

1 Apr 2015 | Sector Update

BANKING - FEB 2015 BNM STATISTICS

Maintain NEUTRAL

Growth in loan applications and approvals moderated

LOAN INDICATORS

- Banking system loan growth accelerated slightly to 8.8%yoy in Feb'15 (Jan'15: 8.6%yoy) with a pick up in pace of business loans while household loan growth remained unchanged. Business loan growth registered a higher growth of 8.5%yoy in Feb'15 as compared to 8.2%yoy in the preceding month. Meanwhile, household loan growth remained unchanged at 9.7%yoy similar to the previous two months.
- The uplift in business loan momentum was supported by higher growth in working capital and construction loans at 10.4%yoy and 17.5%yoy respectively.

Table 1: Loan breakdown by purpose (RM mil)

	Feb-14	Jan-15	Feb-15	% of total	%Mom	%Yoy
Purchase of securities	72,064	76,737	77,125	5.7%	+0.5%	+7.0%
Purchase of transport vehicles	163,822	166,392	166,963	12.4%	+0.3%	+1.9%
of which : purchase of passenger cars	153,423	156,782	157,592	11.7%	+0.5%	+2.7%
Purchase of residential property	352,399	394,255	398,355	29.5%	+1.0%	+13.0%
Purchase of non-residential property	157,232	179,814	180,199	13.4%	+0.2%	+14.6%
Purchase of fixed asset other than land & building	9,863	10,703	10,637	0.8%	-0.6%	+7.8%
Personal use	57,774	60,108	60,072	4.5%	-0.1%	+4.0%
Credit card	34,255	35,414	35,501	2.6%	+0.2%	+3.6%
Purchase of consumer durables	273	669	697	0.05%	+4.2%	+155.3%
Construction	34,482	39,885	40,516	3.0%	+1.6%	+17.5%
Working capital	287,601	314,635	317,581	23.5%	+0.9%	+10.4%
Other purpose	70,795	65,737	61,973	4.6%	-5.7%	-12.5%
Total	1,240,560	1,344,350	1,349,619	100.0%	+0.4%	+8.8%

Source: BNM

Table 2: Loan breakdown by sector (RM mil)

	Feb-14	Jan-15	Feb-15	% of total	%Mom	%Yoy
Primary agriculture	33,520	31,991	32,016	2.4%	+0.1%	-4.5%
Mining and quarrying	8,568	10,715	10,961	0.8%	+2.3%	+27.9%
Manufacturing (including agro based)	96,289	100,867	99,952	7.4%	-0.9%	+3.8%
Electricity, gas and water supply	13,655	12,983	10,849	0.8%	-16.4%	-20.5%
Wholesale, retail, restaurants & hotels	90,687	98,146	98,461	7.3%	+0.3%	+8.6%
Construction	51,196	57,505	57,937	4.3%	+0.8%	+13.2%
Real estate	71,882	85,679	87,046	6.4%	+1.6%	+21.1%
Transport, storage & communication	28,993	32,369	33,649	2.5%	+4.0%	+16.1%
Financing, insurance & business services	84,727	91,155	93,306	6.9%	+2.4%	+10.1%
Education, health & others	41,478	40,229	38,082	2.8%	-5.3%	-8.2%
Household sector	703,496	767,065	771,806	57.2%	0.6%	9.7%
Other sector	16,069	15,645	15,552	1.2%	-0.6%	-3.2%
Total	1,240,560	1,344,350	1,349,619	100.0%	+0.4%	+8.8%

Source: BNM

By sectors, contributing to the stronger business loans was mainly acceleration in loans extended to the transport, storage and communication; finance, insurance and business services; and wholesale and retail trade, and restaurants and hotels sectors.

- **Household loan growth remained stable.** Compared to the preceding month, growth in loans for residential property purchase inched up slightly to 13.0%yoy while growth in loans for purchase of non-residential property turned slower by 70bp compared to preceding month and grew 14.6%yoy. With the volatility in equity market, growth in loans for purchase of securities continued to lose momentum to 7.0%yoy.

Outstanding loans for purchase of passenger cars grew slightly faster at 2.7%yoy. We believe that this has been contributed by the introduction of newer models of vehicles. Meanwhile, personal loan growth remained subdued at 4.0%yoy while outstanding in credit cards grew at faster pace of 3.6%yoy.

