

04 Aug 2014 | Sector update

BANKING - JUNE 2014 BNM STATISTICS

Maintain NEUTRAL

Tighter liquidity to continue exert pressure on funding cost

LOAN INDICATORS

- **Banking industry loan growth decelerated to 9.3%yoy.** Loan growth in the banking system in Jun'14 decelerated further to 9.3%yoy, a decline of 40bp from the previous month. The slowdown has been contributed by the stronger growth in loan repayments which continued to outpace loan disbursements. Business loan growth continued to decline due to strong loan repayments by a few business sectors. On the positives, loan demand has been improving with higher loan applications from the business sectors. Also, growth in loan approvals have improved compared to the preceding month.
- **Both business and household loan growth decelerated in Jun'14.** Business loan growth slips to 7.2%yoy from 7.9%yoy in May'14. Growth in working capital loans was slower at 6.7%yoy as compared to 7.2%yoy in the preceding month.

Table 1: Loan breakdown by purpose (RM mil)

	Jun-13	May-14	Jun-14	% of total	%Mom	%Yoy
Purchase of securities	63,252	72,917	73,894	5.8%	+1.3%	+16.8%
Purchase of transport vehicles	158,946	164,700	164,906	13.0%	+0.1%	+3.7%
of which : purchase of passenger cars	148,680	153,717	155,051	12.2%	+0.9%	+4.3%
Purchase of residential property	322,720	362,937	366,655	28.8%	+1.0%	+13.6%
Purchase of non-residential property	143,099	163,710	165,315	13.0%	+1.0%	+15.5%
Purchase of fixed asset other than land & building	9,354	10,376	10,379	0.8%	+0.03%	+11.0%
Personal use	56,003	57,997	58,272	4.6%	+0.5%	+4.1%
Credit card	32,862	34,018	34,473	2.7%	+1.3%	+4.9%
Purchase of consumer durables	102	359	401	0.03%	+11.7%	+293.1%
Construction	30,980	34,628	35,762	2.8%	+3.3%	+15.4%
Working capital	276,068	290,556	294,641	23.2%	1.4%	+6.7%
Other purpose	70,760	68,904	67,845	5.3%	-1.5%	-4.1%
Total	1,164,146	1,261,101	1,272,544	100.0%	+0.9%	+9.3%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Jun-13	May-14	Jun-14	% of total	%Mom	%Yoy
Primary agriculture	31,740	31,973	31,840	2.5%	-0.4%	+0.3%
Mining and quarrying	7,697	7,759	8,358	0.7%	+7.7%	+8.6%
Manufacturing (including agro based)	97,254	97,399	98,186	7.7%	+0.8%	+1.0%
Electricity, gas and water supply	10,081	11,868	13,420	1.1%	+13.1%	+33.1%
Wholesale, retail, restaurants & hotels	88,688	93,629	94,367	7.4%	+0.8%	+6.4%
Construction	47,006	51,771	52,264	4.1%	+1.0%	+11.2%
Real estate	64,768	74,973	76,257	6.0%	+1.7%	+17.7%
Transport, storage & communication	27,699	30,020	31,012	2.4%	+3.3%	+12.0%
Financing, insurance & business services	77,366	83,914	82,800	6.5%	-1.3%	+7.0%
Education, health & others	45,184	38,744	38,782	3.0%	+0.1%	-14.2%
Household sector	652,290	719,941	727,619	57.2%	+1.1%	+11.5%
Other sector	14,374	19,109	17,638	1.4%	-7.7%	+22.7%
Total	1,164,146	1,261,101	1,272,544	100.0%	+0.9%	+9.3%

Source: BNM

Meanwhile, growth in household loans was also slower in pace at 11.5%yoy in Jun'14, down 30bp from May'14.

- **Growth in loans for purchase of residential property continued to be stable.** Growth in loans for residential property purchase was stable at 13.6%yoy while growth in loans for purchase of non residential property decelerated to 15.5%yoy, a drop of 80bp from the preceding month. Elsewhere, growth in loans for purchase of securities was steady at 16.8%yoy. Loans for purchase of passenger cars and credit card lending slowed down in momentum compared to the previous month. Meanwhile, growth in personal loans gained traction in Jun'14 rising to 4.1%yoy.

