

3 April 2017 | Sector Update

## BANKING

*Maintain* **POSITIVE**

### *Promising loans pipeline*

#### INVESTMENT HIGHLIGHTS

- **Loans growth for Feb'17 was slightly lower than last month but we believe that momentum remains given the positive turn in loans applied and approved**
- **This may translate to better growth in loans in the coming month**
- **CASA growth momentum remained and should ensure less pressure to NIM**
- **Liquidity remains ample while asset quality continues to be stable**
- **We believe that the banking sector have showed steady signs of improvements, most notably were growth in loans demand and approval**
- **Therefore, we maintain our POSITIVE stance in the banking sector**

**Slight pullback in banking system loans growth but momentum remains.** Loans growth for the banking system as at Feb'17 grew +5.3%yoy to RM1,527b. In terms of growth rate, this was slightly lower by -0.3ppts mom that was posted as at Jan'17. However, we believe that the loans growth momentum remains. Since Nov'16, the loans growth have been consistently registering above +5.0% level (refer to Figure 1).

**Similar case for business borrowing.** Similarly, working capital loans as at Feb'17 was slightly lower by only -0.3ppt mom, as it grew +6.1%yoy. However, we believe this was not a sign of a declining trend given that loans demand from this segment has strongly turned positive (Figure 3). We believe working capital loans as a good proxy for overall business borrowing. This suggest that either business conditions or business confidence are improving.

**Maintain our view of a rebound in loans growth in CY17.** We maintain our expectation that loans growth is set to rebound in CY17. This is on the premise that our economics team are expecting Malaysia's GDP to pick up in CY17, which will have a positive impact to the banking sector. We believe that the green shoots remains with a recent upturn in loans demand and approval (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%

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	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%

Source: BNM, MIDFR

**Strong positive turn in loans demand and approvals.** There was a positive turn in demand for loans, growing by +21.2%yoy in Feb'17 as compared to -8.4%yoy decline in Jan'17. This marked the first growth in loans applied since Jul'16. Correspondingly, loans approval also had a strong positive turn as it grew +17.4%yoy from -5.1%yoy in Jan'17. The strong growth in loans applied and approval came from increase in most major segments, including loans for purchase of residential properties.

**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%

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%

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 applied
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%

Source: BNM, MIDFR

**CASA growth momentum maintained.** Meanwhile, the deposits growth was slightly lower as at Feb'17 at +2.5%yoy as compared to +3.1%yoy posted as at Jan'17 +3.1%yoy. Nevertheless, CASA grew +5.8%yoy with CASA ratio improving further to 27.3%.

**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%

Source: BNM, MIDFR

**NIM pressure expected to be less intense due to subdued rates competition.** Average lending rate in Feb'17 was +7bps higher from Jan'17, while savings deposit rate was 0.97%. Fixed deposits were generally stable. This suggests that the competition for loans and deposits have not affected pricing. We believe that if this environment persists, the sector will only face a slight compression in NIM this year.


**Ample liquidity, stable asset quality.** With banks prudent behaviour in its lending activities, asset quality has remained stable. This is evident by the GIL ratio for the banking system coming in steady at around the 1.6% level. Meanwhile, LD ratio came in 90.1% as at Feb'17 from 90.6% last month. The deposits growth and especially CASA growth implies that liquidity is ample. In fact, another measure of liquidity which is the Liquidity Coverage Ratio (LCR) shows that banks have sufficient liquidity. The latest LCR (as at Dec'16) was 125%, up +9ppt from Nov'16. Therefore, we opine that banks could well accelerate lending activities should it needs to.

**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

Source: BNM, MIDFR

**Expectations of better performance this year intact, Maintain POSITIVE.** We believe that the banking sector have showed steady signs of improvements. Most notably was growth in loans demand and approval, which should provide a steady pipeline for loans growth to continue. In our opinion, the banking sector rebound is to continue and we expect better performance in CY17, driven by higher loans growth and stable margins. Therefore, we are maintaining our **POSITIVE** stance for the sector.

**Reiterate BUY calls for CIMB, Maybank, Public Bank, Hong Leong and Affin.** We continue to like Public Bank (BUY, TP: RM22.60) and Hong Leong Bank (BUY, TP: RM15.50) due to its good asset quality and sustained profitability. While our BUY call for Affin (TP: RM3.30) is premised on its turnaround program showing results. We continue to like CIMB and Maybank, as we expect both these banks to continue its earnings recovery coupled with solid asset growth. Concerns over asset quality are mitigated. We are also favourable due to its regional exposure. Hence, we also maintain our BUY call for both of these banks. In addition, we are revising upwards our TP for CIMB and Maybank to RM6.40 (from RM5.90) and RM9.80 (from RM9.40) respectively. Our TP revision is based on pegging a PB multiple which is based on the 5-year historical average of the respective banks. We believe that this is fair given the rising optimism in the banking sector which we believe is reflective in the recent increase in valuation of the banks. 

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

	Rec.	Price @ 31/3 (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
Public Bank	BUY	19.90	22.60	134.8	137.9	14.8	14.4	58.0	60.0	2.9	3.0	8.9	9.3	2.2	2.1
Hong Leong	BUY	13.76	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
Maybank	BUY	8.92	9.80	67.8	69.9	13.2	12.8	52.0	55.0	5.8	6.2	6.7	6.8	1.3	1.3
CIMB	BUY	5.57	6.40	41	45.5	13.6	12.2	20.0	18.0	3.6	3.2	5.0	5.3	1.1	1.1
Affin	BUY	2.88	3.30	29	30.0	9.9	9.6	3.0	12.0	1.0	4.2	4.5	4.7	0.6	0.6
RHB Bank	NEUTRAL	5.17	5.15	43.6	48.4	11.9	10.7	12.0	13.0	2.3	2.5	5.4	5.6	1.0	0.9
AMMB	NEUTRAL	4.65	4.55	45.1	45.0	10.3	10.3	15.5	16.0	3.3	3.4	5.0	5.3	0.9	0.9
BIMB	NEUTRAL	4.45	4.35	35.3	38.9	12.6	11.4	13.0	14.4	2.9	3.2	2.4	2.6	1.8	1.7
AFG	NEUTRAL	4.08	4.05	34.2	36.0	11.9	11.3	14.5	18.0	3.6	4.4	3.1	3.3	1.3	1.2
<b>Average</b>				<b>35.3</b>	<b>38.9</b>	<b>12.6</b>	<b>11.4</b>	<b>13.0</b>	<b>14.4</b>	<b>2.9</b>	<b>3.2</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.