

Outthink. Outperform.

Another month of weak loan growth; 2H16 to pick up

May saw another month of subdued loan growth. Business loan growth (4.5% yoy, 1.2% mom) and household loan growth (6.2% yoy, 1.7% mom) continue to moderate. Nonetheless, we believe that the outlook will gradually improve in 2H16 given the sound domestic economy. Maintain **OVERWEIGHT**, our top sector picks are **PBB, CIMB, RHB and AFG**.

May16 system loan growth remain subdued at 6.2% yoy

May 2016 loan growth (+6.2% yoy, Fig 1) saw yet another subdued month as business loan growth and household loan growth remain sluggish. However, we do see some positive recoveries in loan applications, approvals and disbursement levels. The annualized system loan growth remained weak at 2.2% mainly due to the weak growth in the first four months of the year. We retain our loan growth forecast of 6.0% for 2016 (based on 6.4% growth from the household sector and 5.5% from business sectors) as we believe that the strength in the domestic economy, with a low unemployment rate of 3.5% (March 2016), coupled with sufficient liquidity in the banking system (Fig 20-22) will continue to support credit growth in 2016.

System liquidity remains in surplus, lending rates stable

The banking system remains in surplus liquidity, with the liquidity coverage ratio (LCR) at 129% (above regulatory requirement of 70%) while the loan-to-deposit (LD) ratio remained steady at 87.6%. While most banking institutions indicate that NIM compression will continue in 2016 arising from higher overall funding costs, recent moves by selected banks to increase their respective base rates may help to alleviate some of the NIM compression pressures.

Overall banking system asset quality remains intact

The industry loan-loss cover (LLC) slid to 91.2% as system gross-impaired-loan ratio saw a slight uptick to 1.65%, as at May 2016. Key sectors that saw an increase in impaired loans include construction, mining and quarrying.

Maintain **OVERWEIGHT**. Top picks – **PBB, CIMB, RHB and AFG**

We note that overall sector valuation for banks in 2016 remain quite attractive at a 1.08x P/BV multiple vs. the 3-year average of 1.5x, while a potential turnaround in the global economy, recovery in asset/commodity prices and the Ringgit should bring back confidence to the economy. While there may be concerns on the possible contagion effect from Brexit, the direct impact on Malaysia at the moment is relatively muted. For sector exposure, we like defensive banks such as Public Bank (**PBK MK, BUY, RM19.40; TP: RM21.80 @ 2.5x P/BV**) given the group's more stringent credit underwriting standards and established franchise in the domestic retail financing markets. We expect CIMB (**CIMB MK, BUY, RM4.36, TP RM5.00 @ 1.0x P/BV**) to see a turnaround in 2016E earnings in the absence of staff rationalization cost and hefty provisions at CIMB Niaga. For RHB Bank (**RHBBANK MK, BUY, RM5.12, TP RM6.00 @ 1.15x P/BV**), we expect an improved earnings profile with a relatively steady NIM as well as better asset quality and strengthened capital ratios post rights issue and internal restructuring. We also like AFG (**AFG MK, BUY, RM4.03, TP: RM4.50 @ 1.36x P/BV**) as a niche and nimble small-cap bank. Maintain **OVERWEIGHT**.

Sector Update

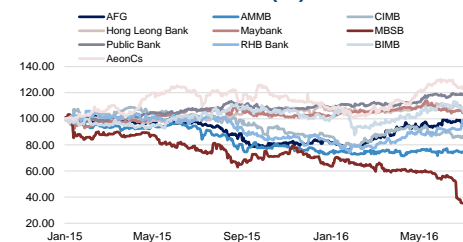
Banking

Overweight (maintain)

Absolute Performance (%)

	1M	3M	12M
AFG	-0.5	-2.9	-8.2
AMMB	+3.0	-3.5	-26.4
CIMB	-0.5	-9.9	-20.1
HLBB	-1.3	-2.4	+1.8
Maybank	-0.2	-9.8	-10.9
PBB	+1.5	+3.3	+3.6
RHB	+9.1	+12.8	-6.4
MBSB	-32.9	-45.7	-56.0
AEONCS	-4.7	+1.4	-3.7
Affin (Not rated)	-4.1	-9.4	-21.5
BIMB (Not rated)	(2.7)	+1.3	(3.5)

Relative Performance (%)



Source: Affin Hwang, Bloomberg

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Peer Comparison

Stock	Rating	Price (RM)		PT	Bloomberg Code	Mkt Cap (RMm)	Core PE (x)		Core EPS (sen)		P/BV (x)		ROE (%)		Net Yield (%)		Net DPS (sen)	
		30-Jun	(RM)				CY16E	CY17E	CY16E	CY17E	CY16E	CY17E	CY16E	CY17E	CY16E	CY17E	CY16E	CY17E
AFG	BUY	4.03	4.50		AFG MK	6,145	11.4	11.1	35.2	36.4	1.16	1.10	10.6	10.1	3.6	3.7	14.5	15.0
AMMB	HOLD	4.43	4.75		AMM MK	13,353	10.0	8.8	44.5	50.2	0.83	0.76	8.6	9.0	3.5	3.8	15.5	17.0
CIMB	BUY	4.36	5.00		CIMB MK	38,058	9.4	8.9	46.3	49.0	0.90	0.85	9.8	9.8	3.2	3.3	13.8	14.6
HLB	HOLD	13.14	13.60		HLBK MK	26,965	12.8	11.0	102.6	119.7	1.26	1.17	10.1	11.0	2.2	2.9	29.3	38.3
Maybank	HOLD	8.16	7.50		MAY MK	81,671	12.8	12.3	64.0	66.5	1.16	1.06	9.7	9.2	6.1	6.7	50.0	55.0
PBB	BUY	19.40	21.80		PBK MK	74,913	15.9	15.0	121.7	129.1	2.23	2.06	14.5	14.3	2.9	3.0	57.0	59.0
RHB	BUY	5.12	6.00		RHBBANK MK	20,531	10.0	9.7	51.0	52.9	1.00	0.90	9.4	9.8	-	-	-	-
Affin	Not rated	2.13	-		AHB MK	4,138	9.7	9.0	21.9	23.7	0.49	0.47	5.3	5.6	4.1	4.5	8.7	9.5
AEONCS	BUY	12.90	14.80		ACSM MK	1,858	8.3	7.4	154.7	175.2	1.93	1.64	27.5	25.9	4.9	5.2	63.7	67.1
MBSB	HOLD	0.72	0.75		MBS MK	3,783	12.7	13.3	5.6	5.4	0.62	0.59	5.6	4.5	2.4	2.3	1.7	1.7
Financial sector weighted average (ex MBSB, AEONCS, PBB)							11.6	10.6			1.08	0.98	9.7	9.7	4.0	4.4		
Financial sector weighted average							12.3	11.3			1.20	1.09	10.2	10.1	3.7	4.0		

Note: Pricing as of close on 30 June 2016

Source: Affin Hwang forecasts, Bloomberg

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Focus Charts:

Fig 1: Banking system loan, financing and deposit growth

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Yoy	Mom	Ytd
	RMbn	RMbn	RMbn	RMbn	RMbn	RMbn	RMbn	(%)	(%)	(%)
System financing outstanding	1,902.8	1,933.7	1,934.1	2,082.2	2,080.8	2,080.7	2,096.3	7.2	0.7	8.4
System loan outstanding	1,431.4	1,445.1	1,447.3	1,449.9	1,449.5	1,447.8	1,458.5	6.2	0.7	0.9
- Household	815.0	820.9	825.2	826.1	828.1	831.6	834.8	6.2	0.4	1.7
- Business	616.5	624.2	622.1	623.8	621.4	616.3	623.7	4.5	1.2	(0.1)
Loan application	71.5	63.4	65.0	50.5	72.1	64.3	72.3	8.9	12.5	
- Household	35.4	33.6	34.7	26.4	38.8	36.8	36.1	5.4	(2.0)	
- Business	36.1	29.8	30.3	24.1	33.3	27.5	36.2	12.7	31.8	
Loan approval	31.4	33.6	26.7	22.3	27.8	27.1	32.0	2.2	18.0	
- Household	16.6	15.8	14.1	11.6	15.3	14.5	15.0	(12.1)	3.1	
- Business	14.8	17.8	12.6	10.6	12.5	12.6	17.0	19.3	35.2	
Loan disbursement	85.3	108.4	91.8	78.0	92.2	81.2	88.5	6.9	9.0	
- Household	24.7	26.7	24.9	21.4	24.6	22.9	23.4	(0.1)	2.2	
- Business	60.6	81.7	66.8	56.6	67.7	58.3	65.1	9.6	11.7	
System Deposit	1,659.2	1,670.4	1,658.5	1,670.5	1,668.3	1,659.5	1,671.4	(0.4)	0.7	0.1
- CASA	420.1	427.4	429.6	436.7	423.7	417.6	424.2	0.4	1.6	(0.8)
- FD	549.1	551.4	553.4	557.4	561.1	569.4	574.9	(8.6)	1.0	4.3
- NIDs	60.5	68.2	63.5	61.2	57.9	52.8	52.4	(27.4)	(0.7)	(23.2)
- REPOs	26.3	23.4	22.3	17.8	15.8	16.1	16.1	3.3	0.3	(31.1)
- FX Deposits	133.1	134.1	126.6	130.7	127.0	124.6	129.6	15.8	4.0	(3.3)
- Others	238.0	228.7	236.9	235.8	248.0	243.3	240.2	1.0	(1.3)	5.0

Source: Bank Negara Malaysia, Affin Hwang

Note:

The definition of system financing outstanding for data from February 2016 has been retrospectively amended to include development financial institutions (DFI) loans outstanding.

Loan growth up 6.2% yoy, increased 0.7% mom; yoy growth rate declined for 9 consecutive months since Aug15

Fig 2: Outstanding banking system loan growth – by purpose (from the Demand side of the economy)

Loan Growth yoy (%)	Total	Purchase of Securities	Transport Vehicles	Of w hich is Passenger Cars	Residential Property	Non-Residential Property	Other Fixed Assets	Personal Use	Credit Card	Consumer Durables	Construction	Working Capital	Other Purpose
Jan-15	8.6	8.2	1.6	2.3	12.9	15.3	9.7	3.9	1.4	>100	16.4	8.2	(5.9)
Feb-15	8.8	7.0	1.9	2.7	13.0	14.6	7.8	4.0	3.6	>100	17.5	10.4	(12.5)
Mar-15	9.2	7.2	2.3	3.0	13.1	16.3	8.1	3.0	5.0	>100	12.6	10.8	(9.6)
Apr-15	8.8	5.3	2.1	2.6	13.0	15.9	6.9	4.0	2.1	>100	16.0	9.8	(10.8)
May-15	8.9	4.5	1.9	2.3	12.8	15.2	1.8	5.1	1.5	(59.1)	15.0	11.1	(8.8)
Jun-15	9.1	2.3	2.1	2.4	12.8	15.5	0.0	5.2	0.7	(62.9)	11.2	11.4	(4.6)
Jul-15	9.6	4.0	2.1	2.5	12.6	14.7	(0.1)	5.2	1.9	(65.9)	12.3	12.6	0.5
Aug-15	10.2	0.5	2.2	2.5	12.2	14.1	6.3	6.1	1.5	(68.6)	11.1	15.9	2.8
Sep-15	9.7	(0.2)	2.3	2.6	12.1	13.8	3.3	5.0	0.5	(71.9)	8.9	15.0	1.7
Oct-15	9.1	(1.6)	2.4	2.7	12.1	13.3	0.8	5.1	0.6	(74.2)	9.5	12.9	2.6
Nov-15	8.4	(2.5)	2.4	2.8	12.2	11.8	(3.3)	5.1	0.2	(76.2)	9.6	12.0	(2.3)
Dec-15	7.9	(1.9)	2.3	2.7	11.9	10.6	(4.3)	5.9	1.2	(77.3)	7.6	10.4	(2.4)
Jan-16	7.7	(3.0)	2.1	2.6	11.8	10.1	(6.4)	6.1	2.6	(78.3)	7.8	10.5	(3.6)
Feb-16	7.4	(4.1)	1.4	1.8	11.4	10.2	(7.1)	6.1	(0.4)	(79.4)	8.0	9.8	1.5
Mar-16	6.4	(7.5)	0.6	1.1	11.0	8.2	(10.1)	7.1	(1.8)	(80.6)	11.9	8.3	(0.4)
Apr-16	6.3	(7.4)	0.4	1.0	10.8	7.7	(8.9)	6.8	1.2	(81.7)	9.9	8.2	(0.5)
May-16	6.2	(6.6)	0.2	0.7	10.6	7.6	(8.8)	5.9	1.4	(4.7)	10.1	7.5	0.8

Source: Bank Negara Malaysia, Affin Hwang

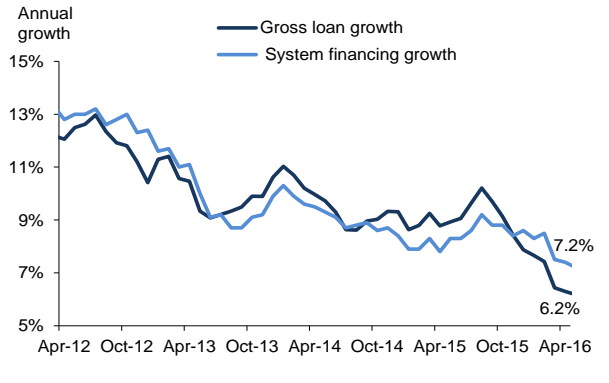
Fig 3: Outstanding system loan growth – by sector (from the Supply side of the economy)

Loan Growth yoy (%)	Total	Primary agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Wholesale & retail trade, and hotels & restaurants	Construction	Real Estate	Transport, storage and commun.	Finance, insurance and business	Education, health and others	Households	Others
Dec-14	9.3	(0.5)	19.6	4.4	33.2	7.5	16.5	22.0	14.3	6.7	(11.2)	9.9	2.8
Jan-15	8.6	(3.8)	37.1	4.6	(7.8)	7.4	12.3	21.2	12.4	6.0	(4.0)	9.7	(5.3)
Feb-15	8.8	(4.5)	27.9	3.8	(20.5)	8.6	13.2	21.1	16.1	10.1	(8.2)	9.7	(3.2)
Mar-15	9.2	1.3	37.8	3.3	(23.1)	9.3	12.6	20.9	14.4	8.7	(0.1)	9.8	2.9
Apr-15	8.8	0.8	43.3	1.7	(26.1)	9.3	13.2	19.2	11.9	11.6	(0.4)	9.4	(6.6)
May-15	8.9	7.3	48.1	2.0	(22.7)	8.0	13.8	18.2	13.7	14.6	(2.4)	9.0	(5.7)
Jun-15	9.1	10.0	42.3	3.3	(20.5)	8.2	11.3	16.7	10.5	14.9	2.2	8.7	8.9
Jul-15	9.6	10.5	42.0	2.8	(17.4)	9.5	12.7	17.7	13.6	16.1	11.2	8.6	13.8
Aug-15	10.2	16.8	59.8	5.0	(15.7)	11.0	12.4	20.7	13.3	12.4	13.7	8.3	24.5
Sep-15	9.7	16.9	58.8	3.4	(9.6)	10.3	10.4	21.4	12.9	11.3	11.8	8.1	15.7
Oct-15	9.1	18.9	51.6	0.8	(9.7)	8.1	8.5	20.7	13.9	7.2	12.6	8.0	31.0
Nov-15	8.4	20.7	53.8	0.5	(17.8)	7.6	10.1	16.5	8.8	11.0	6.3	7.8	6.7
Dec-15	7.9	19.4	47.8	1.4	(11.2)	8.2	8.6	14.6	4.5	6.3	6.3	7.7	3.7
Jan-16	7.7	15.9	23.2	0.7	(11.7)	8.2	9.4	15.6	5.3	9.5	(2.0)	7.6	10.8
Feb-16	7.4	17.0	18.2	2.0	(3.6)	7.8	9.7	14.6	0.9	7.8	4.7	7.0	10.2
Mar-16	6.4	9.8	14.8	0.7	(17.2)	7.0	9.6	13.8	(1.3)	8.8	5.1	6.4	(2.9)
Apr-16	6.3	9.4	12.1	0.5	(11.8)	6.3	9.3	15.1	(2.5)	6.8	6.9	6.3	(4.2)
May-16	6.2	6.3	11.0	0.7	(8.3)	5.9	7.9	15.4	(1.6)	7.2	8.9	6.2	(5.6)

Source: Bank Negara Malaysia, Affin Hwang

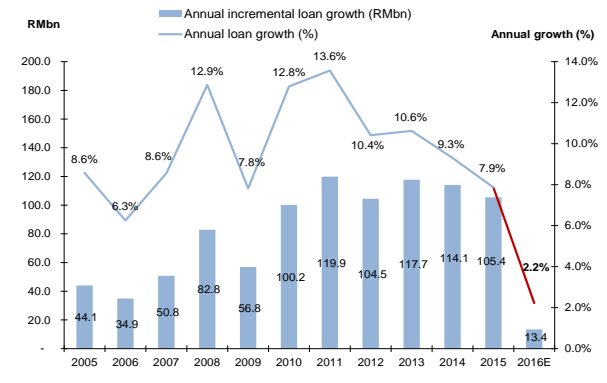
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Fig 4: Banking system financing and loans growth



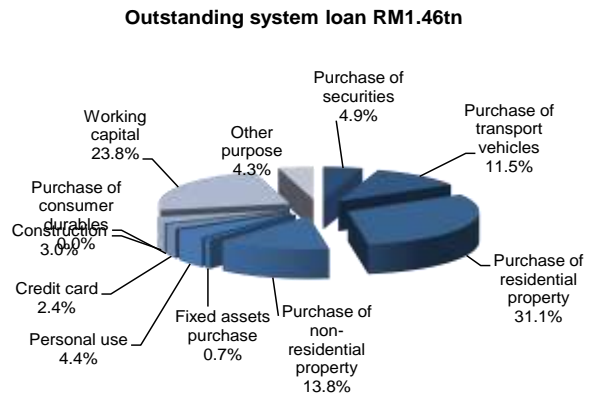
Source: Bank Negara Malaysia, Affin Hwang

Fig 5: Annual incremental loan growth



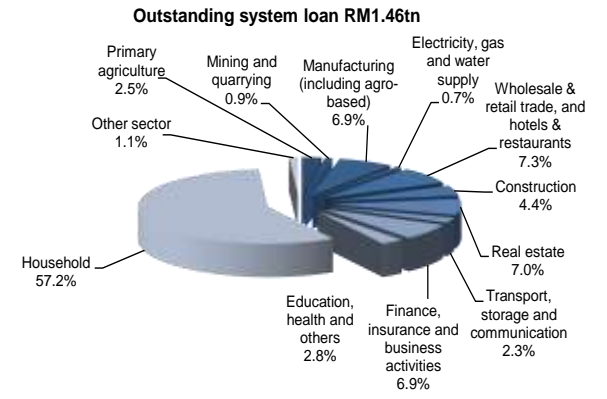
Source: Bank Negara Malaysia, Affin Hwang

Fig 6: Banking system loan breakdown – by sector



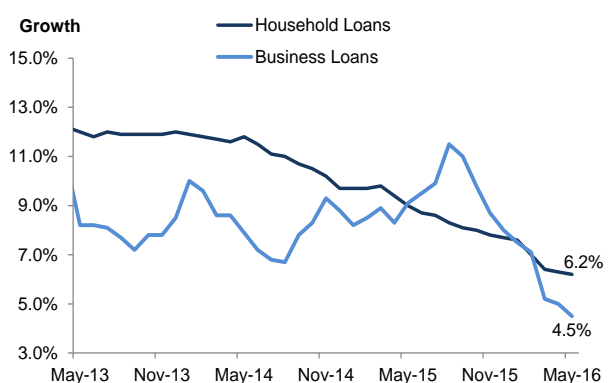
Source: Bank Negara Malaysia, Affin Hwang

Fig 7: Banking system loan breakdown – by purpose



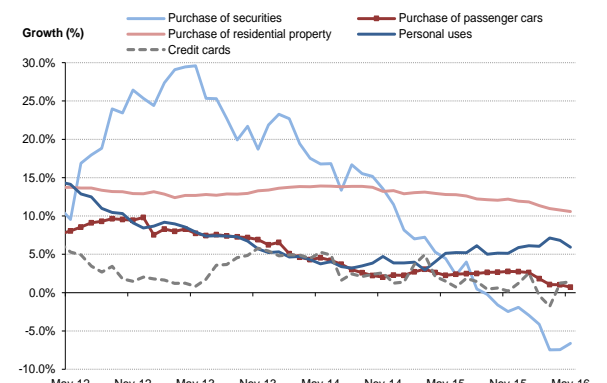
Source: Bank Negara Malaysia, Affin Hwang

Fig 8: Household and business loans – growth rate



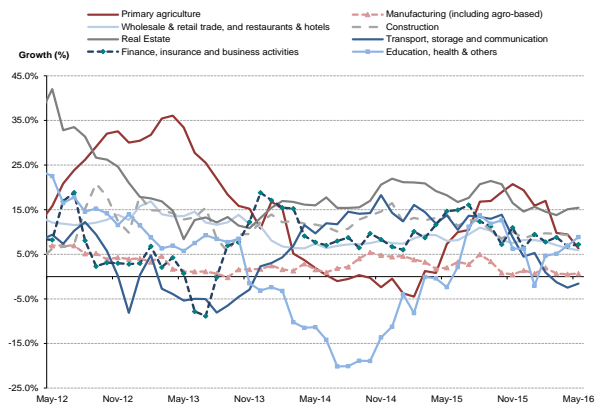
Source: Bank Negara Malaysia, Affin Hwang

Fig 9: Key consumer loans – growth rate



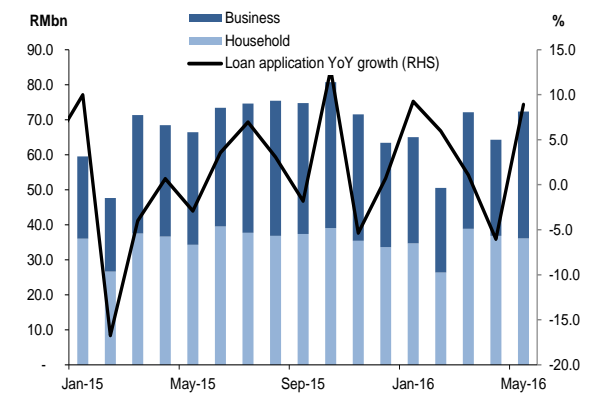
Source: Bank Negara Malaysia, Affin Hwang

Fig 10: Key business loans – growth rate



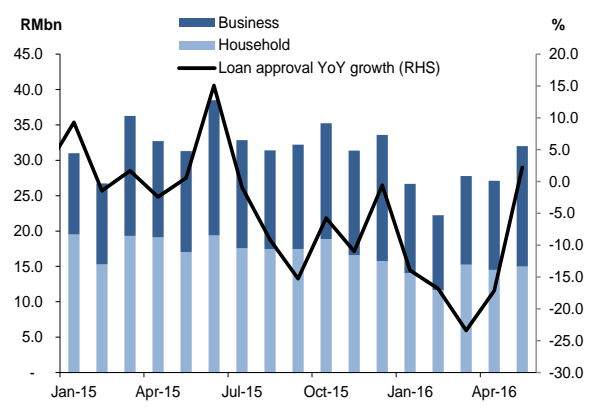
Source: Bank Negara Malaysia, Affin Hwang

Fig 11: Household and business loan application



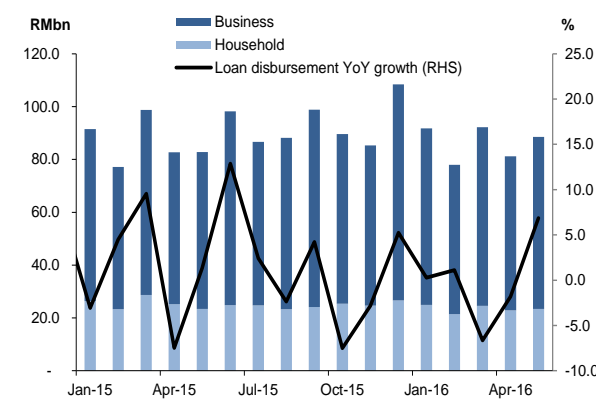
Source: Bank Negara Malaysia, Affin Hwang

Fig 12: Household and business loans approval



Source: Bank Negara Malaysia, Affin Hwang

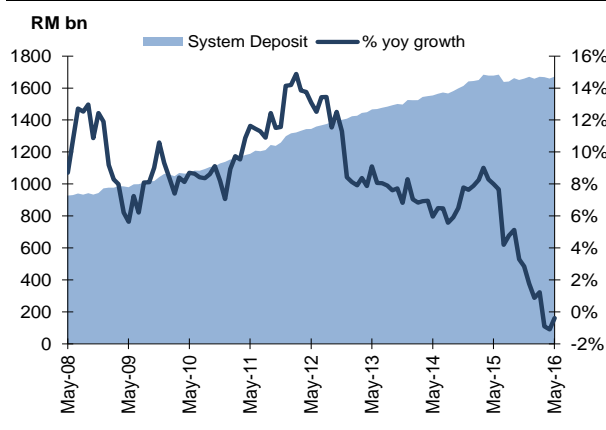
Fig 13: Household and business loan disbursement



Source: Bank Negara Malaysia, Affin Hwang

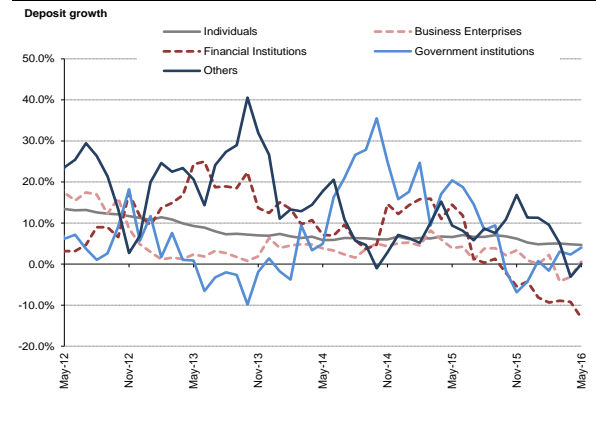
Deposit growth (-0.4% yoy, 0.7% mom) remain subdued, in line with the weaker loan growth

Fig 14: Banking system deposit growth



Source: Bank Negara Malaysia, Affin Hwang

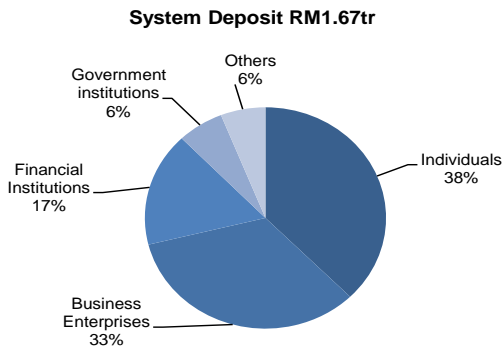
Fig 15: Deposit growth – by holder



Source: Bank Negara Malaysia, Affin Hwang

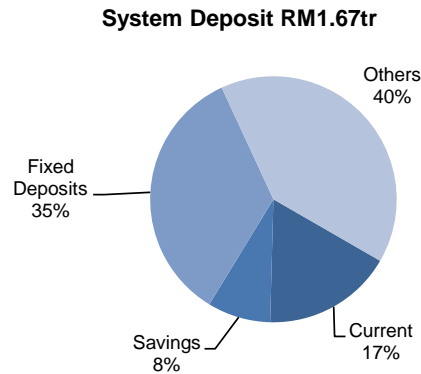
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Fig 16: Banking system deposit breakdown – by holder



Source: Bank Negara Malaysia, Affin Hwang

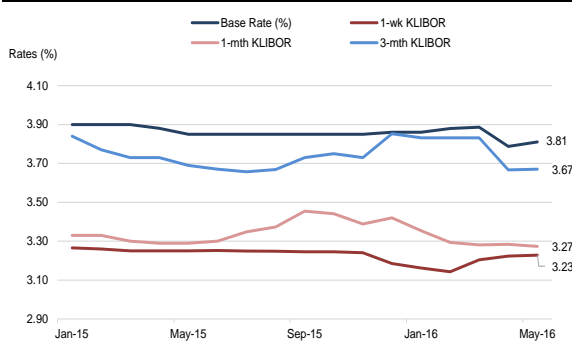
Fig 17: Banking system deposit breakdown – by type



Source: Bank Negara Malaysia, Affin Hwang

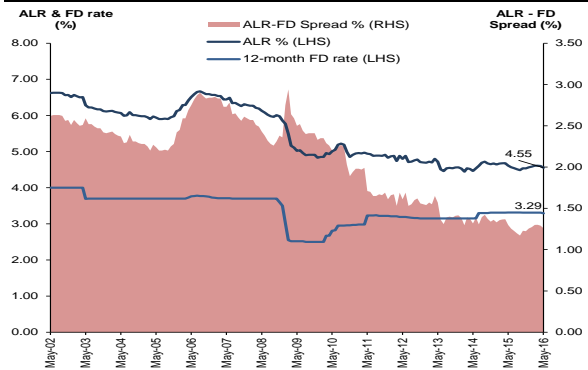
Weighted average lending rate remained stable, base rate declined 2bps from Apr16

Fig 18: Average interbank rates vs. base rate



Source: Bank Negara Malaysia, Affin Hwang

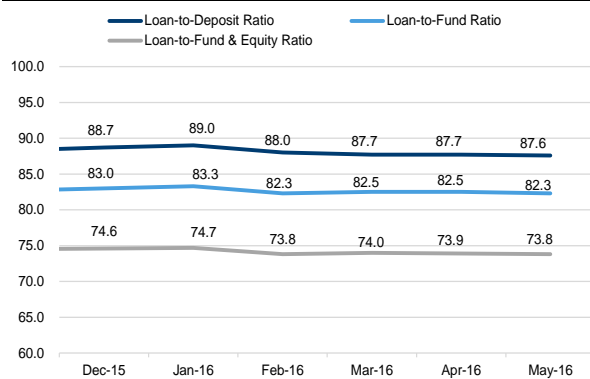
Fig 19: Banks' ALR vs. 12-mth fixed deposit rate



Source: Bank Negara Malaysia, Affin Hwang

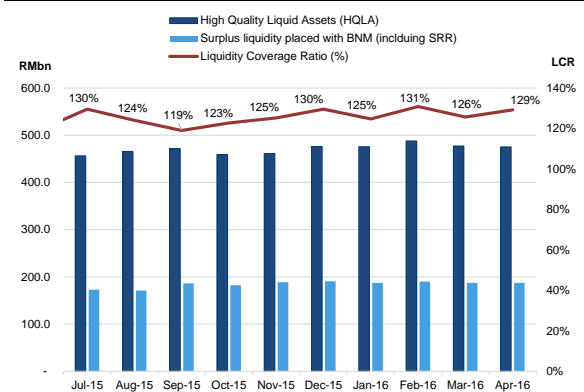
Banking sector liquidity and funding conditions remained supportive of financing activities

Fig 20: Banking system funding ratios



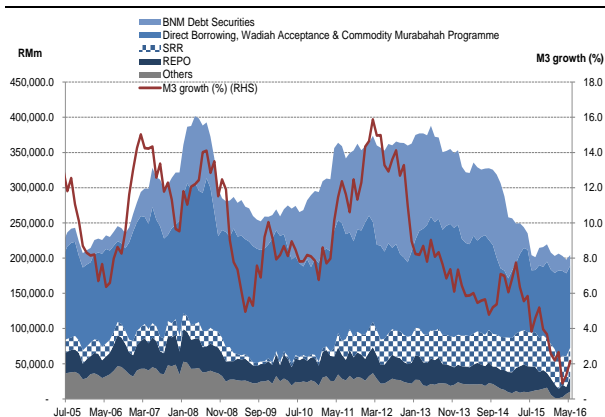
Source: Bank Negara Malaysia, Affin Hwang

Fig 21: Banking system surplus liquidity and LCR



Source: Bank Negara Malaysia, Affin Hwang

Fig 22: Outstanding liquidity placed with BNM ~ RM200bn



Source: Bank Negara Malaysia, Affin Hwang

Slight deterioration in asset quality– industry GIL ratio increased to 1.65%, LLC dipped to 91.2%

