

30 April 2021

# CIMB Group Holdings Bhd

## CIMB Niaga: Strong 1QFY21

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**CIMB Niaga's 1QFY21 CNP of IDR996b (-6% YoY, +573% QoQ) is deemed better-than-expected on higher NIMs and greater easing of credit cost. Management looks to digitalisation to boost frontline efforts and keeping cost management tight. NIMs could see further upside down the line until re-pricing opportunities are exhausted. We keep our Group-level estimates unchanged for now. Maintain UP and TP of RM3.50.**

**1QFY21 earnings higher-than-expected.** 92.5%-owned CIMB Niaga (Niaga) reported 1QFY21 earnings of DR996b, which is above expectations (32% of consensus estimate) possibly due to greater-than-anticipated NIMs expansion riding on higher CASA mix. Typically, Niaga makes up 15-20% of the CIMB Group's PBT.

**YoY**, 1QFY21 total income arrived at IDR4.63t (+9%) as NII (+7%) was lifted by higher NIMs (5.10%, +34 bps) in spite of the 11% decline in total gross loans. This was driven by higher CASA-to-deposit ratio of 63.3% (+3.2ppt) and re-pricing of deposits which lowered the cost of funds. Stronger NOII was also registered from better results in the forex and derivative segments. That said, although CIR too showed improvements at 44.8% (-4.0ppt) with digitalisation and streamlining of branch operations keeping costs stable, Niaga booked high levels of provisions at a credit cost of 289 bps (+135 bps) due to Covid-19 strains on loans. GIL was also higher at 6.3% (vs 4.4% in 1QFY20). This drove 1QFY21 PATAMI to come in weaker at IDR996b (-6%).

**QoQ**, 1QFY21 total income performed better by 14% mainly due to the abovementioned better NOII results. Still, NIMs did come in higher by 19 bps from a higher CASA mix. Niaga posted lower impairment allowances for the quarter (-27%) with a lower credit cost of 289 bps (-100 bps). Together with the higher top-line, 1QFY21 reported a 573% improvement in net profit.

**Briefing's highlights.** Niaga's management appeared cautiously optimistic with some confidence instilled by the solid QoQ improvements seen. Top-line-wise, management is expecting slight improvement to NIMs from further re-pricing opportunities on its deposits. Loans growth should be held by better retail demand for mortgages and auto financing but headwinds are expected on the SME and Corporate segments if the economy does not pick up meaningfully. While management maintains its credit cost guidance of 240-260 bps for FY21 on normalisation in the later quarters, the continuing rise in GIL could be a cause for concern as some of its R&Rs (18% of total loans) fail to be rehabilitated. For now, digitalisation will be one of Niaga's leading fronts for higher customer penetration and cross-selling in addition to providing lifestyle value-add services to keep existing customers sticky.

**Post Niaga's results**, we leave our earnings of CIMB unchanged for now, pending group-level earnings report expected to be released in May 2021.

**Maintain UNDERPERFORM and TP of RM3.50.** Our TP is based on an unchanged 0.60x FY22E GGM-derived PBV of 0.61x (1.5SD below 5-year mean). While CIMB is expected to register an EPS growth of 176% in FY21E, we believe this is already priced in, given the impairment shock in 4QFY20. Overall, we are less excited on CIMB as compared to its outperforming peers. Possibly from its less favourable regional exposures, it houses a GIL ratio of 3% whereas its larger cap peers come in at <3%. Upside impairment risks are also deemed greater in our opinion. Additionally, its CET1 ratio and LLC are intact only with the help of write-back of regulatory reserves.

**Risks to our call include:** (i) better-than-expected NIMs, (ii) higher-than-expected loans growth, (iii) better-than-expected improvement in asset quality, (iv) stronger capital market activities, and (v) favourable currency fluctuations.

## UNDERPERFORM ↔

Price : RM4.19  
Target Price : RM3.50 ↔

### Share Price Performance



KLCI	1,608.50
YTD KLCI chg	-1.1%
YTD stock price chg	-2.6%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	41,959.4
Shares Outstanding	10,014.2
52-week range (H)	4.60
52-week range (L)	2.87
3-mth avg daily vol	10,695,990
Free Float	39%
Beta	1.2

### Major Shareholders

Khazanah Nasional Bhd	27.0%
Employees Provident Fund	15.9%
Amanah Saham Nasional	10.8%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	13,378	14,061	14,641
Non-interest income	4,033	4,086	4,321
<b>Total income</b>	<b>17,410</b>	<b>18,147</b>	<b>18,962</b>
Operating expenses	-8,977	-9,367	-9,776
<b>Loan impairment</b>	<b>-6,798</b>	<b>-4,296</b>	<b>-3,132</b>
Pre-tax profit	1,530	4,485	6,053
<b>PATAMI</b>	<b>1,194</b>	<b>3,296</b>	<b>4,449</b>
<b>Core PATAMI</b>	<b>1,194</b>	<b>3,296</b>	<b>4,449</b>
Consensus NP		3,787	4,912
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.12	0.33	0.45
EPS growth	-74%	176%	35%
NDPS (RM)	0.05	0.13	0.18
BV/share (RM)	5.6	5.8	6.1
NTA/share (RM)	4.7	4.9	5.1
ROE (%)	2.1	5.8	7.5
PER (x)	34.8	12.6	9.3
P/BV (x)	0.74	0.72	0.69
Net Div. Yield (%)	1.1	3.1	4.3

