

04 Feb 2014 | Sector update

BANKING - DEC 2013 STATISTICS

Maintain NEUTRAL

More challenges ahead for banks with higher regional exposure in CY14

LOAN INDICATORS

- Loan growth momentum accelerated in Dec'13. System loan growth for CY13 of 10.6%yoy was slightly above that of CY12 by 0.2%. System loan growth in Dec'13 grew 10.6%yoy vs. 9.9%yoy in the preceding month. This was contributed by stronger pace in business loan growth. In terms of loan growth by sectors, stronger momentum was evidenced for loans extended to the manufacturing, construction, real estate, financing, insurance and business as well as the household sector.

Loan growth for the full CY13 of 10.6%yoy was higher than our expectation of a 9.0-10.0% growth.

- Business loan growth gained traction with a 8.5%yoy growth in Dec'13 while household loan growth continued to remain stable. Business loan picked up pace with 8.5%yoy in Dec'13 (Nov'13: 7.8%yoy) while household loan growth was slightly higher at 12.0%yoy as compared to 11.9%yoy in the previous month.

Table 1: Loan breakdown by purpose (RM mil)

	Dec-12	Nov-13	Dec-13	% of total	%Mom	%Yoy
Purchase of securities	56,426	67,504	68,874	5.6%	+2.0%	+22.1%
Purchase of transport vehicles	153,824	163,544	163,456	13.3%	-0.1%	+6.3%
of which : purchase of passenger cars	141,116	150,789	150,466	12.3%	-0.2%	+6.6%
Purchase of residential property	303,920	340,776	344,834	28.1%	+1.2%	+13.5%
Purchase of non-residential property	131,375	152,205	154,641	12.6%	+1.6%	+17.7%
Purchase of fixed asset other than land & building	8,994	9,359	9,675	0.8%	+3.4%	+7.6%
Personal use	55,400	57,673	57,967	4.7%	+0.5%	+4.6%
Credit card	33,261	34,272	35,059	2.9%	+2.3%	+5.4%
Purchase of consumer durables	88	204	571	0.1%	+179.9%	+548.9%
Construction	30,940	33,285	33,693	2.7%	+1.2%	+8.9%
Working capital	264,811	281,501	288,363	23.5%	+2.4%	+8.9%
Other purpose	68,931	67,260	68,632	5.6%	+2.0%	-0.4%
Total	1,107,970	1,207,583	1,225,765	100.0%	+1.5%	+10.6%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Dec-12	Nov-13	Dec-13	% of total	%Mom	%Yoy
Primary agriculture	28,574	31,889	31,690	2.6%	-0.6%	+10.9%
Mining and quarrying	7,015	7,897	7,976	0.7%	+1.0%	+13.7%
Manufacturing (including agro based)	94,929	96,218	96,664	7.9%	+0.5%	+1.8%
Electricity, gas and water supply	10,330	9,715	9,702	0.8%	-0.1%	-6.1%
Wholesale, retail, restaurants & hotels	82,072	90,664	91,214	7.4%	+0.6%	+11.1%
Construction	44,503	48,672	49,837	4.1%	+2.4%	+12.0%
Real estate	62,568	69,455	71,023	5.8%	+2.3%	+13.5%
Transport, storage & communication	28,068	27,609	28,875	2.4%	+4.6%	+2.9%
Financing, insurance & business services	75,966	82,038	88,386	7.2%	+7.7%	+16.3%
Education, health & others	42,981	42,551	41,472	3.4%	-2.5%	-3.5%
Household sector	616,500	683,139	690,630	56.3%	+1.1%	+12.0%
Other sector	14,463	17,737	18,295	1.5%	+3.1%	+26.5%
Total	1,107,970	1,207,583	1,225,765	100.0%	+1.5%	+10.6%

Source: BNM

- For household loans, growth rate for mortgage loans was seen holding up well against Nov'13 numbers. Loans for residential property purchase grew at faster pace of 13.5%yoy as compared to 13.3%yoy in Nov'13 while the growth of loans for purchase of non residential property was up slightly at 17.7%yoy vs. 17.6%yoy in Nov'13. Growth of loans for purchase of passenger cars continued to decline to 6.6%yoy (Nov'13: 7.9%yoy) as car purchasers continue to wait further clarity from the impending announcement of national automotive policy (NAP). Details of the new NAP was only recently unveiled in Jan'14. Meanwhile, growth of credit card lending and personal loans moderated against Nov'13. Elsewhere, growth of loans for purchase of securities gained momentum with a 22.1%yoy growth as compared to 18.7%yoy in Nov'13.

Table 3: Loan applications by purpose (RM mil)

	Dec-13	% of total	Sept-13 (%Yoy)	Oct-13 (%Yoy)	Nov-13 (%Yoy)	Dec-13 (%Yoy)
Purchase of securities	2,972	5.0%	-16.3%	+19.4%	-9.7%	+37.4%
Purchase of transport vehicles	7,650	12.8%	-11.1%	-4.3%	-14.3%	-10.8%
of which : purchase of passenger cars	7,309	12.2%	+8.5%	+0.4%	-14.7%	-9.8%
Purchase of residential property	18,437	30.9%	+27.5%	+43.8%	+60.2%	+24.1%
Purchase of non-residential property	8,176	13.7%	+13.2%	+22.8%	+23.3%	+12.4%
Purchase of fixed asset other than land & building	356	0.6%	+45.8%	-1.1%	+325.3%	+39.1%
Personal use	3,315	5.6%	-1.4%	-14.0%	-6.0%	-1.7%
Credit card	1,902	3.2%	+8.8%	-1.1%	-0.8%	-3.8%
Purchase of consumer durables	1	0.0%	+917.9%	+69.8%	+218.1%	-77.8%
Construction	3,371	5.6%	+70.0%	+43.6%	+36.1%	+45.3%
Working capital	10,534	17.6%	+73.3%	+21.8%	+114.8%	+8.2%
Other purpose	2,969	5.0%	-58.2%	-52.3%	-23.5%	-18.8%
Total applied	59,682	100.0%	+13.1%	+16.3%	+40.8%	+10.1%

Source: BNM

- Industry loan application growth turned softer in Dec'13.** Industry loan application growth drop to 10.1%yoy (Nov'13: +40.8%yoy). The decline was broad base. With exception of higher growths in applications for loans for purchase of securities and loans for construction activities, growth of loan applications for other purposes declined compared to the previous month.

Overall growth of household loan applications moderated to 11.3%yoy in Dec'13 as compared to 27.4%yoy in Nov'13.

Table 4: Loan approvals by purpose (RM mil)

	Dec-13	% of total	Sept-13 (%Yoy)	Oct-13 (%Yoy)	Nov-13 (%Yoy)	Dec-13 (%Yoy)
Purchase of securities	2,463	7.4%	+24.5%	+18.9%	-36.1%	+107.3%
Purchase of transport vehicles	3,956	11.9%	+13.0%	-1.5%	-3.4%	-8.0%
of which : purchase of passenger cars	3,712	11.2%	+14.6%	+3.7%	-4.1%	-6.7%
Purchase of residential property	10,923	33.0%	+33.5%	+21.8%	+45.4%	+49.7%
Purchase of non-residential property	3,732	11.3%	-20.4%	+4.4%	+3.1%	+8.6%
Purchase of fixed asset other than land & building	308	0.9%	+31.8%	-51.0%	+40.6%	+11.8%
Personal use	1,117	3.4%	-30.3%	-46.7%	-41.6%	-45.3%
Credit card	1,483	4.5%	+10.6%	+5.0%	+12.1%	+12.2%
Purchase of consumer durables	11	0.0%	-45.2%	-31.1%	-23.5%	+102.2%
Construction	1,010	3.0%	+11.8%	+163.4%	-33.6%	+21.1%
Working capital	6,751	20.4%	+40.0%	-2.7%	-27.7%	+18.8%
Other purpose	1,379	4.2%	-58.2%	-68.7%	-77.6%	+22.5%
Total approved	33,133	100.0%	+10.9%	+0.2%	-8.6%	+20.4%

Source: BNM

- **Loan approval growth rate trended higher in Dec'13.** Growth of loan approvals in Dec'13 rose to +20.4%yoy (Nov'13: -8.6%yoy). With exception of approval of loans for purchase of passenger cars, loan approvals for most types of household loans gained traction in Dec'13. For businesses, approval growth rates for construction and working capital loans picked up pace in the last month of CY13 (Refer Table 4). Momentum of loan approvals for household loans improved in Dec'13. Growth rate of household loan approvals was higher at 22.1%yoy vs. 19.5%yoy in the preceding month.
- **Higher loan disbursements.** Growth of loan disbursements accelerated to 24.7%yoy, up from -2.9%yoy in Nov'13. Meanwhile, loan repayments grew 14.6%yoy (Nov'13: -3.8%yoy).
- **Industry LD ratio declined slightly to 84.6%.** Industry loans to deposit (LD) ratio drop marginally to 84.6% vs. 84.8% in Nov'13.

LENDING AND DEPOSIT RATES

- **ALR remained at 4.56%.** The industry's average lending rates (ALR) remained at 4.56% in Dec'13 while BLR was unchanged at 6.53%.
- **Interest spread was unchanged as in Nov'13.** Interest spread (between the average lending rate and 3 month FD rate) remained at 1.59%. Average FD rate (for tenures of up to 12 months) was similar to the preceding month.

ASSET QUALITY

- **Gross impaired loan (GIL) ratio for the sector remained benign despite the rise in inflation rate.** GIL ratio for the sector and net impaired loan (NIL) ratio remained benign at 1.9% and 1.3% respectively. GIL and NIL ratios both improved by 10bp compared to 2.0% to 1.4% in Nov'13. This was due to a drop in impaired loans and higher loan base. GIL ratios for key household loans remained stable despite of rise in inflation to 3.2% in Dec'13 as compared to 2.8% in Oct'13. Nevertheless, we are maintaining our expectation that there will be some pressure on the asset quality of banks for CY14 due to tighter regulations by BNM and higher inflation effect which may impact loan repayments. Overall, we expect asset quality for the sector to still remain stable moving forward despite of a marginal rise in impaired loans.
- **Sector loan loss coverage (LLC) improved to 107.6%.** LLC in Dec'13 was higher at 107.6% as compared to 97.1% in the previous month. The sector's impaired loans declined 4.9% mom to RM22.7b.

Table 5: Impaired Loans by purpose (RM mil)

	Dec-12	Nov-13	Dec-13	% of total	%Mom	%Yoy
Purchase of securities	449	348	230	1.0%	-33.9%	-48.8%
Purchase of transport vehicles	1,803	2,069	2,096	9.2%	+1.3%	+16.3%
of which : purchase of passenger cars	1,560	1,816	1,836	8.1%	+1.1%	+17.7%
Purchase of residential property	5,661	5,345	5,272	23.2%	-1.4%	-6.9%
Purchase of non-residential property	1,281	1,245	1,196	5.3%	-3.9%	-6.6%
Purchase of fixed asset other than land & building	225	252	237	1.0%	-6.0%	+5.3%
Personal use	1,010	1,006	997	4.4%	-0.9%	-1.3%
Credit card	438	440	452	2.0%	+2.7%	+3.2%
Purchase of consumer durables	3	19	7	0.03%	-63.2%	+133.3%
Construction	1,698	1,751	1,692	7.5%	-3.4%	-0.4%
Working capital	8,697	10,182	9,209	40.6%	-9.6%	+5.9%
Other purpose	1,257	1,204	1,311	5.8%	+8.9%	+4.3%
Total	22,520	23,861	22,699	100.0%	-4.9%	+0.8%

Source: BNM

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

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Purchase of securities	0.7%	0.7%	0.7%	0.6%	0.6%	0.7%	0.5%	0.5%	0.5%	0.3%
Purchase of transport vehicles	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%
of which : purchase of passenger cars	1.1%	1.1%	1.0%	1.0%	1.1%	1.2%	1.1%	1.1%	1.2%	1.2%
Purchase of residential property	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.5%
Purchase of non-residential property	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%
Purchase of fixed asset other than land & building	2.5%	2.4%	2.2%	2.0%	2.4%	2.4%	2.3%	2.8%	2.7%	2.5%
Personal use	1.8%	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%	1.8%	1.7%	1.7%
Credit card	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.3%	1.3%
Purchase of consumer durables	3.2%	2.9%	2.7%	2.7%	2.4%	1.8%	1.7%	1.6%	9.4%	1.2%
Construction	5.8%	5.7%	5.7%	5.7%	5.5%	5.2%	5.3%	5.1%	5.3%	5.0%
Working capital	3.4%	3.5%	3.4%	3.3%	3.6%	3.6%	3.7%	3.6%	3.6%	3.2%
Other purpose	1.6%	1.5%	1.7%	1.6%	1.7%	1.9%	1.7%	1.7%	1.8%	1.9%
Total	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.9%

