

# BANKING

**Maintain NEUTRAL**

## Higher working capital loans growth

### KEY INVESTMENT HIGHLIGHTS

- **Loans growth inched higher due to acceleration in working capital loans**
- **Loans application and approvals contracted due to cautiousness stemming from uncertainty as Covid-19 becomes a pandemic**
- **Deposits growth moderated from slight contraction in fixed deposits growth. Deposits competition will be less intense this year as loans growth will be tepid and relaxation of regulatory requirements**
- **Cognizant of the impact of Covid-19, BNM measures and MCO. All eyes will be on asset quality**
- **We maintain our NEUTRAL stance in the banking sector. D-SIB banks as the top picks**

**Loans growth rate inched higher.** The banking system loans growth as at March CY20 had another surprise rise to +4.0%yoy, as compared to the +3.9%yoy registered as at February CY20. This could be due to the business segment drawing down on loans as working capital loans jumped +3.6%yoy to RM404.7b, the highest pace since April CY19. Top 3 contributors to system loans stock (loans for purchase of residential housing, passenger cars and working capital) grew at faster pace at +4.7%yoy to RM1.18t vs. +3.8%yoy the previous month.

**Business segment loans growth accelerated.** Loans for the business segment grew +3.1%yoy to RM791.3b as at March CY20. In comparison, it was +2.4%yoy to RM784.8b as at February CY20. Higher expansion of working capital loans was the driver. This could be due to businesses preparing for the uncertainty surrounding Covid-19 pandemic or the Movement Control Order.

**Retail loans growth moderated.** In terms of retail loans, it grew +4.8%yoy to RM906.7b as compared to +5.2%yoy to RM906.4b registered the previous month. One of the main drivers were the faster decline in loans for purchase of passenger cars as this fell -1.2%yoy to RM157.4b from -0.8%yoy to RM158.2b as at February CY20.

**Loans application contracted.** Loans applied fell -9.8%yoy to RM65.5b for the month. This could be due to the uncertain situation resulting from Covid-19 causing hesitancy to borrow. However, with the +40.7%yoy in February CY20, the loans applied for 1QCY20 was still an expansion, of +1.4%yoy.

**Loans approval contracted more.** Meanwhile, loans approval saw a bigger contraction with -22.5%yoy vs. the expansion of +23.2%yoy the previous month. It is possible that this was due to banks becoming more cautious as Covid-19 becomes more widespread. This resulted in a decline in 1QCY20 of -4.3%yoy.

**Deposits growth slowed due to FD.** The total system deposits grew +2.1%yoy, lower than the +2.6%yoy as at February CY20. This was due to marginal fixed deposits of -0.3%yoy to RM0.99t. We believe that this suggest that banks continue to pace themselves in the uncertainty and potentially another OPR cut.

### COMPANY IN FOCUS

#### Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM8.00  
Price @ 6<sup>th</sup> May 2020: RM7.41

- Likelihood of stable asset quality and credit cost
- Scale and size
- D-SIB bank means support
- Attractive dividend yield of circa above 6%

#### Share price chart



#### CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM4.30  
Price @ 6<sup>th</sup> May 2020: RM3.41

- Scale and size
- D-SIB bank means support
- Relatively undemanding valuation as it is trading below 1x PBV
- Decent dividend yield

#### Share price chart



**FIGURE 1: BANKING SYSTEM TOTAL LOANS AND LOANS GROWTH**

	Total loans (RM b)	Growth (yoy)	Growth (year-on-year) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Jan-19	1,711.1	7.5%	-0.2%	8.2%	37.0%	5.8%
Feb-19	1,708.5	7.0%	-0.5%	7.9%	36.4%	5.5%
Mar-19	1,715.0	7.0%	-0.3%	7.9%	35.6%	4.7%
Apr-19	1,715.7	4.5%	-0.5%	7.1%	3.4%	3.0%
May-19	1,721.9	4.5%	0.2%	7.3%	3.3%	3.3%
Jun-19	1,728.4	4.2%	-0.3%	7.1%	4.2%	2.3%
Jul-19	1,728.8	3.9%	-0.8%	7.0%	2.9%	1.6%
Aug-19	1,739.0	3.9%	-1.6%	7.1%	2.8%	2.1%
Sep-19	1,747.5	3.8%	-1.7%	7.2%	2.8%	1.6%
Oct-19	1,751.7	3.7%	-1.5%	7.2%	2.7%	1.3%
Nov-19	1,759.1	3.7%	-1.2%	7.3%	2.8%	1.3%
Dec-19	1,771.6	3.9%	-1.0%	7.3%	3.1%	1.0%
Jan-20	1,770.5	3.5%	-0.8%	7.2%	3.0%	-0.4%
Feb-20	1,774.7	3.9%	-0.8%	7.3%	3.3%	0.6%
Mar-20	1,783.6	4.0%	-1.2%	7.1%	3.5%	3.6%

Source: BNM, MIDFR

**FIGURE 2: LOANS APPLIED AND LOANS APPROVAL**

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-19	71.9	-3.8%	31.1	-3.3%	43.2%
Feb-19	49.9	-13.6%	24.2	-3.0%	48.6%
Mar-19	72.6	-5.3%	35.5	6.9%	48.9%
Apr-19	83.2	5.4%	35.2	5.7%	42.4%
May-19	79.8	13.3%	39.8	25.4%	49.9%
Jun-19	65.4	-11.3%	34.6	-3.0%	53.0%
Jul-19	78.1	0.5%	37.5	11.2%	48.0%
Aug-19	82.3	-0.3%	35.8	1.7%	43.5%
Sep-19	69.1	-6.1%	33.7	-8.7%	48.8%
Oct-19	81.7	3.2%	33.9	-12.8%	41.5%
Nov-19	80.0	26.4%	35.7	2.8%	44.6%
Dec-19	63.9	5.5%	33.7	7.6%	52.8%
Jan-20	61.4	-14.6%	29.5	-4.9%	48.1%
Feb-20	70.2	40.7%	29.8	23.2%	42.5%
Mar-20	65.5	-9.8%	27.5	-22.5%	42.0%
3MCY19	194.4	-7.1%	90.8	0.5%	46.7%
3MCY20	197.1	1.4%	86.9	-4.3%	44.1%

Source: BNM, MIDFR

**FIGURE 3: SELECTED LOANS APPLIED SEGMENTS GROWTH RATE (year-on-year)**

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Jan-19	-8.1%	5.8%	12.1%	-2.2%	-14.3%	-13.9%	-3.8%
Feb-19	-12.0%	0.1%	-16.3%	-14.1%	-17.7%	-15.2%	-13.6%
Mar-19	-15.3%	6.8%	-5.8%	-18.1%	-11.0%	-1.6%	-5.3%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Apr-19	-9.4%	12.6%	-1.7%	-16.9%	-9.5%	-5.9%	5.4%
May-19	-6.8%	36.9%	13.5%	-2.2%	-4.9%	6.1%	13.3%
Jun-19	-47.3%	9.1%	-15.4%	-12.7%	-26.7%	-16.8%	-11.3%
Jul-19	-32.3%	2.6%	-1.7%	-2.2%	-21.7%	15.5%	0.5%
Aug-19	-24.4%	-3.8%	3.1%	-7.8%	-20.5%	38.8%	-0.3%
Sep-19	11.1%	5.1%	5.3%	-0.7%	-20.6%	4.9%	-6.1%
Oct-19	15.7%	5.0%	-5.1%	-4.1%	-21.4%	9.2%	3.2%
Nov-19	34.0%	8.3%	14.2%	7.4%	7.2%	40.1%	26.4%
Dec-19	30.5%	15.1%	5.1%	5.2%	0.6%	12.3%	5.5%
Jan-20	-9.5%	-19.6%	-27.1%	-9.4%	-0.8%	13.3%	-14.6%
Feb-20	45.5%	40.4%	34.5%	32.4%	24.0%	75.9%	40.7%
Mar-20	-9.9%	-19.2%	-20.7%	-11.3%	-12.4%	32.0%	-9.8%
3MCY19	-11.6%	4.6%	-2.7%	-11.4%	-14.1%	-9.6%	-7.1%
3MCY20	5.3%	-4.2%	-9.6%	1.2%	1.7%	37.5%	1.4%

Source: BNM, MIDFR

**FIGURE 4: SELECTED LOANS APPROVED SEGMENTS GROWTH RATE (year-on-year)**

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jan-19	-0.9%	3.9%	17.1%	15.3%	-24.8%	18.1%	-3.3%
Feb-19	-9.7%	-7.4%	1.1%	5.8%	-29.0%	26.9%	-3.0%
Mar-19	10.4%	4.1%	65.4%	8.1%	-19.3%	10.6%	6.9%
Apr-19	7.0%	14.0%	6.6%	2.9%	-10.7%	-15.7%	5.7%
May-19	16.7%	32.3%	11.3%	17.3%	7.8%	37.8%	25.4%
Jun-19	-43.6%	13.7%	34.9%	-5.9%	-16.2%	-16.3%	-3.0%
Jul-19	-30.6%	21.2%	-18.8%	13.2%	6.5%	32.3%	11.2%
Aug-19	-28.6%	6.5%	-21.3%	13.4%	-7.7%	-2.7%	1.7%
Sep-19	-0.5%	3.8%	-16.9%	19.4%	-3.5%	20.6%	-8.7%
Oct-19	6.9%	-2.6%	-11.7%	-1.4%	0.0%	-26.1%	-12.8%
Nov-19	20.2%	3.8%	-3.6%	12.5%	28.7%	25.8%	2.8%
Dec-19	20.5%	8.5%	23.5%	9.0%	20.0%	-14.5%	7.6%
Jan-20	-1.2%	-14.2%	-13.0%	2.9%	13.5%	-1.0%	-4.9%
Feb-20	22.0%	18.1%	-2.6%	44.6%	38.4%	24.4%	23.2%
Mar-20	-23.0%	-27.3%	-56.7%	-1.8%	-9.7%	4.7%	-22.5%
3MCY19	0.0%	0.7%	30.9%	9.8%	-24.1%	17.3%	0.5%
3MCY20	-2.5%	-10.7%	-31.9%	13.0%	11.4%	7.9%	-4.3%

Source: BNM, MIDFR

**FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH**

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-19	1,906.2	7.4%	497.6	0.9%	26.1%
Feb-19	1,914.3	7.7%	498.4	1.5%	26.0%
Mar-19	1,927.4	6.6%	500.7	2.7%	26.0%
Apr-19	1,940.6	5.2%	499.8	2.8%	25.8%
May-19	1,943.0	5.3%	508.0	4.6%	26.1%
Jun-19	1,937.5	4.7%	506.6	4.4%	26.1%
Jul-19	1,944.5	4.8%	507.4	5.3%	26.1%
Aug-19	1,948.8	4.5%	506.7	5.2%	26.0%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Sep-19	1,952.7	4.2%	514.2	6.5%	26.3%
Oct-19	1,963.8	3.9%	512.4	5.5%	26.1%
Nov-19	1,956.4	2.8%	515.5	5.5%	26.3%
Dec-19	1,970.6	3.1%	530.4	6.7%	26.9%
Jan-20	1,961.2	2.9%	525.3	5.6%	26.8%
Feb-20	1,963.2	2.6%	527.0	5.7%	26.8%
Mar-20	1,968.2	2.1%	552.3	10.3%	28.1%

Source: BNM, MIDFR

**Lower lending and deposits rate.** We noted that average lending rate was -19.7bp mom lower, to 4.40%. Meanwhile, average FD rates were also lower by -25bps mom. This was the result of the OPR cuts. We believe that this could signal that deposits competitions will be less intense this year. Also, we believe that the competition will lessen further with the relaxation of Liquidity Coverage Ratio and Net Stable Funding Ratio requirements by Bank Negara Malaysia to ensure sufficient liquidity during the anticipated difficult times.

