Company Update| Thursday, 27 October 2022

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Niaga gains auto loan market share

***Unchanged* Target Price: RM6.16**

KEY INVESTMENT HIGHLIGHTS

- **Earnings were lacklustre, due to poor NOII showings**
- **Maintaining our earnings forecast for now**
- **Core drivers: (1) Auto loan market share is creeping upward, (2) High LLC should reduce high credit provisioning instances, (3) Loan portfolio rebalancing should result in more favourable yields**
- **Key risks: (1) Persistent NOII volatility, (2) Steeper-than - expected CASA attrition, (3) Higher credit costs**
- **Maintain BUY call with unchanged TP of RM6.16**

Highlights from CIMB Niaga's 3QFY22 quarterly results:

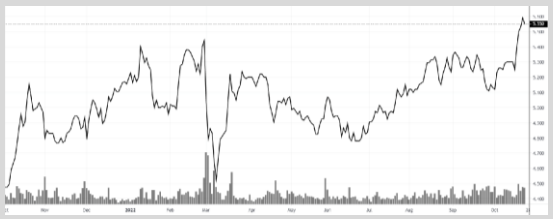
1. The bank's 9MFY22 CNP of IDR3.8t saw a +19%yoy increase.
2. Its 3QFY22 CNP of IDR1.3t saw a reduction of -2.3%qoq, largely driven by weaker NOII.
3. RA loan graduation is relatively flattish, making up 9.2% of current gross loan portfolio.
4. GIL flattish at 3.6%, may get worse before improving depending on government incentives for Covid-hit companies.
5. Provisions showed dramatic reduction, combined with high LLC this trend expected to persist.
6. 3QFY22's NIM rose by +14bps qoq – this could have been more, if CIMB Niaga opted to reprice its lending yields.
7. 3QFY22's NOII down by -27%qoq, dragged by poor treasury showing.
8. Steady pace of loan growth: gross loans grew by +10%yoy, driven by strong auto loan segment.
9. Deposit growth contracted by -2.7%yoy, spurred by weaker CASA growth and time deposit contraction.
10. 9MFY22 OPEX of 44.4% is healthy, well below pre-pandemic levels. Expected to remain stable.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	12,725	13,958	14,701	15,220	15,790
NOII (RM m)	4,464	4,414	4,580	5,278	6,189
Total income (RM m)	16,987	18,362	19,281	20,497	21,979
PPOP (RM m)	8,212	8,944	9,930	10,556	11,319
Core net profit (RM m)	1,194	4,648	5,177	6,086	7,143
Core EPS (sen)	11.9	46.4	51.7	60.7	71.3
Core P/E (x)	46.6	12.0	10.7	9.1	7.8
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Dividend yield (%)	0.9	4.1	4.7	5.5	6.4
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
P/BV (x)	1.0	0.9	0.9	0.9	0.8
ROE (%)	2.1	8.1	8.6	9.6	10.6

RETURN STATISTICS	
Price @ 26th October 2022 (RM)	5.55
Expected share price return (%)	+11.1
Expected dividend yield (%)	+4.7
Expected total return (%)	**+15.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.2	1.5
3 months	8.4	7.8
12 months	6.1	16.3

KEY STATISTICS	
FBM KLCI	1,454.98
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10698.48
Estimated free float (%)	41.73
Market Capitalisation (RM m)	58,236.85
52-wk price range	RM4.72 - RM5.75
Beta vs FBM KLCI (x)	1.14
3-mth average daily volume (m)	13.62
3-mth average daily value (RM m)	72.67
Top Shareholders (%)	
Khazanah Nasional Bhd	24.50
Employees Provident Fund Board	14.09
ASNB	10.29

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

Lacklustre quarterly performance. CIMB Niaga's 9MFY22 core net profit of IDR3.84t rose by +19%yoy, driven largely by improved NOII (higher FX & Derivative income, as well as stronger loan recovery) and lower provision expenses. Quarterly earnings of IDR1.31t fell by -2.3%qoq, largely dragged by weaker NOII offsetting improvements in provision expenses and OPEX management.

Repayment assistance (RA) loans. As of Sep-22, CIMB Niaga had IDR17.8t worth of RA loans, which translated to 9.2% of its gross loan portfolio. Previously, in of Jun-22, this figure was IDR19.0t, translating to 10.0% of its previous gross loans. Only its commercial segment experienced reported notable runoffs – other segments were much stickier in comparison.

