

## Banking Sector

(Neutral)

### “Slower Loans Growth in September”

Banking sector is a NEUTRAL as we expect loans growth to hit 9.0% in 2015 vs. 9.5% in 2014. YTD banking sector loans growth had reached 9.2%, broadly 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: September 2015 Summary

Purpose (RM billion)	Sept-15	Aug-15	Sept-14	Y-o-Y	M-o-M	Comment
Loans growth	9.7%	10.2%	9.0%	↑	↓	Going stronger, supported by stronger business segment
Loans Application	-2.0%	3.1%	6.7%	↓	↓	GST bite consumer away, making consumer cautious
Loans Approval	-15.2%	-9.2%	12.1%	↓	↓	Banks are now cautious with new R&R measures introduced
Loan Disbursement	4.3%	-2.4%	14.4%	↓	↑	Short working day in July
Loan Approval Rate	43.2%	41.6%	49.9%	↓	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.62%	1.60%	1.77%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	4.6%	4.5%	5.3%	↓	↑	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	86.6%	86.7%	82.6%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.49%	4.51%	4.72%	↓	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	14.8%	14.8%	15.6%	↓	↓	Well prepared for the Basel III requirements
- CET-1	12.1%	12.1%	12.9%			
- Tier-1	12.8%	12.7%	13.6%			

Source: BNM, M&A Securities

### Summary September 2015 Banking Statistics

- Loans growth weakened slightly to 9.7% y-o-y in September vs. 10.2% y-o-y in August, hampered by slower loans growth in both the household and business segments.
- Overall, loans application, approval and disbursement turned weak in September derailed by business segment. Shorter working days in September is the culprit.
- Deposits level was still a point of concern and trailing deposits growth due to intense competition and hence, pushing loan-to-deposits to 86.6%.
- Gross impaired loans weakened marginally, however still low at 1.62% as banks continued with stringent credit approval.

### Our View Loans Growth Outlook in 2015

- We expect a tough operating environment for 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) steady migration to shariah financing mode from conventional.
- Asset quality to remains good thanks to efficient risk management process and management.

Table 2: Y-o-Y Growth by segment

Purpose (RM billion)	Household			Business		
	Sept-15	Aug-15	Sept-14	Sept-15	Aug-15	Sept-14
Loans Growth	8.1%	8.3%	11.1%	11.9%	12.9%	6.2%
Loans Application	0.4%	0.3%	-0.5%	-4.3%	6.0%	14.8%
Loans Approval	-15.0%	-15.2%	6.2%	-15.5%	-0.2%	19.9%
Loans Disbursement	-3.5%	-3.9%	-0.1%	7.1%	-1.8%	20.7%

Source: BNM, M&A Securities

### Analysis of Banking Sector Operational Metrics

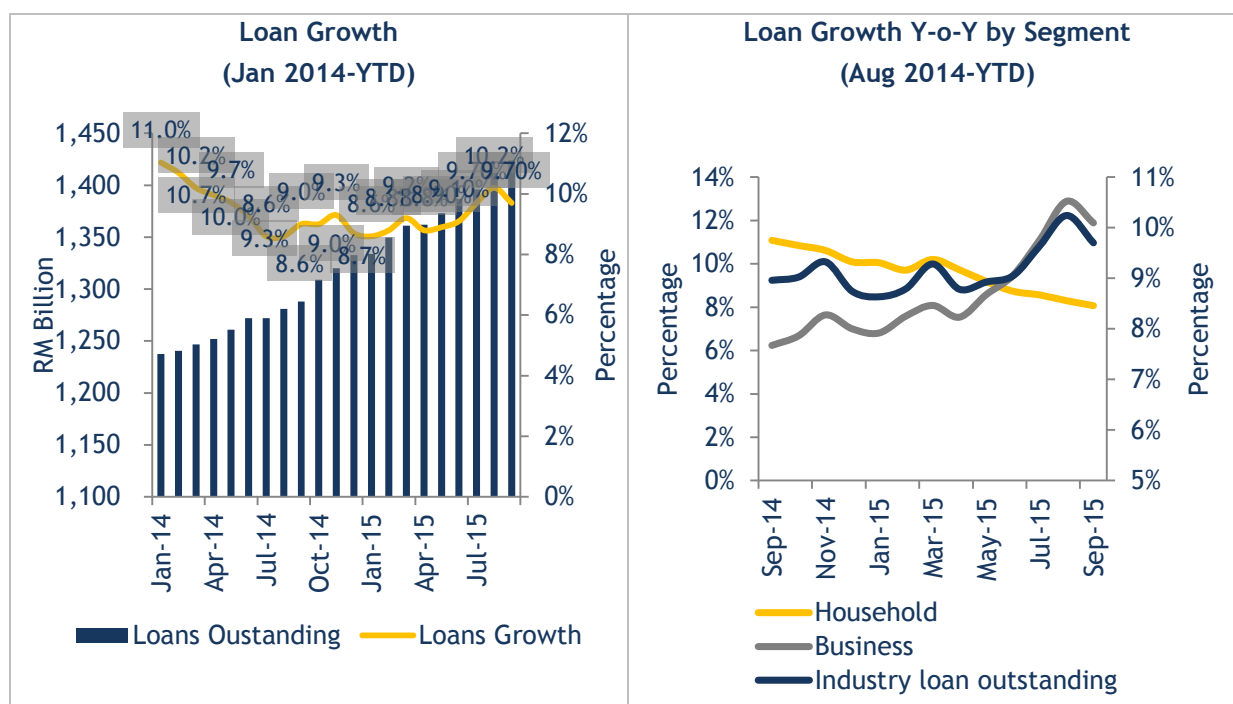
#### 1. Loans Growth halted for 5 consecutive months.

