

## Banking Sector

(Neutral)

“Pointing towards softer 2016”

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 9.1%, broadly in line with our expectation. Driver to the banking sector loans growth 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: November 2015 Summary

Purpose (RM billion)	Nov-15	Oct-15	Nov-14	Y-o-Y	M-o-M	Comment
Loans growth	8.4%	9.1%	9.3%	↓	↓	Loans growth weakened by household and business segment
Loans Application	-5.3%	12.8%	0%	↓	↓	GST bite consumer away, making consumer cautious
Loans Approval	-11.0%	-4.4%	10.8%	↓	↓	Banks are now cautious with new R&R measures introduced
Loan Disbursement	-2.8%	-7.5%	9.8%	↓	↑	Cautious approach in view of Budget 2016
Loan Approval Rate	43.9%	44.3%	46.6%	↓	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.61%	1.59%	1.71%	↑	↓	At healthy level due to stringent requirement loans selection
Deposits Growth	3.8%	2.7%	7.1%	↓	↑	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	86.0%	87.5%	82.3%	↓	↑	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.53%	4.54%	4.65%	↓	↓	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio				↑	↓	
- Total Capital	15.5%	15.4%	15.3%			
- CET-1	12.4%	12.3%	12.9%			
- Tier-1	13.3%	13.3%	13.6%			
						Well prepared for the Basel III requirements

Source: BNM, M&A Securities

### Summary November 2015 Banking Statistics

- Loans growth weakened to 8.4% y-o-y vs. 9.1% y-o-y in October hampered by slower loans growth in both the household (HH) and business segments.
- Loans application positive momentum was not sustained, turning negative in November by 5.3% y-o-y vs. 12.8% y-o-y in October.
- Loans approval continued with poor showing, weakening to -11% y-o-y vs. -4% y-o-y in October
- Deposits jumped marginally to 3.8% y-o-y, however it still lagged deposit growth, loan-to-deposits eased to 86.6% vs. 87.5% in October.
- Gross impaired weakened by 3bps 1.62% in November but still at healthy level.

### Our View Loans Growth Outlook in 2015

- We expect a tough operating environment for banking sector in 2015/16 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		
	Nov-15	Oct-15	Nov-14	Nov-15	Oct-15	Nov-14
Loans Growth	7.8%	8.0%	10.6%	9.2%	10.7%	7.6%
Loans Application	-1.9%	3.4%	-14.5%	-8.5%	23.3%	18.5%
Loans Approval	-15.9%	-10.3%	-5.2%	-4.8%	3.2%	41.2%
Loans Disbursement	1.1%	-1.0%	-3.0%	-4.3%	-9.8%	15.7%

