

03 June 2014 | Sector Update

BANKING - April 2014 BNM STATISTICS

Maintain NEUTRAL

Loan applications turned weaker

LOAN INDICATORS

- **System loan growth continued to moderate since Feb'14.** Loan growth in the banking system for Apr'14 moderated to 10.0%yoy vs. 10.2%yoy in the preceding month. Contributing to the slower pace was the continued moderation in household loan growth while business loan growth remained stable. By sectors and comparing to the previous month, we observed that this was mainly contributed by the moderated growth of loans extended to the finance, insurance and business services, construction, education, health and others, primary agriculture as well as the household sectors. Year to date, loans grew 2.1% to RM1,252.1b which translates to an annualized growth rate of 6.3%.
- **Overall business loan growth was stable at 8.6%yoy while household loan growth moderated 10bp mom to 11.6%yoy in Apr'14.** Business loan growth remained at 8.6%yoy in Apr'14 (Mar'14: 8.6%yoy).

Table 1: Loan breakdown by purpose (RM mil)

	Apr-13	Mar-14	Apr-14	% of total	%Mom	%Yoy
Purchase of securities	61,643	72,115	72,471	5.8%	+0.5%	+17.6%
Purchase of transport vehicles	157,844	163,950	164,353	13.1%	+0.2%	+4.1%
of which : purchase of passenger cars	145,079	151,309	151,856	12.1%	+0.4%	+4.7%
Purchase of residential property	316,281	355,512	359,287	28.7%	+1.1%	+13.6%
Purchase of non-residential property	139,333	159,724	161,666	12.9%	+1.2%	+16.0%
Purchase of fixed asset other than land & building	9,072	9,883	9,890	0.8%	+0.1%	+9.0%
Personal use	55,855	58,040	57,922	4.6%	-0.2%	+3.7%
Credit card	32,321	33,810	33,771	2.7%	-0.1%	+4.5%
Purchase of consumer durables	94	595	330	0.03%	-44.5%	+251.1%
Construction	30,694	34,981	34,983	2.8%	+0.01%	+14.0%
Working capital	267,272	289,349	287,771	23.0%	-0.5%	+7.7%
Other purpose	68,186	68,719	69,674	5.6%	+1.4%	+2.2%
Total	1,138,596	1,246,679	1,252,118	100.0%	+0.4%	+10.0%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Apr-13	Mar-14	Apr-14	% of total	%Mom	%Yoy
Primary agriculture	31,073	32,180	32,266	2.6%	+0.3%	+3.8%
Mining and quarrying	6,836	8,377	9,247	0.7%	+10.4%	+35.3%
Manufacturing (including agro based)	94,459	96,703	97,375	7.8%	+0.7%	+3.1%
Electricity, gas and water supply	9,542	14,047	13,953	1.1%	-0.7%	+46.2%
Wholesale, retail, restaurants & hotels	85,882	89,916	90,579	7.2%	+0.7%	+5.5%
Construction	46,282	52,125	51,739	4.1%	-0.7%	+11.8%
Real estate	64,102	72,599	73,884	5.9%	+1.8%	+15.3%
Transport, storage & communication	27,254	29,794	30,489	2.4%	+2.3%	+11.9%
Financing, insurance & business services	76,620	87,264	84,048	6.7%	-3.7%	+9.7%
Education, health & others	44,065	38,614	38,282	3.1%	-0.9%	-13.1%
Household sector	638,468	706,682	712,678	56.9%	+0.8%	+11.6%
Other sector	14,014	18,378	17,575	1.4%	-4.4%	25.4%
Total	1,138,596	1,246,679	1,252,118	100.0%	+0.4%	+10.0%

Source: BNM

Meanwhile, household loan growth continued its moderating trend, declining to 11.6%yoy as compared to 11.7%yoy in the preceding month.

- In terms of household loans by lending purpose, growth rate for all type of loans moderated except for loans for purchase of residential property.** Loans for residential property purchase continued to remain stable at 13.6%yoy while growth of loans for purchase of non residential property continued to trend downwards, easing 40bp mom to 16.0%yoy. Banks such as AmBank Group have been cautious on lending to the property sector. Hence, it was not surprising that the growth of loans extended for purchase of non residential property has moderated given that non residential properties are riskier in times of slower economic growth. Growth of loans for purchase of passenger cars continued its trend downwards, declining 30bp mom to 4.7%yoy in Apr'14. Momentum for credit card lending and personal loans continued to be soft. Meanwhile, growth of loans for purchase of securities decelerated to 17.6%yoy in Apr'14.

