

CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

3 Aug 2020

Provisions trending higher; headwinds to Niaga's asset quality

HOLD

Price: RM3.59
Fair Value: RM3.30

Rationale for report: CIMB Niaga's 2Q20 results/update

YE to Dec	FY19	FY20F	FY21F	FY22F
FD Core EPS (Sen)	49.2	28.6	33.7	44.1
PE (x)	7.3	12.5	10.6	8.1

Source: AmInvestment Bank Bhd

- We maintain our HOLD call on CIMB Group with an unchanged fair value of RM3.30/share. Our fair value is supported by an FY21 ROE of 5.5% leading to a P/BV of 0.5x. We make no changes to our estimates for now.
- Niaga reported a weaker net profit of Rp689bil (-34.7% QoQ) in 2Q20 driven largely by higher provisions of 65.0% QoQ. 2Q20 saw a top-up in provisioning for corporate borrower/s related to the coal sector. Also, changes to macro variables (macro overlay) for its expected credit loss (ECL) model and the deterioration in staging for certain loans have contributed to the rise in credit cost.
- 1H20 Niaga's earnings declined by 11.7% YoY to Rp1.74tril, contributed by lower net interest income (NII) and higher provision expenses. Net interest income (NII) declined by 1.8% YoY while NOII rose 6.2% YoY, supported largely by higher income from FX and derivatives coupled with gains from marketable securities. Fees & commission, recovery income, income from credit cards and bancassurance fell YoY in 1H20. Core fee income is likely to remain weak, and unlikely to return to the pre-Covid-19 levels in the near term.
- 2Q20 NIM improved 6bps QoQ to 5.08%, attributed to lower cost of funds (COF) from the expansion of low cost deposits (CASA) and shedding of expensive time deposits. Lower funding cost has mitigated the pressure on interest margin from consecutive rate cuts in Indonesia. We understand that Niaga's COF has decreased by circa 30bps YoY to 3.94% in 1H20. 1H20 NIM slipped 36bps YoY to 5.05%.

In July 2020, Bank Indonesia (BI) has cut the benchmark interest rate (7-day repo rate) further by 25bps to 4.0%. This resulted in a YTD cut in rates by 100bps cumulatively. There remains pressure on NIM in the near term, and Niaga plans to push for further growth in CASA to lower its funding cost. It will continue to boost enhancements to digital platforms to grow its CASA. For FY20, management continues to guide for a NIM of around 5.0%.

- Niaga's loan growth contracted by 4.2% QoQ or -2.3% YoY in 2Q20 due to its focus on asset quality. QoQ, all segments (consumer, SME, commercial and corporate banking) registered slower growth in loans. Meanwhile, syariah banking financing was flat QoQ. However, we gathered that disbursements for mortgages and auto loans have improved recently. The Indonesian subsidiary remains cautious on commercial loans. Niaga's loan growth is likely to be flattish in FY20 with the focus on safe guarding asset quality, lowering funding cost and managing operating expenses.

