

CIMB Group Holdings (CIMB MK)

Niaga's 1Q22 results within expectations

HOLD maintained on CIMB Group

Niaga's 1Q22 results were within our expectations and our forecasts for CIMB Group are maintained, pending the release of the group's results on 31 May. We expect Niaga to contribute to 32% of group earnings in FY22. We maintain a HOLD on CIMB with an unchanged TP of MYR5.60 (FY23 PBV of 0.9x, ROE: 9%)

Niaga's 1Q22 results within expectations

Niaga's 1Q22 core net profit of IDR1.19tn (+20% YoY/QoQ) was within our expectations at 25% of our full-year net profit forecast. Support to earnings came predominantly from higher NOII (+22% YoY) and lower credit cost (-9% YoY). Loan growth picked up pace to 5.3% YoY in 1Q22 from 3.9% in 2021. NIMs contracted YoY but were stable QoQ. Credit cost was higher QoQ due to management overlays on corporate/commercial loans.

NIMs to improve

1Q22 NIM was 4.46% against guidance of about 4.66% (-20bps YoY) for the year. Nevertheless, management believes that NIMs have troughed (had improved to 4.6% in March) and should move higher from hereon.

Targets still hold

Niaga's earlier targets still hold: loan growth of 4-6% in FY22 (1Q22: 5.3%; MIB FY22E: 5%), -20bps in NIM (MIB: -15bps), credit cost of 2.1-2.3% (1Q21: 2.4%; MIB: 2.2%) and cost/income ratio <45.9% (1Q22: 43.8%; MIB: 43.9%). It also targets a higher ROAE of 11-12% versus 10.7% in FY22 (1Q22: 11.8%).

HOLD

Share Price MYR 5.19
12m Price Target MYR 5.60 (+8%)
Previous Price Target MYR 5.60

Company Description

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

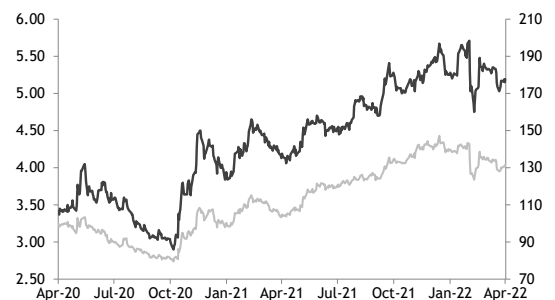
Statistics

52w high/low (MYR) 5.71/4.06
3m avg turnover (USDm) 18.5
Free float (%) 58.9
Issued shares (m) 10,474
Market capitalisation MYR54.4B
USD12.5B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa) 24.7%
Employees Provident Fund 15.8%
Permodalan Nasional Bhd. 10.4%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(3)	(2)	24
Relative to index (%)	(2)	(6)	26

Source: FactSet

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	17,096	18,287	19,101	20,032	21,007
Pre-provision profit	8,119	8,868	9,207	9,694	10,194
Core net profit	1,430	4,648	4,455	5,391	6,005
Core EPS (MYR)	0.14	0.46	0.44	0.54	0.60
Core EPS growth (%)	(70.6)	221.8	(4.1)	21.0	11.4
Net DPS (MYR)	0.05	0.23	0.21	0.25	0.27
Core P/E (x)	29.8	11.8	11.7	9.6	8.7
P/BV (x)	0.8	0.9	0.9	0.9	0.9
Net dividend yield (%)	1.1	4.2	4.0	4.8	5.2
Book value (MYR)	5.64	5.76	5.86	5.93	6.03
ROAE (%)	2.5	8.1	7.4	8.5	9.1
ROAA (%)	0.2	0.8	0.7	0.8	0.9
Consensus net profit	-	-	4,815	5,911	6,408
MKE vs. Consensus (%)	-	-	(7.5)	(8.8)	(6.3)

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CIMB Niaga: Summary Results Table

FY Dec (IDR b)	Quarterly					Cumulative		
	1Q22	1Q21	% YoY	4Q21	% QoQ	3M22	3M21	% YoY
Net interest income	3,209	3,269	(2)	3,201	0	3,209	3,269	(2)
Non-interest income	1,590	1,300	22	1,042	53	1,590	1,300	22
Operating income	4,799	4,569	5	4,243	13	4,799	4,569	5
Overhead expenses	(2,104)	(2,012)	5	(2,029)	4	(2,104)	(2,012)	5
Operating profit	2,695	2,557	5	2,214	22	2,695	2,557	5
Loan loss provisions	(1,139)	(1,256)	(9)	(1,067)	7	(1,139)	(1,256)	(9)
Core pretax profit	1,556	1,301	20	1,147	36	1,556	1,301	20
Core net profit	1,194	996	20	992	20	1,194	996	20
Reported earnings								
Pretax profit	1,556	1,301	20	1,093	42	1,556	1,301	20
Net profit	1,194	996	20	950	26	1,194	996	20
			ppt-chg		ppt-chg			ppt-chg
NIM (%)	4.46	5.10	(0.6)	4.86	(0.4)	4.5	5.1	(0.6)
Cost/income ratio (%)	43.80	44.0	(0.2)	45.9	(2.1)	43.8	44.0	(0.2)
Loan/deposit ratio (%)	76.10	85.3	(9.2)	74.4	1.7	76.1	85.3	(9.2)
GIL ratio (%)	6.80	6.3	0.5	6.7	0.1	6.8	6.3	0.5
Loan loss coverage (%)	210.8	194.9	15.9	212.1	(1.3)	210.8	194.9	15.9

Source: Bank

Faster loans growth

Niaga's loan growth picked up pace to 5.3% YoY in 1Q22 (3.9% in FY21), with consumer loans expanding at a robust pace of 12.4% YoY, led by a 48.8% surge in auto loans and decent housing loans growth of 9.2% YoY. This more than offset the 8.9% YoY decline in commercial loans, and was supported by corporate and SME loan growth of 6.6% and 6.1% YoY respectively. The overall growth rate is within management's loan growth guidance of 4-6% for FY22 versus 3.9% in FY21.

On the corporate front, there has been strong loan demand from the mining and O&G sectors with the rise in commodity prices, and there is still infrastructure loan demand from the telco sector.

Liquidity still strong

Total deposit growth remained strong at 18.6% YoY, with CASA and fixed deposit growth rates of 19.1% and 17.7% respectively. As such the bank's CASA ratio rose further to 63.6% from 61.3% end-Dec 2021.

On a QoQ basis, however, CASA growth moderated to 1.9%, while fixed deposits contracted 7.3% YoY, as management sought to manage funding costs.

NIM stable QoQ

Net interest margin (NIM) was stable QoQ at 4.46% in 1Q22 versus 4.47% in 4Q21. This nevertheless compares against a NIM of 5.12% in 1Q21.

The bank's loan/deposit ratio was just 76.1% end-Mar 2021, reflecting its strong liquidity position, but also the under-utilization of assets. Management views an LDR of 80-85% to be comfortable and expects loan demand opportunities to pick up, to assist in achieving this target.

Against an average NIM of 4.86% in FY21, management has guided for a 20bps NIM contraction in FY22 due to strong liquidity as well as the focus on higher quality loan segments.

Loan yields increased 5bps QoQ in 1Q22 due to the reversal of interest income from NPLs and recovery in interest on a corporate loan. The trend is expected to continue and NIM in March had improved to about 4.6%. As such, management is confident that it has reached the trough for NIMs which should start to improve from hereon.

NOII growth of 22% YoY

Non-interest income expanded at a robust pace of 22.3% YoY, 52.6% QoQ. The strong growth was driven by robust forex/derivatives income of 23% YoY, gains from marketable securities which rose 74% YoY and loan recoveries which jumped 99% YoY. The only setback was in fee income, which contracted 7.7%.

Expenses under control

1Q22 operating expenses rose just 4.6% YoY and driving this increase was spending on IT which jumped 36.7% YoY. Personnel expenses increased at a paced rate of 3.9% YoY while other expenses contracted 7.4% YoY. On a YoY basis, the Niaga rationalised its branch network by 13 branches to 315 end-Mar 2022 while ATMs were cut by 290 to 4,431. Consequently, the bank's cost/income ratio was a lower 43.8% in 1Q22 versus 44% in 1Q21.

Higher credit cost QoQ

The bank's gross impaired loans (GIL) ratio rose marginally to 6.8% end-Mar 2022 from 6.7% end-2021. Credit cost was higher QoQ at 2.4% in 1Q22 versus 2.1% in 4Q21, keeping the overall impaired loan loss coverage stable at 112% in 1Q22 versus 109% in 4Q21. During the quarter, management put through IDR300b of overlays against a particular corporate loan and a commercial loan.

Management continues to guide for credit cost in FY22 of 2.1-2.3% versus 2.4% in FY21, which is still elevated as management remains cautious of the current operating environment. A normalized credit cost for the bank would be below 2%. Having done much transformation in its credit process and underwriting procedures, credit cost is expected to continue trending down.

Loans at risk and restructured loans

Active COVID related restructured loans declined to IDR7.5tn end-Mar 2022 (4.1% of total loans) from IDR8.6tn end-2021 (4.7%). Overall COVID restructured loans declined to 11.0% of total loans end-Mar 2022 from 11.9% end-2021.

The loans at risk (LAR) ratio was 19.7% end-Mar 2022 (20.3% end-Dec 2021) but what is encouraging is that the active LAR ratio was lower at 15.5% (15.9% end-Dec 2021). 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 48.7% (46% end-Dec 2021).

CAR comfortable

Niaga's capital ratios improved further to their highest levels at 22.1% for its Tier 1 ratio and 23.1% for its overall CAR ratio.

CIMB Group’s risk statement

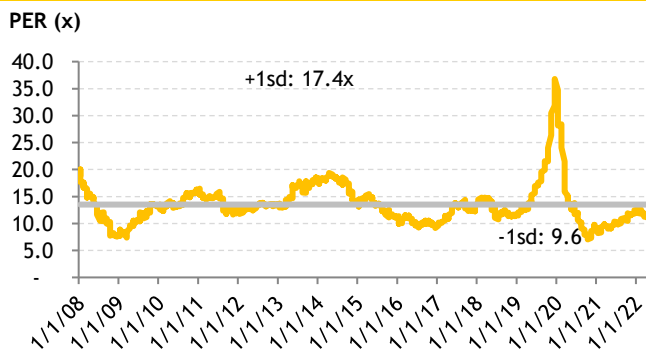
As the second largest domestic financial institution in Malaysia in terms of asset size, a harder-than-expected economic slowdown in the country would have a knock-on effect on the group’s operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore,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