Source: BNM, M&A Securities

### Analysis of Banking Sector Operational Metrics

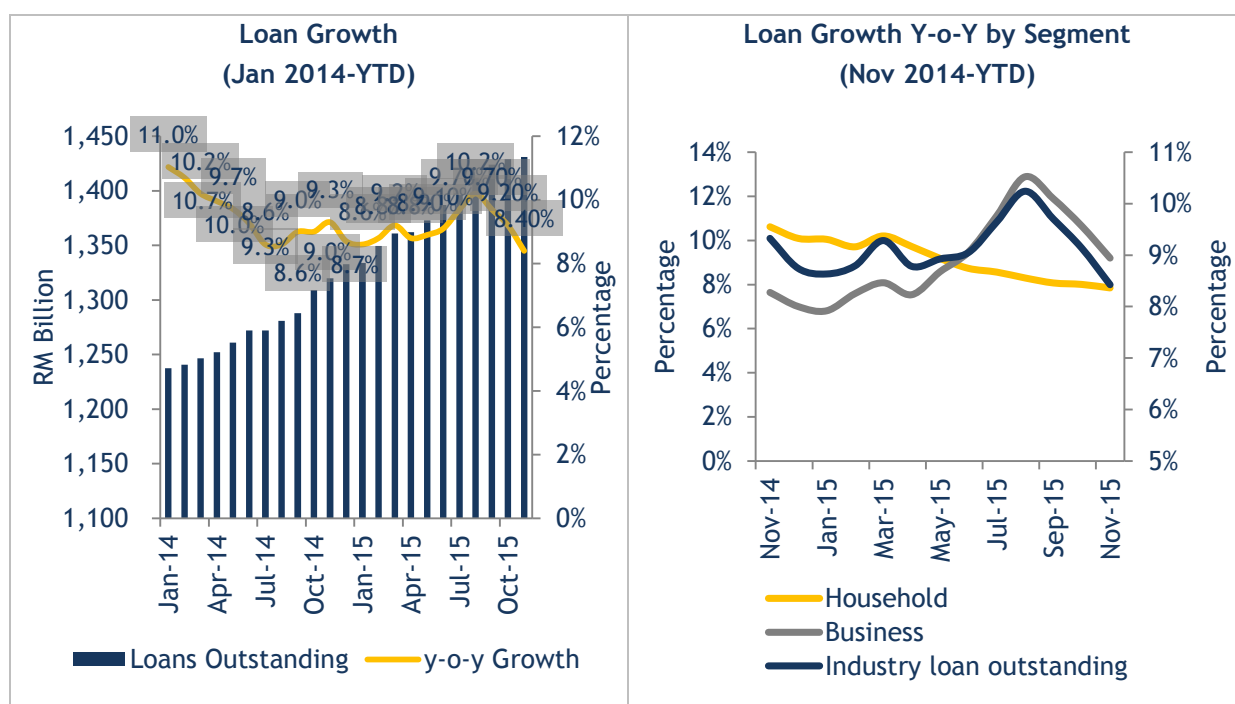
#### 1. Loans Growth weaken for 3 consecutive months.

- Banking system loans growth continued to record slower growth after it peaked in August. Loans growth grew at 8.4% y-o-y vs. 9.1% y-o-y in October. The slower growth was underpinned by continuing weaknesses in business segment and household segment respectively.
- Business loans decelerated for 3 consecutive months from August at 9.2% y-o-y vs. 10.7% y-o-y in October. We believe the slow-down in business segment was mainly driven by cautious stance adopted by business community as a result of Budget 2016 announcement.
- Loans to household (HH) segment continued to grow at softer rate for 9 consecutive months of 7.8% y-o-y vs. 8.0% y-o-y in October. Purchase of securities (-2.5% y-o-y vs. -1.6% y-o-y October) was the culprit contributing to the HH weakness in November.
- Key sectorial drivers for November loans growth include i) mining by 54% y-o-y ii) agriculture by 21% y-o-y iii) real estate by 16% 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 2015/16.

Table 3: Industry Loans Growth

Purpose (RM billion)	Nov-15	Oct-15	Nov-14	M-o-M	Y-o-Y
Purchase of Securities	74,744	74,813	76,630	0%	-2.5%
Transport Vehicle	169,692	169,526	165,649	0%	2.4%
Of Which is Passenger Car	160,467	160,233	156,151	0%	2.8%
Residential Property	432,836	429,006	385,762	1%	12.2%
Non-Residential Property	195,825	196,115	175,226	0%	11.8%
Other Fixed Assets	10,226	10,624	10,578	-4%	-3.3%
Personal Use	63,402	62,880	60,312	1%	5.1%
Credit Card	35,344	34,745	35,270	2%	0.2%
Consumer Durables	144	143	603	0%	-76.2%
Construction	42,376	41,513	38,655	2%	9.6%
Working Capital	343,963	345,454	307,191	0%	12.0%
Other Purpose	62,870	64,386	64,318	-2%	-2.3%
<b>Total</b>	<b>1,431,421</b>	<b>1,429,206</b>	<b>1,320,195</b>	<b>0%</b>	<b>8.4%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

