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08 September 2017 | Corporate Update

BIMB Holdings Bhd

Worth a second look

***Upgrade to* BUY**

***Adjusted* Target Price (TP): RM5.00 (from RM4.90)**

INVESTMENT HIGHLIGHTS

- **Operationally and financially robust.**
- **Asset quality remains one of the solidest.**
- **Strategic focus of 3D will have a positive impact.**
- **Expanding to SME offering.**
- **More benefit if reorganize Group structure.**
- **Maintaining FY17 forecast numbers at this juncture.**
- **Optimistic of the outlook for the Group. Upgrade to BUY with an adjusted TP of RM5.00.**

Higher optimism upon closer look. We met with the management of the Group recently and came away with greater optimism regarding its prospect. The key take away are as follows:

- Strong operational and financial metrics.
- 3D strategic focus, namely (i) Deposit Drive, (ii) Defensive Strategy, and (iii) Digitalisation.
- Branching out to SMEs funding without sacrificing current risk assessment policies.
- Discussion on changing group structure.

Operationally and financially robust. While the Group's 1HFY17 net profit grew at a decent +2.8%yoy to RM286.8m, this was due to the fact that OPEX went up by +6.4%yoy to RM705.9m. As a result CI ratio rose to 59.1% from 58.7% posted in FY16. However, we have to note that the higher OPEX was due to expanding its footprint via opening of new branches and several relocations, salary adjustment and investment in IT systems. Despite this, the Group's annualised ROE came in at a strong 14.2%, outpacing most of its peers. Similarly, it has one of most solid asset quality where its GIL ratio was 1.0% as at 2QFY17.

Similarly, subsidiary Bank Islam. Bank Islam Group recorded 1HFY17 PBZT growth of +2.3%yoy to RM367.8m due to growth in business activities. Net financing asset expanded +11.5%yoy to RM40.5b as at 2QFY17. Correspondingly, fund based income also increased, by +6.1%yoy to RM63.5m. The net financing asset growth was led by strong expansion in house financing, where it rose +17.1%yoy to RM15.8b. This had moderated the NIM compression -20bps yoy to 2.57% as this financing were higher yielding. Personal financing also went up, by +9.3%yoy to RM11.7b. Meanwhile, vehicle financing shrunk -6.9%yoy to RM2.4b as part of a deliberate strategy to reduce its exposure in the auto financing segment. Furthermore, the NIM compression was due to having to meet Liquidity Coverage Ratio requirements. Management expects NIM will be maintained at this level going forward.

RETURN STATS	
Price (7 Sept. 2017)	RM4.40
Target Price	RM5.00
Expected Share Price Return	+13.6%
Expected Dividend Yield	+3.5%
Expected Total Return	**+17.2%**

STOCK INFO	
KLCI	1,782.98
Bursa / Bloomberg	5258 / BIMB MK
Board / Sector	Main / Finance
Syariah Compliant	Yes
Issued shares (mil)	1,637.7
Market cap. (RM'm)	7,206.1
Price over NA	1.8x
52-wk price Range	RM3.90 – RM4.61
Beta (against KLCI)	0.51x
3-mth Avg Daily Vol	0.41m
3-mth Avg Daily Value	RM1.81m
Major Shareholders (%)	
LTH	53.12
EPF	12.57
PNB	6.33
KWAP	5.46
ASB	5.08

Asset quality remained sound. Gross impaired financing ratio improved slightly by -3bps yoy to 1.02%. We understand the majority of the impaired financing came from its exposure in the oil and gas sector. Impaired financing from this sector, which includes consumer and corporate sub-segments, were 12.8% of total impaired financing of RM421m. Nevertheless, this segment contributed 8.7% to total gross financing of RM41.2b. The bulk of it was from the consumer (e.g. personal financing for oil and gas employees) with 7.8% contribution. However, we understand that any stress is easing as the situation is improving for the borrowers.

STMB Group operating revenue momentum continued. Operating revenue for its subsidiary Syarikat Takaful Malaysia Bhd (STMB) grew +4.5%yoy to RM1.15b contributed by +3.5%yoy to RM995.7m and +12.0%yoy to RM149.5m growth in gross contribution and investment income respectively. Meanwhile, its PBZT rose +13.2%yoy to RM131.6m.

