

02 Sept 2015 | Sector update

BANKING – JULY 2015 BNM STATISTICS

Maintain NEUTRAL

Expect slower loan growth in 2HCY15 due to tougher market conditions

LOAN INDICATORS

- Loans in the Banking Sector accelerated to +9.6%yoy in July'15 with a pick up in pace of business loans while household loan growth continued to decelerate. Banking system's loans grew at a faster pace of +9.6%yoy in July'15 vs. +9.1%yoy in the preceding month. Business loan growth was stronger at +9.9%yoy vs. +8.7%yoy in Jun'15. Loans to households continue to grow at a slower rate of +8.6%yoy in July'15 (Jun'15: +8.7%yoy). Growth in loans for purchase of residential property turned slightly slower compared to the previous month.

For business loans, working capital and construction loans gained momentum with higher growth rates of +12.6%yoy and +12.3%yoy respectively.

Table 1: Loan breakdown by purpose (RM mil)

	July-14	Jun-15	July-15	% of total	%Mom	%Yoy
Purchase of securities	72,302	75,603	75,188	5.4%	-0.5%	+4.0%
Purchase of transport vehicles	165,557	168,234	168,994	12.1%	+0.5%	+2.1%
of which : purchase of passenger cars	155,719	158,672	159,577	11.4%	+0.6%	+2.5%
Purchase of residential property	371,223	414,568	418,320	30.0%	+0.9%	+12.7%
Purchase of non-residential property	166,820	189,938	191,400	13.7%	+0.8%	+14.7%
Purchase of fixed asset other than land & building	10,383	10,379	10,373	0.7%	-0.1%	-0.1%
Personal use	58,519	61,320	61,566	4.4%	+0.4%	+5.2%
Credit card	33,922	34,723	34,558	2.5%	-0.5%	+1.9%
Purchase of consumer durables	441	149	150	0.01%	+0.7%	-66.0%
Construction	35,809	39,754	40,198	2.9%	+1.1%	+12.3%
Working capital	293,370	328,437	330,231	23.7%	+0.5%	+12.6%
Other purpose	64,640	64,590	65,204	4.7%	+1.0%	+0.9%
Total	1,272,985	1,387,695	1,395,667	100.0%	+0.6%	+9.6%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	July-14	Jun-15	July-15	% of total	%Mom	%Yoy
Primary agriculture	31,581	35,010	34,884	2.5%	-0.4%	+10.5%
Mining and quarrying	8,036	11,894	11,411	0.8%	-4.1%	+42.0%
Manufacturing (including agro based)	98,245	101,289	100,954	7.2%	-0.3%	+2.8%
Electricity, gas and water supply	13,122	10,672	10,832	0.8%	+1.5%	-17.5%
Wholesale, retail, restaurants & hotels	94,185	102,075	103,097	7.4%	+1.0%	+9.5%
Construction	52,462	58,193	59,117	4.2%	+1.6%	+12.7%
Real estate	75,843	89,007	89,241	6.4%	+0.3%	+17.7%
Transport, storage & communication	30,745	34,260	34,941	2.5%	+2.0%	+13.6%
Financing, insurance & business services	82,581	95,297	95,838	6.9%	+0.6%	+16.1%
Education, health & others	36,055	39,617	40,087	2.9%	+1.2%	+11.2%
Household sector	732,903	791,172	795,664	57.0%	+0.6%	+8.6%
Other sector	17,228	19,209	19,601	1.4%	+2.0%	+13.8%
Total	1,272,985	1,387,695	1,395,667	100.0%	+0.6%	+9.6%

Source: BNM

By business sectors and comparing to the previous month, the stronger growth in business loans was mainly driven by on-year increase in loans to the primary agriculture, wholesale, retail, restaurants & hotels, construction, real estate, transport, storage and communication and finance, insurance and business services sectors.

