

# BANKING

**Maintain NEUTRAL**

## Surprisingly asset quality improved in May

### KEY INVESTMENT HIGHLIGHTS

- **Loans growth stable as expected as there were minimal repayments due to the loan moratorium**
- **Retails loans moderated again**
- **Loans application contracted on year-on-year basis but increase month-on-month**
- **Fixed deposits came in lower but CASA continue to lead deposits growth as depositors might be wanting to ensure sufficient liquidity in uncertain times**
- **Asset quality surprisingly improved but this could be partly due to loan moratorium**
- **We maintain our NEUTRAL stance in the banking sector**

**Understandably loans growth stable.** The banking system loans growth as at May CY20 continued to be stable at +3.9%yoy as opposed to +4.0%yoy as at April CY20. We believe that the main reason for the stability of the loan growth was the loan moratorium as minimal repayments caused minimal decrease in loan stock. Top 3 loans segment (mortgage, purchase of passenger car and working capital) saw loans growth at +4.8%yoy to RM1.182t, from +5.0%yoy to RM1.177 the previous month.

**Retail loans growth continue to moderate.** In terms of retail loans, it grew at a slower pace of +4.1%yoy to RM908.7b vs. +4.4%yoy to RM906.0b as at last month. As we had expected, growth in mortgages continued to moderate coming in at +6.6%yoy to RM617.5b from +6.9%yoy as at April CY20. This could be due to the lack of interest in property purchase during the conditional movement control order (CMCO).

**Loans application contracted...** Loans applied fell again in May CY20, by -39.0%yoy as consumer were still cautious to purchase big ticket items such as new housing and passenger vehicle (hence, not requiring any loans). Application for loans for purchase of passenger car, residential properties, personal loans and credit card declined -58.8%yoy to RM2.7b, -59.5%yoy to RM10.5b, -63.7%yoy to RM2.1b and -67.6%yoy to RM1.2b respectively.

**...but stable on sequential quarter basis.** However, it is interesting to observe that on a sequential month basis, the loans application was relatively flat at -0.2%mom. Consumption loans (such as purchase of cars, mortgages etc.) saw an increase of +60.4%mom, indicating possibility of some return in demand for discretionary spending.

**Loans approval contracted in tandem.** Meanwhile, loans approval saw a bigger contraction of -54.4%yoy. This was in tandem with the contraction of loans application. Also, it is possible that banks continue to be more cautious due to the Covid-19.

### COMPANY IN FOCUS

#### Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM8.20  
Price @ 30<sup>th</sup> June 2020: RM7.51

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

#### Share price chart



#### BIMB Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM4.25  
Price @ 30<sup>th</sup> June 2020: RM3.42

- Stable asset quality
- Stable borrowers' profile
- Strong loans growth

#### Share price chart



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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-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%
Apr-20	1,785.0	4.0%	-1.3%	6.9%	3.8%	4.9%
May-20	1,789.2	3.9%	-1.5%	6.6%	4.0%	4.6%

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%
Apr-20	48.7	-41.4%	18.2	-48.4%	37.3%
May-20	48.7	-39.0%	18.2	-54.4%	37.4%
5MCY19	357.3	-0.3%	165.9	6.7%	46.4%
5MCY20	294.5	-17.6%	123.3	-25.7%	41.9%

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%
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%
Apr-20	-89.3%	-72.1%	-78.0%	-70.3%	-65.2%	67.0%	-41.4%
May-20	-58.8%	-59.5%	-68.9%	-63.7%	-67.6%	25.9%	-39.0%
5M CY19	-10.2%	12.9%	0.6%	-10.8%	-11.2%	-5.3%	-0.3%
5M CY20	-28.0%	-33.0%	-36.8%	-27.6%	-28.0%	41.8%	-17.6%

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-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%
Apr-20	-94.7%	-75.7%	-47.2%	-66.3%	-80.9%	37.6%	-48.4%
May-20	-66.7%	-68.6%	-73.1%	-57.4%	-80.8%	-8.0%	-54.4%
5M CY19	4.7%	10.2%	20.7%	9.8%	-15.8%	13.4%	6.7%
5M CY20	-35.1%	-40.0%	-43.4%	-19.0%	-29.5%	9.2%	-25.7%

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%
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%
Apr-20	1,985.7	2.3%	562.5	12.6%	28.3%
May-20	1,996.0	2.7%	577.4	13.7%	28.9%

Source: BNM, MIDFR

**Deposits growth continued to be led by CASA growth.** The total system deposits grew at faster pace of +2.7%yoy from +2.3%yoy as at April CY20. Fixed deposits contracted for the third consecutive month. It fell -1.3%yoy to RM984.3b. Meanwhile, CASA grew at faster pace of +13.7%yoy from +12.6%yoy. We believe that this suggest that depositors were reluctant to tie-up their cash flows and the desire to maintain liquidity given the uncertain conditions as a result of Covid-19. Also, we opine that the banks continue to pace themselves in order to lower its cost of funding following the OPR cut.

**Lower rates from OPR cut.** The banking system weighted base rate saw a -50bp mom decline to 2.68%, which was due to the OPR cut in May. Also, we noted that average lending rate was -26bp mom lower, to 4.01%. Meanwhile, FD rates of all tenure saw on average a -50bp reduction on as sequential month basis. We expect that this should lessen the pressure of NIM compression in 2QCY20 and help the banks moderate the impact of further increase in provisions which would weigh on earnings.


**Asset quality surprisingly improved.** We were pleasantly surprised to see asset quality improved as the gross impaired loans (GIL) ratio came in at 1.55% from 1.58% the previous month. We speculate that this could be due to previous restructured and rescheduled loans turned performing. Also, due to the loan moratorium, the GIL would have been stable as no loans under the moratorium will have been classified as impaired. Nevertheless, we are expecting that this will rise once the moratorium ends due to the possible economic 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
Apr-20	1.58
May-20	1.55

Source: BNM, MIDFR

**Maintain NEUTRAL.** We maintain our **NEUTRAL** stance as we expect the various forms MCO will have an impact to the economy, which have yet to be fully manifest. This will have an impact to loans growth and asset quality. Also, we foresee that it will take some time for the situation to return to normal. 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 **Maybank (BUY, TP: RM8.20)** due to its solid fundamental, scale and size. Also, being systematically important banks will ensure support should there be any stress to asset quality. Also, we favour **BIMB (BUY, TP: RM4.25)** due to its asset quality which we expect to be stable on account of its borrower's profile. A re-rating catalyst would be faster than expected recovery of the economy. 

## PEER COMPARISON TABLE

	FYE	Rec.	Price @ 30-Jun	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV (RM)		PBV	
					20	21	20	21	20	21	20	21	20	21		
Maybank	Dec	BUY	7.51	8.20	61	66	12.4	11.3	36	43	4.8	5.7	7.36	7.50	1.0	1.0
Public Bank	Dec	BUY	16.50	17.20	127	141	13.0	11.7	74	73	4.5	4.4	11.75	12.27	1.4	1.3
CIMB	Dec	T. BUY	3.64	3.95	24	36	15.2	10.1	12	18	3.3	4.9	5.62	5.66	0.6	0.6
RHB Bank	Dec	BUY	4.79	5.25	54	64	8.9	7.5	22	25	4.6	5.2	6.42	6.56	0.7	0.7
Hong Leong Bank	Jun	NEUTRAL	14.08	13.60	126	132	11.1	10.6	48	49	3.4	3.5	12.89	12.96	1.1	1.1
AMMB	Mar	T. BUY	3.11	3.60	45	42	7.0	7.4	13	15	4.3	4.8	6.18	6.23	0.5	0.5
Affin Bank	Dec	NEUTRAL	1.58	1.65	24	24	6.6	6.6	5	5	3.2	3.2	4.66	4.79	0.3	0.3
Alliance	Mar	NEUTRAL	2.18	2.05	27	26	8.0	8.3	6	9	2.8	4.2	3.87	3.92	0.6	0.6
BIMB	Dec	BUY	3.42	4.25	43	44	8.0	7.8	19	20	5.6	5.8	3.73	3.88	0.9	0.9
<b>Average</b>					<b>59</b>	<b>64</b>	<b>10.0</b>	<b>9.0</b>	<b>26</b>	<b>29</b>	<b>4.0</b>	<b>4.7</b>	<b>6.94</b>	<b>7.09</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.