

4 Feb 2015 | Sector update

## BANKING - DEC 2014 BNM STATISTICS

Maintain NEUTRAL

*Slower household and business loans growth*

### LOAN INDICATORS

- **Banking system loan growth moderated to 8.7%yoy in Dec'14 with slower pace in household and business loans.** System loan growth ended the year at 8.7%yoy in Dec'14. This was slightly below our expectation of 9-10% growth for CY14. Business loan growth slipped to 8.8%yoy in Dec'14 after gaining traction in the previous 3 months (Nov'14: 9.3%yoy). Meanwhile, Household loan growth continued to trend downwards, slipping 50bp from preceding month to 9.7%yoy in Dec'14.
- **Slower growth in working capital loans and loans for construction in Dec'14.** After rising in the previous 4 months (Aug to Nov'14), growth in working capital loans turned softer at 7.8%yoy in Dec'14 while growth in construction loans slipped to 15.6%yoy, down 50bp from the previous month.

**Table 1: Loan breakdown by purpose (RM mil)**

	Dec-13	Nov-14	Dec-14	% of total	%Mom	%Yoy
Purchase of securities	68,750	76,630	76,451	5.7%	-0.2%	+11.2%
Purchase of transport vehicles	163,462	165,649	165,590	12.4%	-0.04%	+1.3%
of which : purchase of passenger cars	152,925	156,151	156,126	11.7%	-0.02%	+2.1%
Purchase of residential property	344,576	385,762	389,691	29.2%	+1.0%	+13.1%
Purchase of non-residential property	154,897	175,226	177,697	13.3%	+1.4%	+14.7%
Purchase of fixed asset other than land & building	9,673	10,578	10,508	0.8%	-0.7%	+8.6%
Personal use	57,927	60,312	60,116	4.5%	-0.3%	+3.8%
Credit card	35,168	35,270	35,487	2.7%	+0.6%	+0.9%
Purchase of consumer durables	227	603	636	0.05%	+5.5%	+180.2%
Construction	33,696	38,655	38,955	2.9%	+0.8%	+15.6%
Working capital	289,167	307,191	311,817	23.4%	+1.5%	+7.8%
Other purpose	68,112	64,318	65,855	4.9%	+2.4%	-3.3%
<b>Total</b>	<b>1,225,656</b>	<b>1,320,195</b>	<b>1,332,801</b>	<b>100.0%</b>	<b>+1.0%</b>	<b>+8.7%</b>

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Dec-13	Nov-14	Dec-14	% of total	%Mom	%Yoy
Primary agriculture	31,637	31,097	31,618	2.4%	+1.7%	-0.1%
Mining and quarrying	7,893	8,532	9,318	0.7%	+9.2%	+18.1%
Manufacturing (including agro based)	96,616	100,793	100,660	7.6%	-0.1%	+4.2%
Electricity, gas and water supply	9,717	12,681	12,954	1.0%	+2.2%	+33.3%
Wholesale, retail, restaurants & hotels	91,766	98,545	98,419	7.4%	-0.1%	+7.2%
Construction	49,647	55,444	56,910	4.3%	+2.6%	+14.6%
Real estate	70,039	82,705	84,582	6.3%	+2.3%	+20.8%
Transport, storage & communication	28,738	32,521	32,824	2.5%	+0.9%	+14.2%
Financing, insurance & business services	88,007	88,691	91,160	6.8%	+2.8%	+3.6%
Education, health & others	41,692	36,671	36,940	2.8%	+0.7%	-11.4%
Household sector	693,039	755,669	760,321	57.0%	+0.6%	+9.7%
Other sector	16,865	16,845	17,096	1.3%	+1.5%	+1.4%
<b>Total</b>	<b>1,225,656</b>	<b>1,320,195</b>	<b>1,332,801</b>	<b>100.0%</b>	<b>+1.0%</b>	<b>+8.7%</b>

Source: BNM

Contributing to the slowdown in business loans was mainly slower pace in loans to the Financing, Insurance and Business Services sector.

- **Household loan growth continued to be slow with softer growth in mortgage and HP loans.** Growth in loans for residential property purchase declined to 13.1%yoy while growth in loans for purchase of non-residential property dropped to 14.7%yoy, easing 40bp from the previous month. In line with the weaker market sentiment and volatile equity market, growth in loans for purchase of securities continued to moderate to 11.2%yoy in Dec'14 vs. 13.5%yoy in Nov'14.

