

2 Dec 2014 | Sector Update

BANKING - OCT 2014 BNM STATISTICS

Maintain NEUTRAL

Household loan demand continued to weaken

LOAN INDICATORS

- Banking system loan growth stable at 9.0%yoy in Oct'14, growing at the same rate as the preceding month. Business loan growth continued to gain traction for the 2nd consecutive month, rising to 8.3%yoy, up 50bp from the previous month. Meanwhile, Household loan growth further moderated, slipping 20b from the previous month to 10.5%yoy in Oct'14.
- Growth in working capital loans continued to accelerate for the 3rd consecutive month. Growth in working capital loans continued to rise, growing at 9.0%yoy while growth in construction loans slipped to 14.4%yoy, down 220bp from the previous month.

Table 1: Loan breakdown by purpose (RM mil)

	Oct-13	Sept-14	Oct-14	% of total	%Mom	%Yoy
Purchase of securities	66,034	74,667	76,034	5.8%	+1.8%	+15.1%
Purchase of transport vehicles	163,107	165,572	165,604	12.6%	+0.02%	+1.5%
of which : purchase of passenger cars	150,431	155,846	156,051	11.9%	+0.1%	+3.7%
Purchase of residential property	336,525	378,310	382,467	29.2%	+1.1%	+13.7%
Purchase of non-residential property	150,603	171,541	173,402	13.2%	+1.1%	+15.1%
Purchase of fixed asset other than land & building	9,173	10,554	10,541	0.8%	-0.1%	+14.9%
Personal use	57,649	59,479	59,800	4.6%	+0.5%	+3.7%
Credit card	33,623	34,548	34,535	2.6%	-0.004%	+2.7%
Purchase of consumer durables	178	516	555	0.04%	+7.6%	+211.8%
Construction	33,141	37,911	37,903	2.9%	-0.02%	+14.4%
Working capital	280,738	300,130	305,962	23.4%	+1.9%	+9.0%
Other purpose	70,390	64,903	62,755	4.8%	-3.3%	-10.8%
Total	1,201,162	1,298,129	1,309,558	100.0%	+0.9%	+9.0%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Oct-13	Sept-14	Oct-14	% of total	%Mom	%Yoy
Primary agriculture	31,862	32,027	31,775	2.4%	-0.8%	-0.3%
Mining and quarrying	7,619	8,361	8,647	0.7%	+3.4%	+13.5%
Manufacturing (including agro based)	95,914	99,866	101,106	7.7%	+1.2%	+5.4%
Electricity, gas and water supply	9,849	12,905	12,948	1.0%	+0.3%	+31.5%
Wholesale, retail, restaurants & hotels	90,998	96,155	97,808	7.5%	+1.7%	+7.5%
Construction	48,645	53,944	55,317	4.2%	+2.5%	+13.7%
Real estate	68,071	78,460	79,636	6.1%	+1.5%	+17.0%
Transport, storage & communication	27,910	31,856	31,886	2.4%	+0.1%	+14.2%
Financing, insurance & business services	80,113	84,705	87,861	6.7%	+3.7%	+9.7%
Education, health & others	45,178	36,532	36,624	2.8%	+0.3%	-18.9%
Household sector	678,433	744,007	749,529	57.2%	+0.7%	+10.5%
Other sector	16,572	19,312	16,420	1.3%	-15.0%	-0.9%
Total	1,201,163	1,298,129	1,309,558	100.0%	+0.9%	+9.0%

Source: BNM

Expansion of loans was mainly attributable to increase in loans to the Manufacturing, Construction, Real Estate, Financing, Insurance and Business services and Wholesale, Retail, Restaurants & Hotels sectors.

- **Momentum for Household loans continued to be slow.** Still a good traction on mortgage loans. Growth in loans for residential property purchase remained stable at 13.7%yoy while growth in loans for purchase of non-residential property moderated slightly to 15.1%yoy. Meanwhile, growth in loans for purchase of securities slipped to 15.1%yoy, a decline of 40bp from Sept'14.

Growth in loans for purchase of passenger cars improved to 3.7%yoy after 4 consecutive months of decline. Personal loans and credit card lending continued to grow modestly at 3.7%yoy and 2.7%yoy respectively.

