

2 May 2017 | Sector Update

## **BANKING**

*Maintain* **POSITIVE**

### ***Loans growth momentum returned***

#### **INVESTMENT HIGHLIGHTS**

- **Loans growth momentum returned in Mar'17 as loans grew +6.0%yoy from the +5.3%yoy growth as at Feb'17**
- **Working capital loans growth maintained its upward trajectory**
- **Upturn in loans demand and approval continues. More notable was the growth in loans approval in 1QCY17 where it grew +19.7%yoy when compared with -23.2%yoy in 1QCY16**
- **CASA grew stronger, suggesting ample liquidity**
- **Asset quality remains stable as was NIM**
- **No change to expectations on loans growth**
- **With expectations intact, we maintain our POSITIVE stance in the banking sector**

**Momentum returns.** March CY17 saw loans growth momentum returning with a faster pace. Loans growth for the banking system grew +6.0%yoy to RM1,536b. Major contributor came from growth in working capital, purchase of residential properties, purchase of non-residential properties and lower decline in purchase of passenger cars, which grew +6.8%yoy, +8.8%yoy, +5.6%yoy and -0.5%yoy to RM371.1b, RM486.5b, RM211.3b and RM159.0b respectively. We note that since Nov'16, the loans growth has been consistently registering above +5.0% level (refer to Figure 1).

**Business borrowing upward momentum recovered strongly.** Working capital loans upward trajectory returned with the +6.8%yoy growth vs. +6.1%yoy growth in Feb'17. As previously mentioned, we believe working capital loans as a good proxy for overall business borrowing. This suggests that either business conditions or business confidence continues to improve and we believe that this will have a positive impact to overall loans growth in coming months.

**No change to expectations of loans growth in CY17.** With the latest data, we make no change to our expectation that loans growth is set to rebound in CY17. This is especially as our in-house economics team are expecting Malaysia's GDP in CY17 is set to pick up higher than previously estimated. We note that the recent upturn in loans demand and approval continued in Mar'17, especially for approvals which grew stronger. We also note that 1QCY17 loans demand and more importantly loans approval were higher than those in 1QCY16 (Figure 2).

**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%
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%

Source: BNM, MIDFR

**Loans demand and approval growth continued.** The loans demand and approval in Mar'17 saw second consecutive month of growth. Of note was the acceleration in loans approval growth, from +17.4%yoy in Feb'17 to +29.3%yoy in Mar'17. Another notable point was the strong growth in loans applied and more importantly loans approved for the purchase of residential properties. Loans applied and loans approved in 1QCY17 grew +18.6%yoy and +19.7%yoy respectively, as opposed to +0.4%yoy and -23.2%yoy respectively registered in 1QCY16.

**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%
1QCY16	187.7	5.1%	76.7	-18.4%	40.9%
1QCY17	197.4	5.2%	87.3	13.9%	44.2%

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%
1QCY16	-15.5%	0.4%	-18.2%	34.5%	58.5%	32.7%	5.1%
1QCY17	8.2%	18.6%	5.1%	-15.4%	26.0%	-11.9%	5.2%

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%
1QCY16	-24.9%	-23.2%	-33.0%	1.9%	21.0%	-2.1%	-18.4%
1QCY17	7.5%	19.7%	-18.0%	-4.4%	15.4%	19.4%	13.9%

Source: BNM, MIDFR

**Stronger CASA growth.** Meanwhile, the deposits growth was higher as at Mar'17 at 3.4%yoy to RM1,708b. CASA grew stronger at +8.3%yoy to RM458.9b. As a result the loans-to-deposit ratio improved to 89.9% from 90.1% registered as at Feb'17.

**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%

Source: BNM, MIDFR

**NIM appears to be stable.** Average lending rate in Mar'17 was only -1bps mom lower at 4.6%. Meanwhile, savings deposit rate was also lower by -1bps mom to 0.96% and fixed deposits were generally stable. This suggests that pricing for loans and deposits remains stable. We believe that if this environment persists, NIM pressure may be only minimal for the rest of the year.

**Asset quality remains good.** We note that asset quality continued to be stable with GIL ratio for the banking system remaining steady at the lower bound of the 1.6% level since Nov'16. A measure of liquidity which is the Liquidity Coverage Ratio (LCR) shows that banks have sufficient liquidity. The latest LCR (as at Feb'17) was 127%, up +3ppt from Jan'17. Therefore, we opine that banks could well accelerate lending activities if the opportunities arise.


**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

Source: BNM, MIDFR

**Maintain POSITIVE.** We believe that the improvements the banking sector has showed are getting stronger. Most notably was the stronger growth in loans approval particularly for the purchase of residential properties. This should provide a steady pipeline for loans growth to continue. In addition, with stable asset quality and possible lower provisioning by some banks, the banking sector rebound is to continue. We are expecting better performance in CY17, driven by higher loans growth and stable margins. As such, 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: RM6.40) and Maybank (BUY, TP:9.80) as we expect both these banks to continue its earnings recovery coupled with solid asset growth. 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: RM15.50) due to its good asset quality and sustained profitability. 

**FIGURE 8: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS**

	Rec.	Price @ 28/4 (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	16	17
Maybank	BUY	9.58	9.80	67.8	69.9	14.1	13.7	52.0	55.0	5.4	5.7	6.7	6.8	1.4	1.4
Public Bank	BUY	19.96	23.30	134.8	137.9	14.8	14.5	58.0	60.0	2.9	3.0	8.9	9.3	2.2	2.1
CIMB	BUY	5.74	6.40	41.0	45.5	14.0	12.6	20.0	18.0	3.5	3.1	5.0	5.3	1.1	1.1
RHB Bank	NEUTRAL	5.50	5.15	43.6	48.4	12.6	11.4	12.0	13.0	2.2	2.4	5.4	5.6	1.0	1.0
Hong Leong	BUY	13.80	15.50	99.1	112.2	13.9	12.3	41.0	41.0	3.0	3.0	10.3	10.9	1.3	1.3
AMMB	NEUTRAL	5.48	4.55	45.1	45.0	12.2	12.2	15.5	16.0	2.8	2.9	5.0	5.3	1.1	1.0
Affin	BUY	2.93	3.30	29.0	30.0	10.1	9.8	3.0	12.0	1.0	4.1	4.5	4.7	0.7	0.6
AFG	NEUTRAL	4.13	4.05	34.2	36.0	12.1	11.5	14.5	18.0	3.5	4.4	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	4.38	4.35	35.3	38.9	12.4	11.3	13.0	14.4	3.0	3.3	2.4	2.6	1.8	1.7
<b>Average</b>				<b>35.3</b>	<b>38.9</b>	<b>12.4</b>	<b>11.3</b>	<b>13.0</b>	<b>14.4</b>	<b>3.0</b>	<b>3.3</b>	<b>2.4</b>	<b>2.6</b>	<b>1.8</b>	<b>1.7</b>

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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.