

4 March 2019 | Sector Update

BANKING

Maintain **POSITIVE**

Decent start

INVESTMENT HIGHLIGHTS

- **Decent start to loans growth with +5.5%yoy as at January CY19**
- **Growth of business loans remains stable**
- **Deposits growth still led by fixed deposits**
- **No concern on asset quality**
- **Maintain our POSITIVE stance in the banking sector**

Better start than in CY18. The banking system loans growth as at January CY19 moderated slightly from December CY18 to +5.5%yoy. The moderation was both in retail and business segment loans. These grew +5.6%yoy to RM836.3b and +4.6%yoy to RM762.5b respectively, from +5.8%yoy and +4.8%yoy respectively in December CY18. However, we noted that overall loans growth had a better start than in CY18, where loans expanded +4.2%yoy as at January CY18.

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%

Source: BNM, MIDFR

Business loans growth stable. Main contributor for the business loans growth was working capital which expanded +5.5%yoy to RM392.9b. It was at slightly faster pace than the +5.4%yoy to RM392.0b posted as at December CY18. Meanwhile, purchase of non-residential properties were stable at +1.9%yoy to RM218.2b.

Loans for purchase of residential properties seems to be on moderating trend. Loans for the purchase of residential loans appears to be on a moderating trend. It grew +7.4%yoy to RM562.6b as compared to +7.6%yoy to RM559.0b and +7.7%yoy to RM555.5b registered as at December CY18 and November CY18 respectively.

Decline in loans applied and loans approved. Loans applied in January CY19 declined -5.5%yoy after the rebound of +4.8%yoy in December CY18. This was due to the -14.4%yoy to RM12.4b contraction in loans applied for working capital purpose. For loans approved, it showed a -4.8%yoy decrease. The main contributor for the decrease was the --37.4%yoy to RM2.5b in loans approved for the purchase of securities. While the loans applied and loans approved seems to be moderating in CY19, it is only the first month for us to conclude if there is any downward movement. We will observe for another few month to infer any trend.

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%
1MCY18	74.8	25.5%	32.1	26.9%	42.9%
1MCY19	70.7	-5.5%	30.6	-4.8%	43.3%

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%
1MCY18	10.2%	19.3%	43.9%	43.8%	10.8%	-3.3%	25.5%
1MCY19	-8.1%	4.7%	10.0%	0.3%	-14.3%	-14.4%	-5.5%

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%
1MCY18	2.9%	20.2%	0.0%	36.3%	15.3%	16.4%	26.9%
1MCY19	-0.9%	2.1%	16.6%	11.2%	-24.8%	17.1%	-4.8%

Source: BNM, MIDFR

Fixed deposits growth dominated total deposits growth. Total deposits as at January CY18 expanded +6.7%yoy. Fixed deposits including tawarruq fixed deposits (FD) continue to drive the deposits growth. FD grew +8.5%yoy to RM950.0b as compared to CASA growth of +0.8%yoy to RM497.4b. We believe the reasons for the strong growth in fixed deposits remains prevalent which are; (i) some banks were preparing for the implementation of Net Stable Funding Ratio requirement at the start of CY18, which was subsequently moved by Bank Negara Malaysia, (ii) deposit competition as some banks made the decision to grow its deposit base, (iii) more financially savvy depositors taking advantage of the rates on offer, and (iv) continuation of year-end campaigns. We expect that there will be pressure on net interest margin in CY19 due to this deposits competition where we will likely observe FD growth to continue to remain strong.

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%

Source: BNM, MIDFR

Lending rate stable. We noted that base rate remains unchanged at 3.91%. Average lending rate jumped to +5.04% from 5.02% the previous month. On the deposit side, 3-month FD was the only that showed increase. It rose +2.0bps mom to 3.17%.

Asset quality stable. We estimated that GIL ratio as at January CY19 was 1.45%. With this 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

Source: BNM, MIDFR


No change to POSITIVE stance. While loans growth moderated slightly as at January CY19, it was stable at +5.5%yoy level. Besides, we opine that it is still early days and it may accelerate later before moderating in 2HCY19. Hence, we are maintaining our CY19 loans growth expectations of +4.7%yoy for now. We also believe that deposits growth will moderate to +5.3%yoy. However, FD growth remains strong and we will have to observe for a couple of month before inferring the trend. As a result of this, net interest margin will be under pressure this year. Nevertheless, we are cautiously optimistic of the overall banking sector continuing its solid performance in CY19. We believe that the banking sector will be able to maintain its earnings potential despite the pressure on margin due to continued loans growth with stable asset quality containing provisions. This also means that there will be accretion in value for banks' book value. Hence, we maintain our POSITIVE view on the sector. Given the current market conditions, our top picks for this sector are Maybank (BUY, TP: RM11.40), CIMB (BUY, TP: RM7.55) and Public Bank (BUY, TP: RM27.15). 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 1/3 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				18	19	18	19	18	19	18	19	18	19	18	19
Maybank	BUY	9.53	11.40	75.9	76.2	12.6	12.5	59.0	59.0	6.2	6.2	7.1	7.3	1.3	1.3
Public Bank	BUY	25.02	27.15	147.6	151.0	17.0	16.6	72.0	73.0	2.9	2.9	11.2	12.0	2.2	2.1
CIMB	BUY	5.68	7.55	50.0	49.0	11.4	11.6	26.0	25.0	4.6	4.4	5.6	5.7	1.0	1.0
RHB Bank	BUY	5.69	6.10	62.4	67.7	9.1	8.4	20.0	20.0	3.5	3.5	6.3	6.5	0.9	0.9
Hong Leong	NEUTRAL	21.28	20.30	135.8	143.1	15.7	14.9	49.0	50.0	2.3	2.3	12.5	13.4	1.7	1.6
AMMB	NEUTRAL	4.50	4.50	45.4	46.6	9.9	9.7	18.0	18.0	4.0	4.0	5.6	5.8	0.8	0.8
Affin	BUY	2.28	2.70	29.0	29.0	7.9	7.9	5.0	7.0	2.2	3.1	4.7	4.9	0.5	0.5
Alliance	BUY	4.20	4.75	37.0	39.8	11.4	10.6	17.0	18.5	3.7	4.4	3.6	3.7	1.2	1.1
BIMB	BUY	4.25	4.85	42.0	42.3	10.1	10.0	16.0	18.0	3.8	4.2	3.2	3.5	1.3	1.2
Average				69.5	71.6	11.7	11.3	31.3	32.1	3.7	3.9	6.6	7.0	1.2	1.2

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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.