

2 March 2018 | Sector Update

BANKING

Maintain **POSITIVE**

Shot up in loans demand

INVESTMENT HIGHLIGHTS

- Slight pickup in loans growth.
- Loans demand shot up to highest level since November 2013.
- Loans approval could not keep up with demand but maintained growth pace.
- Will fuel loans growth for 2018.
- Robust CASA growth.
- Asset quality stable.
- We maintain our **POSITIVE** stance in the banking sector.

Slight pickup in loans growth. The banking system's total loans had a slight pickup as at end January 2018 where it grew +4.2%yoy to RM1.59t. Comparatively, loans growth grew +4.1%yoy as at December 2017. All major loans segment were steady especially for the purchase of residential property. This had grown consistently at 8.9% since October 2017.

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-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% |
| Dec-17 | 1,584.4 | 4.1% | 0.6% | 8.9% | 4.1% | 0.9% |
| Jan-18 | 1,591.7 | 4.2% | 0.5% | 8.9% | 4.6% | 0.8% |

Source: BNM, MIDFR

Loans applied shot up. Applied loans grew at the fastest pace since November 2013. Total loans demand grew +25.4%yoy to RM74.8b. We believe that this was mainly contributed by business loans demand. Loans applied for purchase of non-residential property and fixed asset rose +43.9%yoy and +104.7%yoy to RM8.27b and RM1.02b respectively.

Approved loans maintain growth trend but could not keep up. In the case for approved loans growth, it maintained its double digit growth trend since November 2017. Loans approved in January 2018 grew

+26.9%yoy to RM32.1b. This resulted in a drop in approval rate to 42.9% as the banks could not keep up with demand. We believe that this bodes well for industry loans growth as the backlog in loans demand will spill over into the coming month.

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

| | Applied (RM b) | Growth (yoy) | Approved (RM b) | Growth (yoy) | Approval rate |
|--------|----------------|--------------|-----------------|--------------|---------------|
| 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% |
| Nov-17 | 82.6 | 15.8% | 36.6 | 22.4% | 44.3% |
| Dec-17 | 57.1 | -2.0% | 33.8 | 15.3% | 59.2% |
| Jan-18 | 74.8 | 25.4% | 32.1 | 26.9% | 42.9% |

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-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% |
| Dec-17 | -11.5% | 9.9% | 6.5% | 22.9% | -2.3% | -10.7% | -2.1% |
| Jan-18 | 10.2% | 19.3% | 43.9% | 43.8% | 10.8% | -3.3% | 25.5% |

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-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% |

| | Purchase of passenger cars | Purchase of residential property | Purchase of non-residential property | Personal uses | Credit cards | Working capital | Total loans approved |
|--------|----------------------------|----------------------------------|--------------------------------------|---------------|--------------|-----------------|----------------------|
| 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% |
| Dec-17 | -6.9% | 15.2% | -12.9% | 29.7% | 3.5% | 9.6% | 15.4% |
| Jan-18 | 2.9% | 20.2% | 0.0% | 36.3% | 15.3% | 16.4% | 26.9% |

Source: BNM, MIDFR

CASA deposits growth robust. CASA deposits growth appears robust as it expanded +8.5%yoy to RM493.4b as at January 2018. CASA growth has not fall significantly below the 8% mark since March 2017. We believe that the expansion in CASA could be driven by corporate and SME CASA. Meanwhile, total deposits was steady at +4.2%yoy to RM1.76t.

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

| | Total deposits (RM b) | Growth (yoy) | CASA (RM b) | Growth (yoy) | CASA Ratio |
|--------|-----------------------|--------------|-------------|--------------|------------|
| 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% |
| Nov-17 | 1,748.2 | 4.8% | 473.6 | 7.9% | 27.1% |
| Dec-17 | 1,746.5 | 4.0% | 491.2 | 9.4% | 28.1% |
| Jan-18 | 1,758.0 | 4.2% | 493.4 | 8.5% | 28.1% |

Source: BNM, MIDFR

Asset quality stable. Asset quality remain stable which GIL ratio coming in at 1.54%. 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 (%) |
|--------|--------------------------------|
| Jan-17 | 1.61 |
| Feb-17 | 1.63 |
| Mar-17 | 1.63 |
| Apr-17 | 1.66 |
| May-17 | 1.67 |
| Jun-17 | 1.64 |
| Jul-17 | 1.68 |
| Aug-17 | 1.67 |

| | |
|--------|------|
| Sep-17 | 1.67 |
| Oct-17 | 1.65 |
| Nov-17 | 1.61 |
| Dec-17 | 1.53 |
| Jan-18 | 1.54 |

Source: BNM, MIDFR

Expect loans growth in 2018 to be better. Judging from the current trend of loans applied and approval, we expect that loans growth will pick up in 2018 from 2017 level. 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. In addition, the possibility of business loan picking up will further fuel loans growth. For 2018, we are expecting a loans growth of +6%yoy.


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. Meanwhile, the 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 | 10.14 | 11.20 | 72.0 | 74.9 | 14.1 | 13.5 | 55.0 | 59.0 | 5.4 | 5.8 | 6.8 | 7.1 | 1.5 | 1.4 |
| Public Bank | BUY | 21.98 | 25.70 | 141.7 | 149.9 | 15.5 | 14.7 | 61.0 | 63.0 | 2.8 | 2.9 | 9.7 | 10.7 | 2.3 | 2.1 |
| CIMB | BUY | 7.09 | 7.80 | 50.0 | 61.0 | 14.2 | 11.6 | 25.0 | 35.0 | 3.5 | 4.9 | 5.2 | 5.5 | 1.4 | 1.3 |
| RHB Bank | NEUTRAL | 5.30 | 5.70 | 48.6 | 54.2 | 10.9 | 9.8 | 15.0 | 16.0 | 2.8 | 3.0 | 5.8 | 6.0 | 0.9 | 0.9 |
| Hong Leong | NEUTRAL | 18.50 | 18.55 | 118.2 | 123.4 | 15.7 | 15.0 | 47.0 | 47.0 | 2.5 | 2.5 | 11.6 | 12.4 | 1.6 | 1.5 |
| AMMB | NEUTRAL | 4.64 | 4.30 | 43.2 | 47.5 | 10.7 | 9.8 | 15.0 | 17.0 | 3.2 | 3.7 | 5.4 | 5.7 | 0.9 | 0.8 |
| Affin* | BUY | 2.48 | 2.91 | 24.0 | 29.5 | 10.3 | 8.4 | 2.3 | 13.0 | 0.9 | 5.2 | 4.3 | 4.8 | 0.6 | 0.5 |
| Alliance | BUY | 4.21 | 4.69 | 35.2 | 39.0 | 12.0 | 10.8 | 17.0 | 19.0 | 3.7 | 4.4 | 3.5 | 3.7 | 1.2 | 1.2 |
| BIMB | BUY | 4.09 | 5.03 | 37.9 | 42.2 | 10.8 | 9.7 | 14.0 | 15.5 | 3.4 | 3.8 | 2.8 | 3.0 | 1.5 | 1.4 |
| Average | | | | 63.4 | 69.1 | 12.7 | 11.5 | 27.9 | 31.6 | 3.2 | 4.0 | 6.1 | 6.5 | 1.3 | 1.2 |

* under review

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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. |