

### “Momentum Building up Pre-GST”

Banking sector is a NEUTRAL in 2015 as we expect loans growth to hit 9.0% vs. 9.5% in 2014. Driver to the banking sector loans growth this year includes 1) steady ETP related financing 2) acceleration of re-financing drive towards shariah approved 3) steady equity and debt market performance. Our BUY calls for banking sector are Maybank (TP: RM10.70) Public Bank (TP: RM20.60) and BIMB Holdings (TP: RM4.84).

Table 1: Feb 2015 Summary

Purpose (RM billion)	Feb-15	Jan-15	Feb-14	Y-o-Y	M-o-M	Comment
Loans growth	8.8%	8.6%	10.7%	↓	↑	Building positive momentum from January, aided by HH and business
Loans Application	-17.1%	10.1%	8.5%	↓	↓	Applications tumbled in both HH and business, people turns cautious
Loans Approval	0.6%	9.3%	9.5%	↓	↓	Approval hurt by weak application, banks turns cautious
Loan Disbursement	3.9%	4.5%	12.2%	↓	↓	Disbursement hurt by lower approval, especially in business segment
Loan Approval Rate	56.7%	52.1%	47.3%	↑	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.6%	1.6%	1.8%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	7.6%	7.3%	6.9%	↑	↑	Deposits was well recovered due to various promotional campaign
Loan to Deposits	82.3%	82.2%	81.4%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.67%	4.64%	4.44%	↑	↑	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	15.3%	15.4%	14.5%	↑	↓	Well prepared for the Basel III requirements
- CET-1	12.6%	12.7%	12.1%			
- Tier-1	13.3%	13.4%	12.9%			

Source: BNM, M&A Securities

### Summary February 2015 Banking Statistics

- Industry loans growth in February 2015 grew unexpectedly stronger at 8.8% y-o-y, aided by growth in both business and household (HH) segment.
- Loans application was bleeding, plunging 17.1% y-o-y, hampered by both business and HH segment.
- As a result of severed loans application, loans approval dipped by 0.6% y-o-y in February 2015 vs. promising start in January 2015, hindered by weaker approval in both HH segment and business.
- Gross impaired loans deteriorated marginally to 1.67% in February 2015, but it remains at low side.
- Deposits in February 2015 expanded by 7.6% y-o-y vs. 7.3% in January despite intense competitions.

## 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 the 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 9% y-o-y vs. 9.5% in 2014 assisted by i) revival in capital market activity ii) steady financing of ETP related activities iii) a 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		
	Feb-15	Jan-15	Feb-14	Feb-15	Jan-15	Feb-14
Loans Growth	9.7%	10%	12.1%	7.6%	6.8%	8.9%
Loans Application	-12.4%	11.4%	8.6%	-22.2%	8.1%	8.5%
Loans Approval	-7.9%	2.3%	8.3%	10.9%	23.5%	11.4%
Loans Disbursement	2.6%	-2.4%	2.7%	4.4%	-5.3%	16.8%

Source: BNM, M&amp;A Securities

## A. 1. Both Household and business building-up momentum

- The deceleration in loans growth since December 2014 was halted in February. Industry loans growth climbed commendably at 8.8% y-o-y in February 2015 vs. 10.7% y-o-y in February 2014.
- The recovering loans growth in February 2015 was lifted by the growth in business loans by 7.6% y-o-y vs. 6.8% y-o-y in December 2014. Notably, HH loans growth was still at commendable pace of 9.7% y-o-y vs. 10% y-o-y in January 2015. This was due to anxiety consumption as consumers piling their stocks before inflation peaking due to GST.
- Key sectorial drivers for February loans growth include i) real estate (21% y-o-y) ii) construction (13% y-o-y) iii) financing, insurance and business services (10% y-o-y)
- Moving forward, we expect HH segment loans growth to continue to moderate in line with the GST that will kick in April 2015. On the other hand, we expect business segment will continue to grow and support overall loans growth in 2015.