Table 3: Loan applications by purpose (RM mil)

	Jun-14	% of total	Mar-14 (%Yoy)	Apr-14 (%Yoy)	May-14 (%Yoy)	Jun-14 (%Yoy)
Purchase of securities	3,455	4.9%	+133.8%	-3.1%	+49.9%	+47.5%
Purchase of transport vehicles	7,911	11.1%	-1.4%	+1.5%	-1.3%	-10.8%
of which : purchase of passenger cars	7,546	10.6%	-1.5%	+0.9%	-0.7%	-10.8%
Purchase of residential property	20,919	29.4%	-10.0%	-8.5%	+9.7%	+1.4%
Purchase of non-residential property	8,779	12.3%	-12.8%	-14.9%	-17.1%	-17.8%
Purchase of fixed asset other than land & building	309	0.4%	808.3%	-26.5%	-42.4%	-81.6%
Personal use	3,937	5.5%	8.3%	+15.5%	+16.7%	+7.8%
Credit card	1,888	2.7%	-13.6%	-3.3%	-16.1%	-6.2%
Purchase of consumer durables	2	0.003%	-29.7%	-86.4%	-59.6%	-37.4%
Construction	5,174	7.3%	23.6%	-29.1%	-3.8%	+83.0%
Working capital	16,498	23.2%	-0.1%	+17.2%	+9.5%	+48.7%
Other purpose	2,228	3.1%	-37.4%	-27.1%	-49.3%	-49.1%
Total applied	71,101	100.0%	+4.6%	-5.6%	-0.1%	+4.3%

Source: BNM

- Industry loan applications picked up momentum in Jun'14.** Industry loan applications continued to show improvement leading to a growth of 4.3%yoy in Jun'14, which is a healthy sign for loan demand. The improvement in loan demand has been contributed by higher loan applications from the business sectors. By sectors, we observed improvements in loan demand from: i) Finance, Insurance and Business activities, ii) Wholesale & Retail Trade, and Restaurants & Hotels, iii) Construction, iv) Electricity, Gas and Water supply and v) Primary Agriculture sectors.

Household loan applications were softer with a growth of -2.3%yoy as compared to 3.0%yoy in May'14. Contributing to this decline was lower growth in loan applications for: i) mortgage loans, ii) loans for purchase of passenger vehicles and iii) personal loans.

Table 4: Loan approvals by purpose (RM mil)

	Jun-14	% of total	Mar-14 (%Yoy)	Apr-14 (%Yoy)	May-14 (%Yoy)	Jun-14 (%Yoy)
Purchase of securities	3,349	10.0%	-7.4%	+40.4%	+41.5%	+92.2%
Purchase of transport vehicles	3,883	11.6%	+11.9%	+19.9%	+3.1%	-6.8%
of which : purchase of passenger cars	3,658	10.9%	+12.4%	+21.9%	+5.4%	-7.0%
Purchase of residential property	10,888	32.5%	+1.8%	-5.2%	+7.6%	+7.2%
Purchase of non-residential property	5,029	15.0%	+8.1%	-8.8%	-25.3%	+2.6%
Purchase of fixed asset other than land & building	290	0.9%	-10.7%	-35.1%	-33.4%	-80.6%
Personal use	1,439	4.3%	-20.7%	-22.9%	-3.3%	-6.8%
Credit card	1,172	3.5%	+15.2%	+7.3%	-1.6%	-10.4%
Purchase of consumer durables	6	0.02%	-4.0%	-68.2%	-71.6%	-63.2%
Construction	696	2.1%	-35.1%	-13.3%	-38.9%	-50.7%
Working capital	5,108	15.3%	+33.7%	-18.2%	-34.0%	-22.1%
Other purpose	1,607	4.8%	-48.9%	+17.4%	-4.4%	-24.8%
Total approved	33,468	100.0%	+4.0%	-2.3%	-8.9%	-5.5%

Source: BNM

- **Momentum for loan approvals improved in Jun'14.** Growth of loan approvals in Jun'14 improved to -5.5%yoy as compared to -8.9%yoy in May'14. For household loans, both the growths in approvals for loans to purchase of securities continued and for purchase of non-residential properties improved. Overall growth in household loan approvals softened to 3.4%yoy from 5.0%yoy in the previous month.

