APEX SECURITIES BERHAD

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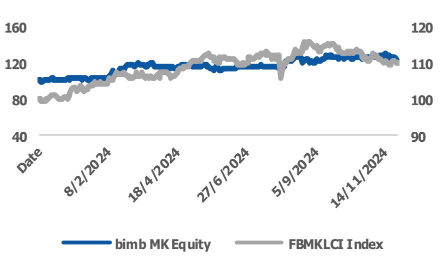
Recommendation:	**HOLD**
Current Price:	**RM 2.63**
Previous Target Price:	**-**
Target Price:	**RM 2.76**
Upside/Downside:	**4.9%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	5258 / BIMB MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	-
Bloomberg ESG Rating	N/A
Shares issued (m)	2,266.5
Market Cap (RM' m)	5,960.8
52-Week Price Range (RM)	2.81-2.18
Beta (x)	0.8
Free float (%)	33.7
3M Average Volume (m)	1.1
3M Average Value (RM' m)	3.1

Top 3 Shareholders	**(%)**
Lembaga Tabung Haji	48.0
Employees Provident Fund Board	17.1
Amanah Saham Nasional Bhd	8.0

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	-3.0	-0.8	13.4
Relative (%)	-2.6	2.3	1.7

Bank Islam Malaysia Berhad

Proxy to Lucrative Islamic Banking Segment

Summary

- **Aside from MBSB, BIMB is the only local listed fully Islamic bank.**
- **There are multiple investment drivers, including: (i) Acting as a direct proxy to the fast-growing local Islamic banking segment, (ii) Excellent asset quality as a result of its heavy retail slant, (iii) Revamping of brick-and-mortar outlets, which should provide better SME outreach and rejuvenates fee income profile, and (iv) Large volume of Transactional Investment Accounts (TIAs), which keep the cost of funds low.**
- **We initiate coverage on BIMB with a HOLD recommendation with a TP of RM2.76 based on FY25F GGM-PBV of 0.79x.**

Company Background

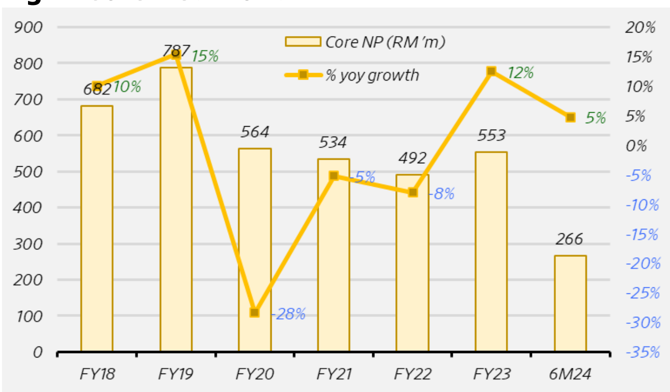
- Bank Islam Malaysia Berhad (BIMB) is the first Shariah-compliant banking institution in Malaysia and South East Asia. It has played a leading role in developing the nation's Islamic banking industry since 1983. Bank Islam was established primarily to assist the financial needs of the country's Muslim population and extend its services to the broader population. The bank currently provides Sharia-compliant card services and mobile banking.

- Bank Islam, guided by Shariah-based business principles, is a strong proponent of growing together with the communities that it serves.

Income Statement

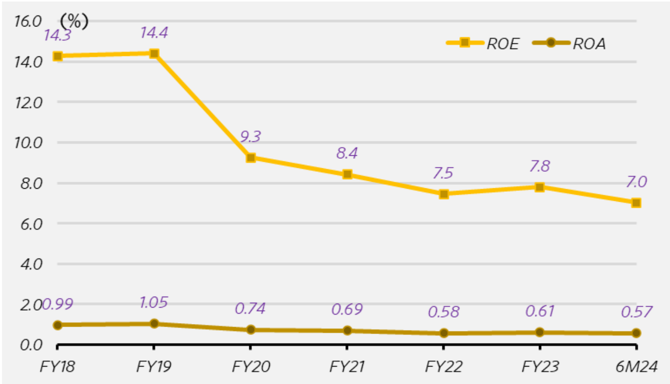
- **Earnings and ROE.** It is difficult to determine a steady earnings CAGR in recent years due to earnings distortions caused by the pandemic. Regardless, BIMB's steady-state ROE seems to have fallen from its high pre-pandemic range of c.14%. It is now in the 7-8% range, on the lower end relative to local peers. This is largely due to restructuring its internal organisation structure, which led to Syarikat Takaful Malaysia's contributions no longer being recognised as part of BIMB's earnings.

Fig 1: Core Net Profit



Source: BIMB

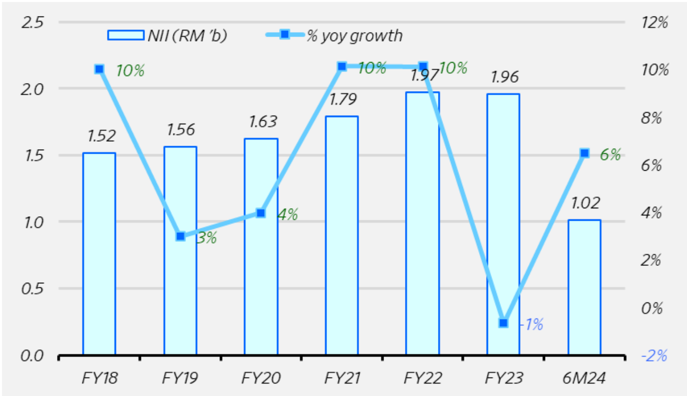
Fig 2: Return on Equity and Return on Assets



