

CIMB Group Holdings (CIMB MK)

Niaga: FY21 results within expectations

Maintain HOLD on CIMB Group for now

Niaga's FY21 net profit was within expectations but we upgrade FY22-24E net earnings by 8-14% on the back of lower credit cost assumptions. This translates to a potential 2-4% uplift to CIMB Group's earnings. We maintain our group forecasts for now pending the release of CIMB Group's results on 28th Feb, as well as our HOLD call and TP of MYR5.40, pegging on a FY22 PBV of 0.9x (ROE: 8.5%).

Within expectations

Niaga's 4Q21 net profit of IDR992b (+570% YoY, -7% QoQ) took FY21 net profit to IDR4.23tn (+110% YoY). This was within our expectations. Operating profit growth of 14% in FY21 was driven predominantly by robust NOII growth of 15%, while net profit more than doubled on lower credit cost. We upgrade Niaga's FY22/23/24E net profit by 8%/14%/14% respectively on the back of lower credit cost assumptions. We expect Niaga to contribute to about 28% of CIMB Group's earnings in FY22.

Expects credit cost to remain elevated

Niaga's impaired loans ratio was a higher 6.7% end-2021 vs 6.0% end-2020, while loan loss coverage (LLC) was 109%. Positively though, its loans at risk (LAR) ratio was a lower 15.9% versus 23.6% end-2020, with a higher LLC of 45.6% from 29.5% end-2020. Management guides for lower but still elevated credit cost of 2.1-2.3% in FY22 (2.4% in FY21), as it remains cautious over the operating environment and continues to build provisions against LAR.

Guidance for FY22

Niaga guides for faster loan growth of 4-6% in FY22 (FY21: 3.9%; MIB FY22E: 5%), -20bps in NIM (FY21: 4.86%; MIB: -15bps), credit cost of 2.1-2.3% (FY21: 2.4%; MIB: 2.2%) and cost/income ratio <45.9% (FY21: 45.9%; MIB: 43.9%). It also targets a higher ROAE of 11-12% versus 10.7% in FY22.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	17,366	17,125	18,497	18,913	19,438
Pre-provision profit	7,493	8,148	9,336	9,556	9,880
Core net profit	4,762	1,430	4,767	5,073	5,824
Core EPS (MYR)	0.49	0.15	0.49	0.52	0.60
Core EPS growth (%)	2.2	(70.0)	233.4	6.4	14.8
Net DPS (MYR)	0.26	0.05	0.19	0.19	0.21
Core P/E (x)	10.5	29.2	11.3	10.7	9.3
P/BV (x)	0.9	0.8	1.0	1.0	0.9
Net dividend yield (%)	5.0	1.1	3.4	3.4	3.8
Book value (MYR)	5.67	5.64	5.67	5.78	5.93
ROAE (%)	8.9	2.5	8.4	8.5	9.3
ROAA (%)	0.9	0.2	0.8	0.8	0.9
Consensus net profit	-	-	4,503	4,891	6,084
MKE vs. Consensus (%)	-	-	(29.4)	3.7	(4.3)

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HOLD

Share Price	MYR 5.57
12m Price Target	MYR 5.40 (-3%)
Previous Price Target	MYR 5.40

Company Description

CIMB Group Holdings engages in the provision of consumer and investment banking services. It holds a majority stake in PT CIMB Niaga.

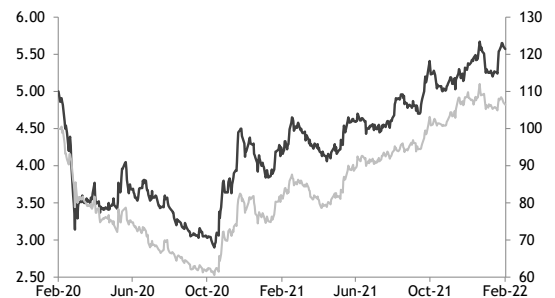
Statistics

52w high/low (MYR)	5.67/4.06
3m avg turnover (USDm)	13.6
Free float (%)	58.5
Issued shares (m)	10,221
Market capitalisation	MYR56.9B USD13.6B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	25.7%
Employees Provident Fund	15.3%
Permodalan Nasional Bhd.	10.5%

Price Performance



— CIMB Group - (LHS, MYR) — CIMB Group / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	5	9	31
Relative to index (%)	0	4	30

