

1 June 2017 | Sector Update

BANKING

Maintain **POSITIVE**

Loans growth momentum continues

INVESTMENT HIGHLIGHTS

- **Another month of solid loans growth as loans grew +6.1%yoy as at Apr'17**
- **Stronger working capital loans growth at +7.3%yoy vs. 6.8%yoy as at Mar'17**
- **Year-to-date loans demand and approvals still better than last year**
- **CASA grew stronger, suggesting ample liquidity**
- **Stable NIM and asset quality**
- **No change to expectations on loans growth**
- **With expectations intact, we maintain our POSITIVE stance in the banking sector**

Another month of solid loans expansion. The loans growth momentum continued in April CY17. Loans grew +6.1%yoy to RM1,536b. Purchase of residential properties, purchase of non-residential properties and personal loans grew at a steady pace, at +8.7%yoy to RM489.7b, +5.1%yoy to RM211.1b and +4.1%yoy to RM66.9b respectively. We note that this was the 6th consecutive month in which the loans growth had registered above the +5.0% level (refer to Figure 1).

Uptrend for business borrowings continued. Working capital loans continued its upward in April CY17 with +7.3%yoy growth to RM367.9b. However, we are not entirely surprised by the latest data as we believe that business borrowings will be one of the key drivers for loans growth given the expected recovery in Malaysia's GDP. In fact, indicators had shown business confidence returning. For example, MIER's Business Conditions Index climbed above benchmark to 112.7 points in 1QFY17, up from 81.2 points in the previous quarter, coming from sales moving fast at start of the year, while local and export orders picking up. We believe that business conditions or business confidence will continue to improve.

Maintaining conservative loans growth expectations for now. With the latest data, we make no change to our expectation of a mid-to-high single digit loans growth for CY17. While this may seem slightly conservative given the pick-up in momentum, we are being prudent as there are a few sector which are still sluggish in generating loans growth.

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-16	1,447.3	7.7%	2.6%	11.8%	6.1%	10.5%
Feb-16	1,449.9	7.4%	1.8%	11.4%	6.1%	9.8%
Mar-16	1,449.5	6.4%	1.1%	11.0%	7.1%	8.3%
Apr-16	1,447.8	6.3%	1.0%	10.8%	6.6%	8.2%
May-16	1,458.5	6.2%	0.7%	10.6%	5.9%	7.5%

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Jun-16	1,465.2	5.6%	0.4%	10.3%	5.7%	5.7%
Jul-16	1,467.3	5.1%	-0.2%	10.1%	5.3%	4.9%
Aug-16	1,472.1	4.2%	-0.3%	10.1%	4.5%	1.5%
Sep-16	1,483.8	4.2%	-0.4%	9.9%	4.6%	2.1%
Oct-16	1,493.4	4.5%	-0.6%	9.5%	4.7%	2.3%
Nov-16	1,507.6	5.3%	-0.8%	9.5%	4.3%	4.4%
Dec-16	1,521.5	5.3%	-1.0%	9.2%	4.6%	5.6%
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%

Source: BNM, MIDFR

Demand and approval lower but still better year-to-date. The loans demand and approval in Apr'17 saw third consecutive month of growth, albeit at slower pace (figure 2). However, on a year-to-date basis, growth from demand and more interestingly approvals were higher than previous period. Of note was the demand and approval growth for purchase of residential growth. We postulate that this could be a sign that banks are now more willing to lend for this sector, as we have observed from banking 1QCY17 result.

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-16	65.0	9.3%	26.7	-14.0%	41.0%
Feb-16	50.5	6.0%	22.3	-16.8%	44.0%
Mar-16	72.1	1.1%	27.8	-23.4%	38.5%
Apr-16	64.3	-6.0%	27.1	-17.2%	42.1%
May-16	72.0	8.5%	32.0	2.2%	44.4%
Jun-16	76.2	3.9%	30.4	-21.1%	39.8%
Jul-16	61.2	-18.0%	26.5	-19.4%	43.3%
Aug-16	74.5	-1.2%	31.5	0.4%	42.3%
Sep-16	68.2	-8.7%	29.6	-8.2%	43.3%
Oct-16	69.0	-14.5%	33.8	-4.0%	49.0%
Nov-16	71.3	-0.3%	29.9	-4.6%	42.0%
Dec-16	58.3	-8.0%	29.3	-12.8%	50.2%
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%
4MCY16	252.0	2.0%	103.8	-18.1%	41.2%
4MCY17	262.2	4.0%	114.5	10.3%	43.7%