Source: BIMB

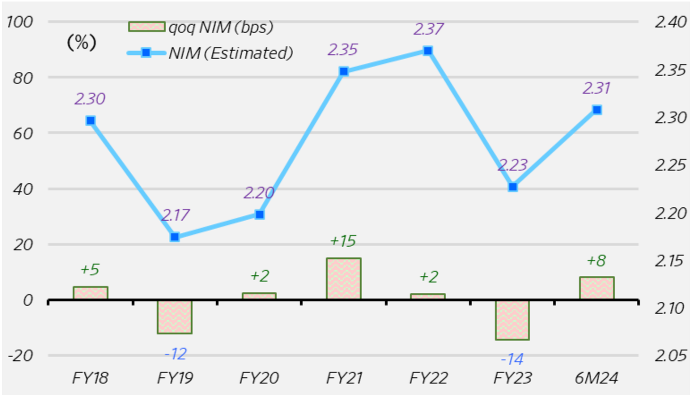
- **NII and NIM.** Trajectory-wise, BIMB's NIM has recovered since FY23's sharp decline. BIMB's COF and asset yields showed a slightly sharper decline than those of its peers in the past few quarters. The COF improvement is due to continual liability management initiatives (BIMB's previous FD profile was far from ideal and had much room for improvement). We believe the asset yield decline is due to (1) Low loan growth rates and (2) High concentration of residential mortgage loans, which have seen narrow yields lately.

Fig 3: Net Interest Income



Source: BIMB

Fig 4: Net Interest Margins

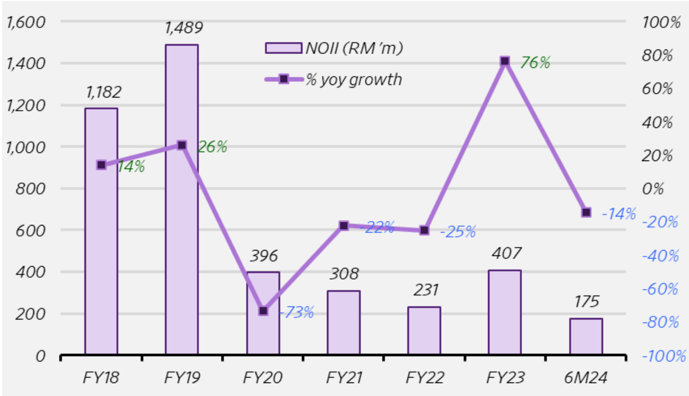


Source: BIMB

- **NOII.** BIMB's NOII makes up a small proportion of the topline. FY18 and FY19 contributions are elevated due to Syarikat Takaful's profits being included as earnings. Non-fee income makes up a relatively large proportion of overall NOII – contributing heavily to the volatility seen in recent years, despite fee income moving in a positive, more even trajectory.

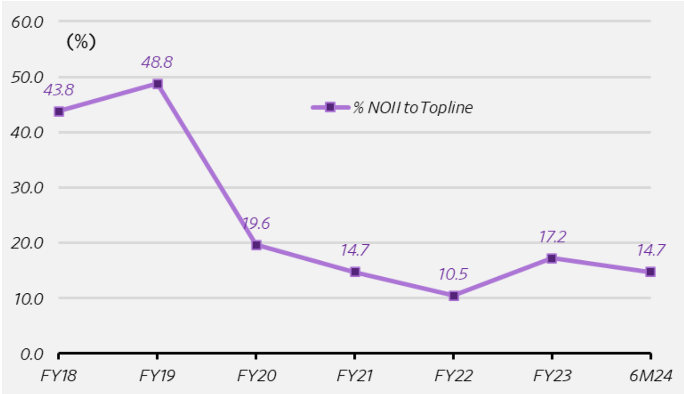
- BIMB's fee income services are simple and skewed toward the consumer segment. Card fees, takaful services and MEPS commission make up 33%, 20% and 11% respectively. The Group is looking to revamp its brick-and-mortar outlets, prioritising higher-return, specialised services such as Ar-Rahnu (Islamic pawnbroking) and wealth management. Basic services, which branches were formerly used for, will now be outsourced to BIMB's app and online infrastructure.

