Other purpose	3,244	10.3%	-2.3%	-28.5%	258.3%	+10.9%
Total approved	31,366	100.0%	-9.1%	-15.2%	-5.7%	-11.0%

Source: BNM

- Loan approvals weaker in Nov'15.** Growth in loan approvals remained weak with a higher negative growth rate of -11.0%yoy vs. -5.7%yoy in the preceding month, attributed to slower pace in approvals of non-household and household loans. Approvals for non-household loans slipped to a lower growth rate of -4.8%yoy with slower pace in approvals of construction and working capital loans. Meanwhile, approvals for household loans continued to be weak registering a higher negative growth of -15.9%yoy. By loan purpose, the decline in loan approvals for household loans was mainly due to the slowdown in approvals of mortgage loans. (Refer Table 4).
- Sector liquidity improved slightly with LD ratio declining to 91.0%.** In Nov'15, growth in loan disbursements remained slow at -2.8%yoy while loan repayments grew by +7.0%yoy. With loan repayments outpacing disbursements, industry LD ratio declined slightly to 91.0% from 91.2% in the preceding month.

Growth of deposits (excluding REPO) in the banking system continued to decelerate to +2.2%yoy as compared to +2.7%yoy in the preceding quarter. Nevertheless, Industry CASA growth gained pace with a higher growth of +8.6%yoy from +4.6%yoy in the preceding month. CASA ratio remain stable at 25.6% in Nov'15.

Liquidity coverage ratio (LCR) for the sector in Nov'15 rose slightly to 121.0% from 119.0% in the preceding month. This was contributed by rise in LCR for Commercial and Islamic banks to 125.0% and 111.9% respectively while that of Investment banks declined to 115.0%.

LENDING AND DEPOSIT RATES

- **Interest spread stable in Nov'15.** The industry's average lending rate (ALR) remained stable at 4.53% (-0.01% mom) for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate was unchanged at 3.85%.

Interest spread (between the average lending rate and average deposit rate) was stable at 1.35%.

ASSET QUALITY

- **Asset quality continues to hold up.** 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)

	Nov-14	Oct-15	Nov-15	% of total	%Mom	%Yoy
Purchase of securities	228	327	330	1.4%	+0.9%	+44.7%
Purchase of transport vehicles	2,141	1,748	1,789	7.8%	+2.3%	-16.4%
of which : purchase of passenger cars	1,943	1,644	1,668	7.2%	+1.5%	-14.2%
Purchase of residential property	5,015	5,045	5,095	22.1%	+1.0%	+1.6%
Purchase of non-residential property	1,339	1,892	1,832	8.0%	-3.2%	+36.8%
Purchase of fixed asset other than land & building	176	188	174	0.8%	-7.4%	-1.1%
Personal use	1,043	1,092	1,187	5.2%	+8.7%	+13.8%
Credit card	432	474	476	2.1%	+0.4%	+10.2%
Purchase of consumer durables	6	2	2	0.01%	-	-66.7%
Construction	2,799	2,491	2,521	11.0%	+1.2%	-9.9%
Working capital	8,281	8,120	8,198	35.6%	+1.0%	-1.0%
Other purpose	1,090	1,407	1,412	6.1%	+0.4%	+29.5%
Total	22,551	22,787	23,017	100.0%	+1.0%	+2.1%

Source: BNM

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

	Apr-15	May-15	Jun-15	July-15	Aug-15	Sept-15	Oct-15	Nov-15
Purchase of securities	0.3%	0.3%	0.5%	0.4%	0.4%	0.5%	0.4%	0.4%
Purchase of transport vehicles	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	1.1%
of which : purchase of passenger cars	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%	1.0%	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	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%
Purchase of fixed asset other than land & building	1.8%	1.6%	1.6%	1.6%	1.5%	1.5%	1.8%	1.7%
Personal use	1.6%	1.7%	1.6%	1.7%	1.7%	1.7%	1.7%	1.9%
Credit card	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%	1.3%
Purchase of consumer durables	1.5%	1.6%	1.4%	1.2%	1.3%	1.4%	1.3%	1.2%
Construction	5.7%	6.0%	6.1%	7.7%	6.1%	6.0%	6.0%	6.0%
Working capital	2.4%	2.4%	2.5%	2.3%	2.3%	2.4%	2.4%	2.4%
Other purpose	2.1%	2.3%	2.2%	2.1%	2.2%	2.1%	2.2%	2.2%
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 +1.0% mom or RM230m to RM23.0b. Except for GIL ratios of personal loans and loans for purchase of transport vehicles which inched higher, GIL ratios for the other loan segments continued to be stable (see Table 6). The sector's loan loss coverage ratio drop slightly to 97.2% from 98.1% in the preceding month.

CAPITALISATION

- **Stable capital position.** The sector's CET1 and Core Capital Ratio (CCR) remain unchanged at 12.4% and 13.3% respectively in Nov'15 while Risk Weighted Capital Ratio (RWCR) rose slightly to 15.5% (+0.1%mom).

CALL ON SECTOR & STOCK PICKS

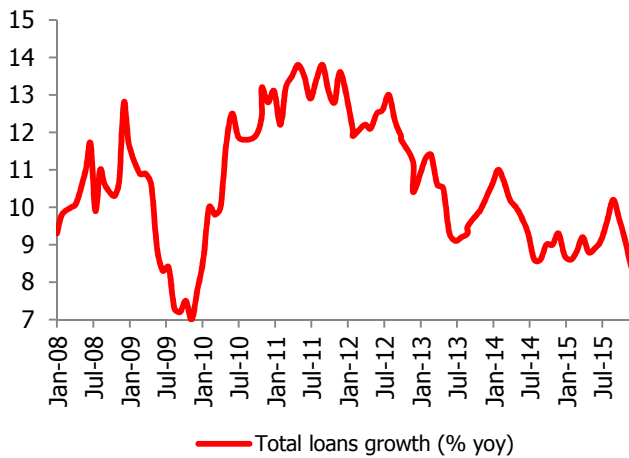
- **Year-to-date, loan growth moderated to 7.4% annualized and is line with our expectation of a 7-8% growth for CY15.** For CY16, we expect the industry loans to also grow by 7-8% on the back of a GDP growth of 5.0%.

- **Maintain NEUTRAL on the sector.** Our top pick is Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield. We are NEUTRAL on Hong Leong Bank (TP: 14.60), RHB Cap (TP: RM6.20), CIMB (TP: RM5.20), Public Bank (TP: RM18.80), AMMB (TP: RM5.10), AFG (TP: RM3.80) and BIMB (TP: RM4.22). We have a SELL call on Affin (TP: RM1.90) due to its weaker than expected NOII, higher OPEX and provisions. 

Kelvin Ong, CFA

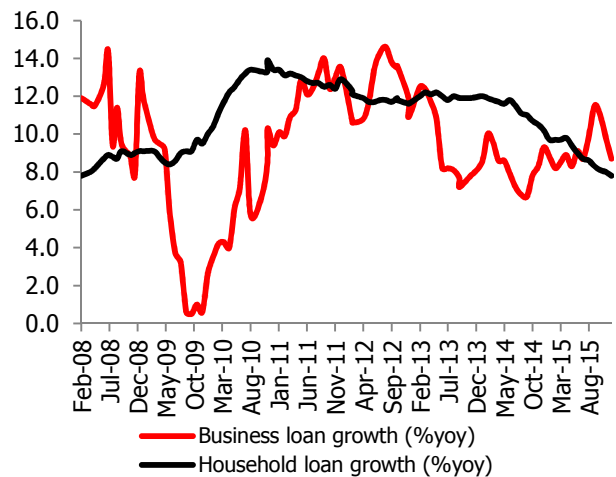
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



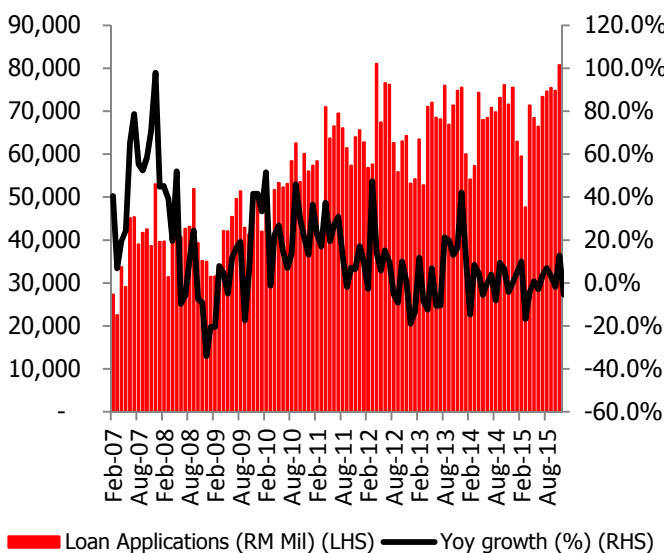
Source: BNM

Chart 2: Business and Household Loan Growth Rate



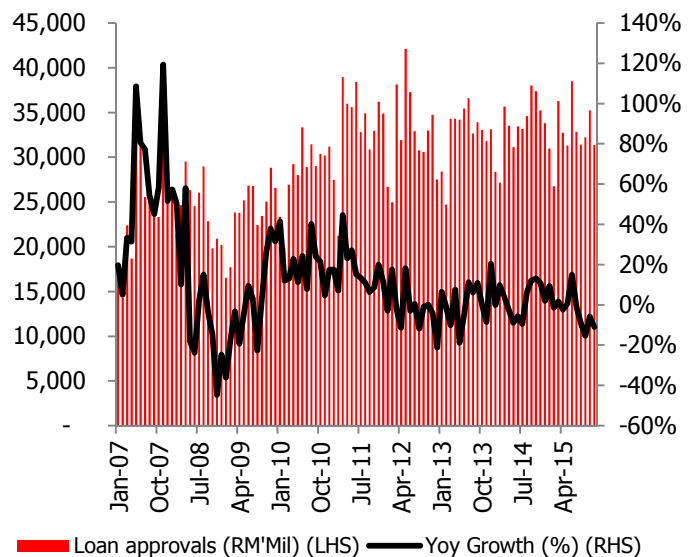
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

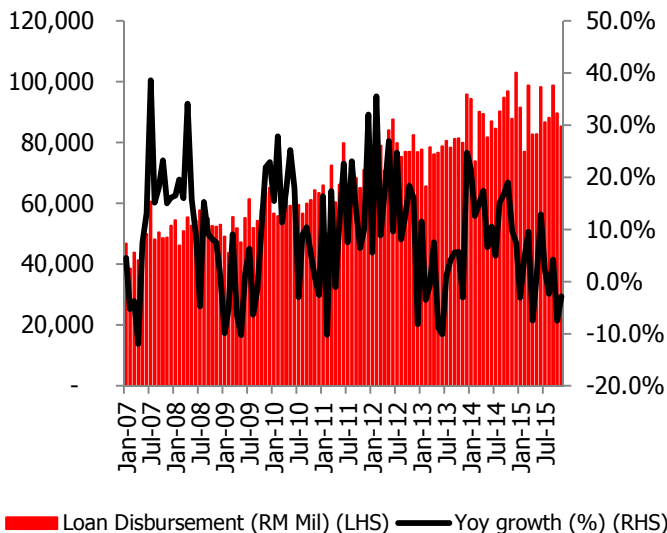


Chart 6: Interest Spread

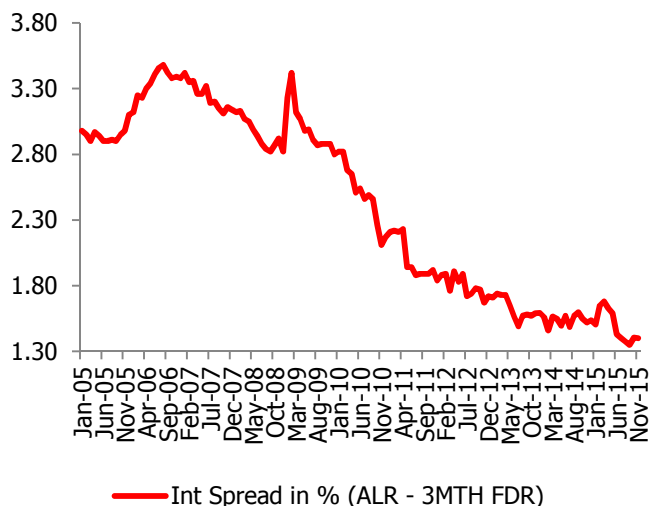
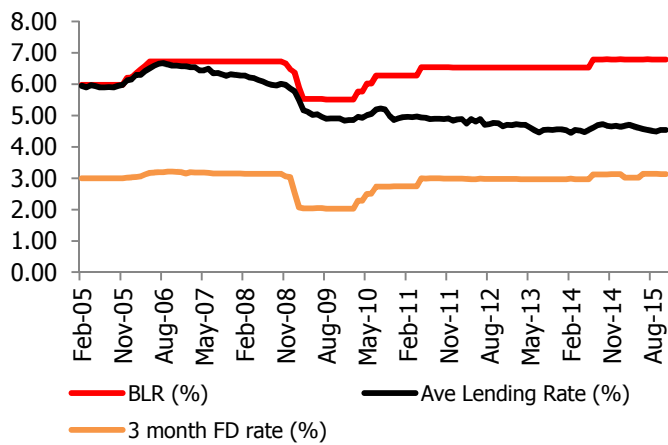
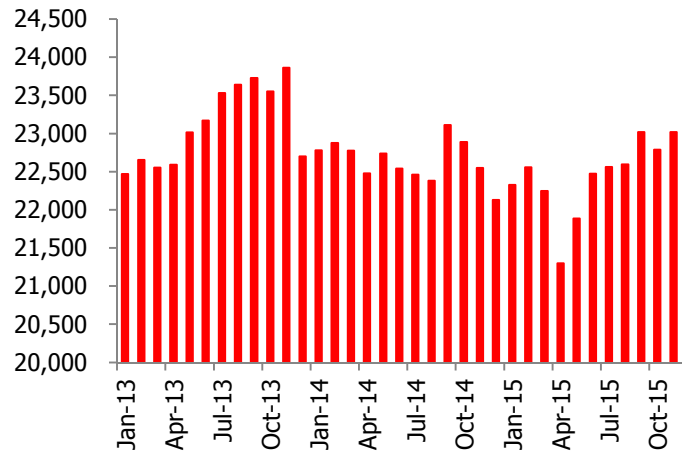


