

02 February 2018 | 4QFY17 Results Review

Malaysia Building Society Bhd

Progressing well

Maintain BUY

Unchanged Target Price (TP): RM1.50

INVESTMENT HIGHLIGHTS

- **MBSB FY17's net profit recorded at RM417.1m**
- **Attributable to lower allowance of impairment losses**
- **Cost-to-income ratio slightly higher**
- **Earnings forecasts unchanged**
- **We maintain our BUY recommendation with TP RM1.50**

Earnings above expectations. MBSB recorded FY17 net profit to the tune of RM417.1m. The results came in above ours and consensus expectation, accounting for 106.5% and 119.5% of full year estimates. Cumulatively, the group's net earnings grew by a whopping +107.1%yoy.

Attributable to lower amount of allowance for impairment losses. The strong earnings growth was due to lower allowance for impairment losses on financing/loans and advances. It declined by -23.0%yoy for FY17, with 4QFY17 following the same pattern of previous quarters, decreasing by -35.2%yoy. On operational front, lower cost of funds has steered the net interest income higher.

Cost-to-income ratio ticked up. The group's cost-to-income ratio in 4QFY17 stood at 22.6%, showing marginal increase from corresponding period at 20.8%. 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%. Meanwhile, the group's FY17 asset quality as measured by Net Impaired Financing/Loans (NIFL) improved by 0.76ppts yoy to 2.87%.

Dividend. MBSB has proposed a single-tier final dividend of 5 sen/share, which amounted to RM296.2m. This implies a pay-out ratio of circa 70% of its FY17 earnings and a dividend yield of 4.3%.

No impact to earnings. Despite the results came in above our expectations, we are maintaining our FY18 forecast as we have taken into account the reduction of impairment allowance as well as improving net income. We introduce our FY19 earnings forecast, which will reflect MBSB's full year earnings projection as a full-fledged Islamic banking.

Recommendation. We remain optimistic on the group's performance moving forward, supported by the current and future initiatives being planned and executed. On the group's outlook, we are positive on the group's creation of delivery channels, which will help in new customer acquisition as well as driving down operational expenses. Given this optimistic stance, we maintain our **BUY** call on the stock with TP of RM1.50. This is pegging its FY18 BVPS to PBV of 1.1x.

RETURN STATS	
Price (30 Jan 2018)	RM1.17
Target Price	RM1.50
Expected Share Price Return	+28.2%
Expected Dividend Yield	+3.4%
Expected Total Return	+31.6%

STOCK INFO	
KLCI	1,868.27
Bursa / Bloomberg	1171 / MBS MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	5,924.4
Par Value (RM)	1.00
Market cap. (RM'm)	6,931.6
Price over NTA	1.02x
52-wk price Range	RM1.01– RM1.38
Beta (against KLCI)	1.47x
3-mth Avg Daily Vol	7.16m
3-mth Avg Daily Value	RM8.16m
Major Shareholders (%)	
EPF	65.56

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	652.2	678.3
Net profit	257.6	201.4	417.1	543.5	565.2
<i>Vs. consensus estimate (RM'm)</i>	-	-	-	552.7	576.0
Diluted EPS (sen)	9.2	4.9	7.2	8.8	9.2
EPS growth (%)	-76.3	-46.7	46.8	22.9	4.0
PER (x)	12.6	23.7	16.1	13.1	12.6
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	1.2	1.1
PBV (x)	0.7	1.0	0.9	1.0	1.1
ROE (%)	5.3	3.5	5.9	7.7	8.4

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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4QFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	4Q16	3Q17	YoY	QoQ	12M17	12M16	YoY
Revenue	818.3	819.4	816.9	-0.1%	0.2%	3,259.8	3,274.8	-0.5%
Interest Income	114.3	118.1	112.9	-3.2%	1.3%	472.3	473.7	-0.3%
Interest expenses	-2.7	-61.2	-30.2	-95.5%	-91.0%	-152.3	-253.8	-40.0%
Net interest income	111.6	56.9	82.7	96.1%	34.9%	320.0	219.8	45.6%
Net income from Islamic ops.	264.2	304.7	281.0	-13.3%	-6.0%	1,132.0	1,132.3	0.0%
Operating income	375.8	361.6	363.7	3.9%	3.3%	1,452.0	1,352.1	7.4%
Other income	6.0	16.4	7.6	-63.2%	-20.2%	33.4	56.9	-41.3%
Total income	381.8	378.0	371.3	1.0%	2.8%	1,485.4	1,409.0	5.4%
Other operating expenses	-94.1	-58.2	-85.2	61.5%	10.4%	-336.1	-293.3	14.6%
Pre-provisioning operating profit	287.7	319.7	286.0	-10.0%	0.6%	1,149.3	1,115.7	3.0%
Allowance for impairment losses	-109.4	-168.9	-156.0	-35.2%	-29.8%	-598.6	-777.3	-23.0%
PBTZ	178.3	150.9	130.0	18.2%	37.1%	550.7	338.4	62.7%
Taxation and zakat	-54.3	-105.2	-29.3	-48.4%	85.4%	-133.6	-137.0	-2.5%
Net profit	124.0	45.6	100.7	171.6%	23.1%	417.1	201.4	107.1%
Diluted EPS	2.09	0.8	1.7	164.6%	23.2%	7.1	4.9	44.9%
Key ratios	4Q17	4Q16	3Q17	+/- ppts	+/- ppts	12M17	12M16	+/- ppts
Financial position								
Gross financing growth	-3.1%	3.5%	2.3%	-6.5	-5.3	-0.4%	5.3%	-5.7
Deposit growth	7.0%	7.1%	8.3%	-0.1	-1.3	7.0%	14.6%	-7.6
Profitability								
Net financing margin	3.4%	3.3%	3.3%	0.1	0.0	3.4%	3.2%	0.2
Cost-to-income ratio	22.6%	20.8%	21.9%	1.8	0.7	22.6%	20.8%	1.8
ROA	1.0%	0.5%	0.9%	0.5	0.1	1.0%	0.5%	0.5
ROE	6.0%	3.5%	5.7%	2.5	0.3	6.0%	3.5%	2.5
Asset quality								
Net impaired financing/loans	2.1%	2.9%	3.2%	-0.8	-1.1	2.1%	2.9%	-0.8
Financing loss coverage	139.5%	109.2%	109.8%	30.3	29.7	139.5%	109.2%	30.3

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.