

02 August 2021

CIMB Group Holdings Bhd

CIMB Niaga: 1HFY21 Appears Solid

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CIMB Niaga's 1HFY21 CNP of IDR2.17t (+25%) is deemed better-than-expected as NIMs remain supportive with NOII assets yielding better results. Management is cautiously optimistic as asset quality remains an on-going concern, but sees growth opportunities from enhanced digital capabilities. We keep our group-level estimates unchanged for now. Maintain MP and TP of RM4.40.

1HFY21 earnings higher-than-expected. 92.5%-owned CIMB Niaga (Niaga) reported 1HFY21 earnings of IDR2.17t, which is above expectations (63% of consensus estimate) as higher overall income was propelled by better NII and NOII. Typically, Niaga makes up 15-20% of the CIMB Group's PBT.

YoY, 1HFY21 total income amounted to IDR9.21t (+6%) as NII (+5%) benefited from higher NIMs (5.0%, +16 bps) despite a 7% reduction in total gross loans. CASA-to-deposit ratio gained further to 62.4% (+1.4ppt) to reduce the cost of funds. Meanwhile, NOII (+7%) gained from better fee-based performance and financial assets. Overall, this improved the CIR to 46.3% (-4.3ppt). On the flipside, credit cost rose to 246 bps (+33 bps) on further Covid-19 buffers, as GIL remained elevated at 6.4% (+1.2ppt). AI in, core PATAMI for 1HFY21 came in at IDR2.17t (+25%).

QoQ, 2QFY21 total income dipped slightly (-1%) no thanks to a 4% decline in NOII amidst a stagnant NII during the quarter. NIMs fell slightly to 5.04% (-4bps), coinciding with the lower CASA mix (62.4%, -0.9ppt). That said, as the group booked lower impairment allowances (-29%) during the quarter, credit cost reduced to 205 bps (-84 bps) which also lifted 2QFY21 core earnings to IDR1.18t (+18%).

Half way through. Having laid the foundations of its digital strategies, Niaga's management hopes to further tap into underbanked consumers with open banking solutions to widen its product range. Digital channels could also support the bank in keeping CASA growth sustainable. As the vaccination rate in Indonesia progressively increases, the gradual ensuing economic recovery could spill into following quarters. However, management anticipates some easing in earnings to take place as the loans-at-risk mix remains elevated at 18% (albeit still an improvement from 22% in Jun 2020) with peakish GIL being an on-going concern. That being said, we believe management's credit cost guidance of 240-260 bps should still be on track as overlays are being progressively consumed.

Post Niaga's results, we leave our earnings forecasts for CIMB unchanged for now, pending group-level earnings report to be released end-Aug 2021.

Maintain MARKET PERFORM and TP of RM4.40. Our TP is based on an unchanged FY22E GGM-derived PBV of 0.70x (1.0SD below 5-year mean). While we see downside risk for the stock as limited for now, it still pales in comparison to its large cap contemporaries in terms of ROE, dividends and asset quality. That said, it could soon reap the rewards of its regional arm's initiatives for focused approaches, and tap into the restarting of economic activities spurred by vaccinations, which is likely to benefit the larger banks first.

Risks to our call include: (i) higher/lower-than-expected margin, (ii) higher/lower-than-expected loans growth, (iii) better/worse-than-expected movement in asset quality, (iv) stronger/weaker capital market activities, (v) favourable/unfavourable currency fluctuations and (vi) changes in OPR.

MARKET PERFORM ↔

Price : RM4.45
Target Price : RM4.40 ↔

Share Price Performance



KLCI	1,494.60
YTD KLCI chg	-8.1%
YTD stock price chg	3.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	44,563.1
Shares Outstanding	10,014.2
52-week range (H)	4.70
52-week range (L)	2.87
3-mth avg daily vol	11,494,080
Free Float	40%
Beta	1.2

Major Shareholders

Khazanah Nasional Bhd	27.0%
Employees Provident Fund	15.5%
Amanah Saham Nasional	10.8%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	13,378	13,768	14,039
Non-interest income	4,033	4,957	4,627
Total income	17,410	18,726	18,665
Operating expenses	-8,977	-9,367	-9,776
Loan impairment	-6,798	-4,119	-2,675
Pre-tax profit	1,530	6,395	6,214
PATAMI	1,194	4,700	4,567
Core PATAMI	1,194	3,545	4,567
Consensus NP		4,088	5,038
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.12	0.357	0.460
EPS growth	-74%	197%	29%
NDPS (RM)	0.05	0.13	0.18
BV/share (RM)	5.6	6.0	6.3
NTA/share (RM)	4.7	5.0	5.3
ROE (%)	2.1	8.2	7.5
PER (x)	37.0	12.5	9.7
P/BV (x)	0.79	0.74	0.71
Net Div. Yield (%)	1.1	2.9	4.0