- Banking system loans growth grew at slower pace of 9.7% y-o-y vs. 10.2% y-o-y in August. The slower growth was hampered by deceleration of both in the household (HH) and business segment loans.
- Loans to household (HH) segment continued to grow at softer rate for 7 consecutive months of 8.1% y-o-y 8.3% y-o-y in August. Purchase of securities (-0.2% y-o-y vs. 0.5% y-o-y in August) and personal use (5.0% y-o-y vs. 6.1% y-o-y in August) were the culprit contributing to the HH weaknesses in September.
- For business loans, the weaker construction purposes loan (8.9% vs. 11.1% in August) pushed business loans to be softer in September. However, we strongly believe the shorter working days in September contributed to the softer business segment growth.
- Key sectorial drivers for August loans growth include i) mining by 59% 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 due to GST related issue. 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)	Sept-15	Aug-15	Sept-14	M-o-M	Y-o-Y
Purchase of Securities	74,502	74,494	74,667	0%	-0.2%
Transport Vehicle	169,456	169,216	165,572	0%	2.3%
Of Which is Passenger Car	159,953	159,831	155,846	0%	2.6%
Residential Property	424,797	421,153	378,822	1%	12.1%
Non-Residential Property	194,565	192,179	171,029	1%	13.8%
Other Fixed Assets	10,900	10,908	10,554	0%	3.3%
Personal Use	62,461	62,359	59,479	0%	5.0%
Credit Card	34,747	34,845	34,548	0%	0.6%
Consumer Durables	145	149	516	-2%	-71.9%
Construction	41,276	40,565	37,911	2%	8.9%
Working Capital	345,234	341,573	300,117	1%	15.0%
Other Purpose	65,976	65,346	64,903	1%	1.7%
<b>Total</b>	<b>1,424,060</b>	<b>1,412,787</b>	<b>1,298,117</b>	<b>1%</b>	<b>9.7%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

