



AmInvestment Bank

Company report

BANK ISLAM MALAYSIA

(BIMB MK EQUITY, BIMB.KL)

21 July 2023

Stronger 2Q23 earnings backed by improved NIM and stable delinquency rates

BUY

(Maintained)

Kelvin Ong, CFA

kelvin-ong@ambankgroup.com

+603-2036 2294

Rationale for Report: Company Update

Price	RM2.09
Fair Value	RM2.50
52-week High/Low	RM2.73/RM1.70

Key Changes

Fair value	↑
EPS	↔

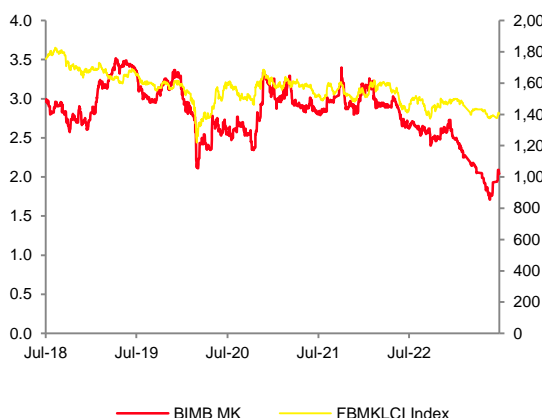
YE to Dec	FY22	FY23F	FY24F	FY25F
Total income (RM mil)	2,309.9	2,495.5	2,726.4	2,951.4
Core net profit (RM mil)	555.5	516.7	615.5	742.9
FD Core EPS (sen)	22.1	20.6	24.5	29.6
FD Core EPS growth (%)	(4.8)	(7.0)	19.1	20.7
Consensus Net Profit (RM mil)	-	513.4	558.3	611.0
DPS (sen)	13.8	13.7	16.3	17.6
BV/share (RM)	3.16	2.98	3.09	3.20
PE (x)	9.2	9.9	8.3	6.9
Div yield (%)	6.8	6.7	8.0	8.6
P/BV (x)	0.6	0.7	0.7	0.6
ROE (%)	8.4	7.6	9.0	10.4

Stock and Financial Data

Shares Outstanding (million)	2,266.5
Market Cap (RM mil)	4,623.7
Book Value (RM/share)	3.16
P/BV (x)	0.6
ROE (%)	8.4

Major Shareholders	Lembaga Tabung Haji (48.8%) Employees Provident Fund (16.0%) Amanah Saham Nasional (6.5%)
Free Float	29.5
Avg Daily Value (RM mil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	0.5	(18.4)	(22.4)
Relative (%)	2.1	(13.0)	(21.0)



Investment Highlights

- We maintain BUY on Bank Islam (BI) with a revised fair value (FV) of RM2.50/share from RM2.20/share after rolling over our valuation to FY24F ROE of 9%, leading to a P/BV of 0.8x. No change to our neutral 3-star ESG rating.
- We have made no changes to our earnings forecast.
- Recall in 1Q23, the group's net income margin (NIM) was compressed by 22bps YoY to 2.06%. This was contributed by the increase in funding cost following stiffer deposit competition in 4Q22 and early 2023 with the market anticipating OPR hikes.
- BI continues to focus on managing cost of funds to improve net fund based income.
- We expect the group's NIM to improve in 2Q23 based on: i) better asset yield contributed by the 25bps increase in OPR to 3% in May 2023, and ii) lower funding cost.
- With an LCR of 171%, higher than BI's comfortable level of 135-145%, we see room for improvement on funding cost by lowering LCR aside from releasing more expensive deposits.
- Amidst a more stable 10-year MGS yield recently, we do not foresee unrealised losses on its unit trust investments in the corresponding period last year to be repeated in FY23F. Our economics team expects the 10-year MGS yield to be 3.75% by the end of 2023. Thus, with the expectation of a gradual lowering of the yield, opportunities lie ahead for potential monetisation of the group's investment securities. This will be supportive of its non-fund based income.
- Overall, an improved net income (net fund based + non fund based income) is expected to see a lower cost to income (CI) ratio in 2Q23 vs. 61.5% in 1Q23.
- Operating expenses will remain elevated in the near term due to information technology (IT)-related expenses. We continue to expect investments to be made to improve the group's IT infrastructure and digital capabilities. 2Q23 will likely see expenses related to the collective agreement adjustments booked in albeit lower than 1Q23. This should complete personal cost adjustments of unionised employees for the year.