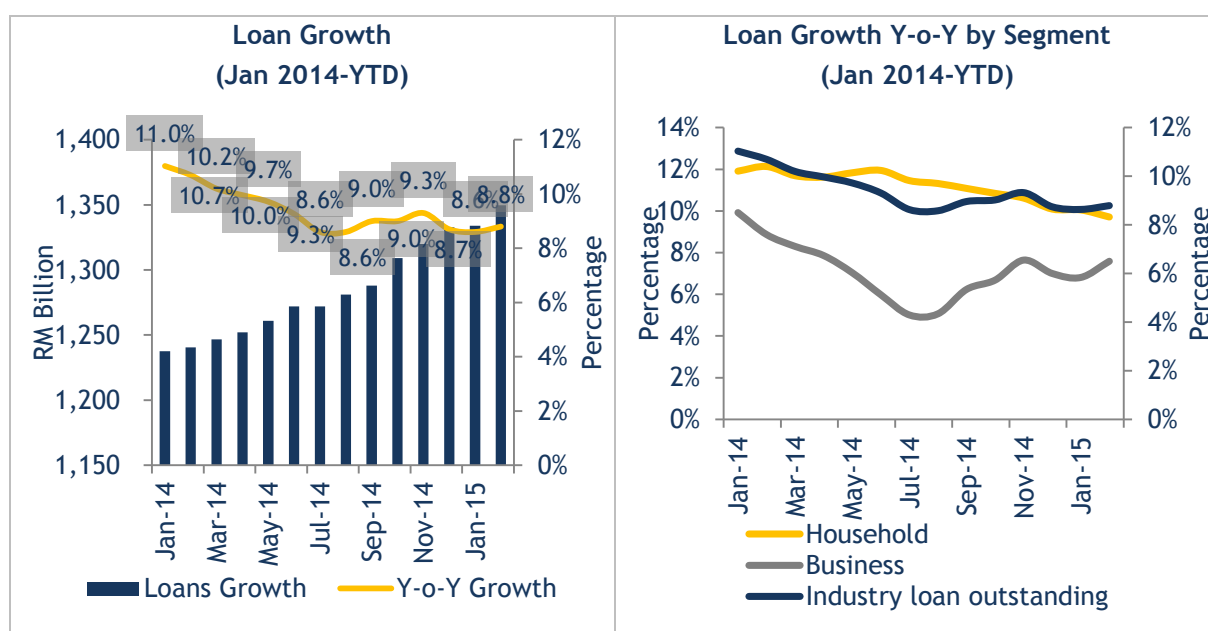
Table 3: Industry Loans Growth

Purpose (RM billion)	Feb-15	Jan-15	Feb-14	M-o-M	Y-o-Y
Purchase of Securities	77,125	76,737	72,064	1%	7%
Transport Vehicle	166,963	166,392	163,822	0%	2%
Of Which is Passenger Car	157,592	156,782	153,423	1%	3%
Residential Property	398,355	394,255	352,399	1%	13%
Non-Residential Property	180,199	179,814	157,232	0%	15%
Other Fixed Assets	10,637	10,703	9,863	-1%	8%
Personal Use	60,072	60,108	57,774	0%	4%
Credit Card	35,501	35,414	34,255	0%	4%
Consumer Durables	697	669	273	4%	155%
Construction	40,516	39,885	34,482	2%	17%
Working Capital	317,581	314,635	287,601	1%	10%
Other Purpose	61,973	65,737	70,795	-6%	-12%
<b>Total</b>	<b>1,349,619</b>	<b>1,344,350</b>	<b>1,240,560</b>	<b>0%</b>	<b>8.8%</b>

Source: BNM, M&amp;A Securities

## 2. Unexpected rising in HH loans

- As we mentioned, HH loans rising at commendable pace of 9.7% y-o-y vs. 10% y-o-y in January 2015. Approaching GST, we will see HH loans to grow at steady pace and the slowdown will only takes place post-GST implementation as consumers will be more selective and cautious in spending. Additionally we will see selective consumer loans will experience slight deceleration e.g. auto, personal lending and credit cards
- Growth in transport vehicle remained slow at 2% y-o-y in February 2015 vs. 1.6% y-o-y in January 2015 due uncertainty surrounding automotive policy and prices of cars post-GST implementation. Remarkably residential property still enjoying double digits growth of 13% y-o-y and we expect this could further pickup before the GST implementation in April 2015 as property player indicated the house price will experience hike.



