

2 Mar 2015 | Sector Update

BANKING - JAN 2015 BNM STATISTICS

Maintain NEUTRAL

Slow loan growth for the start of the year but an improvement in loan applications

LOAN INDICATORS

- Banking system loans started off CY15 softer with a growth of 8.6%yoy in Jan'15 with a slower pace in business loans while household loan growth remain unchanged. Business loan growth continued to trend downwards to 8.2%yoy in Jan'15 as compared to 8.8%yoy in the preceding month. Meanwhile, Household loan growth remained unchanged at 9.7%yoy similar to Dec'14.
- For Jan'15, working capital loans grew 8.2%yoy while construction loans grew 16.4%yoy.

Table 1: Loan breakdown by purpose (RM mil)

	Jan-14	Dec-14	Jan-15	% of total	%Mom	%Yoy
Purchase of securities	70,937	76,451	76,737	5.7%	+0.4%	+8.2%
Purchase of transport vehicles	163,729	165,590	166,392	12.4%	+0.5%	+1.6%
of which : purchase of passenger cars	153,318	156,126	156,782	11.7%	+0.4%	+2.3%
Purchase of residential property	349,175	389,691	394,255	29.3%	+1.2%	+12.9%
Purchase of non-residential property	156,002	177,697	179,814	13.4%	+1.2%	+15.3%
Purchase of fixed asset other than land & building	9,756	10,508	10,703	0.8%	+1.9%	+9.7%
Personal use	57,866	60,116	60,108	4.5%	-0.01%	+3.9%
Credit card	34,929	35,487	35,414	2.6%	-0.2%	+1.4%
Purchase of consumer durables	250	636	669	0.05%	+5.2%	+167.6%
Construction	34,263	38,955	39,885	3.0%	+2.4%	+16.4%
Working capital	290,756	311,817	314,635	23.4%	+0.9%	+8.2%
Other purpose	69,841	65,855	65,737	4.9%	-0.2%	-5.9%
Total	1,237,503	1,332,801	1,344,350	100.0%	+0.9%	+8.6%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Jan-14	Dec-14	Jan-15	% of total	%Mom	%Yoy
Primary agriculture	33,238	31,618	31,991	2.4%	+1.2%	-3.8%
Mining and quarrying	7,815	9,318	10,715	0.8%	+15.0%	37.1%
Manufacturing (including agro based)	96,428	100,660	100,867	7.5%	+0.2%	+4.6%
Electricity, gas and water supply	14,085	12,954	12,983	1.0%	+0.2%	-7.8%
Wholesale, retail, restaurants & hotels	91,401	98,419	98,146	7.3%	-0.3%	+7.4%
Construction	51,224	56,910	57,505	4.3%	+1.0%	+12.3%
Real estate	70,709	84,582	85,679	6.4%	+1.3%	+21.2%
Transport, storage & communication	28,802	32,824	32,369	2.4%	-1.4%	+12.4%
Financing, insurance & business services	85,984	91,160	91,155	6.8%	-0.01%	+6.0%
Education, health & others	41,892	36,940	40,229	3.0%	+8.9%	-4.0%
Household sector	699,396	760,321	767,065	57.1%	+0.9%	+9.7%
Other sector	16,529	17,096	15,645	1.2%	-8.5%	-5.3%
Total	1,237,503	1,332,801	1,344,350	100.0%	+0.9%	+8.6%

Source: BNM

Contributing to the slowdown in business loans was mainly slower pace in loans to the Primary Agriculture, Electricity, Gas and Water Supply, Construction as well as the Transport, Storage and Communication sectors.

- **Household loan growth remains slow.** Compared to the preceding month, growth in loans for residential property purchase eased slightly to 12.9%yoy while growth in loans for purchase of non-residential property picked up momentum to 15.3%yoy. In line with the weaker market sentiment and volatile equity market, growth in loans for purchase of securities continued to moderate to 8.2%yoy in Jan'15.

Growth in loans for purchase of passenger cars remained slow at 2.3%yoy with uncertainties surrounding the prices of cars with the implementation of GST on 1st April coupled with the potential rise in inflation post GST which will affect consumer spending. Meanwhile, personal loans and credit card lending stayed slow with growths of 3.9%yoy and 1.4%yoy respectively. We believe that this has been attributed to the responsible financing prudential and prudential measures of BNM.

