

03 Nov 2015 | Sector update

BANKING – SEPT 2015 BNM STATISTICS

Maintain NEUTRAL

Slower momentum for business loans

LOAN INDICATORS

- Industry loan growth in Sept'15 slipped to +9.7%yoy due to slower business and household loans.** As expected with a weaker growth in loan applications in the previous month's statistics, banking system's loan growth in Sept'15 slipped to +9.7%yoy vs. +10.2%yoy in the preceding month. This was contributed by slowdown in both business and household loans. Business loans slowed down to +11.0%yoy in Sept'15 from +11.5%yoy in the preceding month. Working capital loan growth eased to +15.0%yoy after rising for three consecutive months. Construction loans continued to slow down to a growth of +8.9%yoy.

Meanwhile, household loans continued its downtrend, registering a slower growth +8.1%yoy in Sept'15 (Aug'15: +8.3%yoy) with slowdown in most segments.

Table 1: Loan breakdown by purpose (RM mil)

	Sept-14	Aug-15	Sept-15	% of total	%Mom	%Yoy
Purchase of securities	74,667	74,494	74,502	5.2%	+0.01%	-0.2%
Purchase of transport vehicles	165,572	169,216	169,456	11.9%	+0.1%	+2.3%
of which : purchase of passenger cars	155,846	159,831	159,953	11.2%	+0.1%	+2.6%
Purchase of residential property	378,822	421,153	424,797	29.8%	+0.9%	+12.1%
Purchase of non-residential property	171,029	192,179	194,565	13.7%	+1.2%	+13.8%
Purchase of fixed asset other than land & building	10,554	10,908	10,900	0.8%	-0.1%	+3.3%
Personal use	59,479	62,359	62,461	4.4%	+0.2%	+5.0%
Credit card	34,548	34,845	34,747	2.4%	-0.3%	+0.6%
Purchase of consumer durables	516	149	145	0.01%	-2.7%	-71.9%
Construction	37,911	40,565	41,276	2.9%	+1.8%	+8.9%
Working capital	300,117	341,573	345,234	24.2%	+1.1%	+15.0%
Other purpose	64,903	65,346	65,976	4.6%	+1.0%	+1.7%
Total	1,298,117	1,412,787	1,424,060	100.0%	+0.8%	+9.7%

Source: BNM

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Table 2: Loan breakdown by sector (RM mil)

	Sept-14	Aug-15	Sept-15	% of total	%Mom	%Yoy
Primary agriculture	32,027	37,054	37,498	2.6%	+1.2%	+17.1%
Mining and quarrying	8,361	12,907	13,281	0.9%	+2.9%	+58.8%
Manufacturing (including agro based)	99,853	103,258	103,224	7.2%	-0.03%	+3.4%
Electricity, gas and water supply	12,905	10,787	11,662	0.8%	+8.1%	-9.6%
Wholesale, retail, restaurants & hotels	96,155	105,135	106,028	7.4%	+0.8%	+10.3%
Construction	53,943	59,292	59,556	4.2%	+0.4%	+10.4%
Real estate	78,458	92,773	95,266	6.7%	+2.7%	+21.4%
Transport, storage & communication	31,856	35,520	35,979	2.5%	+1.3%	+12.9%
Financing, insurance & business services	84,708	93,281	94,306	6.6%	+1.1%	+11.3%
Education, health & others	36,532	40,962	40,861	2.9%	-0.2%	+11.8%
Household sector	744,007	799,824	804,062	56.5%	+0.5%	+8.1%
Other sector	19,312	21,995	22,337	1.6%	+1.6%	+15.7%
Total	1,298,117	1,412,787	1,424,060	100.0%	+0.8%	+9.7%

Source: BNM

By business sectors, relative to the previous month, the slowdown in business loans on a year on-year basis was contributed mainly by slower pace 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 slide with most segments registering slower growth.** Growth in loans for purchase of residential property and for purchase of non-residential property continued to decline to +12.1%yoy and +13.8%yoy respectively in tandem with the slowdown in property market.

