

02 December 2022

Bank Islam Malaysia

Finding Balance for Future Earnings

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We maintain our GGM-derived PBV TP of RM2.45 (COE: 10%, TG: 3%, ROE: 9%) and MP call. Post 3QFY22 results briefing, the group remains determined in meeting its ROE targets despite recent setbacks to operating cost and impairments. In addition, steady loans growth and acquisition of cheap deposits should support against possible margin erosion from its debt securities holdings.

Key takeaways are as follows:

- **10% ROE target unhindered.** The group had previously set a ROE target of 10% with the inclusion of prosperity tax which it believes could still be closely achieved. This is despite 9MFY22 ROE coming in at an annualised c.7.4%, suggesting 4QFY22 performance could be significantly stronger. The group is optimistic of its growing loans books (+9% YTD), which we gathered would be stirred by more retail financing. The group also indicates that it would be striving to boost its deposits base to keep its loan-to-deposit levels manageable. Meanwhile, sequential net interest margins (NIMs) appear to be able to capitalise on the progress OPR hikes. NIMs target for FY22 is also unchanged, at above 2.20%.
- **Non-fund base could continue to be stressed.** As opposed to the abovementioned fund-based performance, the group anticipates deterioration in non-fund based income with every OPR hike as its debt securities holdings experience a widening gap from revaluations. Meanwhile, its unit trust segment is also experiencing a pinch in market-to-market losses on shifting market conditions, though we believe this may gradually improve going into FY23. That said, relief is seen in its fees and commission income thanks to its solid Bancatakaful presence.
- **Bump in personnel cost arising from unionised employees.** Giving clarity to the 15% surge in personnel cost in 9MFY22, the group indicated that nearly two-thirds of the increase is due to a tri-annual wage review of its unionised employees and hence should not be a repeating pressure. The rise in expenses here going forward would otherwise be used to enhance its digital and wholesale capabilities.
- **Credit cost buffers to hold until FY23.** With an outstanding management overlay of RM143.9m, the group highlighted that it would need to be utilised by FY23 if it is not otherwise reallocated to other accounts. The group indicated that it would still be cautious with its provisioning needs where we see its 9MFY22 credit cost of 22 bps lingers, shy from its 30-35 bps guidance for the year, indicating possible top-ups if required. Meanwhile, the group shared that it had incorporated an ESG assessment in its screening process to promote sustainability efforts.

Forecasts. Post meeting, our FY22F/FY23F earnings are unchanged.

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%) on 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 : RM2.58
Target Price : RM2.45 ↔

Share Price Performance



KLCI	1,491.51
YTD KLCI chg	-4.8%
YTD stock price chg	-14.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BIMB MK Equity
Market Cap (RM m)	5,560.6
Shares Outstanding	2,155.3
52-week range (H)	3.26
52-week range (L)	2.40
3-mth avg daily vol	465,924
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	1,777	1,766
Non-interest income	449	456	477
Total income	2,189	2,232	2,243
Operating expenses	-1,287	-1,317	-1,323
Loan impairment	-198	-210	-143
Pre-tax profit	704	705	777
PATAMI	534	480	598
Core PATAMI	534	480	598
Consensus NP		483	594
Earnings revision (%)		0.0	0.0
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)	11.8	13.1	10.5
P/BV (x)	0.98	0.95	0.91
Net Div. Yield (%)	4.2	3.9	4.7

02 December 2022

Income Statement

FY Dec (RM m)	2020A	2021A	2022F	2023F
Net interest income	1,736	1,740	1,777	1,766
Non-interest income	378	449	456	477
Total income	2,114	2,189	2,232	2,243
Operating expenses	-1,180	-1,287	-1,317	-1,323
Pre-impairment profit	934	902	915	920
Loan impairment	-209	-191	-200	-133
Other impairments	3	-7	-10	-10
Associates	0	0	0	0
Pre-tax profit	728	704	705	777
Tax and zakat	-163	-170	-225	-179
Minority interest	0	0	0	0
PATAMI	565	534	480	598
Core PATAMI	565	534	480	598

