

Banking Sector

(Neutral)

“Steady Loans Growth in August”

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 9.2%, in line with our expectation. 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: RM9.92) and BIMB Holdings (TP: RM4.63).

Table 1: August 2015 Summary

Purpose (RM billion)	Aug-15	July-15	Aug-14	Y-o-Y	M-o-M	Comment
Loans growth	10.2%	9.6%	8.6%	↑	↑	Going stronger, supported by stronger business segment
Loans Application	3.1%	6.9%	9.4%	↓	↓	GST bite consumer away, making consumer cautious
Loans Approval	-9.2%	-1.3%	6.0%	↓	↓	Banks are now cautious with new R&R measures introduced
Loan Disbursement	-2.4%	2.3%	12.8%	↓	↓	Short working day in July
Loan Approval Rate	41.6%	44%	47.2%	↓	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.60%	1.62%	1.77%	↑	↑	At healthy level due to stringent requirement loans selection
Deposits Growth	4.5%	4.2%	5.0%	↓	↑	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	86.7%	85.9%	82.3%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.51%	4.54%	4.69%	↓	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio				↓	↓	Well prepared for the Basel III requirements
- Total Capital	14.8%	15.5%	15.5%			
- CET-1	12.1%	12.6%	12.8%			
- Tier-1	12.7%	13.4%	13.6%			

Source: BNM, M&A Securities

Summary August 2015 Banking Statistics

- Loans growth grew stronger by 10.2% y-o-y for the month of August, thanks to steady loans growth in business segment. The steady growth came at the back of slower overall performance in loan applications, loan approvals and loan disbursements.
- Deposits level was still unhealthy and trailing deposits growth due to the intense competition and hence, pushing loan-to-deposits to 86.7%.
- Gross impaired loans improved at all-time low to 1.62% as banks continued its stringent credit approval.

### Our View Loans Growth Outlook in 2015

- We expect a tough operating 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 regional peers, the sector is in for a slower growth, earnings wise.
- 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		
	Aug-15	July-15	Aug-14	Aug-15	July-15	Aug-14
Loans Growth	8.3%	8.6%	11.3%	12.9%	11.1%	5.1%
Loans Application	0.3%	3%	1.6%	6.0%	11.4%	18.6%
Loans Approval	-15.2%	-15.3%	5.7%	-0.2%	22.1%	6.3%
Loans Disbursement	-3.9%	-0.7%	-3.1%	-1.8%	3.5%	20.0%

Source: BNM, M&A Securities

### Analysis of Banking Sector Operational Metrics

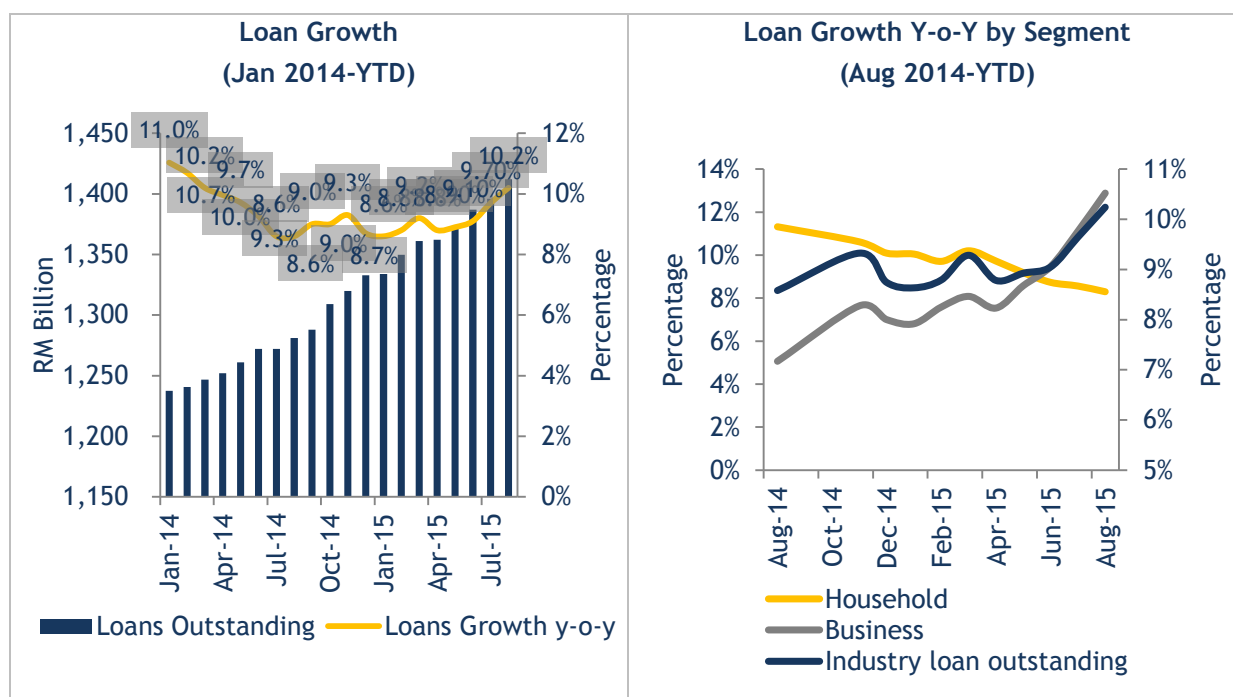
#### 1. Loans Growth "Rising for five consecutive months"

