

01 July 2014 | Sector update

BANKING - May 2014 BNM STATISTICS

Maintain NEUTRAL

Stable loan demand but tighter liquidity likely to result in higher COF ahead.

LOAN INDICATORS

- **Banking system loan growth continued to moderate.** Loan growth in the banking system in May'14 decelerated to 9.7%yoy from 10.0%yoy in the previous month. Growth of loan repayments outpaced that of loan disbursements, resulting in the decline. This was similar in trend to the preceding two months. By sectors, most of the sectors with exception of the wholesale, retail, restaurants & hotel as well as the household sector moderated compared to Apr'14. Year to date, loans grew 2.4% to RM1,261.1b. Annualized growth rate was 6.9% for the 1st 5 months of CY14, still slow in momentum compared to our target of 10-11% for the full year.
- **Overall business loan growth moderated to 7.9%yoy from 8.6%yoy in the previous month while household loan growth improved 20bp mom to 11.8%yoy in May'14.** Business loan growth decelerated to 7.9%yoy from 8.6%yoy in Apr'14. Both working capital and construction loan growth were slower in May'14 compared to the preceding month.

Table 1: Loan breakdown by purpose (RM mil)

	May-13	Apr-14	May-14	% of total	%Mom	%Yoy
Purchase of securities	62,431	72,471	72,917	5.8%	+0.6%	+16.8%
Purchase of transport vehicles	158,250	164,353	164,700	13.1%	+0.2%	+4.1%
of which : purchase of passenger cars	145,443	151,856	153,717	12.2%	+1.2%	+5.7%
Purchase of residential property	319,400	359,287	362,937	28.8%	+1.0%	+13.6%
Purchase of non-residential property	140,716	161,666	163,710	13.0%	+1.3%	+16.3%
Purchase of fixed asset other than land & building	9,488	9,890	10,376	0.8%	+4.9%	+9.4%
Personal use	56,189	57,922	57,997	4.6%	+0.1%	+3.2%
Credit card	32,213	33,771	34,018	2.7%	+0.7%	+5.6%
Purchase of consumer durables	100	330	359	0.03%	+8.8%	+259.0%
Construction	30,772	34,983	34,628	2.7%	-1.0%	+12.5%
Working capital	270,981	287,771	290,556	23.0%	1.0%	+7.2%
Other purpose	68,809	69,674	68,904	5.5%	-1.1%	+0.1%
Total	1,149,349	1,252,118	1,261,101	100.0%	+0.7%	+9.7%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	May-13	Apr-14	May-14	% of total	%Mom	%Yoy
Primary agriculture	31,338	32,266	31,973	2.5%	-0.9%	+2.0%
Mining and quarrying	6,736	9,247	7,759	0.6%	-16.1%	+15.2%
Manufacturing (including agro based)	95,982	97,375	97,399	7.7%	+0.02%	+1.5%
Electricity, gas and water supply	10,114	13,953	11,868	0.9%	-14.9%	+17.3%
Wholesale, retail, restaurants & hotels	86,715	90,579	93,629	7.4%	+3.4%	+8.0%
Construction	46,531	51,739	51,771	4.1%	+0.1%	+11.3%
Real estate	64,945	73,884	74,973	5.9%	+1.5%	+15.4%
Transport, storage & communication	27,360	30,489	30,020	2.4%	-1.5%	+9.7%
Financing, insurance & business services	77,551	84,048	83,914	6.7%	-0.2%	+8.2%
Education, health & others	44,012	38,282	38,744	3.1%	+1.2%	-12.0%
Household sector	643,770	712,678	719,941	57.1%	+1.0%	+11.8%
Other sector	14,294	17,575	19,109	1.5%	+8.7%	+33.7%
Total	1,149,349	1,252,118	1,261,101	100.0%	+0.7%	+9.7%

Source: BNM

Meanwhile, household loan growth improved 20bp mom to 11.8%yoy in May'14.