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-16	-13.7%	-6.5%	-22.1%	38.5%	61.7%	65.1%	9.3%
Feb-16	-16.7%	1.9%	-16.6%	36.6%	38.6%	48.6%	6.0%
Mar-16	-16.5%	5.6%	-15.7%	29.5%	71.5%	5.9%	1.1%
Apr-16	-3.4%	-3.1%	-36.8%	14.6%	49.9%	-2.2%	-6.0%
May-16	0.5%	5.7%	-7.9%	-17.1%	53.1%	9.2%	8.5%
Jun-16	-0.8%	-7.1%	-16.1%	-23.6%	31.1%	-11.2%	3.9%
Jul-16	-23.8%	-11.8%	-11.1%	-26.0%	20.7%	-22.3%	-18.0%
Aug-16	6.3%	12.7%	8.8%	-6.3%	41.1%	-30.5%	-1.2%
Sep-16	-8.9%	2.2%	-17.4%	-18.7%	17.6%	1.7%	-8.7%
Oct-16	-11.8%	-0.1%	0.1%	-19.3%	10.8%	-19.8%	-14.5%
Nov-16	-3.4%	11.5%	16.1%	-15.8%	30.9%	-16.6%	-0.3%
Dec-16	-1.1%	-2.7%	-11.4%	-29.0%	13.0%	-16.2%	-8.0%
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%
4MCY16	-12.8%	-0.6%	-23.8%	28.9%	55.9%	22.6%	2.0%
4MCY17	5.9%	15.8%	6.5%	-14.4%	20.9%	-12.9%	4.0%

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-16	-11.9%	-34.0%	-44.3%	-5.9%	26.4%	-16.1%	-14.0%
Feb-16	-29.5%	-21.6%	-27.0%	6.5%	14.7%	19.4%	-16.8%
Mar-16	-32.9%	-13.8%	-26.1%	5.8%	21.0%	-7.4%	-23.4%
Apr-16	-21.8%	-25.7%	-41.6%	-10.0%	5.3%	11.7%	-17.2%
May-16	-14.0%	-11.2%	-20.1%	0.0%	9.8%	11.8%	2.2%
Jun-16	-8.1%	-21.6%	-4.0%	-6.0%	-10.7%	-39.3%	-21.1%
Jul-16	-25.1%	-21.5%	11.7%	-20.0%	-5.4%	-24.6%	-19.4%
Aug-16	1.3%	-3.0%	-11.9%	6.0%	19.7%	-7.7%	0.4%
Sep-16	-9.9%	-6.3%	-18.9%	-5.6%	3.5%	-25.0%	-8.2%
Oct-16	-18.5%	-9.6%	-5.8%	-9.9%	2.8%	4.0%	-4.0%
Nov-16	-11.8%	0.2%	35.6%	-17.2%	29.2%	-10.5%	-4.6%
Dec-16	-11.8%	-13.5%	26.6%	-29.9%	7.8%	-4.7%	-12.8%
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%
4MCY16	-24.2%	-23.9%	-35.2%	-1.5%	16.5%	1.5%	-18.1%
4MCY17	6.5%	18.1%	-15.6%	-6.5%	16.6%	11.3%	10.3%

Source: BNM, MIDFR

CASA growth keeps getting stronger. The momentum of deposits growth, especially CASA seems to mirror loans growth. Total deposits and CASA grew at faster pace at +3.8%yoy and +9.8%yoy respectively. We believe that the strong CASA growth could be driven by SME and payroll accounts, in addition from retail CASA. Again, this could be another sign of healthy business conditions.

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-16	1,636.2	0.1%	429.6	2.1%	26.3%
Feb-16	1,652.7	0.7%	436.7	2.5%	26.4%
Mar-16	1,652.5	-1.0%	423.7	-2.7%	25.6%
Apr-16	1,643.5	-1.2%	417.6	-2.3%	25.4%
May-16	1,655.3	-0.4%	424.2	0.4%	25.6%
Jun-16	1,655.3	-0.8%	433.1	-0.4%	26.2%
Jul-16	1,638.0	1.0%	423.1	1.2%	25.8%
Aug-16	1,640.3	1.0%	425.6	0.6%	25.9%
Sep-16	1,660.5	1.3%	429.1	-0.3%	25.8%
Oct-16	1,670.0	2.6%	432.7	2.8%	25.9%
Nov-16	1,668.1	2.2%	438.9	4.5%	26.3%
Dec-16	1,679.8	2.0%	448.9	5.0%	26.7%
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%

Source: BNM, MIDFR

Steady margins. Average lending rate in Apr'17 was only -1bps mom lower at 4.59%. Meanwhile, savings deposit rate was stable at 0.96% and fixed deposits were generally stable with at most +1bps mom higher. This suggests that there were no undue intense competition for loans and deposits that would affect pricing at this moment. We believe that if this environment persists, NIM pressure may be only minimal for the rest of the year.

Asset quality remains stable. We note that asset quality continued to be stable with GIL ratio for the banking system remaining even as it had crept slightly to 1.66%. However, we do not foresee any sudden deterioration in asset quality for CY17.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)	Net Impaired Loans Ratio (%)
Jan-16	1.61	1.21
Feb-16	1.64	1.25
Mar-16	1.60	1.21
Apr-16	1.60	1.21
May-16	1.65	1.25
Jun-16	1.66	1.26
Jul-16	1.68	1.29
Aug-16	1.66	1.27
Sep-16	1.65	1.26
Oct-16	1.65	1.25

Nov-16	1.63	1.23
Dec-16	1.61	1.24
Jan-17	1.61	1.22
Feb-17	1.63	1.24
Mar-17	1.63	1.24
Apr-17	1.66	1.25

Source: BNM, MIDFR

Maintain POSITIVE. We believe that the latest data strengthen our conviction of a recovery in loans growth and overall banking sector in CY17. This is especially for the case of business borrowing and in our opinion, business deposits as well. Hence, we see no reason to change our view of a better performance in CY17, driven by higher loans growth and stable margins. We continue to be **POSITIVE** on the sector.


Maintain BUY calls for CIMB, Maybank, Public Bank, Hong Leong and Affin. We continue to like CIMB (BUY, TP: RM7.10) and Maybank (BUY, TP:10.30) as we expect both these banks to continue its earnings recovery coupled with solid asset growth as seen in its 1QFY17 result recently. We are also favourable due to its regional exposure. While our BUY call for Affin (TP: RM3.30) is premised on its turnaround program showing results. Our other BUY calls are Public Bank (BUY, TP: RM23.30) and Hong Leong Bank (BUY, TP: RM15.70) due to its good asset quality and sustained profitability. 

FIGURE 8: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 31/5 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				16	17	16	17	16	17	16	17	16	17		
Maybank	BUY	9.44	10.30	67.8	69.8	13.9	13.5	55.0	55.0	5.8	5.8	6.8	7.1	1.4	1.3
Public Bank	BUY	20.06	23.30	134.8	137.9	14.9	14.5	58.0	60.0	2.9	3.0	8.9	9.3	2.3	2.2
CIMB	BUY	6.40	7.10	41.0	45.5	15.6	14.1	20.0	18.0	3.1	2.8	5.1	5.3	1.3	1.2
RHB Bank	NEUTRAL	5.39	5.65	43.6	48.4	12.4	11.1	12.0	13.0	2.2	2.4	5.4	5.6	1.0	1.0
Hong Leong	BUY	14.02	15.70	99.1	112.2	14.1	12.5	41.0	41.0	2.9	2.9	10.3	10.9	1.4	1.3
AMMB	NEUTRAL	5.21	5.55	44.0	46.9	11.8	11.1	17.6	17.0	3.4	3.3	5.3	5.6	1.0	0.9
Affin	BUY	2.66	3.30	29.0	30.0	9.2	8.9	3.0	12.0	1.1	4.5	4.5	4.7	0.6	0.6
AFG	NEUTRAL	4.33	4.60	33.5	33.8	12.9	12.8	16.0	19.0	3.7	4.4	3.1	3.3	1.4	1.3
BIMB	NEUTRAL	4.52	4.90	35.2	38.9	12.8	11.6	13.0	14.4	2.9	3.2	2.4	2.7	1.9	1.7
Average				35.2	38.9	12.8	11.6	13.0	14.4	2.9	3.2	2.4	2.7	1.9	1.7

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.