Fig 2: CIMB Group’s foreign shareholding



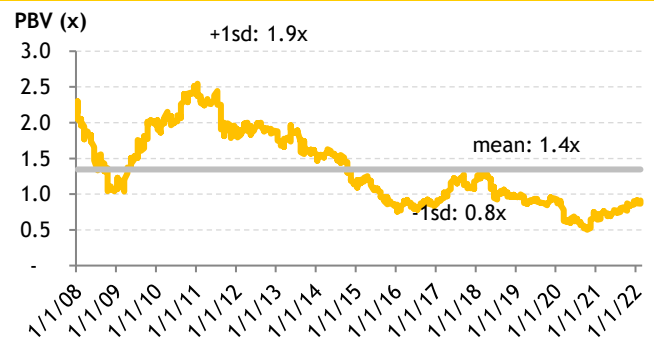
Source: Company

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	11.7	9.6	8.7
Core FD P/E (x)	35.7	12.7	11.7	9.6	8.7
P/BV (x)	0.8	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	1.1	1.0	1.0	1.0
Net dividend yield (%)	1.1	4.2	4.0	4.8	5.2
INCOME STATEMENT (MYR m)					
Interest income	17,741.7	16,095.7	20,849.0	21,816.4	22,656.7
Interest expense	(7,522.7)	(5,221.3)	(9,811.0)	(10,355.5)	(10,764.1)
Net interest income	10,219.0	10,874.4	11,038.0	11,460.9	11,892.6
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	2,190.4	1,812.1	2,076.1	2,170.8	2,270.5
Total non-interest income	3,939.2	3,879.3	4,246.8	4,449.9	4,663.6
Operating income	17,095.7	18,287.2	19,100.9	20,032.3	21,007.3
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	8,118.9	8,868.3	9,207.5	9,693.8	10,193.8
Loan impairment allowances	(5,342.2)	(2,613.6)	(2,714.2)	(2,438.2)	(2,122.0)
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	1,437.0	4,563.8	6,468.0	7,237.7	8,061.9
Income tax	(383.8)	(1,396.9)	(1,921.7)	(1,737.0)	(1,934.9)
Minorities	47.9	(97.3)	(90.9)	(110.0)	(122.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,101.1	3,069.6	4,455.4	5,390.6	6,004.5
Core net profit	1,429.9	4,648.2	4,455.4	5,390.6	6,004.5
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	386,869.0	404,220.7	421,976.6
Central bank deposits	4,411.6	4,676.2	10,895.6	11,381.6	11,878.1
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	660,604.7	689,257.8	718,875.7
Deposits from customers	405,729.5	432,845.3	439,623.8	459,341.7	479,518.9
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	50,221.2	50,791.5	51,114.4
Total liabilities	545,180.8	561,798.3	597,403.3	623,251.1	649,744.2
Share capital	25,843.8	27,099.7	27,099.7	27,099.7	27,099.7
Reserves	30,081.8	31,763.6	34,765.3	37,460.6	40,462.9
Shareholders' funds	55,925.6	58,863.3	61,865.0	64,560.3	67,562.6
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,048.5	1,045.5	1,136.4	1,246.4	1,369.0
Total equity	57,174.1	60,108.7	63,201.4	66,006.7	69,131.5
Total liabilities & equity	602,354.9	621,907.1	660,604.7	689,257.8	718,875.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	1.3	6.4	1.5	3.8	3.8
Non-interest income	(7.1)	(1.5)	9.5	4.8	4.8
Operating expenses	(9.1)	4.9	5.0	4.5	4.6
Pre-provision profit	8.4	9.2	3.8	5.3	5.2
Core net profit	(70.0)	225.1	(4.1)	21.0	11.4
Gross loans	(1.0)	3.3	5.1	4.5	4.4
Customer deposits	2.5	6.7	1.6	4.5	4.4
Total assets	5.1	3.2	6.2	4.3	4.3
Profitability (%)					
Non-int. income/Total income	23.0	21.2	22.2	22.2	22.2
Average lending yields	3.85	3.48	4.16	4.17	4.17
Average cost of funds	1.81	1.23	2.24	2.26	2.24
Net interest margin	2.32	2.45	2.40	2.40	2.41
Cost/income	52.5	51.5	51.8	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	0.6	0.5
Loan loss coverage	91.6	100.2	83.7	83.7	83.7
Capital adequacy (%)					
CET1	13.2	14.2	14.2	14.3	14.5
Tier 1 capital	14.5	15.1	15.1	15.1	15.3
Risk-weighted capital	17.5	18.0	17.8	17.8	17.8
Returns (%)					
ROAE	2.5	8.1	7.4	8.5	9.1
ROAA	0.2	0.8	0.7	0.8	0.9
Shareholders equity/assets	9.3	9.5	9.4	9.4	9.4

Source: Company; Maybank IBG Research

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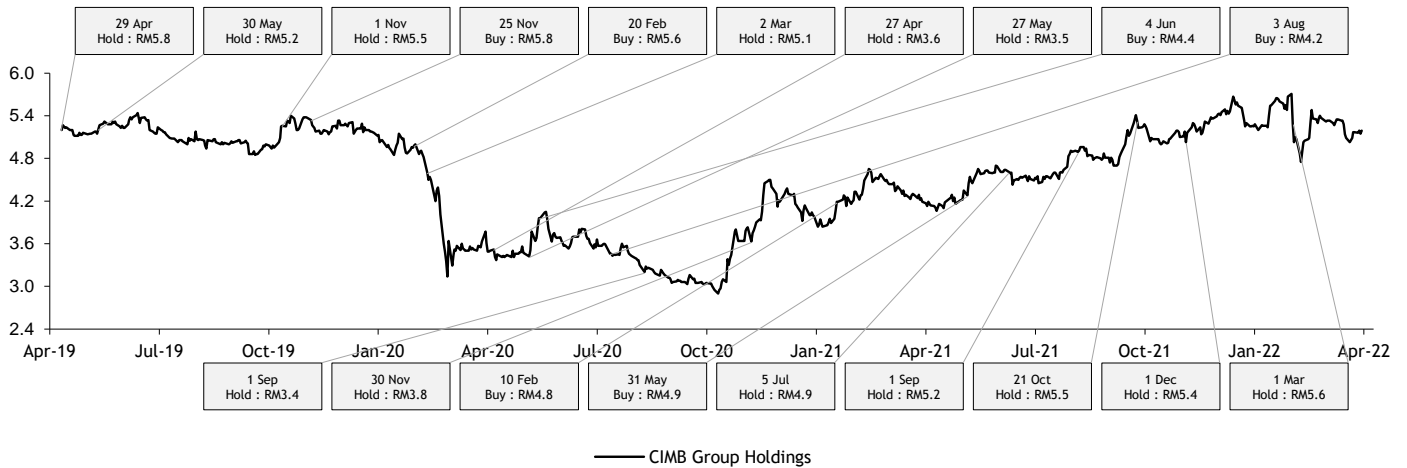
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