

### “Business Loans Grow Stronger”

Banking sector is a NEUTRAL in 2015 as we expect loans growth to hit 9.0% vs. 9.5% in 2014. YTD banking sector loans growth average had reached 9.0%, marginally lower against our expectation but no cause for alarm. Driver to the banking sector loans growth this year includes 1) steady ETP related financing and 2) acceleration of re-financing drive towards shariah approved. Our Top Picks for banking sector are Maybank (TP: RM10.20) and BIMB Holdings (TP: RM4.84).

Table 1: July 2015 Summary

Purpose (RM billion)	July-15	Jun-15	July-14	Y-o-Y	M-o-M	Comment
Loans growth	9.6%	9.0%	9.3%	↑	↑	Going stronger, supported by stronger business segment
Loans Application	6.9%	2.0%	-8.1%	↑	↑	GST bite consumer away, making consumer cautious
Loans Approval	-1.3%	15.0%	-9.0%	↑	↓	Banks are now cautious with new R&R measures introduced
Loan Disbursement	2.3%	12.9%	3.1%	↓	↓	Disbursement hurt by large disbursement in June
Loan Approval Rate	44%	53.1%	47.1%	↓	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.62%	1.62%	1.78%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	4.2%	7.3%	5.8%	↓	↓	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	85.9%	83.2%	81.9%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.54%	4.57%	4.61%	↓	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.4%	15.2%	15.3%	↑	↓	Well prepared for the Basel III requirements
- CET-1	13.3%	13.1%	13.4%			
- Tier-1	12.5%	12.3%	12.7%			

Source: BNM, M&A Securities

### Summary July 2015 Banking Statistics

- Loans growth grew satisfactorily by 9.6% y-o-y for the month of July. The growth came at the back of stronger performance in loan applications but slower loan approvals and loan disbursements, fuelled by steady performance in business segment.
- We suspect the continuing petrol hike in July 2015 has put pressure on good and service's prices and thus a hit in HH loans performance.
- Loans application improved following weak performance in May supported by business loans.
- Gross impaired loans held up for 2 consecutive months at 1.62%. Nonetheless, 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 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) steady financing of ETP related activities ii) 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		
	July-15	Jun-15	July-14	July-15	Jun-15	July-14
Loans Growth	8.6%	8.7%	11.5%	11.1%	9.5%	5.0%
Loans Application	3%	-0.5%	-21.7%	11.4%	5.0%	13.5%
Loans Approval	-15.3%	-7.0%	-13.4%	22.1%	50.6%	-1.0%
Loans Disbursement	-0.7%	-3.7%	-9.6%	3.5%	19.9%	9.6%

Source: BNM, M&amp;A Securities

## A. 1. Rising for four consecutive months

- Loans growth continued to gain momentum post 3 months GST implementation. Loans growth jumped 9.6% y-o-y in July vs. 9% y-o-y in June. The growth was aided by business segment performance that continued to chart stronger performance. Meanwhile, loan indicators were slightly lower compared to June indicators with slowdown in approvals and disbursement respectively.
- Business loans posted stronger growth since January 2013 of 11.1% y-o-y. However, indicators for business loans turned mixed in July with slowdown in approvals that dropped by halves to 22% y-o-y vs. 50.6% in June, reflecting the cautiousness move at the back of weakening disbursement of 3.5% y-o-y vs. 19.9% in June. Applications surged by double digits to 11.4% y-o-y vs 5% y-o-y.
- Household (HH) loans continued its slowdown for 5 consecutive months at 8.6% y-o-y vs 8.7% y-o-y in June as a result of sluggishness in private consumption.
- Key sectorial drivers for July loans growth include i) mining by 42% y-o-y ii) finance by 16% y-o-y and iii) real estates by 18% 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.