Loans for purchase of passenger cars continued to see near flattish growth of merely +2.6%yoy. Cautious consumer sentiment coupled with higher inflation from GST and weaker domestic currency will continue to impact household spending. Growth in outstanding of credit cards was subdued at +0.6%yoy. Meanwhile, with cautious sentiment on retail investors, growth loans for purchase of securities slowed down to a negative rate of -0.2%yoy. Meanwhile, personal loans eased to a growth of +5.0%yoy.

Table 3: Loan applications by purpose (RM mil)

	Sept-15	% of total	Jun-15 (%Yoy)	July-15 (%Yoy)	Aug-15 (%Yoy)	Sept-15 (%Yoy)
Purchase of securities	2,658	3.6%	-43.5%	-66.9%	-42.9%	-11.5%
Purchase of transport vehicles	7,234	9.7%	+3.5%	-5.5%	-9.6%	+0.1%
of which : purchase of passenger cars	6,759	9.1%	+4.6%	-8.9%	-0.1%	-2.2%
Purchase of residential property	18,211	24.4%	-6.8%	-3.3%	-6.4%	-7.4%
Purchase of non-residential property	7,631	10.2%	-4.5%	-6.4%	-23.1%	-8.0%
Purchase of fixed asset other than land & building	2,256	3.0%	+9.7%	+50.3%	-45.0%	+534.2%
Personal use	6,137	8.2%	+55.8%	+60.8%	+53.0%	+39.0%
Credit card	3,507	4.7%	+66.7%	+70.9%	+55.2%	+66.7%
Purchase of consumer durables	0	0.0%	-66.3%	-35.0%	-77.0%	-72.3%
Construction	3,393	4.5%	-32.9%	+22.5%	+15.0%	-15.7%
Working capital	16,531	22.2%	+26.0%	+38.6%	+17.7%	-26.2%
Other purpose	7,061	9.5%	-23.5%	-7.0%	+28.2%	+52.1%
Total applied	74,619	100.0%	+3.6%	+7.0%	+3.1%	-2.0%

Source: BNM

- **Business loan applications slowed down while growth in household loan applications was subdued.** Growth in industry loan applications weakened to -2.0%yoy, down from +3.1%yoy in the preceding month. This was contributed by slower growth in non household and household loan applications of -4.3%yoy and +0.4%yoy respectively.

By loan purpose, for household loans, slower growths were observed for loan applications to purchase passenger cars and residential property as well as personal loans. Meanwhile, for non household loans, slower pace in loan applications for construction and working capital has contributed to the weaker loan demand.

By sectors, the weaker loan demand was contributed mainly by slower growth in loan applications from the finance, insurance and services sector and the household sector.

Table 4: Loan approvals by purpose (RM mil)

	Sept-15	% of total	Jun-15 (%Yoy)	July-15 (%Yoy)	Aug-15 (%Yoy)	Sept-15 (%Yoy)
Purchase of securities	1,184	3.7%	-57.6%	-40.8%	-46.3%	-55.4%
Purchase of transport vehicles	3,914	12.1%	+14.2%	+2.2%	-7.5%	+5.0%
of which : purchase of passenger cars	3,741	11.6%	+16.3%	+2.6%	-6.7%	+6.6%
Purchase of residential property	8,655	26.9%	-7.9%	-17.8%	-17.5%	-19.0%
Purchase of non-residential property	2,982	9.3%	-32.4%	-25.9%	-28.8%	-34.6%
Purchase of fixed asset other than land & building	429	1.3%	-31.5%	-50.3%	-41.0%	+75.4%
Personal use	1,701	5.3%	+9.7%	+6.8%	+16.8%	+12.2%
Credit card	1,441	4.5%	+43.7%	+36.4%	+17.1%	+21.5%
Purchase of consumer durables	0	0.0%	-95.3%	-98.2%	-97.7%	-99.2%
Construction	1,151	3.6%	+93.6%	-9.1%	-8.0%	-21.4%
Working capital	7,956	24.7%	+126.5%	+47.5%	+17.9%	-1.1%
Other purpose	2,812	8.7%	+77.7%	+21.1%	-2.3%	-28.5%
Total approved	32,225	100.0%	+15.1%	-0.9%	-9.1%	-15.2%