## 2. Loans Applications “Loans application derail”

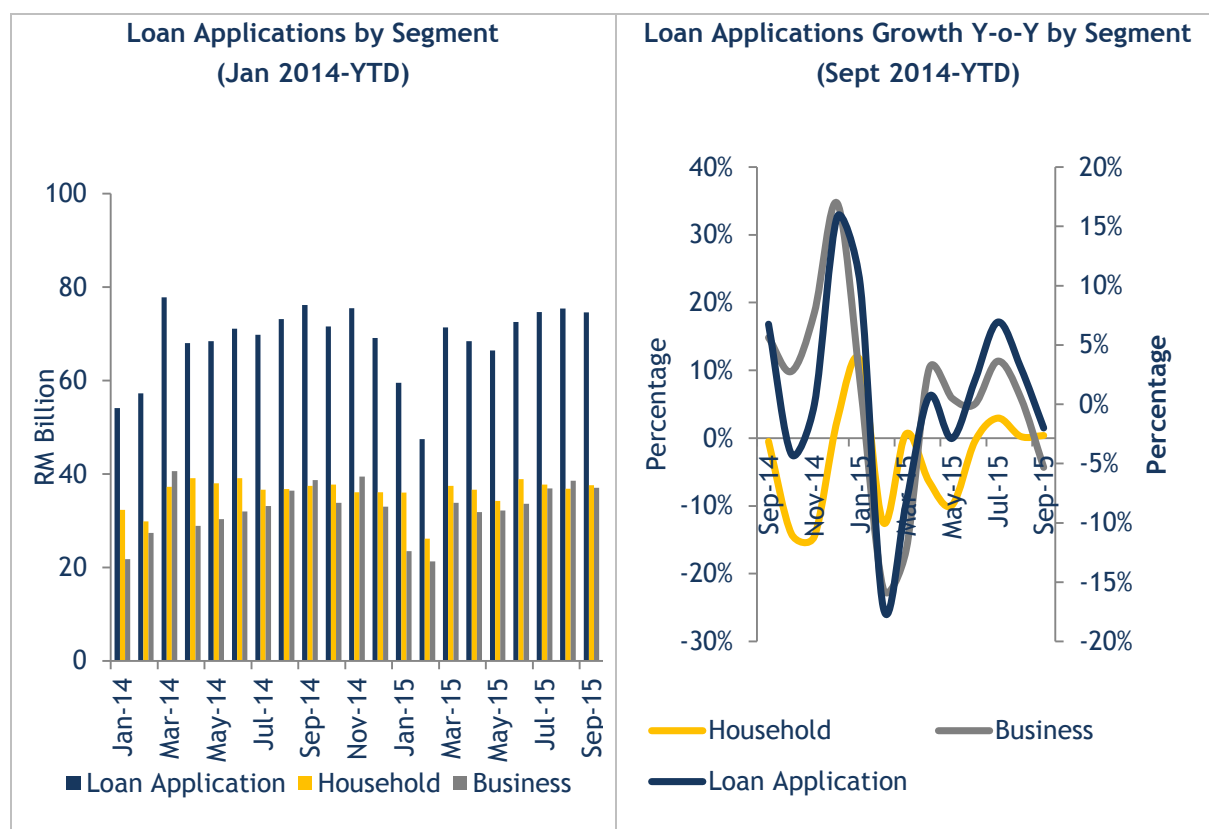
- Loans application slowed for two consecutive months. Loan application fell to 2.0% y-o-y on the back of weakening business segment. On HH segment, it recovered marginally to 0.4% y-o-y vs. 0.3% in August. Among the loan purpose in HH segment that backed growth was other purpose which growth of 52% y-o-y vs. 28% y-o-y in August.
- Business segment growth derailed by 4.3% y-o-y vs. 6.0% y-o-y in August. The disappointment was contributed by weakening application in construction, real estate and finance, insurance and business activities.

Moving forward, we expect business loans will make up the deficiency of gap left by HH loans especially in the SME segment propel by various incentives given by government for this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Sept-15	Aug-15	Sept-14	M-o-M	Y-o-Y
Purchase of Securities	2,658	1,831	3,003	45%	-11%
Transport Vehicle	7,234	6,995	7,230	3%	0%
Of Which is Passenger Car	6,759	6,675	6,909	1%	-2%
Residential Property	18,211	18,298	19,671	0%	-7%
Non-Residential Property	7,631	7,385	8,295	3%	-8%
Other Fixed Assets	2,256	290	356	677%	534%
Personal Use	6,137	5,919	4,415	4%	39%
Credit Card	3,507	3,241	2,104	8%	67%
Consumer Durables	0	0	1	-11%	-72%
Construction	3,393	3,668	4,024	-7%	-16%
Working Capital	16,531	25,031	22,397	-34%	-26%
Other Purpose	7,061	2,781	4,641	154%	52%
Total	74,619	75,438	76,137	-1.1%	-2.0%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

