Maybank IB Research

Banks

Malaysia

CIMB Group Holdings (CIMB MK)

Loans under PRA expected to rise

HOLD

Share Price	MYR 4.54
12m Price Target	MYR 4.90 (+8%)
Previous Price Target	*MYR 4.90*

HOLD maintained

With the loan moratorium in place, loans under payment relief assistance (PRA) are likely to rise and while the risk of higher provisions is tilted to the upside, we think that incremental provisioning may not be significantly higher than guidance if loans under PRA do not exceed 20%. Moreover, there is some buffer built into our FY21 earnings forecast at this stage. CIMB will announce its 2Q21 results on 27 Aug – our forecasts, HOLD call and TP of MYR4.90 (FY22E PBV of 0.86x, ROE: 8.8%) are maintained.

Loans under PRA to rise

With the loan moratorium in place, expectations are that loans under Payment Relief Assistance (PRA) will rise from 13% of group loans end-Mar 2021 to not more than 20%. The prior trend had been encouraging in that the percentage was on a downtrend prior to the announcement of the loan moratorium and had hit a low of just 6% in May. There will likely still be a modification loss this year, but of a smaller magnitude to the MYR214m that the group reported last year.

Provision risk may be contained

Management maintains its credit cost guidance of 80-90bps for now, but will revisit some of its macro-economic and management overlay assumptions. A point to note is that the percentage of loans under PRA end-Dec 2020 was 15% and pre-emptive provisions had been set aside then. As such, we think that if loans under PRA increase to 20%, incremental provisions required will likely not be sizeable. Our imputed FY21 credit cost assumption is slightly higher at 95bps.

Some built-in buffer to our earnings

Two of our main concerns this year have been of a decline in treasury income as well as higher credit costs. As such, despite CIMB's strong 1Q21 results, we had been cautious in our earnings revisions, with the 1Q21 results accounting for 32% of our current full-year forecast. There is, as such, some buffer to our forecasts should the deterioration in either components be larger than expected.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	17,366	17,125	17,879	18,450	19,082
Pre-provision profit	7,493	8,148	8,718	9,093	9,524
Core net profit	4,762	1,430	3,976	5,233	5,521
Core EPS (MYR)	0.49	0.15	0.41	0.54	0.57
Core EPS growth (%)	2.2	(70.0)	178.0	31.6	5.5
Net DPS (MYR)	0.26	0.05	0.16	0.20	0.20
Core P/E (x)	10.5	29.2	11.1	8.4	8.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
Net dividend yield (%)	5.0	1.1	3.5	4.4	4.4
Book value (MYR)	5.67	5.64	5.67	5.79	5.91
ROAE (%)	8.9	2.5	7.0	8.8	8.8
ROAA (%)	0.9	0.2	0.6	0.8	0.8
Consensus net profit	-	-	4,200	4,963	5,596
MKE vs. Consensus (%)	-	-	(5.3)	5.4	(1.3)

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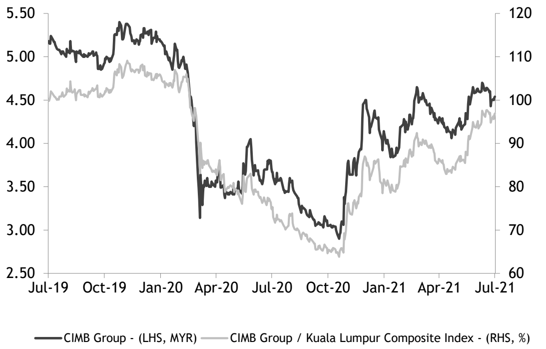
Company Description

CIMB Group Holdings engages in the provision of consumer and investment banking services. It holds a majority stake in PT CIMB Niaga.

