

04 Aug 2015 | Banking sector update

BNM STATISTICS – JUNE 2015

Maintain NEUTRAL

Slight improvement in overall loan demand while loans approval picked up pace

LOAN INDICATORS

- Loans in the Banking System grew +9.1%yoy in June'15 with business loan growth turning softer while growth in household loans continued to moderate.** Banking system loans grew +9.1%yoy in June'15 vs. +8.9%yoy in May'15. Business loan growth turned softer to +8.7%yoy as compared to +9.1%yoy in May'15. Meanwhile, loans to households continued to decline, registering a lower growth of +8.7%yoy in Jun'15 (May'15: +9.0%yoy). Growths in loans for purchase of securities and outstanding in credit cards continued to trend lower.

Similar to the previous month, working capital loans continued to pick up pace with a higher growth rate of +11.4%yoy while construction loans slipped further with a growth rate of +11.2%yoy.

Table 1: Loan breakdown by purpose (RM mil)

	Jun-14	May-15	Jun-15	% of total	%Mom	%Yoy
Purchase of securities	73,894	76,165	75,603	5.4%	-0.7%	+2.3%
Purchase of transport vehicles	164,802	167,847	168,234	12.1%	+0.2%	+2.1%
of which : purchase of passenger cars	154,953	158,231	158,672	11.4%	+0.3%	+2.4%
Purchase of residential property	367,574	410,429	414,568	29.9%	+1.0%	+12.8%
Purchase of non-residential property	164,397	187,478	189,938	13.7%	+1.3%	+15.5%
Purchase of fixed asset other than land & building	10,379	10,567	10,379	0.7%	-1.8%	-
Personal use	58,272	60,969	61,320	4.4%	+0.6%	+5.2%
Credit card	34,473	34,525	34,723	2.5%	+0.6%	+0.7%
Purchase of consumer durables	401	147	149	0.01%	+1.4%	-62.8%
Construction	35,762	39,829	39,754	2.9%	-0.2%	+11.2%
Working capital	294,791	322,888	328,437	23.7%	+1.7%	+11.4%
Other purpose	67,695	62,815	64,590	4.7%	+2.8%	-4.6%
Total	1,272,439	1,373,659	1,387,695	100.0%	+1.0%	+9.1%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Jun-14	May-15	Jun-15	% of total	%Mom	%Yoy
Primary agriculture	31,839	34,310	35,010	2.5%	+2.0%	+10.0%
Mining and quarrying	8,358	11,494	11,894	0.9%	+3.5%	+42.3%
Manufacturing (including agro based)	98,186	99,350	101,289	7.3%	+2.0%	+3.2%
Electricity, gas and water supply	13,420	10,603	10,672	0.8%	+0.7%	-20.5%
Wholesale, retail, restaurants & hotels	94,366	101,127	102,075	7.4%	+0.9%	+8.2%
Construction	52,263	58,923	58,193	4.2%	-1.2%	+11.3%
Real estate	76,257	88,645	89,007	6.4%	+0.4%	+16.7%
Transport, storage & communication	31,011	34,143	34,260	2.5%	+0.3%	+10.5%
Financing, insurance & business services	82,798	94,096	95,297	6.9%	+1.3%	+15.1%
Education, health & others	38,782	37,830	39,617	2.9%	+4.7%	+2.2%
Household sector	727,525	786,070	791,172	57.0%	+0.6%	+8.7%
Other sector	17,633	17,068	19,209	1.4%	+12.5%	+8.9%
Total	1,272,439	1,373,659	1,387,695	100.0%	+1.0%	+9.1%

Source: BNM

By business sectors and comparing to the previous month, loans to the finance, insurance and business services, manufacturing, primary agriculture and the wholesale, retail, restaurants & hotels sectors recorded higher growth rates while growth rates for loans to the construction and real estate sectors were slower.

- **Household loan growth continued to slip.** Mortgage loans were stable but loans for purchase of securities and credit cards were slower in pace. Compared to the preceding month, mortgage loan growth was stable with loans for purchase of residential property and for purchase of non-residential property registering growths of +12.8%yoy and +15.5%yoy respectively.