Fig 5: Non-Interest Income



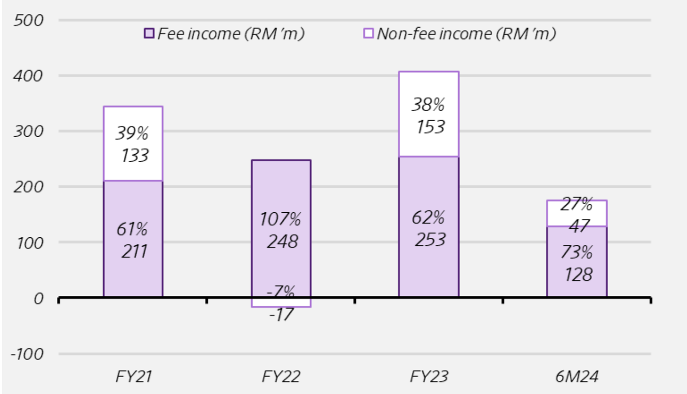
Source: BIMB

Fig 6: Non-Interest Income as % of Topline



Source: BIMB

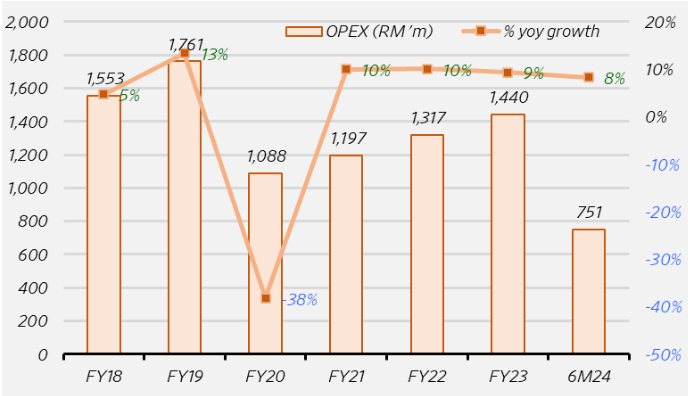
Fig 7: Fee Income/Non-fee Income Split



Source: BIMB

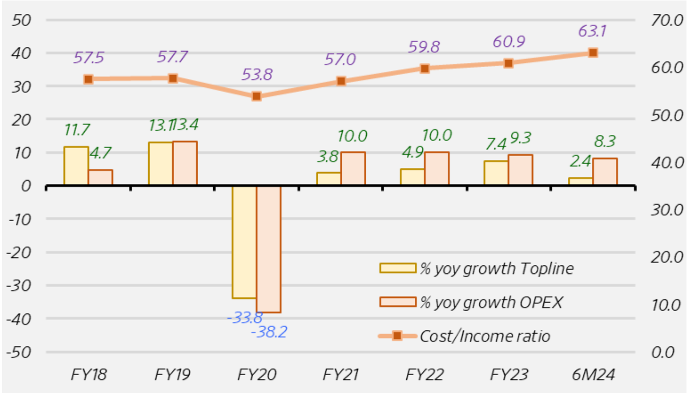
- **OPEX.** Rising cost pressures across the industry (namely wage inflation and digitisation costs) continue to push BIMB's cost/income ratio upwards. BIMB's cost/income profile is one of the highest among its peers, as topline growth has been bogged down by weak NII and NOII performance in previous years. Expect cost growth to remain high, with high establishment costs required to boost BIMB's tech infrastructure and revamp its branches. The Group is now undergoing cost restructuring, but we are not convinced that the move will significantly impact costs.

Fig 8: OPEX



Source: BIMB

Fig 9: Cost/Income ratio



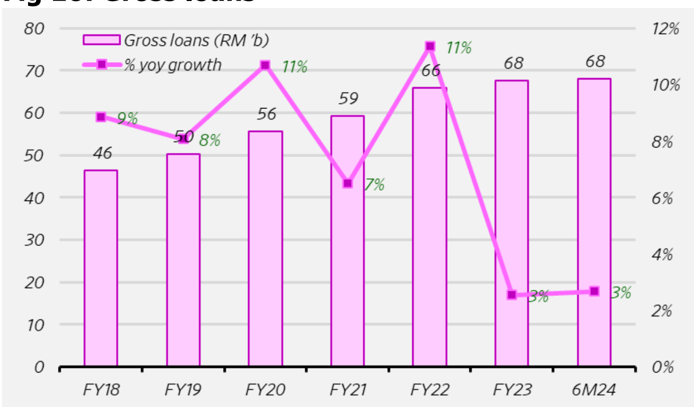
Source: BIMB

Balance Sheet

- **Loans.** BIMB's loan book is heavily skewed towards the consumer segment – primarily personal financing and residential mortgages. These make up 30% and 40% of its loanbook, respectively. The brunt of non-retail loans comprises the corporate segment, with SME loans making up <5% of the overall loanbook.

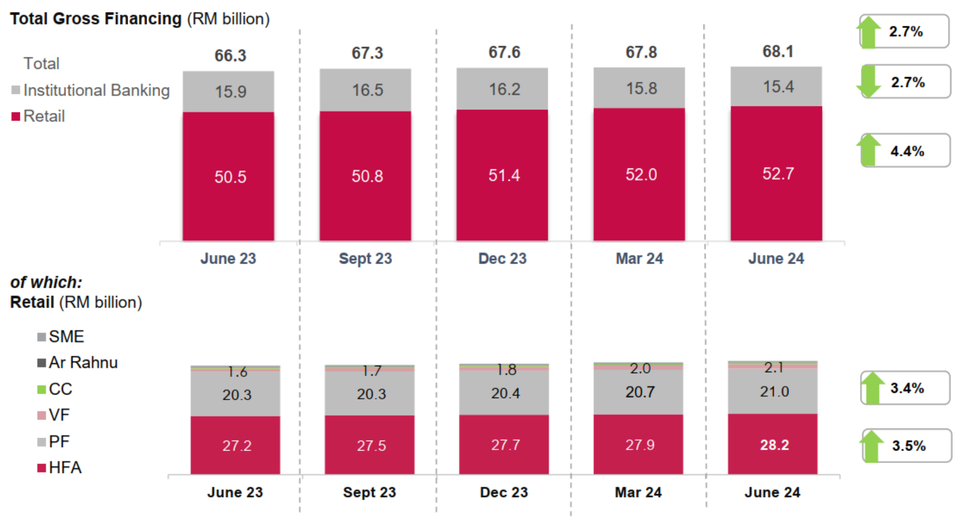
- BIMB's loan growth has stagnated in recent years, held down by lumpy repayments in the corporate segment and weakness in the retail portfolio. This is far from the upper-single-digit levels of growth shown a couple of years back. Regardless, management is optimistic and believes that a return to form is possible, guiding for a 7-8% loan growth target in FY24.

Fig 10: Gross loans



Source: BIMB

Fig 11: Loans by Segment



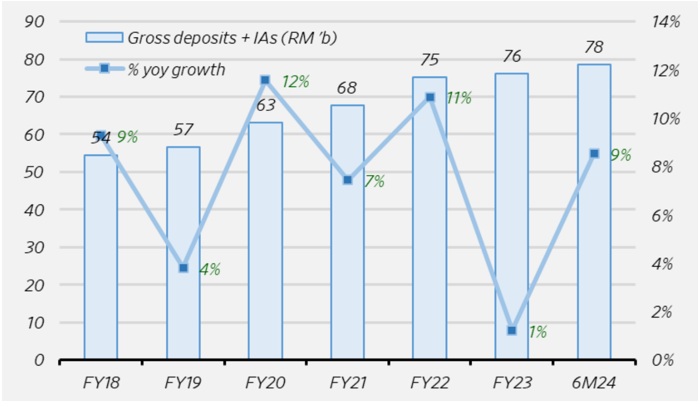
Source: BIMB

- **Deposits, CASA and Liquidity.** In FY23, BIMB underwent a pretty intense liability management exercise to improve its NIM profile, resulting in nearly flattish deposit growth. Thankfully, growth seems to have rebounded once more, but note that CASATIA growth continues to lag behind other deposits.

- One of BIMB's unique aspects is that a large chunk of funding comes from Investment Accounts (IAs). IAs are a type of Islamic product that functions similarly to deposits (with returns offered back to customers). The kind of IA you deposit your cash into determines the tenure required for a return. Unlike deposits, all financial losses are borne by the depositors (i.e. there is no guarantee you will get your full principal back). As a result, PIDM cannot guarantee IAs. In reality, such risks are minimal.

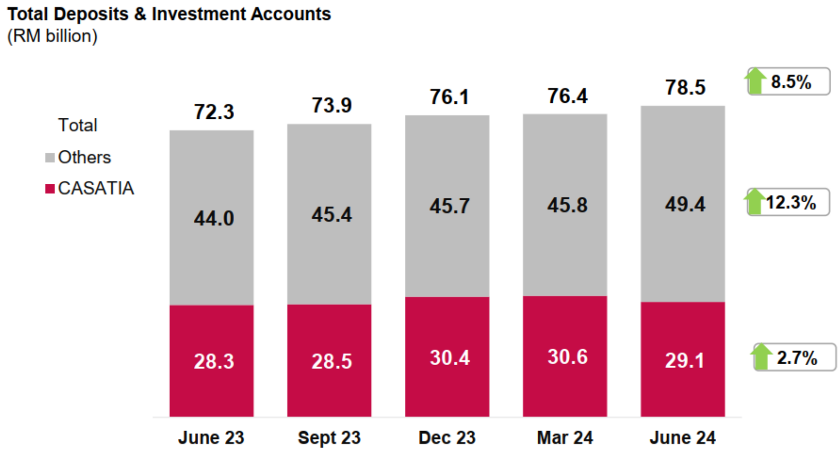
- A particularly cheap form of IA is the TIA. TIAs have no maturity date; they instead have flexible withdrawal options – very similar to CASA accounts. As such, BIMB likes to use the "CASATIA ratio" as opposed to the regular "CASA ratio" to factor in contributions coming in from TIAs.

Fig 12: Deposits and IAs



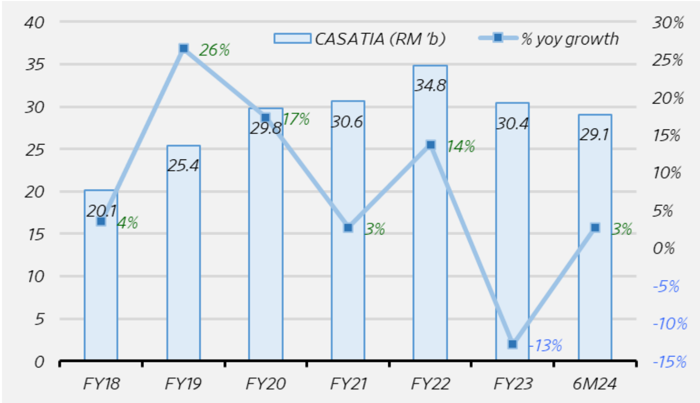
Source: BIMB

Fig 13: Deposits and IAs by Segment



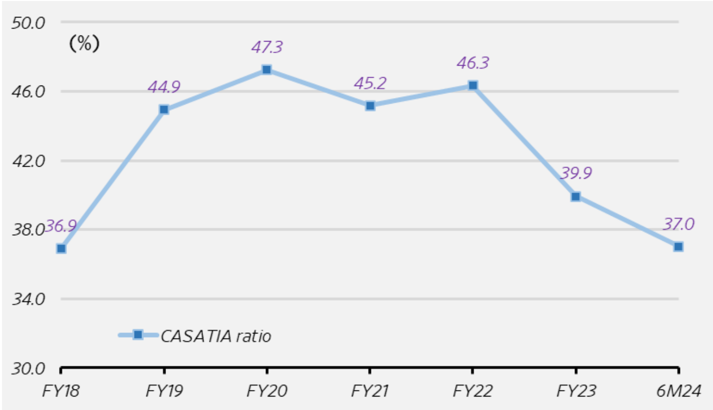
Source: BIMB

Fig 14: CASATIA



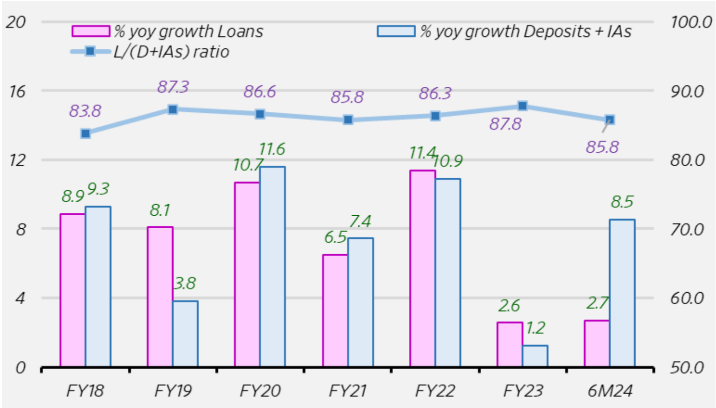
Source: BIMB

Fig 15: CASATIA ratio



Source: BIMB

Fig 16: Loan/Deposit ratio

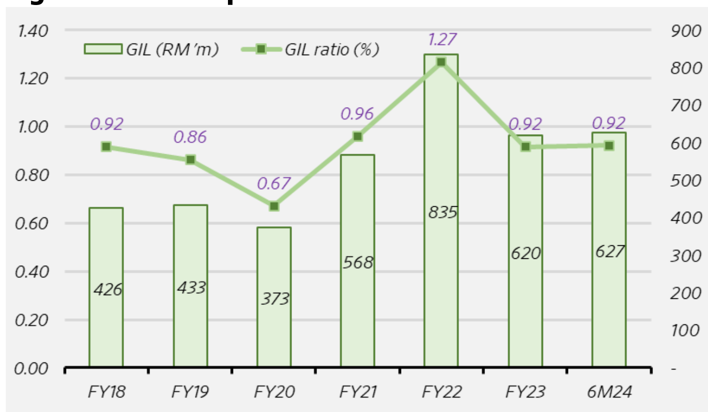


Source: BIMB

- **Asset quality and provisioning.** BIMB's asset quality is among the healthiest in the industry. Issues arise mainly from the institutional portfolio, which has a higher GIL ratio than the retail portfolio. Personal financing loans are mostly backed by salary deduction; hence, repayment rates are usually very secure.