- **Household loan growth continued to lose traction.** Compared to the preceding month, loans for purchase of residential property slipped slightly to +12.7%yoy while loans for purchase of non-residential property registered a decline to +14.7%yoy.

Momentum in loans for purchase of passenger cars continued to be slow with a growth rate of +2.5%yoy as most banks are not aggressively growing in this space due to lower risk adjusted returns from stiff competition in HP lending rates. Outstanding in credit cards picked up pace slightly to +1.9%yoy and continued to be low after the implementation of GST. Loans for purchase of securities grew at a faster pace, improving to +4.0%yoy growth. Meanwhile, personal loans continued to remain stable and grew +5.2%yoy.

Table 3: Loan applications by purpose (RM mil)

	July-15	% of total	Apr-15 (%Yoy)	May-15 (%Yoy)	Jun-15 (%Yoy)	July-15 (%Yoy)
Purchase of securities	1,658	2.2%	-13.8%	-55.2%	-43.5%	-66.9%
Purchase of transport vehicles	7,910	10.6%	-16.2%	-14.8%	+3.5%	-5.5%
of which : purchase of passenger cars	7,176	9.6%	-14.3%	-14.7%	+4.6%	-8.9%
Purchase of residential property	18,668	25.0%	-5.3%	-15.9%	-6.8%	-3.3%
Purchase of non-residential property	7,734	10.4%	+7.7%	-22.0%	-4.5%	-6.4%
Purchase of fixed asset other than land & building	690	0.9%	+85.4%	+141.9%	+9.7%	+50.3%
Personal use	5,904	7.9%	+22.3%	+49.6%	+55.8%	+60.8%
Credit card	3,151	4.2%	+22.2%	+50.7%	+66.7%	+70.9%
Purchase of consumer durables	1	0.001%	+940.4%	+1012.2%	-66.3%	-35.0%
Construction	3,545	4.7%	+42.9%	+5.7%	-32.9%	+22.5%
Working capital	20,694	27.7%	+14.5%	+24.3%	+26.0%	+38.6%
Other purpose	4,686	6.3%	-48.2%	+8.1%	-23.5%	-7.0%
Total applied	74,640	100.0%	+0.7%	-2.9%	+3.6%	+7.0%

Source: BNM

- **Pick up in demand for business and household loans.** Growth in industry loan applications increased to +7.0%yoy, up from +3.6%yoy in the preceding month. Loan applications for business and household loans improved registering higher growth rates of +15.4%yoy and +3.0%yoy respectively.

By loan purpose, the improvement was contributed by higher growth in applications for purchase residential property loans, personal loans and credit cards, construction and working capital loans.

By sectors, the improvement was contributed by higher growth rates in loan applications from the wholesale & retail trade, and restaurants & hotels, construction, real estate, transport, storage and communication and electricity, gas and water supply as well as the household sector.

Table 4: Loan approvals by purpose (RM mil)

	July-15	% of total	Apr-15 (%Yoy)	May-15 (%Yoy)	Jun-15 (%Yoy)	July-15 (%Yoy)
Purchase of securities	1,171	3.6%	-34.8%	-44.9%	-57.6%	-40.8%
Purchase of transport vehicles	4,342	13.2%	-16.5%	-2.0%	+14.2%	+2.2%
of which : purchase of passenger cars	4,143	12.6%	-15.9%	-1.6%	+16.3%	+2.6%
Purchase of residential property	8,957	27.3%	-5.0%	-21.3%	-7.9%	-17.8%
Purchase of non-residential property	3,061	9.3%	-9.3%	-22.2%	-32.4%	-25.9%
Purchase of fixed asset other than land & building	281	0.9%	+50.6%	+79.2%	-31.5%	-50.3%
Personal use	1,421	4.3%	+19.1%	-6.0%	+9.7%	+6.8%
Credit card	1,466	4.5%	-2.0%	+22.1%	+43.7%	+36.4%
Purchase of consumer durables	0.1	0.0002%	+8.0%	+76.3%	-95.3%	-98.2%
Construction	1,024	3.1%	+186.3%	+13.6%	+93.6%	-9.1%
Working capital	9,536	29.0%	+21.1%	+65.8%	+126.5%	+47.5%
Other purpose	1,595	4.9%	-52.0%	+45.5%	+77.7%	+21.1%
Total approved	32,856	100.0%	-2.4%	+0.6%	+15.1%	-0.9%