Source: BNM, M&amp;A Securities

### 3. Loans Applications

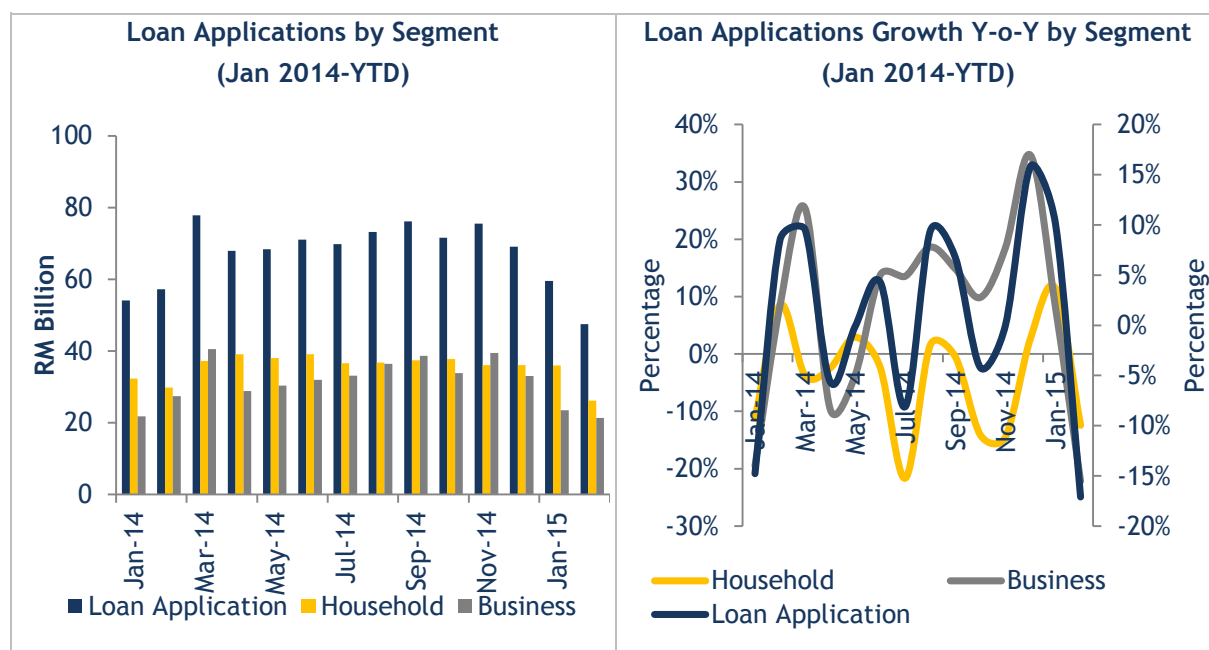
#### 1) Loans Application recovering

- The weaker loans application was severe-than-anticipated, the level we have not seen since January 2014. Loans applications tumbled by 17.1% y-o-y in February in contrast to promising start in January 2015 of 10% y-o-y.
- The sharply lower loans applications were hampered by both in business and HH loans. Business loans plunged 22.2% y-o-y vs. 8.1% y-o-y in December 2014, which weaker application contributed by real estate (-37% y-o-y), construction (-17% y-o-y) and manufacturing (-10% y-o-y)
- In contrast to audacious start, HH loans dipped by 12.4% y-o-y which two main contributor were led by applications in transport vehicle by -16% y-o-y vs. 2% y-o-y in January 2015 and residential property by 17% y-o-y vs. 9% y-o-y in January 2015.

Table 5: Industry Loan Applications

Purpose (RM billion)	Feb-15	Jan-15	Feb-14	M-o-M	Y-o-Y
Purchase of Securities	4,005	4,108	3,291	-3%	22%
Transport Vehicle	6,053	8,271	7,246	-27%	-16%
Of Which is Passenger Car	5,836	7,906	6,893	-26%	-15%
Residential Property	11,684	16,324	14,018	-28%	-17%
Non-Residential Property	6,862	8,238	7,391	-17%	-7%
Other Fixed Assets	735	569	252	29%	191%
Personal Use	3,209	4,324	2,937	-26%	9%
Credit Card	1,781	1,991	1,234	-11%	44%
Consumer Durables	9	13	0	-29%	2752%
Construction	2,107	2,728	3,453	-23%	-39%
Working Capital	8,550	10,712	13,544	-20%	-37%
Other Purpose	2,467	2,256	3,884	9%	-36%
<b>Total</b>	<b>47,461</b>	<b>59,535</b>	<b>57,251</b>	<b>-20%</b>	<b>-17.1%</b>