Table 3: Loan applications by purpose (RM mil)

	Jan-14	% of total	Oct-14 (%Yoy)	Nov-14 (%Yoy)	Dec-14 (%Yoy)	Jan-15 (%Yoy)
Purchase of securities	4,108	6.9%	-20.5%	+69.0%	-4.1%	-2.2%
Purchase of transport vehicles	8,271	13.9%	-4.6%	-0.7%	-2.3%	+2.4%
of which : purchase of passenger cars	7,906	13.3%	-14.5%	-1.3%	-2.3%	+2.2%
Purchase of residential property	16,324	27.4%	-22.2%	-27.2%	-3.8%	+9.0%
Purchase of non-residential property	8,238	13.8%	-12.4%	-7.4%	-1.9%	+15.2%
Purchase of fixed asset other than land & building	569	1.0%	+28.2%	-40.1%	+67.5%	-18.1%
Personal use	4,324	7.3%	+18.5%	+37.9%	+41.0%	+52.3%
Credit card	1,991	3.3%	+0.2%	+4.1%	+8.4%	+18.1%
Purchase of consumer durables	13	0.0%	-28.4%	+258.0%	+2272.7%	+2007.0%
Construction	2,728	4.6%	+8.1%	+3.6%	+28.5%	-9.7%
Working capital	10,712	18.0%	+20.8%	+0.6%	+2.1%	+6.1%
Other purpose	2,256	3.8%	+40.6%	+383.8%	+36.8%	+63.6%
Total applied	59,535	100.0%	-4.4%	+0.1%	+4.8%	+10.0%

Source: BNM

- Industry loan applications gain momentum with a stronger growth of 10.0%yoy contributed by higher applications for working capital and household loans (mortgage loans, HP financing).** Industry loan application growth picked up pace to 10.0%yoy vs. 4.8%yoy in the preceding month. Contributing to the improvement was higher growth in applications for working capital and key household loans. By sectors, the improvement was contributed by the stronger loan applications from the Manufacturing, Wholesale & Retail Trade, Restaurants and Hotels and Household sectors.

Growth in Household's loan applications gained momentum to 11.4%yoy from 2.7%yoy in Dec'14. Loan demand for household seen improved for key household loans (HP loans, mortgage loans). There were also improvements in loan demand for personal loans and credit cards.

Table 4: Loan approvals by purpose (RM mil)

	Jan-15	% of total	Oct-14 (%Yoy)	Nov-14 (%Yoy)	Dec-14 (%Yoy)	Jan-15 (%Yoy)
Purchase of securities	2,868	9.3%	+37.0%	-18.5%	-28.4%	-21.2%
Purchase of transport vehicles	4,563	14.7%	-11.3%	+1.5%	+7.9%	+3.3%
of which : purchase of passenger cars	4,302	13.9%	-5.7%	+2.9%	+8.6%	+2.1%
Purchase of residential property	8,868	28.6%	+4.8%	-10.8%	-9.9%	+3.1%
Purchase of non-residential property	4,210	13.6%	+4.5%	-3.3%	+21.5%	+14.0%
Purchase of fixed asset other than land & building	683	2.2%	+49.9%	+159.4%	+43.6%	+4.3%
Personal use	1,338	4.3%	+30.8%	+26.1%	+36.6%	+25.4%
Credit card	1,136	3.7%	-11.1%	-2.4%	-15.0%	-10.1%
Purchase of consumer durables	10	0.0%	192.2%	+155.6%	+0.2%	+130.8%
Construction	950	3.1%	+8.0%	+56.5%	+17.2%	-14.5%
Working capital	5,154	16.6%	+60.4%	+30.4%	+5.9%	+63.1%
Other purpose	1,211	3.9%	-26.1%	+438.9%	+31.6%	+63.8%
Total approved	30,992	100.0%	+13.1%	+10.8%	+2.0%	+9.3%

