

04 June 2024

# Malaysia Building Society

## Hopeful to Continue its Momentum

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We maintain our GGM-derived PBV TP of RM0.59 (COE: 9.2%, TG: 2.0%, ROE: 6.0%) and UNDERPERFORM call with forecasts relatively unchanged post briefing. The group reflected on further efforts to drive profits. While we are encouraged by new streams brought about by MIDF's business units, we prefer to remain conservative with the group's medium-term trajectory going forward as it could be exposed to integration risks.

We came away from MBSB's 1QFY24 results briefing with the key takeaways as follows:

- **On track to growing fund-based streams.** The group's combined entity saw net fund-based income growing by 23% YoY, with headway attributed mostly to gains in the commercial business. That said, the group expresses a target to be more corporate-centric, aspiring to bring its 68:32 retail:corporate loans mix closer to 60:40 in the medium term.
- **Eyeballing stable NIMs at 2.00%.** From its 1QFY24 NIM of 2.1%, the group hopes to maintain this and meet its target of 2.0% for FY24. Its recent quarter showed that the group had brought up CASA mix to 7.1% (1QFY23: 6.2%) but this could be attributed to a seasonal need for cash. To build stickiness, the group aims to launch new app-based solutions with transactional tools by 3QFY24.
- **New fee-based services a decent support.** Following MIDF's injection, the group now has exposure to deal-dependent advisory services in addition to brokerage fees which typically do well in more vibrant investment markets. Meanwhile, government grants awarded by MIDF are also captured into the group's books. Following its plan to offer more holistic banking solutions, the group estimates for the synergising of its business units to be completed by 3QFY24, whereby cross selling opportunities may be more easily capitalised.
- **Scrubbing up the books.** Excluding its Ihsan-I accounts, MBSB's gross impaired financing has improved to 6.3% (4QFY23: 6.6%), and could be working its way to its 4%-5% target. This target was previously earmarked as the group sees opportunities in disposing several long-term NPLs. Meanwhile, with up to 40% of its impaired financing fully collateralised, which could indicate that a financing loss coverage of 54% to be sufficient.

**Forecasts.** Relatively unchanged.

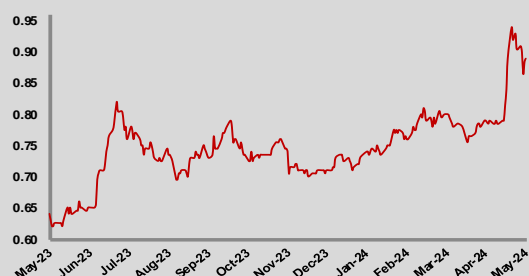
**Maintain UNDERPERFORM and TP of RM0.59.** Our TP is based on an unchanged GGM-derived FY24F PBV of 0.42x (COE: 9.2%, TG: 2%, ROE: 5%). Although the merger with MIDF is complete, the synergies between the two may only be extracted in a longer term. Additionally, the group may also require greater efforts 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 : RM0.89  
Target Price : RM0.59 ↔

### Share Price Performance



KLCI	1,596.68
YTD KLCI chg	9.8%
YTD stock price chg	25.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBS MK Equity
Market Cap (RM m)	7,317.9
Shares Outstanding	8,222.3
52-week range (H)	0.94
52-week range (L)	0.62
3-mth avg. daily vol	13,924,900
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
<b>Total Income</b>	<b>1,392</b>	<b>1,240</b>	<b>1,563</b>
Operating Expenses	-712	-723	-741
<b>Loan Impairment</b>	<b>-120</b>	<b>-148</b>	<b>-201</b>
Pre-tax Profit	560	369	621
<b>Net Profit</b>	<b>492</b>	<b>281</b>	<b>472</b>
<b>Core Net Profit</b>	<b>137</b>	<b>281</b>	<b>472</b>
Consensus NP	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	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	0.63
Net Div. Yield (%)	-	2.2	3.9



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**Income Statement**

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Net interest income	1,541	1,467	998	1,138	1,440
Non-interest income	113	53	393	102	123
<b>Total income</b>	<b>1,654</b>	<b>1,520</b>	<b>1,392</b>	<b>1,240</b>	<b>1,563</b>
Operating expenses	-542	-650	-712	-723	-741
<b>PPOP</b>	<b>1,112</b>	<b>870</b>	<b>680</b>	<b>517</b>	<b>822</b>
Loan impairments	-30	-127	-119	-148	-201
Other impairments	-56	8	-1	0	0
Associates	0	0	0	0	0
<b>Pre-tax profit</b>	<b>714</b>	<b>691</b>	<b>560</b>	<b>369</b>	<b>621</b>
Tax and zakat	-275	-231	-68	-89	-149
Minority interest	0	0	0	0	0
<b>Net Profit</b>	<b>439</b>	<b>460</b>	<b>492</b>	<b>281</b>	<b>472</b>
<b>Core Net Profit</b>	<b>439</b>	<b>460</b>	<b>137</b>	<b>281</b>	<b>472</b>