Source: BNM, M&A Securities



Source: BNM, M&A Securities

## 4. Loans Approval

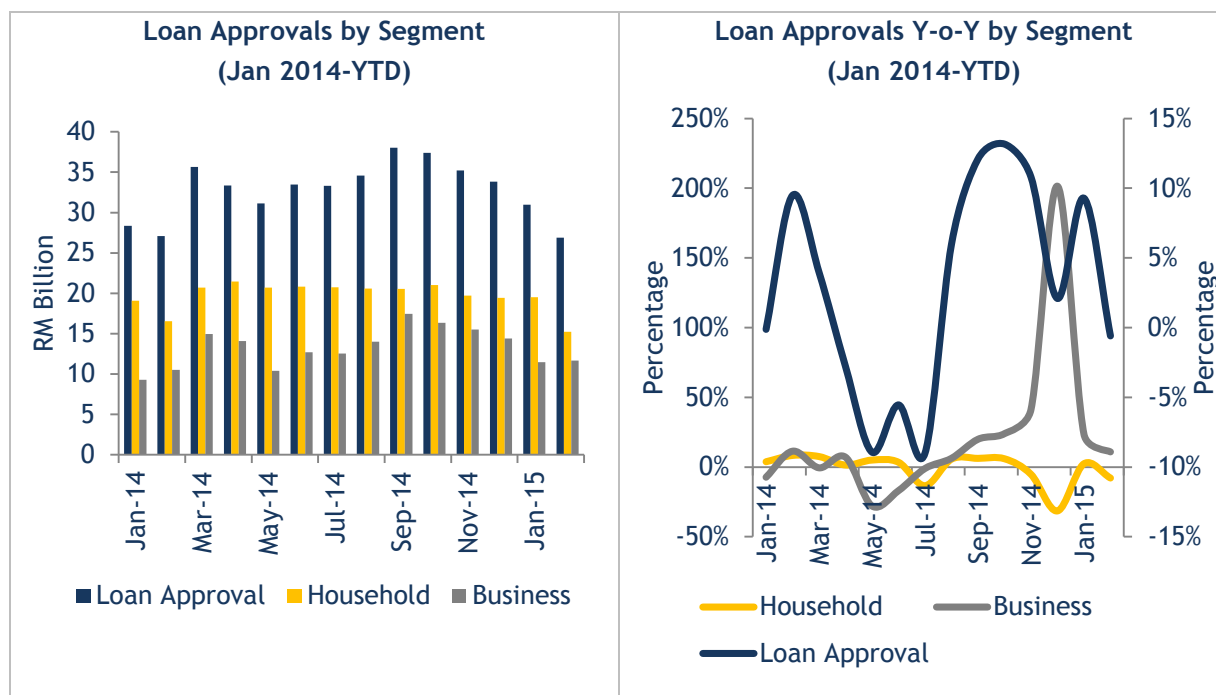
## 1) Loans approval recovering

- As a result poor loans application, loans approval took a beating too, dipping by 0.6% y-o-y in February 2015 vs. promising start by 9.3% y-o-y in January 2015, hindered by weaker HH segment and business loans.
- Residential property reversed its fine performance in January. Residential property plunged 9% y-o-y vs. 3% growth in January. Also there were weaker contribution from personal use and credit card, proving banks continued in selective quality consumers.
- In contrast, approval in business loans growth 10.9% y-o-y, but the latter dropped significantly vs. 23.5% y-o-y in January 2015. This was contributed by slower growth in mining and quarrying by -34% y-o-y, wholesale & retail trade by -24% y-o-y and construction by -15% y-o-y.
- Approvals rate recovered to 56.7% due to slower growth in loans growth vs. 52.1% in January.
- Elsewhere, loans disbursements was stronger at 3.9% y-o-y vs. -4.5% y-o-y in January 2015, lifted by growth in both business and HH loans.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Feb-15	Jan-15	Feb-14	M-o-M	Y-o-Y
Purchase of Securities	2,510	2,868	2,644	-12%	-5%
Transport Vehicle	4,005	4,563	3,883	-12%	3%
Of Which is Passenger Car	3,872	4,302	3,729	-10%	4%
Residential Property	6,547	8,868	7,174	-26%	-9%
Non-Residential Property	2,610	4,210	3,579	-38%	-27%
Other Fixed Assets	469	683	204	-31%	130%
Personal Use	991	1,338	1,050	-26%	-6%
Credit Card	980	1,136	1,111	-14%	-12%
Consumer Durables	8	10	3	-22%	168%
Construction	1,948	950	677	105%	188%
Working Capital	5,460	5,154	4,177	6%	31%
Other Purpose	1,381	1,211	2,637	14%	-48%
Total	26,910	30,992	27,139	-13%	-1%

