

## Banking Sector

(Neutral)

### “Slower Loans Growth in October”

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: RM4.60).

Table 1: October 2015 Summary

Purpose (RM billion)	Oct-15	Sept-15	Oct-14	Y-o-Y	M-o-M	Comment
Loans growth	9.1%	9.7%	9.0%	↑	↓	Going stronger, supported by stronger business segment
Loans Application	12.8%	-2.0%	-4.2%	↑	↑	GST bite consumer away, making consumer cautious
Loans Approval	-4.4%	-15.2%	13.2%	↓	↑	Banks are now cautious with new R&R measures introduced
Loan Disbursement	-7.5%	4.3%	16.1%	↓	↓	Cautious approach in view of Budget 2016
Loan Approval Rate	44.3%	43.2%	49.9%	↓	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.59%	1.62%	1.77%	↑	↑	At healthy level due to stringent requirement loans selection
Deposits Growth	2.7%	4.6%	5.3%	↓	↓	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	87.5%	86.6%	82.6%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.54%	4.49%	4.67%	↓	↑	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.4%	14.8%	15.6%	↑	↓	Well prepared for the Basel III requirements
- CET-1	12.3%	12.1%	12.8%			
- Tier-1	13.3%	12.8%	13.6%			

Source: BNM, M&A Securities

### Summary October 2015 Banking Statistics

- Loans growth weakened to 9.1% y-o-y vs. 9.7% y-o-y in September hampered by slower loans growth in both the household (HH) and business segments.
- Overall, loans application made a strong recovery mainly driven by business segment but disbursement dropped by 7.5% y-o-y vs. 4.3% y-o-y in September.
- Deposits level was still a point of concern and trailing deposits growth due to intense competition and hence, pushing loan-to-deposits to 87.5%.
- Gross impaired improved by 3bps and touched all-time low of 1.59% vs. 1.62% in September

### 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		
	Oct-15	Sept-15	Oct-14	Oct-15	Sept-15	Oct-14
Loans Growth	8.0%	8.1%	10.8%	10.7%	11.9%	6.7%
Loans Application	3.4%	0.4%	-14.1%	23.3%	-4.3%	9.8%
Loans Approval	-10.3%	-15.0%	5.9%	3.2%	-15.5%	23.9%
Loans Disbursement	-1.0%	-3.5%	-0.5%	-9.8%	7.1%	26.2%

Source: BNM, M&A Securities

### Analysis of Banking Sector Operational Metrics

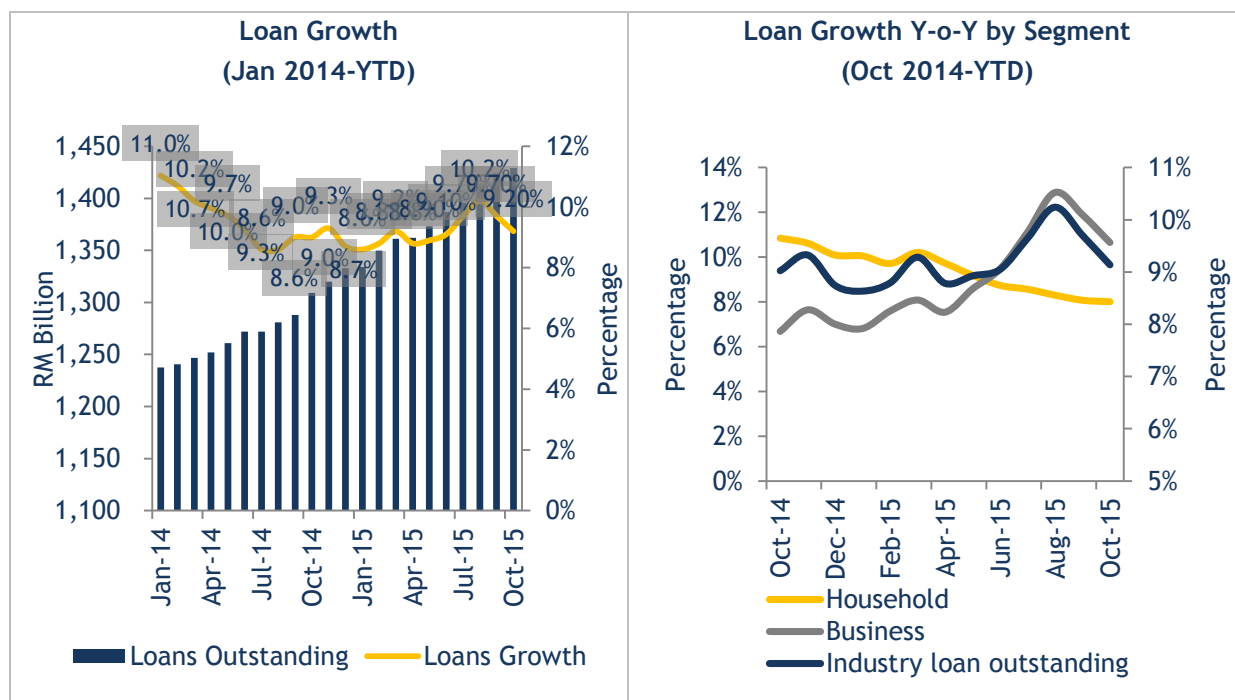
#### 1. Loans Growth weaken for 2 consecutive months.