Table 3: Loan applications by purpose (RM mil)

	Feb-15	% of total	Nov-14 (%Yoy)	Dec-14 (%Yoy)	Jan-15 (%Yoy)	Feb-15 (%Yoy)
Purchase of securities	4,005	8.4%	+69.0%	-4.1%	-2.2%	+21.7%
Purchase of transport vehicles	6,053	12.8%	-0.7%	-2.3%	+2.4%	-16.5%
of which : purchase of passenger cars	5,836	12.3%	-1.3%	-2.3%	+2.2%	-15.3%
Purchase of residential property	11,684	24.6%	-27.2%	-3.8%	+9.0%	-16.7%
Purchase of non-residential property	6,862	14.5%	-7.4%	-1.9%	+15.2%	-7.2%
Purchase of fixed asset other than land & building	735	1.5%	-40.1%	+67.5%	-18.1%	+191.0%
Personal use	3,209	6.8%	+37.9%	+41.0%	+52.3%	+9.3%
Credit card	1,781	3.8%	+4.1%	+8.4%	+18.1%	+44.3%
Purchase of consumer durables	9	0.02%	+258.0%	+2272.7%	+2007.0%	+2751.5%
Construction	2,107	4.4%	+3.6%	+28.5%	-9.7%	-39.0%
Working capital	8,550	18.0%	+0.6%	+2.1%	+6.1%	-36.9%
Other purpose	2,467	5.2%	+383.8%	+36.8%	+63.6%	-36.5%
Total applied	47,461	100.0%	+0.1%	+4.8%	+10.0%	-17.1%

Source: BNM

- Industry loan applications moderated in Feb'15** contributed by a slowdown in applications for working capital, construction loans and key household loans (mortgage loans, HP financing). With shorter working days in Feb'15, growth in industry loan applications moderated to -17.1%yoy vs. 10.0%yoy in the preceding month. Contributing to the drop was slower growth in applications for working capital, construction and key household loans. By sectors, the decline was contributed by moderation in growth loan applications from the manufacturing; wholesale & retail trade, and restaurants & hotels; transport, storage and communication, construction and real estate sectors.

Growth in household's loan applications decelerated to -12.4%yoy in Feb'15 as compared to 11.4%yoy in Jan'15. Loan demand for key household loans (mortgage loans and HP loans) was weaker in Feb'15. Meanwhile, improvements in loan demand were seen for loans for purchase of securities and credit cards.

Table 4: Loan approvals by purpose (RM mil)

	Feb-15	% of total	Nov-14 (%Yoy)	Dec-14 (%Yoy)	Jan-15 (%Yoy)	Feb-15 (%Yoy)
Purchase of securities	2,510	9.3%	-18.5%	-28.4%	-21.2%	-5.1%
Purchase of transport vehicles	4,005	14.9%	+1.5%	+7.9%	+3.3%	+3.2%
of which : purchase of passenger cars	3,872	14.4%	+2.9%	+8.6%	+2.1%	+3.8%
Purchase of residential property	6,547	24.3%	-10.8%	-9.9%	+3.1%	-8.7%
Purchase of non-residential property	2,610	9.7%	-3.3%	+21.5%	+14.0%	-27.1%
Purchase of fixed asset other than land & building	469	1.7%	+159.4%	+43.6%	+4.3%	+129.6%
Personal use	991	3.7%	+26.1%	+36.6%	+25.4%	-5.6%
Credit card	980	3.6%	-2.4%	-15.0%	-10.1%	-11.8%
Purchase of consumer durables	8	0.03%	+155.6%	+0.2%	+130.8%	+168.1%
Construction	1,948	7.2%	+56.5%	+17.2%	-14.5%	+187.6%
Working capital	5,460	20.3%	+30.4%	+5.9%	+63.1%	+30.7%
Other purpose	1,381	5.1%	+438.9%	+31.6%	+63.8%	-47.6%
Total approved	26,910	100.0%	+10.8%	+2.0%	+9.3%	-0.8%

Source: BNM

- **Loan approvals also moderated.** Loan approvals for households loans moderated to -7.9%yoy in Feb'15 (Jan'15: 2.3%yoy). In terms of loans by purpose, the slowdown was mainly contributed by moderation in growth in approvals for mortgage loans, loans for purchase of securities as well as working capital loans (Refer Table 4).
- **Growth in loan disbursements turned faster relative to repayments in Feb'15.** Growth in loan disbursement at 3.5%yoy was faster relative to loan repayments which grew at 2.6%yoy. Industry LD ratio continued to inched higher to 87.4% vs. 87.3% in the preceding month, hence reflecting tightening liquidity.

Deposit growth in the banking system grew 7.9%yoy. CASA growth in the industry gained momentum to 4.6%yoy as compared to 4.0%yoy in Jan'15. This led to a slightly higher CASA ratio of 25.8% in Feb'15 (Jan'15: 25.6%)

LENDING AND DEPOSIT RATES

- **ALR inched up 3bp and interest spread widened slightly.** The industry's average lending rate (ALR) rose 3bp from the preceding month to 4.67%. BLR remained at 6.79%.
- **Average deposits rate remained stable.** Interest spread (between the average lending rate and average deposit rate) improved to 1.48% due to a higher ALR while average deposit rate remained at 3.19%.

ASSET QUALITY

- **GIL ratio for the industry remained at 1.7%.** Gross Impaired Loan (GIL) ratio remained at 1.7% while net impaired loan (NIL) ratio inched up slightly to 1.3% from 1.2% in the previous month.

Table 5: Impaired Loans by purpose (RM mil)

	Feb-14	Jan-15	Feb-15	% of total	%Mom	%Yoy
Purchase of securities	220	254	381	1.7%	+50.0%	+73.2%
Purchase of transport vehicles	2,338	2,011	2,076	9.2%	+3.2%	-11.2%
of which : purchase of passenger cars	2,060	1,820	1,882	8.3%	+3.4%	-8.6%
Purchase of residential property	5,314	4,948	5,190	23.0%	+4.9%	-2.3%
Purchase of non-residential property	1,144	1,588	1,582	7.0%	-0.4%	+38.3%
Purchase of fixed asset other than land & building	227	183	183	0.8%	-	-19.4%
Personal use	993	1,086	1,054	4.7%	-2.9%	+6.1%
Credit card	452	386	456	2.0%	+18.1%	+0.9%
Purchase of consumer durables	2	8	10	0.05%	+25.0%	+400.0%
Construction	1,689	2,253	2,259	10.0%	+0.3%	+33.7%
Working capital	8,999	8,465	8,218	36.4%	-2.9%	-8.7%
Other purpose	1,496	1,144	1,149	5.1%	+0.4%	-23.2%
Total	22,876	22,326	22,558	100.0%	+1.0%	-1.4%

Source: BNM

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

	Jun-14	July-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Purchase of securities	0.4%	0.4%	0.3%	0.3%	0.4%	0.3%	0.4%	0.3%	0.5%
Purchase of transport vehicles	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%
of which : purchase of passenger cars	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%
Purchase of residential property	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Purchase of non-residential property	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%
Purchase of fixed asset other than land & building	2.3%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%
Personal use	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%
Credit card	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.3%
Purchase of consumer durables	1.1%	1.0%	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%	1.5%
Construction	5.0%	5.1%	5.0%	7.3%	7.3%	7.2%	7.1%	5.6%	5.6%
Working capital	3.1%	3.1%	3.0%	2.9%	2.8%	2.7%	2.5%	2.7%	2.6%
Other purpose	1.8%	2.0%	2.0%	1.8%	1.9%	1.7%	1.7%	1.7%	1.9%
Total	1.8%	1.8%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%

Source: BNM


On absolute value basis, upticks continued to be seen on impaired loans. Impaired loans rose RM232m or by +1.0%mom in Feb'15. GIL ratio for loans to purchase non residential property was stable in Feb'15 while improvement was observed in the GIL ratio for working capital loans to 2.6% (Jan'15: 2.7%). GIL ratio for loans for personal use was unchanged. Meanwhile, we noticed a rise in GIL ratio for loans for purchase of securities to 0.5% in Feb'15, up from 0.3% in Jan'15. The sector recorded a loan loss coverage ratio of 97.9%.

CAPITALISATION

- **Stable capital position.** The sector's capital position remained stable. CET1, Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) slightly lower at 12.6%, 13.3% and 15.3% respectively in Feb'15.

CALL ON SECTOR & STOCK PICKS

- **Expect improvement in banks' treasury income in 1QCY15 as compared to 4QCY14.** Lower yields in 1QCY15 compared 4QCY14 likely to be positive on banks' Treasury income for the upcoming 1QCY15 results.

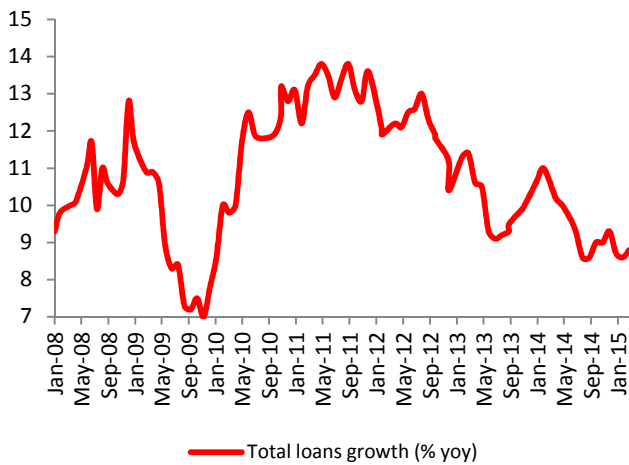
- **Capital market activities remained slow.** Although an improvement from the preceding month's -74.1%yoy, new PDS issuance continued to be slow with a growth of -66.8%yoy in Feb'15. Growth in net funds raised from the capital market for the private sector improved to 13.5%yoy but was still low in absolute value basis.
- **ROE of banks expected to continue to trend lower with challenging top line growth while some banks are planning for capital raising exercise.** Any capital raising exercises may result in some dilution to ROE. All eyes will be on Hong Leong and RHB Capital for potential announcement of capital raising plans.
- **Maintain NEUTRAL on the sector.** We have BUY calls on Hong Leong Bank (TP: RM16.10), Maybank (TP: RM10.80) and RHB Cap (RM9.50). Furthermore, we are NEUTRAL on Public Bank (TP: RM19.50), AHB (TP: 3.15), AMMB (TP: RM7.00), AFG (TP: RM4.70), BIMB (TP: RM3.96) and CIMB (TP: RM6.20). 

	Rec.	Price @ 31/3	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
				15	16	15	16	15	16	15	16	15	16		
AMMB	NEUTRAL	6.36	7.00	55.0	58.0	11.6	11.0	22.0	23.0	3.5	3.6	4.7	5.1	1.4	1.3
Maybank	BUY	9.33	10.80	75.0	82.0	12.4	11.4	45.0	49.0	4.8	5.3	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	18.88	19.50	121.0	131.0	15.6	14.4	56.0	60.0	3.0	3.2	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.92	9.50	86.0	95.0	9.2	8.3	11.0	12.0	1.4	1.5	8.0	8.7	1.0	0.9
Hong Leong	BUY	14.26	16.10	115.0	124.0	12.4	11.5	38.0	41.0	2.7	2.9	8.5	9.5	1.7	1.5
CIMB	NEUTRAL	6.22	6.20	50.0	53.0	12.4	11.7	20.0	21.0	3.2	3.4	4.8	5.1	1.3	1.2
AFG	NEUTRAL	4.79	4.70	37.0	40.0	12.9	12.0	22.0	24.0	4.6	5.0	2.9	3.1	1.6	1.5
BIMB	NEUTRAL	4.10	3.96	37.5	40.2	10.9	10.2	15.0	16.1	3.7	3.9	2.2	2.4	1.9	1.7
Affin	NEUTRAL	2.95	3.15	33.0	35.0	8.9	8.4	16.0	18.0	5.4	6.1	4.2	4.4	0.7	0.7

