

03 March 2014 | Sector update

## BANKING - JAN 2014 BNM STATISTICS

Maintain NEUTRAL

Household loans growth could moderate further

### LOAN INDICATORS

- Loan growth continued to accelerate in Jan'14 due to a stronger momentum for business loans. System loan growth in Jan'14 grew 11.0%yoy as compared to 10.6% in the preceding month. Stronger pace in business loan growth continued to be evidenced hence offsetting a moderation in household loan growth. In terms of loan growth by sectors, the stronger loan momentum was contributed mainly by loans extended to the construction (+14.0%yoy), primary agriculture (+16.3%yoy) and the electricity, gas and water supply (+40.3%yoy) sector. By absolute basis and compared to the previous month, the electricity, gas and water supply sector contributed the most to the rise in loans. System loan growth stood at RM1,237.5b.
- Business loan growth accelerated to a 10.0%yoy growth in Jan'14 while household loan growth moderated slightly to 11.9%yoy. Business loan picked up pace to 10.0%yoy in Jan'14 (Dec'13: 8.5%yoy) while household loans grew slightly slower at 11.9%yoy as compared to 12.0%yoy in the preceding month.

Table 1: Loan breakdown by purpose (RM mil)

	Jan-13	Dec-13	Jan-14	% of total	%Mom	%Yoy
Purchase of securities	57,568	68,874	70,955	5.7%	+3.0%	+23.3%
Purchase of transport vehicles	155,232	163,456	163,718	13.2%	+0.2%	+5.5%
of which : purchase of passenger cars	142,412	150,466	150,898	12.2%	+0.3%	+6.0%
Purchase of residential property	307,340	344,834	348,530	28.2%	+1.1%	+13.4%
Purchase of non-residential property	133,536	154,641	156,627	12.7%	+1.3%	+17.3%
Purchase of fixed asset other than land & building	8,824	9,675	9,757	0.8%	+0.8%	+10.6%
Personal use	55,288	57,967	57,889	4.7%	-0.1%	+4.7%
Credit card	33,224	35,059	34,823	2.8%	-0.7%	+4.8%
Purchase of consumer durables	89	571	575	0.05%	+0.7%	+546.1%
Construction	30,663	33,693	34,262	2.8%	+1.7%	+11.7%
Working capital	263,270	288,363	290,167	23.4%	+0.6%	+10.2%
Other purpose	69,509	68,632	70,202	5.7%	+2.3%	+1.0%
<b>Total</b>	<b>1,114,543</b>	<b>1,225,765</b>	<b>1,237,503</b>	<b>100.0%</b>	<b>+1.0%</b>	<b>+11.0%</b>

Source: BNM

**Table 2: Loan breakdown by sector (RM mil)**

	Jan-13	Dec-13	Jan-14	% of total	%Mom	%Yoy
Primary agriculture	28,601	31,690	33,277	2.7%	+5.0%	+16.3%
Mining and quarrying	6,921	7,976	7,900	0.6%	-1.0%	+14.1%
Manufacturing (including agro based)	93,810	96,664	96,459	7.8%	-0.2%	+2.8%
Electricity, gas and water supply	10,026	9,702	14,064	1.1%	+45.0%	+40.3%
Wholesale, retail, restaurants & hotels	84,122	91,214	90,249	7.3%	-1.1%	+7.3%
Construction	45,127	49,837	51,458	4.2%	+3.3%	+14.0%
Real estate	61,864	71,023	71,089	5.7%	+0.1%	+14.9%
Transport, storage & communication	27,928	28,875	28,903	2.3%	+0.1%	+3.5%
Financing, insurance & business services	75,353	88,386	87,556	7.1%	-0.9%	+16.2%
Education, health & others	43,205	41,472	41,649	3.4%	+0.4%	-3.6%
Household sector	622,840	690,630	697,023	56.3%	+0.9%	+11.9%
Other sector	14,745	18,295	17,877	1.4%	-2.3%	+21.2%
<b>Total</b>	<b>1,114,543</b>	<b>1,225,765</b>	<b>1,237,503</b>	<b>100.0%</b>	<b>+1.0%</b>	<b>+11.0%</b>

Source: BNM

- In terms of household loans, growth rate of mortgage loans and loans for purchase of passenger cars moderated in Jan'14.** Loans for residential property purchase grew at slighter slower pace of 13.4%yoy as compared to 13.5%yoy in Dec'13 while growth of loans for purchase of non residential property decelerated to 17.3%yoy vs. 17.7%yoy in Jan'13. Growth of loans for purchase of passenger cars continued to trend downwards to 6.0%yoy in Jan'14 as compared to 6.6%yoy in Dec'13. Momentum for credit card lending and personal loans remained soft while growth of loans for purchase of securities was slightly up with a 23.3%yoy growth vs. 22.1%yoy in the preceding month.