- Banking system loans growth grew at slower pace of 9.1% y-o-y vs. 9.7% y-o-y in September. The slower growth was derailed by deceleration in business segment and slight weakness in household segment.
- Business loans decelerated by 124bps m-o-m to 10.7% in October vs. 11.9% y-o-y growth in September. We believe the slow-down in business segment was mainly driven by cautious stance adopted by business community as a result on Budget 2016 announcement.
- Loans to household (HH) segment continued to grow at softer rate for 8 consecutive months of 8.0% y-o-y in October vs. 8.1% y-o-y in September. Purchase of securities (-1.6% y-o-y vs. -0.2% y-o- in September) was the culprit contributing to the HH weakness in October.
- Key sectorial drivers for October loans growth include i) mining by 51% y-o-y ii) real estate by 21% y-o-y and iii) agriculture by 19% 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)	Oct-15	Sept-15	Oct-14	M-o-M	Y-o-Y
Purchase of Securities	74,813	74,502	76,034	0%	-1.6%
Transport Vehicle	169,526	169,456	165,604	0%	2.4%
Of Which is Passenger Car	160,233	159,953	156,051	0%	2.7%
Residential Property	429,006	424,797	382,821	1%	12.1%
Non-Residential Property	196,115	194,565	173,048	1%	13.3%
Other Fixed Assets	10,624	10,900	10,541	-3%	0.8%
Personal Use	62,880	62,461	59,800	1%	5.1%
Credit Card	34,745	34,747	34,535	0%	0.6%
Consumer Durables	143	145	555	-1%	-74.2%
Construction	41,513	41,276	37,903	1%	9.5%
Working Capital	345,454	345,234	305,962	0%	12.9%
Other Purpose	64,386	65,976	62,755	-2%	2.6%
<b>Total</b>	<b>1,429,206</b>	<b>1,424,060</b>	<b>1,309,558</b>	<b>0%</b>	<b>9.1%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

## 2. Loans Applications “Loans application recovered vastly”

- Loans applications recovered strongly in October after gaining by 12.8% y-o-y vs. -2.0% y-o-y in September on the back of stronger application in business segment by 23.3% y-o-y vs. -4.3% y-o-y in September. On HH segment, it recovered to 3.4% y-o-y pursuant to marginal growth in August and September by 0.3% y-o-y and 0.4% y-o-y respectively
- Among loans purpose in HH segment that backed growth was other purpose which grew 188% y-o-y vs. 52% y-o-y in September.

