Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

Unable to manage OPEX

***Downgrade to* NEUTRAL**

(Previously BUY)

***Revised* Target Price: RM2.66**

(Previously RM3.69)

KEY INVESTMENT HIGHLIGHTS

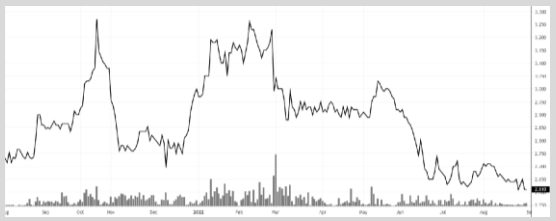
- **Earnings were below our expectations**
- **Reduced our FY21 earnings forecast**
- **Core drivers: (1) High loan growth, (2) High sensitivity to OPR hikes, (3) Shariah bank scarcity premium**
- **Key risks. (1) Inability to maintain OPEX, (2) Higher NCC as result of deteriorating asset quality, (3) High L/D implying a need for further funding**
- **Downgrade to NEUTRAL call with reduced TP of RM2.66**

RETURN STATISTICS	
Price @ 30 August 2022 (RM)	2.61
Expected share price return (%)	+1.8
Expected dividend yield (%)	+3.8
Expected total return (%)	**+5.6**

Highlights from Bank Islam's 2QFY22 quarterly results:

1. BIMB's YTD earnings fell by -39%yoy due to higher OPEX and weak income contributions.
2. GIF ballooned to 1.14%, from 1.02% in the previous quarter
3. NCC of 23bps in the quarter, averaging to 26bps in 1HFY22. Guidance was <35bps.
4. 1HFY22's NFI up by +4.7%yoy.
5. 1HFY22's NOFI down by -53% on the back of weaker trading, investment, and fee income
6. Fast pace of loan growth: gross loans grew by +8%yoy.
7. Deposit growth rapid at +11.6%yoy.
8. 1HFY22's OPEX rose by +13.6%yoy. CIR shot up to 59%.

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.3	-3.8
3 months	-3.0	-8.4
12 months	-12.5	-6.6

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band (Star rating)	
Issue shares (m)	2600.37
Estimated free float (%)	18.39
Market Capitalisation (RM m)	5,603.70
52-wk price range	RM2.59 - RM3.4
Beta vs FBM KLCI (x)	1.00
Monthly velocity (%)	
Monthly volatility (%)	14.58
3-mth average daily volume (m)	0.67
3-mth average daily value (RM m)	1.82
Top Shareholders (%)	
Lembaga Tabung Haji	48.28
Employees Provident Fund Board	13.74
Amanah Saham Nasional	6.63

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NFI (RM m)	1,626	1,791	1,945	2,050	2,159
NOFI (RM m)	396	308	240	299	376
Net income (RM m)	2,022	2,099	2,185	2,350	2,535
PPOP (RM m)	934	902	918	987	1,090
Core net profit (RM m)	564	534	482	598	679
Core EPS (sen)	23.1	21.9	19.7	24.5	27.8
Core P/E (x)	11.3	11.9	13.2	10.7	9.4
Gross DPS (sen)	12.6	10.9	9.9	12.2	13.9
Dividend yield (%)	4.8	4.2	3.8	4.7	5.3
BVPS (RM)	2.6	2.6	2.7	3.0	3.2
P/BV (x)	1.0	1.0	1.0	0.9	0.8
ROE (%)	9.3	8.4	7.4	8.6	9.1

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Below our and consensus expectations. BIMB's 1HFY22 core net profit of RM223m made up 43% and 44% of our and consensus' full-year forecasts respectively. The variance was due to weaker-than-expected income contributions, as well as higher OPEX despite more moderate financing provisions. YTD earnings fell by -36.8%yoy on the back of weaker NOFI, higher OPEX and financing provisions, despite an improved NFI.

Quarterly earnings of RM117m rose by +33.5%qoq as result of higher NFI and lower provisions, despite higher OPEX and tax charges. It fell by -39.7%yoy due to a sizeable drop in NOFI and a sharp increase in OPEX.

Asset quality. The Group's GIF ratio ballooned to 1.14% (1QFY22: 1.02%, 2QFY21: 0.72%). As a result, the Group's financing loss coverage ratio has been reduced 147.5% in the quarter (1QFY22: 180.6%, 2QFY21: 235.5%).

Provisioning. The Group posted NCC of 23bps in the quarter, averaging to 26bps in 1HFY22. Management has guided for provisions to be >35bps (from 25-30bps previously), hence we are expecting much heavier provisions in the latter half of the year.

NFI. Quarterly NFI was up +5.9%qoq and +6.0%yoy. 1HFY22's NFI was up +4.7%yoy.

NOFI. 1HFY22 NOII fell by -53%yoy due to weaker trading, investment, and fee income.