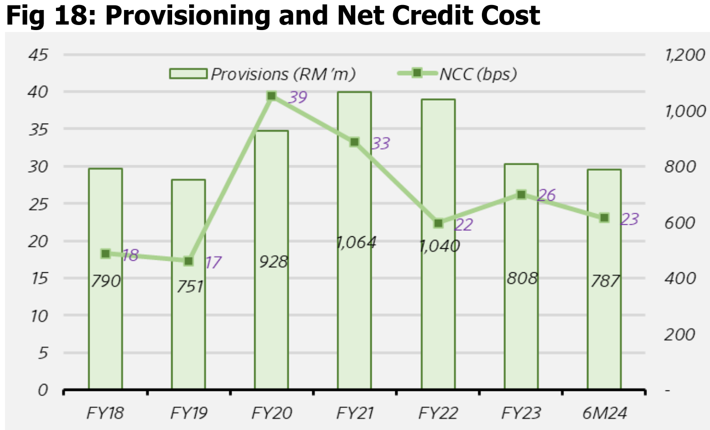
- We think BIMB's NCC steady state has yet to be achieved – despite overall GIL ratio having fallen to pre-pandemic levels, NCC remains elevated.

Fig 17: Gross Impaired Loans



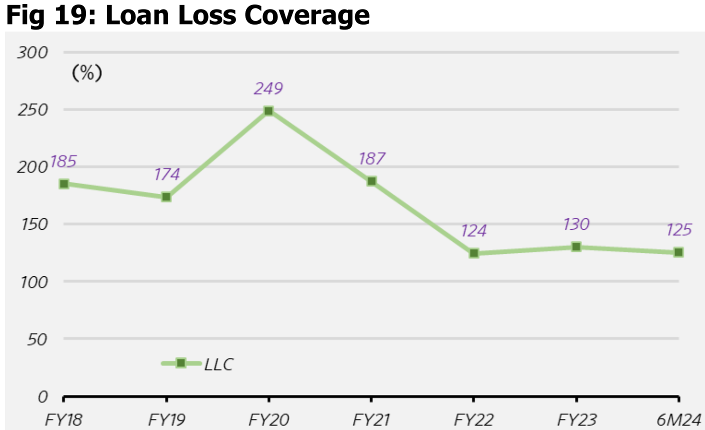
Source: BIMB

Fig 18: Provisioning and Net Credit Cost



Source: BIMB

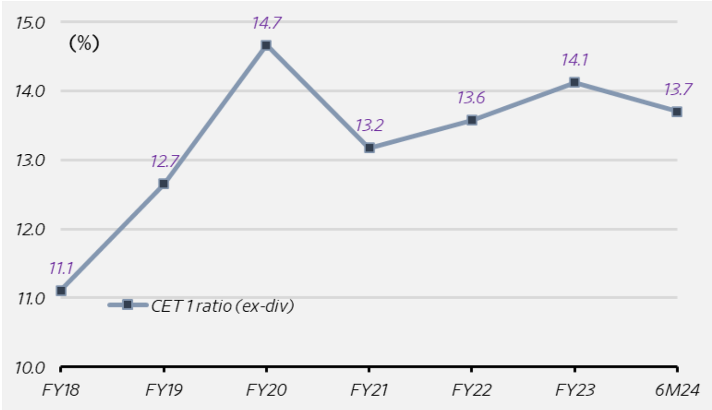
Fig 19: Loan Loss Coverage



Source: BIMB

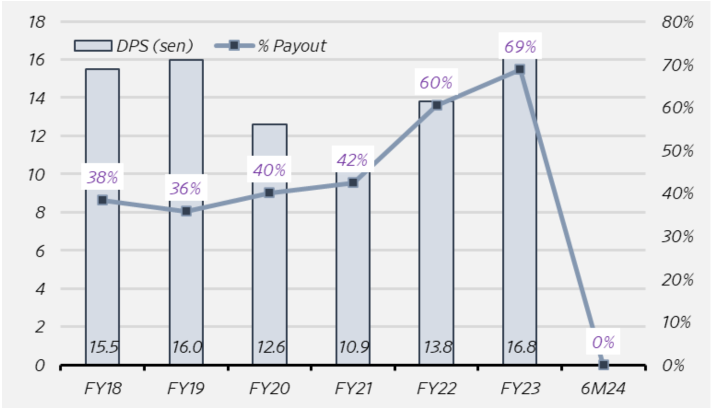
- **Capital and dividends.** CET 1 ratio: Very healthy. BIMB has increased its dividend payout to >60% in recent years and is expected to keep it at this level.

