

02 Sept 2014 | Sector update

BANKING - JULY 2014 BNM STATISTICS

Maintain NEUTRAL

Leading loan indicator turned weaker

LOAN INDICATORS

- **Industry loan growth continued its downward trend.** Industry loan growth in July'14 continued to lose traction and grew 8.6%yoy, a drop of 70bp from the previous month. Both business and household loans slowed down in momentum. Growth in loan repayments continued to outpace that of loan disbursements. Business loan growth continued to descend due to strong loan repayments. Other loan indicators, loan applications and approvals also turned weaker compared to the preceding month. By sectors, except for Manufacturing and Wholesale, Retail, Restaurants & Hotels sectors, all other business sectors showed a slower momentum in loan growth.
- **Growth in both business and household loans continued to decline in July'14.** Business loan growth drop to 6.8%yoy in July'14 vs. 7.2%yoy in Jun'14. Growth in working capital loans remained at 6.7%yoy while loans extended for construction purposes decelerated to 13.0%yoy (Jun'14: 15.4%yoy)

Table 1: Loan breakdown by purpose (RM mil)

	July-13	Jun-14	July-14	% of total	%Mom	%Yoy
Purchase of securities	63,776	73,894	72,302	5.7%	-2.2%	+13.4%
Purchase of transport vehicles	160,428	164,906	165,557	13.0%	+0.4%	+3.2%
of which : purchase of passenger cars	150,141	155,051	155,719	12.2%	+0.4%	+3.7%
Purchase of residential property	326,169	366,655	370,292	29.1%	+1.0%	+13.5%
Purchase of non-residential property	144,901	165,315	167,751	13.2%	+1.5%	+15.8%
Purchase of fixed asset other than land & building	9,228	10,379	10,383	0.8%	+0.04%	+12.5%
Personal use	56,601	58,272	58,519	4.6%	+0.4%	+3.4%
Credit card	33,380	34,473	33,922	2.7%	-1.6%	+1.6%
Purchase of consumer durables	108	401	441	0.03%	+10.0%	+308.3%
Construction	31,693	35,762	35,809	2.8%	+0.1%	+13.0%
Working capital	274,973	294,641	293,370	23.0%	-0.4%	+6.7%
Other purpose	70,553	67,845	64,640	5.1%	-4.7%	-8.4%
Total	1,171,810	1,272,544	1,272,985	100.0%	+0.03%	+8.6%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	July-13	Jun-14	July-14	% of total	%Mom	%Yoy
Primary agriculture	31,909	31,840	31,581	2.5%	-0.8%	-1.0%
Mining and quarrying	7,825	8,358	8,036	0.6%	-3.9%	+2.7%
Manufacturing (including agro based)	96,459	98,186	98,245	7.7%	+0.1%	+1.9%
Electricity, gas and water supply	9,880	13,420	13,122	1.0%	-2.2%	+32.8%
Wholesale, retail, restaurants & hotels	88,114	94,367	94,185	7.4%	-0.2%	+6.9%
Construction	47,641	52,264	52,462	4.1%	+0.4%	+10.1%
Real estate	65,731	76,257	75,843	6.0%	-0.5%	+15.4%
Transport, storage & communication	27,518	31,012	30,745	2.4%	-0.9%	+11.7%
Financing, insurance & business services	76,477	82,800	82,581	6.5%	-0.3%	+8.0%
Education, health & others	45,143	38,782	36,055	2.8%	-7.0%	-20.1%
Household sector	659,805	727,619	732,903	57.6%	+0.7%	+11.1%
Other sector	15,307	17,638	17,228	1.4%	-2.3%	+12.5%
Total	1,171,810	1,272,544	1,272,985	100.0%	+0.03%	+8.6%

Source: BNM

Meanwhile, growth in household loans slip to 11.1%yoy in July'14, down 40bp from Jun'14.

- **Growth in mortgage loans remained stable compared to Jun'14.** Growth in loans for residential property purchase was stable at 13.5%yoy while growth in loans for purchase of non residential property picked up pace by 30bp from Jun'14 to 15.8%yoy in July'14. Elsewhere, growth in loans for purchase of securities, loans for purchase of passenger cars, credit card lending and personal loans declined 340bp, 60bp, 474bp and 70bp from Jun'14 to 13.4%yoy, 3.7%yoy, 1.6%yoy and 3.4%yoy in July'14 respectively.

