

CIMB Group Holdings (CIMB MK)

4Q21 results within expectations

Maintain HOLD

We lower FY22/23E net profit by 11%/5% on lower NIM and higher credit cost assumptions. Our FY22E ROE of 7.5% is at the lower end of management's target of 7.5-8%. We roll forward valuations to FY23 and lift our TP by 20sen to MYR5.60 (FY23 PBV of 0.9x, ROE: 9%). Maintain a HOLD.

Within expectations

CIMB's 4Q21 core net profit of MYR811m (-34% QoQ) took FY21 net profit to MYR4.6b (+225%). The results were within both our expectation and consensus. Loan growth was a subdued 3% but NIM expanded 18bps YoY. Stripping out one-offs, FY21 NOII was flat, while operating expenses rose 5% YoY. A second interim DPS of 12.55sen has been declared, taking the total to 23sen, or a payout ratio of 50%.

Credit cost expected to remain elevated

Credit cost was 84bps in 4Q21 versus 62bps in 3Q21. Credit cost averaged 73bps in FY21 versus 151bps in FY20. Management maintains elevated credit cost guidance of 70bps in FY22, mainly on corporate loans as well as elevated credit cost of 50-60bps into FY23-24.

Earnings lowered

Management targets faster loan growth of 5-6% in FY22, expects NIM to be flat, with the possibility of up to a 10bps compression, and is aiming for a CIR of <49bps. It targets an ROE of 7.5-8% for FY22, including Cukai Makmur. Excluding Cukai Makmur, the ROE would be a higher 8.5-9%. We cut FY22 earnings by 11%, and FY23 by 5%, on the back of NIM compression (-5bps in FY22) and higher credit cost (70bps in FY22, 50bps in FY23) assumptions. Our ROE of 7.5% for FY22E is at the lower end of management's target of 7.5-8%, but we expect an improvement to 9.0% in FY23E.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	17,125	18,362	19,172	20,027	20,991
Pre-provision profit	8,148	8,944	9,279	9,689	10,177
Core net profit	1,430	4,648	4,510	5,699	6,004
Core EPS (MYR)	0.14	0.46	0.45	0.57	0.60
Core EPS growth (%)	(70.6)	221.8	(3.0)	26.4	5.3
Net DPS (MYR)	0.05	0.23	0.21	0.26	0.27
Core P/E (x)	29.8	11.8	12.7	10.0	9.5
P/BV (x)	0.8	0.9	1.0	1.0	0.9
Net dividend yield (%)	1.1	4.2	3.7	4.6	4.7
Book value (MYR)	5.64	5.76	5.87	5.95	6.04
ROAE (%)	2.5	8.1	7.5	9.0	9.1
ROAA (%)	0.2	0.8	0.7	0.8	0.9
Consensus net profit	-	-	4,891	6,084	na
MKE vs. Consensus (%)	-	-	(7.8)	(6.3)	na

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HOLD

Share Price	MYR 5.71
12m Price Target	MYR 5.60 (-2%)
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.

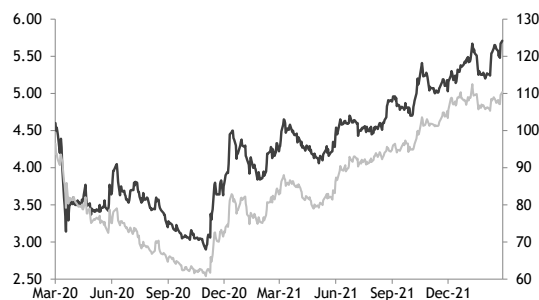
Statistics

52w high/low (MYR)	5.71/4.06
3m avg turnover (USDm)	13.5
Free float (%)	58.6
Issued shares (m)	10,221
Market capitalisation	MYR58.4B USD13.9B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	25.7%
Employees Provident Fund	15.2%
Permodalan Nasional Bhd.	10.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	10	32
Relative to index (%)	4	5	31

