

15 January 2024

Malaysia Building Society

Striving to Strengthen Its Pillars

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

We maintain our GGM-derived PBV TP of RM0.63 (COE: 9.2%, TG: 2.0%, ROE: 6.0%) and UNDERPERFORM call. Post meeting, we are encouraged by the group's strategies to bolster NIMs and build stickiness for its products, helmed by targeted marketing to T20s and SMEs. We await further developments from this space which may uplift the group's presently low ROEs which were chiefly dragged by high funding cost.

We came away from a meeting with MBSB where it elaborated on key initiatives to drive the group forward (to achieve its 3-year ROE target of 8%) along with some near-term updates. **Key takeaways are as follows:**

- **Restructuring books to optimise margins.** MBSB had struggled with NIMs management as they had to juggle between a high fixed-rate financing portfolio (36% vs. peer average of c.20%) and low CASA books (6% vs. peer average of c.30%). The group is mulling to automatically convert existing fixed-rate accounts to floating rates. This may lead to a downside bias to NIM projections given that the OPR is viewed to be at toppish levels, where any cuts could undermine. However, the group views this as necessary as it would allow for more efficient profit rates during more active interest rate cycles.
- **T20 to beef CASA.** The group has a high concentration of low-to-middle income groups in its consumer banking segment. To increase its proportion in the cash-rich T20 groups, MBSB looks to build on quality-of-life services such as multi-currency account features with access to gold commodity markets. A planned transformation of several branches designed to be more boutique-like may enhance their appeal to these groups to bank with MBSB.
- **Better ecosystem to support SMEs.** SMEs are a key growth segment to meet group financing targets (FY23: 7%-8%), although it makes up c.10% of its RM41b portfolio. The group is looking to launch its e-KYC function by 1QFY24, which could significantly ease the onboarding process for businesses. In its pipeline, the group is also working towards incorporating transaction reconciliation feature which could simplify accounts management for heavy users of MBSB's platform.
- **FY23 guidance could have downside bias.** The group shared that certain challenges persist which may slightly drag its ROE target of 5%-6% for FY23. Previous guidance translates reported earnings of c.RM450m on the back of 9MFY23 only coming in at RM191m, which we suspect involves non-core items.

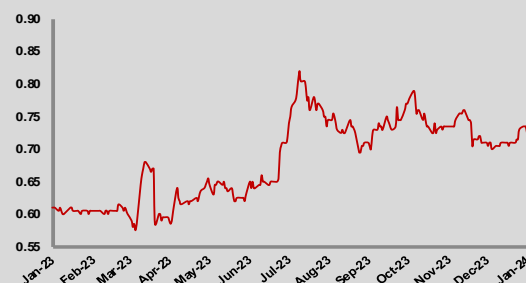
Post updates, we make no changes to our FY23F/FY24F assumptions. While we find the abovementioned efforts encouraging for the group, we reckon time may be needed for a positive fruition to earnings. Notwithstanding that, building these features may include near-term development costs which could also be subject to implementation risks.

Maintain UNDERPERFORM and TP of RM0.63. Our TP is based on an unchanged GGM-derived PBV of 0.56x (COE: 9.2%, TG: 2.0%, ROE: 6.0%) against FY24F BVPS of RM1.13. While investors may be keeping close tabs on the integration of MIDF into the group's operations, synergies may only be extracted in a longer term.

UNDERPERFORM ↔

Price : RM0.725
Target Price : RM0.63 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,487.34 |
| YTD KLCI chg | 2.2% |
| YTD stock price chg | 2.1% |

Stock Information

| | |
|---------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MBS MK Equity |
| Market Cap (RM m) | 5,961.2 |
| Shares Outstanding | 8,222.3 |
| 52-week range (H) | 0.82 |
| 52-week range (L) | 0.58 |
| 3-mth avg daily vol | 7,074,644 |
| Free Float | 27% |
| Beta | 0.6 |

Major Shareholders

| | |
|--------------------------|-------|
| Employees Provident Fund | 57.5% |
| HSBC Holdings PLC | 12.8% |
| UBS AG | 1.6% |

