Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

Facing Headwinds but Valuation is Rarely this Cheap

***Maintain* BUY**

***Revised* Target Price: RM2.12**
(Previously RM2.99)

KEY INVESTMENT HIGHLIGHTS

- **FY23's Core NP of RM118m was *Below*/*Below* our/street forecasts: *20%*/*20%* of full-year forecasts**
- **Core themes: (a) Negatively revised targets, (b) Personal financing loan rebalancing, (c) Asset quality worsening**
- **FY23F/24F Core NP adjusted by -12%/-10%**
- **Maintain BUY | Revised TP of RM2.12 | based on a revised FY24F P/BV of 0.61x *(formerly 0.90x, from FY23F)***

Weak quarter. Core net profit (CNP) fell by -6%qoq with higher provisions and weaker NII contribution (-9%qoq) offsetting tax normalisation, stronger NOII (+34%qoq) and improved OPEX (-4%qoq).

Have a look at:
Revised targets. OPEX, CIR and NCC guidance has been revised negatively. BIMB tends to revise targets frequently.

Foray into non-packaged (not bound by salary deduction) personal financing loan segment may bring negative repercussions. These are targeting high-income, stable professionals – and BIMB has a threshold as to how many of these non-packaged loans it can take.

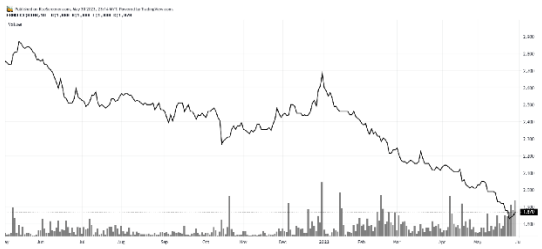
We are sceptical, as a loan rebalancing favouring riskier products could structurally alter BIMB. Its normalised NCC may never reach pre-pandemic high teens level (as with asset quality). Indeed, the Group has issued a heavy provision while its peers have made much lighter allocations.

Verdict: A whole lot of headwinds, but banking counters are rarely this cheap.

Yays	1. Dividend yields are very high, should BIMB follow through with payout increase. 2. Valuations very attractive. 3. Loan growth is among the highest in industry.
Nays	1. Revamped guidance negatively. 2. Asset quality has deteriorated badly – and will continue to worsen. Unlike its peers, provisioning is still coming in heavy – overlay writebacks may not be as attractive as peers.
OKs	

RETURN STATISTICS	
Price @ 30 May 2023 (RM)	1.87
Expected share price return (%)	+13.2
Expected dividend yield (%)	+13.2
Expected total return (%)	**+22.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.4	-5.0
3 months	-11.2	-12.6
12 months	-36.3	-30.6

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	**527**	**595**	**643**
CNP growth (%)	7	13	8
Div yield (%)	**7.8**	**8.9**	**9.6**
Gross DPS (sen)	14.7	16.6	17.9
P/BV (x)	**0.6**	**0.5**	**0.5**
BVPS (RM)	3.3	3.5	3.6
ROE (%)	**7.6**	**8.2**	**8.4**
MIDF/Street CNP (%)	**90**	**94**	**93**

KEY STATISTICS

FBM KLCI	1,396.91
Issue shares (m)	2,244.0
Estimated free float (%)	17.3
Market Capitalisation (RM'm)	4,351.6
52-wk price range	RM1.91 - RM3.01
3-mth avg daily volume (m)	1.3
3-mth avg daily value (RM'm)	2.8
Top Shareholders (%)	
Lembaga Tabung Haji	48.0
EPF Board	15.8
Amanah Saham Nasional Bhd	6.5

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Forecasts revised: FY23F/24F Core NP adjusted by -12%/-10%. To reflect new NIM, CIR and NCC guidance.
Key downside risks. *(1) Poor cost control, (2) Lackluster NOII recovery, (3) Poorer-than-expected NIM performance.*

