

01 July 2015 | Sector update

BANKING – MAY 2015 BNM STATISTICS

Maintain NEUTRAL

Loan demand remained soft as household loan growth decelerates further

LOAN INDICATORS

- **Banking system loans grew at a slightly faster pace of +8.9%yoy in May'15 attributed to acceleration in business loans.** Banking system loans grew +8.9%yoy in May'15 as compared to +8.8%yoy in the preceding month. This was contributed by stronger momentum of business loans which grew +9.1%yoy in May'15, up from +8.3%yoy in Apr'15. Meanwhile, loans to households continued its declining trend with a lower growth of +9.0%yoy in May'15 (Apr'15: +9.4%yoy).

Compared to the preceding month, higher volume of loans was extended for working capital purposes. Working capital loans picked up pace to register a growth of +11.1%yoy while growth in construction was slightly slower at +15.0%yoy.

Table 1: Loan breakdown by purpose (RM mil)

	May-14	Apr-15	May-15	% of total	%Mom	%Yoy
Purchase of securities	72,917	76,297	76,165	5.5%	-0.2%	+4.5%
Purchase of transport vehicles	164,700	167,750	167,847	12.2%	+0.1%	+1.9%
of which : purchase of passenger cars	154,745	158,090	158,231	11.5%	+0.1%	+2.3%
Purchase of residential property	363,850	406,642	410,429	29.9%	+0.9%	+12.8%
Purchase of non-residential property	162,796	186,595	187,478	13.6%	+0.5%	+15.2%
Purchase of fixed asset other than land & building	10,376	10,608	10,567	0.8%	-0.4%	+1.8%
Personal use	57,997	60,354	60,969	4.4%	+1.0%	+5.1%
Credit card	34,018	34,584	34,525	2.5%	-0.2%	+1.5%
Purchase of consumer durables	359	770	147	0.01%	-80.9%	-59.1%
Construction	34,628	39,884	39,829	2.9%	-0.1%	+15.0%
Working capital	290,556	316,921	322,888	23.5%	+1.9%	+11.1%
Other purpose	68,904	61,677	62,815	4.6%	+1.8%	-8.8%
Total	1,261,101	1,362,081	1,373,659	100.0%	+0.9%	+8.9%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	May-14	Apr-15	May-15	% of total	%Mom	%Yoy
Primary agriculture	31,973	32,523	34,310	2.5%	+5.5%	+7.3%
Mining and quarrying	7,759	11,127	11,494	0.8%	+3.3%	+48.1%
Manufacturing (including agro based)	97,399	98,788	99,350	7.2%	+0.6%	+2.0%
Electricity, gas and water supply	13,709	10,238	10,603	0.8%	+3.6%	-22.7%
Wholesale, retail, restaurants & hotels	93,629	100,330	101,127	7.4%	+0.8%	+8.0%
Construction	51,771	58,371	58,923	4.3%	+0.9%	+13.8%
Real estate	74,973	87,891	88,645	6.5%	+0.9%	+18.2%
Transport, storage & communication	30,020	34,034	34,143	2.5%	+0.3%	+13.7%
Financing, insurance & business services	82,073	91,677	94,096	6.9%	+2.6%	+14.6%
Education, health & others	38,744	38,431	37,830	2.8%	-1.6%	-2.4%
Household sector	720,950	781,979	786,070	57.2%	+0.5%	+9.0%
Other sector	18,100	16,692	17,068	1.2%	+2.3%	-5.7%
Total	1,261,101	1,362,081	1,373,659	100.0%	+0.9%	+8.9%

Source: BNM

By business sectors as compared to the previous month, higher quantum of loans was extended to the manufacturing, electricity, gas and water supply, construction, real estate, finance, insurance and business services and agriculture sectors in May'15. Loans to the finance, insurance and business services sector grew +14.6%yoy in May'15 vs. +11.6%yoy in Apr'15.

- **Household loan growth momentum continued to be weak with outstanding in credit cards growing at slower pace after GST implementation in Apr'15.** In line with the slower property market and stringent lending criterias by banks, mortgage loan growth continued to moderate. Loans for purchase of residential property slipped to +12.8%yoy while growth in loans for purchase of non-residential property drops to +15.2%yoy. With the equity market continuing to be volatile, growth in loans for purchase of securities continued to slide to +4.5%yoy.