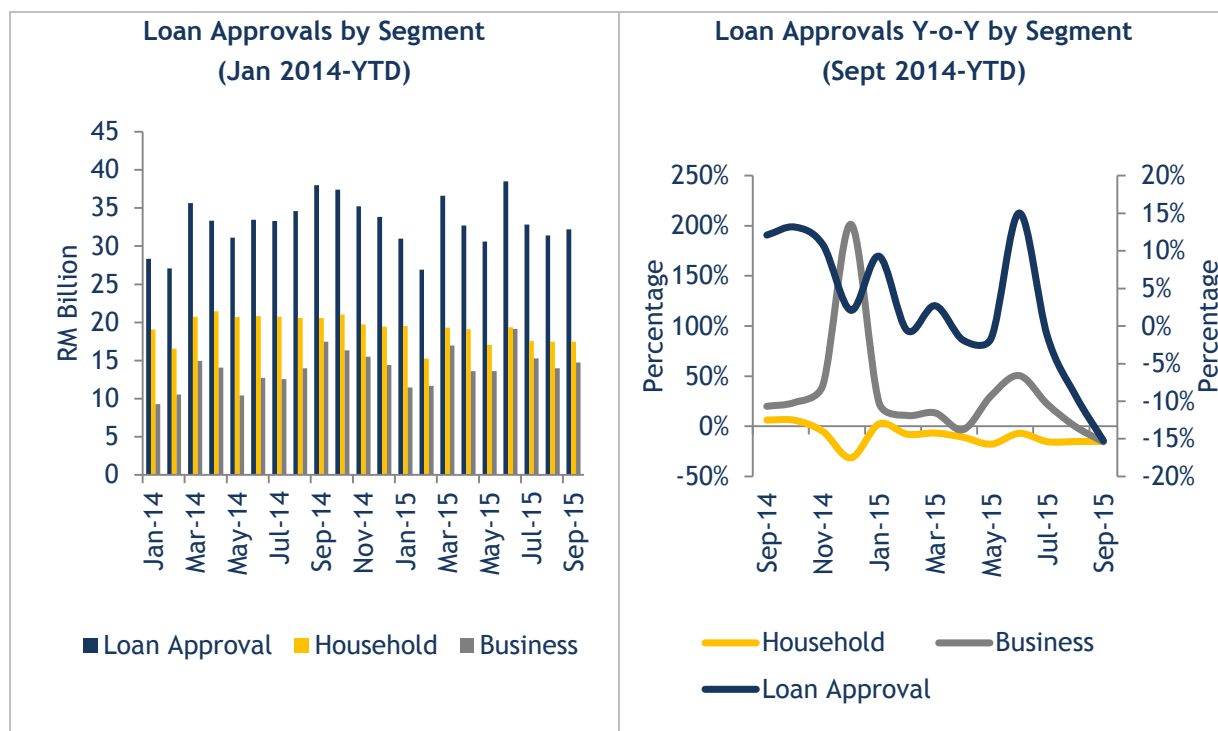
### 3. Loans Approval “Disappointing performance”

- Loans approval turned negative for 3 consecutive months of 15.2% y-o-y in September vs. -9.2% y-o-y in August as banks tightened approval at the back of new restructures and reschedules (R&R) measures by BNM.
- The weak approval was contributed by both HH and business loans. Business loans were more severe with a dip of 15.5% y-o-y in September vs. -0.2% y-o-y in August contributed by construction, agriculture and finance, insurance and business activities.
- Nevertheless, approvals rate recovered to 43.3% vs. 41.6% in August.
- Elsewhere, loans disbursements soared to 4.2% in September vs. 2.4% y-o-y in August vs. 2.4% y-o-y due to higher disbursement in business loans by 7.1% y-o-y vs. -1.8% y-o-y.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Sept-15	Aug-15	Sept-14	M-o-M	Y-o-Y
Purchase of Securities	1,184	1,221	2,652	-3%	-55%
Transport Vehicle	3,914	3,882	3,728	1%	5%
Of Which is Passenger Car	3,741	3,714	3,510	1%	7%
Residential Property	8,655	8,895	10,686	-3%	-19%
Non-Residential Property	2,982	3,011	4,562	-1%	-35%
Other Fixed Assets	429	149	244	188%	75%
Personal Use	1,701	1,577	1,517	8%	12%
Credit Card	1,441	1,413	1,186	2%	21%
Consumer Durables	0	0	6	-72%	-99%
Construction	1,151	1,620	1,463	-29%	-21%
Working Capital	7,956	7,792	8,047	2%	-1%
Other Purpose	2,812	1,857	3,931	51%	-28%
<b>Total</b>	<b>32,225</b>	<b>31,418</b>	<b>38,023</b>	<b>3%</b>	<b>-15%</b>

