

BANKING

Maintain POSITIVE

Loans demand recovered in October

KEY INVESTMENT HIGHLIGHTS

- **Loans growth continued to moderate dragged by business segment**
- **Loans application rebounded from the "short" month in September**
- **Deposits moderated but this could be due to release of more expensive fixed deposits. This could be due to all banks (based on our understanding) have complied with the Net Stable Funding Ratio requirement (NSFR) reducing the need to fight for deposits**
- **Lending and deposits rates largely unchanged**
- **Uptick in GIL ratio but we opine that asset quality remained stable**
- **We maintain our POSITIVE stance in the banking sector**

Loans growth continued to moderate. The banking system loans growth as at October CY19 continue to moderate at +3.7%yoy, vs. +3.8%yoy registered as at September CY19. The reason for the moderation was the slowing growth in business loans (i.e. loans for working capital, purchase of non-residential properties, purchase of fixed assets etc.). This segment grew +2.3%yoy to RM781.0b as compared to +2.5%yoy the previous month.

Trend not abetting. The slower pace trend of business loans seems to not abetting at current moment. This was probably due to the cautious sentiment by businesses. Based on anecdotal evidence, we understand that businesses are not drawdown on approved loans due to this cautiousness. For example, working capital loans growth have not reach a 4.0% level since April this year. We believe that this could be the effect of the ongoing US-China trade spat.

Retail segment continued to prop up loans growth. The retail/consumer segment had continued propping up the loans growth. As at October CY19, loans growth in this segment had expanded +4.9%yoy to RM891.5b vs. +4.8%yoy growth as at September CY19. Loans for the purchase of residential properties remain resilient and have been the key segment for banks, growing +7.2%yoy to RM596.3b.

Loans applied rebounded from the previous "short" month. Loans applied in October CY19 rebounded strongly from the previous "short" month. It grew +3.2%yoy and +18.2%mom. Recall, September saw three public holidays that lead to long weekends. Surprisingly, application for working capital rose strongly, by +9.2%yoy to RM18.3b as compared to +4.9%yoy to RM17.9b the previous month. Application for loans to purchase residential properties was steady at +5.0%yoy to RM24.3b.

Loans approval not keeping up. Meanwhile, approved loans in October was -12.8%yoy lower and on a sequential month basis, only grew +0.7%mom. We will closely monitor this trend as it could indicate that banks are tightening lending. However, based on anecdotal evidence, it is the contrary.

COMPANY IN FOCUS

Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM10.30
Price @ 29th November 2019: RM8.53

- Earnings started to improve in 3QFY19
- Low exposure to floating rate which should moderate OPR cut impact
- It has scale and size
- Attractive dividend yield of circa 6%

Share price chart



CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM6.30
Price @ 29th November 2019: RM5.18

- Earning recovery in Indonesia and Thailand
- Net interest margin recovered
- Robust net income
- Relatively undemanding valuation
- Decent dividend yield of circa 5%

Share price chart



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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	1,591.5	4.2%	-1.2%	8.7%	4.3%	0.8%
Feb-18	1,596.2	4.5%	-0.9%	8.8%	4.6%	0.7%
Mar-18	1,603.3	4.4%	-1.1%	8.7%	5.0%	0.6%
Apr-18	1,641.7	6.9%	-0.8%	9.5%	37.5%	2.0%
May-18	1,647.0	7.0%	-1.3%	9.4%	37.5%	2.8%
Jun-18	1,658.6	7.1%	-0.9%	9.1%	38.0%	2.9%
Jul-18	1,663.4	7.4%	-0.2%	9.1%	38.8%	3.5%
Aug-18	1,673.7	7.5%	0.5%	9.0%	38.6%	3.5%
Sep-18	1,683.2	7.8%	0.6%	8.8%	38.7%	4.9%
Oct-18	1,688.7	8.1%	0.5%	8.6%	38.7%	5.8%
Nov-18	1,696.4	8.3%	0.2%	8.4%	38.0%	6.6%
Dec-18	1,705.7	7.7%	0.0%	8.4%	37.3%	5.7%
Jan-19	1,711.1	7.5%	-0.2%	8.2%	37.0%	5.8%
Feb-19	1,708.5	7.0%	-0.5%	7.9%	36.4%	5.5%
Mar-19	1,715.0	7.0%	-0.3%	7.9%	35.6%	4.7%
Apr-19	1,715.7	4.5%	-0.5%	7.1%	3.4%	3.0%
May-19	1,721.9	4.5%	0.2%	7.3%	3.3%	3.3%
Jun-19	1,728.4	4.2%	-0.3%	7.1%	4.2%	2.3%
Jul-19	1,728.8	3.9%	-0.8%	7.0%	2.9%	1.6%
Aug-19	1,739.0	3.9%	-1.6%	7.1%	2.8%	2.1%
Sep-19	1,747.5	3.8%	-1.7%	7.2%	2.8%	1.6%
Oct-19	1,751.7	3.7%	-1.5%	7.2%	2.7%	1.3%

