

02 June 2015 | Sector Update

BANKING – APRIL 2015 BNM STATISTICS *Maintain NEUTRAL*

Business loan growth decelerated

LOAN INDICATORS

- **Banking system loan growth decelerated in Apr'15 to 8.8%yoy with slowdown in pace of both business and household loans.** Business loan growth slipped to +8.3%yoy in Apr'15 after rising for two consecutive months (Mar'15: +8.9%yoy and Feb'12: +8.5%yoy). Also moderated was growth in loans to households to +9.4%yoy after rising slightly to +9.8%yoy in the preceding month.
- Momentum for working capital loans turned slower with a growth of +9.7%yoy while growth in construction picked up pace to +16.0%yoy.

Table 1: Loan breakdown by purpose (RM mil)

	Apr-14	Mar-15	Apr-15	% of total	%Mom	%Yoy
Purchase of securities	72,460	77,311	76,297	5.6%	-1.3%	+5.3%
Purchase of transport vehicles	164,305	167,743	167,750	12.3%	+0.004%	+2.1%
of which : purchase of passenger cars	154,055	158,240	158,090	11.6%	-0.1%	+2.6%
Purchase of residential property	360,007	402,889	406,642	29.9%	+0.9%	+13.0%
Purchase of non-residential property	160,997	184,939	186,595	13.7%	+0.9%	+15.9%
Purchase of fixed asset other than land & building	9,927	10,719	10,608	0.8%	-1.0%	+6.9%
Personal use	57,942	59,770	60,354	4.4%	+1.0%	+4.2%
Credit card	33,865	35,588	34,584	2.5%	-2.8%	+2.1%
Purchase of consumer durables	330	730	770	0.06%	+5.5%	+133.3%
Construction	34,374	39,445	39,884	2.9%	+1.1%	+16.0%
Working capital	288,774	320,898	316,921	23.3%	-1.2%	+9.7%
Other purpose	69,138	61,876	61,677	4.5%	-0.3%	-10.8%
Total	1,252,119	1,361,908	1,362,081	100.0%	+0.01%	+8.8%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Apr-14	Mar-15	Apr-15	% of total	%Mom	%Yoy
Primary agriculture	32,261	32,586	32,523	2.4%	-0.2%	+0.8%
Mining and quarrying	7,763	11,447	11,127	0.8%	-2.8%	+43.3%
Manufacturing (including agro based)	97,101	99,769	98,788	7.3%	-1.0%	+1.7%
Electricity, gas and water supply	13,856	10,819	10,238	0.8%	-5.4%	-26.1%
Wholesale, retail, restaurants & hotels	91,804	99,647	100,330	7.4%	+0.7%	+9.3%
Construction	51,584	58,450	58,371	4.3%	-0.1%	+13.2%
Real estate	73,748	88,565	87,891	6.5%	-0.8%	+19.2%
Transport, storage & communication	30,419	34,009	34,034	2.5%	+0.1%	+11.9%
Financing, insurance & business services	82,121	92,512	91,677	6.7%	-0.9%	+11.6%
Education, health & others	38,585	38,991	38,431	2.8%	-1.4%	-0.4%
Household sector	715,005	778,272	781,979	57.4%	+0.5%	+9.4%
Other sector	17,870	16,840	16,692	1.2%	-0.9%	-6.6%
Total	1,252,119	1,361,908	1,362,081	100.0%	+0.01%	+8.8%

Source: BNM

By sectors, as compared to the corresponding month in CY14, the expansion of outstanding loans for the industry was contributed by higher quantum of loans extended to the manufacturing, wholesale and retail trade, restaurants and hotels, construction, real estate, finance, insurance and business services and household sectors in Apr'15.

- **Slowdown in household loan growth with weaker momentum for credit cards after GST implementation in Apr'15.** Loans for purchase of residential property remained stable with a growth of +13.0%yoy while growth in loans for purchase of non-residential property slipped to +15.9%yoy after recording a growth of +16.3%yoy in the preceding month. With a volatile equity market, loans for purchase of securities continued to lose traction to a growth of +5.3%yoy.

Outstanding loans for purchase of passenger cars recorded a slower growth of +2.6%yoy while outstanding in credit cards declined to growth of +2.1%yoy post GST implementation. Meanwhile, growth in personal loans was slightly up at 4.0%yoy.