Outstanding loans for purchase of passenger cars was also slower in pace, growing at +2.3%yoy while outstanding in credit cards continued to lose traction with growth of +1.5%yoy in May'15 post GST implementation. Meanwhile, growth in personal loans rose for the 2nd consecutive month to +5.1%yoy.

Table 3: Loan applications by purpose (RM mil)

	May-15	% of total	Feb-15 (%Yoy)	Mar-15 (%Yoy)	Apr-15 (%Yoy)	May-15 (%Yoy)
Purchase of securities	1,883	2.8%	+21.7%	-60.2%	-13.8%	-55.2%
Purchase of transport vehicles	6,483	9.8%	-15.1%	+9.6%	-16.2%	-14.8%
of which : purchase of passenger cars	6,177	9.3%	-13.8%	+7.0%	-14.3%	-14.7%
Purchase of residential property	17,432	26.3%	-15.4%	-3.4%	-5.3%	-15.9%
Purchase of non-residential property	7,731	11.6%	-6.6%	-9.5%	+7.7%	-22.0%
Purchase of fixed asset other than land & building	644	1.0%	+121.6%	-87.5%	+85.4%	+141.9%
Personal use	5,406	8.1%	+13.4%	+36.9%	+22.3%	+49.6%
Credit card	2,674	4.0%	+44.3%	+23.2%	+22.2%	+50.7%
Purchase of consumer durables	17	0.03%	+2751.5%	+421.0%	+940.4%	+1012.2%
Construction	4,183	6.3%	-39.5%	-17.3%	+42.9%	+5.7%
Working capital	17,494	26.3%	-37.1%	+25.1%	+14.5%	+24.3%
Other purpose	2,459	3.7%	-36.6%	+34.8%	-48.2%	+8.1%
Total applied	66,405	100.0%	-16.7%	-4.0%	+0.7%	-2.9%

Source: BNM

- Overall loan demand still soft as reflected by a decline in growth of loan applications to -2.9%yoy.** Growth in industry loan applications eased to -2.9%yoy vs. +0.7%yoy in the preceding month. This was contributed by slower growth in applications for loans to purchase residential and non-residential property, construction loan, loans for purchase of securities and a weak demand for loans to purchase vehicles. By sectors, this was contributed by slower growth in loan applications from the household; real estate; mining and quarrying; agriculture and manufacturing sectors.

Growth in household's loan applications continued to remain slow at -9.9%yoy vs. -6.4%yoy in the preceding month. While loan demand for purchase of residential and non-residential property, purchase of passenger cars and purchase of securities slowed down compared to Apr'15, growth in applications for personal loans and credit cards have been seen trending up in May'15.

Table 4: Loan approvals by purpose (RM mil)

	May-15	% of total	Feb-15 (%Yoy)	Mar-15 (%Yoy)	Apr-15 (%Yoy)	May-15 (%Yoy)
Purchase of securities	1,323	4.2%	-5.1%	-19.6%	-34.8%	-44.9%
Purchase of transport vehicles	3,860	12.3%	+3.2%	+14.6%	-16.5%	-2.0%
of which : purchase of passenger cars	3,657	11.7%	+4.0%	+9.1%	-15.9%	-1.6%
Purchase of residential property	8,561	27.3%	-9.1%	-7.6%	-5.0%	-21.3%
Purchase of non-residential property	2,892	9.2%	-27.3%	+9.5%	-9.3%	-22.2%
Purchase of fixed asset other than land & building	457	1.5%	+129.6%	+188.7%	+50.6%	+79.2%
Personal use	1,382	4.4%	-0.2%	+12.8%	+19.1%	-6.0%
Credit card	1,355	4.3%	-11.8%	-15.5%	-2.0%	+22.1%
Purchase of consumer durables	7	0.02%	+168.1%	-24.9%	+8.0%	+76.3%
Construction	931	3.0%	+184.0%	+112.1%	+186.3%	+13.6%
Working capital	8,324	26.6%	+26.7%	-15.3%	+21.1%	+65.8%
Other purpose	2,211	7.1%	-47.6%	+76.4%	-52.0%	+45.5%
Total approved	31,302	100.0%	-1.4%	+1.7%	-2.4%	+0.6%