Asset quality. CIMB Niaga's gross NPL ratio remained unchanged at 3.6% (2QFY22: 3.6%, 3QFY21: 3.4%). Management notes that the increase on a sequential year basis was due to its early action to remove stimulus from non-retail Covid restructuring loans. CIMB Niaga intends to maintain an NPL ratio of ~3.5% in FY23.

Gross NPL outlook is dependent on OJK extending incentives and programmes for Covid-hit businesses. Should OJK extend such programmes, management believes NPL will come down, especially for more vulnerable exposures. However, if stimulus is taken away altogether then the figure may stagnate.

CIMB Niaga's LLC currently stands at 209%. Management believes a sustainable level of 200-210% is extremely healthy.

Provisioning and credit cost guidance. CIMB Niaga reported far lower provision expenses of IDR714b for the quarter (-26%qoq, -25%yoy), as it is content with current LLC's buffering ability. It reported a cost of credit (CoC) of 130bps [2QFY22: 170bps, 3QFY21: 210bps], its lowest figure in years.

CIMB Niaga's believes that its CoC level can be stabilised to 150-190bps in the next 3-5 years, hopefully skewed towards the lower end. With its improved loan growth and CASA franchise, CIMB Niaga has more leeway when it comes to risk appetite and credit provisioning. The current level of provisioning is already considered prudent when combined with the current high LLC level.

NIM and NII. NIM expanded by +14bps qoq to 4.77% in 3QFY22, averaging 4.62% in 9MFY22, down from 5.00% (-38bps yoy) in 9MFY21. This was largely due to a consistent reduction in loan yields, despite a hike in key interest rates by Bank Indonesia in August and subsequent months.

CIMB Niaga does not intend to reprice lending rates quickly, in contrast to Malaysian counterparts. This is to build strong relationships with borrowers, in line with its larger peers. Nevertheless, management does guide for deposit and loan repricing in November.

Similarly, NII was up +3.2%qoq and +2.6%yoy, largely driven by favourable cost of funds and loan growth movements.

CIMB Niaga believes that any further +25bps increase to key interest rate by Bank Indonesia would positively affect NIM, given its positive present value per basis point. While previous guidance suggested a neutral effect, the bank has guided slightly more optimistically given their more accommodating loan and deposit portfolios.

NOII. 3QFY22's NOII was disappointing, falling by a sharp -27%qoq. All its components faced a sequential quarter reduction – the most glaring of which were losses from marketable securities (-207%qoq) and FX & Derivatives (-33%) segment.

CIMB Niaga is not confident on its outlook, having severely underestimate the degree of inflation and subsequent Fed rate hikes. A burgeoning credit card and wealth management segment may provide some light reprise to the poor NOII outlook.

NPL sales. Due to accounting treatments in Indonesia, the proceeds of loan recovery linked to sales of fully written off NPL will be recorded under the "NOII" figure. CIMB Niaga does expresses difficulty in selling off bad debts, as bulk loan sales can be done at unattractive price points.

Loan growth. Gross loans grew by a solid +10%yoy (+7.2% YTD), in line with 2022's guidance of 7-10%. Core drivers are the consumer and corporate segments, with a +52%yoy growth in auto loans. This offset a contraction of -3%yoy of its commercial portfolio, as it rebalances this segment.

Auto loans grew significantly higher than industry. CIMB Niaga has been consistently gaining auto loan market share over the course of several years, while maintaining a manageable gross NPL of 0.93%. Management attributes this to CIMB

Niaga Auto Finance's (CNAF) three-pronged strategy, which targets customers looking for (1) New car and, (2) Used car financing, as well as for (3) Refinancing services.

While the new car financing segment has seen reduced demand as result of chip shortages, individuals are flocking to the used car market instead. CIMB Niaga believes it can sustain this level of growth in the coming quarters.

CNAF does not have to sacrifice risk appetite to maintain growth – the current gross NPL of 0.93% for the segment is much lower than industry average. CIMB Niaga avoids two-wheel vehicle financing, given the increased risk related to the segment. Additionally, refinancing demand is coming from existing, high-quality customers which top-up using the same collateral as before.

Deposit growth. Deposits contracted by -2.7%yoy, and by a steeper -8.1%YTD. The contraction was largely driven by a reduction of time deposits, which fell by -18%yoy, -23%YTD. CASA growth expanded by +6.7%yoy, though sequential year growth was largely driven by current accounts. Management attributes to weaker savings deposit growth due to bank account churning activity from wealth management customers.

CIMB Niaga is still confident in its strategies to drive CASA growth in a period of rising rates – noting that its digital channel strategy used to garner CASA is non-rate sensitive.

