

06 May 2015 | Sector Update

BANKING – MARCH 2015 BNM STATISTICS *Maintain NEUTRAL*

Business loan growth continues to gain traction

LOAN INDICATORS

- **Banking system loan growth continued its uptrend momentum to 9.2%yoy in Mar'15 (Feb'15: 8.8%yoy) with business loan growth trending higher while household loan growth picked up pace slightly.** Business loan growth continued to rise for the 2nd consecutive month to 8.9%yoy in Mar'15 as compared to 8.5%yoy in the preceding month. Meanwhile, household loan growth was slightly higher at 9.8%yoy vs. 9.7%yoy in the previous month.
- Working capital loans continued to be seen rising with a growth of 10.8%yoy.

Table 1: Loan breakdown by purpose (RM mil)

	Mar-14	Feb-15	Mar-15	% of total	%Mom	%Yoy
Purchase of securities	72,103	77,125	77,311	5.7%	+0.2%	+7.2%
Purchase of transport vehicles	163,899	166,963	167,743	12.3%	+0.5%	+2.3%
of which : purchase of passenger cars	153,561	157,592	158,240	11.6%	+0.4%	+3.0%
Purchase of residential property	356,200	398,355	402,889	29.6%	+1.1%	+13.1%
Purchase of non-residential property	159,082	180,199	184,939	13.6%	+2.6%	+16.3%
Purchase of fixed asset other than land & building	9,921	10,637	10,719	0.8%	+0.8%	+8.0%
Personal use	58,050	60,072	59,770	4.4%	-0.5%	+3.0%
Credit card	33,910	35,501	35,588	2.6%	+0.2%	+4.9%
Purchase of consumer durables	301	697	730	0.05%	+4.7%	+142.5%
Construction	35,019	40,516	39,445	2.9%	-2.6%	+12.6%
Working capital	289,704	317,581	320,898	23.6%	+1.0%	+10.8%
Other purpose	68,471	61,973	61,876	4.5%	-0.2%	-9.6%
Total	1,246,659	1,349,619	1,361,908	100.0%	+0.9%	+9.2%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Mar-14	Feb-15	Mar-15	% of total	%Mom	%Yoy
Primary agriculture	32,182	32,016	32,586	2.4%	+1.8%	+1.3%
Mining and quarrying	8,306	10,961	11,447	0.8%	+4.4%	+37.8%
Manufacturing (including agro based)	96,608	99,952	99,769	7.3%	-0.2%	+3.3%
Electricity, gas and water supply	14,066	10,849	10,819	0.8%	-0.3%	-23.1%
Wholesale, retail, restaurants & hotels	91,089	98,461	99,647	7.3%	+1.2%	+9.4%
Construction	51,895	57,937	58,450	4.3%	+0.9%	+12.6%
Real estate	73,328	87,046	88,565	6.5%	+1.7%	+20.8%
Transport, storage & communication	29,717	33,649	34,009	2.5%	+1.1%	+14.4%
Financing, insurance & business services	85,096	93,306	92,512	6.8%	-0.9%	+8.7%
Education, health & others	39,021	38,082	38,991	2.9%	+2.4%	-0.1%
Household sector	708,986	771,806	778,272	57.1%	+0.8%	+9.8%
Other sector	16,366	15,552	16,840	1.2%	+8.3%	+2.9%
Total	1,246,659	1,349,619	1,361,908	100.0%	+0.9%	+9.2%

Source: BNM

By sectors, as compared to Mar'14, higher quantum of loans have been extended to the manufacturing, wholesale and retail trade, restaurants and hotels sectors, construction and real estate sectors in Mar'15.

- **Household loan growth continues to be stable.** Compared to the preceding month, growth in loans for purchase of residential property remained stable at 13.1%yoy while growth in loans for purchase of non-residential property accelerated to 16.3%yoy as compared to a growth of 14.6%yoy in the preceding month. Loans for purchase of securities turned around and registered an improved growth of 7.20%yoy after 6 consecutive months of decline.