Source: BNM

- **Loan approvals further weakened in Sept'15.** Loan approvals growth further weakened to a higher negative growth rate of -15.2%yoy vs. -9.1%yoy in the preceding month. This was contributed largely by slowdown of approvals for non household loans which registered a growth of -15.5%yoy underpinned by slowdown in approvals for construction and working capital loans. Meanwhile, approval of household loans remained weak at -15.0%yoy. By loan purpose, the decline in loan approvals for household loans was mainly on mortgages, loans for purchase of securities and personal loans (Refer Table 4).
- **Growth in loan disbursements turned slower than repayments resulting in a slight improvement in liquidity for the sector with a lower LD ratio.** In Sept'15, growth in loan disbursements of +4.6%yoy was slower than growth in loan repayments which jumped +10.7%yoy. This led to a slight improvement in industry LD ratio to 90.1% from 90.4% in the preceding month. Liquidity for the sector continues to remain tight. Hence with deposit campaigns continuing for banks, competition for deposit remains intense.
- Growth of deposits (excluding REPO) in the banking system inched up to +4.6%yoy (preceding month: +4.5%yoy). Industry CASA growth slipped to +5.6%yoy as compared to +5.8%yoy in the preceding month. Nevertheless, CASA ratio remained stable at 26.0%.

Liquidity coverage ratio (LCR) for the sector in Sept'15 was slightly lower at 126%. This was due to lower LCR for commercial banks and Islamic banks of 131% and 101% respectively while that of investment banks was higher at 123%. LCR all commercial, Islamic and investment banks remained well above BNM's

requirement for a LCR of 60% in 2015. Moving into 2016, the LCR requirement will be raised to 70% and hence we expect this to continue to contribute to the stiff deposit competition in the market.

LENDING AND DEPOSIT RATES

- **ALR continued to decline and this narrowed the interest spread.** The industry's average lending rate (ALR) continued to ease to 4.49% (-0.032% mom) for Commercial Banks. BLR for Commercial Banks remain at 6.79% while Base Rate remained at 3.85%.
- Interest spread (between the average lending rate and average deposit rate) continued to narrowed to 1.30% due to lower 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

- **Some signs of stress in asset quality with upticks in GIL ratios on loans for purchase of securities and credit cards.** 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)

	Sept-14	Aug-15	Sept-15	% of total	%Mom	%Yoy
Purchase of securities	246	323	341	1.5%	+5.6%	+38.6%
Purchase of transport vehicles	2,150	1,870	1,751	7.6%	-6.4%	-18.6%
of which : purchase of passenger cars	2,000	1,744	1,633	7.1%	-6.4%	-18.4%
Purchase of residential property	4,985	5,078	5,160	22.4%	+1.6%	+3.5%
Purchase of non-residential property	1,319	1,734	1,877	8.2%	+8.2%	+42.3%
Purchase of fixed asset other than land & building	187	168	167	0.7%	-0.6%	-10.7%
Personal use	992	1,046	1,042	4.5%	-0.4%	+5.0%
Credit card	421	466	469	2.0%	+0.6%	+11.4%
Purchase of consumer durables	5	2	2	0.01%	-	-60.0%
Construction	2,761	2,492	2,482	10.8%	-0.4%	-10.1%
Working capital	8,799	8,008	8,327	36.2%	+4.0%	-5.4%
Other purpose	1,246	1,409	1,403	6.1%	-0.4%	+12.6%
Total	23,111	22,597	23,020	100.0%	+1.9%	-0.4%

Source: BNM

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

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	July-15	Aug-15	Sept-15
Purchase of securities	0.5%	0.6%	0.3%	0.3%	0.5%	0.4%	0.4%	0.5%
Purchase of transport vehicles	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%
of which : purchase of passenger cars	1.2%	1.1%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%
Purchase of residential property	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Purchase of non-residential property	0.9%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%
Purchase of fixed asset other than land & building	1.7%	1.2%	1.8%	1.6%	1.6%	1.6%	1.5%	1.5%
Personal use	1.8%	2.0%	1.6%	1.7%	1.6%	1.7%	1.7%	1.7%
Credit card	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%
Purchase of consumer durables	1.5%	1.7%	1.5%	1.6%	1.4%	1.2%	1.3%	1.4%
Construction	5.6%	5.7%	5.7%	6.0%	6.1%	7.7%	6.1%	6.0%
Working capital	2.6%	2.6%	2.4%	2.4%	2.5%	2.3%	2.3%	2.4%
Other purpose	1.9%	1.8%	2.1%	2.3%	2.2%	2.1%	2.2%	2.1%
Total	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM

On absolute value basis, trend of upticks in impaired loans remain, rising by RM423m or +1.9% mom. GIL ratios for most loan segments remained stable (see Table 6). The sector's loan loss coverage ratio increased to at 98.1% (+0.5% mom).