Growth in loans for purchase of passenger cars declined to 2.1%yoy. Meanwhile, momentum in personal loans and credit card lending continued to be slow with growths of 3.8%yoy and 0.9%yoy respectively.

**Table 3: Loan applications by purpose (RM mil)**

	Dec-14	% of total	Sept-14 (%Yoy)	Oct-14 (%Yoy)	Nov-14 (%Yoy)	Dec-14 (%Yoy)
Purchase of securities	3,238	4.7%	-20.4%	-20.5%	+69.0%	+8.9%
Purchase of transport vehicles	7,475	10.8%	-6.0%	-4.6%	-0.7%	-2.3%
of which : purchase of passenger cars	7,140	10.3%	-5.9%	-14.5%	-1.3%	-2.3%
Purchase of residential property	18,067	26.1%	-2.8%	-22.2%	-27.2%	-2.0%
Purchase of non-residential property	8,245	11.9%	-10.4%	-12.4%	-7.4%	+0.8%
Purchase of fixed asset other than land & building	595	0.9%	-8.2%	+28.2%	-40.1%	+67.4%
Personal use	4,602	6.7%	+34.0%	+18.5%	+37.9%	+38.8%
Credit card	2,060	3.0%	+3.7%	+0.2%	+4.1%	+8.3%
Purchase of consumer durables	17	0.0%	-44.6%	-28.4%	+258.0%	+2272.4%
Construction	3,899	5.6%	+18.5%	+8.1%	+3.6%	+15.6%
Working capital	17,888	25.9%	+25.1%	+20.8%	+0.6%	+64.2%
Other purpose	3,047	4.4%	+38.2%	+40.6%	+383.8%	+2.6%
<b>Total applied</b>	<b>69,134</b>	<b>100.0%</b>	<b>+6.7%</b>	<b>-4.4%</b>	<b>+0.1%</b>	<b>+15.1%</b>

Source: BNM

- Industry loan applications grew at a strong pace of 15.1%yoy contributed by applications for construction and working capital loans.** Industry loan application growth rose to 15.1%yoy vs. 0.1%yoy in the preceding month. Contributing largely to the improvement was higher growth in applications for working capital and construction loans. By sectors, the improvement was contributed by the stronger loan applications from the Manufacturing, Construction and Finance, Insurance and Business Activities sectors. Loan applications by SMEs were stable.

Growth in Household's loan applications picked up pace slightly to 2.7%yoy in Dec'14 from -14.5%yoy in Nov'14. Loan demand for household remained weak for key household loans (HP loans, mortgage loans and loans for purchase of securities). In contrast, there were slight improvements in loan demand for personal loans and credit cards.

**Table 4: Loan approvals by purpose (RM mil)**

	Dec-14	% of total	Sept-14 (%Yoy)	Oct-14 (%Yoy)	Nov-14 (%Yoy)	Dec-14 (%Yoy)
Purchase of securities	1,787	5.3%	+8.1%	+37.0%	-18.5%	-27.5%
Purchase of transport vehicles	4,277	12.6%	-10.6%	-11.3%	+1.5%	+8.1%
of which : purchase of passenger cars	4,040	11.9%	-11.4%	-5.7%	+2.9%	+8.8%
Purchase of residential property	9,757	28.8%	+6.1%	+4.8%	-10.8%	-10.7%
Purchase of non-residential property	4,562	13.5%	+3.8%	+4.5%	-3.3%	+22.2%
Purchase of fixed asset other than land & building	441	1.3%	-27.2%	+49.9%	+159.4%	+43.4%
Personal use	1,487	4.4%	+25.9%	+30.8%	+26.1%	+33.1%
Credit card	1,273	3.8%	-4.0%	-11.1%	-2.4%	-14.2%
Purchase of consumer durables	11	0.03%	+18.9%	192.2%	+155.6%	+0.2%
Construction	1,269	3.8%	+69.0%	+8.0%	+56.5%	+25.7%
Working capital	7,187	21.2%	-3.4%	+60.4%	+30.4%	+6.5%
Other purpose	1,776	5.2%	+363.8%	-26.1%	+438.9%	+28.8%
<b>Total approved</b>	<b>33,826</b>	<b>100.0%</b>	<b>+12.1%</b>	<b>+13.1%</b>	<b>+10.8%</b>	<b>+2.1%</b>

Source: BNM

- **Loan approvals continued to be slow.** For Household loans, growths in approvals of loans remained soft. Growth in approval of loans for purchase of residential property, loans for purchase of securities and credit cards continued to be at slow pace (Refer Table 4). Growth in Household loan approvals was -4.2%yoy as compared to -5.2%yoy in Nov'14 and -5.9%yoy in Oct'14. On loans for businesses, growth in working capital loans and construction loans moderated to 6.5%yoy and 25.7%yoy respectively in Dec'14.
- **Loan repayments were faster relative to disbursements in Dec'14.** Growth in loan repayments at 6.5%yoy was faster than loan disbursements which grew 1.7%yoy. This led to slight improvement in industry LD ratio to 86.2%.
- **Despite a drop of 40bp from previous month, liquidity remained tight with LD ratio of 86.2%.** Deposit growth in the banking system moderated slightly to 7.6%yoy from 7.8%yoy in the previous month. CASA growth in the industry continued to trend downwards moderating to 4.0%yoy in Dec'14 from 4.2%yoy in Nov'14.

## LENDING AND DEPOSIT RATES

- **ALR inched higher by 2bp and interest spread improved slightly.** The industry's average lending rate (ALR) inched higher by 2bp from the preceding month to 4.67%. BLR remained at 6.79%.
- **Average deposits rate remained stable.** Interest spread (between the average lending rate and 3 month FD rate) improved slightly to 1.48%, up by 2bp from the previous month contributed by higher ALR while average deposit rate remained at 3.19%. Deposit rates remain high due to strong competition for deposit as the result of the implementation of LCR requirements on banks effective 1 June 2015.

## ASSET QUALITY

- **GIL ratio for the industry remained at 1.7%.** Gross Impaired Loan (GIL) ratio was 1.7% while net impaired loan ratio inched lower to 1.2%.

Table 5: Impaired Loans by purpose (RM mil)

	Dec-13	Nov-14	Dec-14	% of total	%Mom	%Yoy
Purchase of securities	273	228	318	1.4%	+39.5%	+16.5%
Purchase of transport vehicles	2,107	2,141	2,074	9.4%	-3.1%	-1.6%
of which : purchase of passenger cars	1,848	1,943	1,880	8.5%	-3.2%	1.7%
Purchase of residential property	5,272	5,015	5,018	22.7%	+0.1%	-4.8%
Purchase of non-residential property	1,162	1,338	1,341	6.1%	+0.2%	+15.4%
Purchase of fixed asset other than land & building	235	176	181	0.8%	+2.8%	-23.0%
Personal use	989	1,043	1,023	4.6%	-1.9%	+3.4%
Credit card	456	432	431	1.9%	-0.2%	-5.5%
Purchase of consumer durables	2	6	7	0.03%	+16.7%	+250.0%
Construction	1,658	2,799	2,755	12.5%	-1.6%	+66.2%
Working capital	9,198	8,282	7,889	35.7%	-4.7%	-14.2%
Other purpose	1,347	1,090	1,091	4.9%	+0.1%	-19.0%
<b>Total</b>	<b>22,699</b>	<b>22,551</b>	<b>22,129</b>	<b>100.0%</b>	<b>-1.9%</b>	<b>-2.5%</b>

Source: BNM

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

	Apr-14	May-14	Jun-14	July-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14
Purchase of securities	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%	0.4%	0.3%	0.4%
Purchase of transport vehicles	1.3%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
of which : purchase of passenger cars	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%
Purchase of residential property	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%
Purchase of fixed asset other than land & building	2.5%	2.4%	2.3%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%
Personal use	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Credit card	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of consumer durables	0.8%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.1%	1.2%
Construction	5.1%	5.7%	5.0%	5.1%	5.0%	7.3%	7.3%	7.2%	7.1%
Working capital	3.2%	3.2%	3.1%	3.1%	3.0%	2.9%	2.8%	2.7%	2.5%
Other purpose	1.8%	1.8%	1.8%	2.0%	2.0%	1.8%	1.9%	1.7%	1.7%
<b>Total</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>

Source: BNM


On absolute value basis, impaired loans declined by RM422m (-1.9% mom) in Dec'14. Except for the rise in impaired loans for purchase of securities, impairments for the other loans by purposes remained stable. Loan loss coverage ratio for the sector improved to 106.3% from 103.3% in the previous month.

## CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) at 12.6%, 13.3% and 15.2% respectively.

## CALL ON SECTOR & STOCK PICKS

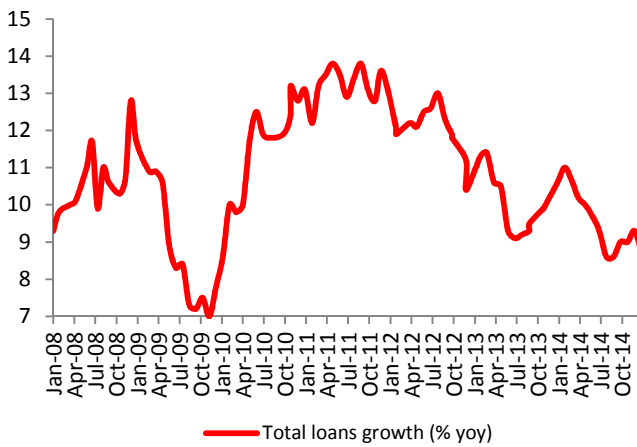
- **Maintain our loan growth expectation of 8-9% for CY15.** We maintain our loan growth expectation of 8-9% for CY15 on the back of a GDP growth of 5% for CY15. We continue to expect consumer loan growth to moderate due to implementation of GST which is expected to result in inflation rate rising again while for business loans, we expect the growth to also taper due to slower external trades and lower capex spending by companies.

- **Pressure on COF.** Pricing for liabilities have increased due to strong competition for deposits, in particularly retail deposits as banks continue to compete for deposits with the implementation of LCR requirement effective 1<sup>st</sup> June 2015. We expect competition for deposits couple with the requirement to have higher quality lower yielding assets for LCR to weigh on NIM of banks. Pressure on NIM of banks is likely to continue into CY15.
- **Capital market activities remained slow.** New PDS issuance was flat with a growth of only 2.0%yoy in CY14. In Dec'14, new PDS issuance moderated to a growth of -50.2%yoy in Dec'14 vs. 28.1%yoy in Nov'14. Growth in net funds raised from the capital market for the private sector picked up momentum in Dec'14 to a growth of 104.0%yoy from -56.0%yoy in Nov'14. Moving forward, on where the momentum for capital market activities will head, we expect it to depend on: i) the extent of project delays/deferments, ii) pace of tightening in US, as well as iii) uncertainties in the Eurozone. Potential interest rate increases (if any) will be negative on issuances of PDS as it will impact the pricing of the debt issues.
- **Asset quality for corporate loans will be an area to be watchful of.** Should crude oil prices stay low for an extended period of time, we expect this to create stress on the asset quality of banks as this is likely to create strain on companies' cash flow in the Oil & Gas sector in addition to any potential project /contract award delays. Other commodities action to be watchful of will be the extent of price softness in crude palm oil.
- **MGS holdings by foreign investors continue to trend lower.** MGS holdings held by foreign investors further declined to 44.5% as at end Nov'14 as compared to 45.9% as of end Oct'14.
- **Maintain our NEUTRAL stance on the sector.** Our stocks picks are on Hong Leong Bank (TP: RM16.30), Maybank (TP: RM11.20) and RHB Cap (RM9.30). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.30), AMMB (TP: RM7.30), AFG (TP: RM5.00) and CIMB (TP: RM6.20). 

	Rec.	Price @ 30/1	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				14	15	14	15	14	15	14	15	14	15	14	15
AMMB	NEUTRAL	6.28	7.30	59.3	58.0	10.6	10.8	24.1	23.0	3.8	3.7	4.4	4.7	1.4	1.3
Maybank	BUY	8.72	11.20	70.0	79.0	12.5	11.0	44.0	48.0	5.0	5.5	5.6	6.0	1.6	1.4
Public Bank	NEUTRAL	18.14	19.50	113.0	121.0	16.1	15.0	51.0	55.0	2.8	3.0	7.1	7.8	2.5	2.3
RHB Capital	BUY	8.16	9.30	82.0	90.0	10.0	9.1	25.0	27.0	3.1	3.3	7.2	7.8	1.1	1.0
Hong Leong	BUY	14.02	16.30	119.4	119.0	11.7	11.8	41.0	39.0	2.9	2.8	8.2	8.6	1.7	1.6
CIMB	NEUTRAL	5.50	6.20	46.0	50.0	12.0	11.0	19.0	20.0	3.5	3.6	4.5	4.8	1.2	1.1
AFG	NEUTRAL	4.78	5.00	37.2	37.0	12.8	12.9	29.5	22.0	6.2	4.6	2.7	2.9	1.8	1.6
Affin	NEUTRAL	2.87	3.30	27.0	34.0	10.6	8.4	14.0	17.0	4.9	5.9	3.9	4.1	0.7	0.7

