

### “Mixed Reaction to GST”

Banking sector is a NEUTRAL in 2015 as we expect loans growth to hit 9.0% vs. 9.5% in 2014. YTD average reached 8.8%. 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: May 2015 Summary

Purpose (RM billion)	May-15	Apr-15	May-14	Y-o-Y	M-o-M	Comment
Loans growth	8.9%	8.8%	9.7%	↓	↑	Surprisingly held-up position supported by business segment
Loans Application	0.7%	0.7%	-0.1%	↑	↑	GST bite HH consumer away, making consumer cautious
Loans Approval	-2.9%	-1.9%	-8.9%	↑	↓	Weaknesses led by HH segment, business segment recovered strongly
Loan Disbursement	-1.6%	-7.2%	4.8%	↓	↑	Disbursement hurt by lower approval, especially in business segment
Loan Approval Rate	47.1%	47.8%	45.5%	↑	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.59%	1.56%	1.8%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	7.0%	7.4%	6.0%	↑	↓	Deposits weakened on m-o-m due to intense competition
Loan to Deposits	82.6%	81.8%	81.2%	↓	↑	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.61%	4.65%	4.47%	↑	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.1%	15.1%	12.1%	↑	↓	Well prepared for the Basel III requirements
- CET-1	13.1%	13.2%	12.8%			
- Tier-1	12.3%	12.1%	14.6%			

Source: BNM, M&A Securities

### Summary May 2015 Banking Statistics

- The Goods and Services Tax (GST) entered its second months with business loans recovered strongly and thus, assisted loans growth to grow marginally to 8.9% y-o-y vs. 8.8% y-o-y in April.
- Loans applications tumbled to 2.9% y-o-y vs. 0.7% in April. The clear sign of GST impact is the weakening applications in HH loans.
- Loans approval tumbled by 1.6% y-o-y vs. -1.9% y-o-y in April with banks putting extra measures to control asset quality.
- Gross impaired loans weakened marginally to 1.59% vs. 1.56%. We see no issue on the weakening.
- Despite rising y-o-y by 7.0% y-o-y vs. 7.4% y-o-y in April, however on m-o-m, deposits fell by 0.1% 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 of 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		
	May-15	Apr-15	May-14	May-15	Apr-15	May-14
Loans Growth	9.2%	9.7%	11.8%	8.6%	7.5%	7.0%
Loans Application	-9.9%	-6.4%	2.9%	5.9%	10.2%	-3.7%
Loans Approval	-17.8%	-10.9%	5.0%	30.6%	-3.3%	-27.9%
Loans Disbursement	-6.5%	-3.7%	4.9%	10.0%	-8.6%	4.7%

Source: BNM, M&A Securities

#### A. 1. Momentum pre-GST continued

- The Goods and Services Tax (GST) has entered its second month of implementation, however, despite negative perception, loans growth surprisingly held up supported by business segment loans.
- As expected, HH loans decelerated further to 9.2% y-o-y vs. 9.7% y-o-y in April. In contrast, business community gained confidence with GST implementation and hence, assisted business loans segment to rebound to 8.6% y-o-y vs. 7.5% y-o-y.
- Key sectorial drivers for May loans growth include i) mining 48% y-o-y ii) real estate 18% y-o-y iii) financing, insurance and business services 15% y-o-y
- Moving forward, we expect HH segment loans growth to grow moderately 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.