Source: BNM

- **Loan approvals turned weaker in July'15.** Overall industry loan approval growth decelerated to -0.9%yoy as compared to the preceding month's +15.1%yoy. Approval of households loans slipped to -15.0%yoy while that of non households grew +22.0%yoy supported by improved approval rates for construction and real estate loans. By loan purpose, the decline in loan approvals was mainly on mortgage loans and loans for purchase of securities (Refer Table 4).
- **In July'15, growth in loan disbursements continued to outpace repayments.** Loan disbursement slowed down to +2.4%yoy. Nevertheless, this continued to outpace the industry's loan repayments which grew -3.8%yoy. Industry LD ratio continued to rise to 89.3%. With a tighter liquidity for the sector, we expect NIM of banks to be still compressed by higher COF with competition for deposits expected to remain stiff.

Growth of deposits (excluding REPO) in the banking system decelerated to +4.2%yoy from +7.3%yoy in the preceding month contributed by slower growth in business enterprises and individuals' deposits of +1.6%yoy and +6.7%yoy respectively vs. +4.8%yoy and +7.1%yoy respectively in the previous month. Industry CASA was slower in pace with a growth rate of +2.4%yoy as compared to +6.5%yoy in the preceding month. CASA ratio for the industry slipped to 25.7% (Jun'15: 26.1%).

LENDING AND DEPOSIT RATES

- **ALR continued to decline and interest spread further narrowed.** The industry's average lending rate (ALR) continued to drop to 4.54% (-0.03% mom) for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate eased slightly to 3.85%.
- Interest spread (between the average lending rate and average deposit rate) narrowed to 1.35%. This was due to lower ALR while the average deposit rate remained stable. Stiff competition for lending and deposit rates is expected to continue to still compress NIM of banks.

ASSET QUALITY

- **GIL ratio for the industry remained at 1.6%.** Gross Impaired Loan (GIL) ratio and net impaired loan (NIL) ratio remained at 1.6% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	July-14	Jun-15	July-15	% of total	%Mom	%Yoy
Purchase of securities	269	376	327	1.4%	-13.0%	+21.6%
Purchase of transport vehicles	2,174	1,787	1,805	8.0%	+1.0%	-17.0%
of which : purchase of passenger cars	2,010	1,662	1,683	7.5%	+1.3%	-16.3%
Purchase of residential property	5,057	5,056	5,060	22.4%	+0.1%	+0.1%
Purchase of non-residential property	1,220	1,625	1,716	7.6%	+5.6%	+40.7%
Purchase of fixed asset other than land & building	194	162	163	0.7%	+0.6%	-16.0%
Personal use	979	1,001	1,033	4.6%	+3.2%	+5.5%
Credit card	416	448	452	2.0%	+0.9%	+8.7%
Purchase of consumer durables	5	2	2	0.01%	-	-60.0%
Construction	1,822	2,434	3,105	13.8%	+27.6%	+70.4%
Working capital	9,029	8,183	7,502	33.3%	-8.3%	-16.9%
Other purpose	1,297	1,402	1,396	6.2%	-0.4%	+7.6%
Total	22,461	22,475	22,562	100.0%	+0.4%	+0.4%