CAPITALISATION

- **Capital position improved post dividend payout of several banks in the preceding month.** The sector's CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) improved to 12.5% (+0.2%mom), 13.3%(+0.2%mom) and 15.4% (+0.2%mom) respectively in Sept'15.

CALL ON SECTOR & STOCK PICKS

- **Leading indicators continued to be weak.** Both loan applications and approvals continue to weaken.
- **Loan growth expected to continue to slow down and further signs of stress on asset quality will an area to be on the watch out for.** Year-to-date, annualized loan growth was 8.4%. We continue to expect business loans to slowdown ahead looking at the weaker growth rates in application for construction and working capital loans. Meanwhile, household loan growth is likely to remain soft after GST with cautious consumer sentiment and spending.

As highlighted in our earlier note, we will not be surprised of further upticks in banks' impaired loans ahead in particularly Malaysia which has low impaired loan ratios for a long period of time. This is due to the slowdown in domestic and external economic activities, weakness in domestic currency and low commodity prices which will likely lead to a rise in credit charge-off ahead.

- **Revenue growth remains challenging and some banks have embarked on voluntary separation scheme for cost savings and reduce OPEX.** In the recent trend, we continue to see banking groups embarking on voluntary separation scheme to lower OPEX and realize cost savings in the further in view of the challenging revenue growth with NII impacted by slower loan growth ahead with NIM compression while NOII growth expected to remain subdued in the near term impacted by the slow capital market activities and challenges in Treasury income from the volatile market.
- **Valuation for Malaysian banking stocks appears to be on par with Thailand banking stocks but richer in valuation compared to Singapore banking stocks.** As seen from the tables below, on Price to Book valuation basis, Malaysian banking stocks appears to be on richer valuation than Singapore banking stocks but lower in valuation compared to Indonesian banking stocks. Meanwhile, the valuation is on par with Thailand banking stocks.
- **Maintain NEUTRAL on the sector.** Our BUY calls are on Hong Leong Bank (TP: RM14.60) for its defensive qualities and Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield. We are NEUTRAL on Public Bank (TP: RM18.80), Affin (TP: 2.30), AMMB (TP: RM5.50), AFG (TP: RM4.10), RHB Cap (TP: RM6.60), BIMB (TP: RM4.22) and CIMB (TP: RM5.20). 

Table 7: Peer comparison for Malaysian Banking Stocks

	Rec.	Price @ 2/11	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	5.50	54.4	55.0	8.7	8.6	27.3	22.0	5.8	4.7	4.8	5.1	1.0	0.9
Maybank	BUY	8.27	9.80	67.0	75.0	12.3	11.0	40.0	45.0	4.8	5.4	6.1	6.5	1.4	1.3
Public Bank	NEUTRAL	18.08	18.80	121.0	129.0	14.9	14.0	56.0	59.0	3.1	3.3	7.9	8.6	2.3	2.1
RHB Capital	NEUTRAL	6.11	6.60	67.0	59.0	9.1	n.m	9.0	7.5	1.5	n.m	7.6	5.8	0.8	n.m
Hong Leong	BUY	13.92	14.60	123.8	107.0	11.2	13.0	41.0	35.0	2.9	2.5	9.5	10.3	1.5	1.3
CIMB	NEUTRAL	4.59	5.20	40.0	43.0	11.5	10.7	16.0	17.0	3.5	3.7	4.7	5.0	1.0	0.9
AFG	NEUTRAL	3.48	4.10	34.7	36.0	10.0	9.7	15.4	16.0	4.4	4.6	2.9	3.2	1.2	1.1
BIMB	NEUTRAL	4.12	4.22	36.4	38.9	11.3	10.6	15.0	16.0	3.6	3.9	2.2	2.4	1.9	1.7
Affin	NEUTRAL	2.40	2.30	23.0	31.0	10.4	7.7	11.0	16.0	4.6	6.7	4.1	4.3	0.6	0.6
Average				63.0	63.8	11.1	10.7	25.6	25.9	3.8	4.3	5.5	5.7	1.3	1.2