Table 3: Loan applications by purpose (RM mil)

	July-14	% of total	Apr-14 (%Yoy)	May-14 (%Yoy)	Jun-14 (%Yoy)	July-14 (%Yoy)
Purchase of securities	5,008	7.2%	-3.1%	+49.9%	47.5%	95.4%
Purchase of transport vehicles	8,372	12.0%	+1.5%	-1.3%	-11.0%	-26.0%
of which : purchase of passenger cars	7,876	11.3%	+0.9%	-0.7%	-11.0%	-27.7%
Purchase of residential property	19,309	27.7%	-8.5%	+9.7%	0.3%	-17.5%
Purchase of non-residential property	8,262	11.8%	-14.9%	-17.1%	-17.8%	-38.5%
Purchase of fixed asset other than land & building	459	0.7%	-26.5%	-42.4%	-81.6%	-32.1%
Personal use	3,672	5.3%	+15.5%	+16.7%	7.8%	-13.0%
Credit card	1,844	2.6%	-3.3%	-16.1%	-6.2%	-20.3%
Purchase of consumer durables	1	0.0%	-86.4%	-59.6%	-37.4%	-80.4%
Construction	2,893	4.1%	-29.1%	-3.8%	83.0%	-11.2%
Working capital	14,926	21.4%	+17.2%	+9.5%	48.6%	20.2%
Other purpose	5,040	7.2%	-27.1%	-49.3%	-49.1%	115.4%
Total applied	69,787	100.0%	-5.6%	-0.1%	+3.9%	-8.1%

Source: BNM

- Industry loan applications turned weaker in July'14 after a pick in pace in Jun'14.** Industry loan applications slowed down in momentum to a growth of -8.1%yoy from 3.9%yoy in the preceding month. Growth in applications for working capital and construction purposes slowed down in pace to -11.2%yoy and 20.2%yoy in July'14 respectively. By business sectors, with exception of Primary Agriculture and Finance, Insurance and Business Activities sectors which showed improvement in loan applications, loan applications for the other sectors declined compared to the preceding month.

Growth in household loan applications slip to -21.7%yoy in July'14 as compared to -2.9%yoy in Jun'14. For household loans, except for applications of loans to purchase of securities, growth in applications for mortgage loans, purchase of passenger car loans, credit cards and personal loans all trended lower in July'14 compared to the previous month.

Table 4: Loan approvals by purpose (RM mil)

	July-14	% of total	Apr-14 (%Yoy)	May-14 (%Yoy)	Jun-14 (%Yoy)	July-14 (%Yoy)
Purchase of securities	2,096	6.3%	+40.4%	+41.5%	+92.2%	+11.6%
Purchase of transport vehicles	4,248	12.8%	+19.9%	+3.1%	-6.8%	-16.3%
of which : purchase of passenger cars	4,037	12.1%	+21.9%	+5.4%	-7.0%	-16.5%
Purchase of residential property	10,902	32.8%	-5.2%	+7.6%	+7.2%	-13.0%
Purchase of non-residential property	4,133	12.4%	-8.8%	-25.3%	+2.6%	-15.0%
Purchase of fixed asset other than land & building	567	1.7%	-35.1%	-33.4%	-80.6%	+47.9%
Personal use	1,331	4.0%	-22.9%	-3.3%	-6.8%	-29.6%
Credit card	1,075	3.2%	+7.3%	-1.6%	-10.4%	-27.4%
Purchase of consumer durables	4	0.01%	-68.2%	-71.6%	-63.2%	-80.9%
Construction	1,126	3.4%	-13.3%	-38.9%	-50.7%	-27.1%
Working capital	6,463	19.4%	-18.2%	-34.0%	-22.1%	+24.9%
Other purpose	1,320	4.0%	+17.4%	-4.4%	-24.8%	-25.2%
Total approved	33,265	100.0%	-2.3%	-8.9%	-5.6%	-9.1%

Source: BNM

Momentum for loan approvals slower in July'14. Growth of loan approvals in July'14 drop to -9.1%yoy as compared to -5.6%yoy in Jun'14. Growth in approval for loans applied for working capital purposes continued to improve to 24.9%yoy in July'14. Meanwhile, growth of approval of loans for construction also improved to -27.1%yoy from -50.7%yoy in Jun'14 (Refer Table 4).

