

BANKING

Maintain POSITIVE

Loans pipeline still healthy

INVESTMENT HIGHLIGHTS

- Loans growth came off slightly in October.
- However, demand for loans continues to show robust growth.
- Faster CASA growth as well, assuring net interest margin improvement.
- Asset quality stable.
- We maintain our POSITIVE stance on the banking sector.

Came off slightly in October. Loans grew at slightly slower pace as at October, coming in at +4.6%yoy to RM1,563b. This was slightly below expectations as capex and other purpose loans segment fell -8.2%yoy and -3.3%yoy to RM9.28b and RM63.13b respectively. However, loans growth for major segments such as purchase of passenger cars, purchase of residential property, personal use and working capital remained robust at +0.6%yoy, +8.9%yoy, +3.9%yoy and +4.3%yoy respectively.

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%
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%

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
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%

Source: BNM, MIDFR

Loans pipeline remains healthy. Growth in loans applied was stronger in October at 12.9%yoy from +0.4%yoy posted in September. There were pent-up loans demand for residential and non-residential mortgages, personal use, credit cards and working capital. However, loans approval could not keep pace with the demand as it fell by -2.0%yoy in October. Notable mention was the loans approval growth for residential mortgage which grew +14.5%yoy. We opine that this trend of strong mortgage demand and approvals may continue for the rest of the year, and spill over into next year. This is based on the fact that the mortgage segment continues to be a focus by the banks.

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%
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%
10MCY16	673.3	-2.8%	287.6	-12.4%	42.7%
10MCY17	701.4	4.2%	309.0	7.4%	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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
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%
10MCY16	-9.1%	-0.2%	-14.4%	-3.1%	36.4%	-3.0%	-2.8%
10MCY17	0.4%	15.8%	6.9%	2.9%	8.8%	-11.1%	4.2%

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%
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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Oct-17	3.7%	14.5%	3.9%	5.0%	6.5%	-6.3%	-2.1%
10MCY16	-17.5%	-16.9%	-20.3%	-4.3%	7.4%	-9.9%	-12.4%
10MCY17	1.9%	15.8%	-3.1%	2.5%	11.5%	0.1%	7.4%

Source: BNM, MIDFR

CASA growth accelerated. Overall deposits grew +4.4%yoy to RM1.74t as at October. Meanwhile, CASA growth accelerated at +9.4%yoy to RM473.6b. We note that CASA growth have continued to be healthy this year, posting above +8.0%yoy and averaging +9.0%yoy since March CY17. We believe this was the main reason for the robust net interest income expansion for the banks. Based on anecdotal evidence, we understand that the strong CASA growth was partly due to corporate and SME CASA. Any margin compression for this year, we expect it to be benign. Liquidity also remains ample, with Liquidity Coverage Ratio of the banking system remaining above 100% at 138% as at October.

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%
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%

Source: BNM, MIDFR

Asset quality continues to be stable. GIL and NIL ratio improves slightly by +2bps and +3bps mom respectively. As long as GIL ratio stays below 3% level, we will not be unduly concern with asset quality in the banking system for now.

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

Source: BNM, MIDFR

Loans growth expectations may come in slightly lower than expected. We had expected a loans growth of 6% for the banking sector. However, judging from the current trend we now expect the figure to be around 5.2-5.6% region. While October's loans growth was below 5%, based on the loans demand, we anticipate that loans growth will accelerate slightly in November and December. In addition, we understand that a few banks are expecting loans to accelerate in 4QCY17.


Maintain POSITIVE. We maintain our POSITIVE view of the banking sector's performance in CY17 and CY18. We believe that with the continued improved economic conditions in CY18 and, higher demand and approval for loans, the banking sector will be able to maintain its earnings potential. In addition, it is expected that there will be an OPR hike next year which should give a short term boost to banking income. 

FIGURE 8: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 4/12 (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	9.25	10.30	69.8	70.3	13.3	13.2	55.0	55.0	5.9	5.9	6.8	7.1	1.4	1.3
Public Bank	BUY	20.00	23.30	137.9	141.1	14.5	14.2	60.0	62.0	3.0	3.1	9.3	9.7	2.2	2.1
CIMB	NEUTRAL	5.95	7.10	47.0	53.0	12.7	11.2	26.0	30.0	4.4	5.0	5.2	5.5	1.1	1.1
RHB Bank	NEUTRAL	4.90	5.20	48.3	52.5	10.1	9.3	12.0	13.0	2.4	2.7	5.6	5.8	0.9	0.8
Hong Leong	NEUTRAL	15.30	15.70	116.9	117.9	13.1	13.0	47.0	47.0	3.1	3.1	11.2	11.3	1.4	1.4
AMMB	NEUTRAL	4.08	4.35	46.9	49.3	8.7	8.3	17.0	18.0	4.2	4.4	5.6	5.8	0.7	0.7
Affin	BUY	2.27	2.90	26.0	29.0	8.7	7.8	12.0	13.0	5.3	5.7	4.7	4.8	0.5	0.5
Alliance	BUY	3.80	4.65	33.8	37.4	11.2	10.2	19.0	20.0	3.7	4.4	3.5	3.7	1.1	1.0
BIMB	BUY	4.29	5.00	38.9	41.4	11.0	10.4	14.4	15.5	3.4	3.6	2.7	3.0	1.6	1.5
Average				62.8	65.8	11.5	10.8	29.2	30.4	3.9	4.2	6.1	6.3	1.2	1.1

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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.