

01 Oct 2015 | Sector update

BANKING – AUG 2015 BNM STATISTICS

Maintain NEUTRAL

Leading indicators turned weaker

LOAN INDICATORS

- **Industry loan growth continued to trend higher to +10.2%yoy in Aug'15 led by higher business loan growth which offset the slowdown in household loans.** Banking system's loans grew at a faster pace of +10.2%yoy in Aug'15 vs. +9.6%yoy in the preceding month. Contributing to this uplift was higher business loan growth of +11.5%yoy in Aug'15 vs. +9.9%yoy in July'15. Working capital loans gained momentum with a higher growth rate of +15.9%yoy.

Meanwhile, household loan growth continued to taper to +8.3%yoy in Aug'15 (July'15: +8.6%yoy) contributed largely by slowdown in growth of mortgage loans and loans for purchase of securities.

Table 1: Loan breakdown by purpose (RM mil)

	Aug-14	July-15	Aug-15	% of total	%Mom	%Yoy
Purchase of securities	74,140	75,188	74,494	5.3%	-0.9%	+0.5%
Purchase of transport vehicles	165,615	168,994	169,216	12.0%	+0.1%	+2.2%
of which : purchase of passenger cars	155,935	159,577	159,831	11.3%	+0.2%	+2.5%
Purchase of residential property	375,245	418,320	421,153	29.8%	+0.7%	+12.2%
Purchase of non-residential property	168,418	191,400	192,179	13.6%	+0.4%	+14.1%
Purchase of fixed asset other than land & building	10,261	10,373	10,908	0.8%	+5.2%	+6.3%
Personal use	58,759	61,566	62,359	4.4%	+1.3%	+6.1%
Credit card	34,343	34,558	34,845	2.5%	+0.8%	+1.5%
Purchase of consumer durables	473	150	149	0.01%	-0.7%	-68.5%
Construction	36,508	40,198	40,565	2.9%	+0.9%	+11.1%
Working capital	294,643	330,231	341,573	24.2%	+3.4%	+15.9%
Other purpose	63,540	65,204	65,346	4.6%	+0.2%	+2.8%
Total	1,281,945	1,395,667	1,412,787	100.0%	+1.2%	+10.2%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Aug-14	July-15	Aug-15	% of total	%Mom	%Yoy
Primary agriculture	31,724	34,884	37,054	2.6%	+6.2%	+16.8%
Mining and quarrying	8,078	11,411	12,907	0.9%	+13.1%	+59.8%
Manufacturing (including agro based)	98,384	100,954	103,258	7.3%	+2.3%	+5.0%
Electricity, gas and water supply	12,803	10,832	10,787	0.8%	-0.4%	-15.7%
Wholesale, retail, restaurants & hotels	94,740	103,097	105,135	7.4%	+2.0%	+11.0%
Construction	52,767	59,117	59,292	4.2%	+0.3%	+12.4%
Real estate	76,855	89,241	92,773	6.6%	+4.0%	+20.7%
Transport, storage & communication	31,336	34,941	35,520	2.5%	+1.7%	+13.4%
Financing, insurance & business services	83,023	95,838	93,281	6.6%	-2.7%	+12.4%
Education, health & others	36,022	40,087	40,962	2.9%	2.2%	+13.7%
Household sector	738,545	795,664	799,824	56.6%	+0.5%	+8.3%
Other sector	17,667	19,601	21,995	1.6%	+12.2%	+24.5%
Total	1,281,945	1,395,667	1,412,787	100.0%	+1.2%	+10.2%

Source: BNM

By business sectors, relative to the previous month, the stronger pace in business loans on a year on-year basis was contributed mainly from loans to the primary agriculture, mining & quarry, wholesale, manufacturing, real estate and wholesale, retail, restaurants and hotels sectors.

- **Household loan growth continued trending downwards.** Compared to the preceding month, both loans for purchase of residential property and loans for purchase of non-residential property slipped to +12.2%yoy and +14.1%yoy respectively.

Momentum in loans for purchase of passenger car remained slow with a growth rate of +2.5%yoy similar to the previous month. We believe that cautious consumer sentiment coupled with higher inflation from GST and weaker domestic currency will continue to impact household spending ahead. Outstanding in credit cards failed to sustain the stronger momentum seen just before the GST implementation and remained slow with a growth rate of +1.5%yoy. Loans for purchase of securities recorded a significant drop to a growth rate of only +0.5%yoy growth. Meanwhile, personal loans grew at a slightly higher rate of +6.1%yoy.

