Company Update| Friday, 02 September 2022

Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

Cumulative overlays show sharp reduction

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM2.66**

KEY INVESTMENT HIGHLIGHTS

- **Earnings were below our expectations**
- **No change to earnings**
- **Core drivers: (1) High loan growth, (2) GIL ratio is still on lower side, (3) Retail loan is secured by salary deduction repayment methods**
- **Key risks. (1) Inability to maintain CIR levels, (2) Higher NCC as result of deteriorating asset quality, (3) High L/D implies a constant funding risk**
- **Maintain NEUTRAL call with unchanged TP of RM2.66**

Highlights from Bank Islam's 2QFY22 quarterly results analyst briefing:

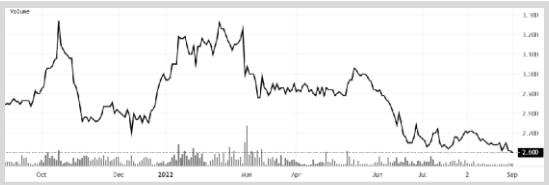
1. BIMB has a very low delinquency rate of 0.97% on its graduated RA loans.
2. Bank Islam's non-retail exposures show much sharper asset quality deterioration that its retail side.
3. BIMB current cumulative overlays of RM181m have been reduced from last quarter's RM335m, primarily for large O&G exposures and SME arm.
4. 58% CIR guidance for the year: sharp personnel cost hike expected to persist throughout 1HFY22.
5. NIM has been underwhelming so far, despite BIMB's apparent sensitivity to OPR hikes. FY22's 2.29% NIM guidance is actually a significant downgrade from FY21's 2.40% NIM.
6. It continues to pin the blame holding low-risk, low-yield papers.
7. NOII outlook for 2HFY22 is better, premised on improved fee incomes and the belief that investment outcomes will not be worse than 1HFY22.

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

RETURN STATISTICS	
Price @ 1 September 2022 (RM)	2.60
Expected share price return (%)	+2.2
Expected dividend yield (%)	+3.8
Expected total return (%)	**+6.0**

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	1491.95
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

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BIMB held their 2QFY22 results analyst briefing yesterday. Here are some highlights.

Repayment assistance (RA) loans. Currently, RA loans make up <5% of total gross loans. In the peak of the pandemic, this number was close to 40%. The Group is optimistic on low delinquency rates (pre-NPL and NPL rates) of graduated loans, which currently stands at 0.97%, among the best in the industry.

GIF guidance. BIMB's GIF has shot up to 1.14% from 1.02% in the previous quarter. Management is adamant that GIF should remain <1.5% by end-2022, citing low delinquency rates amid repayment assistance (RA) loans as the core indicator. Otherwise, it is confident on how a sizeable chunk of its retail portfolio is secured by package financing: auto deductions from salary and directly from employer.

While BIMB is confident on its retail loans, Group has seen higher uptick in impairment within its smaller corporate & commercial portfolio: consumer good merchants and trading companies affected by supply-chain disruptions in particular saw some level of concern. It also believes that non-retail SME portfolio would see some pressure that could push the GIF higher in the coming quarters.

NCC and provision guidance. The Group does retain the elevated NCC guidance of 30-35bps, though it believes that it will be skewed towards the lower side.

BIMB's cumulative overlays have fallen to RM181m from RM335m in Dec-21. Overlays were primarily used for SME and corporate customers, in particular certain large O&G corporate exposures. The Group does believe that the remaining number of overlays is sufficient, as it feels a lot more secure about its retail arm.

CIR and OPEX guidance. Bank Islam is guiding for a CIR of 58% in FY22, given that it is seeing pressure on both the cost side and income side. It mentions that BAU CIR – i.e., CIR excluding IT investment, unit trust, FX loss and infrastructure overheads – would be in the 55-56% range.

BIMB saw a sizeable uptick in personnel expenses in 1HFY22 worth +10%. Management expects the trend to continue, premised on: (1) An acquisition of technology and digital skillsets, (2) Expanding the Group's wholesale banking proposition, via onboarding external talents, (3) Union-cycle negotiations in 2HFY22.

NIM guidance. BIMB's NIM has been extremely underwhelming, especially given that the Bank has been touted as one of the central beneficiaries of OPR hikes. Instead, it recorded NIM contraction on a sequential quarter basis to 2.29% in 2QFY22 [1QFY22: 2.30%], in contrast to most banks. As with last quarter, it attributes the weakness to holding low-risk, low-yield short-term papers in effort to hedge the negative effect of OPR hikes – while loan portfolio did see improvement, its effect was mitigated by is lesser duration investment securities yield. The securities make up roughly 3bps of the quarter's 2.29% NIM.

The Group maintains its conservative guidance of 2.29% for FY22, a marked downgrade from FY21's NIM of 2.40%. The bank does note significant upside potential concerning the guidance.

NOII guidance. The Group is confident on improved fee income in 2HFY22, though less so on investment and trading related income. The Group is building up its restricted investment accounts, which, due to their accounting treatment, feed straight into feed income. This is a means to build up its fee income contributions.

Earnings maintained. We make no change to earnings.

Key risks. Key risks to earnings include (1) Inability to contain CIR levels, especially with union-related personnel costs, (2) Significant deterioration in asset quality leading to higher NCC, given BIMB's risky commercial and corporate portfolio, (3) A need to procure more expensive funding to sustain high loan growth, given its high L/D ratio.

Valuation and recommendation. We remain pessimistic on BIMB's near-term outlook as headwinds seem to outweigh its benefits. Additionally, for a bank touted as being one of the core beneficiaries of OPR hikes, it has displayed worse performance than its peers. Nonetheless, BIMB is not without its merits: (1) High loan growth, (2) GIL is still on the low side, compared to industry averages, (3) Retail loan portfolio more secure, given that repayment is done via salary deduction.

Thus, we maintain **NEUTRAL** with an unchanged **TP of RM2.66**, as we peg its FY23 BVPS to a P/BV of 0.9x, based on our FY23 ROE assumption. (GGM assumptions: FY23 ROE of 8.6%, LTG of 3.5% and COE of 9.2%.)

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