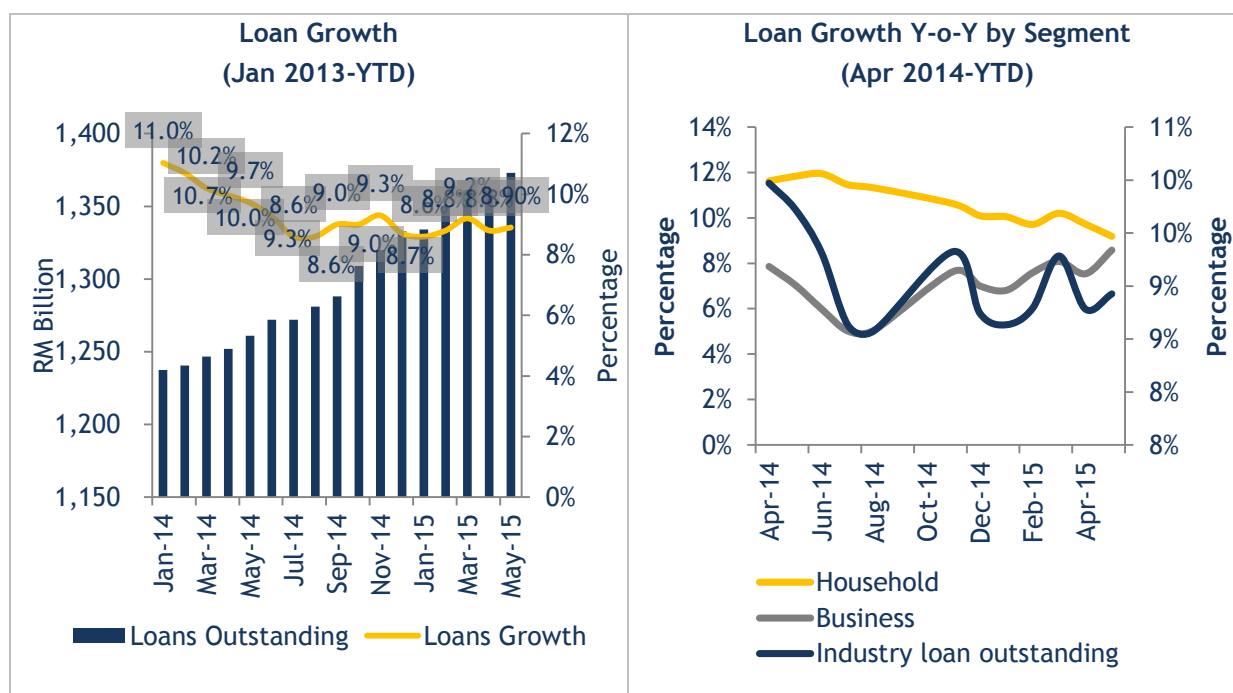
Table 3: Industry Loans Growth

Purpose (RM billion)	May-15	Apr-15	May-14	M-o-M	Y-o-Y
Purchase of Securities	76,165	76,297	72,917	0%	4%
Transport Vehicle	167,847	167,750	164,700	0%	2%
Of Which is Passenger Car	158,231	158,090	154,745	0%	2%
Residential Property	410,429	406,642	363,850	1%	13%
Non-Residential Property	187,478	186,595	162,796	0%	15%
Other Fixed Assets	10,567	10,608	10,376	0%	2%
Personal Use	60,969	60,354	57,997	1%	5%
Credit Card	34,525	34,584	34,018	0%	1%
Consumer Durables	147	770	359	-81%	-59%
Construction	39,829	39,884	34,628	0%	15%
Working Capital	322,888	316,921	290,556	2%	11%
Other Purpose	62,815	61,677	68,904	2%	-9%
<b>Total</b>	<b>1,373,659</b>	<b>1,362,081</b>	<b>1,261,101</b>	<b>1%</b>	<b>8.9%</b>

Source: BNM, M&amp;A Securities

## 2. HH growth still resilience despite GST headwinds

- Despite HH loans decelerating in May, we foresee the 9.2% y-o-y growth is still resilient as we believe the government clarification on GST was fruitful.
- Entering into June 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. The drop in car prices has helped auto loans to rise satisfactorily at same pace with April or by 2% y-o-y. Remarkably residential property still enjoyed double digits growth of 13.1% y-o-y vs. 13% y-o-y in March.



