

Bank Islam Malaysia Berhad

(5258 | BIMB MK) Financial Services | Finance

3QFY23 Results: Good GIL Management

KEY INVESTMENT HIGHLIGHTS

- 9MFY23's Core NP of RM395m was *Within/Within* our/*street* forecasts: **76%/77%** of full-year forecasts
- Management's tone: **Optimistic**
- Core themes: (a) **Asset quality woes likely over**, (b) **Disappointing loan growth result (and potentially outlook)**, (c) **Solid NIM recovery**
- Forecasts revised: FY24F/25F Core NP adjusted by **+4%/+5%**
- Maintain **NEUTRAL** with revised TP of **RM2.29**, based on a revised FY24F P/BV of **0.72x** (*previously 0.64x*)

Verdict: BIMB displayed strong improvement – but we feel skittish about its medium-term loan growth outlook.

Yays	<ol style="list-style-type: none"> Dividend yields remain excellent – and possibly fully cash from now on. Asset quality woes seem to be over – rerating driver? NIM continued recovering.
Nays	<ol style="list-style-type: none"> FY24 loan growth outlook is not the best, especially with funding situation not as good. OPEX growth and CIR remained on high end.
OKs	<ol style="list-style-type: none"> Watch Islamic FD rates, which are still highly elevated compared to Conventional rates – is this temporary? Could there be room for more improvement on this end?

Results in a nutshell:

▲ **9MFY23's Core net profit (NP) of RM395m up by +8%yoy.** Due to improved NOII and normalised tax offsetting, increased provisioning and OPEX growth.

▲ **3QFY23's Core NP of RM141m up by +3%qoq.** Due to improved NII and provisions offsetting weaker NOII and higher OPEX and tax.

▶ **Gross loans grew by +1.4%qoq, coming up to +2.1%YTD.**

▶ **Deposits grew by +1.6%qoq, coming up to -4.6%YTD.**

▲ **GIL moved by -6bps to 0.97%, LLC currently at 127%.**

Have a look at:

▲ **Worst of asset quality fears likely over – possible rerating driver?** BIMB has done a good job in maintaining its retail GILs, likely utilising its overlays (total overlays have reduced by RM36m to RM73m this quarter). Positively, residential mortgages and personal financing (two categories which saw worrying trends in the last 12 months) reported improved figures. We also see that BIMB made several write-offs in its retail and wholesale trade category. No clunky impairments are expected in the following quarter.

▶ **4QFY23 provisions to be mediocre.** Full-year NCC is expected to remain skewed toward the lower bound of its FY23 30-40bps target (9MFY23: 24bps).

Maintain NEUTRAL

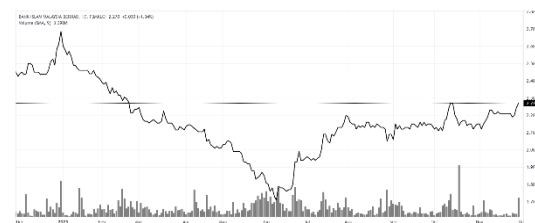
Revised Target Price: RM2.29

(Previously RM2.04)

RETURN STATISTICS

Price @ 29 November 2023 (RM)	2.27
Expected share price return (%)	+0.9
Expected dividend yield (%)	+6.6
Expected total return (%)	+7.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.5	7.0
3 months	6.5	9.4
12 months	-12.0	-10.3

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	521	598	643
CNP growth (%)	6	15	8
Div yield (%)	6.6	6.6	6.8
Gross DPS (sen)	14.9	15.0	15.3
P/BV (x)	0.7	0.7	0.7
BVPS (RM)	3.0	3.2	3.3
ROE (%)	7.4	8.0	8.3
MIDF/Street CNP (%)	101	108	106

KEY STATISTICS

FBM KLCI	1,446.07
Issue shares (m)	2,244.0
Estimated free float (%)	17.0
Market Capitalisation (RM'm)	5,167.6
52-wk price range	RM1.7 - RM2.73
3-mth avg daily volume (m)	1.2
3-mth avg daily value (RM'm)	2.6
Top Shareholders (%)	
Lembaga Tabung Haji	48.0
EPF Board	16.3
Amanah Saham Nasional Bhd	6.4

Analyst

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▼ **BIMB revises FY23 loan growth target downward, as expected.** The initial target of 7-8% has been revised to 4-5%. It has also announced a 1HFY24 target of 6-7%yoy, which we think should be achievable, given that 4Q tends to bring in disproportionately large numbers.