However, growth in total household loan approvals declined significantly to -13.4%yoy from 3.3%yoy in the previous month.

- **Growth in loan repayment remained strong relative to disbursements in July'14.** Growth in loan disbursements was slow at 5.1%yoy, lower by 540bp compared to the previous month. Meanwhile, growth in loan repayments remained strong relative to disbursements. Growth in loan repayments was 15.5%yoy in July'14 as compared to 16.7%yoy in Jun'14.
- **Industry liquidity eased slightly with LD ratio inched lower to 85.5%, a decline of 30bp from the previous month.** Growth in deposits in the banking system remained at 6.5%yoy similar as the previous month.

LENDING AND DEPOSIT RATES

- **ALR rose 4bp mom to 4.61%.** The industry's average lending rate (ALR) rose by 4bp mom to 4.61% in July'14 while BLR rose by 25bp mom to 6.78% following the adjustment in OPR by 25bp on July 10th.
- **FD rates rose between 15 to 17bp following the recent increase in OPR by 25bp.** Interest spread (between the average lending rate and 3 month FD rate) declined to 1.48%, down 12bp from the previous month. Average FD rate (for tenures of up to 12 months) rose 16bp mom to 3.18% and was higher than the adjustment in ALR which rose only by 4bp following the recent OPR hike. Another OPR hike is likely to be forthcoming as market seems to have priced in another rate hike of 25bp.

ASSET QUALITY

- **Absolute impaired loans for the industry declined 0.8%mom.** Gross Impaired Loan (GIL) ratio remained at 1.8% and net impaired loan ratio was unchanged at 1.3%. GIL ratios of loans for most types of lending by purpose continued to remain stable. LLC of the industry in July'14 continued to be healthy at 104.2%.

Table 5: Impaired Loans by purpose (RM mil)

	July-13	Jun-14	July-14	% of total	%Mom	%Yoy
Purchase of securities	381	273	268.9	1.2%	-1.5%	-29.4%
Purchase of transport vehicles	1,881	2,184	2,173.5	9.7%	-0.5%	+15.6%
of which : purchase of passenger cars	1,646	2,033	2,010.4	9.0%	-1.1%	+22.1%
Purchase of residential property	5,403	5,207	5,054.8	22.5%	-2.9%	-6.4%
Purchase of non-residential property	1,341	1,141	1,222.8	5.5%	=7.2%	-8.8%
Purchase of fixed asset other than land & building	232	235	194.1	0.9%	-17.4%	-16.3%
Personal use	1,009	990	979.1	4.4%	-1.1%	-3.0%
Credit card	418	417	415.9	1.9%	-0.3%	-0.5%
Purchase of consumer durables	3	4	4.6	0.02%	+15.0%	+53.3%
Construction	1,776	1,790	1,821.8	8.1%	+1.8%	+2.6%
Working capital	9,911	9,177	9,000.6	40.1%	-1.9%	-9.2%
Other purpose	1,176	1,202	1,297.1	5.8%	+7.9%	+10.3%
Total	23,532	22,621	22,433.1	100.0%	-0.8%	-4.7%

Source: BNM

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

	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14
Purchase of securities	0.5%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
Purchase of transport vehicles	1.2%	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	1.3%	1.3%
of which : purchase of passenger cars	1.1%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of residential property	1.6%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%
Purchase of non-residential property	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Purchase of fixed asset other than land & building	2.8%	2.7%	2.5%	2.4%	2.3%	2.5%	2.5%	2.4%	2.3%	1.9%
Personal use	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%
Credit card	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%
Purchase of consumer durables	1.6%	9.4%	1.2%	0.9%	1.1%	1.0%	0.8%	1.1%	1.1%	1.0%
Construction	5.1%	5.3%	5.0%	5.0%	4.8%	5.2%	5.1%	5.7%	5.0%	5.1%
Working capital	3.6%	3.6%	3.2%	3.1%	3.1%	3.2%	3.2%	3.2%	3.1%	3.1%
Other purpose	1.7%	1.8%	1.9%	2.1%	2.1%	2.2%	1.8%	1.8%	1.8%	2.0%
Total	2.0%	2.0%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Source: BNM


CAPITALISATION

- **Capital position strengthened.** The sector's capital position strengthen by both 20bp for CET1 ratio and Core Capital Ratio (CCR) to 12.4% and 13.2% respectively. Meanwhile, Risk Weighted Capital Ratio (RWCR) rose 30bp to 15.1% in July'14.