Table 3: Loan applications by purpose (RM mil)

	Oct-14	% of total	July-14 (%Yoy)	Aug-14 (%Yoy)	Sept-14 (%Yoy)	Oct-14 (%Yoy)
Purchase of securities	3,376	4.7%	+95.4%	-14.3%	-20.4%	-20.5%
Purchase of transport vehicles	8,137	11.4%	-26.0%	+1.9%	-6.0%	-4.6%
of which : purchase of passenger cars	6,713	9.4%	-27.7%	-8.1%	-5.9%	-14.5%
Purchase of residential property	20,059	28.0%	-17.5%	-2.1%	-2.8%	-22.2%
Purchase of non-residential property	8,863	12.4%	-38.5%	+1.6%	-10.4%	-12.4%
Purchase of fixed asset other than land & building	517	0.7%	-32.1%	+37.6%	-8.2%	+28.2%
Personal use	4,033	5.6%	-13.0%	+32.8%	+34.0%	+18.5%
Credit card	2,152	3.0%	-20.3%	+5.9%	+3.7%	+0.2%
Purchase of consumer durables	2	0.003%	-80.4%	-78.5%	-44.6%	-28.4%
Construction	4,065	5.7%	-11.2%	-6.0%	+18.5%	+11.5%
Working capital	17,012	23.8%	+20.2%	+75.2%	+25.1%	+20.8%
Other purpose	3,358	4.7%	+115.4%	-59.4%	+38.2%	+41.1%
Total applied	71,575	100.0%	-8.1%	+9.4%	+6.7%	-4.3%

Source: BNM

- Industry loan applications growth continued to trend downwards.** Industry loan application growth further decelerated to -4.3%yoy vs. 6.7%yoy in the preceding month. Compared to Sept'14, the decline in growth in applications in Oct'14 was broad based. By business sectors, i) Finance, Insurance and Business Activities, ii) Construction and iii) Manufacturing sectors experienced slower growths in loan applications compared to the preceding month.

Growth in Household's loan applications slipped to -14.1%yoy from -0.5%yoy in the preceding month. Loan demand weakened across all types of household loans. We believe this has been attributed by the rise in inflation with the adjustment in fuel price as well as due to some banks taking a conservative stance on lending only to selected segments, hence avoiding lending to individuals falling under the vulnerable income group or borrowers that do not fall under the preferred risk grades for lending.

Table 4: Loan approvals by purpose (RM mil)

	Oct-14	% of total	July-14 (%Yoy)	Aug-14 (%Yoy)	Sept-14 (%Yoy)	Oct-14 (%Yoy)
Purchase of securities	3,731	10.0%	+5.3%	+6.2%	+8.1%	+37.0%
Purchase of transport vehicles	4,022	10.8%	-16.3%	+2.7%	-10.6%	-11.3%
of which : purchase of passenger cars	3,802	10.2%	-16.5%	+2.6%	-11.4%	-5.7%
Purchase of residential property	11,174	29.9%	-13.0%	+5.2%	+6.1%	+4.8%
Purchase of non-residential property	4,769	12.8%	-15.0%	+2.9%	+3.8%	+4.5%
Purchase of fixed asset other than land & building	335	0.9%	+47.9%	+11.4%	-27.2%	+49.9%
Personal use	1,498	4.0%	-29.6%	+10.8%	+25.9%	+30.8%
Credit card	1,236	3.3%	-27.4%	-0.6%	-4.0%	-11.1%
Purchase of consumer durables	10	0.0%	-80.9%	-1.1%	+18.9%	192.2%
Construction	2,068	5.5%	-27.1%	-35.7%	+69.0%	+8.0%
Working capital	7,771	20.8%	+24.9%	+40.3%	-3.4%	+60.4%
Other purpose	772	2.1%	-25.4%	-2.0%	+363.8%	-26.1%
Total approved	37,387	100.0%	-9.4%	+5.9%	+12.1%	+13.1%

Source: BNM

Loan approvals grew at a slightly faster pace. For Household loans, growths in approvals of loans for purchase of residential property and credit cards slowed down in pace (Refer Table 4). Growth in Household loan approvals slipped to 5.9%yoy in Oct'14 vs. 6.2%yoy in Sept'14. On Business loans, the trend was mixed with working capital loans growing at faster pace of 60.4%yoy while growth in Construction loans was significantly slower at 8.0%yoy.

- **Loan repayments outpaced loan disbursement.** Growth in loan repayments at 21.8%yoy was faster than that of loan disbursements which grew 19.0%yoy. The slower pace in loan disbursements contributed to a slightly lower industry LD ratio of 86.6%.
- **Industry liquidity continued to be tight with LD ratio 86.6%, a drop of 20bp from the previous month.** Deposit growth in the banking system accelerated to a growth of 6.5%yoy from 5.9%yoy in the previous month. This was contributed by stronger growths in savings deposits, NIDs and other deposits. CASA growth in the industry slowed down to 4.5%yoy from 5.0%yoy in the previous month.

LENDING AND DEPOSIT RATES

- **Snapped in the rising trend of ALR after upward adjustments in the previous 3 months following a 25bp rise in OPR on 10th July.** The industry's average lending rate (ALR) declined 5bp from the previous month to 4.67%. This was after a cumulative increase of 11bp over the last 3 months consecutively arising from an OPR hike of 25bp. BLR remained at 6.79%.
- **Average deposits rate rose slightly.** Interest spread (between the average lending rate and 3 month FD rate) declined to 1.55%, a decline of 5bp from the previous month contributed by lower ALR and a slightly higher average deposit rate of 3.177%.

ASSET QUALITY

- **GIL ratio for the industry declined to 1.7%.** Gross Impaired Loan (GIL) ratio was 1.7% while net impaired loan ratio remained at 1.3%.

Table 5: Impaired Loans by purpose (RM mil)

	Oct-13	Sept-14	Oct-14	% of total	%Mom	%Yoy
Purchase of securities	352	246	276	1.2%	+12.2%	-21.6%
Purchase of transport vehicles	1,941	2,150	2,112	9.2%	-1.8%	+8.8%
of which : purchase of passenger cars	1,720	2,000	1,968	8.6%	-1.6%	+14.4%
Purchase of residential property	5,323	4,981	4,984	21.8%	+0.1%	-6.4%
Purchase of non-residential property	1,276	1,321	1,332	5.8%	+0.8%	+4.4%
Purchase of fixed asset other than land & building	257	187	179	0.8%	-4.3%	-30.4%
Personal use	986	992	1,010	4.4%	+1.8%	+2.4%
Credit card	419	421	426	1.9%	+1.2%	+1.7%
Purchase of consumer durables	3	5	6	0.02%	+20.0%	+100.0%
Construction	1,735	2,761	2,766	12.1%	+0.2%	+59.4%
Working capital	10,065	8,799	8,624	37.7%	-2.0%	-14.3%
Other purpose	1,195	1,140	1,172	5.1%	+2.8%	-1.9%
Total	23,553	23,002	22,888	100.0%	-0.5%	-2.8%

Source: BNM

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

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14	Aug-14	Sept-14	Oct-14
Purchase of securities	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%	0.4%
Purchase of transport vehicles	1.4%	1.3%	1.3%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%
of which : purchase of passenger cars	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of residential property	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%
Purchase of fixed asset other than land & building	2.3%	2.5%	2.5%	2.4%	2.3%	1.9%	1.8%	1.8%	1.7%
Personal use	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Credit card	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of consumer durables	1.1%	1.0%	0.8%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%
Construction	4.8%	5.2%	5.1%	5.7%	5.0%	5.1%	5.0%	7.3%	7.3%
Working capital	3.1%	3.2%	3.2%	3.2%	3.1%	3.1%	3.0%	2.9%	2.8%
Other purpose	2.1%	2.2%	1.8%	1.8%	1.8%	2.0%	2.0%	1.8%	1.9%
Total	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.7%	1.8%	1.7%

Source: BNM

On absolute value basis, upticks were observed in impaired loans for purchase of securities and marginal upticks were seen in impairment of mortgage, personal loans and credit cards. Of the more notable increase was the rise in impaired loans for purchase of securities. Banking system impaired loans on absolute basis declined 0.5%mom. Loan loss coverage ratio for the sector rose to 103.8%, up 160bp from the preceding month.


CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) unchanged at 12.8%, 13.5% and 15.5% respectively.

CALL ON SECTOR & STOCK PICKS

- **Annualized loan growth for the 1st 10 months of CY14 at 8.2%.** Business loan growth continue to pick up pace but was offset by the continued downtrend in Household loan growth. Inflation rate rose again in Oct'14 to 2.8% with the adjustment of RON95 and diesel prices. We believe that this has contributed to the dampening of Household loan demand as reflected by weaker growth in Household loan

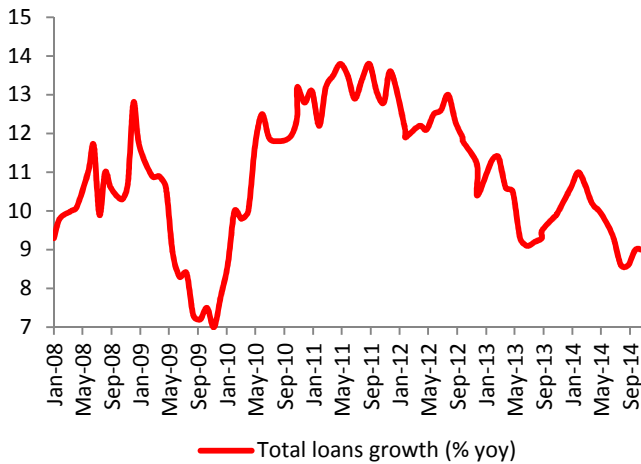
applications. Meanwhile, we expect our loan growth expectation for the sector of 9-10% for the full year of CY14 to be achievable on the back of the improved momentum for business loans in recent months.

- **Interest spread narrowed.** The decline in ALR reflected that there are still pressures on asset yields. Hence, NIM of banks is likely to continue to be under pressure again in 4QCY14 as loans with variable lending rates would have been fully adjusted with the rise in OPR by 25bp in 3QFY14 while there remains some lagged adjustments in deposit rates.
- **Still lackluster in the capital market with a decline in new PDS issuance. Lackluster trend likely to ensue to the end of CY14.** New PDS issuance declined to a growth of 58.4%yoy after recording a strong growth of 163.6% in Sept'14. Growth in net funds raised from the capital market continued to remain weak at -80.8%yoy as compared to -4.0%yoy in Sept'14. The lackluster in capital market activities is likely to continue through the end of CY14 while treasury income of bank continues to look challenging with the volatile market.
- **Lower MGS holdings by foreign investors.** MGS holdings held by foreign investors declined to 45.9% as of end Oct'14 as compared to a high of 48.4% as of end July'14.
- **Maintain our NEUTRAL stance on the sector.** Our stocks picks are on Hong Leong Bank (TP: RM16.30), Maybank (TP: RM11.20) and RHB Cap (RM10.70). We have a TRADING BUY call on CIMB (TP: RM7.27) due its share price weakness which has declined below its fundamental value. On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.30), AMMB (TP: RM7.30) and AFG (TP: RM5.00). 

	Rec.	Price @ 1/12	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	6.51	7.30	59.3	58.0	11.0	11.2	24.1	23.0	3.7	3.5	4.4	4.7	1.5	1.4
Maybank	BUY	9.14	11.20	70.0	79.0	13.1	11.6	44.0	48.0	4.8	5.3	5.6	6.0	1.6	1.5
Public Bank	NEUTRAL	18.38	19.50	113.0	121.0	16.3	15.2	51.0	55.0	2.8	3.0	7.1	7.8	2.6	2.4
RHB Capital	BUY	8.04	10.70	82.0	90.0	9.8	8.9	25.0	27.0	3.1	3.4	7.2	7.8	1.1	1.0
Hong Leong	BUY	14.28	16.30	119.4	119.0	12.0	12.0	41.0	39.0	2.9	2.7	8.2	8.6	1.7	1.7
CIMB	TRADING BUY	5.62	7.27	48.0	54.0	11.7	10.4	19.0	21.0	3.4	3.7	4.5	4.8	1.3	1.2
AFG	NEUTRAL	4.79	5.00	37.2	37.0	12.9	12.9	29.5	22.0	6.2	4.6	2.7	2.9	1.8	1.6
Affin	NEUTRAL	3.09	3.30	27.0	34.0	11.4	9.1	14.0	17.0	4.5	5.5	3.9	4.1	0.8	0.8

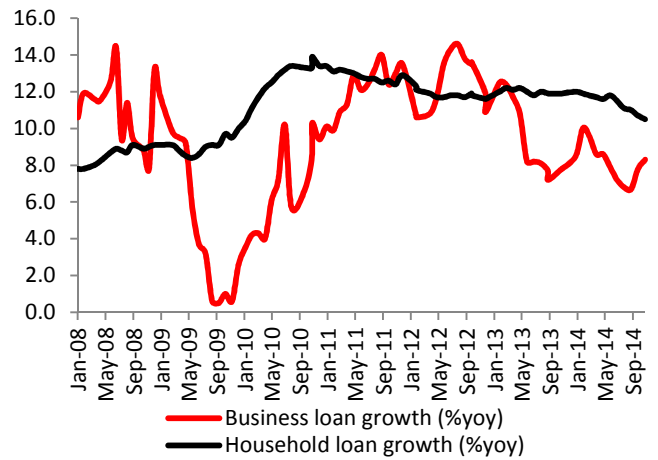
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Chart 1: Total Loan Growth Rate



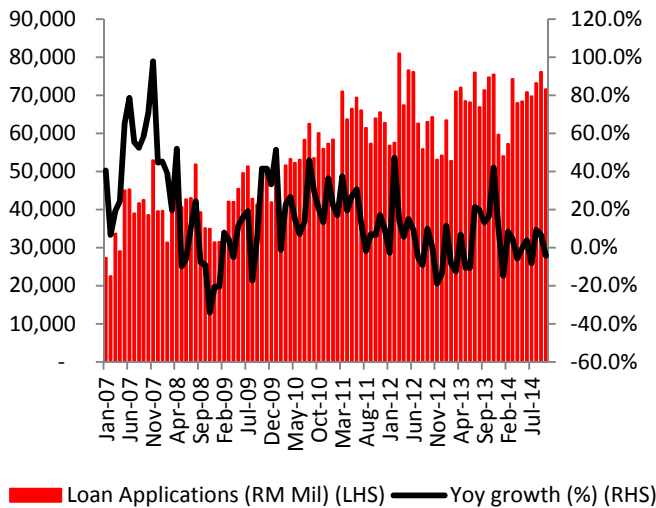
Source: BNM

Chart 2: Business and Household Loan Growth Rate



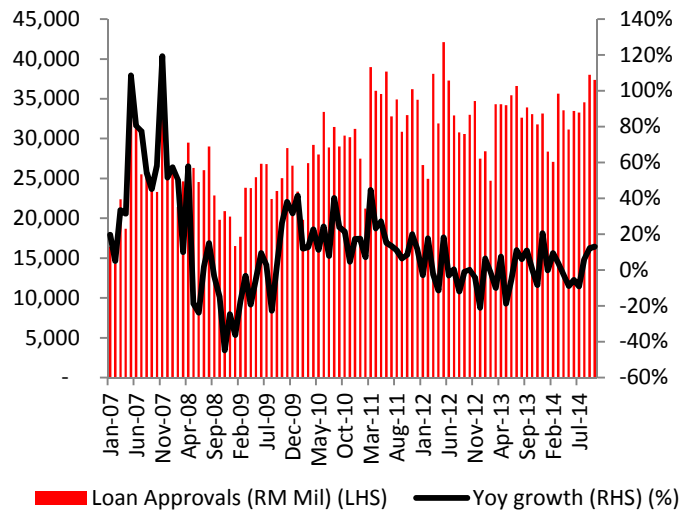
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