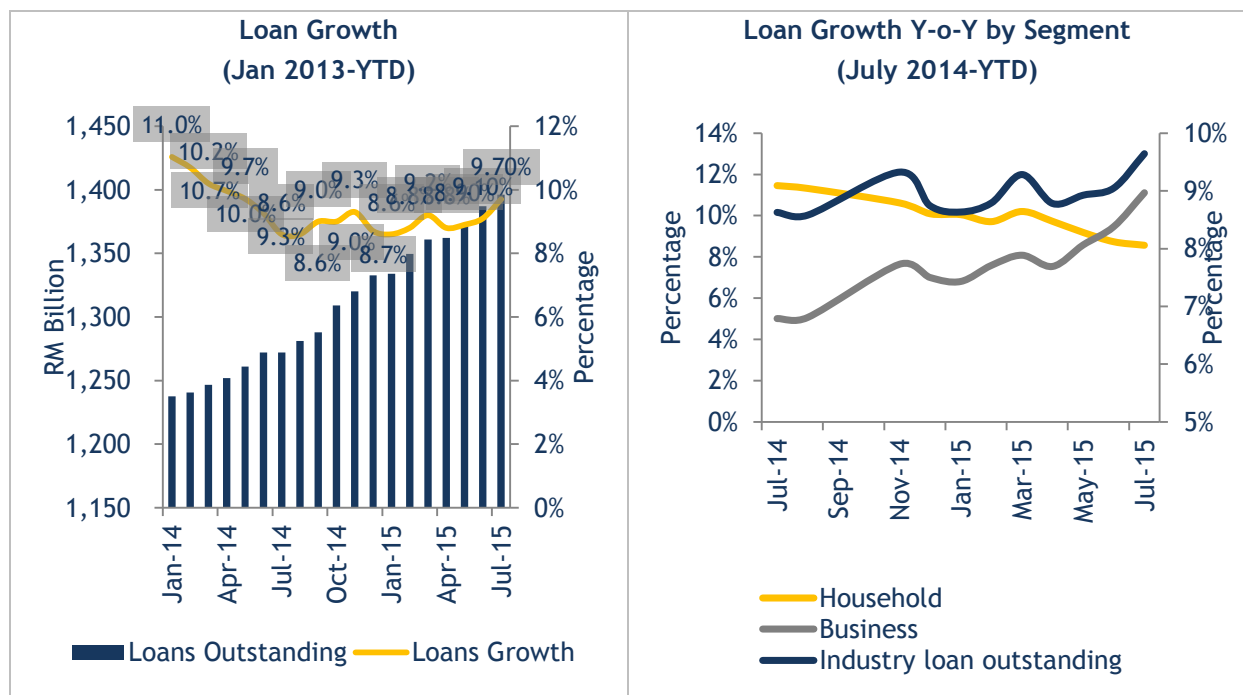
Table 3: Industry Loans Growth

Purpose (RM billion)	Jun-15	May-15	Jun-14	M-o-M	Y-o-Y
Purchase of Securities	1,657.8	1,885	5,008.1	-12%	-67%
Transport Vehicle	7,909.9	7,941	8,371.8	0%	-6%
Of Which is Passenger Car	7,176.2	7,651	7,875.7	-6%	-9%
Residential Property	18,668.3	19,073	19,309.1	-2%	-3%
Non-Residential Property	7,733.6	8,429	8,262.2	-8%	-6%
Other Fixed Assets	689.9	362	458.9	91%	50%
Personal Use	5,903.8	5,949	3,672.4	-1%	61%
Credit Card	3,150.9	3,135	1,843.9	0%	71%
Consumer Durables	0.6	2	0.9	-65%	-35%
Construction	3,545.0	3,477	2,893.2	2%	23%
Working Capital	20,694.2	20,558	14,929.7	1%	39%
Other Purpose	4,686.1	1,719	5,037.2	173%	-7%
<b>Total</b>	<b>74,640.0</b>	<b>72,531</b>	<b>69,787.4</b>	<b>2.9%</b>	<b>7.0%</b>

Source: BNM, M&amp;A Securities

## 2. HH loans feeling heat

- HH loans continued its decelerating mode, impacted by marginal slowdown in residential property to 15% y-o-y vs. 17% y-o-y in June that contributed to the slowdown. HH approvals turned weaker by 15.3% y-o-y vs. -7% y-o-y in June
- The satisfactory growth recorded in the previous month was not sustained. We suspect the hike in petrol hike in early July 2015 has put pressure on good and services's price and hence, we believe the slowdown was linked to that factor
- Entering into August 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&amp;A Securities