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



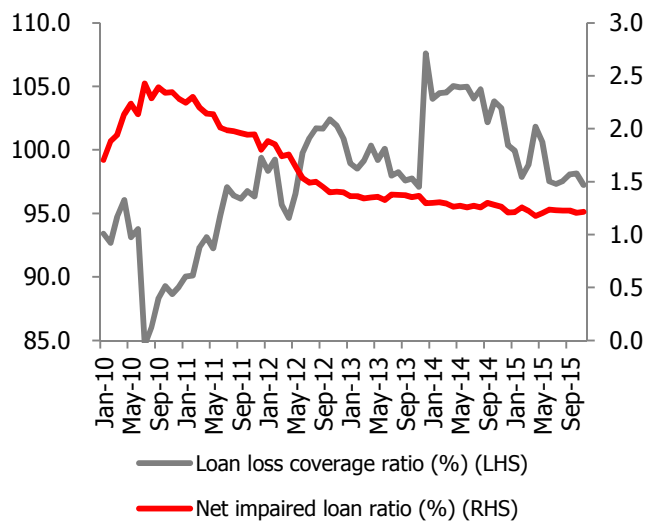
Source: BNM

Chart 8: Total Impaired Loans



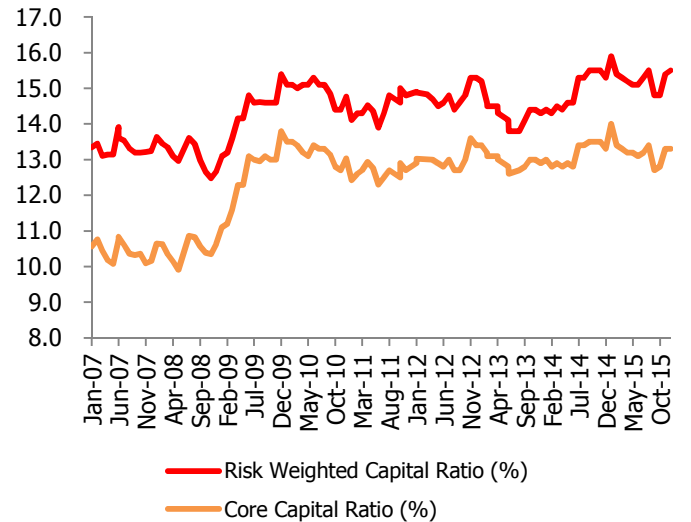
Source: BNM

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

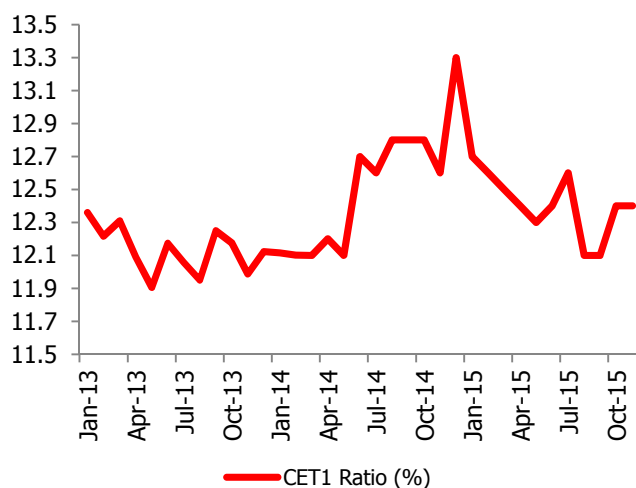
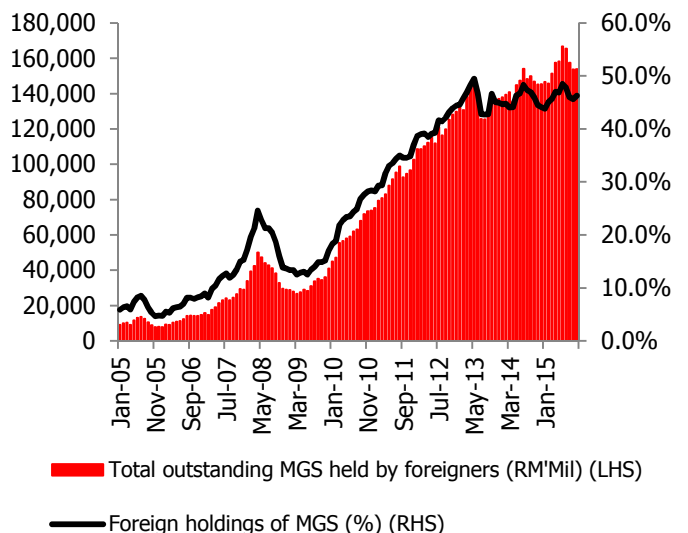


Chart 12: MGS Holdings by Foreigners



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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.