

2 July 2018 | Sector Update

BANKING

Maintain **POSITIVE**

Temporary slowdown in loans demand

INVESTMENT HIGHLIGHTS

- Loans growth continued upward trajectory at +4.9%/yoy
- Loans demand fell off possibility on waiting GST to be zero rated in June CY18
- Deposits growth continues to be stable
- Margins expected to be steady
- Cheap valuation following sentiment driven sell down
- We maintain our **POSITIVE** stance in the banking sector

Loans growth continued upward trajectory. The banking system's total loans grew +4.9%/yoy to RM1.61t, maintaining its upward trajectory. Mortgages continued to hold up as it expanded +8.8%/yoy to RM536.4b. Meanwhile, business segment loans supported the overall loans growth growing +2.9%/yoy to RM737.1b, from +2.3%/yoy as at April CY18. As background, we estimate business segment loans to constitute purchase of non-passenger vehicle, non-residential property, working capital, purchase of shares, for construction and fixed asset purchase. Comparatively, retail loans (mortgages, hire purchase, credit cards, personal loans and consumer durable purchase) grew +6.4%/yoy to RM803.5b, a -0.3ppt mom decline from last month level.

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%
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%

Source: BNM, MIDFR

Loans demand slowed temporarily. Loans applied in May CY18 fell the most for this year at -9.2%yoy to RM68.6b. This had led to a moderation in the loans demand year-to-date growth. However, the +5.2%yoy expansion was still higher than the 5-month loans demand growth in CY17 (+4.2%yoy). We opine that the decline in loans demand in May was due to impact of GE14 and retail borrowers awaiting the zero rated GST in June CY18. As such, we expect that loans demand will pick up in June.

Loans demand supported by business segment. We note that the business segment had lent support to the loans demand growth. The 5-month growth rate for purchase of non-residential properties, fixed assets and working capital for this year was +12.0%yoy, +15.7%yoy and +11.8%yoy to RM39.7b, RM4.9b and RM78.0b respectively. Comparatively, it was +9.3%yoy, -18.1%yoy and -16.4%yoy in CY17 respectively.

Year-to-date loans approval rate maintained. Meanwhile, loans approved in May continued to expand, albeit at slower rate of +0.6%yoy. In combination with the loans demand contraction, approval rate came in the highest for this year at 45.8%. Nevertheless, the approval rate was maintained at the 43% level, which we believe that it is still healthy.

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%
5MCY17	337.7	4.2%	145.8	7.3%	43.2%
5MCY18	355.4	5.2%	154.7	6.1%	43.5%

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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
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%
5MCY17	8.1%	16.8%	9.3%	-6.5%	18.0%	-16.4%	4.2%
5MCY18	-3.0%	-3.7%	12.0%	19.6%	-8.9%	11.8%	5.2%

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 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%
5MCY17	8.8%	19.2%	-9.2%	0.3%	15.6%	-1.7%	7.3%
5MCY18	0.5%	0.1%	15.3%	25.2%	-2.8%	-5.6%	6.1%

Source: BNM, MIDFR

Deposits steady growth. Deposits grew at a steady pace of +4.8%yoy to RM1.8t. However, we noted that CASA growth slowed slightly. Nevertheless, for overall deposits and CASA, we believe that the expansion still appear to be at a healthy level.

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%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
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%

Source: BNM, MIDFR

Lending and deposits rate stable. Ever since the OPR hike in January, we had observed that base rate and savings deposit rate have remained stable. There was an upward adjustment in base rate of +13bps mom in February following the OPR hike. However, this was followed by an increase of +4bps mom in savings deposit rate. This could mean that margins can be expected to be stable this year.

Slight uptick in GIL ratio. We believe that asset quality remains stable. However, we observed that GIL ratio came in slightly higher by +2bps mom to 1.60%. This had been the fifth month of increasing trend. However, comparing to the same period last year, it was still better. In our view, this could mean that there is minimal possibility of undue stress to the banking system assets.

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

Source: BNM, MIDFR

No change to CY18 loans growth expectations. As we mentioned in our previous reports, we believe that loans growth will come in better in CY18 from CY17 given current pace of loans applied and approved seems to be providing a steady loans pipeline. At current juncture, we observed that there is a prevalent cautiousness following the surprised GE14 result. However, we believe that this will normalise once the new Government has settled in and clearer picture on policies can be seen. Hence, we are maintaining our +5.5%yoy loans growth expectations for this year.

Maintain POSITIVE. We continue to be POSITIVE on the banking sector. We believe that the stable employment environment will drive loans growth. The sector will be tied with how the policies of the new Government translate to economic growth. We believe the new Government's proposals to promote affordable housing will be positive for the sector as it means that demand for mortgages will continue.


Cheap valuation following sentiment driven sell down. We believe that the sell down in banking stocks in recent weeks have been more sentiment driven than anything else. We opine that this sell down is unwarranted given that the fundamentals banks remain unchanged. As such, we believe that banking stocks can be seen relatively cheap currently. We observed that the banks under our coverage are trading at a discount from its 5 year historical average. With better clarity on the economic direction later, we expect that the banking stocks may stage a rebound. That is why 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 @ 29/6 (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	9.00	11.40	72.0	74.9	12.5	12.0	55.0	59.0	6.1	6.6	6.8	7.1	1.3	1.3
Public Bank	BUY	23.36	27.30	141.7	149.9	16.5	15.6	61.0	63.0	2.6	2.7	9.7	10.7	2.4	2.2
CIMB	BUY	5.45	7.85	50.0	61.0	10.9	8.9	25.0	35.0	4.6	6.4	5.2	5.5	1.0	1.0
RHB Bank	T. BUY	5.46	6.00	48.6	54.2	11.2	10.1	15.0	15.0	2.7	2.7	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	18.20	18.85	109.9	127.2	16.6	14.3	45.0	47.0	2.5	2.6	11.1	11.7	1.6	1.6
AMMB	NEUTRAL	3.75	3.75	42.8	45.3	8.8	8.3	15.0	15.0	4.0	4.0	5.5	5.7	0.7	0.7
Affin	BUY	2.56	2.90	24.0	29.5	10.7	8.7	2.3	11.0	0.9	4.3	4.3	4.5	0.6	0.6
Alliance	BUY	4.04	4.69	35.7	39.0	11.3	10.4	15.3	17.0	3.7	4.4	3.5	3.7	1.1	1.1
BIMB	BUY	3.85	5.15	37.9	42.2	10.2	9.1	14.0	15.5	3.6	4.0	2.8	3.0	1.4	1.3
Average				62.5	69.2	12.1	10.8	27.5	30.8	3.4	4.2	6.1	6.4	1.2	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.