▼ **Some skittishness on FY24's loan growth outlook unless BIMB switches from traditional household growth drivers.** Especially given BIMB's liquidity situation and preference for profitability and asset quality preservation:

- a. **BIMB's FD paring exercise is not ideal for liquidity.** Recall paring pricier FDs as a NIM optimisation exercise in 1HFY23 – as a result, its current deposit YTD growth was a negative figure – and will likely end FY23 remaining negative.
- b. **Islamic FD rates remain far more elevated than conventional counterparts...** Given that BIMB is a fully Islamic bank, its COF pressure is significantly higher than most peers. However, it has noted some improvement in FD rates in 2HFY23. Assuming that this Conventional-Islamic FD rate divergence is temporary – perhaps stemming from CY22 & CY23's abnormal structural-factor-induced deposit competition – it offers BIMB some room for NIM improvement (should Islamic rates normalise).
- c. **...hence thin residential mortgage margins.** BIMB requires high asset yields to offset high COF – residential mortgages are becoming increasingly untenable due to highly competitive rates. This is unhealthy, given that this loan category remains one of BIMB's core loan drivers.
- d. **PF space is highly competitive.** Most banks are vying for PF space as a means of NIM preservation. BIMB can no longer pad out numbers relying on PF, without trading off with asset quality.

Realistically, BIMB could tap into business loan uptrend in FY24 – though this would represent a bit of a break from its traditional growth drivers.

▲ **NIM continues uptrend – but can it be maintained?** BIMB's FD paring exercise since 1QFY23 has been successful, with NIM showing sequential improvement (+5bps qoq in 2QFY23, +6bps qoq in 3QFY23). Nevertheless, do note that this quarter's figures are bolstered by May-23 OPR hike effects. With no further room for FD paring and already falling behind on deposit growth, the concern is how will the COF-constrained BIMB fare in FY24.

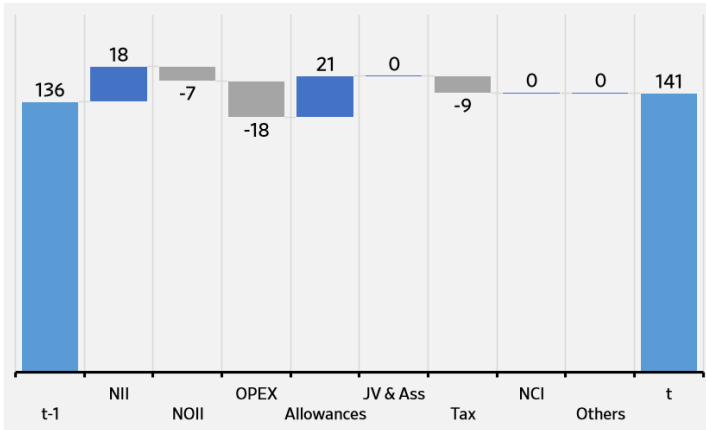
Forecasts revised: FY24F/25F Core NP adjusted by +4%/+5%. To reflect lower NCC and OPEX, despite reducing our loan and deposit growth expectations. We also increase our dividend payout for FY23 to 65% (from 60%), seeing the high DPS announced this quarter.

Key downside risks. (1) Further elevation of Islamic FD rates. (2) Elevated credit costs, (3) Lacklustre loan growth.

Maintain NEUTRAL call: Revised GGM-TP of RM 2.29 (from RM2.04). The TP is based on a revised FY24F P/BV of 0.72x (formerly 0.64x), to reflect altered earnings prospects and ROE-based valuations. We also increase our valuations to align with BIMB's improving asset quality profile – as we felt uncertainty about impairment trends in previous quarters dampened investor confidence significantly. **(GGM assumptions: FY24F ROE of 8.0%, LTG of 4.5% & COE of 9.4%)**