Outstanding loans for purchase of passenger cars rose with a higher growth rate of 3.0%yoy. Meanwhile, personal loan growth remained subdued at 3.0%yoy while outstanding in credit cards grew at a faster pace of 5.0%yoy which is likely due to pre-GST spending by households.

Table 3: Loan applications by purpose (RM mil)

	Mar-15	% of total	Dec-14 (%Yoy)	Jan-15 (%Yoy)	Feb-15 (%Yoy)	Mar-15 (%Yoy)
Purchase of securities	2,897	4.1%	-4.1%	-2.2%	+21.7%	-60.2%
Purchase of transport vehicles	8,905	12.5%	-2.3%	+2.4%	-15.1%	+9.6%
of which : purchase of passenger cars	8,278	11.6%	-2.3%	+2.2%	-13.8%	+7.0%
Purchase of residential property	18,173	25.5%	-3.8%	+9.0%	-15.4%	-3.4%
Purchase of non-residential property	8,073	11.3%	-1.9%	+15.2%	-6.6%	-9.5%
Purchase of fixed asset other than land & building	482	0.7%	+67.5%	-18.1%	+121.6%	-87.5%
Personal use	4,776	6.7%	+41.0%	+52.3%	+13.4%	+36.9%
Credit card	2,211	3.1%	+8.4%	+18.1%	+44.3%	+23.2%
Purchase of consumer durables	11	0.02%	+2272.7%	+2007.0%	+2751.5%	+421.0%
Construction	3,967	5.6%	+28.5%	-9.7%	-39.5%	-17.3%
Working capital	18,029	25.3%	+2.1%	+6.1%	-37.1%	+25.1%
Other purpose	3,812	5.3%	+36.8%	+63.6%	-36.6%	+34.8%
Total applied	71,335	100.0%	+4.8%	+10.0%	-16.7%	-4.0%

Source: BNM

- Improvement in industry loan applications in Mar'15 but still in negative growth rate.** Growth in industry loan applications improved to -4.0%yoy vs. -16.7%yoy in the preceding month led by a strong improvement in working capital and key household loan (HP, and residential property purchase loan) applications. By sectors, the improvement was contributed by stronger loan demand from the manufacturing; wholesale & retail trade, and restaurants & hotels; transport; construction; real estate; mining and quarrying and household sectors.

Growth in household's loan applications picked up pace to +0.6%yoy in Mar'15 vs. -10.9%yoy in Mar'15. Loan demand for purchase of securities dropped significantly while that for personal loans improved with a higher growth rate of 36.9%yoy. Elsewhere, loan applications for credit cards declined to 23.2%yoy.

Table 4: Loan approvals by purpose (RM mil)

	Mar-15	% of total	Dec-14 (%Yoy)	Jan-15 (%Yoy)	Feb-15 (%Yoy)	Mar-15 (%Yoy)
Purchase of securities	2,259	6.2%	-28.4%	-21.2%	-5.1%	-19.6%
Purchase of transport vehicles	5,357	14.8%	+7.9%	+3.3%	+3.2%	+14.6%
of which : purchase of passenger cars	4,861	13.4%	+8.6%	+2.1%	+4.0%	+9.1%
Purchase of residential property	8,913	24.6%	-9.9%	+3.1%	-9.1%	-7.6%
Purchase of non-residential property	4,630	12.8%	+21.5%	+14.0%	-27.3%	+9.5%
Purchase of fixed asset other than land & building	787	2.2%	+43.6%	+4.3%	+129.6%	+188.7%
Personal use	1,428	3.9%	+36.6%	+25.4%	-0.2%	+12.8%
Credit card	1,192	3.3%	-15.0%	-10.1%	-11.8%	-15.5%
Purchase of consumer durables	5	0.01%	+0.2%	+130.8%	+168.1%	-24.9%
Construction	1,619	4.5%	+17.2%	-14.5%	+184.0%	+112.1%
Working capital	7,927	21.9%	+5.9%	+63.1%	+26.7%	-15.3%
Other purpose	2,145	5.9%	+31.6%	+63.8%	-47.6%	+76.4%
Total approved	36,262	100.0%	+2.0%	+9.3%	-1.4%	+1.7%

