Corporate Update| Thursday, 28 July 2022

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Lazada meets TnG Digital

***Unchanged* Target Price: RM6.14**

KEY INVESTMENT HIGHLIGHTS

- **CIMB's RA loans seem to show positive improvement, with non-repayment instances low**
- **The Group will maintain its MEF provisioning**
- **NOII to continue performing poorly, in spite of better fee income**
- **Singapore already facing COF pressure**
- **Lazada has invested in TnG Digital**
- **We revise our FY24 earnings forecast**
- **Maintain BUY call with unchanged TP of RM6.14**

CIMB hosted their 2Q22 pre-results season briefing yesterday. Here is a summary of the main points:

1. Main stressors include weakening loan demand and deteriorating asset quality, expected to hit at late-2022/early-2023,
2. Asset quality is tracking much better than expected, following portfolio shift. Repayment Assistance (RA) loans are at 4-4.5% level,
3. Impact of poor macroeconomic conditions expected to hit in late-2022/early-2023,
4. Poor trading and FX performance to drag NOII, in spite of improved fee income,
5. Following news that Lazada has emerged as an investor of TnG Digital, no major revaluation gain is expected in 2Q22,
6. Most regions not hit with rising COF pressure yet, with the exception of Singapore,
7. Yearly costs to increase on a low single digit level.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	12,725	13,958	14,880	15,632	16,769
NOII (RM m)	4,464	4,414	4,472	4,918	5,440
Total Income (RM m)	16,987	18,362	19,352	20,550	22,209
PPOP (RM m)	8,212	8,944	9,676	10,337	11,216
Core net profit (RM m)	1,194	4,648	4,661	5,938	7,065
Core EPS (sen)	11.9	46.4	46.5	59.2	70.5
Core P/E (x)	43.8	11.3	11.2	8.8	7.4
Gross DPS (sen)	4.8	23.0	23.3	29.6	35.2
Dividend yield (%)	0.9	4.4	4.5	5.7	6.8
BVPS (x)	5.6	5.9	6.1	6.4	6.9
P/B (x)	0.9	0.9	0.9	0.8	0.8
ROAE (%)	2.1	8.1	7.8	9.4	10.6

RETURN STATISTICS	
Price @ 27th July 2022 (RM)	5.22
Expected share price return (%)	+17.0
Expected dividend yield (%)	+4.5
Expected total return (%)	**+21.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.7	3.6
3 months	4.8	9.2
12 months	14.8	18.5

KEY STATISTICS	
FBM KLCI	1,470.71
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	2513.53
Estimated free float (%)	39.19
Market Capitalisation (RM'm)	54,466.12
52-wk price range	RM4.43–RM5.75
Beta vs FBM KLCI (x)	1.22
Monthly velocity (%)	0.00
Monthly volatility (%)	10.28
3-mth average daily volume (m)	9.69
3-mth average daily value (RM'm)	49.14
Top Shareholders (%)	
Khazanah Nasional Bhd	24.83
Employees Provident Fund Board	16.21
ASNB	10.29

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Asset quality and RA loans. Asset quality is tracking better than expected. In Jun-22, RA loans have reduced to 4-4.5% of gross loans on a group level. (Apr-22: 5%, Pre-pandemic: 3%). Notably, Malaysian consumer loans have declined to 2% (Apr-22: 4%), while Malaysian commercial loans have declined to 6% (Apr-22: 7%). The % of RA loans with missed payments is relatively benign, with the uptick seen in Apr-22 due to Raya having already gone down.

So far, vulnerable sectors have not seen any major deterioration or change in outlook so far. The impact of the poor macroeconomic condition is expected to take place towards end-2022 or early-2023. These sectors, coupled with regional SME segments, will be most likely to feel the heaviest pinch in the months ahead.

Provisioning maintained. Credit cost guidance of 60-70bps is maintained for now. Net overlays are to increase in 2Q22, with bigger adjustments made through MEF provisions, despite asset quality being better than expected. Minor overlays will be primarily made to consumer and business banking buckets.

No lumpy provisions are expected, given that management deems big corporate provisioning to be sufficient, as well as their outlook still being intact. Although CIMB would prefer to hold maintain MEFs for longer, BNM requirements will likely force major overlay writeback in 2023. This is if BNM continues to maintain its monthly missed loan payment rate at a low level.

NOII weakness still persisting. CIMB guides for NOII improvements on a sequential quarter basis, on the back of improved fee income and loan recovery (under the other operating income section). Additionally, the Group has taken advantage of switching to higher yielding AC and FVOCI instruments in 2Q22, more so than 1Q22.

The above drivers are expected to continue to be dragged by weakness in trading and FX lines (as FVTPL and FVOCI continue to be negatively impacted). The IB segment's poor outlook in 2H22 remains.

COF across regions. Only Singapore is seeing rising COF pressure following the earlier interest rate hikes. Interest spread has begun to narrow following the normalisation of deposit rates.

In contrast, rest of the group's regions remain relatively benign. Malaysia has seen slight buckets of competition in 12-24-month deposit category, though rates remain rational. Indonesia's economic outlook remains robust, with excellent demand and CIMB Niaga's aggressive CASA growth strategy functioning well in the low interest rate environment.

Cost management. For overall costs, CIMB guides that sequential gains on a yearly basis will remain on a low single digit level. Higher tech and marketing investments are expected to feed into 2H22. Additionally, expect higher personnel costs in 2H22: the backlog of hiring is still not accelerating at the ideal rate in 2Q22, but will pick up in the coming quarters.

TnG Digital & Lazada. Lazada has emerged as an investor in TnG Digital's recent funding round. No major revaluation gain (ala 1Q22's RM1.16b revaluation gain from TnG Digital's deconsolidation) is expected this time around. CIMB is confident that this strategic stake will benefit both parties, allowing TnG to leverage on Lazada's commercial ecosystem.

TnG Sdn Bhd is the parent of TnG Digital. The former is in turn wholly-owned by CIMB. Previously, Bow Wave capital Management (a US-based private equity firm) and AIA Bhd invested roughly USD$50m and USD$25m respectively.

Capital. Capital outlook remains good, despite CIMB's cautious outlook and negative FVOCI movements in 2Q22. (1Q22's CET-1: 14.5%). As a result, the group intends to dial down their dividend reinvestment scheme's (DRS) electable portion, subject to BNM approval.

Miscellaneous notes:

1. Bond portfolio duration to be unchanged, currently at 5-6 years.
2. RM80-100m uplift in NII still expected, with +2-3bps per +25bps OPR hike effect still persisting.

3. Credit duplication error: With provisions fully managed in 1Q22, only recoveries are expected for now. Recovery efforts are still ongoing, with 2Q22 seeing only negligible amounts.
4. No changes to Forward 23+ targets, with most metrics tracking well despite weakness on NOII front.

Earnings revised. We reduce our forecast for FY24 by -2.7% as believe our initial NIM forecasts were too optimistic. Slight upticks in credit costs forecasts due to poor macroeconomic outlook are offset by positive effects of factoring 3 +25bps OPR hikes in CY22 and 2 in CY23 (as opposed to initial expectations of 2 in CY22 and 3 in CY23).

Valuation and recommendation. CIMB has a number of issues. It still faces sub-par asset quality and high loan credit costs, though heavy pre-emptive provisioning should stifle any major concerns. A FVOCI reserve already in the negative is unable to provide much buffer to negative bond yield movements affecting its high concentration of FVTPL holdings (~26%). Finally, given its high CASA ratio of ~43%, the Group may feel the effects of CASA rundown a bit harder than its peers.

Nevertheless, CIMB Niaga is performing well, especially as Indonesia maintains its ultra-low interest rate environment. Positive surprises in the asset quality department are possible, given RA loan progression seems to be better than management's assumptions. Loan growth, portfolio rebalancing and cost management seem to be working in CIMB's favour as well.

We maintain our **BUY** call with an unchanged **TP of RM6.14**, using an unchanged PBV of 0.95x FY23 BVPS, based on a FY23 ROE of 9.4%. We believe this is warranted as the Group gearing towards an improved ROE profile from pre-pandemic times following its recent loan book reshuffling and kitchen-sinking exercises.

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	17,742	16,096	18,276	20,132	22,398
Interest expense	(7,702)	(5,221)	(6,810)	(7,980)	(9,120)
Net interest income	**10,039**	**10,874**	**11,466**	**12,152**	**13,278**
Islamic banking income	2,915	3,533	3,710	3,866	4,013
Other operating income	4,033	3,955	4,175	4,532	4,918
Total income	**16,987**	**18,362**	**19,352**	**20,550**	**22,209**
OPEX	(8,775)	(9,419)	(9,676)	(10,213)	(10,993)
PPOP	**8,212**	**8,944**	**9,676**	**10,337**	**11,216**
Loan allowances	(5,342)	(2,614)	(2,480)	(2,232)	(1,697)
Other allowances	(1,456)	(1,759)	(411)	(328)	(255)
JV & Associates	116	68	24	24	16
Pretax profit	**1,530**	**4,639**	**6,809**	**7,800**	**9,281**
Taxation and zakat	(384)	(1,397)	(2,043)	(1,950)	(2,320)
NCI	48	(97)	(105)	88	104
Reported net profit	**1,194**	**3,145**	**4,661**	**5,938**	**7,065**
Core net profit	**1,194**	**4,648**	**4,661**	**5,938**	**7,065**
Total NII	12,725	13,958	14,880	15,632	16,769
Total NOII	4,464	4,414	4,472	4,918	5,440

