

# Malaysia Banking

# NEUTRAL (Unchanged)

## A pick-up in Aug loan growth

- Annualized Aug 2015 industry loan growth surprised with a faster pace of 8.2% vs 7.2% in July.
- Growth in working capital lines positive, but bears further monitoring for trend sustainability.
- NEUTRAL on the sector; BUY BIMB, HL Bank, HLFG.

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### What's New

The industry's annualized loan growth in Aug 2015 surprised with a pick-up to 8.2% from 7.2% in Jul. While annualized household (HH) loan growth continued to moderate (to 7.5% from 7.6% in July), non-HH loans jumped 9.1% in Aug 2015 from 6.8% in Jul, with working capital (WC) loans leading the way.

Loan applications rose 4.5% YoY on a 3-month moving average (3M MA) basis, led yet again by higher WC, personal loans and credit card applications. However, approval rates for the latter two continue to fall, reflecting banks' increasing cautiousness. Loan applications continued to contract YoY for mortgages, non-residential property and auto.

Having contracted MYR40.6b MoM in Jul, industry deposits were stable MoM in Aug, but financial institution deposits continued to fall. Deposit growth was a subdued 5.1% YoY and as a result, the industry's loan/deposit ratio breached 90%, to 90.4%.

NPLs rose 1% YoY in Aug and the NPL ratio was a stable 1.6%. Absolute NPLs for mortgages, non-residential property, credit cards, personal loans and construction, however, have continued to rise YoY, mitigated by declining auto and working capital NPLs.

### What's Our View

While we are encouraged by rising working capital loan demand, anecdotal evidence suggests that this may have been due in part to factors such as tighter cashflows caused by delayed GST refunds and rising input costs from a weaker MYR. Positively, though, WC asset quality continues to improve with an NPL ratio of 2.3% end-Aug 2015. We maintain our BUY calls on BIMB, HL Bank and HLFG.

#### Banking sector - Peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY15E	PER (x) CY16E	P/B (x) CY15E	P/B (x) CY16E	ROAE (%) CY15E	ROAE (%) CY16E	Net yield CY15E	Net yield CY16E
AFG	HOLD	3.35	5,186	4.00	9.6	9.3	1.1	1.0	11.7	11.2	4.6	4.7
AMMB	HOLD	4.56	13,745	5.50	8.7	8.8	0.9	0.9	11.4	10.2	5.7	5.7
CIMB	HOLD	4.46	37,864	5.60	11.1	8.9	1.0	0.9	7.5	10.5	3.6	4.5
HL Bank	BUY	13.12	23,600	15.20	10.4	10.1	1.4	1.3	13.7	13.1	3.2	3.3
Maybank *	NR	8.56	81,656	NR	11.9	12.1	1.4	1.3	12.1	11.1	6.7	6.4
Public Bank	HOLD	17.52	67,653	19.50	14.1	13.1	2.3	2.1	16.9	16.9	3.3	3.5
RHB Cap	HOLD	5.95	15,401	7.00	8.8	8.4	0.7	0.7	9.4	8.2	1.0	1.0
Simple avg			245,107		10.6	10.1	1.3	1.2	11.8	11.6	4.0	4.2
MC-wtd					11.8	11.2	1.5	1.4	12.7	12.6	4.5	4.6
BIMB	BUY	4.01	6,184	4.80	10.9	10.3	1.7	1.6	17.2	16.1	3.7	3.7
HLFG	BUY	14.00	14,739	16.90	8.8	8.5	1.1	1.0	13.0	12.5	2.7	2.7

Source: Maybank KE

\* Based on consensus

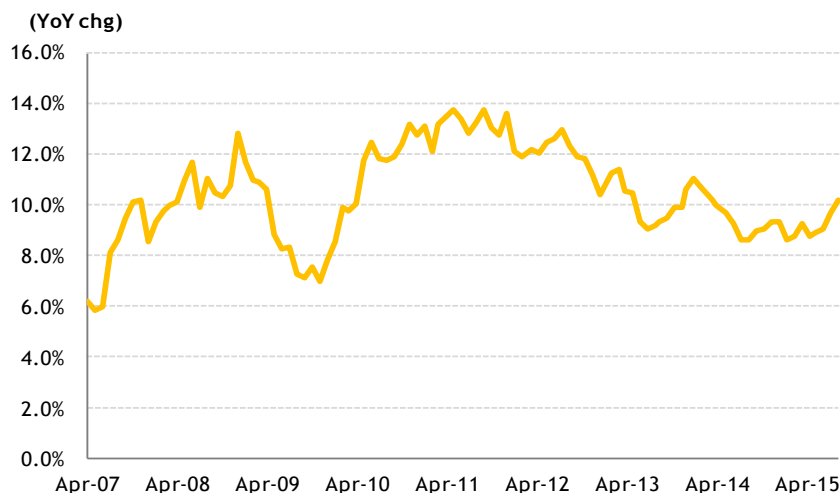
### Growth driven yet again by non-HH segment

Industry loan growth was surprisingly much stronger than expected, expanding 10.2% YoY in August vs 9.7% YoY in Jul 2015. HH loan growth continued to moderate to 8.3% YoY in August from 8.6% YoY in July, but the slack was picked up by the non-HH segment, which saw loan growth gather pace to 12.8% YoY in August from 11.2% YoY in Jul 2015.

As discussed later on, much of this growth in non-HH loans was driven by increased demand for working capital lines and while the growth here is encouraging, there has been some anecdotal evidence that working capital demand may have been driven in part by delays in GST (Goods & Services Tax) refunds, as well as the rise in input costs from the weakening of the MYR. As such, we would have to continue to monitor the trend here.

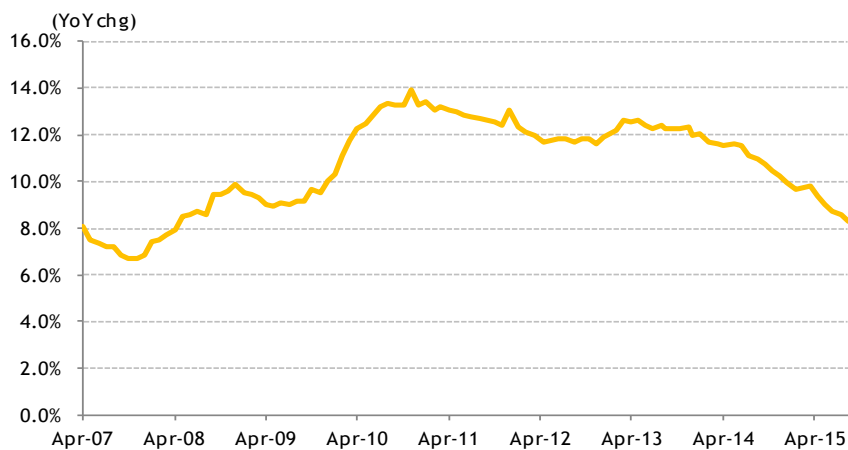
On an annualized basis, industry loan growth was a higher 8.2% in August versus 7.2% in July, with HH loan growth of 7.5% (7.6% in July) and non-HH loan growth of 9.1% (6.6% in July).