**Balance Sheet**

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Cash & ST funds	655	2,221	5,647	3,149	3,277
Investment securities	12,682	13,259	17,529	18,732	19,493
Loans and financing	33,762	36,934	40,492	42,602	45,214
Other assets	3,283	2,242	2,686	6,154	6,291
Intangible assets	299	293	309	309	309
<b>Total Assets</b>	<b>50,681</b>	<b>54,948</b>	<b>66,663</b>	<b>70,946</b>	<b>74,584</b>
Customer deposits	24,602	28,957	38,800	41,280	43,813
Deposits & placements	8,650	7,511	8,824	8,812	9,353
Borrowings	5,509	6,786	6,229	10,498	10,895
Other liabilities	3,242	2,735	2,972	380	326
<b>Total liabilities</b>	<b>42,002</b>	<b>45,989</b>	<b>56,825</b>	<b>60,971</b>	<b>64,387</b>
Share capital	7,198	7,198	7,970	7,970	7,970
Retained earnings	1,642	2,102	1,877	2,014	2,236
Regulatory reserves	-	-	107	107	107
Other reserves	-161	-341	-116	-116	(116)
<b>Shareholders' funds</b>	<b>8,679</b>	<b>8,959</b>	<b>9,838</b>	<b>9,975</b>	<b>10,197</b>
Minority interest	-	-	0	0	0
<b>Total liabilities and equity</b>	<b>50,681</b>	<b>54,948</b>	<b>66,663</b>	<b>70,946</b>	<b>74,584</b>

**Financial Data & Ratios**

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Growth</b>					
Net interest income	-0.8%	-4.8%	-32.0%	14.0%	26.6%
Non-interest income	-52.5%	-53.0%	638.7%	-74.0%	20.0%
Total income	-7.6%	-8.1%	-8.5%	-10.9%	26.0%
Operating expenses	23.9%	19.9%	9.4%	1.6%	2.4%
PPOP	-17.8%	-21.8%	-21.8%	-24.0%	59.0%
Loan impairment	-93.2%	319.7%	-5.9%	24.0%	36.2%
Pre-tax profit	67.0%	-3.2%	-19.0%	-34.0%	68.2%
Net Profit	62.9%	4.9%	6.9%	-42.9%	68.2%
Core Net Profit	62.9%	4.9%	-70.1%	104.3%	68.2%
Gross loans	-0.6%	9.4%	9.6%	5.2%	6.1%
Customer deposits	1.0%	17.7%	34.0%	6.4%	6.1%
<b>Operating metrics</b>					
Est avg asset yield	5.53%	5.31%	4.79%	4.74%	5.21%
Est avg funding cost	2.28%	2.39%	3.34%	3.61%	3.47%
Est NIM	3.26%	2.91%	1.70%	1.75%	2.15%
Cost-to-Income ratio	40.4%	44.5%	51.1%	58.3%	47.4%
Credit cost (bps)	8.9	35.8	30.7	35.5	45.8
Loan-to-deposit ratio	137.2%	127.5%	104.4%	103.2%	103.2%
GIL ratio	4.5%	6.3%	6.9%	6.9%	6.7%
LLC Ratio	100.7%	62.4%	50.8%	50.0%	55.0%
LLC Ratio (+ reg reserves)	100.7%	62.4%	54.3%	53.3%	58.3%
ROA	0.9%	0.9%	0.8%	0.4%	0.6%
ROE	5.0%	5.2%	5.2%	2.8%	4.7%
<b>Valuations</b>					
EPS (sen)	6.12	6.42	1.92	3.92	6.59
PER (x)	0.15	0.14	0.46	0.23	0.14
Div yield (%)	3.4	9.6	-	2.2	3.9
BV/share (RM)	1.21	1.25	1.37	1.39	1.42
P/BV (x)	0.74	0.71	0.65	0.64	0.63

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	3.87	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	4.25	5.20	22.4%	14,054	N	03/2025	55.3	56.3	17.5%	1.8%	7.7	7.5	0.7	9.1%	22.0	5.2%
BANK ISLAM MALAYSIA BHD	MP	2.51	2.25	-10.4%	5,689	Y	12/2024	25.2	29.0	3.3%	14.9%	10.0	8.7	0.7	7.6%	17.0	6.8%
CIMB GROUP HOLDINGS BHD	OP	6.84	7.60	11.1%	73,074	N	12/2024	68.5	72.5	4.7%	5.8%	10.0	9.4	1.0	10.5%	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%	9.6	8.9	1.1	11.5%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.93	11.00	10.8%	119,825	N	12/2024	80.0	83.6	3.2%	4.5%	12.4	11.9	1.2	10.1%	62.0	6.2%
MALAYSIA BUILDING SOCIETY	UP	0.890	0.590	-33.7%	7,318	Y	12/2024	3.9	6.6	104.4%	68.2%	22.8	13.5	0.6	2.8%	2.0	2.2%
PUBLIC BANK BHD	OP	4.10	5.10	24.4%	79,584	N	12/2024	37.3	39.3	9.0%	5.4%	11.0	10.4	1.4	12.9%	21.0	5.1%
RHB BANK BHD	OP	5.49	7.25	32.1%	23,934	N	12/2024	70.8	73.5	8.3%	3.9%	7.8	7.5	0.7	9.7%	43.0	7.8%
<b>SECTOR AGGREGATE</b>					<b>377,132</b>					<b>7.1%</b>	<b>6.2%</b>	<b>10.7</b>	<b>10.1</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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