

**HLIB Research**

PP 9484/12/2012 (031413)

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**BUY** (Maintain)

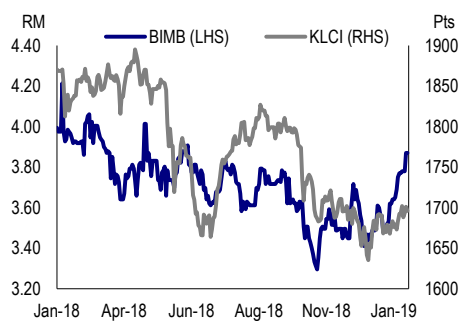
**Target Price:** RM5.00  
**Previously:** RM4.60  
**Current Price:** RM3.87

Capital upside	29.2%
Dividend yield	4.6%
Expected total return	33.8%

**Sector coverage:** Banking

**Company description:** BIMB is the only one of the two pure listed Islamic banking group on Bursa Malaysia.

**Share price**



Historical return (%)	1M	3M	12M
Absolute	7.5	10.6	-5.6
Relative	7.3	9.7	3.2

**Stock information**

Bloomberg ticker	BIMB MK
Bursa code	5258
Issued shares (m)	1,694
Market capitalisation (RM m)	6,554
3-mth average volume ('000)	170
SC Shariah compliant	Yes

**Major shareholders**

Lembaga Tabung Haji	53.5%
Employees Provident Fund	12.8%
Permodalan Nasional	5.7%

**Earnings summary**

FYE (Dec)	FY17	FY18f	FY19f
PATMI – core	619.8	698.8	763.9
EPS – core (sen)	37.9	41.0	42.8
P/E (x)	10.2	9.4	9.0

# BIMB Holdings

## Good things are happening

**BIMB's 2019 outlook is bright where asset quality is seen to be steady with no NFM pressure in the offing. Besides, its takaful unit is showing robust growth, thanks to new bancatakaful tie-ups. Thus, these prompted us to raise our 2018-20f earnings by 4-9%. Given a blend of positive factors, cheap valuations (-2SD for both its 5-year mean P/B and P/E), along with an appealing dividend yield of c.5%, the stock's risk-reward borders to the upside. Maintain BUY with a higher GGM-TP of RM5.00 (from RM4.60), based on 1.52x 2019 P/B.**

We met up with management recently and this note highlights the key takeaways along with the evaluation of Syarikat Takaful's 4Q18 results (which we cover indirectly via BIMB, since it is 60%-owned).

**Benign asset quality.** This is premised on prudent business growth strategy where: (i) 90% of its personal financing portfolio consists of salary deduction and transfer packages, (ii) first home buyers make up majority of its mortgage portfolio, and (iii) new commercial financing, which taps on Petronas' vendors are carefully handpicked to ensure credit quality is maintained. With all these in place, coupled with an elevated financing loss coverage of 178%, BIMB expects gross impaired financing ratio in 2019 to stay in the 0.95%-1.00% range (9M18: 0.97%) and guided net credit cost of 22-23bp (9M18: 19bp). We pencilled in similar assumptions into our financial model.

**Better NFM and financing growth ahead?** The move to revise up its base rate and base financing rate by 13bp back in November is positive, seeing 91% of its financing mix is floating in nature. Hence, BIMB is guiding net financing margin (NFM) to potentially expand by 5-8bp in 2019. However, we are forecasting a flattish NFM to be conservative, considering its all-time high financing-to-deposit ratio of 91% (but if we were to stack against available funds then it falls to 82%) while rivalry and emphasis on higher quality loans origination may put pressure on asset yield. That said, BIMB expects 2019 to chalk in 8% financing growth (annualised 2018: +7%) vs our largely similar assumption of 7%.

**Rosy takaful business.** Syarikat Takaful's 2018 earnings (+43% YoY) came in above expectations, making up 110% and 117% of our and consensus full-year forecasts respectively. Key variance were: (i) stronger-than-expected gross premium growth in 4Q18 (+8% QoQ, +45% YoY), thanks to robust credit-related family takaful product sales, along with (ii) lower-than-expected surplus for operator and participants (-19% QoQ, -1% YoY). Prospects appear to be rosy, backed by positive structural drivers like: (i) an underpenetrated market, (ii) rising medical inflation, and (iii) growing Islamic banking sector. Also, we believe its new bancatakaful tie-ups should continue to give a leg-up to growth via more credit-related product sales.