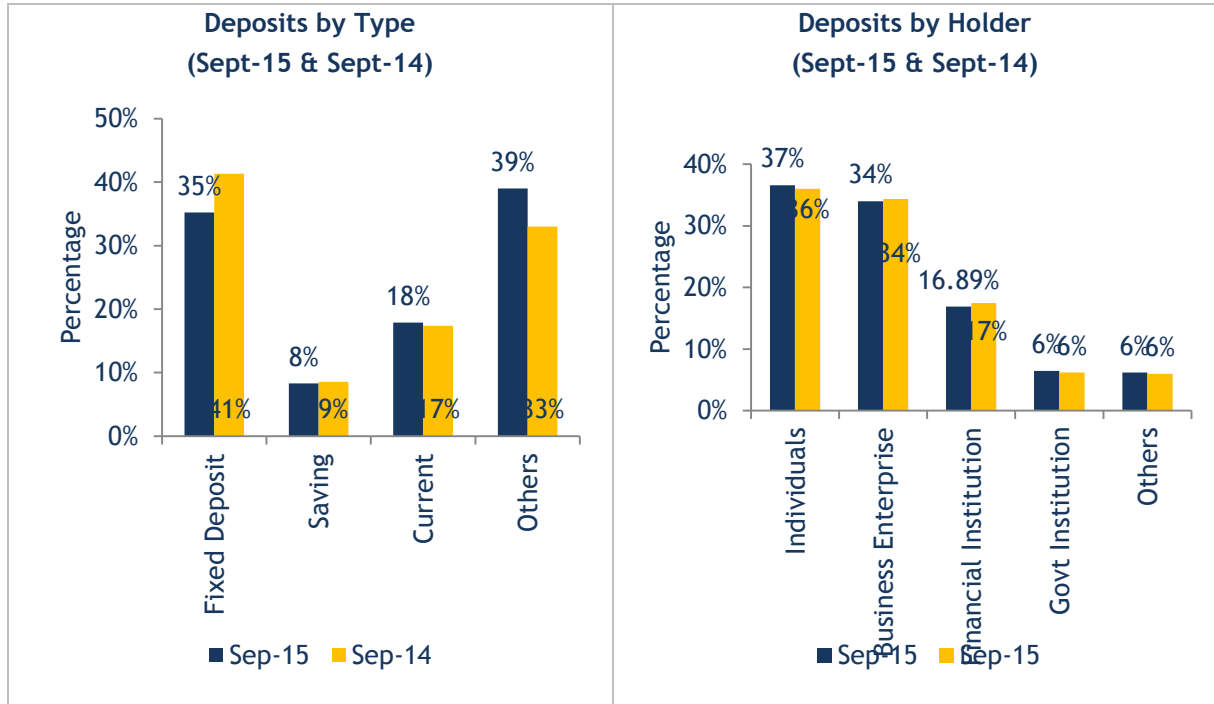
Source: BNM, M&A Securities



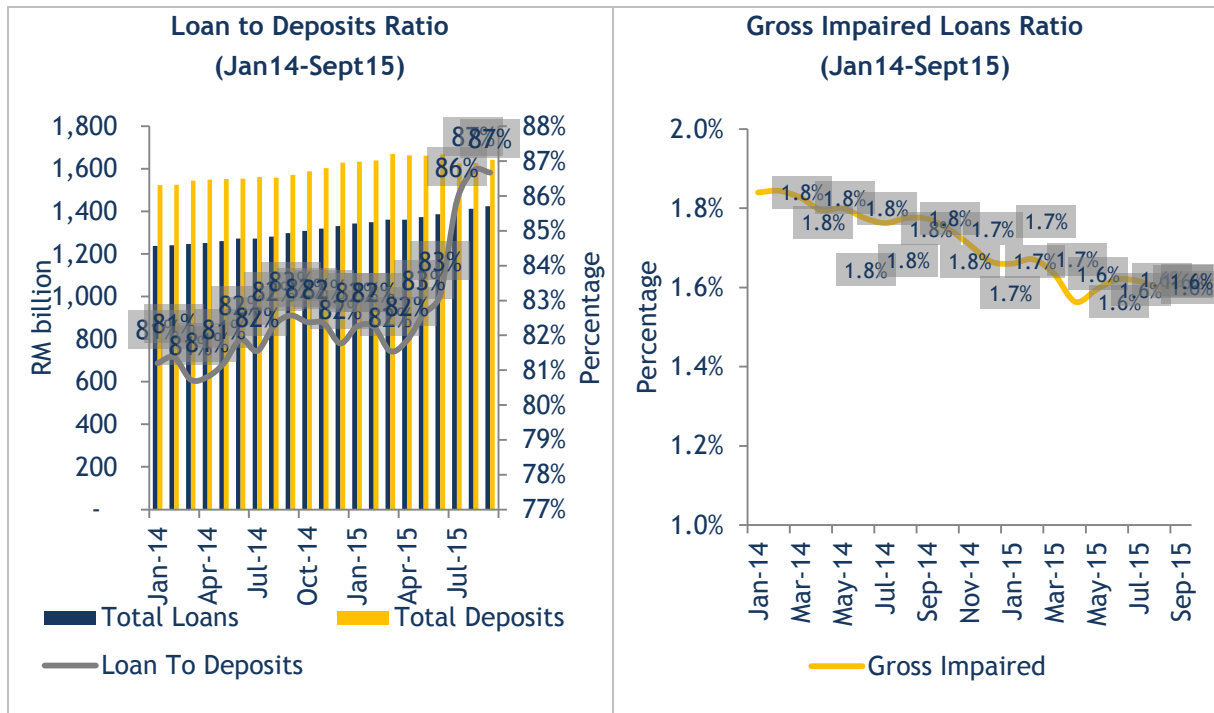
Source: BNM, M&A Securities

#### 4. Deposits “Recovering marginally”

- Deposits growth recovered marginally to 4.5% y-o-y in September vs. 4.2% y-o-y in August. The intense competition in deposits led to 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) stayed at high level at 86.6% in September vs. 86.7% in August as banks kept 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 weakened marginally to 1.62% vs. all-time best of 1.60% in August as banks were selective in borrowers profile as well as tightened credit approval.

### 6. Capital remains strong

Capital ratios were stable in August, including the industry’s CET1 ratio of 12.1%. Similar situations happened to Tier 1 of 12.8%, however, total capital was unchanged at 14.8%