### 3. Loans Applications

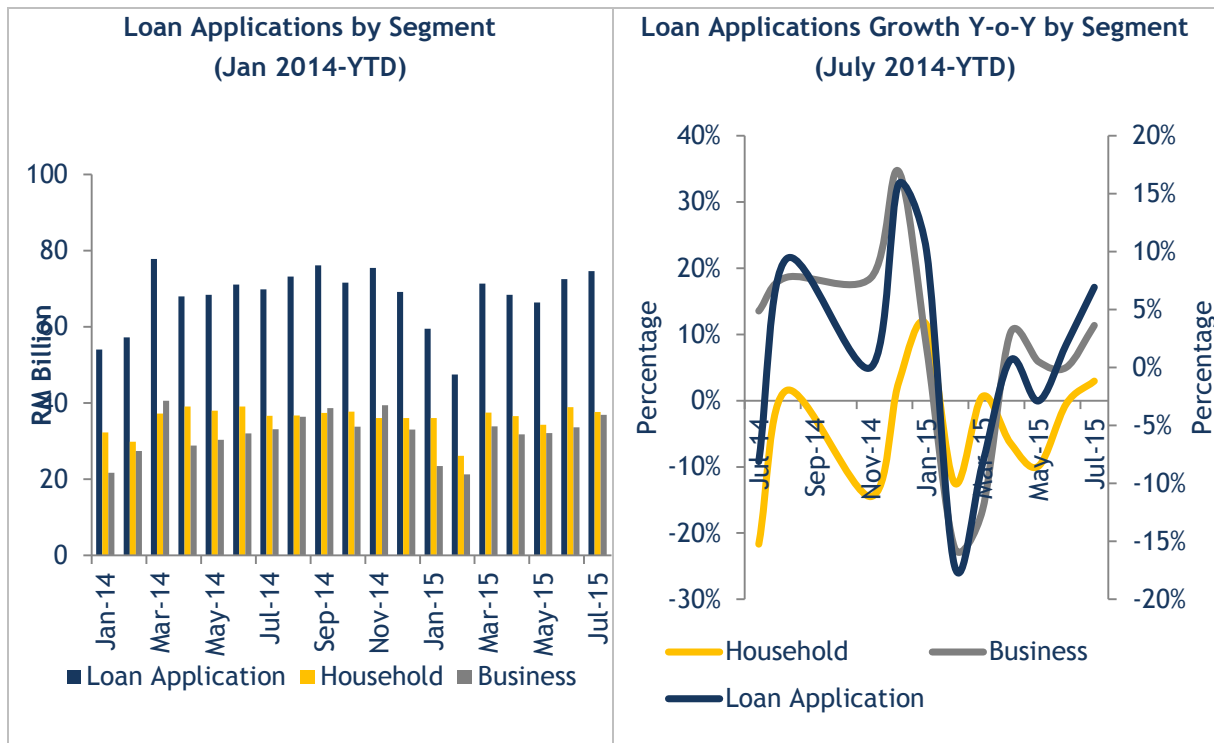
#### 1) Loans Application improving

- Loans application had improved for the past 2 months with steady performance in both business and HH segments recorded.
- HH segment halted negative growth performance aided by festivities rush in July, rising by 3% y-o-y vs. -0.5% y-o-y in June aided by personal use that grew by 61% y-o-y vs. 51% y-o-y in June. Moving forward, we expect HH loans will recover slowly as consumers adapt to the GST environment.
- Moving forward, we that business loans will make up the deficiency of the gap left by HH loans especially by the SME segment with various incentives given by government for this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Jul-15	Jun-15	Jul-15	M-o-M	Y-o-Y
Purchase of Securities	1,657.8	1,885	5,008.1	-12%	-67%
Transport Vehicle	7,909.9	7,941	8,371.8	0%	-6%
Of Which is Passenger Car	7,176.2	7,651	7,875.7	-6%	-9%
Residential Property	18,668.3	19,073	19,309.1	-2%	-3%
Non-Residential Property	7,733.6	8,429	8,262.2	-8%	-6%
Other Fixed Assets	689.9	362	458.9	91%	50%
Personal Use	5,903.8	5,949	3,672.4	-1%	61%
Credit Card	3,150.9	3,135	1,843.9	0%	71%
Consumer Durables	0.6	2	0.9	-65%	-35%
Construction	3,545.0	3,477	2,893.2	2%	23%
Working Capital	20,694.2	20,558	14,929.7	1%	39%
Other Purpose	4,686.1	1,719	5,037.2	173%	-7%
Total	74,640.0	72,531	69,787.4	2.9%	7.0%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

