CIMB Group Holdings Berhad

Maintain NEUTRAL

(1023 | CIMB MK) Financial Services | Finance

Downside risk increased but outlook remains

Unchanged Target Price: RM3.50

KEY INVESTMENT HIGHLIGHTS

- **Provisions is expected to remain elevated**
- **Asset quality stable while take up of loan assistance program is better than expected**
- **Downside risk increased with MCO 2.0 and resurgence of Covid-19 but outlook for FY21 remains**
- **NIM expected to improve**
- **Maintain our forecast pending result announcement**
- **Maintain NEUTRAL with unchanged TP of RM3.50**

Key take away. The Group CFO gave us an update yesterday. Below are the key take away:

- Provisions will remain elevated with ECL on bonds book expected to be similar level as in 3QFY20
- Take up of loan assistance is lower than expected
- NIM expected to improve
- Downside risk has increased but the brighter outlook remains

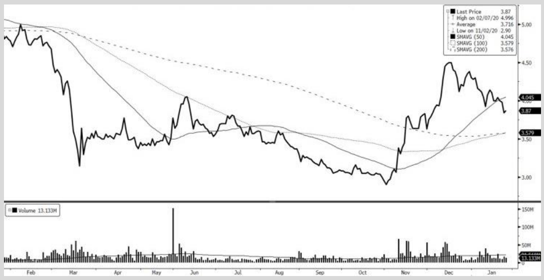
Provisions will remain elevated. For 4QFY20, the management expects that provisions will remain elevated. This will be due to macto economic variable and management overlays. Having said that, the management is maintaining its credit cost guidance of 140-150bps for FY20. However, this does not include ECL on the Group's bonds book and other provisions. The ECL for its bond book in 4QFY20 is expected to be at a similar level as in 3QFY20. Recall, other provisions came in at RM467.7m in 9MFY20 vs. RM54.7m in 9MFY19.

Loan assistance take up better than expected. In terms of asset quality, we understand that it remains stable and without any undue concerns. The take up of the targeted loan assistance and other R&R had been better than expected especially in the B40 segment in Malaysia. Overall, this is expected to amount to circa low teens of Malaysian loans book. For perspective, the loan assistance in Malaysia amounts to 9.8% of Malaysian loans book or 6.4% of total Group loans book as at 3QFY20. Meanwhile, overall R&R and loan assistance is expected to be below 20% of total loans book.

It will not be the same situation as before. Despite some stress in asset quality especially with the reimposition of the Movement Control Order (MCO), we believe that there will not be a repeat of the situation in March and April last year. This is due to the fact that the vaccine is on its way. Asset quality may deteriorate further from the "lockdowns" but we opine that it will be more limited given current MCO is less restrictive than before.

RETURN STATISTICS	
Price @ 26th January 2021 (RM)	3.87
Expected share price return (%)	-9.6
Expected dividend yield (%)	+1.7
Expected total return (%)	**-7.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.6	-3.8
3 months	-10.0	21.2
12 months	-23.5	-23.6

KEY STATISTICS	
FBM KLCI	1,575.31
Syariah compliant	No
Issue shares (m)	9922.71
Estimated free float (%)	38.65
Market Capitalisation (RM'm)	38,401.88
52-wk price range	RM2.9 - RM5.15
Beta vs FBM KLCI (x)	1.17
Monthly velocity (%)	0.37
Monthly volatility (%)	11.50
3-mth average daily volume (m)	21.03
3-mth average daily value (RM'm)	81.38
Top Shareholders (%)	
Khazanah Nasional Bhd	27.22
Employees Provident Fund Board	15.99
ASN	10.87

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

NIM to improve. The management indicated that Group NIM is expected to improve slightly driven by improvement in Singapore and Thailand. This was due to cost of fund optimization and one-off adjustment respectively. Meanwhile, NIM in Indonesia and Malaysia are expected to be stable. We are hardly surprised by this as we believe that the policy cuts should have normalized by 4QFY20. Also, we believe that the growth in CASA in FY20 have also offset the policy cuts. For FY21, we expect that NIM will remain stable.

Cost optimization on track. In terms of its ongoing cost optimization program, we understand that it remains on track. The management informed that it is able to meet its target of 5% reduction or RM500m. Recall, OPEX came in -10.0%yoy or RM734.6m lower to RM6.65b in 9MFY20. The management expects that there will be some sequential quarter increase due to technology spending and higher admin & marketing cost but overall, well within expectations.

Better 2021 can be expected. The management expects that FY21 will be a rebound year. This is predicated on the Government ensuring the economic recovery remains at the forefront while balancing the public health aspect. While the MCO 2.0 have increased the downside risk, its outlook for this year have not change. This is in tune with our 2021 expectation for the banking sector in general. Our economics team is projecting Malaysia's GDP to rebound this year. Partly due to the potential for the Covid-19 vaccine to be widely available by 3QCY21. As such, we expect that the banking sector will be a direct beneficiary of this rebound. In general, for FY21 we expect that the Group will likely see; (1) provisions and loan impairments will start to taper by 2QCY21, (2) better NII coming from robust loans growth and low cost of fund, and (3) OPEX continue to be well contained.

No change in earnings forecast. We are maintaining our earnings forecast as the Group will be releasing its result next month.

Valuation and recommendation. We recognize the headwinds that the Group will be facing in light of the Covid-19 pandemic. We expect that credit cost might remain elevated up until 1HFY21. However, we do believe that the Group will be facing current headwinds in the position of strength given the build-up of capital over the years. Moreover, we believe that since the Group is a Domestic Systemically Important Banks, it might be supported. Therefore, we maintain our call **NEUTRAL** with unchanged **TP of RM3.50** based on pegging our FY21 BVPS to PBV of 0.6x.

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	9,368	10,058	11,013
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	16,639	17,640	18,921
Pretax profit (RM'm)	7,201	5,975	1,726	4,002	6,572
Net profit	5,584	4,560	1,309	3,035	4,984
Core Net profit (RM'm)	4,656	5,014	1,309	3,035	4,984
Core EPS (sen)	50	52	13	30	47
PER (x)	7.8	7.5	29.7	13.1	8.3
Net Dividend (sen)	25	26	7	15	24
Net Dividend Yield (%)	6.5	6.7	1.7	3.9	6.2
Book value per share (sen)	5.37	5.67	5.58	5.67	5.81
PBV (x)	0.7	0.7	0.7	0.7	0.7
ROE (%)	9.6	9.3	2.3	5.4	8.4

Source: Company, MIDFR

Some banking abbreviations used in this report:

CI = Cost to Income
CET1 = Common Equity Tier 1
ECL = Expected Credit Loss
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
R&R = Restructured and Rescheduled

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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 *rise* 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 *fall* 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.