

1 October 2018 | Sector Update

BANKING

Maintain POSITIVE

Loans demand remains unabated

INVESTMENT HIGHLIGHTS

- Another month of improved loans growth
- Retail and business loans grew in tandem
- Growth in auto loans application remained solid due to tax holiday period
- Fixed deposits growth outpace CASA
- No change to loans growth expectations
- We maintain our POSITIVE stance in the banking sector

Banking system loans growth uptrend continued. Loans growth as at August CY18 came in higher again at +5.4%yoy to RM1.64t. Putting into context, the growth was +5.0%yoy and +5.3%yoy as at June and July CY18 respectively. We believe that the higher loans growth was due to the fact that August was the last month of the tax holiday period, before the reintroduction of the Sales and Service Tax in September CY18. The top 3 loans segment by contribution (mortgages, auto loans and working capital loans) also expanded at faster pace with +5.1%yoy to RM1.09t from +5.0%yoy to RM1.08t as at July 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%

Source: BNM, MIDFR

Retail and business loans grew in tandem. Retail loans grew +6.4%yoy to RM818.3b as at August CY18 due to faster pace of growth in the credit card segment. The credit card loans grew +4.9%yoy to RM38.0b vs. +2.8%yoy to RM37.1b posted as at July CY18. As we mentioned, we opine that this was the result of the better consumer sentiments and the rush to take advantage of the final month of the tax holiday period. Meanwhile, business loans also grew at higher pace at +3.6%yoy to RM748.9b as compared to the +3.4%yoy to RM745.6b registered last month. This was due to the stable support from loans for working capital (+2.9%yoy to RM382.6b) and purchase of non-residential properties (+2.5%yoy to RM217.1b).

Solid growth in loans applied relating to consumer spending. Loans demand remains strong as it grew +5.3%yoy to RM81.7b for the month of August CY18. It was largely driven by application of loans that was relating to consumer spending. These were loans application for purchase of passenger vehicle, personal uses and credit cards, which expanded +9.1%yoy to RM7.3b, +6.6%yoy to RM6.5b and +5.0%yoy to RM4.7b respectively. The year-to-date loans applied grew +5.7%yoy to RM586.7b as compared to +3.6%yoy to RM555.1b for 8MCY17 loans applied.

Approval rate dropped as loans approval could not keep up with demand. The loans approval rate dropped to 42.4% in August CY18 as approved loans was flattish at -0.1%yoy to RM34.6b. However, in our opinion, this was not due to tightening of credit by the banks but stemmed from the strong loans demand which approvals could not keep pace with. We also view this positively as it showed that banks are still prudent in its lending practices which should protect asset quality.

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%
8MCY17	555.1	3.6%	246.8	10.1%	44.5%
8MCY18	586.7	5.7%	257.7	4.4%	43.9%

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%
8M CY17	2.8%	16.5%	5.0%	1.4%	11.4%	-14.6%	3.6%
8M CY18	8.3%	0.2%	15.0%	13.7%	-4.1%	6.3%	5.7%

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%
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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
8MCY17	3.9%	17.8%	-4.8%	3.4%	14.0%	-0.1%	10.1%
8MCY18	18.8%	0.0%	7.5%	22.8%	-4.5%	0.8%	4.4%

Source: BNM, MIDFR

Deposits growth from fixed deposits. Deposits increased +5.5%yoy to RM1.82t as at August CY18. The growth in deposits was lead by fixed deposits (FD) expansion, which rose +3.7%yoy to RM587.9b. Comparatively, CASA grew +3.4%yoy to RM481.7b and on a sequential month basis, exhibited flat growth. We opine that besides taking advantage of the FD repricing following OPR hike in January, the sturdy FD growth was due to intensifying competition for deposits in the industry due in part to the NSFR. We believe that the net interest margins compression by some of the banks in 1HCY18 results is evident of this.

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%

Source: BNM, MIDFR

Interest rate and asset quality remained stable. We noted that there were no changes in either base rate or savings rate in August as compared to July CY18. Base rate was 3.9% and the 12-month was 3.33%. Meanwhile, asset quality remained stable. We estimated that GIL ratio came in at 1.58%. This led us to conclude that asset quality in the banking system remains solid and stable, with no undue stress can be seen yet in the horizon. This was evident by the stress test that Bank Negara Malaysia performed on the banking system for its Financial Stability Review Report for 1HCY18 which we reviewed ("Passed the test so far", 27 September 2018).

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

Source: BNM, MIDFR

No change to CY18 loans growth expectation. The upward trajectory in loans growth as at August CY18 was within our expectations. We believe that the loans growth received a boost from the increase consumer sentiment and consumption especially in August as it was the last month of the tax holiday period. However, we believe that the feel good factor effect to consumer sentiment may continue. As such, we believe that the loans growth momentum will be maintained. Therefore, we maintain our loans growth target of +5.5%yoy.


Maintain POSITIVE stance. We are maintaining our POSITIVE stance on the banking sector. With the boost to loans growth and improved consumer sentiment, we believe that banks will continue to perform well. While there remains some headwinds stemming from the external environment and the potential net interest margin compression, we believe that the banking sector will be able to weather this. The recent release of the stress test done by BNM showed that the banking sector will be able to absorb any shocks to the economy. Meanwhile, net interest margin compression could be mitigated by OPEX savings and lower provisions due to stable asset quality amongst others. Our top picks for this sector are Maybank (BUY, TP: RM11.40), CIMB (BUY, TP: RM7.85) and Public Bank (BUY, TP: RM27.30). 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 28/9 (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	9.79	11.40	72.0	74.1	13.6	13.2	55.0	58.0	5.6	5.9	6.8	6.9	1.4	1.4
Public Bank	BUY	25.00	27.30	141.7	149.9	17.6	16.7	61.0	63.0	2.4	2.5	9.7	10.7	2.6	2.3
CIMB	BUY	6.01	7.85	50.0	61.0	12.0	9.9	25.0	22.0	4.2	3.7	5.2	5.5	1.1	1.1
RHB Bank	T. BUY	5.40	6.00	48.6	54.2	11.1	10.0	15.0	15.0	2.8	2.8	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	20.58	18.85	128.2	135.8	16.1	15.2	45.0	48.0	2.2	2.3	11.7	12.6	1.8	1.6
AMMB	NEUTRAL	4.13	4.10	42.8	45.3	9.6	9.1	15.0	15.0	3.6	3.6	5.5	5.7	0.8	0.7
Affin	BUY	2.39	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	4.18	4.75	35.7	39.0	11.7	10.7	15.3	17.0	3.7	4.4	3.5	3.7	1.2	1.1
BIMB	BUY	3.79	5.15	37.9	42.2	10.0	9.0	14.0	15.0	3.7	4.0	2.8	3.0	1.4	1.3
Average				64.5	70.2	12.4	11.3	27.5	29.3	3.2	3.8	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.