

23 May 2024

Bank Islam Malaysia

In Need of Bigger Shots

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

BIMB's 1QFY24 net profit (+9% YoY) was within expectations with past investments and initiatives looking to possibly improve book quality and market share in the longer term. We tweak our FY24F/FY25F earnings by -2%/-1% but await further updates from an upcoming results' briefing as we get clarity on possible changes to group targets. Maintain our UNDERPERFORM call and GGM-derived PBV TP of RM2.25.

Within expectations. BIMB's 1QFY24 net profit of RM129.2m came in as expected, making up 22% of both our full-year forecast and consensus full-year estimates. No dividend was declared this quarter, also as expected.

YoY, 1QFY24 net Islamic revenue remained flattish from a tight mix of profit spreads, in spite of a 2% financing growth. That said, investment results were more favourable (+8%) which led to a total income gain of 2%. While cost-income ratio rose to 64.7% (+1.5 ppts) from higher personnel and IT spend, lower provisions during the period (credit cost at 25 bps, -13 bps) ultimately supported a 1QFY24 net earnings growth of 9%.

QoQ, total income fell by 3% as net Islamic income saw a correction in NIMs (2.76%, -14 bps) while investment returns eased. Similarly, credit cost also normalised to 25 bps (+19 bps) following the previous quarter's heavier writebacks. All in, this led to QoQ earnings to decrease by 18%.

Outlook. Its moderate loans growth may be in line with the group's initial stance to not undertake less profitable non-retail accounts which have higher funding costs attached. We observed that the sustenance of below industry gross impaired loans (0.95% vs industry's 1.6%) could also reflect greater prudence towards the onboarding of new customers. That said, while the group previously stated on its roll-out of a new mobile banking platform (likely the cause of the higher IT expenses) to capture a wider retail presence, we believe it may only see fruition in the longer-term as the competitive landscape continues to be highly competitive.

Forecasts. Post results, we adjust our FY24F/FY25F earnings by -2%/-1% following our model updates. We may incorporate further adjustments pending the upcoming briefing on 23 May 2024.

Valuations. We maintain our TP of RM2.25 based on an unchanged GGM-derived FY25F PBV of 0.64x (COE: 10.5%, TG: 3.5%, ROE: 8%) on a FY25F BVPS of RM3.46. 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-compliant investors paired by commendable dividend yields of c.7%, we believe it may be excessively 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 **UNDERPERFORM**.

Risks to our call include: (i) higher-than-expected margin expansion, (ii) higher-than-expected loans growth, (iii) better-than-expected asset quality, (iv) surge in capital market activities, (v) favourable currency fluctuations, and (vi) changes to OPR.

UNDERPERFORM ↔

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

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,622.09 |
| YTD KLCI chg | 11.5% |
| 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) | 2.62 |
| 52-week range (L) | 1.71 |
| 3-mth avg. daily vol. | 2,490,423 |
| Free Float | 16% |
| Beta | 1.1 |

Major Shareholders

| | |
|--------------------------|-------|
| Lembaga Tabung Haji | 48.0% |
| Employees Provident Fund | 17.2% |
| Amanah Saham Nasional | 8.0% |

Summary Earnings Table

| FY Dec (RM m) | 2023A | 2024F | 2025F |
|------------------------|--------------|--------------|--------------|
| Net interest Income | 1,761 | 1,742 | 1,839 |
| Non-interest Income | 716 | 788 | 867 |
| Total Income | 2,477 | 2,530 | 2,705 |
| Operating Expenses | -1,551 | -1,594 | -1,677 |
| Loan Impairment | -179 | -194 | -175 |
| Pre-tax Profit | 747 | 742 | 853 |
| Net Profit | 553 | 571 | 657 |
| Core Net Profit | 553 | 571 | 657 |
| Consensus NP | - | 597 | 643 |
| Earnings Revision (%) | - | -1.7 | -1.0 |
| Core EPS (RM) | 0.24 | 0.25 | 0.29 |
| EPS Growth (%) | 12.5 | 3.3 | 14.9 |
| NDPS (RM) | 16.8 | 17.0 | 17.5 |
| BV/Share (RM) | 3.27 | 3.35 | 3.46 |
| NTA/Share (RM) | 3.27 | 3.35 | 3.46 |
| ROE (%) | 7.8 | 7.6 | 8.5 |
| PER (x) | 10.4 | 10.0 | 8.7 |
| P/BV (x) | 0.77 | 0.76 | 0.73 |
| Net Div. Yield (%) | 6.6 | 6.7 | 6.9 |



23 May 2024

Results Highlights

| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
|---|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| FYE Dec (RM m) | FY24 | FY23 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| Net Islamic income | 480.8 | 486.3 | -1.1% | 480.0 | 0.2% | 480.8 | 480.0 | 0.2% |
| Investment of shareholders' funds | 137.0 | 153.5 | -10.8% | 127.3 | 7.6% | 137.0 | 127.3 | 7.6% |
| Total income | 617.8 | 639.8 | -3.4% | 607.3 | 1.7% | 617.8 | 607.3 | 1.7% |
| Operating expenses | -399.4 | -421.0 | -5.1% | -384.0 | 4.0% | -399.4 | -384.0 | 4.0% |
| Pre-impairment profit | 218.3 | 218.8 | -0.2% | 223.3 | -2.2% | 218.3 | 223.3 | -2.2% |
| (Allowances)/ write-backs | -42.3 | -10.4 | 308.3% | -62.0 | -31.8% | -42.3 | -62.0 | -31.8% |
| (Allowances)/ write-backs on other assets | 0.1 | -4.4 | -102.3% | 0.1 | -28.9% | 0.1 | 0.1 | -28.9% |
| Operating profit | 176.2 | 204.1 | -13.7% | 161.5 | 9.1% | 176.2 | 161.5 | 9.1% |
| Non-operating gains / (losses) | 0.0 | 0.0 | N.M | 0.0 | N.M. | 0.0 | 0.0 | N.M |
| Profit before tax | 176.2 | 204.1 | -13.7% | 161.5 | 9.1% | 176.2 | 161.5 | 9.1% |
| Taxation | -45.4 | -45.8 | -0.7% | -43.4 | 4.6% | -45.4 | -43.4 | 4.6% |
| Minority interest | -1.6 | 0.0 | N.M | 0.0 | N.M. | -1.6 | 0.0 | N.M |
| Net Profit | 129.2 | 158.3 | -18.4% | 118.1 | 9.4% | 129.2 | 118.1 | 9.4% |
| Core Net Profit | 129.2 | 158.3 | -18.4% | 118.1 | 9.4% | 129.2 | 118.1 | 9.4% |
| Gross financing | 67,790 | 67,625 | 0.2% | 66,195 | 2.4% | 67,790 | 66,195 | 2.4% |
| Gross impaired loans | 642 | 636 | 0.9% | 908 | -29.3% | 642 | 908 | -29.3% |
| Customer deposits | 59,108 | 59,016 | 0.2% | 57,283 | 3.2% | 59,108 | 57,283 | 3.2% |
| Current and savings account (CASA) | 20,131 | 20,746 | -3.0% | 19,303 | 4.3% | 20,131 | 19,303 | 4.3% |
| Total assets | 90,976 | 90,962 | 0.0% | 92,074 | -1.2% | 90,976 | 92,074 | -1.2% |
| Shareholders' equity | 7,450 | 7,400 | 0.7% | 7,184 | 3.7% | 7,450 | 7,184 | 3.7% |
| Est. annualised NIM | 2.76% | 2.90% | | 2.28% | | 2.76% | 2.70% | |
| Cost-to-income ratio | 64.7% | 65.8% | | 63.2% | | 64.7% | 63.2% | |
| Annualised credit cost (bps) | 25.0 | 6.1 | | 37.5 | | 25.0 | 37.5 | |
| Effective tax rate | 25.8% | 22.4% | | 26.9% | | 25.8% | 26.9% | |
| Annualised ROA | 0.6% | 0.7% | | 0.5% | | 0.6% | 0.5% | |
| Annualised ROE | 7.0% | 8.5% | | 6.8% | | 7.0% | 6.8% | |
| Gross impaired financing ratio | 0.95% | 0.94% | | 1.37% | | 0.95% | 1.37% | |
| Financing loss coverage ratio (FLC) | 123.4% | 127.0% | | 117.7% | | 123.4% | 117.7% | |
| FLC plus regulatory reserves | 149.4% | 153.3% | | 135.4% | | 149.4% | 135.4% | |
| Financing-to-deposit ratio | 90.3% | 90.4% | | 87.6% | | 90.3% | 87.6% | |
| CASA-to-deposit ratio | 40.1% | 39.9% | | 42.5% | | 40.1% | 42.5% | |
| CET-1 capital (Group level) | 13.9% | 14.1% | | 15.1% | | 13.9% | 15.1% | |

Source: Company, Kenanga Research

Management Guidance

| | FY24 Targets | FY23 Performance |
|--------------------------|--------------|------------------|
| Financing growth | 7-8% | 11.4% |
| Gross impaired financing | <1.1% | 0.92% |
| Credit cost | <30 bps | 26 bps |
| ROE | 8% | 7.8% |

Source: Company, Kenanga Research

23 May 2024

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 | | | | | | | | | | | | | | | | | |
| ALLIANCE BANK MALAYSIA BHD | UP | 2.53 | 1.80 | -28.9% | 5,937 | N | 12/2024 | 21.0 | 27.7 | 20.4% | 31.9% | 12.1 | 9.1 | 0.5 | 4.3% | 8.0 | 3.2% |
| AMMB HOLDINGS BHD | OP | 3.77 | 4.30 | 14.1% | 5,836 | N | 03/2024 | 45.5 | 50.9 | 4.0% | 11.8% | 8.3 | 7.4 | 0.8 | 10.2% | 24.5 | 6.5% |
| AFFIN BANK BHD | OP | 4.26 | 4.80 | 12.7% | 14,087 | N | 03/2024 | 43.6 | 51.1 | -16.9% | 17.3% | 9.8 | 8.3 | 0.7 | 9.4% | 19.0 | 4.5% |
| BANK ISLAM MALAYSIA BHD | UP | 2.53 | 2.25 | -11.1% | 5,734 | Y | 12/2024 | 25.2 | 29.0 | 3.3% | 14.9% | 10.0 | 8.7 | 0.8 | 7.6% | 17.0 | 6.7% |
| CIMB GROUP HOLDINGS BHD | MP | 6.84 | 6.60 | -3.5% | 73,057 | N | 12/2024 | 67.1 | 69.8 | 2.6% | 3.9% | 10.2 | 9.8 | 1.0 | 10.3% | 44.0 | 6.4% |
| HONG LEONG BANK BHD | OP | 19.42 | 24.20 | 24.6% | 42,097 | N | 06/2024 | 196.0 | 213.1 | 5.2% | 8.7% | 9.9 | 9.1 | 1.1 | 11.3% | 60.0 | 3.1% |
| MALAYAN BANKING BHD | OP | 9.99 | 11.00 | 10.1% | 120,549 | N | 12/2024 | 80.7 | 82.9 | 4.1% | 2.8% | 12.4 | 12.0 | 1.2 | 10.2% | 62.0 | 6.2% |
| MALAYSIA BUILDING SOCIETY BHD | UP | 0.920 | 0.590 | -35.9% | 7,565 | Y | 12/2024 | 3.4 | 6.3 | 79.3% | 82.1% | 26.8 | 14.7 | 0.7 | 2.5% | 2.0 | 2.2% |
| PUBLIC BANK BHD | OP | 4.19 | 5.10 | 21.7% | 81,331 | N | 12/2024 | 37.3 | 39.3 | 9.0% | 5.4% | 11.2 | 10.7 | 1.4 | 12.9% | 21.0 | 5.0% |
| RHB BANK BHD | OP | 5.49 | 7.25 | 32.1% | 23,934 | N | 12/2024 | 71.3 | 74.7 | 9.1% | 4.8% | 7.7 | 7.3 | 0.7 | 9.7% | 43.0 | 7.8% |
| SECTOR AGGREGATE | | | | | 380,126 | | | | | 4.7% | 6.4% | 11.0 | 10.3 | 1.1 | 9.9% | | 5.2% |

Source: Kenanga Research

This section is intentionally left blank

23 May 2024

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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