Balance Sheet

FY Dec (RM m)	2020A	2021A	2022F	2023F
Cash and short term funds	5,278	5,249	5,264	5,256
Investment securities	13,739	15,536	14,637	15,086
Financing	54,671	58,154	64,551	66,487
Other assets	949	1,218	440	695
Intangible assets	-	-	-	-
Total Assets	74,637	80,156	84,892	87,525
Customer deposits	51,077	57,339	60,206	63,216
Placements of banks	-	-	-	-
Borrowings	3,320	4,037	3,929	3,983
Other liabilities	13,954	12,380	14,121	13,385
Total liabilities	68,351	73,756	78,256	80,584
Share capital	3,306	3,446	3,446	3,446
Retained earnings	2,791	2,966	3,202	3,507
Regulatory reserves	-	-	-	-
Other reserves	189	(11)	(11)	(11)
Shareholders' funds	6,286	6,400	6,636	6,941

Financial Data & Ratios

FY Dec	2020A	2021A	2022F	2023F
Growth				
Net interest income	-	0.3%	2.1%	-0.6%
Non-interest income	-	18.7%	1.5%	4.6%
Total income	-	3.6%	2.0%	0.5%
Operating expenses	-	9.1%	2.4%	0.5%
Pre-impairment profit	-	-3.4%	1.4%	0.5%
Loan impairment	-	-8.6%	5.0%	-33.8%
Pre-tax profit	-	-3.3%	0.1%	10.2%
PATAMI	-	-5.4%	-10.1%	24.5%
Core PATAMI	-	-5.4%	-10.1%	24.5%
Gross loans	-	6.4%	11.0%	3.0%
Customer deposits	-	12.3%	5.0%	5.0%
Operating metrics				
Est average asset yield	4.02%	3.56%	3.95%	3.92%
Est average funding cost	1.54%	1.21%	1.10%	1.30%
Est NIM	3.17%	3.08%	2.90%	2.70%
Cost-to-Income ratio	55.8%	58.8%	59.0%	59.0%
Credit cost (bps)	38.2	33.8	32.6	20.2
Loan-to-deposit ratio	107.0%	101.4%	107.2%	105.2%
GIL ratio	0.7%	0.9%	1.1%	1.1%
LLC Ratio	248.6%	187.2%	150.0%	150.0%
ROA	0.8%	0.7%	0.6%	0.7%
ROE	9.0%	8.4%	7.4%	8.8%
Valuations				
EPS (RM)	0.23	0.22	0.20	0.24
PER (x)	11.16	11.80	13.12	10.54
Div yield (%)	4.9	4.2	3.9	4.7
BV/share (RM)	2.57	2.62	2.72	2.84
P/BV (x)	1.00	0.98	0.95	0.91

* Historical financial information is based on post-restructuring (i.e. ex-Syarikat Takaful Malaysia Keluarga) since 4QFY21

Source: Kenanga Research

02 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. (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	2.09	2.25	7.7%	4,623.8	N	12/2022	12.9	25.1	-48.3%	94.6%	16.2	8.3	0.5	2.8%	29.1	13.9%
ALLIANCE BANK MALAYSIA BHD	OP	3.80	4.20	10.5%	5,882.8	N	03/2023	45.5	52.1	22.9%	14.6%	8.4	7.3	0.9	10.7%	22.0	5.8%
AMMB HOLDINGS BHD	OP	4.20	4.75	13.1%	13,909.3	N	03/2023	49.9	54.3	9.7%	8.7%	8.4	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.58	2.45	-5.0%	5,560.6	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.1	10.5	0.9	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.75	6.40	11.3%	61,324.3	N	12/2022	52.2	66.4	12.6%	27.1%	11.0	8.7	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.68	23.35	12.9%	44,828.4	N	06/2023	197.2	201.4	22.8%	2.1%	10.5	10.3	1.3	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.62	10.40	20.6%	103,906.6	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	4.47	4.70	5.1%	86,765.8	N	12/2022	29.6	38.0	1.6%	28.4%	15.1	11.8	1.7	11.6%	15.5	3.5%
RHB BANK BHD	OP	5.60	7.00	25.0%	23,785.3	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%	11.1	8.7	0.9	8.8%		5.7%

Source: Kenanga Research

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02 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.**

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