Source: BNM

- Loan approvals remained slow.** The overall industry loan approval growth was flat at +0.6%yoy as compared to -2.4%yoy in the preceding month. Growth in approvals for household loans continued to moderate to -17.8%yoy (Apr'15: -10.9%yoy). Except for real estate, construction, agriculture, finance, insurance and business activities, education, health and other sectors, loan approvals for the other sectors were slower compared to the previous month. In terms of loans by purpose, weaker loan approvals compared to the previous month was mainly contributed by slower growth in approvals for mortgage loans (residential and non-residential property purchase loans), personal loans, loans for purchase of securities and construction loans (Refer Table 4).
- Growth in loan disbursements outpaced loan repayments in May'15.** In May'15, loan disbursement accelerated with a higher growth rate of +4.9%yoy. This outpaced the industry's loan repayments which grew -1.2%yoy. Industry LD ratio continued to rise by 90bp mom to 87.7% and liquidity continues to be tighter for the sector. We expect this to keep competition for deposits in the industry intense moving forward.

Growth of deposits in the banking system slipped to +8.0%yoy vs. +8.3%yoy in the preceding month. Industry CASA growth inched higher to +5.5%yoy (Apr'15: +5.4%yoy). CASA ratio for the industry was slightly lower by 30bp mom to 25.2%.

LENDING AND DEPOSIT RATES

- **ALR declined by a further 4bp to 4.61% and interest spread continued to narrow.** The industry's average lending rate (ALR) eased 4bp mom to 4.61% while BLR remained at 6.79%. Base rate for Commercial Banks was unchanged at 3.88%.
- **Average deposits rate inched higher.** Interest spread (between the average lending rate and average deposit rate) narrowed to 1.44% due to lower ALR as well as slight increase in the average deposit rate. Average deposit rate inched higher as a result of an increase in the 1 month FD rate by 1bp mom to 3.09%. 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)

	May-14	Apr-15	May-15	% of total	%Mom	%Yoy
Purchase of securities	215	229	217	1.0%	-5.2%	+0.9%
Purchase of transport vehicles	2,237	1,897	1,903	8.7%	+0.3%	-14.9%
of which : purchase of passenger cars	1,966	1,715	1,770	8.1%	+3.2%	-10.0%
Purchase of residential property	5,108	4,956	4,991	22.8%	+0.7%	-2.3%
Purchase of non-residential property	1,095	1,533	1,549	7.1%	+1.0%	+41.5%
Purchase of fixed asset other than land & building	246	192	170	0.8%	-11.5%	-30.9%
Personal use	984	964	1,061	4.8%	+10.1%	+7.8%
Credit card	416	437	448	2.0%	+2.5%	+7.7%
Purchase of consumer durables	4	12	2	0.01%	-83.3%	-50.0%
Construction	1,984	2,270	2,371	10.8%	+4.4%	+19.5%
Working capital	9,183	7,498	7,745	35.4%	+3.3%	-15.7%
Other purpose	1,267	1,310	1,430	6.5%	+9.2%	+12.9%
Total	22,738	21,298	21,887	100.0%	+2.8%	-3.7%

Source: BNM

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

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Purchase of securities	0.4%	0.3%	0.4%	0.3%	0.5%	0.6%	0.3%	0.3%
Purchase of transport vehicles	1.3%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%
of which : purchase of passenger cars	1.3%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%
Purchase of residential property	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%
Purchase of non-residential property	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%	0.8%	0.8%
Purchase of fixed asset other than land & building	1.7%	1.7%	1.7%	1.7%	1.7%	1.2%	1.8%	1.6%
Personal use	1.7%	1.7%	1.7%	1.8%	1.8%	2.0%	1.6%	1.7%
Credit card	1.2%	1.2%	1.2%	1.1%	1.3%	1.2%	1.3%	1.3%
Purchase of consumer durables	1.0%	1.1%	1.2%	1.3%	1.5%	1.7%	1.5%	1.6%
Construction	7.3%	7.2%	7.1%	5.6%	5.6%	5.7%	5.7%	6.0%
Working capital	2.8%	2.7%	2.5%	2.7%	2.6%	2.6%	2.4%	2.4%
Other purpose	1.9%	1.7%	1.7%	1.7%	1.9%	1.8%	2.1%	2.3%
Total	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%


Source: BNM

On absolute value basis, impaired loans rose by RM589m or +2.8%mom in May'15. Compared to the preceding month, upticks have been observed on the GIL ratios for personal loans, loans for purchase of consumer durables, construction loans and loans for other purposes. GIL ratios for the other loan segments remained stable. The sector's loan loss coverage ratio was slightly lower at 100.6% (Apr'15: 101.8%) attributed to the increase in impaired loans.

CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) at 12.3%, 13.1% and 15.1% respectively in May'15.

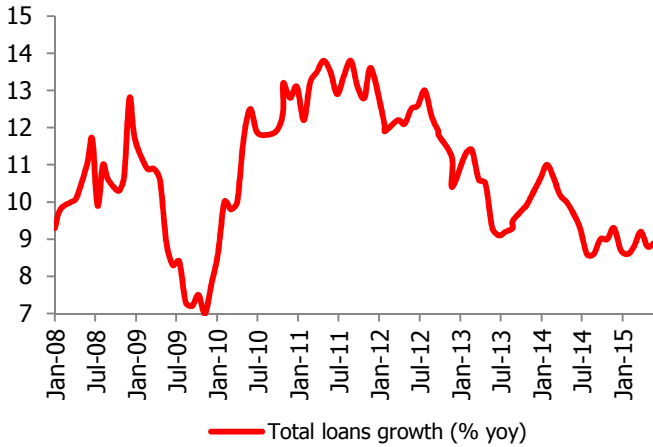
CALL ON SECTOR & STOCK PICKS

- **Year to date, loan growth for the sector picked up momentum to 7.4% annualized.** Loan momentum was stronger compared to the annualized growth rate of 6.6% for the 1st four months of CY15. Hence, we maintain our loan growth expectation of 8-9% for the sector in CY15.
- **Quantum of net funds raised in the capital market by the private sector was higher in May'15 compared to Apr'15.** With higher quantum of funds raised from IPO as well lower redemption for private debt securities (PDS), net funds raised from the capital market for the private sector was higher at RM6.8b compared to 1.6b in the preceding month. For the 1st 5 months of CY15, growth in net funds raised in the capital market by the private sector was flat at -0.7%yoy. New PDS issuances improved with a growth of +63.7%yoy in May'15 vs. +14.2%yoy in Apr'15. Nevertheless, we do not expect a significant improvement in new PDS issuances ahead. This is due to the uncertainty in interest rates with the MGS yield continuing to be volatile. Should the MGS yield continue to trend higher, we do not expect the pricing for new PDS to be attractive to issuers.
- **Percentage of MGS holdings by foreign investors slightly lower at 46.9% in May'15.** Based on our tracking, the percentage of MGS holdings by foreign investors declined slightly to 46.9% in May'15 compared to 47.0% in Apr'15.
- **Maintain NEUTRAL stance on the sector due to the ongoing challenges to the bank's earnings with no change in our stock picks.** 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: RM19.50), AHB (TP: 2.95), AMMB (TP: RM7.10), AFG (TP: RM4.70), CIMB (TP: RM6.10) and BIMB (TP: RM3.96). 

	Rec.	Price @ 30/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				15	16	15	16	15	16	15	16	15	16		
AMMB	NEUTRAL	6.03	7.10	54.4	56.0	11.1	10.8	27.3	23.0	4.5	3.8	4.8	5.1	1.3	1.2
Maybank	BUY	9.14	10.30	75.0	82.0	12.2	11.1	45.0	49.0	4.9	5.4	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	18.72	19.50	121.0	131.0	15.5	14.3	56.0	60.0	3.0	3.2	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.37	8.90	82.0	95.0	9.0	7.8	10.0	12.0	1.4	1.6	8.1	9.0	0.9	0.8
Hong Leong	BUY	13.40	15.60	115.0	122.0	11.7	11.0	38.0	40.0	2.8	3.0	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	5.47	6.10	44.0	50.0	12.4	10.9	18.0	20.0	3.3	3.7	4.7	5.0	1.2	1.1
AFG	NEUTRAL	4.39	4.70	34.7	36.0	12.7	12.2	15.4	16.0	3.5	3.6	2.9	3.2	1.5	1.4
BIMB	NEUTRAL	4.04	3.96	37.5	40.2	10.8	10.0	15.0	16.1	3.7	4.0	2.2	2.4	1.8	1.7
Affin	NEUTRAL	2.70	2.95	25.0	33.0	10.8	8.2	12.0	16.0	4.4	5.9	4.2	4.3	0.7	0.6
Average				65.4	71.7	11.8	10.7	26.3	28.0	3.5	3.8	5.5	6.0	1.4	1.3