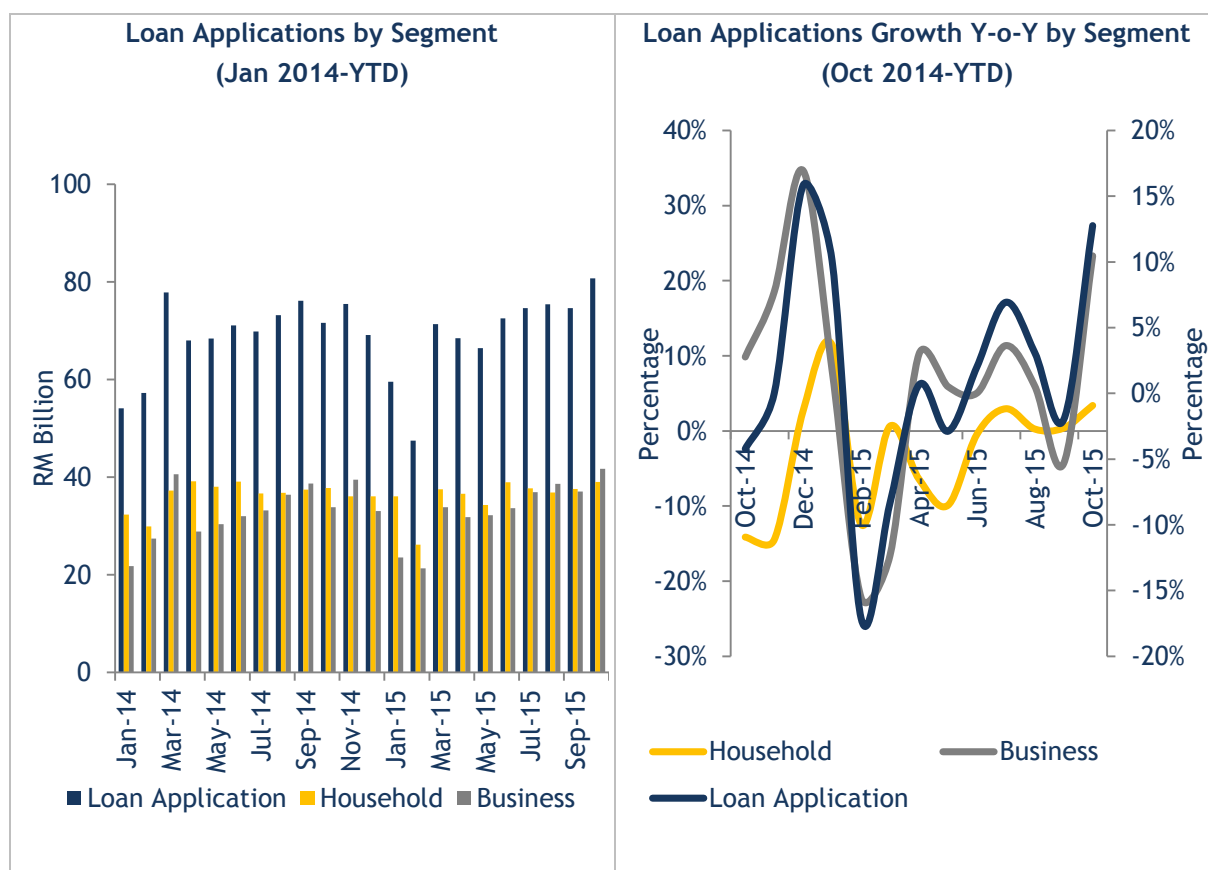
## Sector Update: Banking October 2015 Statistics

- Business segment growth soared to 23.3% vs. -4.3% y-o-y in September. The growth was underpinned by strong growth in i) education by 342% y-o-y ii) mining by 132% y-o-y iii) finance, insurance and business activities by 67% y-o-y.
- Moving forward, we expect business loans will make up the deficiency of gap left by HH segment especially in the SME segment, propel by various incentive given by the government for this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Oct-15	Sept-15	Oct-14	M-o-M	Y-o-Y
Purchase of Securities	2,335	2,658	3,376	-12%	-31%
Transport Vehicle	7,825	7,234	8,137	8%	-4%
Of Which is Passenger Car	7,518	6,759	6,713	11%	12%
Residential Property	18,161	18,211	20,059	0%	-9%
Non-Residential Property	7,029	7,631	8,863	-8%	-21%
Other Fixed Assets	433	2,256	517	-81%	-16%
Personal Use	6,605	6,137	4,033	8%	64%
Credit Card	3,722	3,507	2,152	6%	73%
Consumer Durables	0	0	2	3%	-85%
Construction	2,960	3,393	4,065	-13%	-27%
Working Capital	22,004	16,531	17,012	33%	29%
Other Purpose	9,665	7,061	3,358	37%	188%
<b>Total</b>	<b>80,739</b>	<b>74,619</b>	<b>71,575</b>	<b>8.2%</b>	<b>12.8%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

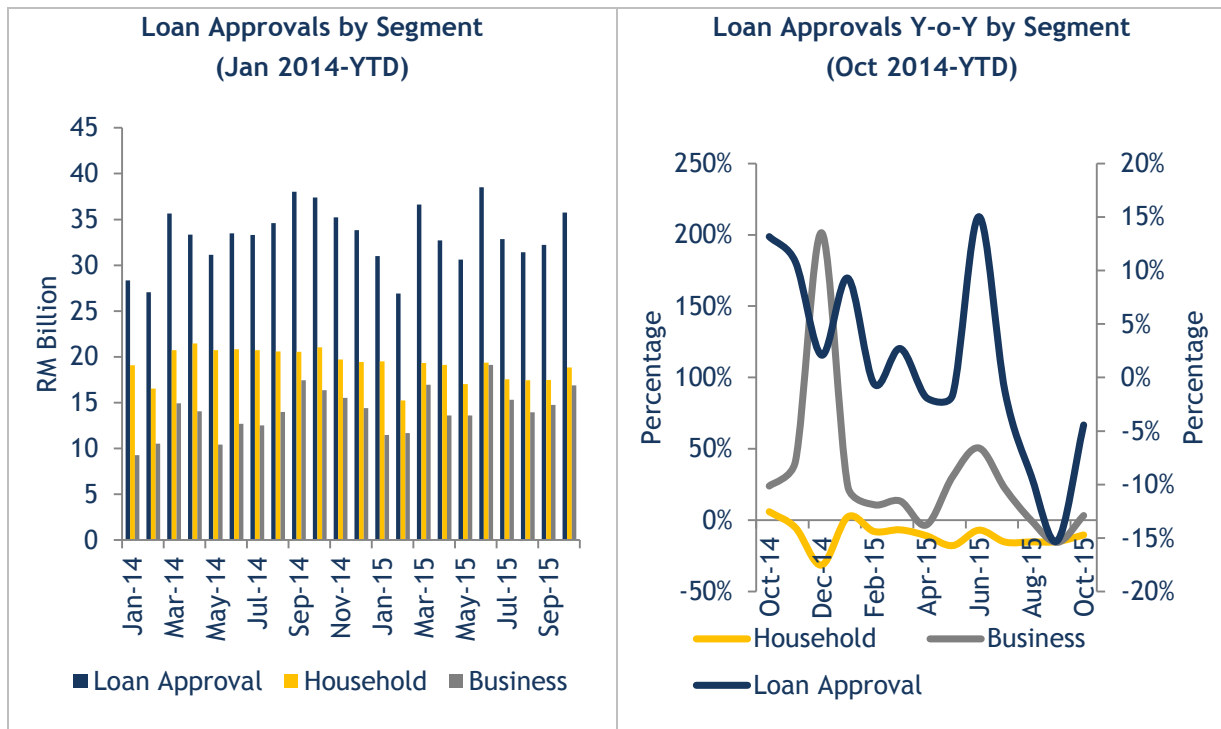
### 3. Loans Approval “Disappointing performance”