Statistics

52w high/low (MYR)	4.70/2.90
3m avg turnover (USDm)	11.8
Free float (%)	56.9
Issued shares (m)	10,014
Market capitalisation	MYR45.5B
	USD10.8B
Major shareholders:	
Khazanah Nasional Bhd. (Investment Compa	27.0%
Employees Provident Fund	15.5%
Permodalan Nasional Bhd.	10.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	6	24
Relative to index (%)	3	12	30

Source: FactSet

ESG@MKE
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Risk Rating & Score[1]	19.8
Score Momentum[2]	-7.8
Last Updated	28 Apr 2021
Controversy Score[3] (Updated: 13 Jun 2020)	2

Business Model & Industry Issues

- With business operations in all ASEAN countries (38% of total loans were from outside Malaysia as at end-Mar 2021), the challenge for CIMB would be in ensuring ESG compliance across the various jurisdictions, especially in Indonesia and Thailand, where the group has a 91.5% stake in CIMB Niaga and 94.8% stake in CIMB Thai.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing blanket loan moratorium on an opt-in basis. This loan moratorium as well as ongoing Target Relief Assistance programmes elevate social priorities over shareholders returns in the near term.
- CIMB Group displays no exceptional ESG risks that are not typical of a large bank but will have to improve on perceived weaknesses in data security. Sustainalytics' risk score of 19.8 on 28 Apr 2021 is the best among domestic banks and CIMB is the only bank within our coverage to be rated "low risk" by Sustainalytics.

Material E issues

- CIMB is a signatory to the Collective Commitment to Climate Action. It has set a target to reduce its Scope 1 and 2 emissions intensity in line with Nationally Determined Contributions.
- The group is supportive of No Deforestation, No Peat, No Exploitation Commitments. In 2020, of 37 palm oil facilities assessed, 4 clients carried elevated risk levels due to incomplete sustainability certification. 2 clients have completed their Action Plans towards obtaining certification in 2021 and the other 2 are progressing towards certification.
- CIMB was the first banking group in Southeast Asia to formalize a progressive coal sector guide that targets to phase out coal from its portfolio by 2040. Coal exposure was <1% of the group's financing assets end-2020.
- In 2020, the group committed MYR970m for Sustainability-Linked Loans/Financing and disbursed MYR645m financing for renewable energy.

Material S issues

- CIMB has pledged to spend 1% of CIMB Group's pretax profit on CSR annually, from 2018-2020. Total regional CSR spend has been MYR117m in the last 3 years.
- In 2020, CIMB extended MYR1.35b in financing for affordable housing, and MYR2.4b/MYR1.2b towards new auto/personal financing for B40 communities in Malaysia.
- In 2020, CIMB had 22% female representation in Key Management and targets 30% by 2024. The gender pay gap was 1 (male):0.80 (female) for key management and 1 (male): 0.89 (female) for senior management. Management is committed to reducing this gap by 2024.

Key G metrics and issues

- In 2020, CIMB's BOD comprised 10 Directors – 7 Independent Directors (IDs), 2 Non-IDs and the Group CEO, who is an Executive Director.
- CIMB Group is audited by PricewaterhouseCoopers, the world's second largest network of professional firms.
- In May 2020, Dato' Abdul Rahman Ahmad was appointed CIMB Group's CEO. Though Datuk Rahman has vast senior management experience, his last position being CEO of PNB, he does not have direct banking experience, as far as we are aware.
- In recent years, CIMB had been in the press over alleged data security issues. In 2017, the group announced that several magnetic tapes containing back-up customer data were lost in transit during routine operations. In 2018, there were alleged security issues over its online banking portal, CIMBClicks. In 2019, CIMB had to assure its customers that its core banking system was intact, amid allegations of a ransomware attack.
- CIMB Group's previous CEO of 5 years (Feb 2015 to Mar 2020), Tengku Dato' Sri Zafrul, is now Malaysia's Finance Minister. CIMB Group's major shareholder is Khazanah Nasional with a 27.0% stake, which does imply that the group is a Government-linked company (GLC).
- In Oct 2019, it was reported that Dato' Sri Nazir Razak, CIMB's previous group Chairman, had been fined by the Malaysian Anti-Corruption Commission for having received MYR25.7m in cheques from 1MDB. Dato' Sri Nazir took voluntary leave of absence from the group in April 2016 pending the completion of an ongoing Board review over this matter, and resumed his role as Chairman in May 2016 after he was cleared of any alleged misuse of his position.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Loans under moratorium expected to rise

