CIMB Group Holdings Bhd

(1023 | CIMB MK) Financial Services | Finance

Low visibility on asset quality

***Maintain* TRADING BUY**

***Unchanged* Target Price: RM3.95**

KEY INVESTMENT HIGHLIGHTS

- **Visibility is still low due to prevalent uncertainty**
- **Expect asset quality to be under pressure**
- **OPEX savings from personnel attrition**
- **Loans growth expected to be weak**
- **Facing headwinds in position of strength**
- **Maintain FY20, FY21 and FY22 forecast**
- **Maintain TRADING BUY with unchanged TP of RM3.95**

Visibility still low currently. The Group CFO gave us an update yesterday. Below are the key take away:

- There is still a lot of uncertainty; visibility is still low in terms assessing the full impact of Covid-19 pandemic. Impact will be on credit cost and dividend.
- As guided earlier, the Group will take a hit from its Oil & Gas (O&G) exposure in 2QFY20.
- OPEX savings from natural attrition

Expect asset quality to continue to be under pressure. The management indicated that the visibility in terms on providing guidance is still low due to the prevalent 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.

Higher credit cost for FY20. In terms of credit cost, the management expects between 100bp to 120bp for FY20, due in part from the provisions in the Oil & Gas (O&G) sector and the adjustment to the macroeconomic factor (MEF). To give context, the O&G sector accounts for 2.4% of Group gross loans book or RM8.7b, while O&G trader represents 5% of Group O&G loans book. We understand that the Group will take close to full provisions for a potential fraud case of an O&G trader in 2QFY20. With another separate provision taken in 1QFY20, we believe that this could come to circa RM1b in total.

Maintaining NIM compression guidance. The management are maintaining its NIM compression guidance on the basis that there are no further rate cuts this year. We opine 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. In addition, deposits growth in the system have been led by CASA which will help moderate any NIM compression. However, the management expects CASA growth to taper in 2HFY20 post loan moratorium. Also, liquidity seems to be more than ample in the system.

RETURN STATISTICS	
Price @ 16th July 2020 (RM)	3.67
Expected share price return (%)	+7.6
Expected dividend yield (%)	+3.3
Expected total return (%)	**+10.9**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-2.1	-5.1
3 months	3.1	-9.6
12 months	-28.7	-24.9

KEY STATISTICS	
FBM KLCI	1,573.31
Syariah compliant	No
Issue shares (m)	9922.71
Estimated free float (%)	37.43
Market Capitalisation (RM'm)	36417.29
52-wk price range	RM3.09 - RM5.4
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	0.00
Monthly volatility (%)	10.28
3-mth average daily volume (m)	19.62
3-mth average daily value (RM'm)	71.41
Top Shareholders (%)	
Khazanah Nasional Bhd	27.22
Employees Provident Fund Board	16.33
ASN	10.53

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Loans growth will be weak to flat. Not surprising, loans growth is expected to be weak this year. Previously, the management guided that it could be flat or very low single digit growth. However, this will support NIM in a way as the Group will not be pressured to stock up on deposits to fund for the loans growth. Also, we opine that the moratorium will also support loans growth due to lack of principal repayment.

OPEX savings. The Group has decided to freeze new hiring. With natural personnel attrition, the Group is expected to book in savings for its OPEX. The management is expecting OPEX to come in 3% to 5% lower on a year-on-year basis.

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.

No change in dividend policy yet, and facing headwinds with strong capital. We understand that the Group is maintaining its dividend policy for now but might tweak it as visibility of the impact of Covid-19 pandemic becomes clearer such as reassessing the Dividend Reinvestment Plan. In terms of its capital position, we believe that the Group is facing current headwinds in a position of strength, and the management has indicated that it is comfortable for CET1 to be maintained around the 12% level.

No change in earnings forecast. We are maintaining our earnings forecast.

Valuation and recommendation. We recognize the headwinds that the Group will be facing this year in light of the COVID-19 pandemic. We expect that credit cost might remain elevated this year due to some corporate failure in the oil & gas sector in Singapore. We will be monitoring asset quality closely to see the impact post loan moratorium. However looking ahead, this might mean that there should be an improvement next year. 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 to **TRADING BUY** with **TP of RM3.95** based on pegging our FY21 BVPS to PBV of 0.7x.

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)	7.4	7.1	15.2	10.1	7.7
Net Dividend (sen)	25	26	12	18	24
Net Dividend Yield (%)	6.8	7.1	3.3	5.0	6.6
Book value per share (sen)	5.37	5.67	5.62	5.66	5.80
PBV (x)	0.7	0.6	0.7	0.6	0.6
ROE (%)	9.6	9.3	4.4	6.6	8.6

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.