

Banking Sector

(Neutral)

“Poise to Drop Further”

Banking sector is a NEUTRAL as we expect loans growth to decelerate to 7.5% in 2016 vs. 8.4% in 2015. Two biggest issues namely lethargic loans growth and tight liquidity may take the spotlight in 2016. Though we expect flat earnings performance for banking sector in 2016 but there are still drivers which could continue to support the banking sector namely 1) improvement in asset quality 2) leaner operating cost. Our Top Picks for banking sector are Public Bank (TP: RM21.38) and BIMB Holdings (TP: RM4.28).

Table 1: April 2016 Summary

Purpose (RM billion)	Apr-16	Mar-16	Apr-15	Y-o-Y	M-o-M	Comment
Loans growth	6.3%	6.4%	8.8%	↓	↓	Loans growth weakened by household segment and business segment
Loans Application	-6.0%	1.1%	0.7%	↓	↓	Still commendable led by household segment
Loans Approval	-17.2%	-24.1%	1.9%	↓	↑	Cautious with the potential default, banks tighyening credit approvals
Loan Disbursement	-1.8%	-6.7%	-7.2%	↑	↑	Lower approvals led to lower disbursement
Loan Approval Rate	42.1%	38.5%	47.8%	↓	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.61%	1.60%	1.56%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	-1.2%	-1.0%	7.4	↓	↓	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	87.7%	87.7%	81.6%	↓	↑	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.60%	4.61%	4.68%	↓	↑	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio - Total Capital - CET-1 - Tier-1	16.4% 13.8% 12.9%	16.5% 13.9% 13.0%	15.1% 13.2% 12.4%	↑ ↑ ↑	↓ ↓ ↓	Well prepared for the Basel III requirements

Source: BNM, M&A Securities

Summary April 2016 Banking Statistics

- Loans growth in April 2016 was slower at 6.3% y-o-y. The slight weakness in loans growth was underpinned by further moderation in business segment to 6.3% y-o-y from 6.5% the month before. Whilst household loans held up at 6.3% y-o-y.
- Loans applications declined 6% y-o-y underpinned by hefty decline in business segment by 13.7% y-o-y derailed by key sectors namely 1) real estate and 2) construction.
- Loans approval weakened further to 17.2% y-o-y vs. -24.1% in March following lower applications in March.

Our View Loans Growth Outlook in 2016

- We expect soft earnings for banking sector in 2016 with slower macro-economic condition set to weigh banking sector performance.
- Slower loans growth, tight liquidity, compression in net interest margin (NIM), rising credit cost and softer investment banking activities will be the key theme for banking sector in 2016.
- The reduction in Statutory Reserve Requirement (SRR) from 4% to 3.5% may not bring significant impact given only RM5 billion release into liquidity as compared to RM1,600 billion deposits in circulations. However, we expect the reduction in SRR will assist banks to relieve its cost of funds, albeit only marginally.
- For 2016, we expect a steady loans growth of 7.5% y-o-y assisted by i) financing from business segment benefiting the splurge in Budget 2016 announcement ii) continuous SME financing as economy driver.

Table 2: Y-o-Y Growth by segment

Purpose (RM billion)	Household			Business		
	Apr-16	Mar-16	Apr-15	Apr-16	Mar-16	Apr-15
Loans Growth	6.3%	6.3%	10.2%	6.3%	6.5%	8.1%
Loans Application	0.6%	3.6%	0.6%	-13.7%	-1.7%	-16.6%
Loans Approval	-24.1%	-21.0%	-6.7%	-7.4%	-26.1%	13.4%
Loans Disbursement	-9.1%	-14.5%	14.6%	1.4%	-14.5%	8.2%