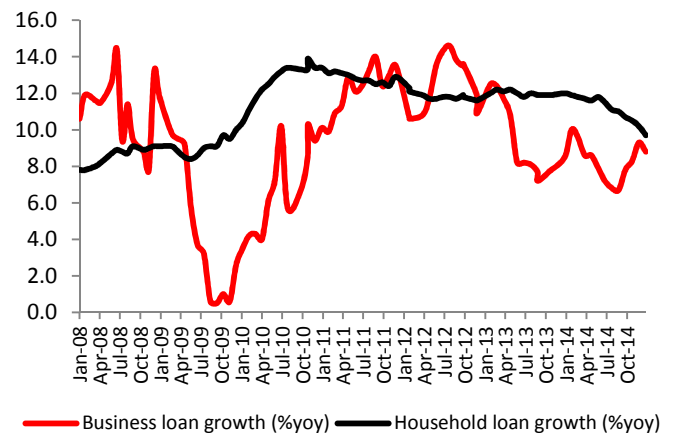
Kelvin Ong, CFA  
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**Chart 1: Total Loan Growth Rate**



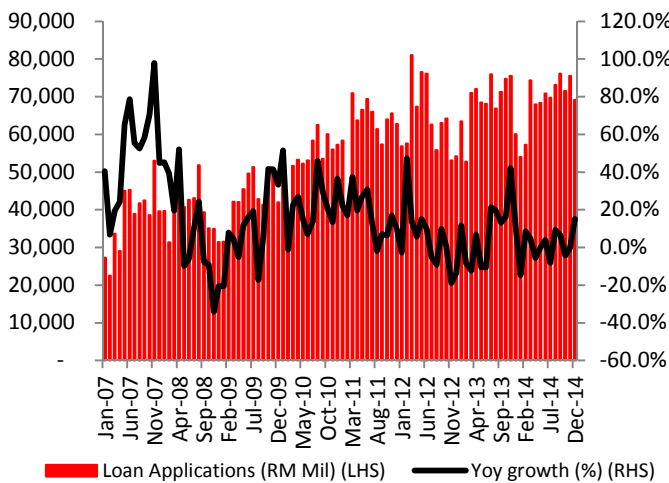
Source: BNM

**Chart 2: Business and Household Loan Growth Rate**



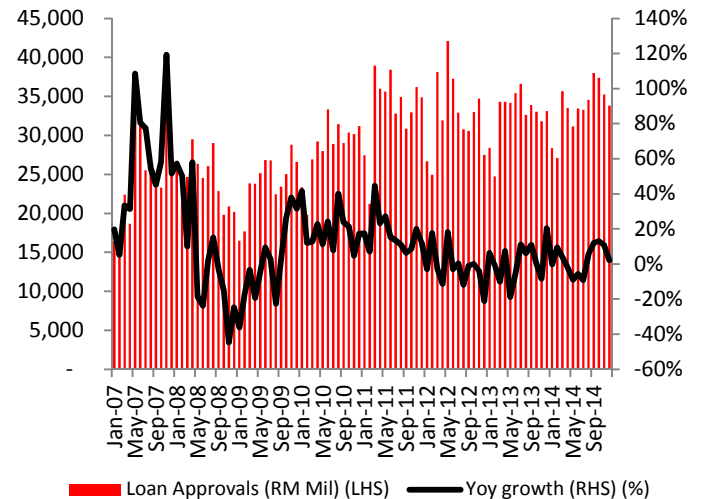
Source: BNM

**Chart 3: Loan Application**



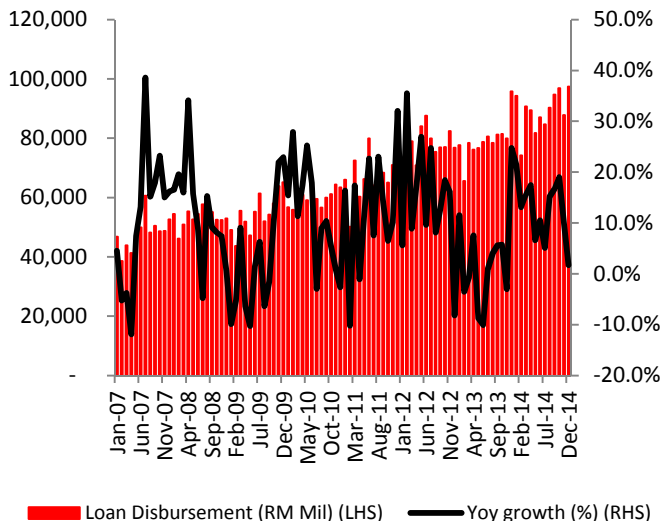
Source: BNM

