

31 May 2023

Bank Islam Malaysia

A More Palatable Call

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1QFY23 net profit of RM118.1m (+12% YoY) was below expectations in lieu of higher operating costs to come. The group is seeing poorer marks with its asset quality but could make up for it with more aggressive overall customer acquisition. While we cut our earnings by 9% and lower our GGM-derived PBV TP to RM2.25 (from RM2.30), we upgrade BIMB to OP (from MP) as the recent selling is overdone, presenting a more attractive entry point to a high-yielding shariah alternative.

1QFY23 below expectations. 1QFY23 net profit of RM118.1m made up 21% of our full-year forecast and 20% of consensus full-year estimate. Cost pressures are likely to mount in the latter periods which could drag earnings further. No dividend was declared as BIMB typically announces a single payment in the year, safe for FY22.

YoY, 1QFY23 total Islamic income grew by 9%, supported by a higher gross financing base (+11%) amidst moderating net interest margins (NIMs) at 2.28% (-6 bps) from intensifying deposits competition. On the flipside, investment income surged 53% mainly thanks to securities disposal gains during the period. Cost-income ratio continued to expand to 63.2% (+2.3 ppts) as expenses broadly increased by 21% in favour of talent retention and IT investments. Credit cost saw a rise to 38 bps (+19 bps) possibly with the re-emergence of troubled retail accounts post-graduation from repayment assistance programs from mounting interest rate pressures. That said, the higher income did support 1QFY23 earnings to report at RM118.1m (+12%).

Briefing highlights. The group saw a notable hit to its impairments in the recent quarter but opines other fundamentals will keep operations intact.

1. A loans growth target of 7%-8% is lower than its prior year's 11% accomplishment but is still higher than industry average. The group reckons that demand is still strong in the retail space and the offering of non-packaged financing could support its relevance.
2. NIMs could be hampered in the immediate term owing to intense competition for deposits but is expected to pick up moderately in the medium-term. While the abovementioned non-packaged financing which is of higher asset yield but higher risk in nature could help, market rates are expected to ease as pre-funding exercises have ceased.
3. The group has been progressively consuming its management overlay with a balance of RM123.6m remaining. Given that the changing macros is showing signs of diminishing its books quality, the group looks to retain most of its overlays for the time being. This may lead to a recalibration of the earlier 25-30 bps credit cost guidance.
4. To meet its LEAP25 initiatives, the group will continue to invest on IT infrastructure and capabilities. It expects overall operating expenses to rise by 8%-9% to fuel its objectives, but reckons its cost-income ratio could narrow to 58% with the increase in topline.

Forecasts. Post results, we cut our FY23F/FY24F earnings by 9% each, mainly to incorporate higher operating spend and investments amidst the group's digitalisation efforts.

OUTPERFORM ↑

Price : RM1.87
Target Price : RM2.25 ↓

Share Price Performance



KLCI 1,396.91
YTD KLCI chg -6.6%
YTD stock price chg -31.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BIMB MK Equity
Market Cap (RM m)	4,238.3
Shares Outstanding	2,266.5
52-week range (H)	2.92
52-week range (L)	1.83
3-mth avg daily vol	1,408,797
Free Float	17%
Beta	0.9

Major Shareholders

Lembaga Tabung Haji	48.0%
Employees Provident Fund	15.8%
Amanah Saham Nasional	6.5%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	1,722	1,442	1,495
Non-interest income	588	635	699
Total income	2,310	2,077	2,194
Operating expenses	-1,424	-1,225	-1,294
Loan impairment	-139	-180	-201
Pre-tax profit	747	671	698
Net Profit	492	517	538
Core Net Profit	492	517	538
Consensus NP	-	578	634
Earnings revision (%)	-	-8.5	-8.6
Core EPS (RM)	0.23	0.24	0.25
EPS growth	-8%	5%	4%
NDPS (RM)	0.14	0.16	0.16
BV/share (RM)	3.16	3.24	3.34
NTA/share (RM)	3.16	3.24	3.34
ROE (%)	7.5	7.5	7.6
PER (x)	8.2	7.8	7.5
P/BV (x)	0.59	0.58	0.56
Net Div. Yield (%)	7.4	8.3	8.3

