

4 Nov 2014 | Sector Update

## BANKING - SEPT 2014 BNM STATISTICS

Maintain NEUTRAL

A pick-up in business loan growth

### LOAN INDICATORS

- **Banking system loan growth accelerated to 9.0%yoy in Sept'14 contributed by expansion in business loans.** Industry loan growth in Sept'14 picked up pace to 9.0%yoy from 8.6%yoy in the preceding month. Loan disbursements grew slightly ahead of loan repayments in Sept'14. Business loan growth expanded at faster pace of 7.8%yoy, up 110bp from the previous month. Meanwhile, household loan growth slipped 30b from the previous month to 10.7%yoy in Sept'14.
- **Growth in working capital loans and loans for construction accelerated in Sept'14.** In terms of loans by purposes, growth in working capital loans continued to gain momentum, rising to 7.5%yoy (Aug'14: 6.8%yoy) while loans extended for construction purposes jumped 450bp to 16.6%yoy in Sept'14 (Aug'14: 12.1%yoy).

Table 1: Loan breakdown by purpose (RM mil)

	Sept-13	Aug-14	Sept-14	% of total	%Mom	%Yoy
Purchase of securities	64,636	74,140	74,667	5.8%	+0.7%	+15.5%
Purchase of transport vehicles	162,306	165,615	165,572	12.8%	-0.03%	+2.0%
of which : purchase of passenger cars	151,899	155,935	155,846	12.0%	-0.1%	+2.6%
Purchase of residential property	332,717	374,319	378,310	29.1%	+1.1%	+13.7%
Purchase of non-residential property	148,557	169,344	171,541	13.2%	+1.3%	+15.5%
Purchase of fixed asset other than land & building	9,268	10,213	10,554	0.8%	+3.3%	+13.9%
Personal use	57,473	58,759	59,479	4.6%	+1.2%	+3.5%
Credit card	33,836	34,343	34,548	2.7%	+0.6%	+2.1%
Purchase of consumer durables	147	473	516	0.04%	+9.1%	+251.0%
Construction	32,514	36,400	37,911	2.9%	+4.2%	+16.6%
Working capital	279,148	294,961	300,130	23.1%	+1.8%	+7.5%
Other purpose	70,778	63,378	64,903	5.0%	+2.4%	-8.3%
<b>Total</b>	<b>1,191,381</b>	<b>1,281,945</b>	<b>1,298,129</b>	<b>100.0%</b>	<b>+1.3%</b>	<b>+9.0%</b>

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Sept-13	Aug-14	Sept-14	% of total	%Mom	%Yoy
Primary agriculture	31,925	31,724	32,027	2.5%	+1.0%	+0.3%
Mining and quarrying	7,825	8,078	8,361	0.6%	+3.5%	+6.8%
Manufacturing (including agro based)	95,963	98,336	99,866	7.7%	+1.6%	+4.1%
Electricity, gas and water supply	9,712	12,803	12,905	1.0%	+0.8%	+32.9%
Wholesale, retail, restaurants & hotels	89,625	94,910	96,155	7.4%	+1.3%	+7.3%
Construction	47,830	52,593	53,944	4.2%	+2.6%	+12.8%
Real estate	67,921	77,037	78,460	6.0%	+1.8%	+15.5%
Transport, storage & communication	27,920	31,336	31,856	2.5%	+1.7%	+14.1%
Financing, insurance & business services	79,572	82,893	84,705	6.5%	+2.2%	+6.5%
Education, health & others	45,025	36,022	36,532	2.8%	+1.4%	-18.9%
Household sector	671,876	738,545	744,007	57.3%	+0.7%	+10.7%
Other sector	16,186	17,667	19,312	1.5%	+9.3%	+19.3%
<b>Total</b>	<b>1,191,381</b>	<b>1,281,945</b>	<b>1,298,129</b>	<b>100.0%</b>	<b>+1.3%</b>	<b>+9.0%</b>

Source: BNM

By loan sectors, the pick-up in business loan growth was supported by increase in loans granted to the Manufacturing, Wholesale, Retail, Restaurants & Hotels sectors, Real Estate, Financing, Insurance and Business Services and Construction sectors.