Table 3: Loan applications by purpose (RM mil)

	Aug-15	% of total	May-15 (%Yoy)	Jun-15 (%Yoy)	July-15 (%Yoy)	Aug-15 (%Yoy)
Purchase of securities	1,831	2.4%	-55.2%	-43.5%	-66.9%	-42.9%
Purchase of transport vehicles	6,995	9.3%	-14.8%	+3.5%	-5.5%	-9.6%
of which : purchase of passenger cars	6,675	8.8%	-14.7%	+4.6%	-8.9%	-0.1%
Purchase of residential property	18,298	24.3%	-15.9%	-6.8%	-3.3%	-6.4%
Purchase of non-residential property	7,385	9.8%	-22.0%	-4.5%	-6.4%	-23.1%
Purchase of fixed asset other than land & building	290	0.4%	+141.9%	+9.7%	+50.3%	-45.0%
Personal use	5,919	7.8%	+49.6%	+55.8%	+60.8%	+53.0%
Credit card	3,241	4.3%	+50.7%	+66.7%	+70.9%	+55.2%
Purchase of consumer durables	0	0.0%	+1012.2%	-66.3%	-35.0%	-77.0%
Construction	3,668	4.9%	+5.7%	-32.9%	+22.5%	+15.0%
Working capital	25,031	33.2%	+24.3%	+26.0%	+38.6%	+17.7%
Other purpose	2,781	3.7%	+8.1%	-23.5%	-7.0%	+28.2%
Total applied	75,438	100.0%	-2.9%	+3.6%	+7.0%	+3.1%

Source: BNM

- The pickup in demand for business and household loans seen in the preceding month failed to sustain its pace in Aug'15.** Growth in industry loan applications eased to +3.1%yoy, down from +7.0%yoy in the preceding month. Both loan applications for non household and household loans registered slower growth rates of +5.9%yoy and +0.3%yoy respectively.

By loan purpose, the decline was broad based for household loans with most segments in household loans registering lower growth rates. Meanwhile, for business purposes, the decline in loan demand was contributed by slower loan applications for construction and working capital.

By sectors, the drop in loan demand was contributed mainly by slower growth rates in loan applications from the construction, real estate, transport, storage and communication, wholesale, retail trade and restaurants and hotels and electricity, gas and water supply, mining and quarry as well as the household sectors.

Table 4: Loan approvals by purpose (RM mil)

	Aug-15	% of total	May-15 (%Yoy)	Jun-15 (%Yoy)	July-15 (%Yoy)	Aug-15 (%Yoy)
Purchase of securities	1,221	3.9%	-44.9%	-57.6%	-40.8%	-46.3%
Purchase of transport vehicles	3,882	12.4%	-2.0%	+14.2%	+2.2%	-7.5%
of which : purchase of passenger cars	3,714	11.8%	-1.6%	+16.3%	+2.6%	-6.7%
Purchase of residential property	8,895	28.3%	-21.3%	-7.9%	-17.8%	-17.5%
Purchase of non-residential property	3,011	9.6%	-22.2%	-32.4%	-25.9%	-28.8%
Purchase of fixed asset other than land & building	149	0.5%	+79.2%	-31.5%	-50.3%	-41.0%
Personal use	1,577	5.0%	-6.0%	+9.7%	+6.8%	+16.8%
Credit card	1,413	4.5%	+22.1%	+43.7%	+36.4%	+17.1%
Purchase of consumer durables	0	0.0%	+76.3%	-95.3%	-98.2%	-97.7%
Construction	1,620	5.2%	+13.6%	+93.6%	-9.1%	-8.0%
Working capital	7,792	24.8%	+65.8%	+126.5%	+47.5%	+17.9%
Other purpose	1,857	5.9%	+45.5%	+77.7%	+21.1%	-2.3%
Total approved	31,418	100.0%	+0.6%	+15.1%	-0.9%	-9.1%

Source: BNM

- Loan approvals further slowed down in Aug'15.** Overall industry loan approval growth further decelerated to a higher negative growth rate of -9.1%yoy as compared to the preceding month's -0.9%yoy. Approval of household loans remained weak at -15.2%yoy while that of non household loans slowed down significantly to -0.2%yoy supported by a sharp decline in growth rate of approvals for working capital loans. By loan purpose, the decline in loan approvals for household loans was mainly on mortgage loans, loans for purchase of securities and loans for purchase of passenger cars (Refer Table 4).
- Growth in loan disbursements continued to outpace repayments.** Loan disbursement slowed down to -2.3%yoy. Nevertheless, this continued to outpace the industry's loan repayments which grew -3.5%yoy. Industry LD ratio continued to trend higher to 90.4%. With a tighter liquidity for the sector, we continue to expect NIM of banks to be still compressed by higher COF with competition for deposits expected to remain stiff.