Quick Take

- Customer deposits rose by 3.0% YoY in 1H20, driven by a stronger growth of CASA while time and structured deposits contracted with the intentional strategy of letting go of expensive deposits across all business segments. The change in deposit mix has led to a slight increase in CASA ratio to 61.0% in 2Q20 vs. 60.1% in 1Q20.
- Niaga's opex declined by 2.8% YoY in 1H20. Against an operating income growth of 0.1% YoY, JAWs were positive of 2.9% YoY for 1H20. 1H20 CI ratio improved to 48.0% (1H19: 49.4%).
- The higher provisions QoQ in 2Q20 have resulted in a rise in credit cost to 3.01% from 1.51% in 1Q20. 1H20 saw an increase in credit cost to 2.26% from 1.70% in 1H19. For FY20, Niaga is now guiding for a credit cost of 2.50%–2.80%. This was higher than the earlier guidance of 1.80% to 2.30% due to the need to revise the macro variables coupled with the potentially higher probability of default (PD) and loss given default (LGD) for the expected credit loss (ECL) model.
- Niaga's gross impaired loan ratio rose to 5.18% in 1H20 vs. 3.17% in 1H19. On a QoQ basis, NPL ratio for corporate loans surged to 4.6% compared to 2.6% in 1Q20. We understand that this was due to the NPL of borrower/s related to the coal sector. Meanwhile, the NPL ratio for SME loans improved slightly QoQ while that of commercial and consumer loans rose by 0.1% and 0.3% respectively to 4.9% and 2.5%. Overall gross NPL for Niaga climbed to 3.9% in 2Q20 (1Q20: 3.0%) while the percentage of loans classified as special mention decreased to 5.18%. This was contributed by the categorization of the loans related to the coal sector from "special mention" to NPL. As of 1H20, Rp22.8tril loans have been restructured (corporate: 5.59%, commercial: 17.94%, SME: 18.12%, consumer non-auto: 14.15% and consumer auto: 19.17%). The overall percentage of restructured loans could gradually increase to 18–20% by the end of the year with headwinds to its asset quality.
- 2Q20 saw an increase in government bonds and marketable securities by 35.0% QoQ and 48.8% YoY to RP48.8tril. We expect this to further benefit its NOII in terms of marked-to-market gains from the rate cuts in Indonesia.

EXHIBIT 1: VALUATION MATRIX FOR CIMB GROUP

YE 31 Dec	FY18	FY19	FY20F	FY21F	FY22F
Total Income	17,382.0	17,795.9	16,823.4	17,419.9	18,504.7
Core Net Profit	4,492.1	4,772.5	2,777.3	3,274.9	4,285.0
FD Core EPS (sen)	48.0	49.2	28.6	33.7	44.1
FD Core EPS growth (%)	(1.9)	2.4	(41.8)	17.9	30.8
Consensus Net Profit (RM mil)	-	-	2,795.0	3,747.0	4,661.0
DPS (sen)	25.0	26.0	15.3	18.1	23.6
BV/share (RM)	5.5	5.8	6.0	6.2	6.5
PE (x)	7.5	7.3	12.5	10.6	8.1
Div yield (%)	7.1	7.4	4.3	5.1	6.6
P/BV (x)	0.7	0.6	0.6	0.6	0.6
ROE (%)	9.0	8.8	4.8	5.5	6.9

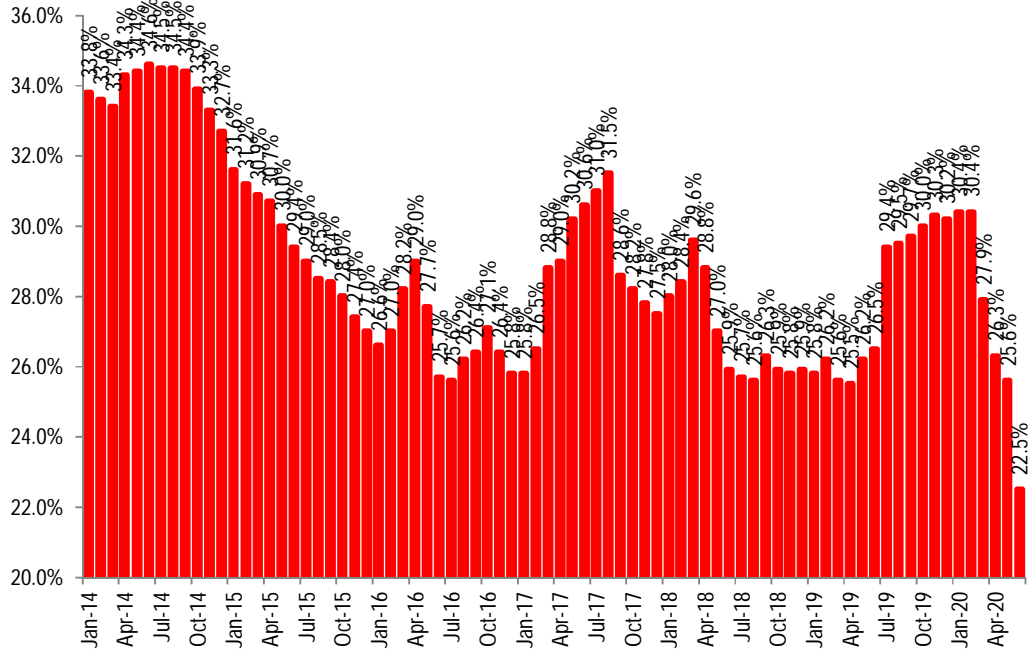
Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 2: QUARTERLY RESULTS FOR CIMB NIAGA

Income Statement (Rp bil, FYE 31 Dec)	2Q19	1Q20	2Q20	% QoQ	% Yoy	6M19	6M20	% Yoy
Net interest income	3,278	3,068	3,135	2.2%	-4.4%	6,316	6,203	-1.8%
Non interest income	950	1,151	951	-17.4%	0.1%	1,981	2,103	6.2%
Recovery	107	111	50	-55.0%	-53.3%	257	160	-37.7%
Fees and Commissions	67	313	255	-18.5%	280.6%	723	568	-21.4%
Card related	31	112	61	-45.5%	96.8%	226	174	-23.0%
Forex and fixed income derivatives	268	305	315	3.3%	17.5%	298	621	108.4%
Bancassurance	477	162	37	-77.2%	-92.2%	249	199	-20.1%
Gains (loss) from marketable securities	0	148	233	57.4%	na	228	381	67.1%
Total operating income	4,228	4,219	4,086	-3.2%	-3.4%	8,297	8,306	0.1%
Operating expenses	-2,026	-2,016	-1,968	-2.4%	-2.9%	-4,099	-3,984	-2.8%
Pre-provisioning operating profit	2,202	2,203	2,118	-3.9%	-3.8%	4,198	4,322	3.0%
Provision expense	-809	-774	-1,277	65.0%	57.8%	-1,521	-2,051	34.8%
Profit before tax	1,393	1,429	841	-41.1%	-39.6%	2,677	2,271	-15.2%
Normalised Net profit	1,032	1,055	689	-34.7%	-33.2%	1,976	1,744	-11.7%
Reported Net profit	1,032	1,055	689	-34.7%	-33.2%	1,976	1,744	-11.7%
EPS (Rp)	41	42	28	-34.7%	-33.2%	79	70	-11.7%
Balance Sheet (Rp tril, FYE 31 Dec)	2Q19	1Q20	2Q20	% QoQ	% Yoy	6M19	6M20	% Yoy
Loans and advances	191	194	186	-4.2%	-2.3%	191	186	-2.3%
Customer deposits	198	203	204	0.6%	3.0%	198	204	3.0%
Ratios (%)								
ROE	10.1%	10.6%	6.9%			9.8%	8.7%	
ROA	1.5%	1.6%	1.0%			1.5%	1.3%	
NIM	5.53%	5.02%	5.08%			5.41%	5.05%	
CASA	53.9%	60.1%	61.0%			53.9%	61.0%	
Fee income	22.5%	27.3%	23.3%			23.9%	25.3%	
Cost to income	47.9%	47.8%	48.2%			49.4%	48.0%	
Credit cost	1.81%	1.51%	3.01%			1.70%	2.26%	
Loan loss coverage	101.2%	191.1%	159.4%			101.2%	159.4%	
Gross NPL	2.9%	3.0%	3.9%			2.9%	3.9%	
Gross impairment ratio	3.2%	4.4%	5.2%			3.2%	5.2%	
Loan to deposit	94.7%	94.3%	89.8%			94.7%	89.8%	
CAR	20.6%	19.4%	20.0%			20.6%	20.0%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: CIMB GROUP FOREIGN SHAREHOLDINGS (%)



Source: AmInvestment Bank Bhd, Company

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