Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

Maintain NEUTRAL

Shows decent improvement in NOFI

Unchanged Target Price: RM2.66

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Unconvincing near-term outlook: Diminishing sector tailwinds, Risky commercial & corporate portfolio, Disappointing NFM performance in recent quarters**
- **Key risks: Failure to control OPEX, Higher-than-expected NCC, High F/D putting a cap to future loan growth**
- **Maintain NEUTRAL call with unchanged TP of RM2.66**

Highlights from BIMB's 3QFY22 quarterly results:

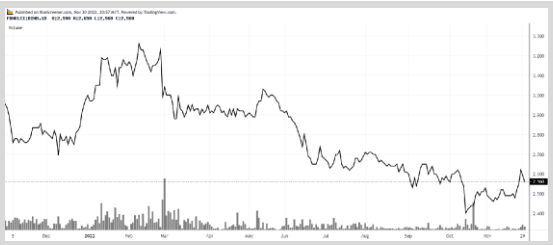
1. BIMB's YTD earnings of RM366m fell by -20%yoy due to higher OPEX, tax, financing provisions and weaker NOFI.
2. GIF rose by +6bps qoq to 1.20%.
3. FLC stands at 137%, having declined steadily over the last few quarters.
4. NCC of 17bps in the quarter, with 9MFY22 average 23bps.
5. 3QFY22's NOFI showed impressive +52%qoq, riding on both better fee and non-fee income.
6. Steady pace of loan growth: gross loans grew by +9%yoy, +2%qoq.
7. Deposit growth a stellar +14%yoy. CASA reported contraction of -2%qoq.
8. 3QFY22's OPEX was up +8%qoq. YTD OPEX up by +12%yoy. YTD CIR averages 58.8%, much higher than 9MFY21's 54.2%.

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)	11.1	11.7	13.0	10.5	9.2
Gross DPS (sen)	12.6	10.9	9.9	12.2	13.9
Dividend yield (%)	4.9	4.3	3.8	4.8	5.4
BVPS (RM)	2.6	2.6	2.7	3.0	3.2
P/BV (x)	1.0	1.0	0.9	0.9	0.8
ROE (%)	9.3	8.4	7.4	8.6	9.1

RETURN STATISTICS	
Price @ 30 November 2022 (RM)	2.56
Expected share price return (%)	+3.8
Expected dividend yield (%)	+4.8
Expected total return (%)	**+8.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.4	1.6
3 months	1.9	1.3
12 months	-10.0	-8.4

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band (Star rating)	
Issue shares (m)	2600.37
Estimated free float (%)	17.88
Market Capitalisation (RM m)	5,646.81
52-wk price range	RM2.4 - RM3.27
Beta vs FBM KLCI (x)	0.98
3-mth average daily volume (m)	0.45
3-mth average daily value (RM m)	1.13
Top Shareholders (%)	
Lembaga Tabung Haji	48.28
Employees Provident Fund Board	14.25
Amanah Saham Nasional Bhd	6.63

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

Within our and consensus expectations. BIMB's 9MFY22 core net profit of RM366m made up 76% of our and consensus full-year forecasts respectively.

YTD earnings fell by -20%yoy due to higher OPEX, tax charges, financing provisions and weaker NOFI offsetting improved NFI.

Quarterly earnings of RM143m rose by +41%qoq as result of stronger NFI, NOFI income, as well as lower financing provisions.

Asset quality. The Group's GIF ratio rose +6bps qoq to 1.20%.

The Group's FLC currently stands at 137% (2QFY22: 148%). It has been gradually trending down through the quarters.

Provisioning. The Group reported an NCC of 17bps for the quarter, with 9MFY22 averaging 23bps. Recall that management was guiding for 30-35bps for FY22.

NFM and NFI. NFI rose by +8%qoq and +30%yoy. Recall the bank experienced a NFM contraction in the past quarter, in contrast to most banks. It attributed it to holding low-risk, low-yield short term papers to hedge negative effects of OPR hike.

NOFI. Quarterly NOFI showed +52%qoq growth. It posted both improved fee and non-fee income.

Financing growth. Gross financing expanded at a solid pace of +9%yoy, +2%qoq.