## 2. Loans Applications “Loans application weakened immensely”

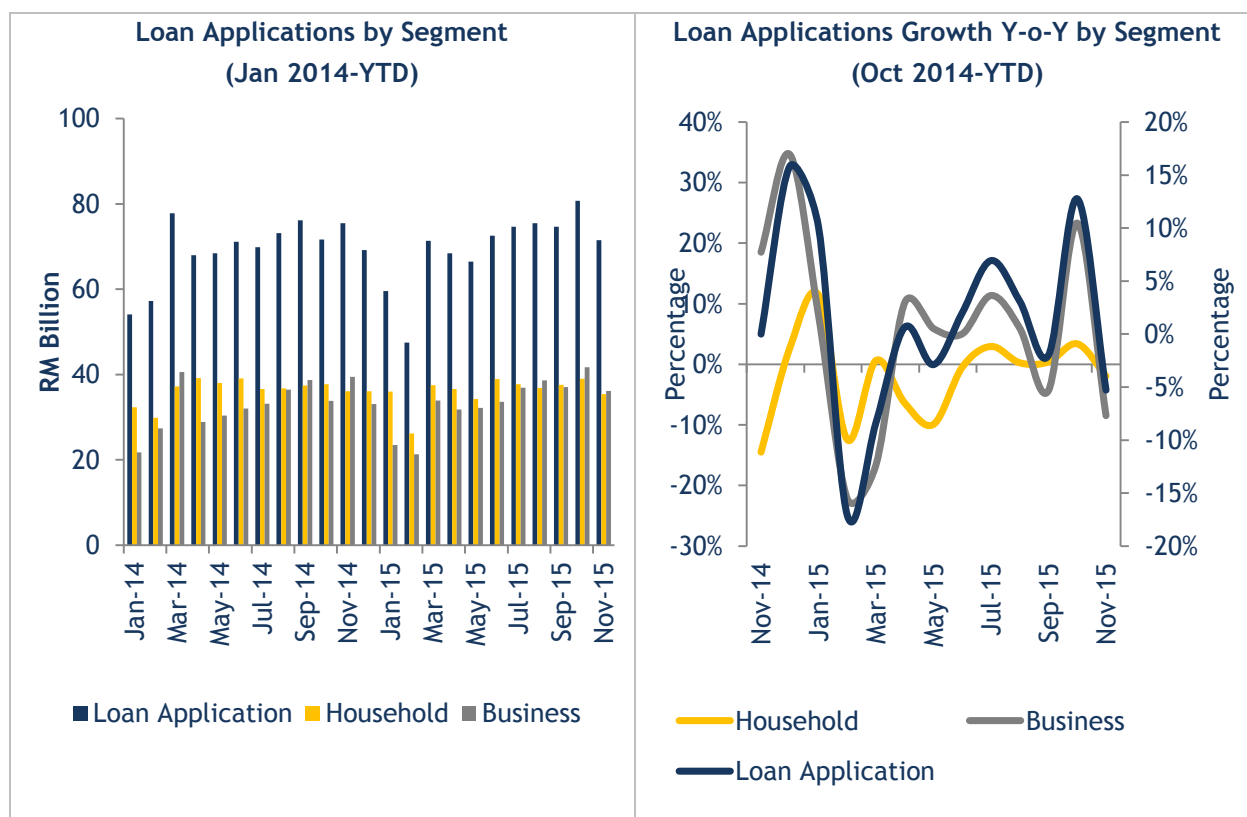
- Loans applications turned to negative in November after it recovered strongly in October. Loans application fell to -5.3% y-o-y vs. 12.8% y-o-y in October caused by weakening in business segment by -8.5% y-o-y vs. 23.3% in October.
- On HH segment, loans application dropped in negative territory for the first time in four month by -1.9% y-o-y vs. 3.4% y-o-y in October. Among loans purpose in HH segment that dragged down growth were purchase of securities by -49% y-o-y and purchase of residential property -13% 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)	Nov-15	Oct-15	Nov-14	M-o-M	Y-o-Y
Purchase of Securities	2,455	2,335	4,777	5%	-49%
Transport Vehicle	8,086	7,825	6,839	3%	18%
Of Which is Passenger Car	7,334	7,518	6,503	-2%	13%
Residential Property	16,016	18,161	18,438	-12%	-13%
Non-Residential Property	6,199	7,029	8,882	-12%	-30%
Other Fixed Assets	927	433	595	114%	56%
Personal Use	5,895	6,605	4,415	-11%	34%
Credit Card	3,239	3,722	2,008	-13%	61%
Consumer Durables	12	0	11	3290%	11%
Construction	2,802	2,960	2,910	-5%	-4%
Working Capital	22,657	22,004	20,843	3%	9%
Other Purpose	3,222	9,665	5,834	-67%	-45%
<b>Total</b>	<b>71,509</b>	<b>80,739</b>	<b>75,554</b>	<b>-11.4%</b>	<b>-5.4%</b>

