

02 Dec 2015 | Sector update

BANKING – OCT 2015 BNM STATISTICS

Maintain NEUTRAL

Loans applications picked up pace

LOAN INDICATORS

- **Industry loan growth decelerated to +9.1%yoy as business and household loans slowed down further.** Banking system's loan growth in Oct'15 decelerated to +9.1%yoy from +9.7%yoy in the preceding month. This was due to a further slowdown in business and household loans. Momentum for business loans was slower with a growth of +9.8%yoy in Oct'15 from +11.0%yoy in the preceding month. Loans for construction picked up pace to +9.5%yoy while growth in working capital loans eased to +12.9%yoy.

Household loans continued to lose traction after GST implementation in Apr'15 and registered a slower growth of +8.0%yoy in Oct'15 (Sept'15: +8.1%yoy).

Table 1: Loan breakdown by purpose (RM mil)

	Oct-14	Sept-15	Oct-15	% of total	%Mom	%Yoy
Purchase of securities	76,034	74,502	74,813	5.2%	+0.4%	-1.6%
Purchase of transport vehicles	165,604	169,456	169,526	11.9%	+0.04%	+2.4%
of which : purchase of passenger cars	156,051	159,953	160,233	11.2%	+0.2%	+2.7%
Purchase of residential property	382,821	424,797	429,006	30.0%	+1.0%	+12.1%
Purchase of non-residential property	173,048	194,565	196,115	13.7%	+0.8%	+13.3%
Purchase of fixed asset other than land & building	10,541	10,900	10,624	0.7%	-2.5%	+0.8%
Personal use	59,800	62,461	62,880	4.4%	+0.7%	+5.2%
Credit card	34,535	34,747	34,745	2.4%	-0.01%	+0.6%
Purchase of consumer durables	555	145	143	0.01%	-1.4%	-74.2%
Construction	37,903	41,276	41,513	2.9%	+0.6%	+9.5%
Working capital	305,962	345,234	345,454	24.2%	+0.1%	+12.9%
Other purpose	62,755	65,976	64,386	4.5%	-2.4%	+2.6%
Total	1,309,558	1,424,060	1,429,206	100.0%	+0.4%	+9.1%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Oct-14	Sept-15	Oct-15	% of total	%Mom	%Yoy
Primary agriculture	31,775	37,498	37,788	2.6%	+0.8%	+18.9%
Mining and quarrying	8,647	13,281	13,106	0.9%	-1.3%	+51.6%
Manufacturing (including agro based)	101,106	103,224	101,962	7.1%	-1.2%	+0.8%
Electricity, gas and water supply	12,948	11,662	11,689	0.8%	+0.2%	-9.7%
Wholesale, retail, restaurants & hotels	97,808	106,028	105,725	7.4%	-0.3%	+8.1%
Construction	55,317	59,556	60,033	4.2%	+0.8%	+8.5%
Real estate	79,636	95,266	96,120	6.7%	+0.9%	+20.7%
Transport, storage & communication	31,886	35,979	36,303	2.5%	+0.9%	+13.9%
Financing, insurance & business services	87,861	94,306	94,205	6.6%	-0.1%	+7.2%
Education, health & others	36,624	40,861	41,243	2.9%	+0.9%	+12.6%
Household sector	749,529	804,062	809,527	56.6%	+0.7%	+8.0%
Other sector	16,420	22,337	21,504	1.5%	-3.7%	31.0%
Total	1,309,558	1,424,060	1,429,206	100.0%	+0.4%	+9.1%

Source: BNM

By business sectors, relative to the previous month, the slowdown in business loans on-year was mainly contributed by slower growth of loans to the manufacturing, construction, wholesale, retail, restaurants and hotels sectors and the financing, insurance and business services sectors.

- **Household loan growth continued to moderate.** Growth in loans for purchase of residential property remained stable at +12.1%yoy while that for purchase of non residential property eased to +13.3%yoy. We believe that the trend reflects a more conservative stance of banks in granting loans for purchase of non residential properties than residential properties in view of the slower property market and economic growth.

Growth in loans for purchase of passenger cars loans and outstanding of credit cards remain subdued at +2.7%yoy and +0.6%yoy respectively. Meanwhile with the volatile markets and cautious sentiment on retail investors, growth in loans for purchase of securities slipped further to a higher negative growth rate of -1.6%yoy. We believe that contributing partly to the decline was the slowdown in ASB loans. On the other segments, personal loans remained stable with a growth +5.2%yoy compared to the preceding month.

