COMPANY UPDATE

CIMB Group (CIMB MK)

Fundamentals Intact – Opportunity To Accumulate On Recent Weakness

Management remains optimistic on its earnings growth recovery in 2022. Despite top-ups in provisions being required for certain corporate accounts, the overall provision trend is expected to improve. Loans under repayment assistance have been holding up better than expected, providing scope for potential write-backs in excess pre-emptive provisions in 4Q22. Valuations are attractive at -1SD to the historical mean P/B. Maintain BUY and target price of RM6.30 (0.98x 2022/23 P/B, 9.0% FY22/23 ROE).

WHATS NEW

- **Strong legal ground against customers that have filed legal suit on double crediting.** There have been recent press reports on a group of 650 CIMB Group (CIMB) consumer customers having filed a RM650m class-action suit against CIMB, relating to the group's double crediting error. However, management indicated that it had consulted with its legal advisors and team on all the actions taken to recoup back some of the balances before proceeding with such actions. As such, management believes that it has a strong legal case against the customers that have filed for legal suits against the group.

- **Tightened processes to prevent recurrence of double crediting issue.** To prevent the reoccurrence of the double crediting error which resulted in the double crediting of balances into 11,800 retail customer accounts, management has streamlined and reduced various internal processes which are deemed to be relatively manual in nature as this was highlighted as one of the key issues resulting in the double crediting error. In addition, we understand that it would have to report to BNM on the progress of its review and effectiveness of the various control measures that will be instituted to prevent future recurrence of the issue.

- **Provisions from double crediting to decline sequentially.** Management did not provide details on the total amount that was double credited. However, they did indicate that even if a full provision on the remaining balance is to be made, 1Q22 provisions relating to the double crediting will still be lower qoq vs RM280m (net credit cost: 7bp) that has already been provided for in 4Q21. Provisions relating to the double crediting have already been incorporated in management's 2022 60-70bp net credit cost guidance.

- **Provisions for 2022 have also factored in additional top-ups for lumpy accounts.** The group is maintaining its 2022 net credit cost guidance of 60-70bp which remains above a more normalised level of 48bp. The elevated credit cost is due to additional provision top-ups for large specific accounts relating to Malaysian O&G names, an Indonesian steel account and a Malaysian leisure name which has already been fully impaired (ie classified as stage 3). The group has already been setting aside provisions for these names in 4Q21 where net credit cost rose qoq to 76bp (3Q21: 57bp). The group's O&G portfolio's loans loss coverage ratio stood at 84% as at end-Dec 21. Based on management's net credit cost guidance for 2022, we estimate that the top-up in specific provisions would raise the group's O&G portfolio LLC to an estimated 93% which does provide sufficient comfort. As such, management had reiterated that 2022 net credit cost is unlikely to surpass is guidance.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net interest income	10,260	10,871	10,859	11,588	12,350
Non-interest income	4,033	3,955	4,253	4,504	4,720
Net profit (rep./act.)	1,194	4,648	4,798	6,415	6,575
Net profit (adj.)	1,194	4,295	4,798	6,415	6,575
EPS (sen)	12.3	42.8	47.8	64.0	65.6
PE (x)	41.0	11.7	10.5	7.9	7.7
P/B (x)	0.9	0.9	0.8	0.8	0.7
Dividend yield (%)	1.0	4.6	4.8	6.4	6.5
Net int margin (%)	2.4	2.5	2.5	2.5	2.5
Cost/income (%)	51.0	48.7	48.6	47.3	45.3
Loan loss cover (%)	91.7	100.3	96.8	110.8	154.2
Consensus net profit	-	-	4,906	6,088	6,617
UOBKH/Consensus (x)	-	-	0.98	1.05	0.99

Source: CIMB Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.03
Target Price	RM6.30
Upside	+25.2%

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):	51,413.9
Market cap (US$m):	12,274.4
3-mth avg daily t'over (US$m):	18.8

Price Performance (%)

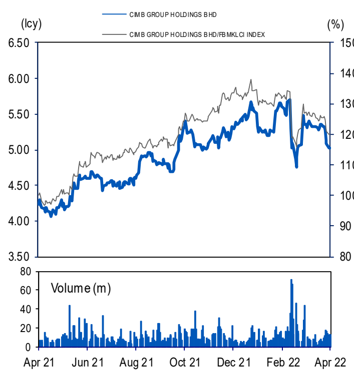
52-week high/low RM5.71/RM4.06

1mth	3mth	6mth	1yr	YTD
(6.2)	(8.7)	(5.1)	17.2	(7.7)

Major Shareholders	%
Khazanah Nasional Berhad	24.7
Employees Provident Fund Board	15.7
-	-

