Company Update| Friday, 02 December 2022

Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

Maintain NEUTRAL

Lowers NIM guidance

Unchanged Target Price: RM2.66

KEY INVESTMENT HIGHLIGHTS

- **Unconvincing near-term outlook: Reduced NIM guidance, Still elevated NCC guidance, Significant recurring IT spend incoming.**
- **Dividend situation uncertain: Bank Islam typically divvies in 3Q, but has not announced any this year.**
- **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 has lowered its FY22 NIM guidance to >2.20%. >2.30% was previous guidance.
2. Significant IT spend incoming – RM200m next year, 25-35% to be recurring.
3. Non-retail contributor to GIF uptick: consumer goods, edible oil.
4. Still maintaining overly conservative guidance of <35bps NCC (9MFY22: 23bps) – are we expecting another sizeable provision in 4QFY22?
5. Overlays down to RM144m, from RM181m last quarter.
6. RA loans now <1% of total portfolio. Sep-22: <3%.
7. GIF hiked by +6bps to 1.20%. Consumer good and edible oil names hike up non-retail GIL.
8. Unlike peers who also use salary deduction, Bank Islam does not observe any notable non-repayment instances.

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 @ 1 December 2022 (RM)	2.58
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	1,491.51
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

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Reduced NIM guidance. Management expects NIM to remain >2.20% in FY22 – NIM is expected to be consistent in the following year. Recall that in last quarter, this figure was >2.30%. These assumptions factor in at least one +25bps OPR hike in FY23.

Observe Bank Islam's abnormally high deposit growth of 14%. We believe the Group has been wearing away at its near-to-mid term NIM margins as its long-term products take centre stage.

Repayment assistance loans. Currently <1% of gross portfolio. Sep-22 was <3%.

IT spend. Group is allocating a significant RM200m to IT spend in the following year – recurring costs are expected to be 25-35% of the sum.

GIF hike. GIF hiked by +6bps qoq to 1.20%. Of non-retail segment, consumer good and edible oil sectors are seeing some increase. For context, non-retail GIF makes up 56% (RM421m) of total GIF portfolio – the majority of which are O&G names.

Loan growth target. Group is confident that FY22 loan growth will be above its target of 8%yoy.

Investment account growth. Investment account growth should taper down, as depositors are willing to eschew these risky deposits in favour of safer alternatives as deposit rates normalise.

Provisions and cumulative overlays. Management does not guide for any specific overlay allocations in 4QFY22. Note, however, despite their prudent 9MFY22 NCC of 23bps, Management is still maintaining an overly conservative estimate of <35bps in FY23.

Overlays have fallen to RM143.9m from RM181m in the last quarter.

As for LLC (currently 148.4%), the Group has no plans to push the figure any higher.

ROE target of 10%. Group still believes it can come close to its goal – though we have our reservations.

No dividends. Group usually announces dividends in 3QFY22 – no word yet on whether this will be delayed or forgone.

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

Key risks. Key risks to earnings include (1) Failure to control OPEX, (2) Further deteriorations in C&C portfolio, (3) Possible reductions

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. Note the Group's lowering to NIM in the mid-term, in its efforts to drive deposit growth to an abnormally high +14%yoy.

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%.)

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