Source: BNM

CAPITALISATION

- **No change in capital position.** The sector's common equity tier 1 (CET1) ratio, core capital ratio (CCR) and risk weighted capital ratio (RWCR) was 12.0%, 12.9% and 14.3% respectively in Dec'13.

With exception of a drop in CCR by 10bp mom to 12.9%, the sector's CET1 and RWCR ratio remained unchanged compared to the previous month. Moving into Jan'14, we expect the sector's capital ratios to strengthened. This is due to the completion of CIMB Group's recent private placement of 500m new shares in Jan'14 which raised RM3.55b.

CALL ON SECTOR & STOCK PICKS

- **Maintain loan growth expectation of 10-11% for CY14.** Higher inflation coupled with tighter regulatory measures are expected to moderate growth of retail loans this year. However, we are looking at improvement in business loan growth due to the pickup in external trade which will provide an uplift in Malaysia's GDP growth to 5.0% for 2014 (2013f: 4.6%). We expect the stronger business loan growth to offset the slower momentum for retail loans hence resulting in a loan growth of 10-11% for the industry in 2014. On the absolute net profit numbers, we expect banks net profit to trend higher in 2014 than 2013 with the continued expansion of the Groups' assets. Outlook for banks in 2014 will continue to be challenging as net profits are still expected to be impacted by NIM pressures albeit milder than last year, the continuing normalization of credit cost and challenges in growing non interest income due to capital market uncertainties.

- **More challenges for banks with regional operations in CY14.** The equity raising by CIMB recently through private placement of new shares was due to the depreciation of Indonesian Rupiah (IDR) which impacted the Group's capital accumulation plans. Also, the cash call was done to address the potential further weakening of IDR.

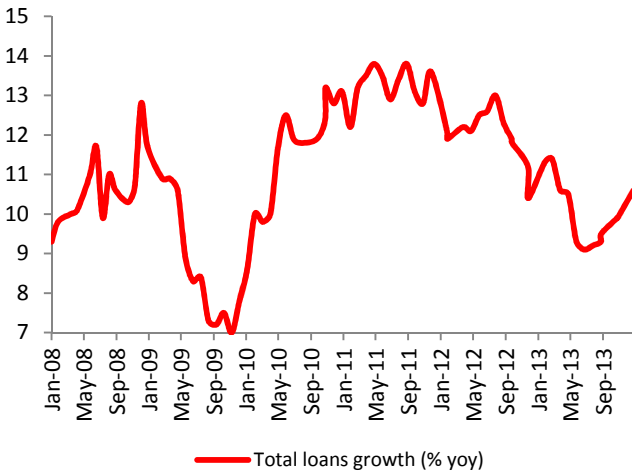
2014 will be challenging for Emerging Market (EM) Asian countries as these countries will need to manage capital outflows due to QE3 taper as well as manage currency stability and inflation. Overall, we see more challenges for banks with operations in EM Asian countries such as Indonesia and Thailand. This is due to the weakness in the Asian currencies, higher inflation and the impending presidential elections which are likely to slow down economic growths of these countries.

- **Expect NEUTRAL impact from the new reference interest rate.** The new reference interest is to reflect funding cost and promote a transparent reference rate. The new reference interest rate will only be applicable for new mortgage loans. It will move away from the current BLR - spread pricing to PFR (Prime Financing Rate) + spread pricing. In the future, pricing for new mortgage loans will not be quoted with a negative spread. We do not see the changes affecting the lending rates for mortgage loans. The new framework will only change the way rates for new mortgage loans will be quoted. BNM has yet to finalized the framework for the new reference interest rate as it is awaiting for feedback and comments from banks.

- **Maintain NEUTRAL for sector.** This is premised on continuation of NIM pressures, normalizing credit cost and the volatile markets contributing to tougher operating conditions for IB and hence resulting in more challenges for growth of non interest income.