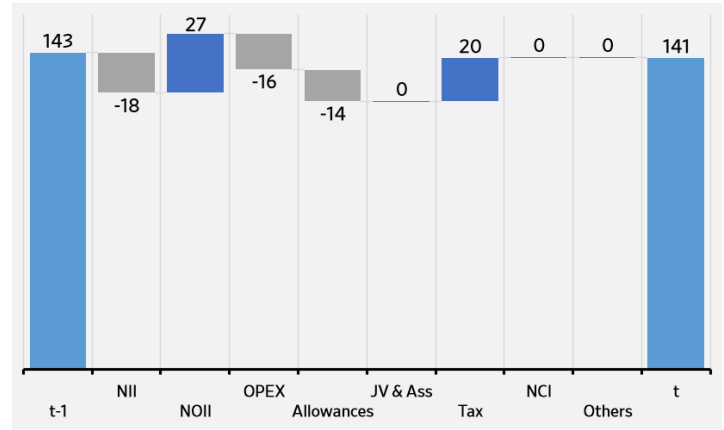


Fig 1: QoQ P/L walk (Quarterly results)



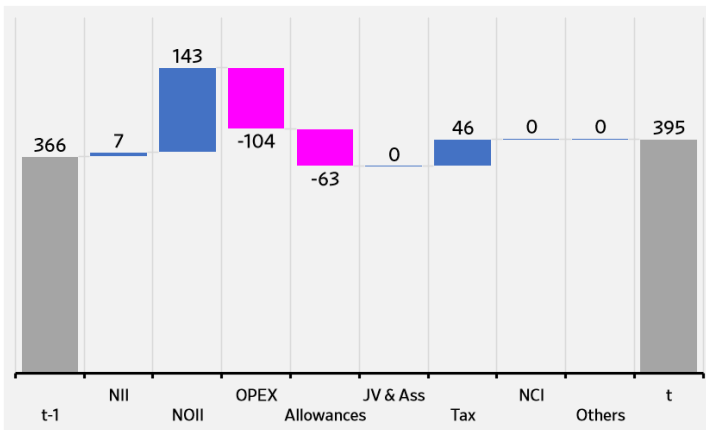
Source: BIBM, MIDFR

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



Source: BIBM, MIDFR

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



Source: BIBM, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Total NII	501	483	520	-4	4	1,459	1,453	0
Total NOII	92	99	65	41	-7	296	153	94
Net income	593	582	584	1	2	1,755	1,605	9
OPEX	(355)	(337)	(339)	5	5	(1,048)	(945)	11
PPOP	238	246	246	-3	-3	707	661	7
Loan provisions	(41)	(62)	(25)	66	-33	(165)	(102)	62
Other provisions	1	0	(2)	n.m.	n.m.	1	1	n.m.
JV & Associates	-	-	-	n.m.	n.m.	-	-	n.m.
PBT	197	184	219	-10	7	543	560	-3
Tax	(57)	(48)	(76)	-26	18	(148)	(194)	-24
NCI	-	-	-	n.m.	n.m.	-	-	n.m.
Reported NP	141	136	143	-2	3	395	366	8
Core NP	141	136	143	-2	3	395	366	8
Gross DPS (sen)	-	-	10.4	<i>n.m.</i>	<i>n.m.</i>	-	10.4	<i>n.m.</i>
Core EPS (sen)	6.3	6.0	6.6	-6	4	17.6	17.0	3
Gross loans	67,295	66,337	62,090	8.4	1.4			
Gross impaired loans	654	682	748	-12.6	-4.0			
Customer deposits	57,928	57,005	58,095	-0.3	1.6			
CASA	18,694	18,581	19,285	-3.1	0.6			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	7.5	7.4	8.4	-0.9	0.1	7.1	7.2	-0.1
NIM (Reported)*	2.17	2.11	2.33	-0.16	0.06	2.11	2.33	-0.22
NOII/Net income	15.4	17.0	11.1	4.4	-1.5	16.9	9.5	7.3
Cost/Income	59.9	57.8	58.0	1.9	2.1	59.7	58.8	0.9
NCC (Ann.) (bps)	26	39	17	9	-13	34	23	11
GIL ratio	0.97	1.03	1.20	-0.23	-0.06			
Loan loss coverage	127	122	137	-10	5			
CASA ratio	32.3	32.6	33.2	-0.9	-0.3			
L/D ratio	114.7	114.9	105.1	9.6	-0.2			
CET-1	14.4	13.9	13.9	0.5	0.4			

