

2 April 2019 | Sector Update

BANKING

Reiterate **POSITIVE**

Loans Growth Moderated But Within Expectation

INVESTMENT HIGHLIGHTS

- **Loans growth continued to moderate as at February CY19**
- **Faster paced moderation of loans growth in the business segment**
- **Another month of decline in loans demand but could be due to festive month**
- **Stable deposits growth**
- **No concern on asset quality**
- **We maintain our POSITIVE stance in the banking sector**

Loans growth moderated again. The banking system loans growth as at February CY19 continued to moderate at +5.0%yoy from the +5.5%yoy posted as at January CY19. One of the major contributors was the second month in loans decline for purchase of passenger vehicles. It fell -0.6%yoy to RM159.3b and -0.3%yoy to RM159.7b as at February and January respectively. Passenger auto loans represent 9.5% of total system loans book. However, overall, it is still within our expectation for loans growth in 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%

Source: BNM, MIDFR

Business loans grew at a subdued pace. Business loans grew +4.1%yoy to RM759.5b vs. +4.6%yoy registered as at January CY19. Main contributor for the business loans growth was working capital which expanded +5.2%yoy to RM391.7b. Comparatively, it grew +5.5%yoy as at last month. Construction loans also grew at slower pace of +2.8%yoy (to RM50.9b) from +7.9%yoy. Both working capital and construction loans represent 23.4% and 3.0% of total system loans book respectively.

Retails loans also grew at subdued pace, but less pronounce. Retail loans grew +5.3%yoy to RM836.9b as at February CY19. Comparatively, it was +5.6%yoy as at January CY19. Loans for the purchase of residential properties grew +7.1%yoy to RM564.5b, while loans for the purchase of non-residential properties were stable at +1.9%yoy to RM218.1b.

Another month of decline in loans applied and approved, but could be due to festive month. Loans applied in February CY19 declined for the second consecutive month with -14.0%yoy. Similarly with loans approved which declined -6.7%yoy. This could be less loan demand in the month due to it being a festive month, especially from businesses. For example, loans applied for purchase of fixed assets and construction fell -50.2%yoy to RM348m and -57.3%yoy to RM1.53b respectively. In the case of loans approved, the approval process could have been disrupted by the short month and the festive period.

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%
2MCY18	132.4	9.6%	57.0	11.0%	43.1%
2MCY19	120.2	-9.2%	53.8	-5.6%	44.8%

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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Feb-19	-12.0%	-0.7%	-16.5%	-15.5%	-17.7%	-15.2%	-14.0%
2MCY18	-1.8%	3.5%	27.1%	27.4%	5.1%	-8.1%	9.6%
2MCY19	-9.7%	2.4%	-1.9%	-6.7%	-15.7%	-14.8%	-9.2%

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-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%
2MCY18	6.6%	10.7%	4.2%	30.4%	14.4%	-11.9%	11.0%
2MCY19	-4.8%	-3.0%	8.7%	6.4%	-26.6%	20.1%	-5.6%

Source: BNM, MIDFR

Deposits growth continues to be robust with CASA growth picking up. Total system deposits as at February expanded at a faster pace with +6.9%yoy to RM1.88t, as compared to the +6.7%yoy expansion as at January CY19. Fixed deposits including tawarruq fixed deposits (FD) grew +8.4%yoy to RM956.1b, from +8.5%yoy registered as at January. However, the deposits growth was more balanced as there was a pick-up in CASA deposits growth in February. CASA grew +1.4%yoy to RM498.2b. While this may ease margin compression for the month, in our opinion FD growth will need to taper more in order for any meaningful impact. 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%

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

Source: BNM, MIDFR

Not much movement in lending rate and deposit rate. We noted that base rate remains unchanged from January at 3.92%. Meanwhile, average lending rate fell slightly by -2bps mom to 5.02%. On the deposit side, 1-month and 3-month FD eased by -1bps mom to 3.08% and 3.16% respectively.

GIL ratio increased but asset quality remains stable. We estimated that gross impaired loans (GIL) ratio as at February CY19 deteriorate slightly to 1.48%. However, we do not believe that this will be a trend and could be due to the festive season in February. 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
Feb-19	1.48

Source: BNM, MIDFR

Maintain conservative loans growth projection. The moderation in system loans growth is within our expectation for CY19. The moderation in February could also be due to the festivities in which business activities slowed down. We opine that it may accelerate later before moderating in 2HCY19. Hence, we are maintaining our CY19 loans growth expectations of +4.7%yoy for now. In fact, our loans growth projection could be considered very conservative given that banks loans growth target (as highlighted by Bank Negara Malaysia's presentation on the release of its 2018 Annual Report) is between 7% to 8%.

FD growth will remain robust but will taper slightly. We also believe that deposits growth will moderate to +5.3%yoy with FD growth to remain robust. However, we do expect it to taper slightly later this year given that majority of banks have met with the Net Stable Funding Ratio requirement.


Banks have become undervalued. Reiterate POSITIVE stance. We are cautiously optimistic of the overall banking sector in CY19. At current juncture, we believe that it will be able to continue its earnings momentum despite the pressure on margin due to continued loans growth. Meanwhile, stable asset quality will contain banks' provision levels. With the recent sell-off on banking stocks, we view that most banks under our coverage is currently undervalued. As we do not expect any change in the fundamental of the banking sector, we opine that the current price levels of banking stocks presents a good opportunity to investors. Hence, we reiterate n 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 @ 1/4 (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	9.20	11.40	75.9	76.2	12.1	12.1	59.0	59.0	6.4	6.4	7.1	7.3	1.3	1.3
Public Bank	BUY	22.48	27.15	147.6	151.0	15.2	14.9	72.0	73.0	3.2	3.2	11.2	12.0	2.0	1.9
CIMB	BUY	5.08	7.55	50.0	49.0	10.2	10.4	26.0	25.0	5.1	4.9	5.6	5.7	0.9	0.9
RHB Bank	BUY	5.62	6.10	62.4	67.7	9.0	8.3	20.0	20.0	3.6	3.6	6.3	6.5	0.9	0.9
Hong Leong	NEUTRAL	19.98	20.30	135.8	143.1	14.7	14.0	49.0	50.0	2.5	2.5	12.5	13.4	1.6	1.5
AMMB	NEUTRAL	4.45	4.50	45.4	46.6	9.8	9.5	18.0	18.0	4.0	4.0	5.6	5.8	0.8	0.8
Affin	BUY	2.20	2.70	29.0	29.0	7.6	7.6	5.0	7.0	2.3	3.2	4.7	4.9	0.5	0.4
Alliance	BUY	4.01	4.75	37.0	39.8	10.8	10.1	17.0	18.5	3.7	4.4	3.6	3.7	1.1	1.1
BIMB	BUY	4.41	4.85	42.0	42.3	10.5	10.4	16.0	18.0	3.6	4.1	3.2	3.5	1.4	1.3
Average				69.5	71.6	11.1	10.8	31.3	32.1	3.8	4.0	6.6	7.0	1.2	1.1

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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.