



AmInvestment Bank

BANK ISLAM MALAYSIA

(BIMB MK EQUITY, BIMB.KL)

17 Jun 2022

Company report

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Key beneficiary of rate hikes

BUY

(Maintained)

Rationale for report: Company update

Price	RM2.80
Fair Value	RM3.30
52-week High/Low	RM3.40/RM2.73

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	2,237.9	2,302.7	2,602.1	2,735.3
Core net profit (RM mil)	583.2	577.8	713.2	759.6
FD Core EPS (sen)	23.2	23.0	28.4	30.3
FD Core EPS growth (%)	3.2	(0.9)	23.4	6.5
Consensus Net Profit (RM mil)	-	520.1	637.1	703.6
DPS (sen)	17.7	11.9	16.7	17.8
BV/share (RM)	3.08	3.12	3.28	3.46
PE (x)	12.0	12.2	9.9	9.2
Div yield (%)	6.4	4.3	6.1	6.5
P/BV (x)	0.9	0.9	0.9	0.8
ROE (%)	9.2	8.8	10.4	10.5

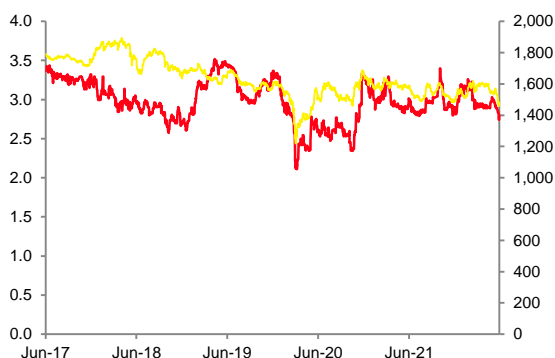
Stock and Financial Data

Shares Outstanding (million)	2,137.6
Market Cap (RMmil)	5,985.4
Book Value (RM/share)	3.08
P/BV (x)	0.9
ROE (%)	9.2

Major Shareholders	Lembaga Tabung Haji (48.3%) Employees Provident Fund (13.3%) Amanah Saham Nasional (6.6%)
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Free Float	31.8
Avg Daily Value (RMmil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	(3.8)	(3.4)	(6.0)
Relative (%)	2.7	(2.7)	0.7



— BIMB MK — FBMKLCI Index

Investment Highlights

- We maintain our BUY recommendation on Bank Islam (BI) with lower FV of RM3.30/share from RM3.80/share. Our FV is based on a reduced FY23F ROE of 10.4% (previously: 11%) leading to P/BV of 1.0x compared to 1.1x earlier. The valuation continues to reflect a neutral 3-star ESG rating.
- We lowered our FY22F/23F/24F earnings by 8%/6.8%/5.6% after imputing higher credit cost of 35bps/32bs/30bps. Also, we have further trimmed our non-fund based income estimate to account for declines in investment and trading income following the recent surge in bond yields.
- Recall BNM raised the OPR by 25bps on 11 May 2022, increasing the benchmark interest rate from 1.75% to 2.00%. We expect another increase in OPR by 25bps to 2.25% in 2H2022. This could occur as early as the next monetary policy committee meeting (MPC) on 6 July 2022.
- We see BI as a stronger beneficiary of rate hikes compared to peers with a higher sensitivity or increase in net income margin (NIM) by 8-9bps for every 25bps change in interest rate.
- In 1QFY22, the group's credit cost of 29bps was within management's guidance of 35bps for FY22. Management has kept its credit cost guidance unchanged.
- Total management overlays remained stable at RM326.7mil as at end Mar 2022 representing 29.6% of the group's total expected credit loss (ECL) of RM1.1bil. On QoQ basis, only RM8.8mil of the group's overlays have been consumed. This was due to weaker asset quality for certain loan borrowers that were under the repayment assistance (RA).
- We see room for write back in overlays moving forward. However, in the near term, we expect the group to remain prudent on provisions. Any significant write backs will only be likely in 2023.
- In 1QFY22, gross impaired financing (GIF) ratio rose to 1% from 0.96% in 4QFY21.

This was due to higher impairment of personal financing that were not under salary deduction scheme. 65% of the group's total personal and mortgage financing are under auto salary deductions. If based only on personal financing, the percentage will be higher at 85%.

We gather that only 0.8% of the group's retail financing previously under RA has missed payments. BI's GIL ratio was still lower than the industry's 1.6%. BI aims to maintain a GIF ratio of below 1.5% for FY22.

- Although there were no further impairments of corporate loans in 1QFY22, the group is still monitoring closely on the development of 1 loan account which we believe is related to the oil & gas sector.
- As at the end of Apr 2022, the percentage of BI's financing that were still under RA (excluding URUS) stood at 0.6% for retail and 3.3% for non-retail financing.
- BI has embedded ESG into the credit assessments of retail and non-retail loans and incorporated the relevant parameters in its credit scoring models. As at end of Mar 2022, the group has extended a total of RM2.3bil for green financing.
- Good traction has been seen for the financial transaction volume and the number of active users for its digital channels (go mobile, internet banking and go biz).
- Moving forward, BI will focus on fintech supply chain/factoring, collaborations with SME corporations to expand financing to the halal industries/sectors as well as focusing on structured financing to lower borrowers' repayment risk.
- On the other initiatives, the group will leverage on SJPP/CGC guarantees to grow its SME loan portfolio and mitigate the credit risk on lending. Campaigns will be ongoing to onboard new SME customers.
- In terms of initiatives for the improvement of the community, BI is collaborating with Sadaqa House for social financing with the focus on funding infrastructures, public facilities, healthcare, education and affordable housing projects.

