

CIMB Group Holdings Bhd

(1023 | CIMB MK) Financial Services | Finance

Hit by higher provisions

KEY INVESTMENT HIGHLIGHTS

- **Earnings did not meet expectations as provisions came in higher than expected**
- **Higher provisions due to an account in Singapore**
- **PPOP came in within expectations; NII saw surprise growth but NOII fell**
- **Cost well contained**
- **Decent gross loans growth and CASA led deposits growth**
- **Revision to FY20, FY21 and FY22 earnings forecast**
- **Downgrade to TRADING BUY with revised TP of RM4.00**

Missed expectations. The Group reported 1QFY20 net profit of RM507.9m. This was below ours and consensus' estimates coming in at 13.8% and 12.8% of respective full year estimates. The variance was due to our underestimation of the extent of the provisions especially coming from Singapore. The growth of the total provisions was circa 15ppt higher than our estimate.

Earnings dragged by higher provisions. Group earnings fell -57.4%yoy weighed down by higher provisions. Total provisions increased by more than threefold to RM1.13b. As a result annualized credit cost was 106bp for the quarter. The significant increase in provisions was due to loan provisions from a single impairment in Singapore from the Oil & Gas sector amounting to circa RM430m. We also understand that this might involve a fraud case by the borrower.

PPOP performing within expectations. In terms of PPOP, the Group registered a decline of -2.1%yoy. However, this was within our expectations coming in at 23.9% of our full year estimate. NII was robust despite the rate cuts seen in the quarter. It grew +4.8%yoy despite NIM contracting -4bp yoy. Main driver for NII growth was decent gross loans growth. Meanwhile, the weakness in income came from NOII as it fell -15.5%yoy contributed by lower trading & FX income which contracted -23.8%yoy to RM337m.

Cost well contained. OPEX was relatively flat, increasing marginally by +0.7%yoy. Personnel expenses were kept in check, coming in flat at RM1.35b, while establishment and admin & general cost fell -1.2%yoy to RM497m and -1.6%yoy to RM374m respectively.

Decent loans growth despite tough environment. Group gross loans expanded +3.8%yoy to RM363.9b as at 1QFY20. Main driver was consumer and wholesale banking where the loans book grew +5.4%yoy to RM181.9b and +6.3%yoy to RM118.8b respectively. Consumer banking loans book expansion was attributable to growth in mortgages in Malaysia, Indonesia and Singapore as it grew +9.0%yoy, +11.6%yoy and +27.1%yoy respectively.

CASA led deposits growth. Total deposits grew +3.5%yoy to RM388.5b. This was led by CASA growth of +15.5%yoy to RM145.0b while fixed deposits rose +3.0%yoy to RM181.7b. We opine that this is part of the factor for the robust NII.

Downgrade to TRADING BUY

(from BUY)

Revised Target Price: RM3.95

(from RM4.30)

RETURN STATISTICS

Price @ 22 nd May 2020 (RM)	3.47
Expected share price return (%)	+13.8
Expected dividend yield (%)	+3.5
Expected total return (%)	+17.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	-6.0
3 months	-3.6	-25.4
12 months	-33.0	-25.5

KEY STATISTICS


FBM KLCI	1,436.76
Syariah compliant	No
Issue shares (m)	9922.71
Estimated free float (%)	40.48
Market Capitalisation (RM'm)	34432.69
52-wk price range	RM3.09 - RM5.45
Beta vs FBM KLCI (x)	1.05
Monthly velocity (%)	0.00
Monthly volatility (%)	10.28
3-mth average daily volume (m)	22.62
3-mth average daily value (RM'm)	85.57
Top Shareholders (%)	
Khazanah Nasional Bhd	24.55
Employees Provident Fund Board	15.97
Amanah Saham Nasional Bhd	10.53

Analyst

Imran Yassin Yusof
 imran.yassin@midf.com.my
 03-2173 8395

Questions will be raised on asset quality. The Group's GIL ratio went up by +40bp yoy to 3.4% as it was impacted by the unexpected impairment of the one particular account in Singapore. We expect that asset quality will come under pressure from the Group's oil & gas exposure and the impact from the Covid-19 pandemic. However, we should note that its oil & gas exposure stood at 2.4% of total loans book.

Revision in earnings forecast. In light of the higher credit cost, we are revising our earnings forecast downwards for FY20, FY21 and FY22 by -33.7%, -14.0% and -2.7% respectively.

Valuation and recommendation. It was a mix bag in terms of the Group's performance in 1QFY20. While PPOP was within our expectation, we were surprised by the credit cost level seen in the quarter. We expect that credit cost might remain elevated this year due to some corporate failure in the oil & gas sector in Singapore. However looking ahead, this might mean that there should be an improvement next year. Furthermore, we believe that this might have already priced in given its recent share price performance. In fact, it may have overshoot in relation to its fundamentals. Hence, there might be some trading opportunities premised upon the potential improvement next year. Therefore, we are downgrading our call to **TRADING BUY** (from BUY). We rollover our valuation to FY21, pegging our FY21 BVPS to PBV of 0.7x. As such, we are revising our **TP to RM3.95** (from RM4.30). 

INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Net interest income (RM'm)	9,634	10,084	9,354	10,035	10,980
Islamic banking income (RM'm)	2,610	3,041	3,103	3,289	3,486
Non-interest income (RM'm)	4,046	4,419	4,169	4,294	4,422
Total income (RM'm)	17,382	17,796	16,625	17,617	18,888
Pretax profit (RM'm)	7,201	5,975	3,225	4,991	6,795
Net profit	5,584	4,560	2,446	3,786	5,154
Core Net profit (RM'm)	4,656	5,014	2,446	3,786	5,154
Core EPS (sen)	50	52	24	36	47
PER (x)	7.0	6.7	14.4	9.6	7.3
Net Dividend (sen)	25	26	12	18	24
Net Dividend Yield (%)	7.2	7.5	3.5	5.3	7.0
Book value per share (sen)	5.37	5.67	5.62	5.66	5.80
PBV (x)	0.6	0.6	0.6	0.6	0.6
ROE (%)	9.6	9.3	4.4	6.6	8.6

Some banking abbreviations used in this report:

CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 IB = Investment Banking
 LLC = Loan Loss Coverage
 PPOP = Pre-Provisioning Operating Profit
 FVTPL = Fair Value Through Profit Or Loss
 OPEX = Operating Expenses
 OPR = Overnight Policy Rate

Source: Company, MIDFR

Table 1: Comparison of quarterly & cumulative results

FYE Dec (RM m)	Quarterly results (normalised)				
	1QFY20	4QFY19	1QFY19	Yoy (+/- %)	Qoq (+/- %)
NII	3,212	3,346	3,064	4.8%	-4.0%
NOII	931	1,177	1,102	-15.5%	-20.9%
Net income	4,143	4,523	4,166	-0.6%	-8.4%
OPEX	(2,318)	(2,468)	(2,302)	0.7%	-6.1%
PPOP	1,825	2,055	1,864	-2.1%	-11.2%
Write back/(Provision) for loan losses and others	(1,129)	(683)	(266)	>100%	65.3%
Pre-tax profit	18	1	5	>100%	>100%
Net profit	714	1,373	1,603	-55.5%	-48.0%
EPS (sen)	508	1,045	1,192	-57.4%	-51.4%

Table 2: Comparison of financial ratios

Financial Ratios (%)	Quarterly results (normalised)				
	1QFY20	4QFY19	1QFY19	Yoy (+/-ppts)	Qoq (+/-ppts)
CET-1	12.5	12.9	12.8	-0.3	-0.4
Tier 1 Capital	13.6	14.0	13.6	0.0	-0.4
Total Capital	16.1	16.8	16.2	-0.1	-0.7
GIL ratio	3.4	3.1	3.0	0.4	0.3
Loan Loss Coverage	75.9	80.7	88.2	-12.3	-4.8
Credit cost	1.06	0.66	0.34	0.72	0.40
Cost to income (CI)	56.0	54.6	55.3	0.7	1.4
LD ratio	91.2	92.0	91.4	-0.2	-0.8
NIM	2.44	2.53	2.48	-0.04	-0.09
ROE	3.7	7.4	9.2	-5.5	-3.7

Table 3: Comparison of PBT by key segments

PBT by segments (RM m)	1QFY20	1QFY19	Yoy (+/- %)
Consumer Banking	528	577	-8.5%
Commercial Banking	(85)	310	<-100%
Wholesale banking	74	483	-84.7%
Group Funding	197	233	-15.3%
PBT	714	1,603	-55.5%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.