### 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 BMB 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%

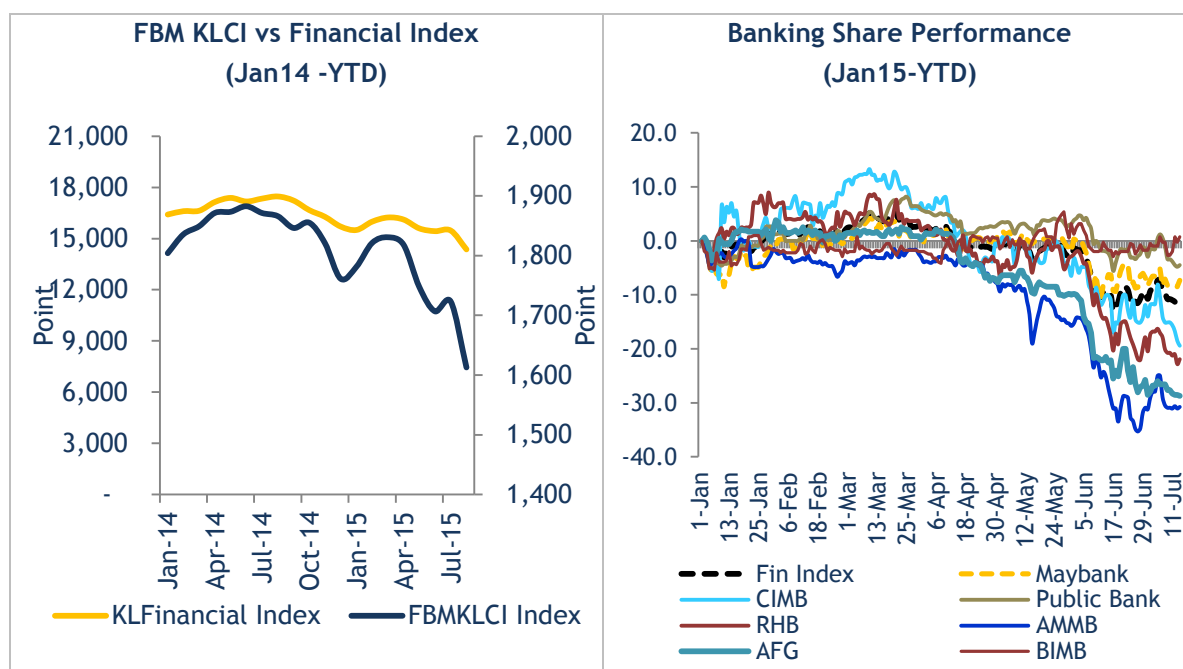
Source: Bursa Malaysia, M&A Securities

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	3.48	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.72	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	4.12	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.59	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.27	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	6.11	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.60	Hold
Public Bank	Dec	18.08	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	21.38	Buy
Affin	Dec	2.40	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.61	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.85	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.92	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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