Just to recap, as at 31 March 2021, 13% of groups loans were under Payment Relief Assistance (PRA) – 5% in Singapore, 16% in Thailand, 13% in Indonesia and 14% in Malaysia. Group loans under PRA amounted to 15% end-Dec 2020.

This trend improved significantly in April and May and by May, only 6% of group loans were under PRA. With the loan moratorium kicking into effect from 7th July, applications have picked up and should continue to rise. Nevertheless, management does not expect the percentage to be more than 20% by the end of the loan moratorium period.

Expecting a smaller modification loss

With the current loan moratorium being on an opt-in rather than opt-out basis, expectations are that the moratorium take-up will not be as high as it was in 2020. Coupled with the fact that interest is now being accrued on deferred hire purchase loan payments, the modification (mod) loss is expected to be lower than it was in 2020, when the group reported an overall net mod loss of MYR214m.

Credit cost guidance maintained thus far

Asset quality has been stable thus far and at the moment, the group's 80-90bps credit cost guidance stands. Nevertheless, management will likely have to revisit its macro-economic provisioning and management overlays. We think that much of the provisioning has already been put through todate (MYR2.8b pre-emptive provisions since 1Q20) and while the risk is to the upside, additional provisions may not be significant if loans under PRA do not exceed 20%. Our current credit cost assumption is slightly higher than guidance at 95bps.

Margins still holding up, loan growth still subdued

Loan growth is likely to have picked up QoQ due to some lumpy drawdowns, but is still likely to be weak on a YoY basis. Management is likely to fall short of its 4-5% loan growth target for the year, in our view. Positively though, NIMs, having expanded by a hefty 15bps QoQ to 2.52% in 1Q21, have held up thus far. We have factored in a NIM expansion of just 10bps in FY21, which is at the lower end of management's guidance for a 10-20bps margin expansion this year.

NOII expected to be weaker QoQ

Non-interest income (NOII) was exceptionally strong in 1Q21, expanding over 50% YoY. This was led by strong wealth management and trading income. We expect NOII to be lower QoQ amid weaker trading income and a normalization of wealth management income.

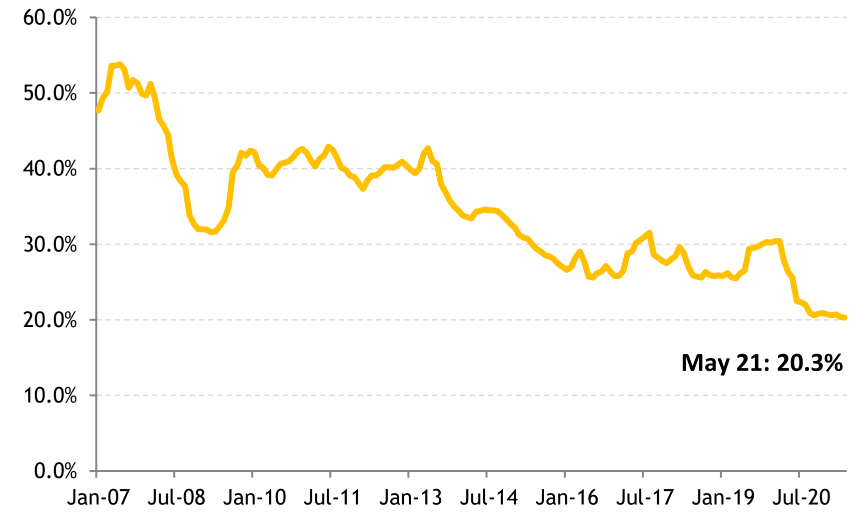
Costs still well under control

Costs are still well under control, especially since the recent deconsolidation will remove about MYR200m of cost per annum. Management has identified further cost takeouts and will announce those later on. Recall, management's target is to remove about MYR300m-500m of cost moving forward. Guidance. Nevertheless, guidance is that operating expenses are still likely to rise marginally this year, with increased spending on marketing and digital.

Risk statement

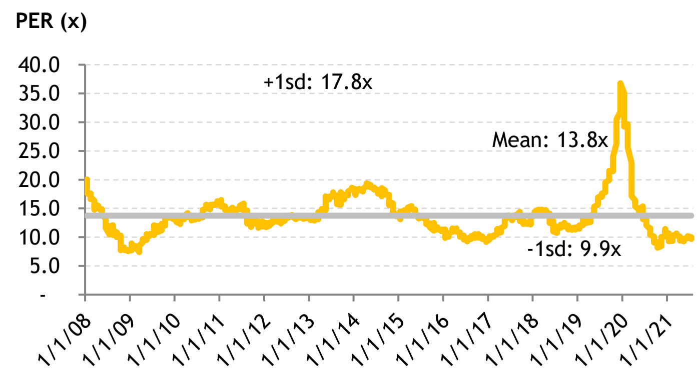
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region would have a bearing on overall operations. Further decreases in Indonesia's interest rates could squeeze margins in the near term, while the weakening of the IDR could impact the translation of Niaga's earnings.

Fig 1: CIMB Group's foreign shareholding



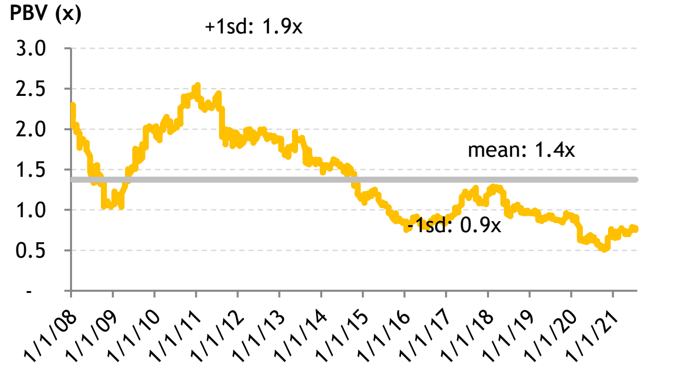
Source: Company

Fig 2: CIMB Group: One-year forward rolling PER (x)



