

26 February 2021

# Malaysia Building Society

## FY20 Above Expectations

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**FY20 net profit of RM269.3m (-63% YoY) is above our expectation but below consensus due to misses in costs and impairment expectations. The group seeks to expand its reach and digital capabilities while staying relevant with new offerings in the pipeline. The eventual restructuring to uplift the banking segment of the group could be a rerating catalyst. Maintain OP with a slightly higher TP of RM0.820 (from RM0.800) as we roll over our valuation base to FY22E.**

**FY20 above our, but below consensus, forecasts.** FY20 net profit of RM269.3m came above our expectation but below consensus, making up 210% and 82% of respective estimates. The positive deviation on our part was due to our overly bearish cost assumptions and impairments during the year while the negative deviation from consensus could be due to the opposite. No dividends were declared, as expected.

**YoY**, FY20 net income from Islamic banking operations rose by 22%, thanks to much lower income attributable to depositors. Coupled with a 131% increase in net other income items (namely financial investment gains), total income soared by 27%. Despite operating expenses increasing by 9% on higher staff cost, CIR was recorded lower at 24.4% (vs FY19: 28.4%) backed by the higher topline. Having undergone the loan moratorium, the group registered modification losses of RM504.8m and saw greater impairments of RM420.9m (+270%) as the group provides for potential delinquencies on at-risk accounts. FY20 earnings closed at RM269.3m (-63%).

**QoQ**, pre-provisioning operating income was slightly offset against 3QFY20 by losses from disposals and miscellaneous sundry expenses. Meanwhile, impairments of RM111.0m (+100%) were front-loaded during the 4QFY20 period to capture more forward-looking provisions from macroeconomic overlays as management remains cautious going into FY21. All in, 4QFY20 earnings registered at RM96.8m (-63%).

**Key briefing highlights.** A big part of MBSB's forward plans include greater technological involvement with regards to digitalising its outreach with its new MFast Personal Financing platform showing some promise. Additionally, to put to better use of its internal funds, the group aims to expand fee-based income revenue streams (i.e. wealth management) to reduce its exposure to financing-based income. Looking further towards 2022, the restructuring of the group's banking entity will take the lead on its listing status which could reposition the group as a full-fledged Islamic banking institution.

**Post-results**, we raise our FY21E assumptions by 9.6% on the back of better net interest income gains while slightly toning down our impairment assumptions. Meanwhile, we also introduce our FY22E estimates.

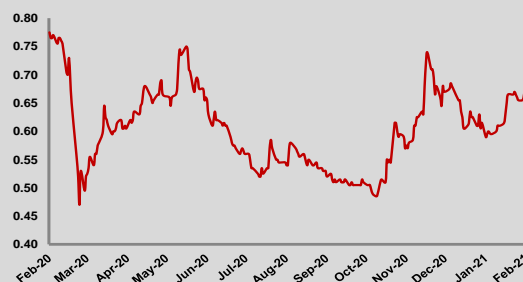
**Maintain OUTPERFORM with a higher TP of RM0.820 (from RM0.800).** Our TP is based on a rolled over FY22E GGM-derived PBV of 0.56x (1SD below 5-year mean). The group offers investors a window to non-conventional financing business with undemanding valuations to boot. Its restructuring in the medium-term could also be a rerating catalyst to elevate the stock to a level closer to its peer (FY21E PBV 1.1x).

**Risks to our call include:** (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

## OUTPERFORM ↔

Price : RM0.680  
Target Price : RM0.820 ↑

### Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	0.7%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	MBS MK Equity
Market Cap (RM m)	4,743.3
Shares Outstanding	6,975.4
52-week range (H)	0.77
52-week range (L)	0.47
3-mth avg daily vol	21,659,540
Free Float	30%
Beta	1.1

### Major Shareholders

Employees Provident Fund	65.4%
Malayan Banking Bhd	3.6%
CIMB Group Holdings Bhd	2.6%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	1,553	1,499	1,534
Non-interest income	238	214	193
<b>Total income</b>	<b>1,791</b>	<b>1,714</b>	<b>1,727</b>
Operating expenses	-438	-459	-481
<b>Loan impairment</b>	<b>-421</b>	<b>-297</b>	<b>-150</b>
Pre-tax profit	428	958	1,096
<b>PATAMI</b>	<b>269</b>	<b>737</b>	<b>844</b>
<b>Core PATAMI</b>	<b>269</b>	<b>737</b>	<b>844</b>
Consensus NP	330	651	800
Earnings revision	-	9.6%	-
Core EPS (RM)	0.04	0.11	0.12
EPS growth	-62%	174%	14%
NDPS (RM)	0.00	0.03	0.04
BV/share (RM)	1.30	1.38	1.47
NTA/share (RM)	1.26	1.34	1.42
ROE (%)	3.1	8.1	8.7
PER (x)	17.2	6.3	5.5
P/BV (x)	1.9	2.0	2.2
Net Div. Yield (%)	0.0	4.4	5.1

