

BANKING

Maintain POSITIVE

Loans growth will end the year strong

INVESTMENT HIGHLIGHTS

- Loans growth in the month continued to be strong with business loans the main driver
- Retail loans moderated slightly
- CASA growth rebounded to lead deposits growth
- Asset quality improved
- We maintain our POSITIVE stance in the banking sector

Another month of strong loans growth. The banking system registered its eighth consecutive month of loans growth acceleration. Total loans of the banking system as at November CY18 was +6.2%yoy higher. This could be attributable to the consistent loans demand and approvals in the previous months. We expect that the banking system loans growth will end in a strong note, beating our +5.5%yoy projection for this year.

FIGURE 1: BANKING SYSTEM TOTAL LOANS AND LOANS GROWTH

	Total loans (RM b)	Growth (yoy)	Growth (year-on-year) 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%
Jun-18	1,626.4	5.0%	-1.1%	8.3%	6.7%	2.3%
Jul-18	1,631.0	5.3%	-0.3%	8.3%	7.7%	2.9%
Aug-18	1,641.2	5.4%	0.3%	8.2%	7.8%	2.9%
Sep-18	1,650.6	5.7%	0.4%	8.0%	8.0%	4.6%
Oct-18	1,656.2	6.0%	0.4%	7.9%	8.2%	5.5%
Nov-18	1,663.7	6.2%	0.1%	7.7%	7.8%	6.2%

Source: BNM, MIDFR

Business loans growth accelerated again. Top 3 loan segment contributor (mortgage, auto loans and working capital loans) combined expanded +6.0%yoy to RM1,106b as at November CY18. Comparatively, it was +5.9%yoy to RM1,101b and +5.6%yoy to RM1,096b posted as at October and September CY18 respectively. We believe that the accelerated loans growth was driven by working capital loans. Loans from this segment grew +6.2%yoy to RM390.1b. Putting into context, this segment's loans grew +5.5%yoy to RM388.7b as at October and +4.6%yoy to RM386.8b as at September. We believe that this follows from some clarity in the Government's policy direction following the tabling of mid-term review of the 11th Malaysia Plan and Budget 2019. Meanwhile, total business in the month loans grew +5.3%yoy to RMRM758.9b vs. +4.7%yoy to RM756.2b posted as at October CY18.

Slight moderation in retail loans. Retail loans expanded +5.9%yoy to RM828.4b as at November CY18 vs. +6.1%yoy to RM824.8b as at October CY18. Loans for the purchase of residential loans tapered slightly again to +7.7%yoy at RM555.5b from the +7.9%yoy at RM552.3b registered as at October. Loans growth in the personal loans and credit card segment also moderated to +7.8%yoy to RM74.4b and +2.4%yoy to RM37.9b respectively. As at October CY18, these were +8.2%yoy and +2.7%yoy respectively. This could be due to some pull back in consumer spending following the reintroduction of SST in September CY18.

Loans demand lower in the month. Loans applied in November CY18 fell sharply by -24.3%yoy. Application for working capital loans fell -35.1%yoy to RM13.1b while for residential mortgage declined -10.8%yoy to RM19.0b. As a result, the first year to date loans applied growth moderated to +2.0%yoy.

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%
Jul-18	76.5	1.7%	33.2	0.6%	43.5%
Aug-18	81.7	5.3%	34.6	-0.1%	42.4%
Sep-18	72.7	6.3%	36.6	25.9%	50.3%
Oct-18	77.6	-0.4%	38.1	15.0%	49.1%
Nov-18	62.5	-24.3%	34.1	-6.7%	54.6%
11MCY17	783.9	5.3%	345.6	8.8%	44.1%
11MCY18	799.6	2.0%	366.6	6.1%	45.8%

Source: BNM, MIDFR

FIGURE 3: SELECTED LOANS APPLIED SEGMENTS GROWTH RATE (year-on-year)

	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%
Jul-18	33.6%	14.5%	12.9%	5.7%	2.8%	-14.1%	1.7%
Aug-18	9.1%	3.0%	19.8%	6.6%	5.0%	-9.8%	5.3%
Sep-18	-20.7%	-2.6%	-0.2%	-2.9%	2.4%	4.2%	6.3%
Oct-18	-15.4%	6.6%	11.1%	8.7%	13.7%	-15.6%	-0.4%
Nov-18	-29.6%	-10.8%	1.0%	-15.5%	-15.8%	-35.1%	-24.3%
11MCY17	-0.3%	16.1%	7.7%	5.1%	7.8%	-9.3%	5.3%
11MCY18	0.6%	-0.5%	11.8%	8.6%	-2.9%	-1.2%	2.0%

Source: BNM, MIDFR

FIGURE 4: SELECTED LOANS APPROVED SEGMENTS GROWTH RATE (year-on-year)

