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Malaysia Building Society

Underperform But Provisions Tapering

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Despite 6M19 earnings coming in below expectations (due to higher provisioning), we are optimistic of lower provisions ahead. We however revised earnings downwards due to moderation of its higher yielding PF. TP reduced to RM1.10 with OUTPERFORM call reiterated – given that provisions expected to taper ahead with its NIM level is still the best performer.

Underperformed. 6M19 core net profit (CNP) of RM190m is below our/market estimates accounting for 33%/31% of our/market estimates. The negative deviation was due to higher provisioning (RM245m) for the period under review, but is expected to taper off in the coming quarters. No dividend declared as expected.

Top-line marginally lower mitigated by improving NOIL. YoY, 6M19 earnings fell (-52%) due to higher provisions (vs 6M19: write-back of RM32m). As guided previously, the provisioning came mostly from its Personal Finance space (due to civil servants retiring/leaving). Top-line was flat, dragged by fund-based income (-8% to RM629m) on account of compressing NIM (as expected by 30bps to 2.8%) due to lower higher yielding financing (from PF; falling -9%). On a positive note, although loans/financing were below guidance (+2% vs +6%), corporate financing surged +12% compensating for the fall in PF. NOIL improved >+100% to RM72m due to higher investments in the treasury markets (+100% to RM9b). No significant change in its GIL at 5.6% (or 2.05b) of which RM1b are conventionally impaired loans (at company level) which MBSB expects to clear by 2020. Due to higher provisioning, credit charge was at 1.37% (vs 6M18: 17bps credit recovery).

QoQ, CNP improved +27% to RM106m on account of lower provisioning (-40% to RM92m; as guided by management on tapering provisioning). Top-line decline (-8% to RM336m) was drag by fund-based income falling 5% on account of NIM compression (23bps) despite loans/financing at +2% (up by 140bps qoq). Loans/financing continued its uptrend led by corporates rebounding +19%. Slight uptick in GIL (+30bps) to 5.6% but credit charge fell 70bps to 1.03%.

Corporate loans to sustain ahead. Despite its financing growth being off target, we are positive on its corporate loan's/financing growth (on track with management's target of 30/70 corporate/household by 2020 from 1H19: 27/73). Financing disbursement in 2Q was at RM4.1b, (73%) coming from Business Banking with another RM1.2b (from its unutilized stock of RM5.4b) expected in 3Q. We are not unduly concerned with its compressing NIM as it is expected given the rebalancing of its loan portfolio. Liquidity and NIM will be supported by its investments in the debt market (which we understand carry an average yield of 3.9% - lower than its FD rate). However, its NIM level is still the best among the banking stocks in our universe. Provisioning are expected to taper off in the coming quarters; thus, management maintained its guidance of 50bps (vs our estimate of 73bps).

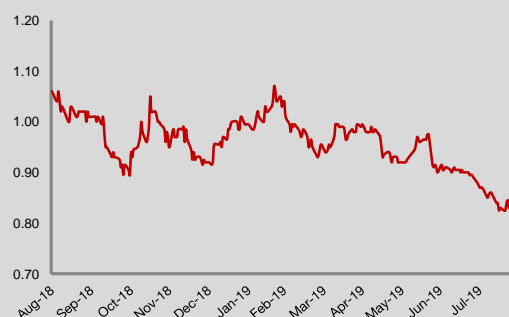
Post results, our FY19E/20E are revised downwards at (-8%/9%) on moderation on its higher yields portfolio to RM528b/574b; (i) NIM at 2.9%/2.8% (from 3.0%/2.9%), (ii) loans growth at ~+4% for both FYs (unchanged), (iii) credit charge at 73bps/60bps (unchanged) and (iv) operating income at a conservative RM92m/RM103m (from RM52m/RM53m); as we understand that treasury activities will contribute ~RM30m each in the coming quarters.

