

BANKING

Maintain POSITIVE

Pipeline of loans flowing through

INVESTMENT HIGHLIGHTS

- Strong loans growth continued with business loans the main driver
- Retail loans remained stable
- Deposits growth lead by fixed deposits
- Lending rate increased
- We maintain our POSITIVE stance in the banking sector

Strong loans growth continues. The banking system registered a loans growth of +6.0%yoy as at October CY18. This was the seventh consecutive month of loans growth acceleration. This could be attributable to the robust loans demand and approvals flowing through the system. Notably, it was the second month which the Sales and Service Tax (SST) were reintroduced, yet loans growth as October CY18 was at a higher pace than the +5.7%yoy posted as at September CY18.

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%

Source: BNM, MIDFR

Business loans continue to support loans growth. Top 3 loan segment contributor (mortgage, auto loans and working capital loans) combined expanded +5.9%yoy to RM1,101b. In line with the banking system loans growth, it was faster as compared to +5.6%yoy to RM1,096b posted as at September CY18. We believe that this was due to the acceleration of working capital loans which grew +5.5%yoy to RM388.7b vs. September's +4.6%yoy to RM386.8b. It is possible that the acceleration came in light of some certainty in the Government's policy direction following the tabling of mid-term review of the 11th Malaysia Plan and budget 2019. Meanwhile, total business loans grew +4.7%yoy to RM756.2b vs. +4.4%yoy to RM753.9b posted as at September CY18.

Stable retail loans. Retail loans expanded +6.1%yoy to RM824.8b. Loans for the purchase of residential loans tapered slightly to +7.9%yoy to RM552.3b, while credit card loans growth fell from +3.7%yoy posted as at September CY18 to +2.7%yoy to RM37.4b registered as at October CY18. This could be due to the reintroduction of SST in September CY18.

Lower loans demand in the month. Loans applied in October CY18 fell -0.4%yoy due to the decline in working capital loans and purchase of passenger cars. These fell -15.6%yoy to RM16.1b and -15.4%yoy to RM5.3b respectively. However, the year-to-date loans demand in CY18 was still higher than the previous year. The first 10-month loans applied grew +5.1%yoy vs. +4.2%yoy in CY17. The 10-month loans approved was also higher at +7.6%yoy.

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%
10MCY17	701.4	4.2%	309.0	7.4%	44.1%
10MCY18	737.1	5.1%	332.4	7.6%	45.1%

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-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%
10MCY17	0.4%	15.8%	6.9%	2.9%	8.8%	-11.1%	4.2%
10MCY18	3.6%	0.6%	13.1%	11.5%	-1.6%	3.3%	5.1%

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-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%
May-18	-7.5%	-13.0%	0.9%	-5.2%	-20.5%	19.7%	0.6%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
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%
10MCY17	1.9%	15.8%	-3.1%	2.5%	11.5%	0.1%	7.4%
10MCY18	15.9%	1.7%	10.7%	22.6%	-6.0%	3.9%	7.6%

Source: BNM, MIDFR

Total deposits growth driven by fixed deposits. Total deposits expanded +6.6%yoy as at October CY18, higher than September CY18's +6.1%yoy. However, similar to last month the deposit growth was led by fixed deposits (FD) expansion, which grew +5.4%yoy to RM598.0b. Comparatively, FD expanded +4.6%yoy as at September CY18. We believe that this was due to the competitive deposit environment. We opine that depositors could also continue to take advantage of FD repricing. This resulted in CASA growth to moderate to +2.5%yoy. As expected, we saw banks' net interest margins compression during 3QCY18 results.

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%
Oct-18	1,859.0	6.6%	485.6	2.5%	26.1%

Source: BNM, MIDFR

Lending rate increased. We noted that there were no changes in base rate at 3.9%. However, average lending rate increased by +5bps mom to 4.98%. We expect that this could ease the pressure on net interest margin in 4QCY18.

Asset quality improved again. We estimated that GIL ratio as at October CY18 was 1.52% which is -1bps 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

Source: BNM, MIDFR


No change to POSITIVE stance. As we expected in the previous month, the margins for banks came under some pressure, but were moderated by strong loans growth. With the strong loans growth continuing in October CY19, we expect that banks' performance will continue to be robust. We also believe that loans growth may continue its momentum albeit at a slower pace in CY19. Hence, we are maintaining our POSITIVE stance for the sector. Given the current volatile 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 @ 30/11 (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	9.39	11.40	72.0	74.1	13.0	12.7	55.0	58.0	5.9	6.2	6.8	6.9	1.4	1.4
Public Bank	BUY	24.92	27.30	141.7	149.9	17.6	16.6	61.0	63.0	2.4	2.5	9.7	10.7	2.6	2.3
CIMB	BUY	5.76	7.70	50.0	50.0	11.5	11.5	25.0	26.0	4.3	4.5	5.2	5.5	1.1	1.0
RHB Bank	T. BUY	5.25	6.00	48.6	55.7	10.8	9.4	15.0	15.0	2.9	2.9	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	20.38	20.30	128.2	135.8	15.9	15.0	45.0	48.0	2.2	2.4	11.7	12.6	1.7	1.6
AMMB	NEUTRAL	4.26	4.10	42.8	45.3	10.0	9.4	15.0	15.0	3.5	3.5	5.5	5.7	0.8	0.8
Affin	BUY	2.40	2.70	24.0	30.0	10.0	8.0	2.3	11.0	1.0	4.6	4.3	4.5	0.6	0.5
Alliance	BUY	4.10	4.75	35.7	39.0	11.5	10.5	15.3	17.0	3.7	4.4	3.5	3.7	1.2	1.1
BIMB	BUY	3.81	4.85	37.9	42.2	10.1	9.0	14.0	15.0	3.7	3.9	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

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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.