

1 August 2017 | Sector Update

BANKING

Maintain **POSITIVE**

Turnaround in auto loans

INVESTMENT HIGHLIGHTS

- Loans maintained its positive momentum in June.
- There was a turnaround in auto loans after 11 consecutive months of decline at +1.3%yoy (vs. -0.3%yoy previous month).
- Slowdown in loans demand but this was due to the festivities.
- CASA led in deposit growth, suggesting ample liquidity.
- Slight NIM compression but stable asset quality.
- No change to expectations on loans growth.
- With expectations intact, we maintain our **POSITIVE** stance in the banking sector.

On track to meet our expectations. The loans growth for the banking system grew at a faster pace June CY17 at +5.7%yoy to RM1,548b. There was an acceleration of loans for the purchase of residential properties and working capital. Both of these segments grew +8.9%yoy to RM498.0b and +7.1%yoy to RM371.8b respectively. We note that this was the 8th consecutive month in which the loans growth had registered above the +5.0% level (refer to Figure 1), while the average loans growth was +5.7%yoy for 1HCY17.

Turnaround in auto loans. As we had anticipated, auto loans will make a turnaround after seeing better TIV number this year. Loans for purchase of transport vehicles grew +1.4%yoy to RM170.5b as at June CY17. Comparatively, it had been on a downtrend for 11 consecutive month, with the last being a decline of -0.2%yoy in May CY17. Of this, auto loans or loans for purchase of passenger car, grew +1.3%yoy to RM161.3b.

Maintaining conservative loans growth expectations. We do not see a reason for us to change our loans growth expectation at current juncture. This is especially so as we saw a turnaround in auto loans and acceleration in mortgage and working capital loans. We maintain our mid-to-high single digit loans growth expectation for CY17.

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-16	1,447.3	7.7%	2.6%	11.8%	6.1%	10.5%
Feb-16	1,449.9	7.4%	1.8%	11.4%	6.1%	9.8%
Mar-16	1,449.5	6.4%	1.1%	11.0%	7.1%	8.3%
Apr-16	1,447.8	6.3%	1.0%	10.8%	6.6%	8.2%
May-16	1,458.5	6.2%	0.7%	10.6%	5.9%	7.5%
Jun-16	1,465.2	5.6%	0.4%	10.3%	5.7%	5.7%
Jul-16	1,467.3	5.1%	-0.2%	10.1%	5.3%	4.9%

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Aug-16	1,472.1	4.2%	-0.3%	10.1%	4.5%	1.5%
Sep-16	1,483.8	4.2%	-0.4%	9.9%	4.6%	2.1%
Oct-16	1,493.4	4.5%	-0.6%	9.5%	4.7%	2.3%
Nov-16	1,507.6	5.3%	-0.8%	9.5%	4.3%	4.4%
Dec-16	1,521.5	5.3%	-1.0%	9.2%	4.6%	5.6%
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%

Source: BNM, MIDFR

Sharp drop in loans demand due to festivities. Loans applied for June CY17 dropped -15.3%yoy to RM64.6b due to slowdown in demand for auto loans. This led to 1HYCY17 loans applied to come in almost flat at +0.5%yoy to RM402.3b. Auto loans applied in June CY17 fell -22.3%yoy to RM6.07b. However, we are not concerned by this drop as it was due to Ramadhan and Hari Raya towards the end of the month. This typically means it was a short month for auto retailers.

But loans approved maintained growth pace. Meanwhile, loans approval grew faster at +9.7%yoy to RM33.3b in June. This means that 1HCY17 growth remained better than 1HCY16 (+7.8%yoy vs. -15.5%yoy respectively). Main contributor was higher approvals rate in working capital and mortgage loans.

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-16	65.0	9.3%	26.7	-14.0%	41.0%
Feb-16	50.5	6.0%	22.3	-16.8%	44.0%
Mar-16	72.1	1.1%	27.8	-23.4%	38.5%
Apr-16	64.3	-6.0%	27.1	-17.2%	42.1%
May-16	72.0	8.5%	32.0	2.2%	44.4%
Jun-16	76.2	3.9%	30.4	-21.1%	39.8%
Jul-16	61.2	-18.0%	26.5	-19.4%	43.3%
Aug-16	74.5	-1.2%	31.5	0.4%	42.3%
Sep-16	68.2	-8.7%	29.6	-8.2%	43.3%
Oct-16	69.0	-14.5%	33.8	-4.0%	49.0%
Nov-16	71.3	-0.3%	29.9	-4.6%	42.0%
Dec-16	58.3	-8.0%	29.3	-12.8%	50.2%
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%
6M CY16	400.3	3.5%	166.2	-15.5%	41.5%
6M CY17	402.3	0.5%	179.1	7.8%	44.5%