Source: Maybank KE

Fig 3: CIMB Group: One-year forward rolling P/BV



Source: Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Core P/E (x)	10.5	29.2	11.1	8.4	8.0
Core FD P/E (x)	11.0	34.9	11.1	8.4	8.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
P/NTA (x)	1.1	0.9	1.0	0.9	0.9
Net dividend yield (%)	5.0	1.1	3.5	4.4	4.4
INCOME STATEMENT (MYR m)					
Interest income	20,243.8	17,741.7	20,892.7	21,577.8	22,189.1
Interest expense	(10,159.9)	(7,522.7)	(9,724.3)	(10,245.8)	(10,556.1)
Net interest income	**10,083.9**	**10,219.0**	**11,168.3**	**11,332.0**	**11,633.0**
Islamic banking income	3,040.7	2,937.5	3,172.5	3,426.3	3,700.4
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,218.3	1,748.8	1,800.0	1,900.0	1,900.0
Other income	2,023.1	2,219.6	1,737.9	1,791.7	1,848.3
Total non-interest income	**4,241.3**	**3,968.4**	**3,537.9**	**3,691.7**	**3,748.3**
Operating income	**17,365.9**	**17,124.9**	**17,878.8**	**18,450.0**	**19,081.7**
Staff costs	(5,494.7)	(5,144.1)	(5,401.3)	(5,563.3)	(5,730.2)
Other operating expenses	(4,378.2)	(3,832.7)	(3,759.7)	(3,793.5)	(3,827.9)
Operating expenses	**(9,872.9)**	**(8,976.8)**	**(9,161.0)**	**(9,356.8)**	**(9,558.1)**
Pre-provision profit	**7,493.0**	**8,148.1**	**8,717.8**	**9,093.2**	**9,523.6**
Loan impairment allowances	(1,638.8)	(5,342.2)	(3,537.2)	(2,309.9)	(2,385.1)
Other allowances	(340.0)	(1,456.2)	(200.0)	(200.0)	(200.0)
Associates & JV income	30.7	116.5	128.2	141.1	155.3
Pretax profit	**5,544.9**	**1,466.2**	**5,108.8**	**6,724.4**	**7,093.8**
Income tax	(1,519.7)	(383.8)	(1,226.1)	(1,613.8)	(1,702.5)
Minorities	104.5	47.9	93.2	122.7	129.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	**4,129.7**	**1,130.3**	**3,975.8**	**5,233.2**	**5,520.7**
Core net profit	**4,762.0**	**1,429.9**	**3,975.8**	**5,233.2**	**5,520.7**
BALANCE SHEET (MYR m)					
Cash & deposits with banks	42,564.3	43,125.9	45,282.2	47,546.3	49,923.7
Sec. under resale agreements	9,014.5	6,832.9	7,516.2	8,267.8	9,094.6
Derivatives financial assets	11,589.9	16,008.4	16,808.8	17,649.2	18,531.7
Dealing securities	38,137.3	42,713.1	43,140.3	43,571.7	44,007.4
Available-for-sale securities	73,607.7	104,162.8	109,371.0	114,839.5	120,581.5
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	360,340.1	353,916.0	368,796.2	380,732.9	393,146.2
Central bank deposits	11,500.0	4,411.6	10,227.6	10,553.2	10,891.6
Investment in associates/JVs	2,427.8	2,496.5	2,494.0	2,491.3	2,488.5
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,136.7	3,076.6	3,230.4	3,391.9	3,561.5
Intangible assets	9,542.7	9,745.0	9,745.0	9,745.0	9,745.0
Other assets	11,384.9	15,866.0	16,148.1	16,435.8	16,729.3
Total assets	**573,245.7**	**602,354.9**	**632,759.9**	**655,224.8**	**678,701.0**
Deposits from customers	395,798.4	405,729.5	405,270.6	418,387.8	432,028.8
Deposits from banks & FIs	23,666.7	31,791.2	33,380.8	35,049.8	36,802.3
Derivatives financial instruments	11,337.9	16,340.8	17,157.8	18,015.7	18,916.5
Subordinated debt	13,520.9	12,808.5	12,808.5	12,808.5	12,808.5
Other securities in issue	18,232.7	12,464.0	12,464.0	12,464.0	12,464.0
Other borrowings	24,778.4	38,552.5	41,575.3	44,883.7	48,506.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	28,441.6	27,494.2	50,853.7	51,348.8	51,725.4
Total liabilities	**515,776.6**	**545,180.8**	**573,510.7**	**592,958.4**	**613,251.5**
Share capital	25,843.8	25,843.8	25,843.8	25,843.8	25,843.8
Reserves	30,393.4	30,081.8	32,250.1	35,390.0	38,702.4
Shareholders' funds	56,237.2	55,925.6	58,093.9	61,233.8	64,546.2
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,031.9	1,048.5	955.3	832.6	703.3
Total equity	57,469.1	57,174.1	59,249.2	62,266.4	65,449.5
Total liabilities & equity	**573,245.7**	**602,354.9**	**632,759.9**	**655,224.8**	**678,701.0**