Growth in approval for loans applied for working capital purposes improved to -22.1%yoy from -34.0%yoy in the previous month (Refer Table 4).

- **Growth in loan disbursements stronger than May'14.** Growth in loan disbursements rose to 10.5%yoy, higher by 390bp from the previous month. Nevertheless, it was still lower relative to disbursements. Growth in loan repayments of 16.7%yoy outpaced that of loan disbursements. The stronger growth in loan repayment was observed to be contributed by: i) Mining and Quarrying, ii) Wholesale & Retail Trade, and Restaurants & Hotels, Construction, iii) Transport, Storage and Communication and iv) Finance, Insurance and Business activities sectors.
- **Industry liquidity tightened slightly with LD ratio rising to 85.8%, an increase of 40bp from the previous month.** Deposits in the banking system grew 6.5%yoy compared to 6.0%yoy in May'14.

LENDING AND DEPOSIT RATES

- **ALR rose 10bp mom to 4.57%.** The industry's average lending rate (ALR) rose by 10bp mom to 4.57% in Jun'14 while BLR remained at 6.53%. On 10th July, BNM raised the OPR by 25bp to 3.25%. This will result in a rise in ALR in July'14 as lending rates of banks get adjusted by similar quantum.
- **Interest spread improved with a higher ALR.** Interest spread (between the average lending rate and 3 month FD rate) rose to 1.60%, up 10bp from the previous month. Average FD rate (for tenures of up to 12 months) remained at 3.02% but is expected to trend higher moving ahead with the repricing of FD rates upwards from the rise in OPR by 25bp. Interest spread is likely to widen in July'14. This is due to the adjustment in lending rates but the spread will eventually get narrower on a gradual basis, offset by the repricing of FD rates to higher rates (lag impact from adjustment of deposit rates).

ASSET QUALITY

- **Absolute impaired loans for the industry decreased by 0.5%mom.** Gross Impaired Loan (GIL) ratio for the sector remained at 1.8% while net impaired loan ratio was unchanged at 1.3%. GIL ratios of loans for most types of lending by purpose continue to remain stable. Meanwhile, LLC of the industry in Jun'14 continues to be healthy at 104.4%.

Table 5: Impaired Loans by purpose (RM mil)

	Jun-13	May-14	Jun-14	% of total	%Mom	%Yoy
Purchase of securities	421	215	273	1.2%	+27.0%	-35.2%
Purchase of transport vehicles	1,879	2,237	2,184	9.7%	-2.4%	+16.2%
of which : purchase of passenger cars	1,649	1,966	2,033	9.0%	+3.4%	+23.3%
Purchase of residential property	5,501	5,107	5,207	23.0%	+2.0%	-5.3%
Purchase of non-residential property	1,266	1,096	1,141	5.0%	+4.1%	-9.9%
Purchase of fixed asset other than land & building	191	246	235	1.0%	-4.5%	23.0%
Personal use	1,006	984	990	4.4%	+0.6%	-1.6%
Credit card	421	416	417	1.8%	+0.2%	-1.0%
Purchase of consumer durables	3	4	4	0.02%	-	+33.3%
Construction	1,769	1,984	1,790	7.9%	-9.8%	+1.2%
Working capital	9,526	9,183	9,177	40.6%	-0.1%	-3.7%
Other purpose	1,145	1,267	1,202	5.3%	-5.1%	+5.0%
Total	23,128	22,738	22,621	100.0%	-0.5%	-2.2%

Source: BNM

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

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Purchase of securities	0.5%	0.5%	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
Purchase of transport vehicles	1.2%	1.2%	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	1.3%
of which : purchase of passenger cars	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of residential property	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%
Purchase of non-residential property	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Purchase of fixed asset other than land & building	2.3%	2.8%	2.7%	2.5%	2.4%	2.3%	2.5%	2.5%	2.4%	2.3%
Personal use	1.7%	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%
Credit card	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
Purchase of consumer durables	1.7%	1.6%	9.4%	1.2%	0.9%	1.1%	1.0%	0.8%	1.1%	1.1%
Construction	5.3%	5.1%	5.3%	5.0%	5.0%	4.8%	5.2%	5.1%	5.7%	5.0%
Working capital	3.7%	3.6%	3.6%	3.2%	3.1%	3.1%	3.2%	3.2%	3.2%	3.1%
Other purpose	1.7%	1.7%	1.8%	1.9%	2.1%	2.1%	2.2%	1.8%	1.8%	1.8%
Total	2.0%	2.0%	2.0%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%


Source: BNM

CAPITALISATION

- **Capital position strengthened.** The sector's capital position strengthen with a higher CET1 ratio, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) of 12.2% (+10bp mom), 13.0% (+20bp mom) and 14.8% (+20bp mom) respectively in Jun'14.

CALL ON SECTOR & STOCK PICKS

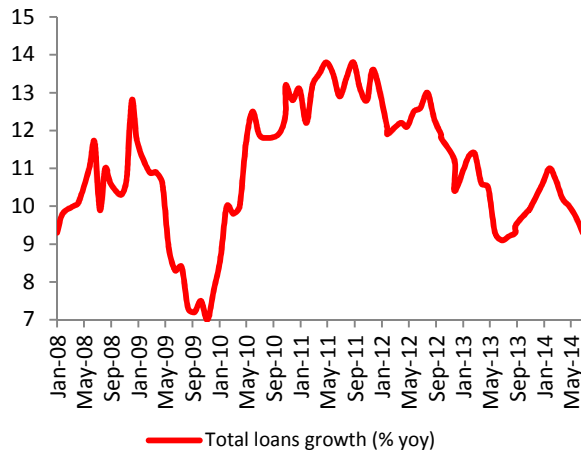
- **Loan growth moderated in Jun'14 but loan demand and approvals gaining momentum.** Overall system loan growth moderated as growth in loan repayments was higher relative to disbursements. On the positives, the leading indicator (loan applications) has gained momentum with stronger growth in loan applications from the business sectors. Growth in loan approvals has also improved. Despite of a healthy loan demand, system loan growth decelerated in the previous months due to stronger loan repayments from the business sectors.

- **Lowering our loan growth expectation slightly to 9-10% for CY14.** In view of the slow loan momentum in 1HCY14, we are lowering our loan growth expectation for the sector to 9-10% for CY14 (previously 10-11%).
- **Liquidity tightening with higher LDR of 85.8%.** The sector's liquidity has turned tighter with a rise in LD ratio. This is expected to result in stiffer competition for deposits, hence a higher COF for banks. Pressure from the asset and liabilities side will continue to result in NIM pressure for banks.
- **Non interest income (NOII) growth likely to remain challenging for banks in CY14.** We continue to see challenges in the growth of banks NOII this year. This is due to lower volatility which is expected to impact banks' forex profits and fixed income trading income. Meanwhile, equity brokerage business is expected to be tough particularly for banks with regional brokerage business. Also, equity capital market is likely to remain soft for the rest of CY14 with the lack of mega IPOs.
- **Average ROE for banks to trend lower moving into CY15.** This is due to the higher equity base of some banks, such as Public Bank and CIMB, which have carried out right issue exercise and private placement of new shares respectively to raise equity capital. This will result in lower ROE for the sector on average.
- **Maintain NEUTRAL.** There are no changes to our stock picks. Our top pick is RHB Cap (RM10.50). This is followed by BUY calls on Hong Leong Bank (TP: RM16.50) and Maybank (TP: RM11.00). We have NEUTRAL calls on AFG (TP: RM4.70), Public Bank (RM19.60), CIMB (TP: RM7.80), AMMB (TP: RM8.00) and Affin (TP: RM3.80). 

