

## Banking Sector Update

Maintain OVERWEIGHT

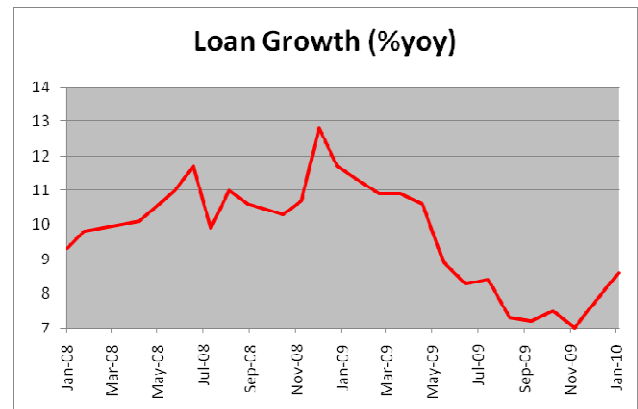
### JANUARY 2010 STATISTICS – LOAN GROWTH SURGED WITH STRONGER LOAN APPLICATIONS AND APPROVAL

#### VOLUME

**0.8%-pt yoy increase in loan growth:** Overall loan growth in Jan 10 was higher at 8.6%yoy (vs. 7.8%yoy in Dec 09).

For Jan 10, business loan growth increased to 3.5%yoy compared to 2.6%yoy in the previous month.

On a monthly basis, loan disbursement was lower due to lower disbursement to the manufacturing sector by RM1.3b, drop in disbursement to the construction & real estate sector by RM1.8b and decline in disbursement to other sectors by RM6.1b.



Loan indicators for household sector were stronger comparatively. Loan growth to the household sector rose to 10.4%yoy in Jan 10 (vs. 9.8%yoy in Dec 09). On monthly comparison, loan disbursement to household sector was RM19.5b in Jan 10 vs. 19.9b in Dec 09.

Loan application in Jan 10 grew substantially by 45.8%yoy compared to that in Dec 09 of RM33.3%yoy. This was due to a substantial rise in business loan applications by 41%yoy in Jan 10 (vs. 5%yoy in Dec 09). Loan application rose mainly for construction, finance, insurance and business services sectors for working capital requirements as well as for mergers and acquisition activity.

**Jan 10 loans approval was higher comparing on year to year basis.** Annual growth of loan approval for businesses in Jan 10 was higher at 29%yoy (vs. 21.1%yoy in Dec 09) compared to household sector's growth of 50.6%yoy (vs. 43.7%yoy in Dec 09).

Table 1: Loans approved by sectors

Sectors	Jan 09 (RM' mil)	Dec 09 (RM' mil)	Jan 10 (RM' mil)	% Change (mom)	% Change (yoy)
Manufacturing	918.7	1,492.6	1,167.5	-21.8%	27.1%
General Commerce	877.9	1,878.2	1,420.2	-24.4%	61.8%
Construction	975.7	2,035.3	1,601.9	-21.3%	64.2%
Transport, storage and communication	484.4	813.9	646.6	-20.6%	33.5%
Finance, insurance and business activities	1,135.2	666.4	1,180.8	77.2%	4.0%
Household sector	9,567.0	13,505.2	14,316.9	6.0%	49.6%
Others	250.6	527.8	623.7	18.2%	148.9%

Source : Bank Negara

**Table 2: Loans approved by purpose**

<b>Business Loans</b>	<b>Jan 09 (RM' mil)</b>	<b>Dec 09 (RM'mil)</b>	<b>Jan 10 (RM'mil)</b>	<b>% Change (mom)</b>	<b>% Change (yoy)</b>
<i>Purchase of securities</i>	587.3	1,154.6	1,576.0	36.5%	168.3%
<i>Purchase of transport vehicles</i>	105.2	186.1	308.3	65.7%	193.1%
<i>Construction</i>	563.2	1,285.1	1,093.3	-14.9%	94.1%
<i>Working capital</i>	3,539.6	5,019.2	4,573.8	-8.9%	29.2%
<i>Purchase of non-residential property</i>	1,330.0	3,079.8	2,670.0	-13.3%	100.8%
<i>Other purpose</i>	1,396.3	3,645.2	545.5	-85.0%	-60.9%
<i>Purchase of fixed assets other than land and building</i>	274.2	146.3	373.8	155.5%	36.3%

