

“Colors of GST Weighing in”

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: April 2015 Summary

Purpose (RM billion)	Apr-15	Mar-15	Apr-14	Y-o-Y	M-o-M	Comment
Loans growth	8.8%	9.3%	10.0%	↓	↓	Lower growth, but still considerable due to GST implementation
Loans Application	0.7%	8.3%	-5.6%	↑	↓	GST bite consumer away, making consumer cautious
Loans Approval	-1.9%	2.7%	-2.8%	↑	↓	Weaknesses led by both HH segment, banks cautious with GST impact
Loan Disbursement	-7.2%	10%	15.1%	↓	↓	Disbursement hurt by lower approval, especially in business segment
Loan Approval Rate	47.8%	50.8%	49.3%	↓	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.56%	1.6%	1.8%	↑	↑	At healthy level due to stringent requirement loans selection
Deposits Growth	7.4%	8.1%	6.9%	↑	↓	Deposits weakened on m-o-m due to intense competition
Loan to Deposits	81.8%	81.6%	80.8%	↓	↑	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.65%	4.70%	4.52%	↑	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.1%	15.2%	14.5%	↑	↓	Well prepared for the Basel III requirements
- CET-1	13.2%	13.2%	12.9%			
- Tier-1	12.1%	12.5%	12.1%			

Source: BNM, M&A Securities

Summary April 2015 Banking Statistics

- The Goods and Services Tax (GST) effect shaving loans growth lower to 8.8% y-o-y vs. 9.3% in March.
- Loans applications grew of 0.7% vs -8.3% in March. The clear sign of GST implementation was weakening applications in HH loans.
- HH loans approval tumbled by 10.9% y-o-y vs. -6.7% y-o-y in March, with banks putting extra measures to control asset quality.
- Gross impaired loans at all-time low of 1.56 vs. 1.63% in March assisted by HH NPL that were bettered by 4% y-o-y.
- Despite rising on y-o-y by 7.4% y-o-y vs. 8.1% in March, however on m-o-m, deposits fell by 0.3% due competition to secure low cost deposits.

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		
	Apr-15	Mar-15	Apr-14	Apr-15	Mar-15	Apr-14
Loans Growth	9.7%	10.2%	11.6%	7.5%	8.1%	7.9%
Loans Application	-6.4%	0.6%	-2.4%	10.2%	-16.6%	-9.6%
Loans Approval	-10.9	-6.7%	1.4%	-3.3%	13.4%	7.0%
Loans Disbursement	-3.7%	14.6%	8.1%	-8.6%	8.2%	18.2%

Source: BNM, M&A Securities

A. 1. Momentum pre-GST continued

- The impending Goods and Services Tax (GST) finally come on board in 1st April 2015, and as expected the momentum of loans growth pre-GST implementation finally short lived. Loans growth in first month GST implementation still rising at satisfactory pace of 8.8% y-o-y vs. 9.3% in March and 8.8% in February despite negative perception on the implementation
- If we compare to pre-GST growth in March, HH loans still grew commendably at 9.7% y-o-y vs. 10.2% y-o-y in March. The similar happened in business loans too, where the latter grew at 7.5% y-o-y vs. 8.1% y-o-y in March.
- Key sectorial drivers for April loans growth include i) mining by 43% y-o-y ii) real estate by 19% y-o-y and mortgages by 13% 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.