Table 8: Thailand Banking Stocks Valuation

	Rec.	Price @ 2/11	Target Price	EPS*		PER		Net DPS*		Net Div Yield		BV*	BV*	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
Kasikornbank	NR	178.0	NA	17.7	20.4	10.1	8.7	4.2	4.8	2.3	2.7	121	137	1.5	1.3
Bangkok Bank	NR	168.0	NA	17.6	18.7	9.6	9.0	6.7	7.1	4.0	4.2	183	194	0.9	0.9
Siam Commercial	NR	138.5	NA	14.1	15.3	9.8	9.0	5.5	6.0	4.0	4.4	92	102	1.5	1.4
Average				16.5	18.1	9.8	8.9	5.5	6.0	3.4	3.8	132	144	1.3	1.2

*Based on Consensus Estimates

Table 9: Indonesia Banking Stocks Valuation

	Rec.	Price @ 2/11	Target Price	EPS*		PER		Net DPS*		Net Div Yield		BV*	BV*	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
Mandiri	NR	8550.0	NA	861.2	963.6	9.9	8.9	208.0	219.5	2.4	2.6	5020	5770	1.7	1.5
Bank Rakyat	NR	10275.0	NA	985.0	1082.0	10.4	9.5	264.4	287.8	2.6	2.8	4668	5497	2.2	1.9
Danamon	NR	2810.0	NA	278.1	355.3	10.1	7.9	86.8	105.8	3.1	3.8	3601	3864	0.8	0.7
Average				708.1	800.3	10.2	8.8	186.4	204.4	2.7	3.0	4430	5043	1.6	1.4

*Based on Consensus Estimates

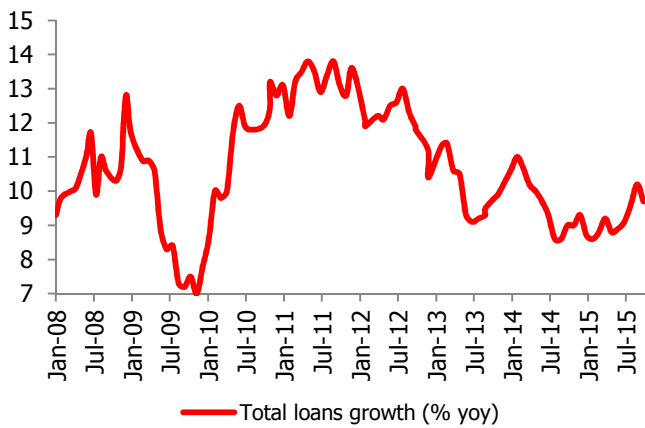
Table 10: Singapore Banking Stocks Valuation

	Rec.	Price @ 2/11	Target Price	EPS*		PER		Net DPS*		Net Div Yield		BV*	BV*	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
DBS	NR	17.25	NA	1.7	1.9	9.9	9.2	61.5	64.5	3.6	3.7	16.0	17.2	1.1	1.0
UOB	NR	20.21	NA	2.0	2.1	10.3	9.7	76.8	80.4	3.8	4.0	18.6	19.8	1.1	1.0
OCBC	NR	8.95	NA	0.9	1.0	9.5	9.0	37.3	39.3	4.2	4.4	8.1	8.7	1.1	1.0
Average				1.5	1.6	9.9	9.3	58.5	61.4	3.8	4.0	14.2	15.2	1.1	1.0

*Based on Consensus Estimates

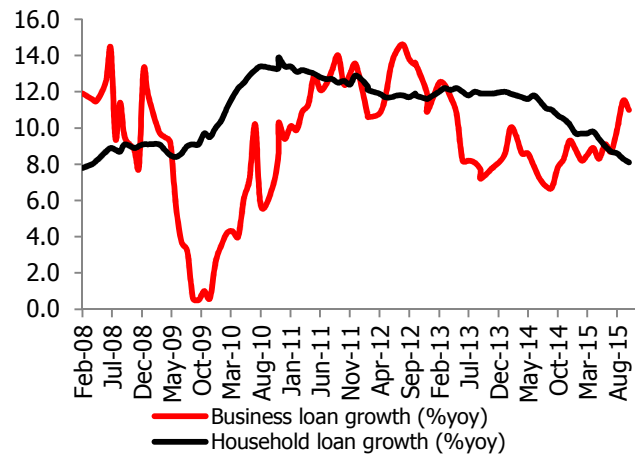
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Chart 1: Total Loan Growth Rate



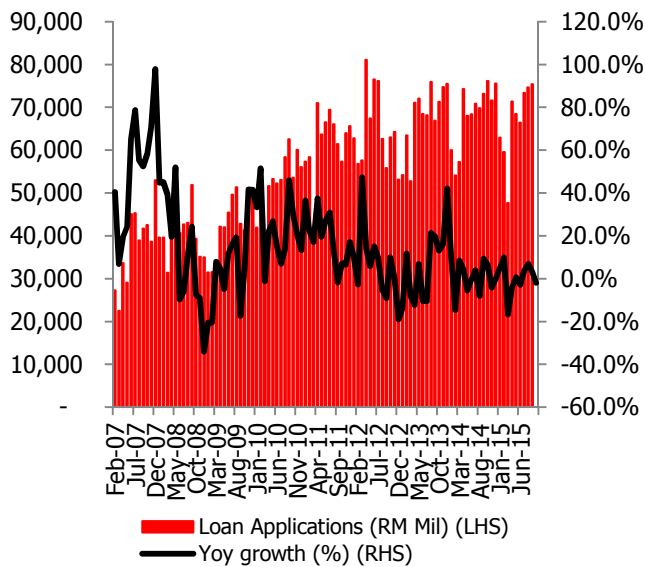
Source: BNM

Chart 2: Business and Household Loan Growth Rate



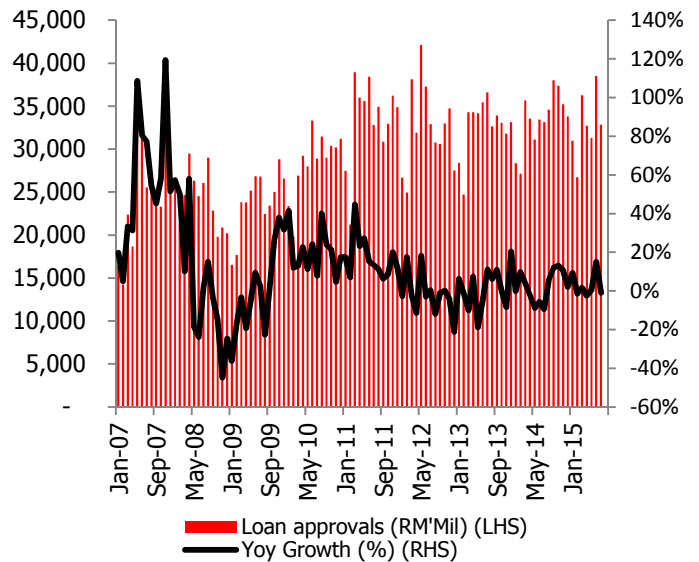
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

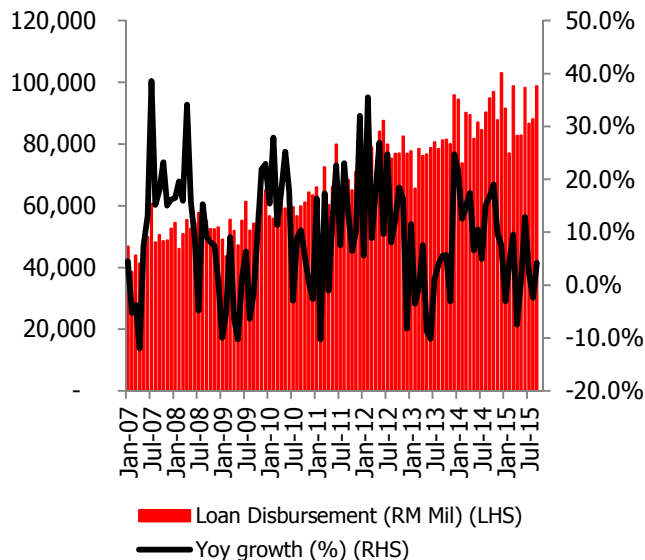


Chart 6: Interest Spread

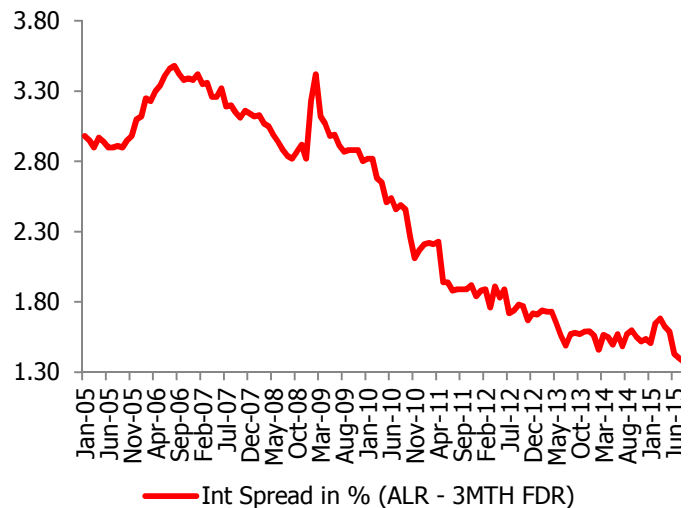
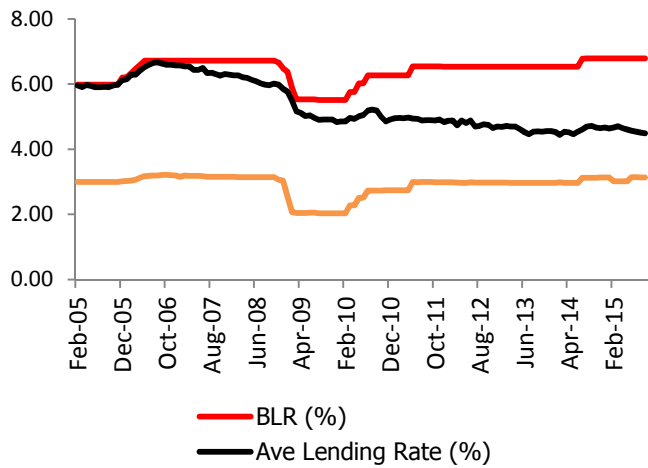
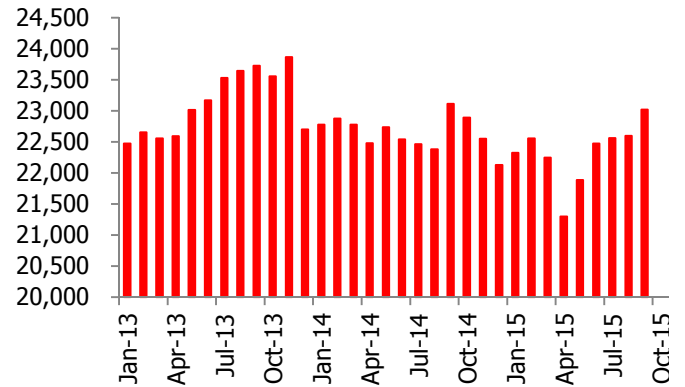