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## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (IDR b)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	3,269	3,212	2%	3,068	7%	3,269	3,068	7%
Non-interest income	1,360	863	58%	1,185	15%	1,360	1,185	15%
<b>Total income</b>	<b>4,630</b>	<b>4,075</b>	<b>14%</b>	<b>4,254</b>	<b>9%</b>	<b>4,630</b>	<b>4,254</b>	<b>9%</b>
Operating expenses	-2,072	-2,023	2%	-2,074	0%	-2,072	-2,074	0%
<b>Pre-impairment profit</b>	<b>2,557</b>	<b>2,052</b>	<b>25%</b>	<b>2,180</b>	<b>17%</b>	<b>2,557</b>	<b>2,180</b>	<b>17%</b>
(Allowances)/ write-backs	-1,256	-1,729	-27%	-750	67%	-1,256	-750	67%
<b>Operating profit</b>	<b>1,301</b>	<b>323</b>	<b>303%</b>	<b>1,429</b>	<b>-9%</b>	<b>1,301</b>	<b>1,429</b>	<b>-9%</b>
Non-operating gains / (losses)	0	0	<i>nm</i>	0	<i>nm</i>	0	0	<i>nm</i>
<b>Profit before tax</b>	<b>1,301</b>	<b>323</b>	<b>303%</b>	<b>1,429</b>	<b>-9%</b>	<b>1,301</b>	<b>1,429</b>	<b>-9%</b>
Taxation	-306	-175	74%	-374	-18%	-306	-374	-18%
Minority interest	0	0	-66%	0	-68%	0	0	-68%
<b>Net PATAMI</b>	<b>996</b>	<b>148</b>	<b>573%</b>	<b>1,055</b>	<b>-6%</b>	<b>996</b>	<b>1,055</b>	<b>-6%</b>
<b>Core PATAMI</b>	<b>996</b>	<b>148</b>	<b>573%</b>	<b>1,055</b>	<b>-6%</b>	<b>996</b>	<b>1,055</b>	<b>-6%</b>
Gross loans	173,423	174,755	-1%	194,282	-11%	173,423	194,282	-11%
Gross impaired loans	10,926	10,538	4%	8,510	28%	10,926	8,510	28%
Customer deposits	200,071	207,529	-4%	202,563	-1%	200,071	202,563	-1%
Current and savings account (CASA)	126,631	123,724	2%	121,650	4%	126,631	121,650	4%
Total assets	272,547	280,944	-3%	274,518	-1%	272,547	274,518	-1%
Shareholders' equity	41,126	41,039	0%	40,014	3%	41,126	40,014	3%
Est. annualised NIM	5.10%	4.91%		4.76%		5.10%	4.76%	
Cost-to-income ratio	44.8%	49.6%		48.8%		44.8%	48.8%	
Annualised credit cost (bps)	289	389		154		289	154	
Effective tax rate	23.5%	54.3%		26.2%		23.5%	26.2%	
Annualised ROA	1.4%	0.2%		1.6%		1.4%	1.6%	
Annualised ROE	9.7%	1.5%		10.1%		9.7%	10.1%	
Gross impaired loans ratio	6.3%	6.0%		4.4%		6.3%	4.4%	
Loan loss coverage ratio (LLC)	115.2%	114.6%		130.0%		115.2%	130.0%	
Loan-to-deposit ratio	80.3%	78.5%		90.8%		80.3%	90.8%	
CASA-to-deposit ratio	63.3%	59.6%		60.1%		63.3%	60.1%	

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	1.75	3,717.1	N	12/2021	-4.6%	2.7%	46.5%	11.2%	15.8	10.8	9.7	0.4	0.4	3.5%	2.9%	1.35	UP	
ALLIANCE BANK MALAYSIA BHD	2.59	4,009.6	N	03/2021	-10.1%	-6.4%	-14.7%	34.8%	9.4	11.1	8.2	0.7	0.6	5.9%	2.3%	2.30	UP	
AMMB HOLDINGS BHD	3.02	9,990.5	N	03/2021	-10.9%	4.6%	-205.4%	190.0%	6.8	N.A.	7.9	0.5	0.5	-7.9%	0.0%	2.40	UP	
BIMB HOLDINGS BHD	3.91	8,116.7	Y	12/2021	7.6%	3.9%	6.1%	0.8%	10.1	9.6	9.5	1.1	1.1	11.5%	3.6%	5.15	OP	
CIMB GROUP HOLDINGS BHD	4.19	41,959.4	N	12/2021	-0.3%	4.5%	176.0%	35.0%	34.8	12.6	9.3	0.7	0.7	5.8%	3.1%	3.50	UP	
HONG LEONG BANK BHD	17.88	38,758.8	N	06/2021	14.8%	9.6%	14.3%	6.3%	14.7	12.8	12.1	1.3	1.2	10.1%	2.0%	17.80	MP	
MALAYAN BANKING BHD	8.25	94,165.5	N	12/2022	-4.7%	2.8%	8.8%	19.7%	13.6	12.5	10.5	1.1	1.1	8.7%	6.8%	10.60	OP	
MALAYSIA BUILDING SOCIETY BHD	0.635	4,429.4	N	12/2021	66.6%	3.0%	173.9%	14.4%	16.1	5.9	5.1	0.5	0.5	8.1%	4.7%	0.720	OP	
PUBLIC BANK BHD	4.17	80,942.6	N	12/2021	1.4%	2.3%	15.6%	3.1%	16.6	14.4	13.9	1.7	1.6	11.6%	3.4%	4.40	MP	
RHB BANK BHD	5.27	21,132.9	N	12/2021	-2.6%	4.0%	16.0%	12.6%	10.4	9.0	8.0	0.8	0.7	8.5%	4.4%	6.25	OP	
<b>Simple Average</b>					<b>5.7%</b>	<b>3.1%</b>	<b>23.7%</b>	<b>32.8%</b>	<b>14.8</b>	<b>11.0</b>	<b>9.4</b>	<b>0.9</b>	<b>0.8</b>	<b>6.6%</b>	<b>3.3%</b>			

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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