

01 December 2022

Bank Islam Malaysia

Fairly Grounded Amidst Cost Bumps

By Clement Chua | clement.chua@kenanga.com.my

9MFY22 earnings of RM365.9m (-20%) came within expectations. BIMB continues to report growth in its financing books but progressively shaves its interest margins as its long-term products gain favour. The group's investments to uplift digital capacity may hinder near-term earnings with hopes for a long-term payoff. Maintain MP and GGM-derived PBV TP of RM2.45.

9MFY22 within expectations. 9MFY22 net profit of RM365.9m accounted for 75% of our full-year forecast and 76% of consensus full-year estimate. No dividend was declared, as the group typically pays a single final dividend.

YoY, 9MFY22 total Islamic income rose by 9% as financing growth sustained the decline in net interest margins (-16 bps) following an erosion in CASA mix (33.2%, -4.2ppts) and asset yields. Meanwhile, investment income declined by 17% owing to softer investment performance. As operating expenses saw a 12% rise on higher personnel costs, driving cost-income ratio to 60.7% (+4.7ppts). Impairment-wise, credit cost was higher (22 bps, +3 bps) from delinquencies of specific non-retail accounts as compared to the prior year. Overall, 9MFY22 net earnings reported at RM365.9m (-20%).

Holding steady. So far, BIMB is on track to keeping its FY22 targets on asset quality but may be shy of hitting the desired ROE of 10%. It has aspired to keep its gross impaired loans ratio below 1.5% and credit cost at below 30 bps, giving sufficient room should further mechanical adjustments to financing staging is required. We believe its profit target is hindered by prolonged weakness in trading markets. Meanwhile, the group may continue to see an adverse reaction from the interest rate upcycle owing to lower asset yields in its investment portfolios. Cost-wise, we reckon BIMB would only continue to be in an expansionary mode with further investments into digital capabilities and skilled personnel with hopes to boost efficiency and outreach as prescribed in its LEAP25 strategies.

Forecasts. Post results, we slightly tweak our FY22F/FY23F earnings from model updates. We await further updates from a pending results briefing later today.

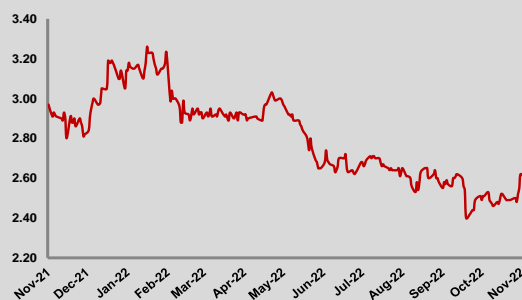
Maintain MARKET PERFORM and TP of RM2.45. Our TP is based on an unchanged GGM-derived PBV of 0.85x (COE: 10.0%, TG: 3.0%, ROE: 9.0%) against our FY23F BVPS. While the stock offers an investment opportunity in a shariah-compliant financier, we believe the risk-reward at current price levels is well matched. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

Risks to our call include: (i) higher/lower-than-expected margin, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected movement in asset quality, (iv) stronger/weaker capital market activities, (v) favourable/unfavourable currency fluctuations and (vi) changes in OPR.

MARKET PERFORM ↔

Price : **RM2.56**
Target Price : **RM2.45** ↔

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg -14.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker BIMB MK Equity
Market Cap (RM m) 5,517.5
Shares Outstanding 2,155.3
52-week range (H) 3.26
52-week range (L) 2.40
3-mth avg daily vol 463,244
Free Float 18%
Beta 1.0

Major Shareholders

Lembaga Tabung Haji 48.3%
Employees Provident Fund 14.3%
Amanah Saham Nasional 6.6%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Net interest income	1,740.0	1,776.9	1,766.1
Non-interest income	448.9	455.6	476.7
Total income	2,188.9	2,232.5	2,242.8
Operating expenses	-1,286.6	-1,317.2	-1,323.3
Loan impairment	-198.1	-210.2	-142.6
Pre-tax profit	704.2	705.1	776.9
PATAMI	534.3	480.4	598.2
Core PATAMI	534.3	480.4	598.2
Consensus NP		480.8	590.4
Earnings revision		-1.3	-0.5
Core EPS (RM)	0.22	0.20	0.24
EPS growth	-5%	-10%	25%
NDPS (RM)	0.11	0.10	0.12
BV/share (RM)	2.62	2.72	2.84
NTA/share (RM)	2.62	2.72	2.84
ROE (%)	8.4	7.4	8.8
PER (x)	11.7	13.0	10.5
P/BV (x)	0.98	0.94	0.90
Net Div. Yield (%)	4.3	3.9	4.7