- **In terms of household loans by lending purposes, growth rate for mortgage loans remain stable in May'14.** Loans for residential property purchase continued to remain stable at 13.6%yoy while growth of loans for purchase of non residential property recorded a slight improvement of 30bp mom to 16.3%yoy after 4 consecutive months of decline. Growth of loans for purchase of passenger cars surprisingly halted its decline with an improvement of 110bp mom to 5.7%yoy in May'14. Momentum for credit card lending picked up pace by 110bp mom to 5.6%yoy. Meanwhile, personal loans and loans for purchase of securities both grew in May'14 softer as compared to Apr'14.

Table 3: Loan applications by purpose (RM mil)

	May-14	% of total	Feb-14 (%Yoy)	Mar-14 (%Yoy)	Apr-14 (%Yoy)	May-14 (%Yoy)
Purchase of securities	4,200	6.1%	+11.7%	+133.8%	-3.1%	+49.9%
Purchase of transport vehicles	7,606	11.1%	+9.1%	-1.4%	+1.5%	-1.3%
of which : purchase of passenger cars	7,237	10.6%	+8.8%	-1.5%	+0.9%	-0.7%
Purchase of residential property	20,723	30.3%	+4.3%	-10.0%	-8.5%	+9.7%
Purchase of non-residential property	9,912	14.5%	+14.2%	-12.8%	-14.9%	-17.1%
Purchase of fixed asset other than land & building	266	0.4%	-43.3%	808.3%	-26.5%	-42.4%
Personal use	3,614	5.3%	+21.9%	8.3%	+15.5%	+16.7%
Credit card	1,775	2.6%	-2.7%	-13.6%	-3.3%	-16.1%
Purchase of consumer durables	2	0.0%	-47.4%	-29.7%	-86.4%	-59.6%
Construction	3,957	5.8%	+81.5%	23.6%	-29.1%	-3.8%
Working capital	14,076	20.6%	+5.0%	-0.1%	+17.2%	+9.5%
Other purpose	2,275	3.3%	-10.3%	-37.4%	-27.1%	-49.3%
Total applied	68,405	100.0%	+8.5%	+4.6%	-5.6%	-0.1%

Source: BNM

- **Industry loan applications were stable in May'14.** Industry loan applications growth recorded a slight contraction of -0.1%yoy vs. -5.6%yoy in Apr'14. In terms of business loan applications, growth in applications for construction and wholesale & retail trade, and restaurants & hotels were slower. Nevertheless, it was partially offset by stronger growth in application for manufacturing loans.

Overall household loan applications improved to 3.0%yoy in May'14 as compared to -2.4%yoy in Apr'14. Contributing to this improvement largely were stronger growth in loan applications for purchase of residential property which improved to positive growth of 9.7%yoy from -8.5%yoy in the previous month while applications for purchase of securities also accelerated to 49.9%yoy from -3.1%yoy in Apr'14.

Table 4: Loan approvals by purpose (RM mil)

	May-14	% of total	Feb-14 (%Yoy)	Mar-14 (%Yoy)	Apr-14 (%Yoy)	May-14 (%Yoy)
Purchase of securities	2,400	7.7%	+33.6%	-7.4%	+40.4%	+41.5%
Purchase of transport vehicles	3,939	12.7%	+5.9%	+11.9%	+19.9%	+3.1%
of which : purchase of passenger cars	3,716	11.9%	+6.3%	+12.4%	+21.9%	+5.4%
Purchase of residential property	10,877	34.9%	+5.5%	+1.8%	-5.2%	+7.6%
Purchase of non-residential property	3,717	11.9%	+32.0%	+8.1%	-8.8%	-25.3%
Purchase of fixed asset other than land & building	255	0.8%	-21.1%	-10.7%	-35.1%	-33.4%
Personal use	1,470	4.7%	-20.4%	-20.7%	-22.9%	-3.3%
Credit card	1,110	3.6%	+30.0%	+15.2%	+7.3%	-1.6%
Purchase of consumer durables	4	0.0%	-52.2%	-4.0%	-68.2%	-71.6%
Construction	820	2.6%	-46.8%	-35.1%	-13.3%	-38.9%
Working capital	5,020	16.1%	-14.9%	+33.7%	-18.2%	-34.0%
Other purpose	1,519	4.9%	+157.0%	-48.9%	+17.4%	-4.4%
Total approved	31,129	100.0%	+9.5%	+4.0%	-2.3%	-8.9%