Growth of deposits (excluding REPO) in the banking system rose to +4.5%yoy up from +4.1%yoy in the preceding month. Industry CASA picked up pace to a higher growth rate of +5.8%yoy as compared +2.4%yoy as banks continue to focus on building up CASA to defend pressures on NIM. This led to a higher CASA ratio for the industry of 25.9% (July'15: 25.7%).

Liquidity coverage ratio (LCR) for the sector stood at 126% as of end July'15 with LCR for commercial banks, Islamic banks and investment banks at 134%, 106% and 117% respectively, well above the requirement by BNM for LCR of 60% in 2015.

LENDING AND DEPOSIT RATES

- **ALR continued to drop resulting in lower interest spread.** The industry's average lending rate (ALR) continued to drop to 4.51% (-0.03% mom) for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate remained at 3.85%.
- Interest spread (between the average lending rate and average deposit rate) continued to narrowed to 1.32% due to lower ALR while the average deposit rate remained stable. Stiff competition for lending and deposit rates is expected to continue to still compress NIM of banks.

ASSET QUALITY

- **Trend of upticks in impaired loans continuing but overall GIL ratio for the industry remained steady 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)

	Aug-14	July-15	Aug-15	% of total	%Mom	%Yoy
Purchase of securities	239	327	323	1.4%	-1.2%	+35.1%
Purchase of transport vehicles	2,192	1,805	1,870	8.3%	+3.6%	-14.7%
of which : purchase of passenger cars	2,037	1,683	1,744	7.7%	+3.6%	-14.4%
Purchase of residential property	5,050	5,060	5,078	22.5%	+0.4%	+0.6%
Purchase of non-residential property	1,249	1,716	1,734	7.7%	+1.0%	+38.8%
Purchase of fixed asset other than land & building	181	163	168	0.7%	+3.1%	-7.2%
Personal use	973	1,033	1,046	4.6%	+1.3%	+7.5%
Credit card	418	452	466	2.1%	+3.1%	+11.5%
Purchase of consumer durables	5	2	2	0.01%	-	-60.0%
Construction	1,819	3,105	2,492	11.0%	-19.7%	+37.0%
Working capital	8,985	7,502	8,008	35.4%	+6.7%	-10.9%
Other purpose	1,271	1,396	1,409	6.2%	+0.9%	+10.9%
Total	22,382	22,562	22,597	100.0%	+0.2%	+1.0%

Source: BNM

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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	July-15	Aug-15
Purchase of securities	0.3%	0.5%	0.6%	0.3%	0.3%	0.5%	0.4%	0.4%
Purchase of transport vehicles	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
of which : purchase of passenger cars	1.2%	1.2%	1.1%	1.1%	1.1%	1.0%	1.1%	1.1%
Purchase of residential property	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.9%	0.9%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%
Purchase of fixed asset other than land & building	1.7%	1.7%	1.2%	1.8%	1.6%	1.6%	1.6%	1.5%
Personal use	1.8%	1.8%	2.0%	1.6%	1.7%	1.6%	1.7%	1.7%
Credit card	1.1%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of consumer durables	1.3%	1.5%	1.7%	1.5%	1.6%	1.4%	1.2%	1.3%
Construction	5.6%	5.6%	5.7%	5.7%	6.0%	6.1%	7.7%	6.1%
Working capital	2.7%	2.6%	2.6%	2.4%	2.4%	2.5%	2.3%	2.3%
Other purpose	1.7%	1.9%	1.8%	2.1%	2.3%	2.2%	2.1%	2.2%
Total	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value basis, impaired loans continued to trend higher, increasing by RM35m or +0.2% mom. However, this was smaller relatively compared to the preceding month. GIL ratios for most loan segments remained stable (see Table 6). The sector's loan loss coverage ratio rose slightly to at 97.6% (+0.3% mom).

