

04 March 2024

# Bank Islam Malaysia

## Vying For Sustainable Growth

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We maintain our MARKET PERFORM call and TP of RM2.25 based on GGM-derived PBV (COE: 10.5%, TG: 3.5%, ROE: 8.0%). Post results briefing, we gathered clarity on the group's near-to-medium term targets fuelled by better landscape and capabilities. That said, we believe the stock may be fairly valued at the moment as we had accounted for more moderate growth though sustainable projections on its books, with capital downside cushioned by its solid dividend prospects. Our earnings forecasts are also unchanged.

Key takeaways from the recent briefing are as follows:

- **Financing growth to step up.** BIMB missed its revised FY23 financing growth target of 4%-5% (achieving 2.6%) owing to conscious decisions to not undertake less profitable non-retail accounts during 4QFY23, underpinned by high funding costs. The group believes its earlier 7%-8% target could materialise in FY24, as both retail and institutional banking are expected to be supportive. We believe mortgage financing will remain strong with a pivot towards more affordable house projects while businesses (namely SMEs) could benefit from a higher economic output expected for FY24. The group also adds that the roll-out of its new mobile banking platform during the year could bolster its retail presence.
- **NIMs to sustain.** Similar to most industry players, the group faced headwinds with NIM management in 4QFY23 due to intense competition for deposits, offsetting some of its leads in regaining NIMs during the year. The group presently views that the rate environment will likely remain stable, hence allowing the group to at least maintain its profit spreads going forward.
- **Asset quality management unworring.** Thanks to its continued prudence, BIMB had successfully eased its gross impaired financing to 0.92% (4QFY22: 1.27%) and expects to retain levels below 1.1% in FY24. The group notes that certain upside is encapsulated as to not overly stress screening to the point that it may undermine financing growth. However, we believe there could be fewer concerns here with a balance ECL overlay of RM88m which could be utilised. Its credit cost guidance of <30 bps is an improvement of FY23 30-40 bps target and in line with the 26 bps delivered.
- **Strong base in the medium-term.** For its overall ROE, the group looks to achieve 8% in FY24 with a target of 9%-10% in the coming years. The group has made several investments on IT infrastructure and services which could aid in sustainably growing its top line with progressive optimisation of processes looking to keep expenses lean.

**Forecasts.** Post update, we leave our FY24F/FY25F earnings mostly unchanged.

**Valuations.** Our TP of RM2.25 is based on an unchanged GGM-derived PBV of 0.64x (COE: 10.5%, TG: 3.5%, ROE: 8%) on a FY25F BVPS of RM3.47. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Investment case.** 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 peers' average (c.10%). Maintain **MARKET PERFORM**.

**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.

## MARKET PERFORM ↔

Price : RM2.53  
Target Price : RM2.25 ↔

### Share Price Performance



KLCI	1,538.02
YTD KLCI chg	5.7%
YTD stock price chg	14.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BIMB MK Equity
Market Cap (RM m)	5,734.2
Shares Outstanding	2,266.5
52-week range (H)	2.53
52-week range (L)	1.71
3-mth avg. daily vol.	1,545,601
Free Float	17%
Beta	1.0

### Major Shareholders

Lembaga Tabung Haji	48.0%
Employees Provident Fund	16.8%
Amanah Saham Nasional	6.3%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net interest Income	1,761	1,777	1,861
Non-interest Income	716	788	867
<b>Total Income</b>	<b>2,477</b>	<b>2,565</b>	<b>2,727</b>
Operating Expenses	-1,551	-1,616	-1,691
<b>Loan Impairment</b>	<b>-179</b>	<b>-194</b>	<b>-175</b>
Pre-tax Profit	747	755	861
<b>Net Profit</b>	<b>553</b>	<b>581</b>	<b>663</b>
<b>Core Net Profit</b>	<b>553</b>	<b>581</b>	<b>663</b>
Consensus NP	-	585	635
Earnings Revision (%)	-	-	-
Core EPS (RM)	0.24	0.26	0.29
EPS Growth (%)	12.5	5.1	14.1
NDPS (RM)	16.8	17.0	17.5
BV/Share (RM)	3.27	3.35	3.47
NTA/Share (RM)	3.27	3.35	3.47
ROE (%)	7.8	7.8	8.6
PER (x)	10.4	9.9	8.6
P/BV (x)	0.77	0.75	0.73
Net Div. Yield (%)	6.6	6.7	6.9



