

“Business Loans Gaining Momentum”

Banking sector is a NEUTRAL in 2015 as we expect loans growth to hit 9.0% vs. 9.5% in 2014. Driver to the banking sector loans growth this year includes 1) steady ETP related financing 2) acceleration of re-financing drive towards shariah approved 3) steady equity and debt market performance. Our BUY calls for banking sector are Maybank (TP: RM10.70) and BIMB Holdings (TP: RM4.84).

Table 1: June 2015 Summary

Purpose (RM billion)	Jun-15	May-15	Jun-14	Y-o-Y	M-o-M	Comment
Loans growth	9.0%	8.9%	9.3%	↓	↑	Going stronger, supported by stronger business segment
Loans Application	2.0%	0.7%	-8.1%	↑	↑	GST bite consumer away, making consumer cautious
Loans Approval	15.0%	-2.9%	-9.0%	↑	↑	Surging higher due to healthy loans in the pipeline
Loan Disbursement	12.9%	-1.6%	3.1%	↑	↑	Disbursement assisted by healthy approvals
Loan Approval Rate	53.1%	47.1%	47.1%	↑	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.62%	1.59%	1.78%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	7.3%	7.0%	5.8%	↑	↑	Unperturbed with keen competitions, banks put more efforts
Loan to Deposits	83.2%	82.6%	81.9%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.57%	4.61%	4.54%	↑	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.2%	15.1%	14.6%	↑	↓	Well prepared for the Basel III requirements
- CET-1	13.1%	13.1%	13.5%			
- Tier-1	12.3%	12.3%	12.7%			

Source: BNM, M&A Securities

Summary June 2015 Banking Statistics

- Loans growth grew marginally by 9% y-o-y. The growth came at the back of stronger performance in loan applications, loan approvals and loan disbursements, fuelled by business segment.
- We suspect the petrol hike in June 2015 has put pressure on good's price and thus weakened HH loans performance.
- Loans application improved following weak performance in May supported by business loans.
- Gross impaired loans weakened marginally for 2 consecutive months to 1.62% vs. 1.59% in May. We believe the culprit was HH where banks were feeling the heat in hire purchase segment.

Our View Loans Growth Outlook in 2015

- We expect a tough environment for the banking sector in 2015 with various factors set to kick-in. Slower loans growth, softer investment banking activities and uncertainties in the global economy are expected to weigh on banks' earnings.
- Coupled with the likely compression in net interest margin (NIM) arising from stiff competition for deposits and higher valuation among Malaysian banks compared with their regional peers, the sector is in for a slower growth.
- For 2015, we expect a steady loans growth 9% y-o-y vs. 9.5% in 2014 assisted by i) revival in capital market activity ii) steady financing of ETP related activities iii) a steady migration to shariah financing mode from conventional.
- Asset quality to remains sturdy thanks to efficient risk management process and management.

Table 2: Y-o-Y Growth by segment

Purpose (RM billion)	Household			Business		
	Jun-15	May-15	Jun-14	Jun-15	May-15	Jun-14
Loans Growth	8.7%	9.2%	11.9%	9.5%	8.6%	6.0%
Loans Application	-0.5%	-9.9%	-2.3%	5.0%	5.9%	13.7%
Loans Approval	-7.0%	-17.8%	3.4%	50.6%	30.6%	-17.0%
Loans Disbursement	-3.7%	-6.5%	0.9%	19.9%	10%	13.1%

Source: BNM, M&A Securities

A. 1. Familiarized with GST implementation.

- Loans growth showed signs of improving post 2 months of GST implementation. Loans growth grew marginally to 9% y-o-y vs. 8.9% in May and 8.8% in April. The growth came at the back of stronger performance in loan applications, loan approvals and loan disbursements recorded, fuelled by business segment.
- Business loans continued to support loans growth momentum post-GST implementation, rising 9.5% y-o-y vs. 8.6% in May. In contrast, HH loans was in diminishing positions as a result of sluggish private consumption, slowing to 8.7% y-o-y vs. 9.2% in May.
- Key sectorial drivers for April loans growth include i) mining by 42% y-o-y ii) finance by 15% y-o-y and iii) real estates by 17% y-o-y
- Moving forward, we expect HH segment loans growth to continue to moderate in line with the GST that kicked in April 2015. On the other hand, we expect business segment will continue to grow and support overall loans growth in 2015.

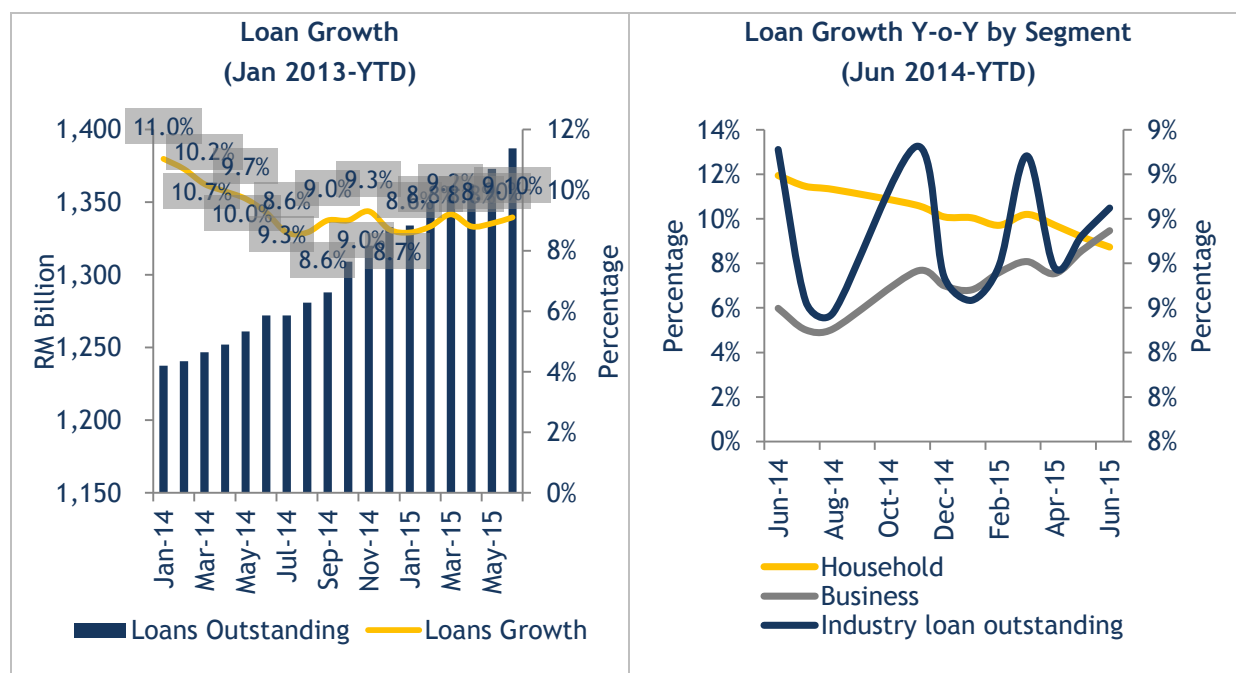
Table 3: Industry Loans Growth

Purpose (RM billion)	Jun-15	May-15	Jun-14	M-o-M	Y-o-Y
Purchase of Securities	75,603	76,165	73,894	-1%	2%
Transport Vehicle	168,234	167,847	164,802	0%	2%
Of Which is Passenger Car	158,672	158,231	154,953	0%	2%
Residential Property	414,568	410,429	367,574	1%	13%
Non-Residential Property	189,938	187,478	164,397	1%	16%
Other Fixed Assets	10,379	10,567	10,379	-2%	0%
Personal Use	61,320	60,969	58,272	1%	5%
Credit Card	34,723	34,525	34,473	1%	1%
Consumer Durables	149	147	401	1%	-63%
Construction	39,754	39,829	35,762	0%	11%
Working Capital	328,437	322,888	294,791	2%	11%
Other Purpose	64,590	62,815	67,695	3%	-5%
Total	1,387,695	1,373,659	1,272,439	1%	9.1%

Source: BNM, M&A Securities

2. HH loans feeling heat

- The satisfactory growth recorded in the previous month was not sustained. We suspect the hike in petrol hike in June 2015 has put pressure on good's price and hence, we believe the slowdown was linked to that factor. HH loans decelerated to 8.7% y-o-y vs. 9.2% y-o-y in May.
- We saw a recovery in several segment in June, especially in hire purchase by 1% y-o-y vs. -15% y-o-y in May and residential property by -8% y-o-y vs. -16% y-o-y.
- Entering into July 2015, we maintain our stance that consumers will be more selective and cautious in spending and hence we will see a moderation in HH loans moving forward.