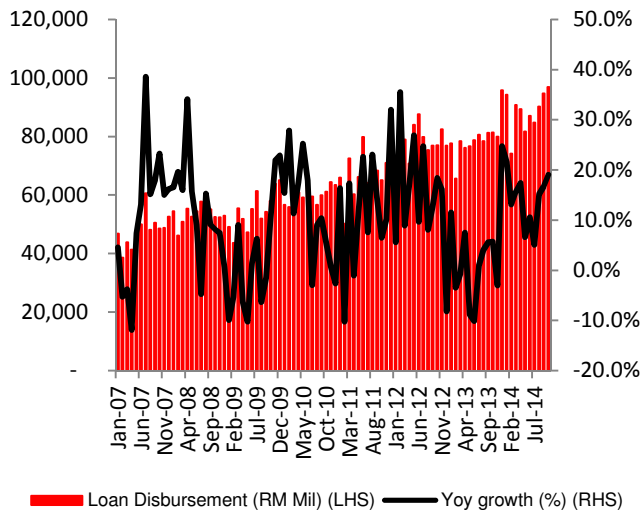


Chart 6: Interest Spread

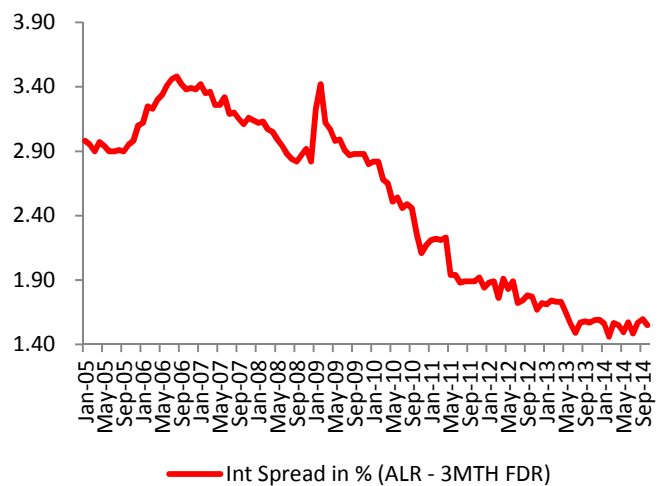
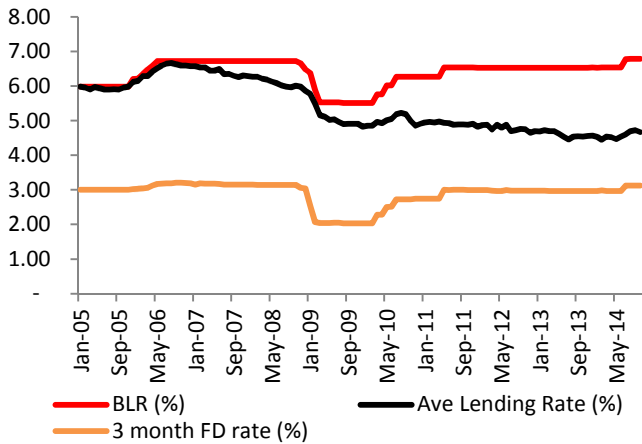
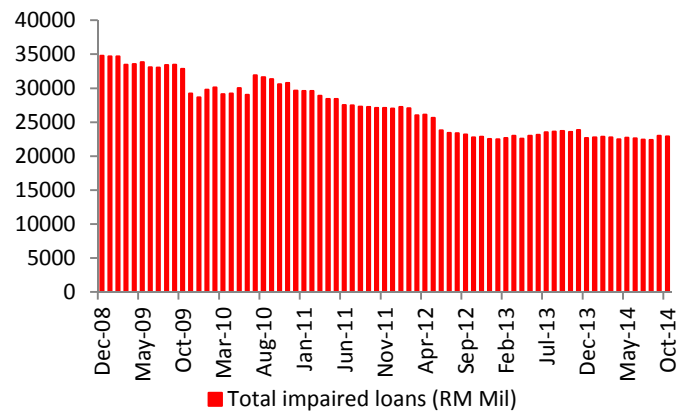


