



AmInvestment Bank

Company Report

MBSB BERHAD

(MBSB MK EQUITY, MBSS.KL)

27 May 2025

Write-offs take a toll on financing growth

HOLD

(Maintained)

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Rationale for report: Company Result

Price	RM0.73
Fair Value	RM0.65
52-week High/Low	RM0.94/RM0.62

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY24	FY25F	FY26F	FY27F
Total income (RM mil)	1,652.5	1,873.1	2,070.6	2,226.0
Core net profit (RM mil)	406.8	491.0	568.6	697.8
FD Core EPS (sen)	4.9	6.0	6.9	8.5
FD Core EPS growth (%)	125.3	20.7	15.8	22.7
Consensus Net Profit (RM mil)	-	528.0	584.0	721.0
DPS (sen)	4.5	3.5	4.0	5.0
BV/share (RM)	1.19	1.21	1.24	1.29
PE (x)	14.8	12.2	10.6	8.6
Div yield (%)	7.3	5.6	6.5	8.0
P/BV (x)	0.6	0.6	0.6	0.6
ROE (%)	4.1	5.0	5.6	6.7

Stock and Financial Data

Shares Outstanding (million)	8,222.3
Market Cap (RMmil)	6,002.3
Book Value (RM/Share)	1.19
P/BV (x)	0.6
ROE (%)	4.1

Major Shareholders	Employees Provident Fund Board (56.5%) Yayasan Pelaburan (12.8%)
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Free Float	30.7
Avg Daily Value (RMmil)	3.5

Price performance	3mth	6mth	12mth
Absolute (%)	1.4	0.7	(19.3)
Relative (%)	5.0	5.2	(14.9)



Investment Highlights

1Q25 earnings fell short due to weaker income from Islamic operations, with financing growth hampered by write-offs. However, disbursement of approved corporate financing should support growth in the next three quarters. MBSB's FY26F ROE remains weak at 5.6%, trailing the industry's 10.1%. High funding costs persist, with commercial/corporate deposits comprising 89% of total deposits. The CI ratio stays elevated above the industry's 43.6% as investments in human capital and technology continue. Given these challenges, the stock justifies a low P/BV of 0.5x for FY26F. We maintain a HOLD recommendation.

- Recommendation and valuation.** We maintain HOLD with an unchanged TP of RM0.65/share, based on CY26 P/BV of 0.5x, supported by a 5.6% ROE and a neutral 3-star ESG rating. While 1Q25 net profit slightly missed expectations, earnings forecasts remain intact as financing growth is expected to improve with corporate disbursements in the coming quarters.
- 1Q25 missed expectations as net income from Islamic operations fell short, impacted by financing contraction from write-offs.** 1Q25 earnings of RM85mil (+8.1% YoY) fell short of expectations, contributing 17.3% of our estimate and 16.1% of consensus. The shortfall was due to lower net income from Islamic operations, impacted by write-offs that constrained financing growth. As a result, operating income saw moderate growth of 3.8% YoY. On a QoQ basis, earnings dropped 44.1%, mainly due to a RM28mil provision versus a RM27mil net writeback in the previous quarter.
- Financing growth contracted in 1Q25 following a decline in consumer and corporate financing.** Gross financing growth slowed to -0.7% YoY, with a weaker personal, auto, and corporate financing. Excluding write-offs, financing growth was a modest 1.1% YoY. Net financing margin rose 14bps YoY to 2.1%, aided by lower funding costs. CASA ratio declined QoQ to 9.3% as focus shifted to SME deposits, lowering LCR to 147.1% in 1Q25 (from 183.9% in 4Q24). A negative JAW of 5.3% YoY drove the CI ratio up to 61.7%, exceeding the industry's 43.6%.
- GIL ratio increased marginally, and loss loan coverage ratio fell due to upticks in impaired loans.** GIL ratio edged up to 5.5% in 1Q25 from 5.3% in 4Q24, driven by higher new impaired financing, lower recoveries and reclassifications to performing status, coupled write-offs. It remained well above the industry's 1.4% as of March 2025, with higher impairments in the household and manufacturing sectors. Loan loss cover dropped to 46.0% (industry: 91.2%), while credit cost eased to 26bps in 1Q25 from 42bps in 1Q24.

Company profile

MBSB serves as the financial holding company for MBSB Bank, a fully domestic institution providing Islamic banking services to retail, commercial, and corporate clients. Additionally, it owns Malaysian Industrial Development Finance Berhad (MIDF), a financial services entity engaged in development finance, investment banking, and asset management.

Investment thesis and catalysts

We maintain a HOLD rating on the stock, with an unchanged TP of RM0.65/share pegged to FY26F P/BV of 0.5x, reflecting a projected ROE of 5.6%—below the industry average of 10.1%. This assessment considers the group's elevated funding costs, driven by a high proportion of commercial/corporate deposits, as well as its GIL ratio, which remain above the industry average due to its legacy financing portfolio.

