

3 September 2019 | Sector Update

## BANKING

*Maintain POSITIVE*

*Possibly affected by prolong external uncertainties*

### INVESTMENT HIGHLIGHTS

- Loans growth had decelerated caused by slowdown in business loans
- Retail loans remained stable in line with private consumption pattern
- Loans demand recovered slightly
- Deposits growth lead by good CASA growth
- GIL ratio inching higher again but not yet alarming
- Turning cautious but maintain POSITIVE for now

**Loans growth decelerated.** The banking system loans growth as at July CY19 decelerated to +3.9%yoy from +4.2%yoy the previous month. Take note that this includes the revision by Bank Negara Malaysia on the banking system loans and deposits balance to take into account figures from MBSB as it acquired a banking license. The deceleration was driven by business loans which only grew +2.5%yoy to RM771.6b. We consider business loans as loans for the purpose of purchasing non passenger car, non-residential properties, shares, working capital loans, loans for construction and purchase of fixed assets.

**Working capital loans attributed to slower business loans growth.** Of the total business loans, working capital loans contributed the most with 50.5%. As such a slower growth in working capital loans was the main reason for business loans to decelerate. Working capital loans grew +1.6%yoy to RM389.3b from +2.3%yoy to RM391.3b as at June CY19. Anecdotally, we understand that businesses are turning more cautious. This could be due to the external circumstances such as the ongoing US-China trade tension.

**Stable retail loans.** Retail loans expanded +4.9%yoy to RM879.2b. This was marginally lower than the +5.0%yoy to RM875.4b registered as at last month. Loans for the purchase of residential loans tapered slightly to +7.0%yoy to RM585.2b, while credit card loans growth grew +3.2%yoy to RM39.2b (from +7.1%yoy to RM581.7b and +0.2%yoy to RM39.2b respectively). We opine that the stable retails loans were in line with our expectation of a robust domestic demand in CY19.

**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-18	1,591.5	4.2%	-1.2%	8.7%	4.3%	0.8%
Feb-18	1,596.2	4.5%	-0.9%	8.8%	4.6%	0.7%
Mar-18	1,603.3	4.4%	-1.1%	8.7%	5.0%	0.6%
Apr-18	1,641.7	6.9%	-0.8%	9.5%	37.5%	2.0%
May-18	1,647.0	7.0%	-1.3%	9.4%	37.5%	2.8%
Jun-18	1,658.6	7.1%	-0.9%	9.1%	38.0%	2.9%
Jul-18	1,663.4	7.4%	-0.2%	9.1%	38.8%	3.5%

	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
Aug-18	1,673.7	7.5%	0.5%	9.0%	38.6%	3.5%
Sep-18	1,683.2	7.8%	0.6%	8.8%	38.7%	4.9%
Oct-18	1,688.7	8.1%	0.5%	8.6%	38.7%	5.8%
Nov-18	1,696.4	8.3%	0.2%	8.4%	38.0%	6.6%
Dec-18	1,705.7	7.7%	0.0%	8.4%	37.3%	5.7%
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%

Source: BNM, MIDFR

**Loans demand recovered.** Loans demand recovered in July CY19 from the contraction in June CY19. It grew 0.5%yoy with demand for the purpose of purchasing residential properties and working capital the major contributors with +2.6%yoy to RM25.1b and +15.5%yoy to RM16.7b respectively. For year-to-date loans demand, it was still lower than the previous year due to double digit contraction in February and June.

**Loans approval stable.** As for loans approval, it grew strongly at +11.2%yoy with approvals for working capital loans and purchases of residential properties the main drivers. These grew +32.3%yoy to RM8.0b and +21.2%yoy to RM11.1b respectively. This led to a stable +5.8%yoy growth in loans approval up to July.

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

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-18	74.7	25.4%	32.1	27.0%	43.0%
Feb-18	57.7	-5.7%	25.0	-4.4%	43.3%
Mar-18	76.7	0.0%	33.2	-7.6%	43.3%
Apr-18	78.9	22.0%	33.3	22.7%	42.2%
May-18	70.4	-6.8%	31.8	1.7%	45.1%
Jun-18	73.7	14.2%	35.7	7.1%	48.4%
Jul-18	77.8	3.4%	33.7	2.1%	43.4%
Aug-18	82.5	6.4%	35.2	1.5%	42.6%
Sep-18	73.6	7.3%	36.9	26.5%	50.2%
Oct-18	79.1	1.6%	38.9	17.4%	49.1%
Nov-18	63.3	-23.4%	34.7	-5.2%	54.8%
Dec-18	60.5	6.0%	31.4	-8.8%	51.8%
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%
7MCY18	510.0	6.8%	224.9	6.0%	44.1%
7MCY19	500.9	-1.8%	238.0	5.8%	47.5%

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-18	10.2%	18.9%	41.5%	46.6%	10.8%	-3.5%	25.4%
Feb-18	-14.9%	-12.1%	11.3%	13.7%	-1.6%	-13.2%	-5.8%
Mar-18	-10.2%	-11.4%	7.7%	21.0%	-26.1%	10.7%	0.0%
Apr-18	4.9%	7.1%	24.4%	34.6%	-4.5%	51.4%	22.0%
May-18	-4.6%	-15.0%	-12.1%	1.1%	-14.4%	20.8%	-6.8%
Jun-18	43.5%	2.0%	28.1%	4.6%	3.1%	21.3%	14.2%
Jul-18	33.6%	15.2%	14.5%	9.1%	2.8%	-12.2%	3.4%
Aug-18	9.1%	3.6%	20.0%	9.2%	5.0%	-9.3%	6.4%
Sep-18	-20.7%	-1.9%	-0.1%	-0.4%	2.4%	5.4%	7.3%
Oct-18	-15.4%	7.4%	11.3%	11.5%	13.7%	-12.6%	1.6%
Nov-18	-29.6%	-10.1%	1.1%	-13.0%	-15.8%	-36.9%	-23.4%
Dec-18	-20.9%	6.9%	19.3%	-2.8%	-2.6%	-1.4%	6.0%
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%
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%
7MCY18	8.2%	0.0%	14.8%	17.5%	-5.5%	9.4%	6.8%
7MCY19	-20.4%	10.6%	-2.2%	-9.8%	-15.2%	-4.3%	-1.8%

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-18	2.9%	20.1%	0.0%	37.9%	15.3%	16.4%	26.9%
Feb-18	11.6%	1.1%	8.8%	25.9%	13.4%	-35.0%	-4.4%
Mar-18	-9.1%	-8.1%	22.1%	30.5%	-12.1%	-33.9%	-7.6%
Apr-18	7.9%	7.9%	48.5%	58.7%	-2.6%	25.9%	22.7%
May-18	-7.5%	-11.9%	1.0%	0.6%	-20.5%	19.7%	1.7%
Jun-18	58.7%	-0.3%	-24.5%	21.1%	2.5%	10.3%	7.1%
Jul-18	57.4%	2.8%	46.2%	36.0%	-18.7%	-18.7%	2.1%
Aug-18	33.7%	0.5%	-9.8%	24.4%	-4.4%	53.6%	1.5%
Sep-18	5.0%	3.2%	42.5%	21.3%	-9.2%	16.2%	26.5%
Oct-18	1.0%	15.3%	7.1%	35.9%	-13.5%	13.5%	17.4%
Nov-18	-19.8%	-3.8%	21.2%	5.4%	-32.0%	-12.6%	-5.2%
Dec-18	-12.1%	5.4%	21.2%	17.4%	-21.4%	-12.8%	-8.8%
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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jul-19	-30.6%	21.2%	-18.8%	13.2%	6.5%	32.3%	11.2%
7MCY18	16.5%	0.7%	12.6%	28.4%	-4.6%	-4.7%	6.0%
7MCY19	-11.1%	12.4%	15.0%	8.2%	-12.9%	9.6%	5.8%

Source: BNM, MIDFR

**Good CASA growth.** Total system deposits as at July CY19 expanded at a solid +4.8%yoy from +4.7%yoy as at June CY19. We were pleased to see that CASA growth accelerated to +5.3%yoy while fixed deposits including tawarruq fixed deposits (FD) expanded +6.6%yoy to RM999.2b. Comparatively, FD growth was +7.7%yoy to RM1.0t as at June. This could suggest that deposit competition have slowed. With the OPR cut in May CY19 and the fact that banks have comply with Net Stable Funding Ratio, we believe that FD could decelerate further. This should ease the pressure to net interest margin slightly.