Financing growth. Gross financing expanded at a fast pace of +8.0%yoy, though it reported more moderate growth of +1.5%qoq.

Deposit growth. Group deposit growth picked up pace to 11.6%yoy, though it contracted by -0.4%qoq. CASA growth grew at a more muted pace of +7.8%yoy. Loan/Deposit ratio currently stands at a very high 108.7%.

Cost efficiency. Operating expenses (OPEX) was up +6.3%qoq and +13.6%yoy in 2QFY22 and while 1HFY22's OPEX was up by +8.3%yoy. As a result, CIR for 1HFY22 was up to 59% from 1HFY21's 52%.

Capital ratios. The Group's CET-1 ratio rests at a comfortable 13.8%, having declined from 14.0% in the previous quarter.

No dividend announced. BIMB typically divvies in the 3rd quarter.

Earnings revised. We reduce our earnings forecast for FY21 by -7% to account for higher OPEX and weaker NOFI.

Key risks. Key risks to earnings include (1) Inability to maintain OPEX, (2) Significant deterioration in asset quality leading to higher NCC, (3) A need to procure more expensive funding to sustain high loan growth.

Valuation and recommendation. We are pessimistic on BIMB's near-term outlook as headwinds seem to outweigh its benefits. Headwinds include its persistently high CIR, sharp leaps in GIF ratio and its high L/D ratio. Nonetheless, BIMB is not without its merits: (1) High loan growth, (2) Bank that is most sensitive to OPR hikes, (3) Shariah bank scarcity premium.

Thus, we downgrade our call to **NEUTRAL** from BUY with a reduced **TP of RM2.66** (from RM3.69), as we peg its FY23 BVPS to a decreased P/BV of 0.9x (from 1.1x previously)., based on our FY23 ROE assumption. (GGM assumptions: FY23 ROE of 8.6%, LTG of 3.5% and COE of 9.2%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	2QFY22	1QFY22	2QFY21	Yoy (%)	Qoq (%)	1HFY22	1HFY21	Yoy (%)
Total NFI	480	453	453	6.0%	5.9%	933	891	4.7%
Total NOFI	43	45	116	-63.2%	-5.8%	88	188	-53.2%
Net income	**523**	**498**	**569**	**-8.1%**	**4.9%**	**1,021**	**1,080**	**-5.4%**
OPEX	(312)	(294)	(275)	13.6%	6.3%	(606)	(559)	8.3%
PPOP	**210**	**205**	**294**	**-28.5%**	**2.8%**	**415**	**520**	**-20.2%**
Financing provisions	(34)	(43)	(34)	0.3%	-21.9%	(77)	(46)	69.3%
Other provisions	5	(2)	0	n.m.	n.m.	3	0	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
Profit before tax & zakat	**181**	**159**	**261**	**-30.4%**	**13.7%**	**341**	**475**	**-28.3%**
Tax & zakat	(64)	(53)	(66)	-3.2%	19.9%	(117)	(122)	-3.7%
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported net profit	**117**	**106**	**194**	**-39.7%**	**10.6%**	**223**	**353**	**-36.8%**
Core net profit	**117**	**106**	**194**	**-39.7%**	**10.6%**	**223**	**353**	**-36.8%**
Gross DPS (sen)	**-**	**-**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	**5.4**	**4.1**	**10.1**	**-45.9%**	**33.5%**	**10.4**	**18.3**	**-43.3%**
Gross financing	60,700	59,799	56,178	8.0%	1.5%			
Gross impaired financing	692	612	407	70.0%	13.1%			
Customer deposits	54,891	55,116	49,178	11.6%	-0.4%			
CASA	19,595	19,525	18,185	7.8%	0.4%			

Source: BIMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY22	1QFY22	2QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	1HFY22	1HFY21	Yoy (+/- ppts)
NOFI/Total income	8.2	9.1	20.4	-12.2	-0.9	8.6	17.4	-8.8
ROE (Ann.)	**7.0**	**6.4**	**10.1**	**-3.1**	**0.7**	**6.7**	**9.2**	**-2.5**
Cost-to-income ratio	59.7	58.9	48.3	11.4	0.8	59.3	51.8	7.5
Net credit costs (Ann.) (bps)	23	30	24	-1	-7	26	16	10
GIF ratio	1.14	1.02	0.72	0.42	0.12			
Financing loss coverage	147.5	180.6	235.5	-87.9	-33.1			
F/D ratio	108.7	106.5	112.3	-3.6	2.2			
CET1	13.8	14.0	14.5	-0.7	-0.2			
Tier-1	13.8	14.0	14.5	-0.7	-0.2			
Total Capital	19.4	19.5	19.6	-0.2	-0.2			