CALL ON SECTOR & STOCK PICKS

- **Loan growth continued its slow momentum. We maintain our loan growth expectation of 9-10% for CY14.** Overall system loan growth moderated as growth in loan repayments continued to be stronger relative to disbursements. The leading indicator (loan applications) was unable to sustain its momentum seen in the previous month. Corporate loan growth continued to be weak impacted by loan repayments.
- **Liquidity remained tight with LDR of 85.5%.** We understand lending rate for retail loans have turned more stable with the return of rational pricing. Nevertheless, stiff competition for deposits will persist, hence putting pressure on banks funding cost. The recent adjustment in lending rate following a 25b increase in OPR and potentially another rate hike of 25bp is likely to provide an uplift in interest income

offsetting some of the funding cost pressure. This is likely to result in less pressure on NIM for banks in CY15.

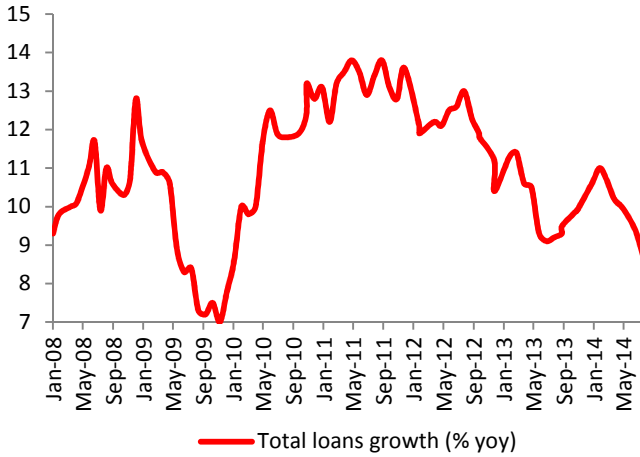
- **Non interest income (NOII) growth likely to remain challenging in CY14.** We continue to see challenges in the growth of banks NOII. NOII income growth likely to remained muted for the remaining of quarters of CY14. Lower trading and investment income as well as income from capital markets from a slower equity capital markets will be factors capping growth in NOII.
- **Average ROE for banks to trend lower and Maybank has guided a lower ROE.** Banks such as Public Bank, CIMB and Maybank have carried out either right issue exercise or private placement of new shares to raise equity capital. This coupled with the DRP exercises of CIMB and Maybank have resulted in a higher equity base and coupled with the recent weaker earnings, this has put pressure on their ROEs in CY14. Through the recent results briefing, Maybank has trimmed its ROE guidance from 15.0% to 14.0%.
- **Maintain NEUTRAL.** No change to our stock picks. Maintain BUY calls on RHB Cap (RM10.70), Hong Leong Bank (TP: RM16.30) and Maybank (TP: RM11.50). We remain NEUTRAL on AFG (TP: RM4.70), Public Bank (RM19.60), CIMB (TP: RM8.00), AMMB (TP: RM7.60) and Affin (TP: RM3.70). 

	Rec.	Price @ 29/8	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	6.68	7.60	59.3	61.0	11.3	11.0	24.1	24.0	3.6	3.6	4.4	4.7	1.5	1.4
Maybank	BUY	10.10	11.50	72.0	79.0	14.0	12.8	43.0	48.0	4.3	4.8	5.6	6.0	1.8	1.7
Public Bank	NEUTRAL	19.28	19.60	108.0	117.0	17.9	16.5	49.0	53.0	2.5	2.7	7.1	7.7	2.7	2.5
RHB Capital	BUY	9.17	10.70	83.0	91.0	11.0	10.1	25.0	27.0	2.7	2.9	7.0	7.6	1.3	1.2
Hong Leong	BUY	14.40	16.30	112.0	119.0	12.9	12.1	35.0	39.0	2.4	2.7	7.7	8.6	1.9	1.7
CIMB	NEUTRAL	7.38	8.00	52.0	59.0	14.2	12.5	21.0	24.0	2.8	3.3	4.5	4.9	1.6	1.5
AFG	NEUTRAL	4.86	4.70	36.0	37.0	13.5	13.1	19.0	22.0	3.9	4.5	2.8	2.9	1.7	1.7
Affin	NEUTRAL	3.37	3.70	30.0	35.0	11.2	9.6	15.0	18.0	4.5	5.3	3.5	3.7	1.0	0.9

