

Banking Sector

(Neutral)

“High Base Level Pre-GST Trounce March Figure”

Banking sector is a NEUTRAL as we expect loans growth to decelerate to 7.5% in 2016 vs. 8.4% in 2015. Two biggest issues namely lethargic loans growth and tight liquidity may take the spotlight in 2016. 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. Our Top Picks for banking sector are Public Bank (TP: RM21.38) and BIMB Holdings (TP: RM4.28).

Table 1: March 2016 Summary

Purpose (RM billion)	Mar-16	Feb-16	Marc-15	Y-o-Y	M-o-M	Comment
Loans growth	6.4%	7.4%	9.3%	↓	↓	Loans growth weakened by household segment and business segment
Loans Application	1.1%	6.4%	0.7%	↑	↓	Still commendable led by household segment
Loans Approval	-24.1%	-17.3%	2.7%	↓	↓	Cautious with the potential default, banks tightening credit approvals
Loan Disbursement	-6.7%	2.0%	10.0%	↓	↓	Lower approvals led to lower disbursement
Loan Approval Rate	38.5%	44.1%	50.8%	↓	↓	Expect to slow down due to declining HH application
Gross Impaired Loan	1.60%	1.64%	1.63%	↑	↑	At healthy level due to stringent requirement loans selection
Deposits Growth	-1.0%	0.7%	8.1%	↓	↓	Keen competition to secure low cost deposits to reduce NIM compression
Loan to Deposits	87.7%	87.7%	81.6%	↓	↑	The rising in deposit can cover the deficiency left by loans outstanding, thus maintain healthy LDR
Average Lending (ALR)	4.61%	4.61%	4.68%	↓	↑	The introduction of base rate aided banks ALR to recover
Basel 3 Ratio						
- Total Capital	16.5%	16.3%	15.2%	↑	↑	Well prepared for the Basel III requirements
- CET-1	13.9%	13.6%	13.2%			
- Tier-1	13.0%	12.7%	12.5%			

Source: BNM, M&A Securities

Summary March 2016 Banking Statistics

- Overall, loans growth was impacted by high base level due to pre-GST rush in 2015.
- Loans growth continued to moderate in March 2016 with growth of 6.4% y-o-y vs. 7.4% y-o-y in February. The subdued growths were caused by further moderation in household segment (HH) and business segment.
- Loans applications weakened vastly for 2 consecutive months by 1.1% y-o-y vs. 6.4% in February. The weakness was hampered by business segment, whilst HH segment recovered for 2 consecutive months.

- Loans approval weakened further after moderation in application in March, dropping by 24.1% y-o-y vs. a tank of 17.3% y-o-y in February as banks tightened approvals and requirements on the back of avoiding higher default in current unexciting macro-economic situations.

Our View Loans Growth Outlook in 2016

- We expect soft earnings for banking sector in 2016 with slower macro-economic condition set to weigh banking sector performance.
- Slower loans growth, tight liquidity, compression in net interest margin (NIM), rising credit cost and softer investment banking activities will be the key theme for banking sector in 2016.
- The reduction in Statutory Reserve Requirement (SRR) from 4% to 3.5% may not bring significant impact given only RM5 billion release into liquidity as compared to RM1,600 billion deposits in circulations. However, we expect the reduction in SRR will assist banks to relieve its cost of funds, albeit only marginally.
- For 2016, we expect a steady loans growth of 7.5% y-o-y assisted by i) financing from business segment benefiting the splurge in Budget 2016 announcement ii) continuous SME financing as economy driver.

Table 2: Y-o-Y Growth by segment

Purpose (RM billion)	Household			Business		
	Mar-16	Feb-16	Mar-15	Mar-16	Feb-16	Mar-15
Loans Growth	6.3%	6.9%	10.2%	6.5%	8.0%	8.1%
Loans Application	3.6%	0.8%	0.6%	-1.7%	13.3%	-16.6%
Loans Approval	-21.0%	-23.5%	-6.7%	-26.1%	-9.2%	13.4%
Loans Disbursement	-14.5%	-6.1%	14.6%	-14.5%	5.5%	8.2%

