

BANKING

Maintain POSITIVE

Stable loans growth

KEY INVESTMENT HIGHLIGHTS

- **Loans growth as at August CY19 was stable**
- **Higher pace growth in business loans**
- **Loans demand marginally declined**
- **Deposits growth slowed due to lower pace of fixed deposits growth**
- **Deposits rates decline on sequential month basis**
- **Asset quality stable**
- **We maintain our POSITIVE stance in the banking sector**

Loans growth stable. The banking system loans growth as at August CY19 was stable at +3.9%yoy. As at July CY19 it was also +3.9%yoy. Top 3 contributors to system loans stock (loans for purchase of residential housing, passenger cars and working capital) grew marginally better at +4.1%yoy to RM1.14b. The growth was +4.0%yoy as at July CY19. There was a decline in growth of retail loans while business loans growth was better than the previous month.

Higher growth pace for working capital and construction loans. Working capital loans grew +2.1%yoy to RM392.9b as at August CY19 as opposed to the +1.6%yoy growth to RM389.3b as at July CY19. Of the total business loans, working capital loans contributed the most at 50.6%. Construction loans also saw better growth of +2.4%yoy to RM56.6b vs. +1.6%yoy to RM56.3b the previous month. As a result, business loans expanded +2.7%yoy to RM776.5b.

Lower growth for retail loans. Retail loans expanded +4.7%yoy to RM883.5b, marginally lower than the +4.9%yoy to RM879.2b registered as at last month. This was due to higher decline of loans for purchase of passenger cars, which fell -1.6%yoy to RM159.3b. It was moderated by stable loans for purchase of residential properties which rose +7.1%yoy to RM588.8b. We opine that the retail loans will remain stable due to continued demand for housing.

Loans demand marginally declined and loans approval moderated. Loans demand in August CY19 contracted -0.3%yoy due to pullback in application for housing loans which fell -3.8%yoy to RM23.5b. However, year-to-date applied loans for purchasing residential house grew +8.4%yoy to RM175.7b. Meanwhile, loans approval growth moderated to +1.7%yoy to RM35.8b. Nevertheless, the cumulative loans approval up to August was +5.3%yoy, stable from the same period last year.

COMPANY IN FOCUS

Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM10.30
Price @ 30th September 2019: RM8.51

- Earnings expected to be stable
- Earnings expected to improve in 2HFY19
- Low exposure to floating rate which should moderate OPR cut impact
- Attractive dividend yield of circa 6%

Share price chart



CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM6.30
Price @ 30th September 2019: RM5.03

- Earning recovery in Indonesia and Thailand
- Net interest margin compression will lessen
- Relatively undemanding valuation as it is trading below 1x PBV
- Decent dividend yield of circa 5%

Share price chart



ANALYST

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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%
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%
Aug-19	1,739.0	3.9%	-1.6%	7.1%	2.8%	2.1%

Source: BNM, MIDFR

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%
Aug-19	82.3	-0.3%	35.8	1.7%	43.5%
8MCY18	592.5	6.7%	260.1	5.3%	43.9%
8MCY19	583.1	-1.6%	273.8	5.3%	47.0%

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%
Aug-19	-24.4%	-3.8%	3.1%	-7.8%	-20.5%	38.8%	-0.3%
8MCY18	8.3%	0.5%	15.5%	16.3%	-4.1%	6.9%	6.7%
8MCY19	-20.9%	8.4%	-1.5%	-9.5%	-16.0%	0.6%	-1.6%

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%
Aug-19	-28.6%	6.5%	-21.3%	13.4%	-7.7%	-2.7%	1.7%
8M CY18	18.8%	0.7%	8.3%	27.8%	-4.5%	1.0%	5.3%
8M CY19	-13.7%	11.6%	9.2%	8.9%	-12.2%	7.8%	5.3%

Source: BNM, MIDFR

Deposits growth lowered from slower pace FD growth. Total system deposits as at August CY19 grew lower at +4.5%yoy from +4.8%yoy as at July CY19. It was due to slower pace in fixed deposits including tawarruq fixed deposits (FD) growth which was as we had expected. This expanded +5.9%yoy to RM1.0t from +6.6%yoy as at the previous month. We believe that this could be due to the fact that most banks have sufficient liquidity buffer and have met with the Net Stable Funding Ratio. Hence, the less need to keep more expensive deposits. We were pleased that CASA growth was stable at +5.2%yoy. With the slower pace FD expansion and stable CASA growth, we expect that pressure on net interest margin will ease and moderate the impact of the OPR cut in May CY19.

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%
Aug-19	1,948.8	4.5%	506.7	5.2%	26.0%

Source: BNM, MIDFR


Lower deposits rate. We noted that the FD rates were relatively lower in August CY19 compared with the rates in July CY19. The average FD rates for 1-month, 6-month and 9-month fell -0.6bp to 2.82%, 2.97% and 3.01% respectively. For average 12-month FD rate fell -0.8bp to 3.09%. Besides the OPR cut starting to have an impact to deposit rates, this could also signal that deposits competitions were waning. Meanwhile, the weighted base rate was -0.2bp below to 3.68%.

GIL ratio inched higher for another month but not yet alarming. Asset quality seems to have deteriorated for another month in August CY19. We estimated gross impaired loans (GIL) increased by +1bp mom to 1.61%. This was due to higher non-performing loans (NPL), on a sequential month basis, in working capital loans and construction loans, which increased +2.4%mom to RM8.99b and +1.6%mom to RM3.62b respectively. However, we note that the GIL ratio was not yet an alarming rate and still 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
Aug-19	1.61

Source: BNM, MIDFR

Maintain POSITIVE for now. We maintain our POSITIVE stance at current juncture as we opine that banking stocks in general are currently undervalued given its fundamentals remains intact. The impact of the OPR cut will normalise and there are still positives for banks such as the low credit cost which should be able to alleviate any weakness in income. However, we also remain cautious due to prevalent uncertainties coming from external events such as the ongoing trade tension between the US and China. Nevertheless, Malaysia's domestic demand especially private consumption remains robust and this will continue to support loans growth. 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)**. 

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 30/9/19	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
					19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21
Maybank	Dec	BUY	8.51	10.30	74.1	73.9	11.5	11.5	58.0	58.0	6.8	6.8	7.1	7.4	1.2	1.2
Public Bank	Dec	BUY	20.08	24.00	145.6	148.7	13.8	13.5	72.0	73.0	3.6	3.6	11.3	12.0	1.8	1.7
CIMB	Dec	BUY	5.03	6.30	50.0	49.0	10.1	10.3	26.0	26.0	5.2	5.2	5.6	5.7	0.9	0.9
RHB Bank	Dec	BUY	5.64	6.35	62.4	67.7	9.0	8.3	25.0	27.0	4.4	4.8	6.3	6.5	0.9	0.9
Hong Leong	Jun	NEUTRAL	16.36	17.00	130.0	143.1	12.6	11.4	50.0	50.0	3.1	3.1	12.5	13.0	1.3	1.3
AMMB	Mar	NEUTRAL	4.14	4.20	50.0	46.6	8.3	8.9	20.0	20.0	4.8	4.8	5.9	6.1	0.7	0.7
Affin	Dec	NEUTRAL	1.98	2.10	29.0	29.0	6.8	6.8	5.0	7.0	2.5	3.5	4.7	4.7	0.4	0.4
Alliance	Mar	T. BUY	2.85	3.50	34.7	32.6	8.2	8.7	16.7	14.5	5.9	5.1	3.7	3.7	0.8	0.8
BIMB	Dec	BUY	3.96	5.05	43.7	44.0	9.1	9.0	16.0	18.0	4.0	4.5	3.2	3.5	1.2	1.1
Average					68.8	70.5	9.9	9.8	32.1	32.6	4.5	4.6	6.7	7.0	1.0	1.0

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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.