#### 4. Loans Approval

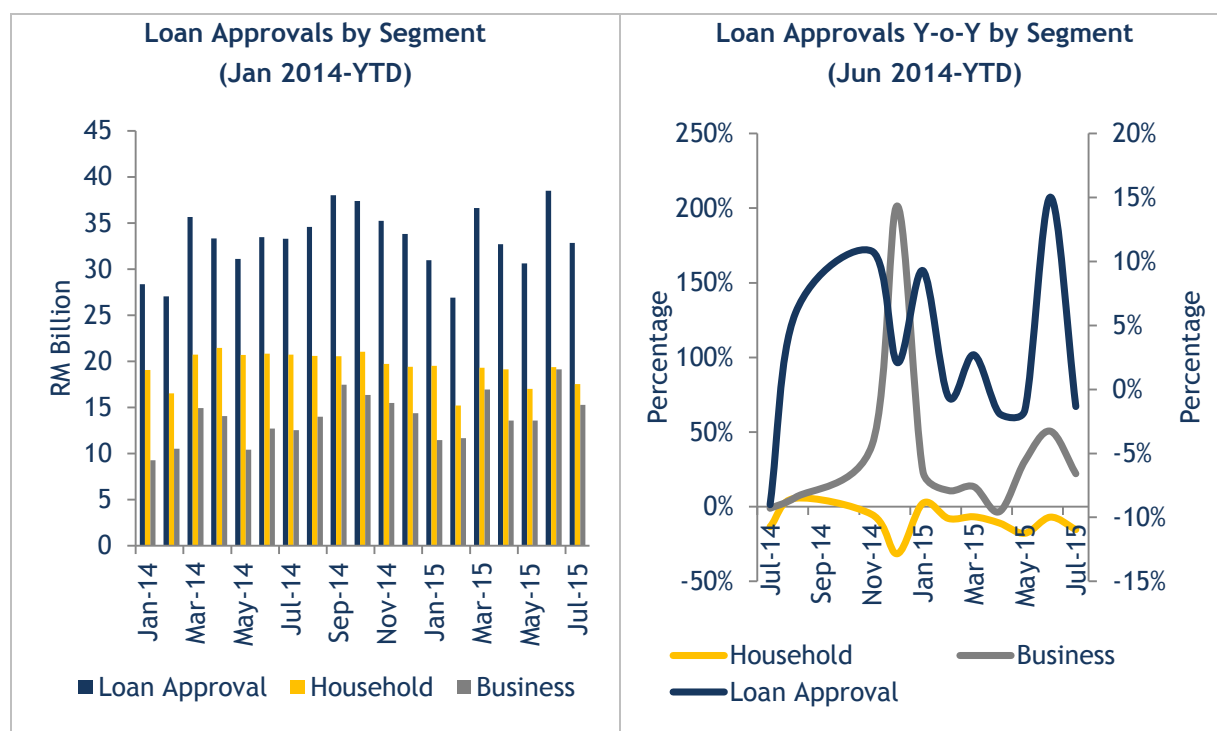
##### 1) Banks cautious in approvals

- Loans approval turned negative by 1.3% y-o-y vs. 15% y-o-y in June as banks tightened approval at the back of new restructures and reschedules (R&R) measures by BNM.
- The weak approval was contributed by HH loans, of which residential and securities contributed to the slow down with a drop of 18% y-o-y and 41% y-o-y in performance respectively. Addition to that, we believe banks approval pipeline turned minimal after strong approval in June.
- Business segment still healthy despite the slowdown in July at 22% y-o-y vs. 50.6% y-o-y in June with a notable slowdown in working capital to 47% y-o-y vs. 126% y-o-y in June.
- As a result, approvals rate dipped to 44% vs. all time high in 3 years at 53% in June.
- Elsewhere, loans disbursements dipped to 2.4% y-o-y vs. 12.9% y-o-y due to sluggishness in both HH and business loans by -0.7% y-o-y and 3.5% y-o-y respectively.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Jul-15	Jun-15	Jul-15	M-o-M	Y-o-Y
Purchase of Securities	1,171.3	1,421	1,978.2	-18%	-41%
Transport Vehicle	4,342.1	4,425	4,248.3	-2%	2%
Of Which is Passenger Car	4,142.6	4,243	4,036.7	-2%	3%
Residential Property	8,957.0	10,025	10,901.6	-11%	-18%
Non-Residential Property	3,061.0	3,396	4,133.0	-10%	-26%
Other Fixed Assets	281.3	199	566.5	41%	-50%
Personal Use	1,421.4	1,578	1,331.2	-10%	7%
Credit Card	1,466.2	1,684	1,074.7	-13%	36%
Consumer Durables	0.1	0	3.6	-75%	-98%
Construction	1,024.0	1,347	1,126.4	-24%	-9%
Working Capital	9,535.9	11,569	6,466.0	-18%	47%
Other Purpose	1,595.5	2,855	1,317.2	-44%	21%
Total	32,855.7	38,500	33,146.7	-15%	-1%