Source : Bank Negara

<b>Consumer Loans</b>	<b>Jan 09 (RM' mil)</b>	<b>Dec 09 (RM'mil)</b>	<b>Jan 10 (RM'mil)</b>	<b>% Change (mom)</b>	<b>% Change (yoy)</b>
<i>Purchase of consumer durable goods</i>	1.1	0.5	11.1	2120%	909%
<i>Personal uses</i>	862.5	1,419.8	1,184.5	-17%	37%
<i>Credit cards</i>	1,960.6	1,260.4	1,081.9	-14%	-45%
<i>Purchase of residential property</i>	3,142.8	6,205.2	6,510.1	5%	107%
<i>Purchase of passenger cars</i>	2,747.9	3,144.8	3,343.0	6%	22%

Source : Bank Negara

**Table 3: Loan disbursed by type**

	<b>Dec 09 (RM'bil)</b>	<b>Jan 10 (RM'bil)</b>	<b>Dec 09 (% yoy)</b>	<b>Jan 10 (% yoy)</b>
<i>Business loans</i>	44.8	37.1	20.8	12.8
<i>Household sector loans</i>	19.9	19.5	25.2	20.0

Source : Bank Negara

**Table 4: Loan disbursed by sector**

<b>Sectors</b>	<b>Jan 09 (RM' mil)</b>	<b>Dec 09 (RM'mil)</b>	<b>Jan 10 (RM'mil)</b>	<b>% Change (mom)</b>	<b>% Change (yoy)</b>
<i>Manufacturing</i>	9,760.0	12,316.5	11,046.5	-10.3%	13.2%
<i>General Commerce</i>	7,723.7	9,389.6	9,489.9	1.1%	22.9%
<i>Construction</i>	3,321.5	4,269.6	3,010.7	-29.5%	-9.4%
<i>Real estate</i>	1,364.9	2,088.3	1,623.4	-22.3%	18.9%
<i>Transport, storage and communication</i>	1,472.9	1,130.4	1,006.5	-11.0%	-31.7%

Source : Bank Negara

## LENDING AND DEPOSIT RATES

**Average lending rate and interest spread moved higher in Jan 10.** BLR in the banking system was unchanged at 5.51% but average lending rate was higher at 4.85% vs. 4.83% in the previous month.

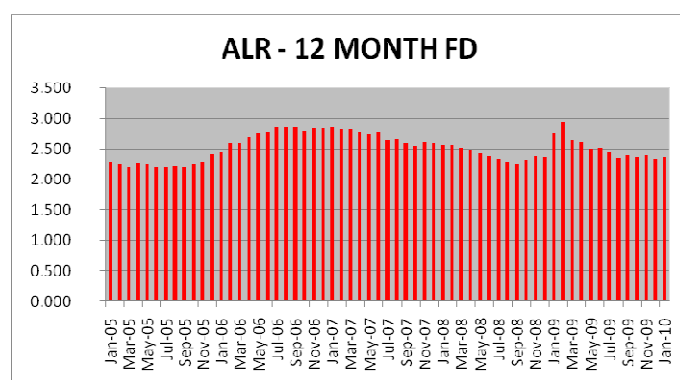
FD rates of commercial banks for tenures of 1,3,6,9 and 12 months were relatively stable and unchanged at 2.00%, 2.03%, 2.04%, 2.05% and 2.50% respectively in Jan 10.