01 December 2022

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Net Islamic income	506.0	462.2	9.5%	396.2	27.7%	1,408.0	1,292.6	8.9%
Investment of shareholders' funds	106.1	85.4	24.2%	104.7	1.3%	274.7	331.9	-17.2%
Total income	612.1	547.6	11.8%	500.9	22.2%	1,682.8	1,624.5	3.6%
Operating expenses	-366.5	-337.2	8.7%	-307.1	19.3%	-1,022.1	-910.3	12.3%
Pre-impairment profit	245.6	210.4	16.7%	193.8	26.7%	660.7	714.2	-7.5%
(Allowances)/ write-backs	-24.9	-33.8	-26.3%	-34.0	-26.7%	-102.1	-79.6	28.3%
(Allowances)/ write-backs on other assets	1.6	-4.6	-135.5%	-6.9	-123.6%	-0.9	-6.7	-86.4%
Operating profit	222.3	171.9	29.3%	152.8	45.5%	557.7	627.9	-11.2%
Non-operating gains / (losses)	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit before tax	222.3	171.9	29.3%	152.8	45.5%	557.7	627.9	-11.2%
Taxation	-76.2	-64.0	19.0%	-51.2	48.7%	-193.6	-173.1	11.8%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net PATAMI	142.9	117.1	22.0%	101.6	40.6%	365.9	454.8	-19.5%
Core PATAMI	142.9	117.1	22.0%	101.6	40.6%	365.9	454.8	-19.5%
Gross financing	62,090	60,700	2.3%	56,911	9.1%	62,090	56,911	9.1%
Gross impaired loans	748	692	8.1%	387	93.5%	748	387	93.5%
Customer deposits	58,095	54,891	5.8%	51,067	13.8%	58,095	51,067	13.8%
Current and savings account (CASA)	19,285	19,595	-1.6%	19,079	1.1%	19,285	19,079	1.1%
Total assets	86,164	83,030	3.8%	76,344	12.9%	86,164	76,344	12.9%
Shareholders' equity	6,805	6,669	2.0%	6,497	4.8%	6,805	6,497	4.8%
Est. annualised NIM	2.93%	2.71%		2.66%		2.73%	2.89%	
Cost-to-income ratio	59.9%	61.6%		61.3%		60.7%	56.0%	
Annualised credit cost (bps)	16.2	22.5		24.0		22.4	18.9	
Effective tax rate	34.3%	37.2%		33.5%		34.7%	27.6%	
Annualised ROA	0.7%	0.6%		0.5%		0.6%	0.8%	
Annualised ROE	8.5%	7.0%		5.7%		7.4%	9.5%	
Gross impaired financing ratio	1.20%	1.14%		0.68%		1.20%	0.68%	
Financing loss coverage ratio (FLC)	137.1%	147.5%		254.5%		137.1%	254.5%	
FLC plus regulatory reserves	125.7%	147.5%		254.5%		125.7%	254.5%	
Financing-to-deposit ratio	108.6%	112.4%		109.5%		108.6%	109.5%	
CASA-to-deposit ratio	33.2%	35.7%		37.4%		33.2%	37.4%	
CET-1 capital (Group level)	13.9%	13.8%		14.6%		13.9%	14.6%	

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Financing growth	8%	6.5%
Credit cost	25-30 bps	34 bps
NIMs	2.40% (one hike)	2.38%
ROE	10% (with cukai Makmur)	8.4%

Source: Company, Kenanga Research

01 December 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	MP	2.15	2.25	4.7%	4,756.5	N	12/2022	12.9	25.1	-48.3%	94.6%	16.7	8.6	0.5	2.8%	29.1	13.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.20	8.5%	5,991.2	N	03/2023	45.5	52.1	22.9%	14.6%	8.5	7.4	0.9	10.7%	22.0	5.7%
AMMB HOLDINGS BHD	OP	4.17	4.75	13.9%	13,810.0	N	03/2023	49.9	54.3	9.7%	8.7%	8.3	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.56	2.45	-4.3%	5,517.5	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.0	10.5	0.9	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.80	6.40	10.3%	61,857.6	N	12/2022	52.2	66.4	12.6%	27.1%	11.1	8.7	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.86	23.35	11.9%	45,218.6	N	06/2023	197.2	201.4	22.8%	2.1%	10.6	10.4	1.3	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.63	10.40	20.5%	104,027.1	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.9	1.1	9.9%	60.0	7.0%
PUBLIC BANK BHD	MP	4.50	4.70	4.4%	87,348.1	N	12/2022	29.6	38.0	1.6%	28.4%	15.2	11.8	1.7	11.6%	15.5	3.4%
RHB BANK BHD	OP	5.62	7.00	24.6%	23,870.2	N	12/2022	66.0	80.5	-4.6%	21.9%	8.5	7.0	0.8	9.3%	32.0	5.7%
Simple Average										3.0%	28.2%	11.2	8.8	0.9	8.8%		5.7%

Source: Kenanga Research

This section is intentionally left blank

01 December 2022

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Green Financing	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	★	☆	
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my