**Chart 4: Loan Approvals**

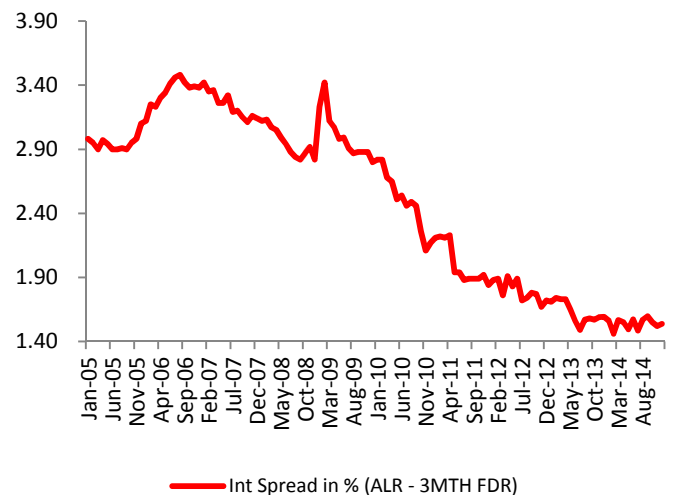


Source: BNM

**Chart 5: Loan Disbursement**

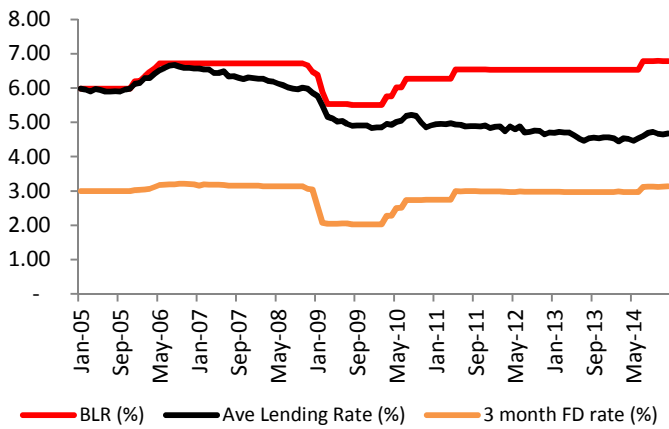


**Chart 6: Interest Spread**



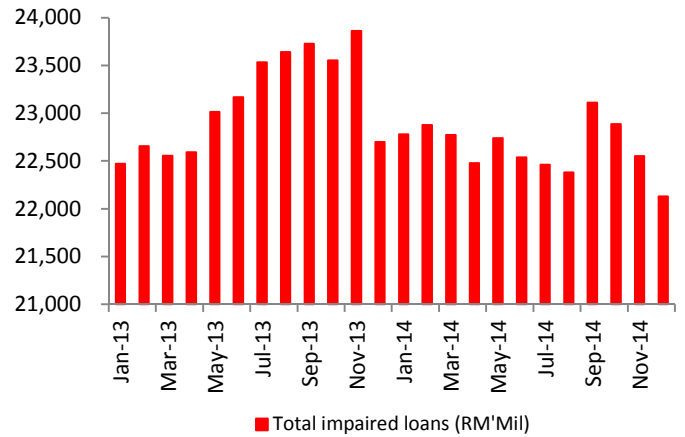


**Chart 7: Trend of BLR, ALR & 3 mth FD Rate**



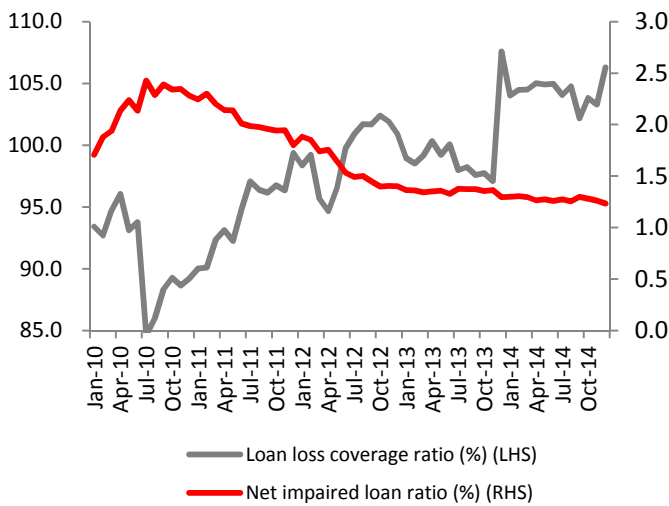
Source: BNM

**Chart 8: Total Impaired Loans**



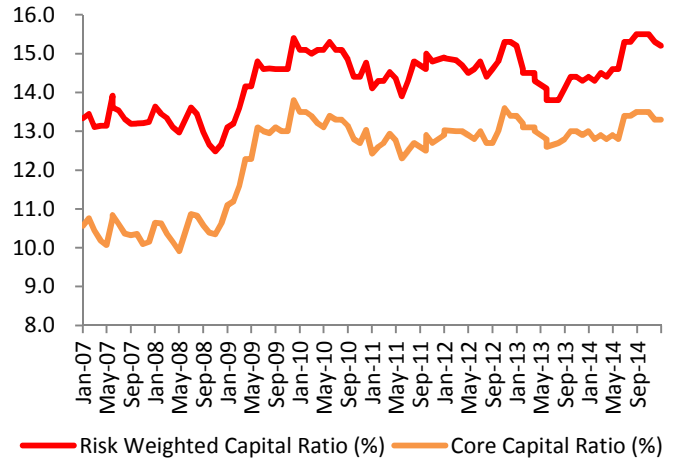
Source: BNM

**Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage**



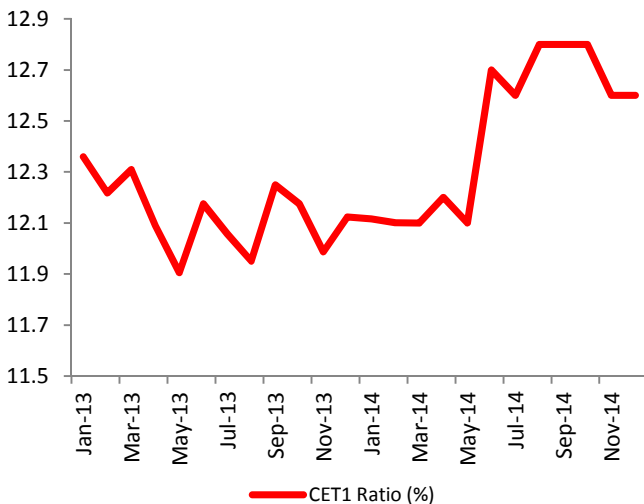
Source: BNM

**Chart 10: Core Capital and Risk Weighted Capital Ratio**

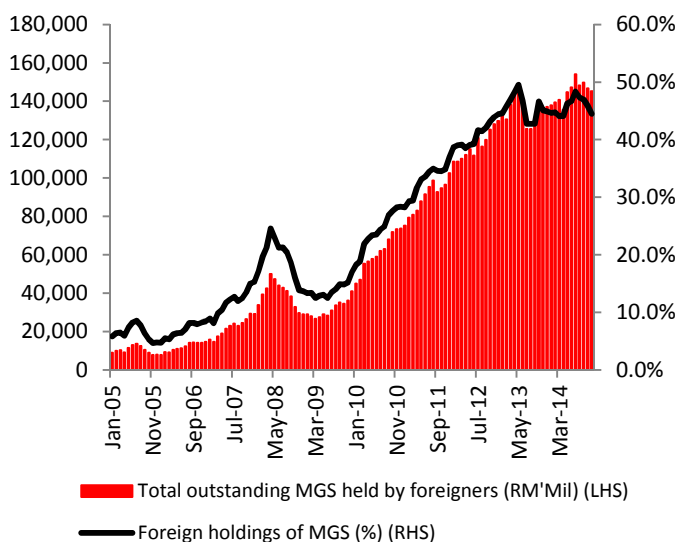


Source: BNM

**Chart 11: CET 1 Ratio**



**Chart 12: MGS Holdings by Foreigners**



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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.