CAPITALISATION

- **Lower capital position contributed by dividend payout of several banks.** The sector's CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) drop to 12.1% (-0.5%mom), 12.7%(-0.7%mom) and 14.8% (-0.7%mom) respectively in Aug'15. This was attributed to the dividend payments by several banks.


CALL ON SECTOR & STOCK PICKS

- **Leading indicators turned weak.** Loan applications failed to keep up with the improvement seen in the preceding month. Meanwhile loan approvals turned slower.

- **Loan growth to be expected to slow down in the months.** Year-to-date, annualized loan growth was 8.3%. We continue to expect loan momentum to be slower in months ahead for CY15. This will be due to our expectation of slowdown in business loans from slower economic growth and weaker sentiment while capital market activities are expected to remain weak. Meanwhile, household loan growth is likely to remain soft after GST with cautious consumer sentiment and spending. As of now, we are expecting the loan growth for the sector in CY15 to grow by 7-8%. Following guidance from banks such as Maybank, CIMB and RHB Cap of slowdown in pace of loan growth in 2HCY15, we have revised our expectation for the system loan growth downwards from 8-9% previously.

With commodity prices remained low, domestic currency continues to be weak as well as slowdown in external economies, we will not be surprised of further upticks in banks' impaired loans ahead. We have already raised our credit charge-off assumptions for some banks in the recent results reporting season.

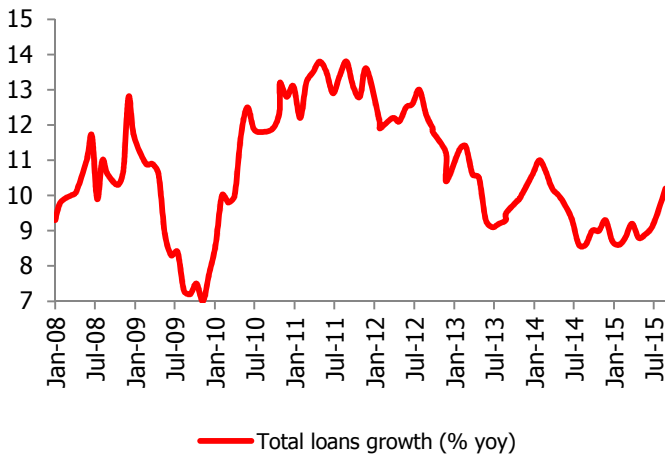
Maybank and CIMB's loan loss coverage (LLC) ratios declined to higher loan impairment for their international operations. We expect these banks to raise their provisioning in the subsequent quarters of CY15 to increase their LLC ratios. This is expected to impact their earnings.

- **High cost of funds to continue to impact bank's NIM.** With liquidity in the sector turned tighter as evidenced from a rise in LD ratio to 90.3%, we expect competition for deposits to remain stiff, hence high COF will continue to impact banks' NIM.
- **Maintain NEUTRAL on the sector.** Our BUY calls are on Hong Leong Bank (TP: RM14.60) for its defensive qualities and Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield. We are NEUTRAL on Public Bank (TP: RM19.80), Affin (TP: 2.30), AMMB (TP: RM5.50), AFG (TP: RM4.10), RHB Cap (TP: RM6.60) and CIMB (TP: RM5.50). 

	Rec.	Price @ 30/9	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	4.56	5.50	54.4	55.0	8.4	8.3	27.3	22.0	6.0	4.8	4.8	5.1	1.0	0.9
Maybank	BUY	8.56	9.80	67.0	75.0	12.8	11.4	40.0	45.0	4.7	5.3	6.1	6.5	1.4	1.3
Public Bank	NEUTRAL	17.52	19.80	121.0	131.0	14.5	13.4	56.0	60.0	3.2	3.4	7.9	8.6	2.2	2.0
RHB Capital	NEUTRAL	5.95	6.60	67.0	57.4	8.9	n.m	9.0	7.4	1.5	n.m	7.6	5.7	0.8	n.m
Hong Leong	BUY	13.12	14.60	115.0	122.0	11.4	10.8	38.0	40.0	2.9	3.0	8.5	9.5	1.5	1.4
CIMB	NEUTRAL	4.46	5.50	40.0	47.0	11.2	9.5	16.0	19.0	3.6	4.3	4.7	5.0	0.9	0.9
AFG	NEUTRAL	3.35	4.10	34.7	36.0	9.7	9.3	15.4	16.0	4.6	4.8	2.9	3.2	1.2	1.1
BIMB	NEUTRAL	4.01	4.22	36.4	38.9	11.0	10.3	15.0	16.0	3.7	4.0	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.34	2.30	23.0	31.0	10.2	7.5	11.0	16.0	4.7	6.8	4.1	4.3	0.6	0.5
Average				62.1	65.9	10.9	10.1	25.3	26.8	3.9	4.6	5.4	5.6	1.3	1.2

