

1 August 2019 | Sector Update

BANKING

Maintain POSITIVE

A pleasant surprise with loans growth spike

INVESTMENT HIGHLIGHTS

- System loans year-on-year growth spiked as at June CY19
- Major contributor was from the retail segment
- Loans demand and approvals fell but could be due to festive month
- Deposits growth continue to be solid, but it was led by fixed deposits
- Uptick in GIL ratio but could be delinquent behaviour during a festive month
- We maintain our POSITIVE stance in the banking sector

Surprised by accelerated loans growth. We were pleasantly surprised by the acceleration of loans growth in June CY19. The banking system loans growth came in at +6.3%yoy as at June CY19. The two highest contributor was loans for purchase of residential property and for personal use. These contributed 41.4% (RM42.3b) and 23.8% (RM24.3b) respectively to the overall year-on-year loans expansion. In terms of growth, these grew +7.8%yoy to RM581.7b and +33.8%yoy to RM96.1b respectively.

Probably impacted by the OPR cut. We believe that the surprising loans growth was the result of the strong loans demand in May CY19. We also believe that the OPR cut have had an impact given that the two highest contributor were retail based loans. We observed that personal loans grew +51.6%yoy to RM67.9b from +6.6%yoy to RM47.4b registered as at the previous month. The OPR cut in May CY19 could have increased the eligibility of potential borrowers.

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	1,591.7	4.2%	0.5%	8.9%	4.6%	0.8%
Feb-18	1,596.4	4.5%	0.8%	9.0%	4.9%	0.7%
Mar-18	1,603.5	4.4%	0.5%	9.0%	5.4%	0.3%
Apr-18	1,609.9	4.8%	0.6%	8.9%	6.0%	1.3%
May-18	1,614.9	4.9%	0.2%	8.8%	6.0%	2.3%
Jun-18	1,626.4	5.0%	-1.1%	8.3%	6.7%	2.3%
Jul-18	1,631.0	5.3%	-0.3%	8.3%	7.7%	2.9%
Aug-18	1,641.2	5.4%	0.3%	8.2%	7.8%	2.9%
Sep-18	1,650.6	5.7%	0.4%	8.0%	8.0%	4.6%
Oct-18	1,656.2	6.0%	0.4%	7.9%	8.2%	5.5%
Nov-18	1,663.7	6.2%	0.1%	7.7%	7.8%	6.2%
Dec-18	1,673.5	5.6%	-0.1%	7.6%	7.8%	5.4%
Jan-19	1,678.5	5.5%	-0.3%	7.4%	7.6%	5.5%
Feb-19	1,675.9	5.0%	-0.6%	7.1%	7.2%	5.2%
Mar-19	1,682.2	4.9%	-0.5%	7.1%	6.5%	4.6%

	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
Apr-19	1,682.5	4.5%	-0.5%	7.0%	5.9%	3.1%
May-19	1,688.3	4.6%	0.2%	7.2%	5.8%	3.3%
Jun-19	1,728.4	6.3%	-0.2%	7.8%	33.8%	2.9%

Source: BNM, MIDFR

Business loans segment continued its growth uptrend. Business loans continued its uptrend as it grew +4.0%yoy to RM773.7b as at June CY19. Comparatively, the growth rates were +3.5%yoy to RM762.6b as at May CY19 and +3.1%yoy to RM757.2b as at April CY19. Working capital loans and loans for purchase of non-residential properties, and loans for construction were the main drivers as it expanded +2.9%yoy to RM391.3b, +3.1%yoy to RM223.1b and +12.1%yoy to RM56.6b respectively. In terms of contribution to the growth, these contributed 10.8%, 6.5% and 6.0% respectively.

Pull back in loans demand and approvals could be due to festive month. Loans demand contracted -10.9%yoy in June CY19. Similarly, loans approved fell but at lower pace of -1.8%yoy. We believe that this was due to Hari Raya festive period which started in early June CY19.