- Loans approval turned negative for 4 consecutive months, but improving to -4% y-o-y vs. 15.2% y-o-y in September 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 after approval dipped 10.3% y-o-y vs. -15% y-o-y in September. Nevertheless, business loans approval improved to 3.2% y-o-y vs. 15.5% y-o-y in September contributed by construction, agriculture and finance, insurance and business activities.
- Nevertheless, approvals rate recovered to 44.3% vs. 43.3% in September.
- Elsewhere, loans disbursements dipped by 7.5% y-o-y vs. 4.2% in September due to lower disbursement in business loans that dropped by 9.8% y-o-y vs. 7.1% y-o-y in September.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Oct-15	Sept-15	Oct-14	M-o-M	Y-o-Y
Purchase of Securities	1,872	1,184	3,731	58%	-50%
Transport Vehicle	4,150	3,914	4,022	6%	3%
Of Which is Passenger Car	3,974	3,741	3,802	6%	5%
Residential Property	8,890	8,655	11,174	3%	-20%
Non-Residential Property	3,135	2,982	4,769	5%	-34%
Other Fixed Assets	277	429	335	-35%	-17%
Personal Use	1,825	1,701	1,498	7%	22%
Credit Card	1,653	1,441	1,236	15%	34%
Consumer Durables	0	0	10	-29%	-100%
Construction	2,013	1,151	2,068	75%	-3%
Working Capital	9,160	7,956	7,771	15%	18%
Other Purpose	2,767	2,812	772	-2%	258%
Total	35,741	32,225	37,387	11%	-4%