Source: FactSet

Fig 1: CIMB - Results summary

FYE Dec (MYR m)	Quarterly results					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Interest income	4,011.4	4,135.3	(3.0)	4,020.1	(0.2)	16,095.7	17,741.7	(9.3)
Interest Expense	(1,361.5)	(1,471.2)	(7.5)	(1,293.2)	5.3	(5,221.3)	(7,522.7)	(30.6)
Net Interest income	2,649.8	2,664.1	(0.5)	2,726.9	(2.8)	10,874.4	10,219.0	6.4
Islamic banking income	895.8	817.2	9.6	845.6	5.9	3,533.5	2,937.5	20.3
Non-interest income	944.3	1,285.0	(26.5)	823.3	14.7	5,105.0	4,032.5	26.6
Operating income	4,489.9	4,766.3	(5.8)	4,395.8	2.1	19,512.9	17,189.0	13.5
Operating expenses	(2,362.1)	(2,379.2)	(0.7)	(2,266.8)	4.2	(9,418.9)	(8,976.8)	4.9
Operating Profit	2,127.8	2,387.1	(10.9)	2,129.0	(0.1)	10,094.0	8,212.2	22.9
Loan impairment allowance	(717.1)	(1,384.4)	(48.2)	(528.6)	35.7	(2,613.6)	(5,342.2)	(51.1)
Other provisions	(430.5)	(872.3)	(50.6)	(1,276.4)	>100	(1,758.9)	(1,456.2)	20.8
Associates & JVs	1.0	35.6	(97.1)	8.8	(88.1)	68.0	116.5	(41.6)
Pretax profit	981.2	166.0	>100	332.8	>100	5,789.5	1,530.3	>100
Taxation	(99.6)	29.8	nm	(408.0)	(75.6)	(1,396.9)	(383.8)	>100
Minority interest	(27.2)	19.2	nm	(25.4)	6.9	(97.3)	47.9	nm
Net profit	854.5	215.0	>100	(100.6)	>100	4,295.3	1,194.4	>100
Recurring net profit	811.0	211.9	>100	1,221.0	(33.6)	4,648.2	1,429.9	>100
EPS (sen) (basic)	8.4	2.2	285.7	(1.1)	nm	42.9	12.0	>100
DPS (sen)	12.6	4.8	162.5	-	-	23.0	4.8	>100d
Cost-to-income (%)	52.6	49.9	2.7	51.6	1.0	48.3	52.2	(4.0)
Tax rate (%)	10.1	(18.0)	28.1	122.6	>100	24.1	25.1	(0.9)
Balance sheet (MYR m)	Dec-21	Dec-20	% YoY	Sep 21	% QoQ	Dec 21	Dec 20	YTD chg
Customer loans (gross)	378,033	365,844	3.3	372,360	1.5	378,033	365,844	3.3
Customer loans (net)	364,713	353,919	3.0	359,151	1.5	364,713	353,919	3.0
Deposits from customers	432,845	405,730	6.7	433,475	(0.1)	432,845	405,730	6.7
			ppt chg		ppt chg			ppt chg
LDR (%)	87.3	90.2	(2.8)	85.9	1.4	87.3	90.2	(2.8)
Gross impaired loans	13,293	13,027	2.0	12,575	5.7	13,293	13,027	2.0
Gross impaired loans ratio (%)	3.5	3.6	(0.0)	3.4	0.1	3.5	3.6	(0.0)
Loan loss coverage	100.2	91.6	8.6	105.1	(4.9)	100.2	91.6	8.6

Sources: Company Announcement

Key highlights

Repayment assistance: As a group, the percentage of loans under Payment Repayment Assistance (PRA) was 18% of total loans as at end-Jan 2022, but would have fallen further in February. For Malaysia, the percentage fell from 24% in Jan 2022 to 10% mid-Feb 2022.

Loan growth: Stripping out FX effects, group loans grew 2.9% in FY21, with loan growth of 4.1% in Malaysia, 3.9% in Indonesia and 4.6% in Singapore, offset by a 6.3% contraction in Thailand. Management guides for loan growth of 5-6% in FY22.

Deposit growth: Group deposit growth was 7.2%, with CASA expanding at a faster pace of 10%, resulting in a higher CASA ratio of 42.5% end-2021 from 41.3% end-2020. Deposits rose 7% in Malaysia and 16% in Indonesia, but contracted 6% in Thailand and were flat in Singapore.

Net interest margin (NIM): NIM was stable, rising 1bp QoQ to 2.41% in 4Q21 and averaged 2.45% in FY21, up 18bps from 2.27% in FY20. Management guides for NIM to be stable with potential for up to a 10bps compression for FY22. Malaysia could see a NIM compression of up to 5bps, up to 20bps in Indonesia, and up to 10bps in Singapore. Every 25bps rate hike would give the group earnings an uplift of MYR80m-90m.

Non-interest income (NOII): In Jan 2021, Bow Wave Capital, a New York based investment firm subscribed to shares in TnG Digital, which resulted in TnG's shareholding in TnG diluting to 47% from 51%. Following this move, the group's stake in TnG Digital was revalued, resulting in a gain of MYR1.16b in 1Q21. Excluding this from NOII, FY21 NOII declined a marginal 2% YoY. Derivative gains offset forex and investment losses during the period.

