

02 August 2018 | Visit Note

## BIMB Holdings Bhd

*Solid base to weather challenging period*

### INVESTMENT HIGHLIGHTS

- The Group will continue to execute the strategy that it had in place at current juncture
- Main focus on consumer segment to better manage NIM, asset growth and asset quality
- Still experimenting with SME offerings
- Will be NSFR ready without sacrificing margins
- No change to earnings forecast
- We maintain our BUY recommendation with an unchanged TP of RM5.15

**Take away from visit.** We visited the CFO, Mr Malkit Singh, recently to review the investment case for the Group, especially its banking subsidiary, Bank Islam. We left with a reinforced optimism on its prospect. The key take away of the meeting are as follows:

- The Group will continue to execute the strategy that it had in place at current juncture. Although facing with immediate challenges, the management is confident that the Group will be able to weather it and thrive.
- Main focus for Bank Islam will be the consumer segment as this presents the most income potential.
- Asset quality should remain stable given its consumer centric focus.
- The management is studying the various possible organization models for the Group to ensure most efficient structure.

**Short term challenges.** The Group appears to be in transition at the moment with the departure of its CEO recently. While this may lead to some challenges, we believe that Group has a firm strategic plan in which to face the current uncertain time. We also believe that the headwinds will only be temporary. In addition, we believe that the Group has a strong foundation in which to sustain its earnings potential.

**Executing strategy in place.** Based on our previous discussion, we understand that the strategic focus for Bank Islam are; (i) Deposit Drive, (ii) Defensive Strategy and (iii) Digitalisation. Management stated that it will focus on CASA such as salary accounts, cash management and Mudarabah current account. Also, the Group will focus on finding the right funding mix such as Cagamas and MTN issuance. As for the Defensive Strategy, the Group will be cautious with its assets growth. Together with the Deposit Drive, we believe this is the right move at current juncture. We opine that this will stabilize margins and ease any compression.

**Maintain BUY**

**Unchanged Target Price (TP): RM5.15**

RETURN STATS	
Price (1 August 2018)	RM3.94
Target Price	RM5.15
Expected Share Price Return	+30.7%
Expected Dividend Yield	+3.8%
<b>Expected Total Return</b>	<b>+34.5%</b>

STOCK INFO	
KLCI	1,788.31
Bursa / Bloomberg	5258 / BIMB MK
Board / Sector	Main / Finance
Syariah Compliant	Yes
Issued shares (mil)	1,693.6
Market cap. (RM'm)	6,672.7
Price over NA	1.4x
52-wk price Range	RM3.75 – RM4.48
Beta (against KLCI)	0.66x
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM0.53m
Major Shareholders (%)	
LTH	53.47
EPF	12.75
ASB	5.75
YPB	5.7

#### Some banking abbreviations used in this report:

CI = Cost to Income  
 CET1 = Common Equity Tier 1  
 GIF = Gross Impaired Financing  
 NIM = Net Interest margin  
 CASA = Current and Savings Accounts  
 COF = Cost of Funds

**Main focus on consumer segment to better manage NIM.** We consider Bank Islam to be a consumer bank given that its consumer segment represented 76.3% of its gross financing of RM32.77b (as at 1QFY18). Comparatively, commercial and corporate segment represented 14.1% and 9.6% respectively. We understand that the Group will continue to focus on the consumer segment which are house financing and personal financing to better manage its NIM as evident by the 2.63% posted in 1QFY18.

**Selective financing ensure good asset quality.** The consumer centric focus is also to ensure stability in asset growth and asset quality. The asset growth of the commercial and consumer segment could be volatile given instances of large repayments. This also applies for asset quality as individual accounts could drag the GIF ratio higher. In terms of house financing, the Group will be very selective in terms of profile of borrowers, the geography and quality of developers. Circa 93% of house financing are for first time buyers and owner occupiers. While personal financing may seem to be riskier, the Group mitigate this risk via package financing such as salary deduction program. We like the fact that management are being prudent despite its solid asset quality, which is amongst the lowest in the industry. Even though gross impaired financing ratio went up by +6bps qoq to 0.99% as at 1QFY18, it was due to the corporate and commercial segment. The GIF ratio for this segment went up by +21bps qoq to 1.91%. We believe this justify the strategy that the Group is implementing.

**Still experimenting with SME offerings.** The management have stated that it has plans to increase its presence in the SME segment. We opine that this is a valid strategy to address NIM compression and ties in well with its Deposit Drive strategy. However, we understand that Bank Islam has yet to gain significant traction. Nevertheless, we believe that the strategy to target SMEs amongst its corporate borrowers' supply chain will ensure that it has a captive market. Besides, the establishment of its 8 SME centres (which may be increased to 10) did not incur additional cost as it was converted from its hire purchase loan centres.


**Will be NSFR ready without sacrificing margins.** The management are not concerned to meet the NSFR requirement come January CY19. While there is some pressure to NIM due to deposit competition, retail CASA continues to grow. However, the challenge will be attracting corporate and institutional CASA. We understand that the Group have moderate this pressure via sale to Cagamas. As a result, management expect NIM to be stable for FY18.