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**Income Statement**

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Net interest income	1,740	1,722	1,761	1,777	1,861
Non-interest income	449	588	716	788	867
<b>Total income</b>	<b>2,189</b>	<b>2,310</b>	<b>2,477</b>	<b>2,565</b>	<b>2,727</b>
Operating expenses	-1,287	-1,424	-1,551	-1,616	-1,691
<b>PPOP</b>	<b>902</b>	<b>886</b>	<b>926</b>	<b>949</b>	<b>1,036</b>
Loan impairments	-191	-140	-175	-199	-180
Other impairments	-7	1	-4	5	5
Associates	0	0	0	0	0
<b>Pre-tax profit</b>	<b>704</b>	<b>747</b>	<b>747</b>	<b>755</b>	<b>861</b>
Tax and zakat	-170	-255	-194	-174	-198
Minority interest	0	0	0	0	0
<b>Net Profit</b>	<b>534</b>	<b>492</b>	<b>553</b>	<b>581</b>	<b>663</b>
<b>Core Net Profit</b>	<b>534</b>	<b>492</b>	<b>553</b>	<b>581</b>	<b>663</b>

**Balance Sheet**

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Cash & ST funds	5,249	7,268	4,783	6,025	5,404
Investment securities	15,536	15,448	16,856	16,152	16,504
Loans and financing	58,154	64,902	66,817	70,826	75,076
Other assets	1,218	2,234	2,506	1,078	1,134
Intangible assets	0	0	0	0	0
<b>Total Assets</b>	<b>80,156</b>	<b>89,852</b>	<b>90,962</b>	<b>94,082</b>	<b>98,118</b>
Customer deposits	57,339	60,708	59,016	61,967	65,065
Investment Accounts	10,453	14,461	17,073	15,767	16,420
Other deposits	20	70	352	211	281
Borrowings	4,037	5,365	4,384	4,374	4,379
Other liabilities	12,360	16,913	19,809	19,934	20,530
<b>Total liabilities</b>	<b>73,756</b>	<b>83,055</b>	<b>83,562</b>	<b>86,486</b>	<b>90,256</b>
Share capital	3,446	3,645	3,889	3,889	3,889
Retained earnings	2,966	3,097	3,257	3,453	3,719
Regulatory reserves	0	136	167	167	167
Other reserves	-11	-81	87	87	87
<b>Shareholders' funds</b>	<b>6,400</b>	<b>6,796</b>	<b>7,400</b>	<b>7,596</b>	<b>7,862</b>
Minority interest	0	0	0	0	0
<b>Total liabilities and equity</b>	<b>80,156</b>	<b>89,852</b>	<b>90,962</b>	<b>94,082</b>	<b>98,118</b>

**Financial Data & Ratios**

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Growth</b>					
Net interest income	0.3%	-1.0%	2.3%	0.9%	4.7%
Non-interest income	18.7%	31.0%	21.8%	10.0%	10.0%
Total income	3.6%	5.5%	7.2%	3.5%	6.3%
Operating expenses	9.1%	10.7%	8.9%	4.1%	4.7%
PPOP	-3.4%	-1.8%	4.5%	2.5%	9.2%
Loan impairment	-8.6%	-26.6%	25.2%	13.6%	-9.5%
Pre-tax profit	-3.3%	6.1%	0.0%	1.1%	14.1%
Net Profit	-5.4%	-8.0%	12.5%	5.1%	14.1%
Core Net Profit	-5.4%	-8.0%	12.5%	5.1%	14.1%
Gross loans	6.4%	11.6%	3.0%	6.0%	6.0%
Customer deposits	12.3%	5.9%	-2.8%	5.0%	5.0%

**Operating metrics**

Est. avg. asset yield	3.56%	3.59%	4.33%	3.90%	3.90%
Est. avg. funding cost	1.21%	1.45%	2.18%	1.50%	1.55%
Est NIM	3.08%	2.80%	2.67%	2.58%	2.55%
Cost-to-Income ratio	58.8%	61.6%	62.6%	63.0%	62.0%
Credit cost (bps)	33.8	22.8	26.6	28.9	24.7
Financing-deposit & IA	85.8%	86.3%	87.8%	91.1%	92.1%
GIL ratio	0.9%	1.2%	0.9%	1.0%	1.0%
LLC Ratio	187.2%	140.8%	157.2%	152.9%	151.7%
ROA	0.7%	0.6%	0.6%	0.6%	0.7%
ROE	8.4%	7.5%	7.8%	7.8%	8.6%

**Valuations**

EPS (RM)	0.24	0.22	0.24	0.26	0.29
PER (x)	10.73	11.66	10.37	9.87	8.65
Div yield (%)	4.3	5.5	6.6	6.7	6.9
BV/share (RM)	2.82	3.00	3.27	3.35	3.47
P/BV (x)	0.90	0.84	0.77	0.75	0.73

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. (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.
<b>Stocks Under Coverage</b>																	
AFFIN BANK BHD	UP	2.60	1.80	-30.8%	6,101	N	12/2024	21.2	27.8	21.4%	31.6%	12.3	9.3	0.5	4.3%	8.0	3.1%
ALLIANCE BANK MALAYSIA BHD	OP	3.59	4.30	19.8%	5,558	N	03/2024	45.5	50.9	4.0%	11.8%	7.9	7.1	0.8	10.2%	24.5	6.8%
AMMB HOLDINGS BHD	OP	4.28	4.80	12.1%	14,158	N	03/2024	43.6	51.1	-16.9%	17.3%	9.8	8.4	0.7	9.4%	19.0	4.4%
BANK ISLAM MALAYSIA BHD	MP	2.53	2.25	-8.9%	5,734	Y	12/2024	25.6	29.3	5.1%	14.1%	9.9	8.6	0.8	7.8%	17.0	6.7%
CIMB GROUP HOLDINGS BHD	MP	6.34	6.60	4.1%	67,617	N	12/2024	67.1	69.8	2.6%	3.9%	9.4	9.1	1.0	10.3%	44.0	6.9%
HONG LEONG BANK BHD	OP	19.60	24.20	23.5%	42,487	N	06/2024	196.0	213.1	5.2%	8.7%	10.0	9.2	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.45	11.00	16.4%	114,033	N	12/2024	80.7	82.9	4.1%	2.8%	11.7	11.4	1.2	10.2%	62.0	6.6%
MALAYSIA BUILDING SOCIETY	UP	0.760	0.590	-22.4%	6,249	Y	12/2024	3.4	6.3	79.3%	82.1%	22.1	12.2	0.5	2.5%	2.0	2.6%
PUBLIC BANK BHD	OP	4.36	5.10	17.0%	84,631	N	12/2024	37.8	39.6	10.3%	4.8%	11.5	11.0	1.5	13.0%	21.0	4.8%
RHB BANK BHD	OP	5.61	7.25	29.2%	24,046	N	12/2024	72.8	76.4	11.5%	4.8%	7.7	7.3	0.8	9.9%	44.0	7.8%
<b>SECTOR AGGREGATE</b>					<b>370,614</b>					<b>5.2%</b>	<b>6.2%</b>	<b>10.6</b>	<b>10.0</b>	<b>1.1</b>	<b>10.0%</b>		<b>5.3%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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