Table 3: Loan applications by purpose (RM mil)

	Apr-14	% of total	Jan-14 (%Yoy)	Feb-14 (%Yoy)	Mar-14 (%Yoy)	Apr-14 (%Yoy)
Purchase of securities	3,360	4.9%	-11.1%	+11.7%	+133.8%	-3.1%
Purchase of transport vehicles	8,237	12.1%	-16.1%	+9.1%	-1.4%	+1.5%
of which : purchase of passenger cars	7,686	11.3%	-14.4%	+8.8%	-1.5%	+0.9%
Purchase of residential property	19,855	29.2%	-12.6%	+4.3%	-10.0%	-8.5%
Purchase of non-residential property	9,322	13.7%	-19.8%	+14.2%	-12.8%	-14.9%
Purchase of fixed asset other than land & building	394	0.6%	+111.9%	-43.3%	808.3%	-26.5%
Personal use	4,011	5.9%	-4.0%	+21.9%	8.3%	+15.5%
Credit card	2,123	3.1%	-9.3%	-2.7%	-13.6%	-3.3%
Purchase of consumer durables	2	0.002%	-61.7%	-47.4%	-29.7%	-86.4%
Construction	2,726	4.0%	+76.7%	+81.5%	23.6%	-29.1%
Working capital	13,298	19.6%	-23.8%	+5.0%	-0.1%	+17.2%
Other purpose	4,664	6.9%	-54.3%	-10.3%	-37.4%	-27.1%
Total applied	67,991	100.0%	-14.8%	+8.5%	+4.6%	-5.6%

Source: BNM

- Industry loan applications turned weaker.** Industry loan applications declined to -5.6%yoy from 4.6%yoy in Mar'14. This was mainly attributable to slower business loan applications. Non household loan applications declined to -9.6%yoy from 14.6%yoy in the preceding month. By sectors, this was contributed mainly by the slower growth in applications for the financing, insurance & business services, real estate, wholesale, retail, restaurants & hotels and primary agriculture sectors.

Overall household loan applications remained soft at -2.4%yoy in Apr'14 (Mar'14: -3.7%yoy). Growth of loan applications for purchase of residential property improved 150bp mom to -8.5%yoy while that for purchase of non residential property declined 210bp mom to -14.9%yoy in Apr'14.

Table 4: Loan approvals by purpose (RM mil)

	Apr-14	% of total	Jan-14 (%Yoy)	Feb-14 (%Yoy)	Mar-14 (%Yoy)	Apr-14 (%Yoy)
Purchase of securities	2,784	8.3%	+20.1%	+33.6%	-7.4%	+40.4%
Purchase of transport vehicles	4,974	14.8%	-6.6%	+5.9%	+11.9%	+19.9%
of which : purchase of passenger cars	4,688	14.0%	-1.5%	+6.3%	+12.4%	+21.9%
Purchase of residential property	10,354	30.9%	+11.5%	+5.5%	+1.8%	-5.2%
Purchase of non-residential property	4,396	13.1%	-11.6%	+32.0%	+8.1%	-8.8%
Purchase of fixed asset other than land & building	242	0.7%	+288.5%	-21.1%	-10.7%	-35.1%
Personal use	1,260	3.8%	-38.2%	-20.4%	-20.7%	-22.9%
Credit card	1,363	4.1%	+14.2%	+30.0%	+15.2%	+7.3%
Purchase of consumer durables	6	0.02%	-14.0%	-52.2%	-4.0%	-68.2%
Construction	822	2.5%	+2.7%	-46.8%	-35.1%	-13.3%
Working capital	5,253	15.7%	-17.1%	-14.9%	+33.7%	-18.2%
Other purpose	2,079	6.2%	-11.6%	+157.0%	-48.9%	+17.4%
Total approved	33,534	100.0%	-0.1%	+9.5%	+4.0%	-2.3%

Source: BNM

- **Slower momentum for loan approvals in Apr'14.** Growth of loan approvals in Apr'14 eased to -2.3%yoy in Apr'14 (Mar'14: +4.0%yoy). For household loans, approval of mortgage loans, personal loans and credit cards moderated. Growth rate of household loan approvals decelerated to 1.4%yoy in Apr'14 as compared to 7.5%yoy in Mar'14.