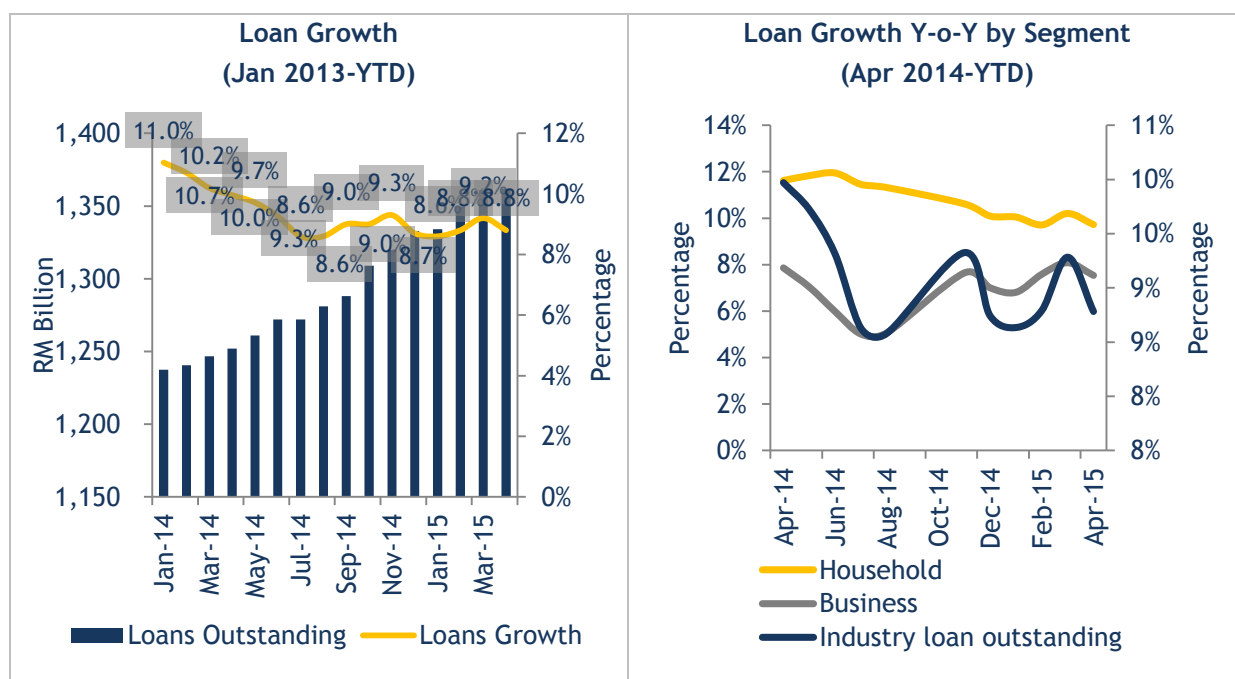
Table 3: Industry Loans Growth

Purpose (RM billion)	Apr-15	Mar-15	Apr-14	M-o-M	Y-o-Y
Purchase of Securities	76,297	77,311	72,460	-1%	5%
Transport Vehicle	167,750	167,743	164,305	0%	2%
Of Which is Passenger Car	158,090	158,240	154,055	0%	3%
Residential Property	406,642	402,889	360,007	1%	13%
Non-Residential Property	186,595	184,939	160,997	1%	16%
Other Fixed Assets	10,608	10,719	9,927	-1%	7%
Personal Use	60,354	59,770	57,942	1%	4%
Credit Card	34,584	35,588	33,865	-3%	2%
Consumer Durables	770	730	330	5%	133%
Construction	39,884	39,445	34,374	1%	16%
Working Capital	316,921	320,898	288,774	-1%	10%
Other Purpose	61,677	61,876	69,138	0%	-11%
Total	1,362,081	1,361,908	1,252,119	0%	8.8%

Source: BNM, M&A Securities

2. Sustained growth in HH was surprising

- Earlier we project that consumer anxiety stoking goods were to blame for the growth in March, however we were surprise despite the GST implementation, HH loans rising at satisfactory pace of 9.7% y-o-y vs. 10.2% y-o-y in March.
- Entering into May 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. Despite uncertain in car price post GST, auto loans rising satisfactorily by 3% y-o-y vs. 2% y-o-y in March. Remarkably residential property still enjoyed double digits growth of 13.1% y-o-y vs. 13% y-o-y in March.



