

Banking Sector

(Neutral)

“Bumpy Road Ahead”

Banking sector is NEUTRAL in 2015 as we expect loans growth to decelerate to 9.0% vs. 9.5% in 2014. YTD banking sector loans growth had averaged at 8.8%, marginally lower against our expectation but this is no cause for alarm. Driver to the banking sector loans growth this year includes 1) steady ETP related financing 2) acceleration of re-financing drive towards shariah approve and 3) elevating cost containment measures. Our Top Picks for banking sector are Maybank (TP: RM10.20) and BIMB Holdings (TP: RM4.84).

2Q2015 result summary. The recently concluded results season proved a tough operating environment for Malaysian banks with various issues continued to weigh on performance. All banks under our coverage reported 1H15 earnings that were in-line with our expectation with the exception of Maybank and CIMB which nearly missed our forecast. As a whole, cumulative net profit fell 2.9% q-o-q with further slowdown noticeable in both net non-interest income (NOII) in addition to persistent weaknesses in net interest margin.

Table 1: Reported Net Profit

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	y-o-y chg
AFG	158	131	180	126	93	122	-7%
AMMB	464	537	446	417	519	340	-37%
CIMB	1,065	952	891	200	580	640	-33%
Maybank	1,602	1,576	1,608	1,931	1,700	1,585	1%
Public Bank	1,017	1,056	1,192	1,254	1,172	1,197	13%
RHB Capital	451	557	545	486	476	525	-6%

Source: Various, M&A Securities

Loans growth still soft. Aggregate loans growth for banks under our coverage eased by 4bps q-o-q to 10.5% with improving loans growth seen from domestic market in addition to positive effect from foreign currency translation due to weakening Ringgit. Nevertheless, loans growth in 1H15 was in moderate pace and very much in line with banking system loans growth that rose by 8.8% YTD and 4.2% annualized.

Domestic loans growth performance grew steadily although in moderate pace as a result of softening corporate segment loans due to wait-and see stance arising from GST implementation. In the meantime, growth in household loans pre GST was not genuine as it was driven by panic and front loading spending by consumers.

AMMB topped disappointing loans growth performance after posting negative loans growth for two consecutively quarters (Mar-15: -1.6%; Jun-15: -2.2%) derailed by its effort to reduce exposure on auto loans and lumpy corporate repayments. For CIMB, despite its MSS issue, loans growth was still strong (YTD growth: 5.7%) contributed by mortgage and working capital loans.

Table 2: Y-o-Y Gross Loan Growth

Company	Year Ended	Dec-13	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	Mgt Guidance
AFG	March	12.8%	14.1%	15.2%	15.5%	16.2%	14.7%	12.5%	11%-12%
AMMB	March	6.1%	5.3%	1.5%	0.9%	-2.1%	1.6%	-2.2%	7.0%
CIMB	Dec	12.6%	11.9%	8.1%	9.8%	13.2%	12.4%	16.1%	14.0%
Maybank	Dec	13.7%	13.5%	12.6%	14.3%	13.4%	14.3%	15.6%	13.0%
PBK	June	13.7%	13.5%	12.6%	9.8%	10.8%	11.7%	11.5%	10%-11%
RHB Cap	Dec	9.2%	11.2%	13.0%	11.9%	17%	13.7%	9.2%	12.0%

Source: Bursa Malaysia, M&A Securities

Net Interest Margin (NIM) remains subdued. Overall, banks under our coverage reported net interest margin that was flat at 2.24% (overall average) due to pressure from the funding side. This is not very much different from previous quarters as on-going competition for retail deposits had compressed NIM while asset yield have been tweaked lower to secure new borrower. However, asset yields have been rather stable for the past few quarters now.

The biggest contraction was witnessed by AMMB given its 21bps reduction in NIM to 2.12% as a result of portfolio re-balancing and asset repricing exercise in which its fixed income trading strategy has been shifted towards 1) the shorter end of the yield curve (-0.02%), 2) an increase in deposit rates (-0.02%) and 3) one-off items like the provision for equalization reserve and effective interest rate adjustments (-0.14%). Management anticipates a 0.15%-0.20% decline in NIM for the financial year on an underlying basis, suggesting further weaknesses going forward.