**GIL ratio stable.** Asset quality seems stable as we estimated gross impaired loans (GIL) was maintained at below 1.6%. Overall, we note that the GIL ratio seems at a manageable level. However, we are expecting that this could rise due to the possible impact of Covid-19 and the extensions of the Movement Control Order.

#### FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)
Jan-19	1.48
Feb-19	1.53
Mar-19	1.48
Apr-19	1.53
May-19	1.53
Jun-19	1.57
Jul-19	1.60
Aug-19	1.61
Sep-19	1.61
Oct-19	1.62
Nov-19	1.60
Dec-19	1.52
Jan-20	1.56
Feb-20	1.57
Mar-20	1.59

Source: BNM, MIDFR

**Maintain NEUTRAL.** We maintain our NEUTRAL stance as we expect the prolonged MCO will have an impact to loans growth and asset quality. We understand that the MCO restrictions have been relaxed slightly but we foresee that it will take some time for the situation to return to normal. All this will have a downside impact to the economy and this will affect the banks through higher credit cost. However, we do not foresee exacerbated stress to the banking sector as it face current headwinds on a position of strength. Our top picks are the three D-SIB banks due to its solid fundamental, scale and size. Also, being systematically important banks will ensure support should there be any stress to asset quality. Hence, we favour **Maybank (BUY, TP: RM8.00)**, **CIMB (BUY, TP: RM4.30)** and **Public Bank (TRADING BUY, TP: RM17.00)**. Additionally, attractive dividend yield will also cushion any downside risk. A re-rating catalyst would be faster than expected recovery of the economy.



## PEER COMPARISON TABLE

	FYE	Rec.	Price @ 6-May	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV (RM)		PBV	
					20	21	20	21	20	21	20	21	20	21	20	21
Maybank	Dec	BUY	7.41	8.00	66	73	11.1	10.2	50	56	6.7	7.6	7.26	7.43	1.0	1.0
Public Bank	Dec	T. BUY	15.74	17.00	126	139	12.5	11.3	70	73	4.4	4.6	11.74	12.25	1.3	1.3
CIMB	Dec	BUY	3.41	4.30	37	44	9.2	7.7	17	22	4.9	6.5	5.62	5.64	0.6	0.6
RHB Bank	Dec	BUY	4.62	5.10	55	66	8.5	7.0	31	31	6.7	6.7	6.42	6.50	0.7	0.7
Hong Leong Bank	Jun	NEUTRAL	13.20	13.60	126	132	10.5	10.0	52	54	3.9	4.1	12.84	12.98	1.0	1.0
AMMB	Mar	T. BUY	2.92	3.60	40	46	7.3	6.4	16	18	5.4	6.3	5.97	6.05	0.5	0.5
Affin Bank	Dec	NEUTRAL	1.52	1.55	24	24	6.3	6.3	5	8	3.3	5.3	4.65	6.75	0.3	0.2
Alliance	Mar	NEUTRAL	2.02	2.05	22	26	9.0	7.6	11	12	5.3	5.9	3.79	3.80	0.5	0.5
BIMB	Dec	BUY	3.19	4.05	34	31	9.4	10.4	12	12	3.8	3.8	3.36	3.51	0.9	0.9
<b>Average</b>					<b>59</b>	<b>65</b>	<b>9.3</b>	<b>8.5</b>	<b>29</b>	<b>32</b>	<b>4.9</b>	<b>5.6</b>	<b>6.85</b>	<b>7.21</b>	<b>0.8</b>	<b>0.8</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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