Source: BNM, M&amp;A Securities

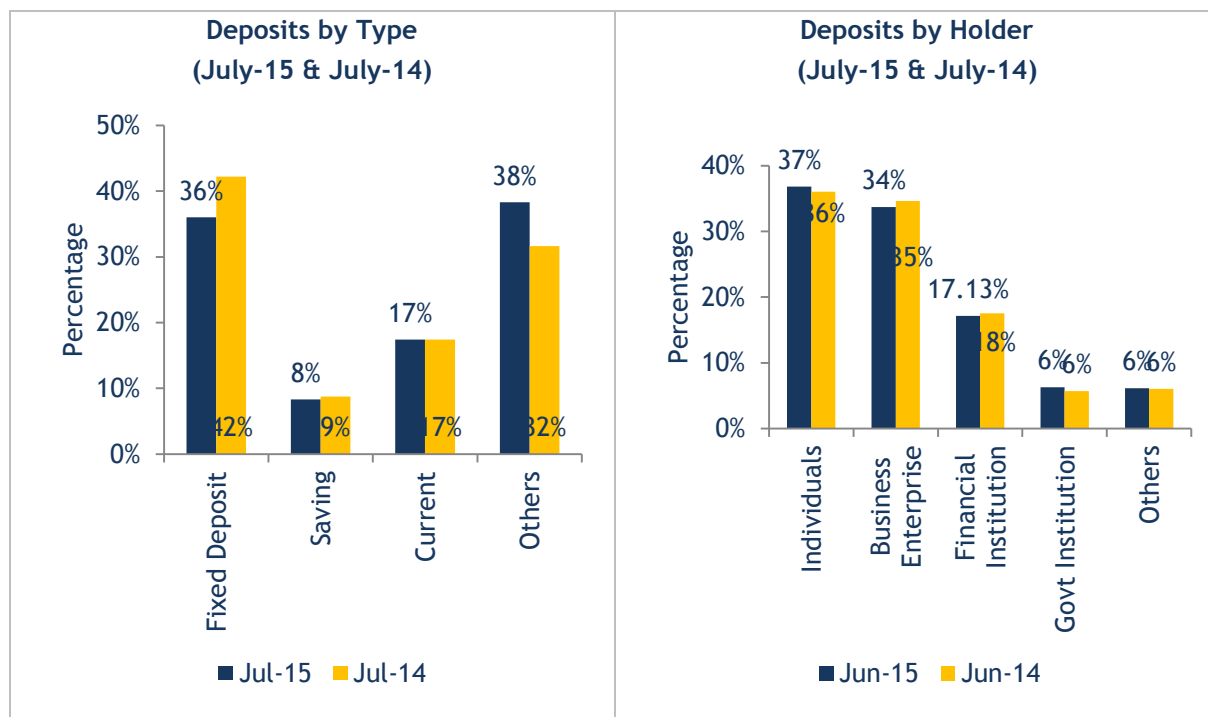


Source: BNM, M&amp;A Securities

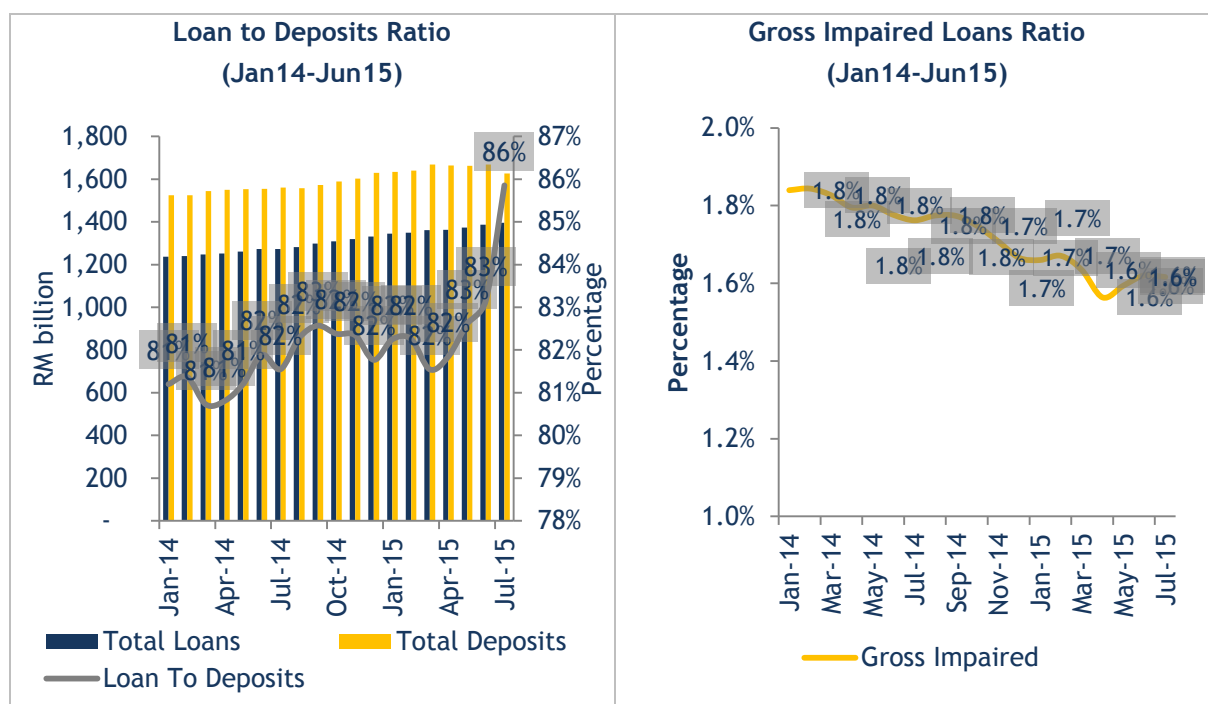
## 5. Deposits

### 1) Deposits touched all time low in 3 years

- The keen competition in deposits drove deposits growth lower to 4.2% y-o-y in July vs. 7.3% as banks switched to low cost of deposits compared to wholesale deposits. We foresee that banks will continue to offer various offerings to attract low cost deposits that will compress net interest margin
- The industry's loan/deposit ratio (LDR) fell to an all time high in 3 years to 85.9% as banks continued to keep loans flowing on the back of slower deposits and thus, showing 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 loans held up at 1.62% for 2 consecutive months 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 of 12.5%. Similar situations happened to Tier 1 of 13.3%, however, total capital jumped to 15.4%

#### Conclusion and Recommendations

2015 will see banks slower but steady earnings due to the slowdown in HH segment that accounts 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 linked to financing of 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 **Top Pick** namely Maybank (TP: RM10.20) 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	3.57	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.68	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	3.99	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	4.84	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.77	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	6.37	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.70	Buy
Public Bank	Dec	18.00	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.28	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.38	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.64	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.08	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

<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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