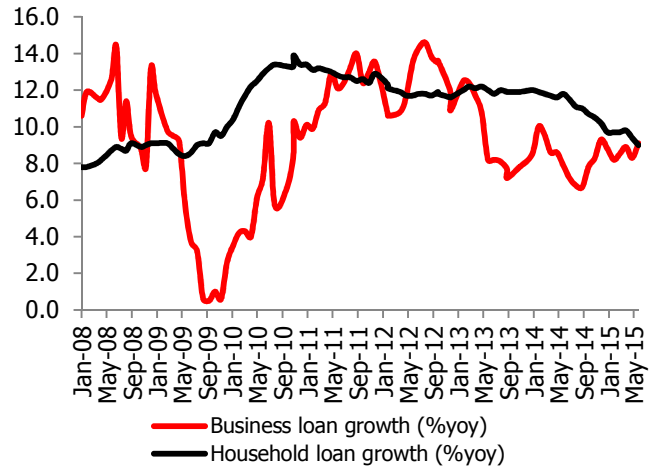
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Chart 1: Total Loan Growth Rate



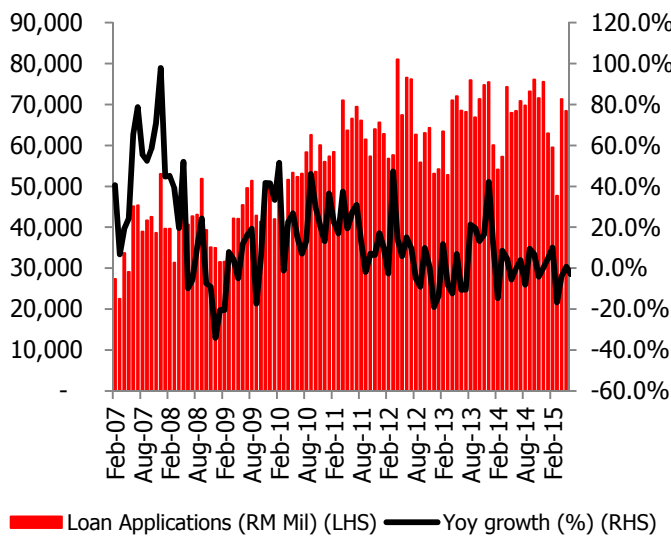
Source: BNM

Chart 2: Business and Household Loan Growth Rate



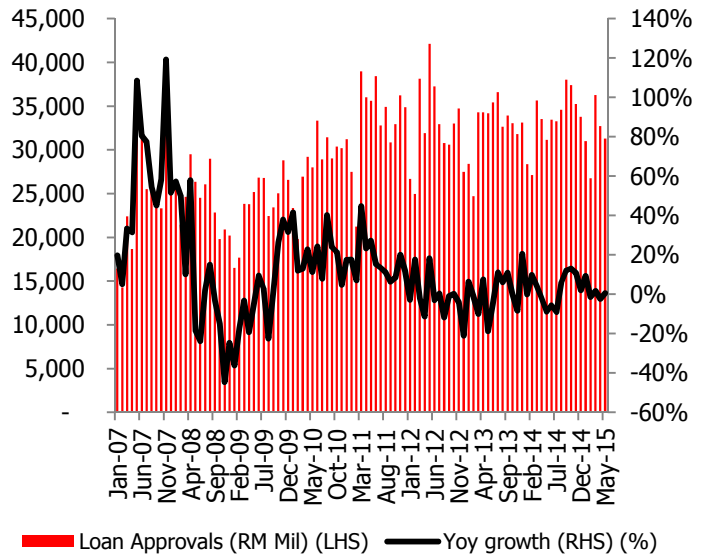
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

