Company Update| Wednesday, 01 March 2023

# Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

**Maintain BUY**

## Enhanced dividend policy

***Revised* Target Price: RM2.99**

*(Previously RM3.01)*

## KEY INVESTMENT HIGHLIGHTS

- **FY23F ROE of 12.0% may be overly ambitious, with NIMs expected to fall and asset quality to deteriorate**
- **The Group is instead looking to a recovery in fee income to achieve its FY23F CIR target of 55%**
- **Nonetheless, BIMB maintains its solid asset quality, offering more % upside to CNP when providing writebacks. Its higher dividend payout ratio is also very favourable**
- **Maintain BUY | TP of RM2.99 | based on an unchanged FY23F P/BV of 0.90x**

**Our thoughts.** We are sceptical of BIMB's overly ambitious FY23 ROE target of 12.0%, given its low NIM forecast. Nonetheless, BIMB may lean on recovering fee income, and large overlay writebacks (given its solid asset quality) to provide some surprise upside to earnings. BIMB's valuations are cheap, following the Group's poor price performance in previous months – its enhanced dividend policy is also worth looking into.

**FY22 ROE target: 12.0%.** This figure is ambitious, given BIMB's lower NIM guidance for FY23. Mgmt has 3 pillars to their ROE strategy: (1) Managing the funding base, improving NOII and managing capital and liquidity.

**4QFY22 NIMs.** NIMs have fallen by -20bps qoq to 2.20%. Mgmt attributes it to aggressive campaigns targeting more individual deposits, alongside the standard issues plaguing the industry.

**Guidance.** FY23: >2.20% (Current: 2.35%). This assumes a higher CASA of 38% (currently: 36.8%) and one +25bps OPR hike.

**Enhanced dividend guidance.** Mgmt will strive to keep its dividend payout ratio close to the ~60% level for now – it favours the DRP option to build its capital base.

**Asset quality and NCC guidance.** FY23 GIL: <1.5%. (Current: 1.27%).

FY23 NCC: 30-33bps (FY22: 22bps), which incorporates some degree of management overlay writebacks. Observe the leap in NCC guidance – mgmt is wary of further asset deterioration in FY23.

Ideally, mgmt intends to spread out overlay writebacks through multiple quarters, rather than offloading them in a single quarter.

The current overlay balance stands at RM133m.

**CIR guidance.** FY23 CIR: 55% (FY22: 59.8%).

**Financing target.** FY23: 8%.

| RETURN STATISTICS | |
|---|---|
| Price @ 28 February 2023 (RM) | 2.27 |
| Expected share price return (%) | +31.5 |
| Expected dividend yield (%) | +6.5 |
| **Expected total return (%)** | **+38.0** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -6.0 | -4.6 |
| 3 months | -13.9 | -7.4 |
| 12 months | -25.4 | -18.9 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,454.19 |
| Syariah compliant | Yes |
| F4GBM Index | No |
| ESG Grading Band (Star rating) | |
| Issue shares (m) | 2,600.37 |
| Estimated free float (%) | 17.23 |
| Market Capitalisation (RM m) | 5,273.41 |
| 52-wk price range | RM2.34 - RM3.24 |
| Beta vs FBM KLCI (x) | 0.87 |
| 3-mth average daily volume (m) | 1.16 |
| 3-mth average daily value (RM m) | 2.95 |
| Top Shareholders (%) | |
| Lembaga Tabung Haji | 48.50 |
| Employees Provident Fund Board | 15.16 |
| Amanah Saham Nasional Bhd | 6.67 |

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**Forecasts unchanged.** We do tweak our dividend payout projections upwards, from 50% to 60%.

**Maintain BUY call: Revised GGM-TP of RM 2.99** ***(from RM3.01)*****.** The TP is based on an unchanged FY23F P/BV of 0.90x – TP is affected by reduced BVPS, following higher dividend payouts.

*(**GGM assumptions:** FY23F ROE of 8.7%, LTG of 3.5% and COE of 9.2%.)*

# INVESTMENT STATISTICS

## INCOME STATEMENT

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|---|---|---|---|---|---|
| Total NII | 1,626 | 1,791 | 1,972 | 2,025 | 2,088 |
| Total NOII | 396 | 308 | 231 | 325 | 384 |
| **Net income** | **2,022** | **2,099** | **2,203** | **2,350** | **2,472** |
| OPEX | (1,088) | (1,197) | (1,317) | (1,363) | (1,409) |
| **PPOP** | **934** | **902** | **886** | **987** | **1,063** |
| Loan allowances | (209) | (191) | (140) | (198) | (195) |
| Other allowances | 3 | (7) | 1 | - | - |
| JV & Associates | - | - | - | - | - |
| **PBT** | **728** | **704** | **747** | **789** | **868** |
| Tax & zakat | (165) | (170) | (255) | (191) | (210) |
| NCI | - | - | - | - | - |
| **Reported NP** | **564** | **534** | **492** | **598** | **658** |
| **Core NP** | **564** | **534** | **492** | **598** | **658** |

