

30 May 2018 | 1QFY18 Results Review

## Malaysia Building Society Bhd

*Positive sign from improved asset quality*

### INVESTMENT HIGHLIGHTS

- MBSB posted 1QFY18's net profit of RM316.8m
- Driven by write-back of loan provision
- Cost-to-income ratio slightly higher
- Earnings forecasts adjusted higher
- We maintain our BUY recommendation with an adjusted TP of RM1.54 (from RM1.50)

**Net profit contributed by write-back.** MBSB recorded 1QFY18 net profit of RM316.8m. The results came in above ours and consensus expectation, largely accounting our full year estimates. Cumulatively, the group's net earnings grew by >100.0%yoy despite flat revenue from the same period last year. The jump in net earnings was due to higher than expected write-back from loan loss provision which amounted to RM154m. We opine the considerable amount of write back reflected positively on MBSB's asset quality, stemming from its highly prudent impairment program previously.

**Interest income declined due to conversion to Shariah.** In 1QFY18, interest income went down by -30.1%yoy due to acquisition of only Shariah-compliant financial assets and continued conversion of conventional of conventional loans to Shariah compliant financings. However, interest expenses moved in tandem with interest income, by higher magnitude of -58.9%yoy, resulting in net interest income to decline slightly to RM64.1m, over the same period last year. Meanwhile, net income from Islamic operation was down by -7.6%yoy as, due to higher cost of funds, and costs incurred associated with AFB acquisition.

**Cost-to-income ratio ticked up.** The group's cost-to-income ratio in 1QFY18 stood at 26.7%, showing marginal increase from corresponding period at 19.7%. This was due to the necessary merger expenses and the expansion of business products and segments. Nonetheless, we opine the level as healthy, in comparison to industry's average of 49.7%. Management mentioned that the CTI ratio will not possibly breach 30%. However, we pleased to find that the group's 1QFY18's asset quality as measured by Net Impaired Financing/Loans (NIFL) improved by -0.94ppts yoy to 1.82%, showing consistent improvement in asset quality.

**Maintain BUY**

**Adjusted Target Price (TP): RM1.54  
(from RM1.50)**


### RETURN STATS

Price (28 May 2018)	RM1.21
Target Price	RM1.54
Expected Share Price Return	+27.3%
Expected Dividend Yield	+3.3%
<b>Expected Total Return</b>	<b>+30.6%</b>

### STOCK INFO

KLCI	1,775.84
Bursa / Bloomberg	1171 / MBS MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	6,149.9
Par Value (RM)	1.00
Market cap. (RM'm)	7,441.4
Price over NTA	1.01x
52-wk price Range	RM1.01– RM1.38
Beta (against KLCI)	1.54x
3-mth Avg Daily Vol	5.22m
3-mth Avg Daily Value	RM6.00m
Major Shareholders (%)	
EPF	63.16

**Short-term pain, long-term gain.** While we see the group's 1QFY18 experienced slight decline in its key revenue segments and ratios, we attribute this to the structural cost associated with its transition to a banking platform. Nonetheless, asset quality remained strong with cost-to-income below the industry's average. This reflects its ability to operate competitively in the industry as the second largest Islamic bank, while enhancing its presence in key business segment such as property financing.

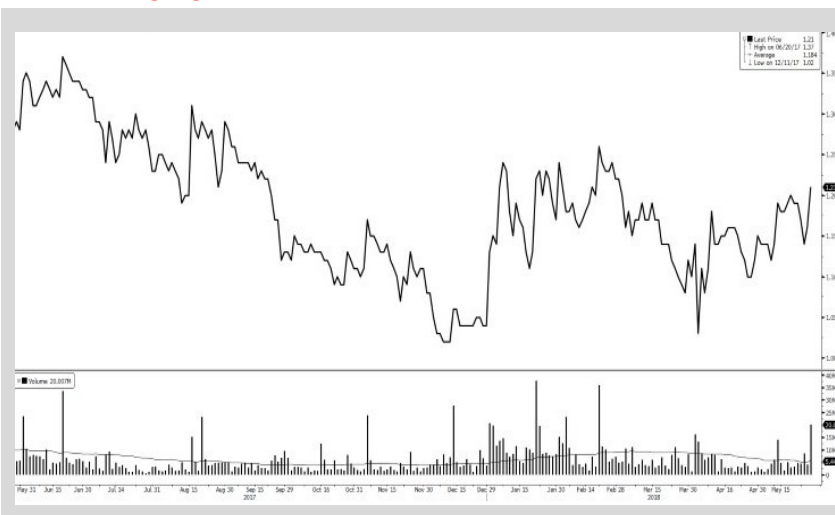
**Maintain BUY.** We raised our profits estimates for the stock in FY18 by +28.0%, taking into account the higher than expected write-back assumptions. With demand for affordable housing expected to continue to be high, we believe the group's long exposure in this particular segment will benefit its property financing business in the long run. Given these factors, we are maintaining our **BUY** call on the stock with adjusted **TP** of **RM1.54 (from RM1.50)**, pegging its FY19 BVPS to PBV of 1.1x. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating income (RM'm)	1,298.0	1,352.1	1,452.0	1,525.8	1,615.5
Total income (RM'm)	1,360.6	1,409.0	1,485.4	1,601.4	1,691.0
Pre-provisioning operating profit (RM'm)	1,029.4	1,115.7	1,149.3	1,211.8	1,273.7
Profit before tax and zakat (RM'm)	355.0	338.4	550.7	837.5	871.0
<b>Net profit</b>	<b>257.6</b>	<b>201.4</b>	<b>417.1</b>	<b>697.9</b>	<b>565.2</b>
<i>Vs. consensus estimate (RM'm)</i>	-	-	-	512.5	539.5
Diluted EPS (sen)	9.2	4.9	7.2	11.8	9.5
EPS growth (%)	-76.3	-46.7	46.8	63.8	-19.0
PER (x)	13.2	24.7	16.8	10.3	12.7
Net Dividend (sen)	3.0	3.0	5.0	4.0	4.0
Net Dividend Yield (%)	2.5	2.5	4.1	3.3	3.3
BV/share (RM)	1.7	1.2	1.2	1.3	1.4
PBV (x)	0.7	1.0	1.0	1.0	0.8
ROE (%)	5.3	3.5	5.9	9.9	6.5

Source: Company, MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 1QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	1Q17	4Q17	YoY	QoQ	3M18	3M17	YoY
<b>Revenue</b>	<b>815.0</b>	<b>811.2</b>	<b>818.3</b>	<b>0.5%</b>	<b>0%</b>	<b>815.0</b>	<b>811.2</b>	<b>0.5%</b>
Interest Income	89.3	127.8	114.3	-30.1%	-22%	89.3	127.8	-30.1%
Interest expenses	-25.2	-61.3	-2.7	-58.9%	824%	-25.2	-61.3	-58.9%
<b>Net interest income</b>	<b>64.1</b>	<b>66.5</b>	<b>111.6</b>	<b>-3.6%</b>	<b>-43%</b>	<b>64.1</b>	<b>66.5</b>	<b>-3.6%</b>
Net income from Islamic ops.	269.8	292.1	264.2	-7.6%	2%	269.8	292.1	-7.6%
<b>Operating income</b>	<b>333.9</b>	<b>358.6</b>	<b>375.8</b>	<b>-6.9%</b>	<b>-11%</b>	<b>333.9</b>	<b>358.6</b>	<b>-6.9%</b>
Other income	13.7	8.5	6.0	61.5%	128%	13.7	8.5	61.5%
<b>Total income</b>	<b>347.6</b>	<b>367.1</b>	<b>381.8</b>	<b>-5.3%</b>	<b>-9%</b>	<b>347.6</b>	<b>367.1</b>	<b>-5.3%</b>
Other operating expenses	-92.9	-72.4	-94.1	28.3%	-1%	-92.9	-72.4	28.3%
<b>Pre-provisioning operating profit</b>	<b>254.8</b>	<b>294.7</b>	<b>287.7</b>	<b>-13.5%</b>	<b>-11%</b>	<b>254.8</b>	<b>294.7</b>	<b>-13.5%</b>
Allowance for impairment losses	154.4	-167.9	-109.4	-191.9%	-241%	154.4	-167.9	-191.9%
<b>PBTZ</b>	<b>409.2</b>	<b>126.8</b>	<b>178.3</b>	<b>222.8%</b>	<b>129%</b>	<b>409.2</b>	<b>126.8</b>	<b>222.8%</b>
Taxation and zakat	-92.4	-25.4	-54.3	263.0%	70%	-92.4	-25.4	263.0%
<b>Net profit</b>	<b>316.8</b>	<b>101.3</b>	<b>124.0</b>	<b>212.7%</b>	<b>156%</b>	<b>316.8</b>	<b>101.3</b>	<b>212.7%</b>
Diluted EPS	5.33	1.8	2.1	204.6%	155%	5.3	1.8	204.6%
<b>Key ratios</b>	<b>1Q18</b>	<b>1Q17</b>	<b>4Q17</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M18</b>	<b>3M17</b>	<b>+/- ppts</b>
<b>Financial position</b>								
Gross financing growth	2.9%	1.6%	-3.1%	1.3	6.0	2.9%	1.6%	1.3
Net financing growth	1.0%	0.1%	0.0%	0.9	1.0	1.0%	0.1%	0.9
Deposit growth	6.0%	4.7%	7.0%	1.3	-1.0	6.0%	4.7%	1.3
<b>Profitability</b>								
Cost-to-income ratio	26.7%	19.7%	22.6%	7.0	4.1	26.7%	19.7%	7.0
ROA	2.8%	0.9%	1.0%	1.9	1.8	2.8%	0.9%	1.9
ROE	17.3%	6.0%	6.0%	11.3	11.3	17.3%	6.0%	11.3
<b>Asset quality</b>								
Net impaired financing/loans	1.8%	2.8%	2.1%	-0.9	-0.3	1.8%	2.8%	-0.9
Financing loss coverage	133.3%	113.3%	139.5%	20.0	-6.2	133.3%	113.3%	20.0

Source: Company, 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 <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	Total return is expected to be <-10% 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.