CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

CIMB Niaga Posts Highest-Ever Quarterly Earnings

***Maintain* BUY**

***Revised* Target Price: RM6.37**
(Previously RM6.55)

KEY INVESTMENT HIGHLIGHTS

- **Niaga's strong earnings reflect a strong recovery in the Indonesian space**
- **Niaga's FY23F outlook remains pretty good but may see slightly inconsistent NOII in NPL sales**
- **For CIMB Group, expect NIM compression in the coming quarter, though deposit competition does improve**
- **Strong NOII contributions guided, no issues asset quality-wise**
- **Valuation: Revised FY23F P/BV of 1.00x**

Announcement. Yesterday, CIMB Niaga released its 1QFY23 results, as well as held its quarterly pre-blackout season briefing. Highlights are as follows:

1. Deposit competition in MY has eased off following MPC's decision to maintain OPR.
2. Expect sharp NIM contraction in 1QFY23. Mgmt guides for a conservative neutral to negative NIM performance in 2QFY23, despite easing deposit competition.
3. No liquidity issues – erratic interbank spreads are of minimal concern, likely spillover from 4QCY23 SRR regulation reversion.
4. Strong trading and FX income lead to better-than-expected NOII results in 1QFY23. Solid contributions from NPL sales as well.
5. Asset quality shows no major concerns for now.
6. Niaga posted strong earnings of IDR 1.6b (+32%qoq, +32%yoy) in the quarter, bolstered by lower provisions and strong NII and NOII contributions.
7. Niaga expects NIM, NPL ratio to stabilise at the current level, while CASA and loan growth should show recovery in subsequent quarters.

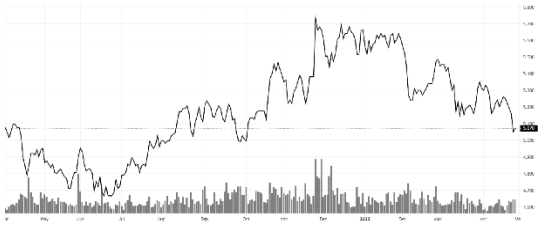
Our thoughts. We advise buying on weakness: Fundamentals remain strong despite taking a tumble in share price (believed to be partially fueled by Bersatu account-linked newsflow).

Despite high COF dragging 1QFY23 earnings, the mid-term outlook is still intact. **Earnings drivers are:**

1. NOII is guided to stage a strong recovery following a recovery in trading incomes and the lumpier "Other Income" category,
2. Management suggests that deposit competition is subsiding, with clear catalysts (MPC meetings, provided that OPR is unchanged),
3. Niaga still maintains a great outlook, with a promising loans pipeline, no more loan contraction pressure from the commercial segment and further room for loan yield growth.
4. High dividend yields of +6.1% for FY23F.

RETURN STATISTICS	
Price @ 27 April 2023 (RM)	5.07
Expected share price return (%)	+25.6
Expected dividend yield (%)	+6.1
Expected total return (%)	**+31.7**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.9	-1.2
3 months	-10.3	-6.2
12 months	-1.9	10.5

INVESTMENT STATISTICS

FYE Dec	FY23	FY24	FY25
Core NP (RM m)	**6,494**	**7,201**	**7,718**
CNP growth (%)	17	11	7
Div yield (%)	**6.1**	**6.8**	**7.3**
Gross DPS (sen)	31.1	34.5	37.0
P/BV (x)	**0.8**	**0.7**	**0.7**
BVPS (RM)	6.4	6.8	7.3
ROE (%)	**10.1**	**10.5**	**10.5**
MIDF/Street CNP (%)	**101**	**103**	**102**

KEY STATISTICS

FBM KLCI	1,418.05
Issue shares (m)	10,474.0
Estimated free float (%)	42.9
Market Capitalisation (RM'm)	55,458.5
52-wk price range	RM4.83 - RM5.9
3-mth avg daily volume (m)	12.4
3-mth avg daily value (RM'm)	68.8
Top Shareholders (%)	
Khazanah Nasional Bhd	24.1
EPF Board	13.3
Amanah Saham Nasional Bhd	9.9

Analyst
Samuel Woo
samuel.woo@midf.com.my

CIMB PRE-BLACKOUT SEASON BRIEFING – HIGHLIGHTS:

Deposit competition and NIMs:

Deposit competition was bad (but has eased off), so expect a sharp contraction in 1QFY23 NIMs. Malaysia was the core driver of the decline. Competition has come off since late March on the retail end (slightly earlier on the wholesale side), upon BNM's decision not to hike OPR. Future decisions to keep OPR unchanged should ease deposit competition further.

Deposit competition is waning, with pockets of rationality back in the funding space. Management reports that FD demand is still strong despite lowering their promotional rates by 10bps. Should BNM maintain the OPR, it will attempt to lower it further by 10-15bps.

Management maintains a very conservative Neutral to Negative outlook on NIMs in 2QFY23. Niaga should see stable qoq NIMs. SG is expected to see further compression. Although deposit competition has eased off in MY, mgmt warns that the magnitude of cheaper deposits made in 2QCY23 may not be enough to offset the more expensive bookings made in the previous quarter.

CIMB will also be attempting to transfer higher deposit costs on the loan side somewhere in 2Q or 3Q – the loan side has only adjusted by 100bps, whereas the deposit side is trailing well above.

Liquidity is of no issue – erratic interbank spreads are of minimal concern. Interestingly, mgmt believes that the deposit competition was irrational: liquidity is still healthy (according to ratios) and loan growth did not see any notable increase. It stemmed from aggressive rates pushed by small-mid-sized banks in 3QCY22. Interbank spread abnormalities are believed to be a spillover effect from 4QFY22's SRR regulation reversion.

You may observe CIMB's deposits shift towards longer duration buckets, as the group has been lagging its duration to the 12-month bucket since end-2022. No overshooting in deposits is expected from such aggressive deposit campaigns.

Islamic wholesale deposit rates are more competitive. In the wholesale segment, loans are largely driven by the Islamic side, while deposits are largely geared toward conventional. Hence funding is a bit steeper than the conventional side, due to lesser funding opportunities.

NOII and Costs:

Trading and FX income to drive 1QFY23 earnings. This quarter's NOII came in stronger than expected, driven by better trading conditions across all markets. Another component was the **"Other Income"** segment, driven by Thai contributions and strong NPL sales by Niaga (keep in mind, however, this may be lumpy).

Outlook and strategy. Management is gunning for:

1. **More stable recurring "Other Income".** Via Niaga's NPL sales (in line with maintaining a healthier GIL ratio). Do note Niaga has guided that 2023 is a strong year for Other Income contributions but note difficulty in keeping this value consistent across quarters.
2. **Stronger trading and FX flows from the commercial and consumer franchise.** While 1QCY23 has seen some improvement from a *market conditions* perspective, management expects *stronger flows* to flood in later.

Tech spending should still be high. CIMB has begun its tech spend in 2018, well before its peers. Capex has levelled off at RM1b in the last 3 years and should come off slightly in CY24. Given the lag effects of the P&L, however, we should see this reflected in earnings for at least a few more years.

Asset quality:

No major areas of concern. Retail and SME portfolio are well within expectations. No notable downgrades on the non-retail end, with only non-material top-ups in existing provisions so far. CIMB has generally kept away from commercial property and the construction sector.

CIMB NIAGA 1QFY23 RESULTS:

Earnings and Income statement:

Strong growth in earnings. 3MFY22 earnings came in at IDR 1.58b (+32%qoq, +32%yoy). This was the group's highest-ever quarterly earnings. Highlights were exceptional NOII contribution (due to recovery in trading income and high NPL sales) and lower provisions.

Quarter-on-Quarter. Weaker NII was offset by stronger NOII, good OPEX management, and lower provisions.

Year-on-Year. Poorer OPEX and NOII were offset by stronger NII and lower provisions.

Sharp downturn in NIM but should be stable moving forward. NIM fell sharply by -19bps qoq, with deposit yields surpassing loan yields. Mgmt attributes the sharp decline partially to high cash and short-term deposits kept with Bank Indonesia (which should normalise in subsequent quarters), as well as opportunistic corporate customers taking up high-yielding deposits.

While deposit yields are believed to have peaked, there is still room for loan yields to increase. However, this must be done gradually, to avoid losing rate-sensitive corporate customers. Mgmt believes it can still hit its 4.6-4.8% NIM goal for FY23.

Balance Sheet:

Slower loan growth qoq, but no major concern. While management acknowledges that loan demand has cooled off slightly to +1.2%qoq, Niaga maintains its 6-8% loan growth target. The Group expects SME growth to pick up in subsequent quarters, citing cyclical effects at the beginning of the year. The corporate side has shown robust growth.

Finally, Niaga has shown a positive reversal in the commercial growth segment (which was being rebalanced), alleviating compression pressure in this segment.

CASA dips further but management maintains guidance. CASA has declined to 61.2%, but management expects it to pick up in subsequent quarters, maintaining its 63-66% FY23 guidance. CASA dipped due to corporate clients switching to higher yield FD, but mgmt cites strong CASA trajectory from both retail and non-retail end as drivers to CASA ratio recovery.

Strong improvements in asset quality, are expected to maintain at the current level. Gross NPL and impairment ratios have shown significant improvements due to strong recovery efforts and NPL sales. Mgmt expects NPL to remain stable at its current ~2.6% level until end-2022, with slight movements following the graduation of R&R loans.

VALUATION AND EARNINGS

Key downside risks. (1) High NIM compression pressure, (2) Lacklustre NOII recovery, (3) Inability to maintain CASA balances.

Forecasts revised: FY23F/24F CNP adjusted by -2.1%/-2.4%. To reflect lower NIM expectations (we revise our FY23F OPR forecast to 2.75% from 3.00% and CASA ratio downward), and higher NCC for FY24F.

Maintain BUY call: Revised GGM-TP of RM6.37 ***(from RM6.55).*** The TP is based on a revised FY23F P/BV of 1.00x (previously 1.04x, following lower ROE expectations).

(GGM assumptions: *FY23F ROE of 10.1%, LTG of 3.5% and COE of 10.2%).*

Fig 1: Quarterly results

FYE Dec (IDR b)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest income	3,407	3,502	3,209	6	-3	3,407	3,209	6
Non interest income	1,576	1,279	1,590	-1	23	1,576	1,590	-1
Net income	**4,983**	**4,781**	**4,799**	*4*	*4*	**4,983**	**4,799**	*4*
OPEX	(2,219)	(2,222)	(2,104)	5	-0	(2,219)	(2,104)	5
PPOP	**2,764**	**2,559**	**2,695**	*3*	*8*	**2,764**	**2,695**	*3*
Provisions	(749)	(999)	(1,139)	-34	-25	(749)	(1,139)	-34
Core PBT	**2,015**	**1,560**	**1,556**	*29*	*29*	**2,015**	**1,556**	*29*
Core NP	**1,581**	**1,199**	**1,194**	*32*	*32*	**1,581**	**1,194**	*32*
Reported PBT	**2,015**	**1,560**	**1,556**	*29*	*29*	**2,015**	**1,556**	*29*
Reported NP	**1,581**	**1,199**	**1,194**	*32*	*32*	**1,581**	**1,194**	*32*
Total loans (IDR tr)	201	199	183	10.1	1.2			
Total deposits (IDR tr)	240	227	237	1.2	5.7			
CASA (IDR tr)	147	144	151	-2.5	1.8			

Source: CIMB, MIDFR

Fig 2: Quarterly financial ratios

Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	QoQ (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	**15.1**	**11.7**	**11.8**	*3.3*	*3.4*	**15.1**	**11.8**	*3.3*
NIM (Reported)	**4.71**	**4.90**	**4.46**	*0.25*	*-0.19*	**4.71**	**4.46**	*0.25*
NOII/Net income	31.6	26.8	33.1	-1.5	4.9	31.6	33.1	-1.5
Cost/Income	44.5	46.5	43.8	0.7	-1.9	44.5	43.8	0.7
CoC (Ann.) (bps)	150	190	240	-90	-40	150	240	-90
Gross NPL ratio	2.60	2.80	3.60	-1.00	-0.20			
G. impairment ratio	6.20	7.10	6.80	-0.60	-0.90			
Loan loss coverage	254	242	211	43	11			
CASA ratio	61.2	63.6	63.6	-2.3	-2.3			
L/D ratio (Reported)	82.2	85.6	76.1	6.1	-3.4			
CAR - Tier 1	20.3	21.1	22.1	-1.8	-0.8			