Summary Earnings Table

| FY Dec (RM m) | 2022A | 2023F | 2024F |
|------------------------|----------------|----------------|----------------|
| Net interest income | 1,416.0 | 1,070.1 | 1,143.3 |
| Non-interest income | 53.3 | 63.9 | 107.1 |
| Total income | 1,469.3 | 1,134.0 | 1,250.4 |
| Operating expenses | -650.5 | -696.0 | -716.1 |
| Loan impairment | -118.5 | -108.7 | -56.7 |
| Pre-tax profit | 691.3 | 329.3 | 477.6 |
| Net Profit | 460.2 | 250.3 | 363.0 |
| Core Net Profit | 460.2 | 250.3 | 363.0 |
| Consensus NP | - | - | - |
| Earnings revision | - | - | - |
| Core EPS (sen) | 6.4 | 3.0 | 4.4 |
| EPS growth (%) | 4.9 | -52.6 | 45.0 |
| NDPS (RM) | 3.0 | 1.5 | 2.3 |
| BV/share (RM) | 1.25 | 1.11 | 1.13 |
| NTA/share (RM) | 1.21 | 1.07 | 1.09 |
| ROE (%) | 5.2 | 2.8 | 4.0 |
| PER (x) | 0.1 | 0.2 | 0.2 |
| P/BV (x) | 0.58 | 0.66 | 0.64 |
| Net Div. Yield (%) | 4.1 | 2.1 | 3.2 |

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Additionally, the group may also require greater efforts to reoptimize its funding mix especially given its low CASA levels, which may make it less attractive than its peers. Not helping either is its lowest ROE positioning against peers.

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.

Income Statement

| FY Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Net interest income | 1,553 | 1,541 | 1,416 | 1,070 | 1,143 |
| Non-interest income | 238 | 113 | 53 | 64 | 107 |
| Total income | 1,791 | 1,654 | 1,469 | 1,134 | 1,250 |
| Operating expenses | -438 | -542 | -650 | -696 | -716 |
| PPOP | 1,353 | 1,112 | 819 | 438 | 534 |
| Loan impairments | -442 | -30 | -127 | -109 | -57 |
| Other impairments | 21 | -56 | 8 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 428 | 714 | 691 | 329 | 478 |
| Tax and zakat | -157 | -275 | -231 | -79 | -115 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 269 | 439 | 460 | 250 | 363 |
| Core Net Profit | 269 | 439 | 460 | 250 | 363 |

Balance Sheet

| FY Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & ST funds | 1,084 | 655 | 2,221 | 1,092 | 1,170 |
| Investment securities | 10,680 | 12,682 | 13,259 | 14,879 | 15,943 |
| Loans and financing | 35,728 | 36,181 | 38,560 | 41,151 | 42,822 |
| Other assets | 635 | 865 | 616 | 10,819 | 7,397 |
| Intangible assets | 310 | 299 | 293 | 293 | 293 |
| Total Assets | 48,438 | 50,681 | 54,948 | 68,233 | 67,625 |
| Customer deposits | 24,353 | 24,602 | 28,957 | 34,123 | 36,038 |
| Deposits & placements | 9,529 | 8,650 | 7,511 | 7,618 | 8,085 |
| Borrowings | 4,922 | 5,509 | 6,786 | 17,987 | 11,338 |
| Other liabilities | 752 | 3,242 | 2,735 | (580) | 2,903 |
| Total liabilities | 39,557 | 42,002 | 45,989 | 59,147 | 58,364 |
| Share capital | 7,088 | 7,198 | 7,198 | 7,198 | 7,198 |
| Retained earnings | 1,558 | 1,642 | 2,102 | 2,229 | 2,403 |
| Regulatory reserves | - | - | - | - | - |
| Other reserves | 235 | -161 | -341 | -341 | -341 |
| Shareholders' funds | 8,881 | 8,679 | 8,959 | 9,086 | 9,260 |
| Minority interest | - | - | - | 0 | 0 |
| Total liabilities and equity | 48,438 | 50,681 | 54,948 | 68,233 | 67,625 |