Kelvin Ong, CFA

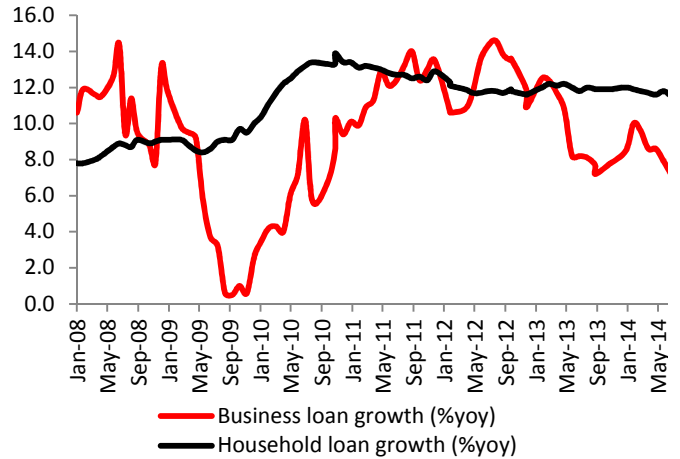
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



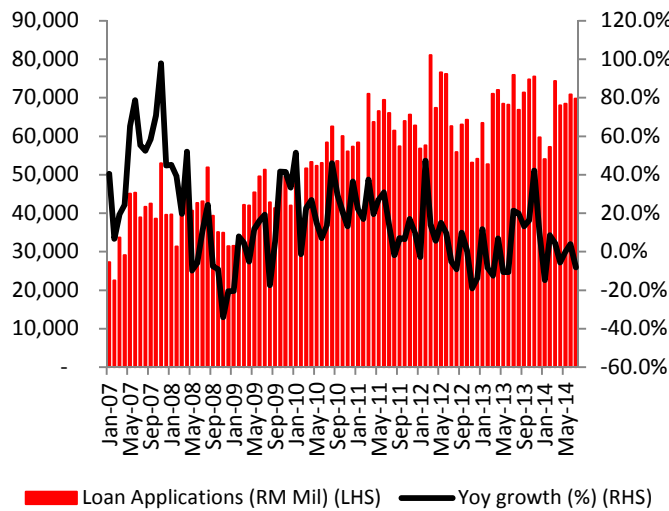
Source: BNM

Chart 2: Business and Household Loan Growth Rate



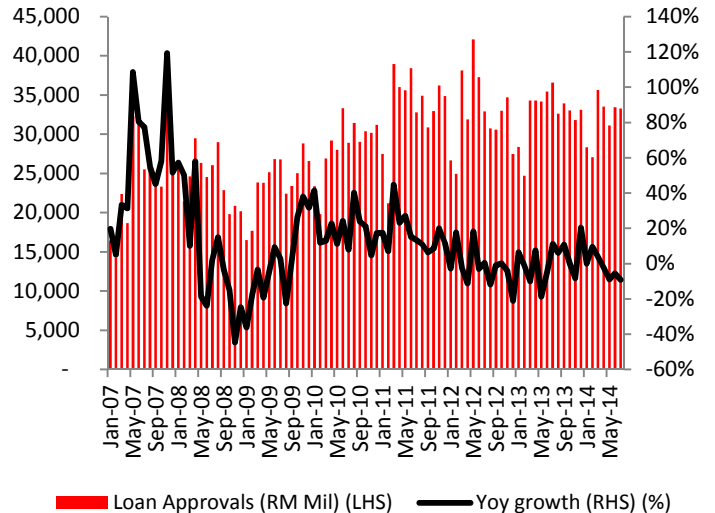
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