Source: BNM, M&A Securities

Analysis of Banking Sector Operational Metrics

1. No end to weaker loans growth in March 2016

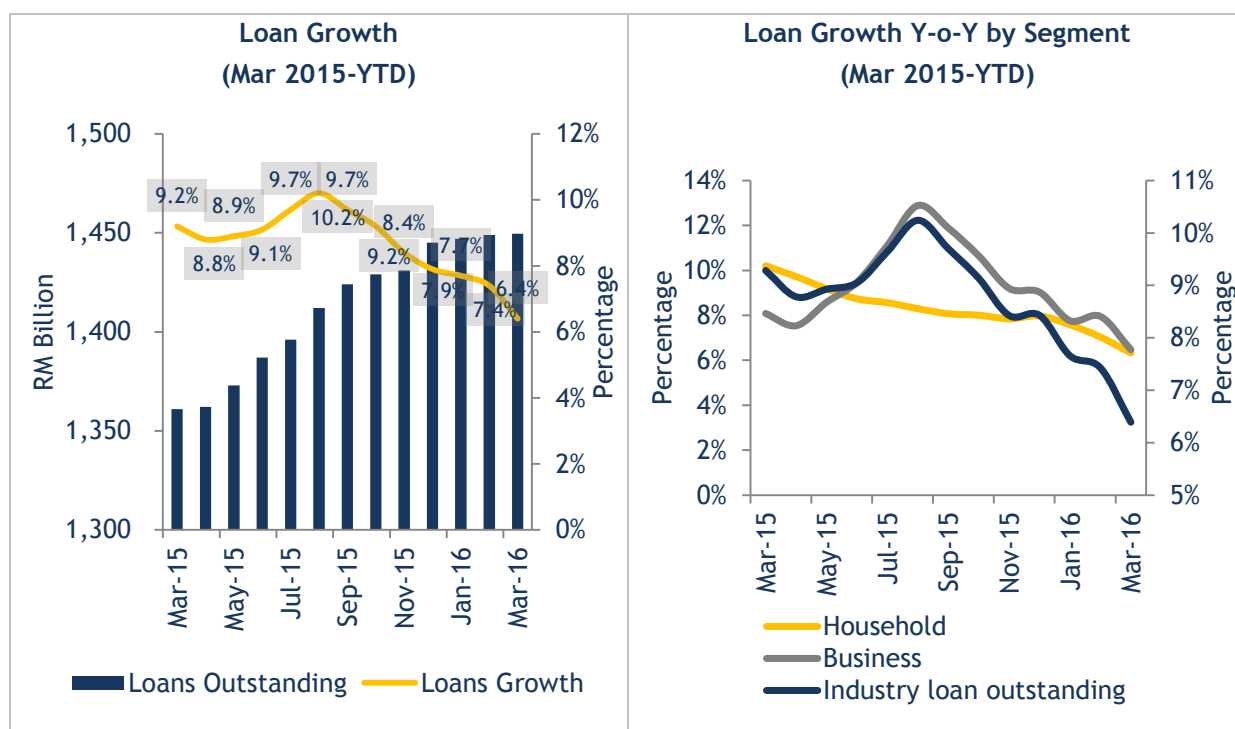
- Loans growth continued to moderate in March 2016 with growth of 6.4% y-o-y vs. 7.4% y-o-y in February. The subdued growths were caused by further moderation in HH segment and business segment. HH segment moderated for consecutive 12 months, whilst business segment growth in February was unable to sustain in March. Nevertheless, we reckon that the impact of rush in pre-GST spending last year has increased the base level and thus impacted the growth in March 2016.
- Business segment growth decelerated to 6.5% y-o-y vs. 8.0% y-o-y in February despite the recovery of global oil price in March. The growths in April were aided by 1) mining and quarrying 2) primary agriculture and 3) real estate.
- Loans in HH segment came at disappointing level, however a few sectors left untouched and still enjoying commendable growth such as 1) residential property of 11.0% 2) non residential property of 8.2% and 3) personal use of 1.1%. The weaknesses in HH came from purchase of securities of 1) -7.4% y-o-y 2) transport vehicle of 0.6% y-o-y.
- Key sectorial drivers for March loans growth include 1) mining and quarrying of 15% y-o-y 2) primary agriculture of 10% y-o-y and 3) real estate of 14% 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 in steady pace, supporting overall loans growth in 2016.

Table 3: Industry Loans Growth

Purpose (RM billion)	Mar-16	Feb-16	Mar-15	M-o-M	Y-o-Y
Purchase of Securities	71,554	73,940	76,737	-3.2%	-6.8%
Transport Vehicle	168,760	169,364	166,392	-0.4%	1.4%
Of Which is Passenger Car	159,912	160,462	156,782	-0.3%	2.0%
Residential Property	447,130	443,625	394,255	0.8%	13.4%
Non-Residential Property	200,075	198,519	179,814	0.8%	11.3%
Other Fixed Assets	9,632	9,885	10,703	-2.6%	-10.0%
Personal Use	64,037	63,710	60,108	0.5%	6.5%
Credit Card	34,965	35,359	35,414	-1.1%	-1.3%
Consumer Durables	142	143	669	-1.0%	-78.8%
Construction	44,140	43,774	39,885	0.8%	10.7%
Working Capital	347,479	348,610	314,635	-0.3%	10.4%
Other Purpose	61,566	62,928	65,737	-2.2%	-6.3%
Total	1,449,480	1,449,858	1,344,350	0.0%	7.8%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

2. Loans Applications “Loans application weaker vastly”

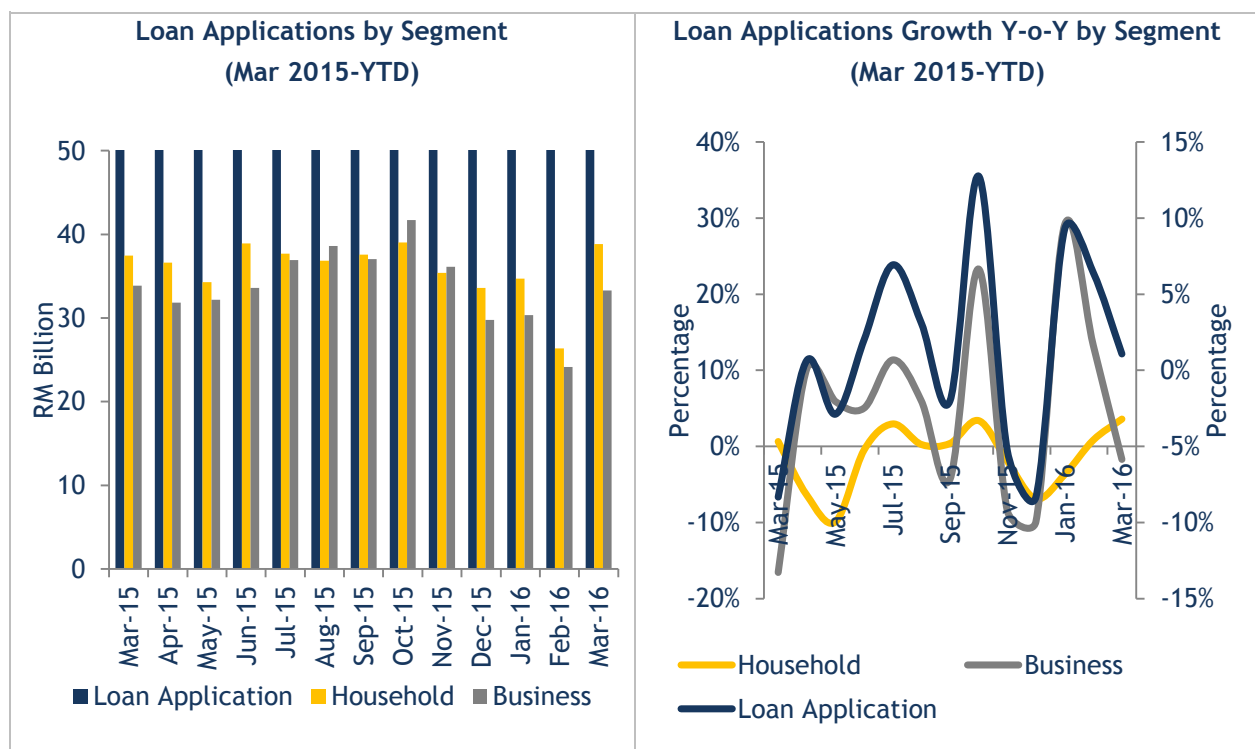
Loans applications weakened vastly for 2 consecutive months by 1.1% y-o-y vs. 6.4% in February. The weakness was hampered by business segment, whilst HH segment recovered for 2 consecutive months.

- HH segment application was aided by the recovery in residential property applications of 6% y-o-y vs. 2% y-o-y in February.
- Business segment was the surprise as growth came to end despite positive growth in January and February. Business segment growth dipped by 1.7% y-o-y vs. 13.3% in February, hampered by 1) primary agriculture of 71% y-o-y 2) mining and quarrying of -61% y-o-y and 3) transport and storage of 20% 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 incentives given by the government for this segment.

Table 5: Industry Loan Applications

Purpose (RM billion)	Mar-16	Feb-16	Mar-15	M-o-M	Y-o-Y
Purchase of Securities	2,637	1,830	2,897	44%	-9%
Transport Vehicle	7,381	5,224	8,905	41%	-17%
Of Which is Passenger Car	6,916	4,954	8,278	40%	-16%
Residential Property	19,182	12,075	18,173	59%	6%
Non-Residential Property	6,802	5,756	8,073	18%	-16%
Other Fixed Assets	309	307	482	1%	-36%
Personal Use	6,185	4,549	4,776	36%	30%
Credit Card	3,791	2,468	2,211	54%	71%
Consumer Durables	1	21	11	-96%	-93%
Construction	3,476	3,361	3,967	3%	-12%
Working Capital	19,082	12,644	18,029	51%	6%
Other Purpose	3,256	2,275	3,812	43%	-15%
Total	72,103	50,510	71,335	42.8%	1.1%

Source: BNM, M&A Securities



Source: BNM, M&A Securities

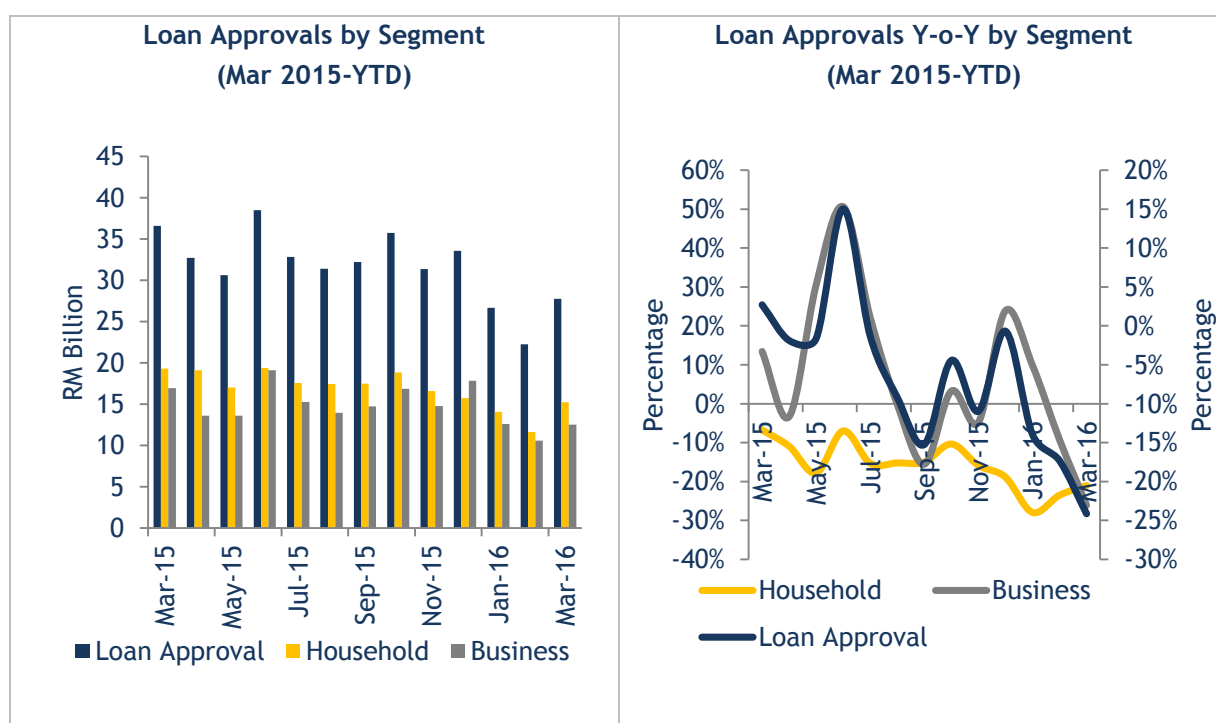
3. Loans Approval “Weakened Further”

- Loans approval weakened further after moderating application in March, dropping by 24.1% y-o-y vs -17.3% y-o-y in February as banks tightened approvals and requirements on the back of avoiding higher default in current unexciting macro-economic situations.
- The disappointment was led by weak approval in both HH segment and business segment. HH segment posting a drop of 21% y-o-y vs. -23.5% y-o-y in February, caused by 1) purchase of securities of -42% y-o-y 2) purchase of residential property of -14% y-o-y 3) purchase of non-residential property of -26% y-o-y
- As a result, approvals rate tumbled below 40% for the first time since 2013 to 38.5% vs. 44.1% in February amid rising uncertainties. We deem that the approval rate should inch closer to 50% rate in 2016 as banks adjusting with their customer credit profiling.

Table 6: Industry Loan Approvals

Purpose (RM billion)	Mar-16	Feb-16	Mar-15	M-o-M	Y-o-Y
Purchase of Securities	1,305	1,288	2,259	1%	-42%
Transport Vehicle	3,465	2,862	5,357	21%	-35%
Of Which is Passenger Car	3,263	2,736	4,861	19%	-33%
Residential Property	7,687	5,116	8,913	50%	-14%
Non-Residential Property	3,420	1,901	4,630	80%	-26%
Other Fixed Assets	177	215	787	-18%	-78%
Personal Use	1,511	1,115	1,428	35%	6%
Credit Card	1,442	1,124	1,192	28%	21%
Consumer Durables	0	27	5	-100%	-98%
Construction	318	1,065	1,619	-70%	-80%
Working Capital	7,342	6,319	7,927	16%	-7%
Other Purpose	1,115	1,219	2,145	-9%	-48%
Total	27,781	22,250	36,262	24.9%	-23.4%

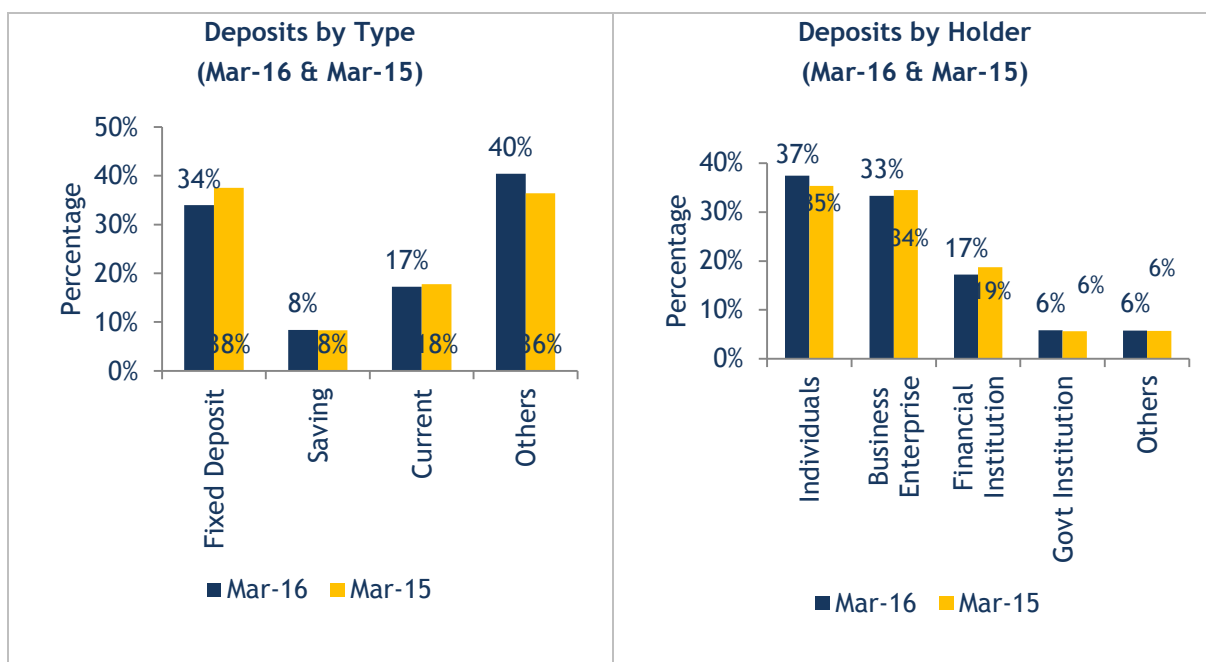
Source: BNM, M&A Securities



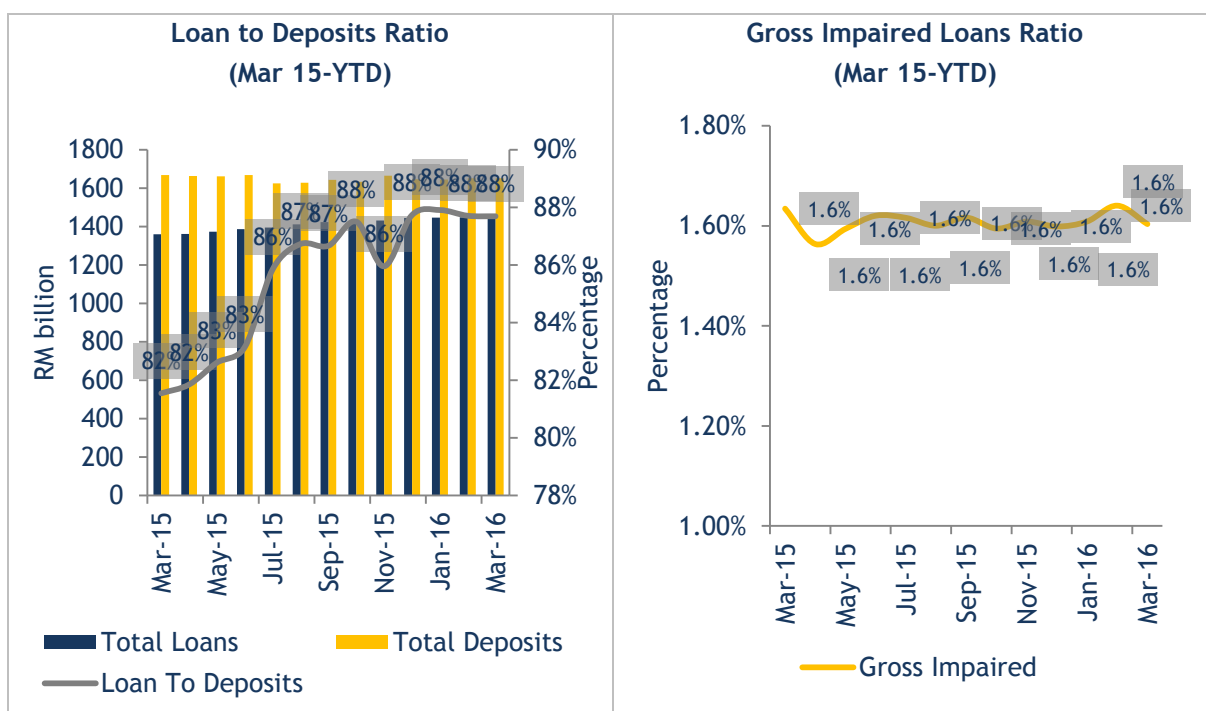
Source: BNM, M&A Securities

4. Deposits “negative for the first time”

- Total deposits reached its weakest performance, recording a negative growth of 1% y-o-y vs. 0.7% y-o-y in February, a negative growth rate we not seen since 2013. We attribute this to the maturity of financial investment, and April could see deposits to return back to more than 1% y-o-y growth.
- The industry’s loan/deposit ratio (LDR) unchanged at 87.7% since February as banks kept loans flowing on the back of slower deposits and thus, showing tight liquidity in the market.



Source: BNM, M&A Securities



Source: BNM, M&A Securities

5. Gross impaired (GIL) “improved marginally”

Gross impaired ratio improved to its second best ever of 1.60% vs. 1.64% in February aided by GIL in HH segment. 