

PP14767/09/2012(030761)

# BIMB Holdings Bhd

## “When 1+1 is more than 2”

We attended post-result briefing organized by BIMB Holdings Berhad (BIMB) yesterday where the management shared their view on BIMB outlook in FY15 to the investment community. The briefing was chaired by Bank Islam’s Managing Director Dato’ Sri Zukri Samat and accompanied by Bank Islam CFO Mr Malkit Singh and Syarikat Takaful Malaysia’s CFO Mr Lee Hin Sze. The stock is a BUY with a target price of RM4.84 a piece.

- **Moderating KPI in FY2015.** The management acknowledged the downside risk facing the economy in 2015 and this may inevitably impact their outlook. Hence, the management has moderated its FY15 operational target to some extent. This includes financing growth of 15% y-o-y from 24% in FY14 while deposits growth to sustain similar FY14 growth of 10% y-o-y. In addition, its NFM compression is expected to persist at around 2.85% whilst asset quality is likely to be at a stable 1.14%. All these moderation in targets will be within their reach to achieve given their aggressiveness, plenty of low hanging fruits apart from solid operational metrics so far which has proven to be their assets and strength.
- **Challenging financing growth.** As inflation is expected to peak due to Government Service Tax (GST) implementation, BIMB is expecting its gross financing growth to slow down to 15% y-o-y from 24% y-o-y in FY14, likely to be impacted by the slowdown in household (HH) financing, still a hugely respectable number by all accounts. This may come about from Banks Islam’s exposure in HH financing of around 75% of its portfolio. Hence, the slowdown in HH financing will cause gross financing growth to slow as a whole but not a big issue to us as it is nonetheless a collateralized asset.

Wednesday, March 25, 2015

### BUY (TP:RM4.84)

Current Price (RM)	RM4.24
New Fair Value (RM)	RM4.84
Previous Fair Value (RM)	RM4.40
Previous Recommend.	HOLD
Upside To Fair Value	14.1%
Dividend Yield (FY15)	4.1%

Stock Code	
Bloomberg	BIMB MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Banking	
Shariah Compliance	Yes	
Issued Shares (mn)	1,542	
Market Cap (RM mn)	6,184	
YTD Chg In Share Price	-1.47%	
Beta (x)	0.96	
52-week Hi/Lo (RM)	RM4.44	RM3.70
3M Average Volume (shrs)	1,113n	
Estimated Free Float	25.8%	