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

	Jan-14	% of total	Oct-13 (%Yoy)	Nov-13 (%Yoy)	Dec-13 (%Yoy)	Jan-14 (%Yoy)
Purchase of securities	4,200	7.8%	+19.4%	-9.7%	+37.4%	-11.1%
Purchase of transport vehicles	8,079	14.9%	-4.3%	-14.3%	-10.8%	-16.1%
of which : purchase of passenger cars	7,740	14.3%	+0.4%	-14.7%	-9.8%	-14.4%
Purchase of residential property	14,978	27.7%	+43.8%	+60.2%	+24.1%	-12.6%
Purchase of non-residential property	7,153	13.2%	+22.8%	+23.3%	+12.4%	-19.8%
Purchase of fixed asset other than land & building	695	1.3%	-1.1%	+325.3%	+39.1%	+111.9%
Personal use	2,840	5.3%	-14.0%	-6.0%	-1.7%	-4.0%
Credit card	1,687	3.1%	-1.1%	-0.8%	-3.8%	-9.3%
Purchase of consumer durables	1	0.001%	+69.8%	+218.1%	-77.8%	-61.7%
Construction	3,023	5.6%	+43.6%	+36.1%	+45.3%	+76.7%
Working capital	10,046	18.6%	+21.8%	+114.8%	+8.2%	-23.8%
Other purpose	1,379	2.5%	-52.3%	-23.5%	-18.8%	-54.3%
<b>Total applied</b>	<b>54,079</b>	<b>100.0%</b>	<b>+16.3%</b>	<b>+40.8%</b>	<b>+10.1%</b>	<b>-14.8%</b>

Source: BNM

- Industry loan application growth continued to be weak in Jan'14 signifying lower loan demand.** Industry loan application growth declined to -14.8%yoy in Jan'14 as compared to 10.1%yoy in Dec'13. The decline was broad base. With exception of higher growths in loan applications for construction, loan applications for purchase of fixed assets and for purchase of consumer durables, growth of loan applications for other purposes declined compared to the previous month.

Overall household loan applications declined sequentially to -11.3%yoy as compared to 11.3%yoy in Dec'13 and 27.4%yoy in Nov'13.

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

	Jan-14	% of total	Oct-13 (%Yoy)	Nov-13 (%Yoy)	Dec-13 (%Yoy)	Jan-14 (%Yoy)
Purchase of securities	3,640	12.8%	+18.9%	-36.1%	+107.3%	+20.1%
Purchase of transport vehicles	4,418	15.6%	-1.5%	-3.4%	-8.0%	-6.6%
of which : purchase of passenger cars	4,212	14.9%	+3.7%	-4.1%	-6.7%	-1.5%
Purchase of residential property	8,602	30.3%	+21.8%	+45.4%	+49.7%	+11.5%
Purchase of non-residential property	3,694	13.0%	+4.4%	+3.1%	+8.6%	-11.6%
Purchase of fixed asset other than land & building	654	2.3%	-51.0%	+40.6%	+11.8%	+288.5%
Personal use	1,067	3.8%	-46.7%	-41.6%	-45.3%	-38.2%
Credit card	1,264	4.5%	+5.0%	+12.1%	+12.2%	+14.2%
Purchase of consumer durables	4	0.02%	-31.1%	-23.5%	+102.2%	-14.0%
Construction	1,111	3.9%	+163.4%	-33.6%	+21.1%	+2.7%
Working capital	3,164	11.2%	-2.7%	-27.7%	+18.8%	-17.1%
Other purpose	740	2.6%	-68.7%	-77.6%	+22.5%	-11.6%
<b>Total approved</b>	<b>28,359</b>	<b>100.0%</b>	<b>+0.2%</b>	<b>-8.6%</b>	<b>+20.4%</b>	<b>-0.1%</b>