Momentum in loans for purchase of passenger cars remained slow with a growth rate of +2.4%yoy. Outstanding in credit cards recorded a flattish growth of +0.7%yoy post GST implementation while loans for purchase of securities continued to slip for the 3rd consecutive month to 2.3%. We believe that this is due to the volatile equity market which resulted in a cautious sentiment on retail investors. Growth in personal loans was stable at +5.2%yoy in Jun'15 vs. +5.1%yoy in May'15.

Table 3: Loan applications by purpose (RM mil)

	Jun-15	% of total	Mar-15 (%Yoy)	Apr-15 (%Yoy)	May-15 (%Yoy)	Jun-15 (%Yoy)
Purchase of securities	1,885	2.6%	-60.2%	-13.8%	-55.2%	-45.4%
Purchase of transport vehicles	7,941	10.9%	+9.6%	-16.2%	-14.8%	+0.6%
of which : purchase of passenger cars	7,651	10.5%	+7.0%	-14.3%	-14.7%	+1.6%
Purchase of residential property	19,073	26.3%	-3.4%	-5.3%	-15.9%	-7.8%
Purchase of non-residential property	8,429	11.6%	-9.5%	+7.7%	-22.0%	-3.9%
Purchase of fixed asset other than land & building	362	0.5%	-87.5%	+85.4%	+141.9%	+17.2%
Personal use	5,949	8.2%	+36.9%	+22.3%	+49.6%	+51.1%
Credit card	3,135	4.3%	+23.2%	+22.2%	+50.7%	+66.1%
Purchase of consumer durables	2	0.002%	+421.0%	+940.4%	+1012.2%	-19.7%
Construction	3,477	4.8%	-17.3%	+42.9%	+5.7%	-32.8%
Working capital	20,558	28.3%	+25.1%	+14.5%	+24.3%	+24.7%
Other purpose	1,719	2.4%	+34.8%	-48.2%	+8.1%	-22.8%
Total applied	72,531	100.0%	-4.0%	+0.7%	-2.9%	+2.4%

Source: BNM

- **Slight pick up in overall loan demand with a growth rate of +2.4%yoy.** Growth in industry loan applications improved slightly to +2.4%yoy vs. -2.9%yoy in the preceding month. This was contributed by improvements in the growth rates of loan applications to purchase residential and non-residential property, purchase of passenger cars, personal loans and credit cards. By sectors, the improvement was contributed by higher growth rates in loan applications from the household; real estate; transport, storage & communication and manufacturing sectors.

Growth in household's loan applications remained slow. Nevertheless, it improved to +0.2%yoy in Jun'15 vs. -9.9%yoy in the previous month. While loan demand for purchase of residential and non-residential property, purchase of passenger cars and purchase of securities stayed soft, demand for personal loans and credit cards rose.

Table 4: Loan approvals by purpose (RM mil)

	Jun-15	% of total	Mar-15 (%Yoy)	Apr-15 (%Yoy)	May-15 (%Yoy)	Jun-15 (%Yoy)
Purchase of securities	1,421	3.7%	-19.6%	-34.8%	-44.9%	-57.6%
Purchase of transport vehicles	4,425	11.5%	+14.6%	-16.5%	-2.0%	+14.2%
of which : purchase of passenger cars	4,243	11.0%	+9.1%	-15.9%	-1.6%	+16.3%
Purchase of residential property	10,025	26.0%	-7.6%	-5.0%	-21.3%	-7.9%
Purchase of non-residential property	3,396	8.8%	+9.5%	-9.3%	-22.2%	-32.4%
Purchase of fixed asset other than land & building	199	0.5%	+188.7%	+50.6%	+79.2%	-31.5%
Personal use	1,578	4.1%	+12.8%	+19.1%	-6.0%	+9.7%
Credit card	1,684	4.4%	-15.5%	-2.0%	+22.1%	+43.7%
Purchase of consumer durables	0.3	0.0%	-24.9%	+8.0%	+76.3%	-95.3%
Construction	1,347	3.5%	+112.1%	+186.3%	+13.6%	+93.6%
Working capital	11,569	30.0%	-15.3%	+21.1%	+65.8%	+126.5%
Other purpose	2,855	7.4%	+76.4%	-52.0%	+45.5%	+77.7%
Total approved	38,500	100.0%	+1.7%	-2.4%	+0.6%	+15.1%