Table 3: Net Interest Margin

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	2.17%	2.11%	2.27%	2.25%	1.85%	2.16%
AMMB	2.77%	2.45%	2.54%	2.38%	2.33%	2.12%
CIMB	2.85%	2.90%	2.82%	2.79%	2.65%	2.61%
Maybank	2.37%	2.35%	2.31%	2.20%	2.26%	2.28%
Public Bank	2.28%	2.20%	2.29%	2.20%	2.15%	2.11%
RHB Capital	2.33%	2.29%	2.29%	2.26%	2.22%	2.13%

Source: Various, M&A Securities

Table 4: Net Interest Income

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	y-o-y chg
AFG	200	221	214	186	208	4%
AMMB	503	512	487	471	424	-16%
CIMB	2,175	2,171	2,242	2,191	2,269	4%
Maybank	2,407	2,462	2,442	2,605	2,680	11%
Public Bank	1,422	1,551	1,555	1,534	1,560	10%
RHB Capital	828	836	806	800	784	-5%

Source: Various, M&A Securities

Tight liquidity positions. Rising competitions in deposits have hampered banks disbursement as banks deserted deposits for new loans. This situation mirrored banks tight liquidity position as shown in banking system loan-to-deposit ratio (LDR) of 91.7% vs. 89% in 1Q15. AMMB continued its high level of LDR of 95.3% although the situation has eased from 99.3% level recorded in 2Q14. While Maybank liquidity position had tightened to 95.4% due to weakening of BII and Singapore's LDR to 102.8% and 93.4% respectively. Competition for CASA also heated up as banks were seen hunting for low cost deposits to ease pressure on NIM. On the same breath, almost all banks had doubled their efforts to secure CASA

Table 5: Total Deposit

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	y-o-y chg
AFG	39.2	39.6	40.8	41.5	44.6	43.9
AMMB	89.9	86.9	85.3	90.0	92.1	89.8
CIMB	262.0	268.6	263.5	282.1	296.6	294.7
Maybank	395.7	406.5	420.2	439.6	447.1	453.5
Public Bank	258.9	264.5	268.4	276.5	285.4	295.3
RHB Capital	143.3	149.6	148.1	157.1	158.7	157.2

Source: Various, M&A Securities

Table 6: Deposit Growth Y-o-Y

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	y-o-y chg
AFG	9.0%	10.9%	11.1%	13.0%	13.7%	10.8%
AMMB	5.7%	-0.4%	-3.2%	2.8%	2.4%	3.3%
CIMB	-1.1%	3.9%	0.5%	10.7%	13.2%	9.7%
Maybank	11.3%	9.1%	11.1%	11.1%	13.0%	11.5%
Public Bank	11.5%	10.0%	8.5%	11.0%	10.2%	11.6%
RHB Capital	5.9%	9.7%	8.4%	14.1%	10.8%	5.1%

Source: Various, M&A Securities

Table 7: CASA Position

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	34.0%	34.7%	35.2%	34.8%	33.6%	34.5%
AMMB	20.9%	21.6%	20.1%	20.5%	20.3%	20.9%
CIMB	35.5%	34.7%	35.4%	35.1%	34.4%	35.4%
Maybank	35.8%	35.7%	34.5%	35.2%	35.4%	35.0%
Public Bank	25.5%	25.2%	25.0%	25.0%	25.0%	24.1%
RHB Capital	23.5%	23.3%	22.6%	21.7%	22.3%	23.4%

Source: Various, M&A Securities

Table 7: Loans to Deposit Ratio

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	81.1%	82.9%	83.7%	85.1%	82.0%	85.1%
AMMB	97.2%	98.5%	99.3%	95.3%	93.5%	95.3%
CIMB	88.5%	87.5%	92.4%	91.5%	88.7%	94.9%
Maybank	91.0%	90.6%	90.6%	91.8%	92.2%	95.4%
Public Bank	86.8%	87.1%	87.8%	88.0%	88.0%	87.6%
RHB Capital	86.6%	87.1%	90.4%	89.5%	89.3%	92.1%

Source: Various, M&A Securities

Non-interest income under pressure. Non-interest income was still a challenge to banks as income from the sector fell 6.1% q-o-q due to the surge in the bond yield that dampened capital-raising activities. We expect fee and commission income to continue to be softer in 2HCY15 due to slower loans momentum that will impact fees from loans as well as weaker market sentiment that will impact wealth management income of banks.