Source: BNM

- **Loan approvals also trended higher.** For Household loans, growths in approvals of loans improved in Jan'15. In terms of loans by purpose, the improvement was contributed by growth in approval of loans for purchase of residential property and working capital loans (Refer Table 4). Growth in Household loan approvals improved to +2.3%yoy vs. -3.7%yoy in the preceding month. On loans for businesses, growth in working capital loans improved significantly to 63.1%yoy in Jan'15.
- **Loan repayments remained faster relative to disbursements in Jan'14.** Growth in loan repayments at 5.3yoy was faster than loan disbursements which grew -3.8%yoy. Industry LD ratio continue to inched up to 87.3% vs. 86.7% in the preceding month reflecting tight liquidity.

Deposit growth in the banking system improved slightly to +7.9%yoy from +7.6%yoy in the previous month. CASA growth in the industry was stable at 4.0%yoy in Jan'15 similar to Dec'14.

LENDING AND DEPOSIT RATES

- **ALR inched dropped 3bp and interest spread narrowed.** The industry's average lending rate (ALR) slipped 3bp from the preceding month to 4.64%. BLR remained at 6.79%.
- **Average deposits rate remained stable.** Interest spread (between the average lending rate and 3 month FD rate) declined to 1.45%, a drop 3bp from the previous month contributed by lower ALR while average deposit rate remained at 3.19%.

ASSET QUALITY

- **GIL ratio for the industry remained at 1.7%.** Gross Impaired Loan (GIL) ratio and Net Impaired Loan (NIL) ratio remained at 1.7% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	Jan-14	Dec-14	Jan-15	% of total	%Mom	%Yoy
Purchase of securities	227	318	254	1.1%	-20.1%	+11.9%
Purchase of transport vehicles	2,166	2,074	2,011	9.0%	-3.0%	-7.2%
of which : purchase of passenger cars	1,905	1,880	1,820	8.2%	-3.2%	-4.5%
Purchase of residential property	5,244	5,018	4,948	22.2%	-1.4%	-5.6%
Purchase of non-residential property	1,164	1,341	1,588	7.1%	+18.4%	+36.4%
Purchase of fixed asset other than land & building	231	181	183	0.8%	+1.1%	-20.8%
Personal use	986	1,023	1,086	4.9%	+6.2%	+10.1%
Credit card	458	431	386	1.7%	-10.4%	-15.7%
Purchase of consumer durables	2	7	8	0.04%	+14.3%	+300.0%
Construction	1,704	2,755	2,253	10.1%	-18.2%	+32.2%
Working capital	9,125	7,889	8,465	37.9%	+7.3%	-7.2%
Other purpose	1,471	1,091	1,144	5.1%	+4.9%	-22.2%
Total	22,778	22,129	22,326	100.0%	+0.9%	-2.0%

Source: BNM

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

	May-14	Jun-14	July-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15
Purchase of securities	0.3%	0.4%	0.4%	0.3%	0.3%	0.4%	0.3%	0.4%	0.3%
Purchase of transport vehicles	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%
of which : purchase of passenger cars	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
Purchase of residential property	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.9%
Purchase of fixed asset other than land & building	2.4%	2.3%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%
Personal use	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.8%
Credit card	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%
Purchase of consumer durables	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%
Construction	5.7%	5.0%	5.1%	5.0%	7.3%	7.3%	7.2%	7.1%	5.6%
Working capital	3.2%	3.1%	3.1%	3.0%	2.9%	2.8%	2.7%	2.5%	2.7%
Other purpose	1.8%	1.8%	2.0%	2.0%	1.8%	1.9%	1.7%	1.7%	1.7%
Total	1.8%	1.8%	1.8%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%

Source: BNM

On absolute value basis, impaired loans was up by RM197m or +0.9% mom in Jan'115. Upticks on GIL ratio were seen for loans to purchase non residential property, working capital loan and loans for personal use. Loan loss coverage ratio for the sector rose to 108.5% 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 12.4%, 13.1% and 15.1% respectively.