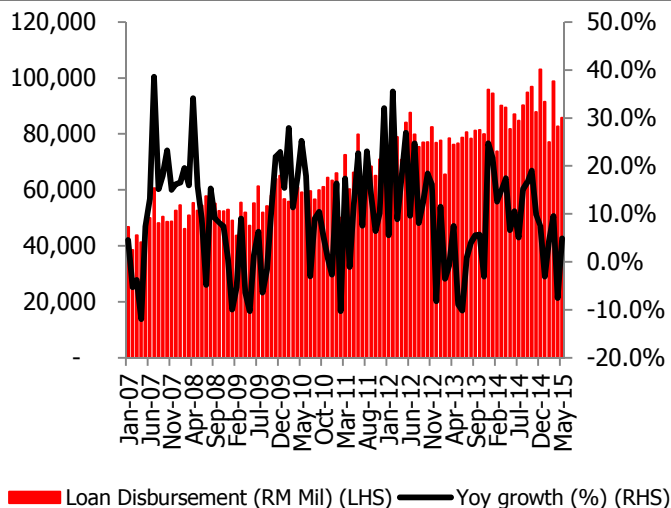


Chart 6: Interest Spread

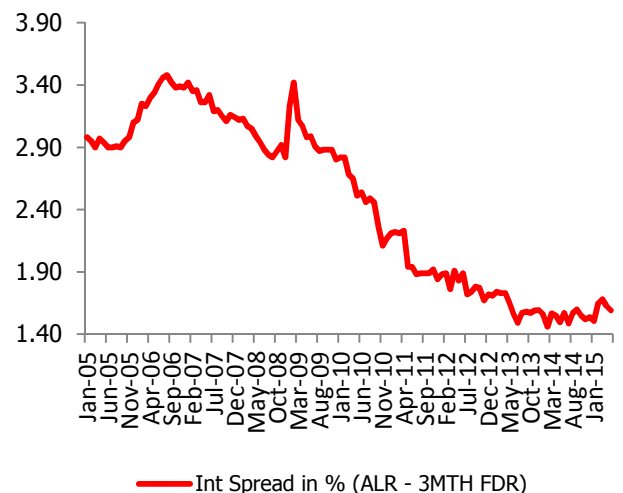
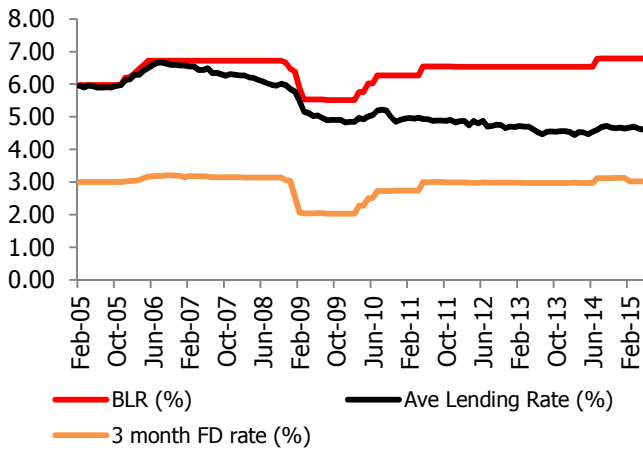
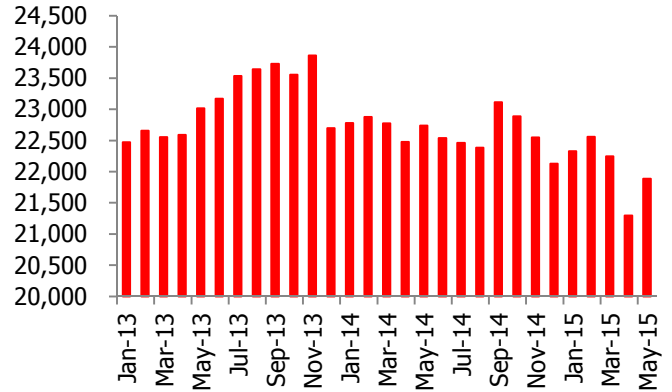