Operating expenses: Operating expenses rose 2% YoY as personnel cost rose 4% YoY and technology cost was 15% YoY higher. These offset contractions across the other operating expense items. Management guides for mid-single digit growth in FY22 with the recovery of the economy and ongoing spending on IT. On a BAU basis, the group's cost/income ratio was a lower 48.6% in FY21 versus 51.7% in FY20.

Credit cost: Credit cost was 84bps in 4Q21 versus 62bps in 3Q21. Credit cost averaged 73bps in FY21 versus 151bps in FY20. There was a provision in 4Q21 due to a MYR281m provision relating to the double crediting of customers in relation to the issue of crediting money into wrong accounts. There will be further provisions in 1Q22 but of a smaller quantum. 4Q21 also saw provisions of about MYR150m against debt instruments pertaining to an O&G account.

Management maintains elevated credit cost guidance of 70bps in FY22, mainly on corporate loans as well as elevated credit cost of 50-60bps into FY23-24. For FY22, the credit cost in Malaysia is estimated to be 30-40bps, 210-230bps in Indonesia, 130-140bps in Thailand and 10-20bps in Singapore.

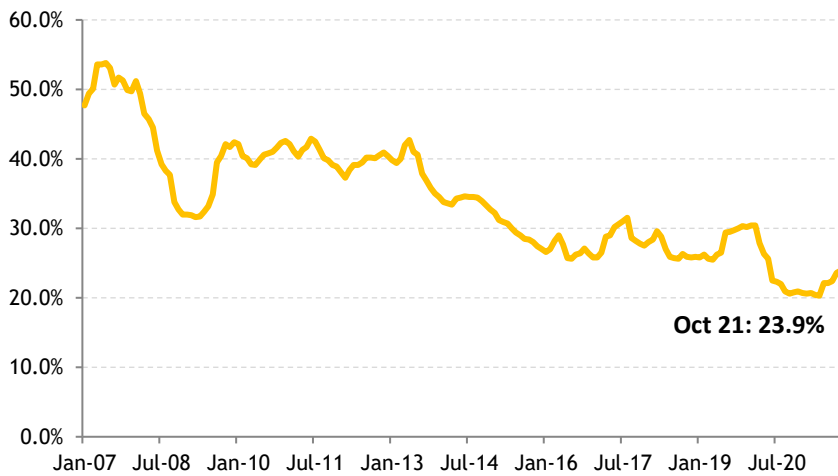
Capital ratios: The group's CET1 ratio was comfortable at 14.5% end-2021.

Dividend payout: Management declared a final DPS of 12.55sen, taking the total DPS for FY21 to 23sen versus 4.8sen in FY20. The dividend payout ratio was 50% in FY21.

Risk statement

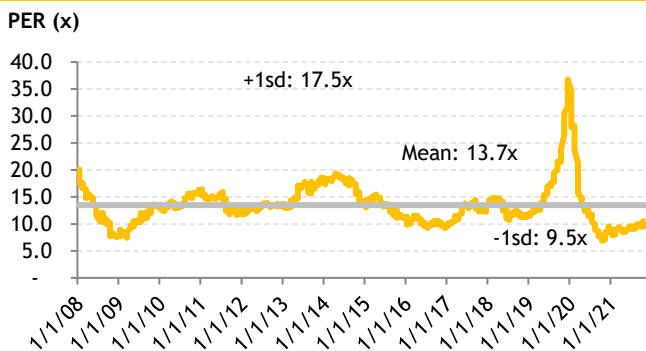
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region would have a bearing on overall operations. Further decreases in Indonesia’s interest rates could squeeze margins in the near term, while the weakening of the IDR could impact the translation of Niaga’s earnings.

Fig 2: CIMB Group’s foreign shareholding



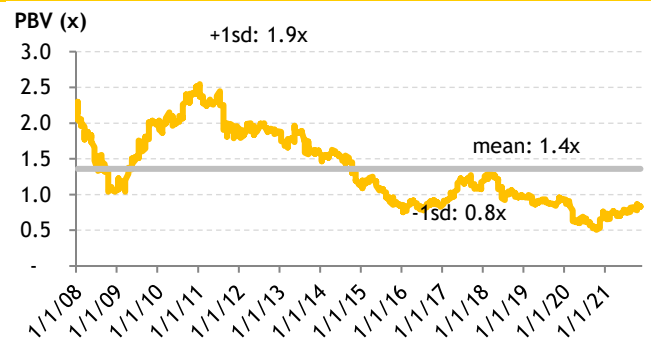
Source: Company

Fig 3: CIMB Group: One-year forward rolling PER (x)