Source: BNM, M&A Securities

3. Loans Applications

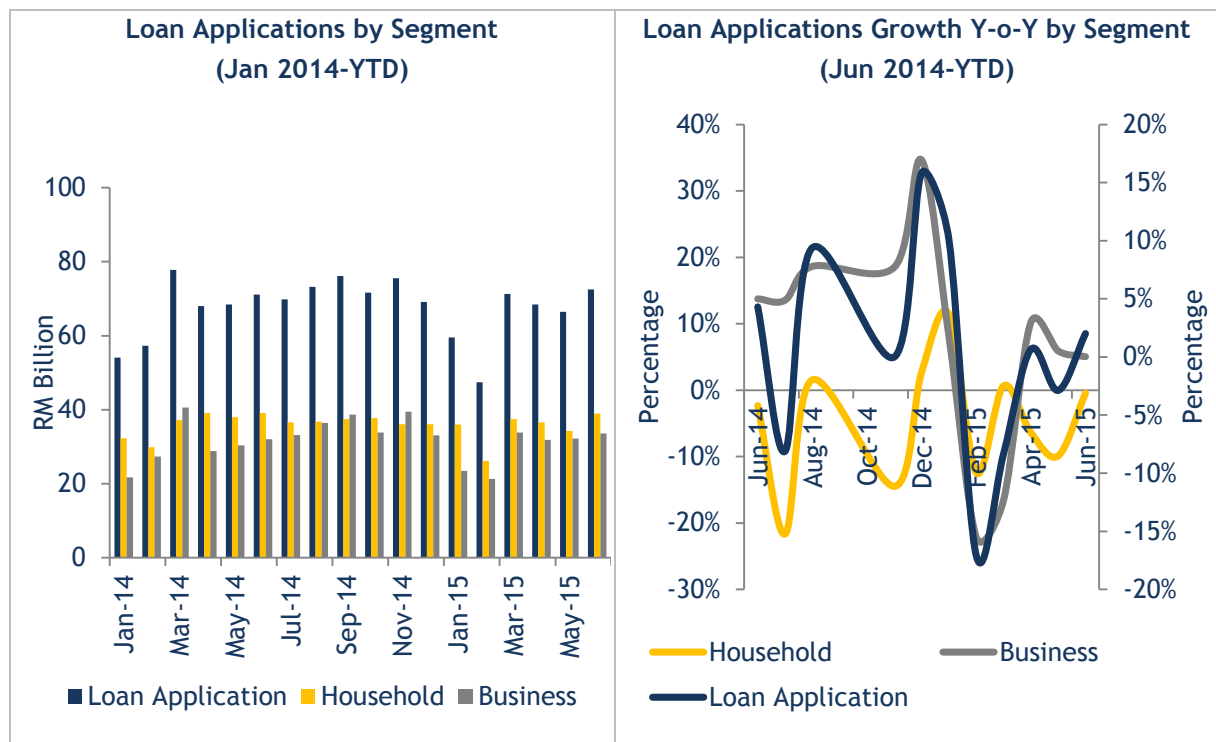
1) Loans Application improving

- Loans application improved following weak performance in May supported by business loans.
- HH loans tumbled for consecutive 3 months post GST implementation which linked to slower consumer spending patterns. HH loans fell 0.5% y-o-y vs. 9.9% in May, derailed by mortgages by -8% y-o-y. Moving forward, we expect HH loans will recover slowly as consumer is slowly adapting to the GST implementation.
- Moving forward, we that business loans will make up the deficiency of gap left by HH loans especially by SME segment with various incentives given by government on this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Jun-15	May-15	Jun-14	M-o-M	Y-o-Y
Purchase of Securities	1,885	1,883	3,455	0%	-45%
Transport Vehicle	7,941	6,483	7,896	22%	1%
Of Which is Passenger Car	7,651	6,177	7,531	24%	2%
Residential Property	19,073	17,432	20,698	9%	-8%
Non-Residential Property	8,429	7,731	8,773	9%	-4%
Other Fixed Assets	362	644	309	-44%	17%
Personal Use	5,949	5,406	3,937	10%	51%
Credit Card	3,135	2,674	1,888	17%	66%
Consumer Durables	2	17	2	-90%	-20%
Construction	3,477	4,183	5,174	-17%	-33%
Working Capital	20,558	17,494	16,492	18%	25%
Other Purpose	1,719	2,459	2,228	-30%	-23%
Total	72,531	66,405	70,852	9.2%	2.4%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

