

3 May 2018 | Sector Update

BANKING

Maintain **POSITIVE**

Stable loans growth rate

INVESTMENT HIGHLIGHTS

- Loans growth rate stabilizing around 4.4% level.
- Loans demand was flat in March but still higher in 1QCY18 vs. 1QCY17.
- No change to loans growth expectations for 2018.
- Deposits and CASA growth continues to be robust.
- Asset quality stable.
- We maintain our **POSITIVE** stance in the banking sector.

Loans growth stabilising. The banking system's total loans grew +4.4%yoy to RM1.60t as at March CY18. It seems that loans growth appear to be stabilising at circa the 4.4% level. However, we expect that loans growth to accelerate in the coming month as the loans pipeline still look healthy. All major loans segment were steady especially for the purchase of residential property which had settled at a growth pace of +9.0%yoy.

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-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%

Source: BNM, MIDFR

Loans applied in 1QCY18 higher than 1QCY17. Applied loans were flat in March CY18 at RM76.7b. This was due to pull back in loans demand for purchase in passenger cars and residential properties (-10.2%yoy and -11.1%yoy to RM6.6b and RM20.6b respectively). However, the decline of these two segments was moderated by a continued pick up in applied loans for purchase of non-residential properties and personal

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use. These segments grew +7.7%yoy and +18.4%yoy to RM8.7b and RM6.5b respectively. As a result, the first 3 month growth in CY18 was still higher when compared to CY17.

Loans approval rate maintained. In the case for approved loans growth, it fell by -7.6%yoy in March CY18. Resultantly, loans approval rate was maintained at 43.3%, which we believe that it is still at a healthy enough level.

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%
3MCY17	197.4	5.2%	87.3	13.9%	44.2%
3MCY18	209.1	5.9%	90.3	3.3%	43.2%

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-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%
3MCY17	8.2%	18.6%	5.1%	-15.4%	26.0%	-11.9%	5.2%
3MCY18	-4.9%	-2.6%	19.2%	23.9%	-8.3%	-1.6%	5.9%

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 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%
3MCY17	7.5%	19.7%	-18.0%	-4.4%	15.4%	19.4%	13.9%
3MCY18	1.0%	2.9%	10.5%	29.7%	3.5%	-21.9%	3.3%

Source: BNM, MIDFR

Deposits and CASA growth continues to be robust. Deposits grew at a faster pace coming in at +4.9%yoy. In addition, CASA deposits growth continues to be robust as it expanded +6.3%yoy. We believe that the expansion in CASA could be driven by corporate and SME CASA.

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%

Source: BNM, MIDFR

Asset quality stable. Asset quality remains stable which GIL ratio came in slightly higher by +2bps mom to 1.57%. However, it was still an improvement from the same period last year. We believe that this mean that there is minimal possibility of undue stress to the banking system assets. As such, we believe that this may allow for banks to continue accelerating its lending in the coming months.

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

Source: BNM, MIDFR

Expect loans growth in 2018 to be better. We maintain our expectations that loans growth will come in better in CY18 vs. CY17 level. This is premised on the current trend of loans applied and approval which will provide a steady loans pipeline. In addition, the good economic growth we saw in CY17 will spill over and translate to loans growth at least up until 1HCY18. As such, we also expect that the loans demand will accelerate from its current trend. For 2018, we are expecting a loans growth of +6%yoy.


Maintain POSITIVE. We maintain our POSITIVE view of the banking sector's performance in CY18. We believe that the continued domestic economic performance in CY18 and stable employment environment will drive loans growth. With higher demand and approval for loans, we believe the banking sector will be able to maintain its earnings potential. 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 2/5 (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	10.66	11.20	72.0	74.9	14.8	14.2	55.0	59.0	5.2	5.5	6.8	7.1	1.6	1.5
Public Bank	BUY	24.00	27.30	141.7	149.9	16.9	16.0	61.0	63.0	2.5	2.6	9.7	10.7	2.5	2.2
CIMB	BUY	7.04	7.80	50.0	61.0	14.1	11.5	25.0	35.0	3.6	5.0	5.2	5.5	1.3	1.3
RHB Bank	NEUTRAL	5.22	5.70	48.6	54.2	10.7	9.6	15.0	16.0	2.9	3.1	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	18.84	18.55	118.2	123.4	15.9	15.3	47.0	47.0	2.5	2.5	11.6	12.4	1.6	1.5
AMMB	T. BUY	3.80	4.30	43.2	47.5	8.8	8.0	15.0	17.0	3.9	4.5	5.4	5.7	0.7	0.7
Affin	BUY	2.53	2.80	24.0	29.5	10.5	8.6	2.3	11.0	0.9	4.3	4.3	4.5	0.6	0.6
Alliance	BUY	4.18	4.69	35.2	39.0	11.9	10.7	17.0	19.0	3.7	4.4	3.5	3.7	1.2	1.1
BIMB	BUY	4.00	5.03	37.9	42.2	10.6	9.5	14.0	15.5	3.5	3.9	2.8	3.0	1.4	1.4
Average				63.4	69.1	12.7	11.5	27.9	31.4	3.2	4.0	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.