Source: BNM, M&amp;A Securities

### 3. Loans Applications

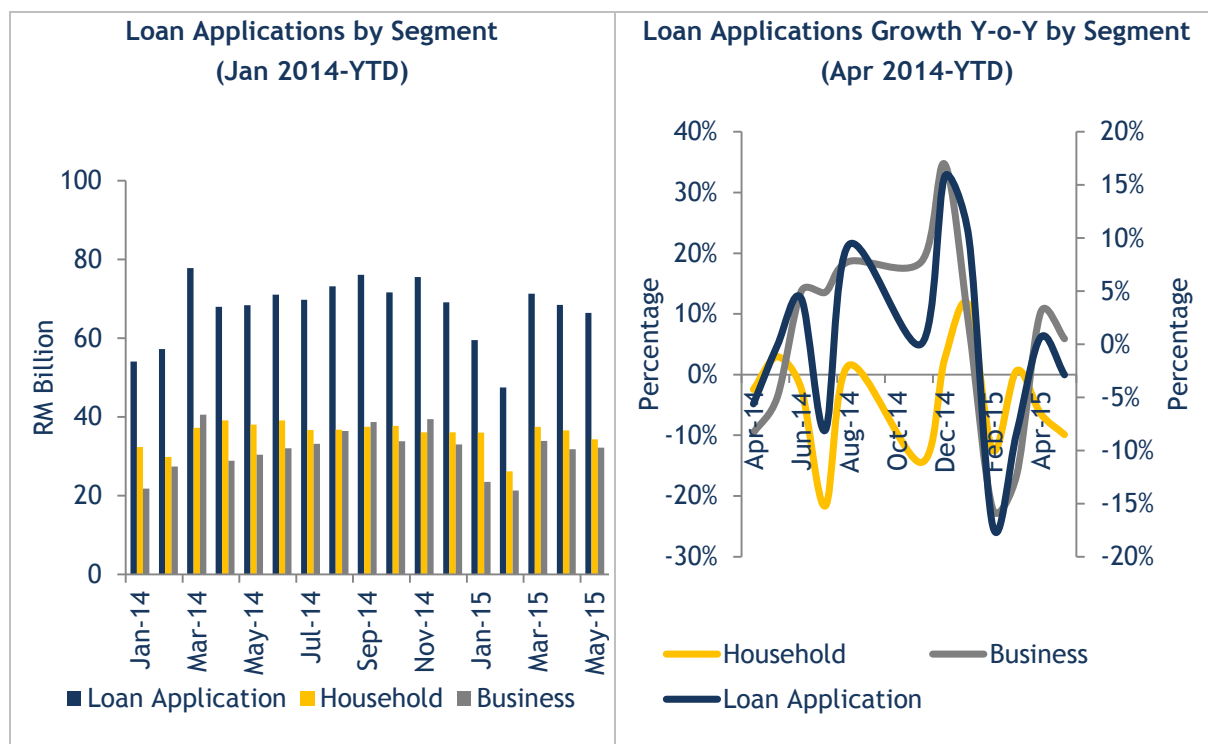
#### 1) Loans Application disappointing

- The improvement of loans application in April was short lived as loan applications tumbled 2.9% y-o-y due weakening in HH loans. We believe consumers took cautious view to slow down their spending due to GST implementation.
- Applications in HH loans stayed in negative territory of 9.9% y-o-y vs. 6.4% y-o-y in April contributed by hire purchase application that dipped by 15% y-o-y with mortgage application also dropping by 16% y-o-y.
- Meanwhile, business loans stayed in positive territory but slowed down to 5.9% vs. 10.2% y-o-y in April. The recuperating fortune was aided by i) education, health and other 92% y-o-y ii) finance, insurance and business activities 70% y-o-y and iii) agriculture 72% y-o-y.
- Moving forward, we foresee business loan will make up the deficiency of gap left by HH loans especially by SME segment thanks various incentives given by government on this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	May-15	Apr-15	May-14	M-o-M	Y-o-Y
Purchase of Securities	1,883	2,895	4,200	-35%	-55%
Transport Vehicle	6,483	6,901	7,606	-6%	-15%
Of Which is Passenger Car	6,177	6,586	7,237	-6%	-15%
Residential Property	17,432	18,809	20,723	-7%	-16%
Non-Residential Property	7,731	10,042	9,912	-23%	-22%
Other Fixed Assets	644	730	266	-12%	142%
Personal Use	5,406	4,907	3,614	10%	50%
Credit Card	2,674	2,595	1,775	3%	51%
Consumer Durables	17	17	2	-1%	1012%
Construction	4,183	3,896	3,957	7%	6%
Working Capital	17,494	15,227	14,076	15%	24%
Other Purpose	2,459	2,416	2,275	2%	8%
<b>Total</b>	<b>66,405</b>	<b>68,435</b>	<b>68,405</b>	<b>-3.0%</b>	<b>-2.9%</b>