Maintain BUY call: Revised GGM-TP of RM 2.12 ***(from RM2.99)***. The TP is based on a revised FY24F P/BV of 0.61x *(formerly 0.90x, rolled on from FY23F)*, to reflect altered earnings prospects and ROE-based valuations. We add a discount for poor global banking sentiment. ***(GGM assumptions:*** *FY24F ROE of 8.2%, LTG of 4.5% & COE of 10.5%)*

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Total NII	(524)	519	453	-216	-201	(524)	453	-216
Total NOII	1,104	78	45	2,335	1,309	1,104	45	2,335
Net income	**580**	**597**	**498**	**16**	**-3**	**580**	**498**	**16**
OPEX	(357)	(372)	(294)	21	-4	(357)	(294)	21
PPOP	**223**	**225**	**205**	**9**	**-1**	**223**	**205**	**9**
Loan provisions	(62)	(38)	(43)	43	63	(62)	(43)	43
Other provisions	0	0	(2)	n.m.	n.m.	0	(2)	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
PBT	**162**	**187**	**159**	**1**	**-14**	**162**	**159**	**1**
Tax	(43)	(62)	(53)	-19	-29	(43)	(53)	-19
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	**118**	**126**	**106**	**11**	**-6**	**118**	**106**	**11**
Core NP	**118**	**126**	**106**	**11**	**-6**	**118**	**106**	**11**
Gross DPS (sen)	**-**	**3.4**	**-**	**n.m.**	**n.m.**	**-**	**-**	**n.m.**
Core EPS (sen)	5.3	5.8	4.1	31	-9	5.3	4.1	31
Gross loans	66,195	65,942	59,799	10.7	0.4			
Gross impaired loans	908	835	612	48.5	8.8			
Customer deposits	57,283	60,708	55,116	3.9	-5.6			
CASA	19,303	20,371	19,525	-1.1	-5.2			

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**6.6**	**7.4**	**6.4**	**0.2**	**-0.8**	**6.6**	**6.4**	**0.2**
NIM (Reported)*	**2.06**	**2.22**	**2.27**	**-0.21**	**-0.16**	**2.06**	**2.30**	**-0.24**
NOII/Net income	190.3	13.1	9.1	181.2	177.2	190.3	9.1	181.2
Cost/Income	61.5	62.3	58.9	2.6	-0.8	61.5	58.9	2.6
NCC (Ann.) (bps)	39	24	30	9	15	39	30	9
GIL ratio	1.37	1.27	1.02	0.35	0.11			
Loan loss coverage	118	124	181	-63	-7			
CASA ratio	33.7	33.6	35.4	-1.7	0.1			
L/D ratio	113.7	106.9	106.5	7.2	6.8			
CET-1	15.1	13.6	14.0	1.1	1.5			

Source: BIMB, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		Notes *(Cum = Cumulative, Qtr = Quarterly)*
Qtrly Core NP	RM mil	***118***	**Qtrly ROE**	Qtr value	***6.6%***	**Quarter was poor – NCC came in higher than expected.**
	20% of FY CNP					
	Qoq	*-6%*		t-1	*7.4%*	
	Yoy	*11%*		t-4	*6.4%*	
Cum Core NP	RM mil	***118***	**Cum ROE**	Cum value	***6.6%***	
	Below our forecast					
	20% of FY CNP					
	Below Consensus					
	20% of FY CNP					
	Yoy	*11%*		t-1	*6.4%*	
NII	As expected		**NIM**	-ve surprise		**NIM decline was sharp – far steeper than management was guiding thus far.**
				Qtr value	***2.06***	
				Cum value	***2.06***	
	Qtr (Qoq)	*-9%*		Qtr (Qoq)	*-16bps*	
	Qtr (Yoy)	*5%*		Qtr (Yoy)	*-21bps*	
	Cum (Yoy)	*5%*		Cum (Yoy)	*-24bps*	
NOII	As expected		**Qtr**	% NII	***82%***	**Good recovery on this front,** Attributable to better investment and FX income.
	Qtr (Qoq)	*34%*		% NOII	***18%***	
	Qtr (Yoy)	*132%*	**Cum**	% NII	***82%***	
	Cum (Yoy)	*132%*		% NOII	***18%***	
OPEX	As expected		**Cost/ Inc.**	-ve surprise		**OPEX uptick was within expectations – the new guidance, however, was not.** CIR faced more compression coming in from weak income.
				Qtr value	***61.5%***	
				Cum value	***61.5%***	
	Qtr (Qoq)	*-4%*		Qtr (Qoq)	*-0.8%*	
	Qtr (Yoy)	*21%*		Qtr (Yoy)	*+2.6%*	
	Cum (Yoy)	*21%*		Cum (Yoy)	*+2.6%*	

