

# Malaysia Banking

# NEUTRAL

 (Unchanged)

## Loan approval rates decline in Sep

- Working capital loan demand continues to support industry loan growth as household lending wanes.
- Aggregate loan approval rates however have fallen to a new low of 43% on a 3M moving average (MA) basis.
- Maintaining loan growth forecasts. NEUTRAL on the sector; BUY BIMB, HL Bank, HLFG.

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### What's New

The industry's annualized loan growth in Sep 2015 was still robust at 8.4%, supported by non-HH loan growth of 9.7% amid slower HH loan growth of 7.4%. The industry's loan/deposit ratio was a stable 90.1%. Foreign currency deposit accounts continue to grow at a rapid pace (+37% YoY) but make up just about 7% of total deposits.

Loan approval rates fell to a new low of 43% on a 3M MA basis as the average mortgage loan approval rate declined to 48% (the last time the approval rate was below 50% was in Dec 2013) while non-residential property loan approvals remained low at 40%.

Absolute NPLs rose 1.9% MoM led by an 8.3% MoM increase in non-residential property NPLs and a 4% MoM increase in working capital NPLs. On a YoY basis, however, absolute NPLs were flat (-0.4%). The industry's gross NPL ratio inched up slightly to 1.62% end-Sep 2015 vs 1.60% end-August with a loan loss coverage ratio of 98.1% versus 97.6%.

### What's Our View

Working capital loans continue to lead non-HH loan growth. While we are encouraged by this, we nevertheless remain cautious amid slower economic growth and while still early to signify a trend, working capital NPLs have risen in absolute and percentage terms over the past two months.

We maintain our 7.8% industry loan growth forecast for 2015. Sector call remains a NEUTRAL; BUY 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	3.58	5,635	4.00	10.3	10.0	1.2	1.1	11.7	11.2	4.3	4.4
AMMB	HOLD	4.78	14,800	5.50	9.1	9.2	1.0	0.9	11.4	10.2	5.5	5.4
CIMB	HOLD	4.61	41,685	4.90	11.5	9.7	1.0	0.9	7.5	10.0	3.5	4.1
HL Bank	BUY	13.98	25,543	15.20	11.1	10.8	1.5	1.4	13.7	13.1	3.0	3.1
Maybank *	NR	8.26	81,943	NR	11.4	11.7	1.3	1.3	12.1	11.1	6.9	6.7
Public Bank	HOLD	18.08	71,978	19.60	14.5	13.8	2.4	2.2	16.9	16.6	3.2	3.4
RHB Cap	HOLD	6.10	16,126	6.80	9.0	8.6	0.7	0.7	9.4	8.2	1.0	1.0
Simple avg			257,710		11.0	10.5	1.3	1.2	11.8	11.5	3.9	4.0
MC-wtd					12.0	11.5	1.5	1.4	12.6	12.4	4.4	4.5
BIMB	BUY	4.10	6,338	4.80	11.2	10.6	1.8	1.6	17.2	16.1	3.7	3.7
HLFG	BUY	14.16	15,476	16.90	8.9	8.6	1.1	1.1	13.0	12.5	2.7	2.6

Source: Maybank KE

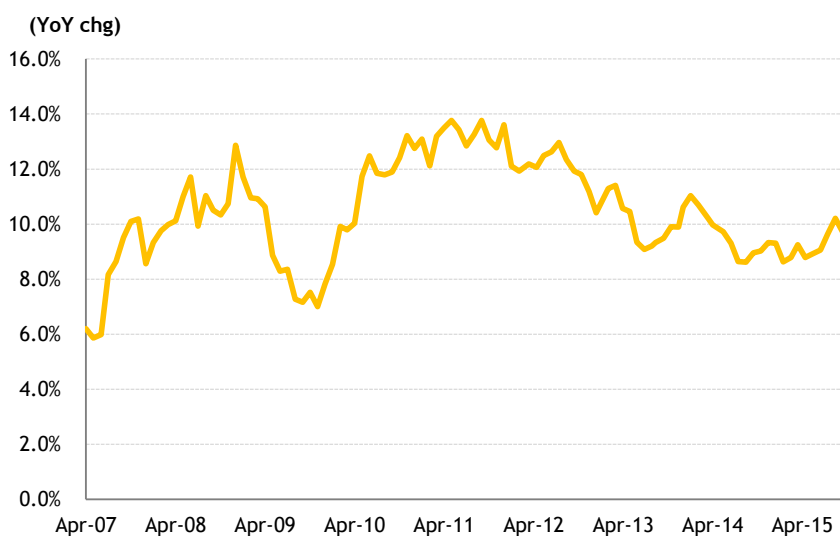
\* Based on consensus

### Non-HH segment continues to see strength

Industry loan growth remained fairly robust in Sep 2015, with a YoY growth of 9.7%, just marginally slower than the exceptional pace set in Aug 2015 of 10.2% YoY. Household (HH) loan growth slipped further to 8.1% YoY (8.3% YoY in August) but non-HH loan growth kept up a double-digit pace of 11.9% YoY (12.8% YoY in August).

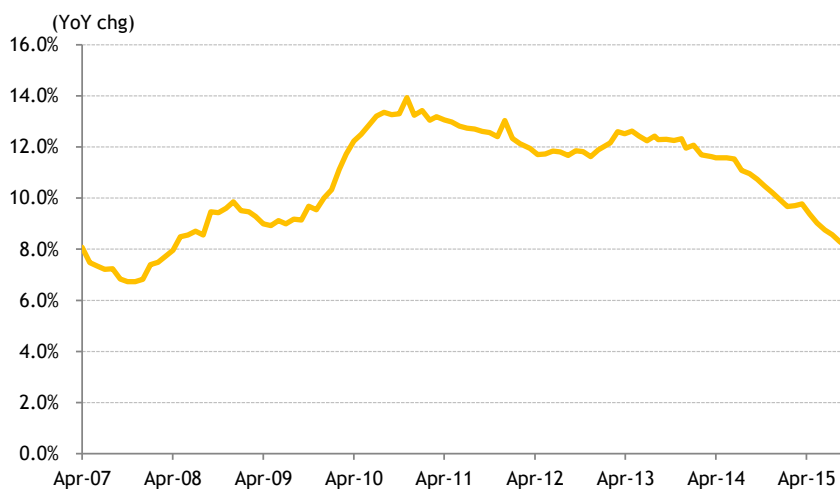
On an annualized basis, loan growth picked up pace to 8.4% from 8.2% in August. HH loan growth continued to moderate to 7.4% (from 7.5% in August) while non-HH loan growth on an annualized basis was a stronger 9.7% versus 9.1% a month before.