Major Shareholders	
Lembaga Tabung Haji	55.1%
EPF	9.93%
KWAP	5.8%

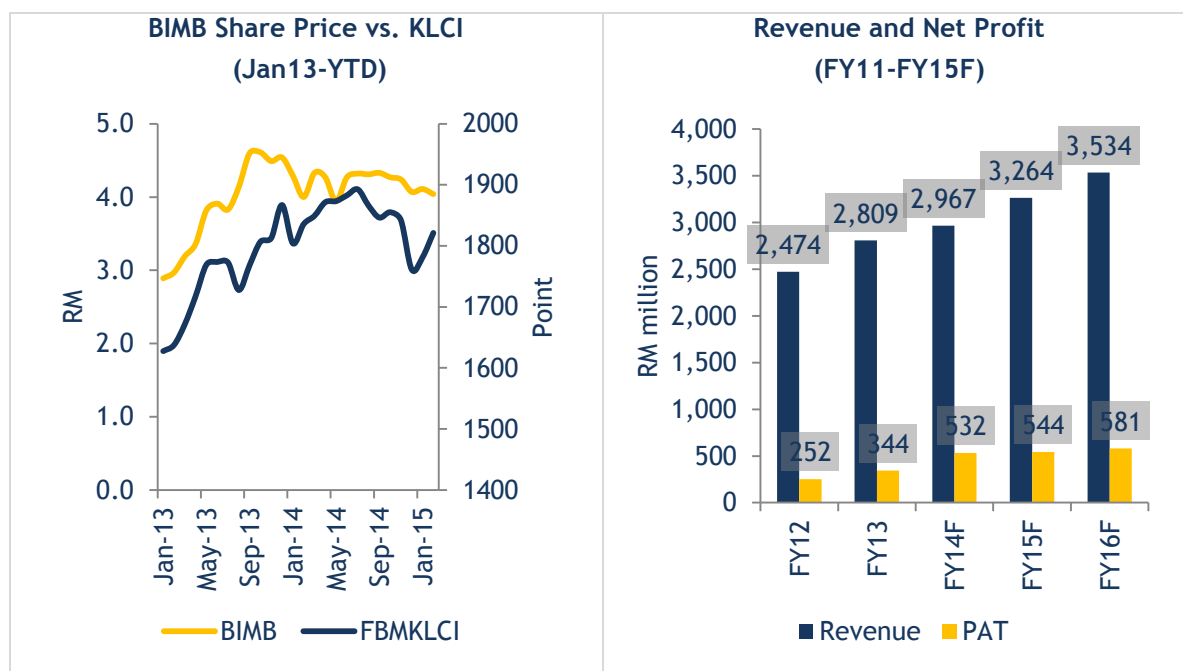
- **Nurturing floating based financing.** In view of current uncertainty in domestic policy rate, BIMB is aiming to tweak its financing composition towards more floating based, in an attempt to combat risk to profit. Currently floating financing is making up about 70% of total financing. Bank Islam is aiming to lift this to 80% threshold gradually while at the same time take advantage of bumper imbursement should BNM decides to raise current interest rates from 3.25%.
- **Keen competition in deposits.** Management noted that since BNM raised interest rates in July 2014 the competition in securing deposits has been intense especially for CASA deposits. This was proven by the dropping in CASA composition in FY14 to 38.1% vs. 39.1% in FY13. Hence to moderate the impact of net financing margin (NFM) compression, BIMB has maintained its deposits growth of 10% y-o-y which should give some breathing space to NFM.
- **To raise financing-to-deposits ratio.** BIMB's financing-to-deposit ratio (FTD) stood at 72.6% in FY14 and this we view as a low hanging fruit that can be reaped to the maximum. Management echoed similar sentiments, stating that to ease further compression in NFM, management has guided higher FTD close 80% at the back of slowdown in financing growth to 15% y-o-y in FY15. Note that Bank Islam's FTD is still below the industry level of 81.6%.
- **Slight pick-up in asset quality.** Despite managed to knock down further gross impaired financing (GIF) to 1.14% in FY14, management did not discount the possibility of weakening of GIF on the back of an expected slump in HH financing. However, looking at asset profiling, the recovery of financing is not a major concern as most of its customers fall under the government payroll and higher executive position in private sector which should translate into secured financing security. However the worrying trend of rising watch list for personal financing is a concern as the majority of the watch list is concentrated in Kuala Lumpur and Selangor which is known to have high cost of living.
- **NFM to compress further.** Moving forward, we foresee escalating NFM pressure given stiff price-based competition for financing and deposits in the market. Additionally, the new ruling to reclassify its Mudarabah and Wakalah based demand deposit to investment account may backfire NFM as customers and bank are required to predetermine the profit rate for every investment/savings and hence the margin spread may become thinner.
- **Fully loaded capital position.** Bank Islam's capital position still one of the highest in the industry with CET1 at 12.2%. We note on its completion of dividend reinvestment plan (DRP) has helped BIMB to finance its capital intensive business e.g. personal financing business.
- **Change in earnings forecast.** No change to our view in FY15 and FY16. FY15 and FY16 are projected to grow by 2% y-o-y and 7% y-o-y underpinned by i) market leader in family takaful industry ii) securing more corporate loans underpinned by GLC affiliation iii) focusing on growing Bank Islam's non-financing income.

- **Outlook.** Despite a slower financing growth in FY15, BIMB reiterated that they will not slow down on their business expansion and this includes the opening of more branches in FY15 to support business growth. The targeted number is 150 and it may pause for a while before resuming adding more branch in due course. For takaful segment, the growth prospect is still bright despite the industry issue with GST which may weigh on takaful industry take up rate.
- **Valuation & recommendation.** We value BIMB at RM4.84 based on 10% premium to average 3-year P/BV of 1.7x. The stock has been upgraded to a **BUY** from a **HOLD** as good earnings visibility, solid operational metrics along with pragmatic management is a key to warrant a premium call on the stock. There are plenty to comfort about the stock and we see no reason for their penetration drive to derail as the rising popularity of Islamic financing will certainly come in handy in time of need.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
AFG	March	4.76	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Hold
AMMB	March	6.35	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	7.00	Hold
BIMB	Dec	4.01	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	6.16	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Hold
Maybank	Dec	9.15	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	8.03	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	7.00	Hold
Public Bank	Dec	18.42	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	20.60	Buy
Affin	Dec	2.91	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	2.15	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	12.50	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	14.18	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average			0.6	0.7	11.5	10.8	1.5	1.5	15.8	3.9		

Source: Bloomberg, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

Y/E: Dec (RM'mil)	FY12	FY13	FY14	FY15F	FY16F
Income from depositors funds	1,651	1,851	2,032	2,296	2,503
Income from shareholders funds	351	405	393	428	458
Income distributable to deposits	(591)	(773)	(845)	(972)	(1,098)
Net income from takaful	472	553	543	540	573
Operating income	1,883	2,037	2,122	2,293	2,436
Staff costs	(525)	(594)	(599)	(653)	(699)
Other operating expenses	(566)	(634)	(652)	(704)	(736)
Operating expenses	(1,091)	(1,228)	(1,251)	(1,357)	(1,435)
Pre-provision profit	793	808	872	936	1,001
Loan impairment allowance	(66)	15	(60)	(92)	(105)
Other allowance	(11)	(4)	4	(5)	(5)
Associates & JV income	2	(0)	0	0	0
PBT	717	819	815	839	891
Taxation	(220)	(256)	(228)	(235)	(250)
Minorities	(245)	(284)	(55)	(60)	(60)
PATAMI	252	279	532	544	581

Source: M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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