CALL ON SECTOR & STOCK PICKS

- **Pressure on funding cost continues to be seen.** Pricing for liabilities have increased. This is due to strong competition for deposits. We expect NIM of banks to be still compressed by higher funding cost in CY15 but a lower compression than CY14.
- **Capital market activities remained slow.** New PDS issuance continues to be slow based on a growth of -74.1%yoy. It was much slower than Dec'14. In Dec'14, growth in new PDS issuance was -50.2%yoy.

Growth in net funds raised from the capital market for the private sector slowed down in Jan'15 to -91.4%yoy in Dec'14 as compared to 104.0%yoy in Dec'14.

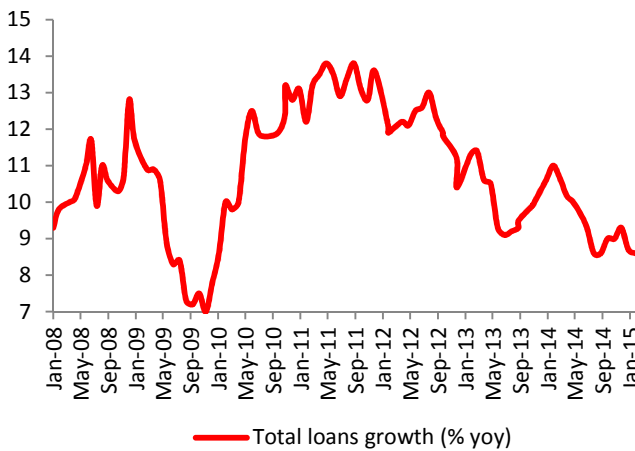
- **Asset quality for corporate loans will continue to be an area to be watchful of looking with the uptick in impaired loans seen in Jan'15.** Low prices of commodities may exert some create stress on the asset quality of banks as this is likely to create strain on companies' cash flow especially in the Oil & Gas sector in addition to any potential project /contract award delays.
- **Capital raising exercise is another area to be paying attention to.** Any capital raising exercises may results in some dilution to EPS and ROE. Banks that have mulled on the possibility of capital raising are Hong Leong and RHB Cap.
- **Maintain our NEUTRAL stance on the sector.** Our stocks picks are on Hong Leong Bank (TP: RM16.10), Maybank (TP: RM10.80) and RHB Cap (RM9.50). We continue to like Hong Leong Bank due to its stable asset quality with less concern on impairment of corporate loans, liquid balance sheet, potential for further improvement in CI ratio and stability of the stock with low foreign shareholding of 9.5% as at end Dec'14. On BUY call on Maybank is premised on its diversified asset and attractive dividend yield while on RHB Cap, we continue to advocate BUY on the stock due to its undemanding valuation, improving asset quality, better traction in Islamic Banking via IGNITE 2017 and IB income.

We are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.30), AMMB (TP: RM7.00), AFG (TP: RM4.70), BIMB (TP: RM3.96) and CIMB (TP: RM6.20). 

	Rec.	Price @ 27/2	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	6.39	7.00	59.3	55.0	10.8	11.6	24.1	22.0	3.8	3.4	4.4	4.7	1.5	1.4
Maybank	BUY	9.20	10.80	74.2	75.0	12.4	12.3	57.0	45.0	6.2	4.9	5.7	6.0	1.6	1.5
Public Bank	NEUTRAL	18.32	19.50	123.7	121.0	14.8	15.1	54.0	56.0	2.9	3.1	7.3	7.9	2.5	2.3
RHB Capital	BUY	7.96	9.50	79.7	86.0	10.0	9.3	6.0	11.0	0.8	1.4	7.3	8.0	1.1	1.0
Hong Leong	BUY	14.36	16.10	119.4	115.0	12.0	12.5	41.0	38.0	2.9	2.6	8.2	8.5	1.7	1.7
CIMB	NEUTRAL	5.95	6.20	46.0	50.0	12.9	11.9	19.0	20.0	3.2	3.4	4.5	4.8	1.3	1.2
AFG	NEUTRAL	4.82	4.70	37.2	37.0	13.0	13.0	29.5	22.0	6.1	4.6	2.7	2.9	1.8	1.6
BIMB	NEUTRAL	4.04	3.96	34.3	36.8	11.8	11.0	6.2	7.4	1.5	1.8	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.93	3.30	35.2	34.0	8.3	8.6	15.0	17.0	5.1	5.8	4.1	4.3	0.7	0.7

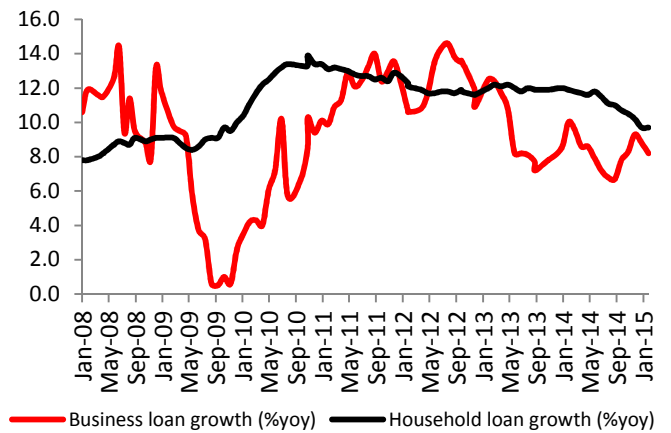
Kelvin Ong, CFA
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



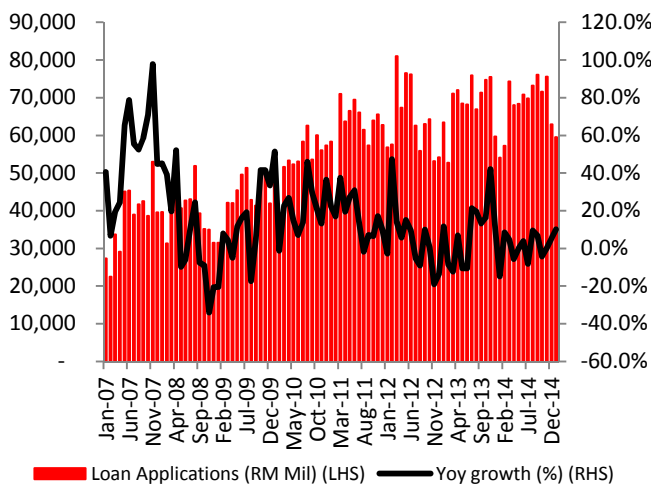
Source: BNM

Chart 2: Business and Household Loan Growth Rate



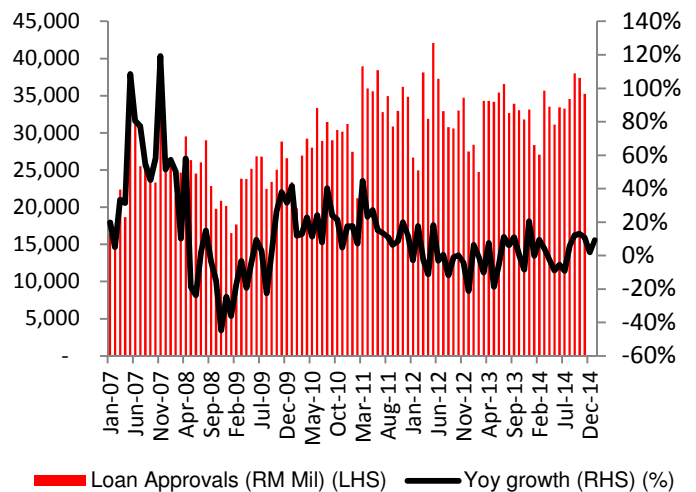
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