- Banking system loans growth grew at a faster pace of 10.2% y-o-y vs. 9.6% y-o-y in July. The growth was aided by steady business segment performance that continued to chart stronger performance after it grew 12.9% y-o-y vs. 11.1% y-o-y in July.
- Loans to household (HH) segment continue to grow at soft rate for 6 consecutive months of 8.3% y-o-y vs. 8.6% y-o-y in July. Purchase of securities (0.5% y-o-y vs. 4.0% in July y-o-y) and purchase of residential property (12.2% y-o-y vs. 12.7% y-o-y) were the culprit contributing to the HH weaknesses in August
- For business loans, working capital and construction growth was still strong at double digits pace of 15.9% y-o-y and 11.1% y-o-y respectively.
- Key sectorial drivers for August loans growth include i) mining by 60% y-o-y ii) real estate by 21% y-o-y and iii) agriculture 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)	Aug-15	July-15	Aug-14	M-o-M	Y-o-Y
Purchase of Securities	74,494	75,188	74,140	-1%	0.5%
Transport Vehicle	169,216	168,994	165,615	0%	2.2%
Of Which is Passenger Car	159,831	159,577	155,935	0%	2.5%
Residential Property	421,153	418,320	375,245	1%	12.2%
Non-Residential Property	192,179	191,400	168,418	0%	14.1%
Other Fixed Assets	10,908	10,373	10,261	5%	6.3%
Personal Use	62,359	61,566	58,759	1%	6.1%
Credit Card	34,845	34,558	34,343	1%	1.5%
Consumer Durables	149	150	473	-1%	-68.6%
Construction	40,565	40,198	36,508	1%	11.1%
Working Capital	341,573	330,231	294,643	3%	15.9%
Other Purpose	65,346	65,204	63,540	0%	2.8%
<b>Total</b>	<b>1,412,787</b>	<b>1,396,185</b>	<b>1,281,945</b>	<b>1%</b>	<b>10.2%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