Source: BNM, M&amp;A Securities

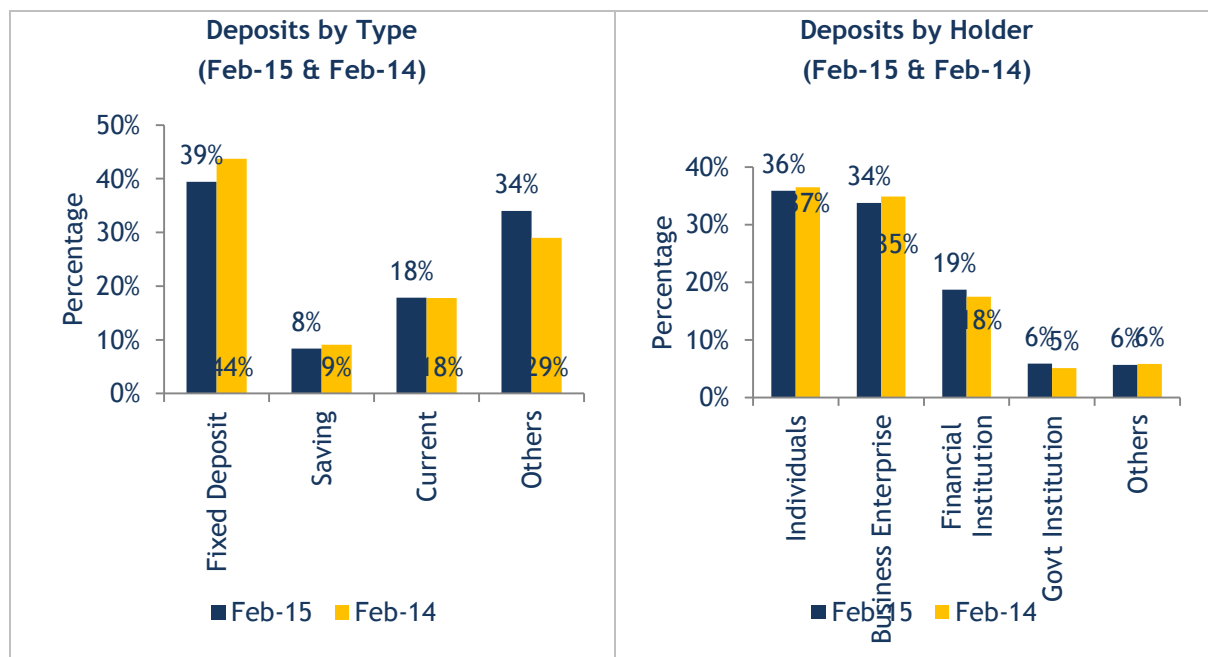


Source: BNM, M&amp;A Securities

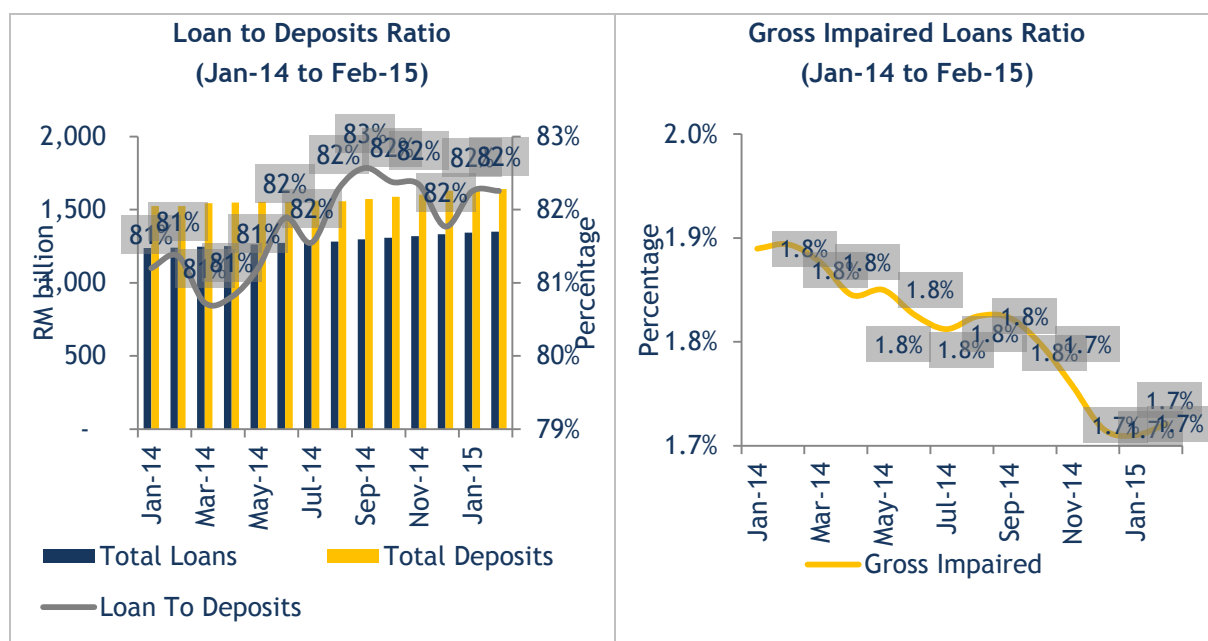
## 5. Deposits

### 1) Deposits were stable as well as Loan to Deposits (LTD).

- Despite intense competition, we view the offerings in securing deposits between banks have paid off. Deposits in February 2015 expanded by 7.6% y-o-y vs. 7.3% in January.
- Positively, the industry's loan/deposit ratio (LDR) held up at 82.3% vs. 82.2% in January 2015 on the back of faster deposit growth, showing tight liquidity in the market.



Source: BNM, M&amp;A Securities



Source: BNM, M&A Securities

## 6. Gross impaired (GIL)

### 1) GIL deteriorated marginally, but remains low

- On an absolute basis, GIL rose marginally by 0.4% m-o-m, mainly on account of higher working capital and non-residential property
- Gross impaired loans deteriorated marginally to 1.67% vs. 1.66% in January 2015, suggesting improving quality loans especially in household segments. Meanwhile loan-loss-coverage (LLC) stayed above the 100%-mark.

## 7. Capital remains strong

- Capital ratios were stable, with industry's CET1 ratio slipping to 12.6% vs. 12.7% in January. The similar situation happened to Tier 1 and core capital, which weakened marginally to 13.3% and 15.3% respectively.

## Conclusion and Recommendations

2015 will see banks slower but steady earnings due to the slowing down 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 aside from steady capital market activities. Besides slightly more exciting IPO market, non-interest income will also see a boost from increased fund raising activities through equity and bond markets to finance ETP-related projects and also refinancing activities by listed companies from conventional debts to shariah-compliant instruments. Banking sector is a **NEUTRAL** in 2015 to us with 3 banks emerge on our BUY call list namely Maybank (TP: RM10.70) Public Bank (TP: RM20.60) and BIMB Holdings (TP: RM4.84).

## Sector Update: Banking February 2015 Statistics

Table 6: Y-o-Y Gross Loan Growth

Company	Year Ended	Sep-13	Dec-13	Mar-14	Jun-14	Sept-14	Dec-14	Mgt. Guidance
AFG	March	12.6%	12.8%	14.1%	15.2%	15.5%	16.2%	11%-12%
AMMB	March	6.2%	6.1%	5.3%	1.5%	0.9%	-2.1%	7.0%
CIMB	Dec	13.7%	12.6%	11.9%	8.1%	9.8%	13.2%	14.0%
Maybank	Dec	12.0%	13.7%	13.5%	12.6%	14.3%	13.4%	13.0%
PBK	June	12.0%	13.7%	13.5%	12.6%	9.8%	10.8%	10%-11%
RHB Cap	Dec	13.9%	9.2%	11.2%	13.0%	11.9%	17%	12.0%

Source: Bursa Malaysia, M&amp;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	4.76	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.36	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	7.00	Hold
BIMB	Dec	4.01	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	6.24	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.34	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	8.01	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.30	Hold
Public Bank	Dec	18.80	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Buy
Affin	Dec	2.91	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	2.21	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	13.44	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	14.26	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&amp;A Securities



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## 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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