Kelvin Ong, CFA

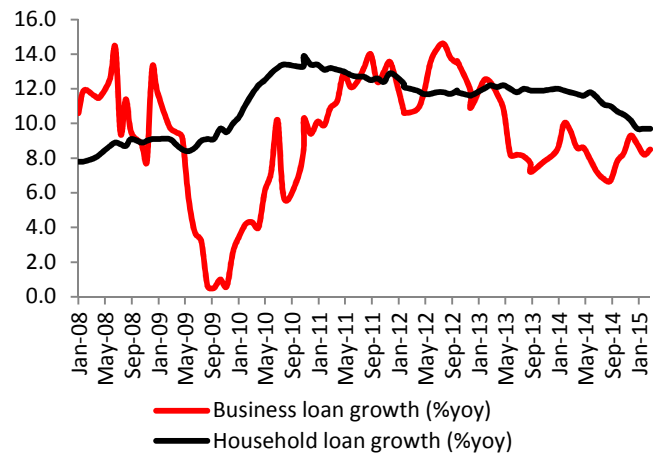
kelvin.ong@midf.com.my / 03-21738353

Chart 1: Total Loan Growth Rate



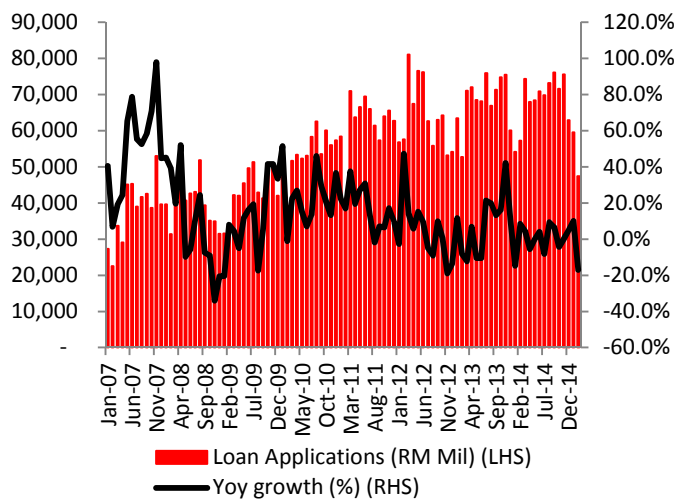
Source: BNM

Chart 2: Business and Household Loan Growth Rate



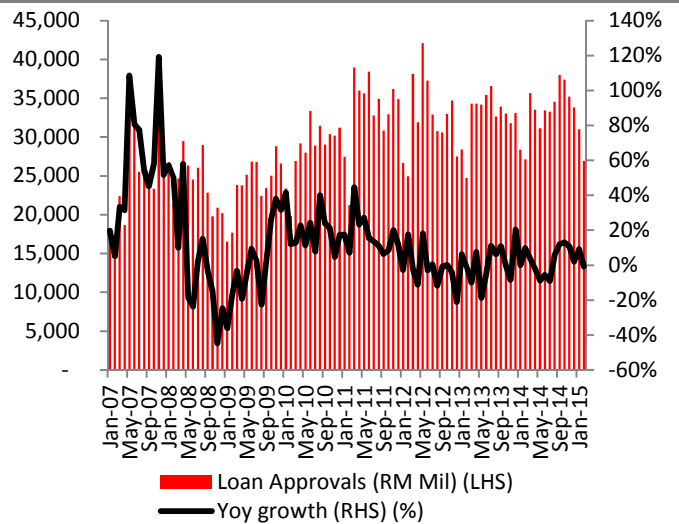
Source: BNM

Chart 3: Loan Application



Source: BNM

Chart 4: Loan Approvals



Source: BNM

Chart 5: Loan Disbursement

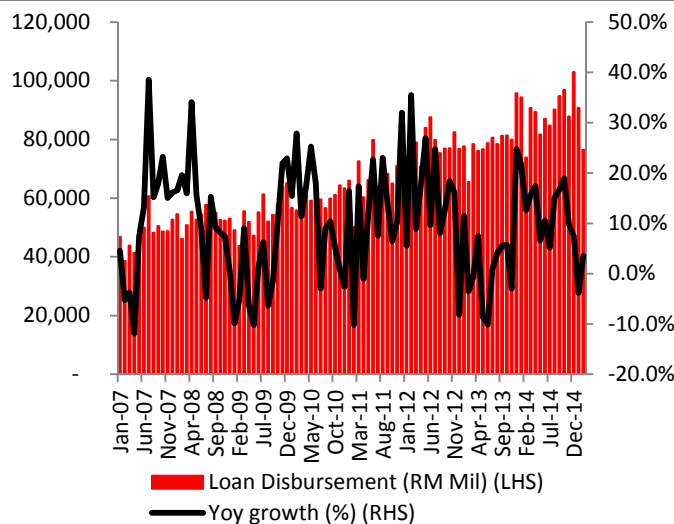


Chart 6: Interest Spread

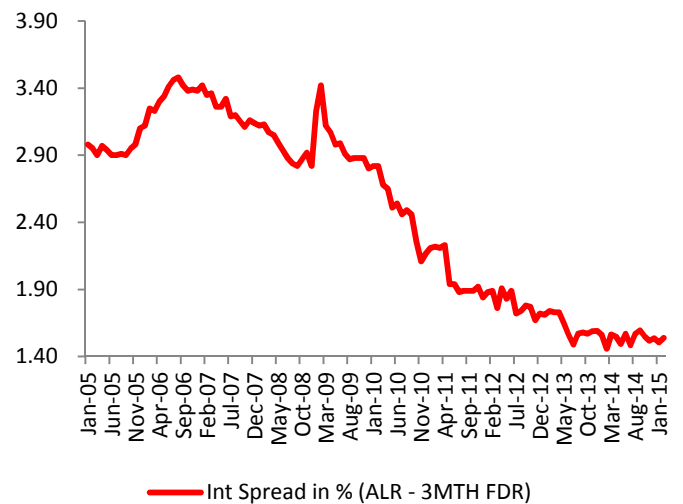
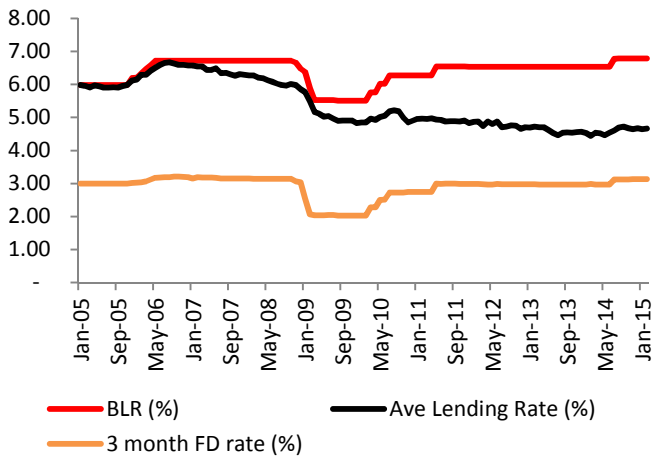
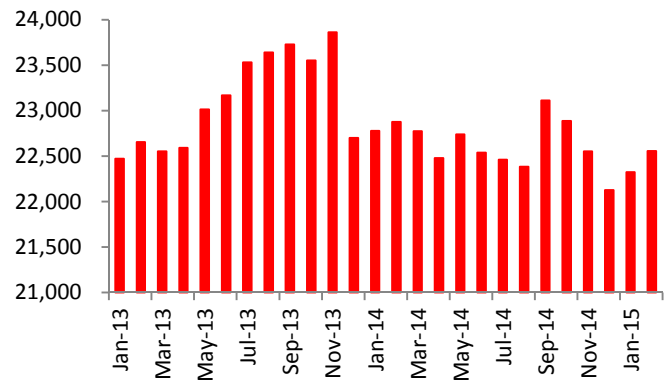


Chart 7: Trend of BLR, ALR & 3 mth FD Rate



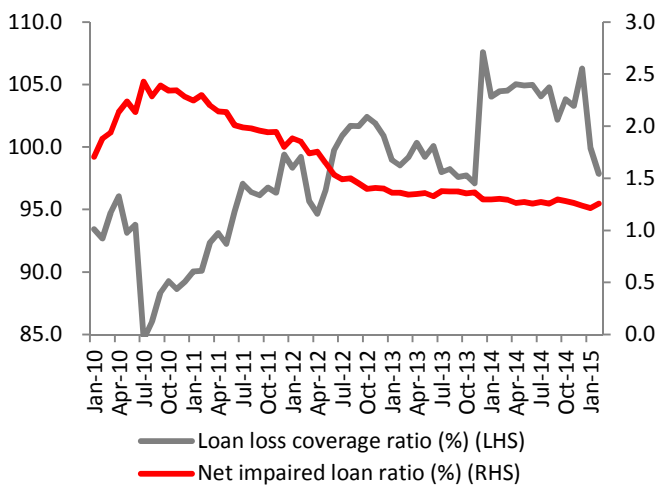
Source: BNM

Chart 8: Total Impaired Loans



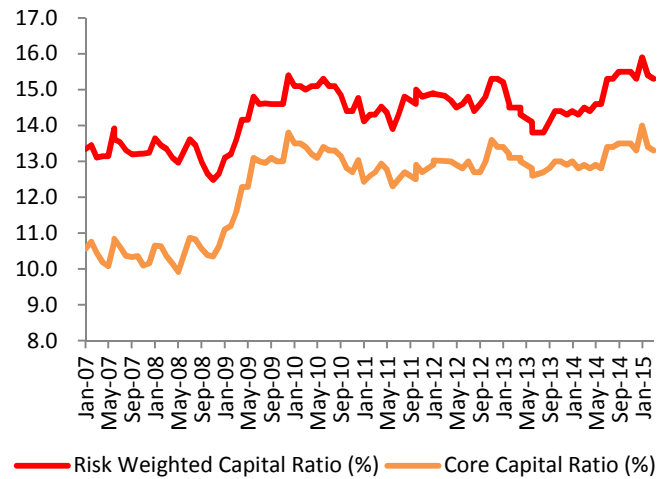
Source: BNM

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

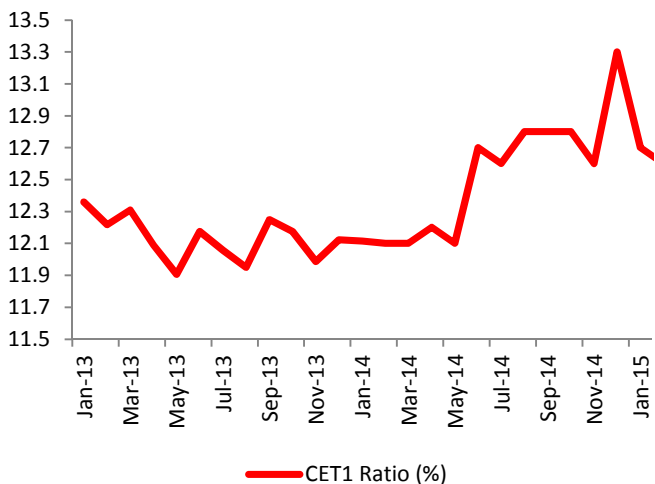
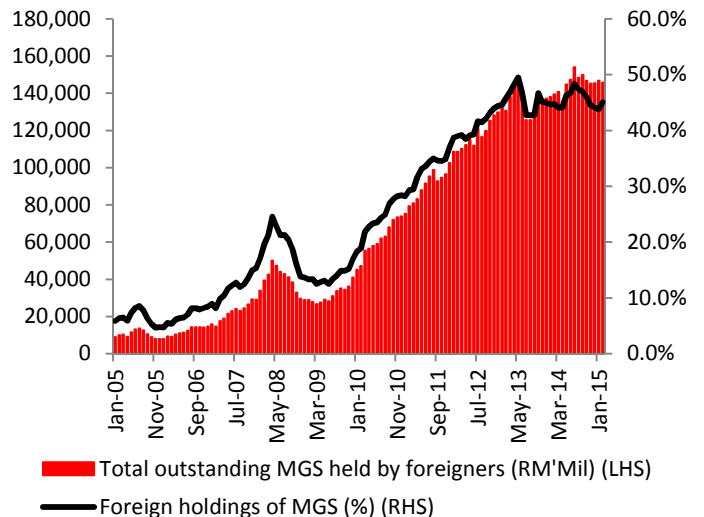


Chart 12: MGS Holdings by Foreigners



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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.