Source: BNM, M&A Securities

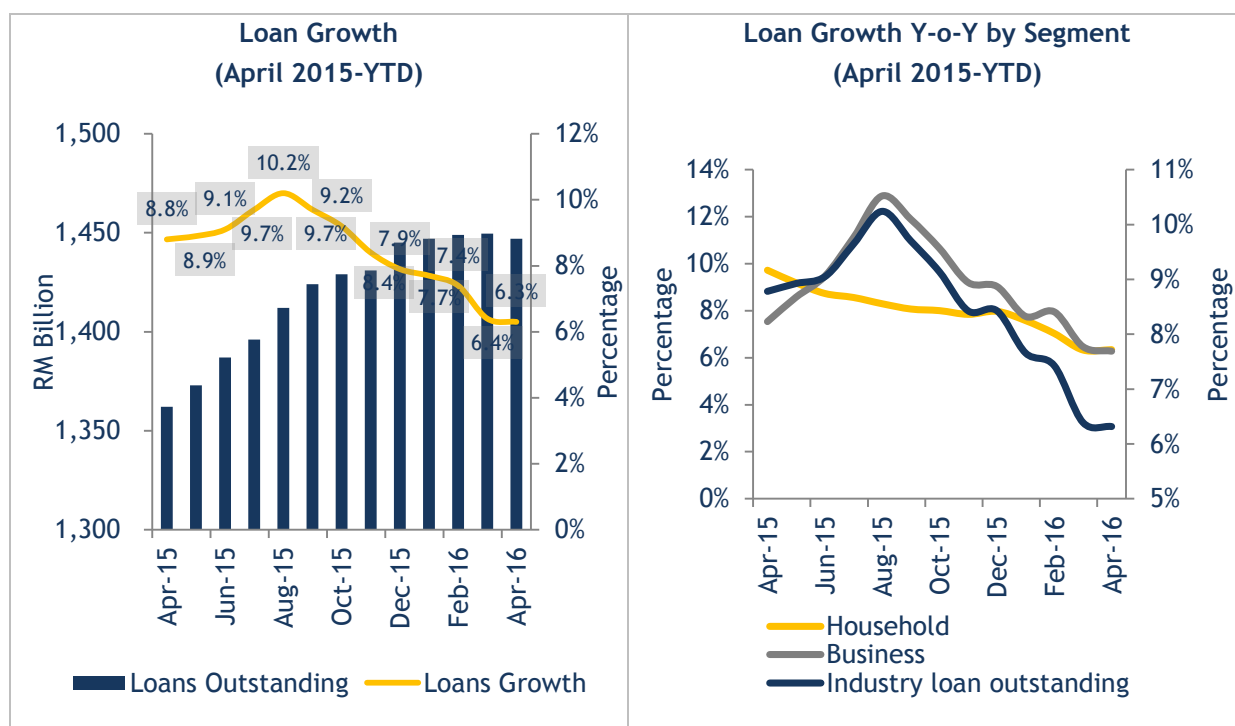
Analysis of Banking Sector Operational Metrics**1. No end to weaker loans growth in April 2016**

- Loans growth continued to slide in April 2016 with growth posted at 6.3% y-o-y vs. 6.4% y-o-y in March. The slight weakness in loans growth was underpinned by further moderation in business segment to 6.3% y-o-y vs. 6.5% y-o-y in March hampered by all sub-segments. Household loans held up at 6.3% y-o-y, unchanged from March supported from other purpose activity.
- Momentum for business loans continued to lose traction, registering a slower growth of 6.3% y-o-y in April vs. 6.5% y-o-y in March. Growth in working capital loans continued to slide to 8.2% y-o-y vs. 10.4% y-o-y in the previous month
- Loans in HH segment came in at disappointing level, with key sectors reported slower growth including 1) residential property 10.8% y-o-y vs. 13.4% y-o-y 2) non-residential property 7.7% y-o-y vs. 11.3% y-o-y.
- Key sectorial drivers for April loans growth include 1) real estate of 15% y-o-y 2) mining and quarrying of 12% y-o-y and 3) electric, gas and water supply of 12% 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 in steady pace, supporting overall loans growth in 2016.

Table 3: Industry Loans Growth

Purpose (RM billion)	Apr-16	Mar-16	Apr-15	M-o-M	Y-o-Y
Purchase of Securities	70,616	71,554	76,297	-1.3%	-7.4%
Transport Vehicle	168,481	168,760	167,750	-0.2%	0.4%
Of Which is Passenger Car	159,713	159,912	158,090	-0.1%	1.0%
Residential Property	450,480	447,130	406,642	0.7%	10.8%
Non-Residential Property	200,944	200,075	186,595	0.4%	7.7%
Other Fixed Assets	9,668	9,632	10,608	0.4%	-8.9%
Personal Use	64,372	64,037	60,269	0.5%	6.8%
Credit Card	35,009	34,965	34,584	0.1%	1.2%
Consumer Durables	141	142	770	-0.6%	-81.7%
Construction	43,830	44,140	39,884	-0.7%	9.9%
Working Capital	342,945	347,479	317,006	-1.3%	8.2%
Other Purpose	61,359	61,566	61,677	-0.3%	-0.5%
Total	1,447,844	1,449,480	1,362,081	-0.1%	6.3%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

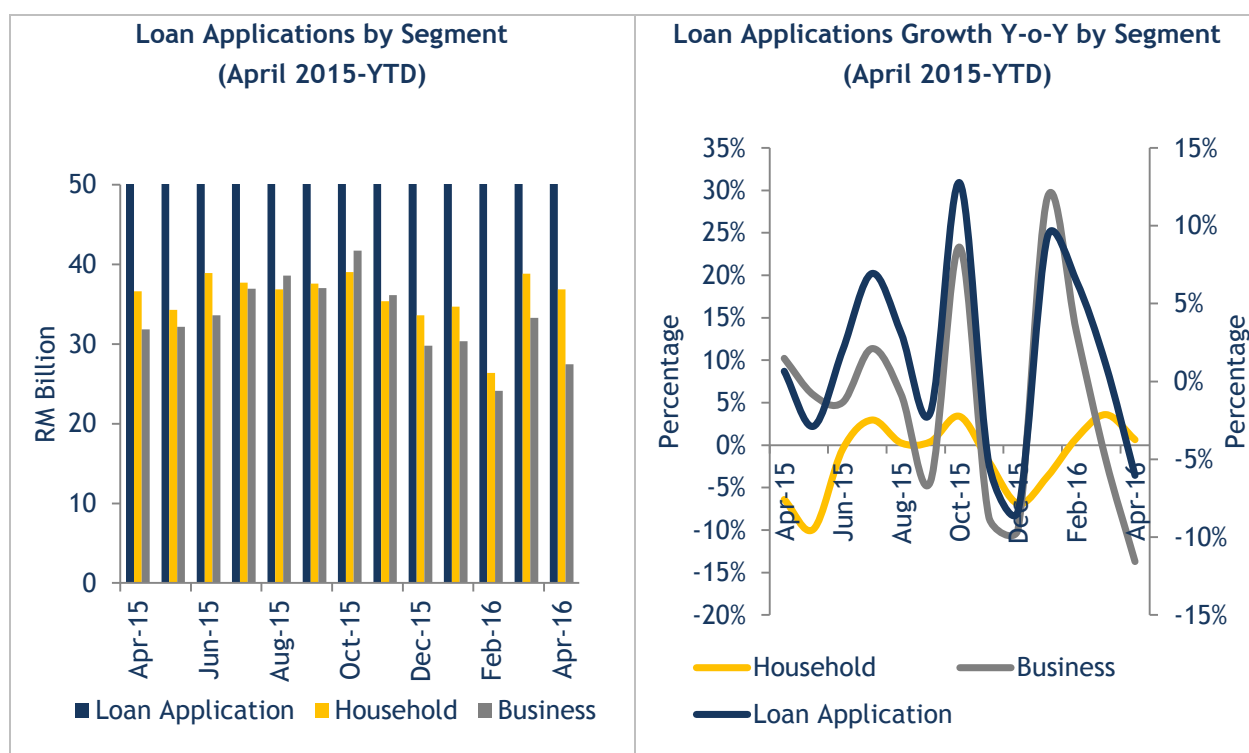
2. Loans Applications “Loans application weaker immensely”

- Loans applications weakened for 3 consecutive months by -6% y-o-y vs 1.1% y-o-y in March underpinned by hefty decline in business segment by 13.7% y-o-y vs. -1.7% y-o-y in March. derailed by key sectors 1) real estate of -41% y-o-y and construction of -22% y-o-y.
- HH segment application was heading south too with weakness shown in 1) residential property of -3% y-o-y vs. 6% y-o-y in March 2) personal use of 15% y-o-y vs. 30% y-o-y in March.
- 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 incentives given by the government for this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Apr-16	Mar-16	Apr-15	M-o-M	Y-o-Y
Purchase of Securities	1,900	2,637	2,895	-28%	-34%
Transport Vehicle	6,745	7,381	6,901	-9%	-2%
Of Which is Passenger Car	6,362	6,916	6,586	-8%	-3%
Residential Property	18,225	19,182	18,809	-5%	-3%
Non-Residential Property	6,348	6,802	10,042	-7%	-37%
Other Fixed Assets	505	309	730	64%	-31%
Personal Use	5,624	6,185	4,907	-9%	15%
Credit Card	3,890	3,791	2,595	3%	50%
Consumer Durables	1	1	17	-15%	-96%
Construction	1,551	3,476	3,896	-55%	-60%
Working Capital	14,873	19,082	15,227	-22%	-2%
Other Purpose	4,645	3,256	2,416	43%	92%
Total	64,307	72,103	68,435	-10.8%	-6.0%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

3. Loans Approval “Weakened Further”

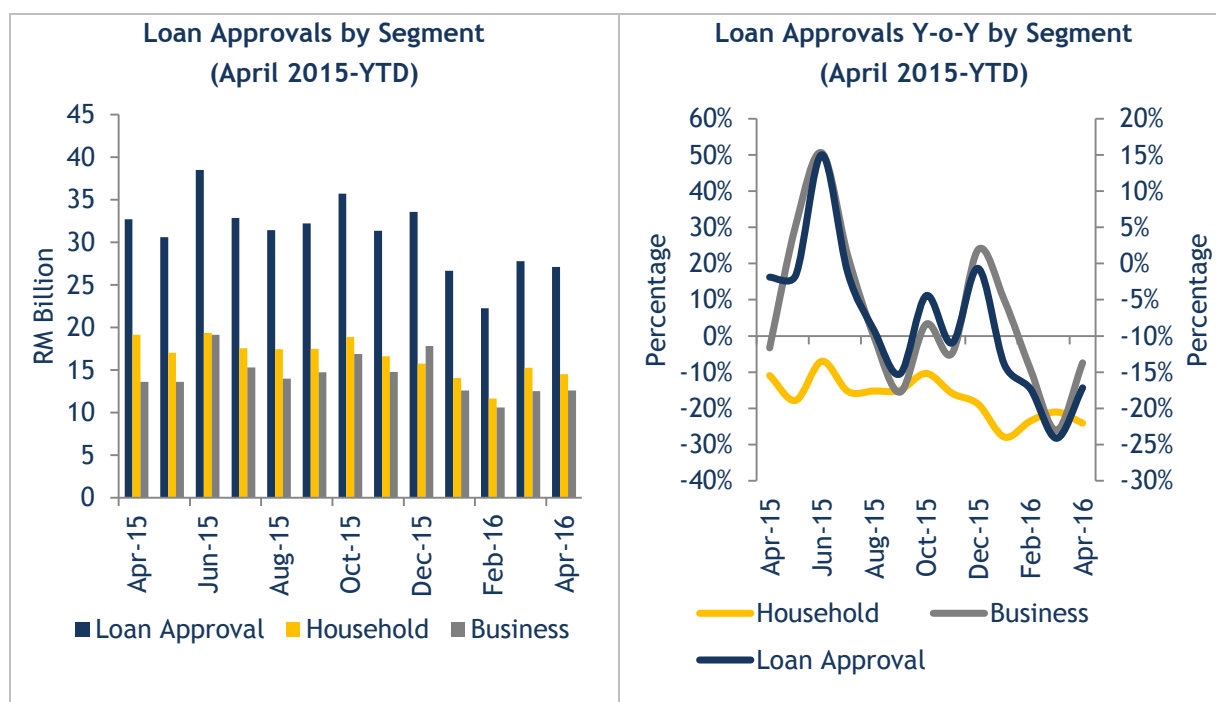
- Loans approval weakened further to 17.2% y-o-y vs. -24.1% in March following lower applications in March as banks tightened approvals and requirements to avoid higher default in current unexciting macro-economic situations.
- The disappointment was led by weak approval in both HH segment and business segment. HH segment posted a drop of 24% y-o-y vs. -21.0% y-o-y in March, caused by 1) purchase of residential property of -26% y-o-y 2) purchase of non- residential property of -42% y-o-y 3) personal use of -10% y-o-y

- Nevertheless, approvals rate passed back from 40% level to 42%. We deem that the approval rate could inch closer to 50% rate in 2016 as banks adjust with their customer credit profiling.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Apr-16	Mar-16	Apr-15	M-o-M	Y-o-Y
Purchase of Securities	1,374	1,305	1,817	5%	-24%
Transport Vehicle	3,483	3,465	4,155	1%	-16%
Of Which is Passenger Car	3,084	3,263	3,945	-5%	-22%
Residential Property	7,311	7,687	9,839	-5%	-26%
Non-Residential Property	2,331	3,420	3,988	-32%	-42%
Other Fixed Assets	258	177	364	46%	-29%
Personal Use	1,351	1,511	1,500	-11%	-10%
Credit Card	1,407	1,442	1,336	-2%	5%
Consumer Durables	0	0	7	-57%	-99%
Construction	1,052	318	2,353	231%	-55%
Working Capital	7,110	7,342	6,364	-3%	12%
Other Purpose	1,427	1,115	998	28%	43%
Total	27,104	27,781	32,721	-2.4%	-17.2%

Source: BNM, M&A Securities



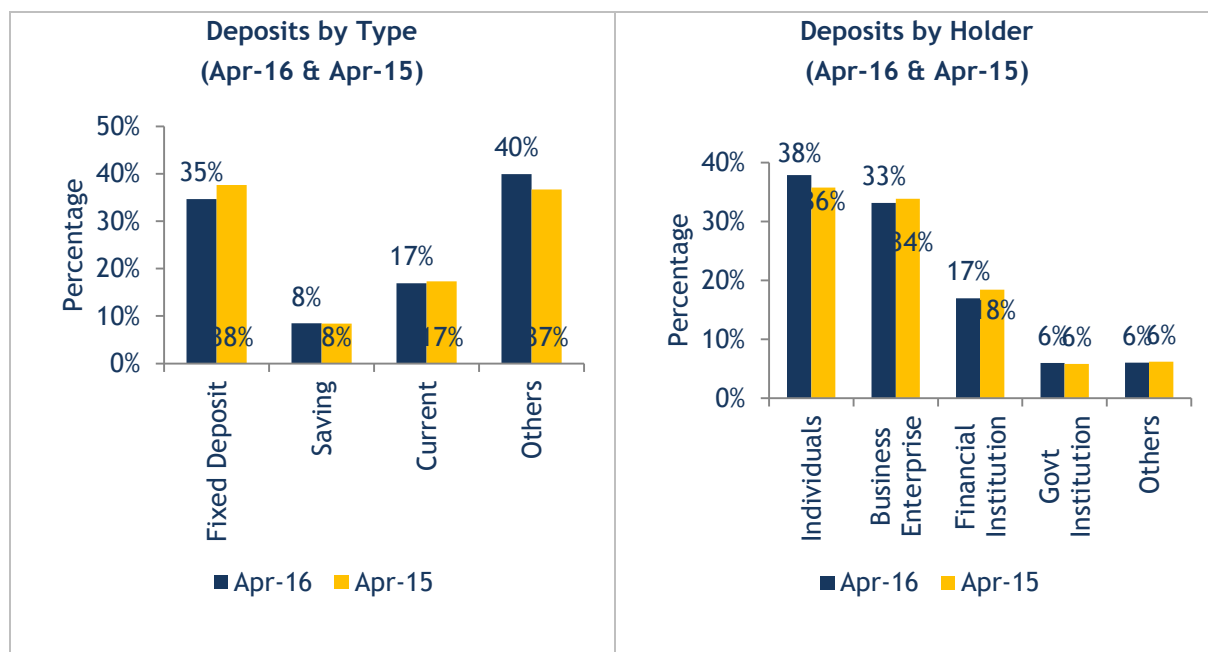
Source: BNM, M&A Securities

4. Deposits “continued negative for second months”

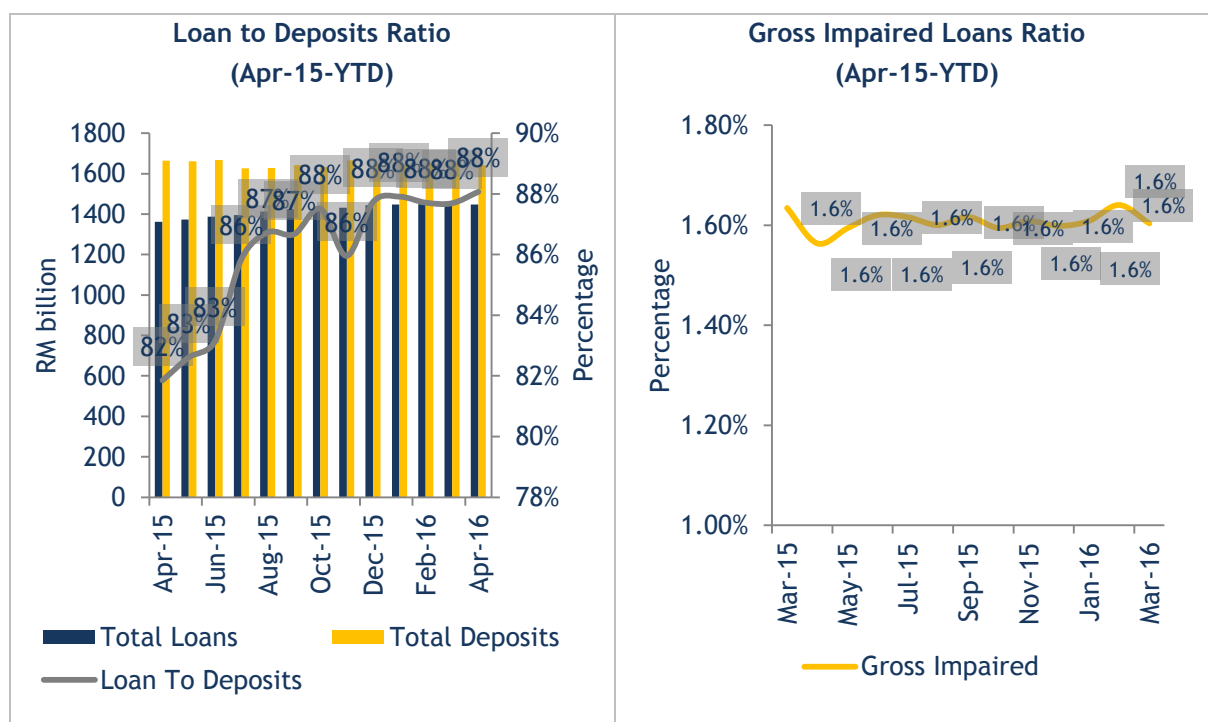
- Total deposits weakened for second consecutively month, recording a negative growth of 1.2% y-o-y vs. -1.0% y-o-y in March, a back-to-back negative growth rates we have not seen since 2013.
- The percentage of current account, savings account (CASA) and excess liquidity to total deposit base stood at 25.2% vs. 25.4% in March.

Sector Update: Banking April 2016 Statistics

- The industry's loan/deposit ratio (LDR) declined to 88.1% vs, 87.7% as banks kept loans flowing on the back of slower deposits and thus, showing tight liquidity in the market.



Source: BNM, M&A Securities



Source: BNM, M&A Securities

5. Gross impaired (GIL) “declining marginally”

Gross impaired ratio fell marginally to 1.61% after improving to 1.60% in March aided by GIL in HH segment. Given this, we believe banks will tighten its approval process and will be more selective in uncertain time.

6. Capital remains strong

Overall, capital ratios were stable in April, including the industry's CET1 ratio of 12.9%. Tier 1 fell 10 bps to 13.8% while total capital declined by 10bps 16.4%. Mostly banks saw their common equity tier 1 (CET1) ratio regressed. The drop is to increase their risk weighted asset from the previous quarter but overall the banks' CET1 ratio is still comfortably above the Basel III regulatory requirements of 7%. Basel III is expected to be enforced by 2019 and we believe no further capital raising exercise is required by the banks.

Conclusion and Recommendations

2016 may see banks report flat earnings due to the slowdown in macro-economic conditions that will set to influence banks performance. Among banking sector challenges include 1) flat loans growth 2) tight liquidity 3) margin compression 4) rising credit cost and 5) challenging macroeconomic conditions which may continue to plague the banking industry. Banking sector is **NEUTRAL** in 2016 with 2 banks emerge as our **Top Pick** namely Public Bank (TP: RM21.38) and BIMB Holdings (TP: RM4.28).

Table 6: Loans Growth Y-o-Y

Company	Year Ended	Sept-14	Dec-14	Mar-15	Jun-15	Sept-15	Dec-15	Mar-16
AFG	March	14.9%	16.3%	14.7%	12.5%	10.2%	8.5%	4.9%
AMMB	March	0.9%	0.7%	-1.6%	-2.2%	0.1%	-0.7%	0.1%
CIMB	Dec	9.3%	12.8%	12.5%	16.1%	19.3%	12.5%	7.1%
Maybank	Dec	13.8%	13.3%	14.2%	15.6%	20.1%	12.3%	5.7%
PBK	June	10.2%	10.8%	11.7%	11.5%	12.9%	11.6%	9.5%
RHB Cap	Dec	12.0%	17.0%	13.7%	9.2%	11.4%	6.3%	4.3%

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
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.06	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.40	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.80	Hold
BIMB	Dec	4.01	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.37	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	8.27	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Cap	Dec	6.17	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	6.20	Hold
Public Bank	Dec	19.14	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.24	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.14	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	3.86	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.40	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, 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.

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