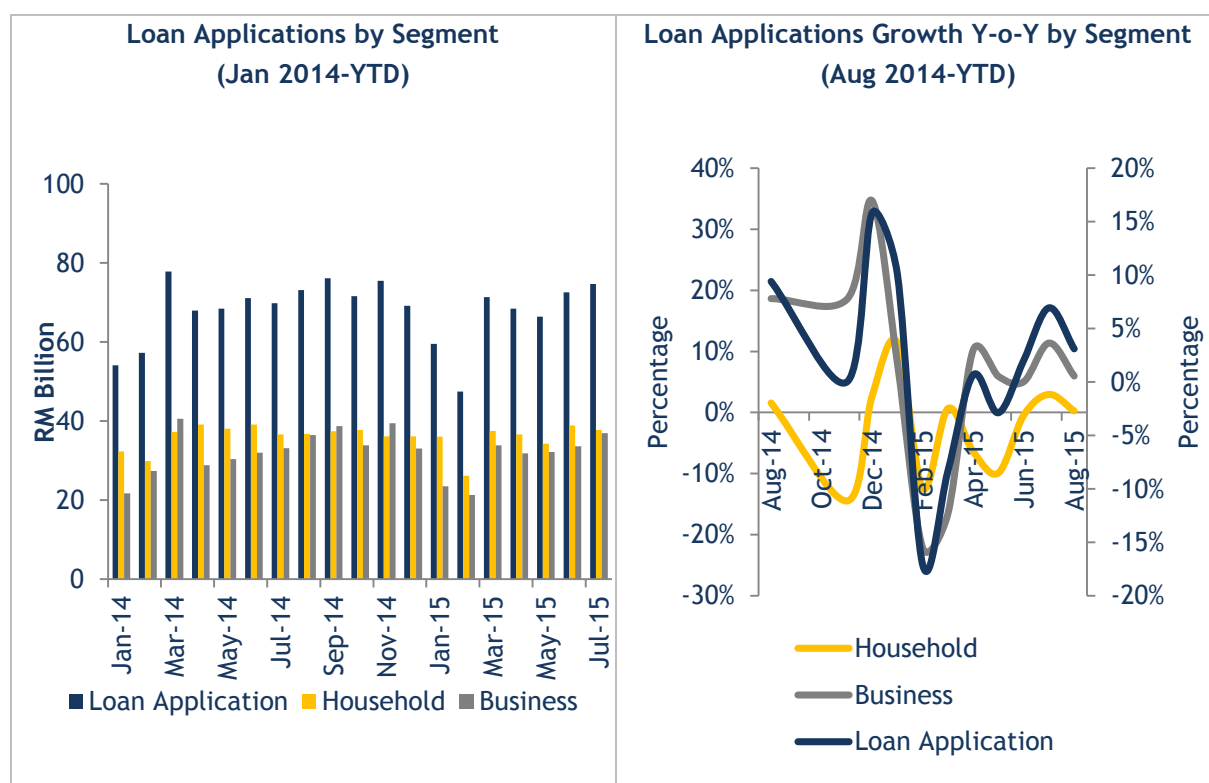
## 2. Loans Applications “Loans application derail”

- Loans application previous improvement was not sustain in August. Loans application softened to 3.1% y-o-y vs. 6.9% y-o-y in July. Loan applications for business and household loans registered lower growth rates of 0.3% y-o-y and 6.0% y-o-y respectively.
- By loan purpose, the disappointment was contributed by weakening application in transport vehicle, residential property, working capital and construction
- Moving forward, we expect 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)	Aug-15	July-15	Aug-14	M-o-M	Y-o-Y
Purchase of Securities	1,831	1,658	3,207	10%	-43%
Transport Vehicle	6,995	7,910	7,741	-12%	-10%
Of Which is Passenger Car	6,675	7,176	6,681	-7%	0%
Residential Property	18,298	18,668	19,546	-2%	-6%
Non-Residential Property	7,385	7,734	9,604	-5%	-23%
Other Fixed Assets	290	690	528	-58%	-45%
Personal Use	5,919	5,904	3,868	0%	53%
Credit Card	3,241	3,151	2,088	3%	55%
Consumer Durables	0	1	2	-35%	-77%
Construction	3,668	3,545	3,188	3%	15%
Working Capital	25,031	20,694	21,260	21%	18%
Other Purpose	2,781	4,686	2,170	-41%	28%
<b>Total</b>	<b>75,438</b>	<b>74,640</b>	<b>73,202</b>	<b>1.1%</b>	<b>3.1%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

