

Malaysia Banking

NEUTRAL

[Unchanged]

Loan growth decelerates

Loan growth drops off while deposits contract

Industry loan growth slipped 1-ppt to just 6.4% YoY in Mar 2016. Deposits, meanwhile, contracted 0.9% YoY versus +0.7% YoY in Feb 2016. The risk to our 2016 industry loan growth forecast of 6.5% (+7.9% in 2015) is to the downside if current trends persist. NEUTRAL maintained on the sector - BUY AFG, HL Bank and HLF, SELL AMMB and CIMB.

Analyst

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Loan approval rate declines

Household (HH) loan growth slowed to just 6.4% YoY in Mar 2016 from 7.0% YoY in Feb 2016 (annualized growth was just 3.5% in Mar 2016) while non-HH loan growth slowed to 6.5% YoY from 8.0% YoY (-1.8% annualized). On an annualized basis, industry loan growth was just 1.2%.

Loan application growth on a 3-month moving average (3M MA) basis held steady at 5.6% YoY but 3M MA loan approvals contracted 18% YoY. As a result, there was a drop in average loan approval rates to 41% end-Mar 2016 from 46% in Feb 2016.

Deposits contract YoY

Deposit growth slipped into negative territory for the very first time since the GFC, contracting 0.9% YoY versus +0.7% YoY in Feb 2016. CASA contracted by a larger 2.7% versus a growth of 2.5% YoY in Feb 2016.

Despite the contraction in deposits, the industry's loan/deposit ratio (LDR) dipped further to 87.7% end-Mar 2016 from 88.0% end-Feb 2016, which is a bit of an anomaly. This is especially since the loan/fund ratio notched up slightly to 82.4% from 82.3% end-Feb 2016 while the loan/fund and equity ratio also rose marginally to 73.9% from 73.8%.

Little indication of asset stress

The industry's gross NPL ratio was stable at 1.60% and loan loss coverage improved marginally to 94.3% end-Mar from 92.8% end-Feb 2016. While we are seeing rising absolute NPLs on a YoY basis, NPL ratios across all key segments remain comfortable and relatively benign.

Banking Sector – Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY16E	PER (x) CY17E	P/B (x) CY16E	P/B (x) CY17E	ROAE (%) CY16E	ROAE (%) CY17E	Net yield CY16E	Net yield CY17E
AFG	BUY	4.00	6,099	4.60	11.2	10.9	1.2	1.2	11.1	10.8	4.2	4.3
AMMB	SELL	4.53	13,654	4.10	10.3	10.1	0.9	0.8	8.5	8.3	4.2	4.2
CIMB	SELL	4.67	40,764	4.40	10.2	9.6	0.9	0.9	9.3	9.4	4.1	4.5
HL Bank	BUY	13.46	27,622	15.00	12.5	12.5	1.3	1.2	10.2	10.2	2.6	2.6
Maybank *	NR	8.93	87,276	NR	13.2	13.4	1.4	1.3	10.7	10.3	6.1	6.0
Public Bank	HOLD	18.70	72,210	19.70	13.9	13.4	2.1	1.9	15.7	14.7	3.1	3.2
RHB Cap	HOLD	6.12	18,817	6.30	10.7	10.4	1.1	1.0	8.9	10.5	2.3	2.5
Simple avg			266,442		11.7	11.5	1.3	1.2	10.6	10.6	3.8	3.9
MC-wtd					12.5	12.3	1.5	1.4	11.6	11.3	4.2	4.3
BIMB	HOLD	3.85	6,116	3.90	12.1	11.8	1.6	1.4	13.7	12.8	2.3	2.4
HLFG	BUY	14.94	17,110	17.00	9.6	9.2	1.1	1.0	11.2	10.7	2.2	2.3

* Consensus estimates Source: Maybank KE

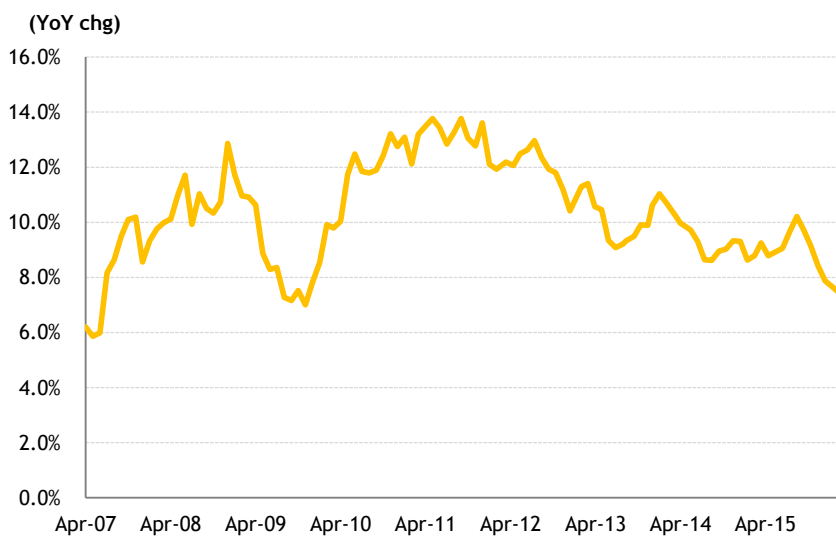
Loan growth drops to just 6.4% YoY

Industry loan growth moderated most notably in March 2016, slowing to just 6.4% YoY from 7.4% YoY end-Feb 2016. Growth on an annualized basis was just 1.2%.

Household (HH) loan growth slowed to just 6.4% YoY in Mar 2016 from 7.0% YoY in Feb 2016 (annualized growth was just 3.5% in Mar 2016) while non-HH loan growth slowed to 6.5% YoY from 8.0% YoY (and contracted 1.8% on an annualized basis).

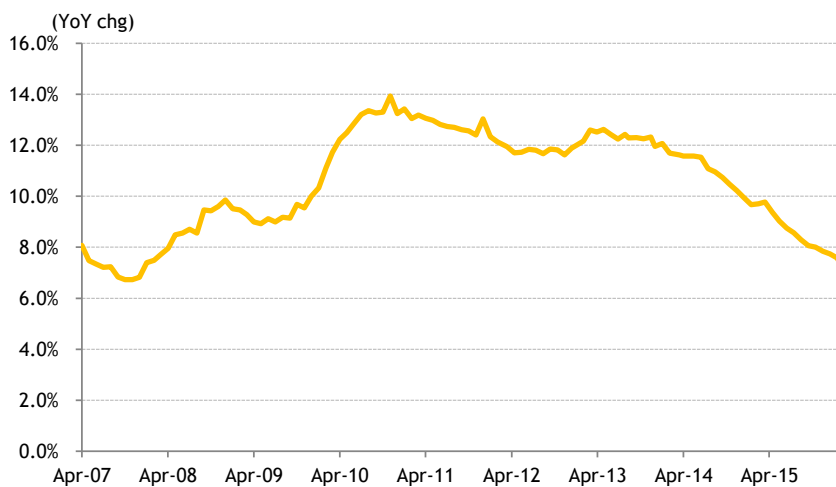
Our industry loan growth forecast stands at 6.5% for 2016 (+7.9% in 2015), premised on a further slowdown in HH loan growth to 6.1% (+7.7% in 2015) and non-HH loan growth to 7.0% (+8.0% in 2015). The risk to our forecast is to the downside if current trends persist over the next few months.

Total industry YoY loan growth (Apr 2007 - Mar 2016)



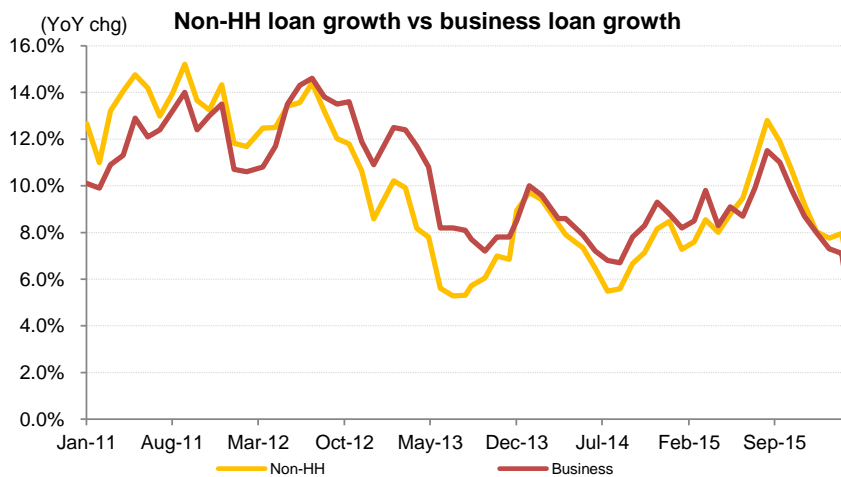
Source: BNM, Maybank KE

YoY household loan growth (Apr 2007 - Mar 2016)



Source: BNM, Maybank KE

Non-household & business loan growth (Jan 2011 - Mar 2016)



Source: BNM, Maybank KE

Personal loans still holding up

The only HH segment to sustain relatively higher growth momentum was personal loans, which grew 7.1% YoY end-Mar 2016 versus 6.1% YoY end-Feb. Share margin financing and credit card loans continued to contract YoY. Residential and non-residential property lending growth moderated to 11% YoY (end-Mar 2016) from 11.4% YoY (end-Feb 2016) and to 8.2% YoY from 10.2% YoY respectively. Passenger vehicle financing grew at a muted pace of just 1.1%.

On the non-HH front, real estate financing continues to slow but construction lending remains firm.

Segmental YoY loan growth by sector

	Mar 16	Feb 16	Jan 16	Dec 15	% of total
Primary agriculture	9.8%	17.0%	15.9%	19.4%	2.5%
Mining and quarrying	14.8%	18.2%	23.2%	47.8%	0.9%
Manufacturing	0.7%	2.0%	0.7%	1.4%	6.9%
Utilities	-17.2%	-3.6%	-11.7%	-11.2%	0.6%
Wholesale/retail	7.0%	7.8%	8.2%	8.2%	7.4%
Construction	9.6%	9.7%	9.4%	8.6%	4.4%
Real estate	13.8%	14.6%	15.6%	14.6%	7.0%
Transport/storage	-1.3%	0.9%	5.3%	4.5%	2.3%
Finance and business	8.8%	7.8%	9.5%	6.3%	6.9%
Education/health	5.1%	4.7%	-2.0%	6.3%	2.7%
Household sector	6.4%	7.0%	7.6%	7.7%	57.1%
Other sector	-2.9%	10.2%	10.8%	3.9%	1.1%
Total	6.4%	7.4%	7.7%	7.9%	100.0%

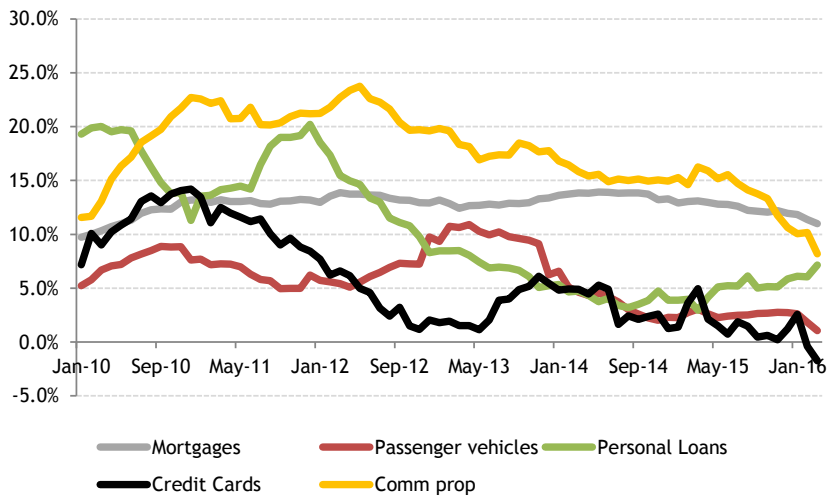
Source: BNM

Segmental YoY loan growth by business purpose

	Mar 16	Feb 16	Jan 16	Dec 15	% of total
Securities	-7.4%	-4.1%	-3.0%	-1.9%	4.9%
Transport vehicles	0.6%	1.4%	2.1%	2.3%	11.6%
<i>Of which passenger cars</i>	1.1%	1.8%	2.6%	2.7%	11.0%
Residential property	11.0%	11.4%	11.8%	11.9%	30.8%
Non-residential property	8.2%	10.2%	10.1%	10.6%	13.8%
Purchase of fixed assets	-10.1%	-7.1%	-6.4%	-4.3%	0.7%
Personal use	7.1%	6.1%	6.1%	5.9%	4.4%
Credit card	-1.8%	-0.4%	2.6%	1.2%	2.4%
Consumer durables	-80.6%	-79.4%	-78.3%	-77.3%	0.0%
Construction	11.9%	8.0%	7.8%	7.6%	3.0%
Working capital	8.3%	9.8%	10.5%	10.4%	24.0%
Other purposes	-0.5%	1.5%	-3.6%	-2.4%	4.2%
Total	6.4%	7.4%	7.7%	7.9%	100.0%

Source: BNM

YoY consumer loan growth (Jan 2010 - Mar 2016)

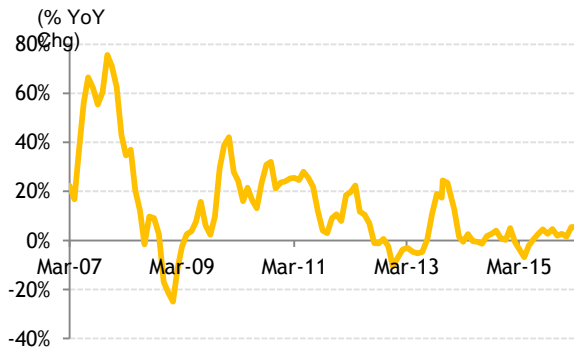


Source: BNM, Maybank KE

Loan applications up but approvals contract

Loan application growth on a 3-month moving average (3M MA) basis was 5.6% YoY end-Mar 2016 vs 5.5% YoY end-Feb 2016. Loan approvals on a 3M MA basis, however, contracted for the 7th consecutive month, and by a larger quantum of -18% versus -10% end-Feb 2016. As a result, there was a sharp drop in loan approval rates on a 3M MA basis (total loans approved during a month divided by total loans applied) to 41% end-Mar 2016 from 46% in Feb 2016.

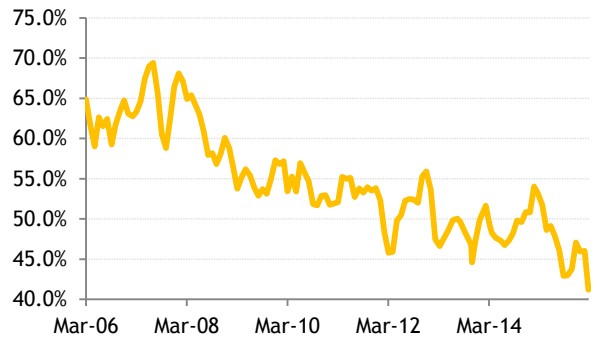
3M MA (YoY chg in total loan applications)



3M MA (YoY chg in loans applied)

Source: BNM, Maybank KE

3M MA (total loans approval rate)

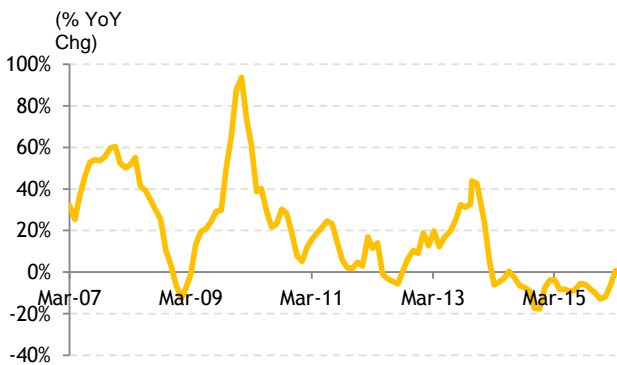


3M MA approval rate - total loans

Source: BNM, Maybank KE

Positively, mortgage applications, which had contracted over 24 consecutive months (barring a slight 0.5% YoY increase in Jun 2014), saw a slight reversal in trend to +0.8% in Mar 2016. On the flip side, however, the average approval rate for mortgage declined further to just 40% from 43% end-Feb 2016.

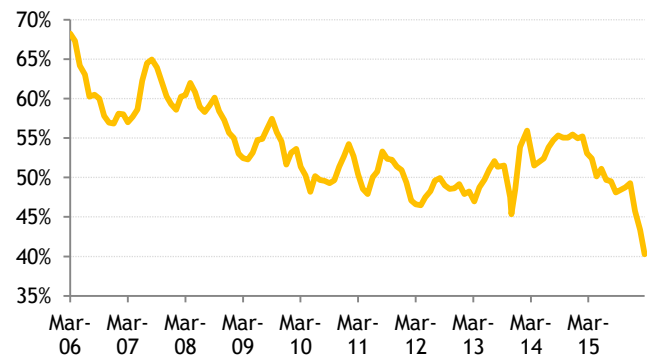
3M MA (YoY chg in mortgage applications)



3M MA (YoY chg mortgage applications)

Source: BNM, Maybank KE

3M MA (mortgage approval rates)

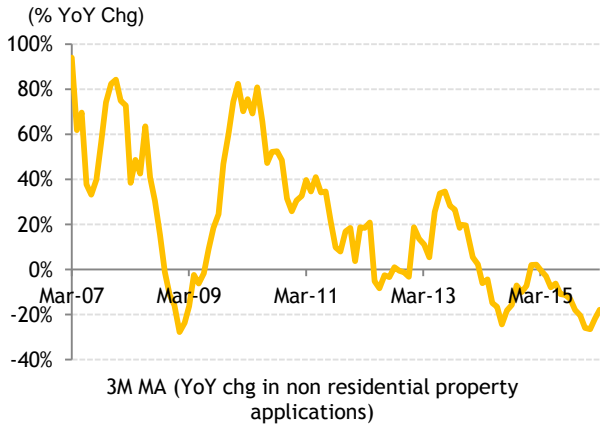


3M MA approval rate - mortgages

Source: BNM, Maybank KE

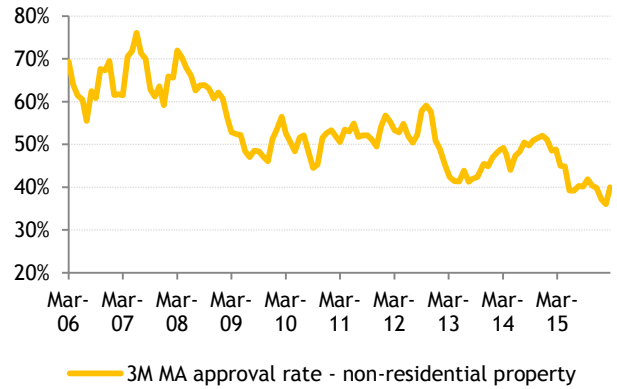
Non-residential property loan applications on a 3M MA basis remained entrenched in negative territory, contracting YoY for the 13th consecutive month. The average loan approval rate nevertheless ticked back up to 40% end-Mar 2016 from 36% end-Feb 2016.

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



Source: BNM, Maybank KE

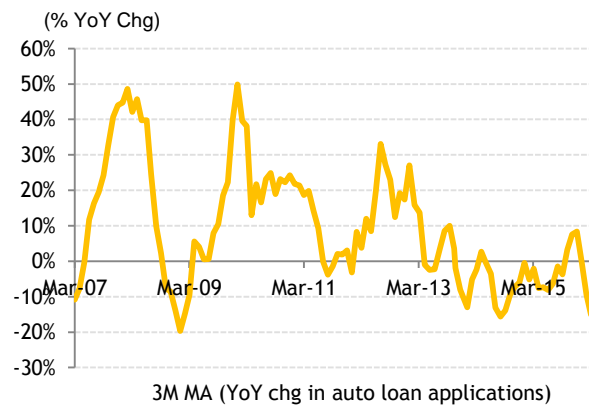
3M MA (non-residential property approval rates)



Source: BNM, Maybank KE

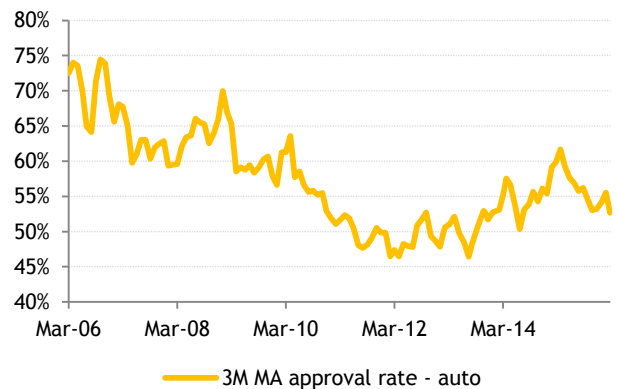
Auto loan applications (3M MA basis) contracted by a much larger 15.1% YoY in Mar 2016 versus a contraction of 9.5% YoY in Feb 2016, while the 3M MA approval rate dipped slightly to 53% from 56% in Feb 2016. This trend very much mirrors the decline in auto sales throughout the country.

3M MA (YoY chg in auto loan applications)



Source: BNM, Maybank KE

3M MA (auto loan approval rates)

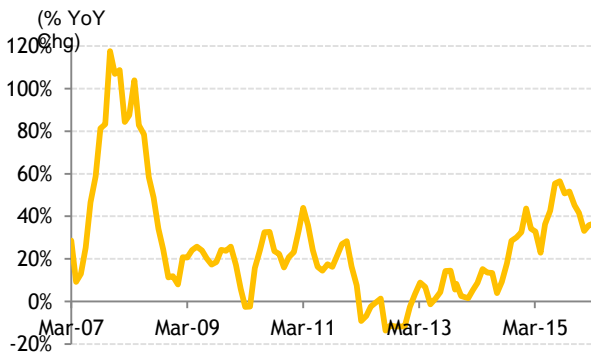


Source: BNM, Maybank KE

The pace of personal loan applications growth remained elevated at 36.7% YoY on a 3M MA basis, versus 35.9% in Feb 2016, but the average approval rate continued to plumb new lows at 23% in Mar 2016 vs 25% a month ago.

Credit card loan applications rose 57% YoY versus 54% YoY in Feb 2016, while the average approval rate was slightly lower at 43% (45% in Feb 2016).

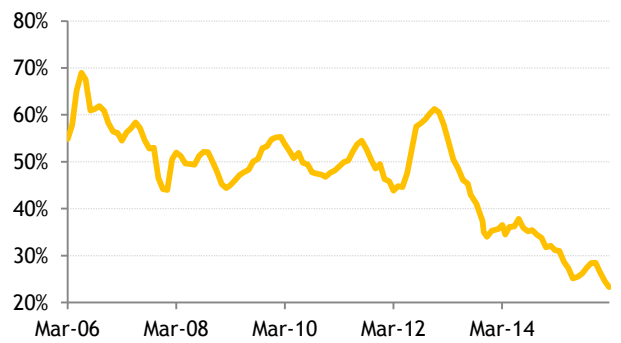
3M MA (YoY chg in personal loan applications)



3M MA (YoY chg in personal loan applications)

Source: BNM, Maybank KE

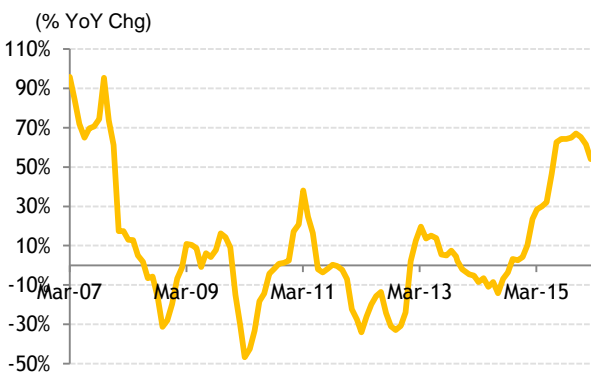
3M MA (personal loan approval rates)



3M MA approval rate - personal loans

Source: BNM, Maybank KE

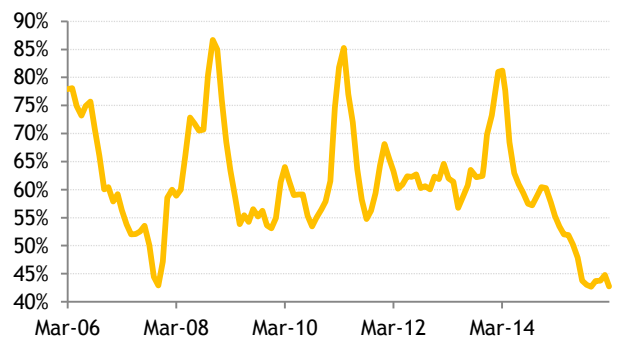
3M MA (YoY chg in credit card loan applications)



3M MA (YoY chg in credit card applications)

Source: BNM, Maybank KE

3M MA (credit card loan approval rates)

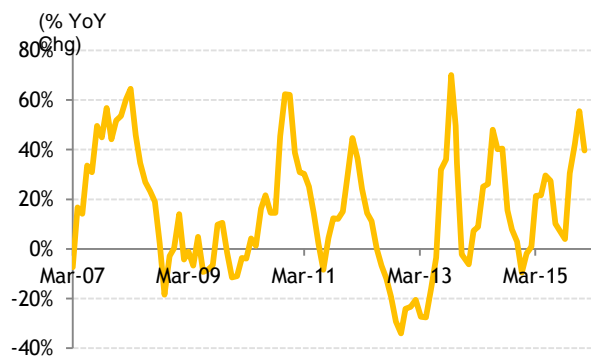


3M MA approval rate - credit cards

Source: BNM, Maybank KE

Working capital loan applications growth, on a 3M MA basis, slowed to just 40% YoY from 55% YoY in Feb 2016. The approval rate, however, dropped to 38% from 44% in Feb 2016.

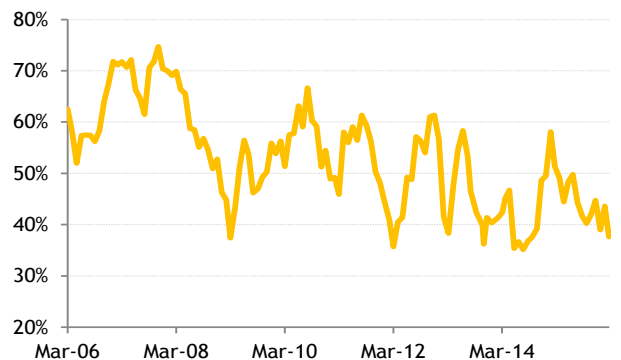
3M MA (YoY chg in working capital loan applications)



3M MA (YoY chg in working capital)

Source: BNM, Maybank KE

3M MA (working capital loan approval rates)



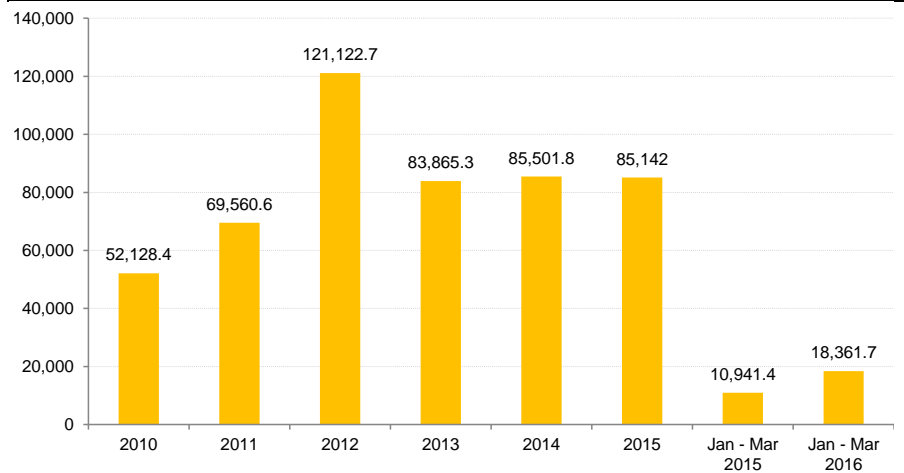
3M MA approval rate - working capital

Source: BNM, Maybank KE

Bond issuances smaller in size MoM

Bond issues totalled MYR5.2b in Mar 2016 versus MYR11.1b in Feb 2016, taking the YTD total to MYR18.4b, which was still higher than the cumulative total of MYR10.9b in the first three months of 2015.

PDS Issuances (2010 to Mar 2016, MYR'm)

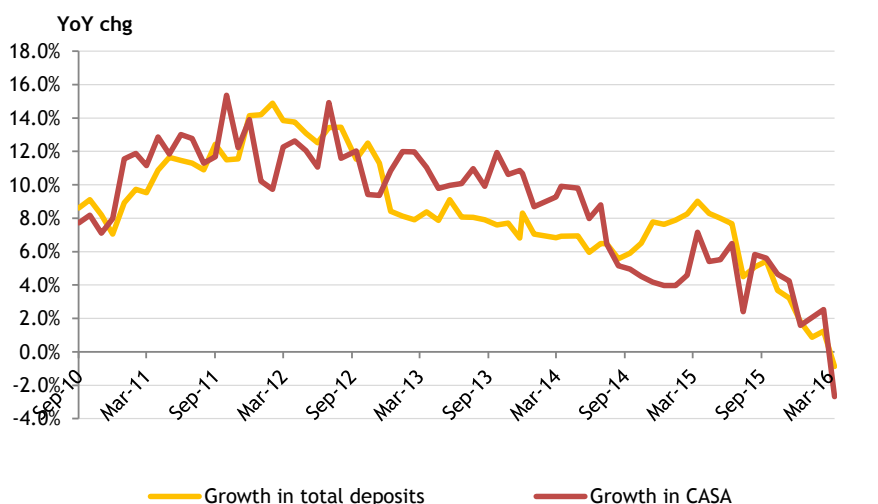


Source: BNM, Maybank KE

Deposits contract YoY

What is not positive is that deposit growth slipped into negative territory for the very first time since the GFC, contracting 0.9% YoY versus +0.7% YoY in Feb 2016. CASA contracted by a larger 2.7% versus a growth of 2.5% YoY in Feb 2016.

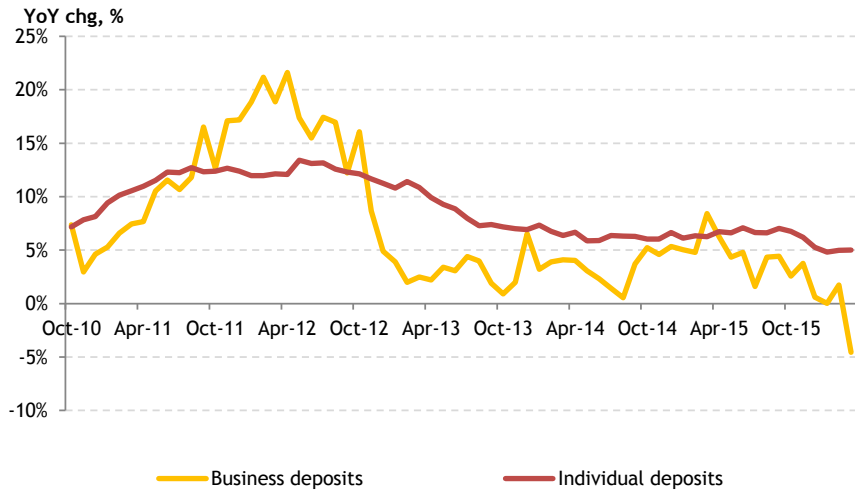
Total deposit vs CASA growth (Sep 2010 - Mar 2016)



Source: BNM, Maybank KE

Taking a look at deposit growth by holder, individual deposit growth was stable at 5.0% YoY but business deposits contracted 4.6% YoY. Financial institutions deposits contracted YoY for the sixth consecutive month, falling 8.3% YoY in Mar 2016 while Government deposits grew 3.0% YoY.

Business deposits vs Individual deposits growth (Oct 2010 - Mar 2016)

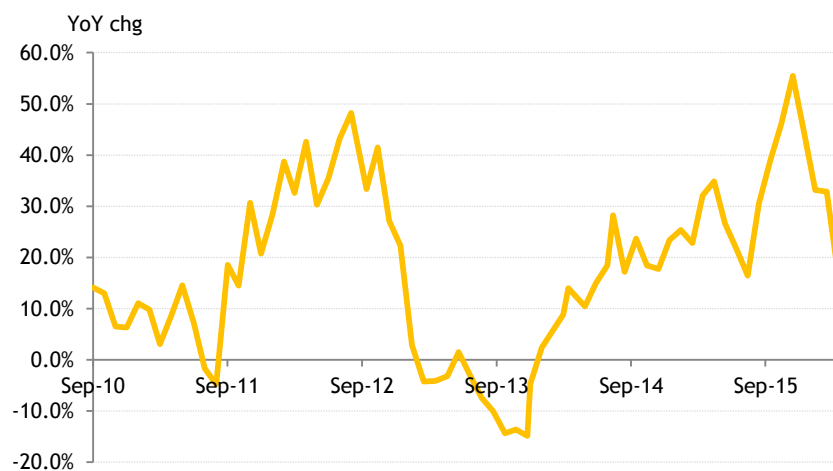


Source: BNM, Maybank KE

Foreign currency deposit growth moderates

Foreign currency deposits rose just 17% YoY in Mar 2016, with the pace of growth moderating substantially from a peak of 55% YoY in Nov 2015, largely on account of the strengthening of the MYR in Mar 2016, we believe. Such deposits accounted for 7.6% of total deposits end Mar 2016, in contrast to just 2.6% of total deposits back in Dec 2007.

Foreign currency deposit growth (Sep 2010 - Mar 2016)



Source: BNM, Maybank KE

LDR trend needs further clarification

Despite the contraction in deposits, the industry’s loan/deposit ratio (LDR) dipped further to 87.7% end-Mar 2016 from 88.0% end-Feb 2016, which is a bit of an anomaly. This is especially since the loan/fund ratio notched up slightly to 82.4% from 82.3% end-Feb 2016 while the loan/fund and equity ratio also rose marginally to 73.9% from 73.8%.

In computing the LDR, deposits exclude interbank deposits while loans exclude loans sold to Cagamas and interbank loans. Loans also exclude financing funded by Islamic Investment Accounts. As such, one possible reason for the lower LDR despite the contraction in deposits could be a lumpy sale of loans to Cagamas, though further clarification is required.

Loan/deposit ratio (Mar 2009 - Mar 2016)



Source: BNM, Maybank KE

Spreads stable MoM

Interest spreads were stable MoM at 1.42%, taking into consideration average lending rates of 6.80% and average fixed deposit rates of 3.19%.

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

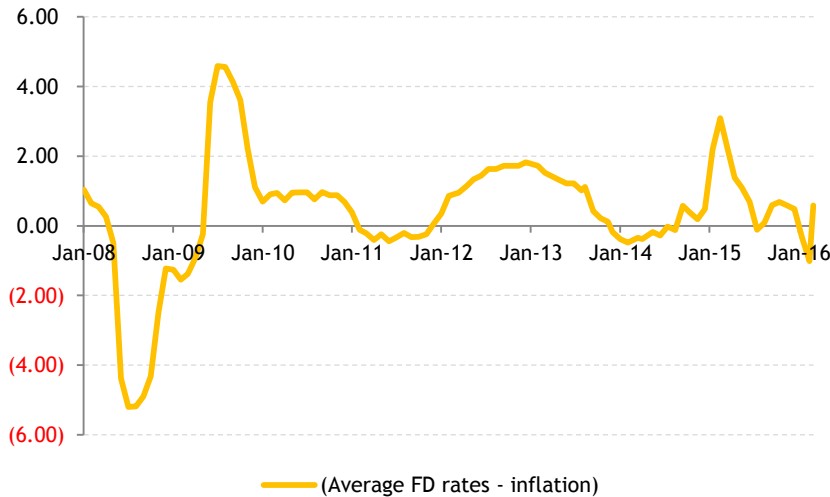


Source: BNM, Maybank KE

A return to positive territory for the deposit rate-CPI gap

Malaysia's inflation rate eased back to 2.6% YoY in Mar 2016 from 4.2% YoY in Feb 2016. The jump in Feb 2016 was largely the effect of an abnormally low inflation rate of just 0.1% in Feb 2015. With that, the real rates of return on deposits returned to positive territory in March at +59bps versus -101bps in Feb 2016.

Differential between average fixed deposit rates and inflation



Source: BNM, Maybank KE

Asset quality stable

The industry's gross NPL ratio was stable at 1.60% and loan loss coverage improved marginally to 94.3% end-Mar from 92.8% end-Feb 2016. While we are seeing rising absolute NPLs on a YoY basis, NPL ratios across all key segments remain comfortable and relatively benign.

Gross NPL ratios by segment

	Mar 16	Feb 16	Jan 16	Dec 15	Nov 15
Securities	0.46%	0.47%	0.45%	0.50%	0.44%
Transport vehicles	0.98%	1.07%	1.05%	0.95%	1.05%
<i>Passenger vehicles</i>	0.88%	0.99%	0.96%	0.94%	1.04%
Residential property	1.13%	1.19%	1.15%	1.15%	1.18%
Non-residential property	0.98%	0.99%	0.97%	0.91%	0.94%
Fixed assets	1.72%	1.95%	1.82%	1.74%	1.70%
Personal use	1.89%	2.01%	1.89%	1.87%	1.87%
Credit card	1.41%	1.47%	1.35%	1.33%	1.35%
Consumer durables	1.36%	0.91%	1.03%	1.00%	1.24%
Construction	6.82%	6.81%	6.90%	5.85%	5.95%
Working capital	2.33%	2.33%	2.25%	2.41%	2.38%
Other purposes	2.10%	2.07%	2.38%	2.37%	2.25%
Total	1.60%	1.64%	1.61%	1.60%	1.61%

Source: BNM

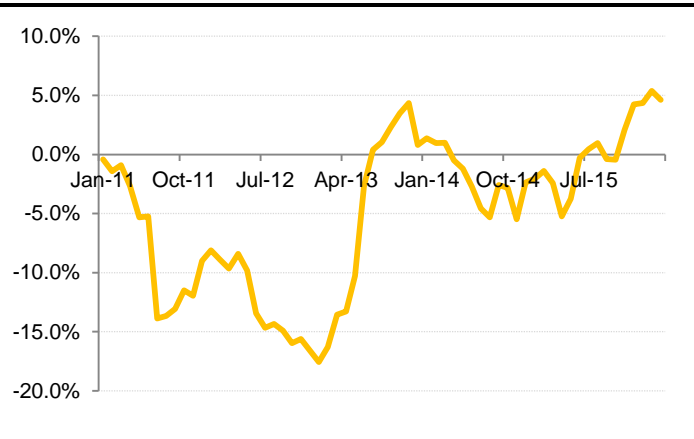
Absolute NPLs declined 2.2% MoM and rose at a more modest pace of 4.6% YoY versus a 5.4% YoY increase the month before. Positively, almost all key segments saw a MoM decline in absolute NPLs.

On an absolute basis, mortgage NPLs contracted 0.3% YoY end-Mar 2016 while auto NPLs contracted 17.9% YoY.

Absolute NPLs continued to rise in the non-residential property (+25.8% YoY), personal financing (+17.7% YoY) and credit card (+11.3% YoY) segments. Nevertheless as noted above, NPL ratios in these segments are still stable and benign at 0.98%, 1.89% and 1.41% respectively.

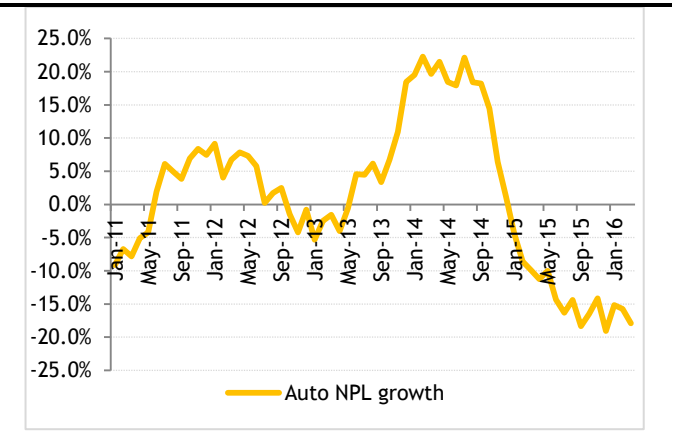
Construction NPLs jumped 32.8% YoY end-Mar 2016 but working capital NPLs contracted 1% YoY.

Total industry NPLs (% YoY chg)



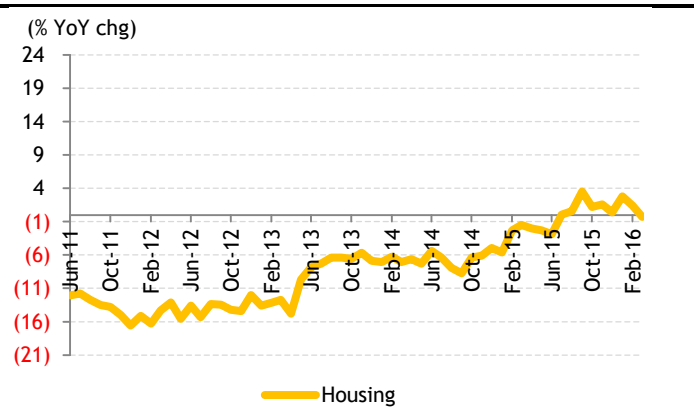
Source: BNM, Maybank KE

Auto NPLs (% YoY change)



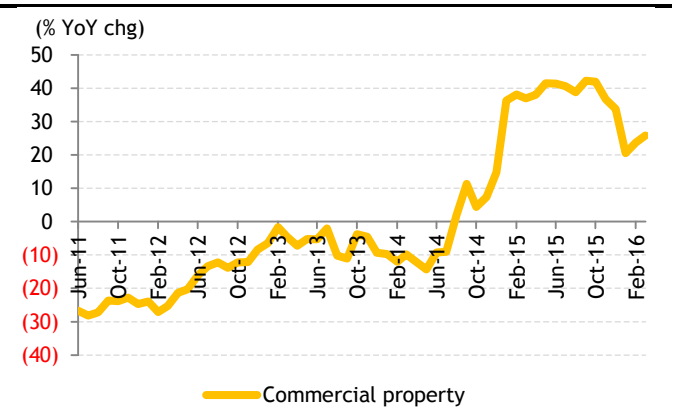
Source: BNM, Maybank KE

Housing NPLs (% YoY chg)



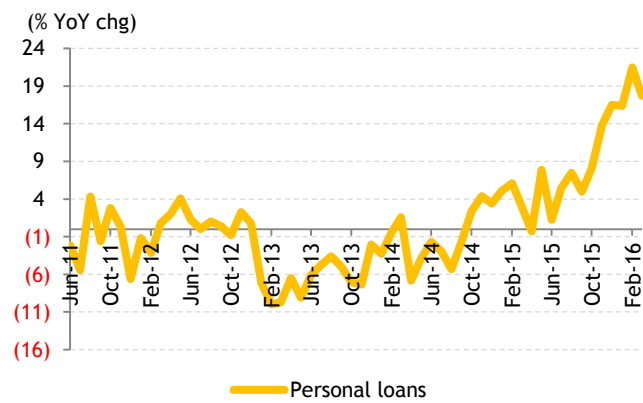
Source: BNM, Maybank KE

Non-residential NPLs (% YoY change)



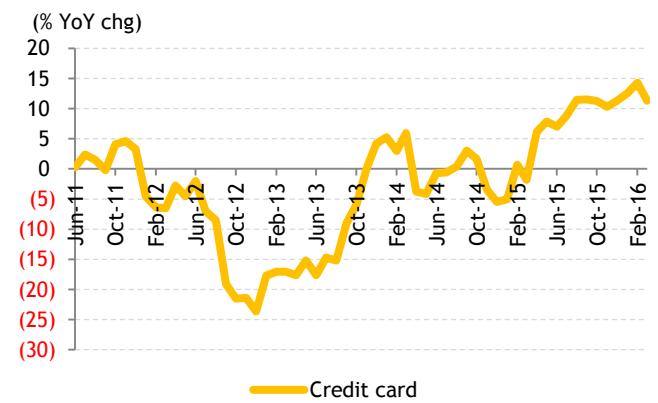
Source: BNM, Maybank KE

Personal loans NPLs (% YoY chg)



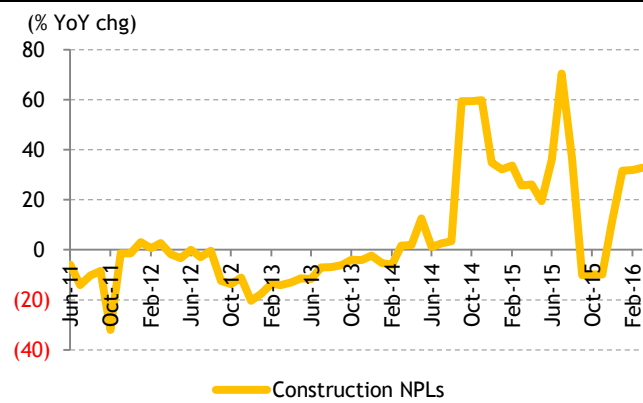
Source: BNM, Maybank KE

Credit card NPLs (% YoY change)



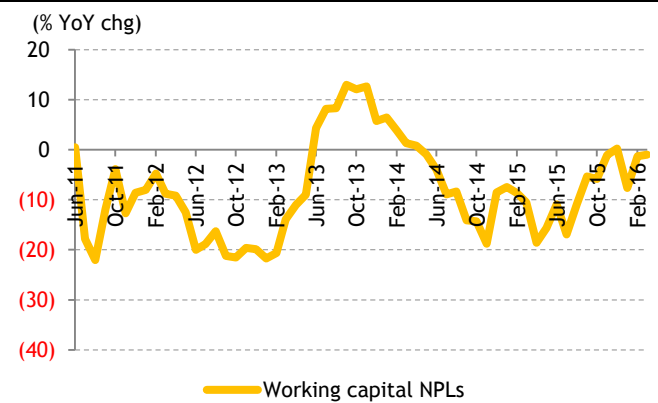
Source: BNM, Maybank KE

Construction NPLs (% YoY chg)



Source: BNM, Maybank KE

Working capital NPLs (% YoY change)



Source: BNM, Maybank KE

Capital positions improve

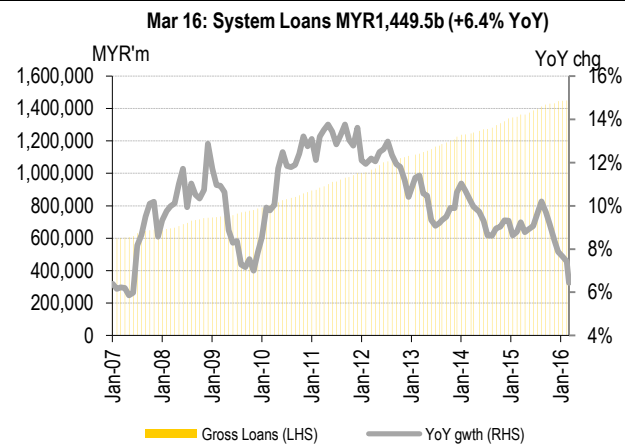
The industry's end-Mar 2016 CET1, core capital and risk-weighted capital ratios rose MoM to 13.0%, 13.9% and 16.5% respectively from 12.7%, 13.7% and 16.3% end-Feb 2016.