	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%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jun-18	58.7%	-1.6%	-24.7%	14.1%	2.5%	10.1%	5.4%
Jul-18	57.4%	1.8%	45.7%	27.4%	-18.7%	-18.9%	0.6%
Aug-18	33.7%	-0.8%	-12.9%	17.0%	-4.4%	52.6%	-0.1%
Sep-18	5.0%	2.0%	42.3%	14.0%	-9.2%	17.7%	25.9%
Oct-18	1.0%	13.9%	6.9%	28.5%	-13.5%	13.3%	15.0%
Nov-18	-19.8%	-5.2%	20.8%	-1.6%	-32.0%	-12.8%	-6.7%
11MCY17	2.8%	16.0%	-4.7%	4.5%	10.6%	0.9%	8.8%
11MCY18	12.4%	1.0%	11.6%	19.9%	-8.6%	2.2%	6.1%

Source: BNM, MIDFR

CASA growth lead total deposits growth. Total deposits expansion also accelerated in line with faster paced loans growth. Total deposits grew +7.1%yoy as at November CY18. This was higher from +6.6%yoy as at October CY18 and +6.1%yoy as at September CY18. We were pleased that CASA growth rebounded higher to +3.2%yoy from +2.5%yoy the previous month. Meanwhile, total fixed deposits (including tawarruq fixed deposits) grew +7.9%yoy to RM933.7b as at November CY18 vs. +8.1%yoy to RM929.7b as at October CY18. We believe that this will ease the banks' net interest margins compression that we had observed during the 3QCY18 results.

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%
Jul-18	1,807.8	5.8%	481.8	3.8%	26.7%
Aug-18	1,817.2	5.5%	481.7	3.4%	26.5%
Sep-18	1,842.0	6.1%	482.9	3.4%	26.2%
Oct-18	1,859.0	6.6%	485.6	2.5%	26.1%
Nov-18	1,873.1	7.1%	488.6	3.2%	26.1%

Source: BNM, MIDFR

Lending rate stable. We noted that there were no changes in base rate at 3.9%. Average lending rate was also stable at 4.98%.

Asset quality improved again. We estimated that GIL ratio as at November CY18 was 1.49% which was - 3bps better than the previous month. With this we opine that that the banking system remains solid and stable.

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
Jul-18	1.58
Aug-18	1.58
Sep-18	1.53
Oct-18	1.52
Nov-18	1.49

Source: BNM, MIDFR


Maintain POSITIVE stance. With the strong loans growth continuing in November CY18, we believe that it will end higher than our CY18 estimate. As for CY19, we expect a moderation in loans growth to +4.7%yoy due to the high base effect. Overall, we are cautiously optimistic of the banking sector continuing its solid performance in CY19. We believe that the banking sector will be able to maintain its earnings potential given continued loans growth and stable asset quality. This also means that there will be accretion in value for banks' book value. Hence, we maintain our POSITIVE view on the sector given the current volatile market conditions, our top picks for this sector are Maybank (BUY, TP: RM11.40), CIMB (BUY, TP: RM7.70) and Public Bank (BUY, TP: RM27.30). 

FIGURE 7: PEER COMPARISON FOR MALAYSIAN BANKING STOCKS

	Rec.	Price @ 31/12 (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	9.50	11.40	72.0	74.1	13.2	12.8	55.0	58.0	5.8	6.1	6.8	6.9	1.4	1.4
Public Bank	BUY	24.76	27.30	141.7	149.9	17.5	16.5	61.0	63.0	2.5	2.5	9.7	10.7	2.6	2.3
CIMB	BUY	5.71	7.70	50.0	50.0	11.4	11.4	25.0	26.0	4.4	4.6	5.2	5.5	1.1	1.0
RHB Bank	T. BUY	5.29	6.00	48.6	55.7	10.9	9.5	15.0	15.0	2.8	2.8	5.8	6.0	0.9	0.9
Hong Leong	NEUTRAL	20.40	20.30	128.2	135.8	15.9	15.0	45.0	48.0	2.2	2.4	11.7	12.6	1.7	1.6
AMMB	NEUTRAL	4.34	4.10	42.8	45.3	10.1	9.6	15.0	15.0	3.5	3.5	5.5	5.7	0.8	0.8
Affin	BUY	2.23	2.70	24.0	30.0	9.3	7.4	2.3	11.0	1.0	4.9	4.3	4.5	0.5	0.5
Alliance	BUY	4.02	4.75	35.7	39.0	11.3	10.3	15.3	17.0	3.7	4.4	3.5	3.7	1.1	1.1
BIMB	BUY	3.56	4.85	37.9	42.2	9.4	8.4	14.0	15.0	3.9	4.2	2.8	3.0	1.3	1.2
Average				64.5	69.1	12.1	11.2	27.5	29.8	3.3	3.9	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.