CIMB Niaga's deposit contraction was largely in line with expectations, given that management has previously expressed its intent to use its excess liquidity in a more efficient manner. The loan/deposit ratio currently stands at 86.9%. CIMB Niaga believes that this is at optimal level and will try to keep it stable – the remaining 8% will be allocated for statutory reserves, and 1-2% in the form of cash is required daily.

Cost efficiency. 3QFY22 operating expenses (OPEX) slipped by -0.4%qoq but rose by +3.4%yoy. 9MFY22 OPEX rose by +3.6%, largely driven by tech and personnel spend. Sequential quarter reductions were largely driven by reductions in tech spend.

CIMB Niaga continues to maintain a healthy cost-to-income ratio of 46.0% in 3QFY22 and 44.4% in 9MFY22. This figure is a significant improvement from its standard 49% level in pre-pandemic times.

Capital ratios. CIMB Niaga maintains a solid Tier-1 and Tier-2 ratio of 21.0% and 19.9% respectively.

Earnings maintained. We make no changes to our earnings forecast.

Key risks. Key risks to earnings include (1) Persistent NOII volatility, (2) Steeper than anticipated CASA attrition, (3) Higher credit costs, following unfavourable RA loan graduation outcomes.

Valuation and recommendation. Despite poor performance from NOII leading to an underwhelming showing from CIMB Niaga this results season, the Bank remains a valuable prospect due to several reasons (1) Steady accumulation of auto loan market share using its three-pronged strategy, (2) Its digital-channel strategy used to garner CASA is non-rate sensitive, (3) Loan portfolio rebalancing should result in more favourable yields in future, (4) Its current level LLC should sufficiently reduce the risk of high credit provisioning instances.

Ultimately, we believe that CIMB Niaga has much room to grow within the lucrative Indonesian space, displaying a good pick up in loan market share, as well as a broadening digital presence. We like how its cost optimisation measures seem to reduce cost/income ratios quite significantly as compared to pre-pandemic times. However, our central concern is whether its CASA accumulation strategies can prove their effectiveness in a normalised interest rate environment. NOII outlook also remains bleak, regardless of fee income pick-up.

Thus, we maintain our **BUY call** with a unchanged **TP of RM6.16**, as we peg its FY23 BVPS to an unchanged P/BV of 0.95x. (GGM assumptions: FY23 ROE of 9.6%, LTG of 3.5% and COE of 10.0%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (IDR b)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Interest income	4,749	4,689	4,804	-1.1%	1.3%	14,022	14,229	-1.5%
Interest expense	(1,313)	(1,360)	(1,454)	-9.7%	-3.5%	(4,048)	(4,341)	-6.7%
Net interest income	**3,436**	**3,329**	**3,350**	**2.6%**	**3.2%**	**9,974**	**9,888**	**0.9%**
Non-interest income	1,066	1,455	948	12.4%	-26.7%	4,111	3,437	19.6%
Operating income	**4,502**	**4,784**	**4,298**	**4.7%**	**-5.9%**	**14,085**	**13,325**	**5.7%**
OPEX	(2,069)	(2,078)	(2,001)	3.4%	-0.4%	(6,251)	(6,031)	3.6%
PPOP	**2,433**	**2,706**	**2,297**	**5.9%**	**-10.1%**	**7,834**	**7,294**	**7.4%**
Provision expenses	(714)	(961)	(948)	-24.7%	-25.7%	(2,814)	(3,103)	-9.3%
Core PBT	**1,719**	**1,745**	**1,349**	**27.4%**	**-1.5%**	**5,020**	**4,191**	**19.8%**
Tax	(410)	(405)	(270)	51.9%	1.2%	(1,177)	(948)	24.2%
Core net profit	**1,309**	**1,340**	**1,079**	**21.3%**	**-2.3%**	**3,843**	**3,243**	**18.5%**
Reported PBT	**1,719**	**1,745**	**1,297**	**32.5%**	**-1.5%**	**5,020**	**4,098**	**22.5%**
Reported net profit	**1,309**	**1,340**	**1,018**	**28.6%**	**-2.3%**	**3,843**	**3,150**	**22.0%**
Gross loans (IDR t)	195	190	177	10.0%	2.6%			
Customer deposits (IDR t)	222	232	228	-2.7%	-4.4%			