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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (IDR t)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	3,269	3,269	0.0%	3,134	4.3%	6,538	6,203	5.4%
Non-interest income	1,307	1,360	-3.9%	245	433.3%	2,667	2,498	6.8%
Total income	4,575	4,630	-1.2%	3,379	35.4%	9,205	8,700	5.8%
Operating expenses	-2,189	-2,072	5.6%	-1,703	28.5%	-4,261	-4,404	-3.3%
Pre-impairment profit	2,387	2,557	-6.7%	1,676	42.4%	4,944	4,296	15.1%
(Allowances)/ write-backs	-887	-1,256	-29.4%	-1,276	-30.5%	-2,143	-2,026	5.7%
Operating profit	1,500	1,301	15.2%	399	275.5%	2,801	2,270	23.4%
Non-operating gains / (losses)	0	0	N.M	0	N.M.	0	0	N.M
Profit before tax	1,500	1,301	15.2%	399	275.5%	2,801	2,270	23.4%
Taxation	-364	-306	19.1%	-151	141.3%	-670	-525	27.5%
Minority interest	1	0	707.9%	0	69.1%	1	1	15.6%
Net PATAMI	1,137	996	14.1%	251	353.7%	2,132	1,745	22.2%
Core PATAMI	1,177	996	18.1%	251	369.6%	2,172	1,745	24.5%
Gross loans	173,351	173,423	0.0%	186,084	-6.8%	173,351	186,084	-6.8%
Gross impaired loans	11,094	10,926	1.5%	9,639	15.1%	11,094	9,639	15.1%
Customer deposits	218,073	200,071	9.0%	203,688	7.1%	218,073	203,688	7.1%
Current and savings account (CASA)	136,011	126,631	7.4%	124,321	9.4%	136,011	124,321	9.4%
Total assets	288,931	272,547	6.0%	274,419	5.3%	288,931	274,419	5.3%
Shareholders' equity	41,390	41,126	0.6%	39,709	4.2%	41,390	39,709	4.2%
Est. annualised NIM	5.04%	5.08%		4.93%		5.00%	4.84%	
Cost-to-income ratio	47.8%	44.8%		50.4%		46.3%	50.6%	
Annualised credit cost (bps)	204.6	288.6		274.4		246.2	213.1	
Effective tax rate	24.3%	23.5%		37.8%		23.9%	23.1%	
Annualised ROA	1.6%	1.4%		0.4%		1.5%	1.3%	
Annualised ROE	11.0%	9.7%		2.5%		10.5%	8.4%	
Gross impaired loans ratio	6.4%	6.3%		5.2%		6.4%	5.2%	
Loan loss coverage ratio (LLC)	110.2%	115.2%		110.2%		110.2%	110.2%	
Loan-to-deposit ratio	73.9%	80.3%		86.1%		73.9%	86.1%	
CASA-to-deposit ratio	62.4%	63.3%		61.0%		62.4%	61.0%	

Note:

* Core adjustments include: IDR20b written off for intangible IT software assets and IDR21b on damaged fixed assets (i.e. computers)

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 (%)	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.	1-Yr. Fwd.				
Stocks Under Coverage																			
AFFIN BANK BHD	1.67	3,547.2	N	12/2021	-7.8%	5.7%	44.2%	8.8%	15.1	10.5	9.6	0.4	0.4	3.4%	3.0%	1.30	UP		
ALLIANCE BANK MALAYSIA BHD	2.39	3,700.0	N	03/2022	-5.6%	1.0%	33.9%	8.3%	10.3	7.7	7.1	0.6	0.6	7.5%	3.8%	2.20	MP		
AMMB HOLDINGS BHD	2.85	9,444.9	N	03/2022	-4.2%	3.4%	27.4%	8.8%	9.1	7.9	7.2	0.6	0.6	7.9%	3.2%	2.85	MP		
BIMB HOLDINGS BHD	3.75	7,784.5	Y	12/2021	7.0%	1.9%	6.6%	2.6%	9.7	9.1	8.9	1.1	0.9	11.0%	3.7%	5.10	OP		
CIMB GROUP HOLDINGS BHD	4.45	44,563.1	N	12/2021	0.4%	2.4%	196.8%	28.8%	37.0	12.5	9.7	0.8	0.7	6.2%	2.9%	4.40	MP		
HONG LEONG BANK BHD	18.00	39,018.9	N	06/2021	-6.6%	5.4%	14.3%	5.8%	14.8	12.9	12.2	1.4	1.3	10.1%	2.0%	17.70	MP		
MALAYAN BANKING BHD	8.01	93,663.6	N	12/2022	-5.6%	1.8%	14.4%	12.8%	13.3	11.6	10.3	1.1	1.0	9.1%	7.0%	10.65	OP		
MALAYSIA BUILDING SOCIETY BHD	0.585	4,080.6	N	12/2021	61.4%	5.0%	128.6%	22.2%	14.8	6.5	5.3	0.4	0.4	6.8%	5.1%	0.600	MP		
PUBLIC BANK BHD	3.98	77,254.6	N	12/2021	-0.1%	3.4%	17.3%	1.7%	15.9	13.5	13.3	1.6	1.5	11.7%	3.5%	3.90	MP		
RHB BANK BHD	5.11	20,789.3	N	12/2021	-4.4%	6.5%	14.2%	12.0%	10.1	8.8	7.9	0.8	0.7	8.4%	4.5%	6.15	OP		
Simple Average					3.5%	3.7%	49.8%	11.2%	15.0	10.1	9.1	0.9	0.8	8.2%	3.9%				

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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