Source: BNM

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	July-15
Purchase of securities	0.4%	0.3%	0.5%	0.6%	0.3%	0.3%	0.5%	0.4%
Purchase of transport vehicles	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
of which : purchase of passenger cars	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.0%	1.1%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.8%	0.9%	0.9%	0.8%	0.8%	0.8%	0.9%	0.9%
Purchase of fixed asset other than land & building	1.7%	1.7%	1.7%	1.2%	1.8%	1.6%	1.6%	1.6%
Personal use	1.7%	1.8%	1.8%	2.0%	1.6%	1.7%	1.6%	1.7%
Credit card	1.2%	1.1%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%
Purchase of consumer durables	1.2%	1.3%	1.5%	1.7%	1.5%	1.6%	1.4%	1.2%
Construction	7.1%	5.6%	5.6%	5.7%	5.7%	6.0%	6.1%	7.7%
Working capital	2.5%	2.7%	2.6%	2.6%	2.4%	2.4%	2.5%	2.3%
Other purpose	1.7%	1.7%	1.9%	1.8%	2.1%	2.3%	2.2%	2.1%
Total	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value basis, impaired loans continued to trend higher, increasing by RM87m or +0.4% mom. GIL ratios for most loan segments remained stable (see Table 6). The sector's loan loss coverage ratio was stable at 97.3% (-0.2% mom). While there were upticks in GIL ratio for some loan segments by banks due to the implementation of R&R guidelines, the overall impact as seen from Table 6 does not appear to be too significant as expected earlier.

CAPITALISATION

- **Slight improvement in capital position.** The sector's CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) all rose slightly by 0.2% mom to 12.5%, 13.3% and 15.4% respectively in July'15 with improvements in capital while RWA remained stable compared to the preceding month.


CALL ON SECTOR & STOCK PICKS

- **Results of most banks in the recent reporting season were mostly within expectations.** Except for BIMB's results which have yet to be released, of the 8 banks results announced, 6 banks' results (AFG, Public Bank, Maybank, Hong Leong, AMMB and RHB Cap) were within expectations. 2 banks' results (Affin and CIMB) were below expectations mainly due higher provisions for loan impairment. Also contributing to Affin's weaker results was lower than expected NOII. The trend was mix for revenue of banks with some

banks reporting marginal growth in revenue line while the large cap banks such as Maybank and CIMB reported stronger revenue growth but their earnings were dampened by higher provisioning for loans impairments for international operations in particularly Indonesia.

- **We continue to expect slower loan momentum in 2HCY15 with capital market activities remaining weak.** Loan momentum is expected to be slower in 2HCY15 with a slowdown in business loans from slower economic growth and weaker sentiment while capital market activities are expected to remain weak. Meanwhile, household loan growth is likely to remain soft after GST with cautious consumer sentiment and spending. Banks such as Maybank, CIMB and RHB Cap have guided for slow down in pace of loan growth in 2HCY15.

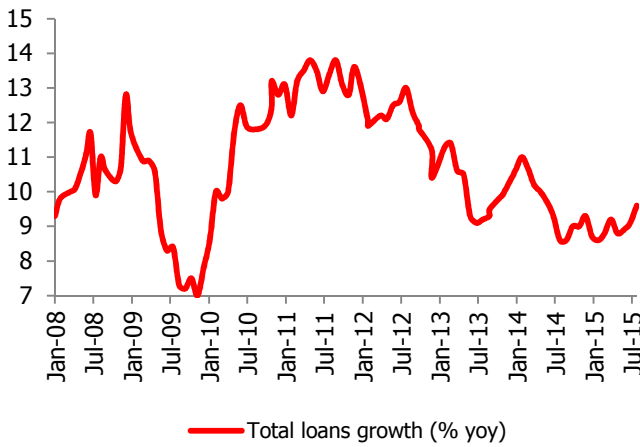
Should the low commodity prices, weaker Ringgit continues as well as slowdown in external economies be prolonged, we will not be surprised of any increase in banks' impaired loans with upticks in GIL ratios.

- **High cost of funds to continue to impact bank's NIM.** With liquidity in the sector turned tighter as evidenced from a rise in LD ratio to 89.3%, we expect competition for deposits to remain stiff, hence high COF will continue to impact banks' NIM.
- **New issues of private debt securities (PDS) and net funds raised by the private sector in the capital market continued to be weak.** Year-to-date for the 1st 7 months of CY15, growth in net funds raised in the capital market by the private sector declined -42.8%yoy to RM18.9b while New PDS issuances slipped -29.1%yoy to RM34b.
- **Maintain NEUTRAL on the sector.** We have lowered our valuation for most banking stocks in the sector due to tighter valuation with foreign investors turned net sellers of equities. We still have BUY calls on Hong Leong Bank (TP: RM14.60), Maybank (TP: RM9.80) and RHB Cap (RM8.50). We remain NEUTRAL on Public Bank (TP: RM19.80), AHB (TP: 2.30), AMMB (TP: RM5.50), AFG (TP: RM4.10), CIMB (TP: RM5.50) and BIMB (TP: RM3.96). 

	Rec.	Price @ 1/9	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	4.68	5.50	54.4	55.0	8.6	8.5	27.3	22.0	5.8	4.7	4.8	5.1	1.0	0.9
Maybank	BUY	8.77	9.80	67.0	75.0	13.1	11.7	40.0	45.0	4.6	5.1	6.1	6.5	1.4	1.4
Public Bank	NEUTRAL	18.00	19.80	121.0	131.0	14.9	13.7	56.0	60.0	3.1	3.3	7.9	8.6	2.3	2.1
RHB Capital	BUY	6.37	8.50	81.0	84.0	7.9	7.6	10.0	11.0	1.6	1.7	8.1	8.9	0.8	0.7
Hong Leong	BUY	13.08	14.60	115.0	122.0	11.4	10.7	38.0	40.0	2.9	3.1	8.5	9.5	1.5	1.4
CIMB	NEUTRAL	4.84	5.50	40.0	47.0	12.1	10.3	16.0	19.0	3.3	3.9	4.7	5.0	1.0	1.0
AFG	NEUTRAL	3.57	4.10	34.7	36.0	10.3	9.9	15.4	16.0	4.3	4.5	2.9	3.2	1.2	1.1
BIMB	NEUTRAL	3.99	3.96	37.5	40.2	10.6	9.9	15.0	16.1	3.8	4.0	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.28	2.30	23.0	31.0	9.9	7.4	11.0	16.0	4.8	7.0	4.1	4.3	0.6	0.5
Average				63.7	69.0	11.0	10.0	25.4	27.2	3.8	4.2	5.5	5.9	1.3	1.2

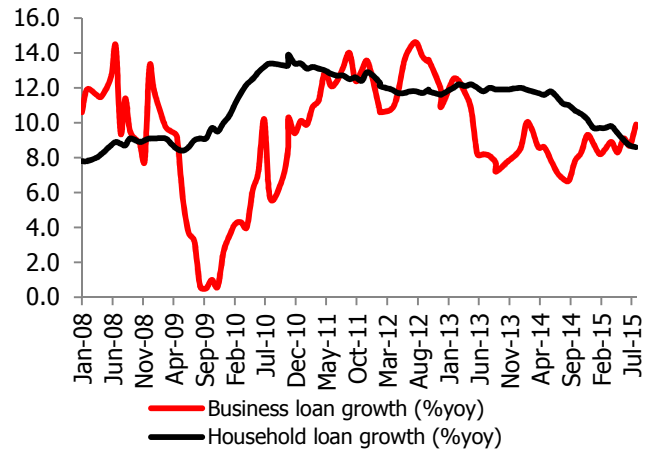
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Chart 1: Total Loan Growth Rate