Source: BNM, M&A Securities

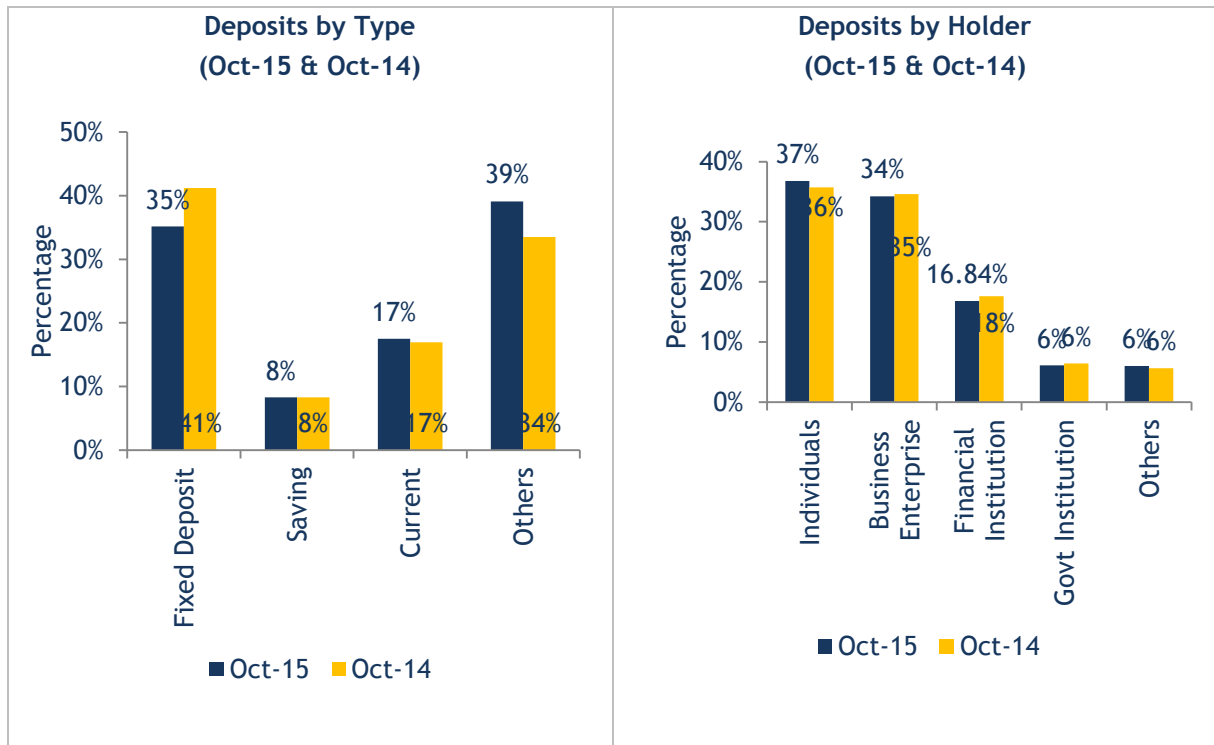


Source: BNM, M&A Securities

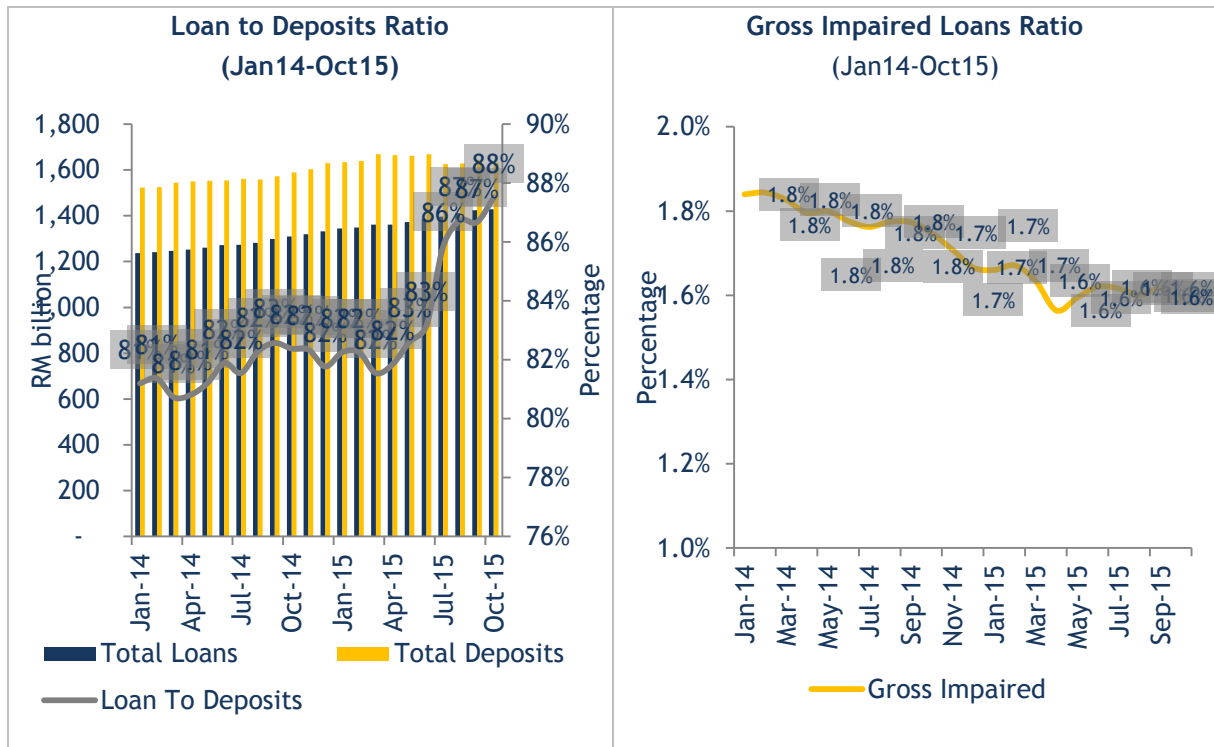
#### 4. Deposits “unexpectedly weaker”

- Deposits growth was slower at 2.7% y-o-y vs. 4.6% y-o-y in September. 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 87.5% vs. 86.6% in September as banks kept loans flowing on the back of slower deposits and thus, showing tight liquidity in the market.

## Sector Update: Banking October 2015 Statistics



Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

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

Gross impaired improved by 3bps and touched all-time low of 1.59% vs. 1.62% in September as banks were selective in borrowers profile as well as tightened credit approval.

## 6. Capital remains strong

Overall, capital ratios were stable in October including the industry's CET1 ratio of 12.3%. Similar situations happened to Tier 1 given a rate of 13.3% while total capital rising 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: RM4.60).

Table 6: Loans Growth Y-o-Y

Company	Year Ended	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	Sept-15	Mgt Guidance
AFG	March	14.1%	15.2%	15.5%	16.2%	14.7%	12.5%	10.2%	11%-12%
AMMB	March	5.3%	1.5%	0.9%	-2.1%	1.6%	-2.2%	0.3%	7.0%
CIMB	Dec	11.9%	8.1%	9.8%	13.2%	12.4%	16.1%	10.7%	14.0%
Maybank	Dec	13.5%	12.6%	14.3%	13.4%	14.3%	15.6%	8.7%	13.0%
PBK	June	13.5%	12.6%	9.8%	10.8%	11.7%	11.5%	9.3%	10%-11%
RHB Cap	Dec	11.2%	13.0%	11.9%	17%	13.7%	9.2%	10%	12.0%

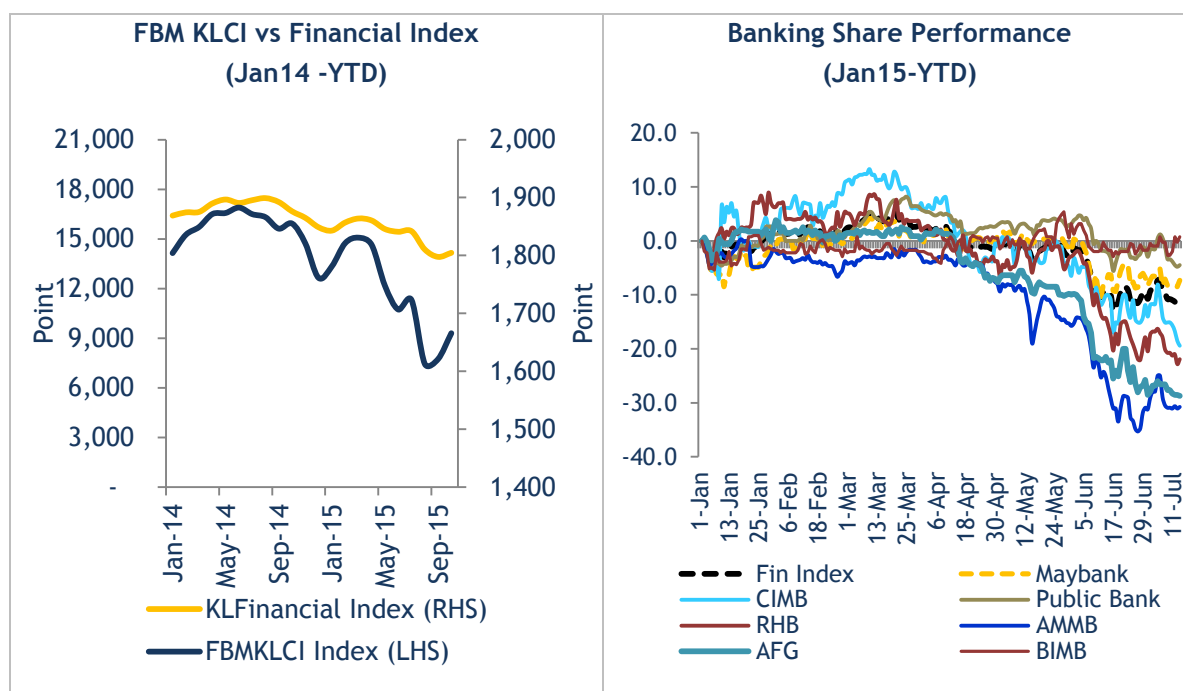
Source: Bursa Malaysia, M&A Securities

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	3.58	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.59	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	5.10	Hold
BIMB	Dec	3.90	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.50	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.32	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.56	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.15	Hold
Public Bank	Dec	18.38	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.38	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.55	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.70	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.56	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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