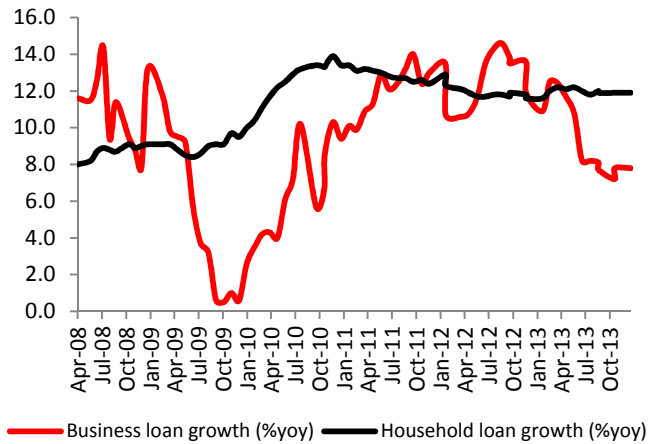
Our BUY calls on Maybank (TP: RM11.00), RHB Cap (RM9.50), AMMB (TP: RM8.10) and Hong Leong Bank (TP: RM16.50). We are NEUTRAL on AFG (TP: RM4.80), Public Bank (RM18.40), CIMB (TP: RM8.10) and Affin (TP: RM4.00).

Chart 1: Total Loan Growth Rate



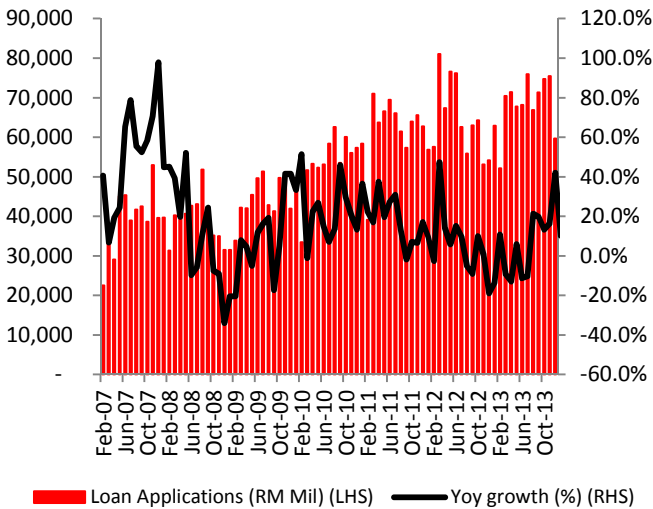
Source: BNM

Chart 2: Business and Household Loan Growth Rate



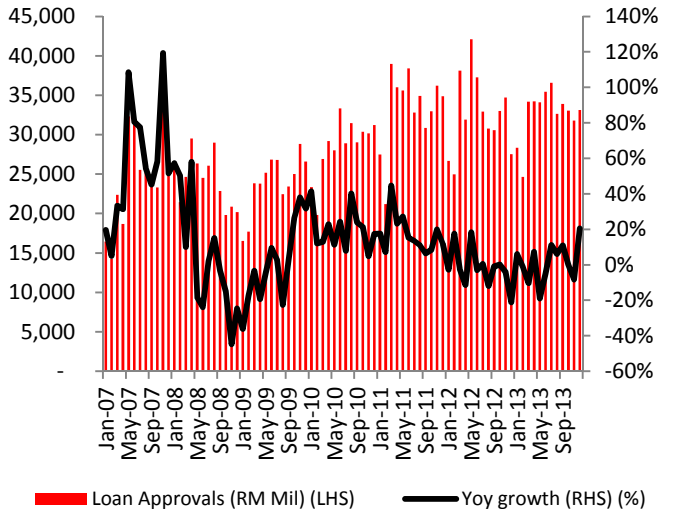
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