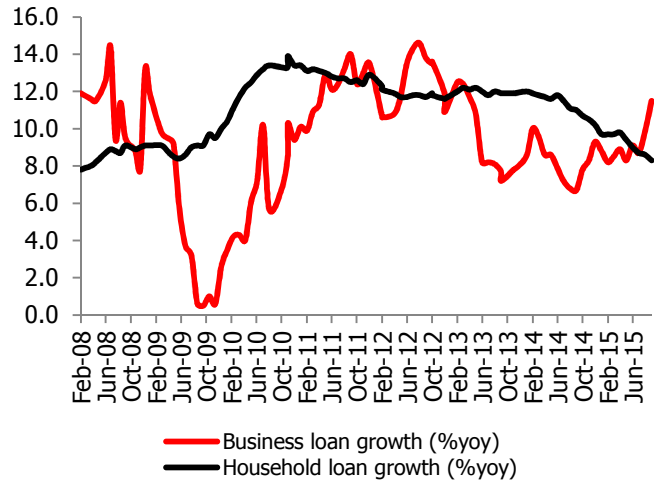
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Chart 1: Total Loan Growth Rate



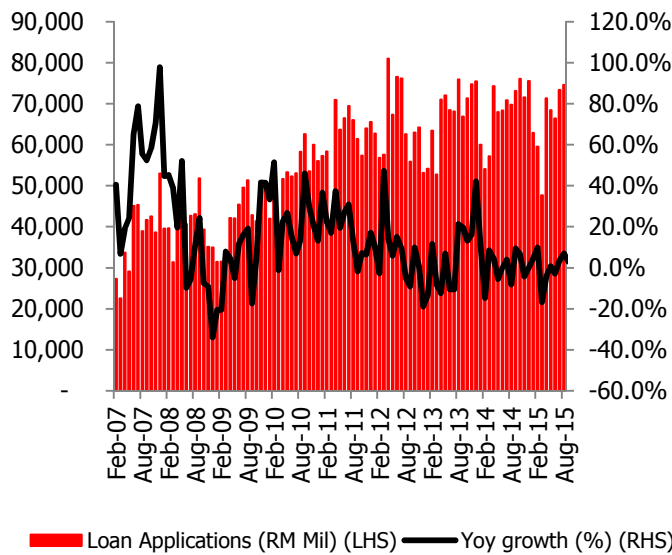
Source: BNM

Chart 2: Business and Household Loan Growth Rate



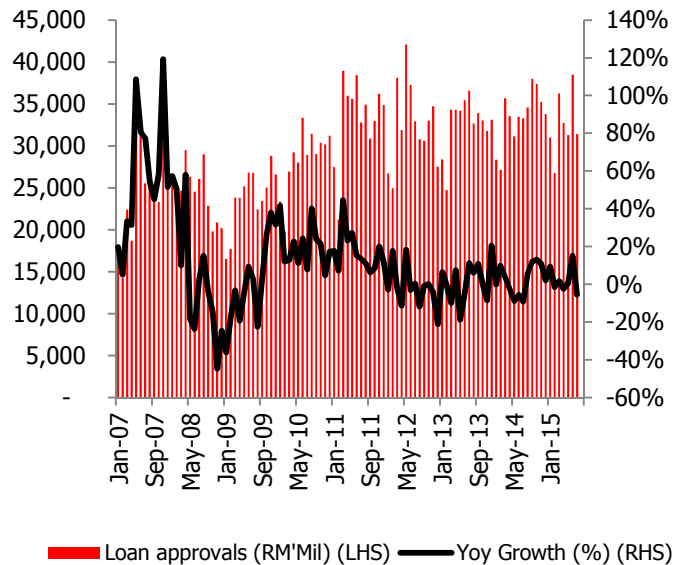
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

