

Banking Sector

(Neutral)

“Waiting Game for Budget 2017 Announcement”

Banking sector is a NEUTRAL as we expect loans growth to decelerate to 6.3% in 2016 vs. 8.4% in 2015. The catalyst for 2H16 includes 1) the award of various construction jobs that will support business loan 2) implementation of minimum wage that will support HH segment. 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 3) further OPR cut. Our Top Picks for banking sector are Public Bank (TP: RM21.38) and Maybank (TP: RM8.70).

Table 1: August 2016 Summary

Purpose (RM billion)	Aug-16	July-16	Aug-15	Y-o-Y	M-o-M	Comment
Loans growth	4.2%	5.1%	10.2%	↓	↓	Loans growth weakened by both household segment and business segment
Loans Application	-1.6%	-18.0%	3.1%	↓	↑	Plunged despite signals of recovery in June
Loans Approval	-0.2%	-19.4%	-9.2%	↑	↑	Cautious with the potential default, banks tightening credit approvals
Loan Disbursement	-6.0%	-11.0%	-2.4%	↓	↑	Lower approvals led to lower disbursement
Loan Approval Rate	42.4%	43.3%	41.6%	↑	↑	Expect to slow down due to declining HH application
Gross Impaired Loan	1.66%	1.68%	1.60%	↓	↑	At healthy level due to stringent requirement on loans selection
Deposits Growth	0.7%	0.7%	4.6%	↓	↑	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	89.7%	89.6%	86.7%	↓	↓	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.46%	4.52%	4.51%	↓	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	16.8%	16.9%	15.4%	↑	↓	Well prepared for the Basel III requirements
- CET-1	13.4%	13.3%	13.3%			
- Tier-1	14.3%	14.3%	12.5%			

Source: BNM, M&A Securities

Summary August 2016 Banking Statistics

- Loans growth decelerated further to 4.2% y-o-y vs. 5.1% y-o-y in July.
- Loan application was assisted by steady application in HH segment which grew 10.4% y-o-y vs. 14.1% y-o-y in July whilst business segment was still weak at -13.1% vs. -22% y-o-y in July.
- Loan approvals grew 0.2% y-o-y vs. -19.4% y-o-y in July, supported from strong recovery in both the HH and business segment.
- Deposits growth were unchanged at 0.7% y-o-y given the easing of deposits competition due to the rate cut.

### Our View Loans Growth Outlook in 2016

- We expect soft September figures given the waiting game ahead of Budget 2017 announcement
- Expect recovery in HH segment given the cut in OPR will kick start consumer spending.
- We expect business segment performance will get spurred after the Budget 2017 announcement.
- Improving liquidity position given the slowdown in deposits competitions.
- For 2016, we expect slower loans growth of 6.8% y-o-y assisted by i) financing from business segment benefiting from the splurge of 1) steady financing from construction segment 2) continuous SME financing as economy driver 3) the implementation of minimum wages in 1<sup>st</sup> July 2016

Table 2: Y-o-Y Growth by segment

Purpose (RM billion)	Household			Business		
	Aug-16	July-16	Aug-15	Aug-16	July-16	Aug-15
Loans Growth	5.7%	5.8%	8.3%	2.2%	4.3%	12.9%
Loans Application	10.4%	-14.1%	0.3%	-13.1%	-22.0%	6.0%
Loans Approval	-0.9%	-20.8%	-15.0%	1.5%	-17.8%	-0.2%
Loans Disbursement	5.0%	-11.5%	-3.9%	-10.0%	-10.8%	-1.8%