Source: BNM

- **Loan approvals growth rate was also slower in Jan'14.** Growth of loan approvals in Jan'14 declined to -0.1%yoy (Dec'13: +20.4%yoy). With exception of approval of loans for purchase of securities, approval of loans for purchase of fixed assets and for construction and credit cards, loan approvals for the other purposes registered negative growth rates in Jan'14. For businesses, approval growth rates for construction loans picked up pace and we have seen stronger traction in construction loan growth in Jan'14. Meanwhile, working capital loans approval drop to -17.1%yoy in Jan'14 (Refer Table 4). Momentum of loan approvals for household loans was softer in Jan'14. Growth rate of household loan approvals declined to 3.8%yoy after rising to 22.1%yoy in Dec'13.
- **Slower rate of loan disbursements.** Growth of loan disbursements decelerated to 21.4%yoy from 24.7%yoy in Dec'13. Meanwhile, loan repayments grew 14.6%yoy similar to the preceding month.
- **Industry LD ratio rose to 85.5% from 84.6%.** The increase in LD ratio was contributed by a slower pace in the system's deposit growth of 7.2%yoy in Jan'14 (Dec'13: 8.5%yoy)

## LENDING AND DEPOSIT RATES

- **ALR declined 3bp qoq 4.53%.** The industry's average lending rates (ALR) eased 3bp qoq to 4.53% in Jan'14 while BLR remained at 6.53%.

- Interest spread declined as in Jan'14 due to lower ALR. Interest spread (between the average lending rate and 3 month FD rate) drop to 1.56% as compared to 1.59% in the previous month. Average FD rate (for tenures of up to 12 months) was unchanged at 3.02%.

## ASSET QUALITY

- Slight increase in gross impaired loans (GIL) on absolute basis but (GIL) ratio for the sector remained stable. GIL ratio for the sector improved 10bp mom to 1.8% while net impaired loan ratio remained at 1.3%. GIL ratio for loans by most lending purposes remained stable for the sector overall although there were some upticks in certain segments for banks under our coverage in 4QCY13. LLC in Jan'14 was 104.0%, higher than the previous month's 100.2%.

Table 5: Impaired Loans by purpose (RM mil)

	Jan-13	Dec-13	Jan-14	% of total	%Mom	%Yoy
Purchase of securities	427	230	227	1.0%	-1.3%	-46.8%
Purchase of transport vehicles	1,834	2,096	2,155	9.5%	+2.8%	+17.5%
of which : purchase of passenger cars	1,594	1,836	1,894	8.3%	+3.2%	+18.8%
Purchase of residential property	5,643	5,272	5,246	23.0%	-0.5%	-7.0%
Purchase of non-residential property	1,289	1,196	1,161	5.1%	-2.9%	-9.9%
Purchase of fixed asset other than land & building	246	237	231	1.0%	-2.5%	-6.1%
Personal use	1,020	997	993	4.4%	-0.4%	-2.6%
Credit card	435	452	451	2.0%	-0.2%	+3.7%
Purchase of consumer durables	3	7	5	0.02%	-28.6%	+66.7%
Construction	1,800	1,692	1,704	7.5%	+0.7%	-5.3%
Working capital	8,571	9,209	9,113	40.0%	-1.0%	+6.3%
Other purpose	1,203	1,311	1,480	6.5%	+12.9%	+23.0%
<b>Total</b>	<b>22,470</b>	<b>22,699</b>	<b>22,767</b>	<b>100.0%</b>	<b>+0.3%</b>	<b>+1.3%</b>