Total industry YoY loan growth (Apr 2007 - Sep 2015)



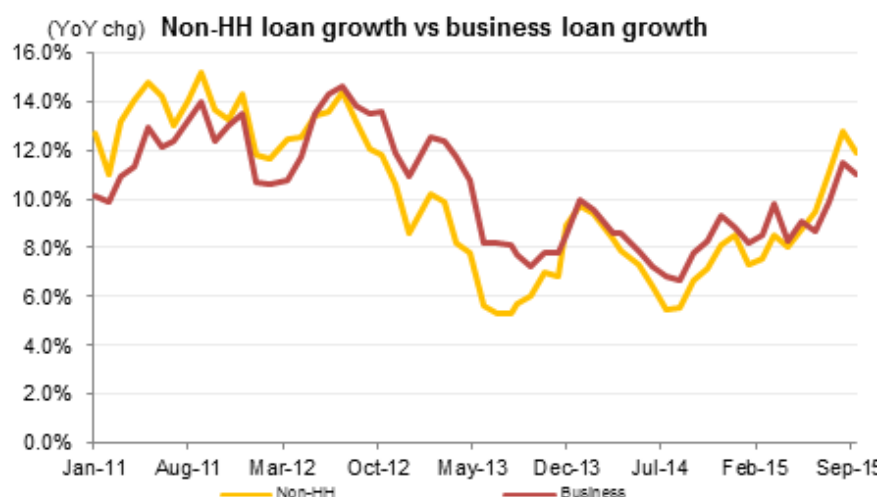
Source: BNM, Maybank KE

YoY household loan growth (Apr 2007 - Sep 2015)



Source: BNM, Maybank KE

Non-household & business loan growth (Jan 2011 - Sep 2015)



Source: BNM, Maybank KE

HH loan growth continues to slip

HH loans, which currently make up 56% of total loans, continued to see a moderation in growth across key segments.

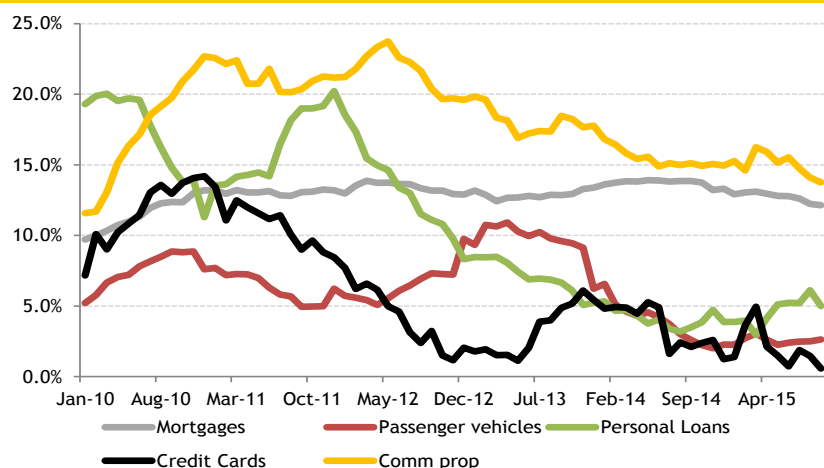
Segmental YoY loan growth by sector

	Sep 15	Aug 15	July 15	Jun 15	% of total
Primary agriculture	17.1%	16.8%	10.5%	10.0%	2.6%
Mining and quarrying	58.8%	59.8%	42.0%	42.3%	0.9%
Manufacturing	3.4%	5.0%	2.8%	3.2%	7.2%
Utilities	-9.6%	-15.7%	-17.4%	-20.5%	0.8%
Wholesale/retail	10.3%	11.0%	9.5%	8.2%	7.4%
Construction	10.4%	12.4%	12.7%	11.3%	4.2%
Real estate	21.4%	20.7%	17.7%	16.7%	6.7%
Transport/storage	12.9%	13.3%	13.6%	10.5%	2.5%
Finance and business	11.3%	12.4%	16.1%	15.1%	6.6%
Education/health	11.8%	13.7%	11.2%	2.2%	2.9%
<b>Household sector</b>	<b>8.1%</b>	<b>8.3%</b>	<b>8.6%</b>	<b>8.7%</b>	<b>56.5%</b>
Other sector	15.7%	24.5%	13.8%	8.9%	1.6%
<b>Total</b>	<b>19.5%</b>	<b>10.2%</b>	<b>9.6%</b>	<b>9.1%</b>	<b>100.0%</b>

Source: BNM

Residential property loan growth was a tad slower at 12.1% YoY vs 12.2% YoY in August, while non-residential property loan growth slipped to below 14% for the first time since Mar 2010. The growth in lending to the high risk segments eg personal loans, credit cards and auto, continue to be tepid at just 5% YoY, 0.6% YoY and 2.6% YoY respectively as at end-Sep 2015.

YoY consumer loan growth (Jan 2010 - Sep 2015)



Source: BNM, Maybank KE

Segmental YoY loan growth by business purpose

	Sep 15	Aug 15	July 15	Jun 15	% of total
Securities	-0.2%	0.5%	4.0%	2.3%	5.2%
Transport vehicles	2.3%	2.2%	2.1%	2.1%	11.9%
Of which passenger cars	2.6%	2.5%	2.5%	2.4%	11.2%
Residential property	12.1%	12.2%	12.7%	12.8%	29.8%
Non-residential property	13.8%	14.1%	14.7%	15.5%	13.7%
Purchase of fixed assets	3.3%	6.3%	-0.1%	0.0%	0.8%
Personal use	5.0%	6.1%	5.2%	5.2%	4.4%
Credit card	0.6%	1.5%	1.9%	0.7%	2.4%
Consumer durables	-71.9%	-68.6%	-65.9%	-62.9%	0.0%
Construction	8.9%	11.1%	12.3%	11.2%	2.9%
<b>Working capital</b>	<b>15.0%</b>	<b>15.9%</b>	<b>12.6%</b>	<b>11.4%</b>	<b>24.2%</b>
Other purposes	1.7%	2.8%	0.9%	-4.6%	4.6%
<b>Total</b>	<b>9.7%</b>	<b>10.2%</b>	<b>9.7%</b>	<b>9.1%</b>	<b>100.0%</b>

Source: BNM

Demand for working capital lines leads non-HH loan growth

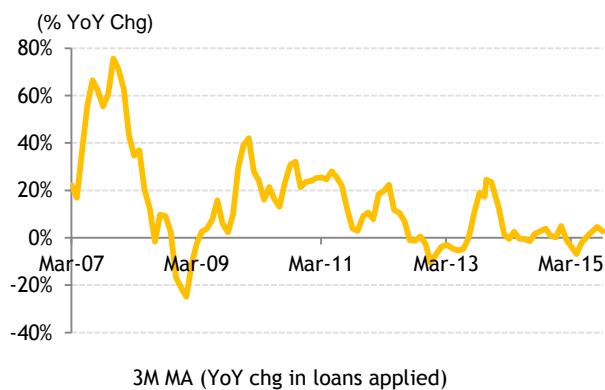
As the table above would indicate, demand for working capital lines continues to be strong, up 15% YoY in Sep 2015. As mentioned in our previous report, we are encouraged by this pick-up but we remain cautious, given the moderation in economic activity and weak sentiment among the SMEs as recent surveys and MIER’s Business Confidence Index would indicate.