Source: CIMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	Qoq (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM	**4.77**	**4.63**	**4.84**	**-0.07**	**0.14**	**4.62**	**5.00**	**-0.38**
Fee income/Total income	23.7	30.4	22.1	1.6	-6.7	29.2	25.8	3.4
ROE (Ann.)	**13.1**	**13.7**	**10.7**	**2.4**	**-0.6**	**12.9**	**11.2**	**1.7**
Cost-to-income ratio	46.0	43.4	46.6	-0.6	2.5	44.4	45.3	-0.9
Credit cost (bps)	130	170	210	-80	-40	180	250	-70
Gross NPL	3.6	3.6	3.4	0.2	0.0			
Net NPL	0.9	1.1	1.1	-0.2	-0.2			
Gross impairment ratio	6.2	6.8	6.9	-0.7	-0.6			
Loan loss coverage	208.8	215.0	217.2	-8.4	-6.2			
Impaired LLC	117.9	115.3	103.8	14.1	2.6			
CASA ratio	67.7	65.7	61.7	6.0	2.0			
L/D ratio	86.9	80.9	76.7	10.2	6.0			
Tier-1 capital	19.9	20.1	21.6	-1.7	-0.2			
Tier-2 capital	21.0	21.1	22.6	-1.6	-0.1			

Source: CIMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	17,742	16,096	18,097	19,720	21,419
Interest expense	(7,702)	(5,221)	(6,810)	(7,980)	(9,120)
Net interest income	**10,039**	**10,874**	**11,287**	**11,740**	**12,299**
Islamic banking income	2,915	3,533	3,710	3,866	4,013
Other operating income	4,033	3,955	4,283	4,891	5,668
Total income	**16,987**	**18,362**	**19,281**	**20,497**	**21,979**
OPEX	(8,775)	(9,419)	(9,351)	(9,941)	(10,660)
PPOP	**8,212**	**8,944**	**9,930**	**10,556**	**11,319**
Loan allowances	(5,342)	(2,614)	(2,325)	(2,232)	(1,697)
Other allowances	(1,456)	(1,759)	(379)	(393)	(311)
JV & Associates	117	68	25	24	26
Pretax profit	**1,530**	**4,639**	**7,250**	**7,955**	**9,338**
Taxation and zakat	(384)	(1,397)	(2,175)	(1,989)	(2,334)
NCI	48	(97)	102	119	140
Reported net profit	**1,194**	**3,145**	**5,177**	**6,086**	**7,143**
Core net profit	**1,194**	**4,648**	**5,177**	**6,086**	**7,143**
Total NII	12,725	13,958	14,701	15,220	15,790
Total NOII	4,464	4,414	4,580	5,278	6,189

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	43,126	50,283	51,753	52,797	53,862
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	44,237	49,912	50,684
Total assets	**602,355**	**621,907**	**638,023**	**664,030**	**689,726**
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	32,193	36,396	39,124
Total liabilities	**545,181**	**561,798**	**575,160**	**597,565**	**618,742**
Share capital	25,844	27,100	27,100	27,100	27,100
Reserves & retained profit	30,082	31,764	34,395	37,930	42,364
Shareholders' funds	**55,926**	**58,863**	**61,495**	**65,030**	**69,464**
Perpetual preference shares	200	200	200	200	200
NCI	1,048	1,045	1,168	1,236	1,320
Total equity	**57,174**	**60,109**	**62,863**	**66,465**	**70,983**
Total liabilities & equity	**602,355**	**621,907**	**638,023**	**664,030**	**689,726**
Total IEAs	550,751	577,582	593,785	614,119	639,041
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	2.38	2.43	2.43	2.41
Return on IEAs	3.30	2.85	3.09	3.27	3.42
Cost of funds	1.56	1.01	1.27	1.45	1.60
Net interest spread	1.74	1.84	1.82	1.82	1.82
Profitability (%)					
ROE	2.1	8.1	8.6	9.6	10.6
ROA	0.2	0.8	0.8	0.9	1.1
NOII/Total income	26.3	24.0	23.8	25.7	28.2
Effective tax rate	25.1	30.1	30.0	25.0	25.0
Liquidity & Efficiency (%)					
Cost-to-income ratio	51.7	51.3	48.5	48.5	48.5
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	74	69	54
Net credit cost (bps)	145	70	60	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	5.3	3.5	3.7
Total NOII	(13.1)	(1.1)	3.8	15.2	17.3
Core net profit	(76.2)	289.3	11.4	17.6	17.4
Gross loans	(0.9)	3.4	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	51.7	60.7	71.3
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Div payout ratio (%)	40.0	49.6	50.0	50.0	50.0
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
Core P/E (x)	46.6	12.0	10.7	9.1	7.8
Dividend yield (%)	0.9	4.1	4.7	5.5	6.4
P/BV (x)	1.0	0.9	0.9	0.9	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