- **Household loans continued to lose traction.** Growth in mortgage loans remained steady with loans for residential property purchase expanded by 13.7%yoy while growth in loans for purchase of non residential property grew 15.5%yoy in Sept'14. Elsewhere, growth in loans for purchase of securities slipped to 15.5%yoy, down 120bp from Aug'14.

Growth in loans for purchase of passenger cars decelerated to 2.6%yoy (Aug'14: 3.0%yoy). We observed a moderate rise in growth of personal loans to 3.5%yoy (Aug'14: 3.2%yoy). For credit card lending, growth was slightly slower at 2.1%yoy in Sept'14 as compared to 2.4%yoy in the preceding month.

**Table 3: Loan applications by purpose (RM mil)**

	Sept-14	% of total	Jun-14 (%Yoy)	July-14 (%Yoy)	Aug-14 (%Yoy)	Sept-14 (%Yoy)
Purchase of securities	3,003	3.9%	+47.5%	+95.4%	-14.3%	-20.4%
Purchase of transport vehicles	7,230	9.5%	-11.0%	-26.0%	+1.9%	-6.0%
of which : purchase of passenger cars	6,909	9.1%	-11.0%	-27.7%	-8.1%	-5.9%
Purchase of residential property	19,671	25.8%	0.3%	-17.5%	-2.1%	-2.8%
Purchase of non-residential property	8,295	10.9%	-17.8%	-38.5%	+1.6%	-10.4%
Purchase of fixed asset other than land & building	356	0.5%	-81.6%	-32.1%	+37.6%	-8.2%
Personal use	4,415	5.8%	+7.8%	-13.0%	+32.8%	+34.0%
Credit card	5,965	7.8%	-6.2%	-20.3%	+5.9%	+3.7%
Purchase of consumer durables	5,674	7.5%	-37.4%	-80.4%	-78.5%	-44.6%
Construction	4,024	5.3%	+83.0%	-11.2%	-6.0%	+18.5%
Working capital	22,397	29.4%	+48.6%	+20.2%	+75.2%	+25.1%
Other purpose	4,641	6.1%	-49.1%	+115.4%	-59.4%	+38.2%
<b>Total applied</b>	<b>76,137</b>	<b>100.0%</b>	<b>+3.9%</b>	<b>-8.1%</b>	<b>+9.4%</b>	<b>+6.7%</b>

Source: BNM

- Industry loan applications turned weaker in Sept'14.** Industry loan application growth decelerated to 6.7%yoy as compared to 9.4%yoy in the preceding month. Growth in applications for working capital loans slipped to 25.1%yoy (Aug'14: 75.2%yoy). By business sectors, (i) Wholesale & retail trade, and restaurants & hotels, (ii) Real Estate, (iii) Transport, Storage and Communication, (iv) Primary Agriculture, and (iv) Household sectors showed slower growths in loan applications compared to Aug'14. Growth in household loan applications slowed down to -0.5%yoy in Sept'14 from 1.6%yoy in Aug'14. For household loans, except for applications of residential property loans and personal loans, growth of other loans applications (credits cards and non residential property loans, loans for purchase of passenger car loans and loans for purchase of securities) remained weak in Sept'14.