- We gather that delinquency rates have stabilised across the retail (consumer & SME) and institutional banking (corporate & commercial) segments. With that, we expect an improvement in BI's gross impaired financing (GIF) ratio in 2Q23 from 1.37% in 1Q23.
- From recent media announcements, the Ministry of Health (MOH) has renewed Pharmaniaga's contract for medical supply logistics services for another 7 years from 1 July 2023 to 30 June 2030. This is expected to look more favorable on the group and BI is likely to avert any impairments of its financing to Pharmaniaga.
- We expect the group's credit cost in 6M23 to be within management's guidance of 30-40bps for FY23. No lumpy provisions on impairments of any corporate financing are expected.
- Management overlays are not anticipated to be much changed from RM123.6mil in 1Q23 with the outstanding amount still above RM100mil. Moving forward, a portion of management overlays could be reallocated to cover macroeconomic variabilities.
- Management guidance for FY23 is unchanged. The group continues to guide for: i) ROE of 7-8% based on profit after tax, ii) loan growth: 7-8%, iii) NIM: 2.2%, iv) credit cost: 30- 40bps, and v) CI ratio: <60%.
- For the upcoming 2Q23 results to be announced in Aug 2023, we expect earnings of BI to be better QoQ compared to RM118.1mil in 1Q23. This will be underpinned by the improvement in NIM and stabilisation of delinquency rates across all financing segments which are unlikely to see any negative surprises to provisions.
- The stock continues to trade at an attractive valuation of FY24F P/BV of 0.7x, well below its 5-year average of 1.5x with a compelling dividend yield of 8%.

EXHIBIT 1: PB BAND CHART

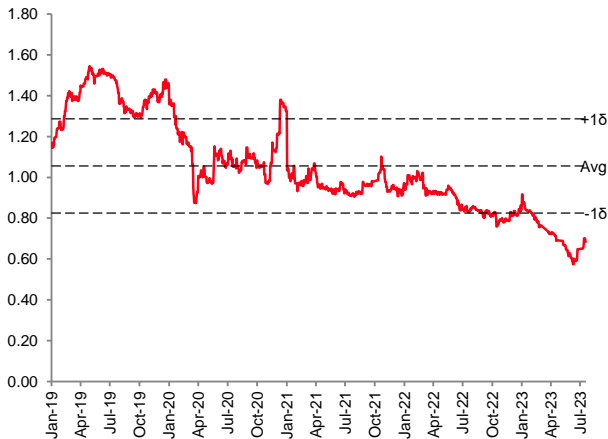


EXHIBIT 2: PE BAND CHART

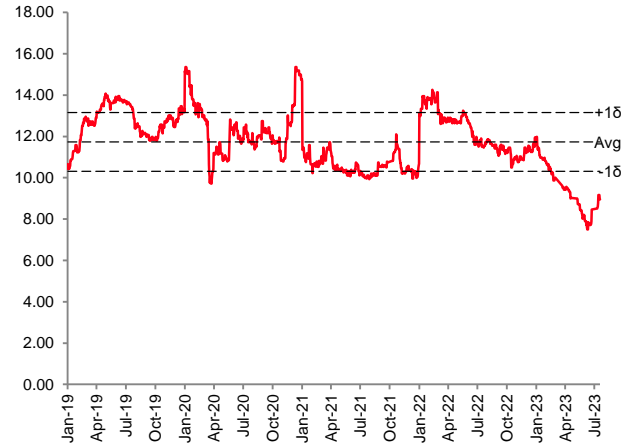


EXHIBIT 3: ESG RATING

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 (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Net interest income	1,779.1	1,907.5	2,043.2	2,186.6	2,381.9
Non-interest income	458.8	402.5	452.3	539.7	569.5
Islamic banking income	-	-	-	-	-
Total income	2,237.9	2,309.9	2,495.5	2,726.4	2,951.4
Overhead expenses	(1,286.6)	(1,424.0)	(1,565.1)	(1,682.3)	(1,822.2)
Pre-provision profit	951.3	885.9	930.3	1,044.1	1,129.2
Loan loss provisions	(190.7)	(140.0)	(249.3)	(232.9)	(253.8)
Impairment & others	(7.4)	1.0	-	-	-
Associates	-	-	-	-	-
Pretax profit	753.1	746.9	681.1	811.2	875.4
Tax	(169.9)	(255.2)	(164.3)	(195.7)	(211.2)
Minority interests	-	-	-	-	-
Net profit	583.2	491.7	516.7	615.5	664.2
Core net profit	583.2	555.5	516.7	615.5	742.9
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Cash & deposits with FIs	5,222.8	7,145.1	7,384.0	11,226.0	8,317.6
Marketable securities	15,561.6	15,570.8	17,106.2	14,460.7	20,327.7
Total current assets	20,784.4	22,715.9	24,490.2	25,686.7	28,645.3
Net loans & advances	58,153.8	64,902.0	69,928.1	76,104.8	82,837.3
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	264.1	950.5	1,488.3	1,523.8	1,554.0
Fixed assets	244.8	224.0	244.4	244.8	244.8
Intangible assets	-	54.6	55.0	55.0	55.0
Other long-term assets	709.2	1,004.7	1,203.4	3,081.3	4,252.0
Total LT assets	59,371.8	67,135.8	72,919.1	81,009.6	88,943.0
Total assets	80,156.2	89,851.7	97,409.3	106,696.3	117,588.4
Customer deposits	67,791.7	75,168.9	81,182.5	87,677.1	94,691.2
Deposits of other FIs	-	70.1	-	-	-
Subordinated debts	2,014.8	2,222.1	2,450.7	2,702.7	2,980.7
Hybrid capital securities	2,042.3	3,165.1	4,010.7	5,411.0	7,630.2
Other liabilities	1,907.4	2,429.2	3,016.4	3,910.3	5,025.4
Total liabilities	73,756.3	83,055.4	90,660.2	99,701.1	110,327.5
Shareholders' funds	6,399.9	6,796.2	6,749.1	6,995.2	7,260.9
Minority interests	-	-	-	-	-
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Total income growth (%)	5.9	3.2	8.0	9.3	8.3
Pre-provision profit growth (%)	1.8	(6.9)	5.0	12.2	8.2
Core net profit growth (%)	3.2	(15.7)	5.1	19.1	7.9
Net interest margin (%)	2.2	2.2	2.1	2.1	2.1
Cost-to-income ratio (%)	55.7	59.8	60.9	59.8	59.8
Effective tax rate (%)	22.6	34.2	24.1	24.1	24.1
Dividend payout (%)	62.8	60.4	60.0	60.0	60.0
Key Assumptions (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Loan growth (%)	6.5	11.4	8.0	9.0	9.0
Deposit growth (%)	6.8	10.9	8.0	8.0	8.0
Loan-deposit ratio (%)	85.8	86.3	86.1	86.8	87.5
Gross NPL (%)	1.0	1.3	1.5	1.2	1.0
Net NPL (%)	1.0	1.3	1.3	1.0	0.7
Credit charge-off rate (%)	0.3	0.2	0.4	0.3	0.3
Loan loss reserve (%)	187.2	140.8	120.7	163.4	209.9

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation, or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal, or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees, and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect, or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.