

02 May 2024

CIMB Group Holdings

CIMB Niaga: Profit Growth Persists

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CIMB Niaga's 1QFY24 net profit was within expectations. Niaga has made headways in regaining its NIMs although we view the surprise interest rate hike by its central bank to possibly cause some near-term disruption. That said, its improving asset quality is an indication of its longer-term sustainability. We maintain our forecasts, GGM-derived TP of RM6.60 and MARKET PERFORM call for CIMB.

1QFY24 within expectations. CIMB's 92.5%-owned CIMB Niaga (Niaga) earnings of IDR1.68b made up 25% of consensus full-year estimate.

YoY, 1QFY24 net interest income declined by 4% as diminished NIMs (4.28%, -42bps) from higher funding costs offset the gains from a higher loans base (+6%). Non-interest income also declined (-6%) as investment income normalised from the prior year's high base. On the flipside, the group saw credit cost improving drastically at 77 bps (-74 bps) with reduced delinquency rates as income and repayment prospects recover. This led to 1QFY24 net profit to report at IDR1.68b (+6%).

QoQ, 1QFY24 total income rose by 15% as NIMs managed to report sequential improvements (+12bps) with more loans being repriced during the period in addition to better comparative loan recoveries and trading gains. On the flipside, credit cost more than doubled (+40bps) likely on targeted pre-emptive provisions. All in, 1QFY24 net earnings grew by 7%.

Niaga's outlook. Niaga's sequential earnings growth appears sustainable as the group is able to at last regain NIMs from more meaningful loan repricing opportunities. That said, the surprise 25bps rate hike by its central bank, Bank Indonesia may lead to further recalibration of profit rates in the near-term. Overall, the group is not deterred in achieving its initial NIMs target of 4.2%-4.4% for FY24. We may continue to see earnings to be uplifted by comparatively better provisioning needs as economic activity picks up within the country, with Niaga being evenly exposed between consumer retail and business portfolios.

Forecasts. Post Niaga's results, we leave our earnings forecasts for CIMB unchanged for now, pending group-level earnings results to be released end-May 2024.

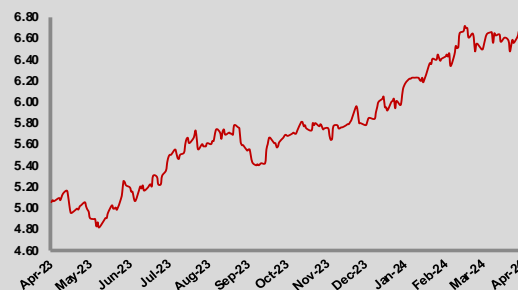
Maintain TP of RM6.60. Our TP is based on an unchanged GGM-derived FY25F PBV of 0.92x (COE: 11.2%, TG: 3.5%, ROE: 10.5%). We also applied a 5% premium granted by CIMB's 4-star ESG ranking thanks to headways in green financing. Fundamentally, the stock is supported by its regional diversification, especially in terms of NOII of which most of its peers lacked. CIMB's return to double-digit ROE could be indicative of its prospects, led by better forward earnings growth (21% vs. industry average of 8%) while offering attractive dividend yields (c.6%) in the medium term. That said, we believe its merits could have been fairly priced following the reemergence of foreign shareholders into Malaysian equities, stabilising CIMB's risk-to-reward.

Maintain MARKET PERFORM.

MARKET PERFORM ↔

Price : RM6.61
Target Price : RM6.60 ↔

Share Price Performance



KLCI 1,575.97
YTD KLCI chg 8.3%
YTD stock price chg 14.2%

Stock Information

Shariah Compliant No
Bloomberg Ticker CIMB MK Equity
Market Cap (RM m) 70,593.8
Shares Outstanding 10,679.9
52-week range (H) 6.72
52-week range (L) 4.81
3-mth avg. daily vol. 19,529,950
Free Float 44%
Beta 1.1

Major Shareholders

Khazanah Nasional Bhd 22.0%
Employees Provident Fund 14.9%
Amanah Saham Nasional 9.9%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net interest Income	15,348	15,785	15,860
Non-interest Income	5,670	6,079	5,624
Total Income	21,018	21,863	21,484
Operating Expenses	-9,865	-9,964	-10,063
Loan Impairment	-1,591	-2,074	-1,517
Pre-tax Profit	9,541	9,743	9,859
Net Profit	6,981	7,161	7,439
Core Net Profit	6,981	7,161	7,439
Consensus NP	-	7,567	8,036
Earnings Revision	-	-	-
Core EPS (RM)	0.65	0.67	0.70
EPS Growth (%)	28.3	2.6	3.9
NDPS (RM)	0.43	0.44	0.46
BV/Share (RM)	6.41	6.64	6.88
NTA/Share (RM)	5.62	5.85	6.09
ROE (%)	10.7	10.3	10.3
PER (x)	10.1	9.8	9.5
P/BV (x)	1.03	1.00	0.96
Net Div. Yield (%)	6.5	6.7	6.9

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

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (IDR t)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Net interest income	3,285	3,165	3.8%	3,408	-3.6%	3,285	3,408	-3.6%
Non-interest income	1,536	1,026	49.8%	1,627	-5.6%	1,536	1,627	-5.6%
Total income	4,821	4,191	15.0%	5,035	-4.2%	4,821	5,035	-4.2%
Operating expenses	-2,239	-1,955	14.5%	-2,273	-1.5%	-2,239	-2,273	-1.5%
Pre-impairment profit	2,583	2,236	15.5%	2,762	-6.5%	2,583	2,762	-6.5%
(Allowances)/ write-backs	-408	-192	112.8%	-746	-45.2%	-408	-746	-45.2%
Operating profit	2,174	2,044	6.4%	2,016	7.8%	2,174	2,016	7.8%
Non-operating gains / (losses)	0	0	N.M	0	N.M.	0	0	N.M
Profit before tax	2,174	2,044	6.4%	2,016	7.8%	2,174	2,016	7.8%
Taxation	-479	-447	7.1%	-416	15.2%	-479	-416	15.2%
Minority interest	-14	-24	-40.2%	-19	-25.8%	-14	-19	-25.8%
Net Profit	1,681	1,573	6.9%	1,581	6.3%	1,681	1,581	6.3%
Core Net Profit	1,681	1,573	6.9%	1,581	6.3%	1,681	1,581	6.3%
Gross loans	211,588	213,370	-0.8%	199,552	6.0%	211,588	199,552	6.0%
Gross impaired loans	10,156	10,882	-6.7%	12,372	-17.9%	10,156	12,372	-17.9%
Customer deposits	240,144	235,862	1.8%	240,144	0.0%	240,144	240,144	0.0%
Current and savings account (CASA)	147,040	150,633	-2.4%	147,040	0.0%	147,040	147,040	0.0%
Total assets	332,994	334,369	-0.4%	341,698	-2.5%	332,994	341,698	-2.5%
Shareholders' equity	51,215	49,193	4.1%	45,342	13.0%	51,215	45,342	13.0%
Est. annualised NIM	4.28%	4.16%		4.70%		4.28%	4.70%	
Cost-to-income ratio	46.4%	46.7%		45.1%		46.4%	45.1%	
Annualised credit cost (bps)	76.9	36.7		150.6		76.9	150.6	
Effective tax rate	22.0%	21.9%		20.6%		22.0%	20.6%	
Annualised ROA	2.0%	1.9%		2.0%		2.0%	2.0%	
Annualised ROE	13.4%	13.3%		14.0%		13.4%	14.0%	
Gross impaired loans ratio	4.8%	5.1%		6.2%		4.8%	6.2%	
Loan loss coverage ratio (LLC)	257.4%	292.1%		253.5%		257.4%	253.5%	
Loan-to-deposit ratio	83.3%	85.4%		77.7%		83.3%	77.7%	
CASA-to-deposit ratio	61.2%	63.9%		61.2%		61.2%	61.2%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.55	1.80	-29.4%	5,984	N	12/2024	21.2	27.8	21.4%	31.6%	12.1	9.2	0.5	4.3%	8.0	3.1%
ALLIANCE BANK MALAYSIA BHD	OP	3.82	4.30	12.6%	5,914	N	03/2024	45.5	50.9	4.0%	11.8%	8.4	7.5	0.8	10.2%	24.5	6.4%
AMMB HOLDINGS BHD	OP	4.20	4.80	14.3%	13,889	N	03/2024	43.6	51.1	-16.9%	17.3%	9.6	8.2	0.7	9.4%	19.0	4.5%
BANK ISLAM MALAYSIA BHD	UP	2.56	2.25	-12.1%	5,802	Y	12/2024	25.6	29.3	5.1%	14.1%	10.0	8.8	0.8	7.8%	17.0	6.6%
CIMB GROUP HOLDINGS BHD	MP	6.61	6.60	-0.2%	70,594	N	12/2024	67.1	69.8	2.6%	3.9%	9.8	9.5	1.0	10.3%	44.0	6.7%
HONG LEONG BANK BHD	OP	19.30	24.20	25.4%	41,837	N	06/2024	196.0	213.1	5.2%	8.7%	9.8	9.1	1.1	11.3%	60.0	3.1%
MALAYAN BANKING BHD	OP	9.73	11.00	13.1%	117,411	N	12/2024	80.7	82.9	4.1%	2.8%	12.1	11.7	1.2	10.2%	62.0	6.4%
MALAYSIA BUILDING SOCIETY BHD	UP	0.790	0.590	-25.3%	6,496	Y	12/2024	3.4	6.3	79.3%	82.1%	23.0	12.6	0.6	2.5%	2.0	2.5%
PUBLIC BANK BHD	OP	4.12	5.10	23.8%	79,972	N	12/2024	37.8	39.6	10.3%	4.8%	10.9	10.4	1.4	13.0%	21.0	5.1%
RHB BANK BHD	OP	5.50	7.25	31.8%	23,575	N	12/2024	71.3	74.7	9.1%	4.8%	7.7	7.4	0.7	9.7%	43.0	7.8%
SECTOR AGGREGATE					371,473					5.0%	6.2%	10.7	10.1	1.1	9.9%		5.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Green Financing	★	★	★	★	★
	Financial Inclusion	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	☆		
	Digitalisation & Innovation	★	★	★	★	
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
OVERALL		★	★	★	★	

☆ 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.**

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