

Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

2QFY23 Results Briefing: Bucking the NIM Trend

KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM254m was *Within/Within* our/*street* forecasts: **49%/50%** of full-year forecasts
- Management's tone: **Optimistic**
- Core themes: (a) Loan growth still weak, (b) Huge write-offs in enterprise GILs have improved overall asset quality, (c) Deposits contract on a sequential-quarter basis
- Forecasts unchanged
- Upgrade to **NEUTRAL** | Revised TP of **RM2.04** | based on a revised FY24F P/BV of **0.64x** (formerly **0.46x**)

Verdict: While still not out of the woods, BIMB could see stronger quarters ahead (though in part due to low base effects).

Yays	1. NIM will likely move in a more positive trajectory than peers (given its low base).
Nays	1. Still some asset quality concerns persist. 2. NCC still on the higher end of guidance, while downside bias remains significant.
OKs	1. Financing growth YTD is flattish, but group is confident it can achieve 7-8% FY23F target. 2. NOII recovery has been good, but largely due to MTM and forex improvements (which may not be sustainable).

6MFY23's Core net profit (NP) of RM254m up by 14%yoy. Core driver was NOII which had more than doubled. Also, NII and tax normalisation offset a sharp uptick in costs and higher loan provisions.

2QFY23's Core NP of RM136m up by 15%qoq. Largely due to better cost management and NII improvements offsetting NOII weakness. Loan provisions were stable.

Loan growth is becoming a bit of a concern, growing by +0.2%qoq – bringing YTD figures to +0.6%, far from the 7-8% guided by management. Deposit growth was also lacklustre, falling by -0.5%qoq.

Have a look at:

Low base effects may be fueling NIM outperformance. In contrast to the industry-wide NIM compression on a sequential-quarter basis, BIMB posted +5bps qoq NIM growth to 2.11%. We believe that the NIM optimisation strategy is clear-cut – by letting pricier deposits mature without renewal, COF will improve sharply.

This is reflected in quarterly contraction in deposits (coming primarily from business enterprises end). Recall also that BIMB had the highest % of >6-month FDs among its peers. In short, BIMB is likely riding low base effects after its NIMs have sorely underperformed its peers in the last couple of quarters.

Upgrade to NEUTRAL

(Previously TRADING SELL)

Revised Target Price: RM2.04

(Previously RM1.46)

RETURN STATISTICS

Price @ 30 August 2023 (RM)	2.09
Expected share price return (%)	-2.4
Expected dividend yield (%)	+6.9
Expected total return (%)	+4.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.7	-3.9
3 months	6.7	8.6
12 months	-20.3	-17.7

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	521	575	610
CNP growth (%)	6	10	6
Div yield (%)	6.6	6.9	7.0
Gross DPS (sen)	13.7	14.4	14.6
P/BV (x)	0.7	0.7	0.6
BVPS (RM)	3.0	3.2	3.3
ROE (%)	7.4	7.7	7.8
MIDF/Street CNP (%)	102	102	99

KEY STATISTICS

FBM KLCI	1451.94
Issue shares (m)	2,244.0
Estimated free float (%)	17.1
Market Capitalisation (RM'm)	4,714.3
52-wk price range	RM1.7 - RM2.73
3-mth avg daily volume (m)	2.0
3-mth avg daily value (RM'm)	3.8
Top Shareholders (%)	
Lembaga Tabung Haji	48.0
EPF Board	16.1
Amanah Saham Nasional Bhd	6.5

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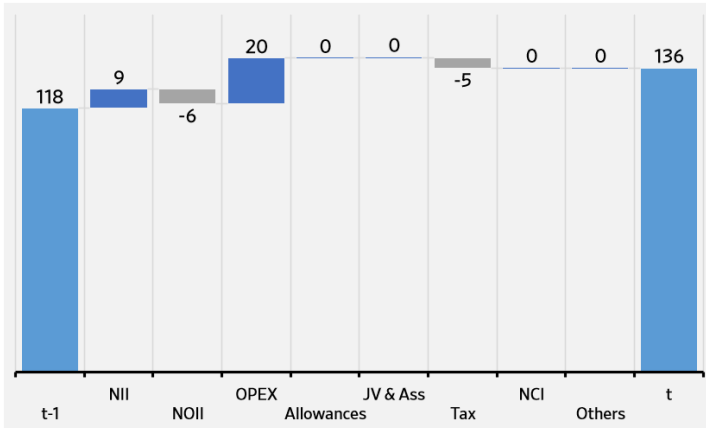
Forecasts unchanged. We make no changes to our forecasts.

Key downside risks. (1) Further NIM compression, (2) NCC downside risk, (3) Lacklustre loan growth.

Upgrade to NEUTRAL call: Revised GGM-TP of RM 2.04 (from RM1.46). The TP is based on a revised FY24F P/BV of 0.64x (formerly 0.46x) as negative investor sentiment toward to banking industry seems to have dissipated. **(GGM assumptions: FY24F ROE of 7.7%, LTG of 4.5% & COE of 9.5%)**

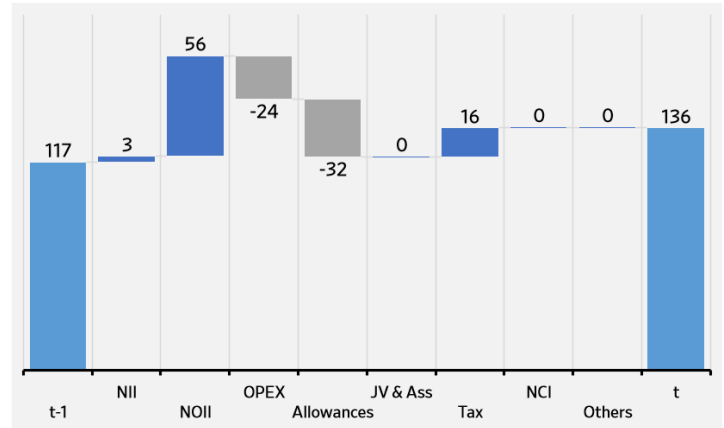


Fig 1: QoQ P/L walk (Quarterly results)



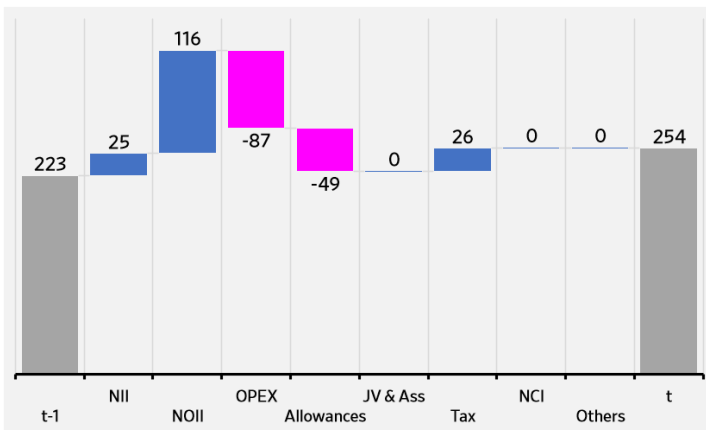
Source: BIMB, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: BIMB, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: BIMB, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Total NII	483	475	480	1	2	958	933	3
Total NOII	99	105	43	132	-6	204	88	132
Net income	582	580	523	11	0	1,162	1,021	14
OPEX	(337)	(357)	(312)	8	-6	(693)	(606)	14
PPOP	246	223	210	17	10	469	415	13
Loan provisions	(62)	(62)	(34)	82	-1	(124)	(77)	60
Other provisions	0	0	5	n.m.	n.m.	0	3	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
PBT	184	162	181	2	14	346	341	2
Tax	(48)	(43)	(64)	-25	11	(91)	(117)	-22
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	136	118	117	16	15	254	223	14
Core NP	136	118	117	16	15	254	223	14
Gross DPS (sen)	-	-	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	6.0	5.3	5.4	11	13	11.3	10.4	9
Gross loans	66,337	66,195	60,700	9.3	0.2			
Gross impaired loans	682	908	692	-1.5	-25.0			
Customer deposits	57,005	57,283	54,891	3.9	-0.5			
CASA	18,581	19,303	19,595	-5.2	-3.7			
Ratios (%)	2Q FY23	1Q FY23	2Q FY22	Yoy (ppts)	Qoq (ppts)	1H FY23	1H FY22	Yoy (ppts)
ROE (Ann.)	7.4	6.6	7.0	0.4	0.9	7.0	6.7	0.3
NIM (Reported)*	2.11	2.06	2.25	-0.14	0.05	2.08	2.29	-0.21
NOII/Net income	17.0	18.2	8.2	8.8	-1.2	17.6	8.6	9.0
Cost/Income	57.8	61.5	59.7	-1.9	-3.7	59.6	59.3	0.3
NCC (Ann.) (bps)	39	39	23	16	-1	39	26	13
GLL ratio	1.03	1.37	1.14	-0.11	-0.34			
Loan loss coverage	122	118	148	-25	4			
CASA ratio	32.6	33.7	35.7	-3.1	-1.1			
L/D ratio	114.9	113.7	108.7	6.2	1.2			
CET-1	13.9	15.1	13.8	0.1	-1.2			

Source: BIMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	136	Qtrly ROE	Qtr value	7.4%
	26% of FY CNP				
	Qoq	15%		t-1	6.6%
	Yoy	16%		t-4	7.0%
Cum Core NP	RM mil	254	Cum ROE	Cum value	7.0%
	Within our forecast				
	49% of FY CNP				
	Within consensus				
	50% of FY CNP				
Yoy	14%	t-1	6.7%		
NII	+ve surprise		NIM	+ve surprise	
				Qtr value	2.11
				Cum value	2.08
	Qtr (Qoq)	2%		Qtr (Qoq)	+5bps
	Qtr (Yoy)	1%		Qtr (Yoy)	-14bps
Cum (Yoy)	3%	Cum (Yoy)	-21bps		
NOII	As expected		Qtr	% NII	83%
	Qtr (Qoq)	-6%		% NOII	17%
	Qtr (Yoy)	132%	Cum	% NII	82%
	Cum (Yoy)	132%		% NOII	18%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	57.8%
				Cum value	59.6%
	Qtr (Qoq)	-6%		Qtr (Qoq)	-3.7%
	Qtr (Yoy)	8%		Qtr (Yoy)	-1.9%
Cum (Yoy)	14%	Cum (Yoy)	+0.3%		

Source: BIMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

A surprisingly strong quarter.

Unlike its peers, BIMB has seen decent improvement in cost control and NII.

A strong 1HFY23.

Core driver is NOII, which has more than doubled from that of last year.

Bucking the trend, BIMB showed actual improvement on a qoq basis.

Likely due to the bank letting pricier, long-tenured FDs mature without renewal – thus pushing down its overall deposit volume.

Excellent NOII quarter.

However, do observe that the brunt of the improvement comes from better MTM and forex yields, which may not necessarily be sustainable.

Good cost control, though yoy growth is still considered high.

As with other banks, largely driven by higher personnel costs and collective agreement revision. Expect a tough 2HFY23, with the group having revised its OPEX growth guidance upwards.

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	-ve surprise					Poor quarter, but mgmt retains its 7-8% target. As with peers, BIMB is confident in a strong 2HFY23 pipeline.
	Qoq	0.2%				
	Yoy	9.3%				
	YTD (FY)	-6.1%				
Depo. grwth	-ve surprise		CASA grwth	As expected		Contraction in overall deposits. Contraction comes largely from the business enterprises segment. Retail deposits saw good growth.
	Qoq	-0.5%		Qoq	-3.7%	
	Yoy	3.9%		Yoy	-5.2%	
	YTD (FY)	-8.8%		YTD (FY)	0.0%	
CASA ratio	As expected		L/D ratio	-ve surprise		Huge writeoffs coming in from institutional banking end, while retail GIL creeps upward. Due to a write-off of one large O&G name. At the retail end, house financing GIL ratio did rise by +7bps qoq, while personal financing remained relatively stable.
	Value now	32.6%		Value now	114.9%	
	Qoq	-1.1%		Qoq	+1.2%	
	Yoy	-3.1%		Yoy	+6.2%	
GIL ratio	+ve surprise		LLC ratio	As expected		Still healthy. Do note quarter-on-quarter fluctuations in CET1.
	Value now	1.03%		Value now	122%	
	Qoq	-34bps		Qoq	+4%	
	Yoy	-11bps		Yoy	-25%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	39bps		Value now	39bps	
	t-1	39bps				
			t-4	26bps		
CET 1	Healthy level		Div payout	No divvy		
	As expected			As expected		
	Value now	13.9%		Payout		
	Qoq	-1.2%				

Others:

Source: BIMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	7-8	7.0	12% ROE based on PBT. 9-10% in the next 3 years.
CIR	58	59.6	*OPEX growth target is 9-10% 8-9% .
NIM	>2.00 (FY22: 2.31%)	2.08	4QFY23 NIM target: >2.20%.
NOII		132% (yoy)	
Loans	7-8	0.6 (YTD)	
Deposits		-6.1 (YTD)	
% CASA	-	32.6	
Loan/Depo		114.9	
GIL ratio	<1.5	1.03	
NCC (bps)	30-40	39	Guidance does not include overlays. (Provisions at >RM109m)
LLC		122	
CET 1		13.9	
Div payout	60	-	60% to be maintained. (Original: 50%)

Source: BIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Total NII	1,791	1,972	1,941	2,058	2,180
Total NOII	308	231	411	425	454
Net income	2,099	2,203	2,352	2,483	2,634
OPEX	(1,197)	(1,317)	(1,447)	(1,527)	(1,620)
PPOP	902	886	906	956	1,014
Loan allowances	(191)	(140)	(218)	(197)	(209)
Other allowances	(7)	1	-	-	-
JV & Associates	-	-	-	-	-
PBT	704	747	687	759	805
Tax & zakat	(170)	(255)	(166)	(184)	(195)
NCI	-	-	-	-	-
Reported NP	534	492	521	575	610
Core NP	534	492	521	575	610

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	5,223	7,145	5,721	5,921	5,921
Investment securities	15,536	15,448	15,289	15,468	15,959
Net loans	58,154	64,902	69,549	74,252	78,840
Other IEAs	0	0	0	0	0
Non-IEAs	1,244	2,357	3,127	3,831	4,197
Total assets	80,156	89,852	93,686	99,472	104,917
Customer deposits	57,339	60,708	65,261	69,829	74,019
Other IBLs	14,490	19,781	20,626	21,513	22,442
Non-IBLs	1,928	2,567	502	510	521
Total liabilities	73,756	83,055	86,389	91,852	96,982
Share capital	3,446	3,645	3,846	3,846	3,846
Reserves	2,954	3,151	3,452	3,775	4,090
Shareholders' funds	6,400	6,796	7,297	7,621	7,936
NCI	0	0	0	0	0
Total equity	6,400	6,796	7,297	7,621	7,936
Total L&E	80,156	89,852	93,686	99,472	104,917
Total IEAs	78,912	87,495	90,559	95,641	100,720
Total IBLs	71,828	80,489	85,887	91,341	96,460
Gross loans	59,218	65,942	70,558	75,144	79,653
CASA	20,175	20,371	21,536	22,834	23,834

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.35	2.37	2.18	2.21	2.22
Return on IEAs	3.75	4.02	3.71	3.67	3.61
Cost of funds	1.54	1.80	1.63	1.53	1.45
Net interest spread	2.21	2.22	2.07	2.14	2.16
Profitability (%)					
ROE	8.4	7.5	7.4	7.7	7.8
ROA	0.7	0.6	0.6	0.6	0.6
NOII/Net income	14.7	10.5	17.5	17.1	17.2
Effective tax rate	22.4	32.3	22.5	22.5	22.5
Cost/Income	57.0	59.8	61.5	61.5	61.5
Liquidity (%)					
Loan/Deposit	101.4	106.9	106.6	106.3	106.5
CASA ratio	35.2	33.6	33.0	32.7	32.2
Asset Quality (%)					
GIL ratio	0.96	1.27	1.30	1.13	1.02
LLC ratio	187	124	110	105	100
LLC (w. reserves)	187	141	126	122	118
Net CC (bps)	33	22	32	27	27
Capital (%)					
CET 1	13.2	13.6	13.3	12.6	12.1
Tier 1 capital	13.2	14.6	14.3	13.6	13.0
Total capital	18.6	19.4	19.0	18.2	17.5
Growth (%)					
Total NII	10.1	10.1	-1.6	6.0	5.9
Total NOII	-22.2	-25.1	78.0	3.4	6.7
Net income	3.8	4.9	6.8	5.6	6.1
OPEX	10.0	10.0	9.9	5.6	6.1
Core NP	-5.2	-8.0	5.9	10.5	6.0
Gross loans	6.5	11.4	7.0	6.5	6.0
Customer deposits	12.3	5.9	7.5	7.0	6.0
CASA	13.4	1.0	5.7	6.0	4.4
Valuation metrics					
Core EPS (sen)	22.3	20.5	21.7	24.0	25.5
Gross DPS (sen)	10.9	13.8	13.7	14.4	14.6
Div payout (%)	42	60	60	60	60
BVPS (RM)	2.7	2.8	3.0	3.2	3.3
Core P/E (x)	9.4	10.2	9.6	8.7	8.2
Div yield (%)	5.2	6.6	6.6	6.9	7.0
P/BV (x)	0.8	0.7	0.7	0.7	0.6

Source: BIMB, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology