

5 September 2017 | Sector Update

## BANKING

**Maintain POSITIVE**

### *Pent-up loan demand and approvals in July*

#### INVESTMENT HIGHLIGHTS

- **Loans growth momentum continued in July.**
- **There were pent-up demand for loans, while approvals were trying to keep pace.**
- **CASA growth continued to be robust, suggesting better funding cost and stable margins.**
- **Asset quality a slight concern.**
- **No change to expectations on loans growth.**
- **With expectations intact, we maintain our POSITIVE stance in the banking sector.**

**Loans growth were holding up in July...** The loans growth for the banking system grew at a steady pace at +5.6%yoy to RM1,549b as at July CY17. This was the 9th consecutive month in which the loans growth had registered above the +5.0% level and brought the average growth this year to +5.7%. While this was slightly below our expectations, we are not concern given that the loans pipeline appear to be strong, especially in July CY17 (see below).

**...due to major loan segments.** Loans for the purpose of residential property purchase as at July CY17 where steady at +8.9%yoy to RM501.0b, while auto loans growth was lower slightly at +1.0%yoy to RM160.9b.

**Pent-up demand for loans.** We believe that due to the festivities in June CY17, there were pent-up demand for loans which were bared out in July CY17. Loans applied jumped up +22.9%yoy to RM75.2b from the decline in the previous month. We saw stronger demand for auto loans, mortgages and personal loans. Loans application for the first 7 month in CY17 was higher at +3.5%yoy vs. flat growth in July CY16.

**Loans approval was also stronger.** Meanwhile, loans approval grew at an even faster rate than the previous month at +24.7%yoy to RM33.0b in July. As the banks could not keep pace with demand, approval rate fell to 43.9% despite the high growth. However, this could mean that the approval process for loans will be carried over to August CY17. Main contributors were solid growth in approvals in auto loans, mortgages and personal loans which was similar to loans demand.

**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%

	Total loans (RM b)	Growth (yoy)	Growth (yoy) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Jul-16	1,467.3	5.1%	-0.2%	10.1%	5.3%	4.9%
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%
Jul-17	1,549.4	5.6%	1.0%	8.9%	3.6%	6.9%

Source: BNM, MIDFR

**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%
Jul-17	75.2	22.9%	33.0	24.7%	43.9%
7M CY16	461.5	0.0%	192.6	-16.0%	41.7%
7M CY17	477.5	3.5%	212.2	10.1%	44.4%

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%
Jul-17	19.7%	28.8%	11.5%	33.3%	17.4%	2.5%	22.9%
7MCY16	-10.8%	-2.5%	-18.8%	3.2%	44.7%	5.8%	0.0%
7MCY17	4.2%	16.9%	7.3%	0.0%	13.7%	-15.3%	3.5%

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%
Jul-17	10.5%	26.9%	-29.4%	32.8%	28.2%	2.8%	24.8%
7MCY16	-20.7%	-21.4%	-23.4%	-4.7%	7.0%	-10.2%	-16.0%
7MCY17	4.9%	18.5%	-12.3%	3.6%	15.5%	3.5%	10.1%

Source: BNM, MIDFR

**CASA growth strengthen.** Total deposits grew +4.3%yoy to RM1.71t as at July CY17. We note that CASA growth have been healthy this year, averaging +8.9%yoy since March CY17. In our opinion, this could be the main reason for robust net interest income expansion for the banks. Also, we believe that this will provide buffer for any NIM compression.

**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%
Jul-17	1,708.5	4.3%	464.3	9.7%	27.2%

Source: BNM, MIDFR

**Need to monitor asset quality.** There were slight deterioration in asset quality where GIL ratio rost +4bps mom. However, we believe that this was due mostly to corporate accounts and not household, based on our observation of the 2QCY17 earnings result of the banks under our coverage.

**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
Jul-17	1.68	1.23

Source: BNM, MIDFR

**Maintaining loans growth expectations.** With what appear to be a healthy loans pipeline, and the possible pent-up in demand and approvals spilling into coming months, we believe there is a case to maintain our conservative expectations. We maintain our mid-to-high single digit loans growth expectation for CY17.

**Maintain POSITIVE.** Besides maintaining our expectations of loans growth, we are also maintaining our overall view of the banking sector's performance in CY17. We believe that with CY17 improved economic conditions, the banking sector is one of the beneficiary. We opine that the recently concluded 2QCY17 results confirms this. As such, we maintain our **POSITIVE** stance on the sector.

**Maintain BUY calls for Maybank, Public Bank, Affin and Alliance.** We continue to like Maybank (BUY, TP:10.30) as we expect it to continue its earnings recovery coupled with solid asset growth. We are also favourable 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 calls is Public Bank (BUY, TP: RM23.30) due to its good asset quality and sustained profitability. We also recently upgraded our call on Alliance to BUY (TP: RM4.60) as we believe there is an investment case to be made similar to Affin.



**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)	
				17	18	17	18	17	18	17	18	17	18	17	18
Maybank	BUY	9.46	10.30	69.8	70.3	13.6	13.5	55.0	55.0	5.8	5.8	6.8	7.1	1.4	1.3
Public Bank	BUY	20.60	23.30	137.9	141.1	14.9	14.6	58.0	60.0	2.8	2.9	9.3	9.7	2.2	2.1
CIMB	NEUTRAL	7.08	7.10	45.0	47.0	15.7	15.1	20.0	18.0	2.8	2.5	5.2	5.4	1.4	1.3
RHB Bank	NEUTRAL	5.05	5.20	48.3	48.1	10.5	10.5	12.0	13.0	2.4	2.6	5.6	5.8	0.9	0.9
Hong Leong	BUY	15.44	15.70	116.9	117.9	13.2	13.1	41.0	41.0	2.7	2.7	11.2	11.3	1.4	1.4
AMMB	NEUTRAL	4.28	4.50	46.9	49.3	9.1	8.7	17.6	17.0	4.1	4.0	5.6	5.8	0.8	0.7
Affin	BUY	2.55	3.30	29.0	30.0	8.8	8.5	12.0	13.0	4.7	5.1	4.5	4.7	0.6	0.5
AFG	BUY	3.84	4.60	33.8	37.4	11.4	10.3	16.0	19.0	3.7	4.4	3.5	3.8	1.1	1.0
BIMB	NEUTRAL	4.40	4.90	38.9	41.4	11.3	10.6	13.0	14.4	3.0	3.3	2.7	3.0	1.6	1.5
<b>Average</b>				<b>62.9</b>	<b>64.7</b>	<b>12.1</b>	<b>11.6</b>	<b>26.2</b>	<b>27.7</b>	<b>3.2</b>	<b>3.6</b>	<b>6.0</b>	<b>6.3</b>	<b>1.3</b>	<b>1.2</b>

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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.