EXHIBIT 1: PB BAND CHART

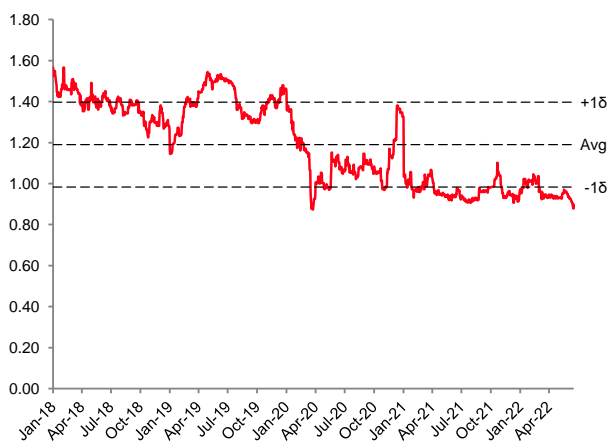


EXHIBIT 2: PE BAND CHART

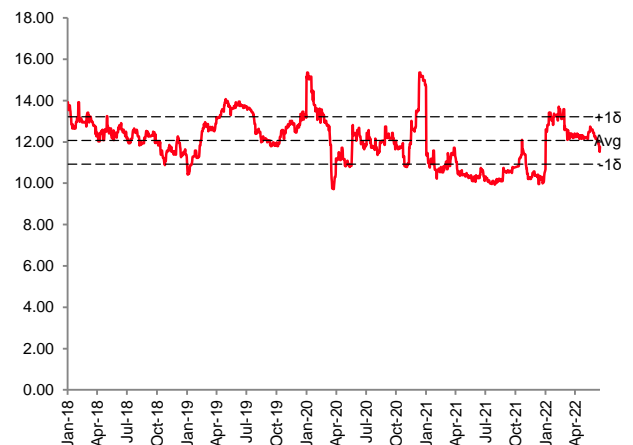


EXHIBIT 3: ESG RATING

Overall	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★		
Balance sheet strength	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	1,653.6	1,779.1	1,962.9	2,240.9	2,335.1
Non-interest income	460.1	458.8	339.8	361.2	400.2
Islamic banking income	-	-	-	-	-
Total income	2,113.7	2,237.9	2,302.7	2,602.1	2,735.3
Overhead expenses	(1,179.6)	(1,286.6)	(1,308.4)	(1,441.1)	(1,510.3)
Pre-provision profit	934.1	951.3	994.3	1,161.0	1,224.9
Loan loss provisions	(208.7)	(190.7)	(223.8)	(221.0)	(223.8)
Impairment & others	2.8	(7.4)	-	-	-
Associates	-	-	-	-	-
Pretax profit	728.2	753.1	770.4	940.0	1,001.1
Tax	(163.3)	(169.9)	(261.9)	(226.8)	(241.6)
Minority interests	-	-	-	-	-
Net profit	565.0	583.2	508.5	713.2	759.6
Core net profit	565.0	583.2	577.8	713.2	759.6
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	5,216.4	5,222.8	6,830.7	7,501.4	8,796.8
Marketable securities	13,801.2	15,561.6	16,002.0	17,277.8	14,212.7
Total current assets	19,017.6	20,784.4	22,832.7	24,779.1	23,009.5
Net loans & advances	54,670.6	58,153.8	62,612.6	67,508.0	74,151.2
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	192.4	264.1	145.6	68.9	264.1
Fixed assets	231.0	244.8	266.6	308.1	244.8
Intangible assets	-	-	-	-	-
Other long-term assets	525.4	709.2	584.2	571.8	526.2
Total LT assets	55,619.4	59,371.8	63,609.1	68,456.8	75,186.2
Total assets	74,637.0	80,156.2	86,441.8	93,235.9	98,195.7
Customer deposits	63,445.8	67,791.7	73,215.1	79,072.3	85,398.1
Deposits of other FIs	-	-	-	-	-
Subordinated debts	1,713.2	2,014.8	2,014.8	2,014.8	2,014.8
Hybrid capital securities	1,636.7	2,042.3	1,534.8	1,526.8	1,516.1
Other liabilities	1,555.7	1,907.4	3,012.0	3,600.3	1,865.2
Total liabilities	68,351.3	73,756.3	79,776.7	86,214.2	90,794.3
Shareholders' funds	6,285.7	6,399.9	6,665.1	7,021.7	7,401.5
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	1.0	5.9	2.9	13.0	5.1
Pre-provision profit growth (%)	0.3	1.8	4.5	16.8	5.5
Core net profit growth (%)	(10.0)	3.2	(12.8)	40.3	6.5
Net interest margin (%)	2.4	2.2	2.3	2.4	2.4
Cost-to-income ratio (%)	48.4	53.5	53.0	52.0	52.0
Effective tax rate (%)	22.4	22.6	34.0	24.1	24.1
Dividend payout (%)	52.0	62.8	50.0	50.0	50.0
Key Assumptions (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	10.7	6.5	8.0	8.0	8.0
Deposit growth (%)	10.1	6.8	8.0	8.0	8.0
Loan-deposit ratio (%)	86.2	85.8	85.5	85.4	86.8
Gross NPL (%)	0.7	1.0	1.3	1.0	0.6
Net NPL (%)	0.7	1.0	1.0	0.7	0.6
Credit charge-off rate (%)	0.4	0.3	0.4	0.3	0.3
Loan loss reserve (%)	248.6	187.2	161.5	226.4	185.4

Source: Company, AmlInvestment Bank Bhd estimates

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