Fig 20: CET 1 ratio



Source: BIMB

Fig 21: Dividend Payout

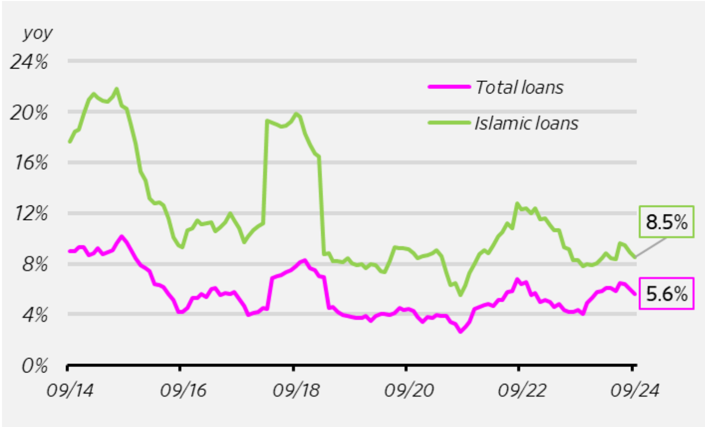


Source: BIMB

Investment Highlights

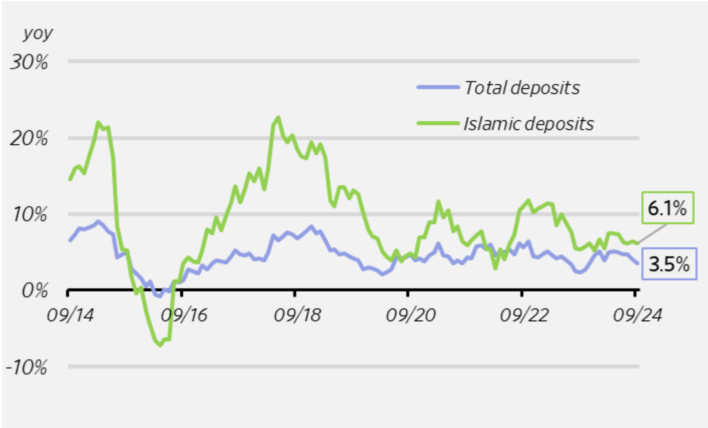
- **Proxy to the fast-growing local Islamic banking segment.** BIMB and MBSB are the only fully Islamic banks listed locally, serving as direct proxies to the lucrative Islamic banking sector. Islamic banking is growing much faster than Conventional counterparts and is forecasted to continue doing so. As a result, an Islamic scarcity premium is often attached to BIMB's valuations – its PBV trades high for its BEST ROE level, despite a low free float.

Fig 22: Industry Islamic Loans



Source: BIMB

Fig 23: Industry Islamic Deposits



Source: BIMB

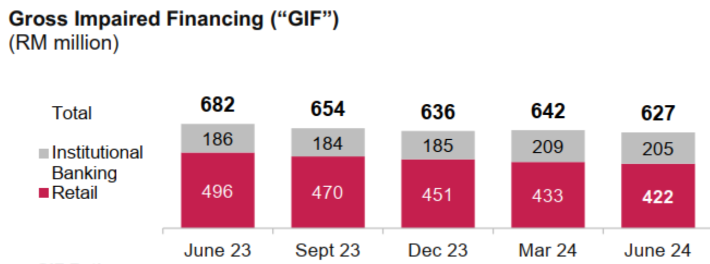
- **Retail slant provides excellent asset quality.** BIMB's GIL ratio usually hovers about the ~0.90% level. Its June-24 GIL ratio was 0.92%, well below the industry average of 1.62%. This is the third-best among listed banks, following Public Bank and Hong Leong Bank.

- This success is largely due to BIMB's loanbook consists primarily of retail loans, which tend to be safer. A large chunk is retail mortgages, which are low-risk and better collateralised than business loans. The remaining retail loans are higher-yielding personal financing loans. Despite personal financing loans being unsecured, BIMB prevents arrears by subjecting borrowers to salary deductions for payment –

where loan payments are automatically deducted from salary accounts. As a result, the personal financing portfolio usually boasts extremely healthy GIL ratios.

- During the pandemic, BIMB'S asset quality issues were largely contained within its institutional banking portfolio. Given more normalised economic conditions, we don't see a repeat of this happening anytime soon.

Fig 24: GILs by Segment



GIF Ratio

	June 23	Sept 23	Dec 23	Mar 24	June 24
BIMB	1.03%	0.97%	0.94%	0.95%	0.92%
Institutional Banking	1.17%	1.12%	1.14%	1.32%	1.33%
Retail	0.98%	0.92%	0.88%	0.83%	0.80%

Source: BIMB

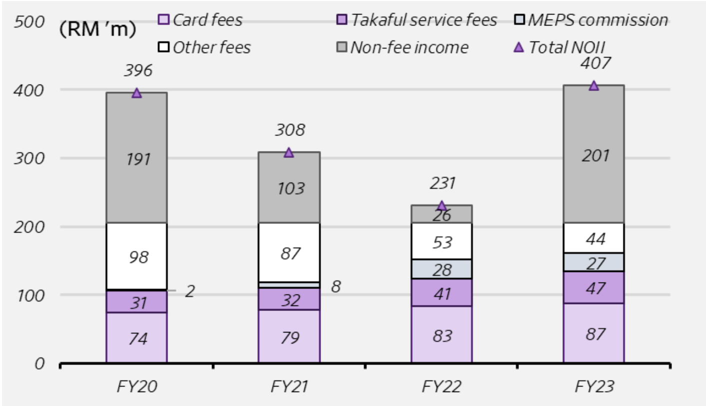
- **Brick-and-mortar outlet revamp provides better SME outreach and rejuvenates fee income profile.** BIMB has been gradually closing its brick-and-mortar outlets for some time. However, this may come to an end, as management now plans to revamp the branches for different purposes instead of shutting them down.

- Specialised services such as Ar-Rahnu (Islamic pawn broking) and wealth management will now be prioritised at branches. These services generates better margins, offering solid returns and a superior NOII profile. Traditionally, fee income contributions come largely from the consumer banking segment and are basic in nature, comprising takaful fees, card fees and MEPS commission. These basic services will now be outsourced to BIMB's app and online infrastructure.

- Another benefit: The revamping effort will likely prioritise better outreach efforts toward the SME community, in line with BIMB's intention to build up its SME loanbook (given its superior NIM profile), especially when residential mortgage yields are narrowing. From a fee income perspective, BIMB is over-reliant on its consumer banking segment – and, as a result, missed out on valuable non-consumer fee income opportunities in the form of forex and trade fees.

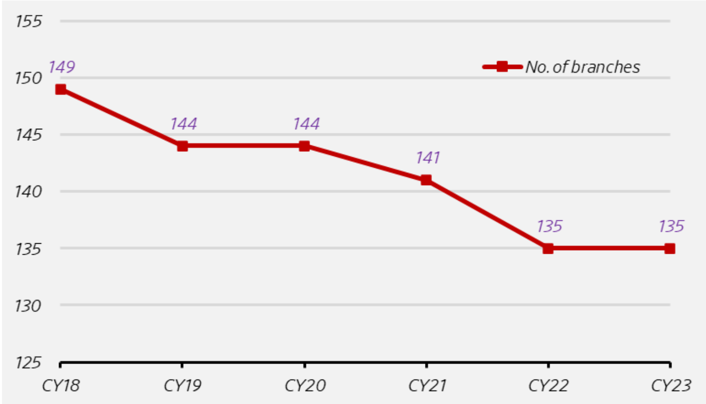
- Ultimately, we see the revamp as a huge positive – BIMB's total fee contribution to the topline has always been lacking. Stronger fee income reduces reliance on non-fee income – which can be very volatile, as seen in the last couple of years. A stronger presence in the SME community fits the Group's overall direction.

Fig 25: NOII Breakdown



Source: BIMB

Fig 26: Number of Branches

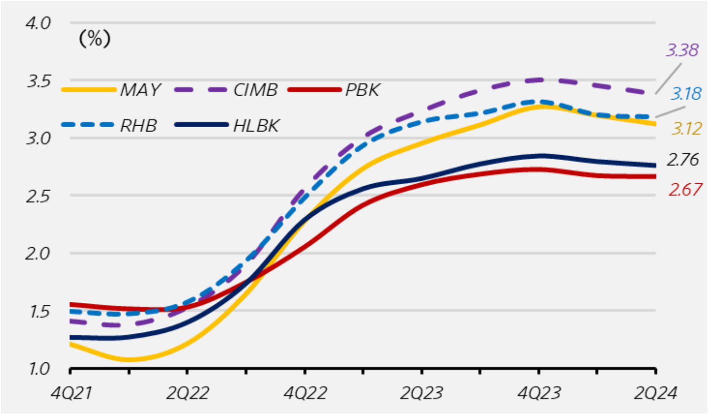


Source: BIMB

- **Transactional Investment Accounts (TIAs) keep the cost of funds low.** BIMB's COF is far more efficient than its peers, despite being a smaller bank with a less favourable customer deposit mix and minimal reliance on interbank borrowings or sukuk. The reason is simple: a large proportion of funding (16-20%) comes from IAs. In other banks, IAs usually comprise less than 1% of total interest-bearing liabilities.

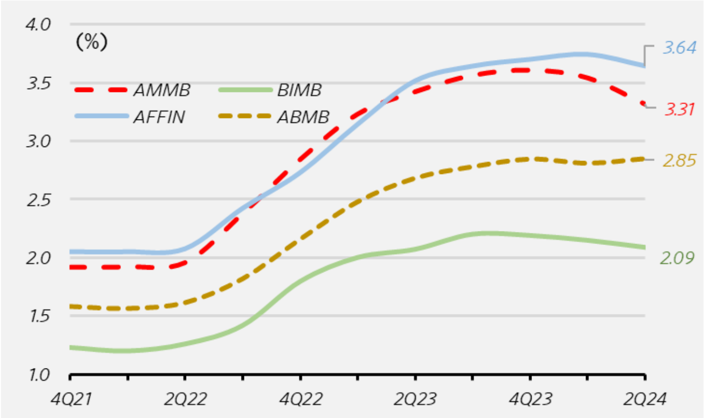
- Because of this, TIAs have a larger bearing on BIMB's COF. TIAs are extremely cheap, and have a profile comparable to CASA (they can be withdrawn anytime). Their rates are only at 0.05-0.15%. Roughly 60% of BIMB's IAs are TIAs. The remaining 40% of BIMB IAs have a tenure and cost profile akin to FDs.

Fig 27: Cost of Funds (Big Banks)



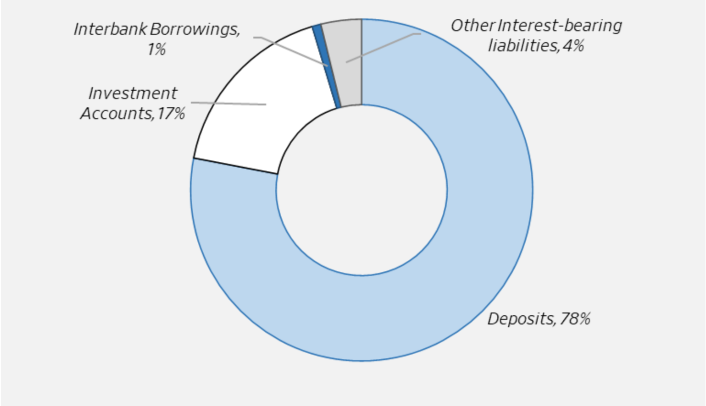
Source: BIMB

Fig 28: Cost of Funds (Smaller Banks)



Source: BIMB

Fig 29: Interest-Bearing Liabilities

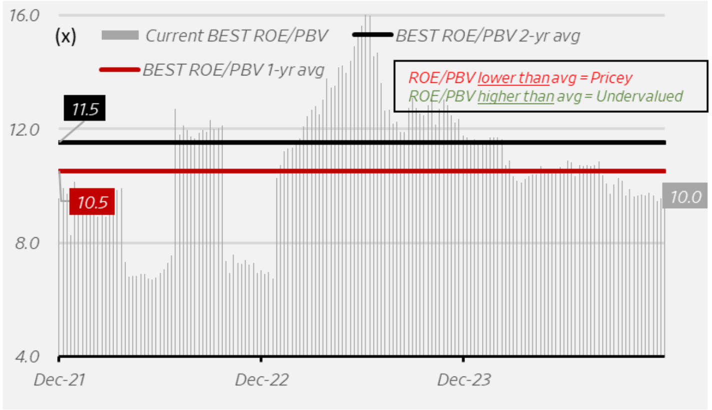


Source: BIMB

Valuation & Recommendation

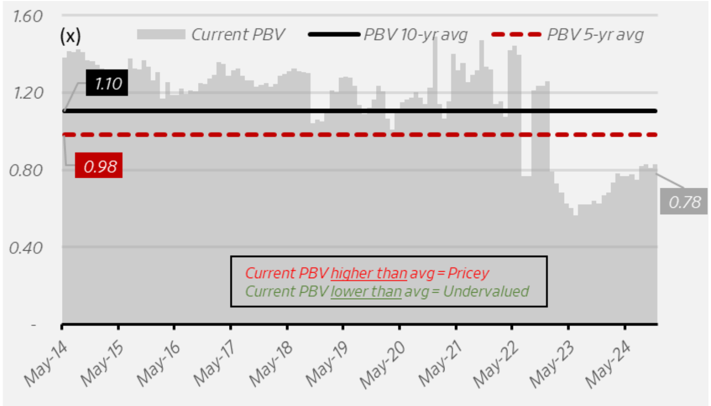
- We initiate coverage on BIMB with a **HOLD** recommendation and a target price of **RM2.76** based on an FY25F PBV of 0.79x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 7.8%, LTG of 4.5%, & COE of 8.7%.)

Fig 30: BEST ROE/PBV



Source: BIMB

Fig 31: PBV



Source: BIMB

- We favour BIMB for its (i) High loan growth potential and aggressive capturing of market share, (ii) Its ongoing loanbook rebalancing, which has already resulted in a safer asset quality profile, (iii) Potential for client-based NOII contribution growth, given its aggressive market share capture, (iv) Efficient cost of funds, despite being a smaller bank.

Key Risks

- **Weak loan growth may persist.** BIMB's loan growth has been pretty lacklustre lately, especially since it's becoming difficult to find house financing opportunities at decent margins. We are worried that the Group may prioritise NIM optimisation in lieu of asset growth, which it has done before.

- **Asset quality issues.** Given its weaker asset quality, BIMB's underwriting process may not be as stringent as some of its peers (at least in the past). From an impairment standpoint, it is thus more vulnerable to large-scale economic shocks than peers.

- **NIM issues.** BIMB has been experiencing some issues with declining loan yields due to its heavy slant toward house financing. Its underdeveloped non-retail infrastructure limits its ability to ramp up higher-yielding loans to offset this quickly.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Total NII	1,972	1,959	2,033	2,242	2,337
Total NOII	231	407	384	393	413
Net income	**2,203**	**2,366**	**2,417**	**2,636**	**2,750**
OPEX	(1,317)	(1,440)	(1,547)	(1,660)	(1,732)
PPOP	**886**	**926**	**870**	**975**	**1,017**
Loan allowances	(140)	(175)	(173)	(175)	(184)
Other allowances	1	(4)	(3)	(7)	(7)
JV & Associates	-	-	-	-	-
PBT	**747**	**747**	**694**	**793**	**827**
Tax & zakat	(255)	(194)	(168)	(192)	(200)
NCI	-	-	-	-	-
Reported NP	**492**	**553**	**526**	**601**	**627**
Core NP	**492**	**553**	**526**	**601**	**627**

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	7,145	4,714	5,921	5,921	5,921
Investment securities	15,448	16,856	17,854	17,993	18,298
Net loans	64,902	66,817	70,175	73,769	77,826
Other IEAs	0	0	0	0	0
Non-IEAs	2,357	2,574	2,345	2,405	2,455
Total assets	**89,852**	**90,962**	**96,295**	**100,089**	**104,500**
Customer deposits	60,708	59,016	59,328	61,501	63,010
Other IBLs	19,781	21,768	22,704	23,685	24,714
Non-IBLs	2,567	2,777	6,714	7,040	8,587
Total liabilities	**83,055**	**83,562**	**88,745**	**92,226**	**96,310**
Share capital	3,645	3,889	3,846	3,846	3,846
Reserves	3,151	3,511	3,704	4,017	4,344
Shareholders' funds	**6,796**	**7,400**	**7,550**	**7,863**	**8,190**
NCI	0	0	0	0	0
Total equity	**6,796**	**7,400**	**7,550**	**7,863**	**8,190**
Total L&E	**89,852**	**90,962**	**96,295**	**100,089**	**104,500**
Total IEAs	87,495	88,388	93,950	97,683	102,045
Total IBLs	80,489	80,785	82,032	85,186	87,723
Gross loans	65,942	67,625	71,006	74,556	78,657
CASATIA	34,833	30,386	33,236	35,230	37,273

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.37	2.23	2.23	2.34	2.34
Return on IEAs	4.02	4.69	3.72	3.76	3.70
Cost of funds	1.80	2.68	1.67	1.63	1.57
Net interest spread	2.22	2.00	2.05	2.13	2.13
Profitability (%)					
ROE	**7.5**	**7.8**	**7.0**	**7.8**	**7.8**
ROA	0.6	0.6	0.6	0.6	0.6
NOII/Net income	10.5	17.2	15.9	14.9	15.0
Effective tax rate	32.3	24.4	22.5	22.5	22.5
Cost/Income	59.8	60.9	64.0	63.0	63.0
Liquidity (%)					
Loan/Deposit	86.3	87.8	88.7	87.9	87.7
CASATIA ratio	46.3	39.9	42.0	42.0	42.0
Asset Quality (%)					
GIL ratio	1.27	0.92	0.90	0.88	0.88
LLC ratio	124	130	130	120	120
LLC (w. reserves)	141	130	152	142	141
Net CC (bps)	22	26	25	24	24
Capital (%)					
CET 1	13.6	14.1	14.0	13.5	13.5
Tier 1 capital	14.6	15.1	15.0	14.5	14.5
Total capital	19.4	19.9	19.8	19.3	19.3
Growth (%)					
Total NII	10.1	-0.7	3.8	10.3	4.2
Total NOII	-25.1	76.1	-5.6	2.4	5.0
Net income	4.9	7.4	2.2	9.0	4.3
OPEX	10.0	9.3	7.5	7.3	4.3
Core NP	-8.0	12.5	-4.9	14.3	4.2
Gross loans	11.4	2.6	5.0	5.0	5.5
Deposits + IAs	10.9	1.2	4.0	6.0	5.8
CASATIA	13.7	-12.8	9.4	6.0	5.8
Valuation metrics					
Core EPS (sen)	21.8	24.6	23.4	26.7	27.8
Gross DPS (sen)	13.8	16.8	13.3	14.5	14.5
Div payout (%)	60	69	60	60	60
BVPS (RM)	3.0	3.3	3.4	3.5	3.6
Core P/E (x)	12.0	10.7	11.3	9.8	9.4
Div yield (%)	**5.2**	**6.4**	**5.0**	**5.5**	**5.5**
P/BV (x)	0.9	0.8	0.8	0.8	0.7

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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