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-18	74.8	25.4%	32.1	26.9%	42.9%
Feb-18	57.7	-5.8%	24.9	-4.4%	43.3%
Mar-18	76.7	0.0%	33.2	-7.6%	43.3%
Apr-18	77.7	20.1%	33.0	21.6%	42.5%
May-18	68.6	-9.2%	31.4	0.6%	45.8%
Jun-18	73.2	13.3%	35.2	5.4%	48.1%
Jul-18	76.5	1.7%	33.2	0.6%	43.5%
Aug-18	81.7	5.3%	34.6	-0.1%	42.4%
Sep-18	72.7	6.3%	36.6	25.9%	50.3%
Oct-18	77.6	-0.4%	38.1	15.0%	49.1%
Nov-18	62.5	-24.3%	34.1	-6.7%	54.6%
Dec-18	59.9	4.8%	30.9	-8.5%	51.6%
Jan-19	70.7	-5.5%	30.6	-4.8%	43.3%
Feb-19	49.6	-14.0%	23.3	-6.7%	46.9%
Mar-19	72.1	-6.0%	35.3	6.4%	49.0%
Apr-19	82.2	5.8%	34.7	5.1%	42.2%
May-19	78.8	14.9%	39.2	24.8%	49.8%
Jun-19	65.1	-10.9%	34.5	-1.8%	53.0%
6MCY18	428.6	6.5%	189.9	6.0%	44.3%
6MCY19	418.5	-2.3%	197.7	4.1%	47.2%

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%	19.3%	43.9%	43.8%	10.8%	-3.3%	25.5%
Feb-18	-14.9%	-11.8%	11.3%	11.4%	-1.6%	-13.2%	-5.8%
Mar-18	-10.2%	-11.1%	7.7%	18.4%	-26.1%	11.1%	0.0%
Apr-18	4.9%	6.4%	20.9%	32.5%	-4.5%	51.3%	20.1%
May-18	-4.6%	-15.4%	-12.2%	-1.4%	-14.4%	18.6%	-9.2%
Jun-18	43.5%	1.2%	27.9%	2.1%	3.1%	21.1%	13.3%
Jul-18	33.6%	14.5%	12.9%	5.7%	2.8%	-14.1%	1.7%
Aug-18	9.1%	3.0%	19.8%	6.6%	5.0%	-9.8%	5.3%
Sep-18	-20.7%	-2.6%	-0.2%	-2.9%	2.4%	4.2%	6.3%
Oct-18	-15.4%	6.6%	11.1%	8.7%	13.7%	-15.6%	-0.4%
Nov-18	-29.6%	-10.8%	1.0%	-15.5%	-15.8%	-35.1%	-24.3%
Dec-18	-20.9%	6.0%	19.1%	-4.6%	-2.6%	-1.7%	4.8%
Jan-19	-8.1%	4.7%	10.0%	0.3%	-14.3%	-14.4%	-5.5%
Feb-19	-12.0%	-0.7%	-16.5%	-15.5%	-17.7%	-15.2%	-14.0%
Mar-19	-15.3%	5.5%	-6.0%	-19.6%	-11.0%	-1.1%	-6.0%
Apr-19	-9.4%	12.2%	-0.1%	-17.5%	-9.5%	-7.2%	5.8%
May-19	-6.8%	36.6%	13.4%	-2.8%	-4.9%	-1.1%	14.9%
Jun-19	-47.7%	9.5%	-15.6%	-10.9%	-26.8%	-16.5%	-10.9%
6MCY18	4.1%	-2.9%	14.5%	16.7%	-7.0%	13.4%	6.5%
6MCY19	-18.0%	11.7%	-2.4%	-11.1%	-13.9%	-8.9%	-2.3%