Source: Maybank IBG Research

Fig 4: CIMB Group: One-year forward rolling P/BV



Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	29.8	11.8	12.7	10.0	9.5
Core FD P/E (x)	35.7	12.7	12.7	10.0	9.5
P/BV (x)	0.8	0.9	1.0	1.0	0.9
P/NTA (x)	0.9	1.1	1.1	1.1	1.1
Net dividend yield (%)	1.1	4.2	3.7	4.6	4.7
INCOME STATEMENT (MYR m)					
Interest income	17,741.7	16,095.7	20,787.4	21,679.2	22,500.2
Interest expense	(7,522.7)	(5,221.3)	(9,754.2)	(10,300.2)	(10,701.5)
Net interest income	10,219.0	10,874.4	11,033.2	11,379.1	11,798.7
Islamic banking income	2,937.5	3,533.5	3,816.2	4,121.5	4,451.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,748.8	2,067.3	2,170.6	2,279.2	2,393.1
Other income	2,219.6	1,887.3	2,152.1	2,247.4	2,347.8
Total non-interest income	3,968.4	3,954.6	4,322.7	4,526.6	4,740.9
Operating income	17,124.9	18,362.5	19,172.1	20,027.1	20,990.8
Staff costs	(5,144.1)	(5,428.4)	(5,699.8)	(5,984.8)	(6,284.1)
Other operating expenses	(3,832.7)	(3,990.5)	(4,193.6)	(4,353.7)	(4,529.5)
Operating expenses	(8,976.8)	(9,418.9)	(9,893.5)	(10,338.5)	(10,813.6)
Pre-provision profit	8,148.1	8,943.5	9,278.7	9,688.6	10,177.2
Loan impairment allowances	(5,342.2)	(2,613.6)	(2,705.7)	(2,018.3)	(2,106.6)
Other allowances	(1,456.2)	(1,758.9)	(100.0)	(100.0)	(100.0)
Associates & JV income	116.5	68.0	74.7	82.1	90.1
Pretax profit	1,466.2	4,639.0	6,547.6	7,652.3	8,060.7
Income tax	(383.8)	(1,396.9)	(1,945.5)	(1,836.6)	(1,934.6)
Minorities	47.9	(97.3)	(92.0)	(116.3)	(122.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,130.3	3,144.9	4,510.1	5,699.5	6,003.6
Core net profit	1,429.9	4,648.2	4,510.1	5,699.5	6,003.6
BALANCE SHEET (MYR m)					
Cash & deposits with banks	43,125.9	50,283.2	52,797.4	55,437.3	58,209.1
Sec. under resale agreements	6,832.9	5,885.5	6,474.0	7,121.5	7,833.6
Derivatives financial assets	16,008.4	11,989.6	12,589.1	13,218.5	13,879.5
Dealing securities	42,713.1	40,279.2	40,682.0	41,088.9	41,499.7
Available-for-sale securities	104,162.8	116,448.9	122,271.4	128,384.9	134,804.2
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	353,916.0	364,684.8	384,511.3	401,322.8	418,878.3
Central bank deposits	4,411.6	4,676.2	10,826.0	11,296.0	11,786.6
Investment in associates/JVs	2,496.5	2,952.1	2,956.2	2,960.6	2,965.2
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,076.6	2,748.6	2,886.0	3,030.3	3,181.8
Intangible assets	9,745.0	8,301.6	8,301.6	8,301.6	8,301.6
Other assets	15,866.0	13,657.3	13,882.4	14,112.1	14,346.3
Total assets	602,354.9	621,907.1	658,177.4	686,274.3	715,685.8
Deposits from customers	405,729.5	432,845.3	436,944.6	456,048.6	475,998.1
Deposits from banks & FIs	31,791.2	30,701.9	32,237.0	33,848.8	35,541.3
Derivatives financial instruments	16,340.8	10,895.5	11,440.2	12,012.2	12,612.9
Subordinated debt	12,808.5	10,128.6	10,128.6	10,128.6	10,128.6
Other securities in issue	12,464.0	13,379.0	13,379.0	13,379.0	13,379.0
Other borrowings	38,552.5	37,292.9	40,373.5	43,749.2	47,449.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	27,494.2	26,555.2	50,444.6	50,911.8	51,256.5
Total liabilities	545,180.8	561,798.3	594,947.5	620,078.3	646,365.5
Share capital	25,843.8	27,099.7	27,099.7	27,099.7	27,099.7
Reserves	30,081.8	31,763.6	34,792.7	37,642.4	40,644.2
Shareholders' funds	55,925.6	58,863.3	61,892.4	64,742.1	67,743.9
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,048.5	1,045.5	1,137.5	1,253.8	1,376.4
Total equity	57,174.1	60,108.7	63,229.9	66,195.9	69,320.3
Total liabilities & equity	602,354.9	621,907.1	658,177.4	686,274.3	715,685.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	1.3	6.4	1.5	3.1	3.7
Non-interest income	(6.4)	(0.3)	9.3	4.7	4.7
Operating expenses	(9.1)	4.9	5.0	4.5	4.6
Pre-provision profit	8.7	9.8	3.7	4.4	5.0
Core net profit	(70.0)	225.1	(3.0)	26.4	5.3
Gross loans	(1.0)	3.3	4.5	4.4	4.4
Customer deposits	2.5	6.7	0.9	4.4	4.4
Total assets	5.1	3.2	5.8	4.3	4.3
Profitability (%)					
Non-int. income/Total income	23.2	21.5	22.5	22.6	22.6
Average lending yields	3.85	3.48	4.15	4.16	4.16
Average cost of funds	1.81	1.23	2.23	2.26	2.24
Net interest margin	2.32	2.45	2.40	2.40	2.41
Cost/income	52.4	51.3	51.6	51.6	51.5
Liquidity (%)					
Loans/customer deposits	87.2	84.3	88.0	88.0	88.0
Asset quality (%)					
Net NPL	1.7	1.5	1.7	1.7	1.7
Gross NPL	3.6	3.5	3.2	3.2	3.2
(SP+GP)/average gross loans	1.5	0.7	0.7	0.5	0.5
Loan loss coverage	91.6	100.2	83.7	83.7	83.7
Capital adequacy (%)					
CET1	13.2	na	13.1	13.2	13.4
Tier 1 capital	14.5	na	13.1	13.2	13.4
Risk-weighted capital	17.5	na	13.1	13.2	13.4
Returns (%)					
ROAE	2.5	8.1	7.5	9.0	9.1
ROAA	0.2	0.8	0.7	0.8	0.9
Shareholders equity/assets	9.3	9.5	9.4	9.4	9.5

