



AmInvestment Bank

# CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

30 Apr 2021

## Company report

## Stronger operating income; lower provisions QoQ for Niaga

# BUY

(Maintained)

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Rationale for report: CIMB Niaga 1Q21 results/updates

Price	RM4.19
Fair Value	RM5.50
52-week High/Low	RM4.75/RM2.90

### Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Total income (RM mil)	17,189.0	18,256.6	19,291.3	20,133.2
Core net profit (RM mil)	1,276.7	4,343.5	5,364.2	6,296.5
FD Core EPS (sen)	12.9	43.8	54.1	63.5
FD Core EPS growth (%)	(73.8)	240.2	23.5	17.4
Consensus Net Profit (RM mil)	-	3,787.0	4,912.0	5,566.0
DPS (sen)	4.8	21.9	27.0	31.7
BV/share (RM)	5.66	5.87	6.15	6.46
PE (x)	32.6	9.6	7.8	6.6
Div yield (%)	1.1	5.1	6.2	7.3
P/BV (x)	0.7	0.7	0.7	0.6
ROE (%)	2.1	7.6	9.0	10.1

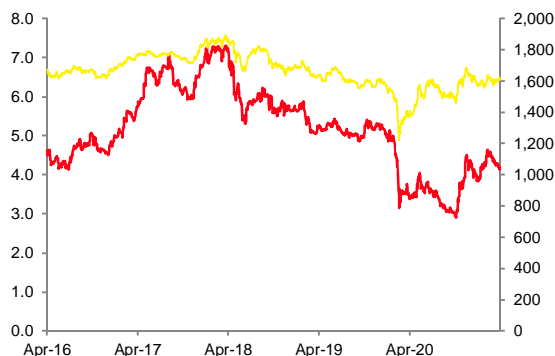
### Stock and Financial Data

Shares Outstanding (million)	9,923.0
Market Cap (RM mil)	41,577.2
Book Value (RM/share)	5.66
P/BV (x)	0.7
ROE (%)	2.1

Major Shareholders	Khazanah Nasional Bhd (23.8%) Employees Provident Fund (13.1%)
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Free Float	48.1
Avg Daily Value (RM mil)	45.9

Price performance	3mth	6mth	12mth
Absolute (%)	9.1	39.7	24.3
Relative (%)	6.3	29.8	6.7



— CIMB MK — FBMKLCI Index

### Investment Highlights

- We maintain our BUY recommendation on CIMB Group Holdings (CIMB) with an unchanged fair value of RM5.50/share based on FY22 ROE of 9.0%, leading to a P/BV of 0.9x. We make no changes to our earnings estimate for now.
- Niaga reported a stronger net profit of Rp996bil (+573.0% QoQ) in 1Q21 attributed to higher operating income from stronger net interest income (NII) and non-interest income (NOII). Also, provisions were lower QoQ.
- On YoY basis, Niaga's net profit in 1Q21 slipped 5.6% YoY due to higher provisions.
- NIM was marginally higher in 1Q21 at 5.1% (1Q20: 5.0%) due to a decline in funding cost by 129bps YoY to 2.3% which offset a lower loan yield of 8.8% (-91bps YoY). The lower cost of funds (COF) was supported by the shedding of expensive deposits in favour of CASA growth. Moving forward, room for further reduction in COF appears to be limited as the bulk of deposits had already been repriced from earlier rate cuts. Meanwhile, loan yields may taper ahead as Niaga focuses on selected segments for loan growth as well as due to its campaign for mortgage loans which are lower in credit risk.
- Niaga's loans shrank by 0.8% QoQ and 10.7% YoY in 1Q21. On a YoY basis, consumer loans registered a tepid growth of 1.6% contributed by an expansion in mortgage and auto loans. Meanwhile, SME, commercial and corporate banking loans all registered slower growth. Niaga remains cautious on commercial loans.
- Niaga's total assets were flat (-0.7% YoY) with a rise in holdings of government bonds and marketable securities (+72.4% YoY) offset by contraction in loans.
- Niaga registered a decline in customer deposit by 1.2% YoY for 1Q21. Its growth in CASA of 4.1% YoY was offset by a contraction in time deposits. The change in deposit mix led to an increase in CASA ratio to 63.3% in 1Q21 vs. 60.1% in 1Q20.
- Growth of digital transactions continued to gain traction. Niaga will leverage the digital ecosystems through its partnerships with non-FIs to generate revenue.

- Niaga plans to transform its OCTO Mobile into a super app. The app now features insurance and travel concierge services to increase stickiness of customers. A higher percentage of transactions has been carried out through OCTO Mobile. These included time deposit opening, FX transactions, trading in bonds and instalment payments.
- 1Q21 saw the Indonesian subsidiary's NOII growing by 12.9% YoY supported by higher FX and derivatives coupled with gains from marketable securities. QoQ, fees and commission income increased significantly. The good momentum in NOII has continued to be seen QTD for 2Q21.
- On shariah banking, financing growth has slowed down. Nevertheless, the stable asset quality and lower funding cost have led to an improved PBT YoY for shariah banking.
- Niaga's opex has been tightly managed with a decline of 0.2% YoY in 1Q21. Against an operating income growth of 8.3% YoY, JAWs were positive of 8.5% YoY for 1Q21. 1Q21 CI ratio improved to 44.0% (1Q20: 47.8%).
- Provisions declined by 28.2% QoQ in 1Q21, consequently leading to a lower credit cost of 3.00% vs. 4Q20's 3.82%.
- Niaga's gross impaired loan ratio rose to 6.30% in 1Q21 vs. 6.00% in 4Q20. Overall gross NPL for Niaga climbed to 3.80% in 1Q21 vs. 3.60% in 4Q20 as certain loans did not qualify for further rounds of repayment reliefs, having been restructured earlier. Meanwhile, the percentage of loans classified as special mention decreased to 6.13% vs. 6.33% in the preceding quarter.
- As at end-1Q21, the amount of loans impacted by Covid-19 which was restructured further decreased to Rp22.5tril (corporate: 25.0%, commercial: 14.0%, SME: 17.0%, consumer: 44.0%). This compared to Rp25.5tril (corporate: 24.0%, commercial: 20.0%, SME: 16.0%, consumer: 40.0%) in 4Q20. It represented 13.0% vs. 4Q20's 14.6% of Niaga's total loans.
- Coverage for loans at risk (LAR) continued to rise to 30.9% from 30.0% in the preceding quarter with provisions taken in the form of management overlays.
- The strong Niaga's earnings in 1Q21 led to an ROE of 10.5%. The number of Covid-19 cases in Indonesia has been on a declining trend. This, coupled with the optimism on the country's vaccination programme, are likely to improve consumer and business sentiment leading to an economic recovery in Indonesia. Recall, management has guided for an improvement in Niaga's FY21 loan growth, expanding by 3–5%, CI ratio of <48%, lower credit cost of 2.40–2.60% and NIM of 4.8–5.0%. Meanwhile, FY21 ROE guidance is now at 8.0–11.0% vs. 7.0–9.0% earlier.

## EXHIBIT 1: QUARTERLY RESULTS FOR CIMB NIAGA

Income Statement (Rp bil, FYE 31 Dec)	1Q20	4Q20	1Q21	% QoQ	% Yoy
<b>Net interest income</b>	<b>3,068</b>	<b>3,213</b>	<b>3,269</b>	1.7%	6.6%
<b>Non interest income</b>	<b>1,151</b>	<b>865</b>	<b>1,300</b>	50.3%	12.9%
Recovery	111	148	84	-43.2%	-24.3%
Fees and Commissions	587	393	552	40.5%	-6.0%
Forex and fixed income derivatives	305	141	475	236.9%	55.7%
Gains (loss) from marketable securities	148	183	189	3.3%	27.7%
<b>Total operating income</b>	<b>4,219</b>	<b>4,078</b>	<b>4,569</b>	12.0%	8.3%
Operating expenses	-2,016	-2,005	-2,012	0.3%	-0.2%
<b>Pre-provisioning operating profit</b>	<b>2,203</b>	<b>2,073</b>	<b>2,557</b>	23.3%	16.1%
Provision expense	-774	-1,750	-1,256	-28.2%	62.3%
<b>Profit before tax</b>	<b>1,429</b>	<b>323</b>	<b>1,301</b>	302.8%	-9.0%
<b>Normalised Net profit</b>	<b>1,055</b>	<b>148</b>	<b>996</b>	573.0%	-5.6%
<b>Reported Net profit</b>	<b>1,055</b>	<b>148</b>	<b>996</b>	573.0%	-5.6%
<b>EPS (Rp)</b>	<b>42.3</b>	<b>5.9</b>	<b>40.0</b>	577.1%	-5.6%
<b>Balance Sheet (Rp tril, FYE 31 Dec)</b>	<b>1Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>% QoQ</b>	<b>% Yoy</b>
Loans and advances	194	175	173	-0.8%	-10.7%
Customer deposits	203	208	200	-3.6%	-1.2%
<b>Ratios (%)</b>					
ROE	10.6%	1.3%	10.5%		
ROA	1.6%	0.2%	1.5%		
NIM	5.02%	4.72%	5.10%		
CASA	60.1%	59.6%	63.3%		
Fee income	27.3%	21.2%	28.5%		
Cost to income	47.8%	49.2%	44.0%		
Credit cost	1.51%	3.82%	3.00%		
Loan loss coverage	191.1%	194.3%	194.9%		
Gross NPL	3.0%	3.6%	3.8%		
Gross impairment ratio	4.4%	6.0%	6.3%		
Loan to deposit	94.3%	82.9%	85.3%		
CAR	19.4%	21.9%	22.1%		

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 2: PB BAND CHART



## EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA OF CIMB GROUP

Income Statement (RMmil, YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Net interest income	10,083.9	10,440.0	10,977.2	11,812.9	12,458.2
Non-interest income	4,671.3	4,032.5	4,177.3	4,345.3	4,510.6
Islamic banking income	3,040.7	2,937.5	3,102.1	3,133.2	3,164.4
<b>Total income</b>	<b>17,795.9</b>	<b>17,189.0</b>	<b>18,256.6</b>	<b>19,291.3</b>	<b>20,133.2</b>
Overhead expenses	(9,872.9)	(8,976.8)	(9,402.1)	(9,452.8)	(9,663.9)
Pre-provision profit	7,923.0	8,212.2	8,854.4	9,838.6	10,469.3
Loan loss provisions	(1,638.8)	(5,341.2)	(2,904.6)	(2,655.1)	(2,206.7)
Impairment & others	(340.0)	(1,456.2)	(293.1)	(189.5)	(78.1)
Associates	30.7	116.5	169.1	200.5	260.9
<b>Pretax profit</b>	<b>5,974.8</b>	<b>1,531.3</b>	<b>5,825.9</b>	<b>7,194.5</b>	<b>8,445.4</b>
Tax	(1,519.7)	(383.8)	(1,398.2)	(1,726.4)	(2,026.9)
Minority interests	104.5	47.9	(84.1)	(103.9)	(122.0)
<b>Net profit</b>	<b>4,559.7</b>	<b>1,195.4</b>	<b>4,343.5</b>	<b>5,364.2</b>	<b>6,296.5</b>
Core net profit	4,772.5	1,276.7	4,343.5	5,364.2	6,296.5
Balance Sheet (RMmil, YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Cash & deposits with FIs	37,765.1	39,563.4	59,078.2	57,474.1	30,183.8
Marketable securities	137,148.5	173,279.8	166,200.7	182,395.1	197,990.7
<b>Total current assets</b>	<b>174,913.5</b>	<b>212,843.2</b>	<b>225,278.9</b>	<b>239,869.2</b>	<b>228,174.5</b>
Net loans & advances	360,340.1	353,916.0	363,078.4	379,446.5	401,210.4
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	11,500.0	4,411.6	3,535.3	2,853.2	12,642.6
Fixed assets	2,442.3	2,407.4	2,545.9	2,633.4	2,721.3
Intangible assets	10,318.6	10,414.3	10,513.4	10,513.4	10,513.4
Other long-term assets	13,731.2	18,362.5	21,007.2	26,971.0	40,548.8
<b>Total LT assets</b>	<b>398,332.1</b>	<b>389,511.7</b>	<b>400,680.1</b>	<b>422,417.5</b>	<b>467,636.4</b>
<b>Total assets</b>	<b>573,245.7</b>	<b>602,355.0</b>	<b>625,958.9</b>	<b>662,286.7</b>	<b>695,810.9</b>
Customer deposits	395,798.4	405,729.5	420,837.2	441,762.7	467,818.3
Deposits of other FIs	23,666.7	31,791.2	37,198.1	45,477.1	56,415.6
Subordinated debts	13,520.9	12,808.5	12,900.8	12,714.4	12,459.0
Hybrid capital securities	18,425.2	20,661.2	23,608.3	29,491.9	37,683.1
Other liabilities	64,365.3	74,190.4	72,010.4	70,703.8	56,089.9
<b>Total liabilities</b>	<b>515,776.6</b>	<b>545,180.8</b>	<b>566,554.8</b>	<b>600,150.0</b>	<b>630,465.9</b>
Shareholders' funds	56,437.2	56,125.7	58,296.6	60,978.2	64,126.6
Minority interests	1,031.9	1,048.5	1,107.6	1,158.6	1,218.4
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Total income growth (%)	2.4	(3.4)	6.2	5.7	4.4
Pre-provision profit growth (%)	(9.2)	3.7	7.8	11.1	6.4
Core net profit growth (%)	6.2	(73.2)	240.2	23.5	17.4
Net interest margin (%)	2.5	2.4	2.4	2.4	2.4
Cost-to-income ratio (%)	53.0	52.2	51.5	49.0	48.0
Effective tax rate (%)	25.4	25.1	24.0	24.0	24.0
Dividend payout (%)	55.3	39.9	50.0	50.0	50.0
Key Assumptions (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Loan growth (%)	6.7	(1.0)	4.0	5.0	6.0
Deposit growth (%)	6.4	2.5	3.7	5.0	5.9
Loan-deposit ratio (%)	91.0	87.2	86.3	85.9	85.8
Gross NPL (%)	3.1	3.6	3.8	3.3	3.0
Net NPL (%)	0.6	0.3	1.3	0.9	0.9
Credit charge-off rate (%)	0.5	1.5	0.8	0.7	0.5
Loan loss reserve (%)	80.7	91.6	120.4	152.2	175.3

Source: Company, AmInvestment Bank Bhd estimates

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