

28 July 2022

# CIMB Group Holdings Bhd

## 2QFY22 Pre-results Update

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

We maintain our GGM-derived PBV TP of RM5.70 (COE: 11.7%, TG: 2.0%, ROE: 10.5%) and OP call. The group stays cautious, on implications of prolonged macro uncertainties, in its sell-side hosting yesterday. At the very least, Indonesia operating landscape appears more buoyant as cued by CIMB Niaga's recent 2QFY22 results. We believe its fundamentals are underpriced at current share price level, with the group expected to outperform pre-pandemic level. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

CIMB hosted a sell-side 2QFY22 pre-results briefing yesterday. Key takeaways are as follows:

- **Asset quality manageable but with minor pains expected.** The group noted that TRA numbers are improving (June 2022 at 4% of total loans vs April 2022 at 5%), indicative of stable economic environment allowing for gradual recovery. However, the group is cautious of cascading impacts from prolonged global uncertainties which we believe may strain certain vulnerable sectors (i.e. low income groups, SMEs). Additionally, heightened OPR is likely to pin down demand and affordability.
- **Provisions could see some tightening.** Considering the above, CIMB intends to induce further management overlays and will update its 60-70 bps credit cost guidance with its 2QFY22 presentation. This will likely skew towards commercial and consumer accounts. Large corporate accounts are possibly unaffected as said accounts are sufficiently provided for at this juncture. No further booking from 1QFY22's double crediting issue is expected although recoverability here is expected to face some hurdles.
- **Sequentially better NOI.** Progressive (albeit marginal) improvements could be seen on the back of better fees income and loans recovery. That said, this is offset by poorer performing forex and investment trading segments. The group noted that it marked higher adjustments in the recent quarter to better yielding bond holdings. Still, the comparative strength of FY22 is unlikely to come close to FY21's.
- **Lazada's RM750m funding in TnG Digital would not stir revaluation gains.** Recent reports have highlighted Lazada's investment in TnG Digital; however, no further information was shared with regards to the allocated stake or valuations ascribed. Still, the group reaffirms that this transaction should not translate to significant one-off revaluation gains. We see collaborations between these two companies to ultimately be a boon as it provides direct participation into the ecommerce space while fuelling consumer dependence on TnG Digital's ecosystem.

(refer to the overleaf for commentary on CIMB Niaga's 2QFY22 results)

Post updates, we leave our FY22E/FY23E assumptions unchanged.

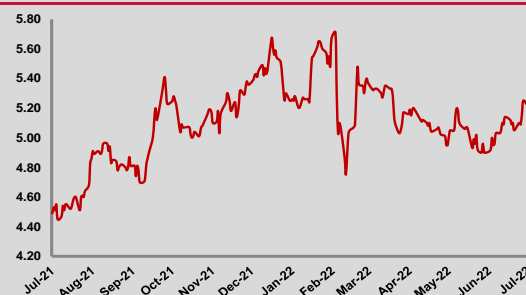
**Maintain OUTPERFORM and TP of RM5.70.** Our TP is based on a GGM-derived PBV of 0.88x (COE: 11.7%, TG: 2.0%, ROE: 10.5%). While there is near-term conservatism held by the group, we see technical buying opportunities due to shares sell-down triggered by the Feb 2022 double crediting issues that has yet to fully subside. We believe such events are highly exceptional and unlikely to reoccur. Additionally, its firm cost management should prevent unforeseen overrun to significantly dampen earnings. CIMB registered the strongest YoY EPS improvement amongst its peers (31% vs. 20%). A FY23 dividend return of 6% could be tempting to yield seekers.

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

## OUTPERFORM ↔

Price : RM5.22  
Target Price : RM5.70 ↔

### Share Price Performance



KLCI	1,470.71
YTD KLCI chg	-6.2%
YTD stock price chg	-4.2%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	54,675.6
Shares Outstanding	10,474.3
52-week range (H)	5.71
52-week range (L)	4.45
3-mth avg daily vol	9,687,976
Free Float	39%
Beta	1.2