Source: BNM

- **Momentum for loan approvals continued to be soft.** Growth of loan approvals in May'14 decelerated to -8.9%yoy as compared to -2.3%yoy in Apr'14. For household loans, improvement in approvals for loans to purchase residential property and purchase of securities provided the uplift in the overall growth rate of household loan approvals to 5.0%yoy in May'14 (Apr'14: 1.4%yoy).

For businesses, loan approval growth rate for construction and working capital loans decelerated to -38.9%yoy and -34.0%yoy vs. -13.3%yoy and -18.2%yoy respectively in the previous month (Refer Table 4).

- **Loan disbursement growth moderated to 4.8%yoy in May'14.** Growth of loan disbursements continue to decelerated to 4.8%yoy from 15.1%yoy in Apr'14 (Mar'14: 15.6%yoy). Meanwhile, growth of loan repayments continued to outpace that of loans disbursements in May'14, leading to a decline in system loan growth. Growth of loan repayments was 7.8%yoy in May'14 (Apr'14: 17.7%yoy).
- **Industry LD ratio turned tighter and inched up to 85.4%.** The industry LD ratio was slightly higher at 85.4%, up 30bp mom. System deposit growth decelerated to 6.0%yoy in May'14 compared to 6.9%yoy in the preceding month.

LENDING AND DEPOSIT RATES

- **ALR eased 5bp mom to 4.47%.** The industry's average lending rates (ALR) eased by further 5bp mom to 4.47% in May'14 while BLR remained at 6.53%.
- **Interest spread declined with the drop in ALR.** Interest spread (between the average lending rate and 3 month FD rate) drop to 1.50% as compared to 1.55% in the previous month. Average FD rate (for tenures of up to 12 months) remained at 3.02%.

ASSET QUALITY

- **Absolute impaired loans for the industry increased by 1.2%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 purposes remained stable. We noticed upticks in impairment of loans for purchase of transport vehicles and construction loans. LLC in May'14 remained above 100% at 104.9%.

Table 5: Impaired Loans by purpose (RM mil)

	May-13	Apr-14	May-14	% of total	%Mom	%Yoy
Purchase of securities	452	209	215	0.9%	+2.9%	-52.4%
Purchase of transport vehicles	1,902	2,206	2,237	9.8%	+1.4%	+17.6%
of which : purchase of passenger cars	1,516	1,934	1,966	8.6%	+1.7%	+29.7%
Purchase of residential property	5,509	5,054	5,107	22.5%	+1.0%	-7.3%
Purchase of non-residential property	1,278	1,106	1,096	4.8%	-0.9%	-14.2%
Purchase of fixed asset other than land & building	207	248	246	1.1%	-0.8%	+18.8%
Personal use	1,023	958	984	4.3%	+2.7%	-3.8%
Credit card	434	412	416	1.8%	+1.0%	-4.1%
Purchase of consumer durables	3	3	4	0.02%	+33.3%	+33.3%
Construction	1,763	1,798	1,984	8.7%	+10.3%	+12.5%
Working capital	9,265	9,237	9,183	40.4%	-0.6%	-0.9%
Other purpose	1,178	1,246	1,267	5.6%	+1.7%	+7.6%
Total	23,014	22,477	22,738	100.0%	+1.2%	-1.2%

Source: BNM

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

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


Source: BNM

CAPITALISATION

- **Capital position remained strong.** The sector's capital position remained strong with CET1 ratio, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) of 12.1%, 12.8% and 14.5% respectively in May'14. The aforementioned three ratios declined slightly by 10bp mom.

CALL ON SECTOR & STOCK PICKS

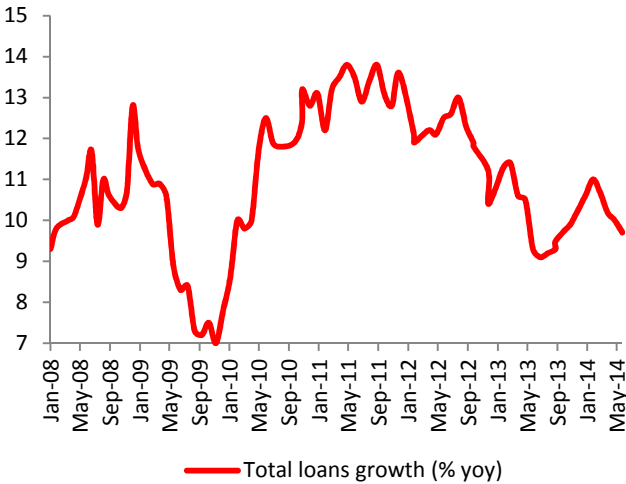
- **Moderation in system growth was due to the stronger growth in loan repayments relative to disbursements.** Overall business and household loan demand was stable in May'14 as reflected by the growth in loan applications (leading indicator) of -0.1%yoy as compared to -5.6%yoy in the previous month. On year on year basis, system loan growth moderated. However, measuring on month on month basis, growth in system loans was slightly higher at 0.7% in May'14 compared to 0.4% in Apr'14. On household loans, we observed a pick up in loan applications for purchase of residential property. We believe this could be an early sign of a pent up in demand for residential property before the implementation of GST in Apr'15.

- **Maintain our loan growth expectation of 10-11% for CY14.** We maintain our CY14 loan growth expectation of 10-11% on the back of a GDP growth forecast of 5.3%. We continue to expect consumer loans growth to be soft in CY14 due to higher inflation and the measures by BNM to manage household debts. For business loans, we expect the growth to trend higher. This is based on steady growth in exports for our domestic economy that is likely to result in private investments gaining traction and hence a higher CAPEX funding requirements by business entities.
- **Higher OPR rate in the offing.** With a firmer economic growth after a strong 1QCY14 GDP results and expectation of higher inflation, a 25bp OPR hike is in the offing in 2HCY14. We expect this to be moderately positive for banks earnings. No changes to our expectation that net interest margin (NIM) of banks will continue to be under pressure. This is due to pressures from asset yield and cost of funds (COF). The sector's liquidity has turned tighter with a rise in LD ratio. Hence, we expect competition for deposits to be more intensive, resulting in a higher COF for banks.
- **Non interest income (NOII) growth will remain challenging as uncertainties continue to surround capital market activities.** While we are seeing a few more announcements of IPO exercises, we continue to expect equity capital market activities to remain slow for CY14 with the lack of mega issuances.
- **Keeping our NEUTRAL rating for the sector.** Our BUY calls are on Maybank (TP: RM11.00), RHB Cap (RM9.50) and Hong Leong Bank (TP: RM16.50). We are NEUTRAL on AFG (TP: RM4.70), Public Bank (RM19.90), CIMB (TP: RM7.80), AMMB (TP: RM8.00) and Affin (TP: RM3.80). 

	Rec.	Price @ 30/6	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	7.12	8.00	59.3	64.0	12.0	11.1	24.1	25.0	3.4	3.5	4.4	4.8	1.6	1.5
Maybank	BUY	9.83	11.00	77.0	84.0	12.8	11.7	46.0	50.0	4.7	5.1	5.6	6.1	1.7	1.6
Public Bank	NEUTRAL	19.58	19.90	113.0	123.0	17.3	15.9	51.0	55.0	2.6	2.8	7.2	7.8	2.7	2.5
RHB Capital	BUY	8.55	9.50	83.0	91.0	10.3	9.4	25.0	27.0	2.9	3.2	7.0	7.6	1.2	1.1
Hong Leong	BUY	13.80	16.50	108.0	117.0	12.8	11.8	36.0	39.0	2.6	2.8	7.8	8.7	1.8	1.6
CIMB	NEUTRAL	7.32	7.80	56.0	63.0	13.1	11.6	22.0	25.0	3.0	3.4	4.5	4.9	1.6	1.5
AFG	NEUTRAL	4.72	4.70	37.2	39.0	12.7	12.1	29.5	23.0	6.3	4.9	2.8	3.0	1.7	1.6
Affin	NEUTRAL	3.31	3.80	32.0	37.0	10.3	8.9	16.0	19.0	4.8	5.7	3.5	3.7	0.9	0.9

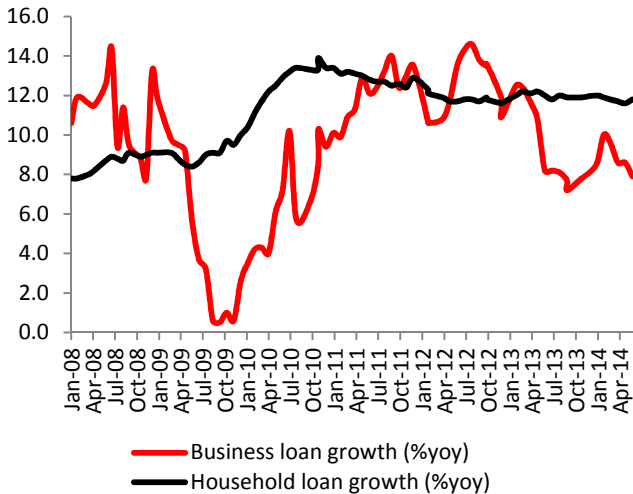
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Chart 1: Total Loan Growth Rate



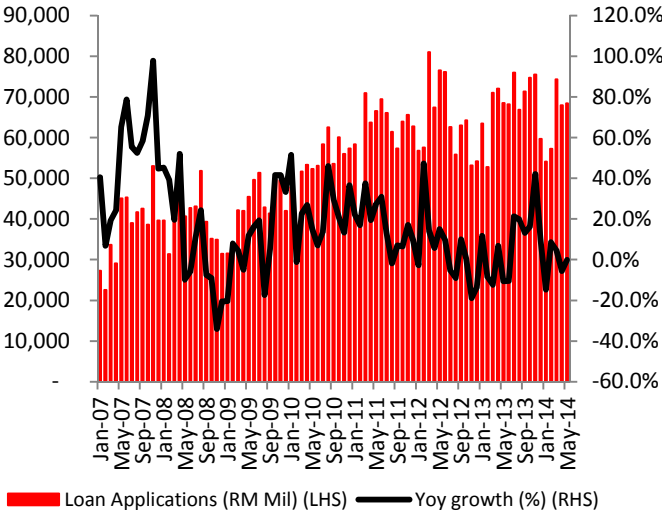
Source: BNM

Chart 2: Business and Household Loan Growth Rate



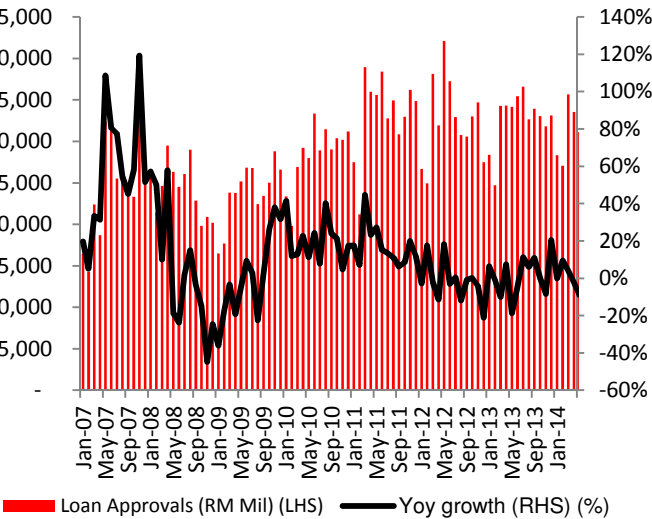
Source: BNM

Chart 3: Loan Application



Source: BNM

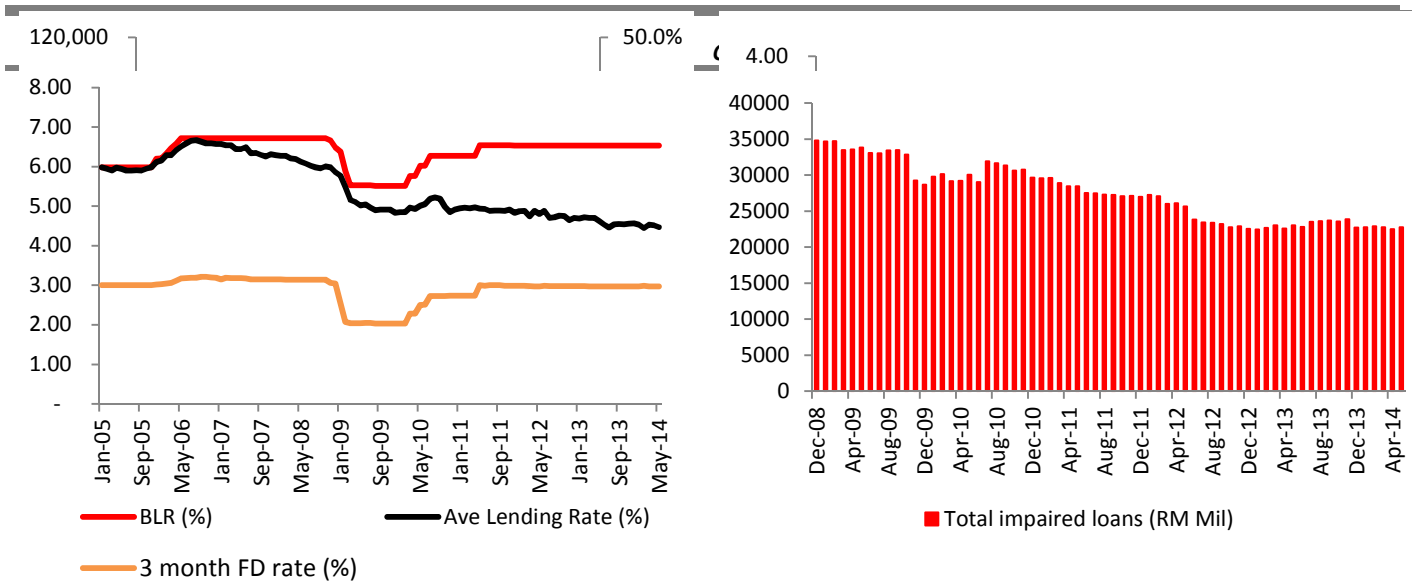
Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

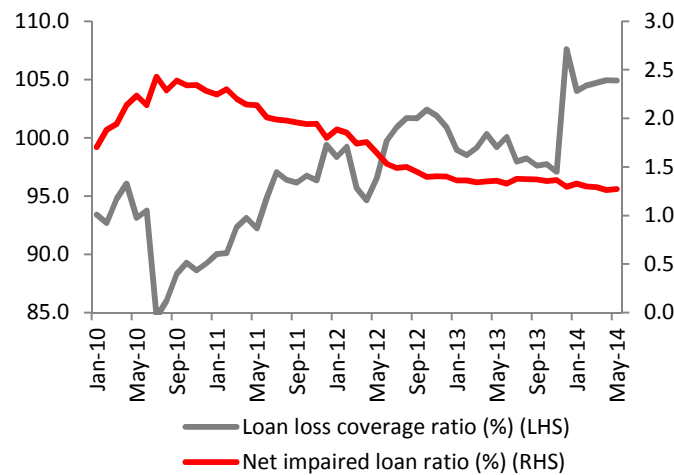
Chart 6: Interest Spread



Source: BNM

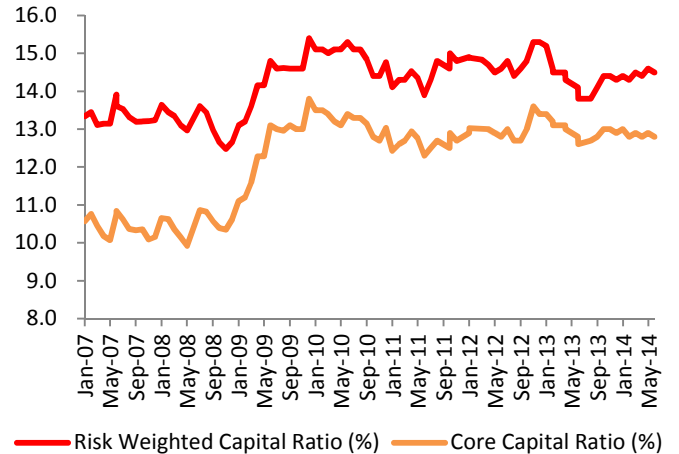
Source: BNM

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

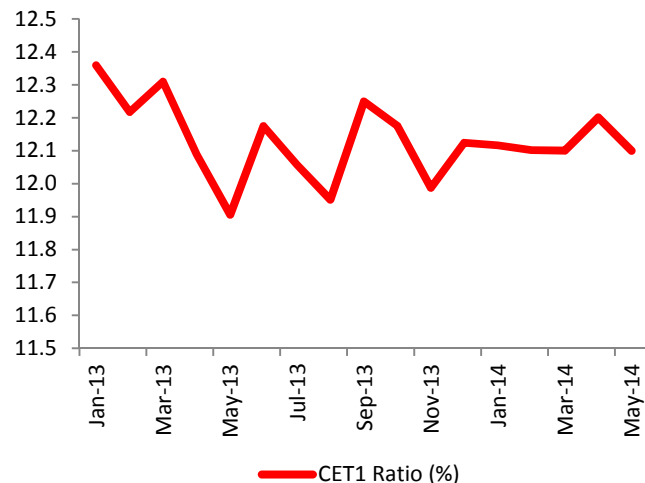
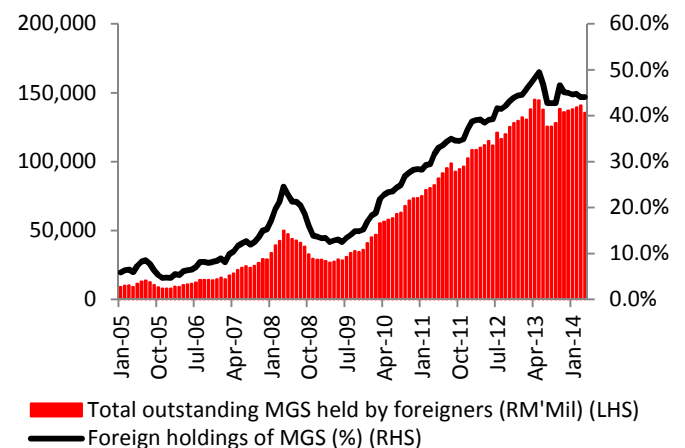


Chart 12: MGS Holdings by Foreigners



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.