FY21 NAV/Share (RM)	6.34
FY21 CAR Tier-1 (%)	15.46

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong

+603 2147 1981

keithwee@uobkayhian.com

- **Provision top-ups are based on conservative assumptions.** The driver of the still elevated net credit cost guidance for 2022 (60-70bp) is largely attributed to top-ups in provisions required for certain lumpy corporate accounts, which management indicated are based on conservative loss given default assumptions and on full impairment assumption on these accounts. Based on our back testing, the group's O&G portfolio LLC could rise to an estimated 93% in 2022.
- **Provision assumptions have not reflected any write-backs.** In addition to the already conservative LGD assumptions for the provision top-ups that have been baked in for the abovementioned corporate account for 2022, management has not written back any excess management overlays and macroeconomic variable (MEV) even as asset quality of its loans under repayment assistance is holding up better as Malaysian economic growth momentum improves with the reopening of the economy. The group has built up RM2.2b in management overlays and MEV (RM1.6b management overlay + RM600m in MEV). We noted that some of its domestic peers have written back some MEVs in 4Q21. Management alluded that any potential write-backs could trickle in by 4Q22.
- **Providing scope for provisions to surprise on the downside?** This provides scope for management to reallocate a portion of any unconsumed overlays to the abovementioned individual loan accounts that require provision top-ups and further provisions for its double crediting error. As such, we do believe that there is certainly scope for overall group net credit cost for 2022 to potentially come in lower than management's 60-70bp guidance as the group would not have to incur additional provision top-ups for these accounts which is already inherent in its 60-70bp net credit cost guidance. We are retaining our 65bp and 55bp net credit cost assumption for 2022/23 respectively. Every 5bp downside surprise to our net credit cost assumption equates to a 3% positive earnings surprise.
- **Level of repayment assistance continues to decline.** The group's overall take-up rate for its loans under targeted assistance has declined to 9% as at end-Mar 22 from 19% as at end-Dec 21 as the repayment assistance programme in Malaysia continues to unwind. Repayment assistance for consumer loans in Malaysia declined from 9% as at mid-Feb 22 to slightly above single digit as at mid-Feb 22.
- **URUS take-up remains low.** The URUS take-up remains low at RM400m (0.1% of total group loans). Management indicated that only 1% of domestic loans under repayment assistance have missed payments (about 0.09% of total group loans). This is significantly lower than initial expectations and does correlate with very low take-up rates for the URUS programme to date.
- **Loans growth momentum gains traction.** Management alluded to a pickup in loans growth momentum. Growth traction was seen in its consumer and business banking portfolio in Indonesia and Malaysian consumers. We have pencilled in a recovery in group loans growth from 3% in 2021 to 5% in 2022.
- **Non-interest income outlook underpinned by strong fee income growth.** Management expects strong growth momentum in fee income across the whole of 2022 driven by credit card-related fees, loans related disbursement fees and Bancassurance from Niaga. However, investment and trading income could remain challenging as financial markets remains volatile. On a qoq trend, management is expecting an improvement in trading income driven largely by increased hedging and forex income while fee income is expected to remain flattish.
- **Opex growth to be well controlled.** Management is guiding for mid-single digit opex growth for 2022 and its cost to income ratio to maintain below 49%. 1Q22 opex trend continue to remain well within its guidance. Increase in IT expenditure (+15% yoy) will be partially offset by realisation of further identified structural cost takeout amounting to an estimated RM200m-300m in 2022. Moving forward, management will continue to identify additional structural cost takeout opportunities without discounting the possibility of potential right sizing which we believe is a crucial element in helping the group achieve its Forward 24 goal of raising group ROE to 11.5-12.0% by 2024.

EARNINGS REVISION/RISK

- No changes.

VALUATIONS AND RECOMMENDATIONS

- **Maintain BUY and target price of RM6.30 (0.98x 2022/23F P/B, 9.0% ROE).** To smoothen out the effects of the Cukai Makmur on our earnings, we peg our valuation to a blended average of 2022/23 operating metrics. We view the recent sharp selldown in its share price as an opportunity to accumulate with valuations having declined to -1SD below its five-year historical mean and with strong earnings recovery remaining intact.

KEY ASSUMPTIONS

(%)	2022F	2023F	2024F
Loan Growth	4.5	5.6	6.2
Credit Cost (bp)	65.0	55.0	50.0
ROE	7.8	9.6	9.8

Source: UOB Kay Hian

MANAGEMENT 2022 GUIDANCE

ROE (%)	7.5-8.0
Credit Cost (bp)	60.0-70.0
Loans growth (%)	5.0-6.0
Cost to income ratio (%)	>49.0

Source: CIMB

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- Environmental
  - Green loan commitment. To provide RM30b in sustainable financing by 2040.
  - Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050.
- Social
  - Board and upper management gender diversity. Maintained 30% female directors on the Board.
  - Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers.
- Governance
  - Non-independent board of directors composition. Composition of Independent Non-Executive Directors (INED) – 60 %.

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Interest income	16,093	18,904	19,952	21,735
Interest expense	(5,221)	(8,045)	(8,364)	(9,385)
Net interest income	10,871	10,859	11,588	12,350
Fees & commissions	2,093	2,282	2,441	2,515
Other income	1,861	1,971	2,063	2,206
Non-interest income	3,955	4,253	4,504	4,720
Income from islamic banking	3,533	4,240	4,791	5,414
Total income	18,360	19,352	20,883	22,485
Staff costs	(5,428)	(5,858)	(6,277)	(6,528)
Other operating expense	(3,509)	(3,538)	(3,591)	(3,667)
Pre-provision profit	9,423	9,956	11,015	12,290
Loan loss provision	(2,614)	(2,580)	(2,314)	(2,240)
Other provisions	(544)	(350)	(350)	(399)
Associated companies	68	69	71	72
Other non-operating income	0	0	0	0
Pre-tax profit	6,333	7,095	8,421	9,723
Tax	(1,588)	(2,200)	(1,876)	(3,014)
Minorities	(97)	(98)	(131)	(134)
Net profit	4,648	4,798	6,415	6,575
Net profit (adj.)	4,295	4,798	6,415	6,575

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Cash with central bank	4,676	13,892	14,725	15,682
Govt treasury bills & securities	15,296	15,602	15,914	16,232
Interbank loans	4,614	5,034	5,492	5,991
Customer loans	364,685	381,005	402,506	427,612
Investment securities	141,432	158,725	178,015	199,533
Derivative receivables	11,990	13,428	15,040	16,845
Associates & JVs	2,952	3,100	3,255	3,417
Fixed assets (incl. prop.)	2,749	2,639	2,527	2,413
Other assets	73,514	70,719	67,413	63,517
Total assets	621,907	664,144	704,886	751,243
Interbank deposits	30,702	32,682	34,801	37,068
Customer deposits	432,845	452,323	474,939	498,686
Derivative payables	40,080	41,792	43,578	45,441
Debt equivalents	23,508	23,508	23,508	23,508
Other liabilities	34,664	49,121	59,834	74,718
Total liabilities	561,798	599,426	636,660	679,422
Shareholders' funds	59,063	63,575	66,952	70,413
Minority interest - accumulated	1,045	1,143	1,274	1,408
Total equity & liabilities	621,907	664,144	704,886	751,243

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	14.2	15.5	16.2	16.8
Total CAR	18.0	20.3	21.0	21.7
Total assets/equity (x)	10.5	10.4	10.5	10.7
Tangible assets/tangible common	12.1	11.9	11.9	12.0
Asset Quality				
NPL ratio	3.5	4.1	3.9	3.0
Loan loss coverage	100.3	96.8	110.8	124.2
Loan loss reserve/gross loans	3.5	4.0	4.3	4.6
Increase in NPLs	2.0	23.7	0.0	(19.3)
Credit cost (bp)	71.7	65.0	55.0	50.0
Liquidity				
Loan/deposit ratio	84.3	84.2	84.7	85.7
Liquid assets/short-term liabilities	5.3	7.1	7.1	7.0
Liquid assets/total assets	4.0	5.2	5.1	5.0

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	6.0	(0.1)	6.7	6.6
Fees & commissions, yoy chg	18.4	9.0	7.0	3.0
Pre-provision profit, yoy chg	11.7	5.7	10.6	11.6
Net profit, yoy chg	289.2	3.2	33.7	2.5
Net profit (adj.), yoy chg	259.6	11.7	33.7	2.5
Customer loans, yoy chg	3.0	4.5	5.6	6.2
Customer deposits, yoy chg	6.7	4.5	5.0	5.0
Profitability				
Net interest margin	2.5	2.5	2.5	2.5
Cost/income ratio	48.7	48.6	47.3	45.3
Adjusted ROA	0.7	0.7	0.9	0.9
Reported ROE	8.1	7.8	9.6	9.8
Adjusted ROE	7.5	7.8	9.6	9.8
Valuation				
P/BV (x)	0.9	0.8	0.8	0.7
P/NTA (x)	1.0	0.9	0.9	0.8
Adjusted P/E (x)	11.7	10.5	7.9	7.7
Dividend Yield	4.6	4.8	6.4	6.5
Payout ratio	49.4	50.0	50.0	50.0

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