Source: BNM

- **Loan approvals also improved compared to the preceding month.** The overall industry loan approvals improved to +1.7%yoy in Mar'15 as compared to -1.4%yoy in Feb'15. Loan approvals for household loans improved slightly to -6.7%yoy vs. -7.5%yoy in the preceding month. In terms of loans by purpose, the improvement was mainly contributed by stronger growth in approvals for mortgage loans (residential and non-residential property purchase loans), loans for purchase of passenger cars as well as personal loans (Refer Table 4).
- **Growth in loan disbursements remained faster relative to repayments in Mar'15.** Higher growth in loan disbursement of 9.5%yoy continued to be faster relative to loan repayments which grew at 3.5%yoy. Industry LD ratio improved slightly to 86.6% vs. 87.4% in the preceding month with a stronger growth in deposits.

Deposits in the banking system continued to trend higher with a growth of 9.0%yoy (Feb'15: 8.3%yoy). CASA in the industry gained further momentum with a higher growth of 7.2%yoy in Mar'15. This led to a slight improvement in industry's CASA ratio to 25.9%.

LENDING AND DEPOSIT RATES

- **ALR inched up 3bp to 4.70% from the preceding month and interest spread widened slightly.** The industry's average lending rate (ALR) rose 3bp mom to 4.70% while BLR remained at 6.79%.
- **Average deposits rate declined slightly.** Interest spread (between the average lending rate and average deposit rate) improved to 1.52% due to a higher ALR while average deposit rate drop slightly to 3.18% with a 1ppt decline in FDs rates for 6, 9 and 12 month tenure. The easing of the regulatory guidelines on Liquidity Coverage Rate (LCR) has moderated the longer term interbank rates and hence eased some pressure on Banks' cost of funds.

ASSET QUALITY

- **GIL ratio for the industry declined slightly to 1.6%.** Gross Impaired Loan (GIL) ratio declined slightly to 1.6% while net impaired loan (NIL) ratio remained at 1.2%.

Table 5: Impaired Loans by purpose (RM mil)

	Mar-14	Feb-15	Mar-15	% of total	%Mom	%Yoy
Purchase of securities	211	381	460	2.1%	+2.0%	+118.0%
Purchase of transport vehicles	2,183	2,076	1,902	8.6%	-8.4%	-12.9%
of which : purchase of passenger cars	1,908	1,882	1,719	7.7%	-8.7%	-9.9%
Purchase of residential property	5,136	5,190	5,110	23.0%	-1.5%	-0.5%
Purchase of non-residential property	1,134	1,582	1,485	6.7%	-6.1%	+31.0%
Purchase of fixed asset other than land & building	250	183	124	0.6%	-32.2%	-50.4%
Personal use	997	1,054	1,169	5.3%	+10.9%	+17.3%
Credit card	450	456	442	2.0%	-3.1%	-1.8%
Purchase of consumer durables	2	10	13	0.06%	+30.0%	+550.0%
Construction	1,802	2,259	2,257	10.1%	-0.1%	+25.2%
Working capital	9,127	8,218	8,195	36.8%	-0.3%	-10.2%
Other purpose	1,482	1,149	1,090	4.9%	-5.1%	-26.5%
Total	22,775	22,558	22,247	100.0%	-1.4%	-2.3%

Source: BNM

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

	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Purchase of securities	0.3%	0.3%	0.4%	0.3%	0.4%	0.3%	0.5%	0.6%
Purchase of transport vehicles	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.1%
of which : purchase of passenger cars	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.1%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%
Purchase of fixed asset other than land & building	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.2%
Personal use	1.7%	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%	2.0%
Credit card	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.3%	1.2%
Purchase of consumer durables	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%	1.5%	1.7%
Construction	5.0%	7.3%	7.3%	7.2%	7.1%	5.6%	5.6%	5.7%
Working capital	3.0%	2.9%	2.8%	2.7%	2.5%	2.7%	2.6%	2.6%
Other purpose	2.0%	1.8%	1.9%	1.7%	1.7%	1.7%	1.9%	1.8%
Total	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%

Source: BNM

On absolute value basis, impaired loans declined by RM311m or -1.4%mom in Mar'15. We continue to observe GIL ratio for loans for purchase of securities rising to 0.6% in Mar'15, up from 0.3% in Jan'15. On the other loan segments, there were slight upticks in the GIL ratios for personal loans, loans for purchase of consumer durables and construction loans. The sector recorded a higher loan loss coverage ratio of 98.7%.

CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) at 12.5%, 13.2% and 15.2% respectively in Mar'15.

CALL ON SECTOR & STOCK PICKS

- **Capital market activities remained slow.** Better traction seen for new PDS issuances with a growth of -15.8%yoy in Mar'15 as compared -66.8%yoy in Feb'15. Growth in net funds raised from the capital market for the private sector continued to improved 37.0%yoy in Mar'15 (Feb'15: 13.5%yoy) led by higher PDS issuance and right issues for equities.
- **Earnings growth expected to remain challenging for banks.** Maintain NEUTRAL stance on the sector as we continue to see challenges to banks earnings from: i) slower loan growth than CY14,

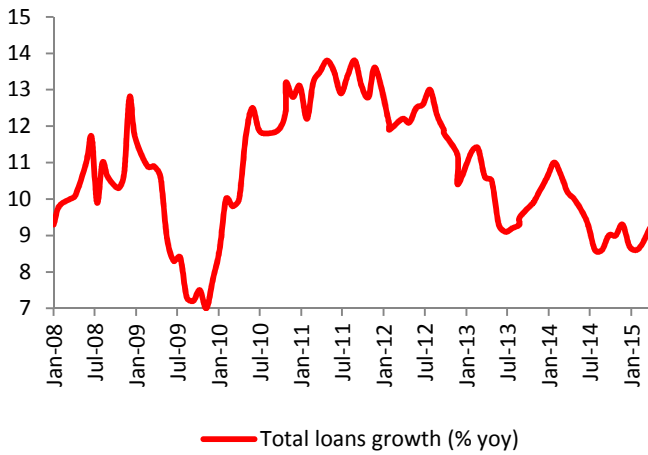
persistent NIM pressure, market volatility impacting treasury and IB income and lower ROEs reflecting softer market conditions. Our stocks picks are on Hong Leong Bank (TP: RM16.10), Maybank (TP: RM10.80) and RHB Cap (RM9.50). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.15), AMMB (TP: RM7.00), AFG (TP: RM4.70), CIMB (TP: RM6.20) and BIMB (TP: RM3.96).

	Rec.	Price @ 5/5	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	6.44	7.00	55.0	58.0	11.7	11.1	22.0	23.0	3.4	3.6	4.7	5.1	1.4	1.3
Maybank	BUY	9.25	10.80	75.0	82.0	12.3	11.3	45.0	49.0	4.9	5.3	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	19.46	19.50	121.0	131.0	16.1	14.9	56.0	60.0	2.9	3.1	7.9	8.6	2.5	2.3
RHB Capital	BUY	7.90	9.50	86.0	95.0	9.2	8.3	11.0	12.0	1.4	1.5	8.0	8.7	1.0	0.9
Hong Leong	BUY	14.16	16.10	115.0	124.0	12.3	11.4	38.0	41.0	2.7	2.9	8.5	9.5	1.7	1.5
CIMB	NEUTRAL	5.89	6.20	49.0	53.0	12.0	11.1	19.0	21.0	3.2	3.6	4.8	5.1	1.2	1.2
AFG	NEUTRAL	4.74	4.70	37.0	40.0	12.8	11.9	22.0	24.0	4.6	5.1	2.9	3.1	1.6	1.5
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	2.93	3.15	33.0	35.0	8.9	8.4	16.0	18.0	5.5	6.1	4.2	4.4	0.7	0.7