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



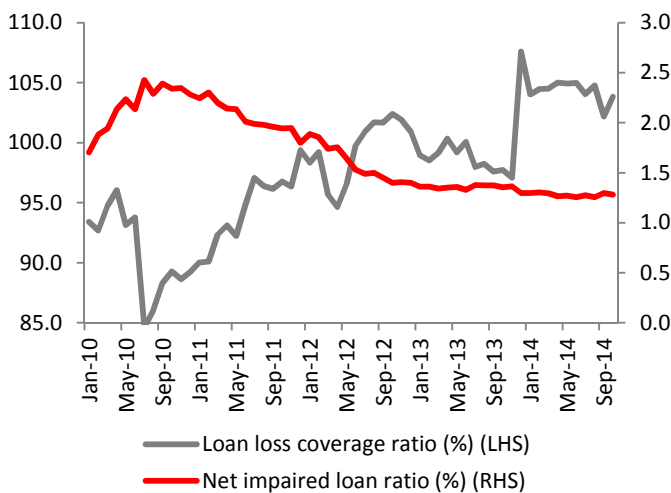
Source: BNM

Chart 8: Total Impaired Loans



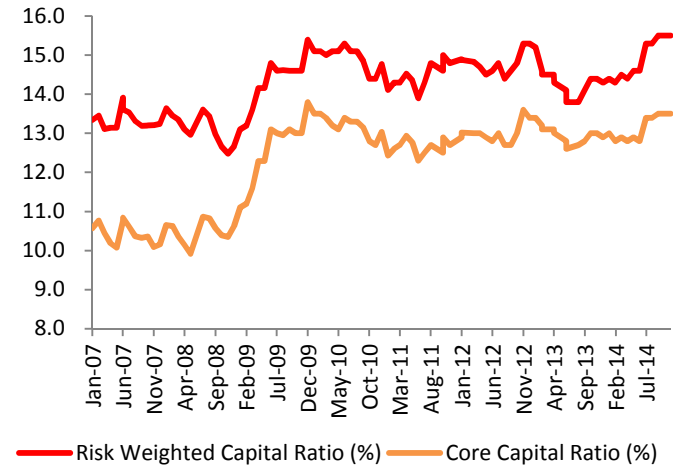
Source: BNM

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

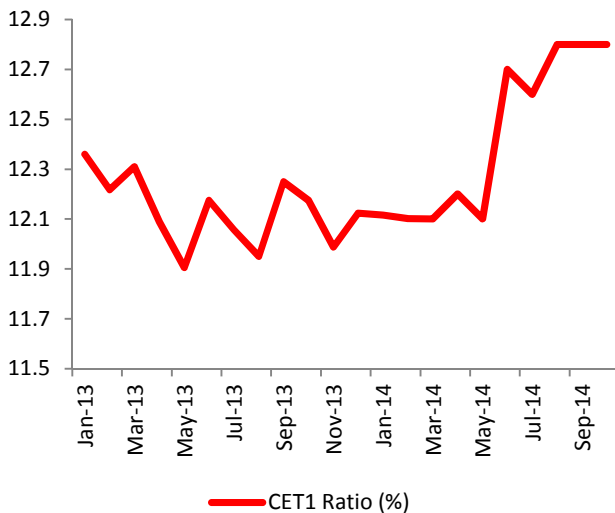
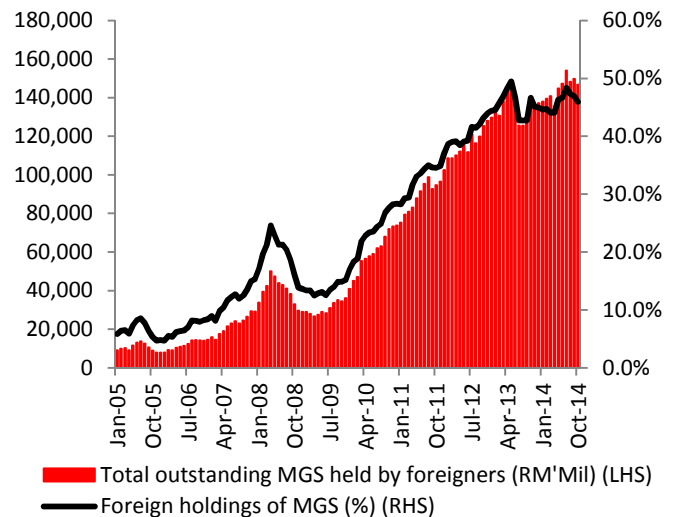


Chart 12: MGS Holdings by Foreigners



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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.