Source: BNM

- Stronger loan approvals in Jun'15.** Overall industry loan approval growth improved to +15.1%yoy as compared to the preceding month which was flat at +0.6%yoy. Growth in approvals for household loans improved to +6.9%yoy vs. -17.8%yoy in May'15. Approval of loans to the finance, insurance and business activities, manufacturing, household, wholesale & retail trade, and restaurants & hotels sectors improved compared to the previous month. Weaker approvals were seen for loans to construction and real estate sectors. In terms of loans by purpose, the stronger loan approvals were mainly contributed by improved growth rates in approvals for purchase of residential property loans, personal loans, credit cards, loans for purchase of transport vehicles, construction and working capital loans (Refer Table 4).
- Growth in loan disbursements continued to outpace repayments.** In Jun'15, loan disbursement accelerated with a higher growth rate of +12.9%yoy. This outpaced the industry's loan repayments of a +12.8%yoy growth. Industry LD ratio continued to rise by 30bp mom to 88.0% and liquidity remains tight for the sector. We continue to expect strong competition for deposits in the industry ahead as banks continue to launch campaigns for deposit gathering.

Growth of deposits in the banking system decelerated to +7.7%yoy from +8.0%yoy in the preceding month. The stronger deposit growth was contributed by higher growth in business enterprises and individual deposits of +4.8%yoy and +7.1%yoy respectively. Industry CASA registered a higher growth of +6.5%yoy in Jun'15 vs. +5.5%yoy in May'15 which led to a higher CASA ratio for the industry of 25.8% (+60bp mom).

LENDING AND DEPOSIT RATES

- **With a lower ALR, interest spread continued to narrow.** The industry's average lending rate (ALR) slipped further by 4bp mom to 4.57% for commercial banks. BLR and Base Rate for commercial banks remain unchanged at 6.79% and 3.88% respectively.
- **Stable average deposits rate.** Interest spread (between the average lending rate and average deposit rate) narrowed to 1.38%. This was due to lower ALR while the average deposit rate remained stable. Competition for lending and deposit rates is expected to remain intense.

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)

	Jun-14	May-15	Jun-15	% of total	%Mom	%Yoy
Purchase of securities	274	217	376	1.7%	+73.3%	+37.2%
Purchase of transport vehicles	2,097	1,903	1,787	8.0%	-6.1%	-14.8%
of which : purchase of passenger cars	1,940	1,770	1,662	7.4%	-6.1%	-14.3%
Purchase of residential property	5,206	4,991	5,056	22.5%	+1.3%	-2.9%
Purchase of non-residential property	1,149	1,549	1,625	7.2%	+4.9%	+41.4%
Purchase of fixed asset other than land & building	233	170	162	0.7%	-4.7%	-30.5%
Personal use	988	1,061	1,001	4.5%	-5.7%	+1.3%
Credit card	418	448	448	2.0%	-	+7.2%
Purchase of consumer durables	4	2	2	0.01%	-	-50.0%
Construction	1,790	2,371	2,434	10.8%	+2.7%	+36.0%
Working capital	9,184	7,745	8,183	36.4%	+5.7%	-10.9%
Other purpose	1,195	1,430	1,402	6.2%	-2.0%	+17.3%
Total	22,539	21,887	22,475	100.0%	+2.7%	-0.3%

Source: BNM

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

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
Purchase of securities	0.3%	0.4%	0.3%	0.5%	0.6%	0.3%	0.3%	0.5%
Purchase of transport vehicles	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%
of which : purchase of passenger cars	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.0%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.8%	0.8%	0.9%	0.9%	0.8%	0.8%	0.8%	0.9%
Purchase of fixed asset other than land & building	1.7%	1.7%	1.7%	1.7%	1.2%	1.8%	1.6%	1.6%
Personal use	1.7%	1.7%	1.8%	1.8%	2.0%	1.6%	1.7%	1.6%
Credit card	1.2%	1.2%	1.1%	1.3%	1.2%	1.3%	1.3%	1.3%
Purchase of consumer durables	1.1%	1.2%	1.3%	1.5%	1.7%	1.5%	1.6%	1.4%
Construction	7.2%	7.1%	5.6%	5.6%	5.7%	5.7%	6.0%	6.1%
Working capital	2.7%	2.5%	2.7%	2.6%	2.6%	2.4%	2.4%	2.5%
Other purpose	1.7%	1.7%	1.7%	1.9%	1.8%	2.1%	2.3%	2.2%
Total	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%


Source: BNM

On absolute value basis, impaired loans continued to trend higher for the 2nd consecutive month with an increase of RM588m or +2.7% mom from May'15. GIL ratios for most loan segments remained stable (see Table 6). With upticks in impaired loans, the sector's loan loss coverage ratio slipped below 100% to 97.5%.