### Major Shareholders

Khazanah Nasional Bhd	24.8%
Employees Provident Fund	16.2%
Amanah Saham Nasional	10.3%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Net interest income	14,470	15,357	16,201
Non-interest income	3,955	3,691	3,843
<b>Total income</b>	<b>18,425</b>	<b>19,048</b>	<b>20,044</b>
Operating expenses	-9,419	-9,513	-9,608
<b>Loan impairment</b>	<b>-4,373</b>	<b>-2,587</b>	<b>-2,156</b>
Pre-tax profit	5,789	7,047	8,379
<b>PATAMI</b>	<b>4,295</b>	<b>4,828</b>	<b>6,323</b>
<b>Core PATAMI</b>	<b>4,648</b>	<b>4,828</b>	<b>6,323</b>
Consensus NP		5,034	6,121
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.46	0.48	0.63
EPS growth (%)	289	4	31
NDPS (RM)	0.23	0.23	0.31
BV/share (RM)	5.87	6.13	6.45
NTA/share (RM)	5.04	5.30	5.62
ROE (%)	7.5	8.0	10.0
PER (x)	11.3	10.8	8.3
P/BV (x)	0.89	0.85	0.81
Net Div. Yield (%)	4.4	4.4	5.9

28 July 2022

**CIMB Niaga (91.5%-owned) 2QFY22 results highlights.** 1HFY22 earnings of IDR2.53b came better-than-anticipated, making 56% of street's full-year estimate. **YoY**, 1HFY22 net profit was 17% stronger, thanks to better loans recovery, as also alluded by the group. Although NII was flat, a 9% growth in loans is better than earlier guidance and the group believes it will drive income meaningfully in the upcoming quarters as NIMs are also stabilising on more favourable asset yields. Cost prudence also kept CIR manageable at 45.1% (-1.3ppt) in 1HFY22 while provisioning needs are expected to continue improving. **Indonesia's prospects could be more upbeat**, as the group expects the local economic environment to be more business friendly (especially for manufacturers) and in turn fuel the overall demand for loans. That said, real estate and hospitality sectors may not fare as well. While two rate further hikes are expected in the country, the group opines that a better ROE target of 11-13% (from 11-12%) is achievable. In spite of the better expectations, we leave our overall group level assumptions unchanged as this will likely be muted by other regions. CIMB Niaga typically makes up 15-20% of the CIMB group's PBT.

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (IDR t)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	3,329	3,209	3.7%	3,269	1.8%	6,538	6,538	0.0%
Non-interest income	1,458	1,594	-8.5%	1,307	11.6%	3,052	2,667	14.4%
<b>Total income</b>	<b>4,787</b>	<b>4,803</b>	<b>-0.3%</b>	<b>4,575</b>	<b>4.6%</b>	<b>9,590</b>	<b>9,205</b>	<b>4.2%</b>
Operating expenses	-2,196	-2,131	3.1%	-2,190	0.3%	-4,327	-4,268	1.4%
<b>Pre-impairment profit</b>	<b>2,590</b>	<b>2,672</b>	<b>-3.1%</b>	<b>2,385</b>	<b>8.6%</b>	<b>5,263</b>	<b>4,938</b>	<b>6.6%</b>
(Allowances)/ write-backs	-845	-1,116	-24.3%	-885	-4.5%	-1,961	-2,141	-8.4%
<b>Operating profit</b>	<b>1,745</b>	<b>1,556</b>	<b>12.1%</b>	<b>1,500</b>	<b>16.3%</b>	<b>3,301</b>	<b>2,796</b>	<b>18.1%</b>
Non-operating gains / (losses)	0	0	N.M	0	N.M.	0	0	N.M
<b>Profit before tax</b>	<b>1,745</b>	<b>1,556</b>	<b>12.1%</b>	<b>1,500</b>	<b>16.3%</b>	<b>3,301</b>	<b>2,796</b>	<b>18.1%</b>
Taxation	-387	-347	11.5%	-364	6.4%	-735	-670	9.7%
Minority interest	-17	-15	16.6%	1	-2928.0%	-32	1	-4775.2%
<b>Net PATAMI</b>	<b>1,340</b>	<b>1,194</b>	<b>12.3%</b>	<b>1,137</b>	<b>17.9%</b>	<b>2,534</b>	<b>2,132</b>	<b>18.8%</b>
<b>Core PATAMI</b>	<b>1,340</b>	<b>1,194</b>	<b>12.3%</b>	<b>1,169</b>	<b>14.7%</b>	<b>2,534</b>	<b>2,164</b>	<b>17.1%</b>
Gross loans	189,694	182,664	3.8%	173,351	9.4%	189,694	173,351	9.4%
Gross impaired loans	12,330	12,421	-0.7%	11,094	11.1%	12,330	11,094	11.1%
Customer deposits	231,990	237,319	-2.2%	218,073	6.4%	231,990	218,073	6.4%
Current and savings account (CASA)	152,456	150,860	1.1%	136,011	12.1%	152,456	136,011	12.1%
Total assets	310,980	307,425	1.2%	288,931	7.6%	310,980	288,931	7.6%
Shareholders' equity	43,070	44,559	-3.3%	41,390	4.1%	43,070	41,390	4.1%
Est. annualised NIM	4.70%	4.47%		5.04%		4.57%	5.00%	
Cost-to-income ratio	45.9%	44.4%		47.9%		45.1%	46.4%	
Annualised credit cost (bps)	181.6	245.1		204.3		211.3	246.0	
Effective tax rate	22.2%	22.3%		24.3%		22.3%	23.9%	
Annualised ROA	1.7%	1.5%		1.6%		1.6%	1.5%	
Annualised ROE	12.2%	10.9%		11.0%		11.7%	10.5%	
Gross impaired loans ratio	6.5%	6.8%		6.4%		6.5%	6.4%	
Loan loss coverage ratio (LLC)	115.3%	111.5%		110.2%		115.3%	110.2%	
Loan-to-deposit ratio	75.6%	71.2%		73.9%		75.6%	73.9%	
CASA-to-deposit ratio	65.7%	63.6%		62.4%		65.7%	62.4%	