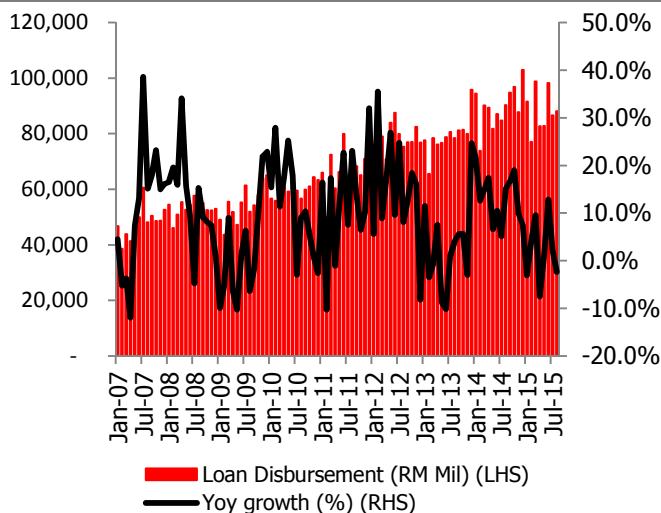


Chart 6: Interest Spread

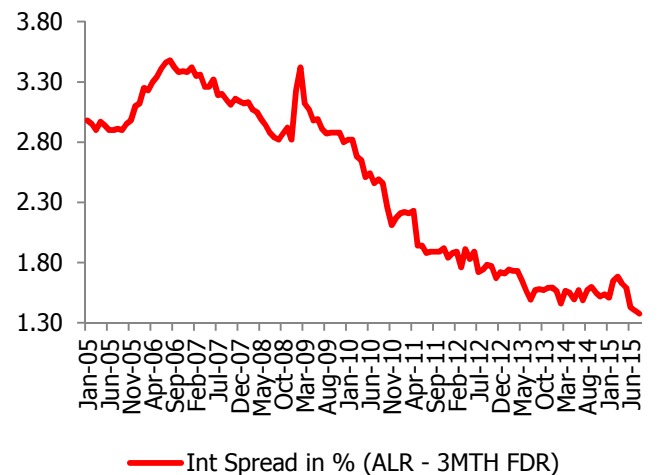
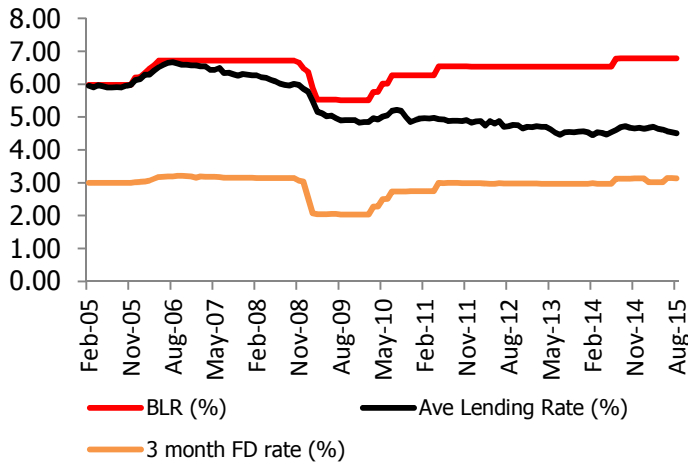
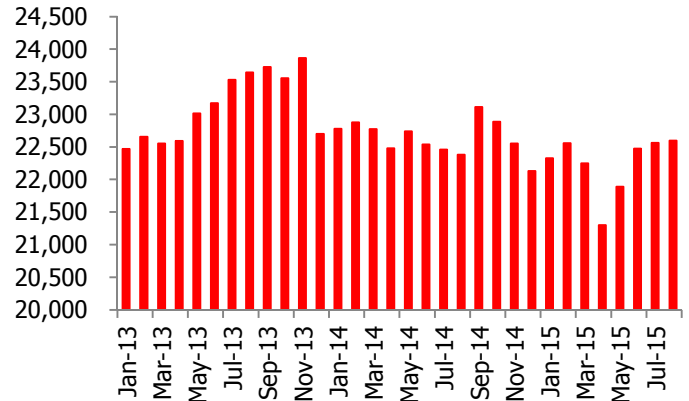