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%	20.2%	0.0%	36.3%	15.3%	16.4%	26.9%
Feb-18	11.6%	1.2%	8.8%	24.3%	13.4%	-35.0%	-4.5%
Mar-18	-9.1%	-8.1%	22.1%	28.5%	-12.1%	-33.6%	-7.6%
Apr-18	7.9%	7.1%	47.5%	56.1%	-2.6%	25.5%	21.6%
May-18	-7.5%	-13.0%	0.9%	-5.2%	-20.5%	19.7%	0.6%
Jun-18	58.7%	-1.6%	-24.7%	14.1%	2.5%	10.1%	5.4%
Jul-18	57.4%	1.8%	45.7%	27.4%	-18.7%	-18.9%	0.6%
Aug-18	33.7%	-0.8%	-12.9%	17.0%	-4.4%	52.6%	-0.1%
Sep-18	5.0%	2.0%	42.3%	14.0%	-9.2%	17.7%	25.9%
Oct-18	1.0%	13.9%	6.9%	28.5%	-13.5%	13.3%	15.0%
Nov-18	-19.8%	-5.2%	20.8%	-1.6%	-32.0%	-12.8%	-6.7%
Dec-18	-12.1%	4.0%	20.7%	11.5%	-21.4%	-8.7%	-8.5%
Jan-19	-0.9%	2.1%	16.6%	11.2%	-24.8%	17.1%	-4.8%
Feb-19	-9.7%	-9.0%	0.7%	0.9%	-29.0%	24.5%	-6.7%
Mar-19	10.4%	1.9%	65.2%	2.5%	-19.3%	14.3%	6.4%
Apr-19	7.0%	13.3%	5.2%	0.4%	-10.7%	-16.2%	5.1%
May-19	16.7%	32.4%	11.1%	16.5%	7.8%	36.8%	24.8%
Jun-19	-43.6%	15.2%	34.8%	-0.1%	-16.2%	-15.7%	-1.8%
6MCY18	9.7%	-0.2%	6.6%	23.2%	-1.9%	-2.3%	6.0%
6MCY19	-6.4%	10.0%	22.4%	5.2%	-15.9%	6.4%	4.1%

Source: BNM, MIDFR

Deposits growth led by FD again. Total system deposits as at June expanded at a solid +7.7%yoy. However, this was due to fixed deposits including tawarruq fixed deposits (FD) which increased +11.3%yoy to RM1.0t. Comparatively, grew +7.6%yoy to RM962.7b the previous month. Meanwhile, CASA expanded +4.4%yoy as at June CY18. It appears that deposits competition remains prevalent in the system. However, we should note that the FD expansion came after the OPR cut.

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-18	1,758.0	4.2%	493.4	8.5%	28.1%
Feb-18	1,762.0	4.0%	491.2	6.3%	27.9%
Mar-18	1,791.8	4.9%	487.7	6.3%	27.2%
Apr-18	1,798.2	5.4%	486.0	6.0%	27.0%
May-18	1,799.0	4.8%	485.6	5.1%	27.0%
Jun-18	1,798.9	5.0%	485.1	3.9%	27.0%
Jul-18	1,807.8	5.8%	481.8	3.8%	26.7%
Aug-18	1,817.2	5.5%	481.7	3.4%	26.5%
Sep-18	1,842.0	6.1%	482.9	3.4%	26.2%
Oct-18	1,859.0	6.6%	485.6	2.5%	26.1%
Nov-18	1,873.1	7.1%	488.6	3.2%	26.1%
Dec-18	1,883.3	7.8%	497.0	1.2%	26.4%
Jan-19	1,876.6	6.7%	497.4	0.8%	26.5%
Feb-19	1,883.6	6.9%	498.2	1.4%	26.4%
Mar-19	1,895.6	5.8%	500.5	2.6%	26.4%
Apr-19	1,905.3	6.0%	499.6	2.8%	26.2%
May-19	1,908.1	6.1%	507.7	4.5%	26.6%
Jun-19	1,937.5	7.7%	506.6	4.4%	26.1%

Source: BNM, MIDFR

Bigger cut in average lending rate. We noted that the average lending rate fell in -4.1bp mom in June to 4.89%. As for FD rates, it fell -1.5bp mom on average. We expect that this would lead to pressure of net interest margin compression to remain in the banking system.