Source: BNM, M&A Securities



Source: BNM, M&A Securities

#### 4. Loans Approval

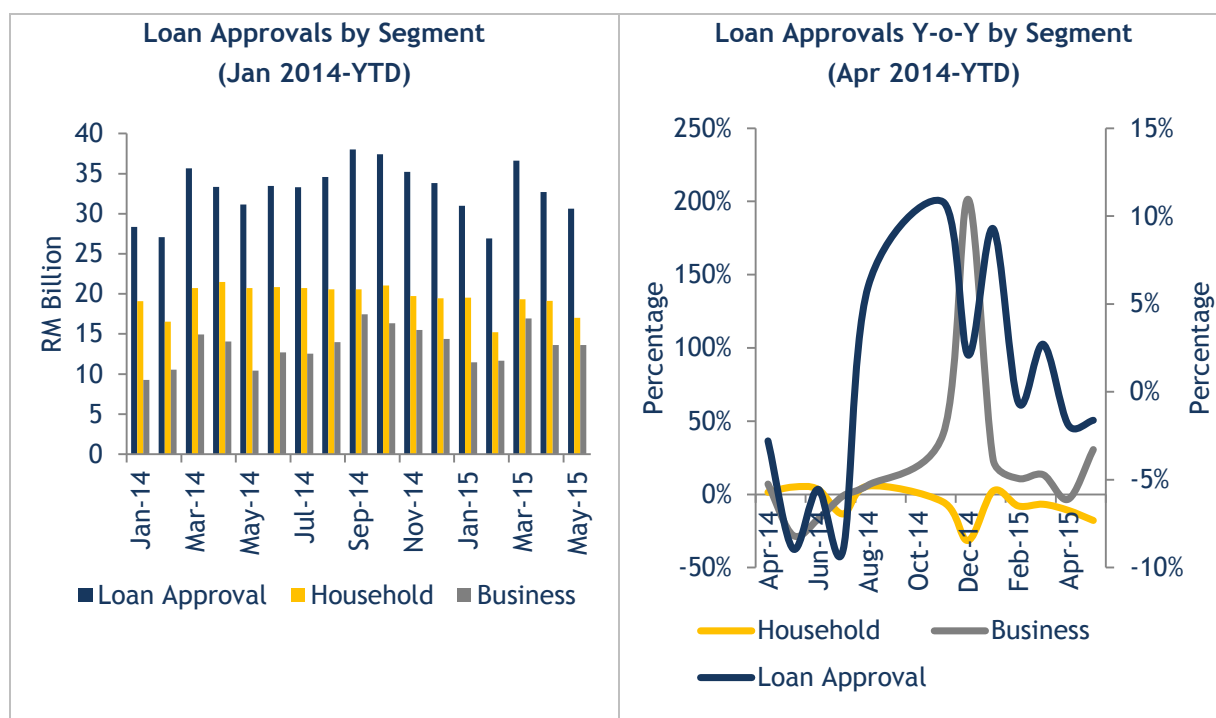
##### 1) Banks cautious in approvals

- Slower applications had affected approvals rate. Approval rate stayed in negative territory of 1.6% y-o-y vs. -1.9% in April hampered by severe approval in HH loans.
- HH loans approval tumbled by 17.8% y-o-y vs. -10.9% y-o-y in April, contributed by i) purchase of securities by -45% y-o-y vs. -35% in April ii) mortgage -21% vs. -5% in April and hire purchase by -2% vs. 16% in April.
- The similar weaknesses happened in business segment where in the first month GST implementation, banks were cautious in their approval and preferred to see the GST impact.
- As a result, approvals rate dipped to 47.1 vs. 47.8% in April due to weaknesses in both approvals and applications
- Elsewhere, loans disbursements surged back in positive territory by 4.9% y-o-y vs. -7.5% in April as banks cleared their approval in hands.