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

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-18	1,774.1	5.2%	493.4	8.5%	27.8%
Feb-18	1,777.0	4.9%	491.2	6.3%	27.6%
Mar-18	1,808.5	5.0%	487.7	6.3%	27.0%
Apr-18	1,844.1	7.2%	486.1	6.1%	26.4%
May-18	1,844.9	6.6%	485.8	5.1%	26.3%
Jun-18	1,850.0	7.1%	485.3	3.9%	26.2%
Jul-18	1,855.5	7.6%	482.0	3.8%	26.0%
Aug-18	1,865.7	7.3%	481.9	3.4%	25.8%
Sep-18	1,873.1	6.8%	483.0	3.4%	25.8%
Oct-18	1,890.1	7.3%	485.8	2.6%	25.7%
Nov-18	1,903.1	7.7%	488.8	3.2%	25.7%
Dec-18	1,912.2	8.4%	497.3	1.2%	26.0%
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%

Source: BNM, MIDFR

**Lower average lending rate.** We noted that the average lending rate fell in -7.3bp mom in July to 4.82%. This could be due to competition for loans and we expect that this could moderate the positive from the solid CASA growth. As for FD rates, it was stable on average with 1-month and 9-month tenure falling -1.6bp and -0.8bp mom to 2.83% and 3.02% respectively.


**GIL ratio inching higher again but not yet alarming.** Asset quality seems to have deteriorated in July CY19 as we estimated gross impaired loans (GIL) increased by +3bp mom to 1.60%. The uptick was due to higher non-performing loans (NPL), on a sequential month basis, in transport vehicle loans (mostly non passenger cars), personal loans and working capital loans. These grew +23.9%mom to RM1.7b, +5.4%mom to RM1.7b and +2.7%mom to RM8.8b respectively. However, we note that the GIL ratio was not yet an alarming rate and seems at a manageable level.

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

	Gross Impaired Loans Ratio (%)
Jan-18	1.54
Feb-18	1.56
Mar-18	1.58
Apr-18	1.60
May-18	1.62
Jun-18	1.62
Jul-18	1.61
Aug-18	1.61
Sep-18	1.56
Oct-18	1.55
Nov-18	1.52
Dec-18	1.48
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

Source: BNM, MIDFR

**Turning cautious but maintain POSITIVE for now.** We are turning cautious on the banking sector on increased uncertainties. We had observed external events especially the recent escalation of the trade tension between the US and China have caused concerns on the direction of global growth. This in turn will have an impact to local growth and indirectly to the banking sector as businesses grew more cautious. However, Malaysia's domestic demand especially private consumption remains robust and this will continue to support loans growth. Hence, we are maintaining our CY19 loans growth estimate of 4.7%.

On the impact of the OPR cut, we believe it will normalise. Besides, we believe that there are still positives for banks such as the low credit cost. This should be able to alleviate any weakness in income. Furthermore, we opine that banking stocks in general are currently undervalued given its fundamentals remains intact. Hence, we maintain our POSITIVE stance at current juncture. Given the current uncertainties and market conditions, our top picks for this sector are **Maybank (BUY, TP: RM10.30)**, **CIMB (BUY, TP: RM6.30)** and **Public Bank (BUY, TP: RM24.00)**. 

**FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS**

	Rec.	Price @ 30/8 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				19	20	19	20	19	20	19	20	19	20	19	20
Maybank	Dec	BUY	8.69	10.30	74.1	73.9	11.7	11.8	58.0	58.0	6.7	6.7	7.1	7.4	1.2
Public Bank	Dec	BUY	20.32	24.00	145.6	148.7	14.0	13.7	72.0	73.0	3.5	3.6	11.3	12.0	1.8
CIMB	Dec	BUY	5.06	6.30	50.0	49.0	10.1	10.3	26.0	26.0	5.1	5.1	5.6	5.7	0.9
RHB Bank	Dec	BUY	5.70	6.35	62.4	67.7	9.1	8.4	25.0	27.0	4.4	4.7	6.3	6.5	0.9
Hong Leong	Jun	NEUTRAL	16.60	17.00	130.0	143.1	12.8	11.6	50.0	50.0	3.0	3.0	12.5	13.0	1.3
AMMB	Mar	NEUTRAL	4.20	4.20	50.0	46.6	8.4	9.0	20.0	20.0	4.8	4.8	5.9	6.1	0.7
Affin	Dec	NEUTRAL	1.99	2.10	29.0	29.0	6.9	6.9	5.0	7.0	2.5	3.5	4.7	4.7	0.4
Alliance	Mar	T. BUY	3.00	3.50	34.7	32.6	8.6	9.2	16.7	14.5	5.6	4.8	3.7	3.7	0.8
BIMB	Dec	BUY	4.05	5.05	43.7	44.0	9.3	9.2	16.0	18.0	4.0	4.4	3.2	3.5	1.3
<b>Average</b>					<b>68.8</b>	<b>70.5</b>	<b>10.1</b>	<b>10.0</b>	<b>32.1</b>	<b>32.6</b>	<b>4.4</b>	<b>4.5</b>	<b>6.7</b>	<b>7.0</b>	<b>1.0</b>

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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.