

Bank Islam Malaysia (BIMB MK)

Lumpy provisions in 4Q21

Lumpy provisioning

Bank Islam's FY21 earnings were below expectations largely on account of higher provisions against a lumpy corporate financing that defaulted during the period. Pending a briefing today, we lower our FY22/23E earnings forecasts by 8%/6%. Nevertheless, we roll forward valuations to FY23 and peg on a PBV of 1x for a TP of MYR3.40 (+20sen), supported by an estimated ROE of 10%. BUY maintained.

Below expectations

Bank Islam's 4Q21 core net profit of MYR80m (-61% YoY, -38% QoQ) took FY21 core net profit to MYR561m (-16% YoY). This was below our expectations/consensus at 85% of full-year forecasts respectively. The variance was mainly due to elevated credit cost in 4Q21, with the group having set aside lumpy provisions.

Higher credit cost

The group's impaired financing jumped 52% YoY in absolute terms to MYR568m end-Dec 2021, largely on account of one particular lumpy corporate default. As a result, its impaired financing ratio was a higher 0.96% end-2021 versus 0.67% end-2020. The credit cost in 4Q21 spiked to 77bps from 24bps in 3Q21, taking the full year average to 33bps. Stripping out estimated provisions for this default, we believe 4Q21 could have seen a net credit write-back instead.

Lowered earnings forecasts

We have lowered earnings forecasts by 8%/6% for FY22/23E on account of lower non fund-based income assumptions. Excluding the impact of Cukai Makmur in FY22, we estimate a normalized earnings growth of 7% in FY22E.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	2,114	2,189	2,347	2,446	2,556
Pre-provision profit	934	902	1,011	1,075	1,149
Pretax profit	728	704	898	965	1,035
Core net profit	669	561	595	737	790
Core EPS (MYR)	0.26	0.23	0.27	0.32	0.33
Core EPS growth (%)	5.0	(12.6)	18.3	19.4	3.1
Net DPS (MYR)	0.11	0.11	0.12	0.14	0.15
Core P/E (x)	12.1	13.1	11.0	9.2	8.9
P/BV (x)	1.3	1.0	1.0	0.9	0.8
Net dividend yield (%)	3.4	3.6	4.0	4.8	4.9
Book value (MYR)	2.42	2.97	3.14	3.34	3.54
ROAA (%)	0.9	0.7	0.7	0.9	0.9
Consensus net profit	-	-	617	753	na
MKE vs. Consensus (%)	-	-	(3.4)	(2.2)	na

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BUY

Share Price	MYR 2.99
12m Price Target	MYR 3.40 (+14%)
Previous Price Target	MYR 3.20

Company Description

Bank Islam is one of the largest Islamic banks in Malaysia by asset size, offering Shariah-compliant banking solutions to individuals and businesses.

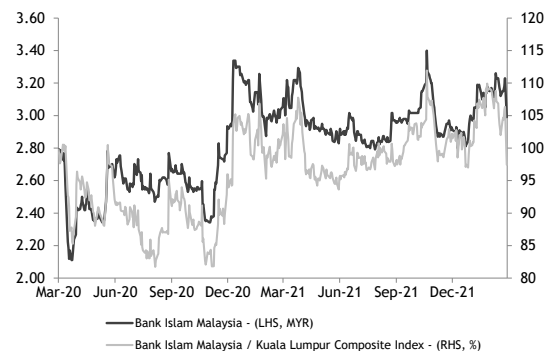
Statistics

52w high/low (MYR)	3.40/2.79
3m avg turnover (USDm)	1.1
Free float (%)	79.8
Issued shares (m)	2,155
Market capitalisation	MYR6.4B
	USD1.5B

Major shareholders:

Lembaga Tabung Haji	48.3%
Employees Provident Fund	13.1%
Permodalan Nasional Bhd.	6.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	2	(2)
Relative to index (%)	(10)	(3)	(2)