Fig 23: Impaired loan (by purpose) as at May16

Impaired Loans (By purpose)	Oct-15 RMm	Nov-15 RMm	Dec-15 RMm	Jan-16 RMm	Feb-16 RMm	Mar-16 RMm	Apr-16 RMm	May-16 RMm	Mom chg (%)	Yoy chg (%)	Ytd chg (%)
Purchase of securities	327.4	329.6	372.9	333.7	345.4	328.9	418.4	416.8	(0.4)	92.4	11.8
Purchase of transport vehicle	1,748.4	1,789.2	1,616.6	1,786.8	1,817.8	1,658.0	1,727.4	1,775.0	2.8	(6.7)	9.8
- of which are purchase of passenger cars	1,643.9	1,667.7	1,512.8	1,543.4	1,586.2	1,411.4	1,483.3	1,525.1	2.8	(13.8)	0.8
Purchase of residential property	5,045.2	5,094.8	5,030.2	5,087.5	5,264.2	5,045.3	5,119.7	5,143.6	0.5	3.1	2.3
Purchase of non-residential property	1,892.3	1,831.6	1,786.5	1,913.6	1,956.9	1,955.6	1,990.0	2,045.2	2.8	32.0	14.5
Purchase of fixed assets	187.8	174.3	174.7	182.2	192.5	165.9	127.1	125.9	(0.9)	(25.9)	(27.9)
Personal uses	1,091.7	1,187.3	1,191.7	1,206.5	1,280.2	1,210.7	1,236.1	1,270.6	2.8	19.7	6.6
Credit cards	474.3	476.4	479.8	489.2	520.7	492.0	490.2	487.2	(0.6)	8.6	1.5
Purchase of consumer durable goods	1.8	1.8	1.4	1.5	1.3	1.9	1.6	1.7	4.1	(29.9)	15.1
Construction	2,490.9	2,521.5	2,494.4	2,967.2	2,978.9	3,008.8	3,005.1	3,306.6	10.0	39.5	32.6
Working capital	8,119.9	8,198.3	8,432.0	7,803.7	8,112.5	8,086.3	7,829.8	8,174.0	4.4	5.5	(3.1)
Other purpose	1,407.4	1,412.2	1,522.3	1,507.3	1,301.4	1,291.7	1,291.4	1,256.7	(2.7)	(12.1)	(17.4)
Total Impaired Loans	22,787.2	23,017.0	23,102.5	23,279.2	23,771.7	23,245.1	23,236.9	24,003.4	3.3	9.7	3.9

Source: Bank Negara Malaysia, Affin Hwang

Fig 24: Impaired loan (by economic sectors) as at May16

Impaired Loans (By Sector)	Oct-15 RMm	Nov-15 RMm	Dec-15 RMm	Jan-16 RMm	Feb-16 RMm	Mar-16 RMm	Apr-16 RMm	May-16 RMm	Mom chg (%)	Yoy chg (%)	Ytd chg (%)
Primary agriculture	386.1	382.6	382.4	367.6	419.7	370.8	413.9	400.3	(3.3)	68.6	4.7
Mining and quarrying	229.5	221.2	220.7	228.4	207.9	188.3	189.9	352.2	85.5	56.4	59.6
Manufacturing (including agro-based)	4,216.0	4,310.6	4,185.7	4,322.7	4,281.7	4,026.5	4,205.6	4,398.5	4.6	3.7	5.1
Electricity, gas and water supply	164.6	164.4	161.0	26.5	25.6	25.6	25.5	19.7	(22.8)	(74.5)	(87.8)
Wholesale & retail trade, restaurants & hotel	1,855.5	1,956.4	1,944.5	1,974.4	1,987.6	1,715.5	1,963.2	2,016.7	2.7	9.2	3.7
Construction	1,600.8	1,655.0	1,728.7	1,759.2	1,783.5	2,708.8	1,728.1	2,104.3	21.8	32.4	21.7
Transport, storage & communication	2,130.5	2,068.4	2,063.2	1,935.2	2,049.0	1,907.5	1,935.7	1,932.2	(0.2)	2.0	(6.3)
Finance, insurance and business activities	2,804.3	2,686.1	2,960.0	3,093.0	3,172.0	3,048.2	3,252.4	3,166.7	(2.6)	30.4	7.0
Education, health & others	334.6	342.5	305.1	339.0	312.7	236.8	290.1	296.3	2.1	(5.7)	(2.9)
Household sector	8,668.3	8,832.1	8,676.8	8,758.6	9,214.5	8,591.7	8,802.0	8,895.5	1.1	2.2	2.5
Other sectors	397.0	397.7	474.5	474.5	317.3	425.4	430.6	421.1	(2.2)	27.7	(11.3)
Total Impaired Loans	22,787.2	23,017.0	23,102.5	23,279.2	23,771.7	23,245.1	23,236.9	24,003.4	3.3	9.7	3.9

Source: Bank Negara Malaysia, Affin Hwang

Fig 25: Gross impaired loan ratio (by purpose)

Gross Impaired Loans Ratio (%)	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16
Purchase of securities	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.6	0.6
Purchase of transport vehicle	1.1	1.1	1.1	1.0	1.0	1.1	1.0	1.1	1.1	1.0	1.0	1.1
Purchase of residential property	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Purchase of non-residential property	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Purchase of fixed assets	1.6	1.6	1.5	1.5	1.8	1.7	1.7	1.8	1.9	1.7	1.3	1.3
Personal uses	1.6	1.7	1.7	1.7	1.7	1.9	1.9	1.9	2.0	1.9	1.9	2.0
Credit cards	1.3	1.3	1.3	1.4	1.4	1.3	1.3	1.3	1.5	1.4	1.4	1.4
Purchase of consumer durable goods	1.4	1.2	1.3	1.4	1.3	1.2	1.0	1.0	0.5	0.5	0.6	0.6
Construction	6.1	7.7	6.1	6.0	6.0	6.0	5.8	6.9	6.8	6.8	6.9	7.5
Working capital	2.5	2.3	2.3	2.4	2.4	2.4	2.4	2.2	2.3	2.3	2.3	2.4
Other purpose	2.2	2.1	2.2	2.1	2.2	2.2	2.4	2.4	2.1	2.1	2.1	2.0
Industry Gross Impaired loan ratio	1.62	1.62	1.60	1.62	1.59	1.61	1.60	1.61	1.64	1.60	1.60	1.65

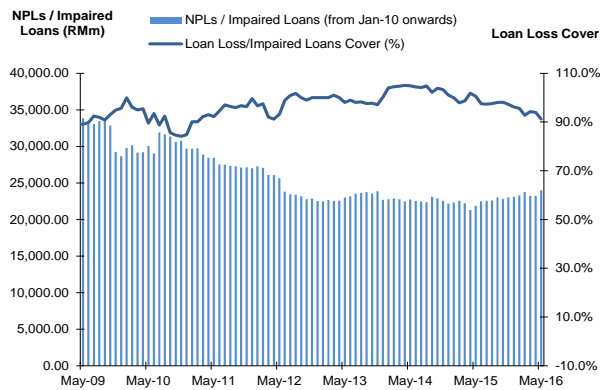
Source: Bank Negara Malaysia, Affin Hwang

Fig 26: Gross impaired loan ratio (by economic sector)

Gross Impaired Loans Ratio (%)	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16
Primary agriculture	1.10	1.12	1.04	1.06	1.02	1.02	1.02	0.99	1.12	1.04	1.16	1.10
Mining and quarrying	1.95	2.02	1.80	1.79	1.75	1.69	1.58	1.73	1.60	1.43	1.52	2.76
Manufacturing (including agro-based)	4.23	4.21	3.82	4.07	4.13	4.26	4.09	4.26	4.20	4.01	4.23	4.40
Electricity, gas and water supply	0.71	0.71	1.52	1.41	1.41	1.58	1.40	0.23	0.25	0.29	0.28	0.20
Wholesale & retail trade, restaurants & hotel	1.93	1.94	1.94	1.88	1.75	1.85	1.82	1.86	1.87	1.61	1.84	1.88
Construction	2.76	3.04	3.05	2.81	2.67	2.71	2.75	2.80	2.81	4.23	2.71	3.31
Transport, storage & communication	5.57	5.46	5.45	5.89	5.87	5.85	6.01	5.68	6.03	5.68	5.83	5.75
Finance, insurance and business activities	2.79	2.61	2.73	2.84	2.98	2.73	2.96	3.10	3.15	3.03	3.32	3.14
Education, health & others	0.80	0.83	0.80	0.87	0.81	0.88	0.78	0.86	0.78	0.58	0.71	0.72
Household sector	1.08	1.09	1.10	1.09	1.07	1.08	1.06	1.06	1.12	1.04	1.06	1.07
Other sectors	2.40	2.09	2.01	1.98	1.85	2.21	2.63	2.74	1.85	2.60	2.69	2.61
Total Impaired Loans	1.62	1.62	1.60	1.62	1.59	1.61	1.60	1.61	1.64	1.60	1.60	1.65

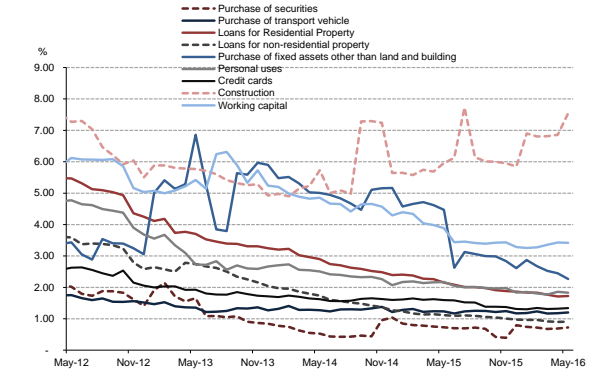
Source: Bank Negara Malaysia, Affin Hwang

Fig 27: Impaired loans and loan loss cover



Source: Bank Negara Malaysia, Affin Hwang

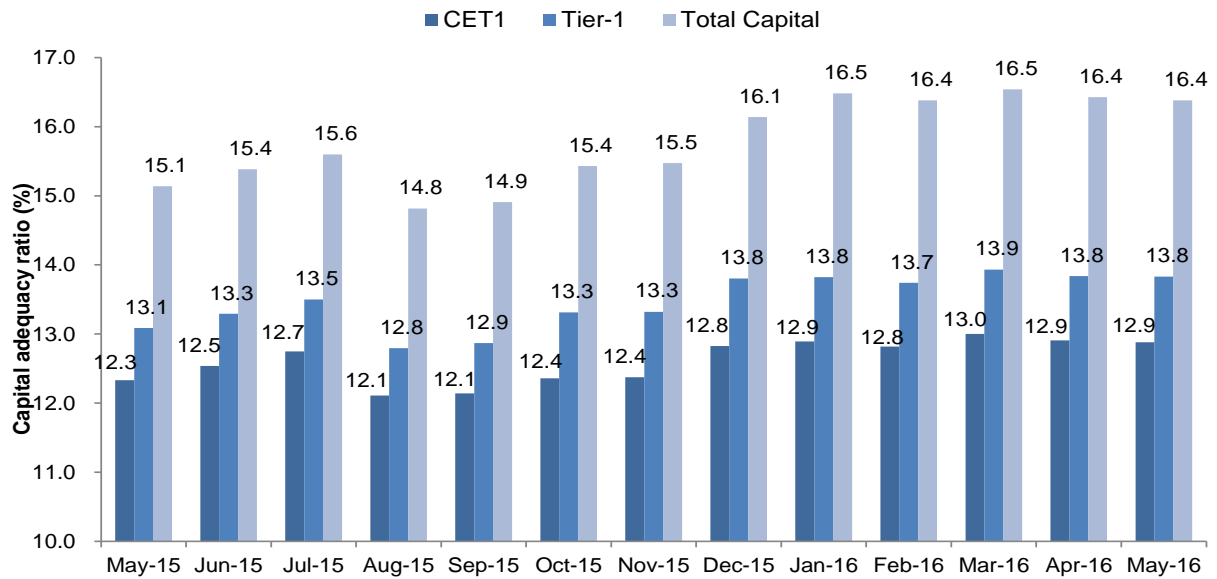
Fig 28: Gross impaired loan ratio by purpose



Source: Bank Negara Malaysia, Affin Hwang

Banking sector capital ratios at adequate levels; no massive capital raising plans foreseen in 2016

Fig 29: Capital ratios – Total Capital, Tier-1 and CET 1



Source: Bank Negara Malaysia, Affin Hwang

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BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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