Table 3: Loan applications by purpose (RM mil)

	Oct-15	% of total	July-15 (%Yoy)	Aug-15 (%Yoy)	Sept-15 (%Yoy)	Oct-15 (%Yoy)
Purchase of securities	2,335	2.9%	-66.9%	-42.9%	-11.5%	-30.8%
Purchase of transport vehicles	7,825	9.7%	-5.5%	-9.6%	+0.2%	-3.8%
of which : purchase of passenger cars	7,518	9.3%	-8.9%	-0.1%	-2.1%	+12.0%
Purchase of residential property	18,161	22.5%	-3.3%	-6.4%	-7.9%	-9.5%
Purchase of non-residential property	7,029	8.7%	-6.4%	-23.1%	-10.4%	-20.7%
Purchase of fixed asset other than land & building	433	0.5%	+50.3%	-45.0%	+538.2%	-16.2%
Personal use	6,605	8.2%	+60.8%	+53.0%	+38.4%	+63.8%
Credit card	3,722	4.6%	+70.9%	+55.2%	+66.8%	+73.0%
Purchase of consumer durables	0	0.0%	-35.0%	-77.0%	-71.4%	-85.2%
Construction	2,960	3.7%	+22.5%	+15.0%	-18.3%	-27.2%
Working capital	22,004	27.3%	+38.6%	+17.7%	-26.0%	+29.3%
Other purpose	9,665	12.0%	-7.0%	+28.2%	+62.8%	+187.8%
Total applied	80,739	100.0%	+7.0%	+3.1%	-1.8%	+12.8%

Source: BNM

- Both non household and household loans applications picked up pace.** Growth in industry loan applications rebounded to +12.8%yoy from -1.8%yoy in the preceding month. This was contributed by stronger growths in non household and household loan applications of +23.3%yoy and +3.4%yoy respectively.

By loan purpose, stronger demand for household loans was contributed by the rise in growth of personal loans and credit card applications. For non household loans, loan applications for construction continued to be slow while demand for working capital loans picked up pace.

By sectors, the rise in loan demand was mainly due to higher growth in loan applications of non households (finance, insurance and services sector coupled with manufacturing sector). Also contributing to the rise was stronger loan applications by the household sector.

Table 4: Loan approvals by purpose (RM mil)

	Oct-15	% of total	July-15 (%Yoy)	Aug-15 (%Yoy)	Sept-15 (%Yoy)	Oct-15 (%Yoy)
Purchase of securities	1,872	5.2%	-40.8%	-46.3%	-55.4%	-49.8%
Purchase of transport vehicles	4,150	11.6%	+2.2%	-7.5%	+5.0%	+3.2%
of which : purchase of passenger cars	3,974	11.1%	+2.6%	-6.7%	+6.6%	+4.5%
Purchase of residential property	8,890	24.9%	-17.8%	-17.5%	-19.0%	-20.4%
Purchase of non-residential property	3,135	8.8%	-25.9%	-28.8%	-34.6%	-34.3%
Purchase of fixed asset other than land & building	277	0.8%	-50.3%	-41.0%	+75.4%	-17.2%
Personal use	1,825	5.1%	+6.8%	+16.8%	+12.2%	+21.9%
Credit card	1,653	4.6%	+36.4%	+17.1%	+21.5%	+33.7%
Purchase of consumer durables	0	0.0%	-98.2%	-97.7%	-99.2%	-99.7%
Construction	2,013	5.6%	-9.1%	-8.0%	-21.4%	-2.7%
Working capital	9,160	25.6%	+47.5%	+17.9%	-1.1%	+17.9%
Other purpose	2,767	7.7%	+21.1%	-2.3%	-28.5%	+258.3%
Total approved	35,741	100.0%	-0.9%	-9.1%	-15.2%	-4.4%

Source: BNM

- Loan approvals remained weak.** Growth rate of loan approvals remained negative. Nevertheless, the negative growth was lower at -4.4%yoy vs. -15.2%yoy in the preceding month. Approvals for non household loans improved to a higher growth rate of +3.2%yoy. Growth in approvals for construction and working capital loans gained momentum relative to the preceding month. Meanwhile, approvals for household loans remained weak with a growth of -10.4%yoy. By loan purpose, the decline in loan approvals for household loans was mainly due to the slowdown in approvals for mortgage as well as loans for purchase of securities and passenger vehicles (Refer Table 4).
- LD ratio trend higher to 91.2% as deposits grew slower than loans reflecting tighter liquidity in sector.** In Oct'15, growth in loan disbursements slowed down to -7.5%yoy while growth in loan repayments eased to -4.5%yoy. Industry LD ratio rose to 91.2% from 90.1% in the preceding month.