Moving forward, the strategic focus of the Group is the 3D, namely (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. Also, we note that management is implementing this to preserve asset quality. We like the fact that management are being prudent despite its solid asset quality amongst the industry.

Digitalisation will be a future driver. Finally, the Group is collaboration with Cognizant, a FinTech company to build its digital capability. We believe that this is essential due to prevalence of digitalisation in current environment. We like the fact that the Group has set up a dedicated digital banking division which are responsible for the digital transformation, which include channels, processes, productivity and analytics amongst others. We believe that this will give cost saving benefits. For example on the potential impact is faster opening of account through electronic "Know Your Customer" process. Furthermore, there are no capex or opex involve which is to be borne by its FinTech partner.

Not too late for SME offerings. The management also stated that it will be increasing its presence in the SME segment. We like the fact that this will be address NIM compression and ties in well with its Deposit Drive strategy. The Group will also target schemes that are made available by the Government such as guarantee schemes which will be a form of risk mitigation. We are pleased to learn that the Group will be selective in its sector exposure. While it may seem that the Group is late when compared with its peers, we believe that the strategy to target SMEs amongst its corporate borrowers' supply chain will ensure that it has a captive market.

More benefit to be derived if it changes its Group structure. 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. STMB have begun the process of similar reorganization and we do not rule such possibility at the Group level in the near future.

FORECAST

We make no change to our FY17 and FY18 forecast.

VALUATION AND RECOMMENDATION

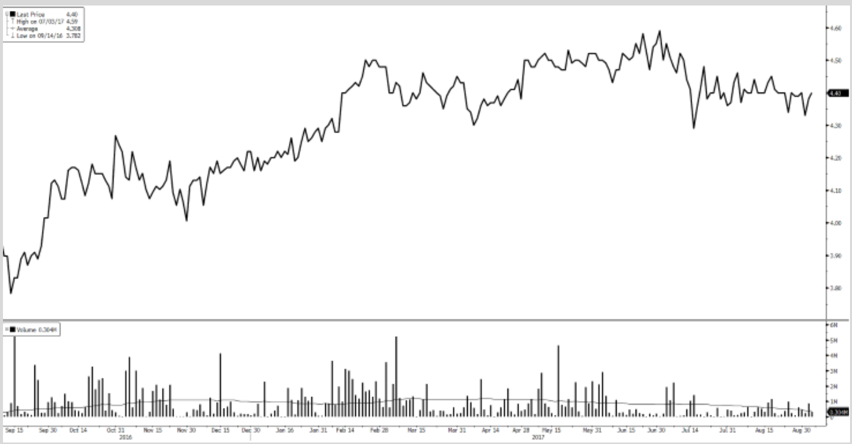
After a review of the Group's operations and its financial performance, we raised our optimism on the near term prospect of the Group. We like the Group for its healthy asset quality and the robustness of its operations. Moving ahead with digital will also ensure sustainability. With all the positive development, we are upgrading our call to BUY. We are adjusting our TP to RM5.00 (from RM4.90) as we adjust the PBV multiple to 1.7x as we do not believe that the stock should be trading 1 standard deviation below its historical mean.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F
Total distributable income (RM'm)	3,213.5	3,410.7	3,584.7	3,749.3
Total net income (RM'm)	2,193.0	2,327.9	2,503.2	2,623.5
Operating profit (RM'm)	917.8	979.7	1,051.4	1,110.0
PBT (RM'm)	834.4	869.2	936.6	996.3
PAZTAMI (RM'm)	**547.3**	**559.0**	**618.7**	**658.1**
Vs. consensus estimate	-	-	*614.0*	*671.0*
EPS (sen)	35.5	35.2	38.9	41.4
EPS growth (%)	-0.3	-0.8	10.5	6.4
PER (x)	12.4	12.5	11.3	10.6
Net dividend (sen)	12.2	13.0	14.4	15.5
Dividend yield (%)	2.8	3.0	3.3	3.5
BV (RM)	2.21	2.44	2.70	2.95
PBV (x)	2.0	1.8	1.6	1.5
ROE (%)	16.0	14.4	14.4	13.8

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.