GIL ratio inching higher but still at manageable level. We opine that asset quality deteriorated in June CY19 as we estimated gross impaired loans (GIL) increased by +5bp mom to 1.57%. The uptick was due to higher non performing loans (NPL), on a sequential month basis, in the retail segment. NPLs for loans for the purchase of residential properties grew +6.1%mom to RM6.5b and for personal use grew +18.5%mom to RM1.7b. However, we do not believe that this is a broad base trend and that the NPL could be due to delinquent behaviour during a festive month. We opine that that the banking system remains solid and stable.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)
Jan-18	1.54
Feb-18	1.55
Mar-18	1.57
Apr-18	1.58
May-18	1.60
Jun-18	1.59
Jul-18	1.58
Aug-18	1.58
Sep-18	1.53

Oct-18	1.52
Nov-18	1.49
Dec-18	1.45
Jan-19	1.45
Feb-19	1.48
Mar-19	1.46
Apr-19	1.51
May-19	1.52
Jun-19	1.57

Source: BNM, MIDFR

Maintain loans growth projection for now. Although the banking system loans growth caught us by surprise, we believe that it is still early to deduce whether it could sustain until the end of the year. Also, we have to be cognizant of the high base effect especially towards the end of CY18. Therefore, we maintain our CY19 loans growth expectation of +4.7%yoy for now.


Cautiously optimistic. Maintain POSITIVE. We are cautiously optimistic of the prospect of the banking sector. This is particularly after seeing the spike in loans growth. We believe that this could moderate the issue of NIM compression. Moreover, The impact of the OPR cut to NIM will normalise. Besides, we believe that there are still positives for banks such as the downtrend of expenses and the low credit cost. This should be able to alleviate the 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. Given the current market conditions, our top picks for this sector are Maybank (BUY, TP: RM11.00), CIMB (BUY, TP: RM6.80) and Public Bank (BUY, TP: RM27.20). 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 31/7 (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	BUY	8.65	11.00	74.1	73.9	11.7	11.7	58.0	58.0	6.7	6.7	7.1	7.4	1.2	1.2
Public Bank	BUY	21.90	27.20	147.6	151.0	14.8	14.5	72.0	73.0	3.3	3.3	11.2	12.0	2.0	1.8
CIMB	BUY	5.08	6.80	50.0	49.0	10.2	10.4	26.0	26.0	5.1	5.1	5.6	5.7	0.9	0.9
RHB Bank	BUY	5.50	6.35	62.4	67.7	8.8	8.1	22.0	24.0	4.0	4.4	6.3	6.5	0.9	0.8
Hong Leong	NEUTRAL	17.96	20.30	135.8	143.1	13.2	12.6	49.0	50.0	2.7	2.8	12.5	13.4	1.4	1.3
AMMB	NEUTRAL	4.23	4.50	50.0	46.6	8.5	9.1	20.0	20.0	4.7	4.7	5.9	5.9	0.7	0.7
Affin	BUY	2.02	2.50	29.0	29.0	7.0	7.0	5.0	7.0	2.5	3.5	4.6	4.7	0.4	0.4
Alliance	BUY	3.68	4.75	34.7	39.8	10.6	9.2	16.7	18.5	4.5	5.0	3.7	3.7	1.0	1.0
BIMB	BUY	4.18	5.05	43.7	44.0	9.6	9.5	16.0	18.0	3.8	4.3	3.2	3.5	1.3	1.2
Average				69.7	71.6	10.5	10.2	31.6	32.7	4.2	4.4	6.7	7.0	1.1	1.0

Imran Yassin Yusof
imran.yassin@midf.com.my
03-2173 8395

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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.