Table 4: Loan approvals by purpose (RM mil)

	Sept-14	% of total	Jun-14 (%Yoy)	July-14 (%Yoy)	Aug-14 (%Yoy)	Sept-14 (%Yoy)
Purchase of securities	2,651	7.0%	+92.2%	+5.3%	+6.2%	+8.1%
Purchase of transport vehicles	3,728	9.8%	-6.8%	-16.3%	+2.7%	-10.6%
of which : purchase of passenger cars	3,510	9.2%	-7.0%	-16.5%	+2.6%	-11.4%
Purchase of residential property	10,686	28.1%	+7.2%	-13.0%	+5.2%	+6.1%
Purchase of non-residential property	4,562	12.0%	+2.6%	-15.0%	+2.9%	+3.8%
Purchase of fixed asset other than land & building	244	0.6%	-80.6%	+47.9%	+11.4%	-27.2%
Personal use	1,517	4.0%	-6.8%	-29.6%	+10.8%	+25.9%
Credit card	1,186	3.1%	-10.4%	-27.4%	-0.6%	-4.0%
Purchase of consumer durables	6	0.0%	-63.2%	-80.9%	-1.1%	+18.9%
Construction	1,463	3.8%	-50.7%	-27.1%	-35.7%	+69.0%
Working capital	8,046	21.2%	-22.1%	+24.9%	+40.3%	-3.4%
Other purpose	3,931	10.3%	-24.8%	-25.4%	-2.0%	+363.8%
<b>Total approved</b>	<b>38,021</b>	<b>100.0%</b>	<b>-5.6%</b>	<b>-9.4%</b>	<b>+5.9%</b>	<b>+12.1%</b>

Source: BNM

Growth in loan approvals in Sept'14 accelerated to 12.1%yoy as compared to 5.9%yoy in Aug'14. Loan approvals for mortgage loans grew at a slightly faster pace while growth in approvals of loans for construction purposes jumped 69.0%yoy from -35.7%yoy in Aug'14 (Refer Table 4).

Growth in household loan approvals improved to 6.2%yoy in Sept'14 from 5.7%yoy in Aug'14.

- **Loan disbursements continued to gain momentum, grew 16.7%yoy in Sept'14 (Aug'14: 15.1%yoy) and were ahead of loan repayments.** Growth in loan repayments was 16.5%yoy as compared to 15.6%yoy in Aug'14.
- **Industry liquidity remained tight with LD ratio 86.8%, a rise of 50bp from the previous month.** Deposit growth in the banking system was higher at 5.9%yoy vs. 5.6%yoy in the previous month. This was contributed by stronger growths in NIDs and Foreign Currency Deposits.

## LENDING AND DEPOSIT RATES

- **ALR continued to rise.** It rose sequentially by 3b to 4.72% after a 25bp adjustment in OPR on 10<sup>th</sup> July. The industry's average lending rate (ALR) continued to rise for the 3<sup>rd</sup> consecutive month to 4.72% in Sept'14, a sequential increase of 3bp. The rise was smaller than the 8bp and 7bp increase in Aug'14 and July'14 respectively. BLR remained at 6.79%.
- **Average deposits rate unchanged in Sept'14.** Interest spread (between the average lending rate and 3 month FD rate) rose further to 1.60%, an improved 3bp from the previous month underpinned by higher ALR. No change to average FD rate (for tenures of up to 12 months) at 3.18%.

## ASSET QUALITY

- **Absolute impaired loans for the industry rose by 2.8%mom.** Gross Impaired Loan (GIL) ratio was slightly higher at 1.8% (Aug'14: 1.7%) while net impaired loan ratio remained at 1.3%.

Table 5: Impaired Loans by purpose (RM mil)

