

CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

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Company report

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Rationale for report: CIMB Niaga 3Q22 results/updates

BUY

(Maintained)

Price	RM5.55
Fair Value	RM6.70
52-week High/Low	RM5.75/RM4.72

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	19,512.9	20,519.7	21,601.8	22,659.5
Core net profit (RM mil)	4,767.3	6,080.6	6,595.6	6,802.6
FD Core EPS (sen)	47.6	60.7	65.8	67.9
FD Core EPS growth (%)	269.7	27.5	8.5	3.1
Consensus Net Profit (RM mil)	-	5,398.0	6,454.0	6,949.0
DPS (sen)	23.0	26.8	32.9	33.9
BV/share (RM)	5.89	6.28	6.61	6.95
PE (x)	11.7	9.1	8.4	8.2
Div yield (%)	4.1	4.8	5.9	6.1
P/BV (x)	0.9	0.9	0.8	0.8
ROE (%)	7.5	10.0	10.2	10.0

Stock and Financial Data

Shares Outstanding (million)	10,221.5
Market Cap (RMmil)	56,729.3
Book Value (RM/share)	5.89
P/BV (x)	0.9
ROE (%)	7.5

Major Shareholders	Khazanah Nasional (24.5%) Employees Provident Fund (14.2%) Amanah Saham Nasional (10.3%)
Free Float	44.4
Avg Daily Value (RMmil)	73.8

Price performance	3mth	6mth	12mth
Absolute (%)	6.7	6.9	5.7
Relative (%)	7.4	17.4	15.1



— CIMB MK — FBMKLCI Index

Investment Highlights

- We maintain BUY on CIMB Group Holdings (CIMB) with unchanged fair value (FV) of RM6.70/share pegging the stock to FY23F P/BV of 1.0x based on an ROE of 10.2%.
- No changes to our neutral 3-star ESG rating and earnings estimates.
- CIMB's 92.5%-owned Indonesia-based CIMB Niaga (Niaga) recorded a slightly lower core net profit of Rp1.3tril (-2.4% QoQ) in 3QFY22, contributed by a decline in non-interest income (NOII). NOII fell by 26.7% QoQ in 3QFY22, driven largely by losses from marketable securities, a decline in forex and derivatives income coupled with lower loan recoveries.
- For 9MFY22, Niaga reported improved underlying earnings of Rp3.8tril (+22% YoY) supported by stronger NOII, controlled opex growth and decline in provisions. This led to a stronger ROE of 12.9%.
- 3QFY22 saw an improvement in the net interest margin (NIM) of 14bps QoQ to 4.77%. This was due to the deployment of excess liquidity (cash and short-term funds) to expand loans while customer deposits contracted. 9MFY22 NIM of 4.62% was close to management guidance of 4.65%-4.75% for FY22F. Niaga's LD ratio continued to rise to 86.9% in 3QFY22 from 80.9% in 2QFY22.
- In 9MFY22, NOII climbed by 19.6% YoY underpinned by higher loan recoveries, fees, commission, forex and derivatives income, partially offset by lower gains from sale of securities. 9MFY22 saw a decline in government bonds and marketable securities by 6.4% YoY. Recall, the duration of Niaga's bond portfolio has been shortened to mitigate the impact from higher interest rates.
- 9MFY22 saw a positive JAW of 2.1% with growth in operating income outpacing overhead expenses.
- The number and value of transactions through digital channels continued to improve. Cost per transaction for branchless banking services decreased, underpinned by the increase in volume of digital transactions.

- Niaga's loan growth accelerated in 3QFY22 to register a higher growth of 10% YoY, which was in line with its FY22F target of 7-10% expansion.

Credit growth was driven by consumer, emerging business banking (EBB) and corporate loans. Auto loans grew strongly ahead of industry growth with strong traction seen in loan bookings. As a result, the market share for CIMB Niaga Finance rose to 5.1% from 4.2% in 3QFY21. Also, seen registering stronger growth were personal and other loans.

Meanwhile, commercial loan growth stayed subdued with Niaga recalibrating its commercial banking portfolio. Moving forward, for commercial loans, it will focus on medium enterprises that offer better risk-adjusted returns.

Niaga continues to focus on expanding the growth of consumer loans (mainly auto and mortgages), EBB and corporate loans.

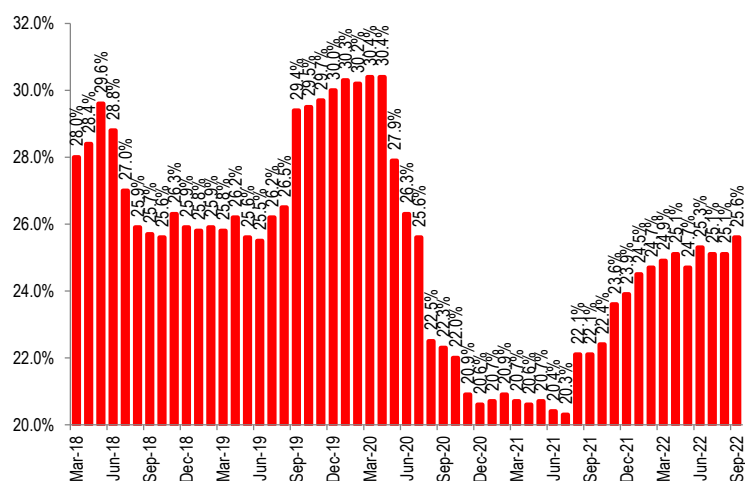
- Niaga's customer deposits declined by 2.7% YoY in 3QFY22. Time and structured deposits contracted to manage funding cost while growth in CASA decelerated to 6.7% YoY. With a favorable deposit mix, CASA ratio climbed to 67.7%.
- On Sharia Banking, momentum for financing continued to be strong with a growth of 28% YoY while deposits shrank by 5.7% YoY.
- Niaga's operating expenses (OPEX) were subdued in 3QFY22. For 9MFY22, opex grew 3.6% YoY underpinned by higher personal and IT expenses. CI ratio of 44.4% in 9MFY22 was on track to meet its FY22F target of <45%.
- Credit cost declined to 1.3% in 3QFY22 vs. 1.7% in 2Q22. For 9MFY22, Niaga's credit cost of 1.8% was within management's guidance of 2%-2.2% for FY22F. Niaga remained prudent on provisions with a high loan loss coverage (LLC) of 209%.
- Niaga's gross impaired loan ratio decreased QoQ to 6.2% in 3QFY22. Meanwhile, its gross NPL ratio rose by 10bps QoQ to 3.6%.
- As at end-3QFY22, the amount of loans impacted by Covid-19 that were restructured and still active continued to be on a declining trend. It fell to Rp5.3tril vs. Rp6tril in 2QFY22, representing 2.7% of Niaga's total loans.
- Loans at risk (LAR) including those impacted by Covid-19 and still active declined slightly to 13.4%. Niaga's coverage for LAR stood at 55% in 3QFY22.
- Valuation remains attractive with the stock trading at 0.8x FY23F P/BV with a compelling dividend yield of 6%. We continue to be positive on the improving fundamentals of the group with the expectation of stronger earnings underpinned by higher operating income, cost optimisation and lower provisions.

EXHIBIT 1: QUARTERLY RESULTS FOR CIMB NIAGA

Income Statement (Rp bil, FYE 31 Dec)	3Q21	2Q22	3Q22	% QoQ	% Yoy	9M21	9M22	% Yoy
Net interest income	3,350	3,329	3,436	3.2%	2.6%	9,888	9,974	0.9%
Non interest income	948	1,455	1,066	-26.7%	12.4%	3,437	4,111	19.6%
Recovery	115	370	239	-35.4%	>100%	403	776	92.6%
Fees and Commissions	516	567	555	-2.1%	7.6%	1,590	1,632	2.6%
Forex and fixed income derivatives	5	476	317	-33.4%	>100%	635	1,377	>100%
Gains (loss) from marketable securities	312	42	-45	>-100%	>-100%	809	326	-59.7%
Total operating income	4,298	4,784	4,502	-5.9%	4.7%	13,325	14,085	5.7%
Operating expenses	-2,001	-2,078	-2,069	-0.4%	3.4%	-6,031	-6,251	3.6%
Pre-provisioning operating profit	2,297	2,706	2,433	-10.1%	5.9%	7,294	7,834	7.4%
Provision expense	-948	-961	-715	-25.6%	-24.6%	-3,103	-2,814	-9.3%
Profit before tax	1,349	1,745	1,718	-1.5%	27.4%	4,191	5,020	19.8%
Normalised Net profit	1,059	1,340	1,308	-2.4%	23.5%	3,243	3,843	18.5%
Reported Net profit	1,018	1,340	1,308	-2.4%	28.5%	3,150	3,843	22.0%
EPS (Rp)	42.5	53.7	52.5	-2.4%	23.4%	130.1	154.1	18.5%
Balance Sheet (Rp tril, FYE 31 Dec)	3Q21	2Q22	3Q22	% QoQ	% Yoy	9M21	9M22	% Yoy
Loans and advances	177	190	195	2.6%	10.0%	177	195	10.0%
Customer deposits	228	232	222	-4.4%	-2.7%	228	222	-2.7%
Ratios (%)								
ROE	10.7%	13.7%	13.1%			11.2%	12.9%	
ROA	1.5%	2.3%	2.2%			1.6%	2.2%	
NIM	4.84%	4.63%	4.77%			5.00%	4.62%	
CASA	61.7%	65.7%	67.7%			61.7%	67.7%	
Fee income	22.1%	30.4%	23.7%			25.8%	29.2%	
Cost to income	46.6%	43.4%	46.0%			45.3%	44.4%	
Credit cost	2.10%	1.70%	1.30%			2.50%	1.80%	
Loan loss coverage	217.2%	215.0%	208.8%			217.2%	208.8%	
Gross NPL	3.4%	3.5%	3.6%			3.4%	3.6%	
Gross impairment ratio	6.9%	6.5%	6.2%			6.9%	6.2%	
Loan to deposit	76.7%	80.9%	86.9%			76.7%	86.9%	
CAR	22.6%	21.1%	21.0%			22.6%	21.0%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: CIMB GROUP'S FOREIGN SHAREHOLDINGS



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

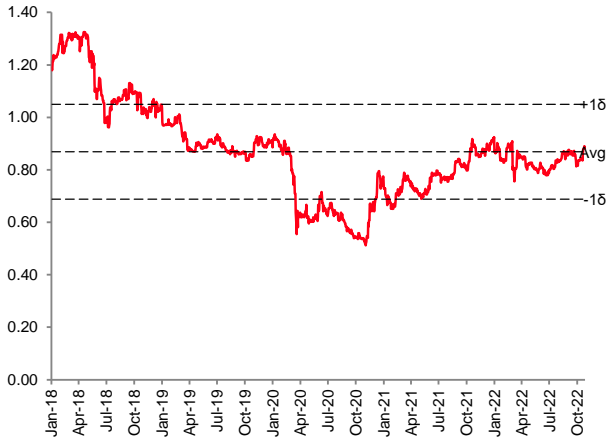


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: ESG RATING

Overall	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★		
Balance sheet strength	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 6: FINANCIAL DATA (CIMB GROUP)

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	10,440.0	10,936.5	11,640.7	12,098.1	12,683.3
Non-interest income	4,032.5	5,105.0	5,070.0	5,400.6	5,554.7
Islamic banking income	2,937.5	3,533.5	3,809.1	4,103.1	4,421.5
Total income	17,189.0	19,512.9	20,519.7	21,601.8	22,659.5
Overhead expenses	(8,976.8)	(9,418.9)	(9,849.5)	(10,368.9)	(10,650.0)
Pre-provision profit	8,212.2	10,094.0	10,670.2	11,232.9	12,009.5
Loan loss provisions	(5,341.2)	(2,613.6)	(2,286.7)	(2,036.5)	(1,742.3)
Impairment & others	(1,456.2)	(1,758.9)	(514.8)	(402.0)	(245.4)
Associates	116.5	68.0	59.7	52.1	28.0
Pretax profit	1,531.3	5,789.5	7,928.4	8,846.5	10,049.8
Tax	(383.8)	(1,396.9)	(2,457.5)	(2,123.2)	(3,115.4)
Minority interests	47.9	(97.3)	(103.9)	(127.7)	(131.8)
Net profit	1,195.4	4,295.3	5,367.0	6,595.6	6,802.6
Core net profit	1,276.7	4,767.3	6,080.6	6,595.6	6,802.6
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	39,563.4	45,669.5	70,499.2	58,226.8	55,081.9
Marketable securities	173,279.8	179,217.0	172,703.3	182,899.3	193,289.8
Total current assets	212,843.2	224,886.5	243,202.5	241,126.0	248,371.6
Net loans & advances	353,916.0	364,684.8	381,285.1	407,297.3	435,567.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,411.6	4,676.2	3,774.0	2,754.3	2,607.9
Fixed assets	2,407.4	2,069.0	2,010.4	1,911.2	1,781.1
Intangible assets	10,414.3	8,981.2	8,981.2	8,981.2	8,981.2
Other long-term assets	18,362.5	16,609.5	15,496.9	14,844.2	8,722.0
Total LT assets	389,511.7	397,020.6	411,547.5	435,788.1	457,659.2
Total assets	602,355.0	621,907.1	654,750.0	676,914.2	706,030.8
Customer deposits	405,729.5	432,845.3	458,997.3	489,059.1	521,852.3
Deposits of other FIs	31,791.2	30,701.9	35,231.5	40,174.7	43,400.5
Subordinated debts	12,808.5	10,128.6	9,216.3	8,121.4	6,987.7
Hybrid capital securities	20,661.2	13,928.7	14,234.4	13,983.6	12,575.1
Other liabilities	74,190.4	74,193.9	72,912.4	58,035.8	50,190.2
Total liabilities	545,180.8	561,798.3	590,591.9	609,374.5	635,005.8
Shareholders' funds	56,125.7	59,063.3	62,961.9	66,280.3	69,700.7
Minority interests	1,048.5	1,045.5	1,196.3	1,259.3	1,324.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	(3.4)	13.5	5.2	5.3	4.9
Pre-provision profit growth (%)	3.7	22.9	5.7	5.3	6.9
Core net profit growth (%)	(73.2)	273.4	27.5	8.5	3.1
Net interest margin (%)	2.4	2.4	2.5	2.5	2.5
Cost-to-income ratio (%)	52.2	48.3	48.0	48.0	47.0
Effective tax rate (%)	25.1	24.1	31.0	24.0	31.0
Dividend payout (%)	39.9	53.6	50.0	50.0	50.0
Key Assumptions (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	(1.0)	3.3	6.0	7.0	7.0
Deposit growth (%)	2.5	6.7	6.0	6.5	6.7
Loan-deposit ratio (%)	87.2	84.3	83.1	83.3	83.5
Gross NPL (%)	3.6	3.5	3.7	3.5	3.0
Net NPL (%)	0.3	-	0.9	0.9	0.9
Credit charge-off rate (%)	1.5	0.7	0.6	0.5	0.4
Loan loss reserve (%)	91.6	100.2	130.9	142.9	168.4

Source: Company, AmlInvestment Bank Bhd estimates

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