

# CIMB Group Holdings Bhd

(1023 | CIMB MK) Financial Services | Finance

**Maintain BUY**

## CIMB Niaga : Growing despite MSS cost

**Unchanged Target Price: RM6.30**

### KEY INVESTMENT HIGHLIGHTS

- Strong "Business As Usual" earnings growth
- Improved CASA ratio lent to growth in NII
- NOII was led to by recoveries
- Loans growth was decent
- Uptick in corporate NPLs
- No change to FY19 and FY20 earnings forecast
- Maintain BUY with unchanged TP of RM6.30

**Solid growth for the year.** CIMB Niaga reported FY19 "Business As Usual" earnings growth of +12.4%yoy. However, inclusive of the additional OPEX incurred in 3QFY19, which was an MSS cost of IDR359b, FY19 earnings still grew at a solid +4.7%yoy.

**Main factor was the strong income growth.** Net income grew +6.3%yoy as NII and NOII grew +4.6%yoy and +11.6%yoy respectively. NII improvement came as CIMB Niaga managed to grow its CASA faster than industry, where it expanded +7.9%yoy to IDR108.3t (vs. industry: 5.9%yoy). NIM improved +19bp yoy due to loans repricing in 2QFY19 but policy rate cuts put some pressure to NIM. Meanwhile, NOII was led by recoveries which rose +75%yoy to IDR1.08t.

**Digitalisation driving CASA growth.** Main contributor for the CASA growth was CIMB Niaga's digitalization efforts. For example, Go mobile which is a device app saw great traction with no of users increasing +18.8%yoy to 2.6m. Consumer CASA from CIMB Clicks and Go Mobile grew +19.3%yoy to IDR35.2t while total consumer CASA expanded +13.6%yoy to IDR57.5t.

**Loans growth decent but growing at right segment.** Total loans grew +3.1%yoy to IDR194.2t. However, consumer segment grew strongly by +10.6%yoy to IDR54.3t with mortgages and credit cards expanding +12.5%yoy to IDR33.8t and +12.8%yoy to IDR9.7t respectively. Its mortgage strategy had paid off with market share improving to 8.7% (from 8.1%) and NPL had gone down. Also, auto loans saw a turnaround with growth of +3.9%yoy to IDR6.5t with better asset quality.

**Uptick from corporate.** CIMB Niaga's asset quality was stable in FY19. The gross NPL ratio as at 4QFY19 was 2.79% vs. the 2.62% and 3.11% registered as at 3QFY19 and 4QFY18 respectively. The improvements came from mainly the consumer segments. There was an uptick in gross NPL ratio, from 1.9% as at 3QFY19 to 2.4% as at 4QFY19.

**Expecting better performance in FY20.** For FY20, CIMB Niaga is guiding improved ROE of 11-12%, CASA ratio of 56-58%, loans growth of 6-8% and CI ratio of less than 49% amongst others. The focus areas will be on consumer banking expansion with stronger push on its digital efforts.

**No change in earnings forecast.** No change to our earnings forecasts for now as the Group will be announcing its result later this month.

### RETURN STATISTICS

Price @ 19 <sup>th</sup> Feb. 2020 (RM)	4.95
Expected share price return (%)	+27.3
Expected dividend yield (%)	+5.3
<b>Expected total return (%)</b>	<b>+32.5</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.3	0.1
3 months	-3.9	-4.0
12 months	-14.1	-3.3

### KEY STATISTICS

FBM KLCI	1,534.16
Syariah compliant	No
Issue shares (m)	9564.19
Estimated free float (%)	44.93
Market Capitalisation (RM'm)	49,118.68
52-wk price range	RM4.82 - RM5.89
Beta vs FBM KLCI (x)	1.26
Monthly velocity (%)	23.84
Monthly volatility (%)	10.28
3-mth average daily volume (m)	8.31
3-mth average daily value (RM'm)	43.00
Top Shareholders (%)	
Khazanah Nasional Bhd	23.77
Employees Provident Fund Board	12.98
Kumpulan Wang Persaraan Diperbadan	6.41

### Analyst

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

**Valuation and recommendation.** As we had expected, CIMB Niaga saw strong improvement in its normalized earnings in FY19. We were pleased that the income continued to improve despite the policy rate cuts in Indonesia. We were pleasantly surprised by the strong growth in CASA. We believe that a better result expected for CIMB Niaga in FY20 will provide a strong supporting role to the Group's earnings this year. This is especially so with the possible short term dampener from Covid-19 that might affect asset quality in Malaysia. Nevertheless, we believe that the Group's current valuation seems unjustified given its more geographically diversified operation. We maintain our **BUY** call with unchanged **TP of RM6.30**, based on pegging its FY20 BVPS to a PBV of 1.1x. In addition its dividend yield of circa 5.3% should provide some protection to investors from any downside risks.



## INVESTMENT STATISTICS

Financial year ending 31 December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Net interest income (RM'm)	10,459	9,634	10,291	10,605	11,403
Islamic banking income (RM'm)	2,132	2,610	2,927	3,103	3,289
Non-interest income (RM'm)	5,036	4,046	4,388	4,520	4,655
Total income (RM'm)	17,626	17,382	17,606	18,227	19,347
Pretax profit (RM'm)	6,110	7,201	6,580	6,864	7,337
Net profit	4,475	5,584	4,991	5,206	5,565
Core Net profit (RM'm)	4,475	4,656	5,251	5,206	5,565
Core EPS (sen)	50	50	51	51	52
PER (x)	10.0	9.9	9.7	9.8	9.6
Net Dividend (sen)	25	25	26	26	26
Net Dividend Yield (%)	5.1	5.1	5.3	5.3	5.3
Book value per share (sen)	5.23	5.37	5.55	5.70	5.85
PBV (x)	0.9	0.9	0.9	0.9	0.8
ROE (%)	9.6	9.6	9.3	9.4	9.3

Source: Company, MIDFR

**Table 1: Comparison of results**

FYE Dec (IDR b)	Quarterly results					Cumulative results		
	4QFY19	3QFY19	4QFY18	Yoy (+/- %)	Qoq (+/- %)	FY19	FY18	Yoy (+/- %)
NII	3,096	3,155	2,999	3.2%	-1.9%	12,568	12,012	4.6%
NOII	1,043	1,232	950	9.8%	-15.3%	4,257	3,816	11.6%
Net income	4,139	4,387	3,949	4.8%	-5.7%	16,825	15,828	6.3%
OPEX	(2,050)	(2,106)	(2,004)	2.3%	-2.7%	(8,255)	(7,947)	3.9%
PPOP	2,089	2,281	1,945	7.4%	-8.4%	8,570	7,881	8.7%
Provision for loan losses	(791)	(944)	(720)	9.9%	-16.2%	(3,257)	(3,030)	7.5%
Pre-tax profit	1,298	1,337	1,225	6.0%	-2.9%	5,313	4,851	9.5%
Net Profit	966	971	891	8.4%	-0.5%	3,914	3,482	12.4%
Net profit as reported	966	702	891	8.4%	37.6%	3,645	3,482	4.7%
EPS (IDR)	38.76	28.16	35.74	8.4%	37.6%	146.21	139.67	4.7%

Source: Company

**Table 2: Comparison of financial ratios**

Financial Ratios (%)	4QFY19	3QFY19	4QFY18	Yoy (+/- ppts)	Qoq (+/- ppts)	FY19	FY18	Yoy (+/- %)
Tier 1 Capital	20.2	20.0	18.4	1.8	0.2	20.2	18.4	1.8
Total CAR	21.5	21.2	19.7	1.8	0.3	21.5	19.7	1.8
Gross NPL	2.79	2.62	3.11	-0.32	0.17	2.79	3.11	-0.32
Net NPL	1.30	1.30	1.55	-0.25	0.00	1.30	1.55	-0.25
GIL ratio	3.81	3.10	4.05	-0.24	0.71	3.81	4.05	-0.24
Loan Loss Coverage	113.6	111.9	105.9	7.7	1.7	113.6	105.9	7.7
Credit cost	1.63	1.96	1.52	0.11	-0.33	1.75	1.63	0.12
Cost to income (CI)	49.5	48.0	50.8	-1.3	1.5	49.1	50.2	-1.1
CASA ratio	55.4	53.7	52.6	2.8	1.7	55.4	52.6	2.7
LD ratio	97.6	99.0	97.2	0.4	-1.4	97.6	97.2	0.5
NIM	5.14	5.29	5.11	0.03	-0.15	5.31	5.12	0.19
ROE	8.9	9.2	9.1	-0.2	-0.3	9.4	9.1	0.3

**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

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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