

2 January 2018 | Sector Update

BANKING

Maintain **POSITIVE**

Accelerated loans pipeline

INVESTMENT HIGHLIGHTS

- **Total banking system loans grew at slower pace as at November.**
- **However, main segments still exhibited robust loans growth.**
- **Loans demand and approval appears to be accelerating.**
- **Loans pipeline will spill over into 2018.**
- **Deposits stable but CASA flat on a sequential month basis.**
- **Asset quality improved.**
- **We maintain our POSITIVE stance in the banking sector.**

Loans growth slowed further... The banking system's total loans grew at a slower pace as at November 2017, where it grew +3.9%yoy to RM1.567t. In comparison, loans grew +4.6%yoy to RM1.563t as at October 2017. The slowdown in loans growth was due to lower growth in purchase of non-residential properties and working capital loans. These segments grew +2.4%yoy to RM212.8b and +2.2%yoy to RM367.1b respectively. In comparison, as at October 2017, these grew +3.2%yoy to RM213.2b and +4.3%yoy to RM368.6b respectively. This may be due to businesses meeting its capital requirements earlier in the year.

...but main segments still robust. However, we note that other main segments loans growth were robust, namely purchase of residential property, auto loans and personal loans. These segments grew +8.9%yoy to RM515.9b, +0.7%yoy to RM160.4b and +4.4%yoy to RM69.0b respectively. The total loans growth for these three segments only was +6.6%yoy to RM745.3b. Meanwhile, including working capital loans, the loans growth was +5.1%yoy to RM1.112t. We believe that this is evident that loans growth in the banking system remains solid given that these segments contribute 71.0% of total banking system loans.

FIGURE 1: BANKING SYSTEM TOTAL LOANS AND LOANS GROWTH

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Jan-16	1,447.3	7.7%	2.6%	11.8%	6.1%	10.5%
Feb-16	1,449.9	7.4%	1.8%	11.4%	6.1%	9.8%
Mar-16	1,449.5	6.4%	1.1%	11.0%	7.1%	8.3%
Apr-16	1,447.8	6.3%	1.0%	10.8%	6.6%	8.2%
May-16	1,458.5	6.2%	0.7%	10.6%	5.9%	7.5%
Jun-16	1,465.2	5.6%	0.4%	10.3%	5.7%	5.7%
Jul-16	1,467.3	5.1%	-0.2%	10.1%	5.3%	4.9%
Aug-16	1,472.1	4.2%	-0.3%	10.1%	4.5%	1.5%
Sep-16	1,483.8	4.2%	-0.4%	9.9%	4.6%	2.1%
Oct-16	1,493.4	4.5%	-0.6%	9.5%	4.7%	2.3%

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Nov-16	1,507.6	5.3%	-0.8%	9.5%	4.3%	4.4%
Dec-16	1,521.5	5.3%	-1.0%	9.2%	4.6%	5.6%
Jan-17	1,527.9	5.6%	-0.9%	9.1%	4.4%	6.3%
Feb-17	1,527.3	5.3%	-0.9%	9.0%	4.5%	6.1%
Mar-17	1,535.8	6.0%	-0.5%	8.8%	4.5%	6.8%
Apr-17	1,536.3	6.1%	-0.5%	8.7%	4.1%	7.3%
May-17	1,539.1	5.5%	-0.3%	8.6%	4.2%	5.6%
Jun-17	1,548.5	5.7%	1.3%	8.9%	3.8%	7.1%
Jul-17	1,549.4	5.6%	1.0%	8.9%	3.6%	6.9%
Aug-17	1,557.3	5.8%	1.1%	8.8%	3.8%	7.2%
Sep-17	1,561.0	5.2%	0.8%	8.8%	4.0%	4.9%
Oct-17	1,562.5	4.6%	0.6%	8.9%	3.9%	4.3%
Nov-17	1,566.9	3.9%	0.7%	8.9%	4.4%	2.2%

Source: BNM, MIDFR

Loans applied accelerated. Applied loans grew at a faster rate in November 2017 as +15.8%yoy to RM82.6b. These were due to stronger growth for the purchase of residential and non-residential properties and for personal uses. As a result, the loans applied for the period up to November grew +5.3%yoy.

Similarly for approved loans. In the case for approved loans growth, it skyrocketed to +22.4%yoy to RM36.6b. Main contributor for the strong growth was the approval for the purchase of residential properties. This segment grew +18.2%yoy to RM3.7b. We believe that this was in line with the trend we have observed in 3QCY17 where banks are focusing on growing its mortgage books. Resultantly, total approved loans up to November grew +8.8%yoy to RM345.6b, while approval rate jumped to 44.1%. We opine that this trend of strong mortgage demand and approvals may continue into CY18, especially due to the spill over effect from 4QCY17 .

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-16	65.0	9.3%	26.7	-14.0%	41.0%
Feb-16	50.5	6.0%	22.3	-16.8%	44.0%
Mar-16	72.1	1.1%	27.8	-23.4%	38.5%
Apr-16	64.3	-6.0%	27.1	-17.2%	42.1%
May-16	72.0	8.5%	32.0	2.2%	44.4%
Jun-16	76.2	3.9%	30.4	-21.1%	39.8%
Jul-16	61.2	-18.0%	26.5	-19.4%	43.3%
Aug-16	74.5	-1.2%	31.5	0.4%	42.3%
Sep-16	68.2	-8.7%	29.6	-8.2%	43.3%
Oct-16	69.0	-14.5%	33.8	-4.0%	49.0%
Nov-16	71.3	-0.3%	29.9	-4.6%	42.0%
Dec-16	58.3	-8.0%	29.3	-12.8%	50.2%
Jan-17	59.6	-8.4%	25.3	-5.1%	42.5%
Feb-17	61.2	21.2%	26.1	17.4%	42.7%
Mar-17	76.6	6.3%	35.9	29.2%	46.9%
Apr-17	64.7	0.6%	27.2	0.3%	42.0%
May-17	75.6	4.9%	31.3	-2.3%	41.4%

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jun-17	64.6	-15.3%	33.3	9.7%	51.6%
Jul-17	75.2	22.9%	33.0	24.7%	43.9%
Aug-17	77.6	4.1%	34.7	10.0%	44.7%
Sep-17	68.4	0.4%	29.1	-1.8%	42.5%
Oct-17	77.9	12.9%	33.1	-2.0%	42.5%
Nov-17	82.6	15.8%	36.6	22.4%	44.3%
11MCY16	744.5	-2.5%	317.5	-11.7%	42.6%
11MCY17	783.9	5.3%	345.6	8.8%	44.1%

Source: BNM, MIDFR

FIGURE 3: SELECTED LOANS APPLIED SEGMENTS GROWTH RATE

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Jan-16	-13.7%	-6.5%	-22.1%	38.5%	61.7%	65.1%	9.3%
Feb-16	-16.7%	1.9%	-16.6%	36.6%	38.6%	48.6%	6.0%
Mar-16	-16.5%	5.6%	-15.7%	29.5%	71.5%	5.9%	1.1%
Apr-16	-3.4%	-3.1%	-36.8%	14.6%	49.9%	-2.2%	-6.0%
May-16	0.5%	5.7%	-7.9%	-17.1%	53.1%	9.2%	8.5%
Jun-16	-0.8%	-7.1%	-16.1%	-23.6%	31.1%	-11.2%	3.9%
Jul-16	-23.8%	-11.8%	-11.1%	-26.0%	20.7%	-22.3%	-18.0%
Aug-16	6.3%	12.7%	8.8%	-6.3%	41.1%	-30.5%	-1.2%
Sep-16	-8.9%	2.2%	-17.4%	-18.7%	17.6%	1.7%	-8.7%
Oct-16	-11.8%	-0.1%	0.1%	-19.3%	10.8%	-19.8%	-14.5%
Nov-16	-3.4%	11.5%	16.1%	-15.8%	30.9%	-16.6%	-0.3%
Dec-16	-1.1%	-2.7%	-11.4%	-29.0%	13.0%	-16.2%	-8.0%
Jan-17	-2.1%	3.4%	-10.5%	-28.9%	14.5%	-15.0%	-8.4%
Feb-17	24.3%	34.5%	5.8%	-3.8%	25.8%	9.0%	21.2%
Mar-17	6.8%	20.8%	19.2%	-10.8%	35.7%	-22.9%	6.3%
Apr-17	-1.1%	8.7%	10.7%	-11.5%	8.5%	-16.2%	0.6%
May-17	16.9%	20.2%	19.2%	32.9%	8.8%	-28.0%	4.9%
Jun-17	-22.3%	6.2%	-6.1%	6.4%	-8.1%	-25.9%	-15.3%
Jul-17	19.7%	28.8%	11.5%	33.3%	17.4%	2.5%	22.9%
Aug-17	-5.9%	14.3%	-7.8%	10.1%	-1.4%	-9.9%	4.1%
Sep-17	-13.9%	7.2%	14.6%	6.7%	-4.6%	-3.8%	0.3%
Oct-17	-5.3%	18.9%	14.2%	11.4%	3.5%	8.4%	12.8%
Nov-17	-6.5%	19.1%	15.7%	27.4%	-1.1%	7.2%	15.8%
11MCY16	-8.6%	0.8%	-12.2%	-4.4%	35.8%	-4.5%	-2.5%
11MCY17	-0.3%	16.1%	7.7%	5.1%	7.8%	-9.3%	5.3%

Source: BNM, MIDFR

FIGURE 4: SELECTED LOANS APPROVED SEGMENTS GROWTH RATE

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jan-16	-11.9%	-34.0%	-44.3%	-5.9%	26.4%	-16.1%	-14.0%
Feb-16	-29.5%	-21.6%	-27.0%	6.5%	14.7%	19.4%	-16.8%
Mar-16	-32.9%	-13.8%	-26.1%	5.8%	21.0%	-7.4%	-23.4%
Apr-16	-21.8%	-25.7%	-41.6%	-10.0%	5.3%	11.7%	-17.2%
May-16	-14.0%	-11.2%	-20.1%	0.0%	9.8%	11.8%	2.2%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jun-16	-8.1%	-21.6%	-4.0%	-6.0%	-10.7%	-39.3%	-21.1%
Jul-16	-25.1%	-21.5%	11.7%	-20.0%	-5.4%	-24.6%	-19.4%
Aug-16	1.3%	-3.0%	-11.9%	6.0%	19.7%	-7.7%	0.4%
Sep-16	-9.9%	-6.3%	-18.9%	-5.6%	3.5%	-25.0%	-8.2%
Oct-16	-18.5%	-9.6%	-5.8%	-9.9%	2.8%	4.0%	-4.0%
Nov-16	-11.8%	0.2%	35.6%	-17.2%	29.2%	-10.5%	-4.6%
Dec-16	-11.8%	-13.5%	26.6%	-29.9%	7.8%	-4.7%	-12.8%
Jan-17	1.9%	12.5%	-8.9%	-6.4%	7.5%	19.9%	-5.1%
Feb-17	6.4%	27.3%	2.6%	2.2%	4.7%	0.4%	17.4%
Mar-17	14.9%	20.1%	-35.6%	-7.7%	31.7%	35.5%	29.3%
Apr-17	3.5%	14.1%	-7.8%	-12.6%	19.9%	-9.2%	0.3%
May-17	18.1%	22.8%	18.3%	26.1%	12.1%	-36.8%	-2.3%
Jun-17	-15.4%	8.1%	-5.9%	-3.6%	3.1%	29.6%	9.8%
Jul-17	10.5%	26.9%	-29.4%	32.8%	28.2%	2.8%	24.8%
Aug-17	-2.4%	13.8%	49.2%	2.3%	5.2%	-24.4%	9.9%
Sep-17	-15.9%	2.8%	3.4%	-6.8%	-1.3%	12.5%	-1.7%
Oct-17	3.7%	14.5%	3.9%	5.0%	6.5%	-6.3%	-2.1%
Nov-17	12.4%	18.2%	-19.2%	24.5%	2.8%	7.8%	22.3%
11MCY16	-17.0%	-15.5%	-16.9%	-5.7%	9.4%	-10.0%	-11.7%
11MCY17	2.8%	16.0%	-4.7%	4.5%	10.6%	0.9%	8.8%

Source: BNM, MIDFR

Deposits stable. Overall deposits appear stable, growing +4.8%yoy to RM1.748t as at November 2017. However, upon further inspection we note that CASA, while growing +7.9%yoy to RM473.6b, was flat on a sequential month basis. We believe that this mean that the main contributor for total deposits growth was fixed deposits. This may cause some margin pressure but we believe that it will be benign and does not signal heating up of deposit competition. Meanwhile, liquidity also remains ample with Liquidity Coverage Ratio of the banking system remaining above 100% at 139% as at November.

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-16	1,636.2	0.1%	429.6	2.1%	26.3%
Feb-16	1,652.7	0.7%	436.7	2.5%	26.4%
Mar-16	1,652.5	-1.0%	423.7	-2.7%	25.6%
Apr-16	1,643.5	-1.2%	417.6	-2.3%	25.4%
May-16	1,655.3	-0.4%	424.2	0.4%	25.6%
Jun-16	1,655.3	-0.8%	433.1	-0.4%	26.2%
Jul-16	1,638.0	1.0%	423.1	1.2%	25.8%
Aug-16	1,640.3	1.0%	425.6	0.6%	25.9%
Sep-16	1,660.5	1.3%	429.1	-0.3%	25.8%
Oct-16	1,670.0	2.6%	432.7	2.8%	25.9%
Nov-16	1,668.1	2.2%	438.9	4.5%	26.3%
Dec-16	1,679.8	2.0%	448.9	5.0%	26.7%
Jan-17	1,687.2	3.1%	454.7	5.8%	26.9%
Feb-17	1,694.5	2.5%	462.2	5.8%	27.3%
Mar-17	1,708.2	3.4%	458.9	8.3%	26.9%
Apr-17	1,705.7	3.8%	458.3	9.8%	26.9%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
May-17	1,717.1	3.7%	462.0	8.9%	26.9%
Jun-17	1,713.0	3.5%	467.1	7.9%	27.3%
Jul-17	1,708.5	4.3%	464.3	9.7%	27.2%
Aug-17	1,723.2	5.1%	466.0	9.5%	27.0%
Sep-17	1,736.7	4.6%	467.1	8.8%	26.9%
Oct-17	1,743.1	4.4%	473.6	9.4%	27.2%
Nov-17	1,748.2	4.8%	473.6	7.9%	27.1%

Source: BNM, MIDFR

Asset quality improved. We were pleasantly surprised by the improvement in asset quality. The GIL and NIL ratio improved by -4bps mom respectively. We opine that this could mean that the possibility of undue stress to the banking asset to be minimal. As such, we believe that this may allow for banks to continue accelerating its lending in the coming months.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)	Net Impaired Loans Ratio (%)
Jan-16	1.61	1.21
Feb-16	1.64	1.25
Mar-16	1.60	1.21
Apr-16	1.60	1.21
May-16	1.65	1.25
Jun-16	1.66	1.26
Jul-16	1.68	1.29
Aug-16	1.66	1.27
Sep-16	1.65	1.26
Oct-16	1.65	1.25
Nov-16	1.63	1.23
Dec-16	1.61	1.24
Jan-17	1.61	1.22
Feb-17	1.63	1.24
Mar-17	1.63	1.24
Apr-17	1.66	1.25
May-17	1.67	1.21
Jun-17	1.64	1.20
Jul-17	1.68	1.23
Aug-17	1.67	1.22
Sep-17	1.67	1.22
Oct-17	1.65	1.19
Nov-17	1.61	1.15

Source: BNM, MIDFR

Expect loans growth in 2018 to be better. We believe that at best loans growth, at best, will be at +5%yoy for this year. However, judging from the current trend of loans applied and approval, we expect that loans growth will pick up in 2018. The loans applied and approval will provide a steady loans pipeline at least in 1QCY18. We also expect that the loans demand will continue on its current trend. This is especially for the mortgage segment as we understand several property developers are targeting to develop affordable housing. As such, we are expecting a loans growth of 6%yoy for 2018.


Maintain POSITIVE. We see no compelling reason to change our POSITIVE view of the banking sector's performance in CY18. We believe that the continued domestic economic performance in CY18 and stable employment environment will drive loans growth. In addition, the anticipated OPR hike by Bank Negara Malaysia will give a temporary boost in margin. With higher demand and approval for loans, we believe the banking sector will be able to maintain its earnings potential. 

FIGURE 8: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 29/12 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				17	18	17	18	17	18	17	18	17	18	17	18
Maybank	BUY	9.80	10.30	69.8	70.3	14.0	13.9	55.0	55.0	5.6	5.6	6.8	7.1	1.4	1.4
Public Bank	BUY	20.78	23.30	137.9	141.1	15.1	14.7	60.0	62.0	2.9	3.0	9.3	9.7	2.2	2.1
CIMB	BUY	6.54	7.10	47.0	53.0	13.9	12.3	26.0	30.0	4.0	4.6	5.2	5.5	1.3	1.2
RHB Bank	NEUTRAL	5.00	5.20	48.3	52.5	10.4	9.5	12.0	13.0	2.4	2.6	5.6	5.8	0.9	0.9
Hong Leong	NEUTRAL	17.00	15.70	116.9	117.9	14.5	14.4	47.0	47.0	2.8	2.8	11.2	11.3	1.5	1.5
AMMB	NEUTRAL	4.41	4.35	46.9	49.3	9.4	8.9	17.0	18.0	3.9	4.1	5.6	5.8	0.8	0.8
Affin	BUY	2.31	2.90	26.0	29.0	8.9	8.0	12.0	13.0	5.2	5.6	4.7	4.8	0.5	0.5
Alliance	BUY	4.08	4.65	33.8	37.4	12.1	10.9	19.0	20.0	3.7	4.4	3.5	3.7	1.2	1.1
BIMB	BUY	4.40	5.00	38.9	41.4	11.3	10.6	14.4	15.5	3.3	3.5	2.7	3.0	1.6	1.5
Average				62.8	65.8	12.2	11.5	29.2	30.4	3.7	4.0	6.1	6.3	1.3	1.2

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.