Note:

\* Core adjustments include one-offs amounting to: (i) IDR32b in 2QFY21

Source: Company, Kenanga Research

28 July 2022

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Net interest income	13,125	13,378	14,470	15,357	16,201	<b>Growth</b>					
Non-interest income	4,419	4,033	3,955	3,691	3,843	Net interest income	7.2%	1.9%	8.2%	6.1%	5.5%
<b>Total income</b>	<b>17,544</b>	<b>17,410</b>	<b>18,425</b>	<b>19,048</b>	<b>20,044</b>	Non-interest income	9.2%	-8.8%	-1.9%	-6.7%	4.1%
Operating expenses	-9,873	-8,977	-9,419	-9,513	-9,608	Total income	7.7%	-0.8%	5.8%	3.4%	5.2%
<b>PPOP</b>	<b>7,671</b>	<b>8,433</b>	<b>9,006</b>	<b>9,535</b>	<b>10,436</b>	Operating expenses	14.1%	-9.1%	4.9%	1.0%	1.0%
Loan impairments	-1,639	-5,342	-3,047	-2,387	-1,706	PPOP	0.5%	9.9%	6.8%	5.9%	9.4%
Other impairments	-340	-1,456	-1,325	-200	-450	Loan impairment	14.4%	226.0%	-43.0%	-21.6%	-28.5%
Associates	31	116	1,218	100	100	Pre-tax profit	-17.0%	-74.4%	278.3%	21.7%	18.9%
<b>Pre-tax profit</b>	<b>5,975</b>	<b>1,530</b>	<b>5,789</b>	<b>7,047</b>	<b>8,379</b>	PATAMI	-18.3%	-73.8%	259.6%	12.4%	31.0%
Tax and zakat	-1,520	-384	-1,397	-2,120	-1,927	Core PATAMI	-18.3%	-73.8%	289.2%	3.9%	31.0%
Minority interest	104	48	-97	-99	-129	Gross loans	6.9%	-1.8%	3.0%	5.7%	5.1%
<b>PATAMI</b>	<b>4,560</b>	<b>1,194</b>	<b>4,295</b>	<b>4,828</b>	<b>6,323</b>	Customer deposits	6.0%	2.7%	4.8%	1.1%	4.1%
<b>Core PATAMI</b>	<b>4,560</b>	<b>1,194</b>	<b>4,648</b>	<b>4,828</b>	<b>6,323</b>						
<b>Balance Sheet</b>						<b>Operating metrics</b>					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	Est avg asset yield	5.06%	4.24%	3.67%	3.83%	3.90%
Cash & ST funds	75,902	82,277	85,949	87,207	89,849	Est avg funding cost	2.78%	2.02%	1.40%	1.54%	1.58%
Investment securities	85,198	120,171	128,439	132,769	136,792	Est NIM	2.54%	2.43%	2.50%	2.55%	2.58%
Loans and financing	360,340	353,916	364,685	385,418	405,051	Cost-to-Income ratio	55.5%	52.2%	51.3%	49.9%	47.9%
Other assets	42,263	36,246	34,533	36,626	36,443	Credit cost (bps)	47.0	149.6	72.7	63.7	43.2
Intangible assets	9,543	9,745	8,302	8,302	8,302	Loan-to-deposit ratio	91.8%	87.8%	86.3%	90.2%	91.1%
<b>Total Assets</b>	<b>573,246</b>	<b>602,355</b>	<b>621,907</b>	<b>650,321</b>	<b>676,437</b>	GIL ratio	3.1%	3.6%	3.6%	3.6%	3.6%
Customer deposits	392,349	403,051	422,418	427,193	444,539	LLC Ratio	80.7%	91.6%	100.2%	100.0%	100.0%
Deposits & placements	23,667	31,791	30,702	33,929	35,307	LLC Ratio (+ reg reserves)	99.6%	93.4%	101.2%	100.9%	100.9%
Borrowings	58,053	44,058	30,131	44,179	45,920	ROA	0.8%	0.2%	0.7%	0.8%	1.0%
Other liabilities	41,708	66,280	78,547	82,388	84,823	ROE	8.5%	2.1%	7.5%	8.0%	10.0%
<b>Total liabilities</b>	<b>515,777</b>	<b>545,181</b>	<b>561,798</b>	<b>587,689</b>	<b>610,589</b>						
Share capital	25,849	25,844	27,100	27,100	27,100	<b>Valuations</b>					
Retained earnings	28,137	29,950	32,814	35,338	38,554	EPS (RM)	0.45	0.12	0.46	0.48	0.63
Regulatory reserves	2,133	233	129	129	129	PER (x)	11.47	43.80	11.25	10.83	8.27
Other reserves	118	(102)	(1,180)	(1,180)	(1,180)	Div yield (%)	5.0	0.9	4.4	4.4	5.9
<b>Shareholders' funds</b>	<b>56,237</b>	<b>55,926</b>	<b>58,863</b>	<b>61,387</b>	<b>64,603</b>	BV/share (RM)	5.61	5.58	5.87	6.13	6.45
Minority interest	1,232	1,248	1,245	1,245	1,245	P/BV (x)	0.93	0.94	0.89	0.85	0.81
<b>Total liabilities and equity</b>	<b>573,246</b>	<b>602,355</b>	<b>621,907</b>	<b>650,321</b>	<b>676,437</b>						

Source: Kenanga Research

28 July 2022

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	2.08	4,601.6	N	12/2022	14.5%	5.8%	10.8%	24.8%	8.3	7.5	6.0	0.4	0.4	5.8%	5.3%	2.45	OP	
ALLIANCE BANK MALAYSIA BHD	3.43	5,310.0	N	03/2023	7.4%	5.3%	19.8%	12.5%	9.3	7.7	6.9	0.8	0.8	10.4%	6.4%	4.00	OP	
AMMB HOLDINGS BHD	3.89	12,879.3	N	03/2023	9.4%	4.9%	7.6%	8.2%	8.5	7.9	7.3	0.8	0.7	9.3%	4.1%	4.35	OP	
BANK ISLAM MALAYSIA BHD	2.66	5,733.0	Y	12/2022	-6.4%	0.9%	-1.9%	15.1%	12.4	12.6	10.8	1.0	1.0	7.9%	3.9%	2.90	OP	
CIMB GROUP HOLDINGS BHD	5.22	54,675.6	N	12/2022	5.2%	7.2%	3.9%	31.0%	11.3	10.8	8.3	0.9	0.9	8.0%	4.4%	5.70	OP	
HONG LEONG BANK BHD	21.08	45,695.5	N	06/2022	4.0%	12.8%	5.8%	24.4%	15.1	14.3	11.5	1.5	1.4	10.0%	2.7%	22.95	OP	
MALAYAN BANKING BHD	8.80	105,336.1	N	12/2022	6.3%	8.8%	5.8%	23.3%	12.6	11.9	9.7	1.2	1.2	9.9%	6.8%	11.05	OP	
MALAYSIA BUILDING SOCIETY BHD	0.575	4,123.6	N	12/2022	69.0%	7.7%	15.8%	41.7%	9.4	8.1	5.7	0.5	0.5	5.8%	6.1%	0.510	UP	
PUBLIC BANK BHD	4.60	89,289.2	N	12/2022	8.6%	8.1%	0.7%	26.3%	15.8	15.7	12.4	1.9	1.8	11.5%	3.4%	4.45	MP	
RHB BANK BHD	5.83	24,556.4	N	12/2022	5.6%	5.6%	-4.9%	16.8%	8.4	8.9	7.6	0.8	0.8	9.3%	5.5%	7.00	OP	
<b>Simple Average</b>					<b>12.4%</b>	<b>6.7%</b>	<b>6.3%</b>	<b>22.4%</b>	<b>11.1</b>	<b>10.6</b>	<b>8.6</b>	<b>1.0</b>	<b>0.9</b>	<b>8.8%</b>	<b>4.9%</b>			

Source: Kenanga Research

This section is intentionally left blank

28 July 2022

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
<b>SPECIFIC</b>	Green Financing	★	★	★	★	
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	☆		
	Staff Welfare & Training	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

**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)

