

BIMB Holdings Bhd

“Entering Defensive Mode”

We like BIMB Holdings Bhd (BIMB) as its subsidiary’s Bank Islam, is one of the Islamic bank sector’s strong anchors. Its rebalancing financing efforts into more of floating and secured based will be enduring traits in sluggish economic environment. We advise investors to accumulate BIMB based on 1) affiliation with Lembaga Tabung Haji and GLCs, suggesting cross dealing and support; 2) number 3 positions in Islamic bank ranking and growing fast; and 3) reaping positive result from phase 3 transformation journey. The stock is a BUY with a target price of RM4.84 apiece.

Last phase of H2E. BIMB has entered the final phase of Hijrah to Excellence (H2E) which is to compete in term of branch number. Hence, BIMB has earmarked RM1 million per branch in FY15 to ramp-up new branches to 150 from existing 134. Along with that, BIMB remains interested in the Indonesian. Additionally, the proposed Asean Integration Framework may provide an opportunity to BIMB to pick the best partner with similar size to venture into the prospect.

Less reliance on high risk financing. The tepid consumer sentiments may weigh on Bank Islam’s asset quality as experienced during its troubled period in FY06. Thus, we notice that Bank Islam has trimmed its financing exposure in personal financing (PF) segment from 33% in FY14 to 31% in 1Q15. However this should not be an issue as Bank Islam customer profiling is regarded as good paymaster due to high composition of higher level executive and government servants.

GST kicks in. The maiden GST implementation may inevitably slowdown Bank Islam’s massive financing growth. However, Bank Islam below standard financing to deposit (FDT) at 74.7% in 1Q15 may lend hands to financing growth to grow at stable pace of 15% in FY15 vs. industry average of 9%-9.5% in FY15. For FY15, Bank Islam is aiming to disburse as much as 80% FTD vs. 72.6% in FY14 and hence, its target of 10% financing growth will easily be met.

BUY (TP:RM4.84)

Current Price (RM)	RM4.04
New Fair Value (RM)	RM4.84
Previous Fair Value (RM)	RM4.84
Previous Recommend.	BUY
Upside To Fair Value	19%
Dividend Yield (FY15)	5%

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)	6,307	
YTD Chg In Share Price	0.5%	
Beta (x)	0.70	
52-week Hi/Lo (RM)	RM4.44	RM3.70
3M Average Volume (shrs)	835.2mil	
Estimated Free Float	25.8%	

Major Shareholders		
Lembaga Tabung Haji	55.9%	
EPF	10.4%	
KWAP	6.1%	

Intensified competition for deposits. Of late, the competition to secure low cost deposit has been intense with variety of promotions in the market. The intense offering brings effect to the net interest margin (NIM) to other banks. Interestingly, Bank Islam asset yield is one of the top levels in the industry at 2.32% in 1Q15, assisted by its massive CASA ratios of 37% in 1Q15 vs. industry level of 25%. The key strength of its CASA ratio lies on its affiliation with government bodies/agencies and religious associations through LTH connections.

1Q15 review. BIMB recorded outstanding 1Q15 earnings to equity holders of RM153 million (+12% y-o-y, -6% q-o-q), spot on at 25% of our full year forecast but beaten consensus full year net profit forecast of 28%. The outstanding earnings were assisted by higher contribution from immense PBT contribution from Syarikat Takaful that surged 39.1% y-o-y to RM62.2 million. Additionally, BIMB's earnings were helped by lower expenses of RM140 million (-8% y-o-y).

Outlook. Given its lean and light position, we feel that BIMB is able to compete with universal Islamic bank in Malaysia. Penetrating into Indonesia would be the best move for BIMB to expand its presence assisted by the proposed Asean Integration Framework. For takaful segment, the growth prospect is still bright despite the industry issue with GST which may weigh on takaful industry take up rate.