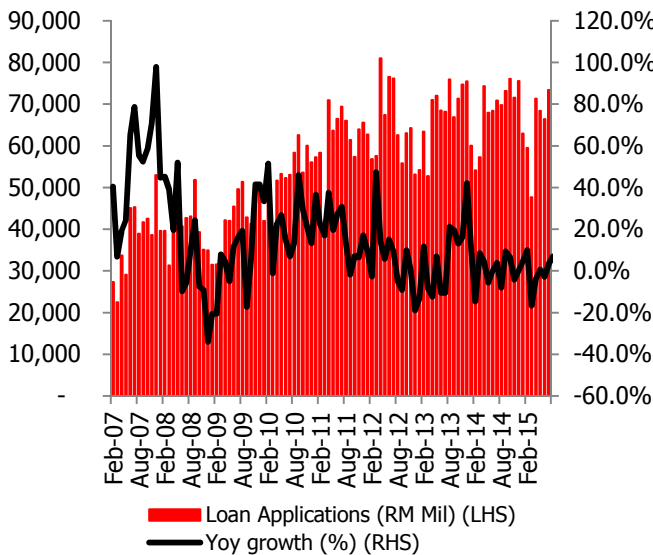
Source: BNM

Chart 2: Business and Household Loan Growth Rate



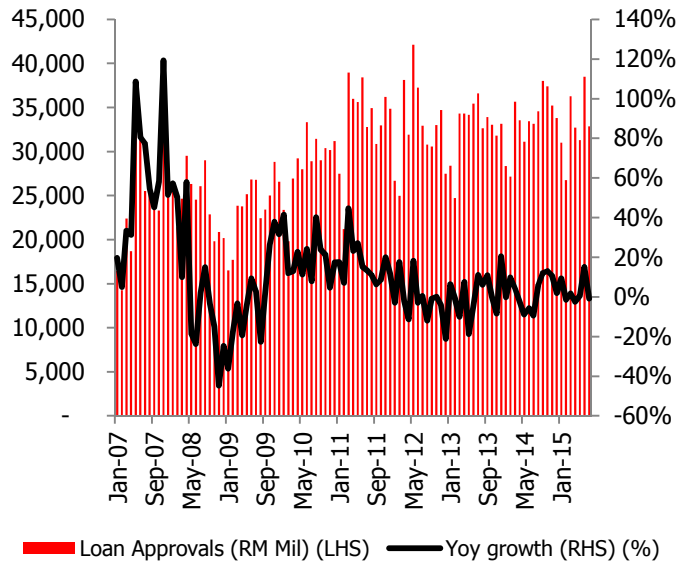
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

