

01 December 2021

# CIMB Group Holdings Bhd

## 9MFY21 Better-Than-Expected

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

**9MFY21 core PATAMI of RM3.84b (+292%) outpaced full-year expectations as credit costs were contained and with stronger non-financing income; hence, we raise our FY21E/FY22E earnings by 17%/10%. Management is confident of meeting its year-end target, save for loans growth. Headwinds may only arise if Covid-19 worsens but the buffers in place may cushion any immediate impact. Maintain MP but with a higher GGM-derived PBV TP of RM5.20 (from RM4.75).**

**9MFY21 above expectations.** 9MFY21 core PATAMI of RM3.84b beat our/consensus expectations, making up 90%/85% of respective full-year estimates. The positive deviation was a result of lower credit cost needs, affirmed by management's improved guidance. NOII was also better than expected, as we had anticipated for overall performance to be much lesser than the prior year owing to softer trading sentiment. No dividend was announced, as expected.

**YoY,** NII rose by 13% as loans gained 5%, driven by more mortgage applications from consumer banking. NIMs also expanded to 2.50% (+18bps) led by a higher CASA mix (42.8%, +2.2ppt) to lower cost of funds. Excluding the one-off revaluation gain of RM1.16b from TnG Digital, NOII grew 6% thanks for higher fee-based income and stable trading performances. Operating expenses were enlarged by 9% mainly driven by IT expenses. Meanwhile, loans provision was much better (-52%) having booked for risk sensitive accounts during prior periods. The quarter also saw a one-off goodwill impairment of RM1.22b pertaining to Thailand unit. Excluding all exceptional items, 9MFY21 core PATAMI registered at RM3.84b (+292%).

**QoQ,** total income declined by 6% due to softer NII (from normalising NIMs at 2.45%, -12bps) and NOII (both weaker trading and fee income). A modification loss of RM43.8m was recorded this quarter as a result of PEMULIH assistance, which would otherwise mitigate the NIMs decline by 3 bps. On the flipside, operating expenses also declined by 8% as establishment and administrative cost moderated. Additionally, allowances also came slower (-9%) due to better underlying books. Excluding one-offs above, 3QFY21 core PATAMI came in at RM1.22b (-5%).

**Key briefing's highlights.** The group opines that a strong performance in FY21 will make up for the heavy shortfall in FY20, no thanks to Covid-19. The slower-than-expected take-up of loans has led management to focus on other fundamentals, i.e. ensuring existing assets remain healthy. With sufficient overlays being booked, management narrows its expected exposure for the year end to 75-85bps, from 80-90bps. PEMULIH accounts are seen to be fairly manageable with URUS applications still appearing tepid. That said, any spill-over into FY22 is not expected to be detrimental to the group, given its modest local B50 base (<12% total loans). Meanwhile, its cost synergy initiatives seem to be on track to deliver its RM300m-RM500m savings.

**Post results,** we raise our FY21E/FY22E earnings by 17%/10% as we make further trimmings to our impairment assumptions (88 bps/55 bps to 75 bps/39 bps). Meanwhile, we also raise our NOII numbers to reflect YTD performances.

**Maintain MP with a higher TP of RM5.20 (from RM4.75).** In addition to our revised earnings, we ascribe higher ROE assumptions in our GGM-derived PBV valuations, leading to an expanded 0.84 FY22E PBV (0.5SD below mean) from 0.78x. Its currently peakish CET-1 ratio of 13.9% would allow the group more considerations with its capital management, especially during times of rising uncertainties. The group's regional exposure may yet prove to be a boon or a bane, depending on how well the respective countries could be exposed to worsening Covid-19 cases.

## MARKET PERFORM ↔

Price : RM5.18  
Target Price : RM5.20 ↑

### Share Price Performance



KLCI	1,513.98
YTD KLCI chg	-7.0%
YTD stock price chg	20.5%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	52,947.1
Shares Outstanding	10,221.5
52-week range (H)	5.41
52-week range (L)	3.51
3-mth avg daily vol	11,959,180
Free Float	39%
Beta	1.1