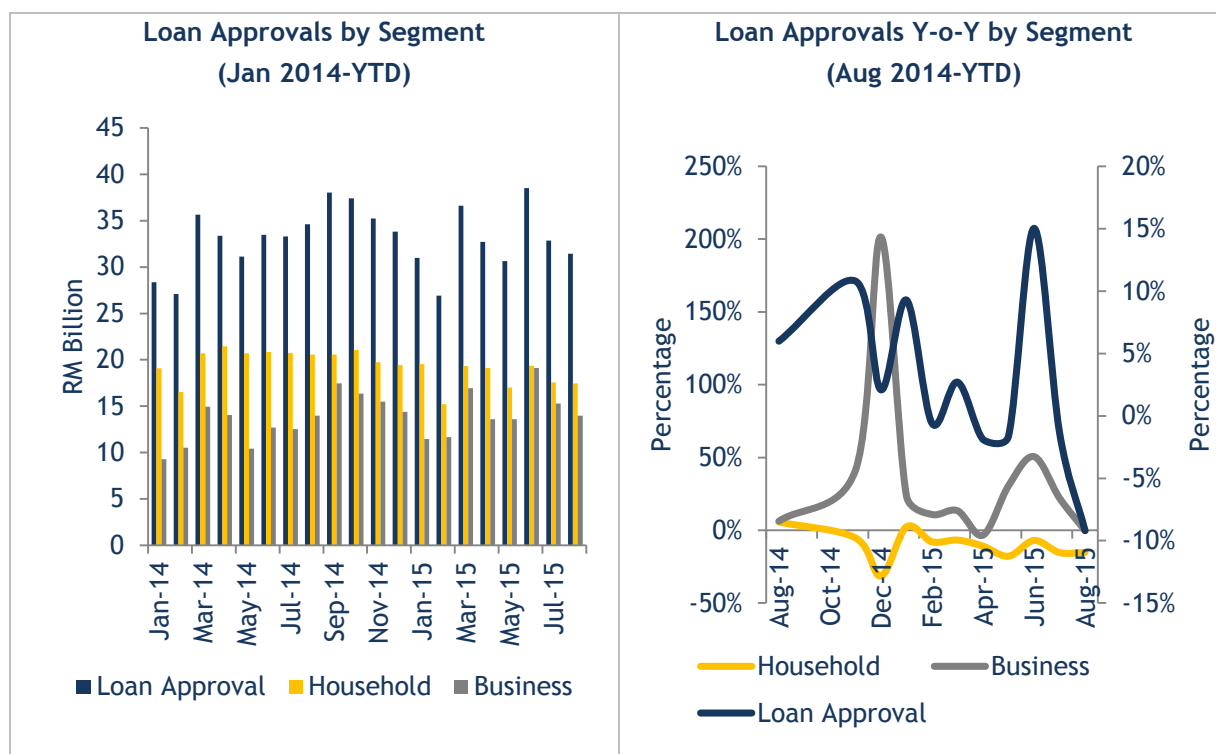
### 3. Loans Approval “Disappointing performance”

- Loans approval turned negative for 2 consecutive months by 9.2% y-o-y vs. -1.3% y-o-y in July 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, which stayed at negative territory for 2 consecutive months. Purchase of securities (-46% y-o-y vs. -41% y-o-y in July), transport vehicles (-7% y-o-y vs. 2% y-o-y in July), residential property (-18% y-o-y vs. -18% y-o-y) contributed to the disappointing approval in August.
- Business segment approvals tanked to 0.2% y-o-y vs. 22.1% y-o-y in July
- As a result, approvals rate dipped to 41.6% vs. 44% in July.
- Elsewhere, loans disbursements dipped to 2.4% y-o-y vs. 2.4% y-o-y due to sluggishness in both HH and business loans by -3.9% y-o-y and 1.8% y-o-y respectively.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Aug-15	July-15	Aug-14	M-o-M	Y-o-Y
Purchase of Securities	1,221	1,171	2,273	4%	-46%
Transport Vehicle	3,882	4,342	4,197	-11%	-7%
Of Which is Passenger Car	3,714	4,143	3,980	-10%	-7%
Residential Property	8,895	8,957	10,787	-1%	-18%
Non-Residential Property	3,011	3,061	4,228	-2%	-29%
Other Fixed Assets	149	281	252	-47%	-41%
Personal Use	1,577	1,421	1,350	11%	17%
Credit Card	1,413	1,466	1,207	-4%	17%
Consumer Durables	0	0	7	160%	-98%
Construction	1,620	1,024	1,761	58%	-8%
Working Capital	7,792	9,536	6,609	-18%	18%
Other Purpose	1,857	1,595	1,902	16%	-2%
Total	31,418	32,856	34,575	-4%	-9%