TP revised but Call maintained. TP lowered to RM1.10 (from RM1.15) based on an unchanged target PBV of 0.9x - implying a 0.5SD below the mean to reflect risk of corporate loans undermined from economic slowdown. Th stock price has been battered in recent weeks; thus valuations undemanding with excellent dividend yield of +-6%. Given that provisioning is seen tapering off coupled with still elevated NIM, we reiterate **OUTPERFORM**.

OUTPERFORM ↔

Price : RM0.85
Target Price : RM1.10 ↓

Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	-7.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MBS MK Equity
Market Cap (RM m)	5,706.4
Issued shares	6,713.4
52-week range (H)	1.08
52-week range (L)	0.82
3-mth avg daily vol:	2,382,381
Free Float	31%
Beta	1.0

Major Shareholders

Employees Provident Fund	64.5%
Ma Yu Chua	2.7%
CIMB Securities Singapore	1.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Net interest inc.	195.0	70.1	0.0
Islamic banking inc.	1,126.8	1,179.6	1,299.8
Non-interest inc.	54.0	92.3	102.6
Total income	1,375.8	1,342.1	1,402.4
Pre-tax profit	853.6	694.9	753.2
Net profit (NP)	642.4	528.3	573.7
Consensus NP		622	682
Earnings revision (%)		-7.90%	-9.2%
EPS (RM)	0.10	0.08	0.09
EPS growth (%)	42.8	(17.8)	8.6
Net DPS (RM)	0.05	0.05	0.05
BV/share (RM)	1.21	1.25	1.23
NTA/share (RM)	1.17	1.20	1.19
ROE (%)	8.6	6.7	7.1
PER (x)	8.5	10.3	9.5
Price/book (x)	0.7	0.7	0.7
Dividend yield (%)	5.9	5.9	5.9

Other Salient Points

Risks to our call include: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans & deposits, and (iii) worse-than-expected deterioration in asset quality.

Results Highlight								
FYE Dec (RM'm)	2Q19	1Q19	QoQ Chg.	2Q18	YoY Chg.	6M19	6M18	YoY Chg.
Net Interest Income	36.6	41.2	-11.1%	54.1	-32.4%	77.8	118.2	-34.2%
Islamic Banking Income	269.3	281.8	-4.5%	293.8	-8.3%	551.1	563.6	-2.2%
Other Operating Income	30.5	42.0	-27.5%	10.2	198.3%	72.5	23.9	202.7%
Total Income	336.3	365.0	-7.9%	358.1	-6.1%	701.3	705.7	-0.6%
Non-Interest Expense	(105.3)	(96.2)	9.6%	(108.9)	-3.3%	(201.5)	(201.8)	-0.1%
Provisions for Loan Losses	(92.4)	(153.0)	-39.6%	(124.2)	-25.6%	(245.4)	30.2	-913.8%
Pre-tax Income	138.5	115.9	19.6%	124.9	10.9%	254.4	534.1	-52.4%
Taxation & Zakat	(32.3)	(32.0)	0.9%	(39.2)	-17.6%	(64.4)	(131.6)	-51.1%
Net Profit	106.2	83.8	26.7%	85.7	24.0%	190.1	402.5	-52.8%
Est. Core Net Profit	106.2	83.8	26.7%	85.7	24.0%	190.1	402.5	-52.8%
EPS (sen)	1.66	1.31	26.7%	1.37	21.0%	2.97	6.45	-53.9%
Net DPS declared (sen)	-	-	-	-	-	-	-	-
Annualised NIM	3.17%	3.40%		4.06%		2.82%	3.11%	
Cost-Income Ratio	31.3%	26.3%		30.4%		28.73%	28.59%	
Effective Tax Rate	24.6%	23.3%		28.2%		24.05%	23.90%	
Gross loans	36,237	35,443	2.2%	35,610	1.8%	36,237	35,610	1.8%
<i>Personal financing</i>	20,356	20,465	-0.5%	22,305	-8.7%	20,356	22,305	-8.7%
<i>Mortgage loans and financing</i>	5,691	5,551	2.5%	5,702	-0.2%	5,691	5,702	-0.2%
<i>Corporate loans and financing</i>	9,941	8,374	18.7%	8,826	12.6%	9,941	8,826	12.6%
<i>Auto Financing</i>	205	218	-5.7%	257	-20.2%	205	257	-20.2%
<i>Staff loans</i>	44	43	1.5%	40	9.2%	44	40	9.2%
<i>Reclassification to assets HFS</i>	-	-		(1,521)		-	(1,521)	
% To Total Loans								
<i>Personal financing</i>	56%	58%		63%		56%	63%	
<i>Mortgage loans and financing</i>	16%	16%		16%		16%	16%	
<i>Corporate loans and financing</i>	27%	24%		25%		27%	25%	
<i>Auto Financing</i>	1%	1%		1%		1%	1%	
<i>Staff loan</i>	0%	0%		0%		0%	0%	
<i>Reclassification to assets HFS</i>	0%	0%		-4%		0%	-4%	
Net loans	33,999	33,291	2.1%	33,112	2.7%	33,999	33,112	2.7%
Customer deposit	26,265	26,220	0.2%	31,045	-15.4%	26,265	31,045	-15.4%
G. Loan-to-Deposit Ratio	138%	135%		115%		138%	115%	
Adj. LDR (as per BNM guidance)	120%	117%		101%		120%	101%	
G. impaired loans ratio	5.6%	5.3%		5.5%		5.6%	5.5%	
(Loan-Loss) Coverage Ratio	109.3%	114.5%		128.3%		109.3%	128.3%	
Annualised credit charge / (writeback) ratio	1.03%	1.73%		1.4%		1.37%	-0.17%	
Book Value per Share (RM)	1.26	1.26		1.18		1.26	1.18	
Net Tangible Assets per Share (RM)	1.22	1.21		1.14		1.22	1.21	
Annualised ROE	4.9%	4.4%		6.8%		4.9%	6.8%	

