

BANKING

Maintain POSITIVE

Loans growth ended within expectations

INVESTMENT HIGHLIGHTS

- Loans growth moderated as at December CY18 to end within our expectation
- Moderation from loans to businesses but retail loans remained steady
- Robust deposits growth but it was led by fixed deposits growth
- No concern on asset quality
- We maintain our POSITIVE stance in the banking sector

Temporary moderation on loans growth? The banking system loans growth as at December CY18 moderated to +5.6%yoy. As a result, the loans growth for CY18 came within our expectation. The moderation in loans growth was due to moderation in business loans and loans for the purchase of residential properties. Nevertheless, we believe the loans moderation could be due to year-end effect before we infer any sort of trend.

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%
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%

Source: BNM, MIDFR

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Business loans growth moderated. Business loans growth as at December CY18 moderated to +4.8%yoy (to RM760.7b) from +5.3%yoy growth registered as at November CY18. This was mainly led by the moderation in the growth of working capital loans where it reversed the trend of three consecutive growth acceleration. Working capital grew +5.4%yoy in comparison of the +6.2%yoy as at the previous month. We believe that the moderation could be due to the year-end effect.

Retail loans holding up well. Retail loans as at December CY18 expanded +5.6%yoy to RM832.6b. Comparatively, it was +5.9%yoy as at November CY18. Loans for the purchase of residential loans continued its tapering trend coming in at +7.6%yoy to RM559.0b vs. +7.7%yoy posted last month. However, loans for personal use held steady at +7.8%yoy to RM74.8b.

Varied loans demand. Loans applied in December CY18 rebounded to grow +4.8%yoy from the sharp decline of -24.3%yoy in the previous month. As for CY18, loans applied grew +2.2%yoy. While loans applied for purchase of passenger car, and purchase of residential property slowed, the growth in the loans applied for purchase of non-residential property and for personal use accelerated. For loans approved, the growth for CY18 followed similar trend to growth in loans applied. However, we believe that this was due to a high base effect.

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%
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%
12MCY17	841.0	4.8%	379.4	9.4%	45.1%
12MCY18	859.4	2.2%	397.5	4.8%	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-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%
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%
12MCY17	-1.3%	15.6%	7.6%	6.3%	7.0%	-9.4%	4.8%
12MCY18	-1.2%	0.0%	12.3%	7.6%	-2.9%	-1.3%	2.2%

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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
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%
12MCY17	2.0%	15.9%	-5.4%	6.3%	10.0%	1.8%	9.4%
12MCY18	10.4%	1.2%	12.3%	19.2%	-9.6%	1.0%	4.8%

Source: BNM, MIDFR

Total deposits growth exceeded expectation. Total deposits as at December CY18 expanded +7.8%yoy to RM1.88t which exceeded our expectations. The strong deposits growth was due to acceleration in growth of fixed deposits (including tawarruq fixed deposits). This grew +9.8%yoy to RM946.5b vs. +6.3%yoy to RM862.3b registered as at December CY17. Meanwhile, CASA grew +1.2%yoy as at December CY18. We believe the strong growth in fixed deposits were due to a combination of reasons namely; (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, and (iii) more financially savvy depositors taking advantage of the rates on offer. However, we believe that the deposit competition might ease in CY19 which should also ease the banks' net interest margins compression that we had observed in CY18.

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%

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

Source: BNM, MIDFR

Lending rate stable. We noted that there were a +1bps mom changes in base rate at 3.91%. Average lending rate jumped to +5.02% from 4.98% the previous month.

Asset quality improved again. We estimated that GIL ratio as at November CY18 was 1.45% which was -4bps better than the previous month. 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-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
Oct-18	1.52
Nov-18	1.49
Dec-18	1.45

Source: BNM, MIDFR


No change to POSITIVE stance. While loans growth moderated as at December CY18, it was still slightly above our expectations. As for CY19, we expect a moderation in loans growth to +4.7%yoy due to the high base effect. We also believe that deposits growth will moderate to +5.3%yoy due to lower growth in fixed deposits growth this year. Overall, we are cautiously optimistic of the banking sector continuing its solid performance in CY19. We believe that the banking sector will be able to maintain its earnings potential as margin pressure might ease and continued loans growth with stable asset quality. 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: RM7.70)** and **Public Bank (BUY, TP: RM27.30)**. 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 31/1 (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	9.54	11.40	72.0	74.1	13.3	12.9	55.0	58.0	5.8	6.1	6.8	6.9	1.4	1.4
Public Bank	BUY	24.78	27.30	141.7	149.9	17.5	16.5	61.0	63.0	2.5	2.5	9.7	10.7	2.6	2.3
CIMB	BUY	5.62	7.70	50.0	50.0	11.2	11.2	25.0	26.0	4.4	4.6	5.2	5.5	1.1	1.0
RHB Bank	T. BUY	5.43	6.00	48.6	55.7	11.2	9.7	15.0	15.0	2.8	2.8	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	20.64	20.30	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	4.50	4.50	42.8	45.3	10.5	9.9	15.0	15.0	3.3	3.3	5.5	5.7	0.8	0.8
Affin	BUY	2.21	2.70	24.0	30.0	9.2	7.4	2.3	11.0	1.0	5.0	4.3	4.5	0.5	0.5
Alliance	BUY	4.24	4.75	35.7	39.0	11.9	10.9	15.3	17.0	3.7	4.4	3.5	3.7	1.2	1.2
BIMB	BUY	3.75	4.85	37.9	42.2	9.9	8.9	14.0	15.0	3.7	4.0	2.8	3.0	1.4	1.3
Average				64.5	69.1	12.3	11.4	27.5	29.8	3.3	3.9	6.1	6.5	1.3	1.2

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.