

## COMPANY UPDATE

### CIMB Group (CIMB MK)

Optimistic On Recovery Prospects

Management sounded fairly optimistic on the group's recovery prospects. In fact, we gather pre-emptive provisions could be peaking in 4Q21, while the level of loans under repayment assistance is expected to decline by a swifter-than-expected pace by 2Q22. We remain positive on the group's recovery prospects with CIMB expected to deliver the strongest earnings growth among peers. Maintain BUY and target price of RM5.95 (0.90x 2022/23F P/B, 8.5% FY22/23 ROE).

#### WHAT'S NEW

- **URUS take-up rate and flood impact negligible.** The take-up rate for the URUS programme remains very low, comprising of less than 1% of total Malaysian consumer loans (0.2% of group loans). The impact from the recent nationwide flooding in the form of flood relief assistance cost has also been negligible, while the support programs given are expected to be short term in nature compared to a structural impact from an economic downturn.
- **Repayment assistance expected to decline sharply.** The group's outstanding repayment assistance comprises of 21% of total loans. As most of the loans under the PEMULIH moratorium programme is set to expire by 2Q22, management is expecting the overall group repayment assistance to decline sharply by 2Q22. As a baseline guidance, management is expecting the level of loans under repayment assistance to decline to 6% by 2Q22 (levels back in 2Q20 during the RMCO period). However, given the expectation of a stronger and more sustained economic recovery, management is fairly optimistic that the level of repayment assistance could even drop lower than 6% by 2Q22 vs the current 21%.
- **4Q21 provisions outlook to rise qoq on more overlays.** Net credit cost is expected to trend upwards qoq towards the 90-100bp level vs 3Q21's 65bp. The expected qoq rise in net credit cost entails further build up in management overlays and specific provisions on selective corporate and commercial accounts in Thailand and Malaysia. However, this is broadly in line with earlier guidance and expectations bringing FY21 net credit cost to 75bp (2020:150bp).
- **...but 2022-23 credit cost trajectory remains on the downtrend.** More importantly, management is retaining its view that sufficient management overlays have been provided for in 2020-21 (estimated: RM3.6b). Consequently, management remains confident of a continued improvement in credit cost trajectory in 2022 and 2023. We have pencilled in an improvement in net credit cost of 65bp and 60bp in 2022 and 2023 respectively. Given that our net credit cost estimates for 2022-23 remain above the pre-COVID-19 average of 45bp, we foresee potential downside for credit cost in 2023.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net interest income	10,084	10,440	10,882	11,243	11,925
Non-interest income	4,419	4,033	4,181	4,258	4,388
Net profit (rep./act.)	4,560	1,194	4,565	4,854	5,941
Net profit (adj.)	4,560	1,443	4,565	4,854	5,941
EPS (sen)	48.4	14.8	46.9	49.9	61.1
PE (x)	11.4	37.2	11.7	11.0	9.0
P/B (x)	0.9	1.0	0.9	0.8	0.8
Dividend yield (%)	4.7	0.9	3.4	3.6	4.4
Net int margin (%)	2.5	2.4	2.5	2.5	2.5
Cost/income (%)	56.3	51.6	50.1	49.5	48.6
Loan loss cover (%)	80.7	91.7	75.5	79.1	89.9
Consensus net profit	-	-	4,738	4,970	5,996
UOBKH/Consensus (x)	-	-	0.96	0.98	0.99

Source: CIMB, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM5.51
Target Price	RM5.95
Upside	+8.0%

#### COMPANY DESCRIPTION

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	10,221.5
Market cap (RMm):	56,320.2
Market cap (US\$m):	13,456.7
3-mth avg daily t'over (US\$m):	14.1

#### Price Performance (%)

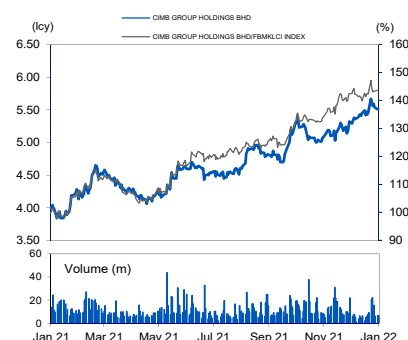
52-week high/low RM5.67/RM3.84

1mth	3mth	6mth	1yr	YTD
3.6	7.0	21.6	34.4	1.1

#### Major Shareholders

	%
Khazanah Nasional Berhad	23.5
Employees Provident Fund Board	15.4
FY21 NAV/Share (RM)	6.22
FY21 CAR Tier-1 (%)	14.27