**Total industry YoY loan growth (Apr 2007 - Aug 2015)**



Source: BNM, Maybank KE

**YoY household loan growth (Apr 2007 - Aug 2015)**



Source: BNM, Maybank KE

Segmental YoY loan growth by sector

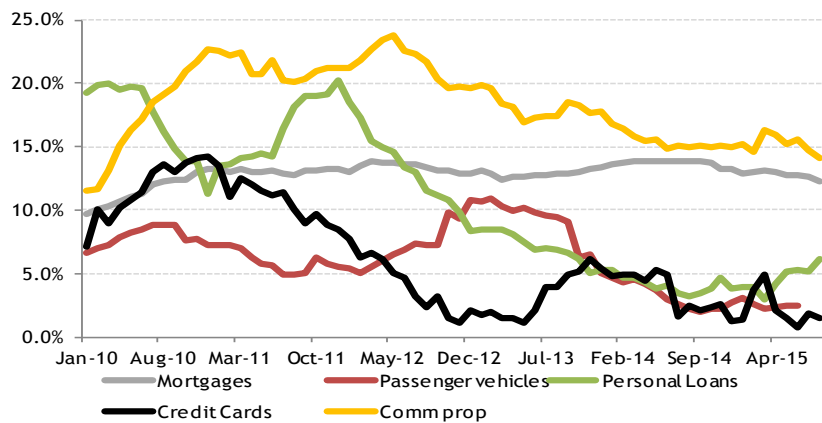
	Aug 15	July 15	Jun 15	May 15	% of total
Primary agriculture	16.8%	10.5%	10.0%	7.3%	2.6%
Mining and quarrying	59.8%	42.0%	42.3%	48.1%	0.9%
Manufacturing	5.0%	2.8%	3.2%	2.0%	7.3%
Utilities	-15.7%	-17.4%	-20.5%	-22.7%	0.8%
Wholesale/retail	11.0%	9.5%	8.2%	8.0%	7.4%
Construction	12.4%	12.7%	11.3%	13.8%	4.2%
Real estate	20.7%	17.7%	16.7%	18.2%	6.6%
Transport/storage	13.3%	13.6%	10.5%	13.7%	2.5%
Finance and business	12.4%	16.1%	15.1%	14.6%	6.6%
Education/health	13.7%	11.2%	2.2%	-2.4%	2.9%
<b>Household sector</b>	<b>8.3%</b>	<b>8.6%</b>	<b>8.7%</b>	<b>9.0%</b>	<b>56.6%</b>
Other sector	24.5%	13.8%	8.9%	-5.7%	1.6%
<b>Total</b>	<b>10.2%</b>	<b>9.6%</b>	<b>9.1%</b>	<b>8.8%</b>	<b>100.0%</b>

Source: BNM

HH loan growth continues to slip

HH loans, which currently make up 57% of total loans, continued to see a moderation in growth across key segments. Residential & non-residential property YoY loan growth, for instance, was a slower 12.2% and 14.1% respectively end-Aug 2015 vs 12.7% and 14.7% respectively end-July. Auto lending was stable at a muted pace of 2.5% YoY while credit card lending rose just 1.5% YoY. Where there has been a notable pick-up is in personal loans, which rose 6.1% YoY, but these account for just 4.4% of total loans.

YoY consumer loan growth (Jan 2010 - Aug 2015)



Source: BNM, Maybank KE

## Segmental YoY loan growth by business purpose

	Aug 15	July 15	Jun 15	May 15	% of total
Securities	0.5%	4.0%	2.3%	4.5%	5.3%
Transport vehicles	2.2%	2.1%	2.1%	1.9%	12.0%
<i>Of which passenger cars</i>	2.5%	2.5%	2.4%	2.3%	11.3%
Residential property	12.2%	12.7%	12.8%	12.8%	29.8%
Non-residential property	14.1%	14.7%	15.5%	15.2%	13.6%
Purchase of fixed assets	6.3%	-0.1%	0.0%	1.8%	0.8%
Personal use	6.1%	5.2%	5.2%	5.1%	4.4%
Credit card	1.5%	1.9%	0.7%	1.5%	2.5%
Consumer durables	-68.6%	-65.9%	-62.9%	-59.1%	0.0%
Construction	11.1%	12.3%	11.2%	15.0%	2.9%
Working capital	15.9%	12.6%	11.4%	11.1%	24.2%
Other purposes	2.8%	0.9%	-4.6%	-8.8%	4.6%
<b>Total</b>	<b>10.2%</b>	<b>9.7%</b>	<b>9.1%</b>	<b>8.9%</b>	<b>100.0%</b>

Source: BNM

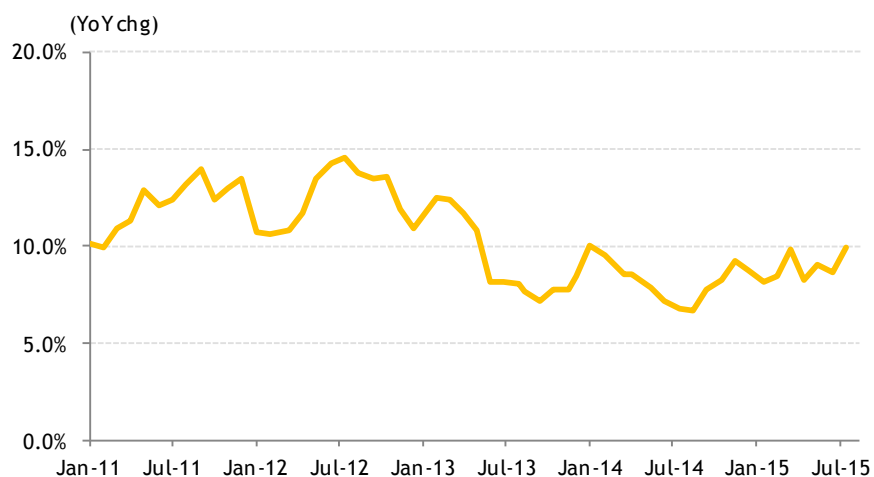
## Demand for working capital lines picks up

As the table above would indicate, demand for working capital lines has been strong, jumping 15.9% YoY in Aug 2015 from 12.6% YoY in July. This in turn, would have contributed to the pick-up in business loans growth to 11.5% YoY in Aug 2015 from 9.9% YoY in July.

While we are encouraged by this pick-up, our conversations with the banks provide anecdotal evidence that some of this growth may have been driven by initial teething problems with the implementation of the GST from 1 Apr 2015, and that this had caused delays in GST refunds. As such, companies with resultant tight cashflows had resorted to drawing down working capital lines to tide themselves over. Another possible contributory reason to this faster growth could also be the weakening of the MYR and the rise in input costs during the period.

Recent statements from the Royal Malaysian Customs Department would point to the fact that the teething problems with regards to GST refunds have been resolved and refunds are generally now promptly within the stipulated 14 days.

## Business loans growth (Jan 2011 - Aug 2015)



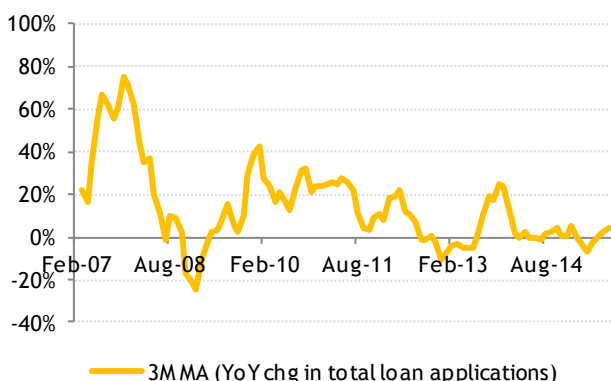
Source: BNM, Maybank KE

### Loan applications up 4% YoY

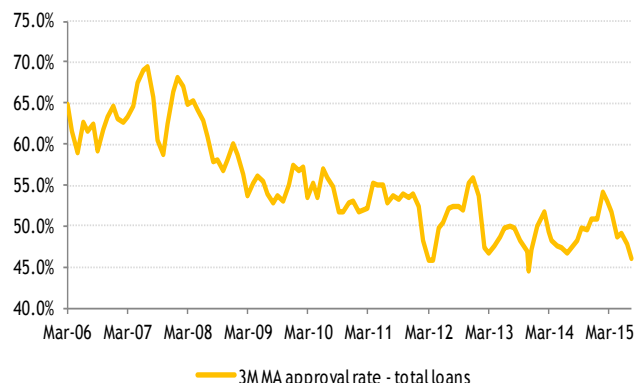
Loan applications rose 4% YoY in Aug 2015 versus 7% YoY in July, leading to a faster 4.5% YoY growth on a 3-month moving average (3M MA) basis. Yet again, the three growth segments were working capital (+17.7% YoY), personal loans (+53.0% YoY) and credit card (+55.2% YoY) applications.

However, overall loan approval rates on a 3M MA basis (total loans approved during a month divided by total loans applied) slipped further to 46.0% in Aug from 47.9% in July and 49.3% in June.

3M MA (YoY chg in total loan applications)



3M MA (total loans approval rate)

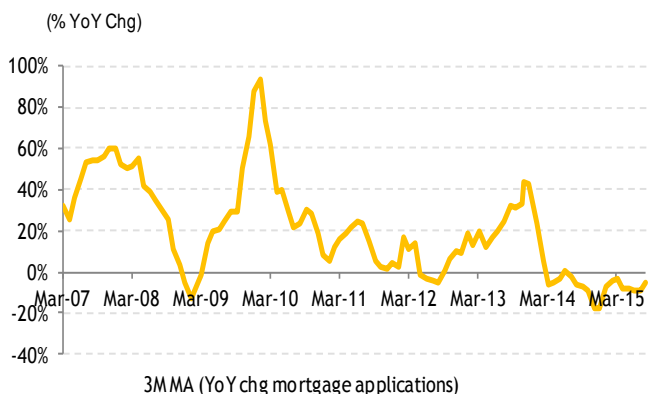


Source: BNM, Maybank KE

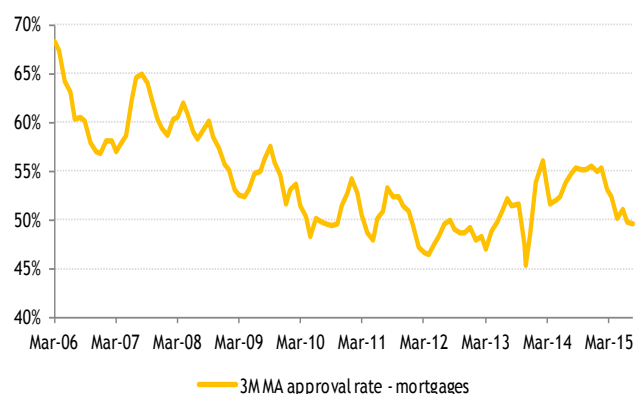
Source: BNM, Maybank KE

Mortgage applications on a 3M MA basis contracted for the 18<sup>th</sup> consecutive month (barring a slight 0.5% YoY increase in Jun 2014) and mortgage loan approval rates on a 3M MA basis were stable at 50% in August.

3M MA (YoY chg in mortgage applications)



3M MA (mortgage approval rates)

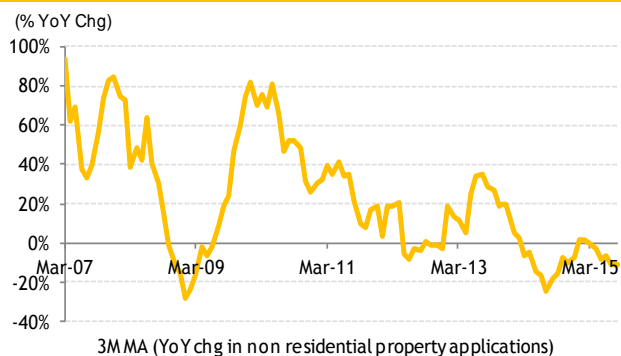


Source: BNM, Maybank KE

Source: BNM, Maybank KE

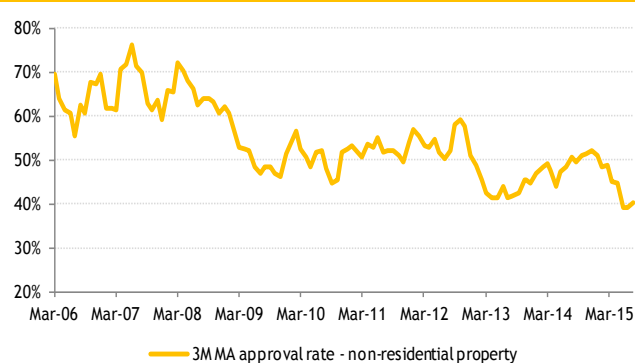
Non-residential property applications on a 3M MA basis continue to be in negative territory as well, contracting 11.3% YoY, while the 3M MA approval rate in August remained low at 40%, which does seem to reflect increasing risk averseness of banks towards this sector.

3M MA (YoY chg in non-residential property applications)



Source: BNM, Maybank KE

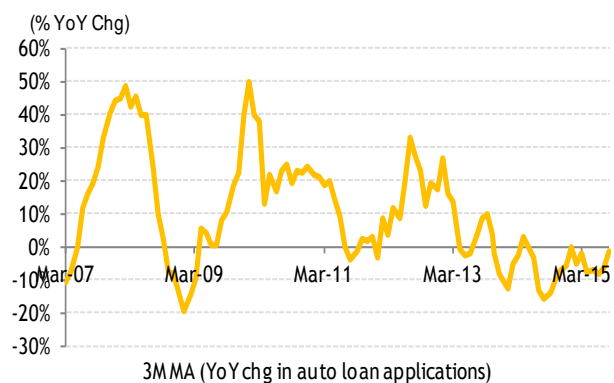
3M MA (non-residential property approval rates)



Source: BNM, Maybank KE

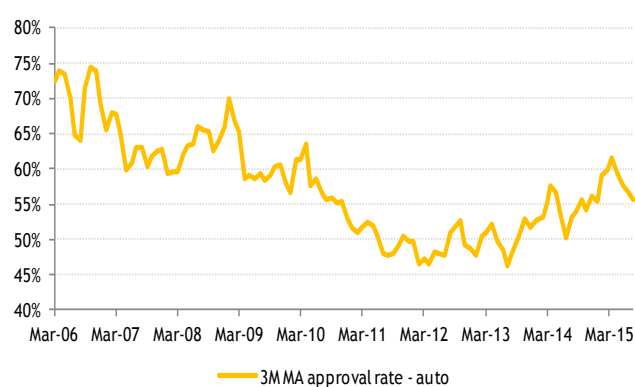
Auto loan applications contracted by a more moderate 1.5% on a 3M MA basis in August vs -6.3% in July, while the 3M MA approval rate for auto financing dipped to 56% in Aug 2015 from 57% in Jul 2015.

3M MA (YoY chg in auto loan applications)



Source: BNM, Maybank KE

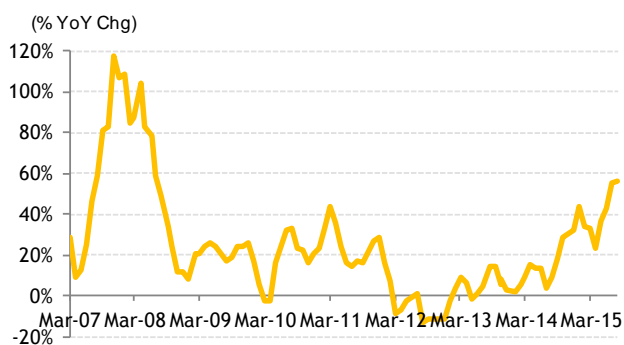
3M MA (auto loan approval rates)



Source: BNM, Maybank KE

Personal and credit card loan applications continue to rise but this is being met by increasing cautiousness on the part of the banks, with declines in approval rates to new lows of just 25% for personal loans and 48% for credit cards.

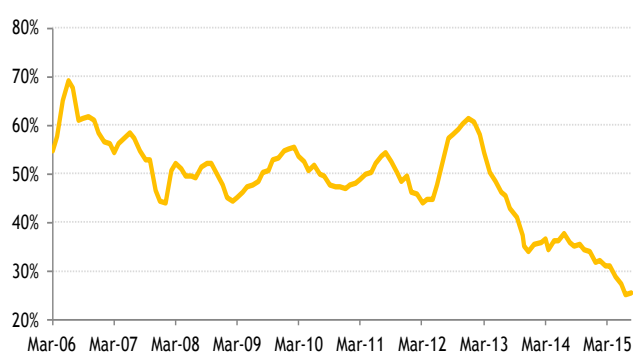
3M MA (YoY chg in personal loan applications)



3M MA (YoY chg in personal loan applications)

Source: BNM, Maybank KE

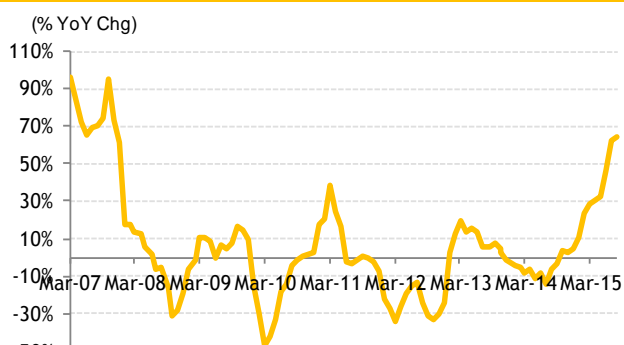
3M MA (personal loan approval rates)



3M MA approval rate - personal loans

Source: BNM, Maybank KE

3M MA (YoY chg in credit card loan applications)



3M MA (YoY chg in credit card applications)

Source: BNM, Maybank KE

3M MA (credit card loan approval rates)

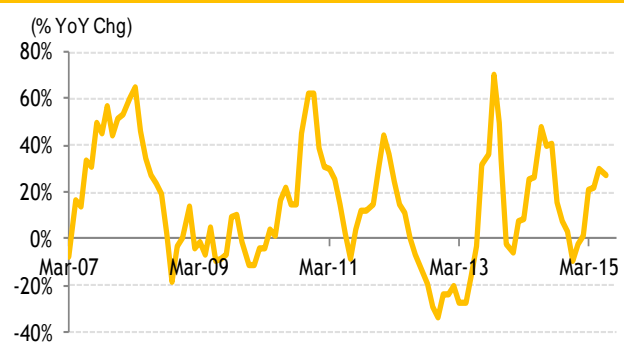


3M MA approval rate - credit cards

Source: BNM, Maybank KE

Working capital loan applications are on the rise but the 3M MA approval rate was a lower 44% in Aug 2015 versus 50% in July.

3M MA (YoY chg in working capital loan applications)



3M MA (YoY chg in working capital)

Source: BNM, Maybank KE

3M MA (working capital loan approval rates)



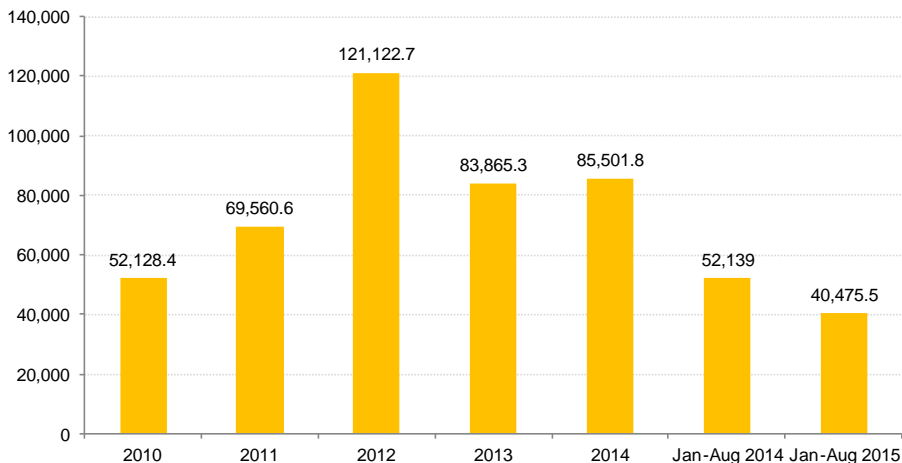
3M MA approval rate - working capital

Source: BNM, Maybank KE

### August bond issuances decent in size

PDS issuances totalled a decent MYR6.4b in Aug 2015 versus MYR2.6b in Jul 2015 and MYR4.1b in Aug 2014. On a cumulative basis, PDS issuances totalled MYR40.5b in 8M15, down 22% YoY against the cumulative total of MYR52.1b in 8M14.

PDS Issuances (2010 to Aug 2015)

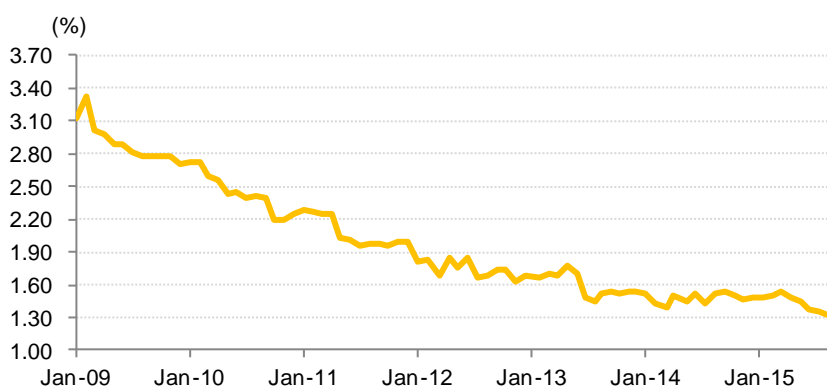


Source: BNM, Maybank KE

### Spreads narrow further

Interest spreads narrowed further in August to 1.32% from 1.35% in July, this being the lowest in recent times. This was predominantly a function of declining lending rates, which averaged just 4.51% in August versus 4.54% in July 2015.

Spread between average lending rate and average deposit rate (%)



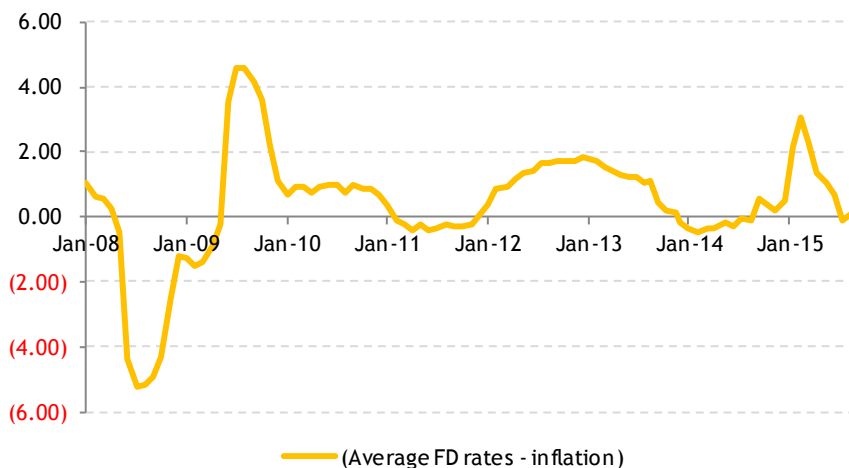
Source: BNM, Maybank KE



### Deposit rate-CPI gap turns negative

Malaysia’s inflation rate came in marginally lower at 3.1% in Aug 2015 versus 3.3% in July. As a result, real rates of return turned a slight positive with a deposit-rate-CPI gap of +0.09% in August versus -0.11% in July.

Differential between average fixed deposit rates and inflation

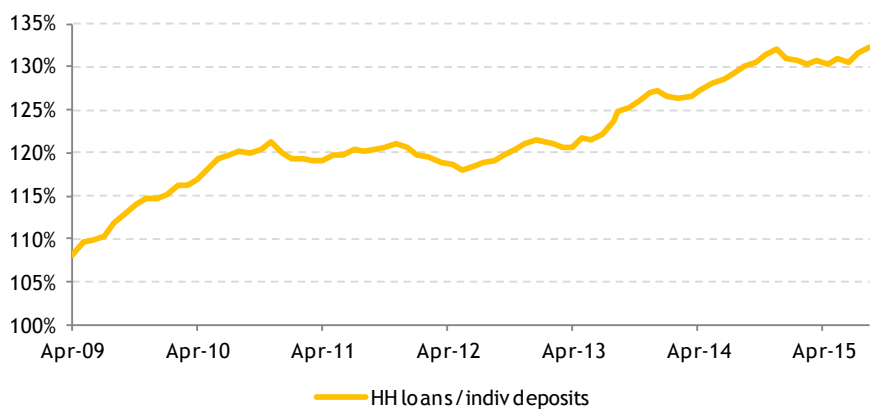


Source: BNM, Maybank KE

### LDR breaches 90% mark

The industry’s loan/deposit ratio (LDR) is a far cry away from the average 78% that it recorded in 2009. The ratio continues to climb and has just crossed the 90% mark to 90.4% end-Aug 2015.

Loan/deposit ratio (Mar 2009 - Aug 2015)



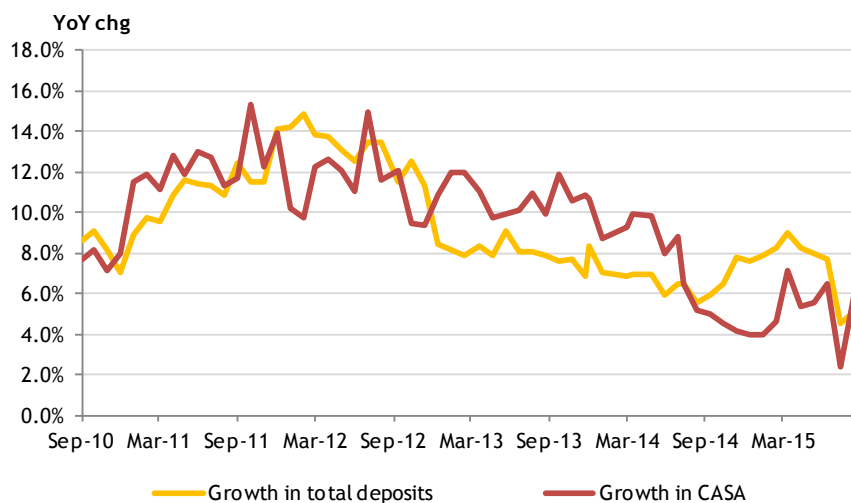
Source: BNM, Maybank KE

### Deposits stable, but growth tepid

Having surprised negatively with a 2% MoM contraction in July, total deposits rose a marginal 0.2% in Aug 2015. Across the various deposit types, what we saw was a further MYR4.9b MoM contraction in financial institution (FI) deposits (-MYR26.1b MoM in July) but all other deposit holders saw positive MoM increases.

Overall deposits rose at a subdued pace of 5.1% YoY end-Aug 2015 (+4.5% YoY in Jul 2015, +7.7% YoY in Jun 2015). CASA growth was a faster 5.8% YoY (+2.4% YoY in Jul 2015), leading to a higher CASA ratio of 25.7% end-August versus 25.5% end-July 2015.

Total deposit vs CASA growth (Sep 2010 - Aug 2015)



Source: BNM, Maybank KE

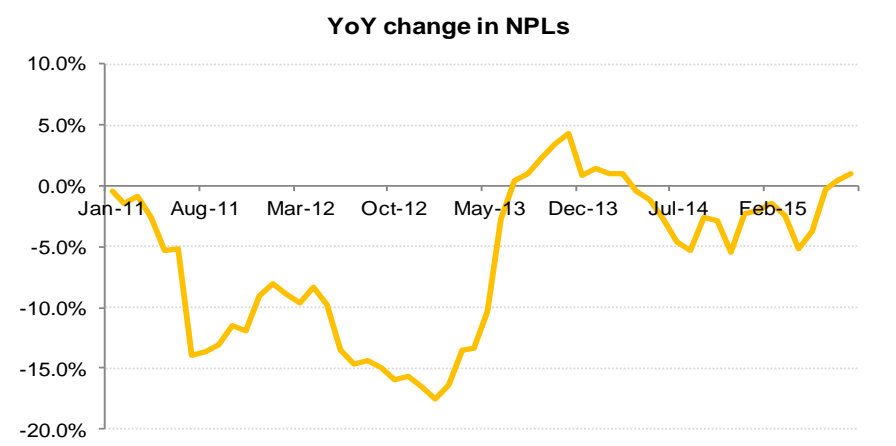
### Absolute NPLs stable, but weak underlying trends

Absolute NPLs rose a marginal 0.2% MoM and are up 2% YTD. Having been contracting YoY for over a year, NPLs rose YoY (+0.4%) for the first time in Jul 2015 and a further 1% YoY in Aug 2015.

On a segmental basis, the YoY increase is noted primarily in the non-residential property, personal loans, credit cards and construction segments.

The industry's gross NPL ratio was stable MoM at 1.60% end-August with a loan loss coverage ratio of 97.6% versus 97.3% end-July.

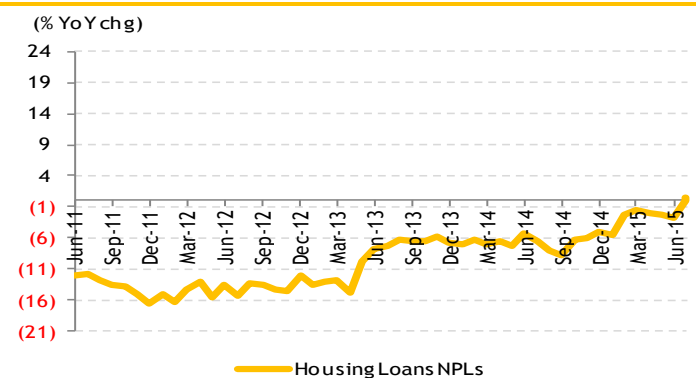
YoY chg in absolute NPLs (Jan 2011 - Aug 2015)



Source: BNM, Maybank KE

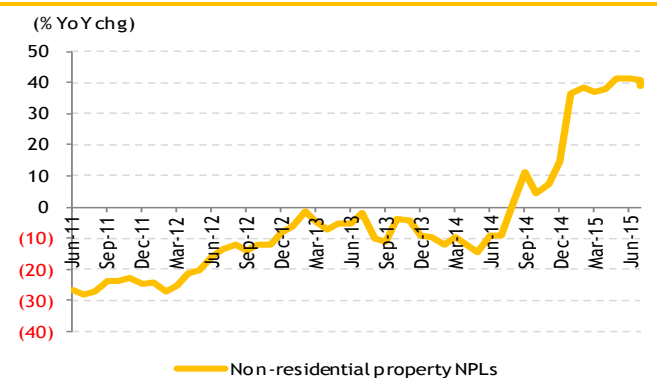
On a YoY basis, absolute NPLs have started to rise for the housing sector (+0.6% YoY in August). Non-residential property NPLs are up 39% YoY while credit card and personal loan NPLs rose 11% and 7% YoY respectively. Construction NPLs also continued to rise and jumped 37% YoY. These trends were mitigated by a 14% and 11% YoY decline in auto and working capital NPLs.

Housing NPLs (% YoY chg)



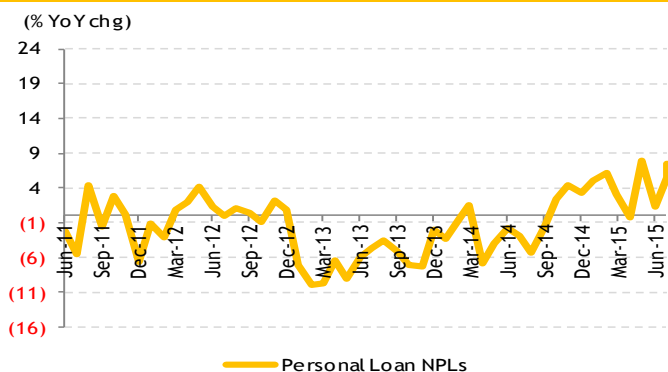
Source: BNM, Maybank KE

Non-residential NPLs (% YoY change)



