

BANKING

Maintain POSITIVE

Loans growth stable despite "short" month

KEY INVESTMENT HIGHLIGHTS

- **Loans growth as at September CY19 continued to be stable**
- **Business loans growth slowed as expected but overall loans growth supported by the retail segment**
- **Loans demand and approved declined but this could be due to the disruption caused by the three long weekends in the month. Loans applied and approved also saw sequential month contraction**
- **Deposits growth slowed marginally due to stable fixed deposits growth. Meanwhile, CASA growth accelerated**
- **Asset quality stable**
- **We maintain our POSITIVE stance in the banking sector**

Loans growth continued to be stable. The banking system loans growth as at September CY19 continue to be stable at +3.8%yoy, vs. +3.9%yoy registered as at July and August CY19. Top 3 contributors to system loans stock (loans for purchase of residential housing, passenger cars and working capital) grew lower at +3.9%yoy to RM1.14t due to slower working capital loans.

In line with the current trend. The slower pace of working capital loans growth was in line with our observation of current trend whereby business loans have trended downwards since the middle of the year. Loans for business purpose grew +2.5%yoy to RM780.0b as compared to +2.7%yoy as at last month. This was also in tune with anecdotal evidence that we have gathered as businesses grew more cautious in light of increase uncertainties surrounding global growth.

Retail segment supported loans growth. Loans growth in the retail segment expanded +4.8%yoy to RM886.9b as it continue to support the loans growth. Loans for the purchase of residential properties remain robust, growing +7.2%yoy to RM592.0b. Meanwhile, overall loans to the household sector grew +4.6%yoy to RM1.02t.

Drop in loans applied and approvals could be due to "short" month. Loans applied in September CY19 contracted -6.1%yoy. Meanwhile, loans approved fell -8.7%yoy in the month. We believe that this could be due to the fact that September saw three public holidays that lead to long weekends. In sequential month basis, loans applied and loans approved fell -16.0%mom and -5.9%mom respectively.

CASA growth accelerated. Total system deposits as at September CY19 expanded +4.2%yoy in comparison with the +4.5%yoy posted as at August CY19. It was due to stable pace in fixed deposits including tawarruq fixed deposits (Islamic FD) growth where it grew +5.9%yoy to RM1.01t. We believe that this could signal waning deposit competition as most banks have sufficient liquidity buffer. We were pleased that CASA growth accelerated to +6.5%yoy from +5.2%yoy the previous month. We expect that pressure on net interest margin should ease given the stronger CASA growth and stable FD increase.

COMPANY IN FOCUS

Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM10.30
Price @ 1st November 2019: RM8.60

- Earnings expected to be stable
- Earnings expected to improve in 2HFY19
- Low exposure to floating rate which should moderate OPR cut impact
- Attractive dividend yield of circa 6%

Share price chart



CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM6.30
Price @ 1st November 2019: RM5.26

- Earning recovery in Indonesia and Thailand
- Net interest margin compression will lessen
- Relatively undemanding valuation as it is trading below 1x PBV
- 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%

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%
Sep-19	69.1	-6.1%	33.7	-8.7%	48.8%

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
9MCY18	666.0	6.8%	297.0	7.6%	44.6%
9MCY19	652.2	-2.1%	307.5	3.6%	47.1%

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%
9MCY18	5.7%	0.3%	13.8%	14.4%	-3.4%	6.7%	6.8%
9MCY19	-18.8%	8.0%	-0.8%	-8.6%	-16.5%	1.2%	-2.1%

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%
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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
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%
9M CY18	17.5%	1.0%	12.0%	27.1%	-5.0%	2.6%	7.6%
9M CY19	-12.6%	10.7%	5.6%	10.1%	-11.3%	9.4%	3.6%

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%

Source: BNM, MIDFR


Lower lending and deposits rate. We noted that average lending rate was -6.6bp mom lower, to 4.76%. However, average FD rates was also lower by -1bps mom. The average FD rates for 3-month and 6-month fell -6.5bp to 2.85% and -1.8bp mom to 2.96% respectively. As we previously mentioned, besides the OPR cut starting to have an impact to deposit rates, this could also signal that deposits competitions were waning.

GIL ratio stabilized. Asset quality seems to have stabilized in September CY19. We estimated gross impaired loans (GIL) was maintained at 1.61%. This was due to lower non-performing loans (NPL), on a sequential month basis, in working capital loans (-1.6% mom to RM8.8b) which moderated the increase in mortgages (+3.3% mom to RM6.8b). Overall, we note that the GIL ratio was not yet an alarming rate and seems at a manageable level.

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

Source: BNM, MIDFR

Maintain POSITIVE for now. We maintain our POSITIVE stance at current juncture as we opine that banking stocks in general are continue to be undervalued given its fundamentals remains intact. As we previously mentioned, the impact of the OPR cut will normalise and there are still positives for banks such as the low credit cost which should be able to alleviate any weakness in income. However, we also remain cautious due to prevalent uncertainties coming from external events such as the ongoing trade tension between the US and China. Nevertheless, Malaysia's domestic demand especially private consumption remains robust and this will continue to support loans growth. 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 **Public Bank (BUY, TP: RM24.00)**. 

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 1/11/19	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	8.60	10.30	74.1	73.9	11.6	11.6	58.0	58.0	6.7	6.7	7.1	7.4	1.2	1.2
Public Bank	Dec	BUY	19.80	24.00	145.6	148.7	13.6	13.3	72.0	73.0	3.6	3.7	11.3	12.0	1.8	1.7
CIMB	Dec	BUY	5.26	6.30	50.0	49.0	10.5	10.7	26.0	26.0	4.9	4.9	5.6	5.7	0.9	0.9
RHB Bank	Dec	BUY	2.78	6.35	62.4	67.7	4.5	4.1	25.0	27.0	9.0	9.7	6.3	6.5	0.4	0.4
Hong Leong	Jun	NEUTRAL	17.30	17.00	130.0	143.1	13.3	12.1	50.0	50.0	2.9	2.9	12.5	13.0	1.4	1.3
AMMB	Mar	NEUTRAL	3.98	4.20	50.0	46.6	8.0	8.5	20.0	20.0	5.0	5.0	5.9	6.1	0.7	0.7
Affin	Dec	NEUTRAL	1.93	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	2.88	3.50	34.7	32.6	8.3	8.8	16.7	14.5	5.8	5.0	3.7	3.7	0.8	0.8
BIMB	Dec	BUY	4.23	5.05	43.7	44.0	9.7	9.6	16.0	18.0	3.8	4.3	3.2	3.5	1.3	1.2
Average					68.8	70.5	9.6	9.5	32.1	32.6	4.9	5.1	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.