Valuation methodology

The stock's valuation is based on CY26, applying a Gordon growth-derived P/BV of 0.5x. This assessment is underpinned by a cost of equity (COE) of 9.4%, a beta of 0.9, a market risk premium of 6.3%, a risk-free rate of 3.7%, and a long-term growth rate of 2%.

Risk factors

Potential risks to our projections include:

- i) A slowdown in global economic growth, which may hinder loan expansion.
- ii) An unexpected rise in funding costs, as slower-than-expected CASA growth could intensify deposit competition.
- iii) Prolonged high interest rates in developed markets, leading to lower valuations of bond and securities portfolios, which may affect banks' non-interest income (NOII).

EXHIBIT 1: RESULTS SUMMARY

Income Statement (RM Mil, FYE 31 Dec)	1Q24	4Q24	1Q25	% QoQ	% Yoy
Interest income	13	29	31	3.9	130.6
Interest expense		-15	-15	-2.8	n.m.
Net interest income	13	14	16	10.9	19.1
Islamic banking income	311	386	320	-17.2	2.9
Non-interest income	41	14	43	199.3	5.9
Total income	365	415	379	-8.7	3.8
Overhead expenses	-214	-221	-234	5.7	9.1
Pre-provision profit	151	194	145	-25.2	-3.8
Loan impairment allowances	-45	27	-28	-206.0	-36.9
Modification loss	0	0	0	n.m.	n.m.
Associates and JV income					
Pretax profit	106	220	117	-47.0	10.2
Income tax	-28	-69	-32	-53.4	16.0
Minority interest			0		
Net profit	78	151	85	-44.1	8.1
Core EPS (sen)	1.0	1.8	1.0	-44.0	8.4
Balance Sheet (RM Mil, FYE 31 Dec)					
Gross loans and advances	42,944	42,983	42,635	-0.8	-0.7
Net loans and advances	41,374	42,136	41,814	-0.8	1.1
Customer deposits	39,477	39,779	39,366	-1.0	-0.3
Gross impaired loans	3,037	2,291	2,343	2.3	-22.9
Average shareholders' funds	9,891	9,829	9,766	-0.6	-1.3
Ratios (%)					
Net LD	104.8%	105.9%	106.2%		
Adjusted LD	82.8%	84.4%	86.4%		
Cost to income	58.7%	53.3%	61.7%		
Credit cost	0.42%	-0.25%	0.26%		
GIL/Gross NPL	7.1%	5.3%	5.5%		
NIL/Net NPL	4.5%	4.3%	4.3%		
Loan loss coverage	55.2%	48.2%	46.0%		
Underlying ROE	3.2%	6.2%	3.5%		
Group CET1	18.9%	19.2%	19.4%		
Group Tier 1	18.9%	19.2%	19.4%		
Group total capital	22.7%	21.7%	21.9%		

Source: AmlInvestment Bank

EXHIBIT 2: VALUATIONS

COE	9.4%
Beta	0.9
Market risk premium	6.3%
Risk free rate	3.7%
Long term growth rate	2%
P/BV	0.52x
CY26 BVPS	RM1.24
TP	RM0.65
ESG Premium	0
Adjusted TP	RM0.65

EXHIBIT 3: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	Exposure to sustainable financing out of total loans	% of loan book	30%	*	*	*		RM4.75bil representing 47.8% of 2026 target of RM10bil
2	% of financing to high risk ESG sectors out of total loans	% of loan book	30%	*	*	*		
3	Scope 1 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*	*		0.01 in 2024 marginally higher from 0.03 in 2023
4	Scope 2 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*			7.1 in 2024 vs. 4.3 in 2023
5	Scope 3 GHG Emissions to total income	t/Co2e/RM'Mil	10%	*	*			Increased to 8.2 in 2024 vs. 3.2 in 2023
6	Electricity consumption to total income	Electricity consumption to total income	5%	*	*	*		
7	Water consumption to total income	m3/RM'Mil	5%	*	*	*		
	Weighted score for environmental assessment		100%	*	*	*		
	Social assessment							
1	Corporate Social Responsibility investments or spend	% of total income	35%	*	*	*	*	Contributed RM6.7mil for community development programs in 2024, higher than RM4.2mil in 2023
2	Investments in training	% of total income	20%	*	*	*		
3	Workforce diversity - women in senior management and above (excluding Board Directors)	% of total workforce	10%	*	*	*		36% in 2024 and 30% in 2023
4	Average training hours per employee	hours	25%	*	*	*		Decreased 7.5% YoY for senior management and 7.7% YoY for executives in 2024
5	Training on anti-corruption	No of participants educated through anti-corruption trainings	10%	*	*	*	*	100% employees received trainings in FY24
	Weighted score for social assessment		100%	*	*	*	*	
	Governance assessment							
1	Board age diversity	% under the 61 to 70 years old category	20%	*	*			28.5% in 2024 similar to 2023
2	Board women representation	% of total board directors	10%	*	*			28.5% below 30.0%
3	Directors with tenure of 3-6 years	% in the 3 to 6 years or more category	20%	*	*	*		42.9% in 2024
4	Independent board directors	% of total board directors	20%	*	*	*	*	57.1%
5	Remuneration to directors	% of total operating expenses	10%	*	*	*		
6	Cybersecurity, Privacy and Data Protection	Confirmed incidents	20%	*	*	*		zero in 2024 and 2023
	Weighted score for governance assessment		100%	*	*	*		
	Environmental score		40%	*	*	*		
	Social score		25%	*	*	*	*	
	Governance score		35%	*	*	*		
	Overall ESG Score		100%	*	*	*		

Source: AmlInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	14.5	57.4	111.3	217.5	212.6
Non-interest income	397.4	164.1	312.4	353.2	394.5
Islamic banking income	983.6	1,436.0	1,455.3	1,506.8	1,626.9
Total income	1,391.5	1,652.5	1,873.1	2,070.6	2,226.0
Overhead expenses	(711.7)	(907.3)	(1,030.2)	(1,118.1)	(1,113.0)
Pre-provision profit	679.8	745.1	842.9	952.5	1,113.0
Loan loss provisions	(120.1)	(158.8)	(196.8)	(204.3)	(194.8)
Impairment & others	-	-	-	-	-
Associates	-	-	-	-	-
Pretax profit	559.7	586.3	646.1	748.2	918.2
Tax	(67.9)	(179.6)	(155.1)	(179.6)	(220.4)
Minority interests	-	-	-	-	-
Core net profit	180.3	406.8	491.0	568.6	697.8
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Cash & deposits with FIs	5,607.3	1,263.0	4,721.8	3,901.3	3,080.9
Marketable securities	13,670.5	14,412.0	16,466.1	18,095.2	19,843.3
Total current assets	19,277.8	15,675.1	21,187.9	21,996.6	22,924.2
Net loans & advances	40,491.5	42,136.1	45,807.8	49,820.1	54,221.3
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,608.5	4,152.5	4,073.9	4,481.3	4,929.4
Fixed assets	324.8	316.6	314.3	309.1	305.4
Intangible assets	309.2	312.9	313.0	313.0	313.0
Other long-term assets	1,651.5	1,670.9	1,887.1	2,330.0	3,032.7
Total LT assets	47,385.5	48,588.9	52,396.0	57,253.5	62,801.9
Total assets	66,663.3	64,264.0	73,583.9	79,250.1	85,726.2
Customer deposits	38,800.1	39,778.9	43,756.7	48,132.4	52,945.7
Deposits of other FIs	8,823.6	9,056.3	9,944.1	10,556.7	11,397.7
Subordinated debts	-	-	-	-	-
Hybrid capital securities	2,005.2	1,129.4	1,130.0	1,130.0	1,130.0
Other liabilities	7,196.2	4,521.4	8,791.2	9,207.3	9,637.6
Total liabilities	56,825.0	54,485.9	63,622.1	69,026.5	75,111.0
Shareholders' funds	9,838.0	9,778.1	9,961.8	10,223.6	10,615.2
Minority interests	0.2	-	-	-	-
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Total income growth (%)	(8.5)	18.8	13.3	10.5	7.5
Pre-provision profit growth (%)	(21.8)	9.6	13.1	13.0	16.9
Core net profit growth (%)	(5.5)	(17.3)	20.7	15.8	22.7
Net interest margin (%)	1.7	2.4	2.4	2.3	2.3
Cost-to-income ratio (%)	51.1	54.9	55.0	54.0	50.0
Effective tax rate (%)	12.1	30.6	24.0	24.0	24.0
Dividend payout (%)	58.4	91.9	58.5	58.5	58.5
Key Assumptions (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Loan growth (%)	9.0	2.2	9.0	9.0	9.0
Deposit growth (%)	34.0	2.5	10.0	10.0	10.0
Loan-deposit ratio (%)	119.0	108.2	107.5	106.6	50.5
Gross NPL (%)	7.3	5.3	5.0	4.5	4.5
Net NPL (%)	4.8	4.3	3.9	3.4	3.4
Credit charge-off rate (%)	0.3	0.4	0.4	0.4	0.8
Loan loss reserve (%)	50.8	37.0	44.5	54.3	57.6

Source: Company, AmlInvestment Bank Bhd estimates

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