Financial Data & Ratios

| FY Dec | 2020A | 2021A | 2022A | 2023F | 2024F |
|----------------------------|--------|--------|--------|--------|--------|
| Growth | | | | | |
| Net interest income | 18.6% | -0.8% | -8.1% | -24.4% | 6.8% |
| Non-interest income | 130.5% | -52.5% | -53.0% | 20.0% | 67.6% |
| Total income | 26.8% | -7.6% | -11.2% | -22.8% | 10.3% |
| Operating expenses | 9.2% | 23.9% | 19.9% | 7.0% | 2.9% |
| PPOP | 33.7% | -17.8% | -26.4% | -46.5% | 22.0% |
| Loan impairment | 206.8% | -93.2% | 319.7% | -14.1% | -47.8% |
| Pre-tax profit | -52.3% | 67.0% | -3.2% | -52.4% | 45.0% |
| Net Profit | -62.4% | 62.9% | 4.9% | -45.6% | 45.0% |
| Core Net Profit | -62.4% | 62.9% | 4.9% | -45.6% | 45.0% |
| Gross loans | 5.2% | 1.3% | 6.6% | 6.7% | 4.1% |
| Customer deposits | -3.6% | 1.0% | 17.7% | 17.8% | 5.6% |
| Operating metrics | | | | | |
| Est avg asset yield | 5.98% | 5.29% | 5.01% | 5.08% | 5.27% |
| Est avg funding cost | 2.86% | 2.28% | 2.39% | 3.80% | 3.73% |
| Est NIM | 3.22% | 3.12% | 2.70% | 1.90% | 1.92% |
| Cost-to-Income ratio | 34.0% | 40.4% | 44.5% | 61.4% | 57.3% |
| Credit cost (bps) | 126.8 | 8.4 | 33.9 | 27.3 | 13.5 |
| Loan-to-deposit ratio | 146.7% | 147.1% | 133.2% | 120.6% | 118.8% |
| GIL ratio | 5.0% | 4.2% | 6.1% | 6.0% | 6.0% |
| LLC Ratio | 103.7% | 100.7% | 62.4% | 65.0% | 70.0% |
| LLC Ratio (+ reg reserves) | 103.7% | 100.7% | 62.4% | 65.0% | 70.0% |
| ROA | 0.5% | 0.9% | 0.9% | 0.4% | 0.5% |
| ROE | 3.1% | 5.0% | 5.2% | 2.8% | 4.0% |
| Valuations | | | | | |
| EPS (sen) | 3.76 | 6.12 | 6.42 | 3.04 | 4.41 |
| PER (x) | 0.19 | 0.12 | 0.11 | 0.24 | 0.16 |
| Div yield (%) | 2.8 | 4.1 | 4.1 | 2.1 | 3.2 |
| BV/share (RM) | 1.24 | 1.21 | 1.25 | 1.11 | 1.13 |
| P/BV (x) | 0.59 | 0.60 | 0.58 | 0.66 | 0.64 |

Source: 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 | MP | 2.33 | 1.90 | -18.5% | 5,467 | N | 12/2023 | 22.1 | 25.3 | -60.5% | 14.7% | 10.6 | 9.2 | 0.4 | 4.3% | 11.0 | 4.7% |
| AMMB HOLDINGS BHD | OP | 3.45 | 4.30 | 24.6% | 5,341 | N | 03/2024 | 47.1 | 51.0 | 7.6% | 8.4% | 7.3 | 6.8 | 0.8 | 10.5% | 24.5 | 7.1% |
| AFFIN BANK BHD | OP | 4.19 | 4.80 | 14.6% | 13,861 | N | 03/2024 | 47.7 | 54.2 | -9.0% | 13.7% | 8.8 | 7.7 | 0.7 | 8.5% | 19.0 | 4.5% |
| BANK ISLAM MALAYSIA BHD | MP | 2.26 | 2.15 | -4.9% | 5,122 | Y | 12/2023 | 23.4 | 24.3 | 2.5% | 3.9% | 9.6 | 9.3 | 0.7 | 7.3% | 14.5 | 6.4% |
| CIMB GROUP HOLDINGS BHD | OP | 5.92 | 6.30 | 6.4% | 63,137 | N | 12/2023 | 64.2 | 66.6 | 23.0% | 3.7% | 9.2 | 8.9 | 0.9 | 10.5% | 35.0 | 5.9% |
| HONG LEONG BANK BHD | OP | 18.82 | 24.20 | 28.6% | 40,796 | N | 06/2024 | 197.9 | 210.9 | 6.1% | 6.6% | 9.5 | 8.9 | 1.0 | 11.4% | 60.0 | 3.2% |
| MALAYAN BANKING BHD | OP | 9.06 | 9.95 | 9.8% | 109,266 | 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 | 0.725 | 0.630 | -13.1% | 5,961 | Y | 12/2023 | 3.2 | 4.6 | -43.0% | 42.7% | 22.7 | 15.9 | 0.7 | 2.9% | 1.5 | 2.1% |
| PUBLIC BANK BHD | OP | 4.30 | 4.75 | 10.5% | 83,466 | N | 12/2023 | 34.6 | 38.2 | 9.7% | 10.4% | 12.4 | 11.3 | 1.6 | 13.0% | 18.0 | 4.2% |
| 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 | | | | | 356,036 | | | | | 7.3% | 6.8% | 10.8 | 10.1 | 1.1 | 10.2% | | 5.3% |

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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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