Source: BNM, M&amp;A Securities



Source: BNM, M&amp;A Securities

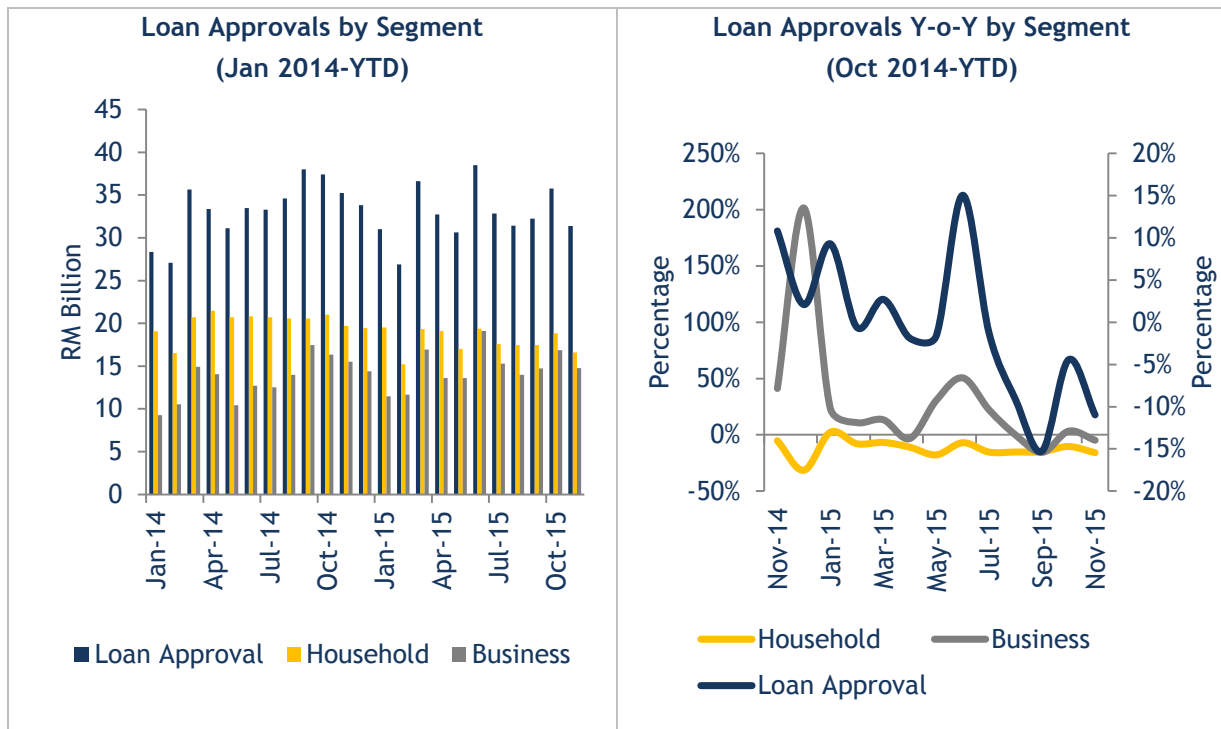
### 3. Loans Approval “Disappointing performance”

- Loans approval turned negative for 5 consecutive months, as banks tightened approval at the back of new restructures and reschedules (R&R) measures by BNM.
- Loans approval plunged to 11% y-o-y vs. -4.4% y-o-y in October. The weak approval was contributed by HH loans after approval dipped 15.9% y-o-y vs. -10.3% y-o-y in October. Business loans approval dipped to 4.8% y-o-y vs. 3.2% y-o-y in October. Nevertheless, approvals rate recovered to 44.3% vs. 43.3% in September.
- Elsewhere, loans disbursements dipped by 2.8% vs. -7.5% y-o-y in October due to lower disbursement in business loans that dropped by 4.3% y-o-y vs. 9.8% y-o-y in October.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Nov-15	Oct-15	Nov-14	M-o-M	Y-o-Y
Purchase of Securities	1,499	1,872	2,300	-20%	-35%
Transport Vehicle	3,909	4,150	3,773	-6%	4%
Of Which is Passenger Car	3,737	3,974	3,596	-6%	4%
Residential Property	7,937	8,890	10,166	-11%	-22%
Non-Residential Property	2,249	3,135	4,067	-28%	-45%
Other Fixed Assets	517	277	850	87%	-39%
Personal Use	1,757	1,825	1,401	-4%	25%
Credit Card	1,378	1,653	1,259	-17%	10%
Consumer Durables	0	0	7	-3%	-100%
Construction	669	2,013	989	-67%	-32%
Working Capital	8,208	9,160	7,498	-10%	9%
Other Purpose	3,244	2,767	2,925	17%	11%
Total	31,366	35,741	35,234	-12%	-11%