**Optimum structure being studied.** In our opinion, the Group will derive tangible benefit should it decide to change its Group structure, whereby its listing status is taken over by its banking subsidiary. Amongst the benefits are the reduction in cost and better capital adequacy. We also believe that shareholders will gain directly from participating in the performance at the bank level. However, we do not discount that current structure also have its advantages, such as ring-fencing Bank Islam from any systemic risk of the insurance industry or country risk should it decide to expand overseas. As such, we understand that the management are keeping its option open in terms of its structure. We do not believe that this will hamper its growth as the Group have proved that it could still maintain its earnings momentum.

## **FORECAST**

We make no change to our FY18 and FY19 forecast.

## **VALUATION AND RECOMMENDATION**

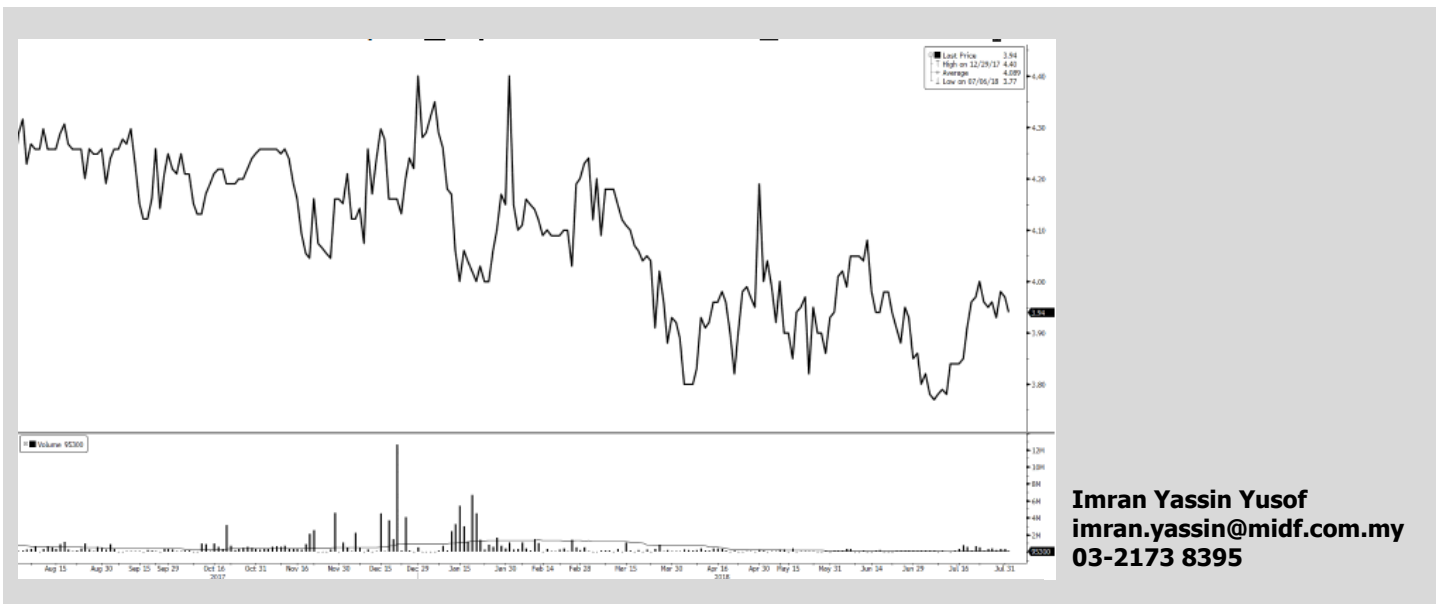
We reiterate our optimism on the prospect of the Group. We like the Group for its healthy asset quality and the robustness of its operations. In our opinion, its conservatism may slightly limit its earnings potential, but it had also restricted any possible downside risk. We also believe that the Group should present an attractive investment case for investors looking to have exposure in the financial sector but has Shariah compliance is a criterion. Therefore, we are maintaining our BUY call for the stock with unchanged TP to RM5.15. Our TP is based on pegging our FY19 BVPS to 1.6x PBV. 

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Total distributable income (RM'm)	3,410.7	3,716.0	3,828.3	4,053.1
Total net income (RM'm)	2,327.9	2,528.7	2,666.8	2,727.2
Operating profit (RM'm)	979.7	1,063.7	1,129.5	1,151.4
PBT (RM'm)	869.2	948.3	1,015.7	1,040.5
<b>PAZTAMI (RM'm)</b>	<b>559.0</b>	<b>619.8</b>	<b>671.0</b>	<b>687.3</b>
EPS (sen)	35.2	37.9	42.2	43.3
EPS growth (%)	-0.8	7.5	11.4	2.4
PER (x)	11.2	10.4	9.6	9.4
Net dividend (sen)	13.0	14.0	15.0	16.0
Dividend yield (%)	3.3	3.6	3.8	4.1
BV (RM)	2.44	2.77	2.96	3.22
PBV (x)	1.6	1.4	1.3	1.2
ROE (%)	14.4	13.7	13.9	13.0

Forecast by MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> 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	<i>Negative</i> total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> 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.