	Sept-13	Aug-14	Sept-14	% of total	%Mom	%Yoy
Purchase of securities	354	239	246	1.1%	+2.9%	-30.5%
Purchase of transport vehicles	1,929	2,192	2,150	9.3%	-1.9%	+11.5%
of which : purchase of passenger cars	1,692	2,037	2,000	8.7%	-1.8%	+18.2%
Purchase of residential property	5,463	5,048	4,981	21.7%	-1.3%	-8.8%
Purchase of non-residential property	1,184	1,250	1,321	5.7%	+5.7%	+11.6%
Purchase of fixed asset other than land & building	222	181	187	0.8%	+3.3%	-15.8%
Personal use	1,008	973	992	4.3%	+2.0%	-1.6%
Credit card	408	418	421	1.8%	+0.7%	+3.2%
Purchase of consumer durables	2	5	5	0.02%	-	+150.0%
Construction	1,731	1,819	2,761	12.0%	+51.8%	+59.5%
Working capital	10,242	8,985	8,799	38.3%	-2.1%	-14.1%
Other purpose	1,184	1,271	1,140	5.0%	-10.3%	-3.7%
<b>Total</b>	<b>23,728</b>	<b>22,382</b>	<b>23,002</b>	<b>100.0%</b>	<b>+2.8%</b>	<b>-3.1%</b>

Source: BNM

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

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14	Aug-14	Sept-14
Purchase of securities	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%
Purchase of transport vehicles	1.3%	1.4%	1.3%	1.3%	1.4%	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%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%
Purchase of fixed asset other than land & building	2.4%	2.3%	2.5%	2.5%	2.4%	2.3%	1.9%	1.8%	1.8%
Personal use	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Credit card	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of consumer durables	0.9%	1.1%	1.0%	0.8%	1.1%	1.1%	1.0%	1.0%	1.0%
Construction	5.0%	4.8%	5.2%	5.1%	5.7%	5.0%	5.1%	5.0%	7.3%
Working capital	3.1%	3.1%	3.2%	3.2%	3.2%	3.1%	3.1%	3.0%	2.9%
Other purpose	2.1%	2.1%	2.2%	1.8%	1.8%	1.8%	2.0%	2.0%	1.8%
<b>Total</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.8%</b>

Source: BNM


On absolute value basis, upticks were observed in impaired non residential property loans, personal loans, credit cards, loans for purchase of securities and loans extended for construction purposes. In line with higher loan impairment, LLC in Sept'14 dropped to 102.2% from 104.8% in the preceding month.

## CAPITALISATION

- **Stable capital position.** The sector's capital position in Sept'14 remained stable with CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) holding up at 12.8%, 13.5% and 15.5% respectively.

## CALL ON SECTOR & STOCK PICKS

- **Maintain loan growth expectation of 9-10% for FY14 and that pressure on asset quality will likely rise in CY15 contributed by household loans.** Annualized loan growth for the first 9 months of CY14 improved to 7.9%. Business loan growth picked up pace but was offset by the continued downtrend in household loan growth. Inflation rate slowed down based on CPI reading of 2.6% in Sept'14 from 3.3% in Aug'14. Moving forward, the subsidy rationalization is likely to see inflation rising. This coupled with the implementation of GST are expected to cause household loan demand to moderate moving into CY15. We maintain our expectation of pressures on asset quality on household loans of banks in CY15.

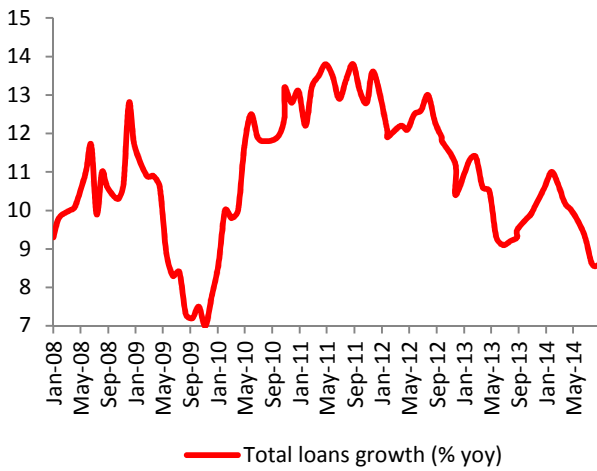
- **Domestic liquidity remained tight.** NIM pressures from higher COFs are likely to remain albeit margin pressure has been partially offset by adjustments in asset yields from the earlier OPR hike in Jul'14.
- **Stronger growth in new PDS issuances in Oct'14 but overall growth in funds raised from capital market remained weak.** New PDS issuance in Sept'14 was strong with a growth of 163.6% in Sept'14 as compared to 6.3%yoy in the preceding month. Nevertheless, growth in funds raised from the capital market remained weak at -4.0%yoy in Sept'14 contributed by the lackluster equity capital market. This is likely to continue to cap the growth of banks' NOII in CY14.
- **Remain NEUTRAL.** We maintain our BUY calls on RHB Cap (RM10.70), Hong Leong Bank (TP: RM16.30) and Maybank (TP: RM11.50). We are NEUTRAL on AFG (TP: RM5.00), Public Bank (RM19.50), CIMB (TP: RM7.27), AMMB (TP: RM7.60) and Affin (TP: RM3.70). 

	Rec.	Price @ 3/11	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	6.77	7.60	59.3	61.0	11.4	11.1	24.1	24.0	3.6	3.5	4.4	4.7	1.6	1.4
Maybank	BUY	9.70	11.50	72.0	79.0	13.5	12.3	43.0	48.0	4.4	4.9	5.6	6.0	1.7	1.6
Public Bank	NEUTRAL	18.48	19.50	113.0	121.0	16.4	15.3	51.0	55.0	2.8	3.0	7.1	7.8	2.6	2.4
RHB Capital	BUY	8.78	10.70	83.0	91.0	10.6	9.6	25.0	27.0	2.8	3.1	7.0	7.6	1.3	1.2
Hong Leong	BUY	14.68	16.30	119.4	119.0	12.3	12.3	41.0	39.0	2.8	2.7	7.7	8.6	1.9	1.7
CIMB	NEUTRAL	6.41	7.27	52.0	59.0	12.3	10.9	21.0	24.0	3.3	3.7	4.5	4.9	1.4	1.3
AFG	NEUTRAL	4.78	5.00	37.2	37.0	12.8	12.9	29.5	22.0	6.2	4.6	2.8	2.9	1.7	1.6
Affin	NEUTRAL	3.26	3.70	30.0	35.0	10.9	9.3	15.0	18.0	4.6	5.5	3.5	3.7	0.9	0.9

Kelvin Ong, CFA

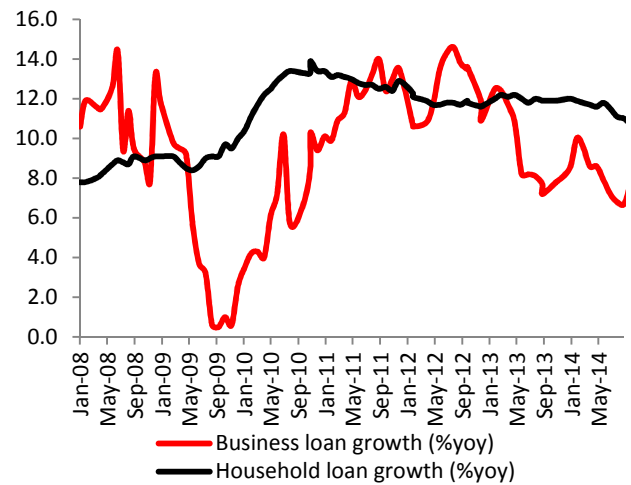
kelvin.ong@midf.com.my / 03-21738353

**Chart 1: Total Loan Growth Rate**



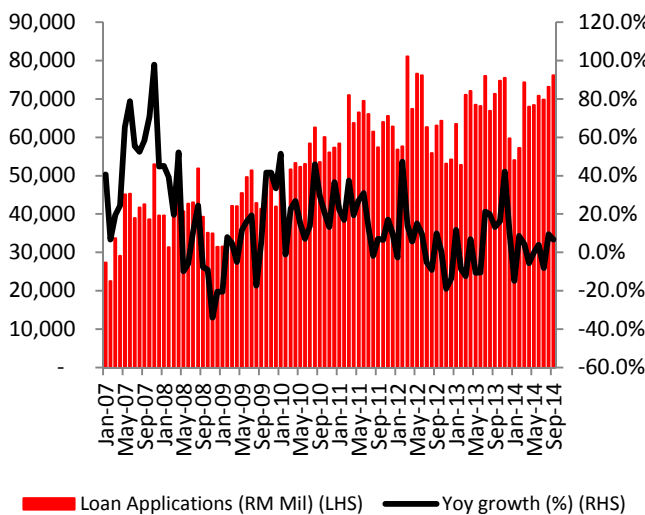
Source: BNM

**Chart 2: Business and Household Loan Growth Rate**



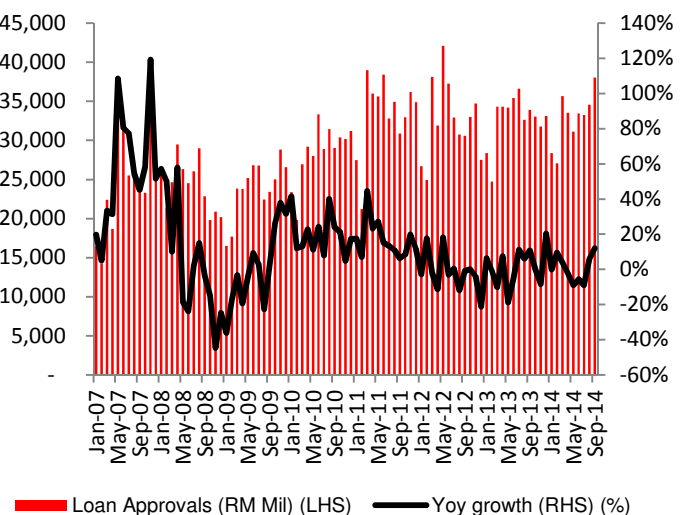
Source: BNM

**Chart 3: Loan Application**



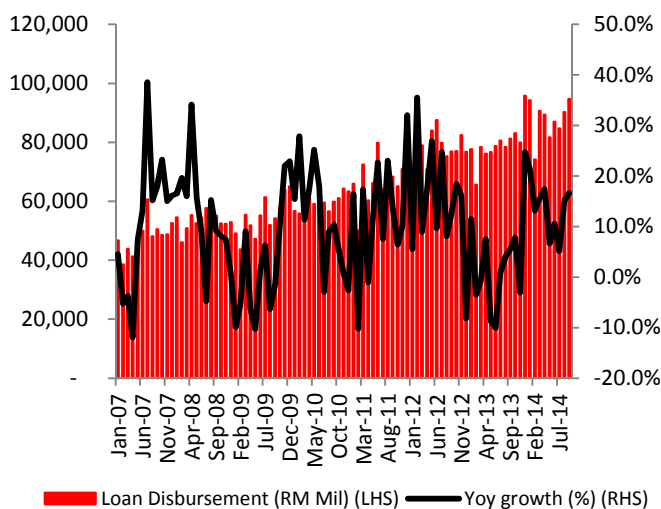
Source: BNM