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-16	-13.7%	-6.5%	-22.1%	38.5%	61.7%	65.1%	9.3%
Feb-16	-16.7%	1.9%	-16.6%	36.6%	38.6%	48.6%	6.0%
Mar-16	-16.5%	5.6%	-15.7%	29.5%	71.5%	5.9%	1.1%
Apr-16	-3.4%	-3.1%	-36.8%	14.6%	49.9%	-2.2%	-6.0%
May-16	0.5%	5.7%	-7.9%	-17.1%	53.1%	9.2%	8.5%
Jun-16	-0.8%	-7.1%	-16.1%	-23.6%	31.1%	-11.2%	3.9%
Jul-16	-23.8%	-11.8%	-11.1%	-26.0%	20.7%	-22.3%	-18.0%
Aug-16	6.3%	12.7%	8.8%	-6.3%	41.1%	-30.5%	-1.2%
Sep-16	-8.9%	2.2%	-17.4%	-18.7%	17.6%	1.7%	-8.7%
Oct-16	-11.8%	-0.1%	0.1%	-19.3%	10.8%	-19.8%	-14.5%
Nov-16	-3.4%	11.5%	16.1%	-15.8%	30.9%	-16.6%	-0.3%
Dec-16	-1.1%	-2.7%	-11.4%	-29.0%	13.0%	-16.2%	-8.0%
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%
6MCY16	-8.6%	-0.8%	-20.0%	9.1%	49.9%	12.2%	3.5%
6MCY17	2.0%	14.9%	6.5%	-4.6%	13.1%	-18.1%	0.5%

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-16	-11.9%	-34.0%	-44.3%	-5.9%	26.4%	-16.1%	-14.0%
Feb-16	-29.5%	-21.6%	-27.0%	6.5%	14.7%	19.4%	-16.8%
Mar-16	-32.9%	-13.8%	-26.1%	5.8%	21.0%	-7.4%	-23.4%
Apr-16	-21.8%	-25.7%	-41.6%	-10.0%	5.3%	11.7%	-17.2%
May-16	-14.0%	-11.2%	-20.1%	0.0%	9.8%	11.8%	2.2%
Jun-16	-8.1%	-21.6%	-4.0%	-6.0%	-10.7%	-39.3%	-21.1%
Jul-16	-25.1%	-21.5%	11.7%	-20.0%	-5.4%	-24.6%	-19.4%
Aug-16	1.3%	-3.0%	-11.9%	6.0%	19.7%	-7.7%	0.4%
Sep-16	-9.9%	-6.3%	-18.9%	-5.6%	3.5%	-25.0%	-8.2%
Oct-16	-18.5%	-9.6%	-5.8%	-9.9%	2.8%	4.0%	-4.0%
Nov-16	-11.8%	0.2%	35.6%	-17.2%	29.2%	-10.5%	-4.6%
Dec-16	-11.8%	-13.5%	26.6%	-29.9%	7.8%	-4.7%	-12.8%
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%
6MCY16	-20.0%	-21.4%	-28.3%	-2.1%	9.3%	-7.2%	-15.5%
6MCY17	4.1%	17.1%	-8.5%	-0.4%	13.4%	3.6%	7.8%

Source: BNM, MIDFR

CASA ratio improved. Total deposits grew +3.5%yoy to RM1.71t as at June CY17. This was led by CASA deposit growth (+7.9%yoy to RM467.1b) and tawarruq fixed deposit (+18.3%yoy to RM272.6b). Conversely, fixed deposits fell -1.9%yoy to RM561.5b.

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-16	1,636.2	0.1%	429.6	2.1%	26.3%
Feb-16	1,652.7	0.7%	436.7	2.5%	26.4%
Mar-16	1,652.5	-1.0%	423.7	-2.7%	25.6%
Apr-16	1,643.5	-1.2%	417.6	-2.3%	25.4%
May-16	1,655.3	-0.4%	424.2	0.4%	25.6%
Jun-16	1,655.3	-0.8%	433.1	-0.4%	26.2%
Jul-16	1,638.0	1.0%	423.1	1.2%	25.8%
Aug-16	1,640.3	1.0%	425.6	0.6%	25.9%
Sep-16	1,660.5	1.3%	429.1	-0.3%	25.8%
Oct-16	1,670.0	2.6%	432.7	2.8%	25.9%
Nov-16	1,668.1	2.2%	438.9	4.5%	26.3%
Dec-16	1,679.8	2.0%	448.9	5.0%	26.7%
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%

Source: BNM, MIDFR

Some pressure on margins. Average lending rate in June CY17 fell -14bps mom at 4.47%. Meanwhile, savings deposit rate was stable at 0.96% and fixed deposits were generally stable with at most +2bps mom higher for 12 month deposit. We believe that this could be due to competition for loans. However, we do not believe that the competition will be as significant as to affect profitability. We expect only minimal NIM pressure for the rest of the year.

Slight improvement in asset quality. We note that asset quality improved slightly with GIL ratio for the banking system improved -3bps mom to 1.64%. As we previously mentioned, we do not foresee any sudden deterioration in asset quality for CY17.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)	Net Impaired Loans Ratio (%)
Jan-16	1.61	1.21
Feb-16	1.64	1.25
Mar-16	1.60	1.21
Apr-16	1.60	1.21
May-16	1.65	1.25
Jun-16	1.66	1.26
Jul-16	1.68	1.29
Aug-16	1.66	1.27
Sep-16	1.65	1.26
Oct-16	1.65	1.25
Nov-16	1.63	1.23
Dec-16	1.61	1.24

Jan-17	1.61	1.22
Feb-17	1.63	1.24
Mar-17	1.63	1.24
Apr-17	1.66	1.25
May-17	1.67	1.21
Jun-17	1.64	1.20

Source: BNM, MIDFR

Maintain POSITIVE. We believe that the latest data strengthen our conviction of a recovery in loans growth and overall banking sector in CY17. This is especially as there was a turnaround in auto loans. While loans demand fell in June, we understand that this was due to the impact of the festivities. Taking everything into consideration, we do not see a reason to change our view of a better performance in CY17, driven by higher loans growth and stable margins. We continue to be **POSITIVE** on the sector.


Maintain BUY calls for Maybank, Public Bank, and Affin. We continue to like Maybank (BUY, TP:10.30) as (1) we expect it to continue its earnings recovery coupled with solid asset growth, and (2) due to its regional exposure. While our BUY call for Affin (TP: RM3.30) is premised on its turnaround program showing results. Our other BUY call is Public Bank (BUY, TP: RM23.30) due to its good asset quality and sustained profitability. 

FIGURE 8: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 31/5 (RM)	TP (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Div Yield (%)		BV (RM)		PBV (x)	
				16	17	16	17	16	17	16	17	16	17	16	17
Maybank	BUY	9.54	10.30	67.8	69.8	14.1	13.7	55.0	55.0	5.8	5.8	6.8	7.1	1.4	1.3
Public Bank	BUY	20.28	23.30	134.8	137.9	15.0	14.7	58.0	60.0	2.9	3.0	8.9	9.3	2.3	2.2
CIMB	NEUTRAL	6.55	7.10	41.0	45.5	16.0	14.4	20.0	18.0	3.1	2.7	5.1	5.3	1.3	1.2
RHB Bank	NEUTRAL	5.00	5.65	43.6	48.4	11.5	10.3	12.0	13.0	2.4	2.6	5.4	5.6	0.9	0.9
Hong Leong	BUY*	15.70	15.70	99.1	112.2	15.8	14.0	41.0	41.0	2.6	2.6	10.3	10.9	1.5	1.4
AMMB	NEUTRAL*	4.95	5.55	44.0	46.9	11.3	10.6	17.6	17.0	3.6	3.4	5.3	5.6	0.9	0.9
Affin	BUY	2.57	3.30	29.0	30.0	8.9	8.6	3.0	12.0	1.2	4.7	4.5	4.7	0.6	0.5
AFG	NEUTRAL*	3.93	4.60	33.5	33.8	11.7	11.6	16.0	19.0	3.7	4.4	3.1	3.3	1.3	1.2
BIMB	NEUTRAL	4.36	4.90	35.2	38.9	12.4	11.2	13.0	14.4	3.0	3.3	2.4	2.7	1.8	1.6
Average				35.2	38.9	12.4	11.2	13.0	14.4	3.0	3.3	2.4	2.7	1.8	1.6

* = under review

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.