Growth of deposits (excluding REPO) in the banking system decelerated to +2.7%yoy from +4.6%yoy in the preceding quarter. Industry CASA growth slowed down to +4.7%yoy down from +5.6%yoy in the preceding month. CASA ratio was slightly lower at 25.8% for Oct'15.

Liquidity coverage ratio (LCR) for the sector in Oct'15 eased to 119.0% contributed by drop in LCR for commercial banks to 124.0% from 131.0% in the preceding month. Meanwhile, LCR for Islamic banks remain stable at 102.0% while that of investment banks rose slightly to 126.0%. LCR for the sector remained well above the regulatory requirement of 60% in 2015. Moving into 2016, the LCR requirement will be raised to 70% and hence continue to expect this to contribute to the stiff deposit competition in the market.

LENDING AND DEPOSIT RATES

- **Interest spread improved due to higher ALR.** The industry's average lending rate (ALR) rose to 4.54% (+0.05% mom) for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate was unchanged at 3.85%.

Interest spread (between the average lending rate and average deposit rate) improved to 1.35% contributed by higher ALR while the average deposit rate remained stable. Stiff competition for lending and deposit rates is expected to continue to still compress banks' NIMs.

ASSET QUALITY

- **Asset quality remains stable.** Overall Industry's Gross Impaired Loan (GIL) ratio and net impaired loan (NIL) ratio continue to hold up at 1.6% and 1.2% respectively.

Table 5: Impaired Loans by purpose (RM mil)

	Oct-14	Sept-15	Oct-15	% of total	%Mom	%Yoy
Purchase of securities	276	341	327	1.4%	-4.1%	+18.5%
Purchase of transport vehicles	2,112	1,751	1,748	7.7%	-0.2%	-17.2%
of which : purchase of passenger cars	1,968	1,633	1,644	7.2%	0.7%	-16.5%
Purchase of residential property	4,984	5,160	5,045	22.1%	-2.2%	+1.2%
Purchase of non-residential property	1,332	1,877	1,892	8.3%	+0.8%	+42.0%
Purchase of fixed asset other than land & building	179	167	188	0.8%	+12.6%	+5.0%
Personal use	1,010	1,042	1,092	4.8%	+4.8%	+8.1%
Credit card	426	469	474	2.1%	+1.1%	+11.3%
Purchase of consumer durables	6	2	2	0.01%	-	-66.7%
Construction	2,766	2,482	2,491	10.9%	+0.4%	-9.9%
Working capital	8,624	8,327	8,120	35.6%	-2.5%	-5.8%
Other purpose	1,172	1,403	1,407	6.2%	+0.3%	+20.1%
Total	22,888	23,020	22,787	100.0%	-1.0%	-0.4%

Source: BNM

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

	Mar-15	Apr-15	May-15	Jun-15	July-15	Aug-15	Sept-15	Oct-15
Purchase of securities	0.6%	0.3%	0.3%	0.5%	0.4%	0.4%	0.5%	0.4%
Purchase of transport vehicles	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%
of which : purchase of passenger cars	1.1%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%	1.0%
Purchase of residential property	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%
Purchase of fixed asset other than land & building	1.2%	1.8%	1.6%	1.6%	1.6%	1.5%	1.5%	1.8%
Personal use	2.0%	1.6%	1.7%	1.6%	1.7%	1.7%	1.7%	1.7%
Credit card	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%
Purchase of consumer durables	1.7%	1.5%	1.6%	1.4%	1.2%	1.3%	1.4%	1.3%
Construction	5.7%	5.7%	6.0%	6.1%	7.7%	6.1%	6.0%	6.0%
Working capital	2.6%	2.4%	2.4%	2.5%	2.3%	2.3%	2.4%	2.4%
Other purpose	1.8%	2.1%	2.3%	2.2%	2.1%	2.2%	2.1%	2.2%
Total	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value basis, impaired loans eased -1.0%mom or RM233m to RM22.7b. GIL ratios for most loan segments continued to be stable (see Table 6). The sector's loan loss coverage ratio was unchanged at 98.1%.