**Table 5: Comparison of interest spread**

(%)	Feb 09	Mar 09	Apr 09	May 09	Jun 09	July 09	Aug 09	Sept 09	Oct 09	Nov 09	Dec 09	Jan 10
Base Lending Rate (BLR)	5.89	5.53	5.53	5.53	5.53	5.53	5.51	5.51	5.51	5.51	5.51	5.51
Average Lending Rate (ALR)	5.49	5.16	5.13	5.02	5.04	4.96	4.84	4.91	4.85	4.91	4.83	4.85
12 month FD rate (ACD)	2.55	2.52	2.5 2	2.52	2.52	2.52	2.50	2.50	2.50	2.50	2.50	2.50
Interest Spread (ALR - ACD)	2.94	2.64	2.61	2.50	2.52	2.44	2.34	2.41	2.35	2.41	2.33	2.35

Source : Bank Negara

We have used the 12 month FD rate as proxy for average cost of deposit (ACD) for the banking system. Interest spread as seen from the table above was higher at 2.35% due to the increase in average lending rate by 0.02% in Jan 10.



Source : Bank Negara

Loans to deposit ratio for Jan 10 was higher at 78.4% from 77.9% in Dec 09.

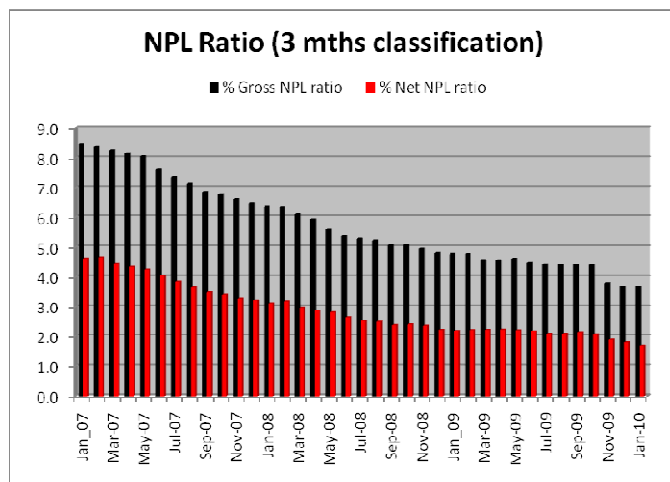
For Jan 10, total deposits in the banking system declined by RM4.3b compared to the previous month. This was due to largely due to decline in deposits financial institutions by RM11b (-RM6.6b by banking institutions and -RM4.5b by non bank financial institutions).

On annual growth basis, deposit growth in banking system was still positive at 8.4%yoy compared to a loan growth of 8.6%yoy.

## ASSET QUALITY

**Asset quality stable.** Net NPL ratio for Jan 10 continued to improve to 1.7% from 1.8% in Dec 09.

Gross NPL for Jan 10 inched higher by 0.7% from the preceding month. The percentage of general provisions to net total loans inched remained at 1.6% in Jan 10 as the previous month.



Source : Bank Negara

With the implementation of FRS139 in Jan 10, total provisions (SP & GP) rose. We believe that this is due to banks making adjustments to their loan provisioning to conform to new regulatory changes. Arising from this, loan loss coverage for the banking system for Jan 10 was higher at 96.9% vs. 94.4% in the previous month.

**Table 6: Trend of loan loss coverage ratio**

	<u>Apr-09</u>	<u>May-09</u>	<u>Jun-09</u>	<u>July-09</u>	<u>Aug-09</u>	<u>Sept-09</u>	<u>Oct-09</u>	<u>Nov-09</u>	<u>Dec-09</u>	<u>Jan-10</u>
Loan loss coverage ratio	86.7	86.8	87.8	90.7	90.2	87.9	89.9	92.3	94.4	96.9

Source : Bank Negara

## CAPITALISATION

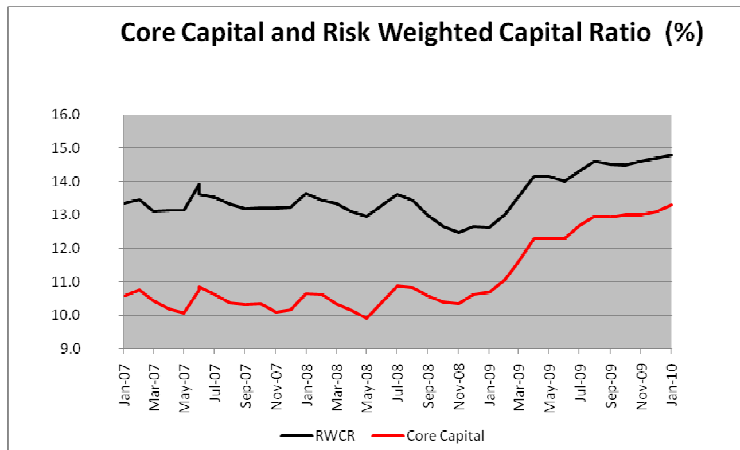
**Table 7: Core capital ratio (CCR) and Risk weighted capital ratio (RWCR)**

	<u>Apr-09</u>	<u>May-09</u>	<u>Jun-09</u>	<u>July-09</u>	<u>Aug-09</u>	<u>Sept-09</u>	<u>Oct-09</u>	<u>Nov-09</u>	<u>Dec-09</u>	<u>Jan-10</u>
Core capital ratio	12.3	12.3	12.3	12.6	13.0	12.9	13.0	13.0	13.1	13.3
Risk weighted capital ratio	14.2	14.2	14.0	14.2	14.6	14.5	14.5	14.6	14.7	14.8

Source : Bank Negara

**Stable capitalisation.** Capitalisation in the banking system was stronger with core capital ratio inching up 0.2% to 13.3% while risk weighted capital ratio in Jan 10 rose to 14.8% (vs.14.7% in the previous month).

The stronger capitalisation was due to the inclusion of banks' half year profits.



Source : Bank Negara

## STOCK PICKS

We remain our **OVERWEIGHT** stance on the banking sector. Banks such as AMMB, Maybank, CIMB have reported stronger results for the latest quarter with NPL ratios continue to improve. Most banks reported lower loan loss provisioning for the latest quarter which contributed to stronger earnings.

With Bank Negara's indication of normalisation of interest rates after an improvement in economic condition with a recently announced GDP growth of 4.5% in 4Q of 09 and a contraction in GDP of 1.7% for 2009, we expect interest income to rise and hence banks will attain stronger net interest margins (NIMs). With OPR reduced on three stages by 150bps previously, we expect the normalisation of rates to take place gradually. We believe that some banks will reposition their balance sheet to capitalise on the potential rise in interest rates.

With the implementation of FRS139 in 2010, we expect banks to also make changes to their general provisions (GP) and specific provisions (SP) for loan but do not expect these changes to have any adverse impact on the bank's capital positions.

We expect banks to remain cautious in dividend payments in the near term in implementing changes to conform to new regulatory requirements and be wary of the potentially higher equity capital requirements under Basel III.

Our top picks for the banking sector are CIMB (TP: RM14.50), AMMB (TP: RM5.40), RHB Capital (TP: RM6.60) and Public Bank (TP: RM12.80)

	Rec.	Price @ 24/02	Target Price	EPS (sen)		PER		DPS		Yield		PBV
				09	10	09	10	09	10	09	10	
AMMB	Buy	4.97	5.40	31.6	33.8	15.7	14.7	8.0	10.0	1.6	2.0	1.6
Maybank	Neutral	6.97	7.00	12.0	46.4	58.1	15.0	8.0	18.5	1.1	2.7	1.8
Public Bank	Buy	11.12	12.80	73.3	85.0	15.2	13.1	77.0	47.0	6.9	4.2	3.5
RHB Capital	Buy	5.30	6.60	51.8	55.5	10.2	9.5	15.0	15.0	2.8	2.8	1.4
Eon Capital	Neutral	6.92	7.20	49.2	55.7	14.1	12.4	10.0	11.7	1.4	1.7	1.3
Hong Leong	Neutral	8.37	8.40	62.5	60.0	13.4	14.0	24.0	24.0	2.9	2.9	2.1
CIMB	Buy	13.00	14.50	79.5	90.7	16.4	14.3	25.0	25.0	1.9	1.9	2.3

Forecasts by MIDFR

## Daily Chart of KLFIN Index



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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	Total return is expected to be <15% 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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.