

31 May 2024

Malaysia Building Society

More Fees Incoming

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

MBSB's 1QFY24 core net profit (+6% YoY) beat expectations, thanks to stronger non-interest income on contributions from MIDF's business units. This led us to upgrade our FY24F-FY25F earnings by 14%-5%. While the group appears to be gradually improving, further effort may be needed to see earnings meaningfully turn around in the near term. **Maintain UNDERPERFORM** and GGM-derived PBV TP of RM0.59.

Above expectations. MBSB's 1QFY24 made up of 31% of our full-year forecast, where we had under-accounted for a higher fee based income generated by the injection of MIDF to the group.

YoY, 1QFY24 total income rose by 36% where the group appear to have regained its NIMs (2.03%, +5 bps) while supported by a 10% growth in gross financing. Meanwhile, its non-interest income surged by >800% thanks to new fee-based income streams courtesy of MIDF's investment and advisory services. In spite of this, core net profit only improved by 6% as operating expenses also increased drastically (+69%) from MIDF's consolidated operations.

QoQ, 1QFY24 net Islamic income gained 63% with significant recoveries to NIMs which led to total income to surge by 78%. On the flipside, excluding a one-off gain on the acquisition of MIDF of RM354m, core net profit would have translated to an improvement of 247% from the stronger top line.

Outlook. MBSB appears to show an encouraging recovery in most of the revenue streams as it continues to capture a greater financing share within the retail segments. Meanwhile, its rising CASA mix at 7.1% (+0.9ppt) will serve the group well in better managing its funding costs. The group also appears to be reaping the fruits from the integration with MIDF, where it hopes to benefit from synergistic gains in terms of crossing selling services and operational efficiency.

Forecasts. We raise our FY24F-FY25F by 14%-5% as we increase the group's fee-based income contributions.

Maintain UNDERPERFORM and TP of RM0.59. Our TP is based on an unchanged GGM-derived PBV of 0.42x (COE: 9.2%, TG: 2%, ROE: 5%). Although the merger with MIDF is complete, the synergies between the two may only be extracted in a longer term. 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. Additionally, the group's ROE prospects still leave plenty of room for improvement against its peer average of 10%.

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.

UNDERPERFORM ↔

Price : RM0.885
Target Price : RM0.59 ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	24.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBS MK Equity
Market Cap (RM m)	7,276.7
Shares Outstanding	8,222.3
52-week range (H)	0.94
52-week range (L)	0.62
3-mth avg. daily vol.	13,961,530
Free Float	27%
Beta	0.7

Major Shareholders

Employees Provident Fund	57.5%
Yayasan Pelaburan Bumiputra	12.8%
HSBC Holdings PLC	1.6%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net Interest Income	998	1,138	1,440
Non-interest Income	393	102	123
Total Income	1,392	1,240	1,563
Operating Expenses	-712	-723	-741
Loan Impairment	-120	-148	-201
Pre-tax Profit	560	369	621
Net Profit	492	281	472
Core Net Profit	137	281	472
Consensus NP	-	-	-
Earnings Revision	-	+14.1%	+5.2%
Core EPS (RM)	1.9	3.9	6.6
EPS Growth (%)	-70.1	104.3	68.2
NDPS (RM)	-	2.0	3.5
BV/Share (RM)	1.37	1.39	1.42
NTA/Share (RM)	1.33	1.35	1.38
ROE (%)	5.2	2.8	4.7
PER (x)	0.5	0.2	0.1
P/BV (x)	0.65	0.64	0.62
Net Div. Yield (%)	-	2.3	4.0