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We slightly lower our TP to RM2.25 (from RM2.30) but upgrade to OUTPERFORM (from MARKET PERFORM). Our call is based on an unchanged GGM-derived FY24F PBV of 0.68x (COE: 10.4%, TG: 3%, ROE: 8%), adjusted from the abovementioned earnings revision. The stock saw a heavy selling down as we believe retail investors crowd towards higher capitalisation peers. We opine current price levels presents a more favourable risk-reward for BIMB, given it has continuously sustained stronger-than-industry financing growth. Meanwhile, its dividend yield of 8% could be attractive to yield-seeking investors. The stock also provides a shariah-alternative against conventional players, hence is more accessible to certain institutions. 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-than-expected margin squeeze, (ii) lower-than-expected financing growth, (iii) worse-than-expected deterioration in asset quality, (iv) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Net Islamic income	480.0	499.4	-3.9%	439.8	9.1%	480.0	439.8	9.1%
Investment of shareholders' funds	127.3	127.7	-0.3%	83.3	52.9%	127.3	83.3	52.9%
Total income	607.3	627.1	-3.2%	523.1	16.1%	607.3	523.1	16.1%
Operating expenses	-384.0	-401.9	-4.5%	-318.4	20.6%	-384.0	-318.4	20.6%
Pre-impairment profit	223.3	225.2	-0.8%	204.7	9.1%	223.3	204.7	9.1%
(Allowances)/ write-backs	-62.0	-38.0	63.2%	-43.3	43.1%	-62.0	-43.3	43.1%
(Allowances)/ write-backs on other assets	0.1	0.0	-395.8%	2.1	-93.1%	0.1	2.1	-93.1%
Operating profit	161.5	187.2	-13.7%	163.4	-1.2%	161.5	163.4	-1.2%
Non-operating gains / (losses)	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit before tax	161.5	187.2	-13.7%	163.4	-1.2%	161.5	163.4	-1.2%
Taxation	-43.4	-61.6	-29.5%	-53.4	-18.7%	-43.4	-53.4	-18.7%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	118.1	125.7	-6.1%	105.9	11.5%	118.1	105.9	11.5%
Core Net Profit	118.1	125.7	-6.1%	105.9	11.5%	118.1	105.9	11.5%
Gross financing	66,195	65,942	0.4%	59,799	10.7%	66,195	59,799	10.7%
Gross impaired loans	908	835	8.8%	612	48.5%	908	612	48.5%
Customer deposits	57,283	60,708	-5.6%	55,116	3.9%	57,283	55,116	3.9%
Current and savings account (CASA)	19,303	20,371	-5.2%	19,525	-1.1%	19,303	19,525	-1.1%
Total assets	92,074	89,852	2.5%	80,501	14.4%	92,074	80,501	14.4%
Shareholders' equity	7,184	6,796	5.7%	6,656	7.9%	7,184	6,656	7.9%
Est. annualised NIM	2.28%	2.51%		2.34%		2.28%	2.34%	
Cost-to-income ratio	63.2%	64.1%		60.9%		63.2%	60.9%	
Annualised credit cost (bps)	37.5	23.7		29.1		37.5	29.1	
Effective tax rate	26.9%	32.9%		32.7%		26.9%	32.7%	
Annualised ROA	0.5%	0.6%		0.5%		0.5%	0.5%	
Annualised ROE	6.8%	7.4%		6.5%		6.8%	6.5%	
Gross impaired financing ratio	1.37%	1.27%		1.02%		1.37%	1.02%	
Financing loss coverage ratio (FLC)	117.7%	124.5%		180.6%		117.7%	180.6%	
FLC plus regulatory reserves	117.7%	140.8%		180.6%		117.7%	180.6%	
Financing-to-deposit ratio	118.9%	111.9%		110.1%		118.9%	110.1%	
CASA-to-deposit ratio	33.7%	33.6%		35.4%		33.7%	35.4%	
CET-1 capital (Group level)	15.1%	13.6%		14.0%		15.1%	14.0%	

Source: Company, Kenanga Research

Management Guidance

	FY23 Targets	FY22 Performance
Financing growth	7-8%	11.4%
Credit cost	25-30 bps	34 bps
NIMs	4Q: 2.20% / FY23 average: 2.10%	2.38%
ROE	10% (12% ROE at PBT)	8.4%

Source: Company, Kenanga Research

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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																	
ALLIANCE BANK MALAYSIA BHD	OP	3.37	4.40	30.6%	5,217	N	03/2024	48.8	52.9	11.3%	8.4%	6.9	6.4	0.7	10.9%	24.5	7.3%
AMMB HOLDINGS BHD	OP	3.57	5.05	41.5%	11,806	N	03/2024	56.3	62.0	7.4%	10.2%	6.3	5.8	0.6	9.9%	19.5	5.5%
BANK ISLAM MALAYSIA BHD	MP	1.87	2.25	20.3%	4,238	Y	12/2023	24.0	25.0	5.1%	4.1%	7.8	7.5	0.6	7.5%	15.5	8.3%
CIMB GROUP HOLDINGS BHD	OP	4.89	6.55	33.9%	52,152	N	12/2023	59.9	68.8	14.8%	15.0%	8.2	7.1	0.8	9.7%	30.0	6.1%
HONG LEONG BANK BHD	OP	19.54	23.35	19.5%	42,357	N	06/2023	197.3	201.2	22.9%	2.0%	9.9	9.7	1.2	12.5%	70.0	3.6%
MALAYAN BANKING BHD	OP	8.59	10.10	17.6%	103,545	N	12/2023	80.3	80.0	16.8%	-0.5%	10.7	10.7	1.2	11.1%	68.0	7.9%
PUBLIC BANK BHD	OP	3.84	4.90	27.6%	74,537	N	12/2023	36.0	37.2	14.1%	3.3%	10.7	10.3	1.4	13.5%	18.0	4.7%
RHB BANK BHD	OP	5.42	7.10	31.0%	23,232	N	12/2023	77.5	77.7	15.9%	0.3%	7.0	7.0	0.7	10.7%	43.0	7.9%
SECTOR AGGREGATE					317,085					15.5%	4.5%	9.6	9.2	1.0	10.9%		6.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	★	☆	
	Financial Inclusion	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★		
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
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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