CAPITALISATION

- **Capital position improved.** The sector's CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) improved to 12.3% (+0.2%mom), 13.3%(+0.5%mom) and 15.4% (+0.6%mom) respectively in Oct'15. This was contributed in part by lower risk weighted assets (RWA) of -0.1%mom and higher Tier 1 and Tier 2 capital.

CALL ON SECTOR & STOCK PICKS

- **Year-to-date, loan growth slowed down to 8.0% annualized which is line with our expectation of a 7-8% growth for CY15.** We continue to expect loan growth to be slow ahead due to moderation in economic growth and the tighter liquidity in the banking system with the LD ratio rising higher.


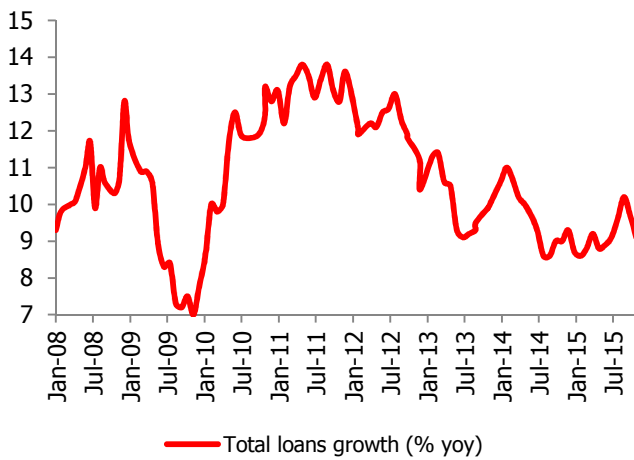
- **NIM was more stable for most banks in 3QCY15 but pressure on funding cost still persist and is expected to contract margins of banks again in 4QCY15 due to keener competition on deposits locally.** As banks compete again for deposits with a higher LCR requirement of 70% in CY16 from 60% in CY15, competition for liquidity is expected to be intensified again. This will turn on the pressure again on banks' funding cost.
- **Challenging revenue growth and some pressure on asset quality due to the weaker domestic currency, low commodity prices and higher inflation from subsidy reductions will cause banks' earnings to remain unexciting for CY15.** NOII is expected to continue to be weak moving into the remaining months of CY15. This is due to lower fee income from lending and IB activities and slower trading and investment income partly offset by higher FX gains from higher client flow FX transactions and structural positions (if any).
- **Maintain NEUTRAL on the sector.** Our BUY call is on Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield. We have downgraded our call for Hong Leong Bank from BUY to NEUTRAL with an unchanged TP of RM14.60 at the recently completed result earnings session. We remain NEUTRAL on Public Bank (TP: RM18.80), AMMB (TP: RM5.10), AFG (TP: RM3.80), RHB Cap (TP: RM6.20), BIMB (TP: RM4.22) and CIMB (TP: RM5.20). Also, we have downgraded AFFIN to SELL from NEUTRAL (TP: RM1.90) due to weaker than expected NOII, higher OPEX and provisions. 

Table 7: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 1/12	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	4.72	5.10	54.4	49.0	8.7	9.6	27.3	22.0	5.8	4.7	4.8	5.1	1.0	0.9
Maybank	BUY	8.45	9.80	68.0	75.0	12.4	11.3	41.0	45.0	4.9	5.3	6.1	6.5	1.4	1.3
Public Bank	NEUTRAL	18.38	18.80	121.0	129.0	15.2	14.2	56.0	59.0	3.0	3.2	7.9	8.6	2.3	2.1
RHB Capital	NEUTRAL	5.78	6.20	59.0	54.0	9.8	n.m	8.0	6.9	1.4	n.m	7.6	5.7	0.8	n.m
Hong Leong	NEUTRAL	13.36	14.60	123.8	107.0	10.8	12.5	41.0	35.0	3.1	2.6	9.5	10.3	1.4	1.3
CIMB	NEUTRAL	4.55	5.20	40.0	44.0	11.4	10.3	16.0	18.0	3.5	4.0	4.7	5.0	1.0	0.9
AFG	NEUTRAL	3.62	3.80	34.7	34.0	10.4	10.6	15.4	15.0	4.3	4.1	2.9	3.1	1.2	1.2
BIMB	NEUTRAL	3.88	4.22	36.4	38.9	10.7	10.0	15.0	16.0	3.9	4.1	2.2	2.4	1.8	1.6
Affin	SELL	2.35	1.90	19.0	25.0	12.4	9.4	10.0	12.0	4.3	5.1	4.1	4.3	0.6	0.6
Average				61.8	61.8	11.3	11.0	25.5	25.4	3.8	4.1	5.5	5.7	1.3	1.2