Source: BIMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy	
Qtrly Core NP	RM mil	141	Qtrly ROE	Qtr value	7.5%
	27% of FY CNP				
	Qoq	3%		t-1	7.4%
	Yoy	-2%		t-4	8.4%
Cum Core NP	RM mil	395	Cum ROE	Cum value	7.1%
	Within our forecast				
	76% of FY CNP				
	Within consensus				
	77% of FY CNP				
Yoy	8%	t-1	7.2%		
NII	As expected		NIM	As expected	
				Qtr value	2.17
				Cum value	2.11
	Qtr (Qoq)	4%		Qtr (Qoq)	+6bps
	Qtr (Yoy)	-4%		Qtr (Yoy)	-16bps
Cum (Yoy)	0%	Cum (Yoy)	-22bps		
NOII	As expected		Qtr	% NII	85%
	Qtr (Qoq)	-7%		% NOII	15%
	Qtr (Yoy)	41%	Cum	% NII	83%
	Cum (Yoy)	94%		% NOII	17%
OPEX	As expected		Cost/ Inc.	As expected	
				Qtr value	59.9%
				Cum value	59.7%
	Qtr (Qoq)	5%		Qtr (Qoq)	+2.1%
	Qtr (Yoy)	5%		Qtr (Yoy)	+1.9%
Cum (Yoy)	11%	Cum (Yoy)	+0.9%		

Source: BIMB, MIDFR

Notes (Cum = Cumulative, Qtr = Quarterly)

Coming in as guided.

An excellent recovery in NIM was expected following sharp FD paring exercises in past quarters – and past quarter's NIM level was still pretty disappointing.

Still a good result, seeing last quarter's phenomenal trading gains.

Expenses tick upwards, but this was well-guided.

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

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected					<p>We initially had our reservations about BIMB achieving its previous loan growth target. As expected, it has lowered its target.</p>
	Qoq	1.4%				
	Yoy	8.4%				
	YTD (FY)	2.1%				
Depo. grwth	As expected		CASA grwth	As expected		<p>Deposit growth normalises after the past few quarters of aggressively paring down pricier FDs.</p>
	Qoq	1.6%		Qoq	0.6%	
	Yoy	-0.3%		Yoy	-3.1%	
	YTD (FY)	-4.6%		YTD (FY)	-8.2%	
CASA ratio	As expected		L/D ratio	As expected		<p>GIL ratio nicely kept under control, while LLC remains very healthy. NCC well within guidance.</p>
	Value now	32.3%		Value now	114.7%	
	Qoq	-0.3%		Qoq	-0.2%	
	Yoy	-0.9%		Yoy	+9.6%	
GIL ratio	+ve surprise		LLC ratio	As expected		<p>Fully cash. Worth noting that this value is derived from dividend/PAZT. DPS/EPS offers a value of 71%.</p>
	Value now	0.97%		Value now	127%	
	Qoq	-6bps		Qoq	+5%	
	Yoy	-23bps		Yoy	-10%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	26bps		Value now	34bps	
	t-1	39bps				
	t-4	17bps	t-4	23bps		
CET 1	Healthy level		Div payout	Div announced		
	As expected			As expected		
	Value now	14.4%		Payout	60%	
	Qoq	0.4%				

Others:

Source: BIMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	7-8	7.1	9-10% in the next 3 years – this may seem a bit of a stretch.
CIR	58	59.7	OPEX growth target is 9-10%. Expect a ~RM350m figure in 4Q – which implies a OPEX growth figure closer to 7-8%yoy.
NIM	>2.00 (FY22: 2.31%)	2.11	4QFY23 NIM target: >2.20%. Guiding for stable to slight compression in 4Q.
NOII		94% (yoy)	
Loans	7-8 5-6	2.1 (YTD)	1HFY24 target: 6-7%yoy – seems very achievable, given a strong 2HFY23.
Deposits		-4.6 (YTD)	
% CASA	-	32.3	
Loan/Depo		114.7	
GIL ratio	<1.5	0.97	GIL ratio is way too conservative at this point – no major impairments expected in 4Q.
NCC (bps)	30-40	34	Guidance does not include overlays. (Provisions at >RM73m)
LLC		127	
CET 1		14.4	
Div payout	60	71	60% to be maintained. Note that the DPS/EPS figure yields a 71% payout, but BIMB claims the actual dividend/actual PAZT forms a 60% payout.

Source: BIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Total NII	1,791	1,972	1,902	2,017	2,173
Total NOII	308	231	411	408	419
Net income	2,099	2,203	2,313	2,425	2,592
OPEX	(1,197)	(1,317)	(1,411)	(1,455)	(1,555)
PPOP	902	886	902	970	1,037
Loan allowances	(191)	(140)	(216)	(178)	(181)
Other allowances	(7)	1	1	(3)	(7)
JV & Associates	-	-	-	-	-
PBT	704	747	687	789	849
Tax & zakat	(170)	(255)	(166)	(191)	(205)
NCI	-	-	-	-	-
Reported NP	534	492	521	598	643
Core NP	534	492	521	598	643

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	5,223	7,145	2,400	5,921	5,921
Investment securities	15,536	15,448	16,396	17,168	17,449
Net loans	58,154	64,902	68,200	72,448	76,866
Other IEAs	0	0	0	0	0
Non-IEAs	1,244	2,357	3,351	2,497	2,589
Total assets	80,156	89,852	90,347	98,034	102,825
Customer deposits	57,339	60,708	61,922	66,256	70,232
Other IBLs	14,490	19,781	20,626	21,513	22,442
Non-IBLs	1,928	2,567	502	2,636	2,194
Total liabilities	73,756	83,055	83,050	90,405	94,868
Share capital	3,446	3,645	3,846	3,846	3,846
Reserves	2,954	3,151	3,452	3,784	4,112
Shareholders' funds	6,400	6,796	7,297	7,630	7,958
NCI	0	0	0	0	0
Total equity	6,400	6,796	7,297	7,630	7,958
Total L&E	80,156	89,852	90,347	98,034	102,825
Total IEAs	78,912	87,495	86,996	95,537	100,236
Total IBLs	71,828	80,489	82,548	87,769	92,673
Gross loans	59,218	65,942	69,239	73,393	77,797
CASA	20,175	20,371	20,434	21,666	22,615

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	3.74	3.70	3.61
Cost of funds	1.54	1.80	1.67	1.60	1.51
Net interest spread	2.21	2.22	2.07	2.10	2.10
Profitability (%)					
ROE	8.4	7.5	7.4	8.0	8.3
ROA	0.7	0.6	0.6	0.6	0.6
NOII/Net income	14.7	10.5	17.8	16.8	16.2
Effective tax rate	22.4	32.3	22.5	22.5	22.5
Cost/Income	57.0	59.8	61.0	60.0	60.0
Liquidity (%)					
Loan/Deposit	101.4	106.9	110.1	109.3	109.4
CASA ratio	35.2	33.6	33.0	32.7	32.2
Asset Quality (%)					
GIL ratio	0.96	1.27	1.00	0.92	0.92
LLC ratio	187	124	150	140	130
LLC (w. reserves)	187	141	171	161	150
Net CC (bps)	33	22	32	25	24
Capital (%)					
CET 1	13.2	13.6	13.7	12.8	12.3
Tier 1 capital	13.2	14.6	14.8	13.8	13.3
Total capital	18.6	19.4	19.7	18.4	17.8
Growth (%)					
Total NII	10.1	10.1	-3.5	6.0	7.7
Total NOII	-22.2	-25.1	78.0	-0.8	2.8
Net income	3.8	4.9	5.0	4.8	6.9
OPEX	10.0	10.0	7.2	3.1	6.9
Core NP	-5.2	-8.0	5.9	14.8	7.6
Gross loans	6.5	11.4	5.0	6.0	6.0
Customer deposits	12.3	5.9	2.0	7.0	6.0
CASA	13.4	1.0	0.3	6.0	4.4
Valuation metrics					
Core EPS (sen)	22.3	20.5	21.7	25.0	26.9
Gross DPS (sen)	10.9	13.8	13.7	15.0	15.3
Div payout (%)	42	60	60	60	60
BVPS (RM)	2.7	2.8	3.0	3.2	3.3
Core P/E (x)	10.2	11.1	10.4	9.1	8.5
Div yield (%)	4.8	6.1	6.0	6.6	6.8
P/BV (x)	0.8	0.8	0.7	0.7	0.7

Source: BIMB, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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