**Forecast.** We raise our 2018-20f earnings by 4-9% after factoring in higher income from its takaful business (+5-9%) and also, we adjust upwards our NFM assumption by 3-4bp to make it more flattish heading in 2019.

**Maintain BUY but with a higher GGM-TP of RM5.00** (from RM4.60), based on 1.52x 2019 P/B (from 1.40x) with assumptions of 13.7% ROE (from 13.0%), 10.4% COE, and 4.0% LTG. This is in line to its 5-year mean of 1.56x but above the sector's 1.15x. The premium is fair given its 4ppt above-average ROE generation. Currently, BIMB's valuations are undemanding, trading at 1.1x 2019 P/B and 9.0x P/E, whereby both are -2SD to respective 5-year mean. From our reverse SOP assessment, we calculated the market is only valuing Bank Islam at 0.86x P/B with ROE of 11.8%. This is cheap given that peers are fetching 1.15x P/B with ROE of 10.2%.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash & ST funds	5,655.4	5,966.8	4,722.1	5,231.5	4,836.5
Invest securities	15,164.1	14,621.4	15,323.2	16,074.1	16,877.8
Financing & advances	39,189.3	42,113.4	44,883.8	47,950.5	51,104.9
Intangible assets	43.9	47.8	47.8	47.8	47.8
Other assets	3,092.4	3,035.2	3,069.0	3,173.0	3,253.2
<b>Assets</b>	<b>63,145.1</b>	<b>65,784.6</b>	<b>68,045.9</b>	<b>72,476.9</b>	<b>76,120.1</b>
Cust. & bank deposits	49,095.6	49,839.9	51,335.1	54,928.6	57,675.0
Debt securities	1,928.0	2,656.1	2,656.1	2,656.1	2,656.1
Other liabilities	7,904.3	8,370.2	8,370.2	8,370.2	8,370.2
<b>Liabilities</b>	<b>58,928.0</b>	<b>60,866.3</b>	<b>62,361.5</b>	<b>65,954.9</b>	<b>68,701.4</b>
Shareholder's equity	3,882.9	4,533.9	5,204.7	5,938.1	6,723.4
Minority interest	334.3	384.4	479.7	583.9	695.4
<b>Equity</b>	<b>4,217.1</b>	<b>4,918.4</b>	<b>5,684.4</b>	<b>6,522.0</b>	<b>7,418.8</b>

### Financial Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
<b>Operational (%)</b>					
Avg. financing yield	4.29	4.17	4.30	4.33	4.36
Avg. cost of funds	2.24	2.29	2.40	2.45	2.52
Net financing margin	2.38	2.23	2.30	2.29	2.27
Cost/ income	56.2	58.7	54.2	52.5	50.9
<b>Profitability (%)</b>					
ROE	15.32	14.73	14.35	13.71	12.92
ROA	0.93	0.96	1.04	1.09	1.10
<b>Liquidity (%)</b>					
Financing/ deposit	81.3	85.6	89.0	88.8	90.2
<b>Asset quality (%)</b>					
G. impaired financing	0.98	0.93	0.94	0.95	0.95
Financing loss cover.	175.4	143.7	183.1	179.7	181.2
Net credit cost (bp)	24.6	(3.8)	21.3	22.6	26.8
<b>Capital adequacy (%)</b>					
CET 1 capital	12.4	12.7	12.9	13.4	13.9
Tier 1	12.4	12.7	12.9	13.4	13.9
Total capital	15.5	16.4	16.5	16.9	17.3

### Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
<b>Net financing income</b>	<b>1,356.3</b>	<b>1,371.5</b>	<b>1,467.4</b>	<b>1,539.4</b>	<b>1,612.6</b>
Takaful operations	677.2	720.2	828.2	869.6	913.1
Non-financing income	401.2	437.4	485.8	524.9	560.6
<b>Total income</b>	<b>2,434.7</b>	<b>2,529.1</b>	<b>2,781.4</b>	<b>2,934.0</b>	<b>3,086.4</b>
Overhead expenses	(1,368.5)	(1,483.4)	(1,508.5)	(1,539.9)	(1,571.9)
Loan loss provision	(92.1)	15.6	(94.1)	(106.6)	(135.1)
Others	(104.8)	(113.0)	(120.0)	(130.0)	(140.0)
<b>Pre-tax profit</b>	<b>869.2</b>	<b>948.3</b>	<b>1,058.7</b>	<b>1,157.4</b>	<b>1,239.4</b>
Taxation	(239.5)	(244.7)	(264.7)	(289.4)	(309.8)
Minority interest	(70.6)	(83.8)	(95.3)	(104.2)	(111.5)
<b>Net profit</b>	<b>559.0</b>	<b>619.8</b>	<b>698.8</b>	<b>763.9</b>	<b>818.0</b>
Exceptionals	-	-	-	-	-
<b>Core net profit</b>	<b>559.0</b>	<b>619.8</b>	<b>698.8</b>	<b>763.9</b>	<b>818.0</b>
HLIB/ Consensus			103%	106%	107%

### Valuation Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Core EPS (sen)	35.2	37.9	41.0	42.8	43.8
P/E (x)	11.0	10.2	9.4	9.0	8.8
BVPS (RM)	2.45	2.78	3.05	3.33	3.60
P/B (x)	1.58	1.39	1.27	1.16	1.08
DPS (sen)	13.0	14.0	17.1	17.9	18.3
Dividend yield (%)	3.4	3.6	4.4	4.6	4.7
Payout ratio (%)	36.9	37.0	40.0	40.0	40.0

### Growth

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
<b>Income statement (%)</b>					
Net financing income	13.1	1.1	7.0	4.9	4.8
Total income	6.3	3.9	10.0	5.5	5.2
Pre-tax profit	4.2	9.1	11.6	9.3	7.1
Net profit	2.1	10.9	12.7	9.3	7.1
Core net profit	2.1	10.9	12.7	9.3	7.1
<b>Balance sheet (%)</b>					
Gross financing	14.1	7.1	7.0	6.8	6.6
Customer deposits	5.5	0.8	3.0	7.0	5.0

**Figure #1** Peers comparison

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		ROE (%)	Yield (%)
						FY18	FY19	FY18	FY19	FY19	FY19
AFFIN	4,389	2.21	2.50	HOLD	DEC	9.0	8.4	0.5	0.5	5.8	4.1
ALLIANCE*	6,579	4.25	4.40	HOLD	MAR	11.7	11.2	1.1	1.1	9.9	4.1
AMMB*	13,534	4.49	4.70	HOLD	MAR	10.4	9.9	0.8	0.7	7.7	3.8
BIMB	6,554	3.87	5.00	BUY	DEC	9.4	9.0	1.3	1.2	13.7	4.6
CIMB	54,135	5.66	6.00	HOLD	DEC	11.2	11.1	1.0	1.0	9.1	4.8
MAYBANK	106,600	9.66	10.20	HOLD	DEC	13.3	13.0	1.4	1.3	10.4	6.1
PUBLIC BANK	96,355	24.82	26.50	HOLD	DEC	17.1	16.6	2.4	2.2	13.9	2.8
RHB BANK	21,935	5.47	6.60	BUY	DEC	9.7	9.3	0.9	0.8	9.2	3.3
HLBANK*	42,344	20.70	-	N.RATED	JUN	15.6	14.7	1.7	1.6	11.2	2.7
HL FINANCIAL*	22,630	19.76	-	N.RATED	JUN	11.2	10.3	1.2	1.1	11.0	2.6
<b>SIMPLE AVERAGE</b>						<b>11.9</b>	<b>11.4</b>	<b>1.2</b>	<b>1.1</b>	<b>10.2</b>	<b>3.9</b>

HLIB Research, Bloomberg

\* refers to FY19 &amp; FY20

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12 months.
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