Table 3: Loan applications by purpose (RM mil)

	Apr-15	% of total	Jan-15 (%Yoy)	Feb-15 (%Yoy)	Mar-15 (%Yoy)	Apr-15 (%Yoy)
Purchase of securities	2,895	4.2%	-2.2%	+21.7%	-60.2%	-13.8%
Purchase of transport vehicles	6,901	10.1%	+2.4%	-15.1%	+9.6%	-16.2%
of which : purchase of passenger cars	6,586	9.6%	+2.2%	-13.8%	+7.0%	-14.3%
Purchase of residential property	18,809	27.5%	+9.0%	-15.4%	-3.4%	-5.3%
Purchase of non-residential property	10,042	14.7%	+15.2%	-6.6%	-9.5%	+7.7%
Purchase of fixed asset other than land & building	730	1.1%	-18.1%	+121.6%	-87.5%	+85.4%
Personal use	4,907	7.2%	+52.3%	+13.4%	+36.9%	+22.3%
Credit card	2,595	3.8%	+18.1%	+44.3%	+23.2%	+22.2%
Purchase of consumer durables	17	0.0%	+2007.0%	+2751.5%	+421.0%	+940.4%
Construction	3,896	5.7%	-9.7%	-39.5%	-17.3%	+42.9%
Working capital	15,227	22.2%	+6.1%	-37.1%	+25.1%	+14.5%
Other purpose	2,416	3.5%	+63.6%	-36.6%	+34.8%	-48.2%
Total applied	68,435	100.0%	+10.0%	-16.7%	-4.0%	+0.7%

Source: BNM

- **Improvement in loan applications but overall loan demand still weak.** Growth in industry loan applications rose to +0.7%yoy vs. -4.0%yoy in the preceding month led by improvement in applications for loans to purchase non-residential properties and construction activities. By sectors, the improvement was contributed by stronger loan demand from the manufacturing; wholesale & retail trade, and restaurants & hotels; transport; real estate; mining and quarrying as well as finance, insurance and business activities segments.

Growth in household's loan applications slowed down -6.4%yoy vs. +0.6%yoy in the preceding month. Loan demand for purchase of residential property, purchase of passenger cars, personals loans slowed down in pace compared to Mar'15 while applications for credit cards was slightly lower with a growth of +22.2%yoy.

Table 4: Loan approvals by purpose (RM mil)

	Apr-15	% of total	Jan-15 (%Yoy)	Feb-15 (%Yoy)	Mar-15 (%Yoy)	Apr-15 (%Yoy)
Purchase of securities	1,817	5.6%	-21.2%	-5.1%	-19.6%	-34.8%
Purchase of transport vehicles	4,155	12.7%	+3.3%	+3.2%	+14.6%	-16.5%
of which : purchase of passenger cars	3,945	12.1%	+2.1%	+4.0%	+9.1%	-15.9%
Purchase of residential property	9,839	30.1%	+3.1%	-9.1%	-7.6%	-5.0%
Purchase of non-residential property	3,988	12.2%	+14.0%	-27.3%	+9.5%	-9.3%
Purchase of fixed asset other than land & building	364	1.1%	+4.3%	+129.6%	+188.7%	+50.6%
Personal use	1,500	4.6%	+25.4%	-0.2%	+12.8%	+19.1%
Credit card	1,336	4.1%	-10.1%	-11.8%	-15.5%	-2.0%
Purchase of consumer durables	7	0.0%	+130.8%	+168.1%	-24.9%	+8.0%
Construction	2,353	7.2%	-14.5%	+184.0%	+112.1%	+186.3%
Working capital	6,364	19.4%	+63.1%	+26.7%	-15.3%	+21.1%
Other purpose	998	3.0%	+63.8%	-47.6%	+76.4%	-52.0%
Total approved	32,721	100.0%	+9.3%	-1.4%	+1.7%	-2.4%

Source: BNM

- Loan approvals were slower compared to the preceding month.** The overall industry loan approvals slipped to -2.4%yoy as compared to +1.7%yoy in the preceding month. Growth in loan approvals for household loans slowed down to -10.9%yoy (Mar'15: -6.7%yoy). Except for the manufacturing, wholesale & retail trade, restaurants & hotels as well as real estate sectors, approvals of loans for the other sectors were weaker compared to the previous month. In terms of loans by purpose, the decline in loan approvals was mainly contributed by slower growth in approvals for mortgage loans (residential and non-residential property purchase loans), loans for purchase of passenger cars and loans for purchase of securities (Refer Table 4).
- Growth in loan disbursements turned slower with loan disbursements almost matching loan repayments in amount.** Loan disbursement turned slower with a growth of -7.5%yoy. Loan repayments also slowed down and grew by -6.2%yoy. Industry LD ratio rose slightly to by 20bp mom to 86.8%.

Growth of deposits in the banking system trended lower to +8.3%yoy vs. growth of 9.0%yoy in the preceding months. Industry CASA growth slipped to 5.4%yoy (Mar'15: 7.2%yoy). This led to a lower industry CASA ratio of 40bp mom to 25.5%.

LENDING AND DEPOSIT RATES

- **ALR declined 5bp mom to 4.65% and interest spread narrowed.** The industry's average lending rate (ALR) eased 5bp mom to 4.65% while BLR remained at 6.79%. Base rate for Commercial Banks was 3.88%, a drop of 2bp mom.
- **Average deposits rate remain unchanged.** Interest spread (between the average lending rate and average deposit rate) narrowed to 1.48% due to a lower ALR while average deposit rate was unchanged. We understand that competition for retail deposits in the industry remain intense. This has continued to pressure on Banks' cost of funds (COF) against our earlier expectation that the easing of the regulatory guidelines on Liquidity Coverage Ratio (LCR) which has moderated longer term interbank rates will ease some pressure on Banks' funding cost. Hence, we have imputed higher NIM compression into our forecast for CY15 earnings of banks in our recent results review.

ASSET QUALITY

- **GIL ratio for the industry remains at 1.6%.** Gross Impaired Loan (GIL) ratio and net impaired loan (NIL) ratio remained at 1.6% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	Apr-14	Mar-15	Apr-15	% of total	%Mom	%Yoy
Purchase of securities	209	460	229	1.1%	-50.2%	+9.6%
Purchase of transport vehicles	2,206	1,902	1,897	8.9%	-0.3%	-14.0%
of which : purchase of passenger cars	1,933	1,719	1,715	8.1%	-0.2%	-11.3%
Purchase of residential property	5,056	5,110	4,956	23.3%	-3.0%	-2.0%
Purchase of non-residential property	1,105	1,485	1,533	7.2%	+3.2%	+38.7%
Purchase of fixed asset other than land & building	248	124	192	0.9%	+54.8%	-22.6%
Personal use	963	1,169	964	4.5%	-17.5%	+0.1%
Credit card	412	442	437	2.1%	-1.1%	+6.1%
Purchase of consumer durables	3	13	12	0.05%	-7.7%	+300.0%
Construction	1,798	2,257	2,270	10.7%	+0.6%	+26.3%
Working capital	9,241	8,195	7,498	35.2%	-8.5%	-18.9%
Other purpose	1,236	1,090	1,310	6.2%	+20.2%	+6.0%
Total	22,477	22,247	21,298	100.0%	-4.3%	-5.2%

Source: BNM

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

	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Purchase of securities	0.3%	0.4%	0.3%	0.4%	0.3%	0.5%	0.6%	0.3%
Purchase of transport vehicles	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%
of which : purchase of passenger cars	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%
Purchase of non-residential property	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%	0.8%
Purchase of fixed asset other than land & building	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.2%	1.8%
Personal use	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%	2.0%	1.6%
Credit card	1.2%	1.2%	1.2%	1.2%	1.1%	1.3%	1.2%	1.3%
Purchase of consumer durables	1.0%	1.0%	1.1%	1.2%	1.3%	1.5%	1.7%	1.5%
Construction	7.3%	7.3%	7.2%	7.1%	5.6%	5.6%	5.7%	5.7%
Working capital	2.9%	2.8%	2.7%	2.5%	2.7%	2.6%	2.6%	2.4%
Other purpose	1.8%	1.9%	1.7%	1.7%	1.7%	1.9%	1.8%	2.1%
Total	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%

Source: BNM

On absolute value basis, impaired loans declined by RM949m or -4.3%mom in Apr'15. GIL ratio for loans for purchase of securities declined in Apr'15 after upticks reported in the preceding two months. Meanwhile, GIL ratio for the other loan segments remained stable. The sector recorded a higher loan loss coverage ratio of 101.8% (Mar'15: 98.7%).


CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) at 12.4%, 13.2% and 15.1% respectively in Apr'15.

CALL ON SECTOR & STOCK PICKS

- **In our universe of 9 banking stocks, 3 banks (AFG, CIMB and AHB) reported earnings which were below expectations in 1QCY15.** For 1QCY15 results, 3 banks (AFG, CIMB and AHB) earnings were below expectations while the other 6 banks (Public Bank, Hong Leong Bank, RHB Cap, AMMB, BIMB and Maybank) reported net profits which were within expectations. Among the 2 key highlights from the results were: i) continuation of high funding cost for banks which has impacted NIM and ii) higher provision for loan impairment from the weaker market conditions. As highlighted above, COF remained high and this is contrary to our earlier expectation of lower pressure on the COF of banks after BNM has

issued new guidelines to ease regulations for LCR. In the recent months, keen competition for retail deposits continues to be seen and this has put pressure on NIM of banks.

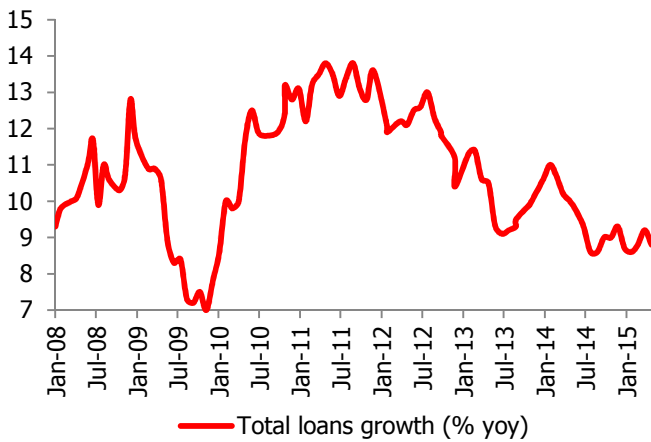
- **Year to date, loan growth for the sector was slow at 6.7% annualized.** We maintain our loan growth expectation for the sector at 8-9% for CY15 as we expect loan momentum to pick up pace in particularly from higher household spending in 4QCY15 after adjusting to the GST implementation.
- **Still a slow momentum for capital market activities.** Improvement in new PDS issuances with a growth of +14.0%yoy as compared -15.8%yoy in Mar'15. However, growth in net funds raised from the capital market for the private sector slipped to -42.9%yoy after reporting a growth of +37.0%yoy in the previous month which was attributed to higher PDS issuance and right issues for equities.
- **Outlook for top line earnings growth remain challenging for banks.** Maintain NEUTRAL stance on the sector as we continue to see challenges to banks earnings from: i) slower loan growth than CY14, persistent NIM pressure, market volatility impacting treasury and IB income and lower ROEs reflecting softer market conditions. In view of the challenging conditions, generally banks will be focusing on containing cost, digitation initiatives to improve customer experience, risk adjusted returns on loans as well as on managing asset quality. Our stocks picks remain unchanged with BUY calls on Hong Leong Bank (TP: RM15.60), Maybank (TP: RM10.30) and RHB Cap (RM8.90). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 2.95), AMMB (TP: RM7.10), AFG (TP: RM4.70), CIMB (TP: RM6.10) and BIMB (TP: RM3.96). We have lowered our valuation for most banking stocks in our recent review of 1QCY15 results. 

	Rec.	Price @ 1/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	6.30	7.10	54.4	56.0	11.6	11.3	27.3	23.0	4.3	3.7	4.8	5.1	1.3	1.2
Maybank	BUY	9.11	10.30	75.0	82.0	12.1	11.1	45.0	49.0	4.9	5.4	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	18.54	19.50	121.0	131.0	15.3	14.2	56.0	60.0	3.0	3.2	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.49	8.90	82.0	95.0	9.1	7.9	10.0	12.0	1.3	1.6	8.1	9.0	0.9	0.8
Hong Leong	BUY	13.68	15.60	115.0	122.0	11.9	11.2	38.0	40.0	2.8	2.9	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	5.63	6.10	44.0	50.0	12.8	11.3	18.0	20.0	3.2	3.6	4.7	5.0	1.2	1.1
AFG	NEUTRAL	4.55	4.70	34.7	36.0	13.1	12.6	15.4	16.0	3.4	3.5	2.9	3.2	1.6	1.4
BIMB	NEUTRAL	4.01	3.96	37.5	40.2	10.7	10.0	15.0	16.1	3.7	4.0	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.79	2.95	25.0	33.0	11.2	8.5	12.0	16.0	4.3	5.7	4.2	4.3	0.7	0.6

Kelvin Ong, CFA

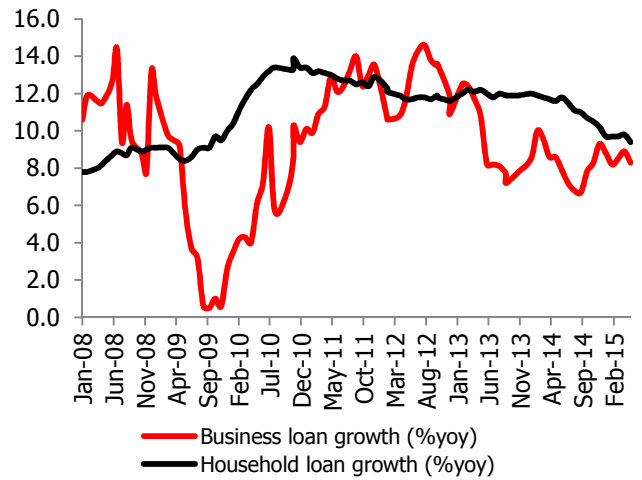
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



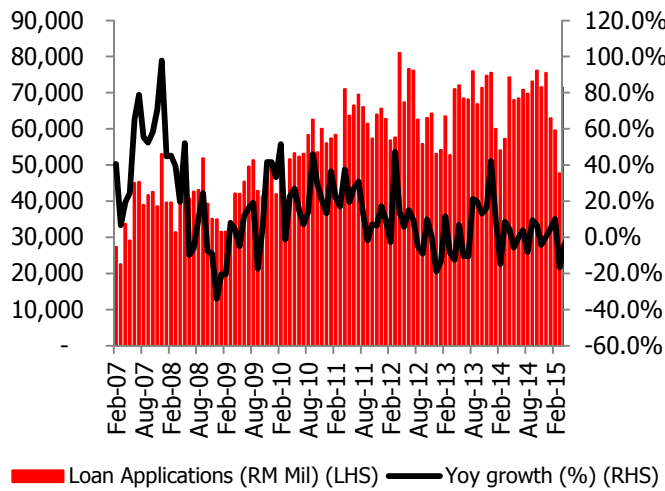
Source: BNM

Chart 2: Business and Household Loan Growth Rate



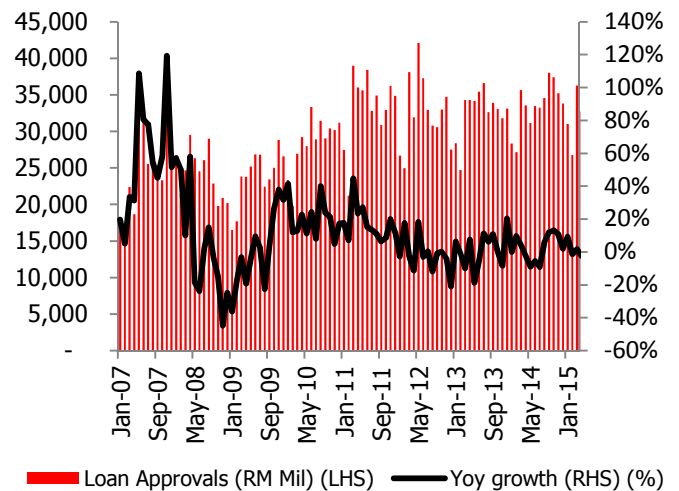
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

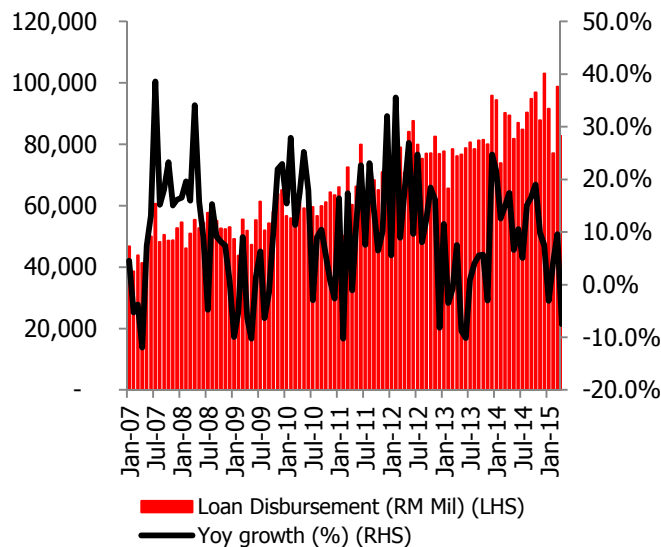


Chart 6: Interest Spread

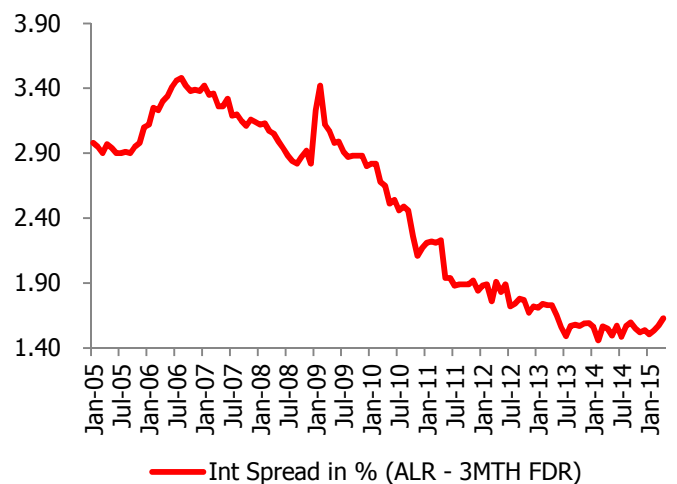
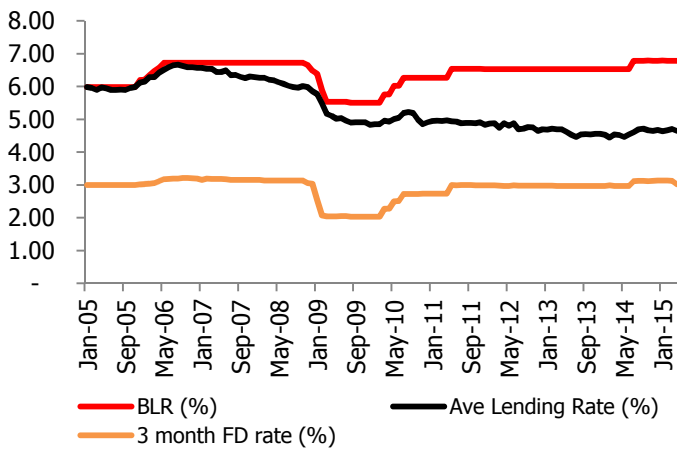
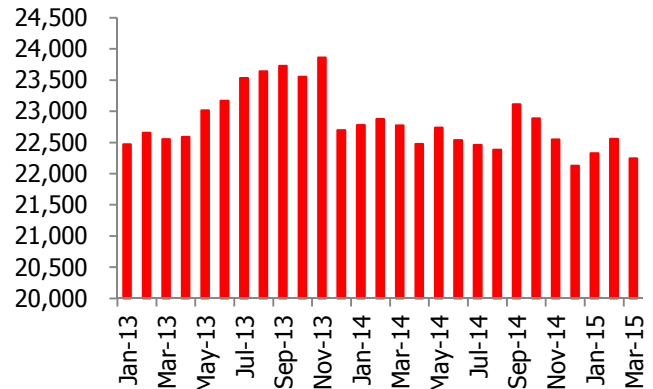