Source: BNM

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

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Purchase of securities	0.7%	0.7%	0.6%	0.6%	0.7%	0.5%	0.5%	0.5%	0.3%	0.3%
Purchase of transport vehicles	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%
of which : purchase of passenger cars	1.1%	1.0%	1.0%	1.1%	1.2%	1.1%	1.1%	1.2%	1.2%	1.3%
Purchase of residential property	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.5%	1.5%
Purchase of non-residential property	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%
Purchase of fixed asset other than land & building	2.4%	2.2%	2.0%	2.4%	2.4%	2.3%	2.8%	2.7%	2.5%	2.4%
Personal use	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%	1.8%	1.7%	1.7%	1.7%
Credit card	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%
Purchase of consumer durables	2.9%	2.7%	2.7%	2.4%	1.8%	1.7%	1.6%	9.4%	1.2%	0.9%
Construction	5.7%	5.7%	5.7%	5.5%	5.2%	5.3%	5.1%	5.3%	5.0%	5.0%
Working capital	3.5%	3.4%	3.3%	3.6%	3.6%	3.7%	3.6%	3.6%	3.2%	3.1%
Other purpose	1.5%	1.7%	1.6%	1.7%	1.9%	1.7%	1.7%	1.8%	1.9%	2.1%
<b>Total</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.8%</b>

Source: BNM

## CAPITALISATION

- **Lower capital position.** The sector's common equity tier 1 (CET1) ratio, core capital ratio (CCR) and risk weighted capital ratio (RWCR) declined 40bp, 50bp and 40bp to 11.7%, 12.5% and 14.0% respectively in Jan'14.

## CALL ON SECTOR & STOCK PICKS

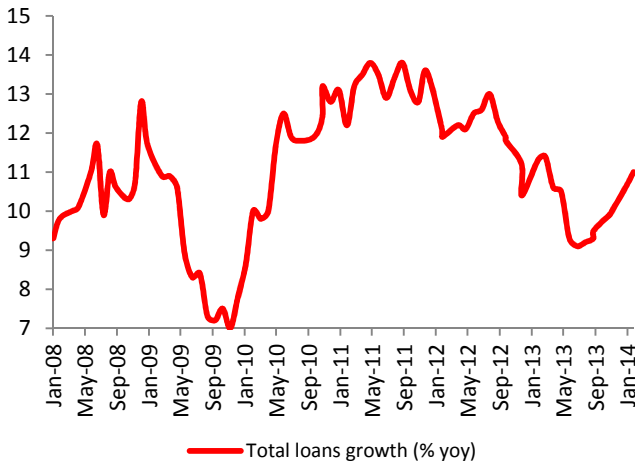
- **Maintain our expectation of a stronger business loan growth while household loan growth will moderate in CY14.** Growth of loan applications (leading indicator) has continued to trend lower and has declined for 2 consecutive months. This reflects that loan demand has turned softer. Hence, we continue to maintain our expectation that household loans will moderate in CY14 with the higher inflation rate and the tighter measures to manage household debts. Meanwhile, our view on business loans growth remains unchanged. We expect business loan growth to trend higher than CY13 on the back of improvement in external trade of Malaysia. We are also seeing better traction for SME loans which we believe will benefit from the improved trading activities of the larger corporates moving forward.
- **Some upticks in impaired loans in certain segments for banks.** On absolute basis, there were increases in the amount of impaired loans for some loan segments in particularly HP financing in the recent 4QCY13 results. We have seen some increases in impaired loans for HP financing for AMMB, Public Bank, CIMB and AFG. This reflects an early stage of stress in asset quality. Nevertheless, this did not surprise us as we had expected slight upticks in impaired loans for banks in CY14 from the rising inflation rate.
- **Continue to expect capital market uncertainties to continue.** This is due to the uncertainties in the Q3 taper which may accelerate if pace of the US economy gains further traction leading to potential greater capital outflow. CY14 will be challenging for Emerging Market (EM) Asian countries as these countries will need to manage not only capital outflows due to QE3 taper but also currency stability and inflation.

Pipelines of capital market deals are still healthy but the tick sizes will be much smaller than before and the execution of these deals may be delayed due to continued uncertainties. Based on our tracking of new PDS issuances, the growth has declined to -34.5%yoy in Jan'14 as compared a strong growth of 216.4%yoy in Dec'13. Issuances for funding through the capital market will be lumpy for CY14 as capital market uncertainties will remain.

- **Maintain NEUTRAL for sector.** We continue to expect 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 of banks.