31 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	310.9	190.6	63.2%	262.2	18.6%	310.9	262.2	18.6%
Net interest income	13.3	12.8	3.5%	1.8	654.5%	13.3	1.8	654.5%
Non-interest income	40.6	2.2	1784.3%	4.3	842.6%	40.6	4.3	842.6%
Modification loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Total income	364.8	205.5	77.5%	268.2	36.0%	364.8	268.2	36.0%
Operating expenses	-214.2	-232.7	-7.9%	-127.0	68.7%	-214.2	-127.0	68.7%
Pre-impairment profit	150.6	-27.2	-654.5%	141.2	6.6%	150.6	141.2	6.6%
(Allowances)/ write-backs	-48.8	-7.5	553.4%	-84.1	-41.9%	-48.8	-84.1	-41.9%
(Allowances)/ write-backs on other assets	3.8	-22.5	-116.9%	27.3	-86.0%	3.8	27.3	-86.0%
Operating profit	105.6	-57.1	-284.8%	84.4	25.0%	105.6	84.4	25.0%
Extraordinary Items	0.0	354.4	-100.0%	0.0	N.M.	0.0	0.0	N.M
Profit before tax	105.6	297.3	-64.5%	84.4	25.0%	105.6	84.4	25.0%
Taxation	-27.6	3.9	-810.8%	-10.3	167.8%	-27.6	-10.3	167.8%
Net Profit	78.3	301.1	-74.0%	74.1	5.7%	78.3	74.1	5.7%
Core Net Profit	78.3	-53.2	-247.2%	74.1	5.7%	78.3	74.1	5.7%
Gross financing	42,944	42,044	2.1%	39,152	9.7%	42,944	39,152	9.7%
Gross impaired financing	3,037	3,056	-0.6%	2,732	11.2%	3,037	2,732	11.2%
Customer deposits	47,904	47,624	0.6%	37,852	26.6%	47,904	37,852	26.6%
Current and savings account	3,411	2,774	22.9%	2,338	45.9%	3,411	2,338	45.9%
Total assets	65,610	66,663	-1.6%	55,269	18.7%	65,610	55,269	18.7%
Shareholders' equity	9,943	9,838	1.1%	8,547	16.3%	9,943	8,547	16.3%
Est. annualised NIM*	2.03%	1.35%		1.98%		2.03%	1.98%	
Cost-to-income ratio*	58.7%	113.2%		47.3%		58.7%	47.3%	
Annualised credit cost (bps)	42.4	7.2		58.5		42.4	58.5	
Effective tax rate	26.1%	-1.3%		12.2%		26.1%	12.2%	
Annualised ROA	0.5%	1.9%		0.5%		0.5%	0.5%	
Annualised ROE	3.2%	-2.3%		3.4%		3.2%	3.4%	
Gross impaired loans ratio	7.1%	7.3%		7.0%		7.1%	7.0%	
Loan loss coverage ratio (LLC)	51.7%	50.8%		57.4%		51.7%	57.4%	
LLC plus regulatory reserves	55.2%	54.3%		57.4%		55.2%	57.4%	
Loan-to-deposit ratio	86.4%	85.0%		99.3%		86.4%	99.3%	
CASA-to-deposit ratio	7.1%	5.8%		6.2%		7.1%	6.2%	

Source: 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. 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	UP	2.42	1.80	-25.6%	5,679	N	12/2024	21.0	27.7	20.4%	31.9%	11.5	8.7	0.5	4.3%	8.0	3.3%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.60	18.9%	5,991	N	03/2025	50.2	52.7	12.5%	5.2%	7.7	7.3	0.8	10.5%	25.0	6.5%
AMMB HOLDINGS BHD	OP	4.22	5.20	23.2%	13,955	N	03/2025	55.3	56.3	17.5%	1.8%	7.6	7.5	0.7	9.1%	22.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.41	2.25	-6.6%	5,462	Y	12/2024	25.2	29.0	3.3%	14.9%	9.6	8.3	0.7	7.6%	17.0	7.1%
CIMB GROUP HOLDINGS BHD	MP	6.84	6.60	-3.5%	73,074	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	19.26	26.20	36.0%	41,750	N	06/2024	199.6	215.2	7.1%	7.8%	9.7	9.0	1.1	11.5%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.90	11.00	11.1%	119,463	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.8	1.2	10.1%	62.0	6.3%
MALAYSIA BUILDING SOCIETY BHD	UP	0.885	0.590	-33.3%	7,277	Y	12/2024	3.9	6.6	104.4%	68.2%	22.6	13.4	0.6	2.8%	2.0	2.3%
PUBLIC BANK BHD	OP	4.08	5.10	25.0%	79,196	N	12/2024	37.3	39.3	9.0%	5.4%	10.9	10.4	1.4	12.9%	21.0	5.1%
RHB BANK BHD	OP	5.48	7.25	32.3%	23,890	N	12/2024	70.8	73.5	8.3%	3.9%	7.7	7.5	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					375,736					6.6%	5.8%	10.7	10.1	1.1	10.0%		5.3%

Source: Kenanga Research

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31 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.**

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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