CAPITALISATION

- **No change in capital position.** The sector's CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) remained at 12.3%, 13.1% and 15.1% respectively in Jun'15.

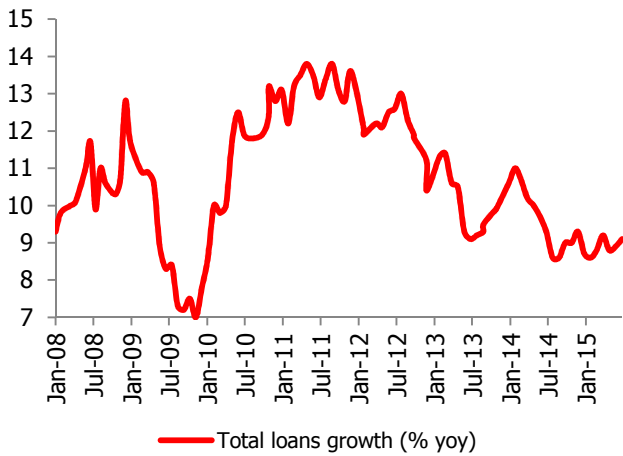
CALL ON SECTOR & STOCK PICKS

- Overall asset quality remained stable despite of slight increase in impaired loans on absolute basis for the 2nd consecutive month.** We continue to expect overall asset quality for the banking system to remain stable on the back of a GDP growth of 4.7% for CY15 and stable unemployment rate. However, the remains external headwinds which may impact net export growth in 2HCY15 hence affecting business loan growth. We expect business loan growth to remain soft in 2HCY15 and capital market activities to the flat for the remainder of CY15 with the market continuing to be volatile. Also, we maintain our expectation for BNM to maintain OPR at 3.25% throughout CY15. We do not expect a cut in the benchmark interest rate in view of the weaker Ringgit as well as on grounds that the interest rate remains accommodative while GDP growth is still expected to be decent at 4.7% for CY15 considering the economic challenges.
- New issues of private debt securities (PDS) and net funds raised by the private sector in the capital market declined in Jun'15.** Net funds raised from the capital market for the private sector drop significantly to RM0.7b in Jun'15 vs. RM6.8b in the preceding month. For 1HCY15, growth in net funds raised in the capital market by the private sector declined -29.6%yoy. In Jun'15 New PDS issuances drop by -38.7%yoy.
- Percentage of MGS holdings by foreign investors rose to 48.5% in Jun'15.** Based on our tracking, the percentage of MGS holdings by foreign investors rose to 48.5% in Jun'15 vs. 46.9% in May'15.
- Maintain NEUTRAL on the sector.** Our stocks picks remain unchanged with BUY calls on Hong Leong Bank (TP: RM15.60), Maybank (TP: RM10.30) and RHB Cap (RM8.90). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.80), AHB (TP: 2.95), AMMB (TP: RM6.20), AFG (TP: RM4.70), CIMB (TP: RM6.10) and BIMB (TP: RM3.96). 

	Rec.	Price @ 3/8	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PB V	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	5.66	6.20	54.4	56.0	10.4	10.1	27.3	23.0	4.8	4.1	4.8	5.1	1.2	1.1
Maybank	BUY	9.18	10.30	75.0	82.0	12.2	11.2	45.0	49.0	4.9	5.3	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	19.06	19.80	121.0	131.0	15.8	14.5	56.0	60.0	2.9	3.1	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.47	8.90	82.0	95.0	9.1	7.9	10.0	12.0	1.3	1.6	8.1	9.0	0.9	0.8
Hong Leong	BUY	13.58	15.60	115.0	122.0	11.8	11.1	38.0	40.0	2.8	2.9	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	5.32	6.10	44.0	50.0	12.1	10.6	18.0	20.0	3.4	3.8	4.7	5.0	1.1	1.1
AFG	NEUTRAL	4.23	4.70	34.7	36.0	12.2	11.8	15.4	16.0	3.6	3.8	2.9	3.2	1.5	1.3
BIMB	NEUTRAL	4.17	3.96	37.5	40.2	11.1	10.4	15.0	16.1	3.6	3.9	2.2	2.4	1.9	1.7
Affin	NEUTRAL	2.55	2.95	25.0	33.0	10.2	7.7	12.0	16.0	4.7	6.3	4.2	4.3	0.6	0.6
Average				65.4	71.7	11.7	10.6	26.3	28.0	3.6	3.9	5.5	6.0	1.4	1.3