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	43,126	50,283	61,302	75,968	92,782
Investment securities	146,876	156,728	152,714	153,263	156,557
Net loans	353,916	364,685	382,256	399,937	419,525
Other IEAs	6,833	5,885	7,063	8,122	9,097
Non-IEAs	51,604	44,325	43,254	49,912	50,684
Total assets	**602,355**	**621,907**	**646,588**	**687,202**	**728,645**
Customer & bank deposits	437,521	463,547	478,731	497,487	515,274
Other IBLs	68,145	63,834	64,235	63,681	64,344
Non-IBLs	39,515	34,417	41,022	60,165	78,818
Total liabilities	**545,181**	**561,798**	**583,988**	**621,333**	**658,437**
Share capital	25,844	27,100	27,100	27,100	27,100
Reserves & retained profit	30,082	31,764	34,137	37,345	41,604
Shareholders' funds	**55,926**	**58,863**	**61,237**	**64,444**	**68,703**
Perpetual preference shares	200	200	200	200	200
NCI	1,048	1,045	1,163	1,224	1,305
Total equity	**57,174**	**60,109**	**62,600**	**65,869**	**70,209**
Total liabilities & equity	**602,355**	**621,907**	**646,588**	**687,202**	**728,645**
Total IEAs	550,751	577,582	603,335	637,290	677,961
Total IBLs	505,666	527,381	542,966	561,169	579,618
Gross loans	365,844	378,033	396,934	414,796	433,462
CASA	168,754	186,052	190,911	197,007	203,058

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	2.26	2.36	2.40	2.38	2.40
Return on IEAs	3.30	2.85	3.10	3.25	3.41
Cost of funds	1.56	1.01	1.27	1.45	1.60
Net interest spread	1.74	1.84	1.82	1.80	1.81
Profitability (%)					
ROAE	2.1	8.1	7.8	9.4	10.6
ROAA	0.2	0.8	0.7	0.9	1.0
NOII/Total income	26.3	24.0	23.1	23.9	24.5
Effective tax rate	25.1	30.1	30.0	25.0	25.0
Liquidity & Efficiency (%)					
Cost-to-income ratio	51.7	51.3	50.0	49.7	49.5
Loan/Deposit ratio	87.8	86.3	87.4	87.9	88.9
CASA ratio	41.9	44.0	43.7	43.3	43.0
Asset Quality (%)					
GIL ratio	3.56	3.51	3.70	3.50	3.14
NIL ratio	1.74	1.53	1.71	1.61	1.41
LLC ratio	91.7	100.3	99.9	99.9	99.8
LLC (incl. reserves)	93.5	101.3	100.6	100.6	111.7
Gross credit cost (bps)	160	88	78	69	54
Net credit cost (bps)	145	70	64	55	40
% Floating rate loans	84	82	83	84	84
% Domestic loans	62	63	64	64	63
Capital (%)					
CET 1	14.5	15.1	14.5	14.3	14.2
Tier 1 capital	14.5	15.1	14.5	14.3	14.2
Total capital	17.5	18.0	17.3	17.3	17.1
Growth (%)					
Total NII	0.5	9.7	6.6	5.1	7.3
Total NOII	(13.1)	(1.1)	1.3	10.0	10.6
Core net profit	(76.2)	289.3	0.3	27.4	19.0
Gross loans	(1.0)	3.3	5.0	4.5	4.5
Customer deposits	2.7	4.8	3.5	4.1	3.7
CASA	22.6	10.3	2.6	3.2	3.1
Valuation metrics					
Core EPS (sen)	11.9	46.4	46.5	59.2	70.5
Gross DPS (sen)	4.8	23.0	23.3	29.6	35.2
Div payout ratio (%)	40.0	49.6	50.0	50.0	50.0
BVPS (RM)	5.6	5.9	6.1	6.4	6.9
Core P/E (x)	43.8	11.3	11.2	8.8	7.4
Dividend yield (%)	0.9	4.4	4.5	5.7	6.8
P/B (x)	0.9	0.9	0.9	0.8	0.8

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology