

4 June 2018 | Sector Update

BANKING

Maintain POSITIVE

Faster paced loans growth

INVESTMENT HIGHLIGHTS

- Loans grew at a faster pace at 4.8%, led by mortgages
- Loans applied and approved accelerated
- Revising loans growth expectations to +5.5%yoy (from +6.0%yoy) due to some cautiousness in the corporate and SME segment
- Deposits continue to be robust
- We maintain our POSITIVE stance in the banking sector

Loans grew at a faster pace at 4.8%. As we expected, the banking system's total loans grew at a faster pace in April CY18 at +4.8%yoy to RM1.61t. Comparatively, it expanded +4.4%yoy to RM1.60t as at March CY18. This could be due to a rebound in loans demand in March from the decline registered in February. We expect that loans growth to pick up further in the coming month due to the healthy loans pipeline.

Mortgages still leading the way. Loans for the purchase of residential property continued to be robust at +8.9%yoy to RM533.5b. It is the largest contributor to loans in the banking system at 33.1%. Also, it seems that mortgages seem to settling around this level since December CY16. This could indicate a steady state in loans growth for the segment and could also mean that there is a continuous stable demand for housing and the associated financing. The next highest contributor is working capital loans at 23.2%. We are encouraged by the faster pace loans growth at +1.3%yoy to RM372.8b.

FIGURE 1: BANKING SYSTEM TOTAL LOANS AND LOANS GROWTH

	Total loans (RM b)	Growth (yoy)	Growth (yoy) 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%

Source: BNM, MIDFR

Loans applied and approved accelerated. Loans applied growth accelerated whereby it came in at +20.1%yoy in April CY18. Similarly, loans approved as well with a +21.6%yoy expansion. Both loans demand and approval acceleration was due to turnaround in demand for mortgages and continued strong growth in loans demand for purchasing non-residential properties, personal use and working capital. This resulted in total 4 month loans demand to continue to grow better this year, comparatively with CY17. However, the first 4 month of loans approved in CY18 was slower than in CY17. This was due to the scale back in February and March of CY18.

Loans approval rate dropped slightly. While loans approval grew at faster rate than loans applied, approval rate still came in lower. However, we believe that this was due to the banking system not being able to keep pace with demand rather than a pullback in loans approval by the banks. The first 4 month loans approval rate was maintained at the 43% level, which we believe that it is still healthy.

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%
4MCY17	262.2	4.0%	114.5	10.3%	43.7%
4MCY18	286.8	9.4%	123.3	7.7%	43.0%

Source: BNM, MIDFR

FIGURE 3: SELECTED LOANS APPLIED SEGMENTS GROWTH RATE

	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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
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%
4MCY17	5.9%	15.8%	6.5%	-14.4%	20.9%	-12.9%	4.0%
4MCY18	-2.6%	-0.2%	19.7%	26.1%	-7.3%	10.2%	9.4%

Source: BNM, MIDFR

FIGURE 4: SELECTED LOANS APPROVED SEGMENTS GROWTH RATE

	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%
4MCY17	6.5%	18.1%	-15.6%	-6.5%	16.6%	11.3%	10.3%
4MCY18	2.6%	4.1%	19.9%	36.0%	1.9%	-11.0%	7.7%

Source: BNM, MIDFR

Deposits saw solid growth. Deposits grew at a faster pace for the second month coming in at +5.4%yoy. However, CASA deposits slowed slightly at +6.0%yoy. This could be due to depositors switching to fixed deposits. Nevertheless, we did not observe any compression in margins as average lending rate went up higher by +4bps mom to 4.90% as compared to stable savings and fixed deposit rate.

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%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
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%

Source: BNM, MIDFR

Slight uptick in GIL ratio. Asset quality remains stable but we observed that GIL ratio came in slightly higher by +1bps mom to 1.58%. However, it was still an improvement from the same period last year. We believe that this mean that there is minimal possibility of undue stress to the banking system assets.

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

Source: BNM, MIDFR

Loans growth in 2018 expected to be better but maybe moderated by cautiousness. We maintain our expectations that loans growth will come in better in CY18 vs. CY17 level. This is based on the current trend of loans applied and approval which will provide a steady loans pipeline. However, we are revising our loans growth expectations slightly from +6.0%yoy previously to +5.5%yoy. This is due to the impact of the surprised result of GE14. We foresee the delay in loans demand and disbursement coming from corporate and SME segment as businesses adopt a 'wait-and-see' approach to the new Government's economic policy direction. However, we expect the retail segment will continue to be the main driver for loans growth this year.


Maintain POSITIVE. We maintain our POSITIVE view of the banking sector's performance in CY18. We believe that the stable employment environment will drive loans growth. With higher demand and approval for loans, we believe the banking sector will be able to maintain its earnings potential. 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 1/6 (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	10.04	11.40	72.0	74.9	13.9	13.4	55.0	59.0	5.5	5.9	6.8	7.1	1.5	1.4
Public Bank	BUY	24.00	27.30	141.7	149.9	16.9	16.0	61.0	63.0	2.5	2.6	9.7	10.7	2.5	2.2
CIMB	BUY	6.10	7.85	50.0	61.0	12.2	10.0	25.0	35.0	4.1	5.7	5.2	5.5	1.2	1.1
RHB Bank	T. BUY	5.37	6.00	48.6	54.2	11.0	9.9	15.0	15.0	2.8	2.8	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	19.00	18.85	109.9	127.2	17.3	14.9	45.0	47.0	2.4	2.5	11.1	11.7	1.7	1.6
AMMB	NEUTRAL	3.61	3.75	42.8	45.3	8.4	8.0	15.0	15.0	4.2	4.2	5.5	5.7	0.7	0.6
Affin	BUY	2.50	2.90	24.0	29.5	10.4	8.5	2.3	11.0	0.9	4.4	4.3	4.5	0.6	0.6
Alliance	BUY	4.28	4.69	35.7	39.0	12.0	11.0	15.3	17.0	3.7	4.4	3.5	3.7	1.2	1.2
BIMB	BUY	3.94	5.15	37.9	42.2	10.4	9.3	14.0	15.5	3.6	3.9	2.8	3.0	1.4	1.3
Average				62.5	69.2	12.5	11.2	27.5	30.8	3.3	4.0	6.1	6.4	1.3	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.