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 March, including the industry’s CET1 ratio of 13.0%. Tier 1 improved 30 bps to 13.9% while total capital rising surged by 20bps 16.5%. Mostly banks saw their common equity tier 1 (CET1) ratio regressed. The drop is to increase their risk weighted asset from the previous quarter but overall the banks’ CET1 ratio is still comfortably above the Basel III regulatory requirements of 7%. Basel III is expected to be enforced by 2019 and we believe no further capital raising exercise is required by the banks.

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 BIMB Holdings (TP: RM4.28).

Table 6: Loans Growth Y-o-Y

Company	Year Ended	Sept-14	Dec-14	Mar-15	Jun-15	Sept-15	Dec-15	Mgt Guidance
AFG	March	15.5%	16.2%	14.7%	12.5%	10.2%	4.6%	11%-12%
AMMB	March	0.9%	-2.1%	1.6%	-2.2%	0.3%	0.3%	2.0%
CIMB	Dec	9.8%	13.2%	12.4%	16.1%	10.7%	12.8%	14.0%
Maybank	Dec	14.3%	13.4%	14.3%	15.6%	8.7%	11%	13.0%
PBK	June	9.8%	10.8%	11.7%	11.5%	9.3%	11.6%	10%-11%
RHB Cap	Dec	11.9%	17%	13.7%	9.2%	10%	6%	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
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.06	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.60	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.90	Hold
BIMB	Dec	3.85	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Buy
CIMB	Dec	4.87	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	9.03	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Cap	Dec	6.25	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	5.80	Hold
Public Bank	Dec	19.02	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.34	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.36	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.06	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.52	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

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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