For businesses, the loan approval growth rate for construction loans improved compared to Mar'14 but still in negative growth rate of 13.3%yoy (Mar'14: -35.1%yoy). Meanwhile, the approval growth rate of working capital loans declined to -18.2%yoy after rising to 33.7%yoy in the previous month (Refer Table 4).

- **Growth of loan disbursements moderated 50bp mom to 15.1%yoy.** Growth of loan disbursements continue to decelerated to 15.1%yoy in Apr'14 (Mar'14: 15.6%yoy). Loan disbursement for household loans grew at faster pace of 8.1%yoy in Apr'14 (Mar'14: 2.2%yoy) while loan disbursements for construction and working capital loans grew slower by 198bp mom and 340bp mom respectively to 35.2%yoy and 15.4%yoy. Meanwhile, momentum of loan repayments declined to a growth of 16.7%yoy in Apr'14 as compared to 23.6%yoy in the preceding month.
- **Industry LD ratio remained at 85.1%.** The industry LD ratio was unchanged at 85.1%. System's deposit growth remained at 6.9%yoy.

LENDING AND DEPOSIT RATES

- **ALR declined 2bp mom 4.52%.** The industry's average lending rates (ALR) eased 2bp mom to 4.52% in Apr'14. BLR remained at 6.53%.
- **Interest spread inched in Apr'14 due to lower ALR.** Interest spread (between the average lending rate and 3 month FD rate) drop to 1.55% as compared to 1.57% in the previous month. Average FD rate (for tenures of up to 12 months) remained at 3.02%.

ASSET QUALITY

- **Absolute impaired loans for the banking industry declined 1.3%mom.** Gross Impaired Loan (GIL) ratio for the sector remained at 1.8% while net impaired loan ratio was unchanged at 1.3%. GIL ratio for loans by most lending by purposes remained stable despite of some concerns of upticks in impaired HP financing earlier. LLC in Apr'14 inched higher to 104.9% as compared to 104.7% in the previous month.

Table 5: Impaired Loans by purpose (RM mil)

	Apr-13	Mar-14	Apr-14	% of total	%Mom	%Yoy
Purchase of securities	425	211	209	0.9%	-0.9%	-50.8%
Purchase of transport vehicles	1,857	2,209	2,206	9.8%	-0.1%	+18.8%
of which : purchase of passenger cars	1,591	1,915	1,934	8.6%	+1.0%	+21.6%
Purchase of residential property	5,415	5,135	5,054	22.5%	-1.6%	-6.7%
Purchase of non-residential property	1,257	1,112	1,106	4.9%	-0.5%	-12.0%
Purchase of fixed asset other than land & building	213	250	248	1.1%	-0.8%	+16.4%
Personal use	1,033	976	958	4.3%	-1.8%	-7.3%
Credit card	428	445	412	1.8%	-7.4%	-3.7%
Purchase of consumer durables	3	6	3	0.01%	-50.0%	-
Construction	1,764	1,803	1,798	8.0%	-0.3%	+1.9%
Working capital	9,168	9,129	9,237	41.1%	+1.2%	+0.8%
Other purpose	1,029	1,498	1,246	5.5%	-16.8%	+21.1%
Total	22,591	22,774	22,477	100.0%	-1.3%	-0.5%

Source: BNM

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

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Purchase of securities	0.6%	0.7%	0.5%	0.5%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%
Purchase of transport vehicles	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%
of which : purchase of passenger cars	1.1%	1.2%	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%
Purchase of residential property	1.7%	1.7%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%
Purchase of non-residential property	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%
Purchase of fixed asset other than land & building	2.4%	2.4%	2.3%	2.8%	2.7%	2.5%	2.4%	2.3%	2.5%	2.5%
Personal use	1.8%	1.8%	1.7%	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.7%
Credit card	1.3%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%
Purchase of consumer durables	2.4%	1.8%	1.7%	1.6%	9.4%	1.2%	0.9%	1.1%	1.0%	0.8%
Construction	5.5%	5.2%	5.3%	5.1%	5.3%	5.0%	5.0%	4.8%	5.2%	5.1%
Working capital	3.6%	3.6%	3.7%	3.6%	3.6%	3.2%	3.1%	3.1%	3.2%	3.2%
Other purpose	1.7%	1.9%	1.7%	1.7%	1.8%	1.9%	2.1%	2.1%	2.2%	1.8%
Total	2.0%	2.0%	2.0%	2.0%	2.0%	1.9%	1.8%	1.8%	1.8%	1.8%

Source: BNM

CAPITALISATION

- **Stronger capital position.** The sector's capital position strengthen with common equity tier 1 (CET1) ratio and core capital ratio (CCR) both rising by 20bp mom to 12.2% and 13.0% respectively in Apr'14. Meanwhile, the sector's risk weighted capital ratio (RWCR) rose 30bp mom to 14.7%. Contributing to the strengthened capital position was the completion of CIMB's DRP on 24 April which resulted in additional issuance of shares of 107.1m new shares to 8,336.5m shares. Looking ahead, the industry's capital position is expected to strengthen further. This is due to Public Bank's impending completion of its rights issue exercise to raise RM5b and the completion of Maybank's 8th DRP.

CALL ON SECTOR & STOCK PICKS

- **Business loan growth has not picked up pace as we would expect.** Thus far up until Apr'14, we have not seen a pickup in business loan growth as we would expect despite of the local economy's commendable GDP growth of 6.2% in 1QCY14 with an improvement in net exports. Growth of loan applications (leading indicator) from non household loans declined to -9.6%yoy from 14.6%yoy in the preceding month. This reflects that loan demand from business sectors have been weak. Meanwhile, the

deceleration of household loan growth was not surprising with the tightened measures and higher inflation rate which has impacted consumer spending.

- **Capital market activity remained soft in particularly the equity market.** New funds raised in the capital market by the private and public sector on absolute value basis trended lower in Apr'14 compared to Mar'14. Equity Capital Market fund raising continued to be lackluster in Apr'14 as in the case of Feb'14 and Mar'14. Meanwhile, growth of new issuances of private debt securities (PDS) was decent in Apr'14. Generally, the capital market business outlook continues to look challenging. Equity capital market business has been tough while regional brokerage business has been impacted by the slowdown in Singapore and the political tensions impacting Thailand's securities business. Elsewhere, investment and trading income of some banks have been lower in the recent quarter's results compared to 4QCY13 due to lower gains from sale of securities. The slower implementation of IB deals has impacted banks fee income in 1QCY14 in respect of corporate advisory and underwriting fees. Generally, comparing to 4QCY13, most banks non interest income was lower in 1QCY14.
- **Guidelines on capital requirements of financial holding companies likely to be rolled out soon.** We understand that Financial Holding Companies (FHC) are likely to be required to comply with the group wide capital adequacy requirements in addition to other prudential standards. This means on consolidated basis, FHCs will be required to comply with the capital requirements under Basel III and public disclose the ratios in 2015. It is likely that there won't be additional entity capital requirements on either the FHC or affiliates of licensed financial institution.
- **Maintain NEUTRAL rating for the sector.** Our BUY calls are on Maybank (TP: RM11.00), RHB Cap (RM9.50) and Hong Leong Bank (TP: RM16.50). We are NEUTRAL on AFG (TP: RM4.80), Public Bank (RM19.90), CIMB (TP: RM7.80), AMMB (TP: RM8.00) and Affin (TP: RM3.80).

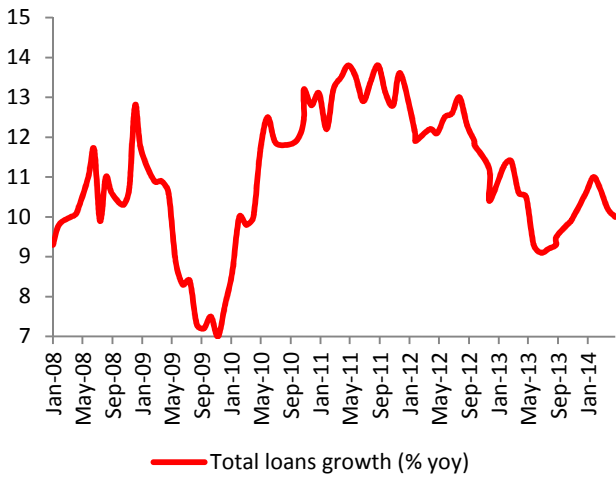


	Rec.	Price @ 2/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	NEUTRAL	7.24	8.00	59.3	64.0	12.2	11.3	24.1	25.0	3.3	3.5	4.4	4.8	1.7	1.5
Maybank	BUY	9.84	11.00	77.0	84.0	12.8	11.7	46.0	50.0	4.7	5.1	5.6	6.1	1.8	1.6
Public Bank	NEUTRAL	21.14	19.90	113.0	123.0	18.7	17.2	51.0	55.0	2.4	2.6	7.2	7.8	3.0	2.7
RHB Capital	BUY	8.35	9.50	83.0	91.0	10.1	9.2	25.0	27.0	3.0	3.2	7.0	7.6	1.2	1.1
Hong Leong	BUY	13.88	16.50	108.0	117.0	12.9	11.9	36.0	39.0	2.6	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.22	7.80	56.0	63.0	12.9	11.5	22.0	25.0	3.0	3.5	4.5	4.9	1.6	1.5
AFG	NEUTRAL	4.93	4.80	37.2	39.0	13.3	12.6	29.5	23.0	6.0	4.7	2.8	3.0	1.8	1.7
Affin	NEUTRAL	3.64	3.80	32.0	37.0	11.4	9.8	16.0	19.0	4.4	5.2	3.5	3.7	1.0	1.0

Kelvin Ong, CFA

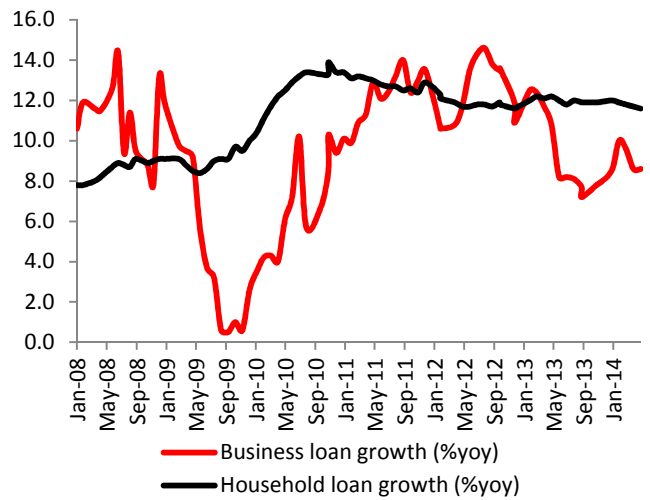
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



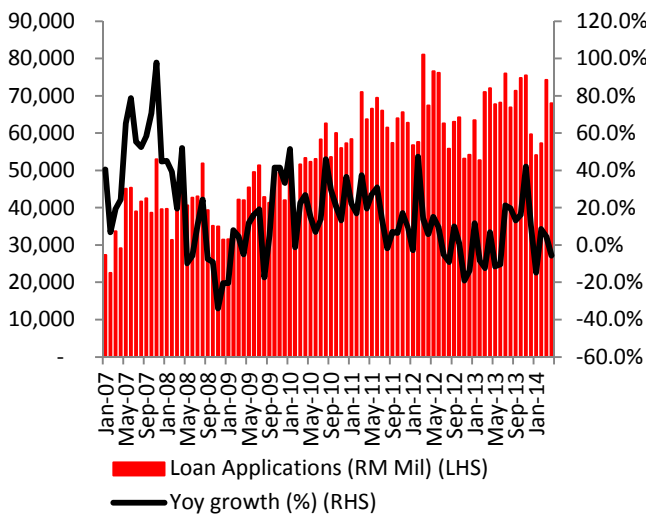
Source: BNM

Chart 2: Business and Household Loan Growth Rate



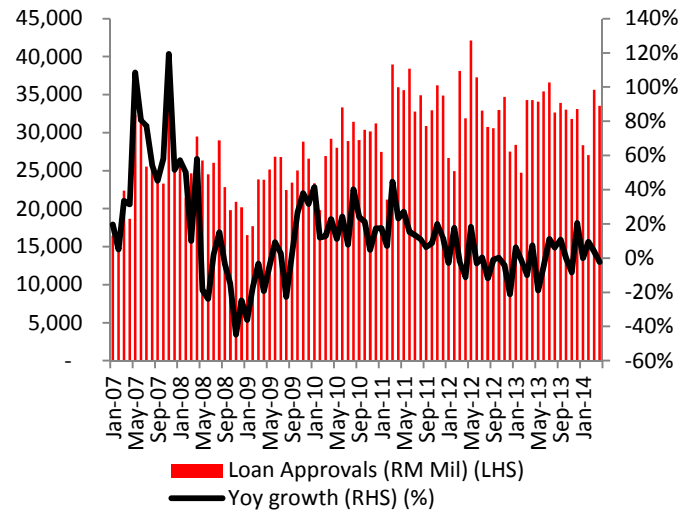
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

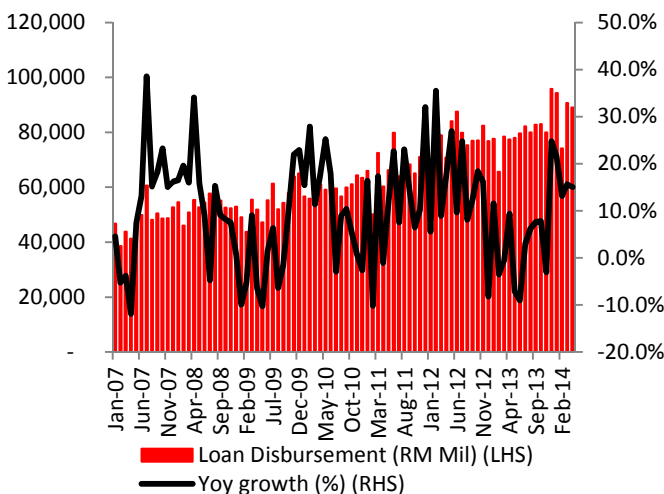


Chart 6: Interest Spread

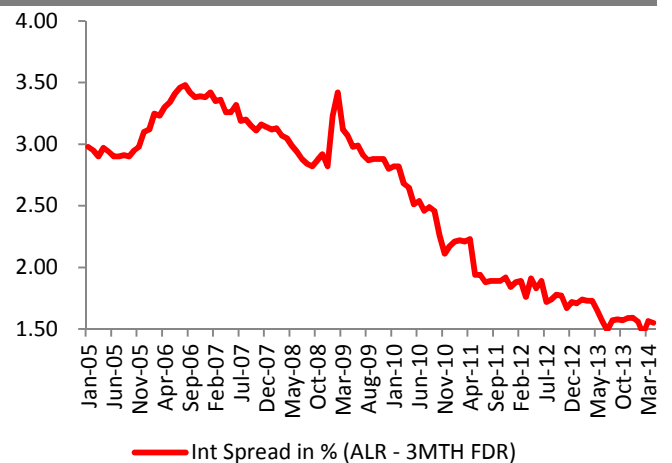
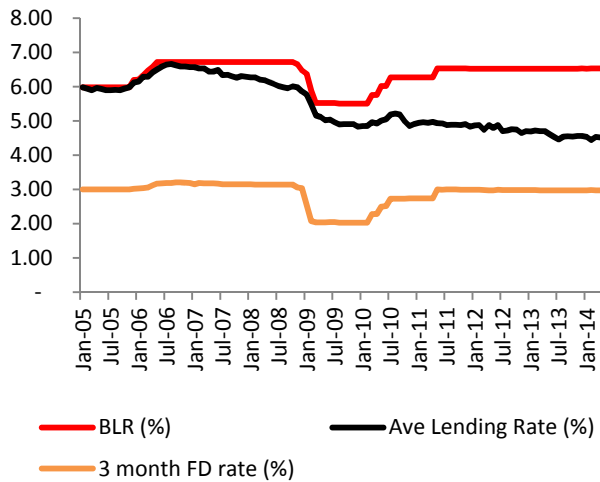
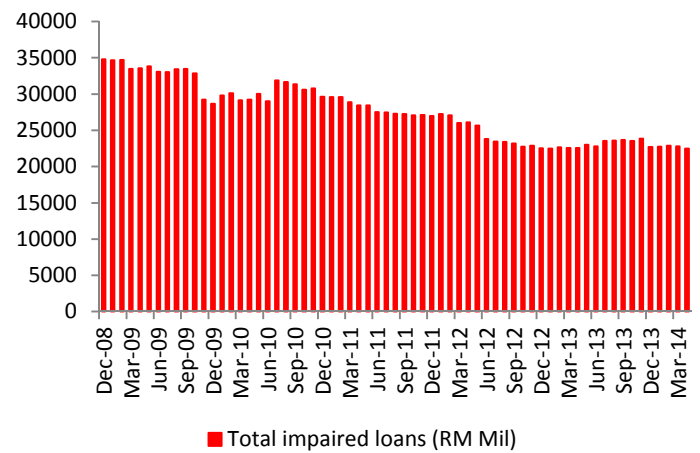


