

28 February 2025

MBSB

Start of a Good Track Record?

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MBSB's FY24 net profit (+<200%) beat expectations thanks to write-backs, though its income streams registered a solid trajectory. We await updates from today's briefing, looking forward to the group's plans to uplift its financing growth as well as to sustain its NIMs. **Maintain UNDERPERFORM with a higher GGM-PBV TP of RM0.62 (from RM0.60) as we roll over our valuation base year to FY26.**

FY24 above expectations. MBSB's FY24 net profit of RM406.8m made up 115% of our forecast and 119% of consensus estimate. The positive deviation was due to better-than-expected credit cost, being in a net write-back position in 4QFY24 and well achieving the 50 bps guidance at 37 bps.

YoY, FY24 core net earnings nearly tripled (adjusting for one-off revaluation gains from MIDF's acquisition), where FY23 was absent higher fee-based income and grants contributed by MIDF. MBSB's own net Islamic income meanwhile registered a 46% recovery mostly thanks to a strong turnaround in its NIMs to 2.36% (+56 bps) where it previously struggled with inefficient funding mix. However, gross financing had only increased by 2%, mainly driven by corporates.

Although operating expenses rose by 28% with the absorption of MIDF's own expenses, CIR dropped to 54.9% (-13.7 ppts) thanks to the higher top line. However, credit cost expanded to 37 bps (+8 bps), normalising from heavier write-backs in the prior year.

QoQ, 4QFY24's net profit grew by 24% but mainly due to the group reporting a net write-back as opposed to 3QFY24's annualised credit cost of 39 bps. Its NOII saw a sharp 75% from backloaded commission expenses.

Highlights. While the group's financing growth target of 8%-9% and aspiration for a greater consumer banking mix did not fully translate, its gains from corporate banking proved helpful in spurring earnings. Given that its CASA ratio is still shy from 10%, we will not be surprised if the group keeps its focus on more business banking products in the near-term to sustain its earnings. The group's closing GIF of 5.3% is also shy from its 5.0% target, but the write-backs did enable the group to meet the lower end of its ROE target of 4%-5% for FY24.

We await updates from today's results briefing to gather MBSB's new targets for FY25.

Forecasts. Post results, we raise our FY25F earnings by 12%, mainly on tweak for better overall NII. Meanwhile, we introduce our FY26F numbers which appears relatively flattish as a reflection of the group needing to compete with margins in the longer-term.

Maintain UNDERPERFORM with a higher TP of RM0.62 (from RM0.60), as we roll over our valuation base year to FY26F's BVPS of RM1.49. This is against an unchanged GGM-derived PBV of 0.42x (COE: 9.2%, TG: 2%, ROE: 5%).

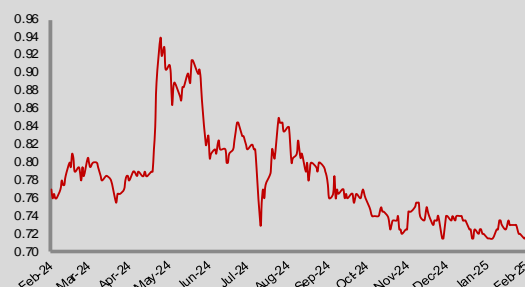
Although the merger with MIDF is complete, the anticipated synergies between the two may only be extracted in a longer term. Additionally, the group may also require greater efforts to re-optimize its funding mix especially given its low CASA levels, which may make it less attractive than its peers. 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 : RM0.720
Target Price : RM0.62 ↑

Share Price Performance



KLCI	1,586.60
YTD KLCI chg	-3.4%
YTD stock price chg	-2.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBSB MK Equity
Market Cap (RM m)	5,920.1
Shares Outstanding	8,222.3
52-week range (H)	0.94
52-week range (L)	0.72
3-mth avg. daily vol.	5,874,683
Free Float	28%
Beta	0.64

Major Shareholders

Employees Provident Fund	56.5%
Yayasan Pelaburan Bumiputra	12.8%
HSBC Holdings PLC	1.6%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Net Interest Income	1,493	1,710	1,742
Non-interest Income	159	175	184
Total Income	1,652	1,885	1,926
Operating Expenses	-907	-935	-963
Loan Impairment	-171	-161	-157
Pre-tax Profit	586	789	807
Net Profit	407	547	560
Core Net Profit	407	547	560
Consensus NP	-	484	553
Earnings Revision (%)	-	+12	NEW
Core EPS (RM)	5.7	7.6	7.8
EPS Growth (%)	196.0	34.6	2.3
NDPS (RM)	2.8	3.5	3.7
BV/Share (RM)	1.36	1.43	1.49
NTA/Share (RM)	1.32	1.39	1.44
ROE (%)	4.1	5.5	5.3
PER (x)	0.1	0.1	0.1
P/BV (x)	0.53	0.50	0.48
Net Div. Yield (%)	3.8	4.9	5.1



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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Net Islamic income	386.2	365.5	5.7%	190.6	102.7%	1,436.0	983.6	46.0%
Net interest income	14.2	14.2	0.0%	12.8	11.1%	57.4	14.5	295.3%
Non-interest income	14.4	57.1	-74.9%	2.2	567.0%	159.1	39.0	307.4%
Modification loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Total income	414.8	436.9	-5.1%	205.5	101.8%	1,652.5	1,037.1	59.3%
Operating expenses	-221.2	-230.2	-3.9%	-232.7	-4.9%	-907.3	-711.7	27.5%
Pre-impairment profit	193.6	206.7	-6.3%	-27.2	-813.0%	745.1	325.4	129.0%
(Allowances)/ write-backs	9.0	-40.7	-122.0%	-7.5	-219.8%	-171.5	-117.4	46.1%
(Allowances)/ write-backs on other assets	17.6	-1.5	-1260.3%	-22.5	-178.2%	12.3	-1.1	-1217.0%
Operating profit	220.1	164.5	33.8%	-57.1	-485.4%	586.0	206.9	183.1%
Extraordinary Items	0.0	0.0	N.M	354.4	-100.0%	0.0	354.4	-100.0%
Profit before tax	220.1	164.5	33.8%	297.3	-25.9%	586.0	561.3	4.4%
Taxation	-68.7	-42.4	62.0%	3.9	-1869.2%	-179.6	-67.9	164.4%
Net Profit	151.4	122.1	24.0%	301.1	-49.7%	406.8	491.8	-17.3%
Core Net Profit	151.4	122.1	24.0%	-53.2	-384.5%	406.8	137.4	196.0%
Gross financing	42,983	43,137	-0.4%	42,044	2.2%	42,983	42,044	2.2%
Gross impaired financing	2,291	2,898	-21.0%	3,056	-25.0%	2,291	3,056	-25.0%
Customer deposits	48,045	44,351	8.3%	47,624	0.9%	48,045	47,624	0.9%
Current and savings account	4,763	3,584	32.9%	2,774	71.7%	4,763	2,774	71.7%
Total assets	64,264	62,490	2.8%	66,663	-3.6%	64,264	66,663	-3.6%
Shareholders' equity	9,778	9,879	-1.0%	9,838	-0.6%	9,778	9,838	-0.6%
Est. annualised NIM*	2.62%	2.43%		1.35%		2.36%	1.70%	
Cost-to-income ratio*	53.3%	52.7%		113.2%		54.9%	68.6%	
Annualised credit cost (bps)	-24.7	38.9		7.2		37.4	29.4	
Effective tax rate	31.2%	25.8%		-1.3%		30.6%	12.1%	
Annualised ROA	1.0%	0.8%		1.9%		0.6%	0.2%	
Annualised ROE	6.2%	5.0%		-2.3%		4.1%	1.5%	
Gross impaired loans ratio	5.3%	6.7%		7.3%		5.3%	7.3%	
Loan loss coverage ratio (LLC)	37.0%	51.4%		50.8%		37.0%	50.8%	
LLC plus regulatory reserves	48.2%	55.6%		54.3%		48.2%	54.3%	
Loan-to-deposit ratio	87.7%	93.9%		85.0%		87.7%	85.0%	
CASA-to-deposit ratio	9.9%	8.1%		5.8%		9.9%	5.8%	

Source: Company, Kenanga Research

Management Guidance

	FY24 Targets	FY23 Performance
Gross Financing Growth	8-9%	9.0%
Net Interest margin	2.0%	1.79%
Cost-to-income ratio	<55%	51.2%
Gross impaired financing	4-5%	7.3%
ROE	4-5%	5.2%

Source: Company, 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.
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.90	2.40	-17.2%	6,961	N	12/2025	25.6	27.4	20.5%	7.2%	11.3	10.6	0.6	5.2%	10.0	3.4%
ALLIANCE BANK MALAYSIA BHD	MP	5.32	5.35	0.6%	8,236	N	03/2025	48.3	53.2	8.3%	10.0%	11.0	10.0	1.1	10.2%	25.0	4.7%
AMMB HOLDINGS BHD	OP	5.70	6.80	19.3%	18,849	N	03/2025	58.0	64.7	23.3%	11.4%	9.8	8.8	0.9	9.8%	29.0	5.1%
BANK ISLAM MALAYSIA BHD	UP	2.51	2.30	-8.4%	5,689	Y	12/2024	23.1	28.1	-5.2%	21.6%	10.8	8.9	0.8	7.0%	16.5	6.6%
CIMB GROUP HOLDINGS BHD	MP	8.22	7.60	-7.5%	88,217	N	12/2024	70.8	74.1	8.1%	4.7%	11.6	11.1	1.2	10.8%	49.0	6.0%
HONG LEONG BANK BHD	OP	21.30	27.40	28.6%	46,172	N	06/2025	215.3	221.6	5.2%	2.9%	9.9	9.6	1.1	11.4%	71.0	3.3%
MALAYAN BANKING BHD	OP	10.66	12.00	12.6%	128,634	N	12/2025	88.5	92.6	5.8%	4.6%	12.0	11.5	1.3	11.1%	65.0	6.1%
MBSB BHD	UP	0.720	0.620	-13.9%	5,920	Y	12/2024	7.6	7.8	34.6%	2.3%	9.4	9.2	0.5	5.5%	3.5	4.9%
PUBLIC BANK BHD	OP	4.49	5.25	16.9%	87,154	N	12/2025	38.3	39.6	3.9%	3.5%	11.7	11.3	1.5	12.7%	23.0	5.1%
RHB BANK BHD	OP	6.76	7.80	15.4%	29,470	N	12/2025	73.8	77.5	2.5%	5.0%	9.2	8.7	0.9	9.7%	44.5	6.6%
SECTOR AGGREGATE					425,303					6.7%	4.9%	11.3	10.8	1.2	10.5%		5.2%

Source: Kenanga Research

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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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