

Malaysia Building Society Bhd

(1171 | MBS MK) Financial Services | Other Financials

Turning red from higher ECL

KEY INVESTMENT HIGHLIGHTS

- **Results were below expectation as MBSB posted net loss**
- **Net loss was due to higher ECL**
- **PPOP was within expectations**
- **Gross financing declined marginally but deposits was stable**
- **Earnings revised downwards by -63.5%/-37.8%/-21.8% for FY20/FY21/FY22**
- **Maintain NEUTRAL with revised TP of RM0.70 (from RM0.80) as we rollover our valuation to FY21**

Below expectations. Malaysia Building Society Bhd (MBSB) 1QFY20 results were below expectations as it posted net loss of -RM73.3m.

Turned red from higher ECL. The main attributor for the net loss in the quarter was the higher ECL. Provisions went up by +90.7%yoy due to an increase in Stage 2 and Stage 3 financing. MBSB's two retail financing portfolios also suffered from Stages 2 and 3 deteriorations due to legacy accounts. GIF ratio went up +21bp to 5.51%.

PPOP within expectations. For 1QFY20, PPOP came in RM252.8m. This represented a -6.0%yoy decline. Main contributor was the drop in total income, where it fell -0.7%yoy. The OPR cuts and flattish gross financing were the factors that dragged total income down.

Gross financing was relatively flat. MBSB's gross financing book declined marginally by -0.1%yoy to RM35.4b. Its personal financing portfolio, which is contributes the most, fell -3.2%yoy to RM19.8b as there were lower disbursement and in our opinion cautious sentiment from would-be borrowers. However, this was moderated by housing portfolio where both Islamic and conventional combined grew +11.5%yoy to RM6.2b. Corporate financing grew +0.2%yoy to RM9.3b.

Stable deposits growth. Total deposits grew +2.2%yoy to RM26.8b. This was led by CASA deposits which more than tripled, as it came to RM871.8m from RM250.4m as at 1QFY19. Meanwhile, fixed deposits decreased -0.2%yoy to RM25.9b. We opine that MBSB also took advantage of its banking license to reorganize its deposits.

Earnings revision. We are revising downwards our earnings forecast for FY20/FY21/FY22 by -63.5%/-37.8%/-21.8% as we take into account the higher ECL.

Valuation and recommendation. We recognize that the operating environment is currently tough. We expect ECL and GIF ratio will spike up in the coming quarters, especially post loan moratorium. Nevertheless, we expect MBSB to be stable operationally as PPOP came in within our expectation. All-in, we maintain our NEUTRAL call, with a revised TP of RM0.70 as we rollover our valuation to FY21. Our TP is derived by pegging its FY21 BPS to PBV multiple of 0.5x.



Maintain NEUTRAL

Revised Target Price: RM0.70

(from RM0.80)

RETURN STATISTICS

Price @ 25 th June 2020 (RM)	0.655
Expected share price return (%)	+6.9
Expected dividend yield (%)	+0.0
Expected total return (%)	+6.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.50	-4.97
3 months	16.96	9.18
12 months	-28.42	-19.51

KEY STATISTICS

FBM KLCI	1,489.20
Syariah compliant	No
Issue shares (m)	6941.542
Estimated free float (%)	29.07184
Market Capitalisation (RM'm)	4397.278
52-wk price range	RM0.46 - RM0.92
Beta vs FBM KLCI (x)	1.103129
Monthly velocity (%)	0.0012
Monthly volatility (%)	13.59841
3-mth average daily volume (m)	4.79774
3-mth average daily value (RM'm)	3.133513
Top Shareholders (%)	
Employees Provident Fund Board	64.48
CIMB Group Holdings Bhd	3.72
CMY GLOBAL	2.73

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INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Operating income	1,321.8	1,309.3	1,376.6	1,464.0	1,600.5
Total income	1,375.7	1,412.7	1,453.1	1,544.3	1,684.8
Pre-provisioning operating profit	969.4	1,011.9	1,075.3	1,142.8	1,229.9
Profit before tax and zakat	853.6	897.4	254.4	470.2	641.9
Net profit	642.4	716.9	203.5	376.1	513.5
Diluted EPS (sen)	10.3	11.0	3.1	5.7	7.6
EPS growth (%)	45.3	6.6	(71.4)	81.3	33.9
PER (x)	6.3	6.0	20.9	11.5	8.6
Net Dividend (sen)	-	-	-	-	-
Net Dividend Yield (%)	-	-	-	-	-
BV/share (RM)	1.29	1.31	1.36	1.41	1.48
PBV (x)	0.5	0.5	0.5	0.5	0.4
ROE (%)	8.6	8.3	2.4	4.2	5.4

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIF = Gross Impaired Financing
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 IB = Investment Banking
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit
 ECL = Expected Credit Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

1QFY20 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results				
	1Q20	1Q19	4Q19	YoY	QoQ
Revenue	741.4	727.2	784.1	2.0%	-5.4%
Income derived from deposits and Islamic capital funds	677.1	670.8	722.2	0.9%	-6.2%
Income attributable to depositors	(326.5)	(341.3)	(356.1)	-4.3%	-8.3%
Income attributable to securitisation	(26.2)	(23.8)	(23.9)	10.2%	9.8%
Income attributable to sukuk	(37.4)	(23.8)	(24.5)	57.1%	52.8%
Net income from Islamic ops.	286.9	281.8	317.6	1.8%	-9.7%
Interest Income	31.0	41.2	35.1	-24.8%	-11.8%
Interest expenses	(0.0)	(0.0)	-	0.0%	<-100%
Net interest income	31.0	41.2	35.1	-24.8%	-11.8%
Operating income	317.9	323.0	352.7	-1.6%	-9.9%
Other income	44.7	42.0	15.5	6.3%	188.3%
Total income	362.6	365.0	368.3	-0.7%	-1.6%
Other operating expenses	(109.8)	(96.2)	(122.0)	14.2%	-10.0%
Pre-provisioning operating profit	252.8	268.9	246.3	-6.0%	2.6%
Allowance for impairment losses	(291.8)	(153.0)	211.7	90.7%	<-100%
PBTZ	(39.0)	115.9	458.0	<-100%	<-100%
Taxation and zakat	(34.3)	(32.0)	(100.8)	7.0%	-66.0%
Net profit	(73.3)	83.8	356.7	<-100%	<-100%
Diluted EPS	(1.1)	1.3	5.4	<-100%	<-100%
Key ratios	1Q20	1Q19	4Q19	+/- ppts	+/- ppts
Financial position					
Gross financing growth	-0.1%	0.7%	2.0%	-0.8	-2.0
Deposit growth	2.2%	-21.2%	4.4%	23.3	-2.2
Profitability					
Net Profit Margin (NIM)	2.64%	3.01%	2.89%	-0.37	-0.25
Non-interest income ratio	12.3%	11.5%	4.5%	0.8	7.8
Cost-to-income ratio	30.3%	26.3%	22.6%	3.9	7.7
ROA	-0.6%	0.7%	1.3%	-1.3	-1.9
ROE	-3.5%	4.3%	8.3%	-7.8	-11.8
Asset quality					
Gross impaired financing/loans	5.51%	5.30%	5.19%	0.21	0.32

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.