CIMB Group Holdings Bhd

(1023 | CIMB MK) Financial Services | Finance

It will take a one-time hit

***Maintain* BUY**

***Revised* Target Price: RM4.30**

(from RM5.70)

KEY INVESTMENT HIGHLIGHTS

- **Asset quality will be impacted by the COVID-19 pandemic and MCO. Uncertain on full year provision level**
- **One time hit to earnings on O&G exposure**
- **Loans growth expected to be weak**
- **Impact of rate cuts will be moderated**
- **Facing headwinds in position of strength**
- **Revised FY20 and FY21 earnings -29.3% and -20.9% downwards**
- **Maintain BUY with revised TP of RM4.30 (from RM5.70)**

Much have changed since last guidance. The Group CFO gave us an update yesterday. Much have changed since the last guidance that was given less than two month ago. Below are the key take away:

- There is still a lot of uncertainty; hence the Group could not ascertain the impact of the COVID-19 pandemic.
- The Group will take a hit from its Oil & Gas (O&G) exposure in 1HFY20.
- NIM contraction will come from policy rate cuts but its impact will be moderated.
- Loans growth is expected to be weak.

Asset quality will be impacted. The management opines that there is still a lot of uncertainty in regards to the COVID-19 pandemic. Hence it could not give a definitive guidance on the performance of the Group. However, we can expect asset quality will be impacted as the effect of COVID-19 becomes more apparent in the coming month. To give some perspective, the four sector directly impacted by COVID-19 and Movement Control Order (MCO) i.e. hospitality, airlines, retail and gaming, accounts for 5.4% of the Group's loans book. This proportion rises to 21% when including 12 other indirect sectors.

Still uncertain on full COVID-19 provision level. Recall, the previous credit cost guidance that the management gave was between 40bp and 50bp for FY20. Of course, this was before COVID-19 became a global pandemic. We understand that the Group has yet to adjust for macroeconomic factor (MEF) in 1QFY20 but it will eventually take it into account. However, we understand that there are three factors that will moderate the current situation which are (i) the temporary nature of the downturn, (ii) both the monetary and fiscal stimulus measures, and (iii) averaging effect as the MEF depends on a 5-year forecast.

O&G exposure will surely be a drag to earnings. Notwithstanding the overall asset quality and credit cost impact from the COVID-19, the Group will also face some pressure to its O&G exposure, which was 2.3% of its loans book as at Dec-19. We understand that there are two accounts which the Group might have to take close to full provisions, one in 1QFY20 and another in 2QFY20. This could come to circa RM1b. Taking this into consideration and the potential impact of COVID-19, we are revising our FY20 credit cost assumption for the Group to 70bp from 45bp previously.

RETURN STATISTICS	
Price @ 28th April 2020 (RM)	3.41
Expected share price return (%)	+26.1
Expected dividend yield (%)	+4.9
Expected total return (%)	**+31.0**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-4.5	-6.5
3 months	-5.3	-22.8
12 months	-34.4	-21.7

KEY STATISTICS	
FBM KLCI	1,372.2
Syariah compliant	No
Issue shares (m)	9,922.7
Estimated free float (%)	41.1
Market Capitalisation (RM'm)	33,837.3
52-wk price range	RM3.09 - RM5.45
Beta vs FBM KLCI (x)	1.13
Monthly velocity (%)	11.02
Monthly volatility (%)	10.28
3-mth average daily volume (m)	20.47
3-mth average daily value (RM'm)	82.91
Top Shareholders (%)	
Khazanah Nasional Bhd	24.55
Employees Provident Fund Board	15.44
Kumpulan Wang Persaraan Diperbadan	10.53

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Loans growth will be weak to flat. Not surprising, loans growth is expected to be weak this year. The management guided that it could be flat or very low single digit growth. For Malaysia, the management expects low single digit growth as there is still pipeline for mortgages and auto loans. In addition, we opine that the moratorium will also support loans growth due to lack of principal repayment. For FY20, we are revising our loans growth assumption for the Group to 2% from 6% previously.

Impact from policy rate cuts will be moderated. We are in line with the management in regards to the OPR expectations. The management expects OPR to be reduced by another 50bp this year. This will lead to NIM compression. However, we believe that NIM compression will be moderate despite the OPR cut. This is due to the fact that we have observed deposit competition to be tepid this year, which the management has confirmed. Also, liquidity seems to be more than ample in the system.

NOII will be under pressure. Due to the stalled in economic activities, we understand that fee income will be soft this year. Meanwhile, trading income is also expected to be lower. This will put NOII under pressure for FY20.

No change in dividend policy yet, and facing headwinds with strong capital. Although banks in other markets have been asked or decided to scrap dividend, we understand there is no such directive here in Malaysia. We understand that the Group is maintaining its dividend policy for now. In terms of its capital position, we believe that the Group is facing current headwinds in a position of strength. Its CET1 and total capital ratio as at end FY19 stood at 12.9% and 16.8% respectively.

No change in earnings forecast. We are revising our earnings forecast for FY20 and FY21 downward by -29.3% and -20.9% to take into account the higher credit cost and weakness in income.

Valuation and recommendation. We recognize the headwinds that the Group will be facing this year in light of the COVID-19 pandemic. We expect asset quality and credit cost will come under pressure due to the stalled economic activities during the MCO. However, we do believe that the Group will be facing these 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. Hence, we maintain our **BUY** call. We are revising our **TP to RM4.30** (from RM5.70), as we peg its FY20 BVPS to a lower PBV of 0.77x which is -1 standard deviation below its 5-year average PBV. In addition its dividend yield of circa 5.0% should provide some protection to investors from any downside risks.

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	9,330	9,752	10,334
Islamic banking income (RM'm)	2,610	3,041	3,249	3,420	3,582
Non-interest income (RM'm)	4,046	4,419	4,733	4,841	4,927
Total income (RM'm)	17,382	17,796	17,312	18,013	18,843
Pretax profit (RM'm)	7,201	5,975	4,862	5,815	6,971
Net profit	5,584	4,560	3,678	4,399	5,274
Core Net profit (RM'm)	4,656	5,014	3,678	4,399	5,274
Core EPS (sen)	50	52	37	44	53
PER (x)	14.7	15.2	10.9	13.0	15.6
Net Dividend (sen)	25	26	17	22	27
Net Dividend Yield (%)	7.3	7.6	4.9	6.5	7.8
Book value per share (sen)	5.37	5.67	5.62	5.64	5.73
PBV (x)	0.6	0.6	0.6	0.6	0.6
ROE (%)	9.6	9.3	6.6	7.9	9.3

Source: Company, MIDFR

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

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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.