Source: BNM, MIDFR

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-18	74.7	25.4%	32.1	27.0%	43.0%
Feb-18	57.7	-5.7%	25.0	-4.4%	43.3%
Mar-18	76.7	0.0%	33.2	-7.6%	43.3%
Apr-18	78.9	22.0%	33.3	22.7%	42.2%
May-18	70.4	-6.8%	31.8	1.7%	45.1%
Jun-18	73.7	14.2%	35.7	7.1%	48.4%
Jul-18	77.8	3.4%	33.7	2.1%	43.4%
Aug-18	82.5	6.4%	35.2	1.5%	42.6%
Sep-18	73.6	7.3%	36.9	26.5%	50.2%
Oct-18	79.1	1.6%	38.9	17.4%	49.1%
Nov-18	63.3	-23.4%	34.7	-5.2%	54.8%
Dec-18	60.5	6.0%	31.4	-8.8%	51.8%
Jan-19	71.9	-3.8%	31.1	-3.3%	43.2%
Feb-19	49.9	-13.6%	24.2	-3.0%	48.6%
Mar-19	72.6	-5.3%	35.5	6.9%	48.9%
Apr-19	83.2	5.4%	35.2	5.7%	42.4%
May-19	79.8	13.3%	39.8	25.4%	49.9%
Jun-19	65.4	-11.3%	34.6	-3.0%	53.0%
Jul-19	78.1	0.5%	37.5	11.2%	48.0%
Aug-19	82.3	-0.3%	35.8	1.7%	43.5%

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Sep-19	69.1	-6.1%	33.7	-8.7%	48.8%
Oct-19	81.7	3.2%	33.9	-12.8%	41.5%
10MCY18	745.1	6.2%	335.8	8.6%	45.1%
10MCY19	733.9	-1.5%	341.4	1.7%	46.5%

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%	18.9%	41.5%	46.6%	10.8%	-3.5%	25.4%
Feb-18	-14.9%	-12.1%	11.3%	13.7%	-1.6%	-13.2%	-5.8%
Mar-18	-10.2%	-11.4%	7.7%	21.0%	-26.1%	10.7%	0.0%
Apr-18	4.9%	7.1%	24.4%	34.6%	-4.5%	51.4%	22.0%
May-18	-4.6%	-15.0%	-12.1%	1.1%	-14.4%	20.8%	-6.8%
Jun-18	43.5%	2.0%	28.1%	4.6%	3.1%	21.3%	14.2%
Jul-18	33.6%	15.2%	14.5%	9.1%	2.8%	-12.2%	3.4%
Aug-18	9.1%	3.6%	20.0%	9.2%	5.0%	-9.3%	6.4%
Sep-18	-20.7%	-1.9%	-0.1%	-0.4%	2.4%	5.4%	7.3%
Oct-18	-15.4%	7.4%	11.3%	11.5%	13.7%	-12.6%	1.6%
Nov-18	-29.6%	-10.1%	1.1%	-13.0%	-15.8%	-36.9%	-23.4%
Dec-18	-20.9%	6.9%	19.3%	-2.8%	-2.6%	-1.4%	6.0%
Jan-19	-8.1%	5.8%	12.1%	-2.2%	-14.3%	-13.9%	-3.8%
Feb-19	-12.0%	0.1%	-16.3%	-14.1%	-17.7%	-15.2%	-13.6%
Mar-19	-15.3%	6.8%	-5.8%	-18.1%	-11.0%	-1.6%	-5.3%
Apr-19	-9.4%	12.6%	-1.7%	-16.9%	-9.5%	-5.9%	5.4%
May-19	-6.8%	36.9%	13.5%	-2.2%	-4.9%	6.1%	13.3%
Jun-19	-47.3%	9.1%	-15.4%	-12.7%	-26.7%	-16.8%	-11.3%
Jul-19	-32.3%	2.6%	-1.7%	-2.2%	-21.7%	15.5%	0.5%
Aug-19	-24.4%	-3.8%	3.1%	-7.8%	-20.5%	38.8%	-0.3%
Sep-19	11.1%	5.1%	5.3%	-0.7%	-20.6%	4.9%	-6.1%
Oct-19	15.7%	5.0%	-5.1%	-4.1%	-21.4%	9.2%	3.2%
10MCY18	3.6%	1.0%	13.5%	14.1%	-1.6%	4.2%	6.2%
10MCY19	-16.0%	7.7%	-1.3%	-8.1%	-17.1%	2.0%	-1.5%