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Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Net Islamic income	394	372	5.8%	318	24.0%	1,412	1,157	22.0%
Net interest income	29	28	3.4%	35	-18.3%	141	152	-7.1%
Non-interest income	25	51	-50.9%	16	61.3%	238	103	130.5%
<b>Total income</b>	<b>448</b>	<b>451</b>	<b>-0.8%</b>	<b>368</b>	<b>21.6%</b>	<b>1,791</b>	<b>1,413</b>	<b>26.8%</b>
Operating expenses	-111	-113	-1.4%	-122	-9.0%	-438	-401	9.2%
<b>Pre-impairment profit</b>	<b>337</b>	<b>339</b>	<b>-0.5%</b>	<b>246</b>	<b>36.7%</b>	<b>1,353</b>	<b>1,012</b>	<b>33.7%</b>
(Allowances)/ write-backs	-116	-58	100.8%	173	-167.1%	-405	-144	181.4%
(Allowances)/ write-backs on other assets	6	6	0.0%	39	-85.1%	32	30	8.4%
<b>Operating profit</b>	<b>226</b>	<b>286</b>	<b>-21.0%</b>	<b>458</b>	<b>-50.6%</b>	<b>980</b>	<b>897</b>	<b>9.2%</b>
Non-operating gains / (losses)	-1	0	N.M	0	N.M.	-1	0	N.M
<b>Profit before tax</b>	<b>225</b>	<b>286</b>	<b>-21.3%</b>	<b>458</b>	<b>-50.8%</b>	<b>979</b>	<b>897</b>	<b>9.1%</b>
Taxation	-108	-36	203.5%	-101	7.5%	-157	-180	-12.6%
Minority interest	0	0	N.M	0	N.M.	0	0	N.M
<b>Net PATAMI</b>	<b>97</b>	<b>258</b>	<b>-62.5%</b>	<b>357</b>	<b>-72.9%</b>	<b>269</b>	<b>717</b>	<b>-62.5%</b>
<b>Core PATAMI</b>	<b>97</b>	<b>258</b>	<b>-62.5%</b>	<b>357</b>	<b>-72.9%</b>	<b>269</b>	<b>717</b>	<b>-62.5%</b>
Gross loans	35,728	36,386	-1.8%	35,864	-0.4%	35,728	35,864	-0.4%
Gross impaired loans	1,895	2,134	-11.2%	1,862	1.8%	1,895	1,862	1.8%
Customer deposits	24,353	26,072	-6.6%	25,272	-3.6%	24,353	25,272	-3.6%
Current and savings account (CASA)	571	565	1.1%	534	7.1%	571	534	7.1%
Total assets	48,438	49,925	-3.0%	50,710	-4.5%	48,438	50,710	-4.5%
Shareholders' equity	8,881	8,855	0.3%	8,587	3.4%	8,881	8,587	3.4%
Est. annualised NIM	3.65%	3.36%		2.94%		3.29%	2.89%	
Cost-to-income ratio	24.8%	24.6%		33.1%		24.4%	28.4%	
Annualised credit cost (bps)	130.0	63.6		-193.0		113.2	40.5	
Effective tax rate	48.1%	12.5%		22.0%		16.1%	20.1%	
Annualised ROA	0.8%	2.1%		2.8%		0.5%	1.5%	
Annualised ROE	4.4%	11.7%		16.6%		3.1%	8.8%	
Gross impaired loans ratio	5.3%	5.9%		5.2%		5.3%	5.2%	
Loan loss coverage ratio (LLC)	103.7%	101.8%		102.6%		103.7%	102.6%	
LLC plus regulatory reserves	116.1%	116.4%		111.3%		116.1%	111.3%	
Loan-to-deposit ratio	138.6%	131.2%		134.4%		138.6%	134.4%	
CASA-to-deposit ratio	2.3%	2.2%		2.1%		2.3%	2.1%	
GET-1 capital (Group level)	20.8%	19.5%		19.2%		20.8%	19.2%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>Stocks Under Coverage</b>																			
AFFIN BANK BHD	1.78	3,702.0	N	12/2020	-4.5%	-0.6%	-28.1%	12.5%	7.2	10.5	9.4	0.4	0.4	3.7%	2.8%	1.50	UP		
ALLIANCE BANK MALAYSIA BHD	2.70	4,179.9	N	03/2021	2.4%	2.9%	-15.1%	36.2%	9.9	11.7	8.6	0.7	0.7	5.9%	2.4%	2.70	OP		
AMMB HOLDINGS BHD	3.23	9,721.0	N	03/2021	0.3%	4.5%	-27.4%	35.3%	7.3	10.0	7.4	0.5	0.5	5.1%	3.5%	3.70	OP		
BIMB HOLDINGS BHD	4.05	7,507.3	Y	12/2020	1.2%	6.2%	-13.3%	11.1%	9.3	11.3	10.5	1.2	1.2	11.2%	5.1%	4.95	OP		
CIMB GROUP HOLDINGS BHD	4.33	42,966.4	N	12/2020	-10.8%	7.0%	-67.9%	127.2%	9.0	28.0	12.7	0.8	0.8	2.7%	1.4%	3.90	MP		
HONG LEONG BANK BHD	17.62	38,195.2	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.5	12.6	11.9	1.3	1.2	10.1%	2.0%	18.50	MP		
MALAYAN BANKING BHD	8.09	92,339.2	N	12/2021	-4.7%	2.8%	8.8%	19.7%	13.4	12.3	10.3	1.1	1.1	8.7%	6.9%	9.10	OP		
MALAYSIA BUILDING SOCIETY BHD	0.680	4,743.3	N	12/2021	66.6%	3.0%	173.9%	14.4%	17.2	6.3	5.5	0.5	0.5	8.1%	4.4%	0.820	OP		
PUBLIC BANK BHD	4.17	80,942.6	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.4	13.9	1.7	1.6	11.6%	3.4%	4.55	OP		
RHB BANK BHD	5.39	21,614.1	N	12/2020	-2.1%	4.3%	-22.1%	9.6%	8.7	11.2	10.2	0.8	0.8	7.4%	3.6%	6.30	OP		
<b>Simple Average</b>					<b>6.5%</b>	<b>4.2%</b>	<b>3.9%</b>	<b>27.5%</b>	<b>11.3</b>	<b>12.8</b>	<b>10.0</b>	<b>0.9</b>	<b>0.9</b>	<b>7.4%</b>	<b>3.6%</b>				

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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