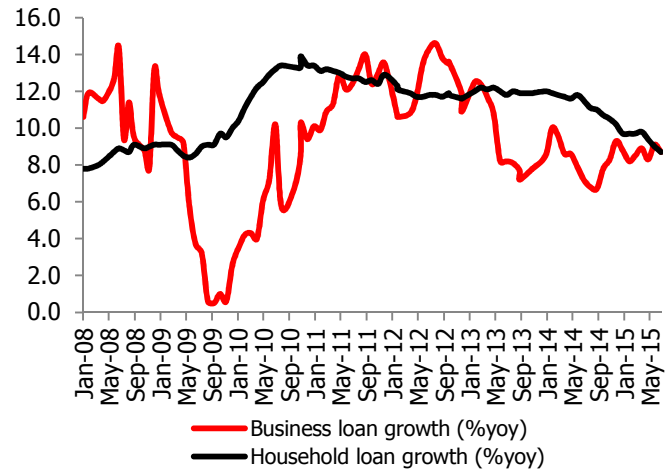
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Chart 1: Total Loan Growth Rate



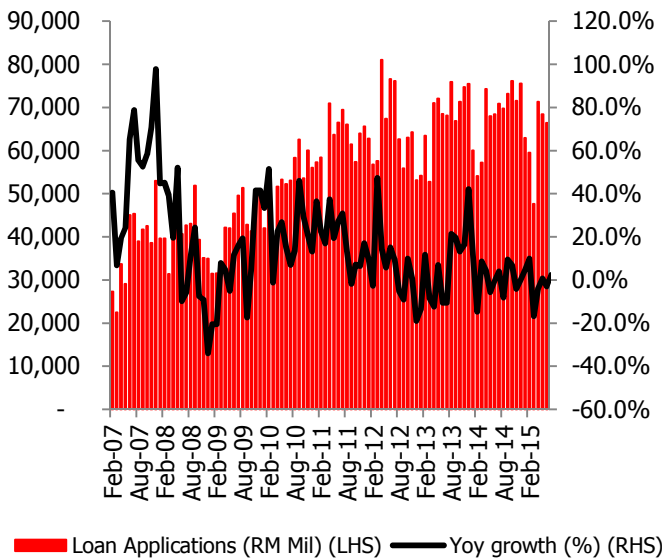
Source: BNM

Chart 2: Business and Household Loan Growth Rate



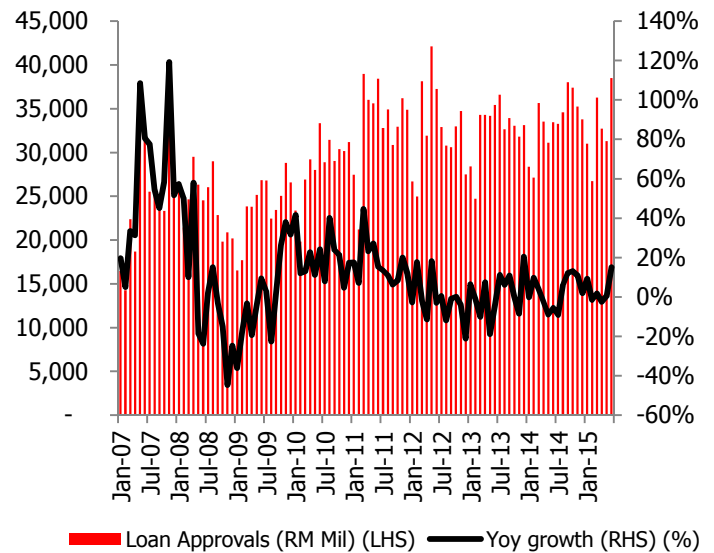
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

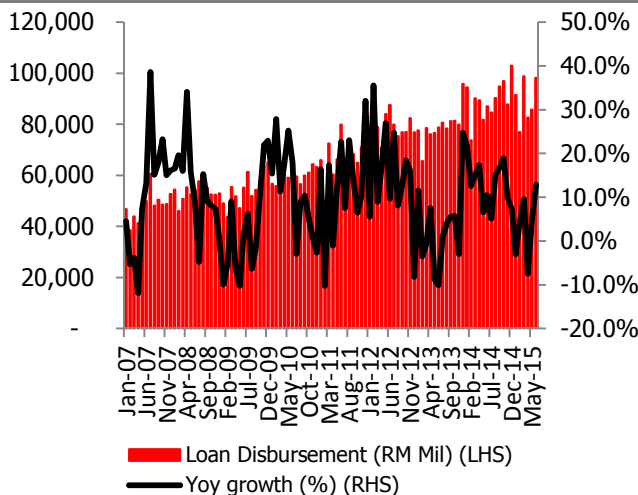


Chart 6: Interest Spread

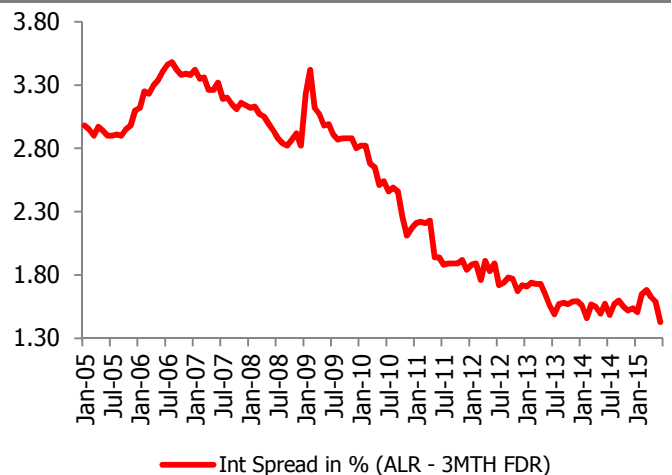
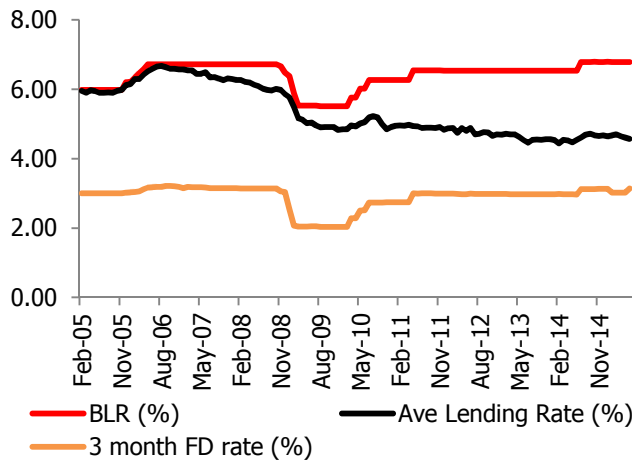
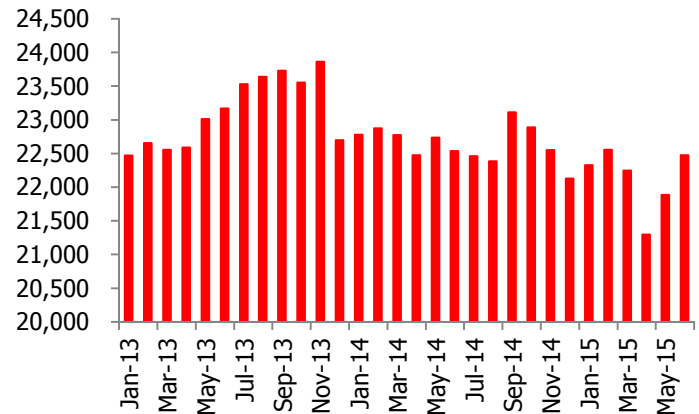


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



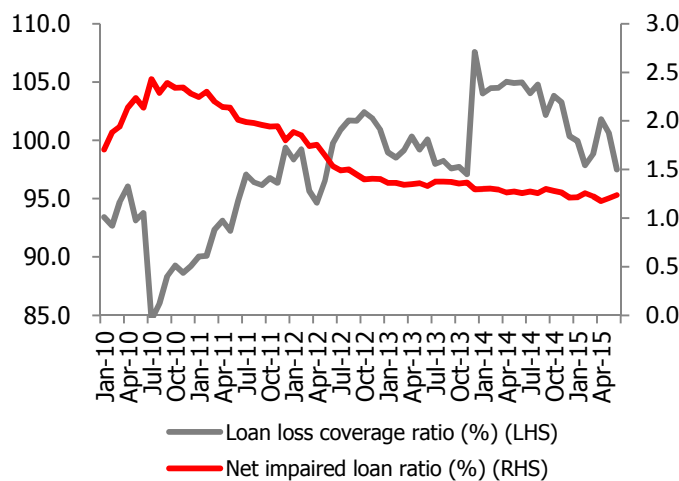
Source: BNM

Chart 8: Total Impaired Loans



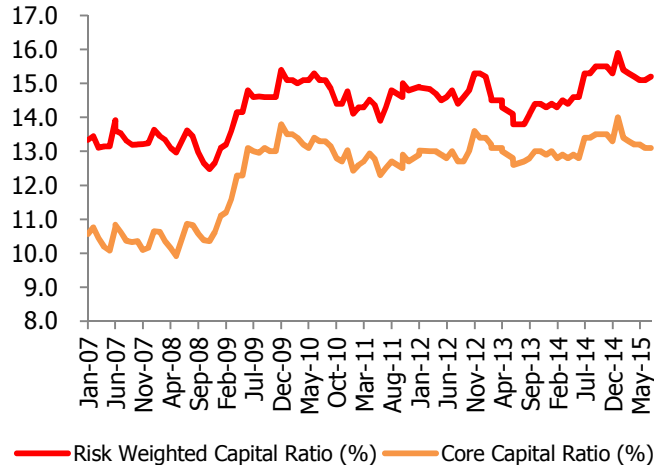
Source: BNM

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

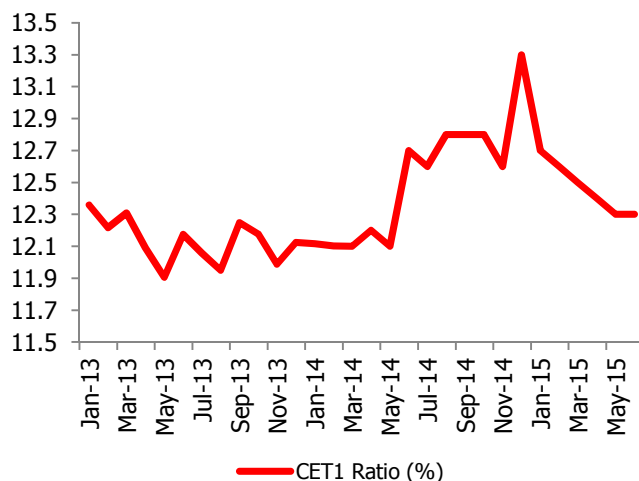
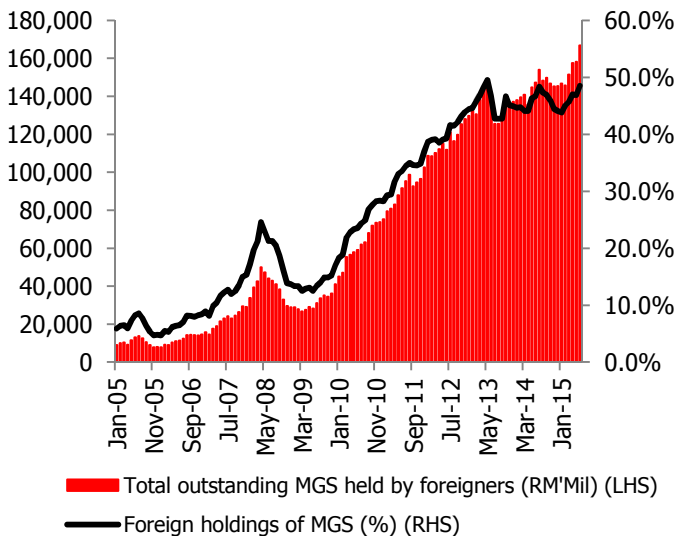


Chart 12: MGS Holdings by Foreigners



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
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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.