Source: Company, Kenanga Research

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	1.99	3,952.2	N	12/2019	4.1%	2.9%	15.0%	15.8%	7.9	6.8	5.9	0.5	0.4	6.5%	2.8%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	3.00	4,644.3	N	03/2020	5.9%	7.2%	-1.5%	10.9%	8.6	8.8	7.9	0.8	0.8	9.0%	5.5%	3.45	OP
AMMB HOLDINGS BHD	4.20	12,659.6	N	03/2020	10.4%	4.5%	-0.4%	2.8%	8.4	8.4	8.2	0.7	0.6	7.8%	4.8%	4.75	OP
BIMB HOLDINGS BHD	4.05	7,145.3	Y	12/2019	10.0%	6.6%	7.6%	13.6%	10.4	10.1	9.2	1.4	1.3	14.0%	4.0%	4.80	OP
CIMB GROUP HOLDINGS BHD	5.06	49,220.7	N	12/2019	4.6%	5.0%	-16.2%	2.6%	8.5	10.5	10.5	0.9	0.8	8.5%	4.4%	6.45	OP
HONG LEONG BANK BERHAD	16.60	35,984.1	N	06/2020	4.1%	5.1%	1.0%	0.5%	12.9	12.7	12.7	1.4	1.3	10.8%	3.0%	17.30	MP
MALAYAN BANKING BHD	8.69	97,687.4	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.8	12.1	11.6	1.2	1.1	9.7%	6.5%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.85	5,706.4	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	8.5	10.3	9.9	0.7	0.7	6.7%	5.9%	1.10	OP
PUBLIC BANK BERHAD	20.32	78,885.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	14.0	14.1	13.6	1.9	1.9	13.7%	3.3%	25.20	OP
RHB BANK BHD	5.70	22,857.3	N	12/2019	6.0%	4.8%	3.7%	5.7%	9.9	9.6	9.0	1.0	0.9	9.9%	3.7%	6.05	OP
Simple Average					4.9%	5.0%	-1.1%	6.9%	10.1	10.3	9.9	1.1	1.0	9.7%	4.4%		

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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