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



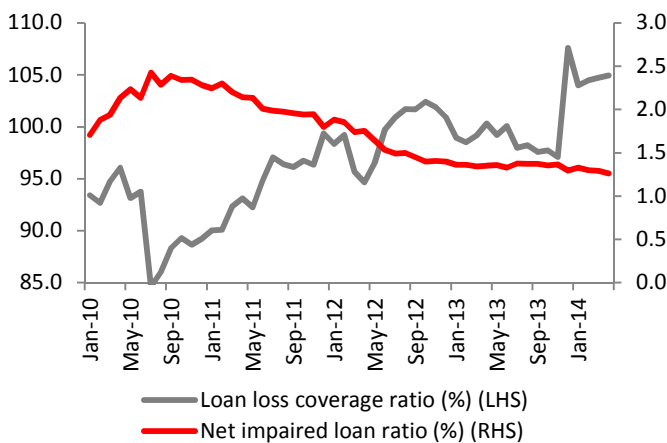
Source: BNM

Chart 8: Total Impaired Loans



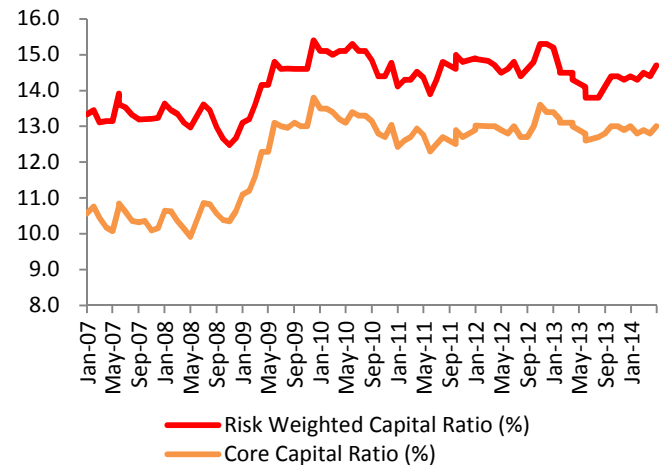
Source: BNM

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

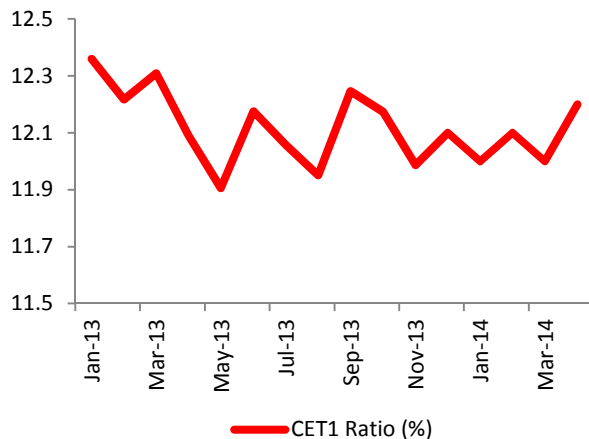
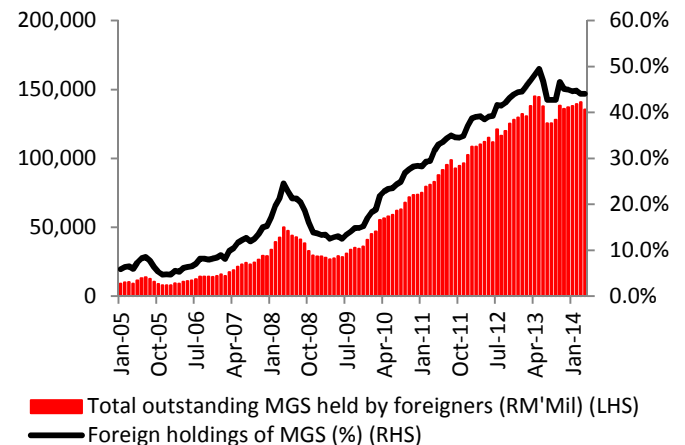


Chart 12: MGS Holdings by Foreigners



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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.