

Malaysia Building Society Berhad

(1171 | MBS MK) Financial Services | Other Financials

Turnaround to a write back in ECL in the quarter

KEY INVESTMENT HIGHLIGHTS

- **Earnings above expectations due to unexpected write backs**
- **Beside the write back, PPOP growth contributed to earnings expansion**
- **Financing growth was tepid possibly as MBSB continue to reorganize its asset mix**
- **Strong growth in deposits and CASA gaining traction**
- **Maintain earnings forecast.**
- **Maintain NEUTRAL with revised TP of RM0.80**

Above expectations. Malaysia Building Society Bhd (MBSB) posted net profit of RM716.9m, which was above expectations. It came in at 145.7% and 136% of our and consensus' full year estimates respectively. The variance was due to higher than expected write backs in 4QFY19.

PPOP growth contributed to earnings growth. FY19 earnings grew +11.6%yoy as PPOP was resilient with +4.4%yoy expansion. The PPOP growth was due to total income especially in 4QFY19 where went up by +12.1%yoy. This resulted to better FY19 income, by +2.7%yoy. Taking advantage of its banking license meant that it benefitted from treasury income which was one of the contributors.

Lower OPEX supported PPOP. Meanwhile, MBSB's FY19 OPEX fell -1.3%yoy. We believe that it is commendable that MBSB managed to contain its cost, especially given that it is on an expansionary path. This lead to CI ratio to be maintained below 30% level at 28.4%.

Financing growth affected by asset reorganization. Gross financing expanded by only +2.0%yoy to RM35.9b. This was mainly due to reorganization of MBSB's asset mix. Its personal finance portfolio fell -2.8%yoy to RM20.0b. This was replaced by higher financing to corporate which grew +7.6%yoy to RM9.6b and to a certain extent house financing which grew +11.7%yoy to RM6.1b. The retail to corporate financing ratio stood at 27:73.

Taking advantage of banking license. We opine that MBSB also took advantage of its banking license to reorganize its deposits. Customer deposits went up +4.4%yoy to RM25.3b, with CASA showed really strong growth to register CASA deposits of RM533.9m as at 4QFY19 from RM302.1m as at 4QFY18. Meanwhile, fixed deposits grew +3.5%yoy to RM24.7b.

Maintain earnings forecast. We are maintaining our earnings forecast despite the over performance. This is due to the fact that the strong showing in 4QFY19 was due to write backs.

Maintain NEUTRAL

Revised Target Price: RM0.80

(from RM0.93)

RETURN STATISTICS

Price @ 28 th Feb. 2020 (RM)	0.77
Expected share price return (%)	+3.9
Expected dividend yield (%)	+0.0
Expected total return (%)	+3.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.1	0.0
3 months	-7.2	-2.3
12 months	-23.8	-12.5

KEY STATISTICS


FBM KLCI	1,482.64
Syariah compliant	No
Issue shares (m)	6389.10
Estimated free float (%)	27.75
Market Capitalisation (RM'm)	5,169.32
52-wk price range	RM0.74 - RM1.01
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	23.84
Monthly volatility (%)	13.60
3-mth average daily volume (m)	1.93
3-mth average daily value (RM'm)	1.62
Top Shareholders (%)	
Employees Provident Fund Board	64.48
CIMB Group Holdings Bhd	2.73
CMY GLOBAL	1.94

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Valuation and recommendation. The surprise performance of MBSB was due to write back. However, we do not believe that this will be repeated and the performance we saw up until 9MFY19 could continue into FY20. Our concern for now is on its asset quality which GIF ratio remaining stubbornly high at 5.19% (Group level) as at 4QFY19. In addition, uncertain external environment may put further pressure to its ECL. Nevertheless, as we have previously mentioned, we believe that MSBS is still building its base having only converted to a banking entity in 2QFY18 and asset quality have improved on a sequential quarter basis. Therefore, we maintain our **NEUTRAL** call. We are revising our **TP to RM0.80 (from RM0.93)**, pegging its FY20 BPS to lower PBV multiple of 0.55x as we take into account the weakened external factors. 