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



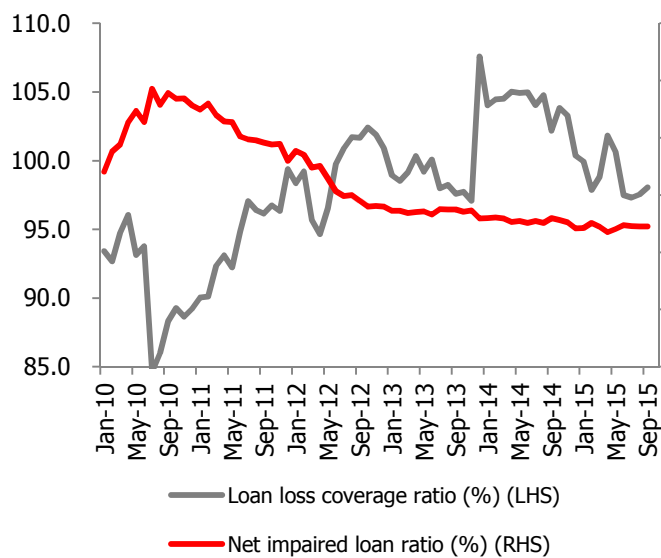
Source: BNM

Chart 8: Total Impaired Loans



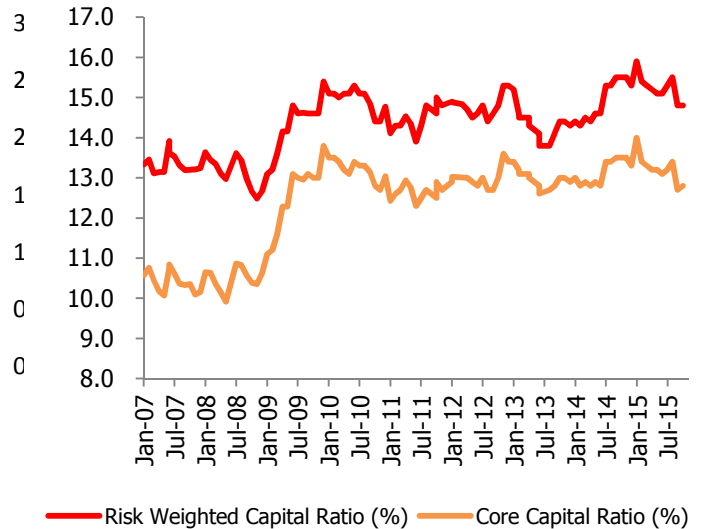
Source: BNM

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

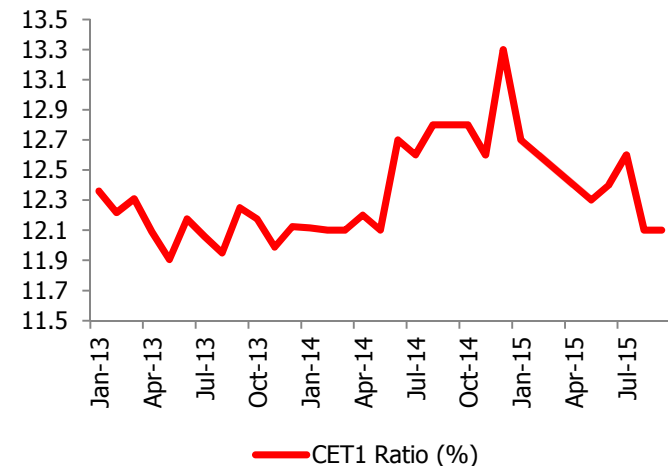
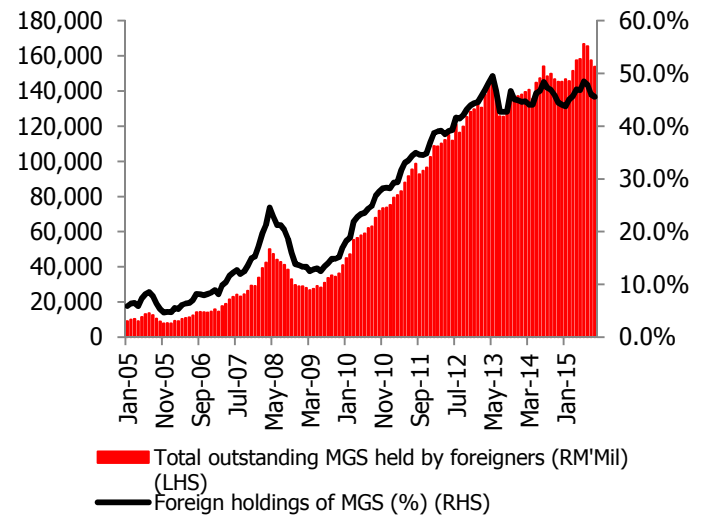


Chart 12: MGS Holdings by Foreigners



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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.