Deposit growth. Group deposit growth picked up pace to +14%yoy. CASA growth contracted by of -2%qoq, with the CASA ratio falling to 33.2% (2QFY22: 35.7%). Financing/Deposit ratio currently stands at very high 105%.

Cost efficiency. Quarterly OPEX rose by +8%qoq and +9%yoy. YTD OPEX rose by +12%yoy.

Quarterly CIR improved on a sequential quarter basis at 58.0% on the back of stronger income, averaging 58.8% in 9MFY22. This was still far from 9MFY21's 54.2%.

Capital ratios. The Group's CET-1 ratio was a strong 13.9%.

No dividend announced. The bank typically divvies in the 3rd quarter.

Earnings maintained. We make no changes to our earnings forecast.

Key risks. Key risks to earnings include (1) Failure to control OPEX, (2) Higher-than-expected NCC, (3) A need to procure more expensive funding to sustain high financing growth, given its high F/D ratio.

Valuation and recommendation. We remain pessimistic on BIMB's near-term outlook, given the diminishing sector tailwinds, coupled with its risky commercial & corporate portfolio and disappointing NFM performance in previous quarters.

Thus, we maintain our **NEUTRAL** with a unchanged **TP of RM2.66**, as we peg its FY23 BVPS to a unchanged P/BV of 0.90x. (GGM assumptions: FY23 ROE of 8.6%, LTG of 3.5% and COE of 9.2%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Total NFI	520	480	398	30%	8%	1,453	1,290	13%
Total NOFI	65	43	81	-20%	52%	153	269	-43%
Net income	**584**	**523**	**479**	**22%**	**12%**	**1,605**	**1,559**	**3%**
OPEX	(339)	(312)	(285)	19%	8%	(945)	(845)	12%
PPOP	**246**	**210**	**194**	**27%**	**17%**	**661**	**714**	**-7%**
Financing provisions	(25)	(34)	(34)	-27%	-26%	(102)	(80)	28%
Other provisions	(2)	5	(7)	n.m.	n.m.	1	(7)	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
Profit before tax & zakat	**219**	**181**	**153**	**43%**	**21%**	**560**	**628**	**-11%**
Tax & zakat	(76)	(64)	(51)	49%	19%	(194)	(173)	12%
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported net profit	**143**	**117**	**102**	**41%**	**22%**	**366**	**455**	**-20%**
Core net profit	**143**	**117**	**102**	**41%**	**22%**	**366**	**455**	**-20%**
Gross DPS (sen)	**-**	**-**	**10.9**	**n.m.**	**n.m.**	**-**	**10.9**	**n.m.**
Core EPS (sen)	**6.6**	**5.4**	**4.0**	**68%**	**22%**	**17.0**	**17.7**	**-4%**
Gross loans	62,090	60,700	56,911	9%	2%			
Gross impaired loans	748	692	387	94%	8%			
Customer deposits	58,095	54,891	51,067	14%	6%			
CASA	19,285	19,595	19,079	1%	-2%			

Source: BIMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NOII/Total income	11.1	8.2	16.8	-5.8	2.9	9.5	17.2	-7.7
ROE (Ann.)	**8.4**	**7.0**	**6.3**	**2.1**	**1.4**	**7.2**	**9.3**	**-2.2**
Cost-to-income ratio	58.0	59.7	59.5	-1.6	-1.8	58.8	54.2	4.7
Net credit costs (Ann.) (bps)	17	23	24	-8	-6	23	19	4
GIF ratio	1.20	1.14	0.68	0.53	0.06			
Financing loss coverage	137.1	147.5	254.5	-117.5	-10.5			
F/D ratio	105.1	108.7	109.5	-4.4	-3.6			
CASA ratio	33.2	35.7	37.4	-4.2	-2.5			
CET1	13.9	13.8	14.8	-0.9	0.1			
Tier-1	15.0	13.8	14.8	0.1	1.2			
Total Capital	20.4	19.4	19.9	0.4	1.0			

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 financing	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
NOFI/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
Financing/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
FLC ratio	248.6	187.2	174.8	170.7	167.9
FLC (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 financing	91.7	90.5	90.0	91.0	92.0
% Domestic financing	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 financing	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)	11.1	11.7	13.0	10.5	9.2
Dividend yield (%)	4.9	4.3	3.8	4.8	5.4
P/BV (x)	1.0	1.0	0.9	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