Table 6: Industry Loan Approvals

Purpose (RM billion)	May-15	Apr-15	May-14	M-o-M	Y-o-Y
Purchase of Securities	1,323	1,817	2,400	-27%	-45%
Transport Vehicle	3,860	4,155	3,939	-7%	-2%
Of Which is Passenger Car	3,657	3,945	3,716	-7%	-2%
Residential Property	8,561	9,839	10,877	-13%	-21%
Non-Residential Property	2,892	3,988	3,717	-27%	-22%
Other Fixed Assets	457	364	255	25%	79%
Personal Use	1,382	1,500	1,470	-8%	-6%
Credit Card	1,355	1,336	1,110	1%	22%
Consumer Durables	7	7	4	0%	76%
Construction	931	2,353	820	-60%	14%
Working Capital	8,324	6,364	5,020	31%	66%
Other Purpose	2,211	998	1,519	122%	46%
<b>Total</b>	<b>31,302</b>	<b>32,721</b>	<b>31,130</b>	<b>-4%</b>	<b>1%</b>

Source: BNM, M&amp;A Securities

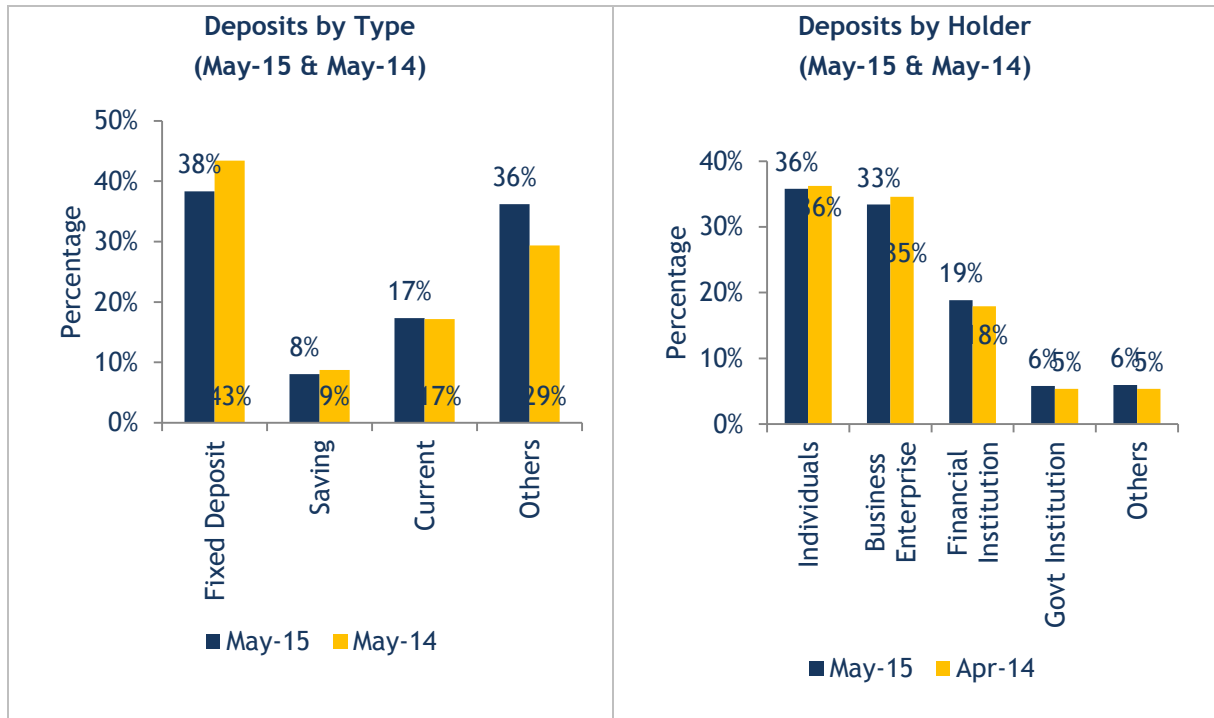


Source: BNM, M&amp;A Securities

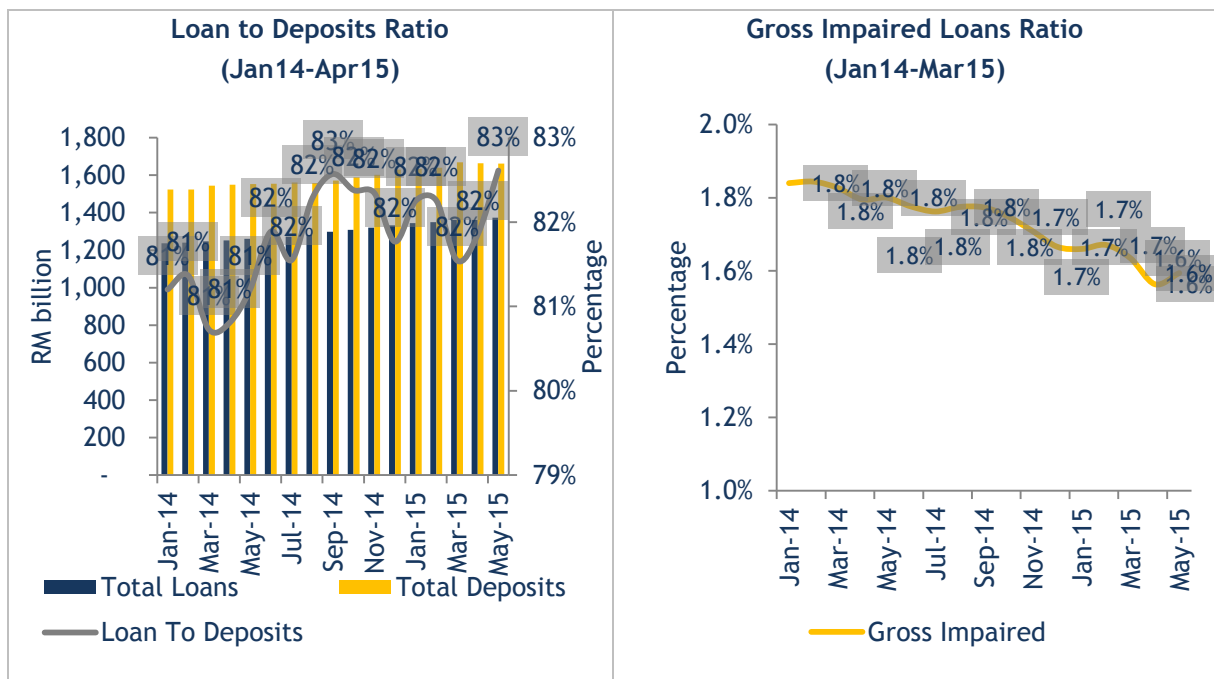
## 5. Deposits

### 1) Deposits weakened for two consecutive quarters

- Deposits weakened to 7.0% y-o-y vs. 7.4% y-o-y in April due competition to secure low cost deposits.
- In line with that, loan to deposit ratio (LDR) weakened marginally by 82.6% vs 81.5% in April on the back of satisfactory loans growth. It showed tight liquidity in the market.



Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

## 6. Gross impaired (GIL)

### 1) GIL at all-time low

- Gross impaired weakened marginally to 1.59% vs. 1.56% in Apr. This is not alarming in our view.
- 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 12.3% vs. 12.4% in April. The similar situations happened to Tier 1 and core capital, which weakened marginally to 13.1% 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	Mar-13	Mgt Guidance
AFG	March	12.6%	12.8%	14.1%	15.2%	15.5%	16.2%	14.7%	11%-12%
AMMB	March	6.2%	6.1%	5.3%	1.5%	0.9%	-2.1%	1.6%	7.0%
CIMB	Dec	13.7%	12.6%	11.9%	8.1%	9.8%	13.2%	12.4%	14.0%
Maybank	Dec	12.0%	13.7%	13.5%	12.6%	14.3%	13.4%	14.3%	13.0%
PBK	June	12.0%	13.7%	13.5%	12.6%	9.8%	10.8%	11.7%	10%-11%
RHB Cap	Dec	13.9%	9.2%	11.2%	13.0%	11.9%	17%	13.7%	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	4.44	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Buy
AMMB	March	6.05	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Buy
BIMB	Dec	4.09	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.54	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	9.17	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.59	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	18.84	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.73	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.75	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.94	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.42	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

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

## SECTOR RECOMMENDATIONS

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

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