

30 November 2021

Malaysia Building Society

9MFY21 Missed Expectations

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9MFY21 net earnings of RM362.3m (+110%) is below expectations due to larger-than-expected modification losses. 3QFY21 registered losses owing to it, with operating costs expected to be more buoyant going forward. While management is positive on a stronger closer in 4QFY21, we believe our estimates were too optimistic and we now err on the side of caution below management's expectations. Hence, we cut our FY21E/FY22E earnings by 24%/8%. Downgrade to UP (from MP) with a lower GGM-derived PBV TP of RM0.540 (from RM0.605).

9MFY21 disappointed. 9MFY21 net profit of RM362.3m came below expectations, only making up 52%/49% of our/consensus full-year estimates. This was due to wider-than-expected modification losses which came from PEMULIH accounts. No dividend was declared, as expected.

YoY, 9MFY21 total income surged by 31% to RM1.10b, which was mainly attributed to lower modification loss impact (-61%) as the current year's moratorium is experiencing a lower take up than the prior one. Net Islamic and interest income collectively saw a marginal increase as NIM improvements (3.38%, +23 bps) was offset by a lower financing base. Operating expenses rose by 9% from higher establishment and admin. cost, while loan impairments came out 30% lower, where provisions were heightened in the preceding year. Our computed annualised credit cost registered lower at 76 bps (-31bps). Reporting from an overall better landscape, 9MFY21 profits amounted to RM362.3m (+110%).

QoQ, 3QFY21 total income declined by 24% mainly due to a surge in modification loss of RM147.0m (2QFY21: RM13.2m). Meanwhile, NOI improved (+224%) from possibly non-recurring sundry income. Operating expenses saw a 53% spike as overall expenses returned, from more business activities. The quarter also recorded provisions of RM249.1m from a net writeback of RM227.0m in 2QFY21. This drove 3QFY21 to report a LBT of RM104.6m (2QFY21 PAT: RM403.4m).

Key briefing's highlight. In spite of the volatility, management is confident that it will deliver better results in the final quarter, with an improved year-end guidance of: (i) 3-4% financing growth; (ii) credit cost of 45-50bps; and (iii) GIL of <5%. Management expects to report a net writeback which could ease credit cost to the assigned levels, with economic recovery seeking to translate to its target. However, we are conservative against applying these targets as consumers are likely to favour its larger cap peers. The hefty exposure to modification loss could be owing to its high retail mix, many of which are public servants. The high retail mix could translate to further application for assistance as such programs continue to be made available.

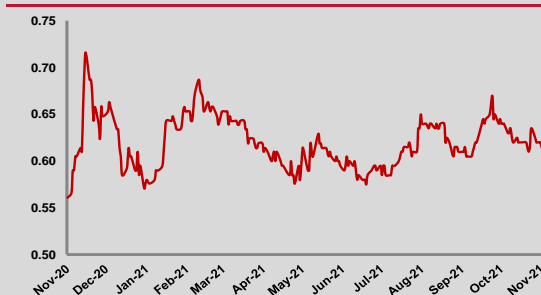
Post results, we slash our FY21E/FY22E earnings assumptions by 24%/8%. While we book in more modification losses, we also trim our financing growth (from 3.0%/5.0% to 1.5%/4.0%) as we are less optimistic than management's target, based on the group's YTD performance. Our dividend assumptions were also lowered from 3.0 sen/3.2 sen to 2.4sen/2.9 sen.

Downgrade to UNDERPERFORM (from MARKET PERFORM) with a lower TP of RM0.540 (from RM0.605). In addition to the lower earnings, we also reduce our GGM assumptions to arrive at 0.38x PBV (from 0.42x, 2.0SD below mean). While the group may report better comparative earnings, we feel that its more volatile-than-industry report card may cause hesitation. At the moment, discussions on restructuring the group to be a Shariah-compliant organisation are still on the table, but until there is a clearer commitment, we believe interest in the stock could be limited.