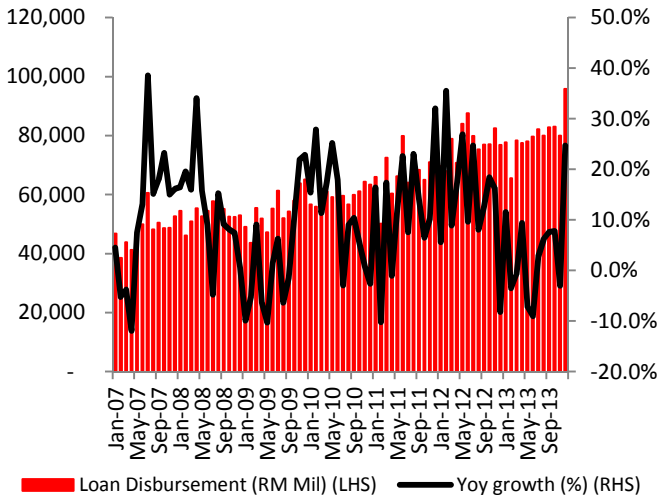


Chart 6: Interest Spread

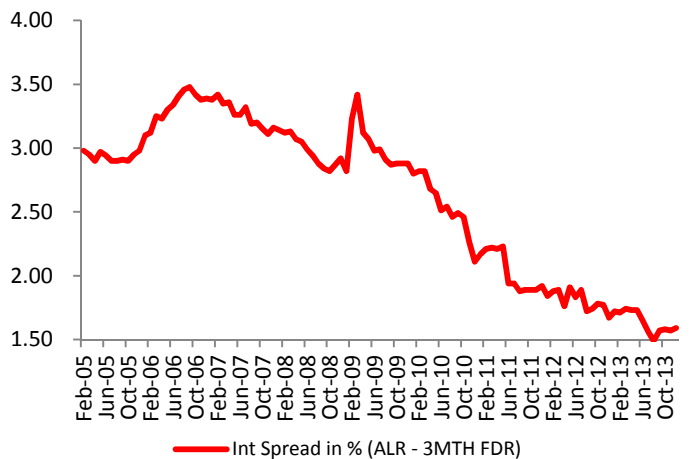
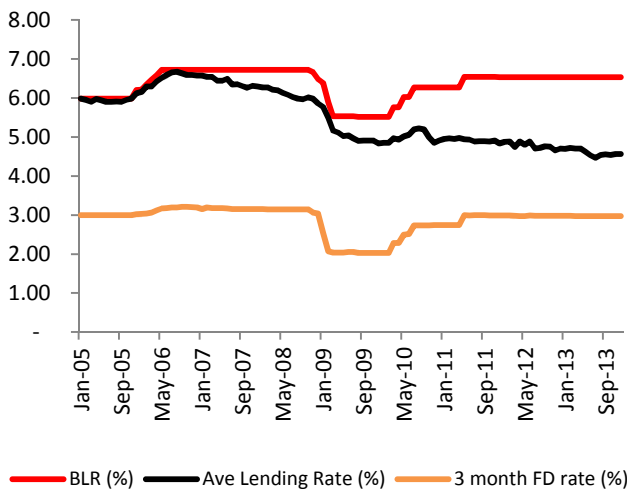
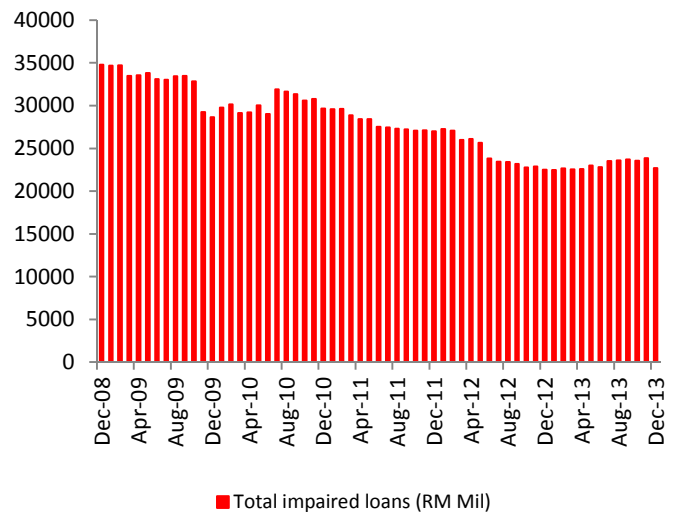