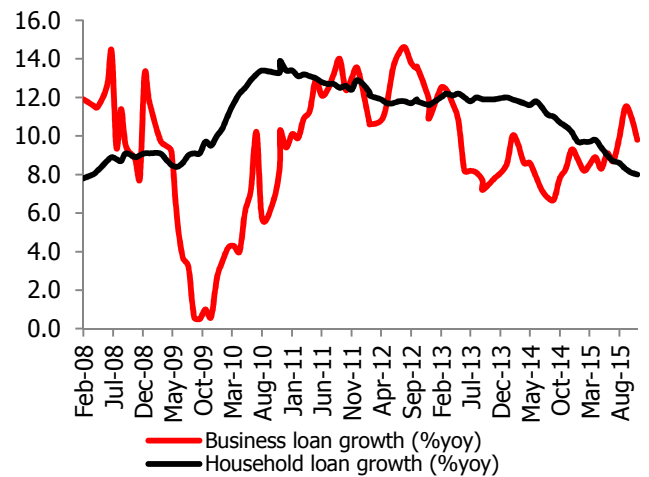
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Chart 1: Total Loan Growth Rate



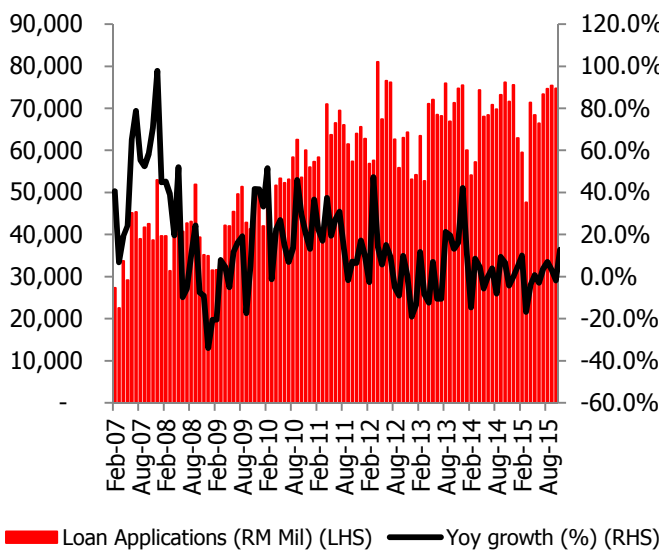
Source: BNM

Chart 2: Business and Household Loan Growth Rate



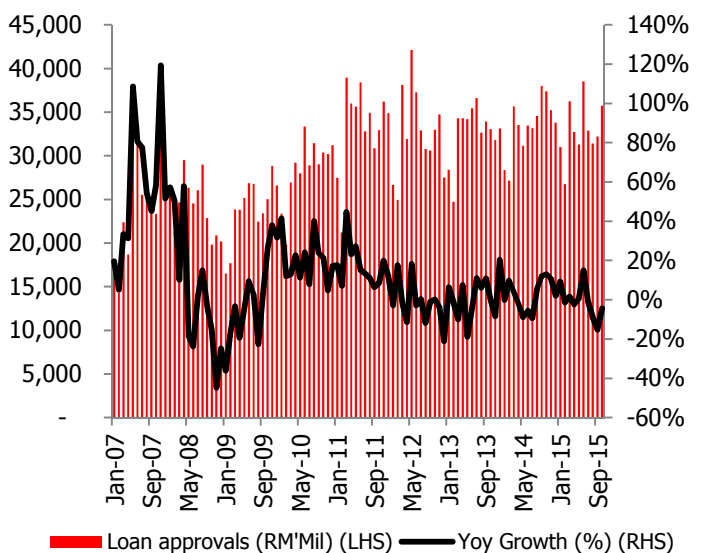
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

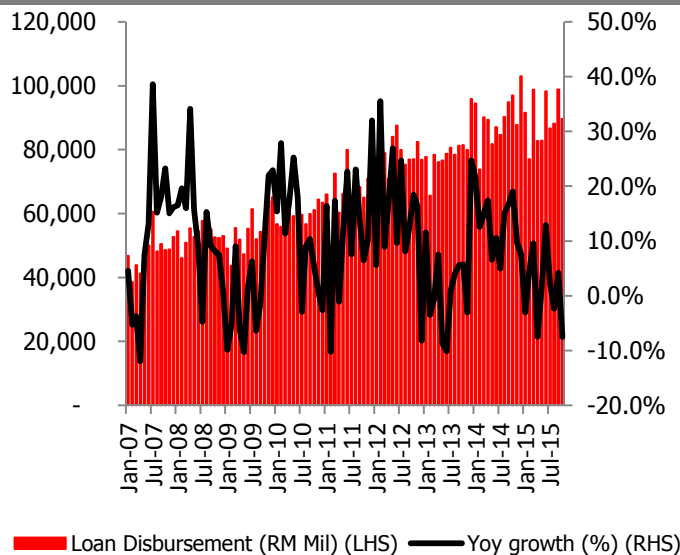


Chart 6: Interest Spread

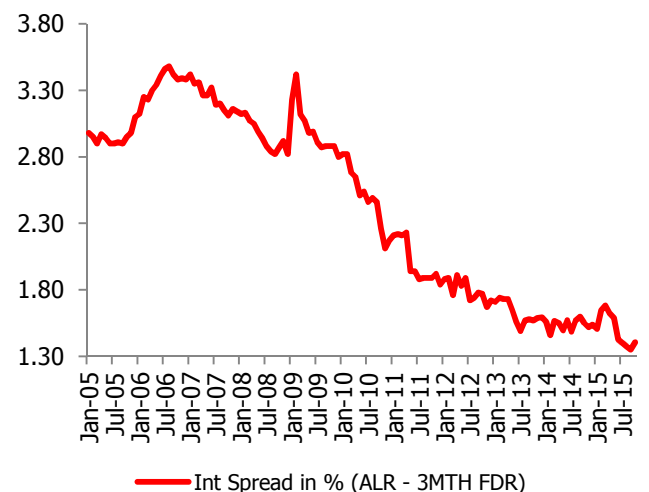
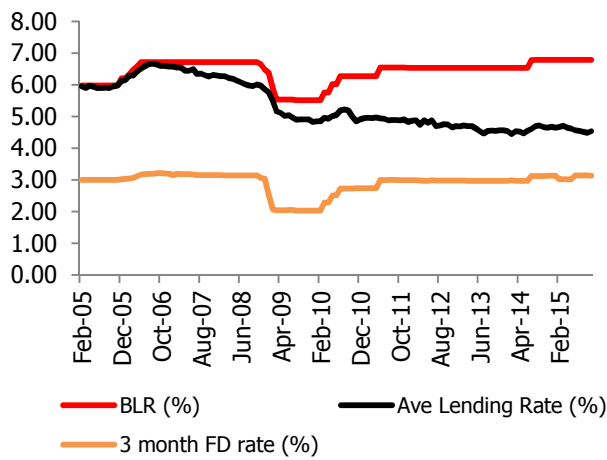
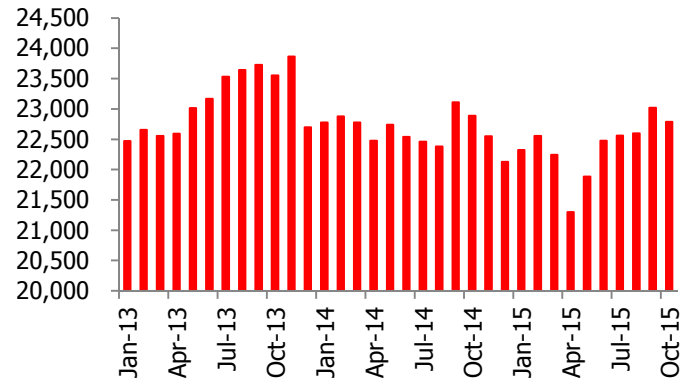