These developments would suggest that the drawdown of working capital lines could be due to other reasons such as tight cashflows caused by factors such as delays in GST refunds and settlement in trade receivables, the rise in input costs due to the weakening of the MYR, or weaker revenue due to poorer consumption demand. We note on page 11 that working capital NPLs have risen over the past two months. Though it is still too soon to establish a trend, asset quality is something that we will have to monitor more closely.

### Loan approval rates drop to new low

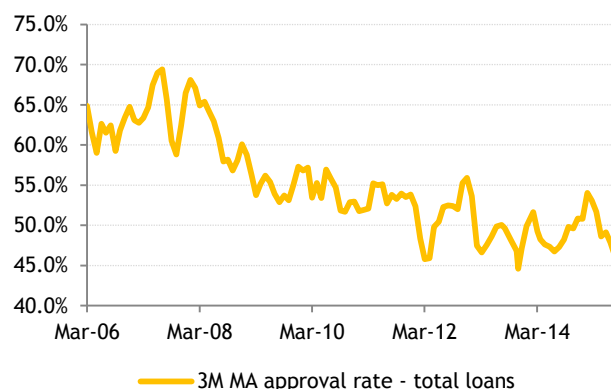
Loan applications contracted 2% YoY in Sep 2015 after expanding 3% YoY in August and 7% YoY in Jul 2015. On a 3-month moving average (3M MA) basis, loan application growth was a more moderate 2.7% YoY vs 4.5% YoY in August. However, loan approval rates on a 3M MA basis (total loans approved during a month divided by total loans applied) dropped to a new low of 43% in Sep 2015 from 46% in Aug 2015.

3M MA (YoY chg in total loan applications)



Source: BNM, Maybank KE

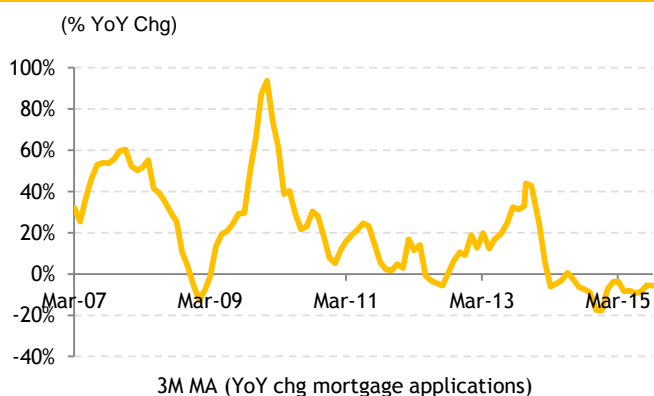
3M MA (total loans approval rate)



Source: BNM, Maybank KE

Mortgage applications on a 3M MA basis contracted for the 19<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 dropped to just 48% in Sep 2015. The last time approval rates were below 50% was in Dec 2013 (at 49%).

3M MA (YoY chg in mortgage applications)



Source: BNM, Maybank KE

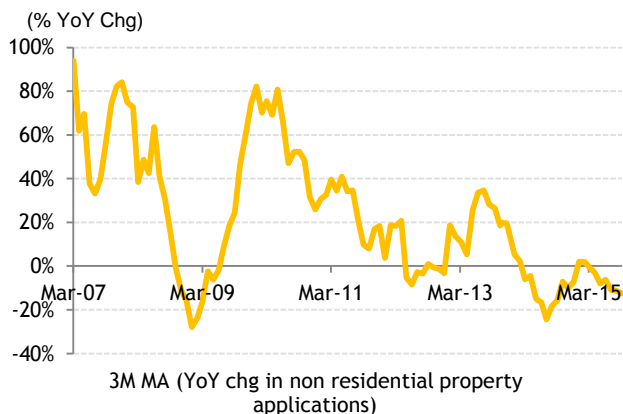
3M MA (mortgage approval rates)



Source: BNM, Maybank KE

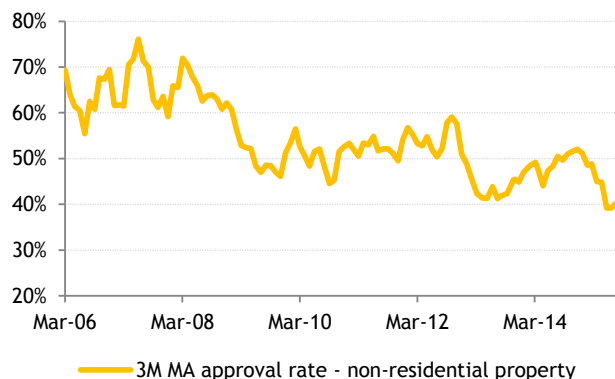
Non-residential property applications on a 3M MA basis contracted by a larger 12.5% YoY in Sep 2015 from 11.3% in August, while the 3M MA approval rate in September remained low at 40%.

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



Source: BNM, Maybank KE

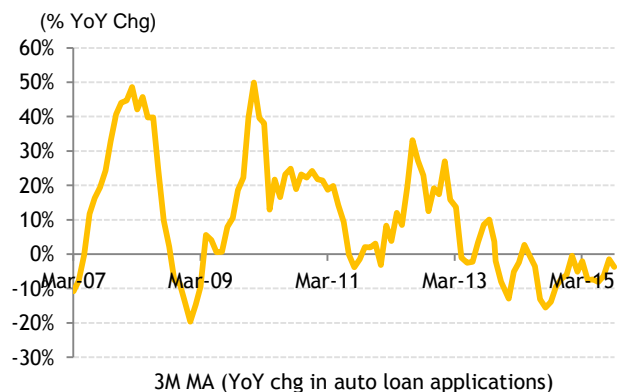
3M MA (non-residential property approval rates)



Source: BNM, Maybank KE

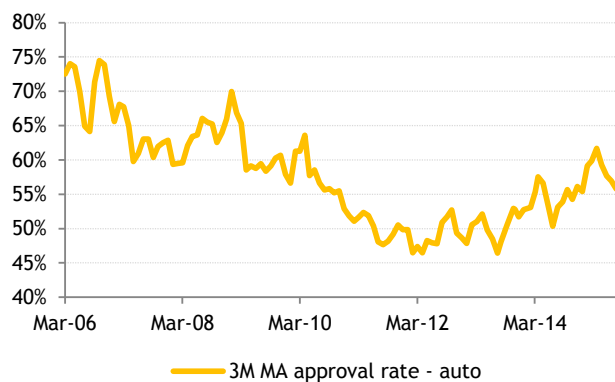
Auto loan applications (3M MA basis) contracted by 3.7% YoY in Sep 2015 vs -1.5% in Aug while the 3M MA approval rate for auto financing was stable at 56%.

3M MA (YoY chg in auto loan applications)



Source: BNM, Maybank KE

3M MA (auto loan approval rates)

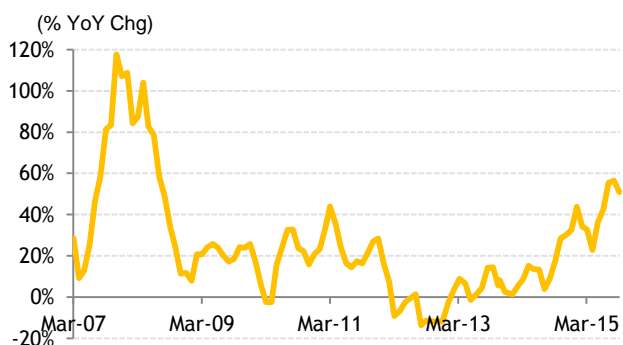


Source: BNM, Maybank KE

Personal loan applications continue to be strong with 3M MA growth of 51% YoY in Sep 2015 versus 56% YoY in August. Approval rates, however, continue to be low at just 25%, reflecting banks' averseness towards lending to this segment.

Credit card loan application growth on a 3M MA basis was an even higher 64% YoY in Sep 2015 vs 64% YoY in August. Approval rates however, slipped to just 44% in Sep 2015 from 48% in August.

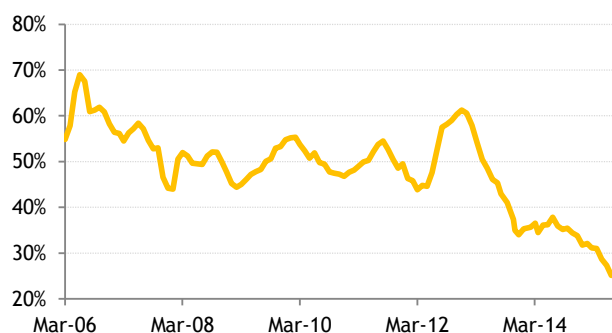
3M MA (YoY chg in personal loan applications)



3M MA (YoY chg in personal loan applications)

Source: BNM, Maybank KE

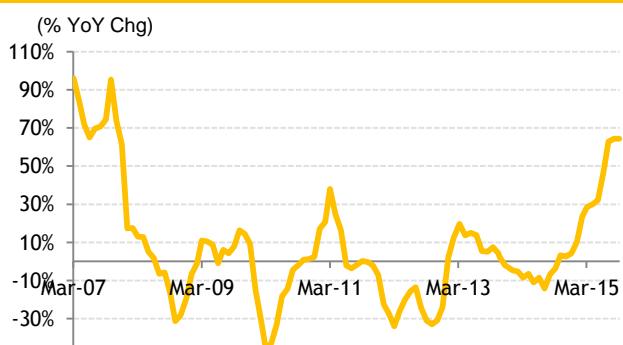
3M MA (personal loan approval rates)



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)

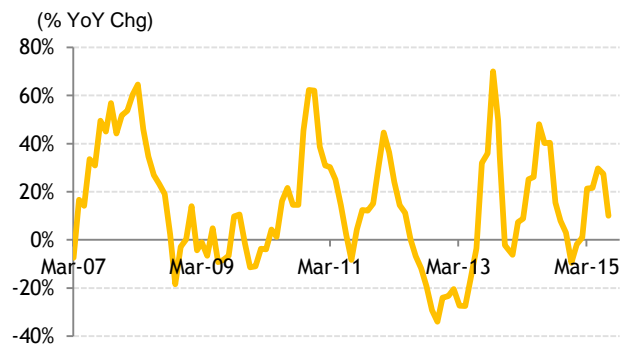


3M MA approval rate - credit cards

Source: BNM, Maybank KE

Working capital loan applications grew at a slower pace of 10.1% YoY on a 3M MA basis in Sep 2015 vs 27.5% in Aug 2015. The 3M MA approval rate was a lower 42% in Sep 2015 versus 44% in Aug 2015.

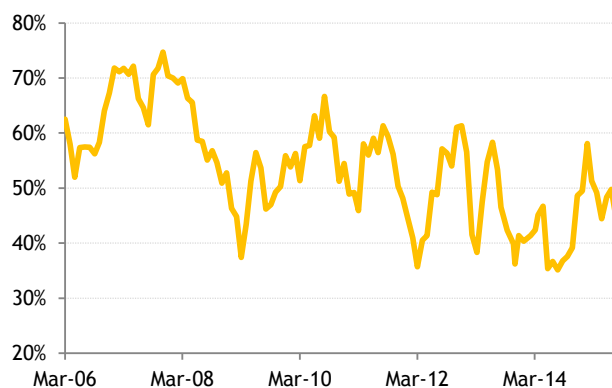
3M MA (YoY chg in working capital loan applications)



3M MA (YoY chg in working capital)

Source: BNM, Maybank KE

3M MA (working capital loan approval rates)



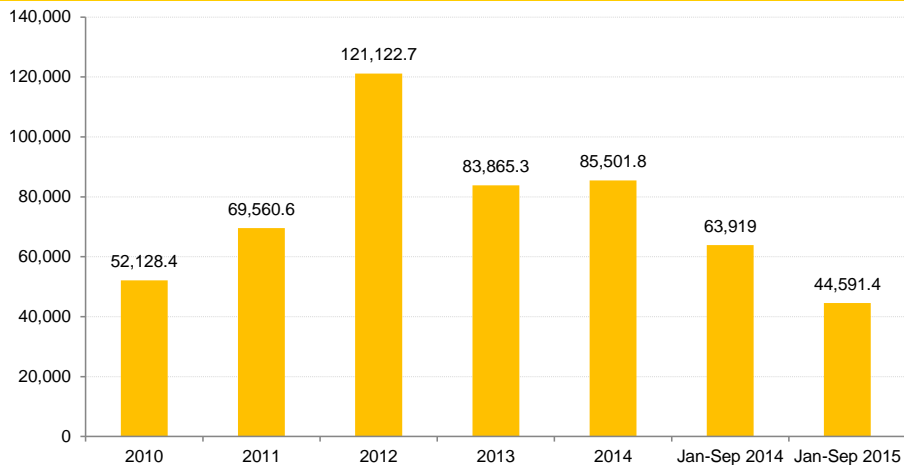
3M MA approval rate - working capital

Source: BNM, Maybank KE

### September bond issuances decline

PDS issuances totalled MYR4.1b in Sep 2015 vs MYR6.4b in Aug 2015 and MYR11.8b in Sep 2014. On a cumulative basis, PDS issuances totalled MYR44.6b in 9M15, down 30% YoY against the cumulative total of MYR63.9b in 9M14.

PDS Issuances (2010 to Sep 2015, MYR'm)



Source: BNM, Maybank KE

### Spreads slip to just 1.3%

Interest spreads narrowed further in September to 1.30% from 1.32% in August, this being a recent new low. Average lending rates were the primary cause of this decline, slipping to 4.49% in Sep 2015 from 4.51% in August.

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



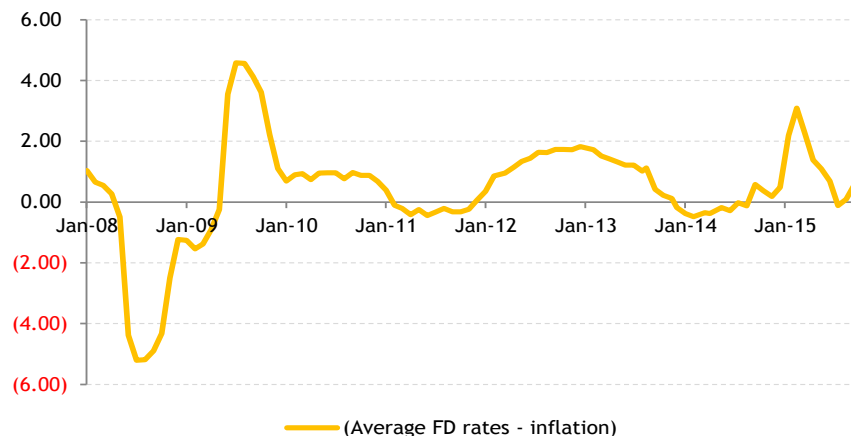
Source: BNM, Maybank KE



### Deposit rate-CPI gap still in positive territory

Malaysia’s inflation rate softened to 2.6% in Sep 2015 from 3.1% in August. As a result, real rates of return remained in positive territory with a deposit rate-CPI gap of +0.59% in September versus 0.09% in August.

Differential between average fixed deposit rates and inflation



Source: BNM, Maybank KE

### LDR dips slightly but still above 90%

The industry’s loan/deposit ratio (LDR) dipped marginally to 90.1% end-Sep 2015 from 90.4% end-Aug 2015.

Loan/deposit ratio (Mar 2009 - Sep 2015)



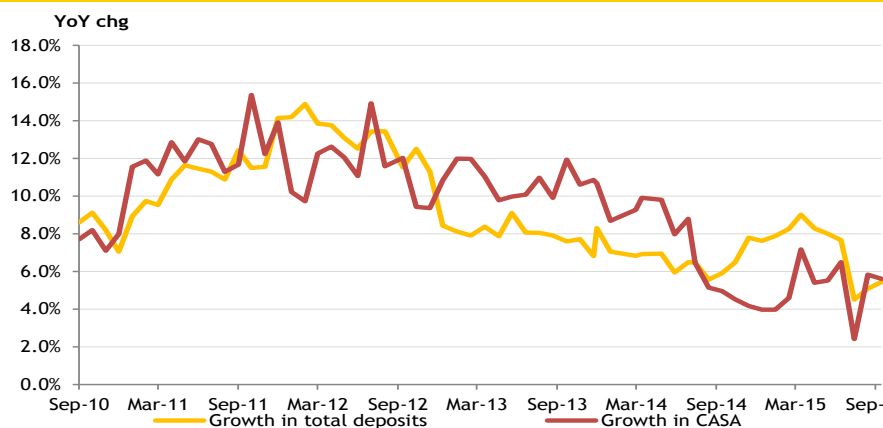
Source: BNM, Maybank KE

### Deposits stable, but growth tepid

Deposit growth was a marginally faster 5.4% YoY end-Sep 2015 versus 5.1% end-August. The pace, however, continues to be very tepid at just 2% on an annualized basis.

Fixed deposits contracted MoM and accounted for just 34.7% of total deposits (35.3% end-August) as CASA improved to 25.8% of total deposits from 25.7% end-August.

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

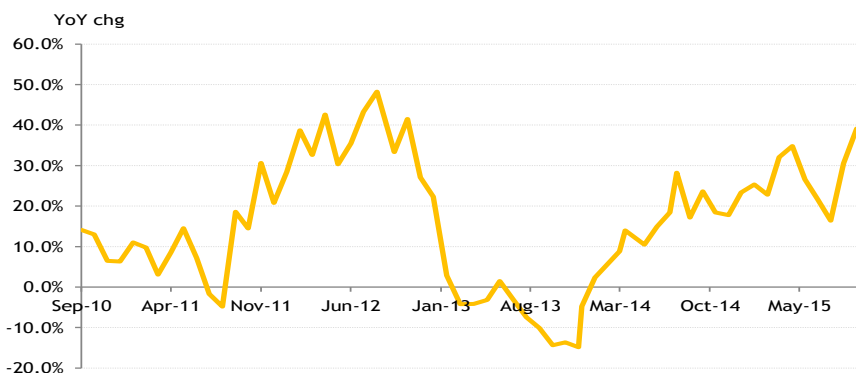


Source: BNM, Maybank KE

### Foreign currency deposits still rising rapidly

Foreign currency deposits, however, continue to expand at an accelerated pace of 39% YoY end-Sep 2015. Foreign currency deposits currently make up 7.3% of total system deposits, compared to less than 3% of total deposits back in 2007.

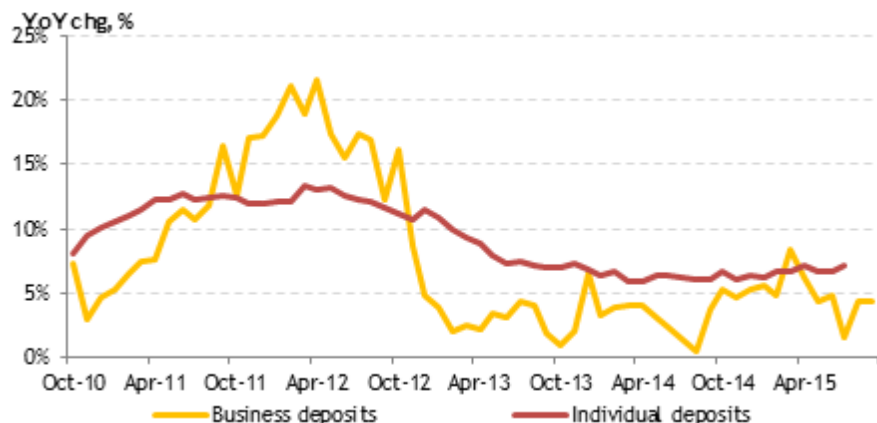
Foreign currency deposit growth (Sep 2010 - Sep 2015)



Source: BNM, Maybank KE

Positively, individual deposit growth has remained stable at about 6-7% YoY, to counter the slowdown in business deposit growth to about 4% YoY.

**Business deposits vs Individual deposits growth (Oct 2010 - Sep 2015)**



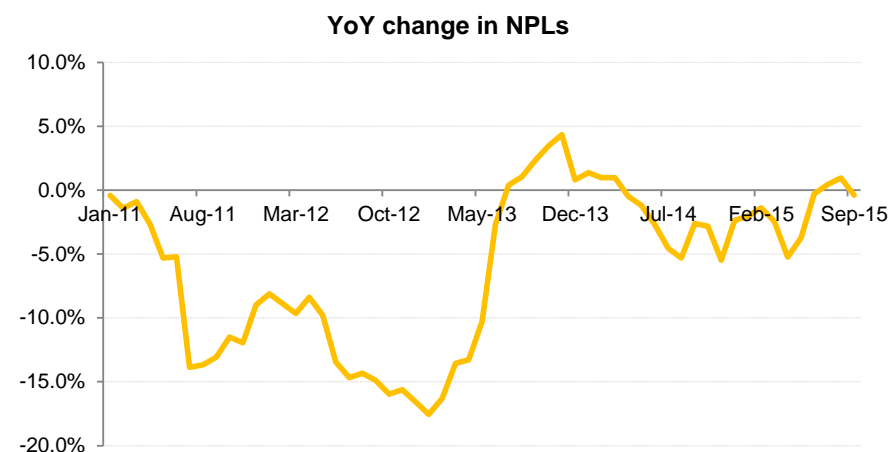
Source: BNM, Maybank KE

**Absolute NPLs up MoM and YTD**

Absolute NPLs rose 1.9% MoM led by an 8.3% MoM increase in non-residential property NPLs and a 4% MoM increase in working capital NPLs. On a YoY basis, however, absolute NPLs were flat (-0.4%).

The industry’s gross NPL ratio was relatively stable at 1.62% end-Sep 2015 vs 1.60% end-August with a loan loss coverage ratio of 98.1% versus 97.6%.

**YoY chg in absolute NPLs (Jan 2011 - Sep 2015)**



Source: BNM, Maybank KE

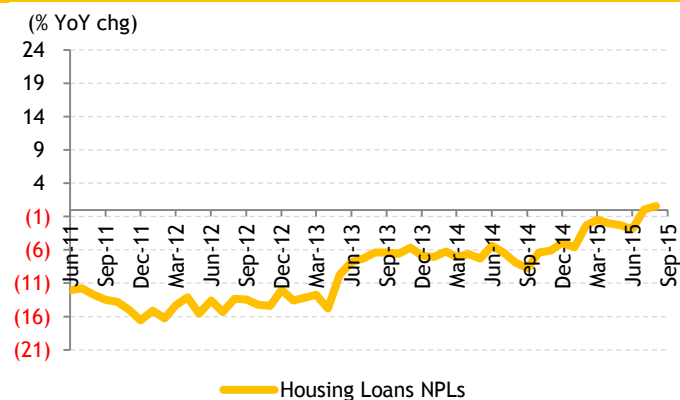
On a segmental basis, the NPL ratios have been rising over the past few months in the non-residential property and credit card segments. The former has seen its gross NPL ratio rise from 0.75% end-Dec 2014 to 0.96% end-Sep 2015 while the aggregate credit card NPL ratio was 1.35% end-Sep 2015 vs 1.21% end-Dec 2014. The gross NPL ratio for working capital, meanwhile, has risen over the past two months from a low of 2.27% end-Jul 2015 to 2.41% end-Sep 2015.

Gross NPL ratios by segment

	Sep 15	Aug 15	Jul 15	Jun 15	May 15
Securities	0.46%	0.43%	0.43%	0.50%	0.28%
Transport vehicles	1.03%	1.11%	1.07%	1.06%	1.13%
<i>Passenger vehicles</i>	1.02%	1.09%	1.05%	1.05%	1.12%
Residential property	1.21%	1.21%	1.21%	1.22%	1.22%
Non-residential property	0.96%	0.90%	0.90%	0.86%	0.83%
Fixed assets	1.53%	1.54%	1.58%	1.56%	1.61%
Personal use	1.67%	1.68%	1.68%	1.63%	1.74%
Credit card	1.35%	1.34%	1.31%	1.29%	1.30%
Consumer durables	1.37%	1.26%	1.15%	1.39%	1.62%
Construction	6.01%	6.14%	7.73%	6.12%	5.95%
Working capital	2.41%	2.34%	2.27%	2.49%	2.40%
Other purposes	2.13%	2.16%	2.14%	2.17%	2.28%
<b>Total</b>	<b>1.62%</b>	<b>1.60%</b>	<b>1.62%</b>	<b>1.62%</b>	<b>1.59%</b>

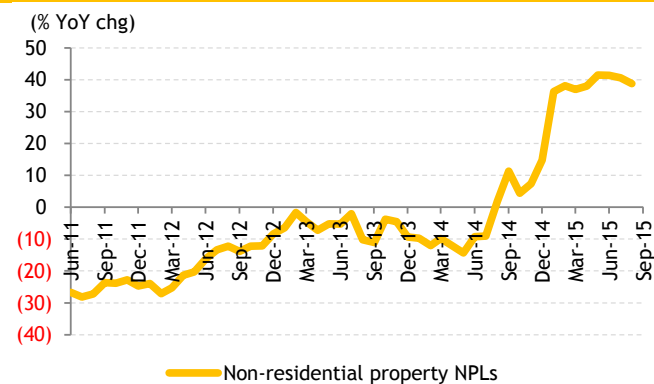
Source: BNM

Housing NPLs (% YoY chg)



