

31 July 2018 | 2QFY18 Results Review

Malaysia Building Society Bhd

Adapting to banking requirements

Maintain BUY

Unchanged Target Price (TP): RM1.54

INVESTMENT HIGHLIGHTS

- **MBSB registered 1HFY18's net profit of RM402.5m**
- **Cost-to-income ratio notably higher**
- **Earnings forecasts maintained at this juncture**
- **We maintain our BUY recommendation with an unchanged TP of RM1.54**

1HFY18 earnings slightly above expectations. Earnings came in above ours and consensus expectations, accounting for 57.7% and 64.0% of full year estimates respectively. The cumulative 1HFY18 earnings were higher by +109.2%yoy, following a net addition of RM85.7m net profits in 2QFY18. With earnings in the quarter recorded -5.9%yoy lower, we noted that the strong growth was underpinned by a net write-back in 1QFY18. Notably, profits in 1QFY18 saw a total of RM154.4m recorded in impairment allowances on loans and financing.

Earnings in 2QFY18, in tandem with revenue. Revenue in 2QFY18 fell -2.4%yoy to RM794.1m, resulted by lower income from financing activities. This was following the cessation of conventional business since 1QFY18. Net interest income in 2QFY18 came in lower by -8.7%yoy, with Islamic operations' maintained flat at RM 293.8m. Given the recent acquisition of AFB, we believe that growth trajectory can be sustained as the group expand its banking products, with stronger focus in its niche market. The roll out of new products may include trade finance and wealth management facilities. At this juncture, it is worth noting that management maintained its loan growth forecast at 5-6% in FY18.

Cost-to-income ratio ticked up. The group's cost-to-income ratio in 2QFY18 stood at 28.6%, showing marginal increase from corresponding period at 21.4%. This was attributable to higher operational expenses, primarily from AFB acquisition related-cost and salaries increase. It is worth noting that the number of staffs increased by +18.2% (post acquisition) to 1,863. At the current CTI level, we believe the ratio was healthy in comparison to industry's average of 49.7%. We are encouraged to see that the group's 2QFY18's asset quality as measured by Net Impaired Financing/Loans (NIFL) improved by -0.9ppts yoy to 1.9%, showing improvement in asset quality.

| RETURN STATS | |
|------------------------------|---------------|
| Price (30 July 2018) | RM1.15 |
| Target Price | RM1.54 |
| Expected Share Price Return | +33.9% |
| Expected Dividend Yield | +3.4% |
| Expected Total Return | +37.3% |

| STOCK INFO | |
|------------------------|----------------|
| KLCI | 1,769.14 |
| 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) | 7,072.4 |
| Price over NTA | 1.01x |
| 52-wk price Range | RM1.01– RM1.35 |
| Beta (against KLCI) | 1.23x |
| 3-mth Avg Daily Vol | 7.58m |
| 3-mth Avg Daily Value | RM8.80m |
| Major Shareholders (%) | |
| EPF | 63.16 |

Temporary discomfort, paving way for growth. The decline in 2QFY18 earnings was attributable to temporary bump in cost, higher by +29.0%yoy associated with the AFB acquisition. While revenue had been flattish in 1HFY18, we opine that growth is likely following the full adoption of MBSB banking platform in the future. This was on the back of healthy macro-economic performance coupled with the advancement of Islamic banking industry in Malaysia. Accordingly, MBSB as an Islamic financial institution is poised to benefit moving forward.

Earnings forecast maintained. While earning was above expectations in 1HFY18, we opt to maintain our estimates at this juncture as the numbers were still within our top line forecasts. This was also taking into account the management guidance on write back. Given these factors and our sanguine outlook on the company, we are maintaining our **BUY** call on the stock with an unchanged TP of **RM1.54** pegging its FY19 BVPS to PBV of 1.1x.

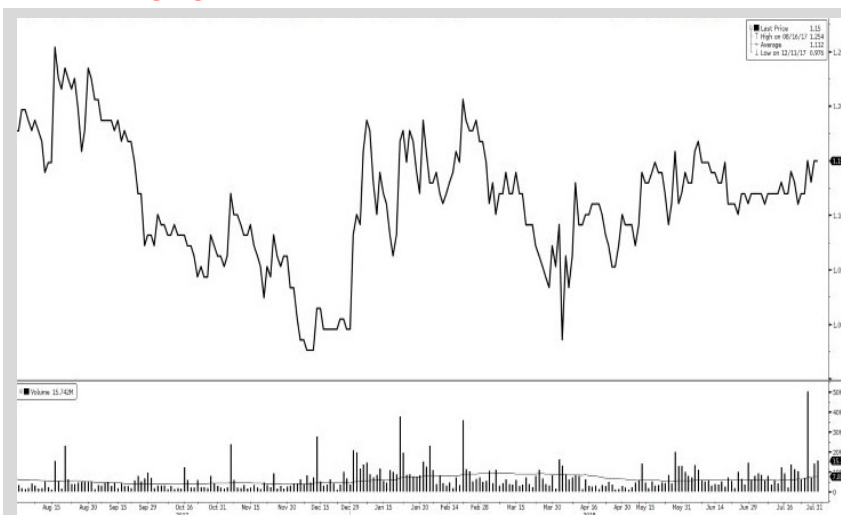


INVESTMENT STATISTICS

| 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 |
| Net profit | 257.6 | 201.4 | 417.1 | 697.9 | 565.2 |
| <i>Vs. consensus estimate (RM'm)</i> | - | - | - | 629 | 615.3 |
| 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) | 12.6 | 23.7 | 16.1 | 9.8 | 12.2 |
| Net Dividend (sen) | 3.0 | 3.0 | 5.0 | 4.0 | 4.0 |
| Net Dividend Yield (%) | 2.6 | 2.6 | 4.3 | 3.4 | 3.4 |
| BV/share (RM) | 1.7 | 1.2 | 1.2 | 1.3 | 1.4 |
| PBV (x) | 0.7 | 1.0 | 0.9 | 0.9 | 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

2QFY18 RESULTS SUMMARY

| FYE Dec (RM'm) | Quarterly Results | | | | | Cumulative | | |
|--|-------------------|--------------|--------------|-----------------|-----------------|----------------|----------------|-----------------|
| | 2Q18 | 2Q17 | 1Q18 | YoY | QoQ | 6M18 | 6M17 | YoY |
| Revenue | 794.1 | 813.4 | 815.0 | -2.4% | -2.6% | 1,609.2 | 1,624.6 | -1.0% |
| Interest Income | 53.9 | 117.3 | 89.3 | -54.1% | -39.7% | 143.2 | 245.2 | -41.6% |
| Interest expenses | 0.2 | -58.1 | -25.2 | -100.4% | -100.9% | -25.0 | -119.4 | -79.1% |
| Net interest income | 54.1 | 59.3 | 64.1 | -8.7% | -15.6% | 118.2 | 125.8 | -6.0% |
| Net income from Islamic ops. | 293.8 | 294.7 | 269.8 | -0.3% | 8.9% | 563.6 | 586.7 | -3.9% |
| Operating income | 347.9 | 353.9 | 333.9 | -1.7% | 4.2% | 681.8 | 712.5 | -4.3% |
| Other income | 10.2 | 11.3 | 13.7 | -9.6% | -25.6% | 23.9 | 19.8 | 20.9% |
| Total income | 358.1 | 365.2 | 347.6 | -2.0% | 3.0% | 705.7 | 732.3 | -3.6% |
| Other operating expenses | -108.9 | -84.4 | -92.9 | 29.1% | 17.3% | -201.8 | -156.8 | 28.7% |
| Pre-provisioning operating profit | 249.2 | 280.9 | 254.8 | -11.3% | -2.2% | 503.9 | 575.6 | -12.4% |
| Allowance for impairment losses | -124.2 | -165.2 | 154.4 | -24.8% | -180.5% | 30.2 | -333.2 | -109.1% |
| PBTZ | 124.9 | 115.6 | 409.2 | 8.0% | -69.5% | 534.1 | 242.4 | 120.3% |
| Taxation and zakat | -39.2 | -24.5 | -92.4 | 59.9% | -57.5% | -131.6 | -50.0 | 163.3% |
| Net profit | 85.7 | 91.1 | 316.8 | -5.9% | -73.0% | 402.5 | 192.4 | 109.2% |
| Diluted EPS | 1.37 | 1.6 | 5.3 | -12.7% | -74.3% | 6.3 | 3.3 | 89.7% |
| Key ratios | 2Q18 | 2Q17 | 1Q18 | +/- ppts | +/- ppts | 6M18 | 6M17 | +/- ppts |
| Financial position | | | | | | | | |
| Gross financing growth | 4.1% | 2.2% | 2.9% | 1.9 | 1.2 | 4.1% | 2.2% | 1.9 |
| Deposit growth | -3.9% | 5.6% | 6.0% | -9.5 | -9.9 | -3.9% | 5.6% | -9.5 |
| Profitability | | | | | | | | |
| Net financing margin | | | | | | | | |
| Non-interest income ratio | 2.9% | 3.1% | 3.9% | -0.2 | -1.1 | 2.9% | 3.1% | -0.2 |
| Cost-to-income ratio | 30.4% | 21.4% | 26.7% | 9.0 | 3.7 | 30.4% | 21.4% | 9.0 |
| ROA | 1.8% | 0.9% | 2.8% | 0.9 | -1.0 | 1.8% | 0.9% | 0.9 |
| ROE | 11.1% | 5.7% | 17.3% | 5.5 | -6.2 | 11.1% | 5.7% | 5.5 |
| Asset quality | | | | | | | | |
| Net impaired financing/loans | 1.9% | 2.8% | 1.8% | -0.9 | 0.1 | 1.9% | 2.8% | -0.9 |
| Financing loss coverage | 128.3% | 113.1% | 133.3% | 15.2 | -5.0 | 128.3% | 113.1% | 15.2 |

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. |