Source: BIMB, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? *Qoq/Yoy*		Metric	Surprise? *Qoq/Yoy*		**Notes** *(Cum = Cumulative, Qtr = Quarterly)*
Loans	As expected					**Loan growth was weak in the quarter, but we believe that BIMB is more than capable of reaching its targets.** BIMB pared down personal financing loans quarter-on-quarter, given tight competition. We think this is a bit strange, given that its intention now is to look for personal financing borrowers that are not packaged (i.e. bound by salary deduction).
	Qoq	*0.4%*				
	Yoy	*10.7%*				
	YTD (FY)	*-5.6%*				
Depo. grwth	-ve surprise		**CASA grwth**	-ve surprise		**Very sharp deposit contraction quarter-on-quarter.** Group is working with Government and GLC to capture more CASA accounts.
	Qoq	*-5.6%*		Qoq	*-5.2%*	
	Yoy	*3.9%*		Yoy	*-1.1%*	
	YTD (FY)	*-5.2%*		YTD (FY)	*0.0%*	
CASA ratio	As expected		**L/D ratio**	As expected		
	Value now	***33.7%***		Value now	***113.7%***	
	Qoq	*+0.1%*		Qoq	*+6.8%*	
	Yoy	*-1.7%*		Yoy	*+7.2%*	
GIL ratio	-ve surprise		**LLC ratio**	As expected		**Major deteriorations coming from consumer portfolios and some construction exposures.** Unfortunately, the portfolio is expected to further worsen.
	Value now	***1.37%***		Value now	***118%***	
	Qoq	*+11bps*		Qoq	*-7%*	
	Yoy	*+35bps*		Yoy	*-63%*	
Qtrly Net CC	As expected		**Cum Net CC**	As expected		
	Decent provision			Decent provision		
	Value now	***39bps***		Value now	***39bps***	
	t-1	*24bps*				
	t-4	*30bps*		t-4	*30bps*	
CET 1	Healthy level		**Div payout**	No divvy		**Huge uptick in CET 1 quarter-on-quarter – unsure of the reason why.** Dividend payout to be maintained at 60%.
	-ve surprise			As expected		
	Value now	***15.1%***		**Payout**		
	Qoq	*1.5%*				

Others:

Source: BIMB, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	**Notes** (Red: New guidance, ~~Strikethrough: former guidance is no longer pertinent~~)
ROE	12*	6.6	***ROE target uses PBT instead of Core NP**
CIR	58 ~~<55~~	61.5	***OPEX growth target is 8-9%.**
NIM	>2.20 (from FY22's 2.31%)*	2.06	***2.20 refers to 4QFY23 target, not FY23 cumulative.** Next quarter, the Group is confident that NIM will increase to 2.10%.
NOII		2335% (yoy)	
Loans	7-8	-5.6 (YTD)	
Deposits		-5.2 (YTD)	
CASA	~~38~~	33.7	
Loan/Depo		113.7	
GIL ratio	<1.5	1.37	
NCC (bps)	30-40 ~~30-33~~	39	NCC does not include overlays.
LLC		118	
CET 1		15.1	
Div payout	60	-	60% to be maintained. *(Original: 50%)*

Source: BIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Total NII	1,791	1,972	1,959	2,078	2,191
Total NOII	308	231	319	339	414
Net income	**2,099**	**2,203**	**2,278**	**2,418**	**2,605**
OPEX	(1,197)	(1,317)	(1,413)	(1,451)	(1,563)
PPOP	**902**	**886**	**866**	**967**	**1,042**
Loan allowances	(191)	(140)	(171)	(182)	(193)
Other allowances	(7)	1	-	-	-
JV & Associates	-	-	-	-	-
PBT	**704**	**747**	**695**	**785**	**848**
Tax & zakat	(170)	(255)	(168)	(190)	(205)
NCI	-	-	-	-	-
Reported NP	**534**	**492**	**527**	**595**	**643**
Core NP	**534**	**492**	**527**	**595**	**643**

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	5,223	7,145	5,721	5,921	5,921
Investment securities	15,536	15,448	15,289	15,468	15,959
Net loans	58,154	64,902	69,625	74,347	78,875
Other IEAs	0	0	0	0	0
Non-IEAs	1,244	2,357	2,846	3,577	4,016
Total assets	**80,156**	**89,852**	**93,480**	**99,313**	**104,771**
Customer deposits	57,339	60,708	65,261	69,829	74,019
Other IBLs	14,490	19,781	20,626	21,513	22,442
Non-IBLs	1,928	2,567	502	510	521
Total liabilities	**73,756**	**83,055**	**86,389**	**91,852**	**96,982**
Share capital	3,446	3,645	3,645	3,645	3,645
Reserves	2,954	3,151	3,447	3,816	4,144
Shareholders' funds	**6,400**	**6,796**	**7,092**	**7,461**	**7,789**
NCI	0	0	0	0	0
Total equity	**6,400**	**6,796**	**7,092**	**7,461**	**7,789**
Total L&E	**80,156**	**89,852**	**93,480**	**99,313**	**104,771**
Total IEAs	78,912	87,495	90,635	95,736	100,755
Total IBLs	71,828	80,489	85,887	91,341	96,460
Gross loans	59,218	65,942	70,558	75,144	79,653
CASA	20,175	20,371	21,536	22,834	24,204

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.35	2.37	2.20	2.23	2.23
Return on IEAs	3.75	4.02	3.73	3.69	3.61
Cost of funds	1.54	1.80	1.63	1.53	1.45
Net interest spread	2.21	2.22	2.09	2.15	2.17
Profitability (%)					
ROE	**8.4**	**7.5**	**7.6**	**8.2**	**8.4**
ROA	0.7	0.6	0.6	0.6	0.6
NOII/Net income	14.7	10.5	14.0	14.0	15.9
Effective tax rate	22.4	32.3	22.5	22.5	22.5
Cost/Income	57.0	59.8	62.0	60.0	60.0
Liquidity (%)					
Loan/Deposit	101.4	106.9	106.7	106.5	106.6
CASA ratio	35.2	33.6	33.0	32.7	32.7
Asset Quality (%)					
GIL ratio	0.96	1.27	1.15	1.01	0.93
LLC ratio	187	124	115	105	105
LLC (w. reserves)	187	141	132	123	123
Net CC (bps)	33	22	25	25	25
Capital (%)					
CET 1	13.2	13.6	13.3	12.6	12.1
Tier 1 capital	13.2	14.6	14.3	13.6	13.0
Total capital	18.6	19.4	19.1	18.2	17.5
Growth (%)					
Total NII	10.1	10.1	-0.6	6.1	5.4
Total NOII	-22.2	-25.1	38.0	6.5	21.9
Net income	3.8	4.9	3.4	6.1	7.7
OPEX	10.0	10.0	7.3	2.7	7.7
Core NP	-5.2	-8.0	7.2	12.9	8.1
Gross loans	6.5	11.4	7.0	6.5	6.0
Customer deposits	12.3	5.9	7.5	7.0	6.0
CASA	13.4	1.0	5.7	6.0	6.0
Valuation metrics					
Core EPS (sen)	24.8	22.9	24.5	27.7	29.9
Gross DPS (sen)	10.9	13.8	14.7	16.6	17.9
Div payout (%)	42	60	60	60	60
BVPS (RM)	3.0	3.2	3.3	3.5	3.6
Core P/E (x)	7.5	8.2	7.6	6.8	6.3
Div yield (%)	**5.8**	**7.4**	**7.8**	**8.9**	**9.6**
P/BV (x)	0.6	0.6	0.6	0.5	0.5

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