Source: BNM, M&A Securities

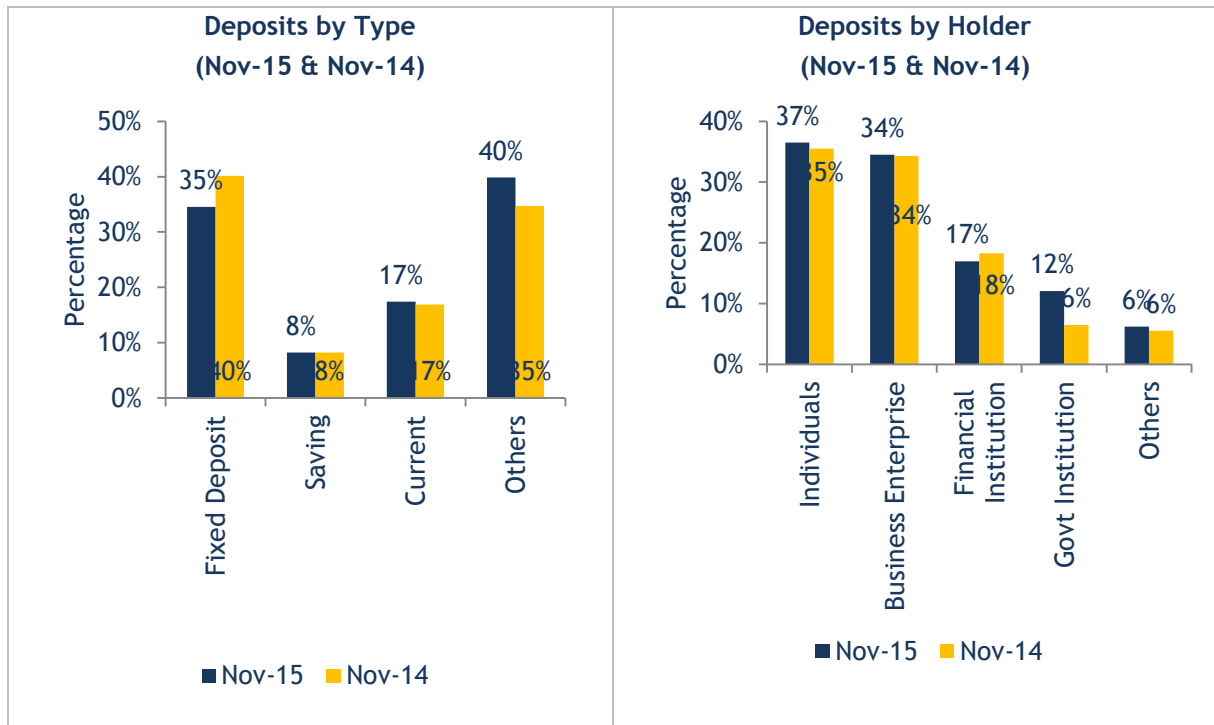


Source: BNM, M&A Securities

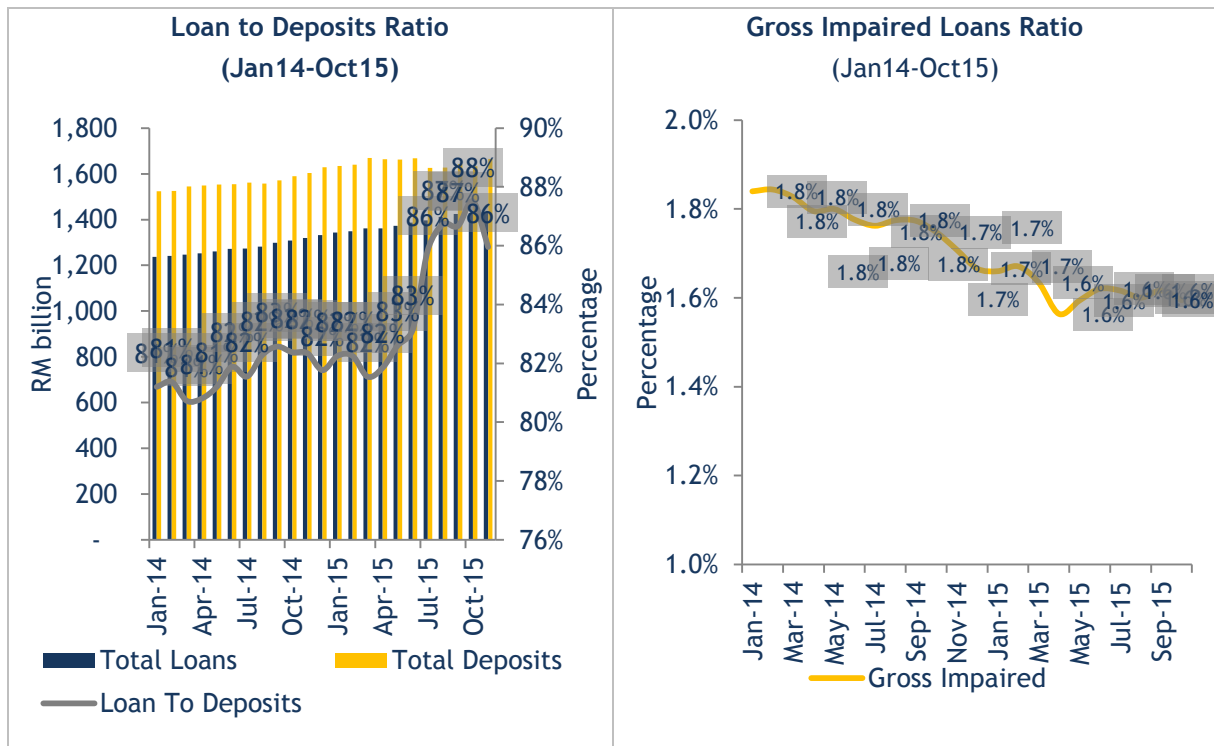
#### 4. Deposits “improved marginally”

- Deposits growth recovered to 3.8% y-o-y vs. 2.7% y-o-y in October. The growth was led by rising competition that managed to grow banks total 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) improved marginally to 86% vs. 87.5% in October as banks kept loans flowing on the back of slower deposits and thus, showing tight liquidity in the market.

