

1 July 2019 | Sector Update

## BANKING

*Maintain POSITIVE*

### *Attracting more CASA*

#### INVESTMENT HIGHLIGHTS

- System loans year-on-year growth improved from the previous month
- Business loans sequential year growth reversed its downtrend since December CY18
- Retails loans expansion remained stable
- Deposits growth continue to be solid, with faster pace expansion from CASA
- Lending and deposits rates re-priced following OPR cut
- No concern on asset quality despite slight uptick in GIL ratio
- We maintain our POSITIVE stance in the banking sector

**Better growth in May.** The banking system loans growth came in at +4.6%yoy as at May CY19, slightly better than the growth registered as at April CY19. Purchase of passenger cars, residential properties and working capital loans grew at better pace, at +0.2%yoy to RM159.4b, +7.2%yoy to RM575.1b and +3.3%yoy to RM386.9b. These were the top three in terms of contribution to the total loans in the system. All three purposes contributed a total of 66.4% to the system's loans book, and in total these grew +4.8%yoy as at May CY19, vs. increase of +4.5%yoy registered as at April CY19.

**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%
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%

Source: BNM, MIDFR

**Reverse in trend for business loans segment.** Business loans reversed its downtrend to grow +3.5%yoy to RM762.6b as at May CY19, from +3.1%yoy to RM757.2b as at April CY19. This was the first month since December CY18 in which current month growth was higher than the previous month growth. Main causes for the turnaround were the growth in working capital loans and loans for purchase of non-residential properties which expanded +3.1%yoy to RM222.5b.

**Retail loans continued to grow at steady pace.** Retail loans grew +5.5%yoy to RM848.1b as at May CY19 as compared to growth of +5.2%yoy to RM843.1b as at April CY19. A major contributor was the steady expansion for loans for the purchase of residential properties and turnaround in auto loans growth. Meanwhile, unsecured loans (personal loans and credit cards) expanded +5.1%yoy to RM113.5b, as compared to +4.7%yoy to RM113.0b posted as at April CY19.

**Acceleration of loans demand and approvals.** Loans demand expanded at a faster pace in May CY19, increasing +14.9%yoy. This had boosted loans applied where the year-to-date growth improved to -0.6%yoy from -4.3%yoy for the first four month. Main drivers were stronger loans applied for the purchase of residential properties as it grew +36.6%yoy to RM25.6b. We also observed that loans approvals kept pace with the loans applied, expanding +24.8%yoy in May 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%
5MCY18	355.4	5.2%	154.7	6.1%	43.5%
5MCY19	353.4	-0.6%	163.1	5.4%	46.2%

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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
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%
5MCY18	-3.0%	-3.7%	12.0%	19.6%	-8.9%	11.8%	5.2%
5MCY19	-10.2%	12.1%	0.4%	-11.1%	-11.2%	-7.2%	-0.6%

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%	20.2%	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%
5MCY18	0.5%	0.1%	15.3%	25.2%	-2.8%	-5.6%	6.1%
5MCY19	4.7%	8.9%	20.1%	6.2%	-15.8%	13.4%	5.4%

Source: BNM, MIDFR

**Attracting more CASA.** Total system deposits as at May saw solid and stable growth at +6.1%yoy. Furthermore, CASA expansion was at higher pace at +4.5%yoy and +1.6%mom. Comparatively, fixed deposits including tawarruq fixed deposits (FD) grew +7.6%yoy to RM962.7b (from +8.0%yoy as at April CY19) and -0.6%mom indicating that banks were able to attract more CASA in the month. We also believe that the banks could be dialling down its competitiveness for deposits, which should ease pressure on net

interest margin compression. We believe that FD growth will moderate in 2HCY19 with the cut in OPR (and FD rates).

**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%

Source: BNM, MIDFR

**Deposit rate re-priced following OPR cut, as well as lending rate.** We noted that the weighted base rate went down by -25bp mom to 3.68% as a result of the OPR cut in May. This also followed with a re-price of deposits rate, with an average of -23bp mom cut to fixed deposits rates. Nevertheless, weighted average lending rates was -17bp mom lower.

**GIL ratio increased but still at manageable level.** We estimated that gross impaired loans (GIL) ratio as at May CY19 deteriorate slightly -1bp mom to 1.52%. The uptick was due to commercial properties loans as non performing loans in this segment grew +12.0%yoy to RM3.18b. However, as previously mentioned, we do not believe that this is a broad base trend and 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

Source: BNM, MIDFR

**Maintain loans growth projection.** As we had expected, the previous month's uptick in loans demand could provide fuel for the loans growth, which we observed was better as at May from April CY19. Therefore, we do not see a reason to change our CY19 loans growth expectation of +4.7%yoy.

**Maintain POSITIVE with some cautionness increased.** We noted that banking income performance in 1QCY19 have been slightly muted due to net interest margin (NIM) compression. This came mostly from deposit competition and may be exacerbated in later quarters by the OPR cut. However, we believe that this issue have been overplayed. The impact of the OPR cut to NIM will normalise as deposits were also re-priced lower. 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. Hence, we maintain our POSITIVE view on the sector as we are still cautiously optimistic of the overall banking sector. 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 @ 28/6 (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	8.88	11.00	74.1	73.9	12.0	12.0	58.0	58.0	6.5	6.5	7.1	7.4	1.2	1.2
Public Bank	BUY	23.00	27.20	147.6	151.0	15.6	15.2	72.0	73.0	3.1	3.2	11.2	12.0	2.0	1.9
CIMB	BUY	5.38	6.80	50.0	49.0	10.8	11.0	26.0	26.0	4.8	4.8	5.6	5.7	1.0	0.9
RHB Bank	BUY	5.59	6.35	62.4	67.7	9.0	8.3	22.0	24.0	3.9	4.3	6.3	6.5	0.9	0.9
Hong Leong	NEUTRAL	19.00	20.30	135.8	143.1	14.0	13.3	49.0	50.0	2.6	2.6	12.5	13.4	1.5	1.4
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	2.12	2.50	29.0	29.0	7.3	7.3	5.0	7.0	2.4	3.3	4.6	4.7	0.5	0.4
Alliance	BUY	3.76	4.75	34.7	39.8	10.8	9.4	16.7	18.5	4.4	4.9	3.7	3.7	1.0	1.0
BIMB	BUY	4.57	5.05	43.7	44.0	10.5	10.4	16.0	18.0	3.5	3.9	3.2	3.5	1.4	1.3
<b>Average</b>				<b>69.7</b>	<b>71.6</b>	<b>10.9</b>	<b>10.7</b>	<b>31.6</b>	<b>32.7</b>	<b>4.0</b>	<b>4.3</b>	<b>6.7</b>	<b>7.0</b>	<b>1.1</b>	<b>1.1</b>

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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.