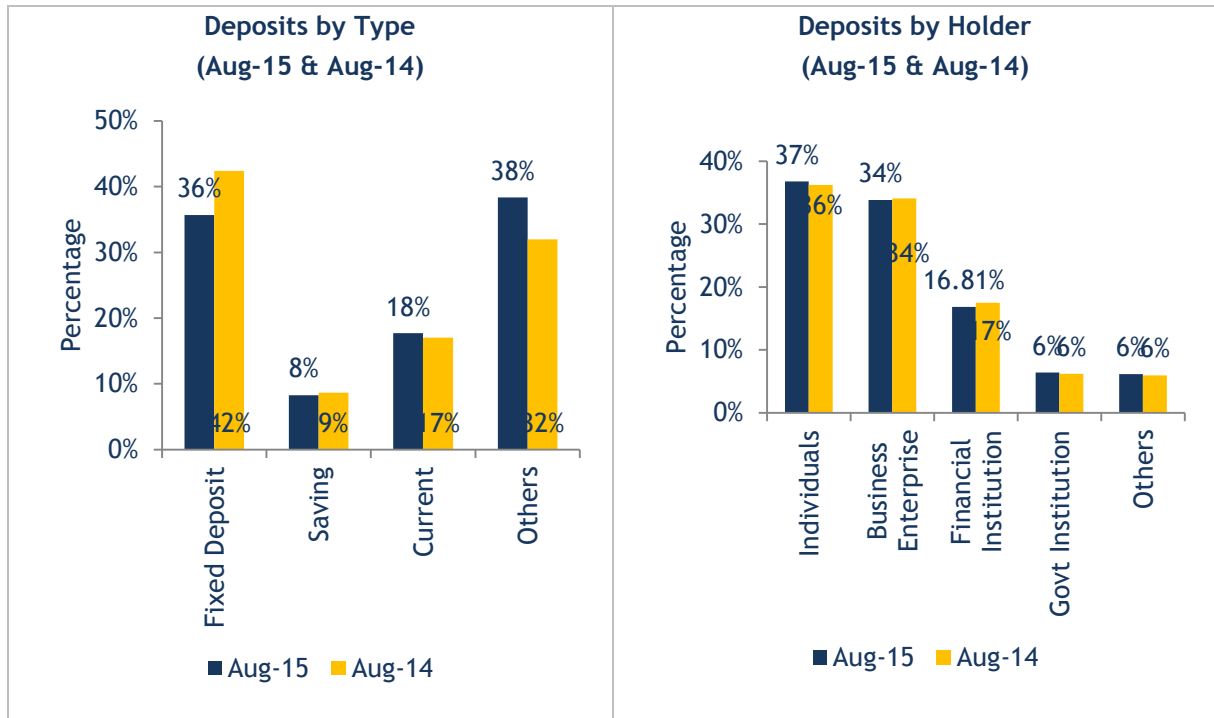
Source: BNM, M&A Securities



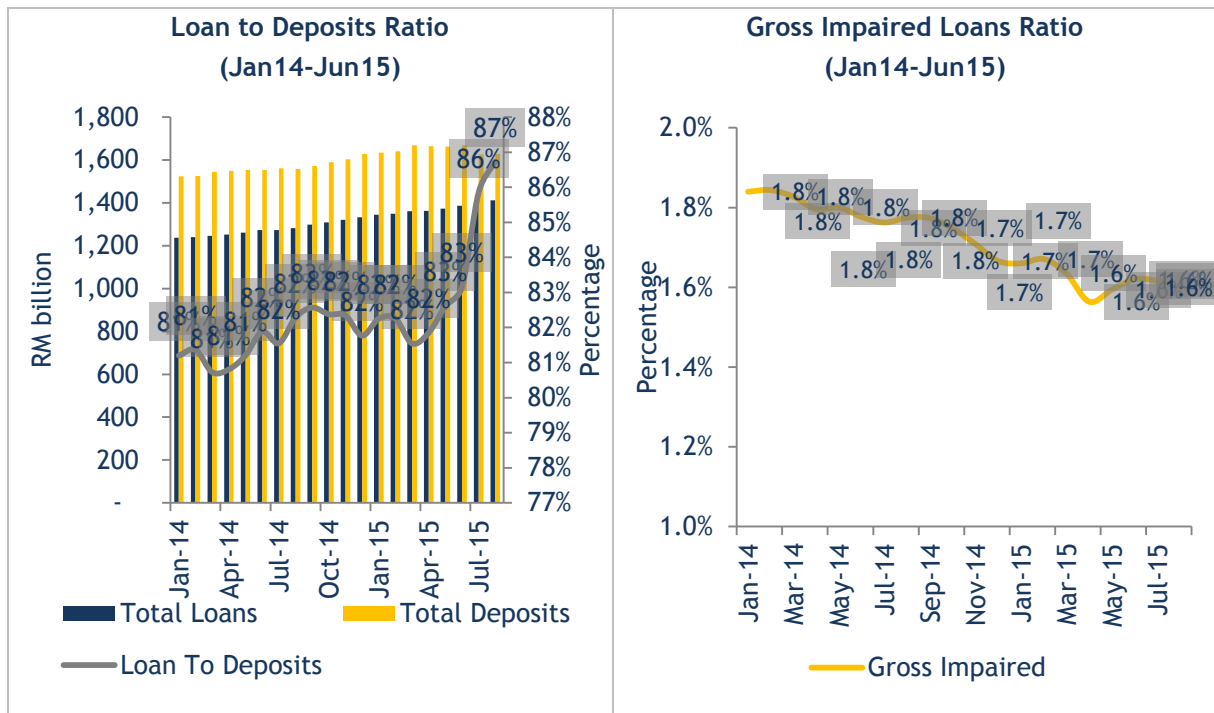
Source: BNM, M&A Securities

#### 4. Deposits “Still unhealthy”

- Deposits growth recovered marginally to 4.5% y-o-y vs. 4.2% y-o-y in July. The intense competition in deposits led to the unhealthy deposits level as banks switched to low cost deposits compared to wholesale deposits. We foresee that banks will continue to offer various offerings to attract low cost deposits that will continue to compress net interest margin
- The industry’s loan/deposit ratio (LDR) fell to an all-time high in 3 years to 86.7% 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

## 5. Gross impaired (GIL) “At all-time low”

Gross impaired loans touched all-time best of 1.60% vs. 1.62% in July as banks were selective in borrowers profile as well as tightened credit approval.

## 6. Capital remains strong

Capital ratios were stable in August, 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 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: RM9.92) and BIMB Holdings (TP: RM4.63).