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%	20.1%	0.0%	37.9%	15.3%	16.4%	26.9%
Feb-18	11.6%	1.1%	8.8%	25.9%	13.4%	-35.0%	-4.4%
Mar-18	-9.1%	-8.1%	22.1%	30.5%	-12.1%	-33.9%	-7.6%
Apr-18	7.9%	7.9%	48.5%	58.7%	-2.6%	25.9%	22.7%
May-18	-7.5%	-11.9%	1.0%	0.6%	-20.5%	19.7%	1.7%
Jun-18	58.7%	-0.3%	-24.5%	21.1%	2.5%	10.3%	7.1%
Jul-18	57.4%	2.8%	46.2%	36.0%	-18.7%	-18.7%	2.1%

	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%	0.5%	-9.8%	24.4%	-4.4%	53.6%	1.5%
Sep-18	5.0%	3.2%	42.5%	21.3%	-9.2%	16.2%	26.5%
Oct-18	1.0%	15.3%	7.1%	35.9%	-13.5%	13.5%	17.4%
Nov-18	-19.8%	-3.8%	21.2%	5.4%	-32.0%	-12.6%	-5.2%
Dec-18	-12.1%	5.4%	21.2%	17.4%	-21.4%	-12.8%	-8.8%
Jan-19	-0.9%	3.9%	17.1%	15.3%	-24.8%	18.1%	-3.3%
Feb-19	-9.7%	-7.4%	1.1%	5.8%	-29.0%	26.9%	-3.0%
Mar-19	10.4%	4.1%	65.4%	8.1%	-19.3%	10.6%	6.9%
Apr-19	7.0%	14.0%	6.6%	2.9%	-10.7%	-15.7%	5.7%
May-19	16.7%	32.3%	11.3%	17.3%	7.8%	37.8%	25.4%
Jun-19	-43.6%	13.7%	34.9%	-5.9%	-16.2%	-16.3%	-3.0%
Jul-19	-30.6%	21.2%	-18.8%	13.2%	6.5%	32.3%	11.2%
Aug-19	-28.6%	6.5%	-21.3%	13.4%	-7.7%	-2.7%	1.7%
Sep-19	-0.5%	3.8%	-16.9%	19.4%	-3.5%	20.6%	-8.7%
Oct-19	6.9%	-2.6%	-11.7%	-1.4%	0.0%	-26.1%	-12.8%
10MCY18	15.9%	2.5%	11.4%	28.1%	-6.0%	3.9%	8.6%
10MCY19	-10.9%	9.1%	3.6%	8.7%	-10.2%	4.7%	1.7%

Source: BNM, MIDFR

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-18	1,774.1	5.2%	493.4	8.5%	27.8%
Feb-18	1,777.0	4.9%	491.2	6.3%	27.6%
Mar-18	1,808.5	5.0%	487.7	6.3%	27.0%
Apr-18	1,844.1	7.2%	486.1	6.1%	26.4%
May-18	1,844.9	6.6%	485.8	5.1%	26.3%
Jun-18	1,850.0	7.1%	485.3	3.9%	26.2%
Jul-18	1,855.5	7.6%	482.0	3.8%	26.0%
Aug-18	1,865.7	7.3%	481.9	3.4%	25.8%
Sep-18	1,873.1	6.8%	483.0	3.4%	25.8%
Oct-18	1,890.1	7.3%	485.8	2.6%	25.7%
Nov-18	1,903.1	7.7%	488.8	3.2%	25.7%
Dec-18	1,912.2	8.4%	497.3	1.2%	26.0%
Jan-19	1,906.2	7.4%	497.6	0.9%	26.1%
Feb-19	1,914.3	7.7%	498.4	1.5%	26.0%
Mar-19	1,927.4	6.6%	500.7	2.7%	26.0%
Apr-19	1,940.6	5.2%	499.8	2.8%	25.8%
May-19	1,943.0	5.3%	508.0	4.6%	26.1%
Jun-19	1,937.5	4.7%	506.6	4.4%	26.1%
Jul-19	1,944.5	4.8%	507.4	5.3%	26.1%
Aug-19	1,948.8	4.5%	506.7	5.2%	26.0%
Sep-19	1,952.7	4.2%	514.2	6.5%	26.3%
Oct-19	1,963.8	3.9%	512.4	5.5%	26.1%

