

3 June 2019 | Sector Update

## BANKING

*Maintain POSITIVE*

### *Rebound in loans demand*

#### INVESTMENT HIGHLIGHTS

- System loans growth moderated further lead by business loans
- Retail loans remained stable thus far driven by mortgages
- Loans demand rebounded to grow for the first time this year
- Strong deposits growth contributed by fixed deposits
- Slight uptick in GIL ratio but no concern on asset quality
- We maintain our POSITIVE stance in the banking sector

**Moderation in working capital loans.** The banking system loans as at April CY19 grew +4.5%yoy. This was the fifth consecutive month of moderation. However, we had expected loans growth to moderate this year given the strong expansion seen in 2HCY18. The moderation was due to slower working capital loans, which grew +3.1%yoy to RM384.2b. Based on anecdotal evidence, we gathered that this moderation was due to cautiousness that business owners are adopting at the moment.

**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	1,591.7	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%
Nov-18	1,663.7	6.2%	0.1%	7.7%	7.8%	6.2%
Dec-18	1,673.5	5.6%	-0.1%	7.6%	7.8%	5.4%
Jan-19	1,678.5	5.5%	-0.3%	7.4%	7.6%	5.5%
Feb-19	1,675.9	5.0%	-0.6%	7.1%	7.2%	5.2%
Mar-19	1,682.2	4.9%	-0.5%	7.1%	6.5%	4.6%
Apr-19	1,682.5	4.5%	-0.5%	7.0%	5.9%	3.1%

Source: BNM, MIDFR

**Retails loans growth holding steady.** Retail loans grew +5.2%yoy to RM843.1b as at April CY19. Comparatively, it was +5.3%yoy as at March CY19. Main reason for the firm retail loans growth was due to steady expansion for loans for the purchase of residential properties, which rose +7.0%yoy to RM571b.

Meanwhile, unsecured loans (personal loans and credit cards) expanded +4.7%yoy to RM113.0b, as compared to +5.2%yoy to RM112.9b posted as at March CY19.

**Rebound in loans applied but growth of approvals fell off.** Loans demand rebounded in April CY19 as it grew +5.8%yoy, the first time it expanded this year. As such, the year-to-date loans applied still was lower by -4.3%yoy. Main drivers for the turnaround were loans applied for the purchase of residential properties and for purchase of fixed assets. These grew +12.2%yoy to RM23.7b and +40.8%yoy to RM1.9b respectively. For loans approved in April, it grew +5.1%yoy from +6.4%yoy the previous month. Main contributors was loans approved for the purchase of residential properties, which expanded +13.3%yoy to RM10.1b.

**FIGURE 2: LOANS APPLIED AND LOANS APPROVAL**

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
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%
Nov-18	62.5	-24.3%	34.1	-6.7%	54.6%
Dec-18	59.9	4.8%	30.9	-8.5%	51.6%
Jan-19	70.7	-5.5%	30.6	-4.8%	43.3%
Feb-19	49.6	-14.0%	23.3	-6.7%	46.9%
Mar-19	72.1	-6.0%	35.3	6.4%	49.0%
Apr-19	82.2	5.8%	34.7	5.1%	42.2%
4MCY18	286.8	9.4%	123.3	7.7%	43.0%
4MCY19	274.5	-4.3%	123.9	0.5%	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-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%
Nov-18	-29.6%	-10.8%	1.0%	-15.5%	-15.8%	-35.1%	-24.3%
Dec-18	-20.9%	6.0%	19.1%	-4.6%	-2.6%	-1.7%	4.8%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Jan-19	-8.1%	4.7%	10.0%	0.3%	-14.3%	-14.4%	-5.5%
Feb-19	-12.0%	-0.7%	-16.5%	-15.5%	-17.7%	-15.2%	-14.0%
Mar-19	-15.3%	5.5%	-6.0%	-19.6%	-11.0%	-1.1%	-6.0%
Apr-19	-9.4%	12.2%	-0.1%	-17.5%	-9.5%	-7.2%	5.8%
4MCY18	-2.6%	-0.2%	19.7%	26.1%	-7.3%	10.2%	9.4%
4MCY19	-11.1%	6.0%	-2.6%	-13.1%	-12.9%	-8.8%	-4.3%

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%	20.2%	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%
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%
Nov-18	-19.8%	-5.2%	20.8%	-1.6%	-32.0%	-12.8%	-6.7%
Dec-18	-12.1%	4.0%	20.7%	11.5%	-21.4%	-8.7%	-8.5%
Jan-19	-0.9%	2.1%	16.6%	11.2%	-24.8%	17.1%	-4.8%
Feb-19	-9.7%	-9.0%	0.7%	0.9%	-29.0%	24.5%	-6.7%
Mar-19	10.4%	1.9%	65.2%	2.5%	-19.3%	14.3%	6.4%
Apr-19	7.0%	13.3%	5.2%	0.4%	-10.7%	-16.2%	5.1%
4MCY18	2.6%	4.1%	19.9%	36.0%	1.9%	-11.0%	7.7%
4MCY19	1.8%	2.9%	22.6%	3.7%	-20.7%	6.7%	0.5%

Source: BNM, MIDFR

**Ample liquidity in the system.** Total system deposits as at April still registered strong growth with the expansion of +6.0%yoy. CASA grew +2.8%yoy to RM499.6b, but was rather flat on a sequential month basis at -0.2%mom. Meanwhile, fixed deposits including tawarruq fixed deposits (FD) was the main attributor to the deposits growth where it grew +8.0%yoy and +0.6%mom to RM968.8b. We believe the main reason for the disproportionate growth between CASA and FD was that depositors took advantage of the prevalent FD rates that stemmed from the intense deposit competition. However, with the cut in OPR (and FD rates), we believe that FD growth will moderate in 2HCY19.

**FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH**

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-18	1,758.0	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%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
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%
Nov-18	1,873.1	7.1%	488.6	3.2%	26.1%
Dec-18	1,883.3	7.8%	497.0	1.2%	26.4%
Jan-19	1,876.6	6.7%	497.4	0.8%	26.5%
Feb-19	1,883.6	6.9%	498.2	1.4%	26.4%
Mar-19	1,895.6	5.8%	500.5	2.6%	26.4%
Apr-19	1,905.3	6.0%	499.6	2.8%	26.2%

Source: BNM, MIDFR

**Not much movement in lending rate and deposit rate.** We noted that weighted base rate went up +1bp mom to 3.93%. Meanwhile, weighted average lending rate remained constant at 5.43%. On the deposit side, 3-month FD rate increased by +1bp mom to 3.16% while 1-month, 6-month, 9-month and 12-month rate were unchanged at 3.08%, 3.22%, 3.27% and 3.33% respectively.


**GIL ratio increased but still at manageable level.** We estimated that gross impaired loans (GIL) ratio as at April CY19 deteriorate slightly -5bp mom to 1.51%. The uptick was due to commercial properties loans and working capital as there were an increase of +3.8%yoy to RM3.12b and +12.7%yoy to RM7.9b respectively in impaired loans. However, we do not believe that this will be a broad base trend and opine that the banking system remains solid and stable.

## FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)
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
Nov-18	1.49
Dec-18	1.45
Jan-19	1.45
Feb-19	1.48
Mar-19	1.46
Apr-19	1.51

Source: BNM, MIDFR

**No change to growth projection.** As we mentioned, we expect moderation in system loans growth for CY19. At the moment it is moderating faster than we anticipated, but some slight uptick in loans demand could provide fuel for the loans growth. Hence, we are maintaining our CY19 loans growth expectations of +4.7%yoy for now. In fact, we should note that our loans growth projection could be considered very conservative given that banks loans growth target for CY19 (as highlighted by Bank Negara Malaysia's presentation on the release of its 2018 Annual Report) is between 7% to 8%.

**Cautioness increased but still optimistic. BUY.** Current banking performance seems muted due to headwinds coming from net interest margin compression. This is especially with the deposit competition and OPR cut. However, we believe that banks are being over penalised by those issues given its current share price performance. We believe that there are still positives for banks such as the well containment of cost (or even in some cases, a downtrend) and the low credit cost. This should be able to alleviate the weakness in income. Hence, we are still cautiously optimistic of the overall banking sector in CY19. We maintain our **POSITIVE** view on the sector. Given the current market conditions, our top picks for this sector are **Maybank (BUY, TP: RM11.00), CIMB (BUY, TP: RM6.80) and Public Bank (BUY, TP: RM27.20).** 

**FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS**

	Rec.	Price @ 1/4 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				19	20	19	20	19	20	19	20	19	20	19	20
Maybank	BUY	9.02	11.00	74.1	73.9	12.2	12.2	58.0	58.0	6.4	6.4	7.1	7.4	1.3	1.2
Public Bank	BUY	23.60	27.20	147.6	151.0	16.0	15.6	72.0	73.0	3.1	3.1	11.2	12.0	2.1	2.0
CIMB	BUY	5.27	6.80	50.0	49.0	10.5	10.8	26.0	26.0	4.9	4.9	5.6	5.7	0.9	0.9
RHB Bank	BUY	5.83	6.35	62.4	67.7	9.3	8.6	22.0	24.0	3.8	4.1	6.3	6.5	0.9	0.9
Hong Leong	NEUTRAL	19.00	20.30	135.8	143.1	14.0	13.3	49.0	50.0	2.6	2.6	12.5	13.4	1.5	1.4
AMMB	NEUTRAL	4.43	4.50	50.0	46.6	8.9	9.5	20.0	20.0	4.5	4.5	5.9	5.9	0.8	0.7
Affin	BUY	2.11	2.50	29.0	29.0	7.3	7.3	5.0	7.0	2.4	3.3	4.6	4.7	0.5	0.4
Alliance	BUY	3.85	4.75	34.7	39.8	11.1	9.7	16.7	18.5	4.3	4.8	3.7	3.7	1.0	1.0
BIMB	BUY	4.61	5.05	43.7	44.0	10.5	10.5	16.0	18.0	3.5	3.9	3.2	3.5	1.4	1.3
<b>Average</b>				<b>69.7</b>	<b>71.6</b>	<b>11.1</b>	<b>10.8</b>	<b>31.6</b>	<b>32.7</b>	<b>3.9</b>	<b>4.2</b>	<b>6.7</b>	<b>7.0</b>	<b>1.2</b>	<b>1.1</b>

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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.