Kelvin Ong, CFA

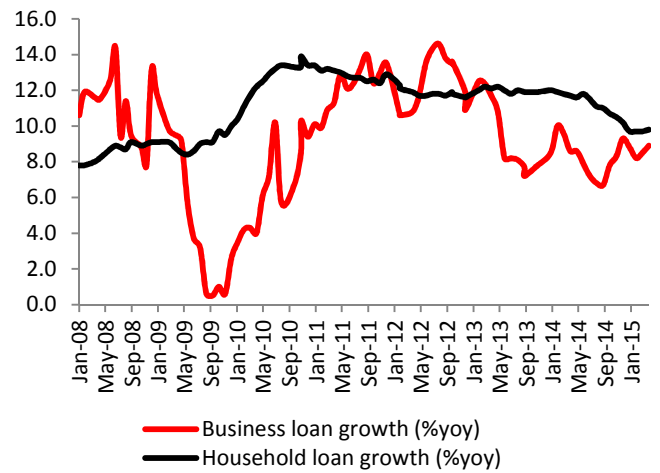
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



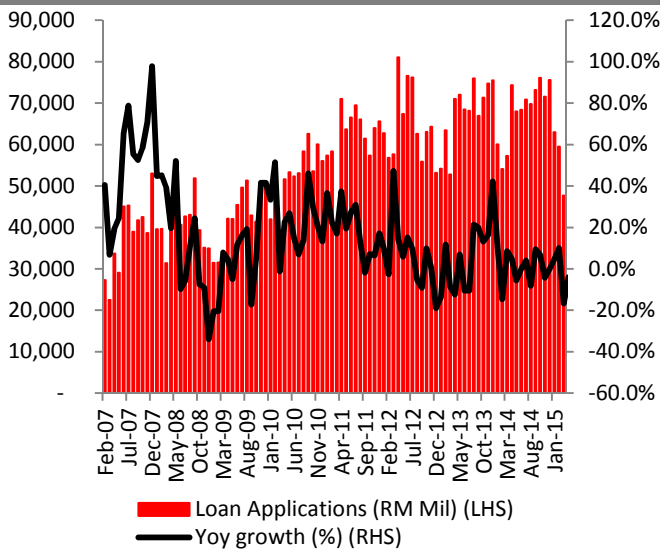
Source: BNM

Chart 2: Business and Household Loan Growth Rate



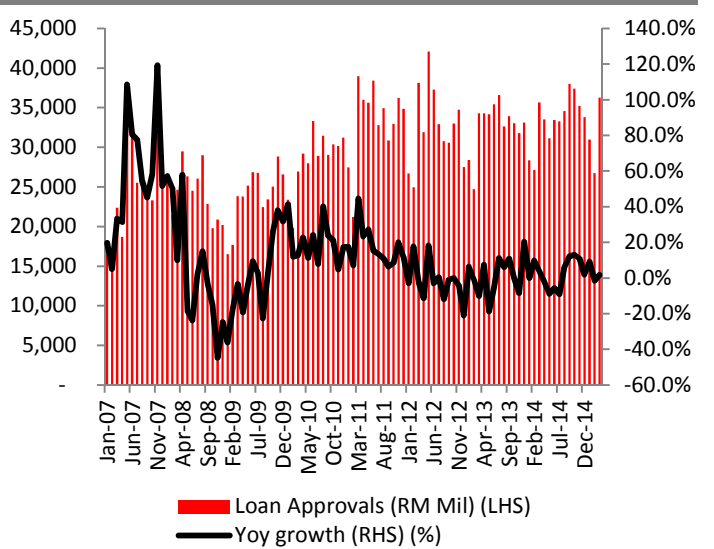
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