**Chart 4: Loan Approvals**

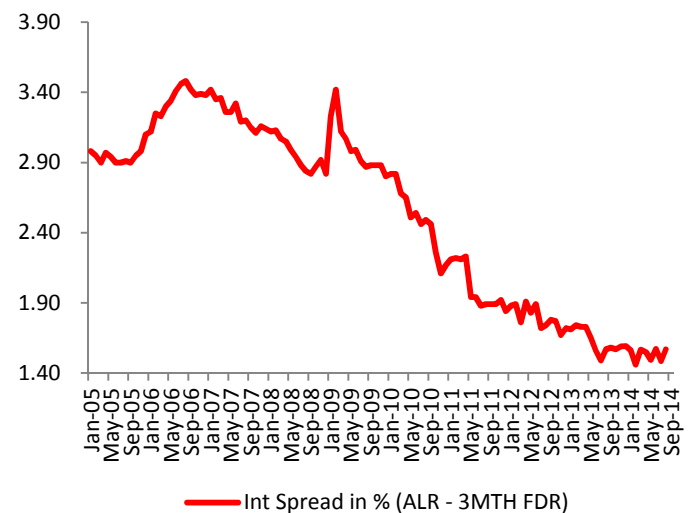


Source: BNM

**Chart 5: Loan Disbursement**

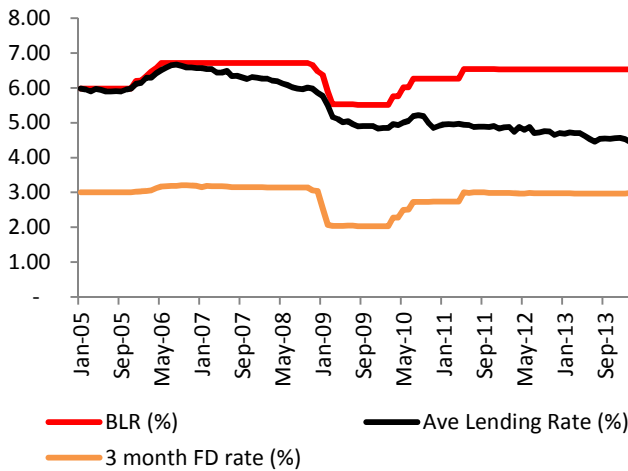


**Chart 6: Interest Spread**



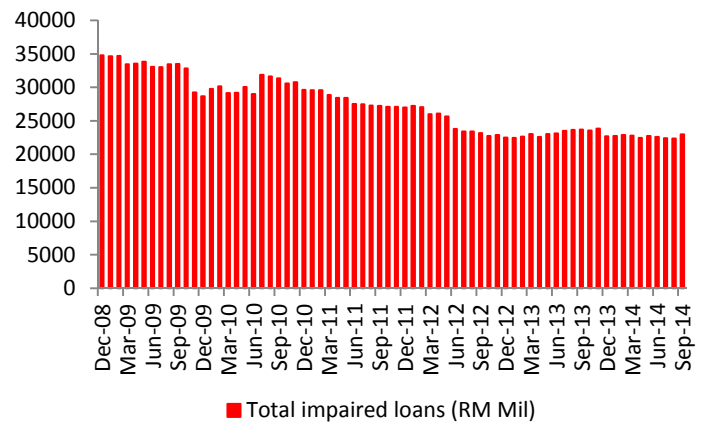


**Chart 7: Trend of BLR, ALR & 3 mth FD Rate**



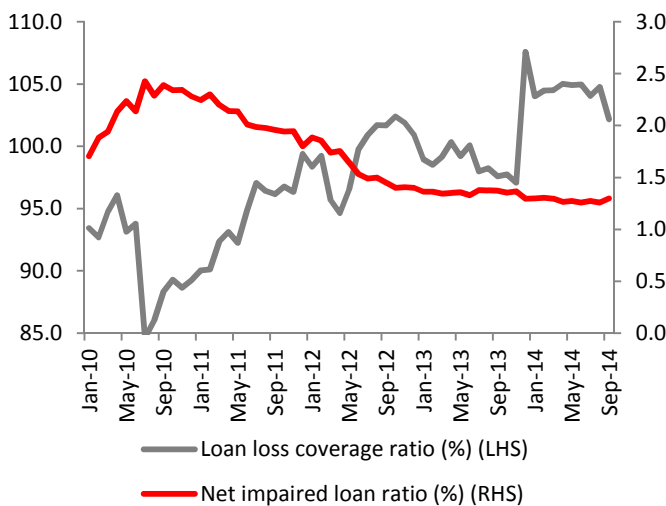
Source: BNM

**Chart 8: Total Impaired Loans**



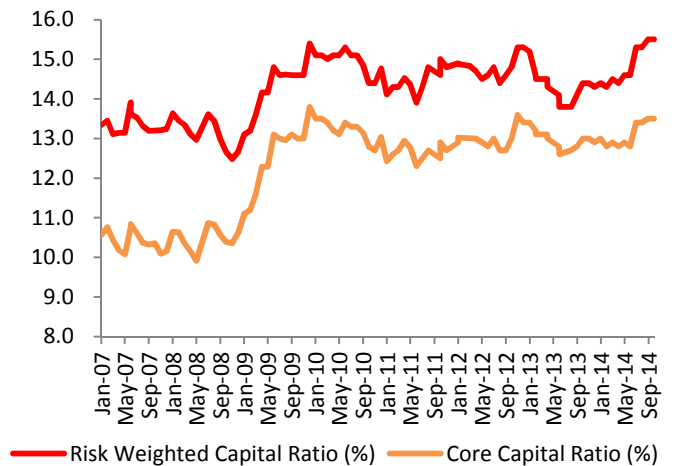