4. Loans Approval

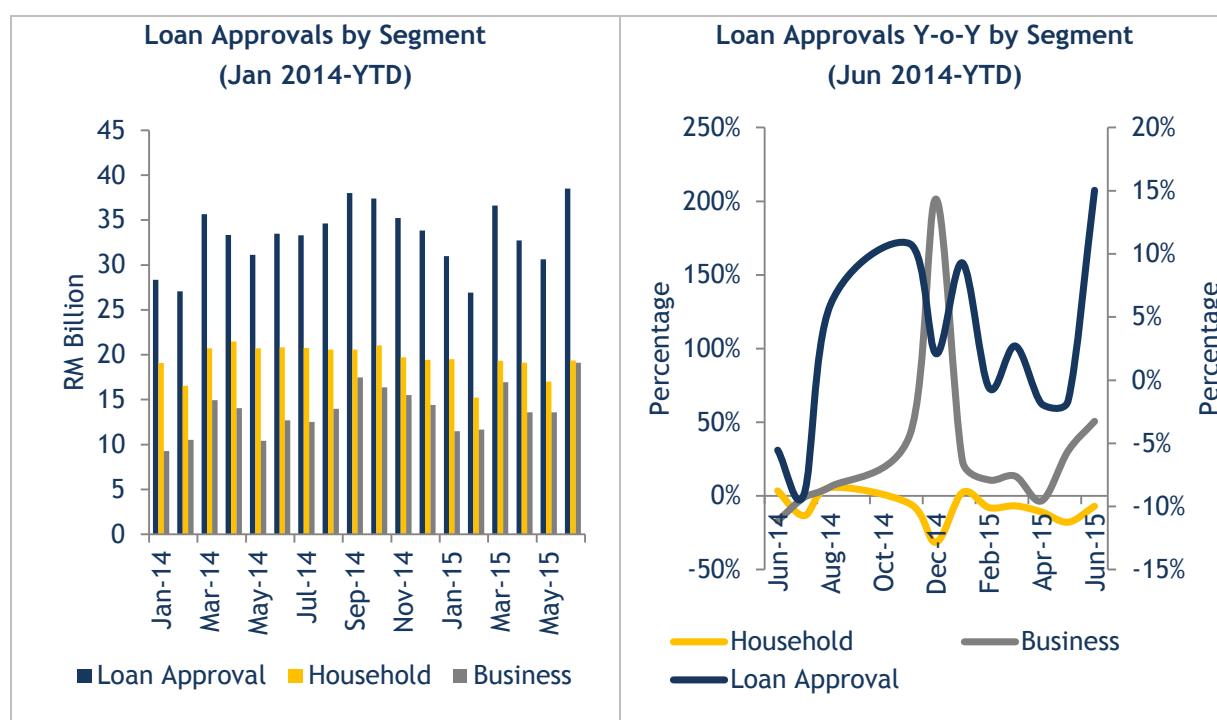
1) Banks cautious in approvals

- Loans approval came back strongly in June following 2 months in negative territory as banks put prudent measures in their approvals. Loans approval surged to 15% y-o-y vs. -1.6% y-o-y in May.
- The strong approval was contributed by business loans with 50.6% approval vs. 30.6% in May. We believe the strong number was contributed by healthy pipeline as banks held back their approval amid GST implementation.
- Whilst, HH loans recovering slightly, however the latter was still in negative territory at -7.0% y-o-y vs. -17.8% y-o-y.
- As a result, approvals rate surged to 53.1% vs. 47.1% in May.
- Elsewhere, loans disbursements dipped to 12.9% y-o-y vs. 5.9% y-o-y driven by improving disbursement in business loans.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Jun-15	May-15	Jun-14	M-o-M	Y-o-Y
Purchase of Securities	1,421	1,323	3,349	7%	-58%
Transport Vehicle	4,425	3,860	3,874	15%	14%
Of Which is Passenger Car	4,243	3,657	3,649	16%	16%
Residential Property	10,025	8,561	10,884	17%	-8%
Non-Residential Property	3,396	2,892	5,027	17%	-32%
Other Fixed Assets	199	457	290	-56%	-32%
Personal Use	1,578	1,382	1,439	14%	10%
Credit Card	1,684	1,355	1,172	24%	44%
Consumer Durables	0	7	6	-96%	-95%
Construction	1,347	931	696	45%	94%
Working Capital	11,569	8,324	5,108	39%	126%
Other Purpose	2,855	2,211	1,607	29%	78%
Total	38,500	31,302	33,452	23%	15%