UNDERPERFORM ↓

Price : RM0.605
Target Price : RM0.540 ↓

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-10.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MBS MK Equity
Market Cap (RM m)	4,338.7
Shares Outstanding	7,171.5
52-week range (H)	0.72
52-week range (L)	0.57
3-mth avg daily vol	5,228,649
Free Float	29%
Beta	1.2

Major Shareholders

Employees Provident Fund	65.9%
Malayan Banking Bhd	3.5%
CIMB Group Holdings Bhd	2.6%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	1,553	1,472	1,483
Non-interest income	238	167	125
Total income	1,791	1,638	1,609
Operating expenses	-438	-459	-481
Loan impairment	-421	-233	-110
Pre-tax profit	428	697	968
PATAMI	269	523	658
Core PATAMI	269	523	658
Consensus NP		739	826
Earnings revision		-24.4%	-8.0%
Core EPS (RM)	0.04	0.077	0.097
EPS growth	-62%	94%	26%
NDPS (RM)	0.00	0.02	0.03
BV/share (RM)	1.30	1.36	1.42
NTA/share (RM)	1.26	1.31	1.38
ROE (%)	3.1	5.8	6.9
PER (x)	15.3	7.9	6.3
P/BV (x)	0.5	0.4	0.4
Net Div. Yield (%)	0.0	4.0	4.8

30 November 2021

Risks to our call include: (i) lower-than-expected margin squeeze, (ii) higher-than-expected loans growth, (iii) slower-than-expected deterioration in asset quality, (iv) further gains in capital market activities, (v) favourable currency fluctuations, and (vi) changes to OPR.

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net Islamic income	387.9	378.7	2.4%	372.3	4.2%	1,147.6	1,017.8	12.7%
Net interest income	8.0	19.6	-59.3%	27.7	-71.2%	54.0	112.4	-51.9%
Non-interest income	58.6	18.1	224.0%	51.1	14.6%	94.1	213.2	-55.9%
Modification loss	-147.0	-13.2	1013.2%	7.5	-2060.3%	-196.6	-505.1	-61.1%
Total income	307.4	403.2	-23.7%	458.7	-33.0%	1,099.0	838.3	31.1%
Operating expenses	-152.8	-99.9	52.9%	-112.6	35.7%	-354.8	-326.8	8.6%
Pre-impairment profit	154.7	303.3	-49.0%	346.0	-55.3%	744.2	511.5	45.5%
(Allowances)/ write-backs	-249.1	227.0	-209.7%	-57.8	330.8%	-203.6	-289.1	-29.6%
(Allowances)/ write-backs on other assets	0.1	2.4	-95.8%	5.8	-98.2%	9.1	-0.9	-1126.2%
Operating profit	-94.4	532.8	-117.7%	294.0	-132.1%	549.7	221.5	148.2%
Non-operating gains / (losses)	0.0	0.0	N.M	0.0	N.M.	-0.1	0.0	N.M
Profit before tax	-94.4	532.8	-117.7%	294.0	-132.1%	549.6	221.5	148.2%
Taxation	-10.2	-129.3	-92.1%	-35.7	-71.4%	-187.4	-49.0	282.4%
Net PATAMI	-104.6	403.4	-125.9%	258.2	-140.5%	362.3	172.5	110.0%
Core PATAMI	-104.6	403.4	-125.9%	258.2	-140.5%	362.3	172.5	110.0%
Gross financing	36,179	35,826	1.0%	36,386	-0.6%	36,179	36,386	-0.6%
Gross impaired financing	2,020	1,942	4.1%	2,134	-5.3%	2,020	2,134	-5.3%
Customer deposits	33,525	35,682	-6.0%	34,767	-3.6%	33,525	34,767	-3.6%
Current and savings account (CASA)	774	623	24.3%	565	37.1%	774	565	37.1%
Total assets	50,597	50,840	-0.5%	49,925	1.3%	50,597	49,925	1.3%
Shareholders' equity	8,858	9,057	-2.2%	8,855	0.0%	8,858	8,855	0.0%
Est. annualised NIM*	3.27%	3.32%		3.36%		3.38%	3.15%	
Cost-to-income ratio*	33.6%	24.0%		25.0%		32.3%	39.0%	
Annualised credit cost (bps)	276.8	-254.3		63.6		75.5	106.7	
Effective tax rate	-10.8%	24.3%		12.2%		34.1%	22.1%	
Annualised ROA	-0.8%	3.3%		2.1%		1.0%	0.5%	
Annualised ROE	-4.7%	18.0%		11.7%		5.4%	2.6%	
Gross impaired loans ratio	5.6%	5.4%		5.9%		5.6%	5.9%	
Loan loss coverage ratio (LLC)	99.8%	94.1%		101.8%		99.8%	101.8%	
LLC plus regulatory reserves	99.8%	94.1%		101.8%		99.8%	101.8%	
Loan-to-deposit ratio	101.9%	95.3%		98.4%		101.9%	98.4%	
CASA-to-deposit ratio	2.3%	1.7%		1.6%		2.3%	1.6%	

