

24 May 2024

# Bank Islam Malaysia

## Banking on More Retail Business

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We maintain our TP of RM2.25 based on GGM-derived PBV (COE: 10.5%, TG: 3.5%, ROE: 8.0%), and earnings forecasts. Post results briefing, BIMB maintained its FY24 targets in spite of a softer 1Q and believes it is poised to see a stronger trajectory subsequently. We derived our forecasts from more conservative estimates, which may reflect a more favourable risk-reward for the stock at current price points. Upgrade to MP from UP.

Key takeaways from the recent briefing are as follows:

- **Sticking to 7%-8% financing growth.** While BIMB's 1QFY24 report saw gross financing only inched up 2% YoY (+0.2% QoQ), the group stays firm with its initial 7%-8% growth target for the year. The group cites seasonal weakness during the recent quarter to more crowded festivities. Retail books will likely stay afloat thanks to mortgage financing demand being sustained. That said, the group may see softness in building its corporate portfolio (23% of total financing) as it opts to be more selective in onboarding more profitable accounts.
- **Balancing profit and risk.** The group's gross impaired financing target of below 1.1% indicates a notable allowance from its 1QFY24 reporting of 0.95%. To support earnings, the group seems keen to increase its exposure to higher-profit-but-higher-risk SME accounts. We opine that economic risks for this segment could likely taper with a better economic outlook expected in CY24. These smaller business accounts could also be more inclined to tap into BIMB's wider product offerings and bolster fee-based income in addition to fund-based income.
- **NIMs hopeful to be stable.** Given that the landscape for both financing and deposits remain competitive, the group is eyeing to average NIMs in line with FY23's performance. We opine the industry may continue to operate tightly with its rates until further adjustments to OPR.
- **Cost load up to stay.** In line with its intent to sustainably grow top line with progressive optimisation of processes looking to keep expenses lean, the group will continue to invest in its IT infrastructure and services. While it looks to spread an investment of RM100m across three years, this is keeping in mind for cost-income to be close to 60% for the year.

**Forecasts.** Unchanged. We highlight that our model inputs are conservative against the group's guidance, where we anticipate financing growth to be closer to 6% with ROE of 7.6% being slightly shy of its 8.0% FY24 target.

**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 RM3.46. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

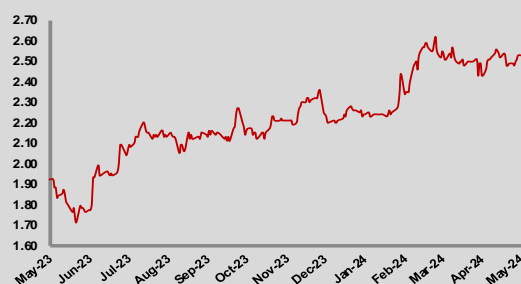
**Investment case.** The stock may see interest from shariah-compliant investors paired by commendable dividend yields of c.7%, with recent correction in share price leaning to more favourable risk-reward for the stock. This could make up for BIMB's lower-than-peers ROE average (c.10%). Upgrade to **MARKET PERFORM** from **UNDERPERFORM**.

**Risks to our call include:** (i) lower-than-expected interest margin, (ii) 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 : RM2.50  
Target Price : RM2.25 ↔

### Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	13.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BIMB MK Equity
Market Cap (RM m)	5,666.2
Shares Outstanding	2,266.5
52-week range (H)	2.62
52-week range (L)	1.71
3-mth avg. daily vol.	2,514,558
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
<b>Total Income</b>	<b>2,477</b>	<b>2,530</b>	<b>2,705</b>
Operating Expenses	-1,551	-1,594	-1,677
<b>Loan Impairment</b>	<b>-179</b>	<b>-194</b>	<b>-175</b>
Pre-tax Profit	747	742	853
<b>Net Profit</b>	<b>553</b>	<b>571</b>	<b>657</b>
<b>Core Net Profit</b>	<b>553</b>	<b>571</b>	<b>657</b>
Consensus NP	-	596	642
Earnings Revision (%)	-	-	-
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)	10.2	9.9	8.6
P/BV (x)	0.77	0.75	0.72
Net Div. Yield (%)	6.7	6.8	7.0