Source: FactSet

CIMB Niaga: Summary Results Table

FY Dec (IDR b)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	2021	2020	% YoY
Net interest income	3,201	3,211	(0)	3,350	(4)	13,089	12,470	5
Non-interest income	1,042	865	20	948	10	4,479	3,888	15
Operating income	4,243	4,076	4	4,298	(1)	17,568	16,358	7
Overhead expenses	(2,029)	(2,003)	1	(2,001)	1	(8,060)	(8,007)	1
Operating profit	2,214	2,073	7	2,297	(4)	9,508	8,351	14
Loan loss provisions	(1,067)	(1,751)	(39)	(948)	13	(4,170)	(5,404)	(23)
Core pretax profit	1,147	322	256	1,349	(15)	5,338	2,947	81
Core net profit	992	148	570	1,070	(7)	4,235	2,012	110
Reported earnings								
Pretax profit	1,093	322	239	1,297	(16)	5,191	2,947	76
Net profit	950	148	542	1018	(7)	4,101	2,012	104
			ppt-chg		ppt-chg			ppt-chg
NIM (%)	4.86	4.72	0.1	4.84	0.0	4.86	4.88	(0.0)
Cost/income ratio (%)	45.90	49.1	(3.2)	46.6	(0.7)	45.9	48.9	(3.0)
Loan/deposit ratio (%)	74.40	82.9	(8.5)	76.7	(2.3)	74.4	82.9	(8.5)
GIL ratio (%)	6.70	6.0	0.7	6.9	(0.2)	6.7	6.0	0.7
Loan loss coverage (%)	212.10	194.3	17.8	217.2	(5.1)	212.1	194.3	17.8

Source: Bank

Loans rebound

Having contracted 2.2% YoY end-Sep 2021, Niaga's loan portfolio ended the year on a positive note, rising 3.9% YoY. Consumer lending increased 9.2% YoY led by higher growth in mortgages (+9.1%) as well as auto loans (+28.8% YoY). Corporate lending rose 7% YoY while SME lending increased 5.4% YoY, offsetting a 10.4% YoY contraction in commercial loans. Management targets double-digit growth in consumer, SME and corporate banking loans but still subdued commercial lending, a segment that it remains cautious on. Overall, it targets loan growth of 4-6% in FY22 versus 3.9% in FY21.

Strong growth in deposits

Customer deposits rose at a robust pace of 16% YoY, led by CASA growth of 20% YoY, while Time Deposits rose at a slower pace of 11%. As a result, the bank's CASA ratio rose further to 61.3% end-Dec 2021 from 59.6% end-Dec 2020.

NIM softened in 4Q21

NIM declined to 4.47% in 4Q21 from 4.84% in 3Q21 and averaged 4.86% for 2021 versus 4.88% in 2020. The sharp decline was largely a function of a drop in loan yields to 7.9% in 4Q21 from 8.4% in 3Q21, while funding cost declined by just 9bps QoQ to 1.96% in 4Q21. The lower loan yield was attributed to the reversal of interest accrued on loans under moratorium (-25-30bps impact) as well as the focus on better quality loans. NIM was also lower as a result of strong CASA growth.

Management guides for a 20bp NIM contraction in FY22 due to strong liquidity as well as the remaining reversal of interest accrued, in 1Q22. Management does not see much more yield pressure which could ease if interest rates rise. A higher statutory reserve requirement could have a IDR50b-70b impact on net interest income. Management guides for a neutral impact to earnings from a 25bps hike in interest rates.

NOII expanded 15% YoY

Non-interest income rose 9.9% QoQ in 4Q21, having declined 20% QoQ in 3Q21. Full year NOII increased 15% YoY as fee income surged 24% YoY, alongside a 16% YoY rise in treasury gains and a 28% YoY rise in loan recovery.

Expenses under control

Expenses were well under control and were flat YoY in 2021 (+0.7%), as a 4.9% increase in personnel expenses was offset by lower other operating expenses. The bank's cost/income ratio (CIR) was 45.9% in 2021 versus 48.9% in 2020. Management aims for a CIR of 40% in three years' time.

Lower credit cost QoQ

The bank's gross impaired loans (GIL) ratio improved QoQ to 6.7% from 6.9% end-Sep 2021, but was higher against 6.0% end-2020. Credit cost was stable QoQ at 2.1% in 4Q21, but improved to 2.4% in FY21 from 2.8% in FY20. The overall loan loss coverage was 108.6% end-2021 versus 115% end-2020. The lower credit cost was partly a function of the unwinding of management overlays put through in the past, particularly in light of a better economic outlook. Management guides for just marginally lower credit cost in FY22 of 2.1-2.3%. This remains elevated as management remains cautious of the current operating environment. A normalized credit cost for the bank would be below 2%.

Loans at risk and restructured loans

Active COVID related restructured loans declined to IDR8.6tn end-2021 (4.7% of total loans) from IDR10.6tn end-Sep 2021 and IDR26.4tn (15.1% of total loans) end-Dec 2020.

Overall COVID restructured loans declined to 11.9% of total loans end-2021 from 15.1% end-2020. Consumers, corporates, commercial and SME customers accounted for 36%, 28%, 22% and 14% of the total.