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



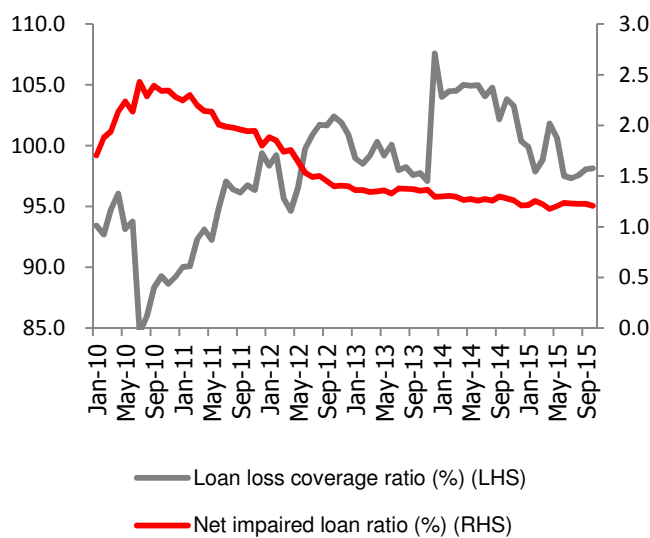
Source: BNM

Chart 8: Total Impaired Loans



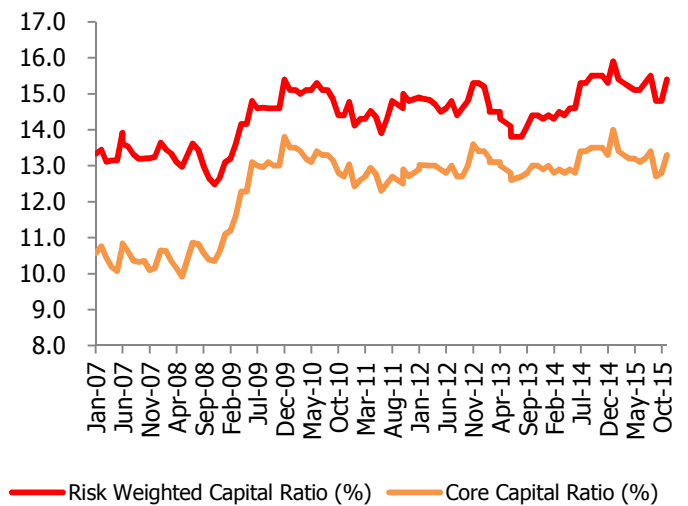
Source: BNM

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

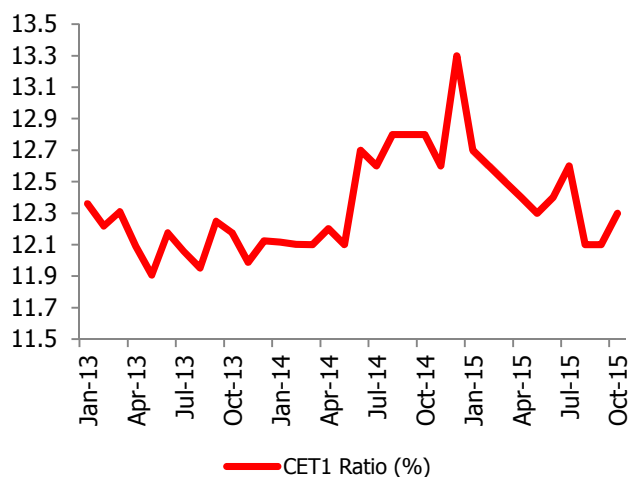
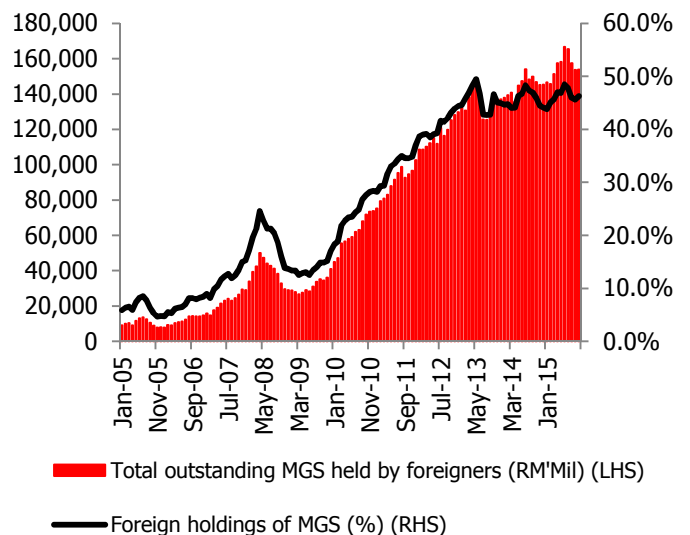


Chart 12: MGS Holdings by Foreigners



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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.