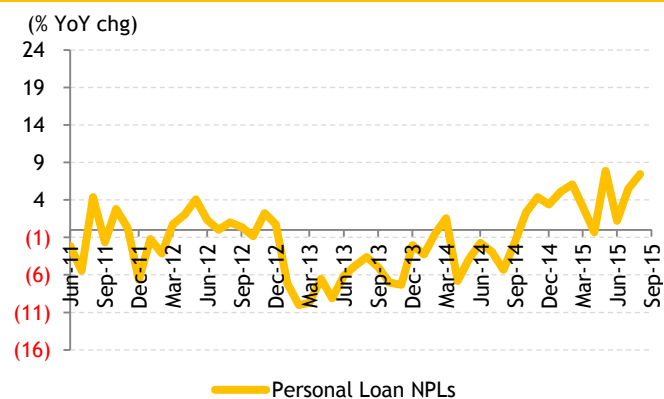
Source: BNM, Maybank KE

Non-residential NPLs (% YoY change)



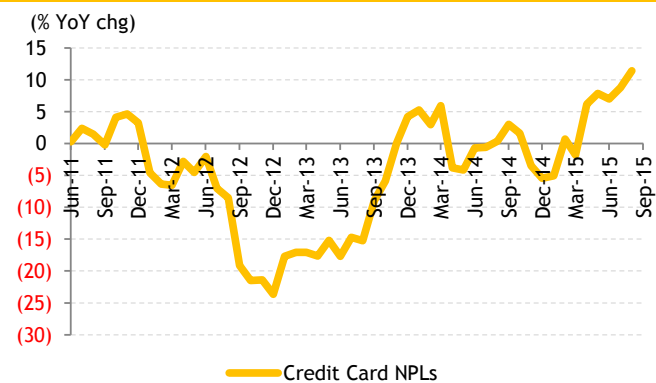
Source: BNM, Maybank KE

Personal loans NPLs (% YoY chg)



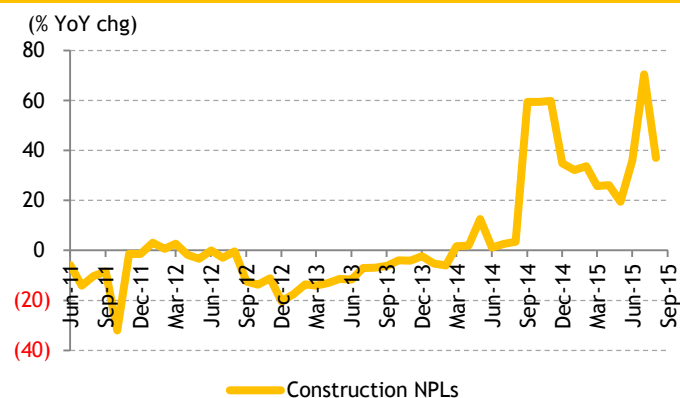
Source: BNM, Maybank KE

Credit card NPLs (% YoY change)



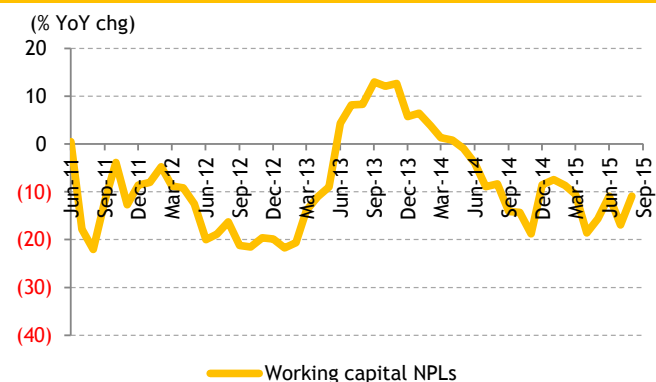
Source: BNM, Maybank KE

Construction NPLs (% YoY chg)



Source: BNM, Maybank KE

Working capital NPLs (% YoY change)



Source: BNM, Maybank KE

Capital positions comfortable

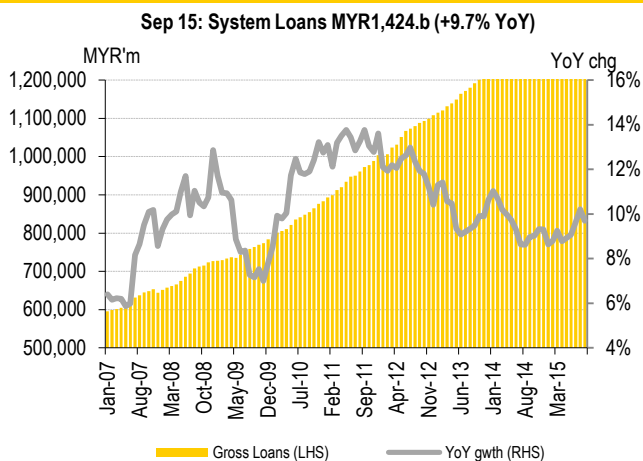
The industry's CET1, core capital and risk-weighted capital ratios were unchanged MoM in Sep 2015 at 12.1%, 12.7% and 14.8% respectively.

**Loan momentum**

(% YoY)	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15
Gross loans	+9.0	+9.3	+9.3	+8.6	+8.8	+9.2	+8.8	+8.9	+9.1	+9.7	+10.2	+9.7
- Non-HHs	+7.1	+8.2	+8.5	+7.3	+7.6	+8.5	+8.0	+8.8	+9.5	+11.2	+12.8	+11.9
- Households	+10.5	+10.2	+9.9	+9.7	+9.7	+9.8	+9.4	+9.0	+8.7	+8.6	+8.3	+8.1
Applications	-4.4	+0.1	+4.8	+10.1	-17.1	-4.0	0.7	-2.9	+3.6	+7.0	+3.1	-2.0
Approvals	+13.1	+10.8	+2.0	+9.3	-1.4	1.7	-2.4	0.6	15.1	-0.9	-9.1	-15.2