	Rec.	Price @ 1/8	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	6.96	8.00	59.3	64.0	11.7	10.9	24.1	25.0	3.5	3.6	4.4	4.8	1.6	1.5
Maybank	BUY	9.87	11.00	77.0	84.0	12.8	11.8	46.0	50.0	4.7	5.1	5.6	6.1	1.8	1.6
Public Bank	NEUTRAL	19.74	19.60	108.0	117.0	18.3	16.9	49.0	53.0	2.5	2.7	7.1	7.7	2.8	2.6
RHB Capital	BUY	9.04	10.50	83.0	91.0	10.9	9.9	25.0	27.0	2.8	3.0	7.0	7.6	1.3	1.2
Hong Leong	BUY	14.00	16.50	108.0	117.0	13.0	12.0	36.0	39.0	2.6	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	6.97	7.90	55.0	61.0	12.7	11.4	22.0	25.0	3.2	3.6	4.5	4.9	1.6	1.4
AFG	NEUTRAL	4.88	4.70	37.2	39.0	13.1	12.5	29.5	23.0	6.0	4.7	2.8	3.0	1.7	1.7
Affin	NEUTRAL	3.52	3.80	32.0	37.0	11.0	9.5	16.0	19.0	4.5	5.4	3.5	3.7	1.0	0.9

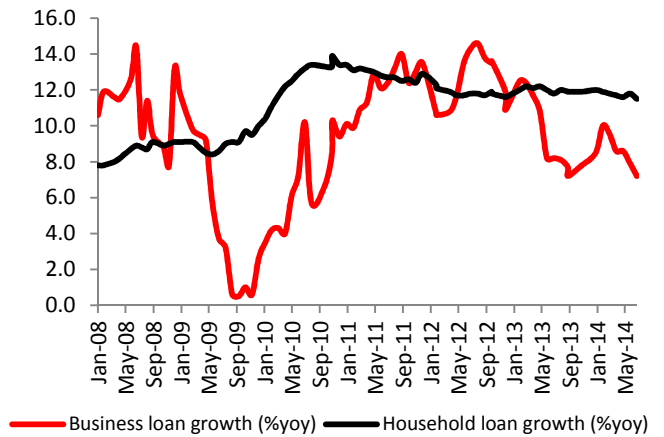
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Chart 1: Total Loan Growth Rate



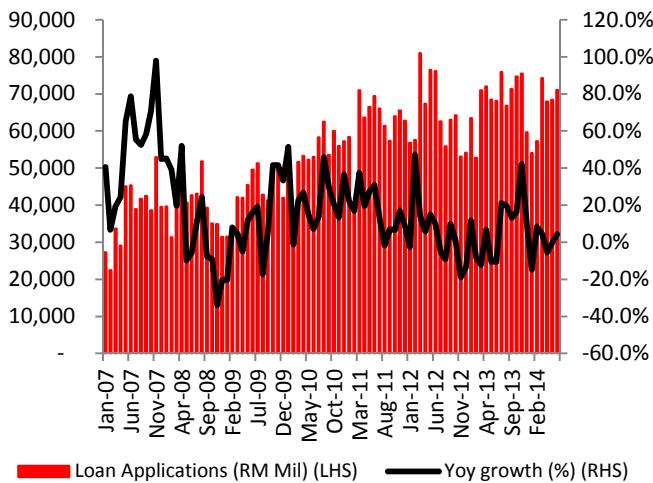
Source: BNM

Chart 2: Business and Household Loan Growth Rate



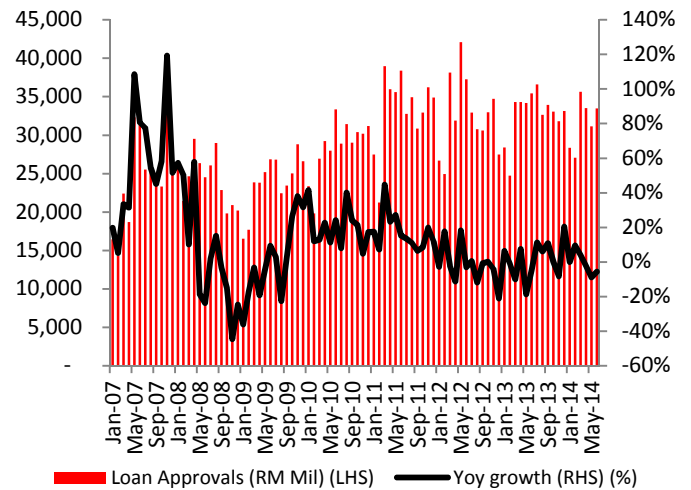
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

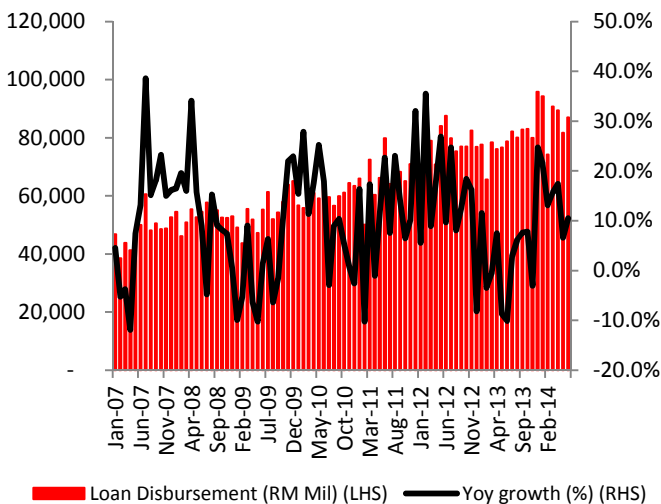


Chart 6: Interest Spread

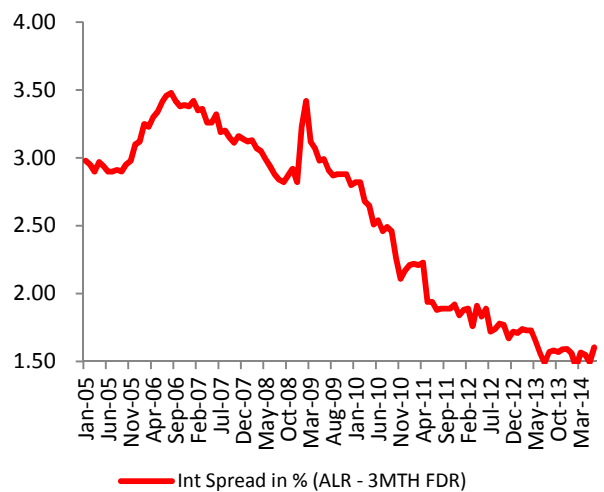
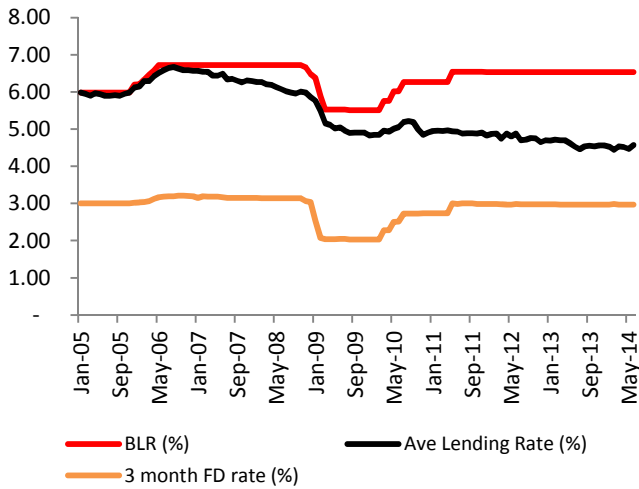
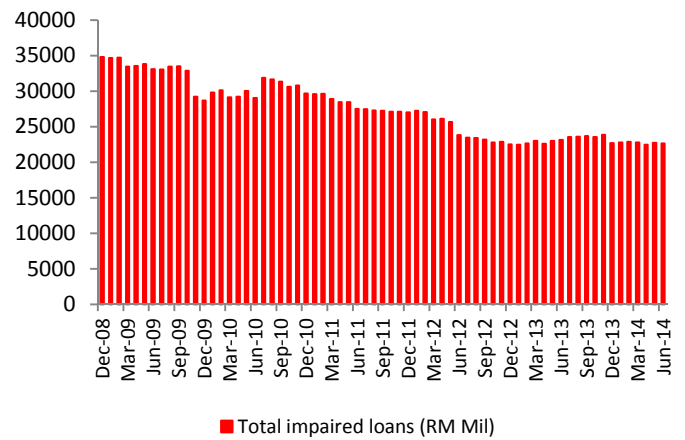


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



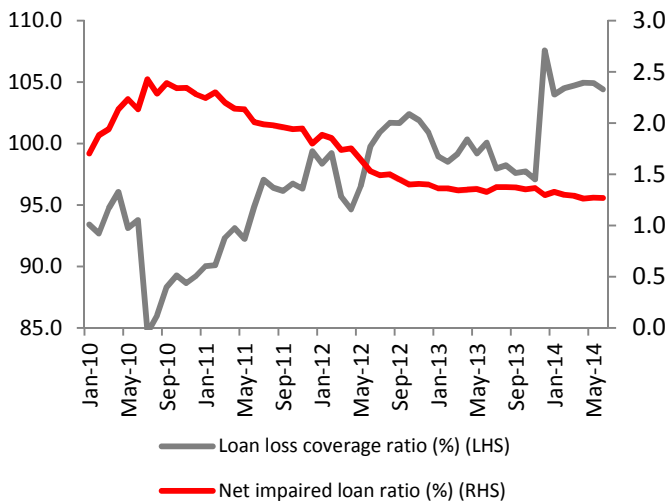
Source: BNM

Chart 8: Total Impaired Loans



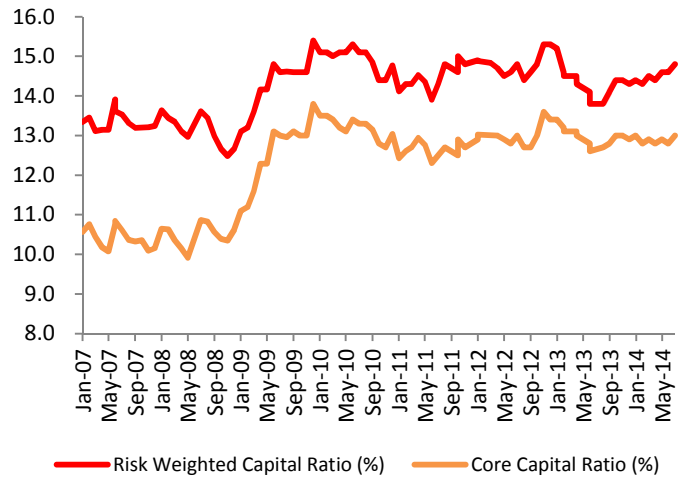
Source: BNM

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

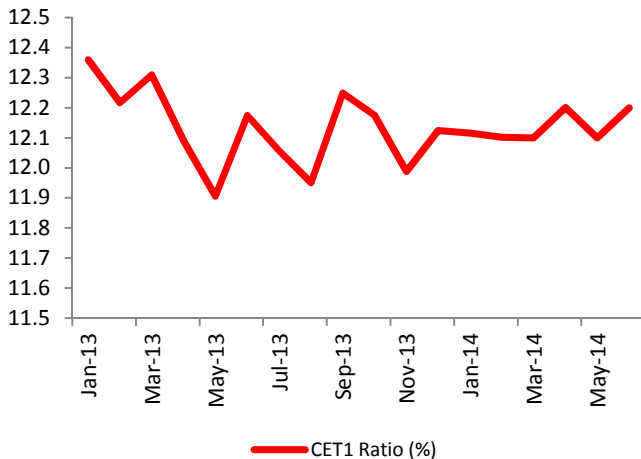
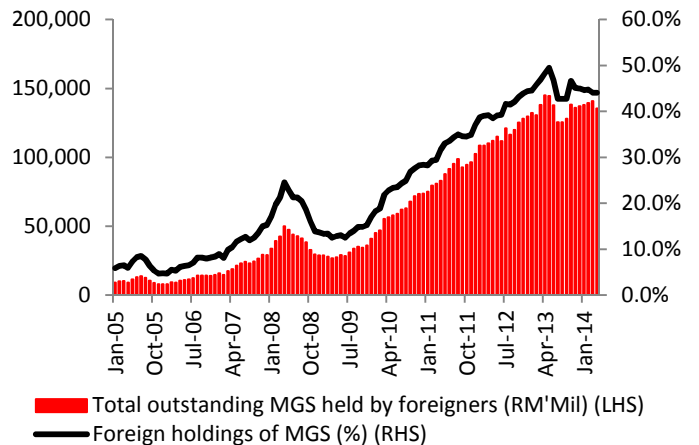


Chart 12: MGS Holdings by Foreigners



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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.