Table 8: Non Interest Income

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	y-o-y chg
AFG	83	93	78	62	78	-6%
AMMB	753	393	317	416	333	-56%
CIMB	871	1,002	1,052	1,122	1,165	34%
Maybank	1,263	1,228	1,831	1,450	1,241	-2%
Public Bank	474	481	502	527	545	15%
RHB Capital	434	615	671	506	488	12%

Source: Various, M&A Securities

Table 9: Non Interest Income

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	24.7%	24.0%	22.3%	20.2%	22.7%
AMMB	51.5%	34.8%	31.4%	37.4%	34.6%
CIMB	25.6%	28.4%	28.7%	30.5%	30.4%
Maybank	28.2%	27.1%	36.1%	29.1%	25.4%
Public Bank	22.6%	21.4%	36.1%	29.1%	25.4%
RHB Capital	30.0%	37.3%	40.0%	33.6%	32.8%

Source: Various, M&A Securities

Cost remains under pressure. Collective agreement signed for non-executive staff had jacked up banks cost-to-income ratio. With the exception of Public Bank, all banks reported negative JAWS during the quarter with slower net income contributed to the negative JAWS, led by CIMB which completed its MSS cost recently for a total cost of RM443 million. RHB Capital also followed CIMB footsteps by offering similar exit to the staff while for Maybank it is expected to strengthen cost-to-income by expanding income growth.

Table 10: Non Interest Income

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	165	162	161	156	165	167
AMMB	481	624	495	496	544	484
CIMB	2,011	2,008	2,034	2,239	2,340	2,440
Maybank	2,168	2,086	2,284	2,573	2,489	2,419
Public Bank	656	666	649	635	703	722
RHB Capital	789	797	841	987	820	843

Source: Various, M&A Securities

Table 11: Cost to Income Ratio

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	48.4%	44.9%	44.8%	44.7%	51.8%	48.6%
AMMB	42.5%	49.8%	44.2%	49.8%	50.7%	50.6%
CIMB	56.8%	58.9%	57.6%	63.2%	58.1%	55.4%
Maybank	48.9%	46.6%	50.3%	50.7%	49.9%	49.5%
Public Bank	31.8%	31.7%	28.9%	28.1%	31.0%	31.2%
RHB Capital	53.6%	55.2%	51.1%	58.9%	54.3%	56.7%

Source: Various, M&A Securities

Asset quality continued to be healthy. On average, gross impaired loan (GIL) ratio for banks under our coverage weakened by 3bps to 1.71% with CIMB became the biggest contributor to the deterioration from 3.18% in 1Q15 to 3.31% in 2Q15 as Niaga asset quality came in relatively poor. Other banks continued to apply extra measures in selected sector e.g. auto loans as consumer tend to default on auto loans should economic situations weakens. Credit cost trended marginally higher on disappointing net recoveries. RHB's normalized credit cost would have in fact been a higher 25bps in 2Q15 if not for the RM131 million collective allowance write-back during the quarter.

Table 12: Credit Costs

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	-0.22%	0.02%	-0.08%	0.31%	0.19%	0.18%
AMMB	0.29%	0.37%	0.02%	-0.26%	-0.27%	0.05%
CIMB	0.19%	0.24%	0.56%	1.43%	0.8%	0.77%
Maybank	0.23%	0.17%	0.07%	-0.03%	0.24%	0.28%
Public Bank	0.15%	0.11%	0.08%	0.10%	0.12%	0.10%
RHB Capital	0.17%	0.05%	0.28%	0.12%	0.14%	-0.11%

Source: Various, M&A Securities

Table 13: Gross Impaired Ratio

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AFG	1.36%	1.20%	1.14%	1.03%	1.01%
AMMB	1.87%	1.79%	1.88%	1.79%	1.80%
CIMB	3.12%	3.28%	3.09%	3.18%	3.31%
Maybank	1.50%	1.65%	1.52%	1.50%	1.56%
Public Bank	0.65%	0.65%	0.61%	0.56%	0.54%
RHB Capital	2.45%	2.29%	2.03%	2.03%	2.05%

Source: Various, M&A Securities

Conclusion and Recommendations

2015 will see banks slower but steady earnings due to the slowdown 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 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 BMB Holdings (TP: RM4.84).

Table 6: 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	3.49	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.70	Buy
AMMB	March	4.56	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.15	Buy
BIMB	Dec	4.00	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	4.90	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	8.55	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.20	Buy
RHB Cap	Dec	6.26	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.70	Buy
Public Bank	Dec	18.02	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.70	Buy
Affin	Dec	2.30	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.43	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.71	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.40	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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my