Source: BNM, M&A Securities

### Analysis of Banking Sector Operational Metrics

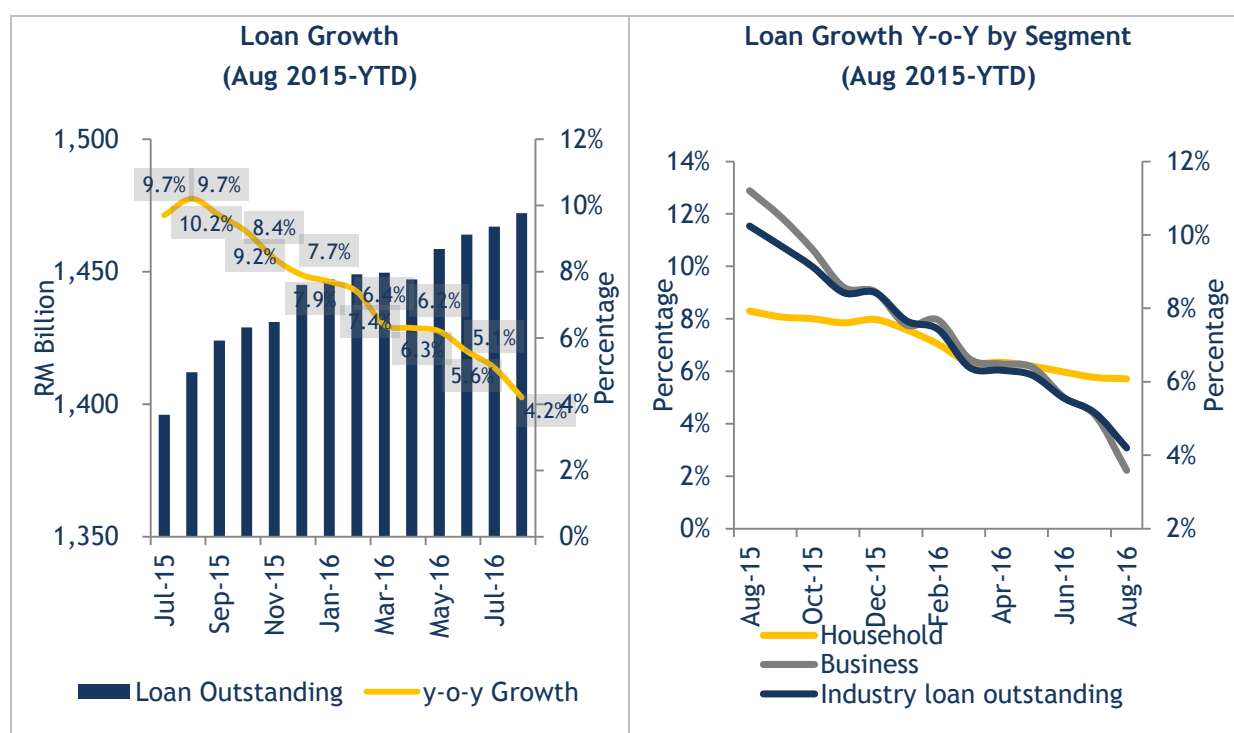
#### 1. Industry loan growth continues to slow

- Continued lethargic performance for consecutive 12 months with immense quantum of deceleration. Loans growth decelerated further to 4.2% y-o-y vs. 5.1% y-o-y in July. The deceleration was contributed by weakening business segment that slowed immensely to 2.2% y-o-y vs. 4.3% y-o-y in July. Nevertheless, HH segment held up steadily at 5.7% y-o-y vs. 5.8% y-o-y in July.
- In the HH segment, the slowdowns were felt across segment albeit in marginal figure, however, we noticed residential property was still supporting the HH segment at 10.1% y-o-y, unchanged from July figure.
- In the business segment, the notable let-downs were real estate (+12% y-o-y vs 16% y-o-y in July), construction (+5% y-o-y vs. 9% y-o-y in July), and primary agriculture (-1% y-o-y vs. +5% y-o-y in July).
- Approaching end of 2016, we are less positive that loans growth will achieve our target of 6.3% y-o-y, however we expect a slight pickup in the both HH and business segment. In the HH segment, we are positive that the rate cut by BNM will assist HH segment to recover and we are maintaining our stance that the spurring of construction jobs will help business segment to recover.

Table 3: Industry Loans Growth

Purpose (RM billion)	Aug-16	July-16	Aug-15	M-o-M	Y-o-Y
Purchase of Securities	70,219	70,253	74,494	0.0%	-5.7%
Transport Vehicle	168,292	168,254	169,216	0.0%	-0.5%
Of Which is Passenger Car	159,393	159,271	159,831	0.1%	-0.3%
Residential Property	463,614	460,169	421,153	0.7%	10.1%
Non-Residential Property	204,219	203,793	192,179	0.2%	6.3%
Other Fixed Assets	9,802	9,842	10,908	-0.4%	-10.1%
Personal Use	65,144	64,820	62,359	0.5%	4.5%
Credit Card	35,397	35,285	34,845	0.3%	1.6%
Consumer Durables	138	138	149	-0.2%	-7.4%
Construction	44,611	44,362	40,565	0.6%	10.0%
Working Capital	346,855	346,426	341,573	0.1%	1.5%
Other Purpose	63,810	63,947	65,346	-0.2%	-2.4%
<b>Total</b>	<b>1,472,100</b>	<b>1,467,289</b>	<b>1,412,787</b>	<b>0.3%</b>	<b>4.2%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

## 2. Loans Applications “responded strongly”

- Loans applications recovered though it is still weak. Loan application was assisted by application in HH segment which grew 10.4% y-o-y vs. 14.1% y-o-y in July whilst business segment still weak at -13.1% vs. -22% y-o-y in July.
- HH segment was assisted from the growth in purchase of securities (+59% y-o-y vs +19% in July), transport vehicle (+6% y-o-y vs. -28% y-o-y in July) and residential property (+13% y-o-y vs. -12% y-o-y in July).
- Moving forward, we expect marginal recovery in business segment application in September given the waiting game ahead of Budget 2017 announcement.

Research Team

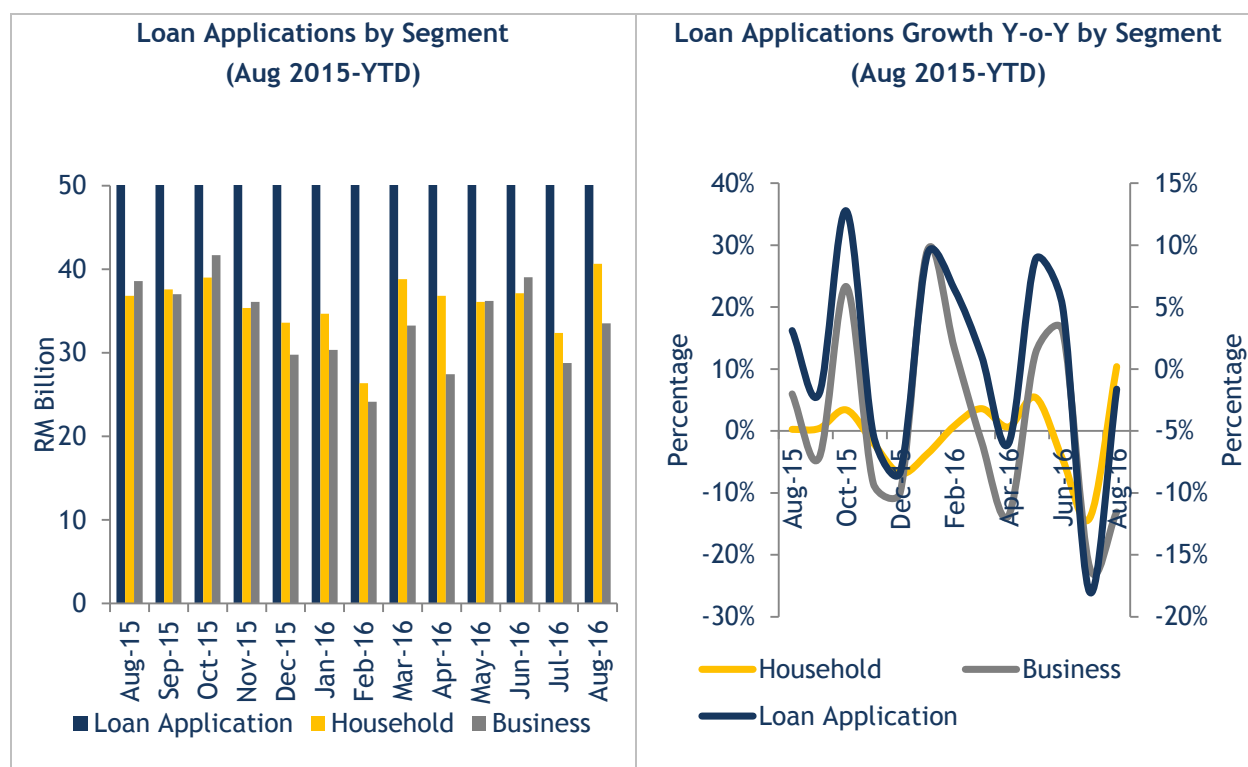
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Table 5: Industry Loan Applications

Purpose (RM billion)	Aug-16	July-16	Aug-15	M-o-M	Y-o-Y
Purchase of Securities	2,906	1,975	1,831	47%	59%
Transport Vehicle	7,409	5,710	6,995	30%	6%
Of Which is Passenger Car	7,096	5,468	6,675	30%	6%
Residential Property	20,620	16,468	18,298	25%	13%
Non-Residential Property	8,034	6,877	7,385	17%	9%
Other Fixed Assets	1,004	490	290	105%	246%
Personal Use	5,546	4,371	5,919	27%	-6%
Credit Card	4,274	3,802	3,241	12%	32%
Consumer Durables	0	0	0	819%	10%
Construction	2,920	3,293	3,668	-11%	-20%
Working Capital	17,407	16,088	25,031	8%	-30%
Other Purpose	4,087	2,121	2,781	93%	47%
<b>Total</b>	<b>74,209</b>	<b>61,195</b>	<b>75,438</b>	<b>21.3%</b>	<b>-1.6%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

### 3. Loans Approval “responded strongly”

- Loans approval followed encouraging application in August as approvals recovered into positive territory pursuant to two consecutive negative approvals. Loan approvals grew 0.2% y-o-y vs. -19.4% y-o-y in July, supported from strong recovery in both HH and business segment.

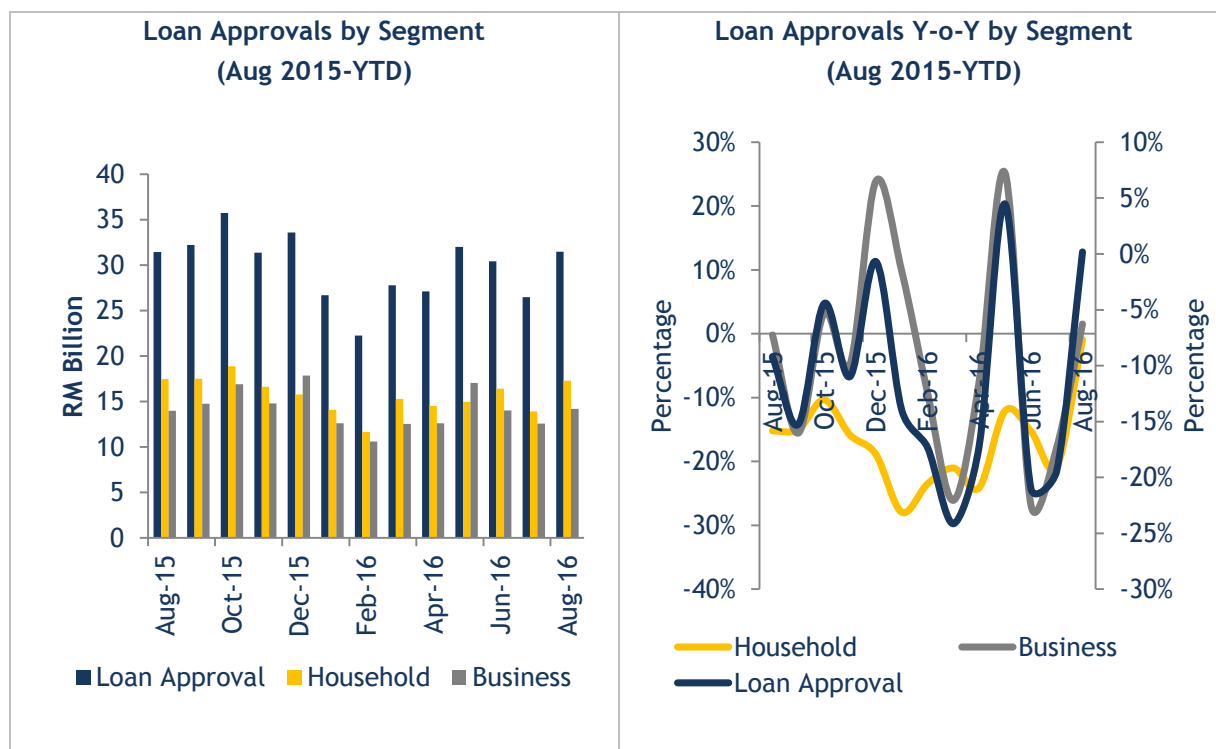
## Sector Update: Banking August 2016 Statistics

- In HH segment, it was supported from the strong recovery in purchase of securities (+35% y-o-y vs. -19% y-o-y in July), transport vehicle (+1% y-o-y vs. -25% y-o-y in July) and personal use (+6% y-o-y vs. -20% y-o-y in July.)
- For business segment, the key sectors were manufacturing (+38% y-o-y vs. -1% y-o-y in July) and construction (+53% y-o-y vs. 7% y-o-y in July).
- Approvals rate stayed above 40% for 2 consecutive months at 42.4%.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Aug-16	July-16	Aug-15	M-o-M	Y-o-Y
Purchase of Securities	1,644	953	1,221	73%	35%
Transport Vehicle	3,934	3,259	3,882	21%	1%
Of Which is Passenger Car	3,763	3,103	3,714	21%	1%
Residential Property	8,624	7,032	8,895	23%	-3%
Non-Residential Property	2,652	3,419	3,011	-22%	-12%
Other Fixed Assets	371	241	149	54%	149%
Personal Use	1,671	1,137	1,577	47%	6%
Credit Card	1,619	1,386	1,413	17%	15%
Consumer Durables	8	0	0	13853%	4771%
Construction	2,198	1,180	1,620	86%	36%
Working Capital	7,191	7,190	7,792	0%	-8%
Other Purpose	1,562	680	1,857	130%	-16%
<b>Total</b>	<b>31,474</b>	<b>26,476</b>	<b>31,418</b>	<b>18.9%</b>	<b>0.2%</b>