## BALANCE SHEET

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|---|---|---|---|---|---|
| Cash & ST funds | 5,217 | 5,223 | 7,145 | 5,721 | 5,921 |
| Investment securities | 13,739 | 15,536 | 15,448 | 15,594 | 14,481 |
| Net loans | 54,671 | 58,154 | 64,902 | 64,474 | 67,785 |
| Other IEAs | - | - | - | - | - |
| Non-IEAs | 1,010 | 1,244 | 2,357 | 2,221 | 2,883 |
| **Total assets** | **74,637** | **80,156** | **89,852** | **88,010** | **91,070** |
| | | | | | |
| Cust. & FI deposits | 63,446 | 67,792 | 75,239 | 74,989 | 78,699 |
| Other IBLs | 3,244 | 4,037 | 5,250 | 4,203 | 4,292 |
| Non-IBLs | 1,662 | 1,928 | 2,567 | 1,623 | 429 |
| **Total liabilities** | **68,351** | **73,756** | **83,055** | **80,814** | **83,420** |
| | | | | | |
| Share capital | 3,306 | 3,446 | 3,645 | 3,446 | 3,446 |
| Reserves | 2,980 | 2,954 | 3,151 | 3,750 | 4,205 |
| **Shareholders' funds** | **6,286** | **6,400** | **6,796** | **7,196** | **7,650** |
| NCI | - | - | - | - | - |
| **Total equity** | **6,286** | **6,400** | **6,796** | **7,196** | **7,650** |
| **Total L&E** | **74,637** | **80,156** | **89,852** | **88,010** | **91,070** |
| | | | | | |
| Total IEAs | 73,627 | 78,912 | 87,495 | 85,789 | 88,187 |
| Total IBLs | 66,690 | 71,828 | 80,489 | 79,192 | 82,991 |
| Gross loans | 55,599 | 59,218 | 65,942 | 65,464 | 68,725 |
| CASA | 17,794 | 20,175 | 20,371 | 20,943 | 21,778 |

## FINANCIAL RATIOS

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|---|---|---|---|---|---|
| **Interest (%)** | | | | | |
| NIM | 2.20 | 2.35 | 2.37 | 2.40 | 2.40 |
| Return on IEAs | 3.98 | 3.75 | 4.02 | 4.01 | 4.12 |
| Cost of funds | 2.08 | 1.54 | 1.80 | 1.76 | 1.85 |
| Net interest spread | 1.90 | 2.21 | 2.22 | 2.25 | 2.27 |
| | | | | | |
| **Profitability (%)** | | | | | |
| **ROE** | **9.3** | **8.4** | **7.5** | **8.6** | **8.9** |
| ROA | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 |
| NOII/Net income | 19.6 | 14.7 | 10.5 | 13.8 | 15.5 |
| Effective tax rate | 20.8 | 22.4 | 32.3 | 22.5 | 22.5 |
| Cost/Income ratio | 53.8 | 57.0 | 59.8 | 58.0 | 57.0 |
| | | | | | |
| **Liquidity (%)** | | | | | |
| Loan/Deposit ratio | 107.0 | 101.4 | 106.9 | 101.6 | 101.8 |
| CASA ratio | 34.8 | 35.2 | 33.6 | 33.0 | 32.7 |
| | | | | | |
| **Asset Quality (%)** | | | | | |
| GIL ratio | 0.67 | 0.96 | 1.27 | 0.89 | 0.81 |
| LLC ratio | 249 | 187 | 124 | 171 | 168 |
| LLC (w. reserves) | 249 | 187 | 124 | 171 | 168 |
| Net CC (bps) | 39 | 33 | 22 | 31 | 29 |
| | | | | | |
| **Capital (%)** | | | | | |
| CET 1 | 14.7 | 13.2 | 13.6 | 12.9 | 12.7 |
| Tier 1 capital | 14.7 | 13.2 | 14.6 | 12.9 | 12.7 |
| Total capital | 19.8 | 18.6 | 19.4 | 17.9 | 17.7 |
| | | | | | |
| **Growth (%)** | | | | | |
| Total NII | (2.8) | 10.1 | 10.1 | 2.7 | 3.1 |
| Total NOII | (4.7) | (22.2) | (25.1) | 40.7 | 18.1 |
| Net income | (33.8) | 3.8 | 4.9 | 6.7 | 5.2 |
| OPEX | (38.2) | 10.0 | 10.0 | 3.5 | 3.4 |
| Core NP | (35.3) | (5.2) | (8.0) | 21.7 | 10.0 |
| | | | | | |
| Gross loans | 10.7 | 6.5 | 11.4 | (0.7) | 5.0 |
| Cust. & FI deposits | 12.2 | 6.8 | 11.0 | (0.3) | 4.9 |
| CASA | 14.0 | 13.4 | 1.0 | 2.8 | 4.0 |
| | | | | | |
| **Valuation metrics** | | | | | |
| Core EPS (sen) | 26.2 | 24.8 | 22.9 | 27.8 | 30.6 |
| Gross DPS (sen) | 12.6 | 10.9 | 13.8 | 12.2 | 13.5 |
| Div payout ratio (%) | 57 | 50 | 60 | 50 | 50 |
| BVPS (RM) | 2.9 | 3.0 | 3.2 | 3.3 | 3.6 |
| | | | | | |
| Core P/E (x) | 8.7 | 9.1 | 9.9 | 8.2 | 7.4 |
| **Dividend yield (%)** | **5.6** | **4.8** | **6.1** | **5.4** | **5.9** |
| P/BV (x) | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 |

*Source: BIMB, 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 *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