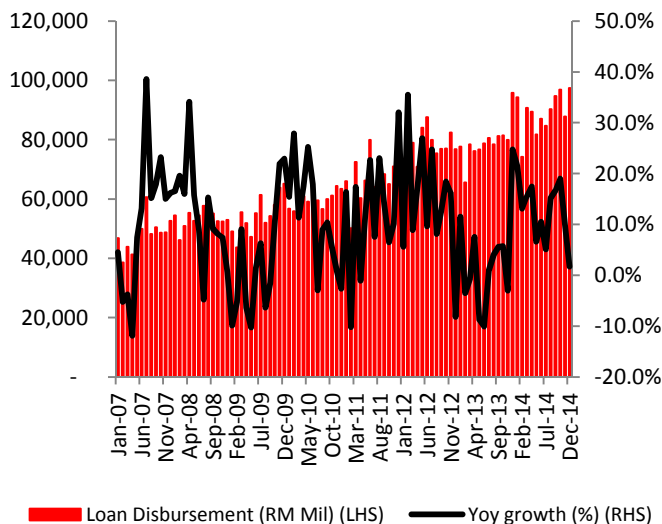


Chart 6: Interest Spread

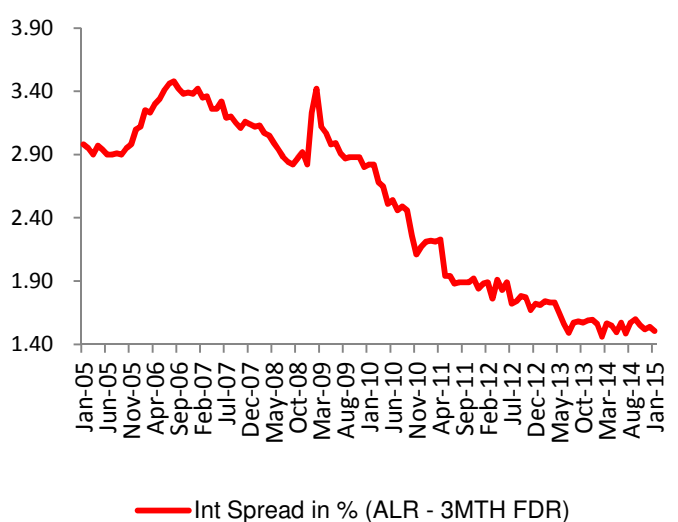
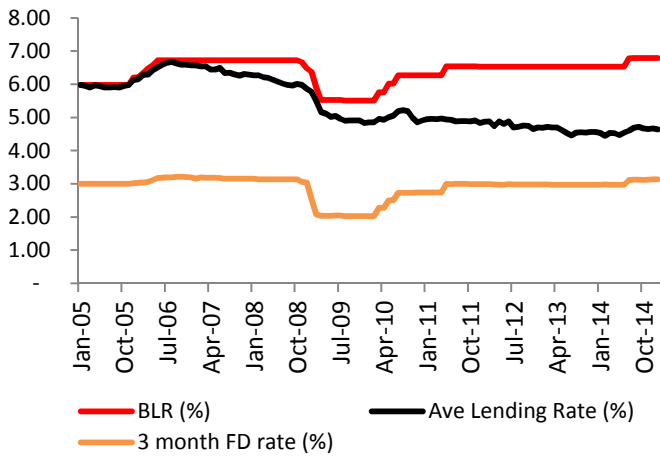
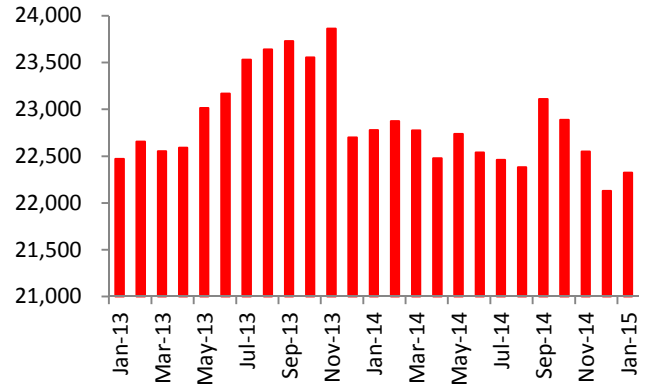


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



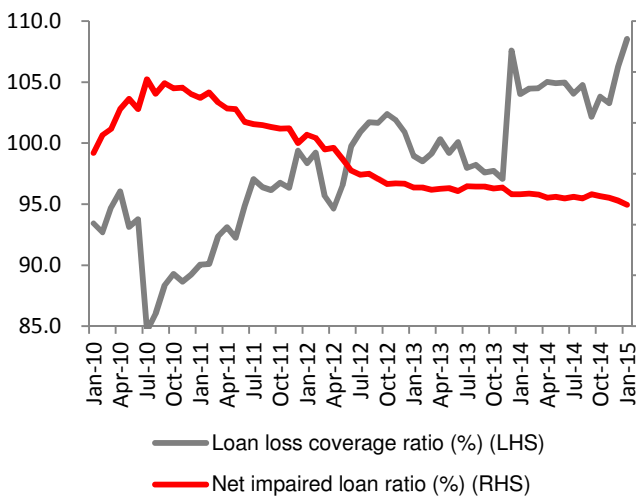
Source: BNM

Chart 8: Total Impaired Loans



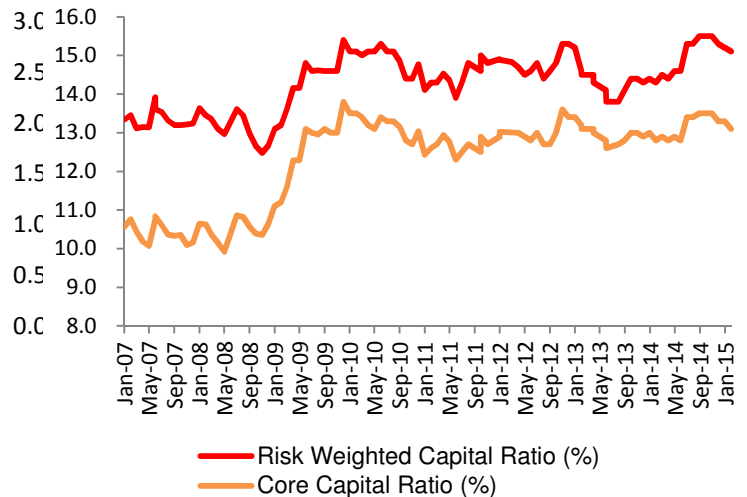
Source: BNM

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

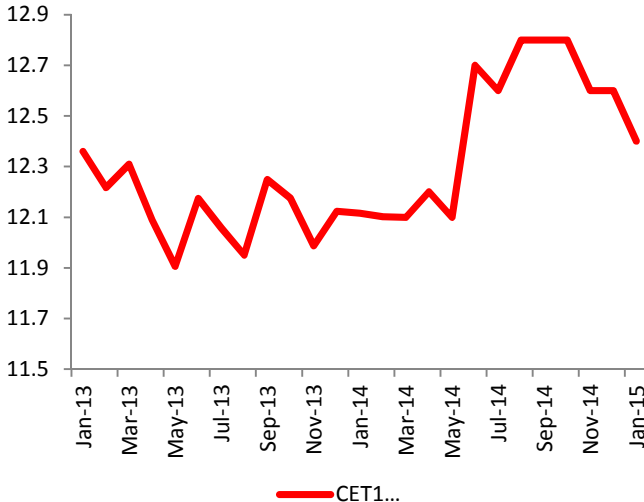
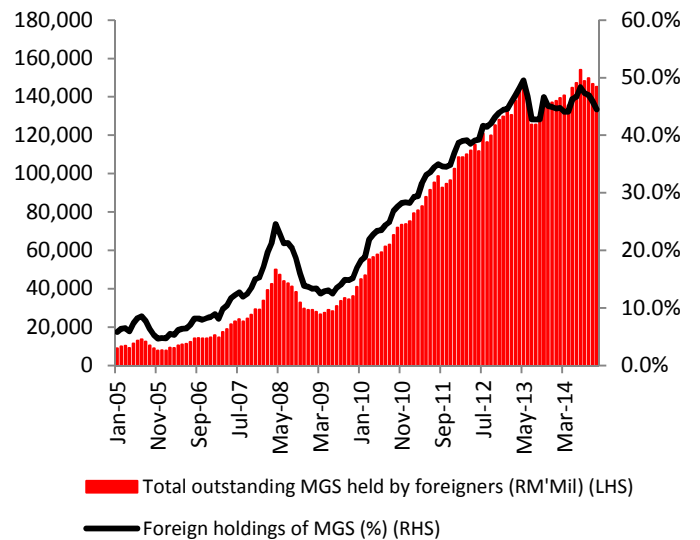


Chart 12: MGS Holdings by Foreigners



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.