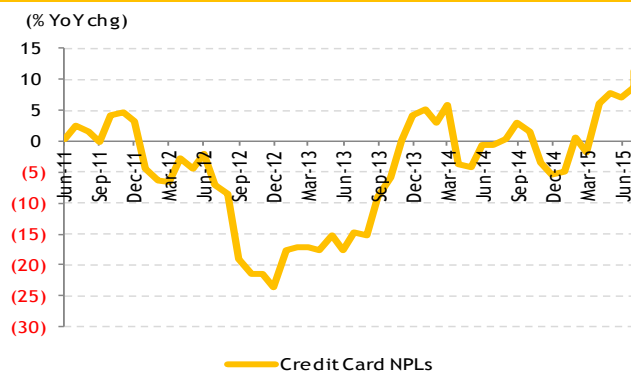
Source: BNM, Maybank KE

Personal loans NPLs (% YoY chg)



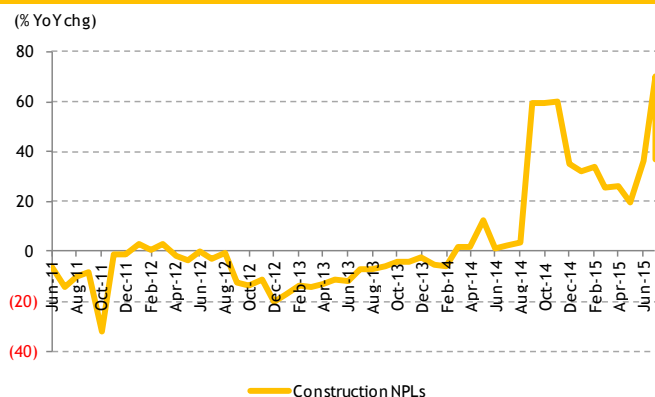
Source: BNM, Maybank KE

Credit card NPLs (% YoY change)



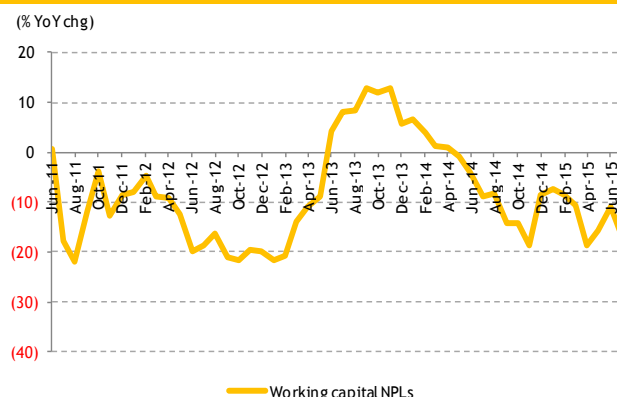
Source: BNM, Maybank KE

Construction NPLs (% YoY chg)



Source: BNM, Maybank KE

Working capital NPLs (% YoY change)



Source: BNM, Maybank KE

Gross NPL ratios by segment

	Aug 15	Jul 15	Jun 15	May 15	Apr 15
Securities	0.43%	0.43%	0.50%	0.28%	0.30%
Transport vehicles	1.11%	1.07%	1.06%	1.13%	1.13%
<i>Passenger vehicles</i>	1.09%	1.05%	1.05%	1.12%	1.08%
Residential property	1.21%	1.21%	1.22%	1.22%	1.22%
Non-residential property	0.90%	0.90%	0.86%	0.83%	0.82%
Fixed assets	1.54%	1.58%	1.56%	1.61%	1.81%
Personal use	1.68%	1.68%	1.63%	1.74%	1.60%
Credit card	1.34%	1.31%	1.29%	1.30%	1.26%
Consumer durables	1.26%	1.15%	1.39%	1.62%	1.51%
Construction	6.14%	7.73%	6.12%	5.95%	5.69%
Working capital	2.34%	2.27%	2.49%	2.40%	2.37%
Other purposes	2.16%	2.14%	2.17%	2.28%	2.12%
<b>Total</b>	<b>1.60%</b>	<b>1.62%</b>	<b>1.62%</b>	<b>1.59%</b>	<b>1.56%</b>

Source: BNM

Capital positions comfortable

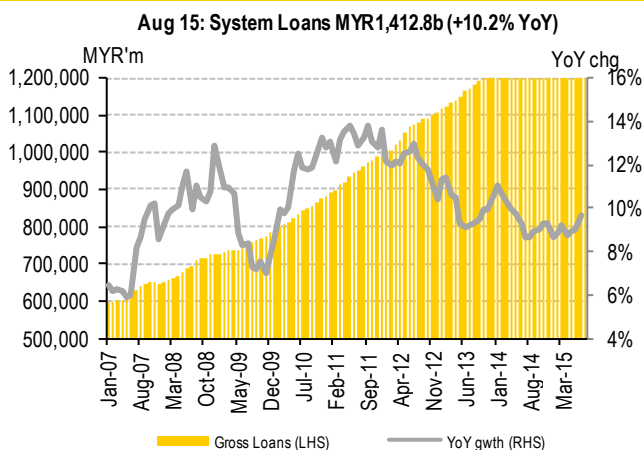
The industry's CET1, core capital and risk-weighted capital ratios were lower in Aug 2015 at 12.1%, 12.7% and 14.8% respectively, versus 12.6%, 12.7% and 15.5% respectively end-Jul 2015. The industry numbers will be higher once HL Bank and RHB Cap raise equity to bolster their capital ratios by the end of this year.

Loan momentum

(% YoY)	Sept 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15
Gross loans	+9.0	+9.0	+9.3	+9.3	+8.6	+8.8	+9.2	+8.8	+8.9	+9.1	+9.7	+10.2
- Non-HHs	+6.7	+7.1	+8.2	+8.5	+7.3	+7.6	+8.5	+8.0	+8.8	+9.5	+11.2	+12.8
- Households	+10.7	+10.5	+10.2	+9.9	+9.7	+9.7	+9.8	+9.4	+9.0	+8.7	+8.6	+8.3
Applications	+6.7	-4.4	+0.1	+4.8	+10.1	-17.1	-4.0	0.7	-2.9	+3.6	+7.0	+3.1
Approvals	+12.1	+13.1	+10.8	+2.0	+9.3	-1.4	1.7	-2.4	0.6	15.1	-0.9	-9.1