Source: BNM, MIDFR

Moderation in deposits. Total system deposits as at October CY19 grew +3.9%yoy indicating some moderation. Possible cause for the moderation was the release of fixed deposits (FD) including tawarruq fixed deposits by the banks given that all banks (based on our understanding) have complied with the Net Stable Funding Ratio requirement (NSFR). As we had previously stated, this would have led to waning of deposits competition. The FD growth eased to +5.3%yoy to

RM1.01t from +5.9%yoy as at September CY19. We had also observed that CASA growth slowed to +5.5%yoy. This could be due to the withdrawal of CASA tied to FDs.


Lending and deposits rate largely stable. We noted that average lending rate and deposits rate was largely stable in October CY19, with rates remaining unchanged from the previous month. The exception was the 3-month FD rate which increased +6.1bp mom to 2.91%. Overall, we opine that this should help stabilise net interest margin going into 4Q CY19.

Slight uptick in GIL ratio. We estimated there was an uptick of +1bp mom in gross impaired loans (GIL) as at October CY19 at 1.62%. This was due to higher non-performing loans (NPL), on a sequential month basis, in working capital loans (+1.9%mom to RM9.0b). Overall, we note that the GIL ratio was not yet an alarming rate and seems at a manageable level. In our opinion, asset quality remained stable.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)
Jan-18	1.54
Feb-18	1.56
Mar-18	1.58
Apr-18	1.60
May-18	1.62
Jun-18	1.62
Jul-18	1.61
Aug-18	1.61
Sep-18	1.56
Oct-18	1.55
Nov-18	1.52
Dec-18	1.48
Jan-19	1.48
Feb-19	1.53
Mar-19	1.48
Apr-19	1.53
May-19	1.53
Jun-19	1.57
Jul-19	1.60
Aug-19	1.61
Sep-19	1.61
Oct-19	1.62

Source: BNM, MIDFR

Maintain POSITIVE for now. We opine that banking stocks in general continue to be undervalued given its fundamentals remains intact. As we previously mentioned, the impact of the OPR cut will normalise, which we have observed in the recently concluded 9MCY19 banking results. This had resulted in better net income for the banks. There are potential stress points but asset quality remains stable, while retail segment continue to support loans growth. Therefore, we maintain our POSITIVE stance at current juncture. However, we also remain cautious due to prevalent uncertainties coming from external events such as the ongoing trade tension between the US and China. Given the current uncertainties and market conditions, our top picks for this sector are **Maybank (BUY, TP: RM10.30)**, **CIMB (BUY, TP: RM6.30)** and **RHB Bank (BUY, TP: 6.35)**. 

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 29/11/19	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV		PBV	
					19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21	19/20	20/21
Maybank	Dec	BUY	8.53	10.30	74.1	73.9	11.5	11.5	58.0	58.0	6.8	6.8	7.1	7.4	1.2	1.2
Public Bank	Dec	BUY	19.62	24.00	145.6	148.7	13.5	13.2	72.0	73.0	3.7	3.7	11.3	12.0	1.7	1.6
CIMB	Dec	BUY	5.18	6.30	50.0	49.0	10.4	10.6	26.0	26.0	5.0	5.0	5.6	5.7	0.9	0.9
RHB Bank	Dec	BUY	5.66	6.35	62.4	67.7	9.1	8.4	25.0	27.0	4.4	4.8	6.3	6.5	0.9	0.9
Hong Leong	Jun	NEUTRAL	16.90	17.70	130.0	143.1	13.0	11.8	50.0	50.0	3.0	3.0	12.5	13.0	1.4	1.3
AMMB	Mar	T. BUY	3.99	4.20	50.0	46.6	8.0	8.6	20.0	20.0	5.0	5.0	5.9	6.1	0.7	0.7
Affin	Dec	NEUTRAL	1.94	2.10	29.0	29.0	6.7	6.7	5.0	7.0	2.6	3.6	4.7	4.7	0.4	0.4
Alliance	Mar	T. BUY	2.70	3.35	34.7	32.6	7.8	8.3	16.7	14.5	6.2	5.4	3.7	3.7	0.7	0.7
BIMB	Dec	BUY	4.16	5.05	43.7	44.0	9.5	9.5	16.0	18.0	3.8	4.3	3.2	3.5	1.3	1.2
Average					68.8	70.5	9.9	9.8	32.1	32.6	4.5	4.6	6.7	7.0	1.0	1.0

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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.