Source: CIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,997	21,542	21,939
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
Net interest income	**10,874**	**11,630**	**12,017**	**12,422**	**12,819**
Islamic banking inc.	3,533	4,000	3,549	3,669	3,786
Other operating inc.	5,105	4,208	4,727	5,900	6,341
Net income	**19,513**	**19,838**	**20,294**	**21,991**	**22,946**
OPEX	(9,419)	(9,346)	(9,436)	(10,226)	(10,441)
PPOP	**10,094**	**10,492**	**10,857**	**11,765**	**12,506**
Loan allowances	(2,614)	(1,953)	(2,295)	(2,180)	(2,040)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	144	156	166
PBT	**5,789**	**8,371**	**8,506**	**9,445**	**10,180**
Tax & zakat	(1,397)	(2,778)	(2,126)	(2,361)	(2,545)
NCI	(97)	(153)	96	106	76
Reported NP	**4,295**	**5,440**	**6,475**	**7,190**	**7,711**
Core NP	**4,648**	**5,542**	**6,494**	**7,201**	**7,718**
Total NII	13,958	15,158	15,211	15,724	16,226
Total NOII	5,555	4,680	5,082	6,267	6,720

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23	FY24	FY25
Cash & ST funds	50,283	47,105	46,784	47,482	48,180
Investment securities	156,728	156,410	158,519	159,008	159,728
Net loans	364,685	394,557	412,346	430,443	447,756
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	62,183	67,273	73,911
Total assets	**621,907**	**666,721**	**691,046**	**716,765**	**743,642**
Customer deposits	422,418	432,950	454,597	473,236	492,165
Other IBLs	104,963	115,648	114,855	115,581	116,629
Non-IBLs	34,417	54,340	53,749	55,407	57,232
Total liabilities	**561,798**	**602,937**	**623,201**	**644,225**	**666,026**
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,289	41,897	46,878
Shareholders' funds	**58,863**	**62,491**	**66,384**	**70,991**	**75,973**
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,261	1,349	1,443
Total equity	**60,109**	**63,784**	**67,845**	**72,540**	**77,616**
Total L&E	**621,907**	**666,721**	**691,046**	**716,765**	**743,642**
Total IEAs	577,582	607,824	628,863	649,492	669,731
Total IBLs	527,381	548,598	569,452	588,817	608,794
Gross loans	378,033	407,057	427,410	444,506	462,287
CASA	186,052	182,292	186,385	179,830	177,180

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.47	2.56	2.46	2.46	2.46
Return on IEAs	2.85	3.15	3.23	3.37	3.33
Cost of funds	1.01	1.30	1.43	1.57	1.52
Net interest spread	1.84	1.84	1.81	1.80	1.80
Profitability (%)					
ROE	**8.1**	**9.1**	**10.1**	**10.5**	**10.5**
ROA	0.8	0.9	1.0	1.0	1.1
NOII/Net income	28.5	23.6	25.0	28.5	29.3
Effective tax rate	24.1	33.2	25.0	25.0	25.0
Cost/Income ratio	48.3	47.1	46.5	46.5	45.5
Liquidity (%)					
Loan/Deposit ratio	86.3	91.1	90.7	91.0	91.0
CASA ratio	44.0	42.1	41.0	38.0	36.0
Asset Quality (%)					
GIL ratio	3.51	3.27	3.50	3.14	3.12
LLC ratio	100	93	100	100	100
LLC (w. reserves)	101	96	150	155	155
Net CC (bps)	70	50	55	50	45
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	13.9
Tier 1 capital	15.1	15.4	15.6	15.1	14.7
Total capital	18.0	18.5	18.8	18.3	17.9
Growth (%)					
Total NII	9.7	8.6	0.4	3.4	3.2
Total NOII	30.3	-15.8	8.6	23.3	7.2
Net income	14.9	1.7	2.3	8.4	4.3
OPEX	7.3	-0.8	1.0	8.4	2.1
Core NP	289.3	19.2	17.2	10.9	7.2
Gross loans	3.3	7.7	5.0	4.0	4.0
Customer deposits	4.8	2.5	5.0	4.1	4.0
CASA	10.3	-2.0	2.2	-3.5	-1.5
Valuation metrics					
Core EPS (sen)	44.6	53.2	62.3	69.1	74.0
Gross DPS (sen)	23.0	26.0	31.1	34.5	37.0
Div payout ratio (%)	53.6	49.8	50.0	50.0	50.0
BVPS (RM)	5.6	6.0	6.4	6.8	7.3
Core P/E (x)	11.4	9.5	8.1	7.3	6.8
Dividend yield (%)	**4.5**	**5.1**	**6.1**	**6.8**	**7.3**
P/BV (x)	0.9	0.8	0.8	0.7	0.7

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