Bank Islam Malaysia

Coming Out Greener

MARKET PERFORM ↔

Price : **RM2.24**

Target Price : **RM2.15 ↔**

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BIMB's 9MFY23 net profit (+8% YoY) was within expectations. Pending further updates from today's briefing, we believe the group may still be on track to meet its FY23 targets. We noticed NIMs had demonstrated an encouraging showing which may beat last year's performance, attributed by a stronger retail portfolio. Maintain our MP call and GGM-derived PBV TP of RM2.15.

9MFY23 within expectations. BIMB's 9MFY23 net profit of RM394.8m made up 76% of our full-year forecast and 77% of consensus full-year estimate. No dividend was declared as BIMB typically announces a single payment in the year, safe for FY22.

YoY, 9MFY23 total Islamic revenue only inched up by 2% despite a 8% expansion in its financing base, as new product margins may be thinner. That said, the group appear to book an increase in NIMs of 6 bps to 2.79%. Meanwhile, investment income grew 45% from treasury and dividend gains. While total incomes increased by 9%, operating costs were higher by 11% as personnel costs were inflated from recent collective agreements. This led cost-income ratio to rise to 61.5% (+0.8ppt). With regards to provisions, credit cost rose to 33 bps (+11 bps) as certain accounts were adversely impacted by a higher interest rate environment. Overall, this translated to 9MFY23 net profit to report at RM394.8m (+8%).

QoQ. 3QFY23 income also saw growth as seen from both financing books (+1%) and interest margins (+11 bps) delivery. Notably, its credit cost also showed easing to 25 bps (-12 bps) likely due to riskier accounts being already impaired in the previous quarter. All in, 3QFY23 net profit was 3% stronger at RM140.5m.

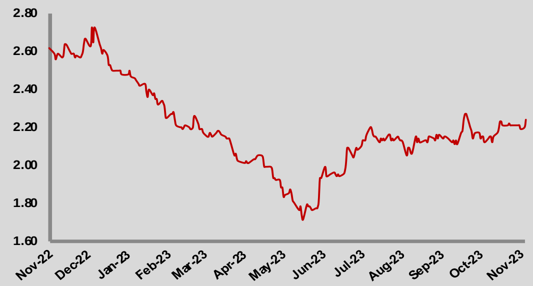
Outlook. BIMB appears to be on track to deliver its full-year targets riding on sustained demand for Islamic financing. The group continues to make headway in home financing which could be aiding its bid to grow retail deposits, supplementing a reducing portfolio of business deposits. This could be key in driving group NIMs to supportive levels which may close above FY22's readings despite intense competition seen during the year. To encourage further participation, the group had expressed interest in providing non-packaged personal financing products, which could aid in maintaining its 7%-8% financing growth target.

Forecast. Post results, we leave our FY23F/FY24F earnings unchanged pending updates from a briefing later today.

Maintain MARKET PERFORM and TP of RM2.15. Our call is based on an unchanged GGM-derived FY24F PBV of 0.64x (COE: 10.5%, TG: 3.5%, ROE: 8%) on a FY24F BVPS of RM3.36. While the stock may see interest from shariah-seeking investors paired by commendable dividend yields of c.7%, we believe it may be fairly valued at current price points given its moderate earnings growth prospects in addition to its lower ROEs as compared to its peer average (c.9%). 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 interest margin, (ii) higher/lower-than-expected financing growth, (iii) worse-than-expected deterioration in asset quality, (iv) slowdown in capital market activities, (v) currency fluctuations, and (vi) changes to OPR.

Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	-17.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BIMB MK Equity
Market Cap (RM m)	5,076.9
Shares Outstanding	2,266.5
52-week range (H)	2.73
52-week range (L)	1.71
3-mth avg daily vol	1,228,135
Free Float	17%
Beta	1.0

Major Shareholders

Lembaga Tabung Haji	48.0%
Employees Provident Fund	16.3%
Amanah Saham Nasional	6.4%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	1,722	1,558	1,577
Non-interest income	588	635	699
Total income	**2,310**	**2,193**	**2,276**
Operating expenses	-1,424	-1,294	-1,343
Loan impairment	**-139**	**-225**	**-234**
Pre-tax profit	747	674	699
Net Profit	**492**	**519**	**538**
Core Net Profit	**492**	**519**	**538**
Consensus NP	-	513	555
Earnings revision (%)	-	-	-
Core EPS (RM)	0.23	0.24	0.25
EPS growth (%)	-8.0	5.6	3.7
NDPS (RM)	0.138	0.145	0.150
BV/share (RM)	3.16	3.26	3.36
NTA/share (RM)	3.16	3.26	3.36
ROE (%)	7.5	7.5	7.6
PER (x)	9.8	9.3	9.0
P/BV (x)	0.71	0.69	0.67
Net Div. Yield (%)	6.2	6.5	6.7