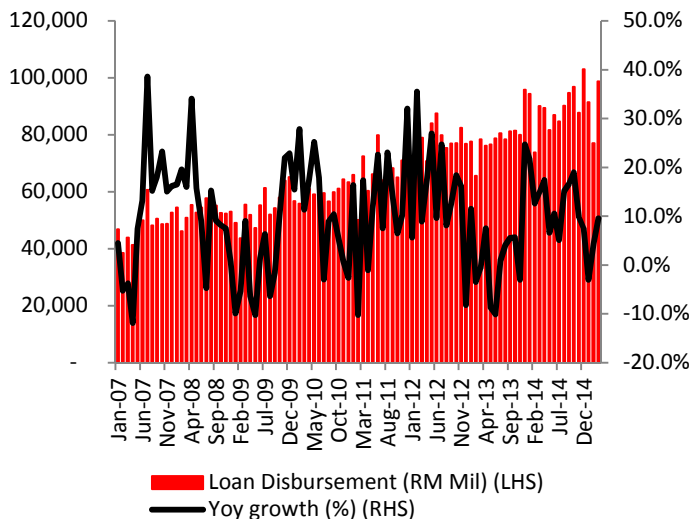


Chart 6: Interest Spread

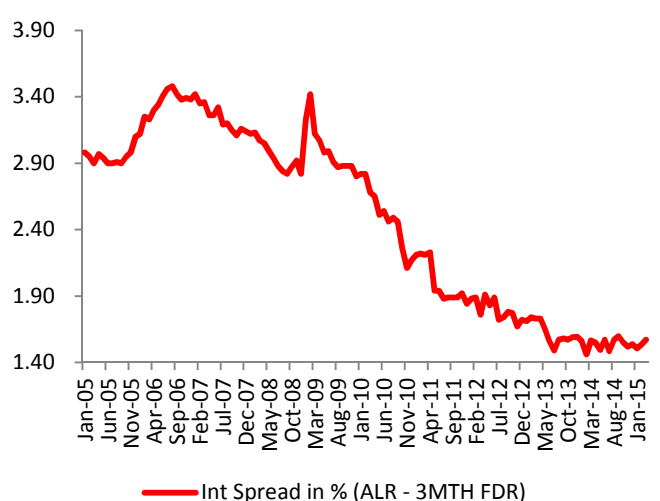
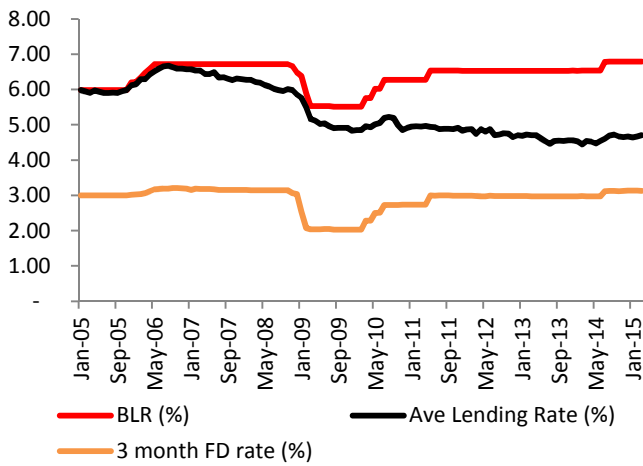
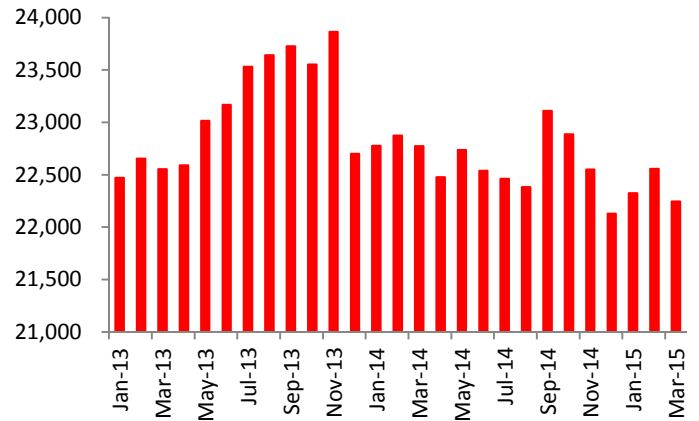


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



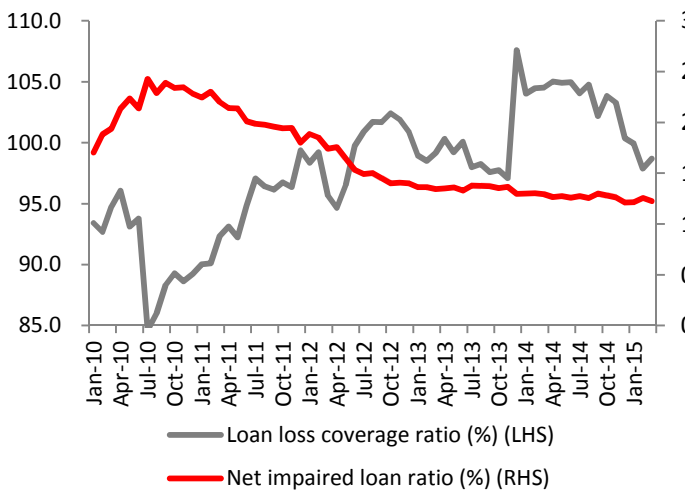
Source: BNM

Chart 8: Total Impaired Loans



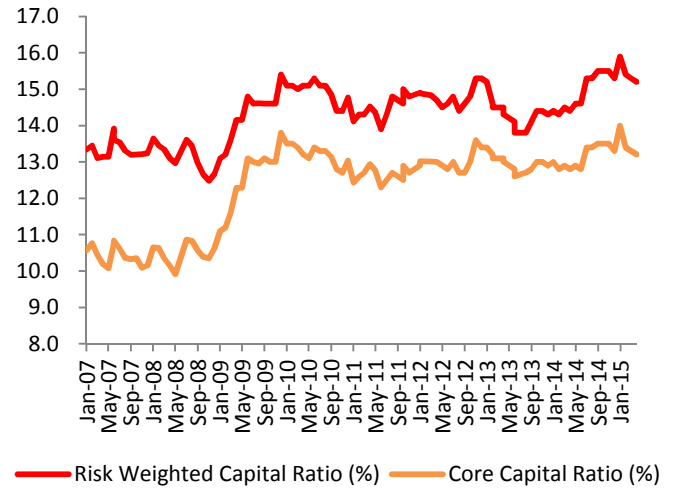
Source: BNM

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

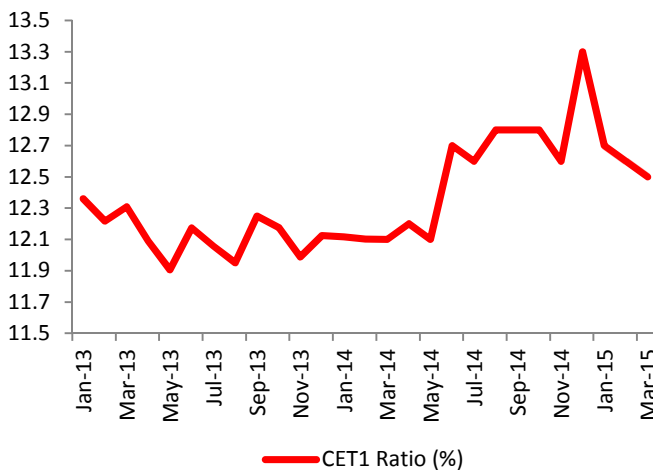
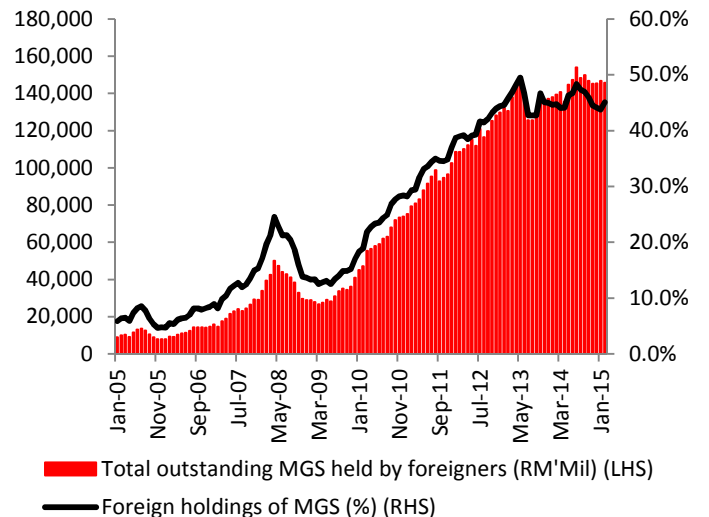


Chart 12: MGS Holdings by Foreigners



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