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**Income Statement**

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Net interest income	1,740	1,722	1,761	1,742	1,839
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>2,530</b>	<b>2,705</b>
Operating expenses	-1,287	-1,424	-1,551	-1,594	-1,677
<b>PPOP</b>	<b>902</b>	<b>886</b>	<b>926</b>	<b>936</b>	<b>1,028</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>742</b>	<b>853</b>
Tax and zakat	-170	-255	-194	-171	-196
Minority interest	0	0	0	0	0
<b>Net Profit</b>	<b>534</b>	<b>492</b>	<b>553</b>	<b>571</b>	<b>657</b>
<b>Core Net Profit</b>	<b>534</b>	<b>492</b>	<b>553</b>	<b>571</b>	<b>657</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	1,074	1,126
Intangible assets	0	0	0	0	0
<b>Total Assets</b>	<b>80,156</b>	<b>89,852</b>	<b>90,962</b>	<b>94,077</b>	<b>98,110</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	19,939	20,538
<b>Total liabilities</b>	<b>73,756</b>	<b>83,055</b>	<b>83,562</b>	<b>86,491</b>	<b>90,264</b>
Share capital	3,446	3,645	3,889	3,889	3,889
Retained earnings	2,966	3,097	3,257	3,443	3,703
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>7,586</b>	<b>7,846</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>94,077</b>	<b>98,110</b>

**Financial Data & Ratios**

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Growth</b>					
Net interest income	0.3%	-1.0%	2.3%	-1.1%	5.5%
Non-interest income	18.7%	31.0%	21.8%	10.0%	10.0%
Total income	3.6%	5.5%	7.2%	2.1%	6.9%
Operating expenses	9.1%	10.7%	8.9%	2.7%	5.2%
PPOP	-3.4%	-1.8%	4.5%	1.1%	9.8%
Loan impairment	-8.6%	-26.6%	25.2%	13.6%	-9.5%
Pre-tax profit	-3.3%	6.1%	0.0%	-0.6%	14.9%
Net Profit	-5.4%	-8.0%	12.5%	3.3%	14.9%
Core Net Profit	-5.4%	-8.0%	12.5%	3.3%	14.9%
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%	3.85%	3.87%
Est. avg. funding cost	1.21%	1.45%	2.18%	1.50%	1.55%
Est NIM	3.08%	2.80%	2.67%	2.53%	2.52%
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%	124.5%	130.2%	130.0%	130.0%
ROA	0.7%	0.6%	0.6%	0.6%	0.7%
ROE	8.4%	7.5%	7.8%	7.6%	8.5%

**Valuations**

EPS (RM)	0.24	0.22	0.24	0.25	0.29
PER (x)	10.60	11.52	10.25	9.92	8.63
Div yield (%)	4.4	5.5	6.7	6.8	7.0
BV/share (RM)	2.82	3.00	3.27	3.35	3.46
P/BV (x)	0.89	0.83	0.77	0.75	0.72

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	2.52	1.80	-28.6%	5,913	N	12/2024	21.0	27.7	20.4%	31.9%	12.0	9.1	0.5	4.3%	8.0	3.2%
ALLIANCE BANK MALAYSIA BHD	OP	3.81	4.30	12.9%	5,898	N	03/2024	45.5	50.9	4.0%	11.8%	8.4	7.5	0.8	10.2%	24.5	6.4%
AMMB HOLDINGS BHD	OP	4.30	4.80	11.6%	14,219	N	03/2024	43.6	51.1	-16.9%	17.3%	9.9	8.4	0.7	9.4%	19.0	4.4%
BANK ISLAM MALAYSIA BHD	MP	2.50	2.25	-10.0%	5,666	Y	12/2024	25.2	29.0	3.3%	14.9%	9.9	8.6	0.7	7.6%	17.0	6.8%
CIMB GROUP HOLDINGS BHD	MP	6.88	6.60	-4.1%	73,484	N	12/2024	67.1	69.8	2.6%	3.9%	10.2	9.9	1.0	10.3%	44.0	6.4%
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	9.99	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	UP	0.930	0.590	-36.6%	7,647	Y	12/2024	3.4	6.3	79.3%	82.1%	27.1	14.9	0.7	2.5%	2.0	2.2%
PUBLIC BANK BHD	OP	4.20	5.10	21.4%	81,525	N	12/2024	37.3	39.3	9.0%	5.4%	11.3	10.7	1.4	12.9%	21.0	5.0%
RHB BANK BHD	OP	5.52	7.25	31.3%	24,064	N	12/2024	71.3	74.7	9.1%	4.8%	7.7	7.4	0.7	9.7%	43.0	7.8%
<b>SECTOR AGGREGATE</b>					<b>381,453</b>					<b>4.7%</b>	<b>6.4%</b>	<b>11.0</b>	<b>10.3</b>	<b>1.1</b>	<b>9.9%</b>		<b>5.1%</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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