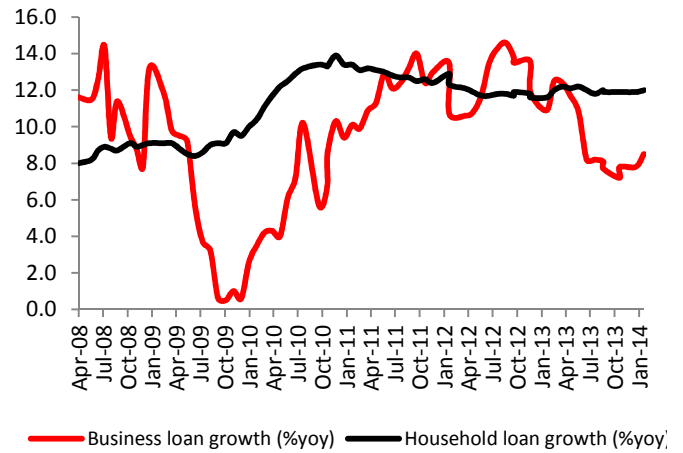
Our BUY calls are on Maybank (TP: RM11.00), RHB Cap (RM9.50) and Hong Leong Bank (TP: RM16.50). We are NEUTRAL on AFG (TP: RM4.80), Public Bank (RM18.60), CIMB (TP: RM8.10), AMMB (TP: RM8.00) and Affin (TP: RM4.00).