Note:
* Excluding modification loss

Source: Company, Kenanga Research

Management Guidance		
	FY21 Targets	FY20 Performance
Loans growth	+ 3 – 4% (from 2 – 3%)	-0.4%
Credit cost	45 – 50 bps (from 50 – 60 bps)	113 bps
Gross impaired loan	<5% (from ~5%)	5.3%

Source: Company, Kenanga Research

30 November 2021

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.				
Stocks Under Coverage																			
AFFIN BANK BHD	1.65	3,504.7	N	12/2021	-13.1%	5.5%	80.4%	6.5%	14.9	8.3	7.8	0.4	0.3	4.3%	3.0%	1.55	MP		
ALLIANCE BANK MALAYSIA BHD	2.82	4,365.7	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.2	8.0	7.6	0.7	0.7	8.5%	5.0%	2.65	MP		
AMMB HOLDINGS BHD	3.08	10,203.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	9.9	8.3	7.5	0.6	0.7	8.1%	2.8%	3.15	MP		
BIMB HOLDINGS BHD	2.91	6,040.8	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.4	12.5	13.5	1.2	1.1	9.0%	4.8%	3.20	OP		
CIMB GROUP HOLDINGS BHD	5.11	52,231.6	N	12/2021	-1.0%	2.1%	257.5%	8.1%	42.6	11.9	11.0	0.9	0.9	7.4%	4.1%	4.75	MP		
HONG LEONG BANK BHD	18.20	39,452.5	N	06/2022	0.7%	5.1%	-3.1%	9.2%	13.0	13.4	12.3	1.3	1.2	9.2%	3.0%	18.20	MP		
MALAYAN BANKING BHD	8.05	95,578.9	N	12/2021	-8.5%	3.2%	19.4%	2.2%	14.0	11.7	11.5	1.1	1.1	9.1%	7.0%	10.55	OP		
MALAYSIA BUILDING SOCIETY BHD	0.605	4,338.7	N	12/2021	55.4%	6.8%	94.0%	25.9%	15.3	7.9	6.3	0.5	0.4	5.8%	4.0%	0.540	UP		
PUBLIC BANK BHD	3.96	76,866.3	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.8	13.8	13.9	1.6	1.5	11.4%	3.5%	3.85	MP		
RHB BANK BHD	5.26	21,791.8	N	12/2021	-6.4%	7.2%	14.2%	0.7%	10.4	9.1	9.0	0.8	0.7	8.4%	5.7%	6.10	OP		
Simple Average					1.3%	3.3%	57.5%	6.1%	16.2	10.5	10.0	0.9	0.9	8.1%	4.3%				

Source: Kenanga Research

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30 November 2021

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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