Source: BNM, M&A Securities

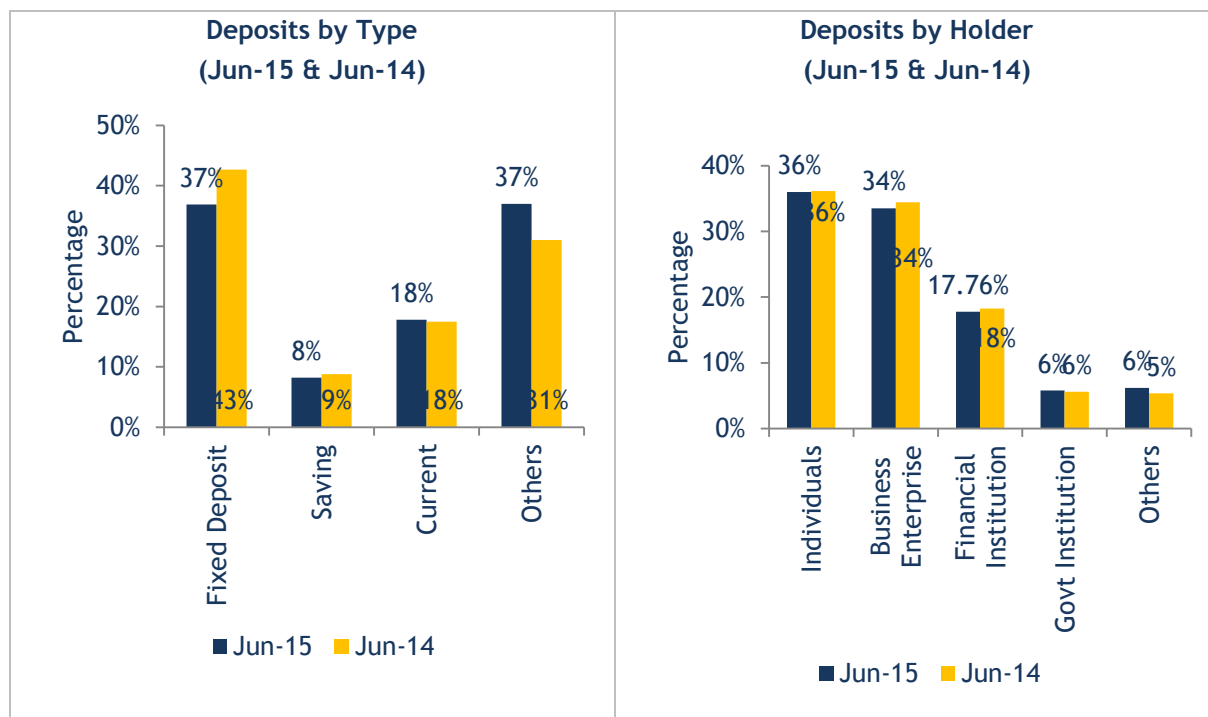


Source: BNM, M&A Securities

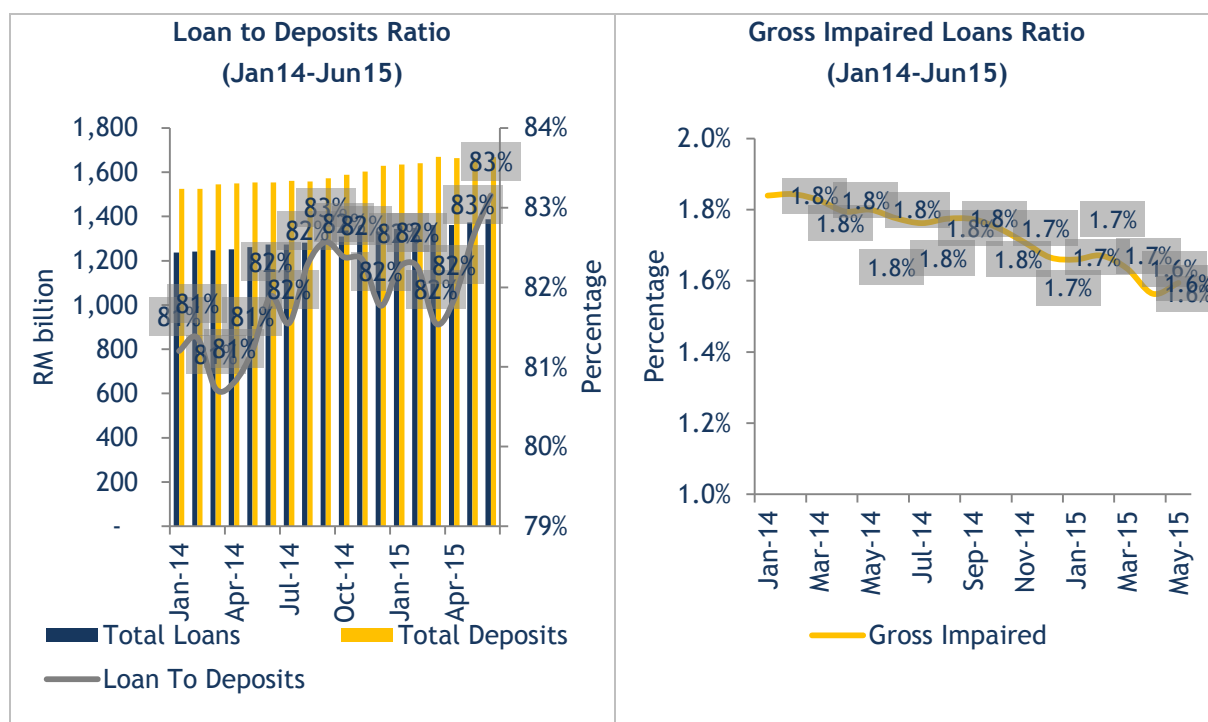
5. Deposits

1) Deposits were stable as well as Loan to Deposits (LTD).

- Despite keen competition in deposit, deposits were able to rise by 7.3% y-o-y vs. 7% in May. We foresee that banks will continue to offer various offerings to attract low cost deposits.
- Positively, the industry's loan/deposit ratio (LDR) was stable at 83.2% vs. 82.6% in May on the back of satisfactory loans growth and thus, showing tight liquidity in the market.



Source: BNM, M&A Securities



Source: BNM, M&A Securities

6. Gross impaired (GIL)

1) GIL at all-time low

Gross impaired loans weakened marginally for 2 consecutive months at 1.62% vs. 1.59% in May. We believe the culprit was HH where banks were feeling the heat in hire purchase segment.

- Meanwhile loan-loss-coverage (LLC) dipped to 98.7% vs 97.9% on new deposits requirement.

7. Capital remains strong

- Capital ratios were stable, with industry's CET1 ratio unchanged since May at 12.3%. Similar situations happened to Tier 1 at 13.1% however total capital jumped to 15.2% vs.15.1% in May.

Conclusion and Recommendations

2015 will see banks slower but steady earnings due to the slowing down in HH segment that account for about 50 % of banking system loans growth. However, we foresee this situation could improve at the back of a pickup in lending from business loans aside from steady capital market activities. Besides slightly more exciting IPO market, non-interest income will also see a boost from increase fund raising activities through equity and bond markets