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



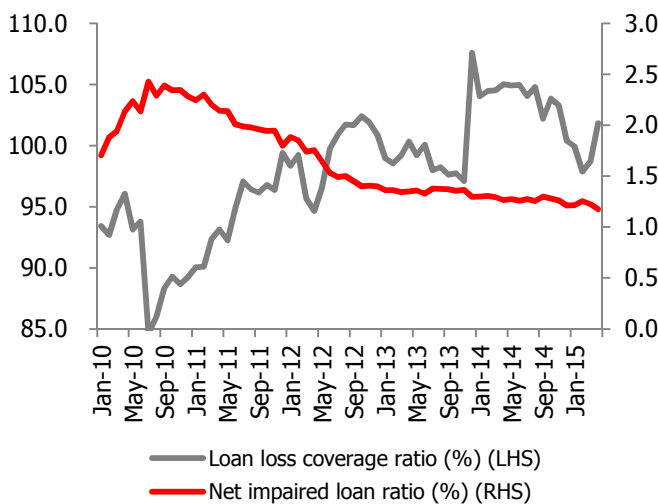
Source: BNM

Chart 8: Total Impaired Loans



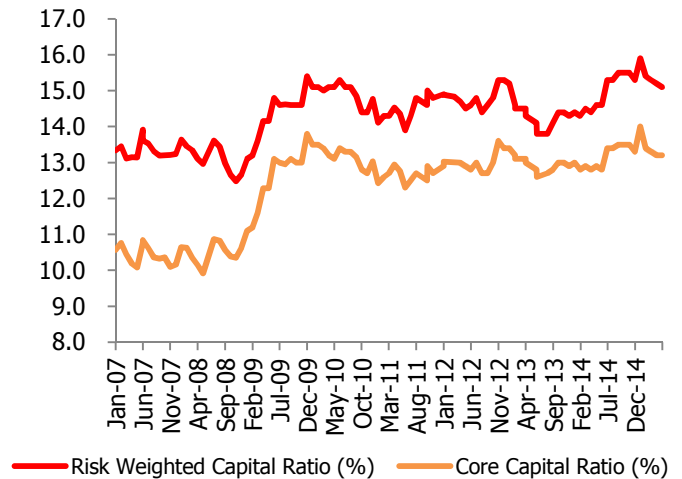
Source: BNM

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

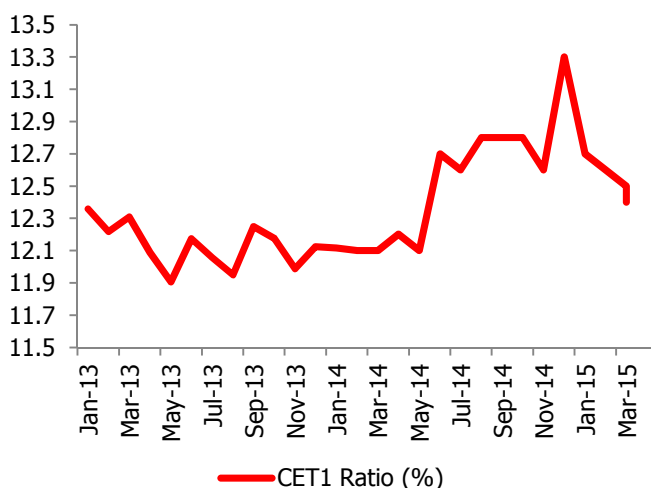
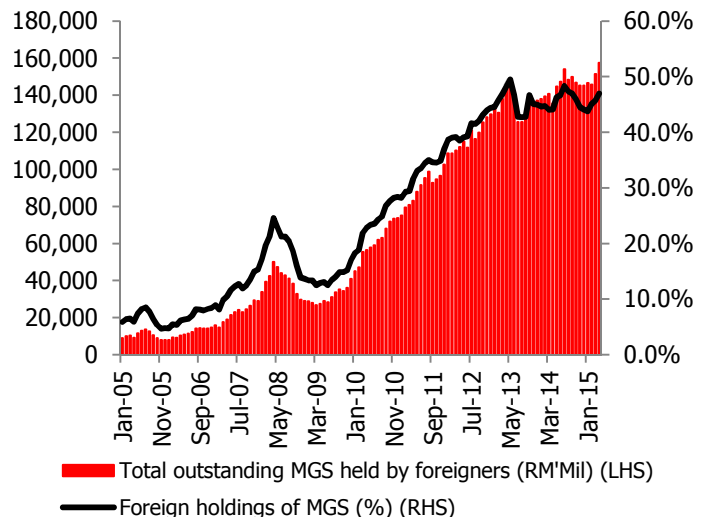


Chart 12: MGS Holdings by Foreigners



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
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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.