The loans at risk (LAR) ratio was 20.3% end-Dec 2021 but what is encouraging is that the active LAR ratio was lower at 15.9%. The latter excludes borrowers that have regularized their repayments as well as borrowers that have turned special mention/non-performing (which have been categorized as such). The LAR coverage on active LAR was 46% end-Dec 2021.

CAR comfortable

Niaga's capital ratios were comfortable at 21.6% for its Tier 1 ratio and 22.7% for its overall CAR ratio.

CIMB Group's risk statement

As the second largest domestic financial institution in Malaysia in terms of asset size, a harder-than-expected economic slowdown in the country would have a knock-on effect on the group's operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region has a bearing on overall operations. Further cuts in regional interest rates could squeeze margins in the near term.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Core P/E (x)	10.5	29.2	11.3	10.7	9.3
Core FD P/E (x)	11.0	34.9	11.3	10.7	9.3
P/BV (x)	0.9	0.8	1.0	1.0	0.9
P/NTA (x)	1.1	0.9	1.2	1.1	1.1
Net dividend yield (%)	5.0	1.1	3.4	3.4	3.8
INCOME STATEMENT (MYR m)					
Interest income	20,243.8	17,741.7	20,804.7	21,398.3	22,002.5
Interest expense	(10,159.9)	(7,522.7)	(9,390.0)	(9,994.2)	(10,422.8)
Net interest income	10,083.9	10,219.0	11,414.7	11,404.1	11,579.7
Islamic banking income	3,040.7	2,937.5	3,172.5	3,426.3	3,700.4
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,218.3	1,748.8	1,800.0	1,900.0	1,900.0
Other income	2,023.1	2,219.6	2,109.7	2,182.0	2,258.2
Total non-interest income	4,241.3	3,968.4	3,909.7	4,082.0	4,158.2
Operating income	17,365.9	17,124.9	18,496.9	18,912.5	19,438.3
Staff costs	(5,494.7)	(5,144.1)	(5,401.3)	(5,563.3)	(5,730.2)
Other operating expenses	(4,378.2)	(3,832.7)	(3,759.7)	(3,793.5)	(3,827.9)
Operating expenses	(9,872.9)	(8,976.8)	(9,161.0)	(9,356.8)	(9,558.1)
Pre-provision profit	7,493.0	8,148.1	9,335.9	9,555.7	9,880.2
Loan impairment allowances	(1,638.8)	(5,342.2)	(3,150.4)	(2,098.4)	(1,969.6)
Other allowances	(340.0)	(1,456.2)	(1,525.4)	(100.0)	(100.0)
Associates & JV income	30.7	116.5	7.5	8.3	9.2
Pretax profit	5,544.9	1,466.2	4,667.6	7,365.7	7,819.9
Income tax	(1,519.7)	(383.8)	(1,397.6)	(2,189.7)	(1,876.8)
Minorities	104.5	47.9	(88.5)	(103.5)	(118.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,129.7	1,130.3	3,181.5	5,072.5	5,824.2
Core net profit	4,762.0	1,429.9	4,767.1	5,072.5	5,824.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	42,564.3	43,125.9	45,282.2	47,546.3	49,923.7
Sec. under resale agreements	9,014.5	6,832.9	7,516.2	8,267.8	9,094.6
Derivatives financial assets	11,589.9	16,008.4	16,808.8	17,649.2	18,531.7
Dealing securities	38,137.3	42,713.1	43,140.3	43,571.7	44,007.4
Available-for-sale securities	73,607.7	104,162.8	109,371.0	114,839.5	120,581.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	360,340.1	353,916.0	365,484.2	377,288.9	389,564.4
Central bank deposits	11,500.0	4,411.6	10,133.0	10,454.8	10,789.3
Investment in associates/JVs	2,427.8	2,496.5	2,494.0	2,491.3	2,488.5
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,136.7	3,076.6	3,230.4	3,391.9	3,561.5
Intangible assets	9,542.7	9,745.0	9,745.0	9,745.0	9,745.0
Other assets	11,384.9	15,866.0	16,148.1	16,435.8	16,729.3
Total assets	573,245.7	602,354.9	629,353.2	651,682.4	675,016.9
Deposits from customers	395,798.4	405,729.5	401,631.0	414,603.2	428,092.8
Deposits from banks & FIs	23,666.7	31,791.2	33,380.8	35,049.8	36,802.3
Derivatives financial instruments	11,337.9	16,340.8	17,157.8	18,015.7	18,916.5
Subordinated debt	13,520.9	12,808.5	12,808.5	12,808.5	12,808.5
Other securities in issue	18,232.7	12,464.0	12,464.0	12,464.0	12,464.0
Other borrowings	24,778.4	38,552.5	41,575.3	44,883.7	48,506.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	28,441.6	27,494.2	50,860.2	51,234.8	51,190.8
Total liabilities	515,776.6	545,180.8	569,877.6	589,059.8	608,780.8
Share capital	25,843.8	25,843.8	25,843.8	25,843.8	25,843.8
Reserves	30,393.4	30,081.8	32,294.8	35,338.3	38,832.9
Shareholders' funds	56,237.2	55,925.6	58,138.6	61,182.1	64,676.7
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,031.9	1,048.5	1,137.0	1,240.5	1,359.4
Total equity	57,469.1	57,174.1	59,475.6	62,622.6	66,236.0
Total liabilities & equity	573,245.7	602,354.9	629,353.2	651,682.4	675,016.9

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	4.7	1.3	11.7	(0.1)	1.5
Non-interest income	4.5	(6.4)	(1.5)	4.4	1.9
Operating expenses	14.1	(9.1)	2.1	2.1	2.2
Pre-provision profit	(2.0)	8.7	14.6	2.4	3.4
Core net profit	6.0	(70.0)	233.4	6.4	14.8
Gross loans	6.7	(1.0)	2.6	3.2	3.3
Customer deposits	6.4	2.5	(1.0)	3.2	3.3
Total assets	7.3	5.1	4.5	3.5	3.6
Profitability (%)					
Non-int. income/Total income	24.4	23.2	21.1	21.6	21.4
Average lending yields	4.59	3.85	4.28	4.27	4.27
Average cost of funds	2.56	1.81	2.22	2.30	2.30
Net interest margin	2.46	2.32	2.47	2.42	2.41
Cost/income	56.9	52.4	49.5	49.5	49.2
Liquidity (%)					
Loans/customer deposits	91.0	87.2	91.0	91.0	91.0
Asset quality (%)					
Net NPL	1.6	1.7	1.7	1.7	1.7
Gross NPL	3.1	3.6	3.2	3.2	3.2
(SP+GP)/average gross loans	0.5	1.5	0.9	0.6	0.5
Loan loss coverage	80.7	91.6	84.1	83.7	83.7
Capital adequacy (%)					
CET1	12.9	13.2	12.6	13.0	13.5
Tier 1 capital	14.0	14.5	13.9	14.2	14.6
Risk-weighted capital	16.8	17.5	16.6	16.9	17.2
Returns (%)					
ROAE	8.9	2.5	8.4	8.5	9.3
ROAA	0.9	0.2	0.8	0.8	0.9
Shareholders equity/assets	9.8	9.3	9.2	9.4	9.6

Source: Company; Maybank

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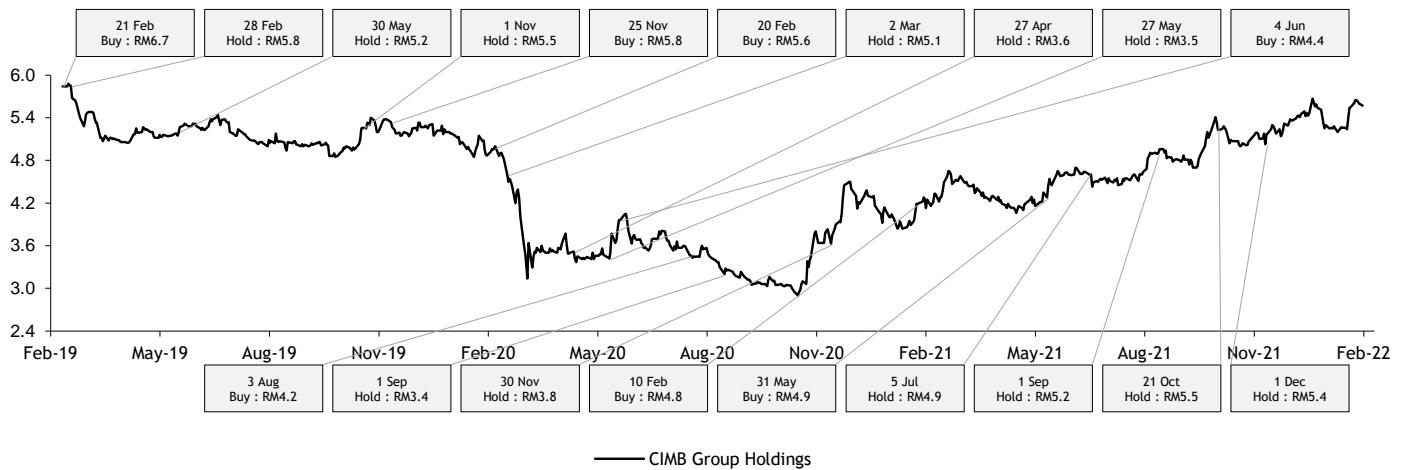
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