

14 November 2018 | 3QFY18 Results Review

## Malaysia Building Society Bhd

*Mainly driven by lower provisions*

**Maintain BUY**

**Unchanged Target Price (TP): RM1.25**

### INVESTMENT HIGHLIGHTS

- **Earnings within expectations**
- **Earnings growth on lower provisions**
- **Cost-to-income ratio higher on investments**
- **Business plan on track**
- **Earnings forecasts maintained at this juncture**
- **We maintain our BUY recommendation with an unchanged TP of RM1.25**

**Earnings for 9MFY18 within expectations.** MBSB's 9MFY18 earnings came in within our expectations coming in at 75% of full year estimates. The strong net profit growth was due to lower provisions which fell -94.1%yoy.

**Lower provisions due to continuing write backs.** The impairment allowance for loans, advances and financing was -91.9%yoy lower to RM39.9m. This was due to continuous write backs, such as the RM73.4m posted in 3QFY18. For 9MFY18, the total write backs amounted to RM259.8m. We understand that this was due to lower CPI which affected the forward looking factors that is pegged to the CPI.

**Income lower possibly due to higher cost of fund.** Net interest income in 9MFY18 fell by -15.3%yoy but this was expected following the cessation of conventional business since 1QFY18. Net income from Islamic operations fell -4.5%yoy possibly due to higher cost of fund as income attributable to depositors rose +23.4%yoy to RM956.9m. This was despite deposits contracting by -4.3%yoy to RM31.73b and term deposits by -4.2%yoy to RM31.65b.

**Non-interest income growing steadily from new business.** Non-interest income increased +54.1%yoy underpinned expansion in fee income of +91.8%yoy to RM23.9m. The strong growth in fee income was mainly due to the new business such as Trade Finance. MBSB had approved RM958.7m worth of facilities and the Trade Finance system has been successfully deployed in October CY18.

**Higher operating expenses caused by investments.** Operating expenses went up +33.7%yoy. However, we had expected this as MBSB continue to invest to transform into full fledged bank. This include hiring of talent as well. Personnel cost grew +35.4%yoy to RM162.3m. Nevertheless, its level of cost-to-income ratio was still below industry's average.


RETURN STATS	
Price (13 Nov. 2018)	RM0.97
Target Price	RM1.25
Expected Share Price Return	+28.9%
Expected Dividend Yield	+4.1%
<b>Expected Total Return</b>	<b>+33.0%</b>

STOCK INFO	
KLCI	1,687.57
Bursa / Bloomberg	1171 / MBS MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	6,389.10
Market cap. (RM'm)	6,197.43
Price over NTA	0.85x
52-wk price Range	RM0.89– RM1.31
Beta (against KLCI)	1.18x
3-mth Avg Daily Vol	3.82m
3-mth Avg Daily Value	RM3.86m
Major Shareholders (%)	
EPF	63.77

**Gross financing flattish due to asset reorganization.** Gross financing as at 3QFY18 was almost flat at -0.6%yoy to RM35.9b. However, this was due to reorganization of its asset mix. It had purposely decelerated its personal financing segment, which fell by -6.5%yoy to RM21.1b. To grow its asset, management is targeting the corporate segment. Financing to domestic enterprise, which includes SMEs, Corporates and Government, expanded +20.0%yoy to RM9.3b.

**Asset quality improving.** Gross impaired financing ratio was still high at 5.54%. However, net impaired financing ratio improved to 1.76% as at 3QFY18 from 1.91% and 2.11% registered as at 2QFY18 and 1QFY18.

**Earnings forecast maintained.** We make no change to our forecast for now.

**Reorganizing to realise potential.** We believe that MBSB have the potential to grow out of its current shell and flourish as an Islamic bank entity. However, we are cognizant that investments will be needed to prepare for its next stage of growth. Nevertheless, we are optimistic of its prospect to stage an income rebound in FY19. This is predicated on the fact that most of its FY18 business initiatives on track including offering of current account, retail internet banking and other banking services such as cash recycling machines. We opine that the status of MBSB will be significantly enhance once it becomes a full fledged Islamic bank. Therefore, we are maintaining our **BUY** call with unchanged TP to **RM1.25** based on PBV multiple of 0.9x. 

## 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>705.5</b>
Diluted EPS (sen)	9.2	4.9	7.2	11.6	11.5
EPS growth (%)	-76.3	-46.7	46.8	63.8	-1.0
PER (x)	10.5	19.8	13.7	8.3	8.4
Net Dividend (sen)	3.0	3.0	5.0	4.0	4.0
Net Dividend Yield (%)	3.1	3.1	5.2	4.1	4.1
BV/share (RM)	1.7	1.2	1.2	1.3	1.4
PBV (x)	0.6	0.8	0.8	0.7	0.7
ROE (%)	5.3	3.5	5.9	9.4	8.8

Source: Company, MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 3QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
<b>Revenue</b>	<b>786.4</b>	<b>816.9</b>	<b>794.1</b>	<b>-3.7%</b>	<b>-1.0%</b>	<b>2,395.6</b>	<b>2,441.5</b>	<b>-1.9%</b>
Interest Income	58.7	112.9	53.9	-48.0%	8.9%	201.9	358.0	-43.6%
Interest expenses	(0.3)	(30.2)	0.2	-99.1%	-236.5%	(25.3)	(149.6)	-83.1%
<b>Net interest income</b>	<b>58.4</b>	<b>82.7</b>	<b>54.1</b>	<b>-29.4%</b>	<b>8.0%</b>	<b>176.6</b>	<b>208.5</b>	<b>-15.3%</b>
Net income from Islamic ops.	264.9	281.0	293.8	-5.7%	-9.8%	828.5	867.8	-4.5%
<b>Operating income</b>	<b>323.3</b>	<b>363.7</b>	<b>347.9</b>	<b>-11.1%</b>	<b>-7.1%</b>	<b>1,005.1</b>	<b>1,076.2</b>	<b>-6.6%</b>
Other income	18.2	7.6	10.2	141.0%	78.4%	42.1	27.4	54.1%
<b>Total income</b>	<b>341.5</b>	<b>371.3</b>	<b>358.1</b>	<b>-8.0%</b>	<b>-4.6%</b>	<b>1,047.2</b>	<b>1,103.6</b>	<b>-5.1%</b>
Other operating expenses	(121.8)	(85.2)	(108.9)	42.9%	11.8%	(323.6)	(242.0)	33.7%
<b>Pre-provisioning operating profit</b>	<b>219.7</b>	<b>286.0</b>	<b>249.2</b>	<b>-23.2%</b>	<b>-11.8%</b>	<b>723.6</b>	<b>861.6</b>	<b>-16.0%</b>
Allowance for impairment losses	(58.8)	(156.0)	(124.2)	-62.3%	-52.6%	(28.7)	(489.2)	-94.1%
<b>PBTZ</b>	<b>160.9</b>	<b>130.0</b>	<b>124.9</b>	<b>23.7%</b>	<b>28.8%</b>	<b>695.0</b>	<b>372.4</b>	<b>86.6%</b>
Taxation and zakat	(38.9)	(29.3)	(39.2)	32.7%	-0.8%	(170.5)	(79.3)	115.0%
<b>Net profit</b>	<b>122.0</b>	<b>100.7</b>	<b>85.7</b>	<b>21.1%</b>	<b>42.3%</b>	<b>524.4</b>	<b>293.1</b>	<b>78.9%</b>
Diluted EPS	2.0	1.7	1.4	15.9%	43.8%	8.6	5.0	71.3%
<b>Key ratios</b>	<b>3Q18</b>	<b>3Q17</b>	<b>2Q18</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>9M18</b>	<b>9M17</b>	<b>+/- ppts</b>
<b>Financial position</b>								
Gross financing growth	4.8%	2.3%	4.1%	2.6	0.7	4.8%	2.3%	2.6
Deposit growth	-3.1%	8.3%	-3.9%	-11.4	0.8	-3.1%	8.3%	-11.4
<b>Profitability</b>								
Net financing margin								
Non-interest income ratio	5.3%	2.0%	2.8%	3.3	2.5	4.0%	2.5%	1.5
Cost-to-income ratio	35.7%	23.0%	30.4%	12.7	5.3	30.9%	21.9%	9.0
ROA	1.5%	0.9%	1.8%	0.7	-0.3	1.5%	0.9%	0.7
ROE	9.5%	5.7%	11.0%	3.8	-1.5	9.5%	5.7%	3.8
<b>Asset quality</b>								
Net impaired financing/loans	1.8%	3.2%	1.9%	-1.4	-0.1	1.8%	3.2%	-1.4
Financing loss coverage	129.2%	109.8%	128.3%	19.4	0.9	129.2%	109.8%	19.4

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.