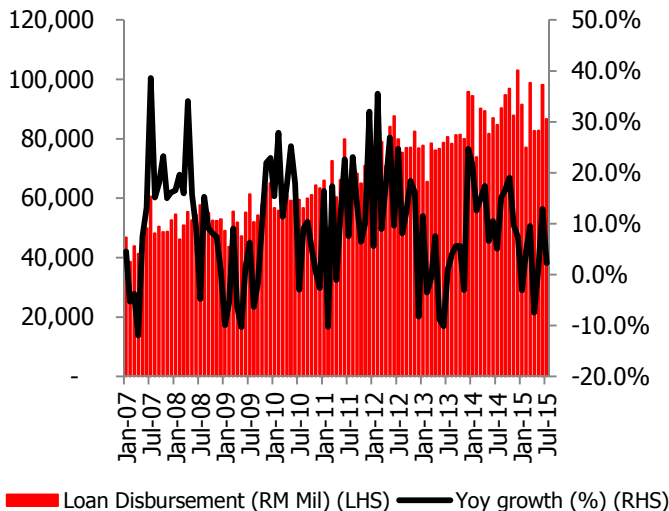


Chart 6: Interest Spread

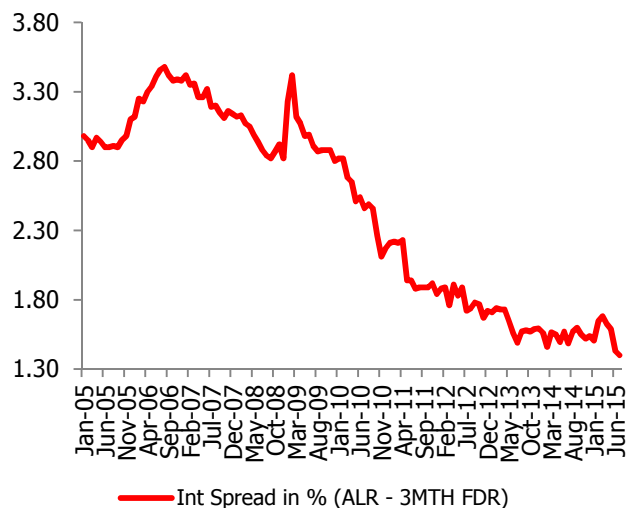
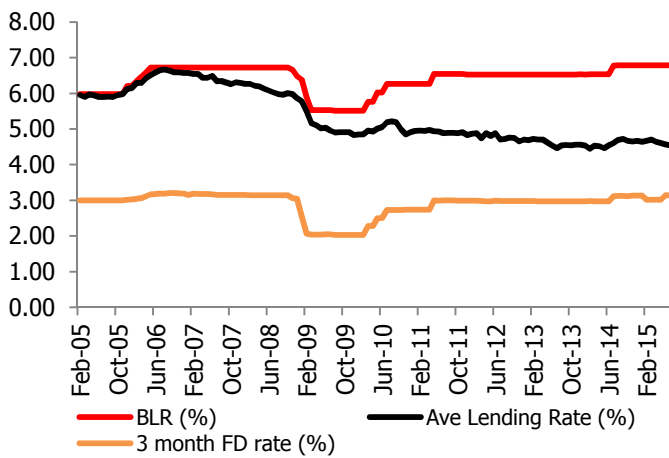
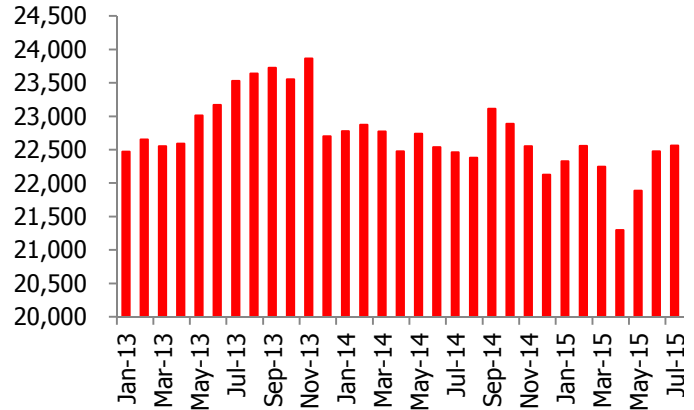


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



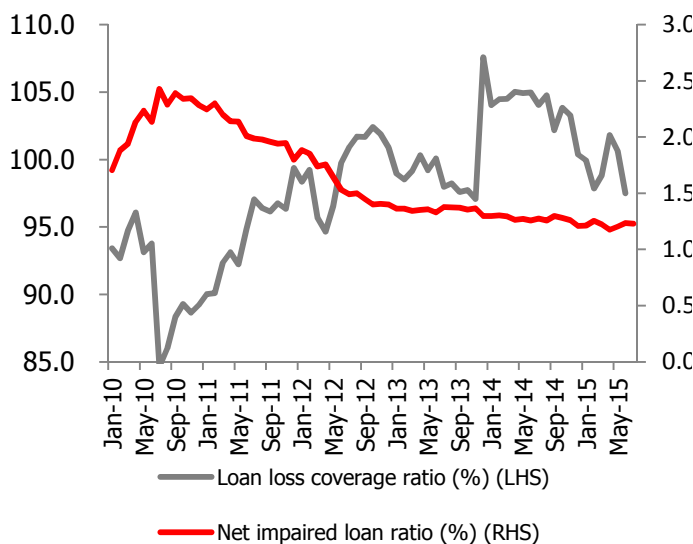
Source: BNM

Chart 8: Total Impaired Loans



Source: BNM

Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage



Source: BNM

Source: BNM

Chart 10: Core Capital and Risk Weighted Capital Ratio

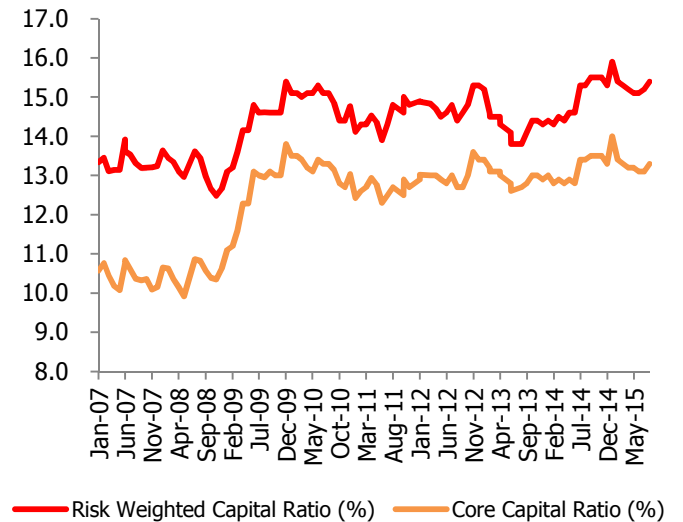


Chart 11: CET 1 Ratio

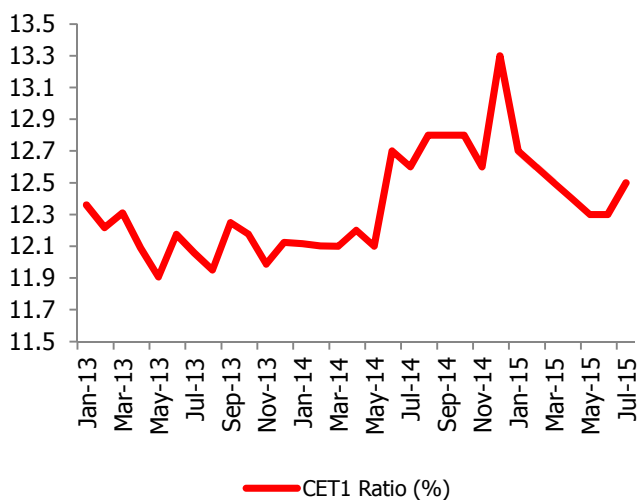
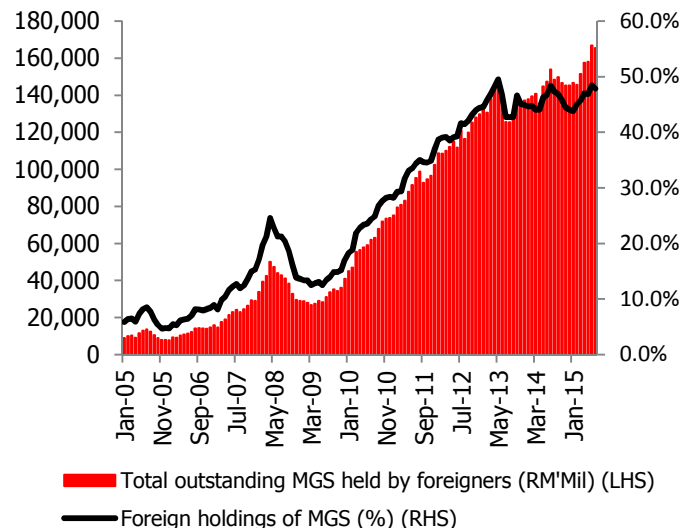


Chart 12: MGS Holdings by Foreigners



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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.