Source: FactSet

Fig 1: Bank Islam: Summary Results Table

FYE Dec (MYR m)	Quarterly results					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	2021	2020	% YoY
Income from depositors' funds	544.3	510.1	6.7	530.7	2.6	2,211.2	2,367.6	(6.6)
Income from investment accounts	144.8	131.2	10.4	110.8	30.8	497.5	513.9	(3.2)
Income from investment of shs' funds	126.9	117.3	8.2	104.7	nm	458.8	460.1	(0.3)
Allowances for impairment of financing	(111.2)	3.5	nm	(34.0)	227.0	(190.7)	(208.7)	(8.6)
Allowances for impairment of investments	(0.7)	(0.1)	>100	(6.9)	(89.7)	(7.4)	2.8	nm
Reversal o allowances on impairment on other assets	0.0	0.0	-	0.0	-	0.0	0.0	-
Direct expenses	(2.8)	(3.3)	(15.2)	(2.1)	34.3	(10.9)	(13.7)	(19.9)
Total distributable income	701.4	758.9	(7.6)	703.2	(0.3)	2,958.4	3,122.1	(5.2)
Wakalah fees from RIA	0.2	0.1	107.2	0.0	-	0.3	0.6	(46.5)
Income attributable to depositors	(211.1)	(203.6)	3.7	(204.0)	3.5	(818.7)	(1,006.5)	(51.8)
Income attributable to IA holders	(40.6)	(44.9)	(9.6)	(41.3)	(1.7)	(160.1)	(222.0)	(27.9)
Total net income	449.9	510.4	(11.9)	457.9	(1.8)	1,979.9	1,894.1	4.5
Personnel expenses	(226.7)	(178.0)	27.3	(164.6)	37.7	(723.8)	(663.4)	9.1
Other overhead expenses	(122.7)	(105.0)	16.9	(118.5)	3.5	(461.9)	(411.1)	12.4
Finance cost	(24.1)	(25.5)	(5.5)	(21.9)	9.9	(89.9)	(91.5)	(1.7)
Associate income	0.0	0.0	-	0.0	-	0.0	0.0	-
Pretax profit	76.4	201.9	(62.2)	152.8	(50.0)	704.2	728.2	(3.3)
Zakat	(1.0)	(0.6)	83.1	(3.7)	(72.5)	(12.3)	(11.8)	4.3
Tax expense	4.3	(24.2)	(117.6)	(47.5)	(109.0)	(157.6)	(151.5)	4.1
MI	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	79.6	177.2	(55.1)	101.6	(21.6)	534.3	565.0	(5.4)
Recurring net profit	79.6	206.6	(61.4)	128.3	(37.9)	561.0	668.6	(16.1)
EPS (sen)	3.8	6.8	(43.6)	4.1	(6.3)	21.9	22.2	(1.4)
DPS (sen)	0.0	5.4	(100.0)	10.9	nm	10.9	5.4	103.5

Source: Company

Risk statement

As one of the largest Islamic banks in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on Bank Islam's operating performance, be it through slower financing growth or asset quality issues. A rise in bond yields would have an adverse effect on the bank's investment portfolio, which could see either realised or unrealised marked-to-market losses.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	12.1	13.1	11.0	9.2	8.9
Core FD P/E (x)	12.1	13.1	11.0	9.2	8.9
P/BV (x)	1.3	1.0	1.0	0.9	0.8
P/NTA (x)	1.3	1.0	1.0	0.9	0.8
Net dividend yield (%)	3.4	3.6	4.0	4.8	4.9

INCOME STATEMENT (MYR m)

Islamic banking income	0.0	0.0	0.0	0.0	0.0
Income from depositors' funds	2,881.6	2,708.7	3,004.0	3,148.5	3,271.2
Income from shareholders' fund:	460.1	458.8	364.7	389.9	421.1
Income distributable to deposit	(1,227.9)	(978.5)	(1,021.4)	(1,092.4)	(1,136.1)
Operating income	2,113.7	2,188.9	2,347.3	2,445.9	2,556.1
Staff costs	(663.4)	(723.8)	(752.8)	(782.9)	(814.2)
Other operating expenses	(516.2)	(562.7)	(583.2)	(588.2)	(593.2)
Operating expenses	(1,179.6)	(1,286.6)	(1,336.0)	(1,371.1)	(1,407.4)
Pre-provision profit	934.1	902.4	1,011.3	1,074.8	1,148.7
Loan impairment allowances	(208.7)	(190.7)	(113.4)	(109.4)	(113.7)
Other allowances	2.8	(7.4)	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	728.2	704.2	897.9	965.4	1,035.1
Income tax	(163.3)	(169.9)	(302.6)	(228.8)	(245.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	565.0	534.3	595.3	736.6	789.8
Core net profit	668.6	561.0	595.3	736.6	789.8

BALANCE SHEET (MYR m)

Cash & deposits with banks	5,216.7	5,222.8	4,439.4	4,661.4	4,894.5
Derivatives financial assets	269.0	339.0	339.0	339.0	339.0
Dealing securities	1,181.2	1,582.5	1,614.1	1,646.4	1,679.4
Available-for-sale securities	12,558.0	12,604.2	13,234.4	13,896.1	14,590.9
Investment securities	0.0	1,348.8	1,389.3	1,431.0	1,473.9
Financing and advances	54,670.6	58,153.8	60,992.3	63,770.3	66,321.1
Central bank deposits	192.4	264.1	272.1	283.0	294.3
Fixed assets	440.7	440.8	471.1	504.1	539.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other assets	108.3	200.3	130.8	127.5	128.2
Total assets	74,637.0	80,156.2	82,882.6	86,658.8	90,261.2
Deposits from customers	63,445.8	67,791.7	69,863.6	72,658.2	75,564.5
Other liabilities	4,905.5	5,964.5	6,023.7	6,268.7	6,175.0
Total liabilities	68,351.3	73,756.3	75,887.3	78,926.9	81,739.5
Share capital	3,306.1	3,445.8	3,713.7	4,045.1	4,400.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	6,285.7	6,399.9	6,995.3	7,731.9	8,521.7
Total liabilities & equity	74,637.0	80,156.2	82,882.6	86,658.8	90,261.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Operating income	1.0	3.6	7.2	4.2	4.5
Income from depositors' funds	(8.6)	(6.0)	10.9	4.8	3.9
Income from shareholders' funds	(6.3)	(0.3)	(20.5)	6.9	8.0
Operating expenses	1.5	9.1	3.8	2.6	2.6
Pre-provision profit	0.3	(3.4)	12.1	6.3	6.9
Core net profit	6.5	(16.1)	6.1	23.7	7.2
Gross financing	10.7	6.5	5.0	4.0	4.0
Customer deposits	10.1	6.8	3.1	4.0	4.0
Total assets	10.4	7.4	3.4	4.6	4.2
Profitability (%)					
Average financing yields	4.03	3.68	3.66	3.59	3.59
Net income margin	2.25	0.00	0.00	0.00	0.00
Cost/income	55.8	58.8	56.9	56.1	55.1
Liquidity (%)					
Financing/customer deposits	86.2	85.8	87.3	87.8	87.8
Asset quality (%)					
Net NPF	0.4	0.5	0.1	0.4	0.4
Gross NPF	0.7	1.0	0.8	0.6	0.6
(SP+GP)/average gross financing	0.4	0.3	0.2	0.2	0.2
Financing loss coverage	248.6	187.2	238.5	230.8	230.8
Capital adequacy (%)					
CET1	14.7	13.2	12.2	12.1	12.8
Tier 1 capital	14.7	13.2	12.2	12.1	12.8
Risk-weighted capital	19.8	18.6	17.1	16.4	17.0
Returns (%)					
ROAE	na	na	na	na	na
ROAA	0.9	0.7	0.7	0.9	0.9
Shareholders equity/assets	na	na	na	na	na

Source: Company; Maybank

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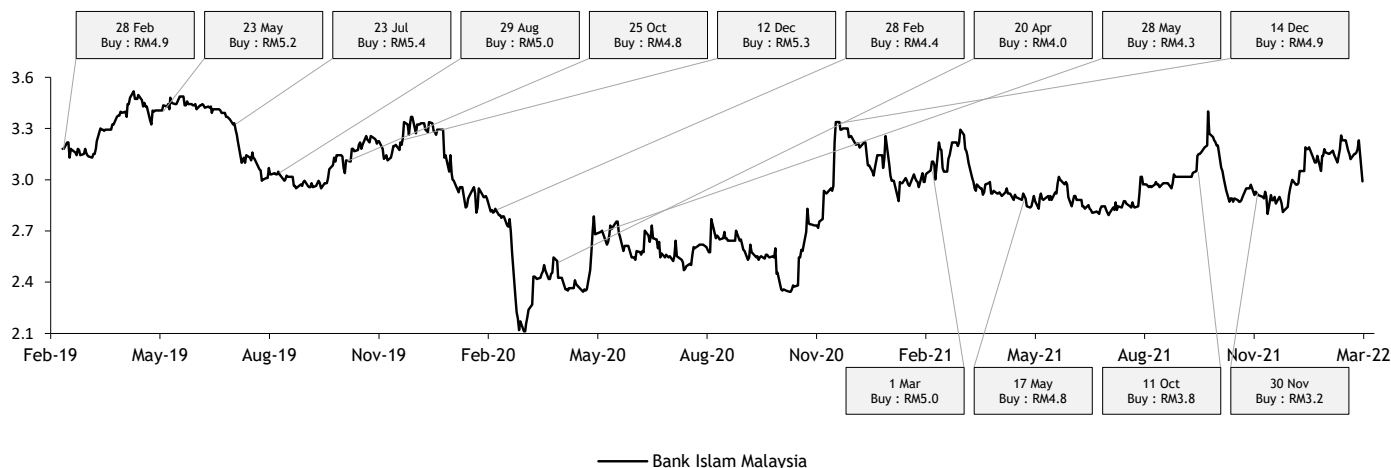
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