to finance ETP-related projects and also refinancing activities by listed companies from conventional debts to shariah-compliant instruments. Banking sector is a **NEUTRAL** in 2015 with 2 banks emerge as our **BUY** call and **Top Pick** namely Maybank (TP: RM10.70) and BIMB Holdings (TP: RM4.84).

Table 6: Y-o-Y Gross Loan Growth

Company	Year Ended	Sep-13	Dec-13	Mar-14	Jun-14	Sept-14	Dec-14	Mgt Guidance
AFG	March	12.6%	12.8%	14.1%	15.2%	15.5%	16.2%	11%-12%
AMMB	March	6.2%	6.1%	5.3%	1.5%	0.9%	-2.1%	7.0%
CIMB	Dec	13.7%	12.6%	11.9%	8.1%	9.8%	13.2%	14.0%
Maybank	Dec	12.0%	13.7%	13.5%	12.6%	14.3%	13.4%	13.0%
PBK	June	12.0%	13.7%	13.5%	12.6%	9.8%	10.8%	10%-11%
RHB Cap	Dec	13.9%	9.2%	11.2%	13.0%	11.9%	17%	12.0%

Source: Bursa Malaysia, M&A Securities

Table 7: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	4.24	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Buy
AMMB	March	5.59	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Buy
BIMB	Dec	4.12	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.38	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	9.20	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.43	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	19.00	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.53	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.80	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.99	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.58	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: BNM, M&A Securities

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STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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