

1 November 2018 | Sector Update

## BANKING

*Maintain POSITIVE*

### *Another month of loans growth acceleration*

#### INVESTMENT HIGHLIGHTS

- Sixth consecutive month of accelerated loans growth
- Business segment loans was the main driver for September
- Shot up of loans approval and approval rate
- Fixed deposits growth outpace CASA growth again
- No change to loans growth expectations
- We maintain our POSITIVE stance in the banking sector

**Another month of loans growth acceleration.** September saw another month in which the banking system loans growth came in higher than the previous month. It came at +5.7%yoy, in comparison to the +5.4%yoy registered as at August CY18. This was the sixth consecutive month of loans growth acceleration. More interestingly, the higher loans growth came in the month where the Sales and Service Tax were reintroduced, and the fact that loans for personal use were also better at 8.0%yoy to RM73.4b.

**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-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%
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%

Source: BNM, MIDFR

**Business loans supporting the loans growth.** Business loans expanded +4.4%yoy to RM753.9b as at September CY18. Comparatively last month business loans were +3.6%yoy to RM748.9b. We believe that this had supported the acceleration in loans growth. Most notable was the higher loans growth for working capital which increased +1.7ppt mom or an expansion of +4.6%yoy to RM386.8b. We expect that business loans may decelerate in October CY18 but may pick up again in November and December CY18 should the tabling of the Government's 2019 Budget add better clarity on the economic direction.

**Retail loans remains stable.** Meanwhile, retails loans remains stable, growing at +6.2%yoy to RM821.3b. This was slightly lower from the +6.4%yoy to RM818.3b registered as at August CY18. There were minor taper off for purchase of residential properties and credit cards where it grew +8.0%yoy to RM548.6b and +3.7%yoy to RM37.9b respectively, as compared to the previous month's +8.2%yoy and +4.9%yoy respectively.

**Shot up in approved loans and approval rate.** Approved loans grew +25.9%yoy in September CY18 leading to approval rate shooting up to 50.3% from 42.4% recorded in the previous month. We infer that this could be coming from loans to the business segment as loans approved for purchasing non-residential properties and fixed assets went up +42.3%yoy to RM3.6b and +255.8%yoy to RM1.13b respectively from -12.9%yoy and -55.5%yoy in August CY18. For the 9MCY18, the approved loans for these two segments in total grew +12.6%yoy to RM30.4b vs. +1.0%yoy to RM27.0b in 9MCY17.

**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%
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%
9MCY17	623.5	3.2%	275.9	8.7%	44.3%
9MCY18	659.5	5.8%	294.3	6.7%	44.6%

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-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%
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%
9MCY17	1.0%	15.4%	6.0%	1.9%	9.5%	-13.4%	3.2%
9MCY18	5.7%	-0.1%	13.3%	11.8%	-3.4%	6.1%	5.8%

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-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%
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%
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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
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%
9MCY17	1.7%	15.9%	-3.9%	2.1%	12.2%	1.1%	8.7%
9MCY18	17.5%	0.2%	11.2%	21.8%	-5.0%	2.7%	6.7%

Source: BNM, MIDFR

**Fixed deposits continue to drive total deposits growth.** Total deposits expanded +6.1%yoy as at September CY18. However, it was driven mainly by fixed deposits (FD) expansion as CASA's pace of growth was maintained at +3.4%yoy. We opine that depositors could still be taking advantage of continued FD repricing and possible deposit competition. As such, we expect to see continued pressure on banks' net interest margins during the reporting of its 3QCY18 results.

### 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%
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%

Source: BNM, MIDFR


**Lending rate fell slightly.** We noted that there were no changes in base rate in September as compared to August CY18. The base rate was 3.9%. However, we noted that average lending rate fell by -5bps mom to 4.93%. However, we believe it is too early to conclude any definite trend of falling lending rates as yet.

**Asset quality improved.** We estimated that GIL ratio as at September CY18 was 1.53% which is -5bps better than the previous month. As usual, we believe that the banking system remains solid and stable.

**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
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

Source: BNM, MIDFR

**No change to POSITIVE stance.** While we expect the margins for banks will come under some pressure, we believe that the strong loans growth may moderate this effect. We also believe that loans growth may continue its momentum albeit at a slower pace in CY19. Meanwhile, net interest margin compression could be mitigated by OPEX savings and lower provisions due to stable asset quality amongst others. Hence, we are maintaining our POSITIVE stance for the sector. Given the current volatile market conditions, our top picks for this sector are **Maybank (BUY, TP: RM11.40)**, **CIMB (BUY, TP: RM7.85)** and **Public Bank (BUY, TP: RM27.30)**. 

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

	Rec.	Price @ 31/10 (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	9.49	11.40	72.0	74.1	13.2	12.8	55.0	58.0	5.8	6.1	6.8	6.9	1.4	1.4
Public Bank	BUY	24.60	27.30	141.7	149.9	17.4	16.4	61.0	63.0	2.5	2.6	9.7	10.7	2.5	2.3
CIMB	BUY	5.72	7.85	50.0	61.0	11.4	9.4	25.0	22.0	4.4	3.8	5.2	5.5	1.1	1.0
RHB Bank	T. BUY	5.23	6.00	48.6	54.2	10.8	9.6	15.0	15.0	2.9	2.9	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	20.70	18.85	128.2	135.8	16.1	15.2	45.0	48.0	2.2	2.3	11.7	12.6	1.8	1.6
AMMB	NEUTRAL	3.80	4.10	42.8	45.3	8.9	8.4	15.0	15.0	3.9	3.9	5.5	5.7	0.7	0.7
Affin	BUY	2.26	2.70	24.0	30.0	9.4	7.5	2.3	11.0	1.0	4.9	4.3	4.5	0.5	0.5
Alliance	BUY	3.96	4.75	35.7	39.0	11.1	10.2	15.3	17.0	3.7	4.4	3.5	3.7	1.1	1.1
BIMB	BUY	3.66	5.15	37.9	42.2	9.7	8.7	14.0	15.0	3.8	4.1	2.8	3.0	1.3	1.2
<b>Average</b>				<b>64.5</b>	<b>70.2</b>	<b>12.0</b>	<b>10.9</b>	<b>27.5</b>	<b>29.3</b>	<b>3.4</b>	<b>3.9</b>	<b>6.1</b>	<b>6.5</b>	<b>1.3</b>	<b>1.2</b>

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.