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth (%)					
Net interest income	4.7	1.3	9.3	1.5	2.7
Non-interest income	4.5	(6.4)	(10.8)	4.3	1.5
Operating expenses	14.1	(9.1)	2.1	2.1	2.2
Pre-provision profit	(2.0)	8.7	7.0	4.3	4.7
Core net profit	6.0	(70.0)	178.0	31.6	5.5
Gross loans	6.7	(1.0)	3.5	3.3	3.3
Customer deposits	6.4	2.5	(0.1)	3.2	3.3
Total assets	7.3	5.1	5.0	3.6	3.6
Profitability (%)					
Non-int. income/Total income	24.4	23.2	19.8	20.0	19.6
Average lending yields	4.59	3.85	4.28	4.28	4.27
Average cost of funds	2.56	1.81	2.29	2.34	2.32
Net interest margin	2.46	2.32	2.42	2.40	2.40
Cost/income	56.9	52.4	51.2	50.7	50.1
Liquidity (%)					
Loans/customer deposits	91.0	87.2	91.0	91.0	91.0
Asset quality (%)					
Net NPL	1.6	1.7	1.7	1.7	1.7
Gross NPL	3.1	3.6	3.2	3.2	3.2
(SP+GP)/average gross loans	0.5	1.5	1.0	0.6	0.6
Loan loss coverage	80.7	91.6	84.1	83.7	83.7
Capital adequacy (%)					
CET1	12.9	13.2	12.6	13.0	13.4
Tier 1 capital	14.0	14.5	13.8	14.2	14.5
Risk-weighted capital	16.8	17.5	16.6	16.8	17.1
Returns (%)					
ROAE	8.9	2.5	7.0	8.8	8.8
ROAA	0.9	0.2	0.6	0.8	0.8
Shareholders equity/assets	9.8	9.3	9.2	9.3	9.5

Source: Company; Maybank

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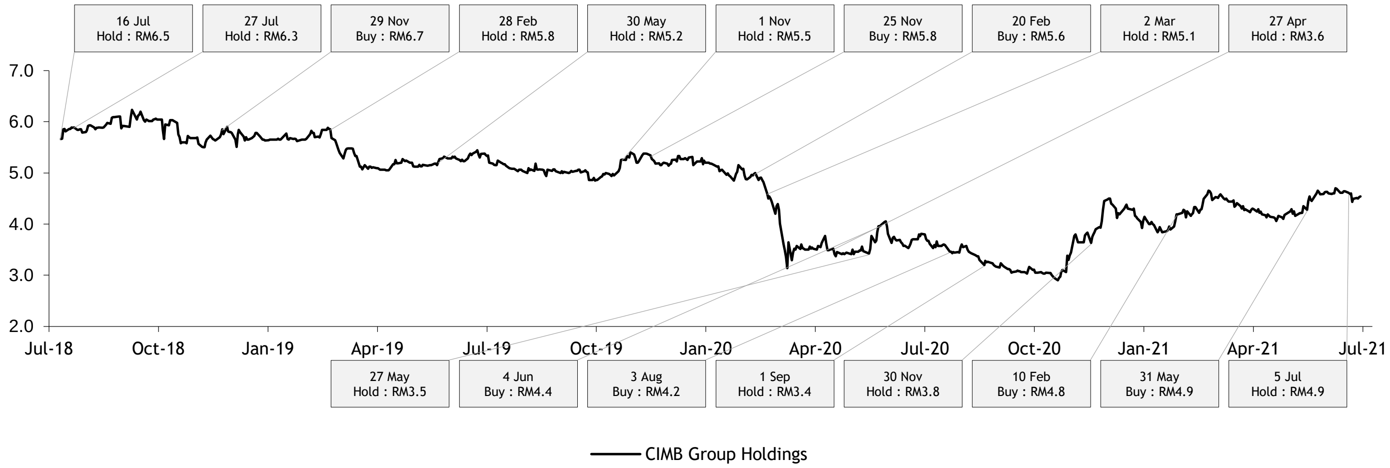

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