Results Highlights

FYE Dec (RM m)	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Net Islamic income	484.3	476.6	1.6%	506.0	-4.3%	1,440.9	1,408.0	2.3%
Investment of shareholders' funds	136.1	133.1	2.2%	105.6	28.9%	396.5	273.7	44.9%
Total income	**620.4**	**609.7**	**1.8%**	**611.6**	**1.4%**	**1,837.4**	**1,681.8**	**9.3%**
Operating expenses	-382.5	-364.0	5.1%	-366.0	4.5%	-1,130.5	-1,021.1	10.7%
Pre-impairment profit	**237.9**	**245.7**	**-3.2%**	**245.6**	**-3.1%**	**706.9**	**660.7**	**7.0%**
(Allowances)/ write-backs	-41.3	-61.6	-33.0%	-24.9	65.7%	-164.9	-102.1	61.6%
(Allowances)/ write-backs on other assets	0.5	0.1	741.9%	-1.6	-131.9%	0.7	0.9	-20.3%
Operating profit	**197.1**	**184.1**	**7.0%**	**219.0**	**-10.0%**	**542.8**	**559.5**	**-3.0%**
Non-operating gains / (losses)	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit before tax	**197.1**	**184.1**	**7.0%**	**219.0**	**-10.0%**	**542.8**	**559.5**	**-3.0%**
Taxation	-56.6	-48.0	17.8%	-76.2	-25.7%	-148.0	-193.6	-23.6%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	**140.5**	**136.1**	**3.2%**	**142.9**	**-1.6%**	**394.8**	**365.9**	**7.9%**
Core Net Profit	**140.5**	**136.1**	**3.2%**	**142.9**	**-1.6%**	**394.8**	**365.9**	**7.9%**
Gross financing	67,295	66,337	1.4%	62,090	8.4%	67,295	62,090	8.4%
Gross impaired loans	654	682	-4.0%	748	-12.6%	654	748	-12.6%
Customer deposits	57,928	57,005	1.6%	58,095	-0.3%	57,928	58,095	-0.3%
Current and savings account (CASA)	18,694	18,581	0.6%	19,285	-3.1%	18,694	19,285	-3.1%
Total assets	88,072	87,452	0.7%	86,164	2.2%	88,072	86,164	2.2%
Shareholders' equity	7,455	7,314	1.9%	6,805	9.5%	7,455	6,805	9.5%
Est. annualised NIM	2.86%	2.75%		2.60%		2.79%	2.73%	
Cost-to-income ratio	61.7%	59.7%		59.8%		61.5%	60.7%	
Annualised credit cost (bps)	24.7	37.2		16.2		33.0	22.4	
Effective tax rate	28.7%	26.1%		34.8%		27.3%	34.6%	
Annualised ROA	0.6%	0.6%		0.7%		0.6%	0.6%	
Annualised ROE	7.6%	7.5%		8.5%		7.4%	7.4%	
Gross impaired financing ratio	0.97%	1.03%		1.20%		0.97%	1.20%	
Financing loss coverage ratio (FLC)	126.6%	122.1%		137.1%		126.6%	137.1%	
FLC plus regulatory reserves	126.6%	122.1%		148.4%		126.6%	148.4%	
Financing-to-deposit ratio	118.2%	118.4%		108.6%		118.2%	108.6%	
CASA-to-deposit ratio	32.3%	32.6%		33.2%		32.3%	33.2%	
CET-1 capital (Group level)	14.4%	13.9%		13.9%		14.4%	13.9%	

Source: Company, Kenanga Research

Management Guidance

	FY23 Targets	FY22 Performance
Financing growth	7-8%	11.4%
Credit cost	25-30 bps	22 bps
NIMs	4Q: 2.20% / FY23 average: 2.10%	2.38%
ROE	10% (12% ROE at PBT)	8.4%

Souce: Company, Kenanga Research

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	2.01	1.90	-5.5%	4,716	N	12/2023	22.1	25.3	-60.5%	14.7%	9.1	7.9	0.4	4.3%	11.0	5.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.42	4.30	25.7%	5,295	N	03/2024	47.4	51.6	8.3%	8.9%	7.2	6.6	0.7	10.6%	25.0	7.3%
AMMB HOLDINGS BHD	OP	4.05	4.80	18.5%	13,405	N	03/2024	47.7	54.2	-9.0%	13.7%	8.5	7.5	0.7	8.5%	19.0	4.7%
BANK ISLAM MALAYSIA BHD	MP	2.24	2.15	-4.0%	5,077	Y	12/2023	24.1	25.0	5.6%	3.7%	9.3	9.0	0.7	7.5%	14.5	6.5%
CIMB GROUP HOLDINGS BHD	OP	5.68	6.30	10.9%	60,578	N	12/2023	63.1	67.3	20.9%	6.6%	9.0	8.4	0.9	10.3%	35.0	6.2%
HONG LEONG BANK BHD	OP	19.00	24.20	27.4%	41,187	N	06/2024	203.4	206.6	9.1%	1.6%	9.3	9.2	1.1	11.8%	63.0	3.3%
MALAYAN BANKING BHD	OP	9.05	9.95	9.9%	109,145	N	12/2023	77.4	79.6	12.4%	2.9%	11.7	11.4	1.2	10.7%	65.0	7.2%
MALAYSIA BUILDING SOCIETY BHD	UP	0.750	0.630	-16.0%	6,126	Y	12/2023	3.4	5.2	-38.5%	52.3%	21.8	14.3	0.7	3.1%	1.8	2.4%
PUBLIC BANK BHD	OP	4.22	4.75	12.6%	81,913	N	12/2023	35.1	37.7	11.3%	7.4%	12.0	11.2	1.5	13.1%	18.0	4.3%
RHB BANK BHD	OP	5.51	7.15	29.8%	23,618	N	12/2023	70.7	78.3	5.7%	10.8%	7.8	7.0	0.7	9.8%	41.0	7.4%
SECTOR AGGREGATE					**351,058**					**7.8%**	**6.3%**	**10.6**	**9.9**	**1.1**	**10.2%**		**5.5%**

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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