Table 6: Loans Growth Y-o-Y

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

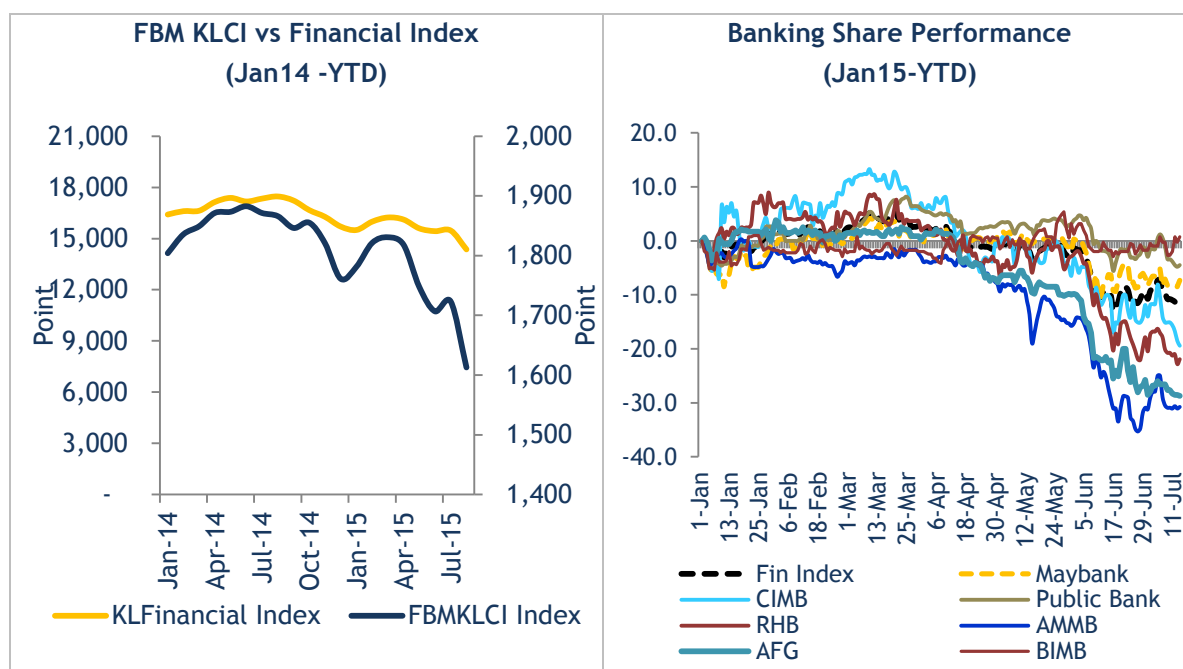
Source: Bursa Malaysia, M&A Securities

Table 7: Peers Comparison

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	Mac	3.35	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.56	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	4.01	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.63	Buy
CIMB	Dec	4.46	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.56	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.95	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	17.52	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.34	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.46	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.77	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.12	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: Bloomberg, M&A Securities





Source: Bloomberg, 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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