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



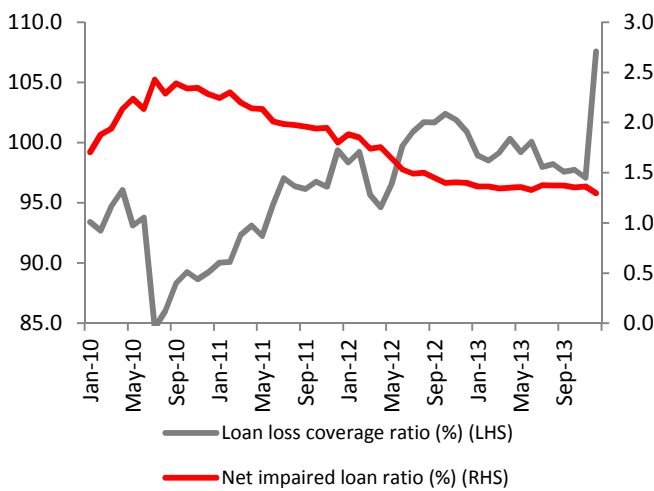
Source: BNM

Chart 8: Total Impaired Loans



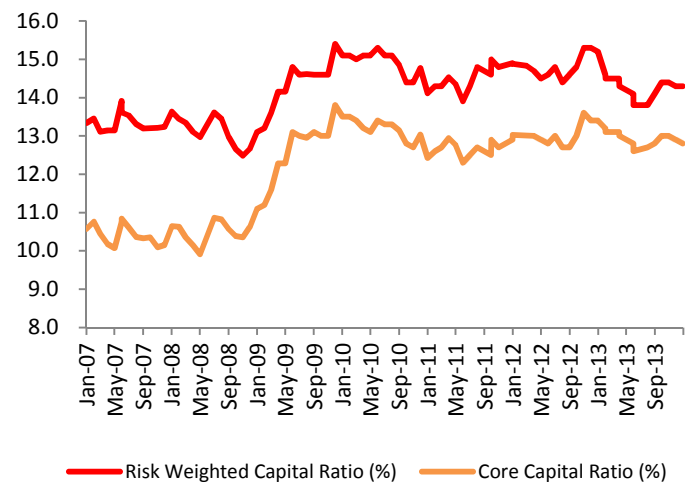
Source: BNM

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

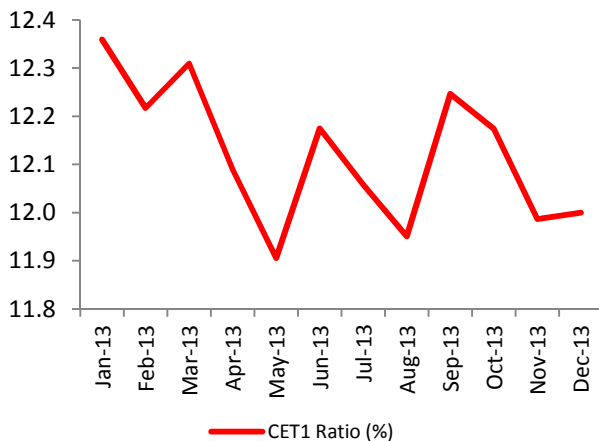
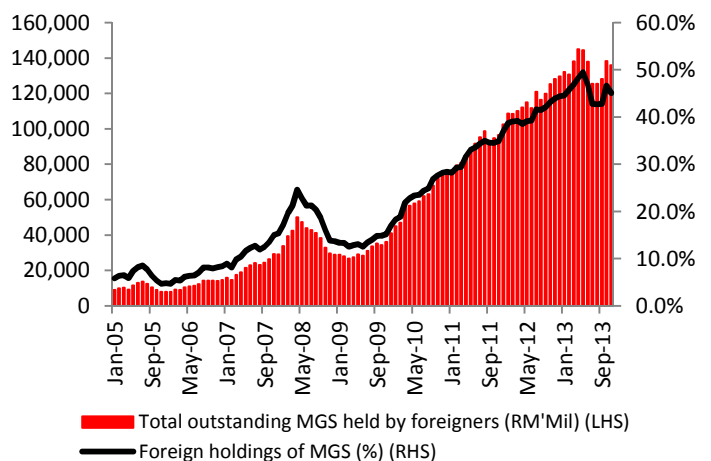


Chart 12: MGS Holdings by Foreigners



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.