### Major Shareholders

Khazanah Nasional Bhd	25.7%
Employees Provident Fund	14.8%
Amanah Saham Nasional	10.6%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Net interest income	13,378	13,860	13,934
Non-interest income	4,033	5,057	4,727
<b>Total income</b>	<b>17,410</b>	<b>18,917</b>	<b>18,660</b>
Operating expenses	-8,977	-9,156	-9,248
<b>Loan impairment</b>	<b>-6,798</b>	<b>-4,458</b>	<b>-1,978</b>
Pre-tax profit	1,530	6,398	7,435
<b>PATAMI</b>	<b>1,194</b>	<b>4,703</b>	<b>5,093</b>
<b>Core PATAMI</b>	<b>1,194</b>	<b>4,993</b>	<b>5,093</b>
Consensus NP		4,508	5,197
Earnings revision		+16.9%	+10.3%
Core EPS (RM)	0.12	0.50	0.51
EPS growth (%)	-74	318	2
NDPS (RM)	0.05	0.21	0.23
BV/share (RM)	5.62	5.88	6.16
NTA/share (RM)	4.64	4.90	5.18
ROE (%)	2.1	8.2	8.5
PER (x)	43.2	10.3	10.1
P/BV (x)	0.92	0.88	0.84
Net Div. Yield (%)	0.9	4.1	4.4

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

## Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Net interest income	3,572	3,689	-3.2%	3,306	8.1%	10,862	9,575	13.4%
Non-interest income	823	981	-16.1%	1,109	-25.7%	4,161	2,748	51.4%
<b>Total income</b>	<b>4,396</b>	<b>4,671</b>	<b>-5.9%</b>	<b>4,414</b>	<b>-0.4%</b>	<b>15,023</b>	<b>12,322</b>	<b>21.9%</b>
Operating expenses	-2,267	-2,452	-7.5%	-2,155	5.2%	-7,057	-6,497	8.6%
<b>Pre-impairment profit</b>	<b>2,129</b>	<b>2,219</b>	<b>-4.1%</b>	<b>2,260</b>	<b>-5.8%</b>	<b>7,966</b>	<b>5,825</b>	<b>36.8%</b>
Core pre-impairment profit *	3,451	2,415	42.9%	2,260	52.7%	8,363	5,825	43.6%
(Allowances)/ write-backs	-573	-627	-8.7%	-1,585	-63.9%	-1,938	-4,074	-52.4%
(Allowances)/ write-backs on other assets	-1,232	-37	3258.1%	-255	382.6%	-1,286	-468	175.1%
<b>Operating profit</b>	<b>324</b>	<b>1,555</b>	<b>-79.2%</b>	<b>419</b>	<b>-22.7%</b>	<b>4,741</b>	<b>1,283</b>	<b>269.4%</b>
Core operating profit *	1,646	1,751	-6.0%	419	292.9%	5,138	1,283	300.3%
Associate gains / (losses)	9	23	-61.6%	35	-74.9%	67	81	-17.2%
<b>Profit before tax</b>	<b>333</b>	<b>1,578</b>	<b>-78.9%</b>	<b>454</b>	<b>-26.7%</b>	<b>4,808</b>	<b>1,364</b>	<b>252.4%</b>
Taxation	-408	-466	-12.5%	-275	48.4%	-1,297	-414	213.7%
Minority interest	-25	-27	-6.1%	15	-265.3%	-70	29	-344.5%
<b>Net PATAMI</b>	<b>-101</b>	<b>1,084</b>	<b>-109.3%</b>	<b>194</b>	<b>-151.7%</b>	<b>3,441</b>	<b>979</b>	<b>251.3%</b>
<b>Core PATAMI (net of tax)*</b>	<b>1,221</b>	<b>1,280</b>	<b>-4.6%</b>	<b>194</b>	<b>528.2%</b>	<b>3,838</b>	<b>979</b>	<b>291.9%</b>
Gross loans	372,360	369,173	0.9%	354,815	4.9%	372,360	354,815	4.9%
Gross impaired loans	12,575	12,693	-0.9%	12,366	1.7%	12,575	12,366	1.7%
Customer deposits	426,202	408,730	4.3%	409,371	4.1%	426,202	409,371	4.1%
Current and savings account (CASA)	182,282	174,211	4.6%	166,281	9.6%	182,282	166,281	9.6%
Total assets	627,371	612,383	2.4%	600,497	4.5%	627,371	600,497	4.5%
Shareholders' equity	58,285	59,705	-2.4%	55,071	5.8%	58,285	55,071	5.8%
Est. annualised NIM	2.45%	2.57%		2.34%		2.50%	2.32%	
Cost-to-income ratio	51.6%	47.0%		48.8%		47.0%	52.7%	
Annualised credit cost (bps)	61.8	68.3		178.7		70.0	151.9	
Effective tax rate	122.6%	29.6%		60.6%		27.0%	30.3%	
Annualised ROA	-0.1%	0.7%		0.1%		0.8%	0.2%	
Annualised ROE	-0.7%	7.4%		1.4%		9.0%	2.3%	
Gross impaired loans ratio	3.4%	3.4%		3.5%		3.4%	3.5%	
Loan loss coverage ratio (LLC)	105.1%	102.2%		93.8%		105.1%	93.8%	
LLC plus regulatory reserves	105.3%	102.4%		93.9%		105.3%	93.9%	
Loan-to-deposit ratio	84.7%	87.7%		87.7%		84.7%	87.7%	
CASA-to-deposit ratio	42.8%	42.6%		40.6%		42.8%	40.6%	
CET-1 capital (Group level)	13.9%	13.4%		13.0%		13.9%	13.0%	

Note:

\* Excluding one-off items of: (i) 1QFY21's RM1,156m revaluation gain from TnG Digital; (ii) 2QFY21's RM17m restructuring cost and RM241m intangible write off and accelerated amortisation; and (iii) 3QFY21's RM1.22b impairment of goodwill for Thai operations, RM83m accelerated amortisation, RM10m transformational cost and RM2m gain on dilution from TnG Digital

Source: Company, Kenanga Research

## Management Guidance

	FY21 Targets	FY20 Performance
Return on equity	7.5 – 8.5% (from 6 – 7%)	2.1%
Net loans growth	2 – 3%	-1.0%
Credit cost	75 – 85 bps (from 80 – 90 bps)	146 bps
Cost-to-income ratio	<50%	52.2%
NIM	expansion of 10 – 20 bps	2.40%
Dividend payout	40 – 60%	40%

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.			
<b>Stocks Under Coverage</b>																		
AFFIN BANK BHD	1.67	3,547.2	N	12/2021	-13.1%	5.5%	80.4%	6.5%	15.1	8.4	7.8	0.4	0.4	4.3%	3.0%	1.55	MP	
ALLIANCE BANK MALAYSIA BHD	2.88	4,458.5	N	03/2022	-7.2%	1.4%	53.0%	4.8%	12.4	8.1	7.7	0.7	0.7	8.5%	4.9%	2.65	MP	
AMMB HOLDINGS BHD	3.16	10,468.8	N	03/2022	-3.6%	1.4%	30.2%	11.5%	10.1	8.5	7.7	0.7	0.7	8.1%	2.8%	3.15	MP	
BIMB HOLDINGS BHD	2.93	6,082.3	Y	12/2021	0.2%	-2.3%	14.8%	-7.1%	14.5	12.6	13.6	1.2	1.1	9.0%	4.8%	3.20	OP	
CIMB GROUP HOLDINGS BHD	5.18	52,947.1	N	12/2021	-1.0%	2.1%	318.0%	2.0%	43.2	10.3	10.1	0.9	0.9	8.7%	4.1%	5.25	MP	
HONG LEONG BANK BHD	18.08	39,192.3	N	06/2022	0.7%	5.1%	-3.1%	9.2%	12.9	13.4	12.2	1.3	1.2	9.2%	3.0%	18.20	MP	
MALAYAN BANKING BHD	7.98	94,747.8	N	12/2021	-8.5%	3.2%	19.4%	2.2%	13.8	11.6	11.4	1.1	1.0	9.1%	7.0%	10.55	OP	
MALAYSIA BUILDING SOCIETY BHD	0.590	4,231.2	N	12/2021	55.4%	6.8%	94.0%	25.9%	14.9	7.7	6.1	0.5	0.4	5.8%	4.1%	0.540	UP	
PUBLIC BANK BHD	3.94	76,478.1	N	12/2021	-3.6%	2.3%	14.3%	-0.7%	15.7	13.7	13.8	1.6	1.5	11.4%	3.6%	3.85	MP	
RHB BANK BHD	5.28	21,874.6	N	12/2021	-5.2%	5.8%	18.0%	-0.2%	9.2	7.8	7.8	0.8	0.7	9.8%	5.9%	6.50	OP	
<b>Simple Average</b>					<b>1.4%</b>	<b>3.1%</b>	<b>63.9%</b>	<b>5.4%</b>	<b>16.2</b>	<b>10.2</b>	<b>9.8</b>	<b>0.9</b>	<b>0.9</b>	<b>8.4%</b>	<b>4.3%</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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