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



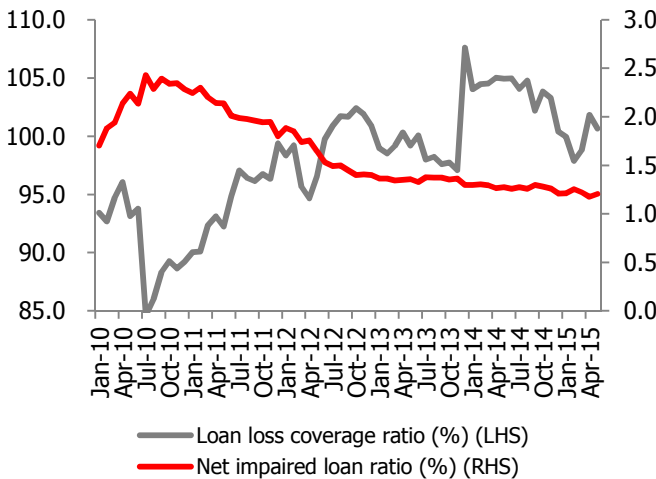
Source: BNM

Chart 8: Total Impaired Loans



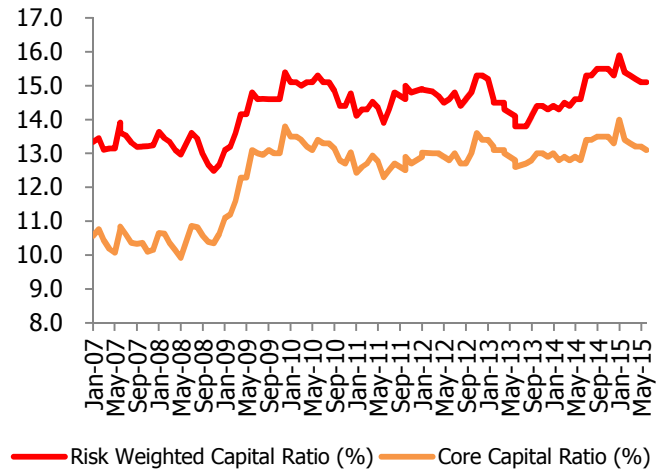
Source: BNM

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

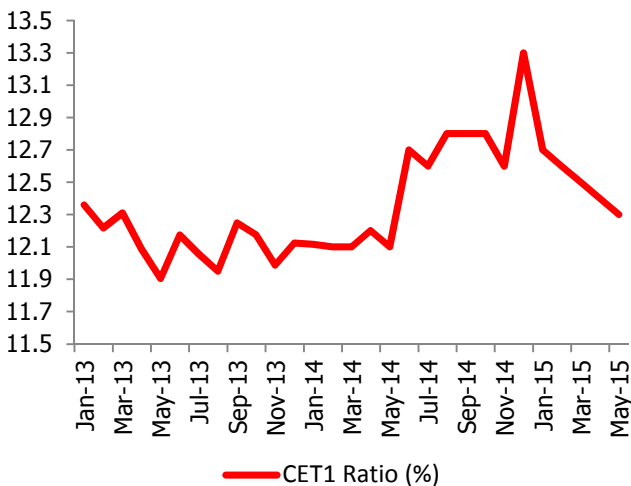
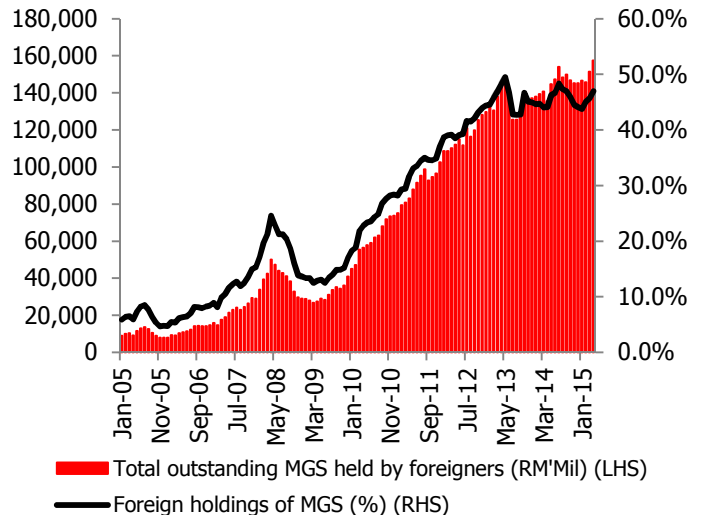


Chart 12: MGS Holdings by Foreigners



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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.