Loan momentum

(% YoY)	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16
Gross loans	+8.8	+8.9	+9.1	+9.7	+10.2	+9.7	+9.1	+8.4	+7.9	+7.7	+7.4	+6.4
- Non-HHs	+8.0	+8.8	+9.5	+11.2	+12.8	+11.9	+10.7	+9.2	+8.0	+7.8	+8.0	+6.5
- Households	+9.4	+9.0	+8.7	+8.6	+8.3	+8.1	+8.0	+7.8	+7.7	+7.6	+7.0	+6.4
Applications	0.7	-2.9	+3.6	+7.0	+3.1	-2.0	+12.8	-5.4	+0.7	+9.3	+6.4	+1.1
Approvals	-2.4	0.6	15.1	-0.9	-9.1	-15.2	-4.4	-11.0	-0.6	-14.0	-16.8	-23.4

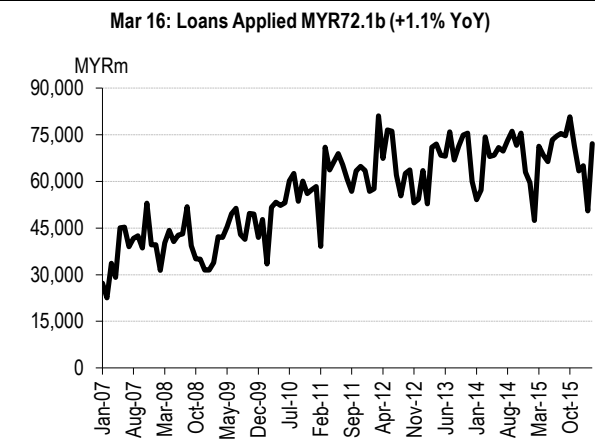
Source: BNM

Banking system loans



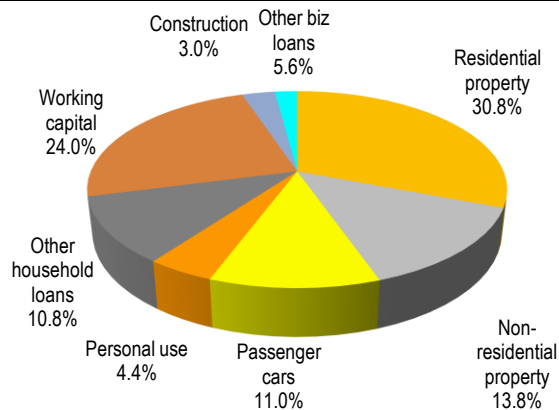
Source: BNM

Banking system loan applications



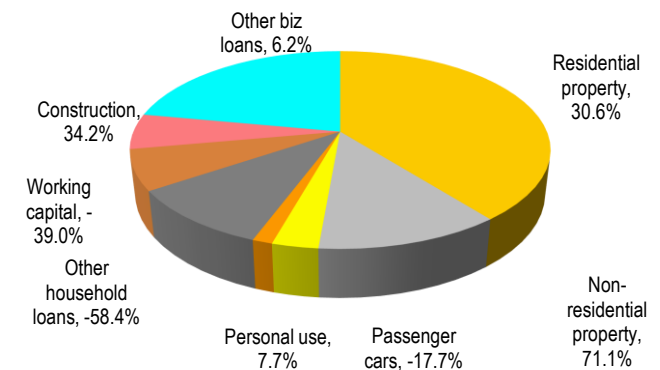
Source: BNM

Loans composition: MYR1,449.4b @ Mar 2016



Source: BNM

Net loan additions: MYR4.3b in 2016 (3M 2016)



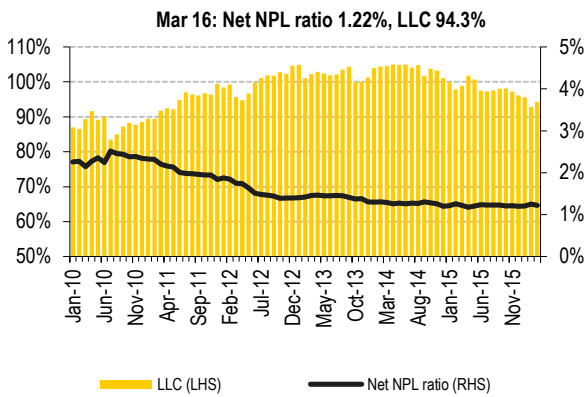
Source: BNM

Asset quality & capitalisation

	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16
Gross NPL (MYRb)	21.3	21.9	22.5	22.5	22.6	23.0	22.8	23.0	23.1	23.3	23.7	23.2
Net NPL (%)	1.17	1.20	1.24	1.23	1.23	1.23	1.21	1.22	1.20	1.21	1.25	1.22
LLC (%)	101.8	100.6	97.5	97.3	97.6	98.1	98.1	97.2	96.2	95.6	92.8	94.3
Tier 1 cap (%)	13.2	13.1	13.3	13.5	12.8	12.8	13.3	13.3	13.8	13.8	13.6	13.9
RWCR (%)	15.1	15.1	15.3	15.6	14.8	14.8	15.4	15.5	16.1	16.5	16.3	16.5

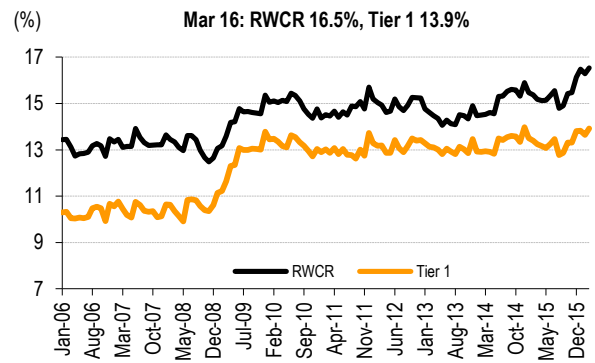
Source: BNM

Banking system NPL ratio and loan loss coverage



Source: BNM

Banking system capital ratios



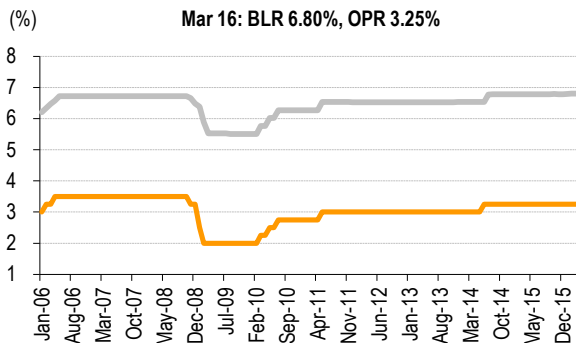
Source: BNM

Interest rates

(%)	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16
BLR	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.79	6.80	6.80
ALR	4.65	4.61	4.57	4.54	4.51	4.49	4.54	4.53	4.57	4.58	4.61	4.61
ADR	3.16	3.17	3.19	3.19	3.19	3.19	3.18	3.19	3.19	3.19	3.19	3.19
ADR-CPI	1.36	1.07	1.06	1.06	1.05	1.06	1.05	1.04	1.04	1.03	1.03	1.03

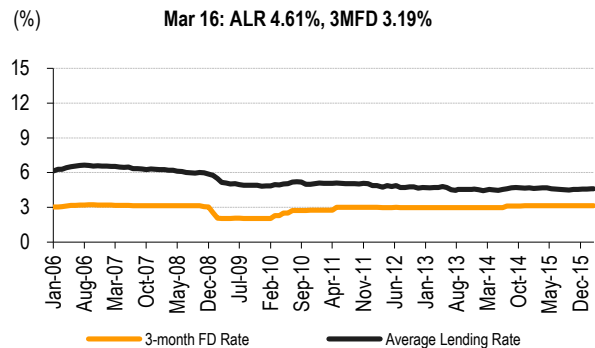
Note: ADR refers to the average of fixed deposit rates; Source: BNM

Banking system BLR and OPR



Source: BNM

Banking system interest rates



Source: BNM

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