Source: BNM, M&A Securities

3. Loans Applications

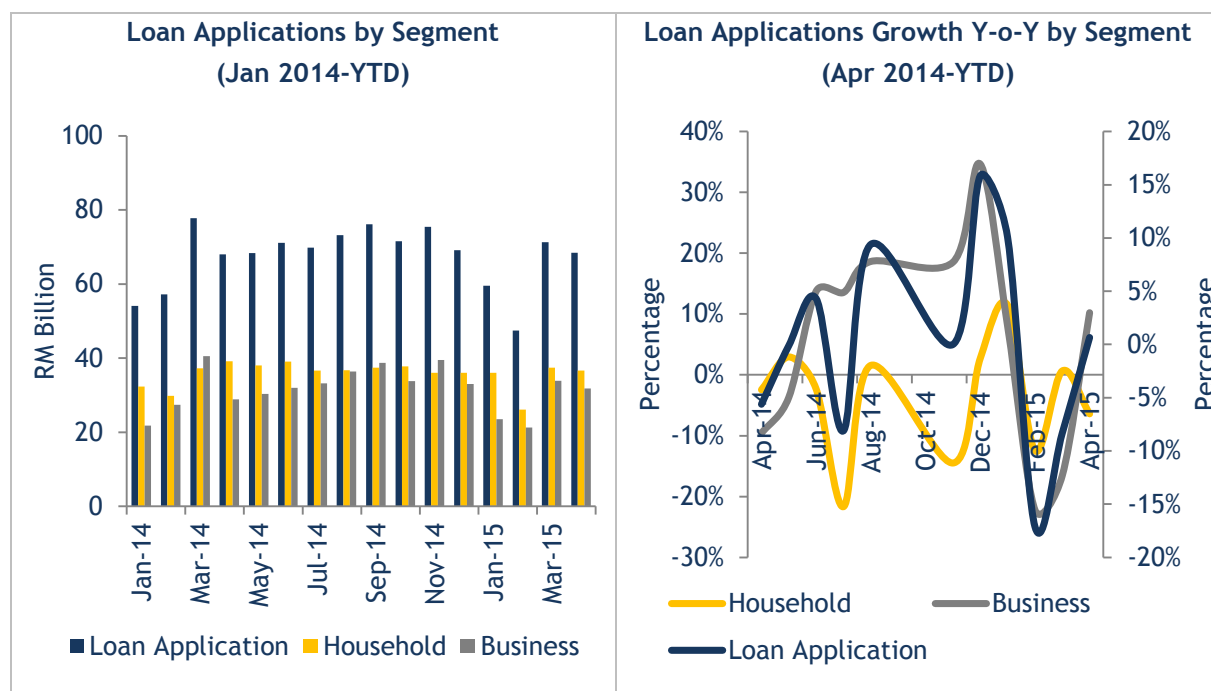
1) Loans Application improving

- Loans applications got even better with growth of 0.7% vs -8.3% in March. The clear sign of GST implementation was weakening applications in HH loans, which echoed our sentiment of GST implementation will bring negative impact to consumer spending patterns.
- Applications in HH loans fell into negative territory of 6.4% y-o-y vs. 0.6% y-o-y in March contributed by hire purchase -16% y-o-y and mortgage -5% y-o-y.
- Meanwhile, business loans surged by 10.2% y-o-y vs. -16.6% y-o-y in March. The recuperating fortune was aided by i) agriculture 219% y-o-y ii) mining 94% y-o-y and iii) real estate 44% y-o-y.
- Moving forward, we foresee that business loan 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)	Apr-15	Mar-15	Apr-14	M-o-M	Y-o-Y
Purchase of Securities	2,895	2,897	3,360	0%	-14%
Transport Vehicle	6,901	8,905	8,237	-23%	-16%
Of Which is Passenger Car	6,586	8,278	7,686	-20%	-14%
Residential Property	18,809	18,173	19,855	4%	-5%
Non-Residential Property	10,042	8,073	9,322	24%	8%
Other Fixed Assets	730	482	394	52%	85%
Personal Use	4,907	4,776	4,011	3%	22%
Credit Card	2,595	2,211	2,123	17%	22%
Consumer Durables	17	11	2	54%	940%
Construction	3,896	3,967	2,726	-2%	43%
Working Capital	15,227	18,029	13,298	-16%	15%
Other Purpose	2,416	3,812	4,664	-37%	-48%
Total	68,435	71,335	67,991	-4%	0.7%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

4. Loans Approval

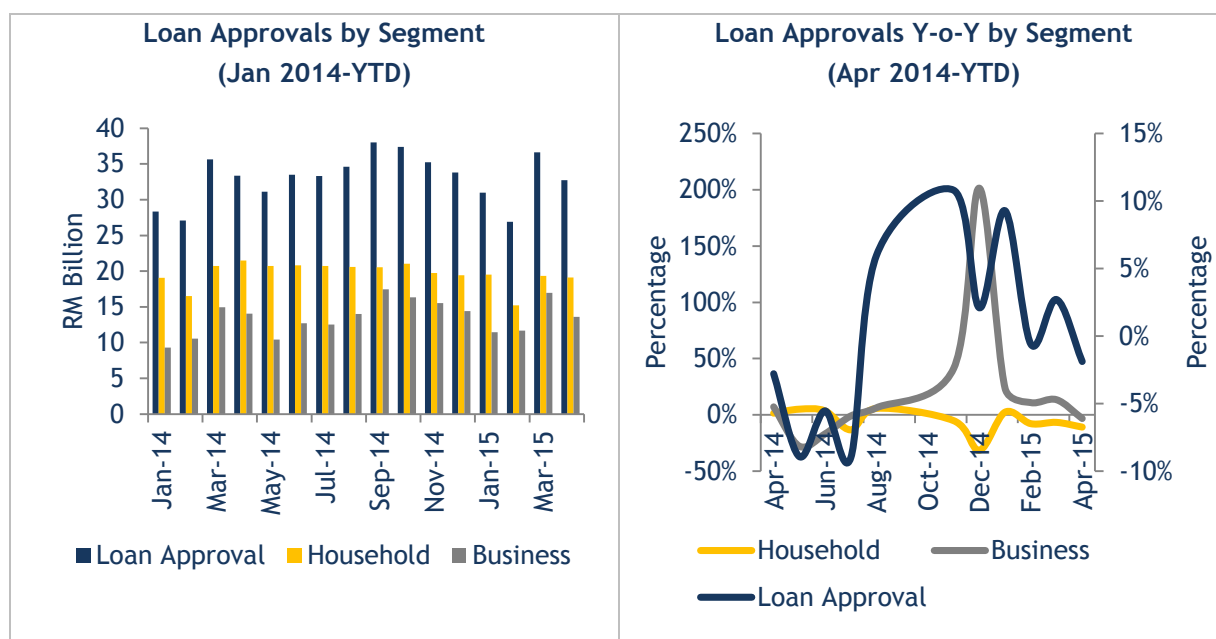
1) Banks cautious in approvals

- The slower applications brought effect to the approvals. Approval fell 2% y-o-y vs. 2% in March hampered by severe approval in HH loans.
- HH loans approval tumbled by 10.9% y-o-y vs. -6.7% y-o-y in March, contributed by hire purchase -16% y-o-y, mortgage -9% y-o-y and credit card -2% y-o-y with banks putting extra measures to control asset quality.
- The similar weaknesses happened in business segment where in the first month GST implementation, banks are cautious in their approval and play the waiting game to see the GST impact.
- As a result, approvals rate dipped to 47.8% vs. 50.8% in March due to weaknesses in both approvals and applications
- Elsewhere, loans disbursements dipped to 7.5% y-o-y vs. 10.5% y-o-y in March dampened by severed business segment.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Apr-15	Mar-15	Apr-14	M-o-M	Y-o-Y
Purchase of Securities	1,817	2,259	2,784	-20%	-35%
Transport Vehicle	4,155	5,357	4,974	-22%	-16%
Of Which is Passenger Car	3,945	4,861	4,688	-19%	-16%
Residential Property	9,839	8,913	10,354	10%	-5%
Non-Residential Property	3,988	4,630	4,396	-14%	-9%
Other Fixed Assets	364	787	242	-54%	51%
Personal Use	1,500	1,428	1,260	5%	19%
Credit Card	1,336	1,192	1,363	12%	-2%
Consumer Durables	7	5	6	27%	8%
Construction	2,353	1,619	822	45%	186%
Working Capital	6,364	7,927	5,253	-20%	21%
Other Purpose	998	2,145	2,079	-53%	-52%
Total	32,721	36,262	33,534	-10%	-2%

Source: BNM, M&A Securities

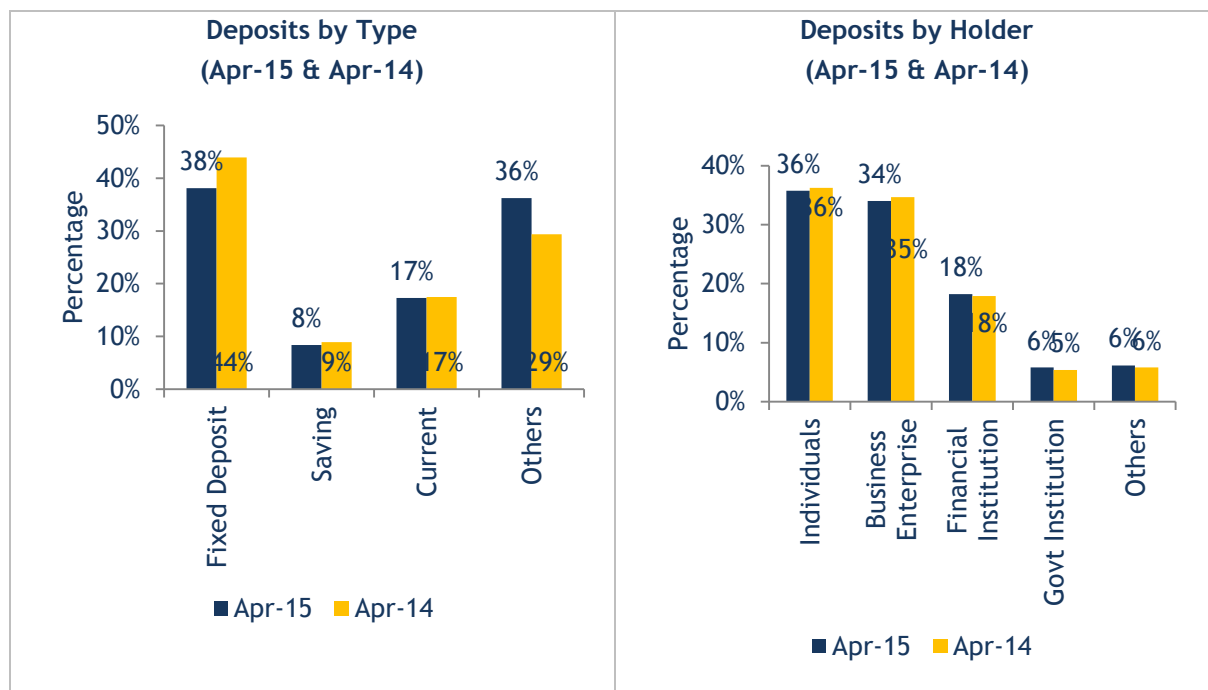


Source: BNM, M&A Securities

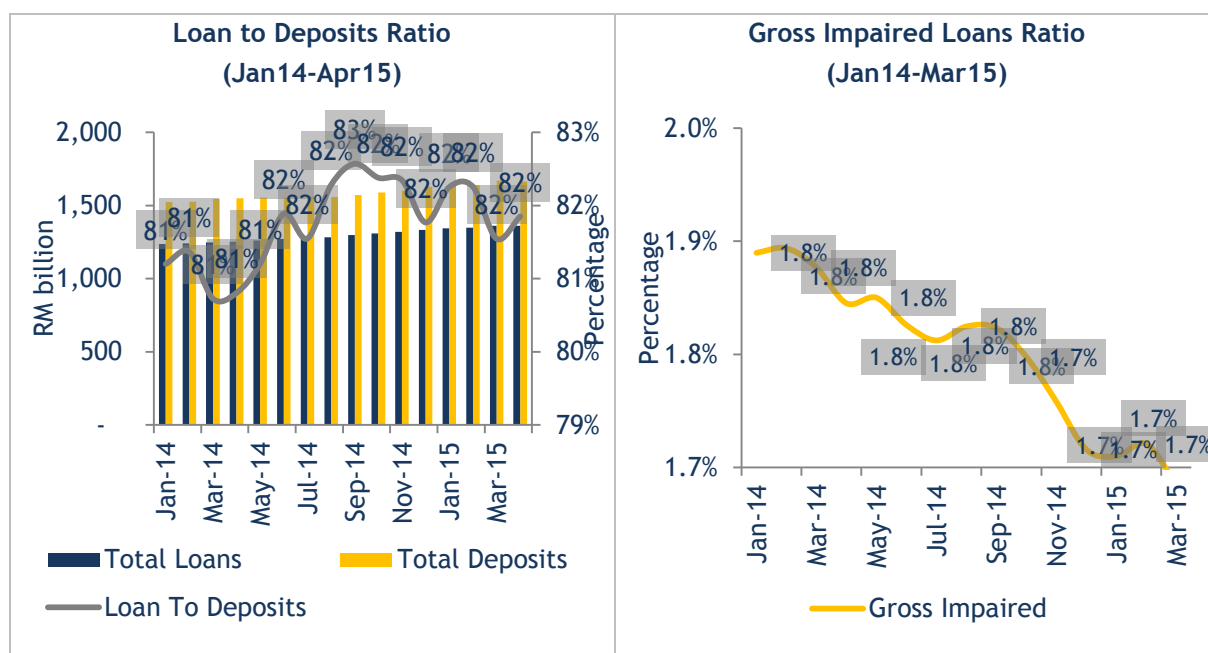
5. Deposits

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

- Despite rising on y-o-y by 7.4% y-o-y vs. 8.1% in March, however on m-o-m, deposits fell by 0.3% due competition to secure low cost deposits
- Positively, the industry's loan/deposit ratio (LDR) was stable at 81.5% on the back of satisfactory loans growth showing the 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 at all-time low of 1.56 vs. 1.63% in March assisted by HH NPL that were bettered by 4% y-o-y
- However, we notice that NPL for residential property is rising on absolute term, nevertheless it remained benign at 0.8% for the past 3 months.
- 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 slipped to 12.4% vs. 12.5% in March. The similar situations happened to Tier 1 and core capital, which weakened marginally to 13.2% and 15.1% respectively.

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	4.51	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.30	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Hold
BIMB	Dec	4.07	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.67	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.03	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.70	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Hold
Public Bank	Dec	18.50	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Buy
Affin	Dec	2.79	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.83	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.29	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.66	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

M&A Securities

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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