Source: BIMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Net finance income	**1,626**	**1,791**	**1,945**	**2,050**	**2,159**
Non-finance income	**396**	**308**	**240**	**299**	**376**
Net income	**2,022**	**2,099**	**2,185**	**2,350**	**2,535**
OPEX	(1,088)	(1,197)	(1,267)	(1,363)	(1,445)
PPOP	**934**	**902**	**918**	**987**	**1,090**
Loan allowances	(209)	(191)	(213)	(198)	(195)
Other allowances	3	(7)	-	-	-
JV & Associates	-	-	-	-	-
Pretax profit	**728**	**704**	**705**	**789**	**896**
Taxation and zakat	(165)	(170)	(224)	(191)	(217)
NCI	-	-	-	-	-
Reported net profit	**564**	**534**	**482**	**598**	**679**
Core net profit	**564**	**534**	**482**	**598**	**679**

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	5,217	5,223	5,527	5,721	5,921
Investment securities	13,739	15,536	16,398	17,457	18,588
Net financing	54,671	58,154	61,285	64,474	67,785
Other IEAs	-	-	-	-	-
Non-IEAs	1,010	1,244	935	2,221	2,290
Total assets	**74,637**	**80,156**	**84,145**	**89,874**	**94,584**
Customer & bank deposits	63,446	67,792	71,295	74,989	78,699
Other IBLs	3,244	4,037	4,118	4,203	4,292
Non-IBLs	1,662	1,928	2,091	3,466	3,886
Total liabilities	**68,351**	**73,756**	**77,505**	**82,658**	**86,877**
Share capital	3,306	3,446	3,446	3,446	3,446
Reserves & retained profit	2,980	2,954	3,195	3,771	4,261
Shareholders' funds	**6,286**	**6,400**	**6,641**	**7,216**	**7,707**
NCI	-	-	-	-	-
Total equity	**6,286**	**6,400**	**6,641**	**7,216**	**7,707**
Total liabilities & equity	**74,637**	**80,156**	**84,145**	**89,874**	**94,584**
Total IEAs	73,627	78,912	83,210	87,652	92,294
Total IBLs	66,690	71,828	75,413	79,192	82,991
Gross loans	55,599	59,218	62,285	65,464	68,725
CASA	17,794	20,175	20,708	21,597	22,525

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NFM	2.20	2.35	2.40	2.40	2.40
Return on IEAs	3.98	3.75	3.94	3.99	4.07
Cost of funds	2.08	1.54	1.70	1.76	1.85
Net finance spread	1.90	2.21	2.24	2.23	2.22
Profitability (%)					
ROE	9.3	8.4	7.4	8.6	9.1
ROA	0.7	0.7	0.6	0.7	0.7
NOII/Total income	19.6	14.7	11.0	12.7	14.8
Effective tax rate	20.8	22.4	30.0	22.5	22.5
Liquidity & Efficiency (%)					
Cost-to-income ratio	53.8	57.0	58.0	58.0	57.0
Loan/Deposit ratio	107.0	101.4	101.6	101.6	101.8
CASA ratio	34.8	35.2	34.3	34.0	33.8
Asset Quality (%)					
GIF ratio	0.67	0.96	0.92	0.89	0.81
NIF ratio	0.46	0.51	0.51	0.44	0.38
LLC ratio	248.6	187.2	174.8	170.7	167.9
LLC (incl. reserves)	248.6	187.2	174.8	170.7	167.9
Gross credit cost (bps)	54	46	48	44	42
Net credit cost (bps)	39	33	35	31	29
% Floating rate loans	91.7	90.5	90.0	91.0	92.0
% Domestic loans	100.0	100.0	100.0	100.0	100.0
Capital (%)					
CET 1	14.7	13.2	13.0	12.9	12.7
Tier 1 capital	14.7	13.2	13.0	12.9	12.7
Total capital	19.8	18.6	18.2	17.9	17.7
Growth (%)					
Total NII	(2.8)	10.1	8.6	5.4	5.3
Total NOII	(4.7)	(22.2)	(22.3)	24.9	25.6
Core net profit	(35.3)	(5.2)	(9.9)	24.2	13.5
Gross loans	10.7	6.5	5.2	5.1	5.0
Customer deposits	9.2	12.3	5.2	5.2	4.9
CASA	14.0	13.4	2.6	4.3	4.3
Valuation metrics					
Core EPS (sen)	23.1	21.9	19.7	24.5	27.8
Gross DPS (sen)	12.6	10.9	9.9	12.2	13.9
Div payout ratio (%)	56.9	50.0	50.0	50.0	50.0
BVPS (RM)	2.6	2.6	2.7	3.0	3.2
Core P/E (x)	11.3	11.9	13.2	10.7	9.4
Dividend yield (%)	4.8	4.2	3.8	4.7	5.3
P/BV (x)	1.0	1.0	1.0	0.9	0.8

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology