Corporate Update | Monday, 20 February 2023

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Considerable improvement in GIL ratio in Indonesia

***Revised* Target Price: RM6.54**

(Previously RM6.16)

KEY INVESTMENT HIGHLIGHTS

- **CIMB Niaga's FY22 CNP rose +19%yoy. Core drivers were reduced provisioning and stronger NII & NOII contributions**
- **CIMB's optimistic FY23 outlook is premised on capital-market conditions improving across the region and Niaga maintaining its strong performance**
- **We are wary of management's concerns that further OPR hikes may add further pressure to asset quality. However, note that this assumes two OPR hikes in CY23**
- **Maintain BUY with higher TP of RM6.54 (based on FY23F P/BV of 1.0x)**

Highlights from CIMB Niaga's 4QFY22 quarterly results:

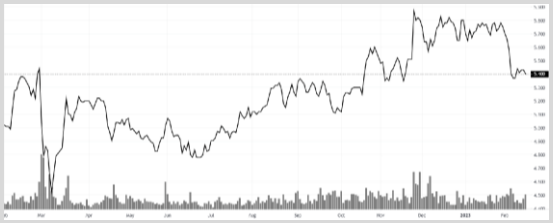
1. **Niaga's FY22 CNP was up +19%yoy**, to IDR5.04tr (RM1.5b). Due to: Higher NII/NOII contribution, better OPEX control, reduced provisioning.
2. **Qtrly NIM expanded +13bps:** Repricing in loan yields offset intense end-year deposit competition.
   - *Outlook: NIM to wane in 1QFY23, before normalising in steady range from 2QFY23 onward. Contingent on ability to grow high-yield loan segments and maintain high CASA growth.*
3. **NOII up +20%qoq:** Strong recovery in fee and trading income. Positives: Fee income is recurring, stronger NPL recovery contributions in following quarter.
4. **GIL shows huge improvement, falls by -80bps qoq:** Aggressive portfolio recovery initiatives highlighted.
5. **High Qtrly NCC of 190bps:** Due to top-up in coverage for a corporate borrower and contingencies for RA graduating loans.
6. **Loan growth to be 6-8% in FY23:** Core driver are consumer and SME segments. Mgmt expects low growth target of 3-4% in commercial segment (following years of negative growth).
7. **Management still optimistic on CASA growth:** CASA temporarily depressed due to end-year deposit war. It has partially recovered in Jan-23.
8. **OPEX to rise by +4-5% in FY23F:** More spend slated for tech and marketing costs.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
Core NP (RM m)	**1,194**	**4,648**	**5,174**	**6,321**	**7,146**
CNP growth (%)	(76)	289	11	22	13
Core EPS (sen)	11.9	46.4	51.6	63.1	71.3
Gross DPS (sen)	4.8	23.0	25.8	31.5	35.7
Div yield (%)	**0.9**	**4.3**	**4.8**	**5.8**	**6.6**
BVPS (RM)	5.6	5.9	6.1	6.5	7.0
P/BV (x)	1.0	0.9	0.9	0.8	0.8
ROE (%)	**2.1**	**8.1**	**8.6**	**10.0**	**10.6**
MIDF/Street CNP (%)			**97**	**98**	**102**

RETURN STATISTICS	
Price @ 17 February 2023 (RM)	5.40
Expected share price return (%)	+21.1
Expected dividend yield (%)	+5.8
Expected total return (%)	**+27.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.4	-5.0
3 months	-6.9	-2.1
12 months	-4.1	4.2

KEY STATISTICS	
FBM KLCI	1,476.90
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10,698.48
Estimated free float (%)	45.83
Market Capitalisation (RM m)	57,591.55
52-wk price range	RM4.72 - RM5.9
Beta vs FBM KLCI (x)	0.99
3-mth average daily volume (m)	16.34
3-mth average daily value (RM m)	92.64
Top Shareholders (%)	
Khazanah Nasional Bhd	24.06
Employees Provident Fund Board	13.54
ASNB	13.35

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Higher provisioning this quarter. CIMB Niaga posted FY22 CNP of IDR5.04tr, up +19%yoy. The increase was due to higher NII and NOII contributions, as well as good OPEX management and reduced provisioning.

Quarterly earnings of IDR1.2tr were up +12%yoy but fell by -8%qoq, as higher OPEX provisioning charges offset improvements in NOII.

NIM and NII. NIM expanded by +13bps qoq to 4.90% in 4QFY22, despite severe end-year deposit competition. This was due to loan yields leaping up by +53bps qoq, after several months of reduction. CIMB Niaga's loan yields should continue rising in subsequent quarters, in line with other local banks.

On a sequential year basis, FY22's NIM did fall to 4.69% (-17bps yoy), due to a reduction in CASA deposits as consequence of the central bank raising interest rates.

> **NIM guidance.** Management maintains its 4.6-4.8% NIM target for FY23. While it warns for COF to peak in 1QFY23 (leading to a weaker quarterly NIM), the Group expects NIM to normalise in the stronger 4.7%-4.8% range from 2QFY23 onward.
>
> Assumptions are as such: (1) Central bank interest rate of 5.75% (present level), (2) The ability to grow continue growing lucrative consumer (esp. auto) + SME high loan yield segments in 2023, (3) The ability to reprice corporate loans upward (without losing customers to competitors).

NOII. 4QFY22's NOII rose by +20%qoq, largely driven by a strong recovery in fee income (which mgmt believes is recurring in future quarters). Non-fee income was lifted by strong marketable securities income (from negative territory in 3QFY22) offsetting lower NPL recovery and forex gains. Note that management believes that NPL recovery contributions have simply been delayed – we should see results in 1QFY22 instead.

Loans. The Bank experienced loan growth of +9.4%yoy (which was actually below the national average of 11.3%). Note, however, that this was dragged by its commercial segment, which has been experiencing negative growth over the last few years. Otherwise, its combined consumer, SME and corporate segments registered +11.6%yoy growth.

> **Loan growth guidance.** 6-8% in FY23: Management aims for double-digit growth in consumer and SME segments, with a strong showing from corporate segment. Commercial has a lower growth target of 3-4% (from negative values in previous years).

Deposit growth. Total deposits fell by -5.9%yoy, though note that CASA only fell by -2.4%yoy. Loan/Deposit ratio had dipped to 85.9% but will normalise once the end-year scramble for funding has subsided.

> **CASA guidance.** FY23's CASA target is an aggressive 68% (Currently: 63.6% due to end-year deposit competition – note that the value has normalised to 65% at end-Jan). Management believes there is still much room to grow CASA without having to resort to higher interest or promotional savings accounts: it looks to the Shariah space and increasing main operating account (MOCA) penetration in the business banking space.

Asset quality. The Group's GIL ratio showed significant improvement, falling to 2.8% (-80bps) after trailing at the 3.5-3.6% range for the last year.

CIMB Niaga's active Covid restructured loans have fallen to 2.4%, from the previous quarter's 2.7%. This was attributable to aggressive portfolio recovery initiatives made during the quarter. As a result, LLC rose to 243% (+34%qoq).

Provisioning. CIMB Niaga's FY22 NCC finished better than expected at 180bps, down from FY21's 240bps. Quarterly annualised NCC is relatively high, at 190bps (from last quarter's 130bps): this corresponds to a top-up in coverage for a corporate borrower, as well as contingencies for vulnerable SME and retail loans that have recently graduated from Covid restructuring programmes.

Cost efficiency. FY22's OPEX rose by +5%yoy, on the back of higher personnel and tech expenses. Nevertheless, strong income contributions lead to FY22's CIR being at a strong 44.9% (FY21: 45.9%).

> **Cost and CIR guidance.** FY23's overall costs are expected to rise by +4-5%yoy (slightly below current value), with additional spend slated for tech and marketing purposes. Mgmt believes costs are largely predictable; income fluctuations could determine whether or not the bank achieves its <45% target.

Capital ratios. The Group's CAR – Tier 1 ratio (CET-1 equivalent) remained stable at 21.1%.

Key downside risks. (1) Higher-than-expected OPEX, (2) Unexpected loan impairments, (3) NIM compression due to inability to maintain CASA balances in Indonesian markets.

Earnings revised: FY23F CNP raised by +4%. To reflect stronger NII and NOII growth, given our previous projections were too conservative. We have also made several alterations in our earnings model, though the impact on CNP is minimal.

Maintain BUY call: Higher GGM-TP of RM6.54 ***(from RM6.16).*** The TP is based on a higher FY23F P/BV of 1.00x (vs 0.95x previously), to reflect the improved earnings prospects and ROE-based valuations.

*(**GGM assumptions:** FY23F ROE of 10.0%, LTG of 3.5% and COE of 10.0%.)*

Overall, we remain bullish on CIMB as a proxy to the lucrative Indonesian market, and for its high FY23F dividend yield of +5.8%.

Exhibit 1: Quarterly results

FYE Dec (IDR b)	4Q FY22	3Q FY22	4Q FY21	Yoy (%)	Qoq (%)	FY22	FY21	Yoy (%)
Net interest income	3,502	3,436	3,201	9	2	13,475	13,089	3
Non interest income	1,279	1,066	1,042	23	20	5,390	4,479	20
Net income	**4,781**	**4,502**	**4,243**	**13**	**6**	**18,865**	**17,568**	**7**
OPEX	(2,222)	(2,069)	(2,029)	10	7	(8,473)	(8,060)	5
PPOP	**2,559**	**2,433**	**2,214**	**16**	**5**	**10,392**	**9,508**	**9**
Provisions	(999)	(715)	(1,067)	-6	40	(3,814)	(4,170)	-9
Core PBT	**1,560**	**1,718**	**1,147**	**36**	**-9**	**6,578**	**5,338**	**23**
Core NP	**1,199**	**1,308**	**992**	**21**	**-8**	**5,041**	**4,235**	**19**
Reported PBT	**1,560**	**1,718**	**1,093**	**43**	**-9**	**6,579**	**5,191**	**27**
Reported NP	**1,199**	**1,308**	**950**	**26**	**-8**	**5,041**	**4,101**	**23**
Total loans (IDR tr)	199	195	182	9.4	2.1			
Total deposits (IDR tr)	227	222	241	-5.9	2.4			
CASA (IDR tr)	144	150	148	-2.4	-3.8			

Source: CIMB, MIDFR

Exhibit 2: Quarterly financial ratios

Ratios (%)	4Q FY22	3Q FY22	4Q FY21	Yoy (ppts)	QoQ (ppts)	FY22	FY21	Yoy (ppts)
ROE (Ann.)	**11.7**	**13.1**	**10.6**	**1.1**	**-1.4**	**12.6**	**10.7**	**1.9**
NIM (Reported)	**4.90**	**4.77**	**4.47**	**0.43**	**0.13**	**4.69**	**4.86**	**-0.17**
NOII/Net income	26.8	23.7	24.6	2.2	3.1	28.6	25.5	3.1
Cost/Income	46.5	46.0	47.8	-1.3	0.5	44.9	45.9	-1.0
CoC (Ann.) (bps)	190	130	210	-20	60	180	240	-60
Gross NPL ratio	2.80	3.60	3.50	-0.70	-0.80			
Loan loss coverage	242	209	212	30	33			
CASA ratio	63.6	67.7	61.3	2.2	-4.1			
L/D ratio (Reported)	85.6	86.9	74.4	11.2	-1.3			
CAR - Tier 1	21.1	19.9	21.6	-0.5	1.2			

Source: CIMB, MIDFR

Exhibit 3: Management guidance

	2022 Guidance	2022 Actual	2023 Guidance
Loan Growth*	7% - 10%	9.4%	6% - 8%
NIM	4.65% - 4.75%	4.69%	4.6% - 4.8%
Cost of Credit (CoC)	2.0% - 2.2%	1.8%	1.6% - 1.8%
Cost to Income Ratio (CIR)	Below 45.0%	44.9%	Below 45.0%
ROE #	11% - 13%	12.6%	12% - 14%

Source: CIMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	17,742	16,096	18,571	20,438	22,187
Interest expense	(7,702)	(5,221)	(6,810)	(7,980)	(9,120)
Net interest income	**10,039**	**10,874**	**11,761**	**12,458**	**13,067**
Islamic banking inc.	2,915	3,533	3,686	3,680	3,630
Other operating inc.	4,033	5,105	4,946	5,695	6,097
Net income	**16,987**	**19,513**	**20,393**	**21,833**	**22,793**
OPEX	(8,775)	(9,419)	(9,891)	(10,589)	(10,941)
PPOP	**8,212**	**10,094**	**10,502**	**11,244**	**11,853**
Loan allowances	(5,342)	(2,614)	(2,370)	(2,317)	(1,750)
Other allowances	(1,456)	(1,759)	(302)	(252)	(295)
JV & Associates	116	68	14	14	15
PBT	**1,530**	**5,789**	**7,844**	**8,689**	**9,823**
Tax & zakat	(384)	(1,397)	(2,510)	(2,172)	(2,456)
NCI	48	(97)	(160)	(195)	(221)
Reported NP	**1,194**	**4,295**	**5,174**	**6,321**	**7,146**
Core NP	**1,194**	**4,648**	**5,174**	**6,321**	**7,146**
Total NII	12,725	13,958	15,078	15,770	16,333
Total NOII	4,262	5,555	5,315	6,063	6,460

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash & ST funds	43,126	50,283	51,753	52,797	53,862
Investment securities	146,876	156,728	163,486	166,369	171,120
Net loans	353,916	364,685	396,818	415,186	430,098
Other IEAs	6,833	5,885	7,063	8,122	9,097
Non-IEAs	51,604	44,325	43,159	49,652	50,407
Total assets	**602,355**	**621,907**	**662,279**	**692,126**	**714,585**
Cust. & FI deposits	437,521	463,547	468,171	483,934	500,236
Other IBLs	68,145	63,834	64,235	63,681	64,344
Non-IBLs	39,515	34,417	67,142	77,500	78,628
Total liabilities	**545,181**	**561,798**	**599,548**	**625,115**	**643,209**
Share capital	25,844	27,100	27,100	27,100	27,100
Reserves	30,082	31,764	34,265	38,465	42,749
Shareholders' funds	**55,926**	**58,863**	**61,365**	**65,565**	**69,849**
Perpetual pref. shares	200	200	200	200	200
NCI	1,048	1,045	1,166	1,246	1,327
Total equity	**57,174**	**60,109**	**62,731**	**67,010**	**71,376**
Total L&E	**602,355**	**621,907**	**662,279**	**692,126**	**714,585**
Total IEAs	550,751	577,582	619,120	642,474	664,177
Total IBLs	505,666	527,381	532,406	547,615	564,581
Gross loans	365,844	378,033	412,056	430,598	444,377
CASA	168,754	186,052	190,911	197,007	203,058

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	2.37	2.47	2.52	2.50	2.50
Return on IEAs	3.30	2.85	3.10	3.24	3.40
Cost of funds	1.56	1.01	1.29	1.48	1.64
Net interest spread	1.74	1.84	1.82	1.76	1.76
Profitability (%)					
ROE	**2.1**	**8.1**	**8.6**	**10.0**	**10.6**
ROA	0.2	0.8	0.8	0.9	1.0
NOII/Net income	25.1	28.5	26.1	27.8	28.3
Effective tax rate	25.1	24.1	32.0	25.0	25.0
Cost/Income ratio	51.7	48.3	48.5	48.5	48.0
Liquidity (%)					
Loan/Deposit ratio	87.8	86.3	93.0	94.0	94.1
CASA ratio	41.9	44.0	43.0	41.0	40.0
Asset Quality (%)					
GIL ratio	3.56	3.51	3.70	3.50	3.14
LLC ratio	92	100	100	100	100
LLC (w. reserves)	93	101	101	101	111
Net CC (bps)	145	70	60	55	40
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	8.0	4.6	3.6
Total NOII	-17.0	30.3	-4.3	14.1	6.6
Net income	-4.5	14.9	4.5	7.1	4.4
OPEX	-11.1	7.3	5.0	7.1	3.3
Core NP	-76.2	289.3	11.3	22.2	13.1
Gross loans	-0.9	3.4	9.0	4.5	3.2
Cust. & FI deposits	4.3	5.9	1.0	3.4	3.4
CASA	22.6	10.3	2.6	3.2	3.1
Valuation metrics					
Core EPS (sen)	11.9	46.4	51.6	63.1	71.3
Gross DPS (sen)	4.8	23.0	25.8	31.5	35.7
Div payout ratio (%)	40.0	49.6	50.0	50.0	50.0
BVPS (RM)	5.6	5.9	6.1	6.5	7.0
Core P/E (x)	45.3	11.6	10.5	8.6	7.6
Dividend yield (%)	**0.9**	**4.3**	**4.8**	**5.8**	**6.6**
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: CIMB, MIDFR

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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