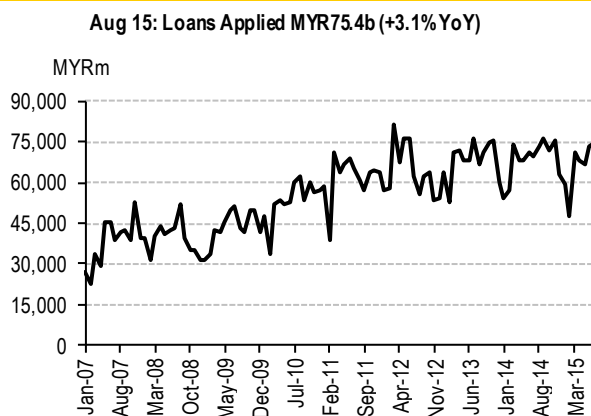
Source: BNM

Banking system loans



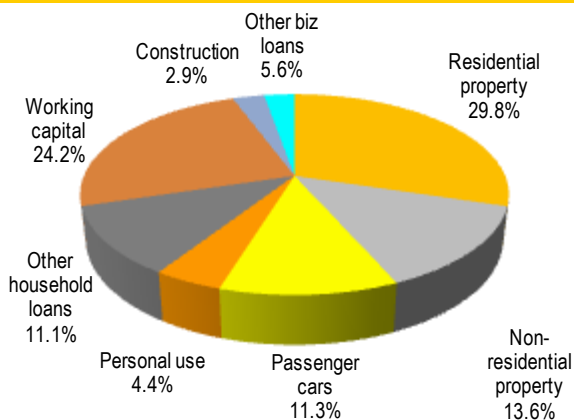
Source: BNM

Banking system loan applications



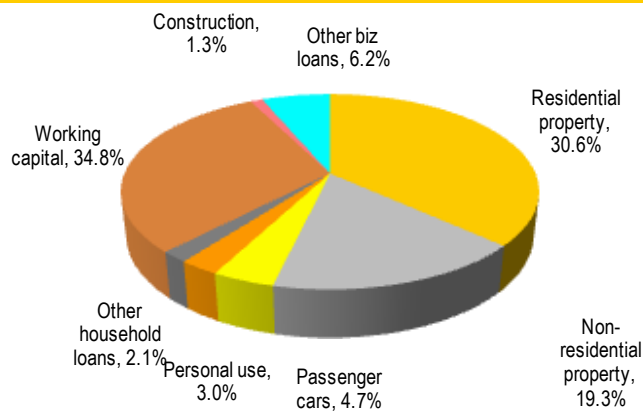
Source: BNM

Loans composition: MYR1,412.8b @ Aug 2015



Source: BNM

Net loan additions: MYR73.0b in 2015 (8M 2015)



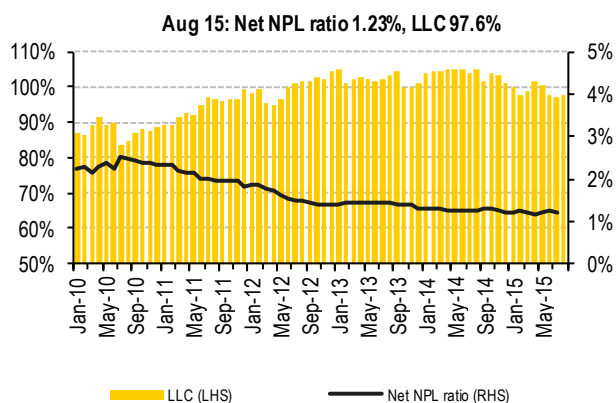
Source: BNM

Asset quality & capitalisation

	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15
Gross NPL (MYRb)	23.1	22.8	22.5	22.0	22.3	22.5	22.2	21.3	21.9	22.5	22.5	22.6
Net NPL (%)	1.31	1.28	1.26	1.20	1.21	1.26	1.22	1.17	1.20	1.24	1.23	1.23
LLC (%)	101.7	103.8	103.3	101.0	99.9	97.9	98.7	101.8	100.6	97.5	97.3	97.6
Tier 1 cap (%)	13.6	13.6	13.3	14.0	13.4	13.3	13.2	13.2	13.1	13.1	13.3	12.7
RWCR (%)	15.5	15.6	15.3	15.9	15.4	15.3	15.2	15.1	15.1	15.3	15.5	14.8

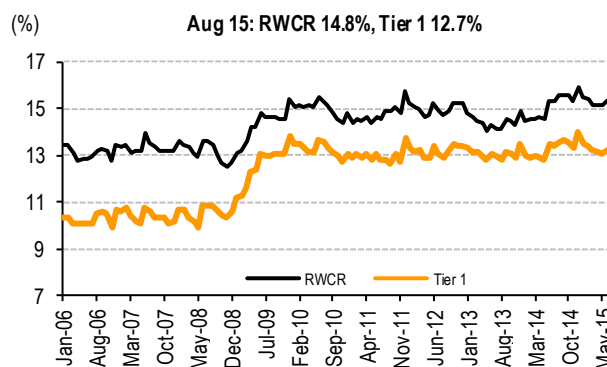
Source: BNM

Banking system NPL ratio and loan loss coverage



Source: BNM

Banking system capital ratios



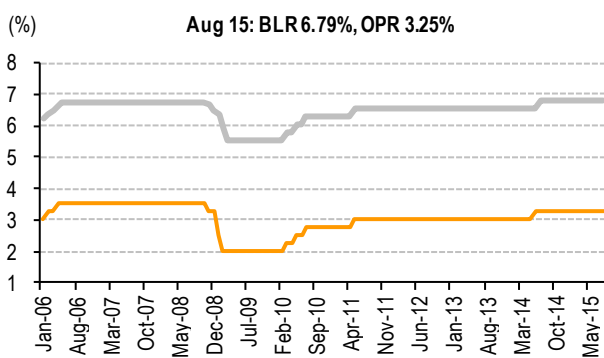
Source: BNM

Interest rates

(%)	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15
BLR	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79
ALR	4.72	4.67	4.65	4.67	4.64	4.67	4.70	4.65	4.61	4.57	4.54	4.51
ADR	3.18	3.18	3.19	3.19	3.16	3.16	3.16	3.16	3.17	3.19	3.19	3.19
ADR-CPI	0.58	0.38	0.19	0.49	2.16	3.06	2.26	1.36	1.07	1.06	1.06	1.05

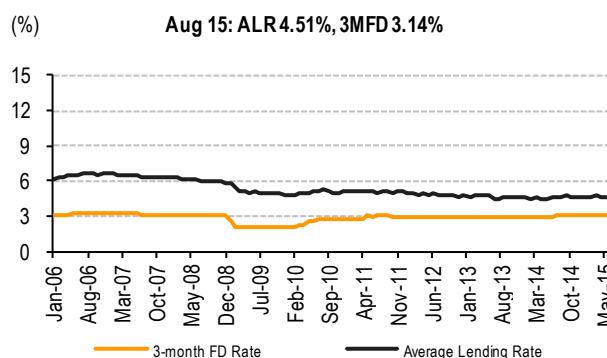
Note: ADR refers to the average of fixed deposit rates; Source: BNM

Banking system BLR and OPR



Source: BNM

Banking system interest rates



Source: BNM

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