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



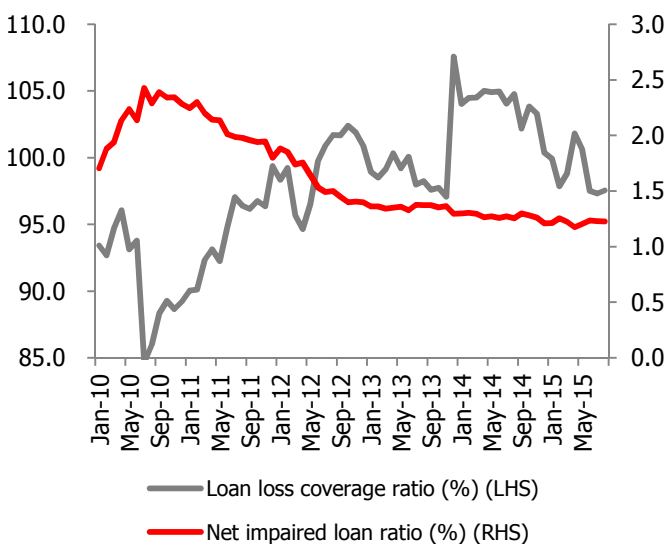
Source: BNM

Chart 8: Total Impaired Loans



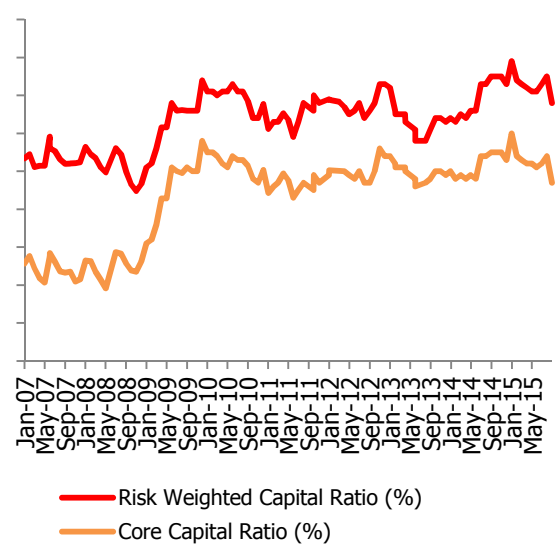
Source: BNM

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

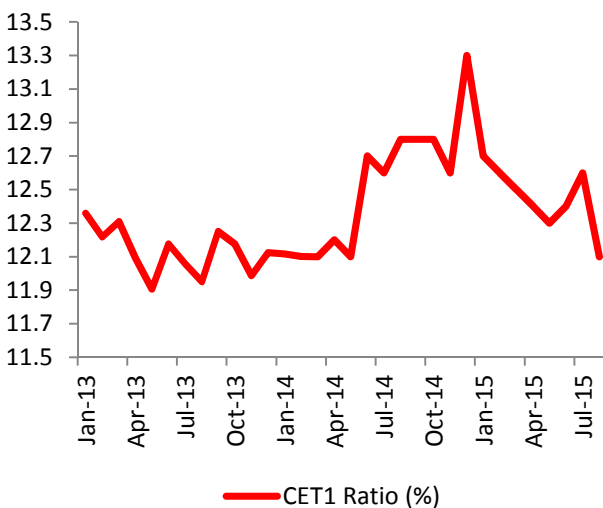
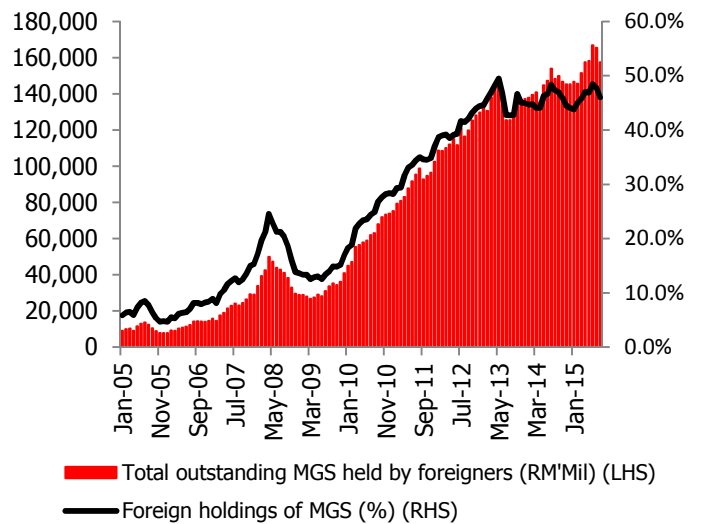


Chart 12: MGS Holdings by Foreigners



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.