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	1,395.0	1,486.1	1,586.1
Total income	1,375.7	1,412.7	1,471.5	1,566.4	1,670.4
Pre-provisioning operating profit	969.4	1,011.9	1,088.9	1,159.2	1,236.1
Profit before tax and zakat	853.6	897.4	697.1	755.6	820.4
Net profit	642.4	716.9	557.7	604.5	656.3
Diluted EPS (sen)	10.3	11.0	8.6	9.2	9.7
EPS growth (%)	45.3	6.6	(21.7)	6.3	6.5
PER (x)	7.5	7.0	8.9	8.4	7.9
Net Dividend (sen)	-	-	-	-	-
Net Dividend Yield (%)	-	-	-	-	-
BV/share (RM)	1.29	1.31	1.42	1.50	1.59
PBV (x)	0.6	0.6	0.5	0.5	0.5
ROE (%)	8.6	8.3	6.4	6.4	6.4

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

4QFY19 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	4Q19	4Q18	3Q19	YoY	QoQ	FY19	FY18	YoY
Revenue	784.1	680.4	813.9	15.3%	-3.7%	3,012.0	2,862.7	5.2%
Income derived from deposits and Islamic capital funds	722.2	665.7	697.1	8.5%	3.6%	2,774.9	2,604.7	6.5%
Income attributable to depositors	(356.1)	(316.0)	(362.4)	12.7%	-1.8%	(1,428.4)	(1,272.9)	12.2%
Income attributable to securitisation	(23.9)	(24.1)	(22.8)	-0.8%	5.2%	(93.8)	(97.7)	-3.9%
Income attributable to sukuk	(24.5)	(20.7)	(23.3)	18.3%	5.4%	(95.3)	(107.3)	-11.2%
Net income from Islamic ops.	317.6	304.8	288.7	4.2%	10.0%	1,157.4	1,126.8	2.7%
Interest Income	35.1	18.4	39.1	91.3%	-10.1%	152.0	216.8	-29.9%
Interest expenses	(0.0)	(0.0)	(0.0)	0.0%	0.0%	(0.0)	(21.8)	-99.9%
Net interest income	35.1	18.3	39.0	91.3%	-10.1%	151.9	195.0	-22.1%
Operating income	352.7	323.2	327.7	9.1%	7.6%	1,309.3	1,321.8	-0.9%
Other income	15.5	5.3	15.4	191.9%	1.0%	103.4	54.0	91.6%
Total income	368.3	328.5	343.1	12.1%	7.3%	1,412.7	1,375.7	2.7%
Other operating expenses	(122.0)	(116.6)	(77.4)	4.6%	57.6%	(400.8)	(406.3)	-1.3%
Pre-provisioning operating profit	246.3	211.9	265.7	16.2%	-7.3%	1,011.9	969.4	4.4%
Allowance for impairment losses	211.7	(53.3)	(80.7)	>100%	>100%	(114.5)	(115.9)	-1.2%
PBTZ	458.0	158.6	185.0	>100%	>100%	897.4	853.6	5.1%
Taxation and zakat	(100.8)	(40.7)	(15.0)	>100%	>100%	(180.2)	(211.2)	-14.7%
Net profit	356.7	118.0	170.2	>100%	>100%	716.9	642.4	11.6%
Diluted EPS	5.4	1.9	2.6	>100%	>100%	11.0	10.3	6.3%
Key ratios	4Q19	4Q18	3Q19	+/- ppts	+/- ppts	FY19	FY18	+/- ppts
Financial position								
Gross financing growth	1.8%	-0.6%	1.8%	2.4	0.0	1.8%	-0.6%	2.4
Deposit growth	12.1%	1.3%	17.5%	10.8	-5.4	12.1%	1.3%	10.8
Profitability								
Net Profit Margin (NIM)	2.84%	3.08%	2.84%	-0.24	0.00	2.90%	3.12%	-0.22
Non-interest income ratio	4.5%	5.8%	9.1%	-1.4	-4.6	8.4%	4.6%	3.8
Cost-to-income ratio	22.6%	32.2%	31.3%	-9.7	-8.8	26.7%	27.7%	-1.0
ROA	1.3%	1.1%	0.9%	0.3	0.5	1.0%	1.5%	-0.6
ROE	8.3%	6.4%	5.3%	1.8	3.0	5.8%	9.2%	-3.4
Asset quality								
Gross impaired financing/loans	5.71%	5.54%	5.65%	0.17	0.06	5.71%	5.54%	0.17
Financing loss coverage	110.8%	129.2%	109.3%	-18.4	1.5	110.8%	129.2%	-18.4

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.