## Sector Update: Banking November 2015 Statistics



Source: BNM, M&A Securities



Source: BNM, M&A Securities

## 5. Gross impaired (GIL) “Weakened marginally”

Gross impaired weakening by 3bps to 1.62% vs. all-time-low of 1.59% in October. 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 November including the industry’s CET1 ratio of 12.4%. Similar situations happened to Tier 1 given a rate of 13.3% while total capital rising jumped to 15.5%

## Conclusion and Recommendations

2015/16 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

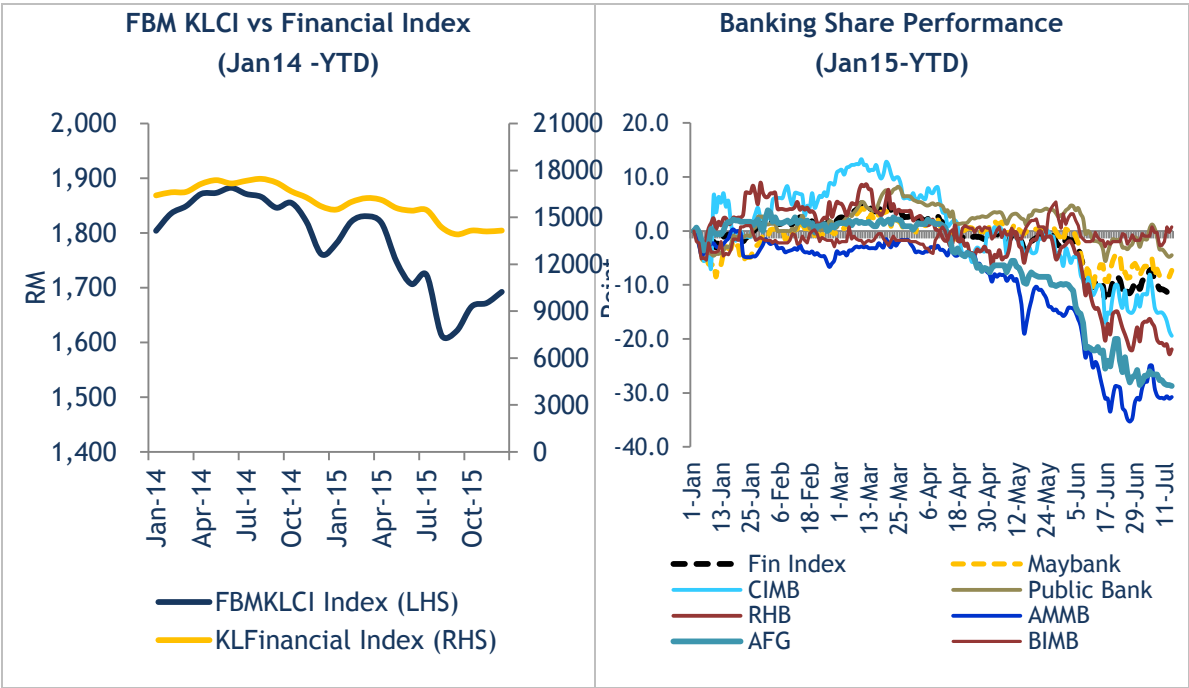
Company	Year Ended	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	Sept-15	Mgt Guidance
AFG	March	14.1%	15.2%	15.5%	16.2%	14.7%	12.5%	10.2%	11%-12%
AMMB	March	5.3%	1.5%	0.9%	-2.1%	1.6%	-2.2%	0.3%	7.0%
CIMB	Dec	11.9%	8.1%	9.8%	13.2%	12.4%	16.1%	10.7%	14.0%
Maybank	Dec	13.5%	12.6%	14.3%	13.4%	14.3%	15.6%	8.7%	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	3.48	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	4.00	Hold
AMMB	Mac	4.50	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	4.90	Hold
BIMB	Dec	3.81	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.60	Buy
CIMB	Dec	4.42	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	4.90	Hold
Maybank	Dec	8.20	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	9.92	Buy
RHB Cap	Dec	5.57	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	6.15	Hold
Public Bank	Dec	18.28	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	19.14	Hold
Affin	Dec	2.24	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.43	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.81	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	Jun	13.06	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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