**Chart 1: Total Loan Growth Rate**



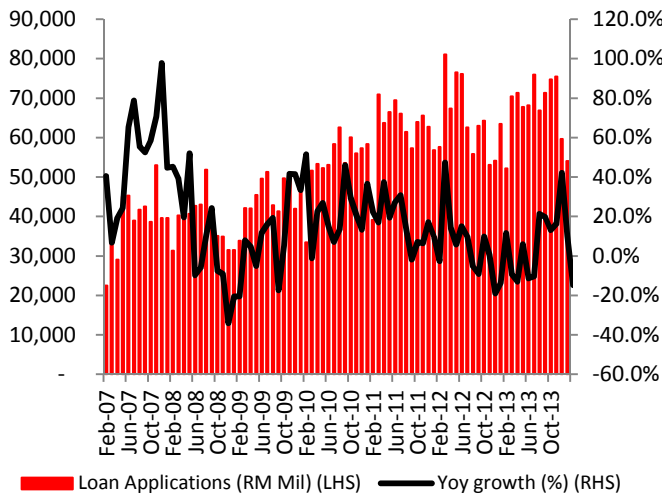
Source: BNM

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



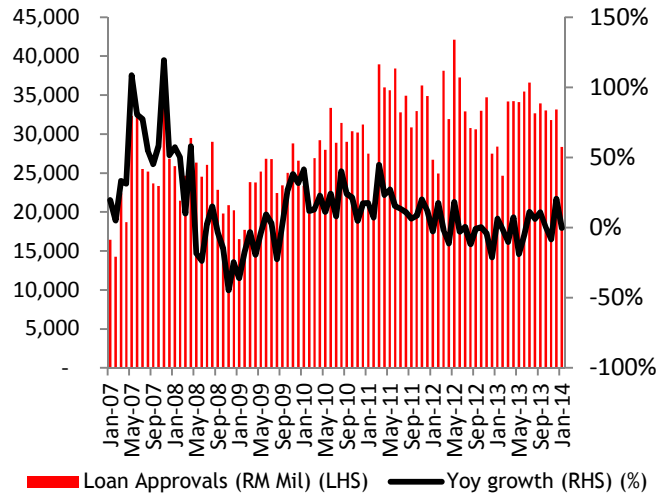
Source: BNM

**Chart 3: Loan Application**



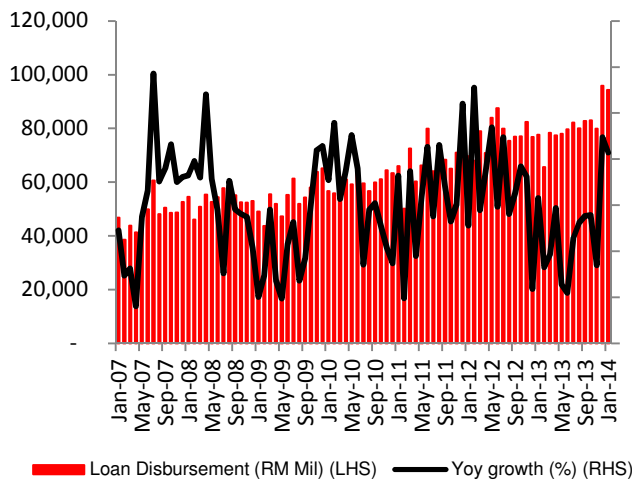
Source: BNM

**Chart 4: Loan Approvals**

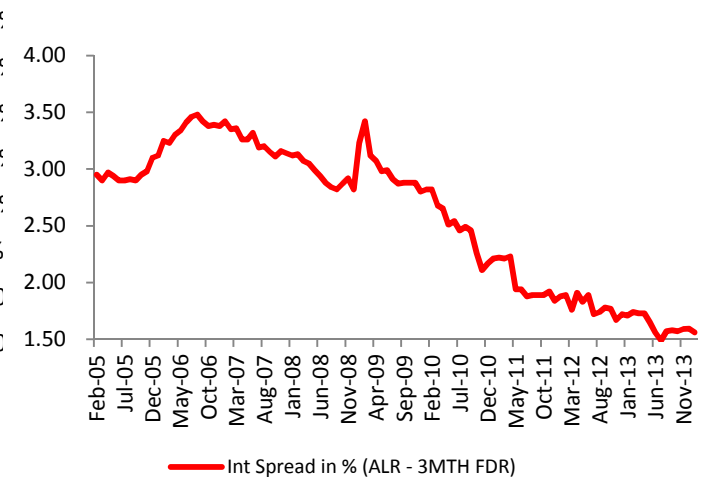


Source: BNM

**Chart 5: Loan Disbursement**

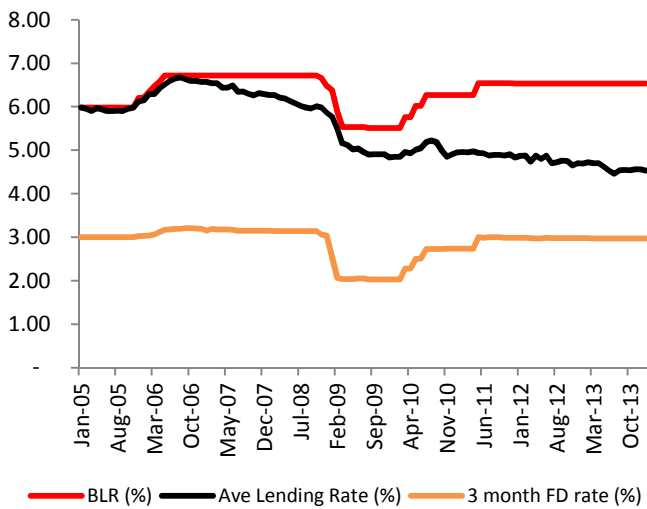


**Chart 6: Interest Spread**



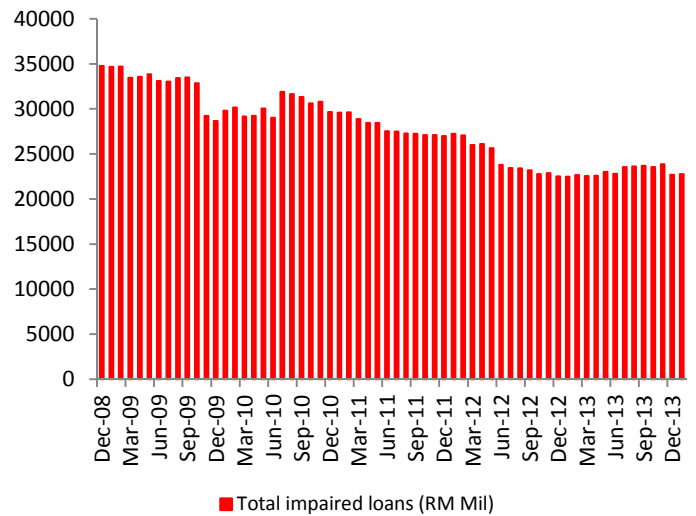


**Chart 7: Trend of BLR, ALR & 3 mth FD Rate**



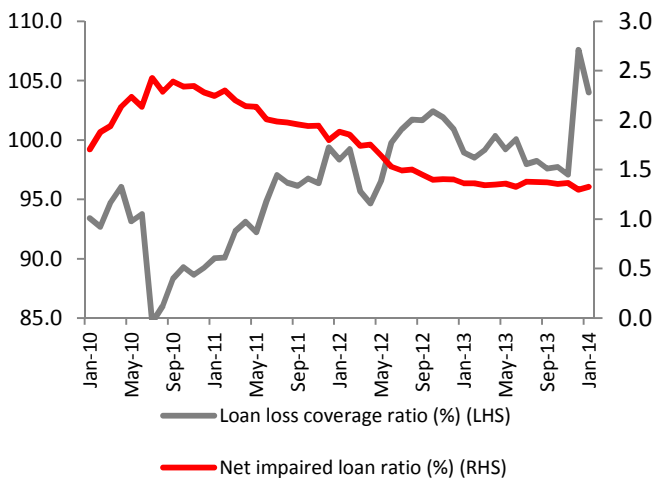
Source: BNM

**Chart 8: Total Impaired Loans**



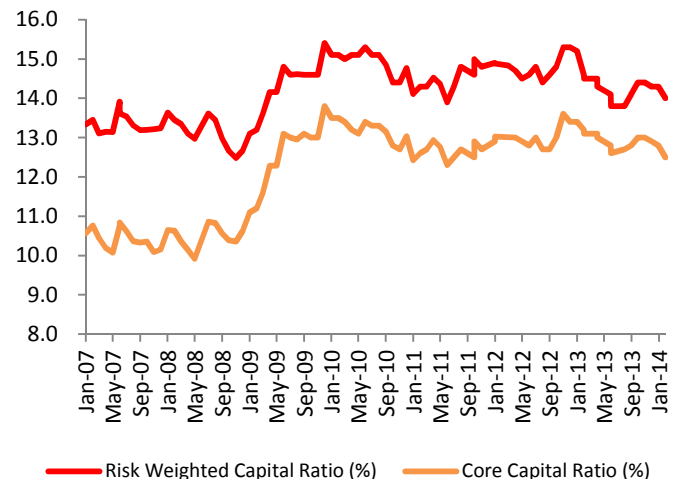
Source: BNM

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



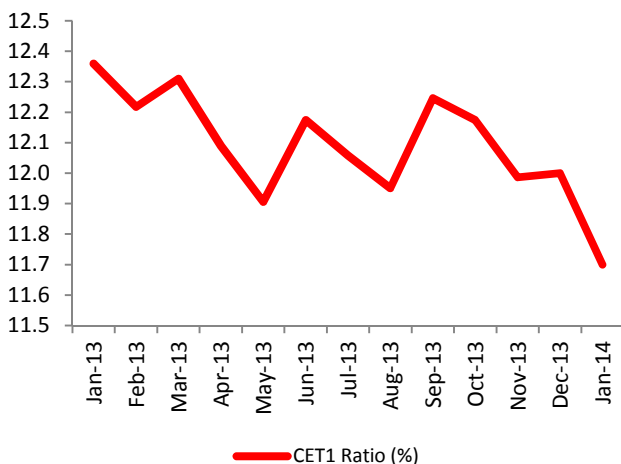
Source: BNM

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

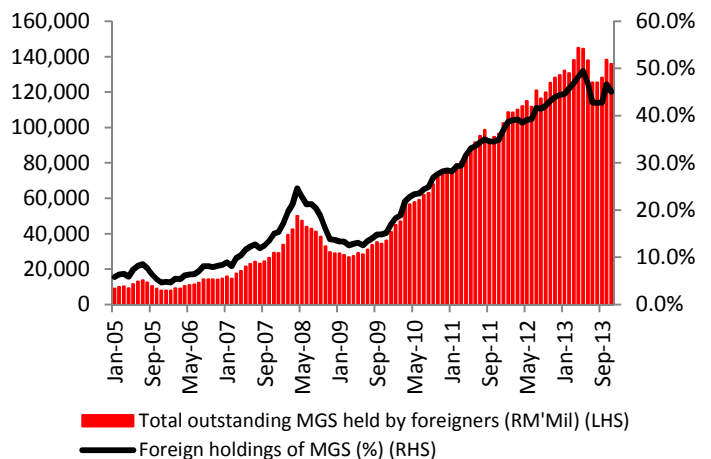


Source: BNM

**Chart 11: CET 1 Ratio**



**Chart 12: MGS Holdings by Foreigners**



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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.