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### ESSENTIALS

- NIM and interest rate outlook.** Underlying NIM is expected to remain stable qoq (excluding impact of modification loss in 3Q21). NIM tailwind from Malaysia is expected to be offset by lower NIM from Singapore and Indonesia due to a pick-up in deposit competition. Management's internal house view is for a 25bp policy rate hike in 2H22 in Malaysia, Indonesia and Thailand. This is expected to lift overall group NIM by roughly 2-3bp on an annualised basis. In terms of deposit competition, management is witnessing more material uptick in Singapore given the stronger loans growth outlook. However, in Malaysia, deposit competition remains benign and management only expects pockets of competition from smaller banks. The group is likely to exercise discipline in competing for deposits in Malaysia as liquidity remains abundant while loans growth recovery is not expected to be robust.
- Loans growth seeing improved momentum.** Loans growth momentum has continued into 4Q21 and this momentum is expected to be sustained into 2022, driving a higher loans growth recovery well into 2022. Loans growth momentum is coming from both Malaysian and Indonesian operations. We have pencilled in a relatively conservative loans growth assumption of 3% and 4% for 2021 and 2022 respectively vs the pre-COVID-19 average of 6%. Given the uneven economic recovery, management indicated that they will remain selective on areas of growth and as such, we continue to factor in below pre-COVID-19 loans growth. In terms of areas of growth, Malaysia will be driven by: a) mortgages, b) auto, and c) SME, and Indonesia will be driven by mortgages. In terms of Thailand, management remains cautious and loans growth is likely to trend below the industry average.
- Non-interest income outlook.** There has been some sequential improvement in trading income in 4Q21 off a low 3Q21 base effect to help stabilise non-interest income. Moving into 2022, management expects a stronger fee income growth recovery to help sustain its non-interest income growth.
- Opex to normalise upwards but remains manageable.** The group has extracted RM380m in operating cost takeout and is targeting to potentially extract another RM120m in 2022 from both Malaysian and Indonesian operations. However, this will be partly offset by exceptional cost in the form of accelerated depreciation of intangible assets (averaging RM50m/quarter) and further one-off staff restructuring expense from 4Q21 to 1H22. The benefits of these one-off cost rationalisations are only likely to take effect from 2023 onwards. All in, we have pencilled in opex yoy growth of 4/5% for 2021/22 respectively vs -1% in 2020. This is to factor in an expected upward normalisation in spending as the economy reopens. As such, near term opex is likely to normalise upwards toward the mid-single digit growth level.

### EARNINGS REVISION/RISK

- No changes.

### VALUATIONS AND RECOMMENDATIONS

- Maintain BUY and target price of RM5.95 (0.90x 2022/23F P/B, 8.5% ROE).** Valuations remains relatively attractive at -0.5SD to historical mean P/B despite the strong share price run up while earnings growth recovery is expected to be the strongest among its peers. To smoothen out the effects of the Cukai Makmur on our earnings forecast, we peg our valuation to a blended average of FY22/23 operating metrics.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

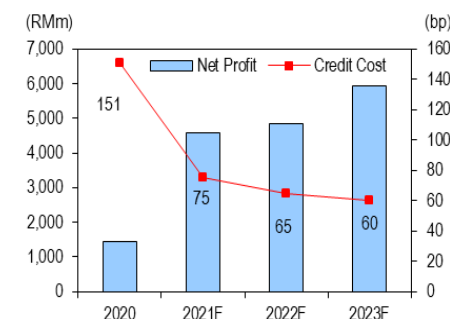
<b>Environmental</b> <ul style="list-style-type: none"> <li><b>Green loan commitment.</b> To provide RM30b in sustainable financing by 2040.</li> <li><b>Zero new coal financing.</b> Transition all stakeholders to zero carbon emission by 2050.</li> </ul>
<b>Social</b> <ul style="list-style-type: none"> <li><b>Board and upper management gender diversity.</b> 30% of the directors on the Board are female.</li> <li><b>Enhanced financial inclusion to B40.</b> Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities, especially the B40 consumers.</li> </ul>
<b>Governance</b> <ul style="list-style-type: none"> <li><b>Non-independent board of directors composition.</b> Composition of Independent Non-Executive Directors (INED) – 60 %</li> </ul>

### CIMB P/B BAND



Source: CIMB, UOB Kay Hian

### CIMB EARNINGS VS CREDIT COST OUTLOOK



Source: CIMB, UOB Kay Hian  
\*2022F includes Cukai Makmur impact

### KEY ASSUMPTIONS

(%)	2021F	2022F	2023F
Loan Growth	3.0	4.0	5.0
Credit Cost (bp)	75.0	65.0	60.0
ROE	7.8	7.8	9.1

Source: UOB Kay Hian

### CIMB'S MANAGEMENT 2021 GUIDANCE

	2021 Guidance
ROE (%)	7.5%-8.5%
Credit Cost (bp)	75-85
Loans Growth (%)	2-3
Cost to Income Ratio (%)	<50.0

Source: CIMB

## PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Interest income	17,963	18,400	19,180	20,144
Interest expense	(7,523)	(7,517)	(7,937)	(8,220)
Net interest income	10,440	10,882	11,243	11,925
Fees & commissions	1,768	1,927	1,985	2,084
Other income	2,265	2,254	2,273	2,304
Non-interest income	4,033	4,181	4,258	4,388
Income from Islamic banking	2,938	3,525	4,230	4,780
<b>Total income</b>	<b>17,410</b>	<b>18,588</b>	<b>19,731</b>	<b>21,093</b>
Staff costs	(5,144)	(5,276)	(5,695)	(6,104)
Other operating expense	(3,833)	(4,037)	(4,081)	(4,152)
Pre-provision profit	8,433	9,275	9,955	10,837
Loan loss provision	(5,342)	(2,826)	(2,547)	(2,469)
Other provisions	(1,456)	(350)	(350)	(400)
Associated companies	116	119	121	124
Other non-operating income	(221)	0	0	0
Pre-tax profit	1,530	6,218	7,179	8,092
Tax	(384)	(1,559)	(2,226)	(2,029)
Minorities	48	(93)	(99)	(121)
<b>Net profit</b>	<b>1,194</b>	<b>4,565</b>	<b>4,854</b>	<b>5,941</b>
Net profit (adj.)	1,443	4,565	4,854	5,941

## BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Cash with central bank	4,412	13,189	13,716	14,402
Govt treasury bills & securities	14,996	15,296	15,602	15,914
Interbank loans	3,563	3,887	4,240	4,626
Customer loans	353,916	362,065	374,591	391,717
Investment securities	131,880	147,924	165,807	185,742
Derivative receivables	16,008	17,929	20,081	22,491
Associates & JVs	2,497	2,621	2,752	2,890
Fixed assets (incl. prop.)	3,036	2,932	2,826	2,717
Other assets	72,048	78,367	76,116	73,428
<b>Total assets</b>	<b>602,355</b>	<b>644,210</b>	<b>675,732</b>	<b>713,928</b>
Interbank deposits	31,791	33,848	36,048	38,402
Customer deposits	405,730	417,901	434,617	454,175
Derivative payables	44,487	46,430	48,459	50,578
Debt equivalents	25,272	25,272	25,272	25,272
Other liabilities	37,900	59,172	66,692	77,114
<b>Total liabilities</b>	<b>545,181</b>	<b>582,624</b>	<b>611,089</b>	<b>645,542</b>
Shareholders' funds	56,126	60,444	63,402	67,025
Minority interest - accumulated	1,048	1,142	1,241	1,362
<b>Total equity &amp; liabilities</b>	<b>602,355</b>	<b>644,210</b>	<b>675,732</b>	<b>713,928</b>

## OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Capital Adequacy</b>				
Tier-1 CAR	13.6	14.2	15.1	16.0
Total CAR	18.6	19.6	20.5	21.5
Total assets/equity (x)	10.7	10.7	10.7	10.7
Tangible assets/tangible common equity (x)	12.8	12.5	12.4	12.3
<b>Asset Quality</b>				
NPL ratio	3.6	5.2	5.6	5.3
Loan loss coverage	91.7	75.5	79.1	89.9
Loan loss reserve/gross loans	3.3	3.9	4.4	4.8
Increase in NPLs	14.8	50.1	12.0	0.4
Credit cost (bp)	150.9	75.0	65.0	60.0
<b>Liquidity</b>				
Loan/deposit ratio	87.2	86.6	86.2	86.2
Liquid assets/short-term liabilities	5.2	7.1	7.1	7.1
Liquid assets/total assets	3.8	5.0	5.0	4.9

## KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Growth</b>				
Net interest income, yoy chg	3.5	4.2	3.3	6.1
Fees & commissions, yoy chg	(22.8)	9.0	3.0	5.0
Pre-provision profit, yoy chg	9.9	10.0	7.3	8.9
Net profit, yoy chg	(73.8)	282.2	6.3	22.4
Net profit (adj.), yoy chg	(68.4)	216.4	6.3	22.4
Customer loans, yoy chg	(1.8)	2.3	3.5	4.6
Customer deposits, yoy chg	2.5	3.0	4.0	4.5
<b>Profitability</b>				
Net interest margin	2.4	2.5	2.5	2.5
Cost/income ratio	51.6	50.1	49.5	48.6
Adjusted ROA	0.2	0.7	0.7	0.9
Reported ROE	2.1	7.8	7.8	9.1
Adjusted ROE	2.6	7.8	7.8	9.1
<b>Valuation</b>				
P/BV (x)	1.0	0.9	0.8	0.8
P/NTA (x)	1.2	1.1	1.0	0.9
Adjusted P/E (x)	37.2	11.7	11.0	9.0
Dividend Yield	0.9	3.4	3.6	4.4
Payout ratio	39.2	40.0	40.0	40.0

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