

1 August 2018 | Sector Update

BANKING

Maintain POSITIVE

Strong rebound in loans demand

INVESTMENT HIGHLIGHTS

- Loans growth upward trajectory maintained
- Growth in loans demand rebounded
- Loans approval trying to keep pace
- Deposits growth stable
- No change in the spread between base (lending) rate and savings rate
- Loans growth expected to be robust. No change in expectations
- We maintain our POSITIVE stance in the banking sector

Upward trajectory maintained for loans growth. It was another month where the banking system's total loans increased its pace of growth. The banking system's loans as at June CY18 grew +5.0%yoy to RM1.63t from +4.9%yoy registered as at May CY18. The loans growth was contributed by business segment (purchase of non-passenger vehicle, non-residential property, working capital, purchase of shares, for construction and fixed asset purchase) which expanded +3.2%yoy to RM744.2b vs. +2.9%yoy the previous month.

Loans for personal use holding retail loans growth. Retail loans growth (mortgages, hire purchase, credit cards, personal loans and consumer durable purchase) fell off slightly, by -0.5ppt mom to +5.9%yoy, posting loans amounting to RM808.2b. This was due to lower growth in mortgages and decline in hire purchase loans, at +8.3%yoy to RM539.5b and -1.1%yoy to RM159.6b respectively. However, loans for personal use and credit cards expanded at faster rate of +6.7%yoy to RM71.8b and +2.8%yoy to RM37.2b respectively. This could possibly be due to the tax holiday period where the Government had zero-rated GST on all products, which spurred personal consumption.

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%

	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-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%

Source: BNM, MIDFR

As expected, loans demand rebounded strongly. Growth in loans applied in June CY18 rebounded to post an expansion of +13.3%yoy to RM73.2b, as we had expected. This had led to the cumulative 1HCY18 loans applied to jump to +6.5%yoy from +5.2%yoy expansion for YTD May CY18. We believe the recovery in loans demand was due to zero rating of the GST starting in same month. The loans applied for the purchase of passenger vehicle rose +43.5%yoy to RM8.71b.

Business segment continued to lend support. We note that the business segment continue to lend support to the growth in loans demand. The loans applied for June CY18 for purchase of non-residential properties, fixed assets and working capital increased by +27.9%yoy, +171.2%yoy and +21.1%yoy to RM8.45b, RM1.31b and RM16.6b respectively. For this year's 6-month growth rate, it was +14.5%yoy, +31.5%yoy and +13.4%yoy to RM48.2b, RM6.2b and RM94.6b respectively. Comparatively, it was +12.0%yoy, +15.7%yoy and +11.8%yoy to RM39.7b, RM4.9b and RM78.0b respectively in 5-month CY18 respectively.

Loans approval trying to keep pace. Meanwhile, loans approved in June grew at faster pace from the previous month at +5.4%yoy to RM35.2b. Approval rate came in the highest for this year again at 48.1%.

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%
6M CY17	402.3	0.5%	179.1	7.8%	44.5%
6M CY18	428.6	6.5%	189.9	6.0%	44.3%

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%
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%
6MCY17	2.0%	14.9%	6.5%	-4.6%	13.1%	-18.1%	0.5%
6MCY18	4.1%	-2.9%	14.5%	16.7%	-7.0%	13.4%	6.5%

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%
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%
6MCY17	4.1%	17.1%	-8.5%	-0.4%	13.4%	3.6%	7.8%
6MCY18	9.7%	-0.2%	6.6%	23.2%	-1.9%	-2.3%	6.0%

Source: BNM, MIDFR

Steady deposits growth as at June. Deposits grew at a higher pace of +5.0%yoy to RM1.8t. However, we noted that this was the second month which saw slower CASA growth. This could be due to competition for deposits heating up in preparation of NSFR requirement in January 2019.

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%

Source: BNM, MIDFR

Deposit rate stable despite possible competition. We had observed that base rate and savings deposit rate have remained stable since the OPR hike in January. Saving deposit rate went up by only +1bps mom to 1.04% while 12-month fixed deposit rate fell -11bps mom to 3.21%. Meanwhile, base rate was stable at 3.89%.

No stress in asset quality. We estimated that GIL ratio improved slightly by -1bps mom to 1.59%. 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.

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

Source: BNM, MIDFR

CY18 loans growth expectation remain. As we expected, loans growth continue to improve especially with the possible boost coming from the zero rating of GST in June CY18. As such, loans demand have rebounded strongly and will continue to provide a steady pipeline for loans growth to continue in 2HCY18. Therefore, we do not see a reason to revise our loans growth target of +5.5%yoy for this year.

Maintain POSITIVE stance. We are maintaining our POSITIVE stance on the banking sector. As mentioned, we believe that the zero rating of GST may potentially provide a boost to loans growth. In addition, the stable employment environment will ensure loans demand to continue. With clearer direction from the Government expected later, will provide an impetus for loans disbursement from approved loans in the business segment which may provide loans growth with another driver for this year.


Valuation catching up but there is still value. We believe that the previous sell down in banking stocks which was sentiment driven have subsided. However, while banking valuation are catching up, we believe that there is still value in some of the banking stocks under our coverage. Hence, we are maintaining our calls and target prices for the banking stocks under our coverage. Our top picks for this sector given current environment 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 @ 31/7 (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	9.81	11.40	72.0	74.9	13.6	13.1	55.0	58.0	5.6	5.9	6.8	6.9	1.4	1.4
Public Bank	BUY	24.06	27.30	141.7	149.9	17.0	16.1	61.0	63.0	2.5	2.6	9.7	10.7	2.5	2.3
CIMB	BUY	5.84	7.85	50.0	61.0	11.7	9.6	25.0	22.0	4.3	3.8	5.2	5.6	1.1	1.0
RHB Bank	T. BUY	5.44	6.00	48.6	54.2	11.2	10.0	15.0	15.0	2.8	2.8	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	19.06	18.85	109.9	127.2	17.3	15.0	45.0	47.0	2.4	2.5	11.1	11.7	1.7	1.6
AMMB	NEUTRAL	4.02	3.75	42.8	45.3	9.4	8.9	15.0	15.0	3.7	3.7	5.5	5.7	0.7	0.7
Affin	BUY	2.57	2.90	24.0	30.0	10.7	8.6	2.3	11.0	0.9	4.3	4.3	4.5	0.6	0.6
Alliance	BUY	4.01	4.69	35.7	39.0	11.2	10.3	15.3	17.0	3.7	4.4	3.5	3.7	1.1	1.1
BIMB	BUY	3.97	5.15	37.9	42.2	10.5	9.4	14.0	15.0	3.5	3.8	2.8	3.0	1.4	1.3
Average				62.5	69.3	12.5	11.2	27.5	29.2	3.3	3.7	6.1	6.4	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.