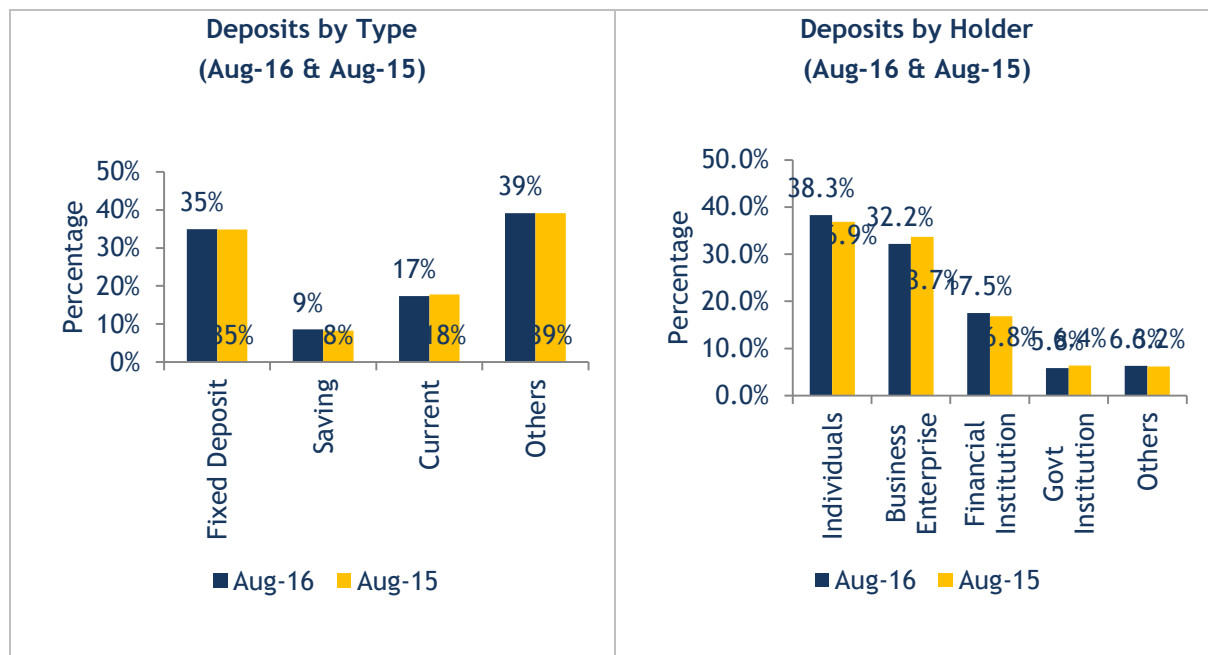
Source: BNM, M&amp;A Securities



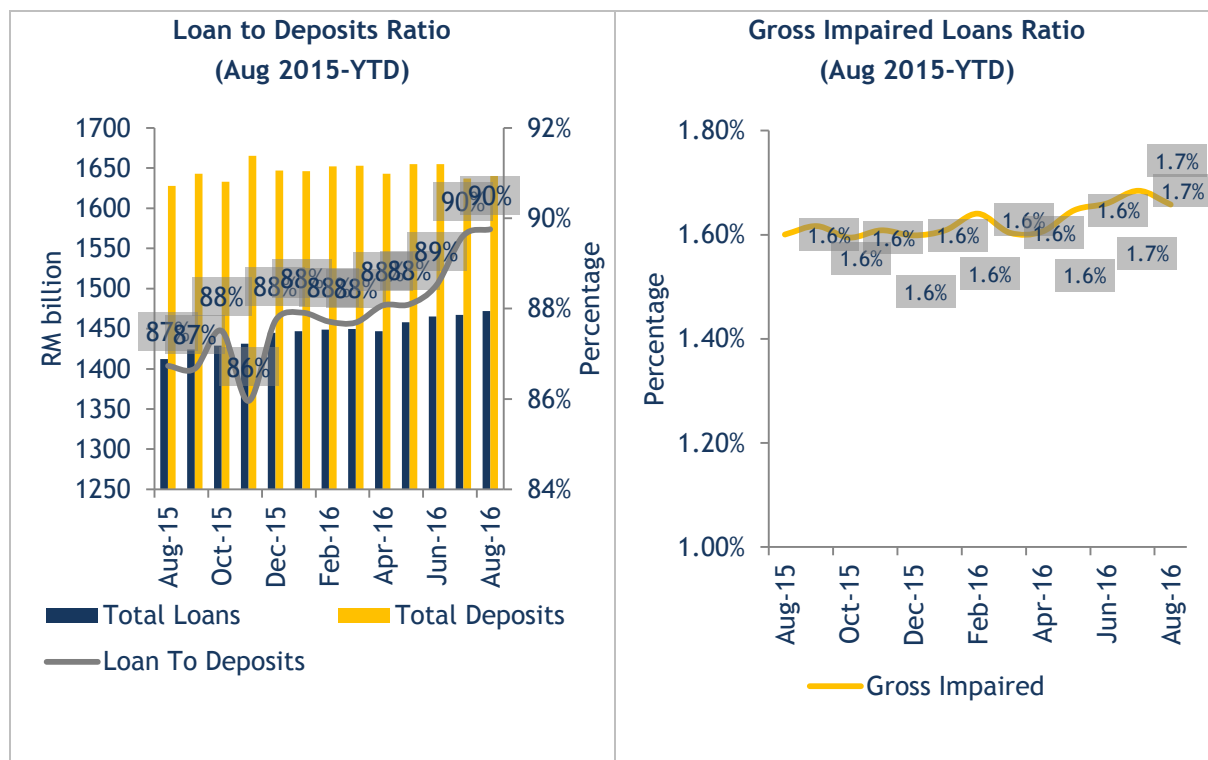
Source: BNM, M&amp;A Securities

#### 4. Deposits growth “unchanged at 0.7%”

- Deposits growth was unchanged at 0.7% y-o-y given the easing of deposits competition due to the rate cut. Growth was underpinned from individual segment that grew to 39% vs. 38.2% in July.
- The industry’s loan/deposit ratio (LDR) weakened marginally to 89.7% vs. 89.6%, however the situation of tight liquidity remained in the market.



Source: BNM, M&A Securities



Source: BNM, M&A Securities

### 5. Gross impaired (GIL) “improving”

Gross impaired loans improved to 1.66% vs. 1.68% in July. We deem the ratio as comfortable given banks reduction of large provision as well as the restructuring of R&R accounts that will be restructured.

### 6. Capital remains strong

Overall, the industry’s capital ratio in August is still comfortable as CET1, Tier-1 capital and total capital seems improving. CET1 rose 1bps to 13.4%, Tier-1 unchanged at 14.3% and total capital fell 1bps to 16.8%.

### 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 Maybank (TP: RM8.70).

Table 6: Loans Growth Y-o-Y

Company	Year Ended	Sept-14	Dec-14	Mar-15	Jun-15	Sept-15	Dec-15	Mar-16	June-16
AFG	March	14.9%	16.3%	14.7%	12.5%	10.2%	8.5%	4.9%	3.0%
AMMB	March	0.9%	0.7%	-1.6%	-2.2%	0.1%	-0.7%	0.1%	1.5%
CIMB	Dec	9.3%	12.8%	12.5%	16.1%	19.3%	12.5%	7.1%	6.6%
Maybank	Dec	13.8%	13.3%	14.2%	15.6%	20.1%	12.3%	5.7%	4.3%
PBK	June	10.2%	10.8%	11.7%	11.5%	12.9%	11.6%	9.5%	7.3%
RHB Cap	Dec	12.0%	17.0%	13.7%	9.2%	11.4%	6.3%	4.3%	4.8%

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	3.67	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.06	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.45	Hold
BIMB	Dec	4.29	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Hold
CIMB	Dec	4.76	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	7.60	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	8.70	Buy
RHB Bank	Dec	4.60	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	4.90	Hold
Public Bank	Dec	19.96	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.19	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	0.92	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.29	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.16	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

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# 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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