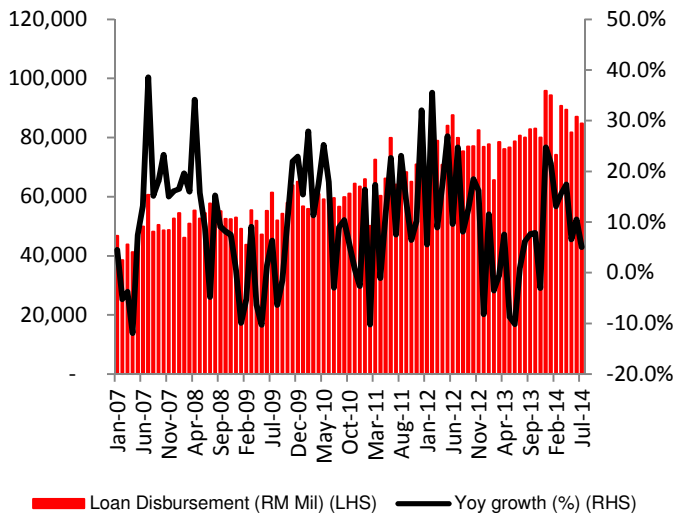


Chart 6: Interest Spread

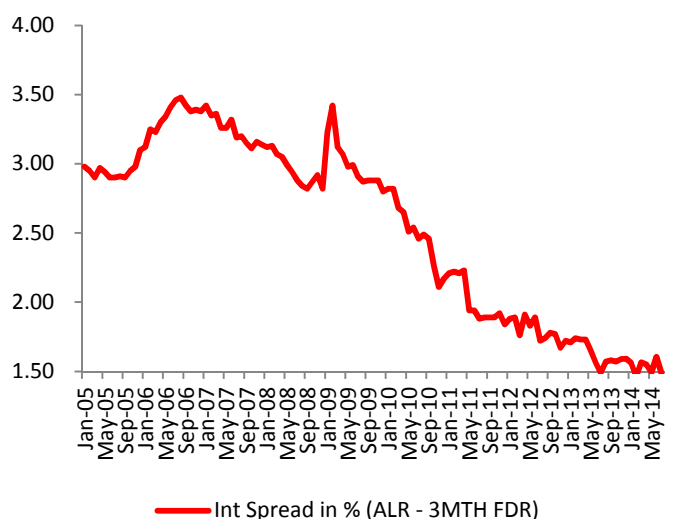
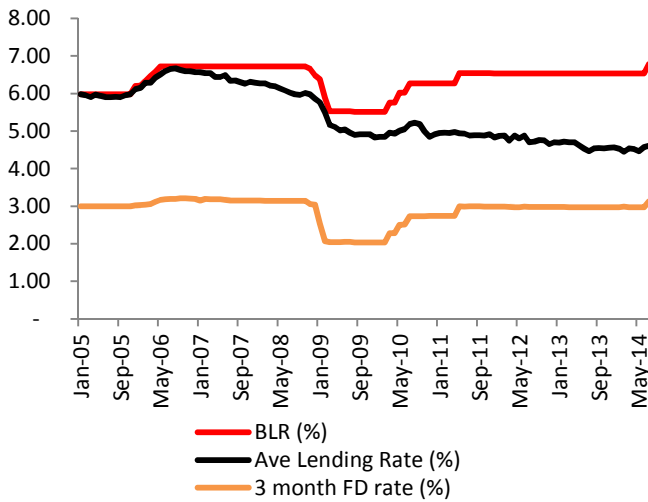
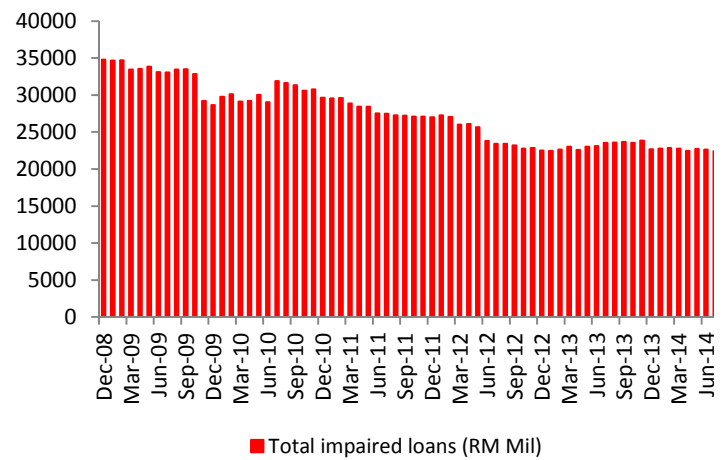


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



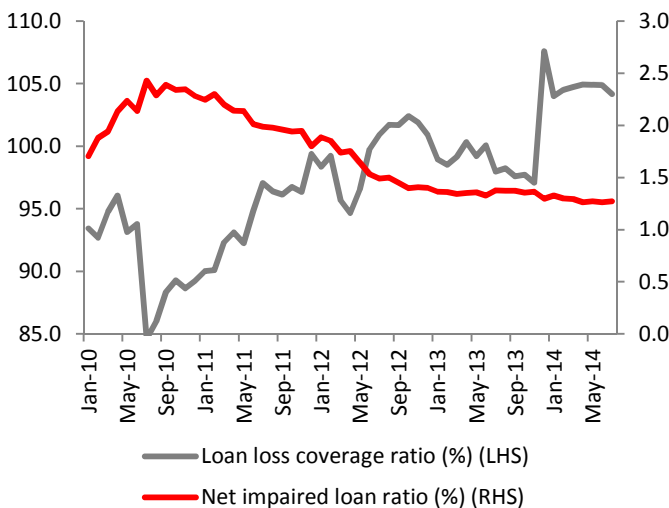
Source: BNM

Chart 8: Total Impaired Loans



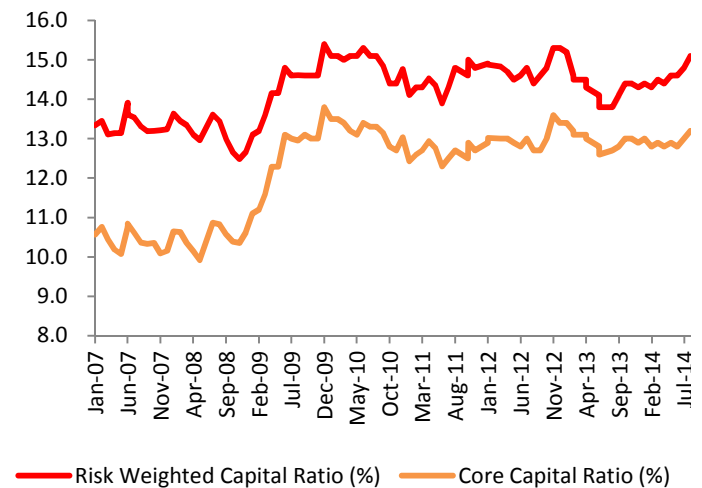
Source: BNM

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

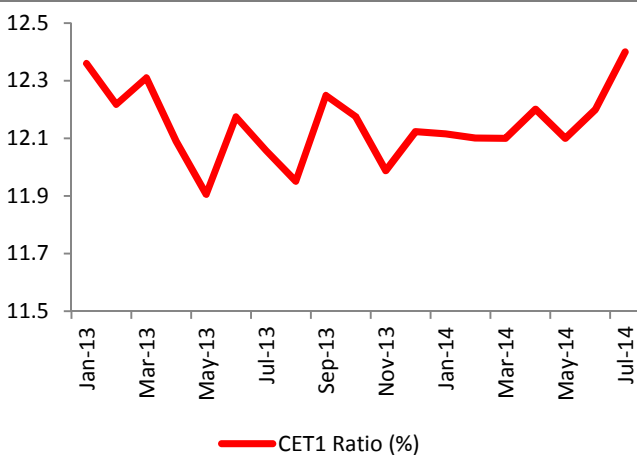
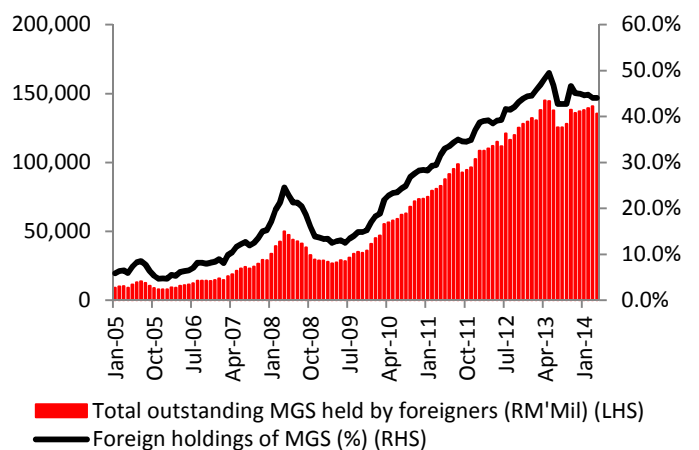


Chart 12: MGS Holdings by Foreigners



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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.