Source: Company; Maybank

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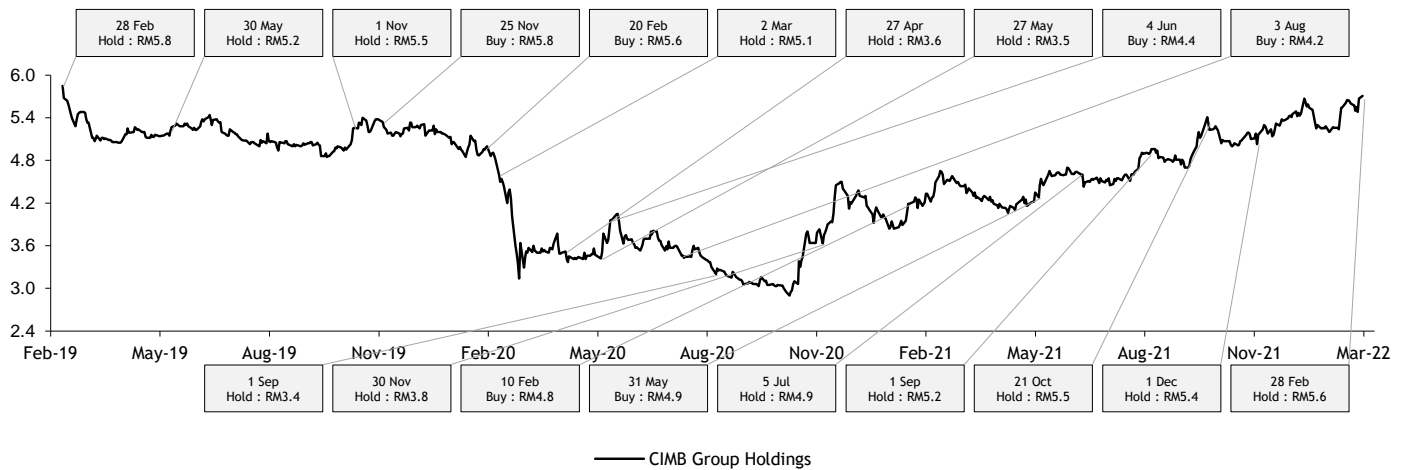
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