A reason to upgrade, still in recovery mode

Results Note

MBSB

MBS MK

Sector: Financial Services

RM1.27 @ 24 May 2017

HOLD (upgrade)

Downside 1.6%

Price Target: RM1.25

Previous Target: RM0.78

MBSB had a good start in 1Q17 as net profit saw a rebound of 191% yoy and 122% qoq (at EPS level, +42% yoy). The results is above Affin's and market expectations on the back of lower funding cost and lower credit costs. We believe that hefty provisions will unlikely be repeated in 2017 given that the NPLs are peaking, while approvals for new personal financing are more stringent. Upgrade from SELL to HOLD, with PT raised from RM0.78 to RM1.25.

1Q17 net profit outperformed expectations – credit cost eased

MBSB's 1Q17 net profit of RM101.3m almost tripled against 1Q16 +191% yoy (+122% qoq). Its operating income improved, up 11% yoy largely underpinned by fund-based income generation (+13% yoy), which saw an improvement in the net-interest-margin (NIM) as funding pressure eased. The overall gross loan and financing rose by 4.1% yoy, and the bulk of it was driven by expansion in the corporate loans (+3.2% yoy). Pre-tax profit meanwhile grew by a significant +224% yoy as impaired loan allowances declined by 23% yoy (flat qoq), reflected by an ease in 1Q17 credit cost at 150bps vs. 207bps in 1Q16. Overall results appear to be above Affin and market expectations. We anticipate that the favourable results will prompt street upgrades.

Earning revision of 36% for 2017E and 12% for 2018E-19E

We have revised our net profit forecasts for 2017E by 36% and 2018E-19E by 12%, as we price in a lower funding cost assumption and higher loan yields for MBSB for the forecast periods, resulting in a NIM enhancement of 10-15bps to 3.36-3.4%. For 2017E, we have also factored in some credit recoveries, resulting in a lower credit charge rate of 98bps from 150bps previously. Other assumptions on total loan growth remain unchanged at 4-5% p.a. while credit costs for 2018-19E remain at 53-54bps.

Upgrade from SELL to HOLD; PT raised to RM1.25 from RM0.78

We upgrade MBSB to **HOLD** from our previous SELL rating, as we have also raised our **Price Target** to **RM1.25** based on a 1x P/BV multiple target on 2018E's book value (from a PT of **RM0.78** based on a 0.65x FY17E P/BV multiple target). The higher target multiple of 1x is being justified by an improving earnings outlook, with a decline in new NPL formation as the economic outlook improves, while MBSB's loan loss cover has reached a more steady level of 113.3% (1Q17) from 93.7% (1Q16). In order to mitigate credit risks in its books, MBSB will continue to diversify into asset-securitization programs, re-price its loans at higher rates and explore potential fee income in Takaful distribution. Downside risks: weaker loan growth, new asset impairments. Upside risks: a favourable merger deal with the Asian Finance Bank, writeback and recoveries of impaired loans.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Total income	1,360.6	1,409.0	1,511.7	1,603.2	1,673.3
Pre-provisioning profit	1,052.3	1,115.7	1,213.3	1,292.5	1,348.8
Pretax profit	355.0	338.4	558.4	717.6	770.7
Net profit	257.6	201.4	376.7	534.1	576.1
EPS (sen)	6.3	4.9	6.5	9.2	9.9
EPS growth (%)	(74.6)	(21.7)	32.6	41.8	7.9
PER (x)	20.4	26.0	19.6	13.8	12.8
ROE (%)	5.4	3.5	5.5	7.5	7.7
BV/share	1.71	1.16	1.19	1.26	1.33
P/BV	0.74	1.10	1.06	1.01	0.96
NDPS (sen)	3.0	3.0	3.0	3.0	3.0
Dividend Yield (%)	2.4	2.4	2.4	2.4	2.4
Affin/Consensus (x)			1.0	1.0	1.0
Chg in EPS (%)			36.0	11.8	11.6

Source: Company, Affin Hwang estimates, Bloomberg

Price Performance

	1M	3M	12M
Absolute	-1.6%	+8.5%	+11.3%
Rel to KLCI	-2.4%	+4.1%	+2.1%

Stock Data

Issued shares (m)	5,798.8
Mkt cap (RMm)/(US$m)	7,364.4 /1,716.7
Avg daily vol - 6mth (m)	10.3
52-wk range (RM)	0.69-1.36
Est free float	24.8%
BV per share (RM)	1.18
P/BV (x)	1.1
Net cash/ (debt) (RMm)	n.m.
ROE (2017F)	4.1%
Shariah Compliant	No
Derivatives	NIL

Key Shareholders

EPF	65.3%
Chua Ma Yu	8.97%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	Yoy (%)	Qoq (%)	4Q16	Comments
Interest Income	127.8	*9.4*	*8.2*	118.1	Topline driven by expansion in corporate loan growth (+32% yoy).
Interest Expense	(61.3)	*(7.2)*	*0.2*	(61.2)	Wholesale funding and deposit cost estimated to have eased to 4.1% in 1Q17 vs. 4.3% in 1Q16. Outstanding conventional deposits also declined by 2.2% yoy
Net Interest Income	**66.5**	*31.0*	*16.9*	**56.9**	1Q17 net interest income was above our forecasts on the back of much lower average funding costs.
Islamic Banking	292.1	*9.9*	*(4.2)*	304.7	Islamic financing portfolio increased by 6.1% yoy and 2.2% qoq.
NII After Islamic Banking	**358.6**	*13.2*	*(0.8)*	**361.6**	1Q17 NIM estimated at 3.44% vs. 3.58% in 4Q16 and 3.18% in 1Q16.
Non-Interest Income	8.5	*(40.6)*	*(48.0)*	16.4	
Operating Income	**367.1**	*10.9*	*(2.9)*	**378.0**	
Operating Expenses	(72.4)	*(1.3)*	*24.3*	(58.2)	1Q17 CIR improved to 19.7%, down 2.43ppts vs. 22.15% in 1Q16.
Pre-provision Profit	**294.7**	*14.4*	*(7.8)*	**319.7**	1Q17 allowances decreased by 23% yoy, though was flat against 4Q16. 1Q17 credit cost stood at 150bps against 207bps in 1Q16 while flat qoq.
Allowance for impaired loans	(167.9)	*(23.2)*	*(0.6)*	(168.9)	
Pre-Tax Profit	**126.8**	*224*	*(16.0)*	**150.9**	1Q17 represented 36% of Affin's and consensus 2017E forecasts. Above expectations.
Taxation	(25.4)	*>100*	*(75.8)*	(105.2)	
Net Profit	**101.3**	*190.9*	*122.0*	**45.6**	
EPS (sen)	**1.75**	*42.3*	*121.5*	**0.79**	
Net DPS (sen)	**-**	*n.m.*	*n.m.*	**3.0**	No dividends proposed in 1Q17.

Source: Affin Hwang, Company data

Fig 2: MBSB: Key financial ratios

FYE December (RMm)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Key Financial Ratios:						
Profitability						
NIM (including Islamic income) (%)	3.42	3.18	3.13	3.16	3.58	3.44
Fee income ratio (%)	4.9	4.3	5.1	2.4	4.3	2.3
Cost-to-income ratio (%)	22.1	22.2	23.5	22.80	15.4	19.7
Annualised ROE (%)	(1.3)	2.9	5.1	4.0	3.2	6.0
Balance Sheet						
Gross loans (RMbn)	34,108.8	34,451.4	34,799.5	35,367.3	35,284.6	35,853.5
Customer deposits (RMbn)	28,585.4	30,492.6	31,114.6	31,459.4	30,611.3	32,057.2
Net LD ratio (%)	119.3	119.3	111.8	112.4	115.3	111.8
Net Loan/Deposit + Wholesale ratio (%)	99.8	95.5	95.0	95.7	99.0	94.0
Asset Quality						
Impaired loans (RMm)	2,519.6	2,712.9	2,778.4	2,731.3	2,829.6	2,881.8
Gross Impaired ratio (%)	7.9	7.87	7.98	7.72	8.02	8.04
Net NPL ratio (%)	2.99	3.07	3.29	2.91	2.87	2.76
Loan Loss Cover (%)	92.2	93.7	97.9	107.1	109.2	113.3

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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