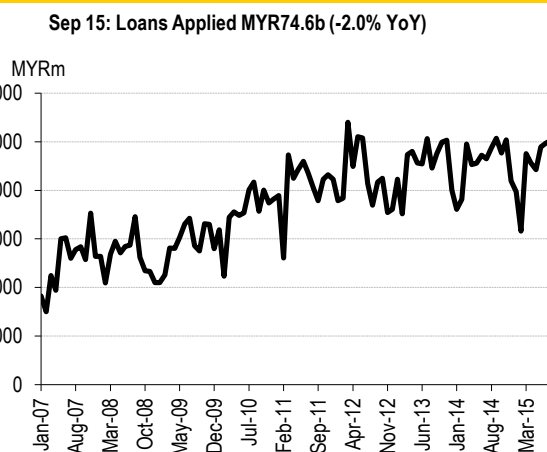
Source: BNM

**Banking system loans**



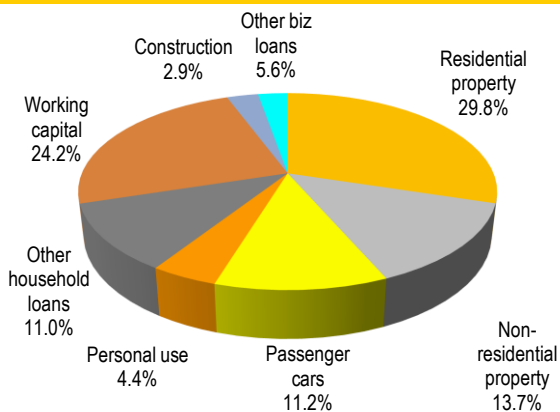
Source: BNM

**Banking system loan applications**



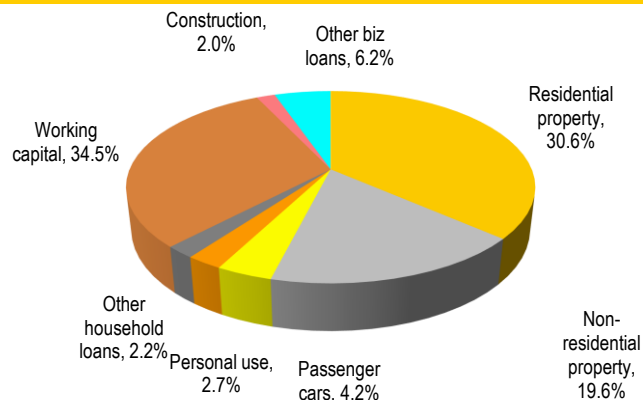
Source: BNM

**Loans composition: MYR1,424.0b @ Sep 2015**



Source: BNM

**Net loan additions: MYR84.3b in 2015 (9M 2015)**



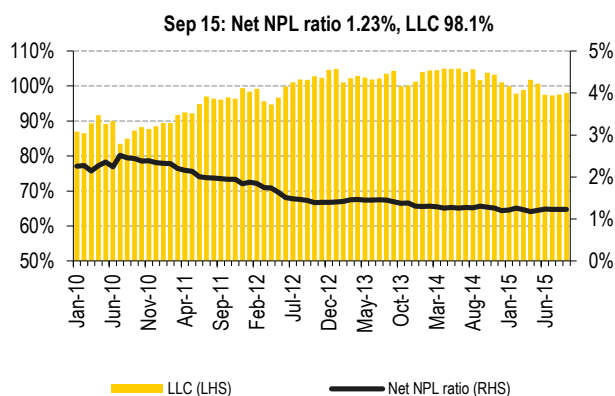
Source: BNM

**Asset quality & capitalisation**

	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15
Gross NPL (MYRb)	22.8	22.5	22.0	22.3	22.5	22.2	21.3	21.9	22.5	22.5	22.6	23.0
Net NPL (%)	1.28	1.26	1.20	1.21	1.26	1.22	1.17	1.20	1.24	1.23	1.23	1.23
LLC (%)	103.8	103.3	101.0	99.9	97.9	98.7	101.8	100.6	97.5	97.3	97.6	98.1
Tier 1 cap (%)	13.6	13.3	14.0	13.4	13.3	13.2	13.2	13.1	13.3	13.5	12.8	12.8
RWCR (%)	15.6	15.3	15.9	15.4	15.3	15.2	15.1	15.1	15.3	15.6	14.8	14.8

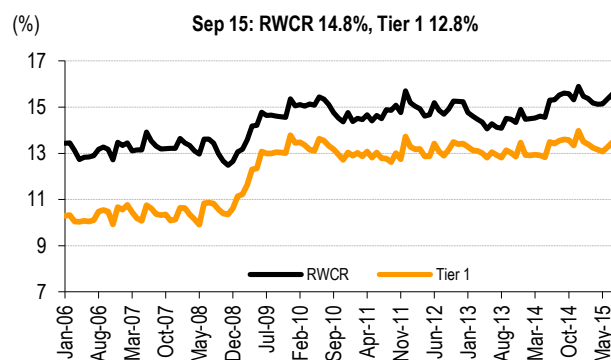
Source: BNM

Banking system NPL ratio and loan loss coverage



Source: BNM

Banking system capital ratios



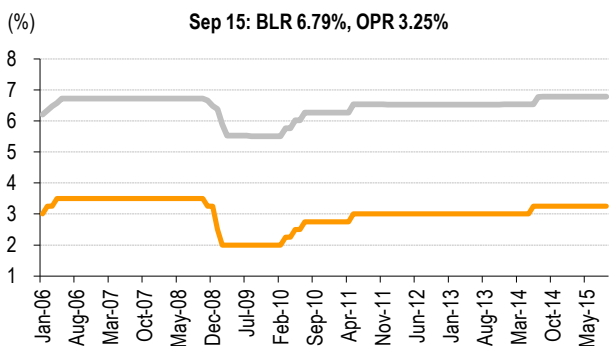
Source: BNM

Interest rates

(%)	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 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	4.67	4.65	4.67	4.64	4.67	4.70	4.65	4.61	4.57	4.54	4.51	4.49
ADR	3.18	3.19	3.19	3.16	3.16	3.16	3.16	3.17	3.19	3.19	3.19	3.19
ADR-CPI	0.38	0.19	0.49	2.16	3.06	2.26	1.36	1.07	1.06	1.06	1.05	1.06

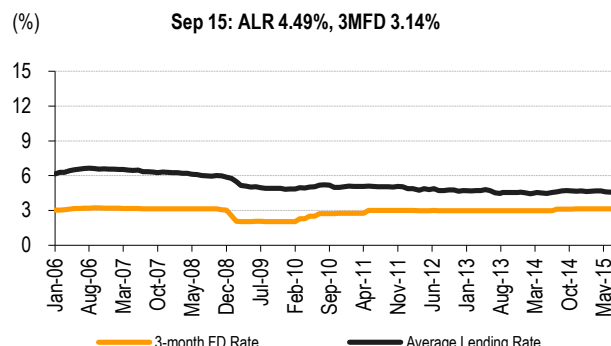
Note: ADR refers to the average of fixed deposit rates; Source: BNM

Banking system BLR and OPR



Source: BNM

Banking system interest rates



Source: BNM

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