Source: BNM

**Chart 9: Net Impaired Loan Ratio & Loan Loss Coverage**



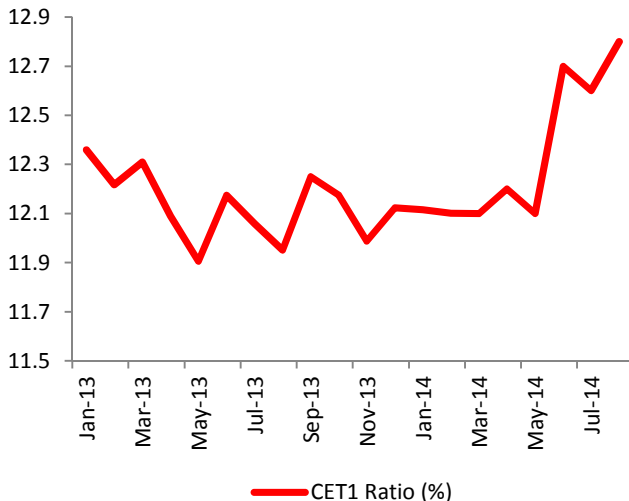
Source: BNM

**Chart 10: Core Capital and Risk Weighted Capital Ratio**

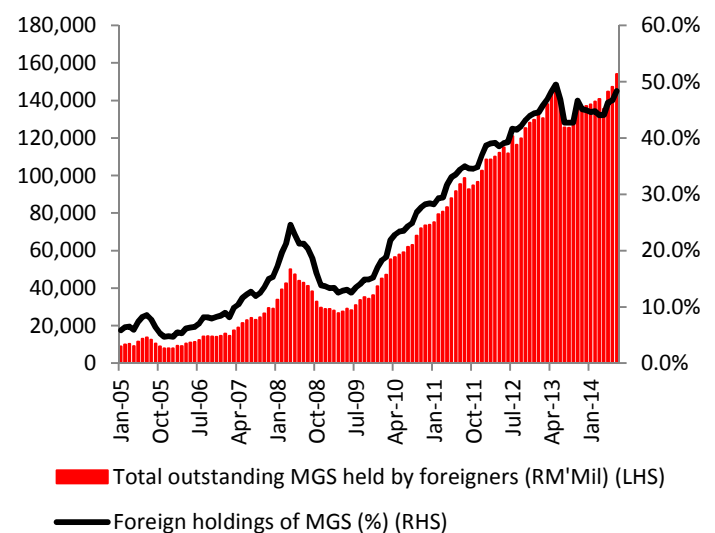


Source: BNM

**Chart 11: CET 1 Ratio**



**Chart 12: MGS Holdings by Foreigners**



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.