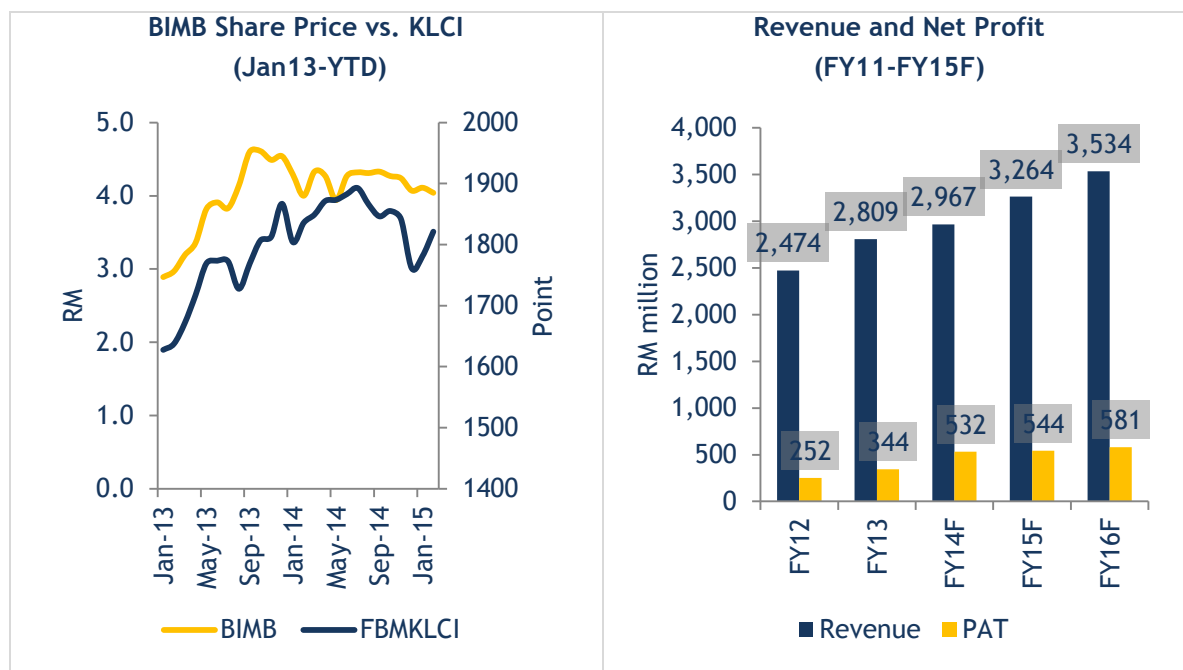
Earnings outlook. FY15 and FY16 earnings are projected to grow by 2% y-o-y and 7% y-o-y underpinned by i) market leader in family takaful industry; ii) securing more corporate loans underpinned by GLC affiliation; ad iii) focusing on growing Bank Islam's non-financing income.

Valuation & recommendation. We value BIMB at RM4.84 based on 10% premium to average 3-year P/BV of 1.7x and thus, we maintain our **BUY** call on the stock. Re-rating catalyst on the stock could emanate from 1) exceeding its key target for turnaround plan phase; and 2) M&A in Indonesia and regional neighbour.

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	4.39	0.4	0.4	12.7	12.0	1.7	1.6	14.3	1.9	5.05	Buy
AMMB	March	6.03	0.6	0.6	11.0	11.0	1.4	1.3	14.1	4.5	6.80	Buy
BIMB	Dec	4.04	0.3	0.4	11.7	11.3	1.8	2.0	16.0	5.8	4.84	Buy
CIMB	Dec	5.47	0.5	0.6	12.1	10.4	1.3	1.5	9.2	3.5	6.10	Buy
Maybank	Dec	9.14	0.7	0.8	12.6	11.9	1.5	1.5	13.6	6.2	10.70	Buy
RHB Cap	Dec	7.37	0.8	0.9	9.7	9.1	1.1	1.1	11.5	1.3	8.35	Buy
Public Bank	Dec	18.72	1.2	1.3	15.3	14.2	2.6	2.8	18.7	2.9	22.30	Buy
Affin	Dec	2.70	0.3	0.3	9.0	8.5	0.7	0.7	7.8	5.1	NR	NR
MBSB	Dec	1.69	0.2	0.3	9.1	8.4	1.2	1.1	29.6	2.3	NR	NR
STMB	Dec	3.91	NA	NA	NA	NA	NA	NA	24.3	6.6	NR	NR
HL Bank	June	13.40	1.2	1.3	12.0	11.2	1.6	1.5	14.7	2.9	NR	NR
Average					11.5	10.8	1.5	1.5				

Source: Bloomberg, M&A Securities



Source: Bloomberg, M&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&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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